

NEW ISSUE - BOOK-ENTRY-ONLY

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

\$496,225,000

THE COMMONWEALTH OF MASSACHUSETTS

General Obligation Refunding Bonds

(Variable Rate Demand Bonds)

\$248,110,000

2001 Series B

\$248,115,000

2001 Series C

Dated: Date of Delivery

Due: January 1, 2021

The Bonds will be issued by means of a book-entry-only system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company ("DTC") and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The Bonds are variable rate bonds that may be in the Daily Mode, Weekly Mode, Flexible Mode, Term Mode or ARS Mode. The Bonds initially will be in the Weekly Mode and will bear interest at Weekly Rates determined by the Remarketing Agent as described herein. So long as the Bonds are in the Weekly Mode, the Interest Payment Dates will be the first Business Day of each month. Bonds in the Weekly Mode may be purchased in Authorized Denominations of \$100,000 and any integral multiple of \$5,000 in excess thereof. All Bonds will bear interest in the same mode. The Bonds are subject to optional redemption, mandatory sinking fund redemption and optional and mandatory tender for purchase prior to maturity, as more fully described herein.

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

The Commonwealth will enter into separate Standby Bond Purchase Agreements with Landesbank Hessen-Thüringen Girozentrale, acting through its New York Branch, with respect to the Series B Bonds, and State Street Bank and Trust Company, with respect to the Series C Bonds. See Appendix E hereto for information concerning the banks. Each of the Standby Bond Purchase Agreements is a liquidity facility that requires the applicable bank to pay the principal portion of the purchase price for the related Bonds tendered or deemed tendered to the extent not remarketed, subject to certain funding conditions described herein. The Commonwealth has agreed to pay the portion of the purchase price equal to the accrued but unpaid interest for any Bonds tendered or deemed tendered to the extent not remarketed on the applicable purchase date for such Bonds. The banks are not providing credit support for payment of regularly scheduled principal and interest. See Appendix D hereto under "Standby Bond Purchase Agreements."

The Bonds are offered when, as and if issued and received by the Underwriter, and subject to the unqualified approving opinion as to legality of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Ropes & Gray, Boston, Massachusetts. The Bonds are expected to be available for delivery at or through DTC in New York, New York, on or about February 20, 2001.

Price: 100%

Lehman Brothers Inc.

February 9, 2001

No dealer, broker, salesperson or other person has been authorized by The Commonwealth of Massachusetts or the Underwriter 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 and expressions of opinion herein or included by reference herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Commonwealth, or its agencies, authorities or political subdivisions, since the date hereof, except as expressly set forth herein.

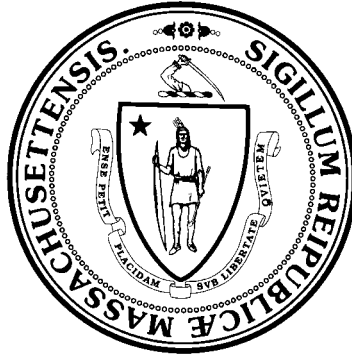
The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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

THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

Argeo Paul Cellucci.....Governor
Jane M. SwiftLieutenant Governor
William F. GalvinSecretary of the Commonwealth
Thomas F. Reilly.....Attorney General
Shannon P. O’BrienTreasurer and Receiver-General
A. Joseph DeNucci.....Auditor

LEGISLATIVE OFFICERS

Thomas F. Birmingham.....President of the Senate
Thomas M. FinneranSpeaker of the House

OFFICIAL STATEMENT

\$496,225,000

THE COMMONWEALTH OF MASSACHUSETTS

General Obligation Refunding Bonds (Variable Rate Demand Bonds)

\$248,110,000
2001 Series B

\$248,115,000
2001 Series C

INTRODUCTION

This Official Statement (including the cover pages and Appendices A through F attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of its General Obligation Refunding Bonds (Variable Rate Demand Bonds), 2001 Series B in the aggregate principal amount of \$248,110,000 (the "Series B Bonds") and 2001 Series C in the aggregate principal amount of \$248,115,000 (the "Series C Bonds" and, together with the Series B Bonds, 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 March Information Statement (described below) under the headings "COMMONWEALTH REVENUES - Limitations on Tax Revenues" and "COMMONWEALTH BOND AND NOTE LIABILITIES – Limit on Debt Service Appropriations".

The Bonds, together with the Commonwealth's \$468,420,000 General Obligation Refunding Bonds, 2001 Series A (the "2001 Series A Bonds") expected to be issued at or about the same time as the Bonds are being issued to advance refund certain bonds of the Commonwealth as set forth in Appendix F – Table of Refunded Bonds. See "THE BONDS - Plan of Finance."

Purpose and Content of Official Statement

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

Specific reference is made to the Commonwealth's Information Statement dated March 3, 2000 (the "March Information Statement"), as it appears as Appendix A in the Official Statement dated August 9, 2000 of the Route 3 North Transportation Improvements Association with respect to its Commonwealth of Massachusetts Lease Revenue Bonds, Series 2000 (the "Route 3 Official Statement"). A copy of the Route 3 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 March Information Statement has been supplemented by the Commonwealth Information Statement Supplement dated February 1, 2001 (the "Supplement"), which is attached hereto as Appendix A. The March Information Statement, as supplemented by the Supplement, contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth.

Appendix B attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Bonds. Appendix C attached hereto contains the proposed form of the Commonwealth's continuing disclosure undertaking to be included in the form of the Bonds. Appendix D attached hereto contains definitions used in this Official Statement and a summary of certain provisions of the Bonds relating to their variable rate demand features and the Standby Bond Purchase Agreements. Appendix E attached hereto contains information concerning Landesbank Hessen-Thüringen Girozentrale and State Street Bank and Trust Company, which are each entering into a separate Standby Bond Purchase Agreement with the Commonwealth. Appendix F attached hereto is a listing of the Commonwealth's bonds to be refunded with the proceeds of the Bonds and of the 2001 Series A Bonds.

THE BONDS

General

The Bonds will be issued initially in the Weekly Mode, will be dated the date of delivery thereof and will bear interest from their date of delivery at Weekly Rates payable on each Interest Payment Date until maturity, earlier redemption or conversion to a different mode, all as described below under “Additional Information Related to Variable Rate Demand Bonds.” Interest on Bonds in the Weekly Mode will be calculated on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed and will be payable on each Interest Payment Date to the registered owner as of the Record Date. 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. State Street Bank and Trust Company, Boston, Massachusetts, will serve as Tender Agent for the Bonds.

Book-Entry-Only System. The Bonds will be issued by means of a book-entry-only system, with bond certificates immobilized at The Depository Trust Company, New York, New York (“DTC”). Bond certificates will not be available for distribution to the public and will evidence ownership of the Bonds in principal amounts, in the Daily Mode and Weekly Mode of \$100,000 and integral multiples of \$5,000 in excess thereof, in the Flexible Mode of \$100,000 and integral multiples of \$1,000 in excess thereof, in the Term Mode of \$5,000 or integral multiples thereof, and in the ARS Mode of \$25,000 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 to DTC or its nominee as registered owner of the Bonds. The Record Date for payments on account of the Bonds will be the Business Day next preceding an Interest Payment Date. As long as the book-entry-only system remains in effect, DTC or its nominee will be recognized as the owner of the Bonds for all purposes, including notices and voting. The Commonwealth will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. See “BOOK-ENTRY-ONLY SYSTEM.”

Additional Information Related to Variable Rate Demand Bonds

The Bonds will be in the Daily Mode, the Weekly Mode, the Flexible Mode, the Term Mode or the ARS Mode. Bonds in the Daily Mode will bear interest at a Daily Rate. Bonds in the Weekly Mode will bear interest at a Weekly Rate. Bonds in the Flexible Mode will bear interest at a Flexible Rate. Bonds in the Term Mode will bear interest at a Term Rate. Bonds in the ARS Mode will bear interest at an ARS Rate. Depending on which mode is then in effect for the Bonds, the Interest Payment Dates, the dates interest rates are effective, the dates on which notices of tender are required to be given, the dates on which Bonds are to be tendered, the dates for notices of conversion to another mode and provisions for mandatory tender for purchase applicable to the Bonds will vary. See the description below and Appendix D for further details, other than with respect to the ARS Mode. In the event of a conversion to the ARS Mode, if any, the details of the Bonds pertaining thereto will be set forth in a supplement to this Official Statement to be prepared at that time.

The information regarding provisions for the tender and purchase of Bonds should be used in conjunction with the information set forth under “BOOK-ENTRY-ONLY SYSTEM” below. As initially issued, the Bonds will be issued in book-entry-only form through the facilities of DTC, and the procedures and practices of DTC will govern the tender and purchase procedures applicable to owners of beneficial interests in the Bonds.

Interest. Bonds shall bear interest at Daily Rates, Weekly Rates, Flexible Rates, Term Rates or ARS Rates. Initially all Bonds will be in the Weekly Mode. At the option of the Commonwealth, Bonds in any mode may be changed to any of the other modes, including a conversion from one Term Rate Period to another Term Rate Period of a different duration, as described below and in Appendix D.

Interest on Bonds in the Weekly Mode is payable monthly on each Interest Payment Date. For Bonds in the Weekly Mode, the Interest Payment Date is the first Business Day of each calendar month. Interest on Bonds in the Weekly Mode is computed on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed and is payable to the registered owners who are such registered owners on the Record Date, which is the Business Day immediately preceding an Interest Payment Date. As long as the Bonds are registered in the

name of Cede & Co., as nominee of DTC, such payments will be made directly to DTC. See “BOOK-ENTRY-ONLY SYSTEM.” For a description of interest payments on Bonds in the Daily Mode, the Flexible Mode and the Term Mode, see Appendix D.

Interest Rate Determination. For Bonds in the Weekly Mode, the Weekly Rate shall be determined each Wednesday, or the preceding Business Day if Wednesday is not a Business Day (the “Rate Determination Date”) by the Remarketing Agent, by 4:00 p.m., Boston time, shall take effect on each Thursday following such Rate Determination Date, regardless of whether any such Thursday is a Business Day, and shall be in effect to and including the following Wednesday, regardless of whether such Wednesday is a Business Day (the “Weekly Rate Period”). The Weekly Rate for each Weekly Rate Period will be determined by the Remarketing Agent as the lowest interest rate which, in the judgment of the Remarketing Agent, would cause the Bonds to have a market value equal to 100% of the principal amount thereof (exclusive of accrued interest), taking into account prevailing market conditions as of the Rate Determination Date. Written, telephonic or electronic notice of Weekly Rates will be given by the Remarketing Agent to the Commonwealth by the close of business on each Rate Determination Date. If the Remarketing Agent fails to determine a Weekly Rate, the Bonds will bear interest at the most recent Interest Index until a new Weekly Rate is determined. No Weekly Rate on the Bonds may exceed 12% per annum, the Maximum Rate. For a description of the procedures for determining Daily Rates, Flexible Rates and Term Rates, see Appendix D.

Optional Tender for Purchase. Bonds in the Weekly Mode may be tendered for purchase at a Purchase Price equal to 100% of the principal amount thereof, plus accrued interest, if any, payable in immediately available funds upon written, electronic or telephonic notice (promptly confirmed in writing) of tender to the Tender Agent not later than 5:00 p.m., Boston time, on a Business Day not fewer than seven days prior to a Purchase Date. The Purchase Date may be any Business Day prior to conversion of the Bonds to a Daily Mode, Flexible Mode, Term Mode or ARS Mode. As noted below under “Book-Entry Bonds,” for so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, the procedures for tender of Bonds will be governed by the operational procedures of DTC.

At any time that a Bondholder has a right to tender a Bond in the Weekly Mode for purchase (other than by mandatory tender as described herein), the Bondholder shall, in addition to delivering the Bond on or before the appropriate Purchase Date, give to the Tender Agent notice of such tender. Each such notice of tender shall:

(i) be delivered in writing by Electronic Means or by telephone (and promptly confirmed in writing) to the Tender Agent at its corporate trust office by 5:00 p.m., Boston time, on any Business Day not fewer than seven days prior to a Purchase Date, which may be any Business Day prior to conversion of the Bonds to a Daily Mode, Flexible Mode, Term Mode or ARS Mode, and be in a form satisfactory to the Tender Agent;

(ii) state (A) the principal amount of the Bond to which it relates, (B) that the Bondholder irrevocably demands purchase of such Bond or of a specified portion thereof in an amount which is an authorized denomination and which leaves the retained portion of the Bond in an amount which is an authorized denomination, (C) the date on which such Bond or portion thereof is to be purchased and (D) payment instructions with respect to the Purchase Price; and

(iii) automatically constitute, whether delivered in writing, by Electronic Means or by telephone, (A) an irrevocable offer to sell the Bond (or portion thereof) to which it relates on the Purchase Date at a Purchase Price equal to the principal amount of such Bond (or portion thereof) plus any interest thereon accrued and unpaid as of the Purchase Date, (B) an irrevocable authorization and instruction to the Tender Agent to effect transfer of such Bond (or portion thereof) upon payment of the Purchase Price to the Tender Agent on the Purchase Date, (C) an irrevocable authorization and instruction to the Tender Agent to effect the exchange of the Bond to be purchased in whole or in part for other Bonds in an equal aggregate principal amount so as to facilitate the sale of such Bond (or portion thereof), and (D) an acknowledgment that such Bondholder will have no further rights with respect to such Bond (or portion thereof) upon payment of the Purchase Price thereof to the Tender Agent on the Purchase Date, except for the right of such Bondholder to receive such Purchase Price upon surrender of such Bond to the Tender Agent.

The determination of the Tender Agent as to whether a notice of tender has been properly delivered shall be conclusive and binding upon the Bondholder.

Mandatory Tender Upon Conversion to or from the Flexible Mode, Term Mode or ARS Mode. Bonds to be converted from the Daily Mode or the Weekly Mode to the Flexible Mode, Term Mode or ARS Mode or from the Flexible Mode, Term Mode or ARS Mode to any other mode are subject to mandatory tender for purchase as described below on the Conversion Date at a Purchase Price equal to 100% of the principal amount of the Bonds, plus accrued interest. Bonds are not subject to mandatory tender upon conversion from the Weekly Mode to the Daily Mode or from the Daily Mode to the Weekly Mode.

If Bonds are to be converted to the Flexible Mode, Term Mode or ARS Mode, the Commonwealth must give written notice of such conversion to the Tender Agent, the Banks and the Remarketing Agent at least 35 days prior to the Conversion Date. The Tender Agent must give written notice of such Conversion to the holders of such Bonds by first class mail or, at the Commonwealth's option, certified mail, return receipt requested, at least 15 days prior to the Conversion Date, or in the case of a conversion from a Term Rate Period, 30 days, setting forth, among other things: (a) the proposed Conversion Date; (b) that the Bonds shall be subject to mandatory tender on the Conversion Date; and (c) the conditions to Conversion, if any.

Mandatory Tender Upon Expiration, Substitution or Termination of a Standby Bond Purchase Agreement. The Bonds of each Series are subject to mandatory tender for purchase on the Business Day which is at least five days before (i) the stated expiration date of the Standby Bond Purchase Agreement related to such series; or (ii) the date set forth in a termination notice as the date the applicable Standby Bond Purchase Agreement is to be terminated as a result of the occurrence of certain events of default under such Standby Bond Purchase Agreement. See Appendix D under the heading "Standby Bond Purchase Agreements" for a list of events of default for which a Bank which is party to a Standby Bond Purchase Agreement may elect to give a termination notice. The Bonds of each Series are also subject to mandatory tender for purchase on the date on which an Alternate Liquidity Facility is scheduled to become effective with respect to the Bonds of such series, whether or not the Alternate Liquidity Facility actually becomes effective on such date. The Purchase Price for such tenders shall equal 100% of the principal amount of the Bonds, plus accrued interest. The Tender Agent, at the request of the Commonwealth, shall give written notice to the applicable Bondholders at least 15 days prior to such mandatory tender date. As noted below under "Risk of Termination of Standby Bond Purchase Agreements," the Bonds are not subject to mandatory tender for purchase upon the occurrence of certain events of default under the Standby Bond Purchase Agreements for which immediate termination is permitted without the requirement of a termination notice.

Delivery and Payment for Tendered Bonds. The Tender Agent, on behalf of the Commonwealth, will purchase any Bonds properly tendered for purchase in accordance with the provisions of the Bonds. Except while the Bonds are registered in the name of Cede & Co., as nominee for DTC, delivery to the Tender Agent of Bonds to be tendered for purchase, upon both optional tender and mandatory tender, together with wire payment instructions satisfactory to the Tender Agent, is required to be made by 1:00 p.m., Boston time, on the Business Day which is the Purchase Date. The Tender Agent will pay or cause to be paid tendering Bondholders in immediately available funds by 3:00 p.m., Boston time, on such day. If the Bonds are delivered after 1:00 p.m., Boston time, payment will be made on the next Business Day without any additional accrued interest. Bonds which are required to be tendered for purchase, upon both optional tender and mandatory tender, shall cease bearing interest from and after the date tender is required regardless of whether such Bonds are presented for payment and Bondholders shall have no further rights with respect to such Bonds other than the right to receive payment of the Purchase Price upon surrender of the Bonds.

Book-Entry Bonds. For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, the tender option rights of Bondholders described above may be exercised only by a DTC Participant acting directly or indirectly on behalf of a Beneficial Owner of Bonds by giving notice of its election to tender Bonds or portions thereof at the times and in the manner described above. Beneficial Owners will not have any rights to tender Bonds directly to the Tender Agent. Procedures under which a Beneficial Owner may direct a DTC Participant or an Indirect Participant of DTC acting through a DTC Participant to exercise a tender option right in respect of any Bonds or portions thereof shall be governed by standing instructions and customary practices determined by such DTC Participant or Indirect Participant.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, notices of mandatory tender for purchase of Bonds shall be given to DTC only, and neither the Commonwealth, the Tender Agent nor the Remarketing Agent shall have any responsibility for the delivery of any of such notices by DTC to any DTC Participants, by any DTC Participants to any Indirect Participants of DTC or by any DTC Participants or Indirect Participants to Beneficial Owners of the Bonds.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, delivery of Bonds required to be tendered for purchase shall be effected by the transfer by a DTC Participant on the applicable Purchase Date of a book entry credit to the account of the Tender Agent of a beneficial interest in such Bonds or portions thereof required to be tendered for purchase on that date.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, payment of the Purchase Price shall be paid directly to DTC. Disbursement of such payments to the DTC Participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of the DTC Participants and the Indirect Participants. See "BOOK-ENTRY-ONLY SYSTEM" herein.

Remarketing Agreement. The Remarketing Agent is required to use its best efforts to remarket Bonds properly tendered for purchase. Lehman Brothers Inc. will serve as the initial Remarketing Agent for the Bonds.

Standby Bond Purchase Agreements. Each of Landesbank Hessen-Thüringen Girozentrale, acting through its New York Branch, and State Street Bank and Trust Company (each, a "Bank" and collectively, the "Banks"), has agreed, pursuant to its respective Standby Bond Purchase Agreement, to pay the principal portion of the Purchase Price for any unremarketed tendered Series B Bonds and Series C Bonds, respectively, other than Bonds in an ARS Mode or a Term Mode with a Term Rate Period which is greater than one year, from time to time, subject to the terms and provisions set forth in the applicable Standby Bond Purchase Agreement. The portion of the Purchase Price equal to the accrued but unpaid interest on any unremarketed tendered Bond will be payable to the Tender Agent by the Commonwealth on the Purchase Date. Neither Bank will have any obligation to pay the portion of the Purchase Price equal to the accrued but unpaid interest on Bonds tendered or deemed tendered but unremarketed. See Appendix D for a summary of certain provisions of the Standby Bond Purchase Agreements and Appendix E for certain information concerning the Banks. All information concerning the Banks has been provided by the Banks, and the Commonwealth is not responsible for its accuracy or completeness.

Risk of Termination of Standby Bond Purchase Agreements. The Standby Bond Purchase Agreements are scheduled to expire at 5:00 p.m., Boston time, on February 20, 2006 or, if such date is not a Business Day, the next preceding Business Day. The obligations of each Bank to purchase Bonds under its respective Standby Bond Purchase Agreement may be terminated prior to its Agreement Expiration Date immediately upon the occurrence of certain Events of Default specified therein for which no termination notice is required. Additionally, the obligations of each Bank to purchase Bonds under its respective Standby Bond Purchase Agreement may be suspended upon the occurrence of certain Events of Default specified therein. See Appendix D under the heading "Standby Bond Purchase Agreements." In the event of such termination or suspension, the Bonds are NOT subject to mandatory tender for purchase solely as a result of such termination or suspension.

Redemption

Optional Redemption. Bonds in the Daily Mode or the Weekly Mode are subject to optional redemption prior to maturity at the election of the Commonwealth, in whole or in part at any time, and in such amounts as the Commonwealth may determine, at a redemption price equal to 100% of the principal amount of Bonds being redeemed, together with accrued and unpaid interest to the date fixed for redemption but without premium. The Commonwealth also has the right to redeem Bonds which are subject to optional or mandatory tender for purchase without notice on any optional or mandatory tender date. The Commonwealth also has the right to redeem any Bonds held by or for the benefit of the Bank without notice and prior to other Bonds.

Mandatory Sinking Fund Redemption. The Series B Bonds are subject to mandatory sinking fund redemption in part by lot at a redemption price equal to 100% of the principal amount of the Series B Bonds to be

redeemed, plus accrued interest thereon to the date specified for redemption on January 1 in each of the years set forth in the following table, in the principal amount specified in each such year:

<u>Year</u>	<u>Amount</u>
2013	\$2,235,000
2014	2,330,000
2015	2,430,000
2016	30,615,000
2017	46,565,000
2018	23,680,000
2019	42,335,000
2020	49,670,000
2021*	48,250,000

*Stated Maturity.

The Series C Bonds are subject to mandatory sinking fund redemption in part by lot at a redemption price equal to 100% of the principal amount of the Series C Bonds to be redeemed, plus accrued interest thereon to the date specified for redemption on January 1 of each of the years set forth in the following table, in the principal amount specified in each such year:

<u>Year</u>	<u>Amount</u>
2013	\$2,235,000
2014	2,330,000
2015	2,435,000
2016	30,615,000
2017	46,565,000
2018	23,680,000
2019	42,335,000
2020	49,670,000
2021*	48,250,000

*Stated Maturity.

The Commonwealth is entitled to reduce its mandatory sinking fund redemption obligation in any year with respect to the Bonds by the principal amount of any Bonds previously purchased or optionally redeemed by the Commonwealth. To the extent there are Bank Bonds, such Bank Bonds shall be redeemed from mandatory sinking fund payments prior to any other Bonds.

Notice of Redemption. For Bonds in the Daily Mode or Weekly Mode, the Commonwealth shall give notice of redemption to the owners of the Bonds not less than 15 days prior to the date fixed for redemption. So long as the book-entry-only system remains in effect for the Bonds, notices of redemption will be mailed by the Commonwealth only to DTC or its nominee. Any failure on the part of DTC, any DTC Participant or any nominee of a Beneficial Owner of any Bond (having received notice from a DTC Participant or otherwise) to notify the beneficial owner so affected, shall not affect the validity of the redemption.

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

Selection for Redemption. In the event that less than all of the Bonds are to be redeemed, and so long as the book-entry-only system remains in effect for such Bonds, the particular Bonds or portion of any such Bonds to be redeemed will be selected by DTC by lot. If the book-entry-only system no longer remains in effect for the Bonds, selection for redemption of less than all of the Bonds will be made by the Commonwealth by lot in such manner as in

its discretion it shall deem appropriate and fair. In no event will any Bond be outstanding in a principal amount that is not an Authorized Denomination.

Plan of Finance

The Bonds, together with the 2001 Series A Bonds, are being issued pursuant to the provisions of Section 53A of Chapter 29 of the Massachusetts General Laws for the purpose of advance refunding the bonds of the Commonwealth set forth in Appendix F (the “Refunded Bonds”).

The Commonwealth, upon delivery of the Bonds and the 2001 Series A Bonds, will enter into a refunding escrow agreement (the “Escrow Agreement”) with State Street Bank and Trust Company, Boston, Massachusetts, as escrow agent (the “Escrow Agent”) for the Refunded Bonds. The Escrow Agreement will provide for the deposit of the net proceeds of the Bonds and the 2001 Series A Bonds with the Escrow Agent in a separate account to be applied immediately upon receipt to purchase non-callable direct obligations of the United States of America consisting of United States Treasury Certificates and Notes, State and Local Government Series (the “Government Obligations”) and to funding, if needed, a cash deposit in such account. The Escrow Agreement will require that maturing principal of and interest on the Government Obligations, plus any initial cash deposit, be held in trust in such account and paid to the Commonwealth solely for the payment of the principal of and redemption premium, if any, and interest on the Refunded Bonds. According to the report described in “VERIFICATION OF MATHEMATICAL COMPUTATIONS,” the Government Obligations will mature at such times and earn interest in such amounts that, together with any initial cash deposit, will produce sufficient monies to make such payments on the Refunded Bonds to and including their respective maturity or redemption dates, each as set forth in Appendix F.

In connection with the issuance of the Bonds, the State Treasurer has contracted to enter into an interest rate swap arrangement (the “Swap Contract”) in the initial aggregate notional amount of \$496,225,000, which will take effect on February 20, 2001 for a period of approximately 20 years ending January 1, 2021. Under the Swap Contract, the Commonwealth will pay interest to the swap counterparty at a fixed rate of 4.15% per annum and receive interest from the swap counterparty at the Weekly Rate. The swap counterparty is Morgan Stanley Derivative Products Inc.

The obligation of the Commonwealth to pay interest on the Bonds is in no way conditional upon the Commonwealth’s receipt of payments from the swap counterparty. The notional amount under the Swap Contract will decline on each January 1, commencing January 1, 2013, to match the annual amortization of the Bonds set forth on page 6.

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 March Information Statement under the headings “COMMONWEALTH REVENUES – Limitations on Tax Revenues” and “COMMONWEALTH BOND AND NOTE LIABILITIES – Limit on Debt Service Appropriations.”

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

qualities and incidents of negotiable instruments under the Uniform Commercial Code. The Bonds are not subject to acceleration.

LITIGATION

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

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

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Bonds. The Bonds will initially be issued exclusively in book-entry form, and one or more fully registered Bonds for each Series will be deposited with DTC.

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

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

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

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

Redemption notices shall be sent to Cede & Co. 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. will consent or vote with respect to the Bonds. Under its usual procedures, DTC mails an omnibus proxy to the Commonwealth as soon as possible after the record date. The omnibus proxy assigns Cede & Co.'s voting rights to those DTC Participants having the Bonds credited to their accounts on the record date (identified in a listing attached to the omnibus proxy).

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

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

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

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

The principal of and interest on the Bonds will be paid to DTC or its nominee, Cede & Co., as registered owner of the Bonds. DTC's practice is to credit the accounts of the DTC Participants, upon DTC's receipt of funds and the corresponding detail information from the Commonwealth, 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 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.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such Bonds by causing the DTC Participant to transfer the Participant's interest in the Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bond are transferred by the DTC Participants on DTC's records.

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

Application for ratings on the Bonds have been made with Fitch, Inc., Moody's Investors Service and Standard & Poor's.

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

UNDERWRITING

The Underwriter has agreed, subject to certain conditions, to purchase all of the Bonds from the Commonwealth at a discount from the initial offering price of the Bonds equal to .139% of the aggregate principal amount of the Bonds of which .125% of the aggregate principal amount of the Bonds represents compensation to the Underwriter, with the remainder used to pay certain expenses of the Underwriter. The Underwriter may offer and sell the Bonds to certain dealers and others (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices (or yields higher than the offering yields) stated on the cover page hereof.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Causey Demgen & Moore Inc., a firm of independent accountants, will deliver to the Commonwealth, on or before the settlement date of the Bonds, its verification report which will verify the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on, the Government Obligations to pay, when due, the maturing principal of, interest on and related call premium requirements of the Refunded Bonds being refunded from proceeds of the Bonds and (b) the mathematical computations supporting the conclusion of Bond Counsel that the Bonds are not "arbitrage bonds" under the Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder.

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.

Prospective 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.

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

OPINIONS OF COUNSEL

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

CONTINUING DISCLOSURE

Even though Bonds in the Weekly Mode are exempt from the provisions of Rule 15c2-12 of the Securities and Exchange Commission, the Commonwealth will undertake in the Bonds to provide annual reports and notices of certain events as if said Rule 15c2-12 applied. A description of this undertaking is set forth in Appendix C attached hereto. The Commonwealth has complied in all material respects with its existing undertakings to provide annual reports and notices of material events in accordance with Rule 15c2-12.

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

MISCELLANEOUS

Any provisions of the constitution of the Commonwealth, of all general and special laws and of other documents set forth or referred to in this Official Statement are only summarized, and such summaries do not purport

to be complete statements of any of such provisions. Only the actual text of such provisions can be relied upon for completeness and accuracy.

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

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

AVAILABILITY OF OTHER INFORMATION

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

THE COMMONWEALTH OF MASSACHUSETTS

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

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

February 9, 2001

**THE
COMMONWEALTH
OF
MASSACHUSETTS**



INFORMATION STATEMENT

Dated March 3, 2000

INFORMATION STATEMENT SUPPLEMENT

Dated February 1, 2001

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THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

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

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THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT SUPPLEMENT

February 1, 2001

This supplement (“Supplement”) to the Information Statement of The Commonwealth of Massachusetts (the “Commonwealth”) dated March 3, 2000 (the “March Information Statement”) is dated February 1, 2001 and contains information which updates the information contained in the March Information Statement. Exhibit A to this Supplement sets forth certain economic, demographic and statistical information concerning the Commonwealth. Exhibit B to this Supplement is the Statutory Basis Financial Report of the Commonwealth for the year ended June 30, 2000. Exhibit C to this Supplement is the Comprehensive Annual Financial Report (GAAP basis) of the Commonwealth for the year ended June 30, 2000. 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 on the Comptroller’s web site located at <http://www.state.ma.us/osc/Reports/reportsfinancial.htm>. This Supplement and the March Information Statement must be read collectively and in their entirety in order to obtain the appropriate fiscal, financial and economic information concerning the Commonwealth through February 1, 2001. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the March Information Statement.

RECENT DEVELOPMENTS

Fiscal 2002

On January 24, 2001, Governor Cellucci filed his fiscal 2002 budget recommendations. The Governor’s proposal calls for budgeted expenditures of approximately \$22.549 billion. The proposed fiscal 2002 spending level represents the transfer off budget of \$42.2 million of tax revenues (and approximately \$42.2 million of spending) as a result of the forward funding of the regional transit authorities. Legislation to forward fund the regional transit authorities, modeled after the forward funding initiative for the Massachusetts Bay Transportation Authority (MBTA), is expected to be filed shortly by the Governor. See the March Information Statement under “COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority.” After accounting for this shift, the Governor’s budget represents a \$245 million, or 1.1%, increase over estimated total fiscal 2001 expenditures of \$22.304 billion. Total budgeted revenues for fiscal 2002 are estimated to be \$22.639 billion. The Governor’s budget submission represents a \$579.5 million, or 2.6%, revenue increase over the \$22.060 billion forecast for fiscal 2001. The Governor’s proposal projects a fiscal 2002 ending balance in the budgeted funds of \$2.131 billion, including a Stabilization Fund balance of \$1.698 billion.

The Governor’s budget recommendation is based on a tax revenue estimate of \$16.344 billion, including \$671 million of sales tax receipts dedicated to the MBTA and \$42.2 million of tax revenues to be dedicated to the regional transit authorities under the Governor’s forward funding proposal. The net amount of \$15.631 billion represents a 4.9% baseline increase over fiscal 2001 estimated net tax revenues of \$15.587 billion. The fiscal 2002 estimate reflects a \$457 million reduction in income tax receipts attributable to the initiative petition approved by the voters in November, 2000. See “State Taxes.” A joint legislative hearing is traditionally scheduled in March to begin the process of developing a consensus tax revenue estimate for the fiscal 2002 budget. See the March Information Statement under “COMMONWEALTH REVENUES – Tax Revenue Forecasting.”

The Governor’s proposed budget assumes non-tax revenues of \$7.008 billion, which represents an increase of approximately \$535 million over the fiscal 2001 estimate. Of the three classes of non-tax revenue, federal reimbursements, including those for Medicaid, and block grants for Temporary Assistance to Needy Families and Child Care programs most affect the Commonwealth’s budgetary considerations. These payments are estimated to total \$ 4.144 billion in fiscal 2002. This level of federal payments represents an increase of \$262 million, or 6.7%, over fiscal 2001, the result primarily of increased Medicaid spending, which is eligible for federal reimbursement. Fiscal 2002 departmental revenues are estimated at \$1.492 billion, representing an increase of approximately \$45 million over fiscal 2001 estimates. Consolidated transfers, the third category of non-tax revenue, consists primarily of state lottery proceeds which are distributed to cities and towns. Consolidated transfers are estimated to increase by \$229 million over fiscal 2001 levels. Lottery aid is expected to increase to \$790 million in fiscal 2002.

The Governor's budget proposal generally maintains current levels of service for most state programs but recommends increased spending for certain priority areas, including a \$226 million increase in direct local aid to cities and towns and \$577 million for the traditional Medicaid program.

The Governor's fiscal 2002 budget recommendation includes approximately \$934.6 million for the state's pension funding schedule. This recommendation is consistent with the February 25, 1999 funding schedule but is approximately \$115.5 million less than the amount specified for fiscal 2002 in the March 1, 2000 funding schedule. The Governor has indicated that he believes the experience studies released by the Public Employee Retirement Administration Commission in the fall of 2000 justify the recommended appropriation. He has also indicated that he expects to present a new funding schedule to the Legislature by March 1, 2002. See "OTHER COMMONWEALTH LIABILITIES – Pension Funding Schedule and Actuarial Valuations."

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

The Governor's fiscal 2002 budget proposal recommends an additional \$47 million for 46 new projects under the school building assistance program. See the March Information Statement under "OTHER COMMONWEALTH LIABILITIES – School Building Assistance." Additionally, the Governor's fiscal 2002 budget proposal contains a \$171 million increase for direct local aid for schools.

The Governor's budget recommendations are now being considered by the House Committee on Ways and Means, the first legislative step in the process of approving a budget for fiscal 2002.

Fiscal 2001

On April 14, 2000 the House of Representatives approved its version of the fiscal 2001 budget. The House budget provided for total appropriations of approximately \$21.8 billion and was based on a tax revenue estimate of \$15.928 billion, including \$645 million of sales tax receipts dedicated to the Massachusetts Bay Transportation Authority as a result of forward funding legislation. See the March Information Statement under the heading "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority." The House tax revenue estimate was approximately \$245 million higher than the estimate contained in the Governor's fiscal 2001 budget recommendations, after adjusting for proposed tax cuts in the Governor's budget. The House budget provided for the current expenditure of 30% of tobacco settlement moneys to be received in fiscal 2001 rather than 50% as recommended by the Governor. The House budget included a provision that would have reduced the personal income tax rate starting in tax year 2003 under conditions of continuing growth in the state economy. The House budget also included, with some modifications, the Governor's proposal to revamp the school building assistance program. See the March Information Statement under the heading "2001 FISCAL YEAR."

On May 25, 2000 the Senate approved its version of the fiscal 2001 budget, which provided for total spending of approximately \$21.549 billion and was based on a tax revenue estimate of approximately \$15.849 billion, essentially equivalent to the House estimate after adjusting for proposed tax cuts in the Senate budget. Like the Governor, but unlike the House, the Senate recommended spending 50% of tobacco settlement moneys to be received in fiscal 2001 and thereafter. The Senate budget provided for a personal income tax deduction for charitable contributions. The Senate budget also provided for pay-as-you-go capital spending during fiscal years 2001 through 2005.

Based on tax revenue through April, the Secretary of Administration and Finance did not agree with the Legislature's proposed tax revenue estimate, and consensus was not reached by May 15, 2000 as required by state finance law (see the March Information Statement under the heading "COMMONWEALTH REVENUES - Tax Revenue Forecasting"). On June 12, 2000 the Secretary of Administration and Finance informed the chairmen of the House and Senate Committees on Ways and Means that the administration accepted the legislative consensus tax revenue estimate for fiscal 2001 (\$15.928 billion before any tax cuts), based on higher-than-expected tax collections in May, 2000.

According to estimates by the Executive Office for Administration and Finance, total spending in the House budget was approximately \$370 million more than the Governor's recommendations, as adjusted upward by newly identified appropriation needs of approximately \$70 million since the Governor's budget was filed in January. Total spending in the Senate budget was approximately \$210 million more than the Governor's adjusted recommendations.

On July 17, 2000 the legislative conference committee charged with reconciling the differences between the House and Senate versions of the fiscal 2001 budget released its report, and the compromise budget was enacted by both houses of the Legislature on July 18, 2000. The Governor approved the budget on July 28, 2000 after vetoing approximately \$175 million of appropriations. On July 31, 2000 the Legislature restored approximately \$88.2 million of appropriations by overriding the Governor's vetoes. Taking into account the vetoes and overrides, the fiscal 2001 budget provides for total spending of approximately \$21.464 billion. It provides for charitable contributions to be deductible from personal income taxes, but does not reduce personal income tax rates. See "State Taxes." Assumed tax revenues, including sales tax receipts dedicated to the MBTA and taking into account the charitable contributions deduction, are \$15.849 billion. The budget provides for 30% of tobacco settlement moneys to be expended in fiscal 2001. It also contains the Senate provisions for pay-as-you-go capital spending. "See Update of Proposed Capital Spending Authorizations." As recommended by the Governor, the budget appropriates \$922 million for the state's pension funding schedule and an additional \$100 million related to increased pension liabilities due to the conversion to new actuarial software.

Since July, the Governor has approved supplemental appropriations for fiscal 2001 totaling approximately \$173.3 million, including approximately \$68 million for collective bargaining agreements and \$10.5 million for snow and ice removal programs. On January 24, 2001, the Governor filed a supplemental appropriations bill totalling approximately \$532.4 million, including \$258 million for Medicaid, \$50 million for local roads and bridges, \$27 million for snow and ice removal, \$25 million for costs at county correctional facilities, \$21 million for caseload-driven deficiencies at the Department of Transitional Assistance and \$17 million for the cost of caseload increases in residential services at the Department of Social Services. The \$258 million shortfall for Medicaid is the result of higher than anticipated utilization, pharmaceutical costs and rate increases. The Executive Office for Administration and Finance currently projects total spending for fiscal 2001 at approximately \$22.304 billion.

On October 11, 2000 the Secretary of Administration and Finance announced a revised fiscal 2001 revenue estimate of \$16.209 billion. Taking into account the reduction in personal income tax rates approved by the voters on November 7, 2000 (see "State Taxes," below), the revised estimate was \$16.074 billion. On January 24, 2001, in conjunction with the filing of his fiscal 2002 budget recommendations, the Governor announced a revised fiscal 2001 tax revenue estimate of \$16.232 billion, an increase of \$158 million over the prior estimate of \$16.074 billion. The estimate includes \$645 million of sales tax receipts dedicated to the Massachusetts Bay Transportation Authority. (See the March Information Statement under the heading "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority.")

Tax collections in October, 2000 totaled approximately \$1.088 billion, an increase of approximately \$48.9 million, or 4.7%, over October, 1999. The October total includes approximately \$58.3 million of sales tax receipts dedicated to the MBTA. Year-to-date tax collections through October, 2000 totaled approximately \$5.043 billion, an increase of approximately \$488.4 million, or 10.7%, over the comparable period in fiscal 2000. The year-to-date total includes approximately \$221.8 million of sales tax receipts dedicated to the MBTA. The benchmark range for collections through October, 2000, based on the October 11, 2000 fiscal 2001 tax revenue estimate of \$16.074 billion, was \$4.669 billion to \$4.889 billion.

Tax collections in November, 2000 totaled approximately \$1.089 billion, an increase of approximately \$41.7 million, or 4.0%, over November, 1999. The November total includes approximately \$47.2 million of sales tax receipts dedicated to the MBTA. Year-to-date tax collections through November, 2000 totaled approximately \$6.131 billion, an increase of approximately \$530.1 million, or 9.5%, over the comparable period in fiscal 2000. The year-to-date total includes approximately \$269.0 million of sales tax receipts dedicated to the MBTA. The benchmark range for collections through November, 2000, based on the October 11, 2000 fiscal 2001 tax revenue estimate of \$16.074 billion, was \$5.787 billion to \$5.997 billion.

Tax collections in December, 2000 totaled approximately \$1.425 billion, a decrease of approximately \$20.5 million, or 1.4%, from December, 1999. The December total includes approximately \$50.8 million of sales tax receipts dedicated to the MBTA. Year-to-date tax collections through December, 2000 totaled approximately \$7.556 billion, an increase of approximately \$509.5 million, or 7.2%, over the comparable period in fiscal 2000. The year-to-date total includes approximately \$319.8 million of sales tax receipts dedicated to the MBTA. The benchmark range for collections through December, 2000, based on the October 11, 2000 fiscal 2001 tax revenue estimate of \$16.074 billion, was \$7.296 billion to \$7.496 billion.

Preliminary results indicate that tax collections in January, 2001 totaled approximately \$1.94 billion, an increase of approximately \$254 million, or 15.1%, over January, 2000. The January total includes approximately \$69 million of sales tax receipts dedicated to the MBTA. Preliminary results indicate that year-to-date tax collections through January, 2001 totaled approximately \$9.5 billion, an increase of approximately \$764 million, or 8.8%, over the comparable period in fiscal 2000. The year-to-date total includes approximately \$389 million of sales tax receipts dedicated to the MBTA. The benchmark range for collections through January, 2001, based on the January 24, 2001 fiscal 2001 tax revenue estimate of \$16.232 billion, was \$9.134 billion to \$9.324 billion.

The revised annual revenue estimate released on January 24, 2001 assumes that actual tax collections in fiscal 2001 will be 3.5% higher than actual tax collections in fiscal 2000. Baseline tax revenue growth (an approximate calculation that nets out the effects of changes in tax law) is assumed in the January 24, 2001 estimates to be approximately 6.6% for fiscal 2001. During the first quarter of fiscal 2001, actual tax revenue growth was 12.5% and estimated baseline growth was approximately 14.9%. During the second quarter of fiscal 2001, actual growth was 1.9% and calculated baseline growth was approximately 3.5%. For the first seven months of fiscal 2001 (based on preliminary results for January, 2001), actual growth was 8.8% and calculated baseline growth was approximately 10.5%. Average baseline growth of approximately 1.8% for the remaining five months of the fiscal year will be required if the annual estimate of \$16.232 billion is to be met.

Fiscal 2000

On a statutory basis, tax collections in fiscal 2000 totaled approximately \$15.702 billion, an increase of approximately \$1.398 billion, or 9.8%, over fiscal 1999, and approximately \$243.6 million higher than the final estimate for fiscal 2000.

The Division of Medical Assistance experienced an estimated deficiency of \$202.1 million in fiscal 2000 resulting from increased caseloads, rate increases and an internal accounting issue relating to the Division's 52-week billing system, which is equipped to pay medical bills from providers for only 364 days per year. Bills for a "53rd week" must be paid on occasion to account for the lost billing days in previous years. Corrective action is planned to prevent future deficiencies related to the Division's billing system. The deficiency was partially offset with \$67.5 million in reversions, resulting in a net deficiency of \$134.6 million. The deficiency was offset further by increased federal reimbursements of \$101.1 million, for a net impact of \$33.5 million. On June 23, 2000 the Governor approved supplemental appropriations sufficient to eliminate the deficiency.

On May 5, 2000, the Governor approved a fiscal 2000 supplemental appropriations bill containing approximately \$85.7 million of appropriations to make up deficiencies in certain accounts, including \$25.3 million for the statewide snow and ice removal program. On June 23, 2000 the Governor approved a supplemental appropriations bill containing approximately \$202.3 million of appropriations to make up deficiencies in certain accounts, including the Division of Medical Assistance accounts described above. On July 28, 2000 the Governor approved a supplemental appropriations bill containing approximately \$62.8 million of appropriations, including \$50 million for the Chapter 90 local road and bridge program and funds for the Registry of Motor Vehicles. On August 10, 2000 the Governor approved the final supplemental appropriations bill for fiscal 2000, containing approximately \$342 million of additional fiscal 2000 appropriations after vetoing approximately \$20 million. The bill provided for approximately \$149.5 million of fiscal 2000 appropriations to be available for expenditure in fiscal 2001. The bill provided for an \$87.7 million distribution of lottery proceeds to cities and towns and contained provisions for disposing of additional fiscal 2000 surplus revenues as described below.

On May 17, 2000 the Governor approved legislation providing for \$500 million in surplus fiscal 2000 revenues to be deposited in the Debt Defeasance Trust Fund. See "COMMONWEALTH CAPITAL SPENDING – Central Artery/Ted Williams Tunnel Project." On July 19, 2000 the Governor filed legislation that would have authorized the deposit in the Debt Defeasance Trust Fund of \$150 million in additional fiscal 2000 surplus revenues. As enacted by the Legislature, the final fiscal 2000 supplemental appropriations bill provided for approximately \$86.9 million of fiscal 2000 surplus revenues to be transferred to the Capital Improvement and Investment Trust Fund for specified capital expenditures through fiscal 2003; in approving the bill on August 10, 2000, the Governor reduced this amount by approximately \$20.1 million. The final supplemental appropriations act also provided for \$10 million of fiscal 2000 surplus revenues to be transferred to the Teacher, Principal and Superintendent Quality Endowment Fund (formerly the Teacher Quality Endowment Fund) and approximately \$66.6 million of such revenues to be transferred to a new MBTA Infrastructure Renovation Fund for specified capital expenditures by the Massachusetts Bay Transportation Authority through fiscal 2005 that are not included in the Authority's own capital spending plan. See the March Information Statement under the heading "FINANCIAL RESULTS – Selected Financial Data - Statutory Basis."

In accordance with state finance law, on October 31, 2000 the Comptroller issued the Statutory Basis Financial Report of the Commonwealth for the year ended June 30, 2000, together with the independent auditors' report thereon. On December 18, 2000 the Comptroller issued the Comprehensive Annual Financial Report (GAAP basis) of the Commonwealth for the year ended June 30, 2000. Together with the independent auditors' report thereon. Both reports have been filed with each Nationally Recognized Municipal Securities Information Repository.

State Taxes

On November 7, 2000 Massachusetts voters approved two initiative petitions that will reduce personal income taxes. See the March Information Statement under the heading "COMMONWEALTH REVENUES – State Taxes; *Income Tax*." One of the approved petitions sets the Part B income tax rate at 5.6% on January 1, 2001, 5.3% on January 1, 2002 and 5% on January 1, 2003 and thereafter. The Department of Revenue estimates that this change will reduce fiscal 2001 revenues by \$135 million, fiscal 2002 revenues by \$457 million and fiscal 2003 revenues by \$883 million. The annualized value of the reduction, once fully effective in fiscal 2004, is estimated to be approximately \$1.154 billion. The other approved petition provides for a personal income tax deduction for charitable contributions, effective January 1, 2001. The petition essentially re-enacts a provision for such a deduction included in the fiscal 2001 budget. The Department of Revenue estimates the cost of the deduction to be \$70 million to \$90 million in fiscal 2001 and \$157 million to \$192 million annually thereafter. The initiative petition that would have established tax credits for amounts paid as tolls and motor vehicle excise taxes was disapproved by the voters.

Legislation approved by the Governor on July 28, 2000 as part of the fiscal 2001 budget froze the motor fuels excise tax at 21¢ per gallon of fuel, which has been the effective tax rate for many years. Under prior law, the tax per gallon was 19.1% of the weighted average selling price per gallon of fuel, but not less than 21¢. See the March Information Statement under the heading "COMMONWEALTH REVENUES – State Taxes; *Other Taxes*."

On September 19, 2000 the State Auditor issued his report calculating whether net state tax revenues in fiscal 2000 exceeded allowable state tax revenues under the limit set by Chapter 62F of the Massachusetts General Laws. See the March Information Statement under the heading "COMMONWEALTH REVENUES – Limitations on Tax Revenues." For fiscal 2000, net state tax revenues, as determined by the State Auditor pursuant to Chapter 62F, were approximately \$15.702 billion and allowable state tax revenues were approximately \$16.694 billion.

On October 11, 2000 the Secretary of Administration and Finance estimated that fiscal 2002 tax revenues would total \$16.551 billion, including \$671 million in sales tax receipts dedicated to the MBTA. This estimate was later reduced to \$16.090 billion to reflect passage on November 7, 2000 of the initiative petition to reduce personal income tax rates. On January 24, 2001, in connection with the release of the Governor's budget recommendations for fiscal 2002, the tax revenue estimate for fiscal 2001 was increased by \$158 million to \$16.232 billion. See "Fiscal 2001."

Cash Flow Projection

A cash flow projection for fiscal 2001 was released by the State Treasurer and the Secretary of Administration and Finance on November 30, 2000. According to the report, fiscal 2001 is projected to end with a cash balance of \$1.938 billion, excluding any fiscal 2001 activity that will occur after June 30, 2001 and excluding the Stabilization Fund. The corresponding figure for the end of fiscal 2000 was approximately \$1.991 billion, of which \$650 million was set aside for fiscal 2001 cash defeasance transactions, \$160 million was set aside for disbursement to the Massachusetts Bay Transportation Authority and \$230 million represented moneys sequestered for capital projects, leaving approximately \$951 million as general operating cash. The report anticipates that less than half of the cash balance forecast for the end of fiscal 2001 will be available as general operating cash, due primarily to the \$3 billion of Commonwealth bond and note issues forecast for fiscal 2001. The long-term debt offerings forecast in the report include \$2 billion in general obligation bonds (\$575 million in September, 2000, \$675 million in October, 2000 and \$250 million each in January, March and June, 2001) and \$600 million in federal grant anticipation notes (November, 2000). Of the general obligation bonds, \$1 billion is expected to be issued for the Central Artery/Ted Williams Tunnel project, as are all of the federal grant anticipation notes. See "COMMONWEALTH CAPITAL SPENDING – Central Artery/Ted Williams Tunnel Project." The short-term debt offerings forecast in the report include \$400 million in bond anticipation notes for the Boston Convention and Exhibition Center in September, 2000 (with expenditures of approximately \$240 million by the end of fiscal 2001) and \$250 million of bond anticipation notes for general capital expenditures in December, 2000, to be retired with the proceeds of general obligation bonds issued in January, 2001. The convention center notes are general obligation notes being issued to finance costs associated with the Boston Convention and Exhibition Center in anticipation of special obligation bonds and other capital costs. See the March Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES – Special Obligation Debt; *Boston Convention and Exhibition Center Fund*." Through January, 2001 actual debt offerings have occurred as forecast, except that the federal grant anticipation notes were issued in December, 2000 rather than November, 2000.

The next cash flow projection is due February 25, 2001.

Medicaid

On June 15, 2000 the federal Health Care Financing Administration (HCFA) sent a letter to nine states, including Massachusetts, New York and Florida, indicating that portions of their Medicaid programs might be funded with impermissible taxes on health care providers, jeopardizing federal reimbursements collected on any Medicaid program expenditures funded with such taxes. In the case of Massachusetts, the letter related to the portion of the Commonwealth's Medicaid program funded by the uncompensated care pool. (The Medicaid program is 50% funded by federal reimbursements. See the March Information Statement under the heading "COMMONWEALTH PROGRAMS AND SERVICES – Medicaid.") HCFA promulgated regulations in 1993 regarding the collection of taxes imposed on health care providers and establishing a process for waiver approval of state taxes subject to the regulations. The state Division of Medical Assistance (DMA), which administers the Medicaid program in the Commonwealth, filed a waiver request in February, 1993 relating to the permissibility of the Commonwealth's assessment on acute care hospitals to fund the uncompensated care pool in Massachusetts. The waiver request has been resubmitted three times since 1993, with DMA providing additional information each time as requested by HCFA. DMA believes that its pending waiver request addresses the concerns that have been articulated by HCFA and that the Commonwealth's implementation of the uncompensated care pool assessment is within the federal law pertaining to provider taxes. The June 15 HCFA letter requested the Commonwealth to resubmit its waiver request by July 30, 2000. The letter further stated that if HCFA were to make a final determination that the Commonwealth had imposed an impermissible provider tax, HCFA would undertake an audit of the Commonwealth's uncompensated care pool program and seek retroactive repayment of federal Medicaid reimbursements. Under federal regulations, recoupment of federal Medicaid reimbursements is generally accomplished by withholding a portion of future Medicaid reimbursements to the state owing the repayment. States can appeal a request for repayment to an appeals panel within the U. S. Department of Health and Human Services and then to a federal district court. From 1993, when the first waiver request was submitted, through fiscal 1999, the Commonwealth received an estimated \$920 million in federal Medicaid reimbursements related to expenditures associated with the uncompensated care pool, and the Commonwealth has continued to collect approximately \$37 million per fiscal quarter for each quarter following fiscal 1999. On July 28, 2000 HCFA extended the deadline for the submission of DMA's waiver request from July 30, 2000 to August 31, 2000 for collections that occurred from 1993 to the present ("original tax"), and to September 30, 2000 for certain amounts collected from 1998 to the present ("new tax"). DMA filed its "original tax" submission in response to HCFA's letter on August 31, 2000 and its "new tax"

submission on September 29, 2000. In addition, HCFA allowed DMA to supplement its “original tax” submission (filed August 31, 2000) so long as it did so by September 30, 2000. Accordingly, DMA filed additional documents on September 29, 2000, which supplemented its response relative to the “original tax.” Officials from DMA continue to meet with the Massachusetts Congressional delegation and officials from HCFA to discuss ways of resolving this issue. Clarification of the law surrounding permissible provider taxes is a national issue and resolution could take several years.

Selected Financial Data - Statutory Basis

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth’s audited statutory basis financial statements for fiscal 1996 through 2000 and estimates for fiscal 2001 and fiscal 2002 prepared by the Executive Office for Administration and Finance. The fiscal 2001 and fiscal 2002 estimates are as of January 24, 2001. 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 March Information Statement under the heading “FINANCIAL RESULTS.”

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

	Fiscal 1996	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000	Estimated Fiscal 2001
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$ 128.1	\$ 263.4	\$ 225.1	\$ 286.3	\$ 330.2	\$ 278.5
Tax Reduction Fund	--	231.7	91.8	367.7	6.8	7.2
Stabilization Fund	425.4	543.3	799.3	1,159.6	1,388.5	1,608.4
Undesignated	172.5	134.0	277.8	378.5	386.9	391.3
Fund Balance Restatement	<u>--</u>	<u>0.6(2)</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>
Total	<u>726.0</u>	<u>1,173.0</u>	<u>1,394.0</u>	<u>2,192.1</u>	<u>2,112.4</u>	<u>2,285.4</u>
<u>Revenues and Other Sources</u>						
Taxes	12,049.2	12,864.5	14,026.3	14,291.5	15,688.6	15,587.1(4)
Federal Reimbursements	3,039.1	3,019.6	3,361.2	3,442.9	3,645.6	3,8881.9
Departmental and Other Revenues	1,208.1	1,267.9	1,286.4	1,297.8	1,359.9	1,447.6
Interfund Transfers from Non-budgeted Funds and Other Sources	<u>1,031.1</u>	<u>1,018.0</u>	<u>1,125.9</u>	<u>1,132.8</u>	<u>1,893.0</u>	<u>1,143.4</u>
Budgeted Revenues and Other Sources	<u>17,327.5</u>	<u>18,170.0</u>	<u>19,799.8</u>	<u>20,165.0</u>	<u>22,587.1</u>	<u>22,060.0</u>
Mass Transit Assessments from Municipalities	147.6	151.5	155.6	159.9	15.8	---
Interfund Transfers among Budgeted Funds and Other Sources	<u>896.2</u>	<u>901.8</u>	<u>1,449.2</u>	<u>1,242.0</u>	<u>3,618.2(3)</u>	<u>233.4</u>
Total Revenues and Other Sources	<u>18,371.3</u>	<u>19,223.3</u>	<u>21,404.6</u>	<u>21,566.9</u>	<u>26,221.1</u>	<u>22,293.4</u>
<u>Expenditures and Uses</u>						
Programs and Services	14,650.7	15,218.8	16,238.6	17,341.1	19,330.7	19,817.1
Debt Service	1,183.6	1,275.5	1,213.4	1,173.8	1,193.3	1,361.3
Pensions	1,004.6	1,069.2	1,069.8	990.2	986.3	1,041.5
Interfund Transfers to Non-budgeted Funds and Other Uses	<u>42.2</u>	<u>385.5</u>	<u>479.9</u>	<u>739.6</u>	<u>903.8</u>	<u>84.8</u>
Budgeted Expenditures and Other Uses	<u>16,881.1</u>	<u>17,949.0</u>	<u>19,001.7</u>	<u>20,244.7</u>	<u>22,414.1</u>	<u>22,304.7</u>
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	147.6	151.5	155.6	159.9	15.8	---
Interfund Transfers among Budgeted Funds and Other Uses	<u>896.2</u>	<u>901.8</u>	<u>1,449.2</u>	<u>1,242.0</u>	<u>3,618.2</u>	<u>233.4</u>
Total Expenditures and Other Uses	<u>17,924.9</u>	<u>19,002.3</u>	<u>20,606.5</u>	<u>21,646.6</u>	<u>26,048.1</u>	<u>22,538.1</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>446.4</u>	<u>221.0</u>	<u>798.1</u>	<u>(79.7)</u>	<u>173.0</u>	<u>(244.7)</u>
Transfer of Excess to Capital Projects Fund(5)	---	---	---	---	---	---
Net Balance	---	---	---	---	---	<u>(244.7)</u>
<u>Ending Fund Balances</u>						
Reserved or Designated	263.4	225.1	286.3	330.2	278.5	26.1
Tax Reduction Fund	231.7	91.8	367.7	6.8	7.2	36.5
Stabilization Fund	543.3	799.3	1,159.6	1,388.5	1,608.4	1,654.5
Undesignated	<u>134.0</u>	<u>277.8</u>	<u>378.5</u>	<u>386.9</u>	<u>391.3</u>	<u>323.6</u>
Total	<u>\$ 1,172.4</u>	<u>\$ 1,394.0</u>	<u>\$ 2,192.1</u>	<u>\$ 2,112.4</u>	<u>\$ 2,285.4</u>	<u>\$ 2,040.7</u>

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

- Totals may not add due to rounding.
- The fund balance restatement for fiscal 1997 is the result of the reclassification of the Drug Analysis Fund from a non-budgeted fund to a budgeted fund.
- Reflects legislation in the final supplemental appropriations act for fiscal 2000 requiring the Comptroller to transfer funds from the General Fund to the Local Aid Fund and Highway Fund at the end of fiscal 2000, eliminating deficits in these funds.
- Reflects the October 11, 2000 estimate of \$16.209 billion, less \$645 million of sales tax receipts dedicated to the Massachusetts Bay Transportation Authority (see the March Information Statement under the heading "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority) and less \$135 million to reflect the passage of the November, 2000 ballot question reducing personal income taxes (see "State Taxes").
- The amount of any Capital Projects Fund transfer will be determined by the Comptroller when the books are closed for fiscal 2001 on October 31, 2001. After the books are closed, such amount will be treated as an interfund transfer to non-budgeted funds and other uses.

Selected Financial Data – GAAP Basis

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

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

SOURCE: Office of the Comptroller

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

COMMONWEALTH CAPITAL SPENDING

Five-Year Capital Spending Plan

The following table sets forth the Commonwealth’s current five-year capital plan. See the March Information Statement under the heading “COMMONWEALTH CAPITAL SPENDING – Five-Year Capital Spending Plan.” The table assumes that all Commonwealth bonds related to a particular year’s expenditures will be issued in the same year. In practice, Commonwealth capital expenditures usually occur prior to the issuance of the related bonds. Accordingly, it is customary for some Commonwealth bonds to be issued in a subsequent fiscal year to finance capital expenditures made in the prior fiscal year.

The five-year capital plan governs bond-funded expenditures and does not, therefore, include expenditures from the Capital Investment Trust Fund, the Capital Improvement and Investment Trust Fund or the Capital Needs Investment Trust Fund (see “Fiscal 2000,” “Update of Proposed and Approved Capital Spending Authorizations” and the March Information Statement under the heading “FINANCIAL RESULTS - Selected Financial Data - Statutory Basis”) or capital expenditures from the fiscal 2000 year-end surplus (see “Fiscal 2000” and the March Information Statement under the heading “COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS – Operating Fund Structure; *Year-end Surpluses*”).

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

USES:	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Total</u>
Category						
Information Technology	\$ 53	\$ 49	\$ 49	\$ 49	\$ 49	\$ 249
Infrastructure	185	201.5	201.5	202	202	992
Environment	104	104	104	104	105	521
Housing	74.5	72	72	71	71	360.5
Transportation						
Central Artery/Tunnel Project	1,744	1,371	940	658	240	4,953
All Other	<u>718</u>	<u>662</u>	<u>631</u>	<u>487</u>	<u>813</u>	<u>3,311</u>
Transportation Subtotal	2,462	2,033	1,571	1,145	1,053	8,264
Public Safety	19	9	9	9	9	55
Economic Development (2)	295	275	182	61	44	857
Reserve (3)	<u>4</u>	<u>4</u>	<u>95</u>	<u>135</u>	<u>135</u>	<u>373</u>
Total Uses	<u>\$ 3,197</u>	<u>\$ 2,747</u>	<u>\$ 2,284</u>	<u>\$ 1,776</u>	<u>\$ 1,668</u>	<u>\$ 11,672</u>
SOURCES:						
Category						
Commonwealth General Obligation Debt	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 5,000
Commonwealth Special Obligation Debt	248	227	138	16	0	629
Third Party-Supported Expenditures	117	38	11	37	181	384
Federal Grant Anticipation Notes	386	0	0	0	0	386
Federal Aid	781	599	452	387	387	2,606
Transportation Infrastructure Fund (4)	<u>666</u>	<u>883</u>	<u>684</u>	<u>336</u>	<u>100</u>	<u>2,669</u>
Total Sources	<u>\$ 3,197</u>	<u>\$ 2,747</u>	<u>\$ 2,284</u>	<u>\$ 1,776</u>	<u>\$ 1,668</u>	<u>\$ 11,672</u>

SOURCE: Executive Office for Administration and Finance.

1. Totals may not add due to rounding
2. Includes amounts formerly labeled "Wastewater Treatment." Also includes approximately \$629 million for convention centers in Boston, Worcester and Springfield that are expected to be funded by special obligation bonds. Pending a design and cost review of the Boston Convention and Exhibition Center project, the Massachusetts Convention Center Authority has temporarily suspended entering into new subcontracts. As a result, estimates of project expenditures and timing may be revised.
3. Reserve for unanticipated capital spending needs within a given fiscal year, to be allocated as needed among the listed categories.
4. Sources include up to \$1.35 billion of Commonwealth bonds; uses include \$100 million annually for the statewide road and bridge program. See "Central Artery/Ted Williams Tunnel Project."

Central Artery/Ted Williams Tunnel Project

On March 15, 2000 the Massachusetts Turnpike Authority filed with the Federal Highway Administration a finance plan update for the Central Artery/Ted Williams Tunnel project describing the components of the additional project cash needs of \$1.398 billion, expected total cash outlays of \$13.064 billion and the Governor's proposed funding plan. See the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING – Central Artery/Ted Williams Tunnel Project." The plan contained the same cash flow projections set forth in the March Information Statement. The plan included as an appendix an interim cost validation report by the consultants that had been retained by the Turnpike Authority to undertake an independent assessment of its findings. The consultants analyzed only the estimates related to design and construction costs, which amounted to \$975 million of the \$1.398 billion total. The consultants reported that the \$975 million assessment was realistic but also indicated that they had identified risk areas of potential additional costs totaling approximately \$300 million.

On April 11, 2000 the U. S. Secretary of Transportation released a report dated March 31, 2000 that had been prepared by a task force of federal officials pursuant to the action plan that the Secretary had announced on February 17, 2000. The task force report stated that senior management of the Central Artery/Ted Williams Tunnel project had deliberately withheld information about cost overruns from the Federal Highway Administration and

recommended a change in project leadership, as well as an evaluation of whether the Turnpike Authority should continue to be responsible for the management of the project. The report validated the methodology used by the Turnpike Authority to identify the potential \$1.4 billion cost overrun as realistic and consistent with normal industry practice, but stated that there were risks that could lead to cost exposures in addition to those identified in the March 15, 2000 finance plan update in the range of \$300 million to \$480 million. The task force estimated that a realistic total cost estimate for the project was \$13.4 billion to \$13.6 billion. The report stated that the Commonwealth appeared to have adequate resources to finance the additional costs but had not yet identified precisely how it would do so, noting that several of the elements in the Governor's proposed funding plan did not appear to have state legislative support. Upon receiving the report, the Governor requested and received the resignation of the chairman of the Turnpike Authority and appointed a new chairman.

On May 8, 2000 the Turnpike Authority received a letter from the Federal Highway Administration stating that it could not accept the March 15, 2000 finance plan update as filed. The letter indicated that the most critical issue to resolve was the identification of new funding sources and said that if sufficient new funding sources were not made available by the approval of appropriate legislation by May 19, 2000, the federal government would withhold additional "obligation authority" for the project. See the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING – Federal Highway Funding." The letter further stated that prior to May 19, 2000 any use of obligation authority would be available only for work that could not be deferred without cost increases. (Obligation authority has since been reinstated.) In addition, the letter stated that a completely revised finance plan update had to be submitted by June 16, 2000. Finally, the letter provided that total obligation authority for the project would be limited to the amount described in the March 15, 2000 finance plan update (\$7.049 billion plus grant anticipation notes of \$1.5 billion), and "advance construction" authorizations for the project would be limited to the amount specified in previously accepted finance plan updates (the existing balance, which was approximately \$2.864 billion at the end of fiscal 1999, plus \$222 million). Under federal highway funding statutes, the "advance construction" approach allows states, with Federal Highway Administration approval, to begin a project before amassing all of the obligation authority needed to cover the federal share of that project. The Commonwealth has used this approach extensively for the Central Artery/Ted Williams Tunnel project. The limits on obligation authority and advance construction authorizations contained in the letter are consistent with the amount of federal funding contemplated in connection with a total project cost of \$11.667 billion, meaning that all costs in excess of that amount will have to be met with non-federal funds. According to the May 8, 2000 letter, the revised finance plan update must provide for funding resources consistent with total project costs in excess of \$13.1 billion, as indicated by the higher estimates described in the March 31, 2000 federal task force report and the independent cost validation report appended to the March 15, 2000 finance plan, and must provide for full funding of a balanced statewide road and bridge program.

On May 17, 2000 the Governor approved legislation to provide financing for the additional costs of the Central Artery/Ted Williams Tunnel project and for the statewide road and bridge program. The legislation authorized approximately \$1.520 billion of Commonwealth bonds, to be issued as general obligations or as special obligations payable from the gasoline tax. The legislation reinstated certain fees collected by the Registry of Motor Vehicles to be credited to the Highway Fund, which are expected to generate approximately \$100 million per year to offset debt service costs associated with the foregoing bonds and to provide direct funding for the project. (Legislation clarifying that such fees may be pledged to secure special obligation bonds was approved by the Governor on June 30, 2000.) The legislation also provided for the sale of a highway exit ramp by the Commonwealth to the Massachusetts Port Authority in exchange for \$65 million (payment of which occurred in January, 2001) and for the additional payment to the Commonwealth by the Massachusetts Turnpike Authority of \$200 million (which was received on September 1, 2000). Such moneys have been or will be deposited in a new Central Artery and Statewide Road and Bridge Infrastructure Fund and used to pay additional costs of the Central Artery/Ted Williams Tunnel project and to fund the statewide road and bridge program to the extent of at least \$100 million per year for each of fiscal years 2001 through 2005. In addition the legislation authorized up to \$650 million to be deposited in the Debt Defeasance Trust Fund (up to \$500 million from surplus fiscal 2000 revenues and up to \$150 million from accumulated surpluses from fiscal years 1997, 1998 and 1999 which were originally credited to the Capital Projects Fund). Such moneys have been used to establish sinking funds to retire certain Commonwealth bonds payable during fiscal 2001 or on July 1, 2001. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Cash Defeasance Transactions." During fiscal 2001 and fiscal 2002, an amount equal to the amount that would otherwise have been appropriated for debt service on the defeased Commonwealth bonds will be transferred by the Comptroller from the applicable budgetary operating funds to the Central Artery and Statewide Road and Bridge

Infrastructure Fund.

On June 16, 2000 the Massachusetts Turnpike Authority filed with the Federal Highway Administration a finance plan update identifying total project costs, expressed as cash needs through completion in fiscal 2005, of \$13.513 billion. This cost figure was based upon the previously identified project cash requirement of \$11.667 billion, plus \$1.846 billion in additional costs (including \$53 million for a garage and surface restoration work to be funded out of Turnpike Authority resources that had previously been excluded from the project budget). The estimate of additional costs was \$448 million higher than the revised estimates released on February 1, 2000 but was consistent with the range of estimated additional costs contained in the March 31, 2000 federal task force report. The June 16, 2000 finance plan update included a \$130 million contingency for Central Artery/Ted Williams Tunnel project needs.

By letter dated June 15, 2000, the Federal Highway Administration informed the Massachusetts Turnpike Authority that it had been designated a "high-risk grantee" with respect to activities related to the Central Artery/Ted Williams Tunnel project. The letter indicated that such designation will remain in effect until the completion of the project. According to the letter, the designation means that more detailed financial reports and additional project monitoring will be required on the project. On June 22, 2000, the Federal Highway Administration, the Executive Office of Transportation and Construction, the Massachusetts Turnpike Authority and the Massachusetts Highway Department signed a project partnership agreement setting out the federal reporting and monitoring requirements for the project and stipulating that federal funding for the project will not exceed \$8.549 billion, as contemplated by the May 8, 2000 Federal Highway Administration letter.

In March, 2000, the Executive Office for Administration and Finance engaged the services of an independent consulting and accounting firm to review costs associated with the Central Artery/Ted Williams Tunnel project. On August 7, 2000 the Executive Office received the firm's report. The report recommended that project officials should budget for \$2.140 billion in additional costs, an increase of \$294 million over the amount provided for in the June 16, 2000 finance plan update. The consultant's report also detailed other scenarios and suggested a range of further potential budget exposures of up to an additional \$280 million.

On August 8, 2000 the Turnpike Authority received a letter from the Federal Highway Administration stating that it would defer action on the June 16, 2000 finance plan update in view of the consultant's report released on August 7, 2000 and would instead await the filing of the next scheduled finance plan on October 1, 2000.

On September 29, 2000 the Turnpike Authority filed with the Federal Highway Administration a new finance plan dated October 1, 2000. The October 1, 2000 finance plan is based on information as of June 30, 2000 and the results of a comprehensive cost and schedule evaluation. The finance plan estimates total project costs to be \$14.075 billion, an increase of \$562 million over the estimates contained in the June 16, 2000 finance plan update. Most of the increase is contained in a \$203 million increase in estimated construction costs and the addition of a project contingency budget of \$258 million.

The project cost estimates contained in the October 1, 2000 finance plan are \$2.408 billion higher than the \$11.667 billion project budget in place prior to the announcement of additional costs on February 1, 2000. Excluding the \$53 million for a garage and surface restoration work that had been added to the project budget in the June 16, 2000 update (and which is being financed from Turnpike Authority resources), the difference between the October 1, 2000 estimate and the pre-February 1, 2000 estimate is \$2.355 billion. The finance plan contemplates that \$2.168 billion of this amount will be defrayed by amounts in the Central Artery and Statewide Road and Bridge Infrastructure Fund established by the legislation approved on May 17, 2000. The balance of the increase, \$185 million, is budgeted to come from the proceeds of the sale of certain real estate assets by the Turnpike Authority (approximately \$152 million was received on July 14, 2000) and investment earnings thereon (\$40 million anticipated, \$33 million budgeted). The \$2.168 billion figure to be provided by the Central Artery and Statewide Road and Bridge Infrastructure Fund consists of \$1.35 billion of Commonwealth bond proceeds, \$231 million of license and registration fees not used for debt service, \$664 million from avoided debt service related to debt defeasance transactions, \$200 million from the Turnpike Authority, \$65 million from the Port Authority and \$159 million in interest earnings through fiscal year 2005 on the balances in the Central Artery and Statewide Road and Bridge Infrastructure Fund itself, less \$500 million that is budgeted to be spent on highway and bridge projects not related to the Central Artery/Ted Williams Tunnel project.

The October 1, 2000 finance plan also identifies additional funding sources that could be utilized as a contingency if there were to be growth in the project cost estimate. One potential source of funds is additional sales of Turnpike Authority real estate assets, including assets made available after completion of the project (estimated range of values -- \$142 million to \$309 million). Other sources include up to \$150 million of proceeds of additional revenue bonds that could be supported by the currently projected Metropolitan Highway System tolls and \$50 million expected to be withdrawn from the owner-controlled insurance program trust fund for the project.

Internal project cost estimates prepared by the Massachusetts Division of the Federal Highway Administration as of September 27, 2000 totaled \$13.8 billion. The Division indicated at that time that the estimates used by the Turnpike Authority in preparing the October 1, 2000 finance plan constituted a reasonable representation of expected costs to be used as a basis for budgetary planning.

On October 23, 2000 the President of the United States approved legislation providing for appropriations for the U. S. Department of Transportation and related agencies for the federal fiscal year ending September 30, 2001. The legislation provides that the U. S. Secretary of Transportation is to withhold obligation of federal funds and all project approvals for the Central Artery/Ted Williams Tunnel project in federal fiscal year 2001 and thereafter unless the Secretary has approved the annual update of the project finance plan (approval of the October 1, 2000 finance plan need not occur until December 1, 2000) and has determined that the Commonwealth is in full compliance with the June 22, 2000 project partnership agreement described above and is maintaining a balanced statewide transportation program, including spending at least \$400 million each year for construction activities and transportation projects other than the Central Artery/Ted Williams Tunnel project. In addition, the legislation limits total federal funding to \$8.549 billion, as previously contemplated by the Federal Highway Administration's May 8, 2000 letter described above. This limit is consistent with the October 1, 2000 finance plan. Finally, the legislation ties future federal funding for the project to an annual finding by the Inspector General of the U. S. Department of Transportation that the annual update of the project finance plan is consistent with Federal Highway Administration financial plan guidance. Should any federal assistance be withheld from the project pursuant to such legislation, such funding would nonetheless be available to the Commonwealth for projects other than the Central Artery/Ted Williams Tunnel project. Moreover, the legislation provides that federal funds will not be withheld if the Secretary of Administration and Finance certifies that such funds are required to pay all or any portion of the principal of federal grant anticipation notes issued for the project.

On November 29, 2000 the Office of Inspector General of the U. S. Department of Transportation found the October 1, 2000 finance plan to be consistent with Federal Highway Administration guidance and to contain reasonable estimates of the projected cost, funding and schedule for the project, and on the same day the plan was accepted by the Federal Highway Administration.

The table below provides cash flow estimates that are consistent with the revised project cost estimates (as of June 30, 2000) that are contained in the October 1, 2000 finance plan and that extend to fiscal 2005, when the project is expected to be completed. The Turnpike Authority and the Executive Office for Administration and Finance believe that such estimates of future costs are realistic and that the assumptions underlying the October 1, 2000 finance plan are reasonable and appropriate. In light of the risks involved in large construction projects such as the Central Artery/Ted Williams Tunnel Project, however, including the risks that change orders and contract bids might exceed projections, that schedule slippages might occur due to unanticipated conditions or circumstances, that change order and right-of-way disputes might be resolved on terms that are less favorable to the project than currently projected and that certain engineering designs might require modification, the actual amount and timing of construction costs may differ significantly from current estimates. The Turnpike Authority has identified certain schedule exposures in connection with the completion of various segments of the project. Based on the information currently available, the Turnpike Authority does not anticipate that budgeted contingency funds will be needed to fund such schedule exposures.

Central Artery Construction Cash Flow
(in thousands)(1)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Totals</u>
Project Construction Uses:	\$ 1,610,006	\$ 1,489,038	\$ 953,965	\$ 651,886	\$ 248,042	\$ 4,952,937
Project Construction Sources:						
Federal highway reimbursements (2)	525,095	447,051	264,552	217,311	29,418	1,483,427
Commonwealth GO Bonds/Notes (3)	220,000	175,000	62,000	44,000	31,200	532,200
Third Party Contributions (4)	116,505	38,000	10,700	30,576	187,423	383,205
GANs	385,704	0	0	0	0	385,704
Transportation Infrastructure Fund	<u>362,701</u>	<u>828,988</u>	<u>616,713</u>	<u>359,999</u>	<u>0</u>	<u>2,168,400</u>
Total Sources	<u>\$ 1,610,006</u>	<u>\$ 1,489,038</u>	<u>\$ 953,965</u>	<u>\$ 651,886</u>	<u>\$ 248,042</u>	<u>\$ 4,952,937</u>

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

1. Totals may not add due to rounding. The companion table included in the March Information Statement under the caption "Interim Debt Schedule" has not been updated and should be disregarded. It has been the Commonwealth's practice to finance the cash needs of the project out of general revenues when necessary in anticipation of federal and other third-party payments, and such practice is expected to continue. If necessary, the Commonwealth retains the legal authority to issue bond anticipation notes for such purpose.
2. Assumes TEA-21 apportionment. See the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING – Federal Highway Funding."
3. Does not include bonds or notes authorized by legislation approved May 17, 2000, which are included in the Transportation Infrastructure Fund line. Fiscal 2001 figure includes \$20 million and fiscal 2002 figure includes \$25 million in anticipated pay-as-you-go funding and interest earnings thereon.
4. Reflects payments to be received from the Turnpike Authority and the Port Authority, including an additional \$53 million to be received from the Turnpike Authority for a garage and surface restoration work, but excludes payments to be deposited in the Central Artery and Statewide Road and Bridge Infrastructure Fund, which are included in the Transportation Infrastructure Fund line. The fiscal year amounts assume that the Commonwealth will finance costs in anticipation of such receipts through cash advances funded by general revenues or through the issuance of interim debt, if necessary.

Update of Proposed Capital Spending Authorizations

The fiscal 2001 budget approved by the Governor on July 28, 2000 established a new Capital Needs Investment Trust Fund, in which \$45 million of income tax receipts is to be deposited in each of fiscal years 2001 through 2005 for pay-as-you-go capital spending. Of the \$45 million, \$20 million is to be deposited each year in a new Affordable Housing Trust Fund, where it will be available for expenditure by the Massachusetts Housing Finance Agency to assist in the creation and preservation of affordable housing, \$11 million is to be used by the Department of Education for statewide technology systems and grants to local school districts for educational technology, \$9 million is to be used by the Division of Capital Asset Management and Maintenance for scheduled and deferred maintenance of state property and \$5 million is to be used by the Division for the redevelopment of state facilities formerly operated by human service agencies.

On June 28, 2000 the House of Representatives approved legislation that would authorize \$123 million of Commonwealth general obligation bonds to provide for compliance with life safety codes, remediation of environmental hazards and preservation and management of the Commonwealth's real property assets. On July 29, 2000 the Senate approved similar legislation authorizing \$117 million of Commonwealth general obligation bonds. Compromise legislation that would authorize \$117 million of Commonwealth general obligation bonds was enacted on July 31, 2000 and approved by the Governor on August 10, 2000.

On June 28, 2000 the House of Representatives approved legislation that would authorize \$116.8 million of Commonwealth general obligation bonds to provide for emergency maintenance of environmental assets of the Commonwealth. The legislation was approved with amendments by the Senate on July 27, 2000. The compromise version enacted by the Legislature on July 31, 2000 authorizes \$145.1 million of general obligation bonds, including \$19 million for matching capitalization grants for the state revolving fund program. See the March Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES – Commonwealth-Supported Debt; *Massachusetts Water Pollution Abatement Trust*. The legislation also de-authorizes \$106.7 million of authorized but

unissued general obligation bonds. The legislation was approved by the Governor on August 10, 2000.

On July 19, 2000, in response to responses received from various development teams to redevelop the Saltonstall State Office Building, the Governor filed legislation that would authorize the Massachusetts Development Finance Agency to undertake such redevelopment. See the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING – Proposed Capital Spending Authorizations." The provisions of the Governor's bill were added to the bond authorization legislation approved August 10, 2000 relating to preservation and management of the Commonwealth's real property assets. Under the provisions relating to the Saltonstall Building, the building is to be leased to the Massachusetts Development Finance Agency (for a lease term of up to 50 years, with extension terms permitted for an aggregate of 30 more years), which is to renovate it and lease half of it back to the Commonwealth for office space and related parking (for a comparable lease term). The remainder of the building is to be redeveloped as private office space, as well as private housing units and retail establishments.

On July 27, 2000 the Governor filed legislation to authorize the acquisition and financing by the city of Boston of a designated site in Boston for a new open air ballpark for major league baseball. Such legislation was enacted by the Legislature with minor amendments on July 29, 2000 and approved by the Governor on August 10, 2000. The legislation authorizes \$100 million of Commonwealth general obligation bonds for transportation-related infrastructure improvements near the site. The legislation also provides that state sales tax receipts from establishments in and around the ballpark in excess of those received during fiscal 2001 (but not more than \$1.5 million per year) are to be paid over to the city of Boston.

On July 31, 2000 the legislative conference committee considering the transportation bond bill released its report. See the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING – Proposed Capital Spending Authorizations." Later that same day, the report was accepted and the transportation bond bill was enacted by both houses of the Legislature. The bill was approved by the Governor on August 10, 2000. The legislation authorizes approximately \$3.014 billion of transportation-related capital spending to occur over several years, with approximately \$1.616 billion to be funded by Commonwealth general obligation bonds and approximately \$1.397 billion to be funded by federal reimbursements. The legislation also authorizes an additional \$150 million in spending for the Central Artery/Ted Williams Tunnel project to be funded by federal grant anticipation notes, completing the legislative authorization for the \$1.5 billion federal grant anticipation note program contemplated by the project finance plan. See the March Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES – Federal Grant Anticipation Notes."

The final fiscal 2000 supplemental appropriations bill approved by the Governor on August 10, 2000 provided for approximately \$66.7 million of fiscal 2000 surplus revenues to be transferred to the Capital Improvement and Investment Trust Fund for specified capital expenditures through fiscal 2003 and approximately \$66.6 million of such fiscal 2000 surplus revenues to be transferred to a new MBTA Infrastructure Renovation Fund for specified capital expenditures by the Massachusetts Bay Transportation Authority through fiscal 2005 that are not included in the Authority's own capital spending plan. See "Fiscal 2000."

LEGAL MATTERS

Update of Existing Litigation

In *Athol Memorial Hospital, et al. v. Commissioner of the Division of Medical Assistance and Salem Hospital v. Commissioner of the Division of Medical Assistance*, the court dismissed the claims for retroactive relief.

In *Lopez v. Board of Education, et al.*, the Supreme Judicial Court for Suffolk County on March 21, 2000 declared that the Legislature had taken appropriate steps within a reasonable time to implement education reform. The plaintiffs have voluntarily dismissed their appeal to the full Supreme Judicial Court.

In *The First National Bank of Boston v. Commissioner of Revenue*, the Department of Revenue refunded \$35.3 million in April, 2000 to the First National Bank of Boston for tax year 1993 for reasons unrelated to the claims against the Department of Revenue. The bank has accordingly withdrawn all of its claims for tax year 1993.

The Commissioner and the bank entered into a settlement on August 31, 2000 pursuant to which \$27.5 million has been refunded to the bank for tax years 1992 and 1994.

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

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

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

In *United States v. MWRA*, the court ruled on May 5, 2000 that the MWRA does not need to build a filtration system based on a finding that ozonation treatment and improvement of the Wachusett watershed are sufficient actions at this time. On June 2, 2000, the U.S. District Court entered a judgment in accordance with its ruling of May 5, 2000, denying the United States' motion for injunctive relief. The United States filed a notice of appeal on July 3, 2000.

In *Valerie Anderson v. Cellucci* (now re-captioned *Boulet v. Cellucci*), the court granted plaintiffs' motion for partial summary judgment and issued an order requiring the defendant agencies to provide services to all eligible individuals on the waiting list within 90 days. However, the court invited the Commonwealth to propose alternative relief by August 15, 2000, which the Commonwealth did. The Department of Mental Retardation currently estimates the potential exposure to the Commonwealth to be a total of \$85 million of new funding over fiscal years 2002-2006. On December 19, 2000, the parties submitted a settlement agreement to the District Court for its review and approval.

Shea v. Commonwealth has been settled for \$5,750,000.

In *Boston & Maine Railroad v. Commonwealth* (C.A. No. 99-3928E), pending in Middlesex Superior Court, the plaintiff may seek \$40 million for a taking of land in Cambridge for the Central Artery/ Ted Williams Tunnel project.

SEC Investigation

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

COMMONWEALTH BOND AND NOTE LIABILITIES

The following table sets forth the Commonwealth bond and note liabilities outstanding as of January 1, 2001.

	<u>Long-Term (1)</u>	<u>Short-Term</u>
COMMONWEALTH DEBT		
General Obligation Debt	\$ 11,406,745(2)	\$ 650,000(5)
Special Obligation Debt	564,485	0
Federal Grant Anticipation Notes	<u>1,499,325(3)</u>	<u>0</u>
Subtotal Commonwealth Debt	13,470,555	650,000
COMMONWEALTH-SUPPORTED DEBT		
Massachusetts Bay Transportation Authority	3,602,360(4)	\$ 0
Massachusetts Convention Center Authority	57,981	0
Massachusetts Development Finance Agency	71,765	0
Boston Metropolitan District	30,825	0
Foxborough Industrial Development Financing Authority	69,810	0
Steamship Authority	44,039	0
Regional Transit Authorities	<u>0</u>	<u>81,196</u>
Subtotal Supported Debt	3,876,780	81,196
COMMONWEALTH-GUARANTEED DEBT		
Higher Education Building Authorities	<u>209,601</u>	<u>0</u>
Subtotal Guaranteed Debt	209,601	0
TOTAL COMMONWEALTH BOND AND NOTE LIABILITIES	<u>\$ 17,556,936</u>	<u>\$ 731,196</u>

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

1. Long-term debt includes discount and costs of issuance. Does not include long-term capital lease obligations. See the March Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES – Indirect Obligations; *Plymouth County Certificates of Participation*" and "OTHER COMMONWEALTH LIABILITIES – Long-Term Capital Leases."
2. Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from January 1, 2001 through their maturity in the amount of \$148.1 million. On January 23, 2001 the Commonwealth issued an additional \$250 million of general obligation bonds. On February 1, 2001 the Commonwealth sold approximately \$964.6 million of general obligation refunding bonds which are expected to be delivered on February 20, 2001.
3. Includes capital appreciation interest accrued from January 1, 2001 through their maturity in the amount of \$44.5 million.
4. Includes bonds and refunding bonds, excluding such bonds that have been refunded. Does not include certificates of participation and other long-term lease obligations. Because of legislation enacted in November, 1999 that restructured the finances of the Massachusetts Bay Transportation Authority, the Commonwealth no longer makes direct debt service payments on the MBTA's bonds, but the Commonwealth remains obligated to pay the debt service on MBTA bonds issued prior to July 1, 2000 if the MBTA cannot. See the March Information Statement under the heading "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority."
5. Includes \$400 million of general obligation bond anticipation notes to finance costs associated with the construction of the Boston Convention and Exhibition Center and other capital projects (to the extent the proceeds of such notes are expended for the convention center, such notes are expected to be paid from the proceeds of special obligation bonds that can lawfully be issued regardless of the completion status of the convention center; see the March Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES – Special Obligation Debt; *Boston Convention and Exhibition Center Fund*") and \$250 million of bond anticipation notes issued as commercial paper in December, 2000 which will be retired from the proceeds of general obligation bonds issued on January 23, 2001.

Maturities of Short-Term Debt

The following table sets forth the maturities of the Commonwealth's short-term liabilities as described in the previous table.

Maturities of Short-Term Liabilities (in thousands)

<u>Year Due</u>	<u>Commonwealth</u>	<u>Regional Transit Authorities</u>	<u>Total</u>
Commercial paper	\$250,000	0	\$250,000
Fiscal 2001	0	\$ 28,880	28,880
Fiscal 2002	<u>400,000</u>	<u>52,316</u>	<u>452,316</u>
Total	<u>\$650,000</u>	<u>\$ 81,196</u>	<u>\$731,196</u>

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

Statutory Debt Limit on Direct Debt

The statutory limit on "direct" bonds during fiscal year 2001 is \$11,076,483,462. As noted in the March Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES – Statutory Debt Limit on Direct Debt," the statutory limit on direct bonds excludes certain categories of Commonwealth bonds. In addition to the bonds described in the March Information Statement, the \$1.35 billion of bonds to be issued pursuant to Chapter 87 of the Acts of 2000, as amended, payable from the Central Artery and Statewide Road and Bridge Infrastructure Fund are not to be counted in computing the amount of bonds subject to the statutory limit on direct bonds. See "COMMONWEALTH CAPITAL SPENDING – Central Artery/Ted Williams Tunnel Project." Bonds issued in December, 2000 in the amount of \$999,995,000 are expected to be allocated to the Central Artery and Statewide Road and Bridge Infrastructure Fund before the end of fiscal year 2001, thereby reducing the amount of outstanding direct debt by that amount. The outstanding Commonwealth debt amounts excluded from the limit as of January 1, 2001 are shown in the table below (see the March Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES – Statutory Debt Limit on Direct Debt"):

Calculation of the Debt Limit (amount in thousands)

Balance as of January 1, 2001	<u>\$13,470,555</u>
Less amounts excluded:	
Discount and issuance costs	(299,638)
Federal grant anticipation notes	(1,500,000)
Assumed county debt	(1,375)
Chapter 5 of the Acts of 1991 refunding bonds	(71,054)
Special obligation bonds	(561,335)
Bonds to retire MBTA notes	<u>(325,000)</u>
Outstanding Direct Debt	<u>\$ 10,712,153</u>

SOURCE: Office of the Comptroller.

Debt Service Requirements on Commonwealth Bonds

The following table sets forth, as of January 1, 2001, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal grant anticipation notes. For variable rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate exchange agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. See the March Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES – Synthetic Fixed Rate Bonds."

**Debt Service Requirements on Commonwealth Bonds
January 1, 2001 (in thousands)(1)**

<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	
2001	\$ 2,186	-	\$253,939	\$ 256,125	-	\$40,099	\$ 40,099	\$22,290	\$29,830	\$52,120	\$ 348,344
2002	612,030	\$45,416	559,409	1,216,855	-	74,822	74,822	23,415	28,708	52,123	1,343,800
2003	657,221	48,650	529,932	1,235,803	-	74,822	74,822	24,865	27,258	52,123	1,362,749
2004	644,254	68,020	498,891	1,211,165	-	74,822	74,822	26,070	26,051	52,121	1,338,108
2005	713,013	9,338	466,867	1,189,218	-	74,822	74,822	27,370	24,758	52,128	1,316,169
2006	736,616	4,536	430,978	1,172,130	\$ 117,895	73,416	191,311	28,805	23,315	52,120	1,415,561
2007	765,110	4,835	392,429	1,162,374	123,825	67,486	191,311	30,350	21,774	52,124	1,405,809
2008	760,035	5,170	341,025	1,106,230	130,240	61,068	191,308	31,995	20,126	52,121	1,349,660
2009	754,679	6,026	313,770	1,074,475	137,230	54,077	191,307	33,675	18,444	52,119	1,317,901
2010	691,031	5,683	274,461	971,175	144,515	46,792	191,307	35,335	16,791	52,126	1,214,607
2011	698,112	6,191	237,416	941,719	152,230	39,080	191,310	37,300	14,829	52,129	1,185,157
2012	549,222	6,297	199,618	755,137	160,530	30,775	191,305	39,320	12,813	52,133	998,575
2013	555,325	7,111	170,449	732,884	168,470	22,837	191,307	41,470	10,650	52,120	976,311
2014	447,819	5,047	145,985	598,852	177,760	13,549	191,309	37,530	8,369	45,899	836,060
2015	450,789	4,333	122,301	577,423	186,630	4,674	191,304	39,455	6,440	45,895	814,622
2016	408,271	2,978	100,820	512,068	-	-	-	41,530	4,368	45,898	557,966
2017	331,363	1,673	83,175	416,211	-	-	-	43,710	2,186	45,896	462,106
2018	260,892	944	68,015	329,851	-	-	-	-	-	-	329,851
2019	220,063	418	55,803	276,283	-	-	-	-	-	-	276,283
2020	151,302	94	45,848	197,244	-	-	-	-	-	-	197,244
2021	141,548	44	34,949	176,542	-	-	-	-	-	-	176,542
2022	28,905	-	30,529	59,434	-	-	-	-	-	-	59,434
2023	22,035	-	29,180	51,215	-	-	-	-	-	-	51,215
2024	24,060	-	28,006	52,066	-	-	-	-	-	-	52,066
2025	30,059	-	26,658	56,717	-	-	-	-	-	-	56,717
2026	76,790	-	23,980	100,770	-	-	-	-	-	-	100,770
2027	80,455	-	20,049	100,504	-	-	-	-	-	-	100,504
2028	84,290	-	15,931	100,221	-	-	-	-	-	-	100,221
2029	88,310	-	11,615	99,925	-	-	-	-	-	-	99,925
2030	92,525	-	7,095	99,620	-	-	-	-	-	-	99,620
2031	95,630	-	2,391	98,021	-	-	-	-	-	-	98,021
TOTAL	\$11,173,938	\$232,805	\$5,521,513	\$16,928,258	\$1,499,325	\$753,142	\$2,252,467	\$564,485	\$296,708	\$861,193	\$20,041,918

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

(1) Totals may not add due to rounding.

Commonwealth-Supported Debt

On June 29, 2000 the Town of Foxborough, acting by and through the Foxborough Industrial Development Financing Authority, issued \$69,810,000 of its Foxboro Stadium Infrastructure Improvement Bonds payable from Commonwealth contract assistance. See the March Information Statement under the heading “COMMONWEALTH BOND AND NOTE LIABILITIES – Commonwealth-Supported Debt; *Foxborough Industrial Development Financing Authority.*”

Indirect Obligations

On August 17, 2000 the Route 3 North Transportation Improvements Association issued its Commonwealth of Massachusetts Lease Revenue Bonds, Series 2000, in the aggregate principal amount of \$394,305,000, payable from lease payments to be appropriated annually by the Commonwealth through fiscal 2033. See the March Information Statement under the heading “COMMONWEALTH BOND AND NOTE LIABILITIES – Indirect Obligations; *Route 3 North.*”

Cash Defeasance Transactions

On July 28, 2000, the State Treasurer expended approximately \$182.1 million from the Debt Defeasance Trust Fund to purchase securities and establish a sinking fund to provide for the payment of certain Commonwealth general obligation bonds maturing on August 1, 2000. On August 9, 2000, the State Treasurer expended approximately \$217.7 million from the Debt Defeasance Trust Fund to purchase securities and establish a sinking fund to provide for the payment of additional Commonwealth general obligation bonds maturing on various dates to and including February 1, 2001. On December 19, 2000, the State Treasurer expended approximately \$250.2 million from the Debt Defeasance Trust Fund to purchase securities and establish a sinking fund to provide for the payment of additional Commonwealth general obligation bonds maturing on various dates to and including July 1, 2001. The securities purchased on August 9, 2000 and December 19, 2000 consisted of certain federal agency obligations which are being held by a third-party trustee in an irrevocable trust fund held by a third-party trustee. The approximate principal amount of Commonwealth general obligation bonds defeased pursuant to the three transactions is \$638.8 million. The amounts that would have been expended for debt service on such bonds in fiscal 2001 (approximately \$623.6 million) and in fiscal 2002 (approximately \$34.6 million) will be deposited in the Central Artery and Statewide Road and Bridge Infrastructure Fund. See “COMMONWEALTH CAPITAL SPENDING – Central Artery/Ted Williams Tunnel Project.”

OTHER COMMONWEALTH LIABILITIES

Pension Funding Schedule and Actuarial Valuations

On May 18, 2000 the Pension Reserves Investment Management (PRIM) Board informed the Public Employee Retirement Administration Commission (PERAC) that the PRIM Board consultants, based on discussions with PERAC’s actuary, had substantially revised their estimates contained in the report presented to the PRIM Board on November 23, 1999. See the March Information Statement under the heading “OTHER COMMONWEALTH LIABILITIES – Retirement Systems and Pension Benefits; *Current Funding Schedule and Actuarial Valuations.*” In November, 1999 the consultants had indicated that the impact of their preliminary experience study could be as much as \$2 billion in additional unfunded actuarial liability; the revised estimate is \$200 million.

On September 15, 2000 PERAC released an actuarial valuation of the state employees' and teachers' retirement systems and the State-Boston retirement system for teachers as of January 1, 2000. The unfunded actuarial accrued liability based on this valuation is approximately \$773.4 million for state employees, approximately \$2.739 billion for state teachers, approximately \$521 million for Boston teachers and \$803 million for cost-of-living increases granted for local systems prior to July, 1997, for a total unfunded liability of approximately \$4.837 billion. The valuation as of January 1, 2000 is based on actuarial assumptions including future investment earnings at a rate of 8.25% per year, annual salary increases of 6% and annual cost-of-living increases for pensioners at the rate of 3% on the first \$12,000 of benefits. The valuation continues the phase-in of an actuarial valuation of assets methodology that was begun with the valuation as of January 1, 1998; in the valuation as of January 1, 2000 assets are valued at 91% of market value. See the March Information Statement under the heading "OTHER COMMONWEALTH LIABILITIES – Retirement Systems and Pension Benefits; *Current Funding Schedule and Actuarial Valuations.*"

On October 18, 2000 and November 15, 2000 PERAC released experience studies of the state employees' and teachers' retirement systems, respectively, for calendar years 1995 through 1999. Both studies recommended changes in assumptions, including retirement rates, disability rates, withdrawal rates, salary increases and mortality. The net effect of the revised assumptions on the amount of the state's unfunded actuarial accrued liability for the two systems as of January 1, 2000 is estimated to be an increase of approximately \$657.2 million, from approximately \$3.513 billion to approximately \$4.170 billion. However, because the net effect of the assumptions would be to reduce the normal cost of the systems (normal cost being that portion of the actuarial present value of pension benefits which is allocated to a valuation year by an actuarial cost method), it is estimated that total annual costs for the two systems under existing funding schedules would decrease in the aggregate by approximately \$79.2 million.

Unemployment Compensation Trust Fund

The assets and liabilities of the Commonwealth Unemployment Compensation Trust Fund are not assets and liabilities of the Commonwealth. As of December 31, 2000 the private contributory sector of the Massachusetts Unemployment Trust Fund had a surplus of \$2.001 billion. The Division of Employment and Training's January, 2001 quarterly report indicated that the contributions provided by current law should increase reserves in the system to \$2.584 billion by the end of 2005. See Exhibit A, "Economic Information," under the heading "Employment – Unemployment Compensation Trust Fund."

AVAILABILITY OF OTHER INFORMATION

Questions regarding this Supplement or the March Information Statement or requests for additional financial information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Deputy Treasurer, Office of the Treasurer-Receiver General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900 (x 564), or Laura Guadagno, Assistant Secretary for Capital Resources and Chief Development Officer, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Supplement or the March Information Statement should be directed to John R. Regier, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone 617/542-6000.

THE COMMONWEALTH OF MASSACHUSETTS

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

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

PROPOSED FORM OF OPINION OF BOND COUNSEL

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

**MINTZ LEVIN
COHN FERRIS
GLOVSKY AND
POPEO PC**

*Boston
New York
Reston
Washington
New Haven*

*One Financial Center
Boston, Massachusetts 02111
617 542 6000
617 542 2241 fax
www.mintz.com*

[To the Underwriter]

We have acted as bond counsel to The Commonwealth of Massachusetts (the “Commonwealth”) in connection with the issuance by the Commonwealth of \$248,110,000 General Obligation Refunding Bonds (Variable Rate Demand Bonds), 2001 Series B and \$248,115,000 General Obligation Refunding Bonds (Variable Rate Demand Bonds), 2001 Series C (collectively, the “Bonds”). In such capacity, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

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

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

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

(b) Interest on the Bonds will not be included in the gross income of the holders of the Bonds for federal income tax purposes. This opinion is rendered subject to the condition that the Commonwealth comply with certain requirements of the Internal Revenue Code of 1986, as amended, which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon is and continues to be excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be included in the gross income of holders of the Bonds retroactive to the date of issuance of the Bonds. While interest on the Bonds will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on

certain individuals and corporations, interest on the Bonds will be included in the “adjusted current earnings” of corporate holders of the Bonds and therefore will be taken into account in the computation of the alternative minimum tax applicable to certain corporations. We express no opinion as to other federal tax consequences resulting from holding the Bonds.

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

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

Very truly yours,

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

APPENDIX C

Commonwealth of Massachusetts
 General Obligation Refunding Bonds
 (Variable Rate Demand Bonds)
 2001 Series B and 2001 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 March 3, 2000 (the “Information Statement”), as it appears as Appendix A in the Official Statement dated August 9, 2000 of the Route 3 North Transportation Improvements Association with respect to its Commonwealth of Massachusetts Lease Revenue Bonds, Series 2000, and substantially in the same level of detail as is found in the referenced section of the Information Statement:

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

Financial Information and Operating Data Category	Reference to Information Statement for Level of Detail
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. If and to the extent otherwise updated in the prior fiscal year, summary presentation of the size of the state workforce	"COMMONWEALTH PROGRAMS AND SERVICES - State Workforce"
7. Five-year summary presentation of actual capital project expenditures	"COMMONWEALTH CAPITAL SPENDING - Historical Capital Spending"
8. Statement of Commonwealth bond and note liabilities as of the end of the prior fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Overview - Outstanding Bond and Note Liabilities"
9. Five-year comparative presentation of long term Commonwealth debt and selected Commonwealth-supported debt as of the end of the prior fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Overview - Long Term Bond Liabilities"
10. Annual fiscal year debt service requirements for Commonwealth general obligation and special obligation bonds, beginning with the current fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Debt Service Requirements on Commonwealth Bonds"
11. So long as Commonwealth statutes impose a limit on the amount of outstanding "direct" bonds, information as to compliance therewith as of the end of the prior fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Statutory Debt Limit on Direct Bonds"
12. Five-year summary presentation of authorized but unissued general obligation debt	"COMMONWEALTH BOND AND NOTE LIABILITIES - Authorized But Unissued Debt"
13. Annual fiscal year debt service contract assistance requirements for Commonwealth-supported debt, beginning with the current fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Debt Service Contract Assistance Requirements on Commonwealth-Supported Debt"
14. Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any	"OTHER COMMONWEALTH LIABILITIES - Retirement Systems and Pension Benefits"
15. Summary presentation of operating lease commitments for future fiscal years as of the end of the prior fiscal year	"OTHER COMMONWEALTH LIABILITIES - Long Term Operating Leases"
16. Summary presentation of long-term capital leases for future fiscal years as of the end of the prior fiscal year	"OTHER COMMONWEALTH LIABILITIES - Long Term Capital Leases"
17. Summary presentation of school building assistance program commitments for future fiscal years as of the end of the prior fiscal year	"OTHER COMMONWEALTH LIABILITIES - School Building Assistance"

Any or all of the items listed above may be included by reference to other documents, including official statements pertaining to debt issued by the Commonwealth, which have been submitted to each NRMSIR. If the document

incorporated by reference is a Final Official Statement within the meaning of the Rule, it will also be available from the Municipal Securities Rulemaking Board (“MSRB”). The Commonwealth’s annual financial statements for each fiscal year shall consist of (i) combined financial statements prepared in accordance with a basis of accounting that demonstrates compliance with the Massachusetts General Laws and other applicable state finance laws, if any, in effect from time to time and (ii) general purpose financial statements prepared in accordance with generally accepted accounting principles in effect from time to time. Such financial statements shall be audited by a firm of certified public accountants appointed by the Commonwealth.

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

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

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

To the extent permitted by law, the foregoing provisions of this Bond related to the above-described undertakings to provide information shall be enforceable against the Commonwealth in accordance with the terms thereof by any owner of a Bond, including any beneficial owner acting as a third-party beneficiary (upon proof of its status as a beneficial owner reasonably satisfactory to the Treasurer and Receiver-General). To the extent permitted by law, any such owner shall have the right, for the equal benefit and protection of all owners of Bonds, by mandamus or other suit or proceeding at law or in equity, to enforce its rights against the Commonwealth and to compel the Commonwealth and any of its officers, agents or employees to perform and carry out their duties under the foregoing provisions as aforesaid, provided, however, that the sole remedy in connection with such undertakings shall be limited to an action to compel specific performance of the obligations of the Commonwealth in connection with such undertakings and shall not include any rights to monetary damages. The Commonwealth’s obligations in respect of such undertakings shall terminate if no Bonds remain outstanding (without regard to an economic defeasance) or if the provisions of the Rule concerning continuing disclosure are no longer effective, whichever occurs first. The provisions of this Bond relating to such undertakings may be amended by the Treasurer and Receiver-General of the Commonwealth, without the consent of, or notice to, any owners of the Bonds, (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof by the Securities and

^{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.

Exchange Commission or its staff (whether required or optional), (b) to add a dissemination agent for the information required to be provided by such undertakings and to make any necessary or desirable provisions with respect thereto, (c) to add to the covenants of the Commonwealth for the benefit of the owners of Bonds, (d) to modify the contents, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertakings in a manner consistent with the provisions of state legislation establishing the SID or otherwise responding to the requirements of the Rule 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.

**DEFINITIONS AND SUMMARY OF CERTAIN PROVISIONS
OF THE BONDS RELATING TO VARIABLE RATE DEMAND BONDS
AND THE STANDBY BOND PURCHASE AGREEMENTS**

The following is a summary of certain provisions of the Bonds relating to the variable rate demand features and the Standby Bond Purchase Agreements. The summary is not to be regarded as a full statement of the terms of the Bonds or the Standby Bond Purchase Agreements and, accordingly, is qualified by reference to the Bonds and the Standby Bond Purchase Agreements and is subject to the full text thereof.

See also “THE BONDS – Additional Information Related to Variable Rate Demand Bonds” in the Official Statement for a description of certain other provisions relating to variable rate demand bonds.

Pursuant to the Bonds, the Tender Agent and the Commonwealth are entitled to treat the Owner of each Bond (including Cede & Co. or any other nominee of DTC as to any such Bond registered in the name thereof) as the owner of such Bond, for all purposes. Neither the Tender Agent nor the Commonwealth shall have any duty or responsibility to recognize the beneficial ownership interest of a Beneficial Owner who has acquired such an interest in Bonds registered in the name of Cede & Co. or any other nominee of DTC. The procedures established by DTC, the Tender Agent and the Remarketing Agent for trading, exchanging and registering beneficial ownership interests in Bonds shall be implemented by such persons consistent with the terms of the relevant agreements.

DEFINITIONS

“*Agreement Expiration Date*” means the stated expiration date set forth in a Standby Bond Purchase Agreement, initially 5:00 p.m., Boston time, on February 20, 2006 or, if such date is not a Business Day, the next preceding Business Day.

“*Agreement Termination Event*” means an event of default set forth in a Standby Bond Purchase Agreement which would result in the immediate termination of the Standby Bond Purchase Agreement prior to the Agreement Expiration Date without at least thirty days’ prior notice from the Bank to the Tender Agent, other than a termination upon the substitution of an Alternate Liquidity Facility.

“*Alternate Liquidity Facility*” means any liquidity facility, insurance policy, line of credit, standby bond purchase agreement or other liquidity support or mechanism obtained, delivered, made, entered into or otherwise obtained for the purpose of securing the purchase of tendered Bonds and as a replacement for or in substitution of a Standby Bond Purchase Agreement.

“*ARS Mode*” means the Mode in which the Bonds bear interest at the ARS Rate in accordance with the provisions of the Bonds.

“*ARS Rate*” means the rate of interest to be borne by the Bonds while in the ARS Mode, as determined in accordance with the Bonds.

“*Authorized Denominations*” means, for Bonds in the Daily Mode or in the Weekly Mode, \$100,000 or any integral multiple of \$5,000 in excess thereof, for Bonds in the Flexible Mode, \$100,000 or any integral multiple of \$1,000 in excess thereof, for Bonds in the Term Mode, \$5,000 or any integral multiple thereof and for Bonds in the ARS Mode, \$25,000 or any integral multiple thereof.

“*Bank*” means the issuer of a Standby Bond Purchase Agreement or Alternate Liquidity Facility pursuant to which the issuer thereof agrees to purchase Bonds tendered for purchase in accordance with the optional or mandatory tender provisions thereof, but not remarketed, initially Landesbank Hessen-Thüringen Girozentrale, acting through its New York Branch, with respect to the Series B Bonds and State Street Bank and Trust Company, with respect to the Series C Bonds, and their successors or assigns.

“*Bank Bonds*” means Bonds which are purchased and held by or for the benefit of the Bank pursuant to a Standby Bond Purchase Agreement.

“*Bank Interest Rate*” means the per annum rate of interest on Bank Bonds pursuant to a Standby Bond Purchase Agreement, initially for each period specified below, the interest rate specified with respect to such period which interest rates shall be computed on the basis of the actual number of days elapsed and a 365 or 366 day year, as applicable:

Period	Rate
Date of advance to and including the 30th day thereafter	Base Rate
The 31st day after the date of advance to and including the 90th day after the date of advance	Base Rate plus 0.50%
Thereafter	Base Rate plus 1.00%

Notwithstanding anything in the applicable Standby Bond Purchase Agreement to the contrary, from and after an event of default thereunder, the Bank Interest Rate shall equal the Default Rate.

“*Base Rate*” means as of any day the higher of (a) the Prime Rate or (b) the sum of the Federal Funds Rate plus 1.00%.

“*Bondholder*” or “*Bondowner*” means a registered owner of any of the Bonds.

“*Bonds*” means any of the Series B Bonds and the Series C Bonds.

“*Business Day*” means a day except a Saturday, Sunday, any holiday or other day on which the business offices of the Commonwealth are closed, any other day on which banks in New York, New York, or Boston, Massachusetts, are required or authorized to remain closed or on which the New York Stock Exchange or the payment system of the Federal Reserve System is closed.

“*Commonwealth*” means The Commonwealth of Massachusetts.

“*Conversion*” means the conversion of the interest rate on the Bonds at the option of the Commonwealth, from time to time, to a Daily, Weekly, Flexible, Term or ARS Rate, as provided in the Bonds.

“*Conversion Date*” means for any Bond the date upon which Conversion of the interest rate on such Bond takes effect.

“*Daily Mode*” means the Mode in which the Bonds bear interest at a Daily Rate.

“*Daily Rate*” means, for or on any Bond in a Daily Mode, the rate of interest thereon determined in accordance with the provisions of the Bonds.

“*Default Rate*” means the default rate of interest on Bank Bonds pursuant to a Standby Bond Purchase Agreement, initially the rate per annum equal to the Base Rate plus 2.00%.

“*Delivery Date*” means the date of initial delivery of the Bonds.

“*DTC*” means The Depository Trust Company, New York, New York, or any substitute securities depository appointed by the Commonwealth.

“*Electronic Means*” means telecopy, telegraph, telex, facsimile transmission, e-mail transmission or other similar electronic means of communication providing a confirmation of receipt, including a telephonic communication confirmed by writing or written transmission.

“*Federal Funds Rate*” means, for any day, the rate of interest per annum as determined by the Bank at which overnight federal funds are offered to the Bank for such day by major banks in the interbank market, with any change in such rate to become effective as to the Commonwealth on the date of any change in such rate. Each determination of the Federal Funds Rate by the Bank shall be conclusive and binding on the Commonwealth absent manifest error.

“*Flexible Mode*” means the Mode in which the Bonds bear interest at a Flexible Rate.

“*Flexible Rate*” means, when used with respect to any particular Bonds, the interest rate determined for each Flexible Rate Period applicable thereto pursuant to the provisions of the Bonds.

“*Flexible Rate Period*” means a period during which a Bonds bears interest at a Flexible Rate.

“*Interest Index*” means the interest rate or rates determined by the Remarketing Agent to be equal to (a) the BMA Municipal Swap Index formerly, the PSA Municipal Swap Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions) (the “BMA Municipal Swap Index”) or (b) if the BMA Municipal Swap Index is no longer published, the Kenny Index (as such term is defined in the 1992 ISDA U.S. Municipal Counterparty Definitions) or (c) if neither of the BMA Municipal Swap Index nor the Kenny Index are published, the index determined to equal the prevailing rate determined by the Remarketing Agent for tax-exempt state and local government bonds meeting criteria determined in good faith by the Remarketing Agent to be comparable under the circumstances to the criteria used by the Bond Market Association to determine the BMA Municipal Swap Index just prior to when the Bond Market Association stopped publishing the BMA Municipal Swap Index. The Tender Agent shall make the determinations required by this definition, upon notification from the Commonwealth, if there is no Remarketing Agent or if the Remarketing Agent fails to make any such determination.

“*Interest Payment Date*” means (a) when used with respect to Bonds in the Daily Mode or the Weekly Mode, the first Business Day of each calendar month to which interest at such rate has accrued; (b) when used with respect to any particular Bond bearing interest at a Flexible Rate, the first Business Day following the last day of each Flexible Rate Period applicable thereto; (c) when used with respect to Bonds in the Term Mode, the first day of the sixth calendar month following the month in which the Term Rate Period begins and the first day of each sixth calendar month thereafter to which interest at such rate has accrued, except that the last Interest Payment Date for any Term Rate Period which is followed by a conversion to a Daily, Weekly, Flexible or ARS Mode (but not a conversion to a Term Rate Period of a different duration) shall be the first Business Day of the sixth calendar month following the month in which the immediately preceding Interest Payment Date occurs; and (d) when used with respect to Bonds in the ARS Mode, as defined in the form of the Bonds. In any case, the final Interest Payment Date shall be the Maturity Date.

“*Maximum Rate*” means 12% per annum.

“*Mode*” means the Daily Mode, the Weekly Mode, the Flexible Mode, the ARS Mode or the Term Mode, as the context may require.

“Mode Change Date” means the date one Mode terminates and another Mode begins.

“Prime Rate” means for any day the rate of interest announced by the Bank from time to time as its prime commercial rate for U.S. dollar loans, or equivalent, as in effect on such day, with any change in the Prime Rate resulting from a change in said prime commercial rate to be effective as of the date of the relevant change in said prime commercial rate.

“Purchase Date” means, for any Bond required to be purchased pursuant to the terms thereof, the date on which the Purchase Price is required to be paid pursuant to the Bonds.

“Purchase Price” means, for any Bond required to be purchased pursuant to the terms thereof, an amount equal to 100% of the principal amount thereof, plus accrued interest, if any, thereon, to the Purchase Date.

“Rate Determination Date” means the date on which the interest rate on a Bond shall be determined, which, (i) in the case of the Daily Mode, shall be each Business Day, (ii) in the case of the Weekly Mode, shall be each Wednesday, or the preceding Business Day if Wednesday is not a Business Day, (iii) in the case of the Flexible Mode, shall be the first day of a Flexible Rate Period, and (iv) in the case of the Term Mode, shall be a Business Day determined by the Remarketing Agent which shall be at least one Business Day prior to the Mode Change Date.

“Rate Period” means a period during which a particular rate of interest determined for Bonds is to remain in effect until a subsequently determined rate of interest becomes effective pursuant to the terms hereof. In any case, the final Rate Period shall end on (and include) the date immediately preceding the Maturity Date.

“Rating Agency” means Fitch, Inc., Moody’s Investors Service, Inc. or Standard & Poor’s, their successors and assigns, and if any such entity shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, any other nationally recognized securities rating agency designated by the Commonwealth.

“Record Date” means 5:00 p.m., Boston time, on (a) the fifteenth day of the month preceding each Interest Payment Date in the case of Bonds bearing interest at a Term Rate; (b) the Business Day immediately preceding the Interest Payment Date in the case of Bonds bearing interest at a Daily Rate or Weekly Rate; and (c) the last day of the Flexible Rate Period applicable to Bonds bearing interest at a Flexible Rate.

“Remarketing Agent” means any firm or firms designated by the Commonwealth to remarket tendered Bonds pursuant to a Remarketing Agreement, initially Lehman Brothers Inc., its successors and assigns.

“Remarketing Agreement” means an agreement entered into by the Commonwealth and a Remarketing Agent setting forth the provisions pursuant to which tendered Bonds are to be remarketed, as the same may be amended from time to time.

“Series B Bonds” means any of the \$248,110,000 Commonwealth of Massachusetts General Obligation Refunding Bonds (Variable Rate Demand Bonds), 2001 Series B.

“Series C Bonds” means any of the \$248,115,000 Commonwealth of Massachusetts General Obligation Refunding Bonds (Variable Rate Demand Bonds), 2001 Series C.

“Standby Bond Purchase Agreements” means the Standby Bond Purchase Agreement dated as of February 1, 2001 between the Commonwealth and Landesbank Hessen-Thüringen Girozentrale, acting through its New York Branch, which secures the purchase of the principal amount of tendered Series B Bonds, and the Standby Bond Purchase Agreement dated as of February 1, 2001 between the Commonwealth and State Street Bank and Trust Company, which secures the purchase of the principal amount of tendered Series C Bonds, each as amended from time to time, and any Alternate Liquidity Facility.

“*Tender Agent*” means the bank or banks, if any, designated by the Commonwealth to perform the duties of tender agent pursuant to the Bonds, initially State Street Bank and Trust Company, its successors or assigns.

“*Tender Agent Agreement*” means the Tender Agent Agreement dated as of February 1, 2001 between the Commonwealth and State Street Bank and Trust Company, as amended from time to time, and any substitute Tender Agent Agreement hereafter provided.

“*Term Mode*” means the Mode in which the Bonds bear interest at a Term Rate.

“*Term Rate*” means, for or on any Bond in a Term Mode, the rate of interest thereon for a term of one or more whole years or for a term to maturity determined in accordance with the provisions of the Bonds.

“*Term Rate Period*” means a period during which the Bonds bear interest at a particular Term Rate.

“*Term Rate Period of a different duration*” means a conversion to a Term Rate Period of a different duration than the then current Term Rate Period and, if the conversion is occurring on a date other than that originally scheduled as the last Interest Payment Date of the then current Term Rate Period, a conversion to a Term Rate Period of the same duration as the then current Term Rate Period.

“*Variable Rate*” means, as the context requires, the Daily, Weekly, Flexible, Term or ARS Rate applicable from time to time to the Bonds.

“*Weekly Mode*” means the period during which the Bonds bear interest at a Weekly Rate.

“*Weekly Rate*” means, for or on any Bond in a Weekly Mode, the rate of interest thereon determined weekly in accordance with the provisions of the Bonds.

PROVISIONS OF THE BONDS

Interest Rates

Initial Period - Interest Rate Modes

The Bonds shall initially bear interest from the Delivery Date in the Weekly Mode, unless and until converted to the Daily Mode, Flexible Mode, Term Mode or ARS Mode. Bonds in the Daily Mode shall bear interest at a Daily Rate until maturity or earlier redemption or the Conversion Date. Bonds in the Weekly Mode shall bear interest at a Weekly Rate until maturity or earlier redemption or the Conversion Date. Bonds in the Flexible Mode shall bear interest at a Flexible Rate for the Flexible Rate Period selected for that Bond by the Remarketing Agent until maturity or the Conversion Date. Bonds in the Term Mode shall bear interest at a Term Rate until maturity or earlier redemption or Conversion from one Term Rate Period to a Term Rate Period of a different duration or to a Daily Mode, Weekly Mode, Flexible Mode or ARS Mode. Bonds in the ARS Mode shall bear interest at the ARS Rate until maturity or earlier redemption or the Conversion Date.

Daily Mode

Determination of Rate. Bonds in the Daily Mode bear interest at the Daily Rate payable on each Interest Payment Date. Interest is computed on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed. Interest is payable to the Bondowners who are such registered owners on the Record Date. The Daily

Rate shall be determined each day by the Remarketing Agent by 9:30 a.m., Boston time, on each Rate Determination Date, shall take effect on such date and shall be in effect to, but not including, the next succeeding Business Day (the “Daily Rate Period”). The Daily Rate for each Daily Rate Period shall be the current interest rate which, in the judgment of the Remarketing Agent, would cause the Bonds to have a market value equal to 100% of the principal amount thereof (exclusive of accrued interest), taking into account prevailing market conditions as of the Rate Determination Date. However, in no event shall the Daily Rate exceed the Maximum Rate.

Notice of Interest Rate. The Remarketing Agent shall give notice of each Daily Rate to the Commonwealth and the Tender Agent by the close of business on each Business Day. Such notice shall be given in writing, by Electronic Means or by telephone; provided that any telephonic notice shall be promptly confirmed in writing. The Tender Agent shall promptly notify the Bank of each Daily Rate.

Weekly Mode

Determination of Rate. Bonds in the Weekly Mode bear interest at the Weekly Rate payable on each Interest Payment Date. Interest is computed on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed. Interest is payable to the Bondowners who are such registered owners on the Record Date. The Weekly Rate shall be determined each week by the Remarketing Agent by 4:00 p.m., Boston time, on each Rate Determination Date and shall take effect on each Thursday following such Rate Determination Date, regardless of whether any such Thursday is a Business Day, and be in effect to and including the following Wednesday, regardless of whether such Wednesday is a Business Day (the “Weekly Rate Period”). The Weekly Rate for each Weekly Rate Period shall be the lowest interest rate which, in the judgment of the Remarketing Agent, would cause the Bonds to have a market value equal to 100% of the principal amount thereof (exclusive of accrued interest), taking into account prevailing market conditions as of the Rate Determination Date. However, in no event shall the Weekly Rate exceed the Maximum Rate.

Notice of Interest Rate. The Remarketing Agent shall give notice of each Weekly Rate to the Commonwealth and the Tender Agent by the close of business on each Rate Determination Date. Such notice shall be given in writing, by Electronic Means or by telephone; provided that any telephonic notice shall be promptly confirmed in writing. The Tender Agent shall promptly notify the Bank of each Weekly Rate.

Flexible Mode

Determination of Rate. Bonds in the Flexible Mode bear interest at Flexible Rates payable on each Interest Payment Date. Interest is computed on the basis of a 365- or 366-day year, as applicable, for the actual number of days elapsed. Interest is payable to the Bondowners who are such registered owners on the Record Date. While the Bonds bear interest at Flexible Rates, the interest rate for each particular Bond will be determined by the Remarketing Agent on each Rate Determination Date and will remain in effect for the duration (not exceeding 270 days) of the Flexible Rate Period selected for that Bond by the Remarketing Agent. While the Bonds bear interest at Flexible Rates, Bonds may have successive Flexible Rate Periods of any duration up to 270 days, and any Bond may bear interest at a Flexible Rate and for a Flexible Rate Period different from any other Bond. While the Bonds bear interest at Flexible Rates, the Remarketing Agent shall offer and accept purchase commitments for Bonds for such Flexible Rate Periods and at such Flexible Rates as it deems to be advisable in order to minimize the net interest cost on Bonds taking into account prevailing market conditions; provided, however, that the foregoing shall not prohibit the Remarketing Agent from accepting purchase commitments for longer Flexible Rate Periods (and at higher Flexible Rates) than are otherwise available at the time of any remarketing if the Remarketing Agent determines that, taking into account prevailing market conditions, a lower net interest cost on Bonds can be achieved over the longer Flexible Rate Period. The Flexible Rate shall be the minimum rate of interest necessary, in the judgment of the Remarketing Agent, to enable the Remarketing Agent to sell such Bond on the commencement date of such Flexible Rate Period at a price equal to 100% of the principal amount thereof (exclusive of accrued interest), taking into account

prevailing market conditions as of the Rate Determination Date. However, in no event shall any Flexible Rate exceed the Maximum Rate.

Notice of Interest Rate. The Remarketing Agent shall give notice of each Flexible Rate and applicable Flexible Rate Period to the Commonwealth and the Tender Agent by the close of business on each Rate Determination Date. Such notice shall be given in writing, by Electronic Means or by telephone; provided that any telephonic notice shall be promptly confirmed in writing. The Tender Agent shall promptly notify the Bank of each Flexible Rate and applicable Flexible Rate Period.

Term Mode

Determination of Rate. Bonds in the Term Mode bear interest at the Term Rate payable on the first day of the sixth calendar month following the month in which the Rate Period begins and on the first day of each sixth calendar month thereafter. Interest is computed on the basis of a 360-day year consisting of twelve 30-day months. Interest is payable to the Bondowners who are such registered owners on the Record Date. While the Bonds bear interest at a Term Rate, the interest rate will be determined by the Remarketing Agent to remain in effect for a term of one or more whole years subject to certain exceptions, selected from time to time by the Commonwealth. The duration and beginning and ending dates of any Rate Period may vary in the event conversions occur between Rate Periods. The Term Rate shall be determined by the Remarketing Agent by 4:00 p.m., Boston time, on each Rate Determination Date and shall take effect as described herein. The Term Rate for each Term Rate Period shall be the lowest interest rate which, in the judgment of the Remarketing Agent, would cause the Bonds to have a market value equal to 100% of the principal amount thereof (exclusive of accrued interest), taking into account prevailing market conditions as of the Rate Determination Date. However, in no event shall the Term Rate exceed the Maximum Rate.

A Term Rate shall be determined for each Term Rate Period as follows:

- (i) Term Rate Periods shall (A) commence either on a Conversion Date (including a conversion from a Term Rate Period to a Term Rate Period of a different duration) or, if then in a Term Rate Period, the commencement date of an immediately successive Term Rate Period of the same duration and (B) extend to but not include either the commencement date of an immediately successive Term Rate Period (of whatever duration) or the Conversion Date on which a different Mode shall become effective.
- (ii) The Term Rate for each Term Rate Period shall be effective from and including the commencement date of such period and remain in effect through and including the last day thereof. Each such Term Rate shall be determined by the Remarketing Agent not later than 4:00 p.m., Boston time, on the Business Day immediately preceding the commencement date of such period.
- (iii) The duration of each successive Term Rate Period shall be the same as the then current Term Rate Period until the Commonwealth exercises its option, or is deemed to exercise its option, to effect a Conversion from the Term Rate, or to a Term Rate Period of a different duration, all as provided in the Bonds.

Notice of Interest Rate. The Remarketing Agent shall give notice of each Term Rate to the Commonwealth and the Tender Agent by the close of business on each Rate Determination Date. Such notice shall be given in writing, by Electronic Means or by telephone; provided that any telephonic notice shall be promptly confirmed in writing. The Tender Agent shall promptly notify the Bank of each Term Rate.

Optional Redemption. During a Term Rate Period, the Bonds shall be subject to optional redemption by the Commonwealth, in whole or in part, on any date which occurs on or after the first day of the optional redemption period, and at the redemption prices, plus accrued and unpaid interest, if any, to the redemption date, as follows:

<u>Length of Term Rate Period</u>	<u>First Day of Optional Redemption Period</u>	<u>Redemption Price (Expressed as a Percentage of the Principal Amount Being Redeemed)</u>
More than 15 years	Tenth anniversary of commencement of Term Rate Period	102%, declining by 1% on each succeeding anniversary of the first day of the redemption period until reaching 100% and thereafter at 100%
More than 10, but not more than 15 years	Eighth anniversary of commencement of Term Rate Period	102%, declining by 1% on each succeeding anniversary of the first day of the redemption period until reaching 100% and thereafter at 100%
More than 5, but not more than 10 years	Fifth anniversary of commencement of Term Rate Period	101-1/2%, declining by 1/2% on each succeeding anniversary of the first day of the redemption period until reaching 100% and thereafter at 100%
5 years or less	Non-callable	Non-callable

Prior to the commencement of any Term Rate Period, the Commonwealth may change the redemption provisions applicable to the Bonds, subject to receipt by the Tender Agent of an opinion of Bond Counsel to the effect that a change in the redemption provisions of the Bonds will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes.

Failure to Determine Interest Rate

In the event the Remarketing Agent fails for any reason to determine any interest rate on the Bonds:

- (i) The interest rate then in effect for Bonds in the Daily Mode shall be equal to the most recent Interest Index and will remain in effect from day to day until the Tender Agent is notified of a new Daily Rate determined by the Remarketing Agent;
- (ii) The interest rate then in effect for in the Weekly Mode shall be equal to the most recent Interest Index and will remain in effect from week to week until the Tender Agent is notified of a new Weekly Rate determined by the Remarketing Agent;
- (iii) The interest rate for any Bond in the Flexible Mode and for which a Flexible Rate and Flexible Rate Period is not determined shall be equal to the most recent Interest Index and the Flexible Rate Period for such Bond shall extend through the day preceding the next Business Day, until the Tender Agent is notified of a new Flexible Rate and Flexible Rate Period determined for such Bond by the Remarketing Agent; and

- (iv) The interest rate then in effect for Bonds in the Term Mode will be automatically converted to Flexible Rates with Flexible Rate Periods beginning on each Business Day and extending through the day preceding the next Business Day until the Tender Agent is notified of a new Flexible Rate and Flexible Rate Period determined for such Bond by the Remarketing Agent.

Optional Tender

Bonds in the Daily Mode or in the Weekly Mode may be tendered for purchase at a Purchase Price equal to 100% of the principal amount thereof, plus accrued interest, if any, payable in immediately available funds upon notice (promptly confirmed in writing) of tender to the Tender Agent, as described below. The Purchase Date may be any Business Day prior to conversion of the Bonds to the Flexible Mode, Term Mode or ARS Mode.

Notice of Tender. At any time that a Bondholder has a right to tender a Bond for purchase (other than by mandatory tender as described herein), the Bondholder shall, in addition to delivering the Bond on or before the appropriate Purchase Date, give to the Tender Agent notice of such tender. Each such notice of tender shall:

- (i) be delivered in writing or by Electronic Means, in a form satisfactory to the Tender Agent, or by telephone (and promptly confirmed in writing in such form) to the Tender Agent at its corporate trust office by 11:00 a.m., Boston time, on any Business Day, in the case of a Bond in the Daily Mode, and by 5:00 p.m., Boston time, on a Business Day not fewer than seven days prior to the Purchase Date, in the case of a Bond in the Weekly Mode;

- (ii) state (A) the principal amount of the Bond to which it relates, (B) that the Bondholder irrevocably demands purchase of such Bond or of a specified portion thereof in an amount which is an Authorized Denomination and which leaves the retained portion of the Bond in an amount which is an Authorized Denomination, (C) in the case of Bonds in the Weekly Mode, the date on which such Bond or portion thereof is to be purchased, and (D) payment instructions with respect to the Purchase Price; and

- (iii) automatically constitute, whether delivered in writing, by Electronic Means or by telephone, (A) an irrevocable offer to sell the Bond (or portion thereof) to which it relates on the Purchase Date at a Purchase Price equal to the principal amount of such Bond (or portion thereof) plus any interest thereon accrued and unpaid as of the Purchase Date, (B) an irrevocable authorization and instruction to the Tender Agent to effect transfer of such Bond (or portion thereof) upon payment of the Purchase Price to the Tender Agent on the Purchase Date, (C) an irrevocable authorization and instruction to the Tender Agent to effect the exchange of the Bond to be purchased in whole or in part for other Bonds in an equal aggregate principal amount so as to facilitate the sale of such Bond (or portion thereof), and (D) an acknowledgment that such Bondholder will have no further rights with respect to such Bond (or portion thereof) upon payment of the Purchase Price thereof to the Tender Agent on the Purchase Date, except for the right of such Bondholder to receive such Purchase Price upon surrender of such Bond to the Tender Agent.

The determination of the Tender Agent as to whether a notice of tender has been properly delivered shall be conclusive and binding upon the Bondholder. The Tender Agent shall promptly notify the Commonwealth, the Bank and the Remarketing Agent upon receipt of a notice of tender.

Tender of Portions of Bonds. In the event a Bondholder files with the Tender Agent a tender notice with respect to a portion of a Bond in an Authorized Denomination, such Bondholder shall be required to deliver such Bond to the Tender Agent along with the tender notice. The Tender Agent shall pay the Purchase Price for such portion as provided herein and the Commonwealth shall issue in the name of such Bondholder a new Bond in the amount not so purchased, which Bond the Tender Agent shall forward to such Bondholder. Notwithstanding anything to the contrary contained in the Bonds, no Bondholder shall be entitled to tender a portion of such Bond for purchase unless the portion of such Bond not to be so purchased shall be in an Authorized Denomination.

Conversion

At the option of the Commonwealth, the Bonds may be converted from one Rate Period to another, including a conversion from one Term Rate Period to another Term Rate Period of a different duration, or to or from the ARS Mode as follows:

The Conversion Date shall be an Interest Payment Date for the Rate Period from which the conversion is to be made; provided, however, that

(A) if the conversion is from a Term Rate Period to another Rate Period, including a Term Rate Period of a different duration, the Conversion Date shall be limited to any Interest Payment Date upon which the Bonds are subject to optional redemption or the last Interest Payment Date of that Term Rate Period, as the case may be;

(B) if the conversion is from a Daily Rate Period to a Weekly Rate Period, or from a Weekly Rate Period to a Daily Rate Period, the Conversion Date also may be any Business Day, regardless of whether the Business Day is an Interest Payment Date;

(C) if the conversion is from a Flexible Rate Period, the Conversion Date shall be the last Interest Payment Date on which interest is payable for any Bond bearing a Flexible Rate theretofore established pursuant to the Bonds; provided, however, that if the conversion is from a Flexible Rate Period to a Daily or Weekly Rate Period, there may be more than one Conversion Date in accordance with the Bonds and in that case, the Conversion Date with respect to each Bond shall be an Interest Payment Date for that Bond; and

(D) if the conversion is from a Daily, Weekly or Flexible Rate Period to a Term Rate Period, the duration of the Term Rate Period shall not be more than one year unless the term to the Maturity Date that would remain following the initial Term Rate Period would be more than one year or that initial Term Rate Period extends to the Maturity Date.

The Commonwealth shall give notice of any proposed Conversion to the Bank, the Remarketing Agent, the Tender Agent and the Bond Registrar not fewer than 35 days before the proposed Conversion Date. Such notice shall specify (A) the proposed Conversion Date, (B) the type of Rate Period to which the conversion will be made, (C) if there will be a Standby Bond Purchase Agreement in effect during the Rate Period commencing on the Conversion Date and information relating thereto, and (D) in the case of conversion to a Term Rate Period, the length of such Term Rate Period. The Tender Agent shall give written notice of such conversion to Bondholders not less than 15 days or, in case of a conversion from a Term Rate Period, 30 days, before the proposed Conversion Date. Such notice shall state:

(A) the Mode to which the conversion will be made and the Conversion Date,

(B) except in the case of a Conversion from the Daily Mode to the Weekly Mode or from the Weekly Mode to the Daily Mode, that the Bonds will be subject to mandatory tender for purchase on the Conversion Date and the purchase price of the Bonds,

(C) if the Bonds are no longer in book-entry form and are therefore in certificated form, information with respect to required delivery of bond certificates and payment of the purchase price; and

(D) that the conversion to or from the Term Mode or to or from the ARS Mode will not become effective unless the Commonwealth, the Tender Agent and the Remarketing Agent shall have received, no later than one day before the proposed Conversion Date an opinion of Mintz, Levin, Cohn,

Ferris, Glovsky and Popeo, P.C. or any other lawyer or firm of lawyers nationally recognized in the field of municipal finance and satisfactory to the Commonwealth (“Bond Counsel”) to the effect that the conversion to or from the Term Mode or ARS Mode is permitted under the laws of the Commonwealth and will not adversely affect the exclusion of interest on the Bonds from the gross income of the Bondholders for federal income tax purposes.

If the Bonds bear interest at a Term Rate for a Term Rate Period of a duration of more than one year and the term to the Maturity Date that would remain following a successive Term Rate Period of the same duration would be one year or less, or the term to the Maturity Date that would remain after the then current Term Rate Period is of lesser duration than the current Term Rate Period, unless the Commonwealth shall have given written notice of conversion to a Daily, Weekly or Flexible Rate Period or a successive Term Rate Period of a different duration after which the term to the Maturity Date would be more than one year, all in accordance with the Bonds, the Commonwealth shall be deemed to have exercised its option to convert, on the last Interest Payment Date for the then current Term Rate Period, to a Term Rate Period of a duration from that Interest Payment Date to the Maturity Date, and the Tender Agent shall so notify the Commonwealth, Remarketing Agent, and the applicable Bank, specifying in writing the information described above, and thereafter shall give notice to Holders in accordance with the Bonds.

The following conditions precedent shall be applicable to conversions:

- (i) Any conversion (A) from a Daily, Weekly or Flexible Rate Period to a Term Rate Period or ARS Mode, (B) from a Term Rate Period or ARS Mode to a Daily, Weekly or Flexible Rate Period or, (C) from a Term Rate Period to a Term Rate Period of a different duration or (D) to the ARS Mode, shall be subject to the condition that on or before the Conversion Date, the Commonwealth shall have delivered to the Tender Agent, the Bank and the Remarketing Agent an Opinion of Bond Counsel to the effect that the conversion is authorized under the Bonds and, with respect to conversion of any Bond, to the effect that the conversion will not adversely affect the exclusion from gross income of interest on the Bonds for federal income tax purposes.
- (ii) The Standby Bond Purchase Agreement, if any, to be held by the Tender Agent after the Conversion Date must be sufficient to cover the principal of the then outstanding Bonds and, except as otherwise provided herein if a Standby Bond Purchase Agreement is to be held by the Tender Agent after the conversion of the Bonds to a Term Rate Period, that Standby Bond Purchase Agreement must also extend for the entire Term Rate Period.
- (iii) If a Standby Bond Purchase Agreement is then in effect and the Purchase Price of the Bonds includes any premium, such conversion shall be subject to the condition that the Trustee shall have confirmed prior to mailing notice to the Holders of such conversion that the Tender Agent is entitled to draw on that Standby Bond Purchase Agreement in an aggregate amount at least sufficient to pay the principal portion of the Purchase Price (including such premium).

If for any reason a condition precedent to a conversion of the Bonds is not met, the conversion shall not be effective (although any mandatory tender shall be made on such date if notice has been sent to Holders stating that such Bonds would be subject to mandatory purchase on that date), and the Bonds, (i) shall be converted to a Weekly Rate Period and bear interest at the Weekly Rate determined by the Remarketing Agent as of the date on which the conversion was to occur so long as, in the case of the Bonds, an Opinion of Bond Counsel has been delivered to the Trustee to the effect that the conversion to a Weekly Rate Period will not adversely affect the exclusion of interest on the Bonds from gross income for federal income tax purposes; provided, that if such Opinion of Bond Counsel has not been delivered, the Bonds shall automatically be converted to a Weekly Rate, and shall bear interest at a Weekly Rate equal to a Weekly Rate for such period determined by the Remarketing Agent as of the date on which the conversion was to occur, or if in that instance the Remarketing Agent fails to determine that rate, then at a rate of

interest equal to 100% of the most recently published Interest Index. The Tender Agent shall promptly notify the Commonwealth, the applicable Bank and each Holder of such fact and shall give all additional notices and take all further actions required pursuant to the Bonds.

The Commonwealth, the Bank, the Tender Agent and the Remarketing Agent shall not be liable to any Holder for failure to give any notice required under the provisions of the Bonds or for failure of any Holders to receive any such notice or to take any other actions under the Bonds.

Mandatory Tender

Agreement to Tender Bonds

Any Bondholder, by its acceptance of the Bonds, agrees to tender its Bonds to the Tender Agent for purchase on dates on which such Bonds are subject to mandatory tender, and upon such transfer, to surrender such Bonds, properly endorsed for transfer in blank.

Any notice mailed as provided in this section shall be conclusively presumed to have been duly given, whether or not the Bondholder receives the notice, and the failure of such Bondholder to receive any such notice shall not affect the validity of the action described in such notice.

Bonds in the Daily Mode and in the Weekly Mode are subject to mandatory tender for purchase as described below. Such Bonds are not subject to mandatory tender upon conversion from the Daily Mode to the Weekly Mode or from the Weekly Mode to the Daily Mode. Such Bonds are also not subject to mandatory tender solely as a result of the occurrence of an Agreement Termination Event resulting in the termination of a Standby Bond Purchase Agreement prior to the Agreement Expiration Date. The Tender Agent shall give notice to the Bondholders promptly after becoming aware of the early termination of the Standby Bond Purchase Agreement. See “Standby Bond Purchase Agreements.”

Each Bond bearing interest at a Flexible Rate is subject to mandatory tender for purchase on the Interest Payment Date applicable to such Bond at a purchase price equal to 100% of the principal amount thereof, without premium. No notice of such mandatory tender is required to be given to the Holders of such Bonds.

Each Bond bearing interest at a Term Rate is subject to mandatory tender for purchase on the first day of the succeeding Term Rate Period of the same duration at a purchase price equal to 100% of the principal amount thereof, without premium, provided that the Tender Agent shall give written notice of such mandatory tender to the Bondholders by first class mail, or, at the Commonwealth’s option, certified mail, return receipt requested, at least 30 days before the mandatory tender date.

The Bonds are also subject to mandatory tender on the effective date of the conversion (a) from one Rate Period to another or (b) from a Term Rate Period to a Term Rate Period of a different duration, provided that the Tender Agent shall give written notice of such mandatory tender to the Bondholders by first class mail, or, at the Commonwealth’s option, certified mail, return receipt requested, at least 30 days before the mandatory tender date.

Bonds shall be purchased on a mandatory tender date (as described herein) at a purchase price equal to 100% of the principal amount thereof, provided that Bonds bearing interest at a Term Rate which are tendered on a day on which those Bonds are subject to optional redemption at a redemption price of more than 100% of the principal amount will be purchased at a price equal to that redemption price.

Mandatory Tender Upon Conversion to or from Flexible Mode, Term Mode or ARS Mode. If Bonds are to be converted from the Weekly Mode or the Daily Mode to the Flexible Mode, a Term Mode or the ARS Mode or from the Flexible Mode, Term Mode or ARS Mode, Bonds to be so converted are subject to mandatory tender for

purchase on the Conversion Date at a Purchase Price equal to 100% of the principal amount of the Bonds, plus accrued interest, if any. The Commonwealth shall give written notice of such Conversion to the Tender Agent, the Bank and the Remarketing Agent at least 35 days prior to the Conversion Date. The Tender Agent shall give written notice of such Conversion to the Bondholders by first class mail or, at the Commonwealth's option, certified mail, return receipt requested, at least 30 days prior to the Conversion Date setting forth, among other things: (a) the proposed Conversion Date; (b) that the Bonds shall be subject to mandatory tender on the Conversion Date; and (c) the conditions to Conversion, if any.

Mandatory Tender Upon Expiration, Substitution or Termination of Standby Bond Purchase Agreement. The Bonds are also subject to mandatory tender for purchase on the Business Day which is at least five days before (i) the stated expiration date of the applicable Standby Bond Purchase Agreement or (ii) the date set forth in a termination notice as the date the applicable Standby Bond Purchase Agreement is to be terminated as a result of the occurrence of certain events of default under such Standby Bond Purchase Agreement, which do not constitute Agreement Termination Events. See "Standby Bond Purchase Agreements." Such Bonds are also subject to mandatory tender for purchase on the date on which an Alternate Liquidity Facility is scheduled to become effective with respect to such Bonds, whether or not the Alternate Liquidity Facility actually becomes effective on such date. The Purchase Price for such tenders shall equal 100% of the principal amount of the Bonds, plus accrued interest, if any. The Tender Agent, at the request of the Commonwealth, shall give written notice to affected Bondholders at least 15 days prior to such mandatory tender date.

Delivery and Payment for Tendered Bonds

The Tender Agent, on behalf of the Commonwealth (and solely from amounts provided to it by the Remarketing Agent from the remarketing of the Bonds, amounts derived from a draw under a Standby Bond Purchase Agreement (solely with respect to the principal portion of the Purchase Price) and amounts provided to it by the Commonwealth, shall purchase any Bonds properly tendered for purchase in accordance with the provisions of the Bonds.

Except while the Bonds are registered in the name of Cede & Co., as nominee for DTC, delivery to the Tender Agent of Bonds to be tendered for purchase, upon both optional tender and mandatory tender, together with wire payment instructions satisfactory to the Tender Agent, is required to be made by 1:00 p.m., Boston time, on the Business Day which is the Purchase Date. The Tender Agent shall pay tendering Bondowners or cause tendering Bondowners to be paid in immediately available funds by 3:00 p.m., Boston time, on such day. If the Bonds are delivered after 1:00 p.m., Boston time, payment will be made on the next Business Day without any additional accrued interest. Bonds which are required to be tendered for purchase, upon both optional tender and mandatory tender, shall cease bearing interest from and after the date tender is required regardless of whether such Bonds are presented for payment and Bondholders shall have no further rights with respect to such Bonds other than the right to receive payment of the Purchase Price upon surrender of the Bonds.

Notwithstanding any provision of the Bonds to the contrary, on each Purchase Date the Commonwealth shall pay to the Tender Agent no later than 2:30 p.m. in immediately available funds, the portion of the Purchase Price that is equal to the accrued interest, if any, due and payable on such Purchase Date.

Book-Entry Bonds

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, the tender option rights of Bondholders described above may be exercised only by a DTC Participant acting directly or indirectly on behalf of a Beneficial Owner of Bonds by giving notice of its election to tender Bonds or portions thereof at the times and in the manner described above. Beneficial Owners will not have any rights to tender Bonds directly to the Tender Agent. Procedures under which a Beneficial Owner may direct a DTC Participant or an Indirect Participant of DTC acting through a DTC Participant to exercise a tender option right in respect of any Bonds or portions

thereof shall be governed by standing instructions and customary practices determined by such DTC Participant or Indirect Participant.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, notices of mandatory tender for purchase of Bonds shall be given to DTC only, and none of the Commonwealth, the Tender Agent or the Remarketing Agent shall have any responsibility for the delivery of any of such notices by DTC to any DTC Participants, by any DTC Participants to any Indirect Participants of DTC or by any DTC Participants or Indirect Participants to Beneficial Owners of the Bonds.

For so long as the Bonds are registered in the name of Cede & Co., as nominee for DTC, delivery of Bonds required to be tendered for purchase shall be effected by the transfer by a DTC Participant on the applicable Purchase Date of a book entry credit to the account of the Tender Agent of a beneficial interest in such Bonds or portions thereof required to be tendered for purchase on that date in accordance with the customary practices and procedures of DTC.

For so long as the Bonds are registered in the name of Cede & Co., Inc. as nominee for DTC, payment of the Purchase Price shall be paid directly to DTC in accordance with any Letter of Representation with DTC.

Remarketing of Tendered Bonds; Bank Bonds

Lehman Brothers Inc., New York, New York, is appointed the initial Remarketing Agent for the Bonds. The Remarketing Agent shall accept the duties and obligations thereof by execution and delivery of an agreement with the Commonwealth under which the Remarketing Agent will agree, among other things, to perform the duties of Remarketing Agent as provided in the Bonds, to keep records regarding the remarketing of Bonds and determining the interest rates on the Bonds and to make such records available for inspection by the Commonwealth at all reasonable times.

The Remarketing Agent shall be authorized by law to perform all the duties imposed upon it by the Bonds. The Remarketing Agent may resign or may be removed at any time upon written notice as specified in the Remarketing Agreement. The Remarketing Agent may terminate its duties in certain circumstances upon notice to the Commonwealth as provided in the Remarketing Agreement.

If the Remarketing Agent resigns or is removed, the Commonwealth shall have the power to appoint another Remarketing Agent, and the former Remarketing Agent shall pay over, assign and deliver any moneys and Bonds held by it in such capacity, other than Bonds held for its own account, to its successor.

The Tender Agent, the Banks or the Remarketing Agent, each in its individual capacity, may in good faith and to the extent otherwise permitted by law, buy, sell, own, hold and deal in any of the Bonds, and may join in any action which any Bondholder of the Bonds may be entitled to take with like effect as if it did not act in any capacity under the Bonds. Each Bank, the Tender Agent or the Remarketing Agent, each in its individual capacity, either as principal or agent, may also engage in or be interested in any financial or other transaction with the Commonwealth, and may act as depository, trustee, or agent for any committee or body of Bondholders of any Bonds secured hereby or other obligations of the Commonwealth as freely as if it did not act in any capacity under the Bonds or under the Standby Bond Purchase Agreement.

The Remarketing Agent is required to use its best efforts to remarket Bonds properly tendered for purchase. In the event the Remarketing Agent is unable to remarket tendered Bonds, such Bonds shall be purchased by the applicable Bank in accordance with the Standby Bond Purchase Agreement to which it is a party, which shall provide that such Bank agrees to purchase any such Bonds from time to time in an amount not to exceed the principal amount thereof subject to the terms and provisions set forth in such Standby Bond Purchase Agreement. Bank Bonds shall bear interest at the applicable Bank Rate and shall be payable at the times and in the amounts and

may have such other terms as are set forth in the applicable Standby Bond Purchase Agreement. To the extent there are Bank Bonds, such Bank Bonds shall be redeemed from mandatory sinking fund payments prior to any other Bonds.

Alternate Liquidity Facility

A Standby Bond Purchase Agreement may be replaced or substituted with an Alternate Liquidity Facility at the option of the Commonwealth in accordance with the terms of the existing Standby Bond Purchase Agreement. Any Alternate Liquidity Facility may contain such terms as the Commonwealth and the applicable Bank may determine, and the Bonds may be amended without consent of the Bondholders to reflect the terms of an Alternate Liquidity Facility which are applicable to such Bank Bonds.

If, at any time, in accordance with a Standby Bond Purchase Agreement, the Commonwealth obtains an Alternate Liquidity Facility, it shall give notice thereof to the Tender Agent, and the Tender Agent shall then give prompt notice to the Bondholders and any Rating Agency (as defined in such Standby Bond Purchase Agreement) that the Commonwealth has obtained an Alternate Liquidity Facility and that such Standby Bond Purchase Agreement will terminate pursuant to the terms of such Standby Bond Purchase Agreement. The notice shall state: (a) the principal terms of the Alternate Liquidity Facility and (b) that the Bonds shall be subject to mandatory tender on the substitution date and explaining the terms of such mandatory tender.

Any Alternate Liquidity Facility shall meet the following criteria:

(a) Any Alternate Liquidity Facility shall provide that funds may be advanced for the purposes, in the amounts and at the times provided in the Bonds and shall contain administrative provisions satisfactory to the Tender Agent.

(b) At least five Business Days prior to the delivery to the Commonwealth of the Alternate Liquidity Facility, the Commonwealth shall have received an irrevocable commitment to issue or enter into such Alternate Liquidity Facility and on the substitution date the Commonwealth shall have received an opinion of counsel for the provider or providers of the Alternate Liquidity Facility that the Alternate Liquidity Facility and any documents related to it constitute legal, valid and binding obligation(s) of such provider of the Alternate Liquidity Facility enforceable in accordance with their respective terms, except as such enforceability may be limited by bankruptcy, moratorium or insolvency or by equitable principles.

(c) No Alternate Liquidity Facility shall be effective unless the provider of an Alternate Liquidity Facility shall purchase all Bonds held by or for the account of the Bank on the substitution date, and all Bonds held by the Bank shall be paid in full on or prior to the Substitution Date.

If at any time 30 days remain until the Agreement Expiration Date and the applicable Standby Bond Purchase Agreement has not been renewed or replaced or the Commonwealth has not obtained a written commitment for such renewal or replacement, the Tender Agent shall promptly give notice to the Bondholders that (i) the applicable Standby Bond Purchase Agreement is scheduled to expire and stating the date of such expiration, (ii) the Commonwealth has not obtained an Alternate Liquidity Facility, and (iii) the affected Bonds shall be subject to mandatory tender and explaining the terms of such mandatory tender.

Tender Agent

Tender Agent Custody. The Tender Agent shall hold all Bonds (or portions thereof in Authorized Denominations) delivered to it for purchase for the benefit of the respective Bondholder thereof until moneys

representing the Purchase Price or redemption price of such Bonds (or portions thereof in Authorized Denominations), as the case may be, shall have been delivered to or for the account of or to the order of the Bondholders thereof.

Procedure for Purchase of Bonds. On the date any Bonds are to be purchased, the Tender Agent shall purchase, but only from the funds and in the order of priority listed below, such Bonds at the Purchase Price thereof:

- (a) Moneys derived from the remarketing of Bonds;
- (b) Any amounts derived from a draw against the Standby Bond Purchase Agreement; and
- (c) Any amounts paid to it by the Commonwealth therefor.

Any amounts held pursuant to paragraph (a) or (b) above shall be held uninvested until applied as provided herein. The Tender Agent shall have no personal obligation to purchase, or to advance its own funds to fund the purchase of, any Bonds.

By the close of business (Boston time) on the Business Day following the date on which Bondholders of Bonds in the Weekly Mode have delivered a tender notice to the Tender Agent (or immediately upon such receipt, in the case of Bonds bearing interest at Daily Rates), the Tender Agent shall provide to the applicable Bank and the Remarketing Agent a notice from the Tender Agent specifying the applicable Purchase Date and the aggregate principal amount of Bonds to be purchased on such Purchase Date.

By 12:00 p.m., Boston time, on the Purchase Date, the Tender Agent shall provide to the applicable Bank (in accordance with the terms of the Standby Bond Purchase Agreement) and the Commonwealth a notice from the Tender Agent indicating the exact amounts that will be required to be paid by such Bank and the Commonwealth, respectively, in order to pay the Purchase Price of all tendered Bonds that have not been remarketed at or prior to such time.

On the Purchase Date, the Tender Agent shall make provision for the account of the applicable Bank at DTC to be credited such that the Bank becomes the beneficial owner of the tendered Bonds that have not been remarketed and have been purchased by such Bank, in accordance with the standing procedures of DTC.

Notice to Rating Agencies. The Tender Agent shall give notice to each Rating Agency of (i) any change to a Standby Bond Purchase Agreement or the Bonds, (ii) the termination, substitution, expiration or extension of a Standby Bond Purchase Agreement, (iii) any redemption of Bonds and (iv) any change in the identity of the Tender Agent or the Remarketing Agent.

Non-Delivery of Bonds. In the event that any Bonds required to be tendered or with respect to which a tender notice has been sent are not delivered to the Tender Agent at the time, in the manner and at the place required, the undelivered Bonds will be deemed to have been tendered and purchased by the Tender Agent, and interest accruing on such Bonds on and after the applicable Purchase Date shall no longer be payable to the prior Bondholders thereof. Such prior Bondholders shall have recourse solely to the funds held by the Tender Agent for the purchase of the undelivered Bonds, and the Tender Agent and the Commonwealth shall not recognize any further transfer of such undelivered Bonds by such prior Bondholders. The Commonwealth or Tender Agent, as the case may be, shall register the transfer of such Bonds to the purchaser thereof and shall issue a new Bond or Bonds and deliver the same pursuant to the Bonds, notwithstanding such non-delivery.

The Tender Agent shall at the end of the fifth Business Day after each date upon which Bonds are deemed tendered, deposit with the Commonwealth all funds then held by the Tender Agent by virtue of the fact that Bonds deemed tendered on such date were not presented for purchase to the Tender Agent in accordance with the

provisions thereof, and thereafter the prior Bondholders of such Bonds shall look only to the Commonwealth for the payment of the Purchase Price of such Bonds.

Other Duties. Any unremarketed Bonds purchased by the Bank by funds advanced to the Tender Agent under a Standby Bond Purchase Agreement shall be registered in the name of the applicable Bank or its designee (as specified in writing by such Bank) and shall be delivered to such Bank or its designee on the applicable Purchase Date. At any time the Bonds are registered in the name of a securities depository, the Bonds shall be deemed purchased under the applicable Standby Bond Purchase Agreement upon the making of appropriate entries on the books of the securities depository showing such Bonds entered in the account of the applicable Bank or its nominee maintained at such securities depository.

The Commonwealth hereby authorizes the Tender Agent to agree to hold such unremarketed Bonds as custodian for the account of the applicable Bank as Bank Bonds, and to deliver such Bank Bonds to or at the direction of the Bank. With respect to such Bank Bonds the Remarketing Agent shall be required, subject to the provisions of the Remarketing Agreement, to offer for sale, and use its best efforts to sell, such Bank Bonds, at the principal amount thereof. The Remarketing Agent may not, however, sell any such Bank Bonds at a discount or a premium. The Remarketing Agent shall remarket such Bank Bonds as if such Bank Bonds were in the same interest Mode, bearing interest at the same interest rate as Bonds not held by the Bank. No Bank Bonds purchased with proceeds from a Standby Bond Purchase Agreement shall be sold unless the commitment of the Bank to purchase Bonds as provided in the Standby Bond Purchase Agreement is immediately reinstated upon each sale. In addition, each Bank has the express right under the applicable Standby Bond Purchase Agreement to sell, at any time, Bank Bonds, subject to the terms of the applicable Standby Bond Purchase Agreement and the Bonds. The proceeds received from the purchaser of any Bank Bonds so remarketed and resold pursuant to the foregoing sentence shall be paid to the Bank.

In the event of a redemption of any Bank Bonds, the Commonwealth shall remit to the applicable Bank the redemption price of such Bank Bonds.

The Tender Agent agrees (subject to the terms of the Tender Agent Agreement) to:

(a) hold all Bonds properly tendered to it for purchase as agent and bailee of, and in escrow for the benefit of, the respective Bondholders which shall have so tendered such Bonds until moneys representing the Purchase Price of such Bonds shall have been delivered to or for the account of or to the order of such Bondholders;

(b) hold all moneys delivered to it for the purchase of Bonds as agent and bailee of, and in escrow for the benefit of, the purchaser which shall have so delivered such moneys, until the Bonds purchased with such moneys shall have been delivered to or for the account of such purchaser;

(c) keep such books and records as shall be consistent with prudent industry practice and make such books and records available for inspection by the other parties;

(d) hold all Bank Bonds delivered to it as agent and bailee of, and for the benefit of, the applicable Bank on behalf of such Bank in accordance with the applicable Standby Bond Purchase Agreement until such Bonds are released by the Bank upon payment therefor or until such Bonds are deemed tendered;

(e) provide to the Commonwealth as soon as practicable after the close of business on each Record Date, but in no case later than 1:00 p.m., Boston time, on the applicable Interest Payment Date, a list of the names and addresses of the Bondholders as of such Record Date; and

(f) give notices as required at the times and in the manner specified in the Bonds.

Upon receipt by the Tender Agent of any tender notice or upon receipt by the Tender Agent of any Bonds delivered pursuant to such tender notice for purchase, the Tender Agent shall, upon request, deliver to the party delivering the tender notice and the Bonds, written evidence of the Tender Agent's receipt of such tender notice or Bonds. The Tender Agent shall promptly return any tender notice (together with the Bonds submitted in connection therewith) that is incomplete or improperly completed or not delivered by the date and time required under the Bonds to the party submitting such notice upon surrender of the receipt, if any, issued therefor. The Tender Agent's determination of whether a tender notice is properly completed or delivered on a timely basis shall be binding on the Commonwealth and the Bondholder of the Bonds submitted therewith.

The Tender Agent shall initially be State Street Bank and Trust Company. Any successor Tender Agent shall be a commercial bank having trust powers or a trust company or a national banking association, having a capital and surplus aggregating at least \$50,000,000 and authorized by law to perform all the duties imposed upon it hereby and shall be rated Baa 3 or higher by Moody's Investors Service, Inc. The Tender Agent may at any time resign and be discharged of the duties and obligations created hereby by giving at least 60 days' notice to the Commonwealth and each Bank. The Tender Agent may be removed at any time by the Commonwealth upon at least seven days' notice. No such resignation or removal shall take effect until the appointment of, and the acceptance of such appointment by, a successor Tender Agent. Successor Tender Agents may be appointed from time to time by the Commonwealth with the consent of the Bank. Upon the resignation or removal of the Tender Agent, the Tender Agent shall deliver any Bonds and moneys held by it in such capacity to its successor.

The Tender Agent upon receipt of any notice, resolution, request, consent, order, certificate, report, opinion, bond, or other paper or document furnished to it pursuant to any provision of the Bonds shall examine such instrument to determine whether it conforms to the requirements hereof and shall, in the absence of negligence or willful misconduct on the part of the Tender Agent, be protected in acting upon any such instrument believed by it to be genuine and to have been signed or presented by the proper party or parties. The Tender Agent may consult with counsel and the written opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it under the Bonds in good faith and in accordance therewith.

Whenever the Tender Agent shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under the Bonds, such matter (unless other evidence in respect thereof be therein specifically prescribed) may be deemed to be conclusively proved and established by a certificate of the Commonwealth, and such certificate shall be full warrant for any action taken or suffered in good faith under the provisions hereof upon the faith thereof; but in its discretion the Tender Agent may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as it may deem reasonable.

In the event that the Tender Agent is required to act pursuant to the terms hereof upon the receipt of telephonic notice, such notice shall be promptly confirmed in writing. If such notice shall not be so confirmed, the Tender Agent shall be entitled to rely upon such telephonic notice for all purposes whatsoever.

In receiving Bonds under the terms of the Bonds, the Tender Agent shall be acting as a conduit and shall not be purchasing such Bonds for its own account. The performance of the Tender Agent's duties is also subject to certain terms and standards set forth in the Tender Agent Agreement.

STANDBY BOND PURCHASE AGREEMENTS

The following summarizes certain provisions of the Standby Bond Purchase Agreements, to which documents, in their entirety, reference is made for the complete provisions thereof. The provisions of any substitute Standby Bond Purchase Agreement may be different from those summarized below.

Each Standby Bond Purchase Agreement will be issued in an amount equal to the original principal amount of the applicable series of Bonds (as adjusted from time to time, the "Available Commitment"). The Tender Agent, upon compliance with the terms of the applicable Standby Bond Purchase Agreement, is authorized and directed to draw up to an amount sufficient to pay the portion of the purchase price of Bonds delivered for purchase pursuant to a demand for purchase by the owner thereof or a mandatory tender for purchase and not remarketed equal to the principal amount of such Bonds. The Commonwealth is obligated to pay the portion of such purchase price equal to the accrued interest, if any, due on the Purchase Date.

Each Bank's commitment to fund under its Standby Bond Purchase Agreement will terminate on the earliest of the Bank's close of business on (a) the stated termination date (February 20, 2006 or, if such date is not a Business Day, the preceding Business Day, unless renewed or extended); (b) the date on which the Available Commitment is reduced to zero and the Bank shall no longer be obligated to purchase applicable Bonds; (c) the date on which an Alternate Liquidity Facility becomes effective in accordance with the terms of the applicable Bonds; provided that the Bank shall have received notice of the same; (d) the date on which the Bank's obligation to purchase is terminated following an event of default as described below; (e) the Bank's close of business on the date on which the Bank receives notice that all of the applicable Bonds have been converted to a Term Mode with a Term Rate Period which is greater than one year; or (f) the date on which no applicable Bonds are otherwise outstanding, provided that the Bank shall have received notice of the same.

Upon the occurrence of any Event of Default described in clauses (a)(i), (e), (g) or (i) below, (i) each Bank's obligation to purchase Bonds under its Standby Bond Purchase Agreement shall immediately terminate without notice to or other action on the part of the Bank, and (ii) all accrued fees and other amounts due and outstanding under the Bonds shall be forthwith due and payable without demand, presentment, protest or other notice whatsoever.

Upon the occurrence of any Event of Default as described in clause (h) below, each Bank's obligation to purchase Bonds under its Standby Bond Purchase Agreement shall be immediately and automatically suspended without notice to or other action on the part of the Bank, and the Bank will be under no further obligation to purchase Bonds unless and until the Bank's obligation to purchase Bonds has been reinstated as described in the Standby Bond Purchase Agreement.

If any Event of Default under a Standby Bond Purchase Agreement occurs and is continuing, the applicable Bank may, among other things, (i) give written notice of such event of default to the Tender Agent, the Commonwealth and the Remarketing Agent and request the Tender Agent to give notice of mandatory tender for purchase of the affected Bonds, thereby causing the Bank's obligations under such Standby Bond Purchase Agreement to terminate 30 days thereafter, and (ii) take any other action or remedy permitted by law to enforce the rights of the Bank under the Standby Bond Purchase Agreement and any Related Document.

"Events of Default" under each of the Standby Bond Purchase Agreements include the following:

- (a) the Commonwealth shall fail to pay or cause to be paid when due (i) any amounts with respect to the principal of or interest or premium, if any, on the Bonds of either series (including Bank Bonds), (ii) any amounts payable with respect to reimbursing the applicable Bank for any payment made by such Bank under its Standby Bond Purchase Agreement or (iii) any other amount payable pursuant to such Standby Bond Purchase Agreement or the Bonds related to such agreement (including Bank Bonds); or

- (b) the Commonwealth shall fail to observe or perform certain covenants set forth in such Standby Bond Purchase Agreement; or
- (c) the Commonwealth shall fail to observe or perform any covenant or agreement contained (or incorporated by reference) in such Standby Bond Purchase Agreement (other than those covered by clauses (a) and (b) above), or in any Related Document to which it is a party or in the Bonds for 30 days after written notice thereof requesting that such default be remedied has been given to it by such Bank; or
- (d) any representation, warranty, certification or statement made by the Commonwealth (or incorporated by reference) in such Standby Bond Purchase Agreement or in any Related Document to which it is a party or in any certificate, financial statement or other document delivered pursuant to such Standby Bond Purchase Agreement or any Related Document shall prove to have been incorrect in any material respect when made; or
- (e) the Commonwealth shall fail to make payment when due in respect of any general obligation debt of the Commonwealth with an aggregate principal amount in excess of \$5,000,000; or
- (f) an event of default or default shall have occurred and shall be continuing under any of the Related Documents; or
- (g) any material provision of such Standby Bond Purchase Agreement or any Related Document relating to the payment of any obligations under such Standby Bond Purchase Agreement or under the Bank Bonds related to such agreement or the security therefor shall at any time for any reason cease to be valid and binding on the Commonwealth or shall be declared to be null and void as the result of a final judgment or action by any court or governmental authority or agency having jurisdiction over the Commonwealth, or the Commonwealth repudiates or otherwise denies that it has any further liability or obligation under such Standby Bond Purchase Agreement or with respect to the Bonds related thereto; or
- (h) the Commonwealth shall have (i) taken or permitted to be taken any action or duly enacted any statute which would materially adversely affect the enforceability of such Standby Bond Purchase Agreement or (ii) contested the validity or enforceability of any material provision of such Standby Bond Purchase Agreement or any Related Document relating to the payment of any obligations under such Standby Bond Purchase Agreement or under the Bank Bonds related thereto or the security therefor; or
- (i) a moratorium shall have been declared or announced (whether or not in writing) with respect to any general obligation debt of the Commonwealth or the Commonwealth shall seek any form of debtor relief affecting its general obligation debt or a receiver shall be appointed with respect to any assets of the Commonwealth or the Commonwealth shall be declared by a court of competent jurisdiction or shall declare itself to be insolvent; or
- (j) the Commonwealth's general obligation debt shall be rated below Baa2 by Moody's or BBB by S&P or Fitch or such rating shall be withdrawn or suspended for credit related reasons; or
- (k) any final, nonappealable judgment or order for the payment of money in excess of \$50,000,000 shall have been rendered against the Commonwealth and such judgment or order shall not have been satisfied within a period of one year from the date on which it became final and nonappealable.

Bonds purchased with money advanced under a Standby Bond Purchase Agreement become Bank Bonds and may not be remarketed unless or until the applicable Bank has confirmed in writing to the Commonwealth that the available commitment has been reinstated and that the Bonds are no longer considered Bank Bonds. Bank Bonds will bear interest at the applicable Bank Interest Rate or, upon the occurrence of an event of default under the

applicable Standby Bond Purchase Agreement, at the Default Rate. Bank Bonds are subject to mandatory redemption on the ninetieth day after the after the purchase thereof by the Bank (the “Remarketing Period End Date”); provided, however, that if no default or event of default under the applicable Standby Bond Purchase Agreement has occurred, the Commonwealth may elect to cause the Bank Bonds to be redeemed in equal semiannual principal installments, the first such installment being payable on the first Business Day of the month next succeeding the Remarketing Period End Date, so that each Bank Bond is paid in full no later than the earlier of (i) the fifth anniversary of such Remarketing Period End Date with respect to such Bank Bond, or (ii) the second anniversary of the Agreement Expiration Date (as in existence as of the date of purchase by such Bank of such Bank Bond).

As consideration for each Bank’s agreement to enter into its Standby Bond Purchase Agreement, the Commonwealth will pay fees to such Bank on a periodic basis and will reimburse the Bank for certain fees and expenses, including increased costs.

Information Concerning Landesbank Hessen-Thüringen Girozentrale, New York Branch

The Bank is the New York Branch of Landesbank Hessen-Thüringen Girozentrale (“Helaba”). Effective on July 1, 1992, Helaba was renamed “Landesbank Hessen-Thüringen”. At that date, the Treaty on the Formation of a Joint Savings Banks Organization between the federal states Hesse and Thuringia came into force. The former Hessische Landesbank was formed in 1953 by the merger of Hessische Landesbank Darmstadt (founded 1940), Nassauische Landesbank Wiesbaden (founded 1840) as well as of Landeskreditkasse zu Kassel (founded 1832).

Helaba is a legal entity under public law. The owner and guarantor of Helaba is the Savings Banks and Giro Association Hesse-Thuringia (Sparkassen- und Giroverband Hessen-Thüringen-SGVHT), a joint institution of the municipal savings banks and their guarantors in Hesse and Thuringia in their capacity as general supervisory authority for the savings banks. Executive bodies of Helaba are the Board of Guarantors, the Supervisory Board and the Board of Managing Directors.

In accordance with its Charter, Helaba exercises the function of a central bank for the Hessian and Thuringian savings banks. For the savings banks, Helaba represents a considerable asset. It therefore has the duty to provide a benefit in addition to the payment of an annual dividend by intensifying cooperation.

Headquartered in Frankfurt/Main and Erfurt, Helaba concentrates on wholesale financial services offering comprehensive banking facilities for multinational corporations, central banks, public sector entities, and other financial institutions. Helaba has branch offices in London, New York and Grand Cayman and wholly owned subsidiaries in Luxembourg, Dublin, Amsterdam and Zurich. Representative offices are being maintained in Warsaw, Madrid, Paris and Hong Kong.

In fiscal year (“FY”) 1999, the operating results before risk provisions of the Helaba group was EUR 344.9 million, 11.1% below the previous year. Operating results after risk provisions for FY 1999 were EUR 229.5 million, down by 20.8% (EUR 60.3 million) from the previous year. This decrease is due primarily to loan loss provisions including allocations for general banking risks. Net risk provisions for FY 1999 (which also valued securities linked to asset swap combinations for the first time) totaled EUR 115.4 million.

Administrative expenses were virtually stable at EUR 491.8 million (up 1.9% from FY 1998: EUR 482.8 million). While administrative expenses were stable, there were increases for personnel expenses (up EUR 14.0 million or 6%), pension obligations and reserves (up EUR 9.8 million or 31.4%), as well as higher wages and social security obligations (up EUR 4.2 million or 2.1%). Total staff in FY 1999 was 3,194 (FY 1998: 3,099).

Despite FY 1999’s lower profit on ordinary activities of EUR 191 million (FY 1998: EUR 289 million), the net income for FY 1999 was EUR 86.5 million (FY 1998: EUR 80.6 million). The Group’s consolidated profit was EUR 28.6 million of which EUR 26.3 million was set aside as a drawing on other earnings.

The consolidated balance sheet total of the Helaba group amounted to EUR 114.7 billion at the end of FY 1999, up 8.6% over the previous year’s figure. Business volume increased 11.3% to EUR 120.4 billion, helped in large part by the strong growth in the USA, the marked loss in

value of the euro vis-à-vis the yen, dollar and pound sterling as well as the resurgence of the European economies.

The New York Branch of Helaba, licensed under New York law, provides a full range of wholesale commercial banking services in the New York City metropolitan area and throughout the United States. Upon written request, Helaba will provide without charge a copy of its most recent Annual Report. Requests should be directed to the following: Landesbank Hessen-Thüringen Girozentrale, New York Branch, 420 Fifth Avenue, 24th Floor, New York, NY 10018, Tel: (212) 703-5200, Fax: (212) 703-5256.

Helaba currently has a long-term credit rating of “Aaa” from Moody’s Investors Service, Inc., it is rated “AAA,” by Standard & Poor’s Rating Group and Fitch, Inc. has assigned it an “AAA” rating. Helaba’s short-term ratings are “P-1” from Moody’s, “A-1+” from Standard & Poor’s and “F1+” by Fitch. On December 7, 1999, Helaba’s credit ratings were placed on “CreditWatch Negative” by Standard & Poor’s. On December 23, 1999, Standard & Poor’s affirmed Helaba’s short-term ratings and removed them from “CreditWatch Negative”. On June 6, 2000, Standard and Poor’s removed Helaba’s long-term ratings from “CreditWatch Negative” and affirmed both the short-term and long-term ratings.

On May 19, 2000, the owners and the chairmen of Helaba and BayernLB announced a strategic cooperation agreement between the two Landesbanks, focusing on selected business activities. On May 25, 2000, the Land of Hesse and the Free State of Thuringia announced they will take an ownership stake in Helaba of 10% and 5% respectively. Copies of the releases may be obtained as described above.

Helaba has supplied information relating to it in the previous paragraphs. Helaba does not accept any responsibility for any information contained in this Official Statement other than the information relating to Helaba.

NOTE: The official (FOREX fixing) exchange rate on December 30, 1999, the last trading day in 1999, was EUR 1.0028= US \$1.00

Information Concerning State Street Bank and Trust Company

State Street Bank and Trust Company (the “Bank”), a wholly-owned subsidiary of State Street Corporation (the “Corporation”), provides banking, securities processing and investment management services to a broad base of customers worldwide. The Bank combines information processing with banking to process and manage virtually all types of financial assets. In addition to financial processing services, the Bank provides a full range of capital market services to businesses and financial institutions in New England and selected national and international markets. At December 31, 1999, the Bank and its consolidated subsidiaries had total assets of \$56.226 billion, total deposits (including deposits in foreign offices) of \$34.316 billion, total loans and lease finance assets net of unearned income, allowance and reserve for possible credit losses of approximately \$4.754 billion and total equity capital of \$3.010 billion.

The Bank’s Consolidated Reports of Condition for Insured Commercial and State Chartered Savings Banks FFIEC 031 for December 31, 1999, as submitted to the Federal Reserve Bank of Boston, are incorporated by reference in this Appendix and shall be deemed to be a part hereof.

In addition, all reports filed by the Bank pursuant to 12 U.S.C. §324 after the date of this Official Statement shall be deemed to be incorporated herein by reference and shall be deemed to be a part hereof from the date of filing of any such report.

Additional information, including financial information relating to the Corporation and the Bank is set forth in the Corporation’s Annual Report on Form 10-K for the year ended December 31, 1999. Such report and all reports filed by the Corporation pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, after the date of this Official Statement are incorporated herein by reference and shall be deemed a part hereof from the date of filing of any such report. The Standby Bond Purchase Agreement is an obligation of the Bank and not of the Corporation.

Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any subsequently filed document that also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Bank hereby undertakes to provide, without charge to each person to whom a copy of this Official Statement has been delivered, on the written request of any such person, a copy of any or all of the documents referred to above which have been or may be incorporated in this Official Statement by reference, other than exhibits to such documents. Written requests for such copies should be directed to Marketing Services, State Street Corporation, Box 351, Boston, Massachusetts 02110, (617) 654-3383.

Neither the Bank nor its affiliates make any representation as to the contents of this Official Statement (except as to this Appendix), the suitability of the Bonds for any investor, the feasibility or performance of any project or compliance with any securities or tax laws and regulations.

APPENDIX F

TABLE OF REFUNDED BONDS

The bonds of the Commonwealth to be refunded by the proceeds of the Bonds, together with proceeds from other, fixed rate bonds (the "Fixed Rate Bonds") of the Commonwealth expected to be issued at or about the same time as the Bonds, are described below.

	Maturity Date	Coupon	Amount	Call Date	Call Price
\$365,000,000 Consolidated Loan of 1991, Series D:					
	07/01/2003	6.625%	\$20,925,000	07/01/2001	102.0%
\$207,610,000 Consolidated Loan of 1992, Series A:					
	06/01/2004	6.30%	\$14,145,000	06/01/2002	101.0%
\$124,505,000 Refunding Bonds, 1992 Series A:					
	08/01/2004	6.50%	\$7,770,000	08/01/2002	102.0%
\$200,000,000 Consolidated Loan of 1992, Series D:					
	05/01/2004	5.75%	\$11,040,000	05/01/2002	102.0%
\$175,000,000 Consolidated Loan of 1993, Series A:					
	11/01/2009	5.50%	\$13,385,000	11/01/2003	102.0%
\$250,000,000 Consolidated Loan of 1994, Series B:					
	08/01/2006	5.60%	\$12,725,000	08/01/2004	102.0%
	08/01/2007	5.70%	\$13,445,000	08/01/2004	102.0%
	08/01/2008	5.75%	<u>\$14,220,000</u>	08/01/2004	102.0%
			\$40,390,000		
\$200,000,000 Consolidated Loan of 1994, Series C:					
	11/01/2005	6.30%	\$ 9,550,000	11/01/2004	101.0%
	11/01/2006	6.40%	<u>\$10,155,000</u>	11/01/2004	101.0%
			\$19,705,000		
\$150,000,000 Consolidated Loan of 1995, Series A:					
	02/01/2006	5.50%	\$ 7,260,000	02/01/2005	101.0%
	02/01/2007	5.60%	\$ 7,670,000	02/01/2005	101.0%
	02/01/2008	5.70%	\$ 8,115,000	02/01/2005	101.0%
	02/01/2009	5.70%	<u>\$ 8,590,000</u>	02/01/2005	101.0%
			\$31,635,000		
\$225,000,000 Consolidated Loan of 1995, Series B:					
	07/01/2007	5.375%	\$11,515,000	07/01/2005	101.0%
	07/01/2008	5.500%	\$12,160,000	07/01/2005	101.0%
	07/01/2009	5.500%	\$12,845,000	07/01/2005	101.0%
	07/01/2010	5.500%	<u>\$13,575,000</u>	07/01/2005	101.0%
			\$50,095,000		

Maturity Date	Coupon	Amount	Call Date	Call Price
\$200,000,000 Consolidated Loan of 1995, Series C:				
08/01/2007	5.30%	\$10,180,000	08/01/2005	101.0%
08/01/2008	5.40%	\$10,715,000	08/01/2005	101.0%
08/01/2010	5.50%	<u>\$11,905,000</u>	08/01/2005	101.0%
		\$32,800,000		
\$250,000,000 Consolidated Loan of 1995, Series D:				
11/01/2007	5.125%	\$12,730,000	11/01/2005	101.0%
11/01/2008	5.125%	\$13,385,000	11/01/2005	101.0%
11/01/2009	5.125%	\$14,090,000	11/01/2005	101.0%
11/01/2010	5.125%	<u>\$14,845,000</u>	11/01/2005	101.0%
		\$55,050,000		
\$250,000,000 Consolidated Loan of 1996, Series B:				
06/01/2007	5.50%	\$12,105,000	06/01/2006	101.0%
06/01/2008	5.50%	\$12,750,000	06/01/2006	101.0%
06/01/2009	5.50%	\$13,445,000	06/01/2006	101.0%
06/01/2010	5.50%	\$14,190,000	06/01/2006	101.0%
06/01/2011	5.50%	<u>\$14,985,000</u>	06/01/2006	101.0%
		\$67,475,000		
\$200,000,000 Consolidated Loan of 1996, Series C:				
09/01/2008	5.300%	\$10,205,000	09/01/2006	101.0%
09/01/2009	5.375%	\$10,740,000	09/01/2006	101.0%
09/01/2010	5.375%	\$11,315,000	09/01/2006	101.0%
09/01/2011	5.375%	<u>\$11,925,000</u>	09/01/2006	101.0%
		\$44,185,000		
\$200,000,000 Consolidated Loan of 1996, Series D:				
11/01/2010	5.25%	\$22,980,000	11/01/2006	101.0%
\$500,000,000 Consolidated Loan of 1999, Series C:				
09/01/2015	5.75%	\$ 7,655,000	09/01/2009	101.0%
09/01/2016	5.50%	\$ 830,000	09/01/2009	101.0%
09/01/2016	5.80%	\$ 9,990,000	09/01/2009	101.0%
09/01/2017	5.50%	\$ 1,260,000	09/01/2009	101.0%
09/01/2017	5.875%	\$10,205,000	09/01/2009	101.0%
09/01/2018	5.50%	\$ 7,345,000	09/01/2009	101.0%
09/01/2019	5.50%	<u>\$ 6,605,000</u>	09/01/2009	101.0%
		\$43,890,000		
\$496,305,000 Consolidated Loan of 2000, Series A:				
02/01/2016	6.000%	\$32,075,000	02/01/2010	101.0%
02/01/2017	5.800%	\$34,000,000	02/01/2010	101.0%
02/01/2018	5.875%	\$35,970,000	02/01/2010	101.0%
02/01/2019	5.875%	\$38,085,000	02/01/2010	101.0%
02/01/2020	5.875%	<u>\$40,320,000</u>	02/01/2010	101.0%
		\$180,450,000		

Maturity Date	Coupon	Amount	Call Date	Call Price
<hr/>				
\$740,305,000 Consolidated Loan of 2000, Series B:				
06/01/2015	6.000%	\$50,000,000	06/01/2010	100.0%
06/01/2016	5.500%	\$ 3,055,000	06/01/2010	100.0%
06/01/2016	6.000%	\$45,300,000	06/01/2010	100.0%
06/01/2018	5.625%	\$41,280,000	06/01/2010	100.0%
06/01/2019	5.700%	\$56,255,000	06/01/2010	100.0%
06/01/2020	5.750%	<u>\$59,460,000</u>	06/01/2010	100.0%
		\$255,350,000		
TOTAL		\$911,270,000		