

REFUNDING/NEW MONEY 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 Bonds will not be included in the gross income of holders of the Bonds for federal income tax purposes. While interest on the Bonds will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, interest on the Bonds will be included in the "adjusted current earnings" of corporate holders of the Bonds and therefore will be taken into account in computing the alternative minimum tax imposed on certain corporations. In the opinion of Bond Counsel, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. See "TAX EXEMPTION" herein.

THE COMMONWEALTH OF MASSACHUSETTS



\$339,330,000
General Obligation Bonds
Consolidated Loan of 2006
Series E

\$172,975,000
General Obligation
Refunding Bonds
2006 Series C

Dated: Date of Delivery

Due: As shown on the inside cover hereof

The Bonds will be issued by means of a book-entry-only system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company ("DTC") and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The Bonds will bear interest from their delivery date calculated on the basis of a 360-day year of twelve 30-day months. Interest on the Bonds other than the CPI Bonds will be payable on May 1, 2007 and semiannually thereafter on November 1 and May 1. Interest on the CPI Bonds will be payable on January 2, 2007 and on the first Business Day of each month thereafter. See "THE BONDS – General" herein and Appendix E – CPI Bonds. Certain of the Bonds are subject to redemption prior to maturity, as more fully described herein.

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

The 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 Ropes & Gray LLP, Boston, Massachusetts, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, McCarter & English, LLP, Boston, Massachusetts. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about November 29, 2006.

Citigroup

Bear, Stearns & Co. Inc.
Merrill Lynch & Co.

JPMorgan

Lehman Brothers
UBS Investment Bank

A.G. Edwards & Sons, Inc.
Corby Capital Markets, Inc.
First Albany Corporation
M.R. Beal & Company
RBC Capital Markets
Southwest Securities Inc.

Banc of America Securities LLC
Eastern Bank Capital Markets
Goldman, Sachs & Co.
Melvin Securities LLC
Ramirez & Co. Inc.
Sovereign Securities Corporation, LLC

Cabrera Capital Markets, Inc.
Finacorp Securities
Loop Capital Markets, LLC
Morgan Keegan & Company, Inc.
Raymond James & Associates, Inc.
Wachovia Bank, N.A.

November 10, 2006

THE COMMONWEALTH OF MASSACHUSETTS

**\$339,330,000
General Obligation Bonds
Consolidated Loan of 2006, Series E***

Dated: Date of Delivery

Due: November 1, as shown below

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP**</u>
2022	\$23,870,000	5.000%	4.010% ^C	57582PAZ3
2023	73,050,000	5.000	4.040 ^C	57582PBA7
2024	76,800,000	5.000	4.050 ^C	57582PBB5
2025	80,735,000	5.000	4.090	57582PBC3
2026	84,875,000	5.000	4.110	57582PBD1

**\$172,975,000
General Obligation Refunding Bonds
2006 Series C[†]**

Dated: Date of Delivery

Due: November 1, as shown below

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>	<u>CUSIP**</u>
2010	\$ 345,000	5.000%	3.540%	57582PBE9
2011	365,000	5.000	3.560	57582PBF6
2012	385,000	5.000	3.610	57582PBG4
2013	405,000	5.000	3.650	57582PBH2
2014	425,000	5.000	3.690	57582PBJ8
2015	445,000	5.000	3.730	57582PBK5
2016	470,000	5.000	3.770	57582PBL3
2017	490,000	CPI rate [§]	100	57582PBM1
2018	3,415,000	CPI rate [§]	100	57582PBN9
2019	8,730,000	5.250	3.930	57582PBP4
2019	58,000,000	CPI rate [§]	100	57582PBQ2
2020	265,000	5.250	3.960	57582PBR0
2020	38,095,000	CPI rate [§]	100	57582PBS8
2021	46,155,000	5.250	3.990	57582PBT6
2026	14,985,000	5.250	4.110	57582PBU3

* Insured by Ambac Assurance Corporation. See "BOND INSURANCE."

** Copyright, American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondowners only at the time of issuance of the Bonds and the Commonwealth does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of the Bonds.

C Priced at the stated yield to the November 1, 2016 optional redemption date at a price of 100%.

† Insured by Financial Security Assurance Inc. See "BOND INSURANCE."

§ CPI Bonds. See "THE BONDS – Plan of Finance" and Appendix E – CPI Bonds.

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

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

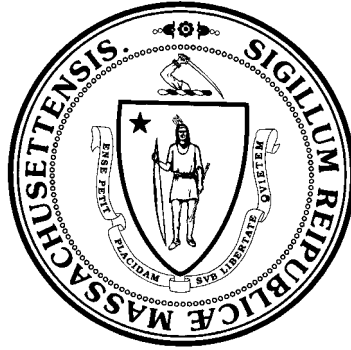
IN CONNECTION WITH THIS OFFERING THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS OFFERED HEREBY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL ON THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained under the caption "BOND INSURANCE" and Appendix F -- Specimen Municipal Bond Insurance Policies herein, none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

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THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

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

OFFICIAL STATEMENT

THE COMMONWEALTH OF MASSACHUSETTS

\$339,330,000

**General Obligation Bonds
Consolidated Loan of 2006, Series E**

\$172,975,000

**General Obligation Refunding Bonds
2006 Series C**

INTRODUCTION

This Official Statement (including the cover pages and Appendices A through F attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the “Commonwealth”) of \$339,330,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 2006, Series E (the “New Money Bonds”) and of \$172,975,000 aggregate principal amount of its General Obligation Refunding Bonds, 2006 Series C (the “Refunding Bonds”) (the New Money Bonds and the Refunding Bonds, together, being the “Bonds”). The Bonds will be general obligations of the Commonwealth, and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and expenditures for debt service, see “SECURITY FOR THE BONDS” and the Commonwealth Information Statement (described below) under the headings “COMMONWEALTH REVENUES – Limitations on Tax Revenues” and “LONG-TERM LIABILITIES – General Authority to Borrow; Limit on Debt Service Appropriations.”

The New Money Bonds are being issued to finance certain authorized capital projects of the Commonwealth. The Refunding Bonds are being issued to advance refund certain bonds of the Commonwealth, as set forth in Appendix B – Table of Refunded Bonds. See “THE BONDS – Plan of Finance” and “Application of Proceeds.”

Purpose and Content of Official Statement

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

Specific reference is made to the Commonwealth’s Information Statement dated April 18, 2006 (the “April Information Statement”), as it appears as Appendix A in the Official Statement dated April 18, 2006 of the Commonwealth with respect to the Commonwealth’s \$180,875,000 General Obligation Refunding Bonds, 2006 Series A (Delayed Delivery), a copy of which has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission and with the Municipal Securities Rulemaking Board. The information contained in the April Information Statement has been supplemented by the Commonwealth’s Information Statement Supplement dated November 10, 2006 (the “November Supplement”), which is attached hereto as Appendix A. The April Information Statement together with and as supplemented by the November Supplement is referred to herein as the “Commonwealth Information Statement.”

The Commonwealth Information Statement contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth. Exhibit A to the Commonwealth Information Statement contains certain economic information concerning the Commonwealth. Exhibit B to the Commonwealth Information Statement contains the financial statements of the Commonwealth for the fiscal year ended June 30, 2006, prepared on a statutory basis. Exhibit C to the Commonwealth Information Statement contains the financial statements of the Commonwealth for the fiscal year ended June 30, 2005, prepared on a GAAP basis. Specific reference is made to said Exhibits A, B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. The financial statements are also available at the home page of the Comptroller of the Commonwealth located at <http://www.mass.gov/osc> by clicking on “Financial Reports/Audits.”

Attached hereto as Appendix B is a listing of the bonds to be refunded with the proceeds of the Refunding Bonds. Appendix C attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Bonds. Appendix D attached hereto contains the proposed form of the Commonwealth's continuing disclosure undertaking to be included in the forms of the Bonds to facilitate compliance by the Underwriters with the requirements of paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission. Appendix E attached hereto contains certain information concerning the CPI Bonds. Appendix F attached hereto sets forth specimen municipal bond insurance policies of Ambac Assurance Corporation and Financial Security Assurance Inc.

THE BONDS

General

The Bonds will mature on November 1 in the years and in the aggregate principal amounts, and shall bear interest at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months), as set forth on the inside cover page of this Official Statement. A portion of the Refunding Bonds will be issued as CPI Bonds bearing interest at a floating rate. See Appendix E – CPI Bonds. The Bonds will be dated their date of delivery and will bear interest from such date. Interest on the Bonds other than the CPI Bonds will be payable semiannually on May 1 and November 1 of each year, commencing May 1, 2007, until the principal amount is paid. Interest on the CPI Bonds will be payable on January 2, 2007 and on the first Business Day (as defined in Appendix E attached hereto) of each month thereafter until the principal amount is paid. The Commonwealth will act as its own paying agent with respect to the Bonds. The Commonwealth reserves the right to appoint from time to time a paying agent or agents or bond registrar for the Bonds.

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

Redemption

Optional Redemption. The Refunding Bonds will not be subject to redemption prior to maturity. The New Money Bonds maturing on November 1, 2025 and 2026 will not be subject to redemption prior to maturity. The New Money Bonds maturing on November 1, 2022, 2023 and 2024 will be subject to redemption on any date prior to their stated maturity dates on and after November 1, 2016 at the option of the Commonwealth from any monies legally available therefor, in whole or in part at any time, by lot, at 100% of the principal amount thereof, plus accrued interest to the redemption date.

Notice of Redemption. The Commonwealth shall give notice of redemption to the owners of the New Money 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 New Money Bonds, notices of redemption will be mailed by the Commonwealth only to DTC or its nominee. Any failure on the part of DTC, any DTC participant or any nominee of a beneficial owner of any New Money Bond (having received notice from a DTC participant or otherwise) to notify the beneficial owner so affected, shall not affect the validity of the redemption.

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

Selection for Redemption. In the event that less than all of any maturity of the New Money Bonds is to be redeemed, and so long as the book-entry-only system remains in effect for such New Money Bonds, the particular New Money Bonds or portion of any such New Money 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 New Money Bonds, selection for redemption of less than all of any one maturity of the New Money Bonds will be made by the Commonwealth by lot

in such manner as in its discretion it shall deem appropriate and fair. For purposes of selection by lot within a maturity, each \$5,000 of principal amount of a New Money Bond will be considered a separate New Money Bond.

Plan of Finance

The Refunding Bonds are being issued pursuant to the provisions of Section 53A of Chapter 29 of the Massachusetts General Laws for the purpose of refunding the bonds set forth in Appendix B (the “Refunded Bonds”). The net proceeds of the Refunding Bonds will be applied as described in the following paragraph. The net proceeds of the New Money Bonds will be applied as described below under “Application of Proceeds”.

The Commonwealth, upon the delivery of the Refunding Bonds, will enter into a refunding escrow agreement (the “Escrow Agreement”) with an escrow agent (the “Escrow Agent”) to be selected for the Refunded Bonds. The Escrow Agreement will provide for the deposit of the net proceeds of the Refunding Bonds with the Escrow Agent, to be applied immediately upon receipt to purchase non-callable direct obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America, obligations of certain federal agencies specified in Section 49 of Chapter 29 of the Massachusetts General Laws or of any agency or corporation which has been created pursuant to an act of Congress of the United States as an agency or instrumentality of the United States of America, bank time deposits or certificates of deposit that are secured by such obligations, repurchase agreements with banks in respect of any such obligations or advance-refunded or defeased bonds that are secured by such obligations (the “Escrow Obligations”) and to funding, if needed, a cash deposit in such account. The Escrow Agreement will require that maturing principal of and interest on the Escrow Obligations held under such Escrow Agreement, plus any initial cash deposit, be held in trust in such account and paid to the Commonwealth solely for the payment of the principal of and redemption premium, if any, and interest on the Refunded Bonds subject to such Escrow Agreement. According to the report described in “VERIFICATION OF MATHEMATICAL COMPUTATIONS,” the Escrow Obligations held under the Escrow Agreement will mature at such times and earn interest in such amounts that, together with any initial cash deposit, will produce sufficient monies to make such payments on the Refunded Bonds subject to such Escrow Agreement to and including their respective maturity or redemption dates, each as set forth in Appendix B.

In connection with the issuance of the CPI Bonds identified in the inside front cover hereto, the Commonwealth expects to enter into an interest rate exchange (or “swap”) agreement with a certain counterparty pursuant to which the counterparty will be obligated to pay the Commonwealth an amount equal to the variable rate payment on the CPI Bonds and the Commonwealth will be obligated to pay the counterparty a stipulated fixed rate. See the April Information Statement under the heading “LONG-TERM LIABILITIES – General Obligation Debt; *Synthetic Fixed Rate Bonds*.” Because the CPI Bonds are not redeemable prior to their stated maturity, there is no liquidity facility associated with the CPI Bonds. See Appendix E – CPI Bonds.

Application of Proceeds

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

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

SECURITY FOR THE BONDS

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

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

BOND INSURANCE

Ambac Assurance Corporation ("Ambac Assurance") has made a commitment to issue a financial guaranty insurance policy (the "Ambac Assurance Policy") relating to the New Money Bonds, effective as of the date of issuance of the New Money Bonds. Financial Security Assurance Inc. ("Financial Security") has made a commitment to issue a municipal bond insurance policy (the "Financial Security Policy") relating to the Refunding Bonds, effective as of the date of issuance of the Refunding Bonds. Certain information appears below regarding payment of the New Money Bonds pursuant to the Ambac Assurance Policy and Ambac Assurance and regarding payment of the Refunding Bonds pursuant to the Financial Security Policy and Financial Security. Such information has been supplied by Ambac Assurance and Financial Security, respectively, for inclusion in this Official Statement. No representations are made by the Commonwealth or the Underwriters as to the accuracy or completeness of such information.

New Money Bonds

Payment Pursuant to Ambac Assurance Insurance Policy. Under the terms of the Ambac Assurance Policy, Ambac Assurance will pay to The Bank of New York, in New York, New York, or any successor thereto (the "Insurance Trustee"), that portion of the principal of and interest on the New Money Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor (as such terms are defined in the Ambac Assurance Policy). Ambac Assurance will make such payments to the Insurance Trustee on the later of the date on which such principal and/or interest becomes Due for Payment or within one business day following the date on which Ambac Assurance shall have received notice of Nonpayment from the Commonwealth, as paying agent. The insurance will extend for the term of the New Money Bonds and, once issued, cannot be canceled by Ambac Assurance.

The Ambac Assurance Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the New Money Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding New Money Bonds, Ambac Assurance will remain obligated to pay the principal of and interest on outstanding New Money Bonds on the originally scheduled interest and principal payment dates, including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the New Money Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration, except to the extent that Ambac Assurance elects, in its sole discretion, to pay all or a portion of the accelerated principal and interest accrued thereon to the date of acceleration (to the extent unpaid by the Obligor). Upon payment of all such accelerated principal and interest accrued to the acceleration date, Ambac Assurance's obligations under the Ambac Assurance Policy shall be fully discharged.

In the event the Commonwealth has notice that any payment of principal of or interest on a New Money Bond that has become Due for Payment and that is made to a holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, non-appealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac Assurance to the extent of such recovery if sufficient funds are not otherwise available.

The Ambac Assurance Policy does **not** insure any risk other than Nonpayment (as set forth in the Ambac Assurance Policy). Specifically, the Ambac Assurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity;
2. payment of any redemption, prepayment or acceleration premium; and
3. nonpayment of principal or interest caused by the insolvency or negligence of any trustee, paying agent or bond registrar, if any.

If it becomes necessary to call upon the Ambac Assurance Policy, payment of principal requires surrender of the New Money Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such New Money Bonds to be registered in the name of Ambac Assurance to the extent of the payment under the Ambac Assurance Policy. Payment of interest pursuant to the Ambac Assurance Policy requires proof of holder entitlement to interest payments and an appropriate assignment of the holder's right to payment to Ambac Assurance.

Upon payment of the insurance benefits, Ambac Assurance will become the owner of the New Money Bond, appurtenant coupon, if any, or right to payment of the principal of or interest on such New Money Bond and will be fully subrogated to the surrendering holder's rights to payment.

Ambac Assurance Corporation. Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin, and is licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$9,699,000,000 (unaudited) and statutory capital of approximately \$6,223,000,000 (unaudited) as of September 30, 2006. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., Moody's Investors Service, Inc. and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

Ambac Assurance has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac Assurance will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac Assurance under policy provisions substantially identical to those contained in the Ambac Assurance Policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Obligor.

Ambac Assurance makes no representation regarding the New Money Bonds or the advisability of investing in the New Money Bonds and makes no representation regarding, nor has it participated in the preparation of, this Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE – New Money Bonds."

Available Information. The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005.

Copies of Ambac Assurance's financial statements prepared in accordance with statutory accounting standards are available from Ambac Assurance. The address of Ambac Assurance's administrative offices is One State Street Plaza, 19th Floor, New York, New York 10004, and its telephone number is (212) 668-0340.

Incorporation of Certain Documents by Reference. The following documents filed by the Company with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2005 and filed on March 13, 2006;
2. The Company's Current Report on Form 8-K dated and filed on April 26, 2006;
3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2006 and filed on May 10, 2006;
4. The Company's Current Report on Form 8-K dated July 25, 2006 and filed on July 26, 2006;
5. The Company's Current Report on Form 8-K dated and filed on July 26, 2006;
6. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2006 and filed on August 9, 2006;
7. The Company's Current Report on Form 8-K dated and filed on October 25, 2006; and
8. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2006 and filed on November 8, 2006.

All documents subsequently filed by the Company pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above in "*Available Information.*"

Refunding Bonds

Bond Insurance Policy. The Financial Security Policy guarantees the scheduled payment of principal of and interest on the Refunding Bonds when due as set forth in the form of the Financial Security Policy included in Appendix F to this Official Statement.

The Financial Security Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc. Financial Security is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At September 30, 2006, Financial Security's combined policyholders' surplus and contingency reserves were approximately \$2,581,107,000 and its total net unearned premium reserve was approximately \$1,992,163,000 in accordance with statutory accounting principles. At September 30, 2006, Financial Security's consolidated shareholder's equity was approximately \$3,058,987,000 and its total net unearned premium reserve was approximately \$1,590,538,000 in accordance with generally accepted accounting principles.

The consolidated financial statements of Financial Security included in, or as exhibits to, the annual and quarterly reports filed after December 31, 2005 by Holdings with the Securities and Exchange Commission are hereby incorporated by reference into this Official Statement. All financial statements of Financial Security included in, or as exhibits to, documents filed by Holdings pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities Exchange Act of 1934 after the date of this Official Statement and before the termination of the offering of the

Refunding Bonds shall be deemed incorporated by reference into this Official Statement. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 31 West 52nd Street, New York, New York 10019, Attention: Communications Department (telephone (212) 826-0100).

The Financial Security Policy does not protect investors against changes in market value of the Refunding Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Refunding Bonds or the advisability of investing in the Refunding Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Commonwealth the information presented under this caption for inclusion in the Official Statement.

LITIGATION

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

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

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

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

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

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

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

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

RATINGS

The Bonds have been assigned ratings of "AAA," "Aaa" and "AAA" by Fitch Ratings ("Fitch"), Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services ("Standard & Poor's"), respectively, based upon, and solely as the result of, the municipal bond insurance policies provided by Ambac Assurance and Financial Security. See "BOND INSURANCE" and Appendix F. The Bonds have been assigned ratings by Fitch, Moody's and Standard & Poor's of "AA," "Aa2" and "AA," respectively, without regard to the municipal bond insurance policies provided by Ambac Assurance and Financial Security.

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

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase all of the Bonds from the Commonwealth at a discount from the initial offering prices of the Bonds equal to approximately .514205% of the aggregate principal amount of the Bonds. The Underwriters may offer and sell the Bonds to certain dealers and others (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices (or yields higher than the offering yields) stated on the inside cover page hereof. The principal offering prices (or yields) set forth on the inside cover page hereof may be changed from time to time after the initial offering by the Underwriters.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

On the date of delivery and payment, proceeds of the Refunding Bonds will be used to purchase eligible securities, the Escrow Obligations, to be held in trust by the Escrow Agent to provide for payment of principal of and interest and premium on the Refunded Bonds through their respective call dates for prior redemption. The arithmetical accuracy of certain computations included in the schedules provided by or on behalf of the Commonwealth relating to (a) computation of anticipated receipts of principal and interest on the Escrow Obligations to pay the regularly scheduled debt service on the Refunded Bonds until the respective call dates and to redeem the Refunded Bonds on those respective call dates, and (b) computation of yields on the Refunding Bonds and the Escrow Obligations will be verified by Causey Demgen & Moore Inc., certified public accountants. Such computations are based solely upon assumptions and information supplied by or on behalf of the Commonwealth. Causey Demgen & Moore Inc. has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of future events.

TAX EXEMPTION

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

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

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

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

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

On the date of delivery of the Bonds, the Underwriters will be furnished with an opinion of Bond Counsel substantially in the form attached hereto. See Appendix C -- Proposed Form of Opinion of Bond Counsel.

OPINIONS OF COUNSEL

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

CONTINUING DISCLOSURE

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

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

MISCELLANEOUS

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

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

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

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

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

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

AVAILABILITY OF OTHER INFORMATION

Questions regarding this Official Statement or requests for additional financial information concerning the Commonwealth should be directed to Patrick F. Landers, III, Assistant Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900, or Carlo DeSantis, Assistant Secretary for Capital Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Official Statement and the Bonds should be directed to John R. Regier, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone 617/542-6000.

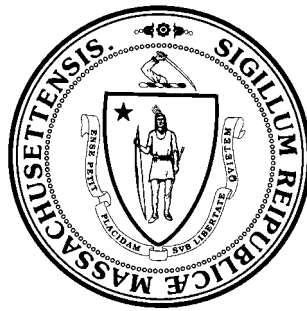
THE COMMONWEALTH OF MASSACHUSETTS

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

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

November 10, 2006

**THE
COMMONWEALTH
OF
MASSACHUSETTS**



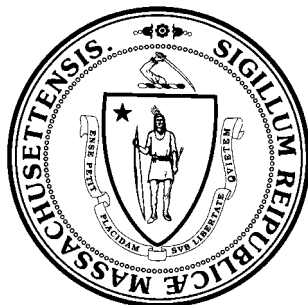
INFORMATION STATEMENT SUPPLEMENT

Dated November 10, 2006

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THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

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

THE COMMONWEALTH OF MASSACHUSETTS
INFORMATION STATEMENT SUPPLEMENT

November 10, 2006

This supplement (Supplement) to the Information Statement of The Commonwealth of Massachusetts (the Commonwealth) dated April 18, 2006 (the April Information Statement) is dated November 10, 2006, and contains information which updates the information contained in the April Information Statement. The April Information Statement appears as Appendix A to the Official Statement dated April 18, 2006 for the Commonwealth's \$180,875,000 General Obligation Refunding Bonds, 2006 Series A (Delayed Delivery), a copy of which has been filed with each Nationally Recognized Municipal Securities Information Repository (NRMSIR) currently recognized by the Securities and Exchange Commission. This Supplement and the April Information Statement must be read collectively and in their entirety in order to obtain the appropriate fiscal, financial and economic information concerning the Commonwealth through November 10, 2006. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the April Information Statement.

The April Information Statement, as supplemented hereby, includes three exhibits. Exhibits A, B and C, respectively, are the Statement of Economic Information as of September 30, 2006, which sets forth certain economic, demographic and statistical information concerning the Commonwealth, the Commonwealth's Statutory Basis Financial Report for the year ended June 30, 2006 and the Commonwealth's Comprehensive Annual Financial Report, reported in accordance with generally accepted accounting principles (GAAP), for the year ended June 30, 2005. Specific reference is made to said Exhibits A, B and C, copies of which have been filed with each NRMSIR currently recognized by the Securities and Exchange Commission. The financial statements are also available at the web site of the Comptroller of the Commonwealth located at <http://www.mass.gov/osc> by clicking on "Publications and Reports" and then "Financial Reports."

RECENT DEVELOPMENTS

Election of Constitutional Officers

On November 7, 2006 Deval L. Patrick was elected Governor of Massachusetts, to succeed Governor Mitt Romney. Timothy P. Murray and Martha Coakley were elected Lieutenant Governor and Attorney General, respectively; and William F. Galvin, Timothy P. Cahill and A. Joseph DeNucci were re-elected to the offices of Secretary, Treasurer and Receiver-General and Auditor. Each of the newly elected and re-elected constitutional officers of the Commonwealth will begin four-year terms on January 4, 2007.

Health Insurance Legislation

In October 2005, the federal Centers for Medicare and Medicaid Services (CMS) notified the Commonwealth under the terms and conditions of its 1115 Demonstration Waiver that a federally approved plan for reducing the number of uninsured individuals in the Commonwealth needed to be in place by July 1, 2006 in order for federal funding associated with the Safety Net Care Pool (SNCP) to be made available to the Commonwealth for fiscal 2007 and beyond. CMS indicated that the purpose of the SNCP funds is to reduce the level of uninsured persons in Massachusetts through mechanisms other than the Medicaid program.

On April 12, 2006, Governor Romney signed into law "An Act Providing Access to Affordable, Quality, Accountable Health Care" (detailed below) to reduce the level of uninsured persons in Massachusetts. Based on this enacted legislation, the Executive Office of Health and Human Services (EOHHS) submitted a description of the plan to CMS for federal approval. On July 27, 2006, CMS formally approved a waiver amendment incorporating the health care reform law into the Commonwealth's 1115 Demonstration Waiver. CMS approval secures \$385 million of formerly at risk federal Medicaid revenue for each of fiscal 2006, 2007 and 2008. The approval contained one condition requiring amendment of legislative language regarding certain hospital payments. The Legislature has since made this correction in legislation signed by Governor Romney on October 26, 2006. The health care reform legislation is projected to provide health insurance coverage for 95% of the Commonwealth's uninsured by 2009, reducing reliance on the Commonwealth's Uncompensated Care Pool.

The legislation includes:

- An individual mandate requiring all residents 18 years and older to obtain health care insurance by July 1, 2007.
- A requirement that all businesses with eleven or more employees offer health insurance to their full-time employees and make a “fair and reasonable contribution” or be assessed an annual fee of up to \$295 per employee. \$31.5 million of revenue is attributed to this provision beginning in fiscal 2008.
- A requirement that businesses with eleven or more employees arrange for the purchase of health insurance by all employees, including part-time employees, on a pre-tax basis through an approved Section 125 plan. No employer contribution is required.
- Creation of the Commonwealth Health Insurance Connector (the “Connector”) to increase accessibility to affordable, private health insurance coverage for individuals and small businesses and permitting payment of premiums on a pre-tax basis.
- Establishment of the Commonwealth Care health insurance program to provide premium assistance to subsidize the purchase of private health insurance for individuals below specified income levels.

For fiscal 2006, the legislation appropriated or transferred from the General Fund \$60.0 million to fund its provisions, including: \$25.0 million to establish the Connector, \$14.5 million to expand and restore prevention programs at the Department of Public Health, \$10.0 million for a reserve to fund additional administrative costs of various agencies, \$5.0 million for the Massachusetts Technology Park Corporation for a computerized physician order entry initiative and other healthcare related activities, and \$5.5 million for additional program expenditures. These funds are available for expenditure through fiscal 2007.

For fiscal 2007 the legislation is projected to result in a total of \$1.682 billion in spending in categories of activity affected by the legislation. Net cost to the Commonwealth (after accounting for federal reimbursement) is projected to be approximately \$274.3 million in fiscal 2007, an increase of \$273.3 million from fiscal 2006.

The elements of this projection include the following estimates:

- \$586.8 million in Uncompensated Care Pool payments.
- \$506.0 million in acute hospital supplemental payments.
- \$163.8 million for expanded MassHealth eligibility and member benefits.
- \$135.1 million in Commonwealth Care premium assistance payments for the purchase of private insurance by low-income individuals.
- \$95.3 million in Medicaid Managed Care Organization rate increases.
- \$90.0 million in hospital and physician rate increases. (The legislation provided for \$90.0 million in rate increases for acute hospitals and physicians; the rate increases will cost \$70.9 million in fiscal 2007, as hospital rate increases were implemented October 1, 2006 to correspond with the hospitals’ rate year whereas physician rate increases were effective July 1, 2006.)
- \$35.0 million administration and start-up expenses related to the legislation.
- \$25.0 million in funding for health programs within the Department of Public Health.

The Commonwealth generally expects to receive federal financial participation in an amount equal to one-half of these expenditures, excluding essential community provider grants. In addition, the Commonwealth expects to be able to benefit from \$191.1 million of federal participation in costs that have previously not qualified for federal funds.

After fiscal 2007, Commonwealth Care premium assistance payments will be funded by partially redeploying existing funds previously used to reimburse hospitals for free care. As more individuals access health insurance through the Connector and take advantage of premium assistance, it is expected that spending on free care

through the new Health Safety Net Trust Fund, which replaces the Uncompensated Care Trust Fund in fiscal 2008, will decline.

The legislation also requires the Uncompensated Care Pool to make \$70 million of payments to certain hospitals that were previously funded through a different mechanism, which will also be eligible for 50% matching by the federal government.

The following table shows the incremental cost from fiscal 2006 to fiscal 2007 only in the components of the Massachusetts health care financing system changed by the healthcare reform legislation. Fiscal 2007 costs and revenues include the change directly driven by the legislation and in some cases also include inflation that would have occurred in the absence of the health care reform legislation. Other costs attributable to the existing MassHealth program but not directly affected by the legislation are not included for either fiscal 2006 or fiscal 2007.

Health Care Reform Spending and Revenue (in millions)

Spending	2006	2007	Change
MassHealth Expansion	\$ -	\$ 163.8	\$ 163.8
Acute Care Hospitals, Managed Care Organizations and CHCs	1,651.2	1,296.9	(354.2)
HCR Start Up and Premium Assistance	-	221.2	221.2
Total Spending related to HCR Components	\$ 1,651.2	\$ 1,682.0	\$ 30.9
Revenue	2006	2007	Change
MassHealth Expansion Incremental Revenue ⁽¹⁾	\$ -	\$ 129.6	\$ 129.6
Pool Revenue	555.6	584.8	29.2
Other Waiver Revenue	671.0	693.3	(22.3)
Intergovernmental Transfer Revenue	423.5	-	(423.5)
Total Revenue related to HCR Components	\$ 1,650.1	\$ 1,407.7	\$ (242.4)
Net Cost of HCR Components	\$ 1.1	\$ 274.3	\$ 273.3

Source: Executive Office for Administration and Finance.

(1) Includes revenue generated from \$95.3 million in Managed Care Organization rate increases.

The health care reform legislation is also expected to result in a reduction in tax revenues starting in fiscal 2007, due to increased pre-tax spending on health insurance premiums by employees and businesses in the Commonwealth. The Department of Revenue estimates that the impact of the health care reform legislation on fiscal 2007 tax revenue collections will be minimal. The Department is currently awaiting information from the Connector to determine the fiscal 2008 revenue impact of the legislation. The October 24, 2006 fiscal 2008 tax revenue estimate issued by the Secretary of Administration and Finance includes a downward adjustment of \$40 million to account for any potential impact of the legislation.

Fiscal 2006

As of June 30, 2006, the Commonwealth ended fiscal 2006 with a surplus of \$261.0 million. Per state finance law, this consolidated net surplus was deposited in the Stabilization Fund. In addition, as required by state law, one-half of one percent of current year tax revenues, or \$93.0 million, was also transferred to the Stabilization Fund.

For fiscal 2006, the Commonwealth's audited financial statements report a year-end balance in the Stabilization Fund of \$2.155 billion. The balance reflects the two deposits identified above, as well as \$72.3 million of investment earnings and additional taxes deposited into the fund. The year closed with additional reserved fund balances of \$947.2 million and undesignated fund balances of \$106.2 million. The total fund balance in the budgeted operating funds was \$3.208 billion.

Since the April Information Statement, a number of fiscal 2006 supplemental budgetary appropriation bills were enacted. These supplemental appropriations are as follows:

On April 24, 2006, the Governor filed supplemental legislation to provide \$5.0 million for a Nanotechnology Research Center at the University of Massachusetts at Amherst.

May 2006 Supplemental Appropriations. On May 4, 2006, the Governor filed legislation recommending \$80.3 million in supplemental appropriations for fiscal 2006. This legislation would fund collective bargaining costs, notably at the University of Massachusetts system and for the State Police. This legislation would fund the incremental costs for fiscal 2006 and 2007.

Fiscal 2006 – June Supplemental Budget and Economic Stimulus Act. On June 24, 2006, the Governor signed legislation including a supplemental appropriations act for fiscal 2006 and an economic stimulus act. This legislation included approximately \$907.1 million in additional appropriations or transfers from the General Fund, which, after vetoes and overrides, resulted in \$887.3 million in appropriations and General Fund transfers. Details of the two acts are provided in the following paragraphs.

The supplemental appropriations act included \$301.7 million in appropriations, of which the Governor vetoed \$56.6 million. The Legislature has subsequently overridden \$47.8 million of the Governor's vetoes, bringing the total appropriations to \$292.9 million. These additional appropriations include \$100.0 million for expansion and improvement projects at the University of Massachusetts and the state and community colleges, \$68.5 million for road and bridge improvements, \$30.4 million for economic development grants to cities and towns, \$20.1 million for substance abuse treatment programs, \$13.0 million in funds to match private grants to Massachusetts' colleges and universities, and \$60.9 million for other programs and services.

The supplemental budget also transferred an amount not to exceed \$346.0 million from the General Fund to the Medical Assistance Trust Fund for supplemental payment to hospitals. Supplemental hospital payments were planned in the restructuring of federal assistance for health care. The Governor reduced the transfer to \$251.0 million, the amount he had included in the Commonwealth's 1115 waiver request to the federal government and previously filed for appropriation. The Legislature has subsequently overridden his veto and restored the full amount of the transfer. Other statutory language makes this transfer conditional on its eligibility for federal reimbursement. The administration believes that federal participation will be available on \$251.0 million of hospital supplemental payments and intends to make supplemental payments in that total amount. Financial tables in this Supplement assume a \$251.0 million transfer from the General Fund for this purpose.

The economic stimulus act included \$160.5 million in additional appropriations and \$99.0 million in transfers from the General Fund. The Governor vetoed \$24.1 million of appropriations, and vetoed or reduced transfers by \$50.0 million. The Legislature has subsequently overridden \$13.0 million of the appropriations vetoes and restored all of the transfers, bringing the total of the act to \$248.4 million, including \$55.5 million for transportation improvements, \$30.0 million to the Brownfields Redevelopment Fund (which has since become a fiscal 2007 transfer), \$26.0 million to fund the CitySquare development project in the city of Worcester, \$21.0 million to build a nano-manufacturing and bio-manufacturing facility at the University of Massachusetts Lowell campus, \$13.0 million to the Cultural Facilities Fund, \$11.0 million to the Workforce Competitiveness Trust Fund, \$10.0 million to the Emerging Technology Fund, \$10.0 million to the Massachusetts Research Center Matching Fund, \$10.0 million to the Massachusetts Life Sciences Investment Fund, and \$61.9 million in other transfers and programs.

The economic stimulus act also included tax provisions that the Department of Revenue estimates will reduce fiscal 2007 tax revenue collections by approximately \$23.0 million and, when fully implemented, will reduce tax collections by \$40 million to \$45 million annually. These include enactment of a medical device user fee tax credit, an increase from \$15 million to \$50 million in the annual cap for the historic preservation tax credit, and expansion of the job incentive payment program. In addition, the legislation included a provision that will change the timing of certain sales tax payments, which the Department of Revenue estimates will result in a one time reduction of \$15 million to \$25 million in fiscal 2008 sales tax collections. The Governor vetoed the medical device user fee credit, historic preservation, and sales tax provisions, but these vetoes were subsequently overridden by the Legislature.

The act also included \$200.0 million in additional bond authorizations to support transportation and economic development projects. These authorizations include the Massachusetts Opportunity Relocation and Expansion (MORE) Jobs Capital Program, originally filed by the Governor, which would provide infrastructure improvements tied to private sector investments that would create or retain jobs, and a variety of specified additional infrastructure improvements, including those in Boston's Kenmore Square and Longwood Medical Center area.

To support the spending authorized in the June supplemental budget and the economic stimulus act, the supplemental budget transferred the \$304.8 million balance in the Transitional Escrow Fund and \$256.0 million from the Commonwealth's Stabilization Fund to the General Fund. The Governor vetoed the transfer from the Stabilization Fund, as the transfer would not have been needed based on his spending vetoes. While many of the spending vetoes were overridden, the Stabilization Fund transfer veto was not. Ultimately, however, fiscal 2006 tax revenues exceeded projections and were sufficient to support the spending authorized. The Governor also returned for amendment language dealing with the Transitional Escrow Fund, as described below.

July 2006 Supplemental Appropriations. On July 21, 2006 the Governor signed \$34.0 million in supplemental appropriations to fund the redevelopment of a site at the former Fort Devens military base to support the building of a new Bristol-Myers Squibb manufacturing facility.

On July 28, 2006, the Governor signed into law an additional fiscal 2006 supplemental appropriations bill, after vetoing \$56.2 million of the \$183.9 million of proposed spending; the Legislature has subsequently overridden all of the vetoes. The supplemental act included \$103.1 million to fund new collective bargaining increases, \$31.0 million for the Massachusetts Turnpike Authority to restore the Central Artery surface and develop on it the Rose Kennedy Greenway, \$24.6 million for private counsel compensation, \$10.7 million for subsidies to local housing authorities, and \$14.5 million for other programs and services.

On August 2, 2006, the Governor signed legislation designed to streamline the permitting processes in the Commonwealth. The legislation included \$4.0 million in supplemental appropriations, and a \$1.9 million transfer to the District Local Technical Assistance Fund, to support these reforms.

On September 14, 2006, the Governor filed supplemental appropriations totaling \$5.0 million to purchase bulletproof vests for municipal police and state police officers. These funds will replenish funding that began in 2001, and will continue the reimbursement program through 2011. The funding supports a grant program to cities and towns and will be matched by federal dollars.

On October 5, 2006, the Governor signed legislation, which included \$87.5 million in fiscal 2006 supplemental appropriations. All of the appropriations are authorized for expenditure through June 30, 2007. In addition, the legislation extends \$10.6 million in existing fiscal 2006 appropriations for expenditure through June 30, 2007. The legislation includes \$58.1 million to fund collective bargaining agreements, \$8.8 million in tax reimbursements to veterans, blind citizens, and widows within the Commonwealth, \$5.0 million to fund the purchase of police vests as described above, \$5.0 million to fund the development of a nanotechnology center at the University of Massachusetts at Amherst, \$4.4 million for fee waivers at state colleges and universities for National Guard members, and \$6.2 million in other programs and services. The Governor vetoed a proposed draw of \$450 million from the Commonwealth's Stabilization Fund.

Transitional Escrow Fund. When the Governor acted on supplemental appropriations legislation on June 24, 2006, he returned for amendment language dealing with transfers to and from and the termination of the Transitional Escrow Fund. The Legislature subsequently acted on the Governor's proposed amendment. As signed into law on July 28, 2006, this legislation requires that as of the end of fiscal 2006, the \$304.8 million balance in the Transitional Escrow Fund be transferred to the General Fund and that the Transitional Escrow Fund then expire. These transferred funds support the spending approved in the supplemental budgets and the economic stimulus act signed by the Governor in June and July of 2006.

Tobacco Master Settlement Agreement Revenue. On April 17 and April 19, 2006, the Commonwealth received two payments totaling \$233.4 million as part of the Master Settlement Agreement with the tobacco manufacturers. This amount is \$26.6 million less than had previously been projected and is due to the manufacturers withholding a portion of their expected payment for fiscal 2003, which was expected to be received by the Commonwealth in fiscal 2006. The Commonwealth is pursuing legal action to compel the payment of the additional funds for fiscal 2003. See "LEGAL MATTERS." As any additional recovery would occur in fiscal 2007

or later, the fiscal 2006 financial tables in this Supplement have been revised to reflect the actual amount of such revenue received. The tobacco manufacturers have given notice of their intention to seek a reduction in their payment for fiscal 2004, which would affect the Commonwealth in fiscal 2007.

Tax Revenue Limitations. Actual state tax revenue for fiscal 2006 exceeded the permissible state tax revenue limit set by Chapter 62F by \$52.1 million. Pursuant to law, that amount is diverted from the General Fund to the temporary holding account, and subject to any adjustment upon audit of the revenue amounts, the balance in the temporary holding account ultimately is transferred to the Stabilization Fund and the General Fund.

Fiscal 2007

To date, appropriations for fiscal 2007 total \$25.704 billion. The fiscal 2007 General Appropriation Act (GAA) provided for \$25.676 billion in budgetary spending. Appropriations totaling \$919.4 million in fiscal 2006 were authorized as prior appropriations continued (PAC's) allowing these funds to be spent in fiscal 2007.

In addition to this spending in the budgeted operating funds, the Commonwealth has significant "off-budget" expenditures in fiscal 2007 in the amounts of dedicated sales taxes transferred to the MBTA and MSBA, projected to be in the amounts of \$734.0 million and \$557.4 million, respectively, and \$288.5 million of off-budget expenditures in the Medicaid program. See "SELECTED FINANCIAL DATA – Recent Financial Restructurings." A number of supplemental budgetary appropriation bills have been filed.

General Appropriation Act. On July 8, 2006, the Governor signed the GAA for fiscal 2007. The budget as signed included \$25.249 billion in spending, reflecting \$458.6 million in line item reductions and \$118 million in reductions to transfers from the General Fund. The Legislature has subsequently overridden \$427.0 million of the Governor's line item vetoes, bringing the total value of the GAA to \$25.676 billion. The Legislature also overrode all of the vetoes of transfers from the General Fund.

The GAA includes several of the Governor's initiatives. The budget restores the distribution of the state's lottery revenues to the cities and towns. The fiscal 2007 distribution of \$920.0 million reflects an increase of \$158.6 million over the fiscal 2006 level. The budget also includes the Governor's proposed reform of, and significant increases to, the state's Chapter 70 education aid program. The fiscal 2007 Chapter 70 distribution of \$3.506 billion reflects an increase of \$216.6 million over the fiscal 2006 level.

The GAA, including overrides, budgets \$7.423 billion for Medicaid, \$4.041 billion for education excluding school building assistance, \$2.086 billion for debt service and contract assistance, and \$12.126 billion for all other programs and services.

The conference budget directed the transfer of \$550.0 million from the Commonwealth Stabilization Fund to the General Fund to support the appropriated spending. The Governor vetoed \$576.6 million in appropriations and transfers. He also vetoed the transfer from the Stabilization Fund, as rainy day funds were not necessary at the reduced spending level. The Legislature overrode many of the line item and transfer vetoes as discussed above. To date the Stabilization Fund transfer veto has not been overridden. On October 5, 2006 the Governor vetoed provisions of a supplemental appropriations bill that would have transferred \$450 million from the Stabilization Fund to the General Fund.

On November 10, 2006, the Governor, pursuant to Section 9C of Chapter 29 of Massachusetts General Laws, decreased fiscal 2007 spending authorizations (called allotments) by \$425.0 million. These reductions included many items previously vetoed by the Governor, as well as broad-based decrease of one percent of most appropriations in executive branch agencies under the control of the Governor. Chapter 29, Section 9C requires that if the Secretary of Administration and Finance determines that available revenues will be insufficient to meet all of the expenditures authorized to be made from any fund, the Governor shall reduce allotments accordingly, propose to the Legislature the raising of sufficient additional revenue, or recommend an appropriation from the Stabilization Fund. See the April Information Statement under the heading "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS – Overview of Operating Budget Process." With the spending reductions ordered by the Governor, the Executive Office for Administration and Finance projects that fiscal 2007 revenue will be sufficient to meet budgeted expenditures.

Supplemental Appropriation. On July 13, 2006, the Governor proposed, and on July 14, 2006, the Governor signed into law a bill that provides a \$20 million supplemental appropriation to fund a review of tunnel portions of the Central Artery/Tunnel Project. The appropriation was made in connection with other parts of the act that granted the Governor authority over safety inspections and reopening of Central Artery/Tunnel components that were closed subsequent to the July 2006 ceiling panel collapse in the Ted Williams connector tunnel. See “COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN—Central Artery/Tunnel Project.”

On July 11, 2006, legislation became law without the Governor's signature directing the transfer of \$30.0 million to the Brownfields Redevelopment Fund. This transfer had originally been part of the Economic Stimulus bill passed in June of 2006. The Governor had returned this section for amendment, proposing a lesser transfer amount of \$15.0 million. This transfer in the lesser amount had previously been included in the Commonwealth financial statements for fiscal 2006.

Tobacco Master Settlement Agreement Revenue. On September 7, 2006, the Executive Office for Administration and Finance received details from the Attorney General's office on the potential Non-Participating Manufacturers (NPM) adjustment to the fiscal 2007 tobacco settlement payment, which would reduce the projected April 2007 payment by \$42.9 million. Nevertheless, the Commonwealth is still actively pursuing litigation to secure its right to receive the full amount of the April payment. See “LEGAL MATTERS.” The fiscal 2007 financial tables in this Supplement conservatively reflect the impact of the entire \$42.9 million payment reduction.

Tax Revenue Estimate Update. On October 24, 2006, as a result of a periodic review required by state law, the Executive Office for Administration and Finance increased the tax revenue estimate for fiscal 2007 by \$202.0 million to \$19.132 billion. The update also included the initial projection for fiscal 2008 revenues of \$19.705 billion. See “Fiscal 2007 Tax Revenues” for additional detail.

Tax Revenue Limitations. As of the end of the first fiscal quarter, ended September 30, 2006, actual state tax revenue for fiscal 2007 did not exceed the “permissible state tax revenue” limit set by Chapter 62F of the General Laws. As a result, no excess state tax revenue existed to be diverted from the General Fund to the temporary holding account.

Possible Transfer of Western Turnpike to the Commonwealth. On October 18, 2006, the Board of Directors of the Massachusetts Turnpike Authority voted, subject to “the full review and due diligence of all legal, financial and maintenance issues and requirements,” to “adopt in principle” the recommendation of a task force appointed by the Governor that tolls on the Western Turnpike (the portion of the Massachusetts Turnpike west of the I-95 interchange) be terminated by June 30, 2007. Achieving this goal would require repayment of outstanding debt of the Turnpike Authority secured by Western Turnpike revenues and transfer of the Western Turnpike to the Commonwealth pursuant to Section 26 of Chapter 81A of the General Laws upon determination by the Commonwealth that the Western Turnpike is in good condition and repair. The feasibility of this course of action, including without limitation legal and financial aspects, remains under review. After the transfer of the Western Turnpike to the Commonwealth, the state would, beginning in fiscal 2008, assume the cost of operating and maintaining the road. Initial annual budgetary operating costs are preliminarily estimated at up to \$30 million and initial annual capital costs are preliminarily estimated at somewhat in excess of \$50 million by the state highway department and the Executive Office for Administration and Finance. The estimate of capital costs does not include the costs of removing the toll booths and making safety improvements to ramps leading to and from the turnpike.

Fiscal 2006 Tax Revenues

Tax revenue collections for fiscal 2006, ended June 30, 2006, totaled \$18.487 billion, an increase of \$1.400 billion or 8.2% over fiscal 2005. The following table shows the tax collections for fiscal 2006 and the change from tax collections in the same months in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in fiscal 2006 that are dedicated to the Massachusetts Bay Transportation Authority (MBTA) and to the Massachusetts School Building Authority (MSBA).

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

Month	Tax Collections	Change From Prior Year	Percentage Change	MBTA Portion (2)	MSBA Portion	Collections, Net of MBTA and MSBA
July	\$1,188.8	\$61.6	5.5%	\$63.7	\$44.6	\$1,080.5
August	1,204.9	12.8	1.1	60.0	42.0	1,102.8
September	1,941.2	243.4	14.3	54.7	38.3	1,848.2
October	1,216.0	117.3	10.7	56.2	39.4	1,120.4
November	1,119.0	0.0	0.0	54.7	38.3	1,026.1
December	1,791.0	204.0	12.9	67.3	44.6	1,679.2
January	1,921.1	235.8	14.0	67.6	47.3	1,806.2
February	853.7	4.5	0.5	50.4	35.3	767.9
March	1,626.7	69.8	4.5	60.1	35.3	1,531.3
April	2,213.0	196.1	9.7	57.5	40.3	2,115.3
May	1,375.5	48.5	3.7	55.6	39.0	1,280.9
June	<u>2,036.5</u>	<u>205.8</u>	<u>11.2</u>	<u>64.7</u>	<u>50.8</u>	<u>1,921.1</u>
Total	<u>\$18,487.4</u>	<u>\$1,399.5</u>	<u>8.2%</u>	<u>\$712.6</u>	<u>\$488.7</u>	<u>\$17,286.2</u>

SOURCE: Executive Office for Administration and Finance.

- (1) Sum of details may not equal total because of rounding.
- (2) Includes adjustment of \$12.5 million on account of the second quarter, \$9.7 million on account of the third quarter, and \$6.3 million on account of the fourth quarter.

The tax revenue increase of \$1.400 billion over fiscal 2005 is attributable in large part to an increase of approximately \$448.4 million or 5.8% in withholding collections, an increase of approximately \$252.6 million or 15.0% in income tax estimated payments, an increase of approximately \$249.6 million or 17.3% in income tax payments with returns and bills, an increase of approximately \$117.9 million or 3.0% in sales and use tax collections, and an increase of approximately \$550.2 million or 32.3% in corporate and business collections, which are partially offset by changes in other revenues (net of refunds). The fiscal 2006 collections exceeded the fiscal 2006 tax revenue estimate of \$18.158 billion issued by the Executive Office for Administration and Finance on January 17, 2006. Approximately \$71 million of the amount by which fiscal 2006 actual revenues exceeded the January 17, 2006 fiscal 2006 estimate was the result of lower-than-projected claims for heating oil income tax deductions, energy efficiency tax credits, and abatements of tax year 2002 capital gains taxes under the legislation that reduced the capital gains tax rate retroactive to January 1, 2002. The Department of Revenue estimates that up to \$39 million of this \$71 million in unclaimed deductions and credits will be shifted to fiscal 2007.

Fiscal 2007 Tax Revenues

Tax revenue collections for the first four months of fiscal 2007, ended October 31, 2006, totaled \$5.750 billion, an increase of \$199.2 million or 3.6% over the same months in fiscal 2006. The following table shows the tax collections for the first four months of fiscal 2007 and the change from tax collections in the same months in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in such months that are dedicated to the MBTA and to the MSBA.

Fiscal 2007 Budgeted Tax Collections (in millions) (1)

Month	Tax Collections	Change From Prior Year	Percentage Change	MBTA Portion (3)	MSBA Portion	Collections, Net of MBTA and MSBA
July	\$1,246.7	\$57.9	4.9%	\$61.5	\$48.0	\$1,137.2
August	1,188.2	(16.7)	(1.4)	58.2	45.4	1,084.5
September (2)	2,068.9	127.7	6.6	63.8	43.2	1,961.9
October (2)	<u>1,246.4</u>	<u>30.4</u>	<u>2.5</u>	<u>60.7</u>	<u>47.4</u>	<u>1,138.2</u>
Total (2)	<u>\$5,750.1</u>	<u>\$199.2</u>	<u>3.6%</u>	<u>\$244.2</u>	<u>\$184.0</u>	<u>\$5,321.9</u>

SOURCE: Executive Office for Administration and Finance.

- (1) Details may not add to Total because of rounding.
- (2) Figures are preliminary.
- (3) Includes adjustment of \$8.4 million on the account of the first quarter.

The year-to-date tax revenue increase of \$199.2 million (through October 2006) over the same period in the prior year is attributable in large part to an increase of approximately \$99.7 million or 3.9% in withholding collections, an increase of approximately \$44.4 million or 9.7% in income tax estimated payments, an increase of approximately \$5.8 million or 1.1% in corporate and business tax collections, an increase of approximately \$36.0 million or 62.6% in estate tax collections and an increase of approximately \$18.7 million or 1.4% in sales and use tax collections, which are partially offset by changes in other revenues (net of refunds) and by a decline of \$14.0 million or 21.2% in deeds excise taxes (combining those collected by the Department of Revenue and the Secretary of State). The year-to-date fiscal 2007 collections (through October) were \$16.0 million above the benchmark estimate for the corresponding period, which was based on the fiscal 2007 consensus tax revenue estimate of \$18.975 billion, adjusted downward to \$18.930 billion to reflect tax law changes made subsequent to the consensus estimate.

Tax law changes subsequent to the fiscal 2007 consensus tax estimate, including reductions from the economic stimulus act, are estimated by the Department of Revenue to reduce fiscal 2007 tax revenues by \$45.5 million, resulting in an adjustment to the consensus fiscal 2007 tax revenue estimate of \$18.975 billion downward to \$18.930 billion.

The economic stimulus act included tax provisions that the Department of Revenue estimates will reduce fiscal 2007 tax revenue collections by approximately \$23.0 million and, when fully implemented, will reduce tax collections by \$40 million to \$45 million annually. In addition to the tax law changes included in the economic stimulus act, other tax law changes subsequent to agreement on the fiscal 2007 consensus estimate include a refundable tax credit for biotechnology corporations that meet certain job growth and investment targets, a commuter deduction, and a sales tax holiday on August 12 and August 13, 2006. The Department of Revenue estimates that the biotechnology tax credit will reduce fiscal 2007 tax revenues by approximately \$2.5 million, the commuter deduction will reduce fiscal 2007 revenues by approximately \$4.0 million, and the sales tax holiday will reduce fiscal 2007 revenues by approximately \$16.0 million.

On October 24, 2006, the Secretary of Administration and Finance issued a revised tax revenue estimate for fiscal 2007. Based on tax revenue collections through September 30, 2006, and economic forecasts for the remainder of fiscal 2007, the fiscal 2007 tax revenue estimate was revised upward by \$202 million, to \$19.132 billion. On October 24, 2006, the Secretary of Administration and Finance also issued an initial fiscal 2008 tax revenue estimate of \$19.705 billion.

Fiscal 2007 Cash Flow

On August 31, 2006, the State Treasurer and the Secretary of Administration and Finance released a revised projected cash flow forecast for fiscal 2007. Fiscal 2006 ended with a non-segregated cash balance of \$1.619 billion and a segregated bond balance of \$222.2 million. The cash flow projection for fiscal 2007 is based on the

GAA signed into law on July 8, 2006 and includes the value of all vetoes and subsequent overrides as well as all prior appropriations continued into fiscal 2007 from the prior fiscal year. The cash flow projection also reflects all supplemental appropriations bills either filed or enacted that would impact the Commonwealth's cash flow in fiscal 2007. It reflects authorized transfers between budgeted funds and certain reserve funds as provided for in the GAA and in subsequent legislation. The fiscal 2007 projection is based on actual spending and revenue through July 2006, and estimates for the remainder of fiscal 2007. The fiscal 2007 projection is based on the Executive Office for Administration and Finance's fiscal 2007 tax estimate of \$18.930 billion, which has since been revised. The gross tax figure includes \$1.335 billion dedicated to the Commonwealth's fiscal 2007 pension obligation, \$733.0 million in sales tax revenues dedicated to the MBTA and \$557.4 million in sales tax revenues dedicated to the MSBA. This forecast also includes an inflow of \$260.0 million on April 15, 2007, which represents the full required annual payment pursuant to the Master Settlement Agreement (MSA). (Note that the Executive Office for Administration and Finance has since reduced its estimate for fiscal 2007 MSA payments by \$42.9 million. See "Fiscal 2007" above.) In fiscal 2006 the Commonwealth received \$26.6 million less than the full required annual payment for fiscal 2006 and is pursuing legal action to compel the full required payments for fiscal 2006 and 2007. The \$26.6 million anticipated in fiscal 2006 has not been projected into 2007.

Fiscal 2007 opened with a starting balance of \$1.840 billion of cash and is projected to have a June 30, 2007 ending balance of \$931.6 billion. These figures do not include balances in the Commonwealth's Stabilization Fund or certain other off-budget reserve funds, but do include monies sequestered to pay for projected capital projects totaling \$223.3 million with respect to the starting balance and \$124.3 million with respect to the ending balance. Excluding these sequestered capital funds, the Commonwealth's operating cash balance opened the year at \$1.619 billion and is projected to end the fiscal year at \$807 million, an \$812.0 million decrease. A portion of the overall decline in the operating cash balance is due to approximately \$800.0 million in supplemental spending authorized in fiscal 2006, which has been carried forward into fiscal 2007. The decline also reflects a projected transfer of \$120.6 million of fiscal 2006 surplus dollars to the Stabilization Fund.

The Commonwealth's cash flow management incorporates the periodic use of commercial paper borrowing to meet cash flow needs for both capital and operating expenditures. In particular, the Commonwealth makes local aid payments of approximately \$1 billion to its cities and towns at the end of each calendar quarter, which in recent years has often resulted in short-term cash flow borrowings. The Commonwealth began fiscal 2007 with \$25.1 million of commercial paper outstanding in the form of Bond Anticipation Notes (BANs). This commercial paper is currently outstanding. The fiscal 2007 projections reflect a now typical pattern of a tightening cash position in the third quarter of the fiscal year that predicts a short-term borrowing of \$200.0 million in March to make local aid payments.

In October 2006 the Commonwealth issued \$300 million of commercial paper notes, which are expected to be retired in November 2006.

The cash flow projection included an estimated \$1.600 billion in proceeds of long-term borrowing for capital projects in fiscal 2007, including \$500.1 million of proceeds from a general obligation bond issue completed in August 2006. Additional general obligation bond issues of \$370.0 million in November 2006, \$370.0 million in February 2007, and \$360.0 million in May 2007 are expected.

The Commonwealth's next cash flow projection is expected to be released on or before November 30, 2006.

SELECTED FINANCIAL DATA

Statutory Basis Distribution of Budgetary Revenues

The following table sets forth the Commonwealth's revenues in its Budgeted Operating Funds for fiscal 2002 through 2006 and as projected for fiscal 2007.

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

	Fiscal 2002	Fiscal 2003	Fiscal 2004(6)	Fiscal 2005	Fiscal 2006	Projected Fiscal 2007
Tax Revenues:						
Alcoholic Beverages	\$65.4	\$66.3	\$67.9	\$68.6	\$68.9	\$67.8
Banks	137.0	344.5	238.7	198.9	349.9	301.0
Cigarettes	275.0	451.0	425.4	423.6	435.3	427.9
Corporations	586.7(4)	799.4(4)	997.6	1,062.7	1,390.7	1,391.9
Deeds	134.3	147.8	187.0	220.3	210.1	173.7
Income	7,912.9	8,026.1	8,830.3	9,690.3	10,483.4	11,161.4
Inheritance and Estate	200.5	181.3	194.7	255.1	196.3	205.2
Insurance	382.9	387.8	420.2	423.4	448.5	445.4
Motor Fuel	666.8	676.4	684.2	685.5	671.8	670.6
Public Utilities	88.5	40.6	64.7	71.1	118.5	82.4
Racing	2.7	-	-	-	-	-
Room Occupancy	123.3	120.0	88.9	97.8	105.8	111.8
Sales:						
Regular	2,601.4	2,583.6	2,591.6	2,746.6	2,864.7	2,961.5
Meals	500.9	512.0	531.7	555.6	584.1	602.5
Motor Vehicles	593.6	612.5	625.8	584.2	555.5	525.5
Sub-Total-Sales	3,695.9	3,708.1	3,749.2	3,886.4	4,004.4	4,089.5
Miscellaneous	15.1	14.3	4.2	4.2	4.0	3.5
Total Tax Revenues	<u>14,287.1</u>	<u>14,963.8(5)</u>	<u>15,953.2</u>	<u>17,087.9</u>	<u>18,487.5</u>	<u>19,132.0</u>
MBTA Transfer	(664.3)	(684.3)	(684.3)	(704.8)	(712.6)	(734.0)
MSBA Transfer (2)	-	-	-	(395.7)	(488.7)	(557.4)
Total Budgeted Operating Tax Revenues	<u>13,622.8</u>	<u>14,279.5</u>	<u>15,268.9</u>	<u>15,987.4</u>	<u>17,286.2</u>	<u>17,840.6</u>
Non-Tax Revenues:						
Federal Reimbursements	4,334.9	4,523.6	5,098.5	4,697.0	5,210.1	6,001.8
Departmental and Other Revenues	1,485.2	1,494.8	1,847.7	1,948.9	2,094.3	2,043.4
Inter-fund Transfers from Non - Budgeted Funds and Other Sources (3)	<u>1,732.0</u>	<u>1,689.2</u>	<u>1,773.1</u>	<u>1,740.2</u>	<u>1,714.9</u>	<u>843.5</u>
Budgeted Non-Tax Revenues and Other Sources	<u>7,552.2</u>	<u>7,707.6</u>	<u>8,719.3</u>	<u>8,386.1</u>	<u>9,019.3</u>	<u>8,888.7</u>
Budgeted Revenues and Revenues from Other Sources	<u>\$21,174.8</u>	<u>\$21,987.2</u>	<u>\$23,988.3</u>	<u>\$24,373.5</u>	<u>\$26,305.5</u>	<u>\$26,729.3</u>

SOURCE: Fiscal 2001-2006, Office of the Comptroller; fiscal 2007, Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding. The table does not reflect inter-fund transfers among budgeted funds and other sources that have no effect on ending balances. Excludes certain miscellaneous taxes expended outside of the budgeted process.
- (2) If the law that moved school building assistance to a non-budgeted expenditure and transferred a dedicated portion of the Commonwealth's sales tax to the Massachusetts School Building Authority (MSBA) had been in effect prior to fiscal 2005, transfers of sales tax revenue to the MSBA would have been \$365.4 million, \$383.2 million and \$551.4 million in fiscal 2002 through 2004, respectively. See the April Information Statement under the heading "SELECTED FINANCIAL DATA – Recent Financial Restructurings; *School Building Assistance Program*".
- (3) Inter-fund Transfers from Non-budgeted Funds and Other Sources include profits from the State Lottery, tobacco settlement funds, abandoned property proceeds, and transfers to the Uncompensated Care Pool, as well as other inter-fund transfers.
- (4) The Department of Revenue estimates that as a result of the timing of federal tax legislation relating to the depreciation deduction for corporations and the Commonwealth's legislation in response, tax revenue collections in fiscal 2002 were reduced by approximately \$30 million and tax revenue collections in fiscal 2003 were increased by the same approximate amount.
- (5) Includes approximately \$174.0 million in fiscal 2003 revenue resulting from a tax amnesty program and approximately \$200.0 million from closing various so called tax loopholes.
- (6) Beginning July 1, 2003, the Convention Center Fund, the Head Injury Treatment Services Fund and the Natural Heritage and Endangered Species Fund were reclassified as non-budgeted funds. Prior years have not been restated.

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 2002 through 2006. Projections for

fiscal 2007 have been prepared by the Executive Office for Administration and Finance. Except where otherwise indicated, they are based on the office's most recent estimate of tax revenue (as officially issued) and non-tax revenue, on enacted appropriations adjusted for projected reversions and for the decrease of allotments by the Governor under Section 9C of Chapter 29 of the Massachusetts General Laws, and on supplemental appropriations filed by the Governor that remain before the Legislature. The financial information presented includes all budgeted operating funds of the Commonwealth. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS — Operating Fund Structure" in the April Information Statement for additional detail.

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

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

	Fiscal 2002	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006	Projected Fiscal 2007
Beginning Fund Balances						
Reserved or Designated	\$895.3	\$195.2	\$76.8	\$664.6	\$355.6	\$947.2
Tax Reduction Fund	33.6	-	-	-	-	-
Transitional Escrow Fund					304.8	-
Stabilization Fund	1,715.0	881.8	641.3	1,137.3	1,728.4	2,154.7
Undesignated	<u>369.5</u>	<u>311.0</u>	<u>34.7</u>	<u>90.9</u>	<u>98.4</u>	<u>106.2</u>
Total	<u>3,013.3</u>	<u>1,388.0</u>	<u>752.8(7)</u>	<u>1,892.8</u>	<u>2,487.2</u>	<u>3,208.1</u>
Revenues and Other Sources						
Tax Revenues (2)	13,622.8	14,279.5(5)	15,269.0	15,987.4	17,286.2	17,840.6
Federal Reimbursements	4,334.9	4,523.6	5,098.5	4,697.0	5,210.1	6,001.8
Departmental and Other Revenues	1,485.2	1,494.8	1,847.7	1,948.9	2,094.3	2,043.4
Inter-fund Transfers from Non-budgeted Funds and Other Sources (3)	<u>1,732.0</u>	<u>1,689.2</u>	<u>1,773.1</u>	<u>1,740.2</u>	<u>1,794.9</u>	<u>843.5</u>
Budgeted Revenues and Other Sources	<u>21,174.8</u>	<u>21,987.1</u>	<u>23,988.3</u>	<u>24,373.4</u>	<u>26,305.5</u>	<u>26,729.3</u>
Inter-fund Transfers	<u>1,874.4</u>	<u>3,310.5(6)</u>	<u>2,058.7</u>	<u>2,231.3</u>	<u>1,358.1</u>	<u>317.4</u>
Total Budgeted Revenues and Other Sources	<u>23,049.2</u>	<u>25,297.7</u>	<u>26,047.0</u>	<u>26,604.7</u>	<u>26,305.5</u>	<u>27,046.7</u>
Expenditures and Uses						
Programs and Services (4)	22,513.2	22,209.5	21,456.1	22,067.7	23,918.7	26,126.1(9)
Inter-fund Transfers to Non-budgeted Funds and Other Uses	<u>287.1</u>	<u>229.6</u>	<u>1,392.2</u>	<u>1,711.3</u>	<u>1,665.9</u>	<u>1,335.2</u>
Budgeted Expenditures and Other Uses	<u>22,800.3</u>	<u>22,439.1</u>	<u>22,848.3</u>	<u>23,779.1</u>	<u>25,584.6</u>	<u>27,461.3</u>
Inter-fund Transfers	<u>1,874.4</u>	<u>3,310.5(6)</u>	<u>2,058.7</u>	<u>2,231.2</u>	<u>1,358.1</u>	<u>317.4</u>
Total Budgeted Expenditures and Other Uses	<u>24,674.7</u>	<u>25,749.6</u>	<u>24,907.0</u>	<u>26,010.3</u>	<u>26,942.7</u>	<u>27,778.7</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(1,625.4)</u>	<u>(451.9)</u>	<u>1,140.0</u>	<u>594.4</u>	<u>720.9</u>	<u>(732.0)(9)</u>
Ending Fund Balances						
Reserved or Designated	195.2	76.8	664.6(8)	355.6	947.2	26.1
Tax Reduction Fund	--	--	--	--	--	--
Transitional Escrow Fund	--	--	--	304.8	--	--
Stabilization Fund	881.8	641.3	1,137.3	1,728.4	2,154.7	2,340.1
Undesignated	<u>311.0</u>	<u>218.0</u>	<u>90.9</u>	<u>98.4</u>	<u>106.2</u>	<u>109.8</u>
Total	<u>\$1,388.0</u>	<u>\$936.1(7)</u>	<u>\$1,892.8</u>	<u>\$2,487.2</u>	<u>\$3,208.1</u>	<u>\$2,476.0</u>

SOURCE: Fiscal 2002-2006, Office of the Comptroller; fiscal 2007, Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Net of \$664.3 million in fiscal 2002, \$684.3 million in fiscal 2003, \$684.3 million in fiscal 2004, \$704.8 million in fiscal 2005, \$712.6 million in fiscal 2006 and a projected \$734.0 million in fiscal 2007 of dedicated sales tax transferred to the MBTA and moved off budget. Net of \$395.7 million in fiscal 2005, \$488.7 million in fiscal 2006 and a projected \$557.4 million in fiscal 2007 of dedicated sales tax transferred to the MSBA and moved off budget.
- (3) Inter-fund Transfers from Non-budgeted Funds and Other Sources include profits from the State Lottery, transfer of tobacco settlement funds to allow their expenditure, abandoned property proceeds, and transfers to the Uncompensated Care Pool, as well as other inter-fund transfers.
- (4) The Executive Office for Administration and Finance estimates that approximately \$201.4 million in Medicaid expenditures were moved off-budget pursuant to the fiscal 2003 GAA. Total off-budget Medicaid expenditures were \$329.2 million in fiscal 2004 and \$422.2 million in fiscal 2005, are estimated to be \$332.5 million in fiscal 2006, and projected to be \$288.5 million in fiscal 2007.
- (5) Includes \$174.0 million in one-time revenue from tax amnesty program and approximately \$200.0 million from closing various so-called tax loopholes.

- (6) Inter-fund transfers increased substantially in fiscal 2003, reflecting the consolidation of a number of Budgeted Operating Funds pursuant to the fiscal 2004 GAA, effective June 30, 2003.
- (7) The variance between fiscal 2003 ending fund balances and fiscal 2004 beginning fund balances reflects the transfer of the Convention Center Fund, Head Injury Trust Fund and Natural Heritage and Endangered Species Fund off budget.
- (8) Includes \$270.0 million in fiscal 2004 FMAP revenue reserved for expenditure in fiscal 2005, \$75.0 million reserved for distribution to cities and towns in fiscal 2005, \$293.5 million in fiscal 2004 appropriations authorized to be expended in fiscal 2005, and \$26.1 million reserved for debt service.
- (9) "Programs and Services" spending of \$26,126.1 million includes, and "Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses" of (\$732.0 million) reflects, \$921.0 million of spending due to prior appropriations continued from fiscal 2006.

Recent Financial Restructurings

The following table is presented for the purpose of clarifying the effect of the recent financial restructurings on the Budgeted Operating Funds operations of the Commonwealth by identifying off-balance sheet items.

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

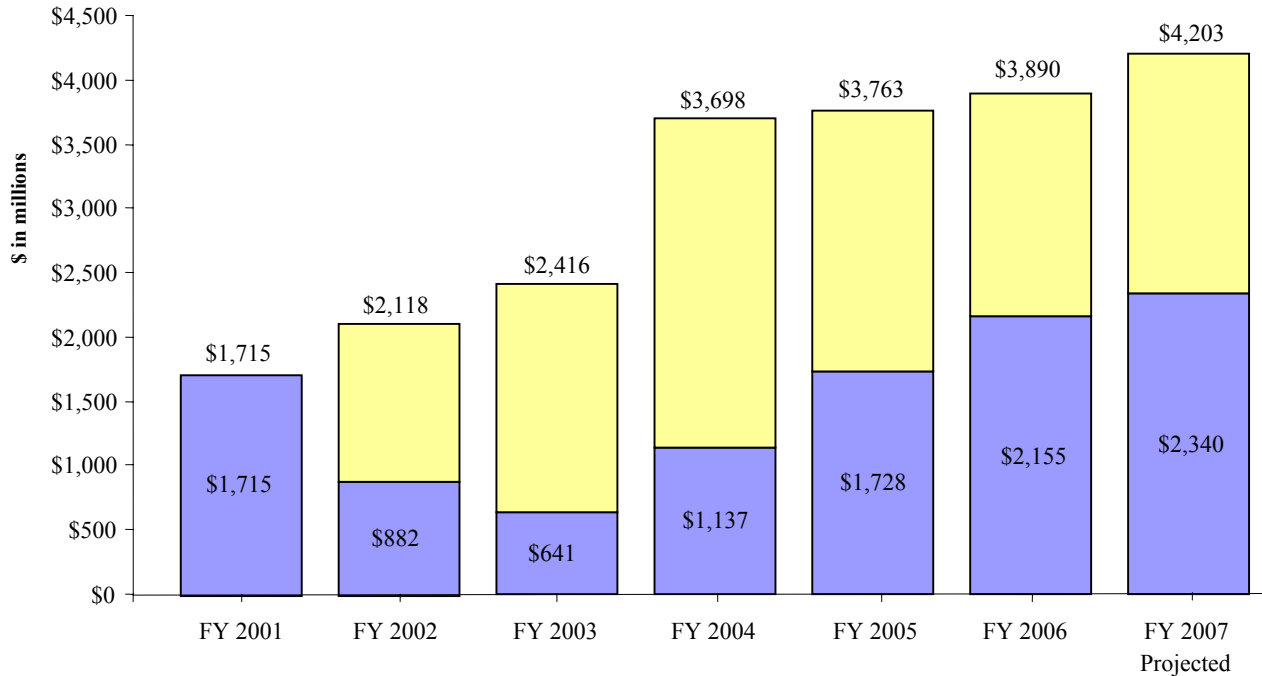
	Fiscal <u>2002</u>	Fiscal <u>2003</u>	Fiscal <u>2004</u>	Fiscal <u>2005</u>	Fiscal <u>2006</u>	Projected Fiscal <u>2007</u>
<u>Revenues</u>						
Budgeted Revenues and Other Sources	\$21,174.8	\$21,987.1	\$23,988.3	\$24,373.4	\$26,305.5	\$26,729.3
Certain Off-Budget Revenues:						
Dedicated Sales Tax Revenues	664.3	684.3	684.3	1,100.5	1,201.3	1,291.4
Certain Non-Tax Revenues	<u>---</u>	<u>201.4</u>	<u>329.2</u>	<u>422.2</u>	<u>332.5</u>	<u>288.5</u>
Subtotal	<u>664.3</u>	<u>885.7</u>	<u>1,013.5</u>	<u>1,522.7</u>	<u>1,533.8</u>	<u>1,579.9</u>
Total	<u>21,839.1</u>	<u>22,872.8</u>	<u>25,001.8</u>	<u>25,896.1</u>	<u>27,839.3</u>	<u>28,309.2</u>
<u>Expenditures</u>						
Budgeted Expenditures and Other Uses	22,800.3	22,439.1	22,848.3	23,779.1	25,584.6	27,461.3
Certain Off- Budget Expenditures:						
MBTA	664.3	684.3	684.3	704.8	712.6	734.0
MSBA	-	-	-	395.7	488.7	557.4
Medicaid	<u>---</u>	<u>201.4</u>	<u>329.2</u>	<u>422.2</u>	<u>332.5</u>	<u>288.5</u>
Subtotal	<u>664.3</u>	<u>885.7</u>	<u>1,013.5</u>	<u>1,522.7</u>	<u>1,533.8</u>	<u>1,579.9</u>
Total	<u>23,464.6</u>	<u>23,324.8</u>	<u>23,861.8</u>	<u>25,301.8</u>	<u>27,118.4</u>	<u>29,041.2</u>
Excess (Deficiency) of Total Revenues Over Total Expenditures and Other Uses (1)	<u>(\$1,625.4)</u>	<u>(\$451.9)</u>	<u>\$1,140.0</u>	<u>\$594.4</u>	<u>\$720.9</u>	<u>(\$732.0)</u>

SOURCE: Executive Office for Administration and Finance.

(1) "Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses" of (\$732.0 million) reflects \$921.0 million of spending due to prior appropriations continued from fiscal 2006.

Stabilization Fund

The following graph sets forth ending balances in the Stabilization Fund for fiscal 2001 through 2006 and the projection for fiscal 2007. For fiscal 2007, the projection includes the effect of reductions in spending allotments ordered by the Governor on November 10, 2006 under Section 9C of Chapter 29 of Massachusetts General Laws. See “RECENT DEVELOPMENTS — Fiscal 2007.” For each year, the whole column area equals the maximum balance permitted under the statutory formula, and the shaded area shows the amount of the actual or projected ending balance.



SOURCES: Fiscal 2001-2006 Office of the Comptroller; fiscal 2007, Executive Office for Administration and Finance.

COMMONWEALTH PROGRAMS AND SERVICES

Valuation of Pension Obligation

On September 26, 2006, the Public Employee Retirement Administration Commission (PERAC) released its actuarial valuation of the total pension obligation dated January 1, 2006. The unfunded actuarial accrued liability as of that date for the total obligation was approximately \$14.488 billion, an increase of approximately \$1.07 billion over the unfunded actuarial accrued liability as of January 1, 2005. The unfunded accrued actuarial liability as of January 1, 2006 was composed of unfunded actuarial accrued liabilities of approximately \$3.769 billion for the State Employees' Retirement System, \$9.104 billion for the Massachusetts Teachers' Retirement System, \$1.182 billion for Boston Teachers and \$433.0 million for cost-of-living increases. The valuation study estimated the total actuarial accrued liability as of January 1, 2006 to be approximately \$50.865 billion (comprised of \$20.407 billion for state employees, \$27.788 billion for state teachers, \$2.237 billion for Boston Teachers and \$433.0 million for cost-of-living increases). Total assets were valued at approximately \$36.376 billion based on the five-year average valuation method, which equaled 93.2% of the January 1, 2006 total asset market value. The actuarial value of assets as of January 1, 2006 represented an increase of \$1.438 billion from the valuation of assets as of January 1, 2005. The funded ratio decreased to 71.5% as of January 1, 2006 from 72.3% as of January 1, 2005. During 2005, there was an overall actuarial loss of approximately \$541 million. There was a non-investment loss on actuarial

liability of approximately \$20.0 million and a loss on assets (on an actuarial value basis) of approximately \$521 million.

The following table shows the valuation of accrued liabilities as well as the unfunded portion from the January 1, 1998 valuation through the January 1, 2006 valuation:

Pension Fund Valuation and Unfunded Accrued Liabilities (in millions)

Valuation Date	Total Actuarial Accrued Liability	Actuarial Value of Assets(2)	Unfunded Accrued Liabilities		Valuation Date
			Unfunded Actuarial Liability(3)	Market Value of Unfunded Liability	
January 1, 1998	\$26,587	\$20,783	\$5,804	\$5,160	January 1, 1998
January 1, 2000(1)	32,743	27,906	4,837	2,076	January 1, 2000(1)
January 1, 2001	35,605	29,230	6,374	5,381	January 1, 2001
January 1, 2002	39,067	31,699	7,369	10,359	January 1, 2002
January 1, 2003	43,030	29,629	13,401	17,266	January 1, 2003
January 1, 2004	46,059	34,045	12,014	14,350	January 1, 2004
January 1, 2005	48,358	34,939	13,419	12,861	January 1, 2005
January 1, 2006	50,865	36,377	14,488	11,844	January 1, 2006

SOURCE: Public Employee Retirement Administration Commission.

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

Commonwealth Post Employment Obligations Other Than Pensions

New accounting standards will require the Commonwealth to begin disclosing its liability for other post employment benefits (commonly referred to as "OPEB") in its fiscal 2008 financial reports. An initial valuation report by an independent actuarial firm of the Commonwealth's liability for these health care and life insurance benefits was released in June 2006. The report presented two separate calculations of the Commonwealth's OPEB liability, depending on whether the liability would be prefunded in a manner meeting the requirements of GASB Statement No. 45.

According to the report, assuming no prefunding, the actuarial accrued liability of the Commonwealth for OPEB obligations earned through January 1, 2006 is \$13.287 billion. To fully amortize this liability over a 30-year period utilizing an amortization growth rate of 4.5% per year would require annual required contributions commencing at \$1.062 billion for fiscal 2006 and projected to increase to \$2.758 billion in fiscal 2016. However, if prefunding is assumed, the actuarial accrued liability is reduced to \$7.562 billion and the annual required contribution is calculated to commence at \$702.9 million for fiscal 2006, projected to increase to \$1.205 billion for fiscal 2016.

In making these calculations, the independent actuarial firm utilized employment and other data provided by the Commonwealth and assumed annual claims growth initially at 10.5% and declining to 5% after ten years and

continuation of current benefit levels and current retiree contribution requirements. The Commonwealth has not yet made any decision on when or how it will fund the liability. The report covered only the Commonwealth's OPEB obligations for Commonwealth employees and their survivors. Municipalities and authorities of the Commonwealth, even if their health care coverage is administered by the Group Insurance Commission, will perform their own valuations, as the Commonwealth acts only as an agent for these entities with respect to OPEB and does not assume the risk or financial burden of their health care costs.

The difference between the value of prefunded and non-prefunded OPEB liabilities is due to the discount rate used in the calculation. In the absence of prefunding, the discount rate must approximate the Commonwealth's rate of return on non-pension (liquid) investments over the long term, estimated at 4.5% for the purpose of this study. In the event of prefunding, the discount rate would increase to a standard return on long-term investments, estimated at 8.25% for the purpose of this study. In order to qualify its OPEB liabilities as prefunded, the Commonwealth would have to enact legislation providing for the escrowing of annual contributions in the manner required by GASB Statement No. 45 (and similar to the program for funding the Commonwealth's unfunded actuarial liability for pensions described in the Commonwealth Information Statement under the heading "COMMONWEALTH PROGRAMS AND SERVICES – Pension and Other Post-Retirement Benefit Obligations").

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

A copy of the valuation report discussed above may be viewed at the website of the Comptroller of the Commonwealth at www.mass.gov/osc. Click on "Financial Reports/Audits."

COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN

Capital Spending Plan

The following table sets forth historic capital spending, including actual fiscal 2006 figures. The Commonwealth's capital investment plan for fiscal 2007 and beyond remains under review and will reflect any changes from the prior plan including revisions to the CA/T Project cash flow projection.

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

USES:

	<u>Fiscal</u> <u>2001</u>	<u>Fiscal</u> <u>2002</u>	<u>Fiscal</u> <u>2003</u>	<u>Fiscal</u> <u>2004</u>	<u>Fiscal</u> <u>2005</u>	<u>Fiscal</u> <u>2006</u>
Information	\$64	\$86	\$76	\$75	\$61	\$88
Technology						
Infrastructure	179	235	274	251	262	283
Environment	140	156	134	113	122	142
Housing	79	106	112	121	122	129
Public Safety	23	8	37	20	18	19
Transportation						
CA/T Project	1,258	1,296	1,015	691	509	318
Non-CA/T Project	732	612	682	767	791	872
Economic						
Development						
Convention Centers	124	134	225	113	54	12
Other	102	99	86	64	39	30
School Building						
Assistance	-	-	-	-	565	435
Reserve	-	-	-	-	-	-
Total Uses:	<u>\$2,701</u>	<u>\$2,732</u>	<u>\$2,641</u>	<u>\$2,215</u>	<u>\$2,543</u>	<u>\$2,330</u>

SOURCES:

General Obligation Debt(2)	\$1,489	\$1,847	\$1,472	\$1,285	\$1,850	\$1,647
Special Obligation Debt	176	139	230	119	64	122
Grant Anticipation Notes	353	9	24	-	-	-
Operating Revenues(3)	141	195	354	133	194	44
Third-Party Payments	82	52	52	63	99	274
Federal Reimbursements	<u>460</u>	<u>490</u>	<u>509</u>	<u>615</u>	<u>336</u>	<u>353</u>
Total Sources:	<u>\$2,701</u>	<u>\$2,732</u>	<u>\$2,641</u>	<u>\$2,215</u>	<u>\$2,543</u>	<u>\$2,330</u>

Source: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

(2) In addition to annual borrowing to fund the capital investment plan, includes CA/T Project spending from the TIF allocated to general obligation bond proceeds that were used to fund the TIF.

(3) Operating revenues include Registry of Motor Vehicle fees transferred to the CA/T Project and the Statewide Road and Bridge Infrastructure Fund.

On May 5, 2005, the Governor filed a bond authorization bill totaling \$950.2 million that included new capital spending authorizations for the following programs: \$450 million for improvements to state facilities, \$250 million for information technology projects, \$125 million for a new state police crime lab, \$72 million for grants to cities and towns for public library projects, \$25 million for improvements to National Guard facilities, \$15 million for improvements to medical examiner facilities, and \$13.2 million for the state match for federal capitalization grants related to the Water Pollution Abatement Trust.

This bill is still pending in the Legislature. Under legislative rules the Legislature meets in informal session for the remainder of the calendar year, unless they take steps to return to formal session. Passage of a bond authorization bill requires a two-thirds roll-call vote, which can only be done in a formal session. As a result of the delay in passage of the pending bond authorization bill, the administration has suspended some ongoing and prospective projects in the affected program areas and will suspend others as necessary until capital spending authorizations are in place.

Central Artery/Tunnel Project

The largest single component of the Commonwealth's capital program in recent years has been the Central Artery/Ted Williams Tunnel Project (CA/T Project), a major construction project that is part of the completion of the federal interstate highway system. The CA/T Project involves the depression of a portion of Interstate 93 in downtown Boston (the Central Artery), formerly an elevated highway, and the construction of a new tunnel under Boston harbor (the Ted Williams Tunnel) linking the Boston terminus of the Massachusetts Turnpike (Interstate 90) to Logan International Airport and points north. The CA/T Project is administered by the Massachusetts Turnpike Authority (Turnpike Authority).

Project Status. Substantial completion of the CA/T Project, defined as the opening of all roadway, tunnel, bridge, and ramp elements in their final alignments, occurred on January 13, 2006. The major components of the work remaining for final completion of the CA/T Project as officially defined include reconstruction of the downtown surface street system, completion of the Integrated Project Control System (IPCS) for traffic management and construction of certain parks. The final completion of the surface roadways is expected to occur by the end of calendar year 2006. Such remaining work will be completed in fiscal 2007 or 2008. However, this description of the remaining work and the schedule therefor do not account for repairs of project elements that have been found faulty subsequent to the collapse of certain ceiling panels on July 10, 2006, remediation of facilities to be transferred to the Massachusetts Port Authority (Massport) that Massport considers deficient, or remediation of problems that may be identified by a comprehensive review of the project's design and construction as directed by Chapter 153 of the Acts of 2006, as more fully described below. The most recent CA/T Project cost/schedule update (CSU 11) was completed and filed by the Turnpike Authority on July 1, 2004. Under CSU 11, the estimate of total project cost remained at \$14.625 billion. An independent consulting firm engaged by the Executive Office for Administration and Finance to review CSU 11 concluded in a report dated September 24, 2004 that the total cost estimate of \$14.625 billion was aggressive but did not recommend that the estimate be increased.

On April 1, 2005, the Turnpike Authority released an interim report revising certain elements of the budget in CSU 11. Revised figures in the April 1, 2005 report were based on utilization of contingency reserves, realization of cost savings and other factors. The total CA/T Project cost estimate did not increase as the result of this revision. The Turnpike Authority is continuing to publish periodic management reports, which include construction progress reports and updated completion and cost estimates.

According to the most recent project management report, as of August 31, 2006, approximately \$14.420 billion was under contract or agreement, which constitutes 98.6% of total budgeted costs for the CA/T Project.

Quality Concerns. A series of events have raised concerns relating to the quality of the CA/T Project. Water infiltration in the project's tunnels became a focus of public concern following a slurry wall breach on September 15, 2004. Since that date, the Turnpike Authority and project staff have indicated that the tunnels have been surveyed with respect to causes of breaches and leaks, flaws have been identified, and remedies have been designed and are being implemented, including the repair of flaws in tunnel walls and the sealing of leaks at a large number of tunnel wall and roof interfaces. Amounts spent and anticipated to be spent by the CA/T Project for these purposes are expected to fall within the \$14.625 billion project budget. A continuing program to identify and seal leaks will, however, be necessary indefinitely. This program and any additional maintenance and repairs necessitated by continuing infiltration will require higher maintenance costs in the future. In 2004 the Turnpike Authority estimated that it would assume responsibility for ongoing leak repairs from the project and its contractors in 2007 at an initial cost of \$1.3 million for that year declining to \$156,000 in 2010 and thereafter, without taking account of inflation. An independent evaluation has suggested that, based on current productivity compared with that assumed in the Turnpike Authority's estimate, the cost could be double the amount projected and warns that the estimate is based on experience with the ongoing leak repair program for the Callahan Tunnel, which does not share the slurry wall construction used in the CA/T Project. The Turnpike Authority's current operation and maintenance budget does not specifically include amounts for leak repairs and maintenance.

On July 10, 2006 panels in the ceiling of the eastbound I-90 Connector Tunnel that leads to the Ted Williams Tunnel fell, causing the death of an automobile passenger. State and federal law enforcement officials are investigating this incident. The investigations of the ceiling collapse initially focused on the apparent failure of epoxy anchor bolt assemblies attaching the panels to the roof of the tunnel. Similar epoxy anchor bolt assemblies are in various locations in the remainder of the Connector Tunnel system and various locations elsewhere in the

CA/T Project. Epoxy anchor bolts are also used in the Ted Williams Tunnel. It also has been discovered that many of the ceiling hanger brackets not attached by epoxy anchor bolts will need to be replaced. These hanger brackets are located in the I-90 connector tunnels and certain ramps leading to and from them. In addition, engineering staff have discovered a need for additional seismic bracing against earthquakes in the Connector Tunnel system, a need to replace additional hanger brackets and a need to replace the epoxy anchor bolts attaching jet fans to the roof of the I-90 connector tunnels with mechanical undercut bolts. Finally, to date, in the course of the I-90 Connector Tunnel inspections, some additional deficiencies involving concrete in two areas of the Connector Tunnel system have been found. These deficiencies may require repair.

On July 14, 2006 the Governor signed into law Chapter 153 of the Acts of 2006, which, among other authorization, appropriated \$20 million for a “comprehensive critical infrastructure safety audit of all tunnels [that are] part of the metropolitan highway system” (MHS), which includes both all the tunnels within the CA/T Project and also the pre-existing Sumner and Callahan tunnels. The Governor subsequently issued Executive Order 474 dated August 16, 2006 directing the formation of a safety review team “to conduct an independent, comprehensive critical infrastructure public safety review of the MHS tunnels and facilities” and to give priority to “the most safety-critical elements of the MHS tunnels and facilities” in the first phase of its work. The safety review team's report on the first phase of its review, which covers the CA/T Project as well as the ceiling systems in the Sumner, Callahan and Central Artery North Area (CANA) tunnels, is expected to be produced in November 2006.

In addition, Executive Office of Transportation (EOT) and Massachusetts Highway Department (MHD) engineering staff and their consultants are working with the Federal Highway Administration (FHWA) to analyze the connector tunnel ceiling and to make modifications as needed to meet current engineering criteria as agreed to by EOT, MHD, and FHWA. Chapter 153 provided that the I-90 Connector Tunnel not be reopened until approved by the Governor in consultation with EOT. Additional investigations of the accident and related matters are being carried out by the Attorney General, other law enforcement authorities and federal authorities. Ramp A was reopened on August 9, 2006. The reopening of Ramp A allows access to the Ted Williams Tunnel via the South Boston Bypass Road. Ramp C was reopened on September 1, 2006. Ramp C allows access from I-90 Eastbound to South Boston as well as Ramp A to Logan Airport and points north. With the exception of A, C and F, all other elements of the Connector Tunnel are currently closed pending inspections and repair.

Until the events of July 10, 2006, CA/T Project management believed that no new developments or information had arisen since the submission of CSU 11 and its April 2005 update which required an increase of the CA/T Project's \$14.625 billion budget for total project cost. At present, however, it is not known what magnitude of additional safety issues will be identified, when the remainder of the I-90 Connector Tunnel will be reopened, what the total costs associated with these developments will be, how much of these costs may be recoverable from third parties or how these developments may affect the budget for total project cost currently set at \$14.625 billion.

In addition, Massport, which has agreed to acquire certain portions of the CA/T Project consisting of roadways, viaducts and other structures located at Logan International Airport in East Boston, has advised that it is not satisfied with the condition of certain of these facilities and may withhold up to \$20 million of the \$50 million portion of the purchase price that has not already been paid. The Turnpike Authority reports that, based on its review to date, it believes that not more than a few million dollars of spending is required to address Massport issues that the Turnpike Authority accepts and that some of this is already scheduled to be done. At present, the issues raised by Massport remain unresolved. It should be noted that this particular dispute will not directly affect CA/T Project cash flow, since the Commonwealth advanced the \$50 million to the project several years ago in anticipation of reimbursement by Massport.

It is not known what the cumulative financial effect of the issues described above ultimately will be. Nor is it known whether the emergence of these issues is evidence of additional quality issues that, by themselves or in combination with other contingencies, would require project costs exceeding the \$14.625 billion currently budgeted and/or future operating and maintenance costs greater than previously anticipated.

Project Budget Oversight. Increased federal oversight of the CA/T Project commenced in early 2000 following a federal task force's review of the February 1, 2000 announcement by CA/T Project officials of substantially increased project cost estimates. In June 2000, the Federal Highway Administration designated the Turnpike Authority as a "high-risk grantee" with respect to activities related to the CA/T Project. The designation meant that more detailed financial reports and additional project monitoring would be required on the CA/T Project.

On June 22, 2000, the Federal Highway Administration, the Executive Office of Transportation, the Turnpike Authority and the Massachusetts Highway Department signed a project partnership agreement setting out certain federal reporting and monitoring requirements for the project and stipulating that federal funding for the project will not exceed \$8.549 billion, including \$1.500 billion to pay the principal of federal grant anticipation notes.

On October 23, 2000, federal legislation was approved that requires the U. S. Secretary of Transportation to withhold obligation of federal funds and all project approvals for the CA/T Project in each federal fiscal year unless the Secretary has approved an annual update of the CA/T Project finance plan for such year and has determined that the Commonwealth is in full compliance with the June 22, 2000 project partnership agreement described above and is maintaining a balanced statewide transportation program, including spending at least \$400 million each state fiscal year through fiscal 2005 for construction activities and transportation projects other than the CA/T Project. In addition, the legislation limited total federal funding to \$8.549 billion, consistent with the project partnership agreement. Finally, the legislation tied future federal funding for the project to an annual finding by the Inspector General of the U.S. Department of Transportation that the annual update of the CA/T Project finance plan is consistent with Federal Highway Administration financial plan guidance. Should any federal assistance be withheld from the project pursuant to such legislation, such funding would nonetheless be available to the Commonwealth for projects other than the CA/T Project. Moreover, the legislation provides that federal funds will not be withheld if the Secretary of Administration and Finance certifies that such funds are required to pay all or any portion of the principal of federal grant anticipation notes issued for the CA/T Project.

Delay of Federal Funding. The CA/T Project finance plans submitted pursuant to this legislation through October 2003 have received the requisite approvals. The most recent plan, based on CSU 11, was submitted on July 30, 2004. This plan (the 2004 Finance Plan) has not yet received federal approval. Through the federal fiscal year ended September 2006, according to federal records the CA/T Project had received obligation authority with respect to all but \$97 million of the federal financial assistance available to the project (other than amounts allocable to principal of federal grant anticipation notes). The remaining \$97 million has not yet been made available pending federal approval of the 2004 Finance Plan. In addition, approximately \$36 million of federal reimbursements for amounts obligated prior to September 30, 2004, but subject to reallocation to different project contracts may not be reallocated until a finance plan is approved. Hence, according to federal records, the total amount of federal funds withheld pending federal approval of the 2004 Finance Plan is approximately \$133 million. In addition, in the absence of an approved finance plan, credits have accumulated by the close of state fiscal year 2006 to increase the amount of federal funds remaining by an amount of \$2.4 million. Until a finance plan is approved, when funds are returned or recaptured and the federal share of funds is credited back to the federal government, freed-up obligation authority cannot be shifted, as it normally would, to fund other expenses. As of September 2006, the Office of the State Comptroller, the Executive Office of Transportation and the Turnpike Authority accounting records have been reconciled to federal records to indicate that a balance of approximately \$136 million is owed to the project.

A question regarding the amount of the remaining federal support for the CA/T Project has come to light recently. State records indicated that the state had received federal reimbursements for the project in an amount that is approximately \$8 million less than the amount indicated by federal records. The Commonwealth has reviewed this discrepancy and determined that remaining federal support is approximately \$136 million as noted above.

The cash flow projection in the 2004 Finance Plan and the April 2005 update included \$45 million from "State Interest on MTA Funds." Subsequent review has found that available interest earnings were actually \$24 million, leaving the source for up to \$21 million to be identified.

Federal review of the 2004 Finance Plan is ongoing. The review is believed to have focused particularly on the costs of dealing with water infiltration and back charges, liquidated damages, cost recovery, self-insurance loss portfolio transfer and project funding. The principal project funding issue was to replace \$94 million that the 2004 Finance Plan projected would be realized from the disposition of the CA/T Project headquarters and contiguous parcels at Kneeland Street in Boston. Based on the response in December 2004 to a request for bids for the Kneeland Street property, the Turnpike Authority is no longer relying on this source of funding. The Turnpike Authority has identified \$27 million in added interest earnings on the sale proceeds of certain land in Allston as a partial source of funding this amount. The Turnpike Authority has been seeking to secure the remaining \$67 million from the state's Statewide Road and Bridge and Central Artery/Tunnel Infrastructure Fund (commonly abbreviated as the "TIF"). In addition, the \$8 million and the \$21 million outlined above, which had been accounted for as being or having been available for the Project in the 2004 Finance Plan, would be needed to balance the plan. Final

agreement has not been reached regarding the use of additional elements from the TIF and other authorized sources for these purposes.

While the Turnpike Authority has responded to federal requests for information regarding the 2004 Finance Plan, the funding issue remains unresolved. Furthermore, the effect of any additional costs identified subsequent to the events of July 10, 2006, as discussed above, on federal finance plan approval has not been determined, and it is not known when federal approval can be expected.

When the 2004 Finance Plan was not approved prior to the end of federal fiscal year 2005 (which ended September 30, 2005), the Commonwealth applied the unobligated authority for that year to other eligible transportation projects within the Commonwealth and to payment of principal of the grant anticipation notes. As it became apparent that the 2004 Finance Plan would not be approved prior to the end of federal fiscal year 2006, the Commonwealth applied unobligated authority to the grant anticipation notes in September 2006.

CA/T Project Cash Flow. A revised CA/T Project cash flow projection is being developed to provide for several factors, including the following:

- Project spending during state fiscal year 2006 fell below the budget amounts indicated in the April Information Statement, resulting in remaining spending being above the previously projected levels.
- The Turnpike Authority has transferred the bulk of the remaining financial contribution to the project, as indicated in CSU 11 and the April 2005 update, to the Commonwealth for expenditure through the state accounting system. The schedule and conditions for commitment of remaining Turnpike Authority to-go amounts require resolution.
- The capacity of the TIF or other authorized sources to fund the remaining \$67 million funding shortfall caused by failure to sell the project's Kneeland Street headquarters, the reduction by \$8 million in anticipated federal funding, and the \$21 million shortfall in "state interest on MTA funds" remains under review.
- Since federal funds have not been received on the schedule previously anticipated, the Commonwealth has made funds available to the CA/T Project to bridge the ultimate receipt of federal funds. The Commonwealth expects to continue this practice, to the extent necessary, in state fiscal year 2007.

The Commonwealth anticipates being able to meet the project's cash flow needs through fiscal 2007, excluding any expansion in the scope of work arising from the safety review, using existing funds and spending authority. To the extent that fiscal 2007 spending exceeds the previously planned amount or that project costs exceed the \$14.625 billion budget and any such excess costs cannot be timely recovered from responsible project vendors, additional financial resources would need to be identified, and the project's finance plan would need to be modified to allow for the timing of expenditures and of the availability of additional resources.

Contractor Claims and Risks. The annual finance plan budgets for the potential cost of change orders and contractor claims on awarded and un-awarded contracts. The Claims and Changes Department of the CA/T Project has made substantial progress in recent years in resolving contractor claims, although significant items remain open. The CA/T Project reports that recent settlements have been within expectations on an overall basis and that contingency reserves are expected to be adequate. Project management currently expects that the costs of such settlements will be within the \$14.625 billion project budget. However, if settlements exceed expectations, the remaining unassigned contingency within the project budget may be insufficient.

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

SEC Inquiry. In late August and early September 2006, the Securities and Exchange Commission (SEC) sent certain departments and instrumentalities of the Commonwealth letters requesting voluntary provision of

documents and information regarding safety reviews of the CA/T Project during the period January 1, 2004, to the present and related disclosures. The Commonwealth and the Turnpike Authority are cooperating with the SEC.

LONG-TERM LIABILITIES

The following table shows long-term debt of the Commonwealth as issued and retired from fiscal 2002 through fiscal 2006:

Long-Term Debt Issuance and Repayment Analysis (in thousands)

	<u>Fiscal 2002</u>	<u>Fiscal 2003(2)</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Fiscal 2006(5)</u>
Fiscal Year Beginning Balance (as of July 1)	\$13,999,454	\$14,955,135	\$15,962,506	\$17,382,172	\$17,856,799
General and Special Obligation Debt Issued(1)	<u>1,470,272</u>	<u>1,845,458(3)</u>	<u>1,925,990</u>	<u>1,267,281</u>	<u>1,770,346</u>
Subtotal	15,469,726	16,800,593	17,888,496	18,649,453	19,627,145
Debt Retired or Defeased, Exclusive of Refunding	(692,341)	(737,832)	(758,444)	(882,266)	(1,024,542)
Refunding Debt Issued, Net of Refunded Debt	<u>177,750</u>	<u>(100,255)</u>	<u>252,120(4)</u>	<u>89,612</u>	<u>(141,215)</u>
Fiscal Year Ending Balance (June 30)	<u>\$14,955,135</u>	<u>15,962,506</u>	<u>\$17,382,172</u>	<u>\$17,856,799</u>	<u>\$18,461,406</u>

SOURCE: Office of the Comptroller.

- (1) Including premium discount and accretion of capital appreciation bonds.
- (2) On July 16, 2003, the Commonwealth issued special obligation notes for the purpose of refunding approximately \$408.0 million of federal grant anticipation notes in a crossover refunding. Interest on the refunding notes will be paid solely from an escrow funded by proceeds of the issue until the crossover dates in 2008 and 2010.
- (3) Includes \$30.1 million of bonds, which, although not legally defeased, will be paid in fiscal 2008 from funds held in escrow by a third-party trustee. Also includes a series of \$209.5 million of bonds, which, although not legally defeased, will be paid in fiscal 2008 and 2012 from funds held in escrow by a third-party trustee.
- (4) Includes \$408.0 million of grant anticipation notes, which, although not legally defeased, will be paid in fiscal 2009 and 2011 from funds held in escrow by a third-party trustee.
- (5) Capital appreciation bonds reported at original net proceeds for the purposes of calculating debt limit, not at maturity value as of June 30, 2006.

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

**Commonwealth Debt and Debt Related to General Obligation Contract
Assistance Liabilities
As of October 1, 2006 (in thousands)**

	<u>Long-Term (4)</u>	<u>Short-Term</u>
COMMONWEALTH DEBT		
General Obligation Debt	\$15,541,698(5)	\$25,100(7)
Special Obligation Debt (1)	1,279,075	-
Federal Grant Anticipation Notes (2)	<u>1,789,445(6)</u>	<u>-</u>
Subtotal Commonwealth Debt	<u>\$18,610,218</u>	<u>\$25,100</u>
DEBT RELATED TO GENERAL OBLIGATION CONTRACT ASSISTANCE LIABILITIES (3)		
Massachusetts Convention Center Authority	\$ 16,475	-
Massachusetts Development Finance Agency	10,162	-
Foxborough Industrial Development Financing Authority	<u>60,385</u>	<u>-</u>
Subtotal GO Contract Assistance Debt	<u>\$ 87,022</u>	<u>-</u>
	<u>\$18,697,240(6)</u>	<u>\$25,100</u>
TOTAL		

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

- (1) Includes \$30.1 million of bonds, which, although not legally defeased, will be paid in fiscal 2008 from funds held in escrow by a third-party trustee.
- (2) Includes \$408.0 million of grant anticipation notes, which, although not legally defeased, will be paid in fiscal 2009 and 2011 from funds held in escrow by a third-party trustee.
- (3) Does not include general obligation contract assistance liabilities to the Massachusetts Water Pollution Abatement Trust and the Massachusetts Turnpike Authority.
- (4) Long Term Debt includes discount and costs of issuance and includes capital appreciation bonds at their maturity value.
- (5) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from October 1, 2006 through their maturity in the amount of \$54.5 million.
- (6) Includes interest on Commonwealth capital appreciation federal grant anticipation notes to be accrued from October 1, 2006 through their maturity in the amount of \$29.3 million.
- (7) Includes \$25.1 million of commercial paper issued as bond anticipation notes in anticipation of certain payments to be received by the Commonwealth from the Massachusetts Port Authority to reimburse the Commonwealth for capital costs of the CA/T Project. This commercial paper must mature not later than June 30, 2007 under current law.

The outstanding Commonwealth debt amounts excluded from the statutory limit on direct debt are shown in the following table:

Calculation of the Debt Limit (in thousands)

	2002	2003	2004	2005	2006
Balance as of June 30	\$14,995,135	\$15,962,506	\$17,382,172	\$17,856,799	\$18,461,406
Less amounts excluded:					
(Discount)/Premium and issuance costs	(181,910)	(68,718)	1,120	70,937	112,673
Ch. 5, Acts of 1992 Refunding	(22,043)	(10,600)	-	-	-
Special Obligation Principal	(772,812)	(748,124)(1)	(1,347,822)	(1,485,548)(3)	(1,291,266)
Federal Grant Anticipation Notes Principal	(1,500,000)	(1,500,000)(2)	(1,908,015)(2)	(1,908,015)(2)	(1,789,876)
County Debt Assumed	(1,115)	(855)	(675)	(600)	(525)
MBTA Forward Funding	(625,000)	(680,869)	(601,027)	(511,546)	(416,830)
CA/T Project	(838,193)	(1,386,869)	(1,066,638)	(1,336,741)	(1,476,287)
MSBA SMART Bonds	-	-	-	(500,000)	(1,000,002)
Outstanding Direct Debt	<u>\$11,054,062</u>	<u>\$11,566,472</u>	<u>\$12,459,055</u>	<u>\$12,185,286</u>	<u>\$12,599,293(4)</u>
Statutory Debt Limit	<u>\$11,630,307</u>	<u>\$12,211,823</u>	<u>\$12,822,414</u>	<u>\$13,463,535</u>	<u>\$14,136,712</u>

SOURCE: Office of the Comptroller.

- (1) Includes \$30.1 million of bonds, which, although not legally defeased, will be paid in fiscal 2008 from funds held in escrow by a third-party trustee.
- (2) On July 16, 2003, the Commonwealth issued special obligation notes for the purpose of refunding approximately \$408.0 million of federal grant anticipation notes in a crossover refunding. Interest on the refunding notes will be paid solely from an escrow funded by proceeds of the issue until the crossover dates in 2008 and 2010. The refunding notes will effectively lower outstanding debt in comparison to the statutory debt limit on grant anticipation notes.
- (3) Also includes a series of \$209.5 million of bonds, which, although not legally defeased, will be paid in fiscal 2008 and 2012 from funds held in a third-party trustee.
- (4) Capital appreciation bonds reported at original net proceeds for the purposes of calculating debt limit, not at a maturity value as of June 30, 2006.

Interest Rate Swap Agreement Dispute. Litigation between the Commonwealth and a swap counterparty relating to an interest rate swap agreement for the Commonwealth's General Obligation Refunding Bonds, 2001 Series B and 2001 Series C, has been settled on terms that do not require any payment by either party and do not change the method for determining the floating rate payment obligation of the counterparty from that which has been in place since the agreement became effective. See the April Information Statement under the heading "LONG-TERM LIABILITIES – General Obligation Debt; Interest Rate Swap Agreement Dispute."

Debt Service Requirements on Commonwealth Bonds as of October 1, 2006 (in thousands)

General Obligation Bonds

Federal Grant Anticipation Notes

Special Obligation Bonds

Fiscal Year	Principal	Interest on CABS at Maturity	Current Interest	Sub Total	Principal	Interest	Sub Total	Principal	Interest	Sub Total	Total Debt Service Commonwealth Bonds
2007	\$788,059	\$519,942	-	\$1,308,001	\$123,825	\$87,887	\$211,712	\$30,325	\$45,784	\$76,109	\$1,595,822
2008	993,165	725,895	\$ 5,801	1,724,861	130,240	81,469	211,709	32,545	61,066	93,611	2,030,181
2009	1,019,991	675,687	6,900	1,702,577	137,230	74,478	211,708	33,960	64,631	98,591	2,012,876
2010	946,537	624,340	6,905	1,577,783	158,815	66,835	225,650	35,530	63,067	98,597	1,902,030
2011	959,727	573,399	7,763	1,540,889	214,620	57,206	271,826	37,240	61,359	98,599	1,911,314
2012	839,748	522,303	7,802	1,368,352	226,420	45,694	272,114	39,135	59,470	98,605	1,739,071
2013	909,328	476,754	8,611	1,393,961	208,410	35,110	243,520	41,150	57,438	98,588	1,736,069
2014	797,142	433,340	6,686	1,236,522	302,820	21,697	324,517	38,925	55,200	94,125	1,655,164
2015	796,281	393,112	6,201	1,195,044	287,065	7,185	294,250	87,430	53,210	140,640	1,629,934
2016	842,730	355,089	4,873	1,202,283	-	-	-	90,760	48,593	139,353	1,341,636
2017	808,594	315,286	3,302	1,126,795	-	-	-	108,385	43,803	152,188	1,278,983
2018	611,431	279,394	2,419	892,923	-	-	-	46,350	38,425	84,775	977,698
2019	600,644	248,744	20,002	869,154	-	-	-	48,775	36,121	84,896	954,050
2020	675,670	217,284	1,212	893,972	-	-	-	49,020	33,499	82,519	976,491
2021	875,971	178,697	1,044	1,055,502	-	-	-	51,515	31,064	82,579	1,138,081
2022	667,322	139,689	892	807,764	-	-	-	54,355	28,292	82,647	890,411
2023	550,211	109,107	670	659,863	-	-	-	36,960	25,428	62,388	722,251
2024	424,728	84,683	246	509,492	-	-	-	28,990	23,443	52,433	561,925
2025	353,340	65,621	69	418,947	-	-	-	30,625	21,848	52,473	471,420
2026	211,338	49,361	31	260,678	-	-	-	32,360	20,164	52,524	313,202
2027	212,441	39,477	-	251,907	-	-	-	34,190	18,384	52,574	304,481
2028	101,915	31,509	-	133,424	-	-	-	36,125	16,504	52,629	186,053
2029	178,335	24,368	-	202,703	-	-	-	38,170	14,517	52,687	255,390
2030	184,090	14,966	-	199,056	-	-	-	40,330	12,418	52,748	251,804
2031	192,960	9,446	-	198,027	-	-	-	42,610	10,199	52,809	250,836
2032	-	-	-	-	-	-	-	45,020	7,856	52,876	52,876
2033	-	-	-	-	-	-	-	47,565	5,380	52,945	52,945
2034	-	-	-	-	-	-	-	50,250	2,764	53,014	53,014
TOTAL	\$15,541,698	\$7,107,493	\$91,429	\$22,730,480	\$1,789,445(1)	\$477,561	\$2,267,006	\$1,288,595	\$959,927	2,248,522	\$27,246,008

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

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

(2) Includes \$30.1 million of bonds, which, although not legally defeased, will be paid in fiscal 2008 from funds held in escrow by a third-party trustee. Also includes a second series of \$209.5 million of bonds, which, although not legally defeased, will be paid in fiscal 2008 and 2012 from funds held in escrow by a third-party trustee.

(3) Amounts are preliminary.

STATE WORKFORCE

The following table sets forth information regarding the Commonwealth's workforce as of the end of fiscal years 2001 through 2006.

Budget-Funded Workforce (1)

	<u>June 2001</u>	<u>June 2002</u>	<u>June 2003</u>	<u>June 2004</u>	<u>June 2005</u>	<u>June 2006</u>
Executive Office	88	72	86	65	63	58
Office of the Comptroller	109	107	102	102	124	122
Executive Departments						
Administration and Finance	3,180	2,974	2,921	2,791	2,913	2,990
Environmental Affairs	2,555	2,312	2,156	1,997	1,984	2,057
Housing and Community Development	117	109	98	92	94	91
Early Education and Care						164
Health and Human Services	23,157	21,803	21,440	20,682	21,066	21,022
Transportation	1,254	843	445	344	1,139(2)	1,078
Board of Library Commissioners	20	18	13	12	11	12
Economic Development	1,140	1,094	922	879	935	960
Department of Education	272	277	248	223	241	266
Board of Higher Education	15,481	14,038	14,117	11,844	13,198	12,932
Public Safety	9,686	9,567	9,148	8,765	8,109(2)	8,430
Elder Affairs	<u>41</u>	<u>43</u>	<u>38</u>	<u>28</u>	<u>51</u>	<u>34</u>
Subtotal under Governor's authority	<u>57,100</u>	<u>53,257</u>	<u>51,734</u>	<u>47,824</u>	<u>49,926</u>	<u>50,215</u>
Judiciary	7,944	7,379	7,233	7,175	7,435	7,630
Other (3)	<u>7,418</u>	<u>7,119</u>	<u>7,056</u>	<u>7,020</u>	<u>7,152</u>	<u>7,394</u>
Total	<u><u>72,462</u></u>	<u><u>67,755</u></u>	<u><u>66,024</u></u>	<u><u>62,019</u></u>	<u><u>64,513</u></u>	<u><u>65,239</u></u>

SOURCE: Executive Office for Administration and Finance.

- (1) Excludes employees whose positions are established in accounts funded by capital projects funds, direct federal grants, expendable trusts and other non-appropriated funds, as well as seasonal help, members of boards and commissions and staff of independent authorities. Numbers represent full-time equivalent positions (FTEs), not individual employees. Total may not add due to rounding.
- (2) Effective July 2004, the Registry of Motor Vehicles was transferred from the Executive Office of Public Safety to the Executive Office of Transportation. Approximately 814 FTEs were involved in the transfer.
- (3) Other includes staff of the Legislature and Executive Council, the office of the State Treasurer, Secretary, Auditor and Attorney General, the eleven District Attorneys, the seven former county sheriffs that have become state agencies, and other agencies independent from the Governor; it excludes elected members of the Legislature and Executive Council.

LEGAL MATTERS

Rolland v. Romney (U.S. District Court C.A. No. 98-32208 KPN). This case was dismissed by stipulation in June, 2006.

Rosie D. v. Governor. The parties are currently engaged in negotiations and are due back before the Court in September 2006 to report on their progress. Oral argument on remedy is scheduled for December 2006.

Jane Doe, by John Doe, her father and next friend v. Ronald Preston, Secretary of the Executive Office of Health and Human Services, United States District Court. Motion for summary judgment was argued in early May, 2006, and remains under advisement.

Commonwealth of Massachusetts v. Philip Morris Inc., RJ Reynolds Tobacco Company, Lorillard Tobacco Company, et al., Middlesex Superior Court. On April 18, 2006 the Commonwealth filed an emergency motion for entry of an enforcement order and a declaratory order under the MSA that would require that the April 2006 payment due to be made in full. The Superior Court denied that motion and allowed the defendants' motion to compel arbitration. The Commonwealth filed a notice of appeal. The case has not yet been docketed in the Appeals Court.

Grand River Enterprises Six Nations Ltd. v. William Pryor et al., United States District Court, New York. The defendant states, including Massachusetts, sought rehearing in the Second Circuit, which was denied. The affected states, including Massachusetts, thereafter filed a petition for certiorari to the United States Supreme Court, which has not yet been acted on. The plaintiffs have also commenced preliminary-injunction proceedings to enjoin the states' enforcement of their escrow statutes.

Perini Corp., Kiewit Construction. Corp., Jay Cashman, Inc., d/b/a Perini – Kiewit – Cashman Joint Venture v. Commonwealth. Plaintiffs have asserted claims in excess of \$105 million.

Edward J. Sullivan, as Clerk-Magistrate of the Middlesex Superior Court et al. v. Robert J. Mulligan, as Chief Justice of Administration and Management & others (Middlesex Superior Court, Supreme Judicial Court for Suffolk County). The requested temporary restraining order was denied by both the Middlesex Superior Court and the Supreme Judicial Court for Suffolk County, which reserved and reported the Chief Justice's motion to dismiss to the full court. The case was argued in the Supreme Judicial Court in September 2006 and remains under advisement.

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 the April Information Statement and this Supplement 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.

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

All estimates and assumptions in the April Information Statement and this Supplement 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 the April Information Statement and this Supplement involve any matters of opinion, whether or not expressly so stated, they are intended merely as such and not as representations of fact. The various tables may not add due to rounding of figures.

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

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

The information, estimates and assumptions and expressions of opinion in the April Information Statement and this Supplement are subject to change without notice. Neither the delivery of this Supplement nor any sale

made pursuant to the April Information Statement and this Supplement 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 the April Information Statement and this Supplement, except as expressly stated.

CONTINUING DISCLOSURE

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

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

The Department of the State Auditor is mandated to audit 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.

AVAILABILITY OF OTHER FINANCIAL INFORMATION

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

THE COMMONWEALTH OF MASSACHUSETTS

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

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

November 10, 2006

TABLE OF REFUNDED BONDS

The bonds of the Commonwealth to be refunded from the proceeds of the Refunding Bonds are described below.

<u>Maturity Date</u>	<u>Amount</u>	<u>Coupon</u>
\$669,710,000 General Obligation Bonds, Consolidated Loan of 2005, Series A:		
March 1, 2019	\$2,840,000*	5.00%
March 1, 2020	64,720,000**	5.00
March 1, 2021	<u>37,575,000**</u>	5.00
	\$105,135,000	

* Represents the portion of the outstanding \$61,640,000 serial bond which will be refunded and redeemed on March 1, 2015 at a call price of 100%. Unless otherwise redeemed earlier in accordance with its terms, the remaining amount (\$58,800,000) is to be paid at maturity.

** To be redeemed on March 1, 2015 at a call price of 100%

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

September 1, 2021	\$46,580,000*	5.00%
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* To be redeemed on September 1, 2015 at a call price of 100%.

\$486,170,000 General Obligation Bonds, Consolidated Loan of 2006, Series D:

August 1, 2026	\$16,710,000*	5.00%
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* To be redeemed on August 1, 2016 at a call price of 100%.

PROPOSED FORM OF OPINION OF BOND COUNSEL

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

[Date of Closing]

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

We have acted as bond counsel to The Commonwealth of Massachusetts (the “Commonwealth”) in connection with the issuance by the Commonwealth of \$339,330,000 General Obligation Bonds, Consolidated Loan of 2006, Series E, and \$172,975,000 General Obligation Refunding Bonds, 2006 Series C, dated the date of delivery (the “Bonds”). In such capacity, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

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

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

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

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

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(b) Interest on the Bonds will not be included in the gross income of the holders of the Bonds for federal income tax purposes. This opinion is rendered subject to the condition that the Commonwealth comply with certain requirements of the Internal Revenue Code of 1986, as amended, which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon is and continues to be excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be included in the gross income of holders of the Bonds retroactive to the date of issuance of the Bonds. While interest on the Bonds will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, interest on the Bonds will be included in the “adjusted current earnings” of corporate holders of the Bonds and therefore will be taken into account in the computation of the alternative minimum tax applicable to certain corporations. We express no opinion as to other federal tax consequences resulting from holding the Bonds.

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

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

Very truly yours,

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

The Commonwealth of Massachusetts

General Obligation Bonds
Consolidated Loan of 2006, Series E

General Obligation Refunding Bonds
2006 Series C

Continuing Disclosure Undertaking
[to be included in bond form]

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the Bonds to provide to each nationally recognized municipal securities information repository (each, a “NRMSIR”) within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”) and to the state information depository for the Commonwealth, if any (the “SID”), within the meaning of the Rule, no later than 270 days after the end of each fiscal year of the Commonwealth, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Commonwealth for such fiscal year if audited financial statements are then available, provided, however, that if audited financial statements of the Commonwealth are not then available, such audited financial statements shall be delivered to each NRMSIR and the SID when they become available (but in no event later than 350 days after the end of such fiscal year) or (ii) notice of the Commonwealth’s failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Commonwealth’s Information Statement dated April 18, 2006 (the “Information Statement”), as it appears as Appendix A in the Official Statement dated April 18, 2006 of the Commonwealth with respect to its \$180,875,000 General Obligation Refunding Bonds, 2006 Series A (Delayed Delivery), which Official Statement has been filed with each NRMSIR and with the Municipal Securities Rulemaking Board (the “MSRB”), and substantially in the same level of detail as is found in the referenced section of the Information Statement:

Financial Information and Operating Data Category	Reference to Information Statement for Level of Detail
1. Summary presentation on statutory accounting and five-year comparative basis of selected budgeted operating funds operations, concluding with prior fiscal year, plus estimates for current fiscal year	“SELECTED FINANCIAL DATA - Statutory Basis”
2. Summary presentation on GAAP and five-year comparative basis of governmental funds operations, concluding with prior fiscal year	“SELECTED FINANCIAL DATA - GAAP Basis”
3. Summary presentation of actual revenues in budgeted operating funds on five-year comparative basis, concluding with prior fiscal year, plus estimates for current fiscal year	“COMMONWEALTH REVENUES - Statutory Basis Distribution of Budgetary Revenues”
4. So long as Commonwealth statutes impose limits on tax revenues, information as to compliance therewith in the prior fiscal year	“COMMONWEALTH REVENUES - Limitations on Tax Revenues”
5. Summary presentation of budgeted expenditures by selected, then-current major categories on five-year comparative basis and estimated expenditures for current fiscal year	“COMMONWEALTH PROGRAMS AND SERVICES”

Financial Information and Operating Data Category	Reference to Information Statement for Level of Detail
6. Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any	“COMMONWEALTH PROGRAMS AND SERVICES - Pension and Other Post-Retirement Benefit Obligations”
7. If and to the extent otherwise updated in the prior fiscal year, summary presentation of the size of the state workforce	“STATE WORKFORCE”
8. Five-year summary presentation of actual capital project expenditures	“COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN - Capital Spending Plan”
9. Statement of Commonwealth debt and debt related to general obligation contract liabilities as of the end of the prior fiscal year	“LONG-TERM LIABILITIES - General Authority to Borrow - Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities”
10. Annual fiscal year debt service requirements for Commonwealth general obligation and special obligation bonds, beginning with the current fiscal year	“LONG-TERM LIABILITIES - Debt Service Requirements”
11. Annual fiscal year contract assistance requirements for Commonwealth general obligation contract assistance, beginning with the current fiscal year	“LONG-TERM LIABILITIES - General Obligation Contract Assistance Liabilities”
12. Annual fiscal year budgetary contractual assistance liabilities for Commonwealth, beginning with the current fiscal year	“LONG-TERM LIABILITIES - Budgetary Contractual Assistance Liabilities”
13. Five-year summary presentation of authorized but unissued general obligation debt	“LONG-TERM LIABILITIES - Authorized But Unissued Debt”
14. So long as Commonwealth statutes impose a limit on the amount of outstanding “direct” bonds, information as to compliance therewith as of the end of the prior fiscal year	“LONG-TERM LIABILITIES - General Authority to Borrow”

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

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

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties^{1/};
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) modifications to the rights of security holders;
- (viii) bond calls;
- (ix) defeasances;
- (x) release, substitution or sale of property securing repayment of the securities^{2/} and
- (xi) rating changes.

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

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

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

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

concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d) or (e), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances, and (ii) the amendment does not materially impair the interests of the owners of the Bonds, as determined either by a party unaffiliated with the Commonwealth (such as Commonwealth disclosure counsel or Commonwealth bond counsel) or by the vote or consent of owners of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment.

CPI BONDS**Definitions with Respect to the CPI Bonds and the CPI Rate**

The following definitions apply to the descriptions of the CPI Bonds and the CPI Rate contained in the Official Statement to which this Appendix E is appended.

“Bloomberg CPURNSA” shall have the meaning assigned to such term under the caption “Consumer Price Index” below.

“BLS” shall have the meaning assigned to such term under the caption “Interest Rate” below.

“Business Day” means a day other than (i) a Saturday and Sunday, (ii) a day on which the Calculation Agent or banks and trust companies in New York, New York, are authorized or required to remain closed or (iii) a day on which the New York Stock Exchange is closed.

“Calculation Agent” means, initially, Citibank, N.A., New York, or such other Calculation Agent as may be selected by the Commonwealth, their successors or assigns.

“CPI” shall have the meaning assigned to such term under the caption “Interest Rate” below.

“CPI Rate” shall have the meaning assigned to such term under the caption “Interest Rate”.

“Initial Interest Rate” means (i) with respect to the CPI Bonds maturing November 1, 2017, 3.73%, (ii) with respect to the CPI Bonds maturing November 1, 2018, 3.78%, (iii) with respect to the CPI Bonds maturing November 1, 2019, 3.81%, and (iv) with respect to the CPI Bonds maturing November 1, 2020, 3.85%.

“Initial Interest Period” means the period from and including the date of the delivery of the CPI Bonds to but excluding the initial Interest Reset Date.

“Interest Payment Date” means the first Business Day of each month, commencing on January 2, 2007.

“Interest Period” means each period (other than the Initial Interest Period) from and including one Interest Reset Date to but excluding the next Interest Reset Date, provided that the final Interest Period shall end on but exclude the maturity date for the CPI Bonds.

“Interest Reset Dates” means the first calendar day of each month, commencing on January 1, 2007.

“Maximum Interest Rate” means 18% per annum.

“Record Date” means the fifteenth day (whether or not a Business Day) of the month preceding each Interest Payment Date.

“Reference Month” means, with respect to an Interest Reset Date, the second calendar month preceding that Interest Reset Date. For example, the Reference Month for the December Interest Reset Date will be October.

“Spread” shall have the meaning assigned to such term under the caption “Interest Rate” below.

Consumer Price Index

The amount of interest payable on the CPI Bonds on each Interest Payment Date will be linked to changes in the Consumer Price Index. The Consumer Price Index for purposes of the CPI Bonds is the Non-revised index of Consumer Prices for All Urban Consumers (CPI-U) before seasonal adjustment (“CPI”), published monthly by the Bureau of Labor Statistics of the U. S. Department of Labor (“BLS”) and reported on Bloomberg CPURNSA or any successor service (“Bloomberg CPURNSA”). The CPI for a particular month is generally released and published during the following month. The CPI is a measure of the average change in consumer prices over time for a fixed market basket of goods and services, including food, clothing, shelter, fuels, transportation, charges for doctors’ and dentists’ services and drugs. In calculating the index, price changes for the various items are averaged together with weights that represent their importance in the spending of urban households in the United States. The contents of the market basket of goods and services and the weights assigned to the various items are updated periodically by the BLS to take into account changes in consumer expenditure patterns. The CPI is expressed in relative terms in relation to a time base reference period for which the level is set at 100.0. The base reference period for the CPI Bonds is the 1982-1984 average.

Interest Rate

The CPI Bonds will bear interest at the Initial Interest Rate during the Initial Interest Period. Thereafter, the CPI Bonds will bear interest at an annual rate (the “CPI Rate”) that the Calculation Agent determines as of each Interest Reset Date, for the Interest Period beginning on that Interest Reset Date, pursuant to the following formula:

$$[(CPI_t - CPI_{t-12}) / CPI_{t-12}] + \text{Spread}$$

Where:

CPI_t = CPI for the applicable Reference Month;

CPI_{t-12} = CPI for the twelfth month prior to the applicable Reference Month; and

Spread = 0.860% in the case of CPI Bonds maturing November 1, 2017
0.870% in the case of CPI Bonds maturing November 1, 2018
0.880% in the case of CPI Bonds maturing November 1, 2019
0.890% in the case of CPI Bonds maturing November 1, 2020

CPI_t for each Interest Reset Date is the CPI for the applicable Reference Month, which is generally released and published in the first calendar month prior to such Interest Reset Date. CPI_{t-12} for each Interest Reset Date is the CPI for the twelfth month prior to the applicable Reference Month, which is generally released and published in the eleventh month prior to the applicable Reference Month. For example, for the March 2007 Interest Period, CPI_t will be the CPI for January 2007 and CPI_{t-12} will be the CPI for January 2006. The CPI for January 2007 is expected to be published by BLS and reported on Bloomberg CPURNSA in February 2007 and the CPI for January 2006 was published and reported in February 2006. For more information regarding the calculation of interest rates on the CPI Bonds, including historical CPI levels and hypothetical interest rates, see “Hypothetical Interest Rate Calculations” below.

As stated in the risk factors, movements in the CPI that have occurred in the past are not necessarily indicative of changes that may occur in the future. Actual changes in the CPI may be less than or greater than those that have occurred in the past.

The amount of interest accruing on the CPI Bonds during the Initial Interest Period and each Interest Period will be computed on the basis of a 360-day year of twelve 30-day calendar months and will be payable in arrears on the Interest Payment Date for the Initial Interest Period and each Interest Period to the owners thereof as of the applicable Record Date. If, for any Interest Period, the CPI Rate is zero or a negative number, the interest rate for the

CPI Bonds for that Interest Period will be 0%. In no event will the CPI Rate be greater than the Maximum Interest Rate. All calculations and determinations by the Calculation Agent will be final, absent manifest error.

At or prior to 12:00 noon, New York time, on each Interest Reset Date (or, if such Interest Reset Date is not a Business Day, on the next succeeding Business Day), the Calculation Agent will calculate the CPI Rate applicable to that Interest Reset Date and shall supply to the Commonwealth the CPI Rate so determined in writing or by electronic communication promptly confirmed in writing. As noted, the calculation of the CPI Rate by the Calculation Agent will be final and conclusive and binding on the Commonwealth and the holders of the CPI Bonds, absent manifest error.

If the CPI is not reported on Bloomberg CPURNSA for a particular month by 11:00 a.m. on an Interest Reset Date, but the CPI has otherwise been published by the BLS, the Calculation Agent will determine the CPI as published by the BLS for such month using a source it deems to be accurate and appropriate. However, if the CPI is not published by the BLS for a particular month by 11:00 a.m. on an Interest Reset Date, the Calculation Agent will determine the CPI Rate with reference to an index number based on the last twelve-month change in the CPI available and announced by the U. S. Department of Treasury for its Inflation-Indexed Securities as described at 62 Federal Register 846-874 (January 6, 1997) (the “Treasury Inflation-Indexed Securities Regulation”) or, if no such securities are outstanding or no such substitute index number is chosen, in accordance with general market practice at the time.

In calculating CPI_t and CPI_{t-12} , the Calculation Agent will use the most recently available value of the CPI determined as described above on the applicable Interest Reset Date, even if such value has been adjusted from a prior reported value for the relevant month. However, if a value of CPI_t and CPI_{t-12} used by the Calculation Agent on any Interest Reset Date to determine the interest rate on the CPI Bonds (an “Initial CPI Value”) is subsequently revised by the BLS, the Calculation Agent will continue to use the Initial CPI Value for all purposes hereunder, and the interest rate for the related Interest Period, as determined based upon the Initial CPI Value, will not be revised.

If the CPI is re-based to a different year or period, the base reference period for the CPI Bonds will continue to be the 1982-1984 reference period as long as the 1982-1984 CPI continues to be published.

If, while the CPI Bonds are outstanding, the CPI is discontinued or substantially altered, as determined in the sole discretion of the Calculation Agent, the Calculation Agent will determine the CPI Rate with reference to an applicable substitute index chosen by the U. S. Department of Treasury for its Inflation-Indexed Securities as described in the Treasury Inflation-Indexed Securities Regulation or, if no such securities are outstanding or no such substitute index is chosen, in accordance with general market practice at the time.

There will be no adjustment to the principal amount of the CPI Bonds at maturity or at any other time during the term of the CPI Bonds. The amount that holders of the CPI Bonds will receive at maturity is equal to the principal amount of CPI Bonds purchased by such holders.

Rounding

All percentages resulting from any calculation of the interest rate will be rounded to the nearest third decimal place (one thousandth of a percentage point), rounding upwards if the fourth decimal place is five or greater (e.g., 9.8765% (or .098765) would be rounded up to 9.877% (or .09877), and 9.8764% (or .098764) would be rounded down to 9.876% (or .09876)). All dollar amounts used in or resulting from such calculation on the CPI Bonds will be rounded to the nearest cent (with one-half cent being rounded upward).

Risk Factors

An investment in the CPI Bonds involves risks not associated with an investment in ordinary floating rate securities, which prospective investors should consider before purchasing the CPI Bonds.

The interest rate on the CPI Bonds may be less than the Spread and, in some cases, could be zero.

The CPI Rate, which represents the interest payable on the CPI Bonds during any Interest Period, is calculated based upon year-over-year changes in the level of the CPI, plus the Spread, determined monthly over the term of the CPI Bonds.

If the CPI for the same month in successive years does not increase, which is likely to occur when there is little or no inflation, investors in the CPI Bonds will receive an interest payment for the applicable Interest Period equal to the Spread. If the CPI for the same month in successive years decreases, which is likely to occur in periods of deflation, investors in the CPI Bonds will receive an interest payment for the applicable Interest Period that is less than the Spread. If the CPI for the same month in successive years declines by a percentage equal to or greater than the Spread, the CPI Rate will equal zero for the related Interest Period and investors in the CPI Bonds will receive no interest payment on the corresponding Interest Payment Date.

The interest rate is based upon the CPI. The CPI itself and the way BLS calculates the CPI may change in the future.

An investment in securities with interest determined by reference to an inflation index involves factors independent of the creditworthiness of the Commonwealth or otherwise not associated with an investment in securities with interest determined by reference to a fixed rate, floating rate or other index-linked rate. Such factors may include, without limitation, the volatility of the CPI, the amount of other securities linked to the CPI, the level, direction and volatility of the market interest rates generally, the possibility that the CPI may be subject to significant changes, that changes in the CPI may or may not correlate to changes in interest rates generally or with changes in other indices and that the resulting interest may be greater or less than that payable on other securities of similar maturities.

In addition, the value of the CPI may depend on a number of factors, including economic, financial and political events over which the Commonwealth has no control. The historical experience of the CPI should not be taken as an indication of its performance during the term of the CPI Bonds. While the CPI measures changes for prices in goods and services, movements in the CPI that have occurred in the past are not necessarily indicative of changes that may occur in the future.

Further, there can be no assurance that the BLS will not change the method by which it calculates the CPI. Changes may also occur in the way CPI is calculated, which could reduce the level of the CPI and lower the interest payment with respect to the CPI Bonds. Accordingly, the amount of interest, if any, payable on the CPI Bonds, and therefore the value of the CPI Bonds, may be significantly reduced. If the CPI is discontinued or substantially altered, a substitute index may be employed to calculate the interest payable on the CPI Bonds, as described above, and that substitution may adversely affect the value of the CPI Bonds.

The historical levels of the CPI are not an indication of the future levels of the CPI during the term of the CPI Bonds. The CPI has experienced periods of volatility in the past and such volatility may occur in the future. On the other hand, fluctuations and trends in the CPI that may have been observed in the past are not necessarily predictive of fluctuations and trends that may occur in the future.

The CPI Rate is based upon historical CPI changes and may not reflect the most recent changes in the CPI.

The calculation methodology for determining CPI incorporates an approximate three-month lag with payments of interest one month after such determination. This timing lag may have an impact on the trading price of the CPI Bonds, particularly during periods of significant, rapid changes in the CPI.

Limited liquidity.

Tax-exempt municipal securities bearing interest at a CPI Rate are relatively new investment instruments. There can be no assurance that a secondary market for the CPI Bonds will develop or, if a secondary market does develop, that it will continue or that it will provide owners of the CPI Bonds with liquidity for their investment. In addition, as a new product, the CPI Bonds may not be widely traded or as well understood as fixed rate securities,

ordinary floating rate securities or other types of index-linked securities. Lesser liquidity and fewer market participants may result in larger spreads between bid and asked prices for the CPI Bonds than the bid-asked spreads for fixed rate securities, ordinary floating rate securities or other types of index-linked securities of the same maturity as the CPI Bonds. Larger bid-asked spreads normally result in higher transaction costs and/or lower overall returns. The liquidity of the CPI Bonds may be enhanced over time as other issuers of tax-exempt bonds issue similar securities, or as more entities participate in the market for inflation-protection securities, generally, but there can be no assurance that either or both of these phenomena will occur.

Hypothetical Interest Rate Calculations

The following table sets forth the CPI from January 2000 to October 2006, as published by the BLS and reported on Bloomberg CPURNSA:

MONTH	2006	2005	2004	2003	2002	2001	2000
January	198.3	190.7	185.2	181.7	177.1	175.1	168.8
February	198.7	191.8	186.2	183.1	177.8	175.8	169.8
March	199.8	193.3	187.4	184.2	178.8	176.2	171.2
April	201.5	194.6	188.0	183.8	179.8	176.9	171.3
May	202.5	194.4	189.1	183.5	179.8	177.7	171.5
June	202.9	194.5	189.7	183.7	179.9	178.0	172.4
July	203.5	195.4	189.4	183.9	180.1	177.5	172.8
August	203.9	196.4	189.5	184.6	180.7	177.5	172.8
September	202.9	198.8	189.9	185.2	181.0	178.3	173.7
October		199.2	190.9	185.0	181.3	177.7	174.0
November		197.6	191.0	184.5	181.3	177.4	174.1
December		196.8	190.3	184.3	180.9	176.7	174.0

By way of example, the following illustrates the way in which the CPI Rate would be calculated on the CPI Bonds. Based upon the above table, the hypothetical interest rate that would have been payable on the CPI Bonds for the Interest Period from April 1, 2003 to May 1, 2003 is 3.581% per annum. This hypothetical interest rate is calculated by inserting the following CPI levels into the interest rate formula described under “Interest Rate” and using the hypothetical Spread of 0.60%:

$CPI_t = 183.1$, which is equal to the CPI level for February 2003, which as the second calendar month prior to the Interest Reset Date of April 1, 2003, would be the Reference Month; and

$CPI_{t-12} = 177.8$, which is equal to the CPI level for February 2002, the twelfth calendar month prior to the Reference Month for the Interest Reset Date of April 1, 2003,



Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)

Authorized Officer of Insurance Trustee

