

REFUNDING / NEW MONEY ISSUE - BOOK-ENTRY-ONLY

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



THE COMMONWEALTH OF MASSACHUSETTS

\$823,845,000

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

Dated: November 1, 2001

Due: November 1, as shown on the inside cover hereof

The Bonds will be issued by means of a book-entry-only system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company ("DTC") and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The Bonds will bear interest from November 1, 2001 and interest will be payable on May 1, 2002 and semiannually thereafter on November 1 and May 1, calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are subject to redemption prior to maturity, as more fully described herein.

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

The Bonds are offered when, as and if issued and received by the Underwriters, and subject to the unqualified approving opinion as to legality of Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Ropes & Gray, Boston, Massachusetts, Disclosure Counsel. Certain matters will be passed upon for the Underwriters by their counsel, Brown, Rudnick, Freed & Gesmer, Boston, Massachusetts. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about November 15, 2001.

UBS PaineWebber Inc.

**Bear, Stearns & Co. Inc.
JPMorgan**

Lehman Brothers

**Goldman, Sachs & Co.
Salomon Smith Barney**

**Advest, Inc.
Corby North Bridge Securities
H.C. Wainwright & Co., Inc.
Merrill Lynch & Co.
Quick & Reilly, Inc.
RBC Dain Rauscher Inc.**

**A.G. Edwards & Sons, Inc.
Fahnestock & Co. Inc
Janney Montgomery Scott Inc.
Morgan Stanley
Ramirez & Co., Inc.
State Street Capital Markets, LLC
Wachovia Securities**

**CIBC World Markets
First Albany Corporation
Mellon Financial Markets, Inc.
Prudential Securities
Raymond James & Associates, Inc.
Tucker Anthony Incorporated**

October 31, 2001

THE COMMONWEALTH OF MASSACHUSETTS

**\$823,845,000
General Obligation Bonds
Consolidated Loan of 2001, Series D**

Dated: November 1, 2001

Due: November 1, as shown below

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
2003	\$ 500,000	3.000%	2.260%
2004	515,000	3.000	2.610
2005	530,000	3.000	2.900
2006	545,000	3.125	3.140
2007	565,000	3.400	3.380
2008	585,000	3.600	3.590
2009	605,000	3.700	3.720
2010	630,000	3.800	3.820
2011*	15,265,000	4.000	100
2012*	14,055,000	4.125	4.150
2012*	125,875,000	5.500	4.150
2013*	16,865,000	4.250	4.280
2013*	45,000,000	5.500	4.280
2013*	105,625,000	6.000	4.280
2014*†	9,295,000	5.500	4.390
2014	71,190,000	5.500	4.380
2015†	8,430,000	5.500	4.510
2015*†	20,000,000	5.500	4.490
2015	33,060,000	5.500	4.470
2016*†	30,000,000	5.250	4.580
2016	35,360,000	5.500	4.570
2017*†	31,615,000	5.250	4.680
2017	38,820,000	5.500	4.640
2018*†	33,320,000	5.250	4.770
2018	14,815,000	5.500	4.710
2019†	25,000,000	5.250	4.880
2019*†	10,115,000	5.250	4.860
2019	43,575,000	5.500	4.780
2020*†	36,965,000	5.000	100
2020	16,265,000	5.500	4.830
2021*†	38,860,000	5.000	5.040

(accrued interest, if any, to be added)

* Insured by MBIA Insurance Corporation. See "BOND INSURANCE" herein.

† Priced at the stated yield to the November 1, 2011 optional redemption date at a redemption price of 100%. See "THE BONDS – Redemption" herein.

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

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

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

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THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

Jane SwiftActing Governor
William F. Galvin Secretary of the Commonwealth
Thomas F. ReillyAttorney General
Shannon P. O’Brien.....Treasurer and Receiver-General
A. Joseph DeNucci..... Auditor

LEGISLATIVE OFFICERS

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

OFFICIAL STATEMENT

\$823,845,000
THE COMMONWEALTH OF MASSACHUSETTS

General Obligation Bonds
Consolidated Loan of 2001, Series D

INTRODUCTION

This Official Statement (including the cover pages and Appendices A through E attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the “Commonwealth”) of \$823,845,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 2001, Series D (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 April Information Statement (described below) under the headings “COMMONWEALTH REVENUES – Limitations on Tax Revenues” and “COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Limit on Debt Service Appropriations.” In addition, payment of the principal of and interest on certain of the Bonds when due will be guaranteed under a municipal bond insurance policy issued by MBIA Insurance Corporation (the “Insurer”). See “BOND INSURANCE” and Appendix E.

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

Purpose and Content of Official Statement

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

Specific reference is made to the Commonwealth’s Information Statement dated April 27, 2001 (the “April Information Statement”), as it appears as Appendix A in the Official Statement dated May 9, 2001 of the Commonwealth with respect to the Commonwealth’s General Obligation Bonds, Consolidated Loan of 2001, Series B (the “May Official Statement”). A copy of the May 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 April Information Statement has been supplemented by the Commonwealth Information Statement Supplement dated October 31, 2001 (the “Supplement”), which is attached hereto as Appendix A. The April Information Statement, as supplemented by the Supplement, contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth. Exhibit A to the Supplement contains certain economic information concerning the Commonwealth. Exhibit B to the Supplement contains the financial statements of the Commonwealth for the fiscal year ended June 30, 2001 prepared on a statutory basis; and Exhibit C to the April Information Statement contains the financial statements of the Commonwealth for the fiscal year ended June 30, 2000 prepared on a GAAP basis. Specific reference is made to said Exhibits A, B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. Such financial statements are also available at the home page of the Comptroller of the Commonwealth, located at www.state.ma.us/osc.

Attached hereto as Appendix B is a listing of the bonds to be refunded with the proceeds of the Bonds. Appendix C attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Bonds. Appendix D attached hereto contains the proposed form of the Commonwealth’s continuing disclosure undertaking to be included in the form of the Bonds to facilitate compliance by the Underwriters with the requirements of paragraph

(b)(5) of Rule 15c2-12 of the Securities and Exchange Commission. Appendix E attached hereto sets forth the specimen municipal bond insurance policy of the Insurer.

THE BONDS

General

The Bonds will be dated November 1, 2001 and will bear interest from such date payable semiannually on November 1 and May 1 of each year, commencing May 1, 2002 (each an "Interest Payment Date") until the principal amount is paid. The Bonds will mature on November 1 in the years and in the aggregate principal amounts, and shall bear interest at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months), as set forth on the inside cover page of this Official Statement. The Commonwealth will act as its own paying agent with respect to the Bonds. The Commonwealth reserves the right to appoint from time to time a paying agent or agents or bond registrar for the Bonds.

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

Redemption

The Bonds maturing on or prior to November 1, 2013 will not be subject to redemption prior to their stated maturity dates.

Optional Redemption. The following Bonds maturing on and after November 1, 2014 will be subject to redemption prior to their stated maturity dates on and after November 1, 2011 at the option of the Commonwealth from any moneys legally available therefor, in whole or in part at any time, by lot, at 100% of the principal amount thereof, plus accrued interest to the redemption date:

<u>Maturity</u> <u>(November 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2014	\$ 9,295,000	5.500%	4.390%
2015	8,430,000	5.500	4.510
2015	20,000,000	5.500	4.490
2016	30,000,000	5.250	4.580
2017	31,615,000	5.250	4.680
2018	33,320,000	5.250	4.770
2019	25,000,000	5.250	4.880
2019	10,115,000	5.250	4.860
2020	36,965,000	5.000	5.000
2021	38,860,000	5.000	5.040

The remaining Bonds maturing on and after November 1, 2014 are not subject to redemption prior to their stated maturity dates.

Notice of Redemption. The Commonwealth shall give notice of redemption to the owners of the Bonds not less than 30 days prior to the date fixed for redemption. So long as the book-entry-only system remains in effect for the Bonds, notices of redemption will be mailed by the Commonwealth only to DTC or its nominee. Any failure on the

part of DTC, any DTC participant or any nominee of a beneficial owner of any Bond (having received notice from a DTC participant or otherwise) to notify the beneficial owner so affected, shall not affect the validity of the redemption.

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

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

Plan of Finance

The Bonds are being issued pursuant to the provisions of Section 49 of Chapter 29 of the Massachusetts General Laws and bond authorizations enacted by the Legislature for the purpose of financing the projects so authorized and pursuant to the provisions of Section 53A of Chapter 29 of the Massachusetts General Laws for the purpose of currently and advance refunding the bonds set forth in Appendix B (the “Refunded Bonds”).

The Commonwealth, upon delivery of the Bonds, will enter into a refunding escrow agreement (the “Escrow Agreement”) with an escrow agent (the “Escrow Agent”) to be selected for the Refunded Bonds. The Escrow Agreement will provide for the deposit of funds with the Escrow Agent in a separate account to be applied immediately upon receipt to purchase non-callable direct obligations of, or obligations the payment of the principal of and interest on which are fully and unconditionally guaranteed by, the United States of America, obligations of certain federal agencies specified in Section 49 of Chapter 29 of the Massachusetts General Laws, obligations issued by the Federal Home Loan Mortgage Corporation, Federal Home Loan Banks, the Federal National Mortgage Association or the Student Loan Marketing Association, or advance-refunded or defeased bonds that are secured by such obligations (the “Escrow Obligations”) and to funding, if needed, a cash deposit in such account. The funds so deposited with the Escrow Agent will consist of a portion of the net proceeds of the Bonds plus a fee paid to the Commonwealth by Bank of America, N.A. in consideration of an escrow reinvestment agreement which will entitle Bank of America, N.A. to reinvest in Escrow Obligations proceeds of maturing Escrow Obligations not immediately required for the purposes of the escrow. The Escrow Agreement will require that maturing principal of and interest on the Escrow 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 Escrow 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 B.

Application of Proceeds

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

The purposes for which the Bonds will be issued have been authorized by the legislature under various bond authorizations. The portion of the net proceeds remaining after the funding of the Escrow Agreement will be used to finance or reimburse the Commonwealth for a variety of capital expenditures that are included within the current five-year capital spending plan established by the Executive Office for Administration and Finance. The plan, which is an administrative guideline and is subject to amendment at any time, sets forth capital spending allocations over the next

five fiscal years and establishes annual capital spending limits. See the April Information Statement and the Supplement under the heading “COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES.”

SECURITY FOR THE BONDS

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

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

shall be the responsibility of DTC; and disbursement of such payments to Beneficial Owners shall be the responsibility of the DTC Participants and the Indirect Participants.

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

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

RATINGS

The Bonds have been assigned ratings by Fitch, Inc., Moody's Investors Service, Inc. and Standard & Poor's Ratings Services. For those Bonds which are to be insured by the Insurer (collectively, the "Insured Bonds") the ratings assigned by Fitch, Moody's and Standard and Poor's are "AAA," "Aaa" and "AAA," respectively, based upon the understanding that the payment of the principal of and interest on the Insured Bonds will be guaranteed by a municipal bond insurance policy to be issued by the Insurer simultaneously with the issuance of the Insured Bonds. The Insured Bonds are the following:

<u>Maturity</u> <u>(November 1)</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
2011	\$15,265,000	4.000%	4.000%
2012	14,055,000	4.125	4.150
2012	125,875,000	5.500	4.150
2013	16,865,000	4.250	4.280
2013	45,000,000	5.500	4.280
2013	105,625,000	6.000	4.280
2014	9,295,000	5.500	4.390
2015	20,000,000	5.500	4.490
2016	30,000,000	5.250	4.580
2017	31,615,000	5.250	4.680
2018	33,320,000	5.250	4.770
2019	10,115,000	5.250	4.860
2020	36,965,000	5.000	5.000
2021	38,860,000	5.000	5.040

The ratings assigned by Fitch, Moody's and Standard and Poor's to the Bonds which are not Insured Bonds are "AA-," "Aa2" and "AA-," respectively.

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

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase all of the Bonds from the Commonwealth at a discount from the initial offering prices of the Bonds and equal to approximately 0.528% of the aggregate principal amount of the Bonds. The Underwriters may offer and sell the Bonds to certain dealers and others (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices (or yields higher than the offering yields) stated on the inside cover page hereof. The principal offering prices (or yields) set forth on the inside cover page hereof may be changed from time to time after the initial offering by the Underwriters.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

The Arbitrage Group, Inc. will verify (a) the adequacy of the forecasted receipts of principal and interest on the Escrow Obligations and the forecasted payments of principal and interest to redeem the Refunded Bonds, and (b) the yields on the Bonds and the Escrow Obligations purchased with a portion of the proceeds of the sale of the Bonds. Such verification will be used in part by Palmer & Dodge LLP, Bond Counsel, in concluding that the Bonds are not arbitrage bonds within the meaning of the Code. The Arbitrage Group, Inc. has restricted its procedures to certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

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.

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

over the term of a Bond. Holders should consult their own tax advisers with respect to the computations of original issue discount on such accruals of interest during the period in which any such Bond is held.

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

BOND INSURANCE

INVESTORS SHOULD BE AWARE THAT THE FOLLOWING TEXT OF THIS SECTION WAS FURNISHED BY THE INSURER. THESE PROVISIONS SHOULD BE READ IN CONJUNCTION WITH THIS OFFICIAL STATEMENT AS A WHOLE. THE COMMONWEALTH DOES NOT AND CANNOT MAKE ANY REPRESENTATION REGARDING THESE MATTERS. REFERENCE IS MADE TO APPENDIX E FOR A SPECIMEN OF THE INSURER'S POLICY.

The Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Commonwealth of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Insured Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the Insurer's policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the Insured Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The Insurer's policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Insured Bond. The Insurer's policy does not, under any circumstance insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of the Insured Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The Insurer's policy also does not insure against nonpayment of principal of or interest on the Insured Bonds resulting from the insolvency, negligence or any other act or omission of any paying agent for the Insured Bonds (other than the Commonwealth).

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from any paying agent or any owner of an Insured Bond the payment of an insured amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such Insured Bonds or presentment of such other proof of ownership of the Insured Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Insured Bonds as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Insured Bonds in any legal proceeding related to payment of insured amounts on the Insured Bonds, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A., shall disburse to such owners or any paying agent payment of the insured amounts due on such Insured Bonds, less any amount held by such paying agent for the payment of such insured amounts and legally available therefor.

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the "Company"). The Company is not obligated to pay the debts of or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Insurer, changes in control and transactions among

affiliates. Additionally, the Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

The Insurer does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and the Insurer set forth under the heading "BOND INSURANCE". Additionally, the Insurer makes no representation regarding the Bonds or the advisability of investing in the Bonds.

The Financial Guarantee Insurance Policies are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

The following documents filed by the Company with the Securities and Exchange Commission (the "SEC") are incorporated herein by reference:

- (1) The Company's Annual Report on Form 10-K for the year ended December 31, 2000;
- (2) The Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001; and
- (3) The report on Form 8-K filed by the Company on January 30, 2001.

Any documents filed by the Company pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, 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 other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company's Annual Report on Form 10-K for the year ended December 31, 2000, (2) the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, and (3) the report on Form 8-K filed by the Company on January 30, 2001) are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at the Company's web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2000, the Insurer had admitted assets of \$7.6 billion (audited), total liabilities of \$5.2 billion (audited), and total capital and surplus of \$2.4 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2001, the Insurer had admitted assets of \$8.1 billion (unaudited), total liabilities of \$5.8 billion (unaudited), and total capital and surplus of \$2.3 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Moody's Investors Service, Inc. rates the financial strength of the Insurer "Aaa."

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., rates the financial strength of the Insurer "AAA."

Fitch rates the financial strength of the Insurer "AAA."

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Insured Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Insured Bonds. The Insurer does not guaranty the market price of the Insured Bonds nor does it guaranty that the ratings on the Insured Bonds will not be revised or withdrawn.

OPINIONS OF COUNSEL

The unqualified approving opinion as to the legality of the Bonds will be rendered by Palmer & Dodge LLP of Boston, Massachusetts, Bond Counsel to the State Treasurer. The proposed form of the opinion of Bond Counsel relating to the Bonds is attached hereto as Appendix C. Certain legal matters will also be passed upon by Ropes & Gray of Boston, Massachusetts, as Disclosure Counsel to the State Treasurer. Certain legal matters will be passed on for the Underwriters by their counsel, Brown, Rudnick, Freed & Gesmer of Boston, Massachusetts.

CONTINUING DISCLOSURE

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

For information concerning the availability of certain other financial information from the Commonwealth, see the April 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 Walter J. St. Onge, III, Palmer & Dodge LLP, 111 Huntington Avenue, Boston, Massachusetts 02199, telephone 617/239-0389.

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

October 31, 2001

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**THE
COMMONWEALTH
OF
MASSACHUSETTS**



INFORMATION STATEMENT SUPPLEMENT

Dated October 31, 2001

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(Exhibits B and C are included by reference, and have been filed with Nationally Recognized Municipal Securities Information Repositories).
B. Statutory Basis Financial Report for the year ended June 30, 2001
C. Comprehensive Annual Financial Report (GAAP basis) for the year ended June 30, 2000

THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

Jane SwiftActing Governor
William F. Galvin Secretary of the Commonwealth
Thomas F. ReillyAttorney 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

October 31, 2001

This supplement ("Supplement") to the Information Statement of The Commonwealth of Massachusetts (the "Commonwealth") dated April 27, 2001 (the "April Information Statement") is dated October 31, 2001 and contains information which updates the information contained in the April Information Statement. The April Information Statement appears in the Commonwealth's Official Statement dated May 9, 2001 with respect to its \$250,000,000 Consolidated Loan of 2001, Series B Bonds, a copy of which has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission and with the Municipal Securities Rulemaking Board. Exhibit A to this Supplement sets forth certain economic, demographic and statistical information concerning the Commonwealth. This Supplement and the April Information Statement must be read collectively and in their entirety in order to obtain the appropriate fiscal, financial and economic information concerning the Commonwealth through October 31, 2001. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the April Information Statement.

RECENT DEVELOPMENTS

Fiscal 2002

Fiscal Year 2002 Budget. The House of Representatives approved its version of the fiscal 2002 budget on May 7, 2001, and the Senate approved its version on June 13, 2001. See the April Information Statement under the heading "FISCAL 2002." The House budget provides for appropriations of approximately \$22.833 billion, and the Senate budget provides for appropriations of approximately \$22.868 billion. Both versions are based on a tax revenue estimate of approximately \$15.907 billion, excluding approximately \$678.1 million in sales tax receipts dedicated to the MBTA. The differences between the House and Senate versions are being reconciled by a legislative conference committee. Although the revenue and expenditure totals are comparable, there are substantial differences between the two versions in spending priorities and various political issues to resolve. The House budget appropriates approximately \$986.4 million for the pension funding schedule, in accordance with the schedule approved on March 7, 2001 by the House Ways and Means Committee; the Senate budget appropriates approximately \$912.4 million, in keeping with one of the three alternative schedules filed with the Legislature on March 1, 2001 by the Secretary of Administration and Finance, but not the one approved by the House Committee on Ways and Means, which under state law has the power to determine the official schedule. The House budget appropriates 30% of the annual payments expected to be received in fiscal 2002 from the national settlement with the tobacco industry; the Senate budget appropriates approximately 60% of such payments. The House budget appropriates approximately \$3.192 billion for direct local school aid and changes the distribution formula; the Senate budget appropriates approximately \$3.211 billion, but leaves the current distribution formula in place. The Legislature is scheduled to go out of formal session on November 20, 2001.

No consensus tax revenue forecast for fiscal 2002 was agreed to by the Legislature and the Secretary of Administration and Finance by May 15, 2001, as required by state finance law. At that time the legislative consensus tax revenue estimate for fiscal 2002 was \$15.907 billion, while the estimate of the Secretary of Administration and Finance remained \$15.672 billion. Due to deterioration in tax collections and the weakening economy in the Commonwealth, on October 25, 2001, the Secretary of Administration and Finance announced a revised fiscal 2002 revenue estimate of \$14.930 billion, a decrease of \$750 million. (Approximately \$7 million of the \$750 million in revenue reduction is accounted for by a decline in sales tax receipts pledged to the MBTA, and therefore is not reflected in the \$14.930 billion estimate.) The tragic events of September 11, 2001 exacerbated the downward trend of the economy and, by their unprecedented nature, increased the difficulty of forecasting economic conditions. While certain factors may be isolated analytically (such as the effect of declining stock markets on capital gains taxes and income taxes attributable to the exercise of stock options), the accuracy of tax revenue forecasting depends principally on future general economic conditions.

On October 29, 2001, the Secretary of Administration and Finance released his tax revenue estimate for fiscal 2003. Baseline revenue for fiscal 2003 is estimated to grow 3.9%, with actual growth estimated at 0.1%. Total tax receipts for fiscal 2003 are predicted to be \$15.615 billion.

In the absence of an enacted General Appropriation Act for fiscal 2002, the administration has been operating under a provisional budget of \$22.6 billion, virtually all of which is comprised of the lower of the House or Senate budget proposals for each respective account. However, recent analysis has indicated that this provisional budget formula would result in underfunding various entitlement programs in several accounts, including principally Medicaid and other health and human services, in the aggregate amount of approximately \$350 million. The \$750 million reduction in estimated tax revenues for fiscal 2002 and this \$350 million in additional required spending has resulted in the provisional budget being in deficit by approximately \$1.1 billion.

To address this shortfall, Acting Governor Swift has proposed to identify and implement spending reductions in the aggregate amount of \$600 million, and also to draw upon \$500 million of reserves and available revenues. As an initial step in effecting reductions, the Acting Governor has directed that administration officials take certain actions, including freezing the hiring of new non-essential state employees, eliminating out-of-state travel by state employees, suspending any hiring of external consultants and making no merit pay increases for managers. The Acting Governor also is proposing to reduce the Commonwealth's fiscal 2002 contribution to unfunded pension liabilities to \$100 million less than the amount carried in the provisional budget. This would mean a contribution of approximately \$812 million, compared to the \$912.4 million proposed by the Senate and the \$986.4 million proposed by the House. In this connection, the Acting Governor is proposing that the date for completing the amortization of the Commonwealth's accumulated unfunded pension liabilities be rescheduled from June 30, 2018 to June 30, 2028. Other sources for the remaining \$500 million in spending reductions are being determined and are expected to be released in the coming weeks. The administration is providing budgetary information to the Legislature as it is developed in order to inform the Legislature's consideration of the fiscal 2002 budget. If legislative approval of the Acting Governor's spending reduction proposal is withheld, the Acting Governor is prepared to use her powers under chapter 29 of the Massachusetts General Laws to balance the budget.

The Acting Governor is proposing that the \$500 million in reserves and available revenues be provided by applying to fiscal 2002 expenditures \$300 million from the stabilization fund and \$200 million of the annual tobacco settlement payment.

On September 14, 2001, the Governor filed a proposal totaling \$61.3 million to fund four new collective bargaining agreements, which includes \$52 million for the Service Employees International Union, Local 509, and Alliance Units 8 and 10.

On September 21, 2001, the Legislature transferred \$579 million from revenues credited to the general fund in fiscal 2001 into a newly established transitional escrow fund. Funds in the transitional escrow fund are subject to appropriation, and provide additional reserves to the Commonwealth in excess of the \$1.715 billion already credited to the stabilization fund. Absent further legislative action, the transitional escrow fund will expire on November 30, 2001, at which time any unexpended funds would be disposed of according to section 5C of chapter 29 (except clause (a)) of the Massachusetts General Laws. See the April Information Statement under the heading "FINANCIAL RESULTS—Stabilization Fund and Disposition of Year-End Surpluses".

On October 23, 2001, an appropriation of \$26.5 million was enacted for public safety measures related to the events of September 11, 2001. The proposal includes \$12 million in a reserve for the cost of police overtime, National Guard reservists, and armories, \$6 million for security equipment and training, \$4.2 million for State Police cruisers, \$3.5 million for a new class of State Police recruits and \$0.8 million for administration of a State Police recruitment exam.

Interim Budgets. Since June 20, 2001, Acting Governor Swift has filed a series of interim two-week budget proposals to allow state services to continue in fiscal 2002. On October 15, 2001, the Acting Governor filed an interim four-week budget proposal. The proposal was enacted on October 23, 2001, and will allow state services to continue until November 19, 2001.

Tax Collections. Tax collections in July 2001 totaled approximately \$1.021 billion, a decrease of approximately \$38 million, or 3.6%, from July 2000 tax receipts. The July 2001 total includes approximately \$56.7 million of sales tax receipts dedicated to the MBTA. Due to the absence of an enacted fiscal 2002 budget, there is currently no official fiscal 2002 revenue estimate, and therefore no monthly tax revenue benchmark estimate. However, it is possible to construct approximate July benchmark estimates based on the differing estimates incorporated into the Governor's January 2001 and Legislature's budget proposals. Based on the tax revenue

estimate incorporated into the Governor's budget submission, tax revenue collections through July 2001 were approximately \$38 million below the midpoint of the July benchmark estimate.

Tax collections in August 2001 totaled approximately \$1.113 billion, a decrease of approximately \$31.7 million, or 2.8%, from August 2000 tax receipts. The August total includes approximately \$57 million of sales tax receipts dedicated to the MBTA. Year-to-date tax collections through August 2001 totaled approximately \$2.139 billion, a decrease of approximately \$69.7 million, or 3.2%, below the comparable period in fiscal 2001. The year-to-date total includes approximately \$114 million of sales tax receipts dedicated to the MBTA. Based on the tax revenue estimate incorporated into the Governor's budget submission, tax revenue collections through August 2001 were approximately \$76 below the midpoint of the August benchmark estimate.

Tax collections in September 2001 totaled approximately \$1.524 billion, a decrease of approximately \$221.9 million, or 12.7%, compared with September 2000 tax receipts. The September total includes approximately \$46 million of sales tax receipts dedicated to the MBTA.

Tax collections for the first quarter of fiscal 2002 totaled approximately \$3.663 billion, a decrease of approximately \$291.6 million, or 7.4%, from the same period last year. The first quarter total includes approximately \$159.4 million of sales tax receipts dedicated to the MBTA. Based on the tax revenue estimate incorporated into the Governor's budget submission, tax revenue collections through September 2001 were approximately \$202 million below the midpoint of the first quarter benchmark estimate.

Tax collections for the month of October 2001 totaled approximately \$965 million, a decrease of approximately \$120 million, or 11.0%, from October 2000 receipts. Through October 2001, fiscal 2002 year-to-date tax collections totaled approximately \$4.629 billion, a decrease of approximately \$407 million, or 8.1% from the same period in fiscal 2001. Based on the revised fiscal 2002 tax revenue estimate announced on October 25, 2001 by the Secretary of Administration and Finance, the October year-to-date tax collection benchmark range is approximately \$4.560 billion to \$4.820 billion (including revenues dedicated to the MBTA). October tax revenue collections include \$59.7 million of sales tax receipts dedicated to the MBTA. October year-to-date tax revenues dedicated to the MBTA are approximately \$219.2 million.

Fiscal 2001

Supplemental Appropriations. On September 21, 2001, the Governor signed a supplemental appropriation bill for fiscal 2001, which totaled \$744.7 million. This bill includes a \$579 million transfer to the transitional escrow fund. See heading "RECENT DEVELOPMENTS— Fiscal 2002 – *Fiscal Year 2002 Budget*" above. The supplemental appropriation bill also includes \$104 million for Medicaid payments, \$7.4 million for an upgrade to the state payroll system (HRCMS), \$7 million for one-time grants to community health centers, and \$3.8 million for a one-time payment to the U.S. Department of Education to settle two federal audits.

Supplemental appropriations for fiscal 2001 were approved in the amount of approximately \$1.351 billion, including approximately \$259 million for Medicaid, approximately \$74 million for collective bargaining agreements, approximately \$51 million in additional state lottery distributions, approximately \$65.7 million for snow and ice removal programs, and the \$744.7 million in supplemental appropriations discussed above. Total spending for fiscal 2001 was approximately \$23.1 billion.

Tax Collections. Preliminary tax collections for fiscal 2001 totaled approximately \$16.730 billion, an increase of approximately \$498 million, or 6.6% actual growth, over fiscal 2000. The total includes approximately \$654.6 million of sales tax receipts dedicated to the MBTA. Based on these preliminary results for fiscal 2001, tax collections were approximately \$498 million higher than the January 24, 2001 annual estimate of \$16.232 billion.

Statutory Basis Financial Report. The Comptroller of the Commonwealth recently made available the statutory basis financial statements of the Commonwealth for fiscal 2001, which are dated October 24, 2001. A copy of these financial statements is available on the Comptroller's web site located at <http://www.state.ma.us/osc/Reports/reportsfinancial.htm>. Copies have also been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission.

Cash Flow

On September 7, 2001 the State Treasurer and the Secretary of Administration and Finance released the most recent cash flow projection for fiscal 2002. This cash flow projection was based on the Acting Governor's adjusted budget recommendation as of July 31, 2001, due to the delayed enactment of a general appropriation act for fiscal year 2002. The projection shows a beginning balance for fiscal 2002 of \$3.366 billion and an ending balance of \$2.513 billion. In both cases the balances include amounts sequestered for capital purposes, but exclude amounts available in the Commonwealth's stabilization fund. The projection includes periodic issuance of commercial paper as bond anticipation notes, but no borrowing for operating purposes. Some \$250 million of commercial paper is currently outstanding as bond anticipation notes, which is expected to be retired from a portion of the proceeds of the Commonwealth's proposed General Obligation Bonds, Consolidated Loan of 2001, Series D. In addition, in September 2001 the Commonwealth issued \$350 million of bond anticipation notes, the proceeds of which were used for the development of the Boston Convention and Exhibition Center and the Springfield Civic Center and costs incurred by the City of Worcester for improvements to the Worcester Convention Center. These notes mature in September 2003. Long-term debt issuance during fiscal 2002 is projected to total \$1.3 billion, of which \$350 million was issued in August 2001.

The Executive Office for Administration and Finance has recently adjusted substantially its spending and revenue assumptions for fiscal 2002. See discussion under the heading "RECENT DEVELOPMENTS – Fiscal 2002 – Fiscal Year 2002 Budget" above. The next cash flow projection, which will incorporate updated assumptions, is scheduled to be submitted on November 25, 2001.

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 1997 through 2001, but have been adjusted to reflect the impact of the MBTA forward funding legislation. See April Information Statement under the heading "FINANCIAL RESULTS - Massachusetts Bay Transportation Authority." 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 April Information Statement under the heading "FINANCIAL RESULTS."

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

	<u>Fiscal 1997</u>	<u>Fiscal 1998</u>	<u>Fiscal 1999</u>	<u>Fiscal 2000</u>	<u>Fiscal 2001</u>	<u>Estimated Fiscal 2002(6)</u>
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$ 263.4	\$ 225.1	\$ 286.3	\$ 330.2	\$ 278.5	\$ 895.3
Tax Reduction Fund	231.7	91.8	367.7	6.8	7.2	33.6
Stabilization Fund	543.3	799.3	1,159.6	1,388.5	1,608.4	1,715.0
Undesignated	134.0	277.8	378.5	386.9	391.3	367.1
Fund Balance Restatement	0.6(2)	--	--	--	--	--
Total	<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>3,011.0</u>
<u>Revenues and Other Sources</u>						
Taxes	12,864.5	14,026.3	14,291.5	15,688.6	16,074.7	14,934.0
Federal Reimbursements	3,019.6	3,361.2	3,442.9	3,645.6	3,974.2	4,187.9
Departmental and Other Revenues	1,267.9	1,286.4	1,297.8	1,359.9	1,431.8	1,442.7
Interfund Transfers from Non-budgeted Funds and Other Sources	<u>1,018.0</u>	<u>1,125.9</u>	<u>1,132.8</u>	<u>1,893.0</u>	<u>1,385.9</u>	<u>1,195.4</u>
Budgeted Revenues and Other Sources	<u>18,170.0</u>	<u>19,799.8</u>	<u>20,165.0</u>	<u>22,587.1</u>	<u>22,866.6</u>	<u>21,760.0</u>
Mass Transit Assessments from Municipalities	151.5	155.6	159.9	15.8	--	--
Interfund Transfers among Budgeted Funds and Other Sources	<u>901.8</u>	<u>1,449.2</u>	<u>1,242.0</u>	<u>3,618.2(3)</u>	<u>931.0</u>	<u>253.9</u>
Total Revenues and Other Sources	<u>19,223.3</u>	<u>21,404.6</u>	<u>21,566.9</u>	<u>26,221.1</u>	<u>23,797.6</u>	<u>22,013.9</u>
<u>Expenditures and Uses</u>						
Programs and Services	15,218.8	16,238.6	17,341.1	19,330.7	19,474.3	20,753.2
Debt Service	1,275.5	1,213.4	1,173.8	1,193.3	676.0	1,384.2
Pensions	1,069.2	1,069.8	990.2	986.3	1,040.1	954.0
Interfund Transfers to Non-budgeted Funds and Other Uses	<u>385.5</u>	<u>479.9</u>	<u>739.6</u>	<u>903.8</u>	<u>950.6</u>	<u>70.9</u>
Budgeted Expenditures and Other Uses	<u>17,949.0</u>	<u>19,001.7</u>	<u>20,244.7</u>	<u>22,414.1</u>	<u>22,141.0</u>	<u>23,162.3</u>
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	151.5	155.6	159.9	15.8	--	--
Interfund Transfers among Budgeted Funds and Other Uses	<u>901.8</u>	<u>1,449.2</u>	<u>1,242.0</u>	<u>3,618.2</u>	<u>931.0</u>	<u>253.9</u>
Total Expenditures and Other Uses	<u>19,002.3</u>	<u>20,606.5</u>	<u>21,646.6</u>	<u>26,048.1</u>	<u>23,072.0</u>	<u>23,416.2</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>221.0</u>	<u>798.1</u>	<u>(79.7)</u>	<u>173.0</u>	<u>725.6</u>	<u>(1,402.3)(5)</u>
<u>Ending Fund Balances</u>						
Reserved or Designated	225.1	286.3	330.2	278.5	895.3	26.1
Tax Reduction Fund	91.8	367.7	6.8	7.2	33.6	542.5
Stabilization Fund	799.3	1,159.6	1,388.5	1,608.4	1,715.0	1,632.0
Undesignated	<u>277.8</u>	<u>378.5</u>	<u>386.9</u>	<u>391.3</u>	<u>367.1</u>	<u>(244.5)</u>
Total	<u>\$ 1,394.0</u>	<u>\$ 2,192.1</u>	<u>\$ 2,112.4</u>	<u>\$ 2,285.4</u>	<u>\$ 3,011.0</u>	<u>\$ 1,956.1</u>

SOURCE: Fiscal 1997-2001, Office of the Comptroller; fiscal 2002, Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) The fund balance restatement for fiscal 1997 is the result of the reclassification of the Drug Analysis Fund from a non-budgeted fund to a budgeted fund.
- (3) Reflects legislation in the final supplemental appropriations act for fiscal 2000 requiring the Comptroller to transfer funds from the General Fund to the Local Aid Fund and Highway Fund at the end of fiscal 2000, eliminating deficits in these funds.
- (4) Net of a projected \$654.6 million of dedicated sales tax to be transferred to the MBTA.
- (5) Under the Statutory Basis of Accounting, this deficiency would total approximately \$1.1 billion, as discussed above under the heading "RECENT DEVELOPMENTS - Fiscal 2002 - Fiscal Year 2002 Budget." The discrepancy is primarily related to approximately \$290 million of continuing appropriations from fiscal 2001, which are available for expenditure in fiscal 2002, but are not counted in fiscal 2002 revenue in this table. See the April Information Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS - Fiscal Control, Accounting and Reporting Practices of the Comptroller - Statutory Basis of Accounting".
- (6) Estimated fiscal 2002 is based on the provisional budget. It does not reflect proposed spending reductions and other actions. See this Supplement, under the heading "RECENT DEVELOPMENTS - Fiscal 2002 - Fiscal Year 2002 Budget."

In the following table, to facilitate comparison, the revenues and expenditures for fiscal years 1997 to 2000, inclusive, have been reduced by the actual amount paid to the MBTA in each of those fiscal years to reflect the transfer off-budget of MBTA subsidies beginning in fiscal 2001.

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

	<u>Fiscal 1997</u>	<u>Fiscal 1998</u>	<u>Fiscal 1999</u>	<u>Fiscal 2000</u>	<u>Fiscal 2001</u>	<u>Estimated Fiscal 2002(6)</u>
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$ 263.4	\$ 225.1	\$ 286.3	\$ 330.2	\$ 278.5	\$ 895.3
Tax Reduction Fund	231.7	91.8	367.7	6.8	7.2	33.6
Stabilization Fund	543.3	799.3	1,159.6	1,388.5	1,608.4	1,715.0
Undesignated	134.0	277.8	378.5	386.9	391.3	367.1
Fund Balance Restatement	0.6(3)	--	--	--	--	--
Total	<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>3,011.0</u>
<u>Revenues and Other Sources</u>						
Taxes	12,864.5	14,026.3	14,291.5	15,688.6	16,074.7	14,934.0
Federal Reimbursements	3,019.6	3,361.2	3,442.9	3,645.6	3,974.2	4,187.9
Departmental and Other Revenues	1,267.9	1,286.4	1,297.8	1,359.9	1,431.8	1,442.7
Interfund Transfers from Non-budgeted Funds and Other Sources	<u>1,018.0</u>	<u>1,125.9</u>	<u>1,132.8</u>	<u>1,893.0</u>	<u>1,385.9</u>	<u>1,195.4</u>
Budgeted Revenues and Other Sources	<u>18,170.0</u>	<u>19,799.8</u>	<u>20,165.0</u>	<u>22,587.1</u>	<u>22,866.6</u>	<u>21,760.0</u>
MBTA Adjustment (2)	(483.1)	(491.1)	(499.1)	(561.9)	NA	NA
Adjusted Budgeted Revenues and Other Sources	<u>17,686.9</u>	<u>19,308.7</u>	<u>19,665.9</u>	<u>22,025.2</u>	<u>22,866.6</u>	<u>21,760.0</u>
<u>Expenditures and Uses</u>						
Programs and Services	15,218.8	16,238.6	17,341.1	19,330.7	19,474.3	20,753.2
Debt Service	1,275.5	1,213.4	1,173.8	1,193.3	676.0	1,384.2
Pensions	1,069.2	1,069.8	990.2	986.3	1,040.1	954.0
Interfund Transfers to Non-budgeted Funds and Other Uses	<u>385.5</u>	<u>479.9</u>	<u>739.6</u>	<u>903.8</u>	<u>950.6</u>	<u>70.9</u>
Budgeted Expenditures and Other Uses	<u>17,949.0</u>	<u>19,001.7</u>	<u>20,244.7</u>	<u>22,414.1</u>	<u>22,141.0</u>	<u>23,162.3</u>
MBTA Adjustment (2)	(483.1)	(491.1)	(499.1)	(561.9)	NA	NA
Adjusted Expenditures and Other Uses	<u>17,465.9</u>	<u>18,510.6</u>	<u>19,745.6</u>	<u>21,852.2</u>	<u>22,141.0</u>	<u>23,162.3</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>221.0</u>	<u>798.1</u>	<u>(79.7)</u>	<u>172.9</u>	<u>725.6</u>	<u>(1,402.3)(5)</u>
<u>Ending Fund Balances</u>						
Reserved or Designated	225.1	286.3	330.2	278.5	895.3	26.1
Tax Reduction Fund	91.8	367.7	6.8	7.2	33.6	542.5
Stabilization Fund	799.3	1,159.6	1,388.5	1,608.4	1,715.0	1,632.0
Undesignated	<u>277.8</u>	<u>378.5</u>	<u>386.9</u>	<u>391.3</u>	<u>367.1</u>	<u>(244.5)</u>
Total	<u>\$ 1,394.0</u>	<u>\$ 2,192.1</u>	<u>\$ 2,112.4</u>	<u>\$ 2,285.4</u>	<u>\$ 3,011.0</u>	<u>\$ 1,956.1</u>

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

- (1) Totals may not add due to rounding. The table does not reflect interfund transfers among budgeted funds and other sources, which have no effect on the ending balance of the table. The amounts of the transfers were \$901.8 million, \$1,449.2 million, \$1,242.0 million, \$3,618.2 million, and \$931 million in fiscal years 1997-2001 respectively.
- (2) To facilitate comparison, the table has been adjusted for fiscal years 1997 through 2000, inclusive, to reflect a transfer off-budget of MBTA operations that began in fiscal 2001 by subtracting the amount of Commonwealth payments to the MBTA in each of those fiscal years.
- (3) The fund balance restatement for fiscal 1997 is the result of a reclassification of the Drug Analysis Fund from non-budgeted fund to budgeted fund.
- (4) Net of a projected \$654.6 million of dedicated sales tax to be transferred to the MBTA.
- (5) Under the Statutory Basis of Accounting, this deficiency would total approximately \$1.1 billion, as discussed above under the heading "RECENT DEVELOPMENTS - Fiscal 2002 - Fiscal Year 2002 Budget." The discrepancy is primarily related to approximately \$290 million of continuing appropriations from fiscal 2001, which are available for expenditure in fiscal 2002, but are not counted in fiscal 2002 revenue in this table. See the April Information Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS - Fiscal Control, Accounting and Reporting Practices of the Comptroller - Statutory Basis of Accounting".
- (6) Estimated fiscal 2002 is based on the provisional budget. It does not reflect proposed spending reductions and other actions. See this Supplement, under the heading "RECENT DEVELOPMENTS - Fiscal 2002 - Fiscal Year 2002 Budget."

Initiative Petitions

Voter initiative petitions for laws that the sponsors seek to have considered at the November 2002 general election were required to be filed with the Attorney General not later than August 1, 2001. An initiative petition may be filed with the Attorney General if supported by the signatures of ten voters. Twenty-four such initiative petitions were filed. Six of them, all filed by the same sponsors, would, variously, repeal the personal income tax commencing July 1, 2003, repeal the retail sales and tangible personal property excise taxes (except to the extent pledged to secure MBTA debt) commencing July 1, 2003, reset the limit on state tax revenues imposed by Chapter 62F of the General Laws as of fiscal year 2004 at \$7 billion or reset such limit as of fiscal 2004 at \$10 billion. Passage of any of these initiative petitions (absent repeal or modification by legislation) would have a substantial, material adverse effect on state revenues. See the April Information Statement under the headings “THE GOVERNMENT – Initiative Petitions” and “COMMONWEALTH REVENUES – Limitations on Tax Revenues”.

To be placed on the November 2002 ballot, an initiative petition must be certified by the Attorney General as meeting the requirements of Amendment Article 48 of the Massachusetts Constitution, supported by the signatures of 57,100 voters collected and filed by December 5, 2001 and (unless the Legislature then enacts the proposed law) supported by the signatures of an additional 9,517 voters collected and filed by early July 2002. The Attorney General certified all six of the above-mentioned petitions on September 5, 2001. The sponsors filed with the Secretary of State to begin the process of collecting signatures only the proposal to end the personal income tax, and they are believed now to be in the process of trying to obtain the required 57,100 signatures for that proposal.

COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES

Capital Spending Plan

The following table sets forth Commonwealth capital spending for fiscal years 1997 through 2001 and the Commonwealth’s five-year capital plan for fiscal years 2002 through 2006. Historical spending is presented in a manner consistent with the five-year plan. Prior to the enactment in November 1999 of legislation restructuring the finances of the Massachusetts Bay Transportation Authority, the Commonwealth’s capital plan also incorporated the MBTA’s capital plan because of the Commonwealth’s responsibility for paying debt service on the MBTA’s bonds. Effective July 1, 2000 Commonwealth support for the MBTA is limited to a portion of the state sales tax, although the Commonwealth remains contingently liable for MBTA bonds issued prior to July 1, 2000. See April Information Statement under the heading “FINANCIAL RESULTS - Massachusetts Bay Transportation Authority - Financial Restructuring.”

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

USES:	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>Est. 2002</u>	<u>Est. 2003</u>	<u>Est. 2004</u>	<u>Est. 2005</u>	<u>Est. 2006</u>
Information technology	\$ 56	\$ 86	\$ 111	\$ 68	\$ 64	\$ 85	\$ 91	\$ 115	\$ 105	\$ 105
Infrastructure	222	237	224	197	179	232	238	245	232	232
Environment	104	141	132	142	140	132	130	124	125	125
Housing	62	80	82	80	79	102	102	101	101	101
Public Safety	21	16	12	15	23	9	9	9	9	9
Transportation(2)	1,675	1,969	2,029	2,006	2,014	2,229	1,899	1,847	1,133	972
Economic development(3)	89	119	98	98	246	222	299	159	67	64
Reserve(4)	--	--	--	--	--	91	20	56	79	79
Total Uses(10)	<u>\$2,230</u>	<u>\$2,648</u>	<u>\$2,687</u>	<u>\$2,606</u>	<u>\$2,745</u>	<u>\$3,102</u>	<u>\$2,787</u>	<u>\$2,656</u>	<u>\$1,851</u>	<u>\$1,687</u>
SOURCES:										
Long-Term Debt										
GO Debt Subject to Statutory Limit	\$ 1,055(6)	\$ 1,000(7)	\$ 1,000(8)	\$ 1,000	\$ 1,007	\$ 1,150	\$ 1,150	\$ 1,150	\$ 1,150	\$ 1,150
GO Debt Not Subject to Statutory Limit	--	--	26	133	482	742	495	2	--	--
Special Obligation Debt	--	--	--	--	176	165	235	94	3	--
Grant Anticipation Notes	--	295	412	408	353	33	--	--	--	--
Operating Revenues(5)	80	159	252	96	161	141	295	611	150	100
Third-Party Payments	60	405	412	481	106	260	111	176	110	85
Federal Reimbursements	<u>1,036</u>	<u>788</u>	<u>586</u>	<u>487</u>	<u>460</u>	<u>611</u>	<u>502</u>	<u>623</u>	<u>438</u>	<u>352</u>
Total Sources(10)	<u>\$2,230</u>	<u>\$2,648</u>	<u>\$2,687</u>	<u>\$2,606</u>	<u>\$2,745</u>	<u>\$3,102</u>	<u>\$2,787</u>	<u>\$2,656</u>	<u>\$1,851</u>	<u>\$1,687</u>

SOURCES: Fiscal 1997-2001, Office of the Comptroller; Fiscal 2002-2006, Executive Office for Administration and Finance. Breakdown of Central Artery/Ted Williams Tunnel project, Central Artery/ Tunnel Project.

- (1) Totals may not add due to rounding.
- (2) Includes Central Artery/Ted Williams Tunnel project spending of \$971 million, \$1.428 billion, \$1.515 billion, \$1.464 billion and \$1.303 billion in fiscal years 1997 through 2001, respectively. Central Artery/Ted Williams Tunnel project estimated spending from fiscal 2002-2006 is \$1.472 billion, \$1.122 billion, \$984 million, \$336 million and \$135 million, respectively.
- (3) Includes amounts formerly labeled "Wastewater Treatment." For fiscal 2001 through fiscal 2005, also includes approximately \$629 million for convention centers in Boston, Worcester and Springfield that are expected to be funded permanently by special obligation bonds.
- (4) Reserve for unanticipated capital spending needs within a given fiscal year, to be allocated among the listed categories. Fiscal 2002 includes \$91 million in pay-as-you-go funds.
- (5) Estimates for fiscal 2002 through 2006, inclusive, include funds on deposit and certain dedicated fees and earnings.
- (6) Includes \$100 million in spending that was anticipated to be funded by payments from the Turnpike Authority; such payment was received June 28, 1998.
- (7) Includes \$19 million for the Worcester Convention Center expected to be funded permanently by special obligation bonds. See footnote 3.
- (8) Includes \$11 million for convention center payments expected to be funded permanently by special obligation bonds. See footnote 3.

Central Artery/Ted Williams Tunnel Project

October 2001 Finance Plan. On August 31, 2001 the Massachusetts Turnpike Authority filed with the Federal Highway Administration a revised finance plan for the Central Artery/Ted Williams Tunnel project. The plan is dated October 1, 2001, is based on a data cutoff as of March 31, 2001 and progress information as of June 30, 2001 and reflects the results of the Turnpike Authority's annual comprehensive budget review of the project. In the October 2001 finance plan the Turnpike Authority's total budget cost and contingent estimate for the project is increased from the \$14.075 billion estimated in the October 2000 finance plan to \$14.475 billion, principally to reflect additional anticipated construction costs and additional contingency. The October 2001 finance plan proposes that the \$400 million of additional funding needed to meet the new cost estimate will be provided by \$175 million of interest earnings and available borrowings in the Infrastructure Fund that exceed prior estimates, \$157 million of Commonwealth general obligation bond proceeds made available principally by providing alternative sources for capital spending on non-project roads and bridges, and \$68 million from the sale of real estate owned by the Turnpike Authority.

The October 2001 finance plan is subject to review and approval by the U.S. Secretary of Transportation. See the April Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES -- Central Artery/Ted Williams Tunnel Project". This approval has not been obtained. Unless and until it is obtained, the Department of Transportation will withhold future obligation of federal funds for the project; but given the availability of proceeds of prior obligations of federal funds and other sources, such as the Infrastructure Fund, the pendency of federal approval of the October 2001 finance plan currently is not expected to have a material adverse impact on project cash flow, assuming that obligation authority is reinstated before the end of the current federal fiscal year, September 30, 2002. The October 2001 finance plan remains subject to adjustment as a result of federal review, and its project cost and contingency estimates remain subject to revision in accordance with future developments.

Other Recent Developments. Commencing September 22, 2001, an infiltration of seawater into an excavation area on the west shore of Fort Point Channel has caused a delay of the completion of the affected segment of the I-90 (east-west) portion of the project. Preliminary analysis of this development has identified a minimum of a three-month extension to the I-90 schedule, extending the I-90 opening to December 2002 and project completion to March 2005. This analysis is preliminary and the final impact of the infiltration on construction schedule and costs has yet to be determined.

The October 2001 finance plan includes in the funding sources for the Central Artery/Ted Williams Tunnel project a total of \$365 million from the Massachusetts Port Authority, representing the purchase price to be paid by the Port Authority to the Commonwealth in exchange for the transfer to the Port Authority of certain roadway assets at Boston-Logan International Airport constructed or improved as part of the project. The Commonwealth is authorized (subject to legislative enactment of a terms bill) to issue general obligation notes in anticipation of eventual receipt of these amounts, and the Central Artery/Ted Williams Tunnel Project is authorized to spend in anticipation of those payments. Approximately \$160 million of the amount has already been paid by the Port Authority. The remaining amount of approximately \$205 million is scheduled to be paid in one installment of approximately \$105 million on December 31, 2002 and two installments of \$50 million each on December 31, 2003 and December 31, 2004. The flights of the two commercial airliners which were hijacked by terrorists on September 11, 2001 and used to destroy the World Trade Center in New York City had originated at Boston-Logan International Airport. In the wake of the attack, the Port Authority continues to experience reduced air operations and revenues as well as increases in certain expenses, the duration and ultimate financial impact of which cannot currently be predicted. The outstanding debt of the Port Authority has been placed on watch status, with negative implications, by the national credit rating services. In addition, it is possible that claims will be asserted against the Port Authority for damages arising from the events of September 11, 2001. Under present circumstances there may be a material question whether the Port Authority will be able to pay to the Commonwealth in full and at the times provided the remaining installments of its obligation to purchase roadway assets included in the project.

The October 2001 finance plan provides for \$1.706 billion of the estimated project cost to be paid by the Turnpike Authority. Of that amount approximately \$306 million in the aggregate remains to be paid in fiscal 2002, 2004 and 2005. On October 30, 2001 the Turnpike Authority board of directors voted to implement a toll increase at Turnpike Authority highway and tunnel facilities on July 1, 2002. The increase had been anticipated to become

effective on or about January 1, 2002. The financial plans of the Turnpike Authority relating to the Metropolitan Highway System anticipate that a variety of presently planned expenditures subordinate to its debt service obligations on outstanding bonds in upcoming years, including all presently planned expenditures relating to the project, will be made from available fund balances. The delay of the implementation of the toll increase to July 1, 2002 will reduce the funds available to make these expenditures by approximately \$30 million. The board has instructed the staff to study possible alternative sources of revenues and funds and possible means of reducing or rescheduling these expenditures. A motion has been placed on the agenda for the next board meeting, currently scheduled for November 13, 2001, combining a proposed mix of toll reinstatements and deferrals of Metropolitan Highway System and Turnpike capital improvements anticipated to generate approximately \$38.4 million. Without the identification of additional revenues or funds or a reduction or rescheduling of presently planned expenditures, the Turnpike Authority currently projects a shortfall in funds available to pay presently planned expenditures subordinate to debt service beginning in fiscal year 2004. Such projections are subject to ongoing revision.

The Turnpike Authority has initiated negotiations with its management consultant for the Central Artery/Ted Williams Tunnel project, to modify the remaining four years of the existing five-year consulting contract on matters relating to performance and cost issues. No prediction can be made as to the outcome of the negotiations or the effect on the project.

Update of Proposed Capital Spending Authorizations

On June 7, 2001 the Acting Governor filed a deauthorization bill totaling \$327 million and a bond bill proposing approximately \$1.55 billion in new general obligation bond authorizations, including \$750 million for environmental projects, \$315 million for state-owned facility infrastructure improvements, \$300 million for information technology projects, \$60 million for public safety improvements and \$10 million to continue the historic grant program. The deauthorization bill also proposes additional deauthorization of accounts with the Information Technology Division and the Executive Office of Environmental Affairs contingent upon passage of new authorizations. Should new authorization be enacted, total deauthorizations could reach \$770 million. The House Committee on Long-Term Debt and Capital Expenditures released its deauthorization bill on July 6, 2001.

A \$508.5 million housing bond bill is currently under consideration by conference committee. There are several bond bills pending in the House, which include \$190 million for repairs and renovations to state-owned facilities and higher education campuses through the Division of Capital Asset Management, \$83.6 million for the Information Technology Division, \$61.5 million for the Executive Office of Public Safety, \$40 million for Public Works and Economic Development grants through the Executive Office of Transportation and Construction, and \$10 million for equipment for the Trial Courts.

General Authority to Borrow and Types of Long-Term Liabilities

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

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

	<u>Long-Term (2)</u>	<u>Short-Term</u>
COMMONWEALTH DEBT		
General Obligation Debt	\$ 12,054,771 (3)	\$ 550,000(5)
Special Obligation Debt	542,195	-
Federal Grant Anticipation Notes	<u>1,499,325(4)</u>	<u>-</u>
Subtotal Commonwealth Debt	<u>14,096,291</u>	<u>550,000</u>
DEBT RELATED TO GENERAL OBLIGATION CONTRACT ASSISTANCE LIABILITIES (1)		
Massachusetts Convention Center Authority	46,926	-
Massachusetts Development Finance Agency	63,000	-
Foxborough Industrial Development Financing Authority	<u>68,505</u>	<u>-</u>
Subtotal GO Contract Assistance Debt	<u>178,431</u>	<u>-</u>
TOTAL	<u>\$14,274,722</u>	<u>\$550,000</u>

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

- (1) Does not include general obligation contract assistance liabilities to the Massachusetts Water Pollution Abatement Trust and the Massachusetts Turnpike Authority. See the April Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - General Obligation Contract Assistance Liabilities."
- (2) Long-term debt includes discount and costs of issuance.
- (3) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from October 1, 2001 through their maturity in the amount of \$93.6 million.
- (4) Includes capital appreciation interest accrued from October 1, 2001 through their maturity in the amount of \$42.7 million.
- (5) Includes \$350 million of general obligation bond anticipation notes due September 1, 2003 which were issued to finance costs associated with the construction of the Boston Convention and Exhibition Center and other capital projects. (To the extent the proceeds of such notes are expended for the convention center, such notes are expected to be paid from the proceeds of special obligation bonds that can lawfully be issued regardless of the completion status of the convention center. See the April Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - Special Obligation Debt - *Boston Convention and Exhibition Center Fund*"). Also includes \$200 million of commercial paper issued as bond anticipation notes. Does not include an additional \$50 million of commercial paper issued as bond anticipation notes on October 12, 2001. See the April Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - General Obligation Debt - *Notes*."

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

<u>June 30</u>	General Obligation Bonds (3)	Dedicated Income Tax Debt	Special Obligation Debt	Federal Grant Anticipation Notes	Commonwealth Long-Term Debt Subtotal (2)	GO Contract Assistance Debt (4)	<u>Total</u>
1997	\$ 9,620,633	\$ 129,900	\$ 520,760	--	\$ 10,271,293	\$ 145,314	\$ 10,416,607
1998	9,872,598	--	606,005	\$ 600,000	11,078,603	201,904	11,280,507
1999	10,301,011	--	585,730	921,720	11,808,461	174,884	11,983,345
2000	10,896,896	--	564,485	921,720	12,383,101	213,789	12,596,890
2001	11,957,934	--	542,195	1,499,325	13,999,454	189,489	14,188,940
2002(5)	12,054,771	--	542,195	1,499,325	14,096,291	178,431	14,274,722

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

- (1) Totals may not add due to rounding.
- (2) Outstanding bond liabilities include discount and costs of issuance.
- (3) Does not include dedicated income tax debt issued in fiscal 1991 and retired in fiscal 1998, which was general obligation debt also secured by a special pledge of income tax receipts. Commonwealth general obligation bonds include interest on capital appreciation bonds yet to be accrued from the end of the fiscal year indicated through their maturity in the following approximate amounts; fiscal 1997 - \$198.6 million; fiscal 1998 - \$305.8 million; fiscal 1999 - \$315.4 million; fiscal 2000 - \$286.8 million; and fiscal 2001 - \$433.8 million, fiscal 2002 - \$386.5 million.
- (4) Includes bonds of the Massachusetts Convention Center Authority, the Massachusetts Development Finance Agency (as successor to the Massachusetts Government Land Bank) and the Foxborough Industrial Development Financing Authority.
- (5) As of October 1, 2001.

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

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

<u>June 30</u>	<u>Amount (1)(2)</u> <u>(in thousands)</u>	<u>Net of CAB Interest</u> <u>Yet to be Accrued</u> <u>(in thousands)</u>	<u>Per Capita(3)</u>	<u>Ratio to Full Value</u> <u>of Real Estate (4)</u>	<u>Ratio to Personal</u> <u>Income (5)</u>
1997	\$ 10,416,607	\$ 10,218,007	\$ 1,670	2.71	5.35
1998	11,280,507	10,974,707	1,794	2.69	5.23
1999	11,983,345	11,667,945	1,889	2.86	5.32
2000	12,596,890	12,328,090	1,942	2.54	5.62
2001	14,188,940	13,956,105	2,198	2.87	6.35
2002(6)	14,274,722	13,888,148	2,187	2.86	6.32

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

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

LEGAL MATTERS

Update of Existing Litigation

Shwachman v. Commonwealth of Massachusetts. The Commonwealth, through its Division of Capital Asset Management, recently took by eminent domain certain property in Worcester to build a new courthouse for Worcester County. Although no case has yet been filed challenging the amount paid by the Commonwealth, it is anticipated that the owner will file an eminent domain action seeking compensation over and above the amount already paid by the Commonwealth for the land. The plaintiff may seek an additional \$30 million in such an action.

Athol Memorial Hospital et al. v. Commissioner of the Division of Medical Assistance, Suffolk Superior Court No. 99-2115-E, and related cases. The cases were consolidated in the Superior Court. On January 19, 2001, the Court dismissed each case. Plaintiffs have appealed.

Lopes v. Commonwealth, Suffolk Superior Court C.A. No. 01-1337-BLS. The relief sought by plaintiffs would cost the Commonwealth more than \$100 million. In September 2001, the Commonwealth filed a motion to dismiss the case.

United States v. MWRA. The United States Court of Appeals for the First Circuit affirmed the judgment of the District Court, and thus upheld the ruling of the District Court that the MWRA need not build a water filtration system.

Wellesley College v. Commonwealth, Suffolk Superior Court. On September 5, 2001, the court entered judgment incorporating a partial settlement between the parties, under which the College will fund a clean up of hazardous materials at the campus and the northern shoreline of Lake Waban expected to cost approximately \$30 million. Subject to legislative appropriation, the Commonwealth will reimburse the College up to a maximum of \$1.4 million once the Department of Environment Protection determines that the clean up has been properly performed. The clean up of the remainder of Lake Waban, downstream areas and groundwater is not addressed under the current clean up plan, as the Department has not yet selected a remedy for these areas. Once a remedy is determined and costs are known, negotiations may be reopened with the College. The Commonwealth and the College have reserved their rights against each other regarding liability for the future clean up costs.

First National Bank of Boston v. Commissioner of Revenue, Appellate Tax Board No. F232249. The bank and the Commissioner entered a settlement agreement on August 31, 2001, for \$ 27.5 million.

Atlanticare Medical Center v. Commissioner of the Division of Medical Assistance, Appeals Court, Suffolk Superior Court No. 00-1451-H (no Appeals Court Docket Number yet). This case involves the Division of Medical Assistance's issuance of overpayment notices when the Division has paid provider claims and then identifies the presence of third party insurance. The Division recoups the payments and requires the providers to bill the third party insurer. After the insurer has processed the providers' claims for payment, the Division will pay the provider if the insurer denies the claim or will pay part of the claim if the insurer pays less than the amount the Division would pay in the absence of insurance. In this case, eight hospitals challenged the Division's authority to require the hospitals to bill the insurers, and instead wanted the Division to obtain the payment directly from the insurer. The Superior Court ruled that the Division's regulations violated federal law. The Division appealed. An adverse decision in the Appeals Court could cost the Division approximately \$20 million each year in lost recoveries due to Medicare prohibitions on the Division billing providers and which, in any event, would be difficult for the Division to pursue without the detailed information providers have about each case.

Perini Corp., Kiewit Constr. Corp., Jay Cashman, Inc., d/b/a Perini - Kiewit - Cashman Joint Venture v. Commonwealth. In six consolidated cases and related potential litigation, plaintiffs make claims for alleged increased costs arising from differing site conditions and other causes of delay on the Central Artery/Tunnel Project. Potential liability for the asserted and threatened claims is \$150 million.

Tolman v. Finneran, United States District Court, C.A. No. 01-10756-PBS. The plaintiff gubernatorial candidate seeks to force the Legislature to appropriate additional money, and the state Office of Campaign and Political Finance to release that money, to implement the Clean Elections Law, G.L. c. 55A. \$23 million has already

been set aside in a separate Clean Elections Fund but would have to be appropriated in order to be released for expenditure. Full cost of implementing the Clean Elections system for the 2002 election cycle (which is what the plaintiff seeks) has been estimated at \$44 million. The defendants' motion to dismiss on legislative immunity, 11th Amendment immunity, and other grounds (including failure to state any claim in violation of the plaintiff's federal constitutional rights) was heard on September 26, 2001.

Massachusetts Ambulance Association, Inc. v. Division of Medical Assistance, Suffolk Superior Court No. 00-1262-B. The plaintiff private ambulance companies allege that Medicaid's rates of reimbursement for ambulance services are unlawfully insufficient. The complaint includes a confiscation claim for the period covering March 1, 1998, through the present that could, in theory, establish a loss to the Commonwealth of approximately \$30 million. Other smaller claims could add a few million more to the total potential liability. We are planning to file a motion for summary judgment in the near future. If liability is established, after trial or otherwise, proof of damages would be extremely complex.

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

AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding this Information Statement or requests for additional information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900 (x. 564), or to Laura Guadagno, Assistant Secretary for Capital Resources and Chief Development Officer, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Information Statement should be directed to Lawrence D. Bragg, III, Ropes & Gray, One International Place, Boston, Massachusetts 02110, telephone (617) 951-7000.

THE COMMONWEALTH OF MASSACHUSETTS

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

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

October 31, 2001

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ECONOMIC INFORMATION

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

All information is presented on a calendar-year basis unless otherwise indicated. **Information is current as of September 28th, 2001.** Sources of information are indicated in the text or immediately following the charts and tables. Although the Commonwealth considers the sources to be reliable, the Commonwealth has made no independent verification of the information presented herein and does not warrant its accuracy.

Statistical Overview

<u>Population</u> (p. A-2)	<u>Massachusetts</u>	<u>United States</u>
Percentage Change in Population, 1999–2000*	2.8%	4.1%
<u>Personal Income, Consumer Prices, and Poverty</u> (p. A-7)		
Per Capita Personal Income, 2000	\$37,992	\$29,676
Average Annual Pay, 1999(p)	\$44,326	\$35,296
Percentage Change in CPI-U, 1999-2000**	4.3%	3.4%
Percentage Change in CPI-U, July 2000–July 2001**	4.9%	2.7%
Poverty Rate, 1999	10.2%	12.3%
Average Weekly Manufacturing Earnings, Aug. 2001(p)	\$622.49	\$607.92
Percentage Change in Manufacturing Earnings, Aug. 2000-Aug. 2001(p)	2.4%	2.3%
<u>Employment</u> (p. A-16)		
Unemployment Rate, 2000	2.6%	4.0%
Unemployment Rate, May 2001	3.9%	4.9%
<u>Economic Base and Performance</u> (p. A-25)		
Percentage Change in Gross State Product, 1998–1999	7.8%	6.3%
Percentage Change in International Exports, 1999–2000	21.3%	12.6%
Percentage Change in Housing Permits Authorized, 1999–2000	-8.6%	-6.0%
<u>Human Resources and Infrastructure</u> (p. A-38)		
Expenditure Per Pupil, 1998	\$7,778	\$6,189
Percentage Adults with a Bachelor’s Degree, March 2000	32.7%	25.6%

*Note: Percentages may be exaggerated pending updates to 1999 estimates.

** Note: Percentage changes in CPI-U data are for Boston and the U.S.

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

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

POPULATION CHARACTERISTICS

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

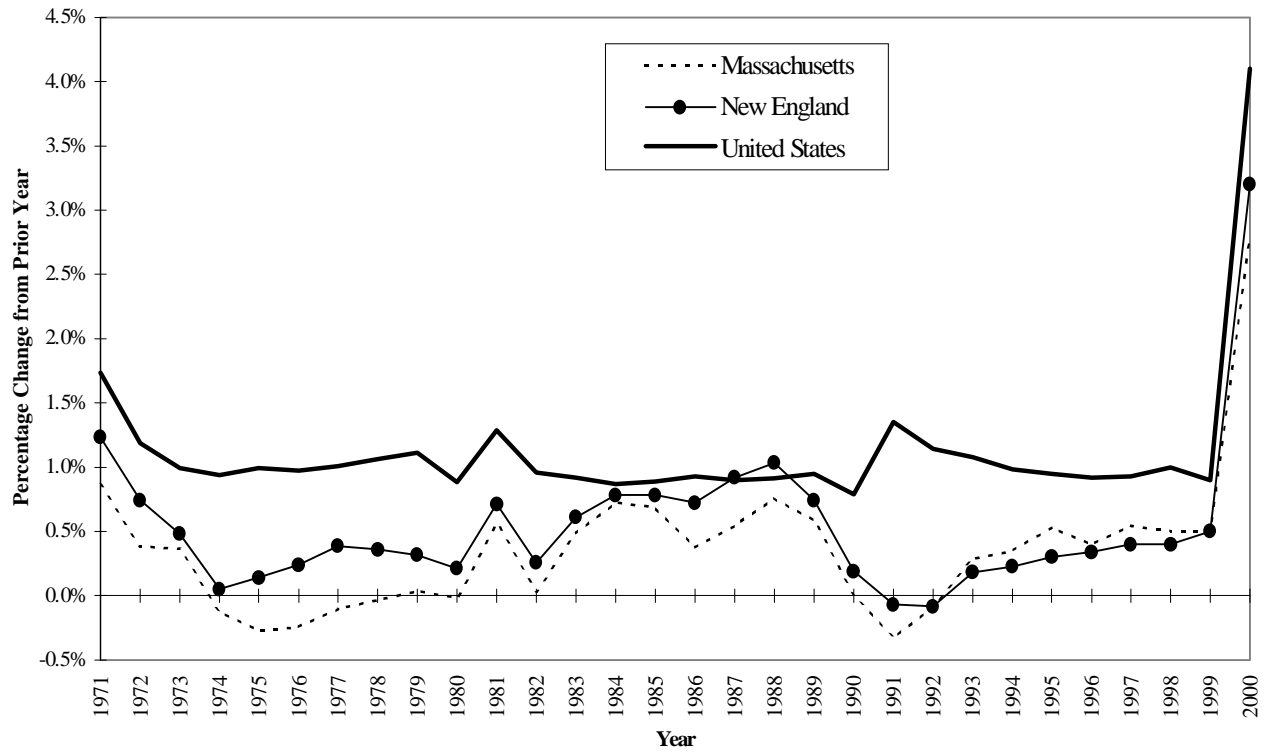
The State's population is concentrated in its eastern portion. The City of Boston is the largest city in New England, with a 2000 population of 589,141. Boston is the hub of the Boston-Worcester-Lawrence, MA-NH-ME-CT Consolidated Metropolitan Statistical Area ("CMSA"), which also includes all of southeastern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

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

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

As the following chart indicates, the percentage change in population in Massachusetts since 1971 has been both lower and more erratic than the change in population for the United States as a whole. While this trend is similar to that experienced by New England, it differs considerably from the steady growth rates for the United States over the same period of time.

Percentage Change in Total Population, 1971-2000



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

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

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

Population, 1970-2000
(in thousands)

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

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

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

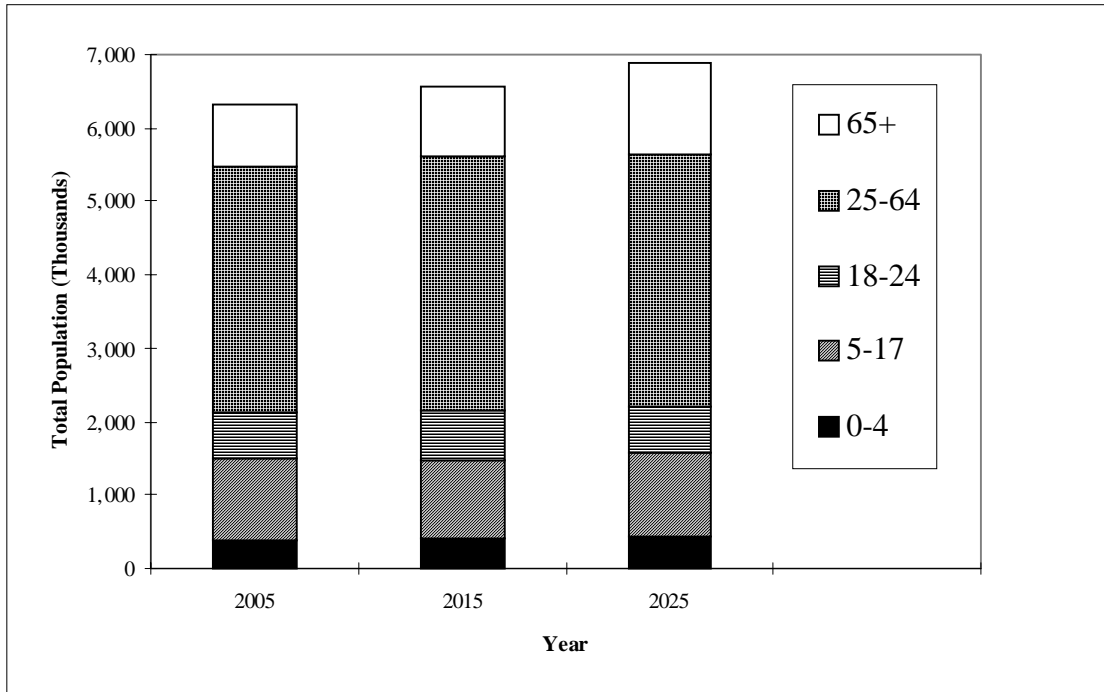
The next fifteen years are expected to bring about a considerable change in the age distribution of the Massachusetts population. As the following table and chart show, the population of Massachusetts is expected to be distributed more heavily in the 65 and over age groups in 2015 and in 2025. The chart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

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

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

SOURCE: United States Department of Commerce, Bureau of the Census.
Note: Projections made prior to the 2000 Census.

Projected Massachusetts Population By Age Group, 2005-2025



SOURCE: United States Department of Commerce, Bureau of the Census.
Note: Projections made prior to the 2000 Census.

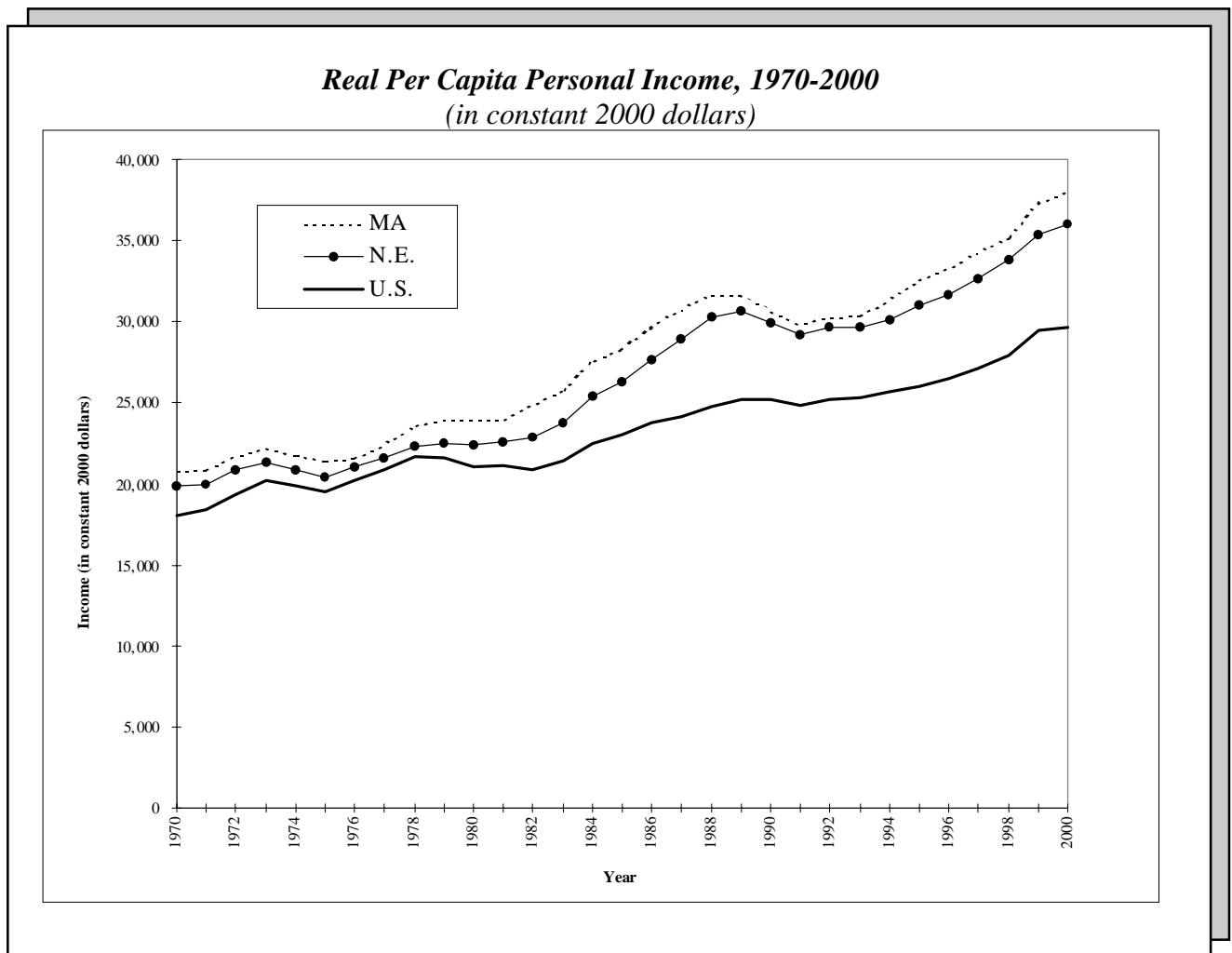
**Massachusetts Population by County
1990 and 2000 Census**

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

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

PERSONAL INCOME, CONSUMER PRICES, AND POVERTY

Personal Income. Since 1970, real and nominal per capita income levels have been consistently higher in Massachusetts than in the United States. After growing at an annual rate higher than that for the United States between 1982 and 1988, real income levels in Massachusetts declined between 1989 and 1991. Real per capita income levels in Massachusetts have increased faster than the national average between 1993 and 1997, showing growth rates between 0.3 and 3.8 percent in this period. In 1999 Massachusetts had its highest per capita income growth in 15 years, exceeding the national growth rate by 1.6 percentage points, and in 2000 Massachusetts exceeded the national growth rate by 1.2 percentage points. Both real and nominal income levels in Massachusetts are now at their highest rates ever, and both remain well above the national average. Massachusetts had the second highest level of per capita personal income in the United States in 2000. The following chart illustrates real per capita personal income in Massachusetts, New England, and the United States since 1970.



The following table compares per capita personal income in Massachusetts, New England, and the United States for the period 1970-2000.

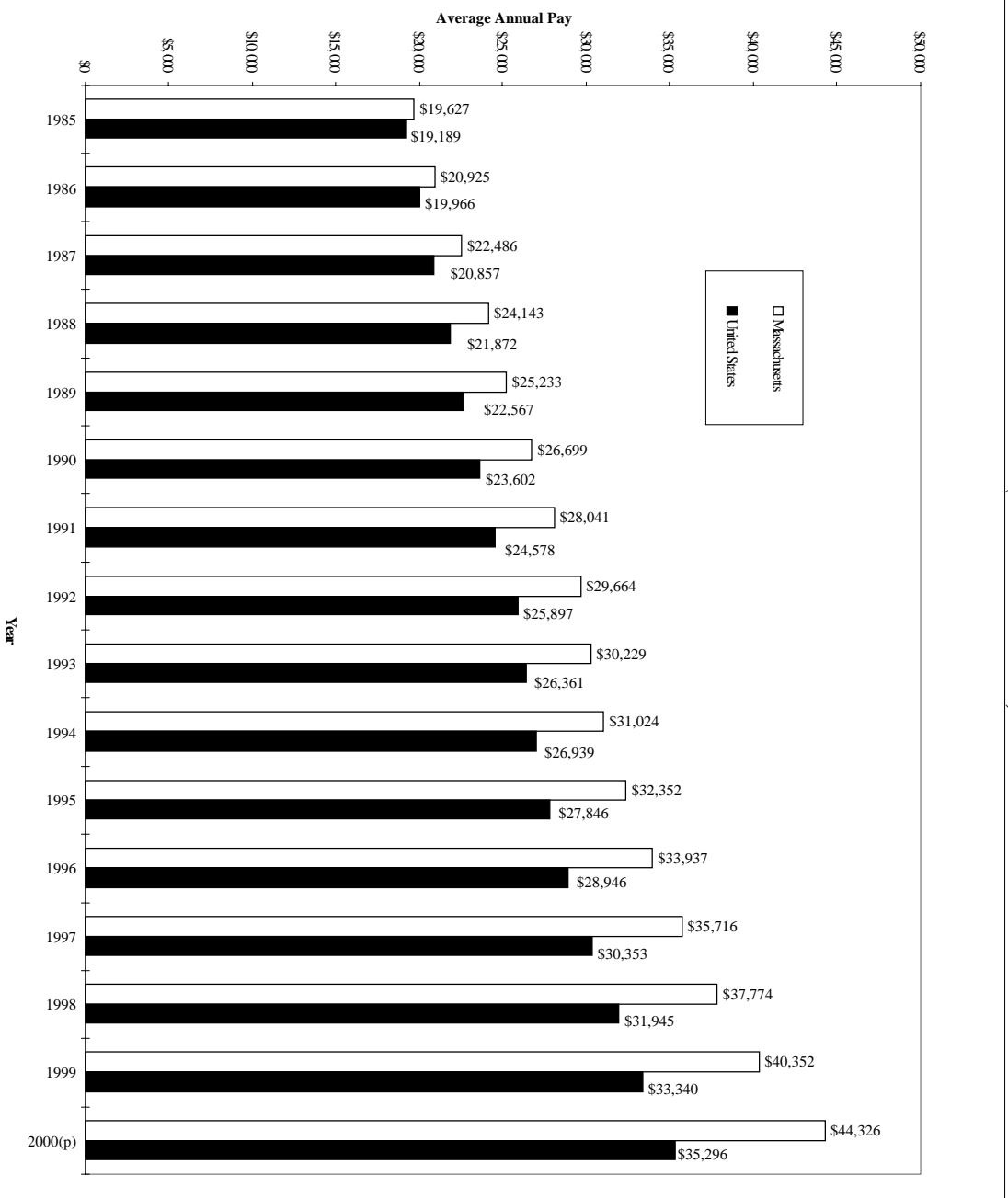
Per Capita Personal Income, 1970-2000

Year	Nominal Income (in current dollars)			Real Income (in 2000 dollars)			Percentage Change in Real Income		
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.
1970	\$4,547	\$4,479	\$4,077	\$20,767	\$19,878	\$18,094			
1971	4,804	4,702	4,327	20,901	19,992	18,398	0.6%	0.6%	1.7%
1972	5,162	5,054	4,699	21,687	20,821	19,358	3.8%	4.1%	5.2%
1973	5,600	5,504	5,211	22,206	21,347	20,210	2.4%	2.5%	4.4%
1974	6,074	5,978	5,676	21,781	20,881	19,826	-1.9%	-2.2%	-1.9%
1975	6,495	6,375	6,100	21,371	20,405	19,525	-1.9%	-2.3%	-1.5%
1976	7,042	6,962	6,690	21,549	21,070	20,246	0.8%	3.3%	3.7%
1977	7,684	7,606	7,334	22,358	21,613	20,840	3.8%	2.6%	2.9%
1978	8,536	8,455	8,196	23,603	22,331	21,646	5.6%	3.3%	3.9%
1979	9,552	9,478	9,118	23,958	22,481	21,627	1.5%	0.7%	-0.1%
1980	10,780	10,705	10,062	23,961	22,371	21,028	0.0%	-0.5%	-2.8%
1981	11,978	11,899	11,144	23,956	22,541	21,111	0.0%	0.8%	0.4%
1982	12,945	12,787	11,715	24,887	22,818	20,905	3.9%	1.2%	-1.0%
1983	14,009	13,748	12,356	25,772	23,769	21,362	3.6%	4.2%	2.2%
1984	15,703	15,319	13,571	27,536	25,389	22,492	6.8%	6.8%	5.3%
1985	16,842	16,420	14,410	28,265	26,278	23,061	2.6%	3.5%	2.5%
1986	18,100	17,610	15,106	29,618	27,668	23,734	4.8%	5.3%	2.9%
1987	19,600	19,075	15,945	30,731	28,915	24,170	3.8%	4.5%	1.8%
1988	21,417	20,810	17,038	31,660	30,291	24,801	3.0%	4.8%	2.6%
1989	22,634	22,103	18,153	31,650	30,695	25,209	0.0%	1.3%	1.6%
1990	23,210	22,741	19,156	30,679	29,962	25,238	-3.1%	-2.4%	0.1%
1991	23,590	23,078	19,623	29,870	29,178	24,810	-2.6%	-2.6%	-1.7%
1992	24,538	24,150	20,547	30,317	29,641	25,219	1.5%	1.6%	1.6%
1993	25,333	24,903	21,220	30,419	29,677	25,288	0.3%	0.1%	0.3%
1994	26,433	25,934	22,056	31,331	30,134	25,628	3.0%	1.5%	1.3%
1995	28,097	27,439	23,059	32,526	31,004	26,055	3.8%	2.9%	1.7%
1996	29,591	28,872	24,164	33,269	31,687	26,520	2.3%	2.2%	1.8%
1997	31,239	30,427	25,288	34,160	32,645	27,131	2.7%	3.0%	2.3%
1998	32,902	32,007	26,482	35,182	33,814	27,977	3.0%	3.6%	3.1%
1999	35,733	34,264	28,518	37,276	35,416	29,477	6.0%	4.7%	5.4%
2000	37,992	35,983	29,676	37,992	35,983	29,676	1.9%	1.6%	0.7%

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

Annual pay in nominal dollars has grown steadily in Massachusetts over the past ten years. Average annual pay is computed by dividing the total annual payroll of employees covered by Unemployment Insurance programs by the average monthly number of employees. Data are reported by employers covered under the Unemployment Insurance programs. While levels of annual pay were nearly equal in Massachusetts and the United States in 1984, average annual pay levels in Massachusetts have grown more rapidly than the national average since that time. Following a period between 1985 and 1992 in which average annual pay levels in Massachusetts grew at a rate between 5 and 7 percent, growth slowed to less than 3 percent in 1993 and 1994. However, growth levels have exceeded 4 percent in the past six years and, as a result, preliminary estimates show that the level of annual pay in Massachusetts in 2000 was 26 percent higher than the national average: \$44,326(p) compared to \$35,296(p). In 2000, average annual pay levels in Massachusetts had the highest growth rates in the nation and remained the fourth highest levels in the nation.

Average Annual Pay, 1985-1999
(in current dollars)



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

Median Household Income Estimates, 1995-1998
(Small Area Income and Poverty Estimates)

<i>Year</i>	<i>MA</i>	<i>U.S.</i>	<i>Percent MA above U.S.</i>
1995	\$39,025	\$34,076	14.52%
1996	\$40,686	\$35,492	14.63%
1997	\$43,015	\$37,005	16.24%
1998	\$44,934	\$38,885	15.56%

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

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

Wage and Salary Disbursements, Yearly Averages, 1990-1999
(in millions of dollars)

<i>Year</i>	<i>U.S.</i>	<i>N.E.</i>	<i>MA</i>	<i>MA as a pct. of N.E.</i>
1990	\$ 2,743,643	\$171,476	\$83,145	48.5%
1991	2,812,323	170,387	82,342	48.3%
1992	2,974,791	177,918	86,074	48.4%
1993	3,079,080	183,355	89,111	48.6%
1994	3,232,379	190,869	93,272	48.9%
1995	3,421,108	202,237	99,350	49.1%
1996	3,623,084	214,074	105,794	49.4%
1997	3,885,685	230,761	113,977	49.4%
1998	4,187,665	248,623	123,536	49.7%
1999	4,468,923	267,025	134,455	50.4%

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

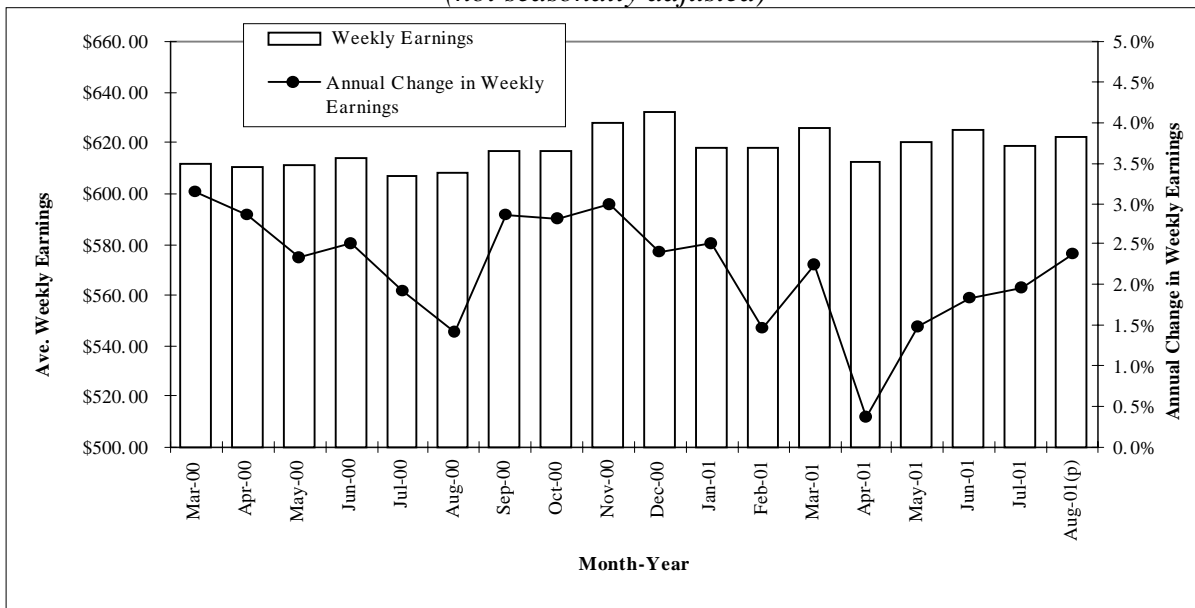
Manufacturing Hours and Earnings. Recent increases in manufacturing employment have been accompanied by increases in manufacturing earnings, with weekly earnings in the manufacturing sector growing at a rate of 2.4 percent over the past year. While this growth can be attributed largely to an increase in average hourly earnings (from \$14.63 in August 2000 to \$15.37 in August 2001(p)), it is important to note that employees in the manufacturing sector have averaged 42 or more work hours per week in 6 of the past 18 months. The following table shows average weekly hours, hourly earnings, weekly earnings, and the percentage change in weekly earnings compared to the same month in the previous year. Data are not adjusted to reflect seasonal variations in employment and compensation levels.

**Average Weekly Manufacturing Hours and Earnings in Massachusetts,
March 2000 – August 2001 (p)**
(not seasonally adjusted)

Month	Weekly Hours	Hourly Earnings	Weekly Earnings	Annual Change in Weekly Earnings
Mar-00	42.2	\$14.52	\$611.90	3.2%
Apr-00	42.0	14.56	610.26	2.9%
May-00	41.9	14.60	611.32	2.3%
Jun-00	42.2	14.61	613.59	2.5%
Jul-00	41.5	14.76	607.11	1.9%
Aug-00	42.0	14.63	607.98	1.4%
Sep-00	41.8	14.76	616.97	2.9%
Oct-00	41.4	14.87	616.69	2.8%
Nov-00	42.2	14.88	627.94	3.0%
Dec-00	42.3	14.94	631.96	2.4%
Jan-01	41.3	14.96	617.85	2.5%
Feb-01	41.1	15.03	617.73	1.5%
Mar-01	41.3	15.15	625.70	2.3%
Apr-01	40.4	15.16	612.46	0.4%
May-01	40.9	15.17	620.45	1.5%
Jun-01	41.0	15.24	624.84	1.8%
Jul-01	40.3	15.36	619.01	2.0%
Aug-01(p)	40.5	15.37	622.49	2.4%

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

**Average Weekly Manufacturing Earnings in Massachusetts,
March 2000—August 2001 (p)**
(not seasonally adjusted)



SOURCE: United States Department of Labor, Bureau of Labor Statistics.
Note: Vertical axis does not begin at zero.
(p)=preliminary estimates.

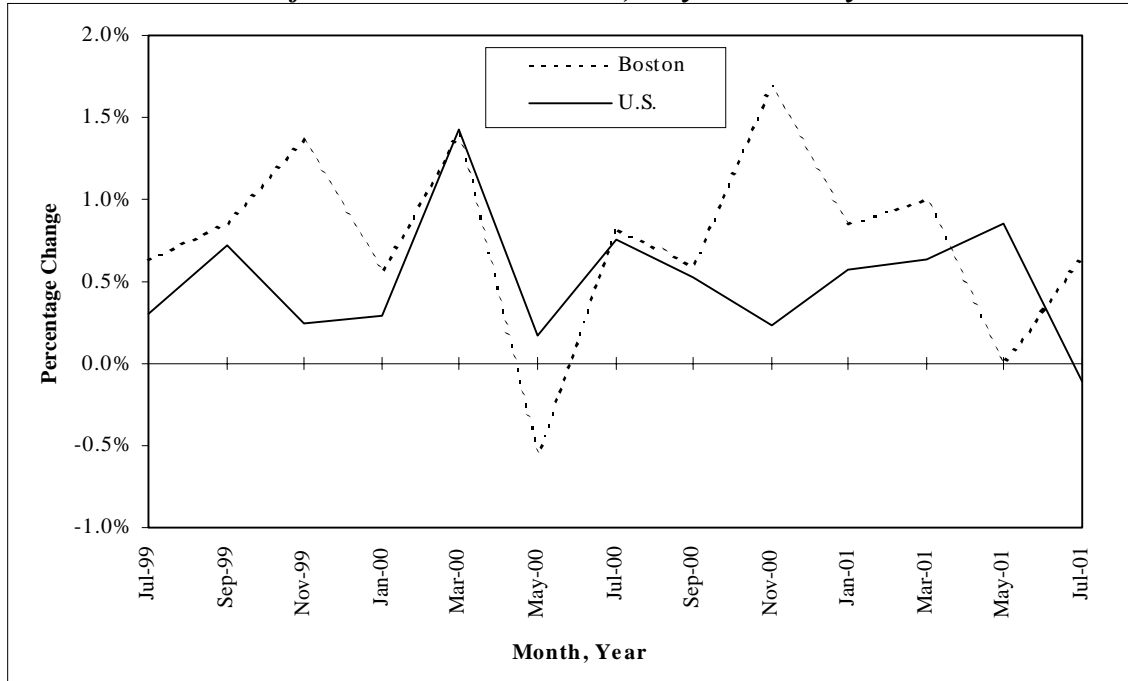
Consumer Prices. Higher income levels in Massachusetts relative to the rest of the United States are offset to some extent by the higher cost of living in Massachusetts. The following table presents consumer price trends for the Boston metropolitan area and the United States for the period between 1970 and 2000. Data reflect changes to methodology made by the Bureau of Labor Statistics in January 1998 and indicate the Consumer Price Index for all urban consumers (CPI-U) and the percentage change in the Consumer Price Index for all urban consumers from the previous year. In 2000, the CPI-U for Boston increased 4.3 percent compared to an increase of 3.4 percent for the United States as a whole. The latest available data for July 2001 show that the CPI-U for the Boston metropolitan area grew at a rate of 4.9 percent from July 2000 compared with 2.7 percent for the U.S.

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

Year	Boston		U.S.	
	CPI-U	Pct. Change	CPI-U	Pct. Change
1970	40.2		38.8	
1971	42.2	5.0%	40.5	4.4%
1972	43.7	3.6%	41.8	3.2%
1973	46.3	5.9%	44.4	6.2%
1974	51.2	10.6%	49.3	11.0%
1975	55.8	9.0%	53.8	9.1%
1976	60.0	7.5%	56.9	5.8%
1977	63.1	5.2%	60.6	6.5%
1978	66.4	5.2%	65.2	7.6%
1979	73.2	10.2%	72.6	11.3%
1980	82.6	12.8%	82.4	13.5%
1981	91.8	11.1%	90.9	10.3%
1982	95.5	4.0%	96.5	6.2%
1983	99.8	4.5%	99.6	3.2%
1984	104.7	4.9%	103.9	4.3%
1985	109.4	4.5%	107.6	3.6%
1986	112.2	2.6%	109.6	1.9%
1987	117.1	4.4%	113.6	3.6%
1988	124.2	6.1%	118.3	4.1%
1989	131.3	5.7%	124.0	4.8%
1990	138.9	5.8%	130.7	5.4%
1991	145.0	4.4%	136.2	4.2%
1992	148.6	2.5%	140.3	3.0%
1993	152.9	2.9%	144.5	3.0%
1994	154.9	1.3%	148.2	2.6%
1995	158.6	2.4%	152.4	2.8%
1996	163.3	3.0%	156.9	3.0%
1997	167.9	2.8%	160.5	2.3%
1998	171.7	2.3%	163.0	1.6%
1999	176.0	2.5%	166.6	2.2%
2000	183.6	4.3%	172.2	3.4%
Jul-00	183.2		172.8	
Jul-01	192.1	4.9%	177.5	2.7%

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

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



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

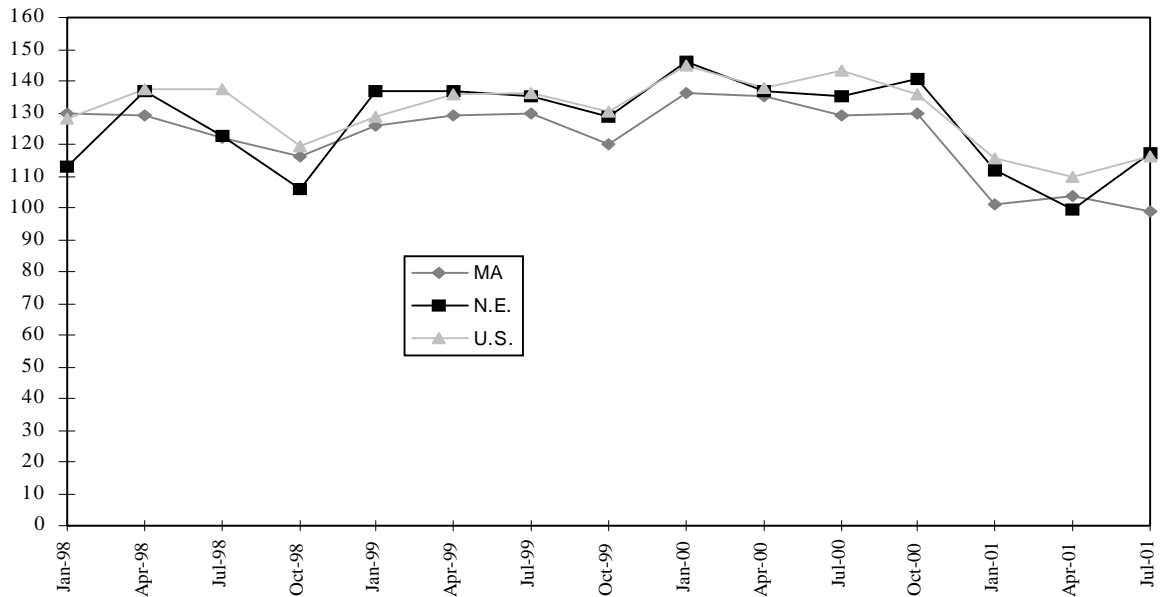
Consumer Confidence, Present Situation, and Future Expectations. These three measures offer different insight into consumer attitudes. The U.S. and New England measures are compiled from a national monthly survey of 5,000 households and are published by The Conference Board, Inc. The measures for Boston are conducted in a similar manner and published by the New England Economic Project (NEEP), based on the polling of 500 adult residents of Massachusetts. “Consumer confidence” is a measure of consumer optimism regarding overall economic conditions. “Future expectations” focuses on consumers’ attitudes regarding business conditions, employment, and employment income for the coming six months. “Present situation” measures the same attitudes as future expectations but at the time of the survey. Although the U.S. and the New England measures are compiled by a different source than the Boston measures, according to the Federal Reserve Bank of Boston the numbers are generally comparable. The following table and chart detail these three measures since 1998.

**Tri-Monthly Consumer Confidence, Present Situation, and Future Expectations
for Massachusetts, New England, and the U.S., 1998 – 2001**
(Not Seasonally Adjusted, except United States (1985=100))

	Consumer Confidence			Present Situation			Future Expectations		
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.
Jan-98	130.0	113.0	128.3	142.0	144.2	159.3	122.0	92.2	107.7
Apr-98	129.0	136.5	137.2	145.0	168.2	169.3	119.0	115.4	115.8
Jul-98	122.0	122.7	137.2	145.0	166.9	172.9	107.0	93.2	113.4
Oct-98	116.0	106.1	119.3	141.0	170.4	165.2	101.0	63.3	88.7
Jan-99	126.0	136.8	128.9	148.0	173.2	172.9	111.0	112.6	99.6
Apr-99	129.0	136.9	135.5	148.0	185.4	175.5	116.0	104.6	108.8
Jul-99	130.0	135.1	136.2	150.0	194.9	179.2	116.0	95.3	107.6
Oct-99	120.0	128.8	130.5	154.0	181.6	173.9	98.0	93.6	101.5
Jan-00	136.0	145.9	144.7	151.0	193.1	183.1	125.0	114.5	119.1
Apr-00	135.0	136.5	137.7	155.0	195.7	179.8	122.0	97.0	109.7
Jul-00	129.0	135.4	143.0	156.0	196.9	186.8	111.0	94.4	113.7
Oct-00	130.0	140.7	135.8	157.0	195.5	176.8	111.0	104.1	108.4
Jan-01	101.0	111.9	115.7	139.0	173.9	170.4	76.0	70.5	79.3
Apr-01	104.0	99.5	109.9	124.0	161.7	156.0	91.0	58.0	79.1
Jul-01	99.0	117.5	116.3	108.0	170.8	151.3	93.0	82.0	92.9

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

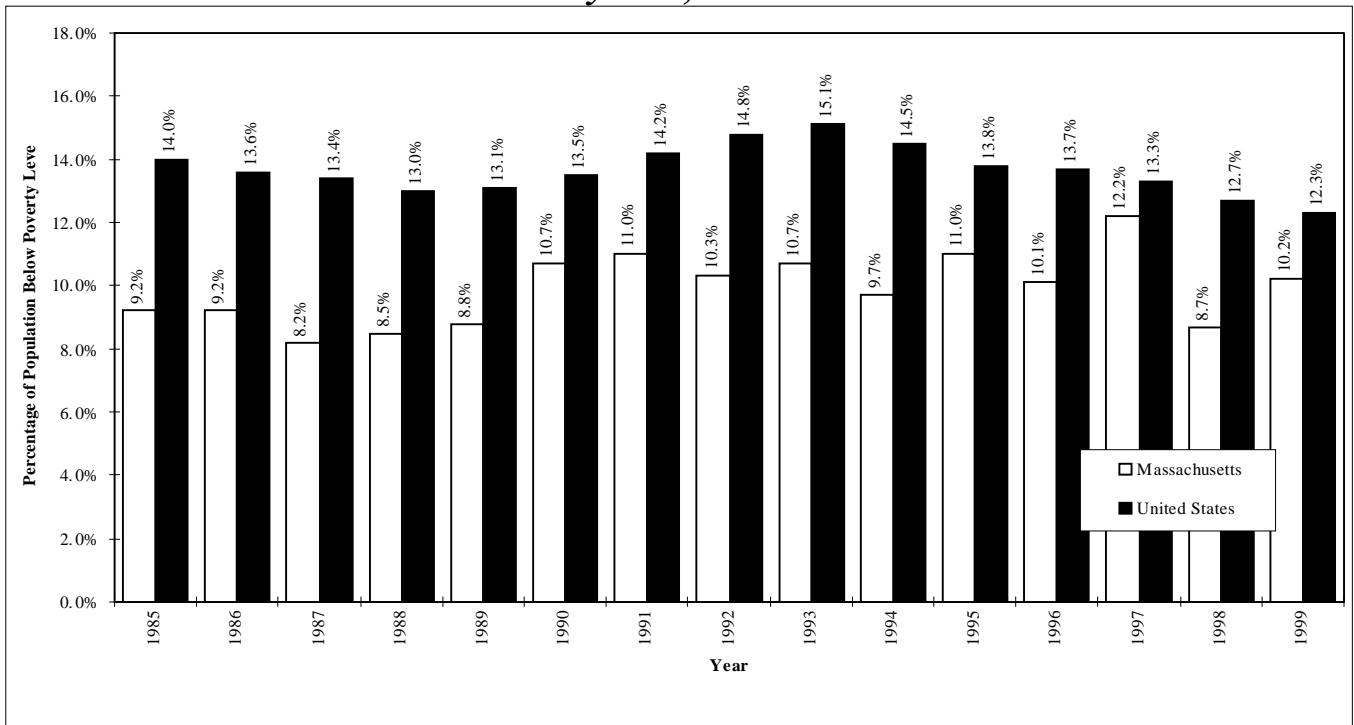
**Consumer Confidence for Massachusetts, New England, and the U.S.
January 1998 - July 2001**
(Not Seasonally Adjusted, except United States (1985=100))



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

Poverty. The Massachusetts poverty rate remains below the national average. Since 1980, the percentage of the Massachusetts population below the poverty line has varied between 7.7 percent and 11.7 percent. During the same time, the national poverty rate varied between the current 11.8 percent and 15.2 percent. In 1999, the poverty rate in Massachusetts jumped to 10.2 percent while the poverty rate in the United States declined slightly to 12.3 percent. Since 1980, the ratio of the Massachusetts rate of poverty to the United States rate of poverty has varied from a low of 0.51 in 1983 to 0.92 in 1997. These official poverty statistics are not adjusted for regional differences in the cost of living. The following chart and table illustrate both the overall lower poverty rates in Massachusetts (1985-1999) and the lower poverty rates for children (1995-1998) compared with the national average during similar periods.

Poverty Rate, 1985-1999



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

Estimates for Related Children, Age 5-17, in Families in Poverty for U.S. and Massachusetts, 1995-1998 (Small Area Income and Poverty Estimates)

Year	MA	U.S.	Rank among states
1995	13.6%	18.7%	31st
1996	13.7%	18.6%	34th
1997	16.1%	18.4%	23rd
1998	14.4%	17.5%	29th

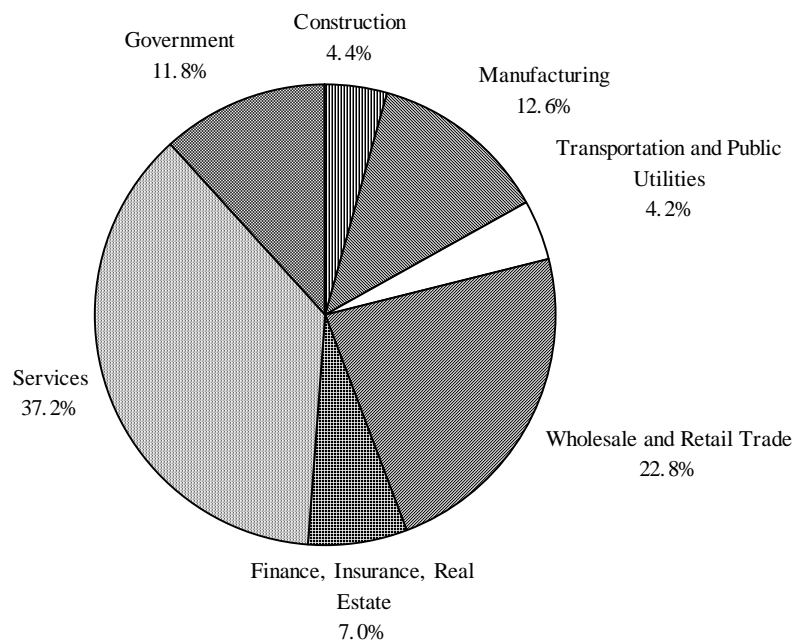
SOURCE: United States Department of Commerce, Bureau of the Census.

Note: Ranking begins with highest percentage and includes the District of Columbia.

EMPLOYMENT

Employment by Industry. The Massachusetts services sector, with 37.2 percent of the non-agricultural work force in August 2001(p), is the largest employment sector in the Massachusetts economy, followed by wholesale and retail trade (22.8 percent), manufacturing (12.6 percent), and government (11.8 percent). The following chart shows the distribution of non-agricultural employment by industry in Massachusetts for August 2001 (preliminary).

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



SOURCE: Massachusetts Division of Employment and Training.

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

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

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

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

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

The following table presents changes in non-agricultural employment by sector between August 2000 and August 2001. Total non-agricultural employment increased by 1.2 percent during that period.

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

Employment Sector	Aug. 2000	Pct. of Total	Aug. 2001	Pct. of Total	Pct. Change Aug. 2000-Aug. 2001
Mining	1.4	0.0%	1.5	0.0%	7.1%
Construction	139.5	4.2%	145.9	4.4%	4.6%
Manufacturing	436.1	13.2%	422.2	12.6%	-3.2%
Transportation and Public Utilities	131.6	4.0%	141.7	4.2%	7.7%
Wholesale and Retail Trade	760	23.0%	764.4	22.8%	0.6%
Finance, Insurance, Real Estate	230.4	7.0%	233.4	7.0%	1.3%
Services	1219.9	36.9%	1245.2	37.2%	2.1%
Government	390.9	11.8%	395.0	11.8%	1.0%
Total Employment	3,309.8	100.0%	3,349.3	100.0%	1.2%

SOURCE: Massachusetts Division of Employment and Training.

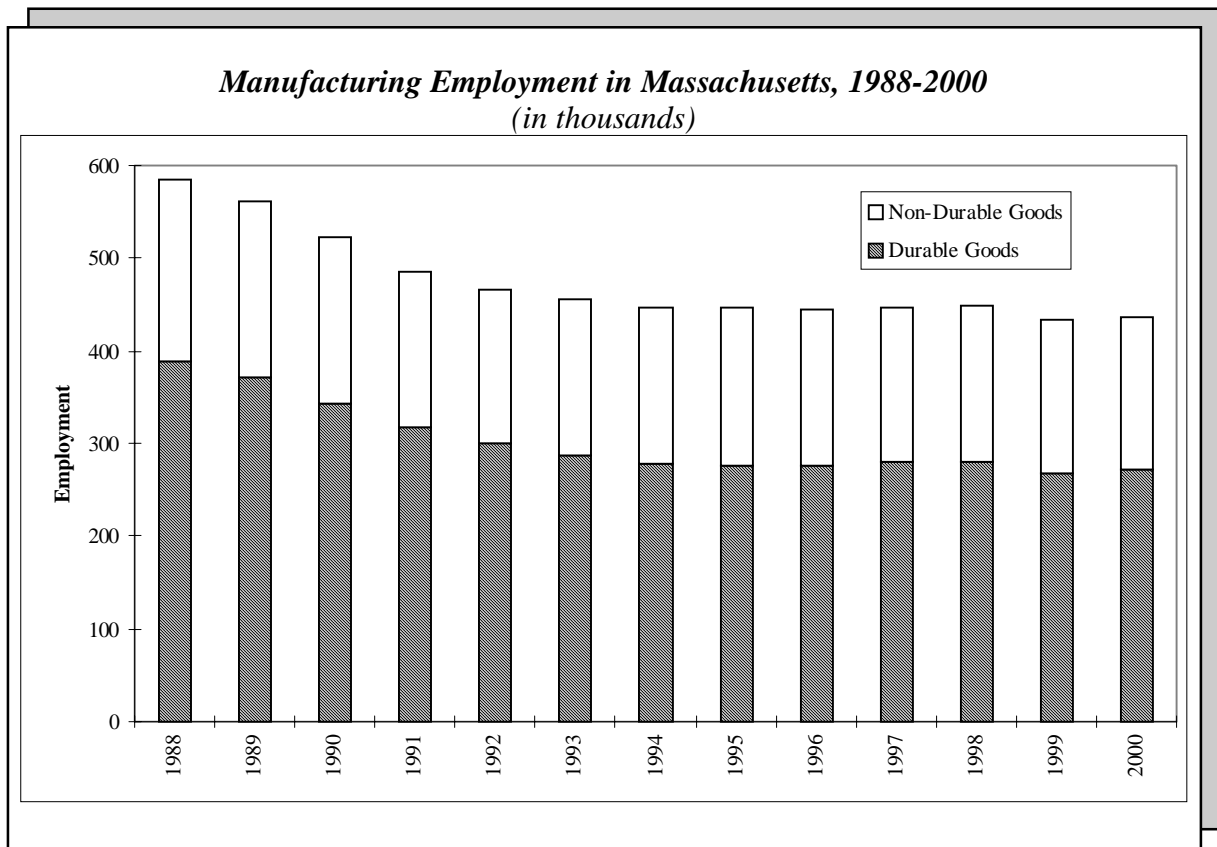
Notes: 2001 figures are preliminary and subject to revision. Sum of the parts may not equal totals due to rounding.

Figures are not seasonally adjusted.

Services Employment. The services sector is the largest sector in the Massachusetts economy in terms of number of employees. This sector includes the categories of health services, business services, educational services, engineering and management services, and social services. After moderate declines in 1990 and 1991, employment levels in the services sector reached consecutive new highs in each year between 1993 and 2000. Between August 2000 and August 2001, the services sector saw an increase in employment of 2.1 percent, and in August 2001, services sector employment (not seasonally adjusted) was 1,245,200, representing 37.2 percent of total non-agricultural employment.

Wholesale and Retail Trade Employment. In the mid-1980s the trade sector was an area of strong job growth, boosted by a growing export sector. Trade employment declined between 1990 and 1992 but has increased in each of the last six years, including a 1.8 percent increase in 2000. In August 2001, wholesale and retail trade was the second largest employment sector in Massachusetts with 764,400 employees, 0.6 percent above August 2000 levels.

Manufacturing Employment. Like many industrial states, Massachusetts has seen a steady diminution of its manufacturing jobs base over the last decade. Total employment in the manufacturing sector declined in every year between 1984 and 1996, falling a total of 33.4 percent. However, growth rates have improved considerably in recent years—from levels at or below -7.0 percent in 1990 and 1991 to -0.2 percent and -0.3 percent in 1995 and 1996, respectively—and employment in the manufacturing sector remained constant between 1997 and 1998. Between August 2000 and August 2001, however, manufacturing employment declined 3.2 percent.



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

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

SOURCE: Massachusetts Division of Employment and Training.

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

Government Employment. Federal, state, and local government employment increased 1.0 percent over the last year and employed 395,000 workers in August 2001, which accounted for 11.8 percent of total non-agricultural employment in Massachusetts.

Finance, Insurance, and Real Estate Employment. While the Finance, Insurance and Real Estate sector experienced 23.7 percent growth in employment between 1984 and 1988, there was an 11.2 percent decline in employment between 1988 and 1992. Since that time, the sector has experienced modest annual growth rates. With an increase of 2.2 percent in 1998 and a 3.7 increase in 1999, employment levels in this sector rose above 1988 levels for the first time. As of August 2001, total employment in the FIRE sector was 233,400, an increase of 1.3 percent from August 2000.

Construction Employment. Fueled by the general growth of the rest of the Massachusetts economy, employment in the construction industry experienced dramatic growth in the first part of the 1980s, increasing by more than 80 percent between 1982 and 1988. This trend reversed direction between 1988 and 1992, when employment in the construction industry declined nearly 50 percent. Increased economic growth in the Massachusetts economy since 1993 has contributed to a rebound in employment levels in the construction industry, which grew at annual rates in excess of 4 percent between 1993 and 2000. In August 2001, the construction sector employed 145,900 people, an increase of 4.6 percent over August 2000 levels.

Largest Employers in Massachusetts. The following table lists the twenty-five largest employers in Massachusetts based upon employment data for June 2000. The compiled list excludes government agencies

but does include non-profit organizations. New to this list is Verizon New England Inc., E.M.C. Corporation, and Compaq Computer Corporation. Compaq replaces Digital Equipment Corporation, which they recently purchased.

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

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

SOURCE: Massachusetts Division of Employment and Training.

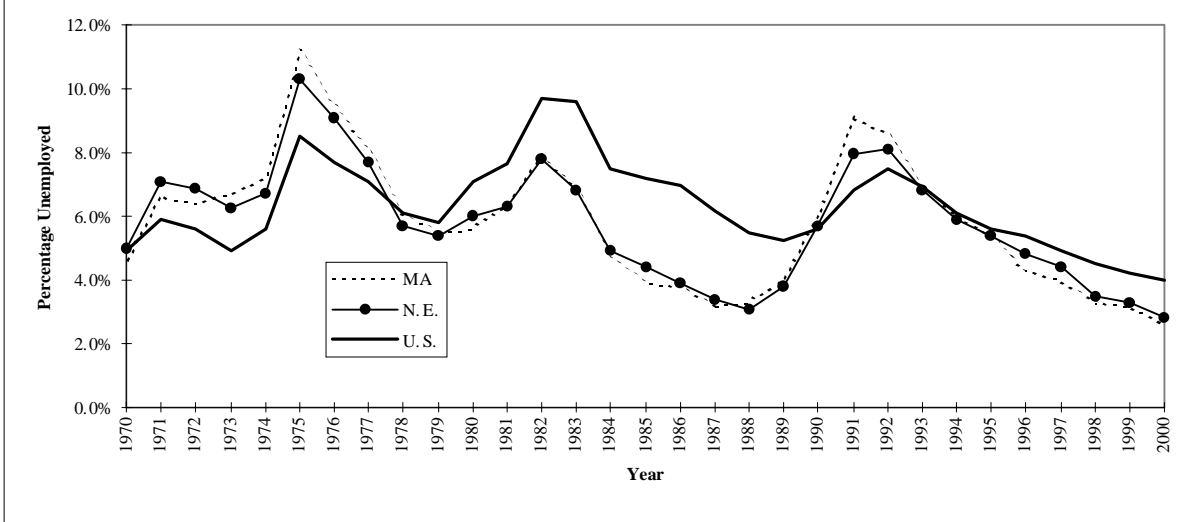
Unemployment. While the Massachusetts unemployment rate was significantly lower than the national average between 1979 and 1989, the economic recession of the early 1990s caused unemployment rates in Massachusetts to rise significantly above the national average. However, the economic recovery that began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

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

Year	Civilian Labor Force			Unemployed			Unemployment Rate			MA Rate as Pct. of U.S.
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.	
1970	2,458	5,129	82,771	114	256	4,093	4.6%	5.0%	4.9%	93.9%
1971	2,447	5,157	84,382	161	364	5,016	6.6%	7.1%	5.9%	111.9%
1972	2,475	5,261	87,034	160	363	4,882	6.4%	6.9%	5.6%	114.3%
1973	2,549	5,387	89,429	171	336	4,365	6.7%	6.2%	4.9%	136.7%
1974	2,622	5,512	91,949	189	369	5,156	7.2%	6.7%	5.6%	128.6%
1975	2,700	5,634	93,775	306	581	7,929	11.2%	10.3%	8.5%	131.8%
1976	2,727	5,717	96,158	259	519	7,406	9.5%	9.1%	7.7%	123.4%
1977	2,753	5,816	99,009	223	447	6,991	8.1%	7.7%	7.1%	114.1%
1978	2,816	5,908	102,251	171	340	6,202	6.1%	5.7%	6.1%	100.0%
1979	2,871	6,100	104,962	159	332	6,137	5.5%	5.4%	5.8%	94.8%
1980	2,867	6,167	106,940	162	367	7,637	5.6%	6.0%	7.1%	78.9%
1981	2,947	6,260	108,670	187	397	8,273	6.4%	6.3%	7.6%	83.4%
1982	2,993	6,339	110,204	237	495	10,678	7.9%	7.8%	9.7%	81.3%
1983	2,977	6,365	111,550	205	434	10,717	6.9%	6.8%	9.6%	71.5%
1984	3,047	6,549	113,544	145	318	8,539	4.8%	4.9%	7.5%	63.5%
1985	3,051	6,632	115,461	120	292	8,312	3.9%	4.4%	7.2%	54.2%
1986	3,056	6,721	117,834	118	265	8,237	3.8%	3.9%	7.0%	54.3%
1987	3,086	6,829	119,865	99	229	7,425	3.2%	3.4%	6.2%	51.8%
1988	3,155	6,914	121,669	103	216	6,701	3.3%	3.1%	5.5%	60.1%
1989	3,180	6,998	123,869	127	269	6,528	4.0%	3.8%	5.3%	76.2%
1990	3,228	7,147	125,840	195	408	7,047	6.0%	5.7%	5.6%	107.1%
1991	3,162	7,082	126,346	286	569	8,628	9.1%	8.0%	6.8%	133.8%
1992	3,145	7,057	128,105	269	568	9,613	8.6%	8.1%	7.5%	114.7%
1993	3,164	7,025	129,200	219	479	8,940	6.9%	6.8%	6.9%	100.0%
1994	3,173	6,964	131,056	191	412	7,996	6.0%	5.9%	6.1%	98.4%
1995	3,164	6,955	132,304	170	373	7,404	5.4%	5.4%	5.6%	96.4%
1996	3,174	6,996	133,943	137	335	7,236	4.3%	4.8%	5.4%	79.6%
1997	3,260	7,121	136,297	131	314	6,739	4.0%	4.4%	4.9%	81.6%
1998	3,273	7,113	137,673	109	250	6,210	3.3%	3.5%	4.5%	73.3%
1999	3,275	7,171	139,368	105	236	5,880	3.2%	3.3%	4.2%	76.2%
2000	3,237	7,194	140,863	86	199	5,655	2.6%	2.8%	4.0%	65.0%

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

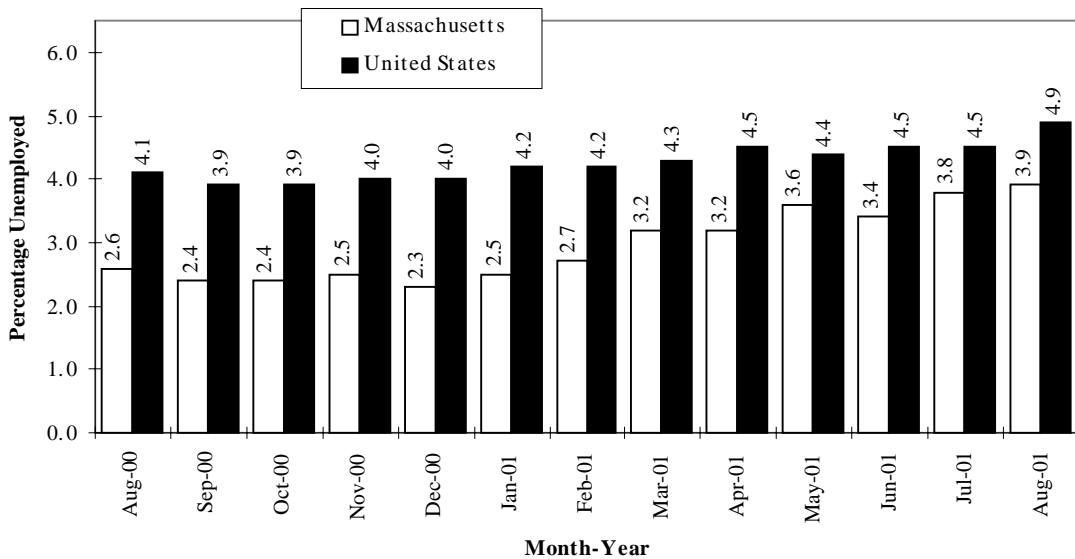
Average Annual Unemployment Rate, 1970-2000



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

The unemployment rate in Massachusetts has been consistently below that of the United States over the past twelve months, remaining just above 3.0 percent until March 2000 when it dropped below 3.0 percent until March of 2001. Unemployment levels in the United States as a whole and in the New England region have shown similar patterns in the last year. The unemployment rate in Massachusetts increased from 2.6 percent in August of 2000 to 3.9 percent in August of 2001, and the United States unemployment rate also increased from 4.1 percent to 4.9 percent between these same months. The following chart shows the unemployment rates for Massachusetts and the United States for each of the past twelve months.

Monthly Unemployment Rate, August 2000—August 2001 (seasonally adjusted)



SOURCE: Massachusetts Division of Employment and Training.

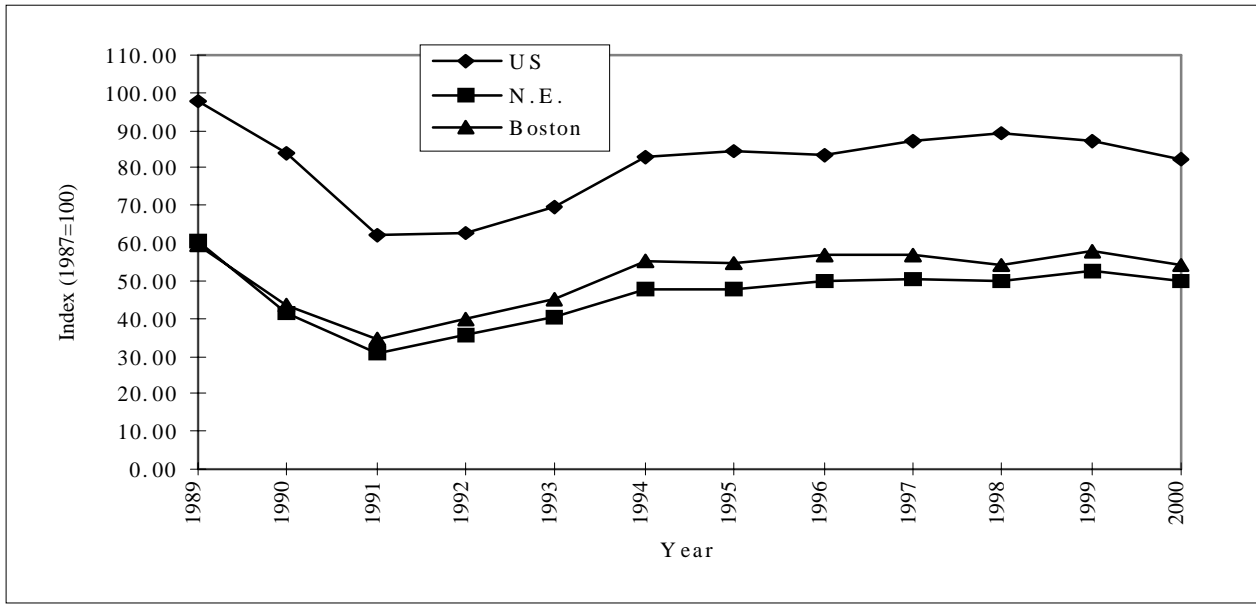
Help Wanted Advertising Index, 1989-2000

	US	% Change	N.E.	% Change	Boston	% Change
1989	98.00		60.83		59.50	
1990	83.83	-14.46%	41.50	-31.78%	43.50	-26.89%
1991	62.00	-26.04%	31.00	-25.30%	34.67	-20.31%
1992	62.50	0.81%	35.75	15.32%	39.92	15.14%
1993	69.42	11.07%	40.25	12.59%	45.42	13.78%
1994	82.92	19.45%	48.08	19.46%	55.42	22.02%
1995	84.25	1.61%	47.75	-0.69%	54.50	-1.65%
1996	83.17	-1.29%	49.75	4.19%	56.83	4.28%
1997	87.00	4.61%	50.58	1.68%	56.67	-0.29%
1998	89.42	2.78%	50.00	-1.15%	54.00	-4.71%
1999	87.25	-2.42%	52.42	4.83%	57.83	7.10%
2000	82.42	-5.54%	50.00	-4.61%	54.08	-6.49%
Jul-00	82.00		50.00		54.00	
Jul-01	58.00	-29.27%	37.00	-26.00%	37.00	-31.48%

SOURCE: The Conference Board, Inc.

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

Help Wanted Advertising Index, 1989-2000

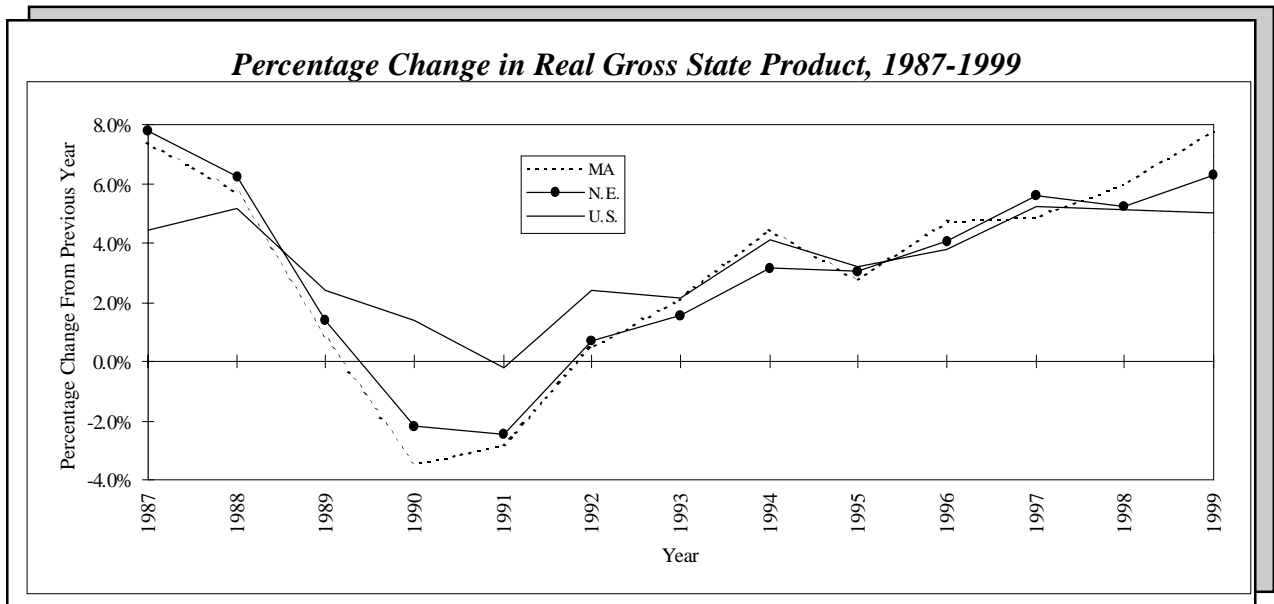


SOURCE: The Conference Board, Inc.

Unemployment Compensation Trust Fund. The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide for the payment of benefits to eligible individuals when they are unemployed through no fault of their own. Benefits are paid from the Commonwealth's Unemployment Compensation Trust Fund, financed through employer contributions. The assets and liabilities of the Commonwealth Unemployment Compensation Trust Fund are not assets and liabilities of the Commonwealth. As of August 31, 2001, the private contributory sector of the Massachusetts Unemployment Trust Fund had a surplus of \$2.008 billion, and the Division of Employment and Training's August 2001 quarterly report indicates that the contributions provided by current law should rebuild reserves in the system to \$1.805 billion by the end of 2005.

ECONOMIC BASE AND PERFORMANCE

In 1987 and 1988, the economies of Massachusetts and New England were among the strongest performers in the nation, with growth rates considerably higher than those for the national economy as a whole. Between 1989 and 1992, however, both Massachusetts and New England experienced growth rates significantly below the national average. Since then, growth rates in Massachusetts and New England have improved to levels on par with the rest of the nation. In 1999, the economies of both Massachusetts and New England grew at a faster pace than the nation as a whole for the third time in the last four years. The Massachusetts economy has been the strongest in New England, making up an average of 47.4 percent of New England's total Gross State Product and an average of 2.8 percent of the nation's economy over the past decade.



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

Gross State Product, 1986-1999
(millions of chained 1996 dollars)

Year	Massachusetts		New England		United States	
	GSP	Percentage Change	GSP	Percentage Change	Total GSP	Percentage Change
1986	\$169,338		\$350,747		\$5,816,661	
1987	181,855	7.4%	378,136	7.8%	6,072,815	4.4%
1988	192,255	5.7%	401,698	6.2%	6,386,132	5.2%
1989	193,839	0.8%	407,229	1.4%	6,538,634	2.4%
1990	187,125	-3.5%	398,368	-2.2%	6,630,740	1.4%
1991	181,855	-2.8%	388,577	-2.5%	6,615,685	-0.2%
1992	182,789	0.5%	391,385	0.7%	6,774,505	2.4%
1993	186,680	2.1%	397,470	1.6%	6,918,388	2.1%
1994	195,171	4.5%	410,014	3.2%	7,203,002	4.1%
1995	200,537	2.7%	422,524	3.1%	7,433,965	3.2%
1996	210,127	4.8%	439,596	4.0%	7,715,901	3.8%
1997	219,716	4.6%	463,498	5.4%	8,093,396	4.9%
1998	233,572	6.3%	489,127	5.5%	8,507,978	5.1%
1999	251,861	7.8%	520,092	6.3%	8,934,066	5.0%

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

Note: New England and United States figures include Massachusetts and New England GSP, respectively.

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

The commercial base of Massachusetts is anchored by the thirteen 2001 *Fortune* 500 industrial and service firms with headquarters within the state, as the following table indicates. The *Fortune* 500 firms are ranked according to total revenues in 2000.

<i>Massachusetts Companies in the 2001 Fortune 500</i>				
2001	2000	Company	Industry	2000 revenues (in millions)
81	80	Fleet (Boston)	Commercial Banks	\$22,608
111	82	Raytheon (Lexington)	Aerospace	18,321
121	111	Liberty Mutual Group (Boston)	Insurance: Property and Casualty (Mutual)	16,438
173	173	Mass. Mutual Life Insurance (Springfield)	Insurance: Life and Health (Mutual)	11,274
178	192	Staples (Framingham)	Specialty Retailers	10,673
188	172	Gillette (Boston)	Metal Products	9,986
195	196	TJX (Framingham)	Specialty Retailers	9,579
216	260	EMC (Hopkinton)	Computer Peripherals	8,872
244	233	John Hancock Financial Services (Boston)	Insurance: Life and Health (Stock)	7,506
304	345	State Street Boston Corp. (Boston)	Commercial Banks	5,921
353	377	BJ's Wholesale Club (Natick)	Specialty Retailers	4,932
430	369	Thermo Electron (Waltham)	Scientific, Photo, and Control Equipment	3,886
484	440	Allmerica Financial (Worcester)	Insurance: Property and Casualty (Stock)	3,295

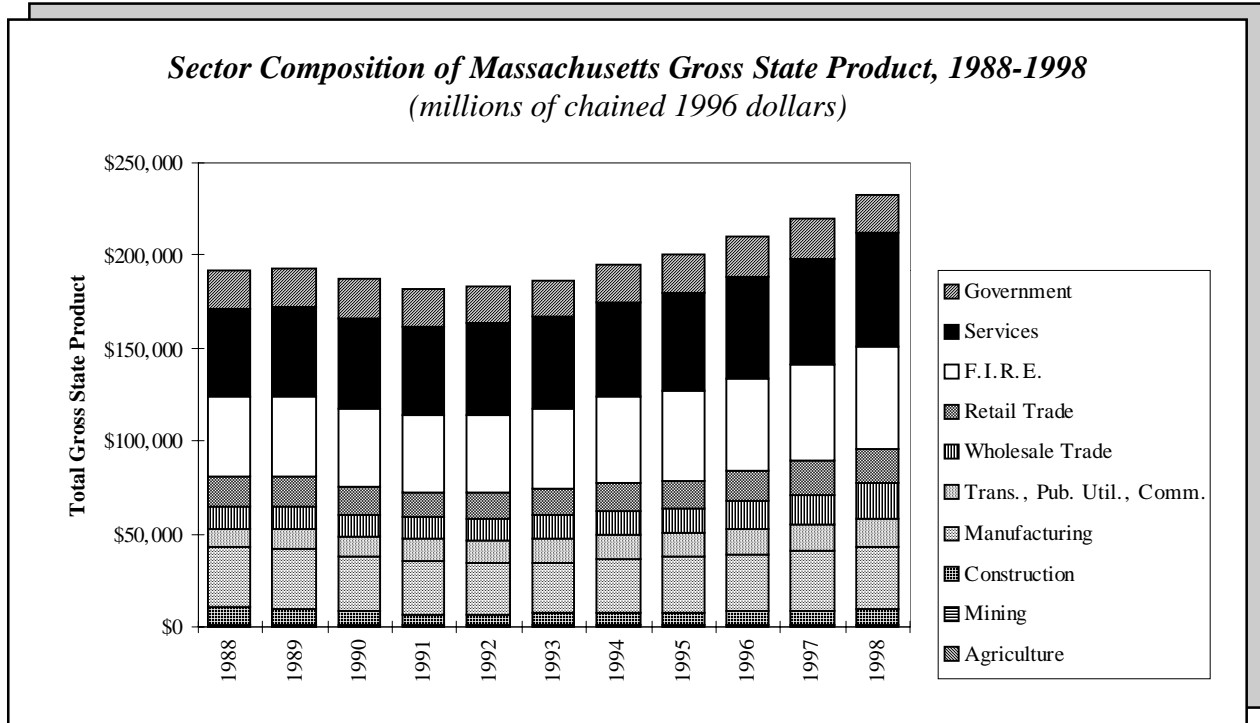
SOURCE: *Fortune*, April 16, 2001.

With thirteen *Fortune* 500 companies, Massachusetts ranks thirteenth among all states. The 2001 list remains very much the same as it appeared in 2000. All of the companies listed in the 2000 *Fortune* 500 are also in the 2001 *Fortune* 500. Fleet continues to be the *Fortune* 500 leader in Massachusetts.

Along with the thirteen 2001 *Fortune* 500 companies with headquarters in Massachusetts, fivefour of *Fortune's* 20010 Top 100 fastest growing companies in the country are based in Massachusetts. Three Massachusetts companies entered the top 100 this year. They are Affiliated Managers Group in Boston, ranked 23rd, Zoll Medical in Burlington, ranked 35th, and Act Manufacturing in Hudson, ranked 55th. Two companies from the 2000 ranking remain on the list for 2001. They are Polymedica in Woburn, which dropped from 30th to 74th, and Biogen in Cambridge, which dropped from 69th to 98th. Only California (27), New York (10), Florida (9), Texas (7), and Illinois (5) had more firms on the list. The 20010 *Fortune* Top 100 firms are ranked according to annual growth rates in earnings per share, revenue, and total return in stock price.

Economic Base and Performance – Sector Detail

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



Gross State Product by Industry in Massachusetts, 1989-1999

(millions of chained 1996 dollars)

Industrial Sector	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Agriculture	\$1,269	\$1,210	\$1,231	\$1,173	\$1,194	\$1,124	\$1,098	\$1,143	\$1,280	\$1,286	\$1,378
Mining	86	71	74	99	94	107	97	94	82	92	91
Construction	8,497	6,832	5,655	5,696	6,130	753	6,933	7,477	8,026	8,787	9,421
Manufacturing	32,078	29,620	28,344	27,281	27,402	28,789	29,835	30,687	32,813	35,137	38,775
Trans., Pub. Util., Comm.	10,676	11,295	12,062	11,940	12,621	13,035	12,683	13,334	13,063	13,253	14,416
Wholesale Trade	12,130	11,461	11,706	12,457	12,548	13,367	13,645	15,100	16,677	19,271	21,568
Retail Trade	15,832	14,619	13,673	13,791	13,996	14,695	15,163	16,591	17,683	19,211	20,868
F.I.R.E.	43,511	42,293	41,881	42,213	43,415	46,077	47,742	49,536	51,595	55,528	61,503
Services	48,819	48,841	47,421	48,822	49,610	51,261	53,055	55,508	57,576	59,943	62,853
Government	20,299	20,749	19,646	19,285	19,690	19,969	20,315	20,657	20,968	21,302	21,965
Total GSP	\$193,839	\$187,167	\$181,901	\$182,789	\$186,680	\$195,171	\$200,537	\$210,127	\$219,716	\$232,572	\$251,861

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

Services. The services sector remains the largest contributor to the Massachusetts Gross State Product comprising 2625.0 percent of the Commonwealth's Gross State Product in 19998. After increasing at a rate of 3.6 percent in 1989 and negligible growth in 1990, growth in the services sector declined 2.9 percent 1991. The sector has grown in every year since then with growth rates between 1.6 percent and 4.6 percent each year. Growth accelerated in 1996, 1997, and 1998 with yearly growth rates of 4.6 percent, 4.5 percent, and 4.4 percent, respectively. The health care industry is the largest contributor to the services sector and continues to play an important role in the Massachusetts economy, contributing 6.18 percent of the Gross State Product in 19998.

Finance, Insurance, Real Estate. The FIRE sector has been the second largest contributor to the Massachusetts Gross State Product over the last decade. In 19998, it contributed 24.43.6 percent of the Gross State Product. A growth rate of 0.8 percent in 1989 was followed by declines in 1990 and 1991 of 2.8 percent and 1.0 percent, respectively. The sector grew 0.8 percent in 1992 and 2.8 percent in 1993 and has grown at least 3.6 percent every year since 1994 with a peak growth rate of 10.8 6.9 percent in 19998.

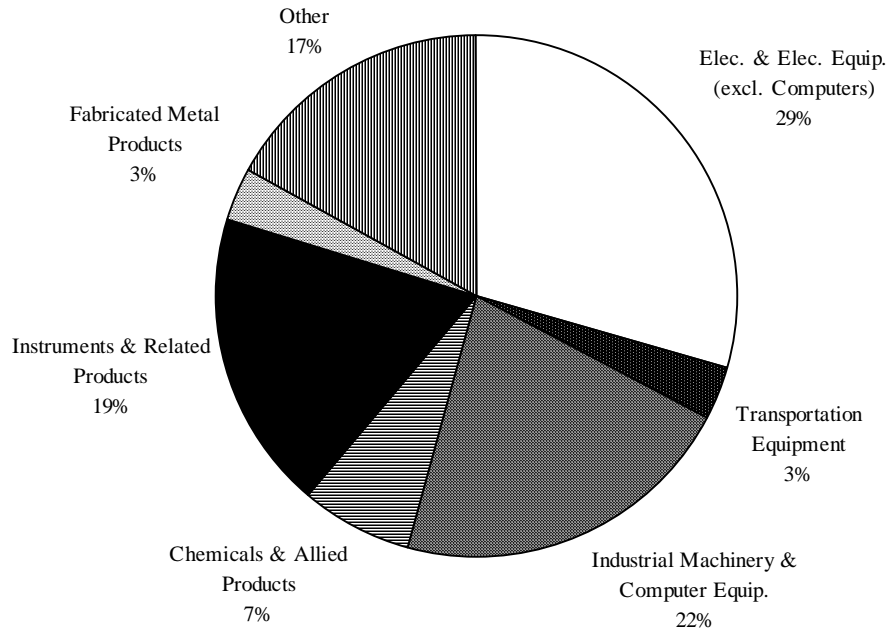
Manufacturing. The manufacturing sector was the third largest contributor to the Massachusetts Gross State Product in 19998, contributing 15.414.7 percent of the Gross State Product. Because of more rapid growth in other sectors in the late 1980s and early 1990s, this sector's share of the Gross State Product declined every year between 1988 and 1993. This trend appears to have ended more recently, however, as the manufacturing sector's share of the Gross State Product has remained between 14.7 percent and 14.9 percent for the last six years. In 19998, the manufacturing sector grew by 10.36.4 percent.

Wholesale and Retail Trade. Taken together, the wholesale and retail trade sectors contributed 16.85 percent of the Massachusetts Gross State Product in 19998, with each sub-sector contributing almost equally to the total. Growth in the wholesale trade sector varied through the early 1990s but was significantly higher in the 1996, 1997, and 1998 with rates of 10.6 percent, 11.2 percent, and 14.4 percent, respectively. Growth in the retail trade sector demonstrated a similar pattern with growth rates of 9.3 percent, 7.5 percent, and 7.9 percent in 1996, 1997, and 1998, respectively.

Trade and International Trade. A significant portion of what Massachusetts produces is exported internationally. Massachusetts ranked ninth in the United States, and first in New England, with \$22.1 billion in international exports in 2000. This represents a 21.3 percent increase from the previous year's exports from the Commonwealth while national exports increased by 12.6 percent in the same period. In the first quarter of 2001, Massachusetts exports totaled \$4.9 billion, increasing by 5.7 percent over exports in the first quarter of 2000. National exports were up 9.3 percent in the same period. It is not possible to provide balance of trade comparisons for Massachusetts because import data are not compiled on a state-by-state basis.

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

Composition of Massachusetts Exports by Industry Group, 2000



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

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

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

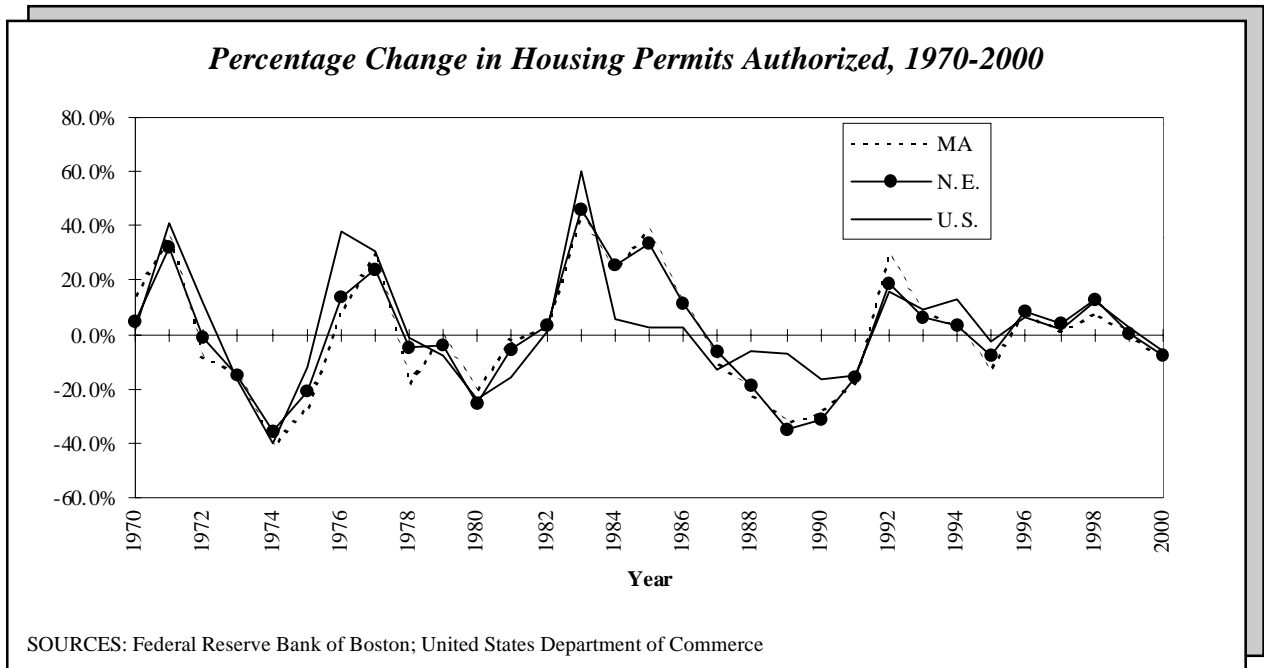
Major Industry Group	1994	1995	1996	1997	1998	1999	2000
Elec. & Elec. Equip. (excl. Computers)	\$2,799.5	\$3,638.9	\$3,550.8	\$4,012.3	\$3,996.6	\$4,506.5	\$6,517.7
Industrial Machinery & Computer Equip.	4,065.1	4,482.5	4,558.9	5,212.5	4,515.9	4,121.1	4,766.0
Instruments & Related Products	1,897.9	2,080.2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

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

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

Construction and Housing. In 1998, construction activity contributed 3.74 percent of the Massachusetts Gross State Product. This sector experienced a significant decline between 1989 and 1991 with declines as large as 19.6 percent and 17.2 percent in 1990 and 1991. Beginning in 1992, however, the sector rebounded and has grown every year since, reaching growth rates between 0.7 percent and 8.4 percent over the past six years.

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



Housing Permits Authorized, 1969-2000

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

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

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

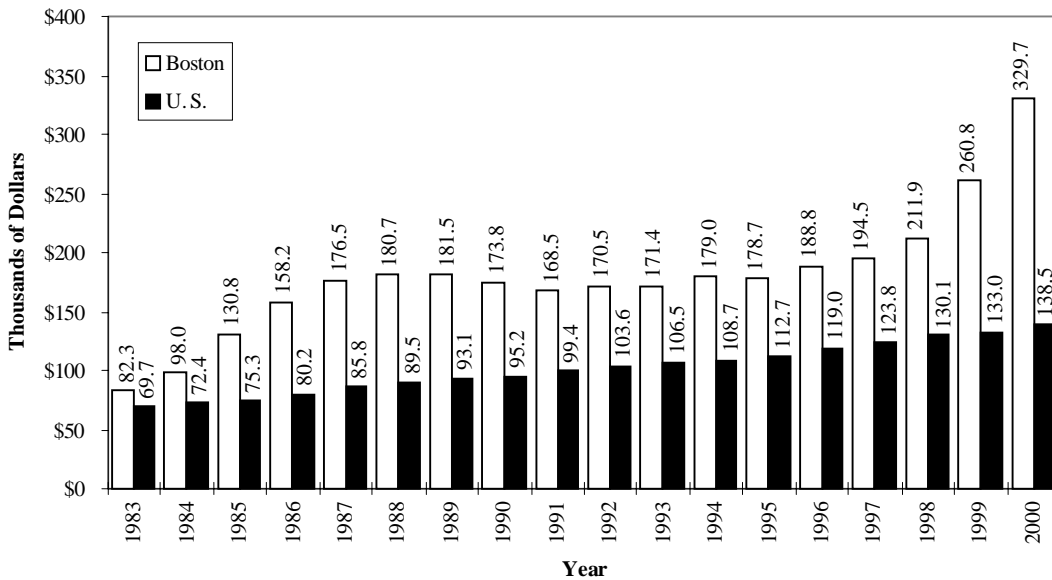
Existing Home Sales, 1981-2000
(seasonally adjusted annual rates, in thousands)

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

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

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

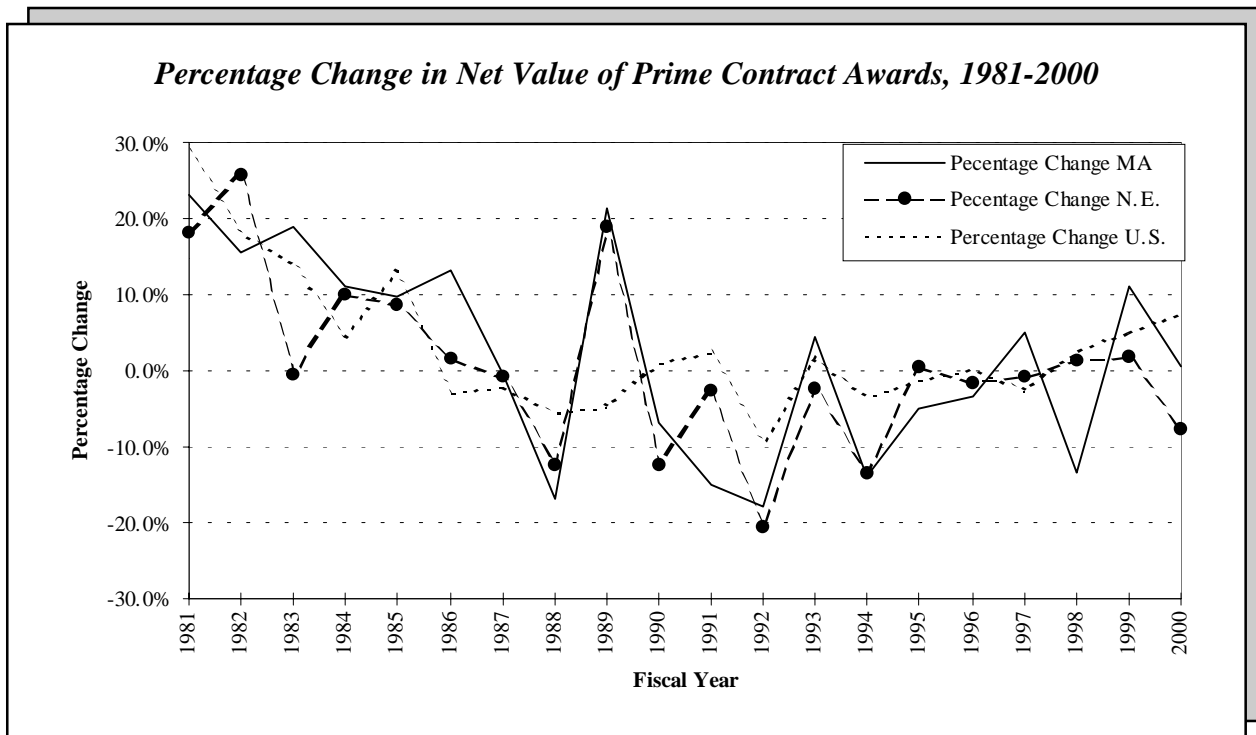
Average Annual Home Prices, 1983-2000
(in thousands of current dollars)



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

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

The importance of the defense industry to the Massachusetts economy is reflected in the following chart and table, which show the value of Department of Defense prime contract awards between 1981 and 2000. Since the early 1980s, the Commonwealth's share of New England's prime contract awards had remained around or above 50 percent. In 1998, Massachusetts' share of New England's prime contract awards dipped to 45.7 percent and in 1999, the Commonwealth's share recovered only some of its losses, rising to 49.8 percent. In 2000, the Commonwealth's share of New England's prime contract awards rose to 54.2 percent, its highest level since 1994. The net value of prime contract awards in New England decreased significantly in 2000, dropping to a level lower than any point in at least the last two decades. In 2000, the Commonwealth's share of the national total also reached its lowest point in at least the last two decades.



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

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

SOURCE: United States Department of Defense.

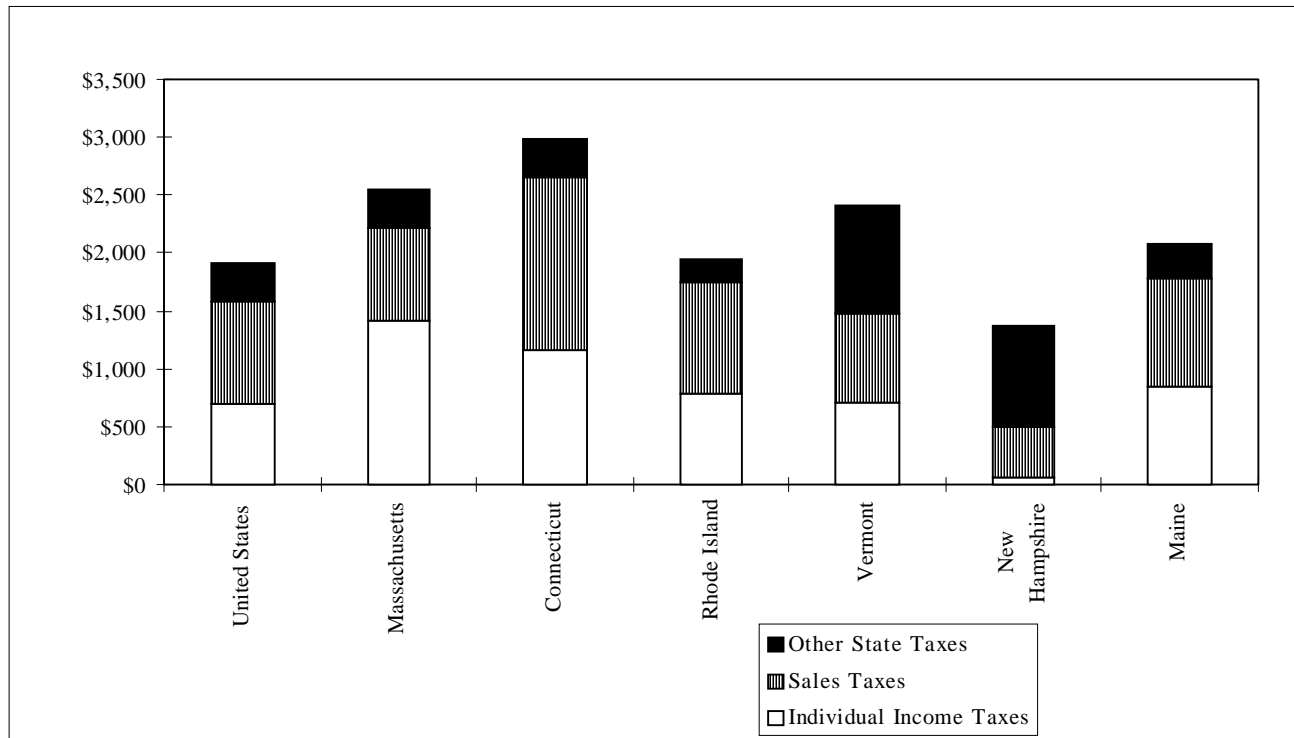
* Prime Contract is defined as \$10,000 and above for these years; beginning in 1983 it is defined as \$25,000 and above.

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

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

State Taxes. State taxes in Massachusetts are significantly higher than the national average. In 2000, the total per capita state tax bill in the United States was \$1,921.461,835.27. Citizens of the Commonwealth, however, paid \$2,544.122,385.65 on average. In New England, only citizens in Connecticut paid more per capita: \$2,986.652,932.21. Over half of the state taxes in Massachusetts come from the state income tax. Per capita individual income taxes in Massachusetts were \$1,424.131,301.44, representing the highest level of per capita income tax in the nation. Across the New England states, there is wide variation in both total per capita state taxes and in the breakdown of those taxes. The chart below displays total per capita state taxes, per capita state income taxes, and per capita general sales taxes for the United States and each of the New England states.

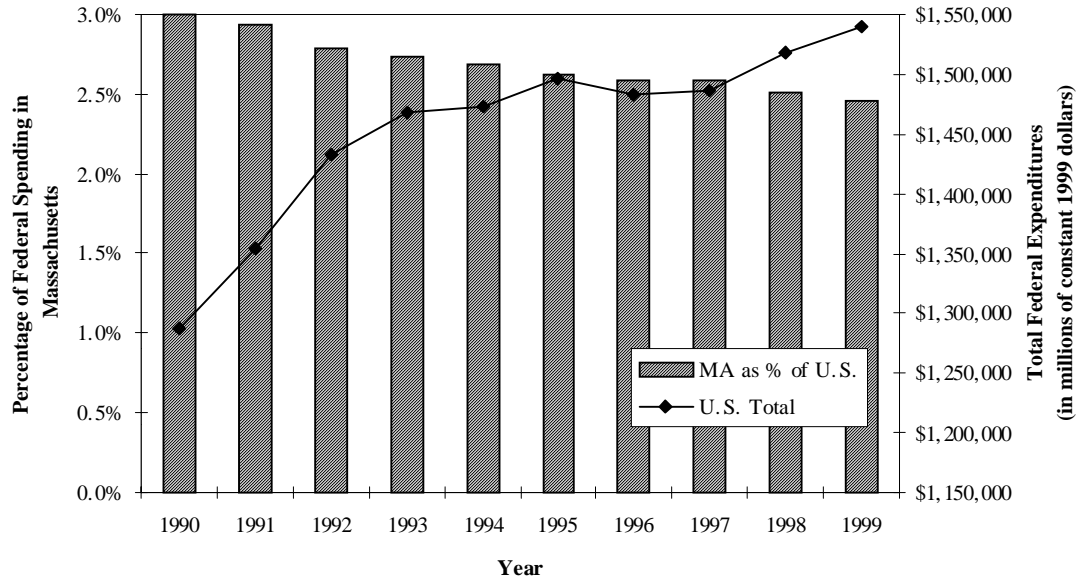
Fiscal 2000 Per Capita State Taxes



SOURCE: U.S. Bureau of the Census.

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

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

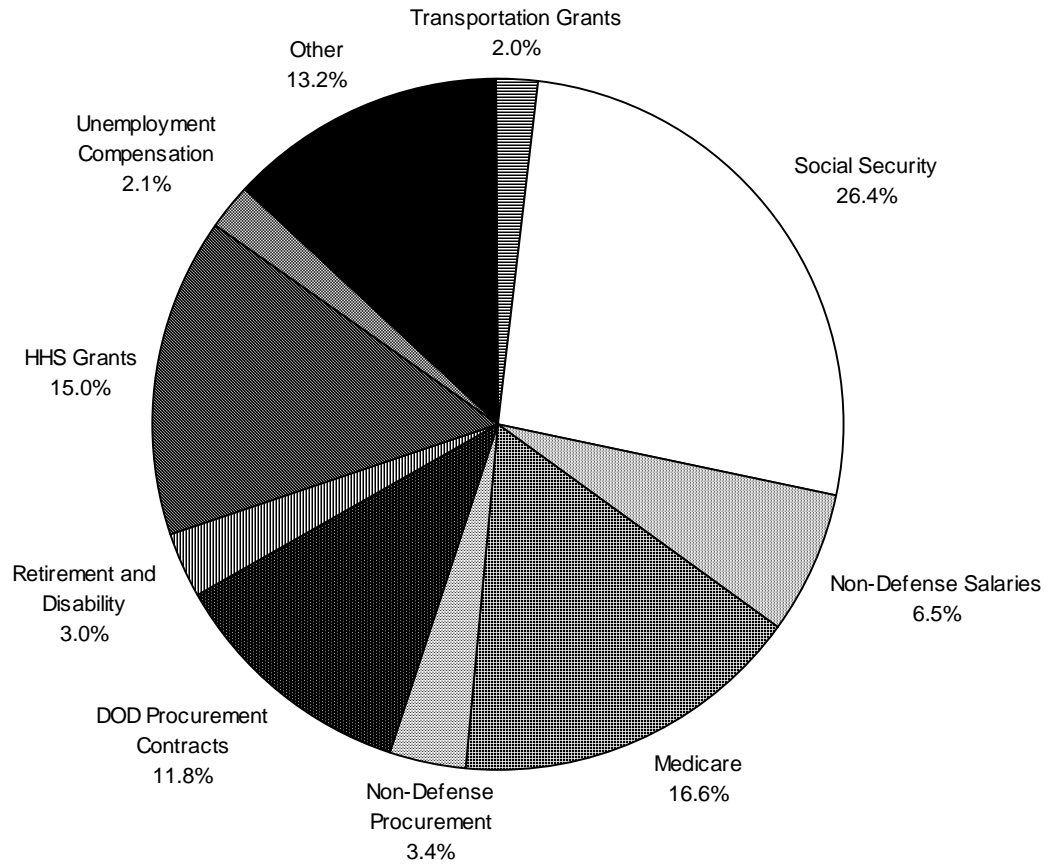


SOURCE: United States Department of Commerce, Bureau of the Census.

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

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

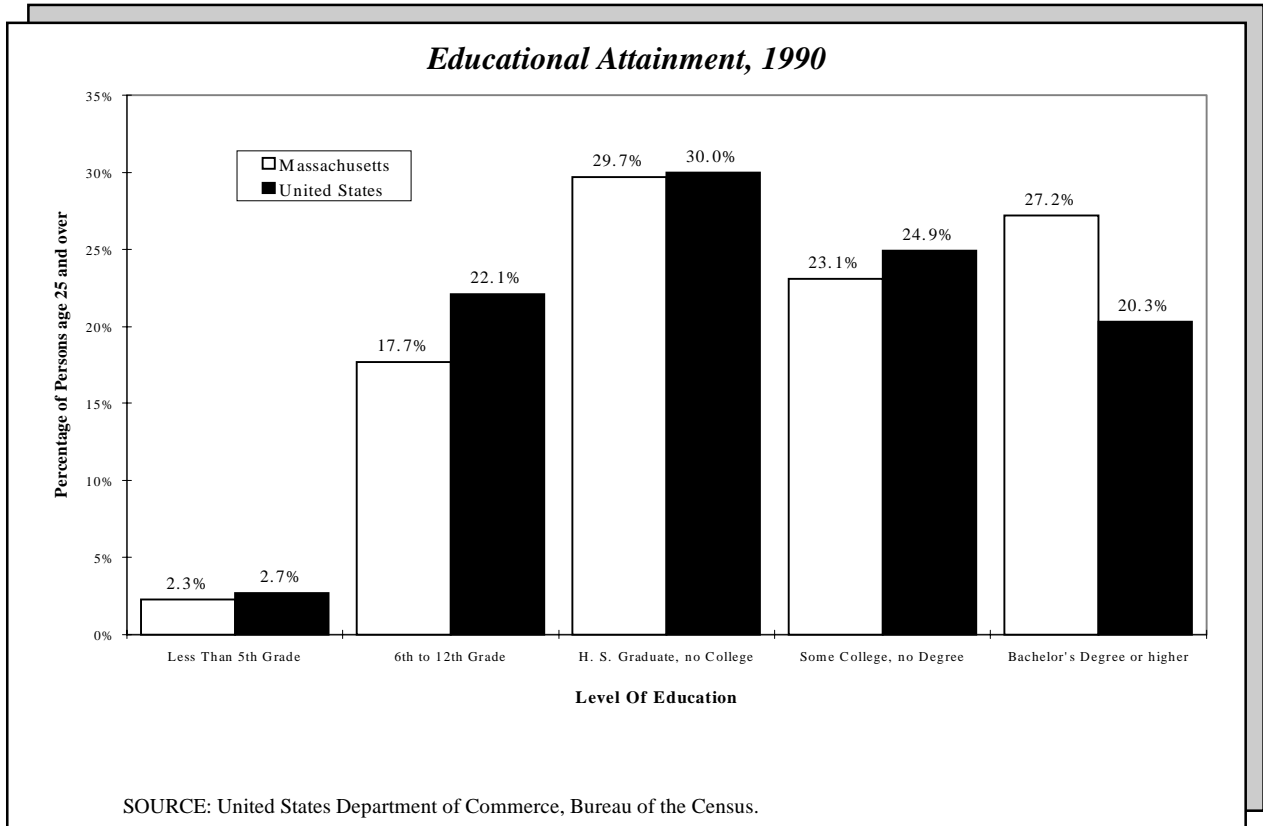
Composition of Federal Spending in Massachusetts by Program, Fiscal 1999



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

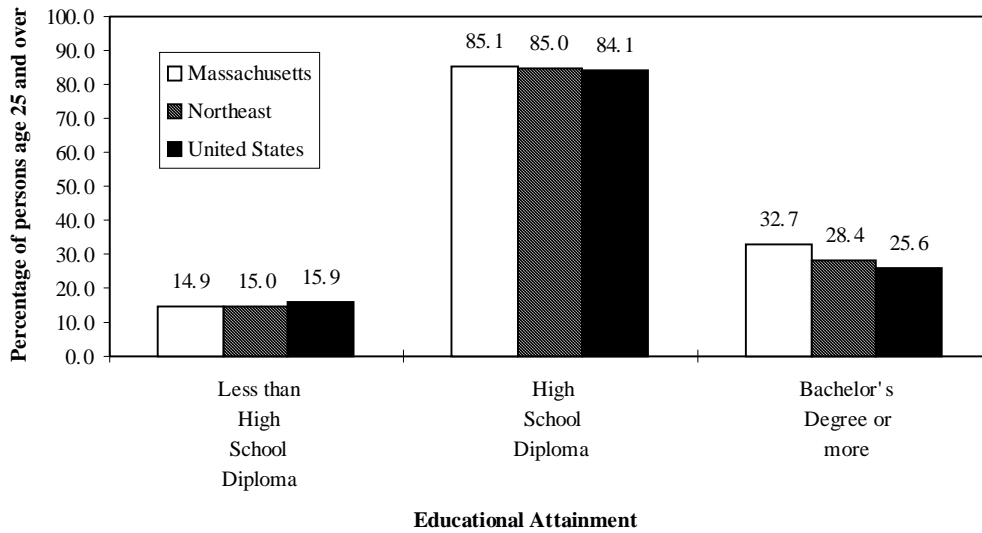
HUMAN RESOURCES AND INFRASTRUCTURE

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



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

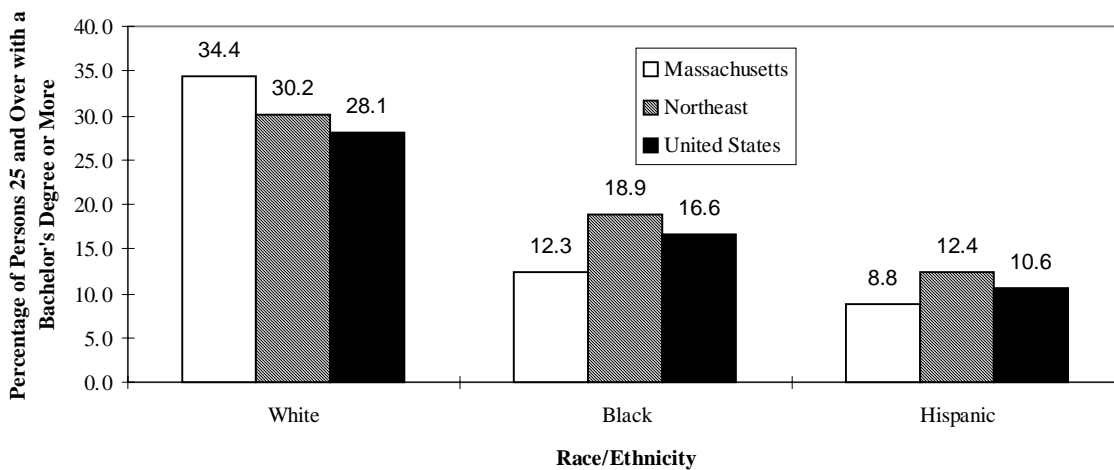
Educational Attainment by Persons Age 25 and Over, March 2000



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

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

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



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

Massachusetts has a higher percentage of minority enrollment in institutions of higher education than New England. However, the percentage of enrollment of blacks and Hispanics in higher education in Massachusetts is below the national average. Asian enrollment is above the national average. These percentages are seen in the chart below.

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

SOURCE: New England Board of Higher Education.

In the 1998 National Assessment of Educational Progress conducted by the U.S. Department of Education, 4th th graders and 8th 8th graders around the nation were given standardized exams in reading. Among 4th th graders, only students in Connecticut achieved statistically significant higher reading scores than students in Massachusetts while among 8th th graders, no state had statistically significant higher reading scores than Massachusetts. In a similar 1996 study, 4th th and 8th th graders were given standardized exams in mathematics and science. In science, only 8th th graders in Maine, North Dakota, and Montana achieved statistically significant higher scores than 8th th graders in Massachusetts. In 2000, 4th and 8th graders were given standardized exams in mathematics. Massachusetts scores for both 4th and 8th graders in 2000 were significantly higher than scores from both 1992 and 1996. Additionally, Massachusetts 4th graders were the highest scoring in the nation. Only 8th graders in Minnesota, Montana, Maine, and Kansas scored higher than those in Massachusetts., only 4th graders in Maine, Minnesota, Connecticut, Wisconsin, and North Dakota achieved higher average scaled scores than Massachusetts 4th graders. Massachusetts 8th graders also performed well in mathematics, achieving the 10th highest average scaled score among states.

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

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

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

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

Massachusetts is an internationally recognized center for higher education, with 415,616 students in undergraduate, professional and graduate programs in 1998, according to data supplied by the New England Board of Higher Education. The number of foreign students enrolled in Massachusetts colleges and universities in 2000 was 28,172, representing 5.5 percent of total foreign student enrollment in the United States. The Massachusetts public higher education system is composed of universities, state colleges, and community colleges with a combined enrollment of 178,376 students in 1998. In addition, Massachusetts has a system of private higher education that accounted for 57.1 percent of total enrollment in Massachusetts in 1998. The strength of both public and private colleges and universities as centers for research and education contributes to the high quality of the Massachusetts work force and plays a key role in attracting and retaining business and industry within the state.

The higher education system in Massachusetts is particularly strong in post-graduate, scientific, and technical education. The strength of the Massachusetts higher education system is evidenced by the draw it has upon new students. In the Fall of 1996, 16,455 first-time freshmen migrated into the Massachusetts higher education system from outside New England, representing 26.4 percent of all incoming freshmen in that year. The strength of the Commonwealth's educational institutions is also reflected in the large number of degrees awarded. In 1998, Massachusetts institutions conferred a total of 2,554 doctoral degrees. This represents 5.6 percent of the total number of doctoral degrees conferred in the United States and an increase of 7.5 percent in the number of doctoral degrees conferred in Massachusetts in 1997.

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

The diversity of federal funding sources reflects the variety of research and development work performed at Massachusetts educational institutions. According to the National Science Foundation, of the \$1,047,036,000 of total fiscal 1999 federal obligations for science and engineering research to universities and colleges in Massachusetts, 52.9 percent was from the Department of Health and Human Services, 17.9 percent was from the National Science Foundation, 12.0 percent was from the Department of Defense, 8.2 percent was from the Department of Energy, and 4.1 percent was from the National Aeronautics and Space Administration.

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

Major Infrastructure Projects. The next decade brings significant work on several major public sector-sponsored construction projects, giving rise in Massachusetts to new economic and employment opportunities. The projects include the depression of the central artery which traverses the City of Boston, and the construction of a third harbor tunnel linking downtown Boston to Logan Airport. The new Central Artery is designed to meet Boston's future traffic demand. According to the Massachusetts Turnpike Authority, when completed, the Central Artery will accommodate an estimated 245,000 vehicles per day. The Project will also strengthen connections among Boston's air, rail, and seaport terminals. By offering travelers and shippers increased choice and flexibility among these different modes of transportation, the Project is contributing to the creation of an integrated, intermodal transportation system for the entire region. Construction of the Ted Williams Tunnel began in 1992 and stretches under Boston Harbor from South Boston to Logan Airport. The tunnel opened to commercial traffic in late 1995 and is expected to be open to all traffic by December 2001. Currently, an average of more than 20,000 vehicles use the tunnel every weekday. The Central Artery Project is expected to be completed by 2004 at an estimated total cost of \$14.1 billion, with over \$7 billion of that to be funded by the federal government. As of April 2001, construction is 70.7 percent complete.

Massachusetts is also home to Logan International Airport and the Port of Boston. In 2000, 27.4 million passengers and more than 852 million pounds of cargo and mail passed through Logan. A \$1 billion modernization program is currently underway to prepare the airport for the future, including expansion of terminal space. In 2000, 1,035,199 tons of containerized cargo moved through the Port of Boston, representing a 5 percent decrease from the previous year's volume.

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

TABLE OF REFUNDED BONDS

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

<u>Maturity Date</u>	<u>Amount</u>	<u>Coupon</u>
General Obligation Bonds, Consolidated Loan of 1991, Series D:		
July 1, 2002*†	\$ 500,000	6.500%

*To be redeemed on January 1, 2002 at a call price of 102%.

†Unless otherwise redeemed earlier in accordance with its terms, the remaining amount (\$19,645,000) of bonds is to be paid at maturity.

General Obligation Bonds, Consolidated Loan of 1992, Series D:

May 1, 2003*	\$ 10,440,000	5.750%
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*To be redeemed on May 1, 2002 at a call price of 102%.

General Obligation Bonds, Consolidated Loan of 1995, Series D:

November 1, 2012*	\$ 16,515,000	5.125%
November 1, 2013*	<u>17,430,000</u>	5.125
	\$ 33,945,000	

*To be redeemed on November 1, 2005 at a call price of 101%.

General Obligation Bonds, Consolidated Loan of 1996, Series D:

November 1, 2012*	\$ 25,455,000	5.250%
November 1, 2013*	<u>26,820,000</u>	5.125
	\$ 52,275,000	

*To be redeemed on November 1, 2006 at a call price of 101%.

General Obligation Bonds, Consolidated Loan of 1997, Series B:

June 1, 2014*	\$ 19,855,000	5.250%
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*To be redeemed on June 1, 2007 at a call price of 101%.

General Obligation Bonds, Consolidated Loan of 1998, Series B:

April 1, 2012*	\$ 14,320,000	5.250%
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*To be redeemed on April 1, 2008 at a call price of 101%.

<u>Maturity Date</u>	<u>Amount</u>	<u>Coupon</u>
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General Obligation Bonds, Consolidated Loan of 1999, Series A:

February 1, 2002**	\$ 7,480,000	4.125%
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**To be redeemed on February 1, 2002, the maturity date.

General Obligation Bonds, Consolidated Loan of 1999, Series C:

September 1, 2012*	\$ 6,095,000	5.625%
September 1, 2013*	8,510,000	5.750
September 1, 2014*	<u>7,625,000</u>	5.750
	\$ 22,230,000	

*To be redeemed on September 1, 2009 at a call price of 101%.

General Obligation Bonds, Consolidated Loan of 2000, Series A:

February 1, 2013*	\$ 23,455,000	6.000%
February 1, 2014*	27,055,000	6.000
February 1, 2015*	2,500,000	5.700
February 1, 2015*	<u>27,765,000</u>	6.000
	\$ 80,775,000	

*To be redeemed on February 1, 2010 at a call price of 101%.

General Obligation Bonds, Consolidated Loan of 2000, Series B:

June 1, 2013*	\$ 37,850,000	5.750%
June 1, 2014*	<u>40,350,000</u>	6.000
	\$ 78,200,000	

*To be redeemed on June 1, 2010 at a call price of 100%.

General Obligation Bonds, Consolidated Loan of 2000, Series C:

October 1, 2012*	\$ 28,385,000	5.750%
October 1, 2013*	24,525,000	5.750
October 1, 2014*	31,945,000	5.750
October 1, 2015*	32,720,000	5.750
October 1, 2016*	35,090,000	5.750
October 1, 2017*	38,630,000	5.750
October 1, 2018*	14,685,000	5.750
October 1, 2019*	43,510,000	5.750
October 1, 2020*	<u>16,275,000</u>	5.750
	\$ 265,765,000	

*To be redeemed on October 1, 2010 at a call price of 100%.

FORM OF BOND COUNSEL OPINION

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



[Date of Delivery]

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

(The Commonwealth of Massachusetts
General Obligation Bonds, Consolidated Loan of 2001, Series D)

We have acted as Bond Counsel to The Commonwealth of Massachusetts in connection with the issuance by the Commonwealth of \$823,845,000 aggregate principal amount of General Obligation Bonds, Consolidated Loan of 2001, Series D, dated November 1, 2001 (the "Bonds").

The Bonds mature and bear interest and are subject to redemption at such times, in such amounts, at such prices and upon such terms and conditions as are set forth in the Bonds. The Bonds are immobilized in the custody of The Depository Trust Company and a book entry system is being used to evidence ownership and transfer on the records of The Depository Trust Company and its participants.

We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion. On the basis of this examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid general obligations of The Commonwealth of Massachusetts and the full faith and credit of the Commonwealth are pledged for the payment of the principal of and interest on the Bonds. It should be noted, however, that Chapter 62F of the General Laws of The Commonwealth of Massachusetts 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.
2. 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.

3. The interest on the Bonds (including any accrued original issue discount properly allocable thereto) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes 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 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). The opinions set forth in the preceding sentence are subject to the condition that the Commonwealth comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Commonwealth has covenanted to comply with these requirements. Failure to comply with certain of these requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding any other tax consequences arising with respect to the Bonds.

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Yours faithfully,

The Commonwealth of Massachusetts

General Obligation Bonds
Consolidated Loan of 2001, Series D

Continuing Disclosure Undertaking
[to be included in bond form]

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the Bonds to provide to each nationally recognized municipal securities information repository (each, a “NRMSIR”) within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”) and to the state information depository for the Commonwealth, if any (the “SID”), within the meaning of the Rule, no later than 270 days after the end of each fiscal year of the Commonwealth, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Commonwealth for such fiscal year if audited financial statements are then available, provided, however, that if audited financial statements of the Commonwealth are not then available, such audited financial statements shall be delivered to each NRMSIR and the SID when they become available (but in no event later than 350 days after the end of such fiscal year) or (ii) notice of the Commonwealth’s failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Commonwealth’s Information Statement dated April 27, 2001 (the “Information Statement”), as it appears as Appendix A in the Official Statement dated May 9, 2001 relating to the Commonwealth’s General Obligation Bonds, Consolidated Loan of 2001, Series B, and substantially in the same level of detail as is found in the referenced section of the Information Statement:

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

Financial Information and Operating Data Category	Reference to Information Statement for Level of Detail
7. If and to the extent otherwise updated in the prior fiscal year, summary presentation of the size of the state workforce	“STATE WORKFORCE”
8. Five-year summary presentation of actual capital project expenditures	“COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - Capital Spending Plan”
9. Statement of Commonwealth debt and debt related to general obligation contract liabilities as of the end of the prior fiscal year	“COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - General Authority to Borrow and Types of Long-Term Liabilities - Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities”
10. Five-year comparative presentation of long term Commonwealth debt and debt related to general obligation contract liabilities as of the end of the prior fiscal year	“COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - General Authority to Borrow and Types of Long-Term Liabilities - Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities”
11. Annual fiscal year debt service requirements for Commonwealth general obligation and special obligation bonds, beginning with the current fiscal year	“COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - Debt Service Requirements on Commonwealth Bonds”
12. Annual fiscal year contract assistance requirements for Commonwealth general obligation contract assistance, beginning with the current fiscal year	“COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - General Obligation Contract Assistance Liabilities”
13. Annual fiscal year budgetary contractual assistance liabilities for Commonwealth, beginning with the current fiscal year	“COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - Budgetary Contractual Assistance Liabilities”
14. Five-year summary presentation of authorized but unissued general obligation debt	“COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - Authorized But Unissued Debt”
15. So long as Commonwealth statutes impose a limit on the amount of outstanding “direct” bonds, information as to compliance therewith as of the end of the prior fiscal year	“COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - Statutory Debt Limit on Direct Debt”

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

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

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

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

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

^{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.

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

FINANCIAL GUARANTY INSURANCE POLICY

**MBIA Insurance Corporation
Armonk, New York 10504**

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

**[PAR]
[LEGAL NAME OF ISSUE]**

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with State Street Bank and Trust Company, N.A., in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to State Street Bank and Trust Company, N.A., State Street Bank and Trust Company, N.A. shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancelable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

President

Attest:

Assistant Secretary