

NEW MONEY ISSUE - BOOK-ENTRY-ONLY

In the opinion of Bond Counsel, under existing law and assuming continued compliance with certain requirements of the Internal Revenue Code of 1986, as amended, interest on the Series C Bonds (as defined herein) will not be included in the gross income of holders of the Series C Bonds for federal income tax purposes. While interest on the Series C Bonds will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, interest on the Series C Bonds will be included in the "adjusted current earnings" of corporate holders of the Series C Bonds and therefore will be taken into account in computing the alternative minimum tax applicable to certain corporations. In the opinion of Bond Counsel, interest on the Series C Bonds is exempt from Massachusetts personal income taxes, and the Series C Bonds are exempt from Massachusetts personal property taxes. Interest on the Series D Bonds (as defined herein) will not be excluded from federal and Massachusetts income taxation. For federal and Massachusetts tax purposes, interest includes accrued original issue discount. See "TAX EXEMPTION" herein.

THE COMMONWEALTH OF MASSACHUSETTS



\$701,095,000
General Obligation Bonds
Consolidated Loan of 2005
Series C

\$60,000,000
General Obligation Bonds
Consolidated Loan of 2005
Series D (Federally Taxable)

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 ("DTC") and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The Series C Bonds will bear interest from their delivery date and interest will be payable on March 1, 2006 and semiannually thereafter on September 1 and March 1 calculated on the basis of a 360-day year of twelve 30-day months. The Series D Bonds will bear interest from their delivery date and interest will be payable on January 1, 2006 and semiannually thereafter on July 1 and January 1 calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are subject to redemption prior to maturity, as more fully described herein.

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

The Bonds are offered when, as and if issued and received by the Underwriters, and subject to the unqualified approving opinion as to legality of Ropes & Gray LLP, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Ropes & Gray LLP, Boston, Massachusetts, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Holland & Knight LLP, Boston, Massachusetts. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about October 12, 2005.

Goldman, Sachs & Co.

Bear, Stearns & Co. Inc.
Lehman Brothers

Citigroup
Merrill Lynch & Co.

JPMorgan
UBS Financial Services Inc.

A.G. Edwards & Sons, Inc.
Corby Capital Markets, Inc.
First Albany Capital
National Financial Markets Group
RBC Dain Rauscher, Inc.

Advest, Inc.
Eastern Bank Capital Markets
M.R. Beal & Company
Ramirez & Co., Inc.
Southwest Securities, Inc.

Banc of America Securities LLC
Edward D. Jones & Co., L.P.
Morgan Keegan & Company, Inc.
Raymond James
Wachovia Bank, National Association

September 30, 2005

THE COMMONWEALTH OF MASSACHUSETTS

**\$701,095,000
General Obligation Bonds
Consolidated Loan of 2005, Series C**

Dated: Date of Delivery

Due: September 1, as shown below

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
2008	\$8,315,000	3.100%	3.110%
2008	17,135,000	5.000	3.110
2009	13,430,000	3.250	3.250
2009	13,125,000	5.000	3.250
2010	10,120,000	3.250	3.350
2010	17,585,000	5.000	3.350
2011	8,335,000	3.500	3.500
2011	20,635,000	5.000	3.500
2012	5,040,000	3.500	3.630
2012	25,315,000	5.000	3.630
2013	2,700,000	3.700	3.740
2013	29,155,000	5.000	3.740
2014	5,000,000	3.750	3.830
2014	28,435,000	5.000	3.830
2015	1,855,000	3.875	3.910
2015	33,255,000	5.000	3.910
2016	9,335,000	4.000	4.000
2016	27,515,000	5.000	3.980*
2017	38,690,000	5.000	4.040*
2018	40,675,000	5.000	4.090*
2019	42,600,000	4.250	4.280
2020	44,460,000	4.300	4.350
2021	46,580,000	5.000	4.210*
2022	48,970,000	5.000	4.240*
2023	51,545,000	5.250	4.180*
2024	54,255,000	5.000	4.300*
2025	57,035,000	5.000	4.320*

* Priced at the stated yield to the September 1, 2015 redemption date at a redemption price of 100%. See the "THE BONDS – Redemption" herein.

**\$60,000,000
General Obligation Bonds
Consolidated Loan of 2005, Series D
(Federally Taxable)**

Dated: Date of Delivery

Due: As shown below

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
July 1, 2006	\$ 30,000,000	4.250%	4.160%
January 1, 2007	30,000,000	4.430	4.430

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

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

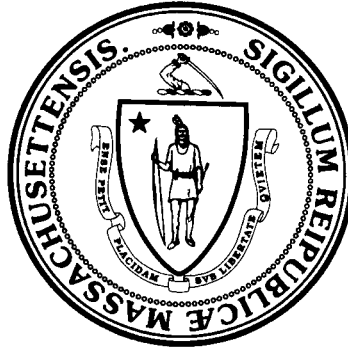
IN CONNECTION WITH THIS OFFERING THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL ON THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

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

OFFICIAL STATEMENT

THE COMMONWEALTH OF MASSACHUSETTS

\$701,095,000

**General Obligation Bonds
Consolidated Loan of 2005, Series C**

\$60,000,000

**General Obligation Bonds
Consolidated Loan of 2005,
Series D (Federally Taxable)**

INTRODUCTION

This Official Statement (including the cover pages and Appendices A through C attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of \$701,095,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 2005, Series C (the "Series C Bonds") and of \$60,000,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 2005, Series D (Federally Taxable) (the "Series D Bonds" and, together with the Series C Bonds, the "Bonds"). The Bonds will be general obligations of the Commonwealth, and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and expenditures for debt service, see "SECURITY FOR THE BONDS" and the Information Statement (described below) under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "LONG-TERM LIABILITIES – General Authority to Borrow; Limit on Debt Service Appropriations."

The Bonds are being issued to finance certain authorized capital projects of the Commonwealth. See "THE BONDS – Application of 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 C. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document.

Specific reference is made to the Commonwealth's Information Statement dated March 17, 2005 (the "March Information Statement"), as it appears as Appendix A in the Official Statement dated March 17, 2005 of the Commonwealth with respect to the Commonwealth's General Obligation Bonds, Consolidated Loan of 2005, Series A (the "March Official Statement"). A copy of the March Official Statement has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. The information contained in the March Information Statement has been supplemented by the Commonwealth's Information Statement Supplement dated September 30, 2005 (the "September Supplement"), which is attached hereto as Appendix A. The March Information Statement and the September Supplement are referred to herein collectively as the "Information Statement". The Information Statement contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth. Exhibit A to the Information Statement contains certain economic information concerning the Commonwealth. Exhibits B and C to the Information Statement contain the financial statements of the Commonwealth for the fiscal year ended June 30, 2004, prepared on a statutory basis and on a GAAP basis, respectively. Specific reference is made to said Exhibits B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. The financial statements are also available at the home page of the Comptroller of the Commonwealth located at <http://www.mass.gov/osc> by clicking on "Financial Reports/Audits".

Attached hereto as Appendix B is the proposed form of legal opinion of Bond Counsel with respect to the Bonds. Appendix C attached hereto contains the proposed form of the Commonwealth's continuing disclosure

undertaking to be included in the forms of the Bonds to facilitate compliance by the Underwriters with the requirements of paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission.

THE BONDS

General

The Series C Bonds will be dated their date of delivery and will bear interest from such date payable semiannually on March 1 and September 1 of each year, commencing March 1, 2006 (each an "Interest Payment Date") until the principal amount is paid. The Series C Bonds will mature on September 1 in the years and in the aggregate principal amounts, and shall bear interest at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months), as set forth on the inside cover page of this Official Statement. The Series D Bonds will be dated their date of delivery and will bear interest from such date payable semiannually on January 1 and July 1 of each year, commencing January 1, 2006 (each an "Interest Payment Date") until the principal amount is paid. The Series D 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 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 immobilized at The Depository Trust Company, New York, New York ("DTC"). The certificates will not be available for distribution to the public and will evidence ownership of the Bonds in principal amounts of \$5,000 or integral multiples thereof. Transfers of ownership will be effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Interest and principal due on the Bonds will be paid in clearing house funds to DTC or its nominee as registered owner of the Bonds. The record date for payments on account of the Bonds will be the business day next preceding an Interest Payment Date. As long as the book-entry-only system remains in effect, DTC or its nominee will be recognized as the owner of the Bonds for all purposes, including notices and voting. The Commonwealth will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. See "BOOK-ENTRY-ONLY SYSTEM."

Redemption

Optional Redemption. The Series C Bonds maturing on and after September 1, 2016 will be subject to redemption on any date prior to their stated maturity dates on and after September 1, 2015 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. The Series C Bonds maturing prior to September 1, 2016 and the Series D Bonds will not be subject to optional redemption prior to maturity.

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

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

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

Application of Proceeds

The net proceeds of the sale of the Bonds will be applied by the Treasurer and Receiver-General of the Commonwealth (the "State Treasurer") to the various purposes for which the issuance of bonds has been authorized by the Legislature or to reimburse the state treasury for expenditures previously made pursuant to such laws. Any accrued interest payable upon original delivery of the Bonds will be credited ratably to the funds from which debt service on the Bonds is paid and will be used to pay interest on the Bonds. Any premium received by the Commonwealth upon original delivery of the Bonds will be treated as net proceeds of the issue except to the extent that the State Treasurer may determine to apply all or a portion of such net premium to the costs of issuance thereof and other financing costs related thereto or to the payment of the principal of the Bonds.

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

SECURITY FOR THE BONDS

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

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including the Bonds, and all claims with respect thereto. However, the property of the Commonwealth is not 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 the qualities and incidents of negotiable instruments under the Uniform Commercial Code. The Bonds are not subject to acceleration.

LITIGATION

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

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RATINGS

The Bonds have been assigned ratings of "AA," "Aa2" and "AA" by Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, respectively.

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

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase all of the Bonds from the Commonwealth at a discount from the initial offering prices of the Bonds in the aggregate amount of \$3,676,445.98, which is equal to approximately 0.4830% of the aggregate principal amount of the Bonds. The Underwriters may offer and sell the Bonds to certain dealers and others (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices (or yields higher than the offering yields) stated on the inside cover page hereof. The principal offering prices (or yields) set forth on the inside cover page hereof may be changed from time to time after the initial offering by the Underwriters.

TAX EXEMPTION

Bond Counsel is of the opinion that, under existing law, interest on the Series C Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for the purpose of computing the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"); it should be noted, however, that the interest on the Series C Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). Bond Counsel has not opined as to other federal tax consequences, if any, resulting from holding the Series C Bonds.

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

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

In the opinion of Bond Counsel, interest on the Series C Bonds is exempt from Massachusetts personal income taxes, and the Series C Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Series C Bonds. Prospective purchasers should be aware, however, that the Series C Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Series C Bonds and the interest thereon are included in the measure of Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Series C Bonds or the income therefrom under the laws of any state other than Massachusetts.

For federal and Massachusetts tax purposes, interest includes original issue discount. Original issue discount with respect to a Bond is equal to the excess, if any, of the stated redemption price at maturity of such Bond, over the initial offering price thereof to the public, excluding underwriters and other intermediaries, at which price a

substantial amount of all Bonds with the same maturity were sold. Original issue discount accrues actuarially over the term of a Bond. Holders should consult their own tax advisers with respect to the computations of original issue discount on such accruals of interest during the period in which any such Bond is held.

The excess, if any, of the tax basis of the Bonds to a purchaser (other than a purchaser who holds such Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is "bond premium." For federal income tax purposes, bond premium is amortized over the term of such Bonds, is not deductible and reduces the purchaser's adjusted tax basis. Bond purchasers should consult their tax advisors with respect to the tax consequences of bond premium.

Bond Counsel is of the opinion that, under existing law, interest on the Series D Bonds is not excluded from gross income for federal income tax purposes. Bond Counsel has not opined as to other federal tax consequences, if any, resulting from holding the Series D Bonds. Bond Counsel is of the further opinion that interest on the Series D Bonds is not exempt from Massachusetts personal income taxes but that the Series D Bonds are not subject to Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Series D Bonds and has not opined as to the taxability of the Series D Bonds or the income therefrom under the laws of any state other than Massachusetts.

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

OPINIONS OF COUNSEL

The unqualified approving opinion as to the legality of the Bonds will be rendered by Ropes & Gray LLP, of Boston, Massachusetts, Bond Counsel. The proposed form of the opinion of Bond Counsel relating to the Bonds is attached hereto as Appendix B. Certain legal matters will also be passed upon by Ropes & Gray LLP of Boston, Massachusetts, as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Holland & Knight LLP of Boston, Massachusetts.

CONTINUING DISCLOSURE

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

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

MISCELLANEOUS

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

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

The information, estimates and assumptions and expressions of opinion in this Official Statement are subject to change without notice. Neither the delivery of this Official Statement nor any sale made pursuant to this Official Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the

Commonwealth or its agencies, authorities or political subdivisions since the date of this Official Statement, except as expressly stated.

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.

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.

AVAILABILITY OF OTHER INFORMATION

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

THE COMMONWEALTH OF MASSACHUSETTS

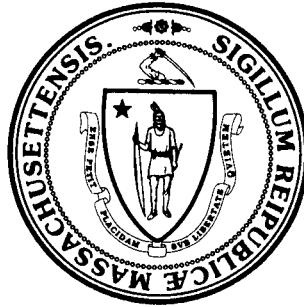
By /s/Timothy P. Cahill
Timothy P. Cahill
Treasurer and Receiver-General

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

September 30, 2005

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**THE
COMMONWEALTH
OF
MASSACHUSETTS**



INFORMATION STATEMENT SUPPLEMENT

Dated September 30, 2005

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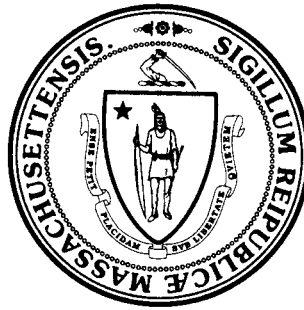
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B. Statutory Basis Financial Report for the year ended June 30, 2004.

C. Comprehensive Annual Financial Report (GAAP basis) for the year ended June 30, 2004.

THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

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

THE COMMONWEALTH OF MASSACHUSETTS
INFORMATION STATEMENT SUPPLEMENT

September 30, 2005

This supplement (“Supplement”) to the Information Statement of The Commonwealth of Massachusetts (the “Commonwealth”) dated March 17, 2005 (the “March Information Statement”) is dated September 30, 2005, and contains information which updates the information contained in the March Information Statement. The March Information Statement appears in the Commonwealth’s Official Statement dated March 17, 2005 with respect to its \$669,710,000 General Obligation Bonds, Consolidated Loan of 2005, Series A, a copy of which has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. This Supplement and the March Information Statement must be read together and in their entirety in order to obtain the appropriate fiscal, financial and economic information concerning the Commonwealth through September 30, 2005. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the March Information Statement. Exhibit A to this Supplement, which is attached hereto, is the Statement of Economic Information as of July 1, 2005, which sets forth certain economic, demographic and statistical information concerning the Commonwealth. Exhibit B is the Statutory Basis Financial Report for the year ended June 30, 2004, and Exhibit C is the Comprehensive Annual Financial Report (GAAP basis) for the year ended June 30, 2004. Specific reference is made to said Exhibits B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission (the “NRMSIRs”). The financial statements are also available at the home page of the Comptroller of the Commonwealth located at <http://www.mass.gov/osc> by clicking on “Financial Reports/Audits”.

RECENT DEVELOPMENTS

Fiscal 2005 Appropriations

To date, appropriations for fiscal 2005, ended June 30, 2005, total \$23.188 billion. The General Appropriations Act provided for \$22.494 billion in budgetary spending. Appropriations totaling \$368.1 million in fiscal 2004 were authorized as prior appropriation continued (PAC’s) allowing these funds to be spent in fiscal 2005. Supplemental appropriations to date total \$326.0 million.

In addition to this spending in the budgeted operating funds, the Commonwealth has significant “off-budget” expenditures in the amounts of dedicated sales taxes transferred to the MBTA and MSBA, projected to be in the amounts of \$704.8 million and \$395.7 million, respectively, and \$ 415.6 million of off-budget expenditures in the Medicaid program. See “SELECTED FINANCIAL DATA – Recent Financial Restructurings.”

Since the March Information Statement, a number of supplemental budgetary appropriation bills have been filed. Some of the amounts requested in these bills have been appropriated, as described above, while other requested amounts remain pending before the legislature. Except as otherwise noted, the tables in “SELECTED FINANCIAL DATA – Recent Financial Restructurings” include all spending appropriated and signed into law by the Governor and any additional amounts for which the Governor has filed supplemental appropriations that remain before the legislature. These supplemental budgetary bills and appropriations are as follows:

On March 24, 2005 the Governor filed legislation for supplemental appropriations totaling \$74.5 million. The supplemental items included \$40.6 million for costs associated with snow and ice removal, \$4.5 million for certain lease costs by the division of Capital Asset Management, \$1.5 million for the implementation of a small business initiative, and \$27.9 million for various other programs and services. In addition, the legislation also called for \$38.0 million in appropriations to be continued forward into fiscal 2006 to support expenditures originally recommended in the Governor’s House 1 budget recommendation.

On May 10, 2005 the Governor filed legislation for supplemental appropriations totaling \$40.3 million. This legislation was necessary to address several current year deficiencies, including \$21.4 million for insurance

premium costs at the Group Insurance Commission, and \$6.8 million for the Department of Correction. The legislation also provided for \$6.1 million to fund a reserve to support salary adjustments resulting from signed collective bargaining agreements. In addition, the legislation also called for \$32.0 million in unexpended fiscal year 2005 appropriations to be continued forward and expended in fiscal 2006.

On June 16, 2005 the Governor signed into law \$79.6 million in supplemental appropriations. The legislation included previously requested and filed items including \$41.1 million for snow and ice removal, \$21.4 million for insurance premium costs and \$9.2 million for substance abuse treatment to ensure the receipt of \$14.5 million in federal funds from the Substance Abuse Block Grant. The legislation also included \$7.9 million for a variety of other programs and services.

On July 22, 2005, the Governor filed a \$513.7 million capital supplemental appropriation. This legislation would fund an off-budget Capital Investment Fund to support \$413.7 million in capital projects throughout the University of Massachusetts system and other state and community colleges for new science centers and for needed infrastructure restoration. The legislation would also provide \$100.0 million to cities and towns for local road and bridge repairs through the Commonwealth's Chapter 90 program. Based on supplemental legislation signed into law on September 30, 2005 and described below, this proposal is no longer reflected in the statutory basis financial information shown on pages A-8, A-10 and A-11.

On August 17, 2005, the Governor filed a \$29.8 million supplemental appropriation. This legislation would fund a \$24.1 million shortfall in the Uncompensated Care Pool, which compensates healthcare providers for care provided to those without health insurance, \$1.6 million for settlements of three cases of wrongfully convicted individuals, and \$4.1 million in a variety of other programs and services.

On September 6, 2005, the Governor filed and signed a \$25.0 million supplemental appropriation to fund the relief effort at Camp Edwards on the Otis Air National Guard Base for victims of Hurricane Katrina.

On September 30, 2005, the Governor signed supplemental legislation for fiscal 2005. The legislation included \$88.6 million in additional appropriations, including \$71.8 million to fund collective bargaining agreements for fiscal 2005 and fiscal 2006, \$6.3 million to cover workers' compensation and utility costs at the Department of Correction, and \$10.5 million for a variety of other programs and services. These appropriations were authorized for expenditure through June 30, 2006. In addition, \$37.5 million in previous appropriations were extended through June 30, 2006. The legislation also funded \$24.1 million to cover the aforementioned shortfall in the Uncompensated Care Pool. The legislation directed \$671.0 million of the budget surplus to be transferred to the Commonwealth's Stabilization Fund and the remainder of the budget surplus, currently estimated at \$230.0 million, to be transferred to a Transitional Escrow Fund, which will be available, subject to appropriation, for fiscal 2006 expenditures. The Transitional Escrow Fund will expire on June 30, 2006, at which time any remaining balance will be transferred to the Stabilization Fund.

Since the March Information Statement, bond bills making capital spending authorizations have also been filed and approved, as follows:

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

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

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

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

Fiscal 2005 Non-Tax Revenues

Non-tax revenues are now projected to be \$7.905 billion, \$388.7 million less than originally budgeted. Medicaid is projected to revert \$537.0 million in fiscal 2005. With this decrease in expected expenditures, there is an associated reduction in federal reimbursement revenue of \$268.0 million. In addition, projected revenue from the Registry of Deeds has been decreased by \$41.2 million. These changes are reflected in the projected fiscal 2005 Budgeted Operating Funds table on page A-8.

Fiscal 2005 Tax Revenues

Tax revenue collections for the fiscal 2005, ended June 30, 2005, totaled \$17,087.4 million, an increase of \$1,134.1 million or 7.1% over fiscal 2004. The following table shows monthly tax collections for fiscal 2005 and the change from tax collections in the same months in the prior year, both in dollars and as a percentage. The table also notes the amount of monthly tax collections that are dedicated to the Massachusetts Bay Transportation Authority (MBTA) and to the Massachusetts School Building Authority (MSBA).

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

Month	Tax Collections	Change From Prior Year	Percentage Change	MBTA Portion(2)	MSBA Portion	Collections, Net of MBTA and MSBA
July	\$1,127.2	\$60.2	5.6%	\$59.2	\$ --	\$1,068.0
August	1,192.1	102.4	9.4	56.5	33.0	1,102.6
September	1,697.8	55.8	3.4	60.5	36.3	1,601.0
October	1,098.7	23.1	2.2	56.3	36.3	1,006.1
November	1,119.0	73.5	7.0	52.4	36.3	1,030.4
December	1,587.0	133.0	9.1	67.5	36.3	1,483.2
January	1,685.3	178.1	11.8	66.1	36.3	1,582.9
February	849.2	(53.3)	(5.9)	47.8	36.3	765.1
March	1,556.9	186.8	13.6	62.2	36.3	1,458.4
April	2,016.9	196.0	10.8	55.4	36.3	1,925.2
May	1,327.0	121.2	10.1	57.3	36.3	1,233.5
June	<u>1,830.2</u>	<u>57.2</u>	<u>3.2</u>	<u>63.5</u>	<u>36.3</u>	<u>1,730.5</u>
Total	<u>\$17,087.4</u>	<u>\$1,134.1</u>	<u>7.1%</u>	<u>\$704.8</u>	<u>\$395.7</u>	<u>\$15,986.9</u>

SOURCE: Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Includes adjustments of \$7.8 million on the account of the first quarter, \$13.9 million on account of the second quarter and \$13.7 million on account of the third quarter.

The tax revenue increase of \$1,134.1 million over fiscal year 2004 is attributable in large part to an increase of approximately \$305.8 million or 4.1% in withholding collections, an increase of approximately \$303.9 million or 22.0% in income tax estimated payments, an increase of approximately \$270.4 million or 23.1% in income tax payments with returns and bills and an increase of approximately \$137.2 million or 3.7% in sales and use tax collections.

On April 6, 2004, the Supreme Judicial Court held that the effective date of a provision of Chapter 186 of the Acts of 2002 amending the capital gains tax statute to impose new tax rates as of May 1, 2002 violates amendment article 44 of the Massachusetts Constitution. Since the statute has a severability clause, the court remanded the case to the Supreme Judicial Court for Suffolk County for further proceedings to determine whether the statute should be construed to impose the new tax rate beginning on January 1, 2003, or whether the statute instead should be construed to impose the new tax rate beginning on January 1, 2002. Included in the fiscal 2005 GAA were two sections concerning capital gains tax rates: one section providing that the effective date of the capital gains tax statute is January 1, 2002 and another concerning an exemption for taxpayers who paid taxes on capital gains realized during January 1, 2002 to April 30, 2002. On April 26, 2005, the Supreme Judicial Court ruled that the exemption for taxpayers who paid taxes on capital gains realized during January 1, 2002 to April 30, 2002 was not a "reasonable exemption" and again remanded the case to the Supreme Judicial Court for Suffolk County, which ordered that the new tax rate be imposed effective January 1, 2002 unless the Legislature took further action. See "LEGAL MATTERS" herein. The Department of Revenue estimates that the Commonwealth would collect an additional \$150 to \$200 million in taxes under the current January 1, 2002 effective date.

On June 10, 2005 the Governor filed legislation amending the capital gain tax laws by reinstating the capital gains tax rates that existed during the first four months of 2002 as the legal and enforceable tax rates applicable for the period. In addition, to comply with the Court's ruling, it would retroactively extend the applicability of those lower capital gains rates to all of calendar year 2002. This proposed legislation, along with various other proposals applicable to the Peterson v. Commissioner of Revenue case, is currently before the legislature, and, if enacted, it would result in a revenue reduction of \$300 to \$350 million, paid out as refunds.

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

Fiscal 2006

On June 29, 2005, the Governor signed the General Appropriations Act for fiscal 2006. The budget as signed included \$23.806 billion in spending, reflecting vetoes making \$109.7 million in reductions compared to the conference committee budget as passed. The Legislature has subsequently overridden \$108.9 million of the Governor's vetoes, bringing the total value of the GAA to \$23.915 billion. The GAA (including overrides) budgets \$6.995 billion for Medicaid, \$3.772 billion for education excluding school building assistance, \$1.873 billion for debt service and \$11.275 billion for all other programs and services.

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

The conference committee budget included a \$600.0 million draw from the Stabilization Fund to support budgeted spending. The Governor returned the budget section that would have required this transfer with an amendment that would reduce the transfer to \$114.0 million, the amount that would be necessary after his vetoes and if the Legislature were to revise its revenue estimate to the administration's \$17.500 million level (which has since been reduced as described above). Further language would reduce the amount drawn to the extent that tax revenue exceeds projections. The Governor's proposed amendment remains pending before the Legislature. (As noted above, most of the vetoes were overridden.)

On September 22, 2005, the Governor filed "An Act to Reform Education." The objective of the bill is to improve K-12 education, especially math and science, to maintain international competitiveness. The bill proposes supplemental appropriations for fiscal 2006 of \$46.6 million. The projected cost of the proposal for fiscal 2007 is \$143 million. Key features of the bill include: (1) establishment of three annual bonus payment programs of \$5,000 each for a new corps of math and science teachers, teachers of advanced placement math and science, and teachers in any subject with exemplary evaluations for contributing to growth in student achievement; (2) expansion of advanced placement math and science to all high schools, and establishment of seven math/science exam schools across the state; (3) introduction of math testing for licensing of all new teachers and all current elementary teachers of math; (4) expansion of math and science training of current teachers; (5) acceleration of intervention in underperforming schools and expanded management authority for superintendents and principals; (6) introduction of occupational-academic programs in regular high schools to pursue certificates of occupational proficiency; (7) provision of laptops to all middle and high school students, based on new technology for producing laptops at about \$100; (8) parental preparation programs; and (9) establishment of the office of secretary of education.

Fiscal 2006 Tax Revenues

Tax revenue collections for the first three months of fiscal 2006, ended September 30, 2005, totaled \$4,333.7 million, an increase of \$316.6 million or 7.9% over the first three months of fiscal 2005. The following table shows the tax collections for the first three months of fiscal 2006 and the change from tax collections in the same months in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in fiscal 2006 through September that are dedicated to the MBTA and to the MSBA.

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

Month	Tax Collections	Change From Prior Year	Percentage Change	MBTA Portion(2)	MSBA Portion	Collections, Net of MBTA and MSBA
July	\$1,188.8	\$61.6	5.5%	\$63.7	\$44.6	\$1,080.5
August	1,204.9	12.7	1.1	60.0	42.0	1,102.8
September (3)	<u>1,940.0</u>	<u>242.2</u>	<u>14.3</u>	<u>54.4</u>	<u>37.9</u>	<u>1,847.7</u>
Total	<u>\$4,333.7</u>	<u>\$316.6</u>	<u>7.9%</u>	<u>\$178.1</u>	<u>\$124.5</u>	<u>\$4,031.0</u>

SOURCE: Executive Office for Administration and Finance.

- (1) Details may not add to Total because of rounding.
- (2) Includes adjustments of \$0.2 million on account of the first quarter.
- (3) Figures are preliminary.

The year-to-date tax revenue increase of \$316.6 million over fiscal 2005 is attributable in large part to an increase of approximately \$91.5 million or 5.1% in withholding collections, an increase of approximately \$49.4 million or 13.1% in income tax estimated payments, an increase of approximately \$53.3 million or 5.3% in sales and use tax collections and an increase of approximately \$128.3 million or 34.3% in corporate and business collections, which are partially offset by changes in other revenues (net of refunds). The year-to-date collections exceeded the year-to-date benchmarks by about \$194.4 million. The year-to-date benchmark was based on a fiscal 2006 tax revenue estimate of \$17.448 billion, which reflects the April 5, 2005 Executive Office for Administration and Finance tax revenue estimate for fiscal 2006 of \$17.500 billion, adjusted for subsequent enacted law changes,

including the federal Internet Tax Freedom Act (-\$13 million)*, the sales tax holiday on August 13 and 14, 2005 (-\$14.5 million) and an automatic personal exemption increase (-\$25 million).

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

	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004(7)	Fiscal 2005(7)	Projected Fiscal 2006
Tax Revenues:						
Alcoholic Beverages	\$64.2	\$65.4	\$66.3	\$67.9	\$68.6	\$67.2
Banks	179.6	137.0	344.5	238.7	198.9	207.0
Cigarettes	270.5	275.0	451.0	425.4	423.6	412.2
Corporations	945.3	586.7(4)	799.4(4)	997.6	1,062.7	1,156.1
Deeds	129.6	134.3	147.8	187.0	219.8	189.8
Income	9,902.7	7,912.9	8,026.1	8,830.3	9,690.3	9,786.7
Inheritance and Estate	203.4	200.5	181.3	194.7	255.1	243.0
Insurance	356.6	382.9	387.8	420.2	423.4	431.6
Motor Fuel	659.9	666.8	676.4	684.2	685.5	704.4
Public Utilities	86.7	88.5	40.6	64.7	71.1	70.0
Racing	7.5	2.7	-	-	-	-
Room Occupancy	149.6	123.3	120.0	88.9	97.8	106.5
Sales:						
Regular	2,705.8	2,601.4	2,583.6	2,591.6	2,746.6	2,871.1
Meals	482.0	500.9	512.0	531.7	555.6	598.6
Motor Vehicles	568.0	593.6	612.5	625.8	584.2	596.3
Sub-Total-Sales	3,755.8	3,695.9	3,708.1	3,749.2	3,886.4	4,066.1
Miscellaneous	17.9	15.1	14.3	4.2	3.9	7.0
Total Tax Revenues	16,729.2	14,287.1	14,963.8(5)	15,953.2	17,087.4	17,447.5
MBTA Transfer	(654.6)	(664.3)	(684.3)	(684.3)	(704.8)	(712.6)
MSBA Transfer (2)	-	-	-	-	(395.7)	(488.7)
Total Budgeted Operating Tax Revenues	16,074.6	13,622.8	14,279.5	15,268.9	15,986.9	16,246.2
Non-Tax Revenues:						
Federal Reimbursements	3,974.2	4,334.9	4,523.6	5,098.5	4,563.2	5,133.0
Departmental and Other Revenues	1,425.9	1,485.2	1,494.8	1,847.7	1,960.1	1,944.6
Inter-fund Transfers from Non - Budgeted Funds and Other Sources (3)	1,385.9	1,732.0	1,689.2	1,773.1	891.4	1,508.5
Budgeted Non-Tax Revenues and Other Sources	6,786.0	7,552.2	7,707.6	8,719.3	7,414.7	8,586.1
Budgeted Revenues and Revenues from Other Sources	\$22,860.6	\$21,174.8	\$21,987.2	\$23,988.3	\$23,400.2	\$24,832.3

SOURCE: Executive Office for Administration and Finance.

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

* In December 2004, the federal Internet Tax Freedom Act (ITFA) was renewed and the definition of "Internet Access" was expanded to include telecommunications services "purchased, used, or sold by a provider of Internet access to provide Internet access". As a result, Massachusetts will no longer be able to impose and collect the sales and use tax on such services beginning November 1, 2005.

- (6) Beginning July 1, 2003, the Convention Center Fund, the Head Injury Treatment Services Fund and the Natural Heritage and Endangered Species Fund were reclassified as non-budgeted funds. Prior years have not been restated.

Selected Financial Data – Statutory Basis

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

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

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

	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Estimated Fiscal 2005	Projected Fiscal 2006
Beginning Fund Balances						
Reserved or Designated	\$278.5	\$895.3	\$195.2	\$76.8	\$664.6	\$312.9
Tax Reduction Fund	7.2	33.6	-	-	-	-
Stabilization Fund	1,608.4	1,715.0	881.8	641.3	1,137.3	1,711.3
Undesignated	<u>391.3</u>	<u>369.5</u>	<u>311.0</u>	<u>34.7</u>	<u>90.9</u>	<u>327.4</u>
Total	<u>2,285.4</u>	<u>3,013.3</u>	<u>1,388.0</u>	<u>752.8(7)</u>	<u>1,892.8</u>	<u>2,351.7</u>
Revenues and Other Sources						
Tax Revenues (2)	16,074.6	13,622.8	14,279.5(5)	15,269.0	15,985.5	16,246.2(10)
Federal Reimbursements	3,974.2	4,334.9	4,523.6	5,098.5	4,563.2	5,133.0
Departmental and Other Revenues	1,425.9	1,485.2	1,494.8	1,847.7	1,960.1	1,944.6
Inter-fund Transfers from Non-budgeted Funds and Other Sources (3)	<u>1,385.9</u>	<u>1,732.0</u>	<u>1,689.2</u>	<u>1,773.1</u>	<u>1,381.0</u>	<u>1,508.5</u>
Budgeted Revenues and Other Sources	<u>22,860.6</u>	<u>21,174.8</u>	<u>21,987.1</u>	<u>23,988.3</u>	<u>23,889.8</u>	<u>24,832.3</u>
Inter-fund Transfers	<u>931.0</u>	<u>1,874.4</u>	<u>3,310.5(6)</u>	<u>2,058.7(8)</u>	<u>1009.6</u>	<u>365.5</u>
Total Budgeted Revenues and Other Sources	<u>23,791.6</u>	<u>23,049.2</u>	<u>25,297.7</u>	<u>26,047.0</u>	<u>24,899.4</u>	<u>25,197.8</u>
Expenditures and Uses						
Programs and Services (4)	21,184.1	20,513.2	22,209.5	22,308.0	22,213.5	24,248.2
Inter-fund Transfers to Non-budgeted Funds and Other Uses	<u>949.6</u>	<u>287.1</u>	<u>229.6</u>	<u>540.3</u>	<u>1,216.9</u>	<u>1,274.7</u>
Budgeted Expenditures and Other Uses	<u>22,133.7</u>	<u>22,800.3</u>	<u>22,439.1</u>	<u>22,848.3</u>	<u>23,430.4</u>	<u>25,522.9</u>
Inter-fund Transfers	<u>931.0</u>	<u>1,874.4</u>	<u>3,310.5(6)</u>	<u>2,058.7(8)</u>	<u>1009.6</u>	<u>365.5</u>
Total Budgeted Expenditures and Other Uses	<u>23,064.7</u>	<u>24,674.7</u>	<u>25,749.6</u>	<u>24,907.0</u>	<u>24,440.0</u>	<u>25,888.4</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>726.8</u>	<u>(1,625.4)</u>	<u>(451.9)</u>	<u>1,140.0</u>	<u>459.4</u>	<u>(690.6)</u>
Ending Fund Balances						
Reserved or Designated	895.3	195.2	76.8	664.6(9)	312.9	26.1
Tax Reduction Fund	33.6	--	--	--	--	--
Stabilization Fund	1,715.0	881.8	641.3	1,137.3	1,711.3	1,692.5
Undesignated	<u>369.5</u>	<u>311.0</u>	<u>218.0</u>	<u>90.9</u>	<u>327.4</u>	<u>(57.6)</u>
Total	<u>\$3,013.3</u>	<u>\$1,388.0</u>	<u>\$936.1(7)</u>	<u>\$1,892.8</u>	<u>\$2,351.7</u>	<u>\$1,661.0</u>

SOURCE: Fiscal 2001-2004, Office of the Comptroller; fiscal 2005 and fiscal 2006, Executive Office for Administration and Finance, Office of the State Treasurer.

- (1) Totals may not add due to rounding.
- (2) Net of \$654.6 million in fiscal 2001, \$664.3 million in fiscal 2002, \$684.3 million in fiscal 2003, \$684.3 million in fiscal 2004, and an estimated \$704.8 million in fiscal 2005 and \$712.6 million in fiscal 2006 of dedicated sales tax transferred to the MBTA and moved off budget beginning in fiscal 2001. Net of \$395.7 million in fiscal 2005 and \$488.7 million in fiscal 2006 of dedicated sales tax transferred to the MSBA and moved off budget.
- (3) Inter-fund Transfers from Non-budgeted Funds and Other Sources include profits from the State Lottery, spending of Tobacco Settlement funds, Abandoned Property proceeds, and transfers to the Uncompensated Care Pool, as well as other inter-fund transfers.
- (4) The Executive Office for Administration and Finance estimates that approximately \$201.4 million in Medicaid expenditures were moved off-budget pursuant to the fiscal 2003 GAA and an additional \$75.3 million were transferred off budget in fiscal 2004. Total off-budget Medicaid expenditures in fiscal 2004 were \$288.5 million and are projected to be \$415.6 million in fiscal 2005 and \$333.5 million in fiscal 2006.
- (5) Includes \$174.0 million in one-time revenue from tax amnesty program and approximately \$200.0 million from closing various so-called tax loopholes.
- (6) Inter-fund transfers increased substantially in fiscal 2003 due to the elimination of a number of Budgeted Operating Funds pursuant to the

fiscal 2004 GAA, effective June 30, 2003.

- (7) The variance between fiscal 2003 ending fund balances and fiscal 2004 beginning fund balances reflect the transfer of the Convention Center Fund, Head Injury Trust Fund and Natural Heritage and Endangered Species Fund off budget.
- (8) Inter-fund transfers decreased in fiscal 2004 and 2005 due to the elimination of a number of Budgeted Operating Funds pursuant to the fiscal 2004 GAA and the fiscal 2005 GAA.
- (9) Includes \$270.0 million in fiscal 2004 FMAP revenue reserved for expenditure in fiscal 2005, \$75.0 million reserved for distribution to cities and towns in fiscal 2005, \$293.5 million in fiscal 2004 appropriations authorized to be expended in fiscal 2005, and \$26.1 million reserved for debt service.
- (10) Based on Executive Office for Administration and Finance fiscal 2006 revised tax revenue estimate of \$17.448 billion.

Recent Financial Restructurings

The following table is presented for the purpose of clarifying the effect of the recent financial restructurings involving the Massachusetts Bay Transportation Authority, the Massachusetts School Building Authority, and the Medicaid Program on the Budgeted Operating Funds operations of the Commonwealth by identifying off-balance sheet items.

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

	Fiscal <u>2001</u>	Fiscal <u>2002</u>	Fiscal <u>2003</u>	Fiscal <u>2004</u>	Estimated Fiscal <u>2005</u>	Projected Fiscal <u>2006</u>
<u>Revenues</u>						
Budgeted Revenues and Other Sources	\$22,860.6	\$21,174.8	\$21,987.1	\$23,988.3	\$23,889.8	\$24,832.3(1)
Certain Off-Budget Revenues:						
Dedicated Sales Tax Revenues	654.6	664.3	684.3	684.3	1,100.5	1,201.3
Certain Non-Tax Revenues	—	—	201.4	329.2	415.6	333.5
Subtotal	654.6	664.3	885.7	1,013.5	1,516.1	1,534.8
Total	<u>23,515.2</u>	<u>21,839.1</u>	<u>22,872.8</u>	<u>25,001.8</u>	<u>25,405.9</u>	<u>26,367.1</u>
<u>Expenditures</u>						
Budgeted Expenditures and Other Uses	22,133.7	22,800.3	22,439.1	22,848.3	23,430.4	25,522.9
Certain Off- Budget Expenditures:						
MBTA	654.6	664.3	684.3	684.3	704.8	712.6
MSBA	-	-	-	-	395.7	488.7
Medicaid	-	-	201.4	329.2	415.6	333.5
Subtotal	654.6	664.3	885.7	1,013.5	1,516.1	1,534.8
Total	<u>22,788.3</u>	<u>23,464.6</u>	<u>23,324.8</u>	<u>23,861.8</u>	<u>24,946.5</u>	<u>27,057.7</u>
Excess (Deficiency) of Total Revenues Over Total Expenditures and Other Uses	<u>\$726.8</u>	<u>(\$1,625.4)</u>	<u>(\$451.9)</u>	<u>\$1,140.0</u>	<u>\$459.4</u>	<u>(\$690.6)</u>

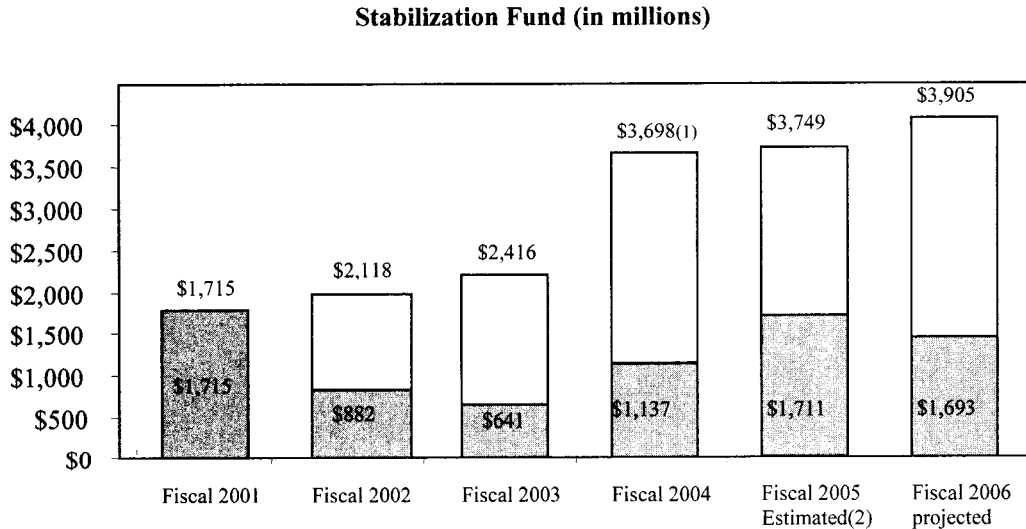
SOURCE: Executive Office for Administration and Finance.

- (1) Based on Executive Office for Administration and Finance fiscal 2006 revised tax revenue estimate of \$17.448 billion.

See the March Information Statement under the heading “SELECTED FINANCIAL DATA – Recent Financial Restructurings”.

Stabilization Fund and Disposition of Year-End Surpluses

The following graph sets forth ending balances in the Stabilization Fund for fiscal 2001 through fiscal 2004, and the estimate for fiscal 2005 and the projection for fiscal 2006. The total of each column equals the maximum balance permitted under the statutory formula, and the gray area shows the amount of the actual balance.



SOURCES: Fiscal 2001-2004 Office of the Comptroller; fiscal 2005 and 2006, Executive Office for Administration and Finance.

- (1) The fiscal 2004 GAA changed the ceiling on the balance of the Stabilization Fund from 10% to 15% of total current year revenues.
- (2) Fiscal 2005 is estimated assuming revenue and appropriations to date and that all supplemental appropriations filed by the governor to date, excluding the \$513 million capital supplement budget, are ultimately appropriated.

Cash Flow

On August 31, 2005 the State Treasurer and the Secretary of Administration and Finance released the projected cash flow forecast for fiscal 2006 and the report of cash flows for fiscal 2005. Fiscal 2005 ended with a non-segregated cash balance of \$2.117 billion and a segregated bond balance of \$435.7 million, compared to May 2005 projections of \$2.310 billion and \$360.3 million, respectively. The cash flow projection for fiscal 2006 is based on the GAA for fiscal 2006 and includes the value of all vetoes and subsequent overrides as well as all prior appropriations continued into fiscal 2006 from the prior fiscal year. The cash flow projection also reflects all 2005 supplemental appropriations bills either filed or enacted that would impact the Commonwealth's cash flow in fiscal 2006. It reflects authorized transfers between budgeted funds and certain reserve funds as provided for in the GAA and in subsequent legislation. The fiscal 2006 projections are based on actual spending and revenue through July 2005, and estimates for the remainder of fiscal 2006. The fiscal 2006 projection is based on the Executive Office for Administration and Finance's revised fiscal 2006 tax estimate released on April 5, 2005 of \$17.500 billion. Adjusting the revised fiscal 2006 tax estimate to reflect the sales tax holiday, changes in the Federal Telecommunications tax law, and a statutory increase in the personal exemption level, tax projections for fiscal 2006 are \$17.448 billion. The gross tax figure includes \$1.274 billion dedicated to the Commonwealth's fiscal 2006 pension obligation, \$712.6 million in sales tax revenues dedicated to the MBTA and \$488.7 million in sales tax revenues dedicated to the MSBA. The figure excludes local option tax revenues of \$245.0 million.

Fiscal 2005 opened with a starting balance of \$2.617 billion of cash and had a June 30, 2005 ending balance of \$2.553 billion. These figures do not include balances in the Commonwealth's Stabilization Fund or certain other off-budget reserve funds, but do include monies sequestered to pay for capital projects totaling \$864.0

million and \$435.7 million, respectively. Excluding these sequestered capital funds, the Commonwealth's operating cash balance opened the year at \$1.753 billion, and ended the year at \$2.117 billion, a \$387 million increase.

Fiscal 2006 opened with a starting balance of \$2.553 billion of cash and is projected to have a June 30, 2006 ending balance of \$1.323 billion. These figures do not include balances in the Commonwealth's Stabilization Fund or certain other off-budget reserve funds, but do include monies sequestered to pay for projected capital projects totaling \$435.7 million and \$51.8 million, respectively. Excluding these sequestered capital funds, the Commonwealth's operating cash balance opened the year at \$2.117 billion, and is projected to end the fiscal year at \$1.271 billion, an \$846 million decrease. A portion of the overall decline in the operating cash balance is due to the anticipated transfer of \$633.4 million to the Commonwealth's Stabilization Fund in November.

The Commonwealth's cash flow management incorporates the periodic use of commercial paper borrowing to meet cash flow needs for both capital and operating expenditures. In particular, the Commonwealth makes local aid payments of approximately \$1 billion to its cities and towns at the end of each calendar quarter, which in recent years has often resulted in short-term cash flow borrowings. The Commonwealth began fiscal 2006 with \$140.1 million of commercial paper outstanding in the form of Bond Anticipation Notes (BANs). Assuming that the statutory surplus is transferred in November 2005, the Commonwealth intends to issue \$300 million of Revenue Anticipation Notes (RANs) to make the December 2005 local aid payment to cities and towns. The Commonwealth also intends to issue \$150 million of RANs in March 2006.

The cash flow projection included an estimated \$1.666 billion in long-term borrowing for capital projects in fiscal 2006, including a \$400.0 million general obligation bond issue completed in August 2005. Additional general obligation bond issues of \$200.0 in October 2005, \$350.0 million in December 2005, \$390.0 million in March 2006 and \$300.0 million in June 2006 were projected.

See "RECENT DEVELOPMENTS" starting on page A-1 for events since publication of the cash flow estimate that affect these projections.

The Commonwealth's next cash flow projection is expected to be released on or before November 30, 2005.

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

COMMONWEALTH PROGRAMS AND SERVICES

Commonwealth Pension Obligations

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

2000-2002, which were deferred in the prior valuation as a result of the five-year actuarial smoothing calculation, are now being recognized.

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

Pension Fund Valuation and Unfunded Accrued Liabilities (in millions)

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

SOURCE: Public Employee Retirement Administration Commission.

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

COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN

Capital Spending Plan

The following table sets forth the current capital investment plan of the Executive Office for Administration and Finance. It contains current estimates for capital investment by the Commonwealth as well as the estimated sources of funding for such capital investments for fiscal 2005 through fiscal 2008. The projections assume an ongoing state borrowing program of \$1.25 billion annually after 2005 and additional borrowing of \$565 million in fiscal 2005 and \$435 million in fiscal 2006 for the MSBA.

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

USES:	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003	Fiscal 2004	Estimated Fiscal 2005	Projected Fiscal 2006	Projected Fiscal 2007	Projected Fiscal 2008
Information Technology Infrastructure Environment Housing Public Safety Transportation C/A/T Project Non-C/A/T Project Economic Development Convention Centers Other School Building Assistance Reserve	\$68 197 142 80 15	\$64 179 140 79 23	\$86 235 156 106 8	\$76 274 134 112 37	\$75 251 113 121 20	\$82 293 131 123 24	\$90 320 131 123 24	\$90 320 131 123 24	\$90 320 131 123 24
	1,446	1,258	1,296	1,015	691	801(3)	496	-	-
	560	732	612	682	767	818	910	953 (6)	953 (6)
Total Uses:	<u>\$2,606</u>	<u>\$2,701</u>	<u>\$2,732</u>	<u>\$2,641</u>	<u>\$2,215</u>	<u>\$2,945(4)</u>	<u>\$2,573</u>	<u>\$1,693</u>	<u>\$1,693</u>
SOURCES:									
General Obligation Debt Special Obligation Debt Grant Anticipation Notes Operating Revenues(5) Third-Party Payments Federal Reimbursements	\$1,133 - 408 96 481 487	\$1,489 176 353 141 82 460	\$1,847 139 9 195 52 490	\$1,472 230 24 354 52 509	\$1,285 119 - 133 63 615	\$2,097 55 - 152 154 487	\$1,730 - - 195 281 359	\$1,297 - - - - 396 (6)	\$1,297 - - - - 396 (6)
Total Sources:	<u>\$2,606</u>	<u>\$2,701</u>	<u>\$2,732</u>	<u>\$2,641</u>	<u>\$2,215</u>	<u>\$2,945</u>	<u>\$2,573</u>	<u>\$1,693</u>	<u>\$1,693</u>

SOURCE: Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) The Executive Office for Administration and Finance reviews capital expenditures on an annual basis and reserves the right to change out-year projections.
- (3) Fiscal 2005 C/A/T spending is the planned amount according to the October 2004 finance plan certified by the Executive Office for Administration and Finance.
- (4) Fiscal 2005 uses are as budgeted. Actual spending, excluding funding for the School Building Authority, is likely to be less than the budgeted amount.
- (5) Operating revenues include Registry of Motor Vehicle fees transferred to the C/A/T Project and the Statewide Road and Bridge Infrastructure Fund.
- (6) As a result of the enactment on August 10, 2005 of the federal SAFETEA-LU legislation, authorizing the federal surface transportation program for the five-year period 2005 through 2009, it may be necessary upon receipt of further federal guidance to revise federal reimbursement and projected budgetary spending starting in fiscal 2007.

Central Artery/Ted Williams Tunnel Project

The largest single component of the Commonwealth's capital program in recent years has been the Central Artery/Ted Williams Tunnel Project (CA/T Project), a major construction project that is part of the completion of the federal interstate highway system. The CA/T Project involves the depression of a portion of Interstate 93 in downtown Boston (the Central Artery), formerly an elevated highway, and the construction of a new tunnel under Boston harbor (the Ted Williams Tunnel) linking the Boston terminus of the Massachusetts Turnpike (Interstate 90) to Logan International Airport and points north. The major elements of the CA/T Project are open to traffic, including the completed Interstate 93 southbound roadway. In addition, completion of various ramps, surface reconstruction projects and other features is required for substantial completion of the CA/T Project as a whole. The date of substantial completion of the CA/T Project is projected for October 31, 2005, except for construction of one ramp and of the downtown surface street system, which are trending for completion before the end of 2005. Final surfacing of the surface roadways is likely to occur in the spring of 2006. The CA/T Project is administered by the Massachusetts Turnpike Authority (Turnpike Authority).

The most recent CA/T Project cost/schedule update (CSU 11) was completed and filed by the Turnpike Authority on July 1, 2004. Under CSU 11, total project costs remain at \$14.625 billion. On April 1, 2005, the Turnpike Authority released an interim report revising certain elements of the budget in CSU 11. Revised figures in the April 1, 2005 report were based on utilization of contingency reserves, realization of cost savings and other factors. The total CA/T Project cost estimate of \$14.625 billion did not increase as the result of this revision. Because the CA/T Project is near completion, the Turnpike Authority does not contemplate conducting a new cost/schedule update this summer; however, it is continuing to publish monthly management reports, which include construction progress reports and updated completion and cost estimates.

As of August 31, 2005, approximately \$14.088 billion was under contract or agreement, which constitutes 96.3% of total budgeted costs for the CA/T Project. Moreover, as of August 31, 2005, CA/T Project construction was 97.4% complete, based on the CSU 11 construction budget.

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

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

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

Administration and Finance certifies that such funds are required to pay all or any portion of the principal of federal grant anticipation notes issued for the CA/T Project.

The CA/T Project finance plans submitted pursuant to this legislation through October 2003 have received the requisite approvals. Through the federal fiscal year ended September 30, 2004 the CA/T Project had received obligation authority with respect to all but \$81 million of the federal financial assistance available to the project (other than amounts allocable to principal of federal grant anticipation notes). The remaining \$81 million was expected to be obligated by the end of June 2005, but has not yet been made available pending federal approval of the most recent finance plan, based on CSU 11, which was submitted on July 30, 2004.

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

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

Pending their determination that project costs, schedule and funding sources in the 2004 finance plan are reasonable, federal authorities continue to withhold approval of the plan and \$81 million of federal obligation authority remaining to reach the cap on federal assistance to the CA/T Project. In addition, approximately \$51 million of federal reimbursements for amounts already expended are in abeyance pending approval of the finance plan.

As the 2004 finance plan was not approved prior to the end of the current federal fiscal year on September 30, 2005, the Commonwealth expects to apply the \$81 million of unobligated authority to other eligible transportation projects within the Commonwealth and/or to principal of the grant anticipation notes and to reapply for \$81 million of federal obligation authority in the next federal fiscal year.

CA/T Project Cash Flow. The following table provides cash flow estimates that were presented in the 2004 finance plan based on CSU 11. Actual amounts and timing of construction costs may differ significantly from such estimates.

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

	<u>Cumulative Through 2004(2)</u>	<u>Projected 2005</u>	<u>Projected 2006 and After</u>	<u>Totals</u>
Project Construction Uses:	<u>\$13,327</u>	<u>\$801</u>	<u>\$497</u>	<u>\$14,625</u>
Project Construction Sources:				
Federal Highway Reimbursements (3)	6,861	182	6	7,049
Commonwealth GO Bond/Note (4)	1,515	60	13	1,588
State Interest on Turnpike Authority Funds	45	--	--	45
Third Party Contributions (5)	1,668	11	281	1,960
Grant Anticipation Notes	1,500	--	--	1,500
Transportation Infrastructure Fund (6)	1,682	543	117	2,343
Insurance Trust Revenue	<u>56</u>	<u>5</u>	<u>79</u>	<u>140</u>
Total Sources	<u>\$13,327</u>	<u>\$801</u>	<u>\$497</u>	<u>\$14,625</u>

SOURCES: Massachusetts Turnpike Authority.

- (1) Totals may not add due to rounding.
- (2) This table is based on the Commonwealth's fiscal year, which ends on June 30; the Turnpike Authority's fiscal year ends on December 31.
- (3) Assumes that successor legislation to the federal Transportation Equity Act for the 21st Century will be passed for federal fiscal 2004 and subsequent years. Projections assume federal authorizations equal to federal fiscal 2003 in federal fiscal 2004 – 2006.
- (4) Does not include bonds or notes authorized by May 17, 2000 legislation, which are included in the TIF line.
- (5) Payments to be received from the Turnpike Authority and the Port Authority described in the October 2000, 2001 and 2002 Finance Plans, but excluding payments to be received from the Turnpike Authority and the Port Authority as required by May 17, 2000 legislation. (The latter payments are included in the TIF line). The fiscal year amounts assume that the Commonwealth will finance costs in anticipation of such receipts through cash advances funded by general revenues or through the issuance of interim debt, if necessary.
- (6) Central Artery and Statewide Road and Bridge Transportation Infrastructure Fund (TIF) established pursuant to legislation approved by the Governor on May 17, 2000. Includes \$200 million received from the Turnpike Authority and \$65 million received from the Massachusetts Port Authority.

In its interim report issued April 1, 2005 on the cost/schedule status of the CA/T Project, the Turnpike Authority included revised construction cash flow estimates, presented in the following table. Actual amounts and timing of construction costs may differ significantly from such estimates.

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

	Cumulative Through 2004(2)	Estimated 2005	Projected 2006 and After	Totals
Project Construction Uses:	<u>\$13,351</u>	<u>\$598</u>	<u>\$676</u>	<u>\$14,625</u>
Project Construction Sources:				
Federal Highway Reimbursements (3)	6,837	197	15	7,049
Commonwealth GO Bond/Note (4)	1,515	60	13	1,588
State Interest on Turnpike Authority Funds	45	--	--	45
Third Party Contributions (5)	1,662	8	224	1,893
Grant Anticipation Notes	1,500	--	--	1,500
Transportation Infrastructure Fund (6)	1,741	329	340	2,410
Insurance Trust Revenue	<u>52</u>	<u>5</u>	<u>83</u>	<u>140</u>
Total Sources	<u>\$13,351</u>	<u>\$598</u>	<u>\$676</u>	<u>\$14,625</u>

SOURCES: Massachusetts Turnpike Authority.

- (1) Totals may not add due to rounding.
- (2) This table is based on the Commonwealth's fiscal year, which ends on June 30; the Turnpike Authority's fiscal year ends on December 31.
- (3) Assumes that successor legislation to the federal Transportation Equity Act for the 21st Century will be passed for federal fiscal 2005 and subsequent years. Projections assume federal authorizations equal to federal fiscal 2003 in federal fiscal 2004 – 2006.
- (4) Does not include bonds or notes authorized by May 17, 2000 legislation, which are included in the TIF line.
- (5) Payments to be received from the Turnpike Authority and the Port Authority described in the October 2000, 2001 and 2002 Finance Plans, but excluding payments to be received from the Turnpike Authority and the Port Authority as required by May 17, 2000 legislation. (The latter payments are included in the TIF line). The fiscal year amounts assume that the Commonwealth will finance costs in anticipation of such receipts through cash advances funded by general revenues or through the issuance of interim debt, if necessary.
- (6) Central Artery and Statewide Road and Bridge Transportation Infrastructure Fund (TIF) established pursuant to legislation approved by the Governor on May 17, 2000. Includes \$200 million received from the Turnpike Authority and \$65 million received from the Massachusetts Port Authority.

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

Financial difficulties could affect the ability of a contractor to complete CA/T Project contract work. If an affected contractor with significant critical path contract work toward an overall project completion milestone were to become insolvent, or otherwise fail to complete its contract work, it is possible that there would be a substantial or material impact on CA/T Project schedule and cost, although the likelihood and potential severity of such impact diminish as the CA/T Project progresses towards completion.

Recent media reports refer to the financial difficulties of a particular CA/T Project contractor. The Turnpike Authority is monitoring that contractor's progress with respect to its obligations under CA/T Project contracts and its continuing ability to complete those obligations on an ongoing basis. The contractor continues to

progress its work on the CA/T Project, and the Turnpike Authority has not received information that the contractor's financial status will prevent its contractual obligations from being met or the CA/T Project from being completed in accordance with the current schedule.

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

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

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

LONG-TERM LIABILITIES

General Authority to Borrow

The following table sets forth the amount of Commonwealth debt and debt related to general obligation contract assistance liabilities outstanding as of July 1, 2005.

Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities As of July 1, 2005 (in thousands)

	<u>Long-Term (4)</u>	<u>Short-Term</u>
COMMONWEALTH DEBT		
General Obligation Debt	\$14,464,774(5)(8)	\$140,100(7)
Special Obligation Debt (1)	1,594,325(8)	-
Federal Grant Anticipation Notes (2)	<u>1,907,340(6)</u>	<u>-</u>
Subtotal Commonwealth Debt	<u>\$17,966,439</u>	<u>\$140,100</u>
DEBT RELATED TO GENERAL OBLIGATION CONTRACT ASSISTANCE LIABILITIES (3)		
Massachusetts Convention Center Authority	\$ 35,006	-
Massachusetts Development Finance Agency	21,765	-
Foxborough Industrial Development Financing Authority	<u>62,160</u>	<u>-</u>
Subtotal GO Contract Assistance Debt	<u>\$ 118,931</u>	<u>-</u>
TOTAL	<u>\$18,085,370</u>	<u>\$140,100</u>

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

- (1) Includes \$116.0 million of bonds, which, although not legally defeased, will be paid in fiscal 2006 and 2008 from funds held in escrow by a third-party trustee. Also includes a second series of \$216.7 million of bonds, which, although not legally defeased, will be paid in fiscal 2006, 2008 and 2012 from funds held in escrow by a third-party trustee.
- (2) Includes \$408.0 million of federal grant anticipation notes which, although not legally defeased, will be paid in fiscal 2009 and fiscal 2011 from funds held in escrow by a third-party trustee.
- (3) Does not include general obligation contract assistance liabilities to the Massachusetts Water Pollution Abatement Trust and the Massachusetts Turnpike Authority.
- (4) Long-term debt includes discount and costs of issuance.
- (5) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from July 1, 2005 through their maturity in the amount of \$53.8 million.
- (6) Includes capital appreciation interest accrued from July 1, 2005 through their maturity in the amount of \$33.0 million.
- (7) Includes \$75.1 million of commercial paper issued as bond anticipation notes in anticipation of certain payments to be received by the Commonwealth from the Massachusetts Port Authority to reimburse the Commonwealth for capital costs of the CA/T Project. Also includes \$65.0 million of commercial paper issued as bond anticipation notes in anticipation of bonds to be issued for capitalization of certain payments of the School Building Assistance Authority.
- (8) Amounts are preliminary.

Debt Service Requirements on Commonwealth Bonds

The following table sets forth, as of July 1, 2005, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal grant anticipation notes. For variable rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate exchange agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. For other variable rate bonds and for auction rate securities, the schedule assumes a 5% interest rate.

Debt Service Requirements on Commonwealth Bonds July 1, 2005
(in thousands)

General Obligation Bonds **Federal Grant Anticipation Notes** **Special Obligation Bonds**

Fiscal Year	General Obligation Bonds			Federal Grant Anticipation Notes			Special Obligation Bonds			Total Debt Service Commonwealth Bonds	
	Principal	Interest on CABS at Maturity	Current Interest	Sub Total	Principal	Interest	Sub Total	Principal	Interest		Sub Total
2006	\$847,216	\$4,536	\$674,648	\$1,526,400	\$117,895	\$93,817	\$211,712	\$28,565	\$91,540	\$120,105	\$1,858,217
2007	905,979	5,189	674,922	1,586,089	123,825	87,887	211,712	37,605	85,067	122,672	1,920,474
2008	920,765	5,801	629,361	1,555,926	130,240	81,469	211,709	40,205	81,836	122,041	1,889,676
2009	919,081	6,904	583,260	1,509,244	137,230	74,478	211,708	42,020	78,982	121,002	1,841,954
2010	841,577	6,913	536,505	1,384,995	158,815	66,835	225,650	44,015	76,996	121,011	1,731,655
2011	849,085	7,202	490,509	1,346,796	214,620	57,206	271,826	46,190	73,734	119,924	1,738,546
2012	723,871	7,391	444,388	1,175,649	226,420	45,694	272,114	48,590	71,354	119,944	1,567,707
2013	789,550	8,157	404,249	1,201,955	208,410	35,110	243,520	51,115	68,802	119,917	1,565,391
2014	686,188	6,197	366,004	1,058,390	302,820	21,697	324,517	49,435	66,015	115,450	1,498,357
2015	666,726	5,590	331,514	1,003,830	287,065	7,185	294,250	98,520	63,447	161,967	1,460,047
2016	707,467	4,180	299,378	1,011,026	-	-	-	102,505	58,176	160,681	1,171,707
2017	717,629	2,673	264,594	984,896	-	-	-	98,382	52,692	151,074	1,135,970
2018	516,980	1,943	232,711	751,634	-	-	-	70,795	47,315	118,110	869,744
2019	520,445	1,338	206,073	727,856	-	-	-	74,530	43,696	118,226	846,083
2020	573,248	714	178,534	752,496	-	-	-	78,575	39,691	118,266	870,762
2021	769,393	530	143,546	913,469	-	-	-	82,680	35,620	118,300	1,031,769
2022	556,285	315	110,074	666,673	-	-	-	87,055	31,283	118,338	785,011
2023	434,262	167	85,081	519,511	-	-	-	49,718	26,842	76,560	596,071
2024	303,666	65	66,564	370,295	-	-	-	31,820	24,781	56,601	426,896
2025	226,982	6	53,663	280,651	-	-	-	33,535	23,110	56,645	337,296
2026	79,450	-	43,560	123,010	-	-	-	35,345	21,350	56,695	179,705
2027	175,820	-	38,277	214,097	-	-	-	37,250	19,494	56,744	270,841
2028	101,915	-	31,158	133,073	-	-	-	39,260	17,538	56,798	189,871
2029	178,335	-	24,000	202,335	-	-	-	41,375	15,477	56,852	259,187
2030	184,090	-	14,580	198,670	-	-	-	43,720	13,305	57,025	255,695
2031	192,960	-	4,669	197,629	-	-	-	46,310	10,791	57,101	254,730
2032	-	-	-	-	-	-	-	49,050	8,128	57,178	57,178
2033	-	-	-	-	-	-	-	51,755	5,308	57,063	57,063
2034	-	-	-	-	-	-	-	54,405	2,720	57,125	57,125
TOTAL	\$14,388,964(3)	\$75,810	\$6,931,821	\$21,399,564	\$1,907,340(1)	\$571,377	\$2,478,717	\$1,594,325(2)(3)	\$1,255,091(2)	\$2,849,416	\$26,724,728

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

- 1) Includes \$408.0 million of federal grant anticipation notes which, although not legally defeased, will be paid in fiscal 2009 and fiscal 2011 from funds held in escrow by a third-party trustee.
- 2) Includes \$116.0 million of bonds, which, although not legally defeased, will be paid in fiscal 2006 and 2008 from funds held in escrow by a third-party trustee. Also includes a second series of \$216.7 million of bonds, which, although not legally defeased, will be paid in fiscal 2006, 2008 and 2012 from funds held in escrow by a third-party trustee.
- 3) Amounts are preliminary.

STATE WORKFORCE

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

Budget-Funded Workforce (1)

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

SOURCE: Executive Office for Administration and Finance

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

LEGAL MATTERS

Update of Existing Litigation

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

On July 14, 2004, a subset of plaintiffs filed a motion to reopen the case and enforce the final order of May 25, 1993, asserting various reasons why the Department of Mental Retardation is not in compliance with the 1993 final order, mostly relating to the Commonwealth's plan to close the Fernald Developmental Center. Another subgroup of plaintiffs (representing class members from the Dever and Wrentham Developmental Centers) continues to engage in a mediation process with the Department pursuant to a process prescribed by the final order. The Department filed a responsive pleading on August 16, 2004, asserting that all of the requirements of the final order were met. On August 28, 2004, the Disability Law Center filed a motion to intervene, asserting an interest on behalf of persons with disabilities in the closing of the facility, which was allowed. Following hearings in November 2004 and January 2005, the Court declined to issue any relief to the plaintiffs at this time. The parties

have reached agreement on some of the issues raised in plaintiffs' motion, but further attempts to re-open the case may be forthcoming from these and other plaintiffs. The Court has continued to call the parties in on an occasional basis to discuss ongoing issues such as plaintiffs' access to certain records. The most recent such status conference took place June 15, 2005. To date, the Court has not issued any orders against the Department.

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

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

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

Rosie D. v. Governor. The plaintiffs asserted claims under the Early and Periodic Screening, Diagnostic and Treatment provisions of the federal Medicaid law. Specifically, the plaintiffs asserted that the Commonwealth is required to yet does not provide them with intensive home-based mental health services. The plaintiffs have not quantified the cost of the services they seek, but it could amount to more than \$20 million. Trial was held from April 25 through June 9, 2005. The parties filed proposed findings of fact and conclusions of law in July 2005. Closing arguments were heard on August 9, 2005 and the case remains under advisement.

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

Environmental Matters. The Commonwealth is engaged in various lawsuits concerning environmental and related laws, including an action brought by the U.S. Environmental Protection Agency alleging violations of the Clean Water Act and seeking to reduce the pollution in Boston Harbor. *United States v. Metropolitan District Commission*. See also *Conservation Law Foundation v. Metropolitan District Commission* *United States v. South Essex Sewerage* The Massachusetts Water Resources Authority (MWRA), successor in liability to the Metropolitan District Commission (MDC), has assumed primary responsibility for developing and implementing a court-approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. The MWRA currently projects that the total cost of construction of the wastewater facilities required under the court's order, not including CSO costs, will be approximately \$3.142 billion in current dollars, with approximately \$131 million to be spent after June 30, 2001. With CSO costs, the MWRA anticipates spending approximately \$633 million after that date. Under the Clean Water Act, the Commonwealth may be liable for any

cost of complying with any judgment in these or any other Clean Water Act cases to the extent the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment.

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

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

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

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

Peterson v. Commissioner of Revenue. On April 6, 2004, the Supreme Judicial Court held that the effective date in the act amending the capital gains tax statute (Act) violates amendment article 44 of the Massachusetts Constitution. Because the Act has a severability clause, the Court remanded the case to the Supreme Judicial Court for Suffolk County for further proceedings to determine whether it should be construed to impose the new tax rate beginning on calendar year January 1, 2003, or calendar year January 1, 2002. Included in the fiscal 2005 GAA –

and signed by the Governor on June 25, 2004 – were two sections concerning capital gains tax rates: one section providing that the effective date of the capital gains tax statute is January 1, 2002 and another concerning an exemption for taxpayers who paid taxes on capital gains realized during January 1, 2002 to April 30, 2002. On April 26, 2005, the Supreme Judicial Court held that (1) the exemption set forth in St. 2004, c. 149, sec. 413 violates amendment article 44 and (2) the exemption is severable from St. 2004, c. 149, sec. 414, which provides that January 1, 2002, is the effective date of the new tax rate.

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

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

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

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

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

Nathaniel Lavalley et al. v. Justices of Hampden Superior Court et al., Michael Carabello et al. v. Justices of Hampden Superior Court et al., and Rosemary Cooper v. Region V Administrative Justice et al. Supreme Judicial Court for Suffolk County. In these companion cases, the Supreme Judicial Court (SJC) decided in July 2004 that the constitutional rights of indigent criminal defendants in Hampden County had been violated the Committee for Public Counsel Services (CPCS) could not appoint attorneys for them because statutory rates of State-paid compensation were so low that many Hampden County bar advocates had become unwilling to accept appointments. The court ruled that indigent criminal defendants must be released from custody if they have been incarcerated pending trial for more than 7 days without counsel, and that charges must be dismissed without prejudice after 45 days without counsel. The court declined, at this time, to order an increase in rates of bar advocate compensation.

The cases were remanded to the SJC single justice, who then created a mechanism for the appointment of counsel by Hampden County courts, parallel to the CPCS structure. Since then, attorneys have been appointed within permissible time limits in every case to date. One lawyer, Rosemary Cooper, seeks compensation at a rate that may be in excess of the statutory maximums. That case is on appeal to the Supreme Judicial Court. With the

exception of that aspect of the Lavallee cases, the litigation is not currently active, but could be resumed if the shortage of available attorneys recurs.

Arianna S. et al. v. Commonwealth, Supreme Judicial Court for Suffolk County. This is a class action on behalf of all indigent persons who are constitutionally entitled to State-compensated counsel in civil and criminal proceedings. The petitioners claim to have been deprived of the effective assistance of counsel because of the low rates paid to bar advocates, and to represent a statewide class consisting of all indigent persons similarly situated. The relief sought includes a court-ordered increase in bar advocate compensation. No reliable estimate has been made of the amount of expenditures sought, but it is foreseeable that an increase in spending could total as much as \$80-90 million per year. The Commonwealth has moved to dismiss the case, and proceedings have been stayed. Recently, the plaintiffs moved to dismiss the stay, but a Single Justice of the Supreme Judicial Court denied that motion. A bill containing significant changes affecting the provision of legal services to indigents was just signed into law. The effect of that legislation on these cases, if any, is unclear.

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

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

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

Commonwealth of Massachusetts v. Philip Morris Inc., RJ Reynolds Tobacco Company, Lorillard Tobacco Company, et al., Middlesex Superior Court. This matter arises under the Tobacco Master Settlement Agreement (“MSA”), entered into in 1998, that settled litigation and claims by Massachusetts and 45 other states, DC, Puerto Rico, Guam, the Virgin Islands, American Samoa, and the Northern Marianas (collectively the “States”), against the major tobacco manufacturers. Under the MSA, payments made by the Original Participating Manufacturers (“OPMs”) and subsequent Participating Manufacturers (collectively the Participating Manufacturers or “PMs”) are 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. Because the OPMs did suffer the requisite market share loss, the OPMs are seeking to reduce, by \$1.1 billion (or 18.6%), the \$6.2 billion payment they made to the States for 2003. Under the MSA, a nationally recognized economic firm selected jointly by the States and the OPMs (Professor Daniel McFadden and the Brattle Group, San Francisco) 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. This proceeding got underway in June 2005. The preliminary determination by Professor McFadden is expected by February 20, 2006, and the final determination is expected by March 27, 2006. It is anticipated that, should the OPMs prevail, they will withhold approximately \$1.1 billion from the April 2006 MSA payment to the States, which would likely reduce the initial 2006 MSA payout to Massachusetts by approximately \$45-50 million. The \$1.1 billion withheld will still be subject to a showing that the States did not “diligently enforce” their individual NPM Escrow Statutes. If Massachusetts proves that it did diligently enforce its NPM Escrow Statute, the \$45-50 million withheld will have to be released to the Commonwealth. If Massachusetts fails to prove that it diligently enforced its NPM statute, then the April, 2006,

MSA payment to Massachusetts would be permanently reduced by the \$45-50 million withheld, or by potentially some greater amount, yet to be determined, depending upon the outcome of the proceedings in other states.

Grand River Enterprises Six Nations, Ltd. v. William Pryor et al., United States District Court, New York. This case arises out of a challenge to the Tobacco Master Settlement Agreement (“MSA”), that was initiated in 2002 by a group of companies that manufacture, import or distribute cigarettes manufactured by tobacco companies not parties to the MSA, otherwise called Non-Participating Manufacturers (“NPMs”). These NPMs sued 31 attorneys General, including the Attorney General of the Commonwealth, alleging that the MSA, the States’ Escrow Statutes, and NPM enforcement actions violate the federal constitution and federal law. More specifically, the plaintiffs alleged that the states’ Escrow and Certification Statutes violate Section 1 of the Sherman Antitrust Act, 15 U.S.C. § 1, and are preempted by the Federal Cigarette Labeling and Advertising Act, 15 U.S.C. § 1334 (b). The U.S. District Court dismissed the complaint in September 2003, but then reinstated an antitrust claim against the Attorney General of New York. Plaintiffs appealed, and the matter was argued on May 16, 2005, before the U.S. Court of Appeals for the Second Circuit. On September, 28, 2005, the Second Circuit, finding that jurisdiction properly exists over the non-New York defendants, reinstated the antitrust claim against all of the named defendants, including the Attorney General of Massachusetts. Plaintiffs are seeking a final judgment that the MSA is illegal, and such a decision could negatively impact the billions of dollars in future payments to the states anticipated under the MSA. Currently, the defendant states are considering an appropriate course of action that may include moving the Court for a rehearing or petitioning the Supreme Court to grant *certiorari*.

CONTINUING DISCLOSURE

On behalf of the Commonwealth, the State Treasurer will provide to each nationally recognized municipal securities information repository within the meaning of Rule 15c2-12 of the Securities and Exchange Commission, no later than 270 days after the end of each fiscal year of the Commonwealth, certain financial information and operating data relating to such fiscal year, as provided in said Rule 15c2-12, together with audited financial statements of the Commonwealth for such fiscal year. To date, the Commonwealth has complied with all of its continuing disclosure undertakings relating to the general obligation debt of the Commonwealth. However, the annual filings relating to the fiscal year ended June 30, 2001 for the Commonwealth’s special obligation debt and for the Commonwealth’s federal highway grant anticipation notes were filed two days late, on March 29, 2002. Proper notice of the late filings was provided on March 29, 2002 to the Nationally Recognized Municipal Securities Information Repositories and the Municipal Securities Rulemaking Board.

AVAILABILITY OF OTHER FINANCIAL INFORMATION

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

THE COMMONWEALTH OF MASSACHUSETTS

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

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

September 30, 2005

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ECONOMIC INFORMATION

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

All information is presented on a calendar-year basis unless otherwise indicated. **The section was prepared for release on July 22, 2005. Information in the text, tables, charts, and graphs was current as of July 1, 2005.** Sources of information are indicated in the text or immediately following the charts and tables, and also on the [Sources List](#) on the last page of the Exhibit A section. Although the Commonwealth considers the sources to be reliable, the Commonwealth has made no independent verification of the information presented herein and does not warrant its accuracy.

Statistical Overview

<i>Population (p. A-2)</i>	<i>Massachusetts</i>	<i>United States</i>
Estimated Percent Change in Population, July 1, 2000–July 1, 2004	1.1%	4.3%
<i>Personal Income, Consumer Prices, and Poverty (p. A-8)</i>		
Per Capita Personal Income, 2004 (prelim.)	\$41,801	\$32,937
Average Annual Pay, All Industries, 2003	\$46,323	\$37,765
Percent Change in CPI-U, 2003-2004*	2.7%	2.7%
Percent Change in CPI-U, May 2004-May 2005*	2.8%	2.8%
Poverty Rate, 2002-2003 Average	10.1%	12.3%
Average Weekly Earnings, Manufacturing Production Workers: May 2005(p)	\$734.24	\$665.79
Percent Change, May 2004-May 2005(p)	7.9%	1.0%
<i>Employment (p. A-15)</i>		
Percent Change in Nonfarm Payroll Employment, May 2004-May 2005(p)	0.6%	1.5%
Unemployment Rate, 2004	5.1%	5.5%
Unemployment Rate, May, 2005	4.8%	5.1%
<i>Economic Base and Performance (p. A-21)</i>		
Percent Change in Gross State Product, 2003-2004	6.9%	6.6%
Percent Change in International Exports, 2003-2004	17.0%	13.0%
Percent Change in Housing Permits Authorized, 2003-2004	14.2%	6.2%
<i>Human Resources and Infrastructure (p. A-38)</i>		
Expenditure Per Pupil, 2002 (estimate)	\$10,232	\$7,734
Percent of Adults with a Bachelor's Degree, 2003	35.8%	26.5%

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

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

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

POPULATION CHARACTERISTICS

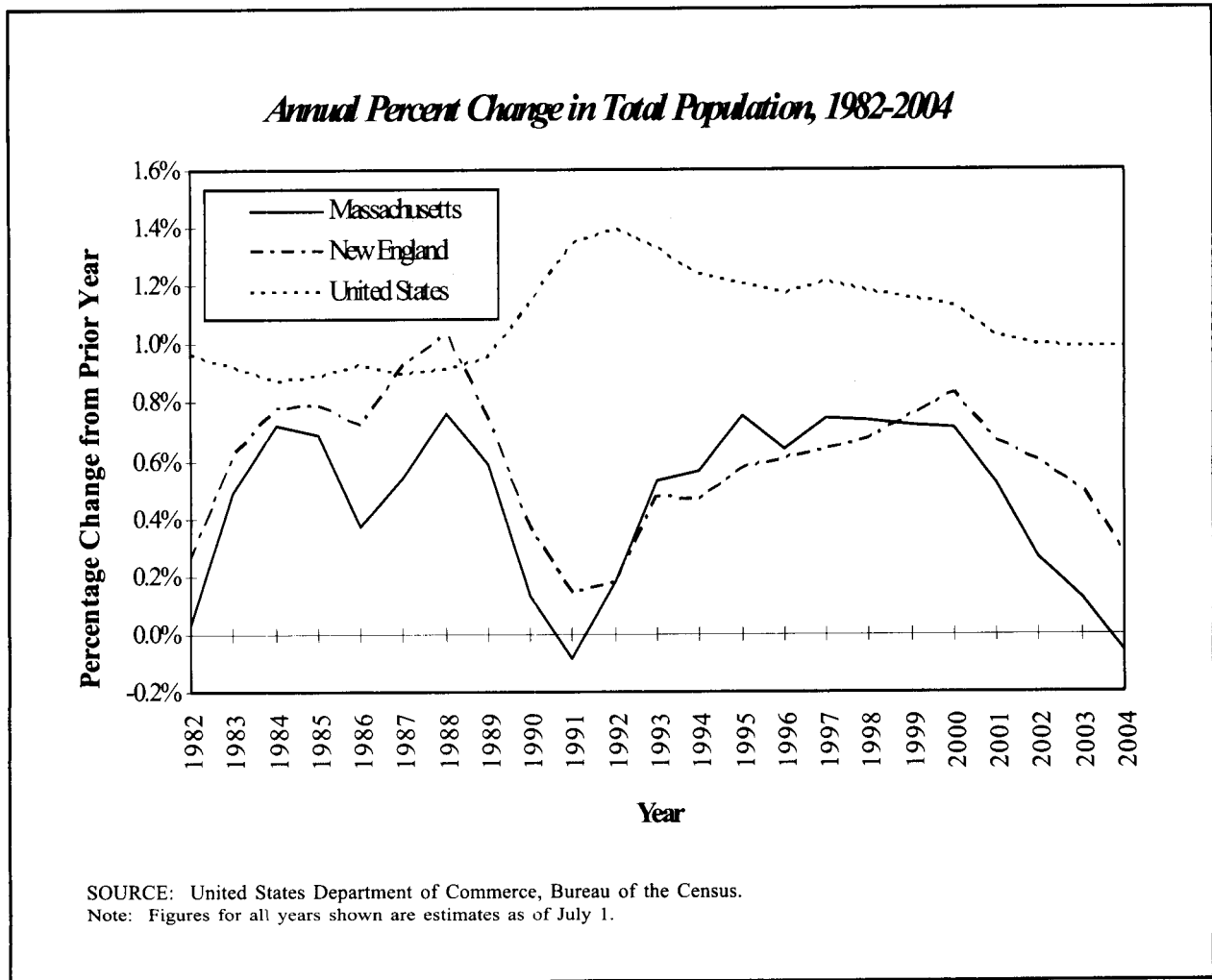
Massachusetts is a relatively slow growing but densely populated state with a comparatively large percentage of its residents living in metropolitan areas. At the time of the 2000 census, the population density of Massachusetts was 809.8 persons per square mile, as compared to 79.6 for the United States as a whole. Among the 50 states, only Rhode Island and New Jersey had a greater population density. Massachusetts also ranked third among the states in percentage of residents living in metropolitan areas as they were defined at the time of the Census: 96.1 percent of Massachusetts residents lived in metropolitan areas, compared with a national average of 80.3 percent. According to the 2003 metropolitan definitions based on whole counties, the entire state is to be considered metropolitan except for the two island counties (99.6 percent of state residents in 2000.) Under these new definitions, four states and DC are wholly metropolitan. The metropolitan areas described in this section use the former (1993) definitions.

The State's population is concentrated in its eastern portion. The city of Boston is the largest city in New England, with a 2000 population of 589,141. Boston is the hub of the Boston-Worcester-Lawrence, MA-NH-ME-CT Consolidated Metropolitan Statistical Area (CMSA), which also includes all of southeastern New Hampshire, as well as towns in Maine and Connecticut, and which had a total population in 2000 of 5,819,100; over 40 percent of the total New England population. The Boston, MA-NH Primary Metropolitan Statistical Area (PMSA)—which stretches from the town of Plymouth on the south shore to Seabrook, New Hampshire on the north shore—is the largest component of that CMSA, with a total population in 2000 of 3,406,829.

The second largest component of that CMSA is the Worcester, MA-CT PMSA, with a 2000 population of 511,389. Worcester, situated approximately 40 miles west of Boston with a 2000 population of 172,648, is the second largest city in New England. Its service, trade, and manufacturing industries combine for more than 70 percent of Worcester's total employment. As a major medical and educational center, the Worcester area is home to 19 patient care facilities, including the University of Massachusetts Medical School, and twelve other colleges and universities.

The largest Metropolitan Statistical Area (MSA) within Massachusetts which is not a part of this larger CMSA is the Springfield MSA, with a 2000 population of 591,932. Springfield, the third largest city in the Commonwealth with a 2000 population of 152,082, is located in the Connecticut River Valley in Western Massachusetts and enjoys a diverse body of corporate employers, the largest of which are the Bay State Medical Center, the Massachusetts Mutual Life Insurance Company, the Milton Bradley Company, and Smith and Wesson. In addition, Springfield is home to four independent colleges.

As the following chart and table both indicate, the population in Massachusetts generally grows more slowly than the population of New England and of the nation as a whole. According to the Census Bureau's latest estimates, only six states have grown more slowly than Massachusetts since Census 2000 and the state may even have had a slight population loss in 2004.



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

Population, 1972-2004
(in thousands)

Year	Massachusetts		New England		United States	
	Total	Percent Change	Total	Percent Change	Total	Percent Change
1972	5,760	0.4%	12,082	0.7%	209,284	1.2%
1973	5,781	0.4%	12,140	0.5%	211,357	1.0%
1974	5,774	-0.1%	12,146	0.0%	213,342	0.9%
1975	5,758	-0.3%	12,163	0.1%	215,465	1.0%
1976	5,744	-0.2%	12,192	0.2%	217,563	1.0%
1977	5,738	-0.1%	12,239	0.4%	219,760	1.0%
1978	5,736	0.0%	12,283	0.4%	222,095	1.1%
1979	5,738	0.0%	12,322	0.3%	224,567	1.1%
1980	5,737	0.0%	12,348	0.2%	226,546	0.9%
1981	5,769	0.6%	12,436	0.7%	229,466	1.3%
1982	5,771	0.0%	12,468	0.3%	231,664	1.0%
1983	5,799	0.5%	12,544	0.6%	233,792	0.9%
1984	5,841	0.7%	12,642	0.8%	235,825	0.9%
1985	5,881	0.7%	12,741	0.8%	237,924	0.9%
1986	5,903	0.4%	12,833	0.7%	240,133	0.9%
1987	5,935	0.5%	12,951	0.9%	242,289	0.9%
1988	5,980	0.8%	13,085	1.0%	244,499	0.9%
1989	6,015	0.6%	13,182	0.7%	246,819	0.9%
1990	6,023	0.1%	13,230	0.4%	249,623	1.1%
1991	6,018	-0.1%	13,248	0.1%	252,981	1.3%
1992	6,029	0.2%	13,271	0.2%	256,514	1.4%
1993	6,061	0.5%	13,334	0.5%	259,919	1.3%
1994	6,095	0.6%	13,396	0.5%	263,126	1.2%
1995	6,141	0.8%	13,473	0.6%	266,278	1.2%
1996	6,180	0.6%	13,555	0.6%	269,394	1.2%
1997	6,226	0.7%	13,642	0.6%	272,647	1.2%
1998	6,272	0.7%	13,734	0.7%	275,854	1.2%
1999	6,317	0.7%	13,838	0.8%	279,040	1.2%
2000	6,362	0.7%	13,953	0.8%	282,192	1.1%
2001	6,395	0.5%	14,046	0.7%	285,102	1.0%
2002	6,413	0.3%	14,130	0.6%	287,941	1.0%
2003	6,420	0.1%	14,201	0.5%	290,789	1.0%
2004	6,417	-0.1%	14,239	0.3%	293,655	1.0%

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

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

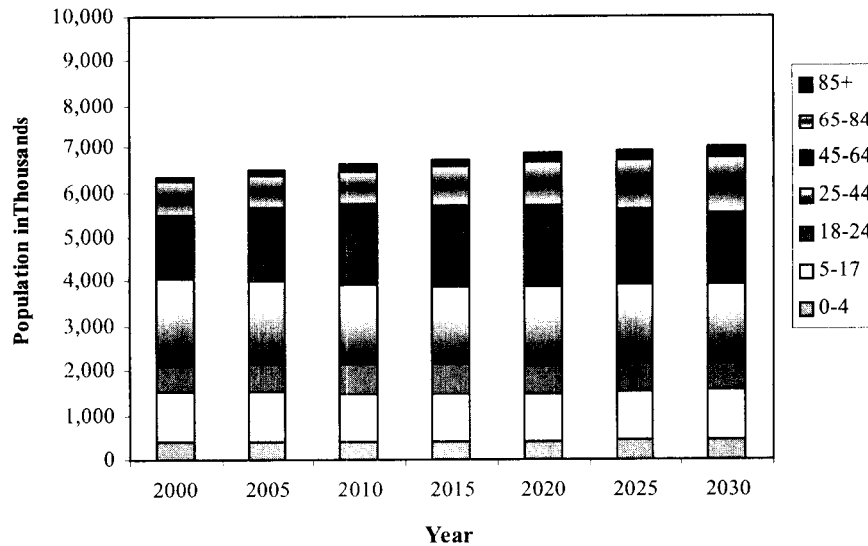
Projected Massachusetts Population by Age Group, 2000-2030

(in thousands)

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

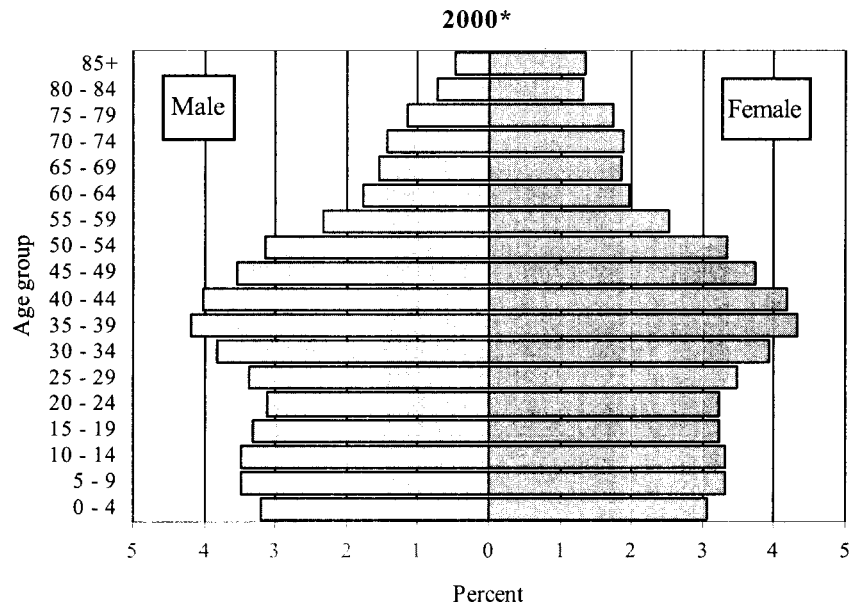
Actual Census 2000 counts as of April 1; all other figures are projections as of July 1 of the indicated year. Interim Population Projections through 2030 released April 21, 2005 by the Population Division, Bureau of the Census, United States Department of Commerce.

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

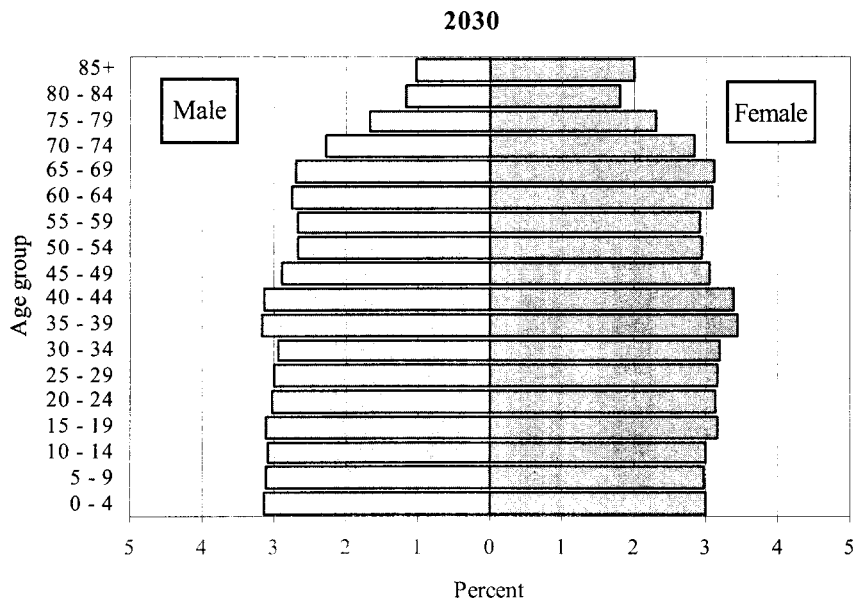


Actual Census 2000 counts as of April 1; all other figures are projections as of July 1 of the indicated year. Interim Population Projections through 2030 released April 21, 2005 by the Population Division, Bureau of the Census, United States Department of Commerce.

Population Pyramids of Massachusetts (percent of total population)



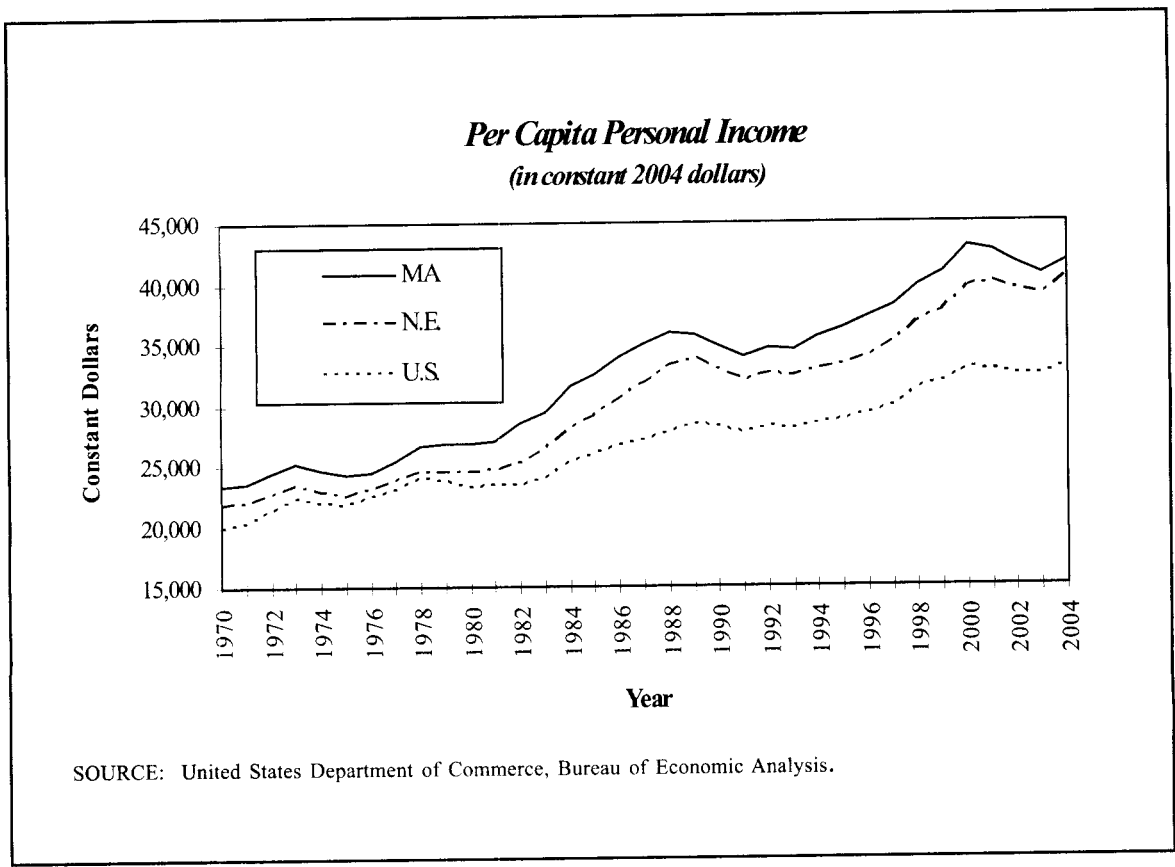
*Note: Actual Census 2000 counts as of April 1.



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

PERSONAL INCOME, CONSUMER PRICES, AND POVERTY

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



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

Per Capita Personal Income, 1970-2004

Year	Nominal Income (in current dollars)			Real Income (in 2004 dollars)			Percent Change in Real Income		
	MA	NE	U.S.	MA	NE	U.S.	MA	NE	U.S.
1970	4,483	4,445	4,085	23,363	21,641	19,888	0.3%	0.5%	0.7%
1971	4,752	4,680	4,342	23,591	21,828	20,252	1.0%	0.9%	1.8%
1972	5,109	5,029	4,717	24,493	22,727	21,317	3.8%	4.1%	5.3%
1973	5,547	5,481	5,231	25,099	23,319	22,255	2.5%	2.6%	4.4%
1974	6,016	5,958	5,707	24,616	22,829	21,867	-1.9%	-2.1%	-1.7%
1975	6,459	6,381	6,172	24,250	22,405	21,671	-1.5%	-1.9%	-0.9%
1976	6,998	6,959	6,754	24,435	23,103	22,422	0.8%	3.1%	3.5%
1977	7,620	7,593	7,405	25,299	23,669	23,083	3.5%	2.4%	2.9%
1978	8,430	8,413	8,245	26,598	24,374	23,888	5.1%	3.0%	3.5%
1979	9,385	9,392	9,146	26,860	24,437	23,797	1.0%	0.3%	-0.4%
1980	10,602	10,629	10,114	26,890	24,367	23,186	0.1%	-0.3%	-2.6%
1981	11,798	11,846	11,246	26,925	24,617	23,370	0.1%	1.0%	0.8%
1982	12,941	12,871	11,935	28,389	25,195	23,363	5.4%	2.3%	0.0%
1983	14,009	13,829	12,618	29,408	26,228	23,931	3.6%	4.1%	2.4%
1984	15,723	15,422	13,891	31,461	28,039	25,255	7.0%	6.9%	5.5%
1985	16,910	16,546	14,758	32,382	29,048	25,909	2.9%	3.6%	2.6%
1986	18,148	17,722	15,442	33,886	30,545	26,615	4.6%	5.2%	2.7%
1987	19,575	19,119	16,240	35,021	31,792	27,005	3.3%	4.1%	1.5%
1988	21,341	20,811	17,331	35,998	33,231	27,674	2.8%	4.5%	2.5%
1989	22,342	22,083	18,520	35,649	33,641	28,213	-1.0%	1.2%	1.9%
1990	23,043	22,712	19,477	34,755	32,826	28,150	-2.5%	-2.4%	-0.2%
1991	23,432	22,969	19,892	33,855	31,856	27,589	-2.6%	-3.0%	-2.0%
1992	24,538	24,172	20,854	34,594	32,545	28,078	2.2%	2.2%	1.8%
1993	25,176	24,752	21,346	34,496	32,357	27,905	-0.3%	-0.6%	-0.6%
1994	26,303	25,687	22,172	35,574	32,741	28,261	3.1%	1.2%	1.3%
1995	27,457	26,832	23,076	36,269	33,258	28,603	2.0%	1.6%	1.2%
1996	28,933	28,194	24,175	37,119	33,944	29,106	2.3%	2.1%	1.8%
1997	30,498	29,687	25,334	38,054	34,940	29,817	2.5%	2.9%	2.4%
1998	32,524	31,677	26,883	39,684	36,710	31,155	4.3%	5.1%	4.5%
1999	34,227	33,126	27,939	40,742	37,560	31,679	2.7%	2.3%	1.7%
2000	37,756	36,118	29,845	43,082	39,621	32,739	5.7%	5.5%	3.3%
2001	38,949	37,334	30,575	42,610	39,822	32,612	-1.1%	0.5%	-0.4%
2002	38,973	37,453	30,804	41,551	39,327	32,345	-2.5%	-1.2%	-0.8%
2003	39,504	38,065	31,472	40,589	39,079	32,310	-2.3%	-0.6%	-0.1%
2004	41,801	40,206	32,937	41,801	40,206	32,937	3.0%	2.9%	1.9%

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

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

Annual pay in nominal dollars has grown steadily in Massachusetts over the past decade. Average annual pay is computed by dividing the total annual payroll of employees covered by Unemployment Insurance programs by the average monthly number of employees. Data are reported by employers covered under the Unemployment Insurance programs. While levels of annual pay were nearly equal in Massachusetts and the United States in 1984, average annual pay levels in Massachusetts have grown more rapidly than the national average since that time. The level of annual pay in Massachusetts in 2003 was 23 percent higher than the national average: \$46,323 compared to \$37,765.

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

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

Year	U.S.	N.E.	MA	MA as a pct. of N.E.
1990	\$ 2,743,016	\$171,448	\$83,129	48.5%
1991	\$ 2,811,076	\$170,333	\$82,311	48.3%
1992	\$ 2,972,287	\$177,810	\$86,014	48.4%
1993	\$ 3,076,276	\$183,236	\$89,047	48.6%
1994	\$ 3,227,483	\$190,661	\$93,164	48.9%
1995	\$ 3,415,368	\$201,946	\$99,194	49.1%
1996	\$ 3,615,699	\$213,667	\$105,573	49.4%
1997	\$ 3,874,011	\$230,032	\$113,579	49.4%
1998	\$ 4,179,922	\$247,851	\$123,054	49.6%
1999	\$ 4,463,650	\$266,554	\$134,045	50.3%
2000	\$ 4,825,906	\$293,889	\$150,842	51.3%
2001	\$ 4,939,944	\$300,698	\$153,131	50.9%
2002	\$ 4,972,345	\$298,208	\$149,983	50.3%
2003	\$ 5,098,695	\$304,289	\$151,799	49.9%
2004	\$ 5,351,143	\$320,993	\$159,978	49.8%

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

Consumer Prices. Higher income levels in Massachusetts relative to the rest of the United States are offset to some extent by the higher cost of living in Massachusetts. The following table presents consumer price trends for the Boston metropolitan area and the United States for the period between 1970 and 2004. The table shows the Consumer Price Index for All Urban Consumers (CPI-U) and the percentage change in that index from the previous year. In 2004, the CPI-U for both Boston and the United States as a whole increased 2.7 percent. The latest available data are consistent from May 2004 to May 2005. The CPI-U for both the Boston metropolitan area and the U.S. increased by 2.8 percent.

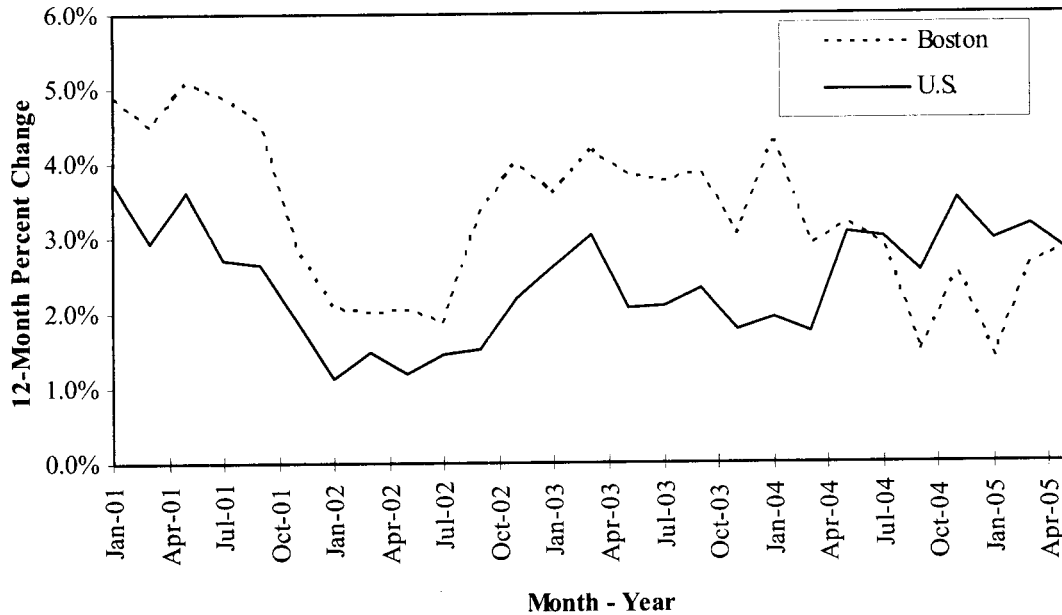
Consumer Price Index for all Urban Consumers (CPI-U), 1970-2004

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

Year	Boston Metro Area		United States	
	CPI-U	Pct. Change	CPI-U	Pct. Change
1970	40.2		38.8	
1971	42.2	5.0%	40.5	4.4%
1972	43.7	3.6%	41.8	3.2%
1973	46.3	5.9%	44.4	6.2%
1974	51.2	10.6%	49.3	11.0%
1975	55.8	9.0%	53.8	9.1%
1976	60.0	7.5%	56.9	5.8%
1977	63.1	5.2%	60.6	6.5%
1978	66.4	5.2%	65.2	7.6%
1979	73.2	10.2%	72.6	11.3%
1980	82.6	12.8%	82.4	13.5%
1981	91.8	11.1%	90.9	10.3%
1982	95.5	4.0%	96.5	6.2%
1983	99.8	4.5%	99.6	3.2%
1984	104.7	4.9%	103.9	4.3%
1985	109.4	4.5%	107.6	3.6%
1986	112.2	2.6%	109.6	1.9%
1987	117.1	4.4%	113.6	3.6%
1988	124.2	6.1%	118.3	4.1%
1989	131.3	5.7%	124.0	4.8%
1990	138.9	5.8%	130.7	5.4%
1991	145.0	4.4%	136.2	4.2%
1992	148.6	2.5%	140.3	3.0%
1993	152.9	2.9%	144.5	3.0%
1994	154.9	1.3%	148.2	2.6%
1995	158.6	2.4%	152.4	2.8%
1996	163.3	3.0%	156.9	3.0%
1997	167.9	2.8%	160.5	2.3%
1998	171.7	2.3%	163.0	1.6%
1999	176.0	2.5%	166.6	2.2%
2000	183.6	4.3%	172.2	3.4%
2001	191.5	4.3%	177.1	2.8%
2002	196.5	2.6%	179.9	1.6%
2003	203.9	3.8%	184.0	2.3%
2004	209.5	2.7%	188.9	2.7%
May-04	208.7		189.1	
May-05	214.6	2.8%	194.4	2.8%

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

**Consumer Price Index for all Urban Consumers
January 2001 - May 2005**



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

Consumer Confidence, Present Situation, and Future Expectations. These three measures offer multiple insights into consumer attitudes. The U.S. and New England measures are compiled from a national monthly survey of 5,000 households and are published by The Conference Board, Inc. The survey for Boston is conducted in a similar manner and the results are published by the Mass Insight Corporation, based on quarterly polling of 500 adult residents of Massachusetts. The “Present Situation” index measures consumers’ appraisal of business and employment conditions at the time of the survey. The “Future Expectations” index focuses on consumers’ expectations six months hence regarding business and employment conditions, as well as expected family income. The overall “Consumer Confidence” index is a weighted average of the two sub-indices. Although the U.S. and the New England measures are compiled by a different source than the Boston measures, according to the Federal Reserve Bank of Boston the numbers are generally comparable. The following table and chart detail these three measures since 2000.

**Quarterly Measures of Consumer Confidence, Present Situation, and Future Expectations for Massachusetts, New England, and the U.S.,
January 2000 - April 2005**

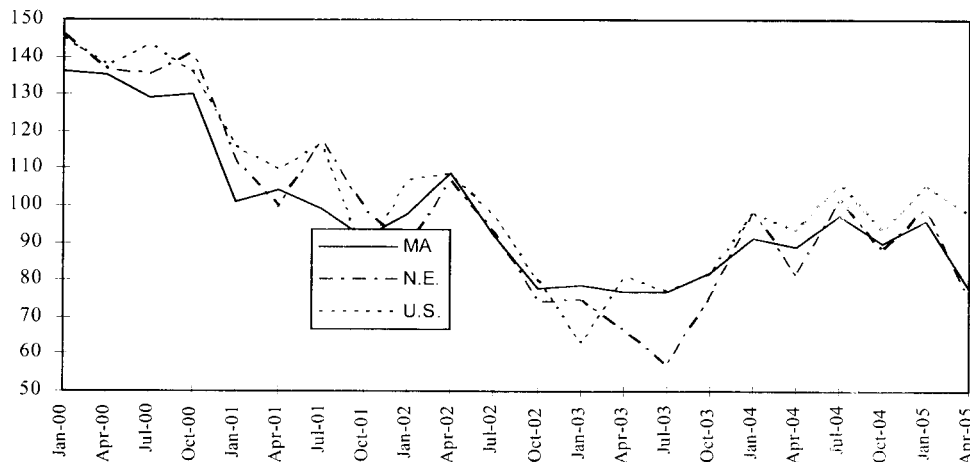
(not seasonally adjusted, except United States (1985=100))

	Consumer Confidence			Present Situation			Future Expectations		
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.
Jan-00	136.0	145.9	144.7	151.0	193.1	183.1	125.0	114.5	119.1
Apr-00	135.0	136.5	137.7	155.0	195.7	179.8	122.0	97.0	109.7
Jul-00	129.0	135.4	143.0	156.0	196.9	186.8	111.0	94.4	113.7
Oct-00	130.0	140.7	135.8	157.0	195.5	176.8	111.0	104.1	108.4
Jan-01	101.0	111.9	115.7	139.0	173.9	170.4	76.0	70.5	79.3
Apr-01	104.0	99.5	109.9	124.0	161.7	156.0	91.0	58.0	79.1
Jul-01	99.0	117.5	116.3	108.0	170.8	151.3	93.0	82.0	92.9
Oct-01	91.0	98.6	85.3	94.0	105.6	107.2	90.0	64.0	70.7
Jan-02	97.8	88.5	107.0	98.1	85.5	72.0	97.6	90.5	130.0
Apr-02	109.0	106.7	108.5	84.0	115.5	106.8	125.0	100.8	109.6
Jul-02	92.0	92.4	97.4	68.0	96.3	99.4	108.0	89.9	96.1
Oct-02	78.0	74.2	79.6	48.0	70.8	77.2	97.0	76.5	81.1
Jan-03	78.8	74.4	63.0	75.3	63.9	28.0	81.1	81.5	86.0
Apr-03	77.0	66.4	81.0	31.0	52	75.2	108.0	76.0	84.8
Jul-03	77.0	56.8	77.0	41.0	42.8	63.0	101.0	66.2	86.3
Oct-03	82.0	75.5	81.7	36.0	57.4	67.0	112.0	87.6	91.5
Jan-04	91.0	98.2	97.7	48.0	86.5	86.1	119.0	106.1	105.3
Apr-04	89.0	81.2	93.0	53.0	74.8	90.4	113.0	85.5	94.8
Jul-04	97.0	101.4	105.7	66.0	102.9	106.4	119.0	100.3	105.3
Oct-04	90.0	87.7	92.9	64.0	91.4	94.0	108.0	85.3	92.2
Jan-05	96.0	98.9	105.1	70.0	101.9	112.1	114.0	96.9	100.4

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

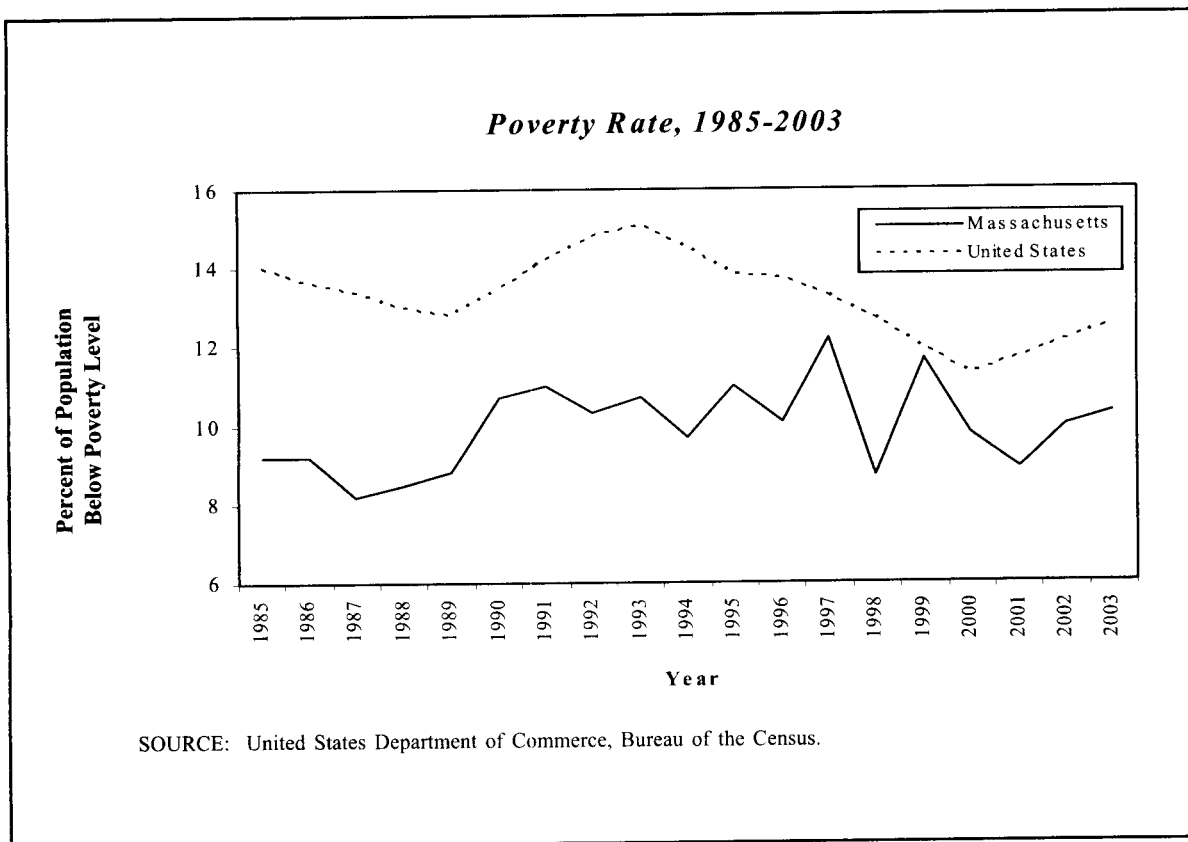
**Consumer Confidence for Massachusetts, New England,
and the U.S. January 2000 - April 2005**

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



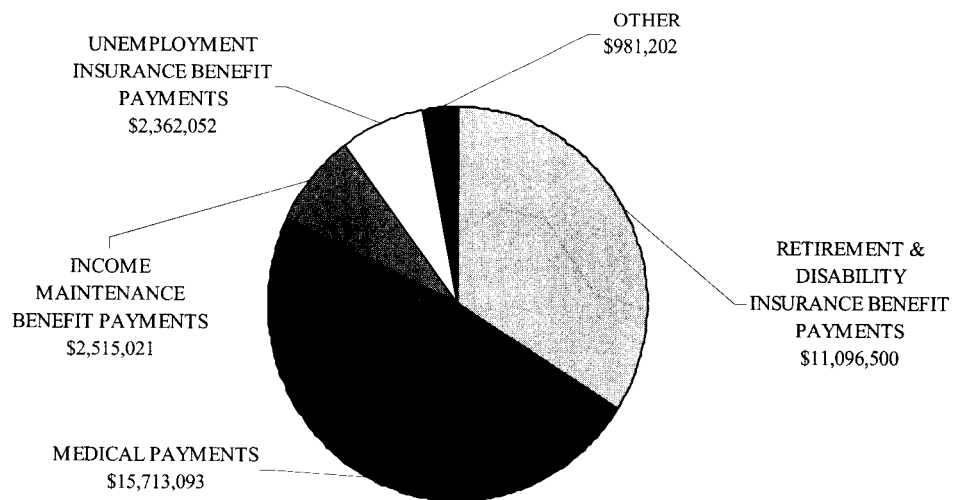
SOURCES: The Conference Board, Inc. (for U.S. and N.E. measures), Mass Insight Corporation (for MA measure).

Poverty. The Massachusetts poverty rate remains below the national average. Since 1980, the percentage of the Massachusetts population below the poverty line has varied between 7.7 percent and 12.2 percent. During the same time, the national poverty rate varied between 11.3 percent and 15.1 percent. In 2003, the poverty rate in Massachusetts increased slightly to 10.3 percent while the poverty rate in the United States rose a similar amount to 12.5 percent. Since 1980, the ratio of the Massachusetts rate of poverty to the United States rate of poverty has varied from a low of 0.51 in 1983 to 0.99 in 1999. These official poverty statistics are not adjusted for regional differences in the cost of living. The following chart illustrates the lower poverty rates in Massachusetts (1985 - 2003) compared with the national average during similar periods. Poverty estimates for states are not as reliable as national estimates. One should use caution when comparing poverty rate estimates across states, or poverty rates for the same state across years, because their variability is high.



Transfer Payments. Transfer payment income is payment to individuals from all levels of government and from businesses, for which no current services are performed, including payments to nonprofit institutions serving individuals. These payments accounted for more than 13 percent of total personal income in Massachusetts in 2003. The chart below does not include transfer payments from business or payments to non-profit organizations. Total transfer payments to individuals in Massachusetts totaled 33.9 billion dollars for 2003. Approximately 48 percent of total transfer payments were medical payments.

**Transfer Payments from Governments to Individuals in
2003—Massachusetts**
(from annual State Personal Income Estimates)
(in thousands of current dollars)



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

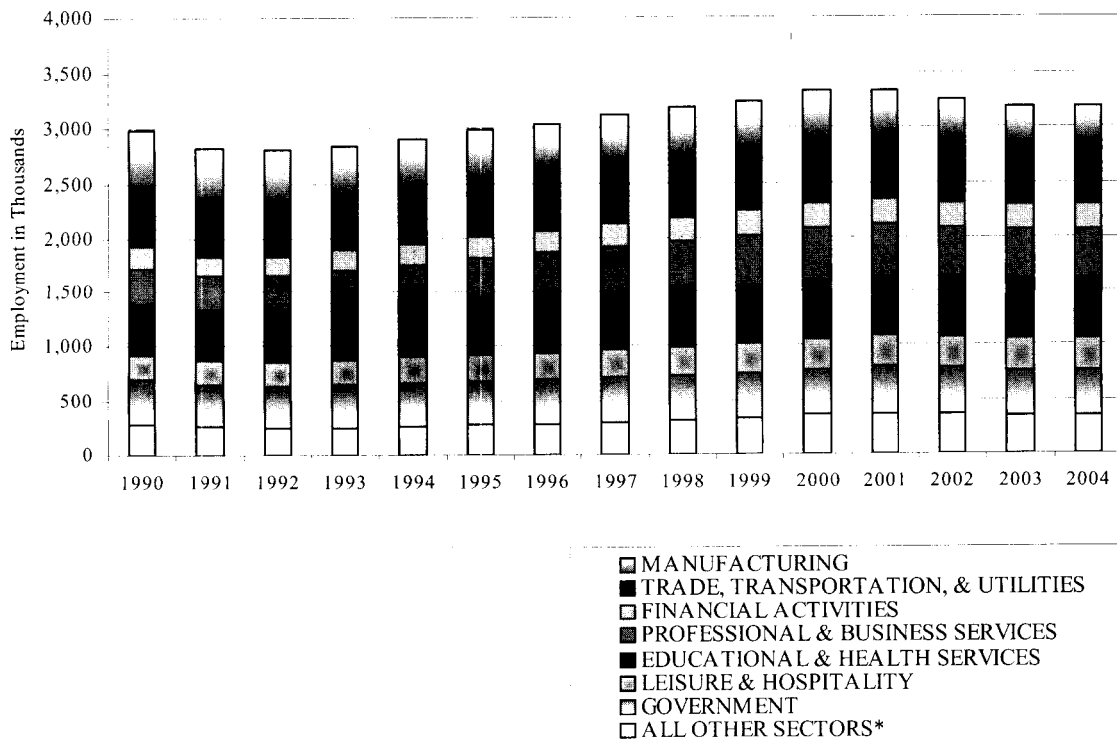
NOTE: The category "other" includes veterans' benefit payments, federal education and training assistance payments, and a small residual of miscellaneous other payments to individuals.

EMPLOYMENT

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

Total non-agricultural employment in Massachusetts declined 2.4 percent in 2002 and another 1.9 percent in 2003 but only 0.1 percent in 2004. The preliminary unadjusted estimates for the first five months of 2005 are in fact 0.8 percent above those for the same months in 2004. In 2004, manufacturing employment declined 3.2 percent from the year before; a significantly smaller decline than the annual declines in the previous three years and very close to the long-term average rate of decline since 1990 (3.0 percent per year). In fact, the unadjusted estimates for manufacturing for the first five months of 2005 are only 0.2 percent below the corresponding 2004 average.

***Annual Average Employment in Massachusetts,
NAICS Super-Sectors, 1990-2004***

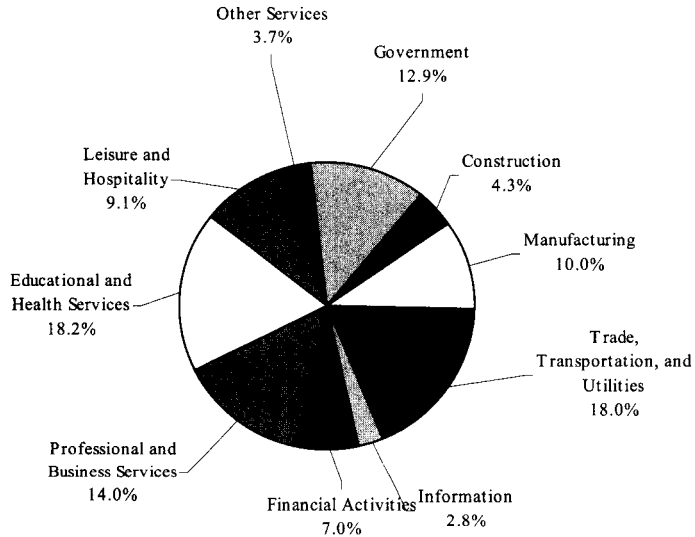


SOURCE: MA Division of Unemployment Assistance

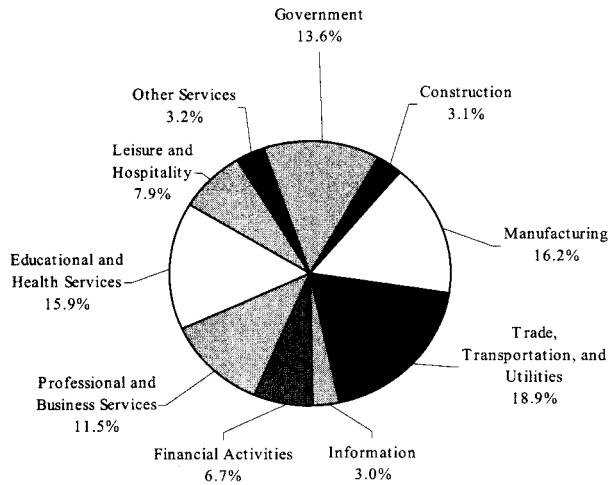
*Includes Mining & Natural Resources, Construction, Information, and Other Services

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

NAICS Super-Sectors: 2003-2004 Average Share



NAICS Super-Sectors: 1990-1991 Average Share



SOURCE: MA Division of Unemployment Assistance.

Largest Employers in Massachusetts. The following table lists the twenty-five largest private employers in Massachusetts based upon employment data for June 2004. The Boston Medical Center Corporation is the new member of the list, replacing Sears, Roebuck & Company.

Twenty-five Largest Private Employers in Massachusetts in June 2004

(listed alphabetically)

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

SOURCE: MA Division of Unemployment Assistance.

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

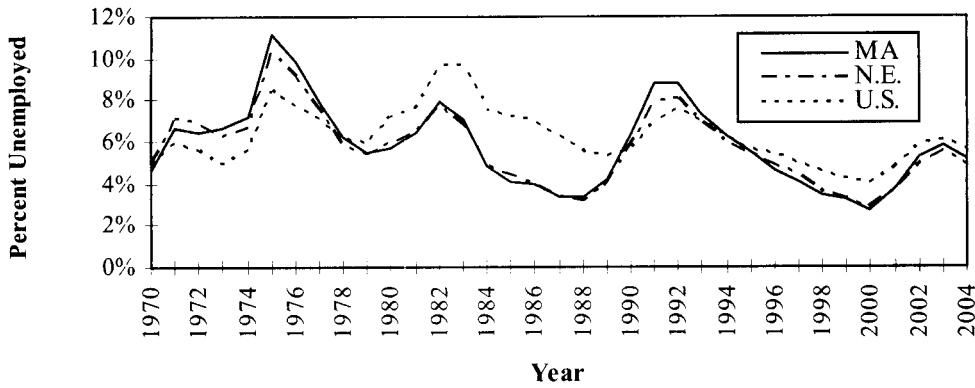
Annual Average Civilian Labor Force and Unemployment, 1970 - 2004

(in thousands)

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

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

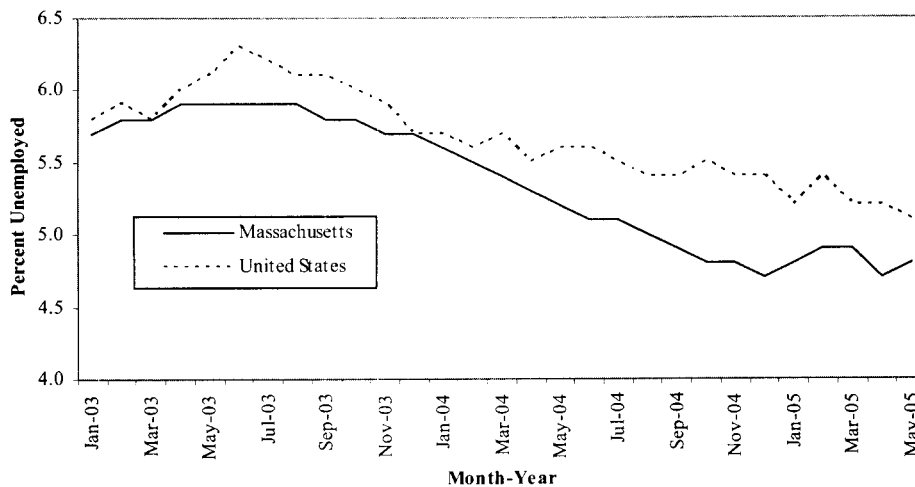
**Annual Average Unemployment Rate, 1970 -2004,
Massachusetts, New England, and United States**



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

The unemployment rate in Massachusetts has been consistently below that of the United States ever since the recovery from the recession of early 1990, with the exception of two months in 2003, when the two rates were equal. Unemployment levels in the United States as a whole and in the New England region have shown similar patterns in the last two years, peaking in mid-2003, then falling slowly but fairly steadily since then. The unemployment rate in Massachusetts dropped from 5.2 to 4.8 percent between May 2004 and May 2005, while the United States unemployment rate dropped from 5.6 to 5.1 percent over those same months. The following chart shows the unemployment rates for Massachusetts and the United States from each of the past twenty-nine months.

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



SOURCE: MA Division of Employment Assistance.

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

Help Wanted Advertising Index, 1989-2004

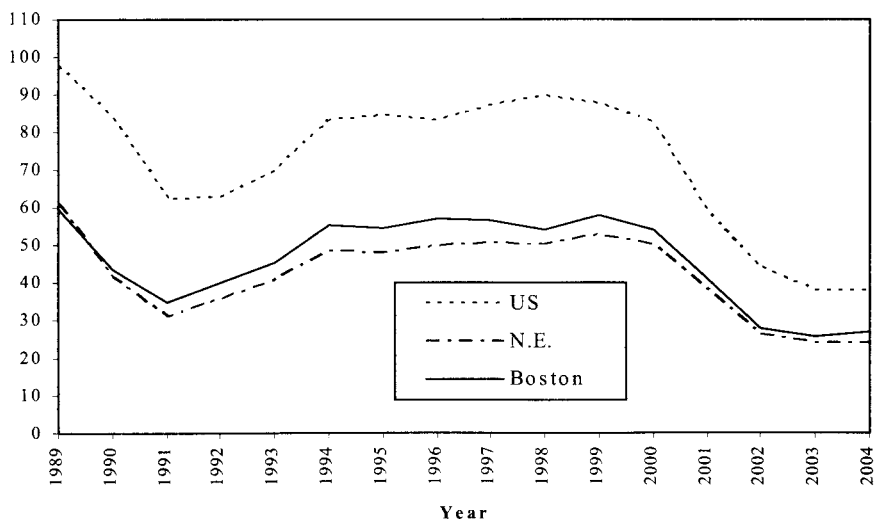
(seasonally adjusted 1987=100)

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

SOURCE: The Conference Board, Inc.

Help Wanted Advertising Index, 1989-2004

(seasonally adjusted 1987=100)



SOURCE: The Conference Board, Inc.

Unemployment Insurance Trust Fund. The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide for the payment of benefits to eligible individuals when they become unemployed through no fault of their own. Benefits are paid from the Commonwealth's Unemployment Insurance Trust Fund, financed through employer contributions. The assets and liabilities of the Commonwealth Unemployment Insurance Trust Fund are not assets and liabilities of the Commonwealth. As of June 30, 2005, the Massachusetts Unemployment Trust Fund had a balance of \$401 million, of which the private contributory sector portion was \$307 million. The Division of Unemployment Assistance's February 2005 Unemployment Insurance Trust Fund report indicates that the refinancing measures included in Chapter 142 of the Massachusetts Acts of 2003 (effective January 1, 2004), provide for employer contributions that should result in private contributory account reserves of \$1.687 billion at the end of 2008.

ECONOMIC BASE AND PERFORMANCE

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

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

In the years 1997 to 2004, gross state product in Massachusetts, New England and the United States has grown approximately 40% in current dollars. Massachusetts had larger increases than those in New England and the United States between 1998 through 2000, but then lagged both areas respectively from 2001 to 2003. The Massachusetts economy is the largest in New England, (contributing approximately 48% to New England's total GSP), and thirteenth largest in the U.S., (contributing 2.7% to the nation's total GSP).

Gross State Product - Cumulative Change, 1997-2004

(millions of chained 2000 dollars)

Year	Massachusetts		New England		United States	
	GSP	Change from 1997	GSP	Change from 1997	GSP	Change from 1997
1997	\$227,074		\$487,671		\$8,620,955	
1998	\$241,535	6.4%	\$512,367	5.1%	\$9,004,669	4.5%
1999	\$256,659	13.0%	\$534,094	9.5%	\$9,404,249	9.1%
2000	\$276,786	21.9%	\$568,212	16.5%	\$9,749,104	13.1%
2001	\$279,434	23.1%	\$573,703	17.6%	\$9,836,571	14.1%
2002	\$278,213	22.5%	\$573,700	17.6%	\$10,009,433	16.1%
2003	\$284,286	25.2%	\$588,536	20.7%	\$10,289,220	19.4%
2004	\$298,020	31.2%	\$617,107	26.5%	\$10,720,296	24.4%

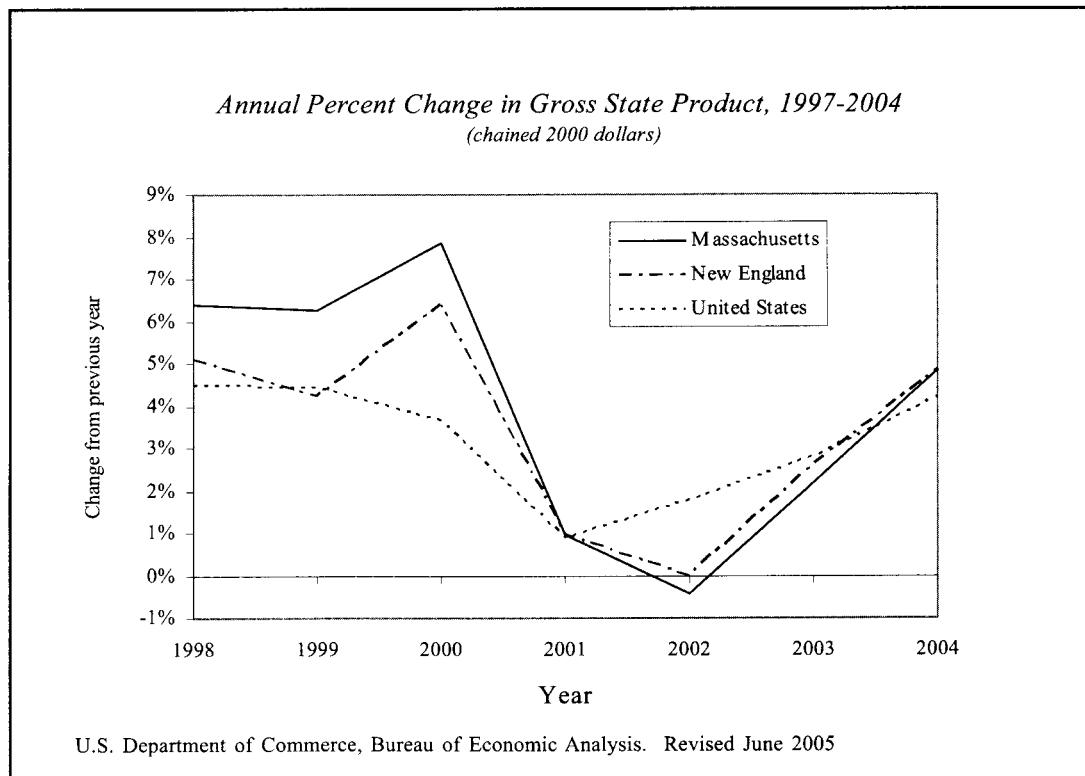
U.S. Department of Commerce, Bureau of Economic Analysis. Revised June 2005

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

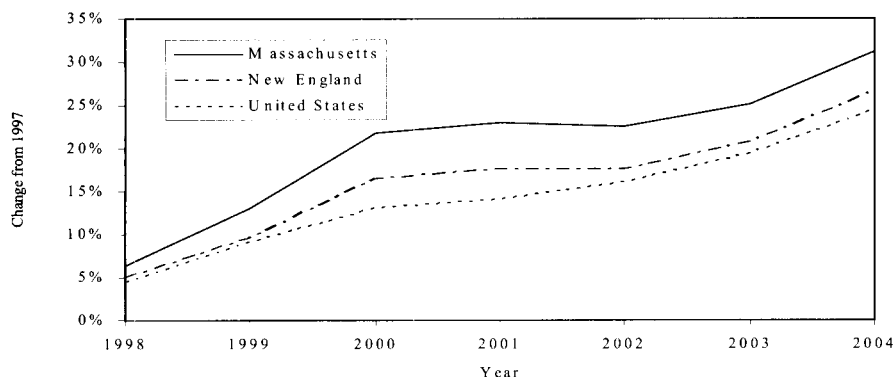
Gross State Product - Annual Change, 1997-2004
(millions of chained 2000 dollars)

Year	Massachusetts		New England		United States	
	GSP	Annual change	GSP	Annual change	GSP	Annual change
1997	\$227,074		\$487,671		\$8,620,955	
1998	\$241,535	6.4%	\$512,367	5.1%	\$9,004,669	4.5%
1999	\$256,659	6.3%	\$534,094	4.2%	\$9,404,249	4.4%
2000	\$276,786	7.8%	\$568,212	6.4%	\$9,749,104	3.7%
2001	\$279,434	1.0%	\$573,703	1.0%	\$9,836,571	0.9%
2002	\$278,213	-0.4%	\$573,700	0.0%	\$10,009,433	1.8%
2003	\$284,286	2.2%	\$588,536	2.6%	\$10,289,220	2.8%
2004	\$298,020	4.8%	\$617,107	4.9%	\$10,720,296	4.2%

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



Cumulative Percent Change in Gross State Product, 1997-2004
(chained 2000 dollars)



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

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

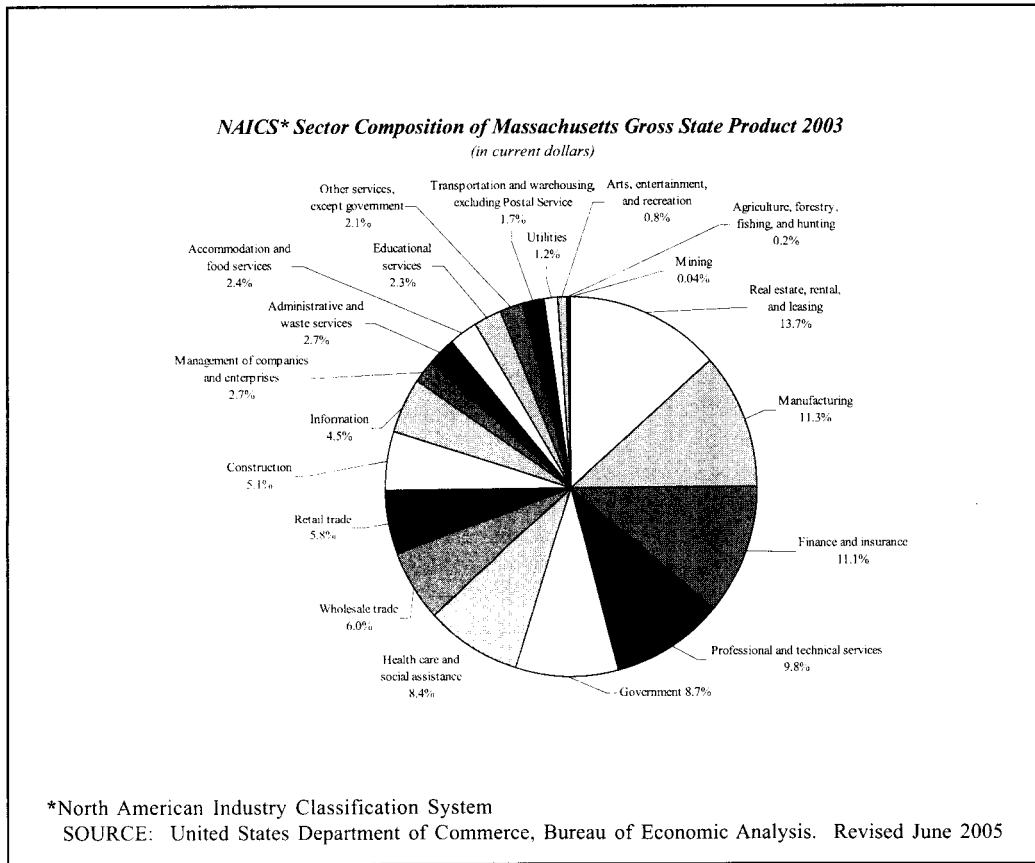
Massachusetts Companies in the 2005 Fortune 500 and 1000 Lists

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

SOURCE: *Fortune*, April 2005

ECONOMIC BASE AND PERFORMANCE - SECTOR DETAIL (NAICS BASIS)

The economy of Massachusetts remains diversified among several industrial and non-industrial sectors. The four largest sectors of the economy (real estate and rental and leasing, manufacturing, finance and insurance, and professional and technical services, on the 2002 NAICS basis) contributed 47.8% of the GSP in 2003. The data below show the contributions to the Massachusetts Real Gross State Product of all industrial and non-industrial sectors.



When measured in chained 2000 dollars, the cumulative change in Massachusetts total GSP was 31.2% between 1997 and 2004. Several industries grew much faster than the state average; computer and electronic product manufacturing, securities/commodity contracts/investments, and forestry/fishing/related activities. Substantial cumulative losses were in the paper manufacturing, machinery manufacturing, and funds/trusts/other financial vehicles sectors. Industry subsectors that experienced substantial cumulative growth or reduction and accounted for one percent or more of Massachusetts GSP are listed in the following chart:

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

NAICS* Industry Subsector	Cumulative percent change 1997-2003
Computer and electronic product manufacturing	344.5%
Securities, commodity contracts, investments	259.2%
Forestry, fishing, and related activities	150.4%
Computer systems design and related services	66.3%
Broadcasting and telecommunications	60.8%
Paper manufacturing	-33.4%
Machinery manufacturing	-37.4%
Funds, trusts, and other financial vehicles	-48.8%

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

Gross State Product by Industry in Massachusetts, 1997-2003

(millions of chained 2000 dollars)

NAICS* Industry Sector	1997	1998	1999	2000	2001	2002	2003
Total Gross State Product	\$227,074	\$241,535	\$256,659	\$276,786	\$279,434	\$278,213	\$284,286
Private industries	204,714	218,929	233,424	253,492	255,947	254,795	261,066
Agriculture, forestry, fishing, and hunting	442	385	469	540	587	679	713
Mining	67	81	93	97	103	94	105
Utilities	3,319	3,348	3,223	3,455	3,161	3,104	3,371
Construction	10,193	10,954	11,645	12,168	13,299	13,217	12,704
Manufacturing	24,737	27,888	30,063	37,132	34,972	35,255	37,957
Wholesale trade	14,359	16,243	17,878	16,335	18,065	17,593	17,492
Retail trade	12,130	12,791	13,677	14,557	15,768	16,550	17,493
Transportation and warehousing, excluding Postal Service	4,352	4,559	4,769	5,180	5,071	4,941	5,012
Information	9,764	10,360	12,049	12,986	13,629	13,422	13,630
Finance and insurance	21,589	24,339	26,971	30,333	30,227	30,546	33,237
Real estate, rental, and leasing	32,268	32,966	34,607	35,978	38,599	37,830	36,949
Professional and technical services	20,551	22,525	24,640	28,469	28,505	27,408	27,652
Management of companies and enterprises	6,985	6,786	6,870	7,506	6,151	5,767	5,767
Administrative and waste services	7,646	8,066	8,252	8,382	7,392	7,305	7,631
Educational services	5,575	5,594	5,602	5,934	5,866	5,913	5,740
Health care and social assistance	19,716	19,588	19,505	20,374	20,480	21,075	21,918
Arts, entertainment, and recreation	1,796	1,841	1,908	1,913	2,026	2,139	2,187
Accommodation and food services	5,555	6,026	6,258	6,605	6,522	6,552	6,634
Other services, except government	4,943	5,183	5,304	5,545	5,466	5,390	5,386
Government	22,491	22,664	23,264	23,293	23,487	23,417	23,261

* North American Industry Classification System

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

Cumulative Percent Change in GSP by Industry in Massachusetts, 1997-2003

(millions of chained 2000 dollars)

NAICS* Industry Sector	1998	1999	2000	2001	2002	2003
Total Gross State Product	6.4%	12.6%	20.5%	21.4%	21.0%	23.2%
Private industries	6.9%	13.6%	22.2%	23.1%	22.7%	25.1%
Agriculture, forestry, fishing, and hunting	-12.9%	8.9%	24.1%	32.8%	48.4%	53.4%
Mining	20.9%	35.7%	40.0%	46.2%	37.5%	49.2%
Utilities	0.9%	-2.9%	4.3%	-4.2%	-6.0%	2.6%
Construction	7.5%	13.8%	18.3%	27.6%	26.9%	23.1%
Manufacturing	12.7%	20.5%	44.1%	38.2%	39.0%	46.7%
Wholesale trade	13.1%	23.2%	14.6%	25.1%	22.5%	22.0%
Retail trade	5.4%	12.4%	18.8%	27.1%	32.1%	37.8%
Transportation and warehousing, excluding Postal Service	4.8%	9.4%	18.0%	15.9%	13.3%	14.7%
Information	6.1%	22.4%	30.2%	35.1%	33.6%	35.2%
Finance and insurance	12.7%	23.6%	36.0%	35.7%	36.7%	45.5%
Real estate, rental, and leasing	2.2%	7.1%	11.1%	18.4%	16.4%	14.1%
Professional and technical services	9.6%	19.0%	34.5%	34.7%	30.8%	31.7%
Management of companies and enterprises	-2.8%	-1.6%	7.6%	-10.4%	-16.6%	-16.6%
Administrative and waste services	5.5%	7.8%	9.4%	-2.4%	-3.6%	0.8%
Educational services	0.3%	0.5%	6.4%	5.3%	6.1%	3.1%
Health care and social assistance	-0.6%	-1.1%	3.4%	3.9%	6.8%	10.8%
Arts, entertainment, and recreation	2.5%	6.1%	6.4%	12.3%	17.9%	20.1%
Accommodation and food services	8.5%	12.3%	17.9%	16.6%	17.1%	18.3%
Other services, except government	4.9%	7.2%	11.7%	10.3%	8.9%	8.8%
Government	0.8%	3.4%	3.5%	4.4%	4.1%	3.4%

* North American Industry Classification System

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

Gross State Product by Industry in Massachusetts, 1997-2003
(as a percent of total GSP chained 2000 dollars)

NAICS* Industry Sector	1997	1998	1999	2000	2001	2002	2003
Total Gross State Product	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Private industries	90.2%	90.6%	90.9%	91.6%	91.6%	91.6%	91.8%
Agriculture, forestry, fishing, and hunting	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%
Mining	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Utilities	1.5%	1.4%	1.3%	1.2%	1.1%	1.1%	1.2%
Construction	4.5%	4.5%	4.5%	4.4%	4.8%	4.8%	4.5%
Manufacturing	10.9%	11.5%	11.7%	13.4%	12.5%	12.7%	13.4%
Wholesale trade	6.3%	6.7%	7.0%	5.9%	6.5%	6.3%	6.2%
Retail trade	5.3%	5.3%	5.3%	5.3%	5.6%	5.9%	6.2%
Transportation and warehousing, excluding Postal Service	1.9%	1.9%	1.9%	1.9%	1.8%	1.8%	1.8%
Information	4.3%	4.3%	4.7%	4.7%	4.9%	4.8%	4.8%
Finance and insurance	9.5%	10.1%	10.5%	11.0%	10.8%	11.0%	11.7%
Real estate, rental, and leasing	14.2%	13.6%	13.5%	13.0%	13.8%	13.6%	13.0%
Professional and technical services	9.1%	9.3%	9.6%	10.3%	10.2%	9.9%	9.7%
Management of companies and enterprises	3.1%	2.8%	2.7%	2.7%	2.2%	2.1%	2.0%
Administrative and waste services	3.4%	3.3%	3.2%	3.0%	2.6%	2.6%	2.7%
Educational services	2.5%	2.3%	2.2%	2.1%	2.1%	2.1%	2.0%
Health care and social assistance	8.7%	8.1%	7.6%	7.4%	7.3%	7.6%	7.7%
Arts, entertainment, and recreation	0.8%	0.8%	0.7%	0.7%	0.7%	0.8%	0.8%
Accommodation and food services	2.4%	2.5%	2.4%	2.4%	2.3%	2.4%	2.3%
Other services, except government	2.2%	2.1%	2.1%	2.0%	2.0%	1.9%	1.9%
Government	9.9%	9.4%	9.1%	8.4%	8.4%	8.4%	8.2%

* North American Industry Classification System

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

Rank of Industry Contribution to GSP in Massachusetts, 1997-2003
(millions of chained 2000 dollars)

NAICS* Industry Sector	1997	1998	1999	2000	2001	2002	2003
Total Gross State Product							
Private industries							
Agriculture, forestry, fishing, and hunting	19	19	19	19	19	19	19
Mining	20	20	20	20	20	20	20
Utilities	17	17	17	17	17	17	17
Construction	9	9	10	10	10	10	10
Manufacturing	2	2	2	1	2	2	1
Wholesale trade	7	7	7	7	7	7	8
Retail trade	8	8	8	8	8	8	7
Transportation and warehousing, excluding Postal Service	16	16	16	16	16	16	16
Information	10	10	9	9	9	9	9
Finance and insurance	4	3	3	3	3	3	3
Real estate, rental, and leasing	1	1	1	2	1	1	2
Professional and technical services	5	5	4	4	4	4	4
Management of companies and enterprises	12	12	12	12	13	14	13
Administrative and waste services	11	11	11	11	11	11	11
Educational services	13	14	14	14	14	13	14
Health care and social assistance	6	6	6	6	6	6	6
Arts, entertainment, and recreation	18	18	18	18	18	18	18
Accommodation and food services	14	13	13	13	12	12	12
Other services, except government	15	15	15	15	15	15	15
Government	3	4	5	5	5	5	5

* North American Industry Classification System

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

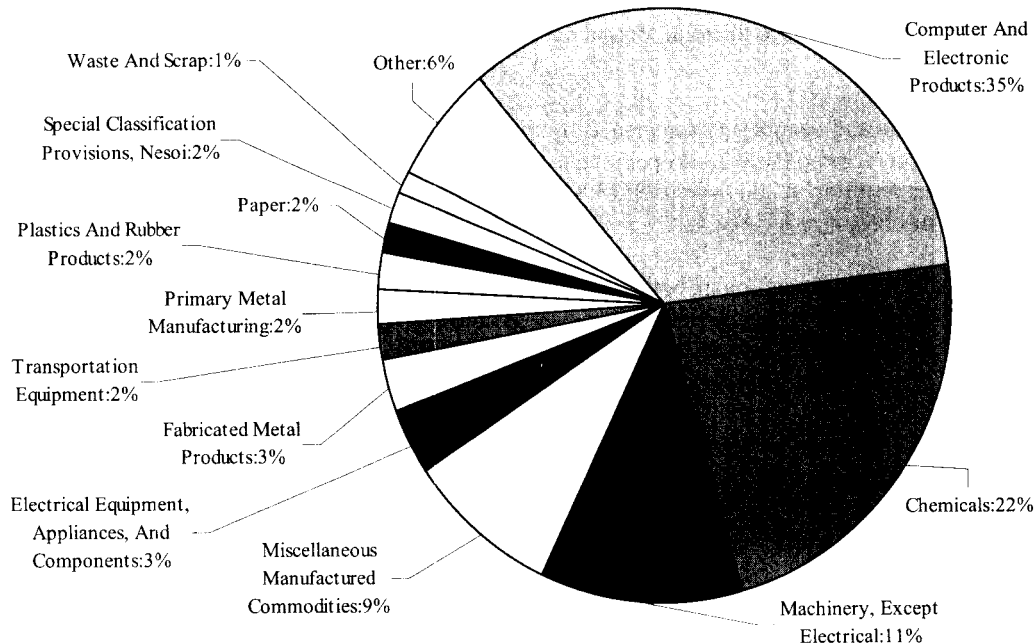
Between 1997 and 2003, the portion of the total GSP in chained 2000 dollars, from the private industry sector increased 1.7% while it decreased 1.7% in the government sector. Contributions by each industry to total GSP have remained steady for most sectors. The exceptions were finance and insurance (+2.2%), and manufacturing (+2.5%). When the 1997 to 2003 industry contributions to total annual GSP are ranked according to their dollar value, the top five have remained constant; real estate, rental and leasing, manufacturing, finance and insurance, professional and technical services, and government.

Trade and International Trade. Massachusetts ranked 10th in the United States, and first in New England, with \$21.8 billion in international exports in 2004. This represents a 17.0 % increase from the previous year's exports from the Commonwealth, while national exports increased by 13.0 % in the same period. Through April 2005, Massachusetts's exports totaled \$7.24 billion, an increase of 0.3 % compared with exports in the first four months of 2004. National exports were up 9.9 % and New England 1.7% during the same period. It is not possible to provide balance of trade comparisons for Massachusetts because import data are not compiled on a state-by-state basis.

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

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

Composition of Massachusetts Exports by Industry Group, 2004



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

Value of International Shipments from Massachusetts, 1997-2004

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

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

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

Transportation and Warehousing, and Utilities. Between 1997 and 2003, the combined real gross state product of the transportation and warehousing and utilities sector increased 9.3% when measured with year 2000 chained dollars. These combined sectors contributed 2.9% to the total Massachusetts Real Gross State Product in 2003, a half% less than it did in 1997.

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

As of June 30, 2004, airline service at Logan, both scheduled and unscheduled, was provided by 56 airlines, including 6 U.S. major air carrier airlines, 16 non-U.S. flag carriers, and 12 regional and commuter airlines. In fiscal 2004, 26.1 million passengers (a 14.7% increase from fiscal 2003) passed through Logan. Based on total passenger volume in calendar year 2004 data, Logan Airport was the most active airport in New England and the 19th most active in the U.S., according to Airports Council International (ACI).

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

At Massport's Port of Boston properties, 2004 cargo throughput was 13.9 million metric tons (a 5% increase from 2003), automobile processing decreased 13% to 10,910 units, and cruise passenger trips decreased less than one % to 199,453. Massachusetts total waterborne cargo shipped or received in 2003 (from the Army Corps of Engineers data), increased 17.4% (30,655,000 short tons), as did New England and the U.S. (11.6 and 2.3% respectively).

Construction and Housing. In 2003, construction activity contributed 4.5% to the total Massachusetts Gross State Product when measured in 2000 chained dollars. The construction sector contributed the same amount to state GSP in 1997. Overall growth between 1997 and 2003 was 27.6%.

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

Housing Permits Authorized, 1969-2004

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

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

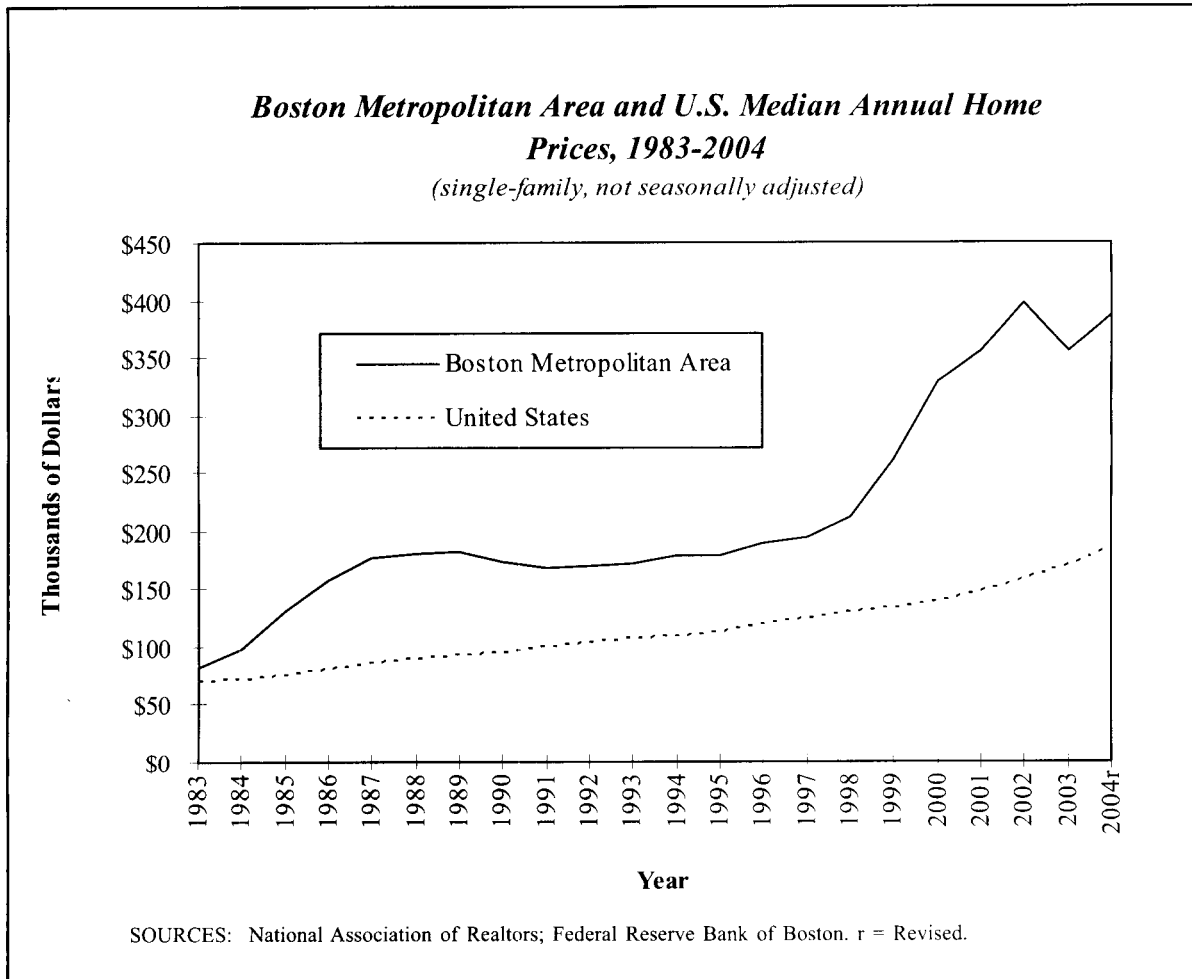
Both the economic recession of 1990-1991 and the subsequent economic recovery were strongly reflected in the Massachusetts housing sector, but the recession that began in 2001 has had a less pronounced impact on home sales. Significant declines in existing home sales in Massachusetts in 1989 and 1990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

Existing Home Sales, 1981-2004
(seasonally adjusted annual rates, in thousands)

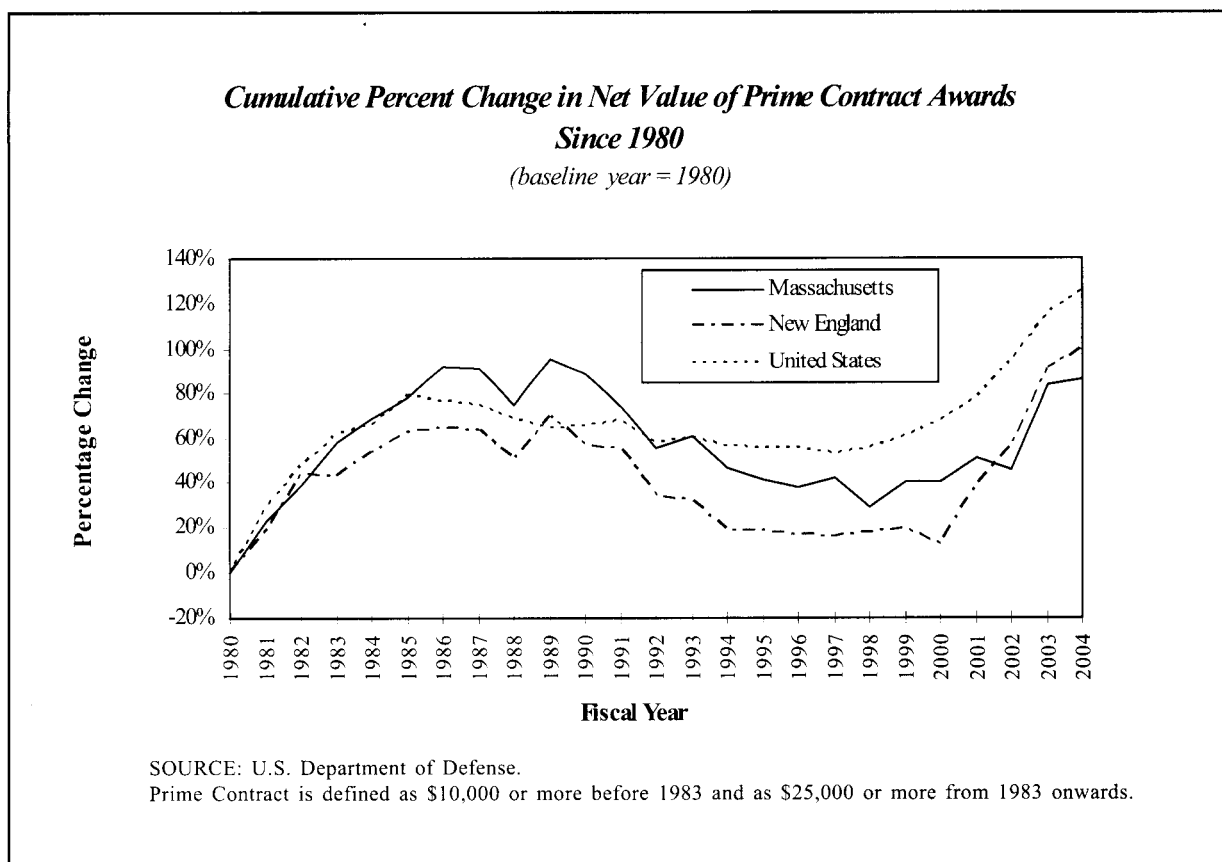
Year	Massachusetts		New England		United States	
	Sales	% Change	Sales	% Change	Sales	% Change
1981	43.0		105.8		2,575.0	
1982	42.6	-0.8%	98.6	-6.9%	2,117.5	-17.8%
1983	59.2	39.0%	141.3	43.3%	2,875.0	35.8%
1984	54.9	-7.3%	140.7	-0.4%	3,027.5	5.3%
1985	60.2	9.7%	157.0	11.6%	3,382.5	11.7%
1986	67.0	11.3%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

SOURCES: National Association of Realtors; Federal Reserve Bank of Boston. r = Revised June 2005.

Median single-family home prices for the Boston Metropolitan area appear below. While Boston housing prices were 118.1% of the U.S. median in 1983, by 1987 Boston housing prices as a% of the national median had reached 205.7%. After dipping to 160.9% of the national median in 1993 and remaining as low as 162.9% of the national median in 1998, Boston home prices soared to 210.4% of the national median in 2004. The Boston metropolitan area median home price rose to \$387,400 in 2004, compared to the national home price of \$184,100.



Defense. Following a peak at \$8.7 billion in the value of military prime contracts awarded to Massachusetts firms in fiscal 1986, defense-related contracts declined 17.2 percent by fiscal 1988 to \$7.2 billion. By fiscal 1995, the value of defense-related prime contracts had declined to \$4.8 billion. The net value of prime contract awards in Massachusetts oscillated between \$4.2 and \$5.2 billion from 1995 to 2002, but jumped 38 percent from 2002 to 2003 to reach \$6.8 billion. The chart below illustrates the yearly changes in the value of Massachusetts military prime contracts from 1980 to 2004.



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

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

(in millions)

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

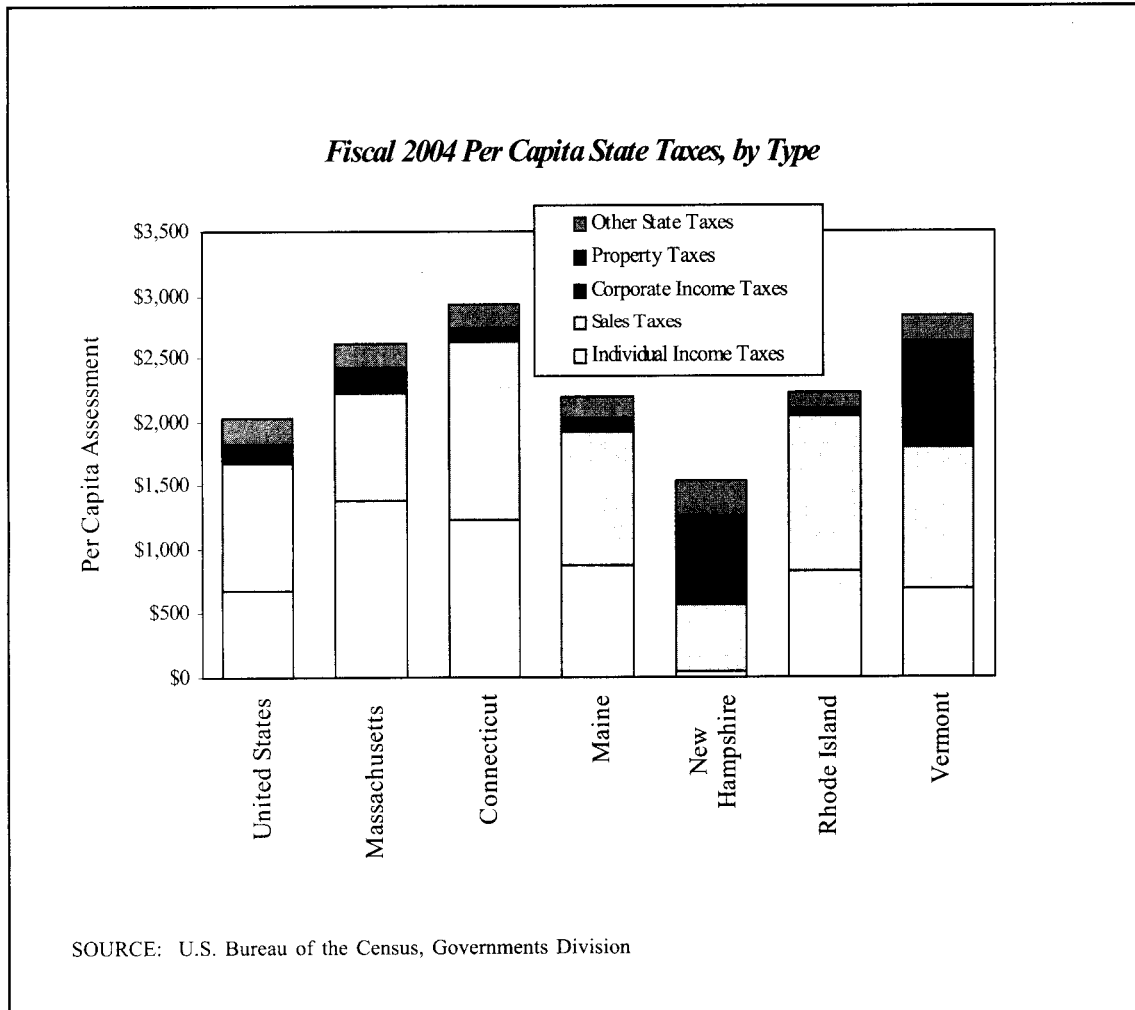
SOURCE: United States Department of Defense. *Prime Contract is defined as \$10,000 and above for these years; beginning in 1983 it is defined as \$25,000 and above.

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

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

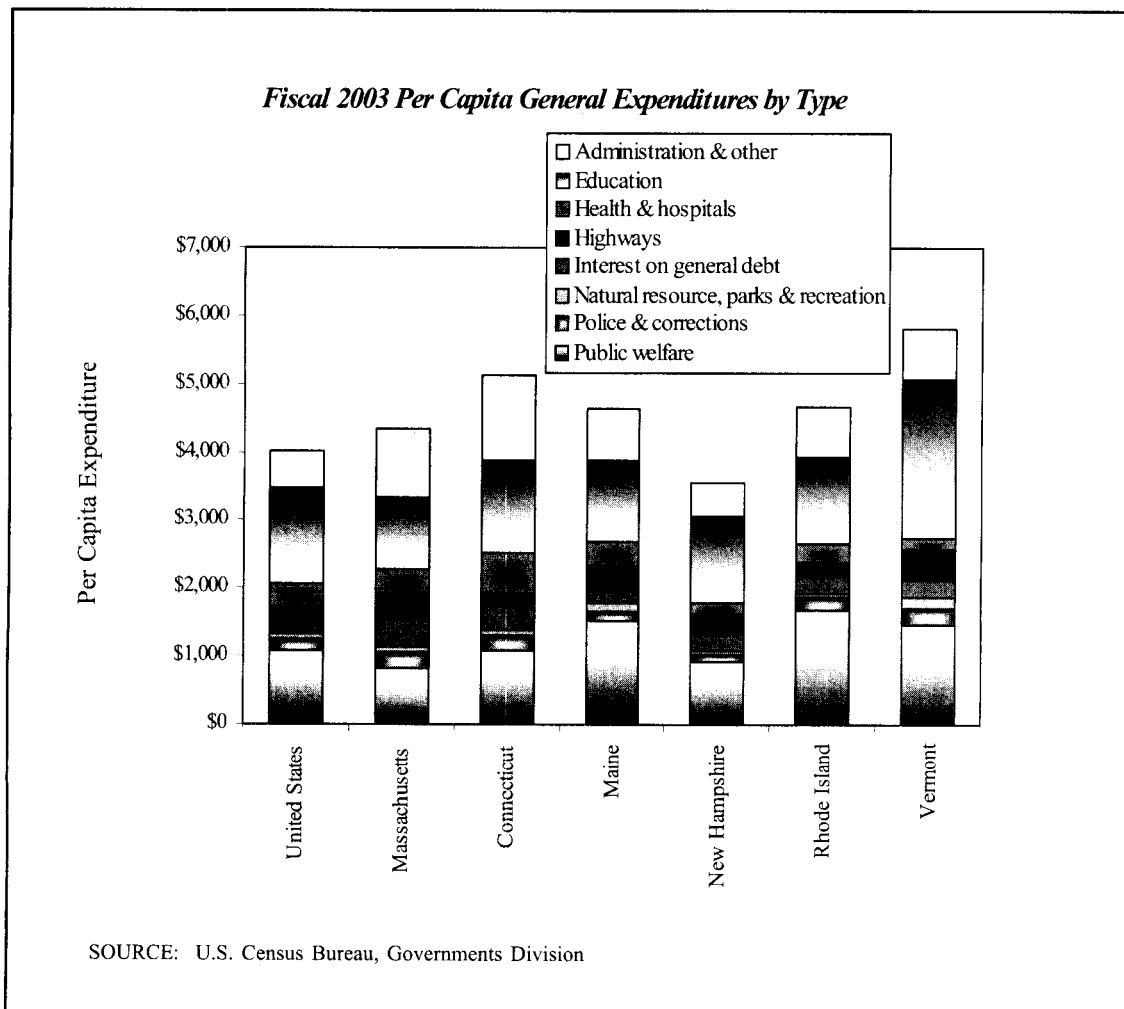
State Taxes. Per capita state taxes in Massachusetts are significantly higher, 28.5%, than the national average. In 2004, the total per capita state tax bill in the United States was \$2,025. Citizens of the Commonwealth however, paid \$2,602 on average, the seventh highest in the nation and an increase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

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

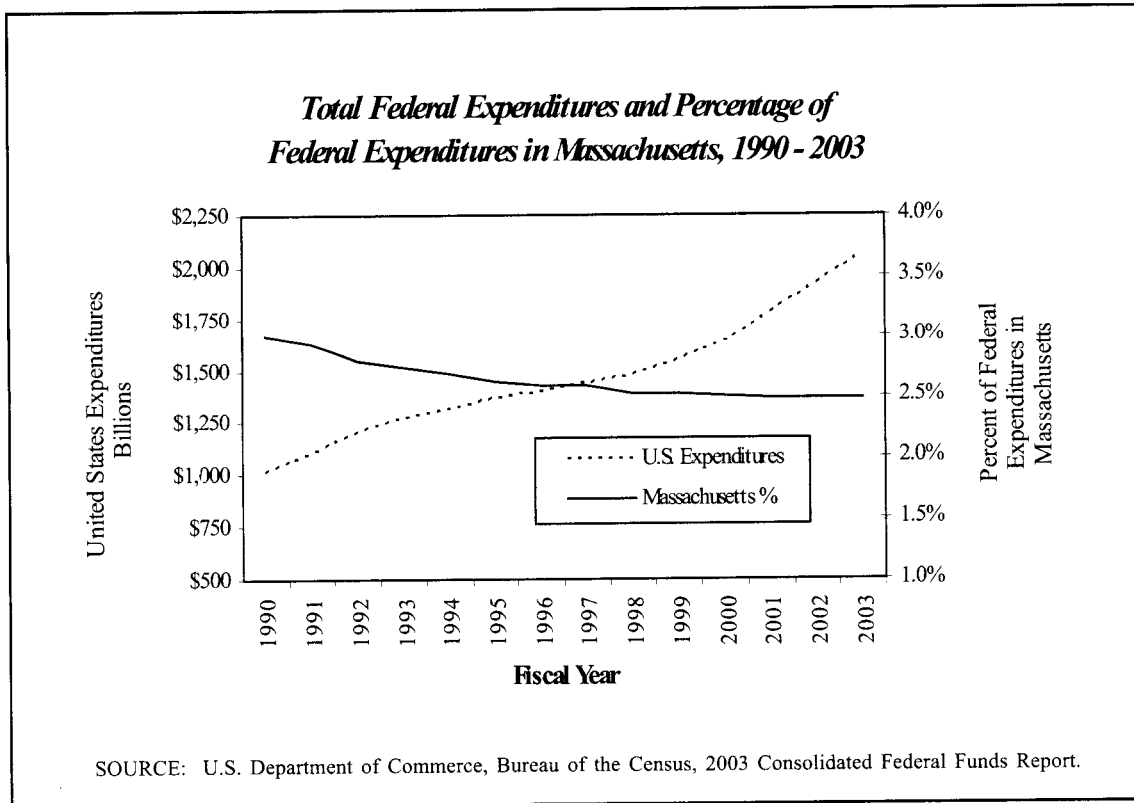


State Government Spending in Massachusetts. The following chart depicts fiscal 2003 per capita state general expenditures by category for the six New England states and the U.S. average state expenditure. Massachusetts ranked 16th in the nation in per capita expenditures (\$5,095) in 2003 while it ranked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

Massachusetts spent more state funds per capita on debt service (\$386) and less on education (\$1055) in 2003 than any of its New England neighbors. Massachusetts spent 7.7% less on debt service and 3.4% more on education in 2003 than 2002. While all New England states used less than the national average of 28.1 percent for intergovernmental expenditures, the variation within the region is significant, with intergovernmental expenditures representing 13.9 percent of Rhode Island expenditures, 19.7 percent of Massachusetts expenditures, and 24.3 percent of Vermont expenditures in 2003.

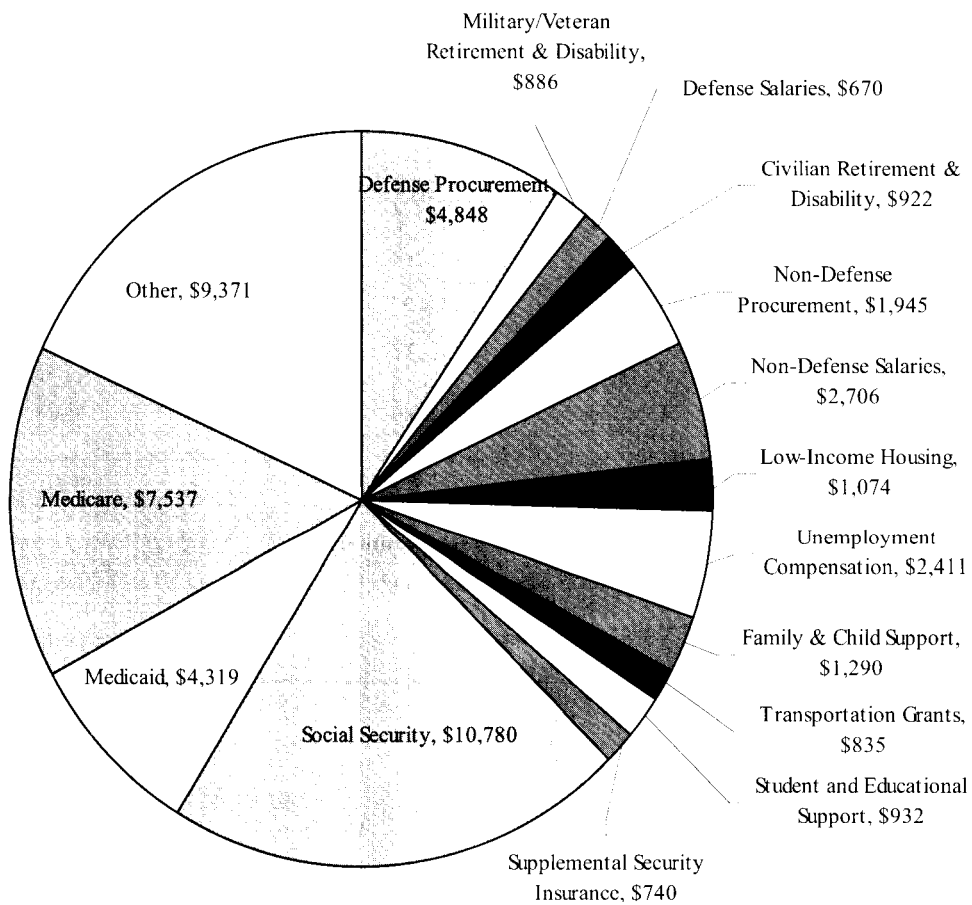


Federal Government Spending in Massachusetts. Federal government spending contributes a significant amount to the economy of Massachusetts. In fiscal 2003, Massachusetts ranked eleventh among states in per capita distribution of federal funds, with total spending of \$7,969 per person, excluding loans and insurance. Massachusetts' share of total federal spending declined steadily between 1990 and 1999, and has stabilized in the range of 2.48 percent to 2.52 percent between 1998 and 2003. The following chart shows total federal expenditures and the percentage of federal expenditures in Massachusetts. Federal spending includes grants to state and local governments, direct payments to individuals, wage and salary employment, and procurement contracts, and includes only those expenditures that can be associated with individual states and territories.



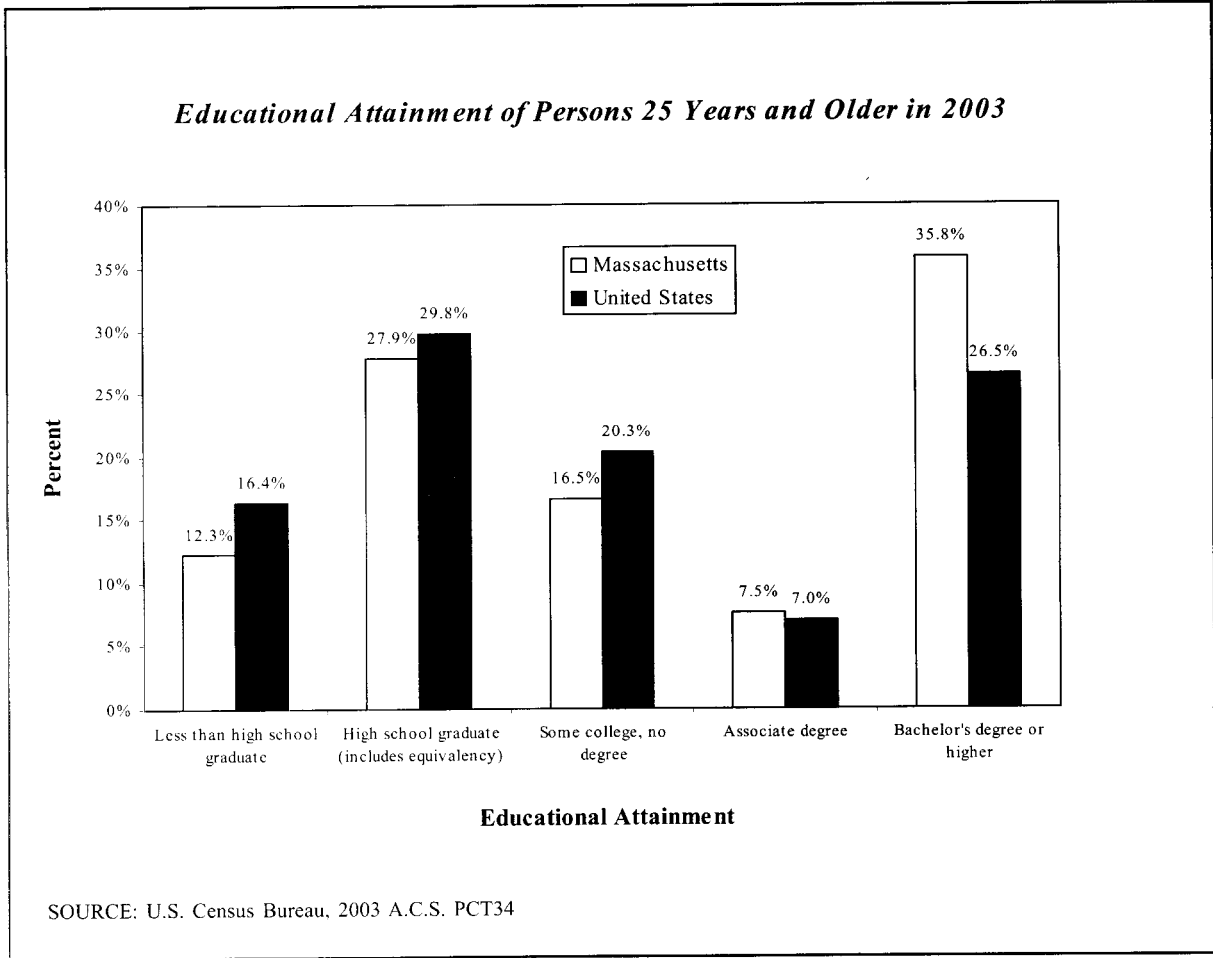
A large percentage of FY 2003 federal spending in Massachusetts was composed of health care and social programs like Medicare and Social Security. Massachusetts was above the national average in per capita federal grants to state and local governments, receiving \$2,071 per capita compared to a national average of \$1,496. Per capita federal spending on salaries and wages in 2003 was lower in Massachusetts than in the rest of the nation (\$535 compared to a national average of \$713) but Massachusetts was above the national average in per capita direct federal payments to individuals (\$4,062 compared to a national average of \$3,690). Massachusetts ranked 14th among states in per capita procurement contract awards (\$1,299 compared to a national average of \$1,011) in 2003. The following chart shows the composition of direct federal spending within Massachusetts in fiscal 2003, excluding loans and insurance.

Composition of Direct Federal Spending in Massachusetts by Program
Fiscal 2003
(millions of dollars)

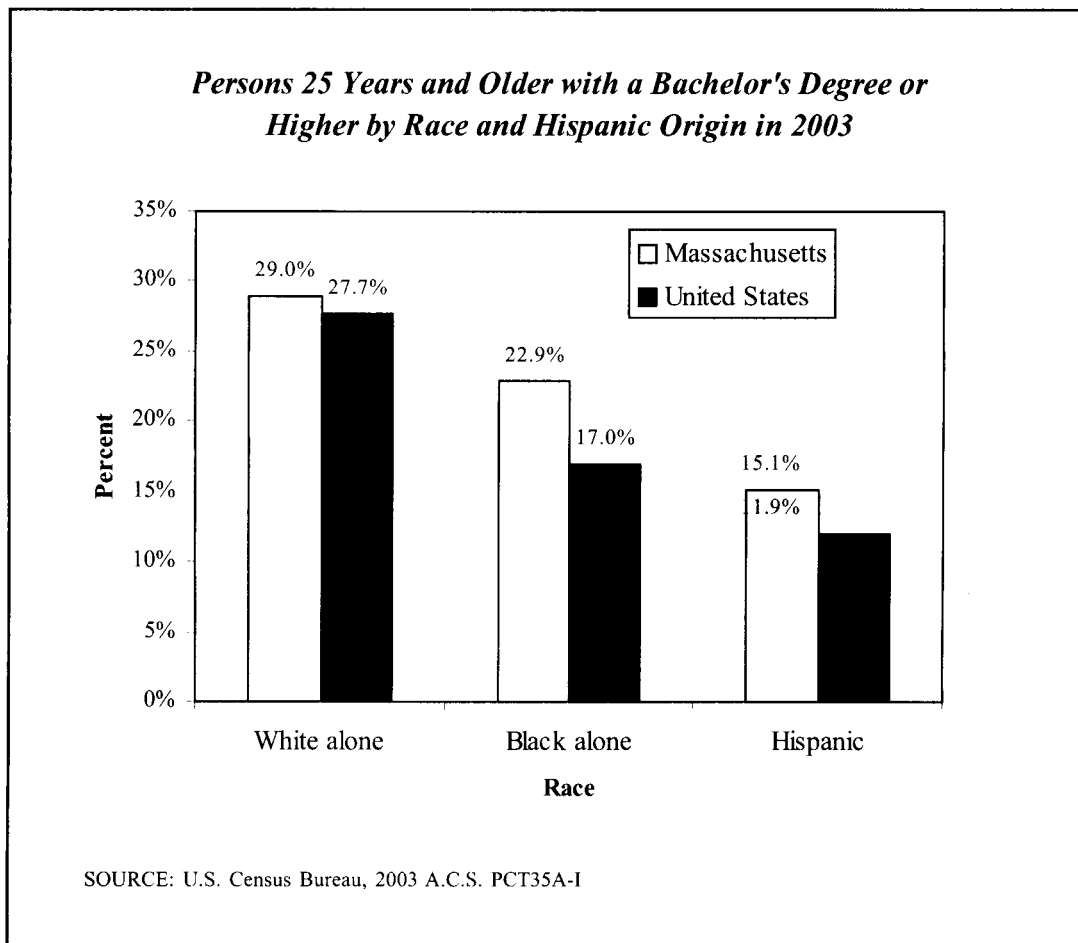


SOURCE: U.S. Department of Commerce, Bureau of the Census, 2003 Consolidated Federal Funds Report.

Human Resources. The availability of a skilled and well-educated population is an important resource for the Commonwealth. The level of education reached by the population of Massachusetts compares favorably with the level in the United States as a whole. In 2003, the Census's American Community Survey (ACS) reported that Massachusetts had a smaller proportion of persons who had not completed high school (12.3%) than the national average (16.4%) and a much higher proportion of persons with a bachelor's degree or more (35.8%) than the nation (26.5%). Massachusetts ranked eighteenth in the nation in percentage of its 25 and older population having received a high school diploma or more and second in percentage of the same population with a bachelor's degree or more in 2003.



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



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

Higher Education Enrollment by Race and Hispanic Origin in 2003

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

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

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

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

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

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

Given the quality of the Commonwealth's research and development sector, it is not surprising that Massachusetts fares better than the national average in homes with computer and internet access. According to Census's September 2001 Current Population Survey, Massachusetts ranked 17th in the country for households with access to a computer, 59.0%, compared with 56.3% nationally. Massachusetts ranked 12th for homes with internet access, 54.7%, compared to 50.4% of homes nationwide.

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

(in current, unadjusted dollars)

<i>Fiscal Year</i>	<i>Massachusetts</i>	<i>United States</i>	<i>Ratio (MA/U.S.)</i>
1981	\$2,735	\$2,307	1.19
1982	2,823	2,525	1.12
1983	3,072	2,736	1.12
1984	3,298	2,940	1.12
1985	3,653	3,222	1.13
1986	4,031	3,479	1.16
1987	4,491	3,682	1.22
1988	4,965	3,927	1.26
1989	5,485	4,307	1.27
1990	5,766	4,643	1.24
1991	5,881	4,902	1.20
1992	5,952	5,023	1.18
1993	6,141	5,160	1.19
1994	6,423	5,327	1.21
1995	6,783	5,529	1.23
1996	7,033	5,689	1.24
1997	7,331	5,923	1.24
1998	7,778	6,189	1.26
1999	8,260	6,508	1.27
2000	8,761	6,911	1.27
2001	9,509	7,376	1.29
2002	10,232	7,524	1.36

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

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

In the 2003 National Assessment of Educational Progress conducted by the U.S. Department of Education, 4th graders and 8th graders around the nation were given standardized exams in reading and math. Massachusetts's 2003 4th grade average scale reading scores were lower than 2002 but still higher than 48 other states and jurisdictions and not statistically different from the remaining 4. Massachusetts's 8th grade reading scores were higher in 2003 but not statistically different from 2002. Nationally, they were higher than 49 other jurisdictions and not statistically different from the remaining 3. Massachusetts's math scores for both 4th and 8th graders in 2003 were significantly higher than 2000. Nationally, 4th grade scores were higher than 49 other jurisdictions and not statistically different from the remaining 3 while 8th grade scores were higher than 42 other jurisdictions, not significantly different than 9 and lower than 1.

In 2002, the U.S. Department of Education tested 4th and 8th grade student's writing skills. Massachusetts's 4th grade average scale score was higher than those in 46 other jurisdictions, and lower than those in 1 jurisdiction. The 8th grade scores were higher than 1998 and higher than those in 41 jurisdictions and not statistically different from those in 5 in 2002.

In 2000, 4th and 8th graders were given standardized exams in science. Massachusetts 4th graders scored highest in the nation on the science exam and only 8th graders in Montana achieved statistically significant higher scores than 8th graders in Massachusetts. [Source: U.S. Department of Education, Institute of Education Sciences, National Center for Educational Statistics, National Assessment of Educational Progress (NAEP). "Jurisdictions" includes participating states and other jurisdictions such as the District of Columbia and the Department of Defense Dependents Schools.]

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

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

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

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

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

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

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

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

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

Sources List

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

Population Characteristics

United States Department of Commerce, Bureau of the Census

<http://www.census.gov>

Personal Income, Consumer Prices, and Poverty

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

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

United States Department of Labor, Bureau of Labor Statistics

<http://www.bls.gov>

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

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

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

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

<http://www.census.gov>

Employment

MA Division of Unemployment Assistance

<http://www.detma.org>

United States Department of Labor, Bureau of Labor Statistics

<http://www.bls.gov>

The Conference Board, Inc.

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

Economic Base and Performance

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

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

Fortune Magazine

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

Economic Base and Performance - Sector Detail (NAICS Basis)

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

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

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

<http://www.wisertrade.org>

Massport

<http://www.massport.com>

Airports Council International

<http://www.aci.aero>

Army Corps of Engineers

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

Federal Reserve Bank of Boston; United States Department of Commerce

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

<http://www/census.gov>

National Association of Realtors; Federal Reserve Bank of Boston

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

U.S. Department of Defense

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

U.S. Census Bureau, Governments Division

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

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

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

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

Human Resources and Infrastructure

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

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

New England Board of Higher Education

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

National Science Foundation

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

United States Department of Education, National Center for Education Statistics

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

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

PROPOSED FORM OF OPINION OF BOND COUNSEL

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



ROPES & GRAY LLP

ONE INTERNATIONAL PLACE BOSTON, MA 02110-2624 617-951-7000 F 617-951-7050

BOSTON NEW YORK PALO ALTO SAN FRANCISCO WASHINGTON, DC www.ropesgray.com

Date of Delivery

The Honorable Timothy P. Cahill
Treasurer and Receiver-General
The Commonwealth of Massachusetts
State House - Room 227
Boston, Massachusetts 02133

Re: The Commonwealth of Massachusetts \$701,095,000 General Obligation Bonds, Consolidated Loan of 2005, Series C (the "Series C Bonds") and \$60,000,000 General Obligation Bonds, Consolidated Loan of 2005, Series D (Federally Taxable) (the "Series D Bonds" and, together with the Series C Bonds, the "Bonds")

Dear Treasurer Cahill:

We have served as bond counsel to The Commonwealth of Massachusetts (the "Commonwealth") in connection with the issuance of the Bonds. In that capacity, we have examined a record of proceedings relating to the Bonds. We also have examined such provisions of applicable law and such other documents as we have deemed necessary in order to render this opinion.

The Bonds mature and bear interest and are subject to optional redemption at such times, in such amounts, at such prices and upon such terms and conditions as are set forth in the Bonds.

The Bonds are being issued by means of a book-entry system, with bond certificates immobilized at The Depository Trust Company, New York, New York ("DTC"), and are not available for distribution to the public, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. We have examined one of the Bonds, as executed.

Capitalized terms used herein, unless otherwise specified, shall have the meanings set forth in the Bonds.

In rendering our opinion, we have relied upon certain covenants of the Commonwealth and upon certifications and representations of fact made by certain officials of the Commonwealth.

We express no opinion as to laws other than the laws of the Commonwealth and the United States of America.

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

The Bonds have been duly authorized by the Commonwealth, and the forms of the Bonds which we have examined and the forms of their execution are regular and proper.

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

Interest on the Series C Bonds is not included in gross income for federal income tax purposes and such interest is not an item of tax preference for the purpose of computing the alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations, and such interest is included in the measure of certain other taxes imposed on corporations and in the measure of income of certain recipients of Social Security and Railroad Retirement benefits for the purpose of determining whether such benefits shall be included in the taxable income of such recipients. We call your attention to certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), relating to the use, expenditure and investment of the proceeds of the Series C Bonds. Failure by the Commonwealth to comply with such requirements subsequent to the issuance of the Series C Bonds may cause interest on the Series C Bonds to become subject to federal income taxation retroactive to the date of their issuance. The Commonwealth has provided covenants or certificates evidencing that it will take lawful action necessary to comply with those provisions of the Code that, except for such compliance, would affect adversely the excludability of interest on the Series C Bonds from gross income for federal income tax purposes. We express no opinion with respect to other federal tax consequences arising with respect to the Series C Bonds.

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

Interest on the Series D Bonds is not excluded from gross income for federal income tax purposes. We express no opinion as to any other federal tax consequences, if any, resulting from holding the Series D Bonds.

Interest on the Series D Bonds is not exempt from Massachusetts personal income taxes. However, the Series D Bonds are exempt from Massachusetts personal property taxes. We express no opinion with respect to other Massachusetts tax consequences arising with respect to the Series D Bonds or as to the taxability of the Series D Bonds or the income therefrom under the laws of any state other than Massachusetts.

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

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights hereafter enacted to the extent constitutionally applicable and that enforcement of such rights may also be subject to general principles of equity, regardless of whether applied in proceedings in equity or at law.

Very truly yours,

Ropes & Gray LLP

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The Commonwealth of Massachusetts

\$701,095,000
 General Obligation Bonds
 Consolidated Loan of 2005, Series C

\$60,000,000
 General Obligation Bonds
 Consolidated Loan of 2005, Series D
 (Federally Taxable)

Continuing Disclosure Undertaking
 [to be included in bond form]

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

Financial Information and Operating Data Category	Reference to Information Statement for Level of Detail
1. Summary presentation on statutory accounting and five-year comparative basis of selected budgeted operating funds operations, concluding with prior fiscal year, plus estimates for current fiscal year	“DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS - Selected Financial Data - Statutory Basis”
2. Summary presentation on GAAP and five-year comparative basis of governmental funds operations, concluding with prior fiscal year	“COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Selected Financial Data - GAAP Basis”

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

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

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

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

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

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

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

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

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

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