NEW ISSUE - BOOK-ENTRY-ONLY

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

THE COMMONWEALTH OF MASSACHUSETTS

$250,000,000
General Obligation Bonds
Consolidated Loan of 1999, Series A

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 February 1, 1999 and interest will be payable on August 1, 1999 and semiannually thereafter on February 1 and August 1, calculated on the basis of a 360-day year of twelve 30-day months, except in the case of the Bonds maturing on February 1, 2004, in respect of which no interest payments will be made. The Bonds are not subject to redemption prior to maturity.

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

The Bonds are offered when, as and if issued and received by the original purchasers, and subject to the unqualified approving opinion as to legality of Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Disclosure Counsel. Settlement of the issue is expected at DTC in New York, New York, on or about March 9, 1999.

February 24, 1999

THE COMMONWEALTH OF MASSACHUSETTS

$250,000,000
General Obligation Bonds
Consolidated Loan of 1999, Series A

Dated: February 1, 1999 **Due: February 1, as shown below**

Maturity	Amount	Interest Rate	Price or Yield
2000	$23,955,000	4.00%	2.92%
2001	24,915,000	4.00	3.30
2002	25,910,000	4.125	3.59
2003	26,980,000	4.00	3.65
2004	28,060,000	0.00	3.85
2005	28,060,000	5.00	3.85
2006	29,460,000	4.25	3.95
2007	30,715,000	4.00	4.05
2008	31,945,000	5.00	4.10

(accrued interest, if any, to be added)

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

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

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THE COMMONWEALTH OF MASSACHUSETTS

CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

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

OFFICIAL STATEMENT

THE COMMONWEALTH OF MASSACHUSETTS

$250,000,000
General Obligation Bonds
Consolidated Loan of 1999, Series A

INTRODUCTION

This Official Statement (including the cover pages and Appendices A through C attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of $250,000,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 1999, Series A (the "Bonds"). The Bonds will be general obligations of the Commonwealth, and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and expenditures for debt service, see "SECURITY FOR THE BONDS" and the Commonwealth Information Statement (described below) under the headings "COMMONWEALTH REVENUES—Limitations on Tax Revenues" and "COMMONWEALTH BOND AND NOTE LIABILITIES—Limit on Debt Service Appropriations."

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

Purpose and Content of Official Statement

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

Attached hereto as Appendix A is the Commonwealth's Information Statement dated February 16, 1999 (the "Information Statement"), which contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth. Exhibit A to the Information Statement contains certain economic information concerning the Commonwealth. Exhibits B and C to the Information Statement contain the financial statements of the Commonwealth for the fiscal year ended June 30, 1998, prepared on a statutory basis and a GAAP basis, respectively. Specific reference is made to said Exhibits B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission

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

THE BONDS

General

The Bonds will be dated February 1, 1999 and will bear interest from such date payable semiannually on August 1 and February 1 of each year, commencing August 1, 1999 (each an "Interest Payment Date") until the principal amount is paid, except in the case of the Bonds maturing on February 1, 2004, in respect of which no interest payments will be made. The Bonds will mature on February 1 in the years and in the aggregate principal amounts, and shall bear interest, except as aforesaid, at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months), as set forth on the inside cover page of this Official Statement. The Commonwealth will act as its own paying agent with respect to the Bonds. The Commonwealth reserves the right to appoint from time to time a paying agent or agents or bond registrar for the Bonds.

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

Redemption

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

Application of Proceeds of the Bonds

The Bonds are being issued pursuant to the provisions of Section 49 of Chapter 29 of the Massachusetts General Laws and bond authorizations contained in various special laws enacted by the legislature. The net proceeds of the sale of the Bonds will be applied by the Treasurer and Receiver-General of the Commonwealth (the "State Treasurer") to the various purposes for which the issuance of bonds has been authorized pursuant to such special laws, or to the payment of bond anticipation notes previously issued for such purposes, or to reimburse the 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 net premium received by the Commonwealth upon original delivery of the Bonds will be applied to the costs of issuance thereof and other financing costs related thereto or, without appropriation, to the payment of the principal of or sinking fund installments with respect to the Bonds.

The purposes for which the Bonds will be issued have been authorized by the legislature under various bond authorizations and 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. The proceeds of the Bonds are expected to be applied to reimburse the state treasury for capital expenditures made in fiscal year 1999 pursuant to the plan. See Appendix A—"Commonwealth Information Statement" under the headings "COMMONWEALTH CAPITAL SPENDING" and "COMMONWEALTH BOND AND NOTE LIABILITIES—Authorized But Unissued Debt."

SECURITY FOR THE BONDS

The Bonds will be general obligations of the Commonwealth to which its full faith and credit will be pledged for the payment of principal and interest when due. However, it should be noted that Chapter 62F of the Massachusetts

General Laws imposes a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit. It should be noted further that Section 60B of Chapter 29 of the Massachusetts General Laws imposes an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on general obligation debt of the Commonwealth. These statutes are both subject to amendment or repeal by the Legislature. Currently, both actual tax revenue growth and annual general obligation debt service are below the statutory limits. See Appendix A—"Commonwealth Information Statement" under the headings "COMMONWEALTH REVENUES —Limitations on Tax Revenues" and "COMMONWEALTH BOND AND NOTE LIABILITIES—Limit on Debt Service Appropriations."

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

LITIGATION

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

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

BOOK-ENTRY-ONLY SYSTEM

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

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

Purchases of Bonds under the DTC system must be made by or through DTC Participants, which will receive a credit for the Bonds in the records of DTC. The ownership interest of each actual purchaser of each Bond (the

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

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

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

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

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

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

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

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

The principal of and interest and premium, if any, on the Bonds will be paid to DTC or its nominee, Cede & Co., as registered owner of the Bonds. Upon receipt of moneys, DTC's practice is to credit the accounts of the DTC Participants on the payable date in accordance with their respective holdings shown on the records of DTC 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 IBCA, Inc., Moody's Investors Service, Inc. and Standard & Poor's Ratings Service of "AA-," "Aa3" 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.

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, which with respect to a Bond is equal to the excess, if any, of the stated redemption price at maturity of such Bond over the initial offering price thereof to the public, excluding underwriters and other intermediaries, at which price a substantial amount of all substantially identical Bonds were sold. Original issue discount accrues over the term of a Bond in accordance with Section 1272 of the Code. Purchasers of Bonds should consult their own tax advisers with respect to the computation of original issue discount on such accruals of interest during the period in which any such Bond is held.

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

OPINIONS OF COUNSEL

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

COMPETITIVE SALE OF BONDS

After competitive bidding on February 24, 1999, the Bonds were awarded to a group of underwriters led by Morgan Stanley & Co., Inc. The underwriters have supplied the information as to the public offering yields or prices of the Bonds set forth on the inside cover hereof. If all of the Bonds were resold to the public at such yields or prices, the underwriters have informed the Commonwealth that they anticipate the total underwriter compensation to be $736,500.00. The underwriters may change the public offering yields or prices from time to time.

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 C attached hereto.

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

MISCELLANEOUS

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

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

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

AVAILABILITY OF OTHER INFORMATION

Questions regarding this Official Statement or requests for additional financial information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900, Lowell L. Richards, III, Assistant Secretary for Capital Resources, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040, or Catherine R. Frazer, Director of Debt Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Official Statement and the Bonds should be directed to Walter J. St. Onge, III, Palmer & Dodge LLP, One Beacon Street, Boston, Massachusetts 02108, telephone 617/573-0389.

THE COMMONWEALTH OF MASSACHUSETTS

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

By /s/ Frederick A. Laskey
Frederick A. Laskey
Secretary of Administration and Finance

February 24, 1999

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APPENDIX A

THE

COMMONWEALTH

OF

MASSACHUSETTS

INFORMATION STATEMENT

Dated February 16, 1999

THE COMMONWEALTH OF MASSACHUSETTS

CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

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

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THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT

February 16, 1999

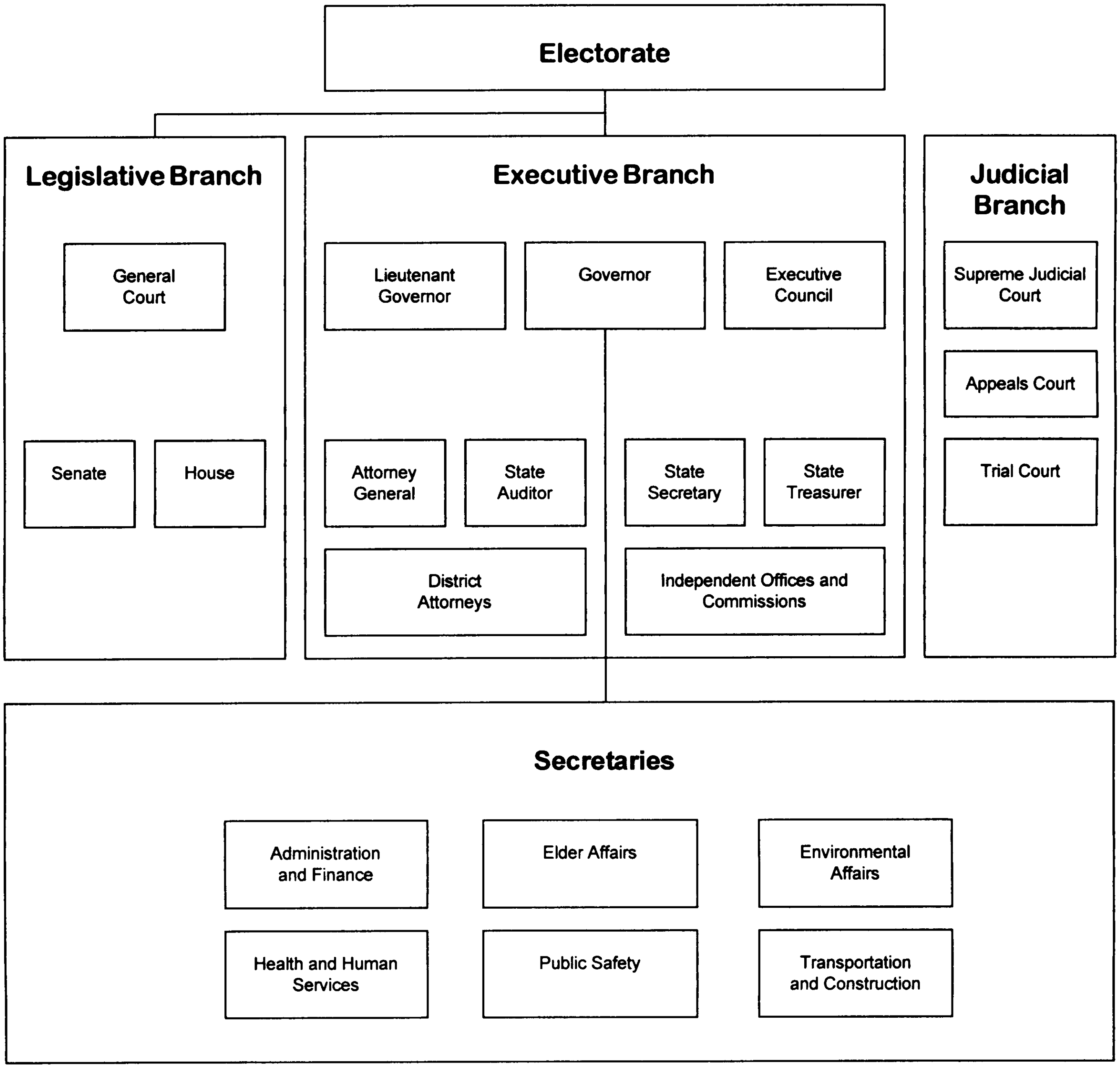
This Information Statement, together with its Exhibits (included by reference as described below), is furnished by The Commonwealth of Massachusetts (the "Commonwealth"). It contains certain fiscal, financial and economic information concerning the Commonwealth and its ability to meet its obligations.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

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

Exhibit A to this Information Statement sets forth certain economic, demographic and statistical information concerning the Commonwealth. Exhibits B and C are the fiscal 1998 Statutory Basis Financial Report and the fiscal 1998 Comprehensive Annual Financial Report (GAAP basis), respectively. Specific reference is made to said Exhibits A, B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. The financial statements are also available at the Comptroller's home page located at www.state.ma.us/osc.

THE GOVERNMENT

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



Executive Branch

The Governor is the chief executive officer of the Commonwealth. Other elected members of the executive branch are the Lieutenant Governor (elected with the Governor), the Treasurer and Receiver-General (the "State Treasurer"), the Secretary of the Commonwealth, the Attorney General and the State Auditor. All are elected to four-year terms. The terms of the current office holders began in January, 1999.

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

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

Governor's Cabinet. The Governor's Cabinet, which assists the Governor in administration and policy making, is comprised of the secretaries who head the six Executive Offices, which are the Executive Office for Administration and Finance, the Executive Office of Elder Affairs, the Executive Office of Environmental Affairs, the Executive Office of Health and Human Services, the Executive Office of Public Safety and the Executive Office of Transportation and Construction. Cabinet secretaries serve at the pleasure of the Governor. Most agencies are grouped under one of the six Executive Offices for administrative purposes. Other important agencies and departments report directly to the Governor, including the Department of Housing and Community Development, the Department of Consumer Affairs and Business Regulation, the Department of Economic Development and the Department of Labor and Workforce Development. These departments, as well as the Board of Higher Education, had held secretariat status prior to the Legislature's action on the reorganization proposals filed with Governor Weld's fiscal 1997 budget proposal.

Approximately 38.2% of the Commonwealth's fiscal 1999 expenditures in the budgeted operating funds are for programs within the Executive Office of Health and Human Services. The Executive Office for Administration and Finance accounts for approximately 6.3% of such expenditures, the Executive Office of Public Safety for approximately 4.7% and the Executive Office of Transportation and Construction for approximately 3.5%. The remaining secretariats account for approximately 2.0% of such expenditures. Spending for education, which is generally overseen by the state Board of Education or the state Board of Higher Education, accounts for 20.9% of the projected fiscal 1999 expenditures, and spending for the Department of Housing and Community Development, the Department of Economic Development, the Department of Consumer Affairs and Business Regulation, and the Department of Labor and Workforce Development totals 1.5% in fiscal 1999.

Approximately 4.6% of the Commonwealth's fiscal 1999 expenditures in the budgeted operating funds are for the costs and expenses of the constitutional officers (other than the State Treasurer), the Legislature, the Judiciary, the Office of the Comptroller, the Board of Library Commissioners, the Office of the Inspector General, the State Ethics Commission and the Office of Campaign and Political Finance. The State Treasurer's budget contains approximately 17.2% of fiscal 1999 expenditures, including 5.6% for a portion of Commonwealth aid to cities, towns and regional school districts ("Local Aid"), 6.1% for debt service, 4.9% for pension costs, and 0.6% for other programs within the State Treasurer's office, including Lottery administration. See "COMMONWEALTH PROGRAMS AND SERVICES—Local Aid."

The remaining 1.0% of fiscal 1999 expenditures is reserved for contingencies.

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

State Comptroller. All accounting policies and practices, publication of official financial reports and oversight of fiscal management functions are the responsibility of the Comptroller. The Comptroller also administers the annual state single audit and operates the state accounting system. The Comptroller is appointed by the Governor for a term coterminous with the Governor's and may be removed by the Governor only for cause. The annual financial reports of the Commonwealth, single audit reports and any rules and regulations promulgated by the Comptroller must be reviewed by an advisory board. This board is chaired by the Secretary of Administration and Finance and includes the State Treasurer, the Attorney General, the State Auditor, the Chief Administrative Justice of the Trial Court and two persons with relevant experience appointed by the Governor for three-year staggered terms. The Commonwealth has retained the independent public accounting firm of Deloitte & Touche, LLP to audit the Commonwealth's general purpose financial statements and to conduct the state single audit. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS."

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

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

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

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

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

Legislative Branch

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

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

Judicial Branch

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

Independent Authorities and Agencies

The Legislature has established 56 independent authorities and agencies within the Commonwealth, the budgets of which are not included in the Commonwealth's annual budget. The Governmental Accounting Standards Board (GASB) statement number 14 articulates standards for determining significant financial or operational relationships between the primary government and its independent entities. The Commonwealth has significant operational or financial relationships, or both, as defined by this statement, with 37 of its 56 authorities. For example, the Commonwealth appropriates budgetary funds for subsidies, operating assistance and debt service payments (and/or is liable for all or a portion of the outstanding debt) of certain of these authorities and agencies, such as the Massachusetts Bay Transportation Authority, the Boston Metropolitan District, the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority, certain regional transit authorities, the Massachusetts Convention Center Authority and the Massachusetts Development Finance Agency (as successor to the Massachusetts Government Land Bank). The Commonwealth guarantees debt issued by two higher education building authorities and may be called upon to replenish the capital reserve funds of the Massachusetts Housing Finance Agency and the Massachusetts Home Mortgage Finance Agency. The Commonwealth has also guaranteed certain bond anticipation notes issued by the Massachusetts Turnpike Authority, but the Commonwealth has no liability for the Turnpike Authority's bonds. See "COMMONWEALTH BOND AND NOTE LIABILITIES." The Commonwealth also appropriates budgetary funds for certain debt service payments of the Massachusetts Water Pollution Abatement Trust. See "OTHER COMMONWEALTH LIABILITIES—Massachusetts Water Pollution Abatement Trust." Other independent authorities and agencies which issue their own debt for quasi-governmental purposes include the Massachusetts Educational Financing Authority, the Massachusetts Health and Educational Facilities Authority, the Massachusetts Development Finance Agency (as successor to the Massachusetts Industrial Finance Agency), the Massachusetts Port Authority and the Massachusetts Water Resources Authority. A discussion of these entities and the relationship to the Commonwealth is included in footnote 1 to the fiscal 1998 general purpose financial statements in the Comprehensive Annual Financial Report included herein by reference as Exhibit C.

Local Government

Below the level of state government are 9 county governments responsible for various functions, principally the operation of houses of correction and registries of deeds. There are 14 counties in Massachusetts, but county government has been abolished in five of them and is scheduled to terminate in two others. In his fiscal 2000 budget, Governor Cellucci recommended the elimination of two additional county governments during the next two fiscal years. Under legislation enacted in 1996, Franklin County government terminated on July 1, 1997 in favor of a regional council of governments. Legislation approved by Governor Weld on July 11, 1997 abolished Middlesex County government on that date and provided for the abolition of county government in Hampden and Worcester Counties on July 1, 1998. On August 13, 1998, Acting Governor Cellucci approved legislation abolishing county government in Hampshire, Essex and Berkshire Counties on January 1, 1999, July 1, 1999 and July 1, 2000, respectively, generally as provided in the 1997 legislation that abolished county government in Middlesex, Hampden and Worcester counties. Acting Governor Cellucci vetoed provisions in the legislation that would have placed responsibility for county retirees on the remaining municipalities making up the county retirement system. Under the 1997 legislation, virtually all functions, duties and responsibilities of the affected counties are transferred to the Commonwealth. As of the date of abolition of an affected county's government, all valid liabilities and debts of such county which are in force immediately before such date become obligations of the Commonwealth, and all assets and revenues of such county become assets and revenues of the Commonwealth. The Secretary of Administration and Finance is directed to establish an amortization schedule to recover the Commonwealth's costs from the cities and towns within each such county over a period not to exceed 25 years. The Secretary of Administration and Finance is charged with compiling an inventory and providing for the valuation of all property of all counties in the Commonwealth for the purposes of considering the abolition of county government and the transfer of its functions, assets and liabilities to the Commonwealth, and is required to file a report by February 1, 1999, which report has been delayed. The legislation approved August 13, 1998 directs the Secretary of Administration and Finance to analyze, in consultation with the Public Employee Retirement Administration Commission, the potential cost to the Commonwealth of transferring current and retired county employees to the state retirement system. This report was provided to the Legislature in January, 1999.

All territory in the Commonwealth is in one of the 14 counties and in one of the 351 incorporated cities and towns which exercise the functions of local government. Cities and towns or regional school districts established by them provide elementary and secondary education. Cities are governed by several variations of the mayor-and-council or manager-and-council form. Most towns place executive power in a board of three or five selectmen elected to one- or three-year terms and retain legislative powers in the voters themselves, who assemble in periodic open or representative town meetings. Various local and regional districts exist for schools, parks, water and wastewater administration and certain other governmental functions.

Municipal revenues consist of property taxes, Local Aid, local receipts (including motor vehicle excise taxes, local option taxes, fines, licenses and permits, charges for local services and investment income) and other available funds (including general and dedicated reserve funds). Following the enactment in 1980 of the tax limitation initiative petition commonly known as Proposition 2½, most local governments have been forced to rely on other revenues, principally Local Aid, to support local programs and services. See "COMMONWEALTH PROGRAMS AND SERVICES—Local Aid."

Initiative Petitions

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

COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS

Operating Fund Structure

Budgeted Operating Funds. The Commonwealth's operating fund structure satisfies the requirements of state finance law and is in accordance with generally accepted accounting principles ("GAAP"), as defined by the Governmental Accounting Standards Board. The General Fund and those special revenue funds which are appropriated in the annual state budget receive most of the non-bond and non-federal grant revenues of the Commonwealth. These funds are referred to in this Information Statement as the "budgeted operating funds" of the Commonwealth. They do not include the capital projects funds of the Commonwealth, into which the proceeds of Commonwealth bonds are deposited. See "Overview of Capital Spending Process and Controls; *Capital Projects Fund Structure.*" The three principal budgeted operating funds are the General Fund, the Highway Fund and the Local Aid Fund. Expenditures from these three funds generally account for approximately 93% of total expenditures of the budgeted operating funds.

Year-end Surpluses. State finance law provides for a Stabilization Fund, a Capital Projects Fund and a Tax Reduction Fund relating to the use of any aggregate fiscal year-end surplus in the Commonwealth's three principal budgeted operating funds (the General Fund, the Local Aid Fund and the Highway Fund). A limitation equal to 0.5% of total tax revenues is imposed on the amount of any such aggregate surplus which may be carried forward as a beginning balance for the next fiscal year. For any fiscal year for which the Comptroller determines on or before October 31 of the succeeding fiscal year that there is a negative balance in the state's capital projects funds, the Comptroller may transfer up to 40% of the remaining year-end surplus to a separate Capital Projects Fund to be used in lieu of bonds to finance capital expenditures. The remainder of any such aggregate year-end surplus is reserved in the Stabilization Fund, from which funds can be appropriated (i) to make up any difference between actual state revenues and allowable state revenues in any fiscal year in which actual revenues fall below the allowable amount, (ii) to replace state and local losses of federal funds or (iii) for any event, as determined by the Legislature, which threatens the health, safety or welfare of the people or the fiscal stability of the Commonwealth or any of its political subdivisions. Up to 7.5% of budgeted revenues and other financial resources pertaining to the budgeted funds, as confirmed by the Comptroller in the audited statutory basis financial report for the immediately preceding fiscal year, may be accumulated in the Stabilization Fund. Amounts in excess of that limit are to be transferred to a Tax Reduction Fund, from which they are to be applied to the reduction of personal income taxes. For fiscal 1997, the statutory ceiling on the Stabilization Fund was 5% of budgeted revenues and other financial resources pertaining to the budgeted funds, and prior to fiscal 1997, the statutory ceiling on the Stabilization Fund was 5% of total tax revenues less the amount of annual debt service costs. For each of the 1995 and 1996 fiscal years, the Legislature overrode the general provisions governing deposits to or the use of excess balances in the Stabilization Fund by the enactment of one-time modifications. See "FINANCIAL RESULTS – Selected Financial Data – Statutory Basis."

Overview of Budgetary Process

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

The House Ways and Means Committee considers the Governor's budget recommendations and, with revisions, proposes a budget to the full House of Representatives. Once approved by the House, the budget is considered by the Senate Ways and Means Committee, which in turn proposes a budget to be considered by the full Senate. After Senate action, a legislative conference committee generally develops a compromise budget for consideration by both houses of the Legislature, which upon adoption is sent to the Governor. Under the Massachusetts constitution, the Governor may veto the budget in whole or disapprove or reduce specific line items. The Legislature may override the Governor's veto or specific line-item vetoes by a two-thirds vote of both the House and Senate. The annual budget legislation, as finally enacted, is known as the General Appropriation Act.

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

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

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

Cash and Budgetary Controls

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

In addition, the Commonwealth's Finance Advisory Board is obligated by law to survey periodically the debt instruments of the Commonwealth and report on the Commonwealth's financial structure, including debt and financial marketing plans. The Board consists of the State Treasurer and four members appointed by the Governor.

Cash Management Practices of State Treasurer

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

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

The State Treasurer is required to submit quarterly cash flow projections for the then current fiscal year to the House and Senate Committees on Ways and Means on or before each August 25, November 25, February 25 and May 25. The projections must include estimated sources and uses of cash, together with the assumptions from which such estimates were derived and identification of any cash flow gaps. Regular meetings comparing estimated to actual revenues and expenditures are held among the Office of the State Treasurer, the Office of the Comptroller, the Department of Revenue and the Executive Office for Administration and Finance.

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

Fiscal Control, Accounting and Reporting Practices of Comptroller

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

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

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

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

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

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

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

For most Commonwealth programs and services, the measurement of expenditures under the statutory basis of accounting is equivalent to such measurement on a GAAP basis. However, for certain federally mandated entitlement programs, such as Medicaid, expenditures are recognized under the statutory basis of accounting to the extent of disbursements on appropriations made through June 30 of each fiscal year. The approximate net effect of this statutory practice is to charge in each fiscal year the Medicaid bills of the last two or three months of the preceding fiscal year and the first nine or ten months of the current fiscal year.

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

Under GAAP, revenues are reported in the period in which they become both measurable and available. Revenues are "available" when they are expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants and reimbursements, local government assessments for operations of the Massachusetts Bay Transportation Authority (MBTA) and reimbursements for the use of materials and services. Tax accruals, which represent the estimated amounts due to the Commonwealth on previous filings, over and under withholdings, estimated payments on income earned and tax refunds and abatements payable, are all recorded as adjustments to statutory basis tax revenues. Expenditures/expenses are recorded in the period in which the related fund liability is incurred. Principal of and interest on long-term debt obligations are recorded as fund liabilities when due. Major expenditure accruals are recorded for the cost of Medicaid claims that have been incurred but not paid, net cost of service payments due to the MBTA, claims and judgments and compensated absences such as vacation pay earned by state employees. See "FINANCIAL RESULTS – Selected Financial Data – GAAP Basis" and Exhibit C (Fiscal 1998 Comprehensive Annual Financial Report).

Financial Reports. The Commonwealth's fiscal year ends on June 30. For fiscal years 1986 through 1989, the Commonwealth's audited annual report included audited financial statements on both the statutory basis of accounting and the GAAP basis. Since fiscal 1990, these financial statements have been issued as two separate reports, one utilizing the statutory basis of accounting (the Statutory Basis Financial Report) and one utilizing the GAAP basis (the Comprehensive Annual Financial Report, or CAFR). The Statutory Basis Financial Report is published by the Comptroller by October 31, and the CAFR is published by the Comptroller by the second Wednesday in January. The Statutory Basis Financial Report for fiscal 1998 and the CAFR for fiscal 1998 are included herein by reference as Exhibits B and C, respectively. For fiscal 1991 through 1998 the independent auditor's opinions were unqualified. Copies of these financial reports are available at the address provided under "CONTINUING DISCLOSURE." These financial statements are also available on the Comptroller's home page located at www.state.ma.us/osc. Throughout the year, the Comptroller prepares interim financial statements on the statutory basis of accounting, which are not audited, but are considered authoritative.

The Comptroller retains an independent certified public accounting firm to render opinions on the Commonwealth's financial statements and on certain other reports required by the single audit. As part of the single audit, the independent auditors render a report on all programs involving federal funding for compliance with federal and state laws and regulations and assess the adequacy of internal control systems. A separate report is issued on all programs not involving federal funding.

The Commonwealth CAFRs for fiscal 1994 through fiscal 1997, from which certain information contained in this Information Statement has been derived, were each awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. Fiscal 1997 is the eighth consecutive year that the Commonwealth has received this award.

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

Overview of Capital Spending Process and Controls

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

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

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

Audit Practices of State Auditor

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

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

FINANCIAL RESULTS

As the annual operating budget of the Commonwealth is adopted in accordance with the statutory basis of accounting, public and governmental discourse on the financial affairs of the Commonwealth has traditionally followed the statutory basis. Consequently, the financial information set forth in this document follows the statutory basis, except where otherwise noted. Since fiscal 1990, the Commonwealth has prepared separate audited financial reports on the statutory basis and on a GAAP basis. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Fiscal Control, Accounting and Reporting Practices of the Comptroller; *Financial Reports*." The Statutory Basis Financial Report for fiscal 1998 is included herein by reference as Exhibit B. The Comprehensive Annual Financial Report for fiscal 1998 is included herein by reference as Exhibit C.

Selected Financial Data—Statutory Basis

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth's audited statutory basis financial statements for fiscal 1994 through 1998, and estimates for fiscal 1999 prepared by the Executive Office for Administration and Finance. The financial information presented includes all budgeted operating funds of the Commonwealth. When the status of a fund has changed during this period, prior years have been restated to conform to the fiscal 1999 budget.

In fiscal 1998, the Commonwealth reported 58 budgeted operating funds. During a fiscal year there are numerous transactions among these budgeted funds, which from the fund accounting perspective create offsetting inflows and outflows.

In conducting the budget process, the Executive Office for Administration and Finance excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds. The following table isolates this interfund activity from the budgeted sources and uses to align more clearly forecasts prepared during the budget process to the detailed fund accounting of the Commonwealth's annual financial statements. The table also isolates the assessments on municipalities collected by the Commonwealth and paid to the Massachusetts Bay Transportation Authority and regional transit authorities. This activity is recorded in the Commonwealth's financial statements as part of the General Fund, but it is not appropriated or included in the budget process.

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

	Fiscal 1994	Fiscal 1995	Fiscal 1996	Fiscal 1997	Fiscal 1998	Estimated Fiscal 1999
Beginning Fund Balances						
Reserved or Designated	$ 110.4	$ 79.3	$ 128.1	$ 263.4	$ 225.1	$ 286.3
Tax Reduction Fund	--	--	--	231.7	91.8	367.7
Stabilization Fund	309.5	382.9	425.4	543.3	799.3	1,159.6
Undesignated	142.6	127.1	172.5	134.0	277.8	378.5
Fund Balance Restatement	--	--	--	0.6(1)	--	--
Total	562.5	589.3	726.0	1,173.0	1,394.0	2,192.1
Revenues and Other Sources						
Taxes	10,606.7	11,163.4	12,049.2	12,864.5	14,026.3	14,000.0
Federal Reimbursements	2,901.2	2,969.7	3,039.1	3,019.6	3,361.2	3,427.5
Departmental and Other Revenues	1,187.9	1,273.1	1,208.1	1,267.9	1,286.4	1,285.0
Interfund Transfers from Non-budgeted Funds and Other Sources	853.9	981.0	1,031.1	1,018.0	1,125.9	986.2
Budgeted Revenues and Other Sources	15,549.7	16,387.2	17,327.5	18,170.0	19,799.8	19,698.7
Mass Transit Assessments from Municipalities	140.4	143.9	147.6	151.5	155.6	159.5
Interfund Transfers among Budgeted Funds and Other Sources	289.1	399.7	896.2	901.8	1,449.2	747.7
Total Revenues and Other Sources	15,979.2	16,930.8	18,371.3	19,223.3	21,404.6	20,605.9
Expenditures and Uses						
Programs and Services	13,416.2	14,010.3	14,650.7	15,218.8	16,238.6	17,807.6
Debt Service	1,149.4	1,230.9	1,183.6	1,275.5	1,213.4	1,231.0
Pensions	908.9	968.8	1,004.6	1,069.2	1,069.8	990.8
Interfund Transfers to Non-budgeted Funds and Other Uses	48.4	40.4	42.2	385.5	479.9	121.3(2)
Budgeted Expenditures and Other Uses	15,522.9	16,250.5	16,881.1	17,949.0	19,001.7	20,150.7
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	140.4	143.9	147.6	151.5	155.6	159.5
Interfund Transfers among Budgeted Funds and Other Uses	289.1	399.7	896.2	901.8	1,449.2	747.7
Total Expenditures and Other Uses	15,952.4	16,794.1	17,924.9	19,002.3	20,606.5	21,057.9
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	26.8	136.7	446.4	221.0	798.1	(452.0)
Transfer of Excess to Capital Projects Fund	--	--	--	--	--	(37.1)(3)
Net Balance	--	--	--	--	--	(489.1)
Ending Fund Balances						
Reserved or Designated	79.3	128.1	263.4	225.1	286.3	26.1
Tax Reduction Fund	--	--	231.7	91.8	367.7	1.2
Stabilization Fund	382.9	425.4	543.3	799.3	1,159.6	1,267.4
Undesignated	127.1	172.5	134.0	277.8	378.5	408.3
Total	$ 589.3	$ 726.0	$ 1,172.4	$ 1,394.0	$ 2,192.1	$ 1,703.0

SOURCE: Fiscal 1994-1998, Office of the Comptroller; fiscal 1999, Executive Office for Administration and Finance.

1. 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.
2. Included within this amount is an $80 million transfer which the Administration will request of the Legislature to finance transportation construction projects with operating revenues. The Administration intends to make similar appropriation requests for the majority of any additional surplus revenues which are realized, as they become available for appropriation.
3. The amount of any Capital Projects Fund transfer will be determined by the Comptroller when the books are closed for fiscal 1999 on October 31, 1999. After the books are closed, such amount will be treated as an interfund transfer to non-budgeted funds and other uses.

At the end of fiscal 1997 and fiscal 1998, the Legislature mandated several extraordinary fund transfers which had the effect of using revenues collected in those years that would otherwise have been surplus. Such transfers are included in the table above under "Interfund Transfers among Budgeted Funds and Other Sources" and "Interfund Transfers to Non-budgeted Funds and Other Uses." In addition, the Legislature increased in each such year the amount that could be held in the Stabilization Fund. The effect of those changes was to increase the ceiling for fiscal 1997 to approximately $908.5 million and for fiscal 1998 to approximately $1.485 billion. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS – Operating Fund Structure; *Year-end Surpluses*."

On account of fiscal 1997, such transfers included transfer of (i) $229.8 million to a Capital Investment Trust Fund to finance certain specified capital expenditures (the spending authorization will expire at the end of fiscal 1999 and any unexpended balances will be transferred to the Stabilization Fund), (ii) $100 million to the Stabilization Fund (in addition to the $134.3 million transfer required by state finance law), (iii) $128 million to a Caseload Increase Mitigation Fund to finance Department of Transitional Assistance programs in the event caseloads increase beyond budgetarily contemplated levels and (iv) $20.2 million to the Massachusetts Water Pollution Abatement Trust for state capitalization grants for the state revolving fund programs (see "OTHER COMMONWEALTH LIABILITIES – Massachusetts Water Pollution Abatement Trust"). In addition, the Comptroller transferred approximately $89.5 million to the capital projects funds pursuant to the provisions of state finance law governing year-end surpluses (see "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS – Operating Fund Structure; *Year-end Surpluses*").

On account of fiscal 1998, such transfers included transfer of (i) $162.5 million to a newly established Tax Exemption Escrow Trust Fund, where such amounts will be held until the end of fiscal 1999, when they will be transferred with interest back to the General Fund (the effect of this provision being to charge to fiscal 1998 the allocable cost of certain retroactive income tax reductions – see "COMMONWEALTH REVENUES – State Taxes"), (ii) $45 million to a new Brownfields Revitalization Fund for expenditure on brownfields-related costs through fiscal 2001, (iii) $60 million to a new Teacher Quality Endowment Fund, the earnings on which are to be used to pay signing bonuses to incoming teachers and salary bonuses to existing teachers under a new master teacher corps program, with the corpus of the fund to be left intact, (iv) $200 million to the Tax Reduction Fund, to be applied to a temporary increase in the personal exemptions applicable to 1998 income taxes, (v) $150 million to the Stabilization Fund (in addition to the $167.4 million transfer required by state finance law) and (vi) approximately $379.3 million to a Capital Improvement and Investment Trust Fund to finance various specified capital expenditures through fiscal 2000. With respect to the last transfer, Acting Governor Cellucci vetoed many of the proposed capital expenditures, reducing the amount of the proposed transfer to approximately $189.2 million. The Legislature also authorized approximately $62.9 million in additional revenues from the state lottery to be distributed to cities and towns on account of fiscal 1998 and made approximately $70.9 million of fiscal 1998 appropriations available for expenditure in fiscal 1999 to fund various collective bargaining agreements. In addition, the Comptroller transferred approximately $111.6 million to the capital projects funds pursuant to the provisions of state finance law governing year-end surpluses (see "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS – Operating Fund Structure; *Year-end Surpluses*").

Selected Financial Data—GAAP Basis

The following table provides financial results on a GAAP basis for fiscal years 1994 through 1998 for all budgeted operating funds of the Commonwealth.

Budgeted Operating Funds Operations - GAAP Basis
(in millions)

	Fiscal 1994	Fiscal 1995	Fiscal 1996	Fiscal 1997	Fiscal 1998
Beginning fund balances (deficits)	$(184.1)	$(72.0)	$287.4	$709.2	$1,096.3
Equity transfer	0.0	91.0	0.0	0.0	0.0
Restated beginning balances (deficits)	(184.1)	19.0	287.4	709.2	1,096.3
Revenues and Financing Sources					
Taxes	10,602.7	11,253.4	11,916.9	13,020.8	14,021.8
Federal Grants and Reimbursements	2,918.1	2,850.0	2,945.2	3,073.4	3,337.6
Department and Other Revenues	1,303.8	1,336.3	1,306.1	1,346.4	1,404.0
Interfund Transfers and Other Sources	980.3	1,077.8	1,356.4	1,405.3	1,576.5
Total	15,804.9	16,517.5	17,524.6	18,845.9	20,339.9
Expenditures and Financing Uses					
Programs and Services	12,238.8	13,017.8	13,729.6	14,581.4	15,477.6
Debt Service	1,149.2	1,163.4	1,392.9	1,275.5	1,213.3
Pensions	830.2	642.2	382.5	413.1	414.3
Interfund Transfers and Other Uses	1,474.6	1,425.7	1,597.8	2,188.8	2,489.6
Total	15,692.8	16,249.1	17,102.8	18,458.8	19,594.8
Excess	112.1	268.4	421.8	387.1	745.1
Ending fund balances (deficits)	$(72.0)	$287.4	$709.2	$1,096.3	$1,841.4

SOURCE: Office of the Comptroller.

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

1999 FISCAL YEAR

Acting Governor Cellucci approved the fiscal 1999 budget on July 30, 1998. The Governor vetoed or reduced appropriations totaling approximately $100.9 million. On July 31, 1998, the Legislature overrode several of those vetoes, restoring approximately $63.1 million in spending. After accounting for the value of vetoes and subsequent overrides, the budget provided for total appropriations of approximately $19.5 billion. Governor Cellucci has approved four fiscal 1999 supplemental appropriation bills totaling approximately $51 million, $41.1 million of which have funded collective bargaining costs. On January 27, 1999, Governor Cellucci filed a supplemental budget totaling approximately $190.1 million. The supplemental recommendation includes approximately $22.8 million for ongoing operations and programs and approximately $167.3 million for one-time expenditures, including $50 million for local road and bridge work and $15 million for Year 2000 compliance. The Executive Office for Administration and Finance projects total fiscal 1999 spending of $21.151 billion, a 6.0% increase over total fiscal 1998 spending.

The fiscal 1999 appropriation for pension funding is approximately $965.3 million. This amount is consistent with the amount requested by the Acting Governor, but is approximately $93.9 million less than the amount required by the initial 20-year pension funding schedule developed at the time the fiscal 1998 budget was enacted. See "OTHER COMMONWEALTH LIABILITIES – Retirement Systems and Pension Benefits; *Pension Funding Plan.*"

The fiscal 1999 budget is based on a consensus tax revenue forecast of $14.4 billion, as agreed by both houses of the Legislature and the Secretary of Administration and Finance in May, 1998. The tax cuts incorporated into the budget, valued by the Department of Revenue at $990 million in fiscal 1999, had the effect of reducing the consensus forecast to $13.41 billion. See "COMMONWEALTH REVENUES – State Taxes." Tax collections in January, 1999 totaled $1.565 billion, an increase of $144.1 million, or 10.1%, over January, 1998. Year-to-date tax collections through January, 1999 totaled $8.251 billion, an increase of $685.9 million, or 9.1%, over the same period in fiscal 1998. On August 19, 1998 the Executive Office for Administration and Finance raised the fiscal 1999 tax estimate by $200 million to $13.61 billion. The year-to-date benchmark range through January, based on the $13.61 annual estimate, was $7.969 billion to $8.146 billion. The fiscal 1999 tax estimate was raised again, to $14.0 billion, in the Governor's budget submission filed on January 27, 1999.

The Commonwealth assesses a fringe reimbursement charge against most payroll spending not financed by the General Fund. This fringe assessment reimburses the General Fund for the costs of employee health and retirement benefits. The Commonwealth had a federally approved fringe rate of 30% in fiscal 1999. Charging the 30% rate in fiscal 1999 would result in a credit to the federal government that would need to be reconciled in future years with sizable fringe reductions. To avoid this future credit with the federal government the Commonwealth is lowering the fringe rate to approximately 17% for federal accounts (and 24% for all other accounts) in fiscal 1999. This change is estimated to reduce fiscal 1999 Interfund Transfers from Non-Budgeted Funds and Other Sources revenue by approximately $58.2 million.

Cash Flow

The most recent cash flow projections for fiscal 1999 were released by the State Treasurer and the Secretary of Administration and Finance on October 29, 1998. The forecast for fiscal 1999 is based on the fiscal 1999 budget signed by Acting Governor Cellucci on July 30, 1998, and includes the values of legislative veto overrides. Projections are based on revenue and spending estimates prepared by the Executive Office for Administration and Finance and incorporate actual results through July, 1998 and monthly projections through June, 1999.

Fiscal 1998 ended with a cash balance of approximately $1.579 billion, without regard to any fiscal 1998 activity that occurred after June 30,1998 and excluding the balance in the Stabilization Fund. The ending balance does reflect that $234.0 million was transferred to the Stabilization Fund in June, 1998 on account of fiscal 1997.

Fiscal 1999 is projected to end with a cash balance of $975.9 million, without regard to any fiscal 1999 activity that occurs after June 30, 1999 and excluding the balance in the Stabilization Fund. The statement projects that $150 million will be transferred to the Stabilization Fund in June, 1999 on account of fiscal 1998, based on the Comptroller's certifications at the time the statement was being prepared. The Comptroller has since certified that an additional $167.4 million will be required to be transferred. The cash flow statement projects the issuance during fiscal 1999 of $1.250 billion of general obligation bonds (of which $250 million are for fiscal 1998 expenditures) and $315 million of grant anticipation notes. The statement projects the receipt of $597 million from the Massachusetts Turnpike Authority and the Massachusetts Port Authority in fiscal 1999 on account of the Central Artery/Ted Williams Tunnel project, and the issuance during fiscal 1999 of $306 million of Commonwealth notes in anticipation of future payments from such authorities for the project. See "COMMONWEALTH CAPITAL SPENDING – Central Artery/Ted Williams Tunnel Project."

Neither the issuance of transit notes nor the issuance of commercial paper for operating purposes is forecast for fiscal 1999.

The ending cash balance projected for fiscal 1999 is likely to differ from the ending balances for the Commonwealth's budgeted operating funds for such year because of timing differences and the effect of non-budget items.

The next cash flow statement for the Commonwealth is due to be released on February 25, 1999.

2000 FISCAL YEAR

On January 27, 1999, Governor Cellucci filed his fiscal 2000 budget recommendations with the House of Representatives. The proposal calls for budgeted expenditures of approximately $20.391 billion and total fiscal 2000 spending of $20.556 billion after adjusting for shifts to and from off-budget accounts. The proposed fiscal 2000 spending level represents a $405.2 million, or 2.0%, increase over projected total fiscal 1999 expenditures of $20.151 billion. Budgeted revenues for fiscal 2000 are projected to be $20.241 billion, or $20.332 billion after adjusting to shifts to and from off budget accounts. This represents a $632.8 million, or 3.2%, increase over the $19.699 billion forecast for fiscal 1999. The Governor's proposal projects a fiscal 2000 ending balance in the budgeted funds of approximately $1.625 billion, including a Stabilization Fund balance of approximately $1.390 billion.

The Governor's budget recommendation is based on a tax revenue estimate of $14.459 billion, an increase of $459 million, or 3.3%, over fiscal 1999 projected tax revenues of $14.0 billion. The projection incorporates $226 million in income tax cuts proposed by the Governor which would reduce the tax rate on personal income from 5.95% to 5% over three years. See "COMMONWEALTH REVENUES – State Taxes."

The proposed budget assumes non-tax revenues of $5.782 billion, or $5.873 billion when adjusted for the shifts to and from off-budget accounts, which represents an increase of $173.9 million from fiscal 1999. Of the three classes of non-tax revenue, federal reimbursements, including those for Medicaid, and block grants for Temporary Assistance to Needy Families and Child Care programs most affect the Commonwealth's budgetary considerations. These payments are projected to total $3.489 billion in fiscal 2000, or $3.560 billion after the impact of shifts to and from off-budget accounts is removed. This level of federal payments represents an increase of $132.7 million, or 3.9%, from fiscal 1999, the result primarily of changes in federal reimbursement for Medicaid programs. Fiscal 2000 departmental revenues of $1.270 billion, or $1.271 billion after adjusting for shifts to and from off-budget accounts, represent a decrease of approximately $14.2 million from fiscal 1999 projections, due primarily to the implementation of free, lifetime driver licensing and vehicle registration and a decrease of $10 million due to a cyclical drop in licensing fees at the Division of Insurance. Consolidated transfers, the third category of non-tax revenue, consist primarily of state lottery profits which are distributed to cities and towns. Consolidated transfers are projected to increase by $55.4 million from fiscal 1999 levels. Lottery profits are expected to remain constant in fiscal 2000.

The Governor's budget proposal generally provides for maintaining current levels of service for most state programs but recommends increased spending for certain priority areas, including a $251.4 million increase in funding for the Department of Education, $238.2 million in additional local aid to cities and towns, $132 million for Medicaid program medical inflation funded through the proposed Health Care and Community Services Trust Fund, $132 million for the expansion of the MassHealth program and $34 million in additional local aid funded by the State Lottery. The Governor has recommended appropriations of approximately $910 million for pension funding, predicated on the assumption that a revised pension funding schedule will call for smaller payments than are called for by the current schedule. See "OTHER COMMONWEALTH LIABILITIES – Retirement Systems and Pension Benefits; *Pension Funding Plan.*"

Under the Governor's proposed fiscal 2000 budget, the Commonwealth is expected to spend approximately $1.015 billion on public assistance programs. Under the federal welfare reform law, Massachusetts will receive $460.6 million from the Temporary Assistance for Needy Families (TANF) federal block grant, $459.4 million from the annual fiscal year grant and $1.2 million from prior year unspent grant funds. Of this total, the Commonwealth is expected to spend $247.2 million at the Department of Transitional Assistance, $75.5 million at the Office of Child Care Services and transfer $91.9 million to the federal Child Care Development Fund and $45.9 million to the Social Services Block Grant. In addition, the Commonwealth expects to receive $81.7 million from the Child Care Development Fund block grant and $42.7 million from the Social Services block grant.

Beginning in fiscal 2000, the Governor proposes the establishment of a new trust, the Health Care and Community Services Trust Fund to which would be credited all payments received by the Commonwealth pursuant to the national litigation settlement with the tobacco industry, as well as federal reimbursements and other fees or revenues related to expenditures from the fund, investment earnings, grants and allocated appropriations. The tobacco settlement was approved by the Massachusetts Superior Court on December 3, 1998. Amounts credited to the Fund would be made available for expenditure without further appropriation for the purpose of health care and community services programs and the enhancement of related information technology services, administrative services and program evaluation. The Fund would be administered by the Secretary of Administration and Finance, in consultation with the Secretary of Health and Human Services, the Secretary of Elder Affairs and the State Treasurer, and he could make expenditures on his own authority. The Commonwealth expects annual payments from the tobacco settlement to begin in fiscal 1999, resulting in a Trust Fund balance of over $360 million by the end of fiscal 2000. Under the Governor's fiscal 2000 budget recommendations, approximately $201 million would be expended from the fund in fiscal 2000, resulting in approximately $80 million in federal reimbursements allocated to the fund. The proposed fiscal 2000 expenditures include approximately $132.2 million to support traditional Medicaid inflation costs and a $70 million transfer to the Children's and Seniors' Health Care Assistance Fund to support the existing Health Care Reform Program. Governor Cellucci's fiscal 2000 budget recommends budgeted Medicaid spending of $4.034 billion by the Department of Medical Assistance. This level of spending represents an increase of $141.4 million, or $3.6%, from fiscal 1999, due in part to the Governor's proposal to shift the costs associated with traditional Medicaid inflation to the Health Care and Community Services Trust Fund.

The Governor's fiscal 2000 budget recommendations are now being evaluated by the House Committee on Ways and Means, the first legislative step in the process of approving a budget for fiscal 2000.

COMMONWEALTH REVENUES

In order to fund its programs and services, the Commonwealth collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, court revenues, assessments, reimbursements, interest earnings and transfers from its non-budgeted funds. In fiscal 1998, approximately 70.8% of the Commonwealth's annual budgeted revenues were derived from state taxes. In addition, the federal government provided approximately 17.0% of such revenues, with the remaining 12.2% provided from departmental revenues and transfers from non-budgeted funds.

Distribution of Revenues

The following table sets forth the Commonwealth's actual revenues in its budgeted operating funds for fiscal 1994 through 1998 and estimated revenues for fiscal 1999.

Commonwealth Revenues -- Budgeted Operating Funds
(in millions)

	Fiscal 1994	Fiscal 1995	Fiscal 1996	Fiscal 1997	Fiscal 1998	Estimated Fiscal 1999
Tax Revenues:						
Alcoholic Beverages	$ 60.2	$ 60.7	$ 59.7	$ 60.3	$ 60.2	$ 59.0
Banks						
Commercial	136.9	164.5	150.6	99.0	157.3	171.0(3)
Savings	63.0	41.4	68.0	41.3	(1.3)	--
Cigarettes	237.3	234.2	232.8	281.7	300.8	299.0
Corporations	782.3	911.0	876.3	963.9	1,066.9	1,095.0
Deeds	40.2	40.3	41.0	51.6	79.7	87.0
Income	5,689.8	5,974.2	6,706.9	7,181.8	8,031.9	7,599.6
Inheritance and Estate	277.5	209.3	188.0	202.7	191.3	181.0
Insurance	290.2	292.6	294.1	297.8	310.8	311.0
Motor Fuel	562.6	577.5	598.8	602.8	621.3	648.0
Public Utilities	81.8	88.7	132.9	109.2	131.9	172.0
Racing	13.4	12.7	11.4	10.2	9.2	7.7
Room Occupancy	62.8	68.8	72.9	80.5	96.2	118.0
Sales - Regular	1,664.3	1,796.6	1,886.7	2,087.7	2,122.0	2,321.4
Sales - Meals	323.4	344.3	358.0	381.4	392.5	437.0
Sales - Motor Vehicles	314.5	340.4	365.4	407.0	448.0	476.0
Sub-Total—Sales	2,302.2	2,481.3	2,610.1	2,876.1	2,962.5	3,234.4
Miscellaneous	6.5	6.2	5.7	5.6	7.6	17.3
Total	10,606.7	11,163.4	12,049.2	12,864.5	14,026.3	14,000.0
Non-Tax Revenues:						
Federal Reimbursements (1)	2,901.2	2,969.7	3,039.1	3,019.6	3,361.2	3,427.5
Departmental and Other Revenues	1,187.9	1,273.1	1,208.1	1,267.9	1,286.4	1,285.0
Interfund Transfers from Non - Budgeted Funds and Other Sources (2)	853.9	981.0	1,031.1	1,018.0	1,125.9	986.2
Budgeted Non-Tax Revenues and Other Sources	4,943.0	5,223.8	5,278.3	5,305.5	5,773.6	5,698.7
Budgeted Revenues and Other Sources	15,549.7	16,387.2	17,327.5	18,170.0	19,799.8	19,698.7
Mass Transit Assessments from Municipalities	140.4	143.9	147.6	151.5	155.6	159.5
Interfund Transfers among Budgeted Funds and Other Sources (2)	289.1	399.7	896.2	901.8	1,449.2	747.7
Total Revenues and Other Sources	$15,979.2	$ 16,930.8	$ 18,371.3	$ 19,223.3	$ 21,404.6	$ 20,605.9

SOURCE: Fiscal 1994-1998, Office of the Comptroller; fiscal 1999, Executive Office for Administration and Finance.

(1) Includes $247.8 million in fiscal 1994, $231.9 million in fiscal 1995, $212.5 million in fiscal 1996, $221.0 million in fiscal 1997, $281.5 million in fiscal 1998 and an estimated $220.5 million in fiscal 1999 resulting from claims for federal reimbursement of certain uncompensated care for Massachusetts hospitals.

(2) Interfund transfers represent accounting transfers which reallocate resources among funds. See "Federal and Other Non-Tax Revenues" below. Includes transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were $65.4 million, $27.9 million, $177.4 million, $234.3 million and $317.4 million in fiscal 1994, 1995, 1996, 1997 and 1998 respectively. Of the $177.4 million transferred to the Stabilization Fund in fiscal 1996, $81.7 million was subsequently transferred to the Tax Reduction Fund. On May 5, 1997, legislation was signed by Governor Weld authorizing appropriation of the balance in the Tax Reduction Fund for the purpose of implementing a temporary personal income tax reduction for 1997.

(3) Includes revenues received from both commercial and savings banks.

State Taxes

The major components of state taxes are the income tax, which accounted for approximately 57.3% of total tax revenues in fiscal 1998, the sales and use tax, which accounted for approximately 21.1%, and the business corporations tax, which accounted for approximately 7.6%. Other tax and excise sources accounted for the remaining 14.0% of total fiscal 1998 tax revenues.

Income Tax. The Commonwealth assesses personal income taxes at flat rates, according to classes of income, after specified deductions and exemptions. A rate of 5.95% is applied to income from employment, professions, trades, businesses, rents, royalties, taxable pensions and annuities and interest from Massachusetts banks; a rate of 12% is applied to other interest (although interest on obligations of the United States and of the Commonwealth and its political subdivisions is exempt) and dividends; and, as of January 1, 1996, a rate ranging from 12% on capital gains from the sale of assets held for one year and less to 0% on capital gains from the sale of certain assets held more than six years. Effective January 1, 1999, the rate applied to interest income, other than interest income from Massachusetts banks, and dividends will be reduced from its current rate of 12% to 5.95%.

In December, 1994, Governor Weld approved legislation modifying the capital gains tax by phasing out the tax for assets held longer than six years and increasing the no-tax status threshold for personal income tax purposes. The capital gains tax change did not become effective until January 1, 1996. Accordingly, it is estimated by the Executive Office for Administration and Finance to have decreased fiscal 1996 revenues by $21 million, 1997 revenues by $60 million, and fiscal 1998 revenues by approximately $98 million. It is expected to decrease fiscal 1999 tax revenues by approximately $135 million. The no-tax status change is estimated to have reduced fiscal 1995 tax revenues by approximately $5.5 million, and subsequent years tax revenues by $13.3 million.

As part of the fiscal 1997 budget the Legislature established a tax deduction for the amount by which tuition payments to two- or four-year colleges, net of financial aid, exceed 25% of the taxpayer's adjusted gross income. The Department of Revenue estimates that this deduction resulted in no revenue reduction in fiscal 1997 and will result in an approximately $14 million reduction on an annualized basis thereafter.

The fiscal 1998 budget contained three tax cuts with an aggregate fiscal 1998 cost estimated by the Department of Revenue to have been $60.9 million — an increase in the child dependent deduction from $600 to $1,200 for children up to age 12 ($15.3 million), a tax credit of up to $6,000 over four years for septic tank improvements ($17 million) and an earned income tax credit amounting to 10% of the federal credit ($28.6 million). The fiscal 1999 impact of these tax cuts is expected to be $15.3 million, $18 million and $30 million, respectively.

On November 6, 1997, Acting Governor Cellucci approved legislation exempting military pensions from the state income tax, effective January 1, 1998. The Department of Revenue estimates that this exemption resulted in a fiscal 1998 revenue reduction of $25.0 million and an approximately $18 million reduction on an annualized basis thereafter.

On July 21, 1998, Acting Governor Cellucci approved legislation reducing the rate of tax on "Part A" income (interest and dividends) from 12% to 5.95%, effective January 1, 1999. The fiscal 1999 cost is estimated to be $117 million; the fully annualized cost is estimated to be $239 million. The legislation also phased in a doubling of the personal exemptions applicable to the "Part B" ("earned") income tax, effective January 1, 1998, with an estimated fiscal 1999 cost of $600 million (which includes costs for January 1, 1998 to June 30, 1998) and an estimated fully annualized cost of $492 million. In addition, the legislation conformed state tax law to federal law with respect to Roth and educational IRA's, deferred compensation, capital gains on the sale of a personal residence, travel and entertainment deductions and the definition of short-term capital gains. The estimated aggregate fiscal 1999 cost of these additional changes is less than $5 million, and the estimated aggregate annualized cost, excluding the Roth IRA, is also less than $5 million. The full impact of the Roth IRA change will only be felt as those now contributing to Roth IRA's withdraw their investments, over a period starting more than 20 years from now. The amount of the tax cut due to the Roth IRA change depends on many factors, including the amounts invested, rates of return earned on those investments and the period over which the earnings are withdrawn. No definite estimate is currently available for events so far into the future.

An initiative petition changing the income tax rate on interest and dividend income (12% at the time the petition was filed) to whatever rate applies to Part B income, starting in tax year 2000, was approved by the voters on November 3, 1998. In light of the enactment of the legislation described above, the petition will have no effect on the Part B income tax rate unless the Part A rate were to be changed from its current level of 5.95%.

On August 10, 1998, Acting Governor Cellucci also approved legislation providing for the transfer of $200 million to the Tax Reduction Fund as of June 30, 1998. The legislation directs the Commissioner of Revenue to increase 1998 tax year personal exemptions so as to reduce aggregate taxes by the balance in the Tax Reduction Fund as of December 31, 1998, including any interest earned on the fund's balances. The Executive Office for Administration and Finance estimates that by December 31, 1998 the Tax Reduction Fund will have a balance of approximately $210 million. The personal exemption increases authorized under this legislation are for the 1998 tax year only. In subsequent years, personal exemptions will revert to their statutorily authorized levels.

On January 11, 1999, Governor Cellucci filed legislation that would reduce personal income tax rates (for both Part A and Part B income) from 5.95% to 5% over three calendar years beginning on January 1, 2000. The rate would be 5.6% for the 2000 taxable year, 5.3% for the 2001 taxable year and 5% for the 2002 taxable year and thereafter. The Executive Office for Administration and Finance estimates that the static revenue impact of these changes would be a reduction of personal income tax collections of approximately $226 million in fiscal 2000, approximately $667 million in fiscal 2001, approximately $1.120 billion in fiscal 2002 and approximately $1.390 billion in fiscal 2003, at which time the rate reduction would be fully implemented.

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

On October 20, 1997, Acting Governor Cellucci announced that the Department of Revenue would issue regulations changing the payment schedules for approximately 15,000 sales, meals and room occupancy taxpayers that pay over $25,000 in tax per year. Under the new simplified rules, beginning January 1, 1998, these taxpayers are required to file a tax return and make a tax payment on the 20th of each month for taxable sales made during the preceding month. Under the old rules, affected taxpayers were required to forward tax payments on the 27th of each month for taxable sales made from the 23rd of the preceding month to the 22nd of the current month, as well as file a quarterly tax return. While these new regulations do not affect the amount of tax owed, the Department of Revenue estimates that the Commonwealth realized a reduction in fiscal 1998 revenues of approximately $140 million. This reduction was a one-time event.

Business Corporations Tax. Business corporations doing business in the Commonwealth, other than banks, trust companies, insurance companies, railroads, public utilities and safe deposit companies, are subject to an excise that has a property measure and an income measure. The value of Massachusetts tangible property (not taxed locally) or net worth allocated to the Commonwealth is taxed at $2.60 per $1,000 of value. The net income allocated to Massachusetts, which is based on net income for federal taxes, is taxed at 9.5%. The minimum tax is $456. Both rates and the minimum tax include a 14% surtax. The reduction in fiscal 1996 tax revenues from business corporations compared to fiscal 1995 was due primarily to an estimated $49 million reduction resulting from the application of the "single sales factor" apportionment formula, described below. The fiscal 1997 tax revenue collections reflected an additional $44 million reduction for the full-year impact of the "single sales" apportionment formula and a $10 million reduction due to the impact of legislation enacted in August, 1996, which, effective January 1, 1997, changed the computation of the sales factor for certain mutual fund companies, as described below.

On November 28, 1995 Governor Weld approved legislation establishing a "single sales factor" apportionment formula for the business corporations tax. The new formula, when fully implemented, will calculate a firm's taxable income as its net income times the percentage of its total sales that are in Massachusetts, as opposed to the prior formula that took other factors, such as payroll and property into account. The new formula was made effective as of January 1, 1996 to certain federal defense contractors and phased in over five years for manufacturing firms generally. The Department of Revenue estimated that the revision reduced revenues by $44 million in fiscal 1996, by $90 million in fiscal 1997 and by $110 million in fiscal 1998. If the new formula were fully effective for all covered businesses, the Department estimates that the annual revenue reduction would be $100 million to $150 million.

On August 8, 1996, Governor Weld approved legislation making two changes in the apportionment formula for the business corporations tax payable by certain mutual fund service corporations. Effective January 1, 1997, the legislation changed the computation of the sales factor; instead of sourcing sales from the state where the seller bears the cost of performing the services relating to the sale, the corporations will source sales to the state of domicile of the ultimate consumer of the service. Effective July 1, 1997, the legislation changed the prior three-factor formula to a single sales factor formula, just as the November, 1995 legislation had done for certain federal defense contractors and, over time, for manufacturing firms. Under the new law, affected corporations are required to increase their numbers of employees by 5% per year for five years, subject to exceptions for adverse economic conditions affecting the stock market or the amount of assets under their management. The Department of Revenue estimates that the changes resulted in a revenue reduction of approximately $10 million in fiscal 1997 and will result in revenue reductions of $39 million to $53 million on an annualized basis thereafter, starting in fiscal 1998. These estimates do not take into account any increased economic activity that may be stimulated by the tax cuts.

On August 9, 1996, Governor Weld signed legislation providing a tax credit to shippers that pay federal harbor maintenance taxes on cargo passing through Massachusetts ports. The Department of Revenue estimates that there was no impact on revenues in fiscal 1997 as a result of this tax credit and that the annualized revenue loss will be approximately $3 million to $4 million, beginning in fiscal 1998.

Bank Tax. Commercial and savings banks are subject to an excise tax of 12.54%. On July 27, 1995, Governor Weld approved legislation that will reduce the rate over several years to 10.5%, the same effective rate charged to other corporations. The Department of Revenue estimates that the tax cut, when fully implemented in fiscal 2000, will result in an annual $39 million revenue loss, including the effect of provisions in the proposed legislation that would apply the tax to out-of-state banks and other financial institutions that are not currently taxed and that would lead to an estimated $18 million annual gain.

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

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

On July 24, 1996, the Legislature overrode Governor Weld's veto of legislation imposing a 25¢-per-pack tax increase on cigarettes, as well as a 25% increase in the tax on smokeless tobacco and a 15% tax on cigars and smoking tobacco, all effective October 1, 1996. The Department of Revenue estimates that these changes resulted in approximately $74 million in additional tax revenue for fiscal 1997 and approximately $80 million in additional revenue in fiscal 1998. The Department estimates that by fiscal 2000, when demand for cigarettes will have fully adjusted to the higher tobacco product prices expected to result from the increased tax, additional revenues will range from $73 million to $83 million.

In 1992, legislation was enacted by the voters which increased the tobacco excise tax by 1.25¢ per cigarette (25¢ per pack of 20 cigarettes) and 25% of the wholesale price of smokeless tobacco, effective January 1, 1993. Under the legislation, the revenues raised by this excise tax were to be credited to the Health Protection Fund and expended, subject to appropriation by the Legislature, to pay for health programs and education relating to tobacco use. Total revenues deposited in the Health Protection Fund in fiscal 1993 and fiscal 1994 were $59.5 million and $116.4 million and have been $114 million on an annualized basis since fiscal 1995.

The Commonwealth is authorized to issue special obligation highway bonds secured by a pledge of all or a portion of the Highway Fund, including revenues derived from all or a portion of the motor fuels excise tax. The portion of the motor fuel excise tax currently pledged to special obligation bonds is estimated to be approximately $187 million in fiscal 1999. Additional special obligation bonds may be issued in the future secured by additional portions of the motor fuels excise tax. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Special Obligation Debt; *Highway Fund*." An additional portion of the motor fuel excise tax, estimated to be approximately $273 million in fiscal 1999, is subject to a contingent pledge relating to grant anticipation notes issued in connection with the Central Artery/Ted Williams Tunnel project, and will be available only if federal highway spending and debt service coverage levels for the notes fall below specified levels. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Federal Grant Anticipation Notes."

On November 17, 1997, the Legislature overrode Acting Governor Cellucci's veto to enact legislation authorizing the Commonwealth to issue special obligation convention center bonds secured by a pledge of certain taxes related to tourism and conventions, including a 2.75% convention center financing fee imposed by the legislation on hotel room occupancy in four Massachusetts cities. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Special Obligation Debt; *Boston Convention and Exhibition Center Fund*."

Tax Revenue Forecasting

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

In the past several years, tax revenue forecasting has been complicated by uncertainty about the national and state economies, federal and state tax law changes and decisions in various state court cases affecting tax collections. In addition, certain tax revenues are difficult to predict with accuracy because of the variety of direct and indirect economic and non-economic factors affecting receipts.

The fiscal 1994 budget as enacted was based on a joint tax revenue estimate of $10.540 billion, an increase of $610 million, or 6.1%, from then-expected tax revenues for fiscal 1993. Actual fiscal 1994 tax revenues were $10.607 billion, a 6.8% increase over fiscal 1993.

The fiscal 1995 budget as enacted was based on a joint tax revenue estimate of $11.328 billion (an increase of $634 million, or 5.9%, from then-expected tax revenues for fiscal 1994), less $19.3 million of tax cuts included in that budget. Fiscal 1995 tax revenue estimates were later reduced to $11.151 billion due to lower than expected tax revenue collections and a $5.5 million reduction in revenues expected to result from a change in the no-tax status threshold for Massachusetts personal income tax purposes. Actual fiscal 1995 tax revenues were $11.163 billion, a 5.3% increase over fiscal 1994.

The fiscal 1996 budget as enacted was based on a joint tax revenue estimate of $11.639 billion (an increase of approximately 4.4% from then-expected fiscal 1995 revenues), plus $16 million for revenue initiatives and less

$300,000 for a sales tax exemption included in the budget. On September 25, 1995, the Secretary of Administration and Finance released a fiscal 1996 tax revenue estimate of approximately $11.653 billion, adopting the revenue estimate included in the fiscal 1996 budget, adjusted for a revenue reduction of $1.7 million resulting from bank tax reform. On January 23, 1996, the Secretary of Administration and Finance released a revised fiscal 1996 tax revenue estimate of approximately $11.604 billion which reflected a further reduction totaling $44 million resulting from corporate excise tax reforms. In April, 1996 the Secretary of Administration and Finance revised the fiscal 1996 tax revenue estimate to $11.684 billion, based on stronger than anticipated tax collections. Actual tax revenues for fiscal 1996 totaled approximately $12.049 billion, a 7.9% increase over fiscal 1995. The Executive Office for Administration and Finance believes that much of the unanticipated growth in revenues was caused by the increase in capital gains resulting from the strong stock market in calendar year 1995.

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

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

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

Federal and Other Non-Tax Revenues

Federal revenue is collected through reimbursements for the federal share of entitlement programs such as Medicaid and, beginning in federal fiscal year 1997, through block grants for programs such as Transitional Assistance to Needy Families (TANF), formerly Aid to Families with Dependent Children (AFDC). The amount of federal revenue to be received is determined by state expenditures for these programs. The Commonwealth receives reimbursement for approximately 50% of its spending for Medicaid programs. Block grant funding for TANF is received quarterly and is contingent upon a maintenance of effort spending level determined annually by the federal government.

Departmental and other non-tax revenues are derived from licenses, registrations and fees and reimbursements and assessments for services. In fiscal 1996, a revenue maximization pilot project undertaken by the Comptroller and the Executive Office for Administration and Finance yielded almost $39.9 million in additional federal reimbursement revenues, net of agency and vendor incentive payments, at the Department of Mental Health, Department of Mental Retardation, Department of Social Services and Division of Medical Assistance. In fiscal 1997, $41.3 million in additional non-tax revenues resulted in net revenues of $39.1 million deposited into the General Fund. In fiscal 1998, $37.4 million in additional non-tax revenue resulted in $30.9 million of net revenue for the General Fund. In fiscal

1999, an estimated $22.3 million in additional non-tax revenue will result in an estimated $17.1 million of net revenue for the General Fund.

The Commonwealth began in fiscal 1997 to phase in a one-time (rather than annual) passenger vehicle registration fee of $30 and a reduction in the passenger vehicle operating license renewal fee from the rate of $33.75 to $2, effective May 1, 2001. The Executive Office for Administration and Finance estimates that these changes had no effect on fiscal 1997 revenues and reduced fiscal 1998 revenues by $13.8 million. When all drivers become eligible for free registration renewals in fiscal 1999, revenues are projected to decline by approximately $55 million. Revenue reductions due to lifetime licenses will not begin until fiscal 2000, when they will total approximately $11.3 million. In fiscal 2001, when all drivers become eligible for free license renewals, the revenue reduction is estimated to be approximately $45 million. (The Commonwealth is still maintaining the requirement that all parking tickets, moving violation citations, excise taxes and insurance premiums be paid before license and registration renewals are processed, in order to ensure that cities and towns do not lose revenue from the change to lifetime licenses and registrations.) In May, 1997, the Legislature enacted legislation that would restore registration, license and permit fees credited to the Highway Fund to the rates in effect on January 1, 1996 if federal aid to the Central Artery/Ted Williams Tunnel project falls below $550 million in any fiscal year during the next six years. Governor Weld vetoed this provision. Under the state constitution, his veto can be overridden by a two-thirds vote of each house of the Legislature; neither house has acted on the veto.

For the budgeted operating funds, interfund transfers include transfers of profits from the State Lottery and Arts Lottery Funds and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for $667.3 million, $709.5 million, $727.5 million, $770.2 million and $848.4 million in fiscal 1994 through 1998, respectively, and which are expected to account for $809.3 million in fiscal 1999.

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

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

Limitations on Tax Revenues

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

Tax revenues in fiscal 1994 through fiscal 1998 were lower than the limit set by Chapter 62F, and the Executive Office for Administration and Finance currently estimates that state tax revenues in fiscal 1999 will not reach such limit.

COMMONWEALTH PROGRAMS AND SERVICES

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

Commonwealth Expenditures - Budgeted Operating Funds (in millions)

Expenditure Category	Fiscal 1994	Fiscal 1995	Fiscal 1996	Fiscal 1997	Fiscal 1998	Estimated Fiscal 1999
Direct Local Aid	$ 2,727.3	$ 2,976.2	$ 3,246.2	$ 3,558.1	$ 3,948.9	$ 4,271.6
Medicaid	3,313.1	3,398.2	3,415.9	3,455.5	3,665.8	3,892.7
Group Health Insurance	496.2	509.7	519.3	522.0	550.0	576.6
Public Assistance	1,100.3	1,095.0	1,088.8	1,089.7	1,023.1	1,021.1
Debt Service	1,149.4	1,230.9	1,183.6	1,275.5	1,213.4	1,231.0
Pensions	908.9	968.8	1,004.6	1,069.2	1,069.8	990.8
Higher Education	672.5	703.3	743.9	806.5	861.8	938.5
MBTA and RTA's	522.3	516.2	518.5	520.2	530.0	560.8
Other Program Expenditures	4,584.5	4,811.7	5,118.1	5,266.8	5,659.0	6,546.3
Interfund Transfers to Non-budgeted Funds (1)	48.4	40.4	42.2	385.5	479.9	121.3
Budgeted Expenditures and Other Uses	15,522.9	16,250.5	16,881.1	17,949.0	19,001.7	20,150.7
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	140.4	143.9	147.6	151.5	155.6	159.5
Interfund Transfers among Budgeted Funds and Other Uses (1)	289.1	399.7	896.2	901.8	1,449.2	747.7
Total Expenditures and Other Uses	$ 15,952.4	$ 16,794.1	$ 17,924.9	$ 19,002.3	$ 20,606.5	$ 21,057.9

SOURCE: Fiscal 1994-1998, Office of the Comptroller; fiscal 1999, Executive Office for Administration and Finance.

(1) Interfund transfers represent accounting transfers which reallocate resources among funds. Includes interfund transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were $65.4 million, $27.9 million, $177.4 million, $234.3 million and $317.4 million in fiscal 1994, 1995, 1996, 1997 and 1998, respectively. Of the $177.4 million transferred to the Stabilization Fund in fiscal 1996, $81.7 million was subsequently transferred to the Tax Reduction Fund. On May 5, 1997, legislation was signed by Governor Weld authorizing appropriation of the balance in the Tax Reduction Fund for the purpose of implementing a temporary personal income tax reduction for 1997.

Local Aid

Proposition 2½. In November, 1980, voters in the Commonwealth approved a statewide tax limitation initiative petition, commonly known as Proposition 2½, to constrain levels of property taxation and to limit the charges and fees imposed on cities and towns by certain governmental entities, including county governments. Proposition 2½ is not a provision of the state constitution and accordingly is subject to amendment or repeal by the Legislature. Proposition 2½, as amended to date, limits the property taxes that may be levied by any city or town in any fiscal year to the lesser of (i) 2.5% of the full and fair cash valuation of the real estate and personal property therein, and (ii) 2.5% over the previous year's levy limit plus any growth in the tax base from certain new construction and parcel subdivisions. Proposition 2½ also limits any increase in the charges and fees assessed by certain governmental entities, including county governments, on cities and towns to the sum of (i) 2.5% of the total charges and fees imposed in the preceding fiscal year, and (ii) any increase in charges for services customarily provided locally or services obtained by the city or town at its option. The law contains certain override provisions and, in addition, permits debt service on specific bonds and notes and expenditures for identified capital projects to be excluded from the limits by a majority vote at a general or special election. At the time Proposition 2½ was enacted, many cities and towns had property tax levels in excess of the limit and were therefore required to roll back property taxes with a concurrent loss of revenues. Between fiscal 1981 and fiscal 1998, the aggregate property tax levy grew from $3.346 billion to $6.456 billion, representing an increase of approximately 93%. By contrast, according to federal Bureau of Labor Statistics, the consumer price index for all urban consumers in Boston grew during the same period by approximately 103%.

Many communities have responded to the limitation imposed by Proposition 2½ through statutorily permitted overrides and exclusions. There are three types of referenda questions (override of levy limit, exclusion of debt service, or exclusion of capital expenditures) which permit communities to exceed the limits of Proposition 2½. Override activity steadily increased throughout the 1980's before peaking in fiscal 1991 and decreasing thereafter. In fiscal 1998, 21 communities had successful override referenda which added an aggregate of $6.8 million to their levy limits. In fiscal 1998, the impact of successful override referenda going back as far as fiscal 1993, was to raise the levy limits of 117 communities by $56.9 million. Although Proposition 2½ will continue to constrain local property tax revenues, significant capacity exists for overrides in nearly all cities and towns.

In addition to overrides, Proposition 2½ allows a community, through voter approval, to assess taxes in excess of its levy limit for the payment of certain capital projects (capital outlay expenditure exclusions) and for the payment of specified debt service costs (debt exclusions). Capital exclusions were passed by 22 communities in fiscal 1998 and totaled $4.0 million. In fiscal 1998, the impact of successful debt exclusion votes going back as far as fiscal 1993, was to raise the levy limits of 250 communities by $769.4 million.

Commonwealth Financial Support for Local Governments. During the 1980's, the Commonwealth increased payments to its cities, towns and regional school districts ("Local Aid") to mitigate the impact of Proposition 2½ on local programs and services. In fiscal 1999 approximately 21.5% of the Commonwealth's budget is estimated to be allocated to direct Local Aid. Local Aid payments to cities, towns and regional school districts take the form of both direct and indirect assistance. Direct Local Aid consists of general revenue sharing funds and specific program funds sent directly to local governments and regional school districts as reported on the so-called "cherry sheet" prepared by the Department of Revenue, excluding certain pension funds and nonappropriated funds.

As a result of comprehensive education reform legislation enacted in June, 1993, a large portion of general revenue sharing funds are earmarked for public education and are distributed through a formula designed to provide more aid to the Commonwealth's poorer communities. The legislation established a fiscal 1993 state spending base of approximately $1.288 billion for local education purposes and required annual increases in state expenditures for such purposes above that base, subject to appropriation, estimated to be approximately $175 million in fiscal 1994, $396 million in fiscal 1995, $629 million in fiscal 1996, $881 million in fiscal 1997, $1.145 billion in fiscal 1998 and an estimated $1.591 billion in fiscal 1999, with the final increase anticipated in fiscal 2000. All of the budgets in fiscal years 1994 through 1999 have fully funded the requirements imposed by this legislation.

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

In addition to direct Local Aid, the Commonwealth has provided substantial indirect aid to local governments, including, for example, payments for Massachusetts Bay Transportation Authority assistance and debt service, pensions for teachers, pension cost-of-living allowances for municipal retirees, housing subsidies and the costs of courts and district attorneys that formerly had been paid by the counties.

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

Medicaid

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

During fiscal years 1994, 1995, 1996, 1997 and 1998, Medicaid expenditures were $3.313 billion, $3.398 billion, $3.416 billion, $3.456 billion and $3.666 billion, respectively. The average annual growth rate from fiscal 1994 to fiscal 1998 was 2.0%. Fiscal 1998 Medicaid expenditures increased approximately 6.1% from fiscal 1997. This amount includes $165 million for an eligibility expansion of Medicaid benefits to recipients between 100%-133% of the federal poverty level and $38.5 million in outpatient medical services to recipients of Emergency Aid to the Elderly, Disabled and Children, transferred to Medicaid from the Department of Transitional Assistance. The Executive Office for Administration and Finance projects fiscal 1999 expenditures to be $3.893 billion, an increase of 6.2% over fiscal 1998. This amount includes $340 million in spending attributable to recipients above 100% of the federal poverty level through the health care expansion.

The Division of Medical Assistance has implemented a number of savings and cost control initiatives including managed care, utilization review, and the identification of third party liabilities. In spite of increasing caseloads, Massachusetts has managed a substantial reduction in the Medicaid growth rate in expenditures over the last six years. From fiscal 1994 through fiscal 1998, per capita costs have decreased an average of 0.7% annually over the five-year period. Beginning in fiscal 1998, the state expanded eligibility for the Medicaid program, resulting in a total of 833,512 members at the end of fiscal 1998 or a 23.3% increase over the average caseload of fiscal 1997.

One of the primary reasons for the recent modest rates of growth in Medicaid expenditures is the implementation by the Administration of a managed care program. A waiver of federal regulations granting recipients freedom of choice of provider was approved by federal authorities in fiscal 1992. This waiver enables the program to assign recipients to managed care plans that utilize primary care physicians to function as gatekeepers to specialty and inpatient care and enroll recipients in a capitated managed care system for mental health or substance abuse services. In addition, nursing home pre-screening and community service planning for long-term care is concentrated in 27 Aging Services Access Points (ASAP) to provide a single entry point and coordinated nursing home diversion services for elderly Medicaid recipients. Other savings initiatives, which are in addition to major rate control initiatives, include the re-pricing and buy-in of Medicare services for Medicaid recipients and restrictions, both financial and clinical, on nursing home eligibility.

Medicaid costs for nursing home care increased from $1.117 billion in fiscal 1994 to approximately $1.249 billion in fiscal 1998 and currently account for 34% of the Medicaid budget. Over 37,441 elderly and disabled citizens were cared for in nursing homes each month through Medicaid in fiscal 1998. The annual cost per beneficiary in a nursing home is approximately $33,359. On an overall basis, Medicaid pays 70% of all nursing home costs in the Commonwealth. In an effort to control the increasing costs of nursing home services, the Division of Medical Assistance has strengthened admissions criteria to ensure that those not needing this care use less costly community services. This, along with certain other initiatives, has limited the average annual increase in long-term care costs to approximately 2.6% between fiscal 1994 and fiscal 1998 on a date-of-service basis. The Division of Medical Assistance is planning a managed care program for long-term care Medicaid recipients beginning in fiscal 2000, in anticipation of continued growth in the elderly Medicaid caseload.

In addition to a number of successful savings and cost control initiatives the Commonwealth has undertaken in the last five years, the Medicaid program has also expanded and streamlined eligibility criteria for recipients in accordance with the health care reform bills approved by the Legislature in July, 1996 and July, 1997. As a result, beginning in fiscal 1998, the Division was authorized to expand the Medicaid eligibility cutoff to 133% of the federal poverty level for adults and up to 200% of the federal poverty level for pregnant women and children through the age of 18. In addition, the Commonwealth has implemented a program of premium assistance and employer subsidies for purchasing employer-based health coverage for families and childless adults up to 200% of the federal poverty level. These changes will result in 250,000 additional people becoming enrolled in a Medicaid benefits plan by the end of fiscal 1999. Pharmacy assistance eligibility was also expanded by increasing the Medicaid benefits income cutoff to 150% of the federal poverty level to cover an estimated 25,000 senior citizens.

In fiscal 1999, the Governor will file for approximately $45.4 million in supplemental funds for the health reform expansion accounts. This deficiency is the result of increased enrollment and higher program costs than anticipated. However, the programs remain budget neutral over the course of the Commonwealth's five year waiver period, as required by federal regulation. These program expansions take advantage of a federally approved waiver and resulting federal financial participation, additional tobacco tax revenue and new federal funding available under recently passed Title XXI of the federal Social Security Act. The legislation also requires that any program expansion be neutral in its impact on the state budget.

Public Assistance

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

Public Assistance Program Expenditures
(in millions)

Category of Public Assistance	Fiscal 1994	Fiscal 1995	Fiscal 1996	Fiscal 1997	Fiscal 1998	Estimated Fiscal 1999
TAFDC (1)	$ 817.2	$ 782.7	$ 675.0	$ 598.8	$ 513.9	$ 461.9
Child Care (2)	--	--	111.0	194.1	237.4	290.4
EAEDC (formerly General Relief) (3)	100.3	119.7	105.9	103.7	82.2	63.5
SSI (4)	182.8	192.6	196.9	193.1	189.6	205.3
Total(5)	$ 1,100.3	$ 1,095.0	$ 1,088.8	$ 1,089.7	$1,023.1	$ 1,021.1

SOURCE: Fiscal 1994-1998, Office of the Comptroller; fiscal 1999, Executive Office for Administration and Finance.

(1) Includes expenditures for Transitional Aid to Families with Dependent Children (TAFDC); for the Employment Services Program (ESP); and for Emergency Assistance, a program designed to prevent homelessness and to shelter income-eligible families when they become homeless. Prior to November, 1995, TAFDC was known as the Aid to Families with Dependent Children (AFDC) program.

(2) Child care expenditures were previously included as part of the TAFDC total in fiscal 1996, 1997, 1998 and 1999.

(3) Includes outpatient medical services to EAEDC recipients in fiscal 1994 through fiscal 1997.

(4) Include benefits for blind recipients, which are administered by the Massachusetts Commission for the Blind; includes one-time retroactive payments in fiscal 1998 to recipients to reimburse them for fiscal 1997 administrative charges.

(5) The TAFDC total includes expenditures for direct services to homeless individuals in fiscal 1995, 1996 and 1997. It does not include expenditures for the Employment Services Program in fiscal 1994 or for the Teen Living Program in fiscal 1996 and 1997. The Child Care total does not include supportive child care for victims of abuse and neglect, informal child care expenditures for child care provided by relatives in fiscal 1996 or certain one-time quality expenditures in fiscal 1998. It includes temporary child care provided at the Trial Court in fiscal 1998. Based on the programs contained in the fiscal 1999 estimate, the adjusted Public Assistance total would be $1,248.1 million for fiscal 1994; $1,217.1 for fiscal 1995; $1,110.7 for fiscal 1996; $1,065.6 for fiscal 1997; and $1,022.8 for fiscal 1998.

TAFDC expenditures in fiscal 1999 are projected to be $461.9 million, approximately $52 million less than fiscal 1998. This decrease is due to the continuing decline in the TAFDC caseload and the beginning of cases reaching the end of their two-year time limit on benefits. Child care expenditures for fiscal 1999 are projected to be $290.5 million, approximately $53.1 million more than in fiscal 1998. This increase is the result of increasing expenditures on child care services for current and former TAFDC recipients and other low-income families.

The AFDC/TAFDC caseload has been declining steadily since fiscal 1993, resulting in a 38.9% decrease through fiscal 1998. Massachusetts began implementing welfare reform programs in November 1995, establishing TAFDC programs to encourage work as a means to self-sufficiency and to discourage reliance on long-term assistance. With the improved Massachusetts economy, new work incentives, aggressive child support collections, anti-fraud initiatives, and the implementation of the two-year time limit on benefits, the caseload is expected to continue declining through fiscal 1999. The following table illustrates the decline in caseload for public assistance programs.

Public Assistance Average Caseload

Category of Public Assistance	Fiscal 1994	Fiscal 1995	Fiscal 1996	Fiscal 1997	Fiscal 1998	Estimated Fiscal 1999
TAFDC (1)	111,733	102,782	88,988	79,131	68,813	57,867
EAEDC (formerly General Relief)	21,859	20,395	17,282	16,895	16,305	15,015
SSI	144,776	153,248	159,748	160,924	160,700	163,433
Total	278,368	276,425	266,018	256,950	245,818	236,315

SOURCE: Department of Transitional Assistance

(1) TAFDC caseload estimates do not include the Emergency Assistance caseload.

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

The EAEDC caseload has been declining steadily since fiscal 1994, resulting in a 25.4% decrease through fiscal 1998. The decline can be attributed to factors similar to those affecting the AFDC/TAFDC caseload, as well as a state initiative to move qualified EAEDC recipients to the more comprehensive SSI program, taking advantage of federal funding not available under the state funded EAEDC program. The fiscal 1999 expenditures for EAEDC are projected to be $63.5 million, $18.7 million less than fiscal 1998.

SSI is a federally administered and funded cash assistance program for individuals who are elderly, disabled or blind. SSI payments are funded entirely by the federal government up to $494 per individual recipient per month and entirely by the state above that amount. The additional state supplement ranges from $112 to $150 per month per recipient. The SSI caseload has been increasing over the past five years, due to SSI policy changes, increased advocacy efforts on behalf of disabled populations, and the growing population of aged individuals, but the rate of growth has been declining since fiscal 1994. The fiscal 1999 expenditures for SSI are projected to be $205.0 million, a $15.4 million increase over fiscal 1998.

Federal Welfare Reform

The federal welfare reform legislation that was enacted on August 22, 1996 eliminated the federal entitlement program of AFDC and replaced it with block grant funding for Temporary Assistance for Needy Families (TANF). The TANF program replaced Title IV-A of the Social Security Act and allows states greater flexibility in designing programs that promote work and self-sufficiency. The block grant for Massachusetts is $459.37 million annually for federal fiscal years 1998 through 2002. In addition, Massachusetts will receive approximately $81.7 million in child care block grant funds to support child care programs. Massachusetts must meet federal maintenance of effort (MOE) requirements in order to be eligible for the full TANF grant award. Massachusetts successfully met the MOE requirement in federal fiscal 1997 and 1998 and is working with the U.S. Department of Health and Human Services in order to maximize the state spending that can count toward the fiscal 1999 requirement.

Other Controls and Reforms

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

The Benefit Eligibility and Control On-Line Network (BEACON) is an integrated recipient eligibility system that automates the public assistance programs administered statewide by the Department of Transitional Assistance. This system will end outdated intake processes and will enable the Commonwealth more accurately to determine eligibility, provide appropriate services and track recipients through a consolidated process. The first stage of the statewide rollout of the system is expected to be completed during fiscal 1999.

The Electronic Benefit Transfer (EBT) system provides cash assistance and food stamp recipients with access to benefits via a single magnetic strip card that can be used at bank automated teller machines. The Commonwealth has contracted with a commercial bank to provide EBT services. The statewide implementation was completed in October, 1997.

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

Massachusetts Bay Transportation Authority

The MBTA finances and operates mass transit facilities within its territory, which consists of 78 cities and towns in the greater Boston metropolitan area, and to a limited extent outside its territory. The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. The Boston Metropolitan District no longer issues debt except for refunding purposes.

Commonwealth support of the MBTA includes (i) guaranties of its debt service, (ii) certain contract assistance and (iii) payment of its net cost of service. First, a Commonwealth guaranty of MBTA debt obligations is provided by statutory requirements that the Commonwealth provide the MBTA funds sufficient to meet its obligations, including the principal and interest on MBTA and Boston Metropolitan District bonds and notes as they mature, to the extent that funds sufficient for this purpose are not otherwise available to the MBTA. Second, the Commonwealth has contracted to pay contract assistance equal to 90% of the debt service on outstanding MBTA bonds. Third, under applicable statutory provisions the Commonwealth is required to pay the MBTA its net cost of service (current expenses, including debt service and lease obligations that are not otherwise provided for, minus current income). During the calendar year the MBTA's net cost of service, as certified to the Commonwealth by the MBTA on a calendar year basis, is financed by the issuance of notes by either the MBTA itself or the Commonwealth or by payments by the Commonwealth. In the following fiscal year, the Commonwealth pays to the MBTA the net cost of service for such calendar year (to the extent that the Commonwealth has not already advanced funds for such net cost of service). From time to time, the Commonwealth issues short-term notes (transit notes) to provide funds to make such payments. The Commonwealth assesses such net cost of service on the cities and towns in the MBTA territory after deducting certain contract assistance provided by the Commonwealth. Proposition 2½, as amended, generally limits the increase in such assessments from one year to the next to 2.5% of the prior year's assessment. The Commonwealth pays its transit notes from the proceeds of the assessments and from such contract assistance and, if the foregoing proceeds are insufficient, from other funds of the Commonwealth. Currently, the Commonwealth does not have any such transit notes outstanding.

MBTA operating expenses (total expenses less debt service) for fiscal years 1994, 1995, 1996, 1997 and 1998 were approximately $578.5 million, $516.1 million, $494.5 million, $520.5 million, $550.8 million, respectively, and are estimated to be approximately $619.5 million for fiscal 1999. In light of major capital expenditures during recent years, MBTA debt service costs have increased steadily. MBTA debt service expenses for fiscal years 1994, 1995, 1996, 1997 and 1998 were approximately $207.0 million, $233.3 million, $258.1 million, $279.7 million and $301.1 million, respectively, and are estimated to be $316.1 million for fiscal 1999. The growth in the Commonwealth's share of the MBTA's budget reflects the statutory arrangement by which the MBTA is funded, declining federal assistance and constrained local support as a result of Proposition 2½.

The information set forth above concerning the Commonwealth's total expenditures for the costs of the MBTA is based on the Commonwealth's fiscal year ending June 30. However, under state law, the MBTA continues to report its net cost of service to the Commonwealth on a calendar year basis for reimbursement and assessment purposes. The following table sets forth for the calendar years ended December 31, 1994 through December 31, 1998 (estimated), the amounts of (i) the MBTA's cost of service in excess of the MBTA's income from its own sources, (ii) federal operating assistance, (iii) Section 28 debt service contract assistance, (iv) additional contract assistance,

(v) interest and other charges incurred in state borrowings by the Commonwealth and (vi) the total of the Commonwealth's assessments on the cities and towns for the net cost of service allocated to such year.

MBTA Net Cost of Service Assessments
(in millions)

Year Ended December 31	Cost of Service in Excess of Income	Less: Federal Operating Assistance	Less: Section 28 Contract Assistance (1)	Less: Additional Contract Assistance and Other State Assistance (2)	Subtotal	Interest and Other Charges (3)	Amount Assessed or to be Assessed
1994	$590.1	$16.1	$177.6	$276.2	$120.3	$10.6	$131.0
1995	585.7	13.4	208.7	240.8	122.8	11.5	134.3
1996	599.6	8.1	237.7	229.2	124.6	13.0	137.6
1997	628.5	7.1	253.2	240.0	128.2	13.0	141.1
1998	676.1	6.1	267.9	271.3(4)	130.8	13.8	144.6

SOURCE: Massachusetts Bay Transportation Authority.

(1) Contract assistance under Section 28 of the MBTA's enabling act for payment of a portion of debt service on certain of the MBTA's indebtedness.
(2) Additional contract assistance and other state assistance provided by the Commonwealth.
(3) Includes interest and other charges incurred in state borrowings by the Commonwealth and Boston Metropolitan District expenses of $25,000 in each year.
(4) The Governor's fiscal year 2000 budget as presented to the legislature for approval, contains appropriations, together with other prior appropriations, sufficient to provide this amount of General Contract Assistance.

On June 30, 1998, the House of Representatives approved "forward funding" legislation that would have substantially modified the funding mechanisms for the MBTA. The legislation was not approved by the Senate during the 1998 legislative session, but similar legislation has been re-filed in the 1999 session. In addition, Governor Cellucci is expected to include similar provisions as part of a transportation bond bill to be filed in late February, 1999. Under such legislation, which would take effect in fiscal 2001, the Commonwealth's annual obligation to support the MBTA for operating costs and debt service would be limited to the revenues raised by a 1% sales tax, to be funded from existing sales tax receipts. The 1% sales tax amount would be dedicated to the MBTA under a trust fund mechanism that would not permit future legislatures to divert the funds or reduce the sales tax rate below 1%. The dedicated revenue stream would be disbursed to the MBTA, to be used to meet the Commonwealth's current debt service contract assistance obligations relating to MBTA debt and to meet the MBTA's other operating and debt service needs. The Commonwealth would not be liable to pay the MBTA's net cost of service, nor would the Commonwealth be liable for debt service contract assistance on MBTA bonds issued after June 30, 2000. To replace the working capital of the MBTA currently supplied by operating notes and cash advances from the State Treasurer, the legislation would authorize the Commonwealth to issue up to $800 million in general obligation bonds. The Governor's proposal would also provide for a $120 million annual cap on local assessments for the MBTA, to be phased in over five years.

Other Programs

In addition to those expenditures described above, the Commonwealth also expends substantial amounts on other programs and services. A large share of the projected fiscal 1999 spending in this category, $2.866 billion, consists of spending on human services programs other than Medicaid and public assistance, detailed earlier. This other human services spending for fiscal 1999 includes expenditures for the Department of Mental Retardation ($822.5 million), Department of Mental Health ($529.7 million), Department of Social Services ($484.3 million), Department of Public Health ($442.7 million) and other human services programs ($606.5 million). The remaining $3.782 billion in projected expenditures on other programs and services cover a wide variety of functions of state government, including, in particular, expenditures for the Judiciary ($520.4 million), District Attorneys ($70.2 million) and the Attorney General ($28.4 million) and for the Executive Offices for Administration and Finance

($726.2 million), Environmental Affairs ($231.5 million), Transportation and Construction ($161.8 million), Public Safety ($840.2 million) and Elder Affairs ($149.4 million) and the Department of Housing and Community Development ($129.5 million).

State Workforce

As of December 26, 1998, the Commonwealth had approximately 69,192 full-time equivalent employees ("FTEs") in its standard workforce delivering programs and services funded by annual operating budget appropriations and retained revenues. This number does not include 345 seasonal FTEs or 114 members of boards and commissions. Approximately 55,523 of these FTEs work in executive branch agencies (including the Commonwealth's state and community colleges and the University of Massachusetts) under the control of the Governor, while the others work in the Legislature, the Judiciary and other entities constitutionally or legally independent of the Governor (such as the offices of the State Treasurer, State Secretary, State Auditor and Attorney General). During fiscal 1998, approximately $2.8 billion was expended for salaries for state employees funded through the annual operating budget. Between January, 1991 and December, 1998, the size of the standard workforce funded through the annual operating budget was reduced by approximately 3,001 FTE positions, or 4.1%. During this period, the net reduction in agencies under the control of the Governor, including the university and colleges, was approximately 7,321, or 11.7%. The Administration implemented an aggressive program to reduce the executive branch workforce after taking office in January, 1991, through attrition, layoffs and an early retirement program which took effect on July 1, 1992.

Budget-Funded Standard Workforce (1)

	June 1988	January 1991	June 1994	December 1998
Executive Office	105	63	88	85
State Comptroller	119	101	103	111
Executive Departments				
Administration and Finance (2)	4,434	3,985	3,412	3,108
Environmental Affairs (3)	3,319	3,019	2,229	2,434
Communities and Development	182	123	108	--
Health and Human Services	38,665	35,441	23,610	23,027
Transportation & Construction	3,146	2,565	1,389	1,250
Library Commissioners	19	14	14	18
Labor and Workforce Development	--	--	--	386
Housing and Community Development	--	--	--	115
Economic Development	--	--	--	99
Consumer Affairs	--	--	--	680
Educational Affairs	--	--	15	--
Department of Education	468	348	195	242
Higher Education	14,654	13,084	13,130	14,536
Public Safety	3,405	2,833	8,827	9,397
Economic Affairs	97	64	99	--
Elder Affairs	60	35	30	35
Consumer Affairs	755	725	614	--
Energy Resources	66	--	--	--
Labor	464	443	390	--
Subtotal under Governor's authority	69,958	62,844	54,255	55,523
Judiciary	6,157	5,856	5,861	7,447
Other (4)	4,224	3,494	3,693	6,223
Total	80,339	72,194	63,809	69,192

SOURCE: Executive Office for Administration and Finance.

(1) The budget-funded standard workforce excludes employees whose positions are established in accounts funded by capital projects funds, direct federal grants, expendable trusts and other non-appropriated funds, as well as seasonal help, members of boards and commissions, and

staff of independent authorities. Numbers represent full-time-equivalent filled positions (FTEs), not individual employees as of December 26, 1998. Totals may not add due to rounding.

(2) Administration and Finance includes the Disabled Persons Protection Commission until 1998.

(3) Environmental Affairs includes the Low-Level Radioactive Waste Management Board.

(4) Other includes staff of the Legislature and Executive Council, the offices of the State Treasurer, Secretary, Auditor, and Attorney General, the eleven District Attorneys, and other agencies independent of the Governor; it excludes elected members of the Legislature and Executive Council; starting in 1998, it also includes the offices of several former county Sheriffs which have become state agencies.

In addition to the standard workforce funded by annual operating budget appropriations, as of December 26, 1998, the Commonwealth had approximately 13,145 FTEs whose positions are established in accounts funded from capital projects funds, various direct federal grants, expendable trusts and other non-appropriated funds. Virtually all of these employees work in the executive branch, over half of them in public higher education. The Commonwealth also employs seasonal workers, primarily in its parks and other recreational facilities, varying in number from about 500 FTEs in the off-seasons to over 2,000 FTEs in mid-summer.

Union Organization and Labor Negotiations

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

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

Approximately 41,925 executive branch full-time-equivalent state employees are organized in eleven bargaining units, the employees of the Commonwealth's colleges and universities are organized in 25 bargaining units, and the employees of the judicial branch and the Lottery Commission are organized in six bargaining units. Public employees of the Commonwealth do not have a legal right to strike or otherwise withhold services.

In December, 1996, the Commonwealth reached an agreement with the Massachusetts Organization of State Engineers and Scientists (MOSES) for a three-year contract which commenced on January 1, 1997 and ends on December 31, 1999. The agreement provides for increases in health and welfare contributions and reimbursement for mileage and employee meals. The agreement also provides for salary increases of 3% effective May 4, 1997, 3% effective January 4, 1998 and 2.5% effective January 3, 1999. The contract further provides for a bonus of 3.5% of an employee's annual salary effective May 3, 1997 and a 2.5% bonus effective January 1, 1998. The total estimated cost of the agreement is $20.2 million through fiscal 2000.

In June, 1997, the Commonwealth reached agreement with the Alliance (the American Federation of State, County and Municipal Employees and the Service Employees International Union) representing employees in Units 2, 8 and 10 for a two-year contract commencing July 1, 1997 and ending June 30, 1999. The agreement calls for salary increases of 3% effective July 6, 1997 and 3% effective July 5, 1998. The agreement also provides for increases in overtime meals and mileage reimbursements. The total estimated cost of the agreement is $51.4 million through fiscal 1999.

In December, 1997, the Commonwealth reached an agreement with the National Association of Government Employees representing Units 1, 3 and 6 for a three-year contract beginning July 1, 1998 and terminating June 30, 2001. The agreement provides for salary increases of 4% effective July 5, 1998, 2% effective July 4, 1999, 2% effective January 2, 2000 and 3% effective January 7, 2001. The agreement also calls for an increase in health and welfare contributions effective July 1, 1999. The total estimated cost of the agreement is $83.3 million through fiscal 2001.

In March, 1998, the Commonwealth reached an agreement with the State Police Association of Massachusetts, representing Unit 5A, for a three-year contract beginning January 1, 1997 and terminating December 31, 1999. The agreement called for salary increases of 3.5% effective January 5, 1997, 3.5% effective July 6, 1997, 3.5% effective January 4, 1998, and 3.5% effective January 3, 1999. Also included were one-time bonuses of 3.5% effective January 5, 1997, and 3% effective July 6, 1997. In addition, the agreement provided for the creation of two new salary steps for troopers and sergeants each worth 2.5%, effective January 4, 1998. The total estimated cost of this agreement is $64.9 million through fiscal 2001.

On July 23, 1998, the Commonwealth signed an agreement with the Massachusetts Nurses Association, representing employees in Bargaining Unit 7, for a three-year period beginning July 1, 1997 and terminating June 30, 2000. The agreement provided for salary increases of 3% effective July 6, 1997, 3% effective July 5, 1998, and 3% effective July 4, 1999. Also included were two one-time bonus payments, of 3.5% effective July 6, 1997 and 3% effective July 5, 1998. The agreement's estimated cost is $27.8 million through fiscal 2000.

In October, 1998, the Commonwealth reached an agreement with the Massachusetts Correction Officers Federated Union, representing Unit 4, for a three-year contract beginning January 1, 1998, and terminating December 31, 2000. The agreement provides for salary increases of 3.5% effective January 4, 1998, 3.5% effective January 2, 1999 and 3% effective January 2, 2000. Also, a new step worth 2.5% was added to the salary schedule effective July 5, 1998, and another new step, also worth 2.5%, was added effective July 4, 1999. Additionally, increases were made in health and welfare contributions and Transitional Career Award (longevity) pay. The total estimated cost of the agreement is $77.2 million through fiscal 2001.

In January, 1999, the Commonwealth reached an agreement with the Coalition of Public Safety ("COPS") for a three-year contract beginning July 1, 1998 and terminating June 30, 2001. The agreement is subject to a ratification vote by the COPS membership in mid-February, 1999 and the Commonwealth expects approval. The tentative agreement provides for salary increases of 3% effective July 5, 1998, 3% effective July 4, 1999 and 3% effective July 3, 2000. The agreement also includes the establishment of a new Step 6 (2%) effective June 30, 2000 and a new Step 7 (2%) effective June 30, 2001. Fringe benefit increases are provided for health and welfare benefits and educational incentive pay. The total estimated cost of the agreement is $7.5 million through fiscal 2001.

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

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

Human Resources Division Bargaining Units (1)

Contract Unit	Bargaining Union	Type of Employee	FTEs (All Funds)	Expiration Dates
1	National Association of Government Employees	Clerical	4,630	6/30/01
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Institutional services	10,283	6/30/99
3	National Association of Government Employees	Skilled trades	790	6/30/01
4	Massachusetts Correction Officers Federated Union	Corrections	4,137	12/31/00
5	Coalition of Public Safety	Law enforcement	345	6/30/98
5A	State Police Association of Massachusetts	State Police	1,757	12/31/99
6	National Association of Government Employees	Administrative professionals	7,178	6/30/01
7	Massachusetts Nurses Association	Health professionals	1,937	6/30/00
8	Alliance/Service Employees International Union	Social workers	7,416	6/30/99
9	Massachusetts Organization of Engineers and Scientists	Engineers/scientists	2,857	12/31/99
10	Alliance/Service Employees International Union	Secondary education	596	6/30/99
	TOTAL		41,925	

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

COMMONWEALTH CAPITAL SPENDING

The Commonwealth finances capital expenditures from a variety of sources, including general obligation bonds and special obligation (state gas tax) bonds issued by the state, bonds issued by the Massachusetts Bay Transportation Authority (MBTA) and federal reimbursements. As a result of the Central Artery/Ted Williams Tunnel Project, certain additional funding sources have been developed including specified contributions from independent authorities and the issuance of bonds to be repaid from future federal reimbursements. In addition, at the end of the last two fiscal years, the Commonwealth has set aside surplus operating revenue to supplement capital spending (see "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS – Operating Fund Structure; *Year-end Surpluses*" and "FINANCIAL RESULTS - Selected Financial Data - Statutory Basis.").

Five-Year Capital Spending Plan

Since fiscal 1992 the Executive Office for Administration and Finance has maintained a five-year capital spending plan, including an annual administrative limit on the amount of capital spending to be financed by bonds issued by the state. In fiscal 1992 the annual limit was set at approximately $825 million. During fiscal 1995 the limit was raised to approximately $900 million and during fiscal 1998 to approximately $1.0 billion. Actual bond-financed capital expenditures during fiscal years 1994, 1995, 1996, 1997 and 1998 were approximately $761 million,

$902 million, $909 million, $955 million and $1.0 billion, respectively. The current plan is set forth in the table below and contains current estimates of capital spending of the Commonwealth as well as the projected sources of funding for such capital spending, including federal aid, for fiscal years 1999 through 2003. Capital spending for fiscal years 1999 through 2003 to be financed from debt issued by the state is forecast at $5 billion, which includes both general obligation bonds and state gas tax bonds, and which is significantly below legislatively authorized capital spending levels.

In addition, the plan anticipates the issuance of $1.5 billion in bonds by the MBTA. Although the MBTA undertakes its own capital spending, which is funded by MBTA bonds and federal grants, such spending has been included here for comparison purposes. MBTA bonds are paid from Commonwealth contract assistance payments, and the state's obligation to make such payments is considered to be a general obligation of the state, for which its full faith and credit are pledged. As such, MBTA capital spending is an integral component of Commonwealth capital spending. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Commonwealth-Supported Debt; *Massachusetts Bay Transportation Authority*."

The five-year capital plan contemplates that the projected level of Commonwealth capital spending will leverage additional federal transportation aid, including approximately $2.672 billion in federal highway funding and $975 million in aid for transit projects. See "Federal Highway Funding," below.

The five-year capital spending plan assumes that a portion of Central Artery/Ted Williams Tunnel project expenditures will be financed from sources other than Commonwealth bonds and federal revenue. In particular, the plan projects that project spending of $1.205 billion will be financed by grant anticipation notes in anticipation of future federal aid to be received during fiscal years 2003 and beyond and that $1.197 billion will be funded from the receipt of third-party payments from the Massachusetts Port Authority and the Massachusetts Turnpike Authority. The current five-year capital plan is based on current project cost estimates dated December 31, 1998 as prepared by the Central Artery/Ted Williams Tunnel project and the Turnpike Authority. The Commonwealth, subject to legislative approval, expects to issue bond anticipation notes in advance of the receipt of certain payments from the Port Authority to meet project costs during the peak construction years of the Central Artery/Ted Williams Tunnel project.

The following table sets forth the Commonwealth's current five-year capital plan. The table assumes that all bonds related to a particular year's expenditures will be issued in the same year. In practice, Commonwealth capital expenditures usually occur prior to the issuance of the related bonds. Accordingly, it is customary for some bonds to be issued in a subsequent fiscal year to finance capital expenditures made in the prior fiscal year.

The five-year capital plan governs bond funded debt and does not, therefore, include expenditures from the Capital Investment Trust Fund or the Capital Improvement and Investment Trust Fund (see "FINANCIAL RESULTS – Selected Financial Data–Statutory Basis") or capital expenditures from any potential year-end surplus (see "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS – Operating Fund Structure; *Year-end Surpluses*").

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

USES:	1999	2000	2001	2002	2003	Total
Category						
Information Technology	$48	$49	$49	$49	$49	$244
Infrastructure	211	202	202	202	202	1,019
Environment	119	105	105	105	105	539
Wastewater Treatment	7	11	11	11	8	48
Housing	67	71	71	71	71	351
Transportation						
Central Artery/Tunnel Project	1,606	1,634	1,156	509	344	5,249
MBTA	385	529	603	543	415	2,475
GO Notes Repayment	0	0	0	23	28	51
All Other	521	453	462	473	434	2,343
Transportation Subtotal	2,512	2,616	2,221	1,548	1,221	10,118
Public Safety	9	9	9	9	9	45
Economic Development	51	40	40	40	131	302
Total Uses	$3,024	$3,103	$2,708	$2,035	$1,796	$12,666
SOURCES:						
Category						
Commonwealth Long Term Debt	$1,000	$1,000	$1,000	$1,000	$1,000	$ 5,000
Commonwealth Notes	0	31	86	0	0	117
MBTA Bonds	240	294	358	343	265	1,500
Third Party-Supported Expenditures	515	451	220	0	11	1,197
Grant Anticipation Notes	475	559	171	0	0	1,205
Federal Aid	794	769	872	692	520	3,647
Total Sources	$ 3,024	$ 3,103	$ 2,708	$ 2,035	$ 1,796	$ 12,666

SOURCE: Executive Office for Administration and Finance.
(1) Totals may not add due to rounding.

Beginning in July, 1998, the responsibility for monitoring the five-year capital plan was transferred from the Executive Office for Administration and Finance to the Fiscal Affairs Division (formerly the Budget Bureau) within the Executive Office. The Fiscal Affairs Division regularly reviews its five-year capital spending plan to account for changes in the expected timing and amount of the Commonwealth's capital expenditures. Due to the size and complexity of the Commonwealth's capital program and other factors, the timing and amount of actual capital expenditures and debt issuances over the period will likely vary somewhat from the annual spending amounts contained in the five-year capital spending plan.

Federal Highway Funding

On June 9, 1998, the President approved the Transportation Equity Act for the 21st Century ("TEA-21"), successor legislation to the Intermodal Surface Transportation Efficiency Act of 1991. Technical corrections to TEA-21 were approved by the President on July 22, 1998. TEA-21, as amended, clarifies the amount of federal highway aid the Commonwealth can expect to receive through federal fiscal year 2003. (Federal fiscal years end on September 30.)

According to the Federal Highway Administration, Commonwealth apportionments for those years are as follows: $642.9 million in federal fiscal year 1998, $493.2 million in federal fiscal year 1999, $496.8 million in federal fiscal year 2000, $506.0 million in federal fiscal year 2001, $515.5 million in federal fiscal year 2002 and $525.0 million in federal fiscal year 2003. As a result of the annual Congressional appropriations process, it is likely that the Commonwealth will receive an annual obligation authority ceiling at the outset of each year that is less than 100% of the estimated apportionments during the six-year life of the legislation. ("Obligation authority" is the amount of federal funds that a state can obligate in a given federal fiscal year.) Additional funding may be available at the end of each federal fiscal year through Federal Highway Administration redistributions of unused obligation authority from states unable to use their full amount to those states with the greatest need. For federal fiscal year 1998, the amount of obligation authority that the Commonwealth actually received was approximately $592.0 million, including redistribution. On November 16, 1998, the Commonwealth received an obligation authority amount of $434.6 million for federal fiscal year 1999. An additional $100 million was appropriated in the federal fiscal 1999 Omnibus Appropriations Act for transportation projects in the Commonwealth. Approximately $71 million of these funds will be available for the Central Artery/Ted Williams Tunnel project, with the remainder being used to fund other transportation projects statewide.

For financial planning purposes in the project finance plans for the Central Artery/Ted Williams Tunnel project, the Federal Highway Administration allows the Commonwealth to assume obligation authority equal to 100% of the annual apportionment, but no redistribution. Accordingly, the Commonwealth's five-year capital plan assumes federal highway aid equal to 100% of the TEA-21 apportionments for the 2000 fiscal year and beyond. Funding for the 1999 fiscal year is based on available funding of $434.6 million from TEA-21 and $100 million from the Omnibus Appropriations Act, and assumes $25 million in Massachusetts redistribution.

Central Artery/Ted Williams Tunnel Project

The largest single component of the Commonwealth's capital program currently is the Central Artery/Ted Williams Tunnel project, a major construction project that is part of the completion of the federal interstate highway system. The project involves the depression of a portion of Interstate 93 in downtown Boston (the Central Artery), which is now an elevated highway, and the construction of a new tunnel under Boston harbor (the Ted Williams Tunnel) to link the Boston terminus of the Massachusetts turnpike (Interstate 90) to Logan International Airport and points north. By the time of its completion, the project is expected to have required expenditures totaling $11.7 billion, excluding insurance reimbursements and proceeds from real estate dispositions related to the project that will be received after project completion. These reimbursements are anticipated to be no less than $900 million, resulting in a net project cost of $10.8 billion. As described below, the magnitude of this project has resulted in the realignment of certain transportation assets in the Commonwealth and the development of additional financing mechanisms to support its completion.

In conjunction with the project, the Commonwealth has established a Metropolitan Highway System to be owned and operated by the Massachusetts Turnpike Authority. Under legislation approved on August 10, 1995, the Ted Williams Tunnel was transferred to the Turnpike Authority in exchange for an initial payment of $100 million (received in April, 1996), which was financed initially by the issuance of Commonwealth-guaranteed bond anticipation notes. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Commonwealth-Guaranteed Debt; *Massachusetts Turnpike Authority*." The August, 1995 legislation also directed the Turnpike Authority and the Executive Office of Transportation and Construction (EOTC), with participation from the Massachusetts Port Authority on pertinent issues, to prepare a joint feasibility study relating to a unified transportation system in the Boston metropolitan area. The study, which was released on December 5, 1996, included a report prepared by an independent consultant team and proposed recommendations developed jointly by EOTC and the Turnpike Authority.

The feasibility study's recommendations were largely enacted into law in March, 1997. Two "cost centers" were established within the Turnpike Authority, a western cost center (extending from the Massachusetts/New York border to Route 128) and the Metropolitan Highway System (including the Massachusetts turnpike from Route 128 eastward, the Central Artery portion of Interstate 93 and the Ted Williams, Sumner and Callahan Tunnels under Boston harbor). Each cost center is to be financially independent and self-sustaining. The analysis contained in the study indicated that the western cost center could be expected, with no toll adjustments, to support operation and maintenance expenses, provide for capital reinvestment and retire all outstanding debt by 2010, whereupon the roadway would be transferred to the Commonwealth. The analysis further indicated that with certain proposed toll adjustments on the three tunnels and the Tobin Bridge (which is owned and operated by the Massachusetts Port Authority) the Turnpike Authority and the Port Authority would be able to make substantial capital contributions to the Central Artery/Ted Williams Tunnel project. Under the March, 1997 legislation, oversight of project construction was authorized to be transferred from the Massachusetts Highway Department to the Turnpike Authority, and that occurred in July, 1997. The legislation also directed the Executive Office for Administration and Finance, the State Auditor, the Division of Capital Planning and Operations and the Massachusetts Port Authority to undertake a new "asset assessment study" to determine whether the Port Authority could afford to contribute as much as $300 million toward the cost of the project, rather than the $200 million contribution contemplated by the feasibility study and the legislation. See discussion below.

Additional state spending and borrowing authorizations for the Central Artery/Ted Williams Tunnel project were contained in transportation bond legislation approved by Governor Weld on May 16, 1997. In addition, the legislation authorized the Commonwealth to borrow up to $1 billion in anticipation of future federal highway reimbursements. (As described below, an increase in that authorization was enacted by the Legislature in May, 1998.) The legislation stipulated that the Massachusetts Turnpike Authority would be required to pay the Commonwealth $700 million by December 31, 1998 to help defray costs of the Central Artery/Ted Williams Tunnel project or any other component of the Metropolitan Highway System, such amount to be in addition to the $100 million which had at that time already been paid on account of the Ted Williams Tunnel.

The Turnpike Authority paid the Commonwealth $100 million on June 25, 1998, and $600 million on December 31, 1998, pursuant to the May, 1997 legislation. The Turnpike Authority plans to make additional payments to the Commonwealth in relation to the transfer of the Central Artery/Ted Williams Tunnel project as follows: $355 million on or before April 15, 1999, $100 million on or before June 30, 1999 and $100 million on or before June 20, 2000. These payments are subject to the conditions set forth in a revised memorandum of understanding among the Executive Office of Transportation and Construction, the Executive Office for Administration and Finance and the Massachusetts Turnpike Authority which is in final draft form and is expected to be executed by February 26, 1999. Those conditions include the requirements that the Turnpike Authority be able to issue additional bonds under its Metropolitan Highway System trust agreement resulting in net proceeds at least sufficient to make such payments on such dates, that the Turnpike Authority and the Commonwealth enter into a contract for financial assistance providing for payments by the Commonwealth of up to $25 million per year for forty years for the operation and maintenance of the Central Artery following the transfer of operating responsibility for the Central Artery from the Massachusetts Highway Department to the Turnpike Authority and that the Massachusetts Highway Department continue to adhere to cited prior agreements regarding the transfer and management of Central Artery/Ted Williams Tunnel project assets. The contract for financial assistance was expressly authorized by legislation approved on August 7, 1998, which provides that the contract will be a general obligation of the Commonwealth for which the faith and credit of the Commonwealth will be pledged for the benefit of the Turnpike Authority and of the holders of any bonds or notes of the Turnpike Authority which may be secured by a pledge of the contract or of amounts to be received by the Turnpike Authority under the contract.

On May 18, 1998 Acting Governor Cellucci approved legislation authorizing a $1.5 billion federal highway grant anticipation note program. This legislation amended the original grant anticipation note authorization enacted in 1997 by providing authorization for the issuance of up to $1.5 billion in grant anticipation notes to provide partial funding for the Central Artery/Ted Williams Tunnel project and establishing a Federal Highway Grant Anticipation Note Trust Fund as the primary credit support for grant anticipation note financings. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Federal Grant Anticipation Notes."

On July 23, 1998 a joint asset assessment study was submitted to the Legislature by the Executive Office for Administration and Finance, the Department of the State Auditor, the Division of Capital Planning and Operations, the Turnpike Authority and the Port Authority, as required by the March, 1997 legislation described above. The 1997 legislation required that the study identify any additional segments of the Metropolitan Highway System and the value of such segments that might be acquired by the Port Authority in connection with an additional payment of up to $100 million to the Commonwealth. The study concludes that the Port Authority has the capacity to finance the acquisition of roadways valued at up to $300 million and recommends that certain roadways identified in the study be transferred to the Port Authority in exchange for payments totaling up to $300 million, based on the value to the Port Authority of the acquired roadways as determined in accordance with a methodology described in the study. On August 13, 1998 the Port Authority and the Executive Office for Administration and Finance entered into a memorandum of understanding which acknowledges a $12,115,000 payment made by the Port Authority in September, 1997 and provides that the Port Authority will, subject to a definitive agreement among the Port Authority, the Massachusetts Highway Department and the Turnpike Authority with respect to the Port Authority's paying $300 million in the aggregate for the assets identified in the joint study, make payments to the Commonwealth according to the following schedule: $30,735,000 in fiscal 1999, $52,236,000 in fiscal 2000, $104,914,000 in fiscal 2003, $50 million in fiscal 2004 and $50 million in fiscal 2005. The definitive agreement is expected to be executed before March 31, 1999.

On July 28, 1998, the State Auditor, who had participated in the joint asset assessment study, issued a report which, among other things, questioned whether the transfer of cash from the Port Authority to the Commonwealth and the transfer of roadway assets from the Commonwealth to the Port Authority could lawfully be consummated as planned. The report acknowledged that officials at the Federal Highway Administration and the Central Artery/Ted Williams Tunnel project had determined that the transaction could be consummated as planned. Other Commonwealth officials and the Port Authority have made a similar determination. On January 7, 1999, the Port Authority received a letter from the Federal Aviation Administration seeking additional information in order to determine whether the $300 million in payments identified in the July, 1998 joint asset assessment study were consistent with the Port Authority's obligations under federal aviation laws, which generally require airport revenues to be used for the capital or operating costs of the airport. By letter dated February 9, 1999, the Port Authority supplied the Federal Aviation Administration with the information requested and explained why the Port Authority remains confident that its purchase of airport roadway assets from the Central Artery/Ted Williams Tunnel project is consistent with applicable provisions of federal aviation law governing the use of airport revenue.

On August 7, 1998, Acting Governor Cellucci approved legislation authorizing advances from the state treasury, effective as of June 30, 1998, and the issuance of up to $600 million of general obligation notes in anticipation of contributions to the Central Artery/Ted Williams Tunnel project expected to be made by the Massachusetts Port Authority and the Massachusetts Turnpike Authority. Such notes must mature by June 30, 2007. This legislation will enable the Commonwealth to reimburse certain expenses incurred by the project in fiscal 1998 by the issuance of such notes, as envisioned by the project finance plan. Subject to the receipt by the Commonwealth of no less than $400 million from the Massachusetts Turnpike Authority on or before June 30, 1999 (as described above), $400 million of these special obligation notes in anticipation of the Massachusetts Turnpike Authority payments will not be required.

In determining the appropriate levels of financing contained in the Commonwealth's overall five-year capital spending plan, the Executive Office for Administration and Finance has considered the cash flow needs required to fund the Central Artery/Ted Williams Tunnel project through completion. The table below provides cash flow projections that are consistent with the five-year plan and extend to fiscal 2005, when the project is expected to be completed.

The first table below presents the projected sources and uses of funds for the Central Artery/Ted Williams Tunnel project from fiscal 1999 to fiscal 2005. The second table isolates the use of interim debt. The top half of the table shows the expected draw-down schedule for note proceeds; the bottom half of the table shows the expected repayment schedule for such notes.

Central Artery/Ted Williams Tunnel Construction Cash Flow
(in thousands)

Central Artery/Ted Williams Tunnel Construction Cash Flow

	1999	2000	2001	2002	2003	2004	2005	Totals
Central Artery Construction Uses:	$1,605,767	$1,633,507	$1,155,584	$508,603	$343,712	$252,902	$34,492	$5,534,567
Central Artery Construction Sources:								
Federal highway reimbursements	484,960	368,816	478,047	381,582	260,889	201,342	27,466	2,203,101
Commonwealth general obligation bonds and bond anticipation notes	131,000	255,644	286,162	127,020	72,165	33,498	7,026	912,515
Third-party payments and notes issued in anticipation thereof	514,927	450,502	219,926	0	10,657	18,063	0	1,214,075
Federal grant anticipation notes	474,880	558,546	171,450	0	0	0	0	1,204,875
Total Sources	$1,605,767	$1,633,507	$1,155,584	$ 508,603	$ 343,712	$ 252,902	$ 34,492	$5,534,567

Interim Debt Schedule
(in thousands)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	TOTAL
Drawdowns of note proceeds													
Federal grant anticipation notes	$ 295,124	$ 474,880	$ 558,546	$ 171,450	0	0	0	0	0	0	0	0	$1,500,000
Notes in anticipation of third-party payments	0	0	62,826	113,339	0	0	0	0	0	0	0	0	176,166
Bond anticipation notes	0	0	30,644	86,162	0	0	0	0	0	0	0	0	116,806
Total proceeds	$ 295,124	$ 474,880	$ 652,016	$ 370,951	0	0	0	0	0	0	0	0	$1,792,972
Interim debt retirement													
Federal reimbursements	0	0	0	0	$ 20,283	$ 40,661	$ 173,170	$ 263,435	$ 264,450	$ 264,450	$ 264,450	$ 209,101	$1,500,000
Third-party payments	0	0	0	0	0	94,229	31,937	50,000	0	0	0	0	176,166
General obligation bonds	0	0	0	0	22,980	27,835	46,502	19,489	0	0	0	0	116,806
Total retirement	0	0	0	0	$ 43,263	$ 162,725	$ 251,609	$332,924	$264,450	$264,450	$264,450	$209,101	$1,792,972

SOURCE: Executive Office for Administration and Finance

Historical Capital Spending

The Commonwealth has expended significant sums on an annual basis to undertake capital projects in the state. Expenditures on capital projects have increased from approximately $1.9 billion in fiscal year 1994 to approximately $3.1 billion in fiscal year 1998. Transportation related spending constitutes the bulk of the Commonwealth's capital expenditures, accounting for 81% percent of all expenditures over the last five years. The Central Artery/Ted Williams Tunnel project has become the single largest part of the Commonwealth's capital spending, totaling some $4.896 billion over the last five years, increasing from $817 million in fiscal year 1994 to $1.428 billion in fiscal year 1998. The table below sets forth the sources of funds for capital spending in the Commonwealth from fiscal 1994 to fiscal 1998. The table is organized to present the spending in a format consistent with the administration's overall capital plan. The table excludes payments of refunding bond proceeds paid to refunding escrow agents. Interfund transfers within the capital projects funds have also been eliminated. During fiscal 1996 and 1997, activity in the Capital Expenditure Reserve Fund was reported as a special revenue fund. In fiscal year 1998, the fund was reclassified to a capital project fund. Activity in this fund is included in this table for all fiscal years.

The table below assumes that all bonds related to a particular year's expenditures were issued in the same year. In practice, Commonwealth capital expenditures usually occur prior to the issuance of the related bonds. Accordingly, it is customary for some bonds to be issued in a subsequent fiscal year to finance capital expenditures made in the prior fiscal year.

Commonwealth Capital Expenditures
(in millions)

	1994	1995	1996	1997	1998	Total
USES						
Information technology	$ 14	$ 21	$ 17	$ 56	$ 86	$ 195
Transportation(1)	1,579	1,957	2,027	2,327	2,377	10,266
Environment	117	116	118	104	141	597
Wastewater treatment	50	22	20	25	9	126
Housing	34	47	66	62	80	289
Public safety	9	34	23	21	16	103
Infrastructure	106	98	137	222	237	799
Economic development	34	48	24	64	110	280
Total Uses	$ 1,943	$ 2,343	$ 2,431	$ 2,882	$ 3,055	$ 12,654
SOURCES						
Commonwealth long-term debt(2)(3)	$ 761	$ 902	$ 908	$ 1,055	$ 919	$ 4,544
MBTA long-term debt	153	294	358	343	265	1,413
Grant anticipation notes	--	--	--	--	295	295
Operating revenues	--	--	--	80	159	239
Third-party payments	--	--	43	60	386	489
Federal reimbursements	1,029	1,148	1,121	1,345	1,031	5,674
Total Sources	$ 1,943	$ 2,343	$ 2,431	$ 2,882	$ 3,055	$ 12,654

(1) Includes Central Artery/Ted Williams Tunnel project spending of $817 million, $878 million, $802 million, $971 million and $1.428 billion, and MBTA spending of $239 million, $492 million, $589 million, $652 million and $407 million in fiscal years 1994 through 1998, respectively.

(2) Fiscal 1997 includes $100 million in spending that was anticipated to be funded by payments from the Turnpike Authority; such payment was received June 28, 1998.
(3) Fiscal 1998 includes $19 million for the Worcester Convention Center.

Source: Office of the Comptroller and the MBTA. Breakdown of transportation spending: Executive Office of Transportation and Construction.

Proposed Capital Spending Authorizations

On June 11, 1997, Governor Weld filed legislation that would authorize $10 million of Commonwealth general obligation bonds to finance design costs related to planned renovations to the Saltonstall Building, a 30-year-old state office building. Under the legislation, the renovations themselves would be financed by the issuance by the Massachusetts Development Finance Agency of up to $100 million of lease revenue bonds; the Commonwealth would convey the building to the Agency and lease it back under a financing structure similar to that used for the Massachusetts Information Technology Center. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Indirect Obligations; *City of Chelsea Commonwealth Lease Revenue Bonds*." The legislation was referred to the Legislature's Committee on State Administration, which filed a report on August 28, 1997 recommending that the committee be authorized to study the proposal further and report its findings to the Legislature.

On April 28, 1998 Acting Governor Cellucci filed legislation to provide for the widening and improvement of state Route 3 North by means of a design/build procurement and private financing. Under the bill, the Secretary of Transportation and Construction would solicit proposals from private developers to enter into a lease/lease-back arrangement with the Massachusetts Highway Department for a term of up to 40 years. The credit of the Commonwealth would not be pledged to the payment of any debt instruments issued for the project. On May 15, 1998 the Executive Office of Transportation and Construction and the Highway Department issued a request for qualifications/proposals consistent with the proposed legislation, estimating the cost of the project to be $200 million and contemplating the issuance of tax exempt bonds by a special purpose "63-20" corporation. On July 20, 1998 the Legislature's Committee on Transportation approved a revised version of the legislation, limiting the cost of the project to $200 million, requiring any debt to be tax exempt and limiting the annual lease payments to be made by the Highway Department to $18 million. Otherwise, the Secretary of Transportation and Construction would have to receive specific approval of the agreement with the developer from the Transportation Committee. On July 30, 1998 the House of Representatives approved the bill. On July 31, 1998 the Senate approved an amended version of the bill, limiting the term of the arrangement to the lesser of 25 years or the useful life of the project, limiting the aggregate cost, including interest expense, to $265 million and requiring a project labor agreement. A conference committee was unable to reconcile the two versions of the bill prior to the conclusion of the 1998 legislative session. Governor Cellucci intends to refile this legislation for the 1999 session.

Governor Cellucci plans to file legislation for consideration in early 1999 which would authorize $126 million of Commonwealth general obligation bonds for the purpose of preserving and maintaining certain real property assets of the Commonwealth. A similar version of this bill was approved by the House of Representatives on July 1, 1998. A revised version of that bill was subsequently approved by the Senate on July 31, 1998. The House rejected certain provisions of the Senate bill, however, and no final legislative action was taken prior to the conclusion of the 1998 legislative session.

On February 12, 1999, Governor Cellucci filed legislation authorizing $75 million of Commonwealth general obligation bonds for grants to cities and towns to finance the renovation of public libraries. This is a revised version of a similar bill which was approved by the Senate on November 13, 1997. This bill was subsequently referred to the House Committee on Ways and Means, and no final legislative action was taken prior to the conclusion of the 1998 legislative session.

An omnibus transportation bond bill including new capital funding authorizations for the MBTA and highway construction projects, including the Central Artery/Ted Williams Tunnel project, is also expected to be submitted to the Legislature by Governor Cellucci for consideration in early 1999. The bill is expected to call for approximately

$4.5 billion of transportation-related capital spending to occur over several years, including approximately $1.6 billion to be funded by federal reimbursements, approximately $1.8 billion to be funded by Commonwealth general obligation bonds and approximately $1.1 billion to be funded by MBTA bonds. In addition, the proposed legislation is expected to include provisions that would alter the financial relationship between the Commonwealth and the MBTA, including an $800 million Commonwealth general obligation bond authorization to retire outstanding MBTA notes and reimburse the state treasury for prior working capital advances to the MBTA. See "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority."

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

COMMONWEALTH BOND AND NOTE LIABILITIES

Overview

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

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

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

Other Commonwealth Bond and Note Liabilities. Certain independent authorities and agencies within the Commonwealth are statutorily authorized to issue bonds and notes for which the Commonwealth is either directly, in whole or in part, or indirectly liable. The Commonwealth's liabilities with respect to these bonds and notes are classified as either (a) Commonwealth-supported debt, (b) Commonwealth-guaranteed debt or (c) indirect obligations. Commonwealth-supported debt arises from statutory requirements for payments by the Commonwealth with respect to debt service of the Massachusetts Bay Transportation Authority (including the Boston Metropolitan District), the Massachusetts Convention Center Authority, the Massachusetts Development Finance Agency (as successor to the Massachusetts Government Land Bank), the Steamship Authority and certain regional transit authorities. Commonwealth-guaranteed debt consists of certain liabilities arising out of the Commonwealth's guaranties of the bonds of the two higher education building authorities and certain bond anticipation notes of the Massachusetts Turnpike Authority. Indirect obligations consist of (i) obligations of the Commonwealth to fund capital reserve funds pledged to certain Massachusetts Housing Finance Agency bonds, (ii) the obligation of the Commonwealth, acting through the Board of Higher Education, to fund debt service, solely from moneys otherwise appropriated to the Board, on certain community college program bonds issued by the Massachusetts Health and Educational Facilities Authority,

(iii) the obligation of the Commonwealth, acting through the Executive Office of Public Safety, to fund debt service from amounts appropriated by the Legislature to the Executive Office of Public Safety, on certificates of participation issued to finance the Plymouth County Correctional Facility and (iv) the obligation of the Commonwealth to make lease payments from amounts appropriated by the Legislature with respect to the Massachusetts Information Technology Center in the city of Chelsea. See "Indirect Obligations." In addition, the Commonwealth has liabilities under certain tax-exempt capital leases. See "OTHER COMMONWEALTH OBLIGATIONS – Long-Term Capital Leases."

Outstanding Bond and Note Liabilities. The following table sets forth the Commonwealth bond and note liabilities outstanding as of January 1, 1999.

Commonwealth Bond and Note Liabilities
January 1, 1999
(in thousands)

	Long-Term	Short-Term
COMMONWEALTH DEBT		
General Obligation Debt	$ 10,060,107(1)	0
Special Obligation Debt	606,005	0
Federal Grant Anticipation Notes	921,720(2)	0
Subtotal Commonwealth Debt	11,587,632	0
COMMONWEALTH-SUPPORTED DEBT		
Massachusetts Bay Transportation Authority	3,405,270(3)	325,000(4)
Massachusetts Convention Center Authority	94,884	0
Massachusetts Development Finance Agency	82,880	0
Boston Metropolitan District	36,203	0
Steamship Authority	34,123	5,000
Regional Transit Authorities	0	73,190
Subtotal Supported Debt	3,653,360	403,190
COMMONWEALTH-GUARANTEED DEBT		
Massachusetts Turnpike Authority	0	55,905
Higher Education Building Authorities	223,571	0
Subtotal Guaranteed Debt	223,571	55,905
TOTAL COMMONWEALTH BOND AND NOTE LIABILITIES	$15,464,763	$459,095

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

(1) Long-term debt includes discount and costs of issuance. Does not include long-term capital lease obligations. See "Indirect Obligations; *Plymouth County Certificates of Participation*" and "OTHER COMMONWEALTH LIABILITIES – Long-Term Capital Leases." Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from January 1, 1999 through their maturity in the amount of $274.6 million. The Commonwealth has solicited bids for the sale of $250 million of general obligation bonds. Such sale is expected to take place on February 24, 1999. Such bonds are expected to be delivered on March 9, 1999.

(2) Includes capital appreciation interest on Federal Highway Grant Anticipation Notes accrued from January 1, 1999 through their maturity in the amount of $48.6 million.

(3) Includes bonds and refunding bonds, excluding such bonds that have been refunded. Does not include certificates of participation and other long-term lease obligations.

(4) Includes $165 million of notes due February 26, 1999 and $160 million of notes due September 3, 1999. The MBTA expects to sell notes on February 23, 1999 in the amount of $165 million which will mature on February 25, 2000; such notes are expected to be delivered on February 26, 1999. In addition, as of February 1, 1999, the MBTA has outstanding $48.9 million of commercial paper issued as bond anticipation notes. See "Commonwealth Supported Debt; *Massachusetts Bay Transportation Authority.*"

Long-Term Bond Liabilities(1)(2)
Commonwealth Debt and Commonwealth-Supported Debt
(in thousands)

June 30	General Obligation Bonds (3)	Dedicated Income Tax Debt	Special Obligation Debt	Federal Grant Anticipation Notes	Commonwealth Long-Term Debt Subtotal (4)	MBTA Bonds	Other Supported Debt(5)	Total (4)
1994	$8,184,165	$ 839,810	$ 403,770	--	$9,427,745	$2,165,230	$277,655	$11,870,630
1995	8,614,766	618,980	394,720	--	9,628,466	2,399,780	273,410	12,301,656
1996	9,147,353	382,965	535,260	--	10,065,578	2,283,330	256,916	12,605,824
1997	9,620,633	129,900	520,760	--	10,271,293	3,043,815	223,882	13,538,990
1998	9,872,598	--	606,005	$600,000	11,078,603	3,210,730	275,019	14,564,352

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

(1) Does not include Commonwealth-guaranteed debt. See "Commonwealth-Guaranteed Debt."
(2) Outstanding bond liabilities include discount and costs of issuance.
(3) Does not include Dedicated Income Tax Debt. 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 1994 – $361.5 million, fiscal 1995 – $331.6 million, fiscal 1996 – $321.4 million; fiscal 1997 – $198.6 million; fiscal 1998 – $305.8 million.
(4) Totals may not add due to rounding.
(5) Includes bonds of the Massachusetts Convention Center Authority, the Steamship Authority, the Massachusetts Development Finance Agency (as successor to the Massachusetts Government Land Bank) and the Boston Metropolitan District. Does not include bonds of regional transit authorities.

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 Commonwealth-Supported Debt

June 30	Amount(1)(2) (in thousands)	Net of CAB Interest Yet to be Accrued (in thousands)	Per Capita	Ratio to Full Value of Real Estate(4)	Ratio to Personal Income (5)
1994	$11,870,630	$11,418,996	$1,894	3.13%	7.17%
1995	12,301,656	11,970,088	1,975	3.28	7.04
1996	12,605,824	12,284,394	2,018	3.26	6.83
1997	13,538,990	13,340,390	2,180	3.54	6.99
1998	14,564,352	14,258,569	2,331	3.78	7.47

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

(1) Includes Commonwealth general obligation bonds, dedicated income tax bonds, Special Obligation Bonds, and Federal Grant Anticipation Notes and bonds of the Massachusetts Bay Transportation Authority, the Massachusetts Convention Center Authority, the Steamship Authority, the Massachusetts Development Finance Agency (as successor to the Massachusetts Government Land Bank) and the Boston Metropolitan District. Does not include bonds of the regional transit authorities. Does not include Commonwealth-guaranteed debt. See "Commonwealth-Guaranteed Debt."
(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. See table of "Long-Term Bond Liabilities; footnote 3" above.
(3) Based on United States Bureau of Census resident population estimates for Massachusetts of 6,028,835 for 1994, 6,060,566 for 1995, 6,085,395 for 1996, and 6,117,520 for 1997 and 1998.
(4) Based on Commonwealth Department of Revenue equalized valuation of assessed real estate of $365.2 billion for 1994 and 1995, and $377.2 billion for 1996, 1997, and 1998.
(5) Based on United States Department of Commerce, Bureau of Economic Analysis total personal income of $159.3 billion for 1994, $170.1 billion for 1995, $179.9 billion for 1996, and $190.9 billion for 1997 and 1998.

Maturities of Short-Term Debt. The following table sets forth the maturities of the Commonwealth's short-term liabilities outstanding as of January 1, 1999.

Maturities of Short-Term Liabilities
January 1, 1999
(in thousands)

Year Due	MBTA	Turnpike Authority	Regional Transit Authorities	Steamship Authority	Total
Fiscal 1999	$165,000	$55,905	$ 21,174	$ 5,000	$ 247,079
Fiscal 2000	160,000	0	52,016	0	212,016
Total	$325,000	$55,905	$ 73,190	$ 5,000	$459,095

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

General Obligation Debt

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

Notes. The Commonwealth is authorized to issue short-term general obligation debt as (i) revenue anticipation notes, (ii) bond anticipation notes or (iii) transit notes issued to fund a portion of the Commonwealth's net cost of service for the MBTA.

Revenue anticipation notes may be issued by the State Treasurer in any fiscal year in anticipation of the receipts for that year. Revenue anticipation notes must be repaid no later than the close of the fiscal year in which they are issued. Bond anticipation notes may be issued by the State Treasurer in anticipation of the issuance of bonds, including special obligation convention center bonds. See "Special Obligation Debt." The Commonwealth utilizes a commercial paper program to facilitate the issuance of revenue and bond anticipation notes. Under the Commonwealth's current commercial paper program, the Commonwealth may issue up to $200 million of short-term general obligation debt under a letter of credit which is available through October 31, 2000. As of February 16, 1999, the Commonwealth has no outstanding commercial paper, and none has been issued in fiscal 1999.

Transit notes issued to fund the net cost of service payments to the MBTA may be issued by the State Treasurer pursuant to Chapter 161A of the General Laws and may mature in the current or the next succeeding fiscal year. The notes are general obligations of the Commonwealth, but are funded, in part, from assessments collected by the Commonwealth from cities and towns in the MBTA's territory. See "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority." As of February 16, 1999, the Commonwealth has no outstanding transit notes.

U. Plan. The State Treasurer is authorized by law to sell a portion of the Commonwealth's bonded indebtedness each year in a manner appropriate to the purposes of one or more college savings programs. Pursuant to such authorization, the Commonwealth has outstanding approximately $82.6 million of bonds (not including accreted interest) in conjunction with the Massachusetts College Savings Program (known as the "U. Plan") administered by the Massachusetts Educational Financing Authority. Under the program, such bonds are issued annually on August 1; the Commonwealth issued approximately $26.1 million of such bonds in 1995, approximately $19.0 million in 1996, approximately $19.9 million in 1997 and approximately $17.7 million in 1998. To facilitate the goals of the program, such bonds bear deferred interest at a variable rate equal to the percentage change in the Consumer Price Index plus 2%, together with current interest at the rate of 0.5%.

Minibonds. The State Treasurer is authorized by law to sell a portion of the Commonwealth's bonded indebtedness each year (not exceeding $50 million net proceeds per year) in the form of small denomination bonds, or "minibonds," which are redeemable at the option of the holder on any business day prior to maturity (five years or less). The Commonwealth has not issued minibonds since 1990, and all minibonds previously issued have matured.

Special Obligation Debt

Highway Fund. Section 2O of Chapter 29 of the General Laws authorizes the Commonwealth to issue special obligation bonds secured by all or a portion of revenues accounted to the Highway Fund. Revenues which are currently accounted to the Highway Fund are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax. Chapter 33 of the Acts of 1991 authorizes the Commonwealth to issue such special obligation bonds in an aggregate amount not to exceed $1.125 billion. As of January 1, 1999, the Commonwealth had outstanding $606 million of such special obligation bonds, including $18.7 million of such bonds secured by a pledge of 2¢ of the 21¢ motor fuels excise tax and three series of bonds, $155.5 million (issued in June, 1994), $140.5 million (issued in March, 1996), and $291.3 million (issued in October, 1997, of which $188.8 million were refunding bonds) secured by a pledge of an additional 4.86¢ of the motor fuels excise tax and certain other moneys. The bonds issued in October, 1997 advance refunded a portion of the bonds issued in 1992, such that after June 1, 2002, all outstanding special obligation highway bonds will be secured by a pledge of 6.86¢ of such excise tax.

Boston Convention and Exhibition Center Fund. Chapter 152 of the Acts of 1997 authorizes $676.9 million of special obligation bonds to be issued for the purposes of a new convention center in Boston ($609.4 million), the Springfield Civic Center ($48.5 million) and the Worcester convention center ($19 million). The bonds are to be payable from moneys credited to the Boston Convention and Exhibition Center Fund created by the legislation, which include the receipts from a 2.75% convention center financing fee added to the existing hotel tax in Boston, Cambridge, Springfield and Worcester, sales tax receipts from establishments near the proposed Boston facility that first opened on or after July 1, 1997, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, the entire hotel tax collected at hotels located near the new Boston facility and all sales tax and hotel tax receipts at new hotels in Boston and Cambridge first opened on or after July 1, 1997. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). To date, no such bonds have been issued.

Federal Grant Anticipation Notes

The Commonwealth is authorized to issue federal grant anticipation notes to finance the current cash flow needs of the Central Artery/Ted Williams Tunnel project in anticipation of future federal reimbursements. The legislation authorizing such notes contains a statutory covenant that as long as any such grant anticipation notes remain outstanding, the Commonwealth will deposit all federal highway reimbursements into the Grant Anticipation Note Trust Fund, to be released to the Commonwealth once all the debt service and reserve funding obligations of the trust agreement securing the grant anticipation notes have been met. If the United States Congress reduces the aggregate amount appropriated nationwide for federal highway spending to less than $17.1 billion *and* debt service coverage with respect to the notes falls below 120%, then the legislation further pledges that 10¢ per gallon of existing motor fuel tax collections will be deposited into the trust fund, to be used for debt service on the notes, subject to legislative appropriation. The notes are not general obligations of the Commonwealth. The legislation authorizes the issuance of notes yielding aggregate net proceeds of up to $1.5 billion, to mature no later than June 30, 2015, although the amount of notes that can be issued is currently capped at $900 million, the amount of the capital appropriation that was enacted in connection with the initial grant anticipation note authorization in 1997, until additional spending is authorized. An increase in the related appropriation item is expected to be requested by the Governor in early 1999. The Commonwealth has issued grant anticipation notes with a face amount of $921,720,000, yielding net proceeds of approximately $900.0 million and maturing between fiscal 2006 and fiscal 2015, inclusive. Under the trust agreement securing the notes, which will secure the entire $1.5 billion program, aggregate annual debt service on grant anticipation notes may not exceed $216 million. Such notes are secured by the pledge of federal highway construction reimbursement payments and by a contingent pledge of certain motor fuels excises. See COMMONWEALTH CAPITAL SPENDING – Central Artery/Ted Williams Tunnel Project."

Synthetic Fixed Rate Bonds

In connection with the issuance of certain general obligation bonds that were issued as variable rate bonds, the Commonwealth has entered into interest rate exchange (or "swap") agreements with certain counterparties pursuant to which the counterparties are obligated to pay the Commonwealth an amount equal to the variable rate payment on the related bonds and the Commonwealth is obligated to pay the counterparties a stipulated fixed rate. Only the net difference in interest payments is actually exchanged with the counterparty, and the Commonwealth is responsible for making the interest payments to the variable rate bondholders. The effect of the agreements is to fix the Commonwealth's interest payment obligations with respect to the variable rate bonds. The Commonwealth will be exposed to a variable rate if the counterparties default or if the swap agreements are terminated. Termination of a swap agreement may also result in the Commonwealth's making or receiving a termination payment. The variable rate bonds associated with such swaps are supported by stand-by bond purchase liquidity facilities with commercial banks which require that the applicable bank purchase any bonds that are tendered and not successfully remarketed. Unless and until remarketed, the Commonwealth would be required to pay the bank interest on such bonds at a rate equal to the bank's prime rate. In addition, the Commonwealth would be required to amortize the principal of any such bonds according to an accelerated schedule. Such liquidity facilities expire well before the final maturity date of the related bonds and are expected to be renewed. As of January 1, 1999, the amount of such variable rate bonds outstanding was $770.8 million.

Debt Service Requirements on Commonwealth Bonds

The following table sets forth, as of January 1, 1999, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal grant anticipation notes. For variable rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate exchange agreement, the debt service schedule assumes payment of the fixed rate due under such agreement.

Debt Service Requirements on Commonwealth Bonds (1)
January 1, 1999
(in thousands)

	General Obligation Bonds				*Federal Grant Anticipation Notes*			*Special Obligation Bonds*			
Fiscal Year	Principal	Interest on CABS at Maturity	Current Interest	Sub Total	Principal	Interest	Sub Total	Principal	Interest	SubTotal	Total Debt Service Commonwealth Bonds
1999	$ 240,436	$ 19,635	$ 310,420	$ 570,491	-	$ 37,501	$ 37,501	$ 20,275	$ 31,842	$ 52,117	$ 660,109
2000	587,982	33,792	443,743	1,065,517	-	42,570	42,570	21,245	30,877	52,122	1,160,210
2001	641,343	23,247	411,502	1,076,091	-	42,570	42,570	22,290	29,830	52,120	1,170,781
2002	574,132	54,428	378,401	1,006,962	-	42,570	42,570	23,415	28,708	52,123	1,101,655
2003	582,355	58,346	350,609	991,310	-	42,570	42,570	24,865	27,258	52,123	1,086,003
2004	553,269	79,136	323,518	955,923	-	42,570	42,570	26,070	26,051	52,121	1,050,613
2005	550,821	92,962	297,434	941,217	-	42,570	42,570	27,370	24,758	52,128	1,035,915
2006	551,521	100,947	272,522	924,989	$ 73,165	41,733	114,898	28,805	23,315	52,120	1,092,007
2007	626,027	33,726	244,471	904,224	76,785	38,114	114,899	30,350	21,774	52,124	1,071,246
2008	644,726	4,441	216,559	865,726	80,580	34,319	114,899	31,995	20,126	52,121	1,032,746
2009	667,492	5,045	183,589	856,126	84,840	30,061	114,901	33,675	18,444	52,119	1,023,146
2010	599,986	4,698	149,985	754,669	89,160	25,741	114,901	35,335	16,791	52,126	921,696
2011	589,741	5,135	119,373	714,248	93,715	21,180	114,895	37,300	14,829	52,129	881,272
2012	435,032	5,294	89,709	530,036	98,640	16,260	114,900	39,320	12,813	52,133	697,068
2013	434,630	5,972	67,718	508,320	102,985	11,913	114,898	41,470	10,650	52,120	675,338
2014	320,440	3,978	50,558	374,976	108,495	6,405	114,900	37,530	8,369	45,899	535,775
2015	304,405	3,164	36,408	343,977	113,355	1,544	114,899	39,455	6,440	45,895	504,771
2016	265,260	2,011	23,946	291,216	-	-	-	41,530	4,368	45,898	337,114
2017	180,223	873	12,940	194,037	-	-	-	43,710	2,186	45,896	239,932
2018	114,245	402	4,909	119,556	-	-	-	-	-	-	119,556
2019	57,458	112	813	58,383	-	-	-	-	-	-	58,383
2020 and thereafter	1,239	-	139	1,378	-	-	-	-	-	-	1,378
TOTAL	$ 9,522,763	$ 537,343	$ 3,989,265	$14,049,372	$ 921,720	$ 520,190	$ 1,441,910	$ 606,005	$ 359,427	$ 965,432	$15,456,714

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

(1) Totals may not add due to rounding.

Statutory Debt Limit on Direct Debt

Legislation enacted in December, 1989 imposes a limit on the amount of outstanding "direct" bonds of the Commonwealth. The law, which is codified in Section 60A of Chapter 29, set a fiscal 1991 limit of $6.8 billion, and provided that the limit for each subsequent fiscal year was to be 105% of the previous fiscal year's limit. The measurement of this limit is performed under the statutory basis of accounting, which differs from GAAP in that the principal amount of outstanding bonds is measured net of discount and costs of issuance. The law further provides that bonds to be refunded from the proceeds of Commonwealth refunding bonds are to be excluded from outstanding "direct" bonds upon the issuance of the refunding bonds. Pursuant to Chapter 33 of the Acts of 1991, the Commonwealth's outstanding special obligation highway revenue bonds are not to be counted in computing the amount of bonds subject to this limit. Pursuant to Chapter 5 of the Acts of 1991, $287.2 million of Commonwealth refunding bonds issued in September and October, 1991 are not counted in computing the amount of the bonds subject to this limit. Pursuant to Chapter 11 of the Acts of 1997, federal grant anticipation notes are also not to be counted in computing the amount of the bonds subject to this limit. The outstanding Commonwealth debt amounts excluded from the limit as of January 1, 1999 are shown in the table below:

Calculation of the Debt Limit
(amount in thousands)

	Bonds Outstanding
Balance as of January 1, 1999	$ 11,587,832
Less amounts excluded:	
Discount and issuance costs	705,439
Federal grant anticipation notes	899,991
Assumed county debt	1,370
Chapter 5 of the Acts of 1991 refunding bonds	130,069
Special obligation bonds	602,531
Outstanding Direct Debt	$ 9,248,432

SOURCE: Office of the Comptroller.

The following table shows the amount of outstanding "direct" debt of the Commonwealth, as compared with the appropriate statutory limit, as of the first day of each fiscal year in which the statutory limit has been in effect and as of January 1, 1999.

Statutory Debt Limit on Direct Debt
(in thousands)

Date	Outstanding Direct Debt	Statutory Limit on Direct Debt
July 1, 1990	$6,010,063	$6,800,000
July 1, 1991	6,653,030	7,140,000
July 1, 1992	6,937,500	7,497,000
July 1, 1993	7,259,821	7,871,850
July 1, 1994	7,343,227	8,265,442
July 1, 1995	7,583,823	8,678,715
July 1, 1996	8,094,713	9,112,650
July 1, 1997	8,696,918	9,568,283
July 1, 1998	8,982,072	10,046,697
January 1, 1999	9,248,432	10,046,697

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

Limit on Debt Service Appropriations

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

Debt Service Expenditures
(in millions)

Fiscal Year	Debt Service (1)	Total Budgeted Expenditures and Other Uses	Percentage
1994	$ 872.3	$15,522.9	5.6%
1995	953.0	16,250.5	5.9
1996	905.1	16,881.1	5.4
1997	997.6	17,949.0	5.6
1998	1,079.3	19,001.7	5.7
1999 (estimated)	1,231.0	19,906.8	6.2

SOURCE: Fiscal 1994-1998, Office of the Comptroller; fiscal 1999, Executive Office for Administration and Finance.

(1) Excludes $277.1 million in fiscal 1994, $277.9 million in fiscal 1995, $277.9 million in fiscal 1996, $277.9 million in fiscal 1997 and $134.1 million in fiscal 1998 for interest and principal payments related to Fiscal Recovery Bonds, which are not included in the calculation of the debt service limit.

Authorized But Unissued Debt

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

Fiscal Year	Authorized But Unissued Debt
1994	$4,512,297
1995	5,942,807
1996	8,182,844
1997	11,954,142
1998	12,316,738

Source: Office of the Comptroller.

As of January 1, 1999, there was approximately $12.0 billion of authorized but unissued general obligation debt.

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

There is $50 million of authorized but unissued debt under Chapter 33 of the Acts of 1991 that can only be issued as special obligation bonds secured by receipts in the Commonwealth's Highway Fund. There is also $676.9 million of authorized but unissued debt under Chapter 152 of the Acts of 1997 that can only be issued as special obligation bonds secured by receipts in the Commonwealth's Boston Convention and Exhibition Center Fund. See "Special Obligation Debt." In addition, several of the statutes authorizing general obligation bonds for transportation purposes also authorize such bonds to be issued as special obligation highway bonds, in the discretion of the Governor and the State Treasurer. The aggregate amount of such authorizations as of January 1, 1999 (included as Authorized but Unissued General Obligation Debt in the table above) is $3.8 billion.

An additional $600 million of grant anticipation notes may be issued under the federal highway grant anticipation note program. The program authorizes the issuance of notes yielding aggregate net proceeds of up to $1.5 billion, but the related spending authorizations are currently capped at $900 million, so notes issued to date have yielded aggregate net proceeds of only $900 million. See "COMMONWEALTH BOND AND NOTE LIABILITIES – Federal Grant Anticipation Notes." An increase in the related spending authorization is expected to be requested by the Governor in early 1999. See "COMMONWEALTH CAPITAL SPENDING – Proposed Capital Spending Authorizations."

Commonwealth-Supported Debt

Massachusetts Bay Transportation Authority. The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. Commonwealth support of MBTA bonds and notes includes (i) a Commonwealth guaranty of MBTA debt obligations provided by statutory requirements that the Commonwealth provide the MBTA funds sufficient to meet its obligations, including the principal and interest on MBTA and Boston Metropolitan District bonds and notes as they mature, to the extent that funds sufficient for this purpose are not otherwise available to the MBTA; (ii) Commonwealth contract assistance equal to 90% of the debt service on MBTA bonds; and (iii) under applicable statutory provisions, the Commonwealth's payment of MBTA's net cost of service (current expenses, including debt service and lease obligations that are not otherwise provided for, minus current income). Commonwealth obligations with respect to the MBTA are discussed at "COMMONWEALTH PROGRAMS AND SERVICES—Massachusetts Bay Transportation Authority." As of January 1, 1999, the MBTA had $3.4 billion of outstanding long-term bonds (exclusive of bonds that have been refunded) and $325 million of outstanding short-term notes. The MBTA also has established a commercial paper program in order to issue bond anticipation notes for capital purposes. Up to $200 million of notes may be outstanding under this program. The notes are general obligations of the MBTA, and 90% of the interest thereon is payable from contract assistance to be provided by the Commonwealth. See "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority."

Regional Transit Authorities and Woods Hole, Martha's Vineyard and Nantucket Steamship Authority. There are 15 regional transit authorities organized in various areas of the state. The Steamship Authority operates passenger ferries to Martha's Vineyard and Nantucket. Each of these entities issues its own bonds and notes. Commonwealth support of the bonds and notes of the regional transit authorities and the Steamship Authority includes (i) a Commonwealth guaranty pursuant to statutory provisions requiring the Commonwealth to provide each of these entities with funds sufficient to meet the principal of and interest on their bonds and notes as they mature to the extent that funds sufficient for this purpose are not otherwise available to such entity; (ii) the Commonwealth's payment, under applicable statutory provisions, of the net cost of service of the regional transit authorities and the Steamship Authority (current expenses, including debt service, minus current income); and (iii) with respect to the regional transit authorities, Commonwealth contract assistance to such authorities in amounts equal to 50% of their net cost of service. The Steamship Authority is currently self-supporting, requiring no net cost of service or contract assistance payments.

Massachusetts Convention Center Authority. The Massachusetts Convention Center Authority was created for the purpose of promoting the economic development of the Commonwealth by the development and operation of the Hynes Convention Center in Boston and is authorized to issue bonds for any of its corporate purposes. Such bonds are fully secured by contract assistance payments by the Commonwealth, which payments are limited by statute to an amount equal to the annual debt service on $200 million of bonds outstanding at any one time. The assistance contract is a general obligation of the Commonwealth for which its full faith and credit are pledged. As of January 1, 1999, the Convention Center Authority had $94.9 million of outstanding bonds on which the Commonwealth will pay approximately $24.6 million in debt service contract assistance payments in fiscal 1999.

Massachusetts Development Finance Agency, as successor to the Massachusetts Government Land Bank. On September 30, 1998, the Massachusetts Government Land Bank and the Massachusetts Industrial Finance Agency were legally merged into a successor entity, the Massachusetts Development Finance Agency ("MassDevelopment"). MassDevelopment has succeeded to all of the assets and liabilities of the Government Land Bank. MassDevelopment assists in the development of state and federal surplus property for private use and in the development of substandard, blighted or decadent open areas in the Commonwealth. MassDevelopment has direct borrowing power, and the Commonwealth is required to provide contract assistance payments for debt service obligations of MassDevelopment of up to $6 million per fiscal year for a period of 12 fiscal years, concluding in fiscal 1999, plus contract assistance necessary to defray the debt service on up to $80 million of bonds issued to redevelop the former federal military base at Fort Devens. Like the Massachusetts Convention Center Authority assistance contract, the contract with MassDevelopment is a general obligation of the Commonwealth for which the full faith and credit of the Commonwealth are pledged. As of January 1, 1999, MassDevelopment had $82.9 million of bonds outstanding which are secured by the contract assistance from the Commonwealth, as described above.

Debt Service Contract Assistance Requirements on Commonwealth-Supported Debt

The following table sets forth, as of January 1, 1999, the debt service contract assistance requirements on outstanding bonds of the Massachusetts Bay Transportation Authority, the Massachusetts Convention Center Authority and MassDevelopment. The Commonwealth is obligated to pay 90% of the debt service on the MBTA's bonds (the figures in the table reflect 90% of total MBTA debt service) and 100% of the debt service on the Convention Center Authority's bonds and MassDevelopment's bonds. The table does not include general contract assistance which is provided to the MBTA and to the regional transit authorities to help defray their net cost of service.

DEBT SERVICE CONTRACT ASSISTANCE REQUIREMENTS ON COMMONWEALTH-SUPPORTEDDEBT(1)
(in thousands)

Fiscal Year	MBTA	Convention Center Authority	Massachusetts Development Finance Agency	Total
1999(2)	$255,250	$1,718	$8,519	$265,487
2000	269,789	25,435	13,282	308,506
2001	258,548	25,035	13,285	296,868
2002	256,272	20,369	13,280	289,921
2003	261,151	16,378	13,280	290,809
2004	257,283	16,337	13,283	286,903
2005	258,169	16,302	13,281	287,752
2006	255,818	14,735	13,280	283,833
2007	252,358	2,532	10,162	265,052
2008	252,892	2,534	--	255,426
2009	243,473	2,534	--	246,007
2010	239,309	2,534	--	241,843
2011	237,639	2,534	--	240,173
2012	230,622	2,533	--	233,155
2013	221,611	2,536	--	224,147
2014	205,771	2,536	--	208,307
2015	179,897		--	179,897
2016	163,453	--	--	163,453
2017	156,671	--	--	156,671
2018	152,265	--	--	152,265
2019	152,281	--	--	152,281
2020	151,259	--	--	151,259
2021	151,256	--	--	151,256
2022	133,081	--	--	133,081
2023	108,269	--	--	108,269
2024	98,771	--	--	98,771
2025	86,201	--	--	86,201
2026	61,438	--	--	61,438
2027	37,091	--	--	37,091
2028	13,394	--	--	13,394
Total	$5,601,282	$156,582	$111,652	$5,869,516

Sources: MBTA column—MBTA; Massachusetts Convention Center Authority and MassDevelopment columns—Office of the State Treasurer.

(1) Totals may not add due to rounding.
(2) Partial year.

Commonwealth-Guaranteed Debt

Higher Education Building Authorities. Two higher education building authorities, created to assist institutions of public higher education in the Commonwealth, may issue bonds which are guaranteed as to their principal and interest by the Commonwealth. The guaranty is a general obligation of the Commonwealth for which its full faith and credit are pledged. In addition to such guaranty, certain revenues of these authorities, including dormitory rental income and student union fees, are pledged to their respective debt service requirements. While revenues thus far have been sufficient to meet debt service requirements, they have not been sufficient in all cases to pay operating costs. In such cases, the operating costs have been met by Commonwealth appropriations.

Massachusetts Turnpike Authority. The Turnpike Authority was created in 1952 to operate and maintain the Massachusetts Turnpike, a limited access toll express highway extending approximately 135 miles from the Commonwealth's border with New York State to downtown Boston. In addition, the Turnpike Authority was authorized in 1958 to operate and maintain the Callahan Tunnel and the Sumner Tunnel, which have served as the primary link between downtown Boston and Logan International Airport in East Boston. In 1995 the Ted Williams Tunnel was transferred to the Turnpike Authority pursuant to legislation that authorized the Authority to issue, prior to June 30, 1999, up to $300 million of Commonwealth-guaranteednotes to finance, among other things, the payment to the Commonwealth of the acquisition costs of the Ted Williams Tunnel. On February 1, 1996, the Authority issued $259,315,000 of Commonwealth-guaranteedbond anticipation notes, to provide for, among other things the payment to the Commonwealth of $100 million as partial payment for the Ted Williams Tunnel. Such moneys were paid to the Commonwealth on April 26, 1996. The Commonwealth has unconditionally guaranteed the payment of principal and interest of such notes and has pledged its full faith and credit to the payment of such notes. On October 2, 1997, the Turnpike Authority issued bonds to advance refund all but $55,905,000 of such notes. The Authority expects to defease the remaining notes prior to their June 1, 1999 maturity date from net revenues of the Authority. Alternatively, the Turnpike Authority may issue additional bonds to finance the payment or defeasance of the notes.

Indirect Obligations

Massachusetts Housing Finance Agency (MHFA) and Massachusetts Home Mortgage Finance Agency (MHMFA). The legislation establishing the MHFA limits the outstanding indebtedness of MHFA issued for the purpose, among others, of financing certain multi-family housing projects within the Commonwealth to $2.7 billion of bonds or notes (excluding certain notes issued for construction financing) and limits the proportion of such indebtedness that may be evidenced by notes rather than bonds.

MHFA also provides mortgage loan financing with respect to certain single-family residences within the Commonwealth. The acts establishing MHFA and MHMFA place a $1.7 billion aggregate limit on outstanding indebtedness of both MHFA and MHMFA to finance single-family housing. MHMFA no longer has any bonds outstanding, and the issuance of additional debt of MHMFA is not currently contemplated.

Bonds and notes issued by MHFA are solely the obligations of MHFA, payable directly or indirectly from, and secured by a pledge of, revenues derived from MHFA's mortgage on or other interest in the financed housing. MHFA's enabling legislation also permits, and certain resolutions authorizing the respective issuance of multi-family and single-family housing bonds to date have required, the creation of a capital reserve fund in connection with the issuance of such bonds. With respect to multi-family housing bonds, any such capital reserve fund must be in an amount at least equal to the maximum annual debt service in any succeeding calendar year on all outstanding bonds secured by such capital reserve fund, including the bonds then being issued. With respect to single family housing bonds, any such fund must be maintained in an amount not less than one-quarter of the maximum amount of interest becoming due in the current or any succeeding fiscal year of the agency and not greater than the maximum amount of debt service becoming due in the current or any succeeding fiscal year on all outstanding bonds which are secured by such capital reserve fund. Upon certification by the chairman of MHFA to the Governor of any amount necessary to restore a capital reserve fund to the above-described requirement, the Legislature may, but is not legally bound to, make an appropriation in such amount. No such appropriation has been necessary to date.

As of January 1, 1999, multi-family obligations of the MHFA totaled approximately $2.28 billion (of which approximately $721 million were secured by capital reserve funds) and single-family obligations of the MHFA totaled approximately $1.37 billion (none of which was secured by capital reserve funds). As of such date the capital reserve funds were maintained at the required levels without Commonwealth appropriations and no payments from such funds have been necessary. Authorized but unissued amounts as of such date were approximately $420 million for multi-family bonds and approximately $330 million for single-family bonds.

HEFA Community Colleges Program Bonds. The Massachusetts Health and Educational Facilities Authority (HEFA) issued, on April 1, 1998, $17,515,000 of its Refunding Revenue Bonds, Community Colleges Program Issue, Series B (the "Community Colleges Bonds") in order to advance refund bonds that it had issued in 1992 to fund loans to two of the Commonwealth's community colleges. The primary security for the Community Colleges Bonds are fees, rents, rates and other charges to students and other users of the projects financed. As additional security for the Community Colleges Bonds, the Commonwealth, acting through the Board of Higher Education, entered into a Contract for Financial Assistance, Maintenance and Services with HEFA. Pursuant to this contract, the Board of Higher Education is obligated to provide financial assistance, from moneys legally available to it, if the revenues collected on behalf of HEFA are insufficient to pay debt service on the Community Colleges Bonds. Pursuant to the contract, the financial assistance will be provided solely from funds otherwise appropriated for the applicable community college in the Commonwealth's operating budget. The financial assistance does not constitute either a general obligation, or a so-called "moral obligation," of the Commonwealth, as the Commonwealth is not obligated to continue to appropriate moneys to the Board, and the credit of the Commonwealth is not pledged to the Community Colleges Bonds.

Plymouth County Certificates of Participation. In May, 1992, Plymouth County caused to be issued $110,535,000 of certificates of participation (the "Plymouth COPs") to finance the construction of the 1,140-bed Plymouth County Correctional Facility. The Commonwealth, acting through the Executive Office of Public Safety and the Department of Correction, entered into a Memorandum of Agreement with Plymouth County, under which the Commonwealth is obligated to pay for the availability of 380 beds of the facility, regardless of whether 380 state prisoners are housed therein. The amounts payable by the Commonwealth will at least equal the debt service on the Plymouth COPs, but are subject to appropriation of said amounts by the Legislature to the Executive Office of Public Safety. The obligation of the Commonwealth under the Memorandum of Agreement does not constitute a general obligation or a pledge of the credit of the Commonwealth.

City of Chelsea Commonwealth Lease Revenue Bonds. In November, 1993, the City of Chelsea, acting through its industrial development financing authority, issued $95,750,000 aggregate principal amount of lease revenue bonds. The proceeds of the bonds were loaned to the Massachusetts Industrial Finance Agency (now MassDevelopment) and applied to the cost of the Massachusetts Information Technology Center, a tax processing facility of the Department of Revenue and a data processing information system center for the Department and for certain other departments and agencies of the Commonwealth. The bonds bear interest at a variable rate, and under an interest rate swap agreement that was entered into at the time, MassDevelopment receives variable rate payments with respect to the full amount of the bonds and is obligated to make fixed rate payments in exchange therefor. Simultaneously with the issuance of the bonds, the Commonwealth entered into a 30-year lease which provides for the payment of debt service on the bonds and other expenses and costs associated with the project. The obligations of the Commonwealth do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. The bonds are limited obligations of the city of Chelsea and do not constitute a debt or pledge of the faith and credit of the city.

OTHER COMMONWEALTH LIABILITIES

Retirement Systems and Pension Benefits

Commonwealth Responsibility for Pension Costs. The Commonwealth is responsible for the payment of pension benefits for Commonwealth employees (members of the state employees' retirement system) and for teachers of the cities, towns and regional school districts throughout the state (members of the teachers' retirement system, except for teachers in the Boston public schools who are members of the State-Boston retirement system but whose pensions are also the responsibility of the Commonwealth). Employees of certain independent authorities and agencies, such as the Massachusetts Water Resources Authority, and of counties, cities and towns (other than teachers) are covered by 104 separate retirement systems. However, the Commonwealth assumed responsibility, beginning in fiscal 1982, for payment of cost-of-living adjustments for the 104 local retirement systems, in accordance with the provisions of Proposition 2½. The members of these state and local retirement systems do not participate in the federal Social Security System. On June 6, 1997 Governor Weld approved legislation removing from the Commonwealth the cost of future cost-of-living adjustments for these local retirement systems. The legislation provided that local retirement systems fund future cost-of-living adjustments.

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

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

Pension Funding Plan. Comprehensive pension funding legislation approved in January, 1988 required the Commonwealth to fund future pension liabilities currently and to amortize the Commonwealth's accumulated unfunded liabilities to zero by June 30, 2028. The legislation was revised in July, 1997, as part of the fiscal 1998 budget, to require the amortization of such liabilities by June 30, 2018. The legislation requires the Secretary of Administration and Finance to prepare a funding schedule that provides for the normal cost of Commonwealth benefits (normal cost being that portion of the actuarial present value of pension benefits which is allocated to a valuation year by an actuarial cost method) and to amortize the unfunded actuarial liability of the Commonwealth for its pension obligations. The funding schedule is required to be updated every three years on the basis of new actuarial valuation reports prepared under the direction of the Secretary of Administration and Finance. The Secretary is also required to conduct experience investigations every six years.

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

Current Funding Schedule and Actuarial Valuations. The most recent funding schedule that has been formally approved by the Legislature in the manner contemplated by the 1988 pension funding legislation was filed on November 6, 1996, before the enactment of the provisions in the fiscal 1998 budget truncating the amortization period by ten years and before enactment of legislation in June, 1997 providing for local retirement systems with funding schedules to assume responsibility for cost-of-living allowances (formerly an obligation of the Commonwealth). The schedule was also based on an actuarial valuation dated as of January 1, 1996.

The following funding schedule was developed in conjunction with the fiscal 1998 budget provisions requiring that the unfunded liability be eliminated at the beginning of fiscal 2019 and formed the basis of the fiscal 1998 appropriation of $1,045,570,000.

Fiscal 1998 Budget Funding Schedule for Unfunded Pension Obligations
(in thousands)

Fiscal Year	Payments	Fiscal Year	Payments
1998	$1,045,570	2009	$1,221,727
1999	1,059,215	2010	1,589,678
2000	1,073,406	2011	1,598,942
2001	1,088,165	2012	1,615,496
2002	1,103,514	2013	1,857,572
2003	1,119,477	2014	1,875,134
2004	1,136,078	2015	1,893,222
2005	1,153,344	2016	1,911,853
2006	1,171,300	2017	1,931,043
2007	1,212,605	2018	678,620
2008	1,232,026		

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

The funding schedule above was based on actuarial valuations of the state employees' and teachers' retirement systems and the State-Boston retirement system as of January 1, 1996 and on a review of selected local systems for purposes of determining cost-of-living allowance costs. The unfunded actuarial accrued liability, as of January 1, 1996, relative to the two state systems, to Boston teachers and to cost-of-living allowances for local systems, was reported by the Public Employee Retirement Administration Commission (PERAC) to be approximately $4.774 billion, $476.6 million and $1.470 billion, respectively, for a total unfunded actuarial liability of $6.720 billion. The valuation as of January 1, 1996 was based on actuarial assumptions including future investment earnings at a rate of 8.5% per year, annual salary increases at 6% and annual cost-of-living increases for pensioners at the rate of 3% on the first $9,000 of benefits. Pursuant to a legislative mandate contained in the fiscal 1998 budget, the funding schedule set forth above assumed future investment earnings at a rate of 8.25%, rather than the assumed rate of 8.5% used in the valuation study. "Actuarial accrued liability," as used herein, is the estimated present value of all benefits to be paid to existing pensioners and current employees less the present value of the future normal costs associated with such employees. The "unfunded" liability is the amount by which the actuarial accrued liability exceeded accumulated assets set aside therefor and represents the present value of the amount that would have to be contributed in the future in addition to normal costs in order for the liability to be fully funded.

The appropriation for pension funding contained in the fiscal 1999 budget is based on the following funding schedule, which is based on the same assumptions and the same actuarial valuation as the schedule shown above, except that the table below assumes that the Commonwealth is no longer responsible for funding future cost-of-living increases approved by local pension systems. The fiscal 1999 appropriation also includes an additional $20 million to meet the Commonwealth's obligation to reduce the unfunded pension liabilities of former employees and retirees of the county governments of Franklin, Hampden, Middlesex and Worcester counties.

Fiscal 1999 Funding Schedule for Unfunded Pension Obligations
(in thousands)

Fiscal Year	Payments	Fiscal Year	Payments
1999	$945,340	2010	$1,453,288
2000	957,765	2011	1,460,552
2001	970,687	2012	1,475,046
2002	984,126	2013	1,715,000
2003	998,102	2014	1,730,377
2004	1,012,638	2015	1,746,214
2005	1,027,755	2016	1,762,527
2006	1,043,477	2017	1,779,329
2007	1,082,458	2018	594,174
2008	1,099,463		
2009	1,087,278		

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

On October 26, 1998, PERAC completed an actuarial valuation that is based on data as of January 1, 1998. The unfunded actuarial liability based on this valuation is $4.371 billion for state employees and state teachers, $519.9 million for Boston teachers and $912 million for cost-of-living increases granted for local systems prior to July, 1997, for a total unfunded liability of $5.803 billion. The valuation as of January 1, 1998 incorporated three major changes in assumptions. It adopted the 1983 Group Annuity Mortality Tables rather than the 1971 tables that had been used before, it adjusted the investment return assumption from 8.5% to 8.25% and, following the lead of many other state pension sysems, it determined the actuarial value of assets by using a five-year average value rather than current market value at the time of valuation.

Assuming approval of a revised funding schedule expected to be filed in the spring of 1999, Governor Cellucci's fiscal 2000 budget recommendations call for a pension funding appropriation of approximately $910 million. The revised schedule is expected to be based on the January 1, 1998 valuation described above.

On June 6, 1997, Governor Weld approved legislation that provides, subject to legislative approval, for annual increases in cost-of-living allowances (equal to the lesser of 3% or the previous year's percentage increase in the United States Consumer Price Index) for members of the state employees' and teachers' retirement systems, to be funded by the investment income of the systems. All of the funding schedules for the state systems described herein assume that such annual increases will be approved. Local retirement systems that have established pension funding schedules may opt in to the requirement as well, with the costs and actuarial liabilities attributable to the cost-of-living allowances required to be reflected in such systems' funding schedules.

See "INVESTMENT POLICIES" for information regarding the investment policies relating to the Commonwealth's pension funds. On August 9, 1996, Governor Weld approved legislation authorizing the transfer to the Pension Reserves Investment Management Board of all assets of the state employees' and teachers' retirement systems then managed by the State Treasurer. Such transfer occurred on November 7, 1996.

Long-Term Operating Leases

In addition to Commonwealth-owned buildings and facilities, the Commonwealth leases additional space from private parties. In fiscal 1998, rental expenditures under these operating leases totaled approximately $108.4 million. Minimum future rental expenditure commitments of the Commonwealth under operating leases in effect at June 30, 1998 are set forth below. These amounts represent expenditure commitments of both budgeted and non-budgeted funds.

Operating Leases
June 30, 1998
(in thousands)

Fiscal Year	Operating Leases
1999	$82,030
2000	60,635
2001	44,478
2002	34,785
2003	18,162
2004 and thereafter	31,584
Total	$271,674

SOURCE: Office of the Comptroller.

Long-Term Capital Leases

In certain circumstances, the Commonwealth has acquired certain types of capital assets under long-term capital leases. Typically, these arrangements relate to computer and telecommunications equipment and to motor vehicles.

Long-term total principal and interest obligations at June 30, 1998 related to capital leases are as follows:

Capital Lease Obligations
June 30, 1998
(in thousands)

Fiscal Year	Capital Leases
1999	$50,650
2000	37,528
2001	27,509
2002	20,952
2003	15,541
2004 and thereafter	37,439
Total	$189,619(1)

SOURCE: Office of the Comptroller.

(1) As of June 30, 1998, the principal amount of these obligations was $156.9 million.

Massachusetts Water Pollution Abatement Trust

The Massachusetts Water Pollution Abatement Trust (the "Trust") was created in 1989 as a public instrumentality of the Commonwealth to implement the Commonwealth's state revolving fund program under Title VI of the federal Clean Water Act and the federal Safe Drinking Water Act. The Trust is authorized to apply for and accept federal grants and associated Commonwealth matching grants to capitalize the revolving fund and to issue debt obligations to fund purchases of debt from local governmental units to finance eligible water pollution abatement projects. To date, the Trust has available approximately $552 million in federal grants and approximately $110 million in Commonwealth matching grants to capitalize the Clean Water Act fund and $14.3 million in federal grants and $2.9 million in Commonwealth matching grants to capitalize the Safe Drinking Water Act fund. The Trust has also received additional Commonwealth grants of approximately $21 million to capitalize a separate revolving fund program for projects which are not eligible under the Clean Water Act. The Trust's enabling legislation authorizes the State Treasurer to issue up to $133.3 million of Commonwealth general obligation bonds to fund Commonwealth grants to the Trust to capitalize the Clean Water Act revolving fund and to finance other costs of the program. On July 30, 1996, Governor Weld approved bond legislation authorizing an additional $20 million in Commonwealth bonds for capitalization matching grants to the Trust's Clean Water Act revolving fund. As part of a supplemental budget for fiscal year 1998, the Commonwealth appropriated an additional $7.6 million in state matching funds for the program from surplus funds, and legislation approved by Acting Governor Cellucci on April 9, 1998 provided for the transfer of an additional $2.3 million from the General Fund to the Clean Water Act fund. The Trust estimates that it now has sufficient resources to draw projected federal grants under the Clean Water Act through most of federal fiscal year 1999. Under the Safe Drinking Water Act program, the Commonwealth has appropriated over $45 million in funds to match federal grants through fiscal year 2003.

Capitalization grants received by the Trust and held in the revolving fund may be applied by the Trust to fund reserves to secure debt obligations issued by the Trust to make loans to local governmental units to finance eligible projects or to fund such loans directly. Obligations issued by the Trust are not a debt of the Commonwealth or any political subdivision thereof but are payable solely from revenues of the Trust, including loan repayments payable by loan recipients, investment income from reserves and other moneys of the Trust and, for certain loans, contract assistance payments from the Commonwealth, as described below. As of December 31, 1998, the Trust had approximately $1.338 billion of bonds outstanding for such purposes. Of this amount, $116.8 million has been escrowed to secure refunded bonds. At such date, approximately $11.4 million of interim loans from the Trust to local governmental units were also outstanding; such loans are expected to be refinanced from the proceeds of bonds to be issued during fiscal 2000. The Trust also has approximately $203,000 in direct loans outstanding to local governmental units.

Under the enabling legislation creating the Trust, each loan made by the Trust is required to provide for debt service subsidies or other financial assistance sufficient to result in the loan being the financial equivalent of a grant to the borrower of between 25% and 90% of the eligible cost of the financed project. Financial assistance sufficient to result in a 25% grant equivalency (or approximately 50% in the case of eligible direct loans) is provided either through the application of investment earnings on Trust reserves or through a fixed below-market interest rate on the loan. To date, financial assistance in excess of 25% (or 50% in the case of direct loans) has been provided through the application of contract assistance payments from the Commonwealth. The Trust's enabling legislation directs the State Treasurer to enter into contract assistance agreements with the Trust for the Clean Water Act program providing for annual contract assistance payments to the Trust of up to $46 million in the aggregate in each fiscal year. The Safe Drinking Water Act program provides for annual contract assistance payments to the Trust of up to $9 million in the aggregate per fiscal year for new water treatment projects. The contract assistance agreements and the Trust's right to receive payments thereunder may be pledged by the Trust as security for repayment of the Trust's debt obligations. Legislation approved in August, 1996 requires the Trust, in connection with any loan made on or after October 1, 1995, to provide debt service subsidies or other financial assistance sufficient to result in the loan being the financial equivalent of a grant to the borrower of 50% of the eligible cost of the financed project.

The Trust's Clean Water Act program also includes the provision of financial assistance to local governmental units for the implementation of nonpoint source pollution control management programs, including loans ("Title 5 Loans") to fund community septic management loan programs ("Title 5 Projects") to assist eligible homeowners to upgrade failing septic systems and otherwise to comply with the requirements of Title 5 of the State Environmental Code. Title 5 Projects which qualify for financial assistance under the Clean Water Act may be directly or indirectly funded with federal grants and Commonwealth matching grants or with moneys specifically appropriated for such purpose by the Commonwealth. By February 1, 1999, the Trust expects to make up to $5 million of Title 5 Loans to local governmental units from the proceeds of bonds issued in April, 1997. In addition, the Trust has made grants of $3.4 million, from funds received from the Commonwealth, to local governmental units for the administrative costs of implementing Title 5 projects. The Trust has also made $8 million of interim loans to local governmental units for Title 5 Projects.

The legislation authorizing the Trust's Safe Drinking Water Act program identifies certain water treatment projects that were eligible for federal assistance but had already been financed by municipalities prior to the enactment of the state program. The legislation authorizes up to $8 million per fiscal year (up to an aggregate of $80 million) of state contract assistance to support Trust loans for such projects.

School Building Assistance

The school building assistance program was established in 1948 to promote the planning and construction of school buildings and the establishment of consolidated and regional schools in the Commonwealth. Under this program, cities, towns, regional school districts and the three counties that maintain agricultural schools can obtain reimbursements from the Commonwealth for a portion of the construction costs (including any interest expense from indebtedness incurred) of approved school projects. With the exception of grants to assist cities, towns and regional school districts in the elimination of racial imbalance, the reimbursement percentage varies by municipality and may range from 50% to 90% of total construction costs. School projects for the purpose of eliminating racial imbalance are eligible for 90% reimbursement. Grants are usually payable over a period of up to 20 years to defray a portion of the debt service on city, town, district or county bonds issued to pay construction costs. Payment is made to cities, towns, regional school districts and counties from amounts annually appropriated for the school building assistance program. The following table shows the amount of the Commonwealth's obligation to pay such grants as of July 1, 1998

School Building Assistance Obligations
(in thousands)

Fiscal Year	Budgeted School Building Assistance Obligations	Fiscal Year	Budgeted School Building Assistance Obligations
1999	$234,572	2010	$219,023
2000	275,723	2011	203,975
2001	271,887	2012	181,500
2002	267,746	2013	169,742
2003	263,948	2014	153,332
2004	259,452	2015	138,607
2005	253,417	2016	124,503
2006	247,430	2017	105,325
2007	243,698	2018	73,613
2008	237,862	Total	$4,153,432
2009	227,777		

SOURCE: Department of Education, School Facilities Service Bureau.

Unemployment Compensation Trust Fund

The assets and liabilities of the Commonwealth Unemployment Compensation Trust Fund are not assets and liabilities of the Commonwealth. As of December 31, 1998 the private contributory sector of the Massachusetts Unemployment Trust Fund had a surplus of $1.694 billion. The Division of Employment and Training's October, 1998, quarterly report indicated that the contributions provided by current law should rebuild reserves in the system to $2.411 billion by the end of 2002. See Exhibit A, "Economic Information," under the heading "Employment —Unemployment."

INVESTMENT POLICIES

For information with respect to the investment of Commonwealth funds, see note 4 to the fiscal 1998 statutory basis financial statements contained in the Statutory Basis Financial Report included by reference as Exhibit B and Note 3 to the fiscal 1998 GAAP-basis financial statements contained in the Comprehensive Annual Financial Report included by reference as Exhibit C.

LITIGATION

There are pending in state and federal courts within the Commonwealth and in the Supreme Court of the United States various suits in which the Commonwealth is a party. In the opinion of the Attorney General, no litigation is pending or, to his knowledge, threatened which is likely to result, either individually or in the aggregate, in final judgments against the Commonwealth that would affect materially its financial condition.

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

Lopez v. Board of Education, et al. (Supreme Judicial Court for Suffolk County No. 98-584). Plaintiff students in certain school districts on Cape Cod invoked the decision of the Supreme Judicial Court in *McDuffy*, supra, and challenged the constitutionality of the school financing formula contained in the education reform act. The plaintiffs seek declaratory relief, additional appropriations and damages. The court dismissed the Senate, the House of Representatives and the State Treasurer as defendants in the case, but permitted plaintiffs to amend their complaint, upon motion, to add the Commonwealth as a defendant.

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

Rolland v. Cellucci (U.S. District Court C.A. No. 98-32208 KPN) is a class action by mentally retarded nursing home patients seeking community placements and services. The Commonwealth's motion to dismiss and plaintiff's motion for class certification are currently pending.

In *Beaulieu v. Belmont* (U.S. District Court C.A. No. 95-12382GAO), the plaintiffs are former residents of the Fernald School, a facility of the Department of Mental Retardation. They allege that in the 1950's they were fed radioactive isotopes without their informed consent. They claim violations of their civil rights, battery, invasion of privacy, loss of consortium and misrepresentation. A settlement agreement for $680,000 was executed on October 2, 1998.

Both *Commonwealth of Massachusetts v. Ruggles Center Joint Venture* (Suffolk Superior Court No. 47-1764-A) and *Ruggles Center, LLC v. Beacon Construction Corporation* (Suffolk Superior Court No. 96-0637-E) involve an indoor air quality dispute regarding the former headquarters of the Registry of Motor Vehicles at Ruggles Center in Boston. In 1997, the Commonwealth commenced suit against the former building owners, Ruggles Center Joint Venture (RCJV), as well as the general contractor, the architect, the mechanical engineer and the manufacturer of the fireproofing, to recover losses associated with the indoor air quality (IAQ) problems, including the costs of relocating the agency and workers' compensation payments paid to employees. RCJV has filed a counterclaim against the Commonwealth alleging breach of lease, breach of the covenant of good faith and fair dealing and negligence. RCJV claims that it fulfilled all of its obligations under the lease and its amendment and that the Commonwealth wrongfully terminated these agreements, and that the Commonwealth's negligence, or that of its contractors, caused the IAQ problems. RCJV seeks to recover the costs associated with its efforts to remedy the IAQ problems, additional rent payments under the lease, and the value of RCJV's equity in the project had the lease not been terminated. In the second and related case, the building owner has sued the general contractor to recover on the performance bond. Many second, third and fourth parties have been impleaded. The Registry of Motor Vehicles and the Division of Capital Planning and Operations have been named as fourth-party defendants by the manufacturer of the fireproofing, United States Mineral Products Co., Inc., which has asserted a claim for indemnification. These cases have been consolidated for discovery. Total potential liability to the Commonwealth in each case is approximately $25 million.

DiBiase v. Commissioner of Insurance (Suffolk Superior Court No. 96-4241-A) is a putative class action suit in which the plaintiffs seek to invalidate most of Chapter 178A of the Massachusetts General Laws, which is the savings bank life insurance statute. The suit alleges that the statute's conversion of the former savings bank life insurance system established by former Chapter 178 of the Massachusetts General Laws deprived policyholders under the old system of more than $60 million in "surplus" and $11 million in the former General Insurance Guaranty Fund, the proceeds of both of which assertedly belonged to them. The defendants have moved to dismiss on statute of limitations grounds, and the plaintiffs have cross-moved for partial summary judgment on a claim of alleged procedural due process violations. On October 16, 1997, the Court dismissed the case on statute-of-limitations grounds. The plaintiff appealed. On February 1, 1999, the Supreme Judicial Court affirmed the judgment of the Superior Court.

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

Perry v. Bullen and *Rudow v. Bullen* (Supreme Judicial Court No. 7760) challenge decisions of the Division of Medical Assistance, which denied deductions for court-ordered attorney and guardian fees in the calculation of Medicaid benefits for two nursing home residents. DMA argues that federal law does not permit such deductions. The Superior Court held that the costs of guardianship are deductible because they are "necessary medical expenses." DMA has appealed. The Supreme Judicial Court has granted direct appellate review. While the appeal involves only two nursing home residents, the reasoning of the Superior Court, if extended to other Medicaid recipients, may require the additional expenditure of up to $56 million per year.

Environmental Matters. The Commonwealth is engaged in various lawsuits concerning environmental and related laws, including an action brought by the U.S. Environmental Protection Agency alleging violations of the Clean Water Act and seeking to enforce the clean-up of Boston Harbor. *United States v. Metropolitan District Commission* (U.S. District Court C.A. No. 85-0489-MA). See also *Conservation Law Foundation v. Metropolitan District Commission* (U.S. District Court C.A. No. 83-1614-MA). The Massachusetts Water Resources Authority (MWRA), successor in liability to the Metropolitan District Commission (MDC), has assumed primary responsibility for developing and implementing a court-approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. The MWRA currently projects that the total cost of construction of the wastewater facilities required under the court's order, not including CSO costs, will be approximately $3.142 billion in current dollars, with approximately $601 million to be spent after June 30, 1997. With CSO costs, the MWRA anticipates spending approximately $901 million after that date. Under the Clean Water Act, the Commonwealth may be liable for any cost of complying with any judgment in these or any other Clean Water Act cases to the extent the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment.

On February 12, 1998, the U.S. Department of Justice filed a complaint in federal district court seeking to compel the MWRA to build a water filtration plant for the metropolitan Boston water supply and, together with the MDC, to take certain watershed protection measures. *United States v. MWRA* (U.S. District Court C.A. No. 98-10267). The MWRA Board of Directors has voted to apply to the state Department of Environmental Protection for a ruling that it not be required to filter water; a decision by DEP is expected by the end of 1998. The federal district court has issued a scheduling order under which it will decide in March, 1999 whether the Safe Water Drinking Act compels the MWRA to build a filtration system or whether the MWRA can demonstrate that its data entitles it to avoid building such a system. It is too early to predict what remedy the court will order if it decides adversely to the MWRA.

Taxes and Other Revenues. In *The First National Bank of Boston v. Commissioner of Revenue* (Appellate Tax Board No. F232249), the First National Bank of Boston challenges the constitutionality of the former version of the Commonwealth's bank excise tax. In 1992, several pre-1992 petitions filed by the bank, which raised the same issues, were settled prior to a board decision. The bank has now filed claims with respect to 1993 and 1994. The bank claims that the tax violated the Commerce Clause of the United States Constitution by including its worldwide income without apportionment. The Department of Revenue estimates that the amount of abatement, including interest, sought by the First National Bank of Boston, could total $135 million.

In addition, there are several tax cases pending which could result in significant refunds if taxpayers prevail. It is the policy of the Attorney General and the Commissioner of Revenue to defend such actions vigorously on behalf of the Commonwealth, and the descriptions that follow are not intended to imply that the Commissioner has conceded any liability whatsoever.

On March 22, 1995, the Supreme Judicial Court issued its opinion in *Perini Corporation v. Commissioner of Revenue* (Supreme Judicial Court No. 6657). The court held that certain deductions from the net worth measure of the Massachusetts corporate excise tax violate the Commerce Clause of the United States Constitution. The court remanded the case for entry of a declaration and further proceedings, if necessary, to determine other appropriate remedies. On October 2, 1995, the United States Supreme Court denied the Commonwealth's petition for a writ of certiorari. The Supreme Judicial Court, on April 30, 1996, entered a partial final judgment implementing its decision for tax years ending prior to January 1, 1995. The Department of Revenue estimates that tax revenues in the amount of $40 million to $55 million may be abated as a result of the partial final judgment. On May 13, 1996, the Court entered an order for judgment and memorandum concerning relief for tax years ending on or after January 1, 1996. A final judgment was entered on June 6, 1996. The Department of Revenue is estimating the fiscal impact of that ruling; to date it has paid approximately $17 million in abatements in accordance with the judgment. To date, the total amount for abatements requested, including those that have been paid, and that are in the process of being evaluated, is $35 million.

Approximately $80 million in taxes and interest in the aggregate are at issue in several other cases pending before the Appellate Tax Board or on appeal to the Appeals Court or the Supreme Judicial Court.

Eminent Domain. In *Spaulding Rehabilitation Hospital Corporation v. Massachusetts Highway Department* (Suffolk Superior Court. No. 95-4360C), the Spaulding Rehabilitation Hospital filed an action to enforce an agreement to acquire its property by eminent domain, in connection with the Central Artery/Ted Williams Tunnel project. On March 13, 1998, the Superior Court entered judgment for the Commonwealth dismissing the complaint. The plaintiff has appealed the Superior Court's dismissal of the complaint.

Thomas Rich v. Commonwealth of Massachusetts (Norfolk Superior Court No. 94-2319) and *Shea v. Commonwealth* (Norfolk Superior Court No. 97-1070-B) are eminent domain cases concerning property in the city of Quincy. The Commonwealth faces a potential liability of $30 million. The cost of remediation of contaminated soil will also be an issue.

P&P Realty Co., Inc. v. Department of Public Works (Suffolk Superior Court No. 92-2081) is an eminent domain case concerning two parcels at Summer Street and Trilling Way in South Boston. Pursuant to a verdict on the Trilling Way parcel the Commonwealth will pay $6 million. On November 30, 1998, the case settled for approximately $15.8 million.

P.A. Landers v. Massachusetts Highway Department and *Mayflower v. Massachusetts Highway Department* (Plymouth Superior Court Nos. 45-922-A and 46-923-B). These are eminent domain claims involving the Route 44 project in Plymouth. Potential liability is $30 million. The pro tanto was $3.5 million.

Massachusetts Port Authority, Bird Island Ltd. Partnership and Hilton Hotels v. Commonwealth of Massachusetts (Suffolk Superior Court Nos. 96-4803-C, 94-6966, 94-2830-E, 94-2831-F, 94-5745-B, 94-5744-A and 96-6789-E) are eminent domain cases concerning a land acquisition in East Boston for the Central Artery/Ted Williams Tunnel project. On January 15, 1998, the case was settled for $24.8 million.

YEAR 2000 COMPLIANCE

The "year 2000 problem" is the result of shortcomings in many electronic data processing systems and other equipment that make operations beyond the year 1999 troublesome. For many years, computer programmers eliminated the first two digits from a year when writing programs. Accordingly, many programs, if not corrected, will not be able to distinguish between the year 2000 and the year 1900. This may cause the programs to process data inaccurately or to stop processing data altogether. Another factor that may cause problems in programs is that some programs are unable to detect the year 2000 as a leap year. Problems affecting a wide range of governmental activities are likely to result if computers and other electronic equipment that are dependent upon date-sensitive coding are not corrected. These problems have the potential for causing a disruption of government services.

In June, 1997, the Executive Office for Administration and Finance established a Year 2000 Program Management Office within its Information Technology Division. The purpose of the office is to ensure accurate monitoring of the Commonwealth's progress in achieving "year 2000 compliance," *i.e.*, remediating or replacing and redeploying affected systems, as well as to identify risk areas and risk mitigation activities and serve as a resource for all state agencies and departments. The program management office has asked agencies to identify "mission critical" and "essential" systems. Mission critical systems are those which directly affect the health, safety or livelihood of citizens, which directly affect state revenues or whose loss would severely jeopardize agency delivery of services. Essential systems are those whose loss would cause a disruption of some agency services but would not prevent the agency from delivering primary services. The most recent report issued by the program management office on February 3, 1999 for the October-December, 1998 quarter indicates that the office is currently monitoring year 2000 compliance efforts for 170 state agencies, including independent agencies and constitutional offices. The office assigns a quarterly status code – green (low risk), yellow (medium risk) or red (significantly high risk) – to agencies based on information collected from telephone and personal interviews. The criteria for the status codes becomes increasingly more stringent each quarter; the status codes for the most recent quarter are based on the likelihood for achieving year 2000 compliance with respect to mission critical systems by January 31, 1999 and with respect to essential systems by May 31, 1999. Of the 170 state agencies rated for the October-December, 1998 quarter, 107 were rated green, 21 were rated yellow and 42 were rated red. Those agencies have identified 297 mission critical systems and 219 essential systems; between 57% and 69% of the Mission Critical Systems and between 85% and 90% of the Essential Systems were likely to meet the May 31, 1999 target date. The report notes that while agency projects are becoming more stable, more management attention was needed for schedule slippage from quarter to quarter to address problems as the remaining time diminishes. The report also notes that the number of mission critical systems in the red category has risen from 67 to 92, and is too high. The report also notes that year 2000 exposure for "embedded systems," particularly devices used for control systems remains an area of concern, but the percentage of affected assets is not as high as was originally estimated. Agencies with significant exposure in this area made good progress in the October-

December, 1998 quarter. This exposure affects only a few agencies, but the impact of failures would be significant, *e.g.*, switches and signals for the MBTA, a variety of systems at Logan Airport for the Port Authority, toll collection and ticket systems for the Turnpike Authority, water and sewer management and treatment systems for the Massachusetts Water Resources Authority and traffic signals for the Massachusetts Highway Department.

Legislation approved by the Acting Governor on August 10, 1998 appropriated $20.4 million for expenditure by the Information Technology Division to achieve year 2000 compliance for the six Executive Offices and other departments which report directly to the Governor. This amount has been fully designated, and no longer includes a reserve for unanticipated projects. On January 27, 1999, the Governor filed a supplemental budget which included an additional $15 million for Year 2000 compliance. The Secretary of Administration and Finance is to report quarterly to the Legislature on the progress being made to address the year 2000 compliance efforts, and to assess the sufficiency of funding levels.

MISCELLANEOUS

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

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

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

CONTINUING DISCLOSURE

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

The Commonwealth prepares its Statutory Basis Financial Report and its Comprehensive Annual Financial Report with respect to each fiscal year ending June 30. The Statutory Basis Financial Report becomes available by October 31 of the following fiscal year, and the Comprehensive Annual Financial Report becomes available in January of the following fiscal year. Copies of such reports and other financial reports of the Comptroller referenced in this document may be obtained by requesting the same in writing from the Office of the Comptroller, One Ashburton Place, Room 909, Boston, Massachusetts 02108. The financial statements are also available at the Comptroller's home page located at www.state.ma.us/osc.

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

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 Lowell L. Richards III, Assistant Secretary for Capital Resources, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Information Statement should be directed to John R. Regier or Navjeet K. Bal, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone 617/542-6000.

THE COMMONWEALTH OF MASSACHUSETTS

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

By /s/ Frederick A. Laskey
Frederick A. Laskey
Secretary of Administration and Finance

February 16, 1999

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FORM OF BOND COUNSEL OPINION

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

PALMER & DODGE LLP

One Beacon Street, Boston, MA 02108-3190

TELEPHONE: (617) 573-0100 FACSIMILE: (617) 227-4420

[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 1999, Series A)

We have acted as Bond Counsel to The Commonwealth of Massachusetts in connection with the issuance by the Commonwealth of $250,000,000 aggregate principal amount of General Obligation Bonds, Consolidated Loan of 1999, Series A, dated February 1, 1999 (the "Bonds").

The Bonds mature and bear interest, in such amounts 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 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,

Commonwealth of Massachusetts

General Obligation Bonds
Consolidated Loan of 1999, Series A

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 February 16, 1999 (the "Information Statement"), as it appears in the Official Statement dated February 16, 1999 relating to the Commonwealth's General Obligation Bonds, Consolidated Loan of 1999, Series A, and substantially in the same level of detail as is found in the referenced section of the Information Statement:

	Annual 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"

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

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

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

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties 1/;

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions or events affecting the tax-exempt status of the security;

(vii) modifications to the rights of security holders;

(viii) bond calls;

(ix) defeasances;

(x) release, substitution or sale of property securing repayment of the securities 2/ and

(xi) rating changes.

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

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

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.

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

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DO NOT STAPLE THIS FORM

FORM G-36 (OS) - FOR OFFICIAL STATEMENTS

S R B

SECTION I - MATERIALS SUBMITTED

THIS FORM IS SUBMITTED IN CONNECTION WITH (check one):

1. [X] A FINAL OFFICIAL STATEMENT RELATING TO A PRIMARY OFFERING OF MUNICIPAL SECURITIES (enclose two (2) copies)
   (a) DATE RECEIVED FROM ISSUER: 03/04/1999 (b) DATE SENT TO MSRB: 03/04/1999
2. [ ] AN AMENDED OFFICIAL STATEMENT WITHIN THE MEANING OF RULE G-36(d) (enclose two (2) copies)
   (a) DATE RECEIVED FROM ISSUER: ______ (b) DATE SENT TO MSRB: ______
3. IF MATERIALS SUBMITTED WITH THIS FORM CONSIST OF MORE THAN ONE DOCUMENT (e.g. preliminary official statement and wrap, even if physically attached), PLEASE CHECK HERE: [ ]

C. IF THIS FORM AMENDS PREVIOUSLY SUBMITTED FORM WITHOUT CHANGING MATERIALS SUBMITTED, PLEASE CHECK HERE (include copy of original form G-36 (OS)): [ ]

SECTION II - IDENTIFICATION OF ISSUE(S)

Each issue must be listed separately.
If more space is needed to list additional issues, please include on a separate sheet and check here: [ ]

NAME OF ISSUER: COMMONWEALTH OF MASSACHUSETTS GENERAL OBLIGATION BONDS CONSOLIDATED LOAN OF 1999, SERIES A
STATE: MA
DESCRIPTION OF ISSUE: COMMONWEALTH OF MASSACHUSETTS GENERAL OBLIGATION BONDS CONSOLIDATED LOAN OF 1999, SERIES A
DATED DATE: 02/01/1999

NAME OF ISSUER: ______
STATE:
DESCRIPTION OF ISSUE: ______
DATED DATE:

NAME OF ISSUER: ______
STATE:
DESCRIPTION OF ISSUE: ______
DATED DATE:

SECTION III - TRANSACTION INFORMATION

A. LATEST FINAL MATURITY DATE OF ALL SECURITIES IN OFFERING: 02/01/2008
B. DATE OF FINAL AGREEMENT TO PURCHASE, OFFER OR SELL SECURITIES (Date of Sale): 02/24/1999
C. ACTUAL OR EXPECTED DATE OF DELIVERY OF SECURITIES TO UNDERWRITER(S) (Bond Closing): 03/09/1999
D. IF THESE SECURITIES ADVANCE REFUND ALL OR A PORTION OF ANOTHER ISSUE, PLEASE CHECK HERE: [ ]
   A separate Form G-36(ARD) and copies of the advance refunding documents must be submitted for each issue advance refunded.

SECTION IV - UNDERWRITER ASSESSMENT INFORMATION

The information will be used by the MSRB to compute any rule A-13 underwriting assessment that may be due on this offering. The managing underwriter will be sent an invoice if a rule A-13 assessment is due on the offering.

SEC REG. NUMBER: 8-15869

A. MANAGING UNDERWRITER Morgan Stanley Dean Witter
B. TOTAL PAR VALUE OF ALL SECURITIES IN OFFERING $ ~~246,333,334~~ 250,000,000
C. PAR AMOUNT OF SECURITIES UNDERWRITTEN (if different from the amount shown in item B above): $
C. CHECK ALL THAT APPLY
   1. [ ] At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent.
   2. [ ] At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent.
   3. [ ] This offering is exempt from SEC rule 15c2-12 under section (c)(1) of that rule. Section (c)(1) of SEC rule 15c2-12 states that an offering is exempt from the requirements of the rule if the securities offered have authorized denominations of $100,000 or more and sold to no more than 35 persons each of whom the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment; and (2) is not purchasing for more than one account, or with a view toward distributing the securities.

CTION V - CUSIP INFORMATION

RB rule G-34 requires that CUSIP numbers be assigned to each new issue of municipal securities unless the issue is ineligible for :SIP number assignment under the eligibility criteria of the CUSIP Service Bureau.

CUSIP-9 NUMBERS OF THE ISSUE(S)

ıturity Date	CUSIP Number	Maturity Date	CUSIP Number	Maturity Date	CUSIP Number
?/01/2000	575827ST8	02/01/2001	575827SU5	02/01/2002	575827SV3
?/01/2003	575827SW1	02/01/2004	575827SX9	02/01/2005	575827SY7
?/01/2006	575827SZ4	02/01/2007	575827TA8	02/01/2008	575827TB6

. IF ANY OF THE ABOVE SECURITIES HAS A "CUSIP-6" BUT NO "CUSIP-9", CHECK HERE AND LIST THEM BELOW: [ ]

(Please see instructions in Form G-36 Manual)

LIST ALL CUSIP-6 NUMBERS ASSIGNED: ______

State the reason why such securities have not been assigned a "CUSIP-9": ______

. IF ANY OF THESE SECURITIES IS INELIGIBLE FOR CUSIP NUMBER ASSIGNMENT, PLEASE CHECK HERE: [ ]

State the reason why such securities are ineligible for CUSIP number assignment: ______

;ECTION VI - MANAGING UNDERWRITER'S CERTIFICATION AND SIGNATURE

'HE UNDERSIGNED CERTIFIES THAT THE MATERIALS ACCOMPANYING THIS FORM ARE AS DESCRIBED IN SECTION I ABOVE AND THAT ALL OTHER :NFORMATION CONTAINED HEREIN IS TRUE AND CORRECT. THE UNDERSIGNED ACKNOWLEDGES THAT SAID MATERIALS WILL BE ...Y DISSEMINATED.

RECEIVED
MAR - 8 1999
M.S.R.B.

ON BE ... CTION IV ABOVE

SIGNE ______

NAME:
(PRIN ... underwriter)

PHONE

Fi ... e most likely ... and

:ail instructio

l or noted as i ... NED FOR

orm and two copi ... statement or amended official statement must

e MSRB within the meaning of rule G-36.

ials to MSRB, MSIL System, 1640 King Street, Suite 300, Alexandria, Virginia