

**SUPPLEMENT DATED DECEMBER 13, 2013**  
**TO THE**  
**PRELIMINARY OFFICIAL STATEMENT DATED DECEMBER 3, 2013**  
**relating to the**



**\$525,000,000\***  
**General Obligation Bonds**  
**Consolidated Loan of 2014, Series A**

The Preliminary Official Statement for the above-referenced Bonds is hereby supplemented as follows.

The Commonwealth Information Statement dated November 7, 2013 attached as Appendix A to the Preliminary Official Statement is amended as set forth in the attached Exhibit A.

**THE COMMONWEALTH OF MASSACHUSETTS**

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\* Preliminary, subject to change.

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**SUPPLEMENT DATED DECEMBER 13, 2013**

**TO**

**THE COMMONWEALTH OF MASSACHUSETTS**

**INFORMATION STATEMENT**

**DATED NOVEMBER 7, 2013**

The Commonwealth Information Statement dated November 7, 2013 is supplemented as follows.

- (1) Under the heading "COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes; *Income Tax*," the fourth and fifth paragraphs are replaced by the following two paragraphs:

The same process was repeated during 2013 to determine whether the state income tax rate would be reduced further from 5.25% to 5.20%, effective January 1, 2014. Because the growth in fiscal 2013 inflation-adjusted baseline revenues, as defined in the law, over fiscal 2012 exceeded 2.5%, and because, for each consecutive three-month period starting in August and ending in November, 2013, there was positive inflation-adjusted baseline revenue growth as compared to the same consecutive three-month period in calendar 2010, on December 4, 2013, the Commissioner of Revenue certified that the state income tax rate on most classes of taxable income would be reduced from 5.25 % to 5.20%, effective January 1, 2014. The Department of Revenue estimates that the revenue impact of this rate reduction for fiscal 2014 will be between \$60 million and \$70 million (with a mid-point of \$65 million). The revenue impact for fiscal 2015 (assuming no further rate reduction in calendar year 2015) is expected to be between \$125 million and \$140 million (mid-point of \$132.5 million).

Under state finance law, tax revenues collected from capital gains income during a fiscal year that exceed a specified threshold are required to be transferred to the Commonwealth's Stabilization Fund, with 5% of the amount so deposited then transferred to the State Retiree Benefits Trust Fund and an additional 5% transferred to the Commonwealth's Pension Liability Fund. A threshold of \$1 billion was in effect for fiscal 2011, 2012 and 2013. For fiscal years after fiscal 2013, the threshold is subject to annual adjustment to reflect the average annual rate of growth in U. S. gross domestic product over the preceding five years. The adjusted threshold is certified annually by the Department of Revenue each December for the ensuing fiscal year. On December 28, 2012, the Department of Revenue determined the fiscal 2014 capital gains collections threshold to be approximately \$1.023 billion. The Department of Revenue is also required, after each quarter, to certify the amount of tax revenues estimated to have been collected during the preceding quarter from capital gains income, and, once the threshold has been exceeded, the Comptroller is required to transfer the excess to the Commonwealth Stabilization Fund. For fiscal 2012, the final certified amount of tax revenues collected from capital gains income was \$994.3 million, which was less than the statutory threshold. On June 25, 2013, the Commissioner of Revenue certified that for the period July 1, 2012 through May 30, 2013, fiscal 2013 capital gains tax revenues totaled approximately \$1,305.2 million. Based on this certification, the Comptroller transferred \$305.2 million to the Commonwealth Stabilization Fund and then made two transfers from the Stabilization Fund to the Commonwealth's Pension Liability Fund and the State Retiree Benefit Trust Fund of approximately \$15.3 million each. On July 18, 2013, the Commissioner of Revenue certified the final amount of capital gains tax revenues for fiscal 2013 to be \$1.467 billion, an increase of approximately \$162.3 million from the prior certification. This final certification triggered an additional transfer of approximately \$146.1 million to the Commonwealth Stabilization Fund and transfers of \$8.1 million each to the Commonwealth's

Pension Liability Fund and the State Retiree Benefits Trust Fund. On November 29, 2013, the Commissioner of Revenue further certified that the tax revenues estimated to have been collected from capital gains income were \$1,407.1 million during fiscal 2013, based on more recently available and complete data.

- (2) Under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – Tax Revenue Forecasting,” the table titled “Tax Revenue Forecasting” is replaced by the following table:

<b>Tax Revenue Forecasting (in millions)</b>						
	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Projected Fiscal 2014</u>
Consensus forecast	\$20,987	\$19,530	\$19,050	\$20,525	\$21,950	\$22,334
<b>Total taxes per enacted budget</b>	<u>\$21,402</u>	<u>\$18,879</u>	<u>\$19,078</u>	<u>\$20,615</u>	<u>\$22,011</u>	<u>\$22,797</u>
October revision	20,302	18,279	-	21,010	21,496 (1)	- (2)
January revision	19,450	18,460	19,784	-	-	-
April revision	19,333	-	-	-	-	-
May revision	18,436	-	-	-	-	-
<b>Actual budgeted operating tax revenues</b>	<u>\$18,260</u>	<u>\$18,544</u>	<u>\$20,517</u>	<u>\$21,115</u>	<u>\$22,123</u>	N/A
Actual revenues as a percentage of consensus forecast	87%	95%	108%	103%	101%	N/A
Actual revenues as a percentage of total taxes per enacted budget	85%	98%	108%	102%	101%	N/A

SOURCE: Executive Office for Administration and Finance; actual budgeted operating tax revenues, Office of the Comptroller

(1) Revised on December 4, 2012.

(2) The fiscal 2014 budget estimate of \$22.797 billion was kept unchanged on October 15, 2013 by the Secretary of Administration and Finance.

- (3) Under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – Fiscal 2013 and Fiscal 2014 Tax Revenues; *Fiscal 2013*,” the second and third paragraphs are replaced with the following two paragraphs:

Tax revenues for fiscal 2013, ended June 30, 2013, totaled approximately \$22.123 billion, an increase of approximately \$1.008 billion, or 4.8%, compared to fiscal 2012. The following table shows the tax collections for fiscal 2013 and the change from tax collections in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections during the fiscal year that are dedicated to the MBTA and the MSBA.

The tax revenue increase from fiscal 2012 to fiscal 2013 of approximately \$1.008 billion is attributable, in large part, to an increase of approximately \$403.1 million, or 23.6%, in income tax payments with returns and extensions, an increase of approximately \$273.2 million, or 14.9%, in income cash estimated payments, an increase of approximately \$248.3 million, or 2.5%, in withholding collections, and an increase of approximately \$104.5 million, or 2.1%, in sales and use tax collections, which were partly offset by a decline of approximately \$58.3 million, or 2.5%, in corporate and business collections. Fiscal 2013 tax collections were approximately \$627.2 million above the revised benchmark for the fiscal 2013 tax revenue estimate of \$21.496 billion.

- (4) Under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – Fiscal 2013 and Fiscal 2014 Tax Revenues – *Fiscal 2014*,” the second and third paragraphs, and the table between those paragraphs, are replaced with the following two paragraphs and table:

Preliminary tax revenues for the first five months of fiscal 2014, ended November 30, 2013, totaled approximately \$3.128 billion, an increase of approximately \$252.2 million, or 8.8%, over the same period in fiscal 2013. The following table shows the tax collections for the first five months of fiscal 2014 and the change from tax collections in the same period in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections during the same five-month period that are dedicated to the MBTA and the MSBA.

**Fiscal 2014 Tax Collections (in millions)(2)**

<u>Month</u>	<u>Tax Collections</u>	<u>Change from Prior Year</u>	<u>Percentage Change</u>	<u>MBTA Portion (3)</u>	<u>MSBA Portion</u>	<u>Tax Collections: Net of MBTA and MSBA</u>
July	\$1,584.9	\$131.4	9.0%	\$64.2	\$64.2	\$1,456.4
August	1,544.3	121.7	8.6	60.3	60.3	1,423.8
September	2,414.4	209.6	9.5	75.3	56.8	2,282.4
October	1,554.7	153.3	10.9	61.5	61.5	1,431.8
November (1)	1,571.5	150.7	10.6	57.3	57.3	1,456.9
<b>Total (1)</b>	<b>\$8,669.4</b>	<b>\$766.4</b>	<b>9.7%</b>	<b>\$318.6</b>	<b>\$300.1</b>	<b>\$8,050.7</b>

SOURCE: Executive Office for Administration and Finance.

(1) Figures are preliminary.

(2) Totals may not add due to rounding.

(3) Includes adjustments of \$18.6 million on the account of the first quarter related to the inflation-adjusted floor applicable to tax receipts dedicated to the MBTA.

The year-to-date tax revenue increase of approximately \$766.4 million through November 30, 2013 from the same period in fiscal 2013 is attributable, in large part, to an increase of approximately \$253.4 million, or 6.5%, in withholding collections, an increase of approximately \$83.8 million, or 37.4%, in income payments with returns and bills, an increase of approximately \$62.1 million, or 11.9%, in income cash estimated payments, an increase of approximately \$135.0 million, or 6.2%, in sales and use tax collections, an increase of approximately \$148.7 million, or 28.9%, in corporate and business collections, and an increase of approximately \$116.1 million, or 15.2%, in several other tax categories (including estate tax, motor fuels tax and cigarette tax), which were partly offset by an increase in income cash refunds of approximately \$28.5 million, or 15.9%. Year-to-date fiscal 2014 tax collections (through November) were approximately \$359 million above the year-to-date benchmark associated with the fiscal 2014 tax revenue estimate of \$22.797 billion.

(5) Under the heading "FISCAL 2013 AND FISCAL 2014 – Cash Flow," the second and third paragraphs are replaced by the following paragraphs:

The Commonwealth ended fiscal 2013 with a non-segregated cash balance of approximately \$2.276 billion. The most recent cash flow statement projects a fiscal 2014 ending balance of approximately \$2.731 billion.

The fiscal 2013 cash flow statement released by the State Treasurer and the Secretary of Administration and Finance on September 5, 2013 and the fiscal 2014 cash flow statement released by them on December 3, 2013 are summarized in the tables below. Fiscal 2014 is based upon the budget signed on July 12, 2013 and all supplemental appropriations filed, enacted or anticipated, and includes all prior appropriations continued into fiscal 2014. Fiscal 2014 projections are based on actual spending and revenue through October, 2013 and estimates for the remainder of the fiscal year. Quarterly cash flow statements, as submitted by the State Treasurer to the House and Senate Committees on Ways and Means, are posted on the cash management page of the State Treasurer's website.

(6) Under the heading "FISCAL 2013 AND FISCAL 2014 – Cash Flow," the sixth through ninth paragraphs are replaced by the following six paragraphs:

The Cash Portfolio invests in a diversified portfolio of high quality United States dollar-denominated money market instruments (eligible under Rule 2a-7 of the Securities and Exchange Commission) of domestic and foreign issuers, United States government securities and repurchase agreements. As of October 31, 2013, the Cash Portfolio holdings were made up of commercial paper and notes (43.1%), variable rate instruments (20.6%), repurchase agreements (11.5%) and bank instruments (24.8%). As of November 30, 2013, the Cash Portfolio's weighted average life was 86 days, and the weighted average maturity was 58 days.

The Short Term Bond Fund invests in a diversified portfolio of investment grade debt securities. As of October 31, 2013, the Short Term Bond Fund holdings were made up of Adjustable Rate Mortgages (1.0%), Asset Backed Securities (8.7%), Corporate Bonds (36.7%), Mortgage Backed Securities (2.4%), Collateralized Mortgage

Obligations (4.5%), U.S Treasury obligations (38.6%), Government Agencies (5.9) Investment Company (1.9%). As of October 31, 2013, the fund’s weighted average effective duration was 2.41years, and the weighted average effective maturity was 2.55 years.

The Commonwealth's five-year capital investment plan, which is reviewed annually, calls for fiscal 2014 capital spending of approximately \$2.85 billion, which includes \$2.0 billion in bond cap for fiscal 2014, \$704.0 million for the Accelerated Bridge Program and \$151.9 million for project finance spending. To date, the Commonwealth has issued both general obligation bonds (July) and special obligation bonds for the Accelerated Bridge Program (November) in fiscal 2014. Based on a preliminary financing schedule, future borrowings are expected to generate approximately \$1.5 billion in bond proceeds and are expected to take place in December, 2013, March, 2014 and May, 2014.

On September 18, 2013, the Commonwealth completed the sale of \$800 million in short-term revenue anticipation notes (RANs) to help reinforce the state’s available cash given anticipated fluctuations in tax revenue collections.

The next cash flow statement is expected to be released on or about February 28, 2014.

(7) Under the heading “FISCAL 2013 AND FISCAL 2014 – Cash Flow,” the table titled “Month End General Fund Cash Balances” is replaced with the following table:

**Month End General Fund Cash Balances (in millions)**

	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013</u>	<u>Fiscal 2014</u>
July	\$ 581.8	\$ 1,082.2	\$ 2,194.7	\$ 1,944.4	\$ 1,253.7
August	837.7	1,852.1	2,153.1	1,505.4	1065.1
September	1,033.1	1,715.3	1,462.0	675.8	1918.9
October	703.4	1,522.2	1,522.5	2,175.8	1744.4
November	529.2	1,661.9	1,973.0	1,625.7	1410.0(1)
December	890.0	1,558.0	1,287.4	1,018.4	2040.6(1)
January	1,271.7	1,948.2	1,995.5	1,597.6	2205.4(1)
February	988.4	1,591.3	1,551.2	1,334.9	1182.4(1)
March	891.4	924.8	860.1	368.3	1304.6(1)
April	1,335.9	2,246.0	1,823.8	2,001.3	2491.7(1)
May	1,515.1	2,363.0	1,643.4	1,829.7	2150.2(1)
June	844.3	2,200.4	2,096.7	2,276.6	2731.0(1)

SOURCE: Office of the Treasurer and Receiver-General.

(1) Fiscal 2014 ending balances are estimated for November through June.

(8) Under the heading “FISCAL 2013 AND FISCAL 2014 – Cash Flow,” the table titled “Overview of Fiscal 2014 Non-Segregated Operating Cash Flow” is replaced with the following table:

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**Overview of Fiscal 2014 Non-Segregated Operating Cash Flow (in millions) (1)**  
(as of December 3, 2013)

	<u>Jul-13</u>	<u>Aug-13</u>	<u>Sep-13</u>	<u>Oct-13</u>	<u>Nov-13 (2)</u>	<u>Dec-13 (2)</u>	<u>Jan-14 (2)</u>	<u>Feb-14 (2)</u>	<u>Mar-14(2)</u>	<u>Apr-14 (2)</u>	<u>May-14(2)</u>	<u>June-14(2)</u>	<u>Total FY 2014 (2)</u>
<b>Opening Non-Segregated Operating Cash Balance</b>	\$2,276.5	\$1,253.7	\$1,065.1	\$1,918.9	\$1,744.4	\$1,410.0	\$2,040.6	\$2,205.4	\$1,182.4	\$1,304.6	\$2,491.7	\$2,150.2	\$2,276.5
<b>Operating Activities:</b>													
Budgetary Funds:													
<i>Transfer from/(to) Stabilization Fund</i>	(145.6)	350.0	(70.2)	0.0	0.0	60.7	0.0	0.0	1.4	0.0	0.0	1.4	197.8
Total Budgetary Revenue/Inflows	2,459.1	2,959.8	3,355.5	2,624.9	2,417.5	3,472.3	3,290.6	2,414.7	3,623.3	4,462.2	2,799.1	3,855.3	37,734.4
Total Budgetary Expenditures/Outflows	3,123.1	3,197.0	2,535.2	2,738.1	3,126.0	3,033.6	3,101.4	3,179.1	3,368.3	2,999.4	2,718.5	2,876.9	35,996.5
Net Budgetary Funds	(664.0)	(237.2)	820.3	(113.2)	(708.5)	438.7	189.2	(764.4)	255.1	1,462.8	80.6	978.4	1,737.9
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	858.9	986.3	540.5	635.6	1,408.1	886.8	1,047.8	864.5	998.8	838.8	835.8	897.8	10,799.9
Total Non Budgetary Expenditures/Outflows	952.3	1,114.2	1,148.5	827.6	964.0	1,087.0	972.5	1,000.9	1,163.9	982.3	982.8	1,139.2	12,335.4
Net Non Budgetary Funds	(93.4)	(127.9)	(608.0)	(192.0)	444.1	(200.2)	75.3	(136.4)	(165.1)	(143.5)	(147.0)	(241.4)	(1,535.5)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	0.7	13.6	3.8	1.8	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	27.9
<b>Net Operating Activities</b>	<b>(\$756.7)</b>	<b>(\$351.5)</b>	<b>\$216.1</b>	<b>(\$303.5)</b>	<b>(\$263.3)</b>	<b>\$239.5</b>	<b>\$265.5</b>	<b>(\$899.8)</b>	<b>\$91.0</b>	<b>\$1,320.3</b>	<b>(\$65.3)</b>	<b>\$738.1</b>	<b>\$230.3</b>
<b>Federal Grants:</b>													
Total Federal Grants Revenue/Inflows	163.6	232.8	164.8	161.8	180.0	200.0	185.0	185.0	202.0	185.0	190.0	200.5	2,250.5
Total Federal Grants Expenditures/Outflows	<u>205.5</u>	<u>224.8</u>	<u>142.5</u>	<u>158.7</u>	<u>185.3</u>	<u>198.0</u>	<u>186.3</u>	<u>179.8</u>	<u>208.0</u>	<u>186.3</u>	<u>185.3</u>	<u>198.0</u>	<u>2,258.5</u>
<b>Net Federal Grants</b>	<b>(41.9)</b>	<b>\$8.0</b>	<b>\$22.3</b>	<b>\$3.1</b>	<b>(\$5.3)</b>	<b>\$2.0</b>	<b>(\$1.3)</b>	<b>\$5.2</b>	<b>(\$6.0)</b>	<b>(\$1.3)</b>	<b>\$4.7</b>	<b>\$2.5</b>	<b>(\$8.0)</b>
<b>Capital Funds:</b>													
Total Capital Revenue/Inflows	48.5	430.6	56.9	344.2	250.4	721.9	205.6	174.3	343.4	351.2	353.1	430.0	3,710.1
Total Capital Expenditures/Outflows:	<u>272.7</u>	<u>275.7</u>	<u>241.4</u>	<u>218.4</u>	<u>316.1</u>	<u>332.9</u>	<u>305.1</u>	<u>302.7</u>	<u>306.2</u>	<u>280.8</u>	<u>329.9</u>	<u>285.3</u>	<u>3,467.0</u>
<b>Net Capital Funds</b>	<b>(224.2)</b>	<b>\$154.8</b>	<b>(\$184.5)</b>	<b>\$125.8</b>	<b>(\$65.7)</b>	<b>\$389.0</b>	<b>(\$99.5)</b>	<b>(\$128.4)</b>	<b>\$37.2</b>	<b>\$70.4</b>	<b>\$23.2</b>	<b>\$144.7</b>	<b>\$243.1</b>
<b>Financing Activities:</b>													
Cash Flow Financing Activities Inflows:													
<i>Commercial Paper</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>Revenue Anticipation Notes (RANS)</i>	0.0	0.0	800.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	800.0
Total Cash Flow Financing Activities Inflows	0.0	0.0	800.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	800.0
Cash Flow Financing Activities Outflows:													
<i>Commercial Paper – (Principal + Interest)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<i>RANS – (Principal + Interest)</i>	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	202.3	304.1	304.5	810.9
Total Cash Flow Financing Activities Outflows	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>202.3</u>	<u>304.1</u>	<u>304.5</u>	<u>810.9</u>
<b>Net Financing Activities</b>	<b>0.0</b>	<b>\$0.0</b>	<b>\$800.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>\$0.0</b>	<b>(\$202.3)</b>	<b>(\$304.1)</b>	<b>(\$304.5)</b>	<b>(\$10.9)</b>
<b>Ending Non-Segregated Operating Cash Balance</b>	<b>1,253.7</b>	<b>\$1,065.1</b>	<b>\$1,918.9</b>	<b>\$1,744.4</b>	<b>\$1,410.0</b>	<b>\$2,040.6</b>	<b>\$2,205.4</b>	<b>\$1,182.4</b>	<b>\$1,304.6</b>	<b>\$2,491.7</b>	<b>\$2,150.2</b>	<b>\$2,731.0</b>	<b>\$2,731.0</b>

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

(2) Figures are estimated.

- (9) The section captioned “COMMONWEALTH CAPITAL INVESTMENT PLAN” is replaced in its entirety with the following section:

#### **COMMONWEALTH CAPITAL INVESTMENT PLAN**

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

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

On December 4, 2013, the Governor released a five-year capital investment plan for fiscal 2014 through fiscal 2018, totaling over \$18.9 billion. With the release of the plan, the Governor announced that the bond cap is expected to be \$2 billion for fiscal 2014, plus \$205 million in unused bond cap from fiscal 2013 which has been carried forward to support spending in fiscal 2014. The bond cap for fiscal 2015 is projected to be \$2.125 billion, and the bond cap for fiscal 2016 through fiscal 2018 is projected to be \$2.250 billion. Future debt affordability analysis may show sufficient revenue growth to permit a higher bond cap in the out-years of the current five-year plan.

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

For the purpose of the debt affordability analysis, budgeted revenue includes all Commonwealth taxes and other revenues available to pay Commonwealth operating expenses, including debt service, pensions and other budgetary obligations. It does not include off-budget revenues dedicated to the Massachusetts Bay Transportation Authority, the Massachusetts School Building Authority and the Massachusetts Convention Center Authority.

The fiscal 2014 estimate was based on the adopted fiscal 2014 budget. For purposes of projecting budgeted revenue in future fiscal years, projected increases to budgeted revenues are the lesser of 3% or the actual compound annual growth rate over the last ten fiscal years. The compound annual growth rate in budgeted revenues from fiscal 2002 through fiscal 2012 was 4.46%. To be consistent with the debt affordability policy, a 3% compound growth rate was applied to fiscal 2014 revenues and to each year thereafter.



In addition to keeping debt service within 8% of budgeted revenues, the debt management policy limits future annual growth in the bond cap for the regular capital program to not more than \$125 million. This additional constraint is designed to ensure that projected growth in the bond cap will be held to stable and sustainable levels. As noted above, the bond cap is expected to grow by \$125 million annually from fiscal 2014 through fiscal 2016.

It is the policy of the Executive Office for Administration and Finance to revisit the debt capacity and affordability analysis periodically, and at least every year, to revise estimates for future years by taking into account fluctuations in interest rates, budgeted revenues and other changes affecting the Commonwealth's debt capacity. In addition, the Executive Office for Administration and Finance will annually assess the appropriateness of the methodology and constraints for establishing the bond cap.

The following table shows the annual bond cap, the resulting estimated total annual debt service payment obligations and the estimated debt service as a percentage of estimated budgeted revenues, all as presented in the debt affordability analysis released in December, 2013.

**Bond Cap (in thousands)**

	<u>Fiscal 2014</u>	<u>Fiscal 2015</u>	<u>Fiscal 2016</u>	<u>Fiscal 2017</u>	<u>Fiscal 2018</u>
Bond Cap (1)	\$2,205,673	\$2,125,000	\$2,250,000	\$2,250,000	\$2,250,000
Total Debt Service Obligations	\$2,316,375	\$2,264,820	\$2,264,824	\$2,010,232	\$1,873,727
Estimated Budgeted Revenues	\$35,328,544	\$36,465,794	\$37,557,946	\$38,684,933	\$39,845,866
Debt Service as % of Budgeted Revenues	7.13%	7.28%	7.58%	7.16%	7.03%

SOURCE: Executive Office for Administration and Finance..

(1) Includes \$205 million of fiscal 2013 unused bond cap that has been carried forward to fiscal 2014.

In the past, the Commonwealth aggregated its capital expenditures into eight major categories based primarily on the agencies responsible for spending and carrying out capital projects: information technology, infrastructure and facilities, environment, housing, public safety, transportation, convention centers, other and school building assistance. The following table sets forth historical capital spending in fiscal 2008 through fiscal 2012 according to these categories.

**Commonwealth Historical Capital Spending (in millions) (1)**

<b>Investment Category:</b>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>	<u>Fiscal 2013 (2)</u>
Information technology	\$ 65	\$ 97	\$ 100	\$ 119	\$ 129	\$133
Infrastructure/facilities	186	333	391	458	518	452
Environment	188	246	158	142	131	130
Housing	172	252	318	174	185	183
Public safety	19	21	11	7	17	17
Transportation	1,109	1,388	1,694	1,512	1,618	1,528
Convention centers	-	-	5	-	-	-
Other	43	96	108	127	125	434
Total (1)	<u>\$1,782</u>	<u>\$2,432</u>	<u>\$2,785</u>	<u>\$2,539</u>	<u>\$2,724</u>	<u>\$2,877</u>

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

(1) Totals may not add due to rounding.

(2) Fiscal 2013 calculations are estimated; final numbers are expected to be available December 31, 2013.

Beginning in fiscal 2008, the Executive Office for Administration and Finance re-characterized capital spending into 12 categories based on spending purpose, rather than spending agency: community investments, corrections, courts, economic development, energy and environment, health and human services, higher education, housing, information technology, public safety, state office buildings and facilities, and transportation. In fiscal year 2014, information technology and State Office Buildings were re-characterized as State Government Infrastructure. This presentation of capital investment categories results in certain expenditures appearing in categories that are different from those in which they had been categorized in the historical capital spending table above. For example,

Chapter 90 local aid for municipal transportation projects appears in the community investment category, rather than the transportation category, because these funds are invested in municipally-owned assets.

The capital investment plan for fiscal 2014 through fiscal 2018 is designed to allocate resources strategically to invest in the Commonwealth's public facilities and programs and represents the Governor's vision for public infrastructure. The following tables show the allocation of bond cap spending by major investment category and the allocation of total capital spending from all sources of funding by major investment category for fiscal 2014 through fiscal 2018.

#### Capital Investment Plan – Total Bond Cap (in millions) (1)

<b>Investment Category:</b>	<b>Fiscal 2014 (2)</b>	<b>Fiscal 2015</b>	<b>Fiscal 2016</b>	<b>Fiscal 2017</b>	<b>Fiscal 2018</b>	<b>5-Year Total</b>	<b>% of 5-Year Total</b>
Community Investments	\$346,485	\$324,053	\$290,509	295,305	275,974	\$1,532,326	14%
Corrections	76,412	21,225	30,115	30,500	30,100	188,352	2%
Courts	27,681	66,472	120,559	82,600	48,200	345,512	3%
Economic Development	126,780	143,500	123,500	123,500	117,003	634,283	6%
Energy And Environment	191,362	126,691	127,061	107,152	124,463	676,729	6%
Health And Human Services	92,338	63,287	40,081	38,114	48,000	281,820	3%
Higher Education	226,813	251,716	330,573	409,100	324,103	1,542,305	14%
Housing	179,500	168,850	169,500	169,500	170,000	857,350	8%
Public Safety	73,351	44,546	44,630	36,086	27,080	225,692	2%
State Government Infrastructure	220,401	195,486	158,197	140,943	142,078	857,104	8%
Transportation	644,550	719,175	815,275	817,200	943,000	3,939,200	36%
<b>Total Bond Cap</b>	<b>\$2,205,673</b>	<b>\$2,125,000</b>	<b>\$2,250,000</b>	<b>\$2,250,000</b>	<b>\$2,250,000</b>	<b>\$11,080,673</b>	<b>100%</b>

SOURCE: Executive Office for Administration and Finance, Five-Year Capital Investment Plan released December, 2013.

(1) Totals may not add due to rounding.

(2) Includes \$2 billion in Bond Cap and \$205 million in unused capacity from the prior fiscal year.

#### Capital Investment Plan – All Sources of Funding (in millions) (1)

<b>Investment Category:</b>	<b>Fiscal 2014</b>	<b>Fiscal 2015</b>	<b>Fiscal 2016</b>	<b>Fiscal 2017</b>	<b>Fiscal 2018</b>	<b>5-Year Total</b>	<b>% of 5-Year Total</b>
Community Investments	\$381,427	\$354,953	\$321,009	\$326,205	\$279,474	\$1,663,068	9%
Corrections	76,412	21,225	30,115	30,500	30,100	188,352	1%
Courts	27,681	71,472	135,559	87,600	48,200	370,512	2%
Economic Development	151,780	168,500	148,500	148,500	117,003	734,283	4%
Energy And Environment	243,038	241,262	237,531	236,952	182,392	1,141,175	6%
Health And Human Services	165,490	125,706	87,645	63,066	64,440	506,347	3%
Higher Education	266,611	298,466	386,773	430,700	325,603	1,708,153	9%
Housing	179,500	168,850	169,500	169,500	170,000	857,350	5%
Public Safety	83,001	54,216	47,830	36,786	27,080	248,912	1%
State Government Infrastructure	309,266	290,223	235,545	193,862	189,562	1,218,458	6%
Transportation	2,209,051	2,372,916	2,308,708	1,848,490	1,490,006	10,229,171	54%
<b>Total All Sources</b>	<b>\$4,093,257</b>	<b>\$4,167,789</b>	<b>\$4,108,714</b>	<b>\$3,572,161</b>	<b>\$2,923,859</b>	<b>\$18,865,781</b>	<b>100%</b>

SOURCE: Executive Office for Administration and Finance, Five-Year Capital Investment Plan released December, 2013.

(1) Totals may not add due to rounding.

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

- State Bond Cap – Commonwealth borrowing to support the regular capital program.
- Federal Funds – Federal reimbursements for capital expenditures.
- Other Funds – Contributions made by third parties to capital projects being carried out by the Commonwealth.

- Project Financed – General obligation bonds, the debt service for which is budgeted from savings or new revenue related to the project, including the CEIP program where Commonwealth bonds are to be paid with savings achieved as a result of energy efficiencies.
- Pay-As-You-Go – Funding from current revenue for capital projects.
- Accelerated Bridge Program (ABP) – Commonwealth special obligation bonds secured by revenues credited to the Commonwealth Transportation Fund or federal grant anticipation notes issued to fund the Accelerated Bridge Program.
- Build Mass Bonds – In 2013, the Legislature enacted and the Governor signed a multiyear transportation finance bill that is expected to provide over \$805 million annually by fiscal 2018 to support an additional ten-year, \$8.5 billion investment in transportation infrastructure. Of this amount, \$2.1 billion is expected to be supported through additional bonding enabled by a 3-cent increase to the gas tax, indexing the gas tax to inflation, dedicating the sales tax on motor vehicles to transportation, and transit fare and motor vehicle registry fee increases.

The following table shows the sources of capital funds for fiscal 2013 and the estimated sources of funds for the next five fiscal years.

**Capital Investment Plan – Sources of Funds (in millions)**

	State Bond Cap	Federal Funds	Project Financed	Pay-As-You-Go	Other Funds	Accelerated Bridge Program	Total
2014 (1)	\$2,205	\$650	\$102	-	\$562	\$572	\$4,093
2015	2,125	820	174	-	500	546	4,167
2016	2,250	742	141	-	506	467	4,108
2017	2,250	606	147	-	398	169	3,572
2018	2,250	329	90	-	254	-	2,923
<b>5-year total (2)</b>	<b>\$11,080</b>	<b>\$3,299</b>	<b>\$656</b>	<b>-</b>	<b>\$2,222</b>	<b>\$1,756</b>	<b>\$18,865</b>

SOURCE: Executive Office for Administration and Finance.

(1) Fiscal 2014 includes \$2 billion in bonds issued under the bond cap and \$205 million in unused capacity from the prior fiscal year.

(2) Totals may not add due to rounding.

On July 27, 2012, the Governor approved legislation that created a Capital Debt Affordability Committee within the Executive Office for Administration and Finance, consisting of seven voting members – the Secretary of Administration (who chairs the committee), the State Treasurer, the Comptroller, the Secretary of Transportation, one appointee of the Governor and two appointees of the State Treasurer – and eight legislative leaders who are non-voting members. The committee is charged with reviewing on a continuing basis the size and condition of the Commonwealth’s tax-supported debt, as well as the debt of certain state authorities. On or before December 15 of each year, the committee is required to submit to the Governor and the Legislature the committee’s estimate of the total amount of new Commonwealth debt that could prudently be authorized for the next fiscal year, taking into account certain specified criteria. The committee’s estimates are advisory and not binding on the Governor or the Legislature. The legislation provides that the Governor is to determine, on or before January 15 of each year, the total authorization of new Commonwealth debt that he considers advisable for the next fiscal year and the preliminary allocation of new Commonwealth debt for capital facility projects. The effective date of the legislation creating the Committee is January 1, 2013.

- (10) Under the heading “LEGAL MATTERS – Other,” the following paragraph is added at the end of the section:

*Woodlands Commercial Corp. f/k/a Lehman Bros. Commercial Bank v. Massachusetts Department of Transportation*, Supreme Court of the State of New York, County of New York. On or about November 14, 2013, the plaintiff corporation (previously known as Woodlands Commercial Bank, a wholly-owned subsidiary of Lehman Bancorp, Inc.) filed suit against MassDOT, as successor to the Massachusetts Turnpike Authority, in New York state court. The suit seeks recovery of millions of dollars allegedly withheld in breach of a contract concerning six derivatives transactions, valued in mid-2008 at \$37.4 million, that the Turnpike Authority had entered into with a Lehman Brothers affiliate. The Turnpike Authority allegedly terminated the contractual arrangement without making a full termination payment, which plaintiff contends constituted a willful breach of the Authority’s contractual obligations. The crux of the dispute is the amount of the payment that the Authority was required to make when it terminated the derivatives transactions it entered into with the Lehman unit. In December, 2008, the Authority made an early termination payment of approximately \$3.17 million, but the plaintiff appears to contend that that payment should have been in the range of \$30 million to \$40 million. In addition to contractual damages, the plaintiff seeks interest on its claim of unpaid sums, dating back to late 2008. The complaint acknowledges that, although it was created by the Legislature and performs various public functions, in legal form MassDOT is a body politic and corporate separate from the Commonwealth. No claims are expressly lodged against the Commonwealth in this suit.

**THE COMMONWEALTH OF MASSACHUSETTS**