

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

*In the opinion of Bond Counsel, under existing law, assuming continued compliance with certain provisions of the Internal Revenue Code of 1986, as amended, interest on the Bonds will not be included in the gross income of holders of the Bonds for federal income tax purposes. Interest on the Bonds will not constitute a preference item for the purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, although interest on the Bonds will be taken into account in computing the alternative minimum tax applicable to certain corporations. In the opinion of Bond Counsel, interest on the Bonds, and any profit made on the sale thereof, are 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**

**\$350,000,000**

**General Obligation Bonds,  
Consolidated Loan of 2006  
(Variable Rate Demand Bonds)**

**\$150,000,000**

**Series A**

**Cusip: 57582N4G7\***

**\$200,000,000**

**Series B**

**Cusip: 57582N4H5\***

**Dated: Date of Delivery**

**Price: 100%**

**Due: March 1, 2026**

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

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

The Commonwealth will enter into separate Standby Bond Purchase Agreements with Dexia Credit Local, acting through its New York Branch, with respect to the Series A Bonds, and Bank of America, N.A. with respect to the Series B Bonds. See Appendix E hereto for information concerning the banks. The Standby Bond Purchase Agreements are liquidity facilities that require the applicable bank to pay the purchase price for the Bonds tendered or deemed tendered to the extent not remarketed, subject to certain funding conditions described herein. The banks are not providing credit support for payment of regularly scheduled principal and interest. The Standby Bond Purchase Agreements are scheduled to expire on March 3, 2013 in the case of the Series A Bonds and March 3, 2011 in the case of the Series B Bonds or, if such date is not a Business Day, the next preceding Business Day. The obligations of the banks to purchase Bonds under the Standby Bond Purchase Agreements may be terminated prior to such dates immediately upon the occurrence of certain Events of Default specified therein for which no termination notice is required. See Appendix D hereto under "Standby Bond Purchase Agreements."

The Bonds are offered when, as and if issued and received by the Underwriter, and subject to the unqualified approving opinion as to legality of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Ropes & Gray LLP, Boston, Massachusetts, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Nutter, McClennen & Fish, LLP, Boston, Massachusetts. The Bonds are expected to be available for delivery at or through DTC in New York, New York, on or about March 3, 2006.

**Lehman Brothers**

February 28, 2006

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

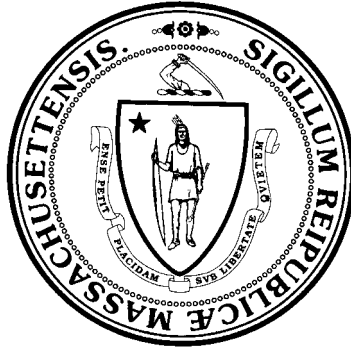
The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances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

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

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THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

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

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**OFFICIAL STATEMENT**

**\$350,000,000**

**THE COMMONWEALTH OF MASSACHUSETTS**

**General Obligation Bonds,  
Consolidated Loan of 2006  
(Variable Rate Demand Bonds)**

<b>\$150,000,000</b>	<b>\$200,000,000</b>
<b>Series A</b>	<b>Series B</b>

**INTRODUCTION**

This Official Statement (including the cover pages and Appendices A through E attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of its General Obligation Bonds, Consolidated Loan of 2006 (Variable Rate Demand Bonds), Series A in the aggregate principal amount of \$150,000,000 (the "Series A Bonds") and Series B in the aggregate principal amount of \$200,000,000 (the "Series B Bonds" and, together with the Series A Bonds, the "Bonds"). The Bonds will be general obligations of the Commonwealth, and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and expenditures for debt service, see "SECURITY FOR THE BONDS" and the Information Statement (described below) under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "LONG-TERM LIABILITIES – General Authority to Borrow; Limit on Debt Service Appropriations."

**Purpose and Context of Official Statement**

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

Specific reference is made to the Commonwealth's Information Statement dated March 17, 2005 (the "March Information Statement"). The March Information Statement appears as Appendix A to the Commonwealth's Official Statement dated March 17, 2005 for its General Obligation Bonds, Consolidated Loan of 2005, Series A (the "March Official Statement"). A copy of the March Official Statement was filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission and with the Municipal Securities Rulemaking Board. The information contained in the March Information Statement has been supplemented by the Commonwealth's Information Statement Supplement dated February 28, 2006 (the "February Supplement"), which is attached hereto as Appendix A. The March Information Statement and the February Supplement are referred to herein collectively as the "Information Statement." The Information Statement contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth.

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

## THE BONDS

### General

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

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

### Additional Information Related to Variable Rate Demand Bonds

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

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

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

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

description of interest payments on Bonds in the Weekly Mode, the Flexible Mode and the Term Mode, see Appendix D.

*Interest Rate Determination.* For Bonds in the Daily Mode, the Daily Rate shall be determined each Business Day (the “Rate Determination Date”), by the Remarketing Agent, by 9:30 a.m., Boston time, shall take effect on each Rate Determination Date, and shall be in effect to, but not including the next succeeding Business Day (the “Daily Rate Period”). The Daily Rate for each Daily Rate Period will be determined by the Remarketing Agent as the lowest interest rate which, in the judgment of the Remarketing Agent, would cause the Bonds to have a market value equal to 100% of the principal amount thereof (exclusive of accrued interest), taking into account prevailing market conditions as of the Rate Determination Date. Written, telephonic or electronic notice of Daily Rates will be given by the Remarketing Agent to the Commonwealth by the close of business on each Rate Determination Date. If the Remarketing Agent fails to determine a Daily Rate, the Bonds will bear interest at the most recent Interest Index until a new Daily Rate is determined. No Daily Rate on the Bonds may exceed 12% per annum, the Maximum Rate. For a description of the procedures for determining Weekly Rates, Flexible Rates and Term Rates, see Appendix D.

*Optional Tender for Purchase.* Bonds in the Daily Mode may be tendered for purchase at a Purchase Price equal to 100% of the principal amount thereof, plus accrued interest, if any, payable in immediately available funds upon written, electronic or telephone notice (promptly confirmed in writing) of tender to the Tender Agent and the Remarketing Agent not later than 11:00 a.m., Boston time, on any Business Day. The Purchase Date may be any Business Day prior to conversion of the Bonds to a Weekly Mode, Flexible Mode, Term Mode or ARS Mode. As noted below under “Book-Entry Bonds,” for so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, the procedures for tender of Bonds will be governed by the operational procedures of DTC.

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

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

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

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

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

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

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

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

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

*Standby Bond Purchase Agreements.* Each of Dexia Credit Local, acting through its New York Branch, and Bank of America, N.A., (each, a "Bank" and collectively, the "Banks") has agreed, pursuant to its respective Standby Bond Purchase Agreement and subject to certain funding conditions, to pay the Purchase Price for any unremarketed tendered Series A Bonds and Series B Bonds, respectively, other than Bonds in an ARS Mode or a Term Mode with a Term Rate Period which is greater than one year, from time to time, subject to the terms and provisions set forth in the applicable Standby Bond Purchase Agreement. See Appendix D for a summary of certain provisions of the Standby Bond Purchase Agreements and Appendix E for certain information concerning the Banks. All information concerning the Banks have been provided by the Banks, and the Commonwealth is not responsible for its accuracy or completeness.

*Risk of Termination of Standby Bond Purchase Agreements.* The Standby Bond Purchase Agreement for the Series A Bonds is scheduled to expire at 5:00 p.m., Boston time, on March 3, 2013 or, if such date is not a Business Day, the next preceding Business Day. The Standby Bond Purchase Agreement for the Series B Bonds is scheduled to expire at 5:00 p.m., Boston time, on March 3, 2011 or, if such date is not a Business Day, the next preceding Business Day. The obligations of each Bank to purchase Bonds under its respective Standby Bond



Purchase Agreement may be terminated prior to its Agreement Expiration Date immediately upon the occurrence of certain Events of Default specified therein for which no termination notice is required. Additionally, the obligations of each Bank to purchase Bonds under its respective Standby Bond Purchase Agreement may be suspended upon the occurrence of an Event of Default specified therein. See Appendix D under the heading “Standby Bond Purchase Agreements.” In the event of such termination or suspension, the Bonds are NOT subject to mandatory tender for purchase solely as a result of such termination or suspension. The occurrence of an Event of Default under one Standby Bond Purchase Agreement will not necessarily result in an Event of Default under the other Standby Bond Purchase Agreement.

## Redemption

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

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

Series A Bonds	
<u>Redemption Date</u>	<u>Principal Amount</u>
2017	\$13,120,000
2018	13,515,000
2019	13,920,000
2020	14,335,000
2021	14,775,000
2022	15,220,000
2023	15,680,000
2024	16,150,000
2025	16,140,000
2026*	17,145,000

\*Stated Maturity.

Series B Bonds	
<u>Redemption Date</u>	<u>Principal Amount</u>
2017	\$17,395,000
2018	17,905,000
2019	18,450,000
2020	19,000,000
2021	19,590,000
2022	20,175,000
2023	20,785,000
2024	21,410,000
2025	22,565,000
2026*	22,725,000

\*Stated Maturity.

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

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

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

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

#### **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, to pay bond anticipation notes or to reimburse the state treasury for expenditures previously made pursuant to such laws.

The purposes for which the Bonds will be issued have been authorized by the legislature under various bond authorizations. The proceeds will be used to finance or reimburse the Commonwealth for a variety of capital expenditures that are included within the current capital spending plan established by the Executive Office for Administration and Finance. The plan, which is an administrative guideline and is subject to amendment at any time, sets forth capital spending allocations over the next three fiscal years and establishes annual limits on capital spending to be supported by approximately \$1.25 billion of annual borrowing, federal grants and reimbursements, and other sources. See the March Information Statement and Appendix A – “Commonwealth Information Statement Supplement” 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 an allowable state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit. It should be noted further that Section 60B of Chapter 29 of the Massachusetts General Laws imposes an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on general obligation debt of the Commonwealth. These statutes are both subject to amendment or repeal by the Legislature. Currently, both actual tax revenue growth and annual general obligation debt service are below the statutory limits. See the Information Statement under the headings “COMMONWEALTH REVENUES – Limitations on Tax Revenues” and “LONG-TERM LIABILITIES – General Authority to Borrow; Limit on Debt Service Appropriations.”

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

## **LITIGATION**

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

There are pending in courts within the Commonwealth various suits in which the Commonwealth is a defendant. In the opinion of the Attorney General, no litigation is pending or, to his knowledge, threatened which is likely to result, either individually or in the aggregate, in final judgments against the Commonwealth that would affect materially its financial condition. For a description of certain litigation affecting the Commonwealth, see the Information Statement under the headings "LEGAL MATTERS".

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

The Depository Trust Company, New York, New York, will act as securities depository for the Bonds. The Bonds will initially be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each \$500,000,000 principal amount of the Bonds or portion thereof and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants (the "DTC Participants") deposit with DTC. DTC also facilitates the post-trade settlement among DTC Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between DTC Participants' accounts. This eliminates the need for physical movement of securities certificates. DTC Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of the DTC Participants and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, respectively, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants"). The rules applicable to DTC and the DTC Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

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

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

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

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

Beneficial Owners of the Bonds will not receive or have the right to receive physical delivery of such Bonds and will not be or be considered to be the registered owners thereof. So long as Cede & Co. is the registered owner of

the Bonds, as nominee of DTC, references herein to the holders or registered owners of the Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the Bonds, except as otherwise expressly provided herein.

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

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

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

### **RATINGS**

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

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

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

### **UNDERWRITING**

The Underwriter has agreed, subject to certain conditions, to purchase all of the Bonds from the Commonwealth at a discount from the initial offering price of the Bonds equal to approximately .121% of the aggregate principal amount of the Bonds. The Underwriter may offer and sell the Bonds to certain dealers and others (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices (or yields higher than the offering yields) stated on the cover page hereof.

### **TAX EXEMPTION**

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

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

Bond Counsel has not opined as to any other matters of federal tax law relating to the Bonds. However, prospective purchasers should be aware of certain collateral consequences which may result under federal tax law for certain holders of the Bonds: (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of a holder’s interest expense allocated to interest on the Bonds, (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for losses incurred by 15 percent of the sum of certain items, including interest on the Bonds, (iii) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iv) passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for an S Corporation that has Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such S Corporation is passive investment income, (v) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account in determining gross income receipts or accruals of interest on the Bonds, and (vi) receipt of investment income, including interest on the Bonds, may, pursuant to Section 32(i) of the Code, disqualify the recipient from obtaining the earned income credit provided by Section 32(a) of the Code.

In the opinion of Bond Counsel, under existing law, interest on the Bonds and any profit on the sale thereof are 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.

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

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

#### **OPINIONS OF COUNSEL**

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

#### **CONTINUING DISCLOSURE**

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

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

### MISCELLANEOUS

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

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

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

### AVAILABILITY OF OTHER INFORMATION

Questions regarding this Official Statement or requests for additional financial information concerning the Commonwealth should be directed to Patrick Landers, Assistant Treasurer, Debt Management, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-9333 or Carlo DeSantis, Assistant Secretary for Capital Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Official Statement and the Bonds should be directed to John R. Regier, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone 617/542-6000.

### THE COMMONWEALTH OF MASSACHUSETTS

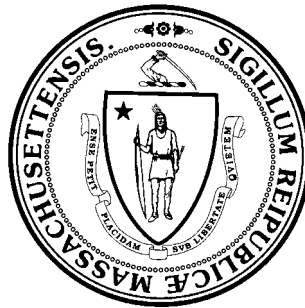
By: /s/ Timothy P. Cahill  
Timothy P. Cahill  
*Treasurer and Receiver-General*

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

February 28, 2006

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**THE  
COMMONWEALTH  
OF  
MASSACHUSETTS**



**INFORMATION STATEMENT SUPPLEMENT**

**Dated February 28, 2006**



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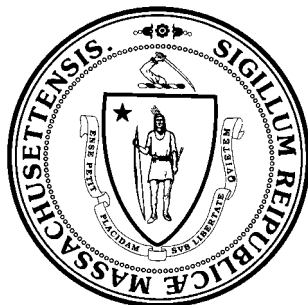
EXHIBITS (Exhibits B and C are included by reference and have been filed with the Nationally Recognized Municipal Securities Information Repositories)

Economic Information ..... Exhibit A

Statutory Basis Financial Report for the year ended June 30, 2005 ..... Exhibit B

Comprehensive Annual Financial Report (GAAP basis) for the year ended June 30, 2005 ..... Exhibit C

**THE COMMONWEALTH OF MASSACHUSETTS**



**CONSTITUTIONAL OFFICERS**

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

**LEGISLATIVE OFFICERS**

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

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

**February 28, 2006**

This supplement (“Supplement”) to the Information Statement of The Commonwealth of Massachusetts (the “Commonwealth”) dated March 17, 2005 (the “March Information Statement”) is dated February 28, 2006, and contains information which updates the information contained in the March Information Statement. The March Information Statement appears in the Commonwealth’s Official Statement dated March 17, 2005 with respect to its \$669,710,000 General Obligation Bonds, Consolidated Loan of 2005, Series A, a copy of which has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. This Supplement and the March Information Statement must be read together and in their entirety in order to obtain the appropriate fiscal, financial and economic information concerning the Commonwealth through February 28, 2006. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the March Information Statement. Exhibit A to this Supplement, which is attached hereto, is the Statement of Economic Information as of December 31, 2005, which sets forth certain economic, demographic and statistical information concerning the Commonwealth. Exhibit B to this Supplement is the Statutory Basis Financial Report for the year ended June 30, 2005. Exhibit C to this Supplement is the Comprehensive Annual Financial Report (GAAP basis) for the year ended June 30, 2005. Specific reference is made to said Exhibit B and Exhibit C, a copy of each of which has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission (the “NRMSIRs”). The financial statements are also available at the home page of the Comptroller of the Commonwealth located at <http://www.mass.gov/osc> by clicking on “Financial Reports/Audits”.

**RECENT DEVELOPMENTS**

**Fiscal 2005**

As of June 30, 2005, the Commonwealth ended fiscal 2005 with a surplus of \$1.218 billion. Prior to the calculation of a consolidated net surplus, the Governor signed legislation directing that \$691.0 million of the surplus be transferred to the Commonwealth’s Stabilization Fund. In addition, as directed by statute, \$136.0 million in excess tax revenues held in the Temporary Holding Fund were also transferred to the Stabilization Fund. State law also required that one-half of one percent of current year tax revenues, or \$86.0 million, be transferred to the Stabilization Fund. The total transfer to the Stabilization Fund at the end of fiscal 2005 was \$913.0 million. The above-referenced legislation also directed that the remainder of the surplus, \$304.8 million, be transferred to a Transitional Escrow Fund, which is available, subject to appropriation, for fiscal 2006 expenditures.

For fiscal 2005, the Commonwealth’s audited financial statements report a year-end balance in the Stabilization Fund of \$1.728 billion. This balance reflects inflows of \$913.0 million outlined above, \$21.3 million in additional inflows including interest and transfers from or appropriations out of the Stabilization Fund of \$343.3 million. As mentioned, a Transitional Escrow Fund was established and credited with \$304.8 million of surplus fiscal 2005 funds. The year closed with additional reserved fund balances of \$355.6 million and undesignated fund balances of \$98.4 million. The total fund balance in the budgeted operating funds was \$2.487 billion

The Transitional Escrow Fund will expire on June 30, 2006, at which time any remaining balance will be transferred to the Stabilization Fund. The statutory basis financial information in this document assumes no expenditures from the Transitional Escrow Fund in fiscal 2006, resulting in transfer of the full balance to the Stabilization Fund on June 30, 2006. If money in the Transitional Escrow Fund is appropriated in fiscal 2006, the balance to be transferred to the Stabilization Fund will be adjusted as necessary.

**Fiscal 2006**

On June 29, 2005, the Governor signed the General Appropriations Act (GAA) for fiscal 2006. The budget as signed included \$23.806 billion in spending, reflecting vetoes making \$109.7 million in reductions compared to the conference committee budget as passed. The Legislature has subsequently overridden \$108.9 million of the

Governor's vetoes, bringing the total value of the GAA to \$23.915 billion. The GAA (including overrides) budgets \$6.995 billion for Medicaid, \$3.772 billion for education excluding school building assistance, \$1.873 billion for debt service and \$11.275 billion for all other programs and services.

For the fiscal 2006 budget, the Executive Office for Administration and Finance and the House and Senate Committees on Ways and Means adopted different revenue estimates. The administration's estimate was based upon its April 15, 2005 tax revenue estimate for fiscal 2006 of \$17.500 billion, 2.4% more than fiscal 2005 receipts of \$17.087 billion. (The administration's April 2005 tax revenue estimate was subsequently adjusted for several legal developments, which reduced the fiscal 2006 estimate by \$52.5 million, to \$17.448 billion, 2.1% over fiscal 2005 tax receipts.) The House and Senate Ways and Means Committees have estimated tax revenue at \$17.283 billion, or 1.2% above actual fiscal 2005 receipts, including a base of \$17.1 billion (effectively equal to prior year collections), \$105.0 million in additional revenues assumed to result from proposed tax loophole legislation, and \$78.0 million in revenue resulting from increased audits. Both the Legislature's and Governor's gross tax estimates included \$1.275 billion for the annual pension obligation, \$712.6 million in sales tax dedicated to the Massachusetts Bay Transportation Authority (MBTA), and \$488.7 million in sales tax dedicated to the Massachusetts School Building Authority (MSBA). The MBTA and MSBA costs are deducted from the gross tax estimate to determine net tax revenue. See "Fiscal 2006 Tax Revenues" below.

On October 26, 2005, as a result of a periodic review required by state law, the Executive Office for Administration and Finance increased the tax revenue estimate for fiscal 2006 by \$509.0 million, to \$17.957 billion. On January 17, 2006, the Executive Office for Administration and Finance further increased the tax revenue estimate for fiscal 2006 by \$201.0 million, to \$18.158 billion. See "Fiscal 2006 Tax Revenues" for additional detail.

A number of fiscal 2006 supplemental budgetary appropriation bills have been filed. Except as otherwise noted, the statutory basis tables in this document include all spending appropriated and signed into law by the Governor and any additional amounts for which the Governor has filed supplemental appropriations that remain before the Legislature. These supplemental budgetary bills and appropriations are as follows:

On September 22, 2005, the Governor filed "An Act to Reform Education." The objective of the bill is to improve K-12 education, especially math and science, to maintain international competitiveness. The bill proposes supplemental appropriations for fiscal 2006 of \$46.6 million. The projected cost of the proposal as filed for fiscal 2007 was \$143.0 million. Due to delayed consideration of this legislation, the fiscal 2007 cost included in the Governor's budget proposal is \$94.0 million. Key features of the bill include: (1) establishment of three annual bonus payment programs of \$5,000 each for a new corps of math and science teachers, teachers of advanced placement math and science, and teachers in any subject with exemplary evaluations for contributing to growth in student achievement; (2) expansion of advanced placement math and science to all high schools, and establishment of seven math/science exam schools across the state; (3) introduction of math testing for licensing of all new teachers and all current elementary teachers of math; (4) expansion of math and sciences training of current teachers; (5) acceleration of intervention in underperforming schools and expanded management authority for superintendents and principals; (6) introduction of occupational-academic programs in regular high schools to pursue certificates of occupational proficiency; (7) provision of laptops to all middle and high school students, based on new technology for producing laptops at about \$100; (8) parental preparation programs; and (9) establishment of the office of secretary of education.

On October 20, 2005, the Governor filed supplemental legislation to place \$16.4 million in eleven reserve accounts to fund incremental costs resulting from a number of collective bargaining agreements. The funds cover incremental costs in fiscal 2006 as well as any retroactive compensation for fiscal 2005 or prior years.

On November 29, 2005, the Governor filed supplemental legislation to cover \$12.8 million in increased fuel and medical costs at the Department of Corrections.

On November 30, 2005, the Governor signed legislation providing \$20.0 million to provide heating energy assistance and tax relief to citizens of the Commonwealth.

On December 8, 2005, the Governor signed legislation revising certain fiscal 2005 year-end inter-fund transfers (see "Fiscal 2005" above), making tax law changes and making a transfer affecting fiscal 2006. The legislation closes various tax loopholes and raises an additional \$85 million in tax revenue on an annualized basis.

The legislation also settles the *Peterson* tax revenue case. The legislation changes the effective date of the 2002 capital gains tax law change to January 1, 2003. This results in tax credits of approximately \$225.0 million to \$275.0 million, which will be refunded to taxpayers over the next four years. The legislation also transfers \$20.0 million from the Stabilization Fund to the General Fund.

On December 22, 2005, the Governor signed legislation for \$53.6 million in supplemental appropriations. Included was \$13.5 million to support increased benefits for military personnel returning from Iraq and Afghanistan, \$12.8 million for increased fuel and medical costs at the Department of Corrections, \$11.0 million for gang prevention at the Executive Office of Public Safety and \$16.3 million to support additional collective bargaining agreements in the Commonwealth.

On January 9, 2006, the Governor filed legislation recommending fiscal 2006 supplemental appropriations totaling \$60.0 million. This legislation would provide \$27.4 million in snow and ice removal at the Massachusetts Highway Department, \$11.1 million for new collective bargaining increases, \$5.9 million for state and county sheriff operations, \$5.1 million for fuel deficiencies, and \$10.5 million for other programs and services.

On February 7, 2006, the Governor filed legislation recommending \$36.5 million in supplemental appropriations to support the Commonwealth's preparations to prevent and respond to a potential flu pandemic. Funding includes additional hospital beds, supplies and equipment to increase current hospital capacity by more than 7,500 beds across the Commonwealth, antiviral medication to treat and contain the spread of infection, and additional supplies and equipment for the state laboratory at the Department of Public Health.

## **Fiscal 2007**

On December 12, 2005, a fiscal 2007 consensus revenue estimate hearing was held, jointly chaired by the Secretary of Administration and Finance and the Chairpersons of the House and Senate Ways and Means Committees. At that hearing, the Commissioner of Revenue, the Massachusetts Taxpayers Foundation, and Beacon Hill Institute, provided tax revenue projections for fiscal 2006 and fiscal 2007. Fiscal 2006 tax revenue projections ranged from \$17.878 billion to \$18.028 billion, and fiscal 2007 tax revenue projections ranged from \$18.878 billion to \$19.951 billion. Subsequent to these forecasts, December 2005 tax collections were stronger than projected in the October 26, 2005 Executive Office for Administration and Finance fiscal 2006 tax revenue estimate of \$17.957 billion. December 2005 tax collections totaled \$1.791 billion, up \$204 million from December 2004 collections and \$182 million above the December monthly benchmark.

On January 13, 2006, the Executive Office for Administration and Finance and the Chairpersons of the House and Senate Committees on Ways and Means jointly announced a consensus fiscal 2007 Commonwealth tax estimate of \$18.975 billion, of which \$734.0 million is dedicated to the MBTA, \$1.335 billion is dedicated to the Commonwealth's annual pension obligations, and \$572.5 million is dedicated to the MSBA. On January 17, 2006, the Executive Office for Administration and Finance revised the fiscal 2006 tax revenue estimate to \$18.158 billion. The fiscal 2007 tax revenue estimate represents growth of 4.5% over fiscal 2006. Excluding changes in the tax code, this represents growth of 4.1%, referred to as the baseline growth rate.

On January 25, 2006, Governor Romney filed his fiscal 2007 budget proposal. The spending plan budgeted \$25.187 billion, including \$7.101 billion in Medicaid, \$4.047 billion in K-12 education, \$2.064 billion for debt service, and contact assistance \$1.355 billion in non-education local aid, and \$10.620 for all other programs and services. The Governor's budget includes a phased decrease in the personal income tax from 5.3% to 5.15% on January 1, 2007, and to 5.0% on January 1, 2008. This tax cut reduces projected tax revenue for fiscal 2007 by \$132.0 million.

The fiscal 2007 budget includes an increase of 17.1% in non-education local aid by directing that all net proceeds from the state lottery be distributed to the Commonwealth's cities and towns, as had been done prior to fiscal 2003. The budget includes an increase of 3.4% in Medicaid relative to the fiscal 2006 General Appropriations Act. Medicaid spending for fiscal 2006 is currently projected to fall \$165.0 million below the budgeted levels. Factoring in this projected reversion, projected Medicaid growth is 5.9% relative to fiscal 2006 projected spending. The Governor's budget recommendation proposes an increase of \$275.0 million, or 7.3%, in K-12 education. These funds are proposed to support reforms to the state's principal education funding law, called Chapter 70, by making it more responsive to enrollment changes, addressing historical aid inequities among similar communities, and

recognizing increases in certain categories of school costs. The increased education funding would also provide for certain components of the Governor's Education Reform initiative, filed in September 2005, which have been re-filed in the budget.

The Governor's budget includes a \$200.0 million reserve account at the Executive Office for Administration and Finance to fund costs that may result from healthcare reform legislation currently being formulated in a joint House and Senate conference committee. In addition, the Governor has proposed that \$50.0 million of the \$200.0 million be taken from the Health Care Security Trust fund to support one-time costs associated with the implementation of healthcare reform in Massachusetts. (The Health Care Security Trust holds unexpended funds received from the master settlement agreement with tobacco companies and has a balance of \$443.6 million). The budget also includes the use of \$60.5 million from the Stabilization Fund to provide the tax refunds resulting from the *Peterson* legislation signed on December 8, 2005 (see "Fiscal 2006" above). The budget also proposes to suspend for fiscal 2007 the statutory transfer of one-half of 1 percent of current year tax revenues to the Stabilization Fund prior to the calculation of the consolidated net surplus.

### **Federal Reimbursement Risks**

*Safety Net Care Pool.* The Commonwealth receives certain federal Medicaid funds through a Safety Net Care Pool program under its existing Medicaid waiver agreement with the federal Centers for Medicare and Medicaid Services (CMS). See the March Information Statement under the heading "COMMONWEALTH PROGRAMS AND SERVICES – Medicaid." CMS has directed that the Commonwealth must have a new program approved and operational by July 1, 2006 in order for federal funding associated with the Safety Net Care Pool to be made available to the Commonwealth for fiscal 2007 and beyond. U.S. Secretary of Health and Human Services Michael Leavitt recently reaffirmed that the federal government can withhold up to \$385 million in federal funds if a new plan is not approved and implemented by July 1, 2006.

The Governor filed his health care reform proposal in April 2005. The House and Senate each passed their own health care reform bills prior to the end of 2005; the bills are under consideration in a legislative conference committee. The bills pending in conference committee would significantly expand Medicaid eligibility for certain populations. CMS has indicated that the purpose of the Safety Net Care Pool funds is to reduce the level of uninsured persons in Massachusetts through mechanisms other than the Medicaid program. It is unclear whether CMS would accept a plan based on Medicaid expansions.

To allow time for review, CMS had requested that a plan be submitted to it by January 15, 2006. The Commonwealth did not submit a plan by January 15, and no legislation has been passed to date. It is unlikely that the Commonwealth will be able to implement an acceptable plan by the July 1 deadline.

*Review of Targeted Case Management Services Rendered by Department of Social Services.* The federal Department of Health and Human Services, Office of the Inspector General (OIG), is auditing whether services provided by the Department of Social Services were properly claimed as Medicaid reimbursable Targeted Case Management services. Currently at issue is whether the Commonwealth should be required to refund approximately \$86.0 million to the federal government in respect of federal fiscal years 2002 and 2003. The Commonwealth is defending these claims, but the OIG may recommend that CMS disallow some or all of the claims. The Commonwealth expects to challenge any such disallowance and believes that there are numerous strong legal bases to support such a challenge. Additional Targeted Case Management services claims for the same period totaling approximately \$13.0 million may also be at issue, as well as similar claims for subsequent periods, which may equal or exceed the annual amounts at issue for federal fiscal years 2002 and 2003.

*TANF Work Requirements* Federal legislation has been enacted that will alter significantly the requirements on states administering the Transitional Assistance to Needy Families (TANF) program. The changes concerning federal work participation rates will require that Massachusetts increase its current work participation rate from 15 percent to 50 percent for all TANF families and 90 percent for two-parent families in federal fiscal year 2007. If, as anticipated, either rate is not achieved, the federal government will require that the Commonwealth increase its maintenance-of-effort funding by five percent of the 1994 base year, or \$24 million. In addition, the federal government would reduce its TANF grant by up to five percent. Massachusetts would be required to increase its maintenance-of-effort spending to offset the federal penalty. The penalties and increased maintenance-

of-effort requirement would continue each year that compliance is not realized, with the federal penalties increasing two percentage points each year to a maximum of 21 percent of the TANF block grant.

### **Capital Spending Developments**

Since the March Information Statement, bond bills making capital spending authorizations were filed or approved, as follows:

On February 1, 2005, the Governor filed legislation entitled "An Act Relative to Expanding the Military Mission at Hanscom Air Force Base and Soldier Systems Center - Natick." This legislation authorizes the Commonwealth to issue up to \$261 million in general obligation bonds to expand facilities at Hanscom and Natick. This legislation allocated \$242 million to be spent for facilities at Hanscom and \$19 million at Natick. These expenditures are contingent upon receipt of commitments from the Department of Defense to move new missions and additional personnel to each facility. The Governor signed the bill into law on February 4, 2005.

On March 3, 2005, the Governor filed legislation entitled "Act Providing for the Massachusetts Opportunity Relocation and Expansion Jobs Programs for the Commonwealth," which would authorize a total of \$300 million in general obligation bonds to support job creation programs. This legislation would authorize \$200 million for The Massachusetts Opportunity Relocation and Expansion ("MORE") Jobs Capital Program, a project to support businesses that are expanding or relocating in Massachusetts and are adding a minimum of 100 new jobs and making infrastructure improvements. The MORE Jobs Partnership Program also would authorize \$100 million to promote the development of research and technology transfer facilities at public higher education institutions.

On May 5, 2005, the Governor filed legislation entitled "An Act Providing Capital Facility Repairs, Grants, and Improvements for the Commonwealth." This legislation authorizes the Commonwealth to issue up to \$950.2 million in general obligation bonds. The authorizations include: \$450 million for improvements to state facilities, including the University of Massachusetts and the state and community colleges, \$250 million for information technology improvements for the Commonwealth, \$125 million for a new state police crime lab, \$72 million for grants to cities and towns for public library projects, \$25 million for improvements to national guard facilities operated by the military division of the Commonwealth, \$15 million for improvements to medical examiner facilities, and \$13.2 million for the state match for federal capitalization grants related to the water pollution abatement trust.

On July 28, 2005 the Governor signed "An Act Relative to Financing the Production of Affordable Housing." The legislation authorizes \$100 million in general obligation bonds for the Affordable Housing Trust Fund and \$100 million in general obligation bonds for the Housing Stabilization Fund.

### **Fiscal 2005 Tax Revenues**

Tax revenue collections for fiscal 2005, ended June 30, 2005, totaled \$17.088 billion, an increase of \$1.135 billion or 7.1% over fiscal 2004. The following table shows monthly tax collections for fiscal 2005 and the change from tax collections in the same months in the prior year, both in dollars and as a percentage. The table also notes the amount of monthly tax collections that are dedicated to the MBTA and to the MSBA.

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

Month	Tax Collections	Change From Prior Year	Percentage Change	MBTA Portion(2)	MSBA Portion	Collections, Net of MBTA and MSBA
July	\$1,127.2	\$60.2	5.6%	\$59.2	\$ --	\$1,068.0
August	1,192.1	102.4	9.4	56.5	33.0	1,102.6
September	1,697.8	55.8	3.4	60.5	36.3	1,601.0
October	1,098.7	23.1	2.2	56.3	36.3	1,006.1
November	1,119.0	73.5	7.0	52.4	36.3	1,030.4
December	1,587.0	133.0	9.1	67.5	36.3	1,483.2
January	1,685.3	178.1	11.8	66.1	36.3	1,582.9
February	849.2	(53.3)	(5.9)	47.8	36.3	765.1
March	1,556.9	186.8	13.6	62.2	36.3	1,458.4
April	2,016.9	196.0	10.8	55.4	36.3	1,925.2
May	1,327.0	121.2	10.1	57.3	36.3	1,233.5
June	<u>1,830.7</u>	<u>57.7</u>	<u>3.3</u>	<u>63.5</u>	<u>36.3</u>	<u>1,731.0</u>
Total	<u>\$17,087.9</u>	<u>\$1,134.6</u>	<u>7.1%</u>	<u>\$704.8</u>	<u>\$395.7</u>	<u>\$15,987.4</u>

SOURCE: Executive Office for Administration and Finance.

- (1) Sum of details may not equal total because of rounding.  
(2) Includes adjustments of \$7.8 million on the account of the first quarter, \$13.9 million on account of the second quarter and \$13.7 million on account of the third quarter and \$3.1 million on account of the fourth quarter

The tax revenue increase of \$1.135 billion over fiscal 2004 is attributable in large part to an increase of approximately \$305.6 million or 4.1% in withholding collections, an increase of approximately \$303.9 million or 22.0% in income tax estimated payments, an increase of approximately \$270.4 million or 23.1% in income tax payments with returns and bills and an increase of approximately \$137.2 million or 3.7% in sales and use tax collections.

See the March Information Statement under the heading "COMMONWEALTH REVENUES –Tax Revenue Forecasting; Fiscal 2005."



## Fiscal 2006 Tax Revenues

Tax revenue collections for the first eight months of fiscal 2006, ended February 28, 2006, totaled \$11,235.8 million, an increase of \$879.5 million or 8.5% over the first eight months of fiscal 2005. The following table shows the tax collections for the first eight months of fiscal 2006 and the change from tax collections in the same months in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in fiscal 2006 through February that are dedicated to the MBTA and to the MSBA.

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

Month	Tax Collections	Change From Prior Year	Percentage Change	MBTA Portion (2)	MSBA Portion	Collections, Net of MBTA and MSBA
July	\$1,188.8	\$61.6	5.5%	\$63.7	\$44.6	\$1,080.5
August	1,204.9	12.7	1.1	60.0	42.0	1,102.8
September	1,941.2	243.4	14.3	54.7	38.3	1,848.2
October	1,216.0	117.3	10.7	56.2	39.4	1,120.4
November	1,119.0	0.0	0.0	54.7	38.3	1,026.1
December	1,791.0	204.0	12.9	67.3	44.6	1,679.2
January (3)	1,921.1	235.8	14.0	67.6	47.3	1,806.2
February (3)	<u>853.8</u>	<u>4.6</u>	<u>0.5</u>	<u>49.2</u>	<u>35.2</u>	<u>769.4</u>
Total (3)	<u>\$11,235.8</u>	<u>\$879.5</u>	<u>8.5%</u>	<u>\$473.4</u>	<u>\$329.6</u>	<u>\$10,432.8</u>

SOURCE: Executive Office for Administration and Finance.

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

The year-to-date tax revenue increase of \$879.5 million over fiscal 2005 is attributable in large part to an increase of approximately \$294.4 million or 5.7% in withholding collections, an increase of approximately \$179.2 million or 16.7% in income tax estimated payments, an increase of approximately \$107.1 million or 4.1% in sales and use tax collections, and an increase of approximately \$368.4 million or 61.3% in corporate and business collections, which are partially offset by changes in other revenues (net of refunds). The year-to-date collections exceeded the year-to-date benchmark by approximately \$69.6 million. The year-to-date benchmark was based on fiscal 2006 tax revenue estimate of \$18.158 billion issued by the Executive Office for Administration and Finance on January 17, 2006.

On November 22, 2005, the Governor signed into law Chapter 140 of the Acts of 2005, which provides tax deductions for the purchase of home heating oil by certain taxpayers between November 1, 2005 and March 31, 2006, and tax credits for the purchase of energy-saving home improvements between December 1, 2005 and March 13, 2006. The Department of Revenue estimated that this legislation would reduce fiscal 2006 tax collections by \$93.9 million, and fiscal 2007 tax collections by \$27.6 million. Tax deductions under this legislation which have been taken to date are running below projections.

On November 23, 2005, the Governor signed into law Chapter 158 of the Acts of 2005, which provides tax credits and sales tax exemptions for companies engaged in the production of motion pictures in the Commonwealth. The Department of Revenue estimates that this legislation will reduce fiscal 2006 tax collections by \$27.4 million and fiscal 2007 tax collections by \$46.6 million.

On April 6, 2004, the Supreme Judicial Court held in *Peterson v. Commissioner of Revenue* that the effective date of a provision of Chapter 186 of the Acts of 2002 amending the capital gains tax statute to impose new tax rates as of May 1, 2002 violated amendment article 44 of the Massachusetts Constitution. Since the statute has a severability clause, the court remanded the case to the Supreme Judicial Court for Suffolk County for further proceedings to determine whether the statute should be construed to impose the new tax rate beginning on January 1,

2003, or whether the statute instead should be construed to impose the new tax rate beginning on January 1, 2002. Included in the fiscal 2005 GAA were two sections concerning capital gains tax rates: one section providing that the effective date of the capital gains tax statute is January 1, 2002 and another concerning an exemption for taxpayers who paid taxes on capital gains realized during January 1, 2002 to April 30, 2002. On April 26, 2005, the Supreme Judicial Court ruled that the exemption for taxpayers who paid taxes on capital gains realized during January 1, 2002 to April 30, 2002 was not a “reasonable exemption” and again remanded the case to the Supreme Judicial Court for Suffolk County, which ordered that the new tax rate be imposed effective January 1, 2002 unless the Legislature took further action.

On December 8, 2005, the Governor signed into law Chapter 163 of the Acts of 2005, which reinstated the lower capital gains tax rates that initially existed during the portion, ending April 30, 2002, of the 2002 tax year (5% ranging down to 0% depending on the holding period) and provided that such rates shall be applicable to the entire 2002 tax year, *i.e.*, a tax year beginning on or after January 1, 2002 and prior to January 1, 2003. The Act provided that any overpayments are to be refunded, without interest, in four annual installments, substantially equal in amount, provided that the Department of Revenue could, as a matter of administrative convenience, pay out individual refunds of \$1,000 or less in one lump sum. The Department estimates that total revenue reduction resulting from this legislation will be approximately \$225 million to \$275 million over four fiscal years, with estimated revenue reductions of \$75.5 million in fiscal 2006, and \$60.5 million in each year from fiscal 2007 through 2009.

Chapter 163 also linked the personal income tax sections of the Massachusetts tax code to the Internal Revenue Code as it existed on January 1, 2005, as well as closing certain so-called tax loopholes. The Department of Revenue estimates that the Internal Revenue Code update will result in tax revenue reductions of approximately \$32 million in fiscal 2006 and \$17 million in fiscal 2007, and the loophole closing provisions will result in tax revenue increases of approximately \$36 million in fiscal 2006 and \$85 million in fiscal 2007.

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

	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004(6)	Fiscal 2005	Estimated Fiscal 2006
<b>Tax Revenues:</b>						
Alcoholic Beverages	\$64.2	\$65.4	\$66.3	\$67.9	\$68.6	\$68.9
Banks	179.6	137.0	344.5	238.7	198.9	349.1
Cigarettes	270.5	275.0	451.0	425.4	423.6	434.1
Corporations	945.3	586.7(4)	799.4(4)	997.6	1,062.7	1,314.2
Deeds	129.6	134.3	147.8	187.0	220.3	207.1
Income	9,902.7	7,912.9	8,026.1	8,830.3	9,690.3	10,155.1
Inheritance and Estate	203.4	200.5	181.3	194.7	255.1	218.3
Insurance	356.6	382.9	387.8	420.2	423.4	433.4
Motor Fuel	659.9	666.8	676.4	684.2	685.5	679.2
Public Utilities	86.7	88.5	40.6	64.7	71.1	122.2
Racing	7.5	2.7	-	-	-	-
Room Occupancy	149.6	123.3	120.0	88.9	97.8	105.2
Sales:						
Regular	2,705.8	2,601.4	2,583.6	2,591.6	2,746.6	2,899.9
Meals	482.0	500.9	512.0	531.7	555.6	583.9
Motor Vehicles	<u>568.0</u>	<u>593.6</u>	<u>612.5</u>	<u>625.8</u>	<u>584.2</u>	<u>583.4</u>
Sub-Total-Sales	3,755.8	3,695.9	3,708.1	3,749.2	3,886.4	4,067.3
Miscellaneous	<u>17.9</u>	<u>15.1</u>	<u>14.3</u>	<u>4.2</u>	<u>3.9</u>	<u>3.8</u>
<b>Total Tax Revenues</b>	<u>16,729.2</u>	<u>14,287.1</u>	<u>14,963.8(5)</u>	<u>15,953.2</u>	<u>17,087.9</u>	<u>18,158.0</u>
MBTA Transfer	(654.6)	(664.3)	(684.3)	(684.3)	(704.8)	(712.6)
MSBA Transfer (2)	<u>      </u>	<u>      </u>	<u>      </u>	<u>      </u>	<u>(395.7)</u>	<u>(488.7)</u>
<b>Total Budgeted Operating Tax Revenues</b>	<u>16,074.6</u>	<u>13,622.8</u>	<u>14,279.5</u>	<u>15,268.9</u>	<u>15,987.4</u>	<u>16,956.7</u>
<b>Non-Tax Revenues:</b>						
Federal Reimbursements	3,974.2	4,334.9	4,523.6	5,098.5	4,697.0	5,361.2
Departmental and Other Revenues	1,425.9	1,485.2	1,494.8	1,847.7	1,948.8	2,104.0
Inter-fund Transfers from Non - Budgeted Funds and Other Sources (3)	<u>1,385.9</u>	<u>1,732.0</u>	<u>1,689.2</u>	<u>1,773.1</u>	<u>1,740.2</u>	<u>1,412.5</u>
<b>Budgeted Non-Tax Revenues and Other Sources</b>	<u>6,786.0</u>	<u>7,552.2</u>	<u>7,707.6</u>	<u>8,719.3</u>	<u>8,386.0</u>	<u>8,877.7</u>
<b>Budgeted Revenues and Revenues from Other Sources</b>	<u>\$22,860.6</u>	<u>\$21,174.8</u>	<u>\$21,987.2</u>	<u>\$23,988.3</u>	<u>\$24,373.4</u>	<u>\$25,633.4</u>

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

- (1) Totals may not add due to rounding. The table does not reflect inter-fund transfers among budgeted funds and other sources that have no effect on ending balances. Excludes certain miscellaneous taxes expended outside of the budgeted process.
- (2) If the law that moved school building assistance to a non-budgeted expenditure and transferred a dedicated portion of the Commonwealth's sales tax to the MSBA had been in effect prior to fiscal 2005, transfers of sales tax revenue to the MSBA would have been \$316.2 million, \$365.4 million, \$383.2 million and \$551.4 million in fiscal 2001 through 2004, respectively. See the March Information Statement under the heading "SELECTED FINANCIAL DATA – Recent Financial Restructurings; *School Building Assistance Program*".
- (3) Inter-fund Transfers from Non-budgeted Funds and Other Sources include profits from the State Lottery, spending of Tobacco Settlement funds, Abandoned Property proceeds, and transfers to the Uncompensated Care Pool, as well as other inter-fund transfers.
- (4) The Department of Revenue estimates that as a result of the timing of federal tax legislation relating to the depreciation deduction for corporations and the Commonwealth's legislation in response, tax revenue collections in fiscal 2002 were reduced by approximately \$30 million and tax revenue collections in fiscal 2003 were increased by the same approximate amount.
- (5) Includes approximately \$174.0 million in fiscal 2003 revenue resulting from a tax amnesty program.
- (6) Beginning July 1, 2003, the Convention Center Fund, the Head Injury Treatment Services Fund and the Natural Heritage and Endangered Species Fund were reclassified as non-budgeted funds. Prior years have not been restated.

## **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 2001 through 2005. Projections for fiscal 2006 have been prepared by the Executive Office for Administration and Finance. The financial information presented includes all Budgeted Operating Funds of the Commonwealth. For fiscal 2002, the Commonwealth reported 63 budgeted operating funds. The fiscal 2003 GAA and the fiscal 2004 GAA included provisions closing certain funds. Effective June 30, 2003, 48 funds were closed. Additional funds have been transferred off-budget. Thirteen Budgeted Operating Funds remained as of July 1, 2004, which include the General Fund, the Highway Fund, the Stabilization Fund, the Tax Reduction Fund, the Temporary Holding Fund, the Intragovernmental Service Fund, the Workforce Training Fund, the Inland Fisheries and Game Fund, the Massachusetts Tourism Fund, the Children's and Seniors' Health Care Assistance Fund, the Collective Bargaining Reserve Fund, the Division of Energy Resources Credit Trust Fund and the Federal Medicaid Assistance Percentage Escrow Fund.

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

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

	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005	Projected Fiscal 2006
<b>Beginning Fund Balances</b>						
Reserved or Designated	\$278.5	\$895.3	\$195.2	\$76.8	\$664.6	\$355.6
Tax Reduction Fund	7.2	33.6	-	-	-	-
Transitional Escrow Fund						304.8
Stabilization Fund	1,608.4	1,715.0	881.8	641.3	1,137.3	1,728.4
Undesignated	<u>391.3</u>	<u>369.5</u>	<u>311.0</u>	<u>34.7</u>	<u>90.9</u>	<u>98.4</u>
<b>Total</b>	<b><u>2,285.4</u></b>	<b><u>3,013.3</u></b>	<b><u>1,388.0</u></b>	<b><u>752.8(7)</u></b>	<b><u>1,892.8</u></b>	<b><u>2,487.2</u></b>
<b>Revenues and Other Sources</b>						
Tax Revenues (2)	16,074.6	13,622.8	14,279.5(5)	15,269.0	15,987.4	16,956.7(10)
Federal Reimbursements	3,974.2	4,334.9	4,523.6	5,098.5	4,696.9	5,196.6
Departmental and Other Revenues	1,425.9	1,485.2	1,494.8	1,847.7	1,948.9	2,084.1
Inter-fund Transfers from Non-budgeted Funds and Other Sources (3)	<u>1,385.9</u>	<u>1,732.0</u>	<u>1,689.2</u>	<u>1,773.1</u>	<u>1,740.2</u>	<u>1,399.1</u>
<b>Budgeted Revenues and Other Sources</b>	<b><u>22,860.6</u></b>	<b><u>21,174.8</u></b>	<b><u>21,987.1</u></b>	<b><u>23,988.3</u></b>	<b><u>24,373.4</u></b>	<b><u>25,636.5</u></b>
Inter-fund Transfers	<u>931.0</u>	<u>1,874.4</u>	<u>3,310.5(6)</u>	<u>2,058.7(8)</u>	<u>2,231.3</u>	<u>483.9</u>
<b>Total Budgeted Revenues and Other Sources</b>	<b><u>23,791.6</u></b>	<b><u>23,049.2</u></b>	<b><u>25,297.7</u></b>	<b><u>26,047.0</u></b>	<b><u>26,604.7</u></b>	<b><u>26,120.4</u></b>
<b>Expenditures and Uses</b>						
Programs and Services (4)	21,184.1	20,513.2	22,209.5	21,456.1	22,067.7	24,106.3
Inter-fund Transfers to Non-budgeted Funds and Other Uses	<u>949.6</u>	<u>287.1</u>	<u>229.6</u>	<u>1,392.2</u>	<u>1,711.3</u>	<u>1,274.7</u>
<b>Budgeted Expenditures and Other Uses</b>	<b><u>22,133.7</u></b>	<b><u>22,800.3</u></b>	<b><u>22,439.1</u></b>	<b><u>22,848.3</u></b>	<b><u>23,779.1</u></b>	<b><u>25,381.0</u></b>
Inter-fund Transfers	<u>931.0</u>	<u>1,874.4</u>	<u>3,310.5(6)</u>	<u>2,058.7(8)</u>	<u>2,231.2</u>	<u>483.9</u>
<b>Total Budgeted Expenditures and Other Uses</b>	<b><u>23,064.7</u></b>	<b><u>24,674.7</u></b>	<b><u>25,749.6</u></b>	<b><u>24,907.0</u></b>	<b><u>26,010.3</u></b>	<b><u>25,864.9</u></b>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>726.8</u>	<u>(1,625.4)</u>	<u>(451.9)</u>	<u>1,140.0</u>	<u>594.4</u>	<u>255.5</u>
<b>Ending Fund Balances</b>						
Reserved or Designated	895.3	195.2	76.8	664.6(9)	355.6	26.1
Tax Reduction Fund	33.6	--	--	--	--	--
Transitional Escrow Fund	--	--	--	--	304.8	--
Stabilization Fund	1,715.0	881.8	641.3	1,137.3	1,728.4	2,613.8(11)
Undesignated	<u>369.5</u>	<u>311.0</u>	<u>218.0</u>	<u>90.9</u>	<u>98.4</u>	<u>102.8</u>
<b>Total</b>	<b><u>\$3,013.3</u></b>	<b><u>\$1,388.0</u></b>	<b><u>\$936.1(7)</u></b>	<b><u>\$1,892.8</u></b>	<b><u>\$2,487.2</u></b>	<b><u>\$2,742.7</u></b>

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

(1) Totals may not add due to rounding.

(2) Net of \$654.6 million in fiscal 2001, \$664.3 million in fiscal 2002, \$684.3 million in fiscal 2003, \$684.3 million in fiscal 2004, \$704.8 million in fiscal 2005 and \$712.6 million in fiscal 2006 of dedicated sales tax transferred to the MBTA and moved off budget. Net of \$395.7 million in fiscal 2005 and \$488.7 million in fiscal 2006 of dedicated sales tax transferred to the MSBA and moved off budget.

(3) Inter-fund Transfers from Non-budgeted Funds and Other Sources include profits from the State Lottery, spending of Tobacco Settlement funds, Abandoned Property proceeds, and transfers to the Uncompensated Care Pool, as well as other inter-fund transfers.

(4) The Executive Office for Administration and Finance estimates that approximately \$201.4 million in Medicaid expenditures were moved off-budget pursuant to the fiscal 2003 GAA and an additional \$75.3 million were transferred off budget in fiscal 2004. Total off-budget Medicaid expenditures were \$288.5 million in fiscal 2004 and \$291.6 million in fiscal 2005 and are projected to be \$332.5 million in fiscal 2006.

(5) Includes \$174.0 million in one-time revenue from tax amnesty program and approximately \$200.0 million from closing various so-called tax loopholes.

- (6) Inter-fund transfers increased substantially in fiscal 2003 due to the elimination of a number of Budgeted Operating Funds pursuant to the fiscal 2004 GAA, effective June 30, 2003.
- (7) The variance between fiscal 2003 ending fund balances and fiscal 2004 beginning fund balances reflect the transfer of the Convention Center Fund, Head Injury Trust Fund and Natural Heritage and Endangered Species Fund off budget.
- (8) Inter-fund transfers decreased in fiscal 2004 and 2005 due to the elimination of a number of Budgeted Operating Funds pursuant to the fiscal 2004 GAA and the fiscal 2005 GAA.
- (9) Includes \$270.0 million in fiscal 2004 FMAP revenue reserved for expenditure in fiscal 2005, \$75.0 million reserved for distribution to cities and towns in fiscal 2005, \$293.5 million in fiscal 2004 appropriations authorized to be expended in fiscal 2005, and \$26.1 million reserved for debt service.
- (10) Based on Executive Office for Administration and Finance fiscal 2006 revised tax revenue estimate of \$18.158 billion.
- (11) Fiscal 2006 projected figures assume that \$304.8 million in the Transitional Escrow Fund is not appropriated in fiscal 2006. By statute, the balance of these funds will be transferred to the Stabilization Fund on June 30, 2006.

## Recent Financial Restructurings

The following table is presented for the purpose of clarifying the effect of the recent financial restructurings involving the Massachusetts Bay Transportation Authority, the Massachusetts School Building Authority, and the Medicaid Program on the Budgeted Operating Funds operations of the Commonwealth by identifying off-balance sheet items. See the March Information Statement under the heading "Selected Financial Data – Recent Financial Restructurings".

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

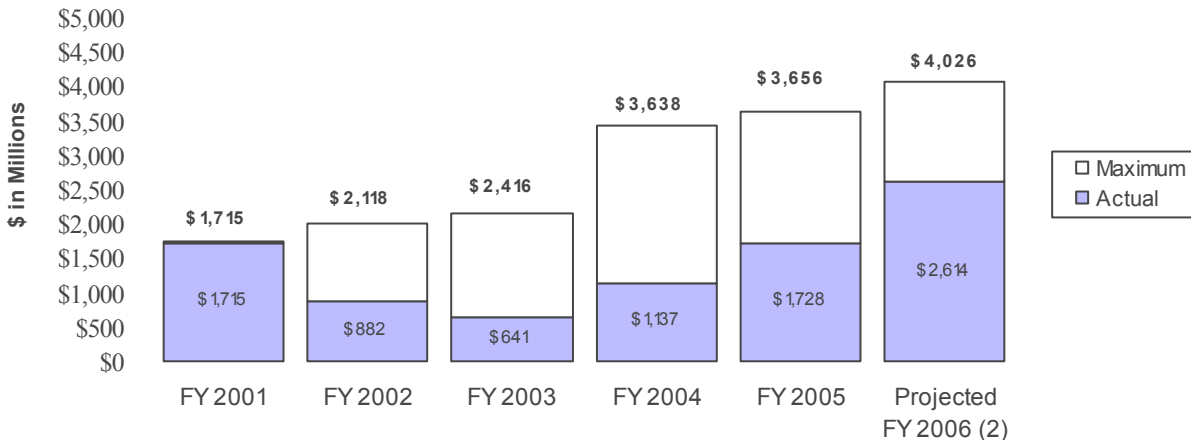
	Fiscal <u>2001</u>	Fiscal <u>2002</u>	Fiscal <u>2003</u>	Fiscal <u>2004</u>	Fiscal <u>2005</u>	Projected Fiscal <u>2006</u>
<u>Revenues</u>						
Budgeted Revenues and Other Sources	\$22,860.6	\$21,174.8	\$21,987.1	\$23,988.3	\$24,373.4	\$25,636.5(1)
Certain Off-Budget Revenues:						
Dedicated Sales Tax Revenues	654.6	664.3	684.3	684.3	1,100.5	1,201.3
Certain Non-Tax Revenues	—	—	201.4	329.2	291.6	332.5
Subtotal	654.6	664.3	885.7	1,013.5	1,392.1	1,533.8
Total	23,515.2	21,839.1	22,872.8	25,001.8	25,765.5	27,170.3
<u>Expenditures</u>						
Budgeted Expenditures and Other Uses	22,133.7	22,800.3	22,439.1	22,848.3	23,779.1	25,381.0
Certain Off- Budget Expenditures:						
MBTA	654.6	664.3	684.3	684.3	704.8	712.6
MSBA	-	-	-	-	395.7	488.7
Medicaid	—	—	201.4	329.2	291.6	332.5
Subtotal	654.6	664.3	885.7	1,013.5	1,392.1	1,533.8
Total	22,788.3	23,464.6	23,324.8	23,861.8	25,171.2	26,914.8
Excess (Deficiency) of Total Revenues Over Total Expenditures and Other Uses	\$726.8	(\$1,625.4)	(\$451.9)	\$1,140.0	\$594.4	\$255.5

SOURCE: Executive Office for Administration and Finance.

- (1) Based on Executive Office for Administration and Finance fiscal 2006 revised tax revenue estimate of \$18.158 billion.

## Stabilization Fund and Disposition of Year-End Surpluses

The following graph sets forth ending balances in the Stabilization Fund for fiscal 2001 through fiscal 2005 and the projection for fiscal 2006. For each year, the right-hand column equals the maximum balance permitted under the statutory formula, and the left-hand column shows the amount of the actual ending balance.



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

- (1) The fiscal 2004 GAA changed the ceiling on the balance of the Stabilization Fund from 10% to 15% of total current year revenues.
- (2) Fiscal 2006 projected figures assume that \$304.8 million in the Transitional Escrow Fund is not appropriated in fiscal 2006. By statute, the balance of these funds will be transferred to the Stabilization Fund on June 30, 2006.

## Cash Flow

Fiscal 2005 ended with a non-segregated cash balance of \$2.117 billion and a segregated bond balance of \$435.7 million. On February 28, 2006, the State Treasurer and the Secretary of Administration and Finance released a revised projected cash flow forecast for fiscal 2006. The cash flow projection for fiscal 2006 is based on the GAA for fiscal 2006 and includes the value of all vetoes and subsequent overrides as well as all prior appropriations continued into fiscal 2006 from the prior fiscal year. The cash flow projection also reflects all supplemental appropriations bills either filed or enacted that would impact the Commonwealth's cash flow in fiscal 2006. It reflects authorized transfers between budgeted funds and certain reserve funds as provided for in the GAA and in subsequent legislation. The fiscal 2006 projection is based on actual spending and revenue through January 2006, and estimates for the remainder of fiscal 2006. The fiscal 2006 projection is based on the Executive Office for Administration and Finance's revised fiscal 2006 tax estimate released on January 17, 2006 of \$18.158 billion. The gross tax figure includes \$1.274 billion dedicated to the Commonwealth's fiscal 2006 pension obligation, \$712.6 million in sales tax revenues dedicated to the MBTA and \$488.7 million in sales tax revenues dedicated to the MSBA. The figure excludes local option tax revenues of \$256.0 million.

Fiscal 2006 opened with a starting balance of \$2.553 billion of cash and is projected to have a June 30, 2006 ending balance of \$1.584 billion. These figures do not include balances in the Commonwealth's Stabilization Fund or certain other off-budget reserve funds, but do include monies sequestered to pay for projected capital projects totaling \$435.7 million with respect to the starting balance and \$202.2 million with respect to the ending balance. Excluding these sequestered capital funds, the Commonwealth's operating cash balance opened the year at \$2.117 billion and is projected to end the fiscal year at \$1.382 billion, a \$735.0 million decrease. A portion of the overall decline in the operating cash balance is due to the anticipated net transfer of \$1.104 billion to the Commonwealth's Stabilization Fund during and in respect of fiscal 2006.

The Commonwealth's cash flow management incorporates the periodic use of commercial paper borrowing to meet cash flow needs for both capital and operating expenditures. In particular, the Commonwealth makes local aid payments of approximately \$1 billion to its cities and towns at the end of each calendar quarter, which in recent years has often resulted in short-term cash flow borrowings. The Commonwealth began fiscal 2006 with \$140.1 million of commercial paper outstanding in the form of Bond Anticipation Notes (BANs), which have been paid from the proceeds of general obligation bond issues. In December 2005 the Commonwealth issued \$200.0 million of Revenue Anticipation Notes (RANs) to make the December 2005 local aid payment to cities and towns. These RANs were repaid in December 2005 and January 2006. The Commonwealth intends to issue \$200.0 million of RANs in April 2006.

The cash flow projection included an estimated \$1.404 billion in proceeds of long-term borrowing for capital projects in fiscal 2006, including a \$400.0 million principal amount general obligation bond issue completed in August 2005 and a \$261.1 million principal amount general obligation bond issue (excluding the portion of the issue benefiting the MSBA) completed in October 2005. Additional general obligation bond issues of \$350.0 million in March 2006 and \$330.0 million in May 2006 are expected.

See "RECENT DEVELOPMENTS – Fiscal 2006" for events since publication of the cash flow estimate that affect these projections.

The Commonwealth's next cash flow projection is expected to be released on or before May 31, 2006.

See the March Information Statement under the heading "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS – Cash Flow".

## **COMMONWEALTH PROGRAMS AND SERVICES**

### **Commonwealth Pension Obligations**

*Valuation of Pension Obligation.* On September 29, 2005, PERAC released its actuarial valuation of the total pension obligation dated January 1, 2005. The unfunded actuarial accrued liability as of that date for the total obligation was approximately \$13.419 billion, an increase of approximately \$1.405 billion over the unfunded actuarial accrued liability as of January 1, 2004. The unfunded accrued actuarial liability as of January 1, 2005 was composed of unfunded actuarial accrued liabilities of approximately \$3.364 billion for the State Employees' Retirement System, \$8.483 billion for the State Teachers' Retirement System, \$1.097 billion for Boston Teachers and \$475.0 million for cost-of-living increases. The valuation study estimated the total actuarial accrued liability as of January 1, 2005 to be approximately \$48.358 billion (comprised of \$19.575 billion for state employees, \$26.167 billion for state teachers, \$2.141 billion for Boston Teachers and \$475.0 million for cost-of-living increases). Total assets were valued at approximately \$34.939 billion based on the five-year average valuation method, which equaled 98.4% of the January 1, 2005 total asset market value. The actuarial value of assets as of January 1, 2005 represented an increase of \$894.0 million from the valuation of assets as of January 1, 2004. The funded ratio decreased to 72.3% as of January 1, 2005 from 73.9% as of January 1, 2004. During 2004, there was an overall actuarial loss of approximately \$1.2 billion. There was a non-investment gain on actuarial liability of approximately \$163.0 million and a loss on assets (on an actuarial value basis) of approximately \$1.4 billion. The unfunded accrued actuarial liability increase was primarily due to a loss on the actuarial value of assets during 2004. The return on assets was approximately 4.7% on an actuarial basis compared to the 8.25% investment return assumption and the 14.5% return on a market value basis. The actuarial loss reflects that part of the investment losses from 2000-2002, which were deferred in the prior valuation as a result of the five-year actuarial smoothing calculation, are now being recognized.

The following table shows the valuation of accrued liabilities as well as the unfunded portion from the January 1, 1998 valuation through the January 1, 2005 valuation:



## Pension Fund Valuation and Unfunded Accrued Liabilities (in millions)

Valuation Date	Total Actuarial Accrued Liability	Actuarial Value of Assets(2)	Unfunded Accrued Liabilities		Valuation Date
			Unfunded Actuarial Liability(3)	Market Value of Unfunded Liability	
January 1, 1998	\$26,587	\$20,783	\$5,804	\$5,160	January 1, 1998
January 1, 2000(1)	32,743	27,906	4,837	2,076	January 1, 2000(1)
January 1, 2001	35,605	29,230	6,374	5,381	January 1, 2001
January 1, 2002	39,067	31,699	7,369	10,359	January 1, 2002
January 1, 2003	43,030	29,629	13,401	17,266	January 1, 2003
January 1, 2004	46,059	34,045	12,014	14,350	January 1, 2004
January 1, 2005	48,358	34,939	13,419	12,861	January 1, 2005

SOURCE: Public Employee Retirement Administration Commission. Includes the State Employees Retirement System, the State – Teachers Retirement System and the State-Boston Teachers Retirement System data.

- (1) On the basis of the January 1, 2000 valuation and PERAC's most recent six-year experience studies released in October and November 2000, the Secretary of Administration and Finance developed two new alternative estimates of unfunded actuarial accrued liability based on its \$33.482 billion estimate of total actuarial accrued liability developed by the experience studies, but with different assumptions of asset valuation. One valued assets at \$27.905 billion, reflecting a valuation of 91% of market value. It estimated total unfunded actuarial accrued liability at approximately \$5.577 billion. The other, utilizing a valuation of 89% of market value, valued assets at approximately \$27.292 billion and estimated total unfunded actuarial accrued liability to be approximately \$6.190 billion. On March 1, 2001, the Secretary of Administration and Finance filed three alternative funding schedules with the Legislature, two of which were based on the foregoing alternative calculations of unfunded actuarial accrued liability. In addition, the funding schedules also assumed additional annual costs of \$50 million estimated to be attributable to 2000 legislation that enhanced certain retirement benefits for teachers. On March 7, 2001, the House Committee on Ways and Means approved the proposed funding schedule that had been based on the valuation of 89% of market value, and which reflected total estimated unfunded actuarial accrued liability of approximately \$6.190 billion. The fiscal 2002 GAA did not appropriate the amount provided in the schedule approved by House Ways and Means, but did appropriate an amount in accordance with an alternative schedule filed by the Secretary of Administration and Finance reflecting a market valuation of 91% and a total unfunded actuarial accrued liability at approximately \$5.577 billion.
- (2) The actuarial value of assets smoothing methodology was phased-in beginning January 1, 1998, and was completely phased in as of January 1, 2001. The phase-in was 3% per year until the calculation of the actuarial value exceeded the amount of the phase-in. Therefore, as of January 1, 1998 the actuarial value of assets was determined to be 97% of the market value and on January 1, 2000, the actuarial value of assets was determined to be 91% of the market value.
- (3) Based on actuarial valuation.

## COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN

### Capital Spending Plan

The following table sets forth the current capital investment plan of the Executive Office for Administration and Finance. It contains current estimates for capital investment by the Commonwealth as well as the estimated sources of funding for such capital investments for fiscal 2006 through fiscal 2009. The projections assume an ongoing state borrowing program of approximately \$1.25 billion annually after 2005 and additional borrowings of \$565 million in fiscal 2005 and \$435 million in fiscal 2006 for the MSBA.

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

<b>USES:</b>	<b>Fiscal</b>	<b>Fiscal</b>	<b>Fiscal</b>	<b>Fiscal</b>	<b>Fiscal</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>
	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>	<b><u>2009</u></b>
Information Technology	\$64	\$86	\$76	\$75	\$61	\$90	\$90	\$90	\$90
Infrastructure	179	235	274	251	262	320	320	320	320
Environment	140	156	134	113	122	133	133	133	133
Housing	79	106	112	121	122	131	131	131	131
Public Safety	23	8	37	20	18	24	24	24	24
Transportation									
CA/T Projects	1,258	1,296	1,015	691	509	461	209	75	-
Non-CA/T Project	732	612	682	767	791	904	879	894	899
Economic Development									
Convention Centers	124	134	225	113	54	-	-	-	-
Other	102	99	86	64	39	40	40	40	40
School Building Assistance	-	-	-	-	565	435	-	-	-
Reserve	-	-	-	-	-	-	-	-	-
<b>Total Uses:</b>	<b><u>\$2,701</u></b>	<b><u>\$2,732</u></b>	<b><u>\$2,641</u></b>	<b><u>\$2,215</u></b>	<b><u>\$2,543</u></b>	<b><u>\$2,538</u></b>	<b><u>\$1,826</u></b>	<b><u>\$1,707</u></b>	<b><u>1,637</u></b>
<b>SOURCES:</b>									
General Obligation Debt	\$1,489	\$1,847	\$1,472	\$1,285	\$1,850	\$1,755	\$1,395	\$1,289	\$1,289
Special Obligation Debt	176	139	230	119	64	-	-	-	-
Grant Anticipation Notes	353	9	24	-	-	-	-	-	-
Operating Revenues(4)	141	195	354	133	194	120	13	75	-
Third-Party Payments	82	52	52	63	99	178	79	-	-
Federal Reimbursements	<u>460</u>	<u>490</u>	<u>509</u>	<u>615</u>	<u>336</u>	<u>485</u>	<u>338</u>	<u>343</u>	<u>348</u>
<b>Total Sources:</b>	<b><u>\$2,701</u></b>	<b><u>\$2,732</u></b>	<b><u>\$2,641</u></b>	<b><u>\$2,215</u></b>	<b><u>\$2,543</u></b>	<b><u>\$2,538</u></b>	<b><u>\$1,826</u></b>	<b><u>\$1,707</u></b>	<b><u>\$1,637</u></b>

SOURCE: Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) The Executive Office for Administration and Finance reviews capital expenditures on an annual basis and reserves the right to change out-year projections.
- (3) CA/T spending is based on the February 2006 cash flow projection update prepared by the Massachusetts Turnpike Authority and presented on page 19 of this Supplement.
- (4) Operating revenues include Registry of Motor Vehicle fees transferred to the CA/T Project and the Statewide Road and Bridge Infrastructure Fund.

## Central Artery/Ted Williams Tunnel Project

The largest single component of the Commonwealth's capital program in recent years has been the Central Artery/Ted Williams Tunnel Project (CA/T Project), a major construction project that is part of the completion of the federal interstate highway system. The CA/T Project involves the depression of a portion of Interstate 93 in downtown Boston (the Central Artery), formerly an elevated highway, and the construction of a new tunnel under Boston harbor (the Ted Williams Tunnel) linking the Boston terminus of the Massachusetts Turnpike (Interstate 90) to Logan International Airport and points north. Substantial completion of the CA/T Project, defined as the opening of all roadway, tunnel, bridge, and ramp elements in their final alignments, occurred on January 13, 2006. The major components of the work remaining for final completion of the CA/T Project include reconstruction of the downtown surface street system, completion of the Integrated Project Control System (IPCS) for traffic management and construction of certain parks. The final completion of the surface roadways is expected to occur by mid-Summer of 2006. The remaining work will be completed in fiscal 2007 or 2008. The CA/T Project is administered by the Massachusetts Turnpike Authority (Turnpike Authority).

The most recent CA/T Project cost/schedule update (CSU 11) was completed and filed by the Turnpike Authority on July 1, 2004. Under CSU 11, the estimate of total project cost remained at \$14.625 billion. On April 1, 2005, the Turnpike Authority released an interim report revising certain elements of the budget in CSU 11. Revised figures in the April 1, 2005 report were based on utilization of contingency reserves, realization of cost savings and other factors. The total CA/T Project cost estimate did not increase as the result of this revision. Because the CA/T Project is near completion, the Turnpike Authority does not contemplate submitting another new, full cost/schedule update; however, it is continuing to publish periodic management reports, which include construction progress reports and updated completion and cost estimates. CA/T Project management believes that since the submission of CSU 11 and its April 2005 update, no new developments or information have arisen which require an increase of the CA/T Project's \$14.625 billion budget.

As of October 31, 2005, approximately \$14.115 billion was under contract or agreement, which constitutes 96.5% of total budgeted costs for the CA/T Project. Moreover, as of October 31, 2005, CA/T Project construction was 97.7% complete, based on the CSU 11 construction budget.

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

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

On October 23, 2000, federal legislation was approved that requires the U. S. Secretary of Transportation to withhold obligation of federal funds and all project approvals for the CA/T Project in each federal fiscal year unless the Secretary has approved an annual update of the CA/T Project finance plan for such year and has determined that the Commonwealth is in full compliance with the June 22, 2000 project partnership agreement described above and is maintaining a balanced statewide transportation program, including spending at least \$400 million each state fiscal year for construction activities and transportation projects other than the CA/T Project. In addition, the legislation limited total federal funding to \$8.549 billion, consistent with the project partnership agreement. Finally, the legislation tied future federal funding for the project to an annual finding by the Inspector General of the U.S. Department of Transportation that the annual update of the CA/T Project finance plan is consistent with Federal Highway Administration financial plan guidance. Should any federal assistance be withheld from the project pursuant to such legislation, such funding would nonetheless be available to the Commonwealth for projects other

than the CA/T Project. Moreover, the legislation provides that federal funds will not be withheld if the Secretary of Administration and Finance certifies that such funds are required to pay all or any portion of the principal of federal grant anticipation notes issued for the CA/T Project.

The CA/T Project finance plans submitted pursuant to this legislation through October 2003 have received the requisite approvals. Through the federal fiscal year ended September 30, 2004, according to federal records the CA/T Project had received obligation authority with respect to all but \$81 million of the federal financial assistance available to the project (other than amounts allocable to principal of federal grant anticipation notes). The remaining \$81 million has not yet been made available pending federal approval of the most recent finance plan, based on CSU 11, which was submitted on July 30, 2004.

A question regarding the amount of the remaining federal support for the CA/T Project has come to light recently. State records indicate that the state has received federal reimbursements for the project in an amount that is approximately \$8 million less than the amount indicated by federal records. As a result, there exists a discrepancy between federal and state records about the amount of federal reimbursement that remains available for the project. The Commonwealth is reviewing this discrepancy with federal authorities. The CA/T cash flow projection presented on the following page assumes that federal reimbursements of \$141 million remain available to the project, an amount consistent with the state's records. If the discrepancy is not resolved as the Commonwealth sees it, the remaining amount of federal support may be only \$133 million, creating a funding shortfall of \$8 million in addition to the \$67 million discussed below. The information set forth in this Supplement assumes that the Commonwealth's current understanding is accurate with respect to the remaining amount of federal support for the CA/T Project.

Federal review of the 2004 finance plan is ongoing. The review is believed to remain open with respect to the costs of dealing with water infiltration and back charges, liquidated damages, cost recovery, and self-insurance loss portfolio transfer. The Turnpike Authority believes that correcting the leak issues is within the scope of existing contracts and will not result in significant additional costs for either the Turnpike Authority or the Commonwealth. The Turnpike Authority has responded to federal requests for information regarding the matters under review.

The 2004 finance plan includes among the sources of funding \$94 million to be realized from the disposition of the CA/T Project headquarters and contiguous parcels at Kneeland Street in Boston. Based on the response in December 2004 to a request for bids for the Kneeland Street property, the Turnpike Authority is no longer relying on this source of funding and is reviewing alternative sources (including in particular investment earnings on funds previously set aside to finance project costs and interest payments due to the CA/T Project). The Turnpike Authority has identified \$27 million in added interest earnings on the sale proceeds of certain land in Allston as a partial source of funding this amount. The Turnpike Authority has been seeking to secure the remaining \$67 million from the state's Transportation Infrastructure Fund (TIF). Final agreement has not been reached regarding the use of additional elements from the TIF for this purpose. Resolution of this question is required for federal approval of the finance plan.

Pending their determination that project costs, schedule, and funding sources in the 2004 finance plan are reasonable, federal authorities continue to withhold approval of the plan and the federal obligation authority remaining to reach the cap on federal assistance to the CA/T Project. In addition, approximately \$51 million of federal reimbursements for amounts already expended are in abeyance pending approval of the finance plan.

As the 2004 finance plan was not approved prior to the end of federal fiscal year 2005 on September 30, 2005, the Commonwealth applied the unobligated authority to other eligible transportation projects within the Commonwealth and to principal of the grant anticipation notes. Once the 2004 finance plan is approved, the remaining federal support will be allocated from federal obligation authority in federal fiscal year 2006 or thereafter.

*CA/T Project Cash Flow.* The following table provides historical cash flow information and future cash flow estimates based on the Turnpike Authority's current estimations. Actual amounts and timing of construction costs may differ significantly from such estimates.

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

	Cumulative Through <u>2005(2)</u>	Projected <u>2006</u>	Projected <u>2007</u>	Projected <u>2008</u>	<u>Totals</u>
<b>Project Construction Uses:</b>					
<b>Project Construction Sources:</b>					
Federal Highway Reimbursements	6,908	131	10		7,049
Commonwealth GO Bond/Note (3)	1,589	--	--	--	1,589
State Interest on Turnpike Authority Funds	45	--			45
Third Party Contributions (4)	1,686	128	79	--	1,893
Grant Anticipation Notes Transportation Infrastructure Fund (5)	1,500	--			1,500
Insurance Trust Revenue	<u>52</u>	<u>--</u>	<u>13</u>	<u>75</u>	<u>140</u>
<b>Total Sources</b>	<b><u>\$13,880</u></b>	<b><u>\$461</u></b>	<b><u>\$209</u></b>	<b><u>\$75</u></b>	<b><u>\$14,625</u></b>

SOURCE: Massachusetts Turnpike Authority.

- (1) Totals may not add due to rounding.
- (2) This table is based on the Commonwealth's fiscal year, which ends on June 30; the Turnpike Authority's fiscal year ends on December 31.
- (3) Does not include bonds or notes authorized by May 17, 2000 legislation, which are included in the TIF line.
- (4) Payments to be received from the Turnpike Authority and the Port Authority described in the October 2000, 2001 and 2002 Finance Plans, but excluding payments to be received from the Turnpike Authority and the Port Authority as required by May 17, 2000 legislation. (The latter payments are included in the TIF line.) The fiscal year amounts assume that the Commonwealth will finance costs in anticipation of such receipts through cash advances funded by general revenues or through the issuance of interim debt, if necessary.
- (5) Central Artery and Statewide Road and Bridge Transportation Infrastructure Fund (TIF) established pursuant to legislation approved by the Governor on May 17, 2000. Includes \$1.5 billion of state general obligation debt, \$200 million received from the Turnpike Authority, \$65 million received from the Massachusetts Port Authority, and certain Registry of Motor Vehicle fee revenues.

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

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

Media reports have discussed a number of water infiltration problems in the project's tunnels. The Turnpike Authority and project staff have indicated that the tunnels have been surveyed, flaws have been identified, and remedies have been designed and are being implemented, including the repair of flaws in tunnel walls and the sealing of leaks at a large number of tunnel wall and roof interfaces. Amounts spent and anticipated to be spent by the CA/T Project for these purposes are expected to fall within the \$14.625 billion finance plan. A continuing program to identify and seal leaks will, however, be necessary indefinitely. This program and any additional maintenance and repairs necessitated by continuing infiltration will require higher maintenance costs in the future. The Turnpike Authority has estimated that it will assume responsibility for ongoing leak repairs from the project and its contractors in 2007 at an initial cost of \$1.3 million for that year declining to \$156,000 in 2010 and thereafter, excluding inflation. An independent evaluation has suggested that, based on current productivity compared with that assumed in the Turnpike Authority's estimate, the cost could be double the amount projected and warns that the estimate is based on experience with the ongoing leak repair program for the Callahan Tunnel, which does not share the CA/T's slurry wall construction. The Turnpike Authority's current operation and maintenance budget does not specifically include amounts for leak repairs and maintenance.

*MassHighway Safety Review.* On March 15, 2005 the Governor directed the Executive Office of Transportation and the Massachusetts Highway Department to conduct an examination of the safety of the tunnel elements of the CA/T Project open to traffic. This examination is ongoing.

*Federal Safety Review.* In December 2004 a team of Federal Highway Administration (FHWA) experts from around the United States, including geotechnical and hydraulics experts and structural engineers, conducted a tunnel leak assessment of the CA/T Project. On April 4, 2005, FHWA Administrator Mary E. Peters wrote to the Chairman of the Turnpike Authority, stating that the FHWA had completed its interim leak assessment report and stating: "In summary, FHWA found that the CA/T is structurally sound and remains safe for traffic." The letter further stated that the FHWA will issue another report upon completion of slurry wall inspections, sealing of low-level leaks and repair of slurry wall defects.

## LONG-TERM LIABILITIES

### General Authority to Borrow

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

<b>Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities</b>		
<b>As of January 1, 2006</b>		
<b>(in thousands)</b>		
	<u>Long-Term (4)</u>	<u>Short-Term</u>
<b>COMMONWEALTH DEBT</b>		
General Obligation Debt	\$15,085,119(5)(8)	\$25,100(7)
Special Obligation Debt (1)	1,400,840(8)	-
Federal Grant Anticipation Notes (2)	<u>1,849,095(6)</u>	<u>-</u>
Subtotal Commonwealth Debt	<u>\$18,335,054</u>	<u>\$25,100</u>
<b>DEBT RELATED TO GENERAL OBLIGATION CONTRACT ASSISTANCE LIABILITIES (3)</b>		
Massachusetts Convention Center Authority	\$ 20,715	-
Massachusetts Development Finance Agency	21,765	-
Foxborough Industrial Development Financing Authority	<u>62,160</u>	<u>-</u>
Subtotal GO Contract Assistance Debt	<u>\$ 104,640</u>	<u>-</u>
<b>TOTAL</b>	<u>\$18,439,694</u>	<u>\$25,100</u>

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

- (1) Includes \$116.0 million of bonds, which, although not legally defeased, will be paid in fiscal 2006 and 2008 from funds held in escrow by a third-party trustee. Also includes a second series of \$80.1 million of bonds, which, although not legally defeased, will be paid in fiscal 2006, 2008 and 2012 from funds held in escrow by a third-party trustee.
- (2) Includes \$408.0 million of federal grant anticipation notes, which, although not legally defeased, will be paid in fiscal 2009 and fiscal 2011 from funds held in escrow by a third-party trustee.
- (3) Does not include general obligation contract assistance liabilities to the Massachusetts Water Pollution Abatement Trust and the Massachusetts Turnpike Authority.
- (4) Long-term debt includes discount and costs of issuance.
- (5) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from January 1, 2006 through their maturity in the amount of \$55.6 million.
- (6) Includes capital appreciation interest accrued from January 1, 2006 through their maturity in the amount of \$31.5 million.
- (7) Includes \$25.1 million of commercial paper issued as bond anticipation notes in anticipation of certain payments to be received by the Commonwealth from the Massachusetts Port Authority to reimburse the Commonwealth for capital costs of the CA/T Project. Excludes \$174.2 million of commercial paper issued as revenue anticipation notes.
- (8) Amounts are preliminary.

### Debt Service Requirements on Commonwealth Bonds

The following table sets forth, as of January 1, 2006, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal grant anticipation notes. For variable rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate exchange agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. For other variable rate bonds and for auction rate securities, the schedule assumes a 5% interest rate.

**Debt Service Requirements on Commonwealth Bonds January 1, 2006**  
(in thousands)

*General Obligation Bonds*

*Federal Grant Anticipation Notes*

*Special Obligation Bonds*

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
2006	\$292,231	-	\$383,803	\$676,034	\$59,650	\$46,205	\$105,855	\$28,565	\$19,807	\$48,372	\$830,261
2007	1,000,514	\$5,189	729,969	1,735,671	123,825	87,887	211,712	37,605	72,783	110,388	2,057,771
2008	956,270	5,801	680,866	1,642,936	130,240	81,469	211,709	40,205	70,443	110,648	1,965,293
2009	981,096	6,904	632,451	1,620,450	137,230	74,478	211,708	42,020	68,530	110,550	1,942,709
2010	905,847	6,913	582,695	1,495,455	158,815	66,835	225,650	44,015	66,544	110,559	1,831,664
2011	917,417	7,716	533,630	1,458,763	214,620	57,206	271,826	46,190	64,368	110,558	1,841,147
2012	793,977	7,654	484,259	1,285,890	226,420	45,694	272,114	48,590	61,988	110,578	1,668,582
2013	862,316	8,376	440,687	1,311,379	208,410	35,110	243,520	51,115	59,436	110,551	1,665,449
2014	761,916	6,390	398,882	1,167,188	302,820	21,697	324,517	49,435	56,650	106,085	1,597,789
2015	745,676	5,783	360,542	1,112,001	287,065	7,185	294,250	98,520	54,081	152,601	1,558,851
2016	789,795	4,364	324,795	1,118,954	-	-	-	102,505	48,810	151,315	1,270,268
2017	754,983	2,827	287,139	1,044,949	-	-	-	108,385	43,327	151,712	1,196,660
2018	555,950	2,029	253,022	811,001	-	-	-	46,350	37,949	84,299	895,300
2019	561,340	1,405	224,403	787,147	-	-	-	48,775	35,645	84,420	871,567
2020	616,066	780	195,466	812,313	-	-	-	49,020	33,023	82,043	894,356
2021	814,051	591	158,662	973,304	-	-	-	51,515	30,588	82,103	1,055,407
2022	603,083	381	123,102	726,567	-	-	-	54,355	27,816	82,171	808,738
2023	492,975	236	95,924	589,135	-	-	-	27,440	24,952	52,392	641,527
2024	355,294	91	74,219	429,603	-	-	-	28,990	23,443	52,433	482,036
2025	281,257	12	58,656	339,925	-	-	-	30,625	21,848	52,473	392,398
2026	136,051	5	45,021	181,527	-	-	-	32,360	20,164	52,524	234,051
2027	175,820	-	39,543	215,363	-	-	-	34,190	18,384	52,574	267,938
2028	101,915	-	31,170	133,085	-	-	-	36,125	16,504	52,629	185,714
2029	178,335	-	24,000	202,335	-	-	-	38,170	14,517	52,687	255,022
2030	184,090	-	14,580	198,670	-	-	-	40,330	12,418	52,748	251,418
2031	192,960	-	4,669	197,629	-	-	-	42,610	10,199	52,809	250,438
2032	-	-	-	-	-	-	-	45,020	7,856	52,876	52,876
2033	-	-	-	-	-	-	-	47,565	5,380	52,945	52,945
2034	-	-	-	-	-	-	-	50,250	2,764	53,014	53,014
<b>TOTAL</b>	<b>\$15,011,673(3)</b>	<b>\$73,446</b>	<b>\$7,182,154</b>	<b>\$22,267,273</b>	<b>\$1,849,095(1)</b>	<b>\$523,766</b>	<b>\$2,372,861</b>	<b>\$1,400,840(2)(3)</b>	<b>\$1,030,216(2)</b>	<b>\$2,431,056</b>	<b>\$27,071,121</b>

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

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

(2) Includes \$116.0 million of bonds, which, although not legally defeased, will be paid in fiscal 2006 and 2008 from funds held in escrow by a third-party trustee. Also includes a second series of \$216.7 million of bonds, which, although not legally defeased, will be paid in fiscal 2006, 2008 and 2012 from funds held in escrow by a third-party trustee.

(3) Amounts are preliminary.



## STATE WORKFORCE

The following table sets forth information regarding the Commonwealth's workforce as of the end of fiscal years 2000 through 2005.

### Budget-Funded Workforce (1)

	<u>June 2000</u>	<u>June 2001</u>	<u>June 2002</u>	<u>June 2003</u>	<u>June 2004</u>	<u>June 2005</u>
Executive Office	89	88	72	86	65	63
Office of the Comptroller	106	109	107	102	102	124
Executive Departments						
Administration and Finance	3,225	3,180	2,974	2,921	2,791	2,913
Environmental Affairs	2,583	2,555	2,312	2,156	1,997	1,984
Housing and Community Development	111	117	109	98	92	94
Health and Human Services	23,483	23,157	21,803	21,440	20,682	21,066
Transportation and Construction	1,284	1,254	843	445	344	314
Board of Library Commissioners	20	20	18	13	12	11
Economic Development	1,160	1,140	1,094	922	879	935
Department of Education	270	272	277	248	223	241
Board of Higher Education	15,251	15,481	14,038	14,117	11,844	13,198
Public Safety	9,409	9,686	9,567	9,148	8,765	8,934
Elder Affairs	<u>38</u>	<u>41</u>	<u>43</u>	<u>38</u>	<u>28</u>	<u>51</u>
Subtotal under Governor's authority	57,029	57,100	53,257	51,734	47,824	49,926
Judiciary	8,013	7,944	7,379	7,233	7,175	7,435
Other (2)	<u>7,171</u>	<u>7,418</u>	<u>7,119</u>	<u>7,056</u>	<u>7,020</u>	<u>7,152</u>
Total	<u>72,213</u>	<u>72,462</u>	<u>67,755</u>	<u>66,024</u>	<u>62,019</u>	<u>64,513</u>

SOURCE: Executive Office for Administration and Finance

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

## LEGAL MATTERS

### Update of Existing Litigation

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

On July 14, 2004, a subset of plaintiffs filed a motion to reopen the case and enforce the final order of May 25, 1993, asserting various reasons why the Department of Mental Retardation is not in compliance with the 1993 final order, mostly relating to the Commonwealth's plan to close the Fernald Developmental Center. Another subgroup of plaintiffs (representing class members from the Dever and Wrentham Developmental Centers) continues to engage in a mediation process with the Department pursuant to a process prescribed by the final order. The Department filed a responsive pleading on August 16, 2004, asserting that all of the requirements of the final order were met. On August 28, 2004, the Disability Law Center filed a motion to intervene, asserting an interest on behalf of persons with disabilities in the closing of the facility, which was allowed. The Court has continued to call the parties in on an occasional basis to discuss ongoing issues such as plaintiffs' access to certain records. A status

conference took place on February 8, 2006. The judge ordered all transfers from Fernald halted indefinitely and appointed United States Attorney Michael Sullivan as court monitor over the closure of Fernald.

*Rolland v. Romney* (U.S. District Court C.A. No. 98-32208 KPN) is a class action by mentally retarded nursing home patients seeking community placements and services. The court approved a settlement agreement entered into by the parties, which will provide certain benefits to nursing home residents with mental retardation and other developmental disabilities until 2007. The Department of Mental Retardation estimates that the agreement will cost approximately \$5 million per fiscal year for seven years.

*Lima v. Preston* (Suffolk Superior Court No. 033747G). Plaintiffs in a class action seek to enjoin the Executive Office of Health and Human Services from eliminating Medicaid eligibility for certain immigrants. The Division of Medical Assistance estimates that its expenditures would be expected to increase by less than \$20 million if the plaintiffs successfully enjoin elimination of the program. The Superior Court denied the plaintiffs' motion for a preliminary injunction and the plaintiffs appealed. The Appeals Court also denied the plaintiffs' motion for a preliminary injunction. In February 2006 argument is scheduled to take place in the Superior Court on plaintiffs' motion for partial summary judgment.

*Health Care for All v. Romney et al.* (United States District Court). A group of individual plaintiffs brought this action for injunctive and declaratory relief, challenging the Commonwealth's administration of the MassHealth dental program. Specifically, the plaintiffs assert that the Commonwealth's administration of the dental program fails to comply with the requirements allegedly imposed by federal Medicaid law.

By memorandum of decision entered July 15, 2005, the District Court determined that, with respect to eligible children, the Commonwealth has violated sections of the Medicaid Act that require prompt provision of services, adequate notice, and treatment at reasonable intervals. The court further held that these violations resulted, in part, from insufficient reimbursement to providers of dental services. No violations were found with respect to adult enrollees. The court ordered the parties to develop a joint remedial program and judgment. A joint proposed remedial plan, to be implemented over the next several years, was submitted to the Court. Proposals contained in the proposed plan include an increase in dental reimbursement rates for Medicaid eligible children, effective July 1, 2006, and the hiring of a third party administrator for the dental program at a possible yearly cost of \$6.8 million to \$34.0 million and other program changes and monitoring mechanisms that would further increase MassHealth spending by an estimated amount of \$10 million to \$30 million over the next several years. An award of attorneys' fees and costs to the plaintiffs is also expected. A joint proposed judgment has been filed with the Court on January 31, 2006. Final judgment has not been entered.

*Rosie D. v. Governor.* The plaintiffs asserted claims under the Early and Periodic Screening, Diagnostic and Treatment provisions of the federal Medicaid law. Specifically, the plaintiffs asserted that the Commonwealth is required to but does not provide them with intensive home-based mental health services. The plaintiffs have not quantified the cost of the services they seek. Trial was held from April 25 through June 9, 2005. On January 26, 2006, the Court issued its decision finding in favor of the plaintiffs on two of three counts of the complaint and ordering the parties to meet and attempt to achieve an agreed upon plan and report back at a hearing scheduled for February 23, 2006. The Commonwealth is planning to begin negotiations with plaintiffs, but is considering its appeal options, pending the outcome of those negotiations. A final order has not yet been issued, so an appeal is not yet ripe.

*Jane Doe, by John Doe, her father and next friend v. Ronald Preston, Secretary of the Executive Office of Health and Human Services,* United States District Court. This is a civil rights action asserting that the defendants have maintained a policy that allows juveniles in the custody of the Department of Youth Services (DYS) to be strip-searched in violation of their constitutional rights. The plaintiff is seeking certification of a class of juveniles committed to the custody of DHS. No class has yet been certified but potential class size would be approximately 15,000 to 20,000 juveniles. Defendants are in the process of seeking summary judgment on qualified immunity grounds, which, if granted, would likely dispose of the entire case. Potential liability if summary judgment is not granted for the defendants could exceed \$20 million due to the expected size of the class.

*Environmental Matters.* The Commonwealth is engaged in various lawsuits concerning environmental and related laws, including an action brought by the U.S. Environmental Protection Agency alleging violations of the Clean Water Act and seeking to reduce the pollution in Boston Harbor. *United States v. Metropolitan District*

*Commission.* See also *Conservation Law Foundation v. Metropolitan District Commission* and *United States v. South Essex Sewerage District*. The Massachusetts Water Resources Authority (MWRA), successor in liability to the Metropolitan District Commission (MDC), has assumed primary responsibility for developing and implementing a court-approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. The MWRA currently projects that the total cost of construction of the wastewater facilities required under the court's order, not including CSO costs, will be approximately \$3.142 billion in current dollars, with approximately \$131 million to be spent after June 30, 2001. With CSO costs, the MWRA anticipates spending approximately \$633 million after that date. Under the Clean Water Act, the Commonwealth may be liable for any cost of complying with any judgment in these or any other Clean Water Act cases to the extent the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment.

Wellesley College is seeking contribution from the Commonwealth for costs related to the clean up of environmental contamination on the Wellesley College campus and adjacent areas, including Lake Waban. On September 5, 2001, the court entered judgment incorporating a partial settlement between the parties, under which the College will fund a clean up of hazardous materials at the campus and the northern shoreline of Lake Waban, which is expected to cost approximately \$40 million. The Judgment has since been amended by agreement of the parties and approval by the court. Pursuant to the terms of the partial settlement and Judgment, the Commonwealth has reimbursed the College about \$1,068,000 (about 2.5%) from an escrow account, after the Department of Environmental Protection determined that the clean up in the shoreline of Lake Waban was properly performed. No further reimbursement is due to the College under the Judgment. The clean up of the remainder of Lake Waban, downstream areas and groundwater is not addressed under the current settlement, because the Department of Environmental Protection has not yet selected a remedy for these areas. Once a remedy is determined and costs are known, negotiations may be reopened with the College. The Commonwealth and the College have reserved their rights against each other regarding liability for the future clean up costs for this part of the site, which could involve tens of millions of dollars.

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

*Conservation Law Foundation v. Romney.* An environmental group has brought a Clean Air Act citizens' suit in United States District Court seeking to compel the Commonwealth to improve the state's mass transit system in connection with the approaching completion of the Central Artery/Tunnel project. Two specific mass transit projects that the plaintiff is advocating for but that the Commonwealth is not itself currently planning to build are the restoration of the Arborway branch of the Massachusetts Bay Transportation Authority's Green Line in the Jamaica Plain section of Boston and the construction of a subway line in downtown Boston connecting the Charles/MGH station on the MBTA's Red Line with the Bowdoin station on the MBTA's Blue Line. The Commonwealth has moved to dismiss certain of the plaintiff's claims on the ground that they are not legally cognizable under the Clean Air Act. That motion was heard on December 19, 2005 and remains under advisement.

*Taxes and Revenues.* There are several tax cases pending which could result in significant refunds if taxpayers prevail. It is the policy of the Attorney General and the Commissioner of Revenue to defend such actions vigorously on behalf of the Commonwealth and the descriptions that follow are not intended to imply that the Commissioner has conceded any liability whatsoever. As of June 30, 2005, approximately \$125 million in contingent liabilities exist in the aggregate in tax cases pending before the Appellate Tax Board, Appeals Court or

Supreme Judicial Court. These contingent liabilities include both taxes and interest. Several cases comprise a sizeable share of these liabilities.

*TJX Companies v. Commissioner of Revenue*, Appellate Tax Board. The taxpayer is challenging a tax liability of approximately \$21 million arising from the Commissioner's disallowance of deductions for various royalty payments and interest taken in connection with transactions between several subsidiaries of the taxpayer. The case was tried at the Appellate Tax Board in January 2005 and remains under advisement.

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

*Perini Corp., Kiewit Construction. Corp., Jay Cashman, Inc., d/b/a Perini - Kiewit - Cashman Joint Venture v. Commonwealth*. In six consolidated cases and related potential litigation, plaintiffs make claims for alleged increased costs arising from differing site conditions and other causes of delay on the Central Artery/Tunnel Project. Plaintiffs have asserted claims in excess of \$150 million. These claims are at various stages of resolution, including the Supreme Judicial Court, Appeals Court, Superior Court, and the Central Artery Tunnel Project Dispute Review Board panels.

*American Council of Engineering Cos. v. Mass Turnpike, Mass Highway Department and the Commonwealth*. Suffolk Superior Court. The plaintiff, a trade association of consulting engineers, asserts that, due to the financial difficulties of two insurers who are part of the Central Artery/Tunnel Project's Owner-Controlled Insurance Program (OCIP), the CA/T Project is contractually required to replace two insurance policies totaling \$25 million. The Commonwealth's motion to dismiss has been denied and the case is at the discovery stage.

*Central Artery/Tunnel Cost Recovery Program Litigation*. In 2004, the Commonwealth and the Massachusetts Turnpike Authority filed ten civil actions in Suffolk Superior Court against section design consultants of the Central Artery/Tunnel Project, claiming that the designers' errors and omissions caused the CA/T Project to expend additional costs during construction. The actions were filed as part of the CA/T Project's Cost Recovery Program to recoup extra costs directly attributable to the designers' errors and omissions in design. The Commonwealth and the MTA also filed a complaint in 2004 in Suffolk Superior Court against the Project's management consultant, Bechtel/Parsons Brinckerhoff, a joint venture. The main claim in this case, which was stayed until September 30, 2005, and remains stayed, is B/PB's failure to disclose the true cost of the CA/T Project. The cost recovery efforts were transferred to the Attorney General's office effective February 1, 2005.

*Nathaniel Lavalley et al. v. Justices of Hampden Superior Court et al., Michael Carabello et al. v. Justices of Hampden Superior Court et al., and Rosemary Cooper v. Region V Administrative Justice et al. Supreme Judicial Court for Suffolk County*. In these companion cases, the Supreme Judicial Court (SJC) decided in July 2004 that the constitutional rights of indigent criminal defendants in Hampden County had been violated the Committee for Public Counsel Services (CPCS) could not appoint attorneys for them because statutory rates of State-paid compensation were so low that many Hampden County bar advocates had become unwilling to accept appointments. The court ruled that indigent criminal defendants must be released from custody if they have been incarcerated pending trial for more than seven days without counsel, and that charges must be dismissed without prejudice after 45 days without counsel. The court declined, at that time, to order an increase in rates of bar advocate compensation.

The cases were remanded to the SJC Single Justice, who then created a mechanism for the appointment of counsel by Hampden County courts, parallel to the CPCS structure. Since then, attorneys have been appointed within permissible time limits in every case to date. One lawyer, Rosemary Cooper, seeks compensation at a rate that may be in excess of the statutory maximums. That case is on appeal to the Supreme Judicial Court. With the exception of that aspect of the Lavalley cases, the litigation is not currently active, but could be resumed if the shortage of available attorneys recurs.

*Arianna S. et al. v. Commonwealth, Supreme Judicial Court for Suffolk County*. This is a class action on behalf of all indigent persons who are constitutionally entitled to State-compensated counsel in civil and criminal proceedings. The petitioners claim to have been deprived of the effective assistance of counsel because of the low

rates paid to bar advocates, and to represent a statewide class consisting of all indigent persons similarly situated. The relief sought includes a court-ordered increase in bar advocate compensation. No reliable estimate has been made of the amount of expenditures sought, but it is foreseeable that an increase in spending could total as much as \$80-90 million per year. The Commonwealth has moved to dismiss the case, and proceedings have been stayed. Recently, the plaintiffs moved to dismiss the stay, but a Single Justice of the Supreme Judicial Court denied that motion. A bill containing significant changes affecting the provision of legal services to indigents was just signed into law. The effect of that legislation on these cases, if any, is unclear.

*City of Springfield v. Board of Education et al.*, Hampden Superior Court. The City of Springfield, the members of its School Committee and the Superintendent of Schools seek declaratory and injunctive relief to resolve a controversy with respect to the responsibility for paying the cost of implementing orders for racial imbalance in its public school system. Section 11 of M.G.L. c. 15 provides, in pertinent part, that the Commonwealth shall, subject to appropriation and approval of the Board of Education, pay to a city one hundred percent of the cost of transportation of certain pupils. Springfield claims that sufficient funds have not been paid over to the City dating back more than 20 years. While a specific dollar amount is not demanded in the complaint, plaintiffs have made statements in the press that the city is owed \$400 million.

*Goldberg v. Commonwealth*, Suffolk Superior Court. This case involves billboards at the East Boston entrance to Logan Airport. One billboard was removed as part of parkland mitigation for the CA/T Project. The plaintiff claims to be subject to a regulation that prohibits billboards within 300 feet of a park. Thus, the plaintiff expects to lose the rest of his billboards and values the loss of these property rights at approximately \$20 million.

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

*Commonwealth of Massachusetts v. Philip Morris Inc., RJ Reynolds Tobacco Company, Lorillard Tobacco Company, et al.*, Middlesex Superior Court. This matter arises under the Tobacco Master Settlement Agreement (“MSA”), entered into in 1998, that settled litigation and claims by Massachusetts and 45 other states, DC, Puerto Rico, Guam, the Virgin Islands, American Samoa, and the Northern Marianas (collectively the “States”), against the major tobacco manufacturers. Under the MSA, payments made by the Original Participating Manufacturers (“OPMs”) and subsequent Participating Manufacturers (collectively the Participating Manufacturers or “PMs”) are potentially subject to a number of adjustments. One such adjustment is the Non-Participating Manufacturer (“NPM”) Adjustment, which can be triggered if, among other things, the OPMs suffer a specified market share loss. Because the OPMs did suffer the requisite market share loss, the OPMs are seeking to reduce, by \$1.1 billion (or 18.6%), the \$6.2 billion payment they made to the States for 2003. Under the MSA, a payment will not be subject to adjustment if a nationally recognized economic firm selected jointly by the States and the OPMs determines that “the disadvantages experienced” by the PMs as a result of complying with the MSA were not “a significant factor contributing to the Market Share Loss” for 2003. The “significant factor proceeding” referred to above began in June 2005 and is being handled on behalf of the States by the law firm of Edwards Angell Palmer & Dodge LLP. A preliminary determination is expected by February 20, 2006, and the final determination is expected by March 27, 2006. It is anticipated that, if the economic consultants make a “significant factor” determination, the OPMs will withhold approximately \$1.1 billion from the April 2006 MSA payment to the States, which would likely reduce the initial 2006 MSA payout to Massachusetts by approximately \$45-50 million. Even if a “significant factor” determination is made, however, a particular State’s allocated payment under the MSA is not subject to an NPM adjustment if the State continuously had a “qualifying statute,” as defined in the MSA, “in full force and effect during the entire calendar year immediately preceding the year in which the payment in question is due, and diligently enforced the provisions of such statute during such entire calendar year.” Massachusetts had such a “qualifying statute” in effect for the relevant period. Nonetheless, the OPMs may seek a determination that Massachusetts did not “diligently enforce” its “qualifying statute” and may continue to withhold the portion of Massachusetts’ allocated April 2006 payment as estimated above. If the OPMs fail to obtain a determination of lack of diligent enforcement of the qualifying statute, the withheld amounts must be released to the Commonwealth. If the OPMs ultimately obtain a determination of “lack of diligent enforcement” that is not overturned on appeal, the

April 2006 MSA payment to Massachusetts would be reduced by the amount withheld or by potentially some greater amount yet to be determined, depending on the outcome of proceedings in other states.

*Grand River Enterprises Six Nations, Ltd. v. William Pryor et al.*, United States District Court, New York. This case challenges certain state statutes enacted following the execution of the Tobacco Master Settlement Agreement (“MSA”). The plaintiffs are a group of companies that manufacture, import or distribute cigarettes manufactured by tobacco companies that are not parties to the MSA, otherwise called Non-Participating Manufacturers (“NPMs”). The plaintiffs challenge so-called “escrow” or “qualifying” statutes enacted by various states, including Massachusetts, which require, among other things, each NPM to establish and fund an escrow or reserve account in an amount determined by the manufacturer’s sales volume in the state. The plaintiffs sued 31 attorneys general, including the Massachusetts Attorney General, alleging that the defendants have commenced or threatened enforcement actions against them for failure to establish or adequately fund their escrow accounts. The plaintiffs contend that these enforcement actions and the related statutes are unconstitutional, violate the Sherman Anti-Trust Act, and are pre-empted by the Federal Cigarette Labeling Act. The U.S. District Court dismissed the complaint against the Massachusetts Attorney General and the other non-New York defendants in September 2003, finding that it lacked personal jurisdiction over these parties and dismissed all causes of action except the anti-trust claim against the Attorney General of New York. The plaintiffs appealed, and, on September 28, 2005, the Court of Appeals for the Second Circuit held that the District Court has personal jurisdiction over the non-New York defendants and that the plaintiffs’ complaint sufficiently alleged a claim of violation of the domestic Commerce Clause of the United States Constitution. (The opinion also appears to permit the anti-trust claims to proceed against all defendants.) The defendant states, including Massachusetts, sought rehearing in the Second Circuit, which was denied. If the plaintiffs ultimately obtain a judgment declaring the states’ escrow statutes invalid, that result could make it more likely that the so-called NPM Adjustment referred to in the preceding paragraph might apply to reduce future payments to Massachusetts and other states under the MSA in amounts that could be significant but cannot be estimated at this time.

## **CONTINUING DISCLOSURE**

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 relating to the general obligation debt of the Commonwealth. However, the annual filings relating to the fiscal year ended June 30, 2001 for the Commonwealth’s special obligation debt and for the Commonwealth’s federal highway grant anticipation notes were filed two days late, on March 29, 2002. Proper notice of the late filings was provided on March 29, 2002 to the Nationally Recognized Municipal Securities Information Repositories and the Municipal Securities Rulemaking Board.

## AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding this Information Statement or requests for additional information concerning the Commonwealth should be directed to Patrick F. Landers, III, Assistant Treasurer, Debt Management, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900 (ext. 226), or to Carlo DeSantis, Assistant Secretary for Capital Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Information Statement should be directed to Lawrence D. Bragg, III, Ropes & Gray LLP, One International Place, Boston, Massachusetts 02110, telephone 617/951-7000.

THE COMMONWEALTH OF MASSACHUSETTS

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

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

February 28, 2006

## ECONOMIC INFORMATION

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

All information is presented on a calendar-year basis unless otherwise indicated. **The section was prepared for release on January 31, 2006. Information in the text, tables, charts, and graphs was current as of December 31, 2005.** Sources of information are indicated in the text or immediately following the charts and tables, and also on the *Sources List* on the last page of the Exhibit A section. Although the Commonwealth considers the sources to be reliable, the Commonwealth has made no independent verification of the information presented herein and does not warrant its accuracy.

### Statistical Overview

#### Population (p. A-2)

	<u>Massachusetts</u>	<u>United States</u>
Estimated Percent Change in Population, April 1, 2000–July 1, 2005	0.8%	5.3%

#### Personal Income, Consumer Prices, and Poverty (p. A-7)

Per Capita Personal Income, 2004	\$42,102	\$33,041
Average Annual Pay, All Industries, 2004	\$48,916	\$39,354
Percent Change in CPI-U, 2003-2004*	2.7%	2.7%
Percent Change in CPI-U, November 2004-November 2005*	3.3%	3.5%
Poverty Rate, 2003-2004 Average	9.7%	12.6%
Average Weekly Earnings, Manufacturing Production Workers: Nov. 2005(p)	\$736.21	\$687.60
Percent Change, Nov. 2004-Nov. 2005(p)	1.0%	3.3%

#### Employment (p. A-15)

Percent Change in Nonfarm Payroll Employment, Nov. 2004-Nov. 2005(p)	0.5%	1.5%
Unemployment Rate, 2004	5.1%	5.5%
Unemployment Rate, November, 2005	4.9%	5.0%

#### Economic Base and Performance (p. A-21)

Percent Change in Gross State Product, 2003-2004	6.9%	6.6%
Percent Change in International Exports, 2003-2004	17.0%	13.0%
Percent Change in Housing Permits Authorized, 2003-2004	14.2%	6.2%

#### Human Resources and Infrastructure (p. A-38)

Expenditure Per Pupil, 2003	\$10,460	\$8,044
Percent of Adults with a Bachelor's Degree or higher, 2004	37.4%	27.0%

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



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

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

## **POPULATION CHARACTERISTICS**

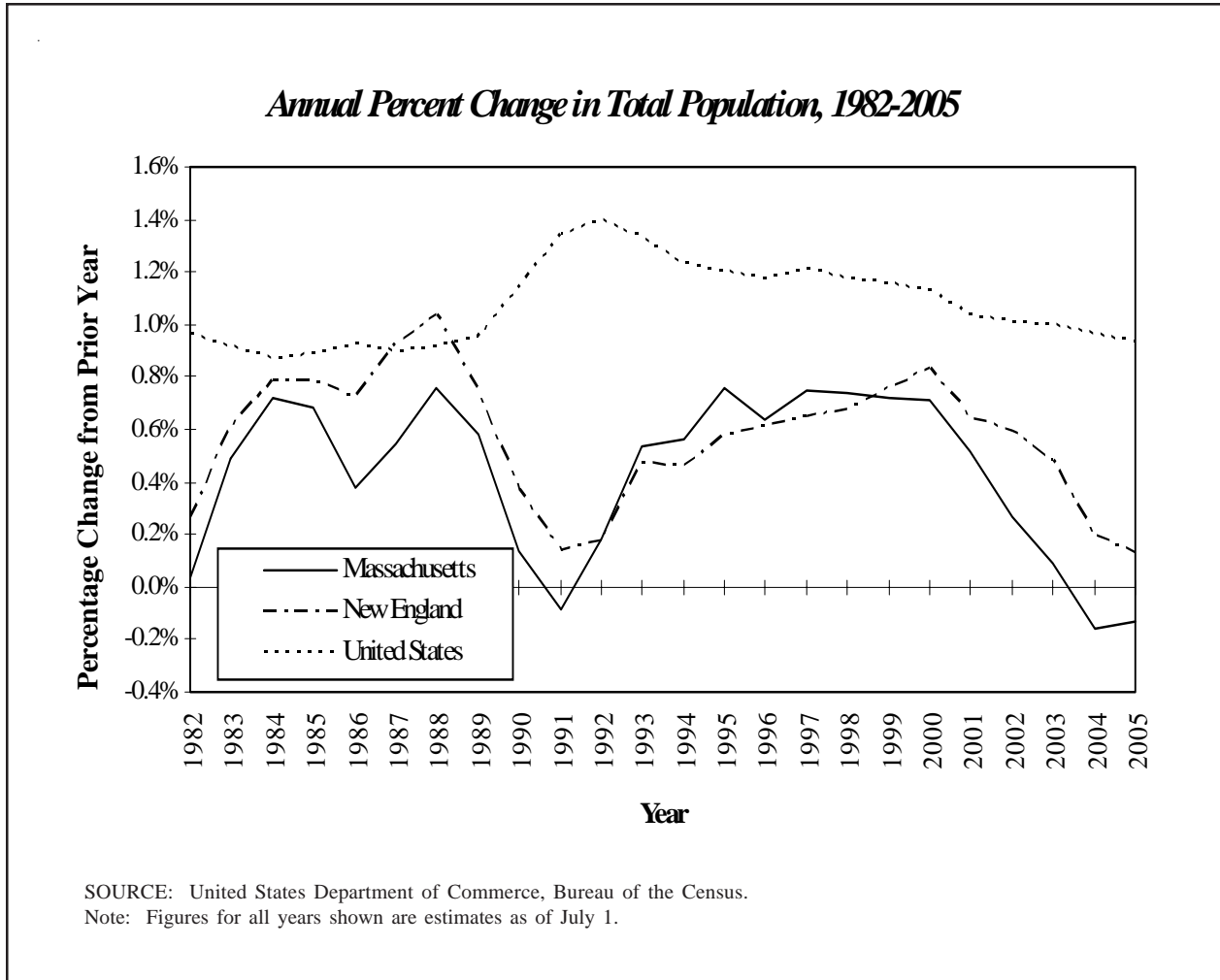
Massachusetts is a relatively slow growing but densely populated state with a comparatively large percentage of its residents living in metropolitan areas. The population density of Massachusetts was estimated as of July 1, 2005 to be 816.2 persons per square mile, as compared to 83.8 for the United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

The State's population is concentrated in its eastern portion. The city of Boston is the largest city in New England, with a 2004 population estimated at 569,165, or 9.0 percent of the state's population. Boston is the hub of the seven-county Boston-Cambridge-Quincy, MA-NH Metropolitan Statistical Area (MSA), which includes the two southeastern New Hampshire counties, and which had a total population in 2003 estimated at 4,439,971; over 30 percent of the total New England population. The three-county Boston-Quincy, MA Metropolitan Division is the largest component of that MSA, with a total population in 2003 estimated at 1,822,557.

The second largest MSA in the state is the Worcester, MA MSA, with a 2004 population estimated at 779,488. The city of Worcester, situated approximately 40 miles west of Boston with a 2004 population estimated at 175,966, is the third largest city in New England as well as the second largest in the state. Its service, trade, and manufacturing industries combine for more than 70 percent of Worcester's total employment. As a major medical and educational center, the Worcester area is home to 19 patient care facilities, including the University of Massachusetts Medical School, and twelve other colleges and universities.

The third largest MSA in Massachusetts is the three-county Springfield MSA, with a 2004 population estimated at 687,973. Springfield, the third largest city in the Commonwealth with a 2004 population estimated at 152,082, is located in the Connecticut River Valley in Western Massachusetts and enjoys a diverse body of corporate employers, the largest of which are Baystate Health System, Big Y Supermarkets, MassMutual Financial Group, and Hasbro Games (Milton Bradley). In addition, Springfield is home to three independent colleges.

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



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

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

*(in thousands)*

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

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

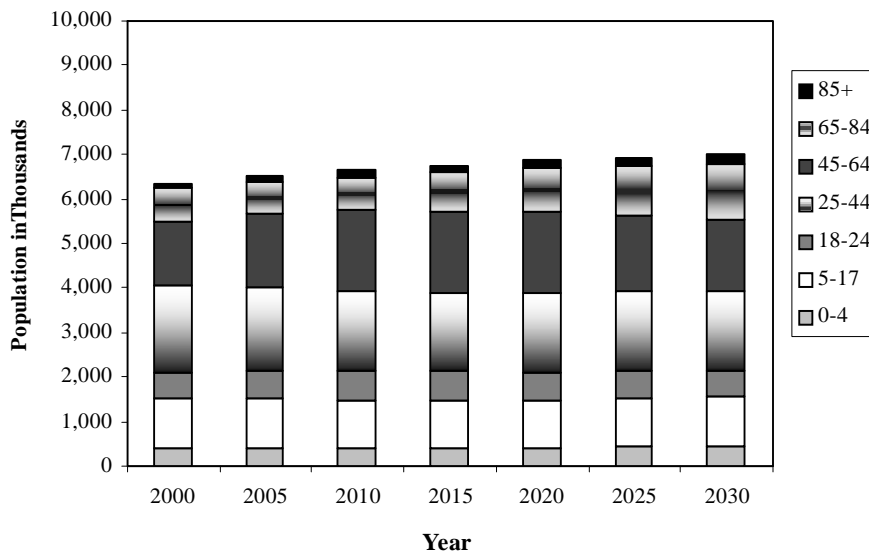
The next twenty-five years are expected to bring about a continued change in the age distribution of the Massachusetts population. As the following table and chart show, the share of the 65 and over age group and especially the 85 and over age group will continue to grow. The chart, table and population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

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

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

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

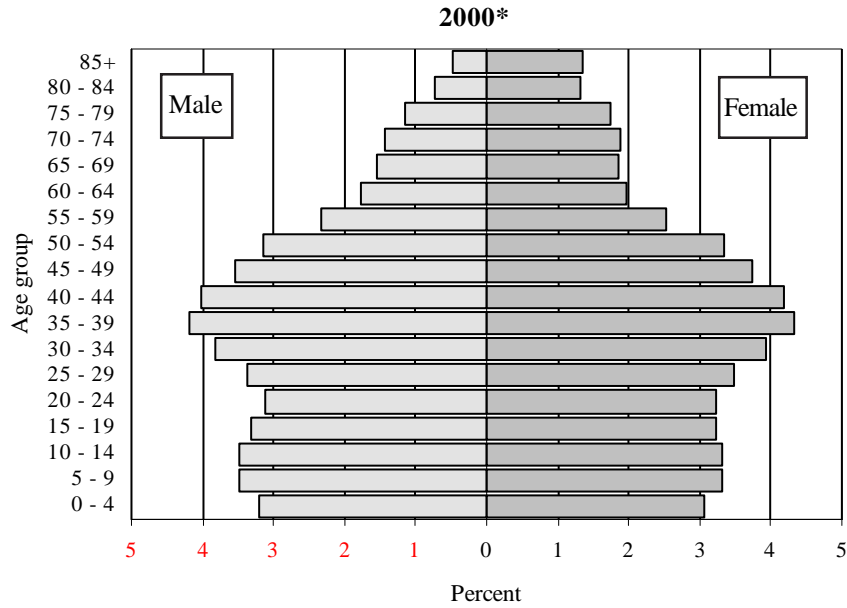
***Projected Massachusetts Population by Age Group***  
***2000-2030***



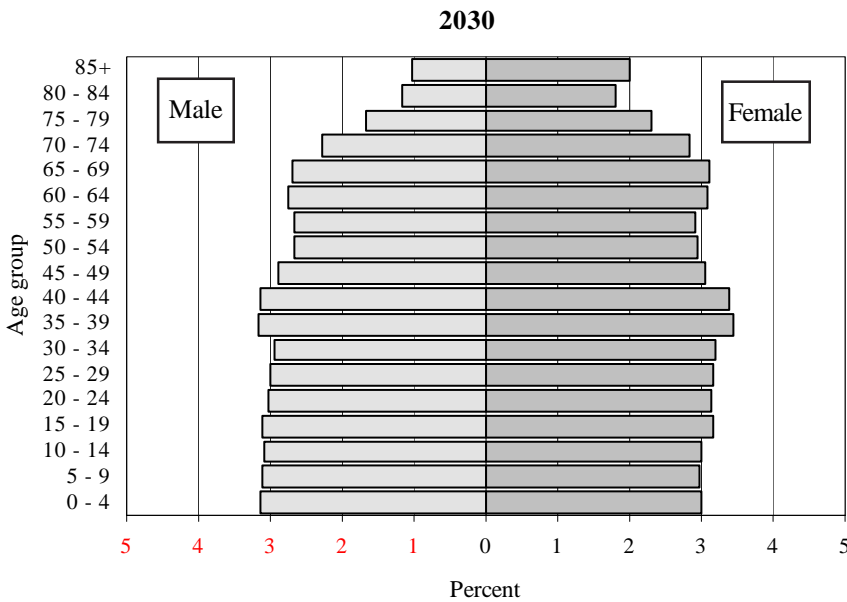
Actual Census 2000 counts as of April 1; all other figures are projections as of July 1 of the indicated year. Interim Population Projections through 2030 released April 21, 2005 by the Population Division, Bureau of the Census, United States Department of Commerce.

## Population Pyramids of Massachusetts

(percent of total population)



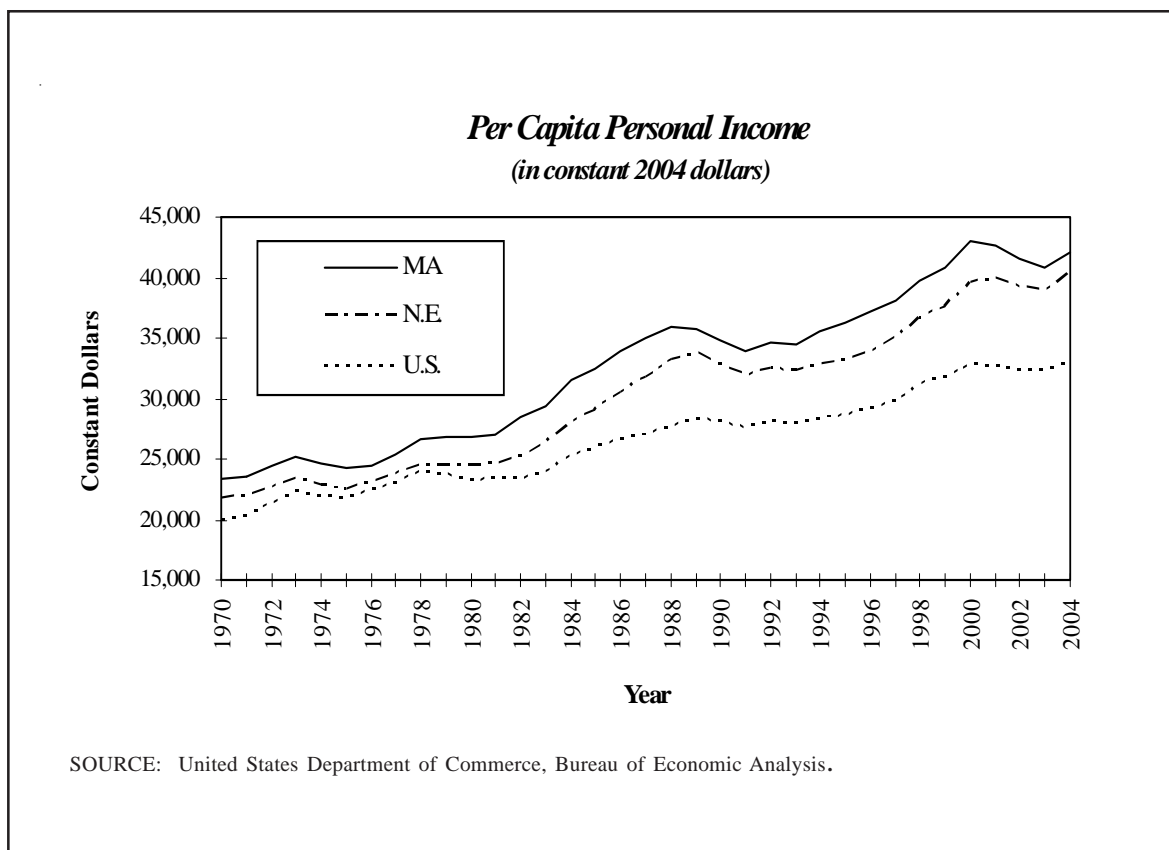
\*Note: Actual Census 2000 counts as of April 1.



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

## PERSONAL INCOME, CONSUMER PRICES, AND POVERTY

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



The following table compares per capita personal income in Massachusetts, New England, and the United States for the period 1970-2004.

***Per Capita Personal Income, 1970-2004***

Year	Nominal Income (in current dollars)			Real Income (in 2004 dollars)			Percent Change in Real Income		
	MA	NE	U.S.	MA	NE	U.S.	MA	NE	U.S.
1970	4,483	4,445	4,085	23,363	21,641	19,888	0.3%	0.5%	0.7%
1971	4,752	4,680	4,342	23,591	21,828	20,252	1.0%	0.9%	1.8%
1972	5,109	5,029	4,717	24,493	22,727	21,317	3.8%	4.1%	5.3%
1973	5,547	5,481	5,231	25,099	23,319	22,255	2.5%	2.6%	4.4%
1974	6,016	5,958	5,707	24,616	22,829	21,867	-1.9%	-2.1%	-1.7%
1975	6,459	6,381	6,172	24,250	22,405	21,671	-1.5%	-1.9%	-0.9%
1976	6,998	6,959	6,754	24,435	23,103	22,422	0.8%	3.1%	3.5%
1977	7,620	7,593	7,405	25,299	23,669	23,083	3.5%	2.4%	2.9%
1978	8,430	8,413	8,245	26,598	24,374	23,888	5.1%	3.0%	3.5%
1979	9,385	9,392	9,146	26,860	24,437	23,797	1.0%	0.3%	-0.4%
1980	10,602	10,629	10,114	26,890	24,367	23,186	0.1%	-0.3%	-2.6%
1981	11,798	11,846	11,246	26,925	24,617	23,370	0.1%	1.0%	0.8%
1982	12,941	12,871	11,935	28,389	25,195	23,363	5.4%	2.3%	0.0%
1983	14,009	13,829	12,618	29,408	26,228	23,931	3.6%	4.1%	2.4%
1984	15,723	15,422	13,891	31,461	28,039	25,255	7.0%	6.9%	5.5%
1985	16,910	16,546	14,758	32,382	29,048	25,909	2.9%	3.6%	2.6%
1986	18,148	17,722	15,442	33,886	30,545	26,615	4.6%	5.2%	2.7%
1987	19,575	19,119	16,240	35,021	31,792	27,005	3.3%	4.1%	1.5%
1988	21,341	20,811	17,331	35,998	33,231	27,674	2.8%	4.5%	2.5%
1989	22,342	22,083	18,520	35,649	33,641	28,213	-1.0%	1.2%	1.9%
1990	23,043	22,712	19,477	34,755	32,826	28,150	-2.5%	-2.4%	-0.2%
1991	23,432	22,969	19,892	33,855	31,856	27,589	-2.6%	-3.0%	-2.0%
1992	24,538	24,172	20,854	34,594	32,545	28,078	2.2%	2.2%	1.8%
1993	25,176	24,752	21,346	34,496	32,357	27,905	-0.3%	-0.6%	-0.6%
1994	26,303	25,687	22,172	35,574	32,741	28,261	3.1%	1.2%	1.3%
1995	27,457	26,832	23,076	36,269	33,258	28,603	2.0%	1.6%	1.2%
1996	28,933	28,194	24,175	37,119	33,944	29,106	2.3%	2.1%	1.8%
1997	30,498	29,687	25,334	38,054	34,940	29,817	2.5%	2.9%	2.4%
1998	32,524	31,677	26,883	39,684	36,710	31,155	4.3%	5.1%	4.5%
1999	34,227	33,126	27,939	40,742	37,560	31,679	2.7%	2.3%	1.7%
2000	37,756	36,118	29,845	43,082	39,621	32,739	5.7%	5.5%	3.3%
2001	38,949	37,334	30,575	42,610	39,822	32,612	-1.1%	0.5%	-0.4%
2002	38,975	37,379	30,814	41,553	39,249	32,356	-2.5%	-1.4%	-0.8%
2003	39,776	38,026	31,487	40,868	39,039	32,326	-1.6%	-0.5%	-0.1%
2004	42,102	40,269	33,041	42,102	40,269	33,041	3.0%	3.2%	2.2%

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

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

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

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

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

Year	U.S.	N.E.	MA	MA as a pct. of N.E.
<b>1990</b>	\$ 2,743,016	\$171,448	\$83,129	48.5%
<b>1991</b>	\$ 2,811,076	\$170,333	\$82,311	48.3%
<b>1992</b>	\$ 2,972,287	\$177,810	\$86,014	48.4%
<b>1993</b>	\$ 3,076,276	\$183,236	\$89,047	48.6%
<b>1994</b>	\$ 3,227,483	\$190,661	\$93,164	48.9%
<b>1995</b>	\$ 3,415,368	\$201,946	\$99,194	49.1%
<b>1996</b>	\$ 3,615,699	\$213,667	\$105,573	49.4%
<b>1997</b>	\$ 3,874,011	\$230,032	\$113,579	49.4%
<b>1998</b>	\$ 4,179,922	\$247,851	\$123,054	49.6%
<b>1999</b>	\$ 4,463,650	\$266,554	\$134,045	50.3%
<b>2000</b>	\$ 4,825,906	\$293,889	\$150,842	51.3%
<b>2001</b>	\$ 4,939,944	\$300,698	\$153,131	50.9%
<b>2002</b>	\$ 4,976,552	\$298,533	\$150,108	50.3%
<b>2003</b>	\$ 5,105,689	\$304,736	\$151,998	49.9%
<b>2004</b>	\$ 5,383,759	\$321,340	\$160,157	49.8%

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

**Consumer Prices.** Higher income levels in Massachusetts relative to the rest of the United States are offset to some extent by the higher cost of living in Massachusetts. The following table presents consumer price trends for the Boston metropolitan area and the United States for the period between 1970 and 2004. The table shows the Consumer Price Index for All Urban Consumers (CPI-U) and the percentage change in that index from the previous year. In 2004, the CPI-U for both Boston and the United States as a whole increased 2.7 percent. The latest available data for November 2005 show that the CPI-U for the Boston metropolitan area grew at a rate of 3.3 percent from November 2004, compared with 3.5 percent for the U.S.



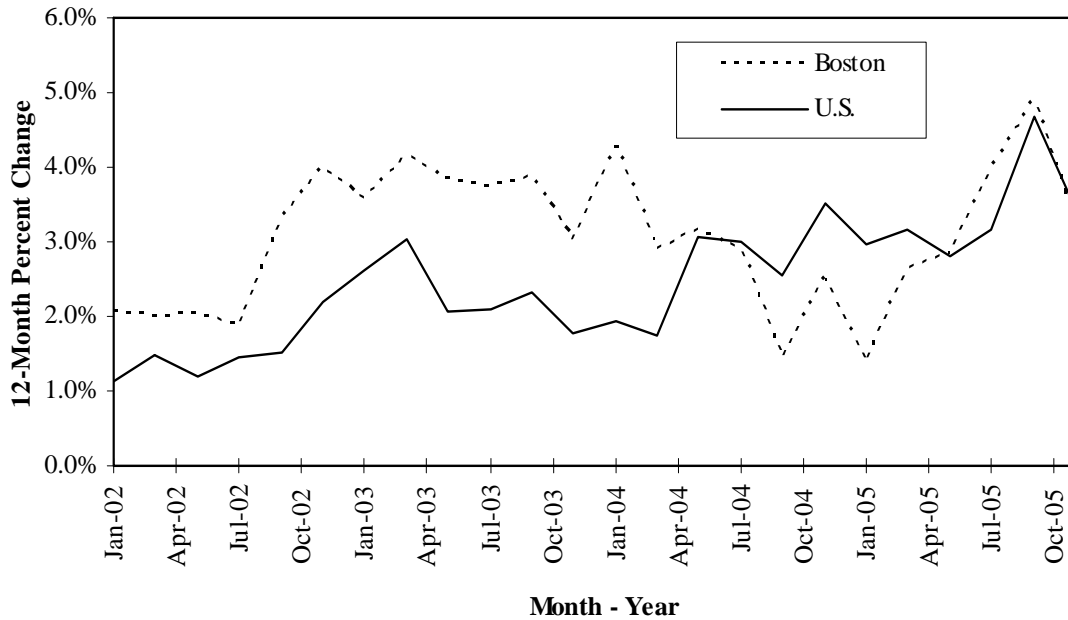
**Consumer Price Index for all Urban Consumers (CPI-U), 1970-2004**

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

<i>Year</i>	<i>Boston Metro Area</i>		<i>United States</i>	
	<i>CPI-U</i>	<i>Pct.Change</i>	<i>CPI-U</i>	<i>Pct. Change</i>
<b>1970</b>	40.2		38.8	
<b>1971</b>	42.2	5.0%	40.5	4.4%
<b>1972</b>	43.7	3.6%	41.8	3.2%
<b>1973</b>	46.3	5.9%	44.4	6.2%
<b>1974</b>	51.2	10.6%	49.3	11.0%
<b>1975</b>	55.8	9.0%	53.8	9.1%
<b>1976</b>	60.0	7.5%	56.9	5.8%
<b>1977</b>	63.1	5.2%	60.6	6.5%
<b>1978</b>	66.4	5.2%	65.2	7.6%
<b>1979</b>	73.2	10.2%	72.6	11.3%
<b>1980</b>	82.6	12.8%	82.4	13.5%
<b>1981</b>	91.8	11.1%	90.9	10.3%
<b>1982</b>	95.5	4.0%	96.5	6.2%
<b>1983</b>	99.8	4.5%	99.6	3.2%
<b>1984</b>	104.7	4.9%	103.9	4.3%
<b>1985</b>	109.4	4.5%	107.6	3.6%
<b>1986</b>	112.2	2.6%	109.6	1.9%
<b>1987</b>	117.1	4.4%	113.6	3.6%
<b>1988</b>	124.2	6.1%	118.3	4.1%
<b>1989</b>	131.3	5.7%	124.0	4.8%
<b>1990</b>	138.9	5.8%	130.7	5.4%
<b>1991</b>	145.0	4.4%	136.2	4.2%
<b>1992</b>	148.6	2.5%	140.3	3.0%
<b>1993</b>	152.9	2.9%	144.5	3.0%
<b>1994</b>	154.9	1.3%	148.2	2.6%
<b>1995</b>	158.6	2.4%	152.4	2.8%
<b>1996</b>	163.3	3.0%	156.9	3.0%
<b>1997</b>	167.9	2.8%	160.5	2.3%
<b>1998</b>	171.7	2.3%	163.0	1.6%
<b>1999</b>	176.0	2.5%	166.6	2.2%
<b>2000</b>	183.6	4.3%	172.2	3.4%
<b>2001</b>	191.5	4.3%	177.1	2.8%
<b>2002</b>	196.5	2.6%	179.9	1.6%
<b>2003</b>	203.9	3.8%	184.0	2.3%
<b>2004</b>	209.5	2.7%	188.9	2.7%
<b>Nov-04</b>	211.7		191.0	
<b>Nov-05</b>	218.6	3.3%	197.6	3.5%

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

**Consumer Price Index for all Urban Consumers  
January 2002 - November 2005**



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

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

**Quarterly Measures of Consumer Confidence, Present Situation, and Future Expectations for Massachusetts, New England, and the U.S.,  
January 2001 - October 2005**

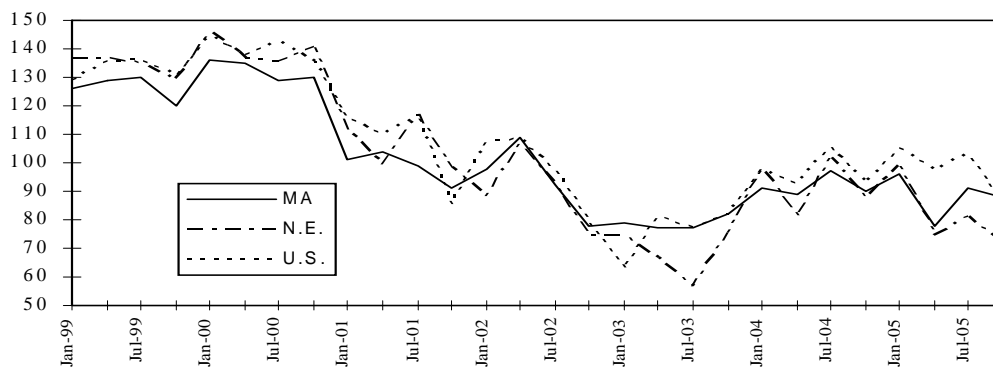
*(not seasonally adjusted, except United States (1985=100))*

	Consumer Confidence			Present Situation			Future Expectations		
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.
<b>Jan-01</b>	101.0	111.9	115.7	139.0	173.9	170.4	76.0	70.5	79.3
<b>Apr-01</b>	104.0	99.5	109.9	124.0	161.7	156.0	91.0	58.0	79.1
<b>Jul-01</b>	99.0	117.5	116.3	108.0	170.8	151.3	93.0	82.0	92.9
<b>Oct-01</b>	91.0	98.6	85.3	94.0	105.6	107.2	90.0	64.0	70.7
<b>Jan-02</b>	97.8	88.5	107.0	98.1	85.5	72.0	97.6	90.5	130.0
<b>Apr-02</b>	109.0	106.7	108.5	84.0	115.5	106.8	125.0	100.8	109.6
<b>Jul-02</b>	92.0	92.4	97.4	68.0	96.3	99.4	108.0	89.9	96.1
<b>Oct-02</b>	78.0	74.2	79.6	48.0	70.8	77.2	97.0	76.5	81.1
<b>Jan-03</b>	78.8	74.4	63.0	75.3	63.9	28.0	81.1	81.5	86.0
<b>Apr-03</b>	77.0	66.4	81.0	31.0	52	75.2	108.0	76.0	84.8
<b>Jul-03</b>	77.0	56.8	77.0	41.0	42.8	63.0	101.0	66.2	86.3
<b>Oct-03</b>	82.0	75.5	81.7	36.0	57.4	67.0	112.0	87.6	91.5
<b>Jan-04</b>	91.0	98.2	97.7	48.0	86.5	86.1	119.0	106.1	105.3
<b>Apr-04</b>	89.0	81.2	93.0	53.0	74.8	90.4	113.0	85.5	94.8
<b>Jul-04</b>	97.0	101.4	105.7	66.0	102.9	106.4	119.0	100.3	105.3
<b>Oct-04</b>	90.0	87.7	92.9	64.0	91.4	94.0	108.0	85.3	92.2
<b>Jan-05</b>	96.0	98.9	105.1	70.0	101.9	112.1	114.0	96.9	100.4
<b>Apr-05</b>	78.0	74.4	97.5	63.0	90.2	113.8	88.0	63.9	86.7
<b>Jul-05</b>	91.0	81.3	103.6	80.0	120.2	119.3	99.0	55.4	93.2
<b>Oct-05</b>	88.0	71.6	85.2	80.0	105.7	107.8	95.0	48.9	70.1

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

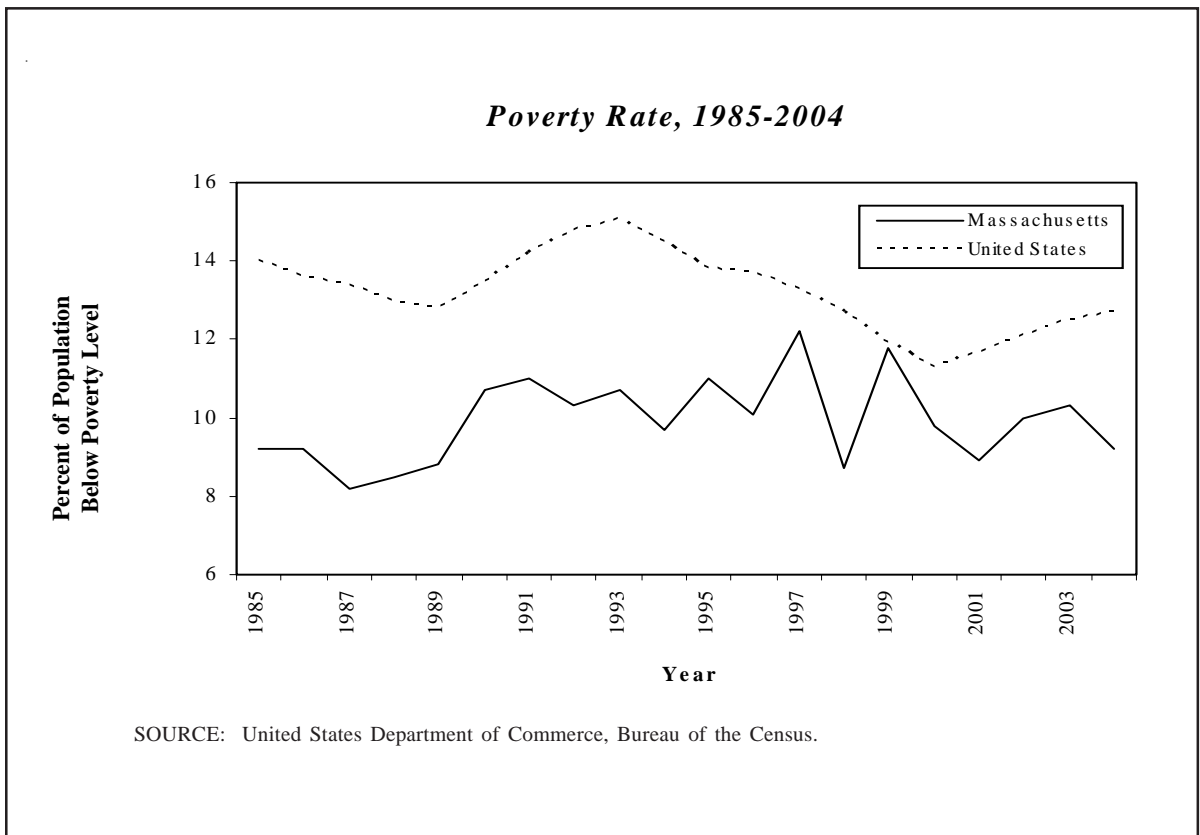
**Consumer Confidence for Massachusetts, New England,  
and the U.S. January 1999 – October 2005**

*(not seasonally adjusted, except United States (1985 = 100))*



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

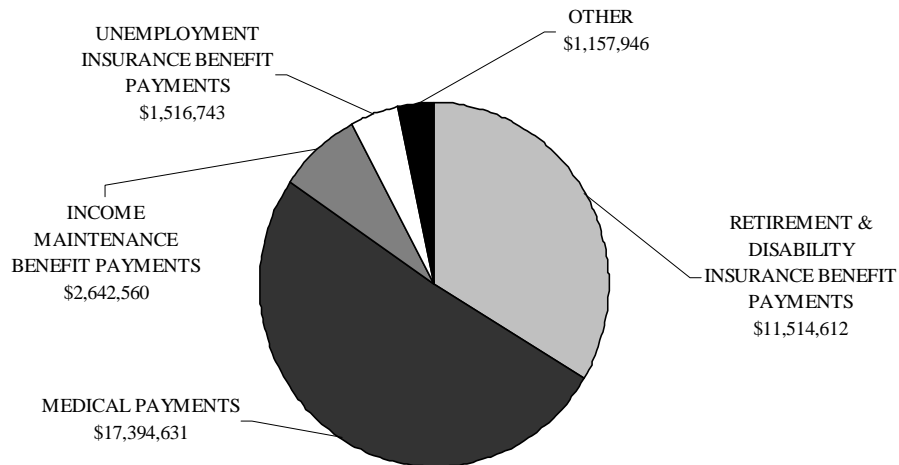
**Poverty.** The Massachusetts poverty rate remains below the national average. Since 1980, the percentage of the Massachusetts population below the poverty line has varied between 7.7 percent and 12.2 percent. During the same time, the national poverty rate varied between 11.3 percent and 15.1 percent.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



**Transfer Payments.** Transfer payment income is payment to individuals from all levels of government and from businesses, for which no current services are performed, including payments to nonprofit institutions serving individuals. These payments accounted for more than 13 percent of total personal income in Massachusetts in 2004. The chart below does not include transfer payments from business or payments to non-profit organizations. Total transfer payments to individuals in Massachusetts totaled 35.5 billion dollars for 2004. Approximately 51 percent of total transfer payments were medical payments.

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

*(in thousands of current dollars)*



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

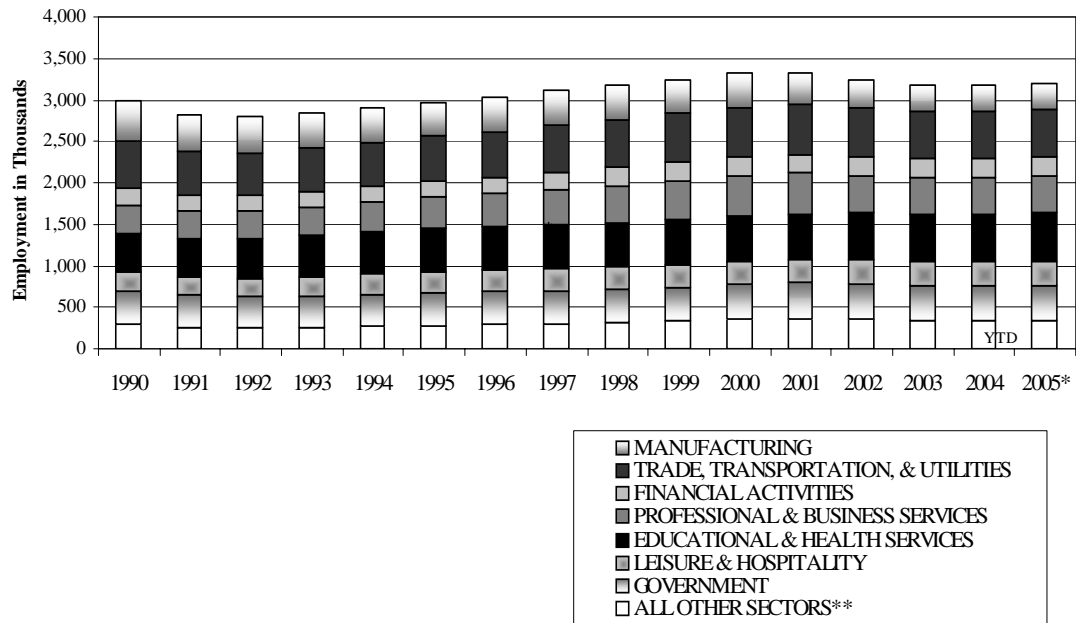
NOTE: The category "other" includes veterans' benefit payments, federal education and training assistance payments, and a small residual of miscellaneous other payments to individuals.

**EMPLOYMENT**

**Employment by Industry.** The chart on this page shows the annual level of non-agricultural payroll employment in Massachusetts on the new North American Industry Classification System (NAICS) basis for the seven largest NAICS super-sectors starting with 1990, the earliest year for which NAICS data are available. The chart on the following page compares the super-sector shares for the 2003-2004 period with the corresponding shares for the 1990-1991 period. Like many industrial states, Massachusetts has seen a steady decline of its manufacturing jobs base over the last two decades, not only as a share of total employment, but in absolute numbers of jobs as well. Several NAICS service sectors have grown to take the place of manufacturing in driving the Massachusetts economy. The combined service sectors now account for more than half of total payroll employment.

Total non-agricultural employment in Massachusetts declined 2.4 percent in 2002 and another 1.9 percent in 2003 but only 0.1 percent in 2004. The preliminary unadjusted estimates for the first eleven months of 2005 are in fact 0.7 percent above those for the same months in 2004. In 2004, manufacturing employment declined 3.2 percent from the year before; a significantly smaller decline than the annual declines in the previous three years and very close to the long-term average rate of decline since 1990 (3.0 percent per year). In fact, the unadjusted estimates for manufacturing for the first eleven months of 2005 are only 0.3 percent below the corresponding 2004 average.

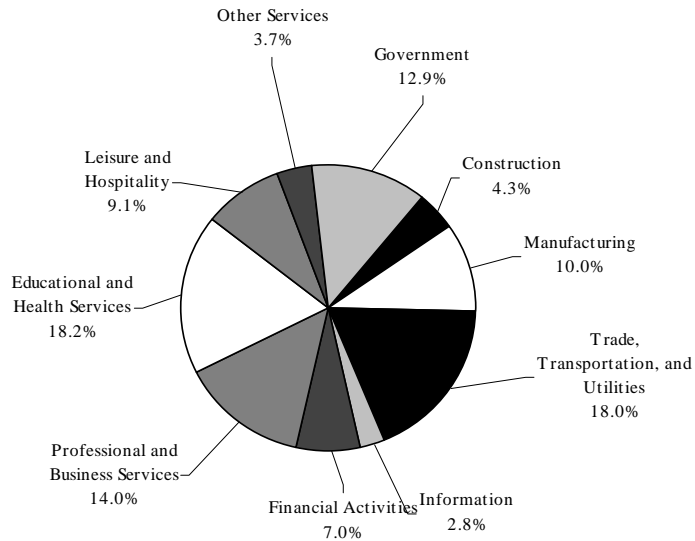
*Annual Average Employment in Massachusetts,  
NAICS Super-Sectors, 1990-2004  
with Year-To-Date through November, 2005*



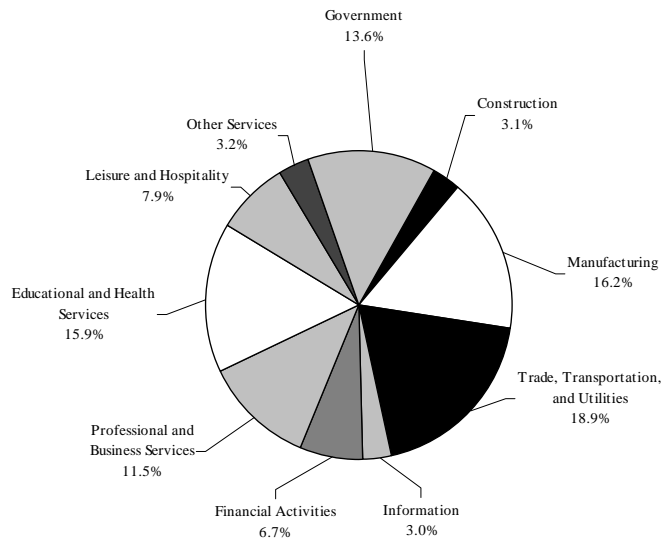
SOURCE: MA Division of Unemployment Assistance  
\*\*Includes Mining & Natural Resources, Construction, Information, and Other Services

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

**NAICS Super-Sectors: 2003-2004 Average Share**



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



SOURCE: MA Division of Unemployment Assistance.

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

***Twenty-five Largest Private Employers in Massachusetts in June, 2005***

*(listed alphabetically)*

---

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

SOURCE: MA Division of Unemployment Assistance.



**Unemployment.** The economic recession of the early 1990s caused unemployment rates in Massachusetts to rise significantly above the national average, as much as 2.1 points above in 1991. However, since 1994 the unemployment rate in Massachusetts has been consistently below the national average. The following table compares the annual civilian labor force, the number unemployed, and the unemployment rates of Massachusetts, the New England states, and the United States between 1970 and 2004.

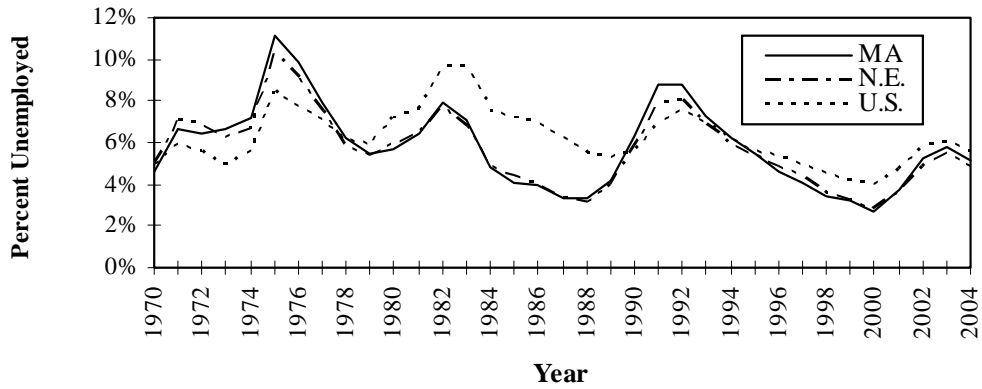
***Annual Average Civilian Labor Force and Unemployment, 1970 - 2004***

*(in thousands)*

Year	Civilian Labor Force			Unemployed			Unemployment Rate			MA Rate as
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.	Pct. of U.S.
1970	2,465	5,128	82,771	113	253	4,093	4.6%	4.9%	4.9%	92.9%
1971	2,459	5,157	84,383	163	364	5,016	6.6%	7.1%	5.9%	111.8%
1972	2,487	5,260	87,035	161	363	4,882	6.5%	6.9%	5.6%	115.4%
1973	2,557	5,387	89,430	171	336	4,365	6.7%	6.2%	4.9%	136.7%
1974	2,637	5,514	91,951	190	368	5,156	7.2%	6.7%	5.6%	128.4%
1975	2,725	5,633	93,775	305	578	7,928	11.2%	10.3%	8.5%	132.2%
1976	2,726	5,714	96,159	268	521	7,406	9.8%	9.1%	7.7%	127.5%
1977	2,760	5,820	99,009	218	437	6,992	7.9%	7.5%	7.1%	112.1%
1978	2,809	5,936	102,251	173	343	6,202	6.2%	5.8%	6.1%	101.8%
1979	2,863	6,080	104,964	156	326	6,138	5.5%	5.4%	5.8%	93.4%
1980	2,886	6,154	106,940	164	365	7,637	5.7%	5.9%	7.1%	79.6%
1981	2,938	6,268	108,670	189	400	8,273	6.4%	6.4%	7.6%	84.6%
1982	2,966	6,345	110,205	236	489	10,678	8.0%	7.7%	9.7%	82.3%
1983	2,972	6,386	111,550	209	434	10,717	7.0%	6.8%	9.6%	73.2%
1984	3,032	6,540	113,544	146	318	8,539	4.8%	4.9%	7.5%	63.9%
1985	3,049	6,630	115,461	125	290	8,312	4.1%	4.4%	7.2%	56.8%
1986	3,080	6,724	117,835	123	264	8,237	4.0%	3.9%	7.0%	57.0%
1987	3,114	6,827	119,865	104	228	7,425	3.4%	3.3%	6.2%	54.1%
1988	3,156	6,907	121,669	104	215	6,700	3.3%	3.1%	5.5%	60.0%
1989	3,189	7,004	123,846	132	274	6,520	4.2%	3.9%	5.3%	78.9%
1990	3,226	7,128	125,840	204	409	7,047	6.3%	5.7%	5.6%	112.9%
1991	3,199	7,112	126,346	283	558	8,628	8.8%	7.8%	6.8%	129.4%
1992	3,181	7,105	128,105	281	573	9,613	8.8%	8.1%	7.5%	117.7%
1993	3,173	7,062	129,200	232	486	8,940	7.3%	6.9%	6.9%	105.8%
1994	3,188	7,041	131,062	199	415	7,997	6.2%	5.9%	6.1%	102.1%
1995	3,205	7,053	132,304	176	375	7,404	5.5%	5.3%	5.6%	97.9%
1996	3,231	7,118	133,943	148	340	7,236	4.6%	4.8%	5.4%	84.6%
1997	3,293	7,228	136,297	135	315	6,739	4.1%	4.4%	4.9%	82.6%
1998	3,322	7,257	137,673	113	253	6,210	3.4%	3.5%	4.5%	75.2%
1999	3,355	7,327	139,368	110	234	5,880	3.3%	3.2%	4.2%	77.4%
2000	3,367	7,353	142,583	90	203	5,692	2.7%	2.8%	4.0%	66.8%
2001	3,401	7,420	143,734	126	267	6,801	3.7%	3.6%	4.7%	78.4%
2002	3,428	7,515	144,863	181	364	8,378	5.3%	4.8%	5.8%	91.2%
2003	3,414	7,551	146,510	198	410	8,774	5.8%	5.4%	6.0%	96.9%
2004	3,393	7,529	147,401	174	363	8,149	5.1%	4.8%	5.5%	92.6%

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

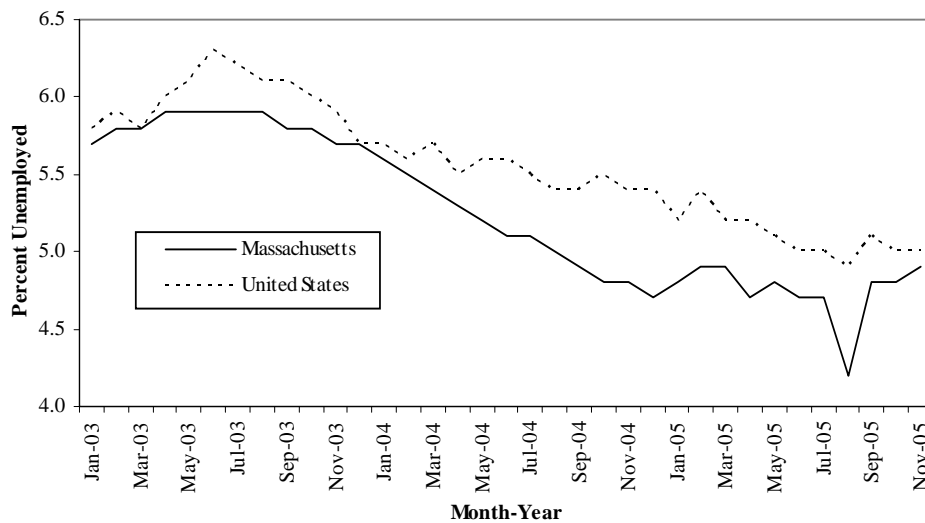
**Annual Average Unemployment Rate, 1970 -2004,  
Massachusetts, New England, and United States**



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

The unemployment rate in Massachusetts has been consistently below that of the United States ever since the recovery from the recession of early 1990, with the exception of two months in 2003, when the two rates were equal. Unemployment levels in the United States as a whole and in the New England region have shown similar patterns in the last two years, peaking in mid-2003, then falling slowly but fairly steadily through mid-2005. In the last three months both rates have been slightly above the low figures reached in August. The unemployment rate in Massachusetts rose slightly from 4.8 to 4.9 percent between November 2004 and November 2005, while the United States unemployment rate dropped from 5.4 to 5.0 percent over those same twelve months, significantly narrowing the state's advantage. The following chart shows the unemployment rates for Massachusetts and the United States from each of the past thirty-five months.

**Monthly Unemployment Rate, January 2003-November 2005  
Massachusetts and United States  
(seasonally adjusted)**



SOURCE: MA Division of Employment Assistance.

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

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

(seasonally adjusted 1987=100)

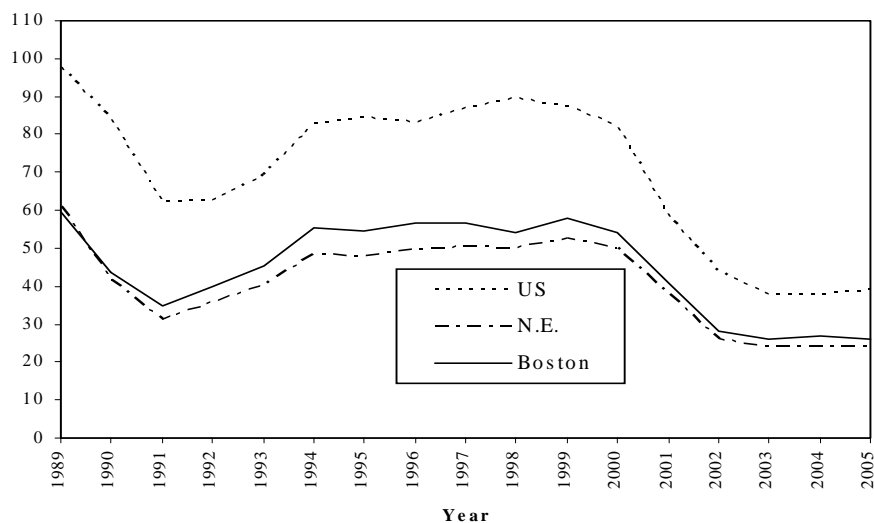
	US	% Change	N.E.	% Change	Boston	% Change
1989	98.0		60.8		59.5	
1990	83.8	-14.5%	41.5	-31.8%	43.5	-26.9%
1991	62.0	-26.0%	31.0	-25.3%	34.7	-20.3%
1992	62.5	0.8%	35.8	15.3%	39.9	15.1%
1993	69.4	11.1%	40.3	12.6%	45.4	13.8%
1994	82.9	19.4%	48.1	19.5%	55.4	22.0%
1995	84.3	1.6%	47.8	-0.7%	54.5	-1.7%
1996	83.2	-1.3%	49.8	4.2%	56.8	4.3%
1997	87.0	4.6%	50.6	1.7%	56.7	-0.3%
1998	89.4	2.8%	50.0	-1.2%	54.0	-4.7%
1999	87.3	-2.4%	52.4	4.8%	57.8	7.1%
2000	82.4	-5.5%	50.0	-4.6%	54.1	-6.5%
2001	58.3	-29.3%	37.7	-24.7%	40.9	-24.3%
2002	43.8	-24.9%	25.9	-31.2%	28.0	-31.6%
2003	37.8	-13.5%	23.8	-8.4%	25.8	-7.7%
2004	37.8	0.0%	23.9	0.7%	26.8	3.9%
2005*	39.0	3.1%	23.8	-0.7%	25.8	-3.7%

\*U.S. & N.E. thru 10/05; Boston thru 9/05

SOURCE: The Conference Board, Inc.

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

(seasonally adjusted 1987=100)



\*U.S. & N.E. thru 10/05; Boston thru 9/05

SOURCE: The Conference Board, Inc.

**Unemployment Insurance Trust Fund.** The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide for the payment of benefits to eligible individuals when they become unemployed through no fault of their own. Benefits are paid from the Commonwealth's Unemployment Insurance Trust Fund, financed through employer contributions. The assets and liabilities of the Commonwealth Unemployment Insurance Trust Fund are not assets and liabilities of the Commonwealth. As of December 31, 2005, the Massachusetts Unemployment Trust Fund had a balance of \$520 million, of which the private contributory sector portion was \$421 million. The Division of Unemployment Assistance's January 2006 Unemployment Insurance Trust Fund report indicates that under the current economic outlook the refinancing measures included in Chapter 142 of the Massachusetts Acts of 2003 (effective January 1, 2004), provide for employer contributions that should result in private contributory account reserves of \$1.729 billion at the end of 2009.

## ECONOMIC BASE AND PERFORMANCE

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

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

Between 1997 and 2004, gross state product in Massachusetts, New England and the sum of all states GSP grew approximately 40 percent in current dollars. Massachusetts had larger increases than those in New England and the sum of all states GSP between 1998 through 2000, but then lagged both areas respectively from 2001 to 2003. The Massachusetts economy is the largest in New England, contributing 48 percent to New England's total GSP, and thirteenth largest in the U.S., contributing 2.7 percent to the nation's total GSP.

### Gross State Product - Cumulative Change, 1997-2004

(millions of chained 2000 dollars)

Year	Massachusetts		New England		United States	
	GSP	Change from 1997	GSP	Change from 1997	GSP	Change from 1997
1997	\$227,074		\$487,671		\$8,620,955	
1998	\$241,535	6.4%	\$512,367	5.1%	\$9,004,669	4.5%
1999	\$256,659	12.6%	\$534,094	9.3%	\$9,404,249	8.9%
2000	\$276,786	20.5%	\$568,212	15.7%	\$9,749,104	12.6%
2001	\$279,434	21.4%	\$573,703	16.7%	\$9,836,571	13.5%
2002	\$278,213	21.0%	\$573,700	16.7%	\$10,009,433	15.2%
2003	\$284,286	23.2%	\$588,536	19.2%	\$10,289,220	18.0%
2004	\$298,066	28.0%	\$617,107	24.1%	\$10,734,763	22.3%

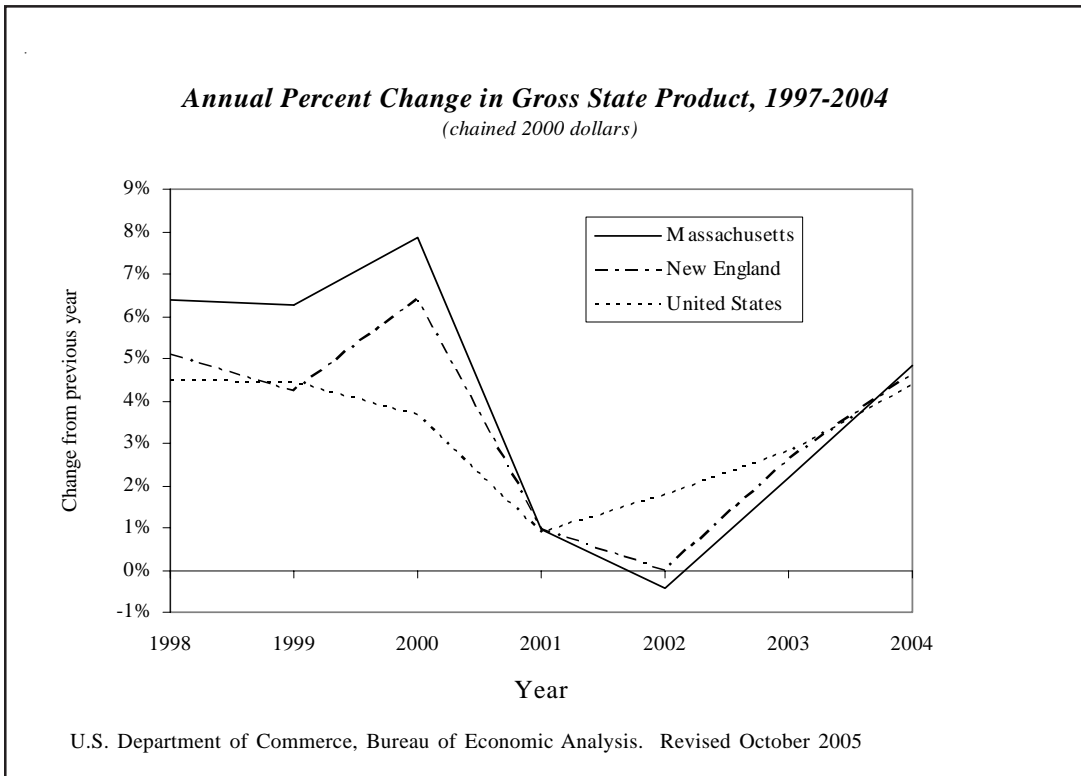
U.S. Department of Commerce, Bureau of Economic Analysis. Revised October 2005

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

**Gross State Product - Annual Change, 1997-2004**  
(millions of chained 2000 dollars)

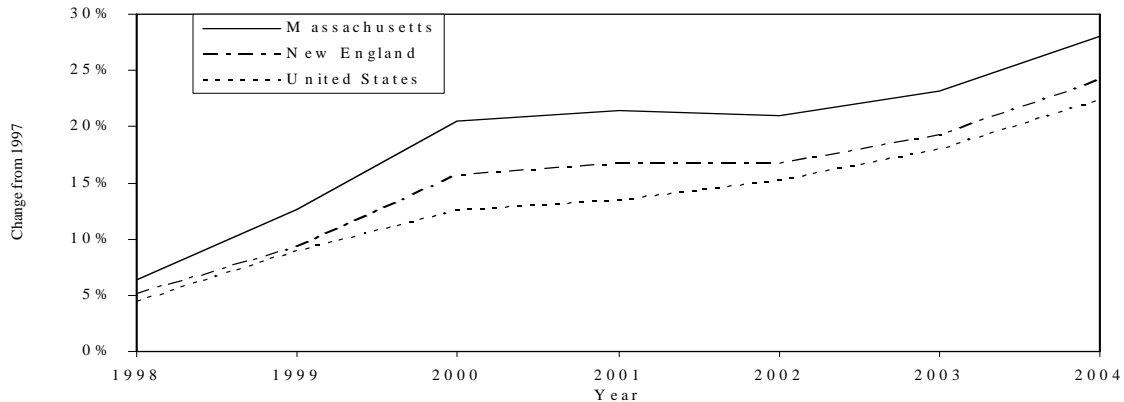
Year	Massachusetts		New England		United States	
	GSP	Annual change	GSP	Annual change	GSP	Annual change
1997	\$227,074		\$487,671		\$8,620,955	
1998	\$241,535	6.4%	\$512,367	5.1%	\$9,004,669	4.5%
1999	\$256,659	6.3%	\$534,094	4.2%	\$9,404,249	4.4%
2000	\$276,786	7.8%	\$568,212	6.4%	\$9,749,104	3.7%
2001	\$279,434	1.0%	\$573,703	1.0%	\$9,836,571	0.9%
2002	\$278,213	-0.4%	\$573,700	0.0%	\$10,009,433	1.8%
2003	\$284,286	2.2%	\$588,536	2.6%	\$10,289,220	2.8%
2004	\$298,066	4.8%	\$615,736	4.6%	\$10,734,763	4.3%

U.S. Department of Commerce, Bureau of Economic Analysis. Revised October 2005



**Cumulative Percent Change in Gross State Product,  
1997-2004**

(chained 2000 dollars)



SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis. Revised October 2005

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

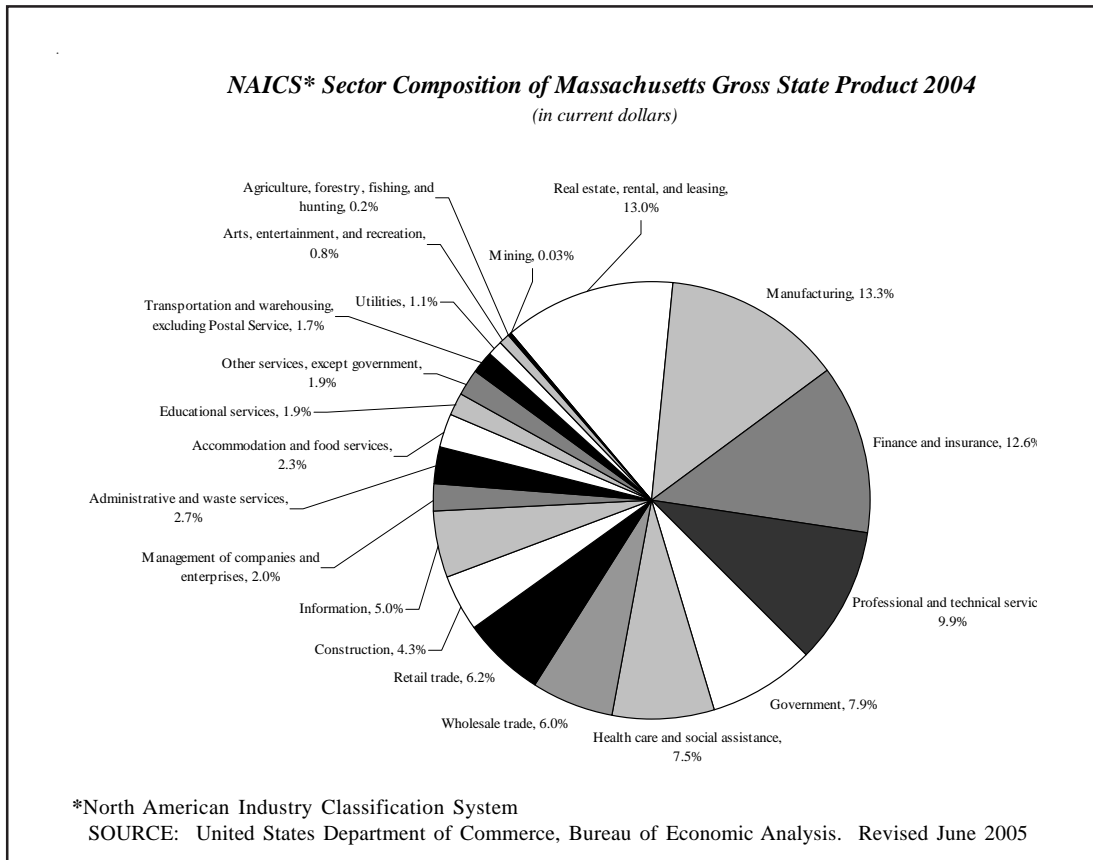
**Massachusetts Companies in the 2005 Fortune 500 and 1000 Lists**

Rank		Company	Industry	2004 revenues (millions)
2005	2004			
83	90	Mass. Mutual Life Ins (Springfield)	Insurance: Life, Health (mutual)	\$23,159
103	107	Raytheon (Waltham)	Aerospace and Defense	\$20,245
111	116	Liberty Mutual Ins. Group (Boston)	Insurance: P & C (stock)	\$19,754
141	148	TJX (Framingham)	Specialty Retailers	\$14,914
146	152	Staples (Framingham)	Specialty Retailers	\$14,448
215	192	Gillette (Boston)	Household and Personal Products	\$10,477
266	215	EMC (Hopkinton)	Computer Peripherals	\$8,230
284	277	BJ's Wholesale Club (Natick)	Specialty Retailers	\$7,375
341	299	State St. Corp. (Boston)	Commercial Banks	\$5,861
352	330	Boston Scientific (Natick)	Medical Products & Equipment	\$5,624
483	477	Reebok International (Canton)	Apparel	\$3,785
550	494	Allmerica Financial (Worcester)	Insurance: P & C (stock)	\$3,111
575	538	NSTAR (Boston)	Utilities: Gas & Electric	\$2,954
623	699	Analog Devices (Norwood)	Semiconductors and Other Electronic Components	\$2,634
680	685	Thermo Electron (Waltham)	Scientific, Photo, Control Equipment	\$2,325
708	N/A	Biogen Idec (Cambridge)	Pharmaceuticals	\$2,210
713	782	Genzyme (Cambridge)	Pharmaceuticals	\$2,201
775	758	Cabot (Boston)	Chemicals	\$1,934
799	910	Perini (Framingham)	Engineering, Construction	\$1,842
811	857	Iron Mountain (Boston)	Diversified Outsourcing	\$1,818
817	809	Commerce Group (Webster)	Insurance: P & C (stock)	\$1,807
824	921	Teradyne (Boston)	Scientific, Photo, Control Equipment	\$1,792
855	840	PerkinElmer (Wellesley)	Scientific, Photo, Control Equipment	\$1,691
962	936	Boston Properties (Boston)	Real Estate	\$1,404

SOURCE: *Fortune*, April 2005

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

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



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

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

NAICS* Industry Subsector	Cumulative percent change 1997-2004
Computer and electronic product manufacturing	344.5%
Securities, commodity contracts, investments	259.2%
Forestry, fishing, and related activities	150.4%
Computer systems design and related services	66.3%
Broadcasting and telecommunications	60.8%
Paper manufacturing	-33.4%
Machinery manufacturing	-37.4%
Funds, trusts, and other financial vehicles	-48.8%

\*North American Industry Classification System.  
SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised June 2005

### *Gross State Product by Industry in Massachusetts, 1997-2004*

*(millions of chained 2000 dollars)*

<b>NAICS* Industry Sector</b>	<b>1997</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Total Gross State Product	\$227,074	\$256,659	\$276,786	\$279,434	\$278,213	\$284,286	\$298,066
Private industries	204,714	233,424	253,492	255,947	254,795	261,066	274,528
Agriculture, forestry, fishing, and hunting	442	469	540	587	679	713	734
Mining	67	93	97	103	94	105	102
Utilities	3,319	3,223	3,455	3,161	3,104	3,371	3,384
Construction	10,193	11,645	12,168	13,299	13,217	12,704	12,703
Manufacturing	24,737	30,063	37,132	34,972	35,255	37,957	39,611
Wholesale trade	14,359	17,878	16,335	18,065	17,593	17,492	17,777
Retail trade	12,130	13,677	14,557	15,768	16,550	17,493	18,511
Transportation and warehousing, excluding Postal Service	4,352	4,769	5,180	5,071	4,941	5,012	5,009
Information	9,764	12,049	12,986	13,629	13,422	13,630	14,951
Finance and insurance	21,589	26,971	30,333	30,227	30,546	33,237	37,584
Real estate, rental, and leasing	32,268	34,607	35,978	38,599	37,830	36,949	38,612
Professional and technical services	20,551	24,640	28,469	28,505	27,408	27,652	29,523
Management of companies and enterprises	6,985	6,870	7,506	6,151	5,767	5,767	6,006
Administrative and waste services	7,646	8,252	8,382	7,392	7,305	7,631	8,025
Educational services	5,575	5,602	5,934	5,866	5,913	5,740	5,665
Health care and social assistance	19,716	19,505	20,374	20,480	21,075	21,918	22,360
Arts, entertainment, and recreation	1,796	1,908	1,913	2,026	2,139	2,187	2,239
Accommodation and food services	5,555	6,258	6,605	6,522	6,552	6,634	6,953
Other services, except government	4,943	5,304	5,545	5,466	5,390	5,386	5,705
Government	22,491	23,264	23,293	23,487	23,417	23,261	23,631

\* North American Industry Classification System

SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised October 2005

### *Cumulative Percent Change in GSP by Industry in Massachusetts, 1997-2004*

*(millions of chained 2000 dollars)*

<b>NAICS* Industry Sector</b>	<b>1997-98</b>	<b>1999-00</b>	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>
Total Gross State Product	6.4%	20.5%	21.4%	21.0%	23.2%	28.0%
Private industries	6.9%	22.2%	23.1%	22.7%	25.1%	30.3%
Agriculture, forestry, fishing, and hunting	-12.9%	24.1%	32.8%	48.4%	53.4%	56.4%
Mining	20.9%	40.0%	46.2%	37.5%	49.2%	46.3%
Utilities	0.9%	4.3%	-4.2%	-6.0%	2.6%	3.0%
Construction	7.5%	18.3%	27.6%	26.9%	23.1%	23.1%
Manufacturing	12.7%	44.1%	38.2%	39.0%	46.7%	51.1%
Wholesale trade	13.1%	14.6%	25.1%	22.5%	22.0%	23.6%
Retail trade	5.4%	18.8%	27.1%	32.1%	37.8%	43.6%
Transportation and warehousing, excluding Postal Service	4.8%	18.0%	15.9%	13.3%	14.7%	14.7%
Information	6.1%	30.2%	35.1%	33.6%	35.2%	44.9%
Finance and insurance	12.7%	36.0%	35.7%	36.7%	45.5%	58.6%
Real estate, rental, and leasing	2.2%	11.1%	18.4%	16.4%	14.1%	18.6%
Professional and technical services	9.6%	34.5%	34.7%	30.8%	31.7%	38.5%
Management of companies and enterprises	-2.8%	7.6%	-10.4%	-16.6%	-16.6%	-12.5%
Administrative and waste services	5.5%	9.4%	-2.4%	-3.6%	0.8%	6.0%
Educational services	0.3%	6.4%	5.3%	6.1%	3.1%	1.8%
Health care and social assistance	-0.6%	3.4%	3.9%	6.8%	10.8%	12.8%
Arts, entertainment, and recreation	2.5%	6.4%	12.3%	17.9%	20.1%	22.5%
Accommodation and food services	8.5%	17.9%	16.6%	17.1%	18.3%	23.1%
Other services, except government	4.9%	11.7%	10.3%	8.9%	8.8%	14.8%
Government	0.8%	3.5%	4.4%	4.1%	3.4%	5.0%

\* North American Industry Classification System

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



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

<b>NAICS* Industry Sector</b>	<b>1997</b>	<b>1999</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Total Gross State Product	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Private industries	90.2%	90.9%	91.6%	91.6%	91.8%	92.1%
Agriculture, forestry, fishing, and hunting	0.2%	0.2%	0.2%	0.2%	0.3%	0.2%
Mining	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	1.5%	1.3%	1.1%	1.1%	1.2%	1.1%
Construction	4.5%	4.5%	4.8%	4.8%	4.5%	4.3%
Manufacturing	10.9%	11.7%	12.5%	12.7%	13.4%	13.3%
Wholesale trade	6.3%	7.0%	6.5%	6.3%	6.2%	6.0%
Retail trade	5.3%	5.3%	5.6%	5.9%	6.2%	6.2%
Transportation and warehousing, excluding Postal Service	1.9%	1.9%	1.8%	1.8%	1.8%	1.7%
Information	4.3%	4.7%	4.9%	4.8%	4.8%	5.0%
Finance and insurance	9.5%	10.5%	10.8%	11.0%	11.7%	12.6%
Real estate, rental, and leasing	14.2%	13.5%	13.8%	13.6%	13.0%	13.0%
Professional and technical services	9.1%	9.6%	10.2%	9.9%	9.7%	9.9%
Management of companies and enterprises	3.1%	2.7%	2.2%	2.1%	2.0%	2.0%
Administrative and waste services	3.4%	3.2%	2.6%	2.6%	2.7%	2.7%
Educational services	2.5%	2.2%	2.1%	2.1%	2.0%	1.9%
Health care and social assistance	8.7%	7.6%	7.3%	7.6%	7.7%	7.5%
Arts, entertainment, and recreation	0.8%	0.7%	0.7%	0.8%	0.8%	0.8%
Accommodation and food services	2.4%	2.4%	2.3%	2.4%	2.3%	2.3%
Other services, except government	2.2%	2.1%	2.0%	1.9%	1.9%	1.9%
Government	9.9%	9.1%	8.4%	8.4%	8.2%	7.9%

\* North American Industry Classification System

SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised October 2005  
1998 data omitted due to space constraints

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

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

\* North American Industry Classification System

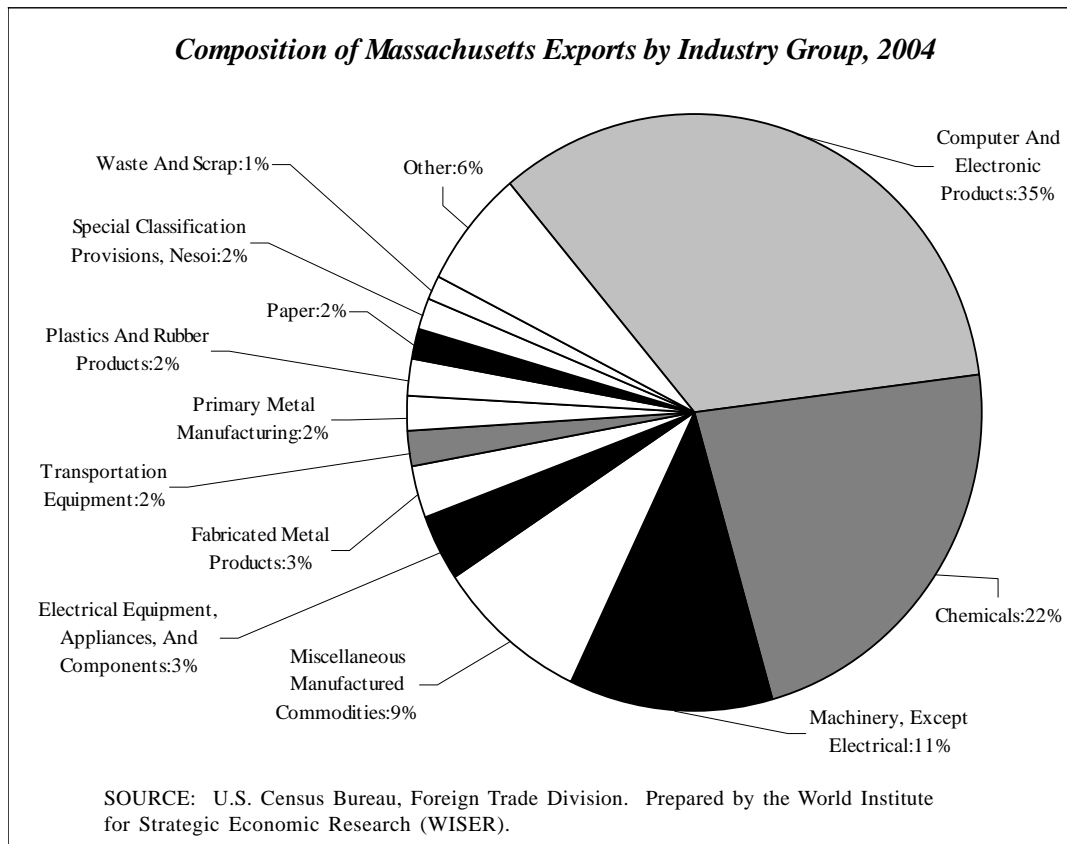
SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised October 2005  
1998 data omitted due to space constraints

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

**Trade and International Trade.** Massachusetts ranked 10th in the United States, and first in New England, with \$21.84 billion in international exports in 2004. This represents a 17.0 percent increase from the previous year's exports from the Commonwealth, while national exports increased by 13.0 percent in the same period. Through October 2005, Massachusetts's exports totaled \$18.20 billion, a decrease of 0.7 percent compared with exports in the first ten months of 2004. National exports were up 10.3 percent and New England, 4.4 percent during the same period. It is not possible to provide balance of trade comparisons for Massachusetts because import data are not compiled on a state-by-state basis.

Massachusetts' five most important trading partners for 2004 were: Canada, with \$2.90 billion in purchases of Massachusetts exports; the Netherlands, with \$2.52 billion; Japan, with \$1.81 billion; Germany, with \$2.52 billion; and the United Kingdom, with \$1.50 billion in purchases. Between 2003 and 2004, the most significant growth in Massachusetts's exports among its top ten trading partners was in exports to Taiwan (80.1 percent), Germany (57.3 percent), Netherlands (43.0 percent), and France (38.8 percent).

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



**Value of International Shipments from Massachusetts, 1997-2004**

*(top ten industry groups ranked by value of 2004 exports, in millions)*

<b>Major Industry Group</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
Computer And Electronic Products	\$7,857	\$7,458	\$8,056	\$10,215	\$8,122	\$7,024	\$7,688	\$7,475
Chemicals	\$1,174	\$1,223	\$1,357	\$1,600	\$1,534	\$2,267	\$3,216	\$4,907
Machinery, Except Electrical	\$1,885	\$1,694	\$1,705	\$2,545	\$2,044	\$1,786	\$1,668	\$2,456
Miscellaneous Manufactured Commodities	\$768	\$835	\$925	\$1,053	\$1,213	\$1,210	\$1,571	\$1,927
Electrical Equipment, Appliances, And Components	\$570	\$596	\$720	\$834	\$691	\$649	\$592	\$752
Fabricated Metal Products, Nesoi	\$748	\$597	\$601	\$649	\$569	\$692	\$539	\$621
Transportation Equipment	\$655	\$637	\$698	\$659	\$449	\$346	\$383	\$453
Primary Metal Manufacturing	\$282	\$335	\$283	\$358	\$272	\$248	\$425	\$423
Plastics And Rubber Products	\$323	\$357	\$389	\$374	\$400	\$406	\$375	\$404
Paper	\$311	\$334	\$364	\$435	\$386	\$373	\$355	\$366
<b>Total Exports, Top Massachusetts Industries</b>	<b>\$14,574</b>	<b>\$14,065</b>	<b>\$15,098</b>	<b>\$18,722</b>	<b>\$15,679</b>	<b>\$15,002</b>	<b>\$16,812</b>	<b>\$19,784</b>
<b>Total Massachusetts Exports</b>	<b>\$16,526</b>	<b>\$15,878</b>	<b>\$16,805</b>	<b>\$20,514</b>	<b>\$17,490</b>	<b>\$16,708</b>	<b>\$18,663</b>	<b>\$21,837</b>
<b>Percent Change from Prior Year</b>		<b>-3.9%</b>	<b>5.8%</b>	<b>22.1%</b>	<b>-14.7%</b>	<b>-4.5%</b>	<b>11.7%</b>	<b>17.0%</b>

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

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

Massachusetts's major air and seaports are managed by the Massachusetts Port Authority (Massport), an independent public authority. Massport reported fiscal 2004 operating income of \$33.7 million (up 32.7 percent from fiscal 2003), with operating revenues up 11 percent (\$415.0 million in 2004 versus \$373.8 million in 2003) and operating costs up 9 percent (\$381.3 million in 2004 versus \$348.4 million in 2003).

As of October 2005, airline service at Logan, both scheduled and unscheduled, was provided by 39 airlines, including 8 U.S. major air carrier airlines, 18 non-U.S. flag carriers, and 13 regional and commuter airlines. As of October 2005, Logan flights and passenger counts were up 1.7 and 3.9 percent respectively while cargo and mail volume was down 1.9 percent from October 2004. Based on total passenger volume in calendar year 2004 data, Logan Airport was the most active airport in New England and the 19th most active in the U.S., according to Airports Council International (ACI).

According to ACI, in calendar year 2004, Logan Airport ranked 19th in the nation in total air cargo volume. In fiscal year 2004, the airport handled 366,298 metric tons of cargo, a 0.9 percent increase from 2003. As of June 30, 2004, Logan was served by 7 all-cargo and small package/express carriers.

At Massport's Port of Boston properties, 2004 cargo throughput was 13.9 million metric tons (a 5 percent increase from 2003), automobile processing decreased 13 percent to 10,910 units, and cruise passenger trips decreased less than one percent to 199,453. For the first eleven months of 2005, total containerized cargo increased 7.8 percent, there were 17.2 percent more cruise passengers and 8 percent less automobiles processed, when compared to the first eleven months of 2004. Massachusetts total waterborne cargo shipped or received in 2003 (from the Army Corps of Engineers data), increased 17.4 percent (30,655,000 short tons), as did New England and the U.S. (11.6 and 2.3 percent, respectively).

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

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

***Housing Permits Authorized, 1969-2004 (with ytd thru November, 2005)***

<i>Year</i>	<i>Massachusetts</i>		<i>New England</i>		<i>United States</i>	
	<i>Total Permits</i>	<i>Percent Change</i>	<i>Total Permits</i>	<i>Percent Change</i>	<i>Total Permits</i>	<i>Percent Change</i>
<b>1969</b>	33,572		70,539		1,330,161	
<b>1970</b>	38,330	14.2%	74,068	5.0%	1,354,746	1.8%
<b>1975</b>	17,697	-27.5%	41,645	-21.0%	934,511	-12.4%
<b>1980</b>	16,055	-20.4%	40,195	-25.1%	1,171,763	-23.6%
<b>1981</b>	15,599	-2.8%	38,067	-5.3%	985,600	-15.9%
<b>1982</b>	15,958	2.3%	39,470	3.7%	1,000,500	1.5%
<b>1983</b>	22,950	43.8%	57,567	45.9%	1,605,221	60.4%
<b>1984</b>	28,471	24.1%	72,356	25.7%	1,689,667	5.3%
<b>1985</b>	39,360	38.2%	96,832	33.8%	1,732,335	2.5%
<b>1986</b>	43,877	11.5%	108,272	11.8%	1,771,832	2.3%
<b>1987</b>	40,018	-8.8%	101,222	-6.5%	1,542,499	-12.9%
<b>1988</b>	31,766	-20.6%	82,123	-18.9%	1,450,583	-6.0%
<b>1989</b>	21,634	-31.9%	53,543	-34.8%	1,345,084	-7.3%
<b>1990</b>	15,276	-29.4%	36,811	-31.2%	1,125,583	-16.3%
<b>1991</b>	12,624	-17.4%	31,111	-15.5%	953,834	-15.3%
<b>1992</b>	16,346	29.5%	36,876	18.5%	1,105,083	15.9%
<b>1993</b>	17,715	8.4%	39,225	6.4%	1,210,000	9.5%
<b>1994</b>	18,302	3.3%	40,459	3.1%	1,366,916	13.0%
<b>1995</b>	15,946	-12.9%	37,357	-7.7%	1,335,835	-2.3%
<b>1996</b>	17,360	8.9%	40,425	8.2%	1,419,083	6.2%
<b>1997</b>	17,554	1.1%	42,047	4.0%	1,442,251	1.6%
<b>1998</b>	18,958	8.0%	47,342	12.6%	1,619,500	12.3%
<b>1999</b>	18,977	0.1%	47,379	0.1%	1,663,916	2.7%
<b>2000</b>	17,342	-8.6%	43,735	-7.7%	1,598,332	-3.9%
<b>2001</b>	16,654	-4.0%	42,786	-2.2%	1,636,700	2.4%
<b>2002</b>	17,122	2.8%	47,173	10.3%	1,747,600	6.8%
<b>2003</b>	18,574	8.5%	48,845	3.5%	1,889,400	8.1%
<b>2004</b>	21,206	14.2%	56,268	15.2%	2,006,600	6.2%
<b>2005*</b>	22,964	8.3%	56,842	1.0%	2,145,818	6.9%

\*Year to date through November

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

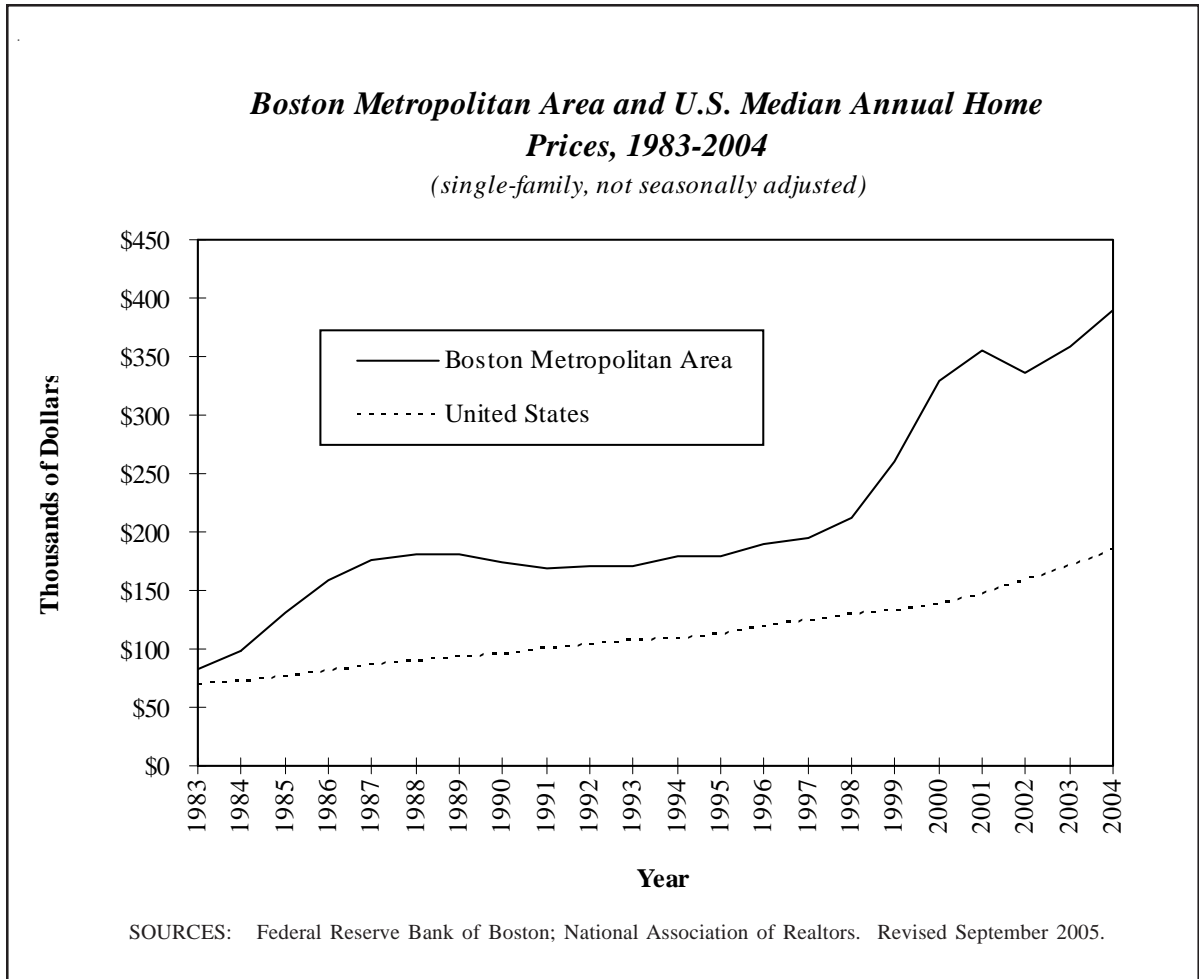
Both the economic recession of 1990-1991 and the subsequent economic recovery were strongly reflected in the Massachusetts housing sector, but the recession that began in 2001 has had a less pronounced impact on home sales. Significant declines in existing home sales in Massachusetts in 1989 and 1990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

***Existing Home Sales, 1981-2005 Q3***  
(seasonally adjusted annual rates, in thousands)

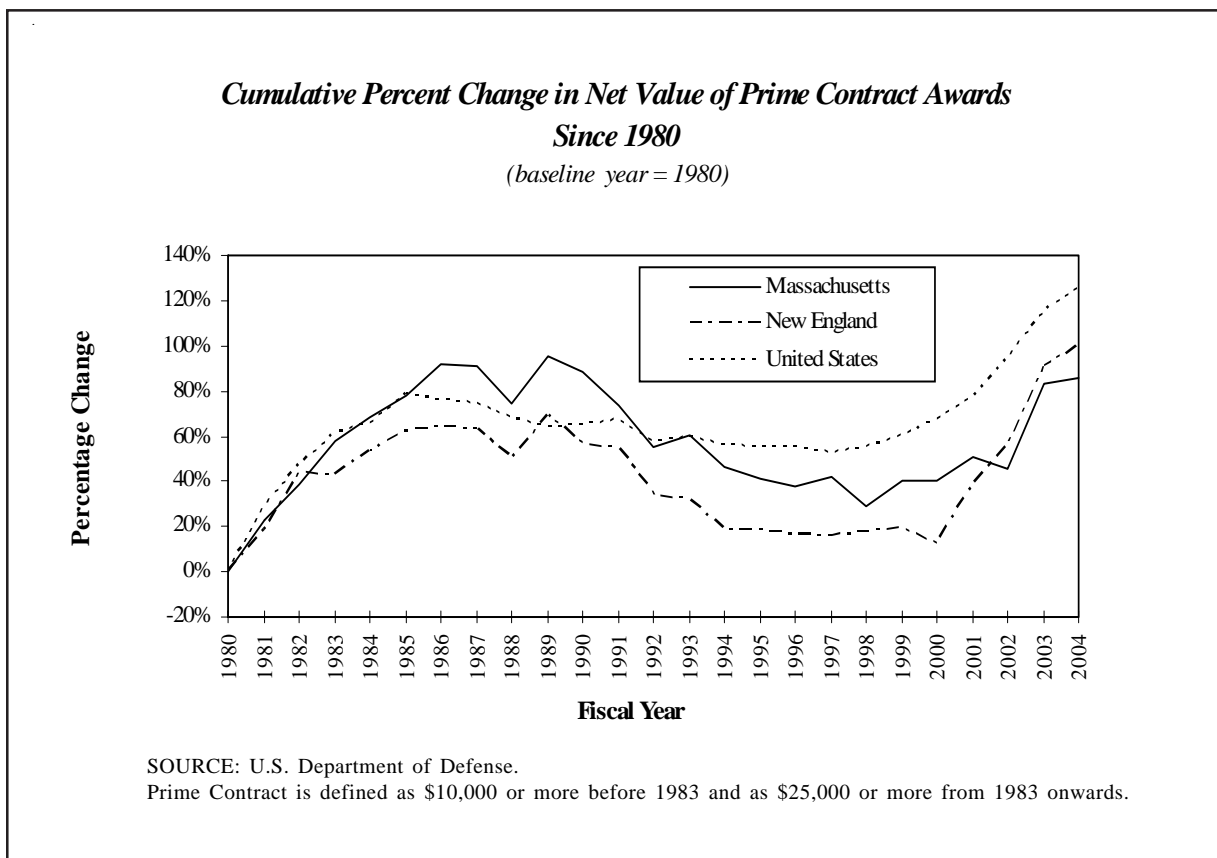
Year	Massachusetts		New England		United States	
	Sales	% Change	Sales	% Change	Sales	% Change
1981	43.0		105.8		2,575.0	
1982	42.6	-0.8%	98.6	-6.9%	2,117.5	-17.8%
1983	59.2	39.0%	141.3	43.3%	2,875.0	35.8%
1984	54.9	-7.3%	140.7	-0.4%	3,027.5	5.3%
1985	60.2	9.7%	157.0	11.6%	3,382.5	11.7%
1986	67.0	11.3%	169.2	7.8%	3,772.5	11.5%
1987	76.4	14.1%	174.5	3.1%	3,767.5	-0.1%
1988	76.6	0.2%	178.5	2.3%	3,882.5	3.1%
1989	68.2	-10.9%	163.0	-8.7%	3,672.0	-5.4%
1990	48.6	-28.8%	134.0	-17.8%	3,603.5	-1.9%
1991	53.4	10.0%	140.5	4.9%	3,533.3	-1.9%
1992	62.5	17.0%	170.6	21.4%	3,889.5	10.1%
1993	70.9	13.4%	193.8	13.6%	4,220.3	8.5%
1994	71.4	0.7%	200.3	3.4%	4,409.8	4.5%
1995	69.6	-2.6%	185.7	-7.3%	4,342.3	-1.5%
1996	81.2	16.6%	200.7	8.1%	4,705.3	8.4%
1997	90.1	11.0%	219.4	9.3%	4,908.8	4.3%
1998	99.9	10.8%	248.3	13.2%	5,585.3	13.8%
1999	98.5	-1.3%	253.3	2.0%	5,922.8	6.0%
2000	88.7	-10.0%	242.0	-4.4%	5,831.8	-1.5%
2001	87.5	-1.4%	239.6	-1.0%	6,026.3	3.3%
2002r	115.9	32.5%	262.8	9.7%	5,631.0	-6.6%
2003r	118.3	2.1%	269.3	2.5%	6,183.0	9.8%
2004r	141.7	19.8%	308.4	14.5%	6,784.0	9.7%
2005 Q3 <sup>p</sup>	162.7				7,237.0	
2004 Q3 - 2005 Q3 <sup>p</sup>		11.2%				6.5%

SOURCES: National Association of Realtors; Federal Reserve Bank of Boston. r = Revised, p = Preliminary.

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



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



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

**Net Value of Department of Defense Prime Contract Awards, 1980-2004**

*(in millions)*

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

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

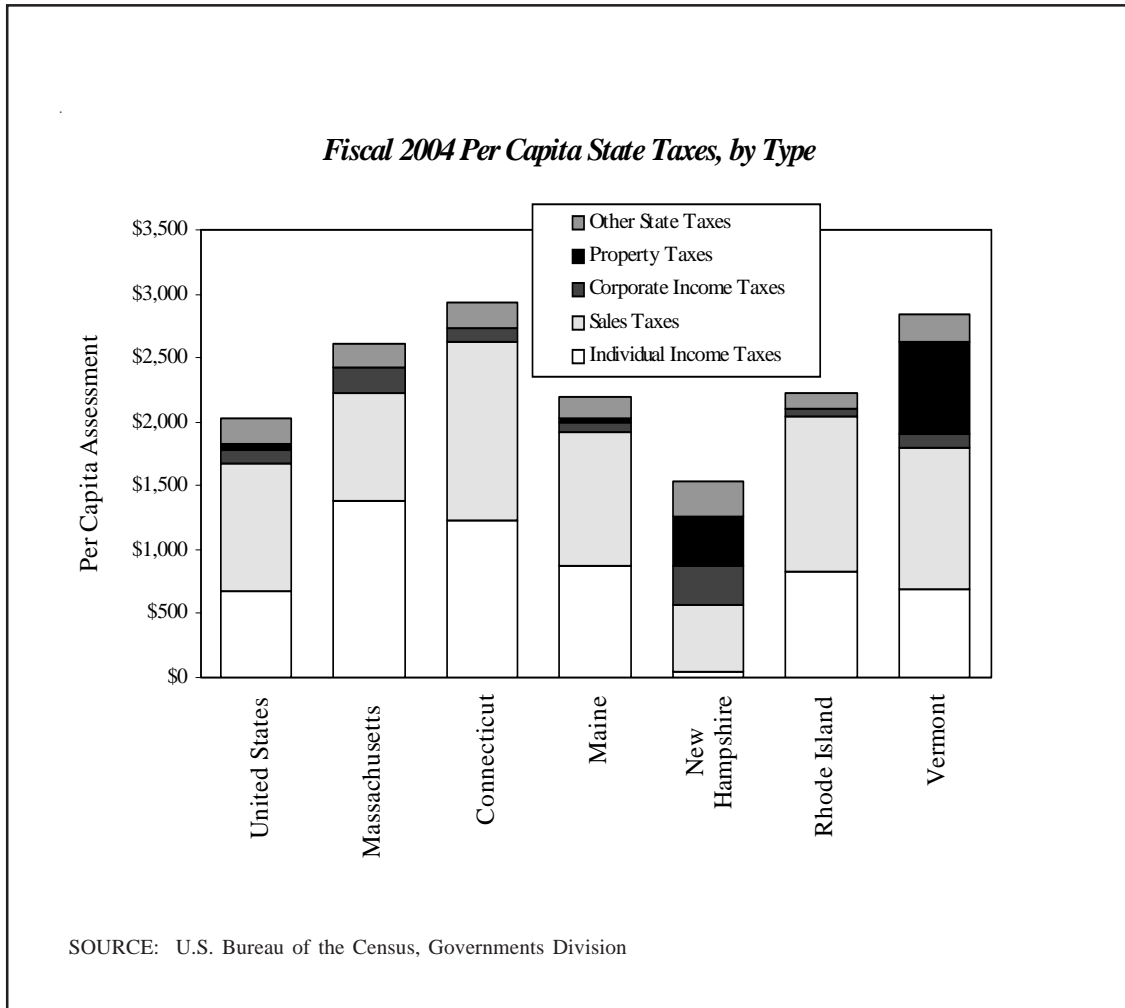
**Travel and Tourism.** The travel and tourism industry represents a substantial component of the overall Massachusetts economy. Massachusetts is one of the nation's most popular tourist and travel destinations for both domestic and international visitors. The greater Boston area is New England's most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

The Massachusetts Office of Travel and Tourism estimates that 21.8 million domestic travelers traveled to or within the Commonwealth in 2004, an increase of 15.6 percent from 2003. Additionally, 4.2 million international travelers visited Massachusetts in 2004, an increase of 10.1 percent from 2003. Leisure is the primary reason for 77 percent of tourist trips to Massachusetts. According to MassPort, there were 5 percent fewer cruise vessel calls in 2004 than in 2003, 95 versus 100 and 899 fewer cruise passengers, 199,453 versus 200,352. Between January and November 2005, Massport had 233,702 cruise passengers, a 17.2 percent increase compared to the same period in 2004. The latest available economic impact data indicates that direct spending by visitors to Massachusetts totaled \$11.7 billion in 2002.



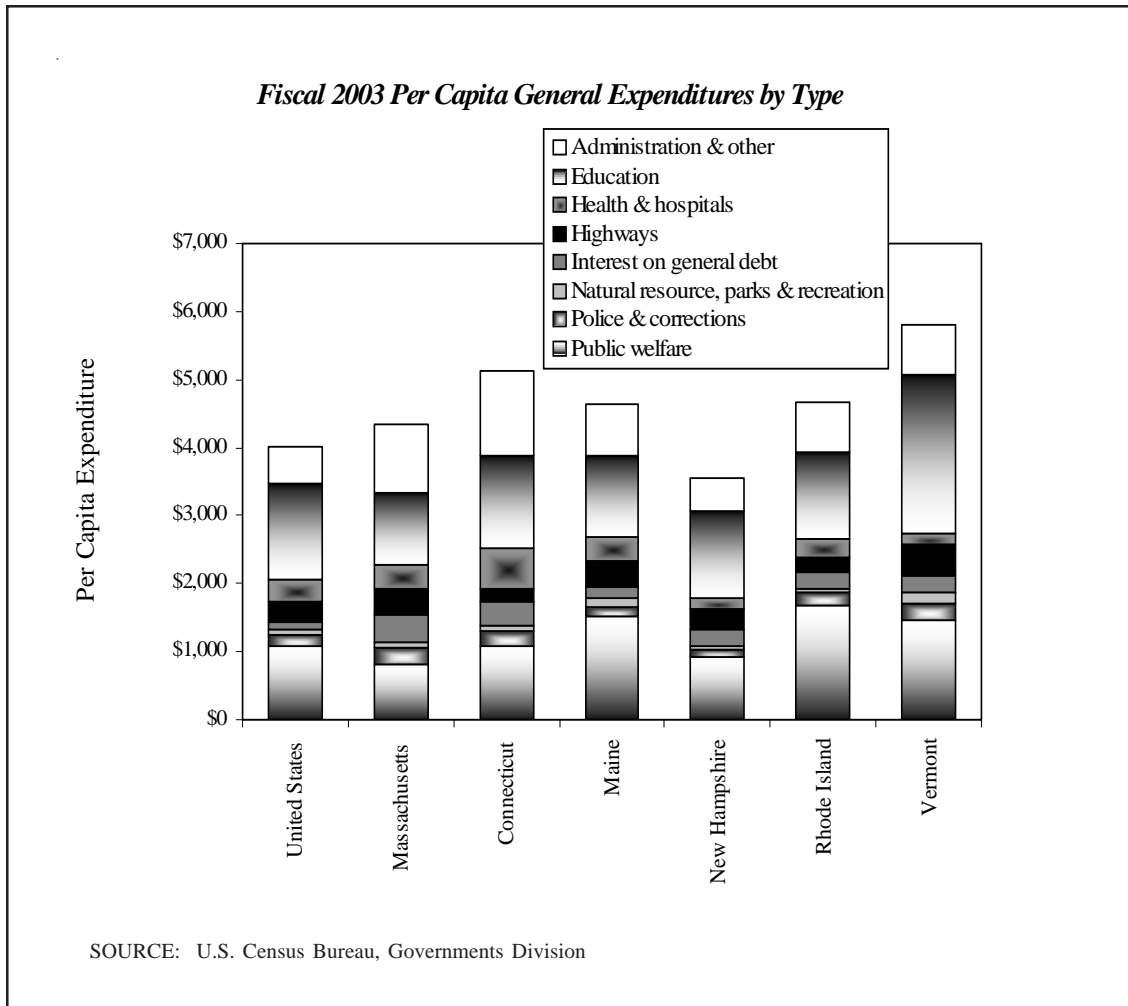
**State Taxes.** Per capita state taxes in Massachusetts are significantly higher, 28.5 percent, than the national average. In 2004, the total per capita state tax bill in the United States was \$2,025. Citizens of the Commonwealth however, paid \$2,602 on average, the seventh highest in the nation and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

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

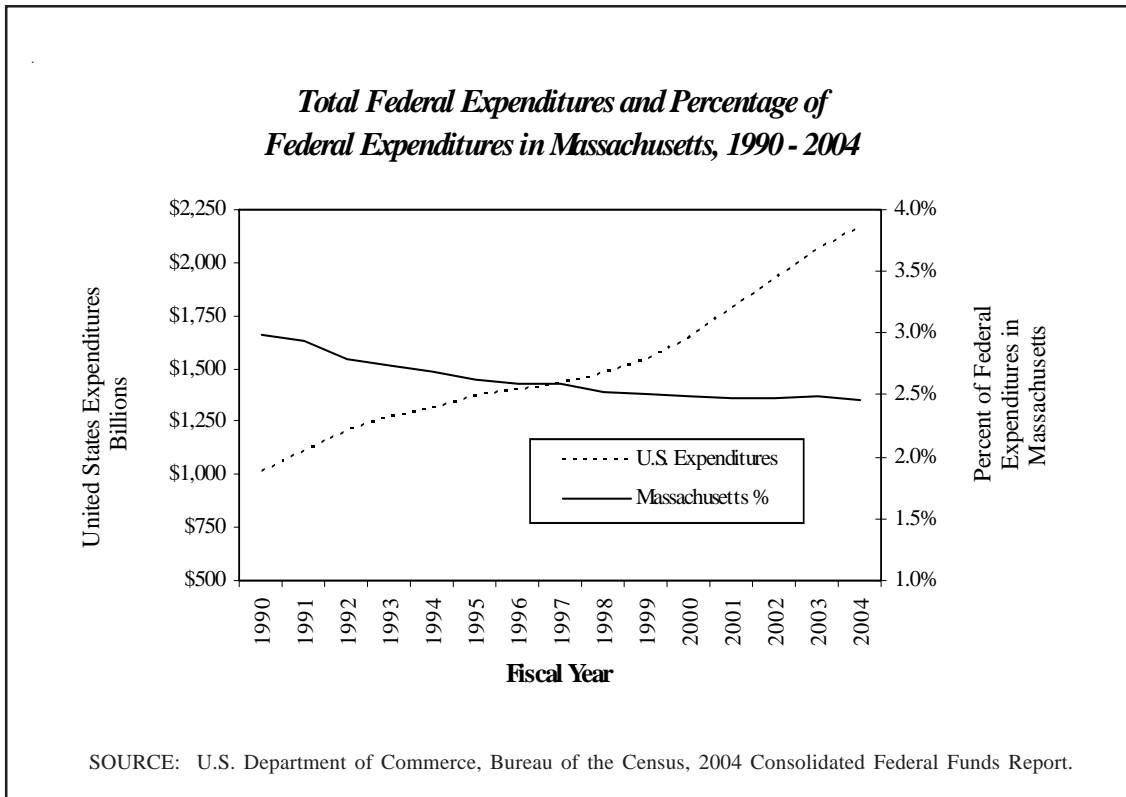


**State Government Spending in Massachusetts.** The following chart depicts fiscal 2003 per capita state general expenditures by category for the six New England states and the U.S. average state expenditure. Massachusetts ranked 16th in the nation in per capita expenditures (\$5,095) in 2003 while it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

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

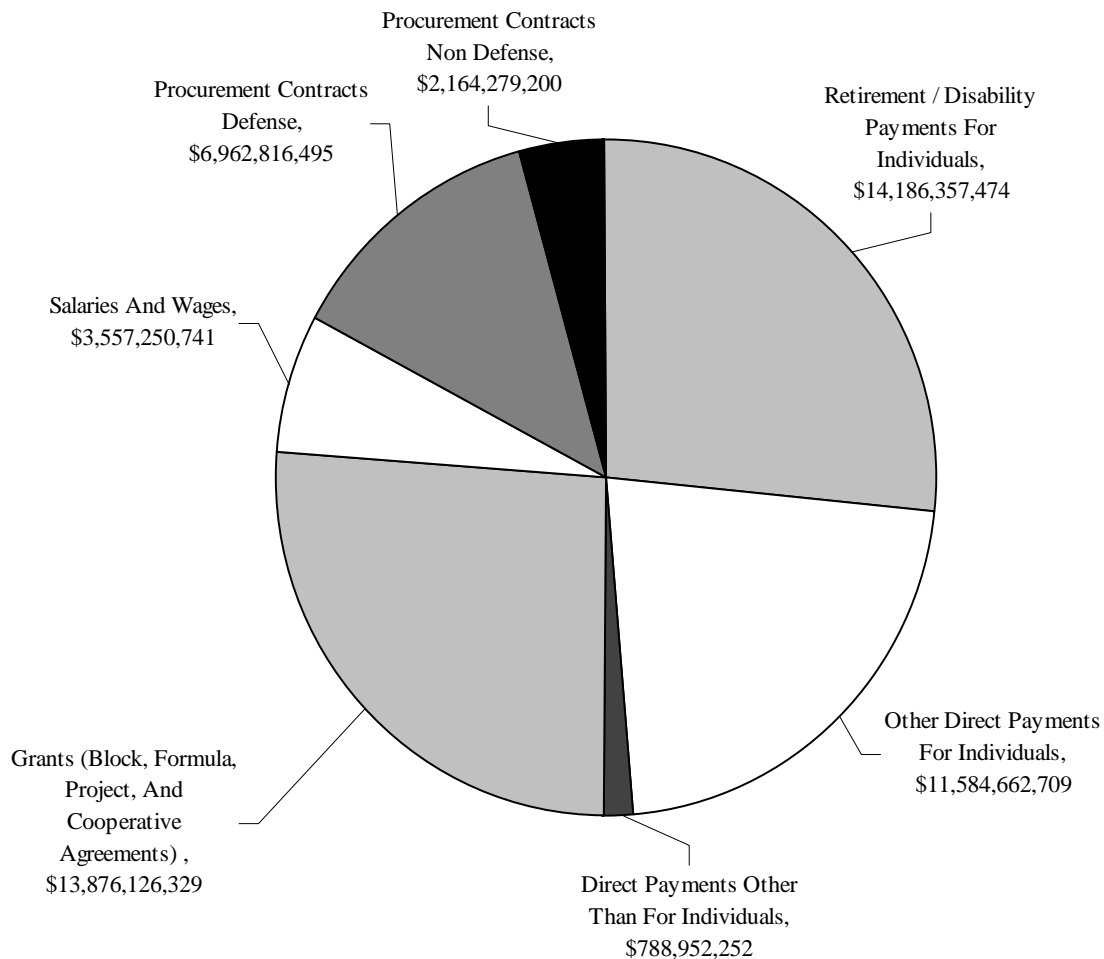


**Federal Government Spending in Massachusetts.** Federal government spending contributes significantly to the Massachusetts economy. In fiscal 2004, Massachusetts ranked twelfth among states in per capita distribution of federal funds, with total spending of \$8,279 per person, excluding loans and insurance.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



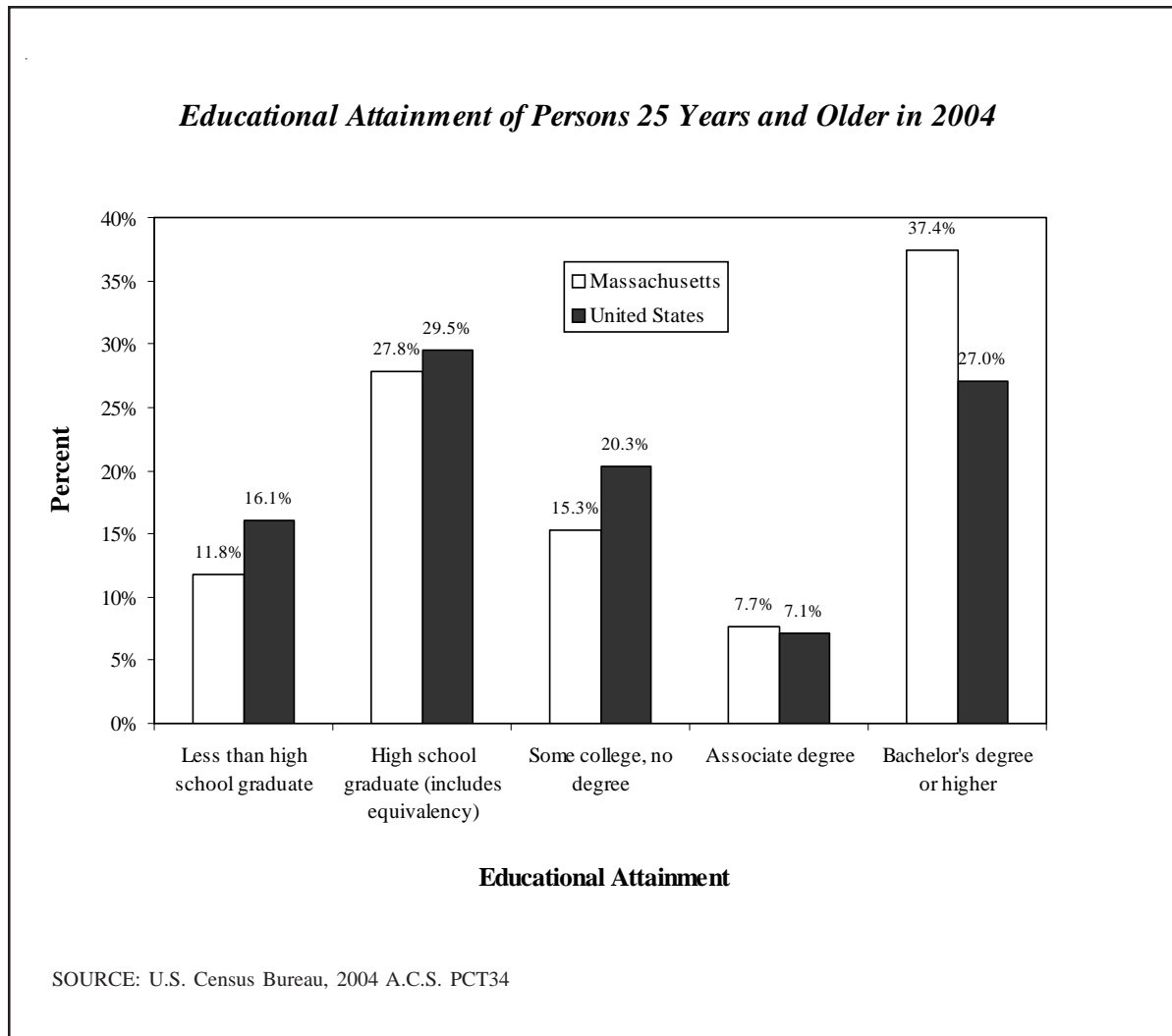
Over half of FY 2004 federal spending in Massachusetts was composed of health care and social programs like Medicare, Medicaid, Social Security, unemployment benefits and Section 8 Housing Vouchers. Massachusetts was above the national average in per capita federal grants to state and local governments,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

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

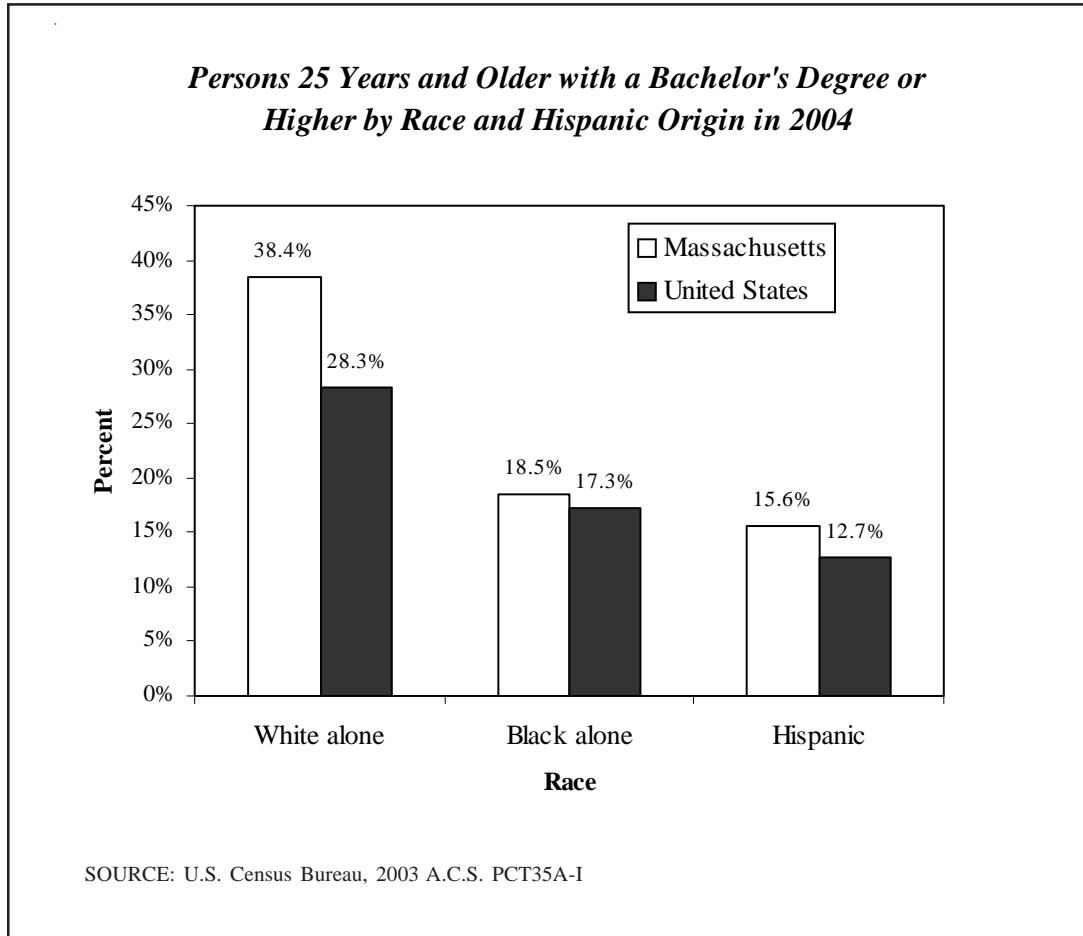


SOURCE: U.S. Department of Commerce, Bureau of the Census, 2004 Consolidated Federal Funds Report.

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



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



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

**Higher Education Enrollment by Race and Hispanic Origin in 2003**

	Black	Asian	Native American	White	Hispanic	Race Unknown
Massachusetts	6.3	5.9	0.4	61.5	5.0	14.6
New England	5.8	4.5	0.5	67.4	4.7	12.4
United States (2002)	11.1	5.8	0.9	62.2	10.7	NA

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

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

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

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

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

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

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

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

*(in current, unadjusted dollars)*

<i>Fiscal Year</i>	<i>Massachusetts</i>	<i>United States</i>	<i>Ratio (MA/U.S.)</i>
<b>1981</b>	\$2,735	\$2,307	1.19
<b>1982</b>	2,823	2,525	1.12
<b>1983</b>	3,072	2,736	1.12
<b>1984</b>	3,298	2,940	1.12
<b>1985</b>	3,653	3,222	1.13
<b>1986</b>	4,031	3,479	1.16
<b>1987</b>	4,491	3,682	1.22
<b>1988</b>	4,965	3,927	1.26
<b>1989</b>	5,485	4,307	1.27
<b>1990</b>	5,766	4,643	1.24
<b>1991</b>	5,881	4,902	1.20
<b>1992</b>	5,952	5,023	1.18
<b>1993</b>	6,141	5,160	1.19
<b>1994</b>	6,423	5,327	1.21
<b>1995</b>	6,783	5,529	1.23
<b>1996</b>	7,033	5,689	1.24
<b>1997</b>	7,331	5,923	1.24
<b>1998</b>	7,778	6,189	1.26
<b>1999</b>	8,260	6,508	1.27
<b>2000</b>	8,816	6,912	1.28
<b>2001</b>	9,509	7,380	1.29
<b>2002</b>	10,232	7,727	1.32
<b>2003*</b>	10,460	8,044	1.30

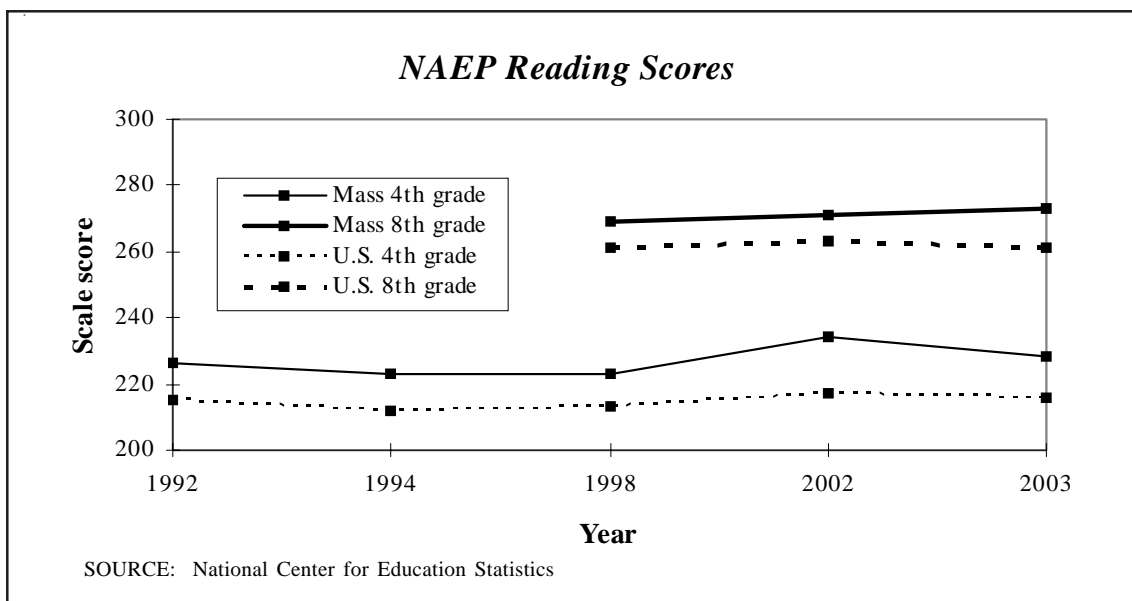
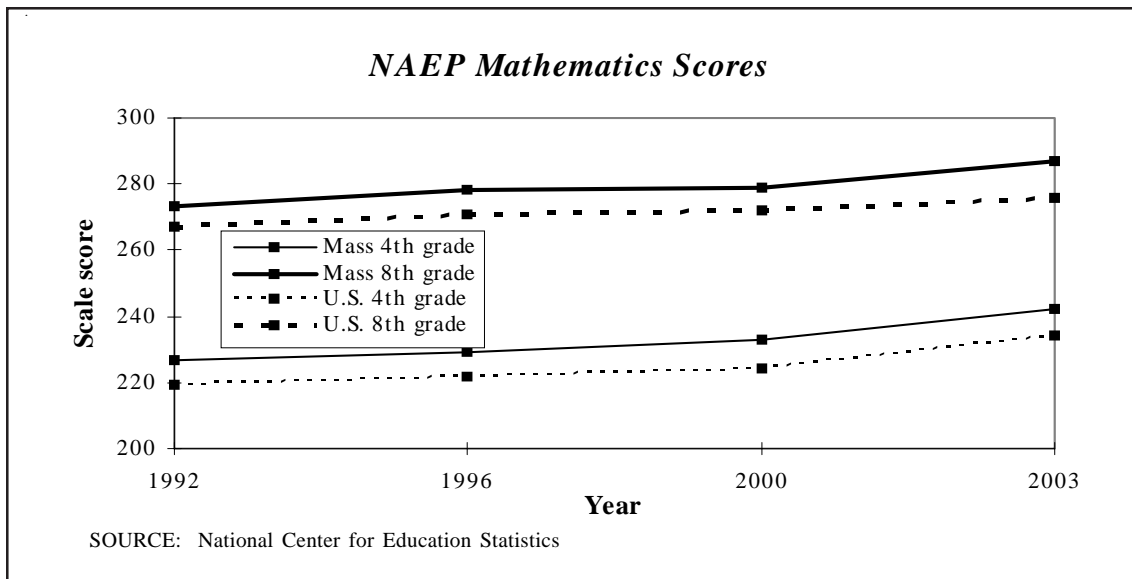
\*NCES, Common Core of Data, <http://nces.ed.gov/quicktables/Detail.asp?Key=1311>

SOURCE: United States Department of Education, National Center for Education Statistics, Table 167. April 2005

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

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





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

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

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

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

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

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

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

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

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

# Sources List

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

## **Population Characteristics**

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

<http://www.census.gov>

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

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

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

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

<http://www.bls.gov>

**Federal Reserve Bank of Boston**

<http://www.bos.frb.org/economic/needi/needidata.htm>

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

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

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

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

<http://www.census.gov>

## **Employment**

**MA Division of Unemployment Assistance**

<http://www.detma.org>

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

<http://www.bls.gov>

**The Conference Board, Inc.**

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

## **Economic Base and Performance**

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

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

**Fortune Magazine**

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

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

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

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

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

<http://www.wisertrade.org>

**Massport**

<http://www.massport.com>

**Airports Council International**

<http://www.aci.aero>

**Army Corps of Engineers**

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

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

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

<http://www.census.gov>

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

<http://www.bos.frb.org/economic/needi/needidata.htm>

**U.S. Department of Defense**

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

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

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

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

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

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

## **Human Resources and Infrastructure**

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

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

**New England Board of Higher Education**

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

**National Science Foundation**

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

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

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

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

**National Center for Education Statistics**

<http://nces.ed.gov>

**PROPOSED FORM OF OPINION OF BOND COUNSEL**

[Date of Closing]

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

We have acted as bond counsel to The Commonwealth of Massachusetts (the “Commonwealth”) in connection with the issuance by the Commonwealth of \$350,000,000 General Obligation Bonds, Consolidated Loan of 2006 (Variable Rate Demand Bonds), Series A and Series B, dated the date of delivery (collectively, the “Bonds”). In such capacity, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

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

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

(a) The Bonds are valid and binding general obligations of the Commonwealth, and the full faith and credit of the Commonwealth are pledged to the payment of the principal of and interest on the Bonds. It should be noted, however, that Chapter 62F of the Massachusetts General Laws establishes a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit. It should further be noted that Chapter 29, Section 60B, of the Massachusetts General Laws imposes an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on general obligation debt of the Commonwealth.

(b) Interest on the Bonds will not be included in the gross income of the holders of the Bonds for federal income tax purposes. This opinion is rendered subject to the condition that the Commonwealth comply with certain requirements of the Internal Revenue Code of 1986, as amended, which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon is and continues to be excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be included in the gross income of holders of the Bonds retroactive to the date of issuance of the

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Bonds. While interest on the Bonds will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, interest on the Bonds will be included in the “adjusted current earnings” of corporate holders of the Bonds and therefore will be taken into account in the computation of the alternative minimum tax applicable to certain corporations. We express no opinion as to other federal tax consequences resulting from holding the Bonds.

(c) Interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion as to other Massachusetts tax consequences arising with respect to the Bonds nor as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.

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

Very truly yours,

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

The Commonwealth of Massachusetts

\$350,000,000  
 General Obligation Bonds  
 Consolidated Loan of 2006  
 (Variable Rate Demand Bonds)

\$150,000,000  
 Series A

\$200,000,000  
 Series B

Continuing Disclosure Undertaking  
 [to be included in bond form]

On behalf of the Commonwealth, the Treasurer and Receiver-General (the “Treasurer”) of the Commonwealth hereby undertakes for the benefit of the owners of the Bonds to provide to each nationally recognized municipal securities information repository (each, a “NRMSIR”) within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”) and to the state information depository for the Commonwealth, if any (the “SID”), within the meaning of the Rule, no later than 270 days after the end of each fiscal year of the Commonwealth, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Commonwealth for such fiscal year if audited financial statements are then available, provided, however, that if audited financial statements of the Commonwealth are not then available, such audited financial statements shall be delivered to each NRMSIR and the SID when they become available (but in no event later than 350 days after the end of such fiscal year) or (ii) notice of the Commonwealth’s failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Commonwealth’s Information Statement dated March 17, 2005 (the “Information Statement”), as it appears as Appendix A in the Official Statement dated March 17, 2005 of the Commonwealth with respect to its \$669,710,000 General Obligation Bonds, Consolidated Loan of 2005, 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	“SELECTED FINANCIAL DATA - Statutory Basis”
2. Summary presentation on GAAP and five-year comparative basis of governmental funds operations, concluding with prior fiscal year	“SELECTED FINANCIAL DATA - GAAP Basis”

<b>Financial Information and Operating Data Category</b>	<b>Reference to Information Statement for Level of Detail</b>
3. Summary presentation of actual revenues in budgeted operating funds on five-year comparative basis, concluding with prior fiscal year, plus estimates for current fiscal year	“COMMONWEALTH REVENUES - Statutory Basis Distribution of Budgetary Revenues”
4. So long as Commonwealth statutes impose limits on tax revenues, information as to compliance therewith in the prior fiscal year	“COMMONWEALTH REVENUES - Limitations on Tax Revenues”
5. Summary presentation of budgeted expenditures by selected, then-current major categories on five-year comparative basis and estimated expenditures for current fiscal year	“COMMONWEALTH PROGRAMS AND SERVICES”
6. Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any	“COMMONWEALTH PROGRAMS AND SERVICES - Commonwealth Pension Obligations”
7. If and to the extent otherwise updated in the prior fiscal year, summary presentation of the size of the state workforce	“STATE WORKFORCE”
8. Five-year summary presentation of actual capital project expenditures	“COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN - Capital Spending Plan”
9. Statement of Commonwealth debt and debt related to general obligation contract liabilities as of the end of the prior fiscal year	“LONG-TERM LIABILITIES - General Authority to Borrow - Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities”
10. Annual fiscal year debt service requirements for Commonwealth general obligation and special obligation bonds, beginning with the current fiscal year	“LONG-TERM LIABILITIES - Debt Service Requirements on Commonwealth Bonds”
11. Annual fiscal year contract assistance requirements for Commonwealth general obligation contract assistance, beginning with the current fiscal year	“LONG-TERM LIABILITIES - General Obligation Contract Assistance Liabilities”
12. Annual fiscal year budgetary contractual assistance liabilities for Commonwealth, beginning with the current fiscal year	“LONG-TERM LIABILITIES - Budgetary Contractual Assistance Liabilities”
13. Five-year summary presentation of authorized but unissued general obligation debt	“LONG-TERM LIABILITIES - Authorized But Unissued Debt”

Financial Information and Operating Data Category	Reference to Information Statement for Level of Detail
14. So long as Commonwealth statutes impose a limit on the amount of outstanding “direct” bonds, information as to compliance therewith as of the end of the prior fiscal year	“LONG-TERM LIABILITIES - General Authority to Borrow-Statutory Limit on Direct Debt”

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

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

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

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

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



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

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

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

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

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

**DEFINITIONS**

“*Agreement Expiration Date*” means the stated expiration date set forth in a Standby Bond Purchase Agreement, initially 5:00 p.m., Boston time, on March 3, 2013 or the next preceding Business Day with respect to the Series A Bonds and on March 3, 2011 or the next preceding Business Day with respect to the Series B Bonds.

“*Agreement Termination Event*” means an event of default set forth in a Standby Bond Purchase Agreement which would result in the immediate termination of the Standby Bond Purchase Agreement prior to the Agreement Expiration Date without at least 30 days’ prior notice from the Bank to the Tender Agent and the Remarketing Agent, other than a termination upon the substitution of an Alternate Liquidity Facility.

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

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

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

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

“*Bank*” means the issuer of a Standby Bond Purchase Agreement or Alternate Liquidity Facility pursuant to which the issuer thereof agrees to purchase Bonds tendered for purchase in accordance with the optional or mandatory tender provisions thereof, but not remarketed; initially, Dexia Credit Local, acting through its New York Branch, with respect to the Series A Bonds, and Bank of America, N.A., with respect to the Series B Bonds, and their successors or assigns.

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

“*Bank Interest Rate*” means the per annum rate of interest on Bank Bonds pursuant to a Standby Bond Purchase Agreement, generally the applicable Bank’s “Base Rate” plus a margin determined by the number of days an advance is outstanding. After an Event of Default under a Standby Bond Purchase Agreement, the Bank Interest Rate is the Default Rate.

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

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

“*Bondholder*” or “*Bondowner*” or “*Holder*” or “*Owner*” means a registered owner of any of the Bonds.

“*Bonds*” means any of the Series A Bonds or Series B Bonds.

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

“*Commonwealth*” means The Commonwealth of Massachusetts.

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

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

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

“*Daily Rate*” means, with respect to any Bond in a Daily Mode, the rate of interest thereon determined in accordance with the provisions hereof.

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

“*Delivery Date*” means the date of initial delivery of the Bonds.

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

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

“*Flexible Mode*” means the Mode in which the Bonds bear interest at a Flexible Rate.

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

“*Flexible Rate Period*” means a period during which a Bond bears interest at a Flexible Rate.

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

“*Interest Payment Date*” means (a) when used with respect to Bonds in the Daily Mode or the Weekly Mode the first Business Day of each calendar month to which interest at such rate has accrued; (b) when used with respect to any particular Bond bearing interest at a Flexible Rate, the first Business Day following the last day of each Flexible Rate Period applicable thereto; (c) when used with respect to Bonds in the Term Mode, the first day of the sixth calendar month following the month in which the Term Rate Period begins and the first day of each sixth calendar month thereafter to which interest at such rate has accrued, except that the last Interest Payment Date for any Term Rate Period which is followed by a conversion to a Daily, Weekly, Flexible or ARS Mode (but not a conversion to a Term Rate Period of a different duration) shall be the first Business Day of the sixth calendar month following the month in which the immediately preceding Interest Payment Date occurs; and (d) when used with respect to Bonds in the ARS Mode, as defined in the Bonds. In any case, the final Interest Payment Date shall be the Maturity Date.

“*Maximum Rate*” means 12% per annum.

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

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

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

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

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

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

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

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

“*Related Documents*” means the Remarketing Agreement, this Official Statement, the Bonds, the Tender Agent Agreement, the Bond Purchase Agreement for the Bonds and all agreements, certificates and other instruments executed and delivered by any person in connection with the Bond Purchase Agreement for the Bonds at the date of initial issuance of the Bonds.

“*Remarketing Agent*” means any firm or firms designated by the Commonwealth to remarket tendered Bonds pursuant to a Remarketing Agreement, initially, Lehman Brothers Inc., its successors and assigns.

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

“*Series A Bonds*” means the \$150,000,000 Commonwealth of Massachusetts General Obligation Bonds, Consolidated Loan of 2006 (Variable Rate Demand Bonds), Series A.

“*Series B Bonds*” means the \$200,000,000 Commonwealth of Massachusetts General Obligation Bonds, Consolidated Loan of 2006 (Variable Rate Demand Bonds), Series B.

“*Standby Bond Purchase Agreements*” means the Standby Bond Purchase Agreement dated as of March 3, 2006 between the Commonwealth and Dexia Credit Local, acting through its New York Branch, which secures the tendered Series A Bonds, and the Standby Bond Purchase Agreement dated as of March 3, 2006 between the Commonwealth and Bank of America, N. A., which secures the tendered Series B Bonds.

“*Tender Agent*” means the bank or banks, if any, designated by the Commonwealth to perform the duties of tender agent pursuant to the Bonds, initially, J. P. Morgan Trust Company, N.A., its successors or assigns.

“*Tender Agent Agreement*” means the Tender Agent Agreement between the Commonwealth and the Tender Agent.

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

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

“*Term Rate Period*” means a period during which the Bonds bear interest at a particular Term Rate.

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

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

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

“*Weekly Rate*” means, with respect to any Bond in a Weekly Mode, the rate of interest thereon determined weekly in accordance with the provisions hereof.

## PROVISIONS OF THE BONDS

### Interest Rates

#### Initial Period - Interest Rate Modes

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

#### Daily Mode

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

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

#### Weekly Mode

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

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

## **Flexible Mode**

**Determination of Rate.** Bonds in the Flexible Mode bear interest at Flexible Rates payable on each Interest Payment Date. Interest is computed on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed. Interest is payable to the Bondowners who are such registered owners on the Record Date. While the Bonds bear interest at Flexible Rates, the interest rate for each particular Bond will be determined by the Remarketing Agent on each Rate Determination Date and will remain in effect for the duration (not exceeding 270 days) of the Flexible Rate Period selected for that Bond by the Remarketing Agent. While the Bonds bear interest at Flexible Rates, Bonds may have successive Flexible Rate Periods of any duration up to 270 days, and any Bond may bear interest at a Flexible Rate and for a Flexible Rate Period different from any other Bond. While the Bonds bear interest at Flexible Rates, the Remarketing Agent shall offer and accept purchase commitments for Bonds for such Flexible Rate Periods and at such Flexible Rates as it deems to be advisable in order to minimize the net interest cost on Bonds taking into account prevailing market conditions; provided, however, that the foregoing shall not prohibit the Remarketing Agent from accepting purchase commitments for longer Flexible Rate Periods (and at higher Flexible Rates) than are otherwise available at the time of any remarketing if the Remarketing Agent determines that, taking into account prevailing market conditions, a lower net interest cost on Bonds can be achieved over the longer Flexible Rate Period. The Flexible Rate shall be the minimum rate of interest necessary, in the judgment of the Remarketing Agent, to enable the Remarketing Agent to sell such Bond on the commencement date of such Flexible Rate Period at a price equal to 100% of the principal amount thereof (exclusive of accrued interest), taking into account prevailing market conditions as of the Rate Determination Date. However, in no event shall any Flexible Rate exceed the Maximum Rate.

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

## **Term Mode**

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

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

- (i) Term Rate Periods shall (A) commence either on a Conversion Date (including a conversion from a Term Rate Period to a Term Rate Period of a different duration) or, if then in a Term Rate Period, the commencement date of an immediately successive Term Rate Period of the same duration and (B) extend to but not include either the commencement date of an immediately successive Term Rate Period (of whatever duration) or the Conversion Date on which a different Mode shall become effective.
- (ii) The Term Rate for each Term Rate Period shall be effective from and including the commencement date of such period and remain in effect through and including the last day thereof. Each such Term Rate shall be determined by the Remarketing Agent not later than 4:00

p.m., Boston time, on the Business Day immediately preceding the commencement date of such period.

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

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

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

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

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

**Failure to Determine Interest Rate**

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

- (i) The interest rate then in effect for Bonds in the Daily Mode shall be equal to the most recent Interest Index and will remain in effect from day to day until the Tender Agent is notified of a new Daily Rate determined by the Remarketing Agent;
- (ii) The interest rate then in effect for Bonds in the Weekly Mode shall be equal to the most recent Interest Index and will remain in effect from week to week until the Tender Agent is notified of a new Weekly Rate determined by the Remarketing Agent;
- (iii) The interest rate for any Bond in the Flexible Mode and for which a Flexible Rate and Flexible Rate Period is not determined shall be equal to the most recent Interest Index and the Flexible Rate Period for such Bond shall extend through the day preceding the next Business Day, until the Tender Agent is notified of a new Flexible Rate and Flexible Rate Period determined for such Bond by the Remarketing Agent; and
- (iv) The interest rate then in effect for Bonds in the Term Mode will be automatically converted to Flexible Rates with Flexible Rate Periods beginning on each Business Day and extending through the day preceding the next Business Day until the Tender Agent is notified of a new Flexible Rate and Flexible Rate Period determined for such Bond by the Remarketing Agent.



## **Optional Tender**

Bonds in the Daily Mode or in the Weekly Mode may be tendered for purchase at a Purchase Price equal to 100% of the principal amount thereof, plus accrued interest, if any, payable in immediately available funds upon notice (promptly confirmed in writing) of tender to the Tender Agent and the Remarketing Agent, as described below. The Purchase Date may be any Business Day prior to conversion of the Bonds to the Flexible Mode, ARS Mode or Term Mode.

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

- (i) be delivered in writing or by Electronic Means, in a form satisfactory to the Tender Agent, or by telephone (and promptly confirmed in writing in such form) to the Tender Agent and the Remarketing Agent at its corporate trust office by 11:00 a.m., Boston time, on any Business Day, in the case of a Bond in the Daily Mode, and by 5:00 p.m., Boston time, on a Business Day not fewer than seven days prior to the Purchase Date, in the case of a Bond in the Weekly Mode;
- (ii) state, (A) the principal amount of the Bond to which it relates, (B) that the Bondholder irrevocably demands purchase of such Bond or of a specified portion thereof in an amount which is an Authorized Denomination and which leaves the retained portion of the Bond in an amount which is an Authorized Denomination, (C) in the case of Bonds in the Weekly Mode, the date on which such Bond or portion thereof is to be purchased, and (D) payment instructions with respect to the Purchase Price; and
- (iii) automatically constitute, whether delivered in writing, by Electronic Means or by telephone, (A) an irrevocable offer to sell the Bond (or portion thereof) to which it relates on the Purchase Date at a Purchase Price equal to the principal amount of such Bond (or portion thereof) plus any interest thereon accrued and unpaid as of the Purchase Date, (B) an irrevocable authorization and instruction to the Tender Agent to effect transfer of such Bond (or portion thereof) upon payment of the Purchase Price to the Tender Agent on the Purchase Date, (C) an irrevocable authorization and instruction to the Tender Agent to effect the exchange of the Bond to be purchased in whole or in part for other Bonds in an equal aggregate principal amount so as to facilitate the sale of such Bond (or portion thereof), and (D) an acknowledgment that such Bondholder will have no further rights with respect to such Bond (or portion thereof) upon payment of the Purchase Price thereof to the Tender Agent on the Purchase Date, except for the right of such Bondholder to receive such Purchase Price upon surrender of such Bond to the Tender Agent.

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

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

## Conversion

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

The Conversion Date shall be an Interest Payment Date for the Rate Period from which the conversion is to be made, provided, however, that

(A) if the conversion is from a Term Rate Period to another Rate Period, including a Term Rate Period of a different duration, the Conversion Date shall be limited to any Interest Payment Date upon which the Bonds are subject to optional redemption or the last Interest Payment Date of that Term Rate Period, as the case may be;

(B) if the conversion is from a Daily Rate Period to a Weekly Rate Period, or from a Weekly Rate Period to a Daily Rate Period, the Conversion Date also may be any Business Day, regardless of whether the Business Day is an Interest Payment Date;

(C) if the conversion is from a Flexible Rate Period, the Conversion Date shall be the last Interest Payment Date on which interest is payable for any Bond bearing a Flexible Rate theretofore established pursuant to the Bonds, provided, however, that if the conversion is from a Flexible Rate Period to a Daily or Weekly Rate Period, there may be more than one Conversion Date in accordance with the Bonds and in that case, the Conversion Date with respect to each Bond shall be an Interest Payment Date for that Bond; and

(D) if the conversion is from a Daily, Weekly or Flexible Rate Period to a Term Rate Period, the duration of the Term Rate Period shall not be more than one year unless the term to the Maturity Date that would remain following the initial Term Rate Period would be more than one year or that initial Term Rate Period extends to the Maturity Date.

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

(A) the Mode to which the conversion will be made and the Conversion Date,

(B) except in the case of a Conversion from the Daily Mode to the Weekly Mode or from the Weekly Mode to the Daily Mode, that the Bonds will be subject to mandatory tender for purchase on the Conversion Date and the purchase price of the Bonds,

(C) if the Bonds are no longer in book-entry form and are therefore in certificated form, information with respect to required delivery of bond certificates and payment of the purchase price; and

(D) that the conversion to or from the Term Mode or to or from the ARS Mode will not become effective unless the Commonwealth, the Tender Agent and the Remarketing Agent shall have received, no later than one day before the proposed Conversion Date an opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., or any other lawyer or firm of lawyers nationally recognized in the field of municipal finance and satisfactory to the Commonwealth ("Bond Counsel") to the effect that the conversion to or from the Term Mode or the ARS Mode is permitted under the laws of the Commonwealth and will not adversely affect the exclusion of interest on the Bonds from the gross income of the Bondholders for federal income tax purposes.

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

The following conditions precedent shall be applicable to conversions:

- (i) Any conversion (A) from a Daily, Weekly or Flexible Rate Period to a Term Rate Period or ARS Mode, (B) from a Term Rate Period or ARS Mode to a Daily, Weekly or Flexible Rate Period or, (C) from a Term Rate Period to a Term Rate Period of a different duration, shall be subject to the condition that on or before the Conversion Date, the Commonwealth shall have delivered to Tender Agent, the applicable Bank and the Remarketing Agent an Opinion of Bond Counsel to the effect that the conversion is authorized hereunder and, with respect to conversion of any Bond, to the effect that the conversion will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes; and
- (ii) The Standby Bond Purchase Agreement, if any, to be held by the Tender Agent after the Conversion Date must be sufficient to cover the principal of and interest on the then outstanding Bonds and, except as otherwise provided in the Bonds if a Standby Bond Purchase Agreement is to be held by the Tender Agent after the conversion of the Bonds to a Term Rate Period, that Standby Bond Purchase Agreement must also extend for the entire Term Rate Period.

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

Neither the Commonwealth, the applicable Bank, the Tender Agent nor the Remarketing Agent shall be liable to any Holder for failure to give any notice required under the provisions of the Bonds or for failure of any Holders to receive any such notice or to take any other actions under the Bonds.

### **Mandatory Tender**

#### **Agreement to Tender Bonds**

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

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

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

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

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

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

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

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

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

## **Delivery and Payment for Tendered Bonds**

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

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

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

### **Book-Entry Bonds**

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

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

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

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

### **Remarketing of Tendered Bonds; Bank Bonds**

Lehman Brothers Inc., New York, New York, has been appointed the initial Remarketing Agent for the Bonds. The Remarketing Agent shall accept the duties and obligations thereof by execution and delivery of an agreement with the Commonwealth under which the Remarketing Agent will agree, among other things, to perform the duties of Remarketing Agent as provided in the Bonds, to keep records regarding the remarketing of Bonds and

determining the interest rates on the Bonds and to make such records available for inspection by the Commonwealth at all reasonable times.

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

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

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

The Remarketing Agent is required to use its best efforts to remarket Bonds properly tendered for purchase. In the event the Remarketing Agent is unable to remarket any tendered Bonds, such Bonds (in Authorized Denominations) shall be purchased by the applicable Bank in accordance with the applicable Standby Bond Purchase Agreement, which shall provide that such Bank agrees to purchase any such Bonds from time to time in an amount not to exceed the principal and interest amount thereof, subject to the terms and conditions set forth in the applicable Standby Bond Purchase Agreement. Notwithstanding any provision of the Bonds to the contrary, Bank Bonds shall bear interest at the Bank Interest Rate and shall be payable at the times and in the amounts and shall have such other terms as are set forth in the applicable Standby Bond Purchase Agreement. To the extent there are Bank Bonds, such Bank Bonds shall be redeemed from mandatory sinking fund payments prior to any other Bonds.

#### **Alternate Liquidity Facility**

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

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

Any Alternate Liquidity Facility shall meet the following criteria:

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

- (b) At least five Business Days prior to the delivery to the Commonwealth of the Alternate Liquidity Facility, the Commonwealth shall have received an irrevocable commitment to issue or enter into such Alternate Liquidity Facility and on the substitution date the Commonwealth shall have received an opinion of counsel for the provider or providers of the Alternate Liquidity Facility that the Alternate Liquidity Facility and any documents related to it constitute legal, valid and binding obligation(s) of such provider of the Alternate Liquidity Facility enforceable in accordance with their respective terms, except as such enforceability may be limited by bankruptcy, moratorium or insolvency or by equitable principles.
- (c) No Alternate Liquidity Facility shall be effective unless the provider of an Alternate Liquidity Facility shall purchase all Bonds held by or for the account of the applicable Bank on the substitution date, and all Bonds held by such Bank shall be paid in full on or prior to the substitution date.

If at any time 30 days remain until the Agreement Expiration Date and the applicable Standby Bond Purchase Agreement has not been renewed or replaced or the Commonwealth has not obtained a written commitment for such renewal or replacement, the Tender Agent shall promptly give notice to the Bondholders and the Remarketing Agent that (i) the Standby Bond Purchase Agreement is scheduled to expire and stating the date of such expiration, (ii) the Commonwealth has not obtained an Alternate Liquidity Facility, and (iii) the Bonds shall be subject to mandatory tender and explaining the terms of such mandatory tender.

#### **Tender Agent**

***Tender Agent Custody.*** The Tender Agent shall hold all Bonds (or portions thereof in Authorized Denominations) delivered to it for purchase for the benefit of the respective Bondholder thereof until moneys representing the Purchase Price or redemption price of such Bonds (or portions thereof in Authorized Denominations), as the case may be, shall have been delivered to or for the account of or to the order of the Bondholders thereof.

***Procedure for Purchase of Bonds.*** On the date any Bonds are to be purchased, the Tender Agent shall purchase, but only from the funds and in the order of priority listed below, such Bonds at the Purchase Price thereof:

- (a) Moneys derived from the remarketing of Bonds; and
- (b) Any amounts derived from a draw against the applicable Standby Bond Purchase Agreement.

Any amounts held pursuant to paragraph (a) or (b) above shall be held uninvested until applied as provided in the Bonds. The Tender Agent shall not pay any portion of the Purchase Price of tendered Bonds unless and until it has received from the Remarketing Agent and the applicable Bank moneys sufficient to pay the Purchase Price in full. The Tender Agent shall have no personal obligation to purchase, or to advance its own funds to fund the purchase of any Bonds.

By the close of business (Boston time) on the Business Day following the date on which Bondholders of Bonds in the Weekly Mode have delivered a tender notice to the Tender Agent (or immediately upon such receipt, in the case of Bonds bearing interest at Daily Rates), the Tender Agent shall provide to the applicable Bank and the Remarketing Agent a notice from the Tender Agent specifying the applicable Purchase Date and the aggregate principal amount of Bonds to be purchased on such Purchase Date.

By 11:45 a.m., Boston time, on the Purchase Date, the Remarketing Agent shall give notice to the Tender Agent of the principal amount of tendered Bonds that have been remarketed.

By 12:00 p.m., Boston time, on the Purchase Date, the Tender Agent shall provide to the applicable Bank in accordance with the terms of the Standby Bond Purchase Agreement and the Commonwealth a notice from the Tender Agent indicating the exact amounts that will be required to be paid by such Bank, in order to pay the Purchase Price of all tendered Bonds that have not been remarketed at or prior to such time; and

On the Purchase Date, the Tender Agent shall make provision for the account of the applicable Bank at DTC to be credited such that such Bank becomes the beneficial owner of the tendered Bonds that have not been remarketed and have been purchased by such Bank, in accordance with the standing procedures of DTC.

**Notice to Rating Agencies.** The Tender Agent shall give notice to each Rating Agency of (i) any change to a Standby Bond Purchase Agreement or the Bonds, (ii) the termination, substitution, expiration or extension of a Standby Bond Purchase Agreement, (iii) any redemption of Bonds or (iv) any change in the identity of the Tender Agent or the Remarketing Agent.

**Non-Delivery of Bonds.** In the event that any Bonds required to be tendered or with respect to which a tender notice has been sent are not delivered to the Tender Agent at the time, in the manner and at the place required, the undelivered Bonds will be deemed to have been tendered and purchased by the Tender Agent, and interest accruing on such Bonds on and after the applicable Purchase Date shall no longer be payable to the prior Bondholders thereof. Such prior Bondholders shall have recourse solely to the funds held by the Tender Agent for the purchase of the undelivered Bonds, and the Tender Agent and the Commonwealth shall not recognize any further transfer of such undelivered Bonds by such prior Bondholders. The Commonwealth or Tender Agent, as the case may be, shall register the transfer of such Bonds to the purchaser thereof and shall issue a new Bond or Bonds and deliver the same pursuant to the Bonds, notwithstanding such non-delivery.

The Tender Agent shall at the end of the fifth Business Day after each date upon which Bonds are deemed tendered, deposit with the Commonwealth all funds then held by the Tender Agent by virtue of the fact that Bonds deemed tendered on such date were not presented for purchase to the Tender Agent in accordance with the provisions thereof, and thereafter the prior Bondholders of such Bonds shall look only to the Commonwealth for the payment of the Purchase Price of such Bonds.

**Other Duties.** Any unremarketed Bonds, the Purchase Price of which was provided by a Bank by funds advanced to the Tender Agent under a Standby Bond Purchase Agreement shall be registered in the name of such Bank or its designee (as specified in writing by such Bank) and shall be delivered to such Bank or its designee on the applicable Purchase Date. At any time the Bonds are registered in the name of a securities depository, the Bonds shall be deemed purchased under the applicable Standby Bond Purchase Agreement upon the making of appropriate entries on the books of the securities depository showing such Bonds entered in the account of the applicable Bank or its nominee maintained at such securities depository.

The Commonwealth hereby authorizes the Tender Agent to hold such unremarketed Bonds as custodian for the account of the applicable Bank as Bank Bonds, and to deliver such Bank Bonds to or at the direction of such Bank. With respect to such Bank Bonds the Remarketing Agent shall be required, subject to the provisions of the Remarketing Agreement, to offer for sale, and use its best efforts to sell, such Bank Bonds, at the principal amount thereof. The Remarketing Agent may not, however, sell any such Bank Bonds at a discount or a premium. The Remarketing Agent shall remarket such Bank Bonds as if such Bank Bonds were in the same Mode, bearing interest at the same interest rate as Bonds not held by such Bank. No Bank Bonds purchased with proceeds from a Standby Bond Purchase Agreement shall be sold unless the commitment of the applicable Bank to purchase Bonds as provided in applicable Standby Bond Purchase Agreement is immediately reinstated upon each sale. The sale proceeds received from the purchaser of any Bank Bonds so remarketed and resold pursuant to the foregoing sentence shall be paid to the applicable Bank.

In the event of a redemption of any Bank Bonds, the Commonwealth shall remit to the applicable Bank the redemption price of such Bank Bonds.

The Tender Agent agrees (subject to the terms of the Tender Agent Agreement) to:

- (a) hold all Bonds properly tendered to it for purchase as agent and bailee of, and in escrow for the benefit of, the respective Bondholders which shall have so tendered such Bonds until moneys representing the Purchase Price of such Bonds shall have been delivered to or for the account of or to the order of such Bondholders;



- (b) hold all moneys delivered to it for the purchase of Bonds as agent and bailee of, and in escrow for the benefit of, the purchaser which shall have so delivered such moneys, until the Bonds purchased with such moneys shall have been delivered to or for the account of such purchaser;
- (c) keep such books and records as shall be consistent with prudent industry practice and make such books and records available for inspection by the other parties;
- (d) hold all Bank Bonds delivered to it as agent and bailee of, and for the benefit of, the applicable Bank on behalf of such Bank in accordance with the applicable Standby Bond Purchase Agreement until such Bonds are released by such Bank upon payment therefor or until such Bonds are deemed tendered;
- (e) provide to the Commonwealth as soon as practicable after the close of business on each Record Date, but in no case later than 1:00 p.m., Boston time, on the applicable Interest Payment Date, a list of the names and addresses of the Bondholders as of such Record Date; and
- (f) give notices as required at the times and in the manner specified in the Bonds.

Upon receipt by the Tender Agent of any tender notice or upon receipt by the Tender Agent of any Bonds delivered pursuant to such tender notice for purchase, the Tender Agent shall, upon request, deliver to the party delivering the tender notice and the Bonds, written evidence of the Tender Agent's receipt of such tender notice or Bonds. The Tender Agent shall promptly return any tender notice (together with the Bonds submitted in connection therewith) that is incomplete or improperly completed or not delivered by the date and time required hereunder to the party submitting such notice upon surrender of the receipt, if any, issued therefor. The Tender Agent's determination of whether a tender notice is properly completed or delivered on a timely basis shall be binding on the Commonwealth and the Bondholder of the Bonds submitted therewith.

J. P. Morgan Trust Company N.A. has been appointed the initial Tender Agent for the Bonds. Any successor Tender Agent shall be a commercial bank having trust powers or a trust company or a national banking association, having a capital and surplus aggregating at least \$50,000,000 and authorized by law to perform all the duties imposed upon it hereby and shall be rated Baa3 or higher by Moody's Investors Service, Inc. The Tender Agent may at any time resign and be discharged of the duties and obligations created hereby by giving at least 60 days' notice to the Commonwealth and the applicable Bank. The Tender Agent may be removed at any time by the Commonwealth upon at least seven days' notice. No such resignation or removal shall take effect until the appointment of, and the acceptance of such appointment by, a successor Tender Agent. Successor Tender Agents may be appointed from time to time by the Commonwealth with the consent of the applicable Bank. Upon the resignation or removal of the Tender Agent, the Tender Agent shall deliver any Bonds and moneys held by it in such capacity to its successor.

The Tender Agent upon receipt of any notice, resolution, request, consent, order, certificate, report, opinion, bond, or other paper or document furnished to it pursuant to any provision of the Bonds shall examine such instrument to determine whether it conforms to the requirements hereof and shall, in the absence of negligence or willful misconduct on the part of the Tender Agent, be protected in acting upon any such instrument believed by it to be genuine and to have been signed or presented by the proper party or parties. The Tender Agent may consult with counsel and the written opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

Whenever the Tender Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the provisions of the Bonds, such matter (unless other evidence in respect thereof be therein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of the Commonwealth, and such certificate shall be full warrant for any action taken or suffered in good faith under the provisions hereof upon the faith thereof; but in its discretion the Tender Agent may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as it may deem reasonable.

In the event that the Tender Agent is required to act pursuant to the terms of the Bonds upon the receipt of telephonic notice, such notice shall be promptly confirmed in writing. If such notice shall not be so confirmed, the Tender Agent shall be entitled to rely upon such telephonic notice for all purposes whatsoever.

In receiving Bonds, the Tender Agent shall be acting as a conduit and shall not be purchasing such Bonds for its own account. The performance of the Tender Agent duties is also subject to certain terms and standards set forth in the Tender Agent Agreement.

Notwithstanding anything in the Bonds to the contrary, so long as a Standby Bond Purchase Agreement remains in effect, the form of the Bonds may not be amended in any manner affecting the rights or obligations of the applicable Bank without the written consent of such Bank.

## STANDBY BOND PURCHASE AGREEMENTS

The following summarizes certain provisions of the Standby Bond Purchase Agreements, to which documents, in their entirety, reference is made for the complete provisions thereof. The provisions of any substitute Standby Bond Purchase Agreement may be different from those summarized below.

The Standby Bond Purchase Agreements will be issued in an amount equal to the original principal amount of the applicable series of Bonds plus 270 days' accrued interest based upon an assumed interest rate of 12% per annum and a 365-day year (as adjusted from time to time, the "Available Commitment"). The Tender Agent, upon compliance with the terms of the applicable Standby Bond Purchase Agreement, is authorized and directed to draw up to an amount sufficient to pay the portion of the purchase price of the Bonds delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not remarketed equal to the principal amount of such Bonds plus accrued interest, if any.

The Banks' commitments to fund under the Standby Bond Purchase Agreements will terminate on the earliest of (a) the expiration date (March 3, 2013 in the case of the Series A Bonds and March 3, 2011 in the case of the Series B Bonds or, in either case, if such date is not a Business Day, then the next preceding Business Day), unless renewed or extended; (b) the date on which no eligible Bonds are otherwise outstanding, provided that the applicable Bank shall have received written notice thereof; (c) the date on which the Available Commitment and the applicable Bank's obligation to purchase eligible Bonds have been terminated in the entirety.

Upon the occurrence of an "Immediate Termination Event," which is defined under the Standby Bond Purchase Agreements to mean any Event of Default described in clauses (a)(i), (a)(ii), (e), (g), (i) or (j) below, (i) the applicable Bank's obligation to purchase Bonds shall immediately terminate without notice to or other action on the part of such Bank, (ii) the Available Commitment shall immediately terminate and be permanently reduced to zero, and (iii) all accrued fees and other amounts due and outstanding under the applicable Standby Bond Purchase Agreement shall be forthwith due and payable without demand, presentment protest or other notice whatsoever.

Upon the occurrence of any Event of Default as described in clause (h) below, the applicable Bank's obligation to purchase Bonds shall be immediately and automatically suspended without notice to or other action on the part of such Bank, and the Bank will be under no further obligation to purchase Bonds unless and until the Bank's obligation to purchase Bonds has been reinstated as described in the applicable Standby Bond Purchase Agreement.

If any Event of Default under a Standby Bond Purchase Agreement occurs and is continuing, the applicable Bank may, among other things, (i) give written notice of such event to the Tender Agent, the Commonwealth and the Remarketing Agent and request the Tender Agent to give notice of mandatory tender for purchase of the affected Bonds, thereby causing such Bank's obligations under such Standby Bond Purchase Agreement to terminate 30 days thereafter, and (ii) take any other action or remedy permitted by law to enforce the rights of such Bank under the applicable Standby Bond Purchase Agreement and any Related Document.

"Events of Default" under each Standby Bond Purchase Agreement include the following:

- (a) the Commonwealth shall fail to pay or cause to be paid when due (i) any amounts with respect to the principal of or interest or premium, if any, on the Bonds (including Bank Bonds), (ii) any amounts payable for liquidity advances under such Standby Bond Purchase Agreement or (iii) any other amount payable pursuant to such Standby Bond Purchase Agreement or the Bonds (including Bank Bonds); or
- (b) the Commonwealth shall fail to observe or perform any covenant or agreement set forth in such Standby Bond Purchase Agreement with respect to amending any Related Document in a manner that adversely affects the applicable Bank without the prior written consent of such Bank or appointing a successor Tender Agent or Remarketing Agent or permitting there to be a vacancy in the position of Tender Agent or Remarketing Agent, without the prior written consent of such Bank; or

- (c) the Commonwealth shall fail to observe or perform any covenant or agreement contained (or incorporated by reference) in such Standby Bond Purchase Agreement (other than those covered by clauses (a) and (b) above), or in any Related Document to which it is a party or in the Bonds for 30 days after written notice thereof requesting that such default be remedied has been given to it by the applicable Bank; or
- (d) any representation, warranty, certification or statement made by the Commonwealth (or incorporated by reference) in such Standby Bond Purchase Agreement or in any Related Document to which it is a party or in any certificate, financial statement or other document delivered pursuant to such Standby Bond Purchase Agreement or any Related Document shall prove to have been incorrect in any material respect when made; or
- (e) the Commonwealth shall fail to make payment when due in respect of any general obligation debt of the Commonwealth; or
- (f) an event of default or default shall have occurred and shall be continuing under any of the Related Documents; or
- (g) any material provision of such Standby Bond Purchase Agreement, the Bonds or the Tender Agent Agreement relating to the payment of the principal and interest on any Bonds (including the Bank Bonds) or the security therefor shall at any time for any reason cease to be valid and binding on the Commonwealth or shall be declared to be null and void as the result of a final judgment or action by any court or governmental authority or agency having jurisdiction over the Commonwealth, or the Commonwealth repudiates or otherwise denies that it has any further liability or obligation hereunder or with respect to the payment of principal and interest on the Bonds (including Bank Bonds); or
- (h) the Commonwealth shall have (i) taken or permitted to be taken any action or has duly enacted any statute which would result in such Standby Bond Purchase Agreement not being enforceable, or (ii) contested the validity or enforceability of any material provision of such Standby Bond Purchase Agreement relating to the payment of principal and interest on any Bonds (including Bank Bonds) or the security therefor; or
- (i) a debt moratorium or comparable restriction on repayment of debt shall have been declared or announced (whether or not in writing) with respect to any general obligation debt of the Commonwealth, or the Commonwealth shall have become insolvent or admit in writing its inability to pay its debts as they mature, or the Commonwealth shall seek any form of debtor relief affecting its general obligation debt, or a trustee, custodian, liquidator or receiver shall be appointed with respect to any assets of the Commonwealth or the Commonwealth, shall be declared by a court of competent jurisdiction or shall declare itself to be insolvent or there shall be commenced against the Commonwealth in a court of competent jurisdiction any case, proceeding or other action seeking issuance of a warrant of attachment, execution, distraint or similar process against all or any substantial part of its assets, which results in the entry of an order for any such relief which shall not have been discharged within 30 days from the entry thereof.; or
- (j) with respect to the Series A Bonds, the Commonwealth's general obligation debt shall be rated below "Baa3" by Moody's and "BBB-" by S&P and "BBB-" by Fitch, or such rating shall be withdrawn or suspended by each such Rating Agency; and with respect to the Series B Bonds, the Commonwealth's general obligation debt shall be rated below "Baa3" by Moody's and "BBB-" by S&P and "BBB-" by Fitch or if such 3 rating agencies are not then rating the Commonwealth's general obligation debt, below such ratings by all of such rating agencies then rating the Commonwealth's general obligation debt, or such rating shall be withdrawn or suspended by each such Rating Agency then rating the Commonwealth's general obligation debt; or
- (k) any final, nonappealable judgment or order for the payment of money in excess of \$50 million shall have been rendered against the Commonwealth and such judgment or order shall not have

been satisfied within a period of one year from the date on which it became final and nonappealable.

Bonds purchased with money advanced under a Standby Bond Purchase Agreement become Bank Bonds and may not be remarketed unless or until the applicable Bank has confirmed in writing to the Commonwealth that the available commitment has been reinstated and that such Bonds are no longer considered Bank Bonds. Bank Bonds will bear interest at the applicable Bank Interest Rate or, upon the occurrence of an event of default under the applicable Standby Bond Purchase Agreement, at the Default Rate. With respect to the Series A Bonds, Bank Bonds are subject to mandatory redemption on the 90th day after the purchase thereof by the Bank (the “Remarketing Period End Date”), provided that if no default or event of default under the applicable Standby Bond Purchase Agreement has occurred, the Commonwealth may elect to cause such Bank Bonds to be redeemed in 14 equal semiannual principal installments, the first such installment being payable on the first Business Day of the month next succeeding the Remarketing Period End Date, with each such Bank Bond being paid in full no later than the earlier of (i) the seventh anniversary of such Remarketing Period End Date with respect to such Bank Bond, or (ii) the seventh anniversary of the last day of the commitment period under the applicable Standby Bond Purchase Agreement. With respect to the Series B Bonds, Bank Bonds are subject to mandatory redemption on the 90th day after the Remarketing Period End Date, provided that if no default or event of default under the applicable Standby Bond Purchase Agreement has occurred, the Commonwealth may elect to cause such Bank Bonds to be redeemed in equal semiannual principal installments of 1/10<sup>th</sup> of the principal amount, the first such installment being payable on the first Business Day of the month next succeeding the Remarketing Period End Date, with each Bank Bond being paid in full no later than the earlier of (i) the fifth anniversary of such Remarketing Period End Date with respect to such Bank Bond or (ii) March 3, 2016.

As consideration for the Banks’ agreement to enter into the Standby Bond Purchase Agreements, the Commonwealth will pay fees to the Banks on a periodic basis and will reimburse the Banks for certain fees and expenses.

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**CERTAIN INFORMATION CONCERNING DEXIA CREDIT LOCAL**

Dexia Credit Local (“Dexia”) is a subsidiary of the Dexia Group, which was created in 1996. The Dexia Group is a major European banking organization that is the product of several cross-border mergers. Dexia is an authentically European bank in terms of both its management organization and the scope of its different lines of business. The Dexia Group is listed on the Brussels, Paris and Luxembourg stock exchanges. With a stock market capitalization of over 19 billion euros as of December 31, 2004, the Dexia Group ranks in the top third of the Euronext 100 companies.

Dexia specializes in the Dexia Group’s first line of business – public and project finance and financial services for the public sector. Dexia has recognized expertise in local public sector financing and project finance. It is backed by a network of specialized banks, which employ over 3,000 professionals. Through this network of subsidiaries, affiliates and branches, Dexia is present in almost all of the countries of the European Union as well as Central Europe, the United States of America and Canada. Dexia also has operations in Latin America, the Asian-Pacific Region including Australia, and the countries around the Mediterranean.

Dexia is a bank with its principal office located in Paris, France. In issuing the facility, Dexia will act through its New York Branch, which is licensed by the Banking Department of the State of New York as an unincorporated branch of Dexia Credit Local, Paris. Dexia is the leading local authority lender in Europe, funding its lending activities in 2004 primarily through the issuance of euro and U.S. dollar-denominated bonds. In 2004, total funding raised by Dexia and Dexia Municipal Agency was 11.7 billion euros.

The Dexia Group is the owner of Financial Security Assurance Holdings Ltd. (“FSA Holdings”), the holding company for Financial Security Assurance Inc., a leading financial guaranty insurer.

As of December 31, 2004, Dexia had total consolidated assets of 206.0 billion euros, outstanding medium and long-term loans to customers of 168.13 billion euros and shareholders’ equity of over 4.32 billion euros (Tier I plus Tier II), and for the year then ended had consolidated net income of 705 million euros. These figures were determined in accordance with generally accepted accounting principles in France. Dexia maintains its records and prepares its financial statements in euros. At December 31, 2004, the exchange rate was 1.0000 euro equals 1.3621 United States dollar. Such exchange rate fluctuates from time to time.

Dexia is rated Aa2 long-term and P-1 short-term by Moody’s, AA long-term and A-1+ short-term by S&P, and AA+ long-term and F1+ short-term by Fitch.

Dexia will provide without charge a copy of its most recent publicly available annual report. Written requests should be directed to: Dexia Credit Local, New York Branch, 445 Park Avenue, 7<sup>th</sup> Floor, New York, New York 10022, Attention: General Manager. The delivery of this information shall not create any implication that the information contained or referred to herein is correct as of any time subsequent to its date.

## CERTAIN INFORMATION CONCERNING BANK OF AMERICA, N.A.

Bank of America, N.A., (the “*Bank*”) is a national banking association organized under the laws of the United States, with its principal executive offices located in Charlotte, North Carolina. The Bank is a wholly-owned indirect subsidiary of Bank of America Corporation (the “*Corporation*”) and is engaged in a general consumer banking, commercial banking and trust business, offering a wide range of commercial, corporate, international, financial market, retail and fiduciary banking services. As of September 30, 2005, the Bank had consolidated assets of \$ 1,057 billion, consolidated deposits of \$ 682 billion and stockholder’s equity of \$ 102 billion based on regulatory accounting principles.

The Corporation is a bank holding company and a financial holding company, with its principal executive offices located in Charlotte, North Carolina. Additional information regarding the Corporation is set forth in its Annual Report on Form 10-K for the fiscal year ended December 31, 2004, together with any subsequent documents it filed with the Securities and Exchange Commission (the “*Commission*”) pursuant to the Securities Exchange Act of 1934, as amended (the “*Exchange Act*”).

**Recent Developments:** On April 1, 2004, the Corporation completed its merger with FleetBoston Financial Corporation, and, on June 13, 2005, the Bank completed its merger with Fleet National Bank. On January 1, 2006, the Corporation completed its merger with MBNA Corporation.

Additional information regarding the foregoing is available from the filings made by the Corporation with the SEC, which filings can be inspected and copied at the public reference facilities maintained by the SEC at 100 F Street, N.E., Washington, D.C. 20549, United States, at prescribed rates. In addition, the SEC maintains a website at <http://www.sec.gov>, which contains reports, proxy statements and other information regarding registrants that file such information electronically with the SEC.

The information concerning the Corporation, the Bank and the foregoing mergers contained herein is furnished solely to provide limited introductory information and does not purport to be comprehensive. Such information is qualified in its entirety by the detailed information appearing in the documents and financial statements referenced herein.

Moody’s Investors Service, Inc. (“*Moody’s*”) currently rates the Bank’s long-term debt as “Aa1” and short-term debt as “P-1.” Standard & Poor’s rates the Bank’s long-term debt as “AA” and its short-term debt as “A-1+.” Fitch Ratings, Inc. (“*Fitch*”) rates long-term debt of the Bank as “AA-” and short-term debt as “F1+.” Further information with respect to such ratings may be obtained from Moody’s, Standard & Poor’s and Fitch, respectively. No assurances can be given that the current ratings of the Bank’s instruments will be maintained.

The Bank will provide copies of the most recent Bank of America Corporation Annual Report on Form 10-K, any subsequent reports on Form 10-Q, and any required reports on Form 8-K (in each case as filed with the Commission pursuant to the Exchange Act), and the publicly available portions of the most recent quarterly Call Report of the Bank delivered to the Comptroller of the Currency, without charge, to each person to whom this document is delivered, on the written request of such person. Written requests should be directed to:

Bank of America Corporate Communications  
100 North Tryon Street, 18th Floor  
Charlotte, North Carolina 28255  
Attention: Corporate Communications

The delivery hereof shall not create any implication that there has been no change in the affairs of the Corporation or the Bank since the date hereof, or that the information contained or referred to in this Appendix E is correct as of any time subsequent to its date.