

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

*In the opinion of Bond Counsel, under existing law and assuming continued compliance with certain requirements of the Internal Revenue Code of 1986, as amended, interest on the Bonds will not be included in the gross income of holders of the Bonds for federal income tax purposes. While interest on the Bonds will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, interest on the Bonds will be included in the "adjusted current earnings" of corporate holders of the Bonds and therefore will be taken into account in computing the alternative minimum tax applicable to 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 accrued original issue discount. See "TAX EXEMPTION" herein.*



## **THE COMMONWEALTH OF MASSACHUSETTS**

**\$300,000,000**

**General Obligation Bonds  
Consolidated Loan of 2004  
Series C**

*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, New York, New York ("DTC"), and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The Bonds will bear interest from their date of delivery and interest will be payable on February 1, 2005 and semiannually thereafter on August 1 and February 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 (described herein) under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "LONG-TERM LIABILITIES – General Authority to Borrow; Limit on Debt Service Appropriations."

The Bonds are offered when, as and if issued and received by the original purchasers, and subject to the unqualified approving opinion as to legality of Ropes & Gray LLP, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Ropes & Gray LLP, Boston, Massachusetts, Disclosure Counsel. Settlement of the issue is expected at DTC in New York, New York, on or about August 26, 2004.

August 18, 2004

**THE COMMONWEALTH OF MASSACHUSETTS**  
**\$300,000,000**  
**General Obligation Bonds**  
**Consolidated Loan of 2004, Series C**

**Dated: Date of Delivery**

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

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
2005	\$23,965,000	5.00%	1.39%
2006	24,335,000	5.00	1.76
2007	24,805,000	5.00	2.13
2008	25,380,000	5.00	2.54
2009*	26,055,000	5.00	2.80
2010*	26,845,000	5.00	3.04
2011	27,700,000	5.00	3.36
2012	28,630,000	5.00	3.47
2013	29,640,000	5.00	3.63
2014	30,730,000	3.70	3.74
2015	31,915,000	3.85	3.85

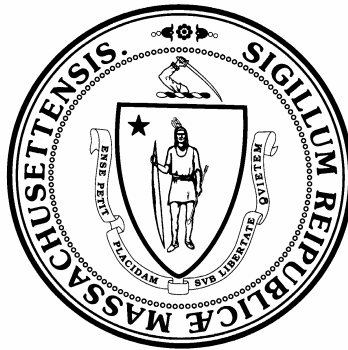
\* Insured by Ambac Assurance Corporation. See "BOND INSURANCE - Payment Pursuant to Financial Guaranty Insurance Policy".

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.

## TABLE OF CONTENTS

INTRODUCTION .....	1
PURPOSE AND CONTENT OF OFFICIAL STATEMENT .....	1
THE BONDS .....	2
GENERAL.....	2
REDEMPTION.....	2
APPLICATION OF PROCEEDS OF THE BONDS.....	2
SECURITY FOR THE BONDS .....	3
BOND INSURANCE.....	3
PAYMENT PURSUANT TO FINANCIAL GUARANTY INSURANCE POLICY.....	3
AMBAC ASSURANCE CORPORATION.....	4
AVAILABLE INFORMATION .....	5
INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE.....	5
LITIGATION .....	5
BOOK-ENTRY-ONLY SYSTEM .....	6
RATINGS .....	8
TAX EXEMPTION .....	8
OPINION OF COUNSEL .....	9
COMPETITIVE SALE OF BONDS .....	9
CONTINUING DISCLOSURE.....	9
MISCELLANEOUS .....	9
AVAILABILITY OF OTHER INFORMATION .....	10
APPENDIX A - Commonwealth Information Statement Supplement dated August 18, 2004.....	A-1
APPENDIX B - Proposed Form of Opinion of Bond Counsel.....	B-1
APPENDIX C - Continuing Disclosure Undertaking.....	C-1
APPENDIX D - Specimen Financial Guaranty Insurance Policy .....	D-1

**THE COMMONWEALTH OF MASSACHUSETTS**



**CONSTITUTIONAL OFFICERS**

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

**LEGISLATIVE OFFICERS**

**Robert E. Travaglini ..... President of the Senate**  
**Thomas M. Finneran.....Speaker of the House**

**OFFICIAL STATEMENT**  
**THE COMMONWEALTH OF MASSACHUSETTS**

**\$300,000,000**  
**General Obligation Bonds**  
**Consolidated Loan of 2004, Series C**

**INTRODUCTION**

This Official Statement (including the cover page and Appendices A through D attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of \$300,000,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 2004, Series C (the "Bonds"). The Bonds will be general obligations of the Commonwealth, and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and expenditures for debt service, see "SECURITY FOR THE BONDS" and the Commonwealth Information Statement (described below) under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "LONG-TERM LIABILITIES – General Authority to Borrow; Limit on Debt Service Appropriations."

The 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.

Specific reference is made to the Commonwealth's Information Statement dated September 18, 2003 (the "September Information Statement"), as it appears as Appendix A in the Official Statement dated September 18, 2003 of the Commonwealth with respect to the Commonwealth's General Obligation Bond Anticipation Notes, 2003 Series A (the "September Official Statement"). A copy of the September Official Statement has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission and with the Municipal Securities Rulemaking Board. The information contained in the September Information Statement has been supplemented by the Commonwealth's Information Statement Supplement dated August 18, 2004 (the "August Supplement"), which is attached hereto as Appendix A. The September Information Statement and the August Supplement are referred to herein collectively as the "Information Statement". The Information Statement, contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth. Exhibit A to the Information Statement contains certain economic information concerning the Commonwealth. Exhibits B and C to the Information Statement contain the financial statements of the Commonwealth for the fiscal year ended June 30, 2003, prepared on a statutory basis and on a GAAP basis, 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 home page of the Comptroller of the Commonwealth located at <http://www.mass.gov/osc> by clicking on "Financial Reports/Audits".

Appendix B attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Bonds. Appendix C 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 initial purchasers of the Bonds with the requirements of paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission. Appendix D attached hereto sets forth the specimen financial guaranty insurance policy of Ambac Assurance Corporation with respect to the bonds maturing on August 1, 2009 and August 1, 2010, respectively.

## **THE BONDS**

### **General**

The Bonds will be dated their date of delivery and will bear interest from such date payable semiannually on February 1 and August 1 of each year, commencing February 1, 2005 (each an "Interest Payment Date") until the principal amount is paid. The Bonds will mature on August 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 note certificate immobilized at The Depository Trust Company, New York, New York ("DTC"). The certificates will not be available for distribution to the public and will evidence ownership of the Bonds in principal amounts of \$5,000 or integral multiples thereof. Transfers of ownership will be effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Interest and principal due on the Bonds will be paid in federal funds to DTC or its nominee as registered owner of the Bonds. As long as the book-entry-only system remains in effect, DTC or its nominee will be recognized as the owner of the Bonds for all purposes, including notices and voting. The Commonwealth will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. See "BOOK-ENTRY-ONLY SYSTEM."

### **Redemption**

The Bonds are not subject to redemption prior to their stated maturity dates .

### **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 enacted by the Legislature. The net proceeds of the sale of the Bonds, including any premium received by the Commonwealth upon original delivery 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 remaining premium received by the Commonwealth upon original delivery of the Bonds and not applied to the various purposes for which bonds have been authorized 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 the September Information Statement under the heading “COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN.”

### **SECURITY FOR THE BONDS**

The Bonds will be general obligations of the Commonwealth to which its full faith and credit will be pledged for the payment of principal and interest when due. However, it should be noted that Chapter 62F of the Massachusetts General Laws imposes 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 the Information Statement under the headings “COMMONWEALTH REVENUES – Limitations on Tax Revenues” and “LONG-TERM LIABILITIES – General Authority to Borrow; Limit on Debt Service Appropriations.”

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including the Bonds, and all claims with respect thereto. However, the property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires a legislative appropriation. Enforcement of a claim for payment of principal 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.

### **BOND INSURANCE**

Ambac Assurance Corporation (“Ambac Assurance”) has made a commitment to issue a financial guaranty insurance policy (the “Financial Guaranty Insurance Policy”) relating to the Bonds maturing on August 1, 2009 and on August 1, 2010, respectively (collectively, the “Insured Bonds”). Certain information regarding payment of the Insured Bonds pursuant to the Financial Guaranty Insurance Policy and Ambac Assurance appears below. The following information has been supplied by Ambac Assurance for inclusion in the Official Statement. No representations are made by the Commonwealth as to the accuracy or completeness of the following information.

#### **Payment Pursuant to Financial Guaranty Insurance Policy**

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

The Financial Guaranty Insurance Policy will insure payment of the Insured Bonds only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Insured Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Insured Bonds, Ambac Assurance will remain obligated to pay principal of and interest on outstanding Insured Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the

principal of the Insured Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

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

The Financial Guaranty Insurance Policy does **not** insure any risk other than Nonpayment of the Insured Bonds, as defined in the Policy. Specifically, the Financial Guaranty Insurance Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

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

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

The Financial Guaranty Insurance Policy does not insure against loss relating to payments made in connection with the sale of Insured Bonds at Auctions or losses suffered as a result of a Holder's inability to sell Insured Bonds.

### **Ambac Assurance Corporation**

Ambac Assurance is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$8,142,000,000 (unaudited) and statutory capital of approximately \$4,824,000,000 (unaudited) as of June 30, 2004. Statutory capital consists of Ambac Assurance's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac Assurance.

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



Ambac Assurance makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac Assurance and presented under the heading "BOND INSURANCE" or the specimen Financial Guaranty Insurance Policy attached as Appendix D.

### **Available Information**

The parent company of Ambac Assurance, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at <http://www.sec.gov> that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including the Company. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

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

### **Incorporation of Certain Documents by Reference**

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

1. The Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and filed on March 15, 2004;
2. The Company's Current Report on Form 8-K dated April 21, 2004 and filed on April 22, 2004;
3. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2004 and filed on May 10, 2004;
4. The Company's Current Report on Form 8-K dated July 21, 2004 and filed on July 22, 2004; and
5. The Company's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2004 and filed on August 9, 2004.

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

### **LITIGATION**

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

There are pending in courts within the Commonwealth various suits in which the Commonwealth is a defendant. In the opinion of the Attorney General, no litigation is pending or, to his knowledge, threatened which is likely to result, either individually or in the aggregate, in final judgments against the Commonwealth

that would affect materially its financial condition. For a description of certain litigation affecting the Commonwealth, see the Information Statement under the heading "LITIGATION."

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## **RATINGS**

The Bonds have been assigned ratings of “AA-,” “Aa2” and “AA-” by Fitch Ratings (“Fitch”), Moody’s Investors Service (“Moody’s”) and Standard & Poor’s Ratings Services (“Standard & Poor’s”), respectively.

For the Insured Bonds, the ratings assigned by Fitch, Moody’s and Standard & Poor’s are “AAA,” “Aaa” and “AAA,” respectively, based upon the understanding that the payment of the principal of and the interest on the Insured Bonds will be guaranteed by a financial guaranty insurance policy to be issued simultaneously with the delivery of the Insured Bonds by Ambac Assurance.

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

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

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

#### **OPINION OF COUNSEL**

The unqualified approving opinion as to the legality of the Bonds will be rendered by Ropes & Gray LLP, of Boston, Massachusetts, Bond Counsel 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 Ropes & Gray LLP of Boston, Massachusetts, as Disclosure Counsel to the State Treasurer.

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

After bidding on August 18, 2004, the Bonds were awarded by the Commonwealth to Merrill Lynch & Co. as purchaser. The purchaser has supplied the information as to the public reoffering 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 its total compensation is expected to be \$631,600.35. The purchaser may change the public offering yields or prices from time to time.

#### **CONTINUING DISCLOSURE**

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

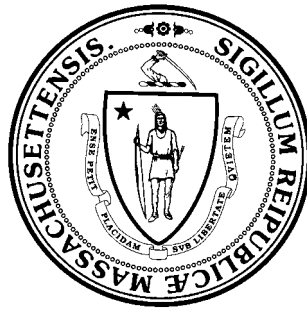
For information concerning the availability of certain other financial information from the Commonwealth, see the Information Statement under the heading "CONTINUING DISCLOSURE."

#### **MISCELLANEOUS**

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



**THE  
COMMONWEALTH  
OF  
MASSACHUSETTS**



**INFORMATION STATEMENT SUPPLEMENT**

**Dated August 18, 2004**

**TABLE OF CONTENTS**  
**INFORMATION STATEMENT SUPPLEMENT DATED AUGUST 18, 2004**

RECENT DEVELOPMENTS .....	1
Fiscal 2003 .....	1
Fiscal 2004 .....	1
Fiscal 2004 Non-Tax Revenues .....	3
Fiscal 2004 Tax Revenues .....	3
Limitations on Tax Revenues .....	4
Fiscal 2005 .....	4
Fiscal 2005 Tax Revenues .....	7
Cash Flow .....	7
UMass Dartmouth Lease Revenue Bonds .....	9
Interest Rate Swap Agreement Dispute .....	9
Selected Financial Data—Statutory Basis .....	10
Stabilization Fund and Disposition of Year-End Surpluses .....	12
COMMONWEALTH REVENUES .....	13
COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN .....	14
Capital Spending Plan .....	14
Central Artery/Ted Williams Tunnel Project .....	16
LONG-TERM LIABILITIES .....	18
General Authority to Borrow .....	19
Debt Service Requirements on Commonwealth Bonds .....	20
General Obligation Contract Assistance Liabilities .....	22
STATE WORKFORCE .....	22
LEGAL MATTERS .....	23
Update of Existing Litigation .....	23
CONTINUING DISCLOSURE .....	24
AVAILABILITY OF OTHER FINANCIAL INFORMATION .....	25

EXHIBITS

A. Economic Information as of June 30, 2004

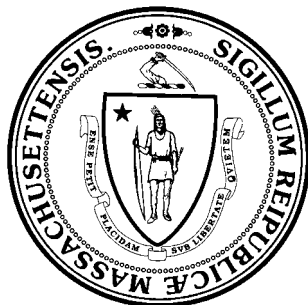
(Exhibits B and C are included by reference, and have been filed with Nationally Recognized Municipal Securities Information Repositories.)

B. Statutory Basis Financial Report for the year ended June 30, 2003

C. Comprehensive Annual Financial Report (GAAP basis) for the year ended June 30, 2003



**THE COMMONWEALTH OF MASSACHUSETTS**



**CONSTITUTIONAL OFFICERS**

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

**LEGISLATIVE OFFICERS**

**Robert E. Travaglini..... President of the Senate**  
**Thomas M. Finneran ..... Speaker of the House**

**THE COMMONWEALTH OF MASSACHUSETTS**  
**INFORMATION STATEMENT SUPPLEMENT**  
**AUGUST 18, 2004**

This supplement (“Supplement”) to the Information Statement of The Commonwealth of Massachusetts (the “Commonwealth”) dated September 18, 2003 (the “September Information Statement”) is dated August 18, 2004, and contains information which updates the information contained in the September Information Statement. The September Information Statement appears in the Commonwealth’s Official Statement dated September 18, 2003 with respect to its \$550,000,000 General Obligation Bond Anticipation Notes, 2003 Series A, a copy of which has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. This Supplement and the September Information Statement must be read together and in their entirety in order to obtain the appropriate fiscal, financial and economic information concerning the Commonwealth through August 18, 2004. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the September Information Statement. Exhibit A to this Supplement, which is attached hereto, is the Statement of Economic Information as of June 30, 2004, which 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, 2003 and the Comprehensive Annual Financial Report (GAAP basis) for the year ended June 30, 2003. Specific reference is made to said Exhibits B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. The financial statements are also available at the home page of the Comptroller of the Commonwealth located at <http://www.mass.gov/osc> by clicking on “Financial Reports/Audits”.

**RECENT DEVELOPMENTS**

**Fiscal 2003**

On June 30, 2003, the Commonwealth ended fiscal 2003 with a consolidated net surplus of approximately \$150.9 million. Of this amount the statutory surplus of \$75.7 million was transferred to the Stabilization Fund and \$75.2 million was carried forward into fiscal 2004 as an undesignated beginning balance. Also on June 30, 2003, \$40.8 million from the elimination of various Budgeted Operating Funds was transferred to the Stabilization Fund. These transfers resulted in a \$641.3 million ending balance of the Stabilization Fund as of June 30, 2003. Also on June 30, 2003, the negative \$1.802 billion fund balance of the Local Aid Fund was transferred to the General Fund’s fund balance as a result of the repeal of the Local Aid Fund.

**Fiscal 2004**

On November 21, 2003, the Governor signed into law “An Act Relative to Fiscal Relief Funds.” The legislation establishes a new budgeted operating fund called the Federal Medicaid Assistance Percentage Escrow Fund (“FMAP Escrow Fund”). All revenue received from the federal Jobs Growth Reconciliation Act of 2003 in fiscal 2004 and 2005, unless otherwise designated for a specific purpose, will be deposited into the FMAP Escrow Fund. The Executive Office for Administration and Finance estimates that after the transfer of \$55.0 million to the Uncompensated Care Trust and \$33.4 million to the newly created Economic Stimulus Fund (discussed below), \$346.2 million will be deposited into the FMAP Escrow Fund in fiscal 2004, which will exhaust the total amount available to the Commonwealth and, thus, would result in no additional money being deposited into the FMAP Escrow Fund in fiscal 2005. The FMAP Escrow Fund expires at the close of fiscal 2005, at which time any unexpended balance will be transferred to the Stabilization Fund. Also included in the bill were General Fund appropriations in the amount of \$5.6 million for costs associated with the relocation of state agencies to the Leverett Saltonstall State Office Building, and \$16.6 million for a reserve for the payment of court judgments and settlements.

On November 26, 2003, the Governor signed into law supplemental appropriations totaling approximately \$81.1 million and vetoed approximately \$30.1 million in proposed spending. The legislation included \$34.1 million

for higher education collective bargaining contracts, \$6.0 million for school health programs, \$3.7 million for the Department of Social Services, \$3.6 million for the operations of the State Police Crime Laboratory, \$3.1 million for the Department of Mental Retardation's residential and day programs, and approximately \$30.6 million for other programs. Subsequently, \$26.2 million in vetoes were overridden by the Legislature, including \$10.0 million for operations of the University of Massachusetts, \$6.9 million for legislative information technology upgrades, \$5.9 million for Trial Court administrative costs, \$1.7 million for a reserve for the Help America Vote Act and an additional \$1.7 million of other overrides.

Also on November 26, 2003, the Governor signed into law "An Act Relative to Investments in Emerging Technologies to Promote Job Creation, Economic Stability and Competitiveness in the Massachusetts Economy." The legislation created the Economic Stimulus Trust Fund and directs the state comptroller to transfer to this fund \$33.6 million from the Health Care Security Trust Fund, \$33.6 million from the Stabilization Fund, and \$33.6 million from any monies received from the federal Jobs and Growth Reconciliation Act of 2003. The legislation also created several new tax incentives for Massachusetts businesses and establishes a one day sales tax holiday in August 2004. The Governor approved \$49.5 million in programs designed to promote economic growth, and \$20.8 million from the Workforce Training Fund for workforce training grants; however, the Governor vetoed \$50.5 million in proposed spending, which was subject to legislative override. Subsequently, \$44.0 million in vetoes were overridden by the Legislature, including \$12.5 million for the Emerging Technology Fund, \$10.0 million for the Massachusetts Research Center, \$7.5 million for the John Adams Institute, \$5.0 million for the Massachusetts Technology Development Corporation, \$4.5 million for workforce training grants, \$2.0 million for the Massachusetts Tourism Fund, \$1.3 million for the Massachusetts Math, Science, Tech, and Engineering Fund and \$1.0 million for the Massachusetts Technology Transfer Center.

On November 29, 2003, "An Act Relative to the Reform of the Unemployment Insurance System" became law. The legislation requires that any time that the solvency of the Unemployment Compensation Fund is in jeopardy and the continuation of benefit payments or federal loan repayments is in danger, a new uniform secondary adjustment payment, which is provided for in the legislation, shall be added to every employer's contribution rate. The new law, effective January 1, 2004, will eliminate over time the Unemployment Compensation Fund deficit projected in the September Information Statement. However, in order to cover this deficit, between January and April 2004 the Commonwealth incurred a total net liability of \$360.2 million from the federal government. No borrowings were necessary in May as originally anticipated and complete repayment of these borrowings occurred on May 13, 2004. The Commonwealth incurred no interest on these borrowings and does not anticipate any additional borrowings through September 30, 2004.

On February 18, 2004, the Governor filed a bill recommending \$133.1 million in supplemental appropriations. The bill included \$46.6 million for snow and ice removal costs, \$21.5 million for the underground storage tank reimbursement program, \$16.0 million for private counsel compensation and other indigent-related court costs, \$10.9 million for the workforce training fund grant program, and a total of \$26.0 million for other ongoing obligations. The bill also included \$7.9 million for costs that will be offset by corresponding revenues and \$4.7 million for new programs.

On March 5, 2004, the Governor signed into law an appropriations bill authorizing \$52.2 million in supplemental appropriations, all but \$3.1 million of which had been included in the supplemental appropriations bill filed by the Governor on February 18, 2004. The \$52.2 million appropriations act included \$35.0 million for snow and ice removal costs, a total of \$8.2 million for the Department of Transitional Assistance for public assistance payments, \$5.7 million for public safety costs associated with homeland security and \$3.2 million for the Department of Veteran's Services for veteran's benefits disbursements to cities and towns.

On April 5, 2004, the Governor signed into law \$64.1 million in supplemental appropriations, all but \$232,000 of which had been included in the supplemental appropriations bill filed by the Governor on February 18, 2004. Included in this appropriations act was \$21.0 million for the Department of Revenue to fund the underground storage tank reimbursement program, \$16.0 million for private counsel compensation and other indigent-related court costs, \$10.9 million for the workforce training fund grant program, \$7.0 for unemployment compensation and medical security payments, and a total of \$9.2 million for various other programs.

On June 3, 2004, the Governor filed a bill recommending \$457.2 million in supplemental appropriations. The bill included \$103.2 million in funding to address current year deficiencies and to make funds in several accounts available for expenditure in fiscal 2005. The appropriations bill recommended the creation of a One-Time Capital Improvement Trust Fund and transferred \$254.3 million from the General Fund into the fund for a variety of one-time capital project expenditures including road and bridge improvements, park renovations and information technology upgrades. The bill also recommended that \$100.0 million be reserved for fiscal 2005 as a one-time expenditure to be distributed to cities and towns through the existing lottery distribution formula in addition to any amount appropriated in the fiscal 2005 GAA.

#### *Springfield Recovery Legislation*

On July 9, 2004, the Governor signed into law “An Act relative to the Financial Stability in the City of Springfield.” The legislation passed by the Legislature provided \$52 million for interest free loans to the City of Springfield. The amount of the loans was reduced by the Governor by \$30.0 million to \$22.0 million, but this reduction was subsequently reinstated by the Legislature. The legislation establishes the Springfield Recovery Trust Fund and transfers \$52.0 million to the fund to provide loans to the City of Springfield. The interest free loans to address the budgetary imbalance of the City are contingent on terms and conditions set forth in the legislation and subject to approval of the Secretary of Administration and Finance.

#### **Fiscal 2004 Non-Tax Revenues**

On April 8, 2004, the Secretary of State’s securities division agreed to a settlement in which Putnam Investment Management, LLC admitted to allowing some managers and certain fund participants to engage in market timing in certain Putnam mutual funds and agreed to pay damages and fines. The settlement resulted in \$40.0 million in revenue to the General Fund in fiscal 2004. The funds were received on April 30, 2004 and deposited into the General Fund.

#### **Fiscal 2004 Tax Revenues**

Tax revenue collections for fiscal 2004, ended June 30, 2004, totaled \$15.954 billion, an increase of \$989.6 million or 6.6% over fiscal 2003. The following table shows the tax collections for each month of fiscal 2004 and the change from tax collections in the same month in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in each month that are dedicated to the MBTA.

<b>Fiscal 2004 Budgeted Tax Collections (in millions)<sup>(1)</sup></b>					
Month	Tax Collections	Change From Prior Year	Percentage Change	MBTA Portion <sup>(3)</sup>	Collections, Net of MBTA
July	\$1,067.0	\$54.3	5.4%	\$58.1	\$1,008.9
August	1,089.7	25.8	2.4	53.4	1,036.3
September	1,642.0	83.8	5.4	59.6	1,582.4
October	1,075.6	142.3	15.2	56.9	1,018.6
November	1,045.5	30.6	3.0	48.7	996.8
December	1,454.0	59.6	4.3	65.4	1,388.6
January	1,507.2	20.9	1.4	58.0	1,449.1
February	902.5	62.0	7.4	46.2	856.4
March	1,370.1	(21.6)	(1.6)	66.9	1,303.2
April	1,820.9	412.5	29.3	53.2	1,767.7
May	1,205.7	(82.2)	(6.4)	54.6	1,151.1
June <sup>(2)</sup>	1,773.4	201.7	12.8	63.3	1,710.1
<b>Total</b>	<b>\$15,953.6</b>	<b>\$989.6</b>	<b>6.6%</b>	<b>\$684.3</b>	<b>\$15,269.3</b>

SOURCE: Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Figures are preliminary.
- (3) Includes adjustments of \$6.7 million on the account of the first quarter, \$11.9 million on the account of the second quarter, \$18.2 million on the account of the third quarter, and approximately \$5.2 million on the account of the fourth quarter.

The fiscal 2004 tax revenue increase of \$989.6 million over fiscal 2003 is attributable in large part to an increase of approximately \$262.6 million or 28.9% in income tax payments with returns and bills, an increase of approximately \$276.7 million or 3.9% in personal income tax withholdings, an increase of approximately \$182.7 million or 15.2% in income tax cash estimated payments, and an increase of approximately \$145.9 million or 9.5% in corporate and business tax collections, which appears to reflect the closing of certain tax loopholes as well as increased business taxable earnings.

On April 6, 2004, the Supreme Judicial Court held that the effective date in the act amending the capital gains tax statute violates amendment article 44 of the Massachusetts Constitution. Since the Act has a severability clause, the court remanded the case to the Supreme Judicial Court for Suffolk County for further proceedings to determine whether the statute should be construed to impose the new tax rate beginning on calendar year January 1, 2003, or whether the statute instead should be construed to impose the new tax rate beginning on January 1, 2002. The Department of Revenue estimates that if the statute is construed to impose the new tax rate beginning on January 1, 2002, the Commonwealth would collect an additional \$130 million to \$160 million in capital gains taxes. If the statute is construed to impose the new tax rate beginning on January 1, 2003, the Commonwealth would be required to pay an additional \$225 million to \$275 million in refunds. In both cases, most of the revenue impact would occur in fiscal year 2005. Included in the fiscal 2005 General Appropriation Act (GAA), and signed by the Governor on June 25, 2004, were two budget riders intended to address the Court's ruling. Together, the measures amended the effective date of the act amending the capital gains tax statute to January 1, 2002, and provided amnesty to all taxpayers who would have incurred an additional tax liability owed to the Commonwealth because of the new effective date. See "LEGAL MATTERS – Update of Existing Litigation" herein.

Fiscal 2004 tax revenue exceeded the fiscal 2004 estimate set on January 14, 2004 by approximately \$723.6 million. The Executive Office for Administration and Finance estimates that the Commonwealth will close fiscal 2004 with a consolidated net surplus, as defined by Chapter 29, Section 5C of the General Laws, which will be deposited into the Stabilization Fund. The size of this surplus will depend greatly on the amount of unexpended fiscal 2004 appropriations, now estimated at \$250.0 million, and any future supplemental appropriations enacted by the Legislature.

### **Limitations on Tax Revenues**

In fiscal 2004, cumulative net state tax revenues used to calculate the Commonwealth's state tax revenue growth limit, as established in Chapter 62F of the General Laws, were \$16.057 billion, exceeding the permissible state tax revenue limit of \$15.692 billion by an estimated \$365.1 million. The excess amount will be transferred to the Commonwealth's Temporary Holding Fund and remain in the fund until the close of fiscal 2004, at which time the state comptroller will transfer \$133.4 million to the Stabilization Fund to reimburse the fund for all appropriations out of the fund during fiscal 2004, and transfer the balance to the General Fund to be included in the calculation of the year-end consolidated net surplus as defined in Chapter 29, Section 5C of the General Laws, of which 100% is transferred to the Stabilization Fund.

See the September Information Statement under the heading "COMMONWEALTH REVENUES – Tax Revenue Forecasting; Fiscal 2004" and "– Limitations on Tax Revenues."

### **Fiscal 2005**

On January 14, 2004 the Executive Office for Administration and Finance and the Chairpersons of the House and Senate Committees on Ways and Means jointly announced a consensus fiscal 2005 Commonwealth tax estimate of \$15.801 billion, of which \$684.3 million was dedicated to the MBTA and \$1.217 billion was dedicated to the Commonwealth's annual pension obligation. The estimate was based upon a revised consensus tax estimate for fiscal 2004 of \$15.230 billion and assumed 3.75% baseline growth for fiscal 2005, which results in a \$15.801 billion tax estimate. Consensus was also reached on a new triennial pension schedule. The new schedule continued to fully amortize the Commonwealth's unfunded pension liability by 2023 and continued to use five-year actuarial

smoothing for the valuation of assets. The asset valuation date for the new schedule was December 31, 2003. On the liability side, the calculation included estimated actuarial losses during calendar year 2003 of \$250.0 million due to the 2003 early retirement incentive for state workers and another \$250.0 million for estimated actuarial losses on the teachers' system. Finally, the amortization growth rate was increased from 4.15% to 4.50%. Using these assumptions, the fiscal 2005 pension payment will be \$1.217 billion, a \$384.5 million increase over the value transferred to meet the Commonwealth's pension obligation in fiscal 2004.

On February 25, 2004, the Comptroller of the Commonwealth, in consultation with the Commissioner of Revenue, released the required certification of projected MBTA dedicated sales tax revenues for fiscal 2005 pursuant to General Laws Chapter 10, Section 35T. The certificate contained a projection of sales tax revenues dedicated to the MBTA in the amount of \$704.8 million, \$20.5 million greater than the amounts proposed in the consensus tax estimate released on January 14, 2004. This increase is directly attributable to a rise in inflation, not in tax revenues for calendar 2003.

On June 25, 2004, the Governor signed into law the fiscal 2005 GAA, and also vetoed \$108.5 million in spending, which reduced the value of the appropriations signed into law to \$22.402 billion. The Legislature has subsequently overridden \$95.5 million of the Governor's vetoes, bringing the total value of the GAA to \$22.498 billion. The GAA, including overrides, budgeted \$6.494 for Medicaid, \$3.611 billion for education excluding school building assistance, \$1.741 billion for debt service and \$10.652 billion for all other programs and services. In addition to the spending appropriated in the GAA, the Commonwealth has significant "off-budget" expenditures in the amounts of \$1.234 billion for fiscal 2005 pension obligations and \$395.7 million for the Commonwealth's school building assistance program. Fiscal 2005 spending, adjusted to include these "off-budget" expenditures in addition to the amount appropriated in the GAA, increases by 7.4 percent over fiscal 2004 estimated spending.

The fiscal 2005 GAA is based upon a gross tax estimate of \$15.968 billion, comprised of the consensus fiscal 2005 Commonwealth tax estimate of \$15.801 billion, plus an additional \$89.0 million generated from the closing of various tax loopholes, \$65.5 million from enhanced tax audits, and \$12.7 million from the taxation of lottery prize assignment. The gross tax figure includes \$1.217 billion dedicated to the Commonwealth fiscal 2005 pension obligation and \$704.8 million in sales tax revenues dedicated to the MBTA. In order to comply with the Commonwealth's statutory balanced budget requirement, the GAA also appropriates \$340.0 million from the Stabilization Fund and \$270.0 million from the FMAP Escrow Fund. The legislation contains a provision to reduce the amount appropriated from the Stabilization Fund should tax revenues, by the third quarter of the fiscal year, exceed benchmarks set by the January 14, 2004 consensus tax estimate.

On August 10, 2004, the Governor signed into law legislation closing various so-called tax "loopholes" that was filed by the Governor on January 28, 2004. Although the fiscal 2005 GAA assumes \$89.0 million in additional tax revenue would be generated from the closing of the "loopholes" contained in this legislation, further analysis of the proposed legislation by the Department of Revenue estimates that \$79.0 million in additional tax revenue will be generated in fiscal 2005 by the law.

#### *Restructuring of the Executive Office of Transportation and Certain Related Transportation Authorities*

On July 21, 2004, the Governor signed an act restructuring the transportation system of the Commonwealth. The transportation system reforms accomplish the following:

- Rename the Executive Office of Transportation and Construction to become the Executive Office of Transportation;
- Establish Executive Office of Transportation as the principal transportation policy and planning agency for the Commonwealth;
- Place the Massachusetts Highway Department, the Registry of Motor Vehicles, the Massachusetts Aeronautics Commission, the Massachusetts Bay Transportation Authority, the Massachusetts Port Authority, the Massachusetts Turnpike Authority and all Regional Transportation Authorities within the Executive Office of Transportation;
- Name the Secretary of Transportation as the chairperson of the Massachusetts Aeronautics Commission and expand the commission's board to seven members;

- Name the Secretary of Transportation as the chairperson of the Massachusetts Turnpike Authority effective on July 1, 2007;
- Name the Secretary of Transportation as a member of the Massachusetts Port Authority board, effective on July 1, 2007;
- Establish a regional transit authority council for the purposes of coordination and sharing information and best practices among 14 regional transit authorities and the Massachusetts Bay Transportation Authority;
- Direct the Executive Office of Transportation, the Massachusetts Turnpike Authority and the Massachusetts Highway Department to identify costs savings and improved performance and services by eliminating or consolidating duplicative functions, sharing or coordinating resources, equipment, facilities, expertise, personnel and procurement; and
- Establish a 13-member special transportation finance commission to develop a comprehensive, multi-modal, long-range, transportation finance plan for the Commonwealth.

### *School Building Assistance Program*

In July 2004, the Governor signed three separate pieces of legislation that reform and finance the Commonwealth's school building assistance program. Prior to the reform legislation, the Commonwealth was reimbursing 50 to 90 percent of the construction and borrowing costs on 748 school projects to cities, towns and regional school districts across the state. In addition to the 748 school projects currently receiving reimbursement, the Department of Education had approved an additional 425 school projects for funding; however, these school projects have not received any reimbursement from the Commonwealth. The Commonwealth estimates its share of the costs associated with these 425 school projects to be in excess of \$4.1 billion.

The school building assistance program legislation accomplishes the following:

- Establishes the Massachusetts School Building Authority ("MSBA"), an independent state authority, to administer and manage the school building assistance program;
- Creates a seven-member board to govern the MSBA;
- Names the State Treasurer as chair of the board and as appointing authority for the executive director position;
- Transfers the liabilities associated with the school building assistance program from the Commonwealth to the MSBA;
- Dedicates 1 cent of the Commonwealth's sales tax ("Dedicated Sales Tax") beginning fiscal 2011, excluding certain meals and special financing district sales taxes, to fund the MSBA and to pay for its transferred and future liabilities;
- Appropriates \$395.7 million in fiscal 2005, 70 percent of the Dedicated Sales Tax or at least \$488.7 million in fiscal 2006, 78 percent of the Dedicated Sales Tax or at least \$557.4 million in fiscal 2007, 85 percent of the Dedicated Sales Tax or at least \$634.7 million in fiscal 2008, 90 percent of the Dedicated Sales Tax or at least \$702.3 million in fiscal 2009 and 95 percent of the Dedicated Sales Tax in fiscal 2010 to the MSBA;
- Authorizes the issuance of \$1.0 billion of general obligation bonds to fund, in part, the liabilities of the MSBA;
- Transfers \$150.0 million from the fiscal 2004 surplus to fund, in part, the liabilities of the MSBA;
- Switches borrowing responsibility from local governments to the MSBA for the state's share of future school project costs;
- Authorizes up to \$10.0 billion of bonds to be issued by the MSBA;
- Extends the moratorium on the acceptance of new school projects until July 1, 2007;
- Honors existing reimbursement rates for all currently approved school projects;
- Provides reimbursement to the 425 approved school projects by fiscal 2008;
- Reduces the school building assistance program reimbursement rates beginning on July 1, 2005 by approximately 10 percentage points for all new school projects; and
- Limits the authority's grant making to \$500 million in fiscal 2008 and increases such amount by 4.5% in each subsequent fiscal year.

### *Transportation Bond Bill*

On August 10, 2004, the Governor signed into law a transportation bond authorization bill totaling \$2.501 billion. The bill would authorize \$425.0 million to leverage federal funds for the statewide road and bridge program, \$589.1 million for non-federally assisted transportation projects, \$450.0 million for Chapter 90 local road assistance, \$849.8 million to leverage federal funds for various MBTA mass transit projects, \$30.0 million for assistance in promoting transit oriented development, \$50.9 million in capital assistance to Regional Transit Authorities, \$56.6 million for rail improvement projects, \$28.6 million for Public Works and Economic Development and State Road Assistance Programs, \$10.5 million for technology projects and durable equipment, \$8.0 million for Mobility Assistance Program, and \$3.0 million for safety and security equipment.

### *Courts and Housing Bond Bill*

On August 10, 2004, the Governor signed into law a courts and housing bond authorization bill totaling \$520.0 million. The bill would authorize \$220.0 million in trial court planning and construction, \$25.0 million to assist homeowners with blindness or severe physical disabilities in making modifications to their primary residence, \$100.0 million for the development of community-based housing for the mentally ill and mentally retarded, \$25.0 million for the development and redevelopment of community-based housing for persons with disabilities who are institutionalized or at risk of being institutionalized, \$50.0 million for the state's Home Innovation Fund Program, and \$100.0 million for the purpose of financing construction and preservation of affordable housing.

### **Fiscal 2005 Tax Revenues**

Tax revenue collections for the first month of fiscal 2005, ended July 31, 2004, totaled \$1.127 billion, an increase of \$60.3 million or 5.7% over the first month of fiscal 2004. The following table shows the tax collections for the first month of fiscal 2005 and the change from tax collections in the same month in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in each month that are dedicated to the MBTA.

**Fiscal 2005 Budgeted Tax Collections (in millions)<sup>(1)</sup>**

Month	Tax Collections	Change From Prior Year	Percentage Change	MBTA Portion	Collections, Net of MBTA (3)
July <sup>(2)</sup>	<u>\$1,127.3</u>	<u>\$60.3</u>	<u>5.7%</u>	<u>\$58.9</u>	<u>\$1,068.4</u>
Total <sup>(2)</sup>	\$1,127.3	\$60.3	5.7%	\$58.9	\$1,068.4

SOURCE: Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Figures are preliminary.
- (3) Net of sales tax revenues dedicated to the MBTA.

The year-to-date tax revenue increase of \$60.3 million over fiscal 2004 is attributable in large part to an increase of approximately \$2.9 million or 20.9% in income tax payments with returns and bills, an increase of approximately \$26.2 million or 4.7% in personal income tax withholdings, an increase of approximately \$20.5 million or 117% in income tax cash estimated payments, and a decrease of approximately \$5.7 million or 20.7% in corporate and business tax collections.

### **Cash Flow**

On May 27, 2004 the State Treasurer and the Secretary of Administration and Finance released the most recent cash flow projection for fiscal 2004. The cash flow projection for fiscal 2004 was based on the GAA, including the value of all vetoes and subsequent overrides, and supplemental appropriations made or filed prior to May 10, 2004. It reflected authorized transfers between budgeted funds and certain reserve funds as provided for in the GAA and in subsequent legislation. The cash flow projection incorporated the revised consensus tax estimate for fiscal 2004 of \$15.230 billion, including the value of enacted tax code changes and sales tax revenues dedicated



to the MBTA and tax revenues transferred off-budget to meet Commonwealth pension obligations, plus an upward adjustment of \$517.0 million to reflect the year-to-date excess of actual tax receipts, as of April 30, 2004, over benchmarks set in January.

The cash flow projection had a July 1, 2003 starting balance of \$2.065 billion and projected a June 30, 2004 ending balance of \$2.879 billion. These figures did not include balances in the Commonwealth's Stabilization Fund or certain other off-budget reserve funds, but did include monies sequestered to pay for capital projects totaling \$940.8 million and \$746.3 million, respectively. Excluding these sequestered capital funds, the Commonwealth's operating cash balance opened the year at \$1.124 billion, and was projected to end the year at \$2.133 billion, an increase of approximately \$1.009 billion. The actual ending balance on June 30, 2004 was \$2.977 billion, including \$864.0 million of monies sequestered for capital projects. Excluding the sequestered funds, the Commonwealth's operating cash balance ended the year at \$2.113 billion, an increase of approximately \$989.0 million.

The cash flow projection incorporates the periodic use of commercial paper borrowing to meet cash flow needs. In particular, the Commonwealth makes local aid payments of approximately \$1 billion to its cities and towns at the end of each calendar quarter, which often results in short-term cash flow borrowings. In September 2003 the Commonwealth issued \$150 million of revenue anticipation notes under its commercial paper program, which were repaid in November 2003. In December 2003 the Commonwealth issued \$450 million of revenue anticipation notes under its commercial paper program, which were repaid in January and February 2004.

The \$550 million in bond anticipation notes related to the Boston Convention and Exhibition Center issued in September 2003 were refinanced through the issuance in January 2004 of \$575 million of bond anticipation notes due April 20, 2004 and were then refinanced by \$575 million of bond anticipation notes issued under the Commonwealth's commercial paper program. The \$575 million of bond anticipation notes were paid from the proceeds of the \$694 million of special obligation bonds referred to in the following paragraph, which were sold in June 2004.

The cash flow projection included an estimated \$2.283 billion in long-term borrowing for capital projects, including \$694 million of special obligation bonds that were issued to finance the Boston, Springfield and Worcester convention center projects. The remaining \$1.589 billion in general obligation borrowing includes the funding of capital expenditures from the prior fiscal year, and \$1.373 billion related to the Commonwealth's current year capital spending plan. Some \$1.945 billion of general capital expenditures have been financed through the issuance of bonds during fiscal 2004, including \$694 million of special obligation bonds that were used to finance convention center projects. Additional bond issuance of approximately \$300 million was expected in June 2004 under the Cash Flow projection; but did not occur and the next bond issuance is currently expected in the amount of approximately \$300 million for August 2004.

The cash flow projection released on May 27, 2004 also included a projection for fiscal 2005. The projection was based on the Governor's January 28, 2004 budget proposal for fiscal 2005 and was provided only as a preliminary starting point for analysis of the Commonwealth's fiscal 2005 cash needs. The projection shows a July 1, 2004 starting balance of \$2.879 billion and a June 30, 2005 ending balance of \$1.712 billion, a decrease of approximately \$1.167 billion. Approximately \$458 million of this decrease reflects the application of bond proceeds to finance capital projects. Excluding segregated capital funds, the fiscal 2005 beginning balance is projected to be \$2.133 billion and the fiscal 2005 ending balance is projected to be \$1.424 billion. This decrease of approximately \$709 million is primarily due to the transfer in October 2004 of approximately \$280 million to the Stabilization Fund which is segregated and not included in pooled cash, approximately \$200 million in Medicaid payments that normally would occur in June 2004 being delayed until July 2004, approximately \$139 million in FMAP Reserves being expended in fiscal 2005, and using a lottery revenue figure that is \$50 million less than assumed in the Governor's budget proposal. The current cash flow projection for fiscal 2005 also projects cash flow borrowings under the Commonwealth's commercial paper program of \$500 million in December 2004, consistent with the pattern of borrowing that began in fiscal 2002 to meet local aid payments.

The Commonwealth's next cash flow projection for fiscal 2005 is expected to be released on or before September 1, 2004, and will incorporate spending and revenue projections based upon the fiscal 2005 GAA.

See the September Information Statement under the heading “DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS – Cash Flow”.

### **UMass Dartmouth Lease Revenue Bonds**

In September 2000 the Massachusetts Development Finance Agency issued Lease Revenue Bonds (University of Massachusetts at Dartmouth, College of Visual and Performing Arts Project), 2000 Issue (the “UMass Dartmouth Lease Revenue Bonds”) in the principal amount of \$21,500,000 to finance the acquisition and rehabilitation of a facility to house the College of Visual and Performing Arts for the University of Massachusetts at Dartmouth (“UMass Dartmouth”). The facility was leased by a private limited partnership to the Commonwealth on behalf of UMass Dartmouth. The obligations of the Commonwealth under the lease, which were subject to annual appropriation, were pledged to secure the Lease Revenue Bonds. During the initial months of fiscal 2004, commencing July 1, 2003, monthly lease payments were not paid. Interest and scheduled principal in respect of the UMass Dartmouth Lease Revenue Bonds payable on August 1, 2003 were paid in full from previously available funds. The Governor’s fiscal 2005 budget recommendation released on January 28, 2004 designates a separate appropriation to meet this obligation.

On September 26, 2003, Moody’s Investors Service placed the Lease Revenue Bonds on “Watchlist for possible downgrade” citing its belief that the Commonwealth had failed to appropriate lease payments for the facility financed by the UMass Dartmouth Lease Revenue Bonds. At the same time, Moody’s also placed on “Watchlist for possible downgrade” the \$416.3 million outstanding principal amount of lease revenue bonds of the Route 3 North Transportation Improvements Association. The latter are also secured by a lease, subject to annual appropriation, of the Commonwealth. While the fiscal 2004 GAA did contain an express appropriation for the Route 3 North lease, and all amounts due and payable thereunder have been paid by the Commonwealth, Moody’s justified the Watchlist classification of the Route 3 North lease revenue bonds by “the exposed weakness in the budget process” of the Commonwealth arising from the supposed failure to appropriate for the lease of the UMass Dartmouth facility.

The Executive Office for Administration and Finance and the Office of the State Treasurer have concluded that the fiscal 2004 GAA authorized payment of the UMass Dartmouth lease and that, while the Legislature did not provide a specific line item appropriation for the lease payments, it did so only because it intended that the lease payments be made from a general appropriation of approximately \$327.8 million for the University of Massachusetts.

The monthly lease payments were brought current on October 28, 2003 and remain current. On November 24, 2003 Moody’s downgraded the Lease Revenue Bonds from “A1” to “A2”. At the same time, Moody’s confirmed the “Aa3” rating for the Route 3 North lease revenue bonds. Both issues were removed from “Watchlist for possible downgrade”. On November 26, 2003 the Governor signed a supplemental budget for fiscal 2004, which included an appropriation of \$2.7 million for the facilities costs, including lease payments, associated with the College of Visual and Performing Arts at UMass Dartmouth. The fiscal 2005 GAA signed into law on June 25, 2004, included \$2.6 million in a specific line item appropriation to fully fund this obligation.

### **Interest Rate Swap Agreement Dispute**

The Commonwealth is party to an interest rate swap agreement relating to the Commonwealth’s General Obligation Refunding Bonds, 2001 Series B and 2001 Series C, pursuant to which the Commonwealth makes payments at a fixed rate of 4.15% per annum and receives payments from its swap counterparty at a floating rate based on the actual rate on its bonds, which are variable rate obligation bonds. The notional amount of the swap currently is \$496,225,000 and the scheduled termination date is January 1, 2021. Swap payments are made monthly, with the Commonwealth netting its fixed rate obligation against the floating rate amount due from the swap counterparty. The swap documentation provide that the method for determining the floating rate obligation of the counterparty may change upon an “Event of Taxability” as defined therein. The swap counterparty has asserted that an Event of Taxability has occurred and that, as a result, commencing May 3, 2004, the Commonwealth’s monthly net payments to the counterparty must be increased. The Commonwealth disagrees with this assertion and, on April 23, 2004, filed a complaint in Suffolk County Superior Court seeking a declaratory judgment and related preliminary injunction relief. The swap payment made by the Commonwealth on May 3, 2004 was calculated based

on the pre-existing method. Had it been calculated as asserted by the swap counterparty, under market conditions on that day the payment would have been approximately \$155,000 greater. The termination value of the swap as of May 3, 2004 is believed to have been approximately \$35.0 million in favor of the swap counterparty. The Commonwealth has continued to make net swap payments based on its actual variable rate bond payments pending legal developments.

### **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 1999 through 2003 and the Executive Office for Administration and Finance's estimates for fiscal 2004, but have been adjusted to reflect the impact of the MBTA forward funding legislation. See September Information Statement under the heading "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS - Massachusetts Bay Transportation Authority Financial Restructuring." 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. See the September Information Statement under the heading "FINANCIAL RESULTS." The Commonwealth's audited statutory basis financial statements for the year ended June 30, 2003 were released on October 24, 2003.

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

	<u>Fiscal 2000</u>	<u>Fiscal 2001</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>	<u>Estimated Fiscal 2004</u>	<u>Projected Fiscal 2005</u>
<b><u>Beginning Fund Balances</u></b>						
Reserved or Designated	\$ 330.2	\$ 278.5	\$ 895.3	\$195.2	\$76.8	\$519.8
Tax Reduction Fund	6.8	7.2	33.6	-	-	-
Stabilization Fund	1,388.5	1,608.4	1,715.0	881.8	641.3	872.0
Undesignated	<u>386.9</u>	<u>391.3</u>	<u>369.5</u>	<u>311.0</u>	<u>34.3(7)</u>	<u>86.8</u>
Total	<u>2,112.4</u>	<u>2,286.4</u>	<u>3,013.3</u>	<u>1,388.0</u>	<u>752.4</u>	<u>1,478.6</u>
<b><u>Revenues and Other Sources</u></b>						
Taxes(2)	15,688.6	16,074.7	13,622.7	14,279.6(5)	15,269.3	15,227.4(13)
Federal Reimbursements	3,645.6	3,974.2	4,334.9	4,523.6	5,039.1	4,954.6
Departmental and Other Revenues	1,359.9	1,425.9	1,485.2	1,494.8	1,915.9	1,956.6
Inter-fund Transfers from Non-budgeted Funds and Other Sources(3)	<u>1,893.0</u>	<u>1,385.9</u>	<u>1,732.0</u>	<u>1,689.2</u>	<u>972.1</u>	<u>1,382.4</u>
Budgeted Revenues and Other Sources	<u>22,587.0</u>	<u>22,860.6</u>	<u>21,174.9</u>	<u>21,987.2</u>	<u>23,196.4</u>	<u>23,521.0</u>
Inter-fund Transfers	<u>3,634.0</u>	<u>931.0</u>	<u>1,874.4</u>	<u>3,310.5(6)</u>	<u>950.4(8)</u>	<u>497.5</u>
Total Budgeted Revenues and Other Sources	<u>26,221.1</u>	<u>23,791.6</u>	<u>23,049.3</u>	<u>25,297.7</u>	<u>24,146.8</u>	<u>24,018.5</u>
<b><u>Expenditures and Uses</u></b>						
Programs and Services(4)	19,330.7	19,449.0	20,412.7	20,022.6	20,094.3	20,980.7
Debt Service	1,193.3	695.0	1,304.7	1,373.4	1,523.3	1,740.5
Pensions	986.3	1,040.1	795.8	813.5	15.2	-
Inter-fund Transfers to Non-budgeted Funds and Other Uses	<u>903.8</u>	<u>949.6</u>	<u>287.1</u>	<u>229.6</u>	<u>837.4(9)</u>	<u>1,612.6(14)</u>
Budgeted Expenditures and Other Uses	<u>22,414.1</u>	<u>22,133.7</u>	<u>22,800.3</u>	<u>22,439.1</u>	<u>22,470.2(10)</u>	<u>24,338.8</u>
Inter-fund Transfers	<u>3,634.0</u>	<u>931.0</u>	<u>1,874.4</u>	<u>3,310.5(6)</u>	<u>950.4(8)</u>	<u>497.5</u>
Total Budgeted Expenditures and Other Uses	<u>26,048.1</u>	<u>23,064.7</u>	<u>24,674.7</u>	<u>25,749.6</u>	<u>23,420.6</u>	<u>24,831.3</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>172.9</u>	<u>726.8</u>	<u>(1,625.4)</u>	<u>(451.9)</u>	<u>726.2</u>	<u>(812.8)</u>
<b><u>Ending Fund Balances</u></b>						
Reserved or Designated	278.5	895.3	195.2	76.8	519.8(11)	26.1
Tax Reduction Fund	7.2	33.6	--	--	--	--
Stabilization Fund	1,608.4	1,715.0	881.8	641.3	872.0(12)	624.3
Undesignated	<u>391.3</u>	<u>369.5</u>	<u>311.0</u>	<u>218.0</u>	<u>86.8</u>	<u>15.4</u>
Total	<u>\$ 2,285.4</u>	<u>\$ 3,013.3</u>	<u>\$ 1,388.0</u>	<u>\$ 936.1</u>	<u>\$ 1,478.6</u>	<u>\$ 665.8</u>

SOURCE: Fiscal 2000-2003, Office of the Comptroller; fiscal 2004 and fiscal 2005, Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Net of \$654.6 million in fiscal 2001, \$664.3 million in fiscal 2002, \$684.3 million in fiscal 2003, \$684.3 million in fiscal 2004, and an estimated \$704.8 million in fiscal 2005 of dedicated sales tax transferred to the MBTA and moved off budget beginning in fiscal 2001.
- (3) Non-budgeted funds transfers to the Budgeted Operating Funds, which include profit from State Lottery and Arts Lottery Funds and reimbursements for the budgeted costs of the State Lottery Commission, accounted for \$902.1 million, \$931.6 million, \$941.3 million and \$944.7 million in fiscal 2000 through fiscal 2003, respectively, and are estimated to account for \$975.0 million in fiscal 2004 and \$1.048 billion in fiscal 2005.
- (4) The Executive Office for Administration and Finance estimates that approximately \$213.2 million in Medicaid expenditures were moved off-budget pursuant to the fiscal 2003 GAA and an additional \$138.7 million were transferred off budget in fiscal 2004. Total off-budget Medicaid expenditures in fiscal 2004 are estimated at \$351.9 million and projected to be \$448.5 in fiscal 2005.
- (5) Includes \$174.0 million in one-time revenue from tax amnesty program and approximately \$200.0 million from closing various so-called tax loopholes.
- (6) Inter-fund transfers increased substantially in fiscal 2003 due to the elimination of a number of Budgeted Operating Funds pursuant to the fiscal 2004 GAA, effective June 30, 2003.
- (7) The variance between fiscal 2003 ending fund balances and fiscal 2004 beginning fund balances reflect the transfer of the Convention Center Fund, Head Injury Trust Fund and Natural Heritage and Endangered Species Fund off budget.
- (8) Inter-fund transfers decreased in fiscal 2004 and 2005 due to the elimination of a number of Budgeted Operating Funds pursuant to the fiscal 2004 GAA and the fiscal 2005 GAA.

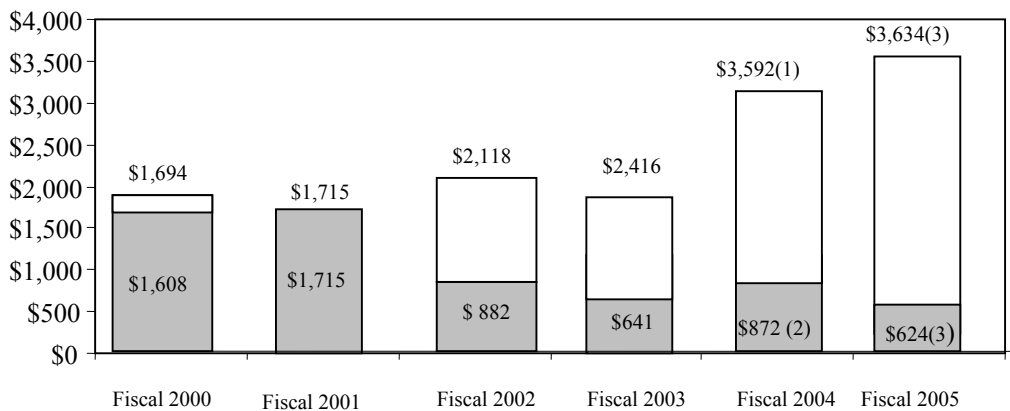
- (9) Reflects the transfer of \$687.4 million for the Commonwealth's fiscal 2004 pension fund obligation and the transfer of \$150 million to the School Modernization and Reconstruction Trust Fund for school building assistance.
- (10) Includes all outstanding supplemental budget appropriations filed by the Governor. The projection is based upon the assumption that \$250.0 million in fiscal 2004 appropriations will remain unspent. The estimate assumes the passage of legislation filed by the Governor allowing transferability between Medicaid appropriations. Failure to receive this legislation would reduce estimated spending by approximately \$237.5 million in fiscal 2004, with a corresponding revenue loss of approximately 50% of that amount in federal reimbursement, and would require fiscal 2005 Medicaid appropriations to satisfy a remaining fiscal 2004 Medicaid obligation of \$90.8 million.
- (11) Includes \$270.0 million in fiscal 2004 FMAP revenue reserved for expenditure in fiscal 2005, \$100.0 million reserved for distribution to cities and towns in fiscal 2005, \$123.7 million in fiscal 2004 appropriations authorized to be expended in fiscal 2005, and \$26.1 million reserved for debt service.
- (12) Estimated, based upon estimated fiscal 2004 spending and estimated tax revenue exceeding the permissible tax revenue growth limit by \$365.1 million. Of this excess amount, \$133.4 million will be transferred directly to the Stabilization Fund and the balance will be transferred to the General Fund to be included in the year-end consolidated net surplus, 100% of which is transferred to the Stabilization Fund.
- (13) Reflects the January 14, 2004 consensus tax estimate of \$15.801 billion plus \$79.0 million from the estimated value of closing various tax loopholes, \$65.5 million generated from additional tax audits, and \$11.8 million from the taxation of lottery prize assignment.
- (14) Reflects the transfer of \$1.217 billion for the Commonwealth's fiscal 2005 pension fund obligation, and \$395.7 million to the School Modernization and Reconstruction Trust Fund for school building assistance.

**Stabilization Fund and Disposition of Year-End Surpluses**

The following graph sets forth ending balances in the Stabilization Fund for fiscal 2000 through 2003 and the estimate for fiscal years 2004 and 2005.

The total of each column equals the maximum balance permitted under the statutory formula, and the gray area shows the amount of the actual balance.

**Stabilization Fund (in millions)**



SOURCES: Fiscal 1999-2003 Office of the Comptroller; fiscal 2004 and fiscal 2005, Executive Office for Administration and Finance.

- (1) The fiscal 2004 GAA changed the ceiling on the balance of the Stabilization Fund from 10% to 15% of total current year revenues.
- (2) Fiscal 2004 is estimated; subject to change.
- (3) Fiscal 2005 is projected; subject to change.

## COMMONWEALTH REVENUES

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

	<u>Fiscal 2000</u>	<u>Fiscal 2001(5)</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>	<u>Estimated Fiscal 2004(7)</u>	<u>Projected Fiscal 2005(7)</u>
<b>Tax Revenues:</b>						
Alcoholic Beverages	\$ 63.1	\$ 64.2	\$65.4	\$66.3	\$67.9	\$70.2
Banks	92.8	179.6	137.0	344.5	238.7	254.9
Cigarettes	279.9	270.5	275.0	451.0	425.4	415.6
Corporations	1,130.5	945.3	586.7	799.4	998.0	1,143.5
Deeds	115.9	129.6	134.3	147.8	186.5	150.0
Income	9,041.9	9,902.7	7,912.9	8,026.1	8,830.3	8,583.4
Inheritance and Estate	166.5	203.4	200.5	181.3	194.7	184.0
Insurance	334.6	356.6	382.9	387.8	420.2	431.0
Motor Fuel	652.6	659.9	666.8	676.4	684.9	702.1
Public Utilities	83.0	86.7	88.5	40.6	64.7	54.9
Racing	7.8	7.5	2.7	-	-	-
Room Occupancy	137.0	149.6	123.3	120.0	88.9	92.1
<b>Sales:</b>						
Regular	2,552.0	2,705.8	2,601.4	2,583.6	2,591.6	2,691.3
Meals	456.8	482.0	500.9	512.0	531.7	531.1
Motor Vehicles	<u>556.4</u>	<u>568.0</u>	<u>593.6</u>	<u>612.5</u>	<u>625.8</u>	<u>623.8</u>
Sub-Total-Sales	3,565.3	3,755.8	3,695.9	3,708.1	3,749.2	3,846.2
Miscellaneous	<u>17.5</u>	<u>17.9</u>	<u>15.1</u>	<u>14.3</u>	<u>4.0</u>	<u>4.3</u>
<b>Total Tax Revenues</b>	<u>15,688.6</u>	<u>16,729.2</u>	<u>14,287.1</u>	<u>14,963.8(6)</u>	<u>15,953.6</u>	<u>15,932.2(8)</u>
MBTA Transfer (2)	_____	(654.6)	(664.3)	(684.3)	(684.3)	(704.8)
<b>Total Budgeted Operating Tax Revenues</b>	<u>15,688.6</u>	<u>16,074.6</u>	<u>13,622.8</u>	<u>14,279.6</u>	<u>15,269.3</u>	<u>15,227.4</u>
<b>Non-Tax Revenues:</b>						
Federal Reimbursements (3)	3,645.6	3,974.2	4,334.9	4,523.6	5,039.1	4,954.6
Departmental and Other Revenues	1,359.9	1,425.9	1,485.2	1,494.8	1,915.9	1,956.6
Inter-fund Transfers from Non - Budgeted Funds and Other Sources (4)	<u>1,893.0</u>	<u>1,385.9</u>	<u>1,732.0</u>	<u>1,689.2</u>	<u>972.1</u>	<u>1,382.4</u>
<b>Budgeted Non-Tax Revenues and Other Sources</b>	<u>6,898.5</u>	<u>6,786.0</u>	<u>7,552.2</u>	<u>7,707.6</u>	<u>7,927.1</u>	<u>8,293.6</u>
<b>Budgeted Operating Revenues and Revenues from Other Sources</b>	<u>\$ 22,587.0</u>	<u>\$ 22,860.6(5)</u>	<u>\$21,174.9</u>	<u>\$21,987.2</u>	<u>\$23,196.4</u>	<u>\$23,521.0</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 inter-fund transfers among budgeted funds and other sources that have no effect on ending balances.
- (2) If the law that moved support of the MBTA to a non-budgeted expenditure and transferred a dedicated portion of the Commonwealth's sales tax to the MBTA had been in effect in fiscal 1999 and fiscal 2000, transfers of sales tax revenue to the MBTA would have been \$499.1 million and \$561.9 million, respectively. See the September Information Statement under the heading "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS – Massachusetts Bay Transportation Authority – Financial Restructuring."
- (3) Includes \$179.0 million, \$187.4 million, \$199.6 million and \$153.7 million in fiscal 2000 through 2003, respectively, and an estimated \$259.8 million in fiscal 2004, and \$299.0 million in fiscal 2005 resulting from claims for federal reimbursement of certain uncompensated care for Massachusetts hospitals.
- (4) Interfund transfers represent accounting transfers reallocating resources among funds. See the September Information Statement under the heading "COMMONWEALTH REVENUES—Federal and Other Non-Tax Revenues," including transfers between Stabilization Fund and budgeted operating funds. Non-budgeted funds transfers to the Budgeted Operating Funds, which include profits from the State Lottery and Arts Lottery Funds and reimbursements for the budgeted costs of the State Lottery Commission, accounted for \$902.1 million, \$931.6 million, \$941.3 million and \$944.7 million in fiscal 2000 through 2003, respectively, and are estimated to account for \$975.0 million in

fiscal 2004, and \$1.048 billion in fiscal 2005. This figure also includes annual tobacco settlement payments, which account for \$326.2 million in fiscal 2000, \$242.5 million in fiscal 2001, \$304.5 million in fiscal 2002, \$300.0 million in fiscal 2003 and an estimated \$250.8 million for fiscal 2004.

- (5) On July 1, 2000, the Mosquito and Greenhead Fly Control Fund was reclassified as a non-budgeted fund. Prior years have not been restated.
- (6) Includes approximately \$174.0 million in fiscal 2003 revenue resulting from a tax amnesty program. See the September Information Statement under the heading "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS – Fiscal 2003."
- (7) Beginning July 1, 2003, the Convention Center Fund, the Head Injury Treatment Services Fund and the Natural Heritage and Endangered Species Fund were reclassified as non-budgeted funds. Prior years have not been restated.
- (8) Reflects the January 14, 2004 consensus tax estimate of \$15.801 billion plus \$79.0 million from the estimated value of closing various tax loopholes, \$65.5 million generated from additional tax audits, and \$11.8 million from the taxation of lottery prize assignment.

## **COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN**

### **Capital Spending Plan**

The following table sets forth the current capital investment plan of the Executive Office for Administration and Finance. It contains current estimates for capital investment by the Commonwealth as well as the estimated sources of funding for such capital investments for fiscal 2004 through fiscal 2008.

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

<b>USES:</b>	<b>Fiscal</b>	<b>Fiscal</b>	<b>Fiscal</b>	<b>Fiscal</b>	<b>Estimated</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>	<b>Projected</b>
	<b><u>2000</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>Fiscal</u></b>	<b><u>Fiscal</u></b>	<b><u>Fiscal</u></b>	<b><u>Fiscal</u></b>	<b><u>Fiscal</u></b>
					<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>2006</u></b>	<b><u>2007</u></b>	<b><u>2008</u></b>
Information Technology	\$68	\$64	\$86	\$76	\$76	\$82	\$82	\$82	\$82
Infrastructure	197	179	235	274	250	293	293	293	293
Environment	142	140	156	134	119	131	131	131	131
Housing	80	79	106	112	122	123	123	123	123
Public Safety	15	23	8	37	21	24	24	24	24
Transportation									
CA/T Project	1,446	1,258	1,296	1,015	701	801	496	-	-
Non-CA/T Project	560	732	612	682	739	818	866	909	909
Economic Development									
Convention Centers	11	124	134	225	141	55	-	-	-
Other	87	102	99	86	64	53	53	53	53
Reserve	=	=	=	=	=	=	<u>17</u>	<u>31</u>	<u>31</u>
<b>Total Uses:</b>	<b><u>\$2,606</u></b>	<b><u>\$2,701</u></b>	<b><u>\$2,732</u></b>	<b><u>\$2,641</u></b>	<b><u>\$2,232</u></b>	<b><u>\$2,380</u></b>	<b><u>\$2,085</u></b>	<b><u>\$1,646</u></b>	<b><u>\$1,646</u></b>
<b>SOURCES:</b>									
Funds from General Obligation Debt	\$1,133	\$1,489	\$1,847	1,472	1,398	1,789	1,333	1,250	1,250
Funds from Special Obligation Debt	-	176	139	230	141	55	-	-	-
Funds from Grant Anticipation Notes	408	353	9	24	-	-	-	-	-
Operating Revenues(3)	96	141	195	354	76	38	112	-	-
Third-Party Payments	481	82	52	52	15	11	281	-	-
Federal Reimbursements	<u>487</u>	<u>460</u>	<u>490</u>	<u>509</u>	<u>602</u>	<u>487</u>	<u>359</u>	<u>396</u>	<u>396</u>
<b>Total Sources:</b>	<b><u>\$2,606</u></b>	<b><u>\$2,701</u></b>	<b><u>\$2,732</u></b>	<b><u>\$2,641</u></b>	<b><u>\$2,232</u></b>	<b><u>\$2,380</u></b>	<b><u>\$2,085</u></b>	<b><u>\$1,646</u></b>	<b><u>\$1,646</u></b>

SOURCE: Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) The Executive Office for Administration and Finance reviews capital expenditures on an annual basis and reserves the right to change out-year projections.
- (3) Operating revenues include Registry of Motor Vehicle fees transferred to the CA/T Project and the Statewide Road and Bridge Infrastructure Fund.



## Central Artery/Ted Williams Tunnel Project

As discussed in “RECENT DEVELOPMENTS – Fiscal 2005” above, on July 21, 2004, new legislation restructuring the Commonwealth’s transportation system was approved by the Governor. The new law redesignates the executive office of transportation and construction as the executive office of transportation and imposes new duties on, and provides new authority to, the secretary of transportation relating to the oversight of transportation policy, programs, and activities; it also affects the organization and operations of a number of state transportation agencies and authorities, including the Massachusetts Bay Transportation Authority, the Massachusetts Port Authority, and the Turnpike Authority. Among other provisions, the new law provides that the current chairman of the Turnpike Authority shall serve the remainder of his term, which expires July 1, 2007, after which time the state’s transportation secretary will chair the board of the Turnpike Authority but will not act as its chief executive officer, and it extends the terms of certain incumbent members to six years. Effective as of July 1, 2007, the new law also: reduces the terms of the Turnpike Authority board members from eight years to five years; provides that the board members shall serve without pay; eliminates the eligibility of the board members to participate in Turnpike Authority benefit plans; allows the employment by contract of not more than five years in duration of an executive director of the Turnpike Authority, whose salary may not exceed that of the commissioner of highways, as well as four other senior officers; and requires the Turnpike Authority annually to submit a schedule of all employee salaries and proposed increases to the state secretary of administration and finance and the state house and senate committees on ways and means. In addition, the law requires the Turnpike Authority to study a travel demand management plan and make recommendations for strategies to reduce traffic congestion, further participation in the electronic toll system, and reduce operating costs, and to work with the state department of highways to identify opportunities for cost savings.

*Progress/Schedule Update.* As of June 30, 2004, CA/T Project construction was 94.1% complete. As of that date, approximately \$13.795 billion was under contract or agreement, which constitutes 93.9% of total budgeted costs for the CA/T Project. That amount includes \$9.066 billion of construction commitments, which constitutes approximately 96.9% of the total construction budget of \$9.356 billion. The I-93 initial southbound public opening occurred on December 20, 2003. The date for the I-93 complete southbound opening continues to be projected for March 2005 to July 2005, and the date for the CA/T Project substantial completion continues to be projected for May 2005 to November 2005.

The independent auditor engaged by the Executive Office for Administration and Finance has filed its final report on CSU Rev. 10. The final report concluded that the total cost estimate of the CA/T Project in the amount of \$14.625 billion set forth in CSU Rev. 10 was aggressive but did not recommend that the estimate be increased. The 2003 finance plan for the CA/T Project was filed with the Federal Highway Administration on September 26, 2003, and accepted and approved by the Federal Highway Administration on June 19, 2004, and all obligated funds have been accessed. See the September Information Statement under the heading “COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN – Central Artery/Ted Williams Tunnel Project; Cost/Schedule Update”.

The October 2002 Finance Plan provided that \$87 million in revenues from the projected resale of the Kneeland Street properties would be available for CA/T Project costs. That amount was increased to \$94 million in CSU Rev 10. In a letter dated January 22, 2004, the General Counsel of the United States General Accounting Office (GAO) responded to the February 20, 2003, letter from the Inspector General of the United States Department of Transportation requesting a legal opinion from the GAO regarding the proper characterization of funds from the resale of the Kneeland Street properties. The GAO opined that the proportionate federal share of proceeds from the sale of those properties retains its character as federal funds under Title 23, Section 156 of the United States Code. The GAO further stated that such funds, if reinvested in the CA/T Project, do not count against the \$8.549 billion statutory cap on federal funding for the CA/T Project. The GAO’s interpretation is consistent with the CA/T Project’s planned use of those funds. See the September Information Statement under the heading “COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN – Central Artery/Ted Williams Tunnel Project; October 2002 Finance Plan”.

Cost/schedule update 11 (CSU Rev. 11) was completed and filed on July 1, 2004. On July 30, 2004, the October 2004 Finance Plan was filed with the Federal Highway Administration.

*Claims and Economic Risks.* The Claims and Changes Department of the CA/T Project is responsible for administering the commercial aspects of the CA/T Project's construction contracts. In the Fall of 2002, the Turnpike Authority Chairman directed the Claims and Changes Department to establish a "close-out" plan to resolve the pending backlog of contractor claims on the CA/T Project (at that time there were nearly 5,000 outstanding change order issues and claims with an average age of over 300 days).

In February 2003, the National Academy of Engineering and the National Research Council (NRC) issued a report to the Turnpike Authority that identified as a major priority the resolution of outstanding contractor claims and changes and recommended a target resolution date of July 2004. The Turnpike Authority Chairman later approved, as part of the annual budget revision process, an Expedited Claim Resolution Plan prepared by the CA/T Claims Department with the objective of meeting the NRC's recommended target date. The claim resolution plan focused budget resources and established aggressive timetables for settlement of thousands of open issues on eighteen large construction contracts that were substantially complete pending close-out or that represented the major ongoing CA/T Project contracts. Together, these contracts represented over 80% of outstanding CA/T Project open claim and change matters. In general, the claim resolution plan provided for (1) targeting complete or nearly complete contracts that have a large number and magnitude of claims; (2) establishing a dedicated negotiation team comprised of a Team Leader with technical support from other CA/T personnel (estimators, schedulers, auditors, etc.); and (3) entering into structured negotiation agreements with contractors that provide for, among other things, scheduled claim submissions, negotiations, and, if necessary, mediation. Consistent with the NRC recommendation, a significant budget commitment was made to enhance the in-house staff and consultant resources necessary to support the claim resolution program. In addition, the Turnpike Authority retained nationally-recognized claims and audit experts to assist the CA/T Project staff in analyzing, negotiating, and documenting prompt and equitable resolutions of all open matters with CA/T Project construction contractors.

As of July 31, 2004, settlements in principle have been reached with contractors on seven of these priority contracts. These seven, which now await final implementing contract modifications, were settled within the parameters of the CA/T Project's budget cost estimates. In addition, significant progress has been made in the past few months during structured mediated negotiations on five other large CA/T contracts, including three representing the most complex contract disputes on the CA/T Project. Settlement in at least two of these cases is imminent and will fully address several hundred open CA/T Project issues. Based on the settlement progress to date and the expectations related to late Summer 2004 mediated global negotiations, the 2003 claim resolution plan has been revised as part of the CSU Rev. 11 budget cycle. The revisions recognize the ongoing mediation schedule and revised target dates through the end of 2004 and, in part, reallocate significant department budget resources to focus on the remaining unsettled priority contracts. CA/T Project claims personnel and related technical and consultant support budgets, as well as construction contract and special contingencies associated with anticipated claim settlement costs, have all been fully recognized in the October 2004 Finance Plan.

The outstanding claim from Honeywell Technology Solutions, Inc. is currently being handled by the Claims and Changes Department with assistance from other departments of the CA/T Project. Due to the advanced state of construction on the CA/T Project and previous completion of certain CA/T Project milestones, management of the CA/T Project believes that risks associated with nonperformance of accelerated work by Honeywell on its contract have been substantially mitigated.

The weak economy and resolution of contractor claims, including global settlements, at amounts lower, and/or received later, than anticipated by contractors, among other factors, create cash flow and credit issues for affected CA/T Project contractors. Such financial difficulties could affect the ability of a contractor to complete CA/T Project contract work. If an affected contractor with significant critical path contract work toward an overall project completion milestone were to become insolvent, or otherwise fail to complete its contract work, it is possible that there would be a substantial or material impact on CA/T Project schedule and cost, although the likelihood and potential severity of such impact diminish as the CA/T Project progresses towards completion.

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

financial status will prevent its contractual obligations from being met or the CA/T Project from being completed in accordance with the current schedule.

*Toll Discount Program.* On July 1, 2002, a toll discount program for members of the FASTLANE Program who operate non-commercial two-axle passenger vehicles went into effect, providing a 50% discount on the amount of the July 1, 2002 toll rate increase to participants. In April 2003, the discount program was extended through December 2003. Funding for this extension will come from the Turnpike Authority's sale of certain real estate in May 2003 for approximately \$75 million. On September 18, 2003, the Turnpike Authority voted to extend the toll discount program through December 2004. Funding for this extension will also come from the May 2003 sale of real estate by the Turnpike Authority. In compliance with its Trust Agreement, on December 31, 2003, the Turnpike Authority delivered to the trustee a certificate of an independent consultant verifying that it can meet its required debt service coverage ratios and maintain the toll discount program.

See the September Information Statement under the heading "COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN – Central Artery/Ted Williams Tunnel Project; Claims and Economic Risks".

### LONG-TERM LIABILITIES

The following table shows long-term debt of the Commonwealth as issued and retired from fiscal 2000 through fiscal 2004:

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

	<u>Fiscal 2000</u>	<u>Fiscal 2001</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003(2)</u>	<u>Fiscal 2004(4)</u>
<b>Fiscal Year Beginning Balance (as of July 1)</b>	\$11,808,461	\$12,383,101	\$13,999,454	\$14,955,135	\$15,962,506
General and Special Obligation Debt Issued(1)	1,758,142	1,752,198	1,470,272	1,845,458(3)	1,925,990
County Debt Assumed	525	-	-	-	-
Grant Anticipation Notes Issued(1)	-	577,605	-	-	-
Subtotal	13,567,128	14,712,904	15,469,726	16,800,593	17,888,496
Debt Retired or Defeased, Exclusive of Refunding	(1,184,027)	(770,434)	(692,341)	(737,832)	(758,445)
Refunding Debt Issued, Net of Refunded Debt	-	56,984	177,750	(100,255)	252,121(5)
<b>Fiscal Year Ending Balance (June 30)</b>	<u>\$12,383,101</u>	<u>\$13,999,454</u>	<u>\$14,955,135</u>	<u>\$15,962,506</u>	<u>\$17,382,172</u>

SOURCE: Office of the Comptroller.

- (1) Including premium and discount.
- (2) On July 16, 2003, the Commonwealth issued special obligation notes for the purpose of refunding approximately \$408.0 million of federal grant anticipation notes in a crossover refunding. Interest on the refunding notes will be paid solely from an escrow funded by proceeds of the issue until the crossover dates in 2008 and 2010.
- (3) Includes \$116.0 million of bonds, which, although not legally defeased, will be paid in fiscal 2006 and 2008 from funds held in escrow by a third-party trustee.
- (4) Preliminary, inclusive of \$191.5 million in general obligation bonds in the process of being allocated and \$686.7 million in special obligation bonds in the process of being allocated for the Convention Center.
- (5) Includes \$408.0 million of grant anticipation notes, which, although not legally defeased, will be paid from fiscal 2010 through 2015 from funds held in escrow by a third-party trustee.

## General Authority to Borrow

The outstanding Commonwealth debt amounts excluded from the limit are shown in the table below:

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

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	2004(3)
Balance as of June 30	\$12,383,101	\$13,999,454	\$14,995,135	\$15,962,506	\$17,382,172
Less amounts excluded:					
(Discount)/Premium and issuance costs	(358,938)	(282,829)	(181,910)	(68,718)	14,449
Ch. 5, Acts of 1992 Refunding	(114,761)	(71,054)	(22,043)	(10,600)	-
Special Obligation Principal	(561,335)	(539,242)	(772,812)	(748,124)(1)	(1,361,211)
Federal Grant Anticipation Notes Principal	(899,991)	(1,500,000)	(1,500,000)	(1,500,000)(2)	(1,908,015)(2)
County Debt Assumed	(2,105)	(1,375)	(1,115)	(855)	(675)
MBTA Forward Funding	(325,000)	(325,000)	(625,000)	(680,869)	(601,027)
CA/T Project	-	(999,995)	(838,193)	(1,386,869)	(1,066,638)
Outstanding Direct Debt	<u>\$10,120,971</u>	<u>\$10,279,959</u>	<u>\$11,054,062</u>	<u>\$11,566,472</u>	<u>\$12,459,055</u>
Statutory Debt Limit	<u>\$10,549,032</u>	<u>\$11,076,483</u>	<u>\$11,630,307</u>	<u>\$12,211,823</u>	<u>\$12,822,414</u>

SOURCE: Office of the Comptroller.

- (1) Includes \$116.0 million of bonds, which, although not legally defeased, will be paid in fiscal 2006 and 2008 from funds held in escrow by a third-party trustee.
- (2) On July 16, 2003, the Commonwealth issued special obligation notes for the purpose of refunding approximately \$408.0 million of federal grant anticipation notes in a crossover refunding. Interest on the refunding notes will be paid solely from an escrow funded by proceeds of the issue until the crossover dates in 2008 and 2010. The refunding notes will effectively lower outstanding debt in comparison to the statutory debt limit on grant anticipation notes.
- (3) Preliminary, inclusive of \$191.5 million in general obligation bonds in the process of being allocated and \$686.7 million in special obligation bonds in the process of being allocated for the Convention Center.

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)(1)

<u>Fiscal Year</u>	<u>Budgeted Debt Service</u>	<u>Total Budgeted Expenditures and Other Uses</u>	<u>Percentage</u>
1999	\$1,176.1	\$20,244.7	5.8%
2000	1,114.6	22,414.1	5.0
2001	599.7(2)	22,133.7	2.7
2002	1,219.0	22,800.3	5.4
2003	1,203.5	22,439.1	5.4

SOURCES: Office of the Comptroller.

- (1) Reflects budgeted debt service subject to the provisions of Section 60B of Chapter 29 of the Massachusetts General Laws.
- (2) Does not include \$624.6 million of debt defeased from operating surplus that was non-budgeted.

The following table sets forth the amount of Commonwealth debt and debt related to general obligation contract assistance liabilities outstanding as of July 1, 2004:

**Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities  
As of July 1, 2004  
(in thousands)**

	<u>Long-Term (4)</u>	<u>Short-Term</u>
<b>COMMONWEALTH DEBT</b>		
General Obligation Debt	\$14,016,632(5)	\$75,100(7)
Special Obligation Debt (1)	1,405,930	-
Federal Grant Anticipation Notes (2)	<u>1,907,340(6)</u>	<u>-</u>
Subtotal Commonwealth Debt	<u>\$17,329,902</u>	<u>\$75,100</u>
<b>DEBT RELATED TO GENERAL OBLIGATION CONTRACT ASSISTANCE LIABILITIES (3)</b>		
Massachusetts Convention Center Authority	\$ 30,591	-
Massachusetts Development Finance Agency	33,100	-
Foxborough Industrial Development Financing Authority	<u>63,855</u>	<u>-</u>
Subtotal GO Contract Assistance Debt	<u>\$ 127,546</u>	<u>-</u>
<b>TOTAL</b>	<b><u>\$17,457,448</u></b>	<b><u>\$75,100</u></b>

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

- (1) Includes \$116.0 million of bonds, which, although not legally defeased, will be paid in fiscal 2006 and 2008 from funds held in escrow by a third-party trustee.
- (2) On July 16, 2003, the Commonwealth issued special obligation notes for the purpose of refunding approximately \$408.0 million of federal grant anticipation notes in a crossover refunding. See the September Information Statement under the heading "LONG-TERM LIABILITIES -- Federal Grant Anticipation Notes."
- (3) Does not include general obligation contract assistance liabilities to the Massachusetts Water Pollution Abatement Trust and the Massachusetts Turnpike Authority. For information about such liabilities, see the September Information Statement under the heading "LONG-TERM LIABILITIES - General Obligation Contract Assistance Liabilities."
- (4) Long-term debt includes discount and costs of issuance.
- (5) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from July 1, 2004 through their maturity in the amount of \$56.4 million.
- (6) Includes capital appreciation interest accrued from July 1, 2004 through their maturity in the amount of \$35.8 million.
- (7) Includes \$75.1 million of commercial paper issued as bond anticipation notes in anticipation of certain payments to be received by the Commonwealth from the Massachusetts Port Authority to reimburse the Commonwealth for capital costs of the CA/T Project. See the September Information Statement under the heading "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS - Cash Flow."

**Debt Service Requirements on Commonwealth Bonds**

The following table sets forth, as of July 1, 2004, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal grant anticipation notes. For variable rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate exchange agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. For other variable rate bonds and for auction rate securities, the schedule assumes a 5% interest rate.

## Debt Service Requirements on Commonwealth Bonds July 1, 2004

(in thousands)

<i>General Obligation Bonds</i>					<i>Federal Grant Anticipation Notes</i>			<i>Special Obligation Bonds</i>			Total Debt Service Commonwealth Bonds
Fiscal Year	Principal	Interest on CABS at Maturity	Current Interest	Sub Total	Principal	Interest	Sub Total	Principal	Interest	Sub Total	
2005	\$791,293	\$9,338	\$ 645,463	\$1,446,094	-	\$ 95,223	\$ 95,223	\$27,370	\$59,506	\$86,876	\$1,628,193
2006	847,106	9,338	659,750	1,511,392	\$117,895	93,817	211,712	28,565	76,009	104,574	1,827,678
2007	878,729	4,536	617,770	1,501,688	123,825	87,887	211,712	30,560	73,862	104,422	1,817,822
2008	892,980	5,189	573,501	1,472,282	130,240	81,469	211,709	40,205	70,983	111,188	1,795,179
2009	890,656	5,801	528,768	1,426,328	137,230	74,478	211,708	42,020	68,129	110,149	1,748,185
2010	810,876	6,904	483,276	1,300,581	158,815	66,835	225,650	44,015	66,143	110,158	1,636,389
2011	818,367	6,429	438,688	1,264,036	214,620	57,206	271,826	46,190	62,881	109,071	1,644,933
2012	692,317	6,981	394,019	1,093,539	226,420	45,694	272,114	48,590	60,501	109,091	1,474,744
2013	756,995	7,203	355,384	1,120,356	208,410	35,110	243,520	51,115	57,949	109,064	1,472,940
2014	652,596	7,977	318,760	977,399	302,820	21,697	324,517	49,435	55,163	104,598	1,406,514
2015	631,769	6,043	286,085	923,271	287,065	7,185	294,250	98,520	52,594	151,114	1,368,635
2016	618,618	5,417	254,629	877,257	-	-	-	74,040	47,323	121,363	998,620
2017	658,289	4,010	223,929	884,773	-	-	-	65,920	43,405	109,325	994,098
2018	453,740	2,555	195,574	651,157	-	-	-	47,755	40,054	87,809	738,966
2019	454,327	1,843	171,806	627,368	-	-	-	50,230	37,702	87,932	715,300
2020	462,059	1,235	148,595	611,282	-	-	-	52,935	35,033	87,968	699,250
2021	651,689	628	118,896	771,036	-	-	-	55,775	32,228	88,003	859,039
2022	433,764	451	89,948	523,953	-	-	-	58,670	29,371	88,041	611,994
2023	305,651	241	71,009	376,787	-	-	-	30,195	26,366	56,561	433,348
2024	168,649	127	58,543	227,247	-	-	-	31,820	24,781	56,601	283,848
2025	98,609	55	51,782	150,391	-	-	-	33,535	23,110	56,645	207,036
2026	76,790	-	47,201	123,991	-	-	-	35,345	21,350	56,695	180,686
2027	197,460	-	40,329	237,789	-	-	-	37,250	19,494	56,744	294,533
2028	134,955	-	31,982	166,937	-	-	-	39,260	17,538	56,798	223,735
2029	178,335	-	24,000	202,335	-	-	-	41,375	15,477	56,852	259,187
2030	184,090	-	14,580	198,670	-	-	-	43,720	13,305	57,025	255,695
2031	192,960	-	5,067	198,027	-	-	-	46,310	10,791	57,101	255,128
2032	-	-	-	-	-	-	-	49,050	8,128	57,178	57,178
2033	-	-	-	-	-	-	-	51,755	5,308	57,063	57,063
2034	-	-	-	-	-	-	-	54,405	2,720	57,125	57,125
<b>TOTAL</b>	<b>\$13,933,669</b>	<b>\$82,963</b>	<b>\$6,849,334</b>	<b>\$20,865,966</b>	<b>\$1,907,340(1)</b>	<b>\$666,601</b>	<b>\$2,573,941</b>	<b>\$1,405,930(2)</b>	<b>\$1,157,204(2)</b>	<b>\$2,563,134</b>	<b>\$26,003,041</b>

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

- (1) Includes \$408.0 million of notes issued for a cross-over refunding of federal grant anticipation notes. Such notes will not be secured by federal highway grant revenues until the cross-over dates. Notes to be refunded on the crossover dates remain outstanding until that time.
- (2) Includes \$116.0 million of bonds which, although not legally defeased, will be paid in fiscal 2006 and 2008 from funds held in escrow by a third-party trustee

## General Obligation Contract Assistance Liabilities

*Boston Housing Authority West Broadway Homes IV Project.* In December 2003 the Boston Housing Authority (BHA) issued \$10 million of housing project bonds to finance a portion of the costs of construction of a 133-unit lower income public housing project in South Boston. Proceeds of the bonds were lent by the BHA to the West Broadway Redevelopment Limited Partnership (Partnership) which will own and operate the project. The general partner of the Partnership is a Massachusetts non-profit corporation controlled by the BHA. In addition, proceeds of an approximately \$10.8 million modernization grant from the Commonwealth and an approximately \$3.6 million grant from the City of Boston have been loaned to the Partnership by the BHA to be applied to costs of the project. The Partnership also expects to apply an equity investment from its limited partners to construction costs in the approximate amount of \$10 million. In December 2003 the BHA also issued \$9 million of housing project notes to mature December 1, 2006, the proceeds of which were loaned to the Partnership to be applied to construction costs in anticipation of the Partnership's equity investment. In accordance with an Amendment to Contract for Financial Assistance between the Commonwealth, acting by and through the Department of Housing and Community Development, and the BHA, the Commonwealth has agreed to advance additional grant funds to the BHA to be applied to the payment of the notes to the extent the Partnership's equity investment is not received in time or amount sufficient to pay the principal amount of the notes at maturity. The Commonwealth has also agreed in the Amendment to Contract for Financial Assistance to advance additional grant funds to the BHA in an amount sufficient to redeem all or a portion of the bonds on December 1, 2006 to the extent the project has failed to demonstrate budgeted revenue sufficiency by that date. Thereafter, the bonds will be secured by and payable solely from an assignment by the BHA of state operating subsidy funds allocable to the project, and other state assisted public housing projects owned by the BHA, loan repayments from the Partnership payable from project net income and reserve funds funded from bond and grant loan proceeds to the Partnership.

## STATE WORKFORCE

The following table sets forth information regarding the Commonwealth's workforce as of the end of fiscal 1998 through June 30, 2004.

### Budget-Funded Workforce (1)

	<u>June 1999</u>	<u>June 2000</u>	<u>June 2001</u>	<u>June 2002</u>	<u>June 2003</u>	<u>June 2004</u>
Executive Office	93	89	88	72	86	65
Office of the Comptroller	110	106	109	107	102	102
Executive Departments						
Administration and Finance	3,153	3,225	3,180	2,974	2,921	2,781
Environmental Affairs	2,484	2,583	2,555	2,312	2,156	1,997
Housing and Community Development	113	111	117	109	98	92
Health and Human Services	23,164	23,483	23,157	21,803	21,440	20,650
Transportation and Construction	1,303	1,284	1,254	843	445	343
Board of Library Commissioners	17	20	20	18	13	12
Labor and Workforce Development	392	386	379	357	343	317
Economic Development	92	92	86	80	58	47
Consumer Affairs and Business Regulation	706	682	675	657	521	515
Department of Education	272	270	272	277	248	231
Board of Higher Education	14,840	15,251	15,481	14,038	14,117	11,868
Public Safety	9,520	9,409	9,686	9,567	9,148	8,765
Elder Affairs	<u>36</u>	<u>38</u>	<u>41</u>	<u>43</u>	<u>38</u>	<u>28</u>
Subtotal under Governor's authority	<u>56,295</u>	<u>57,029</u>	<u>57,059</u>	<u>53,257</u>	<u>51,547</u>	<u>47,647</u>
Judiciary	7,829	8,013	7,944	7,379	7,233	7,103
Other (2)	<u>6,403</u>	<u>7,171</u>	<u>7,418</u>	<u>7,119</u>	<u>7,056</u>	<u>7,095</u>
Total	<u>67,014</u>	<u>70,527</u>	<u>72,213</u>	<u>67,755</u>	<u>66,024</u>	<u>62,012</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, the seven former county sheriffs that have become state agencies, and other agencies independent from the Governor; it excludes elected members of the Legislature and Executive Council.

## LEGAL MATTERS

### Update of Existing Litigation

*Hancock v. Commissioner of Education.* In a report dated April 26, 2004, Superior Court Judge Margot Botsford recommended that the Supreme Judicial Court conclude that the Commonwealth is not meeting its duty to provide an education to children in the public schools as required by Part II, c. 5, section 2 of the Massachusetts Constitution. She further recommended remedial action in the form of an order directing the state defendants to (1) ascertain the actual cost of implementing the seven curriculum frameworks in the 4 focus districts, (2) determine the costs associated with measures to improve local districts' capacity to implement the necessary educational program effectively, and (3) implement any changes resulting from (1) and (2). She recommended that a limited time period such as 6 months be allotted for those tasks. She recommended inclusion of the following as items that "must be covered" in the order requiring a determination of costs: special education, implementation of all seven curriculum frameworks, "adequate school facilities," and universal preschool for 3 and 4 year olds unable to pay. She further recommended the following as items that "should be considered" in the determination of costs: increases in the foundation budget factors for teaching salaries, the low income factor, and the bilingual education factor; inclusion of a technology factor, teacher coaches, and school leadership; implementation of a class size system of under 20 for pre-k-3rd grade; provision of school libraries; and institution of remedial programs.

Judge Botsford's recommendations are now under consideration by the Supreme Judicial Court, which has scheduled the case for argument in October, 2004. The potential fiscal impact is unknown.

*Raytheon v. Commissioner of Revenue.* The Commissioner of Revenue settled this case in September, 2003. The liability is no longer contingent.

*Peterson v. Commissioner of Revenue.* On April 6, 2004, the Supreme Judicial Court held that the effective date in the act amending the capital gains tax statute violates amendment article 44 of the Massachusetts Constitution. Since the Act has a severability clause, the court remanded the case to the Supreme Judicial Court for Suffolk County for further proceedings to determine whether the statute should be construed to impose the new tax rate beginning on calendar year January 1, 2003, or whether the statute instead should be construed to impose the new tax rate beginning on January 1, 2002. Included in the fiscal 2005 GAA, and signed by the Governor on June 25, 2004, were two budget riders intended to address the Court's ruling. Together, the measures amended the effective date of the Act to January 1, 2002, and provided amnesty to all taxpayers who would have incurred an additional tax liability owed to the Commonwealth because of the new effective date. The plaintiffs have amended their complaint to challenge this new legislation. A status conference in this case has been scheduled for August 23, 2004. See "RECENT DEVELOPMENTS – Fiscal 2004 Tax Revenues" above.

*Shwachman v. Commonwealth.* Suit was filed in Worcester Superior Court in May, 2004.

*Brown Rudnick Freed & Gesmer and Loeff Cabraser Heimann & Bernstein, LLP, et al. v Commonwealth.* On December 19, 2003, a Suffolk Superior Court jury rejected the claims of the state's private tobacco attorneys that they should be paid a fee amounting to 25 percent of the state's tobacco settlement money. The jury awarded the plaintiffs 10.5% of the amount the Commonwealth receives under the tobacco Master Settlement Agreement through 2025. To date, however, the private tobacco attorneys have received, in direct payments from the tobacco companies under the MSA fee arbitration, more than 10.5% of what the Commonwealth has received under the MSA. Because these arbitration payments are deducted from amounts the Commonwealth might itself otherwise owe private counsel, the Commonwealth at present owes nothing under the jury award. Whether the Commonwealth



will in the future be required to pay any sum on private counsel's claim will depend on the actual payments received by the Commonwealth under the MSA through 2025. No appeal was filed within the time provided by the rule.

*General Mills, Inc. v. Commissioner of Revenue.* The taxpayer filed a petition for a writ of certiorari in the United States Supreme Court, which was docketed on January 30, 2004. On February 27, 2004, the Commissioner filed his brief in opposition. The Supreme Court denied the petition for a writ of certiorari on April 5, 2004.

*Lopes v. Commonwealth.* In July, 2004, the Court affirmed the dismissal of claims by the estates of deceased smokers who argued that funds received by the Commonwealth in its settlement with tobacco manufacturers must be set off against amounts the estates owe the Medicaid program for treatment of their decedents' tobacco-related illnesses. The Court held that certain claims were barred by sovereign immunity and that others were foreclosed by a 1999 amendment to the federal Medicaid Act governing disposition of tobacco settlement payments.

*Rosie D. v. Governor.* Following the First Circuit's affirmance of the District Court's denial of the Governor's motion to dismiss based on sovereign immunity, the parties are conducting non-expert discovery, which will end August 27, 2004. Expert discovery will take place during the Fall of 2004, and a final pre-trial conference is scheduled for December 14, 2004.

*Goodridge v. Commissioner of Public Health.* On November 18, 2003, the Supreme Judicial Court declared "that barring an individual from the protections, benefits, and obligations of civil marriage solely because that person would marry a person of the same sex violates the Massachusetts Constitution." The court stayed entry of judgment "for 180 days to permit the Legislature to take such action as it may deem appropriate in light of" the court's opinion. On May 17, 2003, marriage became available to individuals marrying persons of the same sex.

*Ricci v. Murphy.* On July 14, 2004, a subset of plaintiffs filed a motion to reopen the case and enforce the final order of May 25, 1993, asserting various reasons why the Department of Mental Retardation is not in compliance with the 1993 final order, mostly relating to the Commonwealth's plan to close the Fernald Developmental Center as an Intermediate Care Facility for the Mentally Retarded.

*Dzialo v. Greenfield.* This case settled for a total of \$936,000. All but \$150,000 has been paid.

*Health Care for All v. Romney et al.* (United States District Court). A group of individual plaintiffs brought this complaint for injunctive and declaratory relief, challenging the Commonwealth's administration of the MassHealth dental program. Specifically, the plaintiffs assert that the Commonwealth's administration of the dental program fails to comply with the requirements allegedly imposed by federal Medicaid law. Discovery concluded in or about March 2004. The defendants have filed a motion for summary judgment as to all claims, and on July 13, 2004, oral argument was held both on that motion and on the Plaintiffs' renewed request for class certification. Trial on any remaining claims is presently scheduled to commence on October 4, 2004. Although the plaintiffs have not quantified the cost of the services and program changes they seek, it is likely that the costs associated with such changes could amount to more than \$20 million.

#### **CONTINUING DISCLOSURE**

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

## AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding this Information Statement or requests for additional information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900 (ext. 564), or to Timothy Murphy, Director of Capital Planning and Operations, Executive Office for Administration and Finance, State House, Room 272, Boston, Massachusetts 02133, telephone 617/727-2081. Questions regarding legal matters relating to this Information Statement should be directed to Lawrence D. Bragg, III, Ropes & Gray LLP, One International Place, Boston, Massachusetts 02110, telephone 617/951-7000.

THE COMMONWEALTH OF MASSACHUSETTS

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

By /s/ Eric A. Kriss  
Eric A. Kriss  
Secretary of Administration and Finance

August 18, 2004

## ECONOMIC INFORMATION

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

All information is presented on a calendar-year basis unless otherwise indicated. **The section was prepared for release on June 30, 2004. Information in the text, tables, charts, and graphs was current as of June 23, 2004.** 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.

### Statistical Overview

#### Population (p. A-2)

	<u>Massachusetts</u>	<u>United States</u>
Percent Change in Population, 2002-2003	0.2%	1.0%

#### Personal Income, Consumer Prices, and Poverty (p. A-7)

Per Capita Personal Income, 2003	\$39,815	\$31,632
Average Annual Pay, 2002	\$44,954	\$36,764
Percent Change in CPI-U, 2002-2003*	3.8%	2.3%
Percent Change in CPI-U, May 2003-May 2004*	3.2%	3.1%
Poverty Rate, 2002	10.0%	12.1%
Average Weekly Manufacturing Earnings, May 2004(p)	\$683.49	\$660.48
Percent Change in Manufacturing Earnings, May 2003-May 2004(p)	1.7%	3.3%

#### Employment (p. A-15)

Percent Change in Nonfarm Payroll Employment, May 2003-May 2004(p)	-0.7%	1.0%
Unemployment Rate, 2003	5.4%	6.0%
Unemployment Rate, May, 2004	5.8%	6.0%

#### Economic Base and Performance (p. A-21)

Percent Change in Gross State Product, 2000-2001	-0.4%	0.4%
Percent Change in International Exports, 2002-2003	11.7%	4.4%
Percent Change in Housing Permits Authorized, 2002-2003	8.5%	5.1%

#### Human Resources and Infrastructure (p. A-36)

Expenditure Per Pupil, 2002 (estimate)	\$9,509	\$7,376
Percent of Adults with a Bachelor's Degree, March 2002	34.3%	26.7%

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

Massachusetts is a densely populated state with a well-educated population, comparatively high income levels, low rates of unemployment, and a relatively diversified economy. While the total population of Massachusetts has remained fairly stable in the last twenty 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 amounts of annual income than the national average. These higher levels of income have been accompanied by a significantly lower poverty rate and, with the exception of the recession of the early 1990s, considerably lower unemployment rates in Massachusetts than in the United States since 1980. 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.

## **POPULATION CHARACTERISTICS**

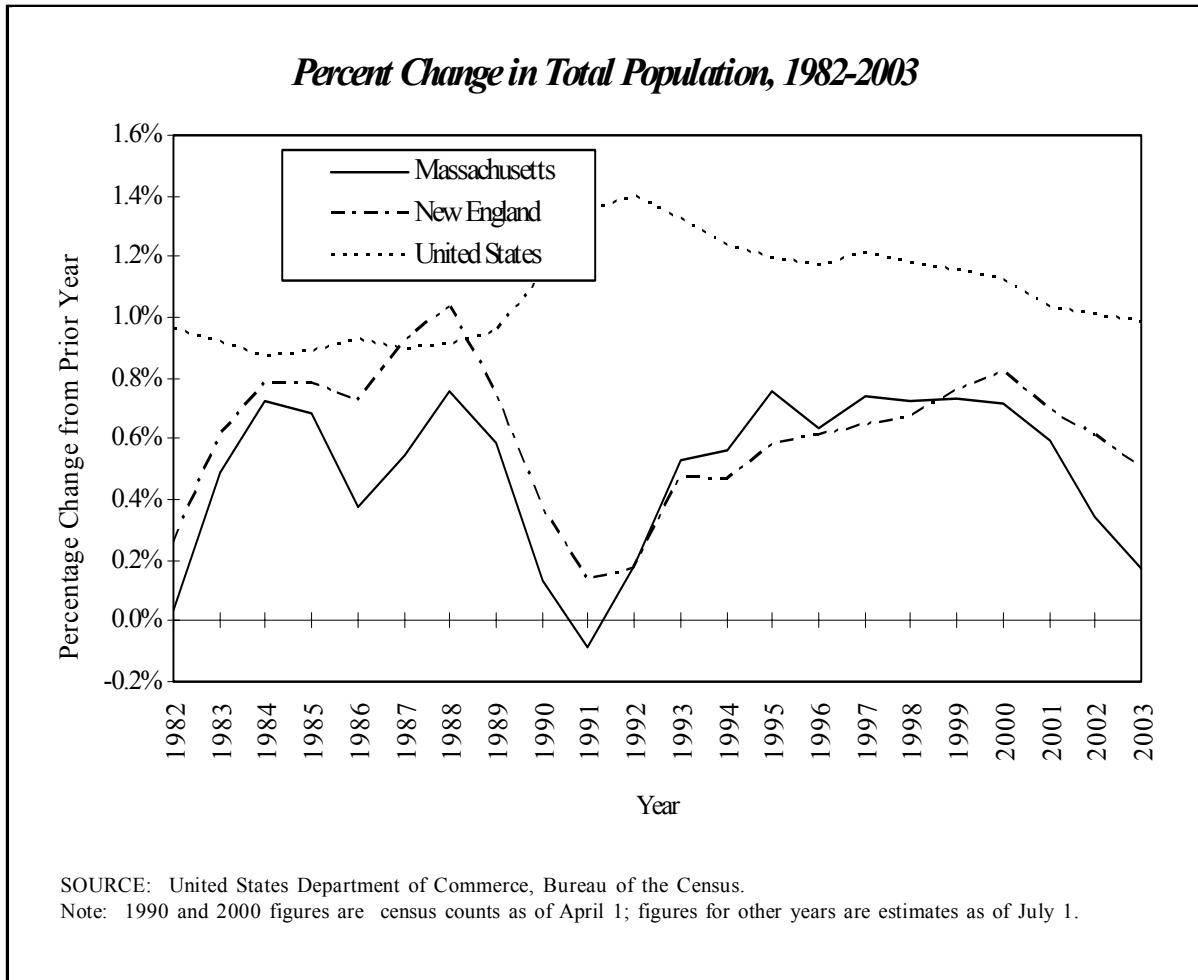
Massachusetts is a densely populated state with a comparatively large percentage of its residents living in metropolitan areas. According to the 2000 census, the population density of Massachusetts is 809.8 persons per square mile, as compared to 79.6 for the United States as a whole. Among the 50 states, only Rhode Island and New Jersey have a greater population density. Massachusetts also ranks third among the states in percentage of residents living in metropolitan areas as they were defined at the time of the Census: 96.1 percent of Massachusetts residents live in metropolitan areas, compared with a national average of 80.3 percent. A subsequent version of this Economic Information section will introduce a new set of metropolitan area definitions based on whole counties. According to this new definition, announced in 2003 but not yet in general use, the entire state will be considered to be metropolitan except for the two island counties (99.6 percent of state residents in 2000.)

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

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

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

As the following chart indicates, the percent change in population in Massachusetts since 1982 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.



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

**Population, 1970-2003**  
**Estimates Vintage Unknown Except for 2000-2003**  
*(in thousands)*

Year	Massachusetts		New England		United States	
	Total	Percent Change	Total	Percent Change	Total	Percent 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	6,023	0.1%	13,230	0.4%	249,623	1.1%
1991	6,018	-0.1%	13,248	0.1%	252,981	1.3%
1992	6,029	0.2%	13,271	0.2%	256,514	1.4%
1993	6,061	0.5%	13,334	0.5%	259,919	1.3%
1994	6,095	0.6%	13,396	0.5%	263,126	1.2%
1995	6,141	0.8%	13,473	0.6%	266,278	1.2%
1996	6,180	0.6%	13,555	0.6%	269,394	1.2%
1997	6,226	0.7%	13,642	0.6%	272,647	1.2%
1998	6,271	0.7%	13,734	0.7%	275,854	1.2%
1999	6,317	0.7%	13,838	0.8%	279,040	1.2%
2000	6,362	0.7%	13,952	0.8%	282,178	1.1%
2001	6,400	0.6%	14,048	0.7%	285,094	1.0%
2002	6,422	0.3%	14,134	0.6%	287,974	1.0%
2003	6,433	0.2%	14,205	0.5%	290,810	1.0%

SOURCE: United States Department of Commerce, Bureau of the Census.  
 1970, 1980, 1990 and 2000 figures are census counts as of April 1; figures for  
 all other years are estimates as of July 1.

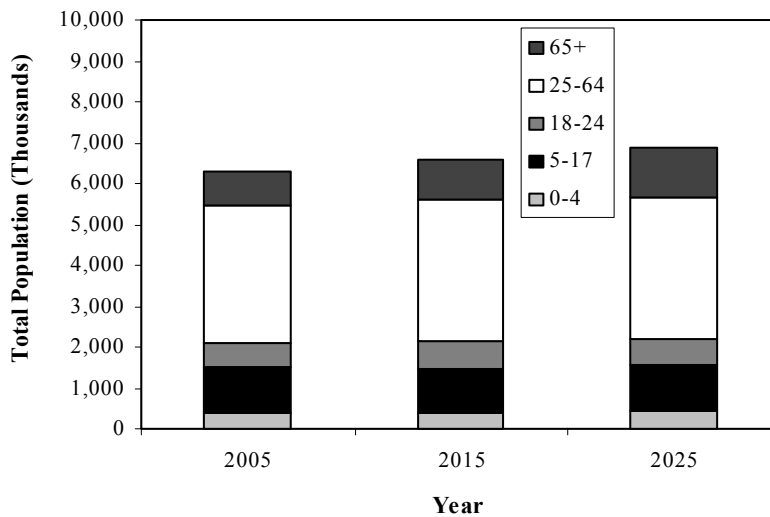
The next fifteen years are expected to bring about a considerable change in the age distribution of the Massachusetts population. As the following table and chart show, the population of Massachusetts is expected to be distributed more heavily in the 65 and over age groups in 2015 and in 2025. The chart 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 released in 1996; new projections expected in 2004.

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



SOURCE: United States Department of Commerce, Bureau of the Census.  
Note: Projections released in 1996; new projections expected in 2004.

*Massachusetts Population by County  
1990 and 2000 Census*

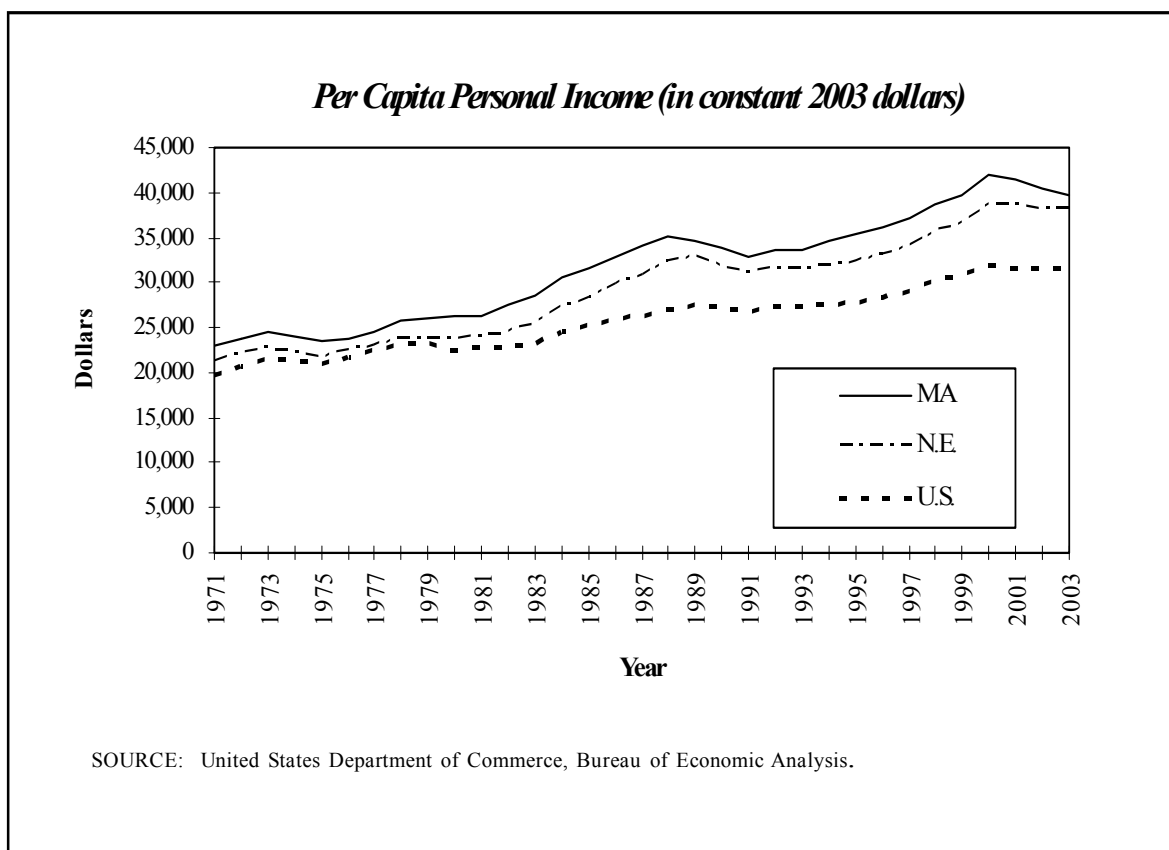
<b>County</b>	<b>1990</b>	<b>2000</b>	<b>% Change 1990-00</b>
Barnstable	186,605	222,230	19.1%
Berkshire	139,352	134,953	-3.2%
Bristol	506,325	534,678	5.6%
Dukes	11,639	14,987	28.8%
Essex	670,080	723,419	8.0%
Franklin	70,092	71,535	2.1%
Hampden	456,310	456,228	0.0%
Hampshire	146,568	152,251	3.9%
Middlesex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

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



## PERSONAL INCOME, CONSUMER PRICES, AND POVERTY

**Personal Income.** Since at least 1929, real and nominal per capita income levels have been consistently higher in Massachusetts than in the United States. After growing at an annual rate higher than that for the United States between 1982 and 1988, real income levels in Massachusetts declined between 1989 and 1991. Real per capita income levels in Massachusetts increased faster than the national average between 1994 and 1997. In 2000 Massachusetts had its highest per capita income growth in 16 years, exceeding the national growth rate by 1.6 percentage points. In 2001 and 2002, nominal and real income in both Massachusetts and the United States declined, while in 2003 the state showed a slight decline while the nation was essentially flat. Even with slight declines in income, both real and nominal income levels in Massachusetts remain well above the national average. Again in 2003 as in the past several years, only two states had higher levels of per capita personal income. The following chart illustrates real per capita personal income in Massachusetts, New England, and the United States since 1971.



The following table compares per capita personal income in Massachusetts, New England, and the United States for the period 1969-2003.

***Per Capita Personal Income, 1969-2003***

Year	Nominal Income (in current dollars)			Real Income (in 2003 dollars)			Percent Change in Real Income		
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.
1969	4,201	4,185	3,836	22,661	20,982	19,232			
1970	4,483	4,445	4,085	22,738	21,079	19,372	0.3%	0.5%	0.7%
1971	4,752	4,680	4,342	22,960	21,262	19,727	1.0%	0.9%	1.8%
1972	5,109	5,029	4,717	23,838	22,137	20,764	3.8%	4.1%	5.3%
1973	5,547	5,481	5,231	24,428	22,714	21,678	2.5%	2.6%	4.4%
1974	6,016	5,958	5,707	23,958	22,237	21,300	-1.9%	-2.1%	-1.7%
1975	6,459	6,381	6,172	23,602	21,823	21,109	-1.5%	-1.9%	-0.9%
1976	6,998	6,959	6,754	23,782	22,504	21,841	0.8%	3.1%	3.5%
1977	7,620	7,593	7,405	24,623	23,055	22,484	3.5%	2.4%	2.9%
1978	8,430	8,413	8,245	25,887	23,742	23,268	5.1%	3.0%	3.5%
1979	9,385	9,392	9,146	26,142	23,803	23,180	1.0%	0.3%	-0.4%
1980	10,602	10,629	10,114	26,171	23,735	22,585	0.1%	-0.3%	-2.6%
1981	11,798	11,846	11,246	26,205	23,979	22,764	0.1%	1.0%	0.8%
1982	12,941	12,871	11,935	27,630	24,542	22,757	5.4%	2.3%	0.0%
1983	14,009	13,829	12,618	28,622	25,548	23,310	3.6%	4.1%	2.4%
1984	15,723	15,422	13,891	30,620	27,311	24,600	7.0%	6.9%	5.5%
1985	16,910	16,546	14,758	31,517	28,294	25,237	2.9%	3.6%	2.6%
1986	18,148	17,722	15,442	32,980	29,752	25,925	4.6%	5.2%	2.7%
1987	19,575	19,119	16,240	34,085	30,967	26,304	3.3%	4.1%	1.5%
1988	21,341	20,811	17,331	35,036	32,369	26,956	2.8%	4.5%	2.5%
1989	22,342	22,083	18,520	34,696	32,768	27,481	-1.0%	1.2%	1.9%
1990	23,043	22,712	19,477	33,826	31,974	27,420	-2.5%	-2.4%	-0.2%
1991	23,432	22,969	19,892	32,950	31,030	26,873	-2.6%	-3.0%	-2.0%
1992	24,538	24,172	20,854	33,670	31,701	27,350	2.2%	2.2%	1.8%
1993	25,176	24,752	21,346	33,573	31,518	27,181	-0.3%	-0.6%	-0.6%
1994	26,303	25,687	22,172	34,624	31,892	27,528	3.1%	1.2%	1.3%
1995	27,457	26,832	23,076	35,299	32,396	27,861	2.0%	1.6%	1.2%
1996	28,933	28,194	24,175	36,126	33,064	28,351	2.3%	2.1%	1.8%
1997	30,498	29,687	25,334	37,037	34,034	29,043	2.5%	2.9%	2.4%
1998	32,524	31,677	26,883	38,623	35,758	30,346	4.3%	5.1%	4.5%
1999	34,227	33,126	27,939	39,653	36,586	30,857	2.7%	2.3%	1.7%
2000	37,756	36,121	29,847	41,931	38,596	31,892	5.7%	5.5%	3.4%
2001	38,945	37,183	30,527	41,467	38,632	31,716	-1.1%	0.1%	-0.6%
2002	39,085	37,413	30,906	40,557	38,266	31,610	-2.2%	-0.9%	-0.3%
2003	39,815	38,171	31,632	39,815	38,171	31,632	-1.8%	-0.2%	0.1%

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

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

New England and United States real incomes are calculated using national CPI-U data.

*Annual pay in nominal dollars* has grown steadily in Massachusetts over the past decade. Average annual pay is computed by dividing the total annual payroll of employees covered by Unemployment Insurance programs by the average monthly number of employees. Data are reported by employers covered under the Unemployment Insurance programs. While levels of annual pay were nearly equal in Massachusetts and the United States in 1984, average annual pay levels in Massachusetts have grown more rapidly than the national average since that time. The level of annual pay in Massachusetts in 2002 was 22 percent higher than the national average: \$44,954 compared to \$36,764.

*Wage and Salary Disbursements.* Wage and Salary Disbursements by Place of Work is a component of personal income and measures monetary disbursements to employees. This includes compensation of corporate officers, commissions, tips, bonuses, and receipts in-kind. Although the data is recorded on a place-of-work basis, it is then adjusted to a place-of-residence basis so that the personal income of the recipients whose place of residence differs from their place of work will be correctly assigned to their state of residence. The table below details Wage and Salary Disbursements since 1990. Between 1991 and 2000, Massachusetts accounted for a steadily increasing percentage of the overall New England total, but in 2002 it dropped slightly to 50.3 percent.

***Annual Wage and Salary Disbursements, 1990-2002***  
(in millions of dollars)

<i>Year</i>	<i>U.S.</i>	<i>N.E.</i>	<i>MA</i>	<i>MA as a pct. of N.E.</i>
<b>1990</b>	\$ 2,743,016	\$171,448	\$83,129	48.5%
<b>1991</b>	2,811,076	170,333	82,311	48.3%
<b>1992</b>	2,972,287	177,810	86,014	48.4%
<b>1993</b>	3,076,276	183,236	89,047	48.6%
<b>1994</b>	3,227,483	190,661	93,164	48.9%
<b>1995</b>	3,415,368	201,946	99,194	49.1%
<b>1996</b>	3,615,699	213,667	105,573	49.4%
<b>1997</b>	3,874,011	230,032	113,579	49.4%
<b>1998</b>	4,179,922	247,851	123,054	49.6%
<b>1999</b>	4,463,650	266,554	134,045	50.3%
<b>2000</b>	4,825,906	293,889	150,842	51.3%
<b>2001</b>	4,939,157	300,571	153,068	50.9%
<b>2002</b>	4,969,990	297,957	149,877	50.3%

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

*Consumer Prices.* Higher income levels in Massachusetts relative to the rest of the United States are offset to some extent by the higher cost of living in Massachusetts. The following table presents consumer price trends for the Boston metropolitan area and the United States for the period between 1970 and 2003. 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 2003, the CPI-U for Boston increased 3.8 percent compared to an increase of 2.3 percent for the United States as a whole. The latest available data for May 2004 show that the CPI-U for the Boston metropolitan area grew at a rate of 3.2 percent from May 2003 compared with 3.1 percent for the U.S.

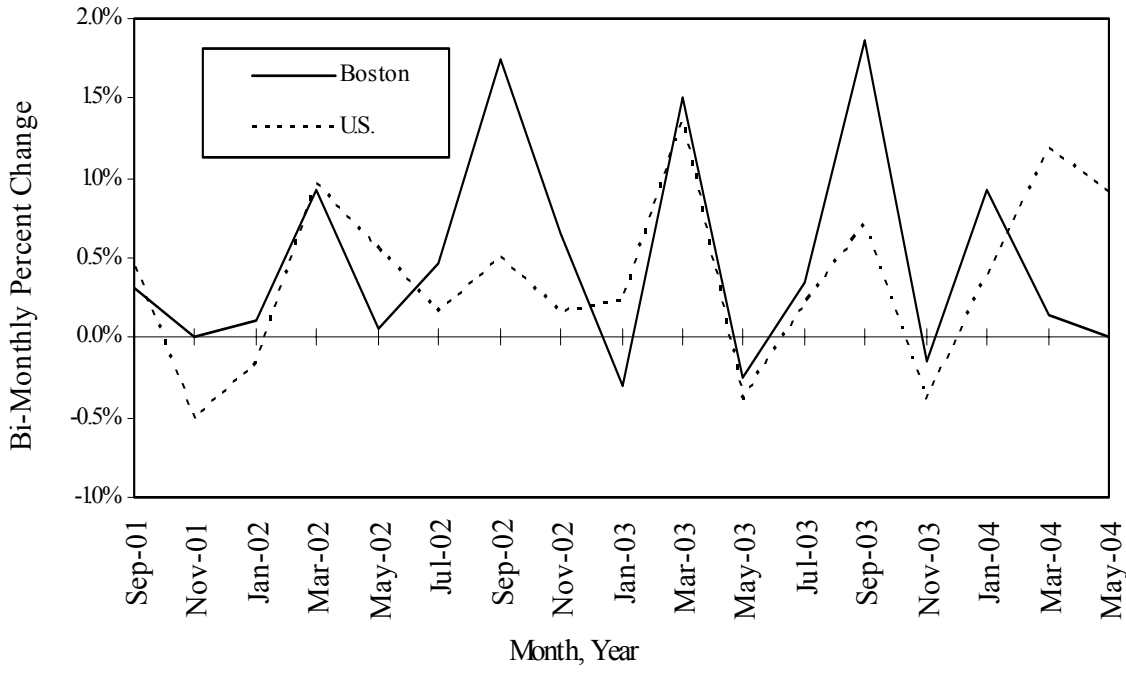
**Consumer Price Index for all Urban Consumers (CPI-U), 1970-2003**

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

<i>Year</i>	<i>Boston Metro Area</i>		<i>United States</i>	
	<i>CPI-U</i>	<i>Pct.Change</i>	<i>CPI-U</i>	<i>Pct. Change</i>
<b>1970</b>	40.2		38.8	
<b>1971</b>	42.2	5.0%	40.5	4.4%
<b>1972</b>	43.7	3.6%	41.8	3.2%
<b>1973</b>	46.3	5.9%	44.4	6.2%
<b>1974</b>	51.2	10.6%	49.3	11.0%
<b>1975</b>	55.8	9.0%	53.8	9.1%
<b>1976</b>	60.0	7.5%	56.9	5.8%
<b>1977</b>	63.1	5.2%	60.6	6.5%
<b>1978</b>	66.4	5.2%	65.2	7.6%
<b>1979</b>	73.2	10.2%	72.6	11.3%
<b>1980</b>	82.6	12.8%	82.4	13.5%
<b>1981</b>	91.8	11.1%	90.9	10.3%
<b>1982</b>	95.5	4.0%	96.5	6.2%
<b>1983</b>	99.8	4.5%	99.6	3.2%
<b>1984</b>	104.7	4.9%	103.9	4.3%
<b>1985</b>	109.4	4.5%	107.6	3.6%
<b>1986</b>	112.2	2.6%	109.6	1.9%
<b>1987</b>	117.1	4.4%	113.6	3.6%
<b>1988</b>	124.2	6.1%	118.3	4.1%
<b>1989</b>	131.3	5.7%	124.0	4.8%
<b>1990</b>	138.9	5.8%	130.7	5.4%
<b>1991</b>	145.0	4.4%	136.2	4.2%
<b>1992</b>	148.6	2.5%	140.3	3.0%
<b>1993</b>	152.9	2.9%	144.5	3.0%
<b>1994</b>	154.9	1.3%	148.2	2.6%
<b>1995</b>	158.6	2.4%	152.4	2.8%
<b>1996</b>	163.3	3.0%	156.9	3.0%
<b>1997</b>	167.9	2.8%	160.5	2.3%
<b>1998</b>	171.7	2.3%	163.0	1.6%
<b>1999</b>	176.0	2.5%	166.6	2.2%
<b>2000</b>	183.6	4.3%	172.2	3.4%
<b>2001</b>	191.5	4.3%	177.1	2.8%
<b>2002</b>	196.5	2.6%	179.9	1.6%
<b>2003</b>	203.9	3.8%	184.0	2.3%
<b>May-03</b>	202.3		183.5	
<b>May-04</b>	208.7	3.2%	189.1	3.1%

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

***Bi-Monthly Percent Change in Consumer Price Index for all Urban Consumers,  
September 2001 - May 2004***



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

***Consumer Confidence, Present Situation, and Future Expectations.*** These three measures offer multiple insights into consumer attitudes. The U.S. and New England measures are compiled from a national monthly survey of 5,000 households and are published by The Conference Board, Inc. The 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 2000.

**Quarterly measures of Consumer Confidence, Present Situation, and Future Expectations for Massachusetts, New England, and the U.S., January 2000 - April 2004**

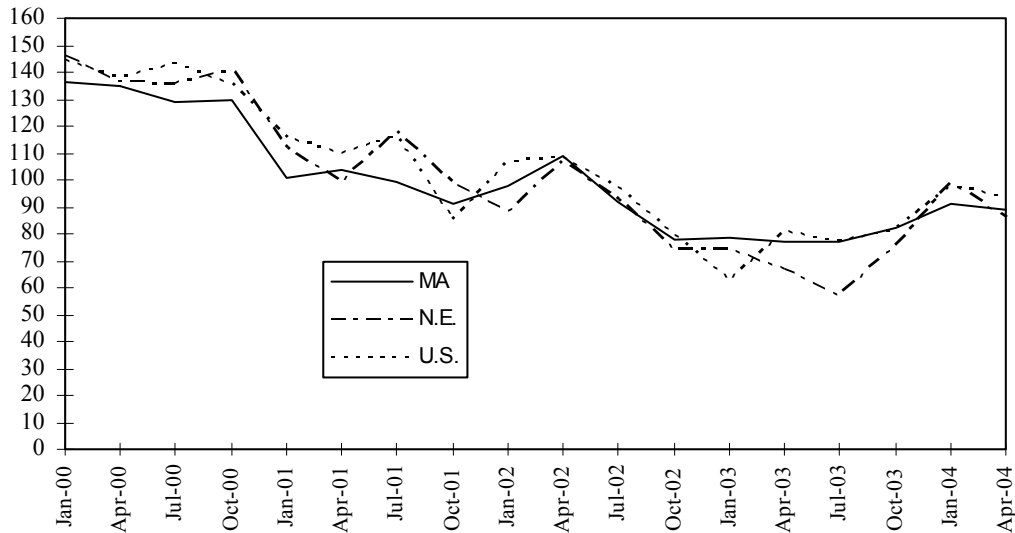
*(Not Seasonally Adjusted, except United States (1985=100))*

	Consumer Confidence			Present Situation			Future Expectations		
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.
Jan-00	136.0	145.9	144.7	151.0	193.1	183.1	125.0	114.5	119.1
Apr-00	135.0	136.5	137.7	155.0	195.7	179.8	122.0	97.0	109.7
Jul-00	129.0	135.4	143.0	156.0	196.9	186.8	111.0	94.4	113.7
Oct-00	130.0	140.7	135.8	157.0	195.5	176.8	111.0	104.1	108.4
Jan-01	101.0	111.9	115.7	139.0	173.9	170.4	76.0	70.5	79.3
Apr-01	104.0	99.5	109.9	124.0	161.7	156.0	91.0	58.0	79.1
Jul-01	99.0	117.5	116.3	108.0	170.8	151.3	93.0	82.0	92.9
Oct-01	91.0	98.6	85.3	94.0	105.6	107.2	90.0	64.0	70.7
Jan-02	97.8	88.5	107.0	98.1	85.5	72.0	97.6	90.5	130.0
Apr-02	109.0	106.7	108.5	84.0	115.5	106.8	125.0	100.8	109.6
Jul-02	92.0	92.4	97.4	68.0	96.3	99.4	108.0	89.9	96.1
Oct-02	78.0	74.2	79.6	48.0	70.8	77.2	97.0	76.5	81.1
Jan-03	78.8	74.4	63.0	75.3	63.9	28.0	81.1	81.5	86.0
Apr-03	77.0	66.4	81.0	31.0	52	75.2	108.0	76.0	84.8
Jul-03	77.0	56.8	77.0	41.0	42.8	63.0	101.0	66.2	86.3
Oct-03	82.0	75.5	81.7	36.0	57.4	67.0	112.0	87.6	91.5
Jan-04	91.0	98.2	97.7	48.0	86.5	86.1	119.0	106.1	105.3
Apr-04	89.0	85.8	93.0	53.0	71.3	90.4	113.0	95.5	94.8

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

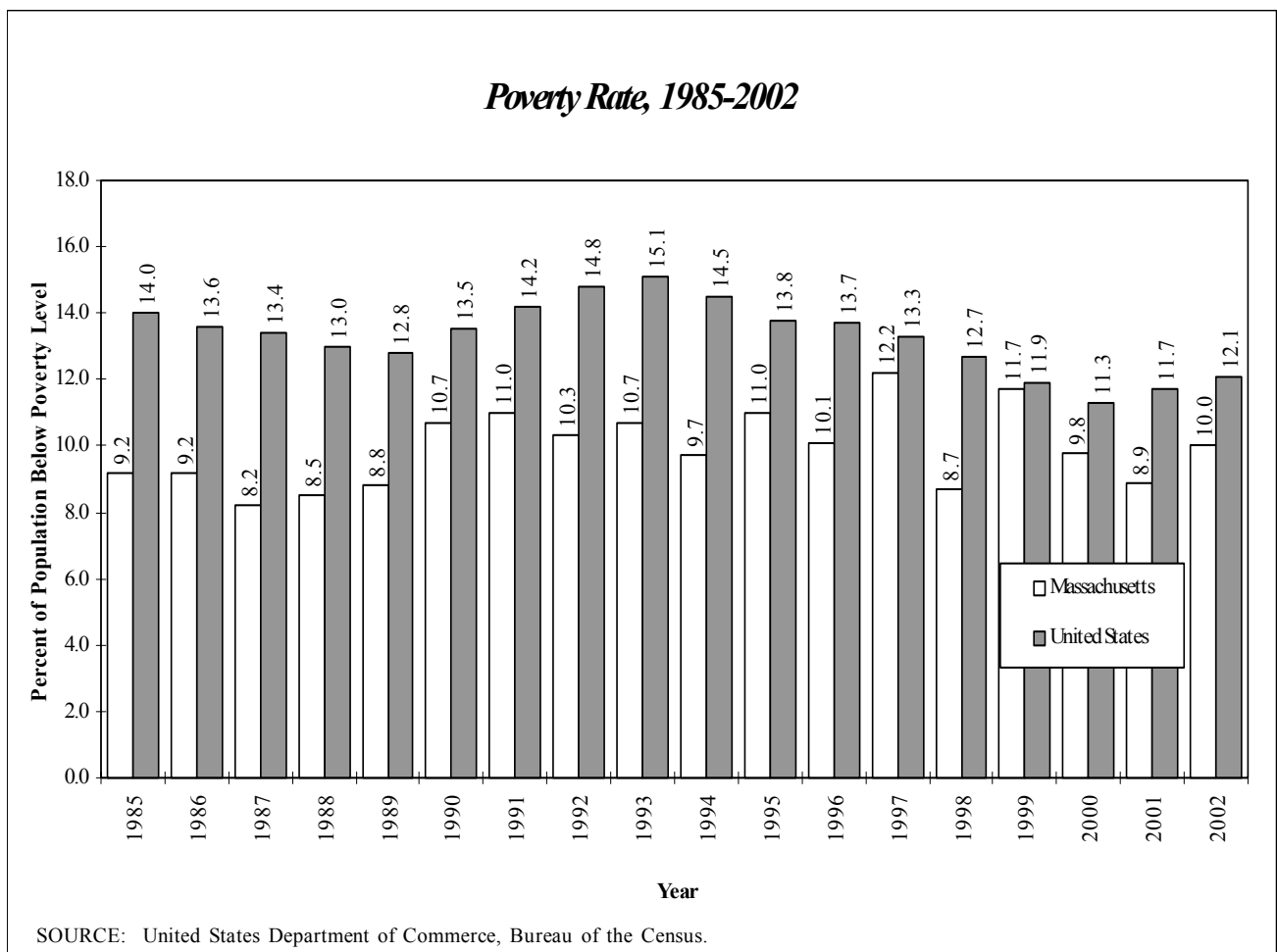
**Consumer Confidence for Massachusetts, New England, and the U.S. January 2000 – April 2004**

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



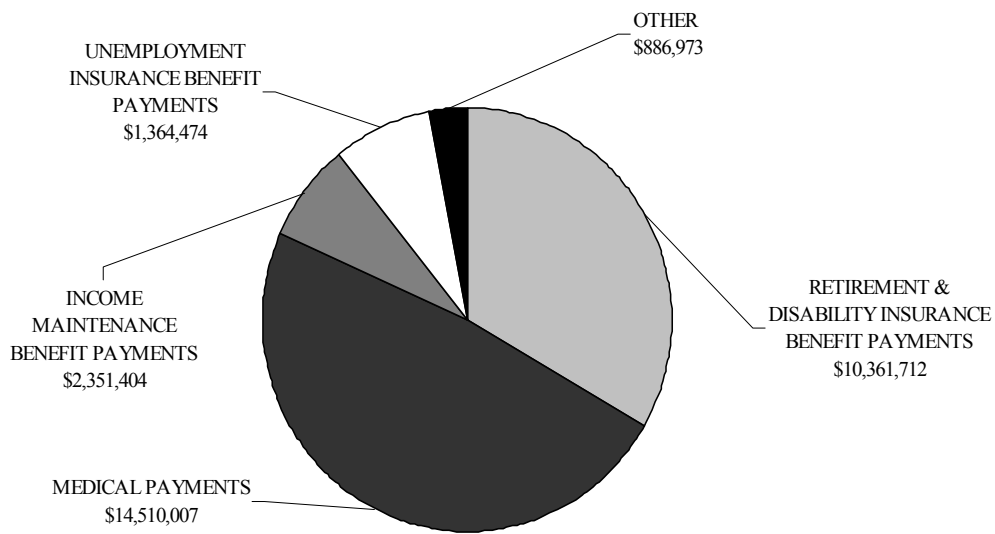
SOURCES: The Conference Board, Inc. (for U.S. and N.E. measures), New England Economic Project (for MA measure).

**Poverty.** The Massachusetts poverty rate remains below the national average. Since 1980, the percentage of the Massachusetts population below the poverty line has varied between 7.7 percent and 12.2 percent. During the same time, the national poverty rate varied between 11.3 percent and 15.1 percent. In 2001, the poverty rate in Massachusetts declined to 8.9 percent while the poverty rate in the United States rose slightly to 11.7 percent. Since 1980, the ratio of the Massachusetts rate of poverty to the United States rate of poverty has varied from a low of 0.51 in 1983 to 0.99 in 1999. These official poverty statistics are not adjusted for regional differences in the cost of living. The following chart illustrates the lower poverty rates in Massachusetts (1985-2002) compared with the national average during similar periods. Poverty estimates for states are not as reliable as national estimates. One should use caution when comparing poverty rate estimates across states, or poverty rates for the same state across years, because their variability is high.



**Transfer Payments.** Transfer payment income is payment to individuals from all levels of government and from businesses, for which no current services are performed, including payments to nonprofit institutions serving individuals. These payments accounted for more than 13 percent of total personal income in Massachusetts in 2002. The chart below does not include transfer payments from business or payments to non-profit organizations. Total transfer payments to individuals in Massachusetts totaled 32.1 billion dollars for 2002.

**Transfer Payments from Governments to Individuals in 2002 – Massachusetts (from Annual State Personal Income Estimates)**  
(thousands of dollars)



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

NOTE: The category "other" includes payments for: veterans benefit payments, federal education and training assistance payments, and other payments to individuals.



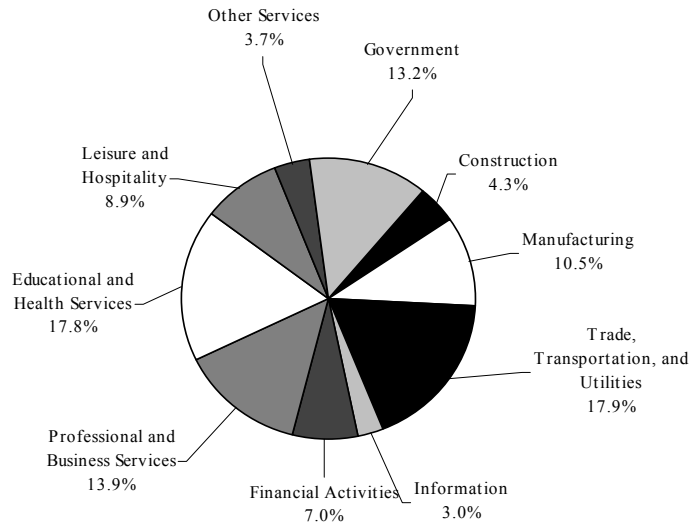
## EMPLOYMENT

*Employment by Industry.* The charts on the following page show the distribution of non-agricultural payroll employment by industry in Massachusetts for 2002 and 2003 on the new North American Industry Classification System (NAICS) basis, and the corresponding shares for 1990 and 1991, the earliest years for which NAICS data is available. Subsequent versions of this Economic Information section will discuss these new sectors in more detail. Like many industrial states, Massachusetts has seen a steady decline of its manufacturing jobs base over the last two decades, both absolutely and as a share of total employment. Several NAICS service sectors have grown to take the place of manufacturing in driving the Massachusetts economy.

Total non-agricultural employment in Massachusetts declined 2.4 percent in 2002 and another 1.9 percent in 2003. In the first five months of 2004, manufacturing employment (on the seasonally adjusted NAICS basis) declined 2.8 percent from the same period in 2003, a much smaller decline than the annual declines in the previous three years (5.0%, 10.3%, and 6.2% in 2001, 2002, & 2003 respectively.)

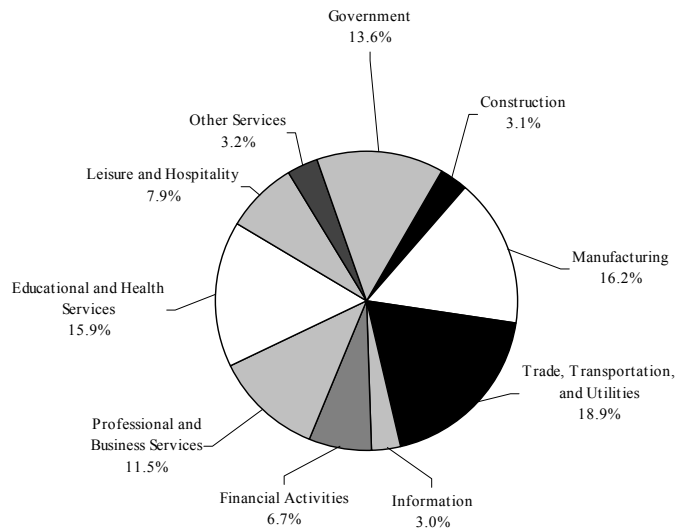
**Massachusetts Non-Farm Payroll Employment  
(NAICS Industry basis)**

**NAICS Super-Sectors: 2002-2003 Average Share**



SOURCE: MA Division of Unemployment Assistance.

**NAICS Super-Sectors: 1990-1991 Average Share**



SOURCE: MA Division of Unemployment Assistance.

**Largest Employers in Massachusetts.** The following table lists the twenty-five largest employers in Massachusetts based upon employment data for June 2003. The list is unchanged from the previous list based on June 2002.

***Twenty-five Largest Massachusetts Employers in June 2003***  
*(Listed Alphabetically)*

---

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

SOURCE: MA Division of Unemployment Assistance.

**Unemployment.** The economic recession of the early 1990s caused unemployment rates in Massachusetts to rise significantly above the national average, as much as 2.3 points above in 1991. However, since 1994 the unemployment rate in Massachusetts has been consistently below the national average. The following table compares the annual civilian labor force, the number unemployed, and unemployment rates of Massachusetts, the New England states, and the United States between 1970 and 2003.

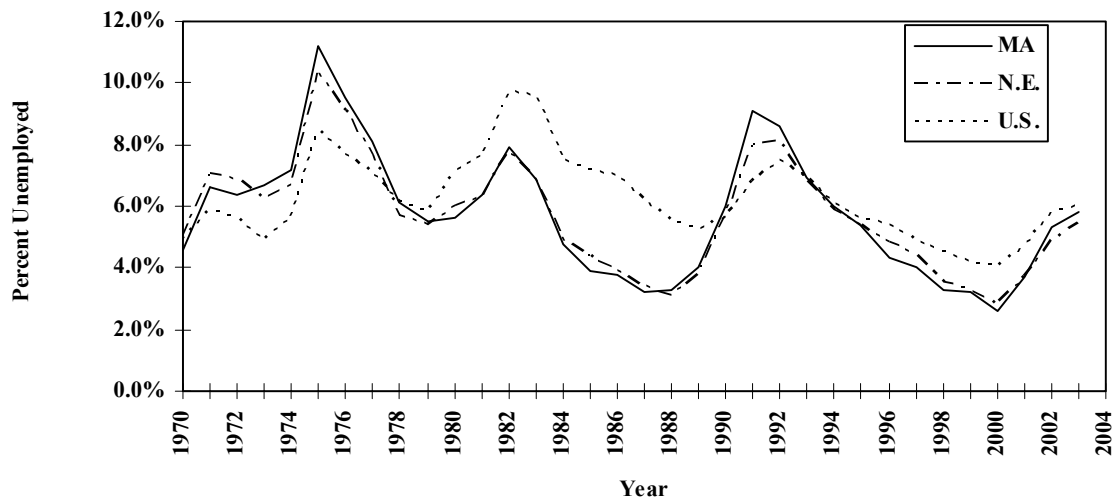
***Annual Average Civilian Labor Force and Unemployment, 1970-2003***

*(in thousands)*

Year	Civilian Labor Force			Unemployed			Unemployment Rate			MA Rate as
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.	Pct. of U.S.
1970	2,458	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	7,025	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	7,121	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	3,318	7,358	140,863	88	203	5,655	2.6%	2.8%	4.0%	65.0%
2001	3,393	7,422	141,815	125	272	6,742	3.7%	3.7%	4.7%	78.7%
2002	3,486	7,565	142,535	185	367	8,266	5.3%	4.9%	5.8%	91.4%
2003	3,416	7,554	146,510	198	409	8,774	5.8%	5.4%	6.0%	96.7%

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

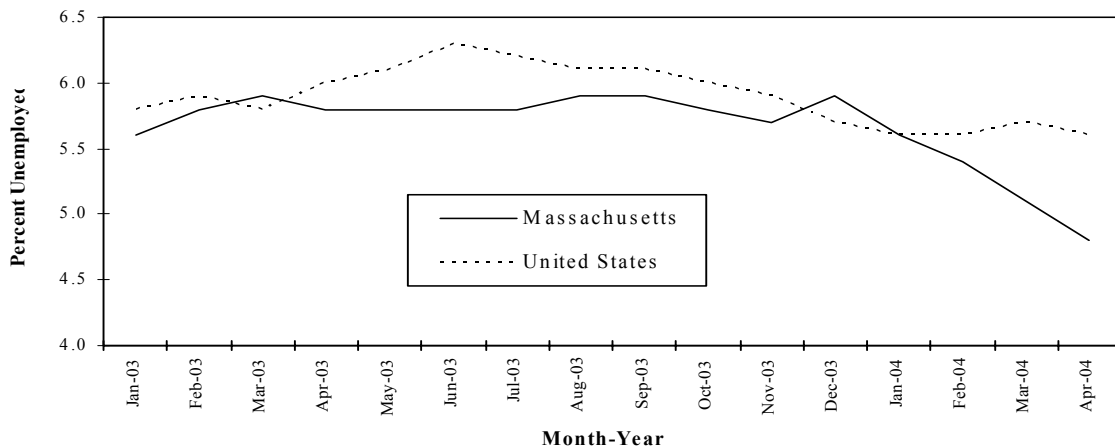
**Annual Average Unemployment Rate, 1970 -2003,  
Massachusetts, New England, and United States**



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

The unemployment rate in Massachusetts has been consistently below that of the United States ever since the recovery from the recession of the early 1990's, with the exception of two months in 2003. Unemployment levels in the United States as a whole and in the New England region have shown similar patterns in the last year, generally rising for much of the year, then falling slightly in recent months. The unemployment rate in Massachusetts dropped from 5.8 to 5.2 percent between May 2003 and May 2004, while the United States unemployment rate dropped from 6.1 to 5.6 percent over those same months. The following chart shows the unemployment rates for Massachusetts and the United States for each of the past seventeen months

**Monthly Unemployment Rate, January 2003 - April 2004  
(seasonally adjusted)**



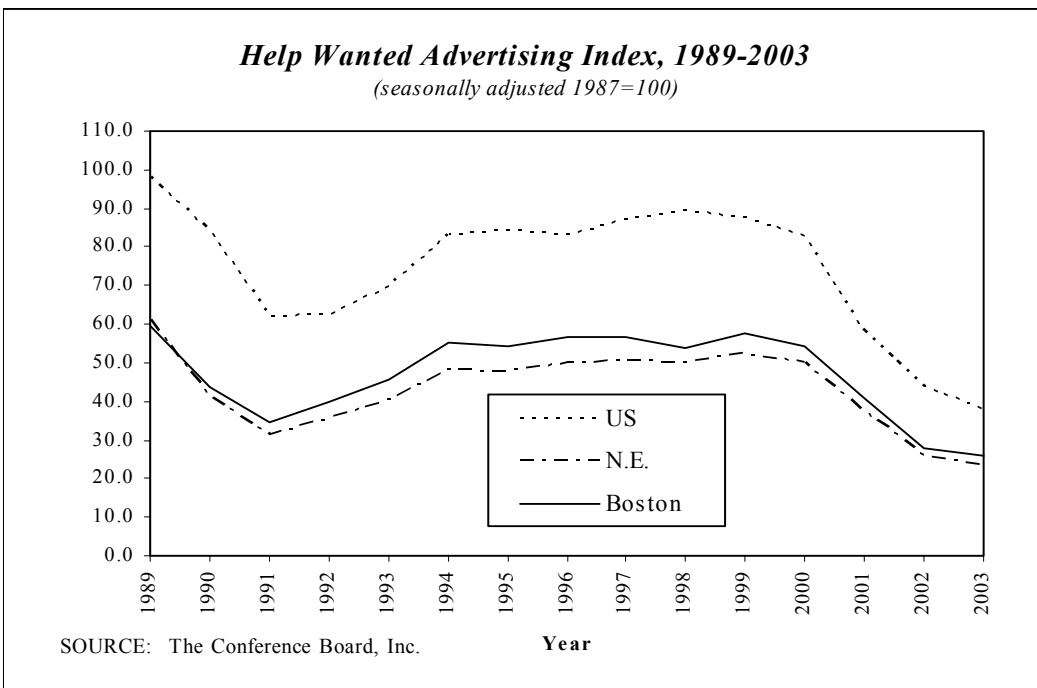
SOURCE: MA Division of Employment Assistance

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

**Help Wanted Advertising Index, 1989-2003**  
*seasonally adjusted 1987=100)*

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

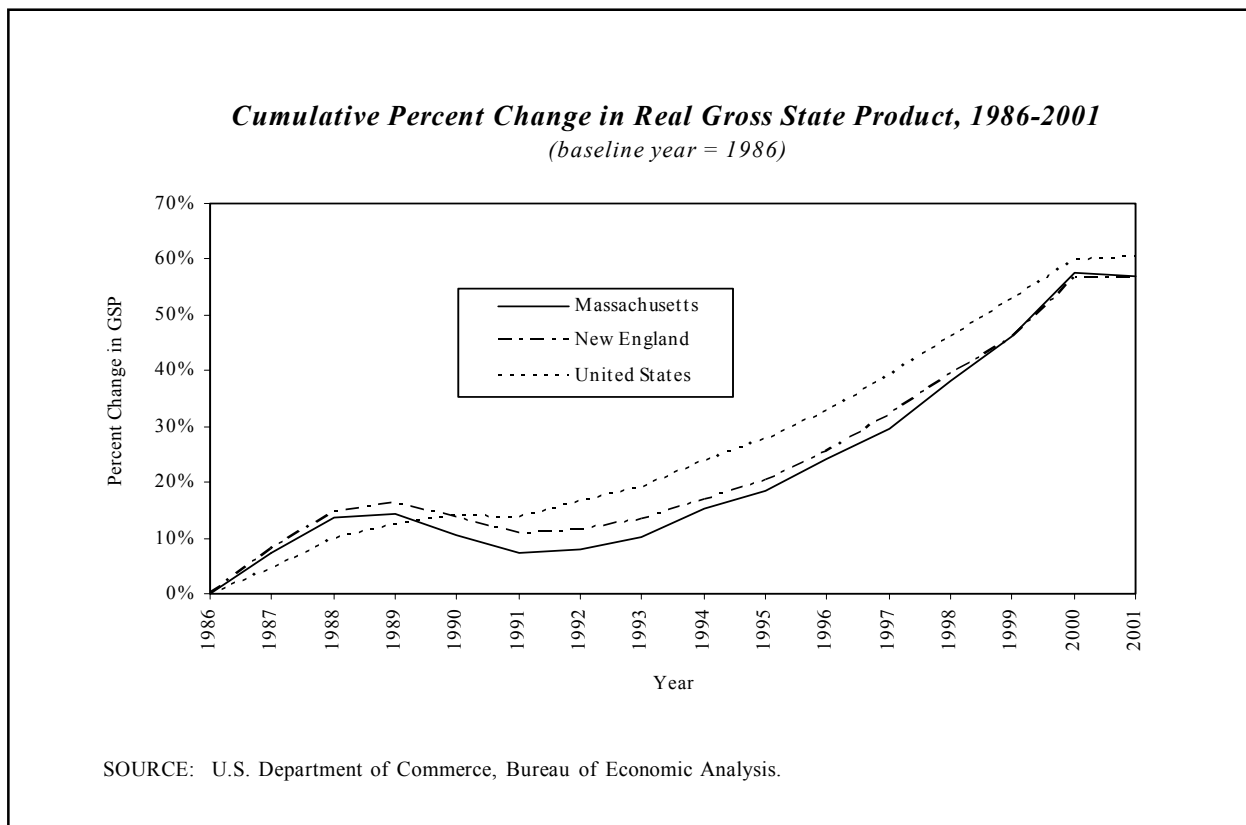
SOURCE: The Conference Board, Inc.



**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 become unemployed through no fault of their own. Benefits are paid from the Commonwealth's Unemployment Compensation Trust Fund, financed through employer contributions. The assets and liabilities of the Commonwealth Unemployment Compensation Trust Fund are not assets and liabilities of the Commonwealth. As of May 31, 2004, the Massachusetts Unemployment Trust Fund had an overall surplus of \$210 million, of which the private contributory sector portion was \$132 million, and the Division of Employment and Training's April 2004 quarterly report indicates that the employer contributions to be provided should result in private contributory trust fund system reserves of \$1.475 billion by the end of 2008.

**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, Massachusetts and New England experienced growth rates significantly below the national average. From 1992 to 1997, growth rates in Massachusetts and New England tracked the U.S. growth rate quite closely. In 1999 and 2000 the economies of both the Commonwealth and the region grew at a faster pace than the nation as a whole. However, both the U.S. and Massachusetts experienced slower growth in 2000 than in 1999, while New England's growth accelerated. Over the decade, growth of the Massachusetts economy averaged 3.9 percent, while New England and the nation have each experienced average growth of 3.5 percent. The Massachusetts economy is the largest in New England, making up an average of 47.7 percent of New England's total Gross State Product and an average of 2.7 percent of the nation's economy over the past decade. In 2001, Massachusetts experienced negative growth in the GSP of 0.4 percent, the first decline since 1991. New England GSP was flat in 2000 and the United States GSP grew by 0.4 percent.



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, 1986-2001**

(millions of chained 1996 dollars)

Year	Massachusetts		New England		United States	
	GSP	Change	GSP	Change	Total GSP	Change
1986	\$169,338		\$350,747		\$5,816,661	
1987	181,855	7.4%	378,136	7.8%	6,072,815	4.4%
1988	192,255	5.7%	401,698	6.2%	6,386,132	5.2%
1989	193,839	0.8%	407,229	1.4%	6,538,634	2.4%
1990	187,167	-3.4%	398,368	-2.2%	6,630,740	1.4%
1991	181,901	-2.8%	388,572	-2.5%	6,615,685	-0.2%
1992	182,789	0.5%	391,385	0.7%	6,774,505	2.4%
1993	186,680	2.1%	397,470	1.6%	6,918,388	2.1%
1994	195,171	4.5%	410,014	3.2%	7,203,002	4.1%
1995	200,537	2.7%	422,524	3.1%	7,433,965	3.2%
1996	210,127	4.8%	439,596	4.0%	7,715,901	3.8%
1997	219,716	4.6%	463,498	5.4%	8,093,396	4.9%
1998	233,981	6.5%	488,673	5.4%	8,502,663	5.1%
1999	247,354	5.7%	511,623	4.7%	8,882,613	4.5%
2000	266,840	7.9%	549,341	7.4%	9,298,227	4.7%
2001	265,722	-0.4%	549,472	0.0%	9,335,399	0.4%

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

Chained dollars are utilized by the Bureau of Economic Analysis as a measure of real GSP.

The annual revision of BEA's gross state product (GSP) estimates for 1999-2000 and new estimates for 2001 were completed and released in May 2003.

The commercial base of Massachusetts is anchored by the fourteen 2003 Fortune 500 industrial and service firms headquartered within the state, as the following table indicates. The Fortune 500 firms are ranked according to total revenues in 2003. All companies listed in the 2003 Fortune 500 are also in the 2004. Nine out of thirteen companies improved their rank and Boston Scientific was added at 478.

### **Massachusetts Companies in the 2004 Fortune 500**

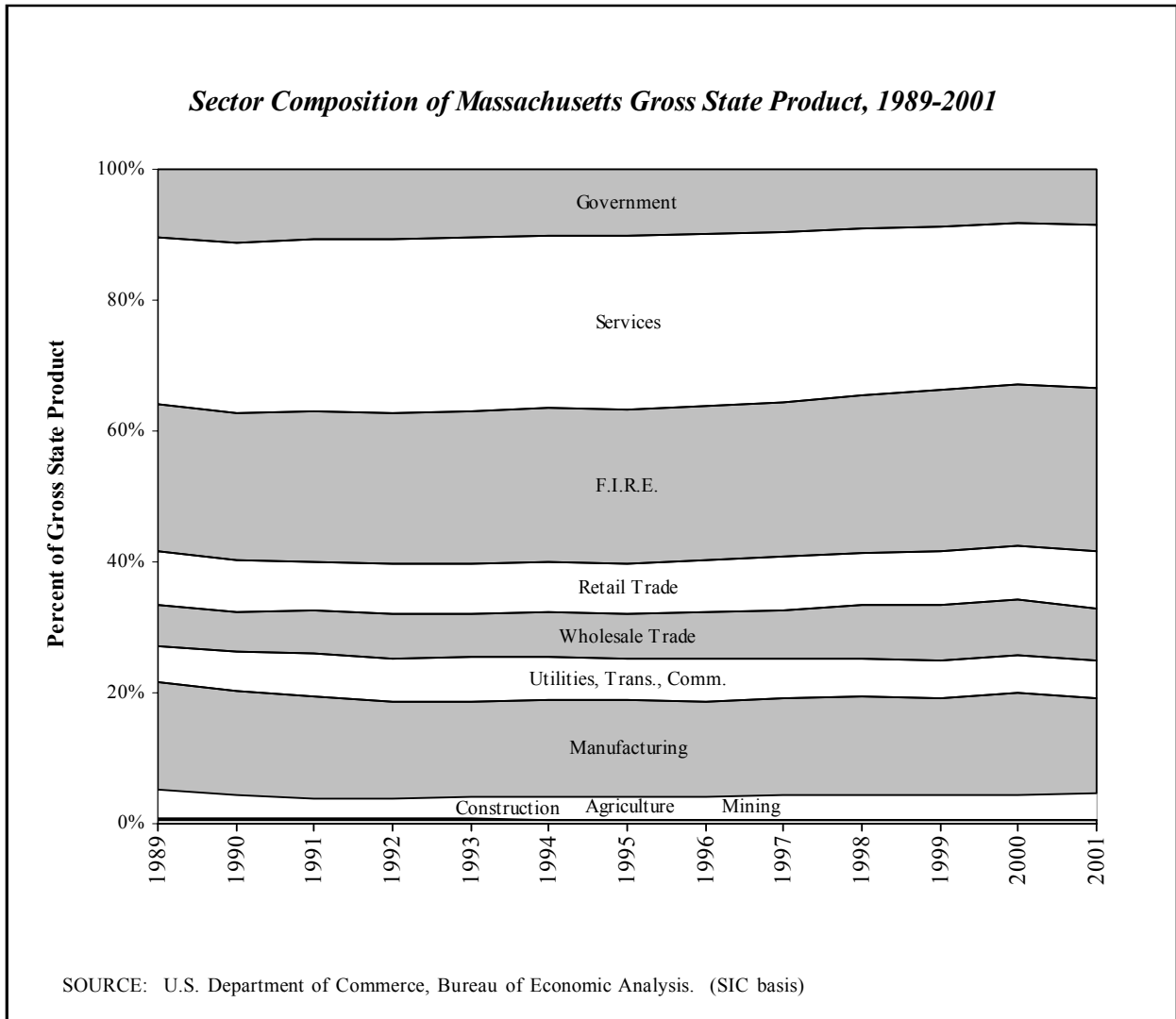
Rank		Company	Industry	2003 revenues (millions)
2004	2003			
90	84	Mass. Mutual Life Insurance (Springfield)	Insurance: Life and Health (Mutual)	\$21,080
107	105	Raytheon (Lexington)	Aerospace	18,109
116	129	Liberty Mutual Group (Boston)	Insurance: Property and Casualty (Mutual)	16,914
140	115	FleetBoston (Boston)	Commercial Banks	14,362
148	161	TJX (Framingham)	Specialty Retailers	13,328
152	165	Staples (Framingham)	Specialty Retailers	13,181
192	208	John Hancock Financial Services (Boston)	Insurance: Life and Health (Stock)	10,071
215	218	Gillette (Boston)	Metal Products	9,252
277	295	BJ's Wholesale Club (Natick)	Specialty Retailers	6,724
299	308	EMC (Hopkinton)	Computer Peripherals	6,237
330	340	State Street Boston Corp. (Boston)	Commercial Banks	5,463
477	483	Reebok International (Canton)	Apparel	3,485
478	--	Boston Scientific (Natick)	Medical Products & Equipment	3,476
494	456	Allmerica Financial (Worcester)	Insurance: Property and Casualty (Stock)	3,264

SOURCE: *Fortune*, April 5, 2004.



**ECONOMIC BASE AND PERFORMANCE - SECTOR DETAIL (SIC BASIS)**

The economy of Massachusetts remains diversified among several industrial and non-industrial sectors. The three largest sectors of the economy (services, F.I.R.E., and manufacturing on the old S.I.C. basis) contributed a 64.5 percent of the GSP in 2001, the same as their combined contribution in 1990. The next release of the GSP will be on a NAICS basis. The data below show the contributions to the Massachusetts real Gross State Product of all industrial and non-industrial sectors.



### *Gross State Product by Industry in Massachusetts, 1992-2001*

*(millions of chained 1996 dollars)*

<b>Industrial Sector</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
<b>Ag., Forestry, Fishing</b>	\$1,173	\$1,194	\$1,124	\$1,098	\$1,143	\$1,280	\$1,263	\$1,362	\$1,465	\$1,539
<b>Mining</b>	99	94	107	97	94	82	88	79	92	97
<b>Construction</b>	5,696	6,130	6,753	6,933	7,477	8,026	8,780	9,479	10,136	10,469
<b>Manufacturing</b>	27,281	27,402	28,789	29,835	30,687	32,813	35,486	36,688	41,808	38,543
<b>Trans., Util., Comm.</b>	11,940	12,621	13,035	12,683	13,334	13,063	13,245	14,034	15,354	15,354
<b>Wholesale Trade</b>	12,457	12,548	13,367	13,645	15,100	16,677	19,131	21,411	22,885	21,385
<b>Retail Trade</b>	13,791	13,996	14,695	15,163	16,591	17,683	19,228	20,219	22,039	23,243
<b>F.I.R.E.</b>	42,213	43,415	46,077	47,742	49,536	51,595	56,158	60,732	65,517	66,609
<b>Services</b>	48,822	49,610	51,261	53,055	55,508	57,576	59,717	61,867	66,263	66,268
<b>Government</b>	19,285	19,690	19,969	20,315	20,657	20,968	21,135	21,872	22,092	22,292
<b>Total GSP</b>	182,789	186,680	195,171	200,537	210,127	219,716	233,981	247,354	266,840	265,722

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis. (SIC basis)

**Finance, Insurance, Real Estate.** The F.I.R.E. sector, the second largest contributor to the Massachusetts Gross State Product over the last decade, took the leading position in 2001 at 25.1 percent of GSP. In 2000, it contributed 24.0 percent of the Gross State Product. The sector has experienced yearly growth since the declines of 1989 to 1991, and was the only one of the top three sectors to grow in 2001, increasing by 1.7 percent over 2000.

**Services.** In 2001, the services sector, long the largest contributor to the Massachusetts Gross State Product, lost its leading position as it declined slightly in real terms from its 2000 level to represent 24.9 percent of GSP. After a period of stagnation and slight decline from 1989 to 1991, the sector showed solid growth through the 1990s and a 7.1 percent jump in 2000, but no growth in 2001.

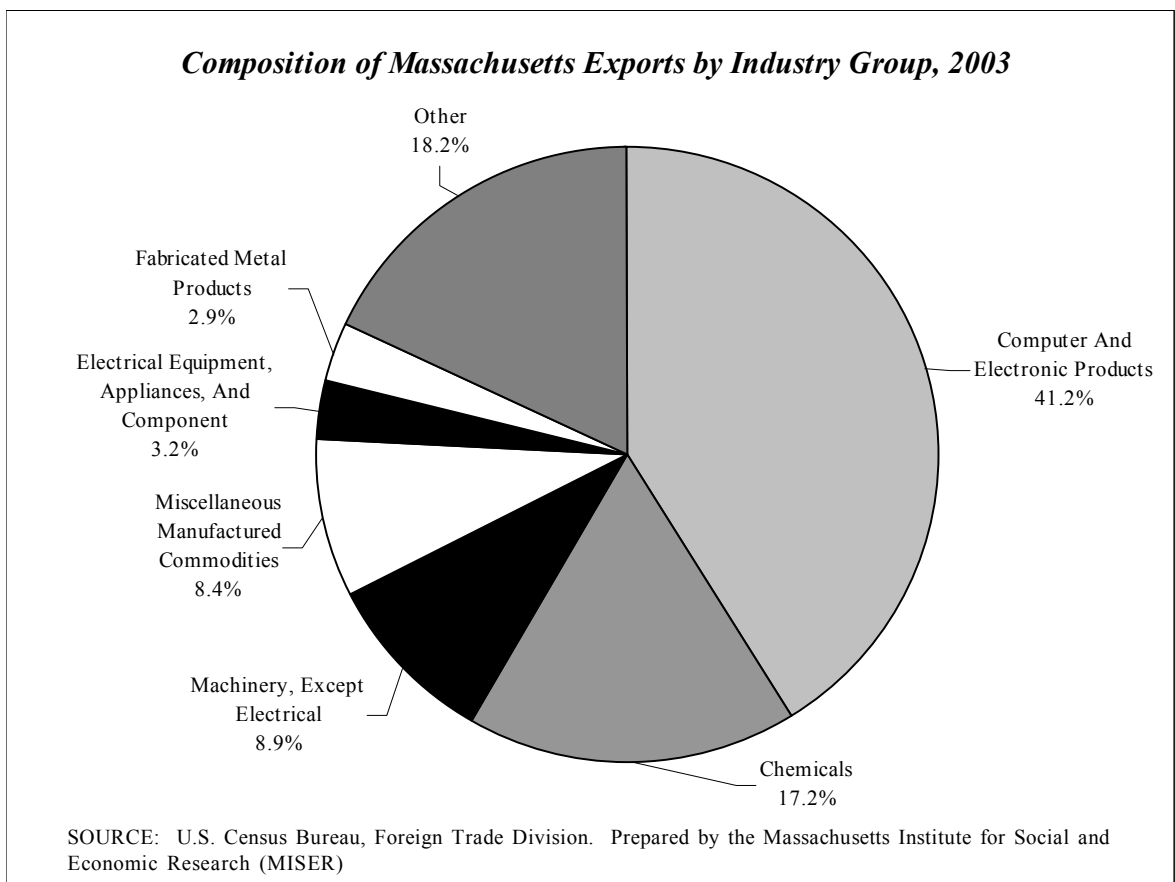
**Manufacturing.** The manufacturing sector was the third largest contributor to the Massachusetts Gross State Product in 2000, contributing 14.5 percent of the Gross State Product. Manufacturing in New England was hit hard during the recession of 1989-1991, and posted only moderate growth during the mid-nineties. The manufacturing sector grew at least 6.9 percent in three of the years from 1997 to 2000, including a gain of 14.0 percent in 2000, but suffered a 7.8 percent decline in 2001.

**Wholesale and Retail Trade.** Combined, the wholesale and retail trade sectors contributed 16.7 percent of the Massachusetts Gross State Product in 2001, with each sub-sector contributing almost equally to the total. Growth in the wholesale trade sector rebounded in 1991 and varied through the early 1990s but was very strong in the period from 1996 to 1999, increasing by more than 10 percent in each of those years. Growth of 6.9 percent in 2000 was offset by a decline of 6.6 percent in 2001, returning to 1999 levels. The retail sector was harder hit during the 1989-1991 recession, and did not rebound as quickly, with annual growth not exceeding 1.5 percent until 1994. In each of the six years from 1996 to 2001, however, retail growth exceeded 5 percent, including a 5.5 percent increase in 2001.

**Trade and International Trade.** A significant portion of what Massachusetts produces is exported internationally. Massachusetts ranked 10<sup>th</sup> in the United States, and first in New England, with \$18.7 billion in international exports in 2003. This represents an 11.7 percent increase from the previous year's exports from the Commonwealth, while national exports increased by 4.4 percent in the same period. Through April 2004, Massachusetts's exports totaled \$7.23 billion, an increase of 21.8 percent compared with exports in the first four months of 2003. National exports were up 13.7 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 computer and electronic products, chemical products, and non-electrical machinery. These categories reflect the adoption of the NAICS classification system, which groups computers with electronic products, rather than with machinery.

Massachusetts' five most important trading partners for 2003 were: Canada, with \$2.64 billion in purchases of Massachusetts exports; the Netherlands, with \$1.76 billion; Japan, with \$1.64 billion; Germany, with \$1.60 billion; and the United Kingdom, with \$1.43 billion in purchases. Between 2002 and 2003, the most significant growth in Massachusetts's exports among its top ten trading partners was in exports to the Netherlands, Malaysia and the Philippines, which increased by 66.9 percent, 74.9 percent and 63.9 percent, respectively.



**Value of International Shipments from Massachusetts, 1997-2003**

*(top ten industry groups ranked by value of 2003 sales, in millions)*

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

SOURCE: Massachusetts Institute for Social and Economic Research, University of Massachusetts - Amherst. These figures reflect the changeover in export statistics reporting to the NAICS system from the SIC system. Categories and state totals are not comparable between systems. Pre-1997 data is not available.

**Transportation and Warehousing, and Utilities.** Massport reported fiscal 2002 operating income of \$17 million (down 53.3 percent from fiscal 2001), with operating revenues down 3.4 percent and operating costs up 2.8 percent. In fiscal 2002, 22.1 million passengers (a 19.3 percent decrease from fiscal 2001) and more than 842 million pounds of cargo and mail (a 14.1 percent decrease) passed through Logan. At the Port of Boston, 2001 cargo throughput was 16.3 million metric tons (a four percent decline from 2000), automobile imports decreased 13 percent to 80,000 units, and cruise passenger trips increased 28 percent to 253,000.

**Construction and Housing.** In 2001, construction activity contributed 3.9 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, and by at least 6.9 percent in each year from 1995 to 2000. Growth tapered to 3.3 percent in 2001.

The following table shows 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 from 1987 to 1991 during which the number of housing permits authorized in Massachusetts declined by 71.2 percent. With the exception of a 12.9 percent drop in 1995, Massachusetts housing permit authorizations increased each year from 1992 to 1999, for a total increase in that period of 50.3 percent. All three regions experienced declines in 2000, and Massachusetts and New England saw continuing, if milder, decreases in authorizations for 2001. All regions experienced growth in 2002 and 2003, with New England surging by 14.2 percent from 2001, Massachusetts rebounding with 11.5 percent growth, while nationwide growth in authorizations was similar at 12.1 percent.

### *Housing Permits Authorized, 1969-2003*

<i>Year</i>	<i>Massachusetts</i>		<i>New England</i>		<i>United States</i>	
	<i>Total Permits</i>	<i>Percent Change</i>	<i>Total Permits</i>	<i>Percent Change</i>	<i>Total Permits</i>	<i>Percent Change</i>
<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>1975</b>	17,697	-27.5%	41,645	-21.0%	934,511	-12.4%
<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%	1,663,916	2.7%
<b>2000</b>	17,342	-8.6%	43,735	-7.7%	1,598,332	-3.9%
<b>2001</b>	16,654	-4.0%	42,786	-2.2%	1,637,166	2.4%
<b>2002</b>	17,122	2.8%	47,173	10.3%	1,749,584	6.9%
<b>2003</b>	18,574	8.5%	48,845	3.5%	1,835,900	4.9%

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

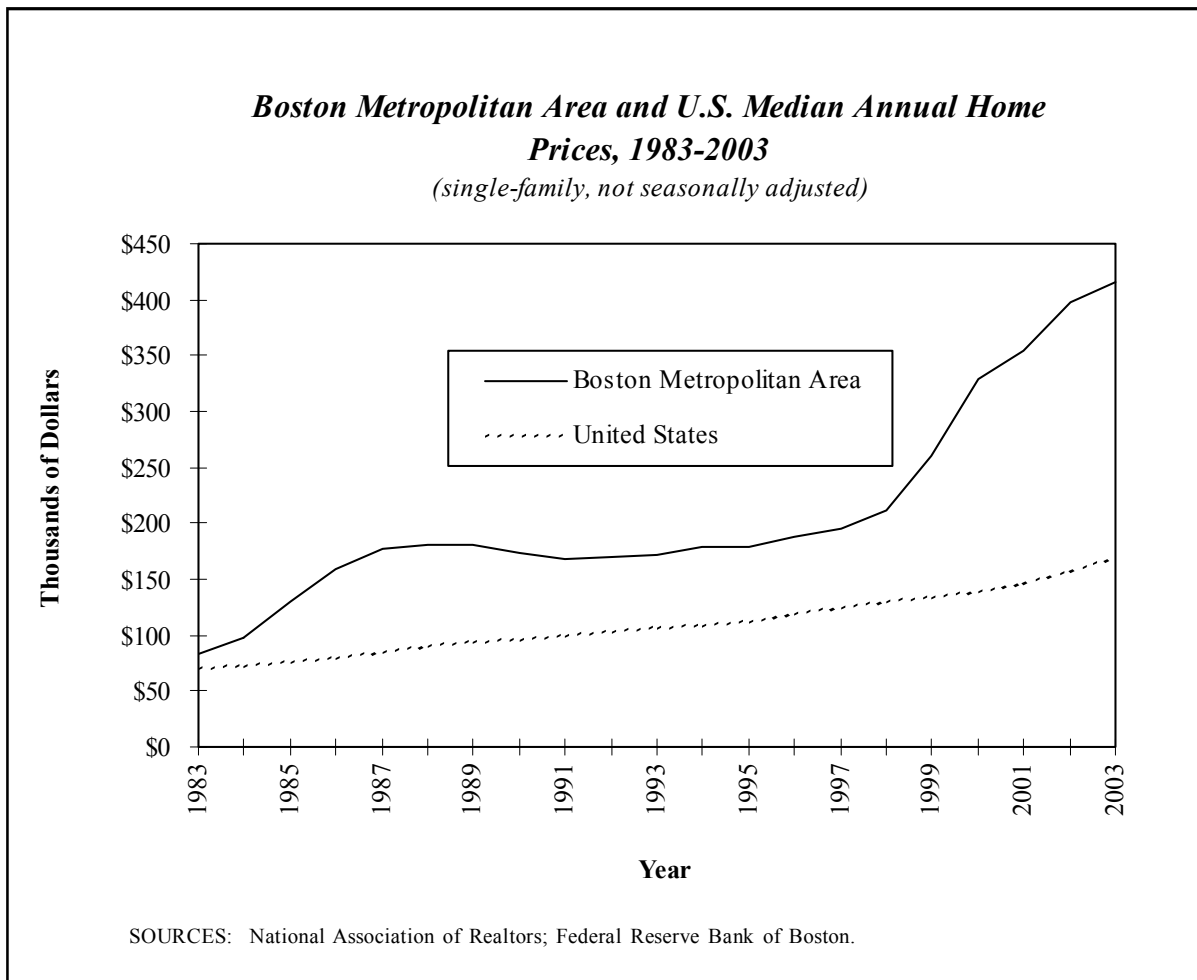
Both the economic recession of 1990-1991 and the subsequent economic recovery were strongly reflected in the Massachusetts housing sector, but the recession that began in 2001 has had a less pronounced impact on home sales. Significant declines in existing home sales in Massachusetts in 1989 and 1990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

**Existing Home Sales, 1981-2003**  
(seasonally adjusted annual rates, in thousands)

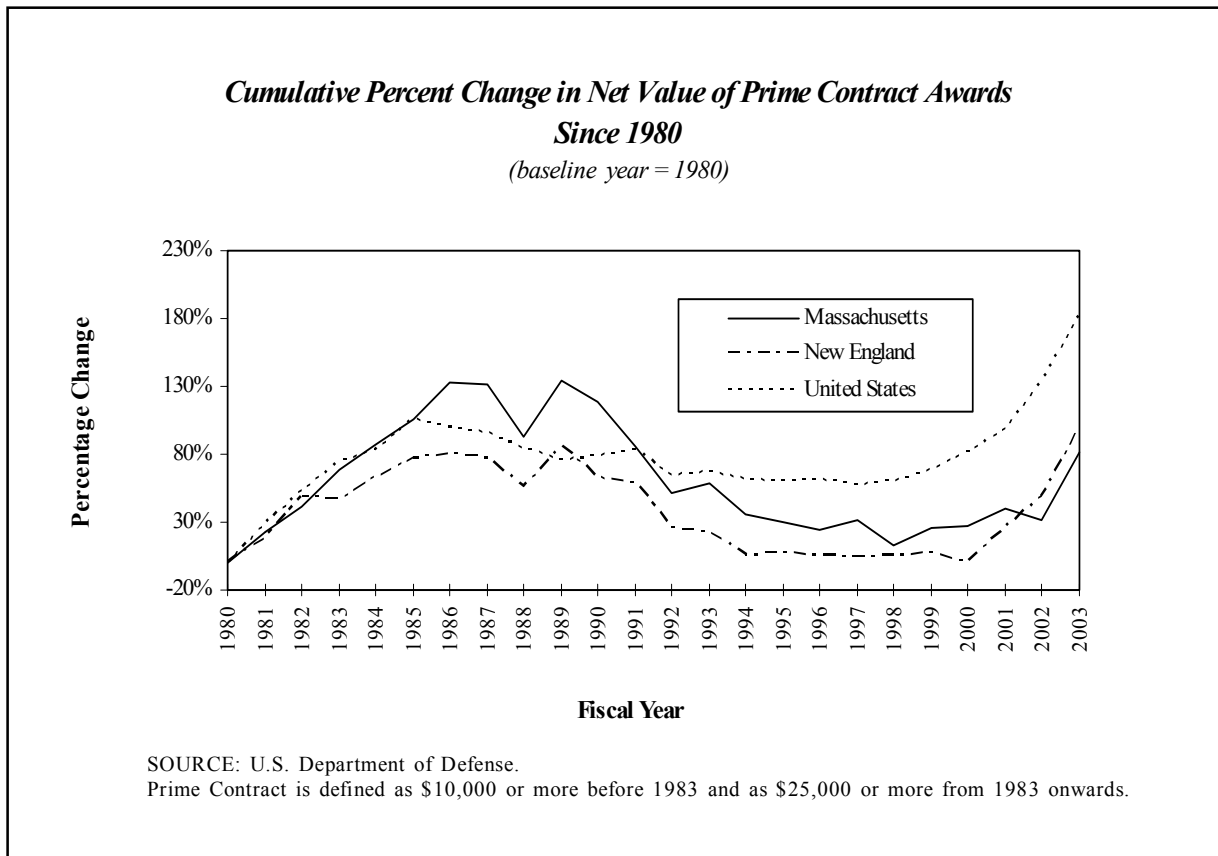
Year	Massachusetts		New England		United States	
	Sales	% Change	Sales	% Change	Sales	% Change
1981	43.0		105.8		2,575.0	
1982	42.6	-0.8%	98.6	-6.9%	2,117.5	-17.8%
1983	59.2	39.0%	141.3	43.3%	2,875.0	35.8%
1984	54.9	-7.3%	140.7	-0.4%	3,027.5	5.3%
1985	60.2	9.7%	157.0	11.6%	3,382.5	11.7%
1986	67.0	11.3%	169.2	7.8%	3,772.5	11.5%
1987	76.4	14.1%	174.5	3.1%	3,767.5	-0.1%
1988	76.6	0.2%	178.5	2.3%	3,882.5	3.1%
1989	68.2	-10.9%	163.0	-8.7%	3,672.0	-5.4%
1990	48.6	-28.8%	134.0	-17.8%	3,603.5	-1.9%
1991	53.4	10.0%	140.5	4.9%	3,533.3	-1.9%
1992	62.5	17.0%	170.6	21.4%	3,889.5	10.1%
1993	70.9	13.4%	193.8	13.6%	4,220.3	8.5%
1994	71.4	0.7%	200.3	3.4%	4,409.8	4.5%
1995	69.6	-2.6%	185.7	-7.3%	4,342.3	-1.5%
1996	81.2	16.6%	200.7	8.1%	4,705.3	8.4%
1997	90.1	11.0%	219.4	9.3%	4,908.8	4.3%
1998	99.9	10.8%	248.3	13.2%	5,585.3	13.8%
1999	98.5	-1.3%	253.3	2.0%	5,922.8	6.0%
2000	88.7	-10.0%	242.0	-4.4%	5,831.8	-1.5%
2001	87.5	-1.4%	239.6	-1.0%	6,026.3	3.3%
2002	91.9	5.0%	244.5	2.0%	6,421.3	6.6%
2003	96.5	5.0%	279.2	14.2%	6,994.8	8.9%

SOURCES: Federal Reserve Bank of Boston; National Association of Realtors. Revised May 2004  
N/A: Not Available

Median single-family home prices for the Boston Metropolitan area appear below. While Boston housing prices were 118.1 percent of the U.S. median in 1983, by 1987 Boston housing prices as a percent of the national median had reached 205.7 percent. After dipping to 160.9 percent of the national median in 1993 and remaining as low as 162.9 percent of the national median in 1998, Boston home prices soared to 237 percent of the national median in the fourth quarter of 2003. The Boston metropolitan area median home price rose to \$406,800 in the fourth quarter of 2003, compared to the national home price of \$171,600.



**Defense.** Following a peak at \$8.7 billion in the value of military prime contracts awarded to Massachusetts firms in fiscal 1986, defense-related contracts declined 17.2 percent by fiscal 1988 to \$7.2 billion. By fiscal 1995, the value of defense-related prime contracts had declined to \$4.8 billion. The net value of prime contract awards in Massachusetts oscillated between \$4.2 and \$4.9 billion from 1995 to 2000, but jumped 10.8 percent in 2001 to reach \$5.2 billion. The chart below illustrates the yearly changes in the value of Massachusetts military prime contracts from 1981 to 2003.



The importance of the defense industry to the Massachusetts economy is reflected in table on the following page, which shows the value of Department of Defense prime contract awards between 1980 and 2003. 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 49.9 percent. In 2000, the Commonwealth’s share of New England’s prime contract awards rose to a recent peak of 54.2 percent, but large increases elsewhere in New England in 2001 offset the Massachusetts increase and pushed the Commonwealth’s share in the region back down to 47.3 percent. In 2002, the Commonwealth’s share of the national total reached its lowest point in over two decades, but increased slightly to 3.6 percent in 2003 due to a \$1.6 billion increase in aircraft engine, missile and space system, services and weapons procurement contracts. Despite this trend, Massachusetts remains the eighth largest recipient in defense spending.



**Net Value of Department of Defense Prime Contract Awards, 1980-2003**

*(in millions)*

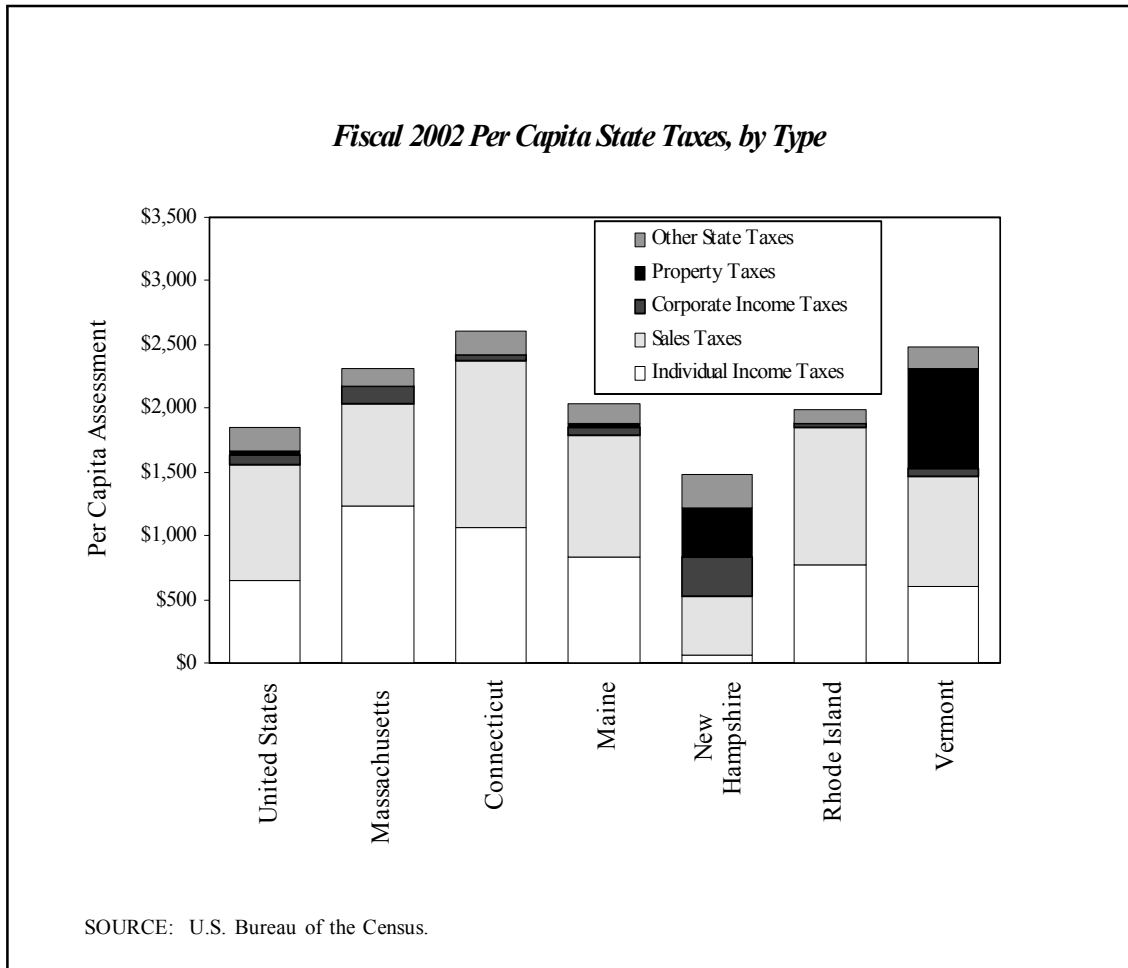
Fiscal Year	MA	N.E.	U.S.	Massachusetts' Share (as a Percent)	
				of New England	of U.S.
1980*	\$3,743	\$8,775	\$68,070	42.7%	5.5%
1981*	4,605	10,372	87,761	44.4%	5.2%
1982*	5,317	13,037	103,858	40.8%	5.1%
1983	6,328	12,967	118,744	48.8%	5.3%
1984	7,029	14,249	123,995	49.3%	5.7%
1985	7,714	15,487	140,096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

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

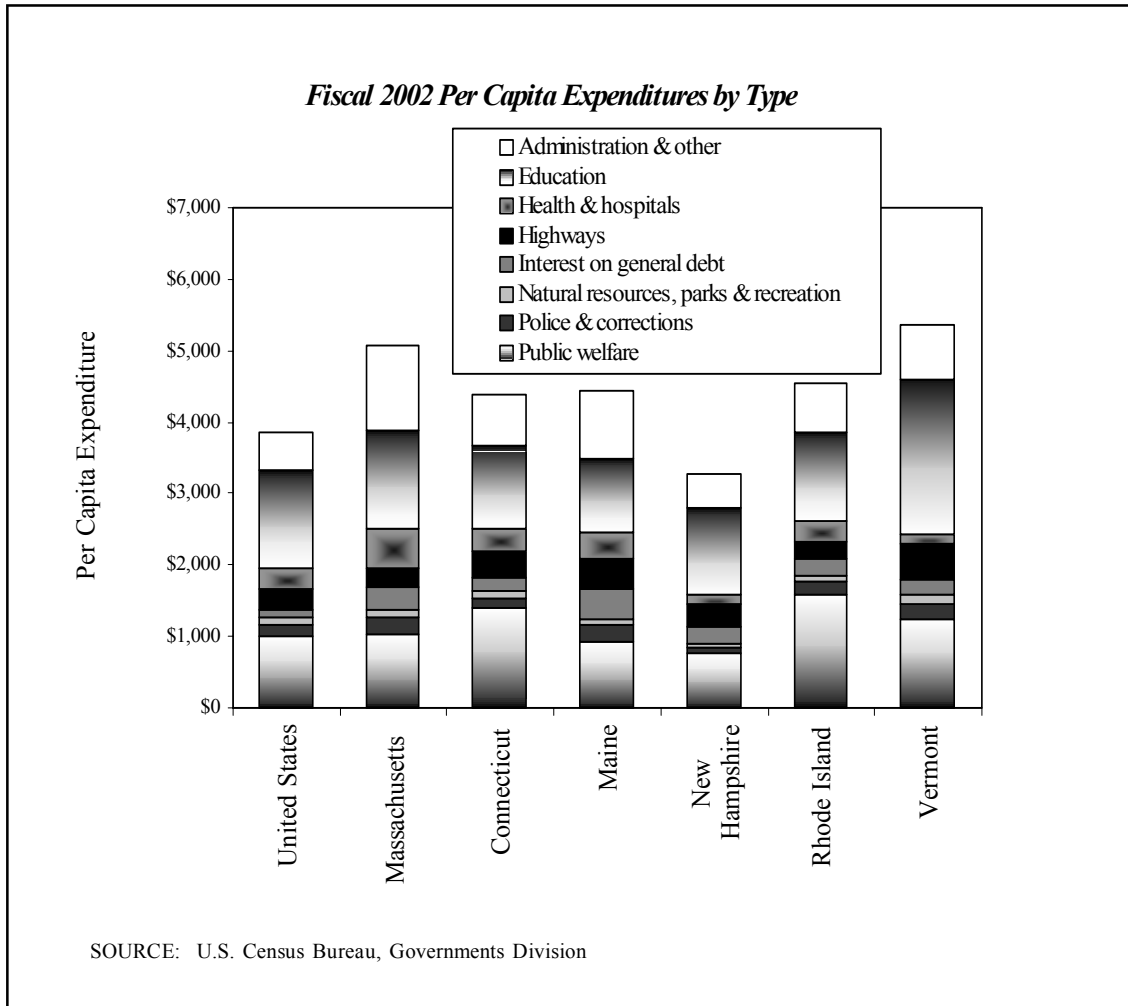
**Travel and Tourism.** The travel and tourism industry represents a substantial component of the overall Massachusetts economy. Massachusetts is one of the nation's most popular tourist and travel destinations for both domestic and international visitors. The greater Boston area is New England's most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

The Massachusetts Office of Travel and Tourism estimates that 24.3 million domestic travelers traveled to or within the Commonwealth in 2002, a decrease of 6.9 percent from 2001. Additionally, 1.8 million international travelers visited Massachusetts in 2002. Leisure is the primary reason for 77 percent of tourist trips to Massachusetts. The latest available economic impact data indicates that direct spending by visitors to Massachusetts totaled \$11.7 billion in 2001, a decrease of 12.0 percent from the 2000 level.

**State Taxes.** State taxes in Massachusetts are significantly higher than the national average. In 2002, the total per capita state tax bill in the United States was \$1,860. Citizens of the Commonwealth, however, paid \$2,308 on average, the sixth highest rate in the nation. In New England, citizens in Connecticut and Vermont paid more per capita, and all New England states except New Hampshire, 43<sup>rd</sup>, ranked in the top 15 for per capita state tax collections. Over half of the state taxes in Massachusetts come from the state income tax. Per capita individual income taxes in Massachusetts were \$1,332. Across the New England states, there is wide variation in both total per capita state taxes and in the breakdown of those taxes, as illustrated in the following chart.

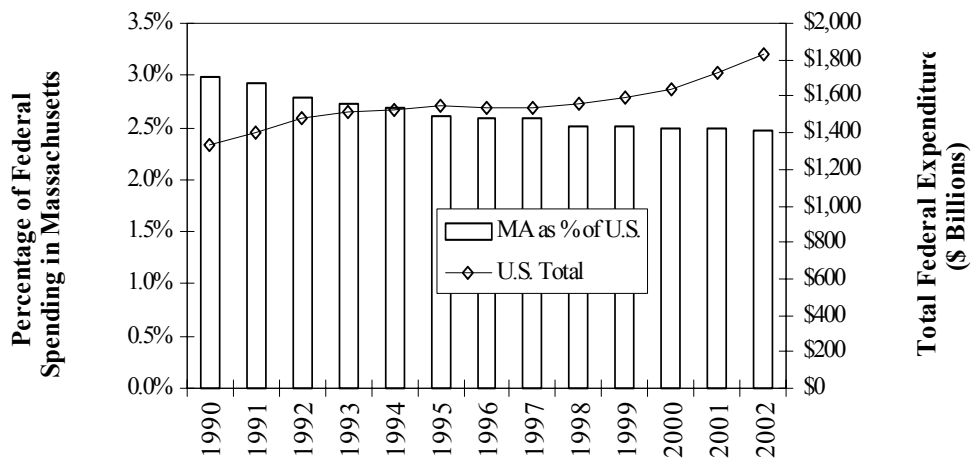


**State Government Spending in Massachusetts.** The following chart depicts fiscal 2002 per capita state expenditures by category for the six New England states and the U.S. average state expenditure. Massachusetts spent more state funds per capita on debt service (\$418) and less on education (\$1020) than any of its New England neighbors. The differences between states in per capita spending are similar to those in taxation, with intergovernmental transfers (to and from local and federal governments) accounting for the degree to which per capita spending exceeds per capita taxation. While all New England states used less than the national average of 28.5 percent for intergovernmental expenditures, the variation within the region is significant, with intergovernmental expenditures representing 13.0 percent of Rhode Island expenditures, 19.1 percent of Massachusetts expenditures, and 26.1 percent of Vermont expenditures.



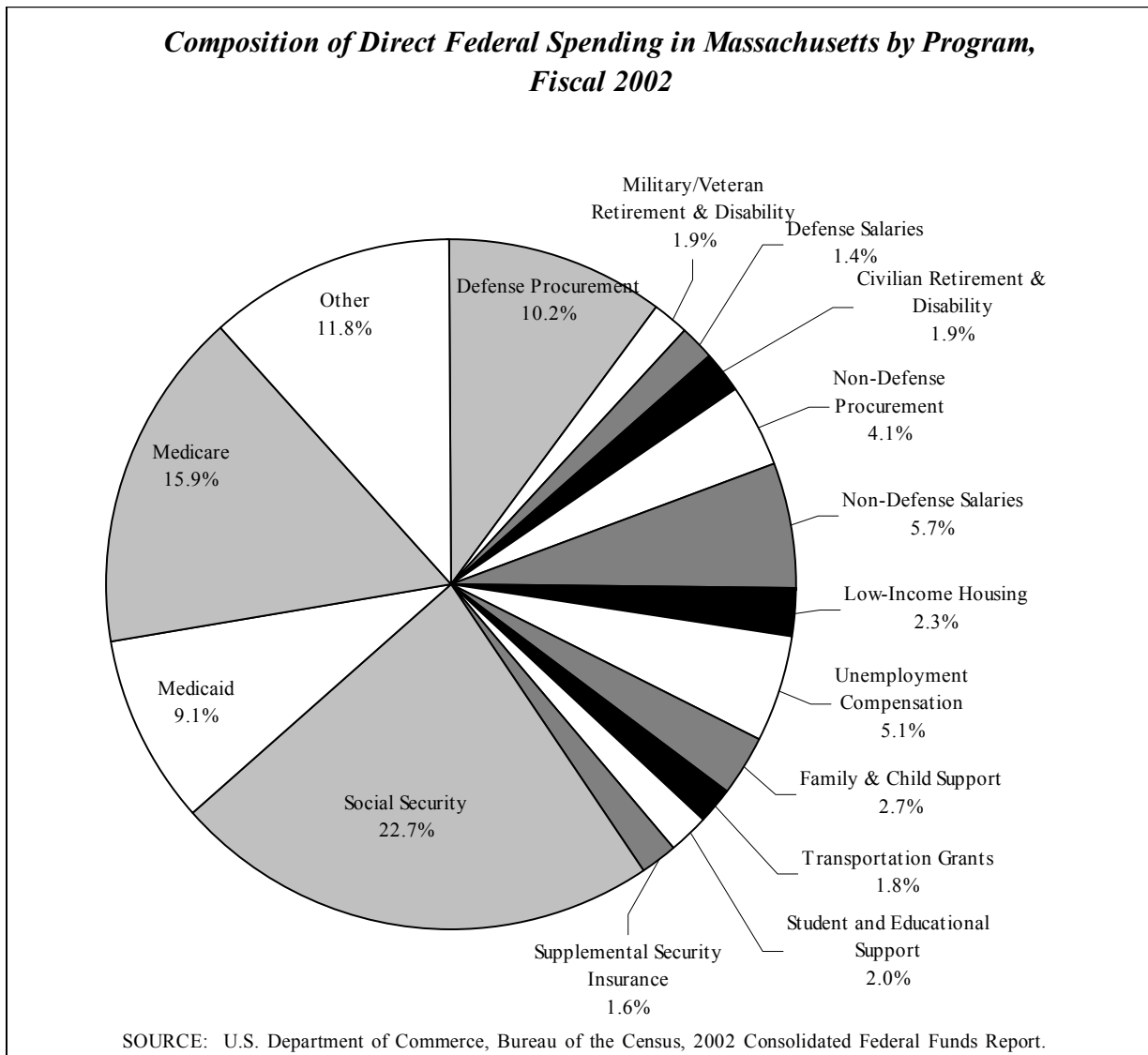
**Federal Government Spending in Massachusetts.** Federal government spending contributes a significant amount to the economy of Massachusetts. In fiscal 2002, Massachusetts ranked thirteenth among states in per capita distribution of federal funds, with total spending of \$7,387 per person, excluding loans and insurance. Massachusetts' share of total federal spending declined steadily between 1990 and 1999, and has stabilized in the range of 2.48 percent to 2.52 percent between 1998 and 2002. The following chart shows total federal expenditures and the percentage of federal expenditures in Massachusetts. Total federal spending data were converted to 2000 dollars by MASSDC 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 that can be associated with individual states and territories.

**Total Real Federal Expenditures and  
Percentage of Federal Expenditures in Massachusetts, 1990 - 2002**  
(in billions of constant 2000 dollars)



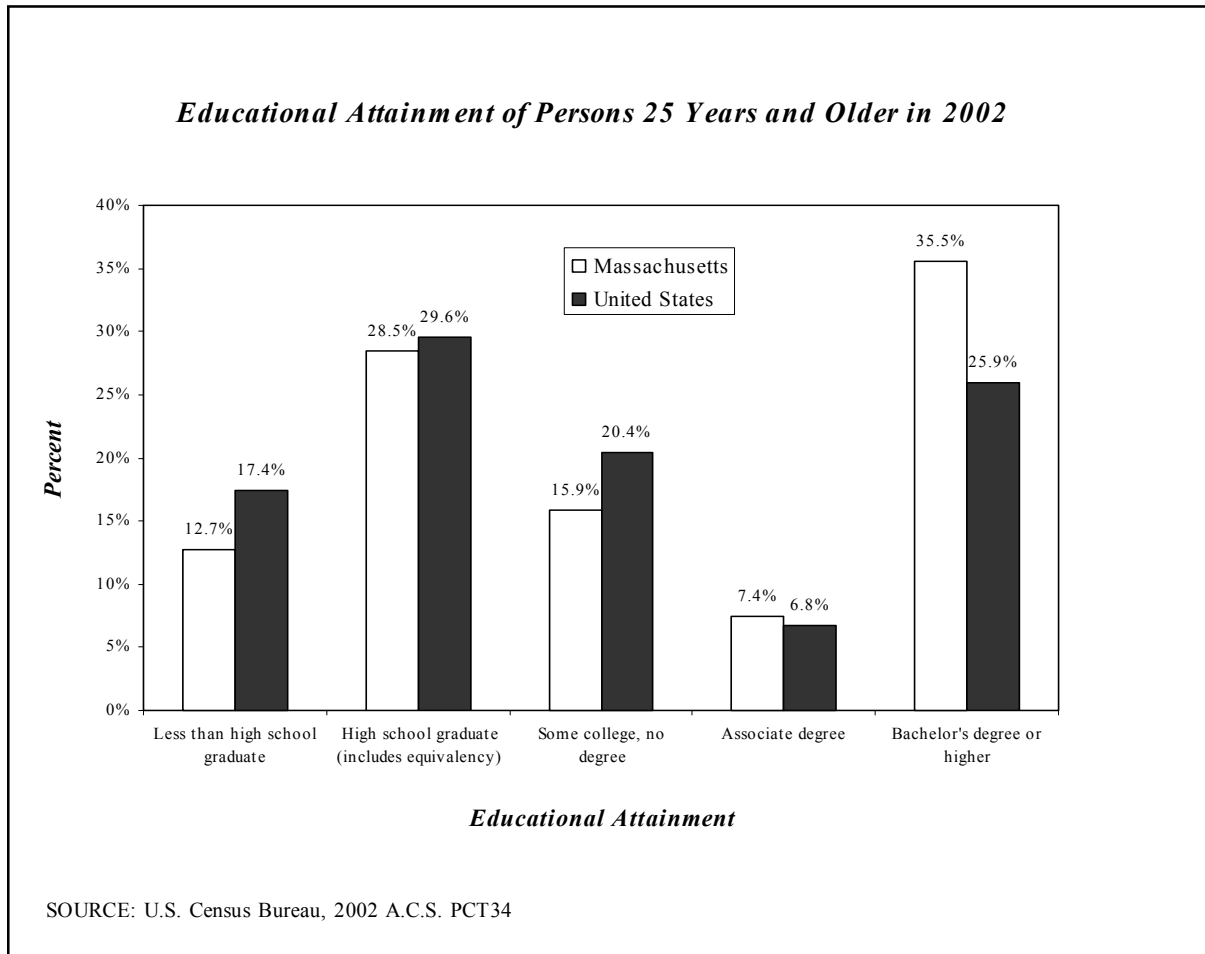
SOURCE: U.S. Department of Commerce, Bureau of the Census, 2002 Consolidated Federal Funds Report.

A large percentage of federal spending in Massachusetts in 2002 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 \$1,920 per capita compared to a national average of \$1,410. Per capita federal spending on salaries and wages in 2002 was lower in Massachusetts than in the rest of the nation, (\$525 compared to a national average of \$675) but Massachusetts was above the national average in per capita direct federal payments to individuals (\$3,885 compared to a national average of \$3,560). Massachusetts ranked 11<sup>th</sup> among states in per capita procurement contract awards (\$1,057 compared to a national average of \$882) in 2002. The following chart shows the composition of direct federal spending within Massachusetts in fiscal 2002, excluding loans and insurance.

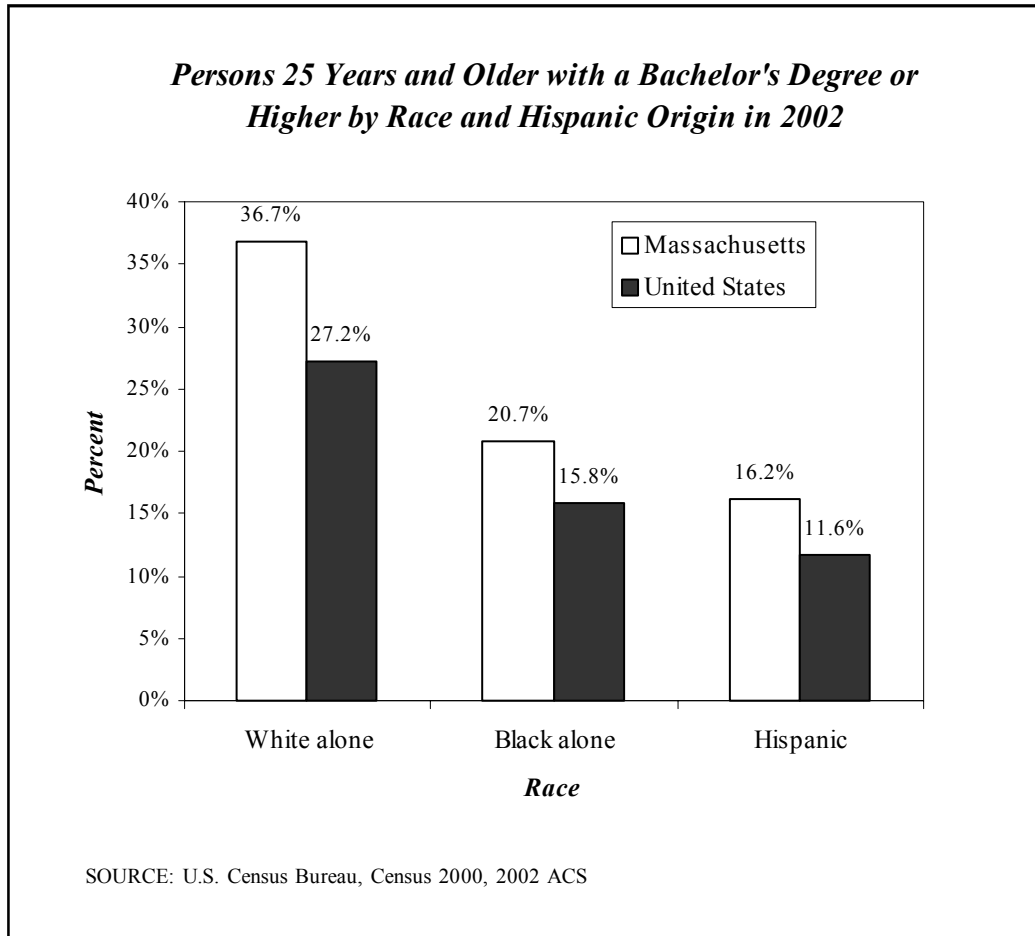


## HUMAN RESOURCES AND INFRASTRUCTURE

**Human Resources.** The availability of a skilled and well-educated population is an important resource for the Commonwealth. The level of education reached by the population of Massachusetts compares favorably with the level in the United States as a whole. In 2002, Massachusetts had a much smaller proportion of persons who had not completed high school (12.7%), than the national average of 17.4%, and a much higher proportion of persons with a bachelor's degree or more (35.5%), than the nation (25.9%). Massachusetts ranked thirteenth in the nation in percentage of its 25 and older population having received a high school diploma or more and second in percentage of the same population with a bachelor's degree or more.



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



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

**Higher Education Enrollment by Race and Hispanic Origin in 2002**

	Black	Asian	Native American	White	Hispanic	Race Unknown
Massachusetts	6.0	5.9	0.4	60.9	4.8	15.3
New England	5.8	4.6	0.5	68.7	4.6	13.6
United States (2001)	11.0	5.9	0.9	64.2	9.1	NA

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

Massachusetts is an internationally recognized center for higher education, with 431,855 students in undergraduate, professional and graduate programs in 2002, according to data supplied by the New England Board of Higher Education. The Institute of International Education reported the number of foreign students enrolled in Massachusetts colleges and universities in the 2002/2003 school year was 30,039, representing 5.41 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 187,492 students in 2002, almost half of whom attended part-time. In addition, Massachusetts has a system of private higher education that accounted for 56.7 percent of total enrollment in Massachusetts in 2002, and in which approximately one quarter of students attend school part-time. The strength of both public and private colleges and universities as centers for research and education contributes to the high quality of the Massachusetts work force and plays a key role in attracting and retaining business and industry within the state.

The higher education system in Massachusetts is particularly strong in post-graduate, scientific, and technical education, with 64.5 percent of New England's graduate science and engineering students attending Massachusetts institutions in 2001. The strength of the Massachusetts higher education system is evidenced by the draw it has upon new students. The strength of the Commonwealth's educational institutions is also reflected in the large number of degrees awarded. In 2001-2002, Massachusetts institutions conferred a total of 2,287 doctoral degrees.

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 4.8 percent of total national expenditures on R&D at such institutions in fiscal 2001, ranking Massachusetts fifth in the nation behind California, New York, Texas, and Pennsylvania. Doctorate-granting institutions in New England spent 7.9 percent (\$2.53 billion) of the total research and development funds (\$32.2 billion) spent by such institutions in fiscal 2001. Massachusetts institutions spent 61.6 percent of these funds (\$1.56 billion). [Source: National Science Foundation, Division of Science Resources Statistics, *Academic Research and Development Expenditures: Fiscal Year 2001*, NSF 03-316, Table B-23.]

The diversity of federal funding sources reflects the variety of research and development work performed at Massachusetts educational institutions. Of the \$1.16 billion in total fiscal 2000 federal outlays for science and engineering research to universities and colleges in Massachusetts (and their affiliated federally funded research and development centers), 48.8 percent was from the Department of Health and Human Services, 14.1 percent was from the National Science Foundation, 25.6 percent was from the Department of Defense, 6.2 percent was from the Department of Energy, and 3.6 percent was from the National Aeronautics and Space Administration. Massachusetts ranked 4<sup>th</sup> in the nation in 2000 in total federal outlays for research and development, with total federal spending of \$4.15 billion in the state. The educational sector captured 28.0 percent of this pool, while industry garnered 40.4 percent and non-profit institutions received 25.2 percent. [Source: National Science Foundation, Division of Science Resources Statistics, *Federal Funds for Research and Development: Fiscal Years 2000, 2001, and 2002*, NSF 02-321, Tables C-85, C-83b.]

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. According to a 1998 survey, 95.5 percent of homes in Massachusetts had telephones compared with 94.1 percent of homes in the United States. In 2001, among homes in Massachusetts, 59.1 percent had a computer compared with 56.5 percent nationally, and 54.7 percent of homes in Massachusetts had internet access while 50.5 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 Vermont, Rhode Island and Maine had a lower percentage of households with internet access. [Sources: National Telecommunications and Information Administration (NTIA), *A Nation Online*, 2/2002; NTIA, *Falling Through The Net—Toward Digital Inclusion*, 10/2000.]



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

*(in current, unadjusted dollars)*

<i>Fiscal Year</i>	<i>Massachusetts</i>	<i>United States</i>	<i>Ratio (MA/U.S.)</i>
1981	\$2,735	\$2,307	1.19
1982	2,823	2,525	1.12
1983	3,072	2,736	1.12
1984	3,298	2,940	1.12
1985	3,653	3,222	1.13
1986	4,031	3,479	1.16
1987	4,491	3,682	1.22
1988	4,965	3,927	1.26
1989	5,485	4,307	1.27
1990	5,766	4,643	1.24
1991	5,881	4,902	1.20
1992	5,952	5,023	1.18
1993	6,141	5,160	1.19
1994	6,423	5,327	1.21
1995	6,783	5,529	1.23
1996	7,033	5,689	1.24
1997	7,331	5,923	1.24
1998	7,778	6,189	1.26
1999	8,260	6,508	1.27
2000	8,761	6,911	1.27
2001	9,509	7,376	1.29
2002	9,883	7,524	1.31

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

Although spending on education is not necessarily an indicator of results, Massachusetts has spent from 12 to 31 percent more per pupil on primary and secondary education than the national average since at least 1981. In fiscal 2002, Massachusetts increased per student expenditures to \$9509; 29 percent higher than the national average. The following table shows expenditures per pupil for Massachusetts and the United States since fiscal 1981.

In the 2002 National Assessment of Educational Progress conducted by the U.S. Department of Education, 4<sup>th</sup> graders and 8<sup>th</sup> graders around the nation were given standardized exams in reading. Massachusetts 4<sup>th</sup> graders achieved the nation's highest reading scores by a statistically significant margin. Among 8<sup>th</sup> graders, no state had statistically significant higher reading scores than Massachusetts, and 13 other states had statistically equivalent scores. In a similar 2000 study, 4<sup>th</sup> and 8<sup>th</sup> graders were given standardized exams in science. In science, only 8<sup>th</sup> graders in Montana achieved statistically significant higher scores than 8<sup>th</sup> graders in Massachusetts. Additionally, Massachusetts 4<sup>th</sup> graders scored highest in the nation on the science exam. In 2000, 4<sup>th</sup> and 8<sup>th</sup> graders were given standardized exams in mathematics. Massachusetts scores for both 4<sup>th</sup> and 8<sup>th</sup> graders in 2000 were significantly higher than scores from both 1992 and 1996. Additionally, Massachusetts 4<sup>th</sup> graders were the highest scoring in the nation. Only 8<sup>th</sup> graders in Minnesota, Montana, Maine, and Kansas scored higher than those in Massachusetts.

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

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

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

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

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

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

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

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

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

PROPOSED FORM OF OPINION OF BOND COUNSEL

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



ROPES & GRAY LLP  
ONE INTERNATIONAL PLACE BOSTON, MA 02110-2624 617-951-7000 F 617-951-7050  
BOSTON NEW YORK SAN FRANCISCO WASHINGTON, DC

Date of Delivery

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

Re: The Commonwealth of Massachusetts \$300,000,000 General Obligation Bonds  
Consolidated Loan of 2004, Series C (the "Bonds")

Dear Treasurer Cahill:

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

The Bonds mature and bear interest and are subject to mandatory sinking fund and 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.

The Honorable Timothy P. Cahill

Date of Delivery

(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 LLP

## APPENDIX C

The Commonwealth of Massachusetts

\$300,000,000

General Obligation Bonds  
Consolidated Loan of 2004, Series C

Continuing Disclosure Undertaking  
[to be included in bond form]

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the Bonds to provide to each nationally recognized municipal securities information repository (each, a “NRMSIR”) within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”) and to the state information depository for the Commonwealth, if any (the “SID”), within the meaning of the Rule, no later than 270 days after the end of each fiscal year of the Commonwealth, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Commonwealth for such fiscal year if audited financial statements are then available, provided, however, that if audited financial statements of the Commonwealth are not then available, such audited financial statements shall be delivered to each NRMSIR and the SID when they become available (but in no event later than 350 days after the end of such fiscal year) or (ii) notice of the Commonwealth’s failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Commonwealth’s Information Statement dated September 18, 2003 (the “Information Statement”), as it appears as Appendix A in the Official Statement dated September 18, 2003 of the Commonwealth with respect to its \$550,000,000 General Obligation Bond Anticipation Notes, 2003 Series A, and substantially in the same level of detail as is found in the referenced section of the Information Statement:

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

6.	Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any	“COMMONWEALTH PROGRAMS AND SERVICES - Commonwealth Pension Obligations”
7.	If and to the extent otherwise updated in the prior fiscal year, summary presentation of the size of the state workforce	“STATE WORKFORCE”
8.	Five-year summary presentation of actual capital project expenditures	“COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN - Capital Investment Plan”
9.	Statement of Commonwealth debt and debt related to general obligation contract liabilities as of the end of the prior fiscal year	“LONG-TERM LIABILITIES - General Authority to Borrow - Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities”
10.	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	“LONG-TERM LIABILITIES - General Authority to Borrow - 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	“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	“LONG-TERM LIABILITIES - General Obligation Contract Assistance Liabilities”
13.	Annual fiscal year budgetary contractual assistance liabilities for Commonwealth, beginning with the current fiscal year	“LONG-TERM LIABILITIES - Budgetary Contractual Assistance Liabilities”
14.	Five-year summary presentation of authorized but unissued general obligation debt	“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	“LONG-TERM LIABILITIES - General Authority to Borrow-Statutory Limit on Direct Debt”

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

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

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

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

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

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



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



Financial Guaranty Insurance Policy

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

Obligor:

Policy Number:

Obligations:

Premium:

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

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

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

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

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

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

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

[Handwritten signature of Robert J. Prada]

President



[Handwritten signature of Anne G. Gill]

Secretary

Effective Date:

Authorized Representative

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

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

[Handwritten signature of Noranda Spuro]

Authorized Officer of Insurance Trustee