

NEW ISSUE - BOOK-ENTRY-ONLY

In the opinion of Bond Counsel, under existing law, and assuming continued compliance with various 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 imposed on certain corporations. In the opinion of Bond Counsel, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. See "TAX EXEMPTION" herein.

THE COMMONWEALTH OF MASSACHUSETTS



\$81,975,000
Series D-1

\$163,925,000
General Obligation Bonds
Consolidated Loan of 2007
(Auction Rate Securities)

\$81,950,000
Series D-2

The Bonds will be issued by means of a book-entry-only system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company, New York, New York ("DTC"), and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The Bonds are initially issued as auction rate securities in a seven-day mode, and each series of Bonds is subject to conversion, at the option of the Commonwealth and subject to certain restrictions, to other auction rate modes or to the fixed rate mode. The Bonds will bear interest from their date of delivery for the applicable Initial Period set forth on the inside front cover of this Official Statement at the rates determined by the Underwriters (identified below). Thereafter, the Bonds shall bear interest at the Applicable Rate determined pursuant to the Auction Procedures set forth in Appendix D hereto for each Auction Period. The Bonds are subject to redemption prior to maturity as more fully described herein.

Deutsche Bank Trust Company Americas will initially serve as Auction Agent for the Bonds. Each of the Underwriters identified below will initially serve as Broker-Dealers with respect to the Bonds.

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

Payment of the principal of an interest on the Bonds on the regularly scheduled due dates for payment thereof will be insured in accordance with a municipal bond insurance policy to be issued simultaneously with the delivery of the Bonds by Financial Guaranty Insurance Company. See "BOND INSURANCE."

FGIC

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 Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Nutter McClennen & Fish LLP, Boston, Massachusetts. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about August 16, 2007.

Bear, Stearns & Co. Inc.

JPMorgan

August 8, 2007

THE COMMONWEALTH OF MASSACHUSETTS

\$163,925,000 General Obligation Bonds Consolidated Loan of 2007 (Auction Rate Securities)

\$81,975,000 SERIES D-1

<u>Final Maturity</u>	<u>Principal Amount</u>	<u>Last Day of Initial Period</u>	<u>Initial Auction Period</u>	<u>First Auction Date</u>	<u>First Interest Payment Date</u>	<u>CUSIP Number*</u>
08/01/2018	\$81,975,000	August 21, 2007	7 Day Mode	August 21, 2007	August 22, 2007	57582PGA2

\$81,950,000 SERIES D-2

<u>Final Maturity</u>	<u>Principal Amount</u>	<u>Last Day of Initial Period</u>	<u>Initial Auction Period</u>	<u>First Auction Date</u>	<u>First Interest Payment Date</u>	<u>CUSIP Number*</u>
08/01/2018	\$81,950,000	August 23, 2007	7 Day Mode	August 23, 2007	August 24, 2007	57582PGB0

Price of all Bonds: 100%

* Copyright, American Bankers Association. CUSIP data herein are provided by Standard & Poor's, CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc. The CUSIP numbers listed above are being provided solely for the convenience of Bondowners only at the time of issuance of the Bonds and the Commonwealth does not make any representation with respect to such numbers or undertake any responsibility for their accuracy now or at any time in the future. The CUSIP number for a specific maturity is subject to being changed after the issuance of the Bonds as a result of various subsequent actions including, but not limited to, a refunding in whole or in part of such maturity or as a result of the procurement of secondary market portfolio insurance or other similar enhancement by investors that is applicable to all or a portion of certain maturities of 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 set forth herein or included by reference herein has been furnished by the Commonwealth and includes information obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters of the Bonds or, as to information from other sources, the Commonwealth. The information and expressions of opinion herein or included by reference herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the Commonwealth, or its agencies, authorities or political subdivisions, since the date hereof, except as expressly set forth herein.

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

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

TABLE OF CONTENTS

INTRODUCTION	1
PURPOSE AND CONTENT OF OFFICIAL STATEMENT	1
THE BONDS	2
GENERAL	2
DESCRIPTION OF THE ARS BONDS	2
REDEMPTION	6
CERTAIN CONSIDERATIONS AFFECTING AUCTION RATE SECURITIES	7
APPLICATION OF PROCEEDS OF THE BONDS	11
SECURITY FOR THE BONDS	11
BOND INSURANCE	12
LITIGATION	14
BOOK-ENTRY-ONLY SYSTEM	14
RATINGS	16
UNDERWRITING	16
TAX EXEMPTION	17
OPINION OF COUNSEL	18
CONTINUING DISCLOSURE	18
MISCELLANEOUS	18
AVAILABILITY OF OTHER INFORMATION	19
APPENDIX A - Commonwealth Information Statement Supplement dated August 8, 2007	A-1
APPENDIX B - Proposed Form of Opinion of Bond Counsel	B-1
APPENDIX C - Continuing Disclosure Undertaking	C-1
APPENDIX D - Auction Procedures	D-1
APPENDIX E - Specimen Form of Bond Insurance Policy	E-1

THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

Deval L. Patrick.....Governor
Timothy P. Murray..... Lieutenant Governor
William F. Galvin.....Secretary of the Commonwealth
Martha Coakley.....Attorney General
Timothy P. Cahill..... Treasurer and Receiver-General
A. Joseph DeNucci Auditor

LEGISLATIVE OFFICERS

Therese Murray.....President of the Senate
Salvatore F. DiMasiSpeaker of the House

OFFICIAL STATEMENT

THE COMMONWEALTH OF MASSACHUSETTS

\$163,925,000
General Obligation Bonds
Consolidated Loan of 2007
(Auction Rate Securities)

\$81,975,000
Series D-1

\$81,950,000
Series D-2

INTRODUCTION

This Official Statement (including the cover page and Appendices A through E attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the “Commonwealth”) of its \$163,925,000 aggregate principal amount of General Obligation Bonds, Consolidated Loan of 2007 (Auction Rate Securities), Series D-1, in the aggregate principal amount of \$81,975,000 (the “Series D-1 Bonds”), and Series D-2, in the aggregate principal amount of \$81,950,000 (the “Series D-2 Bonds” and, together with the Series D-1 Bonds, the “Bonds,” the “ARS” or the “ARS Bonds”). The Bonds will be general obligations of the Commonwealth, and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and expenditures for debt service, see “SECURITY FOR THE BONDS” and the Commonwealth Information Statement (described below) under the headings “COMMONWEALTH REVENUES – Limitations on Tax Revenues” and “LONG-TERM LIABILITIES – General Authority to Borrow; Limit on Debt Service Appropriations.”

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

Purpose and Content of Official Statement

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

Specific reference is made to the Commonwealth’s Information Statement dated May 9, 2007 (the “May Information Statement”), as it appears as Appendix A in the Official Statement dated May 9, 2007 of the Commonwealth with respect to the Commonwealth’s \$498,565,000 General Obligation Bonds, Consolidated Loan of 2007, Series A, and its \$553,135,000 General Obligation Refunding Bonds, 2007 Series A, a copy of which has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission and with the Municipal Securities Rulemaking Board. The information contained in the May Information Statement has been supplemented by the Commonwealth’s Information Statement Supplement dated August 8, 2007 (the “August Supplement”), which is attached hereto as Appendix A. The May Information Statement together with and as supplemented by the August Supplement is referred to herein as the “Commonwealth Information Statement.”

The Commonwealth Information Statement contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth. Exhibit A to the Commonwealth Information Statement contains certain economic information concerning the Commonwealth. Exhibit B to the Commonwealth Information Statement contains the financial statements of the Commonwealth for the fiscal year ended June 30, 2006, prepared on a statutory basis. Exhibit C to the Commonwealth Information Statement contains the financial statements of the Commonwealth for the fiscal year ended June 30, 2006, prepared on a GAAP basis. Specific reference is made to said Exhibits A, B and C, copies of which have been filed with each Nationally

Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. The financial statements are also available at the home page of the Comptroller of the Commonwealth located at <http://www.mass.gov/osc> by clicking on "Financial Reports/Audits."

Appendix B attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Bonds. Appendix C 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 of the Bonds with the requirements of paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission. Appendix D attached hereto contains definitions and a summary of provisions of the Bonds relating to the auction rate security features and other matters. Appendix E contains a specimen form of the municipal bond insurance policy to be issued by Financial Guaranty Insurance Company (the "Bond Insurer" or "Financial Guaranty").

THE BONDS

General

The following is a summary of certain provisions of the Bonds relating to the auction rate security features. The Bonds, while bearing interest at an Auction Rate, are hereinafter referred to as "ARS Bonds." Reference is made to the ARS Bonds of each Series, each in its entirety, copies of which will be available for inspection during business hours at the offices of the Treasurer and Receiver-General of the Commonwealth, for detailed provisions of the ARS Bonds. For definitions of certain terms and additional information relating to the ARS Bonds, see Appendix D -- "Auction Procedures."

This Official Statement, in general, describes the ARS Bonds only during an Auction Rate Period, which is the period beginning on the date of delivery of the ARS Bonds of each Series and ending on the date on which interest on the ARS Bonds of such Series is changed to a fixed rate of interest to maturity.

Payment of principal of and interest on each Series of the ARS Bonds is insured by a municipal bond insurance policy provided by the Bond Insurer. See "BOND INSURANCE."

Description of the ARS Bonds

The ARS Bonds will be issued in the aggregate principal amount of \$163,925,000, comprised of two series, in the principal amount of \$81,975,000 for the Series D-1 Bonds and in the principal amount of \$81,950,000 for the Series D-2 Bonds. Each Series of the ARS Bonds will bear interest from their date of delivery for the applicable Initial Period set forth on the inside front cover of this Official Statement at the rates established by the Underwriters named on the front cover thereof and thereafter at the applicable Auction Rate determined pursuant to the Auction Procedures. Following the Initial Period, each Series of the ARS Bonds initially will bear interest for seven-day Auction Periods, unless and until changed to a different Auction Period or converted to the Fixed Rate Mode.

The interest rates on the Bonds for each Auction Period after the initial Auction Period shall, subject to certain exceptions described below, be equal to the rates per annum that the Auction Agent advises have resulted on each Auction Date therefor referred to below from the implementation of Auction Procedures described in Appendix D -- "Auction Procedures," in which persons determine to hold or offer to sell or, based on interest rates bid by them, offer to purchase or sell Bonds. Each periodic implementation of the Auction Procedures for the Bonds is hereinafter referred to as an "Auction." Interest on the Bonds during each Auction Period of 180 days or less shall be computed on the basis of actual days over 360; interest on the Bonds during each Auction Period which is greater than 180 days shall be computed on the basis of a 360-day year of twelve 30-day months.

In the event the Auction Agent shall fail to calculate or, for any reason, fails to provide the Auction Rate on the Auction Date, for any Auction Period (i) if the preceding Auction Period was a period of 35 days or less, (A) a new Auction Period shall be established for the same length of time as the preceding Auction Period, if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be

55% of the Index if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension, and (ii) if the preceding Auction Period was a period of greater than 35 days, (A) a new Auction Period shall be established for a period that ends on the seventh day following the day that was the last day of the preceding Auction Period, (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be the 55% of the Index if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension. In the event a new Auction Period is established as set forth in clause (ii) (A) above, an Auction shall be held on the last Business Day of the new Auction Period to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the new Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no new Auction Period or Auction Periods subsequent to the last Auction Period for which a Winning Bid Rate had been determined. In the event an Auction Period is extended as set forth in clause (i) (B) or (ii) (B) above, an Auction shall be held on the last Business Day of the Auction Period as so extended to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the extended Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no extension of the prior Auction Period.

Notwithstanding the foregoing, neither new nor extended Auction Periods shall total more than 35 days in the aggregate. If at the end of the 35 days the Auction Agent fails to calculate or provide the Auction Rate, or there is not at the time a duly appointed and acting Auction Agent or Broker-Dealer, the Auction Period Rate shall be the Maximum Rate.

In the event of a failed conversion from an Auction Period to any other period or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Period Rate for the next Auction Period shall be the Maximum Rate and the Auction Period shall be a seven-day Auction Period.

If the Bonds are no longer maintained in book-entry-only form by the Securities Depository, then the Auctions shall cease and the Auction Period Rate shall be the Maximum Rate.

The Auction Agent has agreed in the Auction Agreement (as hereinafter defined) not to suspend its obligations pursuant to the Auction Agreement or terminate the Auction Agreement due to the failure of the Commonwealth to pay all fees that are due to the Auction Agent or Broker-Dealer under the Auction Agreement unless such non-payment has not been cured by the Commonwealth or the Bond Insurer within 30 days of such non-payment.

The determination of any interest rate by the Auction Agent in accordance with the Auction Procedures shall be conclusive and binding upon the Commonwealth, the Auction Agent, the Broker-Dealer and the registered and beneficial owners of the Bonds.

In no event shall the Auction Rate exceed the lesser of 12% per annum or the maximum rate, if any, permitted by applicable law.

The ARS Bonds of each Series will be issued as fully registered bonds without coupons and in denominations of \$25,000 or any integral multiple thereof while such ARS Bonds bear interest at an ARS Rate.

Interest Payment Dates. Interest on the Bonds will be payable on each Interest Payment Date therefor. The initial Interest Payment Date for the Series D-1 Bonds and Series D-2 Bonds will be August 22, 2007 and August 24 2007, respectively. Thereafter, an "Interest Payment Date" with respect to the Bonds means (a) when used with respect to any Auction Period other than a daily Auction Period or a Flexible Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to a Flexible Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Flexible Auction Period, or (ii) 183 or more days, each February 1 and August 1 and on the Business Day immediately following such Flexible Auction Period, and (d) the date when the final payment of principal of the Bonds becomes due and payable (whether at stated maturity, upon redemption or acceleration, or otherwise). It is presently anticipated that initially the Bonds will bear interest in the ARS Rate Period for successive seven-day Auction Periods, in which case interest will be paid on the Business Day immediately following each Auction Period. The record date for each Interest Payment Date will be the Business Day immediately preceding such Interest Payment Date (the "Record Date").

Auction Dates. An Auction to determine the Auction Rate for the Bonds for each Auction Period after the initial Auction Period, shall occur on each Auction Date. So long as the Bonds remain in seven-day Auction Periods, the initial Auction and each Auction thereafter will generally be held on Tuesday and Thursday for the Series D-1 Bonds and the Series D-2 Bonds, respectively; provided, if any such day is not a Business Day, the Auction Date will be the preceding Business Day. The Broker-Dealer and the Auction Agent, subject to certain conditions, may establish different days as the Auction Dates for future Auction Periods. If the Bonds are in a daily Auction Period, the Auction Date shall be each Business Day unless such day is the Business Day prior to the conversion from a daily Auction Period to another Auction Period. If the Bonds are in a Flexible Auction Period, the Auction Date shall be the last Business Day of the Flexible Auction Period.

Auction Agent. Deutsche Bank Trust Company Americas will serve as the initial Auction Agent for the Bonds (together with any successor bank or trust company or other entity, the "Auction Agent"). The Auction Agent will enter into an agreement (the "Auction Agreement") with the Commonwealth, which will provide, among other things, that the Auction Agent will follow the Auction Procedures for the purposes of determining the Auction Rate so long as the Auction Rate is to be based on the results of an Auction.

Broker-Dealers. Each Auction requires the participation of a broker-dealer. Bear, Stearns & Co. Inc. and J.P. Morgan Securities Inc. (in this capacity, the "Broker-Dealers") will serve as the initial Broker-Dealers for the Bonds. The Commonwealth and the Auction Agent will enter into an agreement with each Broker-Dealer with respect to the Bonds and may enter into similar agreements (each, a "Broker-Dealer Agreement") with one or more additional broker-dealers (collectively with the initial Broker-Dealers, the "Broker-Dealers") selected by the Commonwealth.

Changes in an Auction Period or Auction Date and Notice Regarding Changes. During any Auction Rate Period, the Commonwealth may from time to time on the last Interest Payment Date of any Auction Period, change the length of the Auction Period with respect to the Bonds among daily, seven-days, 28-days, 35-days, three months, six months and a Flexible Auction Period. The Commonwealth shall initiate the change in the length of the Auction Period by giving written notice to the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period for the Bonds specified in such notice shall change if certain conditions are satisfied and the proposed effective date of the change, at least ten Business Days prior to the Auction Date for such Auction Period.

Any change in length of the Auction Period for Bonds shall take effect only if (A) the Auction Agent receives, by 11:00 a.m., New York City time, on the Business Day before the Auction Date for the first such Auction Period, a certificate from the Commonwealth consenting to the change in the length of the Auction Period specified in such certificate and an opinion of Bond Counsel and (B) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. For purposes of the Auction for such

first Auction Period only, except to the extent any Existing Owner submits an Order with respect to such Bonds, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Bonds if the change is to a longer Auction Period and a Hold Order if the change is to a shorter Auction Period. If the condition referred to in clause (A) above is not met, the Auction Rate for the next Auction Period shall be determined pursuant to the Auction Procedures and the Auction Period shall be the Auction Period determined without reference to the proposed change. If the conditions referred to in (A) is met but the condition referred to in (B) is not met, the Auction Rate will be the Maximum Rate, and the Auction Period will be a seven-day Auction Period.

During any Auction Rate Period, the Auction Agent, at the direction of the Commonwealth, may specify an earlier or later Auction Date (but in no event more than five Business Days earlier or later) for the Bonds than the Auction Date that would otherwise be determined. The Auction Agent shall provide notice of the Commonwealth's direction to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Broker-Dealers and the Securities Depository. In the event the Auction Agent is instructed to specify an earlier Auction Date, the days of the week on which an Auction Period begins and ends, the days of the week on which a Flexible Auction Period ends and the Interest Payment Date relating to a Flexible Auction Period will be adjusted accordingly.

Amendment of Auction Procedures. During an ARS Rate Period with respect to the Bonds, the definitions of All Hold Rate, Index, Interest Payment Date, Maximum Rate, Auction Period Rate and Auction Rate, may be amended by obtaining the consent of the owners of all affected Outstanding Bonds bearing interest at the Auction Period Rate as follows. If on the first Auction Date occurring at least 20 days after the date on which the Commonwealth mailed notice of such proposed amendment to the registered owners of the affected Outstanding Bonds as required by the Agreement, (i) the Auction Period Rate which is determined on such date is the Winning Bid Rate or the All Hold Rate and (ii) there is delivered to the Commonwealth a Favorable Opinion of Bond Counsel to the effect that such amendment shall not adversely affect the validity of the Bonds or any exemption from federal income taxation to which the interest on the Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the registered owners of all affected Outstanding Bonds bearing interest at an Auction Period Rate.

Conversion From Auction Rate Mode to Fixed Rate Mode. The Commonwealth may elect to convert all or a portion of the Bonds in an amount which is an Authorized Denomination for the new Interest Period from the ARS Rate Period to a Fixed Rate Period. The Commonwealth will provide not less than 20 days notice to Bondowners prior to the proposed conversion to such different interest rate mode as set forth below. The Conversion Date from an ARS Rate Period shall be the Interest Payment Date following the final Auction Period.

The Commonwealth is required to give notice of the proposed conversion by first class mail or electronically through DTC to the registered owners of the Bonds not less than 20 days before the proposed effective date. Such notice must state that the affected Bonds will be subject to mandatory tender for purchase on such proposed effective date. See "Mandatory Tender" below.

No change to a Fixed Rate shall become effective unless the Commonwealth receives a Favorable Opinion of Bond Counsel dated the Conversion Date.

At any time prior to 10:00 a.m., New York City time, on the Business Day immediately preceding the Conversion Date the Commonwealth may withdraw its notice of conversion and the Auction for such Bonds shall be held on such Auction Date as if no conversion notice had ever been given. If on a Conversion Date there has been a timely withdrawal of the conversion notice as set forth in the preceding sentence or any condition precedent to such conversion is not satisfied, the Commonwealth shall give notice by Electronic Means as soon as practicable and in any event not later than the next succeeding Business Day to the registered owner of the Bonds to have been converted, the Auction Agent, the Broker-Dealers and the Credit Provider, if any, that such conversion has not occurred, that the Bonds shall not be purchased on the failed Conversion Date, that the Auction Agent shall continue to implement the Auction Procedures on the Auction Dates with respect to such Bonds which otherwise would have been converted, excluding, however, the

Auction Date falling on the Business Day next preceding the failed Conversion Date, and that the interest rate shall continue to be the Auction Period Rate; provided, however, that the interest rate borne by the Bonds which otherwise would have been converted during the Auction Period commencing on such failed Conversion Date shall be the Maximum Rate, and the Auction Period shall be the seven-day Auction Period.

Mandatory Tender. The Bonds to be converted from the ARS Rate to a Fixed Rate Mode are subject to mandatory tender for purchase on the effective date of such conversion at a purchase price equal to 100% of the principal amount thereof, plus accrued interest, if any. See “Conversion From Auction Rate Mode to Fixed Rate Mode.”

The principal portion of the purchase price of the Bonds so tendered shall be payable solely from the proceeds of the remarketing of such Bonds. In the event that the conditions of a conversion are not satisfied, including the failure to remarket all applicable Bonds on a mandatory tender date, the Bonds shall not be subject to mandatory tender, shall be returned to their owners, shall automatically convert to a seven-day Auction Period and shall bear interest at the Maximum Rate.

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 federal funds to DTC or its nominee as registered owner of the Bonds. As long as the book-entry-only system remains in effect, DTC or its nominee will be recognized as the owner of the Bonds for all purposes, including notices and voting. The Commonwealth will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. See “BOOK-ENTRY-ONLY SYSTEM.”

Redemption

Optional Redemption. While the Bonds bear interest at an Auction Period Rate, such Bonds are callable by the Commonwealth, in whole or in part, at par plus accrued interest on the Interest Payment Date immediately following the end of an Auction Period; provided that after any optional redemption there shall not be less than \$10,000,000 in aggregate principal amount of Bonds bearing interest at an Auction Period Rate unless otherwise consented to by the Broker-Dealers. All redemptions shall be in integral multiples of \$25,000.

Mandatory Sinking Fund Redemption. The Bonds are subject to mandatory redemption prior to maturity in the respective principal amounts set forth below (except as the same may be revised following credits to sinking fund installments, as described below), in each case at a redemption price of 100% of their principal amount plus accrued interest to the date of redemption, but without premium, on the Interest Payment Date therefor on or immediately preceding August 1. The Bonds in a Flexible Auction Period may be redeemed prior to the end of the Flexible Auction Period pursuant to the sinking fund redemption schedule.

\$81,975,000 Series D-1 Term Bond Due August 1, 2018

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2008	\$ 125,000	2015	\$ 2,575,000
2009	175,000	2016	56,200,000
2010	1,525,000	2017	6,975,000
2013	850,000	2018†	10,050,000
2014	3,500,000		

† Stated Maturity.

\$81,950,000 Series D-2 Term Bond Due August 1, 2018

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
2008	\$ 150,000	2015	\$ 2,575,000
2009	175,000	2016	56,200,000
2010	1,525,000	2017	6,950,000
2013	875,000	2018†	10,025,000
2014	3,475,000		

† Stated Maturity.

The Commonwealth is entitled to reduce its mandatory sinking fund redemption obligation in any year with respect to the Bonds by the principal amount of any Bonds previously purchased or optionally redeemed by the Commonwealth.

Notice of Redemption. The Commonwealth shall give notice of redemption to the owners of the applicable 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 such 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 such 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 monies on hand to pay such redemption in full.

If any Bonds are to be redeemed in part and such Bonds are held by a Securities Depository, the Commonwealth shall include in the notice of the call for redemption delivered to the Securities Depository (i) a date placed under an item entitled “Publication Date for Securities Depository Purposes” and such date shall be three Business Days after the Auction Date immediately preceding such redemption date (in the case of a daily Auction Period, such date shall be three Business Days immediately preceding the date of redemption) and (ii) an instruction to the Securities Depository to (x) determine on such Publication Date after the Auction held on the immediately preceding Auction Date has settled, the Securities Depository Participants whose Securities Depository positions shall be redeemed and the principal amount of such Auction Rate Bonds to be redeemed from each such position (the “Securities Depository Redemption Information”), and (y) notify the Commonwealth immediately after such determination of (1) the positions of the Securities Depository Participants in such Bonds immediately prior to such Auction settlement, (2) the position of the Securities Depository Participants in such Auction Rate Bonds immediately following such Auction settlement, and (3) the Securities Depository Redemption Information. Immediately upon receipt of the notice referred to in (y) of the preceding sentence, the Commonwealth shall send a copy of such notice to the Auction Agent.

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.

Certain Considerations Affecting Auction Rate Securities

Role of Broker-Dealer. Bear, Stearns & Co. Inc. and J.P. Morgan Securities Inc. (the “Broker-Dealers”) have been appointed by the issuers or obligors of various auction rate securities to serve as dealers in the auctions for those securities and is paid by the issuers or obligors for their services. Bear, Stearns & Co. Inc. and J.P. Morgan Securities Inc. receive broker-dealer fees from such issuers or obligors at an agreed-

upon annual rate that is applied to the principal amount of securities sold or successfully placed through Bear Stearns & Co. and J.P. Morgan Securities Inc. in such auctions.

The Broker-Dealers are designated in each Broker-Dealer Agreement as the Broker-Dealer to contact Existing Owners and Potential Owners and solicit Bids for the Bonds. The Broker-Dealers will receive Broker-Dealer Fees from the Commonwealth with respect to the Bonds sold or successfully placed through it in Auctions for the Bonds. The Broker-Dealers may share a portion of such fees with other dealers that submit Orders through it that are filled in the Auction for the Bonds.

Bidding by Broker-Dealer. Each Broker-Dealer is permitted, but not obligated, to submit Orders in Auctions for the Bonds for its own account either as a buyer or seller and routinely does so in the auction rate securities market in its sole discretion. If a Broker-Dealer submits an Order for its own account, it would have an advantage over other Bidders because the Broker-Dealer would have knowledge of the other Orders placed through it in that Auction for the Bonds and thus could determine the rate and size of its Order so as to increase the likelihood that (i) its Order will be accepted in the Auction for the Bonds and (ii) the Auction for the Bonds will clear at a particular rate. For this reason, and because each Broker-Dealer is appointed and paid by the Commonwealth to serve as a Broker-Dealer in the Auctions for the Bonds, the Broker-Dealer's interests in serving as Broker-Dealer in an Auction for the Bonds may differ from those of Existing Owners and Potential Owners who participate in Auctions for the Bonds. See "Role of Broker-Dealer." Each Broker-Dealer would not have knowledge of Orders submitted to the Auction Agent by any other firm that is, or may in the future be, appointed to accept Orders pursuant to a Broker-Dealer Agreement.

The Broker-Dealers are the only Broker-Dealers appointed by the Commonwealth to serve as Broker-Dealers in the Auctions for the Bonds, and as long as that remains the case they will be the only Broker-Dealers that submit Orders to the Auction Agent in the Auctions for the Bonds. As a result, in such circumstances, the Broker-Dealers may discern the clearing rate before the Orders are submitted to the Auction Agent and set the clearing rate with their Orders.

Each Broker-Dealer routinely places bids in auctions generally for its own account to acquire securities for its inventory, to prevent an "Auction Failure" (which occurs if there are insufficient clearing bids and results in the auction rate being set at the maximum rate) or to prevent an auction from clearing at a rate that the Broker-Dealer believes does not reflect the market for such securities. Each Broker-Dealer may place one or more Bids in an Auction for the Bonds for its own account to acquire the Bonds for its inventory, to prevent an Auction Failure or to prevent Auctions for the Bonds from clearing at a rate that the Broker-Dealer believes does not reflect the market for the Bonds. Each Broker-Dealer may place such Bids even after obtaining knowledge of some or all of the other Orders submitted through it. When Bidding in an Auction for the Bonds for its own account, each Broker-Dealer also may Bid inside or outside the range of rates that it posts in its Price Talk. See "Price Talk."

Each Broker-Dealer routinely encourages bidding by others in auctions generally for which it serves as broker-dealer. Each Broker-Dealer also may encourage Bidding by others in Auctions for the Bonds, including to prevent an Auction Failure or to prevent an Auction for the Bonds from clearing at a rate that the Broker-Dealer believes does not reflect the market for the Bonds. Each Broker-Dealer may encourage such Bids even after obtaining knowledge of some or all of the other Orders submitted through it.

Bids by a Broker-Dealer or by those it may encourage to place Bids are likely to affect (i) the Auction Rate — including preventing the Auction Rate from being set at the Maximum Rate or otherwise causing Bidders to receive a lower rate than they might have received had the Broker-Dealer not Bid or not encouraged others to Bid and (ii) the allocation of the Bonds being auctioned — including displacing some Bidders who may have their Bids rejected or receiving fewer Bonds than they would have received if the Broker-Dealer had not Bid or encouraged others to Bid. Because of these practices, the fact that an Auction for the Bonds clears successfully does not mean that an investment in the Bonds involves no significant liquidity or credit risk. Each Broker-Dealer is not obligated to continue to place such Bids or to continue to encourage other Bidders to do so in any particular Auction for the Bonds to prevent an Auction Failure or an Auction for the Bonds from clearing at a rate the Broker-Dealer believes does not reflect the market for the Bonds. Investors should not assume that the Broker-Dealer will place Bids or encourage others to do so or

that Auction Failures will not occur. Investors should also be aware that Bids by the Broker-Dealer or by those it may encourage to place Bids may cause lower Auction Rates to occur.

The statements herein regarding Bidding by the Broker-Dealers apply only to each Broker-Dealer's auction desk and any other business units of the Broker-Dealer that are not separated from the auction desk by an information barrier designed to limit inappropriate dissemination of bidding information.

In any particular Auction for the Bonds, if all outstanding Bonds are the subject of Submitted Hold Orders, the Auction Rate for the next succeeding Auction Period will be the All Hold Rate (such a situation is called an "All Hold Auction"). If a Broker-Dealer holds any Bonds for its own account on an Auction Date, it is the Broker-Dealer's practice to submit a Sell Order into the Auction for the Bonds with respect to such Bonds, which would prevent that Auction for the Bonds from being an All Hold Auction. Each Broker-Dealer may, but is not obligated to, submit Bids for its own account in that same Auction for the Bonds, as set forth above.

Price Talk. Before the start of an Auction for the Bonds, each Broker-Dealer, in its discretion, may make available to its customers who are Existing Owners and Potential Owners the Broker-Dealer's good faith judgment of the range of likely clearing rates for the Auction for the Bonds based on market and other information. This is known as "Price Talk." Price Talk is not a guaranty that the Auction Rate established through the Auction for the Bonds will be within the Price Talk, and Existing Owners and Potential Owners are free to use it or ignore it. Each Broker-Dealer occasionally may update and change the Price Talk based on changes in the Commonwealth's or the Bond Insurer's credit quality or macroeconomic factors that are likely to result in a change in interest rate levels, such as an announcement by the Federal Reserve Board of a change in the Federal Funds rate or an announcement by the Bureau of Labor Statistics of unemployment numbers. Potential Owners should confirm with the Broker-Dealer the manner by which the Broker-Dealer will communicate Price Talk and any changes to Price Talk.

"All-or-Nothing" Bids. The Broker-Dealers will not accept "all-or-nothing" Bids (*i.e.*, Bids whereby the Bidder proposes to reject an allocation smaller than the entire quantity Bid) or any other type of Bid that allows the Bidder to avoid Auction Procedures that require the pro rata allocation of Bonds where there are not sufficient Sell Orders to fill all Bids at the Winning Bid Rate.

No Assurances Regarding Auction Outcomes. Each Broker-Dealer provides no assurance as to the outcome of any Auction. Each Broker-Dealer also does not provide any assurance that any Bid will be successful, in whole or in part, or that the Auction for the Bonds will clear at a rate that a Bidder considers acceptable. Bids may be only partially filled, or not filled at all, and the Auction Rate on any Bonds purchased or retained in the Auction for the Bonds may be lower than the market rate for similar investments.

The Broker-Dealers will not agree before an Auction to buy Bonds from or sell Bonds to a customer after the Auction.

Deadlines. Each particular Auction for the Bonds has a formal deadline by which all Bids must be submitted by the Broker-Dealers to the Auction Agent. This deadline is called the "Submission Deadline." To provide sufficient time to process and submit customer Bids to the Auction Agent before the Submission Deadline, the Broker-Dealers impose an earlier deadline for all customers— called the "Broker-Dealer Deadline" — by which Bidders must submit Bids to the Broker-Dealer. The Broker-Dealer Deadline is subject to change by the Broker-Dealers. Potential Owners should consult with each Broker-Dealer as to its Broker-Dealer Deadline. Each Broker-Dealer may allow for correction of clerical errors after the Broker-Dealer Deadline and prior to the Submission Deadline. Bear, Stearns & Co. Inc. and J.P. Morgan Securities Inc. may submit Bids for their own account at any time until the Submission Deadline and may change Bids they have submitted for their own account at any time until the Submission Deadline. The Auction Procedures provide that until one hour after the Auction Agent completes the dissemination of the results of an Auction, new Orders can be submitted to the Auction Agent if such Orders were received by the Broker-Dealers or generated by the Broker-Dealers for their own account prior to the Submission Deadline and the failure to submit such Orders prior to the Submission Deadline was the result of force majeure, a technological failure or a clerical error. In addition until one hour after the Auction Agent completes the

dissemination of the results of an Auction, a Broker-Dealer may modify or withdraw an Order submitted to the Auction Agent prior to the Submission Deadline if the Broker-Dealer determines that such Order contained a clerical error. In the event of such a submission, modification or withdrawal the Auction Agent will rerun the Auction, if necessary, taking into account such submission, modification or withdrawal.

Existing Owner's Ability to Resell Auction Rate Securities May Be Limited. An Existing Owner may sell, transfer or dispose of a Bond (i) in an Auction for the Bonds, only pursuant to a Bid or Sell Order in accordance with the Auction Procedures, or (ii) outside an Auction for the Bonds, only to or through a Broker-Dealer.

Existing Owners will be able to sell all of the Bonds that are the subject of their Submitted Sell Orders only if there are Bidders willing to purchase all those Bonds in the Auction for the Bonds. If Sufficient Clearing Bids have not been made, Existing Owners that have submitted Sell Orders will not be able to sell in the Auction for the Bonds all, and may not be able to sell any, of the Bonds subject to such Submitted Sell Orders. As discussed above (see "Bidding by Broker-Dealer"), a Broker-Dealer may submit a Bid in an Auction for the Bonds to avoid an Auction Failure, but it is not obligated to do so. There may not always be enough Bidders to prevent an Auction Failure in the absence of the Broker-Dealer Bidding in the Auction for the Bonds for its own account or encouraging others to Bid. Therefore, Auction Failures are possible, especially if the Commonwealth's or the Bond Insurer's credit were to deteriorate, if a market disruption were to occur or if, for any reason, the Broker-Dealers were unable or unwilling to Bid.

Between Auctions for the Bonds, there can be no assurance that a secondary market for the Bonds will develop or, if it does develop, that it will provide Existing Owners the ability to resell the Bonds on the terms or at the times desired by an Existing Owner. Bear, Stearns & Co. Inc. and J.P. Morgan Securities Inc., in their own discretion, may decide to buy or sell the Bonds in the secondary market for its own account from or to investors at any time and at any price, including at prices equivalent to, below, or above par for the Bonds. However, the Broker-Dealers are not obligated to make a market in the Bonds and may discontinue trading in the Bonds without notice for any reason at any time. Existing Owners who resell between Auctions for the Bonds may receive an amount less than par, depending on market conditions.

If an Existing Owner purchased a Bond through a dealer which is not a Broker-Dealer for the Bonds, such Existing Owner's ability to sell its Bonds may be affected by the continued ability of its dealer to transact trades for the Bonds through the Broker-Dealers.

The ability to resell the Bonds will depend on various factors affecting the market for the Bonds, including news relating to the Commonwealth and the Bond Insurer, the attractiveness of alternative investments, investor demand for short term securities, the perceived risk of owning the Bonds (whether related to credit, liquidity or any other risk), the tax or accounting treatment accorded the Bonds (including U.S. generally accepted accounting principles as they apply to the accounting treatment of auction rate securities), reactions of market participants to regulatory actions (such as those described in "Securities and Exchange Commission Settlements" below) or press reports, financial reporting cycles and market conditions generally. Demand for the Bonds may change without warning, and declines in demand may be short-lived or continue for longer periods.

Resignation of the Auction Agent or the Broker-Dealer Could Impact the Ability to Hold Auctions. The Auction Agent Agreement provides that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days' notice to the Commonwealth and the Bond Insurer (or 30 days' notice if the Auction Agent has not received payment of certain fees for more than 30 days) and does not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its fee has not been paid. The Broker-Dealer Agreement provides that the Broker-Dealer thereunder may resign upon five business days notice or immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent or Broker-Dealer, it will not be possible to hold Auctions for the Bonds, with the result that the interest on the Bonds will be determined as described in the section entitled "THE BONDS" under the heading "Description of the ARS Bonds."

Securities and Exchange Commission Settlements. On May 31, 2006, the U. S. Securities and Exchange Commission (the “SEC”) announced that it had settled its investigation of 15 firms, including Bear, Stearns & Co. Inc. and J.P. Morgan Securities Inc., that participate in the auction rate securities market regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the firms had managed auctions for auction rate securities in which they participated in ways that were not adequately disclosed or that did not conform to disclosed auction procedures. As part of the settlement, Bear, Stearns & Co. Inc. and J.P. Morgan Securities Inc. agreed to pay a civil penalty. In addition, Bear, Stearns & Co. Inc. and J.P. Morgan Securities Inc., without admitting or denying the SEC’s allegations, agreed to provide to customers written descriptions of its material auction practices and procedures, and to implement procedures reasonably designed to detect and prevent any failures by Bear, Stearns & Co. Inc. and J.P. Morgan Securities Inc. to conduct the auction process in accordance with disclosed procedures. No assurance can be offered as to how the settlement may affect the market for auction rate securities or the Bonds.

In addition, on January 9, 2007, the SEC announced that it had settled its investigation of three banks, including Deutsche Bank Trust Company Americas (the “Settling Auction Agents”), that participate as auction agents in the auction rate securities market, regarding their respective practices and procedures in this market. The SEC alleged in the settlement that the Settling Auction Agents allowed broker-dealers in auctions to submit bids or revise bids after the submission deadlines and allowed broker-dealers to intervene in auctions in ways that affected the rates paid on the auction rate securities. As part of the settlement, the Settling Auction Agents agreed to pay civil penalties. In addition, each Settling Auction Agent, without admitting or denying the SEC’s allegations, agreed to provide to broker-dealers and issuers written descriptions of its material auction practices and procedures and to implement procedures reasonably designed to detect and prevent any failures by that Settling Auction Agent to conduct the auction process in accordance with disclosed procedures. No assurance can be offered as to how the settlement may affect the market for auction rate securities or the Bonds.

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 specific bond authorizations 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 to the various purposes for which the issuance of bonds has been authorized pursuant to such special laws, or to reimburse the Commonwealth’s treasury for expenditures previously made pursuant to such laws.

The purposes for which the Bonds will be issued have been authorized by the Legislature under various bond authorizations. The proceeds will be used to finance or reimburse the Commonwealth for a variety of capital expenditures that are included within the current 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 and establishes annual capital spending limits. See the Commonwealth Information Statement under the heading “COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN.”

SECURITY FOR THE BONDS

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

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

Financial Guaranty Insurance Company (“Financial Guaranty”) has supplied the following information for inclusion in this Official Statement. No representation is made by the Commonwealth or the underwriters as to the accuracy or completeness of this information.

Payments Under the Policy

Concurrently with the issuance of the Bonds, Financial Guaranty will issue its Municipal Bond New Issue Insurance Policy for the Bonds (the “Policy”). The Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Commonwealth of the Bonds. Financial Guaranty will make such payments to U.S. Bank Trust National Association, or its successor as its agent (the “Fiscal Agent”), on the later of the date on which such principal or interest (as applicable) is due or on the business day next following the day on which Financial Guaranty shall have received notice (in accordance with the terms of the Policy) from an owner of Bonds or the Commonwealth of the nonpayment of such amount by the Commonwealth. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner’s right to receive payment of the principal or interest (as applicable) due for payment and evidence, including any appropriate instruments of assignment, that all of such owner’s rights to payment of such principal or interest (as applicable) shall be vested in Financial Guaranty. The term “nonpayment” in respect of a Bond includes any payment of principal or interest (as applicable) made to an owner of a Bond 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.

Once issued, the Policy is non-cancellable by Financial Guaranty. The Policy covers failure to pay principal of the Bonds on their stated maturity dates and their mandatory sinking fund redemption dates, and not on any other date on which the Bonds may have been otherwise called for redemption, accelerated or advanced in maturity. The Policy also covers the failure to pay interest on the stated date for its payment. In the event that payment of the Bonds is accelerated, Financial Guaranty will only be obligated to pay principal and interest in the originally scheduled amounts on the originally scheduled payment dates. Upon such payment, Financial Guaranty will become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and will be fully subrogated to all of the Bondholder’s rights thereunder.

The Policy does not insure any risk other than Nonpayment by the Commonwealth, as defined in the Policy. Specifically, the Policy does not cover: (i) payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity; (ii) payment of any redemption, prepayment or acceleration premium; or (iii) nonpayment of principal (or accreted value, if applicable) or interest caused by the insolvency or negligence or any other act or omission of the trustee or paying agent, if any.

As a condition of its commitment to insure Bonds, Financial Guaranty may be granted certain rights under the Bond documentation.

The specific rights, if any, granted to Financial Guaranty in connection with its insurance of the Bonds may be set forth in the description of the principal legal documents appearing elsewhere in this Official Statement, and reference should be made thereto.

The Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

Financial Guaranty Insurance Company

Financial Guaranty is a New York stock insurance corporation that writes financial guaranty insurance in respect of public finance and structured finance obligations and other financial obligations, including credit default swaps. Financial Guaranty is licensed to engage in the financial guaranty insurance business in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the U.S. Virgin Islands and the United Kingdom.

Financial Guaranty is a direct, wholly owned subsidiary of FGIC Corporation, a Delaware corporation. At June 30, 2007, the principal owners of FGIC Corporation and the approximate percentage of its outstanding common stock owned by each were as follows: The PMI Group, Inc. – 42%; affiliates of the Blackstone Group L.P. – 23%; and affiliates of the Cypress Group L.L.C. – 23%. Neither FGIC Corporation nor any of its stockholders or affiliates is obligated to pay any debts of Financial Guaranty or any claims under any insurance policy, including the Policy, issued by Financial Guaranty.

Financial Guaranty is subject to the insurance laws and regulations of the State of New York, where Financial Guaranty is domiciled, including New York’s comprehensive financial guaranty insurance law. That law, among other things, limits the business of each financial guaranty insurer to financial guaranty insurance (and related lines); requires that each financial guaranty insurer maintain a minimum surplus to policyholders; establishes limits on the aggregate net amount of exposure that may be retained in respect of a particular issuer or revenue source (known as single risk limits) and on the aggregate net amount of exposure that may be retained in respect of particular types of risk as compared to the policyholders’ surplus (known as aggregate risk limits); and establishes contingency, loss and unearned premium reserve requirements. In addition, Financial Guaranty is also subject to the applicable insurance laws and regulations of all other jurisdictions in which it is licensed to transact insurance business. The insurance laws and regulations, as well as the level of supervisory authority that may be exercised by the various insurance regulators, vary by jurisdiction.

At June 30, 2007, Financial Guaranty had net admitted assets of approximately \$4.040 billion, total liabilities of approximately \$2.944 billion, and total capital and policyholders’ surplus of approximately \$1.096 billion, determined in accordance with statutory accounting practices (“SAP”) prescribed or permitted by insurance regulatory authorities.

The unaudited financial statements as of June 30, 2007, and the audited consolidated financial statements of Financial Guaranty and subsidiaries, on the basis of U.S. generally accepted accounting principles (“GAAP”), as of December 31, 2006 and December 31, 2005, which will be filed with the Nationally Recognized Municipal Securities Information Repositories (“NRMSIRs”), are hereby included by specific reference in this Official Statement. Any statement contained herein under the heading “BOND INSURANCE,” or in any documents included by specific reference herein, shall be modified or superseded to the extent required by any statement in any document subsequently filed by Financial Guaranty with such NRMSIRs, and shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement. All financial statements of Financial Guaranty (if any) included in documents filed by Financial Guaranty with the NRMSIRs subsequent to the date of this Official Statement and prior to the termination of the offering of the Bonds shall be deemed to be included by specific reference into this Official Statement and to be a part hereof from the respective dates of filing of such documents.

The New York State Insurance Department recognizes only SAP for determining and reporting the financial condition and results of operations of an insurance company, for determining its solvency under the New York Insurance Law, and for determining whether its financial condition warrants the payment of a dividend to its stockholders. Although Financial Guaranty prepares both GAAP and SAP financial statements, no consideration is given by the New York State Insurance Department to financial statements prepared in accordance with GAAP in making such determinations. A discussion of the principal differences between SAP and GAAP is contained in the notes to Financial Guaranty’s audited SAP financial statements.

Copies of Financial Guaranty's most recently published GAAP and SAP financial statements are available upon request to: Financial Guaranty Insurance Company, 125 Park Avenue, New York, NY 10017, Attention: Corporate Communications Department. Financial Guaranty's telephone number is (212) 312-3000.

Financial Guaranty's Credit Ratings

The financial strength of Financial Guaranty is rated "AAA" by Standard & Poor's, a Division of The McGraw-Hill Companies, Inc., "Aaa" by Moody's Investors Service, and "AAA" by Fitch Ratings. Each rating of Financial Guaranty should be evaluated independently. The ratings reflect the respective ratings agencies' current assessments of the insurance financial strength of Financial Guaranty. Any further explanation of any rating may be obtained only from the applicable rating agency. These ratings are not recommendations to buy, sell or hold the Bonds, and are subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Bonds. Financial Guaranty does not guarantee the market price or investment value of the Bonds nor does it guarantee that the ratings on the Bonds will not be revised or withdrawn.

Neither Financial Guaranty nor any of its affiliates accepts any responsibility for the accuracy or completeness of the Official Statement or any information or disclosure that is provided to potential purchasers of the Bonds, or omitted from such disclosure, other than with respect to the accuracy of information with respect to Financial Guaranty or the Policy under the heading "BOND INSURANCE." In addition, Financial Guaranty makes no representation regarding the Bonds or the advisability of investing in the Bonds.

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 her knowledge, threatened which is likely to result, either individually or in the aggregate, in final judgments against the Commonwealth that would affect materially its financial condition. For a description of certain litigation affecting the Commonwealth, see the Commonwealth Information Statement under the heading "LEGAL MATTERS."

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company, New York, New York, will act as securities depository for the Bonds. The Bonds will initially be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity 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.

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

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

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

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

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

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

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

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

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

RATINGS

The Bonds have been assigned ratings of "AAA," "Aaa" and "AAA" by Fitch Ratings ("Fitch"), Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services ("Standard & Poor's"), respectively, based upon, and solely as the result of, the municipal bond new issue insurance policy provided by Financial Guaranty. See "BOND INSURANCE" and Appendix E.

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

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase all of the Bonds from the Commonwealth at a discount from the initial offering prices of the Bonds equal to approximately 0.268778% of the aggregate principal amount of the Bonds. The Underwriters may offer and sell the Bonds to certain dealers and others (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices (or yields higher than the offering yields) stated on the inside cover page hereof. The principal offering prices (or yields) set forth on the inside cover page hereof may be changed from time to time after the initial offering by the Underwriters.

TAX EXEMPTION

Bond Counsel is of the opinion that, under existing law, interest on the Bonds will not be included in the gross income of holders of the Bonds for federal income tax purposes. This opinion is expressly conditioned upon continued compliance with certain requirements imposed by the Internal Revenue Code of 1986, as amended (the "Code"), which must be satisfied subsequent to the date of issuance of the Bonds in order to assure that interest on the Bonds is and continues to be excludable from the gross income of holders of the Bonds. Failure to comply with certain of such requirements could cause interest on the Bonds to be included in the gross income of holders of the Bonds retroactive to the date of issuance of the Bonds. In particular, and without limitation, these requirements include restrictions on the use, expenditure and investment of Bond proceeds and the payment of rebate, or penalties in lieu of rebate, to the United States, subject to certain exceptions. The Commonwealth has provided covenants and certificates as to continued compliance with such requirements.

In the opinion of Bond Counsel, under existing law, since the Bonds are not "private activity bonds" under the Code, interest on the Bonds will not constitute a preference item under Section 57(a)(5) of the Code for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations under Section 55 of the Code. However, interest on the Bonds will be included in "adjusted current earnings" of corporate holders of the Bonds and therefore will be taken into account under Section 56(g) of the Code in the computation of the alternative minimum tax applicable to certain corporations.

Bond Counsel has not opined as to any other matters of federal tax law relating to the Bonds. However, prospective purchasers should be aware of certain collateral consequences which may result under federal tax law for certain holders of the Bonds: (i) Section 265 of 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, that portion of a holder's interest expense allocated to interest on the Bonds, (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for losses incurred by 15 percent of the sum of certain items, including interest on the Bonds, (iii) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iv) passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for an S Corporation that has Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such S Corporation is passive investment income, (v) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account in determining gross income receipts or accruals of interest on the Bonds, and (vi) receipt of investment income, including interest on the Bonds, may, pursuant to Section 32(i) of the Code, disqualify the recipient from obtaining the earned income credit provided by Section 32(a) of the Code.

In the opinion of Bond Counsel, under existing law, 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.

Prospective purchasers should be aware that the statutory framework on which the exemption from Massachusetts taxation is based is similar to that at issue in *Department of Revenue of Kentucky v. Davis*, 197 S.W. 3d 557 (Ky. App. 2006), cert. granted 550 U.S. ____ (May 21, 2007), in which the Kentucky court held that a statute which provided more favorable income tax treatment for holders of bonds issued by Kentucky issuers than for holders of out-of-state municipal bonds violated the Commerce Clause of the United States Constitution. Should the United States Supreme Court affirm the holding of the Kentucky court, subsequent Massachusetts judicial decisions and/or legislation designed to ensure the constitutionality of Massachusetts tax law could, among other alternatives, adversely affect the Massachusetts tax exemption of outstanding bonds, including the Bonds, to the extent constitutionally permissible, or result in the exemption

from Massachusetts income tax of interest on non-Massachusetts municipal bonds, either of which could affect the market price of the Bonds.

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. See Appendix B -- Proposed Form of Opinion of Bond Counsel.

OPINION OF COUNSEL

The unqualified approving opinion as to the legality of the Bonds will be rendered by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., of Boston, Massachusetts, Bond Counsel to the Commonwealth. The proposed form of the opinion of Bond Counsel relating to the Bonds is attached hereto as Appendix B. Certain legal matters will also be passed upon by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. of Boston, Massachusetts, as Disclosure Counsel to the Commonwealth. Certain legal matters will be passed upon for the Underwriters by their counsel, Nutter McClennen & Fish 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 the Commonwealth Information Statement under the heading "CONTINUING DISCLOSURE."

MISCELLANEOUS

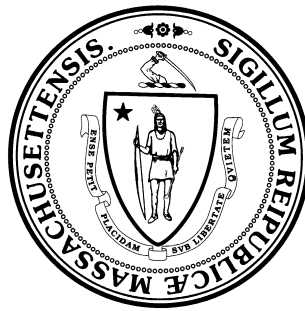
Any provisions of the constitution of the Commonwealth, of all general and special laws and of other documents set forth or referred to in this Official Statement are only summarized, and such summaries do not purport to be complete statements of any of such provisions. Only the actual text of such provisions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

This Official 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 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 Commonwealth has prepared the prospective financial information set forth in this Official Statement in connection with its budgeting and appropriations processes. This prospective financial information was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to prospective financial information, but, in the view of the Commonwealth, was prepared on a reasonable basis, reflects the best currently available estimates and judgments, and presents, to the best knowledge and belief of the offices of the Commonwealth identified in this Official Statement as the sources of such information, the expected course of action and the expected future budgeted revenues and expenditures of the Commonwealth. However, this information is not fact and should

**THE
COMMONWEALTH
OF
MASSACHUSETTS**



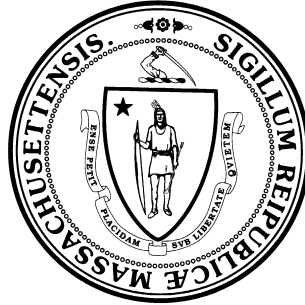
INFORMATION STATEMENT SUPPLEMENT

Dated August 8, 2007

TABLE OF CONTENTS
INFORMATION STATEMENT SUPPLEMENT DATED AUGUST 8, 2007

RECENT DEVELOPMENTS	1
Fiscal 2007	1
Fiscal 2008	3
Life Sciences Legislation	4
Cash Flow	4
SELECTED FINANCIAL DATA	5
Statutory Basis Distribution of Budgetary Revenues	5
Statutory Basis	7
Stabilization Fund	9
COMMONWEALTH PROGRAMS AND SERVICES	9
Pension and Other Post-Retirement Benefit Obligations	9
COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN	10
Capital Spending Plan	10
Central Artery/Ted Williams Tunnel Project	14
LONG-TERM LIABILITIES	15
STATE WORKFORCE	18
Unions and Labor Negotiations	18
LEGAL MATTERS	20
Programs and Services	20
Taxes	21
Other Revenues	21
Other	22
MISCELLANEOUS	22
CONTINUING DISCLOSURE	23
AVAILABILITY OF OTHER FINANCIAL INFORMATION	23
EXHIBIT A. Statement of Economic Information as of June 30, 2007	

THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

Deval L. Patrick.....Governor
Timothy P. MurrayLieutenant Governor
William F. Galvin.....Secretary of the Commonwealth
Martha Coakley..... Attorney General
Timothy P. Cahill Treasurer and Receiver-General
A. Joseph DeNucci.....Auditor

LEGISLATIVE OFFICERS

Therese Murray.....President of the Senate
Salvatore F. DiMasi.....Speaker of the House

THE COMMONWEALTH OF MASSACHUSETTS
INFORMATION STATEMENT SUPPLEMENT

August 8, 2007

This supplement (“Supplement”) to the Information Statement of The Commonwealth of Massachusetts (the “Commonwealth”) dated May 9, 2007 (the “May Information Statement”) is dated August 8, 2007 and contains information which updates the information contained in the May Information Statement. The May Information Statement appears as Appendix A to the Official Statement dated May 9, 2007 for the Commonwealth’s \$498,565,000 General Obligation Bonds, Consolidated Loan of 2007, Series A, and \$553,135,000 General Obligation Refunding Bonds, 2007 Series A, a copy of which has been filed with each Nationally Recognized Municipal Securities Information Repository (NRMSIR) currently recognized by the Securities and Exchange Commission. This Supplement and the May Information Statement must be read collectively and in their entirety in order to obtain the appropriate fiscal, financial and economic information concerning the Commonwealth through August 8, 2007. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the May Information Statement.

The May Information Statement, as supplemented hereby, includes three exhibits. Exhibit A, attached to this Supplement, is the Statement of Economic Information as of June 30, 2007, which sets forth certain economic, demographic and statistical information concerning the Commonwealth. Exhibits B and C are, respectively, the Commonwealth’s Statutory Basis Financial Report for the year ended June 30, 2006 and the Commonwealth’s Comprehensive Annual Financial Report, reported in accordance with generally accepted accounting principles (GAAP), for the year ended June 30, 2006. Specific reference is made to said Exhibits B and C, copies of which have been filed with each NRMSIR 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.mass.gov/osc> by clicking on “Publications and Reports” and then “Financial Reports.”

RECENT DEVELOPMENTS

Fiscal 2007

On May 17, 2007 the Governor approved \$88.4 million in supplemental fiscal 2007 appropriations to fund a variety of administration initiatives, including \$21.9 million for the Department of Corrections, \$15.6 million for the Department of Social Services, \$8 million for snow and ice removal, \$3.6 million for grants to support dairy farms and \$15 million for public safety initiatives, including \$11 million for grants to combat gang violence and \$4 million for municipal police. The effects of these supplemental appropriations were anticipated and reflected in the financial projections shown in the May Information Statement.

On June 29, 2007 the Governor filed supplemental appropriations totaling \$131.9 million. This legislation proposes to provide funding of \$35.2 million for the state’s Medicaid program (also called MassHealth), \$22.3 million for public counsel services, \$15.9 for collective bargaining costs, \$8.7 million to support the underground storage tank cleanup program, \$5.2 million for various legal settlements, \$5.0 million for local housing authorities, \$4.6 million for a variety of education initiatives and \$35.0 million for other programs and services. The legislation also proposes to transfer \$40.0 million from the General Fund to a new Debt Defeasance Trust Fund to retire high-interest debt for the Commonwealth. The legislation proposes to make \$56.9 million of the filed appropriation requests available for expenditure through June 30, 2008. The legislation also proposes to make \$63.6 million of previously authorized fiscal 2007 appropriations available for expenditure through June 30, 2008. The Governor’s proposed legislation is currently being considered by the House Committee on Ways and Means.

On July 12, 2007 the Governor signed the fiscal 2008 budget (see “Fiscal 2008”), which also directs the disposition of the projected fiscal 2007 budget surplus. The legislation creates a Bay State Competitiveness Investment Fund and directs a portion of the fiscal 2007 budget surplus to the fund after statutorily required amounts are deposited in the Stabilization Fund and designated to be carried forward into the subsequent fiscal year. The expected deposit to the Bay State Competitiveness Investment Fund is currently projected by the Executive Office

for Administration and Finance to be \$15.0 million. Fiscal 2007 spending projections assume \$215.6 million in reversion of unspent moneys to the General Fund. If the actual reversions are greater than the assumed amount, the deposit to the Bay State Competitiveness Investment Fund will be greater than currently projected. Amounts in the Bay State Competitiveness Investment Fund are subject to appropriation. For the purposes of the financial projections in this Supplement, the entire balance of the Fund is assumed to be spent in fiscal 2008. The Bay State Competitiveness Investment Fund is scheduled to expire on June 30, 2008.

Lottery Revenues. The fiscal 2007 budget assumed total net transfers from the Lottery of \$1.105 billion, including the \$920 million aggregate distribution to cities and towns (which was mandated by the budget, regardless of the actual amount of transfers from the Lottery). The assumed \$1.105 billion figure was \$67 million higher than the State Lottery Commission's projections for fiscal 2007, which were \$1.038 billion. The State Lottery Commission estimates that actual fiscal 2007 lottery revenues were \$984.0 million, \$54 million less than the Commission's original projections and \$121 million less than the amount assumed in the fiscal 2007 budget. There is no provision in current law for dealing with this shortfall in net lottery revenues in fiscal 2007, which is expected to result in the State Lottery Fund, a non-budgeted fund, ending fiscal 2007 in a deficit position.

Tax revenue collections for fiscal 2007 totaled \$19.736 billion, an increase of \$1.249 billion or 6.8% over fiscal 2006. The following table shows monthly tax collections for fiscal 2007 and the change from tax collections in the same months in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in fiscal 2007 that are dedicated to the MBTA and to the MSBA.

Fiscal 2007 Tax Collections (in millions) (1)

Month	Tax Collections	Change From Prior Year	Percentage Change	MBTA Portion (3)	MSBA Portion	Collections, Net of MBTA and MSBA
July	\$ 1,246.7	\$ 57.9	4.9%	\$ 61.5	\$ 48.0	\$ 1,137.2
August	1,188.2	(16.7)	(1.4)	58.2	45.4	1,084.5
September	2,068.9	127.7	6.6	63.8	43.2	1,961.9
October	1,244.8	28.8	2.4	60.7	47.4	1,136.7
November	1,229.8	110.7	9.9	54.5	42.5	1,125.2
December	1,784.4	(6.6)	(0.4)	68.3	43.2	1,672.9
January	2,052.9	131.7	6.9	69.9	54.5	1,928.5
February	987.2	133.6	15.6	54.3	42.3	890.7
March	1,768.0	141.3	8.7	59.4	38.6	1,670.0
April	2,336.2	123.2	5.6	55.8	43.5	2,236.8
May	1,536.1	160.6	11.7	57.2	44.6	1,434.3
June (2)	<u>2,293.3</u>	<u>256.8</u>	<u>12.6</u>	<u>70.5</u>	<u>64.2</u>	<u>2,158.5</u>
Total (2)	<u>\$19,736.2</u>	<u>\$1,248.7</u>	<u>6.8%</u>	<u>\$ 734.0</u>	<u>\$557.4</u>	<u>\$18,444.9</u>

SOURCE: Executive Office for Administration and Finance.

(1) Details may not add to Total because of rounding.

(2) Figures are preliminary.

(3) Includes adjustment of \$8.4 million on the account of the first quarter, \$12.9 million on account of the second quarter, \$9.9 million on account of the third quarter, and \$11.1 million on the account of the fourth quarter, related to the inflation-adjusted floor applicable to tax receipts dedicated to the MBTA.

The tax revenue increase of \$1.249 billion over fiscal 2006 is attributable in large part to an increase of approximately \$500.5 million, or 6.2%, in withholding collections, an increase of approximately \$161.5 million, or 8.3%, in income tax estimated payments, an increase of approximately \$275.6 million, or 16.3%, in income tax payments with returns and bills, an increase of approximately \$62.9 million, or 1.6%, in sales and use tax collections, an increase of approximately \$220.1 million, or 9.8%, in corporate and business collections and an increase of \$49.5 million, or 2.8%, in miscellaneous tax collections. Preliminary fiscal 2007 tax collections exceeded the fiscal 2007 tax revenue estimate of \$19.300 billion issued by the Executive Office for Administration and Finance on January 30, 2007 by \$436.2 million.

Fiscal 2008

The Legislature approved the fiscal 2008 budget on July 2, 2007, and it was approved by the Governor on July 12, 2007. The Governor vetoed \$40.7 million of appropriations. The budget appropriates \$26.771 billion for the fiscal year, including \$8.220 billion for Medicaid, \$4.301 billion for education (excluding the school building assistance program), \$2.072 billion for debt service and contract assistance and \$12.178 billion for all other programs and services. The budget increases Chapter 70 education funding to cities and towns by \$220 million to \$3.726 billion. The budget also increases the distribution of lottery revenues to cities and towns to \$935 million, an increase of \$15 million over the fiscal 2007 level. Overall, local aid to cities and towns increases by 5.8% in the fiscal 2008 budget.

The fiscal 2008 budget relies on several one-time revenue sources, including a \$240 million transfer from the Stabilization Fund to the General Fund, a transfer of not more than \$75 million from the Stabilization Fund to the General Fund representing fiscal 2008 investment earnings in the Stabilization Fund and the suspension of the statutorily required Stabilization Fund deposit equal to 0.5% of fiscal 2007 tax revenues (approximately \$100 million). The fiscal 2008 budget also relies on \$44 million of interest earnings from the Health Care Security Trust Fund. The fiscal 2008 budget approved by the Legislature proposed to transfer \$150 million from the Health Care Security Trust to the General Fund to support fiscal 2008 spending. The Governor has proposed to amend the budget to decrease the size of the Healthcare Security Trust Fund transfer to \$111.5 million, the amount which would be required based upon his vetoes. This proposed amendment requires legislative approval to become effective. The Legislature may override the Governor’s vetoes by a two-thirds vote of each chamber.

The fiscal 2008 budget assumes an increase in lottery distributions of \$15 million over the currently estimated fiscal 2007 levels. To the extent that fiscal 2007 lottery revenues fall short of current estimates, this shortfall could affect fiscal 2008 projections as well. The Executive Office for Administration and Finance is currently working with all state agencies to review fiscal year 2008 revenue and spending levels. This review is scheduled to be completed in November, 2007.

On August 2, 2007 the Governor approved legislation establishing a sales tax holiday during the period August 11-12, 2007. The Department of Revenue estimates that this legislation will reduce fiscal 2008 sales tax collections by approximately \$17.5 million.

Based on its preliminary calculation of fiscal 2007 tax revenue collections, the Department of Revenue anticipates that on August 30, 2007 it will certify that fiscal 2007 baseline state tax revenue growth was sufficient to trigger an increase in income tax personal exemption amounts for tax year 2008, which increase would be the final of four statutorily mandated personal exemption increases, the previous three having occurred in tax years 2005, 2006, and 2007. See the May Information Statement under the heading “COMMONWEALTH REVENUES - State Taxes; *Income Tax.*” The Department of Revenue currently estimates that such increase in the personal exemption amounts for the 2008 tax year would reduce fiscal 2008 tax collections by approximately \$25 million and would reduce fiscal 2009 tax collections by approximately \$55 million.

Tax revenues for the first month of fiscal 2008, ended July 31, 2007, totaled \$1.298 billion, an increase of \$51.5 million, or 4.1%, over the same month in fiscal 2007. The following tables shows the tax collections for the first month of fiscal 2008 and the change from tax collections in the same month in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in the same month that are dedicated to the MBTA and the MSBA.

Fiscal 2008 Budgeted Tax Collections (in millions) (1)

Month	Tax Collections	Change From Prior Year	Percentage Change	MBTA Portion	MSBA Portion	Collections, Net of MBTA and MSBA
July	\$1,298.1	\$51.5	4.1%	\$64.7	\$55	\$1,178.5

SOURCE: Executive Office for Administration and Finance.
 (1) Figures are preliminary.

The tax revenue increase of \$51.5 million in July over the same month in fiscal 2007 is attributable in large part to an increase of approximately \$17.9 million, or 2.7%, in withholding collections and an increase of approximately \$20 million, or 5.5%, in sales and use tax collections. Preliminary July, 2007 tax collections were \$5 million below the July, 2007 benchmark estimate, which is based on the fiscal 2008 consensus tax revenue estimate of \$19.879 billion. See the May Information Statement under the heading "COMMONWEALTH REVENUES - Tax Revenue Forecasting; *Fiscal 2008*."

Life Sciences Legislation

On July 19, 2007 the Governor filed legislation intended to promote investment in the Massachusetts life sciences industry. Among other provisions, the proposal would authorize the Secretary of Housing and Economic Development and the Secretary of Administration and Finance jointly to award tax incentives on a project-by-project basis for "certified life sciences projects." The tax incentives for certified projects would include an investment tax credit of 10% (12% if the project is located in an economic opportunity area), a refundable tax credit equal to the fees paid by a project for application to the U. S. Food and Drug Administration for a human drug or supplement which was primarily researched and developed in Massachusetts, a refundable research tax credit, extension of the net operating loss carryforward from five to 15 years, elimination of the so-called "throwback rule" of the single sales factor provision of the corporate income tax and expanded sales taxation exemptions. The Executive Office for Administration and Finance anticipates that the amount of tax benefits granted by the Secretary of Housing and Economic Development and the Secretary of Administration and Finance under the program would be limited to \$25 million annually. Projects that do not meet agreed-upon thresholds for increased job creation that results in additional tax revenues paid to the Commonwealth would be subject to "clawback" provisions, whereby the beneficiaries of previously received tax benefits would be required to repay some or all of such tax benefits to the Commonwealth.

Cash Flow

On May 31, 2007 the State Treasurer and the Secretary of Administration and Finance released a revised projected cash flow forecast for fiscal 2007. Fiscal 2006 ended with a non-segregated cash balance of \$1.619 billion and a segregated bond balance of \$222.2 million. The cash flow projection for fiscal 2007 is based on the fiscal 2007 budget signed into law on July 8, 2006 and includes the value of all vetoes and subsequent overrides as well as all prior appropriations continued into fiscal 2007 from the prior fiscal year. The cash flow projection also reflects all supplemental appropriations bills either filed or enacted that would affect the Commonwealth's cash flow in fiscal 2007. It reflects authorized transfers between budgeted funds and certain reserve funds as provided for in the fiscal 2007 budget and in subsequent legislation. The fiscal 2007 projection is based on actual spending and revenue through April, 2007 and estimates for the remainder of fiscal 2007. The fiscal 2007 projection is based on the Executive Office for Administration and Finance's fiscal 2007 tax estimate of \$19.3 billion. The gross tax figure includes \$1.335 billion dedicated to the Commonwealth's fiscal 2007 pension obligation, \$733 million in sales tax revenues dedicated to the MBTA and \$557.3 million in sales tax revenues dedicated to the MSBA. This forecast also includes an inflow of \$239.5 million on April 15, 2007 pursuant to the tobacco master settlement agreement. The Commonwealth continues to actively pursue litigation to secure the right to receive the full amount of these payments. See the May Information Statement under the heading "LEGAL MATTERS."

Fiscal 2007 opened with a starting balance of \$2.072 billion of cash and is projected to have a June 30, 2007 ending balance of \$1.274 billion. These figures are somewhat higher than the reported figures for the close of fiscal 2006 because of system improvements in the State Treasurer's ability to calculate a more discrete figure. These figures do not include balances in the Stabilization Fund or certain other off-budget reserve funds, but do include moneys sequestered to pay for projected capital projects totaling \$222.2 million with respect to the starting balance and \$92.7 million with respect to the ending balance. Excluding these sequestered capital funds, the Commonwealth's operating cash balance opened the year at \$1.850 billion and is projected to end the fiscal year at \$1.182 billion, a \$668 million decrease. A portion of the overall decline in the operating cash balance is due to approximately \$935 million in supplemental spending authorized in fiscal 2006 which was carried forward into fiscal 2007. The projection also reflects the November, 2006 transfer of \$353.9 million of fiscal 2006 surplus dollars, plus \$6.9 million in accrued interest, to the Stabilization Fund. The Commonwealth also received

\$25.1 million in fiscal 2007 from Massport as the first installment of the \$50 million of total reimbursement to be paid in the next few months for the cost of property that is being transferred to Massport by the Turnpike Authority.

The Commonwealth's cash flow management incorporates the periodic use of commercial paper borrowing to meet cash flow needs for both capital and operating expenditures. In particular, the Commonwealth makes local aid payments of approximately \$1 billion to its cities and towns at the end of each calendar quarter, which in recent years has often resulted in short-term cash flow borrowings. The Commonwealth began fiscal 2007 with \$25.1 million of commercial paper outstanding in the form of bond anticipation notes (BANs). This commercial paper is no longer outstanding, having been retired by the aforementioned Massport payment. The Commonwealth's cash position reflects a typical cycle of tightening in the second and third quarters of the fiscal year. The Commonwealth borrowed \$300 million in November, 2006 and an additional \$600 million in December, 2006 to make the second-quarter local aid payment. In January, 2007 \$200 million of revenue anticipation notes (RANs) were repaid, leaving \$700 million of commercial paper RANs and \$25.1 million of commercial paper BANs outstanding. In March, 2007 \$400 million of BANs were issued as 90-day notes (outside the commercial paper program). These notes matured in May, 2007 and were retired with bond proceeds at that time. All Commonwealth BANs and RANs were retired by June 30, 2007. The Commonwealth currently has no commercial paper outstanding.

The cash flow projection includes \$1.603 billion in proceeds of long-term borrowing, including \$500.1 million of proceeds from general obligation bonds issued in August, 2006, \$372.6 million of proceeds from general obligation bonds issued in November, 2006 and \$731.3 million of proceeds from general obligation bonds issued in May, 2007.

The cash flow projection released on May 31, 2007 also included a projection for fiscal 2008. This projection was based on the Governor's budget recommendations for fiscal 2008. That proposal was based upon a consensus gross tax estimate of \$19.879 billion and appropriated a total of \$26.714 billion. The Governor's recommendations also included a proposal for \$290 million of additional corporate tax revenues, which is being considered by a recently appointed study commission. A fiscal 2008 budget appropriating \$26.771 billion has since been enacted into law and it, too, was based on the consensus tax estimate but utilized several one-time revenue sources. See "Fiscal 2008." The fiscal 2008 cash projections should only be considered as a starting point for the analysis of the cash impact of the recently enacted budget, as they were prepared prior to the completion of the fiscal 2008 budget process. This preliminary analysis showed cash projection for fiscal 2008 that produced a year-end balance of \$612.7 million, segregated funds of \$11.5 million and an operating surplus of \$601.3 million.

The Commonwealth's next cash flow projection is expected to be released on or before September 1, 2007.

SELECTED FINANCIAL DATA

Statutory Basis Distribution of Budgetary Revenues

The following table sets forth the Commonwealth's revenues in its budgeted operating funds for fiscal 2003 through 2006, as estimated for fiscal 2007 and as projected for fiscal 2008.

Commonwealth Revenues – Budgeted Operating Funds
(in millions)(1)

	Fiscal 2003	Fiscal 2004(5)	Fiscal 2005	Fiscal 2006	Estimated Fiscal 2007(6)	Projected Fiscal 2008
Tax Revenues:						
Alcoholic Beverages	\$ 66.3	\$ 67.9	\$ 68.6	\$ 68.9	\$ 71.0	\$ 72.0
Banks	344.5	238.7	198.9	349.9	340.9	254.4
Cigarettes	451.0	425.4	423.6	435.3	438.1	426.3
Corporations	799.4(4)	997.6	1,062.7	1,390.7	1,587.6	1,518.5
Deeds	147.8	187.0	220.3	210.1	194.5	177.0
Income	8,026.1	8,830.3	9,690.3	10,483.4	11,399.6	11,604.6
Inheritance and Estate	181.3	194.7	255.1	196.3	249.6	225.0
Insurance	387.8	420.2	423.4	448.5	418.7	461.4
Motor Fuel	676.4	684.2	685.5	671.8	675.9	673.8
Public Utilities	40.6	64.7	71.1	118.5	178.3	132.8
Racing	-	-	-	-	-	-
Room Occupancy	120.0	88.9	97.8	105.8	111.1	114.2
Sales:						
Regular	2,583.6	2,591.6	2,746.6	2,864.7	2,927.5	3,035.7
Meals	512.0	531.7	555.6	584.1	608.7	631.8
Motor Vehicles	<u>612.5</u>	<u>625.8</u>	<u>584.2</u>	<u>555.5</u>	<u>531.1</u>	<u>547.9</u>
Sub-Total–Sales	3,708.1	3,749.2	3,886.4	4,004.3	4,067.3	4,215.5
Miscellaneous	<u>14.3</u>	<u>4.2</u>	<u>4.2</u>	<u>4.0</u>	<u>3.5</u>	<u>3.7</u>
Total Tax Revenues	<u>14,963.8(5)</u>	<u>15,953.2</u>	<u>17,087.9</u>	<u>18,487.5</u>	<u>19,736.2</u>	<u>19,879.0</u>
MBTA Transfer	(684.3)	(684.3)	(704.8)	(712.6)	(734.0)	(756.0)
MSBA Transfer (2)	-	-	(395.7)	(488.7)	(557.4)	(634.7)
Total Budgeted Operating Tax Revenues	<u>14,279.5</u>	<u>15,268.9</u>	<u>15,987.4</u>	<u>17,286.2</u>	<u>18,444.6</u>	<u>18,488.3</u>
Non-Tax Revenues:						
Federal Reimbursements	4,523.6	5,098.5	4,697.0	5,210.1	6,002.3	6,338.0
Departmental and Other Revenues(7)						
	1,494.8	1,847.7	1,948.9	2,094.3	2,052.1	2,425.5
Inter-fund Transfers from Non - Budgeted Funds and Other Sources (3)	<u>1,689.2</u>	<u>1,773.1</u>	<u>1,740.2</u>	<u>1,714.9</u>	<u>788.6</u>	<u>694.0</u>
Budgeted Non-Tax Revenues and Other Sources	<u>7,707.6</u>	<u>8,719.3</u>	<u>8,386.1</u>	<u>9,019.3</u>	<u>8,843.0</u>	<u>9,457.5</u>
Budgeted Revenues and Revenues from Other Sources	<u>\$21,987.2</u>	<u>\$23,988.3</u>	<u>\$24,373.5</u>	<u>\$26,305.5</u>	<u>\$27,287.6</u>	<u>\$27,945.8</u>

SOURCE: Fiscal 2003-2006, Office of the Comptroller; fiscal 2007-2008, Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding. Table does not reflect inter-fund transfers among budgeted funds and other sources that have no effect on ending balances. Excludes certain miscellaneous taxes expended outside the budget process.
- (2) Beginning in fiscal 2005, sales tax transfers to the MSBA replaced budgetary appropriations for school building assistance. Actual expenditures for school building assistance in fiscal 2002 through 2004 were \$365.4 million, \$383.2 million and \$551.4 million, respectively. See "SELECTED FINANCIAL DATA – Recent Financial Restructurings; *School Building Assistance Program*."
- (3) Inter-fund transfers from non-budgeted funds and other sources include profits from the State Lottery, tobacco settlement funds, abandoned property proceeds, transfers to the Commonwealth Care Trust Fund and Medical Assistance Trust Fund (successors to the Uncompensated Care Pool), as well as other inter-fund transfers.
- (4) The Department of Revenue estimates that as a result of the timing of federal tax legislation relating to the depreciation deduction for corporations and the Commonwealth's legislation in response, tax revenue collections in fiscal 2002 were reduced by approximately \$30 million and tax revenue collections in fiscal 2003 were increased by the same approximate amount.
- (5) Beginning on July 1, 2003, certain minor budgeted funds were reclassified as non-budgeted funds. Prior years have not been restated.
- (6) Based on fiscal 2007 consensus revenue estimate of \$19.3 billion.
- (7) Excludes intergovernmental revenues.

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 2003 through 2006. Estimates for fiscal 2007 and projections for fiscal 2008 have been prepared by the Executive Office for Administration and Finance. Except where otherwise indicated, they are based on the office's most recent estimate of tax revenue (as officially issued) and non-tax revenue, on enacted appropriations adjusted for projected reversions and on supplemental appropriations filed by the Governor that remain before the Legislature. The financial information presented includes all budgeted operating funds of the Commonwealth. For additional detail, see the May Information Statement under the heading "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Operating Fund Structure."

During a fiscal year there are numerous transactions among these budgeted funds, which from a fund accounting perspective create offsetting inflows and outflows. In conducting the budget process, the Executive Office for Administration and Finance excludes those inter-fund transactions that by their nature have no impact on the combined fund balance of the budgeted funds. The following table isolates this inter-fund 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 -- Statutory Basis

(in millions)(1)

	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006	Estimated Fiscal 2007	Projected Fiscal 2008
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$ 195.2	\$ 76.8	\$ 664.6	\$ 355.6	\$ 947.2	\$ 167.0
Bay State Competitiveness Investment Fund						15.0
Tax Reduction Fund	-	-	-	-	-	
Transitional Escrow Fund				304.8	-	-
Stabilization Fund	881.8	641.3	1,137.3	1,728.4	2,154.7	2,373.4
Undesignated	<u>311.0</u>	<u>34.7</u>	<u>90.9</u>	<u>98.4</u>	<u>106.2</u>	<u>114.9</u>
Total	<u>1,388.0</u>	<u>752.8(5)</u>	<u>1,892.8</u>	<u>2,487.2</u>	<u>3,208.1</u>	<u>2,670.3</u>
<u>Revenues and Other Sources</u>						
Tax Revenues	14,279.5	15,269.0	15,987.4	17,286.2	18,444.6	18,488.3
Federal Reimbursements	4,523.6	5,098.5	4,697.0	5,210.1	6,002.3	6,338.0
Departmental and Other Revenues	1,494.8	1,847.7	1,948.9	2,094.3	2,052.1	2,425.5
Inter-fund Transfers from Non- budgeted Funds and Other Sources (2)	1,689.2	1,773.1	1,740.2	1,714.9	788.6	694.0
Budgeted Revenues and Other Sources	21,987.1	23,988.3	24,373.4	26,305.5	27,287.6	27,945.8
Inter-fund Transfers	<u>3,310.5(4)</u>	<u>2,058.7</u>	<u>2,231.3</u>	<u>1,358.1</u>	<u>286.9</u>	<u>648.1</u>
Total Budgeted Revenues and Other Sources	<u>25,297.7</u>	<u>26,047.0</u>	<u>26,604.7</u>	<u>27,663.3</u>	<u>27,574.5</u>	<u>28,593.9</u>
<u>Expenditures and Uses</u>						
Programs and Services (3)	22,209.5	21,456.1	22,067.7	23,918.7	26,490.3	26,942.6
Inter-fund Transfers to Non- budgeted Funds and Other Uses	229.6	1,392.2	1,711.3	1,665.9	1,335.2	1,398.6
Budgeted Expenditures and Other Uses	22,439.1	22,848.3	23,779.1	25,584.6	27,825.5	28,341.2
Inter-fund Transfers	<u>3,310.5(4)</u>	<u>2,058.7</u>	<u>2,231.2</u>	<u>1,358.1</u>	<u>286.9</u>	<u>648.1</u>
Total Budgeted Expenditures and Other Uses	<u>25,749.6</u>	<u>24,907.0</u>	<u>26,010.3</u>	<u>26,942.7</u>	<u>28,112.4</u>	<u>28,989.3</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(451.9)</u>	<u>1,140.0</u>	<u>594.4</u>	<u>720.9</u>	<u>(537.9)</u>	<u>(395.4)</u>
<u>Ending Fund Balances</u>						
Reserved or Designated(6)	76.8	664.6	355.6	947.2	167.0	10.7
Bay State Competitiveness Fund					15.0	
Tax Reduction Fund	--	--	--	--	--	--
Transitional Escrow Fund	--	--	304.8	--	--	--
Stabilization Fund	641.3	1,137.3	1,728.4	2,154.7	2,373.4	2,148.6
Undesignated	<u>218.0</u>	<u>90.9</u>	<u>98.4</u>	<u>106.2</u>	<u>114.9</u>	<u>115.6</u>
Total	<u>\$936.1</u>	<u>\$1,892.8</u>	<u>\$2,487.2</u>	<u>\$3,208.1</u>	<u>\$2,670.3</u>	<u>\$2,274.9</u>

SOURCE: Fiscal 2003-2006, Office of the Comptroller; fiscal 2007-2008, Executive Office for Administration and Finance.

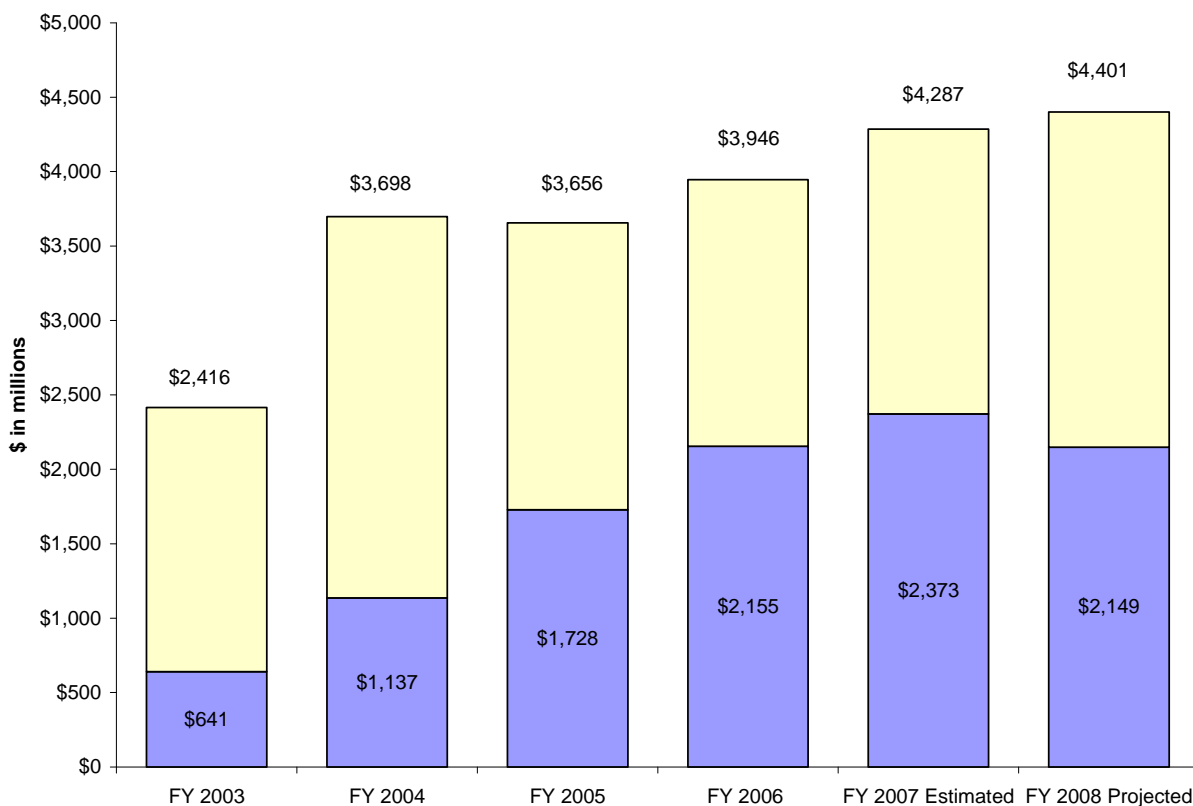
(1) Totals may not add due to rounding.

(2) Inter-fund Transfers from Non-budgeted Funds and Other Sources include profits from the State Lottery, transfer of tobacco settlement funds to allow their expenditure, abandoned property proceeds and transfers to the Uncompensated Care Pool, as well as other inter-fund transfers.

- (3) Certain Medicaid expenditures have been accounted for off-budget since fiscal 2003 and have continued through 2007. The Governor has proposed consolidating this spending onto budgeted spending beginning in fiscal 2008.
- (4) Inter-fund transfers increased substantially in fiscal 2003 due to the elimination of a number of Budgeted Operating Funds pursuant to the fiscal 2004 general appropriations act, effective June 30, 2003.
- (5) The variance between fiscal 2003 ending fund balances and fiscal 2004 beginning fund balances reflects a decrease of \$181.3 million in the undesignated fund balance due to closure of minor budgeted funds and the transfer of various funds off budget.
- (6) Reserved or Designated largely consists of appropriations from previous years, authorized to be expended in current years.

Stabilization Fund

The following graph sets forth ending balances in the Stabilization Fund for fiscal 2001 through 2006 and the projections for fiscal 2007 and fiscal 2008. For each year, the whole column area equals the maximum balance permitted under the statutory formula, and the darker shaded area shows the amount of the actual or projected ending balance.



SOURCES: Fiscal 2001-2006 Office of the Comptroller; fiscal 2007-2008, Executive Office for Administration and Finance.

COMMONWEALTH PROGRAMS AND SERVICES

Pension and Other Post-Retirement Benefit Obligations

The fiscal 2008 budget creates a State Retiree Benefit Trust Fund. This fund, proposed by the Governor in his fiscal 2008 budget recommendations, is an irrevocable trust fund created to begin funding the Commonwealth's "other post-employment benefit" (OPEB) liability. For fiscal 2008, the current-year cost of state retiree health benefits will be funded through the new trust fund. The fiscal 2008 budget directs the transfer of \$343.2 million to support such costs. In addition, the budget transfers the balance of the Healthcare Security Trust Fund to the State

Retiree Benefit Trust Fund prior to June 30, 2008 to begin funding the unfunded OPEB liability. This transfer is currently estimated at approximately \$442.0 million.

The fiscal 2008 budget also establishes a study commission relative to the Commonwealth's OPEB liability. The commission, comprised of various legislative leaders and representatives of the Executive Office for Administration and Finance, the State Treasurer, the Comptroller, the PRIM Board and the Group Insurance Commission, is to examine further legislation necessary to comply with relevant statements of the Government Accounting Standards Board, a possible amortization schedule to fund the Commonwealth's OPEB liability and, alternatively, state borrowing against future tobacco litigation proceeds to fund the Commonwealth's liability. The study commission is to report its findings and recommendations to the Legislature by December 31, 2007. See the May Information Statement under the heading "COMMONWEALTH PROGRAMS AND SERVICES - Pension and Other Post-Retirement Benefit Obligations; *Other Post Employment Benefits (OPEB)*."

COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN

Capital Spending Plan

On July 31, 2007 the Governor announced that the annual administrative limit on the amount of bond-funded capital expenditures, known as the "bond cap," will be \$1.5 billion for fiscal year 2008 and is expected to increase by \$125 million for each subsequent fiscal year through fiscal year 2012. See the May Information Statement under the heading "COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN - Capital Spending Plan." The bond cap determination is based on a new debt management policy described in a debt affordability analysis released by the Executive Office for Administration and Finance on July 31, 2007.

Under this new policy, the Commonwealth will set the annual borrowing limit at a level designed to keep debt service within 8% of budgeted revenues. For this purpose, debt service includes principal and interest payments on all general obligation debt, special obligation gas tax debt, interest on federal grant anticipation notes, general obligation contract assistance payment obligations and budgetary contract assistance payment obligations on certain capital lease financings. The budgeted revenue projection for fiscal 2008 is the budgeted revenue amount used in the Governor's fiscal year 2008 budget proposal (net of revenues to be transferred to fund the fiscal 2008 scheduled pension payment), which was based on the fiscal 2008 consensus tax revenue estimate. For future fiscal years, 3% annual growth is assumed, which is the 10-year historic annual average growth in budgeted revenues. Debt of the Massachusetts School Building Authority and of the Massachusetts Bay Transportation Authority that is supported by the portion of the sales tax legally dedicated to such entities is not included for purposes of this analysis, as the Commonwealth is not liable for such debt; similarly, the sales tax revenues legally dedicated to such entities are not included in the budgeted revenue projections.

In addition to keeping debt service within 8% of budgeted revenues, the debt management policy limits future annual growth in the bond cap to not more than \$125 million. This additional constraint is designed to ensure that projected growth in the bond cap will be held to stable and sustainable levels.

As shown in the following table, the bond cap for each of the next five fiscal years is expected to result in debt service decreasing as a percentage of budgeted revenues by fiscal year 2012. This is a function of the rate at which outstanding debt is expected to amortize, the projected increases in budgeted revenues, the assumed amortization of one-third of the annual bond cap amounts over 30 years instead of 20 years and the fact that, although the stated bond cap is increasing as compared to prior years, the amount of General Fund-supported debt actually issued in prior years often exceeded the stated bond cap.

**Bond Cap
(in thousands)**

	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012
Bond Cap	\$ 1,373,000	\$ 1,500,000	\$ 1,625,000	\$ 1,750,000	\$ 1,875,000	\$ 2,000,000
Total Debt Obligations	2,064,400	2,096,820	2,181,430	2,187,175	2,272,890	2,227,775
Estimated Budget Revenue	26,985,600(1)	26,727,000	27,528,810	28,354,674	29,205,315	30,081,474
Debt Service as % of Budgeted Revenues	7.65%	7.85%	7.92%	7.71%	7.78%	7.41%

SOURCE: Executive Office for Administration and Finance.

(1) Based on April, 2007 estimate and includes budgeted revenues dedicated to the scheduled fiscal year 2007 pension payment.

The Administration expects to treat all debt and debt-like obligations of the Commonwealth as subject to the bond cap for purposes of developing the annual capital budget, except in limited circumstances when there is a sound policy justification for not including a particular debt issue. Debt may be excluded from the bond cap, for example, where there is a new, dedicated source of project-related revenues supporting the payment of debt service on such debt; in such cases, the dedicated revenue would also be excluded from projected budgeted revenues for purposes of determining the bond cap as described above.

On August 6, 2007 the Governor released a five-year capital investment plan for fiscal 2008 through fiscal 2012. This plan, totaling an estimated \$12 billion over five years, increases the Commonwealth's direct capital investment in several priority areas, including higher education, economic development, housing, transportation infrastructure, energy and environmental affairs, and community investments.

The Governor's capital investment plan includes a 186% increase in state capital spending for higher education, dedicating \$125 million to the state's public colleges and universities in fiscal 2008, compared to \$44 million projected in fiscal 2007. The capital investment plan also dedicates \$1.12 billion to transportation projects and programs in fiscal 2008, a 25% increase over projected fiscal 2007 spending of approximately \$897 million. The capital investment plan provides more than \$170 million in funding for public housing and the development of affordable private housing in fiscal 2008, a 33% increase over projected fiscal 2007 spending of \$128 million.

Other key capital investments include \$150 million in Chapter 90 funding for local road projects, an increase of at least \$30 million over bond-funded investments in this program in recent years; \$50 million annually to protect open space, a 37% increase over projected fiscal 2007 spending and a 52% increase over average spending over the past five years; an estimated \$200-250 million over the next five years to help fund key elements of the Governor's ten-year life sciences initiative; an estimated \$25 million over five years to capitalize a new Broadband Incentive Fund to expand broadband access in western Massachusetts and other underserved areas of the state; and \$30 million in fiscal 2008 for the MORE Jobs capital program.

In the past, the Commonwealth aggregated its capital expenditures into seven major categories based primarily on the agencies responsible for spending and carrying out capital projects: economic development, environment, housing, information technology, infrastructure and facilities, public safety, and transportation. The following table sets forth historical capital spending in fiscal 2002 through fiscal 2006 and projected capital spending in fiscal 2007 according to these categories:

Commonwealth Historical Capital Spending (in millions) (1)

USES:	Fiscal <u>2002</u>	Fiscal <u>2003</u>	Fiscal <u>2004</u>	Fiscal <u>2005</u>	Fiscal <u>2006</u>	Fiscal <u>2007 (2)</u>
Information technology	\$ 86	\$ 76	\$ 75	\$ 61	\$ 88	\$ 67
Infrastructure	235	274	251	262	283	366
Environment	156	134	113	122	142	152
Housing	106	112	121	122	129	141
Public safety	8	37	20	18	19	18
Transportation						
CA/T project	1,296	1,015	691	509	318	321
Non-CA/T projects	612	682	767	791	871	902
Economic development						
Convention centers	134	225	113	54	12	2
Other	99	86	64	39	30	44
School building assistance	—	—	—	565	435	-
Total Uses:	<u>\$2,732</u>	<u>\$2,641</u>	<u>\$2,215</u>	<u>\$2,543</u>	<u>\$2,327</u>	\$2,013
SOURCES:						
Funds from general obligation Debt	\$1,847	\$1,472	\$1,285	\$1,850	\$1,647	\$1,317
Funds from special obligation debt	139	230	119	64	9	2
Funds from grant anticipation notes	9	24	-	-	-	-
Operating revenues	195	354	133	194	44	50
Third-party payments	52	52	63	99	274	103
Federal reimbursements	490	509	615	336	353	541(3)
Total Sources:	<u>\$2,732</u>	<u>\$2,641</u>	<u>\$2,215</u>	<u>\$2,543</u>	<u>\$2,327</u>	<u>\$2,013</u>

SOURCE: Fiscal 2002-2006, Office of the State Comptroller; Fiscal 2007, Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

(2) Based on current estimates; subject to change.

(3) Includes \$118 million of federal reimbursements for the Central Artery/Ted Williams Tunnel project that are still being withheld from the project by the federal government pending approval of the Turnpike Authority's finance plan for the project. If not expended on the CA/T project during the federal fiscal year ending September 30, 2007, these federal reimbursements will be applied to reimburse costs of other road and bridge projects. Until the CA/T finance plan is approved and \$118 million of federal grant funds are permitted to be applied to the project, the Commonwealth has been temporarily financing the related costs of the project. See "Central Artery/Ted Williams Tunnel Project."

For fiscal 2008 through fiscal 2012, the Executive Office for Administration and Finance has re-characterized capital spending into 13 categories based on spending purpose, rather than spending agency: higher education, transportation, economic development, housing, energy and environment, public safety, corrections, information technology, health and human services, state office buildings and facilities, courts, community investments and building maintenance. This new presentation of capital investment categories results in certain expenditures appearing in categories that are different from those in which they had been categorized in the historical capital spending table above. For example, Chapter 90 local aid for municipal transportation projects appears in the community investment category, rather than the transportation category, because these funds are invested in municipally owned assets. Similarly, expenditures for Department of Conservation and Recreation roads and bridges appear in the transportation category, rather than the energy and environment category.

Projected spending for fiscal 2008 through fiscal 2012 is presented according to these categories in the table below; for comparison purposes, projected fiscal year 2007 spending is also presented according to the new categories:

Projected Commonwealth Capital Spending (in millions) (1)(2)

	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012
Higher Education	\$ 43.7	\$ 124.9	\$ 133.1	\$ 146.0	\$ 172.0	\$ 200.0
Transportation (3)	896.9	1,120.7	990.5	1,003.0	1,239.6	1,364.3
Economic Development	23.0	64.7	117.4	147.0	143.0	159.0
Housing	128.0	170.5	170.5	161.8	166.5	166.5
Energy & Environment	138.5	141.7	138.0	136.7	122.2	116.4
Public Safety	44.3	45.1	54.8	75.9	71.7	43.0
Corrections	34.3	17.5	19.2	24.6	34.7	46.9
Information Technology	67.0	161.6	107.7	82.2	83.0	79.7
Health & Human Services	32.0	46.4	59.0	77.3	96.0	88.0
State Office Buildings & Facilities	31.7	26.2	33.9	41.8	53.8	43.8
Courts	117.0	58.5	72.2	92.6	86.0	83.3
Community Investment Program	205.8	271.1	272.2	272.6	266.5	266.5
Building Maintenance	<u>30.2</u>	<u>30.5</u>	<u>30.2</u>	<u>31.0</u>	<u>29.7</u>	<u>30.2</u>
Total:	<u>\$1,792.4</u>	<u>\$2,279.2</u>	<u>\$2,198.7</u>	<u>\$2,292.4</u>	<u>\$2,564.8</u>	<u>\$2,686.5</u>

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

(2) Based on current estimates; subject to change.

(3) Does not include certain amounts related to the CA/T project for fiscal year 2007 that are reflected in the historical table above. To be consistent with the way in which the capital investment plan reflects spending for projects being carried out by other governmental entities, the new presentation of capital spending for the CA/T project only includes Commonwealth funding for such projects. Specifically, this table does not reflect federal and other third-party funds for the CA/T project that are reflected in the historical capital spending table above.

The capital investment plan is funded from a variety of sources, including proceeds of Commonwealth bonds (including bonds subject to the bond cap and project-funded bonds, as described above), federal funds, contributions from other governmental entities and third parties, and other sources of Commonwealth funds. The projected amount of Commonwealth bonds supporting the five-year capital investment plan is based on the debt affordability analysis described above. The bond cap for fiscal 2008 consists of the \$1.5 billion of new bonds referenced in the table above based on the debt affordability analysis, plus \$55.7 million of unexpended bond proceeds expected to be carried forward from fiscal 2007. The federal and other sources of funding supporting the Commonwealth's capital budget are estimates based on historical experience and projections of certain state investments. The following table shows the estimated sources of capital funds for fiscal 2007 and for the next five fiscal years:

Projected Capital Funding Sources (in millions) (1)

	Fiscal 2007 (2)	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012
Bond cap	\$1,317.6	\$1,555.7	\$1,625.0	\$1,750.0	\$1,875.0	\$2,000.0
Federal funds	395.6	494.2	459.9	475.3	526.7	517.5
Project-funded bonds	2.2	75.5	51.2	62.7	157.8	162.0
Other/third party	<u>77.0</u>	<u>153.8</u>	<u>62.6</u>	<u>4.4</u>	<u>5.3</u>	<u>7.0</u>
Total:	<u>\$1,792.4</u>	<u>\$2,279.2</u>	<u>\$2,198.7</u>	<u>\$2,292.4</u>	<u>\$2,564.8</u>	<u>\$2,686.5</u>

SOURCE: Executive Office for Administration and Finance.

(1) Based on current estimates; subject to change.

(2) Does not include certain amounts related to the CA/T project for fiscal year 2007 that are reflected in the historical table above. To be consistent with the way in which the capital investment plan reflects spending for projects being carried out by other governmental entities, the new presentation of capital spending for the CA/T project only includes Commonwealth funding for such projects. Specifically, this table does not reflect federal and other third party funds for the CA/T project that are reflected in the historical capital spending table above.

Central Artery/Ted Williams Tunnel Project

Following the approval on May 15, 2007 by the members of the Turnpike Authority of the Commonwealth's proposal relating to the \$210 million funding shortfall for the Central Artery/Ted Williams Tunnel project described in the May Information Statement under the heading "COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN – Central Artery/Ted Williams Tunnel Project; *Project Budget and Oversight and Delay of Federal Funding*," the Turnpike Authority and the Commonwealth entered into an agreement to implement such proposal. On May 23, 2007 the Massachusetts Turnpike Authority filed a finance plan update with the Federal Highway Administration. See the May Information Statement under the heading "COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN – Central Artery/Ted Williams Tunnel Project; *Project Budget and Oversight and Delay of Federal Funding*." The finance plan update is currently under review by the Federal Highway Administration and the Inspector General of the U. S. Department of Transportation.

On June 29, 2007 the Governor filed legislation to implement the provisions of the agreement referenced above between the Turnpike Authority and the Commonwealth relating to the funding shortfall for the CA/T project. Among other provisions, the legislation provides for all CA/T project-related cost recoveries, insurance proceeds and certain real estate proceeds to be deposited into the Statewide Road and Bridge and Central Artery/Tunnel Infrastructure Fund (TIF) for purposes of paying costs of the project or reimbursing the Commonwealth for such costs. Such legislation is currently pending in the state Legislature.

On June 4, 2007 the Commonwealth received final payment of a \$58.5 million settlement with American International Group for reimbursement of overpayments to the owner-controlled insurance program for the CA/T project and accrued interest on such overpayments. In connection with this settlement, the Commonwealth has credited approximately \$23.7 million of the principal reimbursement allocable to prior federal contributions to the insurance program to offset current federal grant payment obligations to the Commonwealth. The Commonwealth has also been informed that a portion of the interest portion of the settlement payment must be credited against the federal government's remaining funding commitment for the CA/T project. The balance of the settlement amount has been expended by the Commonwealth for general purposes, with the exception of approximately \$13 million which will be transferred to the TIF if the legislation described above is enacted. After taking the credit, the remaining \$13 million from the settlement and other adjustments into account, there is a net funding shortfall since the filing of the updated finance plan of approximately \$5 million dollars. When the federal review of the finance plan update is completed, it is anticipated that a supplement to the finance plan will be filed by the Turnpike Authority in order to address the funding shortfall related to the federal interest credit described above and to address any cost or other issues that might be raised in connection with the federal review.

With respect to the \$50 million balance of the purchase price Massport is required to pay to the Commonwealth for the transfer to Massport of certain portions of the CA/T project as described in the May Information Statement under the heading "COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN – Central Artery/Ted Williams Tunnel Project; *July, 2006 Incident and Other Quality Concerns*," Massport paid \$25.1 million to the Commonwealth on June 15, 2007 and \$12.5 million to the Commonwealth on July 20, 2007. The \$12.4 million balance is expected to be paid in installments as the Turnpike Authority completes the improvements it agreed to make to the property before it is transferred.

On July 1, 2007 the Secretary of Transportation and Public Works became the Chairman of the Turnpike Authority by operation of law, leaving the position on the board to which he had previously been appointed currently vacant.

On July 10, 2007 the National Transportation Safety Board released its findings pertaining to the collapse of several concrete suspended ceiling panels in the Interstate 90 connector. See the May Information Statement under the heading "COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN – Central Artery/Ted Williams Tunnel Project; *July, 2006 Incident and Other Quality Concerns*." The Board's assessment was that the proximate cause of the failure was the use of a fast-setting epoxy anchoring system which was susceptible to "creep" -- the tendency for slippage or elongation with the application of sustained tensile loads. Subsequent to the collapse, a full inspection was conducted, and continues today, inspecting all aspects of the project's design, construction and life safety systems. Immediate concerns have been remediated with additional design modifications and adjustments made as necessary to ensure the safety of the motoring public.

LONG-TERM LIABILITIES

The following table shows long-term debt of the Commonwealth as issued and retired from fiscal 2003 through fiscal 2007:

Long-Term Debt Issuance and Repayment Analysis (in thousands) (1)

	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Fiscal 2006</u>	<u>Fiscal 2007(4)</u>
Fiscal Year Beginning Balance (as of July 1)	\$14,955,135	\$15,962,506	\$17,382,172	\$17,856,799	\$18,461,406
General and special obligation debt issued	1,845,458(2)	1,925,990(3)	1,267,281	1,770,346	1,552,913
Subtotal	16,800,593	17,888,496	18,649,453	19,627,145	20,014,319
Debt retired or defeased, exclusive of refunded debt	(737,832)	(758,444)	(882,266)	(1,024,542)	(1,188,478)
Refunding debt issued, net of refunded debt	(100,255)	252,120	89,612	(141,197)	(118,786)
Fiscal Year Ending Balance (June 30)	<u>\$15,962,506</u>	<u>\$17,382,172</u>	<u>\$17,856,799</u>	<u>\$18,461,406</u>	<u>\$18,944,627</u>

SOURCE: Office of the Comptroller.

- (1) Including premium, discount and accretion of capital appreciation bonds. Capital appreciation bonds are reported at original net proceeds for the purposes of calculating debt limit compliance.
- (2) Includes \$30.1 million of bonds, which, although not legally defeased, will be paid in fiscal 2008 from funds held in escrow by a third-party trustee. Also includes a series of \$209.5 million of bonds, which, although not legally defeased, will be paid in fiscal 2008 and 2012 from funds held in escrow by a third-party trustee.
- (3) Includes \$408.0 million of grant anticipation notes, which, although not legally defeased, will be paid in fiscal 2009 and 2011 from funds held in escrow by a third-party trustee.
- (4) Amounts are preliminary.

The outstanding Commonwealth debt, the amounts of debt excluded from the statutory debt limit, the net amounts of Commonwealth debt subject to the statutory debt limit and the statutory debt limit as of the end of each of the last five fiscal years are shown in the following table:

Calculation of the Debt Limit (in thousands)

	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
Balance as of June 30	\$15,962,506	\$17,382,172	\$17,856,799	\$18,461,406	\$18,944,627
Less amounts excluded:					
(Discount)/premium and issuance costs	(68,718)	1,120	70,937	112,673	132,578
1991 refunding/restructuring	(10,600)	-	-	-	-
Special obligation debt (1)	(748,124)	(1,347,822)	(1,485,548)	(1,291,266)	(1,260,941)
Federal grant anticipation notes (1)	(1,500,000)	(1,908,015)	(1,908,015)	(1,789,876)	(1,666,690)
Assumed county debt	(855)	(675)	(600)	(525)	(450)
MBTA forward funding	(680,869)	(601,027)	(511,546)	(416,830)	(368,873)
Transportation Infrastructure Fund	(1,386,869)	(1,066,638)	(1,336,741)	(1,476,287)	(1,462,870)
MSBA	-	-	(500,000)	(1,000,002)	(986,489)
Outstanding Direct Debt(2)	<u>\$11,566,472</u>	<u>\$12,459,055</u>	<u>\$12,185,286</u>	<u>\$12,599,293</u>	<u>\$13,330,892</u>
Statutory Debt Limit	<u>\$12,211,823</u>	<u>\$12,822,414</u>	<u>\$13,463,535</u>	<u>\$14,136,712</u>	<u>\$14,843,547</u>

SOURCE: Office of the Comptroller.

- (1) Includes three series of outstanding crossover refunding bonds, two of which are special obligation bonds and one of which consists of federal grant anticipation notes. The refunding escrows funded by these bonds and related premiums are used to pay interest on the refunding bonds until the refunded bonds are callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continues to be paid from pledged revenues as before.

(2) Capital appreciation bonds reported at original net proceeds for the purposes of calculating debt limit, not at maturity value.

The following table sets forth the amounts of Commonwealth long-term general obligation debt, special obligation debt and federal grant anticipation notes outstanding as of the end of the last five fiscal years.

Long Term Commonwealth Debt (in thousands) (1)

	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Fiscal 2006</u>	<u>Fiscal 2007(3)</u>
General Obligation Debt	\$13,714,382	\$14,126,275	\$14,463,236	\$15,383,366	\$16,020,737
Special Obligation Debt (2)	748,124	1,347,882	1,485,548	1,288,595	1,258,270
Federal Grant Anticipation Notes (2)	<u>1,500,000</u>	<u>1,908,015</u>	<u>1,908,015</u>	<u>1,789,445</u>	<u>1,665,620</u>
TOTAL	<u>\$15,962,506</u>	<u>\$17,382,172</u>	<u>\$17,856,799</u>	<u>\$18,461,406</u>	<u>\$18,944,627</u>

SOURCE: Office of the Comptroller.

(1) The amount of debt is calculated based on net proceeds.

(2) Includes three series of outstanding crossover refunding bonds, two of which are special obligation bonds and one of which consists of federal grant anticipation notes. Amounts attributable to such bonds are shown in this table beginning in fiscal 2004. The refunding escrows funded by these bonds and related premiums are used to pay interest on the refunding bonds until the refunded bonds are callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continues to be paid from pledged revenues as before.

(3) Amounts are preliminary.

On May 30, 2007, the Commonwealth issued general obligation bonds to defease all outstanding Massachusetts Convention Center Authority and Foxborough Industrial Development Financing Authority bonds with respect to which the Commonwealth was liable for general obligation contract assistance. In addition, on May 30, 2007 the Commonwealth reduced its budgetary contract assistance liability for lease revenue bonds issued by the Route 3 North Transportation Improvements Association by issuing general obligation bonds to defease approximately \$53.4 million of such bonds.

The following table sets forth, as of July 1, 2007, 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 as of July 1, 2007
(in thousands)(1)

Fiscal Year	General Obligation Bonds			Federal Grant Anticipation Notes(2)			Special Obligation Bonds			Total Debt Service Commonwealth Bonds	
	Principal	Current Interest	Interest on CABS at Maturity	Sub Total	Principal	Interest	Sub Total	Principal	Interest		Sub Total
2008	\$ 1,009,870	\$ 739,153	\$ 5,801	\$ 1,754,824	\$ 130,240	\$ 81,469	\$ 211,709	\$32,545	\$48,898	\$81,443	\$2,047,976
2009	1,034,361	725,855	6,900	1,767,116	137,230	74,478	211,708	33,960	64,631	98,591	2,077,415
2010	977,212	673,619	6,905	1,657,736	158,815	66,835	225,650	35,530	63,067	98,597	1,981,983
2011	992,112	621,312	7,763	1,621,187	214,620	57,206	271,826	37,240	61,359	98,599	1,991,612
2012	876,068	568,652	8,370	1,453,090	226,420	45,694	272,114	39,135	59,470	98,605	1,823,809
2013	951,768	521,127	8,944	1,481,839	208,410	35,110	243,520	41,150	57,438	98,588	1,823,947
2014	841,577	476,936	7,031	1,325,544	302,820	21,697	324,517	38,925	55,200	94,125	1,744,186
2015	860,301	433,173	6,542	1,300,016	287,065	7,185	294,250	87,430	53,210	140,640	1,734,906
2016	907,775	392,352	5,164	1,305,291	-	-	-	90,760	48,593	139,353	1,444,644
2017	884,829	348,861	3,612	1,237,302	-	-	-	108,385	43,803	152,188	1,389,490
2018	630,271	310,798	2,708	943,777	-	-	-	46,350	38,425	84,775	1,028,552
2019	621,474	278,105	20,239	919,818	-	-	-	48,775	36,121	84,896	1,004,714
2020	696,990	246,400	1,429	944,819	-	-	-	49,020	33,499	82,519	1,027,338
2021	891,411	207,088	1,302	1,099,801	-	-	-	51,515	31,064	82,579	1,182,380
2022	683,087	168,119	1,080	852,286	-	-	-	54,355	28,292	82,647	934,933
2023	590,906	136,171	856	727,933	-	-	-	36,960	25,428	62,388	790,321
2024	514,918	109,016	512	624,446	-	-	-	28,990	23,443	52,433	676,879
2025	447,415	86,123	216	533,754	-	-	-	30,625	21,848	52,473	586,227
2026	302,768	67,615	130	370,513	-	-	-	32,360	20,164	52,524	423,037
2027	314,431	53,006	23	367,460	-	-	-	34,190	18,384	52,574	420,034
2028	121,595	42,055	-	163,650	-	-	-	36,125	16,504	52,629	216,279
2029	198,890	33,979	-	232,869	-	-	-	38,170	14,517	52,687	285,556
2030	205,555	23,654	-	229,209	-	-	-	40,330	12,418	52,748	281,957
2031	215,380	12,786	-	228,166	-	-	-	42,610	10,199	52,809	280,975
2032	23,415	6,942	-	30,357	-	-	-	45,020	7,856	52,876	83,233
2033	24,460	5,908	-	30,368	-	-	-	47,565	5,380	52,945	83,313
2034	25,545	4,826	-	30,371	-	-	-	50,250	2,764	53,014	83,385
2035	26,680	3,697	-	30,377	-	-	-	-	-	-	30,377
2036	27,865	2,518	-	30,383	-	-	-	-	-	-	30,383
2037	29,105	1,286	-	30,391	-	-	-	-	-	-	30,391
TOTAL	\$15,928,034	\$7,301,132	\$95,527	\$23,324,693	\$1,665,620	\$389,674	\$2,055,294	\$1,258,270	\$901,975	\$2,160,245	\$27,540,232

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

- (1) Amounts are preliminary.
(2) Includes three series of outstanding crossover refunding bonds, two of which are special obligation bonds and one of which consists of federal grant anticipation notes. The refunding escrows funded by these bonds and related premiums are used to pay interest on the refunding bonds until the refunded bonds are callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continues to be paid from pledged revenues as before. The amount of debt is calculated based on net proceeds as provided under state finance law relative to debt limits.

STATE WORKFORCE

The following table sets forth information regarding the Commonwealth's workforce as of the end of the last five fiscal years.

Budget-Funded Workforce (1)

	<u>June 2003</u>	<u>June 2004</u>	<u>June 2005</u>	<u>June 2006</u>	<u>June 2007</u>
Executive Office	94	73	71	66	79
Office of the Comptroller	102	102	124	122	124
Executive Departments					
Administration and Finance	2,921	2,791	2,913	2,990	2,791
Energy and Environmental Affairs (3)	2,156	1,997	1,984	2,057	2,168
Housing and Community Development	98	92	94	91	
Early Education and Care	-	-	-	164	189
Health and Human Services	21,440	20,682	21,066	21,022	21,072
Transportation and Public Works	445	344	1,139(2)	1,078	1,087
Board of Library Commissioners	13	12	11	12	13
Economic Development (3)	922	879	935	960	
Housing and Economic Development (3)					610
Labor and Workforce Development (3)					320
Department of Education	248	223	241	266	269
Board of Higher Education	14,117	11,844	13,198	12,932	13,319
Public Safety and Homeland Security	9,148	8,765	8,109(2)	8,430	8,457
Elder Affairs	<u>38</u>	<u>28</u>	<u>51</u>	<u>34</u>	<u>44</u>
Subtotal under Governor's authority	51,742	47,832	49,934	50,223	50,543
Judiciary	7,233	7,175	7,435	7,630	7,993
Other (4)	<u>7,256</u>	<u>7,220</u>	<u>7,352</u>	<u>7,594</u>	<u>7,947</u>
Total	<u>66,232</u>	<u>62,227</u>	<u>64,721</u>	<u>65,447</u>	<u>66,483</u>

SOURCE: Executive Office for Administration and Finance.

- (1) Excludes employees whose positions are established in accounts funded by capital projects funds, direct federal grants, expendable trusts and other non-appropriated funds, as well as seasonal help, members of boards and commissions and staff of independent authorities. Numbers represent full-time equivalent positions (FTEs), not individual employees. Total may not add due to rounding.
- (2) Effective July, 2004, the Registry of Motor Vehicles was transferred from the Executive Office of Public Safety to the Executive Office of Transportation and Public Works. Approximately 814 FTEs were involved in the transfer.
- (3) Effective April 11, 2007 the Executive Office of Economic Development was divided into the Executive Office of Housing and Economic Development, incorporating the former Department of Housing and Community Development, and the Executive Office of Labor and Workforce Development. The Department of Public Utilities and the Department of Energy Resources were transferred to the renamed Executive Office of Energy and Environmental Affairs from the Executive Office of Economic Development, a net shift of 100 FTEs.
- (4) Other includes members of the Legislature and their staff, the offices of the State Treasurer, Secretary, Auditor and Attorney General, the eleven District Attorneys, the seven former county sheriffs that have become state agencies, and other agencies independent from the Governor.

Unions and Labor Negotiations

Under Chapter 150E of the General Laws, all employees of the Commonwealth, with the exception of managerial and confidential employees and employees of the legislature, 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. Labor contracts are often funded by supplemental appropriations.

The Trial Court, the Lottery Commission, state sheriffs, the Registries of Deeds under the control of the Secretary of the Commonwealth 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 the Lottery Commission, state sheriffs, Registries of Deeds and higher education management are subject to the review of the Governor and to funding approval by the Legislature. If the Governor does not recommend the requested appropriation to fund contractual increases, he may refer the contracts back to the parties for further negotiation.

Approximately 39,331 executive branch full-time-equivalent state employees are organized in 12 bargaining units, the employees of the Commonwealth's colleges and universities are organized in 28 bargaining units, and the employees of the judicial branch and the Lottery Commission are organized in 7 bargaining units. Public employees of the Commonwealth do not have a legal right to strike or otherwise withhold services. Negotiations are currently underway with the Coalition of Public Safety, representing employees in Unit 5, to replace their contract which expired June 30, 2004; and with the International Brotherhood of Correctional Officers/National Association of Government Employees in Unit 4A, to replace their contract which expired June 30, 2007.

The Commonwealth has outstanding agreements with the following bargaining units (negotiations are underway with the units that have contracts due to expire in June, 2007):

(1) The Massachusetts Nurses Association is under contract through December, 2007. A one-year contract from July, 2004 to June, 2005 did not provide for any salary increases. A two-and-a-half-year contract from July, 2005 to December, 2007 provided for a 3% increase in July, 2005, a directed job upgrade of approximately 4.4% for specific titles within the unit, including nurses, effective January, 2006, a 2% increase in January, 2006, a 3% increase in July, 2006 and a 1.5% increase in January, 2007 and provides for a 1.5% increase in July, 2007. The total estimated cost of the contract is \$58.6 million.

(2) The Service Employees International Union, representing employees in units 8 and 10, has a one-year contract from January, 2007 to December 2007 that provides a 4% increase in January 2007. The total estimated cost of the contract is approximately \$27 million.

(3) The Massachusetts Organization of State Engineers and Scientists has a one-year contract from July, 2007 to June, 2008 that provides a 3% increase in July, 2007. The total estimated cost of the contract is \$2.5 million.

(4) The National Association of Government Employees, representing Units 1, 3 and 6, has a one-year contract from July, 2007 to June, 2008 that provides a 3% increase in July, 2007. The total estimated cost of the contract is \$15.9 million.

(5) The Alliance Unit 2 (American Federation of State, Country and Municipal Employees) has a one-year contract from July, 2007 to June, 2008 that provides a 3% increase in July, 2007. The total estimated cost of the contract is \$10.5 million.

(6) The State Police Association of Massachusetts is under contract until December, 2008. A two-year contract from January, 2007 to December, 2008 provided a 3.75% increase in January, 2007 and provides a 3.75% increase in January, 2008. The total estimated cost of the contracts is \$108.7 million.

(7) The Massachusetts Correction Officers Federated Union is under contract until June, 2009. The period from January, 2004 to June 2005 did not provide for any salary increases. A 3 year contract and an accompanying one-year extension cover the period from July, 2005 to June, 2009 and provide for an 8% increase in October, 2006, and 3% increases in July, 2007 and July, 2008. The total estimated cost of the contracts is \$49.6 million.

The following table sets forth information regarding the 12 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	Contract Expiration Dates
1	National Association of Government Employees	Clerical	2,866	6/30/08
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Institutional services	9,225	6/30/08
3	National Association of Government Employees	Skilled trades	595	6/30/08
4	Massachusetts Correction Officers Federated Union	Corrections	3,751	6/30/09
4A	Corrections Captains	Corrections	87	6/30/07
5	Coalition of Public Safety	Law enforcement	232	6/30/04
5A	State Police Association of Massachusetts	State Police	1,928	12/31/08
6	National Association of Government Employees	Administrative professionals	8,174	6/30/08
7	Massachusetts Nurses Association	Health professionals	1,720	12/31/07
8	Alliance/Service Employees International Union	Social workers	7,249	12/31/07
9	Massachusetts Organization of State Engineers and Scientists	Engineers/scientists	2,818	6/30/08
10	Alliance/Service Employees International Union	Secondary education	584	12/31/07
Total			39,329	

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 July 7, 2007 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).

LEGAL MATTERS

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 her 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.

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.

Ricci v. Okin. Challenges by residents of five state schools for the retarded (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.

On July 14, 2004, a subset of plaintiffs filed a motion to reopen the case and enforce the final order of May 25, 1993, asserting various reasons why the Department of Mental Retardation is not in compliance with the 1993 final order, mostly relating to the Commonwealth's plan to close the Fernald Developmental Center. Another subgroup of plaintiffs (representing class members from the Dever and Wrentham Developmental Centers) have sought to re-open the case as well. The Department filed a responsive pleading on August 16, 2004, asserting that all

of the requirements of the final order were met. On August 28, 2004, the Disability Law Center filed a motion to intervene, asserting an interest on behalf of persons with disabilities in the closing of the facility, which was allowed. On February 8, 2006, the judge ordered all transfers from Fernald halted indefinitely and appointed United States Attorney Michael Sullivan as court monitor over the closure of Fernald. On March 6, 2007, the United States Attorney issued his long-awaited report, in which he did not find any violations by the Department of federal or state law, but nonetheless recommended that the Fernald Developmental Center remain open to serve any residents who wish to remain there. Shortly thereafter, the Court declared that its 2006 order prohibiting transfers from the Fernald Center (absent a specific written order to the contrary) would remain in effect pending further order of the Court. As of mid-July, 2007, motions filed by the Department and by the Disability Law Center to dissolve the 2006 injunction were pending before the Court.

Catherine Hutchinson, by her Guardian, Sandy Julien, et al v. Deval L. Patrick, et al (United States District Court). The plaintiffs, who claim to represent a class of over 1,000 persons with serious brain injuries, allege that the Commonwealth's failure to provide long-term care in community settings has resulted in their unnecessary institutionalization. An answer to the complaint was filed July 16, 2007.

Taxes

There are several tax cases pending that 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. As of, July 20, 2007, approximately \$ 100 million in contingent liabilities exist in the aggregate in tax cases pending before the Appellate Tax Board, Appeals Court or Supreme Judicial Court. These contingent liabilities include both taxes and interest. Several cases comprise a sizeable share of these liabilities.

TJX Companies v. Commissioner of Revenue (Appellate Tax Board). The taxpayer is challenging a tax liability of approximately \$23.5 million arising from the Commissioner's disallowance of deductions for various royalty payments and interest taken in connection with transactions between several subsidiaries of the taxpayer. On August 8, 2006, the Appellate Tax Board issued its decision in favor of the Commissioner. The Board's findings of fact and report have been requested but not yet issued.

MBNA America Bank v. Commissioner of Revenue, Greenwood Trust Co. v. Commissioner of Revenue, Providian Nat'l Bank v. Commissioner of Revenue (Appellate Tax Board). These are financial excise "nexus" cases involving credit card businesses. The total potential refund is approximately \$24.8 million. On October 13, 2006, the Appellate Tax Board issued a decision for the Commission in the similar case of *Capital One Bank and Capital One F.S.B.* The findings of fact and report in *Capital One* were issued on June 22, 2007, and the taxpayer has expressed its intention to appeal by August 21, 2007.

Other Revenues

Cutting Edge Enterprises, Inc. v. National Association of Attorneys General et al (United States District Court, Southern District of New York); *Cutting Edge Enterprises, Inc. v. National Association of Attorneys General et al* (U.S. Bankruptcy Court, Middle District of North Carolina). The plaintiff, now in bankruptcy, is a Subsequent Participating Manufacturer ("SPM") which has filed suit against numerous states including Massachusetts alleging that the states' refusal to list the plaintiff as an approved SPM on their Directories violates the terms of the MSA and the Sherman Anti-Trust Act. In its complaint filed in Bankruptcy Court, Cutting Edge asks the Court to declare that the states' refusal to list the plaintiff as an approved SPM on their Directories violates the terms of the MSA and the Sherman Anti-Trust Act and tortiously interferes with the plaintiff's business. If the Court finds no breach of the MSA, Cutting Edge asks it to find that certain provisions of the MSA are pre-empted by the Sherman Anti-Trust Act and unenforceable. If Cutting Edge ultimately obtains a judgment invalidating portions of the MSA, that result could make it more likely that future payments to Massachusetts and other states under the MSA would be reduced by amounts that could be significant but cannot be estimated at this time.

The Arborway Committee v. Executive Office of Transportation and Public Works et al. (Suffolk Superior Court). The plaintiff, a volunteer group of residents and merchants in Jamaica Plain, filed a complaint in February, 2007, seeking to compel the Commonwealth to restore electric light rail service between Heath Street and the Forest Hills station in Boston. Green Line service along this route, known as the Arborway line, was discontinued in 1985.

The plaintiff claims that the Commonwealth's failure to restore the Arborway Line is a breach of a memorandum of understanding entered into between the Commonwealth and the Conservation Law Foundation in 1990. The Commonwealth has answered the complaint and the case is moving into the discovery phase.

In re Aggregate Industries Settlement. In late June, 2007, the Attorney General and the United States Attorney resolved four civil cases and one criminal matter with Aggregate Industries NE, Inc., arising out of Aggregate's supply of concrete products to the Central Artery/Ted Williams Tunnel project. In addition to a guilty plea on a charge of conspiracy to defraud the government, the settlement requires Aggregate to make total payments of \$50 million, including approximately \$6.2 million to the Commonwealth, approximately \$1.1 million of which the Commonwealth must in turn pay to "relators" (whistleblowers). In addition, the settlement provides that approximately \$27.1 million plus accrued interest will be paid into a trust fund for future repairs and maintenance of structures related to the project. The four civil cases resolved by this agreement are: *Commonwealth of Massachusetts ex rel. Chase v. Aggregate Industries, Inc. et al* in Suffolk Superior Court and *United States ex rel. Harrington and Finney v. Aggregate Industries, Inc. et al, United States ex rel. Chase v. Aggregate Industries, Inc. et al*, and *United States ex rel. Johnston v. Aggregate Industries PLC et al*, all in the United States District Court.

Other

Historical Nipmuc Tribe v. Commonwealth of Massachusetts (Land Court). By this recently filed complaint, the Historical Nipmuc Tribe seeks the return of "State Parks and other unsettled Lands" in Central Massachusetts that are allegedly illegally obtained Nipmuc tribal homelands, as well as restitution for the Commonwealth's use of this property.

In re Delayed Release of Inmates. The Department of Correction has identified a group of inmates who were not released on their actual release dates, resulting in incarceration beyond their sentences. An initial group of 14 inmates has been identified who were released from one day to three years late. Although litigation has not been commenced, two of these inmates have already made demands for compensation in excess of the statutory cap, arguing that their delayed release violated their civil rights. The Department is continuing to review its records to identify any additional inmates who may have been released late.

MISCELLANEOUS

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

The May Information Statement and this Supplement Statement contain 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 the May Information Statement and this Supplement 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 the May Information Statement and this Supplement 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 in the May Information Statement and this Supplement, 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 the May Information Statement and this Supplement are subject to change without notice. Neither the delivery of this Supplement nor any sale made pursuant to any official statement of which the May Information Statement and this Supplement are a part 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 Supplement, 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.mass.gov/osc> by clicking on "Financial Reports/Audits."

On behalf of the Commonwealth, the State Treasurer will provide to each NRMSIR within the meaning of Rule 15c2-12 of the SEC, no later than 270 days after the end of each fiscal year of the Commonwealth, certain financial information and operating data relating to such fiscal year, as provided in said Rule 15c2-12, together with audited financial statements of the Commonwealth for such fiscal year. To date, the Commonwealth has complied with all of its continuing disclosure undertakings relating to the general obligation debt of the Commonwealth and has not failed in the last five years to comply with its continuing disclosure undertakings with respect to its special obligation debt and federal grant anticipation notes. However, the annual filings relating to the fiscal year ended June 30, 2001 for the Commonwealth's special obligation debt and for the Commonwealth's federal highway grant anticipation notes were filed two days late, on March 29, 2002. Proper notice of the late filings was provided on March 29, 2002 to the Nationally Recognized Municipal Securities Information Repositories and the Municipal Securities Rulemaking Board.

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 Supplement or requests for additional information concerning the Commonwealth should be directed to Patrick F. Landers, III, Assistant Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone (617) 367-3900 (ext. 226), or to Jay Gonzalez, Assistant Secretary for Capital Finance and Intergovernmental Affairs, 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 Supplement should be directed to John R. Regier, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone (617) 348-1720.

THE COMMONWEALTH OF MASSACHUSETTS

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

By /s/ Leslie A. Kirwan
Leslie A. Kirwan
Secretary of Administration and Finance

August 8, 2007

ECONOMIC INFORMATION

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

All information is presented on a calendar-year basis unless otherwise indicated. **The section was prepared for release on July 20, 2007. Information in the text, tables, charts, and graphs was current as of June 30, 2007.** Sources of information are indicated in the text or immediately following the charts and tables, and also on the *Sources List* on the last page of the Exhibit A section. Although the Commonwealth considers the sources to be reliable, the Commonwealth has made no independent verification of the information presented herein and does not warrant its accuracy.

Statistical Overview

Population (p. A-2)

	<u>Massachusetts</u>	<u>United States</u>
Estimated Percent Change in Population, April 1, 2000–July 1, 2006	1.4%	6.4%

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

Per Capita Personal Income, 2006	\$45,877	\$36,276
Average Annual Pay, All Industries, 2005	\$50,095	\$40,677
Percent Change in CPI-U, 2005-2006*	3.1%	3.2%
Percent Change in CPI-U, M ay 2006-M ay 2007*	1.5%	2.7%
Poverty Rate, 2003-2005 Average	9.9%	12.6%
Average Weekly Earnings, M anufacturing Production Workers: 2007ytd (5mo.)	\$764.51	\$699.32
Percent Change 2007ytd (M ay 07 prelim.), over same period last year	4.7%	2.4%

Employment (p. A-15)

Percent Change in Nonfarm Payroll Employment, M ay 2006-M ay 2007(p)	1.0%	1.4%
Unemployment Rate, 2006	5.0%	4.6%
Unemployment Rate, M ay, 2007 (seasonally adjusted)	5.1%	4.5%

Economic Base and Performance (p. A-20)

Percent Change in Gross State Product, 2005-2006	5.5%	6.3%
Percent Change in International Exports, 2005-2006	9.1%	14.7%
Percent Change in Housing Permits Authorized, 2005-2006	-20.2%	-14.7%

Human Resources and Infrastructure (p. A-38)

Expenditure Per Pupil, 2004	\$11,267	\$8,701
Percent of Adults with a Bachelor's Degree or higher, 2005	36.9%	27.2%

*NOTE: Percent changes in the Consumer Price Index for All Urban Consumers (CPI-U) are for the Boston-Worcester-Lawrence, M A-NH-ME-CT C M S A & the United States.

Massachusetts is a densely populated state with a well-educated population, comparatively high income levels, low rates of unemployment, and a relatively diversified economy. While the total population of Massachusetts has remained fairly stable in the last twenty-five years, significant changes have occurred in the age distribution of the population: dramatic growth in residents between the ages of 20 and 44 since 1980 is expected to lead to a population distributed more heavily in the 65 and over age group in the next twenty-five years. Just as the working-age population has increased, income levels in Massachusetts since 1980 have grown significantly more than the national average, and a variety of measures of income show that Massachusetts residents have significantly higher amounts of annual income than the national average. These higher levels of income have been accompanied by a significantly lower poverty rate and, with the exception of the recession of the early 1990s, considerably lower unemployment rates in Massachusetts than in the United States since 1980. The state is now recovering from the recession of 2001, but is lagging behind the nation in many indicators, particularly employment levels.

The following five sections provide detailed information on population characteristics, personal income, employment, economic base and performance, and human resources and infrastructure.

POPULATION CHARACTERISTICS

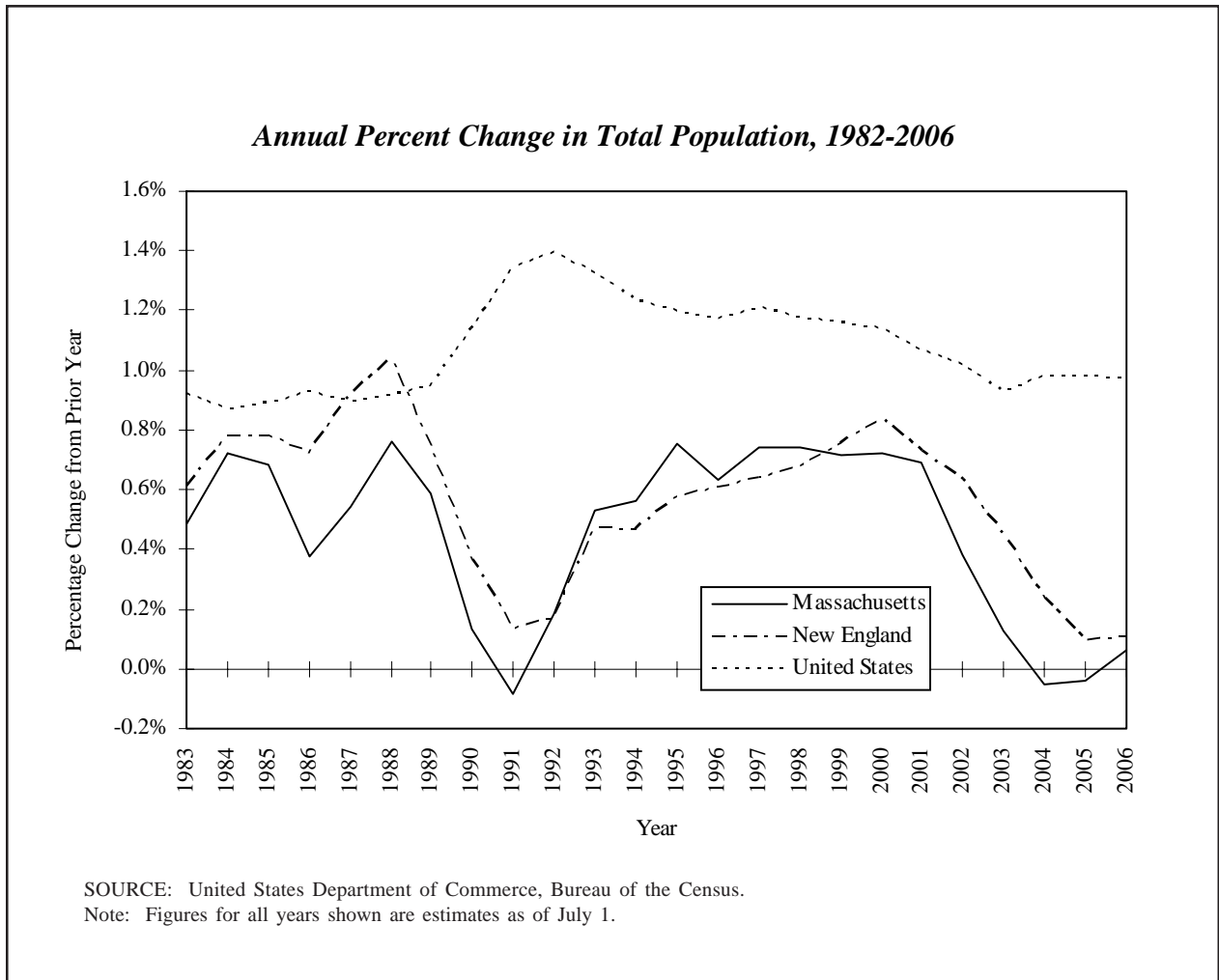
Massachusetts is a relatively slow growing but densely populated state with a comparatively large percentage of its residents living in metropolitan areas. The population density of Massachusetts was estimated as of July 1, 2006 to be 821.1 persons per square mile, as compared to 84.6 for the United States as a whole. Among the 50 states, only Rhode Island and New Jersey have a greater population density. Massachusetts also ranked just behind the same two states in percentage of residents living in metropolitan areas according to the metropolitan definitions released in 2003 which are based on whole counties. According to this new definition, the entire state is considered metropolitan except for the two island counties (99.6 percent of state residents in 2005) while Rhode Island, New Jersey and D.C. are wholly metropolitan.

The State's population is concentrated in its eastern portion. The city of Boston is the largest city in New England, with a 2006 population estimated at 590,763, or 9.2 percent of the state's population. Boston is the hub of the seven-county Boston-Cambridge-Quincy, MA-NH Metropolitan Statistical Area (MSA), which includes the two southeastern New Hampshire counties, and which had a total population in 2006 estimated at 4,455,217 or 31 percent of the total New England population. The three-county Boston-Quincy, MA Metropolitan Division is the largest component of that MSA, with a total population in 2006 estimated at 1,835,986.

The second largest MSA in the state is the Worcester, MA MSA, with a 2006 population estimated at 784,992. The city of Worcester, situated approximately 40 miles west of Boston with a 2006 population estimated at 175,454, is the second largest city in New England as well as the second largest in the state. As a major medical and educational center, the Worcester area is home to 18 patient care facilities, including the University of Massachusetts Medical School, and thirteen other colleges and universities.

The third largest MSA in Massachusetts is the three-county Springfield MSA, with a 2006 population estimated at 686,174. Springfield, the third largest city in the Commonwealth with a 2006 population estimated at 151,176, is located in the Connecticut River Valley in Western Massachusetts and enjoys a diverse body of corporate employers, the largest of which are Baystate Health System, Big Y Supermarkets, MassMutual Financial Group, and Hasbro Games (Milton Bradley). In addition, Springfield is home to three independent colleges.

As the following chart and table indicate, the population in Massachusetts generally grows more slowly than the population of New England and much more slowly than the nation as a whole. According to the Census Bureau's latest revised estimates released in December, 2006, Massachusetts population has grown by 1.4% since Census 2000, and only five states have grown more slowly. All of that growth occurred between 2000 and 2003; the estimate has been essentially flat since then.



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

Population, 1972-2006

(in thousands)

<i>Year</i>	<i>Massachusetts</i>		<i>New England</i>		<i>United States</i>	
	<i>Total</i>	<i>Percent Change</i>	<i>Total</i>	<i>Percent Change</i>	<i>Total</i>	<i>Percent Change</i>
1972	5,760	0.4%	12,082	0.7%	209,284	1.2%
1973	5,781	0.4%	12,140	0.5%	211,357	1.0%
1974	5,774	-0.1%	12,146	0.0%	213,342	0.9%
1975	5,758	-0.3%	12,163	0.1%	215,465	1.0%
1976	5,744	-0.2%	12,192	0.2%	217,563	1.0%
1977	5,738	-0.1%	12,239	0.4%	219,760	1.0%
1978	5,736	0.0%	12,283	0.4%	222,095	1.1%
1979	5,738	0.0%	12,322	0.3%	224,567	1.1%
1980	5,737	0.0%	12,348	0.2%	226,546	0.9%
1981	5,769	0.6%	12,436	0.7%	229,466	1.3%
1982	5,771	0.0%	12,468	0.3%	231,664	1.0%
1983	5,799	0.5%	12,544	0.6%	233,792	0.9%
1984	5,841	0.7%	12,642	0.8%	235,825	0.9%
1985	5,881	0.7%	12,741	0.8%	237,924	0.9%
1986	5,903	0.4%	12,833	0.7%	240,133	0.9%
1987	5,935	0.5%	12,951	0.9%	242,289	0.9%
1988	5,980	0.8%	13,085	1.0%	244,499	0.9%
1989	6,015	0.6%	13,182	0.7%	246,819	0.9%
1990	6,023	0.1%	13,230	0.4%	249,623	1.1%
1991	6,018	-0.1%	13,248	0.1%	252,981	1.3%
1992	6,029	0.2%	13,271	0.2%	256,514	1.4%
1993	6,061	0.5%	13,334	0.5%	259,919	1.3%
1994	6,095	0.6%	13,396	0.5%	263,126	1.2%
1995	6,141	0.8%	13,473	0.6%	266,278	1.2%
1996	6,180	0.6%	13,555	0.6%	269,394	1.2%
1997	6,226	0.7%	13,642	0.6%	272,647	1.2%
1998	6,272	0.7%	13,734	0.7%	275,854	1.2%
1999	6,317	0.7%	13,838	0.8%	279,040	1.2%
2000	6,363	0.7%	13,954	0.8%	282,217	1.1%
2001	6,407	0.7%	14,056	0.7%	285,226	1.1%
2002	6,431	0.4%	14,145	0.6%	288,126	1.0%
2003	6,440	0.1%	14,208	0.4%	290,796	0.9%
2004	6,436	-0.1%	14,241	0.2%	293,638	1.0%
2005	6,433	0.0%	14,255	0.1%	296,507	1.0%
2006	6,437	0.1%	14,270	0.1%	299,398	1.0%

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

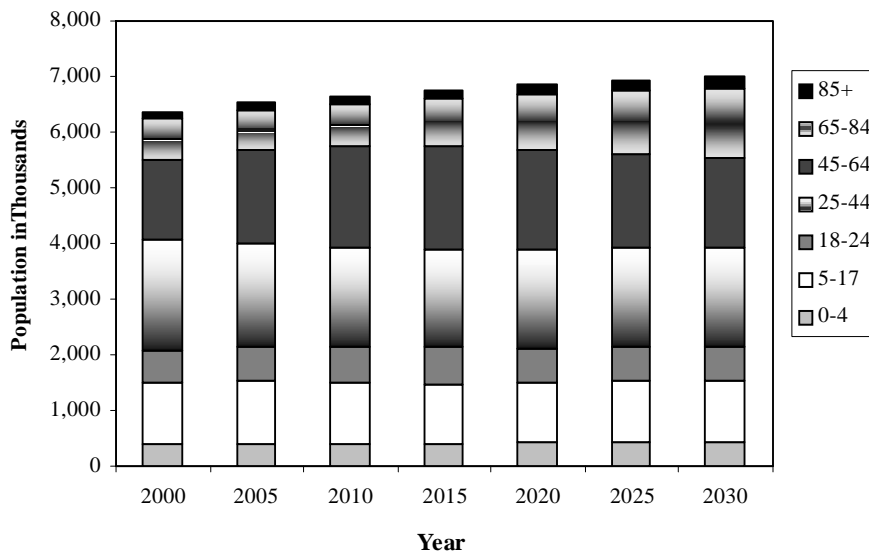
The next twenty-five years are expected to bring about a continued change in the age distribution of the Massachusetts population. As the following table and chart show, the share of the 65 and over age group and especially the 85 and over age group will continue to grow. The chart, table and population pyramids (below, and on the following page) show the projected population by age for Massachusetts for 2000 through 2030.

Projected Massachusetts Population by Age Group, 2000-2030
(in thousands)

<i>Year</i>	<i>0-4</i>	<i>5-17</i>	<i>18-24</i>	<i>25-44</i>	<i>45-64</i>	<i>65-84</i>	<i>85+</i>	<i>All Ages</i>	<i>Median Age</i>
2000	397.3	1,102.8	579.3	1,989.8	1,419.8	743.5	116.7	6,349.1	36.5
2005	406.3	1,119.2	611.8	1,874.6	1,649.0	720.7	137.4	6,518.9	37.8
2010	400.7	1,083.1	670.2	1,769.7	1,817.1	750.6	158.0	6,649.4	38.8
2015	409.7	1,064.2	656.0	1,746.1	1,857.1	856.5	168.9	6,758.6	39.2
2020	422.3	1,070.9	617.5	1,775.8	1,809.3	987.8	172.0	6,855.5	39.5
2025	431.0	1,087.7	616.2	1,782.5	1,703.3	1,137.8	180.1	6,938.6	39.7
2030	430.6	1,115.0	610.7	1,783.9	1,608.7	1,251.2	211.9	7,012.0	40.2

Actual Census 2000 counts as of April 1; all other figures are projections as of July 1 of the indicated year.
Interim Population Projections through 2030 released April 21, 2005 by the Population Division, Bureau of the Census, United States Department of Commerce. More recent estimates of the 2005 population are somewhat lower.

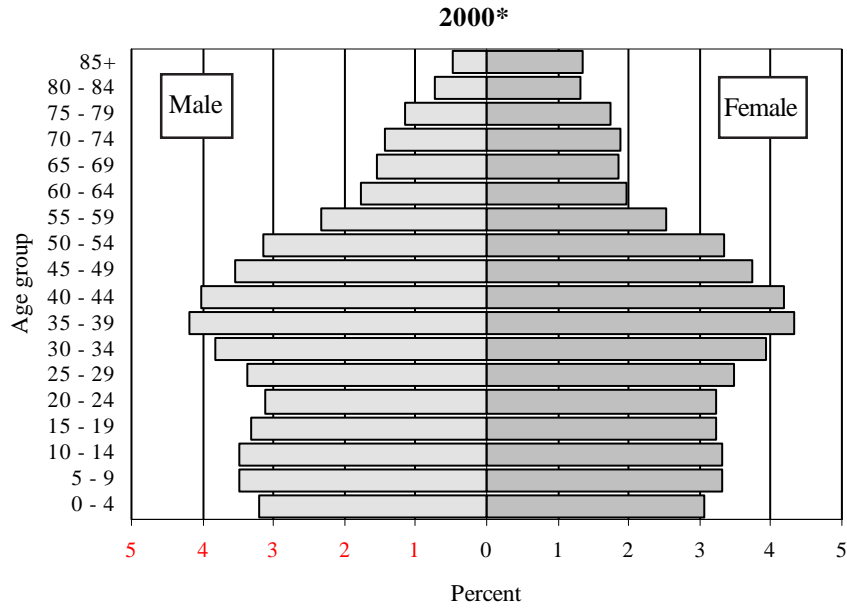
**Projected Massachusetts Population by Age Group
2000-2030**



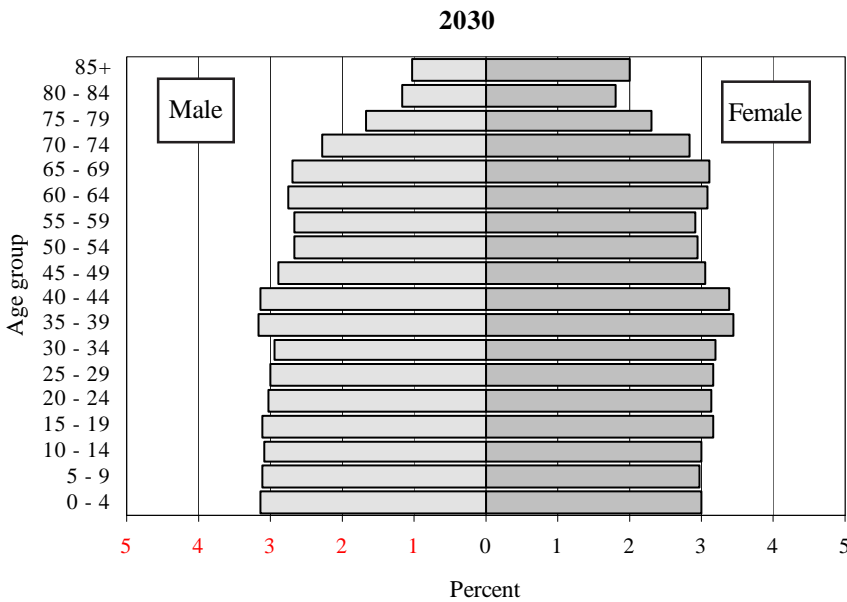
Actual Census 2000 counts as of April 1; all other figures are projections as of July 1 of the indicated year.
Interim Population Projections through 2030 released April 21, 2005 by the Population Division, Bureau of the Census, United States Department of Commerce. More recent estimates of the 2005 population are somewhat lower.

Population Pyramids of Massachusetts

(percent of total population)



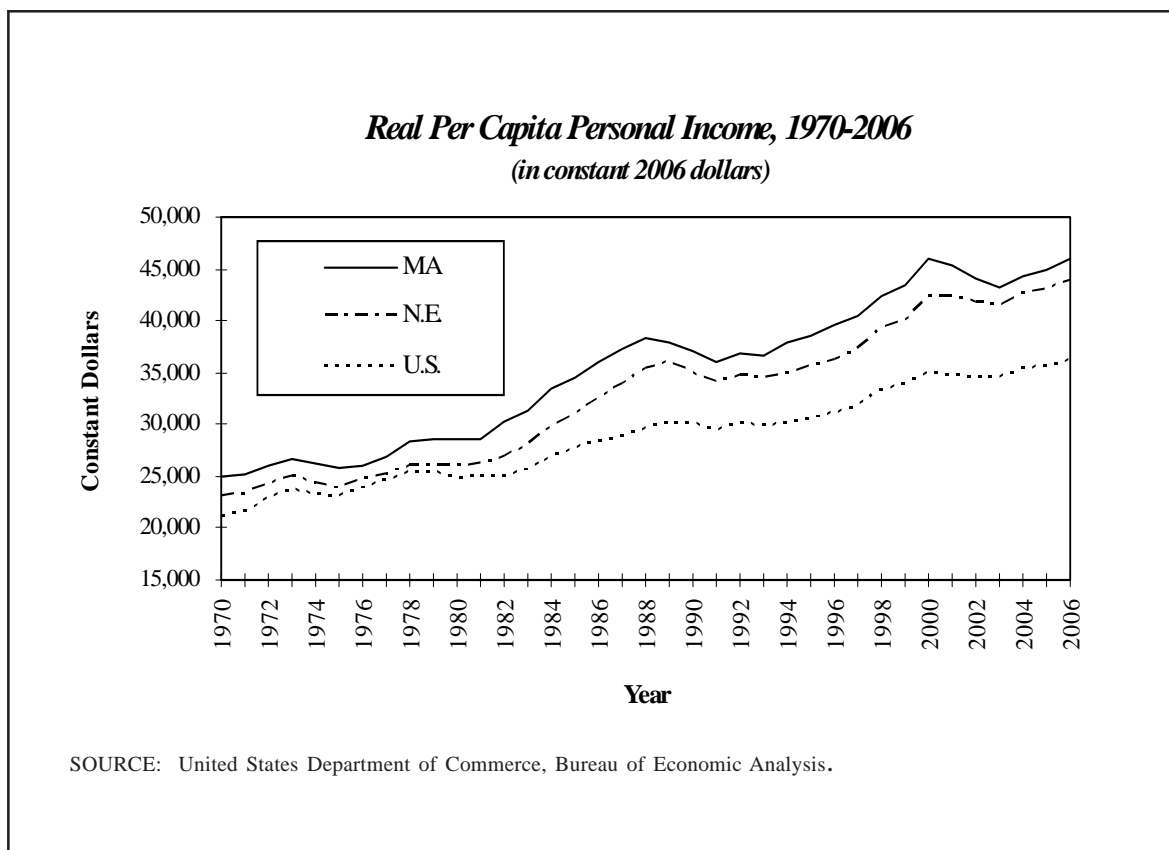
*Note: Actual Census 2000 counts as of April 1.



SOURCE: U.S. Census Bureau, Population Division, Interim State Population Projections, 2005
 Internet Release Date: April 21, 2005

PERSONAL INCOME, CONSUMER PRICES, AND POVERTY

Personal Income. Since at least 1929, real and nominal per capita income levels have been consistently higher in Massachusetts than in the United States. After growing at an annual rate higher than that for the United States between 1982 and 1988, real income levels in Massachusetts declined between 1989 and 1991. Real per capita income levels in Massachusetts increased faster than the national average between 1994 and 1997. In 2000 Massachusetts had its highest per capita income growth in 16 years, exceeding the national growth rate by 2.4 percentage points. From 2000 to 2003 real income in both Massachusetts and the United States declined, with a steeper decline in Massachusetts. However, real income levels in Massachusetts remained well above the national average. In 2004, 2005, and 2006, income in the state grew faster than in the nation. For the last fourteen years only the District of Columbia, Connecticut and New Jersey have had higher levels of per capita personal income. The following graph illustrates these changes in real per capita personal income in Massachusetts, New England, and the United States since 1970.



The following table compares per capita personal income in Massachusetts, New England, and the United States for the period 1970-2006.

Per Capita Personal Income, 1970-2006

Year	Nominal Income (in current dollars)			Real Income (in 2006 dollars)			Percent Change in Real Income		
	MA	NE	U.S.	MA	NE	U.S.	MA	NE	U.S.
1970	4,483	4,445	4,085	24,880	23,096	21,225	3.4%	3.7%	4.0%
1971	4,752	4,680	4,342	25,123	23,296	21,614	1.0%	0.9%	1.8%
1972	5,109	5,029	4,717	26,083	24,255	22,750	3.8%	4.1%	5.3%
1973	5,547	5,481	5,231	26,729	24,887	23,752	2.5%	2.6%	4.4%
1974	6,016	5,958	5,707	26,214	24,364	23,337	-1.9%	-2.1%	-1.7%
1975	6,459	6,381	6,172	25,824	23,911	23,128	-1.5%	-1.9%	-0.9%
1976	6,998	6,959	6,754	26,021	24,656	23,930	0.8%	3.1%	3.5%
1977	7,620	7,593	7,405	26,942	25,260	24,634	3.5%	2.4%	2.9%
1978	8,430	8,413	8,245	28,324	26,013	25,494	5.1%	3.0%	3.5%
1979	9,385	9,392	9,146	28,604	26,080	25,397	1.0%	0.3%	-0.4%
1980	10,602	10,629	10,114	28,636	26,005	24,745	0.1%	-0.3%	-2.6%
1981	11,798	11,846	11,246	28,672	26,272	24,942	0.1%	1.0%	0.8%
1982	12,941	12,871	11,935	30,232	26,889	24,934	5.4%	2.3%	0.0%
1983	14,009	13,829	12,618	31,317	27,991	25,540	3.6%	4.1%	2.4%
1984	15,723	15,422	13,891	33,503	29,924	26,953	7.0%	6.9%	5.5%
1985	16,910	16,546	14,758	34,485	31,001	27,651	2.9%	3.6%	2.6%
1986	18,148	17,722	15,442	36,086	32,598	28,404	4.6%	5.2%	2.7%
1987	19,575	19,119	16,240	37,294	33,929	28,820	3.3%	4.1%	1.5%
1988	21,341	20,811	17,331	38,335	35,465	29,534	2.8%	4.5%	2.5%
1989	22,342	22,083	18,520	37,963	35,903	30,110	-1.0%	1.2%	1.9%
1990	23,043	22,712	19,477	37,011	35,032	30,043	-2.5%	-2.4%	-0.2%
1991	23,432	22,969	19,892	36,053	33,998	29,444	-2.6%	-3.0%	-2.0%
1992	24,538	24,172	20,854	36,840	34,733	29,966	2.2%	2.2%	1.8%
1993	25,176	24,752	21,346	36,735	34,533	29,781	-0.3%	-0.6%	-0.6%
1994	26,303	25,687	22,172	37,884	34,943	30,161	3.1%	1.2%	1.3%
1995	27,457	26,832	23,076	38,623	35,494	30,526	2.0%	1.6%	1.2%
1996	28,933	28,194	24,175	39,528	36,226	31,062	2.3%	2.1%	1.8%
1997	30,498	29,687	25,334	40,525	37,289	31,821	2.5%	2.9%	2.4%
1998	32,524	31,677	26,883	42,260	39,178	33,249	4.3%	5.1%	4.5%
1999	34,227	33,126	27,939	43,387	40,085	33,809	2.7%	2.3%	1.7%
2000	37,753	36,116	29,843	45,875	42,282	34,938	5.7%	5.5%	3.3%
2001	38,880	37,308	30,562	45,296	42,469	34,790	-1.3%	0.4%	-0.4%
2002	38,866	37,330	30,795	44,127	41,833	34,510	-2.6%	-1.5%	-0.8%
2003	39,442	37,894	31,466	43,156	41,519	34,476	-2.2%	-0.8%	-0.1%
2004	41,636	39,969	33,090	44,339	42,656	35,315	2.7%	2.7%	2.4%
2005	43,501	41,670	34,471	44,848	43,014	35,583	1.1%	0.8%	0.8%
2006	45,877	43,852	36,276	45,877	43,852	36,276	2.3%	1.9%	1.9%

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

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

Annual Pay in Nominal Dollars has grown steadily in Massachusetts over the past decade. Average annual pay is computed by dividing the total annual payroll of employees covered by Unemployment Insurance programs by the average monthly number of employees. Data are reported by employers covered under the Unemployment Insurance programs. While levels of annual pay were nearly equal in Massachusetts and the United States in 1984, average annual pay levels in Massachusetts have grown more rapidly than the national average since that time. The level of annual pay in Massachusetts in 2005 was 23 percent higher than the national average: \$50,095 compared to \$40,677.

Wage and Salary Disbursements. Wage and Salary Disbursements by Place of Work is a component of personal income and measures monetary disbursements to employees. This includes compensation of corporate officers, commissions, tips, bonuses, and receipts in-kind. Although the data is recorded on a place-of-work basis, it is then adjusted to a place-of-residence basis so that the personal income of the recipients whose place of residence differs from their place of work will be correctly assigned to their state of residence. The table below details Wage and Salary Disbursements since 1990. Between 1991 and 2000, Massachusetts shares of the New England and overall US totals steadily increased, but in the subsequent years, its shares have dropped back somewhat from their 2000 peaks.

Annual Wage and Salary Disbursements, 1990-2006
(in millions of dollars)

Year	U.S.	N.E.	MA	MA as a pct. of N.E.
1990	\$ 2,743,016	\$171,448	\$83,129	48.5%
1991	\$ 2,811,076	\$170,333	\$82,311	48.3%
1992	\$ 2,972,287	\$177,810	\$86,014	48.4%
1993	\$ 3,076,276	\$183,236	\$89,047	48.6%
1994	\$ 3,227,483	\$190,661	\$93,164	48.9%
1995	\$ 3,415,368	\$201,946	\$99,194	49.1%
1996	\$ 3,615,699	\$213,667	\$105,573	49.4%
1997	\$ 3,874,011	\$230,032	\$113,579	49.4%
1998	\$ 4,179,922	\$247,851	\$123,054	49.6%
1999	\$ 4,463,650	\$266,554	\$134,045	50.3%
2000	\$ 4,825,906	\$293,889	\$150,842	51.3%
2001	\$ 4,939,944	\$300,698	\$153,131	50.9%
2002	\$ 4,976,522	\$298,534	\$150,107	50.3%
2003	\$ 5,107,298	\$304,756	\$151,955	49.9%
2004	\$ 5,386,149	\$321,384	\$160,141	49.8%
2005	\$ 5,659,282	\$332,623	\$164,988	49.6%
2006	\$ 6,017,428	\$350,117	\$173,997	49.7%

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

Consumer Prices. Higher income levels in Massachusetts relative to the rest of the United States are offset to some extent by the higher cost of living in Massachusetts. The following table presents consumer price trends for the Boston metropolitan area and the United States for the period between 1970 and 2006. The table shows the annual average of the Consumer Price Index for All Urban Consumers (CPI-U) and the percentage change in that average from the previous year. In 2006, the CPI-U for Boston increased by 3.1 percent over the average for 2005, while the index for the United States as a whole increased by a comparable 3.2 percent. The latest available data for May 2007 show that the CPI-U for the Boston metropolitan area grew at a rate of 1.5 percent from May 2006, compared with 2.7 percent for the U.S.

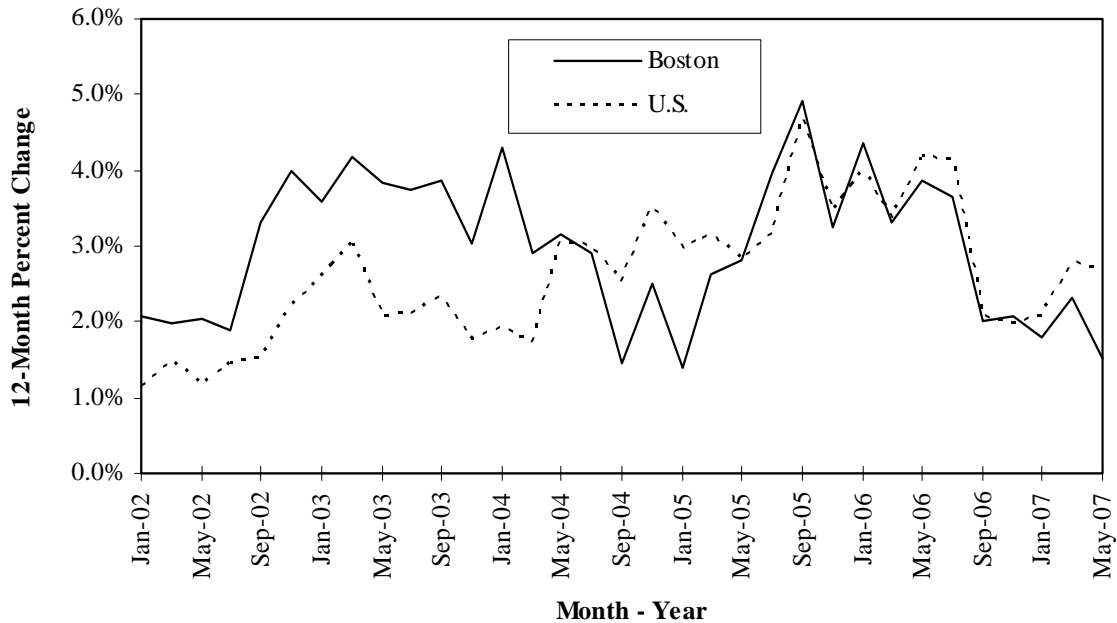
Consumer Price Index for All Urban Consumers (CPI-U), 1970-2006

(not seasonally adjusted; 1982-1984 base period average=100)

<i>Year</i>	<i>Boston Metro Area</i>		<i>United States</i>	
	<i>CPI-U</i>	<i>Pct.Change</i>	<i>CPI-U</i>	<i>Pct. Change</i>
1970	40.2		38.8	
1971	42.2	5.0%	40.5	4.4%
1972	43.7	3.6%	41.8	3.2%
1973	46.3	5.9%	44.4	6.2%
1974	51.2	10.6%	49.3	11.0%
1975	55.8	9.0%	53.8	9.1%
1976	60.0	7.5%	56.9	5.8%
1977	63.1	5.2%	60.6	6.5%
1978	66.4	5.2%	65.2	7.6%
1979	73.2	10.2%	72.6	11.3%
1980	82.6	12.8%	82.4	13.5%
1981	91.8	11.1%	90.9	10.3%
1982	95.5	4.0%	96.5	6.2%
1983	99.8	4.5%	99.6	3.2%
1984	104.7	4.9%	103.9	4.3%
1985	109.4	4.5%	107.6	3.6%
1986	112.2	2.6%	109.6	1.9%
1987	117.1	4.4%	113.6	3.6%
1988	124.2	6.1%	118.3	4.1%
1989	131.3	5.7%	124.0	4.8%
1990	138.9	5.8%	130.7	5.4%
1991	145.0	4.4%	136.2	4.2%
1992	148.6	2.5%	140.3	3.0%
1993	152.9	2.9%	144.5	3.0%
1994	154.9	1.3%	148.2	2.6%
1995	158.6	2.4%	152.4	2.8%
1996	163.3	3.0%	156.9	3.0%
1997	167.9	2.8%	160.5	2.3%
1998	171.7	2.3%	163.0	1.6%
1999	176.0	2.5%	166.6	2.2%
2000	183.6	4.3%	172.2	3.4%
2001	191.5	4.3%	177.1	2.8%
2002	196.5	2.6%	179.9	1.6%
2003	203.9	3.8%	184.0	2.3%
2004	209.5	2.7%	188.9	2.7%
2005	216.4	3.3%	195.3	3.4%
2006	223.1	3.1%	201.6	3.2%
May-06	222.9		202.5	
May-07	226.2	1.5%	207.9	2.7%

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

***12-Month Percent Change in the Consumer Price Index
for All Urban Consumers, January 2002 - May 2007***



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

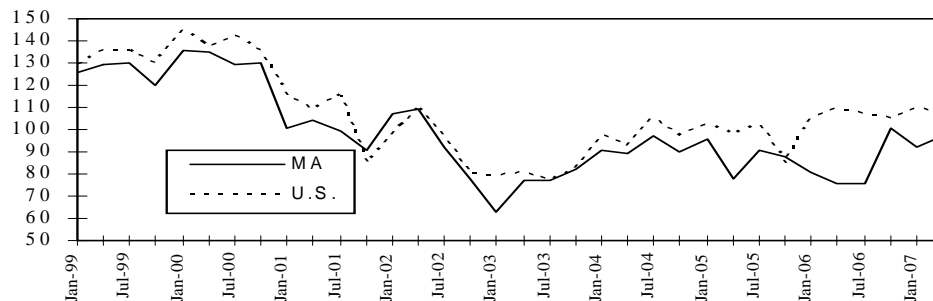
Consumer Confidence, Present Situation, and Future Expectations. These three measures offer multiple insights into consumer attitudes. The U.S. measures are compiled from a national monthly survey of 5,000 households and are published by The Conference Board, Inc. The survey for Massachusetts is conducted in a similar manner and the results are published by the Mass Insight Corporation, based on quarterly polling of 500 adult residents of Massachusetts. The "Present Situation" index measures consumers' appraisal of business and employment conditions at the time of the survey. The "Future Expectations" index focuses on consumers' expectations six months hence regarding business and employment conditions, as well as expected family income. The overall "Consumer Confidence" index is a weighted average of the two sub-indices. Although the U.S. measures are compiled by a different source than the Massachusetts measures, according to the Federal Reserve Bank of Boston the numbers are generally comparable. The Conference Board reports that in February 2007, consumer confidence nationally reached a five and a half year high point of 111.2, but has since declined a few points back to its mid-2006 levels. The Mass Insight Corporation however, reports that Massachusetts' consumer confidence rose sharply over the most recent twelve month period (by 21 points), but still lags somewhat behind the rest of the nation. A score of 100 is considered neutral. The following table and chart detail the recent record of these measures.

Consumer Confidence, Present Situation, and Future Expectations for Massachusetts and the U.S., January 2001 - April 2007 (1985=100)

	Consumer Confidence		Present Situation		Future Expectations	
	MA	U.S.	MA	U.S.	MA	U.S.
Jan-01	101.0	115.7	139.0	170.4	76.0	79.3
Apr-01	104.0	109.9	124.0	156.0	91.0	79.1
Jul-01	99.0	116.3	108.0	151.3	93.0	92.9
Oct-01	91.0	85.3	94.0	107.2	90.0	70.7
Jan-02	97.8	107.0	98.1	72.0	97.6	130.0
Apr-02	109.0	108.5	84.0	106.8	125.0	109.6
Jul-02	92.0	97.4	68.0	99.4	108.0	96.1
Oct-02	78.0	79.6	48.0	77.2	97.0	81.1
Jan-03	63.0	78.8	75.3	28.0	81.1	86.0
Apr-03	77.0	81.0	31.0	75.2	108.0	84.8
Jul-03	77.0	77.0	41.0	63.0	101.0	86.3
Oct-03	82.0	81.7	36.0	67.0	112.0	91.5
Jan-04	91.0	97.7	48.0	86.1	119.0	105.3
Apr-04	89.0	93.0	53.0	90.4	113.0	94.8
Jul-04	97.0	105.7	66.0	106.4	119.0	105.3
Oct-04	90.0	92.9	64.0	94.0	108.0	92.2
Jan-05	96.0	105.1	70.0	112.1	114.0	100.4
Apr-05	78.0	97.5	63.0	113.8	88.0	86.7
Jul-05	91.0	103.6	80.0	119.3	99.0	93.2
Oct-05	88.0	85.2	80.0	107.8	95.0	70.1
Jan-06	81.0	106.8	71.0	128.8	87.0	92.1
Apr-06	76.0	109.8	77.0	136.2	76.0	92.3
Jul-06	76.0	107.0	68.0	134.2	81.0	88.9
Oct-06	101.0	105.1	86.0	125.1	111.0	91.9
Jan-07	92.0	110.2	74.0	133.9	104.0	94.4
Apr-07	97.0	106.3	89.0	133.5	102.0	88.2

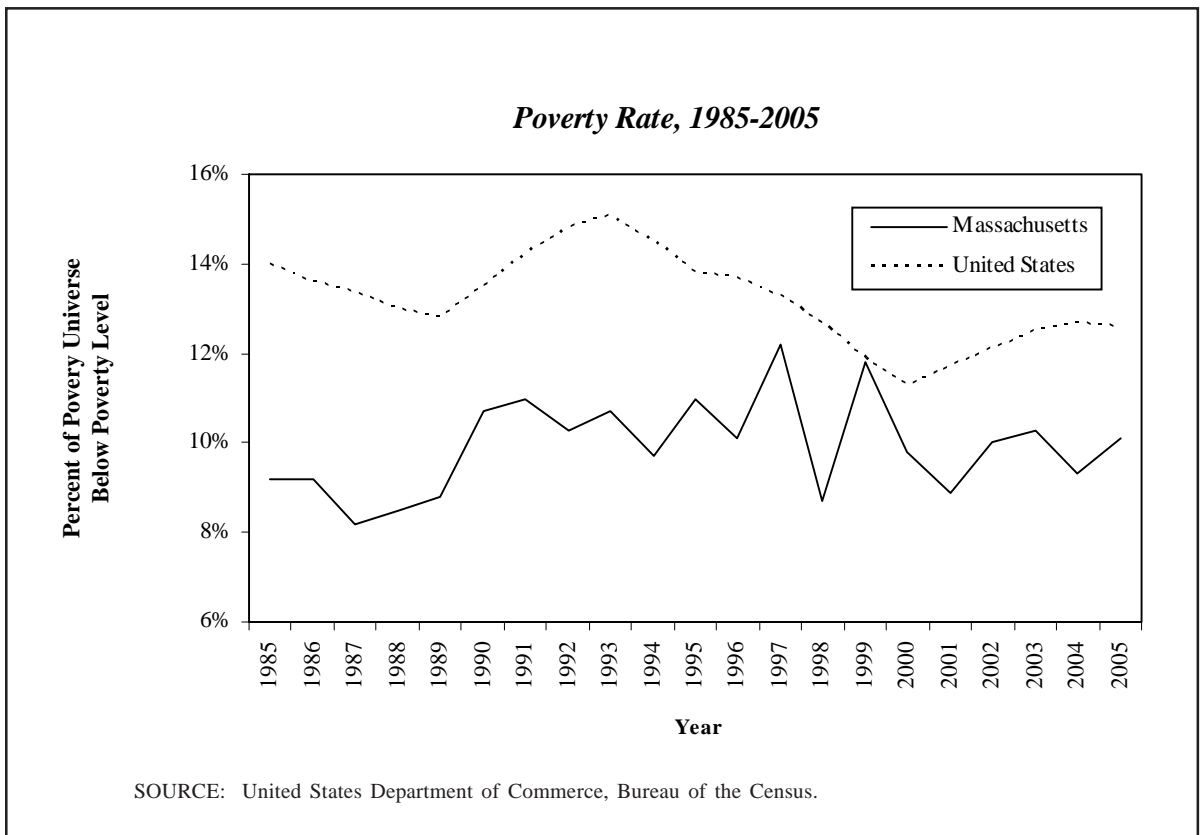
SOURCES: The Conference Board, Inc. (for U.S. measures, seasonally adjusted); Mass Insight Corporation (for MA measures, not seasonally adjusted).

Consumer Confidence: Massachusetts and the U.S., January 1999 - April 2007
(Massachusetts index not seasonally adjusted; 1985 = 100)



SOURCES: The Conference Board, Inc. (for U.S. index), Mass Insight Corporation (for MA index).

Poverty. The Massachusetts poverty rate remains well below the national average. Since 1980, the percentage of the Massachusetts poverty universe below the poverty line has varied between 7.7 percent and 12.2 percent. During the same time, the national poverty rate varied between 11.3 percent and 15.1 percent. In 2005, the estimated poverty rate in Massachusetts increased to 10.1 percent while the poverty rate in the United States dropped slightly to 12.6 percent. These official poverty estimates are based on a sample of households and are not adjusted for regional differences in the cost of living. The following chart illustrates the lower poverty rates in Massachusetts (1985 - 2005) compared with the national average during similar periods. Poverty estimates for states are not as reliable as national estimates. One should use caution when comparing poverty rate estimates across states, or poverty rates for the same state across years, because their variability is high. In particular the estimated rates for Massachusetts are based on a sample of fewer than two thousand households, and the apparent 2005 increase is not considered large enough to be statistically significant. Not everyone has a poverty status determined; the poverty universe excludes foster children, college students in dormitories, military personnel in barracks, nursing home residents, and other groups of people in institutionalized settings.

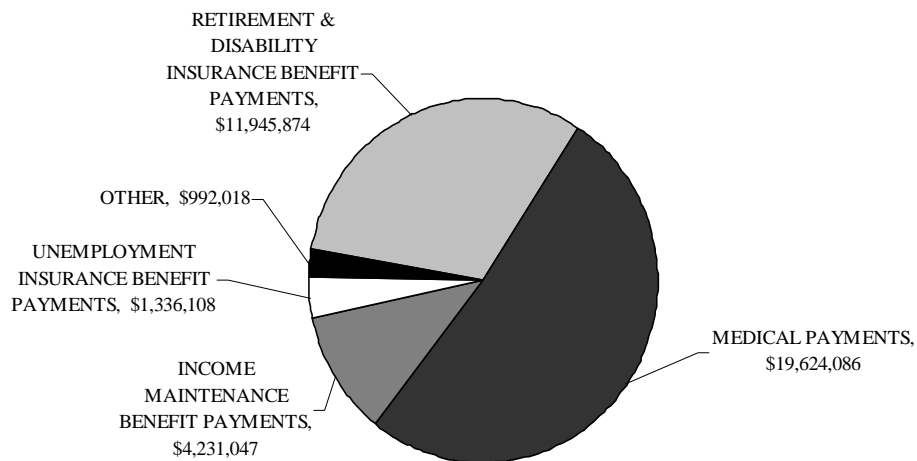


Transfer Payments. Transfer payment income is payment to individuals from all levels of government and from businesses, for which no current services are performed, including payments to nonprofit institutions serving individuals. These payments accounted for more than 14 percent of total personal income in Massachusetts in 2005. The chart below does not include transfer payments from business or payments to non-profit organizations. Total transfer payments to individuals in Massachusetts from governments & businesses totaled 38.6 billion dollars for 2005. Over 51 percent of government transfer payments to individuals were medical payments.

***Transfer Payments from Governments to Individuals in
Massachusetts in 2005***

(From Annual State Personal Income Estimates)

(in thousands of current dollars)



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

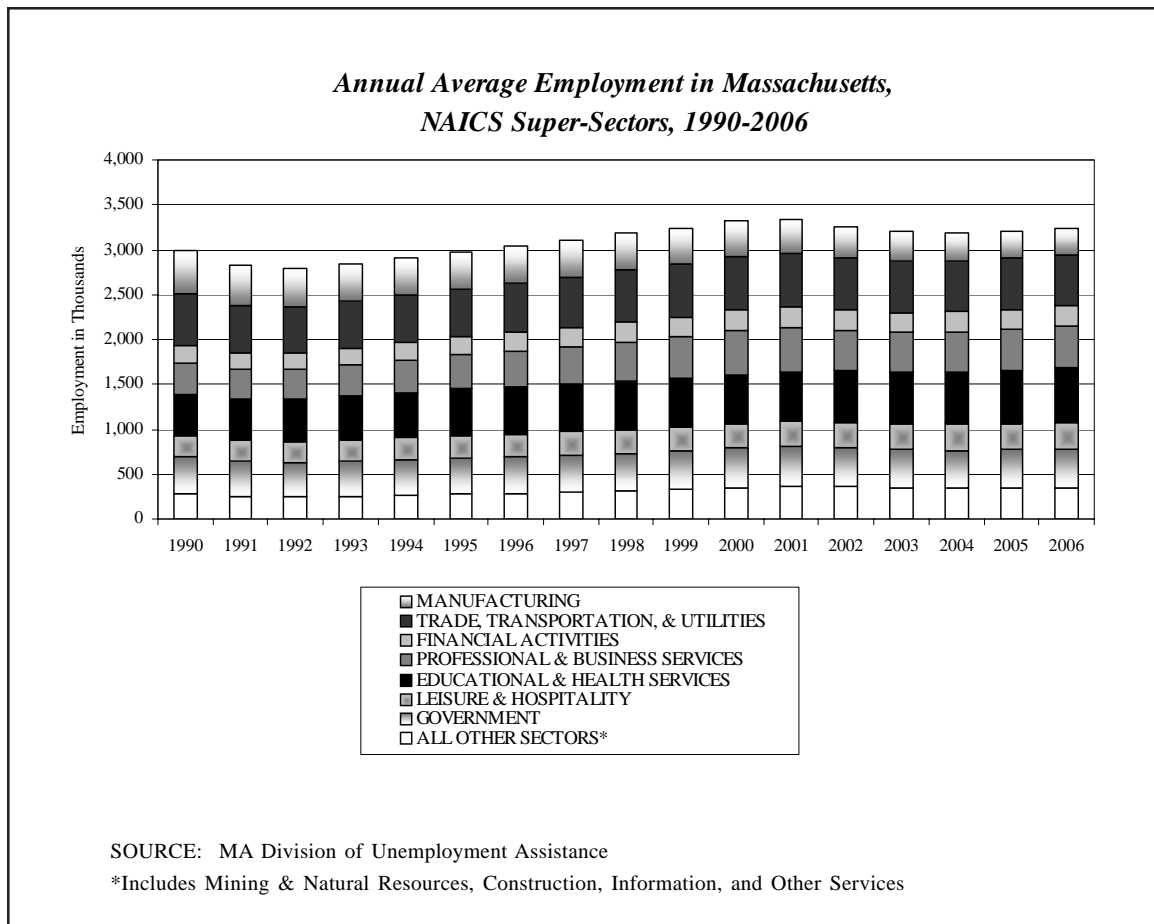
NOTE: The category "other" includes veterans' benefit payments, federal education and training assistance payments, and a small residual of miscellaneous other payments to individuals.

EMPLOYMENT

Employment by Industry The chart on this page shows the annual level of non-agricultural payroll employment in Massachusetts on the North American Industry Classification System (NAICS) basis for the seven largest NAICS supersectors starting with 1990, the earliest year for which NAICS data are available. The chart on the following page compares the super-sector shares for the 2005-2006 period with the corresponding shares for the 1990-1991 period. Like many industrial states, Massachusetts has seen a steady decline of its manufacturing jobs base over the last two decades, not only as a share of total employment, but in absolute numbers of jobs as well. Several NAICS service sectors and the Financial Activities sector have grown to take the place of manufacturing in driving the Massachusetts economy and now account for more than half of total payroll employment, while Government, Information, Trade, Transportation & Utilities have remained level or declined in share.

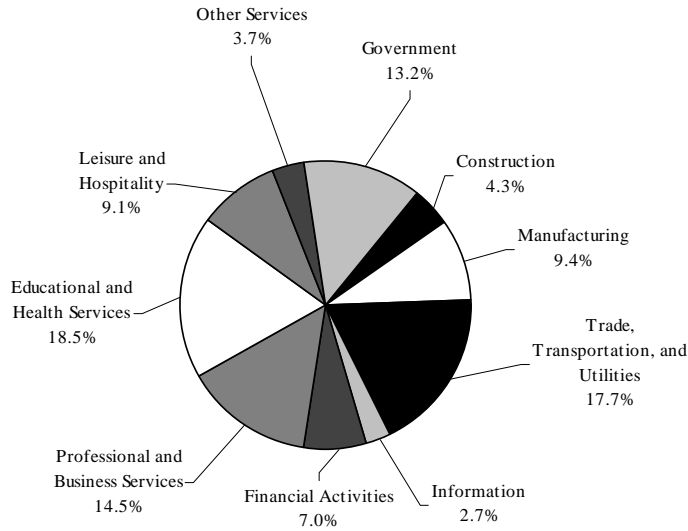
After significant declines in 2002 and 2003, total non-agricultural employment in Massachusetts declined only 0.1 percent in 2004 and increased 0.5 percent in 2005. The average level for 2006 is a healthier 1.0 percent above that of 2005, but the state still has 84 thousand (2.5%) fewer jobs than in the peak year of 2001. The comparable growth rate for the nation is 1.8 percent. In the first five months of 2007, the estimates have continued to be about one percent above the comparable 2006 figures. If this trend continues through all of 2007, the average for the year will finally equal its 2001 peak.

In 2004, manufacturing employment declined 3.5 percent from the year before; a smaller decline than the steep annual declines in the previous three years. The estimate for manufacturing for 2005 was only 2.4 percent below the 2004 level, which was better than the long-term average rate of decline since 1990 (3.0 percent per year). The average for 2006 is 2.1 percent below the comparable 2005 level, the best year for manufacturing in Massachusetts since 2000. The estimates for the first five months of 2007 are even more encouraging, averaging only one percent below the comparable 2006 figures.

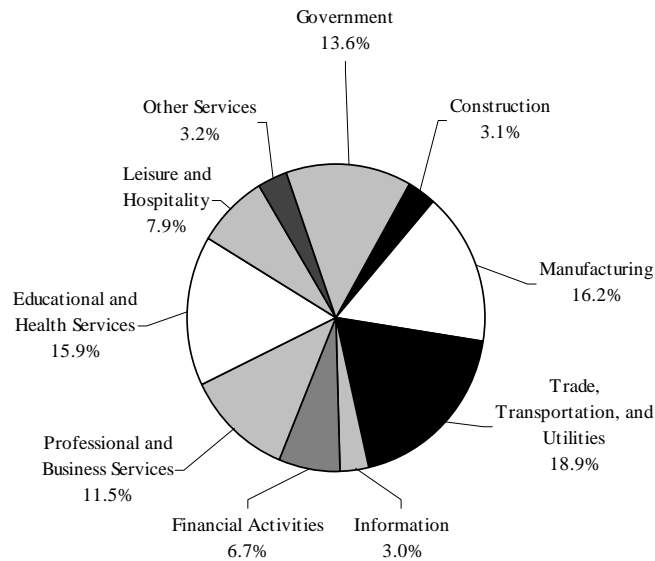


**Massachusetts Non-Farm Payroll Employment
(NAICS Industry basis)**

NAICS Super-Sectors: 2005-2006 Average Share



NAICS Super-Sectors: 1990-1991 Average Share



SOURCE: MA Division of Unemployment Assistance.

Largest Employers in Massachusetts. The following table lists the twenty-five largest private employers in Massachusetts based upon employment covered by the Unemployment Insurance system for June, 2006. The list is now the same as the lists released in 2005 except for name changes reflecting two corporate mergers.

Twenty-five Largest Private Employers in Massachusetts in June, 2006

(listed alphabetically)

Bank Of America NA	Harvard University
Baystate Medical Center, Inc.	Home Depot U.S.A., Inc.
Beth Israel Deaconess Medical Center	Massachusetts Institute of Technology
Big Y Foods, Inc.	Raytheon Company
Boston Medical Center Corporation	S & S Credit Company, Inc.
Boston University	Shaw's Supermarkets, Inc.
Brigham & Women's Hospital, Inc.	Southcoast Hospitals Group, Inc.
The Children's Hospital Corporation	State Street Bank & Trust Company
Demoulas Super Markets, Inc.	UMass Memorial Medical Center, Inc.
E.M.C. Corporation	United Parcel Service, Inc.
Federated Retail Holdings Inc.	Verizon New England, Inc.
Friendly Ice Cream Corporation	Wal-Mart Associates, Inc.
General Hospital Corporation	

SOURCE: MA Division of Unemployment Assistance.

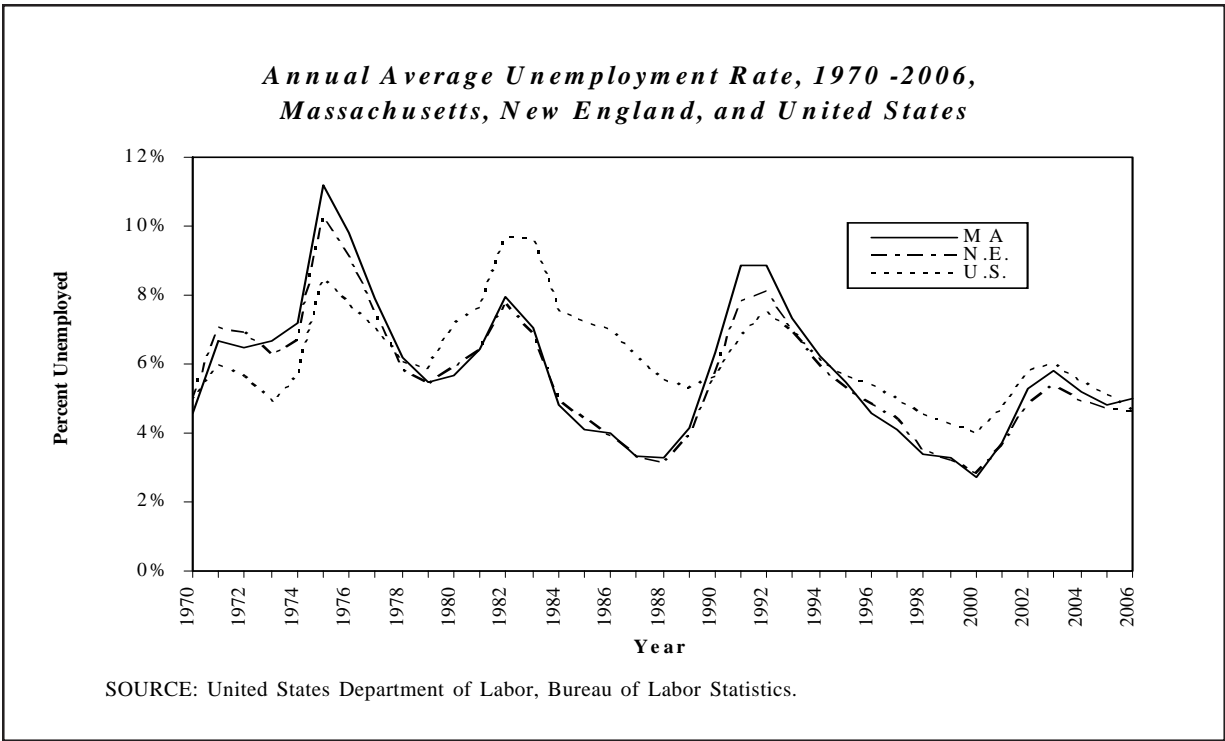
Unemployment. The economic recession of the early 1990s caused unemployment rates in Massachusetts to rise significantly above the national average, as much as 2.1 points above in 1991. Then from 1995 through the end of 2005 the unemployment rate in Massachusetts was consistently below the national average. Since January, 2006 the state rate has been at or above the national rate and the differences between the two have generally been increasing, reaching a peak in February, 2007. The following table compares the annual civilian labor force, the number unemployed, and the unemployment rates of Massachusetts, the New England states, and the United States from 1970 to 2006.

Annual Average Civilian Labor Force and Unemployment, 1970 - 2006

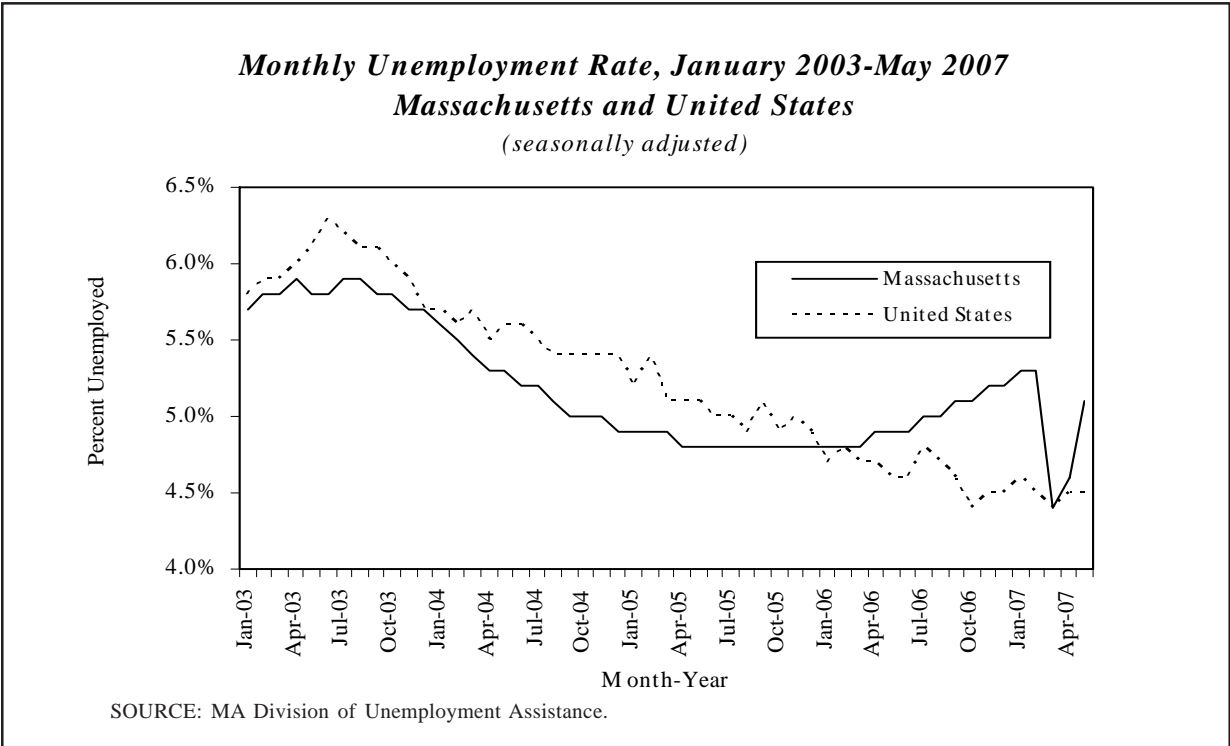
(in thousands)

Year	Civilian Labor Force			Unemployed			Unemployment Rate			MA Rate as
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.	Pct. of U.S.
1970	2,465	5,128	82,771	113	253	4,093	4.6%	4.9%	4.9%	92.9%
1971	2,459	5,157	84,383	163	364	5,016	6.6%	7.1%	5.9%	111.8%
1972	2,487	5,260	87,035	161	363	4,882	6.5%	6.9%	5.6%	115.4%
1973	2,557	5,387	89,430	171	336	4,365	6.7%	6.2%	4.9%	136.7%
1974	2,637	5,514	91,951	190	368	5,156	7.2%	6.7%	5.6%	128.4%
1975	2,725	5,633	93,775	305	578	7,928	11.2%	10.3%	8.5%	132.2%
1976	2,726	5,714	96,158	268	521	7,406	9.8%	9.1%	7.7%	127.5%
1977	2,760	5,820	99,009	218	437	6,991	7.9%	7.5%	7.1%	112.1%
1978	2,809	5,936	102,251	173	343	6,202	6.2%	5.8%	6.1%	101.8%
1979	2,863	6,080	104,962	156	326	6,137	5.5%	5.4%	5.8%	93.4%
1980	2,886	6,154	106,940	164	365	7,637	5.7%	5.9%	7.1%	79.6%
1981	2,938	6,268	108,670	189	400	8,273	6.4%	6.4%	7.6%	84.6%
1982	2,966	6,345	110,204	236	489	10,678	8.0%	7.7%	9.7%	82.3%
1983	2,972	6,386	111,550	209	434	10,717	7.0%	6.8%	9.6%	73.2%
1984	3,032	6,540	113,544	146	318	8,539	4.8%	4.9%	7.5%	63.9%
1985	3,049	6,630	115,461	125	290	8,312	4.1%	4.4%	7.2%	56.8%
1986	3,080	6,724	117,834	123	264	8,237	4.0%	3.9%	7.0%	57.0%
1987	3,114	6,827	119,865	104	228	7,425	3.4%	3.3%	6.2%	54.1%
1988	3,156	6,907	121,669	104	215	6,701	3.3%	3.1%	5.5%	60.0%
1989	3,189	7,004	123,869	132	274	6,528	4.2%	3.9%	5.3%	78.9%
1990	3,226	7,128	125,840	204	409	7,047	6.3%	5.7%	5.6%	112.9%
1991	3,199	7,112	126,346	283	558	8,628	8.8%	7.8%	6.8%	129.4%
1992	3,181	7,105	128,105	281	573	9,613	8.8%	8.1%	7.5%	117.7%
1993	3,173	7,062	129,200	232	486	8,940	7.3%	6.9%	6.9%	105.8%
1994	3,188	7,041	131,056	199	415	7,996	6.2%	5.9%	6.1%	102.1%
1995	3,205	7,053	132,304	176	375	7,404	5.5%	5.3%	5.6%	97.9%
1996	3,231	7,118	133,943	148	340	7,236	4.6%	4.8%	5.4%	84.6%
1997	3,293	7,228	136,297	135	315	6,739	4.1%	4.4%	4.9%	82.6%
1998	3,322	7,257	137,673	113	253	6,210	3.4%	3.5%	4.5%	75.2%
1999	3,355	7,327	139,368	110	234	5,880	3.3%	3.2%	4.2%	77.4%
2000	3,366	7,348	142,583	92	204	5,692	2.7%	2.8%	4.0%	67.5%
2001	3,401	7,424	143,734	126	266	6,801	3.7%	3.6%	4.7%	78.7%
2002	3,424	7,496	144,863	181	363	8,378	5.3%	4.8%	5.8%	91.4%
2003	3,409	7,534	146,510	198	409	8,774	5.8%	5.4%	6.0%	96.7%
2004	3,381	7,511	147,401	177	368	8,149	5.2%	4.9%	5.5%	94.5%
2005	3,374	7,552	149,320	163	353	7,591	4.8%	4.7%	5.1%	94.1%
2006	3,404	7,635	151,428	170	349	7,001	5.0%	4.6%	4.6%	108.7%

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



The unemployment rate in Massachusetts was consistently below the national average from mid-1995 to December, 2005. The two rates generally showed similar patterns of decline from their mid-2003 peaks through early 2005 when the rates became very close. The Massachusetts rate has now been equal to or higher than the U.S. rate for seventeen months, with six of the last eight differences exceeding 0.5%. The following graph illustrates the movement of the state and national unemployment rates over the past fifty-three months.



Unemployment Insurance Trust Fund. The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide for the payment of benefits to eligible individuals when they become unemployed through no fault of their own. Benefits are paid from the Commonwealth's Unemployment Insurance Trust Fund, financed through employer contributions. The assets and liabilities of the Commonwealth Unemployment Insurance Trust Fund are not assets and liabilities of the Commonwealth. As of May 31, 2007, the Massachusetts Unemployment Trust Fund had a balance of \$1.321 billion, of which the private contributory account portion was \$1.210 billion. The Division of Unemployment Assistance's February 2007 Unemployment Insurance Trust Fund report indicates that under the current economic outlook the refinancing measures included in Chapter 142 of the Massachusetts Acts of 2003 (effective January 1, 2004), provide for employer contributions that should result in private contributory account reserves of \$2.080 billion at the end of 2011.

ECONOMIC BASE AND PERFORMANCE

According to the Bureau of Economic Analysis, Gross Domestic Product by State (GDP) is the value added in production by the labor and property located in a state. GDP for a State is derived as the sum of the gross state product originating in all industries in a State. In concept, an industry's GDP, referred to as its "value added", is equivalent to its gross output (sales or receipts and other operating income, commodity taxes, and inventory change) minus its intermediate inputs (consumption of goods and services purchased from other U.S. industries or imported).

Real GDP is an inflation-adjusted measure of each state's gross product that is based on national prices for the goods and services produced within that state. The estimates of real GDP and of quantity indexes with a base year of 2000 are derived by applying national implicit price deflators to the current-dollar GDP estimates for the 63 SIC industries for years 1977-1997, and for the 81 NAICS industries for years 1997 forward. Then, the chain-type index formula that is used in the national accounts is used to calculate the estimates of total real GDP and of real GDP at more aggregated industry levels.

Between 1997 and 2006 gross state product in Massachusetts, New England and the sum of all states GDP grew approximately 52.2, 51.9 and 59.6 percent respectively in current dollars. Between 1997 and 2006 gross state product in Massachusetts, New England and the sum of all states GDP grew approximately 28.9, 25.7 and 27.5 percent respectively in chained 2000 dollars. The Massachusetts economy is the largest in New England, contributing 47.2 percent to New England's total GDP, and thirteenth largest in the U.S., contributing 2.6 percent to the nation's total GDP. Massachusetts had the third highest GDP per capita in 2006, \$46,721.

Gross Domestic Product - Cumulative Change, 1997-2006

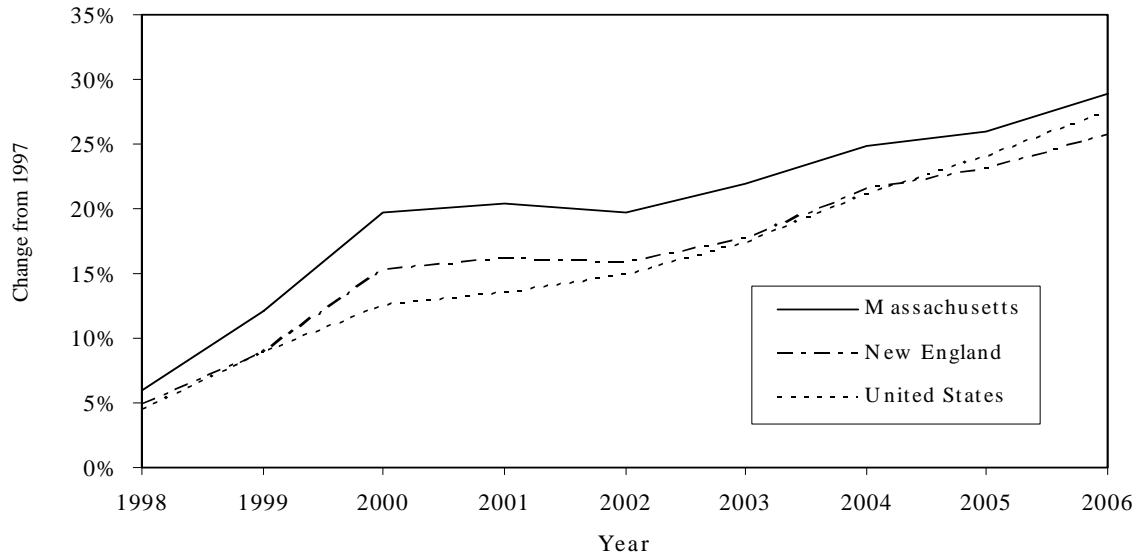
(millions of chained 2000 dollars)

Year	Massachusetts		New England		United States	
	GSP	Change from 1997	GSP	Change from 1997	GSP	Change from 1997
1997	\$227,074		\$487,671		\$8,620,955	
1998	\$240,617	6.0%	\$511,374	4.9%	\$9,004,670	4.5%
1999	\$255,189	12.0%	\$531,902	8.9%	\$9,404,251	8.9%
2000	\$274,949	19.8%	\$565,835	15.3%	\$9,749,103	12.6%
2001	\$276,634	20.4%	\$570,313	16.0%	\$9,836,576	13.5%
2002	\$274,997	19.8%	\$568,750	15.8%	\$9,981,850	14.9%
2003	\$280,881	21.9%	\$579,651	17.7%	\$10,225,679	17.4%
2004	\$289,295	24.9%	\$602,292	21.6%	\$10,608,934	21.1%
2005	\$292,225	25.9%	\$611,440	23.1%	\$10,923,951	24.1%
2006	\$300,753	28.9%	\$627,027	25.7%	\$11,291,375	27.5%

Source: Bureau of Economic Analysis, U.S. Department of Commerce. Last revised: June 2007
Next release date: October 2008.

**Gross Domestic Product - Cumulative Percent Change
1997-2006**

(chained 2000 dollars)



Source: Bureau of Economic Analysis, U.S. Department of Commerce. Last revised: June 2007
Next release date: October 2008.

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

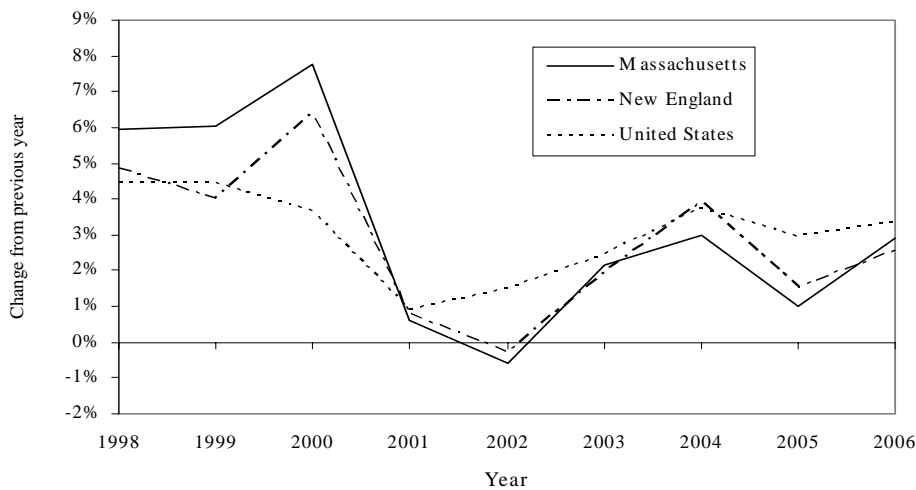
Gross Domestic Product - Annual Change, 1997-2006

(millions of chained 2000 dollars)

Year	Massachusetts		New England		United States	
	GSP	Annual change	GSP	Annual change	GSP	Annual change
1997	\$227,074		\$487,671		\$8,620,955	
1998	\$240,617	6.0%	\$511,374	4.9%	\$9,004,670	4.5%
1999	\$255,189	6.1%	\$531,902	4.0%	\$9,404,251	4.4%
2000	\$274,949	7.7%	\$565,835	6.4%	\$9,749,103	3.7%
2001	\$276,634	0.6%	\$570,313	0.8%	\$9,836,576	0.9%
2002	\$274,997	-0.6%	\$568,750	-0.3%	\$9,981,850	1.5%
2003	\$280,881	2.1%	\$579,651	1.9%	\$10,225,679	2.4%
2004	\$289,295	3.0%	\$602,292	3.9%	\$10,608,934	3.7%
2005	\$292,225	1.0%	\$611,440	1.5%	\$10,923,951	3.0%
2006	\$300,753	2.9%	\$627,027	2.5%	\$11,291,375	3.4%

Source: Bureau of Economic Analysis, U.S. Department of Commerce. Last revised: June 2007
Next release date: October 2008.

Gross Domestic Product - Annual Percent Change, 1997-2006
(chained 2000 dollars)



U.S. Department of Commerce, Bureau of Economic Analysis. Revised October 2006

The commercial base of Massachusetts is anchored by the twenty 2007 Fortune 1000 companies (ten of which are Fortune 500) headquartered in Massachusetts. Exiting the Massachusetts 2006 Fortune 1000 list were PerkinElmer (897th) and Boston Properties (990th). Global Partners, an energy company, joined the Fortune 500 (491st). When comparing the 2007 Fortune 1000 to 2006's, seventeen Massachusetts companies gained and only three lost rank. Perini, the Framingham based construction services firm and Fortune 1000 member, climbed 236 places on the list (from 884th to 648th); the largest leap for a Massachusetts company.

Massachusetts Companies in the 2006 Fortune 500 and 1000 Lists

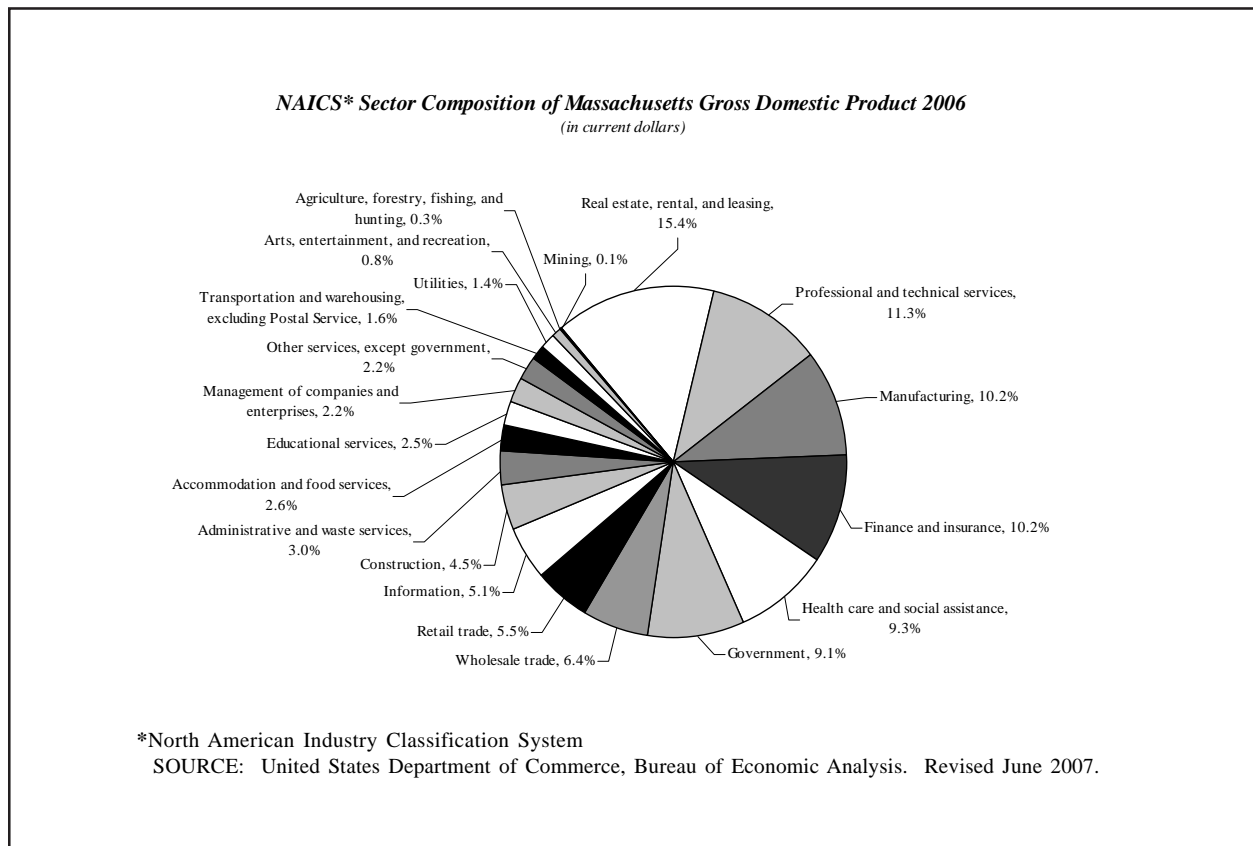
Rank		Company	Industry	2005 revenues (millions)
2006	2005			
92	83	Mass. Mutual Life Ins. (Springfield)	Insurance: Life, Health (mutual)	\$22,799
97	103	Raytheon (Waltham)	Aerospace and Defense	\$21,894
102	111	Liberty Mutual Ins. Group (Boston)	Insurance: P & C (stock)	\$21,161
137	146	Staples (Framingham)	Specialty Retailers	\$16,079
138	141	TJX (Framingham)	Specialty Retailers	\$16,058
249	266	EMC (Hopkinton)	Computer Peripherals	\$9,664
288	284	BJ's Wholesale Club (Natick)	Specialty Retailers	\$7,950
307	341	State St. Corp. (Boston)	Commercial Banks	\$7,496
346	352	Boston Scientific (Natick)	Medical Products & Equipment	\$6,283
574	575	NSTAR (Boston)	Utilities: Gas & Electric	\$3,243
622	N/A	Hanover Insurance Group (Worcester)	Insurance: P & C (stock)	\$2,968
643	713	Genzyme (Cambridge)	Pharmaceuticals	\$2,735
658	680	Thermo Electron (Waltham)	Scientific, Photo, Control Equipment	\$2,633
706	708	Biogen Idec (Cambridge)	Pharmaceuticals	\$2,423
712	623	Analog Devices (Norwood)	Semiconductors and Other Electronic Components	\$2,389
772	775	Cabot (Boston)	Chemicals	\$2,125
783	811	Iron Mountain (Boston)	Diversified Outsourcing	\$2,078
837	817	Commerce Group (Webster)	Insurance: P & C (stock)	\$1,884
884	799	Perini (Framingham)	Engineering, Construction	\$1,734
897	855	PerkinElmer (Wellesley)	Scientific, Photo, Control Equipment	\$1,698
990	962	Boston Properties (Boston)	Real Estate	\$1,447

N/A: not available

SOURCE: *Fortune*, April 2006

ECONOMIC BASE AND PERFORMANCE - SECTOR DETAIL (NAICS BASIS)

The Massachusetts economy remains diversified among several industrial and non-industrial sectors. The four largest sectors of the economy (real estate and rental and leasing, professional and technical services, manufacturing, and finance and insurance, on the 2002 NAICS basis) contributed 47.2 percent of the GDP in 2006. The following pie chart displays the latest sector contributions to the Massachusetts GDP.



GDP subsectors. When measured in chained 2000 dollars, the cumulative change in Massachusetts total GDP was 5.6 percent between 2001 and 2005. Between 2001 and 2005 (the latest data available for subsector data), several industries grew much faster than the state average. Industry subsectors that experienced substantial cumulative growth or reduction are listed in the following chart.

Industry Subsectors with a Substantial Growth or Reduction
(chained 2000 dollars)

NAICS* Industry Subsector	Cumulative percent change 2001-2005
Motor vehicle, body, trailer, and parts manufacturing	103.4%
Computer and electronic product manufacturing	54.9%
Chemical manufacturing	22.1%
Wood product manufacturing	20.1%
Apparel manufacturing	-19.6%
Textile and textile product mills	-19.7%
Miscellaneous manufacturing	-23.1%
Primary metal manufacturing	-25.6%

*North American Industry Classification System.
SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised June 2007.

Gross Domestic Product by Industry in Massachusetts, 1999-2006
(millions of chained 2000 dollars)

NAICS* Industry Sector	1999	2000	2001	2002	2003	2004	2005	2006
Total Gross Domestic Product by State	\$255,189	\$274,949	\$276,634	\$274,997	\$280,881	\$289,295	\$292,225	\$300,753
Private industries	231,945	251,645	253,140	251,272	257,997	266,675	269,593	278,071
Agriculture, forestry, fishing, and hunting	469	540	587	668	701	744	793	807
Mining	109	124	141	139	142	145	126	112
Utilities	3,218	3,453	3,162	3,137	3,486	3,594	3,607	3,663
Construction	10,995	11,159	11,850	11,412	10,544	10,611	10,548	10,193
Manufacturing	30,126	37,204	35,011	35,376	38,071	37,103	37,761	39,957
Wholesale trade	17,749	16,173	17,819	17,214	17,959	17,769	16,851	17,901
Retail trade	13,650	14,519	15,713	15,997	16,644	16,998	17,467	17,423
Transportation and warehousing, excluding Postal Service	4,766	5,172	5,063	4,915	4,835	4,907	4,975	4,946
Information	12,083	13,017	13,710	13,676	13,936	15,429	17,238	18,357
Finance and insurance	26,693	29,915	29,890	29,781	30,529	32,482	29,900	30,432
Real estate, rental, and leasing	34,129	35,587	37,683	37,379	37,952	39,671	40,170	42,027
Professional and technical services	24,648	28,560	28,572	27,397	27,486	30,504	32,421	33,876
Management of companies and enterprises	6,870	7,506	6,152	5,673	5,778	5,846	6,160	6,041
Administrative and waste services	8,252	8,382	7,400	7,042	7,459	7,502	7,802	8,108
Educational services	5,591	5,915	5,851	5,978	6,003	6,087	6,017	5,993
Health care and social assistance	19,496	20,363	20,484	21,179	22,241	22,722	23,608	24,569
Arts, entertainment, and recreation	1,906	1,911	2,023	2,152	2,244	2,245	2,221	2,159
Accommodation and food services	6,251	6,594	6,510	6,556	6,734	6,931	6,898	6,995
Other services, except government	5,307	5,549	5,477	5,570	5,596	5,511	5,438	5,454
Government	23,272	23,304	23,493	23,710	22,960	22,791	22,830	22,966

* North American Industry Classification System

SOURCE: United States Department of Commerce, Bureau of Economic Analysis. 2003-05 Revised June 2007

Cumulative Percent Change in GDP by Industry in Massachusetts, 1999-2006
(millions of chained 2000 dollars)

NAICS* Industry Sector	1999 to	2000	2001	2002	2003	2004	2005	2006
Total Gross State Product		7.7%	8.4%	7.8%	9.9%	12.9%	13.9%	16.8%
Private industries		8.5%	9.1%	8.3%	11.0%	14.4%	15.5%	18.6%
Agriculture, forestry, fishing, and hunting		15.1%	23.8%	37.6%	42.6%	48.7%	55.3%	57.1%
Mining		13.8%	27.5%	26.1%	28.2%	30.3%	17.2%	6.1%
Utilities		7.3%	-1.1%	-1.9%	9.2%	12.3%	12.7%	14.2%
Construction		1.5%	7.7%	4.0%	-3.6%	-3.0%	-3.6%	-6.9%
Manufacturing		23.5%	17.6%	18.6%	26.3%	23.7%	25.5%	31.3%
Wholesale trade		-8.9%	1.3%	-2.1%	2.2%	1.2%	-4.0%	2.2%
Retail trade		6.4%	14.6%	16.4%	20.4%	22.6%	25.3%	25.1%
Transportation and warehousing, excluding Postal Service		8.5%	6.4%	3.5%	1.9%	3.3%	4.7%	4.2%
Information		7.7%	13.1%	12.8%	14.7%	25.4%	37.1%	43.6%
Finance and insurance		12.1%	12.0%	11.6%	14.1%	20.5%	12.6%	14.4%
Real estate, rental, and leasing		4.3%	10.2%	9.4%	10.9%	15.4%	16.7%	21.3%
Professional and technical services		15.9%	15.9%	11.8%	12.1%	23.1%	29.4%	33.9%
Management of companies and enterprises		9.3%	-8.8%	-16.6%	-14.7%	-13.5%	-8.2%	-10.1%
Administrative and waste services		1.6%	-10.1%	-15.0%	-9.1%	-8.5%	-4.5%	-0.6%
Educational services		5.8%	4.7%	6.9%	7.3%	8.7%	7.6%	7.2%
Health care and social assistance		4.4%	5.0%	8.4%	13.4%	15.6%	19.5%	23.6%
Arts, entertainment, and recreation		0.3%	6.1%	12.5%	16.8%	16.8%	15.8%	13.0%
Accommodation and food services		5.5%	4.2%	4.9%	7.6%	10.6%	10.1%	11.5%
Other services, except government		4.6%	3.3%	5.0%	5.4%	3.9%	2.6%	2.9%
Government		0.1%	0.9%	1.9%	-1.3%	-2.0%	-1.9%	-1.3%

* North American Industry Classification System

SOURCE: United States Department of Commerce, Bureau of Economic Analysis. 2003-05 Revised June 2007

Gross Domestic Product by Industry in Massachusetts, 1999-2006
(as a percent of total GSP chained 2000 dollars)

NAICS* Industry Sector	1999	2000	2001	2002	2003	2004	2005	2006
Total Gross State Product	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Private industries	90.9%	91.5%	91.5%	91.4%	91.9%	92.2%	92.3%	92.5%
Agriculture, forestry, fishing, and hunting	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%	0.3%
Mining	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.0%	0.0%
Utilities	1.3%	1.3%	1.1%	1.1%	1.2%	1.2%	1.2%	1.2%
Construction	4.3%	4.1%	4.3%	4.1%	3.8%	3.7%	3.6%	3.4%
Manufacturing	11.8%	13.5%	12.7%	12.9%	13.6%	12.8%	12.9%	13.3%
Wholesale trade	7.0%	5.9%	6.4%	6.3%	6.4%	6.1%	5.8%	6.0%
Retail trade	5.3%	5.3%	5.7%	5.8%	5.9%	5.9%	6.0%	5.8%
Transportation and warehousing, excluding Postal Service	1.9%	1.9%	1.8%	1.8%	1.7%	1.7%	1.7%	1.6%
Information	4.7%	4.7%	5.0%	5.0%	5.0%	5.3%	5.9%	6.1%
Finance and insurance	10.5%	10.9%	10.8%	10.8%	10.9%	11.2%	10.2%	10.1%
Real estate, rental, and leasing	13.4%	12.9%	13.6%	13.6%	13.5%	13.7%	13.7%	14.0%
Professional and technical services	9.7%	10.4%	10.3%	10.0%	9.8%	10.5%	11.1%	11.3%
Management of companies and enterprises	2.7%	2.7%	2.2%	2.1%	2.1%	2.0%	2.1%	2.0%
Administrative and waste services	3.2%	3.0%	2.7%	2.6%	2.7%	2.6%	2.7%	2.7%
Educational services	2.2%	2.2%	2.1%	2.2%	2.1%	2.1%	2.1%	2.0%
Health care and social assistance	7.6%	7.4%	7.4%	7.7%	7.9%	7.9%	8.1%	8.2%
Arts, entertainment, and recreation	0.7%	0.7%	0.7%	0.8%	0.8%	0.8%	0.8%	0.7%
Accommodation and food services	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.4%	2.3%
Other services, except government	2.1%	2.0%	2.0%	2.0%	2.0%	1.9%	1.9%	1.8%
Government	9.1%	8.5%	8.5%	8.6%	8.2%	7.9%	7.8%	7.6%

* North American Industry Classification System

SOURCE: United States Department of Commerce, Bureau of Economic Analysis. 2003-05 Revised June 2007

Rank of Industry Contribution to GDP in Massachusetts, 1999-2006
(millions of chained 2000 dollars)

NAICS* Industry Sector	1999	2000	2001	2002	2003	2004	2005	2006
Total Gross State Product								
Private industries								
Agriculture, forestry, fishing, and hunting	19	19	19	19	19	19	19	19
Mining	20	20	20	20	20	20	20	20
Utilities	17	17	17	17	17	17	17	17
Construction	10	10	10	10	10	10	10	10
Manufacturing	2	1	2	2	1	2	2	2
Wholesale trade	7	7	7	7	7	7	9	8
Retail trade	8	8	8	8	8	8	7	9
Transportation and warehousing, excluding Postal Service	16	16	16	16	16	16	16	16
Information	9	9	9	9	9	9	8	7
Finance and insurance	3	3	3	3	3	3	4	4
Real estate, rental, and leasing	1	2	1	1	2	1	1	1
Professional and technical services	4	4	4	4	4	4	3	3
Management of companies and enterprises	12	12	13	14	14	14	13	13
Administrative and waste services	11	11	11	11	11	11	11	11
Educational services	14	14	14	13	13	13	14	14
Health care and social assistance	6	6	6	6	6	6	5	5
Arts, entertainment, and recreation	18	18	18	18	18	18	18	18
Accommodation and food services	13	13	12	12	12	12	12	12
Other services, except government	15	15	15	15	15	15	15	15
Government	5	5	5	5	5	5	6	6

* North American Industry Classification System

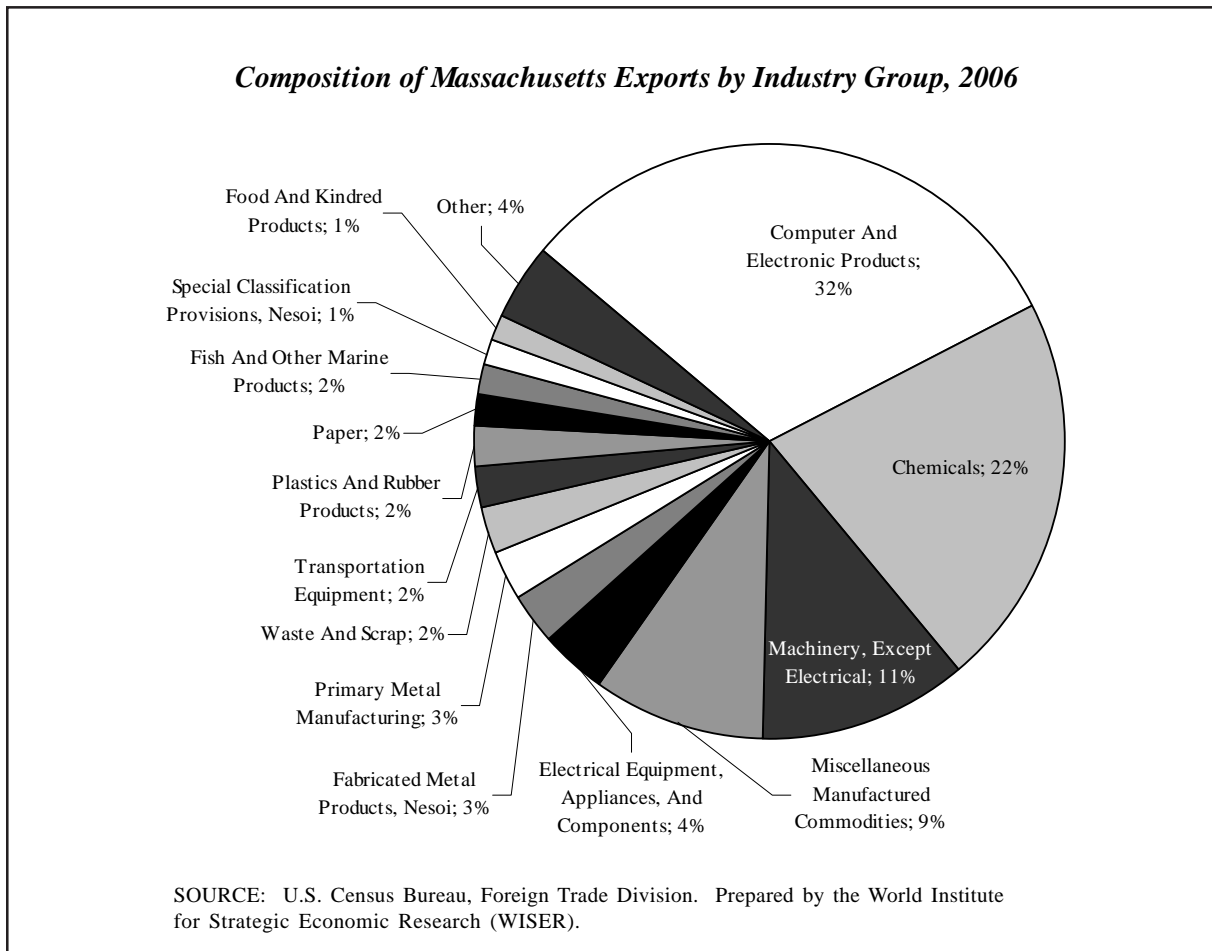
SOURCE: United States Department of Commerce, Bureau of Economic Analysis. 2003-05 Revised June 2007

GDP Overview. Between 1999 and 2006, the portion of the total GDP in chained 2000 dollars, from the private industry sector increased 1.6 percent and it decreased 1.5 percent in the government sector. Contributions by each industry to total GDP have remained steady for most sectors. The exceptions were professional and technical services, up 1.6 percent, manufacturing, up 1.5 percent and information, up 1.4 percent. When the 1999 to 2006 industry contributions to total annual GSP are ranked according to their dollar value, the top five have remained fairly constant. In 2006 they were real estate, rental and leasing, manufacturing, professional and technical services, finance and insurance, and health care and social assistance.

Trade and International Trade. Massachusetts ranked 12th in the United States, and first in New England, with \$24.05 billion in international exports in 2006. This represents a 9.1 percent increase from the previous year's exports from the Commonwealth, while national exports increased by 14.7 percent in the same period. Through May 2007, Massachusetts's exports totaled \$10.5 billion, an increase of 10.0 percent compared with exports in the first five months of 2006. National exports were up 10.8 percent and New England, 8.3 percent during the same period. It is not possible to provide balance of trade comparisons for Massachusetts because import data are not compiled on a state-by-state basis.

Massachusetts' five most important trading partners for 2006 were: Canada, with \$3.16 billion in purchases of Massachusetts exports; the Netherlands, with \$2.70 billion; Germany, with \$2.51 billion; Japan, with \$2.29 billion; and the United Kingdom, with \$1.97 billion in purchases. Between 2005 and 2006, the most significant growth in Massachusetts's exports among its top ten trading partners was in exports to China, 46.3 percent, and Japan, 20.5 percent.

Massachusetts' three most important exports account for 65 percent of all exports as shown in the following chart, are computer and electronic products, chemical products, and non-electrical machinery. These categories reflect the adoption of the NAICS classification system, which groups computers with electronic products, rather than with machinery.



Value of International Shipments from Massachusetts, 1998-2006

(top ten industry groups ranked by value of 2006 exports, in millions)

Major Industry Group	1998	1999	2000	2001	2002	2003	2004	2005	2006
Computer And Electronic Products	\$7,458	\$8,056	\$10,215	\$8,122	\$7,024	\$7,688	\$7,475	\$7,004	\$7,520
Chemicals	\$1,223	\$1,357	\$1,600	\$1,534	\$2,267	\$3,216	\$4,907	\$5,284	\$5,188
Machinery, Except Electrical	\$1,694	\$1,705	\$2,545	\$2,044	\$1,786	\$1,668	\$2,456	\$2,315	\$2,736
Miscellaneous Manufactured Commodities	\$835	\$925	\$1,053	\$1,213	\$1,210	\$1,571	\$1,927	\$2,111	\$2,240
Electrical Equipment, Appliances, And Component	\$596	\$720	\$834	\$691	\$649	\$592	\$752	\$815	\$872
Fabricated Metal Products, Nesoi	\$597	\$601	\$649	\$569	\$692	\$539	\$621	\$664	\$679
Primary Metal Manufacturing	\$335	\$283	\$358	\$272	\$248	\$425	\$423	\$405	\$647
Waste And Scrap	\$104	\$75	\$106	\$146	\$183	\$190	\$322	\$328	\$597
Transportation Equipment	\$637	\$698	\$659	\$449	\$346	\$383	\$453	\$481	\$547
Plastics And Rubber Products	\$357	\$389	\$374	\$400	\$406	\$375	\$404	\$469	\$530
Total Exports, Top Massachusetts Industries	\$13,836	\$14,809	\$18,393	\$15,438	\$14,812	\$16,648	\$19,739	\$19,877	\$21,556
Total Massachusetts Exports	\$15,878	\$16,805	\$20,514	\$17,490	\$16,708	\$18,663	\$21,837	\$22,043	\$24,047
Percent Change from Prior Year	-3.9%	5.8%	22.1%	-14.7%	-4.5%	11.7%	17.0%	0.9%	9.1%

SOURCE: World Institute for Strategic Economic Research (WISER). These figures reflect the changeover in export statistics reporting to the NAICS system from the SIC system. Categories and state totals are not comparable between systems. Pre-1997 data is not available.

Transportation and Warehousing, and Utilities. Between 1999 and 2006, the combined real gross state product of the transportation and warehousing and utilities sector increased 7.8 percent when measured with year 2000 chained dollars. These combined sectors contributed 2.8 percent to the total Massachusetts Real Gross State Product in 2006, 0.4 percent less than it did in 1999.

Massachusetts's major air and seaports are managed by the Massachusetts Port Authority (Massport), an independent public authority. Massport reported fiscal 2006 operating income of \$43.8 million, up 9.8 percent from fiscal 2005, operating revenues up 8.0 percent, \$497.6 million in 2006 versus \$460.6 million in 2005 and operating costs up 7.9 percent, \$453.8 million in 2006 versus \$420.6 million in 2005.

According to Massport, as of December 31, 2006, airline service at the Airport, both scheduled and non-scheduled, was provided by 77 airlines, including six U.S. major air carrier airlines, 31 other domestic carriers, 24 non-U.S. flag ("foreign flag") carriers and 16 regional and commuter airlines ("regional airlines"). Based on total passenger volume in calendar year 2005 data, Logan Airport was the most active airport in New England but dropped from 18th in 2004 to 19th most active in the U.S. and 37th most active in the world according to the Federal Aviation Authority. Massport reported that in 2006, Logan flights and passenger counts were down 0.7 and up 2.4 percent respectively compared to 2005. Massport also reported that as of May, year-to-date 2007, total airport flight operations were up 1.7% and total airport passengers were up 0.8% from the same period in 2006.

As of June 30, 2006, Logan was served by 11 all-cargo and small package/express carriers. According to the FAA, Logan Airport ranked 29th in the nation in total air cargo volume in calendar year 2005. In 2005, the airport handled 1.15 billion pounds of cargo, a 2.0 percent decrease from 2004. Massport reported that as of May, year-to-date 2007, the combined cargo and mail volume was down 9.7 percent from the same period in 2006. Please refer to the Aviation Activity charts on the following page.

At Massport's Port of Boston properties, 2006 total cargo throughput was 15.3 million metric tons, a 6 percent decrease from 2005. Automobile processing increased 11 percent to 12,149 units, and cruise passenger trips decreased 11 percent to 208,883. Total containerized cargo increased 7 percent to 1.6 million short tons. Massport reported that between May 2006 and April 2007, total containerized cargo was up 2.6%, 10.2% more automobiles were processed but 14.7% less cruise passengers used their facilities compared to the same period the previous year. The Army Corps of Engineers reported Massachusetts total waterborne cargo shipped or received in 2005, decreased 9.4 percent to 28.8 million short tons, from 2004. Waterborne cargo in New England and the U.S. decreased 1.9 and 1.0 percent respectively. Please refer to the Waterborne Tonnage by State charts on the following page.

Aviation Activity for Massachusetts Primary Airports

<i>Passenger Boardings</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
General Edward Lawrence Logan International	13,613,507	11,739,553	11,077,238	11,087,799	12,758,020	13,214,923
Nantucket Memorial	296,451	272,460	253,422	229,300	243,313	252,757
Barnstable Municipal-Boardman/Polando Field	205,906	197,106	180,807	158,360	167,522	177,761
Worcester Regional	52,916	79,653	37,298	2,234	1,274	2,036
Laurence G Hanscom Field	82,204	71,381	40,419	19,375	17,049	13,887
Martha's Vineyard	71,150	65,374	59,500	53,011	49,480	48,977
New Bedford Regional	22,882	21,786	21,667	21,097	19,686	17,960
Provincetown Municipal	15,694	12,986	10,533	11,801	11,424	10,236
Total	14,360,710	12,460,299	11,680,884	11,582,977	13,267,768	13,738,537

<i>Cargo - Gross Landed Weight (lbs.)</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
General Edward Lawrence Logan International	1,405,482,600	1,301,842,100	1,272,185,900	1,199,383,800	1,172,103,700	1,148,881,400

Change in Aviation Activity at Massachusetts Primary Airports

<i>Passenger Boardings</i>	<i>2000-2001</i>	<i>2001-2002</i>	<i>2002-2003</i>	<i>2003-2004</i>	<i>2004-2005</i>
General Edward Lawrence Logan International	-13.8%	-5.6%	0.1%	15.1%	3.6%
Nantucket Memorial	-8.1%	-7.0%	-9.5%	6.1%	3.9%
Barnstable Municipal-Boardman/Polando Field	-4.3%	-8.3%	-12.4%	5.8%	6.1%
Worcester Regional	50.5%	-53.2%	-94.0%	-43.0%	59.8%
Laurence G Hanscom Field	-13.2%	-43.4%	-52.1%	-12.0%	-18.5%
Martha's Vineyard	-8.1%	-9.0%	-10.9%	-6.7%	-1.0%
New Bedford Regional	-4.8%	-0.5%	-2.6%	-6.7%	-8.8%
Provincetown Municipal	-17.3%	-18.9%	12.0%	-3.2%	-10.4%
Total	-13.2%	-6.3%	-0.8%	14.5%	3.5%

<i>Cargo</i>	<i>2000-2001</i>	<i>2001-2002</i>	<i>2002-2003</i>	<i>2003-2004</i>	<i>2004-2005</i>
General Edward Lawrence Logan International	-7.4%	-2.3%	-5.7%	-2.3%	-2.0%

SOURCE: Federal Aviation Administration

Waterborne Tonnage by State (In Units of 1000 Tons)

<i>State</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>	<i>2004</i>	<i>2005</i>
U.S. total	2,424,596	2,386,558	2,340,292	2,394,199	2,551,939	2,527,622
Maine	31,769	30,586	29,140	31,698	32,447	32,353
Massachusetts	26,973	26,446	26,117	30,655	31,787	28,812
Connecticut	18,959	18,267	17,610	18,579	20,075	19,617
Rhode Island	9,089	9,170	8,437	9,417	9,764	10,972
New Hampshire	4,462	4,447	4,108	4,971	4,795	5,254
Vermont	0	0	0	0	0	0
New England	91,252	88,916	85,412	95,320	98,868	97,008

Waterborne Tonnage by State - Percent Change from Previous Year

<i>State</i>	<i>2000-2001</i>	<i>2001-2002</i>	<i>2002-2003</i>	<i>2003-2004</i>	<i>2004-2005</i>
U.S. total	-1.6%	-1.9%	2.3%	6.6%	-1.0%
Maine	-3.7%	-4.7%	8.8%	2.4%	-0.3%
Massachusetts	-2.0%	-1.2%	17.4%	3.7%	-9.4%
Connecticut	-3.6%	-3.6%	5.5%	8.1%	-2.3%
Rhode Island	0.9%	-8.0%	11.6%	3.7%	12.4%
New Hampshire	-0.3%	-7.6%	21.0%	-3.5%	9.6%
Vermont	-	-	-	-	-
New England	-2.6%	-3.9%	11.6%	3.7%	-1.9%

SOURCE: Army Corps of Engineers, Waterborne Commerce Statistics Center (WCSC).

Construction and Housing. In 2006, construction activity contributed 3.4 percent to the total Massachusetts Gross Domestic Product (GDP) when measured in 2000 chained dollars. The construction sector contributed 4.3 percent to state GSP in 1999. Overall loss between 1999 and 2006 was 6.9 percent in real dollars.

Housing Permits Authorized, 1969-2006

<i>Year</i>	<i>Massachusetts</i>		<i>New England</i>		<i>United States</i>	
	<i>Total Permits</i>	<i>Percent Change</i>	<i>Total Permits</i>	<i>Percent Change</i>	<i>Total Permits</i>	<i>Percent Change</i>
1969	33,572		70,539		1,330,161	
1970	38,330	14.2%	74,068	5.0%	1,354,746	1.8%
1975	17,697	-27.5%	41,645	-21.0%	934,511	-12.4%
1980	16,055	-20.4%	40,195	-25.1%	1,171,763	-23.6%
1981	15,599	-2.8%	38,067	-5.3%	985,600	-15.9%
1982	15,958	2.3%	39,470	3.7%	1,000,500	1.5%
1983	22,950	43.8%	57,567	45.9%	1,605,221	60.4%
1984	28,471	24.1%	72,356	25.7%	1,689,667	5.3%
1985	39,360	38.2%	96,832	33.8%	1,732,335	2.5%
1986	43,877	11.5%	108,272	11.8%	1,771,832	2.3%
1987	40,018	-8.8%	101,222	-6.5%	1,542,499	-12.9%
1988	31,766	-20.6%	82,123	-18.9%	1,450,583	-6.0%
1989	21,634	-31.9%	53,543	-34.8%	1,345,084	-7.3%
1990	15,276	-29.4%	36,811	-31.2%	1,125,583	-16.3%
1991	12,624	-17.4%	31,111	-15.5%	953,834	-15.3%
1992	16,346	29.5%	36,876	18.5%	1,105,083	15.9%
1993	17,715	8.4%	39,225	6.4%	1,210,000	9.5%
1994	18,302	3.3%	40,459	3.1%	1,366,916	13.0%
1995	15,946	-12.9%	37,357	-7.7%	1,335,835	-2.3%
1996	17,360	8.9%	40,425	8.2%	1,419,083	6.2%
1997	17,554	1.1%	42,047	4.0%	1,442,251	1.6%
1998	18,958	8.0%	47,342	12.6%	1,619,500	12.3%
1999	18,967	0.0%	47,632	0.6%	1,663,533	2.7%
2000	18,000	-5.1%	45,335	-4.8%	1,592,267	-4.3%
2001	17,034	-5.4%	44,594	-1.6%	1,636,676	2.8%
2002	17,465	2.5%	49,031	9.9%	1,747,678	6.8%
2003	20,257	16.0%	52,395	6.9%	1,889,214	8.1%
2004	22,477	11.0%	57,858	10.4%	2,070,077	9.6%
2005	24,549	9.2%	58,742	1.5%	2,155,316	4.1%
2006	19,580	-20.2%	46,782	-20.4%	1,838,903	-14.7%

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

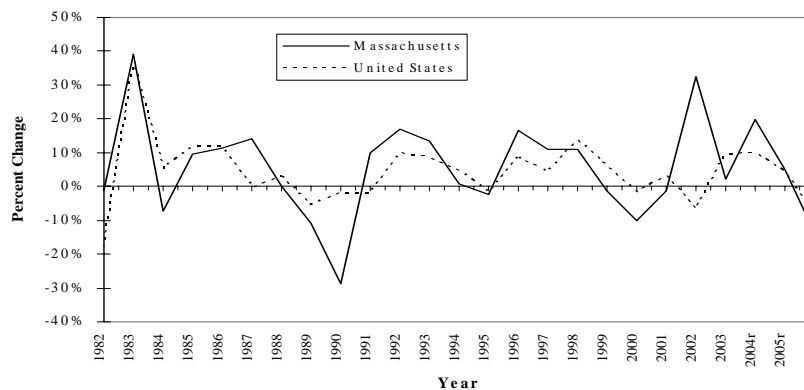
Home Sales. Sales of existing single-family homes for the Boston metropolitan area and the United States are presented in the following chart and graph. Seasonally adjusted rates are used in reporting quarterly data to factor out seasonal variations in resale activity.

Existing Home Sales, 1981-2007 1st Quarter
(Quarterly rates are seasonally adjusted, rates in thousands)

Year	Massachusetts		United States	
	Sales	% Change	Sales	% Change
1981	43.0		2,575.0	
1982	42.6	-0.8%	2,117.5	-17.8%
1983	59.2	39.0%	2,875.0	35.8%
1984	54.9	-7.3%	3,027.5	5.3%
1985	60.2	9.7%	3,382.5	11.7%
1986	67.0	11.3%	3,772.5	11.5%
1987	76.4	14.1%	3,767.5	-0.1%
1988	76.6	0.2%	3,882.5	3.1%
1989	68.2	-10.9%	3,672.0	-5.4%
1990	48.6	-28.8%	3,603.5	-1.9%
1991	53.4	10.0%	3,533.3	-1.9%
1992	62.5	17.0%	3,889.5	10.1%
1993	70.9	13.4%	4,220.3	8.5%
1994	71.4	0.7%	4,409.8	4.5%
1995	69.6	-2.6%	4,342.3	-1.5%
1996	81.2	16.6%	4,705.3	8.4%
1997	90.1	11.0%	4,908.8	4.3%
1998	99.9	10.8%	5,585.3	13.8%
1999	98.5	-1.3%	5,922.8	6.0%
2000	88.7	-10.0%	5,831.8	-1.5%
2001	87.5	-1.4%	6,026.3	3.3%
2002	115.9	32.5%	5,631.0	-6.6%
2003	118.3	2.1%	6,175.0	9.7%
2004r	141.7	19.8%	6,778.0	9.8%
2005r	148.6	4.9%	7,076.0	4.4%
2006r	128.1	-13.8%	6,478.0	-8.5%
2007. I p	146.3	3.9% *	6,413.0	-6.6% *

SOURCES: National Association of Realtors. Federal Reserve Bank of Boston.
p= preliminary, *=change from previous year's quarter, r=revised

Percentage Change in Existing Home Sales
(Massachusetts and the United States 1981-2006)



SOURCES: National Association of Realtors. Federal Reserve Bank of Boston. r=revised.

Median Home Prices. Median sales price of existing single-family homes for the Boston metropolitan area and the United States are presented in the following chart and graph.

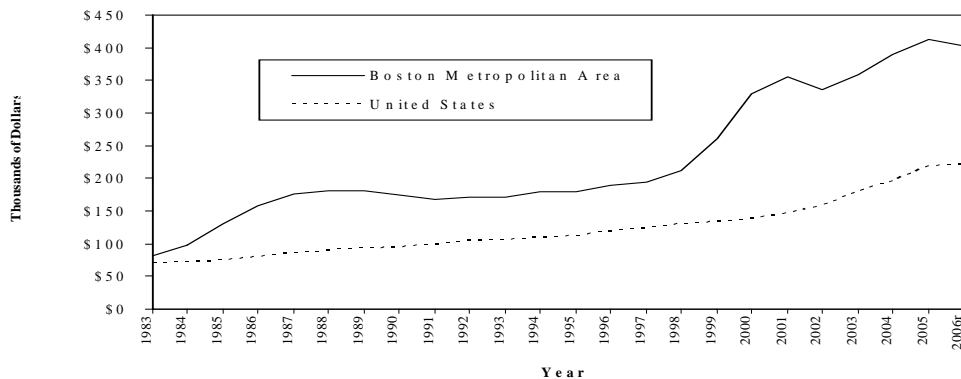
Median Sales Price for Existing Single-Family Homes - 1983 to 2007 1st Quarter

(Quarterly price not seasonally adjusted, price in thousands)

<i>Year</i>	<i>Boston Metropolitan Area</i>	<i>United States</i>	<i>Boston Prices as a Percent of the U.S.</i>	<i>Boston Annual Percent Change</i>
1983	\$82	\$70	118.1%	
1984	\$98	\$72	135.4%	19.1%
1985	\$131	\$75	173.7%	33.5%
1986	\$158	\$80	197.3%	20.9%
1987	\$177	\$86	205.7%	11.6%
1988	\$181	\$90	201.9%	2.4%
1989	\$182	\$93	195.0%	0.4%
1990	\$174	\$95	182.6%	-4.2%
1991	\$169	\$99	169.5%	-3.0%
1992	\$171	\$104	164.6%	1.2%
1993	\$171	\$107	160.9%	0.5%
1994	\$179	\$109	164.7%	4.4%
1995	\$179	\$113	158.6%	-0.2%
1996	\$189	\$119	158.7%	5.7%
1997	\$195	\$124	157.1%	3.0%
1998	\$212	\$130	162.9%	8.9%
1999	\$261	\$133	196.2%	23.1%
2000	\$330	\$138	238.3%	26.4%
2001	\$355	\$146	242.4%	7.6%
2002	\$335	\$158	212.1%	-5.5%
2003	\$359	\$180	198.9%	6.9%
2004	\$390	\$195	199.6%	8.7%
2005	\$413	\$219	188.7%	6.0%
2006r	\$402	\$222	181.3%	-2.7%
2007.1p	\$388	\$212	182.8%	-1.0%*

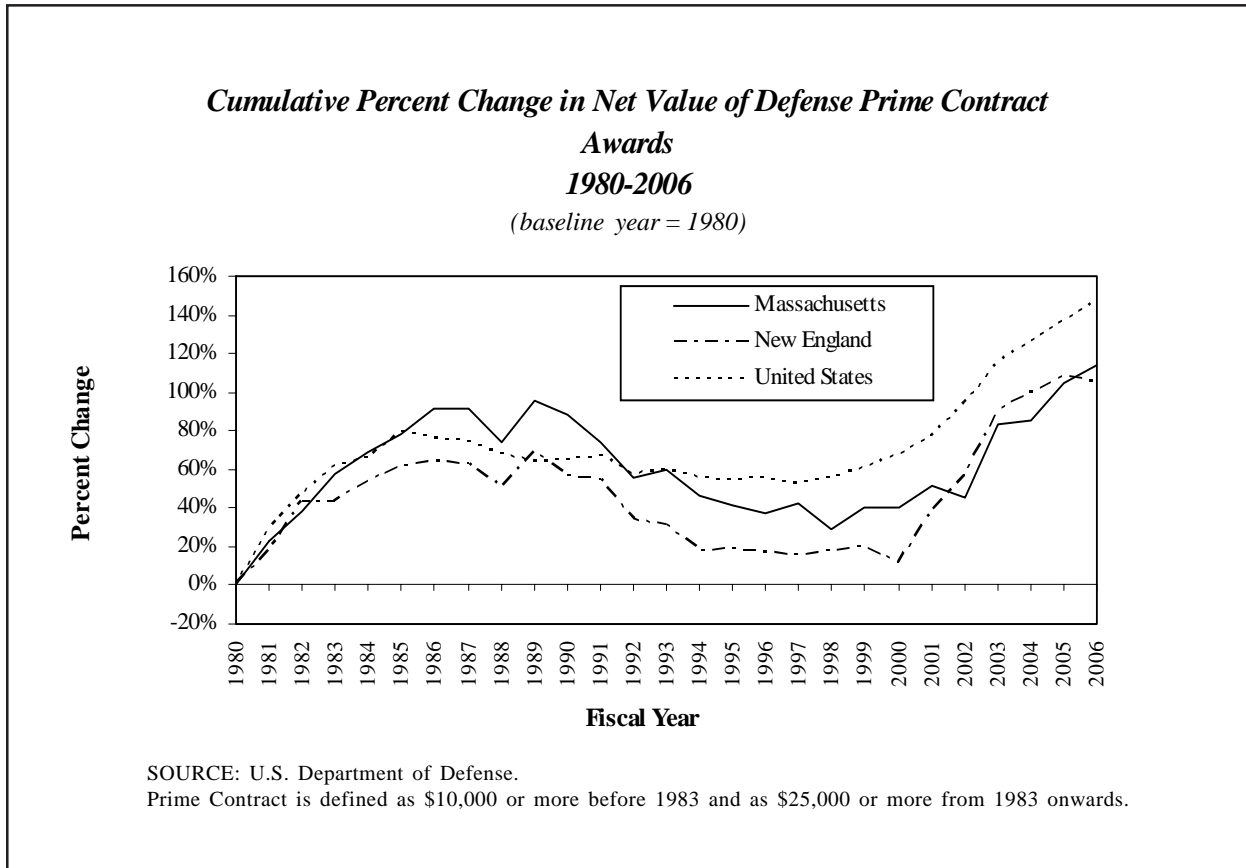
SOURCES: National Association of Realtors. Federal Reserve Bank of Boston.
p= preliminary, *=change from previous year's quarter, r=revised

**Median Sales Price, Existing Single-Family Homes
(U.S. and Boston Metro, 1983-2006)**



SOURCES: Federal Reserve Bank of Boston; National Association of Realtors. p=preliminary
Note: Boston-Cambridge-Quincy, MA-NH - Data from New Hampshire not available for 2004-2005.

Defense Industry. Massachusetts contract awards have increased every year since 1988 with the exception of 2002. The value of military prime contracts awarded to Massachusetts companies peaked in FY 2006 at \$9.1 billion and troughed in 1998 at \$4.3 billion. U.S. Navy contracts to Massachusetts companies increased by over a billion dollars in FY 2006. The chart below illustrates the yearly changes in the value of Massachusetts military prime contracts from 1980 to 2006.



From the early 1980 to 1993, the Commonwealth's share of total prime contract awards in the U.S. remained around 5 percent. In 2002, the Commonwealth's share of the national total reached its lowest point in over two decades, 3.1 percent, and has increased slightly to 3.5 percent in 2005. While Massachusetts' contract total has increased significantly in the past four years, its share of the U.S. total was only 3.5% in 2006. Massachusetts is the eighth largest recipient in defense spending.

The importance of the defense industry to the Massachusetts economy is reflected in table on the following page, which shows the value of Department of Defense prime contract awards between 1980 and 2006.

Net Value of Department of Defense Prime Contract Awards Since 1980-2006

(in millions)

<i>Fiscal Year</i>	<i>MA</i>	<i>N.E.</i>	<i>U.S.</i>	<i>Massachusetts' Share (as a Percent)</i>	
				<i>of New England</i>	<i>of U.S.</i>
1980*	\$3,743	\$8,775	\$68,070	42.7%	5.5%
1981*	4,605	10,372	87,761	44.4%	5.2%
1982*	5,317	13,037	103,858	40.8%	5.1%
1983	6,328	12,967	118,744	48.8%	5.3%
1984	7,029	14,249	123,995	49.3%	5.7%
1985	7,714	15,487	140,096	49.8%	5.5%
1986	8,735	15,748	136,026	55.5%	6.4%
1987	8,685	15,606	133,262	55.7%	6.5%
1988	7,212	13,673	125,767	52.7%	5.7%
1989	8,757	16,268	119,917	53.8%	7.3%
1990	8,166	14,271	121,254	57.2%	6.7%
1991	6,933	13,889	124,119	49.9%	5.6%
1992	5,686	11,033	112,285	51.5%	5.1%
1993	5,936	10,779	114,145	55.1%	5.2%
1994	5,106	9,329	110,316	54.7%	4.6%
1995	4,846	9,375	109,005	51.7%	4.4%
1996	4,675	9,237	109,408	50.6%	4.3%
1997	4,910	9,152	106,561	53.6%	4.6%
1998	4,245	9,284	109,386	45.7%	3.9%
1999	4,715	9,456	114,875	49.9%	4.1%
2000	4,737	8,745	123,295	54.2%	3.8%
2001	5,248	11,094	135,225	47.3%	3.9%
2002	4,929	13,029	158,737	37.8%	3.1%
2003	6,800	17,544	191,221	38.8%	3.6%
2004	6,961	19,062	212,740	36.5%	3.3%
2005	8,333	20,699	236,986	40.3%	3.5%
2006	9,077	20,243	257,456	44.8%	3.5%

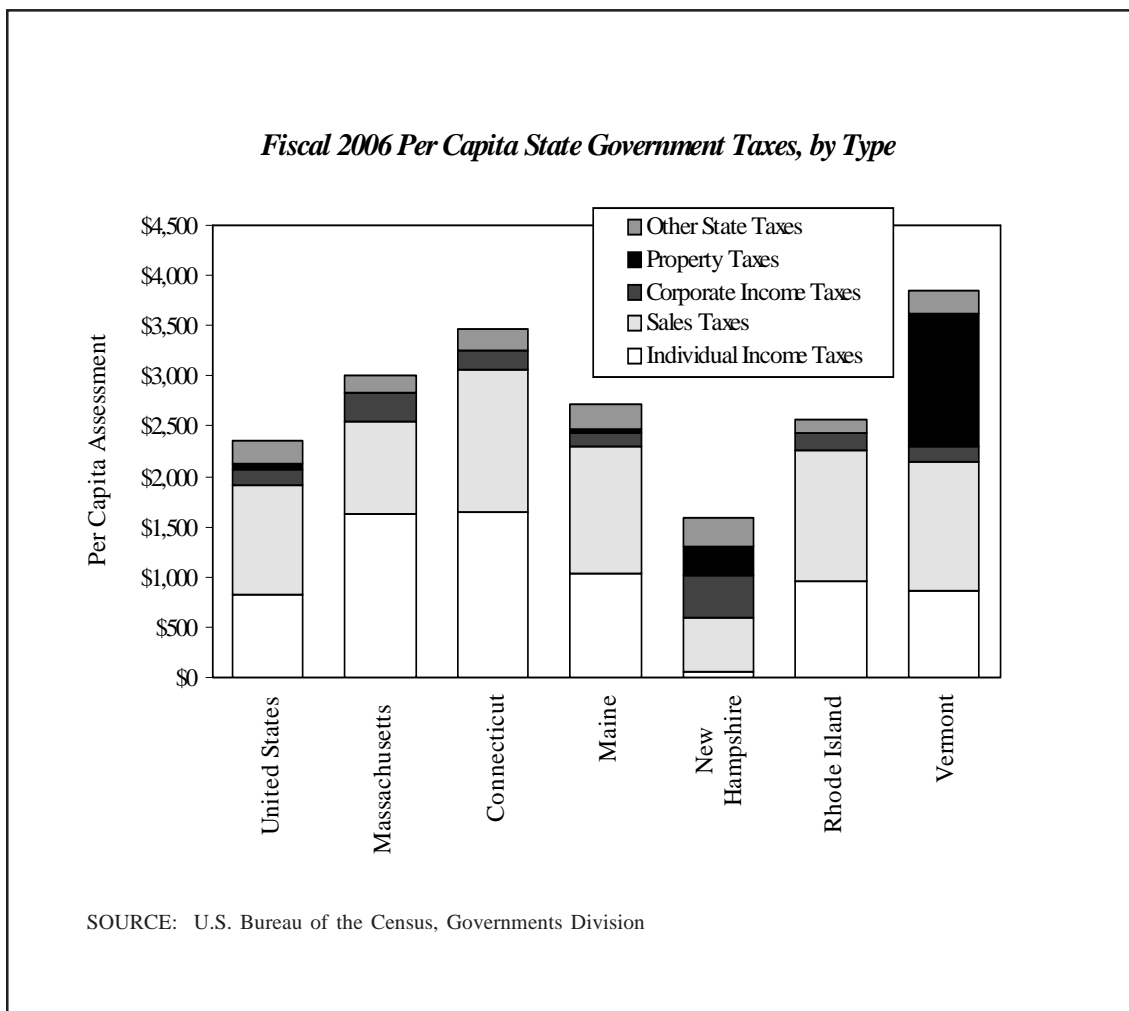
SOURCE: United States Department of Defense. *Prime Contract is defined as \$10,000 and above for these years; beginning in 1983 it is defined as \$25,000 and above.

Travel and Tourism. The travel and tourism industry represents an important component of the overall Massachusetts economy. In 2005, the arts, entertainment, recreation and accommodations industries contributed 1.6 percent to Massachusetts total GDP. The Massachusetts Office of Travel and Tourism reported an annual increase of 4.8 percent in museum and attraction attendance in 2006. March 2007 year-to-date attendance, 1,723,954, is 3.7 percent less than the same period in 2006.

The Massachusetts Office of Travel and Tourism estimates that 23.3 million domestic travelers traveled to or within the Commonwealth in 2006, an increase of 3.3 percent from 2005. Additionally, 4.0 million international travelers visited Massachusetts in 2006, a decrease of 4.4 percent from 2005.

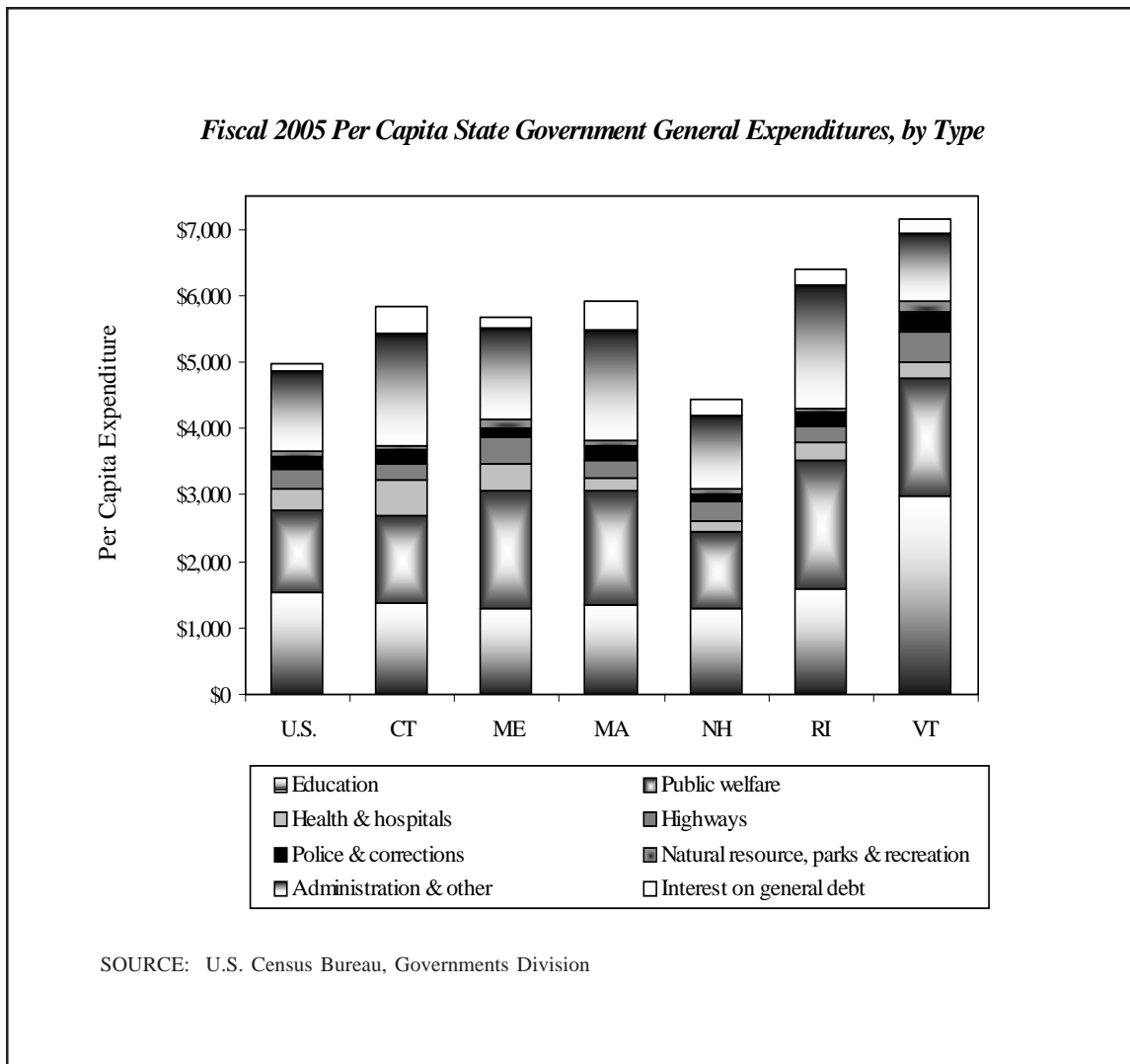
State Taxes. Per capita state taxes in Massachusetts are significantly higher, 27.7 percent, than the national average. In fiscal year 2006, the total per capita state tax bill in the United States was \$2,359. Citizens of the Commonwealth however, paid \$3,013 on average, the ninth highest (seventh last year) in the nation and an increase of 7.0 percent from the previous year's \$2,815. In New England, citizens in Connecticut and Vermont paid more per capita, and all New England states except New Hampshire (48th), ranked in the top fifth for per capita state tax collections.

In fiscal year 2006, over half (54.1 percent) of the state taxes in Massachusetts came from the state income tax. Per capita individual income taxes in Massachusetts were \$1,629, up 7.5 percent from \$1,514 in fiscal year 2005. Also increasing in fiscal year 2006 were sales receipts, 2.1 percent and corporate net income, 38.7 percent. Other taxes (licenses, death and gift, and documentary and stock transfer) decreased 8.4 percent in Massachusetts on a per capita basis. Across the New England states, there is wide variation in both total per capita state taxes and in the breakdown of those taxes, as illustrated in the following chart.

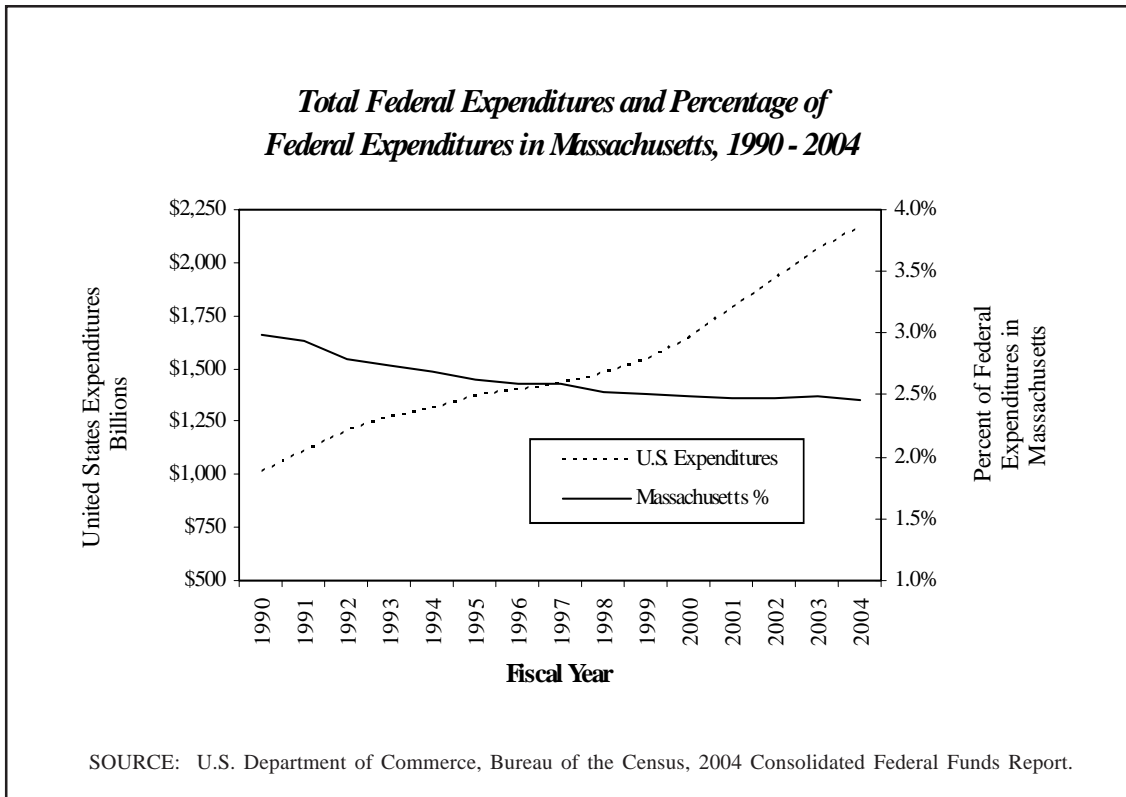


State Government Spending in Massachusetts. The following chart depicts fiscal 2005 per capita state general expenditures by category for the six New England states and the U.S. average state expenditure. Massachusetts ranked 9th in the nation in per capita expenditures, \$5,911 in 2005 while it ranked 7th and spent more, \$5,994 in 2004. This represents a 1.4 percent decrease in per capita expenditures from 2004 to 2005.

Massachusetts spent more state funds per capita on debt service, \$435 and parks, \$33 in 2005 than any of its New England neighbors. Massachusetts also spent 13.8 percent more on education, 41.4 percent less on highways and 15.6 percent less on natural resource, parks & recreation in 2005 than 2004.

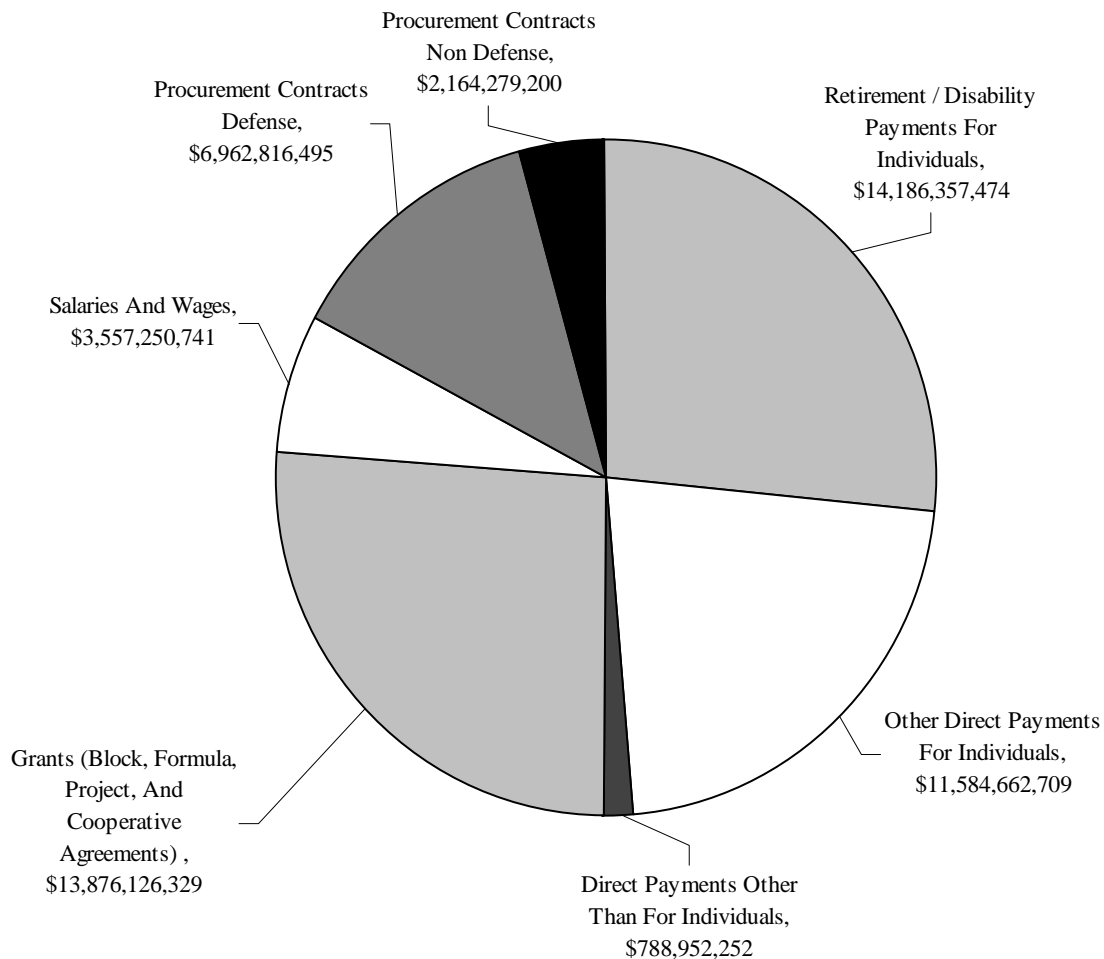


Federal Government Spending in Massachusetts. Federal government spending contributes significantly to the Massachusetts economy. In fiscal 2004, Massachusetts ranked twelfth among states in per capita distribution of federal funds, with total spending of \$8,279 per person, excluding loans and insurance. Massachusetts' share of total federal spending declined steadily between 1990 and 1999, and has stabilized in the range of 2.46 percent to 2.52 percent between 1998 and 2004. The following chart shows total federal expenditures and the percentage of federal expenditures in Massachusetts. Federal spending includes grants to state and local governments, direct payments to individuals, wage and salary employment, and procurement contracts, and includes only those expenditures that can be associated with individual states and territories.



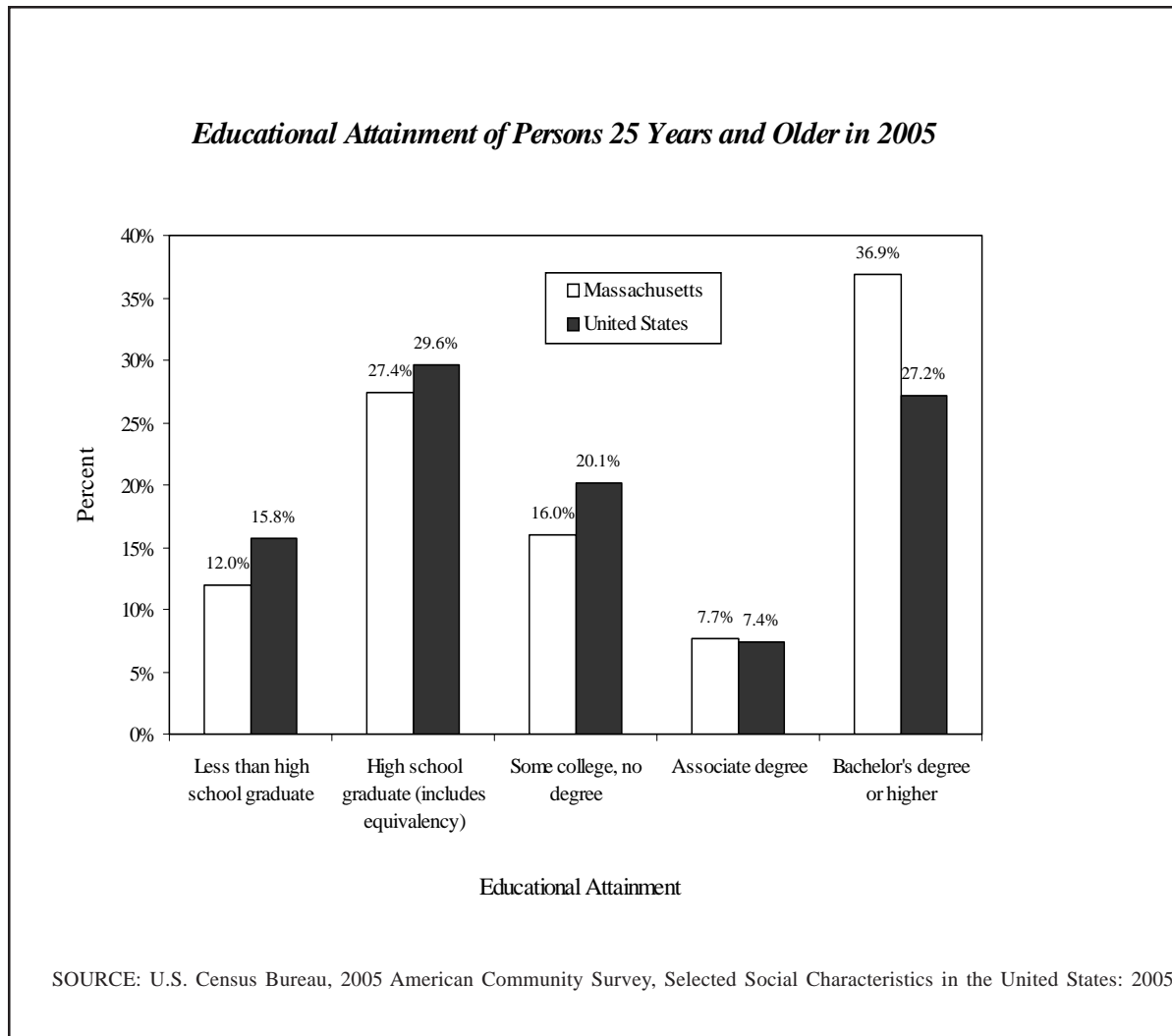
Over half of FY 2004 federal spending in Massachusetts was composed of health care and social programs like Medicare, Medicaid, Social Security, unemployment benefits and Section 8 Housing Vouchers. Massachusetts was above the national average in per capita federal grants to state and local governments, receiving \$2,163 per capita compared to a national average of \$1,545. Per capita federal spending on salaries and wages in 2004 was lower in Massachusetts than in the rest of the nation, \$554 compared to a national average of \$750, but Massachusetts was above the national average in per capita direct federal payments to individuals (\$4,139 compared to a national average of \$3,839). Massachusetts ranked 9th among states in per capita procurement contract awards, \$1,422 compared to a national average of \$1,089 in 2004. The following chart shows the composition of direct federal spending within Massachusetts in fiscal 2004, excluding loans and insurance.

**Composition of Direct Federal Spending in Massachusetts by Program
Fiscal 2004**

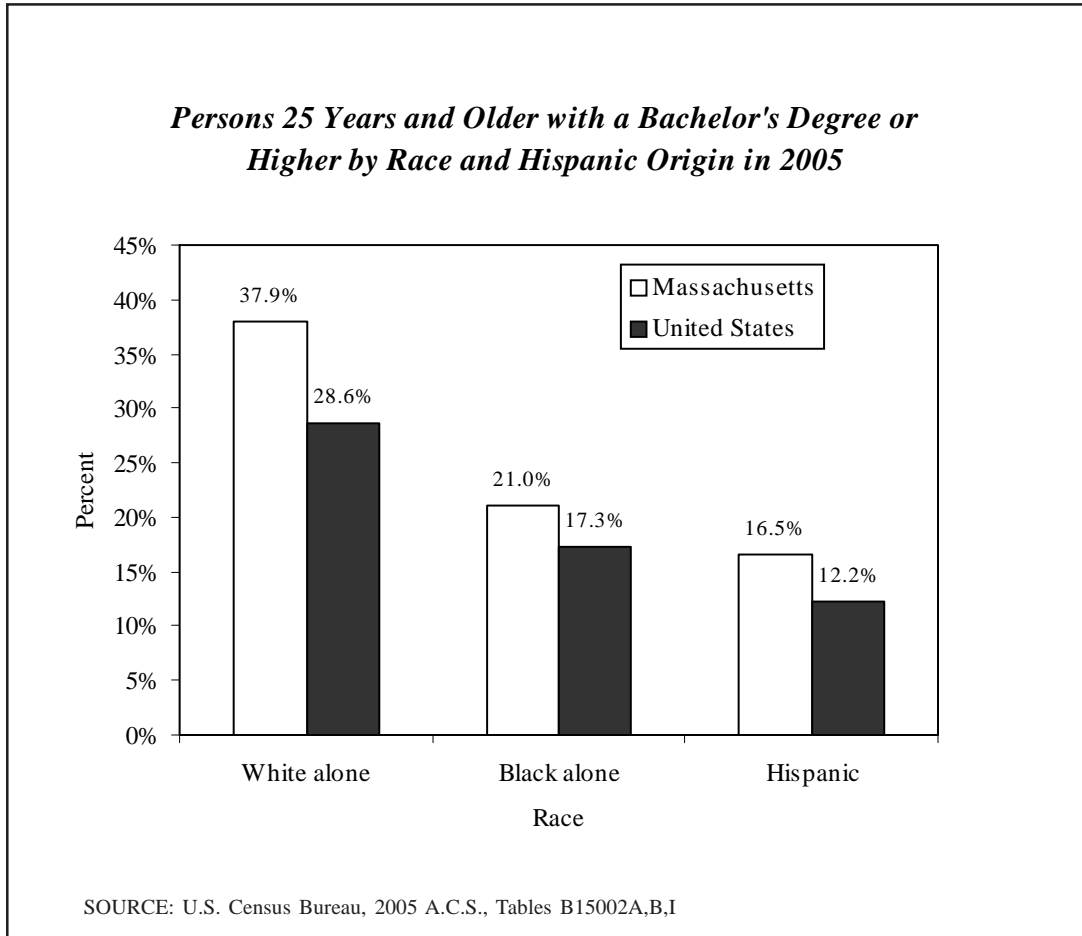


SOURCE: U.S. Census Bureau, Consolidated Federal Funds Report: FY 2004

Human Resources. The availability of a skilled and well-educated population is an important resource for the Commonwealth. The level of education reached by the population of Massachusetts compares favorably with the level in the United States as a whole. In 2005, the Census's American Community Survey (ACS) reported that Massachusetts had a smaller proportion of persons who had not completed high school (12.0 percent) than the national average (15.8 percent) and a much higher proportion of persons with a bachelor's degree or more (36.9 percent) than the nation (27.2 percent).



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



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

Higher Education Enrollment by Race and Hispanic Origin in 2005

	Black	Asian	Native American	White	Other race	Hispanic
Massachusetts	9.2%	7.9%	0.1%	77.9%	4.9%	6.5%
New England	7.7%	5.7%	0.2%	82.1%	4.3%	6.0%
United States	14.1%	7.2%	0.8%	70.4%	7.5%	12.3%

SOURCE: U.S. Census Bureau, 2005 A.C.S., Tables B14001 A-I.

Massachusetts is an internationally recognized center for higher education, with 443,316 students in undergraduate, professional and graduate private and public programs in the 2005/2006 school year, according to the New England Board of Higher Education. According to Institute of International Education, 28,007 foreign students were enrolled in Massachusetts colleges and universities in the 2005/2006 school year. This was a 0.1 percent decrease from the previous year but Massachusetts was ranked 4th among states for foreign student enrollment.

The Massachusetts public higher education system is composed of universities, state colleges, and community colleges with a combined enrollment of 187,913 students in 2005, 43.4 percent of whom attended part-time. In addition, Massachusetts has a system of private higher education that accounted for 57.6 percent of total enrollment in Massachusetts in 2005. More than a fifth of the students attending private institutions were enrolled on a part-time basis. The strength of both public and private colleges and universities as centers for research and education contributes to the high quality of the Massachusetts work force and plays a key role in attracting and retaining business and industry within the state.

The higher education system in Massachusetts is particularly strong in post-graduate, scientific, and technical education, with 1,632 science and engineering doctorates awarded in 2005, 4th in the nation. Massachusetts conferred a total of 2,676 doctorates in 2005. Massachusetts was also ranked 2nd in the U.S. in science and engineering postdoctorates in doctorate granting institutions in 2005, with 6,502.

The pre-eminence of higher education in Massachusetts contributes not only to the quality of its work force, but also to its stature in the nation and the world as a center for basic scientific research and for academic and entrepreneurial research and development. Doctorate-granting institutions in Massachusetts received 4.5 percent (\$2.1 billion) of total national academic expenditures on R&D in fiscal 2005. Massachusetts ranked sixth in the nation behind California, New York, Texas, Maryland and Pennsylvania.

The diversity of federal funding sources reflects the variety of research and development work performed at Massachusetts educational institutions. Of the \$1.4 billion in total fiscal 2004 federal outlays for science and engineering research to universities and colleges in Massachusetts, 64.1 percent was from the Department of Health and Human Services, 16.8 percent was from the National Science Foundation, 8.3 percent from the Department of Defense, 6.3 percent was from the Department of Energy, and 2.8 percent was from the National Aeronautics and Space Administration. Massachusetts ranked 4th in the nation in 2004 in total federal outlays, \$5.3 billion, for research and development.

Given the quality of the Commonwealth's research and development sector, it is not surprising that Massachusetts fares better than the national average in homes with computer and internet access. According to Census's October 2003 Current Population Survey, 64.2 percent of Massachusetts households had access to a computer, compared to 61.8 percent nationally and 58.1 percent of its households were connected to the internet while the national average was 54.7 percent.

Primary and Secondary Education Data. Although spending on education is not necessarily an indicator of results, Massachusetts has spent from 12 to 29 percent more per pupil on primary and secondary education than the national average since at least 1981. During the 2004-2005 school year, Massachusetts increased per student expenditures to \$11,267; 29 percent higher than the national average. The table on the following page shows expenditures per pupil for Massachusetts and the United States since fiscal 1981.

***Per Pupil Expenditure in Public Elementary and Secondary Schools
1981-2005***

(in current, unadjusted dollars)

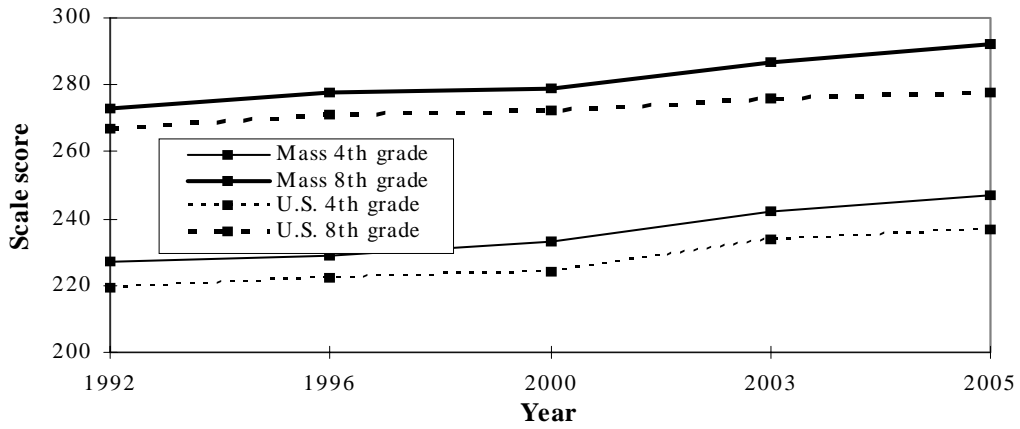
<i>Fiscal Year</i>	<i>Massachusetts</i>	<i>United States</i>	<i>Ratio (MA/U.S.)</i>
1981	\$2,735	\$2,307	1.19
1982	2,823	2,525	1.12
1983	3,072	2,736	1.12
1984	3,298	2,940	1.12
1985	3,653	3,222	1.13
1986	4,031	3,479	1.16
1987	4,491	3,682	1.22
1988	4,965	3,927	1.26
1989	5,485	4,307	1.27
1990	5,766	4,643	1.24
1991	5,881	4,902	1.20
1992	5,952	5,023	1.18
1993	6,141	5,160	1.19
1994	6,423	5,327	1.21
1995	6,783	5,529	1.23
1996	7,033	5,689	1.24
1997	7,331	5,923	1.24
1998	7,651	6,137	1.25
1999	8,106	6,458	1.26
2000	8,444	6,836	1.24
2001	9,038	7,284	1.24
2002	9,856	7,701	1.28
2003	10,223	8,019	1.27
2004	10,693	8,287	1.29
2005	11,267	8,701	1.29

SOURCE: U.S. Census Bureau, <http://www.census.gov/govs/www/school.html>

The National Assessment of Educational Progress (NAEP), also known as "the Nation's Report Card," is the only nationally representative and continuing assessment of what America's students know and can do in various subject areas. Since 1969, assessments have been conducted periodically in reading, mathematics, science, writing, U.S. history, civics, geography, and the arts. Under the current structure, the Commissioner of Education Statistics, who heads the National Center for Education Statistics in the U.S. Department of Education, is responsible by law for carrying out the NAEP project.

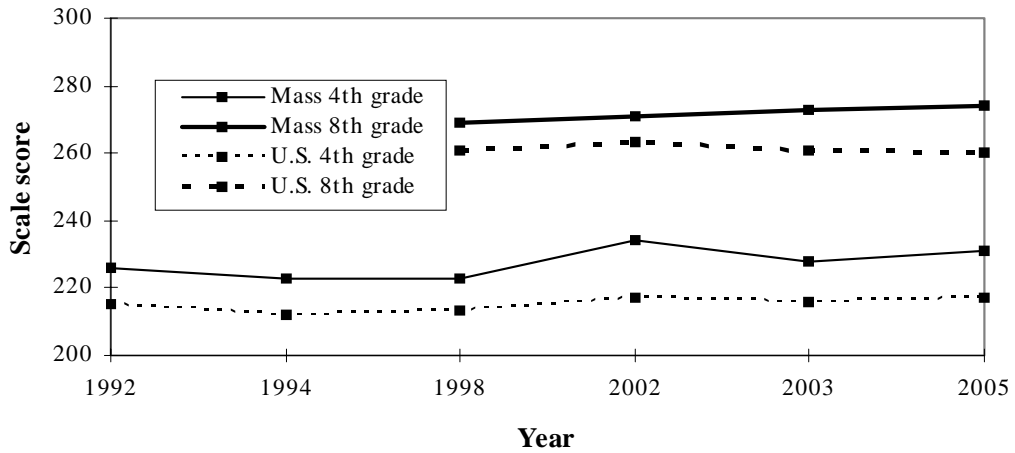
Since 1990, NAEP assessments have also been conducted to give results for participating states. Those that choose to participate receive assessment results that report on the performance of students in that state. In its content, the state assessment is identical to the assessment conducted nationally. However, because the national NAEP samples were not, and are not currently designed to support the reporting of accurate and representative state-level results, separate representative samples of students are selected for each participating jurisdiction/state. The graphs on the following page compare the data available for Massachusetts to the nation.

NAEP Mathematics Scores



SOURCE: National Center for Education Statistics

NAEP Reading Scores



SOURCE: National Center for Education Statistics

Sources List

Listed below are the the web sites of the original data sources used to compile this section (Exhibit A) of the Economic Due Diligence report. The sites are listed in section title order.

Population Characteristics

United States Department of Commerce, Bureau of the Census
<http://www.census.gov>

Personal Income, Consumer Prices, and Poverty

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

<http://www.bea.doc.gov/bea/regional>

United States Department of Labor, Bureau of Labor Statistics

<http://www.bls.gov>

The Conference Board, Inc.

<http://www.conference-board.org>

Mass Insight Corporation

<http://www.massinsight.com/index.asp>

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

<http://www.census.gov>

Employment

MA Division of Unemployment Assistance

<http://www.detma.org>

United States Department of Labor, Bureau of Labor Statistics

<http://www.bls.gov>

Economic Base and Performance

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

<http://www.bea.doc.gov/bea/regional/gsp/>

Fortune Magazine

<http://www.fortune.com/fortune/>

Economic Base and Performance - Sector Detail (NAICS Basis)

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

<http://www.bea.doc.gov/bea/regional/gsp/>

U.S. Census Bureau, Foreign Trade Division. Prepared by the World Institute for Strategic Economic Research (WISER)

<http://www.wisertrade.org>

Massport

<http://www.massport.com>

Airports Council International

<http://www.aci.aero>

Federal Aviation Administration

http://www.faa.gov/airports_airtraffic/airports/planning_capacity/passenger_allcargo_stats/

Army Corps of Engineers

<http://www.iwr.usace.army.mil.ndc/>

Federal Reserve Bank of Boston

<http://www.bos.frb.org>

United States Department of Commerce

<http://www.census.gov>

National Association of Realtors; Federal Reserve Bank of Boston

<http://www.bos.frb.org/economic/needi/needata.htm>

U.S. Department of Defense

<http://web1.whs.osd.mil/peidhome/geostats/geostat.htm>

Massachusetts Office of Travel and Tourism

<http://www.massvacation.com>

U.S. Census Bureau, Governments Division

<http://www.census.gov/govs/www/statetax.html>

<http://www.census.gov/govs/www/state.html>

U.S. Department of Commerce, Bureau of the Census, 2003

Consolidated Federal Funds Report

<http://www.census.gov/govs/www/cffr.html>

Human Resources and Infrastructure

U.S. Census Bureau, 2003 A.C.S. PCT35A-I

<http://www.census.gov/acs/www/>

New England Board of Higher Education

<http://www.nebhe.org.connection.html>

National Science Foundation

<http://www.nsf.gov/statistics>

United States Department of Education, National Center for Education Statistics

<http://nces.ed.gov>

Institute of International Education

<http://www.iese.org>

PROPOSED FORM OF OPINION OF BOND COUNSEL

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

MINTZ LEVIN

One Financial Center
Boston, MA 02111
617-542-6000
617-542-2241 fax
www.mintz.com

[Date of Closing]

Honorable Timothy P. Cahill
Treasurer and Receiver-General
State House, Room 227
Boston, MA 02133

We have acted as bond counsel to The Commonwealth of Massachusetts (the “Commonwealth”) in connection with the issuance by the Commonwealth of its General Obligation Bonds, Consolidated Loan of 2007 (Auction Rate Securities), Series D-1 in the aggregate principal amount of \$81,975,000 and Series D-2 in the aggregate principal amount of \$81,950,000, dated the date of delivery (the “Bonds”). In such capacity, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

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

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

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

(b) Interest on the Bonds will not be included in the gross income of the holders of the Bonds for federal income tax purposes. This opinion is rendered subject to the condition that the Commonwealth comply with certain requirements of the Internal Revenue Code of 1986, as amended, which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon is and continues to be

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

BOSTON | WASHINGTON | NEW YORK | STAMFORD | LOS ANGELES | PALO ALTO | SAN DIEGO | LONDON

excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be included in the gross income of holders of the Bonds retroactive to the date of issuance of the Bonds. While interest on the Bonds will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, interest on the Bonds will be included in the “adjusted current earnings” of corporate holders of the Bonds and therefore will be taken into account in the computation of the alternative minimum tax applicable to certain corporations. We express no opinion as to other federal tax consequences resulting from holding the Bonds.

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

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

Very truly yours,

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

The Commonwealth of Massachusetts

\$163,925,000
 General Obligation Bonds
 Consolidated Loan of 2007
 (Auction Rate Securities)
 Series D-1 and Series D-2

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 May 9, 2007 (the “Information Statement”), as it appears as Appendix A in the Official Statement dated May 9, 2007 of the Commonwealth with respect to its \$498,565,000 General Obligation Bonds, Consolidated Loan of 2007, Series A and its \$553,135,000 General Obligation Refunding Bonds, 2007 Series A, which Official Statement has been filed with each NRMSIR and with the Municipal Securities Rulemaking Board (the “MSRB”), 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	“SELECTED FINANCIAL DATA - Statutory Basis”
2. Summary presentation on GAAP and five-year comparative basis of governmental funds operations, concluding with prior fiscal year	“SELECTED FINANCIAL DATA - GAAP Basis”
3. Summary presentation of actual revenues in budgeted operating funds on five-year comparative basis, concluding with prior fiscal year, plus estimates for current fiscal year	“COMMONWEALTH REVENUES - Statutory Basis Distribution of Budgetary Revenues”
4. So long as Commonwealth statutes impose limits on tax revenues, information as to compliance therewith in the prior fiscal year	“COMMONWEALTH REVENUES - Limitations on Tax Revenues”

Financial Information and Operating Data Category	Reference to Information Statement for Level of Detail
5. Summary presentation of budgeted expenditures by selected, then-current major categories on five-year comparative basis and estimated expenditures for current fiscal year	"COMMONWEALTH PROGRAMS AND SERVICES"
6. Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any	"COMMONWEALTH PROGRAMS AND SERVICES - Pension and Other Post-Retirement Benefit Obligations"
7. If and to the extent otherwise updated in the prior fiscal year, summary presentation of the size of the state workforce	"STATE WORKFORCE"
8. Five-year summary presentation of actual capital project expenditures	"COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN - Capital Spending Plan"
9. Statement of Commonwealth debt and debt related to general obligation contract liabilities as of the end of the prior fiscal year	"LONG-TERM LIABILITIES - General Authority to Borrow - Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities"
10. Annual fiscal year debt service requirements for Commonwealth general obligation and special obligation bonds, beginning with the current fiscal year	"LONG-TERM LIABILITIES - Debt Service Requirements"
11. Annual fiscal year contract assistance requirements for Commonwealth general obligation contract assistance, beginning with the current fiscal year	"LONG-TERM LIABILITIES - General Obligation Contract Assistance Liabilities"
12. Annual fiscal year budgetary contractual assistance liabilities for Commonwealth, beginning with the current fiscal year	"LONG-TERM LIABILITIES - Budgetary Contractual Assistance Liabilities"
13. Five-year summary presentation of authorized but unissued general obligation debt	"LONG-TERM LIABILITIES - Authorized But Unissued Debt"
14. So long as Commonwealth statutes impose a limit on the amount of outstanding "direct" bonds, information as to compliance therewith as of the end of the prior fiscal year	"LONG-TERM LIABILITIES - General Authority to Borrow"

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 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 or each NRMSIR and to the SID notice of any of the following events with respect to the Bonds (numbered in accordance with the provisions of the Rule), if material:

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

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

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

^{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.

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 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.

4107823v.6

AUCTION PROCEDURES

TABLE OF CONTENTS

	Page
ARTICLE I	
Definitions.....	1
ARTICLE II	
Auction Procedures	7
Section 2.01. Orders by Existing Owners and Potential Owners	7
Section 2.02. Submission of Orders by Broker-Dealers to Auction Agent.....	8
Section 2.03. Treatment of Orders by the Auction Agent.....	10
Section 2.04. Determination of Auction Period Rate.....	12
Section 2.05. Allocation of Bonds	13
Section 2.06. Notice of Auction Period Rate	15
Section 2.07. Index	16
Section 2.08. Miscellaneous Provisions Regarding Auctions.....	16
Section 2.09. Changes in Auction Period or Auction Date.....	17

Both the Definitions in Article I and the Auction Procedures in Article II are subject to modification or amendment pursuant to Schedule I. In the event of any conflict between Article I or Article II and Schedule I, Schedule I shall prevail. Any reference herein to “Series” such as “a Series of Bonds” or “Bonds of a Series” shall not apply if there is only one Series of Bonds.

ARTICLE I

Definitions

The following words and terms as used in this Appendix D (hereinafter “this Appendix”) have the following meanings with respect to Bonds in an ARS Rate Period unless the context or use indicates another or different meaning or intent or the definition has been changed, modified or expanded in Schedule I:

“**Agent Member**” means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

“**All Hold Rate**” has the meaning set forth in Schedule I.

“**ARS Conversion Date**” means with respect to Bonds, the date on which the Bonds of such Series convert from an interest rate period other than an ARS Rate Period and begin to bear interest at the Auction Period Rate.

“**ARS Rate Period**” means, for each Series of Bonds, any period of time commencing on the day following the Initial Period and ending on the earlier of the Conversion Date or the day preceding the final maturity date of such Bonds.

“**Auction**” means each periodic implementation of the Auction Procedures.

“**Auction Agent**” means the Person appointed as Auction Agent in accordance with the Auction Agreement. The Auction Agent shall initially be the party named in Schedule I.

“**Auction Agreement**” means an agreement between the Auction Agent and the Issuer pursuant to which the Auction Agent agrees to follow the procedures specified in this Appendix with respect to the Bonds while such Bonds bear interest at the Auction Period Rate, as such agreement may from time to time be amended or supplemented.

“**Auction Date**” means with respect to any Series of Bonds:

(a) Daily Auction Period. If the Bonds are in a daily Auction Period, each Business Day unless such day is the Business Day prior to the conversion from a daily Auction Period to another Auction Period,

(b) Flexible Auction Period. If the Bonds are in a Flexible Auction Period, the last Business Day of the Flexible Auction Period, and

(c) Other Auction Periods. If the Bonds are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Bonds (whether or not an Auction shall be conducted on such date);

provided, however, that the last Auction Date with respect to the Bonds in an Auction Period other than a daily Auction Period or Flexible Auction Period shall be the earlier of (i) the Business Day next preceding the Interest Payment Date next preceding the Conversion Date for the Bonds and (ii) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the Bonds; and

provided, further, that if the Bonds are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the second Business Day next preceding the Conversion Date for the Bonds and (y) the Business Day next

preceding the final maturity date for the Bonds. The last Business Day of a Flexible Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be an Auction for the last daily Auction Period. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be one Auction for the first Auction Period following the conversion.

The first Auction Date for each Series of Bonds is set forth in Schedule I.

“Auction Desk” means the business unit of a Broker-Dealer that fulfills the responsibilities of the Broker-Dealer under a Broker-Dealer Agreement, including soliciting Bids for the Bonds, and units of the Broker-Dealer which are not separated from such business unit by information controls appropriate to control, limit and monitor the inappropriate dissemination and use of information about Bids.

“Auction Period” means with respect to each Series of Bonds:

(a) *Flexible Auction Period.* A Flexible Auction Period;

(b) *Daily Auction Period.* With respect to a Series of Bonds in a daily Auction Period, a period beginning on each Business Day and extending to but not including the next succeeding Business Day unless such Business Day is the second Business Day preceding the conversion from a daily Auction Period to another Auction Period, in which case the daily Auction Period shall extend to, but not include, the next Interest Payment Date;

(c) *Seven day Auction Period.* With respect to a Series of Bonds in a seven-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table below, a period of generally seven days beginning on the day of the week specified in column B of the table below (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table below) and ending on the day of the week specified in column C of the table below in the next succeeding week (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day):

(A)	(B)	(C)
When Auctions Occur on this day	Auction Period Generally Begins this day	Auction Period Generally Ends this day
Friday	Monday	Sunday
Monday	Tuesday	Monday
Tuesday	Wednesday	Tuesday
Wednesday	Thursday	Wednesday
Thursday	Friday	Thursday

(d) *28-day Auction Period.* With respect to a Series of Bonds in a 28-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 28 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the same day of the week specified in column C of the table above four weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(e) *35-day Auction Period.* With respect to a Series of Bonds in a 35-day Auction Period, if Auctions generally are conducted on the day of the week specified in column A of the table above, a period of generally 35 days beginning on the day of the week specified in column B of the table above (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the day of the week specified in column C of the table above) and ending on the day of the week specified in column C of the table above five

weeks later (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day).

(f) *Three-month Auction Period.* With respect to a Series of Bonds in a three-month Auction Period, a period of generally three months (or shorter period upon a conversion from another Auction Period or following an ARS Conversion Date) beginning on the day following the last day of the prior Auction Period and ending on the calendar day immediately preceding the first Business Day of the month that is the third calendar month following the beginning date of such Auction Period; and

(g) *Six-month Auction Period.* With respect to a Series of Bonds in a six-month Auction Period, a period of generally six months (or shorter period upon a conversion from another Auction Period or following an ARS Conversion Date) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding date set forth in Schedule I;

Provided, however, that if there is a conversion of a Series of Bonds with Auctions generally conducted on the day of the week specified in column A of the table above, (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and shall end of the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (i.e. the Interest Payment Date for the prior Auction Period) and shall end on the day of the week specified in column C of the table above (unless such day is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

Notwithstanding the foregoing, if an Auction is for an Auction Period of more than seven days and the Auction Rate on such Auction Date is the Maximum Rate as the result of a lack of Sufficient Clearing Bids, the Auction Period shall automatically convert to a seven-day Auction Period. On the following Auction Date, the Auction shall be conducted for an Auction Period of the same length as the Auction Period prior to such automatic conversion. If such Auction is successful, the Auction Period shall revert to the length prior to the automatic conversion, and, if such Auction is not successful, the Auction Period shall be another seven-day period.

“**Auction Period Rate**” means the Auction Rate or any other rate of interest to be borne by the Bonds during each Auction Period determined in accordance with Section 2.04 of this Appendix ; provided, however, in no event may the Auction Period Rate exceed the Maximum Rate.

“**Auction Procedures**” means the procedures for conducting Auctions for Bonds during an ARS Rate Period set forth in this Appendix .

“**Auction Rate**” means for each Series of Bonds for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of the Bonds are the subject of Submitted Hold Orders, the All Hold Rate for such Series of Bonds and (ii) if Sufficient Clearing Bids do not exist, the Maximum Rate for such Series of Bonds.

“**Authorized Denominations**” means \$25,000, or such other amount specified in Schedule I, and integral multiples thereof so long as the Bonds bear interest at the Auction Period Rate.

“**Available Bonds**” means, for each Series of Bonds on each Auction Date, the number of Units of Bonds that are not the subject of Submitted Hold Orders.

“**Bid**” has the meaning specified in subsection (a) of Section 2.01 of this Appendix .

“**Bidder**” means each Existing Owner and Potential Owner who places an Order.

“**Bonds**” has the meaning set forth in Schedule I.

“**Broker-Dealer**” means any entity that is permitted by law to perform the function required of a Broker-Dealer described in this Appendix , that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Issuer and that is a party to a Broker-Dealer Agreement with the Auction Agent and the Issuer. The “Broker-Dealer of record” with respect to any Bond is the Broker-Dealer which placed the Order for such Bond or whom the Existing Owner of such Bond has designated as its Broker-Dealer with respect to such Bond, in each case as reflected in the records of the Auction Agent.

“**Broker-Dealer Agreement**” means an agreement among the Auction Agent, the Issuer and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described in this Appendix , as such agreement may from to time be amended or supplemented.

“**Broker-Dealer Deadline**” means, with respect to an Order, the internal deadline established by the Broker-Dealer through which the Order was placed after which it will not accept Orders or any change in any Order previously placed with such Broker-Dealer; provided, however, that nothing shall prevent the Broker-Dealer from correcting Clerical Errors by the Broker-Dealer with respect to Orders from Bidders after the Broker-Dealer Deadline pursuant to the provisions herein. Any Broker-Dealer may change the time or times of its Broker-Dealer Deadline as it relates to such Broker-Dealer by giving notice not less than two Business Days prior to the date such change is to take effect to Bidders who place Orders through such Broker-Dealer.

“**Business Day**” while Bonds bear interest at the Auction Period Rate, the term Business Day shall not include Saturdays, Sundays, days on which the New York Stock Exchange or its successor is not open for business, days on which the Federal Reserve Bank of New York is not open for business, days on which banking institutions or trust companies located in the state in which the operations of the Auction Agent are conducted are authorized or required to be closed by law, regulation or executive order of the state in which the Auction Agent conducts operations with respect to the Bonds.

“**Clerical Error**” means a clerical error in the processing of an Order, and includes, but is not limited to, the following: (i) a transmission error, including but not limited to, an Order sent to the wrong address or number, failure to transmit certain pages or illegible transmission, (ii) failure to transmit an Order received from one or more Existing Owners or Potential Owners (including Orders from the Broker-Dealer which were not originated by the Auction Desk) prior to the Broker-Dealer Deadline or generated by the Broker-Dealer’s Auction Desk for its own account prior to the Submission Deadline or (iii) a typographical error. Determining whether an error is a “Clerical Error” is within the reasonable judgment of the Broker-Dealer, provided that the Broker-Dealer has a record of the correct Order that shows it was so received or so generated prior to the Broker-Dealer Deadline or the Submission Deadline, as applicable.

“**Conversion Date**” means the date on which any Series of the Bonds begin to bear interest at a rate which is determined other than by means of the Auction Procedures.

“**Electronic Means**” means, facsimile transmission, email transmission or other similar electronic means of communication providing evidence of transmission, including a telephone communication confirmed by any other method set forth in this definition.

“**Error Correction Deadline**” means one hour after the Auction Agent completes the dissemination of the results of the Auction to Broker-Dealers without regard to the time of receipt of such results by any Broker-Dealer; provided, however, in no event shall the Error Correction Deadline extend past 4:00 p.m., New York City time, unless the Auction Agent experiences technological failure or force majeure in disseminating the Auction results which causes a delay in dissemination past 3:00 p.m., New York City time.

“Existing Owner” means a Person who is the beneficial owner of Bonds; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as an Existing Owner.

“Flexible Auction Period” means with respect to a Series of Bonds,

(a) any period of 182 days or less which is divisible by seven and which begins on an Interest Payment Date and ends (i) in the case of a Series of Bonds with Auctions generally conducted on Fridays, on a Sunday unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (ii) in the case of a Series of Bonds with Auctions generally conducted on Mondays, on a Monday unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iii) in the case of a Series of Bonds with Auctions generally conducted on Tuesdays, on a Tuesday unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, (iv) in the case of a Series of Bonds with Auctions generally conducted on Wednesdays, on a Wednesday unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day, and (v) in the case of a Series of Bonds with Auctions generally conducted on Thursdays, on a Thursday unless such Thursday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day or

(b) any period which is longer than 182 days which begins on an Interest Payment Date and ends not later than the final scheduled maturity date of such Series of Bonds.

“Hold Order” means an Order to hold the Bonds as provided in Section 2.01(a) of this Appendix or such an Order deemed to have been submitted as provided in Section 2.01(c) of this Appendix .

“Index” has the meaning set forth in Schedule I.

“Initial Period” has the meaning set forth in Schedule I.

“Initial Period Rate” has the meaning set forth in Schedule I.

“Interest Payment Date” with respect to Bonds of a Series bearing interest at Auction Period Rates, means, the first Interest Payment Date for such Series of Bonds as set forth in Schedule I and thereafter (unless changed by Schedule I) (a) when used with respect to any Auction Period other than a daily Auction Period or a Flexible Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding the first day of such Auction Period, (c) when used with respect to a Flexible Auction Period of (i) seven or more but fewer than 183 days, the Business Day immediately following such Flexible Auction Period, or (ii) 183 or more days, each semiannual date on which interest on the Bonds would be payable if such Bonds bore interest at a fixed rate of interest and on the Business Day immediately following such Flexible Auction Period, and (d) the date when the final payment of principal of the Bonds of such Series becomes due and payable (whether at stated maturity, upon redemption or acceleration, or otherwise).

“Maximum Rate” has the meaning set forth in Schedule I.

“Order” means a Hold Order, Bid or Sell Order.

“Potential Owner” means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in the Bonds in addition to the Bonds currently owned by such Person, if any; provided, however, that for purposes of conducting an Auction, the Auction Agent may consider a Broker-Dealer acting on behalf of its customer as a Potential Owner.

“Record Date” means while the Bonds bear interest at the Auction Period Rate, the Business Day immediately preceding an Interest Payment Date.

“**Schedule I**” means Schedule I to this Appendix .

“**Securities Depository**” means the Depository Trust Company and its successors and assigns or any other securities depository selected by the Issuer.

“**Sell Order**” has the meaning specified in subsection (a) of Section 2.01 of this Appendix .

“**Submission Deadline**” means, unless changed by Schedule I, 1:00 p.m., New York City time, on each Auction Date not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent if directed in writing by the Issuer pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent. Notwithstanding the foregoing, the Auction Agent will follow the Securities Industry and Financial Markets Association’s Early Market Close Recommendations for shortened trading days for the bond markets (the “SIFMA Recommendation”) unless the Auction Agent is instructed otherwise in writing by Issuer. In the event of a SIFMA Recommendation with respect to an Auction Date, the Submission Deadline will be 11:30 a.m., instead of 1:00 p.m., New York City time.

“**Submitted Bid**” has the meaning specified in subsection (b) of Section 2.04 of this Appendix .

“**Submitted Hold Order**” has the meaning specified in subsection (b) of Section 2.04 of this Appendix .

“**Submitted Order**” has the meaning specified in subsection (b) of Section 2.04 of this Appendix .

“**Submitted Sell Order**” has the meaning specified in subsection (b) of Section 2.04 of this Appendix .

“**Sufficient Clearing Bids**” means for each Series of Bonds, an Auction for which the number of Units of such Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum Rate is not less than the number of Units of such Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum Rate.

“**Units**” has the meaning set forth in Section 2.02(a)(iii) of this Appendix .

“**Winning Bid Rate**” means for each Series of Bonds, the lowest rate specified in any Submitted Bid of such Series which if calculated by the Auction Agent as the Auction Rate would cause the number of Units of such Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the number of Units of Available Bonds of such Series.

ARTICLE II

Auction Procedures

Section 2.01. Orders by Existing Owners and Potential Owners. (a) Prior to the Broker-Dealer Deadline for each Series of Bonds on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, one or more Orders as to:

(A) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period without regard to the Auction Rate for such Auction Period,

(B) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner commits to continue to hold for the next succeeding Auction Period if the Auction Rate

for the next succeeding Auction Period is not less than the rate per annum specified in such Order (and if the Auction Rate is less than such specified rate, the effect of the Order shall be as set forth in paragraph (b)(i)(A) of this Section), and/or

(C) the principal amount of Bonds, if any, held by such Existing Owner which such Existing Owner offers to sell on the first Business Day of the next succeeding Auction Period (or on the same day in the case of a daily Auction Period) without regard to the Auction Rate for the next succeeding Auction Period; and

(ii) each Potential Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, an Order as to the principal amount of Bonds, which each such Potential Owner offers to purchase if the Auction Rate for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes of the Auction Procedures an Order containing the information referred to in clause (i)(A) above is referred to as a "Hold Order," an Order containing the information referred to in clause (i)(B) or (ii) above is referred to as a "Bid," and an Order containing the information referred to in clause (i)(C) above is referred to as a "Sell Order."

No Auction Desk of a Broker-Dealer shall accept as an Order a submission (whether received from an Existing Owner or a Potential Owner or generated by the Broker-Dealer for its own account) which does not conform to the requirements of the Auction Procedures, including, but not limited to, submissions which are not in Authorized Denominations, specify a rate which contains more than three figures to the right of the decimal point or specify an amount greater than the amount of Outstanding Bonds. No Auction Desk of a Broker-Dealer shall accept a Bid or Sell Order which is conditioned on being filled in whole or a Bid which does not specify a specific interest rate.

(b) (i) A Bid by an Existing Owner shall constitute an offer to sell on the first Business Day of the next succeeding Auction Period (or the same day in the case of a daily Auction Period):

(A) the principal amount of Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be less than the rate specified in such Bid; or

(B) such principal amount or a lesser principal amount of Bonds to be determined as described in subsection (a)(v) of Section 2.05 hereof if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate; or

(C) a lesser principal amount of Bonds to be determined as described in subsection (b)(iv) of Section 2.05 hereof if such specified rate shall be higher than the Maximum Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an offer to sell:

(A) the principal amount of Bonds specified in such Sell Order; or

(B) such principal amount or a lesser principal amount of Bonds as described in subsection (b)(iv) of Section 2.05 hereof if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an offer to purchase:

(A) the principal amount of Bonds specified in such Bid if the Auction Rate for the next succeeding Auction Period shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of Bonds as described in subsection (a)(vi) of Section 2.05 hereof if the Auction Rate for the next succeeding Auction Period shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) If an Order or Orders covering all of the Bonds of a particular Series held by an Existing Owner is not submitted to the Broker-Dealer of record for such Existing Owner prior to the Broker-Dealer Deadline, such Broker-Dealer shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds held by such Existing Owner and not subject to Orders submitted to such Broker-Dealer; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted to such Broker-Dealer prior to the Broker-Dealer Deadline covering the aggregate principal amount of Bonds of a particular Series to be converted held by such Existing Owner, such Broker-Dealer shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of Bonds to be converted held by such Existing Owner not subject to Orders submitted to such Broker-Dealer.

(ii) for purposes of any Auction, any Order by any Existing Owner or Potential Owner shall be revocable until the Broker-Dealer Deadline, and after the Broker-Dealer Deadline, all such Orders shall be irrevocable, except as provided in Sections 2.02(e)(ii) and 2.02(f); and

(iii) for purposes of any Auction other than during a daily Auction Period, any Bonds sold or purchased pursuant to subsection (b)(i), (ii) or (iii) above shall be sold or purchased at a price equal to 100% of the principal amount thereof; provided that, for purposes of any Auction during a daily Auction Period, such sale or purchase price shall be 100% of the principal amount thereof plus accrued interest to the date of sale or purchase.

Section 2.02. Submission of Orders by Broker-Dealers to Auction Agent.

(a) Each Broker-Dealer shall submit to the Auction Agent in writing, or by such Electronic Means as shall be reasonably acceptable to the Auction Agent, prior to the Submission Deadline on each Auction Date for Bonds of a Series, all Orders with respect to Bonds of such Series accepted by such Broker-Dealer in accordance with Section 2.01 above and specifying with respect to each Order or aggregation of Orders pursuant to Section 2.02(b) below:

(i) the name of the Broker-Dealer;

(ii) the number of Bidders placing Orders, if requested by the Auction Agent;

(iii) the aggregate number of Units of Bonds of such Series, if any, that are the subject of such Order, where each Unit is equal to the principal amount of the minimum Authorized Denomination of the Bonds;

(iv) to the extent that such Bidder is an Existing Owner:

(A) the number of Units of Bonds of such Series, if any, subject to any Hold Order placed by such Existing Owner;

(B) the number of Units of Bonds of such Series, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the number of Units of Bonds of such Series, if any, subject to any Sell Order placed by such Existing Owner; and

(v) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If more than one Bid is submitted to a Broker-Dealer on behalf of any single Potential Owner, the Broker-Dealer shall aggregate each Bid on behalf of such Potential Owner submitted with the same rate and consider such Bids as a single Bid and shall consider each Bid submitted with a different rate a separate Bid with the rate and the number of Units of Bonds specified therein.

A Broker-Dealer may aggregate the Orders of different Potential Owners with those of other Potential Owners on whose behalf the Broker-Dealer is submitting Orders and may aggregate the Orders of different Existing Owners with other Existing Owners on whose behalf the Broker-Dealer is submitting Orders; provided, however, Bids may only be aggregated if the interest rates on the Bids are the same.

(c) Neither of the Issuer nor the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

(d) Nothing contained herein shall preclude a Broker-Dealer from placing an Order for some or all of the Bonds for its own account.

(e) Until the Submission Deadline, a Broker-Dealer may withdraw or modify any Order previously submitted to the Auction Agent (i) for any reason if the Order was generated by the Auction Desk of the Broker-Dealer for the account of the Broker-Dealer or (ii) to correct a Clerical Error on the part of the Broker-Dealer in the case of any other Order, including Orders from the Broker-Dealer which were not originated by the Auction Desk.

(f) After the Submission Deadline and prior to the Error Correction Deadline, a Broker-Dealer may:

(i) submit to the Auction Agent an Order received from an Existing Owner, Potential Owner or a Broker-Dealer which is not an Order originated by the Auction Desk, in each case prior to the Broker-Dealer Deadline, or an Order generated by the Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline (provided that in each case the Broker-Dealer has a record of such Order and the time when such Order was received or generated) and not submitted to the Auction Agent prior to the Submission Deadline as a result of (A) an event of force majeure or a technological failure which made delivery prior to the Submission Deadline impossible or, under the conditions then prevailing, impracticable or (B) a Clerical Error on the part of the Broker-Dealer; or

(ii) modify or withdraw an Order received from an Existing Owner or Potential Owner or generated by the Broker-Dealer (whether generated by the Broker-Dealer's Auction Desk or elsewhere within the Broker-Dealer) for its own account and submitted to the Auction Agent prior to the Submission Deadline or pursuant to clause (i) above, if the Broker-Dealer determines that such Order contained a Clerical Error on the part of the Broker-Dealer.

In the event a Broker-Dealer makes a submission, modification or withdrawal pursuant to this Section 2.02(f) and the Auction Agent has already run the Auction, the Auction Agent shall rerun the Auction, taking into account such submission, modification or withdrawal. Each submission, modification or withdrawal of an Order submitted pursuant to this Section 2.02(f) by a Broker-Dealer after the Submission Deadline and prior to the Error Correction Deadline shall constitute a representation by the Broker-Dealer that (A) in the case of a newly submitted Order or portion thereof or revised Order, the failure to submit such Order prior to the Submission Deadline resulted from an event described in clause (i) above and such Order was received from an Existing Owner or Potential Owner or is an Order received from the Broker-Dealer that was not originated by the Auction Desk, in each case, prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline or (B) in the case of a modified or withdrawn Order, such Order was received from an Existing Owner, a Potential Owner or the Broker-Dealer which was not originated by the Auction Desk prior to the Broker-Dealer Deadline, or generated internally by such Broker-Dealer's Auction Desk for its own account prior to the Submission Deadline and such Order as submitted to the Auction Agent contained a Clerical Error on the part of the Broker-Dealer and that such Order has been modified or withdrawn solely to effect a correction of such Clerical Error, and in the case of either (A) or (B), as applicable, the Broker-Dealer has a record of such Order and the time when such Order was received

or generated. The Auction Agent shall be entitled to rely conclusively (and shall have no liability for relying) on such representation for any and all purposes of the Auction Procedures.

(g) If after the Auction Agent announces the results of an Auction, a Broker-Dealer becomes aware that an error was made by the Auction Agent, the Broker-Dealer shall communicate such awareness to the Auction Agent prior to 5:00 p.m. New York City time on the Auction Date (or 2:00 pm. New York City time in the case of Bonds in a daily Auction Period). If the Auction Agent determines there has been such an error (as a result of either a communication from a Broker-Dealer or its own discovery) prior to 3:00 p.m. New York City time on the first day of the Auction Period with respect to which such Auction was conducted, the Auction Agent shall correct the error and notify each Broker-Dealer that submitted Bids or held a position in Bonds in such Auction of the corrected results.

(h) Nothing contained herein shall preclude the Auction Agent from:

(i) advising a Broker-Dealer prior to the Submission Deadline that it has not received Sufficient Clearing Bids for the Bonds; provided, however, that if the Auction Agent so advises any Broker-Dealer, it shall so advise all Broker-Dealers; or

(ii) verifying the Orders of a Broker-Dealer prior to or after the Submission Deadline; provided, however, that if the Auction Agent verifies the Orders of any Broker-Dealer, it shall verify the Orders of all Broker-Dealers requesting such verification.

Section 2.03. Treatment of Orders by the Auction Agent. Anything herein to the contrary notwithstanding:

(a) If the Auction Agent receives an Order which does not conform to the requirements of the Auction Procedures, the Auction Agent may contact the Broker-Dealer submitting such Order until one hour after the Submission Deadline and inform such Broker-Dealer that it may resubmit such Order so that it conforms to the requirements of the Auction Procedures. Upon being so informed, such Broker-Dealer may correct and resubmit to the Auction Agent any such Order that, solely as a result of a Clerical Error on the part of such Broker-Dealer, did not conform to the requirements of the Auction Procedures when previously submitted to the Auction Agent. Any such resubmission by a Broker-Dealer shall constitute a representation by such Broker-Dealer that the failure of such Order to have so conformed was solely as a result of a Clerical Error on the part of such Broker-Dealer. If the Auction Agent has not received a corrected conforming Order within one hour and fifteen minutes of the Submission Deadline, the Auction Agent shall, if and to the extent applicable, adjust or apply such Order, as the case may be, in conformity with the provisions of subsections (b), (c) or (d) of this Section 2.03 and, if the Auction Agent is unable to so adjust or apply such Order, the Auction Agent shall reject such Order.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If one or more Orders covering in the aggregate more than the number of Units of Outstanding Bonds of a particular Series are submitted by a Broker-Dealer to the Auction Agent, such Orders shall be considered valid in the following order of priority:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record;

(ii) (A) any Bid of a Broker-Dealer shall be considered valid as a Bid of an Existing Owner up to and including the excess of the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of the Bonds of such Series subject to Hold Orders referred to in clause (i) above;

(B) subject to clause (A) above, all Bids of a Broker-Dealer with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted by a Broker-Dealer, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record over the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record subject to Hold Orders referred to in clause (i) above; and

(D) the number of Units, if any, of such Bonds of such Series subject to Bids not considered to be Bids for which such Broker-Dealer is the Broker-Dealer of record under this clause (ii) shall be treated as the subject of a Bid by a Potential Owner;

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including the number of Units of Bonds of such Series equal to the excess of the number of Units of Bonds of such Series for which such Broker-Dealer is the Broker-Dealer of record over the sum of the number of Units of the Bonds of such Series considered to be subject to Hold Orders pursuant to clause (i) above and the number of Units of Bonds of such Series considered to be subject to Bids for which such Broker-Dealer is the Broker-Dealer of record pursuant to clause (ii) above.

(d) If any Order is for other than an integral number of Units, then the Auction Agent shall round the amount down to the nearest number of whole Units, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such number of Units.

(e) For purposes of any Auction other than during a daily Auction Period, if an Auction Agent has been notified by the Issuer that any portion of an Order by a Broker-Dealer relates to a Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction, the Order shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted.

(f) For purposes of any Auction other than during a daily Auction Period, no portion of a Bond which the Auction Agent has been notified by the Issuer has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction.

(g) If an Order or Orders covering all of the Bonds of a particular Series is not submitted by a Broker-Dealer of record prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Broker-Dealer covering the number of Units of Bonds for which such Broker-Dealer is the Broker-Dealer of record and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to a longer Auction Period and Orders have not been submitted by such Broker-Dealer prior to the Submission Deadline covering the number of Units of Bonds of a particular Series to be converted for which such Broker-Dealer is the Broker-Dealer of record, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Broker-Dealer covering the number of Units of Bonds to be converted for which such Broker-Dealer is the Broker-Dealer of record not subject to Orders submitted by such Broker-Dealer.

Section 2.04. Determination of Auction Period Rate. (a) If requested by the Issuer or a Broker-Dealer, not later than 10:30 a.m., New York City time (or such other time as may be agreed to by the Auction Agent and all Broker-Dealers), on each Auction Date for each Series of Bonds, the Auction Agent shall advise such Broker-Dealer (and thereafter confirm to the Issuer, if requested) of the All Hold Rate, the Index and, if the Maximum Rate is not a fixed interest rate, the Maximum Rate. Such advice, and confirmation, shall be made by telephone or other Electronic Means acceptable to the Auction Agent.

(b) Promptly after the Submission Deadline for each Series of Bonds on each Auction Date, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a “Submitted Hold Order,” a “Submitted Bid” or a “Submitted Sell Order,” as the case may be, and collectively as a “Submitted Order”) and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) In the event the Auction Agent shall fail to calculate or, for any reason, fails to provide the Auction Rate on the Auction Date, for any Auction Period (i) if the preceding Auction Period was a period of 35 days or less, (A) a new Auction Period shall be established for the same length of time as the preceding Auction Period, if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be the percentage of the Index set forth in Schedule I under “Determination of Auction Period Rate” if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Issuer, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension, and (ii) if the preceding Auction Period was a period of greater than 35 days, (A) a new Auction Period shall be established for a period that ends on the seventh day following the day that was the last day of the preceding Auction Period, (or if such seventh day is not followed by a Business Day then to the next succeeding day which is followed by a Business Day) if the failure to make such calculation was because there was not at the time a duly appointed and acting Auction Agent or Broker-Dealer, and the Auction Period Rate for the new Auction Period shall be the percentage of the Index set forth in Schedule I under “Determination of Auction Period Rate” if the Index is ascertainable on such date (by the Auction Agent, if there is at the time an Auction Agent, or the Issuer, if at the time there is no Auction Agent) or, (B) if the failure to make such calculation was for any other reason or if the Index is not ascertainable on such date, the prior Auction Period shall be extended to the seventh day following the day that would have been the last day of the preceding Auction Period (or if such seventh day is not followed by a Business Day then to the next succeeding day that is followed by a Business Day) and the Auction Period Rate for the period as so extended shall be the same as the Auction Period Rate for the Auction Period prior to the extension. In the event a new Auction Period is established as set forth in clause (ii) (A) above, an Auction shall be held on the last Business Day of the new Auction Period to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the new Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no new Auction Period or Auction Periods subsequent to the last Auction Period for which a Winning Bid Rate had been determined. In the event an Auction Period is extended as set forth in clause (i) (B) or (ii) (B) above, an Auction shall be held on the last Business Day of the Auction Period as so extended to determine an Auction Rate for an Auction Period beginning on the Business Day immediately following the last day of the extended Auction Period and ending on the date on which the Auction Period otherwise would have ended had there been no extension of the prior Auction Period.

Notwithstanding the foregoing, neither new nor extended Auction Periods shall total more than 35 days in the aggregate. If at the end of the 35 days the Auction Agent fails to calculate or provide the Auction Rate, or there is not at the time a duly appointed and acting Auction Agent or Broker-Dealer, the Auction Period Rate shall be the Maximum Rate.

(d) In the event of a failed conversion from an Auction Period to any other period or in the event of a failure to change the length of the current Auction Period due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the Auction Period Rate for the next Auction Period shall be the Maximum Rate and the Auction Period shall be a seven-day Auction Period.

(e) If the Bonds are no longer maintained in book-entry-only form by the Securities Depository, then the Auctions shall cease and the Auction Period Rate shall be the Maximum Rate.

Section 2.05. Allocation of Bonds.

(a) In the event of Sufficient Clearing Bids for a Series of Bonds, subject to the further provisions of subsections (c) and (d) below, Submitted Orders for each Series of Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the Bonds that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid, but only up to and including the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Outstanding Bonds which are not the subject of Submitted Hold Orders described in clause (i) above or of Submitted Bids described in clauses (iii) or (iv) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate number of Units of Outstanding Bonds subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of Bonds;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid, but only in an amount equal to the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Outstanding Bonds which are not the subject of Submitted Hold Orders described in clause (i) above or of Submitted Bids described in clauses (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate number of Units of Outstanding Bonds subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids for a Series of Bonds, Submitted Orders for each Series of Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the Bonds that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum Rate shall be accepted, thus requiring each such Potential Owner to purchase the Bonds that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum Rate shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the number of Units of Bonds obtained by multiplying (A) the aggregate number of Units of Bonds subject to Submitted Bids described in clause (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the number of Units of Outstanding Bonds held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the number of Units of Outstanding Bonds subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of Bonds; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum Rate shall be rejected.

(c) If, as a result of the undertakings described in Section 2.05(a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of the Bonds that is not an integral multiple of an Authorized Denomination on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of the Bonds to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of the Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be an integral multiple of such Authorized Denomination, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any Bonds on such Auction Date.

(d) If, as a result of the undertakings described in Section 2.05(a) above, any Potential Owner would be required to purchase less than an Authorized Denomination in principal amount of the Bonds on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate the Bonds for purchase among Potential Owners so that the principal amount of the Bonds purchased on such Auction Date by any Potential Owner shall be an integral multiple of such Authorized Denomination, even if such allocation results in one or more of such Potential Owners not purchasing the Bonds on such Auction Date.

Section 2.06. Notice of Auction Period Rate. (a) On each Auction Date, the Auction Agent shall notify each Broker-Dealer that participated in the Auction held on such Auction Date by Electronic Means acceptable to the Auction Agent and the applicable Broker-Dealer of the following, with respect to each Series of Bonds for which an Auction was held on such Auction Date:

(i) the Auction Period Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected and the number of Units of Bonds, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected and the number of Units of Bonds, if any, to be purchased by such Potential Owner;

(v) if the aggregate number of Units of the Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate number of Units of Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker-Dealer) and the number of Units of Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the amount of dividend or interest payable per Unit on each Interest Payment Date with respect to such Auction Period; and

(vii) the immediately succeeding Auction Date.

(b) On each Auction Date, with respect to each Series of Bonds for which an Auction was held on such Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) if requested by an Existing Owner or a Potential Owner, advise such Existing Owner or Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the Auction Period Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of such Owner was accepted or rejected and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Potential Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the number of Units of Bonds to be purchased pursuant to such Bid (including, with respect to the Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such Bond) against receipt of such Bonds; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the number of Units of Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

(c) The Auction Agent shall give notice of the Auction Rate to the Issuer by mutually acceptable Electronic Means and the Issuer shall promptly give notice of such Auction Rate to the Securities Depository.

Section 2.07. Index.

(a) If for any reason on any Auction Date the Index shall not be determined as provided in Schedule I, the Index shall be the Index for the prior Business Day.

(b) The determination of the Index as provided in Schedule I and herein shall be conclusive and binding upon the Issuer, the Broker-Dealers, the Auction Agent and the Owners of the Bonds.

Section 2.08. Miscellaneous Provisions Regarding Auctions.

(a) In this Appendix , each reference to the purchase, sale or holding of Bonds shall refer to beneficial interests in Bonds, unless the context clearly requires otherwise.

(b) During an ARS Rate Period with respect to each Series of Bonds, the definitions described in this Appendix , including without limitation the definitions of All Hold Rate, Index, Interest Payment Date, Maximum Rate, Auction Period Rate and Auction Rate, may be amended by obtaining the consent of the owners of all affected Outstanding Bonds bearing interest at the Auction Period Rate as follows. If on the first Auction Date occurring at least 20 days after the date on which the Issuer mailed notice of such proposed amendment to

the registered owners of the affected Outstanding Bonds, (i) the Auction Period Rate which is determined on such date is the Winning Bid Rate or the All Hold Rate and (ii) there is delivered to the Issuer an opinion of Bond Counsel to the effect that such amendment shall not adversely affect the validity of the Bonds or any exemption from federal income taxation to which the interest on the Bonds would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the registered owners of all affected Outstanding Bonds bearing interest at an Auction Period Rate.

(c) If the Securities Depository notifies the Issuer that it is unwilling or unable to continue as registered owner of the Bonds or if at any time the Securities Depository shall no longer be registered or in good standing under the Securities Exchange Act of 1934, as amended, or other applicable statute or regulation and a successor to the Securities Depository is not appointed by the Issuer within 90 days after the Issuer receives notice or becomes aware of such condition, as the case may be, the Auctions shall cease and the Issuer shall execute and authenticate and deliver certificates representing the Bonds. Such Bonds shall be registered in such names and Authorized Denominations as the Securities Depository, pursuant to instructions from the Agent Members or otherwise, shall instruct the Issuer.

During an ARS Rate Period, so long as the ownership of the Bonds is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of a Bond only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions, such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of Bonds from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of the Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

(d) Unless specifically provided in Schedule I, the Auction Agent shall continue to implement the Auction Procedures.

Section 2.09. Changes in Auction Period or Auction Date.

(a) Changes in Auction Period.

(i) During any ARS Rate Period, the Issuer, may, from time to time on the Interest Payment Date immediately following the end of any Auction Period, change the length of the Auction Period with respect to all of the Bonds of a Series among daily, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Bonds. The Issuer shall initiate the change in the length of the Auction Period by giving written notice to the Issuer, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period shall change if the conditions described herein are satisfied and the proposed effective date of the change, at least 10 Business Days prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period shall be for a period of one day, seven-days, 28-days, 35-days, three months, six months or a Flexible Auction Period and shall be for all of the Bonds of such Series.

(iii) The change in length of the Auction Period shall take effect only if Sufficient Clearing Bids exist at the Auction on the Auction Date for such new Auction Period. For purposes of the Auction for such new Auction Period only, except to the extent any Existing Owner submits an Order with respect to such Bonds of any Series, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its Bonds of such Series if the change is to a longer Auction Period and a Hold Order if the change is to a shorter Auction Period. If there are not Sufficient Clearing Bids for the first Auction Period, the Auction Rate for the new Auction Period shall be the Maximum Rate, and the Auction Period shall be a seven-day Auction Period.

(b) Changes in Auction Date. During any ARS Rate Period, the Auction Agent, at the direction of the Issuer, may specify an earlier or later Auction Date (but in no event more than five Business Days earlier or later) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne by the Bonds. The Auction Agent shall provide notice of the Issuer's direction to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Issuer and the Broker-Dealers with a copy to the Securities Depository. In the event the Auction Agent is instructed to specify an earlier or later Auction Date, the days of the week on which an Auction Period begins and ends, the day of the week on which an Auction Period ends and the Interest Payment Dates relating to a such Auction Period shall be adjusted accordingly.

(c) Changes Resulting from Unscheduled Holidays. If, in the opinion of the Auction Agent and the Broker-Dealers, there is insufficient notice of an unscheduled holiday to allow the efficient implementation of the Auction Procedures set forth herein, the Auction Agent and the Broker-Dealers may, as they deem appropriate, set a different Auction Date and adjust any Interest Payment Dates and Auction Periods affected by such unscheduled holiday. In the event there is not agreement among the Broker-Dealers, the Auction Agent shall set the different Auction Date and make such adjustments as directed by a majority of the Broker-Dealers (based on the number of Units for which a Broker-Dealer is listed as the Broker-Dealer in the Existing Owner Registry maintained by the Auction Agent pursuant to Section 2.2(a) of the Auction Agreement), and, if there is not a majority so directing, the Auction Date shall be moved to the next succeeding Business Day following the scheduled Auction Date, and the Interest Payment Date and the Auction Period shall be adjusted accordingly.

SCHEDULE I

to

AUCTION PROCEDURES

In the event of any conflict between this Schedule I and Appendix D, this Schedule I shall prevail.

Definitions

“All Hold Rate” means, as of any Auction Date, 55% of the Index in effect on such Auction Date for any Bond the interest on which is not includable in gross income of the beneficial owner of such Bond for federal income tax purposes and 75% of the Index in effect on such Auction Date for any Bond the interest on which is includable in gross income of the beneficial owner of such Bond for federal income tax purposes.

“Auction Agent” shall initially be Deutsche Bank Trust Company Americas.

“Auction Date” shall include as part of the definition the first Auction Date which shall be August 21, 2007 for the Series D-1 Bonds, and August 23, 2007 for the Series D-2 Bonds.

“Auction Period” shall include in the *Six-month Auction Period* either January 31 or July 31.

“Authorized Denomination” means \$25,000 unless another amount is specified here.

“Bonds” means the Commonwealth of Massachusetts General Obligation Bonds, Consolidated Loan of 2007 (Auction Rate Securities), Series D-1 in the aggregate principal amount of \$81,975,000 and Series D-2 in the aggregate principal amount of \$81,950,000.

“Broker-Dealer” shall initially mean Bear, Stearns & Co. Inc. and J.P. Morgan Securities Inc.

“Index” means, on any Auction Date with respect to Bonds in any Auction Period of 35 days or less, the offered rate (rounded up to the next highest one one-thousandth of one percent (0.001%)) for deposits in U.S. dollars for a one-month period which appears on the Reuters Screen LIBOR01 Page at approximately 11:00 A.M., London time, on such date, or if such date is not a date on which dealings in U.S. dollars are transacted in the London interbank market, then on the next preceding day on which such dealings were transacted in such market. The Index with respect to Bonds in any Auction Period of more than 35 days shall be the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period as last published in The Wall Street Journal or such other source as may be mutually agreed upon by Issuer and the Broker-Dealers. If either rate is unavailable, the Index shall be an index or rate agreed to by all Broker-Dealers and consented to by the Issuer. For the purpose of this definition an Auction Period of 35 days or less means a 35-day Auction Period or shorter Auction Period, i.e. a 35-day Auction Period which is extended because of a holiday would still be considered an Auction Period of 35 days or less.

“Initial Period” means the period from the Closing Date to but not including August 22, 2007 with respect to the Series D-1 Bonds and August 24, 2007 with respect to the Series D-2 Bonds. Following an ARS Conversion Date the Initial Period shall mean the period specified as the “Initial Period” in the notice of conversion to an ARS Rate Period.

“Initial Period Rate” means (a) for an Initial Period commencing on the date of initial delivery of the Bonds, the rate set by the managing underwriter prior to delivery of the Bonds and (b) for an Initial Period commencing on an ARS Conversion Date the lowest rate which, in the judgment of the Broker-Dealer, is necessary to enable the Bonds to be remarketed at a price equal to the principal amount thereof, plus accrued interest, if any, on the ARS Conversion Date. Such determination shall be conclusive and binding upon the Issuer, the Auction Agent, the Bond Insurer and the Bondholders. Not later than 5:00 p.m., New York City time, on the date of determination of the Initial Period Rate, the Broker-Dealer shall notify the Issuer and the Auction Agent of the Initial Period Rate by Electronic Means.

“Interest Payment Date” includes the first Interest Payment Date which shall be August 22, 2007, for the Series D-1 Bonds, and August 24, 2007 for the Series D-2 Bonds.

“Issuer” means The Commonwealth of Massachusetts.

“Maximum Rate” means twelve percent (12%) per annum; provided, however, that the Maximum Rate shall not exceed the maximum interest rate permitted by law from time to time.

“Person” or **“Persons”** means natural persons, firms, associations, partnerships, trusts, corporations, public bodies and other legal entities.

Auction Procedures

Determination of Auction Period Rate. The percentage of the Index in Section 2.04(c) is 75% for any Bond the interest on which is not includable in gross income of the beneficial owner of such Bond for federal income tax purposes and 110% for any Bond the interest on which is includable in gross income of the beneficial owner of such Bond for federal income tax purposes.

4114670v.2

APPENDIX E

SPECIMEN FORM OF BOND INSURANCE POLICY



Financial Guaranty Insurance Company
 125 Park Avenue
 New York, NY 10017
 T 212-312-3000
 T 800-352-0001

Municipal Bond New Issue Insurance Policy

Issuer:	Policy Number:
	Control Number: 0010001
Bonds:	Premium:

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to U.S. Bank Trust National Association or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, 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 and means, when referring to interest on a Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all



Financial Guaranty Insurance Company
 125 Park Avenue
 New York, NY 10017
 T 212-312-3000
 T 800-352-0001

Municipal Bond New Issue Insurance Policy

principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

SPECIMEN

President

Effective Date:

Authorized Representative

U.S. Bank Trust National Association, acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer



Financial Guaranty Insurance Company
 125 Park Avenue
 New York, NY 10017
 T 212-312-3000
 T 800-352-0001

Endorsement
 To Financial Guaranty Insurance Company
 Insurance Policy

Policy Number: _____ **Control Number:** 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder 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.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer
U.S. Bank Trust National Association, as Fiscal Agent