

**NEW ISSUE - BOOK-ENTRY-ONLY**

*In the opinion of Bond Counsel, under existing law and assuming continued compliance by the Commonwealth with the Internal Revenue Code of 1986, as amended, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for the purpose of computing the federal alternative minimum tax imposed on individuals and corporations, although interest on the Bonds will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed upon 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. For federal and Massachusetts tax purposes, interest includes original issue discount. See "TAX EXEMPTION" herein.*



**THE COMMONWEALTH OF MASSACHUSETTS**

**\$250,000,000**

**General Obligation Bonds  
Consolidated Loan of 2001, Series B**

*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 May 1, 2001 and interest will be payable on November 1, 2001 and semiannually thereafter on May 1 and November 1, calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are subject to redemption prior to maturity, as more fully described herein.*

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

The Bonds are offered when, as and if issued and received by the original purchasers, and subject to the unqualified approving opinion as to legality of Ropes & Gray, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Disclosure Counsel. Settlement of the issue is expected at DTC in New York, New York, on or about May 17, 2001.

May 9, 2001

# THE COMMONWEALTH OF MASSACHUSETTS

## \$250,000,000 General Obligation Bonds Consolidated Loan of 2001, Series B

**Dated: May 1, 2001**

**Due: May 1, as shown below**

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
2002	\$16,455,000	3.75%	2.87%
2003	17,045,000	4.75	3.208
2004	17,680,000	5.00	3.49
2005	18,360,000	5.00	3.67
2006	19,090,000	5.00	3.85
2007	19,870,000	5.00	3.99
2008	20,695,000	4.00	4.13
2009	21,565,000	5.25	4.26
2010	22,480,000	5.00	4.38
2011	23,450,000	5.00	4.46
2012	25,475,000	5.00	4.60
2013	27,835,000	5.00	4.70

(accrued interest, if any, to be added)

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

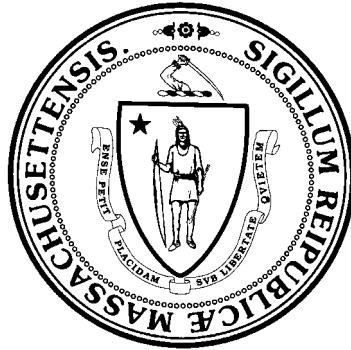
No dealer, broker, salesperson or other person has been authorized by The Commonwealth of Massachusetts or the original purchasers of the Bonds to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or 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 original purchasers 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.

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# THE COMMONWEALTH OF MASSACHUSETTS



## CONSTITUTIONAL OFFICERS

**Jane Swift** ..... **Lieutenant Governor and Acting Governor**  
**William F. Galvin** ..... **Secretary of the Commonwealth**  
**Thomas F. Reilly** ..... **Attorney General**  
**Shannon P. O'Brien** ..... **Treasurer and Receiver-General**  
**A. Joseph DeNucci** ..... **Auditor**

## LEGISLATIVE OFFICERS

**Thomas F. Birmingham** ..... **President of the Senate**  
**Thomas M. Finneran** ..... **Speaker of the House**

## OFFICIAL STATEMENT

### THE COMMONWEALTH OF MASSACHUSETTS

**\$250,000,000**  
**General Obligation Bonds**  
**Consolidated Loan of 2001, Series B**

### INTRODUCTION

This Official Statement (including the cover pages and Appendices A through D attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the “Commonwealth”) of \$250,000,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 2001, Series B (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 “COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Limit on Debt Service Appropriations.”

The Bonds are being issued to finance certain authorized capital projects of the Commonwealth. See “THE BONDS – Application of Proceeds of the Bonds.”

#### **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 D. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document.

Attached hereto as Appendix A is the Commonwealth’s Information Statement dated April 27, 2001 (the “Information Statement”), which contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth. Exhibits B and C to the Information Statement are not included in Appendix A. Exhibit A to the Information Statement contains certain economic information concerning the Commonwealth. Exhibits B and C to the Information Statement contain the financial statements of the Commonwealth for the fiscal year ended June 30, 2000, prepared on a statutory basis and a GAAP basis, respectively. Specific reference is made to said Exhibits B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission.

Appendix B attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Bonds. Appendix C attached hereto contains the proposed form of the Commonwealth’s continuing disclosure undertaking to be included in the form of the Bonds to facilitate compliance by the purchaser with the requirements of paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission.

## THE BONDS

### General

The Bonds will be dated May 1, 2001 and will bear interest from such date payable semiannually on November 1 and May 1 of each year, commencing November 1, 2001 (each an "Interest Payment Date") until the principal amount is paid. The Bonds will mature on May 1 in the years and in the aggregate principal amounts, and shall bear interest at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months), as set forth on the inside cover page of this Official Statement. The 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 immobilized at The Depository Trust Company, New York, New York ("DTC"). The certificates will not be available for distribution to the public and will evidence ownership of the Bonds in principal amounts of \$5,000 or integral multiples thereof. Transfers of ownership will be effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Interest and principal due on the Bonds will be paid in clearing house funds to DTC or its nominee as registered owner of the Bonds. The record date for payments on account of the Bonds will be the business day next preceding an Interest Payment Date. As long as the book-entry-only system remains in effect, DTC or its nominee will be recognized as the owner of the Bonds for all purposes, including notices and voting. The Commonwealth will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. See "BOOK-ENTRY-ONLY SYSTEM."

### Redemption

The Bonds maturing on or prior to May 1, 2010 will not be subject to redemption prior to their stated maturity dates.

*Optional Redemption.* The Bonds maturing on and after May 1, 2011 will be subject to redemption prior to their stated maturity dates on and after May 1, 2010 at the option of the Commonwealth from any moneys legally available therefor, in whole or in part at any time, by lot, at 100% of the principal amount thereof, plus accrued interest to the redemption date.

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

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

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

### Application of Proceeds of the Bonds

The Bonds are being issued pursuant to the provisions of Section 49 of Chapter 29 of the Massachusetts General Laws and bond authorizations contained in various special laws enacted by the legislature. The net proceeds of the sale of the Bonds will be applied by the Treasurer and Receiver-General of the Commonwealth (the "State Treasurer") to the various purposes for which the issuance of bonds has been authorized pursuant to such special laws, or to the payment of bond anticipation notes previously issued for such purposes, or to reimburse the Commonwealth's treasury for expenditures previously made pursuant to such laws. Any accrued interest payable upon original delivery

of the Bonds will be credited ratably to the funds from which debt service on the Bonds is paid and will be used to pay interest on the Bonds. Any premium received by the Commonwealth upon original delivery of the Bonds will be applied to the costs of issuance thereof and other financing costs related thereto or, without appropriation, to the payment of the principal of or sinking fund installments with respect to the Bonds.

The purposes for which the Bonds will be issued have been authorized by the legislature under various bond authorizations. The proceeds will be used to finance or reimburse the Commonwealth for a variety of capital expenditures that are included within the current five-year capital spending plan established by the Executive Office for Administration and Finance. The plan, which is an administrative guideline and is subject to amendment at any time, sets forth capital spending allocations over the next five fiscal years and establishes annual capital spending limits. See Appendix A – “Commonwealth Information Statement” under the heading “COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES.”

### **SECURITY FOR THE BONDS**

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

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

### **LITIGATION**

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

There are pending in courts within the Commonwealth various suits in which the Commonwealth is a defendant. In the opinion of the Attorney General, no litigation is pending or, to 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 Appendix A – “Commonwealth Information Statement” under the heading “LEGAL MATTERS.”

### **BOOK-ENTRY-ONLY SYSTEM**

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

DTC is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing

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

Purchases of 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, but Beneficial Owners are expected to receive written confirmations of their purchase providing details of the Bonds acquired, as well as periodic statements of their holdings, from the DTC Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 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 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. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the 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. 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 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.**

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, unless a substitute depository is retained by the Commonwealth, 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 Bond owner.



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

The principal of and interest and premium, if any, on the Bonds will be paid to DTC or its nominee, Cede & Co., as registered owner of the Bonds. Upon receipt of moneys, DTC's practice is to credit the accounts of the DTC Participants on the payable date in accordance with their respective holdings shown on the records of DTC. 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.

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

#### **RATINGS**

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

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

#### **TAX EXEMPTION**

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

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

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

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. 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.

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

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

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

#### **OPINIONS OF COUNSEL**

The unqualified approving opinion as to the legality of the Bonds will be rendered by Ropes & Gray 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 B. Certain legal matters will also be passed upon by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. of Boston, Massachusetts, as Disclosure Counsel to the State Treasurer.

#### **COMPETITIVE SALE OF BONDS**

After competitive bidding on May 9, 2001, the Bonds were awarded to JP Morgan Securities Inc., as purchaser. The purchaser has supplied the information as to the public offering yields or prices of the Bonds set forth on the inside cover hereof. If all of the Bonds were resold to the public at such yields or prices, the purchaser has informed the Commonwealth that it anticipates the total purchaser compensation to be \$463,535.00. The purchaser may change the public offering yields or prices from time to time.

## CONTINUING DISCLOSURE

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

For information concerning the availability of certain other financial information from the Commonwealth, see Appendix A – “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.

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

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

## AVAILABILITY OF OTHER INFORMATION

Questions regarding this Official Statement or requests for additional financial information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900 or Laura Guadagno, Assistant Secretary for Capital Resources and Chief Development Officer, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Official Statement and the Bonds should be directed to Lawrence D. Bragg, III, Ropes & Gray, One International Place, Boston, Massachusetts 02110, telephone 617/951-7000.

## THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Shannon P. O'Brien  
Shannon P. O'Brien  
*Treasurer and Receiver-General*

By /s/ Stephen P. Crosby  
Stephen P. Crosby  
*Secretary of Administration and Finance*

May 9, 2001

**THE  
COMMONWEALTH  
OF  
MASSACHUSETTS**



**INFORMATION STATEMENT**

**Dated April 27, 2001**

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**THE COMMONWEALTH OF MASSACHUSETTS**



**CONSTITUTIONAL OFFICERS**

**Jane Swift ..... Acting Governor and Lieutenant Governor**  
**William F. Galvin ..... Secretary to the Commonwealth**  
**Thomas F. Reilly..... Attorney General**  
**Shannon P. O’Brien..... Treasurer and Receiver-General**  
**A. Joseph DeNucci..... Auditor**

**LEGISLATIVE OFFICERS**

**Thomas F. Birmingham..... President of the Senate**  
**Thomas M. Finneran..... Speaker of the House**

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**THE COMMONWEALTH OF MASSACHUSETTS**  
**INFORMATION STATEMENT**

**April 27, 2001**

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

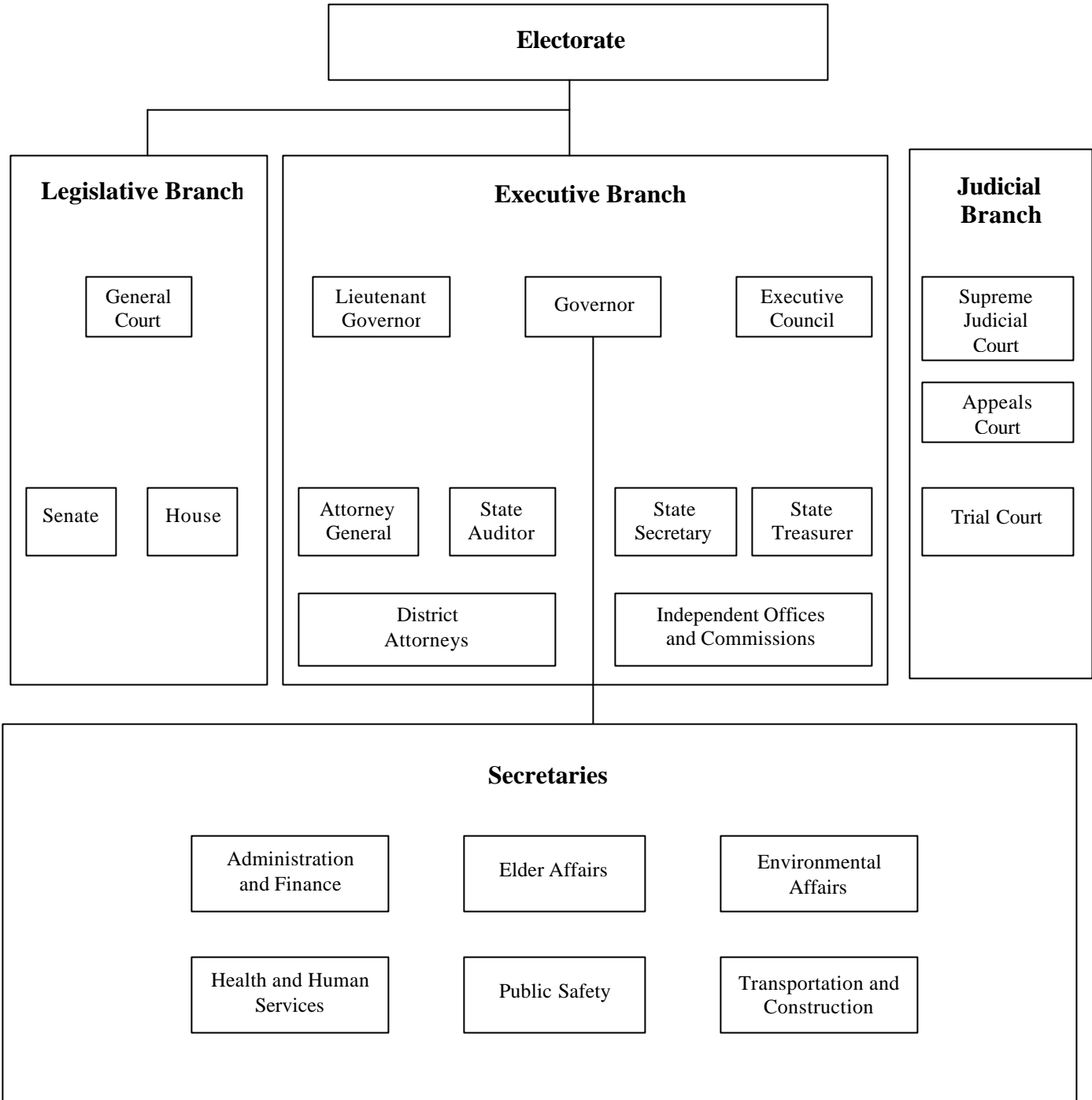
The ability of the Commonwealth to meet its obligations will be affected by future social, environmental and economic conditions, among other things, as well as by legislative policies and the financial condition of the Commonwealth. Many of these conditions are not within the control of the Commonwealth.

Exhibit A to this Information Statement sets forth certain economic, demographic and statistical information concerning the Commonwealth; Exhibits B and C are the Statutory Basis Financial Report for the year ended June 30, 2000 and the Comprehensive Annual Financial Report (GAAP basis) for the year ended June 30, 2000, respectively. 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 Comptroller's web site located at <http://www.state.ma.us/osc/Reports/reportsfinancial.htm>.



## THE GOVERNMENT

The government of the Commonwealth is divided into three branches: the Executive, the bicameral Legislature and the Judiciary, as indicated by the chart below.



## Executive Branch

The Governor is the chief executive officer of the Commonwealth. Other elected members of the executive branch are the Lieutenant Governor (elected with the Governor), the Treasurer and Receiver-General (the “State Treasurer”), the Secretary of the Commonwealth, the Attorney General and the State Auditor. All are elected to four-year terms. The terms of the current office holders began in January, 1999. On April 10, 2001 Governor Cellucci resigned to become the U. S. Ambassador to Canada. Upon Governor Cellucci’s resignation, Lieutenant Governor Swift became Acting Governor until the expiration of the current term in January, 2003.

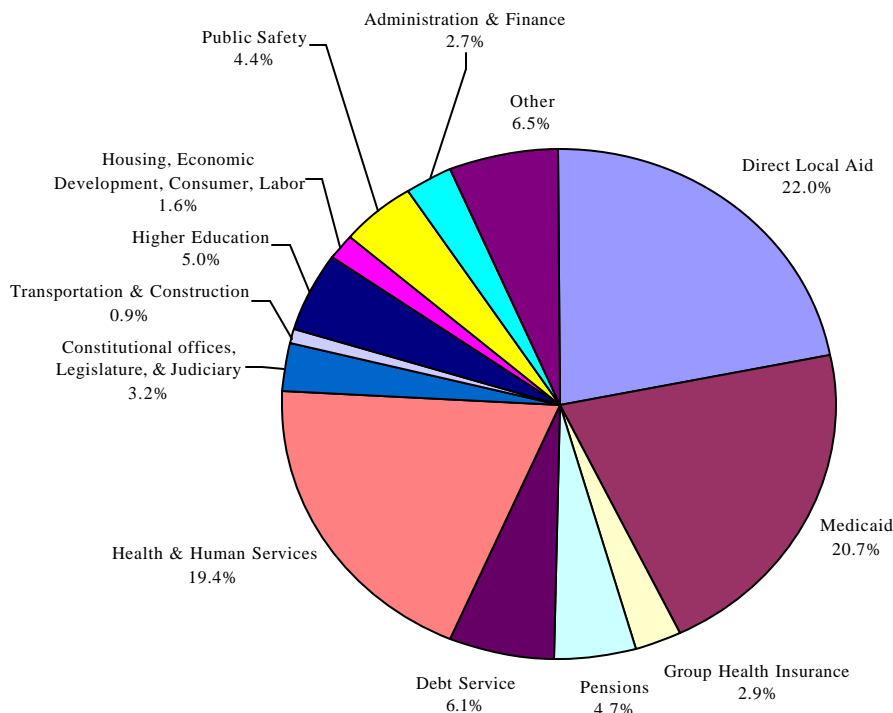
The Executive, or Governor’s, Council consists of eight members who are elected to two-year terms in even-numbered years. The Executive Council is responsible for the confirmation of certain gubernatorial appointments, particularly judges, and must approve all warrants (other than for debt service) prepared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

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

*Governor’s Cabinet.* The Governor’s Cabinet, which assists the Governor in administration and policy making, is comprised of the secretaries who head the six Executive Offices, which are the Executive Office for Administration and Finance, the Executive Office of Elder Affairs, the Executive Office of Environmental Affairs, the Executive Office of Health and Human Services, the Executive Office of Public Safety and the Executive Office of Transportation and Construction, Cabinet secretaries serve at the pleasure of the Governor. Most agencies are grouped under one of the six Executive Offices for administrative purposes. Other important agencies and departments report directly to the Governor, including the Department of Housing and Community Development, the Department of Consumer Affairs and Business Regulation, the Department of Economic Development and the Department of Labor and Workforce Development.

Below is a graph depicting the breakdown of major categories of projected budgeted operating spending for fiscal year 2001. See “2001 FISCAL YEAR.”

**Fiscal 2001 Projected Operating Spending**



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

*State Comptroller.* All accounting policies and practices, publication of official financial reports and oversight of fiscal management functions are the responsibility of the Comptroller. The Comptroller also administers the annual state single audit and operates the state accounting system. The Comptroller is appointed by the Governor for a term coterminous with the Governor's and may be removed by the Governor only for cause. The annual financial reports of the Commonwealth, single audit reports and any rules and regulations promulgated by the Comptroller must be reviewed by an advisory board. This board is chaired by the Secretary of Administration and Finance and includes the State Treasurer, the Attorney General, the State Auditor, the Chief Administrative Justice of the Trial Court and two persons with relevant experience appointed by the Governor for three-year staggered terms. The Commonwealth's audited annual reports include audited financial statements on both the statutory basis of accounting (the Statutory Basis Financial Report, or SBFR) and the GAAP basis (the Comprehensive Annual Financial Report, or CAFR). The Commonwealth retained the independent public accounting firm of Deloitte & Touche, LLP for fiscal 2000 and fiscal 2001 to audit the Commonwealth's financial statements and to conduct the state single audit. The Statutory Basis Financial Report for the year ended June 30, 2000, included herein by reference as Exhibit B, and the Comprehensive Annual Financial Report for the year ended June 30, 2000, included herein by reference as Exhibit C, were audited by Deloitte & Touche LLP, as stated in their reports appearing therein. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS."

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

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

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

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

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

## **Legislative Branch**

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

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

## **Judicial Branch**

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

## **Independent Authorities and Agencies**

The Legislature has established 56 independent authorities and agencies within the Commonwealth, the budgets of which are not included in the Commonwealth’s annual budget. The Governmental Accounting Standards Board (GASB) Statement 14 articulates standards for determining significant financial or operational relationships between the primary government and its independent entities. In fiscal 2000, the Commonwealth had significant operational or financial relationships, or both, as defined by GASB Statement 14, with 34 of its 56 authorities. A discussion of these entities and the relationship to the Commonwealth is included in footnote 1 to the fiscal 2000 general purpose financial statements in the Comprehensive Annual Financial Report included herein by reference as Exhibit C.

## **Local Government**

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

Municipal revenues consist of taxes on real and personal property, distributions from the Commonwealth under a variety of programs and formulas, local receipts (including motor vehicle excise taxes, local option taxes, fines, licenses and permits, charges for utility and other services and investment income) and appropriations from other available funds (including general and dedicated reserve funds). Following the enactment in 1980 of the tax limitation initiative petition commonly known as Proposition 2½, local governments have been forced to rely less on property taxes and more on other revenues, principally Local Aid, to support local programs and services. See “COMMONWEALTH PROGRAMS AND SERVICES – Local Aid.”

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

### **Initiative Petitions**

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

## **COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS**

### **Operating Fund Structure**

The Commonwealth’s operating fund structure satisfies the requirements of state finance law and is in accordance with generally accepted accounting principles (“GAAP”), as defined by the Governmental Accounting Standards Board. The General Fund and those special revenue funds which are appropriated in the annual state budget receive most of the non-bond and non-federal grant revenues of the Commonwealth. These funds are referred to in this Information Statement as the “budgeted operating funds” of the Commonwealth. They do not include the capital projects funds of the Commonwealth, into which the proceeds of Commonwealth bonds are deposited. See “Overview of Capital Spending Process and Controls; *Capital Projects Fund Structure*.” The three principal budgeted operating funds are the General Fund, the Highway Fund and the Local Aid Fund. Expenditures from these three funds generally account for approximately 93% of total expenditures of the budgeted operating funds. State finance law also provides for a Stabilization Fund, a Capital Projects Fund and a Tax Reduction Fund relating to the use of any aggregate fiscal year-end surplus in the Commonwealth’s three principal budgeted operating funds. See “FINANCIAL RESULTS– Stabilization Fund and Disposition of Year-End Surpluses.”

### **Overview of Budgetary Process**

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

The House Ways and Means Committee considers the Governor’s budget recommendations and, with revisions, proposes a budget to the full House of Representatives. Once approved by the House, the budget is considered by the Senate Ways and Means Committee, which in turn proposes a budget to be considered by the full Senate. After Senate action, a legislative conference committee generally develops a compromise budget for

consideration by both houses of the Legislature, which upon adoption is sent to the Governor. Under the Massachusetts constitution, the Governor may veto the budget in whole or disapprove or reduce specific line items. The Legislature may override the Governor's veto or specific line-item vetoes by a two-thirds vote of both the House and Senate. The annual budget legislation, as finally enacted, is known as the General Appropriation Act.

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

During the course of the fiscal year, the Comptroller monitors budgetary accounts and notifies the Secretary of Administration and Finance and the House and Senate Committees on Ways and Means whenever the appropriation for a particular account has been depleted. Whenever the Governor believes that existing appropriations are insufficient to provide for projected expenditures under authorized programs, the Governor may seek supplemental appropriations for particular programs or spending items.

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

### **Cash and Budgetary Controls**

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

### **Cash Management Practices of State Treasurer**

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

The Cash Management Division of the State Treasurer's office accounts on a daily basis for cash received into over 600 separate accounts of the Department of Revenue and other Commonwealth agencies and departments. The Division relies primarily upon electronic receipt and disbursement systems.

The State Treasurer is required to submit quarterly cash flow projections for the then current fiscal year to the House and Senate Committees on Ways and Means on or before each August 25, November 25, February 25

and May 25. The projections must include estimated sources and uses of cash, together with the assumptions from which such estimates were derived and identification of any cash flow gaps. Regular meetings comparing estimated to actual revenues and expenditures are held among the Office of the State Treasurer, the Office of the Comptroller, the Department of Revenue and the Executive Office for Administration and Finance.

The State Treasurer's office, in conjunction with the Executive Office for Administration and Finance, is also required to develop quarterly and annual cash management plans to address any gap identified by the cash flow projections and variance reports.

### **Fiscal Control, Accounting and Reporting Practices of Comptroller**

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

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

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

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

*Internal Controls.* The Comptroller maintains internal control policies and procedures in accordance with state finance law that state agencies are required to follow. Violations of state finance law or regulation, or other internal control weaknesses, must be reported to the State Auditor, who is authorized, among other things, to investigate and recommend corrective action.

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

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

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

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

Under GAAP, revenues are reported in the period in which they become both measurable and available. Revenues are "available" when they are expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants and reimbursements, local government assessments for operations of the Massachusetts Bay Transportation Authority (MBTA) and reimbursements for the use of materials and services. Tax accruals, which represent the estimated amounts due to the Commonwealth on previous filings, over and under withholdings, estimated payments on income earned and tax refunds and abatements payable, are all recorded as adjustments to statutory basis tax revenues. Expenditures/expenses are recorded in the period in which the related fund liability is incurred. Principal of and interest on long-term debt obligations are recorded as fund liabilities when due. Major expenditure accruals are recorded for the cost of Medicaid claims that have been incurred but not paid, claims and judgments and compensated absences such as vacation pay earned by state employees. See "FINANCIAL RESULTS – Selected Financial Data – GAAP Basis" and Exhibit C (Comprehensive Annual Financial Report for the year ended June 30, 2000).



*GASB Statement 34.* Beginning with fiscal 2002, the Commonwealth's GAAP financial statements will change prospectively due to the implementation of GASB Statement 34. The changes effectively add an additional layer of reporting to the current fund perspective reports, which will continue. The changes will present a government-wide perspective, including debt, fixed assets and accrual activity on a comprehensive balance sheet. The CAFR will be reorganized, with additional elements, such as a management's discussion and analysis. The following are other material, pertinent changes between the existing governmental fund balance sheet and the future government-wide statement of net assets:

<b>Assets and Liabilities</b>	<b>Current Reporting</b>	<b>GASB Statement 34 Reporting</b>	<b>Change Required</b>	<b>Effect on Commonwealth's Governmental Fund Balance</b>
Capital assets, including infrastructure.	Reported in a separate account group without infrastructure.	Reported on the face of the financial statements.	To be reported, net of accumulated depreciation/amortization.	Fund balance to be adjusted for the carrying value of net assets.
Deferred bond issuance charges.	Not reported.	Reported on the face of the financial statements.	Unamortized balance of deferred bond issuance charges to be reported.	Fund balance to be adjusted for the unamortized balance of deferred bond issuance costs.
Unmatured long-term debt, net of premiums, discounts, etc.	Reported in a separate account group.	Reported on the face of the financial statements.	Unmatured long term debt to be reported, net of premiums, discounts, etc.	Fund balance to be adjusted for the unmaturred debt.
Accrued interest receivable and payable.	Not reported.	Reported on the face of the financial statements.	Asset/liability to be reported for receivable/payable.	Fund balance to be adjusted for current accruals.
Claims and judgments, compensated absences, escalating operating leases and net pension obligations.	Reported in a separate account group.	Reported on the face of the financial statements.	Accrued liabilities outstanding to be reported.	Fund balance to be adjusted for accrued liabilities.

The Commonwealth has not yet calculated the effect on its existing fund balances of these and other prospective changes. In addition to fund balance changes, there will also be changes to the income statements. Under GASB Statement 34, capital outlays, debt payments, gains and losses from sales of assets, depreciation and amortization are all expected to affect income from the government-wide perspective.

*Financial Reports.* The Commonwealth's fiscal year ends on June 30. For fiscal years 1986 through 1989, the Commonwealth's audited annual report included audited financial statements on both the statutory basis of accounting and the GAAP basis. Since fiscal 1990, these financial statements have been issued as two separate reports, one utilizing the statutory basis of accounting (the SBFR) and one utilizing the GAAP basis (the CAFR).

The SBFR is published by the Comptroller by October 31, and the CAFR is published by the Comptroller by the second Wednesday in January. The SBFR for the year ended June 30, 2000 and the CAFR for the year ended June 30, 2000 are included herein by reference as Exhibits B and C, respectively. For fiscal 1991 through 2000 the independent auditor's opinions were unqualified. Copies of these financial reports are available at the address provided under "CONTINUING DISCLOSURE." These financial statements are also available on the Comptroller's web site located at <http://www.state.ma.us/osc/Reports/reportsfinancial.htm>. Throughout the year, the Comptroller prepares interim financial statements on the statutory basis of accounting, which are not audited, but are considered authoritative.

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

The Commonwealth CAFRs for fiscal 1996 through fiscal 1999, from which certain information contained in this Information Statement has been derived, were each awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. Fiscal 1999 marked the tenth consecutive year that the Commonwealth has received this award. The CAFR for fiscal 2000 has been submitted to the GFOA for the award.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Any such CAFR must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

## **Overview of Capital Spending Process and Controls**

*Capital Projects Fund Structure.* Capital projects funds are used to account for financial activity related to the acquisition of major capital assets. Line item capital appropriations are authorized from capital projects funds. Such capital spending is financed principally from proceeds of Commonwealth bonds and bond anticipation notes, federal reimbursements, payments from other entities (such as the Massachusetts Turnpike Authority) and transfers from other governmental funds. The issuance of bonds and bond anticipation notes requires that both houses of the Legislature approve, by a two-thirds vote, bond authorizations to incur debt for specific purposes. See "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES." Pursuant to state finance law, the Governor, through the Secretary of Administration and Finance, has discretion over the allotment and, therefore, the actual expenditure of funds authorized by capital appropriations.

*Five-Year Capital Spending Plan.* The Fiscal Affairs Division in the Executive Office for Administration and Finance maintains a rolling five-year capital spending plan. The plan, which is an administrative guideline and subject to amendment at any time, sets forth capital spending allocations for a period of five fiscal years and establishes capital spending limits. The policy objective of the five-year plan is to limit the Commonwealth's debt burden by controlling the relationship between current capital spending and the issuance of Commonwealth bonds. Capital appropriations enacted by the Legislature are typically supported by bond authorizations. As noted above, the Governor, through the Secretary of Administration and Finance, may control the rate at which capital expenditures occur by utilizing his discretion over the allotment of capital appropriations, and therefore control the amount of bonds issued to finance such expenditures. See "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES."

*Capital Spending and Controls.* In conjunction with the development of the five-year capital spending plan, a number of accounting procedures and fiscal controls have been instituted to limit agency capital spending to the levels established by the plan. Since July 1, 1991, all agency capital spending has been tracked against the five-year plan on both cash and an encumbrance accounting basis on MMARS, and federal reimbursements have been budgeted and monitored against anticipated receipts.

## **Audit Practices of State Auditor**

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

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

## **FINANCIAL RESULTS**

As the annual operating budget of the Commonwealth is adopted in accordance with the statutory basis of accounting, public and governmental discourse on the financial affairs of the Commonwealth has traditionally followed the statutory basis. Consequently, the financial information set forth in this document follows the statutory basis, except where otherwise noted. Since fiscal 1990, the Commonwealth has prepared separate audited financial reports on the statutory basis and on a GAAP basis. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Fiscal Control, Accounting and Reporting Practices of the Comptroller; *Financial Reports*." The SBFR for the year ended June 30, 2000 is included herein by reference as Exhibit B. The CAFR for the year ended June 30, 2000 is included herein by reference as Exhibit C.

### **Selected Financial Data – Statutory Basis**

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth's audited statutory basis financial statements for fiscal 1996 through 2000, but have been adjusted to reflect the impact of the MBTA forward funding legislation. See "FINANCIAL RESULTS - Massachusetts Bay Transportation Authority." The estimates for fiscal 2001 have been prepared by the Executive Office for Administration and Finance. The financial information presented includes all budgeted operating funds of the Commonwealth. When the status of a fund has changed during this period, prior years have been restated to conform to the fiscal 2001 budget.

For fiscal 2000, the Commonwealth reported 63 budgeted operating funds. During a fiscal year there are numerous transactions among these budgeted funds, which from the fund accounting perspective create offsetting inflows and outflows.

In conducting the budget process, the Executive Office for Administration and Finance excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds. The following table isolates this interfund activity from the budgeted sources and uses to align more clearly forecasts prepared during the budget process to the detailed fund accounting of the Commonwealth's annual financial statements.

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

	Fiscal 1996	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000	Estimated Fiscal 2001
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$ 128.1	\$ 263.4	\$ 225.1	\$ 286.3	\$ 330.2	\$ 278.5
Tax Reduction Fund	--	231.7	91.8	367.7	6.8	7.2
Stabilization Fund	425.4	543.3	799.3	1,159.6	1,388.5	1,608.4
Undesignated	172.5	134.0	277.8	378.5	386.9	391.3
Fund Balance Restatement	<u>—</u>	<u>0.6(2)</u>	<u>--</u>	<u>—</u>	<u>—</u>	<u>--</u>
Total	<u>726.0</u>	<u>1,173.0</u>	<u>1,394.0</u>	<u>2,192.1</u>	<u>2,112.4</u>	<u>2,285.4</u>
<u>Revenues and Other Sources</u>						
Taxes	12,049.2	12,864.5	14,026.3	14,291.5	15,688.6	15,587.1(4)
Federal Reimbursements	3,039.1	3,019.6	3,361.2	3,442.9	3,645.6	3,867.0
Departmental and Other Revenues	1,208.1	1,267.9	1,286.4	1,297.8	1,359.9	1,474.2
Interfund Transfers from Non-budgeted Funds and Other Sources	<u>1,031.1</u>	<u>1,018.0</u>	<u>1,125.9</u>	<u>1,132.8</u>	<u>1,893.0</u>	<u>1,161.8</u>
Budgeted Revenues and Other Sources	<u>17,327.5</u>	<u>18,170.0</u>	<u>19,799.8</u>	<u>20,165.0</u>	<u>22,587.1</u>	<u>22,090.0</u>
Mass Transit Assessments from Municipalities	147.6	151.5	155.6	159.9	15.8	—
Interfund Transfers among Budgeted Funds and Other Sources	<u>896.2</u>	<u>901.8</u>	<u>1,449.2</u>	<u>1,242.0</u>	<u>3,618.2(3)</u>	<u>241.0</u>
Total Revenues and Other Sources	<u>18,371.3</u>	<u>19,223.3</u>	<u>21,404.6</u>	<u>21,566.9</u>	<u>26,221.1</u>	<u>22,331.1</u>
<u>Expenditures and Uses</u>						
Programs and Services	14,650.7	15,218.8	16,238.6	17,341.1	19,330.7	19,794.3
Debt Service	1,183.6	1,275.5	1,213.4	1,173.8	1,193.3	1,361.3
Pensions	1,004.6	1,069.2	1,069.8	990.2	986.3	1,040.5
Interfund Transfers to Non-budgeted Funds and Other Uses	<u>42.2</u>	<u>385.5</u>	<u>479.9</u>	<u>739.6</u>	<u>903.8</u>	<u>84.8</u>
Budgeted Expenditures and Other Uses	<u>16,881.1</u>	<u>17,949.0</u>	<u>19,001.7</u>	<u>20,244.7</u>	<u>22,414.1</u>	<u>22,280.9</u>
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	147.6	151.5	155.6	159.9	15.8	—
Interfund Transfers among Budgeted Funds and Other Uses	<u>896.2</u>	<u>901.8</u>	<u>1,449.2</u>	<u>1,242.0</u>	<u>3,618.2</u>	<u>241.0</u>
Total Expenditures and Other Uses	<u>17,924.9</u>	<u>19,002.3</u>	<u>20,606.5</u>	<u>21,646.6</u>	<u>26,048.1</u>	<u>22,521.9</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>446.4</u>	<u>221.0</u>	<u>798.1</u>	<u>(79.7)</u>	<u>173.0</u>	<u>(190.8)</u>
<u>Ending Fund Balances</u>						
Reserved or Designated	263.4	225.1	286.3	330.2	278.5	54.5
Tax Reduction Fund	231.7	91.8	367.7	6.8	7.2	43.2
Stabilization Fund	543.3	799.3	1,159.6	1,388.5	1,608.4	1,656.8
Undesignated	<u>134.0</u>	<u>277.8</u>	<u>378.5</u>	<u>386.9</u>	<u>391.3</u>	<u>340.2</u>
Total	<u>\$ 1,172.4</u>	<u>\$ 1,394.0</u>	<u>\$ 2,192.1</u>	<u>\$ 2,112.4</u>	<u>\$ 2,285.4</u>	<u>\$ 2,094.7</u>

SOURCE: Fiscal 1996-2000, Office of the Comptroller; fiscal 2001, Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) The fund balance restatement for fiscal 1997 is the result of the reclassification of the Drug Analysis Fund from a non-budgeted fund to a budgeted fund.
- (3) Reflects legislation in the final supplemental appropriations act for fiscal 2000 requiring the Comptroller to transfer funds from the General Fund to the Local Aid Fund and Highway Fund at the end of fiscal 2000, eliminating deficits in these funds.
- (4) Net of a projected \$645 million of dedicated sales tax to be transferred to the MBTA.

**Massachusetts Bay Transportation Authority - Financial Restructuring**

Beginning in fiscal 2001, the finances of the Massachusetts Bay Transportation Authority (MBTA) were restructured, and its financial relationship to the Commonwealth changed materially. The MBTA finances and operates mass transit facilities in eastern Massachusetts. The MBTA issues its own bonds and notes and is also

responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. The Commonwealth is obligated to provide the MBTA with a portion of the revenues raised by the Commonwealth's sales tax, generally the amount raised by a 1% sales tax with an inflation-adjusted floor. (For fiscal 2001 the floor is \$645 million.) This amount is dedicated to the MBTA under a trust fund mechanism that does not permit future legislatures to divert the funds. The dedicated revenue stream is disbursed to the MBTA without state appropriation to be used to meet the Commonwealth's debt service contract assistance obligations relating to outstanding MBTA debt, as described below, and to meet the MBTA's other operating and debt service needs. The MBTA is authorized to assess a portion of its costs on 175 cities and towns in eastern Massachusetts; after a five-year phase-in of reduced assessments (from approximately \$144.6 million in fiscal 2000 to approximately \$136.0 million in fiscal 2006), the cities and towns are required by law to pay assessments equal to at least \$136 million in the aggregate, as adjusted in each year after fiscal 2006 for inflation (with no annual increase to exceed 2.5% per year).

Prior to July 1, 2000, the Commonwealth provided financial support of the MBTA through guaranties of the debt service on its bonds and notes, contract assistance generally equal to 90% of the debt service on outstanding MBTA bonds and payment of its net cost of service (current expenses, including debt service and lease obligations not otherwise provided for, minus current income). The MBTA's net cost of service was financed by the issuance of short-term notes by the MBTA and by cash advances from the Commonwealth. The Commonwealth then assessed the net cost of service in arrears on the cities and towns in the MBTA territory after deducting certain subsidy amounts appropriated in the state budget. This practice resulted in the disbursement of substantial cash subsidies paid out by the Commonwealth up to 18 months before the appropriation of amounts to defray such expenses. The legislation enacted in November, 1999 that provided for state sales tax receipts to be dedicated to the MBTA also provided for the "forward funding" of the MBTA by requiring the Commonwealth to defray the cost of the 18-month lag (from January 1, 1999 through June 30, 2000) in operating subsidies previously financed through the issuance of notes by the MBTA and the Commonwealth and the advancing of Commonwealth cash reserves to the MBTA. This cost has been estimated by the Comptroller of the Commonwealth to amount to \$848.3 million. This cost, plus an additional \$100 million to provide working capital to the MBTA, was financed in part by the issuance of \$325 million of Commonwealth general obligation bonds and by \$10.5 million in operating appropriations. The balance was financed by a transfer from the state's capital projects fund which is expected to be amortized over 20 years in the Commonwealth's operating budget, although an additional \$475 million of general obligation bonds remain authorized.

In order to draw down dedicated sales tax receipts or municipal assessments from the state treasury, the MBTA must first certify that it has made provision in its annual budget for sufficient amounts to be available to meet debt service payments or other payments due under pre-July 1, 2000 financing obligations for which the Commonwealth has pledged its credit or contract assistance or is otherwise liable or as to which the MBTA has covenanted to maintain net cost of service or contract assistance support. To the extent the dedicated sales tax receipts and municipal assessments are insufficient in any year to meet the MBTA's debt service payments with respect to such obligations, the Commonwealth remains liable for the payment of such pre-July 1, 2000 obligations or the provision of net cost of service or contract assistance support as to such obligations to the same extent as before the enactment of the forward funding legislation. The amount of any support provided to the MBTA beyond the dedicated sales tax receipts and municipal assessments is to be in the form of a no-interest loan repayable within five years from the MBTA's system revenues and the dedicated sales tax receipts and municipal assessments.

In the following table, to facilitate comparison, the revenues and expenditures for fiscal years 1996 to 2000, inclusive, have been reduced by the actual amount paid to the MBTA in each of those fiscal years to reflect the transfer off-budget of MBTA subsidies beginning in fiscal 2001.

**Budgeted Operating Funds -- Adjusted for MBTA Operations**  
(in millions)(1)(2)

	Fiscal 1996	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000	Estimated Fiscal 2001
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$ 128.1	\$ 263.4	\$ 225.1	\$ 286.3	\$ 330.2	\$ 278.5
Tax Reduction Fund	-	231.7	91.8	367.7	6.8	7.2
Stabilization Fund	425.4	543.3	799.3	1,159.6	1,388.5	1,608.4
Undesignated	172.5	134.0	277.8	378.5	386.9	391.3
Fund Balance Restatement	-	0.6(3)	-	-	-	-
Total	<u>726.0</u>	<u>1,173.0</u>	<u>1,394.0</u>	<u>2,192.1</u>	<u>2,112.4</u>	<u>2,285.4</u>
<u>Revenues and Other Sources</u>						
Taxes	12,049.2	12,864.5	14,026.3	14,291.5	15,688.6	15,587.1(4)
Federal Reimbursements	3,039.1	3,019.6	3,361.2	3,442.9	3,645.6	3,867.0
Departmental and Other Revenues	1,208.1	1,267.9	1,286.4	1,297.8	1,359.9	1,474.2
Interfund Transfers from Non-budgeted Funds and Other Sources	<u>1,031.1</u>	<u>1,018.0</u>	<u>1,125.9</u>	<u>1,132.8</u>	<u>1,893.0</u>	<u>1,161.8</u>
Budgeted Revenues and Other Sources	<u>17,327.5</u>	<u>18,170.0</u>	<u>19,799.8</u>	<u>20,165.0</u>	<u>22,587.1</u>	<u>22,090.1</u>
MBTA Adjustment (2)	(484.0)	(483.1)	(491.1)	(499.1)	(561.9)	NA
Adjusted Budgeted Revenues and Other Sources	<u>16,843.5</u>	<u>17,686.9</u>	<u>19,308.7</u>	<u>19,665.9</u>	<u>22,025.2</u>	<u>22,090.1</u>
<u>Expenditures and Uses</u>						
Programs and Services	14,650.7	15,218.8	16,238.6	17,341.1	19,330.7	19,794.3
Debt Service	1,183.6	1,275.5	1,213.4	1,173.8	1,193.3	1,361.3
Pensions	1,004.6	1,069.2	1,069.8	990.2	986.3	1,040.5
Interfund Transfers to Non-budgeted Funds and Other Uses	<u>42.2</u>	<u>385.5</u>	<u>479.9</u>	<u>739.6</u>	<u>903.8</u>	<u>84.8</u>
Budgeted Expenditures and Other Uses	<u>16,881.1</u>	<u>17,949.0</u>	<u>19,001.7</u>	<u>20,244.7</u>	<u>22,414.1</u>	<u>22,280.9</u>
MBTA Adjustment (2)	(484.0)	(483.1)	(491.1)	(499.1)	(561.9)	NA
Adjusted Expenditures and Other Uses	<u>16,397.1</u>	<u>17,465.9</u>	<u>18,510.6</u>	<u>19,745.6</u>	<u>21,852.2</u>	<u>22,280.9</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>446.4</u>	<u>221.0</u>	<u>798.1</u>	<u>(79.7)</u>	<u>172.9</u>	<u>(190.8)</u>
<u>Ending Fund Balances</u>						
Reserved or Designated	263.4	225.1	286.3	330.2	278.5	54.5
Tax Reduction Fund	231.7	91.8	367.7	6.8	7.2	43.2
Stabilization Fund	543.3	799.3	1,159.6	1,388.5	1,608.4	1,656.8
Undesignated	<u>134.0</u>	<u>277.8</u>	<u>378.5</u>	<u>386.9</u>	<u>391.3</u>	<u>340.2</u>
Total	<u>\$ 1,172.4</u>	<u>\$ 1,394.0</u>	<u>\$ 2,192.1</u>	<u>\$ 2,112.4</u>	<u>\$ 2,285.4</u>	<u>\$ 2,094.7</u>

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

- (1) Totals may not add due to rounding. The table does not reflect interfund transfers among budgeted funds and other sources which have no effect on the ending balances. The amounts of the transfers in fiscal years 1996-2001 were \$896.2 million, \$901.8 million, \$1,449.2 million, \$1,242.0 million, \$3,618.2 million and \$241.0 million, respectively. In addition, the table does not reflect the receipt and payment of certain municipal mass transit assessments totaling \$147.6 million, \$151.5 million, \$155.6 million, \$159.9 million and \$15.8 million in fiscal years 1996 through 2000, respectively.
- (2) To facilitate comparison, the table has been adjusted for fiscal years 1996 through 2000, inclusive, to reflect the transfer off-budget of MBTA operations that began in fiscal 2001 by subtracting the amount of Commonwealth payments to the MBTA in each of those fiscal years.
- (3) The fund balance restatement for fiscal 1997 is the result of the reclassification of the Drug Analysis Fund from a non-budgeted fund to a budgeted fund.
- (4) Net of a projected \$645 million of dedicated sales tax to be transferred to the MBTA.

## Selected Financial Data – GAAP Basis

The following table provides financial results on a GAAP basis for fiscal years 1996 through 2000 for all budgeted operating funds of the Commonwealth.

<b>Budgeted Operating Funds Operations--GAAP Basis</b>					
(in millions)					
	<u>Fiscal 1996</u>	<u>Fiscal 1997</u>	<u>Fiscal 1998</u>	<u>Fiscal 1999</u>	<u>Fiscal 2000</u>
Beginning fund balances	\$ 287.4	\$ 709.2	\$ 1,096.3	\$ 1,841.4	\$ 1,704.9
<u>Revenues and Financing Sources</u>					
Taxes	11,916.9	13,020.8	14,021.8	14,308.1	15,681.9
Federal Grants and Reimbursements	2,945.2	3,073.4	3,337.6	3,425.8	3,776.3
Department and Other Revenues	1,306.1	1,346.4	1,404.0	927.4	947.9
Interfund Transfers and Other Sources	<u>1,356.4</u>	<u>1,405.3</u>	<u>1,576.5</u>	<u>1,994.4</u>	<u>5,508.0</u>
Total	<u>17,524.6</u>	<u>18,845.9</u>	<u>20,339.9</u>	<u>20,655.7</u>	<u>25,914.1</u>
<u>Expenditures and Financing Uses</u>					
Programs and Services	13,729.6	14,581.4	15,477.6	16,471.3	17,912.4
Debt Service	1,392.9	1,275.5	1,213.3	1,173.8	1,913.3
Pensions	382.5	413.1	414.3	324.2	398.2
Interfund Transfers and Other Uses	<u>1,597.8</u>	<u>2,188.8</u>	<u>2,489.6</u>	<u>2,822.9</u>	<u>5,790.0</u>
Total	<u>17,102.8</u>	<u>18,458.8</u>	<u>19,594.8</u>	<u>20,792.2</u>	<u>25,293.9</u>
Excess (deficit)	421.8	387.1	745.1	(136.5)	620.2
Ending fund balances	<u>\$ 709.2</u>	<u>\$ 1,096.3</u>	<u>\$ 1,841.4</u>	<u>\$ 1,704.9</u>	<u>\$ 2,325.1</u>

SOURCE: Office of the Comptroller

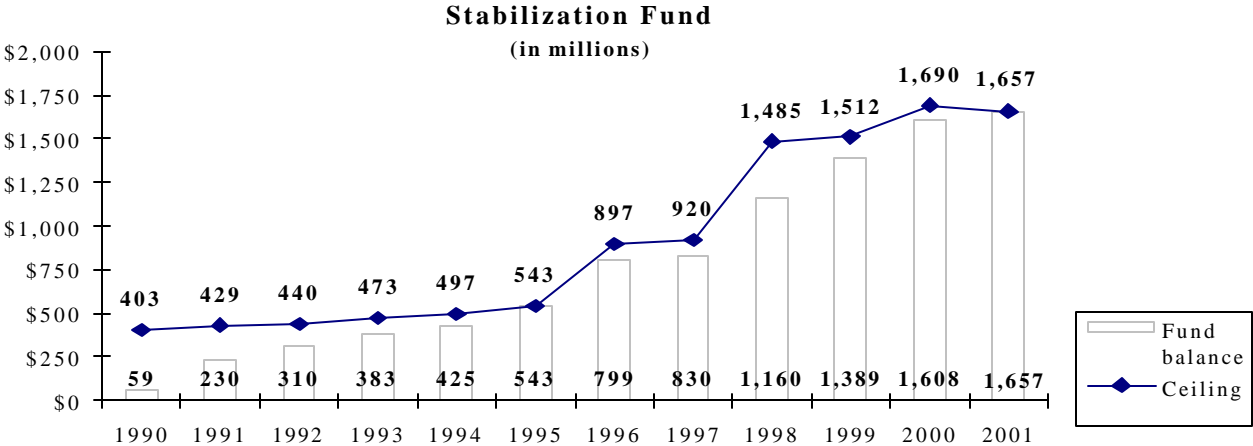
Using a modified accrual basis of accounting, the GAAP financial statements have provided a picture of the financial condition of the budgeted operating funds that is different from that reported on the statutory basis. See “Selected Financial Data – Statutory Basis.” As evidenced in the trend line of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

## Stabilization Fund and Disposition of Year-End Surpluses

State finance law provides for a Stabilization Fund, a Capital Projects Fund and a Tax Reduction Fund relating to the use of any aggregate fiscal year-end surplus in the Commonwealth’s three principal budgeted operating funds (the General Fund, the Local Aid Fund and the Highway Fund). A limitation equal to 0.5% of total tax revenues is imposed on the amount of any such aggregate surplus which may be carried forward as a beginning balance for the next fiscal year. For any fiscal year for which the Comptroller determines on or before October 31 of the succeeding fiscal year that there is a negative balance in the state’s capital projects funds, the Comptroller may transfer up to 40% of the remaining year-end surplus to a separate Capital Projects Fund to be used in lieu of bonds to finance capital expenditures. The remainder of any such aggregate year-end surplus is reserved in the Stabilization Fund, from which funds can be appropriated (i) to make up any difference between actual state revenues and allowable state revenues in any fiscal year in which actual revenues fall below the allowable amount, (ii) to replace state and local losses of federal funds or (iii) for any event, as determined by the Legislature, which threatens the health, safety or welfare of the people or the fiscal stability of the Commonwealth or any of its political subdivisions. Up to 7.5% of budgeted revenues and other financial resources pertaining to the budgeted funds, as confirmed by the Comptroller in the audited statutory basis financial report for the immediately preceding fiscal year, may be accumulated in the Stabilization Fund. Amounts in excess of that limit are to be transferred to a Tax Reduction Fund, from which they are to be applied to the reduction of personal income taxes.

At the end of each of fiscal 1997 and fiscal 1998 the Legislature increased the statutory ceiling on Stabilization Fund deposits. Prior to fiscal 1997, the statutory ceiling on the Stabilization Fund was 5% of total tax revenues less the amount of annual debt service costs. For fiscal 1997, the statutory ceiling on the Stabilization Fund was 5% of budgeted revenues and other financial resources pertaining to the budgeted funds. At the end of fiscal 1998, the current ceiling of up to 7.5% was enacted. The effect of those changes was to increase the ceiling for fiscal 1997 to approximately \$908.5 million and for fiscal 1998 to approximately \$1.485 billion. By the end of fiscal 2000, the Stabilization Fund had a balance of approximately \$1.608 billion, measured against a ceiling of approximately \$1.657 billion.

The following graph sets forth the balance in the Stabilization Fund for fiscal 1990 through fiscal 2000 and the estimate for fiscal 2001:



SOURCE: Fiscal 1990-2000, Office of the Comptroller, fiscal 2001, Executive Office for Administration and Finance.

At the end of the last four fiscal years, the Legislature has mandated extraordinary fund transfers that have had the effect of using revenues collected in those years that would otherwise have been surplus. Such transfers are included in the “Budgeted Operating Funds Operations – Statutory Basis” table above under “Interfund Transfers among Budgeted Funds and Other Sources” and “Interfund Transfers to Non-budgeted Funds and Other Uses.” Most such transfers have been to the Stabilization Fund or to various capital expenditure funds. Others have been to program reserves, permanent endowments or the Tax Reduction Fund.

The following table sets forth the amount of such extraordinary transfers by the Legislature since fiscal 1997:

	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000
Transfer to Capital Funds	\$ 319.3	\$ 300.8	\$ 637.9	\$ 710.0
Transfer to Stabilization Fund	234.3	317.4	165.6	114.9
Transfer to Tax Reduction Fund	--	362.5	--	--
Other Transfers	<u>128.0</u>	<u>105.0</u>	<u>--</u>	<u>10.0</u>
Total	<u>\$ 681.6</u>	<u>\$ 1,085.7</u>	<u>\$ 803.5</u>	<u>\$ 834.9</u>

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



## 2001 FISCAL YEAR

On April 14, 2000 the House of Representatives approved its version of the fiscal 2001 budget, and on May 25, 2000 the Senate approved its version of the fiscal 2001 budget. On July 17, 2000 the legislative conference committee charged with reconciling the differences between the House and Senate versions of the fiscal 2001 budget released its report, and the compromise budget was enacted by both houses of the Legislature on July 18, 2000. The Governor approved the budget on July 28, 2000 after vetoing approximately \$175 million of appropriations. On July 31, 2000 the Legislature restored approximately \$88.2 million of appropriations by overriding the Governor's vetoes. Taking into account the vetoes and overrides, the original fiscal 2001 budget provided for total spending of approximately \$21.477 billion. Assumed tax revenues, including sales tax receipts dedicated to the MBTA, were \$15.849 billion.

Since July, the Governor has approved supplemental appropriations for fiscal 2001 totaling approximately \$197.6 million, including approximately \$68 million for collective bargaining agreements and \$30.8 million for snow and ice removal programs. The Executive Office for Administration and Finance currently projects total spending for fiscal 2001 at approximately \$22.3 billion. On January 24, 2001, the Governor filed a fiscal 2001 supplemental appropriations bill totaling \$532.4 million, including \$258 million for the state's Medicaid program, and \$50 million for local road and bridge projects. On April 26, 2001, the Legislature enacted a supplemental appropriations bill totaling \$425.9 million, including \$258 million for the Medicaid program. The bill has been submitted to the Acting Governor for review and approval.

On October 11, 2000 the Secretary of Administration and Finance announced a revised fiscal 2001 revenue estimate of \$16.209 billion, an increase of \$360 million over the prior estimate of \$15.849 billion. On January 24, 2001 the Secretary of Administration and Finance announced a further revision to the fiscal 2001 revenue estimate to \$16.232 billion, an increase of \$158 million. The January 24 estimate takes into account the reduction in personal income tax rates approved by the voters on November 7, 2000. See "COMMONWEALTH REVENUES – State Taxes; *Income Taxes.*" (Reductions attributable to charitable deductions, also approved by the voters, were included in previous estimates because of the legislative enactment of such deductions as part of the fiscal 2001 budget.) The January 24 total includes \$645 million of sales tax receipts dedicated to the Massachusetts Bay Transportation Authority. See "FINANCIAL RESULTS - Massachusetts Bay Transportation Authority - Financial Restructuring."

Tax collections in March, 2001 totaled approximately \$1.453 billion, an increase of approximately \$52.9 million, or 3.8%, over March, 2000. The March total includes approximately \$52.6 million of sales tax receipts dedicated to the MBTA. Year-to-date tax collections through March, 2001 totaled approximately \$11.863 billion, an increase of approximately \$860.5 million, or 7.8%, over the comparable period in fiscal 2000. The year-to-date total includes approximately \$488.5 million of sales tax receipts dedicated to the MBTA. The benchmark range for collections through March, 2001, based on the January 24, 2001 fiscal 2001 tax revenue estimate of \$16.232 billion, was \$11.458 billion to \$11.628 billion.

The revised annual revenue estimate released on January 24, 2001 assumes that actual tax collections in fiscal 2001 will be 3.5% higher than actual tax collections in fiscal 2000. Baseline tax revenue growth (an approximate calculation that nets out the effects of changes in tax law) is assumed in the January 24, 2001 estimates to be approximately 6.6% for fiscal 2001. During the first quarter of fiscal 2001, actual tax revenue growth was 12.5% and estimated baseline growth was approximately 14.9%. During the second quarter of fiscal 2001, actual growth was 1.9% and calculated baseline growth was approximately 3.5%. During the third quarter of fiscal 2001, actual growth was 8.8% and calculated baseline growth was approximately 10.6%. For the first three quarters of fiscal 2001, actual growth was 7.8% and calculated baseline growth was approximately 9.7%. Average baseline growth of approximately -0.6% for the remaining three months of the fiscal year will be required if the annual estimate of \$16.232 billion is to be met.

### Cash Flow

Cash flow projections for fiscal 2001 and fiscal 2002 were released by the State Treasurer and the Secretary of Administration and Finance on March 21, 2001. (The report was due February 25, 2001.) The report contains actual receipts and expenditures through December, 2000. According to the report, fiscal 2001 is projected to end with a cash balance of approximately \$2.228 billion, excluding any fiscal 2001 activity that will occur after June 30,

2001 and excluding the Stabilization Fund. The corresponding figure for the end of fiscal 2000 was approximately \$1.991 billion, of which \$650 million was set aside for fiscal 2001 cash defeasance transactions, \$160 million was set aside for disbursement to the Massachusetts Bay Transportation Authority and \$230 million represented moneys sequestered for capital projects, leaving approximately \$951 million as general operating cash. The report anticipates that less than half of the cash balance forecast for the end of fiscal 2001 will be available as general operating cash, due primarily to the \$3.250 billion of Commonwealth bond and note issues forecast for fiscal 2001. The long-term debt offerings forecast in the report include approximately \$2 billion in general obligation bonds (\$576.5 million in November, 2000, \$675 million in December, 2000 and \$250 million each in January, March and June, 2001) and \$598.2 million in federal grant anticipation notes (which were issued in December, 2000). Of the general obligation bonds, approximately \$1 billion have been issued for the Central Artery/Ted Williams Tunnel project, as were all of the federal grant anticipation notes. See "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Central Artery/Ted Williams Tunnel Project." No additional short-term debt issuances are projected, beyond the \$400 million of bond anticipation notes for the Boston Convention and Exhibition Center that were issued in September, 2000 (see "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Special Obligation Debt; *Boston Convention and Exhibition Center Fund*"), the \$220 million of general obligation bond anticipation notes that were issued in September, 2000 and retired in December, 2000 with the proceeds of federal grant anticipation notes and the \$250 million of bond anticipation notes for general capital expenditures that were issued in December, 2000 and retired with the proceeds of general obligation bonds issued in January, 2001. (The January, 2001 bond issue occurred as projected. Approximately \$1 billion of refunding bonds were issued in February, 2001, the scheduled March offering is now expected to occur in April, and \$250 million of bond anticipation notes were issued in March, 2001.)

Fiscal 2002 is projected to end with a cash balance of approximately \$1.415 billion. The projection assumes the issuance of \$1 billion of Commonwealth general obligation bonds during fiscal 2002.

## 2002 FISCAL YEAR

On January 24, 2001, Governor Cellucci filed his fiscal 2002 budget recommendation. The Governor's proposal calls for budgeted expenditures of approximately \$22.549 billion. The proposed fiscal 2002 spending level represents the transfer off budget of \$42.2 million of tax revenues (and approximately \$42.2 million of spending) as a result of a proposed forward funding of the regional transit authorities. Legislation to forward fund the regional transit authorities, modeled after the forward funding initiative for the Massachusetts Bay Transportation Authority, is expected to be filed by the Governor. See "FINANCIAL RESULTS - Massachusetts Bay Transportation Authority - Financial Restructuring." After accounting for this shift, the Governor's budget represents a \$245 million, or 1.1%, increase over estimated total fiscal 2001 expenditures of \$22.3 billion. Total budgeted revenues for fiscal 2002 are estimated to be \$22.639 billion. The Governor's budget submission represents a \$579.5 million, or 2.6%, revenue increase over the \$22.060 billion forecast for fiscal 2001. The Governor's proposal projects a fiscal 2002 ending balance in the budgeted funds of \$2.131 billion, including a Stabilization Fund balance of \$1.698 billion.

The Governor's budget recommendation is based on a tax revenue estimate of \$16.343 billion, including \$671 million of sales tax receipts dedicated to the MBTA and \$42.2 million of tax revenues to be dedicated to the regional transit authorities under the Governor's forward funding proposal. The net amount of \$15.631 billion represents a 4.9% baseline increase over fiscal 2001 estimated net tax revenues of \$15.589 billion. The fiscal 2002 estimate reflects a \$457 million reduction in income tax receipts attributable to the initiative petition approved by the voters in November, 2000. See "COMMONWEALTH REVENUES – State Taxes; *Income Taxes*." On March 12, 2001, a joint legislative committee met to discuss the process of developing a consensus tax revenue estimate for the fiscal 2002 budget. According to state finance law, a consensus tax revenue estimate is required by May 15, 2001. See "COMMONWEALTH REVENUES – Tax Revenue Forecasting."

The Governor's proposed budget assumes non-tax revenues of \$7.008 billion, which represents an increase of approximately \$535 million over the fiscal 2001 estimate. Of the three classes of non-tax revenue, federal reimbursements, including those for Medicaid, and block grants for Temporary Assistance to Needy Families and Child Care programs are the largest components of the Commonwealth's budget. These payments are estimated to total \$ 4.144 billion in fiscal 2002. This level of federal payments represents an increase of \$262 million, or 6.7%, over fiscal 2001, the result primarily of increased Medicaid spending, which is eligible for federal reimbursement.

Fiscal 2002 departmental revenues are estimated at \$1.492 billion, representing an increase of approximately \$45 million over fiscal 2001 estimates. Consolidated transfers, the third category of non-tax revenue, consists primarily of state lottery proceeds which are distributed to cities and towns. Consolidated transfers are estimated to increase by \$229 million over fiscal 2001 levels. Lottery aid is expected to increase to \$790 million in fiscal 2002.

The Governor's budget proposal generally maintains current levels of service for most state programs but recommends increased spending for certain priority areas, including a \$226 million increase in direct local aid to cities and towns and \$577 million for the traditional Medicaid program. The proposed increase in direct local aid includes \$171 million in direct aid for schools and \$47 million for 46 new projects under the school building assistance program. See "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - Budgetary Contractual Assistance Liabilities; *School Building Assistance*."

The Governor's fiscal 2002 budget recommendation includes approximately \$934.6 million for the state's pension funding schedule. On March 1, 2001, the Executive Office for Administration and Finance presented three new triennial pension funding schedules to the House Committee on Ways and Means, which provided a range of funding schedules achieving full funding by 2018. One of the schedules was consistent with the Governor's fiscal 2002 budget recommendations. However, the House Committee on Ways and Means accepted a schedule with a fiscal 2002 appropriation of \$986.4 million, approximately \$51.8 million more than in the Governor's budget recommendation. The administration has accepted and will support this new funding schedule. See "COMMONWEALTH PROGRAMS AND SERVICES – Commonwealth Pension Obligations."

The Governor's budget recommends increasing the percentage of annual payments received from the national settlement with the tobacco industry to be expended in fiscal 2002 and fiscal 2003 from 30% to 70%. The increase from 30% to 70% represents an increase from \$80.5 million in fiscal 2001 to \$217.1 million in fiscal 2002. Most of this increase would be used to support the catastrophic senior pharmacy program enacted as a part of the fiscal 2001 budget. In fiscal 2002, the Governor recommends transferring \$240 million from the Health Care Security Trust Fund into the Uncompensated Care Trust Fund to provide assistance to struggling hospitals.

On April 18, 2001 the House Committee on Ways and Means released its version of the fiscal 2002 budget. Consideration by the full House of Representatives is expected to occur during the week of April 30, 2001. The Ways and Means Committee budget provides for approximately \$22.8 billion in appropriations and is based on a tax revenue estimate of approximately \$16.6 billion, including the sales tax receipts dedicated to the MBTA.

## COMMONWEALTH REVENUES

In order to fund its programs and services, the Commonwealth collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, court revenues, assessments, reimbursements, interest earnings and transfers from its non-budgeted funds. In fiscal 2000 on a GAAP basis, approximately 59.8% of the Commonwealth's annual budgeted revenues were derived from state taxes. In addition, the federal government provided approximately 13.9% of such revenues, with the remaining 26.3% provided from departmental revenues and transfers from non-budgeted funds.

### Distribution of Revenues

The following table sets forth the Commonwealth's actual revenues in its budgeted operating funds for fiscal 1996 through 2000 and estimated revenues for fiscal 2001.

**Commonwealth Revenues - Budgeted Operating Funds  
Adjusted for MBTA Operations  
(in millions)(1)**

	<u>Fiscal 1996</u>	<u>Fiscal 1997</u>	<u>Fiscal 1998</u>	<u>Fiscal 1999</u>	<u>Fiscal 2000</u>	<u>Estimated Fiscal 2001</u>
<b>Tax Revenues:</b>						
Alcoholic Beverages	\$ 59.7	\$ 60.3	\$ 60.2	\$ 61.0	\$ 63.1	\$ 65.0
Banks	218.6	140.3	156.0	108.5	92.9	114.0
Cigarettes	232.8	281.7	300.8	284.4	279.9	274.0
Corporations	876.3	963.9	1,066.9	1,008.9	1,130.5	1,089.0
Deeds	41.0	51.6	79.7	98.0	116.0	127.1
Income	6,706.9	7,181.8	8,031.9	8,036.6	9,041.9	9,364.4
Inheritance and Estate	188.0	202.7	191.3	173.9	166.5	177.0
Insurance	294.1	297.8	310.8	336.3	334.6	320.5
Motor Fuel	598.8	602.8	621.3	636.5	652.6	680.0
Public Utilities	132.9	109.2	131.9	132.5	83.0	86.0
Racing	11.4	10.2	9.2	8.3	7.8	8.3
Room Occupancy	72.9	80.5	96.2	119.4	137.0	143.0
Sales - Regular	1,886.7	2,087.7	2,122.0	2,351.2	2,552.1	3,219.6
Sales - Meals	358.0	381.4	392.5	436.2	456.8	485.0
Sales - Motor Vehicles	365.4	407.0	448.0	482.4	556.4	690.0
Transfer to MBTA	--	--	--	--	--	(645.0)(4)
Sub-Total-Sales	<u>2,610.1</u>	<u>2,876.1</u>	<u>2,962.5</u>	<u>3,269.8</u>	<u>3,565.3</u>	<u>3,749.6</u>
Miscellaneous	<u>5.7</u>	<u>5.6</u>	<u>7.6</u>	<u>17.4</u>	<u>17.5</u>	<u>40.8</u>
<b>Total</b>	<u><b>12,049.2</b></u>	<u><b>12,864.5</b></u>	<u><b>14,026.3</b></u>	<u><b>14,291.5</b></u>	<u><b>15,688.6</b></u>	<u><b>15,587.0</b></u>
<b>Non-Tax Revenues:</b>						
Federal Reimbursements (2)	3,039.1	3,019.6	3,361.2	3,442.9	3,645.6	3,867.0
Departmental and Other Revenues	1,208.1	1,267.9	1,286.4	1,297.8	1,359.9	1,474.2
Interfund Transfers from Non - Budgeted Funds and Other Sources (3)	<u>1,031.1</u>	<u>1,018.0</u>	<u>1,125.9</u>	<u>1,132.8</u>	<u>1,893.0</u>	<u>1,161.8</u>
<b>Budgeted Non-Tax Revenues and Other Sources</b>	<u><b>5,278.3</b></u>	<u><b>5,305.5</b></u>	<u><b>5,773.6</b></u>	<u><b>5,873.5</b></u>	<u><b>6,898.5</b></u>	<u><b>6,503.0</b></u>
<b>Budgeted Revenues and Other Sources</b>	<u><b>17,327.5</b></u>	<u><b>18,170.0</b></u>	<u><b>19,799.8</b></u>	<u><b>20,165.0</b></u>	<u><b>22,587.0</b></u>	<u><b>22,090.1</b></u>
MBTA Adjustment (4)	(484.0)	(483.1)	(491.1)	(499.1)	(561.9)	NA
<b>Adjusted Revenues and Other Sources</b>	<u><b>\$16,843.5</b></u>	<u><b>\$17,686.9</b></u>	<u><b>\$19,308.7</b></u>	<u><b>\$19,665.9</b></u>	<u><b>\$22,035.7</b></u>	<u><b>\$22,090.1</b></u>

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

- (1) Totals may not add due to rounding. The table does not reflect interfund transfers among budgeted funds and other sources which have no effect on the ending balances. The amounts of the transfers in fiscal years 1996-2001 were \$896.2 million, \$901.8 million, \$1,449.2 million, \$1,242.0 million, \$3,618.2 million and \$241.0 million, respectively. In addition, the table does not reflect the receipt and payment of certain municipal mass transit assessments totaling \$147.6 million, \$151.5 million, \$155.6 million, \$159.9 million and \$15.8 million in fiscal years 1996 through 2000, respectively.
- (2) Includes \$212.5 million in fiscal 1996, \$221.0 million in fiscal 1997, \$265.5 million in fiscal 1998, \$184.7 million in fiscal 1999, \$179.0 million in fiscal 2000, and an estimated \$155.0 million in fiscal 2001 resulting from claims for federal reimbursement of certain uncompensated care for Massachusetts hospitals.
- (3) Interfund transfers represent accounting transfers which reallocate resources among funds. See "Federal and Other Non-Tax Revenues" below. Includes transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$177.4 million, \$234.3 million, \$317.4 million, \$165.6 and \$114.9 million in fiscal 1996, 1997, 1998, 1999 and 2000 respectively. Of the \$177.4 million transferred to the Stabilization Fund in fiscal 1996, \$81.7 million was subsequently transferred to the Tax Reduction Fund. On May 5, 1997, legislation was signed by Governor Weld authorizing appropriation of the balance in the Tax Reduction Fund for the purpose of implementing a temporary personal income tax reduction for 1997. On August 10, 1998, Acting Governor Cellucci approved legislation providing for the transfer of \$200 million to the Tax Reduction Fund as of June 30, 1998. Additional transfers in 2000 included transfer of \$500 million to Debt Defeasance Fund and transfer of \$3.0 billion to eliminate fund deficits in the Highway and Local Aid Funds.
- (4) To facilitate comparison, the revenues have been reduced to reflect the transfer off-budget of MBTA operations in fiscal 2001 by subtracting the actual amount of Commonwealth payments to the MBTA in fiscal 1996 to fiscal 2000, inclusive. For fiscal 2001, the Executive Office for Administration and Finance projects transferring \$645 million of dedicated sales tax to the MBTA. The amount of sales tax receipts to be transferred to the MBTA could be greater based on higher overall sales tax receipts. See "FINANCIAL RESULTS - Massachusetts Bay Transportation Authority - Financial Restructuring."

## State Taxes

The major components of state taxes are the income tax, which accounted for approximately 58% of total tax revenues in fiscal 2001, the sales and use tax, which accounted for approximately 23%, and the business corporations tax which accounted for approximately 7%. Other tax and excise sources accounted for the remaining 12% of total fiscal 2001 tax revenues.

*Income Tax.* The Commonwealth assesses personal income taxes at flat rates, according to classes of income, after specified deductions and exemptions. A rate of 5.6% is applied to most types of income; this rate is scheduled to be reduced to 5.3% on January 1, 2002 and 5% on January 1, 2003 and thereafter. The tax rate on gains from the sale of capital assets held for one year or less and from the sale of collectibles is 12%, and the tax rates on gains from the sale of capital assets owned more than one year range from 5% to 1%. Beginning in tax year 2001, gain from capital assets held for more than six years will not be subject to tax. Interest on obligations of the United States and of the Commonwealth and its political subdivisions is exempt from taxation.

Prior to January 1, 1999, a different rate was applied to "Part A" income (generally, interest and dividends) and "Part B" income (generally, "earned" income from employment, professions, trades, businesses, rents and royalties). The rate on Part A income was 12% prior to January 1, 1999; it was reduced to 5.95% as of January 1, 1999 and as of January 1, 2000 is the same as the rate on Part B income. The rate on Part B income was 5.95% prior to January 1, 2000, when it was reduced to 5.85%. The rate on Part B income was reduced to its current rate on January 1, 2001 by virtue of the approval of an initiative petition by Massachusetts voters on November 7, 2000, which also provided for the further reductions described above in 2002 and 2003. The Department of Revenue estimates that the rate changes contained in the initiative petition will reduce fiscal 2001 revenues by \$135 million, fiscal 2002 revenues by \$457 million and fiscal 2003 revenues by \$883 million. The annualized value of the reduction, once fully effective in fiscal 2004, is estimated to be approximately \$1.154 billion.

In each of the last several fiscal years, legislation has been approved that had the net effect of reducing revenues by decreasing rates or increasing or establishing various deductions and credits. In addition, several administrative changes were implemented that reduced revenues. The incremental net effect of these tax law and administrative changes (relative to the immediately preceding fiscal year) is estimated by the Department of Revenue to have been a reduction of approximately \$135 million in fiscal 1996 revenues, \$260 million in fiscal 1997 revenues, \$430 million in fiscal 1998 revenues, \$920 million in fiscal 1999 revenues and \$50 million in fiscal 2000 revenues. The incremental net effect of such changes, including the November, 2000 initiative petition described above (also relative to the immediately preceding fiscal year), is estimated to be a reduction of approximately \$500 million in fiscal 2001 revenues and \$690 million in fiscal 2002 revenues.

In November, 1999 legislation was approved allowing taxpayers, retroactively to 1996, to use capital losses more comprehensively to offset capital gains and interest and dividend income. In the absence of sufficient data to estimate precisely the potential retroactive cost of these provisions, the Department of Revenue has indicated that they could result in total reduced tax liabilities in a range of \$73 million to \$103 million for tax years 1996, 1997 and 1998. The timing of taxpayers' refund and abatement claims for previously filed tax returns is uncertain, however.

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

On October 20, 1997, Acting Governor Cellucci announced that the Department of Revenue would issue regulations changing the payment schedules for approximately 15,000 sales, meals and room occupancy taxpayers that pay over \$25,000 in tax per year. Under the new simplified rules, beginning January 1, 1998, these taxpayers are required to file a tax return and make a tax payment on the 20<sup>th</sup> of each month for taxable sales made during the

preceding month. Under the old rules, affected taxpayers were required to forward tax payments on the 27<sup>th</sup> of each month for taxable sales made from the 23<sup>rd</sup> of the preceding month to the 22<sup>nd</sup> of the current month, as well as file a quarterly tax return. While these new regulations do not affect the amount of tax owed, the Department of Revenue estimates that the Commonwealth realized a reduction in fiscal 1998 revenues of approximately \$105 million. This reduction was a one-time event.

Beginning January 1, 1998, sales tax receipts from establishments near the site of the proposed new Boston convention center that first opened on or after July 1, 1997 and sales tax receipts from new hotels in Boston and Cambridge that first opened on or after July 1, 1997 are required to be credited to the Boston Convention and Exhibition Center Fund. See “COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Special Obligation Debt; *Boston Convention and Exhibition Center Fund*.” In fiscal 2001, the amount of such sales tax receipts is estimated to be \$1.5 million.

Beginning July 1, 2000, pursuant to “forward funding” legislation contained in the fiscal 2000 budget, a portion of the Commonwealth’s receipts from the sales tax, generally the amount raised by a 1% sales tax with an inflation-adjusted floor, is dedicated to the Massachusetts Bay Transportation Authority under a trust fund mechanism that does not permit future legislatures to divert the funds. See “FINANCIAL RESULTS - Massachusetts Bay Transportation Authority - Financial Restructuring.” In fiscal 2001, the amount of such sales tax receipts is estimated to be \$645 million.

*Business Corporations Tax.* Business corporations doing business in the Commonwealth, other than banks, trust companies, insurance companies, railroads, public utilities and safe deposit companies, are subject to an excise that has a property measure and an income measure. The value of Massachusetts tangible property (not taxed locally) or net worth allocated to the Commonwealth is taxed at \$2.60 per \$1,000 of value. The net income allocated to Massachusetts, which is based on net income for federal taxes, is taxed at 9.5%. The minimum tax is \$456. Both rates and the minimum tax include a 14% surtax. The fiscal 1997 tax revenue collections reflected a \$44 million reduction for the first full-year impact of the “single sales” apportionment formula described below and a \$10 million reduction due to the impact of legislation enacted in August, 1996, which, effective January 1, 1997, changed the computation of the sales factor for certain mutual fund companies, as described below.

On November 28, 1995, Governor Weld approved legislation establishing a “single sales factor” apportionment formula for the business corporations tax. The formula calculates a firm’s taxable income as its net income times the percentage of its total sales that are in Massachusetts, as opposed to the prior formula that took other factors, such as payroll and property into account. The formula was made effective as of January 1, 1996 to certain federal defense contractors and phased in over five years for manufacturing firms generally. The Department of Revenue has estimated that the revision reduced revenues by \$28 million in fiscal 1996, by \$34 million in fiscal 1997, by \$63 million in fiscal 1998, by \$85 million in fiscal 1999, by \$90 million in fiscal 2000, and by \$95 million in fiscal 2001. Now that the formula has become fully effective for all covered businesses, the Department estimates that the annual revenue reduction in fiscal 2002 and annually thereafter will be approximately \$101 million, plus any growth in the tax base.

On August 8, 1996, Governor Weld approved legislation making two changes in the apportionment formula for the business corporations tax payable by certain mutual fund service corporations. Effective January 1, 1997, the legislation changed the computation of the sales factor; instead of sourcing sales from the state where the seller bears the cost of performing the services relating to the sale, the corporations will source sales to the state of domicile of the ultimate consumer of the service. Effective July 1, 1997, the legislation changed the prior three-factor formula to a single sales factor formula, just as the November, 1995 legislation had done for certain federal defense contractors and, over time, for manufacturing firms. Under the 1996 law, affected corporations are required to increase their numbers of employees by 5% per year for five years, subject to exceptions for adverse economic conditions affecting the stock market or the amount of assets under their management. The Department of Revenue has estimated that the changes resulted in a revenue reduction of approximately \$28 million in fiscal 1997 and \$99 million in fiscal 1998. These estimates do not take into account additional tax revenue generated by increased economic activity that may have been stimulated by the tax cuts.

*Bank Tax.* Commercial and savings banks are subject to an excise tax of 12.54%. On July 27, 1995, Governor Weld approved legislation reducing the rate over several years to 10.5%, the same effective rate charged to other corporations. The Department of Revenue has estimated that the tax cut, which was fully implemented in fiscal 2000, has an annualized value of \$39 million, taking into account an \$18 million annualized gain resulting from the effect of provisions in the 1995 legislation that applied the tax to out-of-state banks and other financial institutions not previously taxed.

*Insurance Taxes.* Life insurance companies are subject to a 2% tax on gross premiums; domestic companies also pay a 14% tax on net investment income. Property and casualty insurance companies are subject to a 2% tax on gross premiums, plus a 14% surcharge for an effective tax rate of 2.28%; domestic companies also pay a 1% tax on gross investment income. On April 30, 1998, the House of Representatives approved legislation that would over five years eliminate the 14% surcharge for property and casualty insurers and the tax on investment income for both types of domestic insurers. On August 10, 1998, Acting Governor Cellucci approved legislation that will reduce insurance company taxes over five years in essentially the manner provided in the legislation approved by the House of Representatives on April 30, 1998, though the enacted legislation, unlike the House bill, does not eliminate the 14% surcharge on the gross premium income of property and casualty insurers. The estimated fiscal 1999 cost of these changes is \$5 million, and the estimated fully phased-in aggregate annual value of these tax reductions is \$48 million.

*Other Taxes.* Other tax revenues are derived by the Commonwealth from motor fuels excise taxes, cigarette and alcoholic beverage excise taxes, estate and deed excises and other tax sources.

On July 24, 1996, the Legislature overrode Governor Weld's veto of legislation imposing a 25¢-per-pack tax increase on cigarettes, as well as a 25% increase in the tax on smokeless tobacco and a 15% tax on cigars and smoking tobacco, all effective October 1, 1996. The Department of Revenue estimates that these changes resulted in approximately \$74 million in additional tax revenue for fiscal 1997 and approximately \$80 million annually thereafter.

A portion of the Commonwealth's motor fuels excise tax receipts, estimated to be approximately \$187.9 million in fiscal 2001, is pledged to pay the debt service on certain special obligation bonds of the Commonwealth. See "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Special Obligation Debt; *Highway Fund.*"

Certain taxes related to tourism and conventions, including a 2.75% convention center financing fee imposed on hotel room occupancy in four Massachusetts cities, are pledged to support special obligation bonds to be issued to finance certain convention centers. See "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Special Obligation Debt; *Boston Convention and Exhibition Center Fund.*"

## **Tax Revenue Forecasting**

Under state law, on or before October 15 and March 15 of each year, the Secretary of Administration and Finance is required to submit to the Governor and to the House and Senate Committees on Ways and Means estimates of revenues available to meet appropriations and other needs in the current and following fiscal year. On or before October 15, January 15 and April 15, the Secretary is required to submit revised estimates for the current fiscal year unless, in his opinion, no significant changes have occurred since the last estimate of total available revenues. On or before May 15 of each year, the Secretary is required to develop jointly with the House and Senate Committees on Ways and Means a consensus tax revenue forecast for the following fiscal year.

The fiscal 1996 budget as enacted was based on a joint tax revenue estimate of \$11.639 billion (an increase of approximately 4.4% from then-expected fiscal 1995 revenues), plus \$16 million for revenue initiatives and less \$300,000 for sales tax exemption included in the budget. On September 25, 1995, the Secretary of Administration and Finance released a fiscal 1996 tax revenue estimate of approximately \$11.653 billion, adopting the revenue estimate included in the fiscal 1996 budget, adjusted for a revenue reduction of \$1.7 million resulting from bank tax reform. On January 23, 1996, the Secretary of Administration and Finance released a revised fiscal 1996 tax revenue estimate of approximately \$11.604 billion which reflected a further reduction totaling \$44 million resulting from corporate excise tax reforms. In April, 1996 the Secretary of Administration and Finance revised the fiscal 1996 tax revenue estimate to \$11.684 billion, based on stronger than anticipated tax collections. Actual tax revenues

for fiscal 1996 totaled approximately \$12.049 billion, a 7.9% increase over fiscal 1995. The Executive Office for Administration and Finance believes that much of the unanticipated growth in revenues was caused by the increase in capital gains resulting from the strong stock market in calendar year 1995.

The fiscal 1997 budget as enacted was based on a joint tax revenue estimate of \$12.177 billion. In October, 1996, the Secretary of Administration and Finance released a fiscal 1997 tax revenue estimate of approximately \$12.123 billion, which reflected various tax law changes enacted after the date of the joint estimate. On January 22, 1997, the Secretary of Administration and Finance released a revised fiscal 1997 tax revenue estimate of approximately \$12.307 billion, based on stronger than anticipated collections through December, 1996 and the assumption that \$84 million in tax cuts initially proposed by Governor Weld for fiscal 1997 would occur in fiscal 1998. On May 20, 1997, the Secretary of Administration and Finance revised the fiscal 1997 tax revenue estimate to \$12.507 billion. Actual tax revenues for fiscal 1997 totaled approximately \$12.865 billion, a 6.8% increase over fiscal 1996. The Executive Office for Administration and Finance believes that much of the unanticipated growth in revenues was caused by stronger than expected economic growth and the increase in capital gains resulting from the strong stock market in calendar year 1996.

The fiscal 1998 budget as enacted was based on a joint tax revenue estimate of \$12.85 billion. The Secretary of Administration and Finance revised the fiscal 1998 tax revenue forecast to \$13.06 billion on July 30, 1997, to \$13.2 billion on October 15, 1997, to \$13.154 billion on January 16, 1998 and to \$13.3 billion on May 5, 1998. The January 16, 1998 estimate included an aggregate \$6 million downward adjustment reflecting tax law changes enacted after October 15, 1997 and a \$140 million downward adjustment reflecting a one-time change in the sales tax payment schedule. Final fiscal 1998 revenues totaled \$14.025 billion.

The fiscal 1999 budget was enacted on the basis of a consensus tax revenue forecast of \$14.4 billion, as agreed by both houses of the Legislature and the Secretary of Administration and Finance in May, 1998. The tax cuts incorporated into the budget, valued by the Department of Revenue at \$990 million in fiscal 1999, had the effect of reducing the consensus forecast to \$13.41 billion. On August 19, 1998, the Executive Office for Administration and Finance raised the fiscal 1999 tax estimate by \$200 million to approximately \$13.61 billion. The fiscal 1999 tax estimate was raised again in the Governor's budget submission, filed on January 27, 1999, to \$14.0 billion. On May 7, 1999, the Executive Office for Administration and Finance increased its fiscal 1999 tax estimate to \$14.160 billion, an increase of \$160 million from its \$14 billion January, 1999 estimate. Fiscal 1999 tax collections totaled approximately \$14.291 billion.

The fiscal 2000 budget was enacted in November, 1999 on the basis of a consensus tax revenue forecast of \$14.850 billion, as agreed by both houses of the Legislature and the Secretary of Administration and Finance in late April, 1999. The tax cuts incorporated into the budget, valued by the Department of Revenue at \$145 million in fiscal 2000, had the effect of reducing the consensus forecast to \$14.705 billion. The fiscal 2000 tax estimate was raised to \$15.288 billion in the Governor's fiscal 2001 budget submission, filed on January 26, 2000. On April 18, 2000 the Executive Office for Administration and Finance revised the fiscal 2000 revenue estimates upward by \$170 million to \$15.458 billion. Fiscal 2000 tax collections totaled approximately \$15.702 billion.

The fiscal 2001 budget was enacted in July, 2000 on the basis of a consensus tax revenue forecast of \$15.928 billion. The inclusion of a charitable tax deduction in the fiscal 2001 budget had the effect of reducing the consensus forecast to \$15.849 billion, including \$645 million of sales tax receipts dedicated to the MBTA. On October 11, 2000, the Executive Office for Administration and Finance increased its fiscal 2001 estimate to \$16.209 billion; taking into account the reduction in personal income tax rates approved by the voters on November 7, 2000 (see "State Taxes; *Income Taxes*"), the revised estimate was \$16.074 billion. On January 24, 2001, in conjunction with the filing of the Governor's fiscal 2002 budget recommendations, the fiscal 2001 estimate was raised to \$16.234 billion.

### **Federal and Other Non-Tax Revenues**

Federal revenue is collected through reimbursements for the federal share of entitlement programs such as Medicaid and, beginning in federal fiscal year 1997, through block grants for programs such as Transitional Assistance to Needy Families (TANF), formerly Aid to Families with Dependent Children (AFDC). The amount of federal revenue to be received is determined by state expenditures for these programs. The Commonwealth receives



reimbursement for approximately 50% of its spending for Medicaid programs. Block grant funding for TANF is received quarterly and is contingent upon a maintenance of effort spending level determined annually by the federal government.

Departmental and other non-tax revenues are derived from licenses, tuition, registrations and fees and reimbursements and assessments for services. A revenue maximization pilot project undertaken by the Comptroller and the Executive Office for Administration and Finance has yielded additional net federal reimbursement and other non-tax revenues of approximately \$169.8 million in the aggregate during fiscal years 1996 to 2000, inclusive.

The Commonwealth began in fiscal 1997 to phase in a one-time (rather than annual) passenger vehicle registration fee, which had the effect of reducing fiscal 1998 revenues by \$13.8 million and reducing revenues annually thereafter by approximately \$55 million until annual fees were reinstated in May, 2000.

For the budgeted operating funds, interfund transfers include transfers of profits from the State Lottery and Arts Lottery Funds and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for \$727.5 million, \$770.2 million, \$848.4 million, \$870.0 million and \$920.6 million in fiscal 1996 through 2000, respectively, and which are expected to account for \$950.5 million in fiscal 2001.

In 1994, the voters in the statewide general election approved an initiative petition, effective December 8, 1994, that would slightly increase the portion of gasoline tax revenue credited to the Highway Fund, one of the Commonwealth's three major budgeted funds, prohibit the transfer of money from the Highway Fund to other funds for non-highway purposes and exclude the Highway Fund balance from the computation of the "consolidated net surplus" for purposes of state finance laws. The initiative petition also provided that no more than 15% of gasoline tax revenues could be used for mass transportation purposes, such as expenditures related to the Massachusetts Bay Transportation Authority. This law is not a constitutional amendment and is subject to amendment or repeal by the Legislature, which may also, notwithstanding the terms of the initiative petition, appropriate moneys from the Highway Fund in such amounts and for such purposes as it determines, subject only to a constitutional restriction that such moneys be used for motor vehicle, highway or mass transportation purposes. On four occasions, the Legislature has postponed the effective date of the provision that would exclude the Highway Fund balance from the computation of the "consolidated net surplus." The most recent postponement, enacted in 2000, changed the effective date of the provision to July 1, 2002.

On August 9, 1996, Governor Weld approved legislation authorizing the State Lottery Commission to participate with other states in a multi-jurisdictional lottery. Beginning September, 1996, the Commission joined with the states of Illinois, Georgia, Maryland, Michigan and Virginia in a multi-state game that is estimated to generate an additional \$30 million per year in net lottery revenues.

### **Tobacco Settlement**

On November 23, 1998, the Commonwealth joined with other states in a master settlement agreement that resolved the Commonwealth's and other states' litigation against the cigarette industry. Under the agreement, cigarette companies have agreed to make both annual payments (in perpetuity) and five initial payments (for the calendar years 1999 to 2003, inclusive) to the settling states. Each payment amount is subject to applicable adjustments, reductions and offsets, including upward adjustments for inflation and downward adjustments for decreased domestic cigarette sales volume.

The Commonwealth's allocable share of the base amounts payable under the master settlement agreement is approximately 4.04%. The Commonwealth has estimated its allocable share of the base amounts under the agreement over the next 25 years to be approximately \$7.6 billion, without regard to any potential adjustments, reductions or offsets. The following table sets forth the amounts received by the Commonwealth to date.

**Payments from the Tobacco Master Settlement Agreement**  
(in millions)

<u>Fiscal Year</u>	<u>Initial Payments</u>	<u>Annual Payments</u>	<u>Total Payments</u>
2000	\$186.6(1)	\$139.6	\$326.2
2001	<u>78.2</u>	<u>162.1</u>	<u>240.3</u>
Total	<u>\$264.8</u>	<u>\$301.7</u>	<u>\$566.6</u>

SOURCE: Office of the Comptroller

(1) Payments received for both 1999 and 2000.

The Commonwealth was also awarded \$414 million from a separate Strategic Contribution Fund established under the master settlement agreement to reward certain states' particular contributions to the national tobacco litigation effort. This additional amount is payable in equal annual installments during the years 2008 through 2017.

The amounts that might be payable, if any, by the Commonwealth for legal costs in relation to the tobacco litigation cannot be determined at this time. The outside attorneys for the Commonwealth were awarded approximately \$775 million in fees to be paid over time by the tobacco companies. The outside attorneys have notified the Attorney General that they reserve their right to submit a claim to the Commonwealth for the difference between the \$775 million and 25% of the Commonwealth's settlement payments.

During fiscal year 2000, the Legislature enacted two related laws to provide for disposition of the tobacco settlement payments. The legislation created a permanent trust fund into which the Commonwealth's tobacco settlement payments (other than payments for attorneys' fees) are to be deposited. The legislation contemplated that a portion of the moneys in the trust fund is to be available for appropriation by the Legislature to supplement existing levels of funding for health-related services and programs. For fiscal years 2000 through 2004, the amounts to be available for such purposes are stipulated as \$91.2 million, \$94 million, \$96 million, \$98 million and \$100 million, respectively. Beginning with fiscal 2005, 30% of the annual payments (not including any Strategic Contribution Fund payments) and 30% of the earnings on the balance in the trust fund are to be available for such purposes. The Governor's fiscal 2002 budget recommends making 70% of the payments and earnings available for budgetary purposes. See "2002 FISCAL YEAR."

**Limitations on Tax Revenues**

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

Tax revenues in fiscal 1997 through fiscal 2000 were lower than the limit set by Chapter 62F, and the Executive Office for Administration and Finance currently estimates that state tax revenues in fiscal 2001 will not reach such limit. For fiscal 2000, as calculated by the State Auditor pursuant to Chapter 62F, net state tax revenues were approximately \$15.702 billion and allowable state tax revenues were approximately \$16.694 billion.

## COMMONWEALTH PROGRAMS AND SERVICES

The following table identifies certain major spending categories of the Commonwealth and sets forth the budgeted expenditures for each fiscal year within each category.

### Commonwealth Expenditures - Budgeted Operating Funds (in millions)(1)

Expenditure Category	Fiscal 1996	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000	Estimated Fiscal 2001
Direct Local Aid	\$ 3,246.2	\$ 3,558.1	\$ 3,948.9	\$ 4,310.2	\$ 4,675.1	\$ 4,978.2
Medicaid	3,415.9	3,455.5	3,665.8	3,856.4	4,269.9	4,603.5
Other Health and Human Services	2,442.0	2,493.0	2,667.8	2,824.3	3,035.1	3,312.1
Public Assistance	1,088.8	1,089.7	1,023.1	987.6	960.0	993.1
Debt Service	1,183.6	1,275.5	1,213.4	1,173.8	1,193.3	1,361.3
Pensions	1,004.6	1,069.2	1,069.8	990.2	986.3	1,040.5
Higher Education	743.9	806.5	861.8	929.8	995.0	1,106.8
Other Program Expenditures	3,229.9	3,332.9	3,580.1	3,933.7	4,833.7	4,800.6
Interfund Transfers to Non-budgeted Funds	<u>42.2</u>	<u>385.5</u>	<u>479.9</u>	<u>739.6</u>	<u>903.8</u>	<u>84.8</u>
Adjusted Expenditures and Other Uses	<u>\$ 16,397.1</u>	<u>\$ 17,465.9</u>	<u>\$ 18,510.6</u>	<u>\$ 19,745.6</u>	<u>\$ 21,852.8</u>	<u>\$ 22,280.9</u>

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

- (1) To facilitate comparison, the expenditures have been reduced for fiscal years 1996 through 2000, inclusive, to reflect the transfer off-budget of MBTA operations that began in fiscal 2001 by subtracting the actual amount of Commonwealth payments to the MBTA in each of those fiscal years. In addition, the table does not reflect certain offsetting transfers that do not affect year-end balances. See note 1 to the table captioned "Budgeted Operating Funds -- Adjusted for MBTA Operations."

### Local Aid

*Commonwealth Financial Support for Local Governments.* The Commonwealth makes substantial payments to its cities, towns and regional school districts ("Local Aid") to mitigate the impact of local property tax limits on local programs and services. In fiscal 2001, approximately 22.0% of the Commonwealth's budget is estimated to be allocated to direct Local Aid. Local Aid payments to cities, towns and regional school districts take the form of both direct and indirect assistance. Direct Local Aid consists of general revenue sharing funds and specific program funds sent directly to local governments and regional school districts as reported on the so-called "cherry sheet" prepared by the Department of Revenue, excluding certain pension funds and nonappropriated funds.

As a result of comprehensive education reform legislation enacted in June, 1993, a large portion of general revenue sharing funds are earmarked for public education and are distributed through a formula designed to provide more aid to the Commonwealth's poorer communities. The legislation established a fiscal 1993 state spending base of approximately \$1.288 billion for local education purposes and required annual increases in state expenditures for such purposes above that base, subject to appropriation, estimated to be approximately \$2.990 billion in fiscal 2001. All of the budgets in fiscal years 1994 through 2001 have fully funded the requirements imposed by this legislation.

Another component of general revenue sharing, the Lottery and Additional Assistance programs, provides unrestricted funds for municipal use. There are also several specific programs funded through direct Local Aid, such as highway construction, school building construction, and police education incentives.

In addition to direct Local Aid, the Commonwealth has provided substantial indirect aid to local governments, including, for example, payments for Massachusetts Bay Transportation Authority assistance and debt service, pensions for teachers, housing subsidies and the costs of courts and district attorneys that formerly had been paid by the counties. Beginning July 1, 2000, Commonwealth support for the Massachusetts Bay Transportation Authority now takes the form of dedicated tax revenues. See "FINANCIAL RESULTS - Massachusetts Bay Transportation Authority - Financial Restructuring."

*Property tax limits.* In November, 1980, voters in the Commonwealth approved a statewide tax limitation initiative petition, commonly known as Proposition 2½, to constrain levels of property taxation and to limit the charges and fees imposed on cities and towns by certain governmental entities, including county governments. Proposition 2½ is not a provision of the state constitution and accordingly is subject to amendment or repeal by the Legislature. Proposition 2½, as amended to date, limits the property taxes that may be levied by any city or town in any fiscal year to the lesser of (i) 2.5% of the full and fair cash valuation of the real estate and personal property therein, and (ii) 2.5% over the previous year's levy limit plus any growth in the tax base from certain new construction and parcel subdivisions. Proposition 2½ also limits any increase in the charges and fees assessed by certain governmental entities, including county governments, on cities and towns to the sum of (i) 2.5% of the total charges and fees imposed in the preceding fiscal year, and (ii) any increase in charges for services customarily provided locally or services obtained by the city or town at its option. The law contains certain override provisions and, in addition, permits debt service on specific bonds and notes and expenditures for identified capital projects to be excluded from the limits by a majority vote at a general or special election. At the time Proposition 2½ was enacted, many cities and towns had property tax levels in excess of the limit and were therefore required to roll back property taxes with a concurrent loss of revenues. Between fiscal 1981 and fiscal 2000, the aggregate property tax levy grew from \$3.346 billion to \$7.104 billion, representing an increase of approximately 112.2%. By contrast, according to federal Bureau of Labor Statistics, the consumer price index for all urban consumers in Boston grew during the same period by approximately 119.2%.

Many communities have responded to the limitation imposed by Proposition 2½ through statutorily permitted overrides and exclusions. There are three types of referenda questions (override of levy limit, exclusion of debt service, or exclusion of capital expenditures) which permit communities to exceed the limits of Proposition 2½. Override activity steadily increased throughout the 1980's before peaking in fiscal 1991 and decreasing thereafter. In fiscal 2000, 19 communities had successful override referenda which added an aggregate of approximately \$6.7 million to their levy limits. In fiscal 2000, the impact of successful override referenda going back as far as fiscal 1993, was to raise the levy limits of 120 communities by approximately \$75.0 million. Although Proposition 2½ will continue to constrain local property tax revenues, significant capacity exists for overrides in nearly all cities and towns. In addition to overrides, Proposition 2½ allows a community, through voter approval, to assess taxes in excess of its levy limit for the payment of certain capital projects (capital outlay expenditure exclusions) and for the payment of specified debt service costs (debt exclusions). Capital exclusions were passed by 16 communities in fiscal 2000 and totaled approximately \$4.1 million. In fiscal 2000, the impact of successful debt exclusion votes going back as far as fiscal 1993, was to raise the levy limits of 268 communities by approximately \$1.1 million.

*Initiative Law.* A statute adopted by voter initiative petition at the November, 1990 statewide election regulates the distribution of Local Aid to cities and towns. This statute requires that, subject to annual appropriation, no less than 40% of collections from personal income taxes, sales and use taxes, corporate excise taxes and lottery fund proceeds be distributed to cities and towns. Under the law, the Local Aid distribution to each city or town is to equal no less than 100% of the total Local Aid received for fiscal 1989. Distributions in excess of fiscal 1989 levels are to be based on new formulas that would replace the current Local Aid distribution formulas. By its terms, the new formula would have provided for a substantial increase in direct Local Aid in fiscal 1992 and subsequent years. Nonetheless, Local Aid payments remain subject to annual appropriation by the Legislature, and the appropriations for Local Aid since the enactment of the initiative law have not met the levels set forth in the initiative law.

## **Medicaid**

The Medicaid program provides health care to low-income children and families, low-income adults, the disabled, and the elderly. The program, which is administered by the Division of Medical Assistance (an agency within the Executive Office of Health and Human Services), is 50% funded by federal reimbursements. Beginning in fiscal 1999, payments for some children's benefits are 65% federally reimbursable under the federal Children's Health Insurance Program (CHIP) for states.

During fiscal years 1996, 1997, 1998, and 2000, Medicaid expenditures were \$3.416 billion, \$3.456 billion, \$3.666 billion, \$3.856 billion and \$4.305 billion respectively. The average annual growth rate from fiscal 1996 to fiscal 2000 was 4.73%. Fiscal 2000 Medicaid expenditures increased approximately 10.7% from fiscal 1999. This amount includes \$184.5 million for increased caseloads, rate increases and an internal accounting

issue relating to the Division's 52-week billing system, which was equipped to pay medical bills from providers for only 364 days per year. This billing for a "53<sup>rd</sup> week" was a one-time correction by the Division for fiscal 2000. The Executive Office for Administration and Finance projects fiscal 2001 expenditures to be \$4.603 billion, an increase of 7.8% over fiscal 2000.

The Division of Medical Assistance has implemented a number of savings and cost control initiatives including managed care, utilization review, and the identification of third party liabilities. In spite of increasing caseloads, the Commonwealth has managed to keep annual growth in per capita expenditures low. From fiscal 1996 through fiscal 2000, per capita costs have increased by less than 1% annually over the five-year period. In fiscal 1999, the state expanded eligibility for the Medicaid program, resulting in a total of 920,000 members at the end of fiscal 2000 or a 5.3% increase over the average caseload of fiscal 1999.

Medicaid costs for nursing home care increased from \$1.2 billion in fiscal 1996 to approximately \$1.3 billion in fiscal 2000 and currently account for 28% of the Medicaid budget. Over 36,000 elderly and disabled citizens were cared for in nursing homes each month through Medicaid in fiscal 2000. The annual cost per beneficiary in a nursing home is approximately \$36,000. On an overall basis, Medicaid pays 70% of all nursing home costs in the Commonwealth. In an effort to control the increasing costs of nursing home services, the Division of Medical Assistance has strengthened admissions criteria to ensure that those not needing this care use less costly community services. This, along with certain other initiatives, has limited the average annual increase in long-term care costs to approximately 2.2% between fiscal 1996 and fiscal 2000 on a date-of-service basis.

In addition to a number of successful savings and cost control initiatives the Commonwealth has undertaken in the last five years, the Medicaid program has also expanded and streamlined eligibility criteria for recipients in accordance with the health care reform bills approved by the Legislature in July, 1996, July, 1997 and November, 1997. As a result, beginning in fiscal 1998, the Division was authorized to expand the Medicaid eligibility cutoff to 133% of the federal poverty level for adults and up to 200% of the federal poverty level for pregnant women and children through the age of 18. In addition, the Commonwealth has implemented a program of premium assistance and employer subsidies for purchasing employer-based health coverage for families and childless adults up to 200% of the federal poverty level. These changes resulted in 230,000 additional people becoming enrolled in a Medicaid benefits plan by the end of fiscal 2000. Pharmacy assistance to seniors, a program that began in fiscal 1998, continued to grow in fiscal 2000 with expenditures increasing by 100% from fiscal 1999.

The federal Health Care Financing Administration asserted in June, 2000 that the portion of the Medicaid program funded by the Commonwealth's uncompensated care pool might violate federal regulations regarding impermissible taxes on health care providers. Since 1993, the Division has been seeking a federal waiver for the Commonwealth's assessment on acute care hospitals to fund the uncompensated care pool and believes that the assessment is within the federal law pertaining to provider taxes. Under federal regulations, if the Commonwealth were ultimately determined to have imposed an impermissible provider tax, the federal government could seek retroactive repayment of federal Medicaid reimbursements. From 1993, when the first waiver request was submitted, through fiscal 2000, the Commonwealth received an estimated \$1.068 billion in federal Medicaid reimbursements related to expenditures associated with the uncompensated care pool, and the Commonwealth has continued to collect approximately \$37 million per fiscal quarter for each quarter following fiscal 2000. Clarification of the law surrounding permissible provider taxes is a national issue involving a number of states, and resolution could take several years.

### **Other Health and Human Services**

Other health and human services spending for fiscal 2001 includes expenditures for the Department of Mental Retardation (\$914.5 million), Department of Mental Health (\$595.9 million), Department of Social Services (\$572.2 million), Department of Public Health (\$530.3 million) and other human services programs (\$699.7 million).

## Public Assistance

The Commonwealth administers four major programs of income assistance for its poorest residents: Transitional Aid to Families with Dependent Children (TAFDC), Emergency Assistance (EA), Emergency Aid to the Elderly, Disabled and Children (EAEDC) and the state supplement to federal Supplemental Security Income (SSI). The following table illustrates the recent expenditures within these categories.

### Public Assistance Program Expenditures (in millions)

Category of Public Assistance	<u>Fiscal 1996</u>	<u>Fiscal 1997</u>	<u>Fiscal 1998</u>	<u>Fiscal 1999</u>	<u>Fiscal 2000</u>	<u>Estimated Fiscal 2001</u>
TAFDC(1)	\$ 675.0	\$ 598.8	\$ 513.9	\$ 450.7	\$ 384.5	\$ 392.9
Child Care (2)	111.0	194.1	237.4	269.8	308.1	332.6
EAEDC (formerly General Relief)(3)	105.9	103.7	68.3	63.3	59.8	56.6
SSI(4)	<u>196.9</u>	<u>193.1</u>	<u>203.5</u>	<u>203.8</u>	<u>207.6</u>	<u>211.1</u>
Total(5)	<u>\$ 1,088.8</u>	<u>\$ 1,089.7</u>	<u>\$ 1,023.1</u>	<u>\$ 987.6</u>	<u>\$ 960.0</u>	<u>\$ 993.1</u>

SOURCE: Fiscal 1996-2000, Office of the Comptroller; fiscal 2001, Executive Office for Administration and Finance.

- (1) Includes expenditures for Transitional Aid to Families with Dependent Children (TAFDC); for the Employment Services Program (ESP); and for Emergency Assistance, a program designed to prevent homelessness and to shelter income-eligible families when they become homeless.
- (2) Child care expenditures were previously included as part of the TAFDC total in fiscal 1996, 1997, 1998 and 1999.
- (3) Includes outpatient medical services to EAEDC recipients in fiscal 1995 through fiscal 1997.
- (4) Includes benefits for blind recipients which are administered by the Massachusetts Commission for the Blind; includes one-time retroactive payments in fiscal 1998 to recipients to reimburse them for fiscal 1997 administrative charges; and includes payments made to SSI recipients out of an EAEDC account in fiscal 1998.
- (5) The TAFDC total includes expenditures for direct services to homeless individuals in fiscal 1995, 1996 and 1997. It does not include expenditures for the Teen Living Program in fiscal 1996 and 1997. The child care total does not include supportive child care for victims of abuse and neglect, informal child care expenditures for child care provided by relatives in fiscal 1996 or certain one-time quality expenditures in fiscal 1998. It includes temporary child care provided at the Trial Court in fiscal 1998 and 1999. Based on the programs contained in the fiscal 1999 estimate, the adjusted Public Assistance total would be \$1,217.1 for fiscal 1995; \$1,110.7 for fiscal 1996; \$1,065.6 for fiscal 1997; and \$1,022.8 for fiscal 1998.

TAFDC expenditures in fiscal 2001 are estimated to be \$392.9 million, approximately \$8.5 million more than fiscal 2000. This increase is primarily due to a 10% increase in TAFDC cash benefits and expansion of the congregate family shelter system. Child care expenditures for fiscal 2001 are estimated to be \$332.6 million, approximately \$24.5 million more than in fiscal 2000. This increase is the result of increasing expenditures on child care services for former TAFDC recipients and other low-income families. It is also the result of the Commonwealth increasing the rates paid to child care providers by \$25 million in fiscal 2001. The increase is in response to a federally mandated market rate survey conducted by the Office of Child Care Services.

The TAFDC caseload has been declining steadily since fiscal 1996, resulting in a 47.6% decrease through fiscal 2000. The Commonwealth began implementing welfare reform programs in November 1995, establishing TAFDC programs to encourage work as a means to self-sufficiency and to discourage reliance on long-term assistance. With the improved Commonwealth economy, new work incentives, aggressive child support collections, anti-fraud initiatives, and the implementation of the two-year time limit on benefits, the caseload is expected to continue declining on average through fiscal 2001. The following table illustrates the decline in caseload for public assistance programs.

### Public Assistance Average Caseload

Category of Public Assistance	<u>Fiscal 1996</u>	<u>Fiscal 1997</u>	<u>Fiscal 1998</u>	<u>Fiscal 1999</u>	<u>Fiscal 2000</u>	Estimated <u>Fiscal 2001</u>
TAFDC(1)	88,988	79,131	68,813	57,274	46,591	42,872
EAEDC (formerly General Relief)	17,282	16,895	16,305	15,171	14,089	13,200
SSI(2)	<u>159,748</u>	<u>160,924</u>	<u>160,700</u>	<u>162,470</u>	<u>163,356</u>	<u>164,143</u>
Total	<u>266,018</u>	<u>256,950</u>	<u>245,818</u>	<u>234,915</u>	<u>224,036</u>	<u>220,215</u>

SOURCE: Department of Transitional Assistance

- (1) TAFDC caseload estimates do not include the Emergency Assistance caseload.
- (2) SSI caseload does not include blind recipients whose benefits are administered by the Massachusetts Commission for the Blind.

The Emergency Assistance program provides disaster relief and shelter to homeless families. The cost of this program is included in the TAFDC expenditure category above.

The EAEDC caseload has also been declining steadily since fiscal 1996, resulting in an 18.4% decrease through fiscal 2000. The decline can be attributed to factors similar to those affecting the TAFDC caseload, as well as a state initiative to move qualified EAEDC recipients to the more comprehensive SSI program, taking advantage of federal funding not available under the state funded EAEDC program. The fiscal 2001 expenditures for EAEDC are estimated to be \$56.5 million, \$3.3 million less than fiscal 2000.

SSI is a federally administered and funded cash assistance program for individuals who are elderly, disabled or blind. SSI payments are funded entirely by the federal government up to \$512 per individual recipient per month and entirely by the state above that amount. The additional state supplement ranges from \$39 to \$454 per month per recipient. The SSI caseload has been increasing over the past five years, due to SSI policy changes, increased advocacy efforts on behalf of disabled populations, and the growing population of aged individuals, but the rate of growth has been declining since fiscal 1994. The fiscal 2001 expenditures for SSI are estimated to be \$211.1 million, a \$3.6 million increase over fiscal 2000.

*Federal Welfare Reform.* The federal welfare reform legislation that was enacted on August 22, 1996 eliminated the federal entitlement program of AFDC and replaced it with block grant funding for Temporary Assistance for Needy Families (TANF). The TANF program replaced Title IV-A of the Social Security Act and allows states greater flexibility in designing programs that promote work and self-sufficiency. The block grant for the Commonwealth is \$459.37 million annually for federal fiscal years 1997 through 2002. In addition, the Commonwealth will receive approximately \$106.8 million in child care block grant funds in fiscal 2001 to support child care programs. The Commonwealth must meet federal maintenance of effort (MOE) requirements in order to be eligible for the full TANF grant award. The Commonwealth successfully met the MOE requirement in federal fiscal 1997, 1998, 1999, and 2000 and is working with the U.S. Department of Health and Human Services in order to maximize the state spending that can count toward the fiscal 2001 requirement.

*Other Controls and Reforms.* The Department of Transitional Assistance in recent years has instituted tighter procedures and management controls. Stricter standards have been established to determine eligibility for TAFDC, Emergency Assistance and EAEDC benefits, including implementation of new disability criteria for EAEDC benefits. The Department of Transitional Assistance also has instituted automated systems to re-determine eligibility for benefits and has taken steps to reduce welfare fraud. In addition, the Department of Revenue has improved its collection of child support payments.

The Benefit Eligibility and Control On-Line Network (BEACON) is an integrated recipient eligibility system that automates the public assistance programs administered statewide by the Department of Transitional Assistance. This system will end outdated intake processes and will enable the Commonwealth more accurately to determine eligibility, provide appropriate services and track recipients through a consolidated process. The statewide rollout of the system will be complete on June 22, 2001.

These projects provide the Commonwealth with the reporting capabilities that are necessary under the federal welfare reform law.

### **Debt Service**

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

### **Commonwealth Pension Obligations**

The Commonwealth is responsible for the payment of pension benefits for Commonwealth employees (members of the state employees’ retirement system) and for teachers of the cities, towns and regional school districts throughout the state (members of the teachers’ retirement system, except for teachers in the Boston public schools who are members of the State-Boston retirement system but whose pensions are also the responsibility of the Commonwealth). Employees of certain independent authorities and agencies, such as the Massachusetts Water Resources Authority and of counties, cities and towns (other than teachers) are covered by 104 separate retirement systems. However, the Commonwealth assumed responsibility, beginning in fiscal 1982, for payment of cost of living adjustments for the 104 local retirement systems, in accordance with the provisions of Proposition 2½. The members of these state and local retirement systems do not participate in the federal Social Security System. In 1997 legislation was enacted removing from the Commonwealth the cost of future cost-of-living adjustments for these local retirement systems. The legislation provided that local retirement systems fund future cost-of-living adjustments. Pension benefits for state employees are administered by the State Board of Retirement, and pension benefits for teachers are administered by the Teachers’ Retirement Board. Investment of the assets of the state employees’ and teachers’ retirement systems is managed by the Pension Reserves Investment Management Board. In the case of all other retirement systems, the retirement board for the system administers pension benefits and manages investment of assets.

The state employees’ and teachers’ retirement systems are partially funded by employee contributions of regular compensation – 5% for those hired before January 1, 1975, 7% for those hired from January 1, 1975 through December 31, 1983, 8% for those hired from January 1, 1984 through June 30, 1996, and 9% for those hired on or after July 1, 1996, 12% for members of the state police hired after July 1, 1996 plus an additional 2% of compensation above \$30,000 per year for all those members hired on or after January 1, 1979.

The systems were originally established as “pay-as-you-go” systems, meaning that amounts were appropriated each year to pay current benefits, and no provision was made to fund currently the future liabilities already incurred. In fiscal 1978 the Commonwealth began to address the unfunded liabilities of the two state systems by making appropriations to pension reserves. Prior to the establishment of the pension funding program described below, the Commonwealth appropriated approximately \$680 million to the pension reserves during the mid-1980’s, in addition to the pay-as-you-go pension costs during those years.

Comprehensive pension funding legislation approved in January, 1988 required the Commonwealth to fund future pension liabilities currently and to amortize the Commonwealth’s accumulated unfunded liabilities to zero by June 30, 2028. The legislation was revised in July, 1997 to require the amortization of such liabilities by June 30, 2018. The legislation requires the Secretary of Administration and Finance to prepare a funding schedule that provides for the normal cost of Commonwealth benefits (normal cost being that portion of the actuarial present value of pension benefits which is allocated to a valuation year by an actuarial cost method) and to amortize the unfunded actuarial liability of the Commonwealth for its pension obligations. The funding schedule is required to be updated every three years on the basis of new actuarial valuation reports prepared under the direction of the Secretary of Administration and Finance. The Secretary is also required to conduct experience investigations every six years.

Funding schedules are to be filed with the Legislature triennially by March 1 and are subject to legislative disapproval. Under the pension legislation, if a schedule is not approved by the Legislature, payments are to be made in accordance with the most recently approved schedule; such payments must, however, at least equal the prior year’s payments. The Commonwealth is contractually obligated to the members of the affected retirement systems to make appropriations in accordance with the funding schedule.



The most recently approved funding schedule was filed by the Secretary of Administration and Finance on March 1, 2001 and approved by the House Committee on Ways and Means on March 7, 2001. The schedule was based on an actuarial valuation dated January 1, 2000, which was released by the Public Employee Retirement Administration Commission (PERAC) on September 15, 2000.

**Funding Schedule for Pension Obligations**  
(in thousands)

<u>Fiscal Year</u>	<u>Payments</u>	<u>Fiscal Year</u>	<u>Payments</u>
2002	\$ 986,390	2011	\$1,137,602
2003	1,000,104	2012	1,158,876
2004	1,014,503	2013	1,181,214
2005	1,029,622	2014	1,204,668
2006	1,045,497	2015	1,229,295
2007	1,062,166	2016	1,255,154
2008	1,079,668	2017	1,282,306
2009	1,098,045	2018	1,310,815
2010	1,117,341	2019	628,626

SOURCE: Executive Office for Administration and Finance, Fiscal Affairs Division.

The funding schedule above was based on actuarial valuations of the state employees' and teachers' retirement systems and the State-Boston retirement system as of January 1, 2000, subject to certain modifications described below. The unfunded actuarial accrued liability based on the January 1, 2000 valuation was approximately \$773.4 million for state employees, approximately \$2.739 billion for state teachers, approximately \$521 million for Boston teachers and \$803 million for cost-of-living increases granted for local systems prior to July, 1997, for a total unfunded liability of approximately \$4.837 billion. The January 1, 2000 valuation was based on actuarial assumptions including future investment earnings at a rate of 8.25% per year, annual salary increases of 6% and annual cost-of-living increases for pensioners at the rate of 3% on the first \$12,000 of benefits. The valuation study determined the actuarial value of assets by continuing a phase-in of the use of a five-year average value rather than current market value, a process that had begun with the January 1, 1998 valuation study released on October 26, 1998. In the January 1, 2000 valuation assets were valued at 91% of market value. The March 1, 2001 funding schedule is predicated on an actuarial value of assets equal to 89% of market value. The funding schedule also assumes additional annual costs of \$50 million estimated to be attributable to 2000 legislation that enhanced certain retirement benefits for teachers. "Actuarial accrued liability" is the estimated present value of all benefits to be paid to existing pensioners and current employees less the present value of the future normal costs associated with such employees. The "unfunded" liability is the amount by which the actuarial accrued liability exceeded accumulated assets set aside therefor and represents the present value of the amount that would have to be contributed in the future in addition to normal costs in order for the liability to be fully funded.

Legislation approved in 1997 provides, subject to legislative approval, for annual increases in cost-of-living allowances (equal to the lesser of 3% or the previous year's percentage increase in the United States Consumer Price Index) for members of the state employees' and teachers' retirement systems, to be funded by the investment income of the systems. The funding schedule assumes that such annual increases will be approved. Local retirement systems that have established pension funding schedules may opt in to the requirement as well, with the costs and actuarial liabilities attributable to the cost-of-living allowances required to be reflected in such systems' funding schedules.

On October 18, 2000 and November 15, 2000 PERAC released experience studies of the state employees' and teachers' retirement systems, respectively, for calendar years 1995 through 1999. Both studies recommended changes in assumptions, including retirement rates, disability rates, withdrawal rates, salary increases and mortality. The net effect of the revised assumptions on the amount of the state's unfunded actuarial accrued liability for the two systems as of January 1, 2000 is estimated to be an increase of approximately \$657.2 million, from approximately \$3.513 billion to approximately \$4.170 billion. However, because the net effect of the assumptions is to reduce the normal cost of the systems (normal cost being that portion of the actuarial present value of pension benefits which is allocated to a valuation year by an actuarial cost method), it is estimated that total annual costs for

the two systems under the revised assumptions decrease in the aggregate by approximately \$79.2 million. The funding schedule approved on March 7, 2001 takes into account the recommendations of the experience studies.

### **Higher Education**

The Commonwealth's system of higher education includes the five-campus University of Massachusetts, nine state colleges and 15 community colleges. The system is coordinated by the state Board of Higher Education, and each institution is governed by a separate board of trustees. The Board of Higher Education appoints a chancellor of the system of public higher education, who is responsible for carrying out the policies established by the board. The operating revenues of each institution consist primarily of state appropriations and of student and other fees that may be imposed by the board of trustees of the institution. Tuition levels are set by the Board of Higher Education, and tuition revenue is required to be remitted to the State Treasurer by each institution. The board of trustees of each institution submits operating and capital budget requests annually to the Board of Higher Education. The Board of Higher Education uses the data to prepare operating and capital outlay budgets for the statewide system of public higher education, which are submitted to the Fiscal Affairs Division in the Executive Office for Administration and Finance and to the House and Senate Committees on Ways and Means. The Legislature appropriates funds for the higher education system in the Commonwealth's annual operating budget in various line items for each institution.

### **Other Program Expenditures**

The remaining \$4.86 billion in estimated expenditures on other programs and services for fiscal 2001 covers a wide variety of functions of state government, including expenditures for the Judiciary (\$598.2 million), District Attorneys (\$80.8 million) and the Attorney General (\$36.1 million) and for the Executive Offices for Administration and Finance (\$604.6 million), Environmental Affairs (\$525.5 million), Transportation and Construction (\$208.9 million), Public Safety (\$898.9 million) and Elder Affairs (\$176.7 million) and the Department of Housing and Community Development (\$154.5 million).

## STATE WORKFORCE

The following table sets forth information regarding the Commonwealth's workforce as of the end of fiscal years 1996 through 2000 and as of the end of calendar year 2000.

<b>Budget-Funded Workforce (1)</b>						
	<u>June 1996</u>	<u>June 1997</u>	<u>June 1998</u>	<u>June 1999</u>	<u>June 2000</u>	<u>December 2000</u>
Executive Office	88	83	80	93	89	88
Office of the Comptroller	112	107	113	110	106	109
Executive Departments						
Administration and Finance	3,190	3,145	3,080	3,153	3,225	3,180
Environmental Affairs	2,411	2,441	2,442	2,484	2,583	2,555
Housing and Community Development	100	104	118	113	111	117
Health and Human Services	23,359	22,918	23,125	23,164	23,483	23,157
Transportation and Construction	1,296	1,234	1,262	1,303	1,284	1,254
Board of Library Commissioners	13	17	20	17	20	20
Labor and Workforce Development	409	402	379	392	386	379
Economic Development	99	96	100	92	92	86
Consumer Affairs and Business Regulation	647	664	666	706	682	675
Department of Education	201	198	220	272	270	272
Board of Higher Education	13,614	13,813	14,184	14,840	15,251	15,481
Public Safety	8,859	8,885	9,115	9,520	9,409	9,686
Elder Affairs	<u>33</u>	<u>33</u>	<u>35</u>	<u>36</u>	<u>38</u>	<u>41</u>
Subtotal under Governor's authority	<u>55,431</u>	<u>54,140</u>	<u>54,939</u>	<u>56,295</u>	<u>57,029</u>	<u>57,059</u>
Judiciary	6,629	6,711	7,309	7,829	8,013	7,944
Other (2) (3)	<u>3,885</u>	<u>3,994</u>	<u>4,766</u>	<u>6,403</u>	<u>7,171</u>	<u>7,418</u>
Total	<u>64,945</u>	<u>64,845</u>	<u>67,014</u>	<u>70,527</u>	<u>72,213</u>	<u>72,462</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) Other includes staff of the Legislature and Executive Council, the office of the State Treasurer, Secretary, Auditor, and Attorney General, the eleven District Attorneys, and other agencies independent from the Governor; it excludes elected members of the Legislature and Executive Council.
- (3) Starting in 1998, this includes the offices of several former county sheriffs which have become state agencies. FTE's from former county sheriffs offices totaled 1,986 in 1998, 2,743 in 1999 and 3,011 in 2000.

### Union Organization and Labor Negotiations

Under Chapter 150E of the General Laws, all employees of the Commonwealth, with the exception of managerial and confidential employees, have the right to bargain collectively with the Commonwealth through certified employee organizations recognized as exclusive bargaining representatives for appropriate bargaining units. Collective bargaining with employees of the Commonwealth's colleges and universities, its judicial branch and the Lottery Commission generally is conducted directly by those entities. The Human Resources Division of the Executive Office for Administration and Finance conducts the collective bargaining negotiations with all other employees of the Commonwealth. Such negotiations may cover wages, hours and other terms and conditions of employment, but may not include the levels of pension and group insurance benefits. All labor agreements negotiated by the Human Resources Division are subject to approval by the Secretary of Administration and Finance and, once approved, are forwarded to the Legislature for funding approval. Funding of labor contracts is by means of supplemental appropriation.

In most cases, the Trial Court, Lottery Commission and public higher education management negotiate directly with their respective employee representatives, but all wage increases and other economic provisions contained in agreements negotiated by higher education management and the Lottery Commission are subject to the review of the Governor and to funding approval by the Legislature. This also applies to collective bargaining involving employees of the Commonwealth's county governments. If the Governor does not recommend the

requested appropriation to fund contractual increases, he may refer the contracts back to the parties for further negotiation.

Approximately 42,135 executive branch full-time-equivalent state employees are organized in twelve bargaining units, the employees of the Commonwealth's colleges and universities are organized in 30 bargaining units, and the employees of the judicial branch and the Lottery Commission are organized in six bargaining units. Public employees of the Commonwealth do not have a legal right to strike or otherwise withhold services.

In December, 1999, the Commonwealth reached an agreement with the Massachusetts Organization of State Engineers and Scientists (MOSES) for a three year contract that commenced on January 1, 2000 and ends on December 31, 2002. The agreement provides for increases in health and welfare contributions and reimbursement for employee meals. The agreement also provides for salary increases of 3% effective January 2, 2000, 3% effective January 7, 2001 and 2.5% effective January 6, 2002. The contract also contains an additional step increase of 2%. The total estimated cost of the agreement is \$22.5 million.

In November, 1999, the Commonwealth reached agreement with the Alliance, Unit 2, (the American Federation of State, County and Municipal Employees and the Service Employees International Union) representing employees in Unit 2 for a three-year contract commencing January 1, 2000 and ending December 31, 2002. The agreement calls for salary increases of 2% effective January 2, 2000, 2% effective July 2, 2000, 3% effective January 7, 2001, 2.5% effective July 1, 2001 and 0.5% effective July 7, 2002. The agreement also provides for increases in shift differentials and mileage reimbursements as well as a 1% bonus effective January 2, 2000. In addition, the agreement provides for 2% step effective January 7, 2001. The total estimated cost of the agreement is \$109.7 million.

In October, 1999, the Commonwealth reached an agreement with the National Association of Government Employees representing Units 1, 3 and 6 for a three-year contract beginning July 1, 2000 and terminating June 30, 2003. The agreements provide for salary increases of 3% effective January 7, 2001, 3% effective July 1, 2001, and 3% effective July 7, 2002. The agreements also call for an increase in health and welfare contributions effective July 1, 2002 and two 2% steps effective January 6, 2002 and January 5, 2003. The total estimated cost of the agreements is \$95.4 million.

In December, 1999, the Commonwealth reached an agreement with the State Police Association of Massachusetts, representing Unit 5A, for a three-year contract beginning January 1, 2000 and terminating December 31, 2002. The agreement called for salary increases of 2% effective January 2, 2000, 2% effective January 7, 2001, and 2% effective January 6, 2002. Employees are also eligible for a 1% increase for completion of the Department's Physical Fitness Program; a 1% increase for completion of the Department's Firearms Qualification Program; and a 1% increase for completion of the Department's Cruiser Safety Program during each year of the contract. The total estimated cost of this agreement is \$50.0 million.

In November 2000 the Commonwealth signed an agreement with the Massachusetts Nurses Association, representing employees in Bargaining Unit 7, for the three-year period beginning July 1, 2000 and terminating June 30, 2003. The agreement provides for salary increases of 2% effective July 2, 2000, 1% effective January 14, 2001, 2% effective July 1, 2001, 1% January 13, 2002, 2% July 14, 2002 and 1% January 12, 2003. Also included in the agreement is a provision that the increment between each step on the salary schedule be increased during each year of the agreement by 0.3%. The total estimated cost of this agreement is \$62.5 million.

In February, 1999, the Commonwealth signed an Agreement with the Alliance for a two-year contract commencing July 1, 1999 and ending June 30, 2001, covering employees in Units 8 and 10. The agreement provides for a total of 7% in across the board wage increases, with a 2% increase effective July 4, 1999; a 2% increase effective January 2, 2000; and a 3% increase effective January 7, 2001. Additionally, increases were made to employee dental and vision plans and for employee career ladder training. The total estimated cost of the agreement is \$29.4 million through fiscal 2001. Negotiations have commenced with the Alliance for a successor to this contract.

In October of 2000, the Commonwealth reached an agreement with the Massachusetts Correction Officers Federated Union, representing Unit 4, for a three-year contract beginning January 1, 2001, and terminating December 31, 2003. The agreement provides for salary increases of 2.5% effective January 1, 2001, 2.5% effective

January 1, 2002 and 2.5% effective January 1, 2003. Employees are also eligible for a 1.5% increase for completion of all of the Department's In-Service Training; and a 1% increase for Hazardous Duty Pay for each year of the contract. The total estimated cost of this agreement is \$85.6 million.

In December of 2000, the Commonwealth began negotiations with the Coalition of Public Safety for a contract to replace the current contract which will expire on June 30, 2001.

In August of 2000, the Commonwealth reached an agreement with the International Brotherhood of Correctional Officers/National Association of Government Employees, representing Unit 4A, for a three-year contract beginning January 1, 2000, and terminating December 31, 2002. The agreement provides for salary increases of 2.5% effective January 2, 2000, 2.5% effective January 7, 2001 and 2.5% effective January 6, 2002. Employees are also eligible for a 1.5% increase for completion of all of the Department's In-Service Training; and a 1% increase for Hazardous Duty Pay for each year of the contract. The total estimated cost of this agreement is \$3.8 million.

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

<b>Human Resources Division Bargaining Units(1)(2)</b>				
<u>Contract Unit</u>	<u>Bargaining Union</u>	<u>Type of Employee</u>	<u>FTEs</u>	<u>Expiration Dates</u>
1	National Association of Government Employees	Clerical	4,373	6/30/03
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Institutional services	10,488	12/31/02
3	National Association of Government Employees	Skilled trades	732	6/30/03
4	Massachusetts Correction Officers Federated Union	Corrections	4,271	12/31/03
4A	Corrections Captains	Corrections	76	12/31/02
5	Coalition of Public Safety	Law enforcement	304	6/30/01
5A	State Police Association of Massachusetts	State Police	1,872	12/31/02
6	National Association of Government Employees	Administrative professionals	8,049	6/30/03
7	Massachusetts Nurses Association	Health professionals	2,012	6/30/03
8	Alliance/Service Employees International Union	Social workers	7,727	6/30/01
9	Massachusetts Organization of Engineers and Scientists	Engineers/scientists	2,880	12/31/02
10	Alliance/Service Employees International Union	Secondary education	<u>623</u>	6/30/01
Total			<u>43,407</u>	

SOURCE: Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Numbers represent full-time equivalent filled positions (FTEs) in the standard workforce as of December 25, 1999, whose positions are established in accounts funded by all sources (the annual operating budget, capital projects funds, direct federal grants, and expendable trusts and other non-appropriated funds).

## COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES

The Commonwealth finances capital expenditures from a variety of sources, including general obligation bonds and special obligation (gas tax and convention center) bonds issued by the state, surplus budgetary revenues and federal reimbursements. As a result of the Central Artery/Ted Williams Tunnel Project, certain additional funding sources have been developed, including specified payments from independent authorities and the issuance of federal grant anticipation notes to be repaid from future federal reimbursements. In addition, at the end of the last four fiscal years, the Commonwealth has set aside surplus operating revenues to supplement capital spending. See “FINANCIAL RESULTS – Stabilization Fund and Disposition of Year-End Surpluses.”

### Capital Spending Plan

Since fiscal 1992 the Executive Office for Administration and Finance has maintained a five-year capital spending plan, including an annual administrative limit on the amount of capital spending to be financed by bonds issued by the state. In fiscal 1992 the annual limit was set at approximately \$825 million. During fiscal 1995 the limit was raised to approximately \$900 million, during fiscal 1998 to approximately \$1.0 billion and to \$1.15 billion for fiscal 2002. Actual bond-financed capital expenditures during fiscal years 1996, 1997, 1998, 1999 and 2000 were approximately \$902 million, \$908 million, \$955 million, \$1.0 billion, \$1.0 billion and \$999 million, respectively. The fiscal 1999 figure does not include approximately \$26 million of bond-funded expenditures not counted against the annual limit because of their relationship to a debt defeasance transaction. See “Cash Defeasance Transactions.” The current plan is included in the table below and contains current estimates of capital spending of the Commonwealth as well as the estimated sources of funding for such capital spending, including federal aid, for fiscal years 2001 through 2005. Capital spending for fiscal years 2001 through 2005 to be financed from general obligation bonds issued by the state is forecast at \$5 billion, which is significantly below legislatively authorized capital spending levels. The five-year capital plan contemplates that the estimated level of Commonwealth capital spending will leverage approximately \$2.606 billion in federal highway funding.

The Fiscal Affairs Division within the Executive Office for Administration and Finance is responsible for monitoring the five-year capital spending plan. The Fiscal Affairs Division regularly reviews the plan to account for changes in the expected timing and amount of capital expenditures. Due to the size and complexity of the Commonwealth’s capital program and other factors, the timing and amount of actual capital expenditures and debt issuances over the period will likely vary somewhat from the annual spending amounts contained in the five-year capital spending plan.

The projections in the following table assume that all bonds related to a particular year’s expenditures will be issued in the same year. The Commonwealth maintains a commercial paper program and often issues bond anticipation notes in anticipation of the issuance of bonds. In practice, the Commonwealth may incur capital expenditures either before or after the issuance of the related bonds. Accordingly, the timing of bond issuances may differ from the timing of the expenditures shown in the table below.

The following table sets forth Commonwealth capital spending for fiscal years 1996 through 2000 and the Commonwealth’s five-year capital plan for fiscal years 2001 through 2005. Historical spending is presented in a manner consistent with the five-year plan. Prior to the enactment in November, 1999 of legislation restructuring the finances of the Massachusetts Bay Transportation Authority, the Commonwealth’s capital plan also incorporated the MBTA’s capital plan because of the Commonwealth’s responsibility for paying debt service on the MBTA’s bonds. Effective July 1, 2000 Commonwealth support for the MBTA is limited to a portion of the state sales tax, although the Commonwealth remains contingently liable for MBTA bonds issued prior to July 1, 2000. See “FINANCIAL RESULTS - Massachusetts Bay Transportation Authority - Financial Restructuring.”

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

USES:	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Est. 2001</u>	<u>Est. 2002</u>	<u>Est. 2003</u>	<u>Est. 2004</u>	<u>Est. 2005</u>
Information technology	\$ 17	\$ 56	\$ 86	\$ 111	\$ 68	\$ 72	\$ 49	\$ 49	\$ 49	\$ 49
Infrastructure	137	222	237	224	197	175	202	202	202	202
Environment	118	104	141	132	142	129	104	104	104	105
Housing	66	62	80	82	80	81	72	72	71	71
Public Safety	23	21	16	12	15	20	9	9	9	9
Transportation(2)	1,438	1,675	1,969	2,029	2,006	2,191	2,066	1,673	1,255	1,099
Economic development (3)	44	89	119	98	98	326	275	183	61	44
Reserve (4)	--	--	--	--	--	--	272	362	285	285
<b>Total Uses</b>	<b><u>\$1,842</u></b>	<b><u>\$2,230</u></b>	<b><u>\$2,648</u></b>	<b><u>\$2,687</u></b>	<b><u>\$2,606</u></b>	<b><u>\$3,016</u></b>	<b><u>\$3,049</u></b>	<b><u>\$2,653</u></b>	<b><u>\$2,036</u></b>	<b><u>\$1,864</u></b>
<b>SOURCES:</b>										
Long-Term Debt										
GO Debt Subject to Statutory Limit	\$ 908	\$ 1,055(6)	\$ 1,000(7)	\$1,000(8)	\$1,000	\$1,000	\$1,150	\$1,150	\$1,150	\$1,150
GO Debt Not Subject to Statutory Limit	--	--	--	26	133	365	635	350	0	0
Special Obligation Debt	--	--	--	--	--	248	227	138	16	0
Grant Anticipation Notes	--	--	295	412	408	386	0	0	0	0
Operating Revenues(5)	--	80	159	252	96	119	235	452	465	137
Third-Party Payments	43	60	405	412	481	117	203	111	18	190
Federal Reimbursements	<u>890</u>	<u>1,036</u>	<u>788</u>	<u>586</u>	<u>487</u>	<u>781</u>	<u>599</u>	<u>452</u>	<u>387</u>	<u>387</u>
<b>Total Sources</b>	<b><u>\$1,842</u></b>	<b><u>\$2,230</u></b>	<b><u>\$2,648</u></b>	<b><u>\$2,687</u></b>	<b><u>\$2,606</u></b>	<b><u>\$3,016</u></b>	<b><u>\$3,049</u></b>	<b><u>\$2,653</u></b>	<b><u>\$2,036</u></b>	<b><u>\$1,864</u></b>

SOURCES: Fiscal 1996-2000, Office of the Comptroller; Fiscal 2001-2005, Executive Office for Administration and Finance. Breakdown of Central Artery/Ted Williams Tunnel project, Central Artery/ Tunnel Project.

- (1) Totals may not add due to rounding.
- (2) Includes Central Artery/Ted Williams Tunnel project spending of \$802 million, \$971 million, \$1.428 billion, \$1.515 billion and \$1.464 billion in fiscal years 1996 through 2000, respectively. Projected project spending is set forth in the "Central Artery Project Construction Cash Flow" table, below.
- (3) Includes amounts formerly labeled "Wastewater Treatment." For fiscal 2001 through fiscal 2005, also includes approximately \$629 million for convention centers in Boston, Worcester and Springfield that are expected to be funded permanently by special obligation bonds.
- (4) Reserve for unanticipated capital spending needs within a given fiscal year, to be allocated among the listed categories. Fiscal years 2001 through 2003 include \$22 million, \$118 million and \$117 million, respectively, in pay-as-you-go funds. Agency expenditures of these funds is not yet determined.
- (5) Estimates for fiscal 2001 through 2005, inclusive, includes funds on deposit and certain dedicated fees and earnings.
- (6) Includes \$100 million in spending that was anticipated to be funded by payments from the Turnpike Authority; such payment was received June 28, 1998.
- (7) Includes \$19 million for the Worcester Convention Center expected to be funded permanently by special obligation bonds. See footnote 3.
- (8) Includes \$11 million for convention center payments expected to be funded permanently by special obligation bonds. See footnote 3.

## **Central Artery/Ted Williams Tunnel Project**

The largest single component of the Commonwealth's capital program currently is the Central Artery/Ted Williams Tunnel project, a major construction project that is part of the completion of the federal interstate highway system. The project involves the depression of a portion of Interstate 93 in downtown Boston (the Central Artery), which is now an elevated highway, and the construction of a new tunnel under Boston harbor (the Ted Williams Tunnel) to link the Boston terminus of the Massachusetts turnpike (Interstate 90) to Logan International Airport and points north. The magnitude of the Central Artery/Ted Williams Tunnel project has resulted in the realignment of certain transportation assets in the Commonwealth and the development of additional financing mechanisms to support its completion, including payments from the Massachusetts Turnpike Authority and the Massachusetts Port Authority and state borrowings in anticipation of future federal highway reimbursements. The legislation authorizing the project contemplates that the completed project will be owned and operated by the Massachusetts Turnpike Authority as part of the Metropolitan Highway System which was established in conjunction with the project.

On September 29, 2000 the Turnpike Authority filed with the Federal Highway Administration a revised finance plan dated October 1, 2000, which was based on information as of June 30, 2000 and the results of a comprehensive cost and schedule evaluation. The October 1, 2000 finance plan estimates total project costs to be \$14.075 billion. Funding is provided by \$7.049 billion in federal highway grants, \$1.5 billion from federal grant anticipation notes (see "Federal Grant Anticipation Notes"), \$2.168 billion from the Central Artery and Statewide Road and Bridge Infrastructure Fund (Infrastructure Fund) described below, \$1.465 billion from the proceeds of Commonwealth general obligation bonds not related to the Infrastructure Fund, \$1.593 billion in payments from the Turnpike Authority not related to the Infrastructure Fund (including proceeds from the sale of certain real estate and interest earnings thereon in an approximate amount of \$184.8 million) and \$300 million in payments from the Massachusetts Port Authority not related to the Infrastructure Fund.

The Central Artery and Statewide Road and Bridge Infrastructure Fund was created by legislation in May, 2000 to fund additional costs of the Central Artery/Ted Williams Tunnel project that had been announced in February, 2000 and to fund the statewide road and bridge program to the extent of at least \$100 million per year for each of fiscal years 2001 through 2005. Including the \$2.168 billion expected to be available for the Central Artery/Ted Williams Tunnel project, expenditures from the Infrastructure Fund are expected to total \$2.668 billion through fiscal 2005. These amounts are expected to be provided by the issuance of Commonwealth bonds in the amount of \$1.350 billion, the debt service on which is to be paid by motor vehicle license and registration fees dedicated to the fund, \$231 million from license and registration fees not needed for debt service, \$664 million from avoided debt service related to debt defeasance transactions described below, \$200 million from the Turnpike Authority, \$65 million from the Port Authority and \$159 million from interest earnings through fiscal 2005 on balances in the fund itself. The same legislation authorized \$650 million to be deposited in the Debt Defeasance Trust Fund (\$500 million from surplus fiscal 2000 revenues and \$150 million from accumulated surpluses from fiscal years 1997, 1998 and 1999 which were originally credited to the Capital Projects Fund). Such moneys have been used to establish sinking funds to retire certain Commonwealth bonds payable during fiscal 2001 and fiscal 2002. See "Cash Defeasance Transactions." During fiscal 2001 and fiscal 2002, an amount equal to the amount that would otherwise have been appropriated for debt service on the defeased Commonwealth bonds will be transferred from the applicable budgetary operating funds to the Infrastructure Fund.

On April 2, 2001, the Turnpike Authority filed with the Federal Highway Administration a cost/schedule status report dated April, 2001 which was based on information as of December 31, 2000. The report estimates total project costs to be \$14.075 billion, as in the October 1, 2000 finance plan. The plan identifies potential additional funding sources that could be utilized as a contingency if there were to be growth in the project cost estimate. One potential source of funds is additional sales of Turnpike Authority real estate assets, including assets made available after completion of the project (estimated value of \$140 million). Other sources include \$50 million expected to be withdrawn from the owner-controlled insurance program trust fund for the project, of which \$25 million was withdrawn on February 16, 2001 and an additional \$25 million is expected to be withdrawn in May, 2001. In addition, the report identifies potential additional third-party funding for surface roadwork. The Turnpike Authority



has identified certain schedule and budget exposures in connection with the project but expects to cover them within the \$14.075 billion figure.

Increased federal oversight of the Central Artery/Ted Williams Tunnel project occurred in early 2000 following the February 1, 2000 announcement by project officials of substantially increased project cost estimates. A special task force of federal officials reported to the U. S. Secretary of Transportation on March 31, 2000 that senior management of the project had deliberately withheld information about cost overruns from the Federal Highway Administration and recommended a change in project leadership. The report was released on April 11, 2000, and upon receipt of the report Governor Cellucci requested and received the resignation of the chairman of the Turnpike Authority and appointed a new chairman. By letter dated June 15, 2000, the Federal Highway Administration informed the Massachusetts Turnpike Authority that it had been designated a "high-risk grantee" with respect to activities related to the project and that such designation would remain in effect until the project's completion. According to the letter, the designation means that more detailed financial reports and additional project monitoring will be required on the project. On June 22, 2000, the Federal Highway Administration, the Executive Office of Transportation and Construction, the Massachusetts 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.

On October 23, 2000 the President of the United States approved legislation providing that the U. S. Secretary of Transportation is to withhold obligation of federal funds and all project approvals for the Central Artery/Ted Williams Tunnel project in each federal fiscal year unless the Secretary has approved the annual update of the project finance plan for that year and has determined that the Commonwealth is in full compliance with the June 22, 2000 project partnership agreement described above and is maintaining a balanced statewide transportation program, including spending at least \$400 million each state fiscal year for construction activities and transportation projects other than the Central Artery/Ted Williams Tunnel project. (For fiscal 2001, such spending as of April 12, 2001 is approximately \$226 million.) In addition, the legislation limits total federal funding to \$8.549 billion. (This limit includes \$1.5 billion to pay the principal of federal grant anticipation notes and is consistent with the October 1, 2000 finance plan, which was approved by the Secretary on November 29, 2000.) Finally, the legislation ties 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 project finance plan is consistent with Federal Highway Administration financial plan guidance. (This finding was made on November 29, 2000 with respect to the October 1, 2000 finance plan.) 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 Central Artery/Ted Williams Tunnel 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 project.

The table below provides cash flow estimates that are consistent with the revised project cost estimates (as of December 31, 2000) that are contained in the April, 2001 cost/schedule status report and that extend to fiscal 2006, when the final project close-out process is expected to be completed. (Substantial completion of the project is still expected by December 31, 2004.) The Turnpike Authority and the Executive Office for Administration and Finance believe that such estimates of future costs are realistic and that the assumptions underlying the October 1, 2000 finance plan, as updated by the April, 2001 cost/schedule status report, are reasonable and appropriate. In light of the risks involved in large construction projects such as the Central Artery/Ted Williams Tunnel Project, however, including the risks that change orders and contract bids might exceed projections, that schedule slippages might occur due to unanticipated conditions or circumstances, that change order and right-of-way disputes might be resolved on terms that are less favorable to the project than currently projected and that certain engineering designs might require modification, the actual amount and timing of construction costs may differ significantly from current estimates.

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

	<u>Through 2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>Totals</u>
<b>Project Construction Uses:</b>	<u>\$ 9,122</u>	<u>\$ 1,448</u>	<u>\$ 1,536</u>	<u>\$ 1,015</u>	<u>\$ 676</u>	<u>\$ 269</u>	<u>\$ 10</u>	<u>\$ 14,075</u>
<b>Project Construction Sources:</b>								
Federal highway reimbursements	5,566	461	506	257	248	11	0	7,049
Commonwealth GO Bonds/Notes (2)	933	220	175	62	44	31	0	1,465
Third Party Payments (3)	1,509	117	38	11	18	190	10	1,893
GANs	1,114	386	0	0	0	0	0	1,500
Transportation Infrastructure Fund	<u>0</u>	<u>265</u>	<u>817</u>	<u>685</u>	<u>365</u>	<u>37</u>	<u>0</u>	<u>2,168</u>
<b>Total Sources</b>	<u>\$ 9,122</u>	<u>\$ 1,448</u>	<u>\$ 1,536</u>	<u>\$ 1,015</u>	<u>\$ 676</u>	<u>\$ 269</u>	<u>\$ 10</u>	<u>\$ 14,075</u>

SOURCE: Executive Office for Administration and Finance and Massachusetts Turnpike Authority.

- (1) Totals may not add due to rounding.
- (2) Does not include bonds or notes authorized by legislation approved May 17, 2000, which are included in the Transportation Infrastructure Fund line. Fiscal 2001 figure includes \$20 million and fiscal 2002 figure includes \$25 million in anticipated pay-as-you-go funding and interest earnings thereon.
- (3) Reflects payments to be received from the Turnpike Authority and the Port Authority, including an additional \$53 million to be received from the Turnpike Authority for a garage and surface restoration work, but excludes payments to be deposited in the Central Artery and Statewide Road and Bridge Infrastructure Fund, which are included in the Transportation Infrastructure Fund line. The fiscal year amounts assume that the Commonwealth will finance costs in anticipation of such receipts through cash advances funded by general revenues or through the issuance of interim debt, if necessary.

### Proposed Capital Spending Authorizations

On February 6, 2001 the Governor filed legislation that would authorize \$460 million of Commonwealth general obligation bonds for public housing renovations and loans and grants for affordable housing. The bill was heard by the Legislature's Committee on Housing and Urban Development on March 28, 2001.

It is expected that the Governor will file legislation during the 2001 legislative session authorizing general obligation bonds for the Executive Office of Public Safety, the Division of Capital Asset Management and Maintenance, the Executive Office for Environmental Affairs and the Information Technology Division. Additionally, the Governor is expected to file a deauthorization bill revoking certain outstanding authorizations consistent with the Commonwealth's five-year capital spending plan.

It is the policy of the Executive Office for Administration and Finance to approve expenditures from all pertinent general obligation bond authorizations in a manner consistent with the five-year capital spending plan.

### General Authority to Borrow and Types of Long-Term Liabilities

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

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, which term includes bonds and notes issued by it and all claims with respect thereto. However, the property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires legislative appropriation. Enforcement of a claim for payment of principal of or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth

statutes, if any, hereafter enacted extending the time for payment or imposing other constraints upon enforcement, insofar as the same may be constitutionally applied. The United States Bankruptcy Code is not applicable to states.

*Commonwealth Debt.* The Commonwealth is authorized to issue three types of debt directly – general obligation debt, special obligation debt and federal grant anticipation notes. General obligation debt is secured by a pledge of the full faith and credit of the Commonwealth. Special obligation debt may be secured either with a pledge of receipts credited to the Highway Fund or with a pledge of receipts credited to the Boston Convention and Exhibition Center Fund. See “Special Obligation Debt.” Federal grant anticipation notes are secured by a pledge of federal highway construction reimbursements. See “Federal Grant Anticipation Notes.”

*Other Long-Term Liabilities.* The Commonwealth is also authorized to pledge its credit in aid of and provide contractual support for certain independent authorities and political subdivisions within the Commonwealth. These Commonwealth liabilities are classified as either (a) general obligation contract assistance liabilities, (b) budgetary contractual assistance liabilities or (c) contingent liabilities.

General obligation contract assistance liabilities arise from statutory requirements for payments by the Commonwealth to the Massachusetts Convention Center Authority, the Massachusetts Development Finance Agency and the Foxborough Industrial Development Financing Authority of 100% of the debt service of certain bonds issued by those authorities, as well as payments to the Massachusetts Water Pollution Abatement Trust and the Massachusetts Turnpike Authority that are not explicitly tied to debt service. Such liabilities constitute a pledge of the Commonwealth’s credit for which a two-thirds vote of the Legislature is required.

Budgetary contractual assistance liabilities arise from statutory requirements for payments by the Commonwealth under capital leases, including leases supporting certain bonds issued by the Chelsea Industrial Development Financing Authority and the Route 3 North Transportation Improvements Association, and other contractual agreements, including a contract supporting certain certificates of participation issued for Plymouth County and the grant agreements underlying the school building assistance program. Such liabilities do not constitute a pledge of the Commonwealth’s credit.

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

The following table sets forth the amount of Commonwealth debt and debt related to general obligation contract assistance liabilities outstanding as of April 1, 2001.

**Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities  
April 1, 2001  
(in thousands)**

	<u>Long-Term (2)</u>	<u>Short-Term</u>
<b>COMMONWEALTH DEBT</b>		
General Obligation Debt	\$11,709,419(3)	\$750,000(5)
Special Obligation Debt	564,485	-
Federal Grant Anticipation Notes	<u>1,499,325 (4)</u>	<u>-</u>
Subtotal Commonwealth Debt	<u>13,773,229</u>	<u>750,000</u>
<b>DEBT RELATED TO GENERAL OBLIGATION CONTRACT ASSISTANCE LIABILITIES (1)</b>		
Massachusetts Convention Center Authority	72,214	-
Massachusetts Development Finance Agency	63,000	-
Foxborough Industrial Development Financing Authority	<u>69,810</u>	<u>-</u>
Subtotal GO Contract Assistance Debt	<u>205,024</u>	<u>-</u>
<b>TOTAL</b>	<b><u>\$13,978,253</u></b>	<b><u>\$750,000</u></b>

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

- (1) Does not include general obligation contract assistance liabilities to the Massachusetts Water Pollution Abatement Trust and the Massachusetts Turnpike Authority. See "General Obligation Contract Assistance Liabilities."
- (2) Long-term debt includes discount and costs of issuance.
- (3) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from April 1, 2001 through their maturity in the amount of \$97.5 million.
- (4) Includes capital appreciation interest accrued from April 1, 2001 through their maturity in the amount of \$43.9 million.
- (5) Includes \$400 million of general obligation bond anticipation notes due September 6, 2001 which were issued to finance costs associated with the construction of the Boston Convention and Exhibition Center and other capital projects (to the extent the proceeds of such notes are expended for the convention center, such notes are expected to be paid from the proceeds of special obligation bonds that can lawfully be issued regardless of the completion status of the convention center. See "Special Obligation Debt; *Boston Convention and Exhibition Center Fund*"). Also includes \$350 million of commercial paper issued as bond anticipation notes. See "General Obligation Debt; *Notes*."

The following table sets forth the amount of Commonwealth debt and debt related to general obligation contract assistance liabilities as of the end of the fiscal years indicated.

**Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities  
(in thousands) (1)(2)**

<u>June 30</u>	General Obligation Bonds (3)	Dedicated Income Tax Debt	Special Obligation Debt	Federal Grant Anticipation Notes	Commonwealth Long-Term Debt Subtotal (2)	GO Contract Assistance Debt (4)	<u>Total</u>
1996	\$ 9,147,353	\$382,965	\$535,260	--	\$10,065,578	\$173,544	\$10,239,122
1997	9,620,633	129,900	520,760	--	10,271,293	145,314	10,416,607
1998	9,872,598	--	606,005	\$ 600,000	11,078,603	201,904	11,280,507
1999	10,301,011	--	585,730	921,720	11,808,461	174,884	11,983,345
2000	10,896,896	--	564,485	921,720	12,383,101	213,789	12,596,890
2001(5)	11,709,419	--	564,485	1,499,325	13,773,229	205,024	13,978,253

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

- (1) Totals may not add due to rounding.
- (2) Outstanding bond liabilities include discount and costs of issuance.
- (3) Does not include dedicated income tax debt issued in fiscal 1991 and retired in fiscal 1998, which was general obligation debt also secured by a special pledge of income tax receipts. Commonwealth general obligation bonds include interest on capital appreciation bonds yet to be accrued from the end of the fiscal year indicated through their maturity in the following approximate amounts; fiscal 1996 – \$331.4 million; fiscal 1997 – \$198.6 million; fiscal 1998 – \$305.8 million; fiscal 1999 – \$315.4 million; fiscal 2000 – \$286.8 million; and fiscal 2001 – \$433.8 million.
- (4) Includes bonds of the Massachusetts Convention Center Authority, the Massachusetts Development Finance Agency (as successor to the Massachusetts Government Land Bank) and the Foxborough Industrial Development Financing Authority.
- (5) As of April 1, 2001.

*Long-Term Debt Analysis.* The following table sets forth outstanding long-term Commonwealth debt and Commonwealth-supported debt as of the end of the fiscal years indicated and the ratio of such indebtedness to certain economic indicators.

**Long-Term Debt Analysis**  
**Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities**  
(in thousands) (1)(2)

<u>June 30</u>	<u>Amount (1)(2)</u> <u>(in thousands)</u>	<u>Net of CAB Interest</u> <u>Yet to be Accrued</u> <u>(in thousands)</u>	<u>Per Capita(3)</u>	<u>Ratio to Full Value</u> <u>of Real Estate (4)</u>	<u>Ratio to Personal</u> <u>Income (5)</u>
1996	\$10,239,122	\$9,907,722	1,628	2.63%	5.51%
1997	10,416,607	10,218,007	1,670	2.71	5.35
1998	11,280,507	10,974,707	1,794	2.69	5.23
1999	11,983,345	11,667,945	1,889	2.86	5.32
2000	12,596,890	12,328,090	1,942	2.54	5.62
2001(6)	13,978,253	13,544,427	2,133	2.79	6.17

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

- (1) Includes Commonwealth general obligation bonds, dedicated income tax bonds, special obligation bonds and federal grant anticipation notes and bonds of the Massachusetts Convention Center Authority, the Massachusetts Development Finance Agency (as successor to the Massachusetts Government Land Bank) and the Foxborough Industrial Development Financing Authority.
- (2) Outstanding bond liabilities include discount and costs of issuance. Commonwealth general obligation bonds include interest on capital appreciation bonds yet to be accrued from the end of the fiscal year through their maturity.
- (3) Based on United States Bureau of Census resident population estimates for Massachusetts of 6,085,395 for 1996, 6,117,520 for 1997, 1998, 6,175,169 for 1999 and actuals of 6,349,097 for 2000 and 2001.
- (4) Based on Commonwealth Department of Revenue equalized valuation of assessed real estate of \$377.2 billion for 1996 and 1997, \$408.2 billion for 1998 and 1999 and \$485.2 billion for 2000 and 2001.
- (5) Based on United States Department of Commerce, Bureau of Economic Analysis total personal income of \$179.9 billion for 1996, \$190.9 billion for 1997, \$209.8 billion for 1998 and \$219.5 billion for 1999 and 2000 and 2001.
- (6) As of April 1, 2001.

**General Obligation Debt**

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

*Notes.* The Commonwealth is authorized to issue short-term general obligation debt as revenue anticipation notes or bond anticipation notes. Revenue anticipation notes may be issued by the State Treasurer in any fiscal year in anticipation of the receipts for that year. Revenue anticipation notes must be repaid no later than the close of the fiscal year in which they are issued. Bond anticipation notes may be issued by the State Treasurer in anticipation of the issuance of bonds, including special obligation convention center bonds. See "Special Obligation Debt." The Commonwealth currently has liquidity support for a \$600 million commercial paper program for general obligation notes, through a \$200 million letter of credit which expires on December 28, 2003, a \$200 million credit line available through September 27, 2001 and a \$200 million credit line available through September 27, 2002.

*Synthetic Fixed Rate Bonds.* In connection with the issuance of certain general obligation bonds that were issued as variable rate bonds, the Commonwealth has entered into interest rate exchange (or "swap") agreements with certain counterparties pursuant to which the counterparties are obligated to pay the Commonwealth an amount equal to the variable rate payment on the related bonds and the Commonwealth is obligated to pay the counterparties a stipulated fixed rate. Only the net difference in interest payments is actually exchanged with the counterparty, and the Commonwealth is responsible for making the interest payments to the variable rate bondholders. The effect of the agreements is to fix the Commonwealth's interest payment obligations with respect to the variable rate bonds. The Commonwealth will be exposed to a variable rate if the counterparties default or if the swap agreements are terminated. Termination of a swap agreement may also result in the Commonwealth's making or receiving a termination payment. The variable rate bonds associated with such swaps are supported by stand-by bond purchase liquidity facilities with commercial banks which require that the applicable bank purchase

any bonds that are tendered and not successfully remarketed. Unless and until remarketed, the Commonwealth would be required to pay the bank interest on such bonds at a rate equal to the bank's prime rate. In addition, the Commonwealth would be required to amortize the principal of any such bonds according to an accelerated schedule. Such liquidity facilities expire well before the final maturity date of the related bonds and are expected to be renewed. As of April 1, 2001, the amount of such variable rate bonds outstanding was \$1.267 billion.

*Variable Rate Demand Bonds, Auction Rate Securities and U.Plan Bonds.* As of April 1, 2001, the Commonwealth had outstanding approximately \$275.6 million of variable rate demand bonds (not converted to a synthetic fixed rate as described above) in a daily interest rate mode, with liquidity support provided by commercial banks under agreements terminating in February, 2006. As of April 1, 2001, the Commonwealth had outstanding \$401.5 million of auction rate securities in a seven-day interest rate mode. As of April 1, 2001, the Commonwealth had outstanding approximately \$98.2 million of variable rate "U.Plan" bonds, sold in conjunction with a college savings program administered by the Massachusetts Educational Financing Authority, which bear deferred interest at a rate equal to the percentage change in the consumer price index plus 2%, together with current interest at the rate of 0.5%.

*Cash Defeasance Transactions.* On October 13, 1999, the Commonwealth expended approximately \$400.0 million from the Debt Defeasance Trust Fund to purchase securities and establish a sinking fund to provide for the payment of certain existing debt of the Commonwealth. The purchased securities, which included securities issued by the federal government and certain federal agencies, as well as other securities allowed under state finance law, were deposited in an irrevocable trust fund with a third-party trustee. Various Commonwealth general obligation bonds maturing through 2009 were defeased, with an approximate principal amount (maturity amount in the case of capital appreciation bonds) of \$512.6 million. On July 28, 2000, the State Treasurer expended approximately \$182.1 million from the Debt Defeasance Trust Fund to purchase securities and establish a sinking fund to provide for the payment of certain Commonwealth general obligation bonds maturing on August 1, 2000. On August 9, 2000, the State Treasurer expended approximately \$217.7 million from the Debt Defeasance Trust Fund to purchase securities and establish a sinking fund to provide for the payment of additional Commonwealth general obligation bonds maturing on various dates to and including February 1, 2001. On December 19, 2000, the State Treasurer expended approximately \$250.2 million from the Debt Defeasance Trust Fund to purchase securities and establish a sinking fund to provide for the payment of additional Commonwealth general obligation bonds maturing on various dates to and including July 1, 2001. The securities purchased on August 9, 2000 and December 19, 2000 consisted of certain federal agency obligations which are being held by a third-party trustee in an irrevocable trust fund. The approximate principal amount of Commonwealth general obligation bonds defeased pursuant to the three transactions is \$638.8 million. The amounts that would have been expended for debt service on such bonds in fiscal 2001 (approximately \$623.6 million) and in fiscal 2002 (approximately \$34.6 million) will be deposited in the Central Artery and Statewide Road and Bridge Infrastructure Fund. See "Central Artery/Ted Williams Tunnel Project."

### **Special Obligation Debt**

*Highway Fund.* Section 2-O of Chapter 29 of the General Laws authorizes the Commonwealth to issue special obligation bonds secured by all or a portion of revenues accounted to the Highway Fund. Revenues which are currently accounted to the Highway Fund are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax. Chapter 33 of the Acts of 1991 authorizes the Commonwealth to issue such special obligation bonds in an aggregate amount not to exceed \$1.125 billion. As of April 1, 2001, the Commonwealth had outstanding \$564.5 million of such special obligation bonds, including \$9.9 million of such bonds secured by a pledge of 2¢ of the 21¢ motor fuels excise tax and \$554.6 million secured by a pledge of an additional 4.86¢ of the motor fuels excise tax and certain other moneys. After June 1, 2002, all outstanding special obligation highway bonds will be secured by a pledge of 6.86¢ of such excise tax.

*Boston Convention and Exhibition Center Fund.* Chapter 152 of the Acts of 1997 authorizes \$676.9 million of special obligation bonds to be issued for the purposes of a new convention center in Boston (\$609.4 million), the Springfield Civic Center (\$48.5 million) and the Worcester convention center (\$19 million). The bonds are to be payable from moneys credited to the Boston Convention and Exhibition Center Fund created by legislation, which include the receipts from a 2.75% convention center financing fee added to the existing hotel tax in Boston,

Cambridge, Springfield and Worcester, sales tax receipts from establishments near the proposed Boston facility that first opened on or after July 1, 1997, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, the entire hotel tax collected at hotels located near the new Boston facility and all sales tax and hotel tax receipts at new hotels in Boston and Cambridge first opened on or after July 1, 1997. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). To date, no such bonds have been issued.

### **Federal Grant Anticipation Notes**

The Commonwealth has issued federal grant anticipation notes yielding aggregate net proceeds of \$1.5 billion, the full amount authorized, to finance the current cash flow needs of the Central Artery/Ted Williams Tunnel project in anticipation of future federal reimbursements. The legislation authorizing such notes contains a statutory covenant that as long as any such grant anticipation notes remain outstanding, the Commonwealth will deposit all federal highway reimbursements into the Grant Anticipation Note Trust Fund, to be released to the Commonwealth once all the debt service and reserve funding obligations of the trust agreement securing the grant anticipation notes have been met. If the United States Congress reduces the aggregate amount appropriated nationwide for federal highway spending to less than \$17.1 billion *and* debt service coverage with respect to the notes falls below 120%, then the legislation further pledges that 10¢ per gallon of existing motor fuel tax collections will be deposited into the trust fund, to be used for debt service on the notes, subject to legislative appropriation. The notes are not general obligations of the Commonwealth. The notes mature between fiscal 2006 and fiscal 2015, inclusive. Under the trust agreement securing the notes, aggregate annual debt service on grant anticipation notes may not exceed \$216 million. Such notes are secured by the pledge of federal highway construction reimbursement payments and by a contingent pledge of certain motor fuels excises.

### **Debt Service Requirements on Commonwealth Bonds**

The following table sets forth, as of April 1, 2001, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal grant anticipation notes. For variable rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate exchange agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. For other variable rate bonds and for auction rate securities, the schedule assumes a 5% interest rate.

**Debt Service Requirements on Commonwealth Bonds April 1, 2001**

(in thousands)(1)

Fiscal Year	<i>General Obligation Bonds</i>				<i>Federal Grant Anticipation Notes</i>			<i>Special Obligation Bonds</i>			Total Debt Service Commonwealth Bonds
	Principal	Interest on CABS at Maturity	Current Interest	Sub Total	Principal	Interest	Sub Total	Principal	Interest	Sub Total	
2001	\$ 1,485	-	\$93,165	\$ 94,650	-	\$40,099	\$ 40,099	\$22,290	\$14,915	\$37,205	\$ 171,954
2002	614,155	\$45,416	563,185	1,222,756	-	74,822	74,822	23,415	28,708	52,123	1,349,701
2003	661,381	48,650	528,602	1,238,633	-	74,822	74,822	24,865	27,258	52,123	1,365,579
2004	622,714	68,020	498,077	1,188,811	-	74,822	74,822	26,070	26,051	52,121	1,315,754
2005	741,528	9,338	467,384	1,218,251	-	74,822	74,822	27,370	24,758	52,128	1,345,201
2006	733,206	4,536	430,260	1,168,002	\$ 117,895	73,416	191,311	28,805	23,315	52,120	1,411,433
2007	756,350	4,835	399,446	1,160,631	123,825	67,486	191,311	30,350	21,774	52,124	1,404,066
2008	762,060	5,170	363,107	1,130,338	130,240	61,068	191,308	31,995	20,126	52,121	1,373,767
2009	756,429	6,026	322,630	1,085,084	137,230	54,077	191,307	33,675	18,444	52,119	1,328,510
2010	701,726	5,683	283,132	990,541	144,515	46,792	191,307	35,335	16,791	52,126	1,233,973
2011	700,577	6,191	246,049	952,817	152,230	39,080	191,310	37,300	14,829	52,129	1,196,256
2012	568,037	6,297	206,408	780,742	160,530	30,775	191,305	39,320	12,813	52,133	1,024,180
2013	559,795	7,111	175,776	742,681	168,470	22,837	191,307	41,470	10,650	52,120	986,108
2014	475,939	5,047	151,123	632,110	177,760	13,549	191,309	37,530	8,369	45,899	869,318
2015	433,619	4,333	126,069	564,021	186,630	4,674	191,304	39,455	6,440	45,895	801,219
2016	410,705	2,978	105,038	518,721	-	-	-	41,530	4,368	45,898	564,619
2017	410,368	1,673	88,031	500,073	-	-	-	43,710	2,186	45,896	545,968
2018	251,722	944	70,965	323,630	-	-	-	-	-	-	323,630
2019	236,813	418	59,294	296,525	-	-	-	-	-	-	296,525
2020	179,692	94	49,576	229,362	-	-	-	-	-	-	229,362
2021	275,253	44	38,418	313,716	-	-	-	-	-	-	313,716
2022	28,905	-	59,665	88,570	-	-	-	-	-	-	88,570
2023	22,035	-	29,134	51,169	-	-	-	-	-	-	51,169
2024	24,060	-	27,905	51,965	-	-	-	-	-	-	51,965
2025	30,059	-	26,533	56,592	-	-	-	-	-	-	56,592
2026	76,790	-	23,660	100,450	-	-	-	-	-	-	100,450
2027	80,455	-	19,714	100,169	-	-	-	-	-	-	100,169
2028	84,240	-	15,581	99,821	-	-	-	-	-	-	99,821
2029	88,335	-	11,249	99,584	-	-	-	-	-	-	99,584
2030	92,550	-	6,710	99,260	-	-	-	-	-	-	99,260
2031	95,630	-	1,992	97,622	-	-	-	-	-	-	97,622
<b>TOTAL</b>	<b>\$11,476,614</b>	<b>\$232,805</b>	<b>\$5,487,879</b>	<b>\$17,197,298</b>	<b>\$1,499,325</b>	<b>\$753,142</b>	<b>\$2,252,467</b>	<b>\$564,485</b>	<b>\$281,793</b>	<b>\$846,278</b>	<b>\$20,296,043</b>

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

(1) Totals may not add due to rounding



## **General Obligation Contract Assistance Liabilities**

*Massachusetts Convention Center Authority.* The Massachusetts Convention Center Authority was created for the purpose of promoting the economic development of the Commonwealth by the development and operation of the Hynes Convention Center in Boston and is authorized to issue bonds for any of its corporate purposes. Such bonds are fully secured by contract assistance payments by the Commonwealth, which payments are limited by statute to an amount equal to the annual debt service on \$200 million of bonds outstanding at any one time. The assistance contract is a general obligation of the Commonwealth for which its full faith and credit are pledged. As of April 1, 2001, the Convention Center Authority had \$72.2 million of such bonds outstanding.

*Massachusetts Development Finance Agency, as successor to the Massachusetts Government Land Bank.* On September 30, 1998, the Massachusetts Government Land Bank and the Massachusetts Industrial Finance Agency were legally merged into a successor entity, the Massachusetts Development Finance Agency ("MassDevelopment"). MassDevelopment has succeeded to all of the assets and liabilities of the Government Land Bank. MassDevelopment assists in the development of state and federal surplus property for private use and in the development of substandard, blighted or decadent open areas in the Commonwealth. MassDevelopment has direct borrowing power, and the Commonwealth is required to provide contract assistance payments necessary to defray the debt service on up to \$80 million of bonds issued to redevelop the former federal military base at Fort Devens. The contract with MassDevelopment is a general obligation of the Commonwealth for which the full faith and credit of the Commonwealth are pledged. As of April 1, 2001, MassDevelopment had \$63.0 million of bonds outstanding which are secured by the contract assistance from the Commonwealth, as described above. No more such bonds may be issued under current law.

*Foxborough Industrial Development Financing Authority.* Pursuant to legislation approved May 24, 1999, the Commonwealth entered into a contract for financial assistance with the Foxborough Industrial Development Financing Authority in June, 2000 obligating the Commonwealth to pay the full amount of the debt service on bonds issued to finance up to \$70 million of capital expenditures for infrastructure improvements related to the construction of a new professional football stadium in the town of Foxborough. The obligation of the Commonwealth to make such payments is a general obligation for which the full faith and credit of the Commonwealth are pledged. Under the authorizing legislation the Commonwealth is to receive \$400,000 per year in parking fees for stadium-related events and an administrative fee of \$1 million per year from the stadium lessee, and will be entitled to recover from the stadium lessee a portion of its contract assistance payments if professional football ceases being played at the stadium during the term of the bonds. As of April 1, 2001, the Foxborough Industrial Development Financing Authority had \$69.8 million of such bonds outstanding. No more such bonds may be issued under current law.

*Massachusetts Turnpike Authority.* The Commonwealth is obligated to pay contract assistance to the Massachusetts Turnpike Authority pursuant to legislation enacted in 1998 and a contract for financial assistance dated as of February 19, 1999 between the Turnpike Authority and the Commonwealth. The payments are in recognition of the financial burden imposed on the Turnpike Authority by virtue of its assumption of the responsibility for operation and maintenance of certain roadways in the Metropolitan Highway System that were formerly maintained by the Commonwealth. The Commonwealth's obligation to make such payments is a general obligation for which the faith and credit of the Commonwealth are pledged for the benefit of the Turnpike Authority and its bondholders. The contract provides that no later than September 1 of each year the Turnpike Authority is to submit to the Secretary of Transportation and Construction a certificate setting forth the total amount of costs incurred by the Turnpike Authority during the prior fiscal year in connection with the operation and maintenance of the roadways covered by the contract. The contract further provides that as soon as practicable following receipt of such certificate, but no later than December 1 of such year, the Commonwealth is to pay the Turnpike Authority the amount set forth in such certificate, provided that such payment may not be less than \$2 million on account of fiscal 2000, may not be less than \$5 million on account of fiscal 2001 and each fiscal year thereafter prior to the fiscal year in which the final segment of the affected roadways is transferred to the Turnpike Authority and may not be more than \$25 million on account of the fiscal year in which such transfer occurs and each fiscal year thereafter.

*Massachusetts Water Pollution Abatement Trust.* The Massachusetts Water Pollution Abatement Trust was created to implement the Commonwealth's state revolving fund program under Title VI of the federal Clean Water Act and the federal Safe Drinking Water Act. The Trust is authorized to apply for and accept federal grants and associated Commonwealth matching grants to capitalize the revolving fund and to issue debt obligations to make

loans to local governmental units to finance eligible water pollution abatement and water treatment projects. Under state law, each loan made by the Trust is required to provide for debt service subsidies or other financial assistance sufficient to result in the loan being the financial equivalent of a grant to the borrower of between 25% and 90% of the eligible cost of the financed project. A significant portion of such financial assistance is provided through the application of contract assistance payments from the Commonwealth. The Trust's enabling legislation directs the State Treasurer to enter into contract assistance agreements with the Trust for the Clean Water Act program providing for annual contract assistance payments to the Trust of up to \$46 million in the aggregate in each fiscal year. The Safe Drinking Water Act program provides for annual contract assistance payments to the Trust of up to \$9 million in the aggregate per fiscal year for new water treatment projects. The contract assistance agreements constitute general obligations of the Commonwealth for which its faith and credit are pledged, and the Trust's right to receive payments thereunder may be pledged by the Trust as security for repayment of the Trust's debt obligations. As of April 1, 2001, the Trust had \$1.677 billion of bonds outstanding. Approximately 27% of the aggregate debt service on such bonds is expected to be paid from Commonwealth contract assistance.

The following table sets forth, as of April 1, 2001, the Commonwealth's general obligation contract assistance requirements pursuant to contracts with the Massachusetts Convention Center Authority, MassDevelopment, the Foxborough Industrial Development Financing Authority, the Massachusetts Turnpike Authority and the Massachusetts Water Pollution Abatement Trust.

**General Obligation Contract Assistance Requirements  
(in thousands) (1)**

<u>Fiscal Year</u>	<u>Convention Center Authority</u>	<u>Massachusetts Development Finance Agency</u>	<u>Massachusetts Water Pollution Abatement Trust</u>	<u>Turnpike Authority(3)</u>	<u>Foxborough Industrial Development Financing Authority</u>	<u>Total</u>
2001	\$ 25,035	\$ 13,285	\$ 16,098(2)	\$ 7,500	\$ 3,266(2)	\$ 65,184
2002	20,369	13,280	47,580	7,675	5,337	94,241
2003	16,378	13,280	47,565	16,700	5,339	99,262
2004	16,337	13,283	47,279	18,100	5,338	100,337
2005	16,302	13,281	47,013	25,000	5,336	106,932
2006	14,735	13,280	46,559	25,000	5,336	104,910
2007	2,532	10,162	46,804	25,000	5,337	89,835
2008	2,534	--	46,433	25,000	5,336	79,303
2009	2,534	--	46,345	25,000	5,340	79,219
2010	2,534	--	46,165	25,000	5,338	79,037
2011	2,534	--	45,513	25,000	5,338	78,385
2012	2,533	--	43,922	25,000	5,338	76,793
2013	2,536	--	41,383	25,000	5,341	74,260
2014	2,536	--	38,492	25,000	5,339	71,367
2015	--	--	36,907	25,000	5,337	67,244
2016	--	--	32,198	25,000	5,337	62,535
2017	--	--	25,142	25,000	5,336	55,478
2018	--	--	19,854	25,000	5,339	50,193
2019	--	--	19,611	25,000	5,336	49,947
2020	--	--	13,927	25,000	5,335	44,262
2021	--	--	6,602	25,000	5,337	36,939
2022	--	--	--	25,000	5,340	30,340
2023	--	--	--	25,000	5,340	30,340
2024	--	--	--	25,000	5,340	30,340
2025	--	--	--	25,000	5,340	30,340
2026 through 2044	--	--	--	475,000(4)	--	475,000
<b>Total</b>	<b><u>\$129,429</u></b>	<b><u>\$89,851</u></b>	<b><u>\$761,392</u></b>	<b><u>\$1,049,975</u></b>	<b><u>\$131,376</u></b>	<b><u>\$2,162,023</u></b>

SOURCES: Massachusetts Water Pollution Abatement Trust, Massachusetts Convention Center Authority and MassDevelopment columns – Office of the State Treasurer; Foxborough Industrial Development Financing Authority column - Executive Office of Administration and Finance; Turnpike Authority column – Turnpike Authority.

- (1) Totals may not add due to rounding.
- (2) Partial year.
- (3) Estimated operating and maintenance costs to be reimbursed by the Commonwealth. Projections for fiscal years 2001 -2004 are in the process of being reviewed and updated.
- (4) Twenty-five million dollars per year for fiscal years 2026 through 2044, inclusive.

**Budgetary Contractual Assistance Liabilities**

*Plymouth County Certificates of Participation.* In May, 1992, Plymouth County caused to be issued approximately \$110.5 million of certificates of participation to finance the construction of a county correctional facility. In March, 1999, Plymouth County caused to be issued approximately \$140.1 million of certificates of participation to advance refund the 1992 certificates, construct an administration office building and auxiliary facilities near the county correctional facility and fund repairs and improvements to the facility. The Commonwealth, acting through the Executive Office of Public Safety and the Department of Correction, is obligated under a memorandum of agreement with Plymouth County to pay for the availability of 380 beds (out of 1,140) in the facility, regardless of whether 380 state prisoners are housed therein. The amounts payable by the Commonwealth will at least equal the debt service on the outstanding certificates of participation, but are subject to appropriation of such amounts by the Legislature in the annual budgetary line item for the Executive Office of Public Safety. The obligation of the Commonwealth under the memorandum of agreement does not constitute a general obligation or a pledge of the credit of the Commonwealth. As of April 1, 2001, Plymouth County had \$132.4 million of such certificates of participation outstanding.

*City of Chelsea Commonwealth Lease Revenue Bonds.* In November, 1993, the Chelsea Industrial Development Financing Authority issued approximately \$95.8 million of lease revenue bonds. The proceeds of the bonds were loaned to the Massachusetts Industrial Finance Agency (now MassDevelopment) and applied to the cost of the Massachusetts Information Technology Center, a tax processing facility of the Department of Revenue and a data processing information system center for the Department and for certain other departments and agencies of the Commonwealth. The bonds bear interest at a variable rate, and under an interest rate swap agreement that was entered into at the time, MassDevelopment receives variable rate payments with respect to the full amount of the bonds and is obligated to make fixed rate payments in exchange therefor. Simultaneously with the issuance of the bonds, the Commonwealth entered into a 30-year lease which provides for the payment of debt service on the bonds and certain other expenses associated with the project. The obligations of the Commonwealth do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. The Commonwealth's lease obligations related to these bonds are set forth in the table below. As of April 1, 2001, the Chelsea Industrial Development Financing Authority has \$86.9 million of such lease revenue bonds outstanding.

*Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds.* In August, 2000, the Route 3 North Transportation Improvements Association issued approximately \$394.3 million of lease revenue bonds to finance the reconstruction and widening of a portion of state Route 3 North. In connection with the financing, the Commonwealth leased the portion of the highway to be improved to the Association, and the Association leased the property back to the Commonwealth pursuant to a sublease. Under the sublease the Commonwealth is obligated to make payments equal to the debt service on the bonds and certain other expenses associated with the project. The obligations of the Commonwealth do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. The Commonwealth's sublease obligations related to these bonds are set forth in the table below. As of April 1, 2001, the Route 3 North Transportation Improvements Association had \$394.3 million of such lease revenue bonds outstanding.

*School Building Assistance.* The school building assistance program was established in 1948 to promote the planning and construction of school buildings and the establishment of consolidated and regional schools in the Commonwealth. Under this program, cities, towns, regional school districts, independent agricultural schools and the two counties that maintain county agricultural schools can obtain reimbursements from the Commonwealth for a portion of the construction costs (including any interest expense from indebtedness incurred) of approved school projects. The reimbursement percentage varies by municipality and may range from 50% to 90% of the approved project costs. The state reimbursement is paid in annual installments for periods of up to 20 years. Payment is made from amounts annually appropriated for the school building assistance program. The table below shows the amount of the Commonwealth's obligation to pay under grant agreements in effect on July 1, 2000.

*Long-Term Operating Leases and Capital Leases.* In addition to Commonwealth-owned buildings and facilities, the Commonwealth leases additional space from private parties. In certain circumstances, the Commonwealth has acquired certain types of capital assets under long-term capital leases; typically, these arrangements relate to computer and telecommunications equipment and to motor vehicles. Minimum future rental expenditure commitments of the Commonwealth under operating leases and long-term principal and interest obligations related to capital leases in effect at June 30, 2000 are set forth in the table below. These amounts represent expenditure commitments of both budgeted and non-budgeted funds.

**Budgetary Contractual Assistance Liabilities**  
(in thousands) (1)

<u>Fiscal Year</u>	<u>Plymouth County Certificates of Participation</u>	<u>City of Chelsea Commonwealth Lease Revenue Bonds</u>	<u>Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds</u>	<u>School Building Assistance</u>	<u>Other Leases</u>	<u>Total</u>
2001	\$8,446	\$6,465	\$14,000	\$317,716	\$ 146,042	\$270,721
2002	8,445	6,465	--	368,827	118,114	501,851
2003	10,242	6,465	--	419,009	96,819	532,535
2004	10,240	6,465	26,778	415,173	57,393	516,049
2005	10,243	6,465	26,957	409,411	29,257	482,333
2006	10,248	6,465	26,957	402,454	7,551	453,675
2007	10,246	6,465	26,960	400,701	7,551	451,923
2008	10,243	6,465	26,958	394,917	7,551	446,134
2009	10,248	6,465	26,957	384,511	7,551	435,732
2010	10,244	6,465	26,956	375,846	7,550	427,061
2011	10,245	6,453	26,959	359,740	--	403,397
2012	10,240	6,453	26,959	334,244	--	377,896
2013	10,245	6,453	26,958	321,722	--	365,378
2014	10,244	6,453	26,958	306,050	--	349,705
2015	10,250	6,453	26,960	291,231	--	334,894
2016	10,246	6,435	26,956	277,069	--	320,706
2017	10,238	6,435	26,960	257,881	--	301,514
2018	10,244	6,435	26,959	225,902	--	269,540
2019	10,244	6,435	26,957	198,353	--	241,989
2020	10,246	6,435	26,956	156,887	--	200,524
2021	10,243	6,435	26,957	105,769	--	149,404
2022	10,252	6,395	26,957	52,170	--	95,774
2023	--	6,379	26,955	--	--	33,334
2024 - 2033	--	--	269,579(2)	--	--	269,579
<b>Total</b>	<b><u>\$221,780</u></b>	<b><u>\$148,296</u></b>	<b><u>\$822,555</u></b>	<b><u>\$6,553,634</u></b>	<b><u>\$485,379</u></b>	<b><u>\$8,231,648</u></b>

SOURCES: Plymouth County Certificates of Participation, City of Chelsea Commonwealth Lease Revenue Bonds and Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds columns –Executive Office of Administration and Finance; School Building Assistance Column –Department of Education, School Facilities Service Bureau; and Other Leases column –Office of the Comptroller.

- (1) Totals may not add due to rounding.
- (2) Approximately \$27 million per year for fiscal years 2024 through 2033, inclusive.

**Contingent Liabilities**

*Massachusetts Bay Transportation Authority.* The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. Prior to July 1, 2000, the Commonwealth supported MBTA bonds and notes through guaranties of the debt service on its bonds and notes, contract assistance generally equal to 90% of the debt service on outstanding MBTA bonds and payment of the MBTA’s net cost of service (current expenses, including debt service, minus current income). Beginning July 1, 2000, the Commonwealth’s annual obligation to support the MBTA for operating costs and debt service is limited to a portion of the revenues raised by the Commonwealth’s sales tax, but the Commonwealth remains contingently liable for the payment of MBTA bonds and notes issued prior to July 1,

2000. The Commonwealth's obligation to pay such prior bonds is a general obligation for which its full faith and credit have been pledged. As of April 1, 2001, the Massachusetts Bay Transportation Authority had approximately \$3.495 billion of such prior bonds outstanding. Such bonds are currently scheduled to mature annually through fiscal 2030, with annual debt service in the range of approximately \$270 million to \$303 million through fiscal 2013 and declining thereafter. See "FINANCIAL RESULTS - Massachusetts Bay Transportation Authority - Financial Restructuring."

*Regional Transit Authorities and Woods Hole, Martha's Vineyard and Nantucket Steamship Authority.* There are 15 regional transit authorities organized in various areas of the state. The Steamship Authority operates passenger ferries to Martha's Vineyard and Nantucket. Each of these entities issues its own bonds and notes. Commonwealth support of the bonds and notes of the regional transit authorities and the Steamship Authority includes a Commonwealth guaranty pursuant to statutory provisions requiring the Commonwealth to provide each of these entities with funds sufficient to meet the principal of and interest on their bonds and notes as they mature to the extent that funds sufficient for this purpose are not otherwise available to such entity and the Commonwealth's payment, under applicable statutory provisions, of the net cost of service of the regional transit authorities and the Steamship Authority (current expenses, including debt service, minus current income). The Steamship Authority is currently self-supporting, requiring no net cost of service or contract assistance payments. As of April 1, 2001, the regional transit authorities and the Steamship Authority had \$129.5 million of bonds and notes outstanding in the aggregate. The Commonwealth's obligations to the regional transit authorities and to the Steamship Authority are general obligations for which its full faith and credit have been pledged.

*University of Massachusetts Building Authority and Massachusetts State College Building Authority.* Two higher education building authorities, created to assist institutions of public higher education in the Commonwealth, may issue bonds which are guaranteed as to their principal and interest by the Commonwealth. The guaranty is a general obligation of the Commonwealth for which its full faith and credit are pledged. In addition to such guaranty, certain revenues of these authorities, including dormitory rental income and student union fees, are pledged to their respective debt service requirements. While revenues thus far have been sufficient to meet debt service requirements, they have not been sufficient in all cases to pay operating costs. In such cases, the operating costs have been met by Commonwealth appropriations. As of April 1, 2001 the University of Massachusetts Building Authority had approximately \$134.6 million of Commonwealth-guaranteed debt outstanding, and the Massachusetts State College Building Authority had approximately \$77.9 million of Commonwealth-guaranteed debt outstanding.

*Massachusetts Housing Finance Agency.* MHFA is authorized to issue bonds to finance multi-family housing projects within the Commonwealth and to provide mortgage loan financing with respect to certain single-family residences within the Commonwealth. Such bonds are solely the obligations of MHFA, payable directly or indirectly from, and secured by a pledge of, revenues derived from MHFA's mortgage on or other interest in the financed housing. MHFA's enabling legislation also permits, and certain resolutions authorizing the respective issuance of multi-family and single-family housing bonds to date have required, the creation of a capital reserve fund in connection with the issuance of such bonds. With respect to multi-family housing bonds, any such capital reserve fund must be in an amount at least equal to the maximum annual debt service in any succeeding calendar year on all outstanding bonds secured by such capital reserve fund, including the bonds then being issued. With respect to single family housing bonds, any such fund must be maintained in an amount not less than one-quarter of the maximum amount of interest becoming due in the current or any succeeding fiscal year of the agency and not greater than the maximum amount of debt service becoming due in the current or any succeeding fiscal year on all outstanding bonds which are secured by such capital reserve fund. Upon certification by the chairman of MHFA to the Governor of any amount necessary to restore a capital reserve fund to the above-described requirement, the Legislature may, but is not legally bound to, make an appropriation in such amount. No such appropriation has been necessary to date. As of April 1, 2001, MHFA had outstanding approximately \$628 million of multi-family housing bonds secured by capital reserve funds. There are no outstanding single-family housing bonds secured by capital reserve funds. As of such date the capital reserve funds were maintained at the required levels without Commonwealth appropriations, and no payments from such funds have been necessary. Authorized but unissued amounts as of such date were approximately \$371 million for multi-family bonds and approximately \$298 million for single-family bonds.

**Authorized But Unissued Debt**

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

<u>Fiscal Year</u>	<u>Authorized But Unissued Debt</u>
1997	\$ 11,954,142
1998	12,316,738
1999	12,004,017
2000	11,585,706
2001(1)	9,586,755

SOURCE: Office of the Comptroller

(1) As of April 1, 2001.

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

There is \$50 million of authorized but unissued debt under Chapter 33 of the Acts of 1991 that can only be issued as special obligation bonds secured by receipts in the Commonwealth’s Highway Fund. There is also \$676.9 million of authorized but unissued debt under Chapter 152 of the Acts of 1997 that can only be issued as special obligation bonds secured by receipts in the Commonwealth’s Boston Convention and Exhibition Center Fund. See “Special Obligation Debt.” In addition, several of the statutes authorizing general obligation bonds for transportation purposes also authorize such bonds to be issued as special obligation highway bonds, at the discretion of the Governor and the State Treasurer. The aggregate amount of such authorizations as of April 1, 2001 (included as Authorized but Unissued General Obligation Debt in the table above) is approximately \$3.8 billion.

**Statutory Debt Limit on Direct Debt**

Legislation enacted in December, 1989 imposes a limit on the amount of outstanding “direct” bonds of the Commonwealth. The law, which is codified in Section 60A of Chapter 29, set a fiscal 1991 limit of \$6.8 billion, and provided that the limit for each subsequent fiscal year was to be 105% of the previous fiscal year’s limit. The measurement of this limit is performed under the statutory basis of accounting, which differs from GAAP in that the principal amount of outstanding bonds is measured net of discount and costs of issuance. The law further provides that bonds to be refunded from the proceeds of Commonwealth refunding bonds are to be excluded from outstanding “direct” bonds upon the issuance of the refunding bonds. Pursuant to Chapter 33 of the Acts of 1991, the Commonwealth’s outstanding special obligation highway revenue bonds are not to be counted in computing the amount of bonds subject to this limit. Pursuant to Chapter 5 of the Acts of 1991, \$287.2 million of Commonwealth refunding bonds issued in September and October, 1991 are not counted in computing the amount of the bonds subject to this limit. Pursuant to Chapter 11 of the Acts of 1997, federal grant anticipation notes are also not to be counted in computing the amount of the bonds subject to this limit. Pursuant to Chapter 127 of the Acts of 1999, bonds issued to pay the operating notes issued by the Massachusetts Bay Transportation Authority are not to be counted in computing the amount of the bonds subject to this limit. See “FINANCIAL RESULTS - Massachusetts Bay Transportation Authority - Financial Restructuring.” Pursuant to Chapter 87 of the Acts of 2000, as amended, bonds payable from the Central Artery and Statewide Road and Bridge Infrastructure Fund are not to be counted in computing the amount of the bonds subject to this limit. See “Central Artery/Ted Williams Tunnel Project.” The

statutory limit on “direct” bonds during fiscal year 2001 is \$11,076,483,462. The outstanding Commonwealth debt amounts excluded from the limit as of April 1, 2001 are shown in the table below:

**Calculation of the Debt Limit**  
(in thousands)

	<u>Bonds Outstanding</u>
Balance as of April 1, 2001	\$ 13,773,229
Less amounts excluded:	
Discount and issuance costs	(295,029)
Federal grant anticipation notes	(1,500,000)
Assumed county debt	(1,375)
Chapter 5 of the Acts of 1991 refunding bonds	(71,054)
Special obligation bonds	(561,335)
Bonds to retire MBTA notes	(325,000)
Bonds payable from Infrastructure Fund	( 999,995)
Outstanding Direct Debt	<u>\$ 10,019,441</u>

SOURCE: Office of the Comptroller.

The following table shows the amount of outstanding “direct” debt of the Commonwealth, as compared with the appropriate statutory limit, as of the first day of each fiscal year in which the statutory limit has been in effect and as of April 1, 2001.

**Statutory Debt Limit on Direct Debt**  
(in thousands)

<u>Date</u>	<u>Outstanding Direct Debt</u>	<u>Statutory Limit on Direct Debt</u>
July 1, 1996	\$ 8,094,713	\$ 9,112,650
July 1, 1997	8,696,918	9,568,283
July 1, 1998	8,982,072	10,046,697
July 1, 1999	9,248,432	10,549,032
July 1, 2000	10,189,568	11,076,483
April 1, 2001	10,019,441	11,076,483

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

**Limit on Debt Service Appropriations**

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

**Debt Service Expenditures**  
(in millions)

<u>Fiscal Year</u>	<u>Debt Service (1)</u>	<u>Total Budgeted Expenditures and Other Uses</u>	<u>Percentage</u>
1996	\$ 905.1	\$ 16,881.1	5.4%
1997	997.6	17,949.0	5.6
1998	1,079.3	19,001.7	5.7
1999	1,173.8	20,244.7	5.8
2000	1,193.3	22,414.7	5.3
2001 (estimate)	1,361.3	22,280.9	6.1(2)

SOURCE: Fiscal 1996-2000, Office of the Comptroller; fiscal 2001, Executive Office for Administration and Finance.

- (1) Excludes \$277.9 million in fiscal 1996, \$277.9 million in fiscal 1997 and \$134.1 million in fiscal 1998 for interest and principal payments related to dedicated income tax bonds, which are not included in the calculation of the debt service limit.
- (2) Reflects transfer off-budget of Commonwealth expenditures related to the MBTA.



## LEGAL MATTERS

### Litigation

There are pending in state and federal courts within the Commonwealth and in the Supreme Court of the United States various suits in which the Commonwealth is a party. In the opinion of the Attorney General, no litigation is pending or, to 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.

*Commonwealth Programs and Services.* From time to time actions are brought against the Commonwealth by the recipients of governmental services, particularly recipients of human services benefits, seeking expanded levels of services and benefits and by the providers of such services challenging the Commonwealth's reimbursement rates and methodologies. To the extent that such actions result in judgments requiring the Commonwealth to provide expanded services or benefits or pay increased rates, additional operating and capital expenditures might be needed to implement such judgments. In June, 1993, in an action challenging the Commonwealth's funding of public primary and secondary education systems on both federal and state constitutional grounds, *Webby v. Dukakis* (now known as *McDuffy v. Robertson*, Supreme Judicial Court for Suffolk County No. 90-128), the Supreme Judicial Court ruled that the Massachusetts Constitution imposes an enforceable duty on the Commonwealth to provide adequate public education for all children in the Commonwealth and that the Commonwealth was not at that time fulfilling this constitutional duty. However, the court also ruled that no then-present statutory enactment was to be declared unconstitutional. The court further ruled that the Legislature and the Governor were to determine the necessary response to satisfy the Commonwealth's constitutional duty, although a single justice of the court could retain jurisdiction to determine whether, within a reasonable time, appropriate legislative action had been taken. Comprehensive education reform legislation was approved by the Legislature and the Governor later in June, 1993. See "COMMONWEALTH PROGRAMS AND SERVICES – Local Aid; *Commonwealth Financial Support for Local Governments.*" On May 10, 1995, the plaintiffs filed a motion for further relief, arguing that the 1993 legislation did not provide sufficiently for public education and that its timetable was too slow. On December 22, 1999, plaintiffs filed a motion for further relief in which they argue that the Commonwealth has not complied with the requirements of the *McDuffy* decision, and in which they seek declaratory and injunctive relief. Defendants filed an opposition motion on January 31, 2000 arguing that the Commonwealth had met its obligations under *McDuffy* by taking appropriate steps within a reasonable time to implement education reform. The Court has scheduled a status conference for April 18, 2001.

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

*Rolland v. Cellucci* (U.S. District Court C.A. No. 98-32208 KPN) is a class action by mentally retarded nursing home patients seeking community placements and services. The court approved a settlement agreement entered into by the parties which will provide certain benefits to nursing home residents with mental retardation and other developmental disabilities until 2007. The Department of Mental Retardation estimates that the agreement will cost approximately \$5 million per fiscal year for seven years. In March, 2001, the court found the defendants in noncompliance with the settlement agreement and lifted the agreement's stay of litigation concerning the provision of services to nursing home residents.

In *Ramos v. McIntire* (Suffolk Superior Court No. 98-2154), plaintiffs allege that the Department of Transitional Assistance violated state and federal law, including the Americans with Disabilities Act, by failing to accommodate welfare recipients with learning disabilities in its Employment Services Program. The court has denied, without prejudice, plaintiffs' motions for class certification and injunctive relief. If the case remains limited to the two existing plaintiffs, potential liability will likely be under \$50,000. However, if the Court at some point allows a motion for class certification, potential liability could increase to \$33.5 million. The Court denied a renewed motion for class certification.

The Division of Medical Assistance is also engaged in several related lawsuits in which numerous hospitals seek injunctive and declaratory relief from DMA's implementation of its prepayment review program and its postpayment review program. The hospitals also seek damages consisting of the value of all claims for payment previously denied by DMA under these two review programs, where the basis for the denial was DMA's determination that the claims were not medically necessary. In *Athol Memorial Hospital, et al. v. Commissioner of the Division of Medical Assistance* (Suffolk Superior Court No. 99-2325-F), the plaintiffs seek injunctive and declaratory relief. In *Baystate Medical Center v. Commissioner of the Division of Medical Assistance* (Suffolk Superior Court No. 99-2115-E), the plaintiff seeks injunctive and declaratory relief and monetary damages. In *Massachusetts Hospital Association, et al. v. Commissioner of the Division of Medical Assistance* (Suffolk Superior Court No. 99-2324-E), the plaintiffs seek injunctive and declaratory relief. *Salem Hospital v. Commissioner of the Division of Medical Assistance* (Suffolk Superior Court No. 99-0750-C) is an alleged class action seeking declaratory relief and monetary damages. In the *Baystate Medical* case, the Court dismissed the claims under 42 U.S.C. § 1983 on December 16, 1999. In the *Athol* and *Salem* cases, the Court dismissed the claims under 42 U.S.C. § 1983 on December 29, 1999. In the *Salem* case, the Court denied the motion for class certification on December 29, 1999. In the *Athol* and *Salem* cases, the court dismissed the claims for retroactive relief. The remaining claims for declaratory and injunctive relief could prevent DMA from continuing to implement the prepayment and postpayment review programs under its current regulations. Since continued implementation of these programs would save the Division between \$6 million and \$11 million annually, DMA's expenditures would increase by that amount if it is barred from implementing these programs.

*Boulet v. Cellucci* (formerly *Valerie Anderson v. Cellucci*, U.S. District Court C.A. No. 99-10617-DPW), is a class action against the Department of Mental Retardation and the Division of Medical Assistance asserting that the Commonwealth has an obligation under the Medicaid Home and Community Based Services Waiver Program to provide group residences for adult mentally retarded individuals who currently reside with their parents. On December 19, 2000, the parties submitted a settlement agreement to the court for its review and approval. The court substantially approved the settlement agreement, which provides for a total of \$85 million of new funding for fiscal years 2002-2006.

*Lopes v. Commonwealth* (Suffolk Superior Court No. 01-1337-BLS) is a class action in which the plaintiffs seek to enjoin the Division of Medical Assistance from recovering Medicaid payments from the estates of people who died of smoking-related illnesses and to pay back such funds already recovered.

*Environmental Matters.* The Commonwealth is engaged in various lawsuits concerning environmental and related laws, including an action brought by the U.S. Environmental Protection Agency alleging violations of the Clean Water Act and seeking to reduce the pollution in Boston Harbor. *United States v. Metropolitan District Commission* (U.S. District Court C.A. No. 85-0489-MA). See also *Conservation Law Foundation v. Metropolitan District Commission* (U.S. District Court C.A. No. 83-1614-MA). The Massachusetts Water Resources Authority (MWRA), successor in liability to the Metropolitan District Commission (MDC), has assumed primary responsibility for developing and implementing a court-approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. The MWRA currently projects that the total cost of construction of the wastewater facilities required under the court's order, not including CSO costs, will be approximately \$3.142 billion in current dollars, with approximately \$131 million to be spent after June 30, 2000. With CSO costs, the MWRA anticipates spending approximately \$633 million after that date. Under the Clean Water Act, the Commonwealth may be liable for any cost of complying with any judgment in these or any other Clean Water Act cases to the extent the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment.

On February 12, 1998, the U.S. Department of Justice filed a complaint in federal district court seeking to compel the MWRA to build a water filtration plant for the metropolitan Boston water supply and, together with the MDC, to take certain watershed protection measures. *United States v. MWRA* (U.S. District Court C.A. No. 98-10267). The U.S. District Court issued a decision on May 5, 1999 allowing the U.S. government's motion for summary judgment by finding the MWRA liable under the Safe Drinking Water Act, but denying its motion for summary judgment on the remedy issue. After a trial on appropriate remedies, the court ruled on May 5, 2000 that the MWRA does not need to build a filtration system based on a finding that ozonation treatment and improvement of the Wachusett watershed are sufficient actions at this time. On June 2, 2000, the court entered a judgment in

accordance with its ruling of May 5, 2000, denying the United States' motion for injunctive relief. An appeal filed by the United States has been argued before the U. S. Court of Appeals for the First Circuit and is under advisement.

Wellesley College is seeking contribution from the Commonwealth for costs related to environmental contamination on the Wellesley College campus and adjacent areas, including Lake Waban. Such costs may reach \$35 million. Currently, the Commonwealth and Wellesley College are mediating this potential claim for contribution. No litigation against the Commonwealth has been filed.

*Taxes and Other Revenues.* In *The First National Bank of Boston v. Commissioner of Revenue* (Appellate Tax Board No. F232249), the First National Bank of Boston challenges the constitutionality of the former version of the Commonwealth's bank excise tax. In 1992, several pre-1992 petitions filed by the bank, which raised the same issues, were settled prior to a board decision. The bank has now filed claims with respect to 1993 and 1994. The bank claims that the tax violated the Commerce Clause of the United States Constitution by including its worldwide income without apportionment. The Department of Revenue estimates that the amount of abatement, including interest, sought by the First National Bank of Boston, could total \$144 million.

In addition, there are several other tax cases pending which could result in significant refunds if taxpayers prevail. It is the policy of the Attorney General and the Commissioner of Revenue to defend such actions vigorously on behalf of the Commonwealth, and the descriptions that follow are not intended to imply that the Commissioner has conceded any liability whatsoever. Approximately \$80 million in taxes and interest in the aggregate are at issue in several other cases pending before the Appellate Tax Board or on appeal to the Appeals Court or the Supreme Judicial Court.

In *General Mills, Inc. v. Commissioner of Revenue* (Appellate Tax Board No. F223398), the taxpayer challenges a corporate excise tax, including the proper treatment of the sale of two of its subsidiaries. The total exposure to the Commonwealth, including tax, interest and penalties, is approximately \$36 million. The Appellate Tax Board issued a decision awarding an abatement of \$634,077. The Board has not yet issued its findings of fact and report.

In *Tenneco, Inc. v. Commissioner of Revenue* (Appellate Tax Board Nos. F162137-F162140), the taxpayer seeks \$34.3 million in excise taxes and interest. On September 6, 2000, the Appellate Tax Board issued findings of fact and a report in support of its 1998 decision in favor of the Commissioner. On October 31, 2000, the taxpayer filed a notice of appeal.

In *EG&G, Inc. v. Commissioner of Revenue* (Appellate Tax Board Nos. F245459, F245460, F245461, F253131, F233126), the taxpayer seeks \$21.2 million in excise taxes and interest. Trial is scheduled before the Appellate Tax Board in June, 2001.

*Eminent Domain.* In *Spaulding Rehabilitation Hospital Corporation v. Massachusetts Highway Department* (Suffolk Superior Court No. 95-4360C), the Spaulding Rehabilitation Hospital filed an action to enforce an agreement to acquire its property by eminent domain, in connection with the Central Artery/Ted Williams Tunnel project. On March 13, 1998, the Superior Court entered judgment for the Commonwealth dismissing the complaint. The plaintiff has appealed the Superior Court's dismissal of the complaint. In December, 1999, the Spaulding Rehabilitation Hospital filed an eminent domain action concerning the same property. *Spaulding Rehabilitation Hospital Corp. v. Commonwealth* (Suffolk Superior Court No. 99-5733-E). Potential liability in this action could approach \$35 million. In *Boston & Maine Railroad v. Commonwealth* (C.A. No. 99-3928E), pending in Middlesex Superior Court, the plaintiff may seek \$40 million for a taking of land in Cambridge for the Central Artery/ Ted Williams Tunnel project.

*Tobacco Settlement.* The amounts that might be payable, if any, by the Commonwealth for legal costs in relation to the tobacco litigation settled on November 23, 1998 cannot be determined at this time. See "COMMONWEALTH REVENUES - Tobacco Settlement." The outside attorneys for the Commonwealth were awarded approximately \$775 million in fees to be paid over time by the tobacco companies. The outside attorneys have notified the Attorney General that they reserve their right to submit a claim to the Commonwealth for the difference between the \$775 million and 25% of the Commonwealth's settlement payments.

## **Attorney General Investigation**

On March 20, 2001, the Inspector General of the Commonwealth issued a report to the State Treasurer containing the initial results of a yearlong review of the financial history of the Central Artery/Ted Williams Tunnel project from 1994 to the present. The report asserts that the private joint venture serving as the project's management consultant had provided then-Governor Weld and project officials with project cost estimates of \$13.790 billion in November and December, 1994, more than five years before comparable estimates were made public by project officials on February 1, 2000. On April 2, 2001, the Attorney General of the Commonwealth confirmed that he had commenced a criminal investigation into the Inspector General's allegations.

## **SEC Investigation**

On May 8, 2000 the State Treasurer's office was advised that the staff of the Securities and Exchange Commission was conducting a formal investigation in the matter of "Certain Municipal Securities/Massachusetts Central Artery (B-1610)," pursuant to a formal order of private investigation issued by the Commission.

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

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

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

The information, estimates and assumptions and expressions of opinion in this Information Statement are subject to change without notice. Neither the delivery of this Information Statement nor any sale made pursuant to this Information Statement shall, under any circumstances, create any implication that there has been no change in the affairs of the Commonwealth or its agencies, authorities or political subdivisions since the date of this Information Statement, 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.state.ma.us/osc/Reports/reportsfinancial.htm>.

On behalf of the Commonwealth, the State Treasurer will provide to each nationally recognized municipal securities information repository within the meaning of Rule 15c2-12 of the Securities and Exchange Commission, no later than 270 days after the end of each fiscal year of the Commonwealth, certain financial information and operating data relating to such fiscal year, as provided in said Rule 15c2-12, together with audited financial statements of the Commonwealth for such fiscal year. To date, the Commonwealth has complied with all of its continuing disclosure undertakings.

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

#### **AVAILABILITY OF OTHER FINANCIAL INFORMATION**

Questions regarding this Information Statement or requests for additional information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12<sup>th</sup> floor, Boston, Massachusetts 02108, telephone 617/367-3900 (x. 564), or to Laura Guadagno, Assistant Secretary for Capital Resources and Chief Development Officer, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Information Statement should be directed to John R. Regier, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone 617/348-1720.

#### **THE COMMONWEALTH OF MASSACHUSETTS**

By /s/ Shannon P. O'Brien  
Shannon P. O'Brien  
Treasurer and Receiver-General

By /s/ Stephen P. Crosby  
Stephen P. Crosby  
Secretary of Administration and Finance

April 27, 2001

## ECONOMIC INFORMATION

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

All information is presented on a calendar-year basis unless otherwise indicated. **Information is current as of April 5, 2001.** Sources of information are indicated in the text or immediately following the charts and tables. Although the Commonwealth considers the sources to be reliable, the Commonwealth has made no independent verification of the information presented herein and does not warrant its accuracy.

<u>Statistical Overview</u>		
<u>Population</u> (p. A-2)	<u>Massachusetts</u>	<u>United States</u>
Percentage Change in Population, 1999–2000*	2.8%	4.1%
<u>Personal Income, Consumer Prices, and Poverty</u> (p. A-7)		
Per Capita Personal Income, 1999	\$35,733	\$28,518
Average Annual Pay, 1999(p)	\$40,331	\$33,313
Percentage Change in CPI-U, 1999-2000**	4.3%	3.4%
Percentage Change in CPI-U, January 2000 to January 2001*	4.6%	3.4%
Poverty Rate, 1999	10.2%	12.3%
Average Weekly Manufacturing Earnings, February 2001 (p)	\$618.41	\$590.40
Percentage Change in Manufacturing Earnings, Feb. 2000-Feb. 2001 (p)	1.4%	.3%
<u>Employment</u> (p. A-16)		
Unemployment Rate, 2000	2.6%	4.0%
Unemployment Rate, February 2001	2.7%	4.2%
<u>Economic Base and Performance</u> (p. A-25)		
Percentage Change in Gross State Product, 1997–1998	6.0%	5.1%
Percentage Change in International Exports, 1999–2000	21.3%	12.6%
Percentage Change in Housing Permits Authorized, 1999–2000	-8.6%	-6.0%
<u>Human Resources and Infrastructure</u> (p. A-38)		
Expenditure Per Pupil, 1998	\$7,778	\$6,189
Percentage Adults with a Bachelor's Degree, March 2000	32.7%	25.6%
*Note: Percentages may be exaggerated pending updates to 1999 estimates		
** Note: Percentage change in CPI-U data is for Boston and the U.S.		

Massachusetts is a densely populated state with a well-educated population, comparatively high income levels, low rates of unemployment, and a relatively diversified economy. While the total population of Massachusetts has remained fairly stable in the last twenty years, significant changes have occurred in the age distribution of the population: dramatic growth in residents between the ages of 20 and 44 since 1980 is expected to lead to a population distributed more heavily in the 65 and over age group in 2015 and 2025. Just as the working-age population has increased, income levels in Massachusetts since 1980 have grown significantly more than the national average, and a variety of measures of income show that Massachusetts residents have significantly higher rates of annual income than the national average. These higher levels of income have been accompanied by a significantly lower poverty rate and, with the exception of the recession of the early 1990s, considerably lower unemployment rates in Massachusetts than in the United States since 1980. While economic growth in Massachusetts slowed considerably during the recession of 1990–1991, indicators such as retail sales, housing permits, construction, and employment levels suggest a strong and continued economic recovery.

The following sections provide detailed information on population characteristics, personal income, employment, economic base and performance, and human resources and infrastructure. It should be noted that although some of the 2000 census counts have been made available, some of the data below is still only available from the 1990 census. Future versions of this economic information will include new counts as they become available.

## **POPULATION CHARACTERISTICS**

Massachusetts is a densely populated state with a comparatively large percentage of its residents living in metropolitan areas. According to the 1990 census, the population density of Massachusetts is 767.6 persons per square mile, as compared to 70.3 for the United States as a whole. Among the 50 states, only Rhode Island and New Jersey have a greater population density. Massachusetts also ranks third among the states in percentage of residents living in metropolitan areas: 96.2 percent of Massachusetts residents live in metropolitan areas, compared with a national average of 79.4 percent.

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

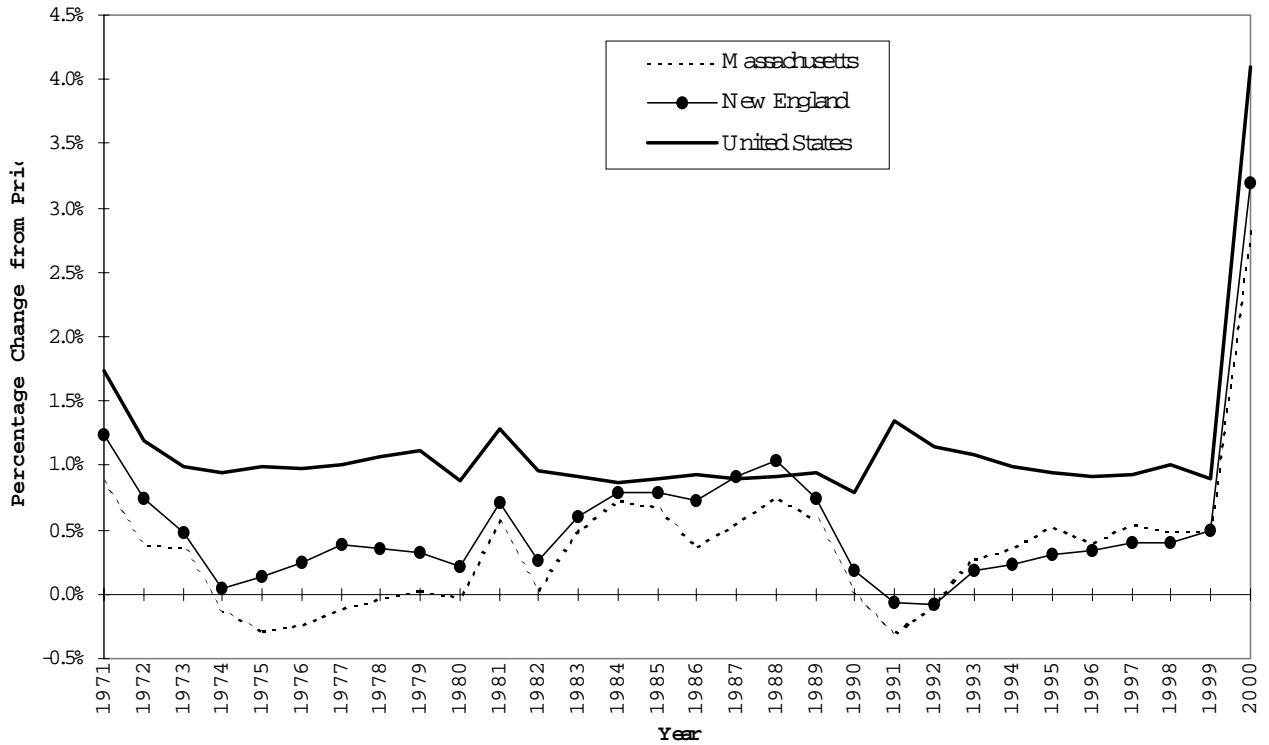
The second largest component of that CMSA is the Worcester, MA-CT PMSA, with a 2000 population of 511,389. Worcester, situated approximately 40 miles west of Boston with a 2000 population of 172,648, is the second largest city in New England. Its service, trade, and manufacturing industries combine for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

The largest Metropolitan Statistical Area ("MSA") within Massachusetts which is not a part of this larger CMSA is the Springfield MSA, with a 1990 population of 591,932. Springfield, the third largest city in the Commonwealth with a 2000 population of 152,082, is located in the Connecticut River Valley in western Massachusetts and enjoys a diverse body of corporate employers, the largest of which are the Bay State Medical Center, the Massachusetts Mutual Life Insurance Company, the Milton Bradley Company, and Smith and Wesson. In addition, Springfield is home to four independent colleges.

As the following chart indicates, the percentage change in population in Massachusetts since 1971 has been both lower and more erratic than the change in population for the United States as a whole. While this

trend is similar to that experienced by New England, it differs considerably from the steady growth rates for the United States over the same period of time.

*Percentage Change in Total Population, 1971-2000*



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

**Note:** 1980, 1990, and 2000 census counts are as of April 1; estimates for other years are as of July 1. Estimates for 1991 to 1999 have not been updated to reflect 2000 census information which may result in exaggerated changes in total population between 1999 and 2000.



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

**Population, 1970-2000**  
(in thousands)

Year	Massachusetts		New England		United States	
	Total	Percentage Change	Total	Percentage Change	Total	Percentage Change
1970	5,689		11,847		203,302	
1971	5,738	0.9%	11,993	1.2%	206,827	1.7%
1972	5,760	0.4%	12,082	0.7%	209,284	1.2%
1973	5,781	0.4%	12,140	0.5%	211,357	1.0%
1974	5,774	-0.1%	12,146	0.0%	213,342	0.9%
1975	5,758	-0.3%	12,163	0.1%	215,465	1.0%
1976	5,744	-0.2%	12,192	0.2%	217,563	1.0%
1977	5,738	-0.1%	12,239	0.4%	219,760	1.0%
1978	5,736	0.0%	12,283	0.4%	222,095	1.1%
1979	5,738	0.0%	12,322	0.3%	224,567	1.1%
1980	5,737	0.0%	12,348	0.2%	226,546	0.9%
1981	5,769	0.6%	12,436	0.7%	229,466	1.3%
1982	5,771	0.0%	12,468	0.3%	231,664	1.0%
1983	5,799	0.5%	12,544	0.6%	233,792	0.9%
1984	5,841	0.7%	12,642	0.8%	235,825	0.9%
1985	5,881	0.7%	12,741	0.8%	237,924	0.9%
1986	5,903	0.4%	12,833	0.7%	240,133	0.9%
1987	5,935	0.5%	12,951	0.9%	242,289	0.9%
1988	5,980	0.8%	13,085	1.0%	244,499	0.9%
1989	6,015	0.6%	13,182	0.7%	246,819	0.9%
1990	6,016	0.0%	13,207	0.2%	248,791	0.8%
1991	5,999	-0.3%	13,201	0.0%	252,153	1.4%
1992	5,993	-0.1%	13,188	-0.1%	255,030	1.1%
1993	6,109	1.9%	13,216	0.2%	257,783	1.1%
1994	6,031	-1.3%	13,243	0.2%	260,327	1.0%
1995	6,062	0.5%	13,283	0.3%	262,803	1.0%
1996	6,085	0.4%	13,328	0.3%	265,229	0.9%
1997	6,115	0.5%	13,378	0.4%	267,784	1.0%
1998	6,144	0.5%	13,429	0.4%	270,248	0.9%
1999	6,175	0.5%	13,496	0.5%	272,691	0.9%
2000	6,349	2.8%	13,923	3.2%	283,941	4.1%

**SOURCE:** Unites States Department of Commerce, Bureau of the Census.

**Note:** 1970, 1980, 1990, and 2000 census counts are as of April 1; estimates for other years are as of July 1. Estimates for 1991 to 1999 have not been updated to reflect 2000 census information which may result in exaggerated changes in total population between 1999 and 2000.

The next fifteen years are expected to bring about a considerable change in the age distribution of the Massachusetts population. As the following table and chart show, the population of Massachusetts is expected to be distributed more heavily in the 65 and over age groups in 2015 and in 2025. The chart and table show the projected population by age for Massachusetts for 2005 through 2025.

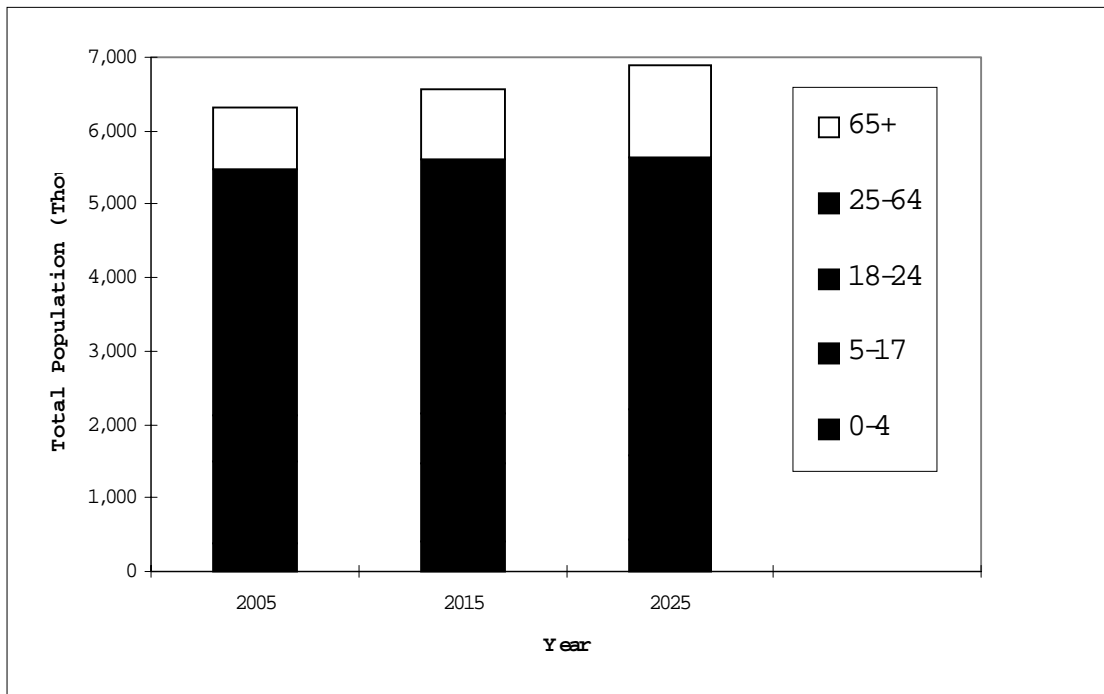
***Projected Massachusetts Population By Age Group, 2005-2025***  
(in thousands)

<i>Year</i>	<i>0-4</i>	<i>5-17</i>	<i>18-24</i>	<i>25-64</i>	<i>65+</i>
<b>2005</b>	382	1,106	633	3,362	827
<b>2015</b>	411	1,053	681	3,464	965
<b>2025</b>	439	1,128	650	3,433	1,252

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

**Note:** Projections made prior to the 2000 census.

***Projected Massachusetts Population By Age Group, 2005-2025***



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

**Note:** Projections made prior to the 2000 census.

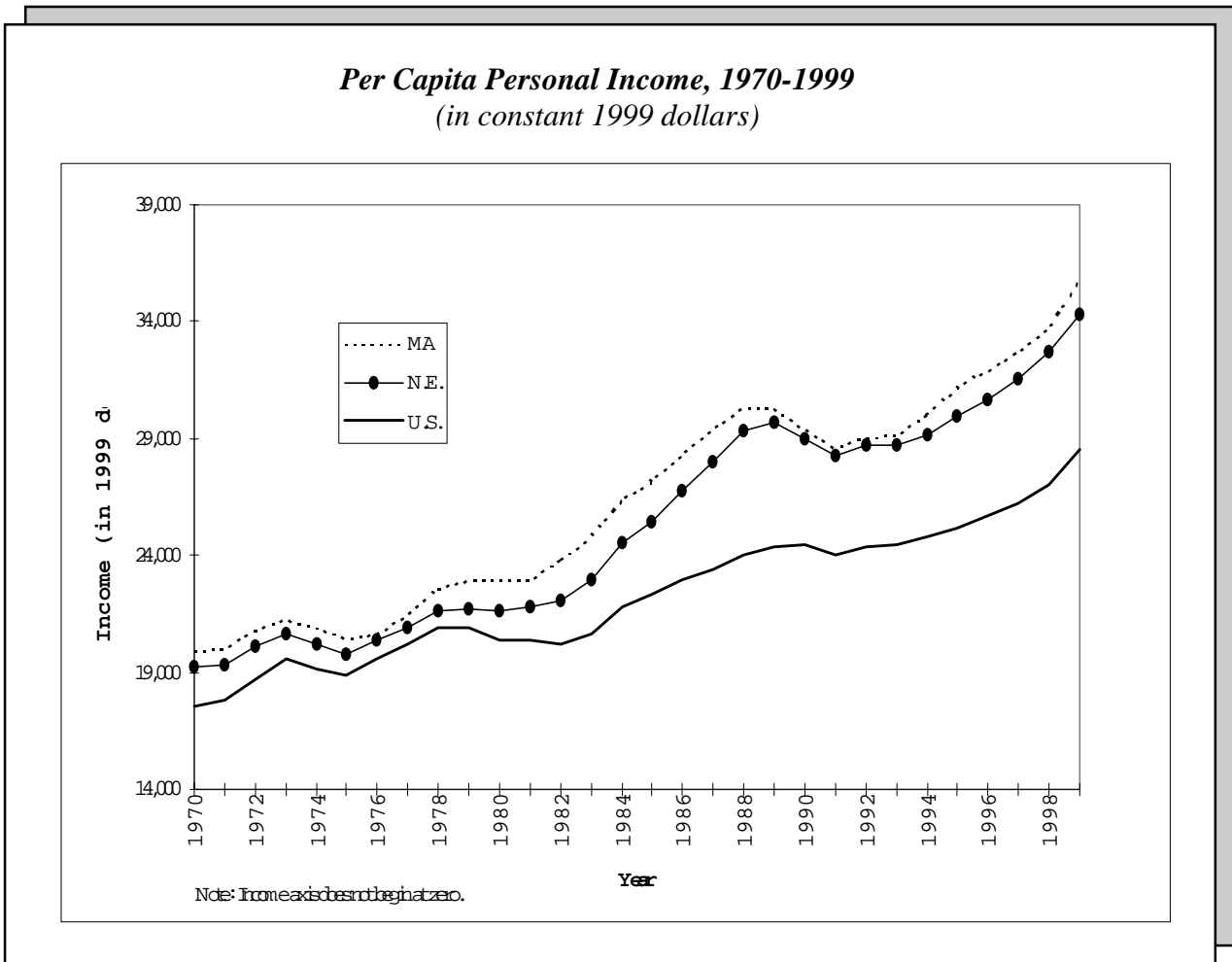
**Massachusetts Population by County  
1990 and 2000 Census**

<b>County</b>	<b>1990 Census</b>	<b>2000 Census</b>	<b>% Change 1990-00</b>
Barnstable	186,605	222,230	<b>19.1%</b>
Berkshire	139,352	134,953	<b>-3.2%</b>
Bristol	506,325	534,678	<b>5.6%</b>
Dukes	11,639	14,987	<b>28.8%</b>
Essex	670,080	723,419	<b>8.0%</b>
Franklin	70,092	71,535	<b>2.1%</b>
Hampden	456,310	456,228	<b>0.0%</b>
Hampshire	146,568	152,251	<b>3.9%</b>
Middlesex	1,398,468	1,465,396	<b>4.8%</b>
Nantucket	6,012	9,520	<b>58.3%</b>
Norfolk	616,087	650,308	<b>5.6%</b>
Plymouth	435,276	472,822	<b>8.6%</b>
Suffolk	663,906	689,807	<b>3.9%</b>
Worcester	709,705	750,963	<b>5.8%</b>
<b>Massachusetts</b>	<b>6,016,425</b>	<b>6,349,097</b>	<b>5.5%</b>

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

**PERSONAL INCOME, CONSUMER PRICES, AND POVERTY**

*Personal Income.* Since 1970, real and nominal per capita income levels have been consistently higher in Massachusetts than in the United States. After growing at an annual rate higher than that for the United States between 1982 and 1988, real income levels in Massachusetts declined between 1989 and 1991. Real per capita income levels in Massachusetts have increased faster than the national average between 1993 and 1997, showing growth rates between 0.3 and 3.8 percent in this period. In 1999 Massachusetts had its highest per capita income growth in 15 years exceeding the national growth rate by 1.6 percentage points. Both real and nominal income levels in Massachusetts are now at their highest rates ever, and both remain well above the national average. Massachusetts had the fourth highest level of per capita personal income in the United States in 1999. The following chart illustrates real per capita personal income in Massachusetts, New England, and the United States since 1970.



The following table compares per capita personal income in Massachusetts, New England, and the United States for the period 1970-1999.

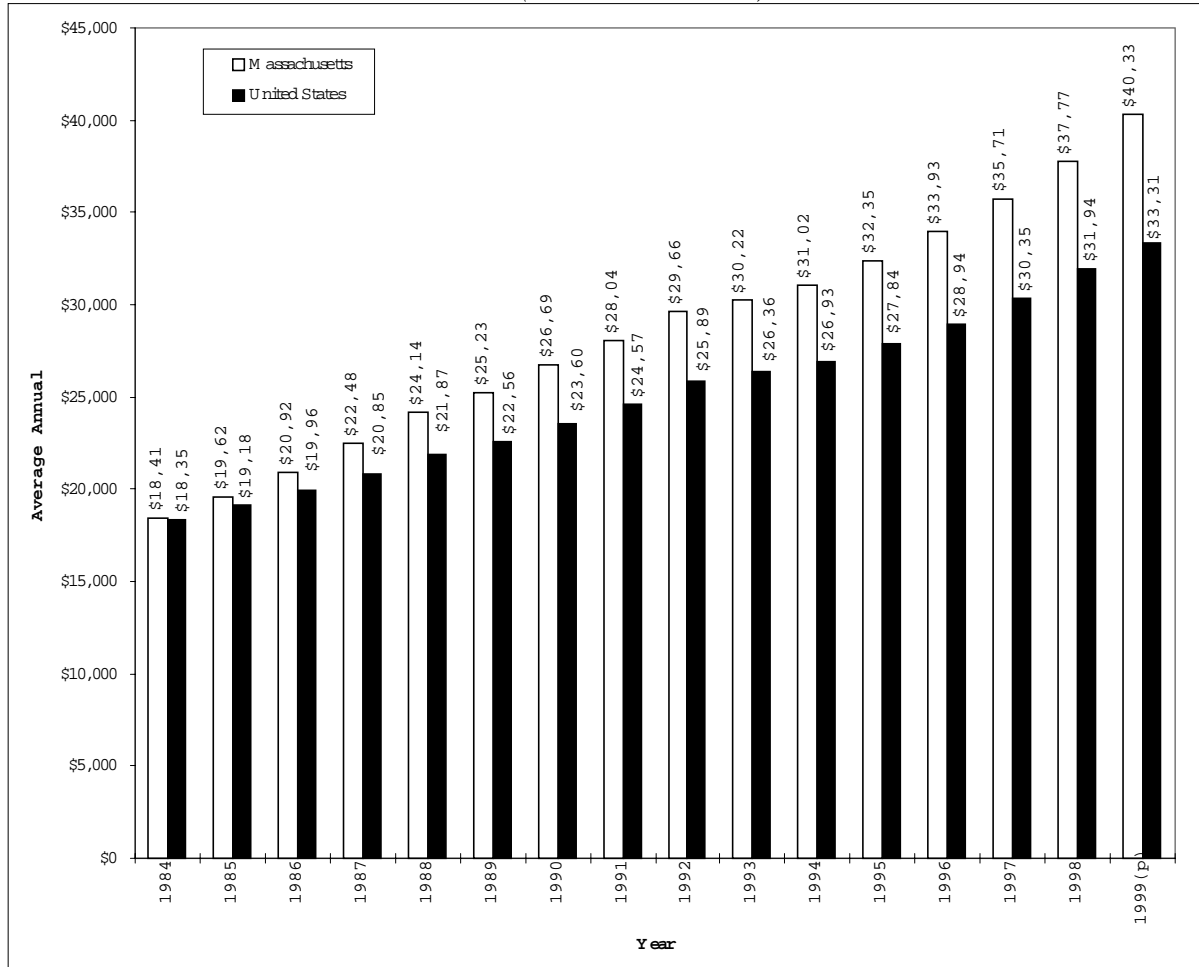
**Per Capita Personal Income, 1970-1999**

Year	Nominal Income (in current dollars)			Real Income (in 1999 dollars)			Percentage Change in Real Income		
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.
1970	\$4,547	\$4,479	\$4,077	\$19,907	\$19,232	\$17,506			
1971	4,804	4,702	4,327	20,036	19,342	17,799	0.6%	0.6%	1.7%
1972	5,162	5,054	4,699	20,790	20,143	18,729	3.8%	4.1%	5.2%
1973	5,600	5,504	5,211	21,287	20,652	19,553	2.4%	2.5%	4.4%
1974	6,074	5,978	5,676	20,879	20,202	19,181	-1.9%	-2.2%	-1.9%
1975	6,495	6,375	6,100	20,486	19,741	18,890	-1.9%	-2.3%	-1.5%
1976	7,042	6,962	6,690	20,657	20,384	19,588	0.8%	3.3%	3.7%
1977	7,684	7,606	7,334	21,432	20,910	20,162	3.8%	2.6%	2.9%
1978	8,536	8,455	8,196	22,626	21,604	20,943	5.6%	3.3%	3.9%
1979	9,552	9,478	9,118	22,967	21,750	20,924	1.5%	0.7%	-0.1%
1980	10,780	10,705	10,062	22,969	21,644	20,344	0.0%	-0.5%	-2.8%
1981	11,978	11,899	11,144	22,964	21,808	20,425	0.0%	0.8%	0.4%
1982	12,945	12,787	11,715	23,857	22,076	20,225	3.9%	1.2%	-1.0%
1983	14,009	13,748	12,356	24,705	22,996	20,668	3.6%	4.2%	2.2%
1984	15,703	15,319	13,571	26,397	24,563	21,761	6.8%	6.8%	5.3%
1985	16,842	16,420	14,410	27,095	25,424	22,311	2.6%	3.5%	2.5%
1986	18,100	17,610	15,106	28,392	26,768	22,962	4.8%	5.3%	2.9%
1987	19,600	19,075	15,945	29,459	27,974	23,384	3.8%	4.5%	1.8%
1988	21,417	20,810	17,038	30,349	29,306	23,994	3.0%	4.8%	2.6%
1989	22,634	22,103	18,153	30,340	29,696	24,389	0.0%	1.3%	1.6%
1990	23,210	22,741	19,156	29,409	28,987	24,418	-3.1%	-2.4%	0.1%
1991	23,590	23,078	19,623	28,633	28,229	24,003	-2.6%	-2.6%	-1.7%
1992	24,538	24,150	20,547	29,063	28,677	24,399	1.5%	1.6%	1.6%
1993	25,333	24,903	21,220	29,160	28,712	24,465	0.3%	0.1%	0.3%
1994	26,433	25,934	22,056	30,034	29,154	24,794	3.0%	1.5%	1.3%
1995	28,097	27,439	23,059	31,180	29,996	25,208	3.8%	2.9%	1.7%
1996	29,591	28,872	24,164	31,892	30,657	25,658	2.3%	2.2%	1.8%
1997	31,239	30,427	25,288	32,746	31,583	26,249	2.7%	3.0%	2.3%
1998	32,902	32,007	26,482	33,726	32,714	27,067	3.0%	3.6%	3.1%
1999	35,733	34,264	28,518	35,733	34,264	28,518	6.0%	4.7%	5.4%

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

Annual pay in nominal dollars has grown steadily in Massachusetts over the past ten years. Average annual pay is computed by dividing the total annual payroll of employees covered by Unemployment Insurance programs by the average monthly number of employees. Data are reported by employers covered under the Unemployment Insurance programs. While levels of annual pay were nearly equal in Massachusetts and the United States in 1984, average annual pay levels in Massachusetts have grown more rapidly than the national average since that time. Following a period between 1985 and 1992 in which average annual pay levels in Massachusetts grew at a rate between 5 and 7 percent, growth slowed to less than 3 percent in 1993 and 1994. However, growth levels have exceeded 4 percent in the past five years and, as a result, preliminary estimates show that the level of annual pay in Massachusetts in 1999 was 21 percent higher than the national average: \$40,331(p) compared to \$33,313. In 1999, average annual pay levels in Massachusetts were the fourth highest in the nation, and the growth rate was the second highest in the nation.

**Average Annual Pay, 1984-1999**  
(in current dollars)



SOURCE: United States Department of Labor, Bureau of Labor Statistics.  
(p)= preliminary estimates.

**Wage and Salary Disbursements.** Wage and Salary Disbursements by place of work is a component of personal income and measures monetary disbursements to employees. This includes compensation of corporate officers, commissions, tips, bonuses, and receipts in-kind. Although the data is recorded on a place-of-work basis, it is then adjusted to a place-of-residence basis so that the income of the recipients whose place of residence differs from their place of work will be correctly assigned to their state of residence. The table below details Wage and Salary Disbursements since 1990. Since 1991, Massachusetts has accounted for a steadily increasing percentage of the overall New England total and in 1999 it counted for just over 50 percent.

**Wage and Salary Disbursement, Yearly averages, 1990-1999**  
(In millions of dollars, seasonally adjusted)

Year	U.S.	N.E.	MA	MA as a pct. of N.E.
1990	\$ 2,743,643	\$171,476	\$83,145	48.5%
1991	2,812,323	170,387	82,342	48.3%
1992	2,974,791	177,918	86,074	48.4%
1993	3,079,080	183,355	89,111	48.6%
1994	3,232,379	190,869	93,272	48.9%
1995	3,421,108	202,237	99,350	49.1%
1996	3,623,084	214,075	105,794	49.4%
1997	3,885,737	230,721	113,962	49.4%
1998	4,184,088	248,291	123,378	49.7%
1999	4,473,562	267,523	134,289	50.2%

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

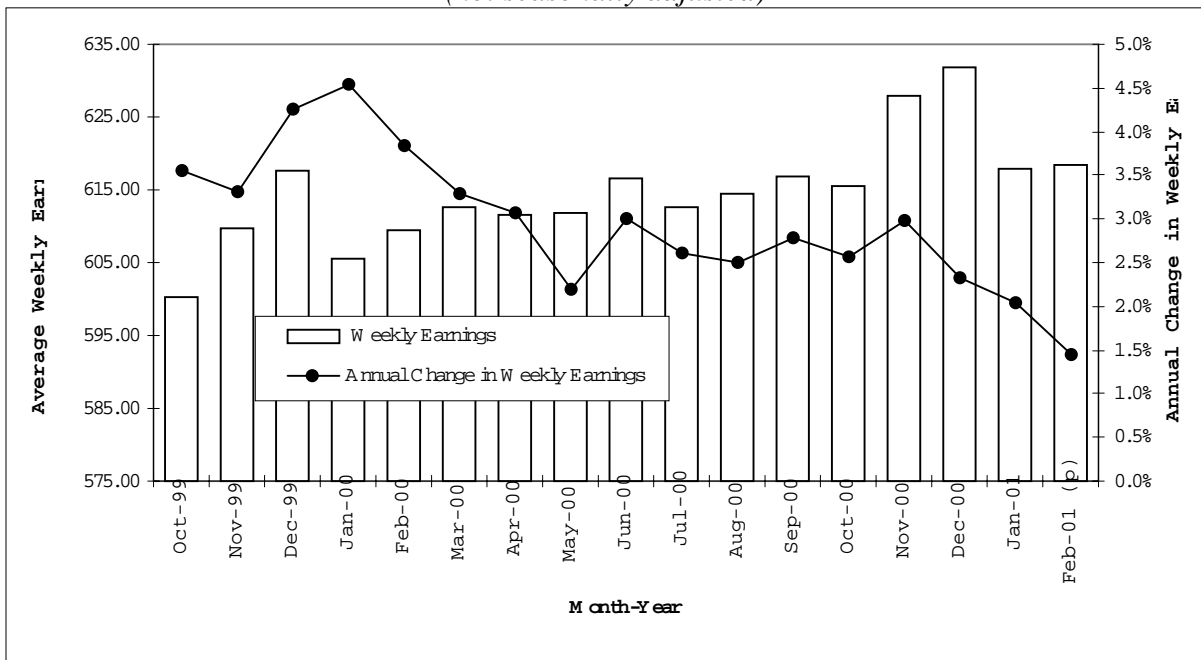
**Manufacturing Hours and Earnings.** Recent increases in manufacturing employment have been accompanied by increases in manufacturing earnings, with weekly earnings in the manufacturing sector growing at a rate of 1.4 percent over the past year. While this growth can be attributed largely to an increase in average hourly earnings (from \$14.48 in February 2000 to \$15.01 in February 2001(p)), it is important to note that employees in the manufacturing sector have averaged 42 or more work hours per week in 9 of the past 18 months. The following table shows average weekly hours, hourly earnings, weekly earnings, and the percentage change in weekly earnings compared to the same month in the previous year. Data are not adjusted to reflect seasonal variations in employment and compensation levels.

**Average Weekly Manufacturing Hours and Earnings in Massachusetts,  
October 1999 – February 2001 (p)**  
(not seasonally adjusted)

Month	Weekly Hours	Hourly Earnings	Weekly Earnings	Annual Change in Weekly Earnings
Oct-99	41.8	14.36	600.25	3.6%
Nov-99	42.4	14.37	609.71	3.3%
Dec-99	42.8	14.43	617.60	4.2%
Jan-00	41.9	14.45	605.46	4.5%
Feb-00	42.1	14.48	609.60	3.8%
Mar-00	42.2	14.52	612.74	3.3%
Apr-00	42.0	14.56	611.52	3.1%
May-00	41.9	14.60	611.74	2.2%
Jun-00	42.2	14.61	616.54	3.0%
Jul-00	41.5	14.76	612.54	2.6%
Aug-00	42.0	14.63	614.46	2.5%
Sep-00	41.8	14.76	616.97	2.8%
Oct-00	41.4	14.87	615.62	2.6%
Nov-00	42.2	14.88	627.94	3.0%
Dec-00	42.3	14.94	631.96	2.3%
Jan-01	41.3	14.96	617.85	2.0%
Feb-01	41.2	15.01	618.41	1.4%

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

**Average Weekly Manufacturing Earnings in Massachusetts,  
October 1999—February 2001 (p)**  
(not seasonally adjusted)



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

Note: Vertical axis does not begin at zero.



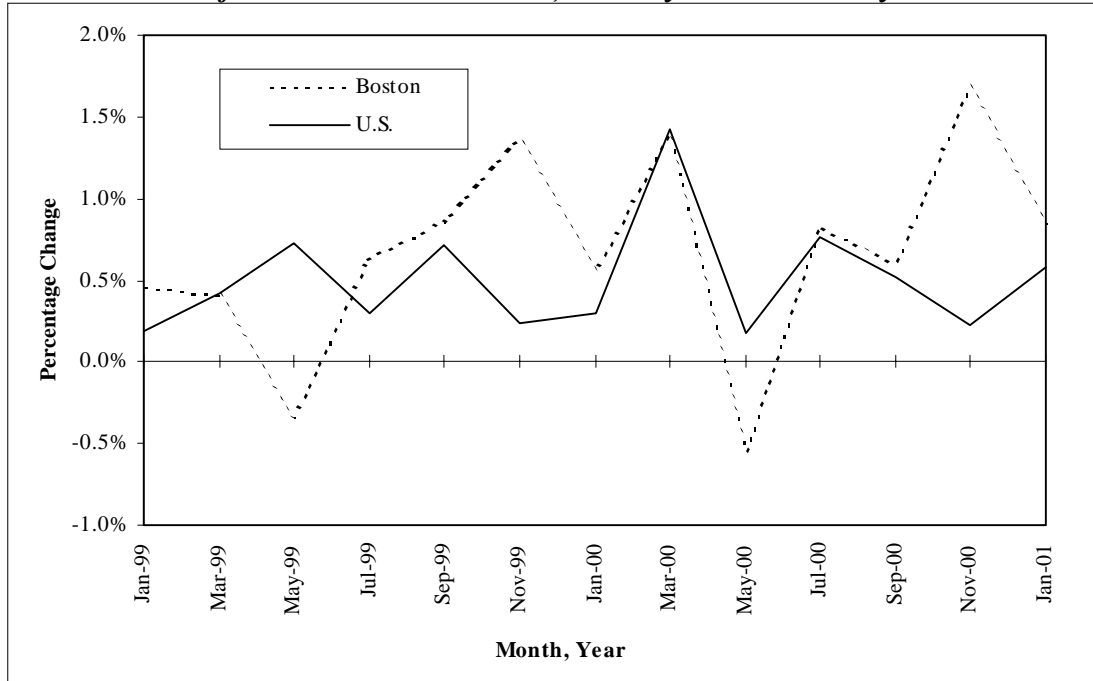
**Consumer Prices.** Higher income levels in Massachusetts relative to the rest of the United States are offset to some extent by the higher cost of living in Massachusetts. The following table presents consumer price trends for the Boston metropolitan area and the United States for the period between 1970 and 2000. Data reflect changes to methodology made by the Bureau of Labor Statistics in January 1998 and indicate the Consumer Price Index for all urban consumers (CPI-U) and the percentage change in the Consumer Price Index for all urban consumers from the previous year. In 2000, the CPI-U for Boston increased 4.3 percent compared to an increase of 3.4 percent for the United States as a whole. The latest available data for January 2001 show that the CPI-U for the Boston metropolitan area grew at a rate of 4.9 percent from January 2000 compared with 3.7 percent for the U.S.

**Consumer Price Index for all Urban Consumers (CPI-U), 1970-2000**  
(1982-1984=100)

Year	Boston		U.S.	
	CPI-U	Pct. Change	CPI-U	Pct. Change
1970	40.2		38.8	
1971	42.2	5.0%	40.5	4.4%
1972	43.7	3.6%	41.8	3.2%
1973	46.3	5.9%	44.4	6.2%
1974	51.2	10.6%	49.3	11.0%
1975	55.8	9.0%	53.8	9.1%
1976	60.0	7.5%	56.9	5.8%
1977	63.1	5.2%	60.6	6.5%
1978	66.4	5.2%	65.2	7.6%
1979	73.2	10.2%	72.6	11.3%
1980	82.6	12.8%	82.4	13.5%
1981	91.8	11.1%	90.9	10.3%
1982	95.5	4.0%	96.5	6.2%
1983	99.8	4.5%	99.6	3.2%
1984	104.7	4.9%	103.9	4.3%
1985	109.4	4.5%	107.6	3.6%
1986	112.2	2.6%	109.6	1.9%
1987	117.1	4.4%	113.6	3.6%
1988	124.2	6.1%	118.3	4.1%
1989	131.3	5.7%	124.0	4.8%
1990	138.9	5.8%	130.7	5.4%
1991	145.0	4.4%	136.2	4.2%
1992	148.6	2.5%	140.3	3.0%
1993	152.9	2.9%	144.5	3.0%
1994	154.9	1.3%	148.2	2.6%
1995	158.6	2.4%	152.4	2.8%
1996	163.3	3.0%	156.9	3.0%
1997	167.9	2.8%	160.5	2.3%
1998	171.7	2.3%	163.0	1.6%
1999	176.0	2.5%	166.6	2.2%
2000	183.6	4.3%	172.2	3.4%
Jan-00	180.2		168.8	
Jan-01	189.0	4.9%	175.1	3.7%

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

***Bi-Monthly Percentage Change in Consumer Price Index  
for all Urban Consumers, January 1999 – January 2001***



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

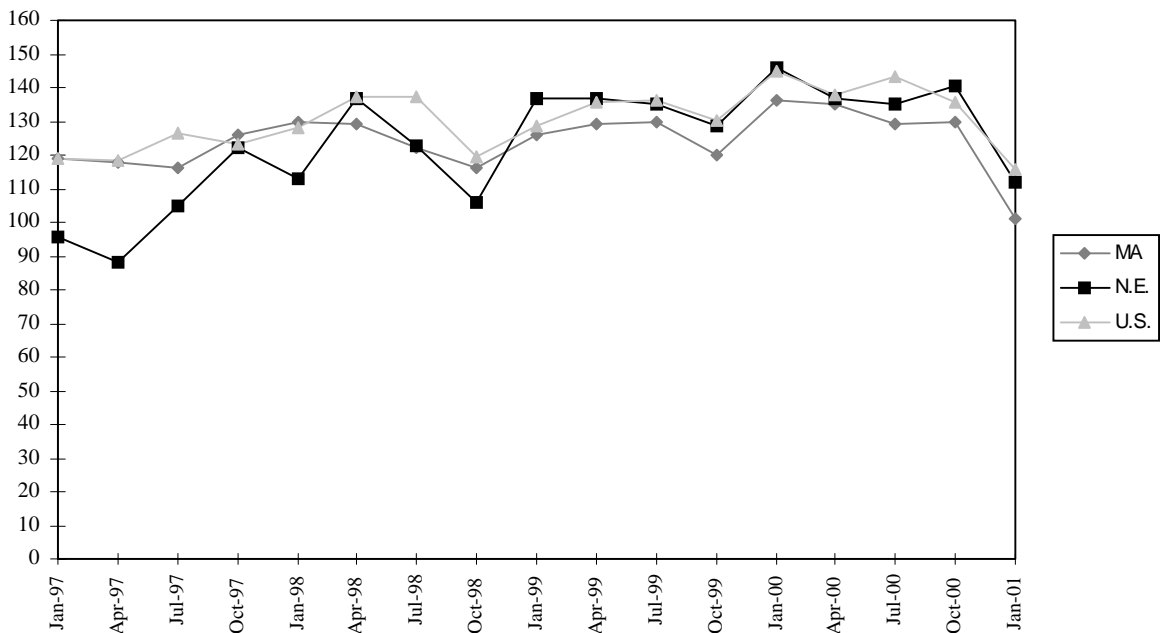
***Consumer Confidence, Present Situation, and Future Expectations.*** These three measures offer different insight into consumer attitudes. The U.S. and New England measures are compiled from a national monthly survey of 5,000 households and are published by The Conference Board, Inc. The measures for Boston are conducted in a similar manner and published by the New England Economic Project (NEEP), based on the polling of 500 adult residents of Massachusetts. “Consumer confidence” is a measure of consumer optimism regarding overall economic conditions. “Future expectations” focuses on consumers’ attitudes regarding business conditions, employment, and employment income for the coming six months. “Present situation” measures the same attitudes as future expectations but at the time of the survey. Although the U.S. and the New England measures are compiled by a different source than the Boston measures, according to the Federal Reserve Bank of Boston the numbers are generally comparable. The following table and chart detail these three measures since 1997.

**Tri-Monthly Consumer Confidence, Present Situation, and Future Expectations  
for Massachusetts, New England, and the U.S., 1997 – 2001**  
(Not Seasonally Adjusted, except United States (1985=100))

	Consumer Confidence			Present Situation			Future Expectations		
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.
Jan-97	119.0	95.9	118.7	116.0	105.8	141.2	122.0	89.3	103.8
Apr-97	118.0	88.0	118.5	123.0	90.1	141.6	115.0	86.6	103.2
Jul-97	116.0	104.9	126.3	123.0	141.6	154.5	110.0	80.5	107.6
Oct-97	126.0	122.1	123.4	133.0	151.2	147.5	121.0	102.7	107.3
Jan-98	130.0	113.0	128.3	142.0	144.2	159.3	122.0	92.2	107.7
Apr-98	129.0	136.5	137.2	145.0	168.2	169.3	119.0	115.4	115.8
Jul-98	122.0	122.7	137.2	145.0	166.9	172.9	107.0	93.2	113.4
Oct-98	116.0	106.1	119.3	141.0	170.4	165.2	101.0	63.3	88.7
Jan-99	126.0	136.8	128.9	148.0	173.2	172.9	111.0	112.6	99.6
Apr-99	129.0	136.9	135.5	148.0	185.4	175.5	116.0	104.6	108.8
Jul-99	130.0	135.1	136.2	150.0	194.9	179.2	116.0	95.3	107.6
Oct-99	120.0	128.8	130.5	154.0	181.6	173.9	98.0	93.6	101.5
Jan-00	136.0	145.9	144.7	151.0	193.1	183.1	125.0	114.5	119.1
Apr-00	135.0	136.5	137.7	155.0	195.7	179.8	122.0	97.0	109.7
Jul-00	129.0	135.4	143.0	156.0	196.9	186.8	111.0	94.4	113.7
Oct-00	130.0	140.7	135.8	157.0	195.5	176.8	111.0	104.1	108.4
Jan-01	101.0	111.9	115.7	139.0	173.9	170.4	76.0	70.5	79.3

SOURCES: The Conference Board, Inc. (for U.S. and N.E. measures) and the New England Economic Project (for MA. measures).

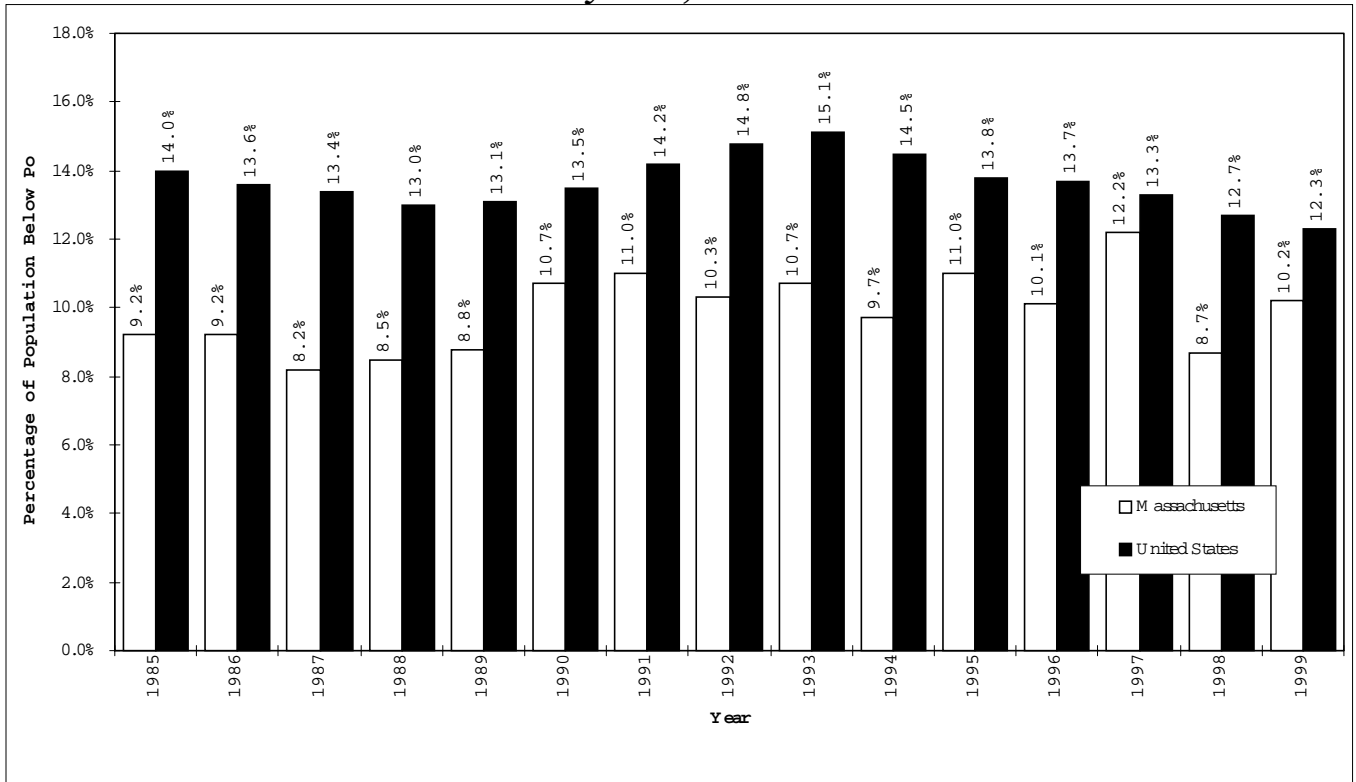
**Consumer Confidence for Massachusetts, New England, and the U.S.  
January 1997 - January 2001**  
Not Seasonally Adjusted, except United States (1985=100)



SOURCES: The Conference Board, Inc. (for U.S. and N.E. measures), New England Economic Project (for MA. measures).

**Poverty.** The Massachusetts poverty rate remains below the national average. Since 1980, the percentage of the Massachusetts population below the poverty line has varied between 7.7 percent and 11.7 percent. During the same time, the national poverty rate varied between the current 11.8 percent and 15.2 percent. In 1999, the poverty rate in Massachusetts jumped to 10.2 percent while the poverty rate in the United States declined slightly to 12.3 percent. Since 1980, the ratio of the Massachusetts rate of poverty to the United States rate of poverty has varied from a low of 0.51 in 1983 to 0.92 in 1997. These official poverty statistics are not adjusted for regional differences in the cost of living. The following chart illustrates the lower poverty rates in Massachusetts compared with the national average from 1985 through 1999.

**Poverty Rate, 1985-1999**

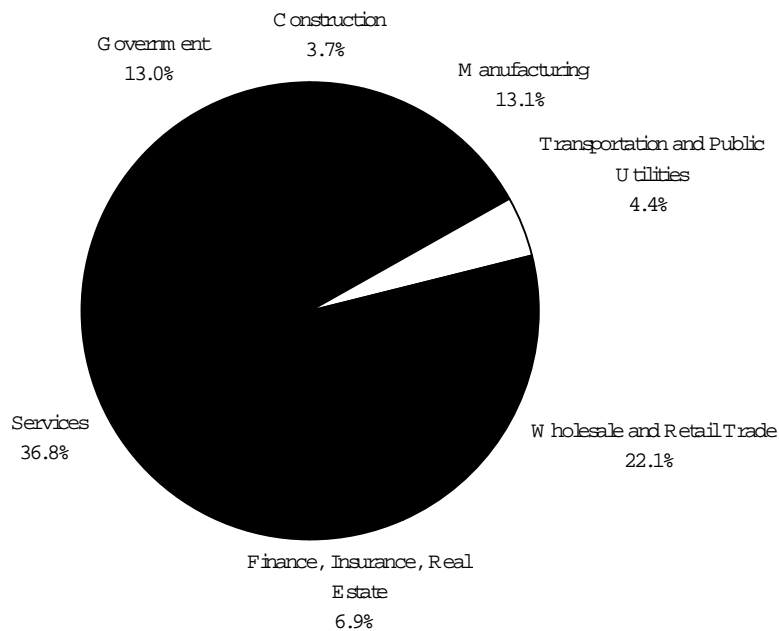


SOURCE: United States Department of Commerce, Bureau of the Census.

## EMPLOYMENT

**Employment by Industry.** The Massachusetts services sector, with 36.8 percent of the non-agricultural work force in February 2001 (p), is the largest employment sector in the Massachusetts economy, followed by wholesale and retail trade (22.1 percent), government employment (13.0 percent), and manufacturing (13.1 percent). The following chart shows the distribution of non-agricultural employment by industry in Massachusetts for February 2001 (preliminary).

**Massachusetts Non-Agricultural Employment by Industry, February 2001 (p)**  
(not seasonally adjusted)



SOURCE: Massachusetts Division of Employment and Training.

Between 1988 and 1992, total employment in Massachusetts declined 10.7 percent. The construction, manufacturing, and trade sectors experienced the greatest decreases during this time, with more modest declines taking place in the government and finance, insurance and real estate (“FIRE”) sectors. The economic recovery that began in 1993 has been accompanied by increased employment levels; and between 1994 and 1997, total employment levels in Massachusetts have increased at yearly rates greater than 2.0 percent. In 2000, employment levels in all but one industry increased or remained constant. The most rapid growth in 2000 came in the construction sector and the service sector, which grew at rates of 9.0 percent and 3.8 percent, respectively. Total non-agricultural employment in Massachusetts grew at a rate of 2.5 percent in 2000.

The following table demonstrates the changes in employment by sector from 1982 through 2000.

**Massachusetts Non-Agricultural Employment by Industry, 1982-2000**  
(in thousands)

Year	Construction		Manufacturing		Transportation and Public Utilities		Wholesale and Retail Trade		Finance, Insurance, Real Estate		Services		Government		Total Employment	
	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change
1982	78.4		636.5		120.1		579.2		168.7		683.5		374.7		2642.0	
1983	82.6	5.4%	629.0	-1.2%	118.2	-1.6%	612.7	5.8%	171.8	1.8%	705.8	3.3%	375.4	0.2%	2696.5	2.1%
1984	96.4	16.7%	667.6	6.1%	123.3	4.3%	659.1	7.6%	179.0	4.2%	754.0	6.8%	375.4	0.0%	2855.8	5.9%
1985	109.4	13.5%	649.7	-2.7%	125.4	1.7%	684.1	3.8%	188.1	5.1%	786.5	4.3%	385.3	2.6%	2930.0	2.6%
1986	123.2	12.6%	614.4	-5.4%	125.9	0.4%	709.7	3.7%	202.6	7.7%	818.4	4.1%	393.0	2.0%	2988.8	2.0%
1987	137.7	11.8%	599.1	-2.5%	131.0	4.1%	723.4	1.9%	217.9	7.6%	853.9	4.3%	401.2	2.1%	3065.8	2.6%
1988	142.1	3.2%	584.7	-2.4%	133.6	2.0%	739.4	2.2%	221.5	1.7%	896.6	5.0%	411.3	2.5%	3130.8	2.1%
1989	126.8	-10.8%	561.1	-4.0%	128.3	-4.0%	740.5	0.1%	217.3	-1.9%	924.1	3.1%	408.8	-0.6%	3108.6	-0.7%
1990	101.1	-20.3%	521.3	-7.1%	129.9	1.2%	700.1	-5.5%	213.3	-1.8%	915.7	-0.9%	402.2	-1.6%	2984.8	-4.0%
1991	78.8	-22.1%	485.0	-7.0%	123.4	-5.0%	650.6	-7.1%	201.8	-5.4%	890.5	-2.8%	389.9	-3.1%	2821.2	-5.5%
1992	73.6	-6.6%	465.7	-4.0%	121.4	-1.6%	640.5	-1.6%	196.7	-2.5%	913.5	2.6%	382.6	-1.9%	2795.1	-0.9%
1993	80.1	8.8%	454.8	-2.3%	124.0	2.1%	648.4	1.2%	201.5	2.4%	942.8	3.2%	387.5	1.3%	2840.2	1.6%
1994	86.0	7.4%	447.2	-1.7%	127.4	2.7%	669.4	3.2%	206.9	2.7%	975.7	3.5%	390.0	0.6%	2903.8	2.2%
1995	89.8	4.4%	446.1	-0.2%	127.0	-0.3%	687.2	2.7%	205.3	-0.8%	1024.9	5.0%	395.1	1.3%	2976.6	2.5%
1996	94.0	4.7%	444.7	-0.3%	129.1	1.7%	695.1	1.1%	208.2	1.4%	1063.2	3.7%	400.0	1.2%	3035.4	2.0%
1997	100.3	6.7%	447.9	0.7%	132.9	2.9%	706.9	1.7%	212.2	1.9%	1103.1	3.8%	404.6	1.2%	3118.7	2.7%
1998	108.4	8.1%	448.2	0.1%	136.5	2.7%	720.8	2.0%	218.3	2.9%	1133.6	2.8%	411.6	1.7%	3178.6	1.9%
1999	119.2	10.0%	433.6	-3.3%	139.7	2.3%	734.9	2.0%	226.3	3.7%	1163.9	2.7%	417.4	1.4%	3236.8	1.8%
2000	129.9	9.0%	435.7	0.5%	143.7	2.9%	748.1	1.8%	227.5	0.5%	1208.7	3.8%	424.2	1.6%	3319.2	2.5%

SOURCE: Massachusetts Division of Employment and Training. Annual averages of monthly figures. Data are subject to revision.

The following table presents changes in non-agricultural employment by sector between February 2000 and February 2001. Total non-agricultural employment increased by 2.4 percent during that period.

**Massachusetts Non-Agricultural Employment by Industry, Feb. 2000-Feb. 2001(p)**  
(in thousands)

Employment Sector	Feb. 2000	Pct. of Total	Feb. 2001	Pct. of Total	Pct. Change Feb. 2000-Feb. 2001
Mining	1.1	0.0%	1.2	0.0%	9.1%
Construction	110.5	3.4%	123.8	3.7%	12.0%
Manufacturing	433.1	13.4%	432.5	13.1%	-0.1%
Transportation and Public Utilities	141.0	4.4%	144.4	4.4%	2.4%
Wholesale and Retail Trade	720.3	22.3%	730.2	22.1%	1.4%
Finance, Insurance, Real Estate	223.9	6.9%	227.4	6.9%	1.6%
Services	1176.2	36.4%	1219.5	36.8%	3.7%
Government	427.4	13.2%	431.7	13.0%	1.0%
<b>Total Employment</b>	<b>3,233.5</b>	<b>100.0%</b>	<b>3,310.7</b>	<b>100.0%</b>	<b>2.4%</b>

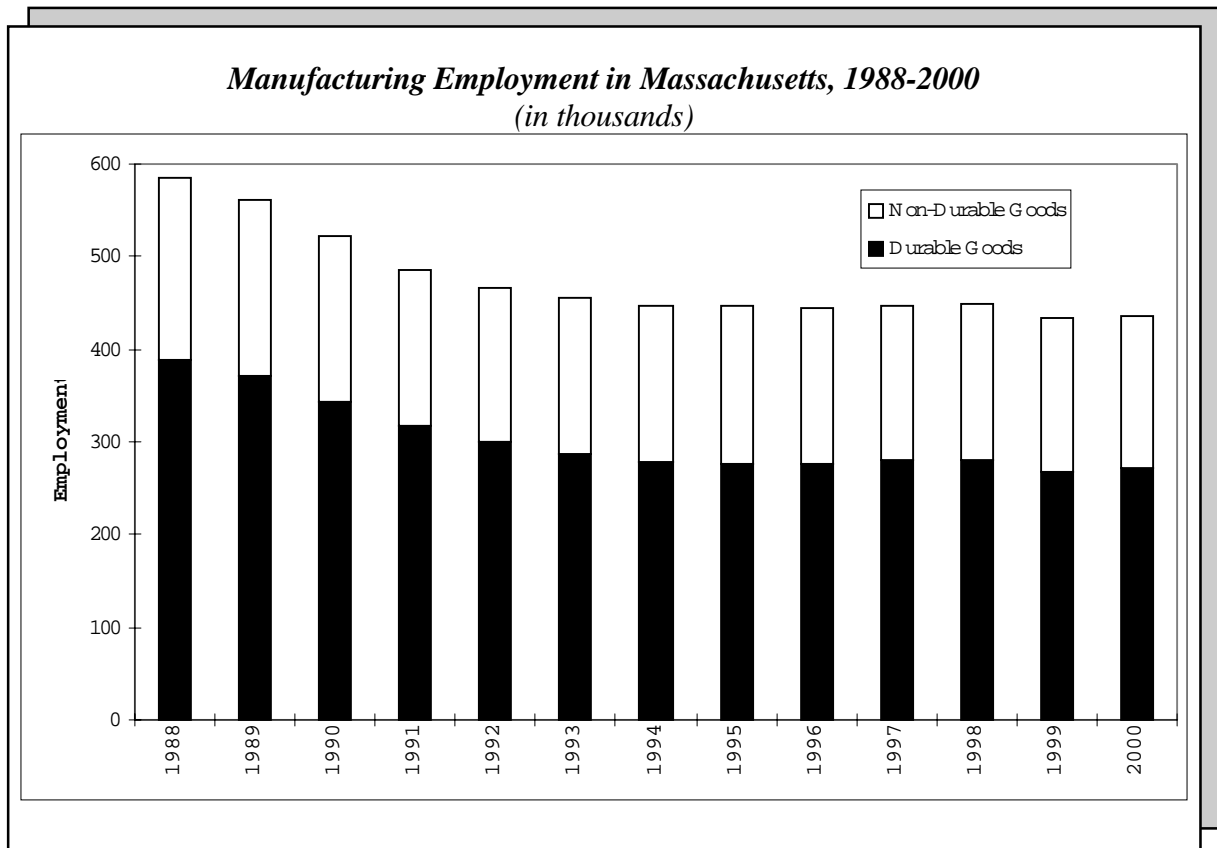
SOURCE: Massachusetts Division of Employment and Training.

Notes: 2001 figures are preliminary and subject to revision. Sum of the parts may not equal totals due to rounding. Figures are not seasonally adjusted.

**Services Employment.** The services sector is the largest sector in the Massachusetts economy in terms of number of employees. This sector includes the categories of health services, business services, educational services, engineering and management services, and social services. After moderate declines in 1990 and 1991, employment levels in the services sector reached consecutive new highs in each year between 1993 and 2000. Between February 2000 and February 2001, the services sector saw an increase in employment of 3.7 percent, and in February 2001, services sector employment (not seasonally adjusted) was 1,219,500, representing 36.8 percent of total non-agricultural employment.

**Wholesale and Retail Trade Employment.** In the mid-1980s the trade sector was an area of strong job growth, boosted by a growing export sector. Trade employment declined between 1990 and 1992 but has increased in each of the last six years, including a 1.8 percent increase in 2000. In February 2001, wholesale and retail trade was the second largest employment sector in Massachusetts with 730,200 employees, 1.4 percent above February 2000 levels.

**Manufacturing Employment.** Like many industrial states, Massachusetts has seen a steady diminution of its manufacturing jobs base over the last decade. Total employment in the manufacturing sector declined in every year between 1984 and 1996, falling a total of 33.4 percent. However, growth rates have improved considerably in recent years—from levels at or below -7.0 percent in 1990 and 1991 to -0.2 percent and -0.3 percent in 1995 and 1996, respectively—and employment in the manufacturing sector remained constant between 1997 and 1998. Between February 2000 and February 2001, however, manufacturing employment declined 0.1 percent.



**Manufacturing Establishment Employment by Industry in Massachusetts, 1988-2000**  
(selected industries, in thousands)

<i>Industry</i>	<i>1988</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>	<i>1996</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>
<b>Durable Goods</b>	388.1	372.1	342.7	317.0	299.6	287.0	278.2	276.3	276.8	279.7	281.1	268.7	272.7
<b>Percentage Change</b>	-2.5%	-4.1%	-7.9%	-7.5%	-5.5%	-4.2%	-3.1%	-0.7%	0.2%	1.0%	0.5%	-4.4%	1.5%
<b>Primary Metals</b>	12.9*	12.3	11.3	10.3	9.3	9.1	9.2	9.6	10.2	10.5	10.1	9.8	10.2
<b>Fabricated Metals</b>	45.0*	43.2	40.9	37.9	36.2	35.6	35.8	36.6	36.4	37.0	36.8	34.9	35
<b>Industrial Machinery</b>	100.0	95.8	85.2	76.6	72.5	67.3	63.6	63.4	64.2	64.4	64.9	60.6	62.3
<b>Electronic &amp; Elec. Equip.</b>	82.2*	79.3	72.9	68.5	63.9	59.9	59.5	60.2	60.9	62.1	62.4	60.6	64.1
<b>Transportation Equip.</b>	32.4	30.6	27.8	26.0	24.1	21.9	19.2	18.3	18.8	19.2	19.4	18.1	17.1
<b>Stone, Clay, &amp; Glass</b>	10.7	10.0	8.7	7.8	7.9	8.0	8.1	8.3	8.2	8.5	8.9	9.0	9.2
<b>Instruments</b>	72.4	71.2	69.4	65.6	61.6	60.4	57.8	55.0	53.9	53.4	53.6	50.6	49.7
<b>Non-Durable Goods</b>	196.5	189.0	178.6	168.0	166.1	168.1	168.9	169.7	167.9	168.1	167.1	164.6	163
<b>Percentage Change</b>	-2.3%	-3.8%	-5.5%	-5.9%	-1.1%	1.2%	0.5%	0.5%	-1.1%	0.1%	-0.6%	-1.5%	-1.0%
<b>Apparel</b>	23.7	22.0	19.2	17.7	17.7	17.2	16.8	16.0	15.1	14.1	13.1	11.4	10.5
<b>Food &amp; Kindred Prod.</b>	21.0	20.5	20.1	19.6	19.3	19.8	20.3	21.1	21.7	21.7	21.9	22.3	21.7
<b>Chemicals</b>	18.6	18.4	17.7	17.3	16.5	16.9	16.3	16.0	17	17.4	17.8	18.1	17.8
<b>Printing &amp; Publishing</b>	55.8	55.0	52.2	48.9	47.3	47.5	48.0	49.0	48.6	8.9	49.3	49.8	50.8
<b>Textile Mill Prod.</b>	16.3	15.5	14.6	14.1	14.6	15.1	15.4	15.2	14.8	14.5	14.0	13.1	13.1
<b>Paper &amp; Allied Prod.</b>	24.3	23.4	22.5	21.1	20.7	20.3	19.9	19.8	19.3	19.4	19.4	19.3	19.2
<b>Rubber &amp; Misc. Plastics</b>	26.9	25.3	23.8	22.1	22.9	24.4	25.3	26.4	25.7	26.6	27.0	26.9	26.5
<b>Total Man. Employ.</b>	584.7	561.1	521.3	485.0	465.7	455.1	447.2	446.1	444.7	447.9	448.2	433.4	435.7
<b>Percentage Change</b>	-2.4%	-4.0%	-7.1%	-7.0%	-4.0%	-2.3%	-1.7%	-0.2%	-0.3%	0.7%	0.1%	-3.3%	0.5%

SOURCE: Massachusetts Division of Employment and Training.

\* Break in series; 1988 and subsequent data are not comparable with previous years for this industry.

**Government Employment.** Federal, state, and local government employment increased 1.0 percent over the last year and employed 431,700 workers in February 2001, which accounted for 13.0 percent of total non-agricultural employment in Massachusetts.

**Finance, Insurance, and Real Estate Employment.** While the Finance, Insurance and Real Estate sector experienced 23.7 percent growth in employment between 1984 and 1988, there was an 11.2 percent decline in employment between 1988 and 1992. Since that time, the sector has experienced modest annual growth rates. With an increase of 2.2 percent in 1998 and a 3.7 increase in 1999, employment levels in this sector rose above 1988 levels for the first time. As of February 2001, total employment in the FIRE sector was 227,400, an increase of 1.6 percent from February 2000.

**Construction Employment.** Fueled by the general growth of the rest of the Massachusetts economy, employment in the construction industry experienced dramatic growth in the first part of the 1980s, increasing by more than 80 percent between 1982 and 1988. This trend reversed direction between 1988 and 1992, when employment in the construction industry declined nearly 50 percent. Increased economic growth in the Massachusetts economy since 1993 has contributed to a rebound in employment levels in the construction industry, which grew at annual rates in excess of 4 percent between 1993 and 2000. In February 2001, the construction sector employed 123,800 people, an increase of 12.0 percent over February 2000 levels.

**Largest Employers in Massachusetts.** The following table lists the twenty-five largest employers in Massachusetts based upon employment data for June 2000. The compiled list excludes government agencies but does include non-profit organizations. New to this list is Verizon New England Inc., E.M.C. Corporation,



and Compaq Computer Corporation. Compaq replaces Digital Equipment Corporation, which they recently purchased.

***Twenty-five Largest Massachusetts Employers in June 2000***  
***(Listed Alphabetically)***

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Beth Israel Deaconess Hospital	The Marsh & McLennan Company
Boston University	Massachusetts Institute of Technology
Brigham & Women's Hospital	May Department Stores
Compaq Computer Corporation	Raytheon Company
Demoulas Supermarkets	S&S Credit Corporation
E.M.C. Corporation	Sears, Roebuck & Company
Fleet National Bank	Shaw's Supermarkets
Friendly Ice Cream Corporation	State Street Bank
General Electric Company	UMass Memorial Medical Center
General Hospital Corporation	United Parcel Service
Harvard University	Verizon New England Inc.
Home Depot USA	Wal-Mart Associates
Lucent Technologies	

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SOURCE: Massachusetts Division of Employment and Training.

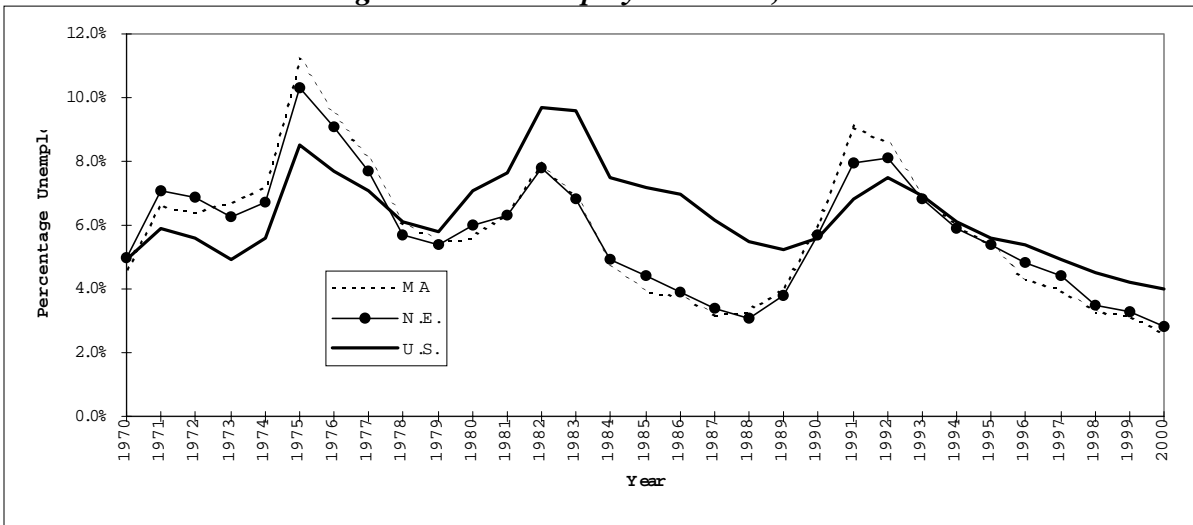
***Unemployment.*** While the Massachusetts unemployment rate was significantly lower than the national average between 1979 and 1989, the economic recession of the early 1990s caused unemployment rates in Massachusetts to rise significantly above the national average. However, the economic recovery that began in 1993 has caused unemployment rates in Massachusetts to decline faster than the national average. As a result, since 1994 the unemployment rate in Massachusetts has been below the national average. The following table compares the annual civilian labor force, the number unemployed, and unemployment rate averages of Massachusetts, the New England states, and the United States between 1970 and 2000.

**Annual Average Civilian Labor Force and Unemployment, 1970-2000**  
(in thousands)

Year	Civilian Labor Force			Unemployed			Unemployment Rate			MA Rate as Pct. of U.S.
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.	
1970	2,458	5,129	82,771	114	256	4,093	4.6%	5.0%	4.9%	93.9%
1971	2,447	5,157	84,382	161	364	5,016	6.6%	7.1%	5.9%	111.9%
1972	2,475	5,261	87,034	160	363	4,882	6.4%	6.9%	5.6%	114.3%
1973	2,549	5,387	89,429	171	336	4,365	6.7%	6.2%	4.9%	136.7%
1974	2,622	5,512	91,949	189	369	5,156	7.2%	6.7%	5.6%	128.6%
1975	2,700	5,634	93,775	306	581	7,929	11.2%	10.3%	8.5%	131.8%
1976	2,727	5,717	96,158	259	519	7,406	9.5%	9.1%	7.7%	123.4%
1977	2,753	5,816	99,009	223	447	6,991	8.1%	7.7%	7.1%	114.1%
1978	2,816	5,908	102,251	171	340	6,202	6.1%	5.7%	6.1%	100.0%
1979	2,871	6,100	104,962	159	332	6,137	5.5%	5.4%	5.8%	94.8%
1980	2,867	6,167	106,940	162	367	7,637	5.6%	6.0%	7.1%	78.9%
1981	2,947	6,260	108,670	187	397	8,273	6.4%	6.3%	7.6%	83.4%
1982	2,993	6,339	110,204	237	495	10,678	7.9%	7.8%	9.7%	81.3%
1983	2,977	6,365	111,550	205	434	10,717	6.9%	6.8%	9.6%	71.5%
1984	3,047	6,549	113,544	145	318	8,539	4.8%	4.9%	7.5%	63.5%
1985	3,051	6,632	115,461	120	292	8,312	3.9%	4.4%	7.2%	54.2%
1986	3,056	6,721	117,834	118	265	8,237	3.8%	3.9%	7.0%	54.3%
1987	3,086	6,829	119,865	99	229	7,425	3.2%	3.4%	6.2%	51.8%
1988	3,155	6,914	121,669	103	216	6,701	3.3%	3.1%	5.5%	60.1%
1989	3,180	6,998	123,869	127	269	6,528	4.0%	3.8%	5.3%	76.2%
1990	3,228	7,147	125,840	195	408	7,047	6.0%	5.7%	5.6%	107.1%
1991	3,162	7,082	126,346	286	569	8,628	9.1%	8.0%	6.8%	133.8%
1992	3,145	7,057	128,105	269	568	9,613	8.6%	8.1%	7.5%	114.7%
1993	3,164	7,024	129,200	219	479	8,940	6.9%	6.8%	6.9%	100.0%
1994	3,173	6,964	131,056	191	412	7,996	6.0%	5.9%	6.1%	98.4%
1995	3,164	6,955	132,304	170	373	7,404	5.4%	5.4%	5.6%	96.4%
1996	3,174	6,996	133,943	137	335	7,236	4.3%	4.8%	5.4%	79.6%
1997	3,260	7,120	136,297	131	314	6,739	4.0%	4.4%	4.9%	81.6%
1998	3,273	7,113	137,673	109	250	6,210	3.3%	3.5%	4.5%	73.3%
1999	3,275	7,171	139,368	105	236	5,880	3.2%	3.3%	4.2%	76.2%
2000	3,237	7,194	140,863	86	199	5,655	2.6%	2.8%	4.0%	65.0%

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

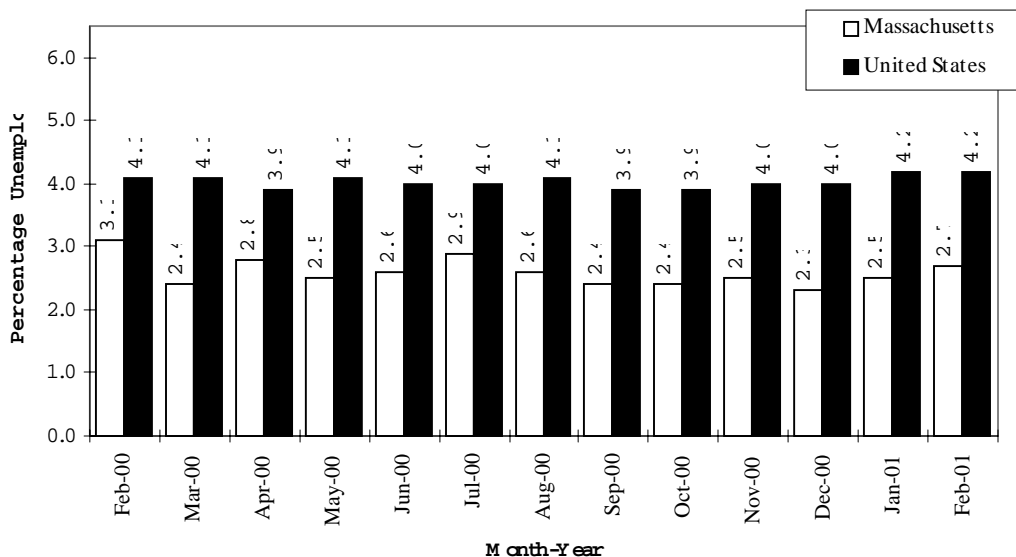
### Average Annual Unemployment Rate, 1970-2000



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

The unemployment rate in Massachusetts has been consistently below that of the United States over the past twelve months, remaining just above 3.0 percent until March 2000 when it dropped below 3.0 percent. Unemployment levels in the United States as a whole and in the New England region have shown similar patterns in the last year. The unemployment rate in Massachusetts dropped from 3.1 percent in February of 2000 to 2.7 percent in February of 2001, and the United States unemployment rate increased slightly from 4.1 percent to 4.2 percent between these same months. The following chart shows the unemployment rates for Massachusetts and the United States for each of the past twelve months.

### Monthly Unemployment Rate, February 2000—February 2001 (seasonally adjusted)



SOURCE: Massachusetts Division of Employment and Training.

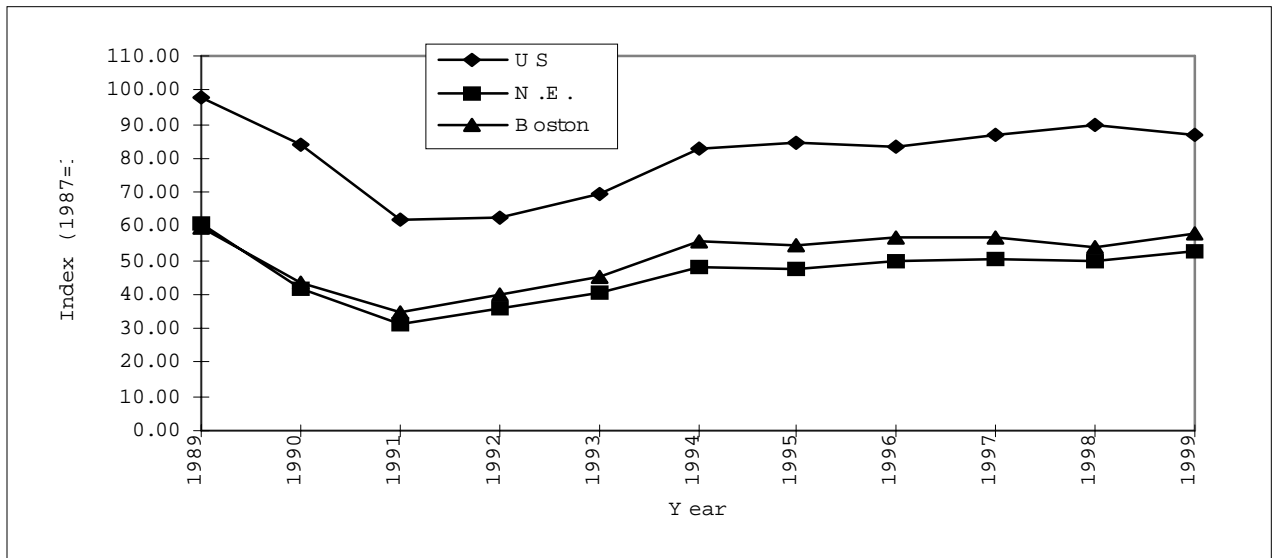
### *Help Wanted Advertising Index, 1989-1999*

	U S	% Change	N .E .	% Change	Boston	% Change
<b>1989</b>	98.00		60.83		59.50	
<b>1990</b>	83.83	-14.46%	41.50	-31.78%	43.50	-26.89%
<b>1991</b>	62.00	-26.04%	31.00	-25.30%	34.67	-20.31%
<b>1992</b>	62.50	0.81%	35.75	15.32%	39.92	15.14%
<b>1993</b>	69.42	11.07%	40.25	12.59%	45.42	13.78%
<b>1994</b>	82.92	19.45%	48.08	19.46%	55.42	22.02%
<b>1995</b>	84.25	1.61%	47.75	-0.69%	54.50	-1.65%
<b>1996</b>	83.17	-1.29%	49.75	4.19%	56.83	4.28%
<b>1997</b>	87.00	4.61%	50.58	1.68%	56.67	-0.29%
<b>1998</b>	89.92	3.35%	50.00	-1.15%	54.00	-4.71%
<b>1999</b>	87.08	-3.15%	52.58	5.17%	58.17	7.72%
<b>Dec-99</b>	86.00		53.00		60.00	
<b>Dec-00</b>	79.00	-8.14%	50.00	-5.66%	57.00	-5.00%

SOURCE: The Conference Board, Inc.

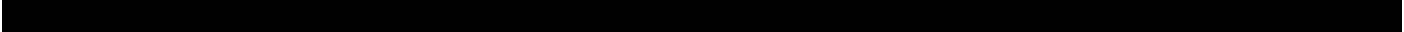
**Help Wanted Advertising Index.** This index is an additional measure of the employment conditions in various regions across the country and for the nation as a whole. Compiled by The Conference Board, Inc., the index is based on the volume of help wanted advertising in 51 major newspapers across the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

### *Help Wanted Advertising Index, 1989-1999*



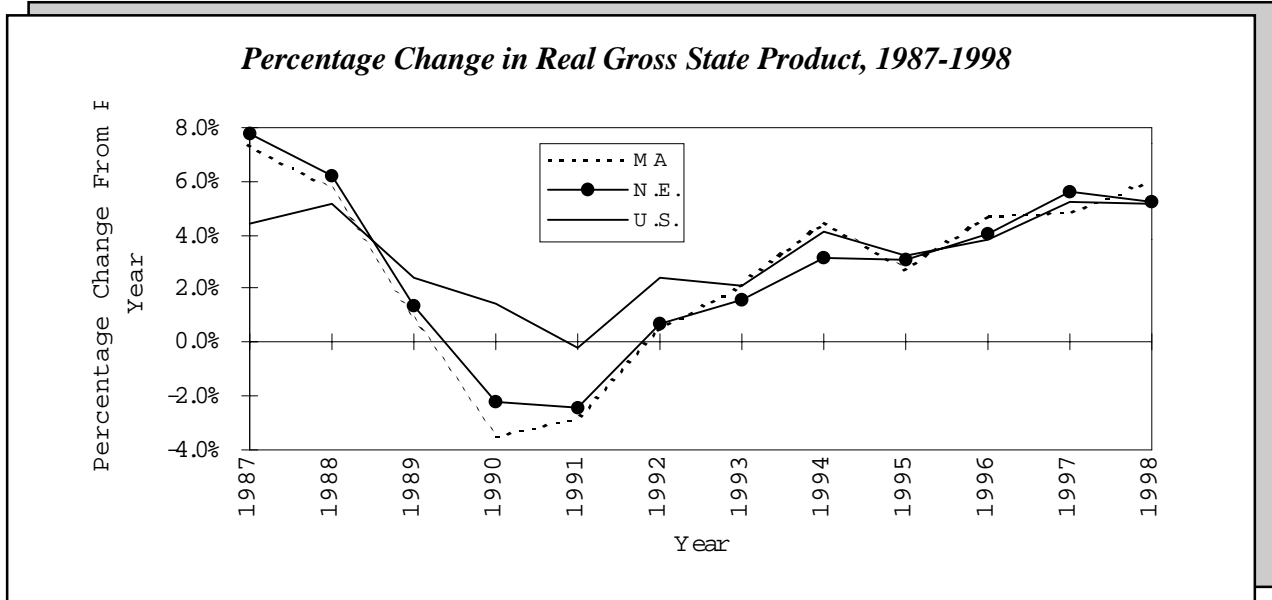
SOURCE: The Conference Board, Inc.

***Unemployment Compensation Trust Fund.*** The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide for the payment of benefits to eligible individuals when they are unemployed through no fault of their own. Benefits are paid from the Commonwealth's Unemployment Compensation Trust Fund, financed through employer contributions. As of February 28, 2001, the private contributory sector of the Massachusetts Unemployment Trust Fund had a surplus of \$1.940 billion, and the Division of Employment and Training's January 2001 quarterly report indicates that the contributions provided by current law should rebuild reserves in the system to \$2.584 billion by the end of 2005.



## ECONOMIC BASE AND PERFORMANCE

In 1987 and 1988, the economies of Massachusetts and New England were among the strongest performers in the nation, with growth rates considerably higher than those for the national economy as a whole. Between 1989 and 1992, however, both Massachusetts and New England experienced growth rates significantly below the national average. Since then, growth rates in Massachusetts and New England have improved to levels on par with the rest of the nation. In 1998, the economies of both Massachusetts and New England grew at a faster pace than the nation as a whole for the second time in the last three years. The Massachusetts economy has been the strongest in New England, making up an average of 47.4 percent of New England's total Gross State Product and an average of 2.8 percent of the nation's economy over the past decade.



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

**Gross State Product, 1986-1998**  
(millions of chained 1996 dollars)

Year	<i>M</i> <i>assachusetts</i>		<i>N</i> <i>ew</i> <i>E</i> <i>ngland</i>		<i>U</i> <i>nited</i> <i>S</i> <i>tates</i>	
	<i>G</i> <i>S</i> <i>P</i>	<i>P</i> <i>e</i> <i>r</i> <i>c</i> <i>e</i> <i>n</i> <i>t</i> <i>a</i> <i>g</i> <i>e</i>	<i>G</i> <i>S</i> <i>P</i>	<i>P</i> <i>e</i> <i>r</i> <i>c</i> <i>e</i> <i>n</i> <i>t</i> <i>a</i> <i>g</i> <i>e</i>	<i>T</i> <i>o</i> <i>t</i> <i>a</i> <i>L</i> <i>G</i> <i>S</i> <i>P</i>	<i>P</i> <i>e</i> <i>r</i> <i>c</i> <i>e</i> <i>n</i> <i>t</i> <i>a</i> <i>g</i> <i>e</i>
1986	\$169,302		\$350,651		\$5,816,656	
1987	181,811	7.4%	378,015	7.8%	6,072,814	4.4%
1988	192,212	5.7%	401,590	6.2%	6,386,132	5.2%
1989	193,798	0.8%	407,133	1.4%	6,538,634	2.4%
1990	187,125	-3.4%	398,250	-2.2%	6,630,742	1.4%
1991	181,855	-2.8%	388,451	-2.5%	6,615,685	-0.2%
1992	182,741	0.5%	391,240	0.7%	6,774,505	2.4%
1993	186,538	2.1%	397,345	1.6%	6,918,389	2.1%
1994	194,901	4.5%	409,864	3.2%	7,203,002	4.1%
1995	200,157	2.7%	422,407	3.1%	7,433,965	3.2%
1996	209,623	4.7%	439,550	4.1%	7,715,901	3.8%
1997	219,760	4.8%	464,268	5.6%	8,120,854	5.2%
1998	232,871	6.0%	488,566	5.2%	8,537,669	5.1%

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.  
 Note: New England and United States figures include Massachusetts and New England GSP, respectively.  
 Chained dollars are utilized by the Bureau of Economic Analysis as a measure of real GSP.

The commercial base of Massachusetts is anchored by the thirteen 2000 *Fortune* 500 industrial and service firms with headquarters within the state, as the following table indicates. The *Fortune* 500 firms are ranked according to total revenues in 1999.

<i>Ranking</i>		<i>Company</i>	<i>Industry</i>	<i>1999 revenues (in millions)</i>
<i>2000</i>	<i>1999</i>			
80	161	Fleet (Boston)	Commercial Banks	\$20,000.0
82	69	Raytheon (Lexington)	Aerospace	19,841.0
111	124	Liberty Mutual Group (Boston)	Insurance: Property and Casualty (Mutual)	15,499.0
172	159	Gillette (Boston)	Metal Products	9,897.0
173	153	Mass. Mutual Life Insurance (Springfield)	Insurance: Life and Health (Mutual)	9,841.0
192	236	Staples (Framingham)	Specialty Retailers	8,936.8
196	208	TJX (Framingham)	Specialty Retailers	8,795.3
233	179	John Hancock Financial Services (Boston)	Insurance: Life and Health (Stock)	7,654.7
260	386	EMC (Hopkinton)	Computer Peripherals	6,715.6
345	366	State Street Boston Corp. (Boston)	Commercial Banks	4,692.0
369	394	Thermo Electron (Waltham)	Scientific, Photo, and Control Equipment	4,303.8
377	421	BJ's Wholesale Club (Natick)	Specialty Retailers	4,206.2
440	433	Allmerica Financial (Worcester)	Insurance: Property and Casualty (Stock)	3,512.2

SOURCE: *Fortune*, April 17, 2000.

With thirteen *Fortune* 500 companies, Massachusetts ranks fifteenth among all states. The 2000 list remains very much the same as it appeared in 1999. Among Massachusetts firms from the 1999 *Fortune* 500, only Harcourt General (F99-365) and Reebok International (F99-458) failed to appear in the 2000 list. BankBoston Corp. (F99-218) was acquired by Fleet Financial Group (F99-161) creating FleetBoston, the new *Fortune* 500 leader in Massachusetts.

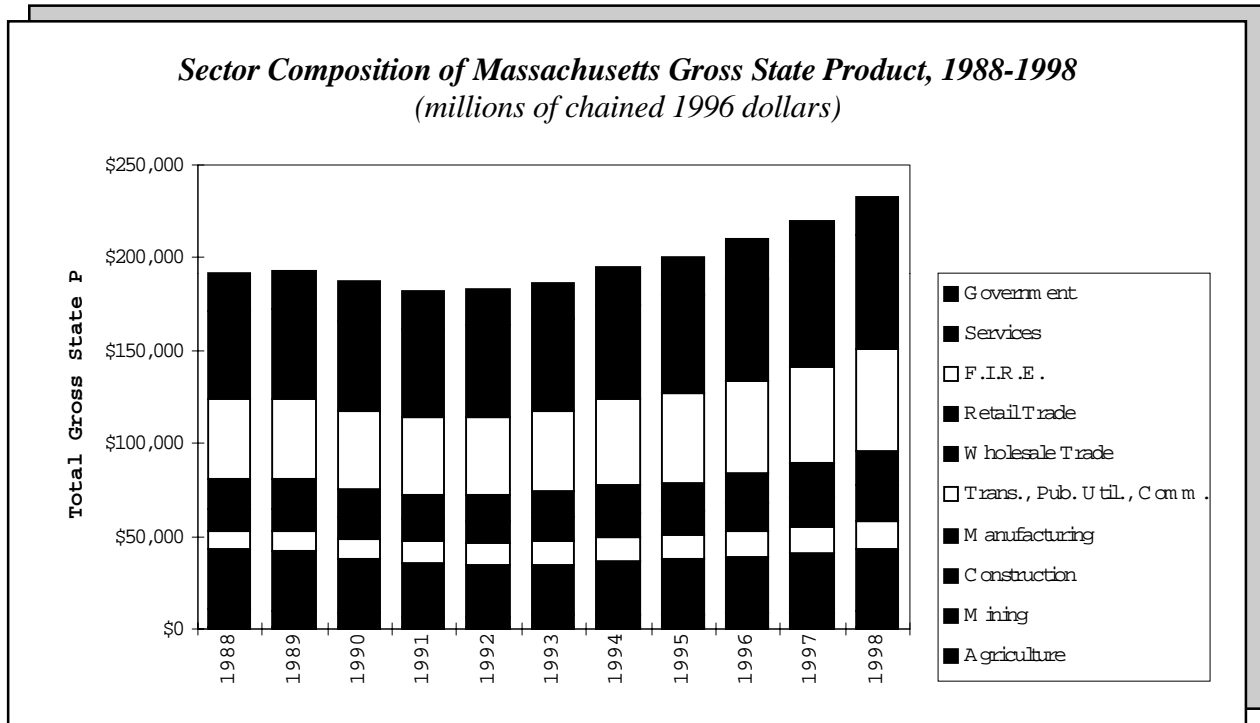
Along with the thirteen 2000 *Fortune* 500 companies with headquarters in Massachusetts, four of *Fortune's* 2000 Top 100 fastest growing companies in the country are based in Massachusetts. Only California (27), New York (10), Florida (9), Texas (7), and Illinois (5) had more firms on the list. The 2000 *Fortune* Top 100 firms are ranked according to annual growth rates in earnings per share, revenue, and total return in stock price.

<i>Ranking</i>		<i>Company</i>	<i>Industry</i>	<i>Earnings Per Share Annual Growth Rate</i>	<i>Sales Past Four Quarters (in Millions)</i>
<i>2000</i>	<i>1999</i>				
30	19	Polymedica (Woburn)	Health Care	48%	\$156.9
32	63	Sapient (Cambridge)	Technology	88%	697.5
59	--	EMC (Hopkinton)	Technology	36%	7,054.9
69	41	Biogen (Cambridge)	Health Care	60%	881.1

SOURCE: *Fortune*, September 4, 2000

## Economic Base and Performance – Sector Detail

The economy of Massachusetts remains diversified among several industrial and non-industrial sectors. The three largest sectors of the economy contributed roughly the same percentage of the total Massachusetts Gross State Product in 1998 as they did in 1988. In 1998, the three largest sectors of the Massachusetts economy (services, FIRE, and manufacturing) contributed over 64 percent of the total Massachusetts Gross State Product while the remaining seven sectors contributed almost 36 percent. In 1988, these same three largest sectors contributed just under 64 percent of the total Massachusetts Gross State Product. The data below show the contributions to the Massachusetts real Gross State Product of several industrial and non-industrial sectors.



### Gross State Product by Industry in Massachusetts, 1988-1998

(millions of chained 1996 dollars)

Industrial Sector	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Agriculture	\$1,337	\$1,243	\$1,183	\$1,198	\$1,139	\$1,160	\$1,090	\$1,068	\$1,114	\$1,237	\$1,270
Mining	118	86	71	73	99	108	124	125	137	150	164
Construction	9,386	8,497	6,832	5,655	5,696	6,024	6,529	6,588	6,994	7,362	7,848
Manufacturing	32,023	32,078	29,620	28,344	27,281	27,402	28,789	29,835	30,687	32,275	34,341
Trans., Pub. Util., Comm.	9,976	10,676	11,295	12,062	11,940	12,632	13,036	12,678	13,359	13,857	14,321
Wholesale Trade	11,935	12,130	11,461	11,706	12,457	12,544	13,358	13,632	15,081	16,768	19,179
Retail Trade	15,781	15,832	14,619	13,673	13,791	13,989	14,678	15,145	16,557	17,796	19,201
F.I.R.E.	43,504	43,511	42,293	41,880	42,213	43,405	46,076	47,742	49,520	51,323	54,859
Services	47,116	48,819	48,841	47,421	48,822	49,610	51,262	53,059	55,517	58,028	60,590
Government	20,349	20,299	20,749	19,646	19,285	19,690	19,969	20,315	20,657	21,003	21,296
<b>Total GSP</b>	<b>\$192,212</b>	<b>\$193,798</b>	<b>\$187,125</b>	<b>\$181,855</b>	<b>\$182,741</b>	<b>\$186,538</b>	<b>\$194,901</b>	<b>\$200,157</b>	<b>\$209,623</b>	<b>\$219,760</b>	<b>\$232,871</b>

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



**Services.** The services sector remains the largest contributor to the Massachusetts Gross State Product comprising 26.0 percent of the Commonwealth's Gross State Product in 1998. After increasing at a rate of 3.6 percent in 1989 and negligible growth in 1990, growth in the services sector declined 2.9 percent 1991. The sector has grown in every year since then with growth rates between 1.6 percent and 4.6 percent each year. Growth accelerated in 1996, 1997, and 1998 with yearly growth rates of 4.6 percent, 4.5 percent, and 4.4 percent, respectively. The health care industry is the largest contributor to the services sector and continues to play an important role in the Massachusetts economy, contributing 6.8 percent of the Gross State Product in 1998.

**Finance, Insurance, Real Estate.** The FIRE sector has been the second largest contributor to the Massachusetts Gross State Product over the last decade. In 1998, it contributed 23.6 percent of the Gross State Product. A growth rate of 0.8 percent in 1989 was followed by declines in 1990 and 1991 of 2.8 percent and 1.0 percent, respectively. The sector grew 0.8 percent in 1992 and 2.8 percent in 1993 and has grown at least 3.6 percent every year since 1994 with a peak growth rate of 6.9 percent in 1998.

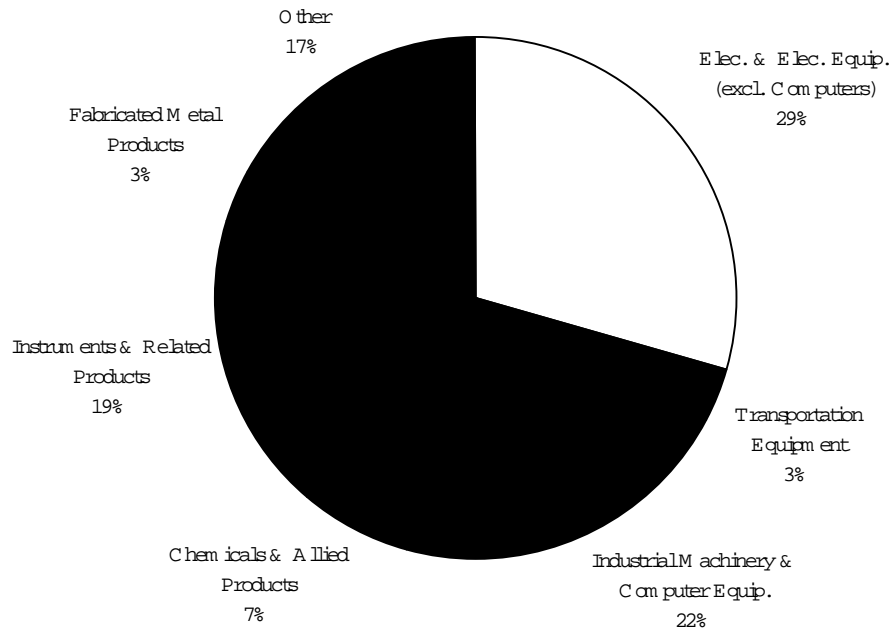
**Manufacturing.** The manufacturing sector was the third largest contributor to the Massachusetts Gross State Product in 1998, contributing 14.7 percent of the Gross State Product. Because of more rapid growth in other sectors in the late 1980s and early 1990s, this sector's share of the Gross State Product declined every year between 1988 and 1993. This trend appears to have ended more recently, however, as the manufacturing sector's share of the Gross State Product has remained between 14.7 percent and 14.9 percent for the last six years. In 1998, the manufacturing sector grew by 6.4 percent.

**Wholesale and Retail Trade.** Taken together, the wholesale and retail trade sectors contributed 16.5 percent of the Massachusetts Gross State Product in 1998, with each sub-sector contributing almost equally to the total. Growth in the wholesale trade sector varied through the early 1990s but was significantly higher in the 1996, 1997, and 1998 with rates of 10.6 percent, 11.2 percent, and 14.4 percent, respectively. Growth in the retail trade sector demonstrated a similar pattern with growth rates of 9.3 percent, 7.5 percent, and 7.9 percent in 1996, 1997, and 1998, respectively.

**Trade and International Trade.** A significant portion of what Massachusetts produces is exported internationally. Massachusetts ranked ninth in the United States, and first in New England, with \$22.1 billion in international exports in 2000. This represents a 21.3 percent increase from the previous year's exports from the Commonwealth while national exports increased by 12.6 percent in the same period. In the fourth quarter of 2000, Massachusetts exports totaled \$5.8 billion, increasing by 17.8 percent over exports in the fourth quarter of 1999. National exports were up 9.3 percent in the same period. It is not possible to provide balance of trade comparisons for Massachusetts because import data are not compiled on a state-by-state basis.

Massachusetts' most important exports, as shown in the following chart, are industrial machinery and computer equipment, electronics and electric equipment, and instruments and related products.

### Composition of Massachusetts Exports by Industry Group, 2000



SOURCE: Massachusetts Institute for Social and Economic Research, University of Massachusetts - Amherst.

Massachusetts' five most important trading partners for 2000 were: Canada, which purchased \$3.8 billion worth of products; Japan, which purchased \$2.3 billion; the United Kingdom, which bought \$2.1 billion; Germany, which purchased \$1.4 billion; and the Netherlands, which bought \$1.3 billion worth of products. Between 1999 and 2000, the most significant growth in Massachusetts exports among its top ten trading partners was in exports to Korea, Taiwan, France, and Germany, which increased 81.0 percent, 61.9 percent, 33.1 percent, and 32.4 percent, respectively.

### Value of International Shipments from Massachusetts, 1994-2000 (top ten industry groups ranked by value of 2000 sales, in millions)

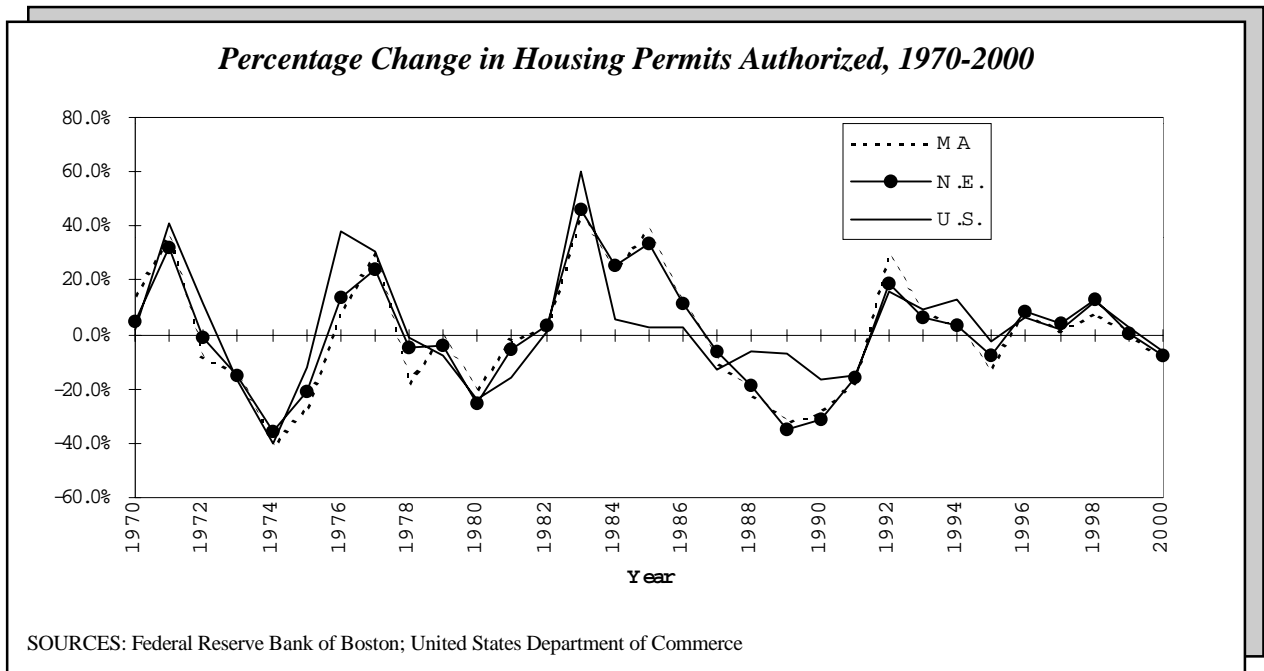
Major Industry Group	1994	1995	1996	1997	1998	1999	2000
<b>Elec. &amp; Elec. Equip. (excl. Computers)</b>	\$2,799.5	\$3,638.9	\$3,550.8	\$4,012.3	\$3,996.6	\$4,506.5	\$6,517.7
<b>Industrial Machinery &amp; Computer Equip.</b>	4,065.1	4,482.5	4,558.9	5,212.5	4,515.9	4,121.1	4,766.0
<b>Instruments &amp; Related Products</b>	1,897.9	2,080.2	2,451.1	2,838.5	2,972.7	3,356.5	4,136.7
<b>Chemicals &amp; Allied Products</b>	632.4	741.0	842.3	1,048.7	1,118.1	1,300.4	1,497.0
<b>Fabricated Metal Products</b>	622.9	619.1	763.8	854.1	669.2	703.1	738.8
<b>Transportation Equipment</b>	416.4	632.6	814.3	707.3	697.9	765.5	694.7
<b>Primary Metal Industries</b>	232.9	265.1	320.8	381.2	427.2	382.8	508.5
<b>Rubber &amp; Misc. Plastic Products</b>	417.1	416.0	378.3	436.3	447.4	494.4	496.0
<b>Paper &amp; Allied Products</b>	258.7	293.7	306.2	353.1	372.9	395.5	467.7
<b>Total from Above Industries</b>	\$11,342.9	\$13,169.1	\$13,986.5	\$15,844.0	\$15,217.9	\$16,025.8	\$19,823.1
<b>Total from All Industries-Massachusetts</b>	\$13,064.8	\$15,065.3	\$15,998.6	\$18,027.6	\$17,190.6	\$18,190.1	\$22,061.4
<b>Percentage Change</b>	7.5%	15.3%	6.2%	12.7%	-4.6%	5.8%	21.3%

SOURCE: Massachusetts Institute for Social and Economic Research, University of Massachusetts - Amherst.

Note: Algorithm was revised beginning with 1996 data. Data for prior years may not be consistent.

**Construction and Housing.** In 1998, construction activity contributed 3.4 percent of the Massachusetts Gross State Product. This sector experienced a significant decline between 1989 and 1991 with declines as large as 19.6 percent and 17.2 percent in 1990 and 1991. Beginning in 1992, however, the sector rebounded and has grown every year since, reaching growth rates between 0.7 percent and 8.4 percent over the past six years.

The following chart and table show the number of housing permits authorized on an annual basis in Massachusetts, New England, and the United States. Between 1983 and 1986, both Massachusetts and New England experienced strong growth in the number of housing permits authorized. This period was followed by a prolonged decline between 1986 and 1991 during which the number of housing permits authorized in Massachusetts declined by 71.2 percent. While the growth in the number of housing permits authorized in Massachusetts declined each year between 1992 and 1995, the number of housing permits authorized grew in each year between 1995 and 1999 in Massachusetts, New England, and in the United States, reaching its highest level in Massachusetts since 1989. The number of housing permits authorized declined in 2000, however, with an even steeper decline in Massachusetts than in the region or in the nation as a whole.



### *Housing Permits Authorized, 1969-2000*

<i>Year</i>	<i>Massachusetts</i>		<i>New England</i>		<i>United States</i>	
	<i>Total Permits</i>	<i>Percentage Change</i>	<i>Total Permits</i>	<i>Percentage Change</i>	<i>Total Permits</i>	<i>Percentage Change</i>
<b>1969</b>	33,572		70,539		1,330,161	
<b>1970</b>	38,330	14.2%	74,068	5.0%	1,354,746	1.8%
<b>1971</b>	52,116	36.0%	97,801	32.0%	1,913,601	41.3%
<b>1972</b>	48,261	-7.4%	96,517	-1.3%	2,138,862	11.8%
<b>1973</b>	41,422	-14.2%	82,306	-14.7%	1,782,526	-16.7%
<b>1974</b>	24,397	-41.1%	52,718	-35.9%	1,067,065	-40.1%
<b>1975</b>	17,697	-27.5%	41,645	-21.0%	934,511	-12.4%
<b>1976</b>	19,190	8.4%	47,441	13.9%	1,286,942	37.7%
<b>1977</b>	24,872	29.6%	58,658	23.6%	1,678,629	30.4%
<b>1978</b>	20,315	-18.3%	55,733	-5.0%	1,657,933	-1.2%
<b>1979</b>	20,164	-0.7%	53,654	-3.7%	1,533,436	-7.5%
<b>1980</b>	16,055	-20.4%	40,195	-25.1%	1,171,763	-23.6%
<b>1981</b>	15,599	-2.8%	38,067	-5.3%	985,600	-15.9%
<b>1982</b>	15,958	2.3%	39,470	3.7%	1,000,500	1.5%
<b>1983</b>	22,950	43.8%	57,567	45.9%	1,605,221	60.4%
<b>1984</b>	28,471	24.1%	72,356	25.7%	1,689,667	5.3%
<b>1985</b>	39,360	38.2%	96,832	33.8%	1,732,335	2.5%
<b>1986</b>	43,877	11.5%	108,272	11.8%	1,771,832	2.3%
<b>1987</b>	40,018	-8.8%	101,222	-6.5%	1,542,499	-12.9%
<b>1988</b>	31,766	-20.6%	82,123	-18.9%	1,450,583	-6.0%
<b>1989</b>	21,634	-31.9%	53,543	-34.8%	1,345,084	-7.3%
<b>1990</b>	15,276	-29.4%	36,811	-31.2%	1,125,583	-16.3%
<b>1991</b>	12,624	-17.4%	31,111	-15.5%	953,834	-15.3%
<b>1992</b>	16,346	29.5%	36,876	18.5%	1,105,083	15.9%
<b>1993</b>	17,715	8.4%	39,225	6.4%	1,210,000	9.5%
<b>1994</b>	18,302	3.3%	40,459	3.1%	1,366,916	13.0%
<b>1995</b>	15,946	-12.9%	37,357	-7.7%	1,335,835	-2.3%
<b>1996</b>	17,360	8.9%	40,425	8.2%	1,419,083	6.2%
<b>1997</b>	17,554	1.1%	42,047	4.0%	1,442,251	1.6%
<b>1998</b>	18,958	8.0%	47,342	12.6%	1,619,500	12.3%
<b>1999</b>	18,977	0.1%	47,379	0.1%	1,665,417	2.8%
<b>2000</b>	17,342	-8.6%	43,735	-7.7%	1,565,333	-6.0%

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

Both the economic recession of 1989 and 1990 and the subsequent economic recovery were reflected in the housing sector. Significant declines in existing home sales in Massachusetts in 1989 and 1990 (of 10.9 percent and 28.8 percent, respectively) were followed by rapid sales growth between 1991 and 1993, when home sales in Massachusetts increased at a yearly rate substantially higher than the national average. Following this period of rapid growth, the growth in existing home sales slowed to a rate of 0.7 percent in 1994 and declined 2.6 percent in 1995. In 1996, 1997, and 1998, however, growth in existing home sales in Massachusetts was significant outpacing the national average in 1996 and 1997 with rates of 16.6 percent and 11.0 percent, respectively. This strong growth ended in 1999 when existing home sales in the Commonwealth declined 1.4 percent while growth in existing home sales nationally was 5.7 percent. In 2000, existing home sales in Massachusetts declined by the steepest rate since 1990. On a seasonally adjusted annual rate basis, existing home sales for the Commonwealth, New England, and the United States appear in the following table.

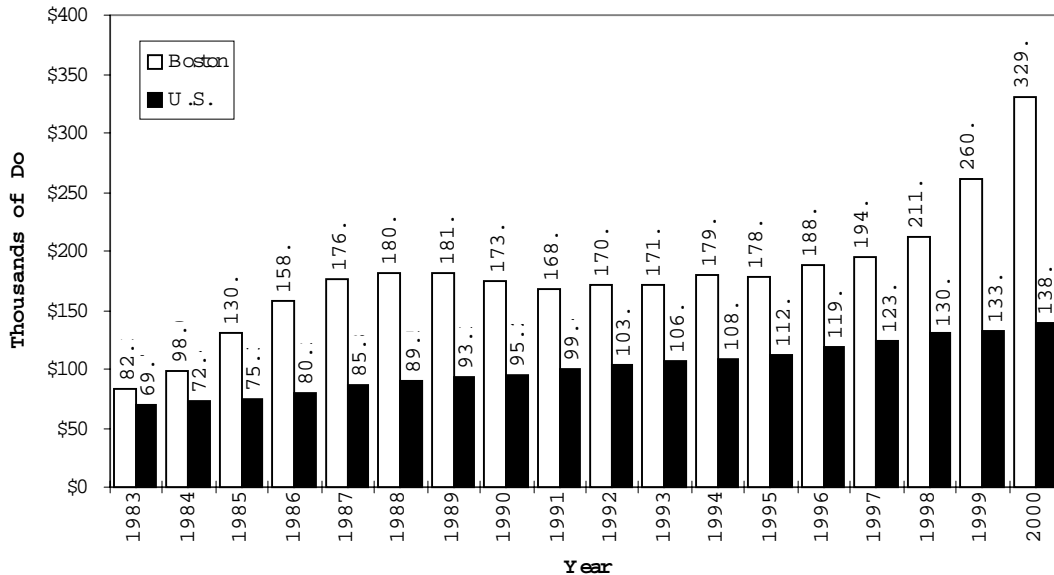
**Existing Home Sales, 1981-2000**  
(seasonally adjusted annual rates, in thousands)

Year	Massachusetts		New England		United States	
	Sales	Percentage Change	Sales	Percentage Change	Sales	Percentage Change
1981	43.0		105.8		2,575.0	
1982	42.6	-0.8%	98.6	-6.9%	2,117.5	-17.8%
1983	59.2	39.0%	141.3	43.3%	2,875.0	35.8%
1984	54.9	-7.3%	140.7	-0.4%	3,027.5	5.3%
1985	60.2	9.7%	157.0	11.6%	3,382.5	11.7%
1986	67.0	11.3%	169.2	7.8%	3,772.5	11.5%
1987	76.4	14.1%	174.5	3.1%	3,767.5	-0.1%
1988	76.6	0.2%	178.5	2.3%	3,882.5	3.1%
1989	68.2	-10.9%	163.0	-8.7%	3,672.0	-5.4%
1990	48.6	-28.8%	134.0	-17.8%	3,603.5	-1.9%
1991	53.4	10.0%	140.5	4.9%	3,533.3	-1.9%
1992	62.5	17.0%	170.6	21.4%	3,889.5	10.1%
1993	70.9	13.4%	193.8	13.6%	4,220.3	8.5%
1994	71.4	0.7%	200.3	3.4%	4,409.8	4.5%
1995	69.6	-2.6%	185.7	-7.3%	4,342.3	-1.5%
1996	81.2	16.6%	200.7	8.1%	4,705.3	8.4%
1997	90.1	11.0%	219.4	9.3%	4,908.8	4.3%
1998	99.9	10.8%	248.3	13.2%	5,585.3	13.8%
1999	98.5	-1.3%	253.3	2.0%	5,922.8	6.0%
2000	93.8	-4.8%	250.0	-1.3%	5,881.8	-0.7%

SOURCES: Federal Reserve Bank of Boston; National Association of Realtors.

Single family home prices for the Boston Metropolitan area (not seasonally adjusted) appear below. While Boston housing prices were 18.1 percent higher than the U.S. average in 1983, by 1987 Boston housing prices as a percentage of the national average had reached a peak of 205.7 percent. After dipping to 60.9 percent higher than the national average in 1993 and remaining as low as 62.9 percent above the national average in 1998, Boston home prices soared to 238.1 percent of the national average in 2000.

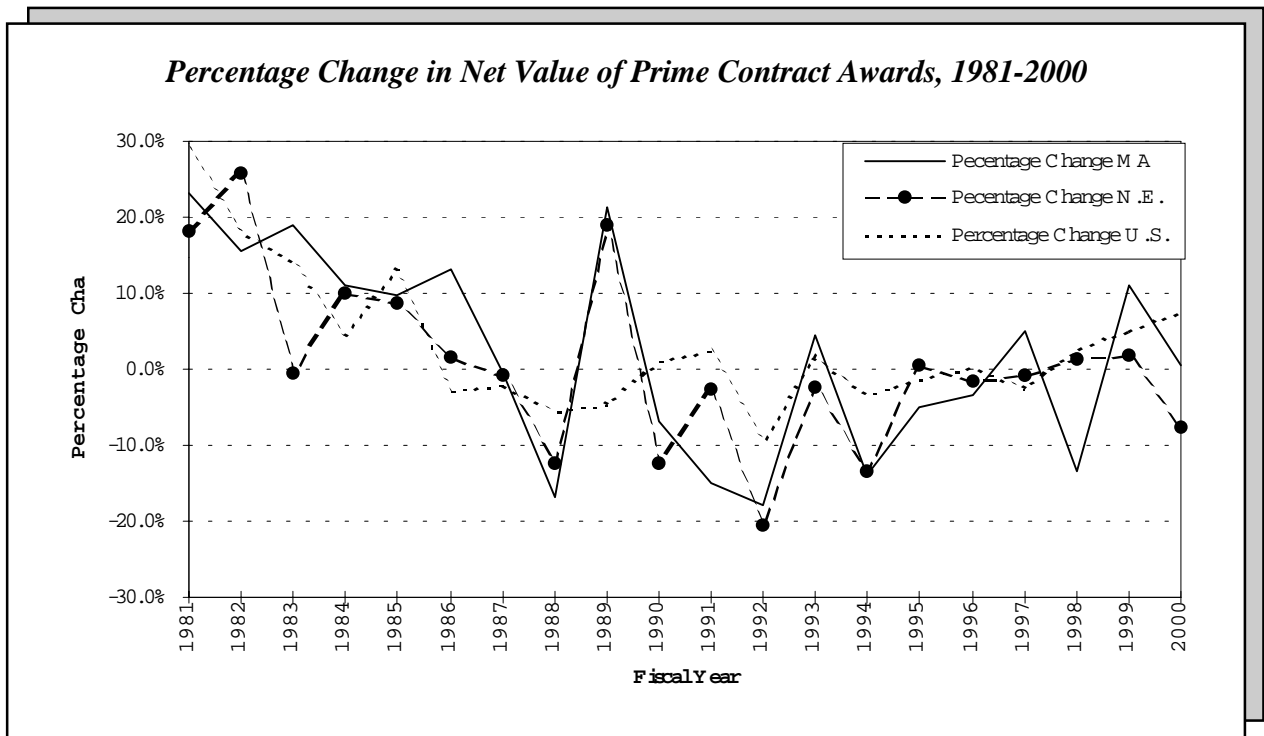
**Average Annual Home Prices, 1983-2000**  
(in thousands of current dollars)



SOURCES: National Association of Realtors; Federal Reserve Bank of Boston.

**Defense.** Following a peak in the value of military prime contracts awarded to Massachusetts firms in fiscal 1986 of \$8.7 billion, defense-related contracts declined 17.2 percent by fiscal 1988 to \$7.2 billion. By fiscal 1996, the value of defense-related prime contracts had declined to \$4.7 billion. Since then, the net value of prime contract awards in Massachusetts has not risen significantly, remaining at approximately \$4.7 billion in fiscal 2000.

The importance of the defense industry to the Massachusetts economy is reflected in the following chart and table, which show the value of Department of Defense prime contract awards between 1980 and 2000. Since the early 1980s, the Commonwealth's share of New England's prime contract awards had remained around or above 50 percent. In 1998, Massachusetts' share of New England's prime contract awards dipped to 45.7 percent and in 1999, the Commonwealth's share recovered only some of its losses, rising to 49.8 percent. In 2000, the Commonwealth's share of New England's prime contract awards rose to 54.2 percent, its highest level since 1994. The net value of prime contract awards in New England decreased significantly in 2000, dropping to a level lower than any point in at least the last two decades. In 2000, the Commonwealth's share of the national total also reached its lowest point in at least the last two decades.



***Net Value of Department of Defense Prime Contract Awards, 1980-2000***  
(in millions)

<i>Fiscal Year</i>	<b>MA</b>	<b>N.E.</b>	<b>U.S.</b>	<b>Percentage MA of N.E.</b>	<b>Percentage MA of U.S.</b>
<b>1980*</b>	\$3,743	\$8,775	\$68,070	42.7%	5.5%
<b>1981*</b>	4,605	10,372	87,761	44.4%	5.2%
<b>1982*</b>	5,317	13,037	103,858	40.8%	5.1%
<b>1983</b>	6,328	12,967	118,744	48.8%	5.3%
<b>1984</b>	7,029	14,249	123,995	49.3%	5.7%
<b>1985</b>	7,714	15,487	140,096	49.8%	5.5%
<b>1986</b>	8,735	15,748	136,026	55.5%	6.4%
<b>1987</b>	8,685	15,606	133,262	55.7%	6.5%
<b>1988</b>	7,212	13,673	125,767	52.7%	5.7%
<b>1989</b>	8,757	16,268	119,917	53.8%	7.3%
<b>1990</b>	8,166	14,271	121,254	57.2%	6.7%
<b>1991</b>	6,933	13,889	124,119	49.9%	5.6%
<b>1992</b>	5,686	11,033	112,285	51.5%	5.1%
<b>1993</b>	5,936	10,779	114,145	55.1%	5.2%
<b>1994</b>	5,106	9,329	110,316	54.7%	4.6%
<b>1995</b>	4,846	9,375	109,005	51.7%	4.4%
<b>1996</b>	4,675	9,237	109,408	50.6%	4.3%
<b>1997</b>	4,910	9,152	106,561	53.6%	4.6%
<b>1998</b>	4,245	9,284	109,386	45.7%	3.9%
<b>1999</b>	4,715	9,456	114,875	49.9%	4.1%
<b>2000</b>	4,737	8,745	123,295	54.2%	3.8%

SOURCE: United States Department of Defense.

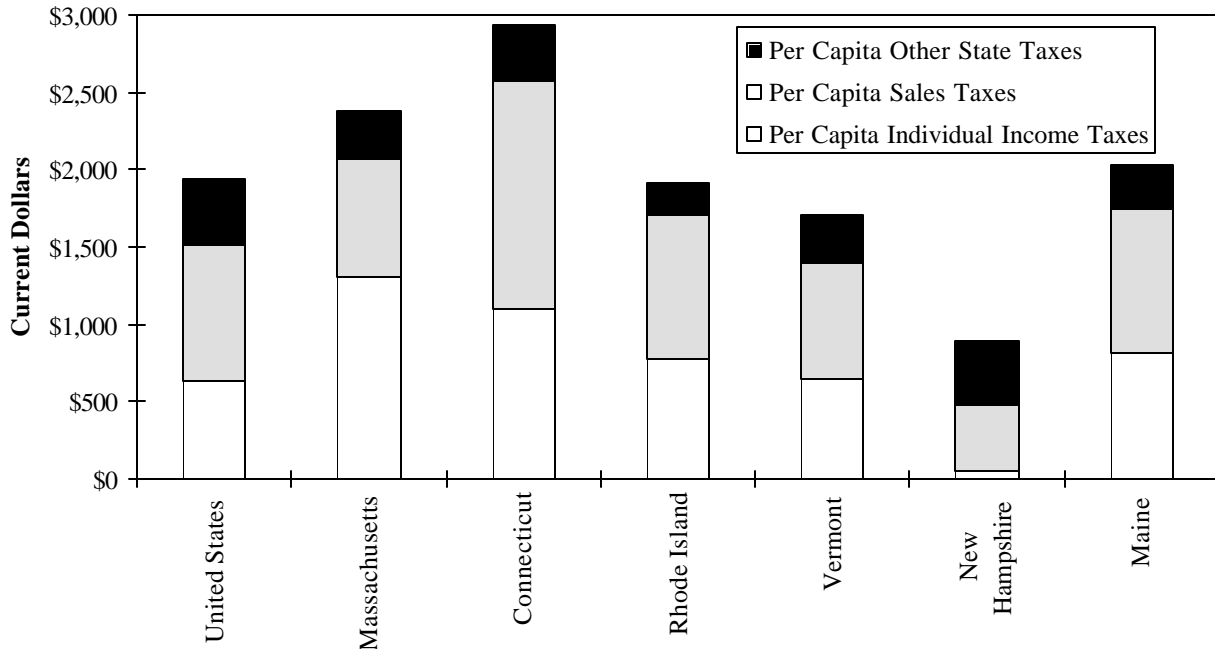
\* Prime Contract is defined as \$10,000 and above for these years; beginning in 1983 it is defined as \$25,000 and above.

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

The Massachusetts Office of Travel and Tourism estimates that 28.2 million people traveled to or within the Commonwealth in 1997, a decrease of 3.7 percent from 1996. Of these, 1.9 million were international visitors. In 1998, Massachusetts attracted more domestic visitors than in 1997, approximately 26.7 million, but the number of domestic visitors in Massachusetts declined in 1999 to 24.5 million. The latest available economic impact data indicates that spending by visitors to Massachusetts remains significant with direct spending totaling \$12.1 billion in 1999, an increase of 6.1 percent over the 1998 level.

***State Taxes.*** State taxes in Massachusetts are significantly higher than the national average. In 1999, the total per capita state tax bill in the United States was \$1,835.27. Citizens of the Commonwealth, however, paid \$2,385.65 on average. In New England, only citizens in Connecticut paid more per capita: \$2,932.21. Over half of the state taxes in Massachusetts come from the state income tax. Per capita individual income taxes in Massachusetts were \$1,301.44, representing the highest level of per capita income tax in the nation. Across the New England states, there is wide variation in both total per capita state taxes and in the breakdown of those taxes. The chart below displays total per capita state taxes, per capita state income taxes, and per capita general sales taxes for the United States and each of the New England states.

### *Fiscal 1999 Per Capita State Taxes*

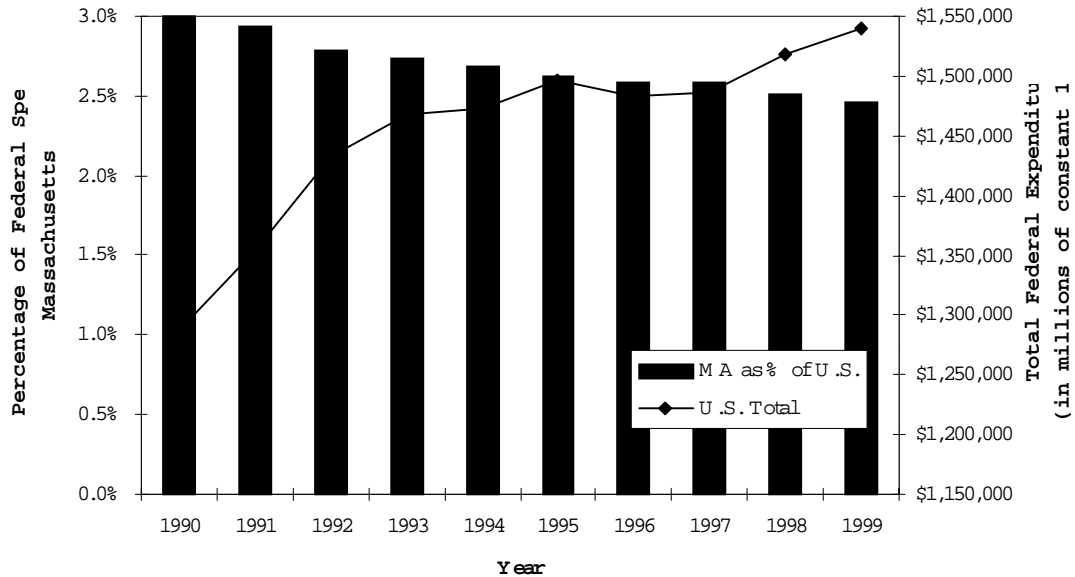


SOURCE: U.S. Bureau of the Census.

***Federal Government Spending in Massachusetts.*** Federal government spending contributes a significant amount to the economy of Massachusetts. In fiscal 1999, Massachusetts ranked tenth among states in per capita distribution of federal funds, with total spending of \$6,122 per person. According to data compiled by the United States Department of Commerce, Massachusetts' share of total federal spending declined steadily between 1990 and 1999. By 1999, Massachusetts' share of total federal spending had dropped to 2.5 percent from 3.0 percent 9 years earlier. The following chart shows total federal expenditures and the percentage of federal expenditures in Massachusetts. Total federal spending data were converted to 1999 dollars by MISER using Consumer Price Index data for the United States. Federal spending includes grants to state and local governments, direct payments to individuals, wage and salary employment, and procurement contracts and includes only those expenditures which can be associated with individual states and territories.



**Total Real Federal Expenditures and  
Percentage of Federal Expenditures in Massachusetts, 1990-1999**  
(in millions of constant 1999 dollars)

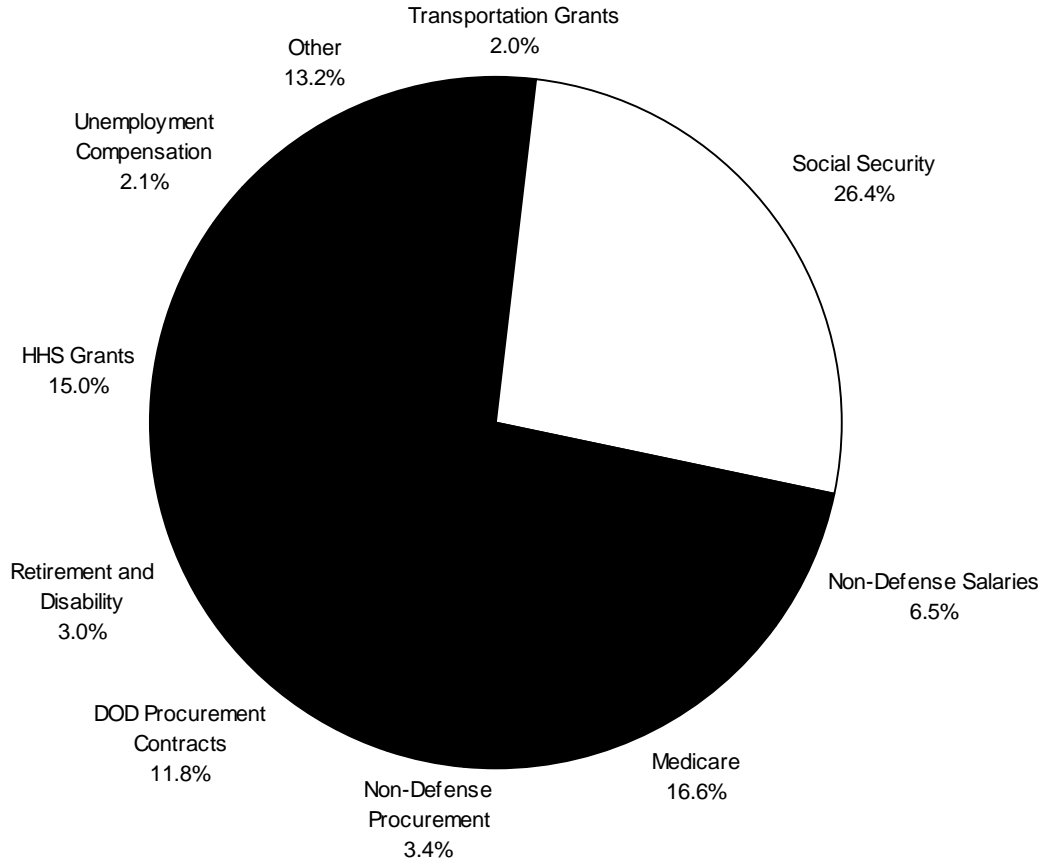


SOURCE: United States Department of Commerce, Bureau of the Census.

A large percentage of federal spending in Massachusetts in 1999 was composed of health care and social programs like Medicare and Social Security. Massachusetts was above the national average in per capita federal grants to state and local governments, receiving \$1,431 per capita compared to a national average of \$1,062. Per capita federal spending on salaries and wages in 1999 was lower in Massachusetts than in the rest of the nation (\$473 compared to a national average of \$640) but Massachusetts was above the national average in per capita direct federal payments to individuals (\$3,286 compared to a national average of \$3,073). Massachusetts ranked tenth among states in per capita procurement contract awards (\$932 compared to a national average of \$781) in 1999.

The following chart shows the composition of federal spending within Massachusetts in fiscal 1999.

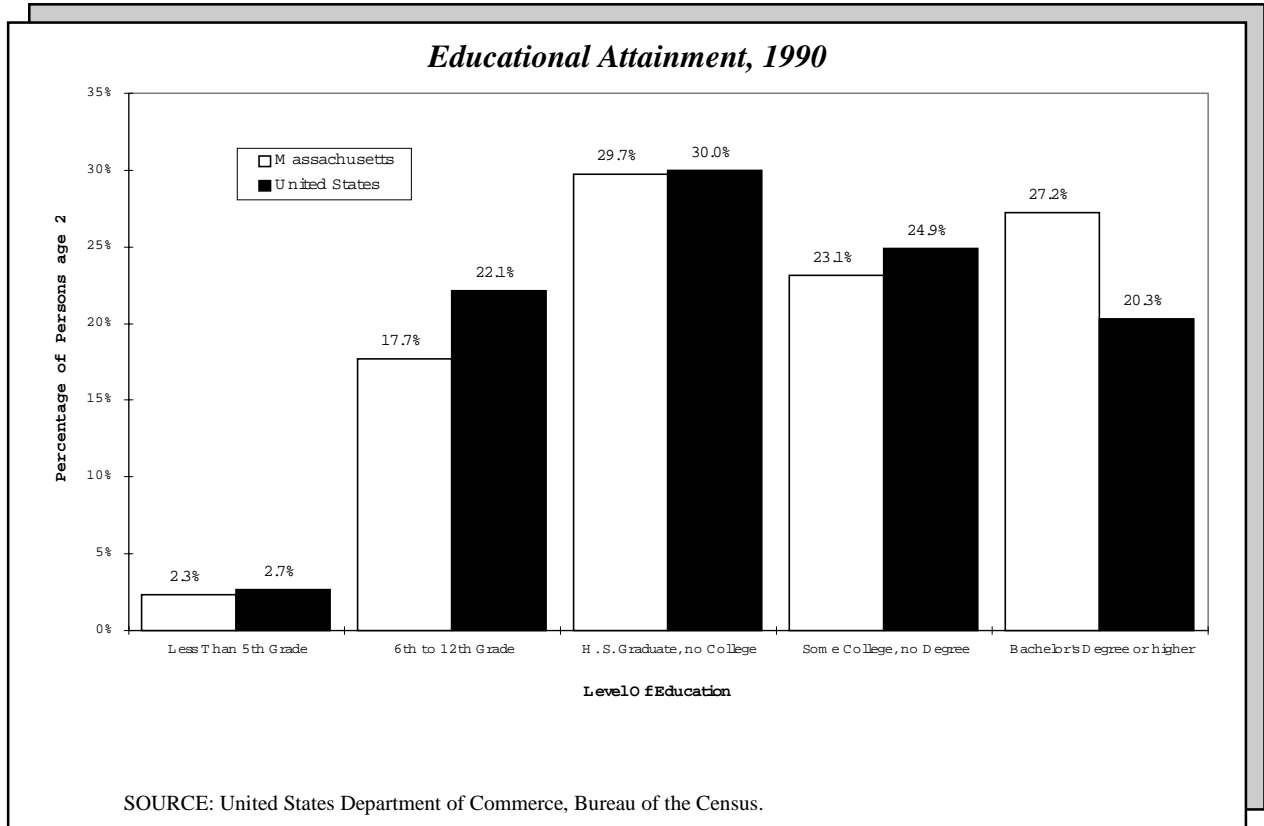
*Composition of Federal Spending in Massachusetts by Program, Fiscal 1999*



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

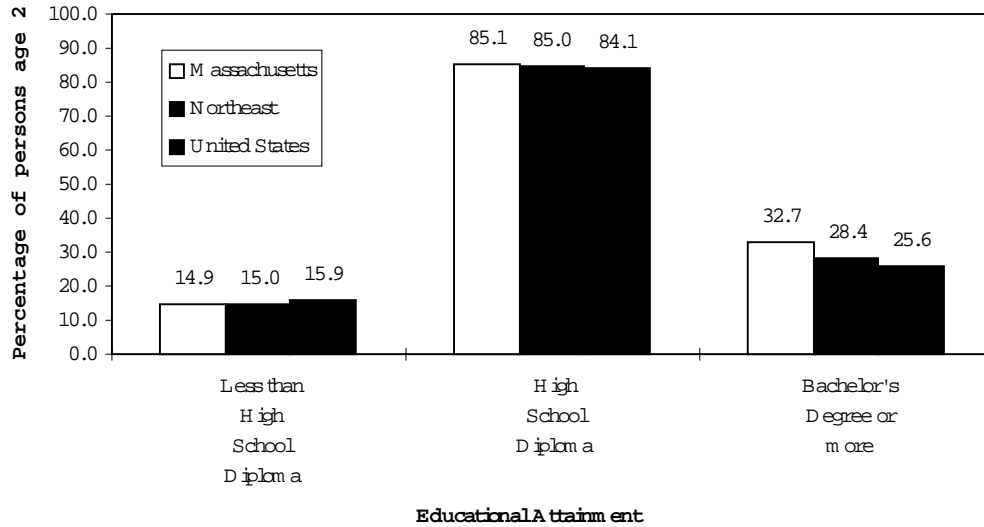
## HUMAN RESOURCES AND INFRASTRUCTURE

**Human Resources.** The availability of a skilled and well-educated population is an important resource for Massachusetts. The level of education reached by the population of Massachusetts compares favorably with the level in the United States as a whole. In both Massachusetts and the United States, less than three percent of the population over age 25 received less than a fifth grade education. The most significant difference between Massachusetts and the United States is the percentage of people over age 25 with a Bachelor's Degree or higher: 27.2 percent in Massachusetts as compared to 20.3 percent for the United States as a whole. The following chart shows this difference:



While developing this detailed evaluation of educational attainment every ten years, the Bureau of the Census prepares a less detailed analysis of educational attainment between the years of the national census. This analysis follows a representative sample of all fifty states. The most recent analysis for Massachusetts and the United States is March 2000. While this is not an exhaustive study, the following chart shows that Massachusetts continues to rank highly in persons attaining a high school diploma and among the highest in persons completing a bachelor's degree or more.

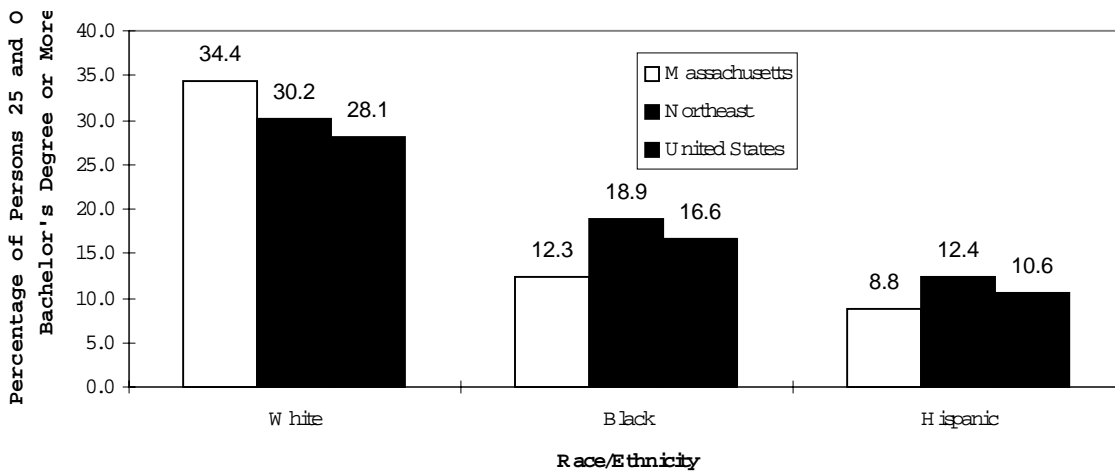
**Educational Attainment by Persons Age 25 and Over, March 2000**



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

Massachusetts has a smaller percentage of persons who have not completed high school than the Northeast or the United States as a whole and a higher percentage of persons with a bachelor's degree or more. Massachusetts ranks thirty-first in the nation in percentage of its population having received a high school diploma or more. The Commonwealth ranks third among the fifty states in percentage of persons over 25 with a bachelor's degree or more. However, these data obscure significant differences in educational attainment across racial and ethnic lines. While blacks and Hispanics fare worse than whites in educational attainment throughout the nation, the difference is particularly pronounced in Massachusetts. As the chart below indicates, a far higher percentage of whites have a bachelor's degree or more in Massachusetts than in the rest of the nation, but blacks and Hispanics in Massachusetts trail the national average.

**Persons 25 and Over With a Bachelor's Degree or More By Race/Ethnicity, March 2000**



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

Massachusetts has a higher percentage of minority enrollment in institutions of higher education than New England. However, the percentage of enrollment of blacks and Hispanics in higher education in

Massachusetts is below the national average. Asian enrollment is above the national average. These percentages are seen in the chart below.

	<i>Black</i>	<i>Hispanic</i>	<i>Asian</i>
<b>Massachusetts</b>	6.1	4.6	6.4
<b>New England</b>	5.4	4.1	4.8
<b>United States</b>	10.7	8.4	5.9

SOURCE: New England Board of Higher Education.

In the 1998 National Assessment of Educational Progress conducted by the U.S. Department of Education, 4th graders and 8th graders around the nation were given standardized exams in reading. Among 4th graders, only students in Connecticut achieved statistically significant higher reading scores than students in Massachusetts while among 8th graders, no state had statistically significant higher reading scores than Massachusetts. In a similar 1996 study, 4th and 8th graders were given standardized exams in mathematics and science. In science, only 8th graders in Maine, North Dakota, and Montana achieved statistically significant higher scores than 8th graders in Massachusetts. In mathematics, only 4th graders in Maine, Minnesota, Connecticut, Wisconsin, and North Dakota achieved higher average scaled scores than Massachusetts 4th graders. Massachusetts 8th graders also performed well in mathematics, achieving the 10th highest average scaled score among states.

Although spending on education is not necessarily an indication of results, since at least 1981, Massachusetts has spent more per pupil on primary and secondary education than the national average. Between fiscal years 1981 and 1998, the ratio of Massachusetts spending to the national average has varied between 1.12 and 1.27. In fiscal 1998, this ratio continued rising as it had throughout the 1990s. Massachusetts spent 26 percent more on public elementary and secondary education than the United States average in fiscal 1998: \$7,778 per student compared to a national average of \$6,189 per student. The following table shows expenditures per pupil for Massachusetts and the United States since fiscal 1981.

***Expenditure Per Pupil in Public Elementary and Secondary Schools, 1981-1998***  
*(in current, unadjusted dollars)*

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

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

Massachusetts is an internationally recognized center for higher education, with 412,620 students in undergraduate, professional and graduate programs in 1997, according to data supplied by the New England Board of Higher Education. The number of foreign students enrolled in Massachusetts colleges and universities in 1999 was 27,782, representing 5.7 percent of total foreign student enrollment in the United States. The Massachusetts public higher education system is composed of universities, state colleges, and community colleges with a combined enrollment of 174,694 students in 1997. In addition, Massachusetts has a system of private higher education that accounted for 57.7 percent of total enrollment in Massachusetts in 1997. The strength of both public and private colleges and universities as centers for research and education contributes to the high quality of the Massachusetts work force and plays a key role in attracting and retaining business and industry within the state.

The higher education system in Massachusetts is particularly strong in post-graduate, scientific, and technical education. The strength of the Massachusetts higher education system is evidenced by the draw it has upon new students. In the Fall of 1996, 16,455 first-time freshmen migrated into the Massachusetts higher education system from outside New England, representing 26.4 percent of all incoming freshmen in that year. The strength of the Commonwealth's educational institutions is also reflected in the large number of degrees awarded. In 1997, Massachusetts institutions conferred a total of 2,272 doctoral degrees. This represents 5.6 percent of the total number of doctoral degrees conferred in the United States but a decrease of 4.4 percent in the number of doctoral degrees conferred in Massachusetts in 1996.

The pre-eminence of higher education in Massachusetts contributes not only to the quality of its work force, but also to its stature in the nation and the world as a center for basic scientific research and for academic and entrepreneurial research and development. Doctorate-granting institutions in Massachusetts spent 5.1 percent of total national expenditures on R&D at such institutions in fiscal 1999, ranking Massachusetts fifth in the nation behind only California, New York, Texas, and Pennsylvania. Doctorate-granting institutions in New England spent 7.9 percent (\$2,149,423,000) of the total research and development funds (\$27,038,008,000) spent by such institutions in fiscal 1999. Massachusetts institutions spent 64.2 percent of these funds (\$1,380,737,000).

The diversity of federal funding sources reflects the variety of research and development work performed at Massachusetts educational institutions. According to the National Science Foundation, of the

\$1,047,036,000 of total fiscal 1999 federal obligations for science and engineering research to universities and colleges in Massachusetts, 52.9 percent was from the Department of Health and Human Services, 17.9 percent was from the National Science Foundation, 12.0 percent was from the Department of Defense, 8.2 percent was from the Department of Energy, and 4.1 percent was from the National Aeronautics and Space Administration.

Given the quality of the Commonwealth's research and development sector, it is not surprising that Massachusetts fares better than the national average in homes with telephone, computer, and internet access. In 1998, 95.5 percent of homes in Massachusetts had telephones compared with 94.1 percent of homes in the United States. In 2000, among homes in Massachusetts, 53.0 percent had a computer compared with 51.0 percent nationally, and 45.5 percent of homes in Massachusetts had internet access while 41.5 percent of homes nationwide had such access. In New England, however, only Rhode Island had a lower percentage of households with a computer and only Rhode Island and Maine had a lower percentage of households with internet access.

**Major Infrastructure Projects.** The next decade brings significant work on several major public sector-sponsored construction projects, giving rise in Massachusetts to new economic and employment opportunities. The projects include the depression of the central artery which traverses the City of Boston, and the construction of a third harbor tunnel linking downtown Boston to Logan Airport. The new Central Artery is designed to meet Boston's future traffic demand. According to the Massachusetts Turnpike Authority, when completed, the Central Artery will accommodate an estimated 245,000 vehicles per day. The Project will also strengthen connections among Boston's air, rail, and seaport terminals. By offering travelers and shippers increased choice and flexibility among these different modes of transportation, the Project is contributing to the creation of an integrated, intermodal transportation system for the entire region. Construction of the Ted Williams Tunnel began in 1992 and stretches under Boston Harbor from South Boston to Logan Airport. The tunnel opened to commercial traffic in late 1995 and is expected to be open to all traffic by December 2001. Currently, an average of more than 20,000 vehicles use the tunnel every weekday. The Central Artery Project is expected to be completed by 2004 at an estimated total cost of \$14.1 billion, with over \$7 billion of that to be funded by the federal government. As of February 2001, construction is 68.6 percent complete.

Massachusetts is also home to Logan International Airport and the Port of Boston. In 2000, 27.4 million passengers and more than 852 million pounds of cargo and mail passed through Logan. A \$1 billion modernization program is currently underway to prepare the airport for the future, including expansion of terminal space. In 1999, 1,317,952 tons of containerized cargo moved through the Port of Boston, representing a 7.2 percent increase from the previous year's volume.

The Massachusetts Water Resources Authority is undertaking capital projects for the construction and rehabilitation of sewage collection and treatment facilities in order to bring wastewater discharges into Boston Harbor into compliance with federal and state pollution control requirements. According to the MWRA, the construction portion of the Boston Harbor Project is over 99 percent complete. The harbor cleanup project is estimated to cost \$3.6 billion. Work on the project began in 1988 and is expected to be completed in September, 2001, though all process facilities have been completed and placed into service. The centerpiece of the project is a new sewage treatment plant on Deer Island. The first half of the plant, portions of which became operational in January 1995, is a larger, more effective primary treatment plant to replace the existing one. The majority of the project's expenditures will be paid for by local communities, in the form of user fees, with federal and state sources making up the difference. According to the MWRA, through fiscal 2000, the Boston Harbor Project had received \$859 million in federal and state grant funding.

FORM OF OPINION OF BOND COUNSEL

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[Date of Delivery]

The Honorable Shannon P. O'Brien  
Treasurer and Receiver-General  
The Commonwealth of Massachusetts  
State House - Room 227  
Boston, Massachusetts 02133

Re: The Commonwealth of Massachusetts \$250,000,000 General Obligation Bonds,  
Consolidated Loan of 2001, Series B (the "Bonds")

Dear Treasurer O'Brien:

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

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

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

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

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

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

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

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



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

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

(d) 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 with respect to other Massachusetts tax consequences arising with respect to the Bonds or as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.

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

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

Very truly yours,

Ropes & Gray

Commonwealth of Massachusetts  
 General Obligation Bonds  
 Consolidated Loan of 2001, Series B

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 27, 2001 (the “Information Statement”), as it appears as Appendix A in the Preliminary Official Statement dated April 27, 2001 relating to the Commonwealth’s General Obligation Bonds, Consolidated Loan of 2001, Series B, 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	“FINANCIAL RESULTS - Selected Financial Data - Statutory Basis”
2. Summary presentation on GAAP and five-year comparative basis of selected budgeted operating funds operations, concluding with prior fiscal year	“FINANCIAL RESULTS - 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 - Distribution of Revenues”
4. So long as Commonwealth statutes impose limits on tax revenues, information as to compliance therewith in the prior fiscal year	“COMMONWEALTH REVENUES - Limitations on Tax Revenues”
5. Summary presentation of budgeted expenditures by selected, then-current major categories on five-year comparative basis and estimated expenditures for current fiscal year	“COMMONWEALTH PROGRAMS AND SERVICES”
6. Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any	“COMMONWEALTH PROGRAMS AND SERVICES - Commonwealth Pension Obligations”

Financial Information and Operating Data Category	Reference to Information Statement for Level of Detail
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 SPENDING AND LONG-TERM LIABILITIES - 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	"COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - General Authority to Borrow and Types of Long-Term Liabilities - Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities"
10. Five-year comparative presentation of long term Commonwealth debt and debt related to general obligation contract liabilities as of the end of the prior fiscal year	"COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - General Authority to Borrow and Types of Long-Term Liabilities - Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities"
11. Annual fiscal year debt service requirements for Commonwealth general obligation and special obligation bonds, beginning with the current fiscal year	"COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - Debt Service Requirements on Commonwealth Bonds"
12. Annual fiscal year contract assistance requirements for Commonwealth general obligation contract assistance, beginning with the current fiscal year	"COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - General Obligation Contract Assistance Liabilities"
13. Annual fiscal year budgetary contractual assistance liabilities for Commonwealth, beginning with the current fiscal year	"COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - Budgetary Contractual Assistance Liabilities"
14. Five-year summary presentation of authorized but unissued general obligation debt	"COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - Authorized But Unissued Debt"
15. 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	"COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - Statutory Debt Limit on Direct Debt"

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

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

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties<sup>1/</sup>;
- (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<sup>2/</sup> 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,

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

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

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

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