REFUNDING/NEW MONEY ISSUE - BOOK-ENTRY-ONLY

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

THE COMMONWEALTH OF MASSACHUSETTS

$80,005,000
General Obligation Refunding Bonds
2011 Series B

$360,000,000
General Obligation Bonds
Consolidated Loan of 2011
Series A†

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

The Bonds will be issued by means of a book-entry-only system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company, New York, New York ("DTC"), and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The Series B Bonds will bear interest from their date of delivery and interest will be payable on July 1, 2011 and semiannually thereafter on January 1 and July 1 and at maturity, calculated on the basis of a 360-day year of twelve 30-day months. The Series A Bonds will bear interest from their date of delivery and interest will be payable on October 1, 2011 and semiannually thereafter on April 1 and October 1 and at maturity, calculated on the basis of a 360-day year of twelve 30-day months. The Series B Bonds are not subject to redemption prior to maturity. The Series A Bonds are subject to redemption prior to maturity as more fully described herein.

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

The Bonds are offered when, as and if issued, and subject to the unqualified approving opinion as to legality of Edwards Angell Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters of the Series B Bonds by their counsel, McCarter & English, LLP, Boston, Massachusetts. Public Resources Advisory Group is acting as financial advisor to the Commonwealth in connection with the issuance of the Series A Bonds. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about March 30, 2011.

Siebert Brandford Shank & Co., LLC

BofA Merrill Lynch **Barclays Capital** **Citi**

Fidelity Capital Markets **Jefferies & Company** **J.P. Morgan**
Morgan Stanley **Ramirez & Co., Inc.** **Raymond James & Associates, Inc.**

March 23, 2011

† The Series A Bonds were offered on a competitive sale basis as described herein under "COMPETITIVE SALE - SERIES A BONDS" and pursuant to the Official Notice of Sale dated March 16, 2011 attached hereto as Appendix E. Only the Series B Bonds were purchased by the Underwriters as described herein under "UNDERWRITING - SERIES B BONDS."

THE COMMONWEALTH OF MASSACHUSETTS

$80,005,000
General Obligation Refunding Bonds
2011 Series B

Dated: Date of Delivery **Due: As shown below**

Maturity	Amount	Interest Rate	Price or Yield	CUSIP Number*	Maturity	Amount	Interest Rate	Price or Yield	CUSIP Number*
January 1, 2012	$7,075,000	2.00%	0.30%	57582PWY2	July 1, 2017	$985,000	4.00%	2.24%	57582PXQ8
July 1, 2012	3,420,000	2.00	0.47	57582PWZ9	July 1, 2017	2,280,000	5.00	2.24	57582PXW5
July 1, 2012	3,175,000	3.00	0.47	57582PXK1	July 1, 2018	3,145,000	3.00	2.53	57582PXF2
July 1, 2013	3,730,000	3.00	0.78	57582PXA3	July 1, 2018	815,000	4.00	2.53	57582PXR6
July 1, 2013	3,060,000	4.00	0.78	57582PXL9	July 1, 2018	4,240,000	5.00	2.53	57582PXX3
July 1, 2014	3,530,000	3.00	1.13	57582PXB1	July 1, 2019	1,845,000	3.50	2.79	57582PXG0
July 1, 2014	3,505,000	4.00	1.13	57582PXM7	July 1, 2019	1,055,000	4.00	2.79	57582PXS4
July 1, 2015	1,800,000	3.00	1.58	57582PXC9	July 1, 2019	5,665,000	5.00	2.79	57582PXY1
July 1, 2015	5,495,000	4.00	1.58	57582PXN5	July 1, 2020	4,000,000	3.50	3.00	57582PXH8
July 1, 2016	2,870,000	3.50	1.94	57582PXD7	July 1, 2020	4,930,000	4.00	3.00	57582PXT2
July 1, 2016	2,460,000	4.00	1.94	57582PXP0	July 1, 2021	2,030,000	3.50	3.19	57582PXJ4
July 1, 2016	2,250,000	5.00	1.94	57582PXV7	July 1, 2021	2,025,000	4.00	3.19	57582PXU9
July 1, 2017	4,620,000	3.00	2.24	57582PXE5					

$360,000,000
General Obligation Bonds
Consolidated Loan of 2011, Series A

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

$360,000,000 Serial Bonds

Maturity	Amount	Interest Rate	Price or Yield C	CUSIP Number*
2022	$45,000,000	5.00%	3.48%	57582PXZ8
2023	45,000,000	5.00	3.65	57582PYA2
2024	45,000,000	5.00	3.80	57582PYB0
2025	45,000,000	5.00	3.95	57582PYC8
2026	45,000,000	5.00	4.07	57582PYD6
2027	45,000,000	5.00	4.16	57582PYE4
2028	45,000,000	5.00	4.25	57582PYF1
2029	45,000,000	5.00	4.34	57582PYG9

C Priced at the stated yield to the April 1, 2021 optional redemption date at a redemption price of 100%. See "The Bonds – Redemption" herein.

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

THE UNDERWRITERS OF THE SERIES B BONDS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT: THE UNDERWRITERS OF THE SERIES B BONDS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPECTIVE RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS OF THE SERIES B BONDS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

IN CONNECTION WITH THIS OFFERING THE UNDERWRITERS OF THE SERIES B BONDS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES B BONDS OFFERED HEREBY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL ON THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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THE COMMONWEALTH OF MASSACHUSETTS

CONSTITUTIONAL OFFICERS

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

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

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

Martha Coakley...**Attorney General**

Steven Grossman... **Treasurer and Receiver-General**

Suzanne M. Bump...**Auditor**

LEGISLATIVE OFFICERS

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

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

OFFICIAL STATEMENT

THE COMMONWEALTH OF MASSACHUSETTS

$80,005,000
General Obligation Refunding Bonds
2011 Series B

$360,000,000
General Obligation Bonds
Consolidated Loan of 2011, Series A

INTRODUCTION

This Official Statement (including the cover page and Appendices A through E attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of its $80,005,000 aggregate principal amount of its General Obligation Refunding Bonds, 2011 Series B (the "Series B Bonds") and its $360,000,000 General Obligation Bonds, Consolidated Loan of 2011, Series A (the "Series A Bonds," and together with the Series B 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 Commonwealth Information Statement (described below) under the headings "COMMONWEALTH REVENUES AND EXPENDITURES – Limitations on Tax Revenues" and "LONG-TERM LIABILITIES – General Authority to Borrow; *Limit on Debt Service Appropriations*."

The Series B Bonds are being issued to current refund certain certificates of participation, as set forth in "THE BONDS - Application of Series B Bond Proceeds" and in Appendix B – Table of Refunded Obligations.

The Series A Bonds are being issued to finance certain authorized capital projects of the Commonwealth. See "THE BONDS – Application of Series A Bond Proceeds."

Purpose and Content of Official Statement

This Official Statement describes the terms and use of proceeds of, and security for, the Bonds. This introduction is subject in all respects to the additional information contained in this Official Statement, including Appendices A through 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 15, 2011 (the "Information Statement"), which is attached hereto as Appendix A. The Information Statement has been filed with the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system. The Information Statement contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth. Exhibit A to the Information Statement contains certain economic information concerning the Commonwealth. Exhibit B to the Information Statement contains the financial statements of the Commonwealth for the fiscal year ended June 30, 2010, prepared on a statutory basis. Exhibit C to the Information Statement contains the financial statements of the Commonwealth for the fiscal year ended June 30, 2010, prepared on a GAAP basis. Specific reference is made to said Exhibits A, B and C, copies of which have been filed with EMMA. The financial statements are also available at the website of the Comptroller of the Commonwealth.

Attached hereto as Appendix B is a listing of the obligations to be refunded with the proceeds of the Series B Bonds. Appendix C attached hereto contains the proposed forms of legal opinions of Bond Counsel with respect to the Bonds. Appendix D attached hereto contains the proposed form of the Commonwealth's continuing disclosure undertaking to be included in the form of the Bonds to facilitate compliance by the Underwriters of the Bonds with the requirements of paragraph (b)(5) of Rule 15c2-12 of the Securities and

Exchange Commission. Appendix E attached hereto contains the Official Notice of Sale with respect to the Series A Bonds.

THE BONDS

General

The Bonds will mature on the dates and in the aggregate principal amounts, and shall bear interest at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months), as set forth on the inside cover page of this Official Statement. The Bonds will be dated their date of delivery and will bear interest from such date. Interest on the Series B Bonds will be payable semiannually on July 1 and January 1 of each year, and at maturity, commencing July 1, 2011, until the principal amount is paid. Interest on the Series A Bonds will be payable semiannually on October 1 and April 1 of each year, and at maturity, commencing October 1, 2011, until the principal amount is paid. The Commonwealth will act as its own paying agent with respect to the Bonds. The Commonwealth reserves the right to appoint from time to time a paying agent or agents or bond registrar for the Bonds.

Book-Entry-Only System. The Bonds will be issued by means of a book-entry-only system, with one bond certificate for each maturity of each series bearing a particular interest rate of each series immobilized at The Depository Trust Company, New York, New York ("DTC"). The certificates will not be available for distribution to the public and will evidence ownership of the Bonds in principal amounts of $5,000 or integral multiples thereof. Transfers of ownership will be effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Interest and principal due on the Bonds will be paid in federal funds to DTC or its nominee as registered owner of the Bonds. As long as the book-entry-only system remains in effect, DTC or its nominee will be recognized as the owner of the Bonds for all purposes, including notices and voting. The Commonwealth will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. See "BOOK-ENTRY-ONLY SYSTEM."

Redemption

The Series B Bonds are not subject to redemption prior to maturity.

Optional Redemption – Series A Bonds. The Series A Bonds will be subject to redemption on any date prior to their stated maturity dates on and after April 1, 2021 at the option of the Commonwealth from any monies legally available therefor, in whole or in part at any time, by lot, at 100% of the principal amount thereof, plus accrued interest to the redemption date.

Notice of Redemption. The Commonwealth shall give notice of redemption to the owners of the applicable Series A Bonds not less than 30 days prior to the date fixed for redemption. So long as the book-entry-only system remains in effect for such Bonds, notices of redemption will be sent by the Commonwealth only to DTC or its nominee. Any failure on the part of DTC, any DTC participant or any nominee of a beneficial owner of any such 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 Series A Bonds called for redemption shall cease to bear interest, provided the Commonwealth has monies on hand to pay such redemption in full.

Selection for Redemption. In the event that less than all of any maturity of any Series A Bonds is to be redeemed, and so long as the book-entry-only system remains in effect for such Bonds, the particular Series A Bonds or portion of any such Bonds of a particular maturity to be redeemed will be selected by DTC by lot. If the book-entry-only system no longer remains in effect for the Series A Bonds, selection for redemption of less than all of any one maturity of the Series A Bonds will be made by the Commonwealth by lot in such manner as in its discretion it shall deem appropriate and fair. For purposes of selection by lot within a maturity, each $5,000 of principal amount of a Bond will be considered a separate Bond.

Application of Series B Bond Proceeds

The Series B Bonds are being issued pursuant to the provisions of Section 53A of Chapter 29 of the Massachusetts General Laws and Section 11 of Chapter 27 of the Acts of 2007, as amended, for the purpose of refunding the obligations set forth in Appendix B (the "Refunded Obligations"). The net proceeds of the Series B Bonds will be applied as described in the following paragraph.

The proceeds of the sale of the Series B Bonds will be applied, together with other available funds allocable to the Refunded Obligations, to the payment or redemption of the Refunded Obligations as described in Appendix B. The Commonwealth expects to enter into a refunding trust agreement with U.S. Bank National Association, as trustee for the Refunded Obligations (the "Refunding Trustee"), that will provide for the deposit of the net proceeds of the Series B Bonds with the Refunding Trustee for the Refunded Obligations, to be held uninvested pending the application of such funds to the payment or redemption of the Refunded Obligations on April 1, 2011. Upon such deposit, the Refunded Obligations will no longer be outstanding.

Application of Series A Bond Proceeds

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

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

SECURITY FOR THE BONDS

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

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

LITIGATION

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

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

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company, New York, NY, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of each series set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

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

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

Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the Commonwealth as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

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

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

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

DTC may discontinue providing its services as depository with respect to the Bonds at any time by giving reasonable notice to the Commonwealth. Under such circumstances, in the event that a successor depository is not obtained, Bonds will be delivered and registered as designated by the Beneficial Owners. The

Beneficial Owner, upon registration of Bonds held in the Beneficial Owner's name, will become the Bondowner. Bond certificates are required to be printed and delivered.

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

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

RATINGS

The Bonds have been assigned long-term ratings of "AA+," "Aa1" and "AA" by Fitch Ratings ("Fitch"), Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services ("Standard & Poor's"), respectively.

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

UNDERWRITING – SERIES B BONDS

The Underwriters of the Series B Bonds, represented by Siebert Brandford Shank & Co., LLC, have agreed, subject to certain conditions, to purchase all of the Series B Bonds from the Commonwealth at a discount from the initial offering prices of the Series B Bonds equal to approximately 0.455166% of the aggregate principal amount of the Series B Bonds. The Underwriters may offer and sell the Series B Bonds to certain dealers and others (including dealers depositing the Series B Bonds into investment trusts) at prices lower than the public offering prices (or yields higher than the offering yields) stated on the inside cover page hereof. The principal offering prices (or yields) set forth on the inside cover page hereof may be changed from time to time after the initial offering by the Underwriters.

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

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

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

COMPETITIVE SALE - SERIES A BONDS

After bidding on March 23, 2011, the Series A Bonds were awarded by the Commonwealth to J.P. Morgan Securities LLC, as purchaser. The purchaser of the Series A Bonds has supplied the information as to the public reoffering yields of the Series A Bonds set forth on the inside cover hereof. If all of the Series A Bonds were resold to the public at such yields, the purchaser of the Series A Bonds has informed the Commonwealth that its total compensation is expected to be 0.336% of the aggregate principal amount of the Series A Bonds. The purchaser of the Series A Bonds may change the public offering yields from time to time.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

On the date of delivery and payment, proceeds of the Series B Bonds will be deposited and held by the Refunding Trustee, together with other available funds, to provide for payment of principal of and interest on the Refunded Obligations on April 1, 2011. The amounts so deposited will be held by the Refunding Trustee uninvested until such date. The arithmetical accuracy of certain computations included in the schedules provided by or on behalf of the Commonwealth relating to the sufficiency of the amounts on deposit with the Refunding Trustee to pay the regularly scheduled debt service on the Refunded Obligations and to redeem the Refunded Obligations on April 1, 2011 will be verified by Causey Demgen & Moore Inc., certified public accountants. Such computations are based solely upon assumptions and information supplied by or on behalf of the Commonwealth. Causey Demgen & Moore Inc. has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of future events.

TAX EXEMPTION

In the opinion of Edwards Angell Palmer & Dodge LLP, Bond Counsel to the Commonwealth ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings, and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although Bond Counsel observes that such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other federal tax consequences arising with respect to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

The Code imposes various requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. Failure to comply with these requirements may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The Commonwealth has covenanted to comply with such requirements to ensure that interest on the Bonds will not be included in federal gross income. The opinions of Bond Counsel assume compliance with these covenants.

Bond Counsel is also of the opinion that, under existing law, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Bonds. Prospective purchasers of the Bonds should be aware, however, that the Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon are included in the measure of certain Massachusetts corporate excise and franchise taxes. Bond Counsel expresses no opinion as to the taxability of the Bonds or the income therefrom or any other tax consequences arising with respect to the Bonds under the laws of any state other than Massachusetts. A complete copy of the proposed forms of opinions of Bond Counsel is set forth in Appendix C hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Holders should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount greater than the stated principal amount to be paid at maturity of such Bonds, or, in some cases, at the earlier redemption date of such Bonds ("Premium Bonds"), will be treated as having amortizable bond premium for federal income tax purposes and Massachusetts personal income tax purposes. No deduction is allowable for the amortizable bond premium in the case of obligations, such as the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, a holder's basis in a Premium Bond will be reduced by the amount of amortizable bond premium properly allocable to such holder. Holders of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken) or events occurring (or not occurring) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Further, no assurance can be given that pending or future legislation, including amendments to the Code, if enacted into law, or any proposed legislation, including amendments to the Code, or any future judicial, regulatory or administrative interpretation or development with respect to existing law, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective purchasers of the Bonds are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and is exempt from Massachusetts personal income taxes, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a holder's federal or state tax liability. The nature and extent of these other tax consequences will depend upon the particular tax status of the holder or the holder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences, and holders of the Bonds should consult with their own tax advisors with respect to such consequences.

OPINION OF COUNSEL

The unqualified approving opinions as to the legality of the Bonds will be rendered by Edwards Angell Palmer & Dodge LLP, of Boston, Massachusetts, Bond Counsel to the Commonwealth. The proposed forms of the opinions of Bond Counsel relating to the Bonds are attached hereto as Appendix C. Certain legal matters will also be passed upon by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. of Boston, Massachusetts, as Disclosure Counsel to the Commonwealth. Certain legal matters will be passed upon for the Underwriters of the Series B Bonds by their counsel, McCarter & English, LLP, of Boston, Massachusetts.

CONTINUING DISCLOSURE

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

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

FINANCIAL ADVISOR

The Commonwealth has retained Public Resources Advisory Group to act as financial advisor with respect to the issuance of the Series A Bonds.

MISCELLANEOUS

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

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

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

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

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

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

Minor errors to the Information Statement appended to the preliminary version of this Official Statement have been corrected, including revisions to the tables on pp. A-23, A-48, A-62 and A-63. In addition, the continuing disclosure undertaking attached as Appendix D has been expanded to identify additional financial information and operating data to be updated on an annual basis.

AVAILABILITY OF OTHER INFORMATION

Questions regarding this Official Statement or requests for additional financial information concerning the Commonwealth should be directed to Colin A. MacNaught, Assistant Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone (617) 367-3900, x. 226, or Karol D. Ostberg, Director of Capital Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to this Official Statement and the Bonds should be directed to Walter J. St. Onge, III, Edwards Angell Palmer & Dodge LLP, 111 Huntington Avenue, Boston, Massachusetts 02199, telephone (617) 239-0389.

THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Steven Grossman
Steven Grossman
Treasurer and Receiver-General

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

March 23, 2011

APPENDIX A

THE

COMMONWEALTH

OF

MASSACHUSETTS

INFORMATION STATEMENT

Dated March 15, 2011

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THE COMMONWEALTH OF MASSACHUSETTS

CONSTITUTIONAL OFFICERS

Deval L. Patrick..Governor
Timothy P. Murray..Lieutenant Governor
William F. Galvin..Secretary of the Commonwealth
Martha Coakley..Attorney General
Steven Grossman..Treasurer and Receiver-General
Suzanne M. Bump..Auditor

LEGISLATIVE OFFICERS

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

THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT

March 15, 2011

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

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

Exhibit A to this Information Statement is the Statement of Economic Information as of January 1, 2011. Exhibit A sets forth certain economic, demographic and statistical information concerning the Commonwealth.

Exhibits B and C, respectively, are the Commonwealth's Statutory Basis Financial Report for the year ended June 30, 2010 and the Commonwealth's Comprehensive Annual Financial Report, reported in accordance with generally accepted accounting principles (GAAP), for the year ended June 30, 2010. The Commonwealth's independent auditor has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has said independent auditor performed any procedures relating to the official statement of which this Information Statement is a part.

Specific reference is made to said Exhibits A, B and C, copies of which have been filed with the Municipal Securities Rulemaking Board (MSRB) through its Electronic Municipal Market Access (EMMA) System. The financial statements are also available at the home page of the Comptroller of the Commonwealth located at http://www.mass.gov/osc by clicking on "Financial Reports/Audits."

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THE GOVERNMENT

The government of the Commonwealth is divided into three branches: the Executive, the bicameral Legislature and the Judiciary.

Executive Branch

Governor. The Governor is the chief executive officer of the Commonwealth. Other elected members of the executive branch are the Lieutenant Governor (elected with the Governor), the Treasurer and Receiver-General (State Treasurer), the Secretary of the Commonwealth (State Secretary), the Attorney General and the State Auditor. All are elected to four-year terms. The terms of the current office holders began in January, 2011.

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

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

Governor's Cabinet. The Governor's Cabinet, which assists the Governor in administration and policy making, is comprised of the secretaries who head the seven Executive Offices, which are the Executive Office for Administration and Finance, the Executive Office of Health and Human Services, the Executive Office of Public Safety and Security, the Executive Office of Housing and Economic Development, the Executive Office of Labor and Workforce Development, the Executive Office of Energy and Environmental Affairs and the Executive Office of Education. In addition, the Secretary of Transportation, who is the chief executive of the Massachusetts Department of Transportation (MassDOT), is a member of the Governor's Cabinet. (MassDOT has a legal existence separate from the Commonwealth but houses several former departments of state government, including the Executive Office of Transportation, the Highway Department and the Department of Conservation and Recreation.) Cabinet secretaries and executive department chiefs, as well as the Secretary of Transportation, serve at the pleasure of the Governor. Most other agencies are grouped under one of the seven Executive Offices for administrative purposes.

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

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

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

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

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

State Comptroller. Accounting policies and practices, publication of official financial reports and oversight of fiscal management functions are the responsibility of the Comptroller. The Comptroller also administers the Commonwealth's annual state single audit and manages the state accounting system. The Comptroller is appointed by the Governor for a term coterminous with the Governor's and may be removed by the Governor only for cause. The annual financial reports of the Commonwealth, single audit reports and any rules and regulations promulgated by the Comptroller must be reviewed by an advisory board. This board is chaired by the Secretary of Administration and Finance and includes the State Treasurer, the Attorney General, the State Auditor, the Chief Administrative Justice of the Trial Court and two persons with relevant experience appointed by the Governor for three-year terms. The Commonwealth's annual reports include financial statements on the statutory basis of accounting (the Statutory Basis Financial Report, or SBFR) and audited financial statements on the GAAP basis (the Comprehensive Annual Financial Report, or CAFR). The Statutory Basis Financial Report for the year ended June 30, 2010, included herein by reference as Exhibit B was reviewed, and the Comprehensive Annual Financial Report for the year ended June 30, 2010, included herein by reference as Exhibit C was audited, by KPMG LLP, as stated in its reports appearing therein. KPMG LLP has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has it performed any procedures relating to the official statement of which this Information Statement is a part. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS."

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

Legislative Branch

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

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

Judicial Branch

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

Independent Authorities and Agencies

The Legislature has established a number of independent authorities and agencies within the Commonwealth, the budgets of which are not included in the Commonwealth's annual budget. The Governmental Accounting Standards Board (GASB) Statements 14 and 39 articulate standards for determining significant financial or operational relationships between the primary government and its independent entities. In fiscal 2010, the Commonwealth had significant operational or financial relationships, or both, as defined by GASB Statements 14 and 39 (as amended), with 16 of these authorities. A discussion of these entities and the relationship to the Commonwealth is included in footnote 1 to the fiscal 2010 Basic Financial Statements in the CAFR, included herein by reference as Exhibit C.

Local Government

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

Municipal revenues consist of taxes on real and personal property, distributions from the Commonwealth under a variety of programs and formulas, local receipts (including motor vehicle excise taxes, local option taxes, fines, licenses and permits, charges for utility and other services and investment income) and appropriations from other available funds (including general and dedicated reserve funds). See "COMMONWEALTH REVENUES AND EXPENDITURES – Local Aid."

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

Initiative Petitions

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

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

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COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS

Operating Fund Structure

The Commonwealth's operating fund structure satisfies the requirements of state finance law and is in accordance with generally accepted accounting principles (GAAP), as defined by the Governmental Accounting Standards Board (GASB). The General Fund and other funds that are appropriated in the annual state budget receive most of the non-bond and non-federal grant revenues of the Commonwealth. These funds are referred to in this Information Statement as the "budgeted operating funds" of the Commonwealth. Budgeted operating funds are created and repealed from time to time through the enactment of legislation, and existing funds may become inactive when no appropriations are made from them. Budgeted operating funds do not include the capital projects funds of the Commonwealth, into which the proceeds of Commonwealth bonds are deposited. See "Capital Investment Process and Controls" below.

Two of the budgeted operating funds account for most of the Commonwealth's appropriated spending: the General Fund and the Commonwealth Transportation Fund (the "Transportation Fund") (formerly the Highway Fund), from which approximately 98.4% of the statutory basis budgeted operating fund outflows in fiscal 2010 were made. The remaining approximately 1.6% of statutory operating fund outflows occurred in other operating funds: the Stabilization Fund, the Workforce Training Fund; the Massachusetts Tourism Fund; the Inland Fisheries and Game Fund; and an administrative control funds, the Intragovernmental Service Fund. There were also six funds which were authorized by law but had no activity: the Tax Reduction Fund, the Collective Bargaining Reserve Fund, the Dam Safety Trust Fund, the International Educational, the Foreign Language Grant Fund, the Marine Recreational Fisheries Development Fund and the Temporary Holding Fund. In fiscal 2010, the Commonwealth Stabilization Fund had both inflows and outflows. At the end of a fiscal year, undesignated balances in the budgeted operating funds, unless excluded by law, are used to calculate the consolidated net surplus. Under state finance law, balances in the Stabilization Fund and the Tax Reduction Fund, both of which may receive consolidated net surplus funds, and the Inland Fisheries and Game Fund are excluded from the consolidated net surplus calculation.

Overview of Operating Budget Process

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

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

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

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

Cash and Budgetary Controls

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

Capital Investment Process and Controls

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

Based on outstanding authorizations, the Executive Office for Administration and Finance, at the direction of the Governor and in conjunction with the cabinet and other officials, establishes a capital investment plan. The plan is an administrative guideline and subject to amendment at any time. The plan assigns authority for secretariats and agencies to spend on capital projects and is reviewed each fiscal year. The primary policy objectives of the plan are to determine and prioritize the Commonwealth's investment needs, to determine the affordable level of debt that may be issued and the other funding sources available to address these investment needs, and to allocate these limited capital investment resources among the highest priority projects. See "COMMONWEALTH CAPITAL INVESTMENT PLAN."

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

Cash Management Practices of State Treasurer

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

The Cash Management Division of the State Treasurer's office utilizes 958 operating accounts to track cash collections and disbursements for the Commonwealth . The Division relies primarily upon electronic receipt and disbursement systems.

The State Treasurer, in conjunction with the Executive Office for Administration and Finance, is required to submit quarterly cash flow projections for the then current fiscal year to the House and Senate Committees on Ways and Means on or before the last day of August, November, February and May. The projections must include estimated sources and uses of cash, together with the assumptions from which such estimates were derived and identification of any cash flow gaps. See "FISCAL 2011 AND FISCAL 2012 – Cash Flow." The State Treasurer's office, in conjunction with the Executive Office for Administration and Finance, is also required to develop quarterly and annual cash management plans to address any gap identified by the cash flow projections and variance reports. The State Treasurer's office oversees the issuance of short-term debt to meet cash flow needs, including the issuance of commercial paper. See "LONG-TERM LIABILITIES – General Obligation Debt."

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

Fiscal Control, Accounting and Reporting Practices of Comptroller

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

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

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

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

Internal Controls. The Comptroller establishes internal control policies and procedures in accordance with state finance law. Agencies are required to adhere to such policies and procedures. All unaccounted-for variances, losses, shortages or thefts of funds or property must be reported to the State Auditor, who is authorized to investigate and recommend corrective action.

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

For certain programs, such as Medicaid, expenditures are recognized under the statutory basis of accounting only to the extent of disbursements supported by current-year appropriations. Some prior year services billed after the start of a fiscal year have been paid from the new fiscal year's appropriation, in an amount determined by the specific timing of billings and the amount of prior year funds that remained after June 30 to pay the prior year's accrued billings, though this practice may vary from year to year.

GAAP Basis of Accounting. The Comptroller also prepares Commonwealth financial statements on a GAAP basis. In addition to the primary government, certain independent authorities and agencies of the Commonwealth are included as component units within the Commonwealth's reporting entity, primarily as non-budgeted enterprise funds.

GAAP employs an economic resources management focus and a current financial resources management focus as two bases for accounting and reporting. Under the economic resources management focus (also called the "entity-wide perspective"), revenues and expenses (different from expenditures) are presented similarly to private-sector entities. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Capital assets, including infrastructure assets net of depreciation, and the long-term portion of all liabilities are reported on the statement of net assets.

Under the current financial resources management focus of GAAP (also called the "fund perspective"), the primary emphasis is to demonstrate inter-period equity. Revenues are reported in the period in which they become both measurable and available. Revenues are considered available when they are expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period.

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

Major expenditure accruals are recorded for the cost of Medicaid claims that have been incurred but not paid, claims and judgments and workers' compensation claims incurred but not reported and contract assistance to state authorities. See Exhibit C - Comprehensive Annual Financial Report for the year ended June 30, 2010; Notes to the Basic Financial Statements.

Audit Practices of State Auditor

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

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

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

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COMMONWEALTH REVENUES AND EXPENDITURES

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

In order to fund its programs and services, the Commonwealth collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, court revenues, assessments, reimbursements, interest earnings and transfers from its non-budgeted funds, which are deposited in the General Fund, the Transportation Fund (formerly the Highway Fund) and other operating budgeted funds. For purposes of this Information Statement, these funds will be referred to as budgeted operating funds, and revenues deposited in such funds will be referred to as budgeted operating revenues. In fiscal 2010, on a statutory basis, approximately 56.7% of the Commonwealth's budgeted operating revenues and other financing sources were derived from state taxes. In addition, the federal government provided approximately 28.2% of such revenues, with the remaining 15.1% provided from departmental revenues and transfers from non-budgeted funds. The measurement of revenues for the budgeted operating funds on a statutory basis differs from governmental revenues on a GAAP basis. See "Selected Financial Data – GAAP Basis; Revenues – GAAP Basis." The Commonwealth's executive and legislative branches establish the Commonwealth's budget using the statutory basis of accounting.

Statutory Basis Distribution of Budgetary Revenues and Expenditures

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth's statutory basis financial statements for fiscal 2006 through 2010. Projections for fiscal 2011 have been prepared by the Executive Office for Administration and Finance. Except where otherwise indicated, they are based on the office's most recent estimate of tax revenue (as officially issued) and non-tax revenue, on enacted appropriations adjusted for projected reversions and on supplemental appropriations filed by the Governor that remain before the Legislature. The financial information presented includes all budgeted operating funds of the Commonwealth. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS — Operating Fund Structure" for additional detail.

The following table sets forth the Commonwealth's revenues and expenditures for fiscal 2006 through fiscal 2010 and projected revenues and expenditures for fiscal 2011.

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

	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Projected Fiscal 2011
Beginning Fund Balances						
Reserved or Designated	$355.6	$947.2	$351.3	$171.5	$68.9	$121.9
Bay State Competitiveness Investment Fund	-	-	100.0	-	-	-
Transitional Escrow Fund	304.8	-	-	-	-	-
Stabilization Fund	1,728.4	2,154.7	2,335.0	2,119.2	841.3	669.8
Undesignated	98.4	106.2	114.7	115.1	106.4	111.3
Total	**$2,487.2**	**$3,208.1**	**$2,901.0**	**$2,405.8**	**$1,016.5**	**$903.1**
Revenues and Other Sources						
Alcoholic Beverages	68.9	71.0	71.2	71.9	71.0	$71.9
Banks	349.9	340.9	547.8	242.6	234.9	108.5
Cigarettes	435.3	438.1	436.9	456.8	456.2	453.1
Corporations	1,390.7	1,587.6	1,512.2	1,548.6	1,600.3	1,828.9
Deeds	210.1	194.1	153.9	105.5	137.9	115.7
Income	10,483.4	11,399.6	12,483.8	10,583.7	10,110.3	10,926.6
Inheritance and Estate	196.3	249.6	254.0	259.7	221.4	242.1
Insurance	448.5	418.6	417.7	356.7	330.0	348.2
Motor Fuel	671.8	676.1	672.2	654.0	654.6	665.1
Public Utilities	118.5	178.3	120.2	(1.7)	(0.3)	(10.6)
Room Occupancy	105.8	111.1	119.2	109.5	101.6	112.7
Sales:						
Regular	2,864.7	2,927.7	2,952.2	2,799.7	3,282.8	3,477.7
Meals	584.1	608.7	632.9	629.6	759.6	813.1
Motor Vehicles	555.5	531.1	501.6	439.3	569.3	614.5
Sub-Total–Sales	4,004.3	4,067.5	4,086.7	3,868.6	4,611.7	4,905.3
Miscellaneous	4.0	3.8	3.1	3.3	14.1	16.7
Total Tax Revenues	**$18,487.4**	**$19,736.3**	**$20,879.2**	**$18,259.5**	**$18,543.7**	**$19,784.0**
MBTA Transfer	(712.6)	(734.0)	(756.0)	(767.1)	(767.1)	(767.1)
MSBA Transfer	(488.7)	(557.4)	(634.7)	(702.3)	(605.2)	(654.7)
Total Budgeted Operating Tax Revenues	**$17,286.2**	**$18,444.9**	**$19,488.5**	**$16,790.0**	**$17,171.4**	**$18,362.2**
Federal Reimbursements	5,210.1	6,167.6	6,429.5	8,250.9	8,548.8	9,196.8
Departmental and Other Revenues	2,094.3	2,218.4	2,355.9	2,326.2	2,800.9	2,933.8
Inter-fund Transfers from Non-budgeted Funds and other sources (2)	1,714.9	1,785.0	2,039.3	1,850.3	1,788.8	1,857.1
Budgeted Revenues and Other Sources	**$26,305.5**	**$28,615.9**	**$30,313.2**	**$29,217.4**	**$30,310.0**	**$32,349.9**
Inter-fund Transfers	1,358.1	552.9	2,226.3	1,963.8	770.8	397.7
Total Budgeted Revenues and Other Sources	**$27,663.6**	**$29,168.8**	**$32,539.5**	**$31,181.2**	**$31,080.8**	**$32,747.6**
Expenditures and Uses						
Direct Local Aid	4,430.0	4,805.2	5,040.5	4,723.6	4,837.4	4,784.7
Medicaid (3)	6,852.5	7,550.4	8,246.3	8,679.2	9,287.6	10,238.3
Other Health and Human Services	4,433.6	4,625.3	4,796.5	4,828.3	4,616.6	4,671.7
Group Insurance	963.7	1,022.3	852.5	973.1	1,063.8	1,246.1
Department of Elementary and Secondary Education	408.6	459.0	485.8	495.9	358.1	423.9
Higher Education	987.8	1,115.7	1,084.4	1,035.5	845.6	936.9
Department of Early Education and Care	387.1	507.1	549.9	560.3	513.5	510.3
Public Safety	1,288.0	1,399.2	1,544.4	1,514.3	1,423.2	1,422.4
Energy and Environmental Affairs	202.0	238.5	227.1	215.9	202.2	190.0
Debt Service	1,826.7	2,234.4	1,990.1	2,011.7	1,979.9	2,001.3
Post Employment Benefits (4)	1,274.7	1,335.2	1,398.6	1,314.4	1,748.6	1,838.9
Other Program Expenditures	2,138.7	2,364.9	2,414.1	2,350.9	2,509.0	2,119.1

	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Projected Fiscal 2011
Total - Programs and Services before transfers to Non-budgeted funds	**$25,193.4**	**$27,657.2**	**$28,630.2**	**$28,703.1**	**$29,384.5**	**$30,383.6**
Inter-fund Transfers to Non-budgeted Funds						
Commonwealth Care Trust Fund	-	722.1	1,045.9	987.6	631.7	722.0
State Retiree Benefit Trust Fund (4)	-	-	$354.7	$352.0	-	-
Medical Assistance Trust Fund	70.0	364.0	376.7	374.0	313.3	870.6
Massachusetts Transportation Trust Fund	-	-	-	-	-	195.1
Other	321.2	179.6	400.9	189.9	94.1	175.0
Total Inter-Fund Transfers to Non-Budgeted Funds	**$391.2**	**$1,265.7**	**$2,178.2**	**$1,903.5**	**$1,039.1**	**$1,962.7**
Budgeted Expenditures and Other Uses	**$25,584.6**	**$28,922.9**	**$30,808.4**	**$30,606.6**	**$30,423.6**	**$32,346.3**
Inter-fund Transfers	1,358.1	553.0	2,226.3	1,963.8	770.8	397.7
Total Budgeted Expenditures and Other Uses	**$26,942.7**	**$29,475.9**	**$33,034.7**	**$32,570.4**	**$31,194.4**	**$32,744.0**
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	**$720.9**	**($307.1)**	**($495.2)**	**($1,389.2)**	**($113.6)**	**$3.6**
Ending Fund Balances						
Reserved or Designated (5)	947.2	351.3	171.5	68.9	122.0	10.8
Bay State Competitiveness Investment Fund	-	100.0	-	-	-	-
Transitional Escrow Fund	-	-	-	-	-	-
Stabilization Fund	2,154.7	2,335.0	2,119.2	841.3	669.8	772.6
Undesignated	106.2	114.7	115.1	106.4	111.3	122.3
Total	**$3,208.1**	**$2,901.0**	**$2,405.8**	**$1,016.6**	**$903.1**	**$905.7**

SOURCES: Fiscal 2006-2010, Office of the Comptroller; fiscal 2011, Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

(2) Inter-fund Transfers from Non-budgeted Funds and Other Sources include profits from the State Lottery, transfer of tobacco settlement funds to allow their expenditure, abandoned property proceeds as well as other inter-fund transfers.

(3) Excludes off-budget Medicaid spending in fiscal 2006 and fiscal 2007 estimated at $292 million and $290 million, respectively. Fiscal 2006 through fiscal 2009 included program administration.

(4) Starting in fiscal 2010 Post Employment Benefits include budgeted pension transfers and State Retiree Benefit Trust Fund.

(5) Consists largely of appropriations from previous years, authorized to be expended in current years.

State Taxes

The major components of state taxes are the income tax, which is projected to account for approximately 55.2% of total tax revenues in fiscal 2011, the sales and use tax, which is projected to account for approximately 24.8%, and the corporations and other business and excise taxes (including taxes on insurance companies, financial institutions and public utility corporations), which are projected to account for approximately 11.3%. Other tax and excise sources are projected to account for the remaining 8.7% of total fiscal 2011 tax revenues. See "FISCAL 2010 AND FISCAL 2011 – Fiscal 2011" for a description of certain tax law changes related to economic development signed by the Governor in August 2010.

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

Under current law, the state personal income tax rate is scheduled to be gradually reduced to 5.0%, contingent upon "baseline" state tax revenue growth (*i.e.*, revenue growth after factoring out the impact of tax law and administrative processing changes) growing by 2.5% more than the rate of inflation as measured by the consumer price index for all urban consumers in Boston. In the tax year following that in which the personal income tax rate is reduced to 5.0%, the charitable deduction, which was in effect for tax year 2000 but subsequently suspended, would be restored. In fiscal 2010, tax revenue growth was not sufficient to trigger a tax rate reduction for tax year 2011.

Sales and Use Tax. Effective August 1, 2009, the sales tax rate imposed on retail sales of certain tangible property (including retail sales of meals) transacted in the Commonwealth and a corresponding use tax rate on the storage, use or other consumption of like tangible properties brought into the Commonwealth was raised from 5% to 6.25%. Food, clothing, prescribed medicine, materials and produce used in food production, machinery, materials, tools and fuel used in certain industries and property subject to other excises (except for cigarettes) are exempt from sales taxation. The sales and use tax is also applied to sales of electricity, gas and steam for certain nonresidential use and to nonresidential and a portion of residential use of telecommunications services.

In August, 2009, when the sales tax rate increase was enacted, it was projected to produce an additional $759 million in fiscal 2010 and $900 million annually thereafter. Based on the most recently available data, reflecting both the economic recession and the recovery, the Department of Revenue currently estimates that the sales tax increase resulted in additional fiscal 2010 revenues of approximately $739 million and will result in additional revenues of $907 million to $962 million in fiscal 2011 and $941 million to $998 million in fiscal 2012.

As part of the same legislation that increased the sales tax rate, the sales tax exemption on alcohol sales was eliminated effective August 1, 2009, which was expected to generate $78.8 million in fiscal 2010 and approximately $95 million annually thereafter. The Department of Revenue estimates that fiscal 2010 collections from eliminating the alcoholic beverages exemption was $96 million and had estimated that fiscal 2011 collections would be $81 million. On November 2, 2010, a voter initiative to remove the sales tax on alcoholic beverages effective January 1, 2011 was passed by voters. The Department of Revenue estimates that the tax revenue loss resulting from this change will be approximately $40 million to $52 million for fiscal 2011 and between $100 million and $125 million annually thereafter.

Sales tax receipts from establishments that first opened on or after July 1, 1997 and that are located near the site of the Boston Convention and Exhibition Center, sales tax receipts from retail vendors in hotels in Boston and Cambridge that first opened on or after July 1, 1997 and sales tax receipts from retail vendors located in the Springfield Civic and Convention Center or in hotels near the Springfield Civic and Convention Center that first opened on or after July 1, 2000 are required to be credited to the Convention Center Fund. As of enactment of the fiscal 2004 general appropriations act, this fund is no longer included in the calculation of revenues for budgeted operating funds. See "LONG-TERM LIABILITIES—Special Obligation Debt; *Convention Center Fund*."

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

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

Business Corporations Tax. Business corporations doing business in the Commonwealth, other than banks and other financial institutions, insurance companies, railroads, public utilities and safe deposit companies, are subject to an excise that has a property measure and an income measure. The value of Massachusetts tangible property (not taxed locally) or net worth allocated to the Commonwealth is taxed at $2.60 per $1,000 of value. The net income allocated to Massachusetts, which is based on net income for federal taxes, is taxed at 8.25% (as of January 1, 2011), subject to further scheduled reductions. The minimum tax is $456. See discussion below under

"Corporate Tax Reform*"* for a discussion of changes to the corporate tax structure and the business corporations' tax rates.

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

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

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

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

The Department of Revenue estimates that, prior to the so-called FAS 109 deduction (described in the following paragraph), the structural corporate tax law changes combined with the gradual reductions in the business corporations tax rate, the large S corporations tax rates and the financial institutions tax rate (see *"Financial Institutions Tax"* below) increased revenues by approximately $211.7 million in fiscal 2009 (reflecting less than a full year's impact of the changes) and $290.9 million in fiscal 2010, and will increase revenues by $197.1 million in fiscal 2011, $150.6 million in fiscal 2012 and $121.7 million in fiscal 2013 and thereafter.

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

The Department of Revenue report indicated that the companies filing such notices stated that their FAS 109 deductions would total approximately $178.1 billion, which would result in corporate tax savings of $535 million at the applicable tax rates in the years in which the deductions will be claimed. Corporations are required to claim deductions over a seven-year period starting in tax year 2012. These deductions are expected to result in corporate tax savings (and corresponding Commonwealth corporate tax revenue reductions) of $76 million to $79 million annually for tax years 2012 through 2018, inclusive. See "FISCAL 2011 AND FISCAL 2012 – Fiscal 2012 Budget Proposals" for a description of the Governor's proposal to delay the implementation of the FAS 109 deduction for one year.

In general, corporations apportion their income to Massachusetts based on the proportion of payroll, property and sales within the Commonwealth, with sales being double-weighted. However, beginning January 1, 1996, legislation was phased in over five years establishing a "single sales factor" apportionment formula for the business corporations tax for manufacturing companies. The formula calculates a firm's taxable income as its net income times the percentage of its total sales that are in Massachusetts, as opposed to the prior formula that took other factors, such as payroll and property into account. Beginning January 1, 1997, legislation was phased in which sourced income of mutual fund service corporations to the states of domicile of the shareholders of the mutual funds that receive services instead of sourcing the sales to the state where the mutual fund provider bore the cost of performing services.

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

Insurance Taxes. Life insurance companies are subject to a 2% tax on gross premiums. Domestic companies also pay a 14% tax on net investment income. Property and casualty insurance companies are subject to a 2.28% tax on gross premiums. Domestic companies also pay a 1% tax on gross investment income.

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

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

On July 1, 2008, the Governor approved legislation raising the tax on cigarettes from $1.51 per pack to $2.51 per pack. The Department of Revenue estimates that the $1.00 per pack cigarette tax increase resulted in a fiscal 2009 revenue increase of between $140 million and $150 million, and resulted in a fiscal 2010 revenue increase of $124 million, compared to revenue generated at the $1.51 per pack rate. The Department of Revenue estimates that revenue increases in subsequent years should also be between $115 million and $130 million annually.

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

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

Tax Credits and Other Incentives. Massachusetts law provides for a variety of tax credits that may be applied against corporate excise or personal income taxes due, as applicable under relevant law. These credits are designed as benefits for specified economic activities as a means to encourage such business in the state. Certain of these credits, to the extent not used to reduce a current tax liability, may be carried forward, transferred or refunded, as specified in the applicable statute. In addition, certain statutory provisions may also provide an exemption from sales and use taxes for qualifying expenditures, or other specified tax benefits. The annual "tax expenditure budget" filed by the Governor provides a list, description and revenue estimate of various tax credits and incentives (the fiscal 2012 tax expenditure budget is available on the Commonwealth's website at www.mass.gov and clicking on the link to "Your State Budget."

In July, 2007, the Commonwealth revised its film tax credit to provide tax credits of 25% of certain production costs incurred by film production companies in Massachusetts that incurred at least $50,000 of film production costs in the state. Such production companies were also granted a sales and use tax exemption for goods purchased in the Commonwealth. A film production company may elect either to transfer all or part of its production credit to another taxpayer or to claim a refund of 90% of the amount that is not currently used. There is no cap on the amount of film tax credits that may be claimed. Under current law, the film tax credit will expire on January 1, 2023. Since the program's inception, approximately $259.8 million in tax credits have been approved or are currently in the process of being approved by the Department of Revenue. The Department of Revenue estimates that the tax credits reduced fiscal 2007 tax revenues by approximately $12 million, reduced fiscal 2008 tax revenues by approximately $11 million, reduced fiscal 2009 tax revenues by approximately $110 million, reduced fiscal 2010 tax revenues by approximately $100 million, and will reduce fiscal 2011 revenues by between $50 million and $80 million, not including any offsetting tax revenue from the film-related economic activity generated by the tax incentives. Virtually all of the reduction in tax payments resulting from credits that have been transferred or sold is reflected in the insurance, financial institutions, public utilities, and corporate tax categories. The Department of Revenue is required to prepare an annual report of the impact of the film tax credit (the most recent report is available at the Department's website at www.mass.gov/dor and by clicking on "News and Reports; Other DOR Reports."

Under legislation approved June 16, 2008 in support of the life sciences industry, up to $25 million per year in tax incentives will be available to certified life sciences companies over a ten-year period, commencing January 1, 2009 for an aggregate amount of $250 million, although the Governor has proposed in his fiscal 2012 budget to administratively reduce fiscal year 2012 tax expenditures by about $5 million (without reducing statutory authorizations) by limiting the actual tax credits that would be refunded or used by eligible corporations.

The Department of Revenue estimates that this program resulted in a revenue reduction of $5 million in fiscal 2010, and will result in a revenue reduction between $15 million to $25 million in fiscal 2011, and $15 million to $25 million in fiscal 2012.

Tax Revenue Forecasting

Under state law, on or before October 15 and March 15 of each year, the Secretary of Administration and Finance is required to submit to the Governor and to the House and Senate Committees on Ways and Means estimates of revenues available to meet appropriations and other needs in the following fiscal year. On or before October 15, January 15 and April 15, the Secretary is required to submit revised estimates for the current fiscal year unless, in his opinion, no significant changes have occurred since the last estimate of total available revenues. On or before January 15 of each year, the Secretary is required to develop jointly with the House and Senate Committees on Ways and Means a consensus tax revenue forecast for the following fiscal year. Beginning in fiscal 2005, state finance law has required that the consensus tax revenue forecasts be net of the amount necessary to fully fund the pension system according to the applicable funding schedule, which amount is to be transferred without further appropriation from the General Fund to the Commonwealth's Pension Liability Fund. See "Employee Benefits; *Pension*" below.

The following table compares actual budgeted tax revenues to consensus tax revenue forecasts for fiscal 2006 to 2010 and as projected for 2011. The figures include sales tax receipts dedicated to the Massachusetts Bay Transportation Authority and the Massachusetts School Building Authority and amounts transferred to the state pension system.

Tax Revenue Forecasting (in millions)

	Fiscal 2006(1)	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Projected Fiscal 2011
Consensus forecast	$17,336	$18,975	$19,879	$20,987	$17,989	$19,050
Total taxes per enacted budget	$17,448	$18,969	$19,879	$21,402	$18,879	$19,078
October revision	17,957	19,132	20,225	20,302	18,279	-
January revision	18,158	19,300	20,225	19,450	18,460	19,784
April revision	-	-	-	19,333	-	
May revision	-	-	-	18,436	-	
Actual budgeted operating tax revenues	$17,286	$18,445	$20,879	$18,260	$18,544	
Actual revenues as a percentage of consensus forecast	100%	97%	105%	87%	103%	
Actual revenues as a percentage of total taxes per enacted budget	99%	97%	105%	85%	98%	

SOURCE: Executive Office for Administration and Finance.

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

Fiscal 2010, Fiscal 2011 and Fiscal 2012 Tax Revenues

Fiscal 2010. Fiscal 2010 collections totaled $18.544 billion, an increase of approximately $284 million, or 1.6%, over fiscal 2009. The following table shows monthly tax collections for fiscal 2010 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 2010 that are dedicated to the Massachusetts Bay Transportation Authority ("MBTA") and to the Massachusetts School Building Authority ("MSBA").

Fiscal 2010 Tax Collections (in millions)

Month	Tax Collections	Change from Prior Year	Percentage Change	MBTA Portion (2)	MSBA Portion	Tax Collections: Net of MBTA and MSBA
July	$ 1,250.6	$ (131.1)	(9.5)%	$ 57.6	$ 54.7	$ 1,138.4
August	1,296.5	(12.7)	(1.0)	54.4	51.7	1,190.4
September	1,765.9	(333.6)	(15.9)	79.8	47.2	1,638.9
October	1,224.9	74.8	6.5	53.8	51.1	1,120.0
November	1,288.7	32.4	2.6	50.5	48.0	1,190.2
December	1,885.9	23.4	1.3	87.4	48.2	1,750.3
January	1,845.1	54.5	3.0	61.9	58.8	1,724.4
February	1,002.7	49.0	5.1	46.0	43.7	913.0
March	1,624.9	21.7	1.4	83.9	45.3	1,495.8
April	1,747.6	(31.6)	(1.8)	56.0	53.2	1,638.4
May	1,574.3	291.7	22.7	53.0	50.3	1,471.1
June	2,036.7	245.8	13.7	82.8	53.1	1,900.8
Total (1)	**$ 18,543.7**	**$ 284.4**	**1.6%**	**$767.1**	**$ 605.2**	**$ 17,171.4**

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

(2) Includes adjustment of $30.2 million on the account of the first quarter, $36.7 million on the account of the second quarter, $36.2 million on account of the third quarter and an anticipated $26.9 million on account of the fourth quarter related to the floor applicable to tax receipts dedicated to the MBTA.

The tax revenue increase of $284.4 million from fiscal 2009 is attributable in large part to an increase of approximately $743 million, or 19.2%, in sales and use tax collections, an increase of approximately $21 million, or 1.0%, in corporate and business collections, offset by a decrease of approximately $473 million, or 4.5%, in income tax collections. The tax revenue figures from the Department of Revenue indicate that fiscal 2010 tax collections were $84 million above the revised fiscal 2010 estimate of $18.460 billion announced by the Secretary of Administration and Finance on January 7, 2010.

Fiscal 2011. Preliminary tax revenues for the first eight months of fiscal 2011, ended February 28, 2011, totaled approximately $12.581 billion, an increase of approximately $1.020.7 million, or 8.8%, over the same period in fiscal 2010. The following table shows the tax collections for the first eight months of fiscal 2011 and the change from tax collections in the same period in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in the same month that are dedicated to the MBTA and the MSBA.

Fiscal 2011 Tax Collections (in millions)(1)

Month	Tax Collections	Change from Prior Year	Percentage Change	MBTA Portion(3)	MSBA Portion	Tax Collections: Net of MBTA and MSBA
July	$1,352.7	$102.1	8.2%	$60.3	$60.3	$1,232.1
August	1,385.6	89.1	6.9	55.3	55.3	1,275.0
September	2,015.1	249.2	14.1	76.2	51.9	1,887.1
October	1,342.9	118.0	9.6	55.3	55.3	1,232.3
November	1,426.6	137.9	10.7	52.9	52.9	1,320.8
December	2,072.3	186.4	9.9	83.5	54.5	1,934.2
January	2,052.7	207.6	11.2	66.1	66.1	1,920.5
February(1)	933.0	(69.7)	(7.0)	45.9	45.9	841.2
Total (2)	**$ 12,580.8**	**$1,020.7**	**8.8%**	**$495.5**	**$342.3**	**$11,643.0**

SOURCE: Executive Office for Administration and Finance.
(1) Figures are preliminary.
(2) Totals may not add due to rounding.
(3) Includes adjustments of $24.3 million on account of the first quarter and $29 million on account of the second quarter.

The year-to-date tax revenue increase of approximately $1.021 billion through February 28, 2011 from the same period in fiscal 2010 is attributable in large part to an increase of approximately $376.6 million, or 6.3%, in withholding collections, an increase of approximately $239.9 million, or 24.8%, in income tax estimated payments, a decrease of approximately $70.8 million, or 9.8%, in income tax refunds, an increase of approximately $289.0 million, or 9.6%, in sales and use tax collections, and an increase of approximately $20.9 million, or 2.1%, in corporate and business tax collections. Year-to-date fiscal 2011 tax collections (through February) were approximately $19 million below the January 18, 2011 fiscal 2011 tax revenue estimate of $19.784 billion, which was an upward revision from the consensus estimate used for the original fiscal 2011 budget (adjusted for the impacts of the economic development bill and the sales tax holidays in August, 2010).

Fiscal 2012. On January 18, 2011, a fiscal 2012 consensus tax revenue estimate of $20.525 billion was agreed upon by the Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means. The fiscal 2012 consensus tax revenue estimate of $20.525 billion represents revenue growth of 3.7% actual and 5.3% baseline from the revised fiscal 2011 estimate of $19.784 billion.

Federal and Other Non-Tax Revenues

Federal revenues are collected through reimbursements for the federal share of entitlement programs such as Medicaid and through block grants for programs such as Transitional Assistance to Needy Families (TANF). The amount of federal reimbursements to be received is determined by state expenditures for these programs. The Commonwealth receives reimbursement for approximately 50% of its spending for Medicaid programs. Block grant funding for TANF is received quarterly and is contingent upon a maintenance-of-effort spending level determined annually by the federal government. Federal reimbursements for fiscal 2010 were $ 8.549 billion including $1.328 billion as a result of enhanced federal medical assistance percentage (FMAP) reimbursement under the American Recovery and Reinvestment Act (ARRA). Federal reimbursements for fiscal 2011 are currently projected to be $9.197 billion.

Departmental and other non-tax revenues are derived from licenses, tuition, fees and reimbursements and assessments for services. For fiscal 2010, departmental and other non-tax revenues were $2.801 billion. The largest budgeted departmental revenues, assessments and miscellaneous revenues in fiscal 2010 included $477.1 million for Registry of Motor Vehicles fees, fines and assessments, $117.2 million from filing, registration and other fees paid to the Secretary of State's office, $117.2 million in fees, fines and assessments charged by the court systems and $66.5 million in tuition remitted to schools of higher education. Fiscal 2011 departmental and other non-tax revenues are projected to be $2.934 billion.

Lottery Revenues. For the budgeted operating funds, inter-fund transfers include transfers of profits from the State Lottery Fund and the Arts Lottery Fund and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for transfers from the Lottery of $1.035 billion, $1.103 billion, $1.128 billion, $1.003 billion and $989.7 million in fiscal 2006 through 2010, respectively. Under state law, the net balance in the State Lottery Fund, as determined by the Comptroller on each September 30, December 31, March 31 and June 30, is to be used to provide local aid.

The Lottery Commission's operating revenues for fiscal 2010 were $989.7 million. This includes a $7.0 million spending reduction in operating expenses related to Lottery agent incentive programs and a $3.1 million spending reversion in administrative expenses. The result was a surplus of $55.4 million against the assumed $934.3 million budget to fund various commitments appropriated by the Legislature from the State Lottery Fund and Arts Lottery Fund, including Lottery administrative expenses, and $758.8 million in appropriations for local aid to cities and towns, with the balance of $55.4 million transferred to the General Fund for the general activities of the Commonwealth.

As enacted, the fiscal 2011 budget assumed total transfers from the Lottery of $1.008 billion to fund various commitments appropriated by the Legislature from the State Lottery Fund and the Arts Lottery Fund, including Lottery administrative expenses and $812.2 million in appropriations for local aid to cities and towns, with the balance, if any to be transferred to the General Fund for the general activities of the Commonwealth. This legislative assumption exceeded the revenue projections given by the State Lottery Commission for fiscal 2011 ($986.8 million) by approximately $21 million. This deficiency, along with other budgetary exposures, was addressed by the Governor with vetoes when he signed the fiscal 2011 budget. In December, 2010, the State Lottery Commission reduced its projection from $986.8 million to $960.5 million, and in March, 2011 further reduced its projection to $956.0 million. The current estimated deficiency for budgetary distributions to be funded by Lottery proceeds is $32.1 million.

A five year history of Lottery revenues and profits is shown in the following table.

Lottery Revenues and Profits
(amounts in thousands)

Fiscal Year	Revenues	Net Operating Revenues	Net Profits
2010	$4,423,732	$989,727	$903,486
2009	4,442,924	959,007	859,407
2008	4,709,343	1,014,430	913,048
2007	4,460,785	984,094	892,202
2006	4,524,129	1,034,561	951,241

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

The Commonwealth's allocable share of the base amounts payable under the master settlement agreement is approximately 4.04% which equals more than $8.3 billion through 2025, subject to adjustments, reductions and offsets. However, in pending litigation tobacco manufacturers are claiming that because of certain developments they are entitled to reduce future payments under the master settlement agreement, and certain manufacturers withheld payments to the states due in April, 2006, April, 2007, April 2008, April, 2009, and April 2010. The Commonwealth believes it is due the full amount and is pursuing its claim to unreduced payments. See "LEGAL MATTERS – Other Revenues." The Commonwealth was also awarded $414.3 million from a separate Strategic Contribution Fund established under the master settlement agreement to reward certain states' particular contributions to the national tobacco litigation effort. This additional amount, also subject to a number of adjustments, reductions and offsets, is payable in equal annual installments during the years 2008 through 2017.

Tobacco settlement payments were initially deposited in a permanent trust fund (the Health Care Security Trust), with only a portion of the moneys made available for appropriation. Beginning in fiscal 2003, however, the Commonwealth has appropriated the full amount of tobacco settlement receipts in each year's budget. The balance accumulated in the Health Care Security Trust amounted to $509.7 million at the end of fiscal 2007. The fiscal 2008 budget established the State Retiree Benefits Trust Fund for the purposes of depositing, investing and disbursing amounts set aside solely to meet liabilities of the state employee' retirement system for health care and other non-pension benefits for retired members of the system. In fiscal 2008 the Health Care Security Trust's balance was transferred to the State Retiree Benefits Trust Fund. The fiscal 2010 and 2011 budgets transfer all payments received by the Commonwealth in fiscal 2010 and 2011 pursuant to the master settlement agreement from the Health Care Security Trust to the General Fund.

The following table sets forth the tobacco settlement amounts received by the Commonwealth to date. The table does not include approximately $30 million in withheld payments in fiscal 2006, approximately $27 million in withheld payments in fiscal 2007, approximately $21 million in withheld payments in fiscal 2008, approximately $37 million in withheld payments in fiscal 2009, and approximately $35 million in withheld payments in fiscal 2010 that the Commonwealth continues to pursue. See "LEGAL MATTERS – Other Revenues."

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

Fiscal Year	Initial Payments	Annual Payments	Total Payments
2000	$186.6(2)	$139.6	$326.2(2)
2001	78.2	164.2	242.5
2002	82.8	221.7	304.5
2003	86.4	213.6	300.0
2004	-	253.6	253.6
2005	-	257.4	257.4
2006	-	236.3	236.3
2007	-	245.4	245.4
2008	-	288.5	288.5
2009	-	315.2	315.2
2010	-	263.7	263.7
2011	-	294.9	294.9
Total	**$434.00**	**$2,894.10**	**$3,328.20**

SOURCE: Fiscal 2000-2010 Office of the Comptroller; Fiscal 2011 Executive Office for Administration and Finance.
(1) Amounts are approximate. Totals may not add due to rounding.
(2) Payments received for both 1999 and 2000.

Limitations on Tax Revenues

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

Tax revenues in fiscal 2007 through 2010 were lower than the "allowable state tax revenue" limit set by Chapter 62F, and are expected to be lower than the limit in fiscal 2011

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

As of December 31, 2010 actual state tax revenues for fiscal 2011 exceeded the permissible state tax revenue limit set by Chapter 62F by approximately $591.4 million. Because no withdrawals from the Stabilization Fund are expected to occur during fiscal 2011, the entire amount of any cumulative excess as of the end of fiscal 2011 is expected to be transferred back to the General Fund for inclusion in consolidated net surplus.

The following table shows the quarter by quarter trend of the Temporary Holding Fund for fiscal 2007 through the second quarter of fiscal 2011.

Temporary Holding Fund
(in thousands)

	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011
First quarter - period ended September 30					
Cumulative net tax revenues, current fiscal year	$4,542,170	$4,796,700	$4,870,214	$4,374,038	$4,819,581
Cumulative net tax revenues, prior fiscal year	4,367,285	4,542,170	4,796,700	4,870,214	4,374,038
Permissible growth rate(1)	8.05%	6.94%	7.89%	4.13%	2.57%
Permissible state tax revenues(2)	4,718,720	4,857,306	5,175,160	5,080,266	4,486,538
Cumulative net revenues, current fiscal year, in excess of permissible revenues	$ -	$ -	$ -	$ -	$333,042
Second quarter - period ended December 31					
Cumulative net tax revenues, current fiscal year	$8,831,036	$9,194,513	$9,200,005	$8,834,580	$9,732,050
Cumulative net tax revenues, prior fiscal year	8,526,671	8,831,036	9,194,513	9,200,005	8,834,580
Permissible growth rate(1)	7.62%	6.93%	8.34%	2.10%	3.465%
Permissible state tax revenues(2)	9,175,977	9,442,585	9,960,876	9,392,837	9,140,698
Cumulative net revenues, current fiscal year, in excess of permissible revenues	$ -	$ -	$ -	$ -	$591,351
Third quarter - period ended March 31					
Cumulative net tax revenues, current fiscal year	$13,659,295	$14,485,334	$13,599,204	$13,358,852	
Cumulative net tax revenues, prior fiscal year	12,946,485	13,659,294	14,485,334	13,599,204	
Permissible growth rate(1)	6.92%	7.41%	7.60%	2.00%	
Permissible state tax revenues(2)	13,841,734	14,671,584	15,586,799	13,871,188	
Cumulative net revenues, current fiscal year, in excess of permissible revenues	$ -	$ -	$.-	$.-	
Fourth Quarter - Period ending June 30					
Cumulative net tax revenues, current fiscal year	$19,848,064	$21,009,329	$18,513,036	$18,792,777	
Cumulative net tax revenues, prior fiscal year	18,592,175	19,848,064	21,009,085	18,513,036	
Permissible growth rate(1)	6.52%	7.66%	6.27%	1.61%	
Permissible state tax revenues(2)	19,804,571	21,368,426	22,325,305	18,810,911	
Cumulative net revenues, current fiscal year, in excess of permissible revenues	$43,493	$ -	$ -	$ -	

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

Local Aid

Commonwealth Financial Support for Local Governments. The Commonwealth makes substantial payments to its cities, towns and regional school districts (local aid) to mitigate the impact of local property tax limits on local programs and services. See "*Property Tax Limits*" below. Local aid payments to cities, towns and regional school districts take the form of both direct and indirect assistance. Direct local aid consists of general revenue sharing funds and specific program funds sent directly to local governments and regional school districts as reported on the so-called "cherry sheet" prepared by the Department of Revenue, excluding certain pension funds and non-appropriated funds. In fiscal 2010, approximately $4.837 billion of the Commonwealth's budget was allocated to direct local aid. The fiscal 2011 budget provides $4.785 billion of state-funded local aid to municipalities.

As a result of comprehensive education reform legislation enacted in June, 1993, a large portion of general revenue sharing funds is earmarked for public education and is distributed through a formula specified in Chapter 70 of the General Laws designed to provide more aid to the Commonwealth's poorer communities. The legislation requires the Commonwealth to distribute aid to ensure that each district reaches at least a minimum level of spending per public education pupil. Since fiscal 1994, the Commonwealth has fully funded the requirements imposed by this legislation in each of its annual budgets. Beginning in fiscal 2007, the Legislature implemented a new model for the Chapter 70 program which was adjusted to resolve aspects of the formulas that were perceived to be creating inequities in the aid distribution. The fiscal 2011 budget includes state funding for Chapter 70 education aid of $3.85 billion and also includes $20.6 million of federal State Fiscal Stabilization Funds, provided for through ARRA, for Chapter 70 education aid and $201 million of federal education jobs funds. The $4.072 billion in state and federal funds for Chapter 70 brings all school districts to the foundation level called for by 1993 education reform legislation, and is an increase of $30.85 million over the fiscal 2010 amount of $4.042 billion.

In fiscal 2010, cities and towns received $936.4 million in Unrestricted General Government Aid. The fiscal 2010 budget eliminated lottery local aid and Additional Assistance and created a new local aid funding source called Unrestricted General Government Aid. This account is now the other major component of direct local aid, providing unrestricted funds for municipal use. The Commonwealth is projected to spend $898.9 million in Unrestricted General Government Aid in fiscal 2011. This amount is $37 million lower than the total amount received in fiscal 2010.

Property Tax Limits. In November, 1980, voters in the Commonwealth approved a statewide tax limitation initiative petition, commonly known as Proposition 2½, to constrain levels of property taxation and to limit the charges and fees imposed on cities and towns by certain governmental entities, including county governments. Proposition 2½ is not a provision of the state constitution and accordingly is subject to amendment or repeal by the Legislature. Proposition 2½, as amended to date, limits the property taxes that may be levied by any city or town in any fiscal year to the lesser of (i) 2.5% of the full and fair cash valuation of the real estate and personal property therein or (ii) 2.5% over the previous year's levy limit plus any growth in the tax base from certain new construction and parcel subdivisions. The law contains certain voter override provisions and, in addition, permits debt service on specific bonds and notes and expenditures for identified capital projects to be excluded from the limits by a majority vote at a general or special election. Between fiscal 1981 and fiscal 2010, the aggregate property tax levy grew from $3.347 billion to $12.024 billion, a compound annual growth rate of 4.46%.

Medicaid and the Commonwealth Care Trust Fund

MassHealth. The Commonwealth's Medicaid program, called MassHealth, provides health care to low-income children and families, certain low-income adults, disabled individuals and low-income elders. The program, administered by the Office of Medicaid within the Executive Office of Health and Human Services, generally receives 50% in federal reimbursement on most expenditures. The American Recovery and Reinvestment Act (ARRA) increased the federal medical assistance percentage (FMAP) for expenditures made between October 1, 2008, and December 31, 2010 from 50% to between 56.2% and 61.59%, depending on the Commonwealth's unemployment rate. In fiscal 2011, the FMAP rate was 61.59% for the first two state quarters. On Aug. 10, 2010, President Obama signed legislation, H.R. 1586, containing a six-month extension of an enhanced match for the Medicaid (FMAP) and Title IV-E programs. As a result, FMAP rates extended to June 30, 2011, beginning with a phase down to 58.77% in state fiscal quarter three, and ending in 56.88% in quarter four. Starting from fiscal 1999, payments for some children's benefits became 65% federally reimbursable under the Children's Health Insurance Program (CHIP).

For fiscal 2011 nearly 35% of the Commonwealth's budget is devoted to MassHealth and Commonwealth Care. Health care expenditure is the largest and has been one of the fastest growing items in the Commonwealth's budget. Medicaid spending from fiscal 2006 to fiscal 2011 is estimated to have grown by 6.3% on a compound annual basis (including Medicaid administrative expenses and off-budget Medicaid expenses). During the same period, Medicaid enrollment is estimated to have increased 3.7% on a compound annual basis, driven largely by eligibility expansions and the individual mandate prescribed by the 2006 health care reform legislation. The economic recession has additionally contributed to Medicaid membership increases from fiscal year 2009 to 2011.

The fiscal 2011 estimated spending is $10.240 billion which includes an assumed fiscal 2011 deficiency figure of $587.6 million. The Governor and the legislature have approved supplemental legislations totaling $587.6 million in additional funding for the program.

The Governor's fiscal 2012 budget recommendations include $10.340 billion for the MassHealth program. This is 0.9% higher than fiscal 2011 estimated spending of $10.240 billion. The fiscal 2012 budget fully maintains eligibility for MassHealth and funds projected enrollment growth of 4.6%. The budget keeps MassHealth costs affordable for the Commonwealth and members by maintaining appropriate discipline on rates, instituting new program integrity measures, and restructuring certain benefits. In light of fiscal challenges, the MassHealth adult dental benefit will continue to be restructured to cover preventative and emergency services but not restorative dental services. This change will not impact children or developmentally disabled members (DDS), and other members will be able to have access to restorative dental services at Community Health Centers through the Health Safety Net. See "*Health Care Cost Containment*," below.

Medicaid Expenditures and Enrollment (in millions)

Budgeted Medicaid program expenses	$6,756.4	$7,412.5	$8,102.5	$8,552.0	$9,288.3	$10,240.0	$10,340.0
Budgeted Medicaid administrative expenses	127.6	133.8	132.4	143.7	90.8	87.3	84.0
Off-Budget Medicaid expenses	292.0	290.0	-	-	-		
Total expenditures	$7,176.0	$7,836.3	$8,234.9	$8,695.70	$9,379.1	$10,327.3	$10,424.0
Annual percentage growth in total expenditures	11.8%	9.2%	5.1%	5.6%	7.9%	10.1%	0.9%
Enrollment (in member months)	1,042,345	1,094,844	1,139,284	1,177,922	1,235,907	1,295,335	1,355,523
Annual percentage growth in enrollment	5.5%	5.0%	4.1%	3.4%	4.9%	4.8%	4.6%

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

Commonwealth Care. State health care reform legislation enacted in 2006 created the Commonwealth Health Insurance Connector Authority to, among other things, administer the new Commonwealth Care program, a subsidized health insurance coverage program for adults whose income is up to 300% of the federal poverty level and who do not have access to employer-sponsored insurance. Commonwealth Care began enrolling individuals on October 1, 2006. As of February 1, 2011, 158,072 residents with incomes up to 300% of the federal poverty level were enrolled in Commonwealth Care.

The current fiscal 2011 projected spending for Commonwealth Care is $822 million. Actual end-of-year spending could be higher or lower depending on enrollment. This cost estimate reflects gross funding needs of the program (net of enrollee contributions) and does not account for federal reimbursement under the Commonwealth's Medicaid waiver. The fiscal 2011 budget also includes separate funding of $50 million for the Commonwealth Care Bridge program, which provides subsidized health insurance for "aliens with special status" who do not qualify for Commonwealth Care. As of February 1, 2011, about 20,000 members are enrolled in Commonwealth Care Bridge.

The Governor's fiscal 2012 budget recommendation provides $822 million for Commonwealth Care, equivalent to currently projected fiscal year 2011 spending. These funds are designed to maintain eligibility for the program and pay for moderate additional enrollment (including coverage for individuals that transition from the Medical Security Plan to Commonwealth Care after their unemployment benefits expire). The budget does not assume any increases in Commonwealth Care base enrollee premiums. The budget assumes modest co-payment changes that are in aggregate cost-neutral to the program. See "*Health Care Cost Containment*," below.

Additionally, the Governor's fiscal 2012 budget recommendation includes $50 million for the Commonwealth Care Bridge program. This program will continue to be run by the Secretary of Administration and Finance, the Secretary of Health and Human Services and the Executive Director of the Connector.

Also included in the Governor's fiscal 2012 budget are $7.5 million to fund the implementation of a provision under the health reform legislation that requires the Connector to offer premium discounts for certain small businesses that purchase coverage through Commonwealth Choice and set up wellness programs for their employees and $30 million to support the Health Safety Net Trust Fund.

Commonwealth Care, Commonwealth Care Bridge, the Commonwealth Choice wellness subsidy, and support for the Health Safety Net Trust Fund are funded through the Commonwealth Care Trust Fund (CCTF), which is supported by transfers from the General fund and several dedicated revenue sources, including:

- Fair Share Assessment: The "Fair Share" test requires employers with over 11 full-time equivalents to either make a "fair and reasonable" contribution to health insurance for their full-time employees or pay a $295 per employee annual assessment to the state. Revenue estimates for the fair share assessment average over $14 million annually.

- Cigarette Tax Revenue: Starting in fiscal 2009, the state raised taxes on cigarettes by $1 per pack and dedicated the increased revenues to the Commonwealth Care Trust Fund. These revenues are projected to total over $120 million per year.

- Individual Tax Penalties: Adults who can afford health insurance but fail to purchase coverage are required to pay monetary penalties when filing their tax returns. These revenues are projected to generate over $15 million in fiscal 2011 and 2012.

Federal 1115 MassHealth Demonstration Waiver. On January 19, 2011, the Commonwealth received federal authorization on amendment proposals to the current demonstration waiver period from July 1, 2008 to June 30, 2011. The agreement authorizes federal reimbursement for up to approximately $23.0 billion in state health care spending from fiscal 2009 through fiscal 2011, which allows the Commonwealth to spend up to $5.9 billion more over the three-year period than the previous waiver period from 2006-2008. It enables the Commonwealth to claim federal reimbursement for all programs at current eligibility and benefit levels (including for Commonwealth Care's subsidized coverage of adults up to 300% of the federal poverty level).

Furthermore, the amendment restored $192.5 million in claiming authority for certain designated state health programs whose federal authority was scheduled to phase down under the 2008 agreement, in addition to new authority for federal reimbursement for certain state health programs ($26 million of the $192.5 million). The amendment also provided authority to receive federal reimbursement for up to $230 million in transitional payments for private hospitals in the Commonwealth, and approximately $216 in additional supplemental funding for Cambridge Health Alliance. Under this authority, the Commonwealth made payments to seven acute hospitals in the state that see a disproportionately high percentage of Medicaid and other state subsidized patients.

At the end of fiscal 2010, the Commonwealth filed a waiver renewal application for the period starting July 1, 2011 through June 30, 2014. The Commonwealth is currently engaged in negotiations with the Centers for Medicare and Medicaid Services regarding the renewal of the waiver beginning July 1, 2011. The Commonwealth renewal proposal contemplates continuing all programs at current eligibility and benefit levels, securing federal authority for the Commonwealth payment reform initiatives and continuing supplemental payments to all acute hospitals at approximately $300 million above fiscal 2010 levels.

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

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

The fiscal 2011 budget assumes $420 million in dedicated resources for the Health Safety Net, including $320 million from hospital and insurer assessments, $70 million from supplemental payments made by other sources and a $30 million contribution from the General Fund. The Division of Health Care Finance and Policy continues to monitor Health Safety Net service volume and costs, to update evolving trends relating to Trust Fund care demand. Projections will likely change as more data emerges regarding demand on the Health Safety Net, and a Health Safety Net shortfall of funding for fiscal 2011 of $90 million to $125 million is anticipated. These projections are largely influenced by the current economic conditions and their impacts on the Health Safety Net.

The Governor's proposed fiscal 2012 budget recommends $420 million in total funding, including $320 million from hospital and insurer assessments, $70 million from supplemental payments made by other sources and a $30 million contribution from the general fund to the Health Safety Net Trust Fund. As in fiscal 2011, a Health Safety Net shortfall of funding for fiscal 2012 is anticipated ($100 million to$150 million) based upon current projections and considering current economic conditions.

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

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

The Executive Office of Health and Human Services is coordinating a statewide effort to implement the federal health reform law and to actively pursue federal health reform grants and demonstration project opportunities to transform how health care is delivered, to expand access to health care and to support healthcare workforce training. To date, the Commonwealth has been awarded more than $47 million in federal grant funds under the Affordable Care Act (most notably the Early Innovator Grant which was awarded on February 16, 2011 to seven states). Projects already underway for fiscal 2012 include planning for a health insurance exchange, strengthening public health infrastructure to improve health outcomes, providing consumers with assistance and up-to-date information about coverage options (in several languages) as they navigate the insurance system, and enhancing options counseling regarding community-based long-term care supports that help elders and persons with disabilities of all ages remain in their own homes. The Commonwealth has submitted applications for additional projects that will take place in fiscal 2012. More detail can be found on the Commonwealth's federal health reform implementation web page: www.mass.gov/nationalhealthreform.

Health Care Cost Containment. The Governor's fiscal 2012 budget proposal also assumes growth in spending for the Commonwealth's health care coverage programs, including MassHealth, Commonwealth Care and the Group Insurance Commission, will be avoided in fiscal 2012 based on new procurement and enrollment strategies expected to drive care to lower-cost settings. With respect to MassHealth, other steps to control growth in costs are being taken (see above MassHealth section). In the absence of these steps to control growth in costs, the Executive Office for Administration and Finance estimates that costs in the Commonwealth's health care coverage programs would grow by approximately $1 billion.

Payment Reform Legislation. In February, 2011, the Governor filed legislation that would significantly alter the health care payment system in the Commonwealth. The Governor's bill would enhance the regulatory authority of the Division of Insurance, while beginning to move providers and payers – including state purchasers of health care such as MassHealth, the GIC and the Connector – away from fee-for-service methods of payment and instead encourage the use of alternatives to fee-for-service such as global payments, bundled payments and other alternatives. These kinds of payments are intended to provide for more integrated and coordinated care for patients to reduce costs and improve quality. This new coordinated system is designed to benefit patients by giving providers the flexibility to provide the right services to patients in the right way, at the right time and in the right place.

Other Health and Human Services

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

Expenditure Category	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Projected Fiscal 2011
Office of Health Services						
Department of Mental Health	$603.4	$630.2	$651.0	$623.5	$614.0	$628.4
Department of Public Health	473.6	543.6	546.8	548.5	493.7	496.8
Division of Healthcare and Finance Policy	9.9	10.3	11.7	14.0	13.4	1.1
Sub Total	$1,086.9	$1,184.1	$1,209.6	$1,186.0	$1,121.2	$1,146.3
Office of Children, Youth, and Family Services						
Department of Social Services	$729.2	$783.4	$816.2	$810.0	$772.1	$746.1
Department of Transitional Assistance	781.8	781.9	814.2	859.5	724.5	775.5
Department of Youth Services	141.9	152.8	157.3	154.7	147.1	143.9
Office for Refugees and Immigrants	0.7	1.2	1.6	1.3	1.0	0.2
Sub Total	$1,653.6	$1,719.3	$1,789.3	$1,823.5	$1,644.8	$1,665.7
Office of Disabilities and Community Services						
Department of Developmental Services	$1,122.2	$1,179.6	$1,228.9	$1,250.6	$1,247.0	$1,286.3
Other	118.6	128.3	135.9	133.6	125.7	119.4
Sub Total	$1,240.8	$1,307.9	$1,364.8	$1,384.2	$1,372.1	$1,405.7
Department of Elder Affairs	$305.6	$278.8	$293.9	$279.7	$257.7	$252.1
Executive Office of Human Services (1)	111.7	92.5	92.6	101.0	192.4(2)	172.4(2)
Veterans' Services (3)	35.0	42.7	46.4	51.9	28.2	29.5
Sub Total	$452.3	$414.0	$432.9	$432.6	$478.5	$454.0
Budgeted Expenditures and Other Uses	**$4,433.60**	**$4,625.30**	**$4,796.60**	**$4,828.30**	**$4,616.6**	**$4,671.70**

SOURCES: Fiscal 2006-2010 Office of the State Comptroller; fiscal 2011, Executive Office for Administration and Finance.
(1) Includes the Department of Medical Assistance (DMA) which was a separate department through fiscal 2004; but consolidated into the Executive Office of Human Services in fiscal 2005. Fiscal 2011 includes Medicaid program administration.
(2) Fiscal 2010 and 2011 spending includes a new IT chargeback account that incorporates IT spending in other departments within the Executive Office of Health and Human Services.
(3) Beginning in fiscal 2010, the Veterans' Benefits account, worth approximately $30.0 million, is included in the Direct Local Aid category.

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

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

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

The federal welfare reform legislation that was enacted on August 22, 1996 eliminated the federal entitlement program of aid to families with dependent children and replaced it with block grant funding for transitional assistance to needy families (TANF). The TANF program replaced Title IV-A of the Social Security Act and allows states greater flexibility in designing programs that promote work and self-sufficiency. The block grant for the Commonwealth was established at $459.4 million annually for federal fiscal years 1997 through 2006. The Commonwealth must meet federal maintenance-of-effort requirements in order to be eligible for the full TANF grant award. In February, 2006, federal legislation reauthorized the TANF block grant providing $459.4 million annually to the Commonwealth for the next five years, provided that the Commonwealth meets federal work requirements outlined below.

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

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

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

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

Education

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

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

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

The operating revenues of each institution consist primarily of state appropriations and of student fees that are set by the board of trustees of each institution. Tuition levels are set by the Board of Higher Education. State-supported tuition revenue is required to be remitted to the State Treasurer by each institution; however, the Massachusetts College of Art and Design and the Massachusetts Maritime Academy have the authority to retain tuition indefinitely. The board of trustees of each institution submits annually audited financial statements to the Comptroller and the Board of Higher Education. The Department of Higher Education prepares annual operating budget requests on behalf of all institutions, which are submitted to the Executive Office of Education and subsequently to the Executive Office for Administration and Finance and to the House and Senate Committees on Ways and Means. The Legislature appropriates funds for the higher education system in the Commonwealth's annual operating budget in various line items for each institution.

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

Public Safety

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

In addition to expenditures for these twelve state public safety agencies, the Commonwealth provides funding for the departments of the 14 independently elected Sheriffs that operate 23 jails and correctional facilities. In fiscal 2010, through enactment of chapter 61 of the Acts of 2009, as later amended by Chapter 102 of the Acts of

2009, all 14 Massachusetts state and county sheriffs were aligned under the state budgeting and finance laws. Prior to the transfer, the Commonwealth had seven sheriffs operating as state agencies under the state accounting and budgeting system and seven sheriffs operating as county entities. The sheriff departments have successfully transitioned onto the state budgeting and accounting system, and all sheriff employees have been placed on the state payroll. Appropriations have been established to support sheriff department operations for the balance of this fiscal year. Thus, all 14 sheriff departments are now functioning as independent state agencies within the Executive Branch.

Energy and Environmental Affairs

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

Debt Service

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

Other Program Expenditures

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

Employee Benefits

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

The fiscal 2011 budget is consistent with Government Accounting Standards Board (GASB) Statement No. 45 and the state’s intent to consolidate spending for current retirees with deposits towards the Commonwealth’s non-pension retiree liability. See “*Other Post-Retirement Benefit Obligations (OPEB)*” below. The original fiscal 2011 budget appropriated $1.16 billion for the GIC to fund health coverage for active employees and their dependents. The fiscal 2011 budget authorizes transfers of up to $397 million to the State Retiree Benefits Trust Fund for the purpose of making expenditures for current retirees and their dependents. Budgeted funding at the GIC in fiscal 2011, including health coverage for active and retired employees and other costs, totals $1.643 billion.

In an effort to control employee health care costs, the Commonwealth is requiring all employees to re-enroll in a health plan. The Commonwealth will provide a cash incentive equal to three months of premium payments for employees that switch to limited network plans. The purpose of the mandatory re-enrollment is to require all employees to reexamine their health plan choices which includes considering to choose lower cost options. Budgeted funding at the GIC in fiscal 2012, including health coverage for active and retired employees and other costs, totals $1.662 billion.

Pension. The Commonwealth is responsible for the payment of pension benefits for Commonwealth employees (members of the state employees' retirement system) and for teachers of the cities, towns and regional school districts throughout the state (including members of the Massachusetts teachers' retirement system and teachers in the Boston public schools, who are members of the State-Boston retirement system but whose pensions are also the responsibility of the Commonwealth). See "PENSION AND OPEB FUNDING."

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

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PENSION AND OPEB FUNDING

Retirement Systems

Almost all non-federal public employees in the Commonwealth participate in defined-benefit pension plans administered pursuant to state law by 105 public retirement systems. The Commonwealth is responsible for the payment of pension benefits for Commonwealth employees (members of the state employees' retirement system) and for teachers of the cities, towns and regional school districts throughout the state (including members of the Massachusetts teachers' retirement system and teachers in the Boston public schools, who are members of the State Boston retirement system but whose pensions are also the responsibility of the Commonwealth). The members of the retirement system do not participate in the Social Security System. Employees of certain independent authorities and agencies, such as the Massachusetts Water Resources Authority, and of counties, cities and towns (other than teachers) are covered by 103 separate retirement systems and the Commonwealth is not responsible for making contributions towards the funding of these retirement systems. Pension benefits for state employees are administered by the State Board of Retirement, and pension benefits for teachers are administered by the Teachers' Retirement Board. Investment of the assets of the state employees' and Massachusetts teachers' retirement systems is managed by the Pension Reserves Investment Management (PRIM) Board. In the case of all other retirement systems, the retirement board for the system administers pension benefits and manages investment of assets. Many such retirement boards invest their assets with the PRIM Board, and legislation approved in 2007 allows the PRIM Board to take over the assets of local retirement systems that are less than 65% funded and have failed to come within 2% of the PRIM Board's performance over a ten-year period. With a very small number of exceptions, the members of these state and local retirement systems do not participate in the federal Social Security System.

The Massachusetts State Employees' Retirement System (MSERS) and the Massachusetts Teachers' Retirement System (MTRS) are the two largest plans of the public contributory retirement systems operated in the Commonwealth. Membership in MSERS as of January 1, 2011 and of the MTRS as of January 1, 2010, the date of the most recent valuations, is as follows:

Retirement Systems Membership

	MSERS	MTRS
Retirees and beneficiaries currently receiving benefits	53,627	53,951
Terminated employees entitled to benefits but not yet receiving them	3,973	N/A
Subtotal	57,604	53,951
Current Members	86,586	88,673
Total	144,186	142,624

SOURCE: Public Employee Retirement Administration Commission

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

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

Boston teachers are not included in the membership data shown above for the MTRS. Legislation approved by the Governor in May, 2010 changed the methodology for the Commonwealth's funding of pension benefits paid to Boston teachers. Prior to this change, the Commonwealth reimbursed the City of Boston for pension benefits paid to Boston teachers as certified by the State Boston Retirement System (SBRS). Those costs were funded one fiscal year in arrears. The cost of pension benefits of the other participants of the SBRS is the responsibility of the City of Boston. The SBRS is a cost-sharing multiple-employer pension system that is not administered by the Commonwealth and is not part of the reporting entity of the Commonwealth for accounting purposes. The 2010 legislation clarified that the Commonwealth is responsible for all employer contributions and future benefit requirements for Boston teachers that are members of the SBRS. During fiscal 2010, the Commonwealth made its final payment in arrears to the City of Boston ($132 million), as well as the actuarially required contribution ($126.8 million) to the SBRS.

Legislation approved in 1997 provided, subject to legislative approval, for annual increases in cost-of-living allowances equal to the lesser of 3% or the previous year's percentage increase in the United States consumer price index on the first $12,000 of benefits for members of the MSERS and MTRS. The Commonwealth pension funding schedule (discussed below) assumes that annual increases of 3% will be approved for its retirees. Local retirement systems that have established pension funding schedules may opt in to the requirement as well, with the costs and actuarial liabilities attributable to the cost-of-living allowances required to be reflected in such systems' funding schedules. Legislation approved in 1999 allows local retirement systems to increase the cost-of-living allowance up to 3% during years that the previous year's percentage increase in the United States consumer price index is less than 3%.

On January 18, 2011, the Governor filed legislation proposing pension reforms, including increasing the retirement ages, eliminating early retirement subsidies and increasing the period for average earnings from the highest three years to the highest five years for all new state employees. If enacted as filed, the legislation is expected by the Governor to generate savings over the next 30 years estimated at more than $3 billion for the Commonwealth and $2 billion for municipalities. These savings projections are not assumed in the revised pension funding schedule.

Employee Contributions

The MSERS and MTRS are partially funded by employee contributions of regular compensation, as indicated in the following table:

Employee Contribution Rates

MTRS(1)

Hire Date	% of Compensation(1)	Active Members	% of Total Active
Pre-1975	5%	846	0.94%
1975-1983	7%	1,335	1.48%
1984-June 30, 1996	8%	11,139	12.38%
July 1, 1996-Present	9%	15,685	17.44%
July 1, 2001-Present	11%	60,942	67.75%
Totals		89,947	100.00%

SOURCE: Public Employee Retirement Administration Commission for contribution percentages. Membership data from Teachers' Retirement Board as of October, 2010.

(1) Employees hired after January 1, 1979 (except those contributing 11%) contribute an additional 2% of any regular compensation in excess of $30,000 annually. Legislation enacted in fiscal 2000 established an alternative superannuation retirement benefit program for teachers hired on or after July 1, 2001 (and others who opt in) with an 11% contribution requirement for a minimum of five years.

MSERS(1)

Hire Date	% of Compensation(1)	Active Members	% of Total Active
Pre-1975	5%	2,083	2.41%
1975-1983	7%	8,958	10.37%
1984-June 30, 1996	8%	24,479	28.36%
July 1, 1996-Present	9%	50,397	58.39%
State Police 1996-Present	12%	391	0.45%
Totals		86,308	100.00%

SOURCE: Public Employee Retirement Administration Commission for contribution percentages. Membership data from State Board of Retirement as of February, 2011.

(1) Employees hired after January 1, 1979 contribute an additional 2% of any regular compensation in excess of $30,000 annually.

Funding Schedule

The retirement systems were originally established as "pay-as-you-go" systems, meaning that amounts were appropriated each year to pay current benefits, and no provision was made to fund currently the future liabilities already incurred. In fiscal 1988, the Commonwealth began to address the unfunded liabilities of the two state systems by making appropriations to pension reserves. Under current law such unfunded liability is required to be amortized to zero by June 30, 2025, although the Governor has proposed extending the date to June 30, 2040, as described below.

The Secretary of Administration and Finance is required by law to prepare a funding schedule providing for both the normal cost of Commonwealth benefits (normal cost being that portion of the actuarial present value of pension benefits which is allocated to a valuation year by an actuarial cost method) and the amortization by June 30, 2025, of the unfunded actuarial liability of the Commonwealth for its pension obligations. The funding schedule is required to be updated periodically on the basis of new actuarial valuation reports prepared under the direction of the Secretary of Administration and Finance. Funding schedules are to be filed with the Legislature triennially by January 15 and are subject to legislative approval. If a schedule is not approved by the Legislature, payments are to be made in accordance with the most recently approved schedule at a level at least equal to the prior year's payments.

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

Approved Funding Schedule for Pension Obligations (in thousands)

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

SOURCE: Executive Office for Administration and Finance.

On January 18, 2011, the Secretary for Administration and Finance filed a new triennial schedule that would extend by 15 years the deadline for amortizing the unfunded liability to zero, from June 30, 2025 to June 30, 2040. The other assumptions underlying the new funding schedule include valuation of assets and liabilities as of January 1, 2010, an annual rate of return on assets of 8.25%, and an increase in the appropriation level of 5 to 6% per year during fiscal years 2013 to 2017. The fiscal 2012 transfer included in that schedule is $1.478 billion, a $36 million increase over fiscal 2011. Legislation filed by the Governor in conjunction with the new triennial schedule incorporates the new pension funding amounts for the next six years rather than the statutorily required three, and requires that any adjustments to these amounts based on the next triennial schedule shall be limited to increases in the schedule amounts for each of the specified years. The fiscal 2011 through fiscal 2040 transfers are as follows:

Proposed Funding Schedule for Pension Obligations (in thousands)

Fiscal Year	Payments	Fiscal Year	Payments
2011	$1,442,000	2026	$2,955,572
2012	1,478,000	2027	3,084,218
2013	1,552,000	2028	3,218,582
2014	1,630,000	2029	3,358,926
2015	1,728,000	2030	3,505,522
2016	1,831,000	2031	3,658,655
2017	1,941,000	2032	3,818,623
2018	2,104,651	2033	3,985,740
2019	2,195,628	2034	4,160,331
2020	2,290,619	2035	4,342,740
2021	2,389,802	2036	4,533,325
2022	2,493,369	2037	4,732,461
2023	2,601,517	2038	4,940,543
2024	2,714,454	2039	5,157,980
2025	2,832,397	2040	5,385,205

SOURCE: Executive Office for Administration and Finance

Actuarial Valuations

On October 1, 2010, pursuant to Chapter 32 of the Massachusetts General Laws, the Public Employee Retirement Administration Commission (PERAC) released its actuarial valuation of the total pension obligation as of January 1, 2010. This valuation was based on the plan provisions in effect at the time and is based on member data and asset information as of December 31, 2009.

The unfunded actuarial accrued liability as of that date for the total obligation was approximately $19.986 billion, including approximately $5.843 billion for the MSERS, $12.477 billion for the MTRS, $1.364 billion for Boston Teachers and $302 million for cost-of-living increases reimbursable to local systems. The valuation study estimated the total actuarial accrued liability as of January 1, 2010 to be approximately $61.576 billion (comprised of $24.862 billion for MSERS, $33.739 billion for MTRS, $2.672 billion for Boston Teachers and $302 million for cost-of-living increases reimbursable to local systems). Total assets were valued on an actuarial basis at approximately $41.590 billion based on a five-year average valuation method, which equaled 110% of the January 1, 2010 total asset market value.

On March 10, 2011, PERAC released its actuarial valuation of the MSERS as of January 1, 2011. The unfunded actuarial accrued liability as of January 1, 2011 for the MSERS was approximately $4.998 billion. The valuation study estimates the total actuarial accrued liability for the MSERS to be approximately $26.243 billion, with total assets valued on an actuarial basis at approximately $21.245 billion. The January 1, 2011 valuation report for the Commonwealth's total pension obligation will not be available until data is compiled for the MTRS, Boston teachers and cost-of-living increases reimbursable to local systems. The full report is generally released in September of each year.

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

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

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

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

The Actuarial Value of Assets is determined in accordance with the deferred recognition method under which 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring two years prior are recognized, etc., so that 100% of gains and losses occurring five years ago are recognized. This has the effect of smoothing the short-term volatility of market values over a five-year period. The actuarial value of assets will be adjusted, if necessary, in order to remain between 90% and 110% of market value. In valuations prior to 1998, plan assets were determined at market value. As part of the 1998 valuation, this methodology was adjusted to reduce the potential volatility in the market value approach from year to year. The actuarial value of assets as of January 1, 2010 is 110% of the market value (the 110% limit applied).

The following table shows the valuation of accrued liabilities and assets from 2006 through 2010:

Pension Fund Valuation and Unfunded Accrued Liabilities (in millions)

			Unfunded Accrued Liabilities	
Valuation Date(Jan. 1)	Total Actuarial Accrued Liability	Actuarial Value of Assets(1)	Unfunded Actuarial Liability(2)	Market Value of Unfunded Liability
2006	$50,865	$36,377	$14,488	$11,844
2007	53,761	40,412	13,349	8,859
2008	56,637	44,532	12,105	7,402
2009	59,142	37,058	22,084	25,453
2010	61,576	41,589	19,986	23,767

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

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Pension Funding Progress for the last five fiscal years
(Amounts in thousands except for percentages)

	Actuarial Value of Plan Assets	Actuarial Accrued Liability	Unfunded Actuarial Liability (UAAL)	Funded Ratio	Annual Covered Payroll*	UAAL as % of Covered Payroll*
State Employees' Retirement System						
Actuarial Valuation as of Jan. 1						
2010	$ 19,019,062	$ 24,862,421	$ 5,843,359	76.50%	$ 4,711,563	124.00%
2009	16,992,214	23,723,240	6,731,026	71.60%	4,712,655	142.80%
2008	20,400,656	22,820,502	2,419,846	89.40%	4,574,233	52.90%
2007	18,445,225	21,670,810	3,225,585	85.10%	4,391,891	73.40%
2006	16,638,043	20,406,926	3,768,883	81.50%	4,200,577	89.70%
Teachers; Retirement System						
Actuarial Valuation as of Jan. 1						
2010	$ 21,262,462	$ 33,738,966	$ 12,476,504	63.00%	$ 5,509,698	226.40%
2009	18,927,731	32,543,782	13,616,051	58.20%	5,389,895	252.60%
2008	22,883,553	30,955,504	8,071,951	73.90%	5,163,498	156.30%
2007	20,820,392	29,320,714	8,500,322	71.00%	4,969,092	171.10%
2006	18,683,295	27,787,716	9,104,421	67.20%	4,819,325	188.90%

SOURCE: Public Employee Retirement Administration Commission.

Annual Required Contributions

The following table sets forth the annual required contribution (ARC) by the Commonwealth under generally accepted accounting principles, its reimbursement to Boston for its payments to SBRS (the fiscal 2010 payment includes both the final payment in arrears and the first annual contribution under the 2010 legislation described above) and payments for municipal COLAs for each of the fiscal years indicated. The ARC is determined annually based on the most recent Commonwealth valuation. Valuations have been performed annually since January 1, 2000. As noted above, the Commonwealth also develops a revised funding schedule by statute at least every three years, and the Commonwealth made the full contribution required, under the then-current funding schedule, for each year displayed in the table. The prior funding schedule was filed in February, 2009 and based on valuation results as of January 1, 2008. Since the funding schedule can be several years old when the ARC is determined, the funding schedule information lags the more current ARC information except in the year in which the funding schedule is developed. Accordingly, in some years the ARC will exceed the contribution made and in other years the contribution made will exceed the ARC. Due to significant investment losses in 2008, the unfunded liability (and therefore the ARC) increased significantly for fiscal 2009. However, the funding schedule was based on the 2008 valuation before the market downturn. This accounts for the discrepancy between the ARC and contributions made in fiscal 2009. In fiscal 2010 the discrepancy is accounted for by the market downturn and the double payment to SBRS described above. As noted above, in January, 2011, a revised Commonwealth schedule was filed that extended the amortization period to 2040.

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Annual Required Contributions and Other Pension Contributions

(amounts in thousands)

	SERS	MTRS	Total	COLA(1)	BTRS(1)
2010					
Annual required contribution (ARC)…………	$646,932	$1,106,052	$1,752,984	n/a	n/a
Contributions made, excluding COLAs…………	410,682	690,397	1,101,079	$32,683	$242,857
% Funded for the fiscal year…………	63%	62%	63%		
2009					
Annual required contribution…………	697,340	1,149,629	1,846,969	n/a	n/a
Contributions made, excluding COLAs…………	397,482	781,026	1,178,508	34,696	122,216
% Funded for the fiscal year…………	57%	68%	64%		
		-	-	-	-
2008					
Annual required contribution…………	369,866	749,853	1,119,719	n/a	n/a
Contributions made, excluding COLAs…………	460,788	809,000	1,269,788	34,000	98,000
% Funded for the fiscal year…………	125%	108%	113%		
2007					
Annual required contribution…………	432,219	763,798	1,196,017	n/a	n/a
Contributions made, excluding COLAs…………	435,610	747,000	1,182,610	37,005	93,300
% Funded for the fiscal year…………	101%	98%	99%		
2006					
Annual required contribution…………	445,527	779,158	1,224,685	n/a	n/a
Contributions made, excluding COLAs…………	425,751	727,000	1,152,751	41,989	89,977
% Funded for the fiscal year…………	96%	93%	94%		

SOURCES: Office of the Comptroller.

(1) COLA and BTRS contributions are additional amounts funded by the Commonwealth, but are not part of the Commonwealth's funding of ARC.

PRIT Fund Investments

The PRIM Board's overall investment performance goal is to achieve an annual rate of return that exceeds the targeted actuarial rate of return used in determining the Commonwealth's pension obligations (currently 8.25%). The investment policy statement adopted by the PRIM Board requires a comprehensive review of the PRIM Board's asset allocation plan and its underlying assumptions at reasonable intervals of not more than three to five years. In addition, the investment policy statement requires that the PRIM Board conduct an annual evaluation of the PRIT Fund's asset allocation. The PRIM Board's last comprehensive review of the PRIT Fund asset allocation was conducted in the beginning of fiscal 2010.

In addition to asset allocation diversification, the PRIM Board seeks to diversify the PRIT Fund by choosing complementary investment styles and strategies within asset classes. The PRIM Board also develops detailed investment guidelines for each investment manager to ensure that portfolios are adequately diversified at the individual manager level.

The PRIT Fund's asset allocation plan currently uses the following categories of investments (the description is as of June 30, 2010):

Domestic Equity. Approximately 23% of the domestic equity portfolio is invested using a large capitalization stock strategy (two active managers), with the remaining 77% invested under a Russell 3000 index strategy (one passive manager). The portfolio is style neutral as between growth- and value-oriented stocks.

International Equity. The international equity portfolio is allocated to one passively managed account (which comprises 44% of the portfolio) and four actively managed accounts (56% of the portfolio). The PRIM Board maintains a target weighting of 50% passive and 50% active for the international equity portfolio. The primary strategy for this portfolio is investing in companies in developed market, industrialized nations outside of the United States.

Emerging Markets. The emerging markets equity portfolio is allocated to three active managers (which comprise about 76% of the emerging market portfolio) and one passive manager (24%). Since May, 2010, the PRIM Board has targeted a weighting of 75% active and 25% passive for this portfolio.

Core Fixed Income. Approximately 75% of the core fixed income portfolio is invested in corporate, government and mortgage-backed securities in the investment grade bond market (56% active, 19% passive). Approximately 12% is invested in global inflation linked bonds, and approximately 9% in U. S. Treasury Inflation Protected Securities. The balance of the portfolio contains investments under the PRIM Board's economically targeted investment (ETI) program.

Value-Added Fixed Income. This portfolio is invested in distressed debt (42%), high-yield bonds (22%), emerging markets debt (21%) and bank loans (15%).

Private Equity. Two components comprise the private equity portfolio: venture capital (early-stage, later-stage, and multi-stage) and special equity partnerships (large market buyout, middle market buyout, and special situations). These private market investments are illiquid and typically have 10- to 15-year life cycles. The portfolio is highly diversified at the underlying portfolio company level.

Real Estate. Real estate holdings consist of directly-owned properties (76%) and real estate investment trusts (24%).

Timber/Natural Resources. Approximately 60% of this portfolio is invested in timberland investments, with the balance invested in natural resource-oriented companies such as oil, mining and energy companies.

Hedge Funds. This portfolio has investments in five active hedge funds of funds managers and one residual liquidating portfolio.

PRIT Fund Asset Allocation
(As of June 30)

	2010	2009	2008	2007	2006
Domestic Equity	19.90%	24.40%	26.10%	29.90%	27.50%
International Equity	20.00%	19.00%	20%	21%	19.80%
Emerging Markets	5.70%	5.00%	5.50%	5.50%	5.90%
Fixed Income	14.00%	13.00%	16.80%	15.40%	15.40%
Value-Added Fixed Income	7.00%	7.70%	5.00%	4.60%	5.30%
Private Equity	10.60%	9.60%	8.40%	6.70%	6.50%
Real Estate	9.10%	10.90%	10.90%	8.60%	11.00%
Timber/Natural Resources	4.10%	4.70%	2.10%	3.20%	3.50%
Hedge Funds	7.70%	5.70%	5.20%	5.10%	5.10%
Portable Alpha Wind Down(1)	1.90%	0.00%	0.00%	0.00%	0.00%

(1) Prior to January 1, 2010, Portable Alpha Assets were reflected in the Domestic Equity portfolio.

SOURCE: Pension Reserves Investment Management Board.

The following table sets forth the gross investment rates of return for the assets in the PRIT Fund for the last five fiscal years:

PRIT Fund Rates of Return

Fiscal Year	Rate of Return
2010	12.82%
2009	(23.87)%
2008	(1.81)%
2007	19.92%
2006	15.47%
5yr average	3.15%
10yr average	3.70%
Assumed Rate	8.25%

SOURCE: Pension Reserves Investment Management Board.

Other Post-Retirement Benefit Obligations (OPEB)

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

The Group Insurance Commission (GIC) of the Commonwealth manages the Commonwealth's defined benefit OPEB plan as an agent multiple employer program including the Commonwealth and 370 municipalities and other non-Commonwealth governmental entities. These entities that participate in the GIC are responsible for paying premiums at the same rate to the GIC and therefore benefit from the Commonwealth's premium rates. The GIC has representation on the Board of Trustees of the State Retiree Benefits Trust Fund (SRBTF). The SRBTF is set up solely to pay for OPEB benefits and the cost to administer those benefits and can only be dissolved when all such health care and other non-pension benefits, current and future have been paid or defeased. The GIC administers benefit payments, while the Trustees are responsible for investment decisions.

Employer and employee contribution rates are set by statute. The Commonwealth recognizes its share of the costs on an actuarial basis. As of June 30, 2009, Commonwealth participants contributed 0% to 20% of premium costs, depending on the date of hire and whether the participant is active, retiree or survivor status. As of July 1, 2009, all active employees were required to pay an additional 5% of premium costs. There were 145,971 participants eligible to receive benefits as of January 1, 2010.

Accounting standards promulgated in 2004 by the Governmental Accounting Standards Board (GASB) required the Commonwealth to begin disclosing its liability for other post-employment benefits (commonly referred to as "OPEB") in its fiscal 2008 financial reports. In 2006, the Comptroller of the Commonwealth contracted with a consulting firm to produce an actuarial valuation that calculated the liability of the present value of benefits if the Commonwealth chose to continue to fund that liability on a pay-as-you-go basis and what the liability would be should the Commonwealth choose to fully fund the liability over 30 years.

The most recent update of this actuarial valuation report was released in October, 2010. According to this report, the Commonwealth's actuarial accrued OPEB liability, assuming no pre-funding and using a discount rate of 4.5%, was approximately $15.166 billion as of January 1, 2010. The 4.5% discount rate (which is the rate of return since its inception of the Massachusetts Municipal Depository Trust) is intended to approximate the Commonwealth's rate of return on non-pension (liquid) investments over the long term. Assuming pre-funding, the study estimated the Commonwealth's liability to be approximately $11.365 billion using a discount rate of 6.4% and approximately $8.950 billion using a discount rate of 8.25%. In order to qualify its OPEB liabilities as pre-funded, the Commonwealth must deposit annual contributions in a qualifying trust in accordance with the requirements of

GASB Statement No. 45 (and similar to the program for funding the Commonwealth's unfunded actuarial liability for pensions).

As the Commonwealth is not fully funding the amortization of the actuarial liability, a liability for the difference between the amount funded and the actuarially required contribution is reflected on the Commonwealth's statement of net assets, as presented on a GAAP basis. The liability increases or decreases each year depending on the amount funded, investment return and changes in amortization and assumptions. This change in liability is reflected either as a revenue or expense item in the Commonwealth's statement of activities as presented on a GAAP basis, dependent on these factors. As of June 30, 2010, this net OPEB obligation as reflected on the Commonwealth's statement of net assets is $1.953 billion.

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

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

The executive and legislative branches have been working to develop a short- and long- term strategy for addressing the Commonwealth's OPEB liability. The State Retiree Benefits Trust Fund was created, and in fiscal 2008 spending for current retirees' healthcare occurred from the fund, helping to consolidate the state's retiree funding efforts and better project future liabilities. In fiscal 2008, the fund benefited from a one-time transfer of approximately $329 million from the Health Care Security Trust. The actuarial value of plan assets as of January 1, 2009 was approximately $309.8 million, reflecting market losses in investments.

The Executive Office for Administration and Finance estimates that the increased retirement ages for new employees proposed by the Governor in legislation filed on January 18, 2011 would reduce retiree health benefit costs by $1 billion for the Commonwealth over the next 30 years.

State Retiree Benefits Trust
(amounts in thousands)

	Actuarial Value of Plan Assets	Actuarial Liability	Accrued Unfunded Liability (UAAL)	Actuarial Ratio Covered	Funded Payroll	Annual Covered Payroll as % of UAAL
Actuarial Valuation as of Jan. 1, 2010	$309,800	$15,166,300	$14,856,500	2.00%	$4,711,563	315.30%
Actuarial Valuation as of Jan. 1, 2009	273,500	15,305,100	15,031,600	1.80%	4,712,655	319.00%
Actuarial Valuation as of Jan. 1, 2008	-	9,812,000	9,812,000	0.0%	4,574,233	214.5%

SOURCES: Office of the Comptroller and Public Employee Retirement Administration Commission.

As proposed by the Governor, legislation included in the fiscal 2011 budget amended state finance law to require deposits, on an annual basis, to the State Retiree Benefits Trust Fund in the amount of 5% of any capital gains tax revenues in excess of $1 billion.

STATE WORKFORCE

The following table sets forth information regarding the Commonwealth's workforce as of the end of the last five fiscal years and as of December 31, 2010.

State Workforce

	June 2006	June 2007	June 2008	June 2009	June 2010	December 2010
Executive Office	58	79	81	72	69	70
Office of the Comptroller	122	124	124	115	115	111
Executive Departments						
Administration and Finance (2)	2,990	2,791	2,904	2,861	2,768	2,698
Energy and Environmental Affairs (1)	2,057	2,168	2,236	2,208	2,020	1,991
Housing and Community Development (1)	91	-	-	-	-	-
Early Education and Care (3)	164	189	-	-	-	-
Health and Human Services	21,022	21,072	21,449	20,895	19,763	19,419
Transportation and Public Works (4)	1,078	1,087	1,245	1,200	-	-
Board of Library Commissioners	12	13	13	13	10	9
Economic Development (1)	960	-	-	-	-	-
Housing and Economic Development (1)	-	610	650	616	693	673
Labor and Workforce Development (1)	-	320	307	316	285	278
Executive Office of Education (3)	-	-	562	570	336	304
Department of Education (3)	266	269	-	-	-	-
Board of Higher Education (3)	60	55	-	-	-	-
Public Safety and Security	8,430	8,457	8,627	8,483	8,444	8,247
Elder Affairs	34	44	47	50	38	37
Subtotal under Governor's Authority	37,343	37,278	38,244	37,398	34,541	33,835
Judiciary	7,630	7,993	8,021	7,821	7,387	7,173
Higher Education	12,872	13,265	13,219	13,409	12,048	13,887
Other (5)	7,394	7,947	8,245	8,044	10,320	10,189
Subtotal funded by the Operating Budget	65,239	66,483	67,729	66,672	64,297	65,085
Federal Grant, Trust and Capital Funded	15,598	15,727	15,934	16,381	20,551	19,188
Total	**80,837**	**82,210**	**83,663**	**83,053**	**84,848**	**84,273**

SOURCE: Executive Office for Administration and Finance.

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

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

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

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

(5) Other includes members of the Legislature and their staff, the offices of the State Treasurer, Secretary, Auditor and Attorney General, the eleven District Attorneys, the seven former county sheriffs that have become state agencies, and other agencies independent from the Governor.

Unions and Labor Negotiations

Under Chapter 150E of the General Laws, all employees of the Commonwealth, with the exception of managerial and confidential employees and employees of the Legislature, have the right to bargain collectively with the Commonwealth through certified employee organizations recognized as exclusive bargaining representatives for appropriate bargaining units. The Human Resources Division of the Executive Office for Administration and Finance conducts the collective bargaining negotiations with all employees of the Commonwealth (except those noted below). Such negotiations may cover wages, hours and other terms and conditions of employment, but may not include the levels of pension and group insurance benefits. All labor agreements negotiated by the Human Resources Division are subject to approval by the Secretary of Administration and Finance and, once approved, are forwarded to the Legislature for funding approval. Labor contracts are often funded by supplemental appropriations.

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

Approximately 35,713 executive branch full-time-equivalent state employees are organized in 12 bargaining units, the employees of the Commonwealth's colleges and universities are organized in 28 bargaining units, and the employees of the judicial branch, the Lottery Commission, the Registries of Deeds, state sheriffs and the PCAs are organized in 30 bargaining units. Public employees of the Commonwealth do not have a legal right to strike or otherwise withhold services. Negotiations are actively underway with the State Police Association of Massachusetts to replace their contracts which expired December 31, 2008 and with the Coalition of Public Safety (COPS), whose contract also expired on June 30, 2009.

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

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

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

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

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

(5) The contract with the New England Police Benevolent Association, representing Unit 4A, runs from July 1, 2009 through June 30, 2012 and provides a 1% salary increase effective November 2010 and 3% increases June 30, 2011 and 2012. The total estimated cost of the contract is $0.5 million.

(6) The contract with the Massachusetts Nurses Association runs from January 1, 2010 through December 31, 2012 and provides increases of 1%, 3% and 3% effective December 31, 2010, 2011 and 2012 respectively. The total estimated cost of the contract is $11.1 million.

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

(8) The contract with the Massachusetts Correction Officers Federated Union runs from July 1, 2010 through June 30, 2012 and provides increases of 1%, 3% and 3% effective June 30, 2011, 2012 and 2013 respectively. The total estimated cost of the contract is $16.6 million.

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

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

Human Resources Division Bargaining Units(1)

Contract Unit	Bargaining Union	Type of Employee	FTEs	Contract Expiration Dates
1, 3, 6	National Association of Government Employees	Clerical, Skilled Trades, Administrative Professionals	10,542	6/30/12
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Institutional services	8,303	6/30/12
4	Massachusetts Correction Officers Federated Union	Corrections	3,739	6/30/09
4A	Corrections Captains	Corrections	90	6/30/08
5	Coalition of Public Safety	Law enforcement	199	6/30/09
5A, C22	State Police Association of Massachusetts	State Police	1,972	12/31/08
7	Massachusetts Nurses Association	Health professionals	1,566	12/31/08
8, 10	Alliance/Service Employees International Union	Social workers, Secondary Education	7,601	12/31/11
9	Massachusetts Organization of State Engineers and Scientists	Engineers/scientists	1,701	6/30/12
		Total	**35,713**	

SOURCE: Executive Office for Administration and Finance.

(1) Numbers represent full-time equivalent filled positions (FTEs) in the standard workforce as of February 26, 2011 whose positions are established in accounts funded by all sources (the annual operating budget, capital projects funds, direct federal grants and expendable trusts and other non-appropriated funds).

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SELECTED FINANCIAL DATA

Stabilization Fund

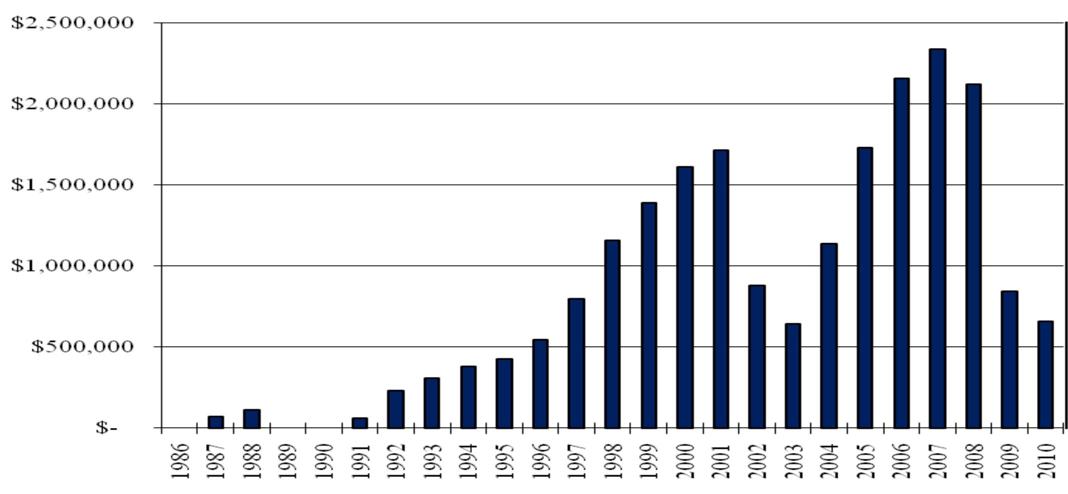
The Stabilization Fund is established by state finance law as a reserve of surplus revenues to be used for the purposes of covering revenue shortfalls, covering state or local losses of federal funds or for any event which threatens the health, safety or welfare of the people or the fiscal stability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

Required Deposits and Allowable Stabilization Fund Balance. Beginning July 1, 2004, state finance law has provided that (i) 0.5% of the net tax revenues from each fiscal year must be deposited into the Stabilization Fund at fiscal year-end, (ii) 0.5% of current-year net tax revenues must be made available for the next fiscal year before the year-end surplus is calculated and (iii) any remaining amount of the year-end surplus must be transferred to the Stabilization Fund. In accordance with language included in the fiscal 2010 budget, the Comptroller transferred $10 million of the fiscal 2010 consolidated net surplus to the Life Sciences Investment Fund prior to making transfers to the Stabilization Fund; similar language requiring a $10 million transfer to the Life Sciences Investment Fund from any fiscal 2011 consolidated net surplus was included in the fiscal 2011 budget. Prior to fiscal 2004, the allowable Stabilization Fund balance at fiscal year-end could not exceed 10% of the total revenues for that year. Since fiscal 2004, the allowable Stabilization Fund balance has been 15% of total current-year revenues. If the Stabilization Fund balance exceeds the allowable limit, the excess amounts are to be transferred to the Tax Reduction Fund.

There is currently no planned fiscal 2011 withdrawal from the Stabilization Fund. Instead, the Governor filed legislation on January 26, 2011 that would fund the statutorily required deposit into the Stabilization Fund of 0.5% of total tax revenue. This deposit was suspended in the fiscal 2011 budget. The value of this deposit is projected to be just under $100 million and would result in a projected fiscal 2011 ending balance in the Stabilization Fund of approximately $770 million.The Governor's budget recommendations for fiscal 2012 include a $200 million withdrawal from the Stabilization Fund, leaving an estimated fiscal 2012 ending balance of approximately $570 million.

The following chart shows the Stabilization Fund balance from fiscal 1986 through fiscal 2010.

Stabilization Fund Balance (in thousands)



SOURCE: Office of the Comptroller.

The following table shows the sources and uses of the Stabilization Fund during fiscal 2006 through fiscal 2010:

Stabilization Fund Sources and Uses (in thousands)

	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010
Beginning fund balances	$1,728,355	$2,154,664	$2,335,021	$2,119,194	$841,344
Revenues and Other Sources					
Consolidated net surplus	353,990	90,883	-	64,747	11,269
Lottery transfer taxes	4,204	2,680	2,243	2,436	1,982
Investment income	68,115	86,794	96,930	43,967	21,782
Excess permissible tax revenue	20,000	-	-	-	-
Total Revenues and Other Sources	446,309	180,357	99,173	111,150	35,033
Total Expenditures and Other Uses	20,000	-	315,000	1,389,000	206,574
Excess (Deficiency) of Revenues and Other Sources Over **Expenditures and Other Uses**	426,309	180,357	(215,827)	(1,227,850)	(171,541)
Ending fund balances	$2,154,664	$2,335,021	$2,119,194	$841,344	$669,803
Allowable Stabilization Fund Balance	$3,945,820	$4,292,382	$4,546,976	$4,382,687	$4,546,502

SOURCE: Office of the Comptroller.

GAAP Basis

The Commonwealth's GAAP financial statements for the year ended June 30, 2010, incorporated herein by reference as Exhibit C, are prepared in accordance with reporting standards first established by GASB Statements 34 and 35, as amended. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Fiscal Control, Accounting and Reporting Practices of Comptroller." The GAAP financial statements present a government-wide perspective, including debt, fixed assets and accrual activity on a comprehensive statement of net assets. All fixed assets, including road and bridge infrastructure and all long-term liabilities, including outstanding debt and commitments of long-term assistance to municipalities and authorities, are part of the statements. The Commonwealth's statement of revenues, expenditures and changes in fund balances are presented as a statement of activities.

The table below presents the transition from the Commonwealth's statutory basis budgetary fund balance to the "fund perspective" balance, as depicted in the fund financial statements, and then to the Commonwealth's "entity-wide" governmental financial position. Differences between statutory and GAAP basis can be summarized in five major adjustments. Those adjustments are for Medicaid (as well as the somewhat related liability for uncompensated care), taxes, projected amounts due to the Commonwealth in the next fiscal year under the master tobacco settlement agreement, claims and judgments and amounts due to authorities. As evidenced in the trend line of fund balance (deficit) over time, however, these adjustments connect the GAAP basis measurement when viewed using a fund perspective under GAAP and the statutory basis measurement. While the difference in fund balances may vary in a given fiscal year, both balances generally trend in the same direction. To convert to a full accrual basis, major adjustments are made for the net book value of the Commonwealth's assets, inclusive of infrastructure, the realizable value of long-term deferred revenues (largely from tax payment plans) and the amount of the Commonwealth's outstanding long-term debt and other liabilities.

Governmental Funds-Statutory to GAAP-Fund Perspective and to Governmental Net Assets

(Amounts in Millions of Dollars)

Governmental Funds-Statutory Basis, June 30, 2010	
Budgeted Fund Balance	903.1
Non-budgeted special revenue fund balance	886.6
Capital Projects Fund Balance	(256.9)
Governmental Funds-Statutory Basis, June 30, 2010	
Plus: Expendable Trust and similar fund statutory balances that are considered governmental fund for GAAP reporting purposes	441
Trust fund reclassified as Permanent trust fund	5
Adjusted Statutory Governmental Fund Balance	1,978.80
Short term accruals, net of allowances and deferrals for increases/(decreases)	
Taxes, net of refunds and abatements	1,668.40
Tobacco settlement agreement receivable	132
Medicaid	(335.2)
Assessments and other receivables	161.4
Amounts due to authorities and municipalities, net	(508.2)
Claims, judgments and other risks	(20.0)
Amounts due to healthcare providers and isnureres	(91.9)
Other accruals, net	199.6
Net increase to governmental funds balances	1,071.90
Massachusetts School Building Authority fund balance	1,535.00
Total changes to governmental funds	2,606.90
Governmental fund balance (fund perspective)	4,585.70
Plus: Capital assets including infrastructure, net of accumulated depreciation	3,998.70
Deferred revenue, net of other eliminations	821.80
Long term accruals:	
Pension benefits cumulative over/(under) funding	(1,218.1)
Post employment benefits other than pensions cumulative over/(under) funding	(1,953.0)
Environmental remediation liability	(168.2)
Massachusetts School Bulding Authority debt and school construction payables	(7,378.4)
Long term debt, unamortized premiums and deferred losses on debt refundings	(19,903.0)
Compensated Absences	(469.8)
Capital leases	(76.6)
Accrued interest on bonds	(303.0)
Other long term liabilities	(309.4)
Total governmental net assets (government-wide perspective)	**(22,373.4)**

SOURCE: Office of the Comptroller

The liabilities of the Commonwealth exceeded its assets at the end of fiscal 2010 by over $18.6 billion, a reduction of over $10.3 billion during the fiscal year. The vast majority of the change relates to the creation of MassDOT, as explained below.

Change in Statement of Net Assets
(amounts in thousands of dollars)

	Governmental Activities	Business Type Activities	Government Wide
Total net assets:			
Fiscal Year 2009	(12,153,655)	3,930,142	(8,223,513)
Fiscal Year 2010	(22,373,344)	3,773,448	(18,599,896)
Change in net assets	(10,219,689)	(156,694)	(10,376,383)
Less MassDOT net asset transfers	(8,983,955)	-	(8,983,955)
Central Artery Assets	(6,983,458)	-	(6,983,458)
Assets Payable to the MTA	6,983,458	-	6,983,458
Net change	(1,235,734)	(156,694)	(1,392,428)

The creation of MassDOT is reflected as transfer out of government activities as it occurred November 1 (mid-fiscal year) but is reflected as beginning balance adjustments in the component unit column in the Commonwealth's financial statements, as the transfers were part of MassDOT's beginning balance at its creation. The table below shows how the transfers shown above affecting the government activities translates into beginning balance adjustments in the Component Unit financial statements.

The effect of MassDOT's creation on beginning component unit net assets is as follows (amounts in thousands of dollars):

Net assets, as previously reported	11,288,684
Fund equity transfer	504,739
Central Artery and other capital asset transfers	15,521,441
Other	(249,525)
Net assets as stated	27,065,339

As noted above, about $8.9 billion of this change is attributable to the MassDOT reorganization. Of the $18.6 billion deficit amount, "unrestricted net assets" is negative by almost $21.1 billion, and there is a nearly $886 million deficit attributable to the Commonwealth's investment in capital assets net of related debt. There are two primary reasons for negative unrestricted net assets: first, the Commonwealth has a liability of $7.4 billion for its share of the construction costs of schools owned and operated by municipalities through the Massachusetts School Building Authority (MSBA); second, with the creation of MassDOT, virtually all highway and bridge assets of the Commonwealth totaling approximately $15.5 billion, net of depreciation, were transferred to the new entity. The Commonwealth, however, paid for the construction of these assets and retains a large amount of related debt, which will now be unrelated to any capital asset owned by the Commonwealth. These negative amounts are offset by $1.7 billion in "restricted net assets."

During the fiscal year, approximately $447 million in restricted net asset balances were set aside for unemployment benefits and an additional approximate $589 million were restricted for debt retirement.

Revenues – GAAP Basis. The measurement of revenues for the budgeted operating funds from a statutory basis differs from governmental revenues on a GAAP basis in that certain funds that are not governmental for statutory purposes are included on a GAAP basis, including revenue accruals for Medicaid and taxes, which are included on a GAAP basis but not on a statutory basis. In addition, internal transfers are eliminated under GAAP from an entity-wide perspective. The following table shows the distribution of major sources of revenue in fiscal 2010:

Comparison of Fiscal 2010 Governmental Revenues (in millions)

	Governmental Funds	GAAP Basis – Governmental	
	Statutory Basis	Fund Perspective	Entity-wide Perspective
Taxes	$18, 792	$18,990	$19,034
Federal Revenue	12,508	12,425	12, 424
Departmental and Miscellaneous Revenue	15,336	18,438	9,232
Total	**$46,6362**	**$49,853**	**$40,690**

SOURCE: Office of the Comptroller.

The following table provides financial results on a GAAP basis for all governmental operating funds of the Commonwealth for fiscal 2006 through fiscal 2010.

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

	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010
Beginning fund balances	$5,048.6	$7,263.2	$7,735.9	$7,062.7	$5,061.3
Restatement due to fund reclassification	-	5.0	-	-	-
Revenues and Financing Sources	47,189.9	49,402.2	50,136.8	49,787.9	49,853.1
Expenditures and Financing Uses	44,975.3	48,934.5	50,810.0	51,789.3	50,328.7
Excess (deficit)	2,214.6	472.7	(673.2)	(2,001.4)	(475.6)
Ending fund balances—GAAP fund perspective	**$7,263.2**	**$7,735.9**	**$7,062.7**	**$5,061.3**	**$4,585.7**

SOURCE: Office of the Comptroller.

Financial Reports. The Commonwealth issues annual reports, including financial statements on the statutory basis of accounting (reviewed not audited) and the GAAP basis audited financial statements . These financial statements are issued as two separate reports, the Statutory Basis Financial Report (SBFR) and the Comprehensive Annual Financial Report (CAFR). The SBFR is published by the Comptroller by October 31 and the CAFR is published by the Comptroller by the second Wednesday in January. The Commonwealth's CAFR with respect to fiscal 2010 was delayed because of the need to incorporate independently audited fiscal 2010 financial statements for MassDOT. The MassDOT financial statements were issued on January 10, 2011, and the Comptroller issued the fiscal 2010 CAFR on January 24, 2011. The SBFR for the year ended June 30, 2010 and the CAFR for the year ended June 30, 2010 are included herein by reference as Exhibits B and C, respectively. For fiscal 1991 through 2010 the independent auditor's opinions were unqualified. Copies of these financial reports are available at the address provided under "CONTINUING DISCLOSURE." The SBFR for fiscal 1997 through fiscal 2010 and the CAFR for fiscal 1994 through fiscal 2010 are also available on the web site of the Comptroller of the Commonwealth located at http://www.mass.gov/osc by clicking on "Financial Reports/Audits."

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

For each year beginning in fiscal 1991, the Commonwealth CAFRs, from which certain information contained in this Information Statement has been derived, have been awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. Fiscal 2009 marked the nineteenth consecutive year that the Commonwealth has received this award. The CAFR for fiscal 2010 has been submitted to the GFOA for the award.

Discussion of Financial Condition

As the annual operating budget of the Commonwealth is adopted in accordance with the statutory basis of accounting, public and governmental discourse on the financial affairs of the Commonwealth has traditionally followed the statutory basis. Consequently, the financial information set forth in this document follows the statutory basis, except where otherwise noted. Since fiscal 1990, the Commonwealth has prepared separate audited financial reports on the statutory basis and on a GAAP basis. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS – Fiscal Control, Accounting and Reporting Practices of Comptroller; *Financial Reports*." The SBFR for the year ended June 30, 2010 is included herein by reference as Exhibit B. The CAFR for the year ended June 30, 2010 is included herein by reference as Exhibit C. Without limiting the generality of the references to the SBFR and CAFR for the year ended June 30, 2010, attention is called in particular to the portion of the CAFR under the heading "Management's Discussion and Analysis."

Auditor's Report on Fiscal 2010 CAFR

The basic financial statements included in the CAFR of the Commonwealth for the year ended June 30, 2010 were audited by KPMG LLP (KPMG). The KPMG audit report dated January 18, 2011 on the general purpose financial statements included in the CAFR for the year ended June 30, 2010 contained an unqualified opinion. A copy of the audit report of KPMG dated January 18, 2011 has been filed with EMMA and is incorporated by reference in Exhibit C to this Information Statement and in each statement in this Information Statement referred to the Commonwealth CAFR for the year ended June 30, 2010. KPMG has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has said independent auditor performed any procedures relating to the official statement of which this Information Statement is a part.

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FISCAL 2011 AND FISCAL 2012

Fiscal 2011

On June 30, 2010 the Governor approved the fiscal 2011 budget, which totaled $27.570 billion. The Governor vetoed approximately $457 million from the budget that was enacted by the Legislature. Such vetoes included $372 million of appropriations funded from additional federal Medicaid matching funds (FMAP) that were assumed in the budget, but which the United States Congress had not yet approved. (The FMAP extension legislation was subsequently approved.) A six-month extension of the enhanced FMAP rate was anticipated in the Governor's fiscal 2011 budget proposals filed in January, 2010, as well as in both the House and Senate versions of the budget. In addition, the budget enacted by the Legislature included $54 million in anticipated federal assistance for needy families that has not yet been approved by Congress. The budget enacted by the Legislature also included approximately $21 million in Lottery revenues in excess of revenue projections given by the State Lottery Commission. The Governor vetoed certain funding in the fiscal 2011 budget to solve for the exposures anticipated at that time.

The fiscal 2011 budget included a $100 million withdrawal from the Stabilization Fund, the use of fiscal 2011 interest earnings on the Stabilization Fund and an additional $95 million in savings by suspending the statutory carryover of the General Fund balance into fiscal 2012. Taking all that into account, the Stabilization Fund was projected, when the fiscal 2011 budget was signed into law, to have a $556 million balance at the end of fiscal 2011. The fiscal 2011 budget also relies on $809 million in remaining available federal funds under the American Recovery and Reinvestment Act of 2009.

On August 5, 2010, the Governor signed into law legislation relating to economic development that includes four sets of provisions affecting tax revenues:

- The legislation extends the net operating loss carry-forward period for specified categories of taxpayers (generally including business corporations but not financial institutions or utility corporations) filing under the corporate excise tax from five years to 20 years, for losses sustained in tax years beginning in calendar year 2010. The Department of Revenue estimates that the static revenue loss under this provision will be approximately $4.7 million in fiscal 2016, $12.6 million in fiscal 2017, $19.8 million in fiscal 2018, $25.5 million in fiscal 2019, and $30.3 million in fiscal 2020. The Department of Revenue estimates that the static revenue loss under this provision will increase annually until the tax law change is fully phased in by fiscal 2031, at which point the annual revenue loss will be approximately $92.2 million.

- The legislation institutes a reduced 3% capital gains tax rate under the individual income tax for sale of investments in certain Massachusetts-based start-ups. The new rate takes effect for tax years beginning on or after January 1, 2011 with respect to investments in corporations incorporated on or after January 1, 2011, but a three-year holding period is required. The Department of Revenue estimates that this provision will result in a static revenue loss of $0.1 million in fiscal 2014, $0.7 million in fiscal 2015, $2.3 million in fiscal 2016, $4.0 million in fiscal 2017, and $5.7 million in fiscal 2018. The Department of Revenue estimates that the static revenue loss under this provision will increase annually until fiscal 2022, at which point the annual revenue loss will be approximately $13.5 million.

- The legislation provides for the exclusion of income of a non-U.S. corporation from a "water's edge" combined report under the corporate excise tax if the income is not subject to U.S. federal income tax by reason of an exemption in a federal bi-lateral treaty, effective for tax years beginning January 1, 2009. Other income of a non-U.S. corporation that is derived from U.S. sources (as well as income effectively connected with a U.S. trade or business) would continue to be included in the combined group's Massachusetts income tax base in accordance with the combined reporting statute and regulations, including in situations where a federal treaty reduces the federal tax rate on such income but does not completely exempt the income from tax. The Department of Revenue estimates that this provision will probably result in a revenue reduction or revenue forgone of up to approximately $28 million annually, with a potentially larger revenue loss in fiscal 2011 due to the retroactive nature of the change. See "COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes; *Corporate Tax Reform*."

- The legislation established a sales tax holiday on August 14-15, 2010. All non-business retail sales of $2,500 or less were exempt from the Massachusetts sales tax, excluding telecommunications services, motor vehicles, meals, utilities, motor boats, and tobacco products. The Department of Revenue certified on December 29, 2010 that the sales tax holiday resulted in a static revenue loss of approximately $19.9 million in fiscal 2011. See "COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes; *Sales and Use Tax*."

On August 10, 2010, the President signed a $26 billion state-aid package that would provide additional federal funding to the states for Medicaid and teachers' pay. This measure extends the FMAP rate originally set to expire December 31, 2010 to June 30, 2011, which is expected to provide approximately $449 million in additional Medicaid reimbursement to the Commonwealth. The state-aid package is also expected to provide approximately $204 million to the Commonwealth to retain or hire teachers at local school districts.

On October 15, 2010 the Governor approved supplemental budget legislation that included approximately $419 million in supplemental appropriations in order to preserve program funding for safety net services and public safety functions. This additional funding was supported with $399 million of the $449 million in estimated additional federal revenues to be provided to the Commonwealth in fiscal 2011 from the August 2010 extension of the FMAP rate through June 30, 2011. This leaves $50 million in such revenues currently unexpended. The legislation also eliminated the planned fiscal 2011 withdrawal of $100 million from the Stabilization Fund and restored the "statutory carry forward" in fiscal 2011, worth approximately $95 million. Of the $419 million in supplemental funding, approximately $327 million was provided for the MassHealth program. The Commonwealth receives additional federal Medicaid reimbursements for these expenditures, leaving the "net" total amount of supplemental funding at approximately $203 million.

On January 4, 2011 the Governor approved $330 million in supplemental appropriations, including $258 million for the MassHealth program, $20 million for the Commonwealth Care Bridge Program and $16 million for the emergency assistance shelter program.

On January 18, 2011 the Secretary of Administration and Finance, in consultation with the chairs of the House and Senate Committees on Ways and Mean and based on available data on tax revenue collections and economic trends, revised the fiscal 2011 tax revenue estimate from $19.078 billion to $19.784 billion. The Secretary also revised the non-tax revenue estimate to account for, among other non-tax revenue items, the fact that the Secretary no longer expects approximately $160 million in estimated fiscal 2011 revenues tied to reimbursement for certain costs associated with the Special Disability Workload, owed by the federal government to the Commonwealth, to be received in fiscal 2011. When the fiscal 2011 budget was signed into law, it appeared likely that the United States Congress would fund these amounts owed to states before the November, 2010 elections. However, the Secretary of Administration and Finance is now less confident that the Commonwealth will receive this amount from the federal government in fiscal 2011.

On January 26, 2011, the Governor filed legislation requesting supplemental fiscal 2011 appropriations totaling $311.7 million, including $183.3 million for additional payments from the Medical Assistance Trust Fund to hospitals (these payments will be entirely supported by offsetting federal revenues in fiscal 2011), $32.6 million for a reserve for the Trial Court to support collective bargaining increases for OPEIU Local 6, $25 million for additional projected snow and ice removal costs, $14.4 million to support cash assistance caseload spending at the Department of Transitional Assistance, $25 million for additional funding to support Underground Storage Tank reimbursements, $8.2 million for the operations of the Fernald Development Center in Waltham (which has remained open beyond projected closure dates) and $6 million for projected caseload spending by the Department of Housing and Community Development for Emergency Assistance family homeless shelters.

In addition, the legislation provides for other requests such as line item transfer authority for MassHealth and the Department of Early Education and Care to manage caseload and utilization changes, and authorization for the Secretary of Administration and Finance to fund the statutorily required deposit into the Stabilization Fund of 0.5% of total tax revenue. This deposit was suspended in the fiscal 2011 budget. The value of this deposit is projected to be $95 million and would result in a projected fiscal 2011 ending balance of $770 million in the Stabilization Fund.

Fiscal 2012 Budget Proposals

On January 18, 2011, a fiscal 2012 consensus tax revenue estimate of $20.525 billion was agreed upon by the Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means. The fiscal 2012 consensus tax revenue estimate of $20.525 billion represents revenue growth of 3.7% actual and 5.3% baseline from the revised fiscal 2011 estimate of $19.784 billion.

On January 26, 2011, the Governor filed with the Legislature his budget recommendations for fiscal 2012. The Governor's recommendations call for total spending in fiscal 2012 to be less than total anticipated spending in fiscal 2011 by $570 million, or 1.8%, after accounting for close to $400 million of off-budget spending in fiscal 2011 for Chapter 70 education aid, higher education and special education from federal stimulus funds that would otherwise be accounted for within the state budget. After accounting for one-time resources supporting the fiscal 2011 budget and estimated changes in tax and non tax revenues, the total available resources expected to be available in fiscal 2012 are $1.2 billion less than fiscal 2011. The Governor has proposed $627 million in additional resources to support the fiscal 2012 budget, resulting in a total budget that is $570 million below fiscal 2011 estimated spending. Of the $627 million in additional resources, $385 million are considered by the Executive Office for Administration and Finance to be one-time resources, including a withdrawal of $200 million from the Stabilization Fund. The $200 million withdrawal from the Stabilization Fund leaves a projected fiscal 2012 ending balance of approximately $570 million. The Governor's fiscal 2012 budget recommendations also include a proposal to require any one-time litigation or tax settlements in excess of $10 million to be deposited into the Stabilization Fund. The $385 million in fiscal 2012 one-time resources is an approximate $1.5 billion decrease from one-time resources currently assumed in the fiscal 2011 budget.

In addition to the $200 million withdrawal from the Stabilization Fund, the fiscal 2012 budget recommendation includes the following revenue proposals: $99 million in additional abandoned property revenues above the roughly $90 million that are typically collected each year; $46 million from the delay of the FAS 109 deduction, which will become effective in the next tax year; $8 million in state revenues from clarifying that hotel resellers must collect hotel occupancy taxes on their mark-ups; $78 million from additional federal Medicaid revenue adopted under a waiver with the Centers for Medicare and Medicaid Services; $61.5 million from enhanced tax collection activities performed by the Department of Revenue; $40 million in revenue maximization efforts to optimize federal revenue and other sources; $20 million from the modernization of bottle redemption laws to include a broader group of beverage sales subject to the 5¢ bottle deposit; $20 million from making technical clarifications to the state's existing corporate sales factor rules; $25 million from contributions from quasi-public authorities; and other revenue initiatives totaling $30 million in fiscal 2012.

Included in the Governor's fiscal 2012 budget, or in legislation filed concurrently with the budget recommendations, are a number of reform initiatives including: pension reform; criminal justice reform; homeless shelter reform; and a municipal relief package. Many of these and other reform proposals are expected to generate savings that have been assumed in the Governor's fiscal 2012 budget proposal. The Governor's budget proposal also assumes growth in spending for the Commonwealth's health care coverage programs, including MassHealth, Commonwealth Care and the Group Insurance Commission, will be avoided in fiscal 2012 based on new procurement and enrollment strategies expected to drive care to lower-cost settings. With respect to MassHealth, other steps to control growth in costs are also being taken, including reductions in provider and managed care plan rates, reductions in certain optional benefits and increases in certain co-payments. In the absence of these steps to control growth in costs, the Executive Office for Administration and Finance estimates that costs in the Commonwealth's health care coverage programs would grow by approximately $1 billion.

The House of Representatives generally approves its version of the budget in late April, and the Senate generally approves its version in late May. The differences between the two versions are then reconciled by a legislative conference committee during the month of June, so that a final version can be enacted by the Legislature and sent to the Governor for his approval prior to the start of the new fiscal year on July 1.

Cash Flow

The State Treasurer is responsible for cash management and ensuring that all Commonwealth financial obligations are met on a timely basis. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Cash Management Practices of State Treasurer." Cash flow management incorporates the periodic use of short-term borrowing to meet cash flow needs for both capital and operating expenditures. In particular, the Commonwealth makes local aid payments of approximately $1 billion to its cities and towns at the end of each calendar quarter, which in recent years has often resulted in the need for short-term cash flow borrowings. All short-term cash flow borrowings, including both commercial paper and revenue anticipation notes, must be repaid by the end of the fiscal year. The state currently has liquidity support for a $200 million tax-exempt commercial paper program for general obligation notes. The Commonwealth is in the process of adding two additional lines of credit for the commercial paper program, in the amount of $200 million per line. This would bring the capacity of the commercial paper program to $600 million. The two additional lines of credit are expected to be available in April, 2011. The Commonwealth has relied upon the commercial paper program for additional liquidity since 2002.

The Commonwealth ended fiscal 2010 with an overall increase in the non-segregated cash balance from $805.3 million (at the end of fiscal 2009) to $844.2 million, as compared to a projection of $860.2 million in the June 3, 2010 cash flow forecast.

On February 28, 2011, the State Treasurer and the Secretary of Administration and Finance released cash flow statements for fiscal 2011 and fiscal 2012, which are summarized in the tables below. The fiscal 2011 cash flow statement is based upon the fiscal 2011 budget signed on June 30, 2010 (including the value of all vetoes and subsequent overrides), all supplemental appropriations filed, enacted or anticipated, and all prior appropriations continued into fiscal 2011. The fiscal 2012 cash flow statement is based upon the consensus tax revenue estimate announced on January 18, 2011 and the Governor's budget recommendations for fiscal 2012.

The Commonwealth's five-year capital investment plan, which is reviewed annually, calls for approximately $2.3 billion of bonds to be issued in fiscal 2011. This amount includes $1.625 billion in general obligation bonds issued under the bond cap and $675 million of borrowing for the accelerated bridge program (which includes $300 million of borrowing for the program carried over from prior fiscal years, as well as $375 million in borrowing for fiscal 2011). The plan calls for approximately $2.070 billion of bonds to be issued in fiscal 2012, including $1.750 billion in general obligation bonds issued under the bond cap and $320 million of borrowing for the accelerated bridge program. See "COMMONWEALTH CAPITAL INVESTMENT PLAN," "LONG-TERM LIABILITIES – Special Obligation Debt; *Commonwealth Transportation Fund*" and "LONG-TERM LIABILITIES – Federal Grant Anticipation Notes" herein.

On August 26, 2010 the State Treasurer issued $358 million in general obligation bonds under the bond cap and $1.2 billion in revenue anticipation notes to support the state's cash flow. The revenue anticipation notes are scheduled to mature in late April, 2011, late May, 2011 and late June, 2011. The State Treasurer issued an additional $350 million in general obligation bonds under the bond cap on December 1, 2010. The State Treasurer also issued general obligation refunding bonds on July 29, 2010 (approximately $120.4 million) and September 15, 2010 (approximately $165.6 million) to refund certain Commonwealth bonds that matured on August 1, 2010, October 1, 2010 and November 1, 2010, pursuant to special legislation enacted in conjunction with the fiscal 2011 budget. Both series of refunding bonds were sold on July 23, 2010. The refunding bonds mature in 2014 and 2015.

The next cash flow statement is expected to be released on or about May 31, 2011.

Overview of Fiscal 2011 Non-Segregated Operating Cash Flow (in millions) (1)
(as of February 28, 2011)

	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10	Jan-11	Feb-11	Mar-11	Apr-11	May-11	June-11	Total FY 2011
Opening Non-Segregated Operating Cash Balance	$844.3	$1,082.1	$1,852.1	$1,715.3	$1,522.1	$1,661.8	$1,558.0	$1,948.1	$1,485.0	$1,050.0	$1,974.2	$2,048.0	$844.3
Operating Activities:													
Budgetary Funds:													
Transfer from/(to) Stabilization Fund	0.0	0.0	12.7	0.0	(11.3)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1.5
Total Budgetary Revenue/Inflows	2,599.9	2,357.6	2,969.4	2,468.2	2,817.7	3,205.3	2,975.0	2,233.6	3,247.7	3,398.7	2,739.5	3,273.2	34,285.6
Total Budgetary Expenditures/Outflows	2,278.1	2,140.8	2,979.4	2,083.1	2,395.8	3,005.9	2,101.1	2,575.4	3,684.1	2,351.5	2,348.1	2,956.5	30,899.8
Net Budgetary Funds	321.8	216.8	(10.0)	385.1	421.8	199.4	873.8	(341.8)	(436.4)	1,047.1	391.4	316.7	3,385.7
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	575.5	666.1	637.9	537.9	860.4	443.9	576.3	868.4	871.4	892.7	833.0	863.3	8,626.7
Total Non Budgetary Expenditures/Outflows	875.0	949.0	933.0	944.0	981.5	1,235.6	948.4	850.5	978.0	872.5	811.4	913.1	11,292.0
Net Non Budgetary Funds	(299.5)	(283.0)	(295.1)	(406.2)	(121.0)	(791.8)	(372.1)	17.9	(106.6)	20.2	21.6	(49.8)	(2,665.3)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	0.4	1.5	1.6	1.9	1.6	1.4	1.6	1.0	1.0	1.0	1.0	1.0	15.2
Net Operating Activities	**$22.7**	**$(64.7)**	**$(303.5)**	**$(19.1)**	**$302.4**	**$(590.9)**	**$503.4**	**$(322.9)**	**$(542.0)**	**$1,068.4**	**$413.9**	**$267.8**	**$735.6**
Federal Grants:													
Total Federal Grants Revenue/Inflows	277.5	194.3	278.9	180.7	229.0	278.0	255.0	221.0	221.0	235.0	225.0	290.0	2,885.4
Total Federal Grants Expenditures/Outflows	230.2	332.8	188.1	195.7	235.8	294.5	235.3	222.5	225.2	230.9	223.5	281.0	2,895.5
Net Federal Grants	**$47.3**	**$(138.5)**	**$90.8**	**$(15.0)**	**$(6.8)**	**$(16.5)**	**$19.7**	**$(1.5)**	**$(4.2)**	**$4.1**	**$1.5**	**$9.0**	**$(10.1)**
Capital Funds:													
Total Capital Revenue/Inflows	422.1	0.6	293.0	80.0	51.7	699.4	36.6	50.1	298.9	379.3	345.8	258.3	2,915.8
Total Capital Expenditures/Outflows:	254.3	227.5	217.1	239.0	207.7	195.9	169.5	188.8	187.7	177.6	262.4	316.7	2,644.3
Net Capital Funds	**$167.8**	**$(226.9)**	**$75.9**	**$(159.0)**	**$(156.0)**	**$503.5**	**$(133.0)**	**$(138.7)**	**$111.2**	**$201.7**	**$83.4**	**$(58.5)**	**$271.5**
Financing Activities:													
Cash Flow Financing Activities Inflows:													
Commercial Paper	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revenue Anticipation Notes (RANS)	0.0	1,200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,200.0
Total Cash Flow Financing Activities Inflows	0.0	1,200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,200.0
Cash Flow Financing Activities Outflows:													
Commercial Paper – (Principal + Interest)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RANS – (Principal + Interest)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	350.0	425.0	425.0	1,200.0
Total Cash Flow Financing Activities Outflows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	350.0	425.0	425.0	1,200.0
Net Financing Activities	**$0.0**	**$1,200.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**0.0**	**$0.0**	**$0.0**	**$(350.0)**	**$(425.0)**	**$(425.0)**	**$0.0**
Ending Non-Segregated Operating Cash Balance	**$1,082.1**	**$1,852.1**	**$1,715.3**	**$1,522.1**	**$1,661.8**	**$1,558.0**	**$1,948.1**	**$1,485.0**	**$1,050.0**	**$1,974.2**	**$2,048.0**	**$1,841.3**	**$1,841.3**

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

Overview of Fiscal 2012 Non-Segregated Operating Cash Flow (in millions) (1)

(as of February 28, 2011)

	Jul-11	Aug-11	Sep -11	Oct -11	Nov -11(2)	Dec-11 (2)	Jan-12 (2)	Feb-12 (2)	Mar-12(2)	Apr-12 (2)	May-12(2)	June-12(2)	Total FY 2012 (2)
Opening Non-Segregated Operating Cash Balance	$1,841.3	$1,799.8	$1,161.6	$2,005.2	$1,669.7	$1,379.0	$1,297.0	$1,883.0	$1,687.7	$1,323.6	$2,171.3	$2,264.8	$1,841.3
Operating Activities:													
Budgetary Funds:													
Transfer from/(to) Stabilization Fund	0.0	0.0	0.0	(98.9)	0.0	200.;0	0.0	0.0	0.0	0.0	0.0	0.0	101.1
Total Budgetary Revenue/Inflows	2,531.0	2,29.1	3,102.5	2,199.6	2,276.7	3,290.1	3,035.8	2,312.0	3,226.8	3,716.5	2,803.8	3,240.1	33,964.1
Total Budgetary Expenditures/Outflows	2,463.3	2,597.8	3,213.4	2,277.9	2,217.5	2,986.5	2,145.6	2,313.8	3,353.8	2,326.5	2,284.3	2,912.8	31,066.3
Net Budgetary Funds	94.7	(368.7)	(110.8)	(78.3)	59.2	303.6	890.2	(1.8)	(127.0)	1,390.0	519.5	327.3	2,897.8
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	660.7	680.1	678.6	785.3	732.7	810.6	748.3	626.4	766.7	578.5	587.8	677.6	8,333.4
Total Non Budgetary Expenditures/Outflows	909.5	929.5	916.5	979.7	1,004.0	1,081.5	1,007.5	864.2	1,017.5	861.5	791.5	905.1	11,268.0
Net Non Budgetary Funds	(248.8)	(249.4)	(237.9)	(194.4)	(271.3)	(270.9)	(259.2)	(237.8)	(250.8)	(283.0)	(203.7)	(227.5)	(2,934.6)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net Operating Activities	**$(154.2)**	**$(618.1)**	**$(348.7)**	**$(272.7)**	**$(212.1)**	**$32.7**	**$631.0**	**$(239.6)**	**$(377.8)**	**$1,107.0**	**$315.9**	**$99.8**	**$(36.8)**
Federal Grants:													
Total Federal Grants Revenue/Inflows	280.0	200.0	280.0	195.0	225.0	275.0	260.0	230.0	225.0	250.0	225.0	285.0	2,930.0
Total Federal Grants Expenditures/Outflows	234.0	328.0	212.5	189.5	240.0	291.5	233.0	232.0	240.5	234.0	223.5	273.0	2,931.5
Net Federal Grants	**$46.0**	**$(128.0)**	**$67.5**	**$5.5**	**$(15.0)**	**$(16.5)**	**$27.0**	**$(2.0)**	**$(15.5)**	**$16.0**	**$1.5**	**$12.0**	**$(1.5)**
Capital Funds:													
Total Capital Revenue/Inflows	326.7	332.5	195.5	175.4	188.1	193.2	193.3	231.5	225.1	254.4	476.2	476.2	3,267.9
Total Capital Expenditures/Outflows:	260.0	224.6	270.7	243.6	251.7	291.4	265.3	185.1	195.9	179.7	275.1	342.0	2,985.1
Net Capital Funds	**$66.7**	**$107.88**	**$(75.23)**	**$(68.23)**	**$(63.63)**	**$(98.23)**	**$(72.03)**	**$46.38**	**$29.18**	**$74.73**	**$201.08**	**$134.18**	**$282.8**
Financing Activities:													
Cash Flow Financing Activities Inflows:													
Commercial Paper	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Revenue Anticipation Notes (RANS)	0.0	0.0	1,200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,200.0
Total Cash Flow Financing Activities Inflows	0.0	0.0	1.,200.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	1,200.0
Cash Flow Financing Activities Outflows:													
Commercial Paper – (Principal + Interest)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
RANS – (Principal + Interest)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	350.0	425.0	425.0	1,200.0
Total Cash Flow Financing Activities Outflows	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	350.0	425.0	425.0	1,200.0
Net Financing Activities	**$ 0.0**	**$0.0**	**$1,200.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$(350.0)**	**$(425.0)**	**$(425.0)**	**$0.0**
Ending Non-Segregated Operating Cash Balance	**$1,799.8**	**$1,161.6**	**$2,005.2**	**$1,669.7**	**$1,379.0**	**$1,297.0**	**$1,883.0**	**$1,687.7**	**$1,323.6**	**$2,171.3**	**$2,264.8**	**$2,085.8**	**$2,085.8**

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

(2) Figures are estimated.

LONG-TERM LIABILITIES

General Authority to Borrow

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

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

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

Other Long-Term Liabilities. The Commonwealth is also authorized to pledge its credit in aid of and provide contractual support for certain independent authorities and political subdivisions within the Commonwealth. These Commonwealth liabilities are classified as (a) general obligation contract assistance liabilities, (b) budgetary contract assistance liabilities or (c) contingent liabilities. In addition, the Commonwealth is authorized to pledge its credit in support of scheduled, periodic payments to be made by the Commonwealth under interest rate swaps and other hedging agreements related to bonds or notes of the Commonwealth.

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

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

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

Statutory Limit on Direct Debt. Legislation enacted in December 1989 imposes a limit on the amount of outstanding "direct" bonds of the Commonwealth. The law, which is codified in Section 60A of Chapter 29 of the General Laws, set a fiscal 1991 limit of $6.8 billion and provided that the limit for each subsequent fiscal year was to be 105% of the previous fiscal year's limit. This limit is calculated under the statutory basis of accounting, which differs from GAAP in that the principal amount of outstanding bonds is measured net of underwriters' discount, costs of issuance and other financing costs. The law further provides that bonds to be refunded from the proceeds of Commonwealth refunding bonds are to be excluded from outstanding "direct" bonds upon the issuance of the refunding bonds. Pursuant to special legislation enacted over the years, certain outstanding Commonwealth debt obligations are not counted in computing the amount of bonds subject to the limit, including Commonwealth refunding/restructuring bonds issued in September and October, 1991, federal grant anticipation notes, bonds issued to pay operating notes issued by the MBTA or to reimburse the Commonwealth for advances to the MBTA, bonds payable from the Central Artery and Statewide Road and Bridge Infrastructure Fund, bonds issued to finance the Massachusetts School Building Authority and bonds issued to finance the Commonwealth's accelerated structurally-deficient bridge program. The statutory limit on "direct" bonds during fiscal 2011 is approximately $18.042 billion.

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

Calculation of the Debt Limit
(in thousands)

	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010
Balance as of June 30	$18,461,406	$18,736,961	$18,734,440	$19,264,569	$19,726,507
Plus/ (Less) amounts excluded:					
Unamortized (discount)/premium and issuance costs	112,673	102,043	123,390	216,890	216,688
Special obligation debt (1)	(1,291,266)	(1,260,941)	(1,126,668)	(1,100,698)	(1,063,500)
Federal grant anticipation notes (1)	(1,789,876)	(1,666,690)	(1,536,206)	(1,134,797)	(997,467)
Assumed county debt	(525)	(450)	(375)	(300)	(225)
MBTA forward funding	(416,830)	(368,873)	(309,203)	(231,000)	(165,559)
Transportation Infrastructure Fund	(1,476,287)	(1,462,870)	(1,434,654)	(1,401,581)	(1,243,250)
MSBA	(1,000,002)	(946,285)	(946,285)	(921,751)	(894,502)
Outstanding Direct Debt(2)	$12,599,293	$13,132,895	$13,504,384	$14,691,322	$15,578,692
Statutory Debt Limit	$14,136,712	$14,843,547	$15,585,725	$16,365,011	$17,183,261

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

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

Debt Service Expenditures (in millions)

Fiscal Year	Budgeted Debt Service	Total Budgeted Expenditures and Other Uses	Percentage
2006	$1,422.8	$25,584.6	5.6
2007	1,611.6	28,922.9	5.6
2008	1,598.0	30,808.4	5.2
2009	1,580.4	30,606.6	5.2
2010	1,891.4	30,423.6	6.2

SOURCE: Office of the Comptroller.

General Obligation Debt

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

As of December 31, 2010, the Commonwealth had approximately $17.8 billion in general obligation bonds outstanding, of which $14.2 billion, or approximately 80% was fixed rate debt and $3.6 billion, or 20%, was variable rate debt. The Commonwealth's outstanding general obligation variable rate debt consists of several variable rate structures. Most of the outstanding variable rate bonds are in the form of variable rate demand bonds, which account for $1.6 billion of outstanding general obligation debt as of December 31, 2010. Other outstanding variable rate structures include LIBOR index bonds, auction rate securities, SIFMA Index Bonds and consumer price index bonds. Of the variable rate debt outstanding, the interest rates on $3.2 billion, or approximately 18% of total general obligation debt, have been synthetically fixed by means of floating-to-fixed interest rate swap agreements. These agreements are used as hedges to mitigate the risk associated with variable rate bonds.

Under legislation approved by the Governor on August 11, 2008, scheduled, periodic payments to be made by the Commonwealth pursuant to swap agreements in existence on August 1, 2008 or entered into after such date constitute general obligations of the Commonwealth to which its full faith and credit are pledged. The remaining variable rate debt of $352 million, or approximately 2% of the total outstanding general obligation debt, is unhedged and, accordingly, floats with interest rates re-set on a periodic basis.

As of December 31, 2010, the Commonwealth had outstanding approximately $160.6 million ($84.8 million principal and $75.8 million discount) of variable rate "U. Plan" bonds, sold in conjunction with a college savings program administered by the Massachusetts Educational Financing Authority, which bear deferred interest at a rate equal to the percentage change in the consumer price index plus 2%, together with current interest at the rate of 0.5%.

The Commonwealth has issued general obligation bonds in the form of Build America Bonds (BABs). BABs were authorized under the federal American Recovery and Reinvestment Act of 2009 (ARRA). Pursuant to ARRA, the Commonwealth is entitled to receive a cash subsidy from the federal government equal to 35% of the investment payable on the BABs provided the Commonwealth makes certain required filings in accordance with applicable federal rules. Such interest subsidy payments are treated under federal law as overpayments of tax and, accordingly, are subject to offset against certain amounts that may be owed by the Commonwealth to the federal government or its agencies. The Commonwealth is obligated to make payments of principal and interest on the BABs whether or not it receives interest subsidy payments. As of December 31, 2010, the Commonwealth had approximately $2.1 billion of BABs outstanding.

The Commonwealth is authorized to issue short-term general obligation debt as revenue anticipation notes or bond anticipation notes. Revenue anticipation notes may be issued by the State Treasurer in any fiscal year in anticipation of revenue receipts for that year. Revenue anticipation notes must be repaid no later than the close of the fiscal year in which they are issued. Bond anticipation notes may be issued by the State Treasurer in anticipation of the issuance of bonds, including, in some circumstances special obligation bonds. See "Special Obligation Debt" below. In addition, as of December 31, 2010 the Commonwealth had liquidity support for an $400 million commercial paper program which it utilizes regularly for cash flow purposes. In addition to borrowing via its commercial paper program, the Commonwealth issues fixed-rate revenue anticipation notes (or "RANs")

Special Obligation Debt

Commonwealth Transportation Fund. Section 2*O* of Chapter 29 of the General Laws, as amended, authorizes the Commonwealth to issue special obligation bonds secured by all or a portion of revenues accounted to the Commonwealth Transportation Fund (formerly the Highway Fund). Revenues, which are currently accounted to the Commonwealth Transportation Fund, are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax and registry of motor vehicles fees.

Between 1992 and 2005, the Commonwealth issued special obligation bonds secured by a lien on a specified portion of the motor fuels excise tax. As of December 31, 2010, the Commonwealth had outstanding $413,920,000 of such special obligation bonds secured by a pledge of 6.86¢ of the 21¢ motor fuels excise tax. In December, 2010, the trust agreement securing such bonds was closed to further issuance of debt.

The Commonwealth is also authorized to issue $1.9 billion of special obligation bonds secured by a pledge of all or a portion of revenues accounted to the Commonwealth Transportation Fund to fund a portion of the Commonwealth's accelerated structurally-deficient bridge program (CTF Bonds). As of December 31, 2010, the Commonwealth had outstanding $576,125,000 of CTF Bonds. See "COMMONWEALTH CAPITAL INVESTMENT PLAN."

The outstanding CTF Bonds were issued as BABs (approximately $419.8 million) and as Recovery Zone Economic Development Bonds (RZEDBs) (approximately $156.4 million). Pursuant to ARRA, the Commonwealth is entitled to receive cash subsidy payments from the federal government equal to 35% of the debt service payable on the BABs and 45% of the debt service payable on the RZEDBs, provided, in both cases, that the Commonwealth makes certain required filings in accordance with applicable federal rules. As noted above, such subsidy payments are treated under federal law as overpayments of tax and, accordingly, are subject to offset against certain amounts that may be owed by the Commonwealth to the federal government or its agencies. Under current law, such payments received by the Commonwealth are required to be deposited in the General Fund and thus do not secure the CTF Bonds. The Executive Office for Administration and Finance intends to seek legislative authority to provide that such payments will be pledged to secure the CTF Bonds.

Convention Center Fund. Chapter 152 of the Acts of 1997, as amended, authorizes $694.4 million of special obligation bonds to be issued for the purposes of building a new convention center in Boston ($609.4 million), the Springfield Civic Center ($66 million) and the Worcester convention center ($19 million). The bonds are payable from moneys credited to the Convention Center Fund created by such legislation, which include certain hotel tax receipts from hotels in Boston, Cambridge, Springfield and Worcester, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, a surcharge on sightseeing tours and cruises in Boston and sales tax receipts from certain hotels and other retail establishments in Boston, Cambridge and Springfield. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance, the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). In June, 2004, the Commonwealth issued $686.7 million of special obligation bonds secured solely by the pledge of receipts of tax revenues within the special districts surrounding the centers and other special revenues connected to such facilities, $638.7 million of which remained outstanding as of December 31, 2010.

Federal Grant Anticipation Notes

Between 1998 and 2003, the Commonwealth issued federal grant anticipation notes yielding aggregate net proceeds of $1.5 billion, the full amount authorized to finance the current cash flow needs of the Central Artery/Ted Williams Tunnel (CA/T) project, in anticipation of future federal reimbursements. The legislation authorizing such notes contains a statutory covenant that as long as any such grant anticipation notes remain outstanding, the Commonwealth will deposit all federal highway reimbursements into the Grant Anticipation Note Trust Fund, to be released to the Commonwealth once all the debt service and reserve funding obligations of the trust agreement securing the grant anticipation notes have been met. If the United States Congress reduces the aggregate amount appropriated nationwide for federal highway spending to less than $17.1 billion and debt service coverage with respect to the notes falls below 120%, then the legislation further pledges that 10¢ per gallon of existing motor fuel tax collections will be deposited into the trust fund, to be used for debt service on the notes, subject to legislative appropriation. The 10¢-per-gallon pledge of motor fuel tax collections is subordinate to the pledge of Commonwealth Transportation Fund revenues securing the CTF Bonds. Principal amortization of the notes began in fiscal 2006 and will continue through fiscal 2015. Under the trust agreement securing the notes, aggregate annual debt service on grant anticipation notes may not exceed $216 million unless the rating agencies rating the notes confirm that exceeding $216 million in annual debt service will not cause them to withdraw or reduce their credit ratings. Such notes and the interest thereon are secured solely by the pledge of federal highway construction reimbursement payments and by a contingent pledge of certain motor fuels excises. In practice, the interest on such notes has been paid from state appropriations. As of December 31, 2010, $711.8 million of such notes remained outstanding. The lien securing such notes has been closed to further issuance.

The Commonwealth is also authorized to issue an additional $1.1 billion of grant anticipation notes secured by future federal funds to fund a portion of the Commonwealth's accelerated structurally deficient bridge program. Such notes are subordinated to the notes described in the preceding paragraph, but are also secured by a back-up pledge of net amounts in the Commonwealth Transportation Fund after application of such amounts in accordance with the trust agreement securing the CTF Bonds, the senior federal grant anticipation notes and previously issued bonds secured by motor fuels excise taxes. Similar to the notes issued for the CA/T project, the Commonwealth expects to pay interest on the notes for the bridge program from state appropriations. As of December 31, 2010, $100 million of such notes was outstanding.

The $100 million of junior-lien grant anticipation notes were issued as BABs. Under current law, such payments received by the Commonwealth are required to be deposited in the General Fund and thus do not secure the notes. The Executive Office for Administration and Finance intends to seek legislative authority to provide that such payments will be pledged to secure the notes.

The following table shows long-term debt of the Commonwealth issued and retired from fiscal 2006 through fiscal 2010, exclusive of unamortized bond premiums:

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

	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010
Beginning Balance as of July 1	$17,856,799	$18,461,406	$18,736,961	$18,734,440	$19,264,569
Debt Issued	1,770,346	1,556,485	1,280,824	1,887,108	1,669,088
Subtotal	19,627,145	20,017,891	20,017,785	20,621,548	20,933,657
Debt retired or defeased, exclusive of refunded debt	(1,024,542)	(1,399,715)	(1,179,730)	(1,227,029)	(1,207,150)
Refunding debt issued, net of refunded debt (3)	(141,197)	118,785	(103,615)	(129,950)	-
Ending Balance June 30 (2)	**$18,461,406**	**$18,736,961**	**$18,734,440**	**$19,264,569**	**$19,726,507**

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

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

Outstanding Long Term Commonwealth Debt (in thousands)

	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	December 31, 2010
General Obligation Debt	$15,383,366	$15,822,591	$16,086,470	$17,051,724	$17,655,539	$17,902,800
Special Obligation Debt	1,288,595	1,248,750	1,112,590	1,078,630	1,063,501	1,628,745
Federal Grant Anticipation Notes	1,789,445	1,665,620	1,535,380	1,134,215	997,467	811,855
TOTAL	**$18,461,406**	**$18,736,961**	**$18,734,440**	**$19,264,569**	**$19,726,507**	**$20,343,400**

SOURCE: Office of the Comptroller.

Debt Service Requirements

The following table sets forth, as of December 31, 2010, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal grant anticipation notes. For variable-rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate swap agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. For other variable-rate bonds, the schedule assumes a 5% interest rate.

Debt Service Requirements on Commonwealth Bonds as of December 31, 2010 through Maturity (in thousands) (1)

General Obligation Bonds

Period Ending	Principal	Compounded Interest	Gross Interest	Build America Bonds Subsidies	Net Interest	Debt Service
6/30/2011	$441,960		$419,248	$(17,887)	$401,361	$843,321
6/30/2012	1,136,903	$8,266	808,577	(36,557)	772,019	1,917,188
6/30/2013	1,235,334	9,413	757,144	(36,557)	720,587	1,965,334
6/30/2014	1,101,097	7,735	707,370	(36,557)	670,813	1,779,645
6/30/2015	1,042,773	7,686	658,609	(36,557)	622,052	1,672,511
6/30/2016	1,071,720	6,652	611,164	(36,557)	574,607	1,652,979
6/30/2017	861,153	4,877	564,273	(36,557)	527,716	1,393,746
6/30/2018	768,441	3,868	524,666	(36,557)	488,109	1,260,418
6/30/2019	773,835	3,310	486,123	(36,557)	449,556	1,226,712
6/30/2020	831,562	2,594	447,940	(36,300)	411,640	1,245,796
6/30/2021	1,093,503	2,194	400,519	(35,014)	365,505	1,461,202
6/30/2022	921,884	1,968	351,301	(32,698)	318,603	1,242,455
6/30/2023	673,804	1,782	311,392	(31,412)	279,980	955,566
6/30/2024	624,362	1,446	279,286	(31,295)	247,991	873,799
6/30/2025	574,429	1,246	250,411	(31,295)	219,116	794,791
6/30/2026	503,843	1,121	224,052	(30,776)	193,276	698,240
6/30/2027	445,228	1,067	201,095	(30,203)	170,892	617,188
6/30/2028	400,558	1,116	181,509	(28,953)	152,556	554,230
6/30/2029	550,408	522	159,559	(26,687)	132,872	683,802
6/30/2030	604,494	288	131,111	(22,892)	108,219	713,001
6/30/2031	517,190		97,983	(16,808)	81,175	598,471
6/30/2032	258,715		82,021	(14,776)	67,245	325,960
6/30/2033	187,300		69,908	(12,440)	57,468	244,768
6/30/2034	188,585		60,460	(11,068)	49,392	237,977
6/30/2035	196,755		50,745	(9,647)	41,098	237,853
6/30/2036	205,130		40,643	(8,177)	32,466	237,596
6/30/2037	214,730		30,106	(6,654)	23,452	238,182
6/30/2038	194,135		19,102	(5,077)	14,025	208,160
6/30/2039	123,805		10,940	(3,445)	7,495	131,300
6/30/2040	91,905		4,596	(1,609)	2,988	94,893
TOTAL	**$17,835,542**	**$67,258**	**$8,941,856**	**($737,570)**	**$8,204,286**	**$26,107,087**

Federal Highway Grant Anticipation Notes

Period Ending	Principal	Gross Interest	Build America Bonds Subsidies	Net Interest	Debt Service
6/30/2011	$45,065	$ 16,885	$ (714)	$16,171	$61,236
6/30/2012	156,405	32,257	(1,494)	30,763	187,168
6/30/2013	161,285	26,876	(1,494)	25,382	186,667
6/30/2014	170,710	17,451	(1,494)	15,957	186,668
6/30/2015	178,390	9,773	(1,494)	8,279	186,669
6/30/2016	11,390	4,098	(1,434)	2,664	14,054
6/30/2017	11,635	3,720	(1,302)	2,418	14,053
6/30/2018	11,925	3,277	(1,147)	2,130	14,055
6/30/2019	12,245	2,780	(973)	1,807	14,052
6/30/2020	12,600	2,235	(782)	1,453	14,053
6/30/2021	12,985	1,648	(577)	1,071	14,056
6/30/2022	13,390	1,020	(357)	663	14,053
6/30/2023	13,830	348	(122)	226	14,056
TOTAL	**$811,855**	**$122,368**	**($13,383)**	**$108,983**	**$920,839**

SOURCE: Office of the Comptroller.
(1) Totals may not add due to rounding.

Period Ending	Special Obligation Revenue Bonds (Gas Tax)			Special Obligation Revenue Bonds (Convention Center)			Special Obligation Revenue Bonds (Accelerated Bridge Program)				
	Principal	Interest	Debt Service	Principal	Interest	Debt Service	Principal	Gross Interest	Build America Bonds Subsidies	Net Interest	Debt Service
6/30/2011	$ 37,240	$ 10,846	$ 48,086		$17,243	$17,243		$14,318	$(5,405)	$8,913	$8,913
6/30/2012	39,135	19,804	58,939		34,486	34,486		32,623	(12,314)	20,309	20,309
6/30/2013	41,150	17,772	58,922		34,486	34,486		32,623	(12,314)	20,309	20,309
6/30/2014	37,170	15,534	52,704		34,486	34,486		32,623	(12,314)	20,309	20,309
6/30/2015	39,070	13,631	52,701	$19,995	34,486	54,481		32,623	(12,314)	20,309	20,309
6/30/2016	39,900	11,482	51,382	21,075	33,436	54,511		32,623	(12,314)	20,309	20,309
6/30/2017	42,465	9,287	51,752	22,210	32,330	54,540		32,623	(12,314)	20,309	20,309
6/30/2018	23,040	7,261	30,301	23,310	31,164	54,474		32,623	(12,314)	20,309	20,309
6/30/2019	24,300	5,994	30,294	24,475	30,126	54,601		32,623	(12,314)	20,309	20,309
6/30/2020	25,640	4,658	30,298	23,380	28,842	52,222		32,623	(12,314)	20,309	20,309
6/30/2021	26,905	3,392	30,297	24,610	27,673	52,283		32,623	(12,314)	20,309	20,309
6/30/2022	28,385	1,912	30,297	25,970	26,380	52,350		32,623	(12,314)	20,309	20,309
6/30/2023	9,520	476	9,996	27,440	24,952	52,392		32,623	(12,314)	20,309	20,309
6/30/2024				28,990	23,443	52,433	$21,325	32,623	(12,314)	20,309	41,634
6/30/2025				30,625	21,848	52,473	22,395	31,546	(11,937)	19,609	42,004
6/30/2026				32,360	20,164	52,524	23,550	30,381	(11,529)	18,851	42,401
6/30/2027				34,190	18,384	52,574	24,860	29,054	(11,065)	17,989	42,849
6/30/2028				36,125	16,504	52,629	26,245	27,655	(10,575)	17,079	43,324
6/30/2029				38,170	14,517	52,687	27,710	26,177	(10,058)	16,119	43,829
6/30/2030				40,330	12,418	52,748	29,250	24,616	(9,512)	15,105	44,355
6/30/2031				42,610	10,199	52,809	30,880	22,969	(8,935)	14,034	44,914
6/30/2032				45,020	7,856	52,876	32,635	21,200	(8,316)	12,884	45,519
6/30/2033				47,565	5,380	52,945	34,485	19,329	(7,661)	11,668	46,153
6/30/2034				50,250	2,764	53,014	36,440	17,353	(6,970)	10,383	46,823
6/30/2035							38,505	15,265	(6,239)	9,026	47,531
6/30/2036							40,685	13,058	(5,466)	7,591	48,276
6/30/2037							42,995	10,726	(4,650)	6,076	49,071
6/30/2038							45,430	8,262	(3,718)	4,544	49,974
6/30/2039							48,005	5,659	(2,546)	3,112	51,117
6/30/2040							50,730	2,907	(1,308)	1,599	52,329
TOTAL	**$413,920**	**$122,049**	**$535,969**	**$638,700**	**$543,567**	**$1,182,267**	**$576,125**	**$744,574**	**($285,976)**	**$458,600**	**$1,034,725**

SOURCE: Office of the Comptroller.
(1) Totals may not add due to rounding.

Interest Rate Swaps

The following table describes the interest rate swap agreements, all of which are floating-to-fixed rate hedges that the Commonwealth has entered into in connection with certain of its outstanding variable rate bond issues as of December 31, 2010.

	Associated Bond Issue	Outstanding Notional Amount (in thousands)	Bond Floating Rate	Swap Fixed Rate Paid (Range)	Swap Variable Rate Received	Effective Date	Termination Date	Counterparty
General Obligation Bonds:								
	Series 1997B (refunding)	$162,768	VRDB	4.659%	Cost of Funds/VRDBs	8/12/1997	8/1/2015	Goldman Sachs Matsui Marine Derivative Products Co., LP
	Series 1997B (refunding)	108,512	VRDB	4.659%	SIFMA	9/1/2010	8/1/2015	Sumitomo Mitsui Banking Corp.
	Series 1998A (refunding) Consolidated Loan of 2006, Series A Central Artery Loan of 2000, Series A Central Artery Loan of 2000, Series B	266,826	VRDB	4.174%	LIBOR	11/17/2008	9/1/2016	Deutsche Bank AG
	Series 1998A (refunding)	177,884	VRDB	4.174%	Cost of Funds/VRDBs	9/17/1998	9/1/2016	Citi Swapco, Inc.
	Series 2001B & C (refunding)	496,225	VRDB	4.150%	Cost of Funds/VRDBs	2/20/2001	1/1/2021	Morgan Stanley Derivative Products Inc.
	Series 2003B (refunding)	87,455	CPI	4.500%	Cost of Funds/CPI	3/12/2003	12/1/2014	Goldman Sachs Matsui Marine Derivative Products Co., LP
	Series 2003B (refunding)	10,000	CPI	4.500%	Cost of Funds/CPI	10/8/2008	12/1/2013	Deutsche Bank AG
	Series 2010A (refunding) Series 2011A (refunding)	536,685	SIFMA	3.15 - 4.004%	Cost of Funds/SIFMA	3/15/2005	2/1/2028	Citi
	Series 2006C (refunding)	100,000	CPI	3.730 - 3.850%	Cost of Funds/CPI	1/1/2007	11/1/2020	Citi
	Consolidated Loan of 2007, Series A	400,000	LIBOR	4.420%	Cost of Funds/LIBOR	10/8/2008	5/1/2037	Barclays Bank, PLC
	Series 2007A (refunding)	31,665	LIBOR	3.936%	Cost of Funds/LIBOR	10/8/2008	11/1/2020	Deutsche Bank AG
	Series 2007A (refunding)	414,130	LIBOR	3.936 - 4.083%	Cost of Funds/LIBOR	10/8/2008	11/1/2025	Bank of New York Mellon
	Central Artery Loan of 2000, Series A	106,675	VRDB	3.942%	SIFMA	8/16/2007	8/1/2018	Merrill Lynch Capital Services, Inc.
	Central Artery Loan of 2000, Series A	53,575	VRDB	3.942%	SIFMA	8/16/2007	8/1/2018	J. P. Morgan Chase Bank
	Consolidated Loan of 2006, Series B Consolidated Loan of 2000, Series D	294,000	VRDB/ARS	4.515%	LIBOR	4/2/2009	6/15/2033	Barclays Bank, PLC
Subtotal		**$ 3,246,400**						

	Associated Bond Issue	Outstanding Notional Amount (in thousands)	Bond Floating Rate	Swap Fixed Rate Paid (Range)	Swap Variable Rate Received	Effective Date	Termination Date	Counterparty
Special Obligation Dedicated Tax Revenue Bonds:								
	Series 2004	28,863	CPI	4.450 - 5.250%	Cost of Funds/CPI	6/29/2004	1/1/2018	Goldman Sachs Capital Markets, LP
	Series 2004	28,864	CPI	4.450 - 5.250%	Cost of Funds/CPI	6/29/2004	1/1/2018	J.P. Morgan Chase Bank
	Series 2004	28,863	CPI	4.450 - 5.250%	Cost of Funds/CPI	6/29/2004	1/1/2018	J. P. Morgan Chase Bank
	Series 2005A	96,490	CPI	4.771 - 5.059%	Cost of Funds/CPI	1/12/2005	6/1/2022	Merrill Lynch Capital Services, Inc.
Subtotal		**$183,080**						
Total		**$3,429,480**						

SOURCE: Office of the Treasurer and Receiver-General.

Liquidity Facilities

The following table describes the liquidity facilities that the Commonwealth had in connection with its commercial paper program and certain of its outstanding bond issues as of December 31, 2010.

Associated Program	Facility Amount (in thousands)	Bank	Facility Type	Termination Date
Commercial Paper				
Series E	200,000	Dexia Credit Local	Line/Letter	9/27/2011
Series H	200,000	Bank of Nova Scotia	Line	2/28/2011
Variable Rate Bonds				
1997 Series B (Refunding)	271,280	Helaba	Line	8/1/2015
1998 Series A (Refunding)	222,355	JP Morgan Chase Bank	Line	3/12/2013
2000 Series A	200,000	Landesbank Baden-Wurttemberg	Line	12/29/2015
2000 Series B	75,590	State Street Bank	Line	1/29/2012
2001 Series B (Refunding)	248,110	Landesbank Hessen-Thuringen (Helaba)	Line	12/31/2015
2001 Series C (Refunding)	248,115	State Street Bank	Line	2/20/2011
2006 Series A	150,000	Dexia Credit Local	Line	3/03/2013
2006 Series B	200,000	Bank of America	Line	3/03/2011

SOURCE: Office of the Treasurer and Receiver-General.

General Obligation Contract Assistance Liabilities

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

Massachusetts Water Pollution Abatement Trust. The Massachusetts Water Pollution Abatement Trust (the "Trust") manages the Commonwealth's state revolving fund program under the federal Clean Water Act and the federal Safe Drinking Water Act. The Trust is authorized to apply for and accept federal grants and associated Commonwealth matching grants to capitalize the revolving funds and to issue debt obligations to make loans to local governmental units and others to finance eligible water pollution abatement and water treatment projects. Under state law, loans made by the Trust are required to provide for subsidies or other financial assistance to reduce the debt service expense on the loans. Currently, most new loans made by the Trust bear interest at 2%. Other loans made by the Trust have, in the past, and may in the future, bear interest at lower rates, including a zero rate of interest, and a portion of the principal of certain loans has also been subsidized by the Trust. To provide for a portion of the subsidy on most of its loans, the Trust receives contract assistance payments from the Commonwealth. Under the Trust's enabling act, the aggregate annual contract assistance payment for the Trust's Clean Water Act program may not exceed $71 million, and the aggregate annual contract assistance payment for the Trust's Safe Drinking Water Act program may not exceed $17 million. The Commonwealth's agreement to provide contract assistance constitutes a general obligation of the Commonwealth for which its faith and credit are pledged, and the Commonwealth's contract assistance payments are pledged as security for repayment of the Trust's debt obligations. As of December 31, 2010 the Trust had approximately $3.58 billion of bonds outstanding.

Approximately 10.8 % of the Trust's aggregate debt service is covered by Commonwealth contract assistance. The Trust intends to issue additional fixed-rate bonds in the aggregate principal amount of approximately $400 million in September, 2011.

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

Legislation approved by the Governor on August 8, 2008 includes an authorization to finance up to $43 million of the costs of a parkway at the former South Weymouth naval air base to support the development of the former base. Similar to the I-Cubed program financing model, the bonds to be issued by MassDevelopment to finance the parkway will be secured and payable from a general obligation pledge of contract assistance from the Commonwealth. In the event that the new state tax revenues generated from the new private development are less than the debt service cost on the bonds, the South Shore Tri-Town Development Corporation, a public entity with municipal taxing and other powers over the geographic area of the former base, will be required to reimburse the Commonwealth for any such shortfall. The legislation provides that such payment obligations of the Corporation be secured by a general obligation pledge of the Corporation. As of December 31, 2010, $28.95 million of such bonds were outstanding.

The following table sets forth the Commonwealth's general obligation contract assistance requirements pursuant to contracts with the Massachusetts Water Pollution Abatement Trust, the Massachusetts Department of Transportation (as successor to the Massachusetts Turnpike Authority) and Massachusetts Development Finance Agency. These figures are as of December 31, 2010.

General Obligation Contract Assistance Requirements
(in thousands)

Fiscal Year	Massachusetts Water Pollution Abatement Trust	Massachusetts Department of Transportation	Massachusetts Development Finance Agency	Total
2011	$ 66,093	$125,000	$1,388	$192,481
2012	64,986	125,000	2,166	192,152
2013	62,536	125,000	2,544	190,080
2014	59,420	125,000	2,547	186,967
2015	57,988	125,000	2,544	185,532
2016	53,156	125,000	2,546	180,702
2017	46,065	125,000	2,545	173,610
2018	40,343	125,000	2,543	167,886
2019	40,129	125,000	2,545	167,674
2020	34,819	125,000	2,544	162,363
2021	28,010	125,000	2,546	155,556
2022	18,847	125,000	2,547	146,394
2023	19,261	125,000	2,543	146,804
2024	11,270	125,000	2,544	138,814
2025	7,323	125,000	2,544	134,867
2026	5,179	125,000	2,547	132,726
2027 through 2046	9,525(1)	1,775,000	35,626	1,820,151
Total	**$624,950**	**$3,775,000(2)**	**$74,807**	**$4,474,757**

SOURCES: Massachusetts Water Pollution Abatement Trust column – Office of the State Treasurer; Massachusetts Department of Transportation and MassDevelopment columns - Executive Office for Administration and Finance.
(1) Contract assistance requirements end fiscal 2031.
(2) Represents $25 million per year for fiscal years 2027 to 2046, inclusive and $100 million per year for fiscal years 2027 to 2039, inclusive.

Budgetary Contract Assistance Liabilities

Plymouth County Certificates of Participation. In May, 1992, Plymouth County caused to be issued approximately $110.5 million of certificates of participation to finance the construction of a county correctional facility. In March, 1999, Plymouth County caused to be issued approximately $140.1 million of certificates of participation to advance refund the 1992 certificates, construct an administration office building and auxiliary facilities near the county correctional facility and fund repairs and improvements to the facility. The certificates bear interest at a fixed rate with a final maturity of April 1, 2022. The Commonwealth, acting through the Executive Office of Public Safety and Security and the Department of Correction, is obligated under a memorandum of agreement with Plymouth County to pay an amount at least equal to the debt service on the outstanding certificates of participation, but are subject to appropriation of such amounts by the Legislature. The obligation of the Commonwealth under the memorandum of agreement does not constitute a general obligation or a pledge of the credit of the Commonwealth. As of December 31, 2010, such certificates were outstanding in the aggregate principal amount of $88.6 million. The Commonwealth plans to issue general obligation refunding bonds to redeem all of the outstanding certificates on April 1, 2011, pursuant to legislation approved by the Governor on August 11, 2008.

Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds. In August, 2000, the Route 3 North Transportation Improvements Association (the "Association") issued approximately $394.3 million of lease revenue bonds to finance the reconstruction and widening of a portion of state Route 3 North. In May, 2002, the Route 3 North Transportation Improvements Association issued approximately $312.7 million of additional lease revenue bonds, $305.6 million of which were issued as refunding bonds. In connection with the financing, the Commonwealth leased the portion of the highway to be improved to the Association, and the Association leased the property back to the Commonwealth pursuant to a sublease. Under the sublease, the Commonwealth is obligated to make payments equal to the debt service on the bonds and certain other expenses associated with the project. The obligations of the Commonwealth do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. In May, 2007 and November, 2008, the Commonwealth sold general obligation bonds to refund most of the lease revenue bonds and replace them with fixed-rate general obligation bonds. As of December 31, 2010, the Route 3 North

Transportation Improvements Association had $18.55 million of such lease revenue bonds outstanding, all of which are fixed-rate.

Saltonstall Building Redevelopment Corporation Project. In May, 2002, MassDevelopment issued $195.8 million of lease revenue bonds pursuant to an agreement to loan the proceeds of the bonds to the MassDevelopment/ Saltonstall Building Redevelopment Corporation. The loan was used to finance the redevelopment of the Saltonstall State Office Building. Under the provisions of the legislation relating to the building's redevelopment, the building was leased to MassDevelopment/Saltonstall Building Redevelopment Corporation for a term of up to 50 years, with extension terms permitted for an aggregate of 30 more years. MassDevelopment/Saltonstall Building Redevelopment Corporation has paid the Commonwealth $2,052,594 in ground rent and $3,179 in accrued interest for the first six months of fiscal 2011. For January through June, 2011, the additional projected ground rent payments will be $2,590,048, and the accrued interest payments will be $1,140. The accrued rent balance is projected to be approximately $0.00, and the accrued interest is projected to be approximately $0.00.

MassDevelopment/Saltonstall Building Redevelopment Corporation has renovated the building and subleased half of it back to the Commonwealth for office space and related parking (for a comparable lease term), in respect of which sublease the Commonwealth makes sublease payments to MassDevelopment/Saltonstall Building Redevelopment Corporation. The remainder of the building has been redeveloped as private office space, as well as private housing units and retail establishments. The obligations of the Commonwealth under the office sublease do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. The Commonwealth's full-year costs include $7,076,954 per year of base rent and parking space rent.Parking space rent may be adjusted for fair market value every five years and was last adjusted in 2009. In addition, included in the table below are the Commonwealth's estimated pro-rata shares of office operating expense reimbursements, escalating at 3% per year and also the Commonwealth's replacement reserve contribution calculated at 21¢ per rental square foot per year.

As of December 31, 2010, MassDevelopment/Saltonstall Building Redevelopment Corporation had approximately $167.8 million of such lease revenue bonds outstanding.

Long-Term Operating Leases and Capital Leases. In addition to Commonwealth-owned buildings and facilities, the Commonwealth leases additional space from private parties. In certain circumstances, the Commonwealth has acquired certain types of capital assets under long-term capital leases; typically, these arrangements relate to computer and telecommunications equipment and to motor vehicles. Minimum future rental expenditure commitments of the Commonwealth under operating leases and long-term principal and interest obligations related to capital leases in effect at June 30, 2010 are set forth in the table below.

The following table sets forth the Commonwealth's budgetary contract assistance requirements. These figures are as of June 30, 2010.

Budgetary Contract Assistance Liabilities (in thousands)

Fiscal Year	Plymouth County Certificates of Participation	Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds	MassDevelopment/ Saltonstall Building Redevelopment Corporation Lease Revenue Bonds(1)	Other Leases(2)	Total
2011	$10,245	$9,618	$9,398	$170,310	$199,571
2012	10,240	5,409	9,464	124,037	149,150
2013	10,245	1,129	9,532	98,074	118,980
2014	10,244	1,130	9,602	75,923	96,899
2015	10,250	1,128	9,698	60,037	81,113
2016	10,245	1,129	9,772	34,596	55,742
2017	10,238	1,116	9,849	34,596	55,799
2018	10,244	--	9,927	34,596	44,523
2019	10,244	--	10,008	34,596	44,604
2020	10,246	--	10,117	34,596	44,713
2021	10,243	--	10,203	13,633	23,836
2022	10,252	--	10,292	13,633	23,925
2023	--	--	10,383	13,633	24,016
2024	--	--	10,477	13,633	24,110
2025			10,600	13,633	24,233
2026 through 2036	--	--	124,127	76,983	201,110
Total	**$122,936**	**$20,659**	**$273,458**	**$846,510**	**$1,263,563**

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

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

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

Contingent Liabilities

Massachusetts Bay Transportation Authority. The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. Prior to July 1, 2000, the Commonwealth supported MBTA bonds, notes and other obligations through guaranties of the debt service on its bonds and notes, contract assistance generally equal to 90% of the debt service on outstanding MBTA bonds and payment of the MBTA's net cost of service (current expenses, including debt service, minus current income). Beginning July 1, 2000, the Commonwealth's annual obligation to support the MBTA for operating costs and debt service is limited to a portion of the revenues raised by the Commonwealth's sales tax, but the Commonwealth remains contingently liable for the payment of MBTA bonds and notes issued prior to July 1, 2000 and for MBTA payment obligations related to leases, reimbursement obligations, interest exchange agreements and other financing obligations entered into prior to July 1, 2000. The Commonwealth's obligation to pay such prior bonds is a general obligation for which its full faith and credit have been pledged. As of December 31, 2010, the Massachusetts Bay Transportation Authority had approximately $675.3 million of such prior bonds outstanding. Such bonds are currently scheduled to mature annually through fiscal 2030, with annual debt service in the range of approximately $156 million to $134 million through fiscal 2014 and declining thereafter.

Massachusetts Development Finance Agency. Under legislation approved by the Governor in August, 2010, the Massachusetts Development Finance Agency (MassDevelopment) is authorized to issue bonds for the benefit of nonprofit community hospitals and nonprofit community health centers. Such bonds are to be secured by capital reserve funds funded at the time of bond issuance in an amount equal to the maximum annual debt service on the bonds. The legislation provides that MassDevelopment is to notify the Governor if any such capital reserve fund needs to be replenished, and that the Legislature is to appropriate the amount necessary to restore the fund to its required level. The legislation contains no limit on the amount of such bonds that may be issued. Any project to be financed by such bonds must be approved by the Secretary of Health and Human Services, and any loan to a community hospital or community health center (and the issuance and terms of the related bonds) must be approved by the Secretary of Administration and Finance. If any such institution defaults on a loan, any moneys in the custody of the Commonwealth that are payable to the institution may be withheld by the Commonwealth and used to pay debt service or to replenish the applicable capital reserve fund. If, following a Commonwealth transfer to replenish a capital reserve fund, the applicable institution fails to reimburse the Commonwealth within six months, the Commonwealth may withhold funds payable to the institution, and all contracts issued by the Group Insurance Commission, the Commonwealth Health Insurance Connector Authority and MassHealth to a third party for the purposes of providing health care insurance paid for by the Commonwealth are to provide that the third party is to withhold payments to the institution and transfer the withheld amounts to the Commonwealth. If, following a Commonwealth transfer to replenish a capital reserve fund, the Commonwealth has not been fully reimbursed within one year, MassDevelopment would be required to reimburse the Commonwealth according to a schedule to be determined by the Secretary of Administration and Finance.

Woods Hole, Martha's Vineyard and Nantucket Steamship Authority. The Steamship Authority operates passenger ferries to Martha's Vineyard and Nantucket. The Steamship Authority issues its own bonds and notes. Commonwealth support of the bonds and notes of the Steamship Authority includes a Commonwealth guaranty pursuant to statutory provisions requiring the Commonwealth to provide the Authority with funds sufficient to meet the principal of and interest on their bonds and notes as they mature to the extent that funds sufficient for this purpose are not otherwise available to the Authority and the Commonwealth's payment, under applicable statutory provisions, of the net cost of service of the Steamship Authority (current expenses, including debt service, minus current income). The Steamship Authority is currently self-supporting, requiring no net cost of service or contract assistance payments. As of December 31, 2010 the Steamship Authority had approximately $62.0 million of bonds outstanding. The Commonwealth's obligations to the Steamship Authority are general obligations for which its full faith and credit have been pledged.

University of Massachusetts Building Authority and Massachusetts State College Building Authority. These higher education building authorities, created to assist institutions of public higher education in the Commonwealth, have outstanding bonds some of which are guaranteed as to their principal and interest by the Commonwealth. The guaranty is a general obligation of the Commonwealth for which its full faith and credit is pledged. In addition to such guaranty, certain revenues of these authorities, including dormitory rental income and student union fees, are pledged to their respective debt service requirements. As of December 31, 2010, the Massachusetts State College Building Authority had approximately $39.6 million of Commonwealth-guaranteed debt outstanding. Under its enabling act, the Massachusetts State College Building Authority is not permitted to issue any additional Commonwealth-guaranteed debt. The University of Massachusetts Building Authority may have outstanding up to $200 million in Commonwealth-guaranteed debt and had approximately $139.295 million of Commonwealth-guaranteed debt outstanding as of December 31, 2010.

Massachusetts Housing Finance Agency (MassHousing). MassHousing is authorized to issue bonds to finance multi-family housing projects within the Commonwealth and to provide mortgage loan financing with respect to certain single-family residences within the Commonwealth. Such bonds are solely the obligations of MassHousing, payable directly or indirectly from, and secured by a pledge of, revenues derived from MassHousing's mortgage on or other interest in the financed housing. MassHousing's enabling legislation also permits the creation of a capital reserve fund in connection with the issuance of such bonds. No single-family housing bonds secured by capital reserve funds are outstanding, and no such bonds have been issued by MassHousing since 1985. As of December 31, 2010, MassHousing had outstanding approximately $298.0 million of multi-family housing bonds secured by capital reserve funds. Any such capital reserve fund must be in an amount at least equal to the maximum annual debt service in any succeeding calendar year on all outstanding bonds secured by such fund. All such capital reserve funds are maintained at their required levels. If amounts are withdrawn from a capital reserve fund to pay debt service on bonds secured by such fund, upon certification by the chairperson of MassHousing to the Governor of any amount necessary to restore the fund to the above-described requirement, the Legislature may, but is not legally bound to, make an appropriation in such amount. No such appropriation has been necessary to date.

Regional Transit Authorities. There are 15 regional transit authorities throughout the Commonwealth that provide public transportation in 231 municipalities with areas not served by the MBTA. These authorities are overseen by the Massachusetts Department of Transportation and are funded from operating revenues, federal subsidies, state subsidies and assessments paid by the participating municipalities. The subsidies and local assessments are paid one fiscal year in arrears to reimburse the authorities for the net cost of service not covered by operating revenues. In anticipation of receipt of these subsidies and local assessments in the following fiscal year, the authorities issue revenue anticipation notes to fund their net costs of service. Legislation approved by the Governor on July 13, 2008, provided for the Commonwealth guaranty for revenue anticipation notes issued by regional transit authorities. The legislation provides that the Commonwealth is required to pay any principal or interest on any such note if the authority does not have sufficient funds to make the payment and grants the holder of any such note the right to require such payment by the Commonwealth, which right is enforceable as a claim against the Commonwealth. As of December 31, 2010, revenue anticipation notes issued by regional transit authorities were outstanding in the aggregate principal amount of approximately $154.15 million.

Authorized But Unissued Debt

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

Authorized but Unissued Debt (in thousands)

Fiscal Year	Authorized But Unissued Debt
2006	$7,668,331
2007	8,349,391
2008	7,043,446
2009	19,517,272
2010	18,164,985

SOURCE: Office of the Comptroller.

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

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COMMONWEALTH CAPITAL INVESTMENT PLAN

The Executive Office for Administration and Finance annually updates its five-year capital investment plan, including its debt affordability analysis. The five-year plan coordinates capital expenditures by state agencies and authorities that are funded primarily by Commonwealth debt and federal reimbursements. Beginning in fiscal 2009 and expected through fiscal 2013, capital funds are also provided pursuant to the American Recovery and Reinvestment Act of 2009.

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

In October 2010, the Governor released a five-year capital investment plan for fiscal 2011 through fiscal 2015, totaling nearly $18 billion. With the release of the five-year capital investment plan, the Governor announced that the bond cap will be $1.625 billion for fiscal 2011, plus $140 million in unused bond cap from fiscal 2010 which has been carried forward to support spending in fiscal 2011. The bond cap for fiscal 2012 is projected to be $1.750 billion, and is projected to increase by $125 million in each subsequent fiscal year through fiscal 2015.

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

For the purpose of the debt affordability analysis, budgeted revenue includes all Commonwealth taxes and other revenues available to pay Commonwealth operating expenses, including debt service, pensions and other budgetary obligations. It does not include off-budget revenues dedicated to the Massachusetts Bay Transportation Authority, the Massachusetts School Building Authority and the Massachusetts Convention Center Authority. The fiscal 2011 estimate was based on the adopted fiscal 2011 budget. For purposes of projecting budgeted revenue in future fiscal years, the compound annual growth rate in budgeted revenues from fiscal 2001 through 2011 of 2.75% was applied to fiscal 2012 revenues and to each year thereafter. This is consistent with the debt affordability policy, which states that projected increases to budgeted revenues will be the lesser of 3% or the actual compound annual growth rate over the last ten fiscal years.

In addition to keeping debt service within 8% of budgeted revenues, the debt management policy limits future annual growth in the bond cap for the regular capital program to not more than $125 million. This additional constraint is designed to ensure that projected growth in the bond cap will be held to stable and sustainable levels. As noted above, the bond cap is expected to grow by $125 million annually from fiscal 2012 through fiscal 2015.

The Executive Office for Administration and Finance will revisit the debt capacity and affordability analysis periodically, and at least every year, to revise estimates for future years by taking into account fluctuations in interest rates, budgeted revenues and other changes affecting the Commonwealth’s debt capacity. In addition, the

Executive Office for Administration and Finance will annually assess the appropriateness of the methodology and constraints for establishing the bond cap.

The following table shows the annual bond cap, the resulting estimated total annual debt service payment obligations and the estimated debt service as a percentage of estimated budgeted revenues, all as presented in the debt affordability analysis released in October 2010.

Bond Cap (in thousands)

	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015
Bond Cap (1)	$ 1,765,000	$ 1,750,000	$ 1,875,000	$ 2,000,000	$ 2,125,000
Total Debt Service Obligations	1,947,612	2,278,939	2,441,053	2,517,892	2,623,161
Estimated Budgeted Revenue	29,989,511	30,804,986	31,642,776	32,503,722	33,388,838
Debt Service as % of Budgeted Revenues	6.49%	7.40%	7.71%	7.75%	7.86%

SOURCE: Executive Office for Administration and Finance, Debt Affordability Analysis released October, 2010.
(1) Includes $140 million of fiscal 2010 unused bond cap that has been carried forward to fiscal 2011.

Reflecting changed economic conditions, the total bond cap projected in the fiscal 2011 through fiscal 2015 five-year plan is $1.045 billion less than the total bond cap projected in the fiscal 2008 through fiscal 2012 five-year capital plan.

In the past, the Commonwealth aggregated its capital expenditures into eight major categories based primarily on the agencies responsible for spending and carrying out capital projects: information technology, infrastructure and facilities, environment, housing, public safety, transportation, convention centers, other and school building assistance. The following table sets forth historical capital spending in fiscal 2006 through fiscal 2010 according to these categories.

Commonwealth Historical Capital Spending (in millions)

Investment Category:	Fiscal 2006	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010
Information technology	$ 88	$ 53	$ 65	$ 97	$ 100
Infrastructure/facilities	283	271	186	333	391
Environment	142	153	188	246	158
Housing	129	140	172	252	318
Public safety	19	18	19	21	11
Transportation	1,189	1,120	1,109	1,388	1,694
Convention centers	12	2	-	-	5
Other	30	29	43	96	108
School building assistance	435	-	-	-	-
Total (1)	$2,327	$1,786	$1,782	$2,432	$2,785

SOURCE: Executive Office for Administration and Finance.
(1) Totals may not add due to rounding.

Beginning in fiscal 2008, the Executive Office for Administration and Finance re-characterized capital spending into 12 categories based on spending purpose, rather than spending agency: community investments, corrections, courts, economic development, energy and environment, health and human services, higher education, housing, information technology, public safety, state office buildings and facilities, and transportation. This presentation of capital investment categories results in certain expenditures appearing in categories that are different from those in which they had been categorized in the historical capital spending table above. For example, Chapter 90 local aid for municipal transportation projects appears in the community investment category, rather than the transportation category, because these funds are invested in municipally-owned assets.

The capital investment plan for fiscal 2011 through fiscal 2015 is designed to allocate resources strategically to invest in the Commonwealth's public facilities and programs and represents the Governor's vision for public infrastructure. The following tables show the allocation of bond cap spending by major investment category and the allocation of total capital spending from all sources of funding by major investment category for fiscal 2011 through fiscal 2015.

Capital Investment Plan – Total Bond Cap (in millions)

Investment Category:	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	5-Year Total	% of 5-Year Total
Community Investments	$ 235	$ 238	$ 239	$ 240	$ 240	$ 1,192	13%
Corrections	17	31	52	75	81	256	3%
Courts	75	51	53	107	131	417	4%
Economic Development	118	119	131	133	135	635	7%
Energy/Environment	110	101	104	106	108	528	6%
Health/Human Services	100	86	47	59	63	354	4%
Higher Education	134	166	262	259	259	1,080	11%
Housing	168	168	171	173	178	858	9%
Information Technology	97	83	84	87	89	441	5%
Public Safety	19	20	27	44	50	160	2%
State Buildings/Facilities	102	112	67	50	56	387	4%
Transportation	589	574	638	669	736	3,206	34%
Total (1)	$1,765	$1,750	$1,875	$2,000	$2,125	$9,515	100%

SOURCE: Executive Office for Administration and Finance, Five-Year Capital Investment Plan released October, 2010.
(1) Totals may not add due to rounding.

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

Investment Category:	Fiscal 2011	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	5-Year Total	% of 5-Year Total
Community Investments	$ 299	$ 284	$ 278	$ 277	$ 276	$ 1,414	8%
Corrections	17	31	52	75	81	256	1%
Courts	75	51	71	123	144	464	3%
Economic Development	204	194	191	183	185	956	5%
Energy/Environment	215	201	204	206	208	1,034	6%
Health/Human Services	100	88	54	64	68	373	2%
Higher Education	191	241	277	259	259	1,227	7%
Housing	323	240	171	173	178	1,085	6%
Information Technology	101	83	84	87	89	444	2%
Public Safety	33	30	38	49	50	201	1%
State Buildings/Facilities	102	112	67	50	56	387	2%
Transportation	1,763	2,023	2,172	2,123	2,068	10,148	56%
Total(1)	$3,423	$3,578	$3,660	$3,667	$3,661	$17,990	100%

SOURCE: Executive Office for Administration and Finance, Five-Year Capital Investment Plan released October, 2010.
(1) Totals may not add due to rounding.

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

- Bond cap – Commonwealth borrowing to support the regular capital program;
- Federal – federal reimbursements for capital expenditures, primarily for transportation projects;
- Third-party – contributions made by third parties to capital projects being carried out by the Commonwealth;
- Project-financed bonds – self-supporting bonds payable by the Commonwealth from project-related revenue;
- Accelerated Bridge Program – Commonwealth special obligation bonds secured by revenues credited to the Commonwealth Transportation Fund or federal grant anticipation notes issued to fund the accelerated bridge program;
- American Recovery and Reinvestment Act of 2009 (ARRA) – funds provided by the federal stimulus bill directly to the Commonwealth for targeted capital investments; and
- Energy Efficiency – self-supporting Commonwealth general obligation bonds payable with savings to be achieved as a result of energy efficiencies.

The following table shows the sources of capital funds for fiscal 2010 and the estimated sources of funds for the next five fiscal years.

Capital Investment Plan – Sources of Funds (in millions)

Fiscal Year	Bond Cap	Federal	Third Party	Project Financed	Accelerated Bridge Program	ARRA	Energy Efficiency	Total (1)
2010	$1,589	$ 708	$ 58	$ 12	$ 206	$ 212	$ -	$ 2,785
2011	1,775	704	193	68	210	380	154	3,332
2012	1,750	725	243	152	294	192	83	3,354
2013	1,875	743	116	156	493	89	71	3,470
2014	2,000	752	49	193	605	-	-	3,599
2015	2,125	715	50	189	565	-	-	3,644

SOURCE: Executive Office for Administration and Finance.
(1) Totals may not add due to rounding.

LEGAL MATTERS

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

Programs and Services

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

Health Care for All v. Romney, et al., United States District Court. A group of individual plaintiffs brought this action for injunctive and declaratory relief, challenging the Commonwealth's administration of the MassHealth dental program. Specifically, the plaintiffs asserted that the Commonwealth's administration of the dental program fails to comply with federal Medicaid law. In February 2006, the District Court entered judgment against the state defendants on three counts of the plaintiffs' third amended complaint with respect to MassHealth-eligible members under age 21. Pursuant to that judgment, the Commonwealth developed and implemented a remedial plan to improve access to Medicaid-covered dental services for MassHealth-eligible members under age 21. Court oversight of the remediation plan ended in February 2011.

Rosie D., et al. v. The Governor, United States District Court, Western Division. In a memorandum of decision dated January 26, 2006, the District Court ruled in favor of a class of Medicaid-recipient children that the Commonwealth fails to provide the home- and community-based services required under the Early and Periodic Screening, Diagnosis and Treatment ("EPSDT") provisions of the Medicaid Act. In February 2007, the District Court adopted the defendants' proposed remedial plan, with some modifications, and, in July 2007, entered judgment in accordance with that plan, as modified. The Commonwealth did not appeal from that judgment and has begun implementation of its remedial plan. The plan originally contemplated full implementation by June 30, 2009, but, on the Commonwealth's motion, the court modified the judgment to extend the date for full implementation to November 30, 2009. In January 2009, the Court allowed plaintiffs' motion for $7 million in legal fees. The cost of implementation is likely to exceed $20 million annually beginning in fiscal 2009. Although in fiscal 2009 the Commonwealth paid the plaintiffs' attorneys approximately $7.1 million in court-approved fees, plaintiffs are entitled to submit additional petitions for recovery of attorneys' fees incurred post-judgment (*e.g.*, for monitoring activity), through the end of the remedial plan implementation period (July, 2012). In late May 2010, plaintiffs moved the court for payment of approximately $1.48 million in attorneys' fees for monitoring the implementation of the judgment during the period from January 1, 2007, through June 30, 2009. Defendants' counsel filed an objection to approximately $250,000 of the fees requested. The court issued an order reducing defendants' attorney fees by $50,000.

Disability Law Center, Inc. v. Massachusetts Department of Correction et al, United States District Court. The Disability Law Center (DLC) filed suit against the Department of Correction (DOC) and various senior DOC officials, alleging that confining prisoners with "serious mental illness" (SMI) in segregation beyond a short period violates the Eighth Amendment, the Americans with Disabilities Act and the Rehabilitation Act of 1973. DLC asks the court to enjoin DOC from confining mentally ill prisoners in segregation for more than one week and to require DOC to establish maximum security treatment units as an alternative to segregation. DLC has proposed a broad definition of SMI which, if adopted, would require special treatment units for a large percentage of DOC's segregation population. DLC's counsel and experts (a psychiatrist, a psychologist and a corrections specialist) have toured several DOC facilities and have interviewed numerous segregation inmates. DLC has received the medical and mental health records of numerous inmates.

In 2009, the parties drafted a comprehensive settlement agreement which would have required approximately $135 million of additional funding over the next five fiscal years relating to program costs and staffing, plus approximately $8 million in bond funding for information technology infrastructure and related upgrades. Due to the deepening fiscal crisis, DOC could not commit to the settlement proposal. DLC rejected DOC's counter-proposal for the provision of appropriate services to inmates with SMI, while taking account of the Commonwealth's budgetary constraints. As the parties proceeded with the litigation, DOC continued to improve and enhance its mental health services delivery, building on initiatives begun prior to the litigation. DOC's new initiatives, accomplished with existing budgetary resources, and based upon the recommendations of DOC's psychiatric expert, include the following: DOC adopted an SMI definition consistent with definitions developed in other jurisdictions. Inmates with SMI have been excluded from long-term segregation and placed in two new maximum security mental health units – the 15 bed Secure Treatment Program (STP) at the Souza Baranowski Correctional Center and the 13 bed Behavior Management Unit (BMU) at MCI-Cedar Junction. DOC operates four residential treatment units, a maximum security unit at the Old Colony Correctional Center (OCCC), and medium security units at OCCC, the North Central Correctional Center and MCI-Framingham. An 11-bed tier of the Departmental Disciplinary Unit (DDU) is being prepared to house and treat long-term segregation inmates awaiting bed placement in the STP and BMU. OCCC was re-designated to serve as a special prison focused on inmates with mental illness. DOC developed and implemented a mental health classification process to determine the level of treatment of all inmates with open mental health cases. DOC is formalizing the process for incorporating mental health considerations in the disciplinary process. Inmates with SMI who are segregated in short-term segregation units are being provided weekly out-of-cell clinical contact, as well as a special review process to hasten their removal from segregation.

DOC's initiatives substantially address the matters asserted in the complaint. DOC's ability to continue to provide these services is contingent upon the maintenance of sufficient budgetary resources and staff positions. Trial is scheduled to commence on June 6, 2011. It is anticipated that the trial date will be continued because discovery remains ongoing.

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

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

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

Finch, et al. v. Health Insurance Connector Authority, et al. Supreme Judicial Court for Suffolk County. This lawsuit, filed directly in the Supreme Judicial Court single justice session, challenges, under the state Equal Protection Clause, a statute enacted in August 2009 that excludes from the Commonwealth Care program, run by the Connector Authority, those individuals who are alien residents with special status (AWSS). Many members of the AWSS population are otherwise eligible for subsidized insurance through the Commonwealth Care program. Because the Commonwealth does not receive federal Medicaid funds for these individuals (unlike other members of Commonwealth Care), the Legislature effectively reduced the Connector Authority's budget by excluding this group of members. The Commonwealth then established a less expensive program to cover much of the AWSS population with health insurance. The lawsuit does not ask for retroactive relief, but seeks to have the individuals reinstated to the Commonwealth Care program. The case was argued before the Supreme Judicial Court in November, 2010, and is under advisement. While no opinion on the likelihood of loss is expressed, if plaintiffs succeed on their claims, and the Legislature makes no other changes to eligibility requirements, the Commonwealth could incur more than $100 million in additional costs for covering special status immigrants through Commonwealth Care per fiscal year. This is a conservative estimate based on projected average program costs and will be refined as updated cost and enrollment information for special status immigrants becomes available.

Connor B., ex rel. Vigurs, et al. v. Patrick, et al., United States District Court, Western Division. This is a class action in which plaintiffs allege that the Commonwealth's foster care system violates foster children's constitutional and statutory rights to be protected from harm while in state custody; to not be deprived unnecessarily of child-parent and sibling relationships; to safe, stable foster care placements and timely adoption planning and recruitment; to payments to foster care providers that cover the actual costs of providing food, clothing, shelter, and other essential items; and to adequate educational, mental health, medical, and dental services. Plaintiffs further allege that children are abused and neglected while in the Commonwealth's foster care system at a rate higher than the national average; that children in foster care are moved from one placement to another with unusual frequency; that many children never achieve permanency in their placements; and that hundreds of children "age out" of foster care inadequately prepared to live independently as adults. Plaintiffs claim that the system's alleged failures are attributable to an insufficient number of social workers, all carrying excessive caseloads; a dearth of appropriate foster care placements and ancillary services; and insufficient supports (including financial reimbursement) to foster care providers. The Court denied the defendants' motion to dismiss the lawsuit and, in late February 2011, granted the plaintiff's motion for class certification. The case is now moving into the discovery phase. If plaintiffs succeed in achieving all of the declaratory and injunctive relief they seek, the Commonwealth could be required to expend millions of dollars in increased foster care reimbursement payments, personnel costs, and services.

Medicaid Audits and Regulatory Reviews

In re: Centers for Medicare and Medicaid Services regulations (Uncompensated Care Pool/Health Safety Net Trust Fund). The federal Health Care Financing Administration (now CMS) asserted in June, 2000 that the portion of the Medicaid program funded by the Commonwealth's Health Safety Net Trust Fund (formerly the Uncompensated Care Pool) might violate federal regulations regarding permissible taxes on health care providers. Since 1993, MassHealth has sought federal waivers for the Commonwealth's assessment on acute care hospitals and surcharge payers, respectively, which fund the Uncompensated Care Pool and its successor, the Health Safety Net Trust Fund. The Commonwealth believes that the assessments are within the federal law pertaining to health care-related taxes. Under federal regulations, if the Commonwealth were ultimately determined to have imposed an impermissible health care-related tax, the federal government could seek retroactive repayment of federal Medicaid reimbursements. By the end of pool fiscal year 2011, the Commonwealth will have collected an estimated $4.997 billion in acute hospital assessments since 1990 and an estimated $1.877 billion in surcharge payments since 1998.

In re: Disallowance of 2005 MassHealth acute hospital supplemental payments. In March, 2006, CMS deferred payment of claims for federal financial participation (“FFP”) totaling almost $52.5 million. This amount represents the federal share of the portion of MassHealth supplemental payments to Boston Medical Center (“BMC”), Cambridge Health Alliance (“CHA”) and UMass Memorial Health Care, Inc. (“UMMHC”) hospitals attributable to dates of service on or before fiscal 2003. CMS released $16.4 million in FFP for payments to BMC and CHA and is holding $27 million in FFP for payments to UMMHC. EOHHS returned $9 million in FFP based on its own update of projected payment limits. In February 2011, CMS sent EOHHS a Notice of Disallowance of $25,543,963.

Commonwealth v. Sebelius, United States District Court (referred to as *In re: Disallowance by the U. S. Department of Health and Human Services Centers of Medicare and Medicaid Services*. On March 20, 2008, the Centers for Medicare and Medicaid Services (CMS) issued a notice of disallowance of $86,645,347 in Federal Financial Participation (FFP) for fiscal 2002 and fiscal 2003. As the basis for the disallowance, CMS cited the final findings of an audit conducted by the Office of the Inspector General of the U. S. Department of Health and Human Services regarding Medicaid targeted case management claims for children in the target group of abused or neglected children involved with the Department of Social Services. The Commonwealth appealed the CMS disallowance to the Departmental Appeal Board of the U. S. Department of Health and Human Services. On December 31, 2008, the Departmental Appeals Board affirmed the disallowance. The Commonwealth then filed an appeal of the disallowance in federal district court. On March 24, 2010, the district court entered judgment for the United States. The parties subsequently entered into a settlement agreement which provides that CMS retain the approximately $86.6 million FFP and forgo any further disallowance actions for other similar FFP claims.

Boston Medical Center Corp. and Boston Medical Center Health Plan, Inc. v. Secretary of the Executive Office of Health and Human Services, Suffolk Superior Court. Plaintiffs filed suit in July 2009 claiming that they are owed at least $127.6 million, plus interest, for fiscal 2009. First, plaintiffs allege that the Commonwealth was obligated to set higher Medicaid reimbursement rates for services provided to Medicaid clients by the Boston Medical Center hospital and managed care organization entities and that, if the rates for that year were increased to levels that plaintiffs seek, they would be entitled to an additional $120.9 million for fiscal 2009. Second, plaintiffs allege that they are entitled to an additional $6.7 million in net supplemental payments for fiscal 2009 under St. 2006, c. 58, § 122, the so-called Health Care Reform Act. Defendant filed an Answer denying all claims. On December 20, 2010 the court granted the defendant’s motion to dismiss all of the plaintiffs’ claims. Plaintiffs have filed a notice of appeal.

Holyoke Medical Center, Inc., et al. v. Secretary of the Executive Office of Health & Human Services, Suffolk Superior Court. Six community hospitals that mainly serve patients covered by state and federal public insurance plans filed suit in December 2009 claiming that they are owed at least $115.9 million by the Commonwealth’s Medicaid program. Plaintiffs allege that the Commonwealth was obligated to set higher Medicaid reimbursement rates for services provided to Medicaid clients by the six plaintiff hospitals. On December 20, 2010 the court granted the defendant’s motion to dismiss all of the plaintiffs’ claims. Plaintiffs have filed a notice of appeal.

Taxes

Feeney, et al. v. Dell, Inc. v. Commissioner of Revenue, Middlesex Superior Court. The plaintiffs, a putative class of Massachusetts consumers who purchased Dell computers between 1995 and 2006, brought suit against Dell seeking a declaration that Dell wrongfully collected (and remitted to the Commissioner) sales tax upon service contracts that were purchased at the same time consumers purchased personal computers from Dell. The Supreme Judicial Court ruled that Dell could not be liable under Chapter 93A (and therefore be forced to pay treble damages) for collecting taxes that it believed, in good faith, were due; the Court, however, let the declaratory action go forward. Dell filed a third-party complaint against the Commissioner of Revenue, seeking a declaration that the sales taxes it collected (and paid) on service contracts were wrongfully collected and should be paid back. The Commissioner successfully moved to stay Dell's third-party action until Dell has fully prosecuted the abatement petition it had filed with the Appellate Tax Board, seeking return of the same sales taxes. Dell recently filed a petition with the ATB for additional abatements related to its payment of sales taxes. At present, Dell's abatement requests remain pending before the ATB, with no trial date yet scheduled. The total amount Dell claims exceeds $54 million, including its claim for interest.

DIRECTV, Inc. v. Commonwealth of Massachusetts Department of Revenue, Suffolk Superior Court. In a lawsuit filed in early 2010, DIRECTV claims that the excise on the sale of direct broadcast satellite services to subscribers or customers in the Commonwealth (enacted by Mass. St. 2009, c. 27, sec. 61 and 150) violates the Commerce Clause of the United States Constitution and the equal protection clauses of the United States and Massachusetts Constitution. The potential refund of taxes collected under the statute may exceed $10 million for each tax year. In mid-March, 2010, the Commonwealth served a motion to dismiss the complaint for failure to exhaust administrative remedies. The Court denied this motion and an answer has been fled. The case is currently in the discovery stage. A summary judgment hearing is scheduled for February, 2012, and a trial is scheduled for April, 2012.

Vodafone Americas, Inc. v. Commissioner of Revenue, Appellate Tax Board. These five docket numbers cover the years 2000 to 2008 for two entities that owned an interest in a partnership doing business in the Commonwealth as Verizon Wireless. For the first three years, the partnership was owned through a tiered ownership structure of pass-through entities. The Commissioner claims that nexus is appropriate in these years. For the next six years, one of the entities in the ownership chain was a Bermuda corporation. The partner (Vodafone) is claiming that the corporation should pay tax on its income, while the corporation, as a disregarded entity, is filing a return (PS-1, for utilities) that indicates that its shareholder, a partnership, is flowing all income up to the partners. The issue is which entity is properly subject to tax on the income in this case. An additional issue concerns the sourcing of receipts for services in the numerator of the sales factor based upon where the company incurred the costs of performing the income-producing activity that gave rise to those receipts. A status conference is scheduled for March 24, 2011. Should Vodafone prevail on all issues, the potential loss to the Commonwealth is estimated at approximately $44 million.

Other Revenues

Commonwealth of Massachusetts v. Philip Morris Inc., RJ Reynolds Tobacco Company, Lorillard Tobacco Company, et al., Supreme Judicial Court, Middlesex Superior Court (a/k/a the Tobacco Master Settlement Agreement, Nonparticipating Manufacturer ("NPM") Adjustment Dispute)

(a) (2003 NPM Adjustment) This matter arises under the Tobacco Master Settlement Agreement ("MSA") entered into in 1998, that settled litigation and claims by Massachusetts and 51 other states or dependencies (collectively the "States"), against the major tobacco manufacturers. Under the MSA, payments made by the Original Participating Manufacturers ("OPMs") and Subsequent Participating Manufacturers (collectively the Participating Manufacturers or "PMs") are subject to a number of adjustments. One such adjustment is the Non-Participating Manufacturer ("NPM") Adjustment, which can be triggered if the OPMs suffer a specified market share loss as compared to the OPMs' market share during the base year 1997. Because the OPMs did suffer the requisite market share loss in 2003, the OPMs are seeking to reduce, by $1.1 billion (or 18.6%), the $6.2 billion payment they made to the States for 2003. Under the MSA, a nationally recognized economic firm selected jointly by the States and the OPMs must make a determination that "the disadvantages experienced" by the PMs as a result of complying with the MSA were "a significant factor contributing to the Market Share Loss" for 2003. Even if such a determination is made, the States can still avoid the $1.1 billion adjustment if it is determined that the States "diligently enforced" their individual NPM Escrow Statutes. The Significant Factor Determination (SFD) proceeding got underway in June, 2005. The economic firm issued its final determination on March 27, 2006, and found that the disadvantages experienced by the OPMs as a result of the MSA were a significant factor in the OPMs' market share loss in 2003. Immediately following the firm's determination, the OPMs requested that the Independent Auditor issue an adjustment to their April, 2006 annual MSA payment in the amount of $1.1 billion which would have reduced the initial 2006 payout to Massachusetts by approximately $45 million to $50 million. The Independent Auditor notified the parties that it would not make the adjustment until a fact finder resolved whether the States had diligently enforced their escrow statutes during 2003. Philip Morris paid its entire April, 2006 annual

MSA payment, but R. J. Reynolds and Lorillard withheld their portion of the NPM Adjustment, which reduced the initial 2006 payout to Massachusetts by approximately $30 million.

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

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

On or about July 2, 2010, the three judge panel of arbitrators was seated to hear the 2003 NPM Adjustment arbitration between Massachusetts and 46 other setting states on one side, and the participating cigarette manufacturers on the other side. This matter is currently in the discovery stage.

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

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

(d) (2006 NPM Adjustment) The SFD proceeding for a 2006 NPM Adjustment commenced in May 2008. Because the OPMs did suffer the requisite market share loss in 2006, they are seeking to reduce, by approximately $611 million, the MSA payments they made to the states for 2006 sales. In March 2009, the economic firm again found that the disadvantages experienced by the OPMs as a result of the MSA were a significant factor in the OPMs' 2006 market-share loss. Philip Morris paid its entire April 2009 annual MSA payment, but R. J. Reynolds and Lorillard withheld their portion of the NPM Adjustment, which reduced the initial 2009 payout to Massachusetts by approximately $22 million. Consistent with the procedures outlined above, the States can avoid the 2006 NPM Adjustment if it is determined that the States diligently enforced their individual NPM Escrow Statutes. If the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, but not exceeding the full amount of the state's 2006 MSA payment, depending upon the outcome of similar NPM proceedings against other states.

In January 2009, Massachusetts and other settling states entered into an agreement on arbitration with the OPMs. Broadly stated, the agreement on arbitration provides for a national arbitration proceeding to resolve the ongoing NPM adjustment disputes. As consideration for the state's assent to this agreement, the OPMs agreed, among other things, to release the funds withheld from their April 2008 MSA payments in connection with the 2005 NPM adjustment dispute. Notwithstanding this release of funds, the OPMs continue to contest the states' diligent enforcement of their escrow statutes. Nevertheless, as a result of this agreement, on February 26, 2009, the Independent Auditor released $21,836,647 in withheld 2005 MSA payments to the Commonwealth.

Grand River Enterprises Six Nations, Ltd. v. William Pryor, et al., United States District Court, New York. This is an action brought by Grand River Enterprises Six Nations Ltd. ("GRE") against the Attorneys General of 31 states, including Massachusetts, seeking to enjoin those states from enforcing the escrow statutes enacted pursuant to the tobacco Master Settlement Agreement ("MSA"). GRE, a Canadian cigarette manufacturer located on a native American reservation, is not participating in the MSA and, as such, its sales are subject to each settling state's escrow requirements. GRE claims in this litigation that the settling states' escrow statutes violate Section 1 of the Sherman Antitrust Act, are preempted by the Federal Cigarette Labeling and Advertising Act, and violate the dormant commerce clause of the United States Constitution. GRE is seeking a final judgment that the MSA is illegal, and such a decision could negatively affect the billions of dollars in future payments to the settling states anticipated under the MSA. Discovery is complete. On April 27, 2010, the Court heard oral argument on the parties' cross motions for Summary Judgment and has taken the matter under advisement.

Sandra Murphy, et al. v. Massachusetts Turnpike Authority, Middlesex Superior Court. Plaintiffs filed suit against the Turnpike Authority on behalf of a purported class consisting of all toll payers within the Metropolitan Highway System ("MHS"). The plaintiffs claim that the use of toll money collected in some parts of the MHS to fund operations, maintenance and debt service for other parts of the MHS (specifically, the Central Artery) is an unconstitutional tax. Plaintiffs' class action complaint does not specify claimed damages but does allege that from July 2006 through June 2009 the Authority charged users of the toll roads $440 million more than the toll roads actually cost. The Turnpike Authority filed a motion to dismiss seeking to dismiss all counts of the Third Amended Complaint. On January 18, 2011, the Superior Court granted the Authority's motion to dismiss all counts of the Third Amended Complaint, but reported the case to the Appeals Court for determination of the correctness of its decision.

Carol Surprenant v. Massachusetts Turnpike Authority, Massachusetts Port Authority, and Massachusetts Department of Transportation. United States District Court. Plaintiff originally sued the Massachusetts Turnpike Authority (MTA) and the Massachusetts Port Authority (MassPort) on behalf of a purported "class" consisting of all toll-payers at the Tobin Memorial Bridge and the Sumner and Ted Williams Tunnels who use E-Z Pass or Fast Lane transponders but do not qualify for the so-called "Resident Discount Programs." The plaintiff claims that the "Resident Discount Programs" are unconstitutional. The MTA and MassPort filed a motion to dismiss the complaint. On March 4, 2010, the court allowed, in part, their motion to dismiss under the federal Privileges and Immunities Clause and denied it, in part, as to the claim under the federal Commerce Clause. The Court authorized a 90 day period for discovery, followed by supplemental briefing. On April 5, 2010, plaintiff filed her first amended complaint, adding the Massachusetts Department of Transportation ("MassDOT") as a defendant. MassDOT answered the amended complaint by denying all claims, and by asserting that the claims against it are barred by the

Commonwealth's sovereign immunity, and by the fact that neither the Commonwealth nor MassDOT is subject to suit under 42 U.S.C. § 1983. In February, 2011, the court granted MassDOT's motion and dismissed the case.

Environment

Wellesley College v. Commonwealth, Suffolk Superior Court. Wellesley College has threatened to seek contribution from the Commonwealth for costs related to the clean-up of environmental contamination on the Wellesley College campus and adjacent areas including Lake Waban. In September, 2001, the Court entered judgment incorporating a partial settlement between the parties, under which the College will fund a clean-up of hazardous materials at the campus and the northern shoreline of Lake Waban that is expected to cost approximately $40 million. The judgment has since been amended by agreement of the parties and with approval of the court. Under the terms of the partial settlement and judgment, the Commonwealth has reimbursed the college approximately $1.1 million (approximately 2.5% of total clean-up costs) from an escrow account after the Department of Environmental Protection (DEP) determined that a portion of the Lake Waban shoreline clean-up was properly performed. Other issues that may lead to counterclaims by the College against the Commonwealth or its agencies include (1) groundwater contamination, estimated to cost $2 million or more depending on future decisions by DEP on appropriate clean-up; and (2) clean-up of Lake Waban itself, for which DEP has now approved a temporary solution, reviewable every five years. (If a full clean-up of the lake is required in the future, it could cost up to $100 million.)

In re Massachusetts Military Reservation (pre-litigation). The Commonwealth, through the Executive Office of Energy and Environmental Affairs, the Department of Environmental Protection and the Attorney General's office, were engaged in discussions with federal Natural Resource Trustees, including the United States Army and Air Force, the Department of the Interior and the National Oceanic and Atmospheric Administration, and private contractors regarding natural resource damages at the Massachusetts Military Reservation on Cape Cod. Federal Trustees and private contractors claim that the Commonwealth and others are liable for natural resource damages due to widespread contamination primarily from past military activities at the Reservation and are responsible for response actions and related clean-up activities. The assessment process for natural resource damages is set out in federal regulations and has not been completed. While no recent comprehensive estimate of natural resource damages and response actions is available, it is expected that the damages and response actions may cost at least tens of millions of dollars.

The Arborway Committee v. Executive Office of Transportation, et al., Appeals Court. The plaintiff, a volunteer group of residents and merchants in Jamaica Plain, filed a complaint in February, 2007, seeking to compel the Commonwealth to restore electric light-rail service between Heath Street and the Forest Hills station in Boston. Green Line service along this route - known as the Arborway Line - was discontinued in 1984. The plaintiff claims that the Commonwealth's failure to restore the Arborway Line is a breach of a Memorandum of Understanding entered into between the Commonwealth and the Conservation Law Foundation in 1990. The Superior Court granted the Commonwealth summary judgment on statute of limitations grounds, and the plaintiffs appealed. In January, 2011, the Appeals Court affirmed the dismissal of the case.

Boston Harbor Clean-Up. The Commonwealth is engaged in various lawsuits in the United States District Court concerning environmental and related laws, including an action brought by the federal Environmental Protection Agency alleging violations of the Clean Water Act and seeking to reduce the pollution in Boston Harbor, *e.g., United States v. Metropolitan District Commission*; *Conservation Law Foundation v. Metropolitan District Commission*. The Massachusetts Water Resources Authority (MWRA), successor in liability to the Metropolitan District Commission, has assumed primary responsibility for developing and implementing a court-approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. Under the Clean Water Act, the Commonwealth may be liable for any cost of complying with any judgment in these or any other Clean Water Act cases to the extent that the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment. The total cost of construction of the wastewater facilities required under the federal district court's order, not including combined sewer overflow (CSO) costs, has been approximately $3.8 billion. The MWRA has also spent approximately $730 million in developing and implementing the CSO plan and its projects. Thus, the cost of construction of water treatment facilities required under the court's order has now amounted to approximately $4.53 billion. Going forward, the MWRA anticipates spending an additional $148 million on remaining design and construction work on CSO projects. These figures do not include routine ongoing costs, such as maintenance expenses and capital spending for plant and system retrofits, and replacements.

National Association of Government Employees v. Commonwealth, Suffolk Superior Court, and *Association of County Employees v. McDonald,* Plymouth Superior Court. Effective January 1, 2010, the offices of the Barnstable, Bristol, Dukes, Nantucket, Norfolk, Plymouth, and Suffolk County sheriffs were transferred to the Commonwealth pursuant to St. 2009, c. 61, s. 3 (act). Under the act, but not effective until February 1, 2010, otherwise eligible transferred employees became eligible for group health insurance through the Group Insurance Commission rather than G. L. c. 32B, which addresses insurance "for certain persons in the service of [certain] counties." The cost savings to the Commonwealth from this change in health coverage was a major purpose of the act.

In these two lawsuits, unions representing sheriffs' employees in Barnstable, Bristol, Norfolk, Plymouth, and Suffolk Counties seek to prevent the transfer prior to the expiration of applicable collective bargaining agreements. In each case the Superior Court denied a union motion for a preliminary injunction. Were the plaintiff unions to prevail, the Commonwealth might be held liable for the increased cost of providing affected employees with group health insurance through county plans rather than through the Group Insurance Commission.

Other

Perini Corp., Kiewit Constr. Corp., Jay Cashman, Inc. d/b/a Perino-Kiewit-Cashman Joint Venture v. Commonwealth. In several related cases and potential litigation, plaintiffs make claims for alleged increased costs arising from differing site conditions and other causes of delay on the Central Artery/Ted Williams Tunnel project. Plaintiffs have asserted claims in excess of $130 million. These claims are at various stages of resolution, including the Superior Court and the Central Artery Tunnel Project Dispute Review Board ("DRB") panel. The DRB has issued decisions on some of the claims, awarding plaintiffs approximately $67 million on claims of approximately $96 million. Those decisions are now the subject of further court proceedings. Plaintiffs also still have in excess of $68 million in claims pending.

In re: Historic Renovation of Suffolk County Courthouse. This matter is now in suit, captioned *Suffolk Construction Co. and NER Construction Management, Inc. d/b/a Suffolk/NER v. Commonwealth of Massachusetts Division of Capital Asset Management*, Suffolk Superior Court. The general contractor for this historic renovation project sued the Division of Capital Asset Management claiming that it is owed additional amounts for extra costs and delays associated with the project. The total amount claimed was approximately $60 million ($16 million in claims of the general contractor and $44 million in pass-through claims from subcontractors). The case has been settled for $19.5 million.

Local 589, Amalgamated Transit Union, et al. v. Commonwealth of Massachusetts, et al., Suffolk Superior Court. In a class action complaint filed in September, 2009, ten separate union organizations and numerous MBTA employees and retirees challenge various provisions in the recently enacted transportation reform legislation that alter the requirements for employee pension eligibility, transfer the MBTA employees' and retirees' health insurance coverage to Group Insurance Commission plans, increase the percentage of health insurance premiums to be paid by MBTA employees and retirees, and foreclose collective bargaining of group insurance coverage. These changes are in each instance prospective, do not apply to the pension and health insurance provisions in currently existing collective bargaining agreements, and when ultimately implemented are anticipated to result in projected annual savings of $30 million to $40 million associated with the transition of the MBTA employee/retiree benefits to state-controlled insurance plans. Plaintiffs claim that the changes effected by the statute violate federal labor protective agreements, unconstitutionally impair union and other contracts, and effect an unconstitutional taking of property. On December 24, 2009, the Superior Court denied the plaintiffs' request for a preliminary injunction regarding the first round of health insurance transfers, which then took place on January 1, 2010. Both the Commonwealth and the MBTA have filed answers. The parties have served cross-motions for partial summary judgment regarding the health-insurance claims and a hearing on those motions is scheduled for March 15, 2011.

OPEIU, Local 6 and the Massachusetts Trial Court, American Arbitration Association. The union representing the Trial Court's clerical and professional employees has taken two grievances to arbitration concerning the non-payment of negotiated wage increases for the second and third years of a collective bargaining agreement effective from July 1, 2007 to June 30, 2010. On May 7, 2010, the arbitrator issued an award requiring the Trial Court to pay the wage increases, which now total approximately $40 million. On October 18, 2010, the union filed a petition in Superior Court to enforce the arbitration award. The union has also filed an unfair labor practice charge with the Division of Labor Relations alleging that the Commonwealth's failure to comply with the arbitration award violates G.L. c. 150E. The Trial Court and the union subsequently settled this matter. Under the terms of the settlement agreement, the Trial Court will use operating funds for the 2011 fiscal year to place the subject employees at the correct pay level effective as of the pay period that begins March 13, 2011. The Governor has included certain funds for OPEIU, Local 6 employees' wages in a supplemental budget, including retroactive payments from July 1, 2010 to March 12, 2011. The remainder of the retroactive wage payments will be paid out in increments from the Trial Court's budget by fiscal year 2015. The Superior Court lawsuit is currently stayed by agreement of the parties and will be withdrawn upon passage of the supplemental budget. The charge before the Division of Labor Relations will be withdrawn by the union upon the parties' negotiation of a successor collective bargaining agreement.

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

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MISCELLANEOUS

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

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

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

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

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

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CONTINUING DISCLOSURE

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

On behalf of the Commonwealth, the State Treasurer will provide to the Municipal Securities Rulemaking Board (MSRB), no later than 270 days after the end of each fiscal year of the Commonwealth, certain financial information and operating data relating to such fiscal year, as provided in said Rule 15c2-12, together with audited financial statements of the Commonwealth for such fiscal year. To date, the Commonwealth has complied with all of its continuing disclosure undertakings relating to the general obligation debt of the Commonwealth and has not failed in the last seven years to comply with its continuing disclosure undertakings with respect to its special obligation debt and federal grant anticipation notes. However, the annual filings relating to the fiscal year ended June 30, 2001 for the Commonwealth's special obligation debt and for the Commonwealth's federal highway grant anticipation notes were filed two days late, on March 29, 2002. Proper notice of the late filings was provided on March 29, 2002 to the Nationally Recognized Municipal Securities Information Repositories and the Municipal Securities Rulemaking Board.

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

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AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding this Information Statement or requests for additional information concerning the Commonwealth should be directed to Colin MacNaught, Assistant Treasurer for Debt Management, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or to Karol Ostberg, Director of Capital Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to this Information Statement should be directed to John R. Regier, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone (617) 348-1720.

THE COMMONWEALTH OF MASSACHUSETTS

By *\/s/ Steven Grossman*
Steven Grossman
Treasurer and Receiver-General

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

March 15, 2011

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TABLE OF REFUNDED OBLIGATIONS

The following is a list of obligations to be refunded with the proceeds of the Series B Bonds.

Certificates of Participation (Plymouth County Correctional Facility Project) Series 1999:

Maturity Date	Amount	Coupon
April 1, 2011	$2,905,000	4.700%
October 1, 2011*	2,965,000	4.700
April 1, 2012*	3,035,000	4.800
October 1, 2012*	3,110,000	4.800
April 1, 2013*	3,185,000	5.125
October 1, 2013*	3,265,000	5.125
April 1, 2014*	3,350,000	5.125
October 1, 2014*	3,440,000	5.125
April 1, 2015*	3,525,000	5.000
October 1, 2015*	3,610,000	5.000
October 1, 2018*	23,685,000	5.125
April 1, 2022*	32,525,000	5.000

* To be redeemed on April 1, 2011 at a call price of 100%.

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PROPOSED FORMS OF OPINIONS OF BOND COUNSEL

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

EDWARDS ANGELL PALMER & DODGE LLP

111 Huntington Avenue Boston, MA 02199 617.239.0100 *fax* 617.227.4420 eapdlaw.com

[Date of Delivery]

The Honorable Steven Grossman
Treasurer and Receiver-General
The Commonwealth of Massachusetts
State House - Room 227
Boston, Massachusetts 02133

$80,005,000
The Commonwealth of Massachusetts
General Obligation Refunding Bonds
2011 Series B (the "Series B Bonds")
Dated Date of Delivery

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

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

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

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

2. Interest on the Series B Bonds is excluded from the gross income of the owners of the Series B Bonds for federal income tax purposes. In addition, interest on the Series B Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the Commonwealth with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Series B Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The Commonwealth has covenanted to comply with all such requirements. Failure by the Commonwealth to comply with certain of such requirements may cause interest on the Series B Bonds to become included in gross income for federal

income tax purposes retroactive to the date of issuance of the Series B Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Series B Bonds.

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

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

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

EDWARDS ANGELL PALMER & DODGE LLP

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

EDWARDS ANGELL PALMER & DODGE LLP

111 Huntington Avenue Boston, MA 02199 617.239.0100 *fax* 617.227.4420 eapdlaw.com

[Date of Delivery]

The Honorable Steven Grossman
Treasurer and Receiver-General
The Commonwealth of Massachusetts
State House - Room 227
Boston, Massachusetts 02133

$360,000,000
The Commonwealth of Massachusetts
General Obligation Bonds
Consolidated Loan of 2011, Series A
(the "Series A Bonds")
Dated Date of Delivery

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

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

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

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

2. Interest on the Series A Bonds is excluded from the gross income of the owners of the Series A Bonds for federal income tax purposes. In addition, interest on the Series A Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes. However, such interest is included in adjusted current earnings when calculating corporate alternative minimum taxable income. In rendering the opinions set forth in this paragraph, we have assumed compliance by the Commonwealth with all requirements of the Internal Revenue Code of 1986 that must be satisfied subsequent to the issuance of the Series A Bonds in order that interest thereon be, and continue to be, excluded from gross income for federal income tax purposes. The Commonwealth has covenanted to comply with all such requirements. Failure by the Commonwealth to comply with certain of such requirements may cause interest on the Series A Bonds to become included in gross income for federal income tax purposes retroactive to the date of issuance of the Series A Bonds. We express no opinion regarding any other federal tax consequences arising with respect to the Series A Bonds.

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

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

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

EDWARDS ANGELL PALMER & DODGE LLP

The Commonwealth of Massachusetts

$80,005,000
General Obligation Refunding Bonds
2011 Series B

$360,000,000
General Obligation Bonds
Consolidated Loan of 2011, Series A

Continuing Disclosure Undertaking
[to be included in bond form]

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the Bonds to provide the Municipal Securities Rulemaking Board (the "MSRB") through its Electronic Municipal Market Access ("EMMA") system pursuant to the requirements of Rule 15c2-12 of the Securities and Exchange Commission (the "Rule"), no later than 270 days after the end of each fiscal year of the Commonwealth, commencing with the fiscal year ending June 30, 2011, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Commonwealth for such fiscal year if audited financial statements are then available; provided, however, that if audited financial statements of the Commonwealth are not then available, such audited financial statements shall be delivered to EMMA when they become available (but in no event later than 350 days after the end of such fiscal year) or (ii) notice of the Commonwealth's failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Commonwealth's Information Statement dated March 15, 2011 (the "Information Statement"), as it appears as Appendix A in the Official Statement dated March 23, 2011 of the Commonwealth with respect to its $80,005,000 General Obligation Refunding Bonds, 2011 Series B and its $360,000,000 General Obligation Bonds, Consolidated Loan of 2011, Series A, which Official Statement has been filed with EMMA, and substantially in the same level of detail as is found in the referenced section of the Information Statement:

	Financial Information and Operating Data Category	**Reference to Information Statement for Level of Detail**
1.	Summary presentation on statutory accounting and five-year comparative basis of selected budgeted operating funds operations, revenues and expenditures, concluding with prior fiscal year, plus estimates for current fiscal year	"COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS – Statutory Basis Distribution of Budgetary Revenues and Expenditures"
2.	Summary presentation on GAAP and five-year comparative basis of governmental funds operations, concluding with prior fiscal year	"SELECTED FINANCIAL DATA – GAAP Basis"
3.	Summary presentation on a five-year comparative basis of lottery revenues and profits	"COMMONWEALTH REVENUES AND EXPENDITURES – Federal and Other Non-Tax Revenues; *Lottery Revenues*"
4.	Summary presentation of payments received pursuant to the tobacco master settlement agreement	"COMMONWEALTH REVENUES AND EXPENDITURES – Federal and Other Non-Tax Revenues; *Tobacco Settlement*"

Financial Information and Operating Data Category		Reference to Information Statement for Level of Detail
5.	So long as Commonwealth statutes impose limits on tax revenues, information as to compliance therewith in the prior fiscal year	"COMMONWEALTH REVENUES AND EXPENDITURES – Limitations on Tax Revenues"
6.	Summary description of the retirement systems for which the Commonwealth is responsible, including membership and contribution rates.	"PENSION AND OPEB FUNDING – Retirement Systems" and "PENSION AND OPEB FUNDING – Employee Contributions."
7.	Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any	"PENSION AND OPEB FUNDING – Funding Schedule."
8.	Summary presentation on a five-year comparative basis of actuarial valuations of pension fund assets, liabilities and funding progress.	"PENSION AND OPEB FUNDING – Actuarial Valuations."
9.	Summary presentation on a five-year comparative basis of annual required pension contributions under GAAP and pension contributions made.	"PENSION AND OPEB FUNDING – Annual Required Contributions."
10.	Summary presentation on a five-year comparative basis of PRIT Fund asset allocation and investment returns.	"PENSION AND OPEB FUNDING – PRIT Fund Investments."
11.	Summary presentation of actuarial valuations of OPEB assets, liabilities and funding progress.	"PENSION AND OPEB FUNDING – Other Post-Retirement Employee Benefit Obligations (OPEB)."
12.	If and to the extent otherwise updated in the prior fiscal year, summary presentation of the size of the state workforce	"STATE WORKFORCE"
13.	Five-year summary presentation of actual capital project expenditures	"COMMONWEALTH CAPITAL INVESTMENT PLAN"
14.	Statement of general and special obligation long-term debt issuance and repayment analysis on a five-year comparative basis through the end of the prior fiscal year	"LONG-TERM LIABILITIES – General and Special Obligation Long-Term Debt Issuance and Repayment Analysis"
15.	Statement of outstanding Commonwealth debt on a five-year comparative basis through the end of the prior fiscal year	"LONG-TERM LIABILITIES – Outstanding Long Term Commonwealth Debt"
16.	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"
17.	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"

Financial Information and Operating Data Category		Reference to Information Statement for Level of Detail
18.	Annual fiscal year budgetary contractual assistance liabilities for Commonwealth, beginning with the current fiscal year	"LONG-TERM LIABILITIES – Budgetary Contract Assistance Liabilities"
19.	Five-year summary presentation of authorized but unissued general obligation debt	"LONG-TERM LIABILITIES – Authorized But Unissued Debt"
20.	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*"
21.	Summary presentation of the then-current, Commonwealth interest rate swap agreements	"LONG-TERM LIABILITIES – Interest Rate Swaps"
22.	Summary presentation of the then-current, Commonwealth liquidity facilities	"LONG-TERM LIABILITIES – Liquidity Facilities"

Any or all of the items listed above may be included by reference to other documents, including official statements pertaining to debt issued by the Commonwealth, which have been submitted to EMMA. The Commonwealth's annual financial statements for each fiscal year shall consist of (i) combined financial statements prepared in accordance with a basis of accounting that demonstrates compliance with the Massachusetts General Laws and other applicable state finance laws, if any, in effect from time to time and (ii) general purpose financial statements prepared in accordance with generally accepted accounting principles in effect from time to time and shall be audited by a firm of certified public accountants appointed by the Commonwealth.

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby further undertakes for the benefit of the owners of the Bonds to provide in a timely manner, not in excess of ten business days after occurrence of the event, to EMMA notice of any of the following events with respect to the Bonds (numbered in accordance with the provisions of the Rule):

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults, if material;

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

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

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

(vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

(vii) modifications to the rights of security holders, if material;

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

(viii) bond calls, if material;

(ix) defeasances;

(x) release, substitution or sale of property securing repayment of the Bonds, if material;[2/]

(xi) rating changes;

(xii) tender offers;

(xiii) bankruptcy, insolvency, receivership or similar event of the Commonwealth;[3/]

(xiv) the consummation of a merger, consolidation, or acquisition or the sale of all or substantially all of the assets of the Commonwealth, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xv) appointment of a successor or additional trustee or the change of name of a trustee, if material. [4/]

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

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

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

3/ As noted in the Rule, this event is considered to occur when any of the following occur: (i) the appointment of a receiver, fiscal agent or similar officer for the Commonwealth in a proceeding under the U.S. Bankruptcy Code or in any proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Commonwealth, or if such jurisdiction has been assumed by leaving the existing governing body and officials in possession but subject to the supervision and orders of a court or governmental authority, or (ii) the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Commonwealth.

4/ Not applicable to the Bonds.

modify the contents, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertakings in a manner consistent with the provisions of state legislation establishing a state information depository or otherwise responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d) or (e), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances, and (ii) the amendment does not materially impair the interests of the owners of the Bonds, as determined either by a party unaffiliated with the Commonwealth (such as Commonwealth disclosure counsel or Commonwealth bond counsel) or by the vote or consent of owners of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment.

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OFFICIAL NOTICE OF SALE

$360,000,000
THE COMMONWEALTH OF MASSACHUSETTS
GENERAL OBLIGATION BONDS
CONSOLIDATED LOAN OF 2011, SERIES A

March 16, 2011

NOTICE IS HEREBY GIVEN that electronic bids will be received by Steven Grossman, Treasurer and Receiver-General of The Commonwealth of Massachusetts (the “State Treasurer”), for the purchase of General Obligation Bonds, Consolidated Loan of 2011, Series A (the “Series A Bonds”), of The Commonwealth of Massachusetts (the “Commonwealth”) to be sold in an aggregate principal amount of $360,000,000. Bids for the purchase of the Series A Bonds will be submitted via Parity. No other method of submitting bids will be accepted. The bids will be received via Parity up to the time described below under the captions “Time” and “Procedures for Electronic Bidding.”

The Series A Bonds will constitute 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 Series A Bonds. The Preliminary Official Statement referred to below contains certain information regarding statutory limits on state tax revenue growth and on expenditures for debt service and should be read in conjunction herewith.

Time. Bids will be received by the Commonwealth via Parity at 10:30 a.m. (Boston time) on March 23, 2011 (subject to the provisions described below under the caption “Procedures for Electronic Bidding”) or at such later date and/or other time as shall be established by the State Treasurer and communicated on Thomson Municipal Market Monitor News (www.tm3.com) (“TM3”), as described herein under the caption “Postponement.” If no legal bid or bids are received for the Series A Bonds on March 23, 2011, an alternative date and time may be designated by the State Treasurer and communicated on TM3.

Details of the Series A Bonds. The Series A Bonds will be dated and bear interest, calculated on the basis of 30-day months and a 360-day year, from the date of delivery, at the rate per annum per maturity specified by the successful bidder, payable semiannually on April 1 and October 1 in each year until maturity, beginning October 1, 2011. The Series A Bonds shall mature or come due through mandatory sinking fund redemptions on April 1 of each of the years 2022 through 2029, in the principal amounts specified by the successful bidder. The Series A Bonds shall mature (subject to adjustment as described herein) on April 1 of each year, as shown below:

April 1	Principal Amounts
2022	$45,000,000
2023	45,000,000
2024	45,000,000
2025	45,000,000
2026	45,000,000
2027	45,000,000
2028	45,000,000
2029	45,000,000

The Series A Bonds will be issued as serial bonds or a combination of serial bonds and term bonds (the "Term Bonds") in accordance with the bid submitted by the successful bidder (see "Bidding Parameters" below).

The Series A Bonds will be issued by means of a book-entry-only system evidencing ownership therein, in principal amounts of $5,000 or integral multiples thereof, and transfer thereof on the records of The Depository Trust Company ("DTC") and its participants. The book-entry-only system is more fully described in the Preliminary Official Statement.

Redemption. The Series A Bonds will be subject to redemption on any date prior to their stated maturity dates on and after April 1, 2021 at the option of the Commonwealth from any moneys legally available therefor, in whole or in part at any time, by lot, at 100% of the principal amount thereof, plus accrued interest to the redemption date.

Bidding Parameters. Bids must be for all of the Series A Bonds offered and must offer to pay an aggregate price for all maturities of not less than 100% of the aggregate principal amount of the Series A Bonds.

Bids may provide for all the Series A Bonds to be issued as serial bonds only, or may designate consecutive annual principal amounts (bearing interest at the same rate) to be combined into no more than two Term Bonds. The Series A Bonds will be issued as serial bonds or as serial bonds and Term Bonds in accordance with the bid submitted by the successful bidder. Series A Bonds issued as Term Bonds shall be subject to mandatory sinking fund redemption commencing on April 1 of the first year in which maturities have been combined to form such Term Bond and continuing on April 1 in each year thereafter until the stated maturity date of such Term Bond.

Bids must state a single fixed interest rate for the Series A Bonds of each maturity. The rate of interest stated for any given maturity shall be in a multiple of one-twentieth or one-eighth of one percent per annum. No maturity may have an interest rate of more than 5.25%. The highest such interest rate specified for a maturity and the lowest interest rate specified for any other maturity may not differ by more than two percentage points.

Bids may not include any conditions not otherwise expressly provided for herein.

Procedures for Electronic Bidding. A prospective electronic bidder must register electronically to bid for the Series A Bonds via Parity pursuant to this Official Notice of Sale. By submitting its bid for the Series A Bonds, a prospective bidder represents and warrants to the Commonwealth that such bidder's bid for the purchase of the Series A Bonds is submitted for and on behalf of such prospective bidder by an officer or agent who is duly authorized to bind the prospective bidder to a legal, valid and enforceable contract for the purchase of the Series A Bonds.

Each prospective electronic bidder shall be solely responsible to register to bid via Parity. Each qualified prospective electronic bidder shall be solely responsible to make necessary arrangements to access Parity for the purpose of submitting its bid in a timely manner and in compliance with the requirements of this Official Notice of Sale. Neither the Commonwealth nor Parity shall have any duty or obligation to undertake such registration to bid for any prospective bidder or to provide or assure such access to any qualified prospective bidder, and neither the Commonwealth nor Parity shall be responsible for a bidder's failure to register to bid or for proper operation of, or have any liability for any delays or interruptions of, or any damages caused by Parity. The Commonwealth is using Parity as a communication mechanism, and not as the Commonwealth's agent, to conduct the electronic bidding for the Series A Bonds. The Commonwealth is not bound by any advice and determination of Parity to the effect that any particular bid complies with the terms of this Official Notice of Sale. All costs and expenses incurred by prospective bidders in connection with their registration and submission of bids via Parity are the sole responsibility of the bidders, and the Commonwealth is not responsible, directly or indirectly, for any such costs or expenses. To the extent that any instructions or directions set forth in Parity conflict with this Official Notice of Sale, the terms of this Official Notice of Sale shall control. If a prospective bidder encounters any difficulty in registering to bid or submitting, modifying or withdrawing a bid for the Series A Bonds, such bidder should telephone Parity's new issues desk at (212) 849-5021 and notify the Commonwealth's financial advisor, Public Resources Advisory Group, by facsimile at (212) 566-7816.

Electronic bids must be submitted for the purchase of the Series A Bonds (all or none) via Parity by 10:30 a.m. (Boston time) on Wednesday, March 23, 2011. Bids submitted after such time will not be deemed received via Parity for the purposes of this bidding process. Bids will be communicated electronically to the Commonwealth at 10:30 a.m. (Boston time), on Wednesday, March 23, 2011. Prior to that time, an eligible prospective bidder may (i) input the proposed terms of its bid via Parity, (ii) modify the proposed terms of its bid, in which event the proposed terms as last modified will (unless the bid is withdrawn as described herein) constitute its bid for the Series A Bonds, or (iii) withdraw its proposed bid. Once the bids are communicated electronically via Parity to the Commonwealth, each bid will constitute an irrevocable offer to purchase the Series A Bonds on the terms therein provided. For purposes of the electronic bidding process, the time as maintained on Parity shall constitute the official time. For information purposes only, bidders are requested to state in their bids the true interest cost to the Commonwealth, as described under "Basis of Award" set forth below, represented by the rate or rates of interest and the bid price specified in their respective bids.

Good Faith Deposit. Upon notification from the Commonwealth, the successful bidder shall wire transfer to the State Treasurer an amount equal to 1% of the aggregate principal amount of the Series A Bonds (the "Good Faith Deposit"), in immediately available funds, no later than 1:00 p.m. (Boston time) on the bid date. In the event that the State Treasurer has not received such funds by the time stated, the State Treasurer may revoke his acceptance of the bid. No interest on the Good Faith Deposit will accrue to the successful bidder. The Good Faith Deposit will be applied to the purchase price of the Series A Bonds. If the successful bidder fails to honor its accepted bid, the Good Faith Deposit will be retained by the Commonwealth.

Basis of Award. The Series A Bonds will be awarded to the bidder offering to purchase all of the Series A Bonds at the lowest true interest cost (TIC) to the Commonwealth. The TIC (expressed as an annual interest rate) will be determined as being twice that factor or discount rate, compounded semi-annually, which, when applied against each semi-annual debt service payment (interest, or principal and interest, as due) for the Series A Bonds, will cause the sum of such discounted semi-annual payments to be equal to the total purchase price. The TIC shall be calculated from the expected settlement date of the Series A Bonds, March 30, 2011.

The Commonwealth reserves the right to reject any or all proposals and to waive any irregularity or informality with respect to any proposal. Any award by the State Treasurer to a successful bidder is subject to the approval of the Governor.

Official Statement. The Preliminary Official Statement dated March 16, 2011 and the information contained therein have been deemed final by the Commonwealth as of its date within the meaning of Rule 15c2-12 of the Securities and Exchange Commission ("Rule 15c2-12") with permitted omissions, but are subject to change without notice and to completion or amendment in the Official Statement in final form (the "Final Official Statement"). The Preliminary Official Statement may be viewed and downloaded from the Commonwealth's website: www.mass.gov/treasury/debt.

The Commonwealth will make available to the successful bidder in a timely manner a reasonable number of copies of the Final Official Statement for delivery (at the expense of the successful bidder or bidders) to each potential investor requesting a copy of the Final Official Statement and to each person to whom such bidder and members of its bidding group initially sell the Series A Bonds, provided that the successful bidder cooperates in providing the information required to complete the Final Official Statement. The successful bidder shall comply with the requirements of Rule 15c2-12 and the rules of the Municipal Securities Rulemaking Board, including an obligation, if any, to update the Final Official Statement.

Reoffering Price Certification. At the time of settlement of the Series A Bonds, the successful bidder shall furnish to the Commonwealth a certificate acceptable to Edwards Angell Palmer & Dodge, LLP, Bond Counsel, to the effect that (i) all of the Series A Bonds of each maturity thereof have been the subject of a bona fide initial offering to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at a price not higher than or a yield not lower than those shown for each maturity on the inside cover page of the Final Official Statement and (ii) based on the records of and information available to the successful bidder at least 10% of each maturity of the Series A Bonds was sold, or reasonably expected to be sold, to the public (excluding bond houses, brokers or similar persons or organizations acting in the capacity of underwriters or wholesalers) at the respective initial offering price or yield for such maturity shown on the inside cover page of the Final Official Statement. If any maturity of the Series A Bonds was also offered to institutional or other investors at a discount from the price at which such maturity was offered to the general public, the successful bidder will be asked for additional certifications as to actual and expected Series A Bond sales at such discounted price.

Continuing Disclosure. To assist bidders in complying with paragraph (b)(5) of Rule 15c2-12, the Commonwealth will undertake in the Series A Bonds to provide annual reports and notices of certain events. A description of this undertaking is set forth in Appendix D of the Preliminary Official Statement and will also be set forth in the Final Official Statement.

Expenses. Each bid will be deemed to be an all-in bid. The successful bidder will be under no obligation to pay the Commonwealth's issuance costs. The Commonwealth will not pay the expenses of the successful bidder in connection with the purchase of the Series A Bonds.

Settlement. The Series A Bonds will be delivered on March 30, 2011, in New York, New York, at DTC against payment of the purchase price therefor (less the amount of the Good Faith Deposit). The successful bidder must make payment of the purchase price of the Series A Bonds by 10:00 a.m. (Boston time) on March 30, 2011 in immediately available funds in Boston.

There will also be furnished the usual closing papers, including (a) a certificate signed by the Attorney General of the Commonwealth stating that no litigation of any kind is now pending or, to her knowledge, threatened seeking to restrain or enjoin the issuance or delivery of the Series A Bonds or the levy or collection of a material portion of the taxes or other revenues of the Commonwealth, or in any manner questioning the proceedings or authority under which the Series A Bonds are issued, or affecting the validity of the Series A Bonds, or contesting in any way the completeness, accuracy or fairness of the Preliminary Official Statement or Final Official Statement or contesting the title to his office of any official signing the Series A Bonds or the Final Official Statement; and (b) a certificate signed by the State Treasurer and the Secretary of Administration and Finance to the effect that, except for the initial offering prices or yields of the Series A Bonds on the inside cover page of the Final Official Statement and any other information concerning the reoffering of the Series A Bonds included therein at the request of the successful bidder and the information in the Preliminary Official Statement and Final Official Statement under the heading "Book-Entry-Only System" and in any Appendix other than Appendix A, to the best of their respective knowledge and belief, the Preliminary Official Statement, as of the date of sale of the Series A Bonds, and the Final Official Statement, both as of the date of sale and the date of settlement of the Series A Bonds, did not contain any untrue statement of a material fact and did not omit to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

Legal Opinions. The approving opinion of Edwards Angell Palmer & Dodge, LLP, Boston, Massachusetts, Bond Counsel, in substantially the form set forth in the Preliminary Official Statement, will be furnished to the successful bidder. The Preliminary Official Statement contains a discussion of the effect of the Internal Revenue Code of 1986, as amended, on the exclusion from gross income of interest on the Series A Bonds and a discussion of Bond Counsel's opinion insofar as it concerns such exclusion. An opinion of Edwards Angell Palmer & Dodge, LLP, Boston, Massachusetts, Bond Counsel, will also be furnished to the successful bidder to the effect that (i) the information contained in the Preliminary Official Statement and the Final Official Statement under the headings "The Bonds," "Security for the Bonds" and in Appendix C, insofar as such information constitutes summaries of certain provisions of the Series A Bonds and applicable Massachusetts law, presents a fair summary of such provisions and that the statements in the Preliminary Official Statement and the Final Official Statement under the caption "Tax Exemption" and in the summary tax opinion contained on the cover of the Preliminary Official Statement and the Final Official Statement, insofar as such statements purport to summarize certain provisions of the Internal Revenue Code of 1986 or purport to summarize such counsel's opinion regarding the Series A Bonds, are correct in all material respects, and (ii) in the course of such counsel's participation in the preparation of the Preliminary Official Statement and the Final Official Statement, no facts came to such counsel's attention that have caused it to conclude that the Preliminary Official Statement, as of its date, or the Final Official Statement, as of the date of sale or the date of settlement of the Series A Bonds (except for the financial and statistical data included therein, the initial offering prices or yields of the Series A Bonds and the Commonwealth's General Obligation Refunding Bonds, 2011 Series B on the inside cover page of the Final Official Statement, any other information concerning the reoffering of the Series A Bonds included therein at the request of the successful bidder and the stabilization clause, and the information in the Preliminary Official Statement and the Final Official Statement under the headings “Book-Entry-Only System,” “Ratings,” “Underwriting – Series B Bonds” and “Competitive Sale - Series A Bonds” and in any other document specifically referenced therein, including any Appendix other than Appendix C, as to which no opinion need be expressed) contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading. An opinion of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Disclosure Counsel, will also be furnished to the successful bidder to the effect that in the course of such counsel’s participation in the preparation of the Commonwealth Information Statement (as defined in the Preliminary Official Statement), and as it may have been further supplemented as of the date of sale of the Series A Bonds, no facts came to such counsel’s attention that have caused it to conclude that the Commonwealth Information Statement as of the date of the Preliminary Official Statement, or, as it may have been supplemented as of the date of sale of the Series A Bonds, as of said date of sale or as of the date of settlement of the Series A Bonds (except for the financial and statistical data included therein and the information contained in the Exhibits thereto, as to which no opinion need be expressed), contained any untrue statement of a material fact or omitted to state a material fact necessary to make the statements made therein, in light of the circumstances under which they were made, not misleading.

CUSIP Numbers. CUSIP numbers will be applied for with respect to the Series A Bonds, but the Commonwealth will assume no obligation for the assignment or printing of such numbers on the Series A Bonds or for the correctness of such numbers. Neither failure to print such numbers on any Series A Bond nor any error with respect thereto shall constitute cause for a failure or refusal by the successful bidder to accept delivery of and make payment for the Series A Bonds. The CUSIP Service Bureau charge for the assignment of CUSIP numbers on the Series A Bonds shall be the responsibility of and shall be paid for by the successful bidder.

Right to Modify or Amend Notice of Sale. The Commonwealth reserves the right to modify or amend this Official Notice of Sale prior to the bid date. If any modifications occur, supplemental information with respect to the Series A Bonds will be communicated by posting on TM3 not later than 9:30 a.m. (Boston time) on the day on which bids may be submitted, and bidders shall bid upon the Series A Bonds based upon the terms thereof set forth in this Official Notice of Sale, as so modified by such supplemental information.

Postponement. The Commonwealth reserves the right to postpone the date and time established for the receipt of bids. Any such postponement will be announced by posting on TM3 no later than 9:30 a.m. (Boston time) on the announced bid date. If any date and time fixed for the receipt of bids and the sale of the Series A Bonds is postponed, an alternative sale date and time will be announced at least one business day prior to such alternative sale date. On any such alternative sale date and time, any bidder may submit bids electronically as described above for the purchase of the Series A Bonds in conformity in all respects with the provision of this Official Notice of Sale, except for the date and time of sale and except for any changes announced by posting on TM3 at the time the sale date and time are announced.

Minority/Women Business Enterprises. It is the policy of the Commonwealth that appropriate consideration be given to firms who (a) are minority business enterprises and women’s business enterprises and (b) have significant local ownership or presence. The State Treasurer requests and strongly urges bidders to make a good-faith effort to meet this goal by including such firms in their management group or syndicate and/or in the provision of legal services or other advisory services.

Additional Information. Further information concerning the Commonwealth and the Series A Bonds is contained in the Preliminary Official Statement dated March 16, 2011, to which prospective bidders are directed, and to which this Official Notice of Sale is attached. The Preliminary Official Statement is provided for informational purposes only and is not a part of this Official Notice of Sale. Copies of the Preliminary Official Statement and this Official Notice of Sale may be viewed and downloaded at the Commonwealth's website: www.mass.gov/treasury/debt. Additional information may be obtained from Colin A. MacNaught, Assistant Treasurer for Debt Management, Office of the Treasurer and Receiver General (617) 367-3900, ext. 226).

The Commonwealth of Massachusetts

/s/ Steven Grossman

Steven Grossman
Treasurer and Receiver-General