NEW ISSUE - BOOK-ENTRY-ONLY

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

THE COMMONWEALTH OF MASSACHUSETTS
$492,440,000
General Obligation Bonds
Consolidated Loan of 2002, Series B

Dated: March 15, 2002 **Due: March 1, as shown on the inside cover hereof**

The Bonds will be issued by means of a book-entry-only system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company ("DTC") and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The Bonds will bear interest from March 15, 2002 and interest will be payable on September 1, 2002 and semiannually thereafter on March 1 and September 1, calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are subject to redemption prior to maturity, as more fully described herein.

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

The Bonds are offered when, as and if issued and received by the Underwriters, and subject to the unqualified approving opinion as to legality of Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Ropes & Gray, Boston, Massachusetts, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Nixon Peabody LLP, Boston, Massachusetts. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about March 28, 2002.

Goldman, Sachs & Co.

Bear, Stearns & Co. Inc. **JPMorgan**
Lehman Brothers **Salomon Smith Barney** **UBS PaineWebber Inc.**

Quick & Reilly, Inc. **State Street Global Markets, LLC**

Advest, Inc. **A.G. Edwards & Sons, Inc.** **CIBC World Markets**
Corby North Bridge Securities **RBC Dain Rauscher, Inc.** **Fahnestock & Co. Inc.**
First Albany Corporation **First Union National Bank** **H.C. Wainwright & Co., Inc.**
Janney Montgomery Scott Inc. **Mellon Financial Markets, Inc.** **Merrill Lynch & Co.**
Morgan Stanley **Prudential Securities** **Ramirez & Co., Inc.**
Raymond James & Associates, Inc.

March 21, 2002

THE COMMONWEALTH OF MASSACHUSETTS

$492,440,000
General Obligation Bonds
Consolidated Loan of 2002, Series B

Dated: March 15, 2002 **Due: March 1, as shown below**

Maturity	Amount	Interest Rate	Price or Yield
2004	$17,035,000	3.000%	2.65%
2005	17,550,000	3.125	3.17
2006	18,095,000	4.000	3.50
2007*	18,820,000	4.000	3.77
2008*	19,575,000	4.000	100
2009*	20,355,000	5.000	4.20
2010*	11,180,000	4.250	4.32
2010*	10,195,000	5.000	4.32
2011*	11,790,000	4.375	4.42
2011*	10,570,000	4.750	4.42
2012*	10,405,000	4.750	4.52
2012*	12,970,000	5.250	4.52
2013*	7,795,000	4.500	4.62
2013*	16,755,000	5.000	4.62†
2014*	3,510,000	4.625	4.72
2014*	22,230,000	5.500	4.72†
2015*	27,125,000	5.500	4.82†
2016*	28,620,000	5.500	4.92†
2017*	30,190,000	5.500	5.01†
2018*	31,850,000	5.500	5.07†
2019*	33,605,000	5.500	5.12†
2020*	35,455,000	5.500	5.16†
2021*	37,400,000	5.250	100
2022*	29,365,000	5.125	5.27
2022*	10,000,000	5.250	5.27

(accrued interest to be added)

* Insured by Financial Security Assurance Inc. See "BOND INSURANCE."
† Priced at the stated yield to the March 1, 2012 optional redemption date at a redemption price of 100%.

Other than with respect to information concerning Financial Security Assurance Inc. ("Financial Security") contained herein under the heading "BOND INSURANCE" and Appendix D - "Specimen Municipal Bond Insurance Policy," none of the information in this Official Statement has been supplied or verified by Financial Security and Financial Security makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

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

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

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL ON THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE UNDERWRITERS MAY OFFER AND SELL THE BONDS TO CERTAIN DEALERS AND OTHERS (INCLUDING DEALERS DEPOSITING BONDS INTO INVESTMENT TRUSTS) AT PRICES LOWER THAN THE PUBLIC OFFERING PRICES (OR YIELDS HIGHER THAN THE OFFERING YIELDS) STATED ON THE INSIDE COVER PAGE HEREOF. THE PRINCIPAL OFFERING PRICES (OR YIELDS) SET FORTH ON THE INSIDE COVER PAGE HEREOF MAY BE CHANGED FROM TIME TO TIME AFTER THE INITIAL OFFERING BY THE UNDERWRITERS.

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THE COMMONWEALTH OF MASSACHUSETTS

CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

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

OFFICIAL STATEMENT

THE COMMONWEALTH OF MASSACHUSETTS

$492,440,000
General Obligation Bonds
Consolidated Loan of 2002, Series B

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 $492,440,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 2002, Series B (the "Bonds"). The Bonds will be general obligations of the Commonwealth, and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and expenditures for debt service, see "SECURITY FOR THE BONDS" and the Commonwealth Information Statement (described below) under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Limit on Debt Service Appropriations."

The Bonds are being issued to finance the payment of certain authorized capital projects of the Commonwealth and to reimburse the Commonwealth for a portion of advances previously made to the Massachusetts Bay Transportation Authority (MBTA). 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 March 21, 2002 (the "Information Statement"), which contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth. Exhibits A, B and C to the Information Statement are not included in Appendix A. Exhibit A to the Information Statement contains certain economic information concerning the Commonwealth. Exhibits B and C to the Information Statement contain the financial statements of the Commonwealth for the fiscal year ended June 30, 2001, prepared on a statutory basis and a GAAP basis, respectively. Specific reference is made to said Exhibits A, B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission.

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. Appendix D attached hereto sets forth a specimen municipal bond insurance policy of Financial Security Assurance Inc.

THE BONDS

General

The Bonds will be dated March 15, 2002 and will bear interest from such date payable semiannually on March 1 and September 1 of each year, commencing September 1, 2002 (each an "Interest Payment Date") until the principal amount is paid. The Bonds will mature on March 1 in the years and in the aggregate principal amounts, and shall bear interest at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months), as set forth on the inside cover page of this Official Statement. The Commonwealth will act as its own paying agent with respect to the Bonds. The Commonwealth reserves the right to appoint from time to time a paying agent or agents or bond registrar for the Bonds.

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

Redemption

The Bonds maturing on or prior to March 1, 2012 will not be subject to redemption prior to their stated maturity dates.

Optional Redemption. The Bonds maturing on or after March 1, 2013 will be subject to redemption prior to their stated maturity dates on or after March 1, 2012 at the option of the Commonwealth from any moneys legally available therefor, in whole or in part at any time, at par plus accrued interest to the redemption date.

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

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

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

Application of Proceeds of the Bonds

The Bonds are being issued pursuant to the provisions of Section 49 of Chapter 29 of the Massachusetts General Laws and bond authorizations contained in various special laws enacted by the Legislature. The net proceeds of the sale of the Bonds will be applied by the Treasurer and Receiver-General of the Commonwealth (the "State Treasurer") to the various purposes for which the issuance of bonds has been authorized pursuant to such special laws or to reimburse the state treasury for expenditures previously made pursuant to such laws. Any accrued interest payable upon original delivery of the Bonds will be credited ratably to the funds from which debt service on the Bonds is paid and will be used to pay interest on the Bonds. Any premium received by the Commonwealth upon original delivery of the Bonds will be treated as net proceeds of the issue except to the extent that the State Treasurer may determine to apply all or a portion of such premium to the costs of issuance thereof and other financing costs related thereto or to the payment of the principal of or sinking fund installments with respect to the Bonds.

The purposes for which the Bonds will be issued have been authorized by the Legislature under various bond authorizations. A portion of the proceeds are expected to be used, pursuant to "forward funding" legislation enacted as part of the Commonwealth's fiscal 2000 budget to restructure the financial operations of the Massachusetts Bay Transportation Authority (MBTA), to reimburse the Commonwealth for a portion of a transfer from the Commonwealth's highway capital projects fund required by the "forward funding" legislation. The unamortized portion of this transfer includes $585.3 million of payments previously made to the MBTA with respect to MBTA operating costs. Approximately $300 million of this amount is expected to be financed through the issuance of the Bonds. See Appendix A – "Commonwealth Information Statement" under the heading "FINANCIAL RESULTS – Massachusetts Bay Transportation Authority – Financial Restructuring." The balance of the proceeds will be used to finance or reimburse the Commonwealth for a variety of capital expenditures that are included within the current five-year capital spending plan established by the Executive Office for Administration and Finance. The plan, which is an administrative guideline and is subject to amendment at any time, sets forth capital spending allocations over the next five fiscal years and establishes annual capital spending limits. See Appendix A – "Commonwealth Information Statement" under the heading "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES."

SECURITY FOR THE BONDS

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

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

BOND INSURANCE

The following has been provided by Financial Security with respect to the maturities of the Bonds to be insured by Financial Security Assurance Inc. ("Financial Security"), as indicated on the inside cover of this Official Statement (the "Insured Bonds"):

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Financial Security Assurance Inc. ("Financial Security") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy") for the Insured Bonds. The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement. See Appendix D – "Specimen Municipal Bond Insurance Policy."

The Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

Financial Security Assurance Inc.

Financial Security is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance in France, Belgium and other European countries. No shareholder of Holdings or Financial Security is liable for the obligations of Financial Security.

At December 31, 2001, Financial Security's total policyholders' surplus and contingency reserves were approximately $1,593,569,000 and its total unearned premium reserve was approximately $810,898,000 in accordance with statutory accounting principles. At December 31, 2001, Financial Security's total shareholders' equity was approximately $1,698,672,000 and its total net unearned premium reserve was approximately $669,534,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Insured Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc.: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The Policy does not protect investors against changes in market value of the Insured Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. Financial Security makes no representation regarding the Insured Bonds or the advisability of investing in the Insured Bonds. Financial Security makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that Financial Security has provided to the Issuer the information presented under this caption for inclusion in the Official Statement.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RATINGS

The Bonds have been assigned ratings by Fitch Ratings ("Fitch"), Moody's Investors Service ("Moody's") and Standard & Poor's Ratings Services ("Standard & Poor's"). The ratings assigned to the uninsured Bonds by Fitch, Moody's and Standard & Poor's are AA-, Aa2 and AA-, respectively.

For the Insured Bonds, the ratings assigned by Fitch, Moody's and Standard & Poor's are AAA, Aaa and AAA, respectively, based upon the understanding that the payment of the principal of and interest on the Insured Bonds will be guaranteed by a municipal bond insurance policy to be issued by Financial Security simultaneously with the delivery of the Insured Bonds.

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

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase all of the Bonds from the Commonwealth at a purchase price of $500,982,181.72, consisting of a par amount of $492,440,000.00, plus a net premium of $11,184,157.00, minus underwriters' discount of $2,641,975.28, excluding accrued interest. The Underwriters may offer and sell the Bonds to certain dealers and others (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices (or yields higher than the offering yields) stated on the inside cover page hereof. The principal offering prices (or yields) set forth on the inside cover page hereof may be changed from time to time after the initial offering by the Underwriters.

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

On the date of delivery of the Bonds, the Underwriters will be furnished with an opinion of Bond Counsel substantially in the form attached hereto as Appendix B – "Proposed 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 Ropes & Gray of Boston, Massachusetts, as Disclosure Counsel to the State Treasurer. Certain legal matters will be passed upon for the Underwriters by their counsel, Nixon Peabody LLP of Boston, Massachusetts.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with paragraph (b)(5) of Rule 15c2-12, the Commonwealth will undertake in the Bonds to provide annual reports and notices of certain events. A description of this undertaking is set forth in Appendix 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 ext. 564, or Laura Guadagno, Assistant Secretary for Capital Resources and Chief Development Officer, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Official Statement and the Bonds should be directed to Walter J. St. Onge, III, Palmer & Dodge LLP, 111 Huntington Avenue, Boston, Massachusetts 02199, telephone 617/239-0389.

THE COMMONWEALTH OF MASSACHUSETTS

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

By /s/ Kevin J. Sullivan
Kevin J. Sullivan
Secretary of Administration and Finance

March 21, 2002

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THE

COMMONWEALTH

OF

MASSACHUSETTS

INFORMATION STATEMENT

Dated March 21, 2002

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

A. Economic Information
B. Statutory Basis Financial Report for the year ended June 30, 2001
C. Comprehensive Annual Financial Report (GAAP basis) for the year ended June 30, 2001

THE COMMONWEALTH OF MASSACHUSETTS

CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

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

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THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT

March 21, 2002

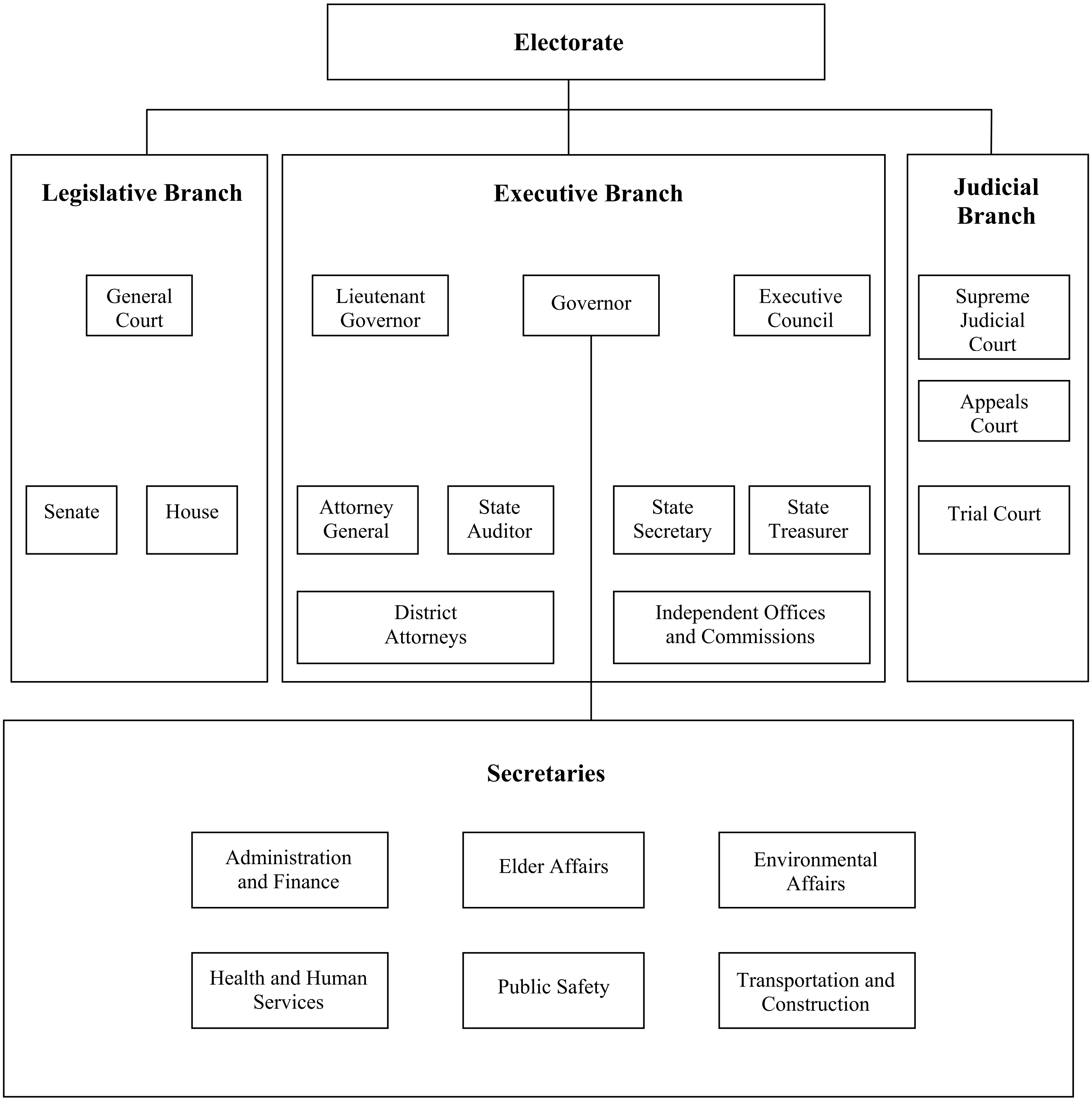
This Information Statement, together with its Exhibits (included by reference as described below), is furnished by The Commonwealth of Massachusetts (the "Commonwealth"). It contains certain fiscal, financial and economic information concerning the Commonwealth and its ability to meet its obligations.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

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

Exhibit A to this Information Statement is the Statement of Economic Information as of January 3, 2002, which was included as Exhibit A to the Supplemental Information Statement dated January 17, 2002, attached to the Official Statement of that date for the Commonwealth's General Obligation Bonds, Consolidated Loan of 2001, Series A. Exhibit A sets forth certain economic, demographic and statistical information concerning the Commonwealth. Exhibits B and C are the Statutory Basis Financial Report for the year ended June 30, 2001 and the Comprehensive Annual Financial Report (GAAP basis) for the year ended June 30, 2001, 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 web site of the Comptroller of the Commonwealth located at http://www.state.ma.us/osc/Reports/reportsfinancial.htm.

THE GOVERNMENT

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



Executive Branch

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

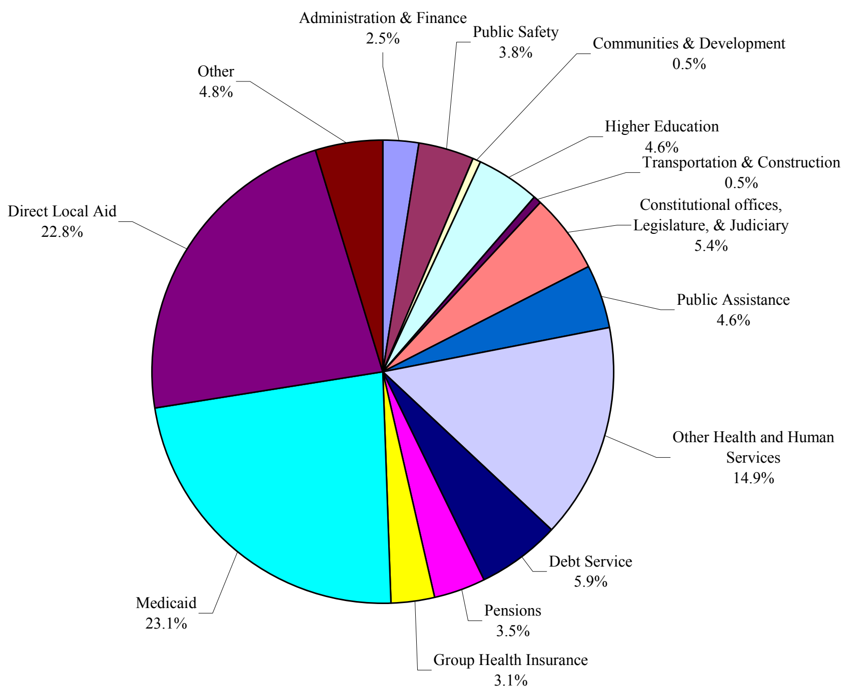
The Executive Council, also referred to as the "Governor's Council," consists of eight members who are elected to two-year terms in even-numbered years. The Executive Council is responsible for the confirmation of certain gubernatorial appointments, particularly judges, and must approve all warrants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

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

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

Below is a graph depicting the breakdown of major categories of projected budgeted operating spending for fiscal 2002. See "2002 FISCAL YEAR."

Fiscal 2002 Projected Operating Spending



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

State Comptroller. All accounting policies and practices, publication of official financial reports and oversight of fiscal management functions are the responsibility of the Comptroller. The Comptroller also administers the annual state single audit and operates the state accounting system. The Comptroller is appointed by the Governor for a term coterminous with the Governor's and may be removed by the Governor only for cause. The annual financial reports of the Commonwealth, single audit reports and any rules and regulations promulgated by the Comptroller must be reviewed by an advisory board. This board is chaired by the Secretary of Administration and Finance and includes the State Treasurer, the Attorney General, the State Auditor, the Chief Administrative Justice of the Trial Court and two persons with relevant experience appointed by the Governor for three-year staggered terms. The Commonwealth's audited annual reports include audited financial statements on both the statutory basis of accounting (the Statutory Basis Financial Report, or SBFR) and the GAAP basis (the Comprehensive Annual Financial Report, or CAFR). The Commonwealth has continued its relationship with the independent public accounting firm of Deloitte & Touche, LLP for fiscal 2001 and fiscal 2002 to audit the Commonwealth's financial statements and to conduct the state single audit. The Statutory Basis Financial Report for the year ended June 30, 2001, included herein by reference as Exhibit B, and the Comprehensive Annual Financial Report for the year ended June 30, 2001, included herein by reference as Exhibit C, were audited by Deloitte & Touche LLP, as stated in its reports appearing therein. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS."

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

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

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

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

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

Legislative Branch

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

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

Judicial Branch

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

Independent Authorities and Agencies

The Legislature has established 56 independent authorities and agencies within the Commonwealth, the budgets of which are not included in the Commonwealth's annual budget. The Governmental Accounting Standards Board (GASB) Statement 14 articulates standards for determining significant financial or operational relationships between the primary government and its independent entities. In fiscal 2001, the Commonwealth had significant operational or financial relationships, or both, as defined by GASB Statement 14, with 34 of its 56 authorities. A discussion of these entities and the relationship to the Commonwealth is included in footnote 1 to the fiscal 2001 general purpose financial statements in the Comprehensive Annual Financial Report included herein by reference as Exhibit C.

Local Government

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

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

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

Initiative Petitions

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

COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS

Operating Fund Structure

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

Overview of Budgetary Process

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

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

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

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

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

Cash and Budgetary Controls

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

Cash Management Practices of State Treasurer

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

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

The State Treasurer is required to submit quarterly cash flow projections for the then current fiscal year to the House and Senate Committees on Ways and Means on or before each August 25, November 25, February 25 and May 25. The projections must include estimated sources and uses of cash, together with the assumptions from which such estimates were derived and identification of any cash flow gaps. See "2002 FISCAL YEAR – Cash Flow." The State Treasurer's office also oversees a $1.0 billion commercial paper program. See "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – General Obligation Debt." Regular meetings comparing estimated to actual revenues and expenditures are held among the Office of the State Treasurer, the Office of the Comptroller, the Department of Revenue and the Executive Office for Administration and Finance.

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

Fiscal Control, Accounting and Reporting Practices of Comptroller

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

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

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

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

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

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

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

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

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

Under GAAP, revenues are reported in the period in which they become both measurable and available. Revenues are "available" when they are expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants and reimbursements, and reimbursements for the use of materials and services. Tax accruals, which represent the estimated amounts due to the Commonwealth on previous filings, over and under withholdings, estimated payments on income earned and tax refunds and abatements payable, are all recorded as adjustments to statutory basis tax revenues. Expenditures/expenses are recorded in the period in which the related fund liability is incurred. Principal of and interest on long-term debt obligations are recorded as fund liabilities when due. Major expenditure accruals are recorded for the cost of Medicaid claims that have been incurred but not paid, claims and judgments and compensated absences such as vacation pay earned by state employees. See "FINANCIAL RESULTS – Selected Financial Data – GAAP Basis" and Exhibit C (Comprehensive Annual Financial Report for the year ended June 30, 2001).

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

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

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

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

The SBFR is published by the Comptroller by October 31, and the CAFR is published by the Comptroller by the second Wednesday in January. The SBFR for the year ended June 30, 2001 and the CAFR for the year ended June 30, 2001 are included herein by reference as Exhibits B and C, respectively. For fiscal 1991 through 2001 the independent auditor's opinions were unqualified. Copies of these financial reports are available at the address provided under "CONTINUING DISCLOSURE." The SBFR for fiscal 1997 through fiscal 2001 and the CAFR for fiscal 1994 through fiscal 2001 are also available on the Comptroller's web site located at http://www.state.ma.us/osc/Reports/reportsfinancial.htm. Throughout the year, the Comptroller prepares interim financial statements on the statutory basis of accounting, which are not audited, but are considered authoritative.

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

The Commonwealth CAFRs for fiscal 1996 through 2000, 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 2000 marked the eleventh consecutive year that the Commonwealth has received this award. The CAFR for fiscal 2001 has been submitted to the GFOA for the award.

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

Overview of Capital Spending Process and Controls

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

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

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

Audit Practices of State Auditor

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

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

FINANCIAL RESULTS

As the annual operating budget of the Commonwealth is adopted in accordance with the statutory basis of accounting, public and governmental discourse on the financial affairs of the Commonwealth has traditionally followed the statutory basis. Consequently, the financial information set forth in this document follows the statutory basis, except where otherwise noted. Since fiscal 1990, the Commonwealth has prepared separate audited financial reports on the statutory basis and on a GAAP basis. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS–Fiscal Control, Accounting and Reporting Practices of the Comptroller; *Financial Reports*." The SBFR for the year ended June 30, 2001 is included herein by reference as Exhibit B. The CAFR for the year ended June 30, 2001 is included herein by reference as Exhibit C.

Auditor's Report on Fiscal 2001 CAFR

The general purpose financial statements included in the CAFR of the Commonwealth for the year ended June 30, 2001 were audited by Deloitte & Touche LLP ("Deloitte & Touche"). The Deloitte & Touche audit report dated December 18, 2001 on the general purpose financial statements included in the CAFR for the year ended June 30, 2001 as originally issued contained an unqualified opinion. On March 14, 2002 the original report was withdrawn due to a violation of the auditor independence rules self-reported by the auditors of the University of Massachusetts Building Authority (a component unit of the University of Massachusetts) (the "Building Authority") and the consequent withdrawal of the opinion of the auditors of the University of Massachusetts (the "University"). A new report was issued by Deloitte & Touche dated December 18, 2001 (March 14, 2002, with respect to the University and College Fund Type), which expressed a disclaimer of opinion on the University and College Fund Type.

The financial statements of the Building Authority have been re-audited by a different auditing firm. That firm expressed an unqualified opinion with respect to the Building Authority. Subsequent to the release of the Building Authority's opinion, the University's auditors also re-expressed an unqualified opinion. Deloitte & Touche has now issued an unqualified audit report on the Commonwealth's general purpose financial statements dated December 18, 2001 (March 18, 2002 with respect to University and College Fund Type).

A copy of the audit report of Deloitte & Touche dated December 18, 2001 (March 18, 2002, with respect to the University and College Fund Type) is being filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission and is incorporated by reference in Exhibit C to this Information Statement and in each statement in this Information Statement referred to the Commonwealth CAFR for the year ended June 30, 2001. The report dated December 18, 2001 (March 14, 2002, with respect to University and College Fund Type) has been withdrawn.

The audit report of Deloitte & Touche dated October 24, 2001 on the Statutory Basis Financial Report of the Commonwealth for the fiscal year ended June 30, 2001, which expressed an unqualified opinion based on their audit and the reports of other auditors, is not affected by the withdrawal and reissuance of the audit report on the Commonwealth's general purpose financial statements included in the CAFR because the Statutory Basis Financial Report does not include the Building Authority or other university and college held funds.

Selected Financial Data – Statutory Basis

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth's audited statutory basis financial statements for fiscal 1997 through 2001, but have been adjusted to reflect the impact of the MBTA forward funding legislation. See "FINANCIAL RESULTS - Massachusetts Bay Transportation Authority." The estimates for fiscal 2002 have been prepared by the Executive Office for Administration and Finance. The financial information presented includes all budgeted operating funds of the Commonwealth. When the status of a fund has changed during this period, prior years have been restated to conform to the fiscal 2002 budget.

For fiscal 2001, the Commonwealth reported 64 budgeted operating funds. During a fiscal year there are numerous transactions among these budgeted funds, which from the fund accounting perspective create offsetting inflows and outflows.

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

Budgeted Operating Funds Operations -- Statutory Basis

(in millions)(1)

	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001	Estimated Fiscal 2002(2)
Beginning Fund Balances						
Reserved or Designated	$ 263.4	$ 225.1	$ 286.3	$ 330.2	$ 278.5	$ 895.3
Tax Reduction Fund	231.7	91.8	367.7	6.8	7.2	33.6
Stabilization Fund	543.3	799.3	1,159.6	1,388.5	1,608.4	1,715.0
Undesignated	134.0	277.8	378.5	386.9	391.3	367.1
Fund Balance Restatement	0.6(3)	--	--	--	--	--
Total	1,173.0	1,394.0	2,192.1	2,112.4	2,285.4	3,011.0
Revenues and Other Sources						
Taxes	12,864.5	14,026.3	14,291.5	15,688.6	16,074.7(5)	14,556.0(5)(6)
Federal Reimbursements	3,019.6	3,361.2	3,442.9	3,645.6	3,974.2	4,364.1
Departmental and Other Revenues	1,267.9	1,286.4	1,297.8	1,359.9	1,431.8	1,390.3
Interfund Transfers from Non-budgeted Funds and Other Sources	1,018.0	1,125.9	1,132.8	1,893.0	1,385.9	1,299.9
Budgeted Revenues and Other Sources	18,170.0	19,799.8	20,165.0	22,587.1	22,866.6	21,610.3
Mass Transit Assessments from Municipalities	151.5	155.6	159.9	15.8	--	--
Interfund Transfers among Budgeted Funds and Other Sources	901.8	1,449.2	1,242.0	3,618.2(4)	931.0	1,053.1
Total Revenues and Other Sources	19,223.3	21,404.6	21,566.9	26,221.1	23,797.6	22,663.4
Expenditures and Uses						
Programs and Services	15,218.8	16,238.6	17,341.1	19,330.7	19,474.3	20,610.0
Debt Service	1,275.5	1,213.4	1,173.8	1,193.3	676.0	1,351.7
Pensions	1,069.2	1,069.8	990.2	986.3	1,040.1	797.0
Interfund Transfers to Non-budgeted Funds and Other Uses	385.5	479.9	739.6	903.8	950.6	72.6
Budgeted Expenditures and Other Uses	17,949.0	19,001.7	20,244.7	22,414.1	22,141.0	22,831.3
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	151.5	155.6	159.9	15.8	--	--
Interfund Transfers among Budgeted Funds and Other Uses	901.8	1,449.2	1,242.0	3,618.2	931.0	1,053.1
Total Expenditures and Other Uses	19,002.3	20,606.5	21,646.6	26,048.1	23,072.0	23,884.4
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	221.0	798.1	(79.7)	173.0	725.6	(1,221.0)
Ending Fund Balances						
Reserved or Designated	225.1	286.3	330.2	278.5	895.3	26.1
Tax Reduction Fund	91.8	367.7	6.8	7.2	33.6	--
Stabilization Fund	799.3	1,159.6	1,388.5	1,608.4	1,715.0	1,542.0
Undesignated	277.8	378.5	386.9	391.3	367.1	221.8
Total	$ 1,394.0	$ 2,192.1	$ 2,112.4	$ 2,285.4	$ 3,011.0	$ 1,789.9

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

(1) Totals may not add due to rounding.
(2) Estimated fiscal 2002 is based on the General Appropriation Act, as supplemented to date, and certain anticipated expenditures and expenditure reductions that have not yet been approved by the Legislature. See "2002 Fiscal Year."
(3) The fund balance restatement for fiscal 1997 is the result of the reclassification of the Drug Analysis Fund from a non-budgeted fund to a budgeted fund.
(4) Reflects legislation in the final supplemental appropriations act for fiscal 2000 requiring the Comptroller to transfer funds from the General Fund to the Local Aid Fund and Highway Fund at the end of fiscal 2000, eliminating deficits in these funds.
(5) Net of $654.6 million in 2001and a projected $664.0 million in 2002 of dedicated sales tax to be transferred to the MBTA that were moved outside of the budget (are no longer budgeted) beginning in 2001.
(6) Tax revenue for fiscal 2002 is based on a tax revenue estimate of $15.222 billion used in the February 2002 cash flow report. See "2002 FISCAL YEAR – Cash Flow." The Secretary of Administration and Finance is currently reviewing the official tax revenue estimate, and is expected to announce an estimate substantially lower than $15.2 billion in the coming weeks. See "COMMONWEALTH REVENUES – Tax Revenue Forecasting."

Massachusetts Bay Transportation Authority - Financial Restructuring

Beginning in fiscal 2001, the finances of the Massachusetts Bay Transportation Authority (MBTA) were restructured, and its financial relationship to the Commonwealth changed materially. The MBTA finances and operates mass transit facilities in eastern Massachusetts. The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. The Commonwealth is obligated to provide the MBTA with a portion of the revenues raised by the Commonwealth's sales tax, generally the amount raised by a 1% sales tax with an inflation-adjusted floor. (For fiscal 2002 the floor is $664 million.) This amount is dedicated to the MBTA under a trust fund mechanism that does not permit future Legislatures to divert the funds. The dedicated revenue stream is disbursed to the MBTA without state appropriation to be used to meet the Commonwealth's debt service contract assistance obligations relating to outstanding MBTA debt, as described below, and to meet the MBTA's other operating and debt service needs. The MBTA is authorized to assess a portion of its costs on 175 cities and towns in eastern Massachusetts; after a five-year phase-in of reduced assessments (from approximately $144.6 million in fiscal 2000 to approximately $136.0 million in fiscal 2006), the cities and towns are required by law to pay assessments equal to at least $136 million in the aggregate, as adjusted in each year after fiscal 2006 for inflation (with no annual increase to exceed 2.5% per year).

Prior to July 1, 2000, the Commonwealth provided financial support of the MBTA through guaranties of the debt service on its bonds and notes, contract assistance generally equal to 90% of the debt service on outstanding MBTA bonds and payment of its net cost of service (current expenses, including debt service and lease obligations not otherwise provided for, minus current income). The MBTA's net cost of service was financed by the issuance of short-term notes by the MBTA and by cash advances from the Commonwealth. The Commonwealth then assessed the net cost of service in arrears on the cities and towns in the MBTA territory after deducting certain subsidy amounts appropriated in the state budget. This practice resulted in the disbursement of substantial cash subsidies paid out by the Commonwealth up to 18 months before the appropriation of amounts to defray such expenses. The legislation enacted in November 1999 that provided for state sales tax receipts to be dedicated to the MBTA also provided for the "forward funding" of the MBTA by requiring the Commonwealth to defray the cost of the 18-month lag (from January 1, 1999 through June 30, 2001) in operating subsidies previously financed through the issuance of notes by the MBTA and the Commonwealth and the advancing of Commonwealth cash reserves to the MBTA. This cost has been estimated by the Comptroller of the Commonwealth to amount to $848.3 million. This cost, plus an additional $100 million to provide working capital to the MBTA, was financed in part by the issuance of $325 million of Commonwealth general obligation bonds (out of $800 million authorized by the Legislature) and by $10.5 million in operating appropriations. The balance was financed by a transfer from the Commonwealth's Highway Capital Projects Fund, which initially was expected to be amortized over 20 years in the Commonwealth's operating budget. The remaining $475 million of Commonwealth general obligation bonds authorized to be issued to replenish the transfer are still unissued, but $300 million are expected to be issued later in March 2002. See "2002 FISCAL YEAR – Cash Flow".

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

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

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

	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001	Estimated Fiscal 2002(3)
Beginning Fund Balances						
Reserved or Designated	$ 263.4	$ 225.1	$ 286.3	$ 330.2	$ 278.5	$ 895.3
Tax Reduction Fund	231.7	91.8	367.7	6.8	7.2	33.6
Stabilization Fund	543.3	799.3	1,159.6	1,388.5	1,608.4	1,715.0
Undesignated	134.0	277.8	378.5	386.9	391.3	367.1
Fund Balance Restatement	0.6(4)	--	--	--	--	--
Total	1,173.0	1,394.0	2,192.1	2,112.4	2,285.4	3,011.0
Revenues and Other Sources						
Taxes	12,864.5	14,026.3	14,291.5	15,688.6	16,074.7(5)	14,556.0(5)(6)
Federal Reimbursements	3,019.6	3,361.2	3,442.9	3,645.6	3,974.2	4,364.1
Departmental and Other Revenues	1,267.9	1,286.4	1,297.8	1,359.9	1,431.8	1,390.3
Interfund Transfers from Non-budgeted Funds and Other Sources	1,018.0	1,125.9	1,132.8	1,893.0	1,385.9	1,299.9
Budgeted Revenues and Other Sources	18,170.0	19,799.8	20,165.0	22,587.1	22,866.6	21,610.3
MBTA Adjustment (2)	(483.1)	(491.1)	(499.1)	(561.9)	NA	NA
Adjusted Budgeted Revenues and Other Sources	17,686.9	19,308.7	19,665.9	22,025.2	22,866.6	21,610.3
Expenditures and Uses						
Programs and Services	15,218.8	16,238.6	17,341.1	19,330.7	19,474.3	20,610.0
Debt Service	1,275.5	1,213.4	1,173.8	1,193.3	676.0	1,351.7
Pensions	1,069.2	1,069.8	990.2	986.3	1,040.1	797.0
Interfund Transfers to Non-budgeted Funds and Other Uses	385.5	479.9	739.6	903.8	950.6	72.6
Budgeted Expenditures and Other Uses	17,949.0	19,001.7	20,244.7	22,414.1	22,141.0	22,831.3
MBTA Adjustment (2)	(483.1)	(491.1)	(499.1)	(561.9)	NA	NA
Adjusted Expenditures and Other Uses	17,465.9	18,510.6	19,745.6	21,852.2	22,141.0	22,831.3
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	221.0	798.1	(79.7)	172.9	725.6	(1,221.0)
Ending Fund Balances						
Reserved or Designated	225.1	286.3	330.2	278.5	895.3	26.1
Tax Reduction Fund	91.8	367.7	6.8	7.2	33.6	--
Stabilization Fund	799.3	1,159.6	1,388.5	1,608.4	1,715.0	1,542.0
Undesignated	277.8	378.5	386.9	391.3	367.1	221.8
Total	$ 1,394.0	$ 2,192.1	$ 2,112.4	$ 2,285.4	$ 3,011.0	$ 1,789.9

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

(1) Totals may not add due to rounding. The table does not reflect interfund transfers among budgeted funds and other sources, which have no effect on the ending balance of the table. The amounts of the transfers were $901.8 million, $1,449.2 million, $1,242.0 million, $3,618.2 million, and $931 million in fiscal 1997-2001 respectively, and are estimated to be $1,053.1 million for fiscal 2002.

(2) To facilitate comparison, the table has been adjusted for fiscal 1997 through fiscal 2000, inclusive, to reflect a transfer off-budget of MBTA operations that began in fiscal 2001 by subtracting the amount of Commonwealth payments to the MBTA in each of those fiscal years.

(3) Estimated fiscal 2002 is based on the General Appropriation Act, as supplemented to date, and certain anticipated expenditures and expenditure reductions that have not yet been approved by the Legislature. See "2002 FISCAL YEAR."

(4) The fund balance restatement for fiscal 1997 is the result of a reclassification of the Drug Analysis Fund from non-budgeted fund to budgeted fund.

(5) Net of a projected $664.0 million of dedicated sales tax to be transferred to the MBTA.

(6) Tax revenue for fiscal 2002 is based on a tax revenue estimate of $15.222 billion used in the February 2002 cash flow report. See "2002 FISCAL YEAR – Cash Flow." The Secretary of Administration and Finance is currently reviewing the official tax revenue estimate, and is expected to announce an estimate substantially lower than $15.2 billion in the coming weeks. See "COMMONWEALTH REVENUES – Tax Revenue Forecasting."

Selected Financial Data – GAAP Basis

The following table provides financial results on a GAAP basis for fiscal 1997 through fiscal 2001 for all budgeted operating funds of the Commonwealth.

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

	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001(1)
Beginning fund balances	$ 709.2	$ 1,096.3	$ 1,841.4	$ 1,704.9	$ 2,325.1
Revenues and Financing Sources					
Taxes	13,020.8	14,021.8	14,308.1	15,681.9	16,099.9
Federal Grants and Reimbursements	3,073.4	3,337.6	3,425.8	3,776.3	4,023.1
Department and Other Revenues	1,346.4	1,404.0	927.4	947.9	1,433.3
Interfund Transfers and Other Sources	1,405.3	1,576.5	1,994.4	5,508.0	1,567.1
Total	18,845.9	20,339.9	20,655.7	25,914.1	23,123.4
Expenditures and Financing Uses					
Programs and Services	14,581.4	15,477.6	16,471.3	17,912.4	18,459.8
Debt Service	1,275.5	1,213.3	1,173.8	1,913.3	1,407.9
Pensions	413.1	414.3	324.2	398.2	318.3
Interfund Transfers and Other Uses	2,188.8	2,489.6	2,822.9	5,790.0	2,314.9
Total	18,458.8	19,594.8	20,792.2	25,293.9	22,500.9
Excess (deficit)	387.1	745.1	(136.5)	620.2	622.5
Ending fund balances	$ 1,096.3	$ 1,841.4	$ 1,704.9	$ 2,325.1	$ 2,947.6

SOURCE: Office of the Comptroller

(1) The report of the auditor on the general purpose financial statements included in the CAFR for the year ended June 30, 2001 disclaimed an opinion on the University and College Fund Type. See "FINANCIAL RESULTS – Auditor's Report on Fiscal 2001 CAFR."

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

Stabilization Fund and Disposition of Year-End Surpluses

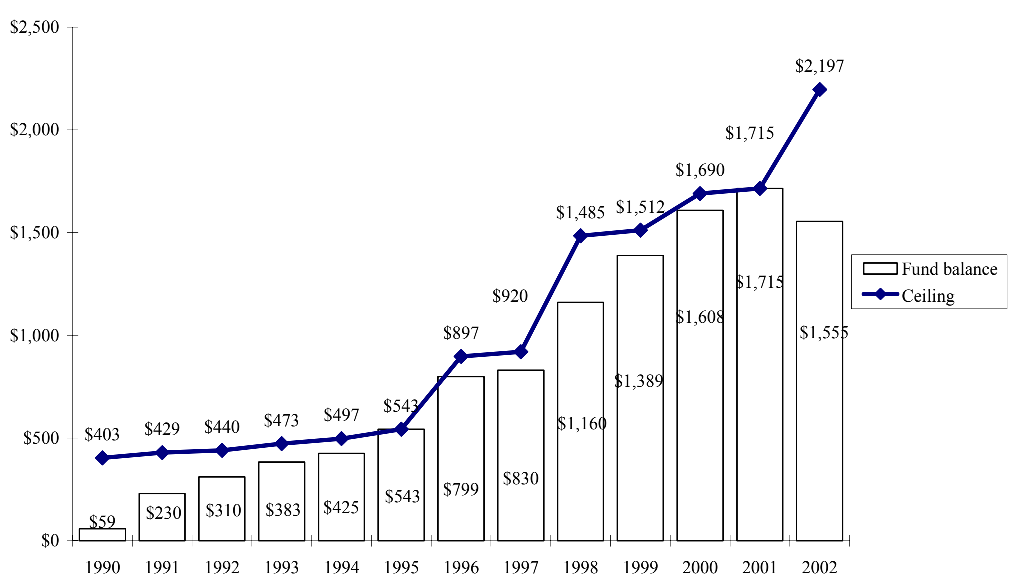
Prior to the General Appropriation Act for fiscal 2002, State finance law provided for a Stabilization Fund, a Capital Projects Fund and a Tax Reduction Fund relating to the use of any aggregate fiscal year-end surplus in the Commonwealth's three principal budgeted operating funds (the General Fund, the Local Aid Fund and the Highway Fund). A limitation equal to 0.5% of total tax revenues was 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 determined on or before October 31 of the succeeding fiscal year that there was a negative balance in the state's capital projects funds, the Comptroller was authorized to 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 was reserved in the Stabilization Fund, from which funds could 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, could be accumulated in the Stabilization Fund. Amounts in excess of that limit were to be transferred to a Tax Reduction Fund, from which they are to be applied to the reduction of personal income taxes.

The General Appropriation Act for fiscal 2002 amended the Stabilization Fund language. The 7.5% limitation on accumulation of budgeted revenues in the fund was raised to 10%. Two additional funds were created, the One – Time Capital Improvements Fund and the Open Space Acquisition Fund, which will be funded out of the stabilization calculation. After the .5% of total tax revenues carried forward as a beginning balance for the future fiscal year, 5% of the remaining consolidated net surplus will fund the One-Time Capital Projects Improvement Fund. Another 15% of the consolidated net surplus will fund the Open Space Acquisition Fund. Instead of 40% of the remaining year-end surplus transferring to a separate Capital Projects Fund to be used in lieu of bonds to finance capital expenditures, 20% will transfer starting in fiscal 2002. Finally, 60% of the consolidated net surplus will be reserved in the Stabilization Fund. The General Appropriation Act for fiscal 2002 also directed the Comptroller to transfer $350 million from the Stabilization Fund to the General Fund.

At the end of each of fiscal 1997 and fiscal 1998 the Legislature increased the statutory ceiling on Stabilization Fund deposits. Prior to fiscal 1997, the statutory ceiling on the Stabilization Fund was 5% of total tax revenues less the amount of annual debt service costs. For fiscal 1997, the statutory ceiling on the Stabilization Fund was 5% of budgeted revenues and other financial resources pertaining to the budgeted funds. At the end of fiscal 1998, a ceiling of up to 7.5% was enacted. The effect of those changes was to increase the ceiling for fiscal 1997 to approximately $908.5 million and for fiscal 1998 to approximately $1.485 billion. By the end of fiscal 2000, the Stabilization Fund had a balance of approximately $1.608 billion, measured against a ceiling of approximately $1.657 billion. At the end of Fiscal 2001, both the ceiling and the balance in the fund were $1.715 billion. In Fiscal 2002, the balance in the Stabilization Fund is estimated to decline to $1.555 billion, as Stabilization Fund monies are used for current year spending. See "2002 FISCAL YEAR."

The following graph sets forth the balance in the Stabilization Fund for fiscal 1990 through fiscal 2001 and the estimate for fiscal 2002:

Stabilization Fund
(in millions)



SOURCE: Fiscal 1990-2001, Office of the Comptroller; fiscal 2002, Executive Office for Administration and Finance.

(1) Fiscal 2002 is estimated; subject to change. See "2002 FISCAL YEAR."

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

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

Disposition of Year-End Surpluses
(in millions)

	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001
Transfer to Capital Funds	$ 319.3	$ 300.8	$ 637.9	$ 710.0	$ 34.5
Transfer to Stabilization Fund	234.3	317.4	165.6	114.9	5.8
Transfer to Tax Reduction Fund	--	362.5	--	--	25.9
Transfer to Transitional Escrow Fund	--	--	--	--	579.0(1)
Other Transfers	128.0	105.0	--	10.0	--
Total	$ 681.6	$ 1,085.7	$ 803.5	$ 834.9	$665.2

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

(1) Of this amount, $422 million was subsequently authorized to be used to pay for fiscal 2002 expenditures and the remaining $157 million was transferred to the Stabilization Fund.

2002 FISCAL YEAR

Fiscal 2002 Budget

The General Appropriation Act for fiscal 2002 was enacted on December 1, 2001. On November 20, 2001 the legislative conference committee charged with reconciling the differences between the House and Senate versions of the fiscal 2002 budget released its report, and both houses of the Legislature enacted the compromise budget on November 21, 2001. The Governor approved the budget after vetoing approximately $233 million of appropriations. On December 4, 2001 the Legislature restored approximately $175 million of appropriations. Taking into account the vetoes and the overrides, the original fiscal 2002 budget provided for total spending of approximately $22.213 billion.

Following the enactment of the General Appropriation Act, the Acting Governor filed supplemental appropriations totaling $595 million, of which $189.5 million was passed by the Legislature prior to the end of the 2001 legislative session. The Legislature also passed $95 million of previously filed collective bargaining measures, bringing total fiscal 2002 supplementary appropriations to $284.5 million.

On September 21, 2001, the Legislature transferred $579 million from revenues credited to the General Fund in fiscal 2001 into a newly established Transitional Escrow Fund. The fiscal 2002 General Appropriation Act authorizes the following uses of reserve funds to pay for fiscal 2002 expenditures: $422 million from the Transitional Escrow Fund, $350 million from the Stabilization Fund, and approximately $34 million from the Tax Reduction Fund. The fiscal 2002 General Appropriation Act also provides for 50% of tobacco settlement moneys to be expended in fiscal 2002. The remaining $157 million in the Transitional Escrow Fund was transferred into the Stabilization Fund by the General Appropriation Act for fiscal 2002.

On February 5, 2002, the Acting Governor took a number of steps to address fiscal 2002 tax revenue collections that were below projections. The Acting Governor invoked her authority under Massachusetts General Laws Chapter 29, section 9C, and reduced $132 million of line-item allotments. The Acting Governor filed a bill that would allow the Governor to reduce pension appropriation allotments under the Massachusetts General Laws Chapter 29, section 9C authority. The Acting Governor also filed a bill that would reduce the fiscal 2002 pension liability fund payment by $134 million. On February 7, 2002, the Acting Governor filed legislation to appropriate $25 million from the Stabilization Fund for additional public safety costs anticipated in response to the threat of terrorism in fiscal 2002 and fiscal 2003.

Total spending for fiscal 2002 represented by the General Appropriation Act, as supplemented, and other projected expenditures not yet approved by the Legislature is approximately $22.831 billion. The actions taken by the Acting Governor on February 5 and February 7, 2002 were intended to bring fiscal 2002 expenditures into balance with revenues, assuming estimated tax revenues of approximately $15.2 billion. This tax revenue estimate is consistent with the estimate used in the cash flow projection released on February 25, 2002 and is $200 million less than the most recent official fiscal 2002 tax estimate announced by the Secretary of Administration and Finance on January 23, 2002. See “Cash Flow”.

Recent events, including revenue collections in January and February 2002, testimony presented on March 6, 2002 in connection with the development of a consensus tax estimate for fiscal 2003 and federal economic stimulus legislation enacted on March 9, 2002, indicate that final fiscal 2002 tax revenues may be approximately $300 to $400 million less than $15.2 billion. See “COMMONWEALTH REVENUES – Tax Revenue Forecasting”. The Secretary of Administration and Finance is expected to announce a revised fiscal 2002 tax estimate in the next several days.

Also on February 5, 2002, the Acting Governor filed a bill that would direct the Comptroller to transfer from the Stabilization Fund to the General Fund the amount necessary to end fiscal 2002 in balance. If an additional $400 million from the Stabilization Fund is used to balance the fiscal 2002 budget at year-end, approximately $1.15 billion will remain in the Stabilization Fund. In addition, the Commonwealth has approximately $700-800 million in other reserve funds, most of which are amounts reserved from tobacco litigation settlement payments.

Cash Flow

On February 25, 2002 the State Treasurer and the Secretary of Administration and Finance released the most recent cash flow projection for fiscal 2002. The cash flow projection was based on the General Appropriation Act for fiscal 2002 (including the value of all vetoes and subsequent overrides) and supplemental appropriations enacted or anticipated. It reflected authorized transfers between budgeted funds and certain reserve funds as provided for in the General Appropriation Act. The cash flow projection relied on a tax revenue forecast of $15.222 billion, which was based on the official tax revenue estimate most recently announced by the Secretary for Administration and Finance on January 23, 2002, adjusted for the shortfall in actual January tax revenue collections compared with the official estimate. The Secretary of Administration and Finance is currently reviewing the official tax revenue estimate, and is expected to announce an estimate substantially lower than $15.2 billion in the coming weeks. The cash flow projection did not include any additional reductions that may be required based on changes in future tax collections or the Acting Governor's proposal to supplement current year revenues with transfers from the Stabilization Fund. See "Fiscal 2002 Budget" and "COMMONWEALTH REVENUES – Tax Revenue Forecasting."

The cash flow projection showed a beginning balance for fiscal 2002 of $3.366 billion and an ending balance of $1.310 billion. In both cases the balances include amounts available for capital purposes, but exclude amounts available in the Commonwealth's Stabilization Fund and certain other reserve funds. Of the $3.365 billion that was available at the beginning of fiscal 2002, approximately 65% or $2.206 billion represented segregated bond funds. The fiscal 2002 year-end projection is that roughly $1.134 billion, or 87%, will be segregated and unavailable for general operating purposes. Thus, after excluding capital balances, the cash flow projects a sharp decline in the Commonwealth's cash position, from a beginning balance of $1.159 billion to an ending balance of $151 million. As noted, these amounts do not include balances available in the Commonwealth's Stabilization Fund and certain other reserve funds, which are in excess of $2.1 billion.

The Commonwealth maintains a commercial paper program supported by lines and a letter of credit from commercial banks. The program allows for the periodic issuance of commercial paper as either bond anticipation notes or revenue anticipation notes for operating purposes. In December 2001 the overall capacity of the Commonwealth's commercial paper program was increased from $600 million to $800 million. In March 2002, the Commonwealth again increased the commercial paper program by an additional $200 million, bringing the total program size to $1.0 billion.

In December 2001, the Commonwealth issued $200 million of commercial paper as bond anticipation notes to fund capital projects and $600 million in commercial paper as revenue anticipation notes to help meet its $1.05 billion quarterly local aid payment. Prior to December 2001, the Commonwealth had not used short-term borrowing to finance operating payments since March 1996. The $200 million of commercial paper related to capital projects was retired from the proceeds of the Commonwealth's General Obligation Bonds, Consolidated Loan of 2002, Series A issued in January 2002. Approximately $483 million of commercial paper remains outstanding, of which approximately $142 million is allocable to capital expenditures subsequent to the January 2002 bond issue, and $341 million of which is allocable to operating purposes. The Commonwealth intends to retire the capital related portion of the outstanding commercial paper balance from a portion of the proceeds of its proposed General Obligation Bonds, Consolidated Loan of 2002, Series B in March 2002. The Commonwealth increased its commercial paper borrowing availability for operating purposes up to a total of $1.0 billion in March 2002, which may be needed in order to meet its local aid payment at the end of March 2002. All of the commercial paper issued for operating purposes is projected to be paid down from operating revenues prior to June 30, 2002, as required by law.

Net proceeds of long-term debt issuance during fiscal 2002 are projected to total $1.556 billion, of which $856 million was issued through and including January 2002. The Commonwealth is preparing a bond sale of $500 million in March 2002 and anticipates an additional bond sale of $200 million in June 2002.

Of the $500 million to be borrowed in March 2002, $200 million represents regular capital expenditures and $300 million relates to the forward funding of the MBTA. On July 1, 2000, the Commonwealth began a new system for funding the MBTA whereby the state dedicates the revenues from one cent of its five-cent sales tax to the Authority. The old system of funding the MBTA required the Treasurer to make cash advances to the Authority to meet its operating needs, which the Legislature then budgeted for some 18 months in arrears. In the transition from the old system to the new system, more than $600 million in cash advances went out from the Commonwealth to the MBTA that were not budgeted for and expensed in the Commonwealth's operating budget. Instead, the Legislature developed a plan to recognize the expenditures on the Commonwealth's books over a 20-year period in equal installments. See "FINANCIAL RESULTS – Massachusetts Bay Transportation Authority – Financial Restructuring." The net effect of these changes has been to create a gap of $585 million between the Commonwealth's reported budget position and its actual cash balance. However, the Legislature also provided borrowing authority to fund most of the outstanding cash shortfall if it became necessary. The Commonwealth intends to fund some $300 million of the shortfall from the proceeds of its March 2002 bond sale.

Net proceeds from bond anticipation notes during fiscal 2002 (in addition to those under the commercial paper program) are projected to total $528 million, of which $358 million (related to the Boston Convention and Exhibition Center) was raised in September 2001. An additional $170 million of bond anticipation notes, related to certain Central Artery/Ted Williams Tunnel Project expenditures, are expected to be issued in March or April 2002. As part of the earlier Central Artery/Ted Williams Tunnel Project finance plan, the Massachusetts Port Authority agreed to pay $365 million for roadway assets included in the Central Artery/Ted Williams Tunnel Project, which will be transferred to the Massachusetts Port Authority. The remaining payments from the Massachusetts Port Authority are currently scheduled to be made over a number of years, including approximately $105 million in fiscal 2003 and $50 million each in fiscal 2004 and fiscal 2005. However, the project was given special authority to expend these amounts prior to their receipt. To date, approximately $170 million of these funds have been spent and have been funded from the Commonwealth's available funding. The Commonwealth intends to issue bond anticipation notes in March 2002 to reimburse itself for this expenditure. However, the borrowing is contingent upon legislative approval of the terms of the borrowing, which is currently pending in the State Senate. See "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Central Artery/Ted Williams Tunnel Project."

The Commonwealth's next cash flow projection is due May 25, 2002.

2003 FISCAL YEAR

On January 23, 2002, Acting Governor Swift filed her fiscal 2003 budget recommendation. The Acting Governor's budget recommendation called for budgeted expenditures of approximately $23.548 billion. The Acting Governor's budget recommendation represents a $717 million, or 3.1%, increase over the current fiscal 2002 spending projection of $22.831 billion. Total budgeted revenues for fiscal 2003 are estimated to be $22.6 billion. The Acting Governor's proposal projected a fiscal 2003 ending balance in the budgeted funds of $843.6 million, including a Stabilization Fund balance of $838.4 million. Fiscal 2003 ending balances will change depending on how fiscal 2002 ending balances finish.

The Acting Governor's January 23, 2002 budget recommendation was based on a tax revenue estimate of $15.615 billion, inclusive of $686.9 million of sales tax receipts dedicated to the MBTA. This amount represented a 5.1% baseline increase from fiscal 2002 tax revenues, estimated at the time to be $15.405 billion. Fiscal 2002 and fiscal 2003 tax revenues are now anticipated to be considerably lower than the estimates available at the time of the fiscal 2003 budget recommendation, although official estimates have not yet been revised. See "COMMONWEALTH REVENUES – Tax Revenue Forecasting."

The Acting Governor's January 23, 2002 budget recommendation assumed non-tax revenues of $7.634 billion, which represented an increase of approximately $580 million over the current fiscal 2002 estimate. Of the three classes of non-tax revenue, federal reimbursements, including those for Medicaid, and block grants for Temporary Assistance to Needy Families and Child Care programs are the largest components of the Commonwealth's budget. These payments were estimated to total $4.653 billion in fiscal 2003. This level of federal payments represented an increase of $288 million, or 6.6%, over fiscal 2002, the result primarily of increased Medicaid spending, which is eligible for federal reimbursement. Fiscal 2003 departmental revenues were estimated at $1.417 billion, representing an increase of approximately $26 million from then-current fiscal 2002 estimates. Consolidated transfers, the third category of non-tax revenue, consisted primarily of state lottery proceeds which are distributed to cities and towns. Consolidated transfers were estimated to increase by $265 million over fiscal 2002 levels. The primary reason for the increase in consolidated transfers is the additional revenue that the lottery is expected to generate from reducing prize payouts from 71% to 63%. Lottery aid to cities and towns was estimated to be $778 million in fiscal 2003.

The Acting Governor's January 23, 2002 budget proposal recommended increased spending for certain priority areas, including a $600 million increase over the current projection for fiscal 2002 spending for Medicaid, a $148 million increase for the Department of Education, an $81 million increase for debt service and a $40 million increase for the Department of Mental Retardation. All other agencies were maintained at a current level of service or reduced, for a net decrease of $152 million in spending compared with the current fiscal 2002 projection. The Acting Governor's budget recommendation reflected efforts to reduce spending by implementing a hiring freeze for state agencies through fiscal 2003, reducing the state workforce as workers take advantage of the Early Retirement Incentive Program enacted in December 2001, maintaining a moratorium on management pay increases, out of state travel by state employees and paid interns, and imposing other reductions in subscriptions, office supplies, equipment, contractors, consultants and temporary staff.

The Acting Governor's January 23, 2002 budget proposal recommended using $800 million in reserve funds. It also recommended using $274 million in additional lottery revenue for local aid programs that were projected to be made available by lowering the prize ratio from 71% to 63%.

The Acting Governor's January 23, 2002 budget recommendation included approximately $816 million for the state's pension funding schedule (of which $797 million was for pension funding, and the remaining $19 million was for payments to current retirees employed prior to the establishment of current plans and non-contributory plans). It also included $386 million for school building assistance, an increase of $13 million from fiscal 2002.

On March 14, 2002, in response to continuing revenue declines, the Acting Governor proposed $700 million in spending reductions from her fiscal 2003 budget recommendation. See "COMMONWEALTH REVENUES – Tax Revenue Forecasting." The proposal included $200 million in spending reductions for Local Aid, and $500 million in spending reductions in other programs, which amounted to decreases of generally 3-5% across all discretionary programs. The proposal also recommended spending 100% of the 2003 annual tobacco settlement payment in fiscal 2003. See "COMMONWEALTH REVENUES – Tobacco Settlement."

The submission of the Acting Governor's budget proposal on January 23, 2002 marked the commencement of the budgetary process for fiscal 2003. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS – Overview of Budgetary Process." The Legislature typically passes a budget that is materially different from that proposed by the executive, and for fiscal 2003 the differences are likely to be magnified by changes in tax revenue expectations for fiscal 2002 and fiscal 2003 and other factors.

On March 19, 2002 the Acting Governor announced her intention not to seek re-election. Her term will expire in January 2003.

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 2001 on a GAAP basis, approximately 68.0% of the Commonwealth's annual budgeted revenues were derived from state taxes. In addition, the federal government provided approximately 21.9% of such revenues, with the remaining 10.1% 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 1997 through 2001 and estimated revenues for fiscal 2002.

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

	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001	Estimated Fiscal 2002
Tax Revenues:						
Alcoholic Beverages	$ 60.3	$ 60.2	$ 61.0	$ 63.1	$ 64.2	$62.3
Banks	140.3	156.0	108.5	92.9	179.6	154.7
Cigarettes	281.7	300.8	284.4	279.9	270.5	280.4
Corporations	963.9	1,066.9	1,008.9	1,130.5	945.3	708.8
Deeds	51.6	79.7	98.0	116.0	129.6	125.0
Income	7,181.8	8,031.9	8,036.6	9,041.9	9,902.7	8,619.7
Inheritance and Estate	202.7	191.3	173.9	166.5	203.4	175.1
Insurance	297.8	310.8	336.3	334.6	332.9	335.9
Motor Fuel	602.8	621.3	636.5	652.6	659.9	673.8
Public Utilities	109.2	131.9	132.5	83.0	86.7	89.0
Racing	10.2	9.2	8.3	7.8	7.5	5.5
Room Occupancy	80.5	96.2	119.4	137.0	149.6	134.7
Sales - Regular	2,087.7	2,122.0	2,351.2	2,552.1	2,705.8(4)	2,721.1
Sales - Meals	381.4	392.5	436.2	456.8	482.0	512.4
Sales - Motor Vehicles	407.0	448.0	482.4	556.4	568.0(4)	579.0
Transfer to MBTA	--	--	--	--	(654.6)	(664.0)
Sub-Total–Sales	2,876.1	2,962.5	3,269.8	3,565.3	3,101.2	3,148.5
Miscellaneous	5.6	7.6	17.4	17.5	17.9	42.6
Total	12,864.5	14,026.3	14,291.5	15,688.6	16,074.6	14,556.0
Non-Tax Revenues:						
Federal Reimbursements (2)	3,019.6	3,361.2	3,442.9	3,645.6	3,974.2	4,364.1
Departmental and Other Revenues	1,267.9	1,286.4	1,297.8	1,359.9	1,431.8	1,390.3
Interfund Transfers from Non - Budgeted Funds and Other Sources (3)	1,018.0	1,125.9	1,132.8	1,893.0	1,385.9	1,299.9
Budgeted Non-Tax Revenues and Other Sources	5,305.5	5,773.6	5,873.5	6,898.5	6,791.9	7,054.3
Budgeted Revenues and Other Sources	18,170.0	19,799.8	20,165.0	22,587.0	22,866.6	21,610.3
MBTA Adjustment (4)	(483.1)	(491.1)	(499.1)	(561.9)	NA	NA
Adjusted Revenues and Other Sources	$17,686.9	$19,308.7	$19,665.9	$22,035.7	$22,866.6	$21,610.3

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

(1) Totals may not add due to rounding. The table does not reflect interfund transfers among budgeted funds and other sources that have no effect on ending balances. The amounts of the transfers in fiscal 1997-2001 were $901.8 million, $1,449.2 million, $1,242.0 million, $3,618.2 million and $241.0 million, respectively. In addition, the table does not reflect the receipt and payment of certain municipal mass transit assessments totaling $151.5 million, $155.6 million, $159.9 million and $15.8 million in fiscal 1997 through 2001, respectively.

(2) Includes $221.0 million in fiscal 1997, $265.5 million in fiscal 1998, $184.7 million in fiscal 1999, $179.0 million in fiscal 2000, $187.4 million in fiscal 2001 and an estimated $199 million in fiscal 2002 resulting from claims for federal reimbursement of certain uncompensated care for Massachusetts hospitals.

(3) Interfund transfers represent accounting transfers that reallocate resources among funds. See "Federal and Other Non-Tax Revenues" below. Includes transfers between the Stabilization Fund and budgeted operating funds. Transfers to the Stabilization Fund were $234.3 million, $317.4 million, $165.6, $114.9 million and $51.7 million in fiscal 1997, 1998, 1999, 2000 and 2001 respectively. On August 10, 1998, Acting Governor Cellucci approved legislation providing for the transfer of $200 million to the Tax Reduction Fund as of June 30, 1998. Additional transfers in 2000 included transfer of $500 million to Debt Defeasance Fund and transfer of $3.0 billion to eliminate fund deficits in the Highway and Local Aid Funds. Additional transfers in 2001 included $579.2 million to the Transitional Escrow Fund, $624.2 million for debt defeasance, $25.9 million to the Tax Reduction Fund, $53.9 million to the Sewer Rate Relief Fund and $34.4 million for Capital Projects.

(4) To facilitate comparison, the revenues have been reduced to reflect the transfer off-budget of MBTA operations in fiscal 2001 by subtracting the actual amount of Commonwealth payments to the MBTA in fiscal 1996 to fiscal 2000, inclusive. For fiscal 2001, the Executive Office for Administration and Finance projects transferring $664 million of dedicated sales tax to the MBTA. The amount of sales tax receipts to be transferred to the MBTA could be greater based on higher overall sales tax receipts. See "FINANCIAL RESULTS - Massachusetts Bay Transportation Authority - Financial Restructuring."

State Taxes

The major components of state taxes are the income tax, which is projected to account for approximately 56% of total tax revenues in fiscal 2002, the sales and use tax, which is projected to account for approximately 25%, and the corporations and other business and excise taxes (including taxes on insurance, financial institution and public utility corporations), which are projected to account for approximately 8%. Other tax and excise sources are projected to account for the remaining 11% of total fiscal 2002 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 5.3% is applied to most types of income, effective on January 1, 2002, and is scheduled to be reduced to 5% on January 1, 2003 and thereafter. The tax rate on gains from the sale of capital assets held for one year or less and from the sale of collectibles is 12%, and the tax rates on gains from the sale of capital assets owned more than one year range from 5% to 1%. Beginning in tax year 2001, gains from capital assets held for more than six years are not subject to tax. Interest on obligations of the United States and of the Commonwealth and its political subdivisions is exempt from taxation.

Prior to January 1, 1999, a different rate was applied to "Part A" income (generally, interest and dividends) and "Part B" income (generally, "earned" income from employment, professions, trades, businesses, rents and royalties). The rate on Part A income was 12% prior to January 1, 1999; it was reduced to 5.95% as of January 1, 1999 and as of January 1, 2000 is the same as the rate on Part B income. The rate on Part B income was 5.95% prior to January 1, 2000, when it was reduced to 5.85%. The rate on Part B income was reduced to 5.6% on January 1, 2001 by virtue of the approval of an initiative petition by Massachusetts voters on November 7, 2000, which also provided for the further reductions described above in 2002 and 2003. The Department of Revenue estimates that the rate changes contained in the initiative petition reduced fiscal 2001 revenues by approximately $145 million, and estimates that it will reduce fiscal 2002 revenues by $470 million and fiscal 2003 revenues by $925 million. The annualized value of the reduction, once fully effective in fiscal 2004, is estimated to be approximately $1.220 billion.

In each of the last several fiscal years, legislation has been approved that had the net effect of reducing revenues by decreasing rates or increasing or establishing various deductions and credits. In addition, several administrative changes were implemented that reduced revenues. The incremental net effect of these tax law and administrative changes (relative to the immediately preceding fiscal year) is estimated by the Department of Revenue to have been a reduction of approximately $260 million in fiscal 1997 revenues, $430 million in fiscal 1998 revenues, $1 billion in fiscal 1999 revenues, $185 million in fiscal 2000 revenues and $790 million in fiscal 2001 revenues. The incremental net effect of such changes, including the November 2000 initiative petition described above (also relative to the immediately preceding fiscal year), is estimated to be a reduction of approximately $730 million in fiscal 2002 revenues and $580 million in fiscal 2003 revenues. These estimates of incremental reductions are subject to change as information is updated from prior years' tax returns and as revenue forecasts for the current and future fiscal years are revised.

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

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

On October 20, 1997, Acting Governor Cellucci announced that the Department of Revenue would issue regulations changing the payment schedules for approximately 15,000 sales, meals and room occupancy taxpayers that pay over $25,000 in tax per year. Under the new simplified rules, beginning January 1, 1998, these taxpayers are required to file a tax return and make a tax payment on the 20^{th} of each month for taxable sales made during the preceding month. Under the old rules, affected taxpayers were required to forward tax payments on the 27^{th} of each month for taxable sales made from the 23^{rd} of the preceding month to the 22^{nd} of the current month, as well as file a quarterly tax return. While these new regulations do not affect the amount of tax owed, the Department of Revenue estimates that the Commonwealth realized a reduction in fiscal 1998 revenues of approximately $105 million. This reduction was a one-time event.

Beginning January 1, 1998, sales tax receipts from establishments near the site of the proposed new Boston convention center that first opened on or after July 1, 1997 and sales tax receipts from new hotels in Boston and Cambridge that first opened on or after July 1, 1997 are required to be credited to the Boston Convention and Exhibition Center Fund. See "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Special Obligation Debt; *Boston Convention and Exhibition Center Fund*." In fiscal 2002, the amount of such sales tax receipts is estimated to be $1.2 million.

Beginning July 1, 2000, pursuant to "forward funding" legislation contained in the fiscal 2000 budget, a portion of the Commonwealth's receipts from the sales tax, generally the amount raised by a 1% sales tax with an inflation-adjusted floor, is dedicated to the Massachusetts Bay Transportation Authority under a trust fund mechanism that does not permit future Legislatures to divert the funds. See "FINANCIAL RESULTS - Massachusetts Bay Transportation Authority - Financial Restructuring." In fiscal 2002, the amount of such sales tax receipts is estimated to be $664 million.

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

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

On August 8, 1996, Governor Weld approved legislation making two changes in the apportionment formula for the business corporations tax payable by certain mutual fund service corporations. Effective January 1, 1997, the legislation changed the computation of the sales factor; instead of sourcing sales from the state where the seller bears the cost of performing the services relating to the sale, the corporations will source sales to the state of domicile of the ultimate consumer of the service. Effective July 1, 1997, the legislation changed the prior three-factor formula to a single sales factor formula, just as the November 1995 legislation had done for certain federal defense contractors and, over time, for manufacturing firms. Under the 1996 law, affected corporations are required to increase their numbers of employees by 5% per year for five years, subject to exceptions for adverse economic conditions affecting the stock market or the amount of assets under their management. The Department of Revenue has estimated that the changes resulted in a revenue reduction of approximately $28 million in fiscal 1997, $99 million in fiscal 1998, $126 million in fiscal 1999, $139 million in fiscal 2000, and $118 million in fiscal 2001. The changes are forecast to reduce revenues by approximately $120 million in fiscal 2002. These estimates do not take into account additional tax revenue generated by increased economic activity that may have been stimulated by the tax cuts.

Bank Tax. Commercial and savings banks are subject to an excise tax of 12.54%. On July 27, 1995, Governor Weld approved legislation reducing the rate over several years to 10.5%. The Department of Revenue has estimated that the tax cut, which was fully implemented in fiscal 2000, has an annualized value of approximately $30 million, taking into account an $18 million annualized gain resulting from the effect of provisions in the 1995 legislation that applied the tax to out-of-state banks and other financial institutions not previously taxed.

Insurance Taxes. Life insurance companies are subject to a 2% tax on gross premiums; domestic companies also pay a 14% tax on net investment income. Property and casualty insurance companies are subject to a 2% tax on gross premiums, plus a 14% surcharge for an effective tax rate of 2.28%; domestic companies also pay a 1% tax on gross investment income. On April 30, 1998, the House of Representatives approved legislation that would over five years eliminate the 14% surcharge for property and casualty insurers and the tax on investment income for both types of domestic insurers. On August 10, 1998, Acting Governor Cellucci approved legislation that will reduce insurance company taxes over five years in essentially the manner provided in the legislation approved by the House of Representatives on April 30, 1998, though the enacted legislation, unlike the House bill, does not eliminate the 14% surcharge on the gross premium income of property and casualty insurers. The estimated fiscal 1999 cost of these changes is $5 million, and the estimated fully phased-in aggregate annual value of these tax reductions is $39 million.

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

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

A portion of the Commonwealth's motor fuels excise tax receipts, estimated to be approximately $190.6 million in fiscal 2002, is pledged to pay the debt service on certain special obligation bonds of the Commonwealth. See "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Special Obligation Debt; *Highway Fund*."

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

Tax Revenue Forecasting

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

Pre-2002 Experience. 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, at the time valued by the Department of Revenue at $990 million in fiscal 1999, had the effect of reducing the consensus forecast to $13.41 billion. On August 19, 1998, the Executive Office for Administration and Finance raised the fiscal 1999 tax estimate by $200 million to approximately $13.61 billion. The fiscal 1999 tax estimate was raised again in the Governor's budget submission, filed on January 27, 1999, to $14.0 billion. On May 7, 1999, the Executive Office for Administration and Finance increased its fiscal 1999 tax estimate to $14.160 billion, an increase of $160 million from its $14 billion January 1999 estimate. Fiscal 1999 tax collections totaled approximately $14.291 billion.

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

The fiscal 2001 budget was enacted in July 2000 on the basis of a consensus tax revenue forecast of $15.928 billion. The inclusion of a charitable tax deduction in the fiscal 2001 budget had the effect of reducing the consensus forecast to $15.849 billion, including $645 million of sales tax receipts dedicated to the MBTA. On October 11, 2000, the Executive Office for Administration and Finance increased its fiscal 2001 estimate to $16.209 billion; taking into account the reduction in personal income tax rates approved by the voters on November 7, 2000 (see "State Taxes; *Income Taxes*"), the revised estimate was $16.074 billion. On January 24, 2001, in conjunction with the filing of the Governor's fiscal 2002 budget recommendations, the fiscal 2001 estimate was raised to $16.234 billion. Fiscal 2001 tax collections totaled approximately $16.729 billion.

Fiscal 2002. No consensus tax revenue forecast for fiscal 2002 was agreed to by the Legislature and the Secretary of Administration and Finance by May 15, 2001, as required by state finance law. At that time the legislative consensus tax revenue estimate for fiscal 2002 was $16.578 billion (inclusive of sales tax revenues dedicated to the MBTA), while the estimate of the Secretary of Administration and Finance was $16.343 billion. Due to deterioration in tax collections and the weakening economy in the Commonwealth, on October 25, 2001, the Secretary of Administration and Finance announced a revised fiscal 2002 revenue estimate of $15.594 billion, a decrease of $750 million. (Approximately $7 million of the $750 million in revenue reduction is accounted for by a decline in sales tax receipts pledged to the MBTA, and therefore is not reflected in the $15.594 billion estimate.) The fiscal 2002 budget was enacted in December 2001 on the basis of a $15.600 billion tax revenue estimate made by the Legislature.

The following table shows the tax collections for each month of fiscal 2002 through February 2002 and the decrease from tax collections in the same month in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in each month which are dedicated to the MBTA.

Fiscal 2002 Tax Collections
(in millions)

Month	Tax Collections	Decrease from Year Prior	Percentage Decrease	MBTA Portion(1)
July	$1,026	$38.0	3.6%	$56.7
August	1,113	31.7	2.8	56.8
September	1,524	221.9	12.7	45.9
October	969	115.9	10.7	60.1
November	1,043	43.3	4.0	51.7
December	1,328	95.9	6.7	46.4
January	1,580	356.0	18.4	68.9
February	801	112.0	12.3	40.5
Total	$9,385	$1,012	9.7%	$426.9

SOURCE: Executive Office for Administration and Finance.

(1) Pursuant to MBTA forward funding legislation implemented in fiscal 2001, the Commonwealth is obligated to provide the MBTA with proceeds from a 1% sales tax subject to an inflation-adjusted floor. The floor was $645 million in fiscal 2001 and $664 million in fiscal 2002. In December 2001, the Commonwealth transferred $14 million from the General Fund to the MBTA to meet the minimum contribution for fiscal 2001. See "FINANCIAL RESULTS – Massachusetts Bay Transportation Authority – Financial Restructuring."

The reductions in tax collections are attributable to a combination of economic conditions and reductions in tax rates effected by an initiative petition offered in November 2000 and other tax law changes. On the basis of such changes alone, tax collections would have been expected to decline by approximately $340 million between the first eight months of fiscal 2001 and the same period in fiscal 2002. See "COMMONWEALTH REVENUES – State Taxes".

Based on the revised fiscal 2002 tax revenue estimate announced on October 25, 2001 by the Secretary of Administration and Finance, the December year-to-date tax collection benchmark range is approximately $7.075 billion to $7.311 billion (including revenues dedicated to the MBTA).

Accordingly, for the first half of fiscal 2002, actual tax collections were approximately $189 million less than the midpoint of the year-to-date estimated tax collection benchmark range and approximately $71 million less than the lower end of such range. Based on revenue collections through December, on January 23, 2002 the Secretary of Administration and Finance revised his fiscal 2002 tax revenue estimate downward by $189 million, to $15.405 billion, including $664 million in revenues dedicated to the MBTA.

January revenue collections totaled $1.58 billion, down $356 million or 18.4% from January 2001, $185 million below the midpoint of benchmark estimate corresponding to the fiscal 2002 tax revenue estimate of $15.405 billion. Year-to-date revenue collections were $8.585 billion, a decrease of $899 million, or 9.5%, compared with collections for the same period in fiscal 2001.

Preliminary February 2002 tax revenue collections totaled approximately $801 million, which represented a decrease of $112 million, or 12.3% from collections in February 2001. February tax collections were approximately $81 million below the midpoint of the February benchmark estimate corresponding to the current fiscal 2002 tax revenue estimate of $15.405 billion.

Fiscal 2003. On March 6, 2002, a hearing was held in order to assist the Legislature and Administration in developing a consensus revenue estimate for fiscal 2003, as required by state law. The hearing, conducted by the House and Senate Committees on Ways and Means and the Secretary of Administration and Finance, heard testimony from the Department of Revenue, the Massachusetts Taxpayers Foundation, and several Massachusetts-based economists. At that hearing the Department of Revenue presented updated tax revenue forecasts for fiscal 2002 and fiscal 2003, based on tax revenue collections through February 2002 and the most recent national and state economic forecasts the Department purchases from two private economic forecasting companies, DRI/WEFA and Economy.com. The Department estimated that fiscal 2002 tax revenues would total $14.861 to $14.900 billion, including revenues dedicated to the MBTA, and that fiscal 2003 tax revenues would total $14.958 billion to $15.246 billion, including revenues dedicated to the MBTA. These tax revenue estimates are preliminary, since recently released national and Massachusetts state employment data have not yet been incorporated into the economic forecasts. The Department expects that DRI/WEFA and Economy.com will update their economic forecasts within the next several weeks to incorporate this new information, at which time it will update its own tax revenue forecasts for fiscal 2002 and 2003.

At the same consensus revenue estimate hearing on March 6, 2002, the Massachusetts Taxpayers Foundation presented its current tax revenue forecasts for fiscal 2002 and fiscal 2003, estimating that fiscal 2002 tax revenues would total $14.921 billion and fiscal 2003 tax revenues would total $14.938 billion, including revenues dedicated to the MBTA.

On March 9, 2002 the President of the United States signed into law the "Job Creation and Worker Assistance Act of 2002." Among other provisions, the Act allows an additional first-year depreciation deduction for corporations equal to 30 percent of the cost of certain types of property purchased on or after September 11, 2001 and before September 11, 2004. Under Massachusetts law, corporations (including insurance, public utilities, and financial institutions organized as corporations) are taxed on the basis of their net income as calculated for federal taxation purposes, after depreciation allowances are deducted. Therefore, the taxable income of corporations subject to the Massachusetts corporate excise tax will be reduced in tax years 2001 through 2004 by the 30% federal depreciation deduction. However, as the total amount of allowable depreciation deductions will not change under the federal legislation, in tax years subsequent to 2004 corporate depreciation deductions will be smaller, and taxable income higher, than they would have been prior to change. The Department of Revenue is currently analyzing the revenue impact of the federal legislation, but expects that it will result in material reductions in corporate, insurance, public utility, and financial institution tax revenue collections in fiscal 2002 through fiscal 2005, and higher tax revenue collections for several years thereafter.

In the event that revenue and other authorized funds should prove insufficient to pay required expenditures, a variety of actions may be taken under the state budgetary process to address the shortfall, some of which would not require legislative authorization. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS – Overview of Budgetary Process."

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

Departmental and other non-tax revenues are derived from licenses, tuition, registrations and fees and reimbursements and assessments for services. A revenue maximization pilot project undertaken by the Comptroller and the Executive Office for Administration and Finance has yielded additional net federal reimbursement and other non-tax revenues of approximately $214.4 million in the aggregate during fiscal 1997 to fiscal 2001, inclusive.

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

For the budgeted operating funds, interfund transfers include transfers of profits from the State Lottery and Arts Lottery Funds and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for $770.2 million, $848.4 million, $870.0 million, $902.1 million and $931.6 million in fiscal 1997 through 2001, respectively, and which are expected to account for $778.1 million in fiscal 2002.

In 1994, the voters in the statewide general election approved an initiative petition, effective December 8, 1994, that would slightly increase the portion of gasoline tax revenue credited to the Highway Fund, one of the

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

Tobacco Settlement

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

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

Payments from the Tobacco Master Settlement Agreement
(in millions)

Fiscal Year	Initial Payments	Annual Payments	Total Payments	Total Spending
2000	$186.6(1)	$139.6	$326.2	$46.4
2001	78.2	162.1	240.3	91.5
2002	82.8(2)	183.9(3)	266.7	133.4(4)
Total	$347.6	$449.2	$861.5	$285.4

SOURCE: Fiscal 2000-2001, Office of the Comptroller; fiscal 2002, Executive Office for Administration and Finance.

(1) Payments received for both 1999 and 2000.
(2) As of January 16, 2002.
(3) Projected; annual payment is due in April 2002.
(4) Estimated; subject to change.

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

The amounts that might be payable, if any, by the Commonwealth for legal costs in relation to the tobacco litigation cannot be determined at this time. The outside attorneys for the Commonwealth were awarded approximately $775 million in fees to be paid over time by the tobacco companies. The outside attorneys have filed a breach of contract claim regarding the fee agreement. See "LEGAL MATTERS – Update of Existing Litigation."

During fiscal 2000, the Legislature enacted two related laws to provide for disposition of the tobacco settlement payments. The legislation created a permanent trust fund (the Health Care Security Trust) into which the Commonwealth's tobacco settlement payments (other than payments for attorneys' fees) are to be deposited. The legislation contemplated that a portion of the monies in the trust fund would be available for appropriation by the Legislature to supplement existing levels of funding for health-related services and programs, and the remainder of the monies in the trust fund would be held as a reserve fund and would not be appropriated. For fiscal 2000 through

2004, the amounts to be available for such purposes were stipulated to be $91.2 million, $94 million, $96 million, $98 million and $100 million, respectively, adjusted for the discounted amounts received by the Commonwealth in comparison to the Master Settlement Agreement. The General Appropriation Act for fiscal 2002 changed this formula to 50% of amounts received in the settlement for fiscal 2002, 2003 and 2004. Beginning with fiscal 2005, 30% of the annual payments (not including any Strategic Contribution Fund payments) and 30% of the earnings on the balance in the trust fund are to be available for such purposes. The Administration estimates that approximately $266.7 million of the settlement will be paid into the Health Care Security Trust in fiscal 2002, of which approximately $133.4 million will be made available for spending through the Tobacco Settlement Fund. The Administration also plans to spend in fiscal 2002 approximately $15.1 million from the Tobacco Settlement Fund that was retained from prior years. See "2002 FISCAL YEAR."

On March 14, 2002, the Acting Governor proposed spending 100% of the 2003 annual tobacco settlement payment in fiscal 2003. See "2003 FISCAL YEAR."

Limitations on Tax Revenues

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

Tax revenues in fiscal 1997 through fiscal 2001 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 2002 will not reach such limit. For fiscal 2001, as calculated by the State Auditor pursuant to Chapter 62F, net state tax revenues were approximately $16.8 billion and allowable state tax revenues were approximately $18.3 billion.

COMMONWEALTH PROGRAMS AND SERVICES

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

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

Expenditure Category	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001	Estimated Fiscal 2002
Direct Local Aid	$ 3,558.1	$ 3,948.9	$ 4,310.2	$ 4,675.1	$4,969.4	$5,191.7
Medicaid	3,455.5	3,665.8	3,856.4	4,269.9	4,642.3	5,259.5
Public Assistance	1,089.7	1,023.1	987.6	960.0	991.4	1,046.9
Other Health and Human Services	2,493.0	2,667.8	2,824.3	3,035.1	3,242.9	3,404.9
Debt Service	1,275.5	1,213.4	1,173.8	1,193.3	675.9	1,351.7
Pensions	1,069.2	1,069.8	990.2	986.3	1,040.1	797.0(2)
Higher Education	806.5	861.8	929.8	995.0	1,102.3	1,047.2
Other Program Expenditures	3,332.9	3,580.1	3,933.7	4,833.7	4,526.1	4,659.8
Interfund Transfers to Non-budgeted Funds	385.5	479.9	739.6	903.8	950.6	72.6
Adjusted Expenditures and Other Uses	$ 17,465.9	$ 18,510.6	$ 19,745.6	$ 21,852.8	$ 22,141.0	$22,831.3

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

(1) To facilitate comparison, the expenditures have been reduced for fiscal 1997 through fiscal 2001, inclusive, to reflect the transfer off-budget of MBTA operations that began in fiscal 2001 by subtracting the actual amount of Commonwealth payments to the MBTA in each of those fiscal years. In addition, the table does not reflect certain offsetting transfers that do not affect year-end balances. See note 1 to the table captioned "Budgeted Operating Funds -- Adjusted for MBTA Operations."

(2) Includes $134 million reduction, which was recommended by the Acting Governor in a plan to amend the pension funding schedule, but has not yet been enacted by the Legislature. See "2002 FISCAL YEAR."

Local Aid

Commonwealth Financial Support for Local Governments. The Commonwealth makes substantial payments to its cities, towns and regional school districts ("Local Aid") to mitigate the impact of local property tax limits on local programs and services. In fiscal 2002, approximately 22.8% of the Commonwealth's projected spending 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 $3.213 billion in fiscal 2002. All of the budgets in fiscal 1994 through fiscal 2002 have fully funded the requirements imposed by this legislation.

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

In addition to direct Local Aid, the Commonwealth has provided substantial indirect aid to local governments, including, for example, payments for Massachusetts Bay Transportation Authority assistance and debt service, pensions for teachers, housing subsidies and the costs of courts and district attorneys that formerly had been paid by the counties. Beginning July 1, 2000, Commonwealth support for the Massachusetts Bay Transportation

Authority took the form of dedicated tax revenues. See "FINANCIAL RESULTS - Massachusetts Bay Transportation Authority - Financial Restructuring."

Property tax limits. In November 1980, voters in the Commonwealth approved a statewide tax limitation initiative petition, commonly known as Proposition 2½, to constrain levels of property taxation and to limit the charges and fees imposed on cities and towns by certain governmental entities, including county governments. Proposition 2½ is not a provision of the state constitution and accordingly is subject to amendment or repeal by the Legislature. Proposition 2½, as amended to date, limits the property taxes that may be levied by any city or town in any fiscal year to the lesser of (i) 2.5% of the full and fair cash valuation of the real estate and personal property therein, and (ii) 2.5% over the previous year's levy limit plus any growth in the tax base from certain new construction and parcel subdivisions. Proposition 2½ also limits any increase in the charges and fees assessed by certain governmental entities, including county governments, on cities and towns to the sum of (i) 2.5% of the total charges and fees imposed in the preceding fiscal year, and (ii) any increase in charges for services customarily provided locally or services obtained by the city or town at its option. The law contains certain override provisions and, in addition, permits debt service on specific bonds and notes and expenditures for identified capital projects to be excluded from the limits by a majority vote at a general or special election. At the time Proposition 2½ was enacted, many cities and towns had property tax levels in excess of the limit and were therefore required to roll back property taxes with a concurrent loss of revenues. Between fiscal 1981 and fiscal 2001, the aggregate property tax levy grew from $3.346 billion to $7.520 billion, representing an increase of approximately 124.7%. 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 108.5%.

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 2001, 36 communities had successful override referenda which added an aggregate of approximately $20.5 million to their levy limits. In fiscal 2001, the impact of successful override referenda going back as far as fiscal 1993, was to raise the levy limits of 134 communities by approximately $97.4 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 13 communities in fiscal 2001 and totaled approximately $3.5 million. In fiscal 2001, the impact of successful debt exclusion votes going back as far as fiscal 1993, was to raise the levy limits of 272 communities by approximately $1.342 million.

Initiative Law. A statute adopted by voter initiative petition at the November 1990 statewide election regulates the distribution of Local Aid to cities and towns. As enacted in 1992 and subsequently amended, this statute requires that, subject to annual appropriation, no less than 40% of collections from personal income taxes, corporate excise taxes and lottery fund proceeds and 32% of collections from sales and use taxes be distributed to cities and towns. By its terms, the new formula would have provided for a substantial increase in direct Local Aid in fiscal 1992 and subsequent years. Nonetheless, Local Aid payments remain subject to annual appropriation by the Legislature, and the appropriations for Local Aid since the enactment of the initiative law have not met the levels set forth in the initiative law.

Medicaid

The Medicaid program provides health care to low-income children and families, low-income adults, the disabled, and the elderly. The program, which is administered by the Division of Medical Assistance (an agency within the Executive Office of Health and Human Services), receives 50% in federal reimbursement on most Medicaid expenditures. 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. Federal reimbursement is also available in the event that a state opts, with federal approval, to expand eligibility to include additional groups. In recent years, the Commonwealth has expanded its Medicaid program to provide comprehensive health and long-term care services for many families, children and elderly and disabled persons whose incomes otherwise would exceed eligibility criteria for federal public assistance.

Over a quarter of the Commonwealth's budget is slated for health care programs. In fiscal 2001, Medicaid accounted for more than half of the Commonwealth's appropriations for health care. It was the largest item in the Commonwealth's budget other than direct Local Aid and has been one of the fastest growing budget items. During fiscal 1997, 1998, 1999, 2000, and 2001 Medicaid expenditures were $3.456 billion, $3.666 billion, $3.856 billion, $4.270 billion and $4.642 billion, respectively. The average annual growth rate of Medicaid expenditures from fiscal 1997 to fiscal 2001 was 8.1%. However, during the period from 1997-2001, as a result of expansion in eligibility criteria and increasing enrollment, the number of members enrolled in Medicare grew 39%, from 687,000 to 955,000. Expenditures increased by 9.5% from fiscal 2000 to fiscal 2001. The Executive Office for Administration and Finance projects fiscal 2002 expenditures to be $5.259 billion, an increase of 13.3% over fiscal 2001. In recent years, Medicaid expenditures have consistently exceeded initial appropriation amounts. In fiscal 2001, $300 million was provided through supplemental appropriations to the Medicaid program.

Although the Division of Medical Assistance has implemented a number of savings and cost control initiatives, the large Medicaid expenditure increases experienced in recent years have been driven by increasing per capita costs, rising enrollment and increased use of health care services. From fiscal 1997 through fiscal 2001, average per capita costs have increased by 1.6% annually over the five-year period. In fiscal 2002, the average cost per Medicaid recipient is projected to increase from $5,200 in fiscal 2001 to over $5,400 in fiscal 2002. Per capita costs for seniors increased by 20.5% from fiscal 1997 to 2001, from $14,535 in 1997 to $17,515 in fiscal 2001. Per capita costs for the disabled increased by 32.6% from fiscal 1997 to 2001, from $6,580 in fiscal 1997 to $8,723 in 2001. Per capita costs for families increased by 6.9% from fiscal 1997 to 2001, from $1,891 in fiscal 1997 to $2,022 in 2001. Increasing per capita costs are attributable to the extensive reliance on community based long-term care by elderly and disabled individuals, an increase in the number of prescriptions filled and escalating costs of prescription drugs, and increasing hospital inpatient and outpatient use.

Beginning in fiscal 1998, the Medicaid program expanded eligibility criteria 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 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. The Division of Medical Assistance estimates that less than half of the fiscal 2001 Medicaid funding was for individuals whose incomes are low enough to qualify for federal cash assistance. In fiscal 1999, the state again expanded eligibility for the Medicaid program, resulting in a 5.3% increase over the average caseload from fiscal 1999 to fiscal 2000. Enrollment increased by 4.8% in fiscal 2001 to a total of 955,000 members at the end of fiscal 2001. Enrollment of seniors increased by 1.1% in fiscal 2001 to a total of 109,700 members at the end of fiscal 2001. Enrollment of disabled persons increased by 4.9% in fiscal 2001 to a total of 189,500 members at the end of fiscal 2001. Enrollment of families increased by 5.3% in fiscal 2001 to a total of 649,400 members at the end of fiscal 2001.

During the first six months of fiscal 2002, as the economy entered a recession, Medicaid enrollment growth was higher compared to fiscal 2001 enrollment growth during the same period. The number of Medicaid members increased by 3.1% during the first six months of fiscal 2002, compared to a 1.7% increase in members during the same period in fiscal 2001. Continued economic recession is expected to lead to accelerated Medicaid enrollment in fiscal 2002 and 2003.

Pharmacy assistance to seniors, a program begun in fiscal 1998, grew in fiscal 2001 by 88.6% from fiscal 2000. Pharmacy assistance constituted less than 1% of Medicaid spending in fiscal 2001. The program was transferred to the Executive Office for Elder Affairs in 2001. See "Senior Pharmacy Program."

Several factors are influencing the increasing costs of health care, including patient volume shifts, pharmacy prices and utilization, wage pressure and technological advances. In fiscal 2001, the Commonwealth spent over $170 million in rate increases to providers and supplemental financial assistance to distressed health care providers. Medicaid expenditures for nursing home care increased from $1.337 billion in fiscal 2000 to approximately $1.391 billion in fiscal 2001, and currently account for 29% of the Medicaid budget. In fiscal 2001, over 35,000 elderly and disabled citizens were cared for in nursing homes each month paid by Medicaid, at an annual cost per beneficiary of approximately $40,200. Medicaid patients account for over 70% of all nursing home patients in the Commonwealth. The Division of Medical Assistance has implemented measures to control the growth in nursing home expenditures. However, nursing home operators are seeking an additional $200 million from the Commonwealth to fully recover their costs. See "LITIGATION – Legal Matters" for more information about a legal claim brought by nursing homes seeking greater reimbursements by Medicaid.

In fiscal 2001, the Legislature mandated a study of Medicaid reimbursement rates paid to acute hospitals, non-acute hospitals and community health centers. This study concluded that the Commonwealth's reimbursement rates for acute hospitals cover approximately 70% of hospitals' costs. This finding may give support to providers' general view that Medicaid rates should be raised. Although this does not create any financial obligations, it may influence final policy decisions regarding rates in the future. The Commonwealth's reimbursement rates for most Medicaid providers are set by the Division of Health Care Finance and Policy, which establishes reimbursements based on an "efficient provider" standard, rather than establishing a cost-based reimbursement.

The federal Health Care Financing Administration (now Centers for Medicare and Medicaid Services) asserted in June 2000 that the portion of the Medicaid program funded by the Commonwealth's uncompensated care pool might violate federal regulations regarding impermissible taxes on health care providers. Since 1993, the Division of Medical Assistance has been seeking a federal waiver for the Commonwealth's assessment on acute care hospitals to fund the uncompensated care pool and believes that the assessment complies with the federal law pertaining to provider taxes. Under federal regulations, if the Commonwealth were ultimately determined to have imposed an impermissible provider tax, the federal government could seek retroactive repayment of federal Medicaid reimbursements. From 1993, when the first waiver request was submitted, through fiscal 2000, the Commonwealth received an estimated $1.068 billion in federal Medicaid reimbursements related to expenditures associated with the uncompensated care pool. The Commonwealth continues to collect approximately $37 million per fiscal quarter for each quarter following fiscal 2000. Clarification of the law surrounding permissible provider taxes is a national issue involving a number of states, and resolution could take several years. No further action has been taken by federal authorities since June 2000 in regard to this matter.

Other Health and Human Services

Other health and human services spending for fiscal 2001 included expenditures for the Department of Mental Retardation ($953.2 million), Department of Mental Health ($610.3 million), Department of Social Services ($649.4 million), Department of Public Health ($497.4 million) and other human services programs ($694.7 million).

Senior Pharmacy Program

The comprehensive senior pharmacy program, now administered at the Executive Office of Elder Affairs and called "Prescription Advantage," began in April 2001. Prescription Advantage is expected to cost approximately $80 million in fiscal 2002 and $100 million in fiscal 2003.

Public Assistance

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

Public Assistance Program Expenditures
(in millions)

Category of Public Assistance	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001	Estimated Fiscal 2002
TAFDC(1)	$ 598.8	$ 513.9	$ 450.7	$ 384.5	$ 387.1	$ 427.5
Child Care(2)	194.1	237.4	269.8	308.1	340.8	342.6
EAEDC (formerly General Relief)(3)	103.7	68.3	63.3	59.8	58.0	67.0
SSI(4)	193.1	203.5	203.8	207.6	205.5	209.8
Total(5)	$ 1,089.7	$ 1,023.1	$ 987.6	$ 960.0	$ 991.4	$ 1,046.9

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

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

TAFDC expenditures in fiscal 2002 are estimated to be $427.5 million; approximately 10.5% more than fiscal 2001. This increase is primarily due to increasing enrollment following the economic downturn. Child care expenditures for fiscal 2002 are estimated to be $342.6 million, approximately $1.8 million more than in fiscal 2001. This increase is the result of increasing expenditures on child care services for former TAFDC recipients and other low-income families.

The Commonwealth began implementing welfare reform programs in November 1995, establishing TAFDC programs to encourage work as a means to self-sufficiency and to discourage reliance on long-term assistance. The TAFDC caseload has been declining steadily since fiscal 1996, resulting in a 68% decrease through fiscal 2001. However, the TAFDC caseload has increased in the economic recession, from a low point of 42,013 enrolled in July 2001 to 45,979 in December 2001. In addition, Massachusetts limits TAFDC recipients to two years of benefits within a five-year period. Over 15,000 welfare recipients reached their limit in December 1998 and can now begin receiving benefits again if they meet eligibility requirements. The following table illustrates the trend in caseload for public assistance programs.

Public Assistance Average Caseload

Category of Public Assistance	Fiscal 1997	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001	Estimated Fiscal 2002
TAFDC(1)	79,131	68,813	57,274	46,591	42,648	45,888
EAEDC (formerly General Relief)	16,895	16,305	15,171	14,089	13,460	15,094
SSI(2)	160,924	160,700	162,470	163,356	163,584	163,566
Total	256,950	245,818	234,915	224,036	219,692	224,548

SOURCE: Department of Transitional Assistance

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

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

The EAEDC caseload has also been declining steadily since fiscal 1996, resulting in an 83.6% decrease through fiscal 2001, but the caseload has grown approximately 9.8% in the first half of fiscal 2002. The trend can be attributed to factors similar to those affecting the TAFDC caseload. Fiscal 2002 expenditures for EAEDC are estimated to be $67 million, a total of $9 million more than fiscal 2001.

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 $530 per individual recipient per month and entirely by the state above that amount. The additional state supplement ranges from $39 to $454 per month per recipient. The SSI caseload has been increasing over the past five years, due to SSI policy changes, increased advocacy efforts on behalf of disabled populations, and the growing population of aged individuals, but the rate of growth has been declining since fiscal 1994. The fiscal 2002 expenditures for SSI are estimated to be $209.8 million, a $4.5 million increase over fiscal 2001.

Federal Welfare Reform. The federal welfare reform legislation that was enacted on August 22, 1996 eliminated the federal entitlement program of AFDC and replaced it with block grant funding for Temporary Assistance for Needy Families (TANF). The TANF program replaced Title IV-A of the Social Security Act and allows states greater flexibility in designing programs that promote work and self-sufficiency. The block grant for the Commonwealth was established at $459.37 million annually for federal fiscal 1997 through fiscal 2002. The Commonwealth must meet federal maintenance of effort (MOE) requirements in order to be eligible for the full TANF grant award. The Commonwealth successfully met the MOE requirement in federal fiscal 1997, 1998, 1999, 2000 and 2001. Massachusetts may experience a reduction in federal assistance after the expiration of the block grant in 2002, as the annual block grant from 1997-2002 was based on caseload levels in 1992-1994 , which were double current caseloads. The Commonwealth will also receive approximately $116 million in child care block grant funds in fiscal 2002 to support child care programs. The Commonwealth also has $156 million reserved in the caseload mitigation fund.

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

The Benefit Eligibility and Control On-Line Network (BEACON) is an integrated recipient eligibility system that automates the public assistance programs administered statewide by the Department of Transitional Assistance. This system ended outdated intake processes and has enabled the Commonwealth more accurately to determine eligibility, provide appropriate services and track recipients through a consolidated process. The system became operational statewide on August 9, 2001.

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

Debt Service

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

Commonwealth Pension Obligations

The Commonwealth is responsible for the payment of pension benefits for Commonwealth employees (members of the state employees' retirement system) and for teachers of the cities, towns and regional school districts throughout the state (including members of the teachers' retirement system and 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. 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. However, in 1997 legislation was enacted removing from the Commonwealth the cost of future cost-of-living adjustments for these local retirement systems and providing that local retirement systems fund future cost-of-living adjustments. Pension benefits for state employees are administered by the State Board of Retirement, and pension benefits for teachers are administered by the Teachers' Retirement Board. Investment of the assets of the state employees' and teachers' retirement systems is managed by the Pension Reserves Investment Management Board. In the case of all other retirement systems, the retirement board for the system administers pension benefits and manages investment of assets. The members of these state and local retirement systems do not participate in the federal Social Security System.

Legislation approved in 1997 provides, subject to legislative approval, for annual increases in cost-of-living allowances (equal to the lesser of 3% or the previous year's percentage increase in the United States Consumer Price Index on the first $12,000 of benefits) for members of the state employees' and teachers' retirement systems, to be funded by the investment income of the systems. The Commonwealth pension funding schedule (discussed below) assumes that annual increases of 3% 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.

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. Legislation enacted in fiscal 2000 establishing an alternative superannuation retirement benefit program for members of the teachers' retirement system and teachers of the State-Boston retirement system mandates that active members who opt for the alternative program and all teachers hired on or after July 1, 2001 contribute 11% of regular compensation. Members who elect to participate are required to make a minimum of five years of retirement contributions at the 11% rate. Approximately 45,000 active teachers joined the enhanced benefit program and will retire under the terms of the program over the next thirty years.

Unfunded Actuarial Accrued Liability. The systems were originally established as "pay-as-you-go" systems, meaning that amounts were appropriated each year to pay current benefits, and no provision was made to fund currently the future liabilities already incurred. In fiscal 1978 the Commonwealth began to address the unfunded liabilities of the two state systems by making appropriations to pension reserves. Prior to the establishment of the pension funding program described below, the Commonwealth appropriated approximately $680 million to the pension reserves during the mid-1980's, in addition to the pay-as-you-go pension costs during those years. Comprehensive pension funding legislation approved in January 1988 required the Commonwealth to fund future pension liabilities currently and to amortize the Commonwealth's accumulated unfunded liability to zero by June 30, 2028. The legislation was revised in July 1997 to require the amortization of such liabilities by June 30, 2018.

The legislation requires the Secretary of Administration and Finance to prepare a funding schedule that provides for both 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 the amortization by June 30, 2018, of the unfunded actuarial liability of the Commonwealth for its pension obligations. The funding schedule is required to be updated periodically 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 approval. 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.

An actuarial valuation dated January 1, 2000 was released by the Public Employees Retirement Administration Commission (PERAC) on September 15, 2000. According to this valuation the total actuarial accrued liability was approximately $32.742 billion (comprised of $14.137 billion for state employees, $16.420 billion for state teachers, $1.381 billion for Boston teachers and $803 million for cost-of-living increases granted for local systems prior to July 1997). Assets were valued at a total of approximately $27.905 billion (comprised of $13.364 billion for state employees, $13.681 billion for state teachers, $860 million for Boston teachers and nil for cost-of-living increases). The total unfunded actuarial accrued liability per this valuation was approximately $4.837 billion (comprised of $773.4 million for state employees, $2.739 billion for state teachers, $521 million for Boston teachers and $803 million for cost-of-living increases). As used herein, "actuarial accrued liability" is the estimated present value of all benefits to be paid to existing pensioners and current employees less the present value of the future normal costs associated with such employees. The "unfunded" liability is the amount by which the actuarial accrued liability exceeded accumulated assets set aside therefor and represents the present value of the amount that would have to be contributed in the future in addition to normal costs in order for the liability to be fully funded. The actuarial assumptions used in the valuation study included future investment earnings of 8.25% per year, annual salary increases of 6% and annual cost-of-living increases for pensioners of 3% on the first $12,000 of benefits. The actuarial value of assets was determined by continuing the phase-in of the use of a five year average value rather than current market value, a process that had begun with the January 1, 1998 valuation study released on October 26, 1998; and assets were valued at 91% of market value.

In October and November 2000 PERAC released two six-year experience studies which were based on reviews of the state employees and teachers retirement systems for calendar years 1995 through 1999. These studies recommended changes in assumptions, including retirement rates, disability rates, withdrawal rates, salary increases and mortality. The net effect of these recommendations was to increase the estimate of the Commonwealth's total actuarial accrued liability as of January 1, 2000 for the state employees' and teachers' retirement systems by approximately $740 million to approximately $33.482 billion (comprised of $14.171 billion for state employees, $17.044 billion for state teachers, $1.440 billion for Boston teachers and $827 million for cost-of-living increases).

On the basis of the January 1, 2000 valuation and the experience studies, the Secretary of Administration and Finance developed two new alternative estimates of unfunded actuarial accrued liability. Both estimates used the $33.482 billion estimate of total actuarial accrued liability developed by the experience studies, but they differed with respect to their assumptions of asset valuation. One valued assets at the same $27.905 billion utilized in the January 1, 2000 valuation study, reflecting a valuation of 91% of market value. It estimated total unfunded actuarial accrued liability at approximately $5.577 billion (comprised of $807 million for state employees, $3.363 billion for state teachers, $580 million for Boston teachers and $827 for cost-of-living increases). The other, utilizing a valuation of 89% of market value and thus valuing assets at approximately $27.292 billion, estimated total unfunded actuarial accrued liability to be approximately $6.190 billion (comprised of $1.100 billion of state employees, $3.664 for state teachers, $599 million for Boston teachers and $827 million for cost-of-living increases).

On March 1, 2001, the Secretary of Administration and Finance filed three alternative funding schedules with the Legislature, two of which were based on the foregoing alternative calculations of unfunded actuarial accrued liability. In addition, the funding schedules also assumed additional annual costs of $50 million estimated to be attributable to 2000 legislation that enhanced certain retirement benefits for teachers. (On December 12, 2001, PERAC subsequently reported a preliminary estimate of the impact of the teacher retirement legislation in fiscal 2001 to be $57.1 million.) On March 7, 2001, the House Committee on Ways and Means approved the proposed funding schedule that had been based on the valuation of 89% of market value, and which reflected total estimated unfunded actuarial accrued liability of approximately$6.190 billion. That schedule is as follows:

March 2001 House Ways and Means
Funding Schedule for Pension Obligations
(in thousands)

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

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

The fiscal 2002 General Appropriation Act passed by the Legislature in November 2001 did not appropriate the amount provided in the funding schedule approved by the House Committee on Ways and Means on March 7, 2001 but instead appropriated for pension funding the amount of $912.4 million. In connection with the adoption of the fiscal 2002 budget, the House Ways and Means Committee also prescribed new pension funding amounts for fiscal 2003 and 2004 of, respectively, $926.1 million and $940.5 million. These revised amounts match the funding amounts scheduled for fiscal 2002 through 2004 in the alternative schedule submitted in March 2001 by the Secretary of Administration and Finance, as described above, which had utilized an asset valuation of 91% of market value and reflected total estimated unfunded actuarial accrued liability of $5.577 billion. It is as follows:

Alternative Funding Schedule for Pension Obligations
Reflected in General Appropriation Act
As Passed in November 2001
(in thousands)

Fiscal Year	Payments	Fiscal Year	Payments
2002	$ 912,373	2011	$1,063,585
2003	926,087	2012	1,084,859
2004	940,486	2013	1,107,196
2005	955,605	2014	1,130,651
2006	971,480	2015	1,155,278
2007	988,148	2016	1,181,137
2008	1,005,651	2017	1,208,288
2009	1,024,028	2018	1,236,798
2010	1,043,324		

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

PERAC has prepared a new actuarial valuation of the total pension obligation dated January 1, 2001, which was released September 19, 2001. The unfunded actuarial accrued liability as of that date for the total obligation was approximately $6.374 billion, including unfunded actuarial accrued liabilities of $1.248 billion for the State Employees' Retirement System, $3.779 billion for the State Teachers' Retirement System, $583 million for Boston Teachers and $764 million for cost-of-living increases. The valuation study estimated the total actuarial accrued liability as of January 1, 2001 to be approximately $35.605 billion (comprised of $15.169 billion for state employees, $18.170 billion for state teachers, $1.502 billion for Boston teachers and $764 million for cost-of-living increases). Total assets were valued at approximately $29.230 billion, which reflected full phase-in of the five-year average valuation method and equaled 96.6% of market value.

The Acting Governor's fiscal 2003 budget proposal filed on January 23, 2002, recommended funding the Commonwealth's pension obligations in accordance with a schedule that incorporates the January 1, 2001 actuarial valuation and would extend amortization of the unfunded pension liability from June 30, 2018 to June 30, 2028. On March 1, 2002 the Secretary of Administration and Finance submitted to the Legislature a new funding schedule reflecting this proposal and reflecting the increased unfunded liability reported in the PERAC valuation released in September 2001. Pursuant to this schedule the pension funding appropriation for fiscal 2002 would be reduced to

$778.4 million (as proposed by the Acting Governor in legislation filed in February 2002) and the pension funding appropriation for fiscal 2003 would be $796.1 million.

The Early Retirement Incentive Program (ERIP) enacted in December 2001 provides enhanced pension benefits to qualified employees. Approximately 4,300 employees have opted for the program, of whom approximately one-third are employed in the higher education system and will retire on June 15. The balance of the ERIP employees will retire on March 15. Since applicants may rescind their applications through the date of their proposed retirement, the impact of ERIP on the unfunded liability cannot be determined until after June 15 when all retirements will have occurred. The legislation authorizing ERIP directs PERAC to file a report on the additional actuarial liabilities attributed to ERIP by November 30, 2002. See "STATE WORKFORCE" for details of the ERIP program.

Higher Education

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

Other Program Expenditures

The remaining $4.660 billion in estimated expenditures on other programs and services for fiscal 2002 covers a wide variety of functions of state government, including expenditures for the Judiciary ($590 million), District Attorneys ($79.8 million) and the Attorney General ($35.7 million) and for the Executive Offices for Administration and Finance ($580.2 million), Environmental Affairs ($227.7 million), Transportation and Construction ($108.0 million), Public Safety ($877.8 million), Elder Affairs ($175.8 million), the Department of Housing and Community Development ($118.2 million), and Group Insurance ($704.5 million).

STATE WORKFORCE

The following table sets forth information regarding the Commonwealth's workforce as of the end of fiscal 1997 through fiscal 2001 and as of the end of calendar year 2001.

Budget-Funded Workforce (1)

	June 1997	June 1998	June 1999	June 2000	June 2000	December 2001
Executive Office	83	80	93	89	88	75
Office of the Comptroller	107	113	110	106	109	110
Executive Departments						
Administration and Finance	3,145	3,080	3,153	3,225	3,180	3,310
Environmental Affairs	2,441	2,442	2,484	2,583	2,555	2,520
Housing and Community Development	104	118	113	111	117	119
Health and Human Services	22,918	23,125	23,164	23,483	23,157	23,533
Transportation and Construction	1,234	1,262	1,303	1,284	1,254	1,039
Board of Library Commissioners	17	20	17	20	20	19
Labor and Workforce Development	402	379	392	386	379	384
Economic Development	96	100	92	92	86	91
Consumer Affairs and Business Regulation	664	666	706	682	675	712
Department of Education	198	220	272	270	272	290
Board of Higher Education	13,813	14,184	14,840	15,251	15,481	15,738
Public Safety	8,885	9,115	9,520	9,409	9,686	9,760
Elder Affairs	33	35	36	38	41	50
Subtotal under Governor's authority	54,140	54,939	56,295	57,029	57,059	57,749
Judiciary	6,711	7,309	7,829	8,013	7,944	8,137
Other (2) (3)	3,994	4,766	6,403	7,171	7,418	7,499
Total	64,845	67,014	70,527	72,213	72,462	73,385

SOURCE: Executive Office for Administration and Finance

(1) Excludes employees whose positions are established in accounts funded by capital projects funds, direct federal grants, expendable trusts and other non-appropriated funds, as well as seasonal help, members of boards and commissions, and staff of independent authorities. Numbers represent full-time equivalent positions (FTEs), not individual employees. Total may not add due to rounding.
(2) Other includes staff of the Legislature and Executive Council, the office of the State Treasurer, Secretary, Auditor, and Attorney General, the eleven District Attorneys, and other agencies independent from the Governor; it excludes elected members of the Legislature and Executive Council.
(3) Starting in 1998, this includes the offices of several former county sheriffs which have become state agencies. FTE's from former county sheriffs offices totaled 1,986 in 1998, 2,743 in 1999 and 3,011 in 2000.

Employee Retirement Incentive Plan

As a means of reducing payroll costs in fiscal 2002 and 2003, Acting Governor Swift filed a bill on November 19, 2001 to establish an Early Retirement Incentive Program (ERIP) to offer an enhanced pension benefit to retirement-eligible employees. On December 21, 2001 the Legislature adopted ERIP with some minor adjustments, which became Chapters 218 and 219 of the Acts of 2001. Both acts allow employees who select the benefit to add at total of five years to either their age or years of service in calculating their pension benefit. Massachusetts pensioners receive a percentage of their highest consecutive 36-month earning period, with a maximum of 80%. The additional benefit provides an annual increase of 7.5% to 20%. In exchange for the benefit, individuals agree to retire on a specific date, and receive payment for 100% of accrued vacation time and 20% of accrued sick time in three equal payments on July 1 in 2002, 2003 and 2004.

Chapter 218 applies to employees of the Judiciary, classified in retirement Groups 1 and 2 (all employees but judges), and Legislative court officers (Group 2). The application period extended from January 2 to January 23, 2002, with a retirement date of February 1, 2002. Chapter 219 applies to non-Judicial employees, funded from the operating budget, and classified in Group 1. The application period extended from January 1 to February 15, 2002 with a retirement date of March 15, 2002, except for most employees of higher education whose retirement date is June 15, 2002, in recognition of the need to complete the academic year.

As of March 4, 2002, 4,278 full-time equivalent employees have applied for ERIP; 359 on February 1; 2,504 on March 15; and 1,416 on June 15; for a total estimated salary savings of $46 million in fiscal 2002, annualizing to $225 million in fiscal 2003. Employees have until their retirement date to rescind their applications, so final savings will not be known until June 16. Savings must also be adjusted to account for hiring to replace critical positions at state agencies. Chapters 218 and 219 provide a 20% salary backfill ceiling through June 30, 2004, for executive branch agencies, the trial courts, state and community colleges, and the University of Massachusetts. It is still too early to accurately project backfill costs.

House bill 4914 has been engrossed in the House and is pending in the Senate. The current version of the bill would amend Chapter 218 to address an issue relating to the calculation of the pension benefit level of Group 2 employees and to extend the application period to March 15, 2002, with a March 29, 2002 retirement date. It would also amend Chapter 219 to make employees funded from capital, federal or trust accounts eligible for ERIP, with a March 15 application deadline and May 30, 2002 retirement date.

Union Organization and Labor Negotiations

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

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

Approximately 43,128 executive branch full-time-equivalent state employees are organized in twelve bargaining units, the employees of the Commonwealth's colleges and universities are organized in 30 bargaining units, and the employees of the judicial branch and the Lottery Commission are organized in six bargaining units. Public employees of the Commonwealth do not have a legal right to strike or otherwise withhold services.

Negotiations with the Massachusetts Organization of State Engineers and Scientists (MOSES), to replace the current contract which expires December 31, 2002, will begin in the Spring of 2002.

In Spring 2002, negotiations will begin with the Alliance – Unit 2 (the American Federation of State, County and Municipal Employees and the Service Employees International Union), to replace their current contract which expires December 31, 2002.

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

In December 1999, the Commonwealth reached an agreement with the State Police Association of Massachusetts (SPAM), representing Unit 5A, for a three-year contract beginning January 1, 2000 and ending December 31, 2002. A contract amendment, signed in July 2001, extends the contract through December 31, 2003. The agreements call for salary increases of 2% effective January 2, 2000, 2% effective January 7, 2001, 2% effective January 6, 2002, and 2% effective January 12, 2003. Employees are also eligible for a 1% increase for completion of the Department's Physical Fitness Program; a 1% increase for completion of the Department's Firearms Qualification Program; and a 1% increase for completion of the Department's Cruiser Safety Program during each year of the contracts. The total estimated cost of the agreements is $59.2 million.

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

In June 2001, the Commonwealth reached an agreement with the Alliance (Service Employees International Union), representing employees in Units 8 and 10, for a three-year contract commencing July 1, 2001 and ending June 30, 2004. The agreement provides a 2.8% increase effective July 1, 2001, a 3% increase effective July 14, 2002, and a 3% increase effective July 13, 2003. In order to modernize the commonwealth's classification system, and ensure ADA compliance in job specifications, a new job classification system was implemented. 117 job titles were collapsed into 73, and many were upgraded. If an employee's title was not upgraded, he/she is eligible for a 5% bonus in each year of the contract. The total estimated cost of the agreement is $189.4 million.

In October 2000, the Commonwealth reached an agreement with the Massachusetts Correction Officers Federated Union (MCOFU), representing employees in Unit 4, for a three-year contract beginning January 1, 2001, and ending December 31, 2003. The agreement provides for salary increases of 2.5% effective January 1, 2001, 2.5% effective January 1, 2002 and 2.5% effective January 1, 2003. Employees are also eligible for a 1.5% increase for completion of all of the Department's In-Service Training; and a 1% increase for Hazardous Duty Pay for each year of the contract. The total estimated cost of this agreement is $85.6 million.

In June 2001, the Commonwealth reached an agreement with the Coalition of Public Safety (COPS), representing employees in Unit 5, for a three-year contract commencing July 1, 2001 and ending June 30, 2004. The agreement provides for a 3% increase effective July 1, 2001; a 2.5% increase effective July 14, 2002; and a 3% increase effective July 13, 2003. In order to modernize the commonwealth's classification system, and ensure ADA compliance in job specifications, 12 job titles were collapsed into 9, and some were upgraded effective January 13, 2002. Employees are also eligible for a 1% increase for completion of Law Enforcement Training in each year of the contract, and a new 1.5% step effective July 14, 2002. The total estimated cost of the agreement is $7.0 million.

Negotiations with the International Brotherhood of Correctional Officers/National Association of Government Employees, to replace the current contract which expires December 31, 2002, will begin in Spring 2002.

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)(2)

Contract Unit	Bargaining Union	Type of Employee	FTEs	Expiration Dates
1	National Association of Government Employees	Clerical	4,165	6/30/03
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Institutional services	10,284	12/31/02
3	National Association of Government Employees	Skilled trades	702	6/30/03
4	Massachusetts Correction Officers Federated Union	Corrections	4,272	12/31/03
4A	Corrections Captains	Corrections	75	12/31/02
5	Coalition of Public Safety	Law enforcement	293	6/30/04
5A	State Police Association of Massachusetts	State Police	1,828	12/31/03
6	National Association of Government Employees	Administrative professionals	8,374	6/30/03
7	Massachusetts Nurses Association	Health professionals	1,966	6/30/03
8	Alliance/Service Employees International Union	Social workers	7,620	6/30/04
9	Massachusetts Organization of Engineers and Scientists	Engineers/scientists	2,916	12/31/02
10	Alliance/Service Employees International Union	Secondary education	633	6/30/04
	Total		43,128	

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.
(2) Numbers represent full-time equivalent filled positions (FTEs) in the standard workforce as of December 29, 2001, whose positions are established in accounts funded by all sources (the annual operating budget, capital projects funds, direct federal grants, and expendable trusts and other non-appropriated funds).

COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES

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

Capital Spending Plan

Since fiscal 1992 the Executive Office for Administration and Finance has maintained a five-year capital spending plan, including an annual administrative limit on the amount of capital spending to be financed by bonds issued by the state. In fiscal 1992 the annual limit was set at approximately $825 million. During fiscal 1995 the limit was raised to approximately $900 million, during fiscal 1998 to approximately $l.0 billion and to $1.2 billion for fiscal 2002. Actual bond-financed capital expenditures during fiscal 1997, 1998, 1999, 2000 and 2001 were approximately $955 billion, $1.0 billion, $1.0 billion, $999 million and $1.0 billion, respectively. The fiscal 1999 figure does not include approximately $26 million of bond-funded expenditures not counted against the annual limit because of their relationship to a debt defeasance transaction. See "Cash Defeasance Transactions." The current plan is included in the table below and contains current estimates of capital spending of the Commonwealth as well as the estimated sources of funding for such capital spending, including federal aid, for fiscal 2002 through fiscal 2006. Capital spending for fiscal 2002 through fiscal 2006 to be financed from general obligation bonds issued by the state is forecast at $6 billion, which is significantly below legislatively authorized capital spending levels. The five-year capital plan contemplates that the estimated level of Commonwealth capital spending will leverage approximately $2.287 billion in federal highway funding.

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

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

The following table sets forth Commonwealth capital spending for fiscal 1997 through 2001 and the Commonwealth's five-year capital plan for fiscal 2002 through 2006. Historical spending is presented in a manner consistent with the five-year plan. In light of the continued economic downturn, the Administration has further increased the annual cap by $50 million for the purpose of stimulating economic recovery. This $50 million increase brings the annual cap to $1.2 billion.

Prior to the enactment in November 1999 of legislation restructuring the finances of the Massachusetts Bay Transportation Authority, the Commonwealth's capital plan also incorporated the MBTA's capital plan because of the Commonwealth's responsibility for paying debt service on the MBTA's bonds. Since July 1, 2000 Commonwealth support for the MBTA has been limited to a portion of the state sales tax, although the Commonwealth remains contingently liable for MBTA bonds issued prior to July 1, 2000. See "FINANCIAL RESULTS - Massachusetts Bay Transportation Authority - Financial Restructuring."

Commonwealth Historical and Proposed Capital Spending

(in millions)(1)

USES:	1997	1998	1999	2000	2001	Est. 2002	Est. 2003	Est. 2004	Est. 2005	Est. 2006
Information technology	$ 56	$ 86	$ 111	$ 68	$ 64	$ 85	$ 91	$ 115	$ 105	$ 105
Infrastructure	222	237	224	197	179	232	238	245	232	232
Environment	104	141	132	142	140	132	130	124	125	125
Housing	62	80	82	80	79	102	102	101	101	101
Public Safety	21	16	12	15	23	9	9	9	9	9
Transportation(2)	1,675	1,969	2,029	2,006	2,014	2,053	1,948	1,847	1,087	871
Economic development(3)	89	119	98	98	246	222	299	159	67	64
Reserve(4)	--	--	--	--	--	141	50	66	79	79
Total Uses	$ 2,230	$ 2,648	$2,687	$2,606	$2,745	$2,977	$2,867	$2,666	$1,805	$1,586
SOURCES:										
Long-Term Debt										
GO Debt Subject to Statutory Limit	$ 1,055(6)	$ 1,000(7)	$1,000(8)	$1,000	$1,007	$1,200	$1,200	$1,200	$1,200	$1,200
GO Debt Not Subject to Statutory Limit	--	--	26	133	482	630	606	2	--	--
Special Obligation Debt	--	--	--	--	176	165	235	94	3	--
Grant Anticipation Notes	--	295	412	408	353	33	--	--	--	--
Operating Revenues(5)(9)	80	159	252	96	161	97	166	669	189	88
Third-Party Payments	60	405	412	481	106	239	111	86	119	81
Federal Reimbursements	1,036	788	586	487	460	613	549	615	293	217
Total Sources	$2,230	$2,648	$2,687	$2,606	$2,745	$2,977	$2,867	$2,666	$1,805	$1,586

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

(1) Totals may not add due to rounding.
(2) Includes Central Artery/Ted Williams Tunnel project spending of $971 million, $1.428 billion, $1.515 billion, $1.464 billion and $1.303 billion in fiscal 1997 through fiscal 2001, respectively. Central Artery/Ted Williams Tunnel project estimated spending from fiscal 2002-2006 is $1.291 billion, $1.190 billion, $1.032 billion, $425 million and $157 million, respectively.
(3) Includes amounts formerly labeled "Wastewater Treatment." For fiscal 2001 through fiscal 2005, also includes approximately $629 million for convention centers in Boston, Worcester and Springfield that are expected to be funded permanently by special obligation bonds.
(4) Reserve for unanticipated capital spending needs within a given fiscal year, to be allocated among the listed categories. Fiscal 2002 includes $91 million in pay-as-you-go funds.
(5) Estimates for fiscal 2002 through 2006, inclusive, include funds on deposit and certain dedicated fees and earnings.
(6) Includes $100 million in spending that was anticipated to be funded by payments from the Turnpike Authority; such payment was received June 28, 1998.
(7) Includes $19 million for the Worcester Convention Center expected to be funded permanently by special obligation bonds. See footnote 3.
(8) Includes $11 million for convention center payments expected to be funded permanently by special obligation bonds. See footnote 3.
(9) Transfers of $45 million in tax revenue are scheduled to go to the Capital Needs Investment Trust annually through fiscal 2005. This pay as you go money is not included in the above chart, but includes annual payments of $20 million to the Affordable Housing Trust, $11 million for information technology improvements and projects at the Department of Education, and $14 million for deferred maintenance at state facilities. In the Acting Governor's fiscal 2003 budget recommendation, she has proposed to eliminate the Capital Needs Investment Trust and move the majority of the projects to agencies' capital accounts.

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 (the "CA/T Project"), a major construction project that is part of the completion of the federal interstate highway system. The project involves the depression of a portion of Interstate 93 in downtown Boston (the Central Artery), which is now an elevated highway, and the construction of a new tunnel under Boston harbor (the Ted Williams Tunnel) to link the Boston terminus of the Massachusetts turnpike (Interstate 90) to Logan International Airport and points north.

The total cost of the CA/T Project was estimated to be $14.475 billion in the finance plan most recently submitted by the Commonwealth to federal oversight authorities. On March 8, 2002, the Massachusetts Turnpike Authority (the "Turnpike Authority") announced that the cost estimate is expected to be increased to up to $14.625 billion as a result of accounting changes required by federal oversight authorities. The $150 million net increase in estimated CA/T Project cost is offset by increased revenues that were also identified in the accounting change and by utilization of $12 million from the contingency account. See "October 2001 Finance Plan" below. As a result, the accounting change will not require the identification of additional money, revenues or resources. As of December 31, 2001, construction was 76.4% complete and was scheduled to be completed by December 31, 2004. The scheduled completion date currently is estimated to be extended to February 2005. See "Recent Developments" below.

The magnitude of the CA/T Project has resulted in the realignment of certain transportation assets in the Commonwealth and the development of additional financing mechanisms to support its completion, including payments from the Turnpike Authority and the Massachusetts Port Authority (the "Port Authority") and state borrowings in anticipation of future federal highway reimbursements. The legislation authorizing the CA/T Project contemplates that the completed project will be owned and operated by the Turnpike Authority as part of the Metropolitan Highway System, which was established in conjunction with the project.

Federal Oversight. Increased federal oversight of the CA/T Project occurred in early 2000 following the February 1, 2000 announcement by project officials of substantially increased project cost estimates. A special task force of federal officials reported to the U. S. Secretary of Transportation on March 31, 2000 that senior management of the project had deliberately withheld information about cost overruns from the Federal Highway Administration and recommended a change in project leadership. The report was released on April 11, 2000, and upon receipt of the report, Governor Cellucci requested and received the resignation of the chairman of the Turnpike Authority and appointed a new chairman. By letter dated June 15, 2000, the Federal Highway Administration informed the Turnpike Authority that it had been designated a "high-risk grantee" with respect to activities related to the project and that such designation would remain in effect until the project's completion. According to the letter, the designation means that more detailed financial reports and additional project monitoring will be required on the project. On June 22, 2000, the Federal Highway Administration, the Executive Office of Transportation and Construction, the Turnpike Authority and the Massachusetts Highway Department signed a project partnership agreement setting out certain federal reporting and monitoring requirements for the project and stipulating that federal funding for the project will not exceed $8.549 billion, including $1.5 billion to pay the principal of federal grant anticipation notes.

On October 23, 2000 the President of the United States approved legislation providing that the U. S. Secretary of Transportation is to withhold obligation of federal funds and all project approvals for the CA/T Project in each federal fiscal year unless the Secretary has approved the annual update of the project finance plan for that year and has determined that the Commonwealth is in full compliance with the June 22, 2000 project partnership agreement described above and is maintaining a balanced statewide transportation program, including spending at least $400 million each state fiscal year for construction activities and transportation projects other than the CA/T Project. (For fiscal 2002, such spending as of January 31, 2002 is approximately $222 million.) In addition, the legislation limits total federal funding to $8.549 billion, consistent with the project partnership agreement. Finally, the legislation ties future federal funding for the project to an annual finding by the Inspector General of the U. S. Department of Transportation that the annual update of the project finance plan is consistent with Federal Highway Administration financial plan guidance. (This finding was made on November 29, 2000 with respect to the October 2000 finance plan, but has not yet been made with respect to the October 2001 finance plan, as discussed below.) Should any federal assistance be withheld from the project pursuant to such legislation, such funding would nonetheless be available to the Commonwealth for projects other than the CA/T Project. Moreover, the legislation provides that federal funds will not be withheld if the Secretary of Administration and Finance certifies that such funds are required to pay all or any portion of the principal of federal grant anticipation notes issued for the CA/T Project.

Infrastructure Fund. The Central Artery and Statewide Road and Bridge Infrastructure Fund (the "Infrastructure Fund") was created by legislation in May 2000 to fund additional costs of the CA/T Project that had been announced in February 2000 and to fund the statewide road and bridge program to the extent of at least $100 million per year for fiscal 2001 through fiscal 2005. Including the $2.168 billion expected to be available for the CA/T Project, expenditures from the Infrastructure Fund are expected to total $2.668 billion through fiscal 2005. These amounts are expected to be provided by the issuance of Commonwealth bonds in the amount of $1.350 billion, the debt service on which is to be paid by motor vehicle license and registration fees dedicated to the fund, $231 million from license and registration fees not needed for debt service, $664 million from avoided debt service related to debt defeasance transactions (described in "General Obligation Debt – *Cash Defeasance Transactions*"), $200 million from the Turnpike Authority, $65 million from the Port Authority and $159 million from interest earnings through fiscal 2005 on balances in the fund itself. Of these amounts, $1 billion in Commonwealth bonds have already been issued and the payments from the Turnpike Authority and Port Authority have been made. In the October 2001 finance plan (described below) the Turnpike Authority proposed additional funding for the Infrastructure Fund to finance certain additional costs of the CA/T Project identified in that finance plan.

October 2001 Finance Plan. On August 31, 2001 the Turnpike Authority filed with the Federal Highway Administration a revised finance plan for the CA/T Project. The plan is dated October 1, 2001. It is based on a data cutoff as of March 31, 2001 and progress information as of June 30, 2001. The plan reflects the results of the Turnpike Authority's annual comprehensive budget review of the project. In the October 2001 finance plan the Turnpike Authority's total budget cost and contingent estimate for the project is increased from the $14.075 billion estimated in the October 2000 finance plan to $14.475 billion, principally to reflect additional anticipated construction costs and additional contingency. The October 2001 finance plan proposes that the $400 million of additional funding needed to meet the new cost estimate be provided by $175 million of interest earnings and available borrowings in the Infrastructure Fund that exceed prior estimates, $157 million of Commonwealth general obligation bond proceeds made available principally by providing alternative sources for capital spending on non-project roads and bridges, and $68 million from the sale of real estate owned by the Turnpike Authority. Legislative action would be required to access the Infrastructure Fund, and legislation is currently pending that would authorize $150 million of borrowing from the Infrastructure Fund.

The October 2001 finance plan is subject to review and approval by the U.S. Secretary of Transportation. This approval has not yet been obtained, as discussed in the following paragraph. Unless and until it is obtained, the Department of Transportation is withholding future obligation of federal funds for the CA/T Project. While the Turnpike Authority cannot predict with certainty the timing or effect of finance plan approval or non-approval, given the availability of proceeds of prior obligations of federal funds and other sources, such as the Infrastructure Fund, the pendency of federal approval of the October 2001 finance plan currently is not expected to have a substantial impact on project cash flow, assuming that obligation authority is reinstated before the end of the current federal fiscal year, September 30, 2002. However, because federal funds are being withheld pending the approval of the finance plan, the CA/T Project will forego interest earnings on the Infrastructure Fund that would otherwise have become available in the future to the extent that the project's cash needs are being satisfied by spending from the Infrastructure Fund as a substitute for the withheld federal funds. Moreover, if federal approval is not received prior to the Commonwealth's current fiscal year end, June 30, 2002, reallocation of certain expenditures to funding sources differing from those identified in the finance plan may be required.

On the basis of discussions with the federal oversight authorities and a report on the October 2001 finance plan issued on March 11, 2002 by the Office of Inspector General of the federal Department of Transportation, the Turnpike Authority expects that the Federal Highway Administration will be prepared to approve the October 2001 finance plan if certain adjustments are made and if the Massachusetts Legislature authorizes the $150 million of borrowing for the Infrastructure Fund referred to above. The adjustments would require, among other things, that certain project expenditures in the aggregate amount of $162 million which had been netted against dedicated revenues be identified on a gross basis and included in total project costs estimated by the Turnpike Authority.

Approximately $12 million of this amount will be funded from the contingency account and will result in an estimated net increase in costs of $150 million. These accounting adjustments, taking into account the utilization of $12 million from the project contingency account, would result in an increase in the total CA/T Project cost estimate from $14.475 billion to $14.625 billion. No additional funding will be required, however, as the dedicated revenues will remain available to the project. In addition, the federal authorities will require that approximately $76 million of interest earnings on the Owner-Controlled Insurance Program (OCIP) trust funds maintained on behalf of the CA/T Project be attributed to the limit on federal contributions to the CA/T Project. This change will necessitate a reallocation by the Commonwealth of federal highway program funds, but will not increase the total cost of the project or alter the cash flow of project funding prior to substantial completion. Final approval of the October 2001 finance plan by the Federal Highway Administration will depend on legislation authorizing additional borrowing from the Infrastructure Fund, referenced above; and it is expected that such authorization will be forthcoming once the adjustments to the October 2001 finance plan requested by federal authorities have been documented.

Recent Developments. Tax receipts flowing into the federal highway trust fund, which are the source of federal funding for highway projects throughout the nation, are expected to drop in federal fiscal 2003, thereby reducing available federal funding for transportation projects. It is uncertain what the magnitude of this anticipated decrease in the level of federal highway aid to states will have on funding for projects in Massachusetts, including the CA/T Project.

Commencing September 22, 2001, an infiltration of seawater into an excavation area on the west shore of Fort Point Channel caused a delay of the completion of the affected segment of the I-90 (east-west) portion of the CA/T Project. Remedial efforts succeeded in blocking the infiltration in November 2001. Analysis of this development has identified an estimated 63-day extension to the I-90 schedule, extending the I-90 opening to November 2002 (with the delay possibly extending to December 2002) and project completion to February 2005 (with the delay possibly extending to March 2005). It is estimated that the total cost impact of the schedule delay to all affected project construction, design and management consultant contracts is approximately $41 million, which has been budgeted for within the project's contingency accounts. This analysis is not complete and the final impact of the infiltration on construction schedule and costs has yet to be determined.

The October 2001 finance plan includes in the funding sources for the CA/T Project a total of $365 million from the Port Authority (inclusive of the $65 million payment to the Infrastructure Fund described above), representing the purchase price to be paid by the Port Authority to the Commonwealth in exchange for the transfer to the Port Authority of certain roadway assets at Boston-Logan International Airport constructed or improved as part of the project. Approximately $160 million of the amount has already been paid by the Port Authority. The remaining amount of approximately $205 million is scheduled to be paid in one installment of approximately $105 million on December 31, 2002 and two installments of $50 million each on December 31, 2003 and December 31, 2004. The Port Authority intends to fund all of such payments through issuance of revenue bonds of the Port Authority. Because of the effects on the air travel industry of the terrorist attacks of September 11, 2001, the Port Authority has experienced significant reductions in air operations and revenues as well as increases in certain expenses at Boston-Logan International Airport. In response to these circumstances, the Port Authority has implemented a fiscal recovery plan, which includes reduced operating expenses and capital program commitments. While the duration of these circumstances cannot be known, the Port Authority has advised the Commonwealth that it does not expect to issue general revenue bonds or pay the December 2002 installment until the summer of 2003. The Commonwealth has agreed with the Port Authority to reschedule this installment. Pursuant to legislative authorization, the Commonwealth has already expended approximately $170 million of the remaining payments prior to their receipt and expects to issue bond anticipation notes to replace this cash pending receipt of payments from the Port Authority. See "2002 FISCAL YEAR - Cash Flow".

The October 2001 finance plan provides for $1.706 billion of the estimated project cost to be paid by the Turnpike Authority. Of that amount approximately $306 million in the aggregate remains to be paid in fiscal 2002, 2004 and 2005. On October 30, 2001 the Turnpike Authority board of directors voted to implement a toll increase at Turnpike Authority highway and tunnel facilities on July 1, 2002. The increase had been anticipated to become effective on or about January 1, 2002. The financial plans of the Turnpike Authority relating to the Metropolitan Highway System anticipate that a variety of presently planned expenditures subordinate to its debt service obligations on outstanding bonds in upcoming years, including all presently planned expenditures relating to the project, will be made from available fund balances. The delay of the implementation of the toll increase to July 1, 2002 will reduce the funds available to make these expenditures by approximately $30 million. Without the identification of additional revenues or funds or a reduction or rescheduling of presently planned expenditures, the Turnpike Authority currently projects a shortfall in funds available to pay presently planned expenditures subordinate to debt service beginning in fiscal 2004. Such projections are subject to ongoing revision.

In November 2001, the Turnpike Authority board instructed the staff to study possible alternative sources of revenues and funds and possible means of reducing or rescheduling the currently planned expenditures referred to in the preceding paragraph. On February 6, 2002, the Acting Governor removed two directors from the board, and the chairman of the board also resigned. Also on February 6, 2002, the Acting Governor appointed three new directors, one of whom will act as chairperson of the Turnpike Authority. Pending judicial review of the removal, the new board members other than the chairman have not been commissioned.

The Turnpike Authority initiated negotiations with its management consultant for the CA/T Project to modify the remaining four years of the existing five-year consulting contract on matters relating to performance and cost issues. The negotiations are ongoing at this time. No prediction can be made as to the outcome of the negotiations or the effect on the project.

On Saturday, March 16, 2002, the CA/T Project received a claim for $91.6 million from Honeywell Technology Solutions, Inc. on a contract. This claim and its impact on total project costs, if any, have yet to be evaluated.

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

Central Artery Construction Cash Flow (1)
(in millions)(2)

	Through 2001	2002	2003	2004	2005	2006	2007	Totals
Project Construction Uses:	$10,380	$1,291	$1,190	$1,032	$425	$157	$--	$14,475
Project Construction Sources:								
Federal highway reimbursements	5,856	394	340	303	155	0	0	7,049
Commonwealth GO Bonds/Notes (3)	1163	150	126	86	73	0	0	1,598
Third Party Payments (4)	1,614	74	11	86	119	81		1,985
GANs	1,467	33	0	0	0	0	0	1,500
Infrastructure Fund	279	640	713	557	77	76	0	2,343
Total Sources	$10,380	$1,291	$1,190	$1,032	$425	$157	$0	$14,475

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

(1) These figures are as of December 31, 2001 and do not include the net increase of $150 million in total project costs identified in the March 11, 2002 report issued by the Office of Inspector General of the federal Department of Transportation in connection with the review of the October 2001 finance plan, as discussed above.
(2) Totals may not add due to rounding.
(3) Does not include bonds or notes authorized by legislation approved May 17, 2000, which are included in the Infrastructure Fund line. Fiscal 2001 includes $20 million and fiscal 2002 includes $25 million in anticipated pay-as-you-go funding and interest earnings thereon.
(4) Reflects payments to be received from the Turnpike Authority and the Port Authority, including an additional $53 million to be received from the Turnpike Authority for a garage and surface restoration work, but excludes payments to be deposited in the Infrastructure Fund, which are included in the Infrastructure Fund line. The fiscal year amounts assume that the Commonwealth will finance costs in anticipation of such receipts through cash advances funded by general revenues or through the issuance of interim debt, if necessary.

General Authority to Borrow and Types of Long-Term Liabilities

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

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

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

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

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

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

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

The following table sets forth the amount of Commonwealth debt and debt related to general obligation contract assistance liabilities outstanding as of January 1, 2002.

Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities
January 1, 2002
(in thousands)

	Long-Term (2)	Short-Term
COMMONWEALTH DEBT		
General Obligation Debt	$12,084,522(3)	$1,150,000(5)
Special Obligation Debt	542,195	-
Federal Grant Anticipation Notes	1,499,325(4)	-
Subtotal Commonwealth Debt	14,126,042	1,150,000
DEBT RELATED TO GENERAL OBLIGATION CONTRACT ASSISTANCE LIABILITIES (1)		
Massachusetts Convention Center Authority	46,926	-
Massachusetts Development Finance Agency	63,000	-
Foxborough Industrial Development Financing Authority	68,505	-
Subtotal GO Contract Assistance Debt	178,431	-
TOTAL	$14,304,473	$1,150,000

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

(1) Does not include general obligation contract assistance liabilities to the Massachusetts Water Pollution Abatement Trust and the Massachusetts Turnpike Authority. For such liabilities calculated as of January 1, 2002, see "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - General Obligation Contract Assistance Liabilities." These liabilities have increased during fiscal 2002.
(2) Long-term debt includes discount and costs of issuance.
(3) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from January 1, 2002 through their maturity in the amount of $88.1 million.
(4) Includes capital appreciation interest accrued from January 1, 2002 through their maturity in the amount of $42.7 million.
(5) Includes $350 million of general obligation bond anticipation notes due September 1, 2003, which were issued to finance costs associated with the construction of the Boston Convention and Exhibition Center and other capital projects. (To the extent the proceeds of such notes are expended for the convention center, such notes are expected to be paid from the proceeds of special obligation bonds that can lawfully be issued regardless of the completion status of the convention center. See "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - Special Obligation Debt -*Boston Convention and Exhibition Center Fund*"). Also includes $200 million of commercial paper issued as bond anticipation notes paid from the proceeds of the Commonwealth's General Obligation Bonds, Consolidated Loan of 2002, Series A issued in January 2002, and $600 million of commercial paper notes issued as revenue anticipation notes expected to be paid from Commonwealth revenues by June 2002. See "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - General Obligation Debt - *Notes*." As of March 1, 2002, $833 million short-term debt is outstanding, including $350 million convention center notes referred to above and $483 million commercial paper. See "2002 FISCAL YEAR – Cash Flow."

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

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

June 30	General Obligation Bonds (3)	Dedicated Income Tax Debt	Special Obligation Debt	Federal Grant Anticipation Notes	Commonwealth Long-Term Debt Subtotal (2)	GO Contract Assistance Debt (4)	Total
1997	$ 9,620,633	$ 129,900	$ 520,760	--	$ 10,271,293	$ 145,314	$ 10,416,607
1998	9,872,598	--	606,005	$ 600,000	11,078,603	201,904	11,280,507
1999	10,301,011	--	585,730	921,720	11,808,461	174,884	11,983,345
2000	10,896,896	--	564,485	921,720	12,383,101	213,789	12,596,890
2001	11,957,934	--	542,195	1,499,325	13,999,454	189,489	14,188,940
2002(5)	12,084,522	--	542,195	1,499,325	14,126,042	178,431	14,304,473

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

(1) Totals may not add due to rounding.

(2) Outstanding bond liabilities include discount and costs of issuance.
(3) Does not include dedicated income tax debt issued in fiscal 1991 and retired in fiscal 1998, which was general obligation debt also secured by a special pledge of income tax receipts. Commonwealth general obligation bonds include interest on capital appreciation bonds yet to be accrued from the end of the fiscal year indicated through their maturity in the following approximate amounts; fiscal 1997 – $198.6 million; fiscal 1998 – $305.8 million; fiscal 1999 – $315.4 million; fiscal 2000 – $286.8 million; and fiscal 2001 - $433.8 million, fiscal 2002 - $392.5 million.
(4) Includes bonds of the Massachusetts Convention Center Authority, the Massachusetts Development Finance Agency (as successor to the Massachusetts Government Land Bank) and the Foxborough Industrial Development Financing Authority.
(5) As of January 1, 2002.

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

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

June 30	Amount (1)(2) (in thousands)	Net of CAB Interest Yet to be Accrued (in thousands)	Per Capita(3)	Ratio to Full Value of Real Estate (4)	Ratio to Personal Income (5)
1997	$ 10,416,607	$ 10,218,007	$ 1,670	2.71	5.35
1998	11,280,507	10,974,707	1,794	2.69	5.23
1999	11,983,345	11,667,945	1,889	2.86	5.32
2000	12,596,890	12,328,090	1,942	2.54	5.62
2001	14,188,940	13,956,105	2,198	2.87	6.35
2002(6)	14,304,473	13,911,940	2,191	2.86	6.34

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

(1) Includes Commonwealth general obligation bonds, dedicated income tax bonds, special obligation bonds and federal grant anticipation notes and bonds of the Massachusetts Convention Center Authority, the Massachusetts Development Finance Agency (as successor to the Massachusetts Government Land Bank) and the Foxborough Industrial Development Financing Authority.
(2) Outstanding bond liabilities include discount and costs of issuance. Commonwealth general obligation bonds include interest on capital appreciation bonds yet to be accrued from the end of the fiscal year through their maturity.
(3) Based on United States Bureau of Census resident population estimates for Massachusetts of 6,117,520 for 1997 and 1998, and 6,175,169 for 1999 and actuals of 6,349,097 for 2000 to the present.
(4) Based on Commonwealth Department of Revenue equalized valuation of assessed real estate of $377.2 billion for 1996 and 1997, $408.2 billion for 1998 and 1999 and $485.2 billion for 2000, 2001 and 2002.
(5) Based on United States Department of Commerce, Bureau of Economic Analysis total personal income of $179.9 billion for 1996, $190.9 billion for 1997, $209.8 billion for 1998 and $219.5 billion for 1999, 2000, 2001 and 2002.
(6) As of January 1, 2002.

General Obligation Debt

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

Notes. The Commonwealth is authorized to issue short-term general obligation debt as revenue anticipation notes or bond anticipation notes. Revenue anticipation notes may be issued by the State Treasurer in any fiscal year in anticipation of the receipts for that year. Revenue anticipation notes must be repaid no later than the close of the fiscal year in which they are issued. Bond anticipation notes may be issued by the State Treasurer in anticipation of the issuance of bonds, including special obligation convention center bonds. See “Special Obligation Debt.” The Commonwealth currently has liquidity support for a $1.0 billion commercial paper program for general obligation notes, through a $200 million letter of credit which expires on December 28, 2003, and four $200 million credit lines, available through September 2002, September 2004, December 2004 and March 2005, respectively.

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 March 1, 2002, the amount of such variable rate bonds outstanding was $1.267 billion.

Variable Rate Demand Bonds, Auction Rate Securities and U.Plan Bonds. As of March 1, 2002, the Commonwealth had outstanding approximately $275.6 million of variable rate demand bonds (not converted to a synthetic fixed rate as described above) in a daily interest rate mode, with liquidity support provided by commercial banks under agreements terminating in February 2006. As of March 1, 2002, the Commonwealth had outstanding $401.5 million of auction rate securities in a seven-day interest rate mode. As of March 1, 2002, the Commonwealth had outstanding approximately $98.2 million of variable rate "U.Plan" bonds, sold in conjunction with a college savings program administered by the Massachusetts Educational Financing Authority, which bear deferred interest at a rate equal to the percentage change in the consumer price index plus 2%, together with current interest at the rate of 0.5%.

Cash Defeasance Transactions. On October 13, 1999, the Commonwealth expended approximately $400.0 million from the Debt Defeasance Trust Fund to purchase securities and establish a sinking fund to provide for the payment of certain existing debt of the Commonwealth. The purchased securities, which included securities issued by the federal government and certain federal agencies, as well as other securities allowed under state finance law, were deposited in an irrevocable trust fund with a third-party trustee. Various Commonwealth general obligation bonds maturing through 2009 were defeased, with an approximate principal amount (maturity amount in the case of capital appreciation bonds) of $512.6 million. On July 28, 2000, the State Treasurer expended approximately $182.1 million from the Debt Defeasance Trust Fund to purchase securities and establish a sinking fund to provide for the payment of certain Commonwealth general obligation bonds maturing on August 1, 2000. On August 9, 2000, the State Treasurer expended approximately $217.7 million from the Debt Defeasance Trust Fund to purchase securities and establish a sinking fund to provide for the payment of additional Commonwealth general obligation bonds maturing on various dates to and including February 1, 2001. On December 19, 2000, the State Treasurer expended approximately $250.2 million from the Debt Defeasance Trust Fund to purchase securities and establish a sinking fund to provide for the payment of additional Commonwealth general obligation bonds maturing on various dates to and including July 1, 2001. The securities purchased on August 9, 2000 and December 19, 2000 consisted of certain federal agency obligations, which are being held by a third-party trustee in an irrevocable trust fund. The approximate principal amount of Commonwealth general obligation bonds defeased pursuant to the three transactions is $638.8 million. The amounts that would have been expended for debt service on such bonds in fiscal 2001 ($624.6 million) and in fiscal 2002 (approximately $34.6 million) were deposited in the Infrastructure Fund. See "Central Artery/Ted Williams Tunnel Project."

Bonds Defeased Through Refunding. The Commonwealth advance refunded certain general obligation bonds through the issuance of $964.6 million of general obligation refunding bonds during fiscal 2001. Net proceeds totaling approximately $994.3 million were used to purchase U.S. Government securities, which were deposited in irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. In November 2002, the Commonwealth refunded additional general obligation bonds through the issuance of $596.7 million of general obligation refunding bonds. Net proceeds totaling approximately $529.2 million were used to purchase U.S. government securities which were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds.

Special Obligation Debt

Highway Fund. Section 2-O of Chapter 29 of the General Laws authorizes the Commonwealth to issue special obligation bonds secured by all or a portion of revenues accounted to the Highway Fund. Revenues which are currently accounted to the Highway Fund are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax. Chapter 33 of the Acts of 1991 authorizes the Commonwealth to issue such special obligation bonds in an aggregate amount not to exceed $1.125 billion. As of March 1, 2002, the Commonwealth had outstanding $542.2 million of such special obligation bonds, including $5.1 million of such bonds secured by a pledge of 2¢ of the 21¢ motor fuels excise tax and $537.1 million secured by a pledge of an additional 4.86¢ of the motor fuels excise tax and certain other moneys. After June 1, 2002, all outstanding special obligation highway bonds will be secured by a pledge of 6.86¢ of such excise tax.

Boston Convention and Exhibition Center Fund. Chapter 152 of the Acts of 1997 authorizes $676.9 million of special obligation bonds to be issued for the purposes of a new convention center in Boston ($609.4 million), the Springfield Civic Center ($48.5 million) and the Worcester convention center ($19 million). The bonds are to be payable from moneys credited to the Boston Convention and Exhibition Center Fund created by legislation, which include the receipts from a 2.75% convention center financing fee added to the existing hotel tax in Boston, Cambridge, Springfield and Worcester, sales tax receipts from establishments near the proposed Boston facility that first opened on or after July 1, 1997, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, the entire hotel tax collected at hotels located near the new Boston facility and all sales tax and hotel tax receipts at new hotels in Boston and Cambridge first opened on or after July 1, 1997. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). To date, no such bonds have been issued. However, $350 million of general obligation bond anticipation notes have been issued.

Federal Grant Anticipation Notes

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

Debt Service Requirements on Commonwealth Bonds

The following table sets forth, as of January 1, 2002, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal grant anticipation notes. For variable rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate exchange agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. For other variable rate bonds and for auction rate securities, the schedule assumes a 5% interest rate.

Debt Service Requirements on Commonwealth Bonds January 1, 2002

(in thousands)(1)

	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	Sub Total	Total Debt Service Commonwealth Bonds
2002	$193,980	$13,256	$263,154	$ 470,390	-	$74,822	$74,822	$23,415	$14,354	$37,769	$582,982
2003	668,141	48,650	577,560	1,294,351	-	74,822	74,822	24,865	27,258	52,123	1,421,297
2004	640,894	68,020	547,478	1,256,392	-	74,822	74,822	26,070	26,051	52,121	1,383,335
2005	760,403	9,338	515,901	1,285,643	-	74,822	74,822	27,370	24,758	52,128	1,412,593
2006	752,776	4,536	477,889	1,235,201	$117,895	73,416	191,311	28,805	23,315	52,120	1,478,632
2007	777,709	5,999	439,563	1,223,271	123,825	67,486	191,311	30,350	21,774	52,124	1,466,706
2008	794,901	5,756	401,450	1,202,107	130,240	61,068	191,308	31,995	20,126	52,121	1,445,537
2009	788,909	6,490	360,170	1,155,569	137,230	54,077	191,307	33,675	18,444	52,119	1,398,995
2010	727,972	6,244	319,542	1,053,758	144,515	46,792	191,307	35,335	16,791	52,126	1,297,191
2011	736,286	6,643	281,336	1,024,264	152,230	39,080	191,310	37,300	14,829	52,129	1,267,703
2012	561,943	6,753	240,526	809,222	160,530	30,775	191,305	39,320	12,813	52,133	1,052,660
2013	587,813	7,477	209,806	805,096	168,470	22,837	191,307	41,470	10,650	52,120	1,048,523
2014	479,237	5,404	183,136	667,777	177,760	13,549	191,309	37,530	8,369	45,899	904,985
2015	479,512	4,669	158,475	642,656	186,630	4,674	191,304	39,455	6,440	45,895	879,855
2016	476,536	3,241	135,211	614,989	-	-	-	41,530	4,368	45,898	660,886
2017	479,676	1,903	114,027	595,605	-	-	-	43,710	2,186	45,896	641,500
2018	324,653	1,130	92,665	418,448	-	-	-	-	-	-	418,448
2019	313,612	568	76,500	390,680	-	-	-	-	-	-	390,680
2020	260,517	159	61,776	322,452	-	-	-	-	-	-	322,452
2021	360,262	78	45,523	405,863	-	-	-	-	-	-	405,863
2022	118,305	15	32,810	151,131	-	-	-	-	-	-	151,131
2023	22,035	-	29,134	51,169	-	-	-	-	-	-	51,169
2024	24,060	-	27,905	51,965	-	-	-	-	-	-	51,965
2025	30,059	-	26,533	56,592	-	-	-	-	-	-	56,592
2026	76,790	-	23,660	100,450	-	-	-	-	-	-	100,450
2027	80,455	-	19,714	100,169	-	-	-	-	-	-	100,169
2028	84,240	-	15,581	99,821	-	-	-	-	-	-	99,821
2029	88,335	-	11,249	99,584	-	-	-	-	-	-	99,584
2030	92,550	-	6,710	99,260	-	-	-	-	-	-	99,260
2031	95,630	-	1,992	97,622	-	-	-	-	-	-	97,622
TOTAL	$11,878,191	$206,331	$5,696,978	$17,781,500	$1,499,325	$713,043	$2,212,368	$542,195	$252,525	$794,720	$20,788,588

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

(1) Totals may not add due to rounding

General Obligation Contract Assistance Liabilities

Massachusetts Convention Center Authority. The Massachusetts Convention Center Authority was created for the purpose of promoting the economic development of the Commonwealth by the development and operation of the Hynes Convention Center in Boston and is authorized to issue bonds for any of its corporate purposes. Such bonds are fully secured by contract assistance payments by the Commonwealth, which payments are limited by statute to an amount equal to the annual debt service on $200 million of bonds outstanding at any one time. The assistance contract is a general obligation of the Commonwealth for which its full faith and credit are pledged. As of January 1, 2002, the Convention Center Authority had $46.9 million of such bonds outstanding.

Massachusetts Development Finance Agency, as successor to the Massachusetts Government Land Bank. On September 30, 1998, the Massachusetts Government Land Bank and the Massachusetts Industrial Finance Agency were legally merged into a successor entity, the Massachusetts Development Finance Agency ("MassDevelopment"). MassDevelopment has succeeded to all of the assets and liabilities of the Government Land Bank. MassDevelopment assists in the development of state and federal surplus property for private use and in the development of substandard, blighted or decadent open areas in the Commonwealth. MassDevelopment has direct borrowing power, and the Commonwealth is required to provide contract assistance payments necessary to defray the debt service on up to $80 million of bonds issued to redevelop the former federal military base at Fort Devens. The contract with MassDevelopment is a general obligation of the Commonwealth for which the full faith and credit of the Commonwealth are pledged. As of January 1, 2002, MassDevelopment had $63.0 million of bonds outstanding which are secured by the contract assistance from the Commonwealth, as described above. No more such bonds may be issued under current law.

Foxborough Industrial Development Financing Authority. Pursuant to legislation approved May 24, 1999, the Commonwealth entered into a contract for financial assistance with the Foxborough Industrial Development Financing Authority in June 2000 obligating the Commonwealth to pay the full amount of the debt service on bonds issued to finance up to $70 million of capital expenditures for infrastructure improvements related to the construction of a new professional football stadium in the town of Foxborough. The obligation of the Commonwealth to make such payments is a general obligation for which the full faith and credit of the Commonwealth are pledged. Under the authorizing legislation the Commonwealth is to receive $400,000 per year in parking fees for stadium-related events and an administrative fee of $1 million per year from the stadium lessee, and will be entitled to recover from the stadium lessee a portion of its contract assistance payments if professional football ceases being played at the stadium during the term of the bonds. As of January 1, 2002, the Foxborough Industrial Development Financing Authority had $68.5 million of such bonds outstanding. No more such bonds may be issued under current law.

Massachusetts Turnpike Authority. The Commonwealth is obligated to pay contract assistance to the Massachusetts Turnpike Authority pursuant to legislation enacted in 1998 and a contract for financial assistance dated as of February 19, 1999 between the Turnpike Authority and the Commonwealth. The payments are in recognition of the financial burden imposed on the Turnpike Authority by virtue of its assumption of the responsibility for operation and maintenance of certain roadways in the Metropolitan Highway System that were formerly maintained by the Commonwealth. The Commonwealth's obligation to make such payments is a general obligation for which the faith and credit of the Commonwealth are pledged for the benefit of the Turnpike Authority and its bondholders. The contract provides that no later than September 1 of each year the Turnpike Authority is to submit to the Secretary of Transportation and Construction a certificate setting forth the total amount of costs incurred by the Turnpike Authority during the prior fiscal year in connection with the operation and maintenance of the roadways covered by the contract. The contract further provides that as soon as practicable following receipt of such certificate, but no later than December 1 of such year, the Commonwealth is to pay the Turnpike Authority the amount set forth in such certificate, provided that such payment may not be less than $2 million on account of fiscal 2000, may not be less than $5 million on account of fiscal 2001 and each fiscal year thereafter prior to the fiscal year in which the final segment of the affected roadways is transferred to the Turnpike Authority and may not be more than $25 million on account of the fiscal year in which such transfer occurs and each fiscal year thereafter. These liabilities have increased during fiscal 2002.

Massachusetts Water Pollution Abatement Trust. The Massachusetts Water Pollution Abatement Trust was created to implement the Commonwealth's state revolving fund program under Title VI of the federal Clean Water Act and the federal Safe Drinking Water Act. The Trust is authorized to apply for and accept federal grants and associated Commonwealth matching grants to capitalize the revolving fund and to issue debt obligations to make loans to local governmental units to finance eligible water pollution abatement and water treatment projects. Under state law, each loan made by the Trust is required to provide for debt service subsidies or other financial assistance sufficient to result in the loan being the financial equivalent of a grant to the borrower of between 25% and 90% of the eligible cost of the financed project. A significant portion of such financial assistance is provided through the application of contract assistance payments from the Commonwealth. The Trust's enabling legislation directs the State Treasurer to enter into contract assistance agreements with the Trust for the Clean Water Act program providing for annual contract assistance payments to the Trust of up to $46 million in the aggregate in each fiscal year. The Safe Drinking Water Act program provides for annual contract assistance payments to the Trust of up to $9 million in the aggregate per fiscal year for new water treatment projects. The contract assistance agreements constitute general obligations of the Commonwealth for which its faith and credit are pledged, and the Trust's right to receive payments thereunder may be pledged by the Trust as security for repayment of the Trust's debt obligations. As of January 1, 2002, the Trust had $1.4 billion of bonds outstanding. Approximately 35% of the aggregate debt service on such bonds is expected to be paid from Commonwealth contract assistance.

The following table sets forth, as of March 1, 2002, the Commonwealth's general obligation contract assistance requirements pursuant to contracts with the Massachusetts Convention Center Authority, MassDevelopment, the Foxborough Industrial Development Financing Authority, the Massachusetts Turnpike Authority and the Massachusetts Water Pollution Abatement Trust.

General Obligation Contract Assistance Requirements

(in thousands) (1)

Fiscal Year	Convention Center Authority	Massachusetts Development Finance Agency	Massachusetts Water Pollution Abatement Trust	Turnpike Authority(3)	Foxborough Industrial Development Financing Authority	Total
2002	$20,369	$13,280	$47,914	$19,147	$5,337	$106,047
2003	16,378	13,280	50,366	29,052	5,339	114,415
2004	16,337	13,283	50,080	37,376	5,338	122,414
2005	16,302	13,281	49,812	41,061	5,336	125,792
2006	14,735	13,280	49,018	25,000	5,336	107,369
2007	2,532	10,162	49,166	25,000	5,337	92,197
2008	2,534	--	48,695	25,000	5,336	81,565
2009	2,534	--	48,505	25,000	5,340	81,379
2010	2,534	--	48,221	25,000	5,338	81,093
2011	2,534	--	47,461	25,000	5,338	80,333
2012	2,533	--	45,759	25,000	5,338	78,630
2013	2,536	--	43,108	25,000	5,341	75,985
2014	2,536	--	40,102	25,000	5,339	72,977
2015	--	--	38,398	25,000	5,337	68,735
2016	--	--	33,566	25,000	5,337	63,903
2017	--	--	26,383	25,000	5,336	56,719
2018	--	--	20,965	25,000	5,339	51,304
2019	--	--	20,587	25,000	5,336	50,923
2020	--	--	14,764	25,000	5,335	45,099
2021	--	--	7,296	25,000	5,337	37,633
2022	--	--	--	25,000	5,340	30,340
2023	--	--	--	25,000	5,340	30,340
2024	--	--	--	25,000	5,340	30,340
2025	--	--	--	25,000	5,340	30,340
2026 through 2045	--	--	--	500,000(4)	--	500,000
Total	$104,394	$76,566	$780,166	$1,126,636	$128,110	$2,215,872

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

(1) Totals may not add due to rounding.
(2) Partial year.
(3) Estimated operating and maintenance costs to be reimbursed by the Commonwealth. Amounts for fiscal 2002-2005 are projections, subject to annual review pursuant to the contract for financial assistance.
(4) Twenty-five million dollars per year for fiscal 2026 through fiscal 2045, inclusive.

Budgetary Contractual Assistance Liabilities

Plymouth County Certificates of Participation. In May 1992, Plymouth County caused to be issued approximately $110.5 million of certificates of participation to finance the construction of a county correctional facility. In March 1999, Plymouth County caused to be issued approximately $140.1 million of certificates of participation to advance refund the 1992 certificates, construct an administration office building and auxiliary facilities near the county correctional facility and fund repairs and improvements to the facility. The Commonwealth, acting through the Executive Office of Public Safety and the Department of Correction, is obligated under a memorandum of agreement with Plymouth County to pay for the availability of 380 beds (out of 1,140) in the facility, regardless of whether 380 state prisoners are housed therein. The amounts payable by the Commonwealth will at least equal the debt service on the outstanding certificates of participation, but are subject to appropriation of such amounts by the Legislature in the annual budgetary line item for the Executive Office of Public Safety. The obligation of the Commonwealth under the memorandum of agreement does not constitute a general obligation or a pledge of the credit of the Commonwealth. As of March 1, 2002, Plymouth County had $130.3 million of such certificates of participation outstanding.

City of Chelsea Commonwealth Lease Revenue Bonds. In November 1993, the Chelsea Industrial Development Financing Authority issued approximately $95.8 million of lease revenue bonds. The proceeds of the bonds were loaned to the Massachusetts Industrial Finance Agency (now MassDevelopment) and applied to the cost of the Massachusetts Information Technology Center, a tax processing facility of the Department of Revenue and a data processing information system center for the Department and for certain other departments and agencies of the Commonwealth. The bonds bear interest at a variable rate, and under an interest rate swap agreement that was entered into at the time, MassDevelopment receives variable rate payments with respect to the full amount of the bonds and is obligated to make fixed rate payments in exchange therefor. Simultaneously with the issuance of the bonds, the Commonwealth entered into a 30-year lease, which provides for the payment of debt service on the bonds and certain other expenses associated with the project. The obligations of the Commonwealth do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. The Commonwealth's lease obligations related to these bonds are set forth in the table below. As of March 1, 2002, the Chelsea Industrial Development Financing Authority has $84.9 million of such lease revenue bonds outstanding.

Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds. In August 2000, the Route 3 North Transportation Improvements Association issued approximately $394.3 million of lease revenue bonds to finance the reconstruction and widening of a portion of state Route 3 North. In connection with the financing, the Commonwealth leased the portion of the highway to be improved to the Association, and the Association leased the property back to the Commonwealth pursuant to a sublease. Under the sublease the Commonwealth is obligated to make payments equal to the debt service on the bonds and certain other expenses associated with the project. The obligations of the Commonwealth do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. The Commonwealth's sublease obligations related to these bonds are set forth in the table below. As of March 1, 2002, the Route 3 North Transportation Improvements Association had $394.3 million of such lease revenue bonds outstanding.

School Building Assistance. The school building assistance program was established in 1948 to promote the planning and construction of school buildings and the establishment of consolidated and regional schools in the Commonwealth. Under this program, cities, towns, regional school districts, independent agricultural schools and the two counties that maintain county agricultural schools can obtain reimbursements from the Commonwealth for a portion of the construction costs (including any interest expense from indebtedness incurred) of approved school projects. The reimbursement percentage varies by municipality and may range from 50% to 90% of the approved project costs. The state reimbursement is paid in annual installments for periods of up to 20 years. Payment is made from amounts annually appropriated for the school building assistance program. The table below shows the amount of the Commonwealth's obligation to pay under grant agreements in effect on March 1, 2002. The table does not include $5.389 billion of projects that are not yet subject to grant agreements, and therefore are not legal obligations of the Commonwealth, but that have been approved by the Department of Education for placement on the waiting list for future funding.

Long-Term Operating Leases and Capital Leases. In addition to Commonwealth-owned buildings and facilities, the Commonwealth leases additional space from private parties. In certain circumstances, the Commonwealth has acquired certain types of capital assets under long-term capital leases; typically, these arrangements relate to computer and telecommunications equipment and to motor vehicles. Minimum future rental expenditure commitments of the Commonwealth under operating leases and long-term principal and interest obligations related to capital leases in effect at January 1, 2002 are set forth in the table below. These amounts represent expenditure commitments of both budgeted and non-budgeted funds.

Budgetary Contractual Assistance Liabilities
(in thousands) (1)

Fiscal Year	Plymouth County Certificates of Participation	City of Chelsea Commonwealth Lease Revenue Bonds	Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds	School Building Assistance	Other Leases	Total
2002	$8,445	$6,465	--	$380,442	$145,140	$501,851
2003	10,242	6,465	--	377,486	117,379	532,535
2004	10,240	6,465	26,778	370,960	87,145	516,049
2005	10,243	6,465	26,957	364,060	62,124	482,333
2006	10,248	6,465	26,957	362,326	30,728	453,675
2007	10,246	6,465	26,960	356,542	15,382	451,923
2008	10,243	6,465	26,958	346,189	15,382	446,134
2009	10,248	6,465	26,957	337,525	15,382	435,732
2010	10,244	6,465	26,956	321,361	15,382	427,061
2011	10,245	6,453	26,959	296,093	15,382	403,397
2012	10,240	6,453	26,959	283,720	--	377,896
2013	10,245	6,453	26,958	267,785	--	365,378
2014	10,244	6,453	26,958	252,966	--	349,705
2015	10,250	6,453	26,960	238,804	--	334,894
2016	10,246	6,435	26,956	219,563	--	320,706
2017	10,238	6,435	26,960	187,584	--	301,514
2018	10,244	6,435	26,959	160,034	--	269,540
2019	10,244	6,435	26,957	118,568	--	241,989
2020	10,246	6,435	26,956	67,450	--	200,524
2021	10,243	6,435	26,957	15,193	--	149,404
2022	10,252	6,395	26,957	--	--	95,774
2023	--	6,379	26,955	--	--	33,334
2024 - 2033	--	--	269,579(2)	--	--	269,579
Total	$213,336	$141,834	$808,614	$5,324,651	$519,426	$7,007,861

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

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

Contingent Liabilities

Massachusetts Bay Transportation Authority. The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. Prior to July 1, 2000, the Commonwealth supported MBTA bonds and notes through guaranties of the debt service on its bonds and notes, contract assistance generally equal to 90% of the debt service on outstanding MBTA bonds and payment of the MBTA's net cost of service (current expenses, including debt service, minus current income). Beginning July 1, 2000, the Commonwealth's annual obligation to support the MBTA for operating costs and debt service is limited to a portion of the revenues raised by the Commonwealth's sales tax, but the Commonwealth remains contingently liable for the payment of MBTA bonds and notes issued prior to July 1, 2000. The Commonwealth's obligation to pay such prior bonds is a general obligation for which its full faith and credit have been pledged. As of March 15, 2002, the Massachusetts Bay Transportation Authority had approximately $3.295 billion of such prior bonds outstanding. Such bonds are currently scheduled to mature annually through fiscal 2030, with annual debt service in the range of approximately $270 million to $292 million through fiscal 2013 and declining thereafter. See "FINANCIAL RESULTS - Massachusetts Bay Transportation Authority - Financial Restructuring."

Regional Transit Authorities and Woods Hole, Martha's Vineyard and Nantucket Steamship Authority. There are 15 regional transit authorities organized in various areas of the state. The Steamship Authority operates passenger ferries to Martha's Vineyard and Nantucket. Each of these entities issues its own bonds and notes. Commonwealth support of the bonds and notes of the regional transit authorities and the Steamship Authority includes a Commonwealth guaranty pursuant to statutory provisions requiring the Commonwealth to provide each of these entities with funds sufficient to meet the principal of and interest on their bonds and notes as they mature to the extent that funds sufficient for this purpose are not otherwise available to such entity and the Commonwealth's payment, under applicable statutory provisions, of the net cost of service of the regional transit authorities and the Steamship Authority (current expenses, including debt service, minus current income). The Steamship Authority is currently self-supporting, requiring no net cost of service or contract assistance payments. As of January 1, 2002, the regional transit authorities and the Steamship Authority had $137.7 million of bonds and notes outstanding in the aggregate. The Commonwealth's obligations to the regional transit authorities and to the Steamship Authority are general obligations for which its full faith and credit have been pledged.

University of Massachusetts Building Authority and Massachusetts State College Building Authority. Two higher education building authorities, created to assist institutions of public higher education in the Commonwealth, may issue bonds which are guaranteed as to their principal and interest by the Commonwealth. The guaranty is a general obligation of the Commonwealth for which its full faith and credit are pledged. In addition to such guaranty, certain revenues of these authorities, including dormitory rental income and student union fees, are pledged to their respective debt service requirements. While revenues thus far have been sufficient to meet debt service requirements, they have not been sufficient in all cases to pay operating costs. In such cases, the operating costs have been met by Commonwealth appropriations. As of January 1, 2002 the University of Massachusetts Building Authority had approximately $318.6 million of Commonwealth-guaranteed debt outstanding, and the Massachusetts State College Building Authority had approximately $75.0 million of Commonwealth-guaranteed debt outstanding.

Massachusetts Housing Finance Agency. MassHousing is authorized to issue bonds to finance multi-family housing projects within the Commonwealth and to provide mortgage loan financing with respect to certain single-family residences within the Commonwealth. Such bonds are solely the obligations of MassHousing, payable directly or indirectly from, and secured by a pledge of, revenues derived from MassHousing's mortgage on or other interest in the financed housing. MassHousing'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 MassHousing 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 March 1, 2002, MassHousing had outstanding approximately $591 million of multi-family housing bonds secured by capital reserve funds. There are no outstanding single-family housing bonds secured by capital reserve funds. As of such date the capital reserve funds were maintained at the required levels without Commonwealth appropriations, and no payments from such funds have been necessary.

Authorized But Unissued 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.

Fiscal Year	Authorized But Unissued Debt
1998	12,316,738
1999	12,004,017
2000	11,585,706
2001	9,590,418
2002(1)	8,934,807

SOURCE: Office of the Comptroller

(1) As of January 1, 2002.

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

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

Proposed Capital Spending Authorizations

On June 7, 2001 the Acting Governor filed a deauthorization bill totaling $327 million and a bond bill proposing approximately $1.55 billion in new general obligation bond authorizations, including $750 million for environmental projects, $315 million for state-owned facility infrastructure improvements, $300 million for information technology projects, $60 million for public safety improvements and $10 million to continue the historic grant program. This is in addition to $220 million bond authorization request for the statewide road and bridge program filed by the Acting Governor on May 9, 2001. Subsequently, on September 17, 2001, the Acting Governor filed a bond bill requesting $150 million in authorization for the Central Artery/Tunnel Project, made possible through higher than anticipated fees collected at the Registry of Motor Vehicles. The deauthorization bill also proposes additional deauthorization of accounts with the Information Technology Division and the Executive Office of Environmental Affairs contingent upon passage of new authorizations. Should new authorization be enacted, total deauthorizations could reach $770 million. The House Committee on Long-Term Debt and Capital Expenditures released its deauthorization bill on July 6, 2001.

A $508.5 million housing bond bill is currently under consideration by conference committee. There are several bond bills pending in the House, which include $190 million for repairs and renovations to state-owned facilities and higher education campuses through the Division of Capital Asset Management, $83.6 million for the Information Technology Division, $61.5 million for the Executive Office of Public Safety, $40 million for Public Works and Economic Development grants through the Executive Office of Transportation and Construction, and $10 million for equipment for the Trial Courts. A number of bond bills are likewise pending in the Senate, including $300 million for information technology projects, $361 million for construction and renovation of state facilities, the $220 million requested by the Acting Governor for the statewide road and bridge program as well as the $40 million requested for Public Works and Economic Development grants, $86.5 million for public safety facilities and equipment, and $75 million for public library construction grants.

It is expected that the Acting Governor will file legislation during the 2002 legislative session authorizing general obligation bonds for transportation, court construction and renovation, state match for clean water projects through the Massachusetts Water Pollution Abatement Trust, and a new culture and tourism initiative. To carry forward with the transportation capital spending plan through fiscal 2006, the Administration will likely file a transportation bond bill including funding for federally aided highway-related projects, non-federally aided highway projects, an additional authorization for the Chapter 90 local city and town road and bridge projects, additional authorization for Public Works and Economic Development grants, marine transportation facilities, airport related upgrades, and Regional Transit facilities. Additional court authorization would allow the Division of Capital Asset Management and Maintenance to continue with the Courthouse Construction and Renovation Master Plan.

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

Statutory Debt Limit on Direct Debt

Legislation enacted in December 1989 imposes a limit on the amount of outstanding "direct" bonds of the Commonwealth. The law, which is codified in Section 60A of Chapter 29, set a fiscal 1991 limit of $6.8 billion, and provided that the limit for each subsequent fiscal year was to be 105% of the previous fiscal year's limit. The measurement of this limit is performed under the statutory basis of accounting, which differs from GAAP in that the principal amount of outstanding bonds is measured net of discount and costs of issuance. The law further provides that bonds to be refunded from the proceeds of Commonwealth refunding bonds are to be excluded from outstanding "direct" bonds upon the issuance of the refunding bonds. Pursuant to Chapter 33 of the Acts of 1991, the Commonwealth's outstanding special obligation highway revenue bonds are not to be counted in computing the amount of bonds subject to this limit. Pursuant to Chapter 5 of the Acts of 1991, $287.2 million of Commonwealth refunding bonds issued in September and October 1991 are not counted in computing the amount of the bonds subject to this limit. Pursuant to Chapter 11 of the Acts of 1997, federal grant anticipation notes are also not to be counted in computing the amount of the bonds subject to this limit. Pursuant to Chapter 127 of the Acts of 1999, bonds issued to pay the operating notes issued by the Massachusetts Bay Transportation Authority or to reimburse the Commonwealth for advances to the MBTA are not to be counted in computing the amount of the bonds subject to this limit. See "FINANCIAL RESULTS - Massachusetts Bay Transportation Authority - Financial Restructuring." Pursuant to Chapter 87 of the Acts of 2000, as amended, bonds payable from the Central Artery and Statewide Road and Bridge Infrastructure Fund are not to be counted in computing the amount of the bonds subject to this limit. See "Central Artery/Ted Williams Tunnel Project." The statutory limit on "direct" bonds during fiscal 2002 is $11.630 billion. The outstanding Commonwealth debt amounts excluded from the limit as of January 1, 2002 are shown in the table below:

Calculation of the Debt Limit
(in thousands)

	Bonds Outstanding
Balance as of January 1, 2002	$14,126,042
Less amounts excluded:	
Discount and issuance costs	(253,763)
Federal grant anticipation notes	(1,500,000)
Assumed county debt	(1,115)
Chapter 5 of the Acts of 1991 refunding bonds	(58,724)
Special obligation bonds	(539,242)
Bonds to retire MBTA notes	(325,000)
Bonds payable from Infrastructure Fund	(999,995)
Outstanding Direct Debt	$10,448,203

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, 2002.

Statutory Debt Limit on Direct Debt
(in thousands)

Date	Outstanding Direct Debt	Statutory Limit on Direct Debt
July 1, 1997	$8,696,918	$9,568,283
July 1, 1998	8,982,072	10,046,697
July 1, 1999	9,248,432	10,549,032
July 1, 2000	10,189,568	11,076,483
July 1, 2001	10,279,959	11,630,307
January 1, 2002	10,448,203	11,630,307

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

Limit on Debt Service Appropriations

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

Debt Service Expenditures
(in millions)

Fiscal Year	Debt Service(1)	Total Budgeted Expenditures and Other Uses	Percentage
1997	$997.6	$17,949.0	5.6%
1998	1,079.3	19,001.7	5.7
1999	1,173.8	20,244.7	5.8
2000	1,193.3	22,414.7	5.3
2001	1,407.9	23,071.9	6.1
2002 (estimate)	1,351.7	22,831.3	5.9

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

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

LEGAL MATTERS

Litigation

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

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

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

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

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

The Division of Medical Assistance is also engaged in several related lawsuits in which numerous hospitals seek injunctive and declaratory relief from DMA's implementation of its prepayment review program and its postpayment review program. The hospitals also seek damages consisting of the value of all claims for payment previously denied by DMA under these two review programs, where the basis for the denial was DMA's determination that the claims were not medically necessary. In *Athol Memorial Hospital, et al. v. Commissioner of the Division of Medical Assistance* (Suffolk Superior Court No. 99-2325-F), the plaintiffs seek injunctive and declaratory relief. In *Baystate Medical Center v. Commissioner of the Division of Medical Assistance* (Suffolk Superior Court No. 99-2115-E), the plaintiff seeks injunctive and declaratory relief and monetary damages. In *Massachusetts Hospital Association, et al. v. Commissioner of the Division of Medical Assistance* (Suffolk Superior Court No. 99-2324-E), the plaintiffs seek injunctive and declaratory relief. *Salem Hospital v. Commissioner of the Division of Medical Assistance* (Suffolk Superior Court No. 99-0750-C) is an alleged class action seeking declaratory relief and monetary damages. In the *Baystate Medical* case, the Court dismissed the claims under 42 U.S.C. § 1983 on December 16, 1999. In the *Athol* and *Salem* cases, the Court dismissed the claims under 42 U.S.C. § 1983 on December 29, 1999. In the *Salem* case, the Court denied the motion for class certification on December 29, 1999. In the *Athol* and *Salem* cases, the court dismissed the claims for retroactive relief. The remaining claims for declaratory and injunctive relief could prevent DMA from continuing to implement the prepayment and postpayment review programs under its current regulations. Since continued implementation of these programs would save the Division between $6 million and $11 million annually, DMA's expenditures would increase by that amount if it is barred from implementing these programs. In *Athol Memorial Hospital et al. v. Warring*, Supreme Judicial Court No. 8666 (consolidated cases), the Supreme Judicial Court has ordered direct appellate review.

Atlanticare Medical Center v. Commissioner of the Division of Medical Assistance, Appeals Court No. 01-P-1594. This case involves the Division of Medical Assistance's issuance of overpayment notices when the Division has paid provider claims and then identifies the presence of third party insurance. The Division recoups the payments and requires the providers to bill the third party insurer. After the insurer has processed the providers' claims for payment, the Division will pay the provider if the insurer denies the claim or will pay part of the claim if the insurer pays less than the amount the Division would pay in the absence of insurance. In this case, eight hospitals challenged the Division's authority to require the hospitals to bill the insurers, and instead wanted the Division to obtain the payment directly from the insurer. The Superior Court ruled that the Division's regulations violated federal law. The Division appealed. An adverse decision in the Appeals Court could cost the Division approximately $20 million each year in lost recoveries due to Medicare prohibitions on the Division billing providers and which, in any event, would be difficult for the Division to pursue without the detailed information providers have about each case.

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

Boulet v. Cellucci (formerly *Valerie Anderson v. Cellucci*, U.S. District Court C.A. No. 99-10617-DPW), is a class action asserting that the Commonwealth has an obligation under the Medicaid Home and Community Based Services Waiver Program to provide group residences for adult mentally retarded individuals. The court approved a settlement agreement entered into by the parties that provides for additional annual funding of $22 million in 2002, $18 million in 2003, $15 million in 2004, $15 million in 2005 and $15 million in 2006.

Lopes v. Commonwealth (Suffolk Superior Court No. 01-1337-BLS) is a class action in which the plaintiffs seek to enjoin the Division of Medical Assistance from recovering Medicaid payments from the estates of people who died of smoking-related illnesses and to pay back such funds already recovered. The relief sought by plaintiffs would cost the Commonwealth more than $20 million. In September 2001, the Commonwealth filed a motion to dismiss the case. In February 2002, the Court allowed the Commonwealth's motion to dismiss.

Massachusetts Extended Care Federation et al. v. Division of Health Care Finance and Policy and Division of Medical Assistance, et al. A nursing home trade association along with eight individual nursing facilities have sued the Division of Medical Assistance and the Division of Health Care Finance and Policy seeking to preliminarily and permanently enjoin the existing Medicaid payment rates established for nursing facilities by the Division of Health Care Finance and Policy and to implement higher rates. Plaintiffs challenge several components of the nursing facility rate-setting regulation, including but not limited to the cost adjustment factor, the occupancy standard, standard payments for nursing, the Administrative & General allowance and the total payment adjustment. On February 11, 2002, a hearing on plaintiffs' motion for a preliminary injunction was held in Suffolk Superior Court. Following the hearing, the Court issued an order denying said motion, finding that the plaintiffs failed to show a risk of imminent, irreparable harm. Staff at the Division of Health Care Finance and Policy currently is in the process of calculating the estimated financial exposure to the Commonwealth in the event of an adverse court judgment.

Environmental Matters. The Commonwealth is engaged in various lawsuits concerning environmental and related laws, including an action brought by the U.S. Environmental Protection Agency alleging violations of the Clean Water Act and seeking to reduce the pollution in Boston Harbor. *United States v. Metropolitan District Commission* (U.S. District Court C.A. No. 85-0489-MA). See also *Conservation Law Foundation v. Metropolitan District Commission* (U.S. District Court C.A. No. 83-1614-MA). The Massachusetts Water Resources Authority (MWRA), successor in liability to the Metropolitan District Commission (MDC), has assumed primary responsibility for developing and implementing a court-approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. The MWRA currently projects that the total cost of construction of the wastewater facilities required under the court's order, not including CSO costs, will be approximately $3.142 billion in current dollars, with approximately $131 million to be spent after June 30, 2001. With CSO costs, the MWRA anticipates spending approximately $633 million after that date. Under the Clean Water Act, the Commonwealth may be liable for any cost of complying with any judgment in these or any other Clean Water Act cases to the extent the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment.

Wellesley College is seeking contribution from the Commonwealth for costs related to environmental contamination on the Wellesley College campus and adjacent areas, including Lake Waban. Such costs may reach $35 million. On September 5, 2001, the court entered judgment incorporating a partial settlement between the parties, under which the College will fund a clean up of hazardous materials at the campus and the northern shoreline of Lake Waban expected to cost approximately $30 million. Subject to legislative appropriation, the Commonwealth will reimburse the College up to a maximum of $1.4 million once the Department of Environmental Protection determines that the clean up has been properly performed. The clean up of the remainder of Lake Waban, downstream areas and groundwater is not addressed under the current clean up plan, as the Department has not yet selected a remedy for these areas. Once a remedy is determined and costs are known, negotiations may be reopened with the College. The Commonwealth and the College have reserved their rights against each other regarding liability for the future clean up costs.

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

In *General Mills, Inc. v. Commissioner of Revenue* (Appellate Tax Board No. F223398), the taxpayer challenges a corporate excise tax, including the proper treatment of the sale of two of its subsidiaries. The total exposure to the Commonwealth, including tax, interest and penalties, is approximately $36 million. The Appellate Tax Board issued a decision awarding an abatement of $634,077. Cross-appeals by the taxpayer and the Commissioner of Revenue followed the issuance of the Appellate Tax Board's findings of fact and report.

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

In *EG&G, Inc. v. Commissioner of Revenue* (Appellate Tax Board Nos. F245459, F245460, F245461, F253131, F233126), the taxpayer seeks $21.2 million in excise taxes and interest. Trial is scheduled before the Appellate Tax Board in June 2002.

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

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

Tolman v. Finneran, United States District Court, C.A. No. 01-10756-PBS. The plaintiff gubernatorial candidate seeks to force the Legislature to appropriate additional money, and the state Office of Campaign and Political Finance to release that money, to implement the Clean Elections Law, G.L. c. 55A. $23 million has already been set aside in a separate Clean Elections Fund but would have to be appropriated in order to be released for expenditure. Full cost of implementing the Clean Elections system for the 2002 election cycle (which is what the plaintiff seeks) has been estimated at $44 million. The defendants' motion to dismiss on legislative immunity, 11th Amendment immunity, and other grounds (including failure to state any claim in violation of the plaintiffs' federal constitutional rights) was heard on September 26, 2001. On November 14, 2001, the court dismissed the complaint in its entirety. On December 13, 2001, plaintiffs filed a notice of appeal to the United States Court of Appeals for the First Circuit.

Bates v. Director of the Office of Campaign and Political Finance, Supreme Judicial Court. Plaintiffs alleged that the Director of the Office of Campaign and Political Finance was violating the Clean Elections law by declining to distribute public campaign finance funds to qualifying candidates absent a legislative appropriation for that purpose. On January 25, 2002, the Supreme Judicial Court ruled on the merits that the Legislature has a constitutional duty to either appropriate funds necessary to implement the Clean Elections law, or to repeal the law. On February 25, 2002, the court ruled that candidates who have been certified under the Clean Elections law, but who have not received funding due to the lack of appropriated funds, are entitled to the entry of money judgments against the Commonwealth in amounts equal to the amount of Clean Elections funding due them. The court accordingly ordered judgment for one plaintiff in the amount of $811,050. That judgment was partially satisfied on February 28, 2002, out of an account appropriated for the payment of damages awards generally, but no further appropriated money is currently available to pay the remainder of the judgment. Plaintiffs have moved for an order permitting them to execute the judgment on various funds in the state Treasury, notwithstanding the absence of an appropriation. The defendants oppose that motion. On March 12, 2002, a single justice of the Supreme Judicial Court ruled that Treasury-held funds cannot be made available to satisfy the judgment in this case without appropriation by the Legislature, and opined that the Supreme Judicial Court may consider alternative remedies, including attachment and sale of state property. Also, other plaintiffs who have been or will be certified as Clean Elections candidates are expected to move to intervene in the suit, seek money judgments, and then seek to collect on those judgments. The number of such candidates and the amounts of the judgments to which they might be entitled cannot now be estimated. The total cost of implementing the Clean Elections system for the 2002 elections cycle has previously been estimated at up to $44 million.

Brown Rudnick Freed & Gesmer and Lieff Cabraser Heimann & Bernstein, LLP, et al. v. Commonwealth of Massachusetts, Suffolk Superior Court C.A. No. 01-5883-BLS. This is a breach of contract action against the Commonwealth seeking damages and declaratory and injunctive relief based on the Commonwealth's alleged failure to comply with a contingent attorney's fee agreement in connection with the plaintiff law firms' representation of the Commonwealth against the tobacco industry. Plaintiffs seek approximately $562 million. The plaintiffs seek $20 million payable out of previous tobacco settlement payments to the Commonwealth, and the balance over a period of years as a percentage of each year's receipts of tobacco settlement funds.

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

New England Division of the American Cancer Society, et. al. v. Sullivan, et. al., Supreme Judicial Court for Suffolk County No. SJC-02-0092. This is a statutory and constitutional challenge to the Acting Governor's reduction of allotments of prior appropriations pursuant to M.G.L. c. 29, sec. 9C. The allotment reductions specifically challenged in the suit total $22.4 million.

Attorney General Investigation

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

SEC Investigation

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

MISCELLANEOUS

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

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

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.

Neither the Commonwealth's independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

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

CONTINUING DISCLOSURE

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

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

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

AVAILABILITY OF OTHER FINANCIAL INFORMATION

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

THE COMMONWEALTH OF MASSACHUSETTS

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

By /s/ Kevin J. Sullivan
Kevin J. Sullivan
Secretary of Administration and Finance

March 21, 2002

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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
111 HUNTINGTON AVENUE AT PRUDENTIAL CENTER
BOSTON, MA 02199-7613

[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 2002, Series B)

We have acted as Bond Counsel to The Commonwealth of Massachusetts in connection with the issuance by the Commonwealth of $492,440,000 aggregate principal amount of General Obligation Bonds, Consolidated Loan of 2002, Series B, dated March 15, 2002 (the "Bonds").

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

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

1. The Bonds are valid general obligations of The Commonwealth of Massachusetts and the full faith and credit of the Commonwealth are pledged for the payment of the principal of and interest on the Bonds. It should be noted, however, that Chapter 62F of the General Laws of The Commonwealth of Massachusetts establishes a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit.

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

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3. The interest on the Bonds (including any accrued original issue discount properly allocable thereto) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of computing the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"); it should be noted, however, that interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). The opinions set forth in the preceding sentence are subject to the condition that the Commonwealth comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Commonwealth has covenanted to comply with these requirements. Failure to comply with certain of these requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding any other tax consequences arising with respect to the Bonds.

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

Yours faithfully,

APPENDIX C

Commonwealth of Massachusetts
General Obligation Bonds
Consolidated Loan of 2002, Series B

Continuing Disclosure Undertaking
[to be included in bond form]

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the Bonds to provide to each nationally recognized municipal securities information repository (each, a "NRMSIR") within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the "Rule") and to the state information depository for the Commonwealth, if any (the "SID"), within the meaning of the Rule, no later than 270 days after the end of each fiscal year of the Commonwealth, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Commonwealth for such fiscal year if audited financial statements are then available, provided, however, that if audited financial statements of the Commonwealth are not then available, such audited financial statements shall be delivered to each NRMSIR and the SID when they become available (but in no event later than 350 days after the end of such fiscal year) or (ii) notice of the Commonwealth's failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Commonwealth's Information Statement dated March 21, 2002 (the "Information Statement") and substantially in the same level of detail as is found in the referenced section of the Information Statement:

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

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

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

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

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties1/;

(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 securities2/ 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 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

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

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

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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FINANCIAL SECURITY ASSURANCE®

MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud), whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature] FINANCIAL SECURITY ASSURANCE INC.

By ______________________ By ______________________
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022
(212) 826-0100