

NEW ISSUE — BOOK-ENTRY ONLY

In the opinion of Bond Counsel, under existing law, and assuming continued compliance with various requirements of the Internal Revenue Code of 1986, as amended, interest on the 1994 Bonds will not be included in the gross income of holders of the Bonds for federal income tax purposes. While interest on the 1994 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 1994 Bonds will be included in the "adjusted current earnings" of corporate holders of the 1994 Bonds and therefore will be taken into account in computing the alternative minimum tax imposed on certain corporations. In the opinion of Bond Counsel, the 1994 Bonds, their transfer and the income therefrom, including profit on the sale thereof, shall at all times be exempt from taxation by and within the Commonwealth, although the 1994 Bonds and the interest thereon may be included in the measure of estate and inheritance taxes and of certain corporate excise and franchise taxes. For federal and Massachusetts tax purposes, interest includes original issue discount. See "TAX EXEMPTION" herein.



\$300,000,000

THE COMMONWEALTH OF MASSACHUSETTS

Special Obligation Revenue Bonds

1994 Series A

Dated: June 1, 1994

**Due: June 1, as shown on
the inside hereof**

The 1994 Bonds will be issued by means of a book-entry-only system evidencing ownership and transfer of the 1994 Bonds on the records of The Depository Trust Company ("DTC") and its participants. Details of payment of the 1994 Bonds are more fully described in this Official Statement. The 1994 Bonds will bear interest from June 1, 1994 and interest will be payable on December 1, 1994 and semiannually thereafter on June 1 and December 1. The 1994 Bonds are subject to redemption prior to maturity, as more fully described herein.

The 1994 Bonds are special, limited obligations of the Commonwealth payable from and secured solely by a pledge of Pledged Funds, as defined herein, all rights to receive Pledged Funds, and all Funds and Accounts, other than the Rebate Fund, held under the Trust Agreement dated as of June 1, 1994 between the Commonwealth and Shawmut Bank, N.A., as trustee. Pledged Funds are moneys received or to be received by the Commonwealth from 4.86 cents per gallon of the Gasoline Tax, Surplus 1992 Pledged Funds (as defined herein) and certain other moneys, all as described herein. **THE 1994 BONDS ARE NOT GENERAL OBLIGATIONS OF THE COMMONWEALTH AND ARE NOT SECURED BY THE FULL FAITH AND CREDIT OF THE COMMONWEALTH. THE 1994 BONDS ARE PAYABLE ONLY FROM PLEDGED FUNDS AND OTHER MONEYS AVAILABLE TO THE OWNERS OF THE 1994 BONDS UNDER THE TRUST AGREEMENT.**

The 1994 Bonds are offered when, as and if issued and received by the Underwriters, and subject to the unqualified approving opinion as to legality of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Palmer & Dodge, Boston, Massachusetts, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Hale and Dorr, Boston, Massachusetts. The 1994 Bonds are expected to be available for delivery at DTC in New York, New York, on or about June 28, 1994.

PaineWebber Incorporated

**Artemis Capital Group, Inc.
Merrill Lynch & Co.**

CS First Boston

**Goldman, Sachs & Co.
Morgan Stanley & Co. Inc.**

A.G. Edwards & Sons, Inc.

Bear Stearns & Co. Inc.

Chemical Securities Inc.

Cowen & Company

Dillon, Read & Co. Inc.

Fleet Securities, Inc.

Kidder, Peabody & Co. Incorporated

Lehman Brothers

Pryor, McClendon, Counts & Co., Inc.

Reinoso & Company, Incorporated

R.W. Corby & Company Incorporated

Smith Barney Inc.

U.S. Securities, Inc.

WR Lazard, Laidlaw & Mead Incorporated

June 8, 1994

THE COMMONWEALTH OF MASSACHUSETTS

\$300,000,000
Special Obligation Revenue Bonds
1994 Series A

Serial Bonds

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
1995	\$9,050,000	4.50%	3.40%
1996	9,460,000	4.05	4.05
1997	9,845,000	4.25	4.25
1998	10,260,000	4.50	4.50
1999	10,725,000	4.70	4.70
2000	11,225,000	4.85	4.85
2001	11,770,000	4.90	4.95
2002	12,350,000	7.00	5.05
2003	13,215,000	5.10	5.15
2004	13,885,000	5.20	5.25
2005	14,610,000	5.30	5.35
2006	15,385,000	5.40	5.45
2007	16,215,000	5.50	5.55
2008	17,105,000	5.50	5.625
2009	18,045,000	5.60	5.70
2010	19,055,000	5.70	5.75
2011	20,145,000	5.75	5.80
2012	21,300,000	5.75	5.85

\$46,355,000 5.80% Term Bonds due June 1, 2014 -- Yield -- 5.90%

(accrued interest to be added)

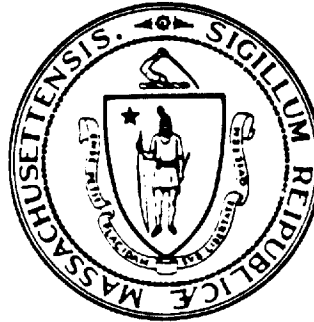
FOR NEW HAMPSHIRE RESIDENTS: THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT.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

No dealer, broker, salesperson or other person has been authorized by The Commonwealth of Massachusetts or the Underwriters of the 1994 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 1994 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 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 1994 Bonds or, as to information from other sources, the Commonwealth. The information and expressions of opinion 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 and political subdivisions, since the date hereof, except as expressly set forth herein.

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THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

William F. Weld Governor
Argeo Paul Cellucci Lieutenant Governor
Michael Joseph Connolly Secretary of the Commonwealth
L. Scott Harshbarger Attorney General
Joseph D. Malone Treasurer and Receiver-General
A. Joseph DeNucci Auditor

LEGISLATIVE OFFICERS

William M. Bulger President of the Senate
Charles F. Flaherty Speaker of the House

OFFICIAL STATEMENT

\$300,000,000

THE COMMONWEALTH OF MASSACHUSETTS

Special Obligation Revenue Bonds 1994 Series A

INTRODUCTION

This Official Statement (including the cover page and Appendices A through D attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of \$300,000,000 of its Special Obligation Revenue Bonds, 1994 Series A (the "1994 Bonds").

The 1994 Bonds are authorized by and issued pursuant to (i) section 20 of Chapter 29 of the Massachusetts General Laws (as it may be amended from time to time, the "Special Obligation Act"); and (ii) Chapter 33 of the Acts of 1991 (as it may be amended from time to time, the "Highway Act") (collectively, with the Special Obligation Act, the "Acts"); and are issued under and pursuant to a Trust Agreement, dated as of June 1, 1994 (the "Trust Agreement") between the Commonwealth and Shawmut Bank, N.A., as trustee (the "Trustee"). See "Appendix B - Summary of Certain Provisions of the Special Obligation Act" and "FINANCING THE COMMONWEALTH HIGHWAY SYSTEM -- Sources of Funding for Current Highway System Capital Plan" for a more complete description of the Special Obligation Act and the Highway Act, respectively. Additional bonds may be issued on a parity with the 1994 Bonds ("Additional Bonds") under the conditions and in the manner provided in the Trust Agreement (the Additional Bonds and 1994 Bonds are collectively referred to herein as the "Bonds"). See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS -- Additional Bonds".

The 1994 Bonds are issued for the purpose of financing a portion of the costs of certain highway projects of the Commonwealth and to retire bond anticipation notes issued for such purpose. See "THE 1994 BONDS-- Application of Proceeds".

The 1994 Bonds are special, limited obligations of the Commonwealth. The principal (including Sinking Fund Payments) and Redemption Price of, and interest on the 1994 Bonds ("1994 Bond Debt Service") and any Additional Bonds, as defined herein (collectively, "Debt Service"), are payable from and secured solely by a pledge of and lien on Pledged Funds, all rights to receive Pledged Funds, and all moneys, securities, credit enhancement (including the Debt Service Reserve Fund Surety Bond, as defined herein), and any investment earnings with respect thereto in all funds and accounts held under the Trust Agreement, other than the Rebate Fund, as more fully described under "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS". Upon the issuance of the 1994 Bonds, Pledged Funds will represent amounts received or to be received by the Commonwealth from (i) 4.86 cents per gallon of the excise tax imposed by the Commonwealth on gasoline (other than gasoline used as aviation fuel) (the "Gasoline Tax") under Chapter 64A of Massachusetts General Laws (the "Gasoline Tax Act"), (ii) Shawmut Bank, N.A., as Trustee (the "1992 Trustee") under a Trust Agreement dated as of June 1, 1992 (the "1992 Trust Agreement") with the Commonwealth, representing the excess of the 2 cents per gallon of the Gasoline Tax pledged under the 1992 Trust Agreement (the "1992 Pledged Funds") with respect to the 1992 Bonds (hereinafter defined) available after satisfaction of the debt service and reserve fund requirements and certain other obligations applicable to the 1992 Bonds (the "Surplus 1992 Pledged Funds"), (iii) immediately upon the discharge of the lien of the 1992 Trust Agreement, the full amount of the 1992 Pledged Funds, and (iv) to the extent provided in the Trust Agreement, any Additional Pledged Funds that the Commonwealth may hereafter pledge to the Trustee as security for the Bonds. See "COMMONWEALTH GASOLINE TAX".

In June, 1992, the Commonwealth issued \$103,770,000 of special obligation revenue bonds (the "1992 Bonds") pursuant to the Acts and the 1992 Trust Agreement. Pursuant to the 1992 Trust Agreement, the Commonwealth pledged 2 cents per gallon of the Gasoline Tax as security for the payment of the 1992 Bonds and established funds and accounts similar to those established under the Trust Agreement for the Bonds. The 1992

Trust Agreement, as amended by a supplemental trust agreement to be adopted in connection with the issuance of the 1994 Bonds, provides that so long as any Bonds remain Outstanding, any Surplus 1992 Pledged Funds shall be transferred by the 1992 Trustee to the Trustee on the last business day of each month. During fiscal 1993, approximately 1.57 cents per gallon of the 2 cents per gallon of the Gasoline Tax pledged under the 1992 Trust Agreement was surplus. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS -- Flow of Pledged Funds." The supplemental trust agreement to be adopted under the 1992 Trust Agreement also provides that no additional bonds may be issued under the 1992 Trust Agreement, other than refunding bonds with debt service requirements less than or equal to the debt service requirements on the refunded bonds in each fiscal year. At the time the 1992 Trust Agreement is discharged, all 1992 Pledged Funds will become Pledged Funds under the Trust Agreement.

For the five year period ended in fiscal 1993, the amount of Gasoline Tax receipts representing 1 cent per gallon ranged from approximately \$25.0 million in fiscal 1989 to approximately \$24.0 million in fiscal 1993. If the 1994 Bonds had been outstanding during this period with maximum annual debt service of \$25.2 million, the debt service coverage ratio would have ranged from approximately 6.39 in fiscal 1989 to approximately 6.11 in fiscal 1993. See "DEBT SERVICE COVERAGE". Gasoline Tax collections for the first eleven months of fiscal 1994 are approximately 0.68% higher than collections for the similar period in fiscal 1993.

The 1994 Bonds are not general obligations of the Commonwealth and are not secured by the full faith and credit of the Commonwealth. The 1994 Bonds are payable only from Pledged Funds and other moneys available to the owners of the 1994 Bonds under the Trust Agreement. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS -- Special Obligations".

Payments of Debt Service are to be made from Pledged Funds held by the Trustee in the Revenue Account, created by the State Treasurer under the Trust Agreement as a sub-account of the Commonwealth's Infrastructure Fund. The Infrastructure Fund was created under the Special Obligation Act as a sub-fund of the Commonwealth's Highway Fund in order to account separately for a portion of the receipts of the Gasoline Tax. The Commonwealth has covenanted that, so long as any Bonds are outstanding, no Pledged Funds shall be diverted from the purposes specified in the Special Obligation Act, and unless an appropriation has been made by the legislature of the Commonwealth (the "Legislature") which is sufficient to pay Debt Service, the Pledged Funds shall not be applied to any other permitted use. The Legislature has previously amended and may in the future amend the Special Obligation Act and other statutes that govern Pledged Funds, including the Gasoline Tax Act. However, pursuant to the Special Obligation Act, the Commonwealth has covenanted in the Trust Agreement to maintain the portion of the Gasoline Tax credited to the Highway Fund at a rate of not less than 6.86 cents per gallon, which amount represents the full amount of the Gasoline Tax (at its current rate) credited to the Infrastructure Fund under the Special Obligation Act. Any future amendments of the Special Obligation Act would also be subject to the covenant of the Commonwealth that it shall not take any action that would impair the rights and remedies of the owners of the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS -- Covenants of the Commonwealth". The Trust Agreement does not require the Commonwealth to increase the amount of the Gasoline Tax pledged as Pledged Funds.

Purpose and Content of Official Statement

This Official Statement describes the terms and use of proceeds of, and security for, the 1994 Bonds. This introduction is subject in all respects to the additional information contained in this Official Statement, including Appendices A through D. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. All capitalized terms not otherwise defined herein shall have the meanings set forth in "Appendix C -- Summary of Certain Provisions of the Trust Agreement".

Attached hereto as Appendix A is the Commonwealth Summary Information Statement (the "Commonwealth Summary Information Statement") prepared in connection with the issuance of the 1994 Bonds, which contains certain limited information concerning the Commonwealth and does not contain all fiscal, budgetary and other information otherwise provided in connection with the issuance of Commonwealth general obligation bonds or notes. Exhibit A to the Commonwealth Summary Information Statement contains certain economic information concerning the Commonwealth. A copy of the most recent Commonwealth Information Statement

relating to its general obligation indebtedness and containing more complete financial and other information may be obtained from the Commonwealth at the addresses set forth under the heading "AVAILABILITY OF OTHER INFORMATION" in Appendix A -- Commonwealth Summary Information Statement. The Commonwealth does not prepare audited financial statements solely with respect to amounts of the Gasoline Tax credited to the Infrastructure Fund or the obligations of the Commonwealth under the 1992 Trust Agreement or the Trust Agreement and accordingly no such audited information is included in this Official Statement or expected to be available in the future. The information relating to the Gasoline Tax receipts has been obtained from the Department of Revenue or the Office of the Comptroller of the Commonwealth and is unaudited. Attached hereto as Appendix B and Appendix C are summaries of certain provisions of the Special Obligation Act and the Trust Agreement, respectively. Appendix D attached hereto contains the proposed form of legal opinion of bond counsel with respect to the 1994 Bonds. See "CONTINUING DISCLOSURE" and "AVAILABILITY OF OTHER INFORMATION." Appendix E attached hereto contains certain information concerning AMBAC Indemnity Corporation, provider of the Debt Service Reserve Fund Surety Bond.

THE 1994 BONDS

General

The 1994 Bonds will be dated June 1, 1994 and will initially bear interest from such date payable semiannually on June 1 and December 1 of each year, commencing December 1, 1994 (each an "Interest Payment Date"), until the principal amount is paid. The 1994 Bonds shall mature on June 1 in the years and in the aggregate principal amounts and 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 Trustee will be the trustee and paying agent for the 1994 Bonds.

Book-Entry-Only System. The 1994 Bonds will be issued by means of a book-entry-only system, with one bond certificate for each maturity immobilized at The Depository Trust Company, New York, New York ("DTC"). The certificates will not be available for distribution to the public and will evidence ownership of the 1994 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 (as defined herein) pursuant to rules and procedures established by DTC and its Participants. Interest, principal and premium, if any, due on the 1994 Bonds will be paid in clearinghouse funds to DTC or its nominee as registered owner of the 1994 Bonds. The record date for payments on account of the 1994 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 1994 Bonds for all purposes, including notices and voting. Neither the Commonwealth nor the Trustee will be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its Participants or persons acting through such Participants. See "BOOK-ENTRY-ONLY SYSTEM".

Redemption

The 1994 Bonds maturing on or prior to June 1, 2004, are not subject to redemption prior to their stated dates of maturity.

Optional Redemption. The 1994 Bonds maturing on or after June 1, 2005 are subject to redemption prior to their stated dates of maturity on or after June 1, 2004, at the option of the Commonwealth from any monies legally available therefor, in whole or in part at any time, by lot, at the redemption prices (expressed as percentages of the principal amount thereof), plus accrued interest to the redemption date, as follows:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
June 1, 2004 through May 31, 2005, inclusive	101 %
June 1, 2005 through May 31, 2005, inclusive	100 1/2
June 1, 2006 and thereafter	100

Mandatory Sinking Fund Redemption. The 1994 Bonds maturing on June 1, 2014 are subject to mandatory sinking fund redemption on June 1 in each of the years and in the principal amounts set forth below, at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the redemption date.

<u>Year</u>	<u>Principal Amount</u>
2013	\$22,525,000
2014	23,830,000

The Commonwealth shall be entitled to reduce its mandatory sinking fund redemption obligation in any year with respect to the 1994 Bonds by the principal amount of any such 1994 Bonds previously purchased or optionally redeemed by the Commonwealth.

Notice of Redemption. The Trustee shall give notice of redemption to the owners of the 1994 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 1994 Bonds, notices of redemption will be mailed by the Trustee 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 1994 Bond (having received notice from a DTC Participant or otherwise) to notify the Beneficial Owner (as defined herein) so affected, shall not affect the validity of the redemption.

Selection for Redemption. In the event that less than all of any one maturity of the 1994 Bonds are to be redeemed, and so long as the book-entry-only system remains in effect for such 1994 Bonds, the particular 1994 Bonds or portion of any such 1994 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 1994 Bonds, selection for redemption of less than all of any one maturity of 1994 Bonds will be made by the Trustee by lot in such manner, as in its sole discretion it shall deem appropriate and fair. For purposes of selection by lot within a maturity, each \$5,000 of principal amount of a 1994 Bond will be considered a separate 1994 Bond.

Application of Proceeds

After payment of the costs of issuance of the 1994 Bonds and underwriters' discount, the net proceeds (exclusive of accrued interest) of the sale of the 1994 Bonds, \$297,997,931.29, will be transferred to the State Treasurer and applied to the purposes for which the 1994 Bonds were authorized by the Legislature. Any accrued interest payable upon original delivery of the 1994 Bonds will be deposited in the Debt Service Fund established under the Trust Agreement and used to pay interest on the 1994 Bonds.

The net sale proceeds of the 1994 Bonds will be applied by the State Treasurer to pay \$180 million aggregate principal amount of bond anticipation notes (issued as commercial paper under the Commonwealth's commercial paper program) issued for purposes specified in the Highway Act and to reimburse the Commonwealth for moneys advanced from its General Fund for such purposes. The balance of the net sale proceeds of the 1994 Bonds are expected to be applied in fiscal year 1995 to the purposes authorized by the Highway Act.

1994 BONDS DEBT SERVICE

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1995	\$9,050,000	\$16,162,247.50	\$25,212,247.50
1996	9,460,000	15,754,997.50	25,214,997.50
1997	9,845,000	15,371,867.50	25,216,867.50
1998	10,260,000	14,953,455.00	25,213,455.00
1999	10,725,000	14,491,755.00	25,216,755.00
2000	11,225,000	13,987,680.00	25,212,680.00
2001	11,770,000	13,443,267.50	25,213,267.50
2002	12,350,000	12,866,537.50	25,216,537.50
2003	13,215,000	12,002,037.50	25,217,037.50
2004	13,885,000	11,328,072.50	25,213,072.50
2005	14,610,000	10,606,052.50	25,216,052.50
2006	15,385,000	9,831,722.50	25,216,722.50
2007	16,215,000	9,000,932.50	25,215,932.50
2008	17,105,000	8,109,107.50	25,214,107.50
2009	18,045,000	7,168,332.50	25,213,332.50
2010	19,055,000	6,157,812.50	25,212,812.50
2011	20,145,000	5,071,677.50	25,216,677.50
2012	21,300,000	3,913,340.00	25,213,340.00
2013	22,525,000	2,688,590.00	25,213,590.00
2014	<u>23,830,000</u>	<u>1,382,140.00</u>	<u>25,212,140.00</u>
	\$300,000,000	\$204,291,625.00	\$504,291,625.00

SECURITY AND SOURCES OF PAYMENT FOR THE BONDS

Special Legislative Authorization

The Bonds are special, limited obligations of the Commonwealth payable solely from the sources identified herein and are being issued pursuant to the Acts and the Trust Agreement. Under the provisions of the Special Obligation Act, the Commonwealth is authorized to issue special obligation bonds secured by all or any portion of the Highway Fund, an operating fund of the Commonwealth created under Section 34 of Chapter 90 of the Massachusetts General Laws. Under the provisions of the Highway Act, the Commonwealth is authorized to issue such special obligation bonds for the payment of the costs of construction, reconstruction, resurfacing, relocation or necessary or beneficial improvement of public highways, bridges, bicycle paths or facilities, town and county ways and the costs allocated thereto, including the acquisition of those real properties and any appurtenances thereto located within a highway right-of-way corridor and for certain expenditures of the Metropolitan District Commission ("MDC") with respect to its parkways, boulevards and bridges. See "FINANCING THE COMMONWEALTH HIGHWAY SYSTEM -- Sources of Funding for Current Highway System Capital Plan".

Overview of Security Provisions

Debt Service is payable from and secured solely by a lien on and pledge of (a) Pledged Funds, (b) the Commonwealth's right to receive Pledged Funds, and (c) all moneys, securities, credit enhancement (including the surety bond issued by AMBAC Indemnity Corporation ("AMBAC Indemnity") and credited to the Debt Service Reserve Fund in satisfaction of the Debt Service Reserve Fund Requirement for the 1994 Bonds) and any investment earnings with respect thereto in all funds and accounts held under the Trust Agreement, other than the Rebate Fund. Pledged Funds include (i) upon the issuance of the 1994 Bonds, all moneys received or to be received by the Commonwealth on or after July 1, 1994 from that portion of the Gasoline Tax equal to 4.86 cents per gallon, (ii) Surplus 1992 Pledged Funds transferred from time to time to the Trustee from the 1992 Trustee, (iii) immediately upon the discharge of the lien of the 1992 Trust Agreement, the full amount of the 1992 Pledged Funds, and (iv) such Additional Pledged Funds, as defined herein, if any, as the Commonwealth may subsequently determine

to include within the definition of Pledged Funds in order to satisfy the debt service coverage tests imposed under the Trust Agreement to issue Additional Bonds. See "Source of Pledged Funds" and "Additional Bonds". For a discussion of the Gasoline Tax, see "COMMONWEALTH GASOLINE TAX".

As provided in the Special Obligation Act, all Pledged Funds shall be immediately subject to the lien of the pledge granted in the Trust Agreement for the 1994 Bonds, without any physical delivery or further act, and such lien shall be valid and binding from the date of issuance of the 1994 Bonds as against all parties having claims of any kind in tort, contract or otherwise against the Commonwealth irrespective of whether such parties have notice of such pledge. Such pledge shall be perfected by filing the Trust Agreement in the records of the State Treasurer and no filing need be made under the Massachusetts Uniform Commercial Code.

The Commonwealth may issue Additional Bonds on a parity with the 1994 Bonds under the conditions set forth in the Trust Agreement. See "Additional Bonds".

Special Obligations

The Bonds are special, limited obligations of the Commonwealth and are payable solely from the sources specified in the Trust Agreement. The Bonds are not general obligations of the Commonwealth, are not secured by the full faith and credit of the Commonwealth and are not subject to the statutory limitations on the issuance of "direct debt" of the Commonwealth or the expenditure of moneys for the payment of debt service by the Commonwealth. The Bonds are not payable out of any funds of the Commonwealth other than the Pledged Funds and moneys otherwise available for the benefit of the owners of the Bonds pursuant to the Trust Agreement.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including the Bonds and all claims with respect thereto. Although the property of the Commonwealth is generally not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires legislative appropriation, in accordance with the Special Obligation Act, the Commonwealth has granted a lien on Pledged Funds for the benefit of the owners of the Bonds. Enforcement of a claim for payment of Debt Service may also be subject to the provisions of federal or Commonwealth statutes, if any, hereafter enacted extending the time for payment or imposing other constraints upon enforcement, insofar as the same may be constitutionally applied. The United States Bankruptcy Code is not applicable to states. Under Massachusetts law, the Bonds have all of the qualities and incidents of negotiable instruments under the Uniform Commercial Code.

Source of Pledged Funds

Upon the issuance of the 1994 Bonds, Pledged Funds represent amounts received or to be received by the Commonwealth from 4.86 cents per gallon of the Gasoline Tax plus Surplus 1992 Pledged Funds transferred from time to time to the Trustee from the 1992 Trustee after satisfaction of the debt service requirements and other obligations under the 1992 Trust Agreement. See "Flow of Pledged Funds". The amount of initial Pledged Funds to be deposited under the Trust Agreement and allocable to 4.86 cents per gallon of the Gasoline Tax will be calculated by the Department of Revenue of the Commonwealth (the "Department of Revenue") on a monthly basis by dividing 4.86 cents per gallon by the total rate of the Gasoline Tax (the "Gasoline Tax Rate") then in effect, and multiplying the result by the total amount of the Gasoline Tax collected by the Commonwealth during such month. Surplus 1992 Pledged Funds received by the Trustee from the 1992 Trustee are required to be deposited in the Revenue Account immediately upon receipt. See "Flow of Pledged Funds". For a discussion of the Gasoline Tax, see "COMMONWEALTH GASOLINE TAX".

In order to issue Additional Bonds, the Commonwealth must comply with certain conditions contained in the Trust Agreement, including certain debt service coverage tests. See "Additional Bonds". The Commonwealth may pledge certain additional revenues as security for the Bonds ("Additional Pledged Funds") in order to comply with the conditions to issuing Additional Bonds. Under the Trust Agreement, Additional Pledged Funds may only include revenues required to be expended for transportation purposes by Article 78 of the Articles of Amendment to the Massachusetts Constitution, as amended ("Article 78 Revenues"). Article 78 Revenues are revenues derived from the registration, operation or use of vehicles on public highways or from fuels used for propelling such vehicles, including the Gasoline Tax. See "FINANCING THE COMMONWEALTH HIGHWAY SYSTEM --

Legal Framework For Financing the Highway System; Constitutional Limitations". Under current law, only amounts credited to the Highway Fund may be pledged as security for the Bonds. Although all Article 78 Revenues are not currently credited to the Highway Fund, the Trust Agreement provides that, to the extent subsequently permitted by law, the Commonwealth may pledge all or any portion of Article 78 Revenues as Additional Pledged Funds.

In the event the Commonwealth pledges Additional Pledged Funds composed of either (a) revenues from sources other than the Gasoline Tax, or (b) revenues which have not been collected for 12 consecutive months out of the prior 18 months preceding the issuance of the Additional Bonds, the Trust Agreement requires that the Commonwealth obtain assurances from each rating agency then maintaining a rating on the outstanding Bonds that such pledge will not adversely affect the ratings on the outstanding Bonds. See "Additional Bonds". The Commonwealth is under no obligation to pledge Additional Pledged Funds and any such pledge will be made for the benefit of the owners of all outstanding Bonds.

Funds and Accounts

In order to administer the deposit of Pledged Funds related to the Bonds (including the 1994 Bonds), funds and accounts shall be established and shall be held under the Trust Agreement as described below.

(a) The Trustee shall establish and hold the following funds:

- Debt Service Fund;
- Redemption Fund;
- Debt Service Reserve Fund;
- Bond Related Costs Fund; and
- Rebate Fund.

(b) The State Treasurer shall establish the following accounts to be maintained as part of the Infrastructure Fund, which accounts shall be deposited with the Trustee:

- Revenue Account; and
- Reserve Account.

Collectively, the above-referenced funds and accounts are sometimes hereinafter referred to as the "Funds and Accounts". The Trust Agreement requires that moneys deposited in the Funds and Accounts be accounted for separately from all other moneys received by the Trustee and shall be held by the Trustee in trust for the owners of the Bonds. The moneys on deposit in the Funds and Accounts may be invested in Permitted Investments as provided for in the Trust Agreement. See "Appendix C -- Summary of Certain Provisions of the Trust Agreement" under the headings "Definitions - Permitted Investments" and "Investments".

Under the Trust Agreement, the Commonwealth has pledged all of the moneys, securities, credit enhancement, if any (including the Debt Service Reserve Fund Surety Bond), and any investment earnings with respect thereto in all Funds and Accounts, other than the Rebate Fund, to the Trustee for the benefit of the owners of the Bonds. However, because the Revenue Account and the Reserve Account are sub-accounts of the Infrastructure Fund, moneys on deposit therein may not be expended without appropriation from the Legislature. The Trust Agreement provides that amounts in the Revenue Account may only be transferred to the foregoing Funds to the extent appropriations with respect to expenditures from such Funds have been made. The Trust Agreement further provides that no amounts may be transferred from the Revenue Account to the Commonwealth for its general purposes unless a sufficient appropriation for Debt Service has been made and the required monthly deposits to the Funds and Accounts have been made. See "Flow of Pledged Funds" and "Appendix C -- Summary of Certain

Provisions of the Trust Agreement -- Flow of Funds". As part of the fiscal 1995 budget process, the Administration is currently seeking an appropriation for Debt Service due in fiscal 1995, as well as amounts necessary in such year to fund the deposits into the Debt Service Reserve Fund.

Flow of Pledged Funds

The Pledged Funds must be accounted for and deposited in accordance with the terms of the Special Obligation Act and the Trust Agreement. Set forth below is a description of the flow of the Pledged Funds under the Special Obligation Act and the Trust Agreement. For a complete description of the flow of Pledged Funds, see "Appendix C -- Summary of Certain Provisions of the Trust Agreement."

Commonwealth Highway Fund. Under the Gasoline Tax Act, upon receipt by the Department of Revenue, approximately 83.6% of the amounts due under the Gasoline Tax (currently approximately 17.56 cents per gallon) shall be credited to the Commonwealth's Highway Fund. See "COMMONWEALTH GASOLINE TAX -- Crediting of Receipts". In accordance with current law, Pledged Funds will be made available to pay Debt Service from the amounts of the Gasoline Tax credited to the Highway Fund, as described below.

Commonwealth Infrastructure Fund. Under the Special Obligation Act, the Commonwealth created the Infrastructure Fund as a subfund of the Highway Fund. The Special Obligation Act requires that approximately 39.1% of the portion of Gasoline Tax credited to the Highway Fund (currently approximately 6.86 cents per gallon) be credited to the Infrastructure Fund and utilized in accordance with the Special Obligation Act. Expenditures from the Infrastructure Fund shall, upon appropriation by the Legislature, be made for the following purposes: (i) the payment of debt service on any special obligation bonds authorized under the Special Obligation Act; (ii) the maintenance of, or provision for, any reserves, additional security, insurance or other forms of credit enhancement for any special obligation bonds; and (iii) direct expenditures for purposes otherwise permitted for moneys on deposit in the Highway Fund, provided that any such direct expenditures may only be made in compliance with any applicable restrictions contained in any trust or other agreement relating to such special obligation bonds. Under the Special Obligation Act, no more than 20% of the amounts credited to the Infrastructure Fund may be utilized to pay debt service on bonds issued to finance the Central Artery/Third Harbor Tunnel project, or to make direct expenditures on that project. The Commonwealth has covenanted in the Trust Agreement that, unless otherwise authorized by the Legislature, it will not expend moneys credited to the Infrastructure Fund on such expenditures in excess of this limitation. See "Appendix C -- Summary of Certain Provisions of the Trust Agreement -- Particular Covenants of The Commonwealth".

The Special Obligation Act provides that, so long as any special obligation bonds remain outstanding, the Commonwealth shall maintain the Infrastructure Fund and shall not divert any amounts credited thereto from the purposes permitted under the Special Obligation Act. See "Appendix B -- Summary of Certain Provisions of the Special Obligation Act". The Commonwealth may amend the Special Obligation Act, and the Trust Agreement provides that any provision of the Special Obligation Act creating a covenant with the owners of Bonds shall be deemed a covenant under the Trust Agreement only to the extent expressly provided for in, and as limited by, the Trust Agreement. Therefore, if otherwise permitted by law, the Commonwealth may utilize amounts credited to the Infrastructure Fund, other than Pledged Funds, without regard to the terms of the Bonds or the Trust Agreement. See "Appendix C -- Summary of Certain Provisions of the Trust Agreement".

Revenue Account. Under the Trust Agreement the State Treasurer shall establish the Revenue Account as a sub-account of the Infrastructure Fund, which shall be held by the Trustee and be subject to the pledge of the Trust Agreement. In accordance with the Special Obligation Act, Debt Service will be payable from amounts credited to the Revenue Account.

Under the Trust Agreement, on or prior to the eighth business day of each month, commencing in August, 1994, the Commissioner of Revenue of the Commonwealth (the "Commissioner of Revenue") shall deliver to the Trustee a certificate stating the amount of Pledged Funds received by the Commonwealth and allocable to 4.86 cents per gallon of the Gasoline Tax during the preceding month, which amount shall be deposited under the Trust Agreement. The amount of Pledged Funds to be deposited under the Trust Agreement in each month will be calculated by the Department of Revenue by dividing 4.86 cents per gallon (or such greater amount of the Gasoline

Tax as may be pledged as Additional Pledged Funds) by the total Gasoline Tax Rate then in effect, and multiplying the result by the total amount of the Gasoline Tax collected by the Commonwealth for such month. The 1992 Trust Agreement establishes a similar procedure with respect to the 2 cents per gallon of the Gasoline Tax that constitute the 1992 Pledged Funds. Immediately upon receipt thereof, the Trustee shall deposit in the Revenue Account any Surplus 1992 Pledged Funds received from the 1992 Trustee.

The State Treasurer, within 2 business days of the receipt of the certificate from the Commissioner of Revenue, is required under the Trust Agreement to deposit an amount equal to Pledged Funds collected in the preceding month into the Revenue Account with the Trustee. Under the Trust Agreement, Pledged Funds include only those Gasoline Tax receipts collected on or after July 1, 1994, and, therefore, the first deposit of Pledged Funds to the Revenue Account will occur in August 1994 based on Gasoline Taxes collected in July 1994.

The Trust Agreement requires the Secretary for the Executive Office for Administration and Finance (the "Secretary of Administration and Finance") and the State Treasurer, after the adoption of the Commonwealth's operating budget for a fiscal year, to deliver to the Trustee a certificate stating the amount appropriated for such fiscal year (the "Appropriated Amount") for the payment of each of the following:

- (a) the amount of Debt Service for such fiscal year;
- (b) the amount of any required deposit into the Debt Service Reserve Fund for such fiscal year;
- (c) the amount of any costs relating to the Bonds ("Bond Related Costs") for such fiscal year; and
- (d) the amount of any rebate to the United States Treasury (the "Rebate Requirement") for such fiscal year.

Disbursements from Revenue Account. Under the Trust Agreement, on the last business day of each month beginning August, 1994, the Trustee shall transfer amounts on deposit in the Revenue Account as follows:

- (i) *first*, to the Debt Service Fund, all amounts on deposit in the Revenue Account until the amount on deposit in the Debt Service Fund (including investment earnings) equals the sum of (a) Debt Service due on the next Interest Payment Date, and (b) if a principal installment on the Bonds is not due on the next Interest Payment Date, one-half of the principal installment due on the next principal payment date (collectively, the "Debt Service Fund Requirement"); provided, however, that the aggregate amount deposited therein during a fiscal year shall not exceed the Appropriated Amount for such fiscal year for such purpose;
- (ii) *second*, to the Debt Service Reserve Fund, an amount equal to the sum of (a) one-thirty-sixth (1/36th) of the Funded Debt Service Reserve Fund Requirement, as defined herein, and (b) any amounts which previously were required to be deposited and for which amounts were not available from the Revenue Account, until the amount on deposit therein (including investment earnings) equals the Funded Debt Service Reserve Fund Requirement; provided however, that if notice shall have been given to the Trustee pursuant to the Trust Agreement of a change in the amount of the Debt Service Reserve Fund Requirement the foregoing provision shall apply to the amount of the Funded Debt Service Reserve Fund Requirement calculated without regard to such notice and the Trustee shall, in addition, deposit an amount equal to one-twelfth (1/12th) of the difference between the Funded Debt Service Reserve Fund Requirement prior to such notice and the revised Funded Debt Service Reserve Fund Requirement until the amount on deposit therein (including investment earnings) equals the revised Funded Debt Service Reserve Fund Requirement; and provided, further, that the aggregate amount deposited therein during a fiscal year shall not exceed the Appropriated Amount for such fiscal year for such purpose;
- (iii) *third*, to the Reserve Account, any amount set forth in (ii) above in excess of the Appropriated Amount for such purpose for such fiscal year; provided, however, that such amounts deposited in the Reserve Account shall be transferred to the Debt Service Reserve Fund upon the delivery to the Trustee of a

certificate by the Secretary of Administration and Finance and the State Treasurer that an appropriation is then in effect permitting such deposit in the Debt Service Reserve Fund;

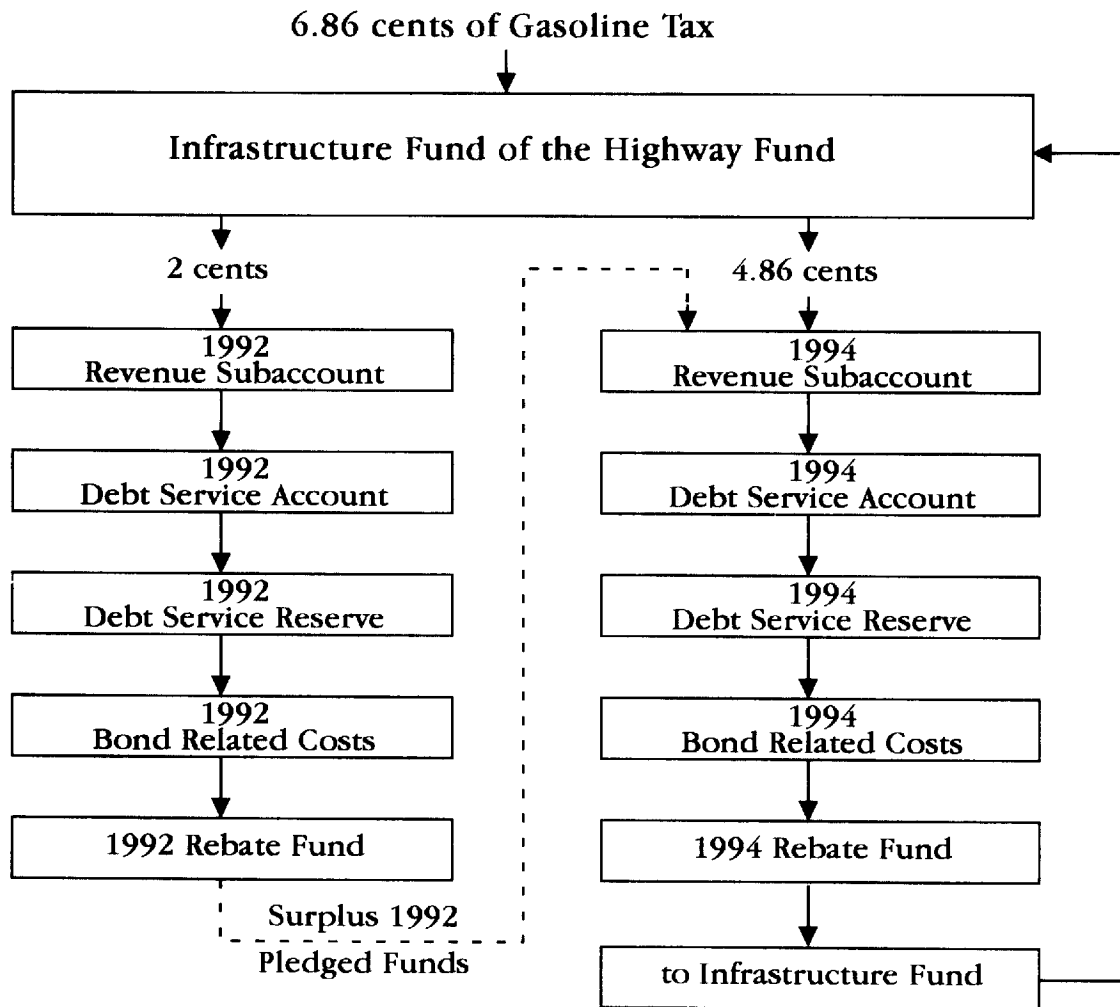
- (iv) *fourth*, to the Bond Related Costs Fund, the amount, if any, necessary to pay Bond Related Costs; provided however, that the aggregate amount deposited therein during a fiscal year shall not exceed the Appropriated Amount for such fiscal year for such purpose; and
- (v) *fifth*, to the Rebate Fund, the amount, if any, necessary to pay the Rebate Requirement; provided however, that the aggregate amount deposited therein during a fiscal year shall not exceed the Appropriated Amount for such fiscal year for such purpose.

Under the Trust Agreement (a) if the Appropriated Amount is not sufficient to fund Debt Service in any fiscal year, then all Pledged Funds remaining on deposit in the Revenue Account after the transfers to the Funds and Accounts described above, shall remain on deposit therein until a sufficient appropriation is made; (b) if the Appropriated Amount is not sufficient to fund the required deposits to the Debt Service Reserve Fund in any fiscal year, the amount of Pledged Funds transferred by the Trustee from the Revenue Account to the Reserve Account shall remain on deposit therein until a sufficient appropriation is made as described in (iii) above; and (c) if the Appropriated Amounts are not sufficient to fund the required deposits to the Bond Related Costs Fund and the Rebate Fund, the amount of Pledged Funds necessary to fund such deposits shall remain on deposit in the Revenue Account until sufficient appropriations are made. See "Appendix C -- Summary of Certain Provisions of the Trust Agreement -- Flow of Funds".

Provided that there shall be an Appropriated Amount sufficient to pay Debt Service due in a fiscal year, the balance remaining in the Revenue Account after the deposit of the amounts described above (less any amounts which must be held on deposit therein pending appropriation to fund deposits to the Bond Related Costs Fund and the Rebate Fund) shall be transferred by the Trustee to the State Treasurer on the last business day of each month and may be applied for any purpose permitted by law, including direct expenditures for purposes otherwise permitted for revenues credited to the Highway Fund. For a discussion of permitted Highway Fund expenditures, see "FINANCING THE COMMONWEALTH HIGHWAY SYSTEM -- Legal Framework for Financing the Highway System; Statutory Framework". See "Appendix C -- Summary of Certain Provisions of the Trust Agreement -- Flow of Funds".

Disbursements from Debt Service Fund. The Trustee shall pay out of the Debt Service Fund to the respective paying agents for any Bonds (i) on or before each Interest Payment Date the amount required for interest and principal installments payable on such date; and (ii) on or before each redemption date for Bonds, the amount required for the payment of interest and Redemption Price of the Bonds then to be redeemed. Amounts accumulated in the Debt Service Fund with respect to any Sinking Fund Payment may, and if so directed by the State Treasurer shall, be applied by the Trustee, under certain circumstances, to the purchase or redemption of Bonds subject to that Sinking Fund Payment. See "Appendix C -- Summary of Certain Provisions of the Trust Agreement -- Debt Service Fund".

FLOW OF PLEDGED FUNDS



The 1992 Bonds are currently outstanding in the aggregate principal amount of \$103,770,000 and mature on June 1 in the years 1998 through 2013. Through fiscal 1997, interest only is payable on the 1992 Bonds in the annual amount of \$6,231,805. Commencing in fiscal 1998, total principal and interest requirements with respect to the 1992 Bonds are approximately \$10.3 million per year. Approximately 0.43 cents of the 2 cents per gallon of the Gasoline Tax constituting 1992 Pledged Funds collected during fiscal 1993 was required to pay such debt service obligations with respect to the 1992 Bonds. Approximately 1.57 cents per gallon of the Gasoline Tax was surplus in fiscal 1993. The actual amount of Surplus 1992 Pledged Funds to be available for transfer to the Trustee from time to time hereafter will depend upon the amount of actual Gasoline Tax receipts while the 1992 Bonds remain outstanding. Upon the discharge and release of the lien of the 1992 Trust Agreement, the full amount of the 2 cents per gallon of the Gasoline Tax pledged to the 1992 Bonds and any other amounts then constituting 1992 Pledged Funds will become Pledged Funds under the Trust Agreement.

For a more complete discussion of the flow of Pledged Funds, including the required deposits from the Infrastructure Fund to the Funds and Accounts, see "Appendix C -- Summary of Certain Provisions of the Trust Agreement".

Debt Service Reserve Fund

Under the Trust Agreement, the Debt Service Reserve Fund Requirement is defined to be the least of (i) 10% of the original principal amount of all Series of Bonds Outstanding, subject to certain adjustment as provided in the Trust Agreement with respect to original issue discount, (ii) 125% of the average annual aggregate amount of Debt Service (calculated as provided in the Trust Agreement) due in any fiscal year on all Bonds Outstanding and (iii) 50% (or in the event the Commonwealth fails to maintain a Debt Service coverage ratio of at least 2.00 as set forth in the Trust Agreement, 100%) of the maximum amount of Debt Service (calculated as provided in the Trust Agreement) due in any fiscal year. The Funded Debt Service Reserve Requirement is defined in the Trust Agreement as the Debt Service Reserve Fund Requirement less the stated and unpaid amount of all Reserve Credit Facilities as defined in the Trust Agreement, see "Appendix C -- Summary of Certain Provisions of the Trust Agreement -- Definitions". The Trust Agreement provides that once the Debt Service Fund Requirement is transferred from the Revenue Account to the Debt Service Fund, and provided that sufficient amounts have been appropriated therefor, the Trustee shall transfer, on the last business day of each month, amounts from the Revenue Account into the Debt Service Reserve Fund equal to one-thirty-sixth (1/36th) of the Funded Debt Service Reserve Requirement, plus any amounts not funded in prior months, until the amount on deposit therein (including investment earnings) equals the Funded Debt Service Reserve Requirement. In the event that a sufficient appropriation is not made for this purpose, the amounts otherwise to be transferred to the Debt Service Reserve Fund shall be transferred to the Reserve Account, and shall be held therein until a sufficient appropriation is made. See "Flow of Pledged Funds" and "Appendix C -- Summary of Certain Provisions of the Trust Agreement -- Debt Service Reserve Fund".

If the amounts on deposit and available in the Debt Service Fund, the Bond Related Costs Fund or the Redemption Fund are insufficient to pay the Debt Service then due, the Trustee shall withdraw from the Debt Service Reserve Fund and deposit in the Debt Service Fund the amount necessary to meet the deficiency. If the amounts transferred from the Debt Service Reserve Fund are insufficient to pay such deficiency, the Trustee shall withdraw from the Reserve Account the amount necessary to meet the balance of such deficiency; provided, however, that the aggregate of such amounts deposited into the Debt Service Fund from the Reserve Account shall not in any fiscal year, together with all other amounts deposited in the Debt Service Fund (other than from the Debt Service Reserve Fund) during such fiscal year, exceed the Appropriated Amount for Debt Service for such fiscal year.

Reserve Credit Facilities. The Trust Agreement authorizes the Commonwealth to obtain Reserve Credit Facilities for the purpose of satisfying the Debt Service Reserve Fund Requirement. See "Appendix C -- Summary of Certain Provisions of the Trust Agreement -- Reserve Credit Facilities." The Commonwealth expects AMBAC Indemnity to issue a surety bond (the "Debt Service Reserve Fund Surety Bond") for such purpose in the initial stated amount of \$12,608,518.75, which represents the initial Debt Service Reserve Fund Requirement relating to the 1994 Bonds. The premium on the Debt Service Reserve Fund Surety Bond is to be fully paid at or prior to the issuance and delivery of the 1994 Bonds. The Debt Service Reserve Fund Surety Bond provides that upon the later of (i) one (1) day after receipt by AMBAC Indemnity of a demand for payment executed by the Trustee certifying that provision for the payment of principal of or interest on the 1994 Bonds when due has not been made or (ii) the Interest Payment Date specified in the demand for payment submitted to AMBAC Indemnity, AMBAC Indemnity will promptly deposit funds with the Trustee sufficient to enable the Trustee to make such payments due on the 1994 Bonds, but in no event exceeding the lesser of \$12,608,518.75 or the Debt Service Reserve Fund Requirement for the 1994 Bonds (the "Surety Bond Coverage").

Pursuant to the terms of the Debt Service Reserve Fund Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by AMBAC Indemnity under the terms of the Debt Service Reserve Fund Surety Bond and the Commonwealth is required to reimburse AMBAC Indemnity for any draws under the Debt Service Reserve Fund Surety Bond with interest at a market rate from amounts deposited into the Debt Service Reserve Fund as provided in the Trust Agreement and described above. Upon such

reimbursement, the Debt Service Reserve Fund Surety Bond will be reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the Commonwealth is subordinate to the Commonwealth's obligations with respect to the 1994 Bonds.

In the event the amount on deposit, or credited to the Debt Service Reserve Fund, exceeds the amount of the Debt Service Reserve Fund Surety Bond, any draw on the Debt Service Reserve Fund Surety Bond shall be made only after all the funds in the Debt Service Reserve Fund have been expended. In the event that the amount on deposit in, or credited to, the Debt Service Reserve Fund, in addition to the amount available under the Debt Service Reserve Fund Surety Bond, includes amounts available under a letter of credit, insurance policy, surety bond or other such funding instrument (the "Additional Funding Instrument"), draws on the Debt Service Reserve Fund Surety Bond and the Additional Funding Instrument shall be made on a pro rata basis to fund the insufficiency. The Trust Agreement provides that the Debt Service Reserve Fund shall be replenished in the following priority: (i) principal and interest on the Debt Service Reserve Fund Surety Bond and on the Additional Funding Instrument shall be paid from first available Revenues on a pro rata basis; (ii) after all such amounts are paid in full, amounts necessary to fund the Debt Service Reserve Fund to the required level, after taking into account the amounts available under the Debt Service Reserve Fund Surety Bond and the Additional Funding Instrument shall be deposited from next available Revenues.

The Surety Bond does not insure against nonpayment caused by the insolvency or negligence of the Trustee.

In the event that the Debt Service Reserve Fund Surety Bond is not issued at or prior to the delivery of the 1994 Bonds, the provisions of the Trust Agreement relating to the funding of the Debt Service Reserve Fund which are described above shall govern. Under the terms of the Trust Agreement, the Commonwealth may terminate the Debt Service Reserve Fund Surety Bond provided that it deposits into the Debt Service Reserve Fund the amount required to have been on deposit therein under the terms of the Trust Agreement had the Debt Service Reserve Fund Surety Bond not been issued. Subsequent to the termination of the Debt Service Reserve Fund Surety Bond, the provisions of the Trust Agreement relating to the funding of the Debt Service Reserve Fund which are described above shall govern.

For certain information concerning AMBAC Indemnity, see "Appendix E -- AMBAC Indemnity Corporation".

Additional Bonds

Pursuant to the Trust Agreement, one or more series of Additional Bonds may be issued for the purpose of (i) paying all or a portion of the cost of any project for which special obligation bonds may be issued under the Special Obligation Act, including the refunding of any such special obligation bonds, (ii) the making of deposits in the Debt Service Fund and the Debt Service Reserve Fund, (iii) the payment of the costs of issuance of such Additional Bonds, (iv) the payment of the principal of and interest and premium, if any, on notes issued in anticipation of such Additional Bonds in accordance with the Trust Agreement, or (v) any combination of the foregoing.

A series of Additional Bonds may be issued only upon receipt by the Trustee of, among other things:

- (i) A certificate of the State Treasurer or his or her designee stating that, as of the delivery of such Additional Bonds and application of their proceeds, no Event of Default, as described in the Trust Agreement, will have happened and then will be continuing;
- (ii) A certificate or certificates of the Commissioner of Revenue or the Comptroller setting forth the amount of Pledged Funds received by the Commonwealth for each month for the 18 month period ending with the last full month immediately preceding the issuance of Additional Bonds;
- (iii) If the Commonwealth is not pledging any Additional Pledged Funds, then a certificate of the State Treasurer showing that the amount of Pledged Funds for any 12 consecutive months during the

18 month period described in (ii) above was not less than 200% of the maximum aggregate Adjusted Bond Debt Service Requirement (as defined in the Trust Agreement, see "Appendix C - - Summaries of Certain Provisions of the Trust Agreement -- Definitions") due in the then current or any future fiscal year on outstanding Bonds, including the Additional Bonds;

- (iv) If the Commonwealth is pledging Additional Pledged Funds, one or more of the following certificates: (A) if the Additional Pledged Funds shall have been collected by the Commonwealth for at least 12 consecutive months of the 18 month period described in (ii) above, a certificate of the State Treasurer showing that the amount of Pledged Funds and Additional Pledged Funds, for any 12 consecutive months during such 18 month period was not less than 200% of the maximum annual Adjusted Bond Debt Service Requirement during the then current fiscal year or any future fiscal year on all Bonds outstanding, including the Additional Bonds; (B) if the Additional Pledged Funds have not been collected by the Commonwealth during at least 12 consecutive months during such 18 month period, a certificate of the State Treasurer showing that the amount of Pledged Funds and Additional Pledged Funds projected to be received by the Commonwealth during the first full fiscal year immediately following the issuance of the Additional Bonds will not be less than 200% of the maximum aggregate Adjusted Bond Debt Service Requirement due in the then current or any future fiscal year on Bonds outstanding, including the Additional Bonds; and (C) if any Additional Pledged Funds are derived from revenues other than the Gasoline Tax, or a certificate is delivered under (B) above, then a certificate from each rating agency which is then maintaining an outstanding rating on the Bonds, stating that the issuance of such Additional Bonds shall not adversely affect their rating on the Bonds then outstanding; and
- (v) A certificate of the Secretary of Administration and Finance that the amount of such Additional Bonds is within the limitations established by the Capital Spending Plan of the Commonwealth in effect as of the date of issuance of such Additional Bonds.

Additional Bonds may be issued at any time to refund in whole or in part any outstanding Bonds, provided that the State Treasurer, certifies that the Adjusted Bond Debt Service Requirement on any Bonds to be outstanding immediately after the issuance of the refunding Additional Bonds is not, for each fiscal year during which Bonds are scheduled to be outstanding, greater than the Adjusted Bond Debt Service Requirement by fiscal year on all Bonds outstanding immediately prior to the issuance of the refunding Additional Bonds. If the Commonwealth cannot satisfy the requirement of the preceding sentence, the Commonwealth may nevertheless issue refunding Additional Bonds by complying with the tests relating to the issuance of Additional Bonds for non-refunding purposes.

For a more complete description of the requirements under the Trust Agreement for the issuance of Additional Bonds, see "Appendix C -- Summary of Certain Provisions of the Trust Agreement -- Authorization and Issuance of Additional Bonds".

Additional Bonds may be issued as Variable Rate Bonds or Tender Bonds. The Commonwealth has covenanted in the Trust Agreement that (a) it will not issue Variable Rate Bonds if, upon such issuance, the aggregate principal amount of Variable Rate Bonds then outstanding exceeds 15% of the aggregate principal amount of all Bonds outstanding; and (b) it will only issue Tender Bonds secured by a Liquidity Facility, and the provider of the Liquidity Facility must have a rating on its short term obligations within the highest rating category from each rating agency then maintaining a rating on Bonds outstanding. See "Appendix C -- Summary of Certain Provisions of the Trust Agreement -- Authorization of Bonds".

Subordinated and Other Indebtedness

The Commonwealth may issue bonds, notes or other evidences of indebtedness (other than Additional Bonds) which are payable out of, or secured by a pledge of Pledged Funds, provided that such bonds, notes or evidences of indebtedness are expressly subordinate to the obligations of the Commonwealth under the Trust Agreement, including the Bonds. In addition, the Commonwealth may issue bonds, notes or other evidences of indebtedness (other than Additional Bonds) which are payable out of, or secured by a pledge of an additional portion

of the Gasoline Tax or other Article 78 Revenues, to the extent such portions of the Gasoline Tax or Article 78 Revenues do not constitute Pledged Funds. See "Appendix C -- Summary of Certain Provisions of the Trust Agreement -- Creation of Liens; Other Indebtedness".

Commonwealth Covenants

Under the Trust Agreement, the Commonwealth has covenanted with the owners of the Bonds that so long as any Bonds remain outstanding (i) that it shall at all times maintain the portion of the Gasoline Tax credited to the Highway Fund at a rate of not less than 6.86 cents per gallon (which amount represents the 2 cents per gallon pledged to the 1992 Bonds under the 1992 Trust Agreement and the 4.86 cents pledged to the Bonds under the Trust Agreement); (ii) that it shall not limit or alter the rights vested in the Commonwealth to collect Pledged Funds, including the Gasoline Tax and any other Article 78 Revenues which may subsequently be pledged as Additional Pledged Funds, and to deposit such amounts as provided in the Trust Agreement; and (iii) that it shall not impair the rights and remedies of the Trustee and the owners of the Bonds under the Trust Agreement with respect to Pledged Funds.

The Special Obligation Act creates additional covenants with the owners of Bonds. However, the Commonwealth may amend the Special Obligation Act, and the Trust Agreement provides that any provision of the Special Obligation Act creating a covenant with the owners of the Bonds shall be deemed a covenant under the Trust Agreement only to the extent expressly provided for in and as limited by the Trust Agreement. See "Appendix C -- Summary of Certain Provisions of the Trust Agreement -- Particular Covenants of the Commonwealth".

Remedies of Owners of Bonds

The Trust Agreement sets forth the Events of Default relating to the Bonds, which include failure to pay Debt Service when due or failure to perform the covenants, agreements and conditions contained in the Trust Agreement which relate to the maintenance of the Gasoline Tax Rate, the limitation or alteration of the rights of the Commonwealth to collect and deposit Pledged Funds, and the impairment of the rights and remedies of the owners of the Bonds.

Under the Trust Agreement, the Commonwealth has covenanted that, upon the occurrence of any Event of Default (which Event of Default has not been remedied), and upon demand by the Trustee, it shall pay over to the Trustee, to the extent permitted by law, any Pledged Funds not otherwise held by the Trustee in a Fund or Account. The Trust Agreement provides that upon the occurrence of an Event of Default, the Trustee may proceed either at law or in equity to protect and enforce the rights of the owners of the Bonds under the terms of the Trust Agreement or the laws of the Commonwealth. The Trust Agreement also provides that the owners of a majority in aggregate principal amount of the Bonds then outstanding may direct the time, method and place of any proceeding for any remedy available to the Trustee, unless the Trustee determines that such direction would subject it to personal liability or be unjustly prejudicial to the owners not parties to such direction.

The Trust Agreement provides that neither the Trustee nor the owners of the Bonds shall have any right to accelerate the principal of or interest on the Bonds.

If an Event of Default has occurred, no owner of a Bond shall have any right to institute any suit, action or proceeding in equity or at law to exercise any remedy or otherwise take action to enforce the terms of the Trust Agreement unless the owners of at least 25% in aggregate principal amount of the Bonds then outstanding have requested the Trustee to act, and have afforded the Trustee adequate security or indemnity against the Trustee's costs, expenses and liabilities and the Trustee shall not have complied with such request within a reasonable time.

For a more complete description of the remedies available to the owners of the Bonds, see "Appendix C -- Summary of Certain Provisions of the Trust Agreement -- Events of Default".

The remedies available to the Bondowners upon the occurrence of an Event of Default are limited and are in many respects dependent upon judicial actions which are often subject to discretion and delay.

COMMONWEALTH GASOLINE TAX

The following is a summary of the Commonwealth's Gasoline Tax. This summary does not purport to be complete and, accordingly, is qualified by reference to Chapter 64A of the Massachusetts General Laws, the Gasoline Tax Act. The Legislature has altered and may in the future alter the Gasoline Tax Act. See "1990 Legislation".

Upon the issuance of the 1994 Bonds, Pledged Funds shall include 4.86 cents of the Gasoline Tax, which shall be calculated by the Department of Revenue on a monthly basis by dividing 4.86 per gallon by the total Gasoline Tax Rate then in effect, and multiplying the result by the total amount of the Gasoline Tax collected by the Commonwealth during such month plus the Surplus 1992 Pledged Funds transferred from time to time to the Trustee from the 1992 Trustee. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS -- Source of Pledged Funds"; and "Flow of Pledged Funds".

General

The Commonwealth has imposed a tax on fuel since 1928. Fuel, as defined in the Gasoline Tax Act, includes all products commonly or commercially known as gasoline and any liquid prepared, advertised or offered for sale in the Commonwealth and commonly and commercially used as fuel in internal combustion engines ("Gasoline"). The term Gasoline does not include diesel fuel, which is taxed as a "special fuel" under Chapter 64E of the Massachusetts General Laws. See "FINANCING THE COMMONWEALTH HIGHWAY SYSTEM -- Legal Framework for Financing the Highway System". The Gasoline Tax Act also imposes a tax on fuel sold for use in non-jet propelled aircraft ("Aviation Fuel"). Tax revenues derived from the sale of Aviation Fuel under the Gasoline Tax Act are not included within the definition of Gasoline Tax or Pledged Funds.

Gasoline Tax Rate

Under the Gasoline Tax Act, the Gasoline Tax Rate is the greater of 21 cents per gallon or 19.1% of the average wholesale selling price of Gasoline as measured on a quarterly basis. The average wholesale selling price is defined by regulation as the weighted average, rounded to the nearest whole cent, of the per gallon wholesale selling price of various grades and types of Gasoline for the preceding quarter. The average wholesale selling price does not include state or federal taxes. The Commissioner of Revenue is required to announce, on or before the last day of March, June, September and December, the average wholesale selling price per gallon of Gasoline for the preceding calendar quarter, which will serve as a basis for determining the Gasoline Tax Rate for the succeeding calendar quarter. Gasoline is currently taxed at the statutory minimum rate of 21 cents per gallon.

Comparison of Gasoline Tax Rates for Selected Northeastern States

The table below lists current gasoline tax rates, exclusive of local taxes, license and inspection fees of selected northeastern states.

Connecticut	30.0¢
Maine	19.0
Massachusetts	21.0
New Hampshire	18.0
New Jersey	10.5
New York	8.0
Rhode Island	25.0
Vermont	15.0

SOURCE: Commerce Clearing House — State Tax Reports.

Gasoline Tax Collection Procedure

Anyone qualified to do business in the Commonwealth who produces, refines, manufactures or compounds Gasoline or operates a port or pipeline terminal, as well as importers and exporters of Gasoline (collectively referred to as "Distributors"), must file Gasoline Tax returns with the Commissioner of Revenue by the twentieth day of each month. Distributors must keep complete and accurate records of all sales of Gasoline including the name and address of the purchaser, the place and date of delivery, the gross receipts and number of gallons for each type of Gasoline sold, and a complete and accurate record of the number of gallons imported, produced, refined, manufactured, compounded or exported. Purchasers of Gasoline pay the Gasoline Tax to a Distributor when they purchase Gasoline. Each Distributor is required to pay to the Commissioner of Revenue, simultaneously with the filing of a Gasoline Tax return, the Gasoline Tax on each taxable gallon of Gasoline sold by him during the month covered by the return. There are currently fewer than 250 Distributors who file Gasoline Tax returns with the Commissioner of Revenue.

Crediting of Receipts

Gasoline Tax receipts, net of refunds and abatements, are credited to several budgeted funds of the Commonwealth. Fifteen percent of the Gasoline Tax revenues are credited to the General Fund to be used solely for mass transportation purposes. One and four-tenths percent (1.4%) of the receipts are credited to certain environmental budgeted funds. The remaining 83.6% (currently 17.56 cents) of Gasoline Tax receipts are credited to the Highway Fund in two components. Fifteen percent of the Gasoline Tax receipts are credited to the Highway Fund for the sole purpose, subject to appropriation, of reimbursing municipalities for costs incurred in constructing, maintaining and policing streets and roads. Sixty-eight and six-tenths percent (68.6%) of Gasoline Tax receipts are credited to the Highway Fund for general Highway Fund purposes, of which, 47.62% (currently 6.86 cents per gallon) is credited to the Infrastructure Fund. See "FINANCING THE COMMONWEALTH HIGHWAY SYSTEM -- Legal Framework for Financing the Commonwealth Highway System; Statutory Framework" and "1990 Legislation".

Refunds and Abatements from Gasoline Tax

Other than (1) sales between licensed Massachusetts Distributors, (2) sales by a licensed Massachusetts Distributor to a licensed distributor of another state whereby the entire quantity purchased is exported out of the Commonwealth, (3) sales to the federal government, (4) sales to foreign embassies, (5) sales to certain transportation authorities, and (6) sales constituting foreign or interstate commerce, except where permitted by the Constitution and laws of the United States, all of which are tax-free sales, all purchases of Gasoline within the Commonwealth are subject to the Gasoline Tax. Persons who pay the Gasoline Tax on Gasoline which is (a) consumed other than on highways, (b) transferred into another state in which an additional excise tax is paid, (c) consumed on any turnpike constructed by the Massachusetts Turnpike Authority, (d) used in watercraft, and (e) used in qualified buses on authorized routes, may apply for a refund for the amount of Gasoline Tax paid on such Gasoline. A person applying for a refund must supply the original invoices for the purchase of such Gasoline and attest, by affidavit filed with the Commissioner of Revenue, that the Gasoline was consumed for an exempt purpose. Persons engaged in the business of farming may also apply for a refund of the amount of Gasoline Tax paid on Gasoline for which they would be entitled to a refund of the federal gasoline tax paid pursuant to Section 6420 of the Federal Internal Revenue Code. The Department of Revenue estimates that, on average, less than .5% of annual Gasoline Tax receipts are refunded or abated.

1990 Legislation

During the 1990 legislative session, a two stage increase in the Commonwealth's Gasoline Tax Rate was enacted. The first stage of this increase became effective on July 28, 1990 and raised the Gasoline Tax Rate to a minimum of 17 cents per gallon. The second stage of the increase became effective on January 1, 1991 and raised the Gasoline Tax Rate to a minimum of 21 cents per gallon. Prior to 1990, the last increase in the Gasoline Tax Rate was enacted in 1983, when the Gasoline Tax Rate was adjusted to provide for a statutory minimum rate of 11 cents per gallon.

The Legislature has previously altered and may in the future alter (1) the imposition of the Gasoline Tax on Gasoline, including its imposition on different or alternative fuels; (2) the Gasoline Tax Rate; (3) the allocation of Gasoline Tax receipts between the various Commonwealth operating funds, including the Highway Fund and General Fund, and (4) the distribution of Gasoline Tax receipts to cities, towns and counties. The authority of the Legislature to make such changes in Gasoline Tax, the Gasoline Tax Rate and the allocation and use of Gasoline Tax receipts is subject to the requirement of the Massachusetts Constitution that amounts representing Article 78 Revenues, including Gasoline Tax receipts, may only be used for highway or mass transportation purposes including, but not limited to, paying debt service on Commonwealth general obligation highway bonds and any special obligation bonds issued under the Special Obligation Act.

The Legislature's right to make such changes is further restricted by the Trust Agreement in which the Commonwealth has covenanted with the owners of the Bonds to at all times maintain the portion of Gasoline Tax credited to the Highway Fund at a rate of not less than 6.86 cents per gallon (or at such higher rate as may be pledged as Additional Pledged Funds), which amount represents the 2 cents per gallon of the Gasoline Tax pledged to the 1992 Bonds under the 1992 Trust Agreement and the 4.86 cents per gallon of the Gasoline Tax pledged to the Bonds under the Trust Agreement, and not in any way to impair the rights and remedies of said owners under the Trust Agreement.

Historical Information Regarding Gasoline Tax

The level of Gasoline Tax receipts are directly related to the consumption of gasoline in the Commonwealth. Future consumption of gasoline may be affected by many factors beyond the control of the Commonwealth including, but not limited to, the level of employment, the price of gasoline, the fuel efficiency of motor vehicles, and the availability of alternative fuels.

The following tables set forth certain information regarding historical gasoline sales and collections of the Gasoline Tax.

HISTORICAL GASOLINE SALES

Fiscal Year	Average Price of Gasoline ⁽¹⁾	Gasoline Consumed (millions of gallons) ⁽²⁾	Percentage Change	Non-Agricultural Employment (thousands) ⁽³⁾	Percentage Change
1993	\$1.241	2,375	1.02%	2,810	0.50%
1992	1.268	2,351	(0.47)	2,796	(3.45)
1991	1.322	2,362	(4.49)	2,896	(5.11)
1990	1.113	2,473	(0.72)	3,052	(2.74)
1989	1.026	2,491	(0.12)	3,138	1.10
1988	0.996	2,494	2.51	3,104	2.71
1987	0.879	2,433	2.40	3,022	2.16
1986	1.148	2,376	1.89	2,958	1.86
1985	1.155	2,332	2.96	2,904	4.54
1984	1.204	2,265	--	2,778	--

SOURCES: "Average Price of Gasoline", Bureau of Labor Statistics. "Gasoline Consumed", Department of Revenue, Bureau of Analysis, Estimation and Research. "Non-Agricultural Employment", Federal Reserve Bank of Boston.

(1) Weighted average retail price of a gallon of all grades of gasoline during each fiscal year, including all applicable taxes.

(2) Net of tax-free gallons. See "Refunds and Abatements from Gasoline Tax".

(3) Seasonally adjusted. Calculated as fiscal year average of monthly employment.

For the first eight months of fiscal 1994, the amount of gasoline consumed increased approximately 1.35% as compared to the comparable period in fiscal 1993. The average monthly non-agricultural employment for the first eight months of fiscal 1994 is estimated to be 2.872 million persons, which represents a 2.51% increase as compared to the comparable period in fiscal 1993.

HISTORICAL COLLECTION OF GASOLINE TAX
Historical Annual Collection of Gasoline Tax

<u>Fiscal Year</u>	<u>Average Gasoline Tax Rate⁽¹⁾</u>	<u>Gasoline Tax Receipts (in thousands)⁽²⁾</u>	<u>Percentage Change</u>	<u>One Cent of Gasoline Tax (in thousands)</u>	<u>Percentage Change</u>
1993	\$.210	\$503,122	2.82%	\$23,958	2.82%
1992	.210	489,307 ⁽³⁾	16.76 ⁽³⁾	23,300	(1.59)
1991	.177	419,065 ⁽⁴⁾	54.60 ⁽⁴⁾	23,676	(3.92)
1990	.110	271,065	(1.41)	24,642	(1.41)
1989	.110	274,950	0.36	24,995	0.36
1988	.110	273,953	2.29	24,905	2.29
1987	.110	267,825	2.42	24,348	3.35
1986	.110	261,509	1.85	23,774	1.86
1985	.110	256,748	2.89	23,341	2.89
1984	.110	249,536	--	22,685	--

SOURCES: "Average Gasoline Tax Rate", Department of Revenue, Bureau of Analysis, Estimation and Research. "Gasoline Tax Receipts" and "One Cent of Gasoline Tax": fiscal 1987-1993, Office of the Comptroller and Department of Revenue, Bureau of Analysis, Estimation and Research; and fiscal 1984-1986, Department of Revenue, Bureau of Analysis, Estimation and Research.

- (1) Average of Gasoline Tax Rate in effect during each fiscal year.
- (2) Includes all Gasoline Tax collected by the Commonwealth and credited to various budgeted funds. See "COMMONWEALTH GASOLINE TAX -- Crediting of Receipts". Net of refunds and abatements from Gasoline Tax. See "COMMONWEALTH GASOLINE TAX -- Refunds and Abatements from Gasoline Tax".
- (3) Reflects full fiscal year impact of increase in Gasoline Tax Rate from 17 cents per gallon to 21 cents per gallon, which was effective January 1, 1991 and therefore impacted Gasoline Tax receipts for approximately 5 months of fiscal 1991. It is estimated that this increase raised an additional \$54.2 million during fiscal 1992 as compared with fiscal 1991.
- (4) Reflects increases in Gasoline Tax Rate from 11 cents per gallon to 17 cents per gallon effective July 28, 1990, and from 17 cents per gallon to 21 cents per gallon effective January 1, 1991, which, it is estimated, raised an additional \$155.84 million in fiscal 1991 as compared with fiscal 1990.

Gasoline Tax receipts during the first eleven months of fiscal 1994 totaled \$458.7 million, which represents a 0.68% increase over Gasoline Tax receipts for the comparable period during fiscal 1993.

**Historical Monthly Collection of Gasoline Tax
Most Recent 24 Months Ending April 1994**

<u>Month</u>	<u>Gasoline Tax Receipts (in thousands)⁽¹⁾</u>	<u>One Cent of Gasoline Tax (in thousands)</u>
April, 1994	\$39,997	\$1,905
March, 1994	37,419	1,782
February, 1994	37,594	1,790
January, 1994	43,047	2,050
December, 1993	41,209	1,962
November, 1993	43,870	2,089
October, 1993	42,268	2,013
September, 1993	44,373	2,113
August, 1993	42,778	2,037
July, 1993	41,599	1,981
June, 1993	47,483	2,261
May, 1993	50,499	2,405
April, 1993	36,955	1,760
March, 1993	33,161	1,579
February, 1993	36,715	1,748
January, 1993	42,078	2,004
December, 1992	41,598	1,981
November, 1992	42,283	2,013
October, 1992	41,376	1,970
September, 1992	44,898	2,138
August, 1992	43,566	2,075
July, 1992	42,510	2,024
June, 1992	43,063	2,051
May, 1992	40,497	1,928

SOURCE: Office of Comptroller and Department of Revenue, Bureau of Analysis, Estimation and Research.

(1) Net of refunds and abatements from Gasoline Tax. See "COMMONWEALTH GASOLINE TAX -- Refunds and Abatements from Gasoline Tax".

Projected Collection of Gasoline Tax and Pledged Funds

The Commonwealth does not perform an official forecast of Gasoline Tax receipts beyond the next fiscal year. For fiscal 1995, the Department of Revenue has projected that Gasoline Tax receipts will equal approximately \$501.2 million, or 0.01% less than the estimated Gasoline Tax receipts for fiscal 1994. Based upon this assumption, Pledged Funds collected during fiscal 1995 will equal approximately \$143.4 million (which amount represents eleven months of receipts, since the first deposit to the Revenue Account will occur in August, 1994). The actual revenues that will be collected by the Commonwealth may vary from the forecast because of fluctuating economic conditions, technological advances, changes in law and other variables affecting revenue growth.

DEBT SERVICE COVERAGE

The following table shows the ratios of historical collections of the portion of the Gasoline Tax equal to 1 cent per gallon to maximum annual Debt Service with respect to the 1994 Bonds. Under the Trust Agreement, the Commonwealth is not obligated to maintain any debt service coverage ratio. In order to issue Additional Bonds, the Commonwealth will be required to comply with certain debt service coverage tests. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS -- Additional Bonds".

**Historical Revenues/Hypothetical Debt Service Coverage
1994 Bonds**

Fiscal Year	Two Cents of Gasoline Tax (in thousands) ⁽¹⁾	Maximum 1992 Bond Debt Service (in thousands)	Surplus 1992 Pledged Funds (in thousands) ⁽¹⁾	4.86 Cents of Gasoline Tax (in thousands)	Total Pledged Funds (in thousands)	1994	
						Bond Debt Service (in thousands)	Debt Service Coverage Ratio
1993	\$47,916	\$10,302	\$37,614	\$116,437	\$154,051	\$25,217	6.11
1992	46,601	10,302	36,299	113,240	149,538	25,217	5.93
1991	47,396	10,302	37,094	115,172	152,266	25,217	6.04
1990	49,285	10,302	38,983	119,761	158,744	25,217	6.30
1989	49,991	10,302	39,689	121,478	161,167	25,217	6.39
1988	49,810	10,302	39,508	121,037	160,545	25,217	6.37
1987	48,695	10,302	38,394	118,330	156,724	25,217	6.22
1986	47,547	10,302	37,245	115,539	152,784	25,217	6.06
1985	46,681	10,302	36,379	113,436	149,815	25,217	5.94
1984	45,370	10,302	35,068	110,249	145,317	25,217	5.76

SOURCES: "Two Cents of Gasoline Tax" and "4.86 Cents of Gasoline Tax": fiscal 1987-1993, Office of the Comptroller and Department of Revenue, Bureau of Analysis, Estimation and Research; and fiscal 1984-1986, Department of Revenue, Bureau of Analysis, Estimation and Research. "Debt Service": Office of the State Treasurer.

(1) Net of refunds and abatements from Gasoline Tax. See "COMMONWEALTH GASOLINE TAX — Refunds and Abatements from Gasoline Tax".

For fiscal 1995, the Department of Revenue has projected that Gasoline Tax receipts will equal approximately \$501.2 million. Based upon this assumption, Pledged Funds collected during fiscal 1995 will equal approximately \$143.4 million (which amount represents eleven months of receipts, since the first deposit to the Revenue Account will occur in August, 1994). This projection would result in a debt service coverage ratio for fiscal year 1995 of 5.69 (or 6.08 on an annualized basis), based on maximum annual Debt Service with respect to the 1994 Bonds of \$25.217 million. Forecasts of projected collections of Pledged Funds are not available beyond fiscal 1995, and therefore projected ratios of Pledged Funds to maximum annual Debt Service with respect to the 1994 Bonds for fiscal years after 1995 are not contained in this Official Statement. Assuming that no Additional Bonds are issued, Pledged Funds would have to decrease by approximately 67% from the amount collected in fiscal 1993 for the ratio of said amount to the maximum annual Debt Service referenced above to be less than 2.00. Such a decrease in collections would result from a decrease in sales of Gasoline to approximately 881 million gallons in a fiscal year, which is approximately 62% below the amount of Gasoline sold in the Commonwealth in fiscal 1984 (the lowest annual sales during the last 10 fiscal years). See "HISTORICAL GASOLINE SALES".

FINANCING THE COMMONWEALTH HIGHWAY SYSTEM

The Commonwealth is directly responsible under its operating budget for the maintenance and operation of over 12,600 lane miles of highways and over 2,800 bridges (the "Highway System"). In fiscal 1994, the Executive Office for Administration and Finance estimates that the Commonwealth will expend \$22.7 million for the operation and maintenance of the Highway System, exclusive of capital funds and emergency snow and ice removal costs. The Commonwealth also provides funding to its municipalities and to the MDC for the operation and maintenance of local and MDC highways, parkways, boulevards and bridges. In fiscal 1994, the Executive Office for Administration and Finance estimates that the Commonwealth will expend \$12.7 million, exclusive of capital funds and emergency snow and ice removal costs, for such purposes. The Highway System does not include the Massachusetts Turnpike or the Sumner and Callahan Tunnels, which are owned and operated by the Massachusetts Turnpike Authority, or the Tobin Memorial Bridge, which is owned and operated by the Massachusetts Port Authority.

The Commonwealth currently finances capital projects for the Highway System in accordance with a constitutional and statutory framework established for such purposes and with the five-year Capital Spending Plan formulated by the Executive Office for Administration and Finance.

Legal Framework For Financing the Highway System

Constitutional Limitations. Article 78 of the Articles of Amendment to the Massachusetts Constitution, as amended, requires that any fees, duties, excises or license taxes relating to the registration, operation or use of vehicles on public highways, or to fuels used for propelling such vehicles (as previously defined, "Article 78 Revenues"), be expended only for the following purposes: (1) the cost of administration of laws providing for such revenue, (2) the making of refunds and adjustments relating to such revenue; (3) the payment of highway obligations; (4) the cost of construction, reconstruction, maintenance and repair of public highways, bridges and mass transportation lines; (5) the cost of enforcing state traffic laws; and (6) the cost of other mass transportation purposes. Article 78 Revenues may be expended by the Commonwealth and its counties, cities and towns for these purposes only in such manner as the Legislature may direct.

The Commonwealth currently imposes the following taxes and fees, the revenues from which are classified as Article 78 Revenues: (1) the Gasoline Tax; (2) certain other fuel taxes imposed under Chapter 64E and 64F of the Massachusetts General Laws ("Other Fuel Taxes"); (3) motor vehicle registration fees imposed under Section 33 of Chapter 90 of the Massachusetts General Laws ("Registration Fees"); (4) motor vehicle license fees imposed under Section 33 of Chapter 90 of the Massachusetts General Laws ("License Fees"); and (5) miscellaneous fees and other revenues imposed under Section 33 of Chapter 90 of the Massachusetts General Laws, relating to the operation and use of motor vehicle transportation ("Other Non-Tax Revenues"). Under current law, except for 16.4% of Gasoline Tax receipts (15% is credited to the General Fund and 1.4% is credited to various environmental budgeted funds), all of these revenues are credited to the Highway Fund.

Other Fuel Taxes include special fuel taxes imposed under Chapter 64E on all combustible gases and liquids used or sold for use in an internal combustion engine, other than those fuels which are subject to the Gasoline Tax. Diesel fuel and liquefied gases, such as propane gas, are included in the definition of special fuels. The special fuels tax rate and collection procedures are the same as those which are imposed by the Gasoline Tax, except the \$.21 statutory minimum price per gallon does not apply to liquefied gases. Other Fuel Taxes also include motor carrier taxes imposed under Chapter 64F on anyone who regularly operates motor vehicles on the highways of the Commonwealth which are propelled by Gasoline or special fuels acquired outside the Commonwealth. Receipts from both taxes are currently credited to the Highway Fund, with portions earmarked for local use.

The Registration and License Fees are collected by the Registrar of Motor Vehicles or his or her authorized agents. Pursuant to Section 3B of Chapter 7 of the Massachusetts General Laws, the Secretary of Administration and Finance, after having conducted a public hearing, determines the amounts to be charged for each fee. Section 33 of Chapter 90 excludes certain vehicles or trailers, such as school buses, emergency vehicles and municipally owned vehicles from payment of Registration Fees. Other than certain minimum fees, most Registration Fees are based on the weight of the registered vehicle. Fees from licenses include driver's licenses and learners' permits. Other Non-Tax Revenues include other fees collected by the Registrar of Motor Vehicles under Chapter 90.

Pledged Funds currently represent the amounts derived from 4.86 cents of the Gasoline Tax and Surplus 1992 Pledged Fund transferred from time to time to the Trustee from the 1992 Trustee (currently estimated to be approximately 1.57 cents per gallon based upon fiscal 1993 Gasoline Tax Receipts; see "SECURITY FOR AND SOURCE OF PAYMENT FOR THE BONDS -- Flow of Pledged Funds"). Under the Trust Agreement, in connection with the issuance of Additional Bonds, and to the extent permitted by law, the Commonwealth may pledge as Additional Pledged Funds additional amounts of the Gasoline Tax, as well as other Article 78 Revenues. Under current law, only amounts credited to the Highway Fund may be pledged as security for the Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS" -- "Source of Pledged Funds"; "Additional Bonds".

Statutory Framework. The Commonwealth has established a statutory framework governing the expenditure of Article 78 Revenues. Under Chapter 90 of the Massachusetts General Laws, which chapter governs public highways, the Commonwealth established the Highway Fund, into which most of the Article 78 Revenues are credited. In addition, the Commonwealth has credited the receipts of certain other taxes and fees to the Highway Fund, including a portion of the tax imposed on cigarettes under Chapter 64C of the Massachusetts General Laws.

The following table sets forth the historical amounts credited to the Highway Fund.

HISTORICAL AMOUNTS CREDITED TO HIGHWAY FUND⁽¹⁾

(in thousands)

<u>Fiscal Year</u>	<u>Gasoline Taxes⁽²⁾</u>	<u>Other Fuel Taxes</u>	<u>Registration and License Fees</u>	<u>Other Non-Tax Revenues</u>	<u>Total</u>
1993	\$420,609	\$53,682	\$330,685	\$52,919	\$857,895
1992	409,060	51,364	300,371	50,019	810,814
1991	354,540	44,768	293,083	62,726	755,117
1990	229,998	30,890	307,681	60,435	629,004
1989	233,295	31,921	226,025	77,326	568,567
1988	232,449	31,565	156,897	110,211	531,122
1987	227,250	29,579	157,619	45,392	459,840
1986	221,891	27,094	150,763	44,897	444,645
1985	217,851	26,314	145,479	41,474	431,118
1984	211,731	25,467	128,257	31,375	396,830

SOURCES: "Gasoline Taxes" and "Other Fuel Taxes": fiscal 1987-1993, Office of Comptroller and Department of Revenue, Bureau of Analysis, Estimation and Research; and fiscal 1984-1986, Department of Revenue, Bureau of Analysis, Estimation and Research. "Registration and License Fees" and "Other Non-Tax Revenues": fiscal 1984-1993, Office of the Comptroller.

- (1) Excludes the portion of Cigarette Tax collected under Chapter 64C of Massachusetts General Laws which was previously credited to the Highway Fund.
- (2) Net of refunds and abatements from Gasoline Tax. Represents only that portion of the Gasoline Tax that is credited to the Highway Fund. See "COMMONWEALTH GASOLINE TAX -- Refunds and Abatements from Gasoline Tax".

Section 34 of Chapter 90 provides that the moneys credited to the Highway Fund, subject to appropriation by the Legislature, shall be used for the purposes listed therein, including administration of the laws relating to the use and operation of motor vehicles in the Commonwealth; maintaining, repairing and improving the Highway System, and local and MDC highways; the payment of debt service on Commonwealth general and special obligation highway bonds; and the maintenance of the department of state police. Historically, the Commonwealth has not funded all Highway System expenditures from amounts credited to the Highway Fund. The Legislature has also appropriated amounts for such purposes from both the General Fund and the Local Aid Fund. In fiscal years 1979 and 1980, and 1984 through 1987, the Commonwealth transferred amounts previously credited to the General Fund to the Highway Fund. In fiscal years 1988 and 1991, the Commonwealth transferred amounts previously credited to the Highway Fund to the General Fund. These transfers were authorized by the Legislature and were made to alleviate deficits which existed in the respective fund to which amounts were transferred. In connection with the enactment of the fiscal 1994 budget, the Legislature amended Section 34 of Chapter 90 to provide that revenues credited to the Highway Fund shall not be transferred to any other fund of the Commonwealth for any purpose.

Sources of Funding for Current Highway System Capital Plan

The Commonwealth's Capital Spending Plan currently provides for the expenditure in fiscal 1994 through fiscal 1998 of approximately \$1.763 billion by the Commonwealth for Highway System and other transportation (exclusive of MBTA) purposes. See "THE 1994 BONDS -- Application of Proceeds -- Summary of Capital Spending Plan; Transportation". This amount does not include amounts to be received by the Commonwealth from the federal government, including amounts to be received relating to the Central Artery/Third Harbor Tunnel project. The following describes the sources of funding for the portion of the Commonwealth's Capital Spending Plan relating to the Highway System and other transportation (other than MBTA) purposes.

General Obligation Highway Bonds. Until 1992, the Commonwealth issued only general obligation bonds ("General Obligation Highway Bonds") for the purpose of funding capital projects relating to the Highway System. Under the provisions of the Massachusetts Constitution and statutes, the Commonwealth is permitted to expend Article 78 Revenues and other moneys credited to the Highway Fund to pay debt service on the General Obligation

Highway Bonds. The General Obligation Highway Bonds are general obligations of the Commonwealth, and its full faith and credit are pledged to the payment of the debt service thereon.

Special Obligation Bonds. Under the Special Obligation Act, the Commonwealth is authorized to issue special obligation bonds of the Commonwealth to finance capital expenditures otherwise permitted to be made from the Highway Fund. The bonds issued thereunder may be secured by all or any portion of the moneys credited to the Highway Fund, will not constitute general obligations of the Commonwealth, and the full faith and credit of the Commonwealth will not be pledged to the payment of debt service thereon. The 1992 Bonds were the first issue of special obligation bonds issued under the Special Obligation Act. The 1994 Bonds are the second issue of special obligation bonds issued under the Special Obligation Act and the first issue under the Trust Agreement and are payable only from the Pledged Funds.

The provisions of the Highway Act authorize the expenditure of \$3.691 billion (which amount includes anticipated federal funds) to finance certain highway projects. The Commonwealth intends to fund the non-federal portion of these expenditures in accordance with the Capital Spending Plan and currently intends to issue both general and special obligation bonds of the Commonwealth to finance the expenditures. The Executive Office for Administration and Finance cannot predict at this time the specific amounts of general obligation bonds and special obligation bonds that will be issued.

In order for the Commonwealth to meet the debt service coverage tests imposed under the Trust Agreement to issue Additional Bonds it may pledge Additional Pledged Funds, which, to the extent permitted by law, may be composed of all or a portion of Article 78 Revenues, including a greater portion of the Gasoline Tax. See "Legal Framework for Financing the Commonwealth Highway System" and "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS -- Additional Bonds".

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 1994 Bonds, or in any way contesting or affecting the validity of the 1994 Bonds or the Trust Agreement, including the pledge of Pledged Funds.

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company, New York, New York ("DTC") will act as securities depository for the 1994 Bonds. The 1994 Bonds will initially be issued exclusively in book-entry form and the ownership of one fully registered 1994 Bond for each maturity set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants (the "DTC Participants") deposit with DTC. DTC also facilitates the settlement among DTC Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of the DTC Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as banks, securities brokers and dealers, and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants"). The rules applicable to DTC and the DTC Participants are on file with the Securities and Exchange Commission.

Purchases of 1994 Bonds under the DTC system must be made by or through DTC Participants, which will receive a credit for the 1994 Bonds in the records of DTC. The ownership interest of each actual purchaser of each 1994 Bond (the "Beneficial Owner") is in turn to be recorded on the DTC Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations of their purchase providing details of the 1994 Bonds acquired, as well as periodic statements of their holdings, from the DTC Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 1994 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 1994 Bonds, except in the event that use of the book-entry system for the 1994 Bonds is discontinued.

To facilitate subsequent transfers, all 1994 Bonds deposited by DTC Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of the 1994 Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 1994 Bonds; DTC's records reflect only the identity of the DTC Participants to whose accounts such 1994 Bonds are credited, which may or may not be the Beneficial Owners. The DTC Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

Redemption notices shall be sent to Cede & Co. If less than all of the 1994 Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each DTC Participant in such issue to be redeemed.

Neither DTC nor Cede & Co. will consent or vote with respect to the 1994 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 voting rights to those DTC Participants having the 1994 Bonds credited to their accounts on the record date (identified in a listing attached to the omnibus proxy).

NEITHER THE COMMONWEALTH NOR THE TRUSTEE WILL 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 BONDOWNER.

Beneficial Owners of the 1994 Bonds will not receive or have the right to receive physical delivery of such 1994 Bonds, and will not be or be considered to be owners thereof. So long as Cede & Co. is the registered owner of the 1994 Bonds, as nominee of DTC, references herein to the holders or registered owners of the 1994 Bonds shall mean Cede & Co. and shall not mean the Beneficial Owners of the 1994 Bonds.

DTC may discontinue providing its services as securities depository with respect to the 1994 Bonds at any time by giving reasonable notice to the Commonwealth. Under such circumstances, unless a substitute depository is retained by the Commonwealth, 1994 Bonds will be delivered and registered as designated by the Beneficial Owners. The Beneficial Owner, upon registration of 1994 Bonds held in the Beneficial Owner's name, will become the Bondholder.

The Commonwealth may determine that continuation of the system of book-entry transfers through DTC (or a successor depository) is not in the best interest of the Beneficial Owners. In such event, 1994 Bonds will be delivered and registered as designated by the Beneficial Owners.

The principal of and interest and premium on the 1994 Bonds will be paid to DTC or its nominee, Cede & Co., as registered owner of the 1994 Bonds. Upon receipt of moneys, DTC's practice is to credit the accounts of the DTC Participants on the payable date in accordance with their respective holdings shown on the records of DTC unless DTC has reason to believe it will not receive payment on the payable date. 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 on the 1994 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.

Neither the Commonwealth nor the Trustee can give any assurances that DTC Participants or others will distribute payments of principal of and interest on the 1994 Bonds paid to DTC or its nominee, as the registered owner, to the Beneficial Owners, or that they will do so on a timely basis or that DTC will serve and act in a manner described in this document.

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

RATINGS

The 1994 Bonds have been assigned ratings by Fitch Investors Service, Inc., Moody's Investors Service, Inc. and Standard & Poor's Corporation. The rating assigned by Fitch Investors Service, Inc. for the 1994 Bonds is "A+". The rating assigned by Moody's Investors Service, Inc. for the 1994 Bonds is "A1". The rating assigned by Standard & Poor's Corporation for the 1994 Bonds is "AA-".

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 1994 Bonds.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase all of the 1994 Bonds from the Commonwealth at a discount from the initial offering prices of the 1994 Bonds equal to approximately .646% of the aggregate principal amount of the 1994 Bonds, of which .516% of the aggregate principal amount of the 1994 Bonds represents compensation to the Underwriters. The Underwriters may offer and sell the 1994 Bonds to certain dealers and others (including dealers depositing 1994 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 public 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 1994 Bonds will not be included in the gross income of holders of such 1994 Bonds for federal income tax purposes. This opinion is expressly conditioned upon compliance with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), which requirements must be satisfied after the date of issuance of the 1994 Bonds in order to assure that the interest on the 1994 Bonds is and continues to be excludable from the gross income of the holders of such 1994 Bonds. Failure to comply could cause the interest on the 1994 Bonds to be included in the gross income of the

holders thereof, retroactive to the date of issuance of such 1994 Bonds. In particular, and without limitation, those requirements include restrictions on the use, expenditure and investment of bond proceeds and the payment of rebate, or penalties in lieu of rebate, to the United States, subject to certain exceptions. The Commonwealth has provided covenants and certificates as to its continued compliance with such requirements.

In the opinion of Bond Counsel, under existing law, interest on the 1994 Bonds will not constitute a preference item under section 57(a)(5) of the Code for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations under section 55 of the Code. However, interest on the 1994 Bonds will be included in "adjusted current earnings" of corporate holders of such 1994 Bonds and therefore will be taken into account under section 56(g) of the Code in the computation of the alternative minimum tax applicable to certain corporations.

Bond Counsel has not opined as to other federal tax consequences of holding the 1994 Bonds. However, prospective purchasers of such 1994 Bonds should be aware that (i) section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the 1994 Bonds or, in the case of a financial institution, that portion of a holder's interest expense allocated to such 1994 Bonds, (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the 1994 Bonds, (iii) for taxable years beginning before January 1, 1996, interest on the 1994 Bonds earned by some corporations could be subject to the environmental tax imposed by section 59A of the Code, (iv) interest on the 1994 Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (v) passive investment income, including interest on the 1994 Bonds, may be subject to federal income taxation under section 1375 of the Code for S corporations that have Subchapter S earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such S corporation is passive investment income and (vi) section 86 of the Code requires recipients of certain Social Security and Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the 1994 Bonds.

In the opinion of Bond Counsel, the 1994 Bonds, their transfer and the income therefrom, including profit on the sale thereof, shall at all times be exempt from taxation by and within the Commonwealth, although the 1994 Bonds and the interest thereon may be included in the measure of estate and inheritance taxes and of certain corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the 1994 Bonds or interest thereon under the laws of jurisdictions other than the Commonwealth.

For federal and Massachusetts income tax purposes, interest includes original issue discount, which with respect to a 1994 Bond is equal to the excess, if any, of the stated redemption price at maturity of such 1994 Bond over the initial offering price thereof to the public, excluding underwriters and other intermediaries, at which price a substantial amount of all such 1994 Bonds with the same maturity was sold. Original issue discount accrues actuarially over the term of a 1994 Bond. Holders should consult their own tax advisers with respect to the computations of original issue during the period in which any such 1994 Bond is held.

On the date of delivery of the 1994 Bonds, the original purchasers thereof will be furnished with an opinion of Bond Counsel substantially in the form attached hereto as Appendix D -- Form of Opinion of Bond Counsel.

OPINIONS OF COUNSEL

The unqualified approving opinion as to the legality of the 1994 Bonds will be rendered by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. of Boston, Massachusetts, Bond Counsel to the State Treasurer. The proposed form of the opinion of Bond Counsel is attached as Appendix D. Certain legal matters will be passed upon for the State Treasurer by Palmer & Dodge of Boston, Massachusetts, as disclosure counsel to the State Treasurer. Certain legal matters will be passed upon for the Underwriters by their counsel, Hale and Dorr of Boston, Massachusetts.

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.

CONTINUING DISCLOSURE

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

AVAILABILITY OF OTHER INFORMATION

Questions regarding this Official Statement or requests for additional information concerning the Commonwealth should be directed to Kenneth Olshansky, Deputy Treasurer, One Ashburton Place, Boston, Massachusetts 02108, telephone (617) 367-6900, or Lowell Richards, Director of Debt Finance of the 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 request for copies of the Trust Agreement should be directed to John R. Regier, Esq., Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone (617) 542-6000.

THE COMMONWEALTH OF MASSACHUSETTS

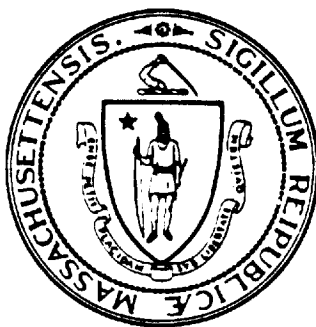
By _____ */s/ Joseph D. Malone*
Joseph D. Malone
Treasurer and Receiver-General

By _____ */s/ Mark E. Robinson*
Mark E. Robinson
Secretary for Administration and Finance

June 8, 1994

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**THE
COMMONWEALTH
OF
MASSACHUSETTS**



SUMMARY INFORMATION STATEMENT

Dated June 8, 1994

**Relating to
\$300,000,000
The Commonwealth of Massachusetts
Special Obligation Revenue Bonds,
1994 Series A**

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THE COMMONWEALTH OF MASSACHUSETTS

SUMMARY INFORMATION STATEMENT

June 8, 1994

This Summary Information Statement, together with the Exhibits attached hereto, is furnished by the Commonwealth solely in connection with the issuance of the 1994 Bonds. It contains certain limited information concerning the Commonwealth and does not contain all fiscal, budgetary and other information otherwise provided in connection with the issuance of Commonwealth general obligation bonds or notes. Exhibit A to the Commonwealth Information Statement contains certain economic, demographic and statistical information concerning the Commonwealth. A copy of the most recent Commonwealth Information Statement relating to its general obligation indebtedness and containing more complete financial and other information may be obtained from the Commonwealth at the addresses set forth herein under the heading "AVAILABILITY OF OTHER INFORMATION." The Commonwealth does not prepare audited financial statements solely with respect to amounts of the Gasoline Tax credited to the Infrastructure Fund or the obligations of the Commonwealth under the 1992 Trust Agreement or the Trust Agreement and accordingly no such audited information is included in this Summary Information Statement or expected to be available in the future. This Summary Information Statement contains information only through its date, and should be read in its entirety. Capitalized terms not otherwise defined herein are used as defined in the Official Statement to which this Summary Information Statement is attached.

THE GOVERNMENT

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

Executive Branch

The Governor is the chief executive officer of the Commonwealth. Other elected members of the executive branch are the Lieutenant Governor (elected with the Governor), the Treasurer and Receiver-General (the "State Treasurer"), the Secretary of the Commonwealth, the Attorney General and the State Auditor. All are elected to four-year terms. The next election for these officers will be held in November 1994.

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

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

Governor's Cabinet. The Governor's Cabinet, which assists the Governor in administration and policy making, is comprised of the secretaries who head the eleven Executive Offices. Cabinet secretaries serve at the pleasure of the Governor. All agencies are grouped under one of the eleven Executive Offices for administrative purposes.

Approximately 76.8% of the Commonwealth's fiscal 1994 program expenditures in the budgeted operating funds is allocated to the Executive Offices. Listed below are the eleven Executive Offices, showing for each the name of its secretary and the percentage of the Commonwealth's fiscal 1994 program expenditures in the budgeted operating funds attributable thereto:

Executive Offices

<u>Executive Office</u>	<u>Secretary</u>	<u>Approximate Percentage of Total Expenditures Supervised</u>
Administration and Finance (1)	Mark E. Robinson	5.6%
Communities and Development	Mary L. Padula	0.9
Consumer Affairs and Business Regulation	Priscilla H. Douglas	0.2
Economic Affairs	Gloria C. Larson	0.2
Educational Affairs	Piedad F. Robertson	15.8
Elder Affairs	Franklin P. Ollivierre	0.8
Environmental Affairs	Trudy Coxé	1.0
Health and Human Services	Charles Baker	43.2
Labor	Christine E. Morris	0.1
Public Safety	Thomas C. Rapone	4.8
Transportation and Construction	James J. Kerasiotes	4.2

SOURCE: Executive Office for Administration and Finance.

(1) The Secretary for Administration and Finance is also the Commissioner of Administration.

Approximately 3.4% of the Commonwealth's fiscal 1994 expenditures in the budgeted operating funds are for the costs and expenses of the constitutional officers (other than the State Treasurer), the Legislature, the Judiciary, the Office of the Comptroller, the Board of Library Commissioners, the Office of the Inspector General, the State Ethics Commission and the Office of Campaign and Political Finance. The State Treasurer's budget contains approximately 19.3% of fiscal 1994 expenditures, including 5.3% for a portion of Commonwealth aid to cities, towns and regional school districts ("Local Aid"), 7.5% for debt service, 5.9% for pension costs, and 0.6% for other programs within the State Treasurer's office, including Lottery administration. The remaining 0.5% of fiscal 1994 expenditures is reserved for contingencies.

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

All accounting policies and practices, publication of official financial reports and oversight of fiscal management functions are the responsibility of the Comptroller. The Comptroller also administers the annual state single audit and operates the state accounting system. The Comptroller is appointed by the Governor for a term coterminous with the Governor's and may be removed by the Governor only for cause. The preliminary and annual financial reports of the Commonwealth, single audit reports and any rules and regulations promulgated by the Comptroller must be reviewed by an advisory board. This board is chaired by the Secretary for Administration and Finance and includes the State Treasurer, the Attorney General, the State Auditor, the Chief Administrative Justice of the Trial Court and two persons with relevant experience appointed by the Governor for three-year staggered terms. The Commonwealth has retained the independent public accounting firm of Deloitte & Touche to audit the Commonwealth's general purpose financial statements and to conduct the state single audit. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS".

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

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

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

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

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

Legislative Branch

The General Court (the "General Court" or the "Legislature") is the bicameral legislative body of the Commonwealth, consisting of a Senate of 40 members and a House of Representatives of 160 members. Members of both the Senate and the House are elected to two-year terms in even-numbered years. The General Court meets every year, and sessions often extend throughout the year.

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

Judicial Branch

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

Initiative Petitions

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

COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS

Operating Fund Structure

Budgeted Operating Funds. The Commonwealth's operating fund structure satisfies the requirements of state finance law and is in accordance with generally accepted accounting principles ("GAAP"), as defined by the Governmental Accounting Standards Board. The General Fund and those special revenue funds which are appropriated in the annual state budget receive most of the non-bond and non-federal grant revenues of the Commonwealth. These funds are referred to in this Summary Information Statement as the "budgeted operating funds" of the Commonwealth. They do not include the capital projects funds of the Commonwealth, into which the proceeds of Commonwealth bonds are deposited. See "Overview of Capital Spending Process and Controls; *Capital Projects Fund Structure*". The three principal budgeted operating funds are the General Fund, the Highway Fund and the Local Aid Fund. Expenditures from these three funds generally account for approximately 98% of total expenditures of the budgeted operating funds.

Stabilization Fund. State finance law provides for a Stabilization Fund relating to the use of fiscal year-end surpluses. A limitation equal to 0.5% of total tax revenues is imposed on the amount of any aggregate surplus in the Commonwealth's three principal budgeted operating funds which may be carried forward as a beginning balance for the next fiscal year. Any amount in excess of that limitation is reserved in the Stabilization Fund, from which funds can be appropriated (i) to make up any difference between actual state revenues and allowable state revenues in any fiscal year in which actual revenues fall below the allowable amount, (ii) to replace state and local losses of federal funds or (iii) for any event, as determined by the Legislature, which threatens the health, safety or welfare of the people or the fiscal stability of the Commonwealth or any of its political subdivisions. Up to 5% of total state tax revenues may be accumulated in the Stabilization Fund. Amounts in excess of that figure at the end of any fiscal year are to be applied to the reduction of personal income taxes.

Overview of Budgetary Process

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

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

In the event that a General Appropriation Act is not approved by the Legislature and the Governor prior to the beginning of a fiscal year on July 1, the Legislature and the Governor may approve a temporary budget under which funds for the Commonwealth's programs and services would be appropriated based upon the level of appropriations from the prior fiscal year budget. Temporary budgets have been utilized frequently in the Commonwealth pending final approval of the General Appropriation Act by the Legislature and the Governor.

During the course of the fiscal year, the Office of the Comptroller monitors budgetary accounts and notifies the Secretary for Administration and Finance and the House and Senate Committees on Ways and Means whenever the appropriation to any account has been depleted. Whenever the Governor believes that existing appropriations are insufficient to provide for projected expenditures under authorized programs, the Governor may seek supplemental appropriations for particular programs or spending items. Supplemental appropriations have been commonplace in recent years for various purposes, including, in particular, Medicaid and certain other public assistance programs.

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

Fiscal Control, Accounting and Reporting Practices of Comptroller

The Comptroller is responsible for oversight of fiscal management functions, establishment of all accounting policies and practices and publication of official financial reports. The Office of the Comptroller maintains the Massachusetts Management Accounting and Reporting System ("MMARS"), the centralized state accounting system that is used by all state agencies and departments except for independent state authorities. MMARS provides a ledger-based system of revenue and expenditure accounts enabling the Comptroller to control obligations and expenditures effectively and to ensure that appropriations are not exceeded during the course of the fiscal year. During fiscal 1992 the Commonwealth added a billing and accounts receivable subsystem to its statewide accounting system in order to automate the billing, collection and management of its non-tax revenues.

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

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

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

GAAP Basis of Accounting. Since fiscal 1986, the Comptroller has prepared Commonwealth financial statements on a GAAP basis. The emphasis is on demonstrating interperiod equity through the use of modified accrual accounting for the recognition of revenues and expenditures/expenses. In addition to the primary government, certain independent authorities and agencies of the Commonwealth are included as component units within the Commonwealth's reporting entity, primarily as non-budgeted enterprise funds.

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

Financial Reports. The Commonwealth's fiscal year ends on June 30 of each year. Throughout the year, the Comptroller prepares interim financial statements, and, in September, following the end of each fiscal year, the Comptroller issues the Preliminary Financial Report. These interim and preliminary financials are prepared on the statutory basis of accounting and are not audited, but they are considered authoritative. In the following January, the Comptroller publishes the Commonwealth's audited annual report. For fiscal 1986 through 1989 this report included audited financial statements on both the statutory basis of accounting and on the GAAP basis. Since fiscal 1990, these financial statements have been issued as two separate financial reports, one utilizing the statutory basis of accounting (the "Statutory Basis Financial Report") and the Comprehensive Annual Financial Report ("CAFR"), which is on a GAAP basis. For fiscal 1990 through 1993 the independent auditor's opinions were unqualified. Copies of these financial reports are available at the address provided under "CONTINUING DISCLOSURE". The Commonwealth does not prepare audited financial statements solely with respect to amounts of the Gasoline Tax credited to the Infrastructure Fund or the obligations of the Commonwealth under the 1992 Trust Agreement or the Trust Agreement and accordingly no such audited information is included in this Summary Information Statement or expected to be available in the future.

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

The CAFRs for fiscal 1990 through fiscal 1992, from which certain information contained in this Summary Information Statement has been derived, were each awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (the "GFOA"). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the basic contents of which conform to program standards. Such report must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The Comptroller believes that the Commonwealth's CAFR for fiscal 1993 will conform to Certificate of Achievement program standards, and it will be submitted to the GFOA.

Overview of Capital Spending Process and Controls

Capital Projects Fund Structure. Capital projects funds ("Capital Projects Funds") are used to account for financial activity related to the acquisition of major capital assets. Line item capital appropriations are authorized from Capital Projects Funds. This capital spending is financed principally from proceeds of Commonwealth bonds and bond anticipation notes, federal reimbursements and transfers from other governmental funds. The issuance of bonds and bond anticipation notes requires that both houses of the Legislature approve, by a two-thirds vote, a separate bond authorization to incur debt for a specific purpose. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- Overview". Pursuant to state finance law, the Governor, through the Secretary for Administration and Finance, has discretion over the allotment and, therefore, the actual expenditure of funds authorized by capital appropriations.

Five-Year Capital Spending Plan. In August 1991, the administration announced the development of a five-year capital spending plan (the "Five-Year Capital Spending Plan"). The Five-Year Capital Spending Plan, which is an administrative guideline and subject to amendment by the Governor at any time, sets forth capital spending allocations for the next five fiscal years and establishes capital spending limits. The Governor has also introduced a set of capital spending controls. See "*Capital Spending Controls*".

The policy objective of the Five-Year Capital Spending Plan is to limit the debt burden of the Commonwealth by controlling the relationship between current capital spending and the issuance of bonds by the Commonwealth. Capital appropriations enacted by the Legislature are typically matched with bond authorizations. The Governor, by utilizing his discretion over the allotment of funds for capital appropriations, may control the rate at which capital appropriations are expended, and therefore control the amount of bonds issued to finance such expenditures.

The following table, entitled "Summary of Five-Year Capital Spending Plan and Plan of Finance", sets forth current estimates of capital spending of the Commonwealth, including the MBTA, as well as the sources of funding for such capital spending, including federal aid, for fiscal years 1994 through 1998. Total capital spending for fiscal years 1994 through 1998 to be financed from Commonwealth debt is forecast at \$4.4 billion, which is significantly below legislatively authorized capital spending levels. In addition, the Five-Year Capital Spending Plan also forecasts total MBTA capital expenditures of \$1.394 billion for fiscal years 1994 through 1998, which spending will be financed through the issuance of bonds by the MBTA and assumes that the projected level of Commonwealth capital spending will leverage additional federal aid of \$6.815 billion for this period. The anticipated levels of federal aid rely on certain assumptions concerning the level of federal participation in the funding of the third harbor tunnel and central artery projects and for state highways and bridge repair. The Executive Office for Administration and Finance expects to review the Five-Year Capital Spending Plan early in fiscal 1995 in order to include expected fiscal 1999 spending and, if necessary, to make other revisions as well.

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

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>Total</u>
Uses of Funds						
Information Technology	\$ 21	\$ 13	\$ 20	\$ 21	\$ 17	\$ 92
Infrastructure(2)	101	203	218	217	237	976
Environmental Affairs						
Commonwealth Expenditures	119	98	73	61	48	399
Open Space Acquisition	<u>35</u>	<u>35</u>	<u>40</u>	<u>45</u>	<u>45</u>	<u>200</u>
Subtotal	154	133	113	106	93	599
Housing	44	70	70	77	78	339
Transportation						
Commonwealth Expenditures	417	333	363	348	302	1,763
MBTA	200	394	316	255	229	1,394
Federal Highway/MBTA Aid	<u>1,392</u>	<u>1,620</u>	<u>1,431</u>	<u>1,337</u>	<u>1,035</u>	<u>6,815</u>
Subtotal	2,009	2,347	2,110	1,940	1,566	9,972
Economic Development	30 (3)	97	108	117	118	470
Miscellaneous Capital Projects	<u>13</u>	<u>19</u>	<u>12</u>	<u>8</u>	<u>7</u>	<u>59</u>
Total	<u>\$2,372</u> (4)	<u>\$2,882</u> (4)	<u>\$2,651</u>	<u>\$2,486</u>	<u>\$2,116</u>	<u>\$12,507</u>
Sources of Funds						
Federal Aid	\$1,392	\$1,620	\$1,431	\$1,337	\$1,035	\$6,815
Commonwealth Debt(5)	700	1,050 (6)	904	894	852	4,400
MBTA Bonds	<u>200</u>	<u>394</u>	<u>316</u>	<u>255</u>	<u>229</u>	<u>1,394</u>
Total	<u>\$2,292</u> (4)	<u>\$3,064</u> (4)	<u>\$2,651</u>	<u>\$2,486</u>	<u>\$2,116</u>	<u>\$12,609</u>

SOURCE: Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Includes hospital consolidation, prison construction, courts, higher education and miscellaneous other projects.
- (3) Does not include \$67.0 million in fiscal 1994 to be spent on transportation projects related to economic development.
- (4) The difference between the total uses of funds and total sources of funds primarily relates to the timing of issuance of Commonwealth debt.
- (5) Includes general obligation bonds and special obligation bonds.
- (6) Includes expected issuance of approximately \$180 million of general obligation bonds for certain expenditures unrelated to fiscal 1995.

The Commonwealth anticipates that a substantial portion of the state financed share of the Five-Year Capital Spending Plan will be financed from the proceeds of general obligation debt. Due to the size and complexity of the Commonwealth's capital program, and other factors, the timing and amount of actual capital expenditures and debt issuances over the period will likely vary somewhat from the annual spending amounts contained in the Five-Year Capital Spending Plan.

Capital Spending and Controls. In conjunction with the development of the Five-Year Capital Spending Plan, the Governor has directed the implementation of a number of accounting procedures and fiscal controls to limit agency capital spending to the levels established by the Five-Year Capital Spending Plan. Since July 1, 1991, all agency capital spending has been tracked against the Five-Year Capital Spending Plan on both a cash and an encumbrance accounting basis on MMARS, the Comptroller's statewide accounting system, and federal reimbursements have been budgeted and monitored against anticipated receipts.

The Governor is pursuing additional measures to limit the practice of shifting operating agency personnel costs and other operating expenditures to Capital Projects Funds. Implementation of this full-cost budgeting approach to relate the effect of capital spending more precisely to the operating budget should provide further incentive for agency managers to control capital spending.

Audit Practices of State Auditor

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

FINANCIAL RESULTS

As the annual operating budget of the Commonwealth is adopted in accordance with the statutory basis of accounting, public and governmental discourse on the financial affairs of the Commonwealth has traditionally followed the statutory basis. Consequently, the financial information set forth in this document follows the statutory basis, except where otherwise noted. Since fiscal 1990, the Commonwealth has prepared separate audited financial reports on the statutory basis and on a GAAP basis. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Fiscal Control, Accounting and Reporting Practices of the Comptroller; *Financial Reports*".

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 1989 through 1993 and unaudited estimates for fiscal 1994 prepared by the Executive Office for Administration and Finance. The financial information presented includes all budgeted operating funds of the Commonwealth. When the status of a fund has changed during this period, prior years have been restated to conform to the fiscal 1994 budget.

The Commonwealth currently has 34 active budgeted funds. During a fiscal year there are numerous transactions among these budgeted funds, which from the fund accounting perspective create offsetting inflows and outflows.

In conducting the budget process, the Executive Office for Administration and Finance excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds. The following table isolates this interfund activity from the budgeted sources and uses to align more clearly forecasts prepared during the budget process to the detailed fund accounting of the Commonwealth's annual financial statements. The table also isolates the assessments on municipalities collected by the Commonwealth and paid to the MBTA and RTA's. This activity is recorded in the Commonwealth's financial statements as part of the General Fund, but it is not appropriated or included in the budget process.

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

	Fiscal <u>1989</u>	Fiscal <u>1990</u>	Fiscal <u>1991</u>	Fiscal <u>1992</u>	Fiscal <u>1993</u>	Estimated Fiscal <u>1994</u>
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$170.3	\$124.9	\$174.5	\$119.8	\$236.2	\$110.4
Stabilization Fund (1)	112.3	--	--	59.2	230.4	309.5
Undesignated	<u>70.6</u>	<u>(444.2)</u>	<u>(1,278.9)</u>	<u>58.1</u>	<u>82.8</u>	<u>142.6</u>
Total	<u>353.2</u>	<u>(319.3)</u>	<u>(1,104.4)</u>	<u>237.1</u>	<u>549.4</u>	<u>562.5</u>
<u>Revenues and Other Sources</u>						
Taxes	8,815.4	8,517.7	8,994.9	9,483.6	9,929.9	10,694.0
Federal Reimbursements (2)	1,542.0	1,717.5	2,777.1	2,393.5	2,674.1	2,905.9
Departmental and Other Revenues	949.1	1,131.7	1,204.9	1,187.3	1,327.1	1,105.9
Interfund Transfers from Non-budgeted Funds and Other Sources (3)	<u>663.9</u>	<u>641.3</u>	<u>656.6</u>	<u>663.9</u>	<u>778.5</u>	<u>823.3</u>
Budgeted Revenues and Other Sources	<u>11,970.4</u>	<u>12,008.2</u>	<u>13,633.5</u>	<u>13,728.3</u>	<u>14,709.6</u>	<u>15,529.1</u>
Mass Transit Assessments from Municipalities	120.7	123.9	130.2	130.9	137.4	140.8
Interfund Transfers among Budgeted Funds and Other Sources	<u>217.7</u>	<u>91.1</u>	<u>149.7</u>	<u>366.9</u>	<u>358.7</u>	<u>198.9</u>
Total Revenues and Other Sources	<u>12,308.8</u>	<u>12,223.2</u>	<u>13,913.4</u>	<u>14,226.1</u>	<u>15,205.7</u>	<u>15,868.8</u>
<u>Expenditures and Uses</u>						
Programs and Services	11,302.1	11,770.2	11,944.5	11,757.4	12,683.6	13,549.5(4)
Debt Service	649.8	770.9	942.3	898.3	1,139.5	1,171.4
Pensions	659.7	671.9	703.9	751.5	868.6	941.0
Interfund Transfers to Non-budgeted Funds and Other Uses	<u>31.3</u>	<u>46.7</u>	<u>64.0</u>	<u>8.8</u>	<u>5.1</u>	<u>30.0</u>
Budgeted Expenditures and Other Uses	<u>12,642.9</u>	<u>13,259.7</u>	<u>13,654.7</u>	<u>13,416.0</u>	<u>14,696.4</u>	<u>15,691.9(5)</u>
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	120.7	123.9	130.2	130.9	137.4	140.8
Interfund Transfers among Budgeted Funds and Other Uses	<u>217.7</u>	<u>91.1</u>	<u>149.7</u>	<u>366.9</u>	<u>358.7</u>	<u>198.9</u>
Total Expenditures and Other Uses	<u>12,981.3</u>	<u>13,474.7</u>	<u>13,934.6</u>	<u>13,913.8</u>	<u>15,192.6</u>	<u>16,031.6</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(672.5)</u>	<u>(1,251.5)</u>	<u>(21.2)</u>	<u>312.3</u>	<u>13.1</u>	<u>(162.8)</u>
Prior Year Deficit Financing	--	466.4	1,362.7	--	--	--
<u>Ending Fund Balances</u>						
Reserved or Designated	124.9	174.5	119.8	236.2	110.4	3.8
Stabilization Fund (1)	--	--	59.2	230.4	309.5	316.5
Undesignated	<u>(444.2)</u>	<u>(1,278.9)</u>	<u>58.1</u>	<u>82.8</u>	<u>142.6</u>	<u>79.4</u>
Total	<u>\$(319.3)</u>	<u>\$(1,104.4)</u>	<u>\$237.1</u>	<u>\$549.4</u>	<u>\$562.5</u>	<u>\$399.7</u>

SOURCE: Fiscal 1989-1993, Office of the Comptroller. Estimated Fiscal 1994, Executive Office for Administration and Finance.

- (1) Stabilization Fund balances are not expendable without subsequent specific legislative authorization.
- (2) Includes \$513 million for fiscal 1991, \$198.6 million for fiscal 1992 and \$236.3 million for fiscal 1993 in federal reimbursements resulting from claims for reimbursement of certain uncompensated care for Massachusetts hospitals.
- (3) Interfund transfers represent accounting transfers which reallocate resources among funds. Fund deficit support transfers of \$234.8

million in fiscal 1991 have been eliminated to facilitate comparative analysis.

(4) Includes \$75.4 million reserved for contingencies.

(5) Includes \$127.4 million transferred from off-budget expenditure accounts to on-budget expenditure accounts for fiscal 1994.

Annual budgeted revenues increased by approximately 0.3% in fiscal 1990, increased by 13.5% in fiscal 1991 and increased by approximately 0.7% in fiscal 1992. Annual budgeted revenues increased from fiscal 1992 to fiscal 1993 by approximately 7.1% and are projected to increase by approximately 5.6% in fiscal 1994. Annual budgeted expenditures increased at annual rates of approximately 4.9% in fiscal 1990 and 3.0% in fiscal 1991. Annual budgeted expenditures decreased from fiscal 1991 to fiscal 1992 by approximately 1.7% and increased by approximately 9.5% in fiscal 1993 and are estimated to increase by approximately 6.9% in fiscal 1994. Fund balances in the budgeted operating funds declined from opening balances of \$353.2 million in fiscal 1989 to ending balances of negative \$1.104 billion in fiscal 1990. For fiscal 1991, these funds attained positive ending balances of \$237.1 million, of which \$59.2 million was reserved in the Commonwealth's Stabilization Fund pursuant to state finance law. Fiscal 1992 ended with positive fund balances of \$549.4 million, including \$230.4 million in the Stabilization Fund. Fiscal 1993 ended with positive fund balances of \$562.5 million, including \$309.5 million in the Stabilization Fund.

Fiscal 1994 is estimated to end with a deficiency of revenues and other sources over expenditures and other uses of \$162.8 million and ending fund balances of \$399.7 million. However, on June 1, 1994, the Department of Revenue announced that fiscal 1994 tax revenue collections through May, 1994 were \$63 million below the year-to-date range established by the Department of Revenue for fiscal 1994. The Department of Revenue has not officially revised its current fiscal 1994 tax revenue estimate of \$10.694 billion, although it is possible that fiscal 1994 tax revenues will be approximately \$30 million to \$70 million below such estimate. The Executive Office for Administration and Finance has taken steps to control spending and expects to offset any reduction in fiscal 1994 tax revenues through these measures.

On May 12, 1994, the House adopted a fiscal 1995 budget that appropriates total expenditures of \$16.389 billion, as compared to the Governor's fiscal 1995 budget recommendation of \$16.139 billion. On June 8, 1994, the Senate Ways and Means Committee recommended fiscal 1995 appropriations of approximately \$16.273 billion. The fiscal 1995 budget will now be considered by the full Senate. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Overview of Budgetary Process".

Selected Financial Data - GAAP Basis

The following table provides financial results on a GAAP basis for fiscal years 1989 through 1993 for all budgeted operating funds of the Commonwealth.

In its fiscal 1993 CAFR, the Commonwealth has adopted the guidance of the Governmental Accounting Standards Board (GASB) Statement No. 15 "Governmental College and University Accounting and Financial Reporting Models" and discretely presented the University and College Fund Type. In prior years, the financial activity of institutions of higher education was blended into Governmental, Proprietary, and Fiduciary Fund Types. The reason for the change is to provide a more focused basis for future measurements of financial performance, to provided comparability with other states who prepare CAFRs, and to demonstrate accountability for the Commonwealth's institutions of higher education. In order to accomplish the transition to discrete presentation, fiscal 1992 amounts have been restated.

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

	<u>Fiscal 1989</u>	<u>Fiscal 1990</u>	<u>Fiscal 1991</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
Fund equity (deficit) at beginning of year	\$(51.6)	\$(946.2)	\$(1,895.5)	\$(761.2)	\$(317.4)(2)
<u>Revenues and Sources</u>					
Taxes	8,685.2	8,259.6	9,131.1	9,471.0	10,015.8
Federal Grants and Reimbursements	1,736.8	1,649.7	2,808.8	2,415.9	2,627.0
Department and Other Revenues	1,085.1	1,249.0	1,359.1	1,441.1	1,522.4
Interfund Transfers and Other Sources	<u>804.4</u>	<u>807.0</u>	<u>800.7</u>	<u>817.5</u>	<u>1,015.7</u>
Total	<u>12,311.5</u>	<u>11,965.3</u>	<u>14,099.7</u>	<u>14,145.5</u>	<u>15,181.0</u>
<u>Expenditures and Uses</u>					
Programs and Services	11,160.1	11,193.2	11,892.5	11,348.8	11,636.5
Debt Service	649.8	770.9	942.3	751.5	1,139.5
Pensions	662.9	671.9	706.5	898.3	893.5
Interfund Transfers and Other Uses (1)	<u>733.3</u>	<u>745.0</u>	<u>786.8</u>	<u>767.3</u>	<u>1,378.2</u>
Total	<u>13,206.1</u>	<u>13,381.0</u>	<u>14,328.1</u>	<u>13,765.9</u>	<u>15,047.7</u>
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	<u>(894.6)</u>	<u>(1,415.7)</u>	<u>(228.4)</u>	<u>379.6</u>	<u>133.3</u>
Prior Year Deficit Financing	--	466.4	1,362.7	--	--
Fund Equity (Deficit) at End of Year	<u>\$(946.2)</u>	<u>\$(1,895.5)</u>	<u>\$(761.2)</u>	<u>\$(381.6)</u>	<u>\$(184.1)</u>

SOURCE: Office of the Comptroller.

- (1) A fund deficit support transfer of \$234.8 million in fiscal 1991 has been eliminated to facilitate comparative analysis.
 (2) As restated to reflect discrete presentation of the University and College Fund. This fund balance is increased \$64.2 million due to certain liabilities related to accrued salaries and fringe benefits being transferred to the University and College Fund.

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

COMMONWEALTH REVENUES

In order to fund its programs and services, the Commonwealth collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, court revenues, assessments, reimbursements, interest earnings and transfers from its non-budgeted funds. In fiscal 1993, approximately 67.7% of the Commonwealth's annual budgeted revenues were derived from state taxes. In addition, the federal government provided approximately 17.9% of such revenues, with the remaining 14.4% provided from departmental revenues and transfers from non-budgeted funds.

Distribution of Revenues

The following table sets forth the Commonwealth's actual revenues in its budgeted operating funds for fiscal 1989 through 1993 and estimated revenues for fiscal 1994. See "FINANCIAL RESULTS -- Selected Financial Data - Statutory Basis."

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

	Fiscal <u>1989</u>	Fiscal <u>1990</u>	Fiscal <u>1991(7)</u>	Fiscal <u>1992(7)</u>	Fiscal <u>1993(7)</u>	Estimated Fiscal <u>1994</u>
Tax Revenues:						
Alcoholic Beverages	\$ 75.8	\$ 70.8	\$ 66.2	\$ 63.5	\$ 60.6	\$ 58.0
Banks						
Commercial	125.2	64.5	27.4	17.6(9)	74.7	95.0
Savings	98.3	46.2	20.6	42.5	78.2	66.0
Cigarettes (1)	158.6	150.8	144.4	139.9	190.2	238.0
Corporations	887.1	698.4	612.2	643.8	737.4	875.0
Deeds (2)	45.2	36.2	30.1	32.2	34.0	38.0
Income	4,286.7	4,465.2(5)	5,045.1(5)	5,337.0	5,374.9	5,746.6
Inheritance and Estate	258.6	276.4	249.5	260.2	267.3	253.0
Insurance (3)	301.6	273.0	267.8	284.8	280.5	296.8
Motor Fuel	306.9	301.9	464.2	541.1	557.2	560.0
Public Utilities	72.2	62.0	59.3	52.9	69.1	53.4
Racing	32.7	31.7	27.5	26.1	15.7	14.0
Room Occupancy	57.9	56.6	56.0	55.9	59.3	60.0
Sales						
Regular	1,445.9	1,370.5	1,392.1	1,443.6	1,548.1	1,688.0
Meals	296.9	295.9	291.7	296.3	303.2	330.0
Motor Vehicles	<u>341.2</u>	<u>290.0</u>	<u>225.6</u>	<u>238.7</u>	<u>272.9</u>	<u>315.0</u>
Sub-Total--Sales	2,084.0	1,956.4	1,909.4	1,978.6	2,124.2	2,333.0
Miscellaneous	<u>24.6</u>	<u>27.6</u>	<u>15.2</u>	<u>7.5</u>	<u>6.6</u>	<u>7.2</u>
Total	<u>8,815.4</u>	<u>8,517.7</u>	<u>8,994.9</u>	<u>9,483.6</u>	<u>9,929.9</u>	<u>10,694.0</u>
Non-Tax Revenues:						
Federal Reimbursements	1,542.0	1,717.5(6)	2,777.1(8)	2,393.5(8)	2,674.1(8)	2,905.9(8)
Departmental and Other Revenues	949.1	1,131.7	1,204.9	1,187.3	1,327.1	1,105.9
Interfund Transfers from Non-budgeted Funds and Other Sources (4)	<u>663.9</u>	<u>641.3</u>	<u>656.6</u>	<u>663.9</u>	<u>778.5</u>	<u>823.3</u>
Budgeted Non-Tax Revenues and Other Sources	<u>3,155.0</u>	<u>3,490.5</u>	<u>4,638.6</u>	<u>4,244.7</u>	<u>4,779.7</u>	<u>4,835.1</u>
Budgeted Revenues and Other Sources	<u>11,970.4</u>	<u>12,008.2</u>	<u>13,633.5</u>	<u>13,728.3</u>	<u>14,709.6</u>	<u>15,529.1</u>
Mass Transit Assessments from Municipalities	120.7	123.9	130.2	130.9	137.4	140.8
Interfund Transfers among Budgeted Funds and Other Sources (4)	<u>217.7</u>	<u>91.1</u>	<u>149.7</u>	<u>366.9</u>	<u>358.7</u>	<u>198.9</u>
Total Revenues and Other Sources	<u>\$12,308.8</u>	<u>\$12,223.2</u>	<u>\$13,913.4</u>	<u>\$14,226.1</u>	<u>\$15,205.7</u>	<u>\$15,868.8</u>

SOURCE: Fiscal 1989-1993, Office of the Comptroller. Estimated Fiscal 1994, Executive Office for Administration and Finance.

- (1) As a result of legislation enacted by voter initiative petition, this excise tax was increased effective January 1, 1993. See "State Taxes; Other Taxes."
- (2) At the end of the 1992 legislative session, the Legislature overrode the Governor's veto of legislation that doubled the deeds excise tax. The increased revenues are applied directly to county purposes and are not counted as Commonwealth revenues. See "State Taxes; Other Taxes".
- (3) Includes \$7.0 million in 1989, \$7.4 million in 1990, \$7.2 million in 1991, \$7.7 million in 1992 and \$8.0 million in 1993, respectively, in fees collected by the Division of Insurance relating to high-risk insurance.
- (4) Interfund transfers represent accounting transfers which reallocate resources among funds. Fund deficit support transfers of \$234.8 million for fiscal 1991 have been eliminated to facilitate comparative analysis. Includes transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$59.2 million, \$170.0 million and \$76.9 million in fiscal 1991, 1992 and 1993, respectively. In fiscal 1989, \$120.2 million was transferred from the Stabilization Fund to the General Fund.

- (5) Excludes \$444.5 million collected in fiscal 1990 and \$298.3 million collected in fiscal 1991 attributed to the temporary increase in the income tax dedicated to the Commonwealth Liability Reduction Fund and the Medical Assistance Liability Fund.
- (6) Excludes \$244 million of revenues attributable to federal reimbursements for expenditures from the Medical Assistance Liability Fund; such revenues were dedicated to such fund.
- (7) Includes the impact of tax law changes under Chapters 121 and 151 of the Acts of 1990. The total fiscal 1991 impact of the changes is an estimated increase in tax revenues in the amount of \$1.020 billion, while the fiscal 1992 and 1993 impacts of the changes are estimated at \$1.329 billion and \$1.318 billion, respectively.
- (8) Includes \$513 million for fiscal 1991, \$198.6 million for fiscal 1992, \$236.3 million for fiscal 1993 and an estimated \$219 million in fiscal 1994 in federal reimbursements resulting from claims for reimbursement of certain uncompensated care for Massachusetts hospitals.
- (9) Reflects settlement of certain litigation, see "State Taxes; *Business Corporations Tax*".

State Taxes

The major components of state taxes are the income tax, which accounts for 53.7% of total projected tax revenues in fiscal 1994, the sales and use tax, which accounts for 21.8%, and the business corporations tax, which accounts for 8.1%. Other tax and excise sources account for the remaining 16.4% of total tax revenues.

Income Tax. The Commonwealth assesses personal income taxes at flat rates, according to classes of income, after specified deductions and exemptions. A rate of 5.95% is applied to income from employment, professions, trades, businesses, partnerships, rents, royalties, taxable pensions and annuities and interest from Massachusetts banks; and a rate of 12% is applied to other interest (although interest on obligations of the United States and of the Commonwealth and its political subdivisions is exempt), dividends and net capital gains (after a 50% deduction).

Under Chapter 151 of the Acts of 1990 up to 15% of state income tax revenue is pledged to the payment of debt service on approximately \$1.045 billion of outstanding Fiscal Recovery Bonds issued pursuant to Chapter 151.

Partially as a result of income tax rate increases, state income tax revenues increased steadily in fiscal 1989, 1990 and 1991 to, respectively, \$4.287 billion, \$4.465 billion (excluding \$444.5 million collected pursuant to certain 1989 tax legislation) and \$5.045 billion (excluding \$298.3 million collected pursuant to the 1989 tax legislation). These figures represent an average annual increase over the period fiscal 1989 to 1991 of approximately 8.5%. State income tax revenues in fiscal 1992 were \$5.337 billion, which represents an increase from fiscal 1991 of approximately 5.8%. Income tax revenue in fiscal 1993 were \$5.375 billion, an increase of approximately 0.7% from fiscal 1992. Income tax revenues for fiscal 1994 are expected to be approximately \$5.747 billion, an increase of 6.9% from fiscal 1993.

In connection with the Governor's submission to the Legislature of his fiscal 1995 budget recommendation, he has proposed certain income tax reductions, which would reduce fiscal 1995 income tax revenues by approximately \$105 million. The annualized impact of these reductions is estimated to be approximately \$270 million.

A citizens' group, known as the Tax Equity Alliance of Massachusetts, has proposed a change in the Massachusetts individual income tax law that would result in the creation of a graduated income tax structure. This proposed law would change provisions of the state personal income tax laws if a proposed amendment to the Massachusetts Constitution allowing income tax rates to be graduated is approved at the 1994 state-wide election. The proposed law would (1) establish graduated income tax rates to replace the existing tax rate structure, (2) change exemptions and deductions relating to dependents, child care expenses, head of household status and personal exemptions, (3) establish a property tax and water rate credit of up to \$200 for taxpayers below certain income levels, (4) increase the maximum income levels for no-tax status and the limited income credit, (5) establish a "Capital Formation Incentive" to replace the existing capital gains exclusion, and (6) provide that taxpayers will not pay more Massachusetts income tax in 1995 than they would have paid under 1992 law, if their adjusted gross income is below \$60,000 for single filers, \$100,000 for married couples filing jointly or \$85,000 for married persons filing separately.

The Department of Revenue estimates that the static impact of the graduated income tax structure proposed by the initiative petition would increase 1995 income tax liability by \$29 million in comparison to current law.

On May 25, 1994, the constitutional amendment authorizing graduated income tax rates received the votes of at least 25 percent of all members of the Legislature, voting in joint session and, accordingly, will be on the 1994 state-wide ballot in November. The initiative petition will be submitted to the Legislature for consideration during the 1994 session. The petition's sponsors collected the required number of signatures and those signatures were certified by the Elections Division on December 1, 1993. The Legislature had until May 4, 1994 to enact the petition into law, approve the petition's placement on the 1994 ballot, or reject the petition. However, the Legislature failed to act upon the petition by such date and the petition will nevertheless be placed on the November ballot if its sponsors can collect a sufficient number of additional signatures by July 6, 1994.

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

Annual sales and use tax revenues declined from \$2.084 billion in fiscal 1989 to \$1.956 billion in fiscal 1990 and \$1.909 billion for fiscal 1991. Sales and use tax revenues increased to \$1.979 billion in fiscal 1992 and to \$2.124 billion in fiscal 1993 and are estimated at \$2.333 billion in fiscal 1994.

Business Corporations Tax. Business corporations doing business in the Commonwealth, other than banks, trust companies, insurance companies, railroads, public utilities and safe deposit companies, are subject to an excise that has a property measure and an income measure. The value of Massachusetts tangible property (not taxed locally) or net worth allocated to the Commonwealth is taxed at \$2.60 per \$1,000 of value. The net income allocated to Massachusetts, which is based on gross income for federal taxes, is taxed at 9.5%. The minimum tax is \$456. Both rates and the minimum tax include a 14% surtax. Annual revenues from the business corporations tax have declined significantly in recent years, from the high of \$887.1 million in fiscal 1989 to \$612.2 million in fiscal 1991. Business corporation tax revenues were \$643.8 million in fiscal 1992, representing an increase of \$31.5 million, or 5.1%, from fiscal 1991. For fiscal 1992, the excise tax on commercial and savings banks yielded \$60.2 million, representing an increase of approximately 25.2% over fiscal 1991. Due to the settlement by the Department of Revenue of a case pending before the Appellate Tax Board, the Commonwealth paid a taxpayer commercial bank \$37.0 million, thus reducing revenues from the commercial and savings bank excise tax in fiscal 1992 from \$97.1 million to \$60.2 million. For fiscal 1993, revenues from the business corporations tax increased to \$737.4 million, or approximately 14.5% above fiscal 1992 and tax revenues from banks increased to \$152.9 million or 154.4% above fiscal 1992. Fiscal 1994 tax revenues from corporations and banks are estimated to be \$875.0 million and \$161.0 million, respectively.

Other Taxes. Other tax revenues of the Commonwealth are currently projected to total \$1.578 billion in fiscal 1994, an increase of 2.5% over fiscal 1993. Other tax revenues are derived by the Commonwealth from motor fuels excise taxes, cigarette and alcoholic beverage excise taxes, estate and deed excises and other tax sources. The Commonwealth is authorized to issue special obligation highway bonds secured by a pledge of all or a portion of the Highway Fund, including revenues derived from all or a portion of the motor fuels excise tax. The Commonwealth issued \$103,770,000 of special obligation bonds on June 24, 1992 secured by a pledge of 2 cents of the 21 cent motor fuel excise tax imposed on gasoline. The portion of the motor fuel excise tax currently pledged to the special obligation bonds is estimated to be \$47.7 million in fiscal 1994. The Commonwealth expects to issue up to \$300 million of additional special obligation bonds in fiscal 1994 secured by an additional portion of the motor fuels excise tax. Additional special obligation bonds may also be issued in the future secured by all or additional portions of the motor fuels excise tax. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- Special Obligation Debt" and the forepart of the Official Statement to which this Summary Information Statement is attached.

On November 3, 1992, legislation was enacted by voter initiative petition which imposed, as of January 1, 1993, a new excise tax of 1.25 cents per cigarette (25 cents per pack of 20 cigarettes) and 25% of the wholesale price of smokeless tobacco. Under the legislation, the revenues raised by this excise tax shall be credited to a new Health Protection Fund and expended, subject to appropriation by the Legislature, to pay for health programs and education relating to tobacco use. Total revenues deposited in the Health Protection Fund in fiscal 1993 were \$59.5 million and are estimated to be \$116.7 million in fiscal 1994.

In addition, in January 1993, the Legislature overrode the Governor's veto of a 100% increase in the deeds excise tax. The increased revenues from this excise tax will be retained by county governments and applied to certain county costs. The availability of these revenues will reduce Commonwealth expenditures for county purposes by an equal amount.

Estate Tax Revisions. The fiscal 1993 budget included legislation which gradually phases out the current Massachusetts estate tax and replaces it with a "sponge tax" in 1997. The "sponge tax" is based on the maximum amount of the credit for state taxes allowed for federal estate tax purposes. The estate tax is phased out by means of annual increases in the basic exemption from the current \$200,000 level. The exemption is increased to \$300,000 for 1993, \$400,000 for 1994, \$500,000 for 1995 and \$600,000 for 1996. In addition, the legislation includes a full marital deduction starting July 1, 1994. Currently the marital deduction is limited to 50% of the Massachusetts adjusted gross estate. The static fiscal impact of the phase out of the estate tax is estimated to be approximately \$24.8 million in fiscal 1994 and \$72.5 million in fiscal 1995.

Tax Revenue Forecasting

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

In the past several years tax revenue forecasting has been complicated by uncertainty about the national and state economies, federal and state tax law changes and decisions in certain state court cases affecting tax collections. In addition, certain tax revenues are difficult to predict with accuracy because of the variety of direct and indirect economic and non-economic factors affecting receipts. During each of the fiscal years 1989 through 1991, the official tax revenue forecasts made at the beginning of the year proved to be substantially more optimistic than the actual results. The June 1988 tax revenue estimate for fiscal 1989 was for 10.9% growth; actual tax revenue growth for the year was 6.6%. In July 1989 the Governor and Legislature approved a budget for fiscal 1990 based on 7% tax revenue growth; actual tax revenues decreased 3.4%. The fiscal 1991 budget was based on projected tax revenue growth of less than 1%, before taking into account revenues expected to be generated by the 1990 tax legislation. Once these additional revenues were added, the projection was for tax revenues of \$9.748 billion in fiscal 1991, reflecting projected growth of 14.4%. However, during the remainder of calendar year 1990, actual receipts lagged projections, resulting in reductions of the fiscal 1991 tax revenue estimates. Fiscal 1991 tax revenues were \$8.995 billion, which represents growth over fiscal 1990 of only 5.6%.

The fiscal 1992 budget initially was based on the joint tax revenue estimate of \$8.292 billion, a 7.8% decrease from fiscal 1991. Actual fiscal 1992 tax revenues were \$9.484 billion, a 5.4% increase over fiscal 1991. The fiscal 1993 budget initially was based on a joint tax revenue estimate of \$9.685 billion, an increase of \$201.4 million, or 2.1%, from tax revenues for fiscal 1992. The actual fiscal 1993 tax revenues were \$9.930 billion, a 4.7% increase over fiscal 1992.

On May 13, 1993, the chairpersons of the House and Senate Ways and Means Committee and the Secretary

for Administration and Finance jointly endorsed an estimate of tax revenues for fiscal 1994 of \$10.540 billion, an increase of \$610 million, or 6.1%, from then expected tax revenues for fiscal 1993. The fiscal 1994 budget was based upon this tax revenue estimate. The Executive Office for Administration and Finance currently estimates total fiscal 1994 tax revenues to be \$10.694 billion.

On May 11, 1994, the chairpersons of the House and Senate Ways and Means Committees and the Secretary for Administration and Finance jointly endorsed a tax revenue estimate for fiscal 1995 of \$11.328 billion, an increase of \$634 million, or 5.9%, over currently estimated fiscal 1994 tax revenues. The fiscal 1995 estimate does not include the effect of certain tax reductions originally proposed by the Governor in his fiscal 1995 budget recommendation or certain other tax reductions approved by the House of Representatives in connection with its deliberations relating to the fiscal 1995 budget. It is not possible at this time to predict whether and to what extent any tax reductions will be enacted into law as part of the final fiscal 1995 budget. The Department of Revenue does not currently believe that the May tax revenue results described above under "FINANCIAL RESULTS -- Selected Financial Data - Statutory Basis" require a revision to the fiscal 1995 consensus tax revenue estimate.

Limitations on Tax Revenues

In Massachusetts efforts to limit and reduce levels of taxation have been under way for several years. Limits were established on state tax revenues by legislation enacted on October 25, 1986 and by an initiative petition approved by the voters on November 4, 1986. The two measures are inconsistent in several respects.

Chapter 62F, which was added to the General Laws by initiative petition in November 1986, establishes a state tax revenue growth limit for each fiscal year equal to the average positive rate of growth in total wages and salaries in the Commonwealth, as reported by the federal government, during the three calendar years immediately preceding the end of such fiscal year. Chapter 62F also requires that allowable state tax revenues be reduced by the aggregate amount received by local governmental units from any newly authorized or increased local option taxes or excises. Any excess in state tax revenue collections for a given fiscal year over the prescribed limit, as determined by the State Auditor, is to be applied as a credit against the then current personal income tax liability of all taxpayers in the Commonwealth in proportion to the personal income tax liability of all taxpayers in the Commonwealth for the immediately preceding tax year. Unlike Chapter 29B, as described below, the initiative petition did not exclude principal and interest payments on Commonwealth debt obligations from the scope of its tax limit. However, the preamble contained in Chapter 62F provides that "although not specifically required by anything contained in this chapter, it is assumed that from allowable state tax revenues as defined herein the Commonwealth will give priority attention to the funding of state financial assistance to local governmental units, obligations under the state governmental pension systems, and payment of principal and interest on debt and other obligations of the Commonwealth".

The legislation enacted in October 1986, which added Chapter 29B to the General Laws, also establishes an allowable state revenue growth factor by reference to total wages and salaries in the Commonwealth. However, rather than utilizing a three-year average wage and salary growth rate, as used by Chapter 62F, Chapter 29B utilizes an allowable state revenue growth factor equal to one-third of the positive percentage gain in Massachusetts wages and salaries, as reported by the federal government, during the three calendar years immediately preceding the end of a given fiscal year. Additionally, unlike Chapter 62F, Chapter 29B allows for an increase in maximum state tax revenues to fund an increase in local aid and excludes from its definition of state tax revenues (i) income derived from local option taxes and excises, and (ii) revenues needed to fund debt service costs.

Tax revenues in fiscal 1989 through fiscal 1993 were lower than the limit set by either Chapter 62F or Chapter 29B. The Executive Office for Administration and Finance currently estimates that state tax revenues in fiscal 1994 and fiscal 1995 will not reach the limit imposed by either of these statutes.

COMMONWEALTH PROGRAMS AND SERVICES

From fiscal 1989 to fiscal 1990 budgeted expenditures of the Commonwealth increased approximately 4.9% to \$13.260 billion. Fiscal 1991 budgeted expenditures were \$13.655 billion, or a 3.0% increase over fiscal 1990 budgeted expenditures. For fiscal 1992, budgeted expenditures were \$13.420 billion, representing a decline of 1.7% from the level of budgeted expenditures in fiscal 1991. Fiscal 1993 budgeted expenditures were \$14.696 billion, an increase of 9.6% from fiscal 1992. It is estimated that fiscal 1994 budgeted expenditures will be \$15.692 billion, an increase of 6.8% over fiscal 1993 levels. The Governor's proposed fiscal 1995 budget recommends budgeted expenditures of \$16.139 billion, an increase of 2.8% over estimated fiscal 1994 expenditures.

Commonwealth expenditures since fiscal 1989 largely reflect significant growth in several programs and services provided by the Commonwealth. The following table identifies certain major spending categories of the Commonwealth and sets forth the budgeted expenditures for each fiscal year within each category.

Commonwealth Expenditures - Budgeted Operating Funds (in millions)

Expenditure Category	Fiscal 1989	Fiscal 1990	Fiscal 1991	Fiscal 1992	Fiscal 1993	Estimated Fiscal 1994
Direct Local Aid (1)	\$2,960.9	\$2,936.9	\$2,608.3	\$2,358.9	\$2,546.5	\$2,733.7
Medicaid	1,833.5	2,120.6(2)	2,765.3(3)	2,817.7(4)	3,151.4(4)	3,267.7(5)
Group Health Insurance	341.4	433.4	446.0	466.1	491.2	504.7
Public Assistance	924.3	1,000.9	1,092.3	1,065.0	1,074.9	1,107.0
Debt Service (6)	649.8	770.9	942.3	898.3	1,139.5	1,171.4
Pensions	659.7	671.9	703.9	751.5	868.2	941.0
Higher Education	743.4	701.9	608.6	534.0	544.9(7)	669.2(8)
MBTA and RTA's	309.5	354.5	406.1	449.6	499.0	522.2
Other Program Expenditures	4,189.1	4,222.0	4,017.9(9)	4,066.1(9)	4,375.7	4,745.0(11)
Interfund Transfers to Non-budgeted Funds(10)	<u>31.3</u>	<u>46.7</u>	<u>64.0</u>	<u>8.8</u>	<u>5.1</u>	<u>30.0</u>
Budgeted Expenditures and Other Uses	<u>12,642.9</u>	<u>13,259.7</u>	<u>13,654.7(8)</u>	<u>13,416.0(8)</u>	<u>14,696.4</u>	<u>15,691.9</u>
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	120.7	123.9	130.2	130.9	137.4	140.8
Interfund Transfers among Budgeted Funds and Other Uses(10)	<u>217.7</u>	<u>91.1</u>	<u>149.7</u>	<u>366.9</u>	<u>358.7</u>	<u>198.9</u>
Total Expenditures and Other Uses	<u>\$12,981.3</u>	<u>\$13,474.7</u>	<u>\$13,934.6</u>	<u>\$13,913.8</u>	<u>\$15,192.6</u>	<u>\$16,031.6</u>

SOURCE: Fiscal 1989-1993, Office of the Comptroller. Estimated Fiscal 1994, Executive Office for Administration and Finance.

- (1) Aid reported to cities, towns and regional school districts by the Department of Revenue on its official communication, the so-called "cherry sheet", excluding certain pension funds, and including \$80.5 million in Commonwealth support to county jails, which is no longer included on the cherry sheet.
- (2) Fiscal 1990 Medicaid expenditures do not include \$488.0 million in retroactive rate adjustments and spending related to services rendered in prior fiscal years which were funded in the non-budgeted Medical Assistance Liability Fund.
- (3) Includes \$194.2 million for retroactive rate settlements, including \$126.0 million raised through Fiscal Recovery Bonds issued in 1991 to resolve the deficit for fiscal year 1990.
- (4) Includes expenditures of \$50.0 million in fiscal 1992 for retroactive rate adjustments and settlements.
- (5) Includes approximately \$22.3 million of expenditures previously off-budget and classified as administrative expenses.
- (6) Excludes debt service on notes issued under 1989 tax legislation to fund the fiscal 1989 deficit and certain Medicaid-related expenses. Reflects reduction of fiscal 1992 debt service by \$261.0 million as a result of the issuance of refunding bonds during fiscal 1992.
- (7) Reflects the transfer of \$89.4 million in related tuition revenue and spending to an off-budget trust fund.

- (8) Reflects the transfer of approximately \$89.4 million in related tuition revenue and spending from an off-budget trust fund to budgeted accounts.
- (9) Fiscal 1991 and fiscal 1992 expenditures have been restated to reflect surpluses in the Intragovernmental Service Fund of \$3.8 million in each year.
- (10) Interfund transfers represent accounting transfers which reallocate resources among funds. Interfund deficit support transfers for fiscal 1991 of \$234.8 million have been eliminated to facilitate comparative analysis. Includes interfund transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$59.2 million, \$170.0 million and \$76.9 million in fiscal 1991, 1992 and 1993, respectively. In fiscal 1989, \$120.2 million was transferred from the Stabilization Fund to the General Fund.
- (11) Includes \$75.4 million reserve for contingencies.

COMMONWEALTH BOND AND NOTE LIABILITIES

Overview

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

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

Commonwealth Bonds and Notes. The Commonwealth currently has three types of bonds and notes outstanding: general obligation debt, dedicated income tax debt, and special obligation debt. Dedicated income tax debt consists of general obligation bonds or notes issued under Chapter 151 of the Acts of 1990, to which a portion of the Commonwealth's income tax receipts is dedicated for the payment of debt service. Special obligation revenue debt consists of special obligation revenue bonds ("Special Obligation Bonds") issued under Section 20 of Chapter 29 of the Massachusetts General Laws (the "Special Obligation Act") which may be secured by all or a portion of the revenues credited to the Commonwealth's Highway Fund. In 1992, the Commonwealth issued Special Obligation Bonds secured by a pledge of two cents of the Commonwealth's 21-cent gasoline tax. See "Special Obligation Debt." The Commonwealth expects to issue up to \$300 million of additional Special Obligation Bonds by the end of fiscal 1994 as described in the Official Statement to which this Summary Information Statement is attached.

Other Commonwealth Bond and Note Liabilities. Certain independent authorities and agencies within the Commonwealth are statutorily authorized to issue bonds and notes for which the Commonwealth is either directly, in whole or in part, or indirectly liable. The Commonwealth's liabilities with respect to these bonds and notes are classified as either (a) Commonwealth supported debt; (b) Commonwealth guaranteed debt; or (c) indirect obligations. Commonwealth supported debt arises from statutory requirements for payments by the Commonwealth with respect to debt service of the MBTA (including the Boston Metropolitan District), the Massachusetts Convention Center Authority, the Massachusetts Government Land Bank, the Steamship Authority and certain regional transit authorities. Commonwealth guaranteed debt consists of certain liabilities arising out of the Commonwealth's guarantees of the bonds of the four higher education building authorities, certain local housing authorities and certain bonds of the Town of Mashpee. Indirect obligations consist of (i) obligations of the Commonwealth to fund capital reserve funds pledged to certain MHFA bonds, (ii) the obligation of the

Commonwealth, acting through the Higher Education Coordinating Council, to fund debt service, solely from moneys otherwise appropriated to HECC, on certain community college program bonds issued by the Massachusetts Health and Educational Facilities Authority, (iii) the obligation of the Commonwealth, acting through the Executive Office of Public Safety ("EOPS"), to fund debt service from amounts appropriated by the Legislature to EOPS, on certificates of participation issued to finance the new Plymouth County Correctional Facility; and (iv) the obligation of the Commonwealth to make lease payments from amounts appropriated by the Legislature with respect to the Massachusetts Information Technology Center now under construction in Chelsea, Massachusetts. In addition, the Commonwealth has liabilities under certain tax exempt capital leases.

Outstanding Bond and Note Liabilities. The following table sets forth the Commonwealth bond and note liabilities outstanding on April 1, 1994.

Commonwealth Bond and Note Liabilities
April 1, 1994
(in thousands)

	<u>Long Term</u> (1)	<u>Short Term</u>
COMMONWEALTH DEBT		
General Obligation Debt	\$8,224,129 (2)	\$311,219 (3)
Dedicated Income Tax Debt	1,036,765	--
Special Obligation Debt	<u>103,770</u>	<u> </u>
Subtotal Commonwealth Debt	<u>9,364,664</u>	<u>311,219</u>
COMMONWEALTH SUPPORTED DEBT		
MBTA	1,964,735 (4)	365,000 (5)
Massachusetts Convention Center Authority	190,899	--
Massachusetts Government Land Bank	--	--
Boston Metropolitan District	52,477	--
Steamship Authority	34,249	2,900
Regional transit authorities	<u>15</u>	<u>67,129</u>
Subtotal Supported Debt	<u>2,242,375</u>	<u>435,029</u>
COMMONWEALTH GUARANTEED DEBT		
Local housing authorities	--	--
Higher education building authorities	241,137	--
Town of Mashpee	<u>400</u>	<u> </u>
Subtotal Guaranteed Debt	<u>241,537</u>	<u> </u>
TOTAL COMMONWEALTH BOND AND NOTE LIABILITIES	<u>\$11,848,576</u>	<u>\$746,248</u>

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

- (1) Long term debt includes discount and costs of issuance. Does not include long term capital lease obligations.
- (2) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from April 1, 1994 through their maturity in the amount of \$368.6 million.
- (3) Represents \$240 million of Commonwealth General Obligation Notes issued on November 23, 1993 for the purpose of financing the MBTA's net cost of service and \$71.219 million of the Commonwealth's "minibonds" (which are redeemable at the request of the holder on one business day's notice and are treated as short term liabilities). As of June 8, 1994, the Commonwealth also has \$180 million of commercial paper outstanding as bond anticipation notes, which will be paid with a portion of the proceeds of the 1994 Bonds offered hereby.
- (4) The MBTA expects to issue approximately \$544 million of its bonds later in June, 1994 for the purposes of financing \$200 million of capital expenditures and refunding approximately \$336 million of outstanding MBTA bonds. A portion of the bond proceeds allocable to capital expenditures will be used to retire the outstanding MBTA commercial paper.
- (5) As of June 8, 1994, the MBTA also has \$180 million of commercial paper outstanding.

Special Obligation Debt

The Special Obligation Act authorizes the Commonwealth to issue Special Obligation Bonds secured by all or a portion of revenues accounted to the Highway Fund. Revenues which are currently accounted to the Highway Fund are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax. Special Obligation Bonds are not general obligations of the Commonwealth. Chapter 33 of the Acts of 1991 authorizes the Commonwealth to issue Special Obligation Bonds in an aggregate amount not to exceed \$1.125 billion. As of January 1, 1994, the Commonwealth had outstanding \$103.77 million of Special Obligation Bonds secured by a pledge of two cents of the 21-cent motor fuels excise tax. The Commonwealth expects to issue up to \$300 million of Special Obligation Bonds in fiscal 1994 and to pledge additional amounts of the motor fuels excise tax to secure the Special Obligation Bonds. See the forepart of the Official Statement to which this Summary Information Statement is attached.

Debt Service Requirements on Commonwealth Bonds

The following table sets forth, as of April 1, 1994 the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, including the Fiscal Recovery Bonds, and Special Obligation Bonds.

Debt Service Requirements on Commonwealth Bonds (1)
April 1, 1994
(in thousands)

Fiscal Year	GENERAL OBLIGATION BONDS (2)(3)			SPECIAL OBLIGATION BONDS			Total Debt Service Commonwealth Bonds	
	Principal	Interest on CABs at Maturity	Current Interest	Subtotal	Principal	Interest		Subtotal
1994 (4)	\$239,830		\$61,864	\$301,694		\$3,116	\$304,810	
1995	637,269		467,612	1,104,881		6,232	1,111,113	
1996	667,641		431,070	1,088,611		6,232	1,094,843	
1997	684,560		388,444	1,073,004		6,232	1,079,236	
1998	595,297	\$8,675	346,865	950,837	\$4,070	6,232	961,139	
1999	519,263	9,704	317,626	846,593	4,285	6,016	856,894	
2000	516,601	23,586	286,720	826,907	4,525	5,776	837,208	
2001	461,859	61,445	259,556	782,860	4,785	5,514	793,159	
2002	442,607	43,848	232,478	718,933	5,070	5,231	729,234	
2003	429,407	59,609	209,114	698,130	5,370	4,927	708,427	
2004	385,194	88,320	187,054	660,568	5,700	4,599	670,867	
2005	386,626	95,981	167,007	649,614	6,055	4,246	659,915	
2006	435,602	45,481	149,235	630,318	6,430	3,868	640,616	
2007	470,600	14,985	127,122	612,607	6,835	3,466	622,908	
2008	462,707		103,461	566,168	7,260	3,039	576,467	
2009	439,148		78,312	517,460	7,695	2,603	527,758	
2010	360,204		56,067	416,271	8,160	2,141	426,572	
2011 and thereafter	685,045		64,362	749,407	27,530	3,368	780,305	
TOTAL	\$8,809,260	\$451,634	\$3,933,969	\$13,194,863	\$103,770	\$82,838	\$186,608	\$13,381,471

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

- (1) Totals may not add due to rounding.
- (2) Includes Fiscal Recovery Bonds. Estimated debt service on the Fiscal Recovery Bonds (a portion of which constitute variable rate debt) will equal approximately \$279.0 million in fiscal 1994 through fiscal 1997 and \$130.0 million in fiscal 1998, at which time the Fiscal Recovery Bonds will be paid.
- (3) Excludes minibonds. Estimated debt service payable on outstanding minibonds (assuming interest is paid at maturity) in fiscal years 1994 and 1995 is approximately \$53.8 million and \$64.2 million, respectively.
- (4) Does not include debt service paid in fiscal 1994 through April 1, 1994, including approximately \$351.8 million of general obligation bond principal, approximately \$392.8 million of general obligation bond interest, approximately \$8.1 million of fiscal recovery bond

principal, approximately \$29.4 million of fiscal recovery bond interest and approximately \$3.1 million of special obligation bond interest.

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 Summary Information Statement are only summarized, and such summaries do not purport to be complete statements of any of such provisions. Only the actual text of such provisions can be relied upon for completeness and accuracy.

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

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

CONTINUING DISCLOSURE

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

The Commonwealth prepares its Comprehensive Annual Financial Report ("CAFR") with respect to each fiscal year ending June 30, which become available in January of the following fiscal year. Copies of the CAFR and other financial reports of the Comptroller referenced in this document may be obtained by requesting the same in writing from the Office of the Comptroller, The Commonwealth of Massachusetts, One Ashburton Place, Room 909, Boston, Massachusetts 02108.

AVAILABILITY OF OTHER INFORMATION

Questions regarding this Summary Information Statement or requests for additional information concerning the Commonwealth should be directed to Kenneth Olshansky, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th Floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or Lowell Richards, Director of Debt Finance of the Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to this Summary Information Statement should be directed to Walter J. St. Onge, III, Esq., Palmer & Dodge, One Beacon Street, Boston, Massachusetts 02108, telephone (617) 573-0100.

THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Joseph D. Malone
Joseph D. Malone
Treasurer and Receiver-General

By /s/ Mark E. Robinson
Mark E. Robinson
Secretary for Administration and Finance

June 8, 1994

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ECONOMIC INFORMATION

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

All information is presented on a calendar-year basis unless otherwise indicated. Sources of information are indicated in the text or immediately following the charts and tables. Although the Commonwealth considers the sources to be reliable, the Commonwealth has made no independent verification of the information presented herein and does not warrant its accuracy.

OVERVIEW

Population. Massachusetts experienced modest population increases between 1980 and 1990 and perhaps a very small decline thereafter. The 1990 U.S. census count is 6,016,425 or 4.9% more than the 5,737,093 counted in 1980. Bureau of the Census estimates for 1993 show the Massachusetts population to be 6,012,268. In contrast, the total United States population increased by approximately 9.8% over the period of 1980 to 1990, and these numbers are estimated to have increased again by 3.6% from 1990 to 1993. According to the 1990 U.S. census, the City of Boston experienced a small population increase of 2.0% from 562,994 in 1980, to 574,283 in 1990. The Boston-Washington corridor, which includes the states of Rhode Island, Connecticut, New York, New Jersey, and Pennsylvania, is home to sixty million people, one quarter of the entire U.S. population.

Infrastructure. Massachusetts possesses an extensive transportation system and related facilities. The City of Boston is the transportation and commercial center for New England and is the site of both a full-facility seaport and a major international airport. Boston's Logan International Airport is a major contributor to the economy of the greater Boston area, Massachusetts and the New England region. Based upon its volume of air passengers served, in 1993 Logan Airport ranks first in New England, tenth in the United States, and sixteenth in the world according to the Massachusetts Port Authority ("Massport"). In 1993, Logan Airport served slightly more than 24 million arriving and departing passengers, more than double the number served in 1975. For the same period, Logan Airport ranked thirteenth nationally and twenty fourth in the world in total air cargo volume, handling nearly 700 million pounds of total cargo. Massachusetts also has several deep-water seaports. The Port of Boston handled more than 16 million tons of cargo in 1992 valued at more than \$7.3 billion.

The state is also well served by the federal interstate highway system, including interstate routes 84, 90, 91, 93, 95, 295 and 495. Rail and trucking systems provide direct overland shipping throughout the United States and Canada.

Human Resources. Skilled human capital is the foundation of Massachusetts' economic strength. It provides the basis for a technologically dynamic and industrially diverse regional economy. The concentration of technical, engineering, managerial, scientific and other professional skills within the Massachusetts work force is, in part, due to the 120 private and public colleges and universities located throughout the state. The largest and best known of these institutions include the Massachusetts Institute of Technology, Harvard University, Tufts University, Boston College, the University of Massachusetts, Williams College, Boston University, Wellesley College, Amherst College, Smith College, Mount Holyoke College, Clark University, Holy Cross College, and Northeastern University.

Economic Base. Massachusetts has a diversified economic base which includes traditional manufacturing, high technology and service industries. A substantial portion of products produced by these and other sectors are exported. Like most other industrial states, Massachusetts has seen a shift in employment from labor-intensive

manufacturing industries (i.e. textiles, apparel, shoes, paper products, etc.) to technology and service-based industries like computers, biomedical technology, consulting, health care and business services.

Today Massachusetts is a leader in research and development of biotechnology, biomedical technology, software, robotics, and other high technology products. A large proportion of Massachusetts' total work force is employed in high technology-related jobs. Ten of the fourteen Massachusetts companies listed in the 1994 Fortune 500 are engaged in the production of computer equipment, electronic components, or scientific/photographic instruments. Non-manufacturing high technology jobs have continued to increase their share of total employment in the state. The concentration of world-renowned research institutions, as well a large number of smaller firms, has helped make Massachusetts a national center for high technology industries.

Massachusetts is also home to many of the nation's most well-known hospitals and medical institutions, including Massachusetts General, Children's, Beth Israel and Brigham and Women's Hospitals and the Lahey Clinic. The Massachusetts medical establishment is recognized internationally as a center for health services, medical teaching and research, attracting patients and health professionals from all over the world. The hospitals and other health care institutions provide a valuable link to the biomedical and biotechnical research and development activities conducted by approximately 178 biotechnology companies located in Massachusetts. Non-hospital employment in medically related research and development continues to accelerate.

Population Characteristics

Massachusetts is a densely populated urban state with a population density of 769 persons per square mile, as compared to 70.1 for the United States, according to the preliminary 1990 census. Among the 50 states, only Rhode Island and New Jersey have a greater population density.

The City of Boston, the largest city in New England, has a population of 574,283, according to the 1990 U.S. Census. The official Metropolitan Statistical Area ("MSA") for Boston, with a 1990 population of 2,870,669, contains close to one-half of Massachusetts' population. The other Massachusetts cities with populations in excess of 100,000 include Worcester (169,759), situated approximately 40 miles west of Boston, Springfield (156,983), located in the Connecticut River Valley in western Massachusetts, and Lowell (103,439), located approximately 30 miles northwest of Boston, along the Merrimack River.

Worcester is the second largest city in New England, though its MSA, extending into Connecticut, is slightly smaller than Springfield's MSA. Its service, trade, and manufacturing industries combine for more than 70% 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 colleges and universities.

Springfield, the third largest city in the Commonwealth, 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.

The following table compares the population growth rates of Massachusetts with those of the United States, the New England States, and the Thirteen Large States (both as defined in footnotes (1) and (2), respectively, to the table below).

**Population
1970-1993 (In Thousands)**

Mid-Year	United States		Massachusetts		New England States(1)		Thirteen Large States(2)	
	Total	% Change Over Preceding Period	Total	% Change Over Preceding Period	Total	% Change Over Preceding Period	Total	% Change Over Preceding Period
1970(3)	203,799	--	5,704	--	11,878	--	126,112	--
1980(3)	226,542	11.2	5,737	0.5	12,349	4.0	138,342	9.7
1981	229,466	1.3	5,769	0.6	12,436	0.7	140,238	1.4
1982	231,664	1.0	5,771	0.0	12,468	0.3	141,717	1.1
1983	233,792	0.9	5,799	0.5	12,544	0.6	143,218	1.1
1984	235,825	0.9	5,841	0.7	12,642	0.8	144,651	1.0
1985	237,924	0.9	5,881	0.7	12,741	0.8	146,217	1.1
1986	240,133	0.9	5,903	0.4	12,833	0.7	147,935	1.2
1987	242,289	0.9	5,935	0.6	12,951	0.9	149,563	1.1
1988	244,499	0.9	5,980	0.8	13,085	1.0	151,157	1.1
1989	246,819	0.9	6,015	0.6	13,182	0.7	152,842	1.1
1990(3)	248,710	0.8	6,016	0.0	13,207	0.2	154,170	0.9
1991	252,137	1.4	5,995	(0.3)	13,201	(0.05)	156,300	1.4
1992	255,078	1.2	5,993	(0.03)	13,196	(0.04)	158,051	1.1
1993	257,908	1.1	6,012	0.3	13,230	0.1	159,677	1.0

SOURCES: United States Department of Commerce, Bureau of the Census

- (1) New England States include Massachusetts, Connecticut, Maine, New Hampshire, Rhode Island, Vermont.
- (2) California, Florida, Georgia, Illinois, Massachusetts, Michigan, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Texas and Virginia. Massachusetts ranks 13th in size as of the 1990 census.
- (3) As of April 1 of that year; intercensal and postcensal populations are estimated by the Bureau of the Census.

For the most part, net migration has not contributed to much change during the Commonwealth's population during the last decade. Preliminary evidence suggests that out-migration increased during the Commonwealth's recent economic downturn. However, the net migration into or out of the Commonwealth has had the effect of reducing the age profile of the Massachusetts population. The following table shows the net change in Massachusetts population between 1980 and 1990, by five year classification of ages.

**Residual Change (Net of Deaths) in Massachusetts Population
by Age Group, 1980-1990**

<u>Age in 1990</u>	<u>Net Change 1980-1990</u>	<u>Rate of Change (10 year % change)</u>	<u>Age in 1990</u>	<u>Net Change 1980-1990</u>	<u>Rate of Change (10 year % change)</u>
less than 5	-3258	-0.8%	45-49	-7481	-2.1%
5-9	3991	1.1%	50-54	-5792	-2.1%
10-14	10588	3.1%	55-59	-8581	-3.1%
15-19	42520	11.3%	60-64	-15193	-5.0%
20-24	58878	12.8%	65-69	-16460	-5.3%
25-29	12692	2.3%	70-74	-12995	-4.7%
30-34	-5543	-1.0%	75-79	-7488	-3.2%
35-39	-2484	-0.5%	80-85	-5826	-3.1%
40-44	-6679	-1.5%	85 and over	-16364	-5.4%
			Total	14,525.02	0.2%

SOURCE: Computed by Massachusetts Institute for Social and Economic Research, MISER, University of Massachusetts.

The following table sets forth the distribution of population by age for Massachusetts in 1990 and the projected distribution of population by age in 2000 and 2010.

**Distribution of Population by Age
(In Thousands)**

<u>Age</u>	<u>1990</u>		<u>2000 Projected</u>		<u>2010 (Projected)</u>	
	<u>Number</u>	<u>% of Total</u>	<u>Number</u>	<u>% of Total</u>	<u>Number</u>	<u>% of Total</u>
Under 5	421	7.0	362	6.1	335	5.5
5 to 19	1,140	19.0	1,218	20.5	1,177	19.3
20 to 24	517	8.6	351	5.9	451	7.4
25 to 34	1,099	18.3	834	14.0	760	12.5
35 to 44	914	15.2	1,015	17.1	820	13.5
45 to 54	596	10.0	808	13.6	940	15.4
55 to 64	514	8.6	521	8.8	732	12.0
65 and over	815	13.5	842	14.1	881	14.5

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

Personal Income

For the period 1988-1993, per capita Personal Income growth in Massachusetts was among the highest in the nation. Though the growth rate of per capita Personal Income has slowed in Massachusetts in the last two years, per capita Personal Income is currently the fourth highest among the fifty states. Per capita Personal Income for Massachusetts residents was \$24,563 in 1993, as compared to the national average of \$20,817.

The following table compares per capita Personal Income in Massachusetts with the United States and the New England States for the periods indicated.

**Per Capita Personal Income
1988-1993**

	<u>Massachusetts</u>	<u>United States</u>	<u>New England States</u>
1988	\$20,787	\$16,610	\$20,276
1989	21,688	17,690	21,325
1990	22,248	18,667	21,935
1991	22,719	19,163	22,338
1992	23,676	20,105	23,406
1993	24,563	20,817	24,265
 <u>% Change</u>			
1988-89	4.3%	6.5%	5.2%
1989-90	2.6	5.5	2.9
1990-91	2.1	2.7	1.8
1991-92	4.2	4.9	4.8
1992-93	3.7	3.5	3.7

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

Cost of Living

While per capita Personal Income is, on a relative scale, higher in Massachusetts than in the United States as a whole, this is offset to some extent by the higher cost of living in Massachusetts.

The following table presents information on consumer price trends for the Boston metropolitan area and the United States for the period between 1985 and 1993. Data for each year indicates the growth in the average annual Consumer Price Index for all urban consumers between that year and the prior year. The latest available data for January, 1994 show that the Consumer Price Index grew at a rate of only 1.1% from January, 1993; in the United States, growth for the comparable period was 2.5%.

**Changes in Consumer Price Index for All Urban Consumers
All Items**

	<u>United States</u>	<u>Boston Metro</u>
1985	3.5%	4.4%
1986	1.9	2.7
1987	3.7	4.3
1988	4.1	5.9
1989	4.8	5.8
1990	5.4	5.8
1991	4.2	4.5
1992	3.0	2.4
1993	3.0	3.0

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

Employment

The Massachusetts service sector, at 34.2% of the work force in March of 1994, is the largest sector in the Massachusetts economy. This can be compared to the nation as a whole where approximately 27% of all jobs are in the service sector. Government employment in Massachusetts was 13.5%, somewhat below the national average.

During the economic downturn that ended in 1992, the Construction, Manufacturing and Trade sectors experienced the greatest decreases, more modest declines taking place in the Government, Finance, Insurance and Real Estate ("FIRE") and Services sectors over the same period. It is expected that the Central Artery/Tunnel Project and the Boston Harbor Cleanup, with their employment of substantial numbers of construction workers, will be an anodyne for the Construction sector's past ills. As it has entered its recovery Massachusetts manufacturing employment losses have continued, although at a slower pace. The construction and trade sectors have been improving. Construction's growth for the period 1992 to 1993, as appropriate for a cyclical indicator, has recently moved strongly ahead at 9.9%.

The table below demonstrates the changes in employment by sector from 1991 through 1993.

Massachusetts Employment by Industry--Annual Averages
(In Thousands) (A) 1991-1993

	<u>1991</u>	<u>1992</u>	<u>1991-92</u> <u>% change</u>	<u>1993</u>	<u>1992-93</u> <u>% change</u>
Total Nonagricultural Employment	2,821.2	2,795.1	(0.9)	2,841.5	1.7
<u>Sector</u>					
Construction	78.8	73.6	(6.6)	80.9	9.9
Manufacturing	485.0	465.7	(4.0)	453.5	(2.6)
Transportation & Public Utilities	123.4	121.4	(1.6)	123.5	1.7
Wholesale and Retail Trade	650.6	640.5	(1.6)	644.0	0.5
FIRE	201.8	196.7	(2.5)	199.3	1.3
Services	890.5	913.4	2.6	951.8	4.2
Government	389.9	382.6	(1.9)	387.4	1.3
Civilian Labor Force	3,166.0	3,149.0	(0.5)	3,170.0	0.7
Unemployed	284.0	267.0	(6.0)	217.0	(18.7)
Unemployment Rate	9.0%	8.5%		6.9%	

SOURCE: Massachusetts Department of Employment and Training.

(A) Sum of parts may not equal totals due to rounding.

The following table presents changes in Nonagricultural Employment by sector for March, 1993 and March, 1994. Total Nonagricultural Employment increased by 3.0% between March, 1993 and March, 1994.

**Massachusetts Employment by Industry--Monthly
(In Thousands) (1)**

	<u>March</u> <u>1993</u>	<u>% of total</u>	<u>March</u> <u>1994</u>	<u>% of total</u>	<u>% change</u> <u>1993-94</u>
Total Nonagricultural Employment	2813.1	100	2898.3	100	3.0
<u>Sector</u>					
Construction	77.4	2.8	84.1	2.9	8.7
Manufacturing	458.8	16.3	445.3	15.4	(2.9)
Transportation & Public Utilities	121.4	4.3	127.9	4.4	5.4
Wholesale and Retail Trade	637.8	22.7	659.1	22.7	3.3
FIRE	197.9	7.0	201.9	7.0	2.0
Services	935.3	33.2	992.0	34.2	6.1
Government	383.3	13.6	386.8	13.3	0.9
Average Weekly Earnings Manufacturing (dollars)	\$506.15		\$525.01		3.7
Civilian Labor Force	3188.0		3142.0		(1.4)
Unemployed	218.0		185.0		(15.1)
Unemployment Rate	6.8%		5.9%		

SOURCE: Massachusetts Department of Employment and Training and US Department of Labor, Bureau of Labor Statistics.

(1) Preliminary, subject to revision. Sum of the parts may not equal totals due to rounding. Figures are seasonally adjusted except average weekly earnings.

Business and Employment Base

The following table lists, in alphabetical order, the twenty-five largest private sector employers in Massachusetts as of June, 1993. The group has remained relatively stable, only Shawmut Bank and Wang Laboratories falling from the list, being replaced by May Department Stores and the New England Medical Centers Hospital.

Commonwealth of Massachusetts Twenty-Five Largest Massachusetts Employers

American Telephone & Telegraph	Massachusetts Institute of Technology
Bank of Boston	May Department Stores Company
Blue Cross of Massachusetts Inc.	New England Medical Centers Hospital
Boston University	New England Telephone & Telegraph Company
Brigham & Women's Hospital Inc.	Polaroid Corporation
Digital Equipment Corporation	Purity Supreme Inc.
First HealthCare Corporation	Raytheon Company
Friendly Ice Cream Corporation	S & S Credit Company Inc.
General Electric Company	Sears Roebuck & Company
Harvard University	Shaw's Supermarkets Inc.
Jewel Food Stores Inc.	State Street Bank & Trust Company
John Hancock Mutual Life Insurance Company Inc.	United Parcel Service Inc.
Massachusetts General Hospital	

SOURCE: Massachusetts Department of Employment and Training.

As indicated in the following table, the commercial base of Massachusetts is anchored by the fourteen Fortune 500 industrial firms headquartered within the state. The Fortune 500 firms are ranked according to total sales.

Massachusetts Companies in The Fortune 500

<u>Ranking</u>		<u>Company</u>	<u>Industry</u>	<u>1993 Sales in \$ millions</u>
<u>1994</u>	<u>1993</u>			
29	27	Digital Equipment (Maynard)	Computer Equipment	\$14,371.4
52	54	Raytheon (Lexington)	Electronics	9,201.2
99	104	Gillette (Boston)	Consumer Products	5,410.8
176	170	EG & G (Wellesley)	Scientific, Photographic	2,697.9
206	211	Polaroid (Cambridge)	Scientific, Photographic	2,244.9
263	264	Cabot (Waltham)	Chemicals	1,614.3
309	361	Thermo Electron (Waltham)	Scientific, Photographic	1,249.7
311	225	Wang Laboratories (Lowell)	Computer Equipment	1,247.0
332	336	Ocean Spray (Lakeville)	Food Products	1,167.6
348	328	Data General (Westboro)	Computer Equipment	1,077.9
403	421	Kendall International (Mansfield)	Medical Products	816.3
412	-	EMC (Hopkinton)	Computer Equipment	782.6
426	425	Stanhope (Westfield)	Home Products	750.7
468	-	Analog Devices (Norwood)	Electronics	666.3

SOURCE: Fortune Magazine, April 18, 1994.

Only Dr. Holdings, a computer equipment producer, and Amoskeag, a financial services firm, fell from earlier ratings (in 1992) among the group of industries in the Fortune 500. These companies were replaced, however, by Kendall International and EMC so that the total of the Commonwealth's firms in the Fortune 500 remained stable.

The current restructuring of the Massachusetts economy due to the economic recovery has brought new business opportunities to many. The following table shows both the average monthly and the annual totals for new business incorporations over the period from 1991 through 1993 for Massachusetts, New England and the United States. Massachusetts' new incorporations by 1993 had climbed back to pre-1990 levels - a recovery stronger than the region but not quite so strong as nationally.

**New Business Incorporations
1991-1993**

	12 Month Totals			<u>% Change 1992-93</u>
	<u>1991</u>	<u>1992</u>	<u>1993</u>	
Massachusetts	976	1,016	1,071	5.4
New England	2,406	2,391	2,519	5.4
United States(1)	52,487	55,567	58,578	6.0

SOURCE: Dun & Bradstreet, Department of Economic Analysis, *New Business Incorporations*.
(1) Unadjusted, estimated

Unfortunately, with any such restructuring, businesses also fail. According to Dun & Bradstreet, an average of 244 Massachusetts businesses failed per month between January and December 1993. This is compared to an average of 253 for the same period in 1992. For the same period in 1993, an average of 442 New England businesses failed monthly, as compared to 517 in the same months of 1992. This is shown in the following table.

**Business Failures
1992-1993**

	Monthly Averages		<u>% Change 1992-93</u>
	<u>1992</u>	<u>1993</u>	
Massachusetts	253	244	(3.2)
New England	517	442	(14.6)
United States(1)	8,089	7,139	(11.7)

SOURCE: Dun & Bradstreet, Department of Economic Analysis.

Labor Force

The availability of skilled labor is an important resource for Massachusetts industries. The higher education system is particularly strong in post-graduate, scientific and technical education. The strength of the Massachusetts higher education system is evidenced by the draw it has upon new students. According to the New England Board of Higher Education (NEBHE), almost twice as many new students migrated into the Massachusetts higher education system as migrated out in 1988. The strength of the Commonwealth's educational institutions is also reflected in the large number of degrees awarded. The following table shows the number of Massachusetts graduates with

science and engineering degrees as a percentage of the entire United States population. Note that the figures are particularly strong for doctoral degrees.

**Science and Engineering Degrees Conferred
Massachusetts Total and Percent of U.S. Total: 1991**

		<u>Total</u>	<u>Massachusetts %</u>
<i>Baccalaureate:</i>	Mathematics	618	4.2%
	Physical Sciences	751	4.5
	Engineering	2,975	4.9
<i>Master's:</i>	Mathematics	244	6.8
	Physical Science	415	8.0
	Engineering	2,189	9.3
<i>Ph.D's:</i>	Mathematics	69	7.4
	Physical Science	319	7.1
	Engineering	350	6.7

SOURCE: NEBHE analysis of U.S. Department of Education data.

NOTE: Massachusetts population as a percent of U.S. Total = 2.3%.

Unemployment

From 1980 to 1989, Massachusetts' unemployment rate was significantly lower than the national average. By 1990, however, the Commonwealth's unemployment rate reached 6.0%, exceeding the national average for the first time since 1977. This softening of Massachusetts labor markets then continued to deteriorate rapidly over the early 1990's. The average monthly unemployment rate in Massachusetts for 1993 stood at approximately 6.9%, as compared to the national 1993 monthly average of 6.8%. The Massachusetts unemployment rate in May 1994 was 5.8%, as compared to 6.1% for April 1994 and 6.9% for May 1993. The United States unemployment rate in May 1994 was 6.0%, as compared to 6.4% for April 1994 and 6.9% for May 1993. Due to the Current Population Survey redesign, comparisons between 1994 data and data for earlier years are not advisable.

The following table compares the annual labor force, unemployment and unemployment rate averages of Massachusetts and the United States for each of the years as indicated. It also shows a comparison of Massachusetts rates to United States rates for each of the years indicated.

**Annual Average Civilian Labor Force, Unemployment and
Unemployment Rates for Massachusetts and the United States,**

1980-1993

(In Thousands)

<u>Year</u>	<u>Civilian Labor Force</u>		<u>Unemployed</u>		<u>Unemployment Rate</u>		<u>MA Rate % of US</u>
	<u>MA</u>	<u>US</u>	<u>MA</u>	<u>US</u>	<u>MA</u>	<u>US</u>	
1980	2,867	106,940	162	7,637	5.6%	7.1%	78.9
1985	3,051	115,461	120	8,312	3.9	7.2	54.2
1986	3,058	117,834	118	8,237	3.8	7.0	54.3
1987	3,086	119,865	99	7,425	3.2	6.2	51.6
1988	3,155	121,669	103	6,701	3.3	5.5	60.0
1989	3,180	128,869	127	6,528	4.0	5.3	75.5
1990	3,166	124,787	189	6,874	6.0	5.5	109.1
1991	3,127	125,303	280	8,426	9.0	6.7	134.3
1992	3,148	126,985	267	9,390	8.5	7.4	114.9
1993	3,170	128,035	217	8727	6.9	6.8	101.5

SOURCES: Massachusetts Department of Employment and Training; United States Department of Labor, Bureau of Labor Statistics; Federal Reserve Bank of Boston.

Unemployment Compensation Trust Fund

The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide for the payment of benefits to eligible individuals when they are unemployed through no fault of their own. Benefits are paid from the Commonwealth's Unemployment Compensation Trust Fund, financed through employer contributions.

In September, 1991 the reserves in the fund were exhausted due to the continued high unemployment. Since that time, benefit payments in excess of contributions have been financed through repayable advances from the federal unemployment loan account. Legislation enacted in 1992 significantly increased employer contributions in order to reduce advances from the federal loan account and 1993 contributions exceeded benefit outlays by more than \$200 million. As of March 31, 1994, the Massachusetts Unemployment Trust Fund was in deficit by \$251 million, as compared to a deficit of \$120 million at the end of December 1993. However, revenues in 1994 are expected to again exceed benefit outlays, resulting in a positive balance by November 10, 1994. Failure to show a positive balance on that date would result in an increase in federal unemployment taxes of up to \$56 per employee.

The Department of Employment and Training's most recent quarterly report indicates that the additional increases in contributions provided by the 1992 legislation should result in a positive balance in the Unemployment Compensation Trust Fund by December 1994 and rebuild reserves in the system to almost \$1 billion by the end of 1998, even if the Legislature acts to keep contribution rates at their current level for one more year.

Interest due in September, 1994 on federal advances is estimated at \$4.7 million.

Recent Economic Performance

Sectoral Detail

Services

The services sector is the largest sector in the economy of Massachusetts in terms of numbers of employees. This sector includes the broad categories of health services, business services, educational services, engineering and management services, and social services. In March 1994, service sector employment was 992,000, representing some 34.2% of total nonagricultural employment. The service sector represented a major source of strength in the Massachusetts economy, increasing 17.5% between 1985 and 1989. After moderate declines in 1990 and 1991, the service sector employment levels reached new highs in 1993. Between March 1993 and March 1994 the service sector saw an increase in employment by some 6.1%. An area with relatively high wages, business services employed more than 16% of service sector workers in March of 1994. As compared with the nation, Massachusetts has a greater concentration in the area of business services.

Health Services

The health care industry continues to play an important role in the Massachusetts economy. Health services is the largest component of the service sector in terms of employment. In 1990, the health services sector numbered 270,900 workers, with 128,600 of those employed by hospitals. Health service employment continued to grow during the economic downturn in the early 1990's and by 1993 had reached 299,900.

The current outlook for health services, including employment levels, is uncertain. The industry is buoyed by strong demand for health services. Per capita health care spending in Massachusetts is 25% above the national average, according to a recent study published by the Families U.S.A. Foundation, though, this reflects, in part, the fact that Massachusetts health care costs are well above the national average. The high cost of health care has led to recent efforts to contain costs by businesses as well as governments. Cutbacks in federal reimbursements, combined with the rising costs of patient care, contributed to operating deficits in over half of Massachusetts' hospitals in 1988. The deficits were also caused in part by an excess of acute care beds in the state. Recent restructuring of the hospital sector has led to the conversion of many acute care beds to long term care beds throughout the state. This may result in improved state-wide occupancy rates, as well as a reduction in the cost of long-term care.

It is not possible at this time to predict how the various health care reform measures now being considered by Congress will affect the health care industry in Massachusetts.

Educational Services

Massachusetts is an internationally recognized center for higher education, with approximately 419,381 students in undergraduate, professional and graduate programs according to recent data supplied by NEBHE. The number of foreign students enrolled in Massachusetts colleges and universities totals 23,721, slightly more than five percent of the U.S. total. The Massachusetts public higher education system is composed of universities, state colleges, and community colleges with a combined enrollment of approximately 180,753 students. The strength of both public and private colleges and universities as centers for research, teaching, 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 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. For example, Massachusetts institutions have a large number of Nobel Laureates. The Massachusetts Institute of Technology recently became the first university in the U.S. to receive more than 100 patents in a year. Nationally, private industry funded only 6.4% of University research and development ("R&D") at doctorate-granting institutions in 1991. This is significantly lower than the 9.0% percent

figure for Massachusetts. The federal government provides funding for 71.5% of all R&D activities in Massachusetts, compared to 58.0% for the nation as a whole during the same period. Massachusetts was fourth in the nation in total federal dollars pledged to R&D work at research institutions.

The diversity of federal funding sources reflects the diversity of the research and development work done at Massachusetts educational institutions. Of the \$679 million of total federal spending on college and university-based research and development in 1991 in Massachusetts, 47.0% was from the Department of Health and Human Services, 18.1% was from the National Science Foundation, 15.6% was from the Department of Defense, 9.8% was from the Department of Energy, and 2.9% was from the Department of Agriculture.

Massachusetts colleges and universities are also significant employers within the state. Four Massachusetts private universities are among the Commonwealth's 25 largest non-governmental employers. The educational services sector includes only private institutions for education; public institutions are included in the government sector. According to the Massachusetts Department of Employment and Training, educational services accounted for 120,600 jobs in 1993, while in the government sector, state and local public education accounted for 155,700 jobs.

Trade

During the mid-1980's the trade sector was an area of strong job growth, boosted by a growing export sector. Trade employment declined between 1990 and 1992 but there was a slight rebound of 0.5% between 1992 and 1993. In March 1994, retail and wholesale trade was the second largest employment sector in Massachusetts with 659,100 workers, 3.3% above March, 1993 levels. Of this number, about three-quarters were employed in retail trade.

Retail Sales

Retail sales growth in the Commonwealth outpaced national sales growth during the mid-80's, though in more recent years this has not been the case. According to the Federal Reserve Bank of Boston, retail sales for the month of July, 1993 were 0.8% above the figures for the same month in 1992. The following table sets forth annual retail sales activity for Massachusetts and the United States from 1988-1993.

Annual Retail Sales Activity
(adjusted for seasonal variations and trading day differences)
1988-1993 (In Millions)

	<u>Massachusetts</u>	<u>% Change</u>	<u>United States</u>	<u>% Change</u>
1988	\$45,327	9.5%	\$1,650,468	7.1%
1989	46,089	1.7	1,746,965	5.8
1990	44,141	(4.2)	1,825,507	4.5
1991	44,863	1.6	1,842,739	0.9
1992	47,491	5.9	1,956,175	5.8
1993	49,976	4.2	2,083,877	6.5

SOURCE: United States Department of Commerce; Federal Reserve Bank of Boston

Manufacturing

Recently, like virtually all industrial states, Massachusetts has seen a steady diminution of its manufacturing job base. Between 1992 and 1993, manufacturing employment declined 3.2%, from 460,700 to 446,100. While

high technology manufacturing is in a slowdown nationally as well as in Massachusetts, it is expected to outperform manufacturing in the long-term. As of March 1994, high technology manufacturing employed 166,900 persons, down by 12,600 from a year earlier. Generally, the Massachusetts manufacturing sector is made up of many small and diversified firms. Currently, about 80% of the manufacturing firms in Massachusetts employ fewer than 50 people.

**Manufacturing Establishment Employment by Industry
in Massachusetts
1991-1993
(In Thousands)**

	<u>1991</u>		<u>1992</u>		<u>1993</u>	
	<u>Jobs</u>	<u>%</u>	<u>Jobs</u>	<u>%</u>	<u>Jobs</u>	<u>%</u>
<u>Durable Goods</u>						
Primary Metals	10.3	3.2	9.3	3.1	9.1	3.2
Fabricated Metals	37.9	12.0	36.2	12.1	35.7	12.5
Industrial Machinery	76.6	24.2	72.5	24.2	67.3	23.5
Electrical and Electronics	68.5	21.6	63.9	21.3	59.9	20.9
Transportation	26.0	8.2	24.1	8.0	21.7	7.6
Stone, Clay, & Gas	7.8	2.5	7.9	2.6	8.0	2.8
Instruments	65.6	20.7	61.6	20.6	59.8	20.9
Other Durable Goods	24.3	7.7	24.1	8.0	24.9	8.7
Total Durable Goods	317.0	100.0	299.6	100.0	286.4	100.0
<u>Non-Durable Goods</u>						
Apparel and Related	17.7	10.5	17.7	10.7	16.9	10.1
Food Products	19.6	11.7	19.3	11.6	20.1	12.0
Chemical Products	17.3	10.3	16.5	9.9	16.3	9.8
Printing and Publishing	48.9	29.1	47.3	28.5	47.4	28.4
Textile Mill Products	14.1	8.4	14.6	8.8	15.1	9.0
Paper Products	21.1	12.6	20.7	12.5	20.1	12.0
Other Non-Durable Goods	29.3	17.4	30.0	18.1	31.2	18.7
Total Non-Durable Goods	168.0	100.0	166.1	100.0	167.1	100.0
Total Manufacturing Employ.	485.0		465.7		453.5	

SOURCE: Massachusetts Department of Employment and Training.

International Trade

A significant proportion of what Massachusetts produces is exported. Massachusetts ranked eleventh in the United States with more than \$12.2 billion in exports in 1993. The amount of the Commonwealth's exports have increased slowly over time in comparison to some of the other states in the U.S., increasing only 0.3% from the previous year. Manufactured goods accounted for 95.9% of all foreign trade receipts in 1993. Such a focus on production for export has given Massachusetts the fifth highest concentration of manufacturing sector jobs dependent on exports in the nation, according to the Bureau of the Census' 1987 Census of Manufacturers (the most

recent data available). Three of the four states with greater concentrations border Massachusetts. According to the same report, 190,600 of Massachusetts' manufacturing jobs, which amounts to 6.4% of its civilian labor force, were dependent upon exports. Massachusetts' most important exports are industrial machinery including computer equipment, electronic and electric equipment and instruments and related products.

Massachusetts' most important trading partners for 1993 were: Canada, which purchased \$2.8 billion worth of products; Japan, which bought \$1.1 billion; and the United Kingdom and Germany which each bought \$1.0 billion. In 1993, Massachusetts exported about \$4.3 billion to the European Union ("EU"). This was about 5% of all US exports to the EU. Massachusetts also exported about \$2.9 billion to Japan and other Asian countries. This was about 60% of New England exports to Asia and about 2.5% of US exports to Asia.

**Massachusetts - Total Dollar Value of
Export Shipments by Major Industry Group
1989 and 1993**

<u>Major Industry Group</u>	<u>Massachusetts</u>		<u>Percent Change 1989 - 1993</u>		
	<u>1989</u>	<u>1993</u>	<u>Mass.</u>	<u>New England</u>	<u>U.S.</u>
Total All Industries	\$10,471,988,332	\$12,194,833,110	16.45%	27.12%	33.53%
Manufacturing	10,182,123,284	11,695,366,815	14.86	21.80	22.66
Industrial machinery, computer equipment	4,520,966,289	3,873,987,016	(14.31)	(10.97)	35.40
Electronic, electric equip., excluding computers	1,395,937,425	2,240,488,731	60.50	51.67	69.76
Instruments and related products	1,635,974,528	1,867,013,760	14.12	21.77	37.95
Fabricated Metal Products	426,317,202	625,753,955	46.78	16.18	14.68
Chemicals and Allied Products	399,128,333	534,097,385	33.81	15.33	18.90
Transportation Equipment	433,584,243	499,068,395	15.10	27.59	36.03
Rubber and misc. plastics products	192,380,454	373,833,043	94.31	107.07	82.56
Textile Mill Products	123,576,983	263,293,011	113.05	105.29	66.82
Paper and Allied Products	174,952,180	242,760,182	38.75	22.67	13.94
Primary Metal Industries	170,672,033	211,461,841	23.89	33.03	64.46

SOURCE: University of Massachusetts at Amherst.

Finance, Insurance and Real Estate

While the Finance, Insurance and Real Estate ("FIRE") sector experienced 23.7% growth in employment between 1984 and 1988, there was a 10.0% decrease in employment between 1988 and 1993. However, this masks a hastening rebound in early 1994 and a slight turnaround of 1.3% in 1993 from 1992 figures. The total employment in FIRE was 199,300 in 1993, and 201,900 as of March, 1994.

Construction

Fueled by the general growth of the rest of the Massachusetts economy, employment in the construction industry experienced dramatic growth in the first part of the 1980's, increasing by more than 80% between 1982 and 1988. This trend reversed direction between 1988 and 1992. Much of the earlier growth within the industry was lost with the downturn. Employment in the construction industry declined nearly 50% from 1988 to 1992 due to an excess supply in both the commercial and residential real estate markets. Since 1992, with the return to general growth in the Massachusetts economy, employment in construction has rebounded.

The following table shows the number of housing permits authorized on an annual basis in Massachusetts and the United States. The number of Massachusetts permits increased 18.0% between 1992 and 1993, while the national rate declined by 9.2% during the same period. In recent months there has been some improvement in the Massachusetts housing industry. The total value of new construction contracts has also risen.

**Housing Permits Authorized in Massachusetts and the United States
1980-1993**

	<u>Massachusetts</u>	<u>United States</u>
1980	16,500	1,171,000
1981	15,900	985,000
1982	15,400	1,485,000
1983	22,800	1,605,000
1984	29,300	1,682,000
1985	39,200	1,733,000
1986	45,200	1,769,000
1987	40,400	1,534,000
1988	30,500	1,456,000
1989	21,300	1,338,000
1990	14,300	1,111,000
1991	12,700	949,000
1992	15,000	1,211,000
1993	17,700	1,100,000

SOURCE: Department of Commerce, Bureau of the Census and the Federal Reserve Bank of Boston.

Defense

An estimated 143,400 workers were employed in defense-related industries in 1992, accounting for approximately 5.0% of Massachusetts private sector employment. Following a peak in the value of military prime contracts awarded to Massachusetts firms in fiscal 1986 of \$8.7 billion, defense-related contracts declined approximately 20% in real (inflation-adjusted) terms in fiscal 1988 to \$7.2 billion. By fiscal 1992, the value of defense-related prime contracts had declined to \$5.7 billion. The diversity of Massachusetts companies, particularly in the area of electronics and high technology research and development, has helped reduce the impact of the decline in national defense expenditures on the Massachusetts economy.

The importance of the defense industry to the Massachusetts economy is reflected in the tables below.

**Defense Indicators for New England and the Nation
(Thousands of Dollars)**

	<u>Prime Contract Awards 1992</u>	<u>% Employment Defense Related</u>
Connecticut	\$3,099,444	5.9%
Maine	1,304,968	4.3
Massachusetts	5,686,386	5.0
New Hampshire	424,396	2.7
Rhode Island	454,571	4.0
Vermont	63,027	2.1
Total New England	11,032,792	4.7
Total United States	112,284,649	4.1

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

Massachusetts leads the New England region in federally funded defense research activities, with contracts in amounts exceeding 1.9 times the national average. An estimated 6% of the goods and services in Massachusetts are attributable to the defense sector. It is unknown at this time what effect federal budget deliberations and international events will have on the level of defense contracts awarded within Massachusetts. To the extent there are federal spending reductions, they may have a significant impact on the level of defense related production and research in Massachusetts. However, since most contracts cover a period of years, the effect of any cancellations or federal spending reductions may not be directly experienced for some time.

Travel and Tourism

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

The Massachusetts Office of Travel and Tourism estimates that a total of 26.7 million people visited the Commonwealth in 1991. Of these, 1.5 million were international visitors. It was also estimated that spending by domestic travellers was \$6.5 billion. The immediate tax revenue from this spending is estimated to be \$177 million for the Commonwealth.

Housing Indicators

The current recovery in the regional economy is reflected in the housing sector. With sales resuming an increasing trend in 1990, prices began rising slowly a year later. This stabilized the large loss of 4.3% that occurred between 1989 and 1990. On a seasonally adjusted annual rate basis, existing home sales for the Commonwealth appear in the table below.

**Existing Home Sales
1988-1993
(In Thousands, Seasonally Adjusted Annual Rates)**

1988	.....	93.6
1989	.....	67.4
1990	.....	44.1
1991	.....	49.6
1992	.....	57.6
1993	.....	65.6

SOURCE: Federal Reserve Bank of Boston figures based on the National Association of Realtors *Home Sales*.

Single family home prices for the Boston Metropolitan area (not seasonally adjusted) appear below.

**Home Prices for Boston Metropolitan Area
1988-1993
(In Thousands)**

1988	.....	\$180.7
1989	.....	181.5
1990	.....	173.8
1991	.....	168.5
1992	.....	170.5
1993	.....	171.4

SOURCE: Federal Reserve Bank of Boston figures based on the National Association of Realtors *Home Sales*.

Major Infrastructure Projects

The next decade brings significant work on several major public sector-sponsored construction projects, giving rise in Massachusetts to new employment opportunities. The projects include the depression of the central artery which traverses the City of Boston, and the construction of a third harbor tunnel linking downtown Boston to Logan Airport. Final completion of the project is planned for 2003. The federal government will take responsibility for about 90% of the estimated \$7.7 billion cost of the project. Plans are to employ 5,000 on-site workers and 10,000 auxiliary workers during the peak year of construction, 1994 to 1995.

Massport and the Massachusetts Bay Transportation Authority also plan to devote several billion dollars to maintenance and enhancements of the area's port, airport and mass transportation facilities.

The Massachusetts Water Resources Authority is undertaking capital projects for the construction and rehabilitation of sewage collection and treatment facilities in order to bring wastewater discharges into Boston Harbor into compliance with federal and state pollution control requirements. The harbor cleanup project is estimated to cost \$3.5 billion in 1994 dollars. Work on the project began in 1988 and is expected to be completed in the year 1999, the most significant expenditures occurring between 1990 and 1999. The majority of these expenditures will be paid for by local communities, in the form of user fees, with federal and state sources making up the difference. Cambridge Systematics estimates that, during the peak years of the project, the cleanup will produce 3,600 construction jobs and 6,200 auxiliary jobs.

SUMMARY OF CERTAIN PROVISIONS OF THE SPECIAL OBLIGATION ACT

The following is a brief summary of certain provisions of the Special Obligation Act (referred to in this summary as the "Act"), pursuant to which the 1994 Bonds are being issued. The Act is codified as Section 20 of Chapter 29 of the Massachusetts General Laws. The Act may be amended after the issuance of the 1994 Bonds, but any such amendment must comply with the covenants of the Commonwealth contained in the Trust Agreement, as described in this Official Statement. Although the Act contains certain covenants of the Commonwealth, the Trust Agreement provides that any provision of the Act creating a covenant with the owners of Bonds shall be deemed a covenant under the Trust Agreement only to the extent expressly provided for in, and as limited by, the Trust Agreement. See "Appendix C -- Summary of Certain Provisions of the Trust Agreement." This summary of the Act does not purport to be complete, and reference is made to the Act for a full and complete statement of its terms and provisions.

Infrastructure Fund

The Act establishes in the Highway Fund a subfund to be known as the Infrastructure Fund, which is to be invested by the State Treasurer and which is deemed to be a part of the Highway Fund. Forty-seven and sixty-two hundredths percent of the receipts paid into the treasury of the Commonwealth and directed by the Gasoline Tax Act to be credited to the Highway Fund for general Highway Fund purposes are directed by the Act to be credited to the Infrastructure Fund. Such receipts, together with investment earnings thereon, are referred to throughout the Act as "special receipts." Expenditures may be made from the Infrastructure Fund, subject to appropriation, only for the following purposes: (i) for the payment of the principal, including sinking fund payments, of and premium, if any, and interest on special obligation bonds of the Commonwealth issued pursuant to the Act for one or more of the purposes for which Highway Fund moneys may be expended, (ii) for the maintenance of, or provision for, any reserves, additional security, insurance or other form of credit enhancement required or provided for in any trust agreement entered into pursuant to the Act to secure such bonds, (iii) for direct expenditures for any such purposes for which Highway Fund moneys may be expended, any such direct expenditures to be made only in compliance with any applicable restrictions relating thereto, including without limitation any coverage requirements contained in any such trust agreement or credit enhancement agreement, and (iv) for capital projects and capital assistance funds for regional transit authorities as described in section twenty-three of chapter eight hundred and eleven of the acts of nineteen hundred and eighty-five.

Special Obligation Bonds

Bonds issued in accordance with the provisions of the Act are special obligations of the Commonwealth payable from special receipts to the extent available and in any case payable solely from moneys credited to the Highway Fund. Notwithstanding the provisions of any general or special law to the contrary, such special obligation bonds are not general obligations of the Commonwealth. Special obligation bonds may be secured by a trust agreement entered into by the State Treasurer, with the concurrence of the Secretary of Administration and Finance and the Secretary of Transportation and Construction, on behalf of the Commonwealth, which trust agreement may pledge or assign all or any part of moneys credited to the Highway Fund and rights to receive the same, whether existing or coming into existence and whether held or thereafter acquired, and the proceeds thereof. The State Treasurer is also authorized, with the concurrence of the Secretary of Administration and Finance and the Secretary of Transportation and Construction, to enter into additional security, insurance or other forms of credit enhancement which may be secured on a parity or subordinate basis with the special obligation bonds. The Act provides that a pledge in any such trust agreement or credit enhancement agreement is valid and binding from the time such pledge is made without any physical delivery or further act, and the lien of such pledge is valid and binding as against all parties having claims of any kind in tort, contract or otherwise, irrespective of whether such parties have notice thereof. Any such pledge may be perfected by filing the trust agreement or credit enhancement agreement in the records of the State Treasurer, and no filing need be made under the Massachusetts Uniform Commercial Code.

The Act provides that any such trust agreement or credit enhancement agreement may establish provisions defining defaults and establishing remedies and other matters relating to the rights and security of the holders of the special obligation bonds or other secured parties as determined by the State Treasurer, including provisions relating to the establishment of reserves, the issuance of additional or refunding bonds, whether or not secured on a parity basis, the application of receipts, moneys or funds pledged pursuant to such agreement (referred to in the Act as "pledged funds") and other matters deemed necessary or desirable by the State Treasurer for the security of such special obligation bonds, and may also regulate the custody, investment and application of moneys. Any such special obligation bonds are deemed to be investment securities under the Massachusetts Uniform Commercial Code and are made securities in which any public officer, fiduciary, insurance company, financial institution or investment company may properly invest funds and which may be deposited with any public custodian for any purpose for which the deposit of bonds is authorized by law. The Act provides that any such special obligation bonds, their transfer and the income therefrom, including profit on the sale thereof, shall at all times be exempt from taxation by and within the Commonwealth.

In order to increase the marketability of any such special obligation bonds or notes issued by the Commonwealth, and in consideration of the acceptance of payment for any such special obligation bonds or notes, the Commonwealth covenants in the Act with the purchasers and all subsequent holders and transferees of any such special obligation bonds or notes that while any such special obligation bond or note shall remain outstanding, and so long as the principal of or interest on any such special obligation bond or note shall remain unpaid, (i) special receipts shall not be diverted from the purposes identified herein, (ii) no pledged funds shall be diverted from the Highway Fund, (iii) in any fiscal year of the Commonwealth, unless and until an appropriation has been made which is sufficient to pay the principal, including sinking fund payments, of and interest on all such special obligation bonds and notes of the Commonwealth and to provide for or maintain any reserves, additional security, insurance or other form of credit enhancement required or provided for in any trust agreement securing any such bonds or notes, no pledged funds shall be applied to any other use and (iv) so long as such revenues are necessary, as determined by the State Treasurer in accordance with any applicable trust agreement or credit enhancement agreement, for the purposes for which they have been pledged, the rates of the fees and excises directed by the General Laws to be credited to the Highway Fund shall not be reduced below the amount in effect at the time of issuance of any such bond or note.

Limitation on Central Artery/Third Harbor Tunnel Expenditures

Notwithstanding the provisions of any other general or special law to the contrary, the Act provides that no more than 10% of the net fiscal year receipts in any fiscal year prior to July 1, 2000, of the Gasoline Tax Act may be expended for the construction of the Central Artery/Third Harbor Tunnel project. If, in any such fiscal year, less than 10% of the net fiscal year receipts is expended for such construction, the difference between 10% of the net fiscal year receipts and the amount actually expended on such construction during that fiscal year will be available during that or any subsequent fiscal year for any other construction or reconstruction purpose, or in any subsequent fiscal year for Central Artery/Third Harbor Tunnel construction, provided, however, that amounts of said 10% net fiscal year receipts expended in any fiscal year for purposes other than the Central Artery/Third Harbor Tunnel construction project will be available for expenditure for Central Artery/Third Harbor Tunnel construction in any subsequent fiscal year. If the above-described difference is used in a subsequent year for such Central Artery/Third Harbor Tunnel construction, the total amount used for such Central Artery/Third Harbor Tunnel construction during that subsequent fiscal year may exceed the 10% of net fiscal year receipts permitted by the Act, but the total amount used for such construction may not exceed 20% of the net fiscal year receipts in that subsequent fiscal year. Further, notwithstanding the foregoing, no more than 20% of the special receipts received in any fiscal year may be paid in that or any subsequent fiscal year for debt service on bonds or notes, or portions thereof, issued to finance the Central Artery/Third Harbor Tunnel project, or for direct expenditures on such project, and any trust agreement or credit enhancement agreement entered into by the Commonwealth pursuant to the Act must contain a covenant to that effect.

SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT

The Trust Agreement contains terms and conditions relating to the issuance and sale of Special Obligation Bonds under it, including various covenants and security provisions, certain of which are summarized below. For purposes of this summary, all references to "Bonds" shall refer to the Special Obligation Bonds. This summary does not purport to be comprehensive or definitive and is subject to all of the provisions of the Trust Agreement, to which reference is hereby made. Copies of the Trust Agreement are available from Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, MA 02111, Attn: John R. Regier, Bond Counsel to the Commonwealth.

Definitions

The following is a summary of certain terms used in the Trust Agreement, in this Appendix C and otherwise used in this Official Statement.

"Act" shall mean the provisions of Section 20 of Chapter 29 of the Massachusetts General Laws, as it may be amended from time to time.

"Accreted Value" shall mean with respect to any Bonds that are Capital Appreciation Bonds, an amount equal to the principal amount of such Capital Appreciation Bonds (determined on the basis of the initial principal amount per \$5,000 at maturity thereof) plus the amount assuming compounding (as set forth in the Applicable Supplemental Trust Agreement) of earnings which would be produced on the investment of such initial amount, beginning on the dated date of such Capital Appreciation Bonds and ending at the maturity date thereof, at a yield which, if produced until maturity, will produce \$5,000 at maturity.

"Additional Bonds" shall mean Bonds of the Commonwealth issued pursuant to the Trust Agreement.

"Additional Pledged Funds" shall mean any fees, duties, excises or license taxes which the Commonwealth may impose and collect relating to registration, operation or use of vehicles on public highways, or to fuels use for propelling such vehicles and subject to the restrictions of Article LXXVIII of the Constitution of the Commonwealth.

"Adjusted Bond Debt Service Requirements" shall mean:

- (i) With respect to Variable Rate Bonds, the aggregate Bond Debt Service Requirements based upon an interest rate equal to the Variable Rate Ceiling; provided, however, if the Commonwealth (1) enters into a Qualified Hedge Agreement requiring the Commonwealth to pay a fixed interest rate or providing for a maximum interest rate on a notional amount, and (2) has made a determination that such Qualified Hedge Agreement was entered into for the purpose of providing substitute interest payments or limiting the potential increase in the interest rate for a particular maturity of Bonds in a principal amount equal to the notional amount of the Qualified Hedge Agreement, then during the term of such Qualified Hedge Agreement and so long as the Hedge Provider under such Qualified Hedge Agreement is not in default, the interest rate on such Bonds shall be based on the fixed interest rate or maximum interest rate, as the case may be, payable by the Commonwealth under such Qualified Hedge Agreement;

- (ii) with respect to Fixed Rate Bonds, if the Commonwealth (1) enters into a qualified Hedge Agreement requiring the Commonwealth to pay a variable interest rate on a notional amount and (2) has made a determination that such Qualified Hedge Agreement was entered into for the purpose of providing substitute interest payments for a particular maturity of Bonds in a principal amount equal to the notional amount of the Qualified Hedge Agreement, then during the term of such Qualified Hedge Agreement and so long as the Hedge Provider under such Qualified Hedge Agreement is not in default, the interest rate on such Bonds shall be determined as if such Bonds bore interest at the Assumed Hedge Rate;
- (iii) with respect to Tender Bonds, the aggregate Bond Debt Service Requirements thereon shall not include amounts payable upon mandatory or optional tender, but shall be deemed to include all periodic Bond Related Costs and other payments to the provider of any Liquidity Facility, and shall not be based upon the terms of any Reimbursement Obligation to such provider except to the extent and for periods during which Bond Related Costs and other payments are required to be made pursuant to such Reimbursement Obligation due to such provider advancing funds;
- (iv) with respect to Bonds that have Credit Enhancement, the aggregate Bond Debt Service Requirements thereon shall be deemed to include all periodic Bond Related Costs and other payments to the provider of the Credit Enhancement, but shall not be based upon the terms of any Reimbursement Obligation to such provider except to the extent and for periods during which Bond Related Costs and other payments are required to be made pursuant to such Reimbursement Obligation due to such provider advancing funds; and
- (v) the amount of any investment earnings and return of principal or projected investment earnings and projected return of principal, as the case may be, allocable to amounts in the Debt Service Reserve Fund, shall be deducted from the Adjusted Bond Debt Service Requirements for the applicable period.

"Advance Refunded Municipal Bonds" shall mean any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (i) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, (ii) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or Government Obligations which is sufficient to pay interest when due, principal of and redemption premium, if any, on such bonds or other obligations described in this definition on the maturity date or dates thereof or on the specified redemption date or dates, as appropriate.

"Applicable Supplemental Trust Agreement" shall mean with respect to any Series of Bonds, the Supplemental Trust Agreement authorizing such Series of Bonds.

"Appreciated Value" shall mean with respect to Deferred Income Bonds until the interest commencement date thereon, an amount equal to the principal amount of such Deferred Income Bond (determined on the basis of the initial principal amount per \$5,000 at the interest commencement date thereof) plus the amount, assuming compounding of earnings which would be produced on the investment of such initial amount, beginning on the dated date of such Deferred Income Bond and ending on the interest commencement date, at a yield which, if produced until the interest commencement date, will produce \$5,000 at the interest commencement date.

"Authorized Officer" shall mean the Treasurer or any designee thereof and any other person authorized by law to perform a duty or sign a document under the Trust Agreement.

"Bond Authorizations" shall mean such provisions of the laws of the Commonwealth enacted in accordance with the applicable provisions of the Constitution of the Commonwealth authorizing bonds for transportation-related purposes or to refund any Bonds or Transportation Bonds which may be issued as special obligation bonds under the provisions of the Act.

"Bonds" shall mean any of the Bonds of the Commonwealth authenticated and delivered under the Trust Agreement.

"Bond Debt Service Requirement" shall mean, for any period of calculation, the aggregate of the interest, principal amount, and Sinking Fund Payments due or to become due other than by reason of redemption at the option of the Commonwealth or the registered owner of any Bonds on all Bonds Outstanding during such period and shall include the scheduled principal and interest portions of the Accreted Value of Capital Appreciation Bonds and the Appreciated Value of Deferred Income Bonds becoming due at maturity or by virtue of Sinking Fund Payments on such Bonds.

"Bond Counsel" shall mean any lawyer or firm of lawyers nationally recognized in the field of municipal finance and selected by the Treasurer.

"Bond Related Costs" shall mean all costs, fees and expenses of the Commonwealth incurred or related to any Liquidity Facility, Credit Enhancement, Reserve Credit Facility, any remarketing or other secondary market transactions, any fees of Bond Counsel, attorneys, financial advisors, Fiduciaries, remarketing agents, rebate consultants, accountants and other advisors retained by the Commonwealth in connection with a Series, and any other fees, charges and expenses that may be lawfully incurred by the Commonwealth to a provider of any Credit Enhancement, Liquidity Facility or Reserve Credit Facility, other than amounts paid as the costs of issuance for a series or to reimburse the provider of any Credit Enhancement, Liquidity Facility or Reserve Credit Facility.

"1992 Bonds" shall mean any outstanding bonds issued pursuant to the 1992 Trust Agreement.

"Capital Appreciation Bonds" shall mean any Bonds as to which interest is payable only at the maturity or prior redemption thereof.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Credit Enhancement" shall mean any agreement, including, but not limited to a policy of bond insurance, surety bond, irrevocable letter of credit, credit agreement, credit facility or guaranty arrangement with a bank, trust company, insurance company, surety bonding company, pension fund or other financial institution that provides increased credit on or security for any Series (or portion thereof) of Bonds and, if authorized by a Supplemental Trust Agreement, shall include a Reserve Credit Facility.

"Debt Service Fund Requirement" shall mean, as of any particular date of computation, (i) any unpaid interest due on such Bonds at or before said date and all unpaid interest due on such Bonds at or before said date and all unpaid interest on such Bonds accrued but not due at said date, (ii) the principal amount of any such Bonds matured and unpaid at or before said date, and (iii) with respect to any Principal Installment of any Bonds not included in (ii) above, but payable on the next succeeding Principal Installment payment date other than by reason of redemption at the option of the Commonwealth or the Holder of any Bonds, that portion of such Principal Installment determined by multiplying such Principal Installment by a fraction, the numerator of which shall be the number of days elapsed from and including the immediately preceding Principal Installment payment date, or if there be no such date with respect to such Bonds, the date of issuance thereof, to the date of such calculation and the denominator of which shall be the number of days from and including the immediately preceding Principal

Installment payment date, or if there be no such date with respect to such Bonds, the date of issuance thereof, to such Principal Installment payment date.

"Debt Service Reserve Fund Requirement" shall mean, as of any particular date of computation and subject to the proviso below, the amount described in (i), (ii) or (iii) below, whichever amount is the smallest:

- (i) ten percent (10%) of the original principal amount of all Series of Bonds Outstanding, provided that if a Series had more than a de minimis amount (as defined in U.S. Treas. Reg. §1.148-1) of original issue discount or premium, the issue price (as so defined) of such Series, net of pre-issuance accrued interest (as so defined), shall be used to measure said ten percent limitation in lieu of the original principal amount;
- (ii) one hundred twenty-five percent (125%) of the average annual aggregate amount of Principal Installments and interest becoming due in any Fiscal Year on all Bonds Outstanding, using the Assumed Rate for any Variable Rate Bonds (or any Reimbursement Obligations issued in connection therewith which are deemed to be Bonds as described in "Credit Enhancement/Liquidity Facilities" below); or
- (iii) fifty percent (50%) of the maximum aggregate amount of Principal Installments and interest becoming due in the current or any future Fiscal Year on all Bonds Outstanding, using the Assumed Rate for any Variable Rate Bonds (or any Reimbursement Obligations issued in connection therewith which are deemed to be Bonds as described in "Credit Enhancement/Liquidity Facilities" below), less, in any such Fiscal Year, any amounts received as payment of accrued interest from the sale of any Bonds which amounts are deposited in the Debt Service Fund;

provided, however, that if the Trustee shall receive the notice described in "Covenant as to Gasoline Taxes and Infrastructure Fund" below, the amount in (iii) above shall become "one hundred percent (100%)" rather than "fifty percent (50%)."

"Defeasance Obligations" shall mean Government Obligations and Advance Refunded Municipal Bonds.

"Fiduciary" shall mean the Trustee or any Paying Agent.

"Fiscal Year" shall mean the period beginning on July 1 of any calendar year and ending on June 30 of the succeeding calendar year or such other period of twelve consecutive calendar months as may be provided by law as the fiscal year of the Commonwealth.

"Funded Debt Service Fund Requirement" shall mean, as of any particular date of computation, an amount equal to the Debt Service Reserve Fund Requirement less the stated and unpaid amounts of all Reserve Credit Facilities and any amount required to reimburse any provider of a Reserve Credit Facility, to the extent provided in a Supplemental Trust Agreement.

"Gasoline Tax" shall mean the excise imposed on fuel (other than aviation fuel) by the provisions of Chapter 64A of the Massachusetts General Laws in effect as of the date of issuance of the Bonds.

"Government Obligations" shall mean direct general obligations of, or obligations the timely payment of principal of and interest on which are unconditionally guaranteed by, the United States of America.

"Hedge Provider" shall mean the counterparty with whom the Commonwealth enters into a Qualified Hedge Agreement.

"Highway Fund" shall mean the Highway Fund of the Commonwealth so designated by Section 34 of Chapter 90 of the Massachusetts General Laws, as amended, or any other fund or account of the Commonwealth or any agency thereof created in replacement thereof.

"Infrastructure Fund" shall mean the subfund of the Highway Fund so designated and established pursuant to the provisions of the Act or any other fund or account of the Commonwealth or any agency thereof created in replacement thereof.

"Liquidity Facility" shall mean any agreement with a bank, trust company, insurance company, surety bonding company, pension fund or financial institution under which it agrees to purchase Tender Bonds.

"Outstanding," when used with reference to Bonds, shall mean all Bonds authenticated and delivered, as of a particular date, except (i) any Bond cancelled by the Commonwealth or a Fiduciary at or before said date, (ii) any Bond in lieu of or in substitution for which another Bond shall have been authenticated and delivered and (iii) Bonds deemed to have been paid as described under "Defeasance".

"Paying Agent" shall mean any paying agent or co-paying agent for a Series of Bonds.

"Permitted Investments" shall mean and include any of the following, if and to the extent the same are at the time legal for investment of Commonwealth funds:

- (i) Government Obligations;
- (ii) Certificates or receipts representing direct ownership of future interest or principal payments on Government Obligations or any obligations of agencies or instrumentalities of the United States of America which are backed by the full faith and credit of the United States, which obligations are held by a custodian in safekeeping on behalf of the holders of such receipts;
- (iii) Direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; senior debt obligations of the Federal Home Loan Banks; debentures of the Federal Housing Administration; guaranteed mortgage-backed bonds and guaranteed pass-through obligations of the Government National Mortgage Association; guaranteed Title XI financing of the U.S. Maritime Administration; mortgage-backed securities and senior debt obligations of the Federal National Mortgage Association; obligations of the Student Loan Marketing Association; obligations of the Federal Farm Credit Systems; obligations of the Resolution Trust Corporation and participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation or any successor agency to each of the foregoing;
- (iv) All other obligations issued or unconditionally guaranteed as to the timely payment of principal and interest by an agency or person controlled or supervised by and acting as an instrumentality of the United States of America pursuant to authority granted by Congress;
- (v) (a) Interest-bearing time or demand deposits, certificates of deposit, or other similar banking arrangements with any government securities dealer, bank, trust company, savings and loan association, national banking association or

other savings institution (including the Trustee), provided that such deposits, certificates, and other arrangements are fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or (b) interest-bearing time or demand deposits or certificates of deposit with any bank, trust company, national banking association or other savings institution (including the Trustee), provided such deposits and certificates are in or with a bank, trust company, national banking association or other savings institution whose long-term unsecured debt is rated in one of the three highest long-term Rating Categories by each Rating Agency then maintaining a rating on any Bonds, and provided further that with respect to (a) and (b), any such obligations are held by the Trustee or a bank, trust company or national banking association other than the issuer of such obligations, unless the issuer is the Trustee;

- (vi) Repurchase agreements collateralized by securities described in subparagraphs (i), (ii), (iii) or (iv) above with any registered broker/dealer or with any commercial bank, provided that (a) a specific written repurchase agreement governs the transaction, (b) the securities are held, free and clear of any lien, by the Trustee or an independent third party acting solely as agent for the Trustee, and such third party is (1) a Federal Reserve Bank, or (2) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than \$25 million, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee, (c) the repurchase agreement has a term of thirty days or less, or the Trustee or the third-party custodian will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within five business days of such valuation, and (d) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 102%;
- (vii) Money market funds rated in the highest short-term Rating Category by each Rating Agency then maintaining a rating on any Bonds;
- (viii) Commercial paper rated in the highest short-term Rating Category by each Rating Agency then maintaining a rating on any Bonds;
- (ix) Advanced-Refunded Municipal Bonds;
- (x) Short-term or long-term obligations the interest on which is excludable from gross income for Federal income tax purposes and that are rated in the three highest rating categories by each Rating Agency then maintaining a rating on any Bonds Outstanding;
- (xi) investment contracts with banks or other financial institutions whose long-term unsecured debt or claims-paying ability is rated in one of the three highest Rating Categories by each Rating Agency then maintaining a rating on any of the Bonds Outstanding, but in no event lower than the Rating Category designated by such Rating Agency for the Bonds.

"Pledged Funds" shall mean and include the following:

- (i) all moneys received or to be received by the Commonwealth from that portion of the Gasoline Tax equal to four and eighty-six hundredths cents (\$.0486) per gallon;
- (ii) all moneys received or to be received by the Trustee from the 1992 Trust Agreement;
- (iii) immediately upon the discharge and release of the lien of the 1992 Trust Agreement in accordance with the "Defeasance" section thereof, all moneys received or to be received by the Commonwealth from that portion of the Gasoline Tax equal to two cents (\$.02) per gallon, together with any other amounts then constituting "Pledged Funds" within the meaning of the 1992 Trust Agreement; and
- (iv) to the extent permitted in the Trust Agreement such Addition Pledged Funds as the Commonwealth may by a subsequent Supplemental Trust Agreement pledge to the Trustee as security for the Bonds.

"Principal Installment" shall mean (i) the principal amount of Outstanding Bonds of a Series which mature on a single future date, reduced by the aggregate principal amount of such Outstanding Bonds which would at or before said future date be retired by reason of the payment when due and application of Sinking Fund Payments payable at or before said future date for the retirement of such Outstanding Bonds, plus (ii) the amount of any Sinking Fund Payment payable on said future date for the retirement of any Outstanding Bonds of said Series.

"Qualified Hedge Agreement" shall mean an interest rate exchange, cap, floor or collar agreement between the Commonwealth and a Hedge Provider based upon a notional amount where (a) the Hedge Provider, or the person who guarantees the obligation of the Hedge Provider to make any payments due to the Commonwealth, has unsecured long-term obligations rated, or (b) the hedge agreement itself is rated, in each case as of the date the hedge agreement is entered into, by each Rating Agency then maintaining a rating on the Bonds Outstanding in a Rating Category, with respect to each such Rating Agency, at least equal to "A," but in no event lower than the Rating Category designated by such Rating Agency for the Bonds Outstanding subject to such hedge agreement.

"Rating Agency" shall mean Moody's Investors Service, Standard & Poor's Corporation and Fitch Investors Service and their successors or assigns.

"Rating Categories" shall mean rating categories as published by a Rating Agency in its written compilations of ratings and any written supplement or amendment thereto and any such Rating Category shall be determined on the generic rating without regard to any modifiers and, unless otherwise specified in the Trust Agreement or an Applicable Supplemental Trust Agreement, shall be long term ratings.

"Reserve Credit Facility" shall mean one or more of the following which may be deposited in the Debt Service Reserve Fund:

- (i) an irrevocable, unconditional and unexpired letter of credit or other financial commitment issued by a banking institution the unsecured long-term obligations of which are rated, by each Rating Agency then maintaining a rating on the Bonds Outstanding, at least equal to "A," but in no event lower than the Rating Category designated by such Rating Agency for the Bonds Outstanding, or, if

any such Rating Agency does not maintain a rating on such banking institution, it shall confirm that the deposit of the Reserve Credit Facility shall not result in a reduction of its rating on the Bonds Outstanding, or

- (ii) an irrevocable and unconditional policy or policies of insurance in full force and effect and issued by a municipal bond insurer having a rating, from each Rating Agency then maintaining a rating on the Bonds Outstanding, at least equal to "A," but in no event lower than the Rating Category designated by such Rating Agency for the Bonds Outstanding, or, if any such Rating Agency does not maintain a rating on such insurer, it shall confirm that the deposits of the Reserve Credit Facility shall not result in a reduction of its rating on Bonds Outstanding,

in each case providing for the payment of sums for the payment of Principal Installments and interest on Bonds in the manner provided under "Debt Service Reserve Fund and Reserve Account" below.

"Sinking Fund Payment" shall mean the amount of money required by any Supplemental Trust Agreement to be paid by the Commonwealth on a single future date for the retirement of any Outstanding Bonds of said Series which mature after said future date, but does not include any amount payable by the Commonwealth by reason of the redemption of Bonds at the election of the Commonwealth.

"Tax Exempt Bonds" shall mean any Bonds accompanied by a Bond Counsel's opinion upon the original issuance thereof that the interest on such Bonds is not includable in the gross income of the holder thereof for Federal income tax purposes.

"Transportation Bonds" shall mean bonds issued from time to time by the Commonwealth pursuant to the Act, other than Bonds issued under the Trust Agreement.

"1992 Trust Agreement" shall mean the Trust Agreement dated as of June 1, 1992 between the Commonwealth and the 1992 Trustee relating to Special Obligation Revenue Bonds issued pursuant to the provisions of Section 20 of Chapter 29 of the Massachusetts General Laws, as such agreement may be amended and supplemented from time to time.

The Pledge

There are pledged for the payment of principal and Redemption Price of and interest on the Bonds (i) the Pledged Funds and all rights to receive the same, whether existing or coming into existence and whether held or thereafter acquired and including any proceeds thereof, (ii) all amounts, securities and Reserve Credit Facilities and any investment earnings with respect thereto, in all Funds and Accounts established by or pursuant to the Trust Agreement other than the Rebate Fund, and (iii) any amounts payable to the Commonwealth by a Hedge Provider pursuant to a Qualified Hedge Agreement. The full faith and credit of the Commonwealth has not been pledged to the payment of the Bonds.

The Commonwealth may in any Supplemental Trust Agreement pledge additional portions of the Gasoline Tax or any Additional Pledged Funds or portions thereof which the Commonwealth may lawfully pledge to the payment of amounts due under the Trust Agreement. From and after the date of such Supplemental Trust Agreement such amounts shall be deemed part of the Pledged Funds under the Trust Agreement. No amounts may be pledged which are subject to any other lien or pledge unless such lien or pledge is made expressly subordinate to the pledge created under the Trust Agreement.

Trust Agreement to Constitute Contract

The Trust Agreement constitutes a contract between the Commonwealth and the registered owners from time to time of the Bonds, and the pledge made therein and the covenants and agreements therein set forth to be performed by or on behalf of the Commonwealth shall be for the equal benefit, protection and security of the registered owners of any and all of the Bonds, all or which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof, except as otherwise expressly provided in or permitted by the Trust Agreement.

Authorization of Bonds

The Commonwealth is authorized to issue one or more Series of Bonds under the Trust Agreement, which Bonds may be issued without limitation as to amount except as provided in the Trust Agreement with respect to Additional Bonds or as limited by law. The Bonds may be issued as Fixed Rate Bonds, Variable Rate Bonds, Tender Bonds, Capital Appreciation Bonds, Deferred Income Bonds or Discount Bonds or any combination thereof.

The Commonwealth may issue Bonds ("Variable Rate Bonds") which provide for a variable, adjustable, convertible or other similar rates of interest, not fixed as to percentage at the date of issue for the term thereof. Variable Rate Bonds shall not exceed fifteen percent (15%) of the aggregate principal amount of all Bonds Outstanding. Any Variable Rate Bonds shall bear a ceiling (the "Variable Rate Ceiling") on the interest payable thereunder. Upon the date of issuance of any Variable Rate Bonds, an Authorizing Officer will determine the interest rate (the "Assumed Rate") which is the average interest rate expected to be paid on such Variable Rate Bonds for the balance of the Fiscal Year in which such Bonds are issued. Not later than fifteen (15) business days after the commencement of each Fiscal Year thereafter, an Authorizing Officer will establish an Assumed Rate for such Variable Rate Bonds which shall be the Assumed Rate thereof for such Fiscal Year.

The Commonwealth may provide that any Series of Bonds may include an option exercisable by the registered owners thereof to have such Bonds ("Tender Bonds") either repurchased or redeemed prior to the maturity thereof. Any Tender Bonds must be secured at all times by a Liquidity Facility providing for the repurchase or payment of any tender price of Tender Bonds which have not been remarketed upon tender of such Bonds and any accrued and unpaid interest due on such Bonds upon the tender date thereof. The provider of any such Liquidity Facility shall have a rating on its short term obligations within the highest Rating Category from each Rating Agency then maintaining a rating on the Bonds Outstanding.

The Commonwealth may issue Bonds ("Discount Bonds") which either bear a zero stated rate of interest or bear a stated rate of interest such that such Bonds are sold at a price less than the aggregate principal amount thereof in order to provide such yield thereon as deemed appropriate and desirable thereon by the Commonwealth. The Commonwealth may provide for the determination of the "principal amount" and "interest" payable on such Bonds.

Additional Bonds

One or more Series of Additional Bonds may be issued for the purpose of (i) paying all or a portion of the cost of any Project including the refunding of any Transportation Bonds, (ii) the making of deposits in the Debt Service Fund and the Debt Service Reserve Fund, (iii) the payment of the costs of issuance of such Bonds, (iv) the payment of the principal of and interest and premium, if any, on notes issued in anticipation of such Bonds, or (v) any combination of the foregoing.

Additional Bonds may be issued only upon the delivery, among other items, of the following:

- (i) A Bond Counsel's opinion with respect to the validity of the Additional Bonds and the enforceability of the pledge under the Trust Agreement;

- (ii) A certificate or certificates of the Commissioner of Revenue or the Comptroller setting forth the amount of Pledged Funds received by the Commonwealth for each month for the eighteen (18) month period ending with the last full month immediately preceding the issuance of the Additional Bonds;
- (iii) One of the following certificates as determined by the Treasurer:
 - (A) A certificate of an Authorized Officer showing that the amount of Pledged Funds received by the Treasurer during any twelve (12) consecutive months out of such eighteen (18) month period referred to in subparagraph (ii) above was not less than two hundred percent (200%) of the maximum aggregate Adjusted Bond Debt Service Requirement due in the then current or any future Fiscal Year on Bonds Outstanding including the proposed Additional Bonds, or
 - (B) if the Commonwealth shall pledge an additional portion of the Gasoline Tax or any other Additional Pledged Funds which amounts shall have been collected by the Commonwealth for at least twelve (12) consecutive months of the eighteen (18) month period described in subparagraph (ii) above, (x) a certificate of the Comptroller and/or the Commissioner of Revenue showing Pledged Funds for eighteen (18) consecutive months immediately preceding the month in which the Additional Bonds are issued, calculated on the basis that Pledged Funds shall include such Additional Pledged Funds for such period, and (y) a certificate of an Authorized Officer showing that the Pledged Funds calculated as provided in subparagraph (ii) above for any twelve (12) consecutive months during the eighteen (18) month period described in (x) above shall be not less than two hundred percent (200%) of the maximum aggregate Adjusted Bond Debt Service Requirement during the then current Fiscal Year or any future Fiscal Year on all Bonds Outstanding including the proposed Additional Bonds, or
 - (C) if the Commonwealth shall pledge an additional portion of the Gasoline Tax or any other Additional Pledged Funds, which Additional Pledged Amounts have not been collected by the Commonwealth during at least twelve (12) consecutive months of the eighteen (18) month period described in subparagraph (ii) above, a certificate of an Authorized Officer showing that the amount of any Pledged Funds projected to be received by the Commonwealth after giving effect to any such Additional Pledged Funds during the first full Fiscal Year immediately succeeding the issuance of the proposed Additional Bonds will not be less than two hundred percent (200%) of the maximum aggregate Adjusted Bond Debt Service Requirement due in the then current or in any future Fiscal Year on Bonds Outstanding including the proposed Additional Bonds;
- (iv) If the Commonwealth shall deliver a certificate described in (iii)(B) above, which shall include as a basis for calculation of Pledged Funds any Additional Pledged Funds, other than an additional portion of the Gasoline Tax or a certificate pursuant to (iii)(C) above, confirmation from each Rating Agency maintaining a rating on Bonds Outstanding that the issuance of such Additional Bonds shall not adversely affect their rating in effect on Bonds Outstanding;
- (v) A certificate of the Secretary of Administration and Finance that the amount of such Additional Bonds are within the limitations established by the Capital Spending Plan in effect as of the date of issuance of such Additional Bonds.

Refunding Bonds

One or more Series of Refunding Bonds may be issued for the purpose of refunding all or any part of the Bonds of one or more Series Outstanding upon delivery, among other items, of the following:

- (i) An opinion of Bond Counsel as described above under "Additional Bonds;"
- (ii) A certificate of an Authorized Officer setting forth the Adjusted Bond Debt Service Requirement for each Fiscal Year in which Bonds are or will be Outstanding (a) computed immediately prior to the delivery of such Refunding Bonds and (b) computed immediately after the delivery of such Refunding Bonds, and showing that the Adjusted Bond Debt Service Requirement in each Fiscal Year in which Bonds will be Outstanding as computed in (b) of this paragraph will not be greater than the Adjusted Bond Debt Service Requirement in each such Fiscal Year as computed in (a) of this paragraph; provided that, in lieu of such certificate, the Comptroller or Commissioner of Revenue and an Authorized Officer may deliver to the Trustee certificates satisfying the conditions described under "Additional Bonds;" and
- (iii) An amount of money or Defeasance Obligations sufficient to effect payment at maturity or redemption of the Bonds to be refunded.

Bond Anticipation Notes

The Commonwealth may, to the extent authorized by law, issue notes (and renewals thereof) in anticipation of a Series of Bonds. The proceeds of such notes or such Series of Bonds may be pledged for the payment of the principal of and interest on such notes. The Commonwealth may also pledge the Pledged Funds to the payment of such notes on a subordinated basis. Prior to the issuance of any such notes, the Treasurer shall certify to the Trustee that he reasonably expects that all applicable requirements pertaining to the issuance of the Series of Bonds in anticipation of which such notes are to be issued can be satisfied.

Creation of Liens; Other Indebtedness

The Commonwealth may not issue any bonds, notes or other evidences of indebtedness, other than the Bonds, secured by a pledge of or other lien on the Pledged Funds or any other moneys, securities and funds held or set aside by the Commonwealth or by the Fiduciaries under the Trust Agreement, and shall not otherwise create or cause to be created any lien or charge on such Pledged Funds, moneys, securities and funds. The Trust Agreement permits the issuance of other indebtedness (and renewals thereof), including bond anticipation notes, secured by a subordinate lien on Pledged Funds, and other indebtedness secured by a lien on that portion of the Gasoline Tax or any other amounts not included as Pledged Funds.

Credit Enhancement/Liquidity Facilities

The Commonwealth may obtain or cause to be obtained Credit Enhancement or a Liquidity Facility providing for payment of all or a portion of the principal, premium, or interest due or to become due on such Bonds or providing for the purchase of such Bonds or a portion thereof. In connection therewith the Commonwealth may agree with the issuer of such Credit Enhancement or Liquidity Facility to reimburse such issuer directly for amounts paid under the terms of such Credit Enhancement or Liquidity Facility, together with interest thereon. Such reimbursement obligation may be subject to a lien on Pledged Funds on a parity with the lien created under the Trust Agreement. A reimbursement obligation relating to a Liquidity Facility securing Variable Rate Bonds may be subject to a lien on Pledged Funds only to the extent that it is subordinate to the lien created under the Trust Agreement.

Qualified Hedge Agreements

The Commonwealth may from time to time enter into Qualified Hedge Agreements with a Hedge Provider with respect to all or a portion of the Bonds of any Series Outstanding. The obligations of the Commonwealth thereunder may be secured by a pledge of the Pledged Funds; provided, however, that such security shall be expressly subordinate to the security for the Bonds Outstanding.

Any amounts paid to the Commonwealth pursuant to a Qualified Hedge Agreement shall be deposited in the Revenue Account. Any amounts payable by the Commonwealth under a Qualified Hedge Agreement may be payable from the Infrastructure Fund from amounts after funding of amounts in the various Funds and Accounts under the Trust Agreement. Upon the issuance of any Additional Bonds or Refunding Bonds, the Authorized Officer shall set an interest rate (the "Assumed Hedge Rate") which the Authorized Officer reasonably determines will be the average interest rate which will be payable for the next succeeding twelve consecutive months on the notional amount under any Qualified Hedge Agreement establishing a variable interest rate for Fixed Rate Bonds.

Establishment of Funds and Accounts

The following funds and accounts shall be established and shall be held by the Trustee:

- (i) Redemption Fund;
- (ii) Debt Service Fund;
- (iii) Debt Service Reserve Fund;
- (iv) Bond Related Costs Funds; and
- (v) Rebate Fund.

Such funds, except the Rebate Fund, are subject to the pledge created under the Trust Agreement.

The Treasurer shall establish a Revenue Account and Reserve Account to be maintained as part of the Infrastructure Fund which are to be held by the Treasurer so long as Bonds shall remain Outstanding. Such Accounts shall be deposited with the Trustee and shall be subject to the pledge created under the Trust Agreement.

Bond Proceeds

The Treasurer shall apply the proceeds of any Bonds to the payment of the costs of issuance of the related Series of Bonds, to the extent permitted by law, to pay the cost of Projects for which such Bonds have been issued or to pay notes issued in anticipation of such Bonds. Any balance remaining after payment of such amounts shall be paid by the Treasurer to the Trustee and deposited in the Redemption Fund and applied to the redemption of Bonds of the related Series.

Revenue Account

The Commissioner of Revenue shall deliver to the Trustee within eight (8) business days after the end of the month, commencing with the end of the month immediately following the month in which the Bonds are issued, a certificate stating the amount of Pledged Funds collected by the Commonwealth during such month. Such amount shall be paid by the Treasurer to the Trustee within the two (2) business days thereafter from amounts credited to the Infrastructure Fund, or from amounts otherwise credited to the Highway Fund if the amounts credited to the Infrastructure Fund are less than the Pledged Funds calculated as described above, and deposited by the Trustee in the Revenue Account and applied as set forth below.

Immediately upon receipt thereof, the Trustee shall deposit in the Revenue Account any Pledged Funds received from the 1992 Trustee pursuant to the 1992 Trust Agreement, to be applied as set forth below.

So long as the Act shall require that the expenditure of amounts in the Infrastructure Fund are subject to appropriation for the purposes described below, at the beginning of each Fiscal Year after the adoption of the operating budget for the Commonwealth for such Fiscal Year, the Secretary of Administration and Finance and the Treasurer shall certify to the Trustee the amount appropriated for such Fiscal Year for payment of the following amounts:

- (i) the Bond Debt Service Requirement for such Fiscal Year;
- (ii) that portion of the Debt Service Reserve Fund Requirement, if any, required to be funded for such Fiscal Year;
- (iii) the Bond Related Costs, if any, for such Fiscal Year; and
- (iv) the Rebate Fund Requirement, if any, for such Fiscal Year.

If amounts are appropriated for such purpose as an aggregate sum, such sum shall be allocated in the order set forth above for the amounts set forth above and such certificate shall set forth such allocation. To the extent additional amounts are appropriated during a Fiscal Year for any such purpose, the officials described above shall also certify to the Trustee the amount of any such supplemental appropriation. The aggregate amounts appropriated for each such purpose as provided in the Trust Agreement shall be referred to as an "Appropriated Amount" for such purpose.

Flow of Funds

On the last business day of each calendar month beginning with the second month immediately following the month in which the Bonds are delivered, the Trustee shall transfer from amounts available in the Revenue Account to the following Funds and in the following order:

- (i) To the Debt Service Fund, an amount which together with other amounts on deposit in such fund, will equal the Debt Service Fund Requirement calculated as of the next succeeding interest payment date or Principal Installment payment date, as the case may be; provided, however, that the aggregate amount deposited therein during a Fiscal Year shall not exceed the Appropriated Amount during such Fiscal Year for such purpose unless the Treasurer shall certify to the Trustee that deposits of such amounts shall not then be subject to appropriation;
- (ii) To the Debt Service Reserve Fund, an amount equal to one-thirty-sixth (1/36th) of the Funded Debt Service Reserve Fund Requirement (including any amounts required to be deposited in preceding months for which amounts were not available) until the amount on deposit therein equals the Funded Debt Service Reserve Fund Requirement; provided, however, that if notice shall have been given to the Trustee pursuant to "Covenant as to Gasoline Taxes and Infrastructure Fund" below of a change in the amount of the Debt Service Reserve Fund Requirement, the foregoing provision shall apply to the amount of the Funded Debt Service Reserve Fund Requirement calculated without regard to such notice and the Trustee shall, in addition, deposit an amount equal to one-twelfth (1/12th) of the difference between the Funded Debt Service Reserve Fund Requirement prior to such notice and the revised Funded Debt Service Reserve Fund Requirement (including any amounts required to be deposited in preceding months for which amounts were not available) until the amount on deposit therein equals the revised Funded Debt Service

Reserve Fund Requirement; provided, further, that the aggregate amount deposited in the Debt Service Reserve Fund during a Fiscal Year shall not exceed the Appropriated Amount during such Fiscal Year for such purpose unless the Treasurer shall certify in writing to the Trustee that any deposits of any such amounts shall not be subject to appropriation;

- (iii) To the Reserve Account, any amount set forth in subparagraph (ii) above in excess of the Appropriated Amount for such purpose for such Fiscal Year; provided, however, that such amounts deposited in the Reserve Account shall be transferred to the Debt Service Reserve Fund upon the delivery of a certificate by the Secretary of Administration and Finance and the Treasurer to the Trustee to the effect that an appropriation is then in effect permitting such deposit in the Debt Service Reserve Fund;
- (iv) To the Bond Related Costs Fund, at such times and in such amounts, if any, as necessary to pay Bond Related Costs; provided, however, that the aggregate amount deposited therein during a Fiscal Year shall not exceed the Appropriated Amount during such Fiscal Year unless the Treasurer shall certify to the Trustee that deposits of such amounts shall not then be subject to appropriation;
- (v) To the Rebate Fund, the amount of the Rebate Fund Requirement, if any, determined in accordance with an Applicable Supplemental Trust Agreement; provided, however, that the aggregate amount deposited therein during a Fiscal Year shall not exceed the Appropriated Amount during such Fiscal Year unless the Treasurer shall certify to the Trustee that deposits of such amounts shall not then be subject to appropriation.

Upon deposit of the amounts described above and so long as there shall be Appropriated Amounts sufficient to pay the amounts set forth in subparagraph (i) above (if such appropriations shall be required by the Act or other provisions of law), the balance on deposit in the Revenue Account (less any amounts required to be deposited pursuant to subparagraphs (iv) and (v) above for which Appropriated Amounts are insufficient) shall be transferred by the Trustee on the last business day of each month to the Treasurer free and clear of the lien granted under the Trust Agreement and may be thereupon applied to any purpose permitted by law.

Debt Service Fund

The Trustee shall pay out of the Debt Service Fund to the respective Paying Agents for any Bonds (i) the amount required for the interest and Principal Installments payable on the interest payment date and (ii) the amount required for the payment of interest and Redemption Price on the Bonds then to be redeemed. Amounts accumulated in the Debt Service Fund with respect to any Sinking Fund Payment (together with amounts accumulated therein with respect to interest on the Bonds for which such Sinking Fund Payment was established) may be applied prior to the forty-fifth (45th) day preceding the due date of such Sinking Fund Payment, to (i) the purchase of Bonds of the Series and maturity for which such Sinking Fund Payment was established, at prices not exceeding the applicable sinking fund Redemption Price plus interest on such Bonds to the first date on which such Bonds could be redeemed (or in the case of a Sinking Fund Payment due on the maturity date, the principal amount thereof plus interest to such date), such purchases to be made in such manner as the Treasurer shall arrange, or (ii) the redemption of such Bonds then redeemable by their terms. The applicable Redemption Price or principal amount (in the case of maturing Bonds) of any Bonds so purchased or redeemed shall be deemed to constitute part of the Debt Service Fund until such Sinking Fund Payment date for the purpose of calculating the amount of such Fund.

In satisfaction, in whole or in part, of any amount required to be paid into the Debt Service Fund which is attributable to a Sinking Fund Payment, there may be delivered on behalf of the Commonwealth to the Trustee Bonds of the Series and maturity entitled to such payment. All Bonds so delivered to the Trustee in satisfaction of

a Sinking Fund Payment shall reduce the amount thereof by the amount of the aggregate of the sinking fund Redemption Prices of such Bonds.

Redemption Fund

The Commonwealth may deposit in the Redemption Fund any moneys, including Pledged Funds, not otherwise required by the Trust Agreement to be deposited or applied. If at any time the amount on deposit and available therefor in the Debt Service Fund is insufficient to pay the principal and Redemption Price of and interest on the Bonds then due, the Trustee shall withdraw from the Redemption Fund and deposit in the Debt Service Fund the amount necessary to meet the deficiency (other than amounts held therein for the redemption of Bonds for which a notice of redemption shall have been given). Subject to the foregoing, amounts in each account in the Redemption Fund may be applied by the Commonwealth to the redemption of Bonds at prices not exceeding the applicable Redemption Prices (plus accrued interest) had such Bonds been redeemed (or, if not then subject to redemption, at the applicable Redemption Prices when next subject to redemption), such purchase to be paid for by the Trustee at such times and in such manner as arranged and directed by an Authorized Officer.

Debt Service Reserve Fund and Reserve Account

If at any time the amounts on deposit and available therefor in the Debt Service Fund, the Bond Related Costs Fund, or the Redemption Fund are insufficient to pay the principal, the Redemption Price of, and interest on the Bonds then due, the Trustee shall withdraw from the Debt Service Reserve Fund and deposit in the Debt Service Fund the amount necessary to meet the deficiency. If the amounts transferred from the Debt Service Reserve Fund are insufficient to pay such deficiency, the Trustee shall withdraw from the Reserve Account the amount necessary to meet the balance of such deficiency; provided, however, that the aggregate of such amount deposited therein from the Reserve Account shall not in any Fiscal Year, together with all other amounts deposited in the Debt Service Fund (other than from the Debt Service Reserve Fund) during such Fiscal Year, exceed the Appropriated Amount for the purpose of paying the principal, the Redemption Price of, and interest due on the Bonds Outstanding during such Fiscal Year. Amounts so withdrawn from the Debt Service Reserve Fund shall be derived, first, from cash or Permitted Investments on deposit therein and, second, from draws or demands on Reserve Credit Facilities held as a part thereof upon the terms and conditions set forth in any such Reserve Credit Facility or as set forth in the Applicable Supplemental Trust Agreement setting forth such Reserve Credit Facility.

If any draws are made from Reserve Credit Facilities and cash or Permitted Investments, amounts paid into the Debt Service Reserve Fund to replenish such amounts shall be paid first pro rata to the providers of the Reserve Credit Facilities to the extent of draws thereunder and then deposited in the Debt Service Reserve Fund.

If on any interest payment date, the amount on deposit in the Debt Service Reserve Fund and the Reserve Account is in excess of the Funded Debt Service Reserve Fund Requirement (calculated as of such interest payment date after the payment of the amount due on such date for the interest and Principal Installments on all Bonds Outstanding) the Trustee shall transfer such excess, first from the Reserve Account and then from the Debt Service Reserve Fund, to the Treasurer free and clear of the lien granted under the Trust Agreement and such amount may be thereupon applied to any purpose permitted by law.

Whenever the Trustee shall determine that the amount of cash and Permitted Investments on deposit in the Debt Service Reserve Fund and Reserve Account, together with all other funds available for the purpose, is equal to or in excess of the Redemption Price of all Bonds Outstanding, the Trustee, at the direction of an Authorized Officer, shall transfer the balance of such cash and Permitted Investments from the Debt Service Reserve Fund and Reserve Account to the Redemption Fund in connection with the redemption of all Bonds Outstanding; provided, however, that such amount deposited therein from the Reserve Account, together with all other amounts deposited therein (other than from the Debt Service Reserve Fund) during such Fiscal Year, shall not in such Fiscal Year exceed the Appropriated Amount for the purpose of paying the Redemption Price of all Bonds Outstanding during such Fiscal Year.

At any time, the Trustee shall, upon the written direction of an Authorized Officer, transfer any amount in the Debt Service Reserve Fund or the Reserve Account to the Bond Related Costs Fund in exchange for one or more Reserve Credit Facilities with aggregate stated and unpaid amounts not less than the amount so transferred; provided, however, that the aggregate amount so transferred from the Reserve Account during a Fiscal Year, together with amounts transferred to the Bond Related Costs Fund from the Revenue Account, shall not exceed the Appropriated Amount during such Fiscal Year unless the Treasurer shall certify to the Trustee that deposits of such amounts shall not then be subject to appropriation.

Bond Related Costs Fund

The amount on deposit and available in the Bond Related Costs Fund shall be applied by the Trustee to the payment of Bond Related Costs at the times and in the amounts as directed from time to time by an Authorized Officer.

If at any time the amount on deposit and available therefor in the Debt Service Fund is insufficient to pay the principal and Redemption Price of and interest on the Bonds then due, the Trustee shall withdraw from the Bond Related Costs Fund, after withdrawal of amounts described above, and deposit in the Debt Service Fund the amount necessary to meet such deficiency; provided, however, that the aggregate of such amount deposited therein shall not in any Fiscal Year, together with all other amounts deposit therein during such Fiscal Year, exceed the Appropriated Amount for the purpose of paying the principal and Redemption Price of and interest due on the Bonds Outstanding during such Fiscal Year.

Upon the certification of an Authorized Officer and all Fiduciaries that all Bond Related Costs have been paid, any balance in the Bond Related Costs Fund shall be paid by the Trustee to the Treasurer free and clear of the lien created under the Trust Agreement and such amounts shall be applied to any purpose permitted by law.

Investments

Except as otherwise described below under "Defeasance", money held for the credit of any Fund or Account under the Trust Agreement shall be invested in Permitted Investments which shall mature or be redeemable at the option of the holder thereof, on such dates and in such amounts as may be necessary to provide moneys to meet the payments required to be made from such Funds and Accounts. Amounts on deposit in the Debt Service Fund, the Debt Service Reserve Fund or the Reserve Account may only be invested in Permitted Investments of the type described in subparagraphs (i), (ii), (iii), (iv), (vi), (vii), (ix) or (xi) of the definition of Permitted Investments. Amounts on deposit in the Debt Service Reserve Fund or the Reserve Account may not be invested in any such Permitted Investments which mature or are otherwise not redeemable at the option of the holder for a period of more than five (5) years after the purchase thereof. Any income from Permitted Investments may be transferred to the Rebate Fund to the extent required by an Applicable Supplemental Trust Agreement.

In computing the amount in any Fund or Account for any purpose, Permitted Investments shall be valued at amortized cost. Unless otherwise provided in the Trust Agreement, Permitted Investments in any fund or account thereunder shall be valued at least once in each Fiscal Year on the last day thereof. Notwithstanding the foregoing, Permitted Investments in the Debt Service Reserve Fund shall be valued at amortized cost for all purpose of the Trust Agreement unless and until a withdrawal from such Fund shall be required, in which event such investments shall thereafter be valued at amortized cost or market, whichever is lower, until the balance in such Fund, on the basis of such valuation, shall equal the Funded Debt Service Fund Requirement.

Powers as to Bonds and Pledge

The Commonwealth represents in the Trust Agreement that it is duly authorized under the Act and all applicable laws to create and issue Bonds thereunder and to enter into the Trust Agreement and to pledge the Pledged Funds and other moneys, securities and funds purported to be pledged by the Trust Agreement in the

manner and to the extent therein provided. The Commonwealth covenants that the Pledged Funds and other moneys, securities and funds so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon with respect thereto prior to, or of equal rank with, the pledge created by the Trust Agreement except to the extent expressly permitted thereby. The Commonwealth agrees at all times, to the extent permitted by law, to defend, preserve and protect the pledge of the Pledged Funds and other moneys, securities and funds pledged under the Trust Agreement and all the rights of the Bondholders under the Trust Agreement against all claims and demands of all persons whomsoever.

Extension of Payment of Bonds

The Commonwealth agrees not to directly or indirectly extent or asset to the extension of the maturity of any of the Bonds or the time of payment of claims for interest by the purchaser or funding of such Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time for payment of claims for interest shall be extended, such Bonds or claims for interest shall not be entitled in case of any default under the Trust Agreement to the benefit of the Trust Agreement or to any payment out of any assets of the Commonwealth or the funds (except funds held in trust for the payment of particular Bonds or claims for interest pursuant to the Trust Agreement) held by the Fiduciaries, except subject to the prior payment of the principal of all Bonds issued and Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended claims for interest. The Commonwealth may issue Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Covenant as to Gasoline Taxes and Infrastructure Fund

So long as any Bonds are Outstanding, the Commonwealth covenants to maintain that portion of the Gasoline Tax credited to the Highway Fund at all times at a rate of not less than six and eighty-six hundredths cents (\$.0686) per gallon or at such higher rate as may be established in a Supplemental Trust Agreement in connection with the pledge of Additional Pledged Funds. In addition, the Commonwealth covenants not to limit or alter the rights vested in the Commonwealth to collect the Pledged Funds and to deposit such amounts as provided in the Trust Agreement and not to impair the rights and remedies of the Trustee and Bondholders under the Trust Agreement and under the Act with respect to the Pledged Funds. Without limiting the generality of the foregoing, the Commonwealth agrees not to issue any additional bonds under the 1992 Trust Agreement except refunding bonds with debt service requirements less than or equal to the debt service requirements on the refunded bonds in each Fiscal Year. Any provisions of the Act creating covenants with Bondholders shall be deemed a covenant with the Bondholders under the Trust Agreement only to the extent expressly provided in the Trust Agreement and as limited thereby.

As soon as practicable after the end of each Fiscal Year, but not later than the penultimate business day of August following the end of such Fiscal Year, an Authorized Officer shall deliver to the Trustee a certificate, based upon an accounting by the Comptroller or the Commissioner of Revenue setting forth the amount of Pledged Funds for such Fiscal Year and the Adjusted Bond Debt Service Requirement for all Bonds Outstanding during such Fiscal Year. Such certificate shall also demonstrate whether the amount of Pledged Funds received by the Treasurer during any twelve (12) consecutive months out of the eighteen (18) month period ended at the end of such Fiscal Year was not less than two hundred percent (200%) of the maximum aggregate Adjusted Bond Debt Service Requirement due in the then current or any future Fiscal Year on Bonds Outstanding. If the certificate demonstrates that such amount was less than two hundred percent (200%) of such requirement as aforesaid, such certificate shall contain a notice to the Trustee that the definition of "Debt Service Reserve Fund Requirement" shall immediately be modified in accordance with the proviso at the end of said definition.

Unless otherwise permitted by law, no more than twenty percent (20%) of amounts to be credited to the Infrastructure Fund under the Act and received in any Fiscal Year shall be paid in such Fiscal Year or any subsequent Fiscal Year for any principal or interest on any bonds or notes or portions thereof, including any Bonds

Outstanding, issued to finance the central artery/third harbor tunnel project, so-called, or for direct expenditures on such project.

No provisions of the Trust Agreement shall prohibit the Commonwealth from applying amounts credited to the Infrastructure Fund, other than any Pledged Funds, calculated as of any date after the date of the Trust Agreement for any purposes permitted by law.

Capital Spending Plan

The Secretary of Administration and Finance shall at the date of delivery of the 1994 Bonds file with the Trustee the capital spending plan (the "Capital Spending Plan") of the Commonwealth then in effect and shall thereafter, so long as any Bonds shall remain Outstanding, file with the Trustee any amendments or supplements thereto and any subsequent Capital Spending Plan prepared for the Commonwealth.

Accounts and Report

As soon as it shall become available, the Treasurer shall file for each Fiscal Year during which Bonds shall be Outstanding with the Trustee the Comprehensive Annual Financial Report of the Commonwealth prepared by the Comptroller, including a report on the financial statements contained therein by an independent public accountant or firm of accountants.

Tax Covenants; Rebate Fund

The Commonwealth shall take, or require to be taken, such action as may from time to time be required to assure the continued exclusion from the federal gross income of holders of any Series of Tax Exempt Bonds. The Commonwealth shall not permit the investment or application of the proceeds of any Series of Tax Exempt Bonds, including any funds considered proceeds within the meaning of Section 148 of the Code, to be used to acquire any investment property the acquisition of which, would cause such indebtedness to be "arbitrage bonds" within the meaning of said Section 148. The Commonwealth shall establish within the Rebate Fund a separate account within the Rebate Fund for such Series and may provide in the Applicable Supplemental Trust Agreement for the deposits of amounts therein to pay "rebate" on the investment of amounts under the Trust Agreement in accordance with Section 148(f) of the Code. Funds on deposit in the Rebate Fund shall be applied as set forth in the Applicable Supplemental Trust Agreement. The Rebate Fund and the amounts on deposit therein shall not be deemed Pledged Funds under the Trust Agreement.

Events of Default

One or more of the following events shall constitute an Event of Default under the Trust Agreement:

- (i) if default shall be made in the payment of the principal or Redemption Price of any Bond when due, whether at maturity or by call for mandatory redemption or redemption at the option of the Commonwealth or any registered owner, or otherwise, or in the payment of any Sinking Fund Payment when due; or
- (ii) if default shall be made in the payment of any installment of interest on any Bond when due; or
- (iii) if default shall be made by the Commonwealth in the performance or observance of the covenants, agreements and conditions on its part described under the first paragraph of "Covenant as to Gasoline Taxes and Infrastructure Fund" above; or

- (iv) if default shall be made by the Commonwealth in the performance or observance of any other of the covenants, agreements or conditions on its part provided in the Trust Agreement or in the Bonds and such default shall continue for a period of thirty (30) days after written notice thereof shall be given to the Commonwealth by the Trustee or given to the Commonwealth and the Trustee by the registered owners of a majority in principal amount of the Bonds Outstanding; provided that if such default cannot be remedied within such thirty (30) day period, it shall not constitute an Event of Default hereunder if corrective action is instituted by the Commonwealth within such period and diligently pursued until the default is remedied.

Application of Revenues and Other Moneys after Default

During the continuance of an Event of Default, the Trustee shall apply the moneys, securities and funds held by the Trustee, including any Pledged Funds and the income therefrom, as follows and in the following order;

- (i) to the payment of the reasonable and proper charges and expenses of the Fiduciaries and of any counsel selected by a Fiduciary;
- (ii) to the payment of the interest and principal amount or Redemption Price then due on the Bonds, as follows:
 - (a) unless the principal amount of all of the Bonds shall have become due and payable,

First: To the payment to the persons entitled thereto to all installments of interest then due in the order of the maturity of such installments maturity, and, if the amount available shall not be sufficient to pay in full all installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal amount or Redemption Price of any Bonds which shall become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference; and

- (b) if the principal of all the Bonds shall have become due and payable, to the payment of the principal amount and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any instalment of interest over any other instalment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal amount and interest, to the persons entitled thereto, without any discrimination or preference;
- (iii) To the payment of any person entitled to the payment of any Bond Related Cost ratably in accordance with the amount of such Bond Related Costs.

The proceeds of any Credit Enhancement or Liquidity Facility shall be applied by the Trustee in the manner provided in the Supplemental Trust Agreement authorizing such Credit Enhancement or Liquidity Facility.

Proceedings Brought by Trustee

If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee may proceed to protect and enforce its rights and the rights of the registered owners of the Bonds under the Trust Agreement by a suit or suits in equity or at law. The registered owners of a majority in principal amount of the Bonds Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, provided that the Trustee shall have the right to decline to follow any such direction if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Bondholders not parties to such direction.

Regardless of the happening of an Event of Default, the Trustee shall have power to, but unless requested in writing by the registered owners of a majority in principal amount of the Bonds then Outstanding and furnished with reasonable security and indemnity, shall be under no obligation to, institute and maintain such suits and proceedings as it may deem necessary or expedient to prevent any impairment of the security under the Trust Agreement, or necessary or expedient to preserve or protect its interest and the interests of the Bondholders.

Nothing contained in the Trust Agreement is intended to preclude the Trustee upon the occurrence of an Event of Default thereunder from asserting any and all remedies it may have at law or equity with respect to the Pledged Funds and other amounts held as security thereunder, including asserting any rights it may have as Trustee thereunder as a secured party with respect to all security granted thereunder notwithstanding any requirements contained in the Trust Agreement with respect to Appropriated Amounts.

Restriction on Bondholders' Action

No registered owner of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Trust Agreement or for any remedy under the Trust Agreement, unless such registered owner shall have previously given to the Trustee written notice of the happening of any Event of Default and the registered owners of at least twenty-five percent (25%) in principal amount of Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity, to exercise the powers granted in the Trust Agreement in its own name, and unless such registered owners shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred thereby, and the Trustee shall have refused to comply with such request within a reasonable time.

No Right of Acceleration

Neither the Bondholders nor the Trustee shall have any right to accelerate the payment of principal or interest due on any Bonds Outstanding upon the occurrence of any Event of Default.

Responsibility of Fiduciaries

The duties and obligations of the Fiduciaries shall be determined by the express provisions of the Trust Agreement. No Fiduciary shall be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof or the application of any moneys paid to the Commonwealth or any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect thereof, or to advance any of its own moneys, unless properly indemnified. No Fiduciary shall be liable in connection with the performance of its duties under the Trust Agreement except for its own negligence or bad faith nor shall any Fiduciary be liable for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Trust Agreement.

Compensation

The Commonwealth shall pay to each Fiduciary from time to time reasonable compensation for all services rendered under the Trust Agreement, including reasonable expenses, charges, counsel fees and other disbursements, and each Fiduciary shall have a lien therefor on any and all funds at any time held by it thereunder. Amounts unpaid more than thirty (30) days after they are billed to the Treasurer shall bear interest at the "base rate" of the Trustee in effect from time to time. The Commonwealth shall indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties thereunder, and which are not due to its negligence or bad faith.

Resignation of Trustee

The Trustee may at any time resign and be discharged of the duties and obligations created by the Trust Agreement by giving not less than sixty (60) days' written notice to the Treasurer and giving not less than thirty (30) days' written notice to each Bondholder and Paying Agent specifying the date when such resignation shall take effect, and such resignation shall take effect upon the day specified in such notice provided a successor shall have been appointed, unless previously a successor shall have been appointed by the Treasurer or the Bondholders as provided in the Trust Agreement, in which event such resignation shall take effect immediately on the appointment of such successor.

Removal of Trustee

The Trustee may be removed at any time by an instrument or concurrent instruments in writing, filed with the Trustee, and signed by the registered owners of a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the Commonwealth. Except during the existence of an Event of Default, the Treasurer may remove the Trustee at any time for cause or upon not less than ninety (90) days, prior written notice to the Trustee for such other reason as shall be determined in the sole discretion of the Treasurer.

Appointment of Successor Trustee

In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankruptcy or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, a successor may be appointed by the registered owners of a majority in principal amount of the Bonds then excluding any Bonds held by or on the account of the Commonwealth. Pending such appointment, the Treasurer by a written instrument signed by an Authorized Officer and delivered to the predecessor Trustee shall forthwith appoint a Trustee to fill such vacancy until a successor Trustee shall be appointed by the Bondholders. Any Trustee appointed in succession to the Trustee shall be a bank or trust company organized under the laws of the Commonwealth, or a national banking association doing business and having its principal place of business in the Commonwealth, having a capital and surplus aggregating at least fifty million dollars (\$50,000,000), if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all duties imposed upon it by the Trust Agreement.

Supplemental Trust Agreement Effective upon Filing

The Commonwealth and the Trustee may at any time and from time to time enter into supplements or amendments to the Trust Agreement for any one or more of the following purposes:

- (i) to cure any ambiguity, inconsistency or formal defect or omission in the Trust Agreement;

- (ii) to close the Trust Agreement against, or provide limitations and restrictions contained in the Trust Agreement on, the original issuance of Bonds;
- (iii) to add to the covenants and agreements of the Commonwealth contained in the Trust Agreement other covenants and agreements thereafter to be observed for the purpose of further securing the Bonds;
- (iv) to surrender any right, power or privilege reserved to or conferred upon the Commonwealth by the Trust Agreement;
- (v) to authorize Bonds of a Series and, in connection therewith, specify and determine any matters and things relative to such Bonds not contrary to or inconsistent with the Trust Agreement;
- (vi) to authorize any Credit Enhancement, Liquidity Facility, or Reserve Credit Facility;
- (vii) to exercise any provision in the Trust Agreement or to make such determinations thereunder as expressly provided therein to be exercised or determined in a Supplemental Trust Agreement;
- (viii) to confirm, as further assurance, any pledge under and the subjection to any lien or pledge created or to be created by the Trust Agreement of the Pledged Funds; and
- (ix) for any other purpose, provided that such Supplemental Trust Agreement does not prejudice in any material respect the right of the registered owner of any Bond Outstanding at the date such Supplemental Trust Agreement becomes effective.

Powers of Amendment

Any modification or amendment of the Bonds or of the Trust Agreement may be made by a Supplemental Trust Agreement, with the written consent (i) of the registered owners of at least a majority in the principal amount of all Bonds Outstanding at the time such consent is given, or (ii) in case less than all of the several Series of Bonds then Outstanding are affected by the modification or amendment, of the registered owners of at least a majority in principal amount of the Bonds of each Series so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the amount or date of any Sinking Fund Payment, of 100% of the registered owners of the Bonds of the particular Series and maturity entitled to such Sinking Fund Payment Outstanding at the time such consent is given; provided, however, that, if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series and maturity remain Outstanding, the vote or consent of the registered owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds; and provided, further, that no such modification or amendment shall permit a change in the terms of redemption or maturity of the principal amount of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or the rate of interest thereon or the method for determining such rate or terms of any Credit Enhancement or Liquidity Facility relating to a Bond without the consent of the registered owner of such Bond, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto, or shall reduce the percentages of the principal amount of Bonds the consent of which is required to effect any such modification or amendment.

Defeasance

If the Commonwealth shall pay or cause to be paid, or there shall otherwise be paid, to the registered owners of the Bonds then Outstanding, the principal amount and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the Trust Agreement then the pledge of any Pledged Funds or other moneys and securities pledged by the Trust Agreement and all other rights granted by the Trust Agreement shall be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which moneys shall be held by the Fiduciaries, whether at or prior to the maturity or the redemption date of such Bonds, shall be deemed to have been paid if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, an Authorized Officer shall have given to the Trustee irrevocable instructions to provide notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Obligations not subject to redemption or otherwise called for redemption for which amounts have been placed in escrow, in each case the principal of and interest on which when due will provide moneys which, together with any other deposited amounts, shall be sufficient, as certified by a firm of independent public accountants, to pay when due the principal amount or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be. Any cash received from the principal or interest payments on such Defeasance Obligations deposited with the Trustee, if not then needed for such purpose, may, to the extent practicable, be reinvested in Defeasance Obligations or, in lieu of such reinvestment at the time of receipt, the Commonwealth may direct the Trustee to enter into one or more forward purchase agreements providing for the purchase of Defeasance Obligations at future dates, as provided in the Trust Agreement.

For purposes of determining whether Variable Rate Bonds shall be deemed to have been paid prior to the maturity or redemption date thereof, as the case may be, by the deposit of moneys, or Defeasance Obligations and moneys, if any, the interest to come due on such Variable Rate Bonds on or prior to the maturity date or redemption date thereof, as the case may be, shall be calculated at the Variable Rate Ceiling if in effect with respect to such Bonds.

Tender Bonds shall be deemed to have been paid only if, in addition to satisfying the requirements described above, there shall have been deposited with the Trustee moneys in an amount which shall be sufficient to pay when due the maximum amount of principal of and premium, if any, and interest on such Bonds which could become payable to the registered owners of such Bonds upon the exercise of any options provided to the registered owners of such Bonds; provided, however, that if, at the time a deposit is made with the Trustee pursuant to the provisions above, the options originally exercisable by the registered owners of Tender Bonds are no longer exercisable, such Bonds shall not be considered Tender Bonds.

Unclaimed Funds

Any moneys held by the Fiduciary in trust for the payment and discharge of any Bonds which remain unclaimed for three (3) years after the date when such bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for three (3) years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Bonds become due and payable, shall be paid to the Commonwealth as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondholders shall look only to the Commonwealth for the payment of such Bonds.

No Recourse on the Bonds

No recourse shall be had for the payment of the principal or Redemption Price of or the interest on the Bonds or for any claim based thereon or on the Trust Agreement against any official, agent, representative or

employee of the Commonwealth or any person executing the Bonds. No official, agent, representative or employee of the Commonwealth shall be held personally liable to any purchaser or holder of any Bond under or upon such Bond, or under or upon the Trust Agreement or any Supplemental Trust Agreement relating to Bonds, or, to the extent permitted by law, because of the sale or issuance or attempted sale or issuance of Bonds, or because of any act or omission in connection with the investment or management of the Pledged Funds, funds or moneys of the Commonwealth, or otherwise in connection with the management of its affairs, excepting solely for things wilfully done or omitted to be done with an intent to defraud.

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PROPOSED FORM OF OPINION OF BOND COUNSEL

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

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.
One Financial Center
Boston, Massachusetts 02111

701 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
Telephone: 202/434-7300
Fax: 202/434-7400

Telephone: 617/542-6000
Fax: 617/542-2241

[To the Underwriters]

Re: The Commonwealth of Massachusetts \$300,000,000 Special Obligation Revenue Bonds, 1994 Series A.

We have acted as bond counsel in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of \$300,000,000 Special Obligation Revenue Bonds, 1994 Series A, dated June 1, 1994 (the "Bonds"). We have examined Section 20 of Chapter 29 of the Massachusetts General Laws, as amended (the "Act"), Chapter 33 of the Acts of 1991, as amended, and other applicable statutes. We have also examined an executed counterpart of the Trust Agreement dated as of June 1, 1994 (the "Trust Agreement") between the Commonwealth and Shawmut Bank, N. A., as trustee (the "Trustee"), as supplemented by a First Supplemental Trust Agreement dated as of June 8, 1994 (the "Supplemental Trust Agreement" and, collectively with the Trust Agreement, the "Agreement"), and such certified proceedings and other papers as we have deemed necessary to render this opinion. Reference is made to the Trust Agreement dated as of June 1, 1992, as supplemented by a First Supplemental Trust Agreement dated June 10, 1992 and by a Second Supplemental Trust Agreement dated June 28, 1994 (as supplemented, the "1992 Agreement"), between the Commonwealth and Shawmut Bank, N. A., as trustee (the "1992 Trustee"). Capitalized terms not otherwise defined herein are used herein as defined in the Trust Agreement.

The Bonds are issued pursuant to the Trust Agreement. Bonds issued under the Trust Agreement, including the Bonds, are payable from and secured by a pledge of (i) all moneys received or to be received by the Commonwealth from that portion of the excise imposed on fuel (other than aviation fuel) by the provisions of Chapter 64A of the Massachusetts General Laws in effect as of the date hereof (the "Gasoline Tax") equal to four and eighty-six hundredths cents per gallon, (ii) all moneys received or to be received by the Trustee from the 1992 Trustee pursuant to the 1992 Agreement, (iii) immediately upon the discharge and release of the lien of the 1992 Agreement, all moneys received or to be received by the Commonwealth from that portion of the Gasoline Tax equal to two cents per gallon, together with any other amounts then constituting "Pledged Funds" within the meaning of the 1992 Agreement, and (iv) any additional portions of the Gasoline Tax or other funds which may be pledged by the Commonwealth in accordance with the provisions of the Trust Agreement (collectively, the "Pledged Funds").

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

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

1. The Commonwealth has the right and power under the Act to enter into the Trust Agreement and the Supplemental Trust Agreement, and each has been duly and lawfully executed on behalf of the Commonwealth by the Treasurer and Receiver-General of the Commonwealth, with the concurrence of the Secretary of the Executive Office for Administration and Finance of the Commonwealth and the Secretary of the Executive Office of Transportation and Construction of the Commonwealth.
2. The Trust Agreement and the Supplemental Trust Agreement have been duly authorized, executed and delivered by the Commonwealth, are in full force and effect and constitute valid and binding obligations of the Commonwealth enforceable upon the Commonwealth in accordance with the respective terms thereof. No other authorization for the Agreement is required.
3. Pursuant to the Act, the Trust Agreement creates the valid pledge which it purports to create of the Pledged Funds, rights, moneys, securities, credit facilities and funds held under the Trust Agreement, in the manner and to the extent provided in the Agreement, for the security of the Bonds on a parity with other bonds (if any) to be issued under the Trust Agreement, subject to no prior lien granted under the Act.
4. The Bonds have been duly authorized, executed and delivered by the Commonwealth and are valid and binding special obligations of the Commonwealth, enforceable in accordance with the terms thereof and the terms of the Agreement and are entitled to the benefits of the Act, as provided under the Trust Agreement, and the Agreement. The Bonds are not general obligations of the Commonwealth, and the full faith and credit of the Commonwealth are not pledged to the payment thereof. The Bonds are payable solely from the sources provided therefor in the Agreement.
5.
 - (a) Interest on the Bonds is excluded from gross income for federal income tax purposes. This opinion is subject to the condition that the Commonwealth comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Commonwealth has covenanted to comply with each such requirement. Failure to comply with certain of such requirements could cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds.
 - (b) While interest on the Bonds is not an item of tax preference for purposes of the alternative minimum tax imposed under federal tax law on individuals and corporations, interest on the Bonds will be included in the "adjusted current earnings" of corporate holders of the Bonds and therefore will be taken into account in computing the alternative minimum tax imposed on certain corporations.
 - (c) We express no opinion regarding other federal tax consequences arising with respect to the Bonds.
6. The Bonds, their transfer and the income therefrom, including profit on the sale thereof, shall at all times be exempt from taxation by and within the Commonwealth, although the Bonds and the interest thereon may be included in the measure of estate and inheritance taxes and of certain corporate excise and franchise taxes.
7. 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 of the Bonds and the Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted, to the extent constitutionally applicable, and that the enforcement thereof may also be subject to the exercise of judicial discretion in appropriate cases.

Very truly yours,

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

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APPENDIX E

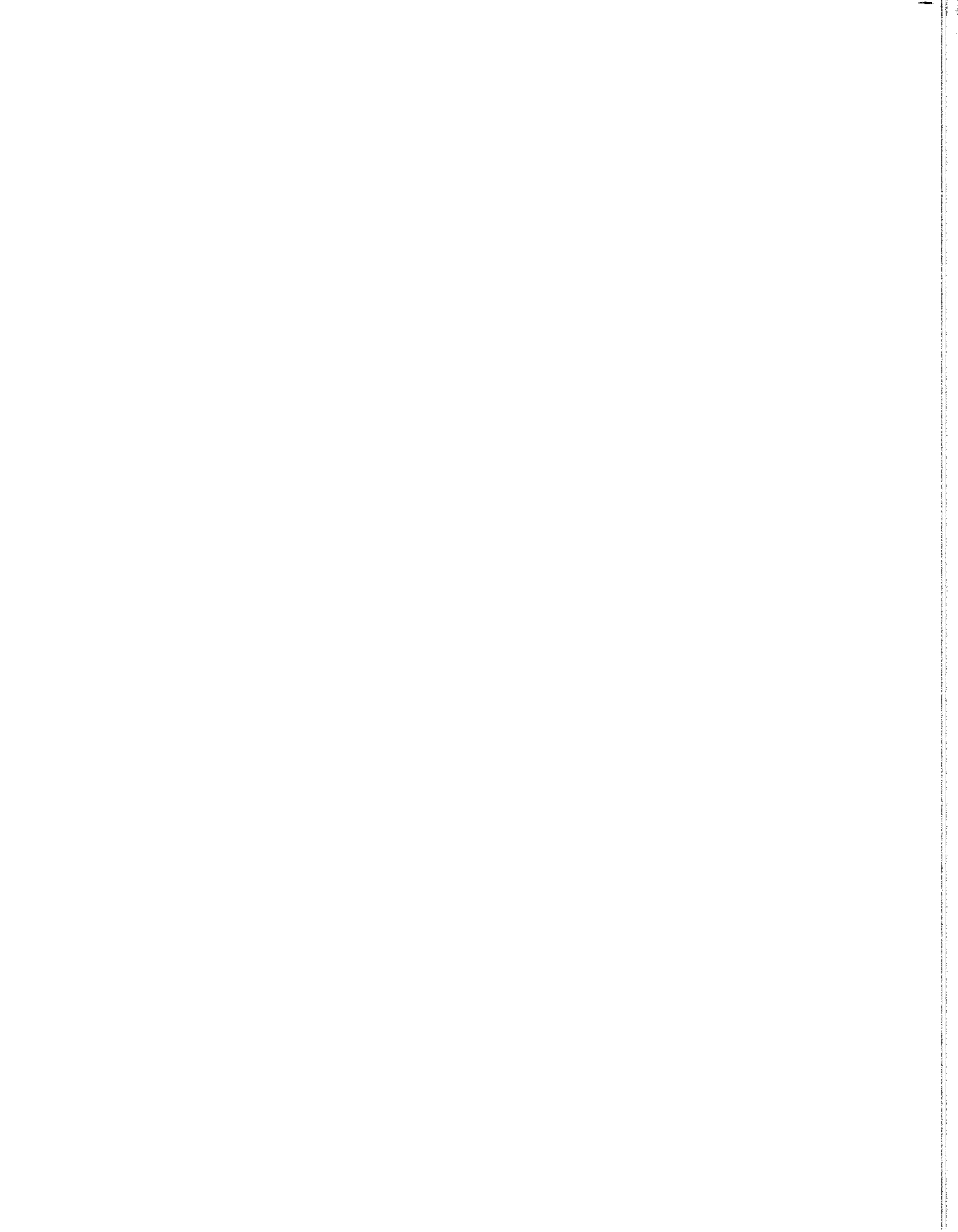
AMBAC INDEMNITY CORPORATION

AMBAC Indemnity Corporation ("AMBAC Indemnity") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states and the District of Columbia, and the Commonwealth of Puerto Rico, with admitted assets of approximately \$1,988,000,000 (unaudited) and statutory capital of approximately \$1,148,000,000 (unaudited) as of March 31, 1994. Statutory capital consists of AMBAC Indemnity's policyholders' surplus and statutory contingency reserve. AMBAC Indemnity is a wholly owned subsidiary of AMBAC Inc., a 100% publicly-held company. Standard & Poor's Ratings Group, Moody's Investors Service and Fitch Investors Service, Inc. have each assigned a triple-A claims-paying ability rating to AMBAC Indemnity.

Copies of AMBAC Indemnity's financial statements prepared in accordance with statutory accounting standards are available from AMBAC Indemnity. The address of AMBAC Indemnity's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York, 10004 and (212) 668-0340.

AMBAC Indemnity has entered into pro rata reinsurance agreements under which a percentage of the insurance underwritten pursuant to certain municipal bond insurance programs of AMBAC Indemnity has been and will be assumed by a number of foreign and domestic unaffiliated reinsurers.

AMBAC Indemnity makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by AMBAC Indemnity and presented under the heading "SECURITY AND SOURCES OF PAYMENT FOR THE BONDS -- Debt Service Reserve Fund; *Reserve Credit Facilities*.



1-2. NAME OF ISSUER AND DESCRIPTION OF ISSUE : THE COMMONWEALTH OF MASSACHUSETTS
SPECIAL OBLIGATION REVENUE BONDS
1994 SERIES A

3. STATE : MA

4. DATED DATE : 06/01/1994

5. DATE OF FINAL MATURITY OF OFFERING : 06/01/2014

6. DATE OF SALE : 06/08/1994

7. PAR VALUE OF OFFERING : \$ 300,000,000

8. PAR AMOUNT UNDERWRITTEN (if there is no underwriting syndicate): \$

9. AMENDED OR STICKERED OS? NO NUMBER OF SERIES IN OS : 1
(Enter Y or N) (Fill out one form for each series)

10. CHECK ALL THAT APPLY:

a. At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent.

b. At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent.

c. This offering is exempt from SEC rule 15c2-12 under section (c)(1) of that rule. Section (c)(1) of SEC rule 15c2-12 states that an offering is exempt from the requirements of the rule if the securities offered have authorized denominations of \$100,000 or more and or sold to no more than 35 persons each of whom the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment; and (2) is not purchasing for more than one account, with a view toward distributing the securities.

11. MANAGING UNDERWRITER : PaineWebber Incorporated

16. CUSIP NUMBERS (and corresponding maturity dates)

06/01/1995	576004AM7	06/01/1996	576004AN5
06/01/1997	576004AP0	06/01/1998	576004AQ8
06/01/1999	576004AR6	06/01/2000	576004AS4
06/01/2001	576004AT2	06/01/2002	576004AU9
06/01/2003	576004AV7	06/01/2004	576004AW5
06/01/2005	576004AX3	06/01/2006	576004AY1
06/01/2007	576004AZ8	06/01/2008	576004BA2
06/01/2009	576004BB0	06/01/2010	576004BC8
06/01/2011	576004BD6	06/01/2012	576004BE4
06/01/2014	576004BG9		

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

Check here if the issue is ineligible for CUSIP number assignment.

State the reason why the issue is ineligible for CUSIP number assignment:

18. Submit two copies of the completed form along with the official statement to: Municipal Securities Rulemaking Board, 1640 King Street, Suite 300, Alexandria, VA 22314. Incomplete submissions will be returned for correction.

