<u>REFUNDING/NEW MONEY ISSUE - BOOK-ENTRY-ONLY</u>

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
$652,790,000
General Obligation Bonds
Consolidated Loan of 2008, Series A

The Bonds will be issued by means of a book-entry-only system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company, New York, New York ("DTC"), and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The Bonds will bear interest from their date of delivery and interest will be payable on February 1, 2009 and semiannually thereafter on August 1 and February 1, calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are subject to redemption prior to maturity as more fully described herein.

The Bonds will constitute general obligations of The Commonwealth of Massachusetts (the "Commonwealth"), and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and on expenditures for debt service, see "Security for the Bonds" (herein) and the Commonwealth Information Statement (described herein) 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 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, Nixon Peabody LLP, Boston, Massachusetts. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about September 11, 2008.

Citi

Fidelity Capital Markets Services **Goldman, Sachs & Co.** **JPMorgan**

Lehman Brothers **Merrill Lynch & Co.**

Banc of America Securities LLC **Cabrera Capital Markets, Inc.** **Corby Capital Markets, Inc.**
DEPFA First Albany Securities LLC **Eastern Bank Capital Markets** **Finacorp Securities**
Loop Capital Markets, LLC **M.R. Beal & Company** **Melvin & Company**
Morgan Keegan & Company, Inc. **RBC Capital Markets** **Ramirez & Co., Inc.**
Raymond James & Associates, Inc **Southwest Securities Inc.** **Sovereign Securities Corporation, LLC**
Wachovia Bank, N.A.

September 4, 2008

THE COMMONWEALTH OF MASSACHUSETTS
$652,790,000
General Obligation Bonds
Consolidated Loan of 2008, Series A

Dated: Date of Delivery **Due: August 1, as shown below**

$569,165,000 Serial Bonds

Maturity	Amount	Interest Rate	Yield	CUSIP Number*	Maturity	Amount	Interest Rate	Yield	CUSIP Number*
2009	$14,385,000	3.00%	1.60%	57582PKN9	2018	$18,200,000	3.70%	3.70%	57582PLC2
2010	17,355,000	3.00	2.07	57582PKP4	2018	16,630,000	5.00	3.70	57582PLD0
2011	25,990,000	3.00	2.41	57582PKQ2	2019	700,000	3.80	3.86	57582PLE8
2012	20,555,000	3.50	2.66	57582PKR0	2019	19,445,000	5.00	3.86 C	57582PLF5
2013	16,955,000	3.50	2.85	57582PKS8	2020	21,175,000	5.00	4.01 C	57582PLG3
2013	8,720,000	4.00	2.85	57582PKT6	2021	22,260,000	5.00	4.12 C	57582PLH1
2014	11,150,000	3.00	3.07	57582PKU3	2022	23,400,000	5.00	4.19 C	57582PLJ7
2014	11,565,000	4.00	3.07	57582PKV1	2023	24,510,000	4.25	4.29	57582PLK4
2015	13,150,000	3.20	3.23	57582PKW9	2024	25,665,000	5.00	4.31 C	57582PLL2
2015	11,915,000	4.00	3.23	57582PKX7	2025	26,985,000	5.00	4.36 C	57582PLM0
2016	12,380,000	3.375	3.39	57582PKY5	2026	28,370,000	5.00	4.41 C	57582PLN8
2016	88,685,000	5.00	3.39	57582PKZ2	2027	29,825,000	5.00	4.46 C	57582PLP3
2017	14,035,000	4.00	3.55	57582PLA6	2028	24,655,000	4.50	4.54	57582PLQ1
2017	13,870,000	5.00	3.55	57582PLB4	2028	6,635,000	5.00	4.51 C	57582PLR9

$36,675,000 5.00% Term Bonds Due August 1, 2033 to Yield 4.71% C - CUSIP Number*: 57582PLS7

$22,615,000 4.75% Term Bonds Due August 1, 2038 to Yield 4.80% - CUSIP Number*: 57582PLT5

$24,335,000 5.00% Term Bonds Due August 1, 2038 to Yield 4.77% C - CUSIP Number*: 57582PLU2

C Priced at the stated yield to the August 1, 2018 optional redemption date at a redemption price of 100%. See “The Bonds – Redemption” herein.

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

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

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

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THE COMMONWEALTH OF MASSACHUSETTS

CONSTITUTIONAL OFFICERS

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. DiMasi .... **Speaker of the House**

OFFICIAL STATEMENT

THE COMMONWEALTH OF MASSACHUSETTS

$652,790,000
General Obligation Bonds
Consolidated Loan of 2008, Series A

INTRODUCTION

This Official Statement (including the cover page and Appendices A through D attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of its $652,790,000 aggregate principal amount of General Obligation Bonds, Consolidated Loan of 2008, Series A (the "Bonds"). The Bonds will be general obligations of the Commonwealth, and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and expenditures for debt service, see "SECURITY FOR THE BONDS" and the Commonwealth Information Statement (described below) under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "LONG-TERM LIABILITIES – General Authority to Borrow; Limit on Debt Service Appropriations."

The Bonds are being issued to (i) finance certain authorized capital projects of the Commonwealth (the "New Money Proceeds") and (ii) current refund certain bonds of the Commonwealth, as set forth in "THE BONDS - Plan of Finance for Refunding Proceeds" and in Appendix B – Table of Refunded Bonds (the "Refunding Proceeds"). See "THE BONDS – Plan of Finance for Refunding Proceeds" and "Application of New Money Proceeds."

Purpose and Content of Official Statement

This Official Statement describes the terms and use of proceeds of, and security for, the Bonds. This introduction is subject in all respects to the additional information contained in this Official Statement, including Appendices A through D. 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 August 22, 2008, as supplemented by the Commonwealth's Information Statement Supplement dated September 4, 2008 (the "Commonwealth Information Statement"), which is attached hereto as Appendix A. 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, 2007, 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, 2007, 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."

Attached hereto as Appendix B is a listing of the bonds to be refunded with the proceeds of the Bonds. The list of bonds set forth in Appendix B to be refunded from the proceeds of the Bonds is not final and is subject to change prior to the issuance of the Bonds. The Commonwealth reserves the right not to refund any or all of the bonds listed in Appendix B and to refund any or all of its bonds not listed on Appendix B. Appendix C attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Bonds. Appendix D attached hereto contains the proposed form of the Commonwealth's continuing disclosure undertaking to be included in the form of the Bonds to facilitate compliance by the Underwriters of the Bonds with the requirements of paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission.

THE BONDS

General

The Bonds will mature on August 1 in the years and in the aggregate principal amounts, and shall bear interest at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months), as set forth on the inside cover page of this Official Statement. The Bonds will be dated their date of delivery and will bear interest from such date. Interest on the Bonds will be payable semiannually on February 1 and August 1 of each year, commencing February 1, 2009, until the principal amount is paid. The Commonwealth will act as its own paying agent with respect to the Bonds. The Commonwealth reserves the right to appoint from time to time a paying agent or agents or bond registrar for the Bonds.

Book-Entry-Only System. The Bonds will be issued by means of a book-entry-only system, with one bond certificate for each maturity immobilized at The Depository Trust Company, New York, New York ("DTC"). The certificates will not be available for distribution to the public and will evidence ownership of the Bonds in principal amounts of $5,000 or integral multiples thereof. Transfers of ownership will be effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Interest and principal due on the Bonds will be paid in 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. The Bonds maturing on or before August 1, 2018 will not be subject to redemption prior to maturity. The Bonds maturing on and after August 1, 2019 will be subject to redemption on any date prior to their stated maturity dates on and after August 1, 2018 at the option of the Commonwealth from any monies legally available therefor, in whole or in part at any time, by lot, at 100% of the principal amount thereof, plus accrued interest to the redemption date.

Mandatory Sinking Fund Redemption. The Bonds maturing on August 1, 2033 and August 1, 2038 are subject to mandatory sinking fund redemption in part by lot at a redemption price equal to 100% of the principal amount of the Bonds to be redeemed, plus accrued interest thereon to the date specified for redemption on August 1 in each of the years set forth in the following table, in the principal amount specified in each such year:

$36,675,000 5.00% Term Bonds Due August 1, 2033

Year	Amount	Year	Amount
2029	$6,620,000	2032	$7,695,000
2030	6,960,000	2033†	8,085,000
2031	7,315,000		

† Stated Maturity.

$22,615,000 4.75% Term Bonds Due August 1, 2038

Year	Amount	Year	Amount
2034	$4,070,000	2037	$4,700,000
2035	4,270,000	2038†	5,100,000
2036	4,475,000		

† Stated Maturity.

$24,335,000 5.00% Term Bonds Due August 1, 2038

Year	Amount	Year	Amount
2034	$4,425,000	2037	$5,135,000
2035	4,650,000	2038†	5,230,000
2036	4,895,000		

† 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.

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

Plan of Finance for Refunding Proceeds

A portion of the Bonds are being issued pursuant to the provisions of Section 53A of Chapter 29 of the Massachusetts General Laws for the purpose of refunding the bonds set forth in Appendix B (the "Refunded Bonds"). A portion of the net proceeds of the sale of the Bonds, including any premium received by the Commonwealth upon original delivery of the Bonds, will be applied, together with other available funds of the Commonwealth, to the redemption of the Refunded Bonds as described in Appendix B and to the payment of the Commonwealth's costs of issuance of the Bonds.

Application of New Money Proceeds

A portion of 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. A portion of the net proceeds of the sale of the Bonds, including any premium received by the Commonwealth upon original delivery 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. Any remaining premium received by the Commonwealth upon original delivery of the Bonds and not applied to the various purposes for which bonds have been authorized will be applied to the costs of issuance thereof and other financing costs related thereto or, without appropriation, to the payment of the principal of or sinking fund installments with respect to the Bonds.

The purposes for which a portion of the Bonds will be issued have been authorized by the Legislature under various bond authorizations. The New Money 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.

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, NY, will act as securities depository for the Bonds. The Bonds will 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 and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct 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 is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. 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 Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has Standard & Poor's highest rating: AAA. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC’s records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct 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 providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of 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 Direct 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. or such other DTC nominee 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 Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct 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. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. 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 Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

THE COMMONWEALTH WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR BY ANY DIRECT OR INDIRECT PARTICIPANT, THE PAYMENT OF OR THE PROVIDING OF NOTICE TO THE DIRECT 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. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Commonwealth, on the payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is 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 Participant and not of DTC or the Commonwealth, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of the principal of and interest and premium, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Commonwealth, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

The Commonwealth cannot give any assurances that Direct 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 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. Bond certificates are required to be printed and delivered.

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

THE INFORMATION IN THIS SECTION CONCERNING DTC AND DTC'S BOOK-ENTRY-ONLY 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 "AA," "Aa2" and "AA" by Fitch Ratings ("Fitch"), Moody's Investors Service, Inc. ("Moody's") and Standard & Poor's Ratings Services ("Standard & Poor's"), respectively.

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

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase all of the Bonds from the Commonwealth at a discount from the initial offering prices of the Bonds equal to approximately 0.495244% 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.

Interest paid on tax-exempt obligations such as the Bonds is now generally required to be reported by payors to the Internal Revenue Service ("IRS") and to recipients in the same manner as interest on taxable obligations. In addition, such interest may be subject to "backup withholding" if the Bond owner fails to provide the information required on IRS Form W-9, Request for Taxpayer Identification Number and Certification, or the IRS has specifically identified the Bond owner as being subject to backup withholding because of prior underreporting. Neither the information reporting requirement nor the backup withholding requirement affects the excludability of interest on the Bonds from gross income for federal tax purposes.

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.

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

An amount equal to the excess, if any, of the purchase price of a Bond over the principal amount payable at maturity constitutes amortizable bond premium for federal and Massachusetts tax purposes. The required amortization of such premium during the term of a Bond will result in reduction of the holder's tax basis on such Bond. Such amortization also will result in reduction of the amount of the stated interest on the Bond taken into account as interest for tax purposes. Holders of Bonds purchased at a premium should consult their own tax advisers with respect to the determination and treatment of such premium for federal income tax purposes and with respect to the state or local tax consequences of owning such 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 C -- 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 C. 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, Nixon Peabody LLP, of Boston, Massachusetts.

CONTINUING DISCLOSURE

In order to assist the Underwriters in complying with paragraph (b)(5) of Rule 15c2-12, the Commonwealth will undertake in the Bonds to provide annual reports and notices of certain events. A description of this undertaking is set forth in Appendix D 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 not be relied upon as being necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on the prospective financial information.

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

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

AVAILABILITY OF OTHER INFORMATION

Questions regarding this Official Statement or requests for additional financial information concerning the Commonwealth should be directed to Colin A. MacNaught, Assistant Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone (617) 367-3900, x. 226, or Karol D. Ostberg, Director of Capital Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to this Official Statement and the Bonds should be directed to 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

September 4, 2008

Commonwealth Information Statement dated August 22, 2008, as supplemented by the Commonwealth Information Statement Supplement dated September 4, 2008

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THE

COMMONWEALTH

OF

MASSACHUSETTS

INFORMATION STATEMENT SUPPLEMENT

Dated September 4, 2008

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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

September 4, 2008

This supplement ("Supplement") to the Information Statement of The Commonwealth of Massachusetts (the "Commonwealth") dated August 22, 2008 (the "August Information Statement") is dated September 4, 2008 and contains information which updates the information contained in the August Information Statement. The August Information Statement has been filed with each Nationally Recognized Municipal Securities Information Repository (NRMSIR) currently recognized by the Securities and Exchange Commission. This Supplement and the August 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 September 4, 2008. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the August Information Statement.

The August Information Statement includes three exhibits. Exhibit A is the Statement of Economic Information as of June 30, 2008, 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, 2007 and the Commonwealth's Comprehensive Annual Financial Report, reported in accordance with generally accepted accounting principles (GAAP), for the year ended June 30, 2007. Specific reference is made to said Exhibits A, 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 2008

Approximately $399.5 million in supplemental appropriations were approved for fiscal 2008. Based on historical trends and preliminary estimates of fiscal 2008, the Executive Office for Administration and Finance is anticipating approximately $275.8 million in reversions on account of fiscal 2008 ($116.7 million of which are anticipated to be carried forward into fiscal 2009). See the August Information Statement under the heading "FISCAL 2008 AND FISCAL 2009 - Fiscal 2008."

Fiscal 2009

Preliminary tax revenue collections for the first two months of fiscal 2009, ended August 31, 2008, totaled $2.690 billion, an increase of $136.1 million, or 5.3%, over the same period in fiscal 2008. The following table shows the tax collections for the first two months of fiscal 2009 and the change from tax collections in the same period in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in fiscal 2009 that are dedicated to the Massachusetts Bay Transportation Authority and to the Massachusetts School Building Authority.

Fiscal 2009 Tax Collections (in millions) (1)

Month	Tax Collections	Change from Prior Year	Percentage Change	MBTA Portion	MSBA Portion	Tax Collections: Net of MBTA and MSBA
July	$1,382.8	$86.8	6.7%	$60.5	$51.4	$1,271.0
August(2)	1,308.6	50.5	4.0	56.9	48.4	1,203.4
September						
October						
November						
December						
January						
February						
March						
April						
May						
June						
Total(2)	$2,690.3	$136.1	5.3%	$117.4	$99.8	$2,473.1

SOURCE: Executive Office for Administration and Finance.
(1) Details may not add to Total due to rounding.
(2) Figures are preliminary.

The year-to-date tax revenue increase of $136.1 million through August 31, 2008 is attributable in large part to an increase of approximately $98.1 million, or 7.2%, in withholding collections, an increase of approximately $57.8 million, or 61.9%, in corporate and business tax collections which are partially offset by changes in other revenues (net of refunds) and by the decline of $19 million, or 2.6%, in sales and use tax collections. The year-to-date fiscal 2009 collections (through August) were $44 million above the benchmark estimate for the corresponding period, which was based on fiscal 2009 estimate of $21.402 billion (consensus fiscal 2009 estimate of $20.987 billion adjusted for subsequent tax law changes). However, almost all of the July growth over fiscal 2008 and more than the entire July surplus over benchmark was accounted for by a corporate settlement payment of $80 million that was received in July. Without taking that corporate settlement into account, total collections year-to-date would be about $36 million below benchmark.

Cash Flow

A cash flow report for fiscal 2008 and forecast for fiscal 2009, dated September 2, 2008, has been released by the State Treasurer and the Secretary of Administration and Finance. The fiscal 2008 cash flow report incorporates actual spending and revenue through June 30, 2008. See the August Information Statement under the heading "FISCAL 2008 AND FISCAL 2009 - Cash Flow."

The September 2, 2008 cash flow reports an actual cash balance on June 30, 2008 of $1.198 billion, approximately $393 million lower than the July 1, 2007 cash balance of $1.591 billion that opened the fiscal year.

The fiscal 2009 cash flow projection is based upon the fiscal 2009 budget signed on July 13, 2008 (including the value of all vetoes and subsequent overrides), all supplemental appropriations either filed, enacted or anticipated and all prior appropriations continued into fiscal 2009. Fiscal 2009 projections are based on actual spending and revenue through July, 2008 and estimates for the remainder of fiscal 2009. The fiscal 2009 budget provides for spending of $28.165 billion and is based upon a tax estimate of $21.402 billion (original consensus revenue estimate of $20.987 billion adjusted for subsequent tax law changes). The fiscal 2009 projections are also based on the five-year capital investment plan published in August, 2007 by the Executive Office for Administration and Finance. Given the national economic climate and projections of slower rates of economic growth for the Commonwealth, the Executive Office for Administration and Finance continues to closely monitor fiscal 2009 tax receipts and is developing contingency plans in the event that state tax revenue growth slows to a level that would require a downward revision of the fiscal 2009 estimate. The fiscal 2009 tax estimate includes $1.465 billion dedicated to the Commonwealth's pension obligations, $768 million in sales tax revenues dedicated to the Massachusetts Bay Transportation Authority and $702 million in sales tax revenues dedicated to the Massachusetts School Building Authority. The fiscal 2009 budget assumes total net transfers from the State Lottery of $1.028 billion, which is an insufficient amount to fully fund local aid to cities and towns. The fiscal 2009 cash flow projection also assumes the receipt of $288.5 million on April 15, 2009 pursuant to the tobacco master settlement agreement.

The Commonwealth's next cash flow projection is expected to be released on or before December 1, 2008.

Based on the September 2, 2008 projections, the fiscal 2009 forecast shows an overall decline in the non-segregated cash balance from $1.198 billion to $676 million. Several factors affect the overall decline in the cash balance, including general obligation bond proceeds received in fiscal 2008 which are projected to be spent in fiscal 2009, fiscal 2008 appropriations carried forward and authorized to be expended in fiscal 2009 and some anticipated transfers that may result from the fiscal 2008 consolidated net surplus calculation. The month-end balance for July, 2008 was $832 million, compared to a balance of $1.292 billion for July, 2007.

Overview of Fiscal 2008 Non-Segregated Operating Cash Flow (in millions) (1)

(as of September 2, 2008)

	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Opening Balance	$1,590.8	$1,291.8	$1,186.9	$724.7	$456.8	$393.4	$499.3	$1,238.9	$573.2	$314.9	$1,369.2	$1,286.7
CP /RANs Issuance	-	-	-	200.0	300.0	900.0	-	-	400.0	-	-	-
Total Receipts	2,687.8	3,055.6	3,491.6	2,558.7	3,130.8	3,449.9	3,343.6	3,112.5	4,209.7	4,812.26	3,774.1	4,549.9
Total Expenditures	2,987.1	3,173.4	3,953.4	3,026.1	3,400.8	4,483.6	3,100.8	3,376.6	4,939.7	3,757.7	3,856.4	4,641.1
Central Artery Settlement	-	-	-	-	-	-	401.2	(401.2)	-	-	-	-
Stabilization Transfers	-	-	-	-	(92.9)	240.0	-	-	72.0	-	-	3.0
Closing Balance	$1,291.5	$1,187.4	$725.1	$457.2	$393.8	$499.7	$1,239.3	$573.6	$315.2	$1,369.5	$1,286.9	$1,198.5

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

Overview of Fiscal 2009 Non-Segregated Operating Cash Flow (in millions) (1)

(as of September 2, 2008)

	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Opening Balance	$1,198.2	$832.5	$549.9	$674.7	$680.8	$394.9	$98.0	$693.3	$477.2	$186.2	$1,186.5	$791.6
CP /RANs Issuance	-	500.0	750.0	-	300.0	283.1	-	-	-	-	-	-
Total Receipts	2,942.4	2,701.1	4,757.7	3,244.9	2,933.7	3,972.7	3,932.1	3,128.3	4,403.7	5,102.4	3,419.5	4,770.4
Total Expenditures	3,307.9	3,483.5	4,633.0	3,238.7	3,519.6	4,670.6	3,336.7	3,344.3	4,694.6	4,102.0	3,814.4	4,886.1
Central Artery Settlement	-	-	-	-	-	-			-	-	-	-
Stabilization Transfers	-	-	-	-	-	401.0	-	-	-	-	-	-
Closing Balance	$832.7	$550.2	$674.7	$680.9	$395.0	$98.0	$693.3	$477.2	$186.3	$1,186.6	$791.7	$675.9

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

COMMONWEALTH EXPENDITURES

Medicaid

The federal section 1115 demonstration project waiver under which the Commonwealth operates the majority of its Medicaid program is currently authorized through September 22, 2008. The Commonwealth is actively working with the federal government to secure a renewal of this authority through June 30, 2011; while prior authority was set to expire on June 30, 2008, the Commonwealth and the federal Centers for Medicare and Medicaid Services (CMS) agreed to extend the current terms for a seventh two-week period in order to provide appropriate time in which to complete discussions. The Commonwealth will evaluate the need for additional short-term extensions as negotiations progress. See the August Information Statement under the heading "COMMONWEALTH EXPENDITURES - Medicaid."

Office of Disability and Community Services

Under the settlement agreement approved June 16, 2008 in *Rolland v. Patrick et al.*, the Commonwealth expects to devote an additional $17 million each year to pay for the placement of the affected individuals and the provision of active treatment. See the August Information Statement under the headings "COMMONWEALTH EXPENDITURES - Office of Disabilities and Community Services" and "LEGAL MATTERS."

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 August 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 August Information Statement and this Supplement 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 August 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 August 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 herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

The information, estimates and assumptions and expressions of opinion in the August 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 August 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 six 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 the August Information Statement or this Supplement requests for additional information concerning the Commonwealth should be directed to Colin MacNaught, Assistant Treasurer for Debt Management, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or to Karol Ostberg, Director of Capital Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to the August Information Statement or this 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

September 4, 2008

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THE

COMMONWEALTH

OF

MASSACHUSETTS

INFORMATION STATEMENT

Dated August 22, 2008

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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**

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THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT

August 22, 2008

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

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

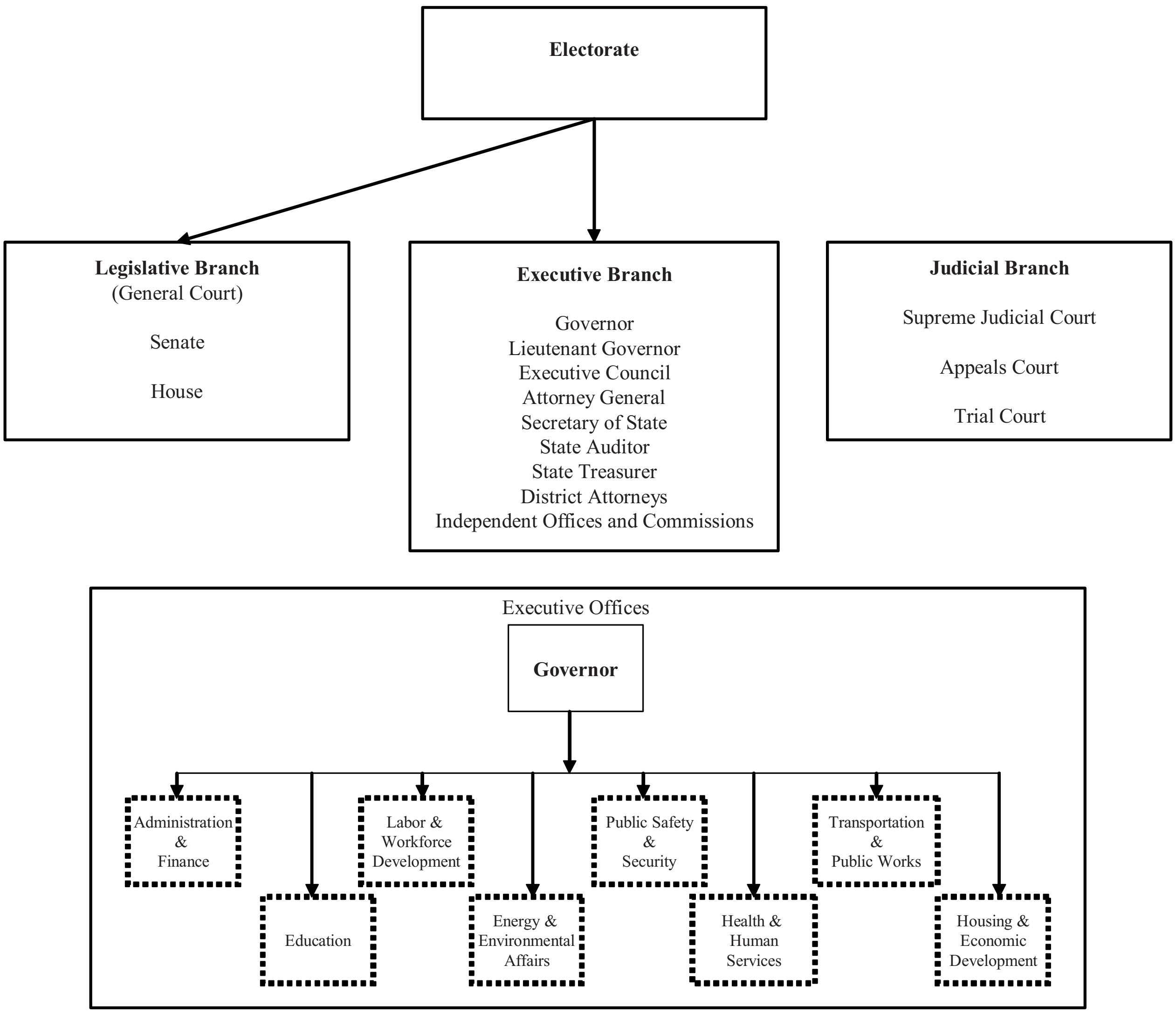
Exhibit A to this Information Statement is the Statement of Economic Information as of June 30, 2008. Exhibit A sets forth certain economic, demographic and statistical information concerning the Commonwealth.

Exhibits B and C, respectively, are the Commonwealth's Statutory Basis Financial Report for the year ended June 30, 2007 and the Commonwealth's Comprehensive Annual Financial Report, reported in accordance with generally accepted accounting principles (GAAP), for the year ended June 30, 2007. The Commonwealth's independent auditor has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has said independent auditor performed any procedures relating to the official statement of which this Information Statement is a part.

Specific reference is made to said Exhibits B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository (NRMSIR) currently recognized by the Securities and Exchange Commission (SEC). 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."

THE GOVERNMENT

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



Executive Branch

Governor. The Governor is the chief executive officer of the Commonwealth. Other elected members of the executive branch are the Lieutenant Governor (elected with the Governor), the Treasurer and Receiver-General (State Treasurer), the Secretary of the Commonwealth (State Secretary), the Attorney General and the State Auditor. All are elected to four-year terms. The terms of the current office holders began in January, 2007.

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

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

Governor's Cabinet. The Governor's Cabinet, which assists the Governor in administration and policy making, is comprised of the secretaries who head the eight Executive Offices, which are the Executive Office for Administration and Finance, the Executive Office of Health and Human Services, the Executive Office of Transportation and Public Works, the Executive Office of Public Safety and Security, the Executive Office of Housing and Economic Development, the Executive Office of Labor and Workforce Development, the Executive Office of Energy and Environmental Affairs and the Executive Office of Education. Finally, the Governor chairs an informal Development Cabinet to coordinate business development in the Commonwealth; it includes the Secretaries of Administration and Finance, Housing and Economic Development, Transportation and Public Works, Energy and Environmental Affairs, and Labor and Workforce Development. Cabinet secretaries and executive department chiefs serve at the pleasure of the Governor. Most other agencies are grouped under one of the eight Executive Offices for administrative purposes.

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

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

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

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

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

State Comptroller. Accounting policies and practices, publication of official financial reports and oversight of fiscal management functions are the responsibility of the Comptroller. The Comptroller also administers the Commonwealth's annual state single audit and manages the state accounting system. The Comptroller is appointed by the Governor for a term coterminous with the Governor's and may be removed by the Governor only for cause. The annual financial reports of the Commonwealth, single audit reports and any rules and regulations promulgated by the Comptroller must be reviewed by an advisory board. This board is chaired by the Secretary of Administration and Finance and includes the State Treasurer, the Attorney General, the State Auditor, the Chief Administrative Justice of the Trial Court and two persons with relevant experience appointed by the Governor for three-year terms. The Commonwealth's audited annual reports include audited financial statements on both the statutory basis of accounting (the Statutory Basis Financial Report, or SBFR) and the GAAP basis (the Comprehensive Annual Financial Report, or CAFR). The Statutory Basis Financial Report for the year ended June 30, 2007, included herein by reference as Exhibit B, and the Comprehensive Annual Financial Report for the year ended June 30, 2007, included herein by reference as Exhibit C, were audited by KPMG LLP, as stated in its reports appearing therein. KPMG LLP has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has it performed any procedures relating to the official statement of which this Information Statement is a part. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS."

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

Legislative Branch

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

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

Judicial Branch

The judicial branch of state government is composed of the Supreme Judicial Court, the Appeals Court and the Trial Court. The Supreme Judicial Court has original jurisdiction over certain cases and hears appeals from both the Appeals Court, which is an intermediate appellate court, and in some cases, directly from the Trial Court. The Supreme Judicial Court is authorized to render advisory opinions on certain questions of law to the Governor, the Legislature and the Governor's Council. Judges of the Supreme Judicial Court, the Appeals Court and the Trial

Court are appointed by the Governor, with the advice and consent of the Governor's Council, to serve until the mandatory retirement age of 70 years.

Independent Authorities and Agencies

The Legislature has established a number of independent authorities and agencies within the Commonwealth, the budgets of which are not included in the Commonwealth's annual budget. The Governmental Accounting Standards Board (GASB) Statement 14 articulates standards for determining significant financial or operational relationships between the primary government and its independent entities. In fiscal 2007, the Commonwealth had significant operational or financial relationships, or both, as defined by GASB Statement 14 (as amended), with 34 of these authorities. A discussion of these entities and the relationship to the Commonwealth is included in footnote 1 to the fiscal 2007 general-purpose financial statements in the CAFR, included herein by reference as Exhibit C.

Local Government

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

Municipal revenues consist of taxes on real and personal property, distributions from the Commonwealth under a variety of programs and formulas, local receipts (including motor vehicle excise taxes, local option taxes, fines, licenses and permits, charges for utility and other services and investment income) and appropriations from other available funds (including general and dedicated reserve funds). See "COMMONWEALTH EXPENDITURES – Local Aid."

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

Initiative Petitions

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

Constitutional amendments also may be initiated by citizens, but they follow a longer adoption process, which includes gaining at least 25% of the votes of the House of Representatives and Senate jointly assembled in constitutional convention in two successive biennial legislative sessions before being decided by the voters.

COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS

Operating Fund Structure

The Commonwealth's operating fund structure satisfies the requirements of state finance law and is in accordance with generally accepted accounting principles (GAAP), as defined by the Government Accounting Standards Board (GASB). The General Fund and other funds that are appropriated in the annual state budget receive most of the non-bond and non-federal grant revenues of the Commonwealth. These funds are referred to in this Information Statement as the "budgeted operating funds" of the Commonwealth. Budgeted operating funds are created and repealed from time to time through the enactment of legislation, and existing funds may become inactive when no appropriations are made from them. Budgeted operating funds do not include the capital projects funds of the Commonwealth, into which the proceeds of Commonwealth bonds are deposited. See "Capital Investment Process and Controls" below.

Two of the budgeted operating funds account for most of the Commonwealth's appropriated spending: the General Fund and the Highway Fund, from which approximately 98.9% of the statutory basis budgeted operating fund outflows in fiscal 2007 were made. The remaining approximately 1.1% of statutory operating fund outflows occurred in other operating funds: the Workforce Training Fund; the Massachusetts Tourism Fund; the Inland Fisheries and Game Fund; and two administrative control funds, the Temporary Holding Fund and the Intragovernmental Service Fund. There were also two inactive funds which were authorized by law but had no activity: the Tax Reduction Fund and the Collective Bargaining Reserve Fund. The Division of Energy Resources Credit Trust Fund commenced revenue inflows in fiscal 2007 but had no outflows. The Commonwealth Stabilization Fund also had inflows in fiscal 2007 but no outflows. In fiscal 2008, the Commonwealth Stabilization Fund had both inflows and outflows.

At the end of a fiscal year, undesignated balances in the budgeted operating funds, unless excluded by law, are used to calculate consolidated net surplus. Under state finance law, balances in the Stabilization Fund and the Tax Reduction Fund, both of which may receive consolidated net surplus funds, and in the Inland Fisheries and Game Fund are excluded from the consolidated net surplus calculation. See "SELECTED FINANCIAL DATA - Stabilization Fund and Disposition of Year-End Surpluses."

Overview of Operating Budget Process

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

The House Ways and Means Committee considers the Governor's budget recommendations and, with revisions, proposes a budget to the full House of Representatives. Once approved by the House, the budget is considered by the Senate Ways and Means Committee, which in turn proposes a budget to be considered by the full Senate. In recent years, the legislative budget review process has included joint hearings by the Ways and Means Committees of the Senate and the House. After Senate action, a legislative conference committee develops a joint budget recommendation for consideration by both houses of the Legislature, which upon adoption is sent to the Governor. Under the Massachusetts constitution, the Governor may veto the budget in whole or disapprove or reduce specific line items (line item veto). The Legislature may override the Governor's veto or specific line-item vetoes by a two-thirds vote of both the House and Senate. The annual budget legislation, as finally enacted, is known as the general appropriations act.

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

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

Cash and Budgetary Controls

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

Capital Investment Process and Controls

Capital expenditures are primarily financed with debt proceeds and federal grants. Authorization for capital investments requires approval by the Legislature, and the issuance of debt must be approved by a two-thirds vote of each house of the Legislature. Upon such approval to issue debt, the Governor submits a bill to the Legislature, as required by the state constitution, to set the terms and conditions of the borrowing for the authorized debt. The State Treasurer issues authorized debt at the request of the Governor, and the Governor, through the Secretary of Administration and Finance, controls the amount of capital expenditures through the allotment of funds pursuant to such authorizations.

Based on outstanding authorizations, the Executive Office for Administration and Finance, at the direction of the Governor and in conjunction with the cabinet and other officials, establishes a capital investment plan. The plan is an administrative guideline and subject to amendment at any time. The plan assigns authority for secretariats and agencies to spend on capital projects and is reviewed each fiscal year. The primary policy objectives of the plan are to determine and prioritize the Commonwealth's investment needs, to determine the affordable level of debt that may be issued and the other funding sources available to address these investment needs, and to allocate these limited capital investment resources among the highest priority projects. See "COMMONWEALTH CAPITAL INVESTMENT PLAN."

The Comptroller has established various funds to account for financial activity related to the acquisition or construction of capital assets. In addition, accounting procedures and financial controls have been instituted to limit agency capital spending to the levels approved by the Governor. All agency capital spending is tracked against the capital investment plan on both a cash and encumbrance accounting basis on the state's accounting system, and federal reimbursements are budgeted and monitored against anticipated receipts.

Cash Management Practices of State Treasurer

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

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

The State Treasurer, in conjunction with the Executive Office for Administration and Finance, is required to submit quarterly cash flow projections for the then current fiscal year to the House and Senate Committees on Ways and Means on or before each September 1, December 1, March 1 and June 1. The projections must include estimated sources and uses of cash, together with the assumptions from which such estimates were derived and identification of any cash flow gaps. See "FISCAL 2008 AND FISCAL 2009 – Cash Flow." The State Treasurer's office, in conjunction with the Executive Office for Administration and Finance, is also required to develop quarterly and annual cash management plans to address any gap identified by the cash flow projections and variance reports. The State Treasurer's office oversees the issuance of short-term debt to meet cash flow needs, including the issuance of commercial paper. See "LONG-TERM LIABILITIES – General Obligation Debt."

Under state finance law, the State Treasurer may invest Commonwealth funds in obligations of the United States Treasury, bonds or notes of various states and municipalities, corporate commercial paper meeting specified ratings criteria, bankers acceptances, certificates of deposit, repurchase agreements secured by United States Treasury obligations, money market funds meeting specified ratings criteria, securities eligible for purchase by a money market fund operated in accordance with Rule 2a-7 of the federal Securities and Exchange Commission or investment agreements meeting specified ratings criteria. Cash that is not needed for immediate funding needs is invested in the Massachusetts Municipal Depository Trust. The State Treasurer serves as trustee of the Trust and has sole authority pertaining to rules, regulations and operations of the Trust. The Trust has two investment options: a money market fund and a short-term bond fund. General operating cash is invested in the money market fund, which is administered in accordance with Rule 2a-7 of the Securities and Exchange Commission and additional policies and investment restrictions adopted by the State Treasurer. The three objectives for the money market fund are safety, liquidity and yield. The money market fund maintains a stable net asset value of one dollar and is marked to market daily. Moneys in the Stabilization Fund, which are not used by the Commonwealth for liquidity, are invested in both the money market fund and the short-term bond fund. The short-term bond fund invests in a diversified portfolio of high-quality investment-grade fixed-income assets that seeks to obtain the highest possible level of current income consistent with preservation of capital and liquidity. The portfolio is required to maintain an average credit rating of A-. The duration of the portfolio is managed to within +/- one half year duration of the benchmark. The benchmark for the short-term bond fund is the Lehman Brothers 1-to-5-year Government/Credit Index, which includes all medium and larger issues of United States government, investment-grade corporate and investment-grade international dollar-denominated bonds that have maturities between one and five years and are publicly issued.

Fiscal Control, Accounting and Reporting Practices of Comptroller

The Comptroller is responsible for oversight of fiscal management functions, establishment of accounting policies and practices and publication of official financial reports. The Comptroller maintains the Massachusetts Management Accounting and Reporting System (MMARS), the centralized state accounting system that is used by all state agencies and departments but not independent state authorities. MMARS provides a ledger-based system of revenue and expenditure accounts enabling the Comptroller to control obligations and expenditures effectively and to ensure that appropriations are not exceeded during the course of the fiscal year. The Commonwealth's statewide accounting system also has various modules for receivables, payables, fixed assets and other processes management.

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

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

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

Internal Controls. The Comptroller establishes internal control policies and procedures in accordance with state finance law. Agencies are required to adhere to such policies and procedures. All unaccounted-for variances, losses, shortages or thefts of funds or property must be reported to the State Auditor, who is authorized to investigate and recommend corrective action.

Statutory Basis of Accounting. In accordance with state law, the Commonwealth adopts its budget and maintains financial information on a statutory basis of accounting. Under the statutory basis, tax and departmental revenues are accounted for on a modified cash basis by reconciling revenue to actual cash receipts confirmed by the State Treasurer. Certain limited revenue accruals are also recognized, including receivables from federal reimbursements with respect to paid expenditures. Expenditures are measured on a modified cash basis including actual cash disbursements and encumbrances for goods or services received prior to the end of a fiscal year.

For certain programs, such as Medicaid, expenditures are recognized under the statutory basis of accounting only to the extent of disbursements supported by current-year appropriations. Some prior year services billed after the start of a fiscal year have been paid from the new fiscal year's appropriation, in an amount determined by the specific timing of billings and the amount of prior year funds that remained after June 30 to pay the prior year's accrued billings, though this practice may vary from year to year.

GAAP Basis of Accounting. The Comptroller also prepares Commonwealth financial statements on a GAAP basis. In addition to the primary government, certain independent authorities and agencies of the Commonwealth are included as component units within the Commonwealth's reporting entity, primarily as non-budgeted enterprise funds.

GAAP employs an economic resources management focus and a current financial resources management focus as two bases for accounting and reporting. Under the economic resources management focus (also called the "entity-wide perspective"), revenues and expenses (different from expenditures) are presented similarly to private-sector entities. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met. Capital assets, including infrastructure assets net of depreciation, and the long-term portion of all liabilities are reported on the statement of net assets.

Under the current financial resources management focus of GAAP (also called the "fund perspective"), the primary emphasis is to demonstrate inter-period equity. Revenues are reported in the period in which they become both measurable and available. Revenues are considered available when they are expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period.

Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants and reimbursements and reimbursements for the use of materials and services. Tax accruals, which include the estimated amounts due to the Commonwealth on previous filings, over- and under-withholdings, estimated payments on income earned and tax refunds and abatements payable, are all recorded as adjustments to statutory basis tax revenues.

Major expenditure accruals are recorded for the cost of Medicaid claims that have been incurred but not paid, claims and judgments and workers' compensation claims incurred but not reported and contract assistance to state authorities. See Exhibit C - Comprehensive Annual Financial Report for the year ended June 30, 2007; Notes to the Basic Financial Statements.

Audit Practices of State Auditor

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

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

Also within the State Auditor's office is the Bureau of Special Investigations, which is charged with the responsibility of investigating fraud within public assistance programs.

COMMONWEALTH REVENUES

In order to fund its programs and services, the Commonwealth collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, court revenues, assessments, reimbursements, interest earnings and transfers from its non-budgeted funds, which are deposited in the General Fund, the Highway Fund and other operating budgeted funds. For purposes of this Information Statement, these funds will be referred to as budgeted operating funds, and revenues deposited in such funds will be referred to as budgeted operating revenues. In fiscal 2008, on a statutory basis, approximately 63.1% of the Commonwealth's budgeted operating revenues and other financing sources were derived from state taxes. In addition, the federal government provided approximately 21% of such revenues, with the remaining 15.9% provided from departmental revenues and transfers from non-budgeted funds. The measurement of revenues for the budgeted operating funds on a statutory basis differs from governmental revenues on a GAAP basis. See "SELECTED FINANCIAL DATA – GAAP Basis; *Revenues – GAAP Basis*." The Commonwealth's executive and legislative branches establish the Commonwealth's budget using the statutory basis of accounting.

Statutory Basis Distribution of Budgetary Revenues

The following table sets forth the Commonwealth's revenues in its budgeted operating funds for fiscal 2004 through fiscal 2007, preliminary revenues for fiscal 2008 and projected revenues for fiscal 2009.

Commonwealth Revenues - Budgeted Operating Funds

(in millions)(1)

	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Preliminary Fiscal 2008	Projected Fiscal 2009 (8)
Tax Revenues:						
Alcoholic Beverages	$ 67.9	$ 68.6	$ 68.9	$ 71.0	$ 71.2	$ 75.4
Banks	238.7	198.9	349.9	340.9	547.8	299.1
Cigarettes	425.4	423.6	435.3	438.1	436.9	463.2
Corporations	997.6	1,062.7	1,390.7	1,587.6	1,512.2	1,705.3
Deeds	187.0	220.3	210.1	194.1	154.7	169.4
Income	8,830.3	9,690.3	10,483.4	11,399.6	12,484.9	12,761.8
Inheritance and Estate	194.7	255.1	196.3	249.6	254.0	233.5
Insurance(2)	420.2	423.4	448.5	418.6	417.7	441.7
Motor Fuel	684.2	685.5	671.8	676.1	672.8	674.8
Public Utilities	64.7	71.1	118.5	178.3	120.2	165.5
Racing	-	-	-	-	-	-
Room Occupancy	88.9	97.8	105.8	111.1	119.1	123.2
Sales:						
Regular	2,591.6	2,746.6	2,864.7	2,927.7	2,952.2	3,102.1
Meals	531.7	555.6	584.1	608.7	632.9	669.3
Motor Vehicles	625.8	584.2	555.5	531.1	501.6	514.2
Sub-Total–Sales	3,749.2	3,886.4	4,004.3	4,067.5	4,086.7	4,285.6
Miscellaneous(3)	4.2	3.9	4.0	3.8	3.4	3.5
Total Tax Revenues	15,953.3	17,087.9	18,487.4	19,736.3	20,880.6	21,402.1
MBTA Transfer	(684.3)	(704.8)	(712.6)	(734.0)	(756.0)	(767.1)
MSBA Transfer (4)	-	(395.7)	(488.7)	(557.4)	(634.7)	(702.3)
Total Budgeted Operating Tax Revenues	15,269.0	15,987.4	17,286.2	18,444.9	19,489.9	19,932.7
Non-Tax Revenues:						
Federal Reimbursements	5,098.5	4,697.0	5,210.1	6,167.6	6,420.5(5)	6,947.5
Departmental and Other Revenues(6)	1,847.7	1,948.9	2,094.3	2,218.4	2,379.2	2,558.3
Inter-fund Transfers from Non - Budgeted Funds and Other Sources (7)	1,773.1	1,740.1	1,714.9	1,785.0	2,569.7	2,286.7
Budgeted Non-Tax Revenues and Other Sources	8,719.3	8,386.0	9,019.3	10,171.0	11,369.4	11,792.5
Budgeted Revenues and Revenues from Other Sources	$23,988.3	$24,373.4	$26,305.5	$28,615.9	$30,859.3	$31,725.2

SOURCE: Fiscal 2004-2008, Office of the Comptroller; fiscal 2009, 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) Includes unemployment insurance surcharges.

(3) Includes miscellaneous receipts from departments comprising boxing receipts, beano receipts remittable to the Commonwealth and receipts from raffle and bazaar fees.

(4) 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 2004 was $551.4 million.

(5) Estimated fiscal 2008 federal reimbursement has been reduced to reflect notices of deferred federal reimbursement for supplemental payments to safety net hospitals in the amount of $40.7 million for "Section 122" payments, as well as an additional $42 million to reflect anticipated deferred federal reimbursement for other payments to safety net hospitals that were made before the Commonwealth secured approval through its Medicaid State Plan. The Commonwealth is also monitoring a resolution at the federal level of an additional $67.8 million in reimbursement on supplemental payments that are currently being included in the Commonwealth's estimates of federal reimbursement, and while the Commonwealth anticipates a resolution in the future, it is not certain that the claiming process will be completed in time for the revenue to be credited to fiscal year 2008. In this case, revenue will be claimed and credited to fiscal 2009 federal reimbursement.
(6) Excludes intergovernmental revenues.
(7) Inter-fund transfers from non-budgeted funds and other sources include profits from the State Lottery, tobacco settlement funds and abandoned property proceeds, as well as other transfers.
(8) Based on the consensus fiscal 2009 estimate of $20.987 billion, adjusted for subsequent tax law changes.

State Taxes

The major components of state taxes are the income tax, which is estimated to account for approximately 59.5% of total tax revenues in fiscal 2008, the sales and use tax, which is estimated to account for approximately 20.4%, and the corporations and other business and excise taxes (including taxes on insurance companies, financial institutions and public utility corporations), which are estimated to account for approximately 11.4%. Other tax and excise sources are estimated to account for the remaining 8.5% of total fiscal 2008 tax revenues.

Effects of Tax Law Changes. During fiscal 2002 and fiscal 2003, legislation was implemented that had the net effect of reducing revenues by decreasing income tax rates or increasing or establishing various deductions and credits. In addition, several administrative changes were implemented that reduced revenues. During fiscal 2003, legislation was implemented that reversed or delayed some of the previous tax reductions, and implemented increases in other taxes. The Department of Revenue estimates that in fiscal 2004, the impact of tax law and administrative changes (including the non-recurrence of some fiscal 2003 revenues from certain loophole closings and that year's tax amnesty program) was to reduce tax collections by approximately $110 million compared to fiscal 2003. The Department of Revenue estimates that tax law changes increased tax collections by approximately $31 million in fiscal 2005 compared to fiscal 2004, reduced tax collections by approximately $154 million in fiscal 2006 compared to fiscal 2005, reduced tax collections by approximately $113 million in fiscal 2007 compared to fiscal 2006 and will reduce tax collections by approximately $48 million in fiscal 2008 compared to fiscal 2007. See "Fiscal 2008 and Fiscal 2009 Tax Revenues" below.

Income Tax. The Commonwealth assesses personal income taxes at flat rates, according to classes of income, after specified deductions and exemptions. A rate of 5.3% has been applied to most types of income since January 1, 2002. The tax rate on gains from the sale of capital assets held for one year or less and from the sale of collectibles is 12%, and the tax rate on gains from the sale of capital assets owned more than one year is 5.3%. Interest on obligations of the United States and of the Commonwealth and its political subdivisions is exempt from taxation.

Prior to January 1, 1999, a different rate was applied to "Part A" income (generally, interest and dividends) and "Part B" income (generally, "earned" income from employment, professions, trades, businesses, rents and royalties). The rate on Part A income was 12% prior to January 1, 1999; it was reduced to 5.95% as of January 1, 1999 and as of January 1, 2000 is the same as the rate on Part B income. The rate on Part B income was 5.95% prior to January 1, 2000, when it was reduced to 5.85%. The rate on Part B income was reduced to 5.6% on January 1, 2001 and to 5.3% on January 1, 2002 by an initiative petition approved by Massachusetts voters on November 7, 2000. This initiative petition also mandated a reduction in the Part B rate to 5.0% on January 1, 2003.

Legislation enacted in July, 2002 made several changes to the state income tax. These included a delay of the scheduled Part B tax rate reduction from 5.3% to 5.0% for at least four years, suspension of the deduction for charitable contributions and a 25% reduction in personal exemptions. This legislation also changed the tax structure for long-term capital gains (*i.e.*, capital gains on assets held for more than one year). Prior to the legislation, long-term capital gains were taxed at rates ranging from 0% to 5%, depending on how long the asset had been held before sale. Effective January 1, 2003, long-term capital gains are taxed at the Part B income tax income rate, which is currently 5.3%.

The 2002 legislation also included a mechanism by which the tax year 2001 personal exemptions and charitable deductions could be gradually restored, and the tax rate on Part B income could be gradually reduced to

5.0%, contingent upon "baseline" state tax revenue growth (*i.e*., revenue growth after factoring out the impact of tax law and administrative processing changes) growing by 2.5% more than the rate of inflation for state and government purchases. Specifically, the personal exemption would be restored in four equal annual increases, contingent upon sufficient tax revenue growth in the immediately preceding fiscal year. Commencing in the year following the final personal exemption increase, the personal income tax rate would be reduced from 5.3% to 5.0% in six equal annual reductions of 0.05%, again contingent on sufficient revenue growth in each preceding fiscal year. In the tax year following that in which the personal income tax rate was reduced to 5.0%, the charitable deduction would be restored. In fiscal 2002 and 2003, tax revenue growth was such that personal exemptions remained at 2002 levels for tax years 2003 and 2004, respectively. In fiscal 2004, fiscal 2005, fiscal 2006 and fiscal 2007, baseline tax revenue growth was sufficient to trigger an increase in the personal exemptions for tax years 2005, 2006, 2007 and 2008, respectively, with the fiscal 2008 increase being the final of the four under the 2002 legislation. On August 14, 2008, the federal Bureau of Labor Statistics reported that the Boston area consumer price index for July, 2008 was 6.3% higher than in July, 2007, meaning that fiscal 2008 inflation-adjusted baseline tax revenue growth over fiscal 2007 is likely to be close to 0%, lower than the 2.5% growth threshold needed to trigger a tax rate reduction. As required by law, the Department of Revenue will finalize and certify this calculation by August 30, 2008, once the fiscal 2008 tax revenue totals are finalized. Subject to this certification, at this time there appears to be insufficient inflation-adjusted revenue growth to trigger a decrease in the income tax rate to 5.25% in tax year 2009.

On November 4, 2008, an initiative petition will appear on the statewide general election ballot which, if approved by a majority of voters, would reduce the state personal income tax rate to 2.65% for all categories of taxable income for the tax year beginning on or after January 1, 2009 and eliminate the tax for all tax years beginning on or after January 1, 2010. See "THE GOVERNMENT - Initiative Petitions."

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

Sales tax receipts from establishments that first opened on or after July 1, 1997 and that are located near the site of the Boston Convention and Exhibition Center, sales tax receipts from retail vendors in hotels in Boston and Cambridge that first opened on or after July 1, 1997 and sales tax receipts from retail vendors located in the Springfield Civic and Convention Center or in hotels near the Springfield Civic and Convention Center that first opened on or after July 1, 2000 are required to be credited to the Convention Center Fund. As of enactment of the fiscal 2004 general appropriations act, this fund is no longer included in the calculation of revenues for budgeted operating funds. See "LONG-TERM LIABILITIES—Special Obligation Debt; *Convention Center Fund*."

A portion of the Commonwealth's receipts from the sales tax (other than the tax on meals) is dedicated through trust funds to the Massachusetts Bay Transportation Authority (MBTA) and the Massachusetts School Building Authority (MSBA). The amount dedicated to the MBTA is the amount raised by a 1% sales tax (not including meals), with an inflation-adjusted floor. A comparable amount, though without the floor, will be dedicated to the MSBA beginning in fiscal 2010, with lesser amounts dedicated to the MSBA from fiscal 2005 through fiscal 2009.

Legislation enacted in March, 2003, July, 2004 and November, 2005 closed several so-called tax loopholes related to the sales tax. These included changes to the taxation of promotional advertising materials, goods delivered through "drop shipments," items that are fabricated outside of Massachusetts but sold in the state and the taxation of downloaded software that is pre-written or "canned." The Department of Revenue estimates that these changes resulted in additional tax collections of $20 million to $23 million in fiscal 2005, $34 million to $48 million in fiscal 2006 and $71 million to $81 million on an annualized basis thereafter.

The federal Internet Tax Nondiscrimination Act, passed by the U. S. Congress in late 2004, expanded the definition of "internet access" and thus had the effect of exempting from Massachusetts sales tax telecommunications services purchased, used or sold by a provider of internet access for use in providing internet access to its customers. Such telecommunications services had been taxed for Massachusetts sales and use tax purposes when purchased by a provider of internet access. The Department of Revenue estimates that the impact of this legislation was to reduce revenues by approximately $13 million in fiscal 2006 and $20 to 25 million annually thereafter.

Business Corporations Tax. Business corporations doing business in the Commonwealth, other than banks and other financial institutions, insurance companies, railroads, public utilities and safe deposit companies, are subject to an excise that has a property measure and an income measure. The value of Massachusetts tangible property (not taxed locally) or net worth allocated to the Commonwealth is taxed at $2.60 per $1,000 of value. The net income allocated to Massachusetts, which is based on net income for federal taxes, is currently taxed at 9.5%. The minimum tax is $456. Both rates and the minimum tax are inclusive of a 14% surtax. See discussion below under "*Corporate Tax Reform"* for a discussion of changes to the corporate tax structure and the business corporations' tax rates.

In general, corporations apportion their income to Massachusetts based on the proportion of payroll, property and sales within the Commonwealth, with sales being double-weighted. However, beginning January 1, 1996, legislation was phased in over five years establishing a "single sales factor" apportionment formula for the business corporations tax for manufacturing companies. The formula calculates a firm's taxable income as its net income times the percentage of its total sales that are in Massachusetts, as opposed to the prior formula that took other factors, such as payroll and property into account. Beginning January 1, 1997, legislation was phased in which sourced income of mutual fund service corporations to the states of domicile of the shareholders of the mutual funds that receive services instead of sourcing the sales to the state where the mutual fund provider bore the cost of performing services.

Legislation enacted in March, 2003, July, 2004 and November, 2005 closed several so-called loopholes in the corporate and financial institutions tax structure. Among these were provisions dealing with real estate investment trusts, qualified subchapter S subsidiaries and payments to related parties for intangible expenses. See also "*Financial Institutions Tax*." Excluding provisions related to financial institutions, the Department of Revenue estimates that these changes increased revenues by approximately $25 million in fiscal 2003, $129 million in fiscal 2004, $150 million in fiscal 2005 and $173 million in fiscal 2006, and that revenues will be increased by $178 million annually thereafter.

Corporate Tax Reform. On July 3, 2008, the Governor approved legislation that changed the corporate tax structure in Massachusetts from a "separate company" reporting state to a "combined reporting" state, effective January 1, 2009. Under a combined reporting structure, commonly owned business corporations (together with financial institutions, public utilities and certain other entities) engaged in a "unitary" business, whether or not they have nexus in Massachusetts, determine their income as one combined business in the aggregate. The combined income of the group is then apportioned to Massachusetts in accordance with the existing apportionment rules and taxed to those members of the group that have nexus in Massachusetts. Transactions between member companies are generally disregarded.

The legislation also repeals the differences between federal and Massachusetts business entity classification rules for tax purposes so that companies will be classified as the same type of legal entity for federal and Massachusetts tax purposes. The new law retains the existing structure for different types of corporations – business corporations, manufacturers, financial institutions, utilities and S corporations, with different tax rates and apportionment rules.

Together with these structural changes, the legislation reduces the current 9.5% business corporations tax rate to 8.75% as of January 1, 2010, 8.25% as of January 1, 2011 and 8.00% as of January 1, 2012 and thereafter.

Massachusetts tax law imposes an entity level tax on S corporations with more than $6 million in annual receipts. The corporate tax reform legislation also reduces the tax rate for S corporations with more than $9 million in annual receipts so that the regular, non-S corporation rate (for a business corporation or financial institution, as applicable) for the year minus the personal income tax rate for the year equals the rate for such S corporations. The tax rate for S corporations with between $6 million and $9 million in annual receipts will equal two-thirds of the rate applicable to the larger S corporations.

The Department of Revenue estimates that the structural corporate tax law changes combined with the gradual reductions in the business corporations tax rate, the large S corporations tax rates and the financial institutions tax rate (see *"Financial Institutions Tax"* below) will increase revenues by approximately $285 million in fiscal 2009 (reflecting less than a full year's impact of the changes), $390 million in fiscal 2010, $269 million in fiscal 2011, $190 million in fiscal 2012 and $163 million in fiscal 2013 and thereafter.

Financial Institutions Tax. Financial institutions (which include commercial and savings banks) are subject to an excise tax of 10.5%. The corporate tax reform legislation discussed above also provides for a reduction in the financial institutions tax rate to 10% as of January 1, 2010, 9.5% as of January 1, 2011 and 9% as of January 1, 2012 and thereafter.

Legislation enacted in March, 2003 clarified the treatment of real estate investment trust (REIT) distributions with respect to the dividends-received deduction, namely, that such distributions received by businesses subject to the corporate excise tax are not to be treated as dividends and that they have never been exempt or partially exempt from taxation. REIT distributions are subject to taxation at the recipient level. The Department of Revenue estimates that this change resulted in additional tax revenues of approximately $160 million to $180 million for fiscal 2003, most of which was the result of liabilities for prior tax years. The Department of Revenue estimates that the REIT legislation has resulted in revenue increases of $40 million to $60 million in each of the ensuing fiscal years and will continue to yield approximately the same amount in future fiscal years.

Insurance Taxes. Life insurance companies are subject to a 2% tax on gross premiums. Domestic companies also pay a 14% tax on net investment income. Property and casualty insurance companies are subject to a 2.28% tax on gross premiums. Domestic companies also pay a 1% tax on gross investment income.

Public Utility Corporation Taxes. Public utility corporations are subject to an excise tax of 6.5% on net income.

Other Taxes. Other tax revenues are derived by the Commonwealth from excise taxes on motor fuels, cigarettes, alcoholic beverages and deeds, among other tax sources. The excise tax on motor fuels is 21¢ per gallon The tax on cigarettes was raised in fiscal 2003 from 76¢ per pack to $1.51 per pack; the same legislation also raised the tax rate on other types of tobacco products. The Department of Revenue estimates that this change resulted in additional revenue of approximately $185 million in fiscal 2003, $155-160 million in fiscal 2004 and $155 million in fiscal 2005 and thereafter. On July 1, 2008, the Governor approved legislation raising the tax from $1.51 per pack to $2.51 per pack. The Department of Revenue estimates that this change will result in additional revenue of approximately $174 million in fiscal 2009 and $145 million thereafter. Legislation was enacted in March, 2003 that allowed the Commissioner of Revenue to provide incentives for inheritance trusts to settle future obligations during fiscal 2003. Through this program, approximately $34 million was raised in fiscal 2004, but inheritance tax collections in subsequent years were reduced.

In 2001, the United States Congress made numerous changes to Internal Revenue Code provisions relating to the estate and gift tax. For the estates of decedents dying on or after January 1, 2002, federal law raised the exemption amount and phased out the amount of the allowable credit for state death taxes by 25% a year until the credit was eliminated in 2005. Because the Massachusetts estate tax, prior to such Congressional action, equaled the amount of the allowable federal credit for state death taxes, this federal change meant that the Massachusetts estate tax (known as a "sponge tax") would have been phased out and eliminated. In October, 2002, the Massachusetts estate tax was retained by "decoupling" the Massachusetts estate tax from the federal estate tax for decedents dying on or after January 1, 2003. The Massachusetts estate tax is now tied to the Internal Revenue Code as in effect on December 31, 2000. These federal changes are estimated to have reduced fiscal 2003 collections by approximately $30 million to $40 million, and the decoupling is estimated to have increased fiscal 2004 tax revenues by $40 million and fiscal 2005 tax revenues by $13 million in the first three months of fiscal 2005, when the effect of the phase-in was complete.

Tax Credits and Other Incentives. Massachusetts law provides for a variety of tax credits that may be applied against corporate excise or personal income taxes due, as applicable under relevant law. These credits are designed as benefits for specified economic activities as a means to encourage such business in the state. Certain of these credits, to the extent not used to reduce a current tax liability, may be carried forward, transferred or refunded, as specified in the applicable statute. In addition, certain statutory provisions may also provide an exemption from sales and use taxes for qualifying expenditures, or other specified tax benefits.

In July, 2007, the Commonwealth revised its film tax credit to provide tax credits of 25% of certain production costs incurred by film production companies in Massachusetts that incurred at least $50,000 of film production costs in the state. Such production companies were also granted a sales and use tax exemption for goods purchased in the Commonwealth. A film production company may elect either to transfer all or part of its production credit to another taxpayer or to claim a refund of 90% of the amount that is not currently used. There is no cap on the amount of film tax credits that may be claimed. Under current law, the film tax credit will expire on January 1, 2023. The Department of Revenue is required to prepare an annual report of the impact of the film tax credit. Based on film credit applications received through March, 2008, the Department of Revenue estimates that film production companies will be entitled to claim an aggregate of $138 million in film tax credits. The timing of such claims cannot be determined.

Under legislation approved June 16, 2008 in support of the life sciences industry, up to $25 million per year in tax incentives will be available to certified life sciences companies over a ten-year period, commencing January 1, 2009 for an aggregate amount of $250 million.

Tax Revenue Forecasting

Under state law, on or before October 15 and March 15 of each year, the Secretary of Administration and Finance is required to submit to the Governor and to the House and Senate Committees on Ways and Means estimates of revenues available to meet appropriations and other needs in the following fiscal year. On or before October 15, January 15 and April 15, the Secretary is required to submit revised estimates for the current fiscal year unless, in her opinion, no significant changes have occurred since the last estimate of total available revenues. On or before January 15 of each year, the Secretary is required to develop jointly with the House and Senate Committees on Ways and Means a consensus tax revenue forecast for the following fiscal year. Beginning in fiscal 2005, state finance law has required that the consensus tax revenue forecasts be net of the amount necessary to fully fund the pension system according to the applicable funding schedule, which amount is to be transferred without further appropriation from the General Fund to the Commonwealth's Pension Liability Fund. See "COMMONWEALTH EXPENDITURES - Pension."

The following table compares actual budgeted tax revenues to consensus tax revenue forecasts for fiscal 2004 to 2007 and as estimated for 2008 and projected for 2009. The figures include sales tax receipts dedicated to the Massachusetts Bay Transportation Authority and the Massachusetts School Building Authority and amounts transferred to the state pension system.

Tax Revenue Forecasting (in millions)

	Fiscal 2004	Fiscal 2005	Fiscal 2006(1)	Fiscal 2007	Estimated Fiscal 2008	Estimated Fiscal 2009
Consensus forecast	$14,678	$15,801	$17,336	$18,975	$19,879	$20,987
Interim pre-budget revision 1	NONE	NONE	NONE	NONE	NONE	N/A
Interim pre-budget revision 2	NONE	NONE	NONE	NONE	NONE	N/A
Total taxes per enacted budget	$14,808	$15,968	$17,448	$18,969	$19,879	$20,987
October revision	-	16,231	17,957	19,132	20,225	-
January revision	15,230	-	18,158	19,300	20,225	-
Actual budgeted operating tax revenues	$15,953	$17,088	$18,487	$19,736	$20,881	-
Actual revenues as a percentage of consensus forecast	109%	108%	107%	104%	105%	
Actual revenues as a percentage of total taxes per enacted budget	108%	107%	106%	104%	105%	

SOURCE: Executive Office for Administration and Finance.

(1) No consensus was reached for a fiscal 2006 tax revenue forecast; this table uses the forecast developed by the Executive Office for Administration and Finance. The Legislature used a tax revenue estimate of $17.1 billion in developing its budget.

Economic Projections

Exhibit A to this Information Statement contains certain economic information concerning the Commonwealth which was prepared by the Massachusetts State Data Center at the University of Massachusetts Donahue Institute and which may be relevant in evaluating the economic and financial condition and prospects of the Commonwealth.

The following section outlines the projections underlying the development of the fiscal 2009 consensus tax revenue estimate as presented in the Governor's fiscal 2009 budget recommendations. On December 13, 2007, the Secretary of Administration and Finance and the House and Senate Committees on Ways and Means heard public testimony from representatives of the Department of Revenue, the Federal Reserve Bank of Boston, the Massachusetts Taxpayers Foundation and the Beacon Hill Institute. On January 8, 2008, the Secretary of Administration and Finance and legislative leaders announced agreement on a consensus fiscal 2009 tax revenue estimate of $20.987 billion, consistent with the testimony provided at the December hearing.

The fiscal 2009 consensus tax revenue estimate assumes that the national and state economies will both experience slowdowns through June, 2009, but that both will avoid a recession. Specifically, the consensus forecast is based on the following projections, which were current as of December 13, 2007:

- The national economy was expected to experience a slowdown during fiscal 2009, with real gross domestic product (GDP) growth of 2.2%, versus 2.3% GDP growth in fiscal 2008.
- Massachusetts gross state product was also expected to slow, from a growth rate of 2.2% to 2.4% in fiscal 2008 to between 1.8% and 2.2% in fiscal 2009.
- Massachusetts employment was expected to grow 0.6% in fiscal 2009, compared to 1.0% in fiscal 2008, and Massachusetts wages and salaries were expected to increase 4.5% in fiscal 2009, compared to 5.7% in fiscal 2008.
- Massachusetts personal income was expected to rise 4.6% in fiscal 2009, compared to 5.7% in fiscal 2008.
- Massachusetts retail sales were expected to grow by 2.6% in fiscal 2009, compared to 3.2% in fiscal 2008.

- After growing by 9.2% in fiscal 2007, corporate profits at the national level were expected to decline moderately in fiscal 2008, but then recover in fiscal 2009. Corporate profits were projected to grow between 1.3% and 3.7% in fiscal 2009, compared to fiscal 2008 (there are no forecasts for state corporate profits). This compared with double-digit growth in the four-year period of fiscal 2003 to fiscal 2006.

- Massachusetts capital gains taxes, which grew by about 6.6% in fiscal 2007, were expected to decline slightly in fiscal 2008 and then remain flat in fiscal 2009.

Based on these economic projections, fiscal 2009 tax collections were projected to grow by $762 million, or 3.8%, over fiscal 2008, with income tax collections growing by 5.8% actual and 6.0% "baseline" ("baseline" comparisons factor out the impact of tax law and administrative processing changes), sales tax growing by 3.3% actual and 2.7% baseline, corporate and business taxes declining by 3.3% actual and 3.2% baseline. There is usually a lag between a decline in corporate profits and when that decline is reflected in tax collections, which explains why corporate tax collections were projected to decline in fiscal 2009, even though corporate profits were expected to grow from the prior fiscal year.

United States Economy. The Department of Revenue utilizes national and Massachusetts forecasts from the economic consulting firms Global Insight and Moody's Economy.com and from the New England Economic Partnership. In December, 2007, these organizations reported the following:

- The national economy was expected to slow substantially over the next several quarters due to the slump in the housing market, the turmoil in the sub-prime mortgage market and higher oil prices, though most forecasters believed that a recession would be avoided. Weighing on the economy would be softer personal consumption, a decline in business inventory levels and a continued contraction in residential investment.

- Consistent with slower economic growth, employment growth slowed in 2007, and it was widely expected that weakening growth in corporate profits would further curtail hiring. National payroll employment rose 1.0% on a year-over-year basis during December, 2007, the slowest pace since April, 2004. The national unemployment rate in December, 2007 was 5.0%. It was expected to increase in 2008.

- The housing market had weakened significantly through 2007. Sales of new and existing homes had declined. The inventory of unsold new homes climbed to high levels, home prices fell in many areas, and foreclosures hit record highs. Conditions in the housing market were expected to worsen in the near future and pose a big challenge to the economy.

- In response to the turmoil in the mortgage and financial markets, the Federal Reserve had cut the target federal funds rate in September, October and December. In December, 2007, the Federal Funds rate stood at 4.25%, 100 basis points below the rate three months prior.

- The stock market performed well in the first three quarters of 2007, with the average daily close of the Standard & Poor's 500 up 12.7% from the same period of 2006. However, as corporate profits were expected to slow due to the housing market decline and credit market turmoil, the growth rates in the stock price indices were expected to fall substantially.

Massachusetts Economy. The Commonwealth's employment picture had improved in calendar year 2007. According to the U. S. Department of Labor, state employment in November, 2007 grew by 0.9% on a year-over-year basis. Over the same period of time, the unemployment rate decreased from 5.1% to 4.3%.

According to the U. S. Census Bureau's most recent reports, Massachusetts wage and salary disbursements in the second quarter of 2007 increased by 6.9% (compared to the same quarter in 2006), after growing by 6.2% in the first quarter. Personal income increased by 6.2% in the second quarter after growing by 6.4% in the first quarter.

The state's housing market weakened substantially in 2007. According to the Massachusetts Association of Realtors, sales in November, 2007 fell by 12.6% for single family homes and 14.2% for condominiums on a year-over-year basis. During the same period of time, the median price fell 2.9% for single family homes and rose 1.9% for condominiums.

Like the national economy, the state economy was expected to grow slowly in 2008 and 2009 as the housing market slump and turmoil in the sub-prime mortgage and financial markets were expected to impede economic growth through negative effects on construction, household wealth and consumer spending. Consistent with a slower economy, growth in wage and salary disbursements and personal income were also expected to decline.

Capital Gains Taxes. Income tax return data for tax year 2006 received through December, 2007 (including data received subsequent to the consensus revenue estimate hearing) indicate that 2006 capital gains realizations were $28.7 billion, versus $26.4 billion in tax year 2005, an increase of 8.5%. Capital gains taxes grew from $1.513 billion in tax year 2005 to approximately $1.627 billion in tax year 2006 (2006 numbers are still preliminary), a 7.5% increase, and growth in capital gains taxes from tax year 2005 to 2006 were expected to reach about 10% once all tax returns had been received. On a fiscal year basis, fiscal 2007 capital gains taxes were estimated to have totaled about $1.668 billion (though no exact numbers are available on a fiscal year basis), an increase of $104 million, or 6.6%, from fiscal 2006.

As of December, 2007, Moody's Economy.com (the only economic forecaster that estimates capital gains realizations on a state-by-state basis) estimated that Massachusetts capital gains realizations would decline by 4% in tax year 2007 and 13% in tax year 2008, then increase by 24.9% in tax year 2009 compared to 2008.

Based on the strength of estimated payments over the prior year (reflecting, in part, capital gains taxes for tax year 2007), the consensus forecast assumed that capital gains realizations would be unchanged for tax year 2007 compared to tax year 2006. The consensus estimate also assumed that capital gains realizations would be unchanged from tax year 2007 to tax year 2008 and from tax year 2008 to tax year 2009.

Since the January, 2008 announcement of the consensus tax revenue estimate for fiscal 2009, there have been a number of developments which should be taken into account for purposes of estimating tax revenues in fiscal 2009. Preliminary fiscal 2008 revenues were $655 million above the fiscal 2008 consensus revenue estimate of $20.225 billion. Fiscal 2008 tax revenue collections exceeded $20.8 billion, and less than 1% growth in tax revenues will be needed in fiscal 2009 to meet the fiscal 2009 consensus tax revenue estimate. However, a number of factors, including the impact of new and higher than projected tax credits, the potential of a statutorily required reduction in the personal income tax rate from 5.3% to 5.25% on January 1, 2009 and projections of slower rates of economic growth in the Commonwealth since the development of the fiscal 2009 consensus tax revenue estimate, may offset the relatively strong revenue collections of fiscal 2008 for purposes of estimating fiscal 2009 tax revenues. Although the Secretary of Administration and Finance has determined that there is not a need at this point to revise the fiscal 2009 consensus tax revenue estimate, she is closely monitoring fiscal 2009 revenues and is developing contingency plans in the event that state tax revenue growth slows to a level that would require a downward revision of the fiscal 2009 estimate. See "FISCAL 2009."

Fiscal 2008 and Fiscal 2009 Tax Revenues

Fiscal 2008. Preliminary tax revenue collections for fiscal 2008 total $20.881 billion, an increase of $1.144 billion, or 5.8%, over fiscal 2007. The following table shows the tax collections for the twelve months of fiscal 2008 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 such months that are dedicated to the MBTA and to the MSBA.

Fiscal 2008 Tax Collections (in millions) (1)

Month	Tax Collections	Change from Prior Year	Percentage Change	MBTA Portion (3)	MSBA Portion	Tax Collections: Net of MBTA and MSBA
July	$1,296.0	$49.4	4.0%	$64.7	$55.0	$1,176.4
August	1,258.1	70.0	5.9	57.1	48.5	1,152.5
September	2,208.0	139.1	6.7	67.2	48.4	2,092.4
October	1,207.5	(37.3)	(3.0)	59.8	50.9	1,096.8
November	1,315.9	86.1	7.1	55.6	47.3	1,212.9
December	1,844.6	60.2	3.4	73.5	47.2	1,723.9
January	2,200.4	147.6	7.2	68.6	58.3	2,073.6
February	1,143.3	156.1	15.8	51.3	43.6	1,048.4
March	1,915.5	147.5	8.3	69.1	42.9	1,803.5
April	2,733.8	397.7	17.0	57.2	48.6	2,628.1
May	1,492.4	(43.7)	(2.8)	55.4	47.1	1,390.0
June (2)	2,264.9	(28.4)	(1.2)	76.5	97.1	2,091.4
Total	$20,880.6	$1,144.2	5.8%	$756.0	$634.7	$19,489.9

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 $10.4 million on account of the first quarter, an adjustment of $18 million on account of the second quarter and an adjustment of $18.7 million on account of the third quarter related to the inflation-adjusted floor applicable to tax receipts dedicated to the MBTA.

The tax revenue increase of $1.144 billion in fiscal 2008 over fiscal 2007 is attributable in large part to an increase of approximately $433 million, or 5.0%, in withholding collections, an increase of approximately $389 million, or 18.5%, in income tax estimated payments, an increase of approximately $299 million, or 15.2%, in income tax payments with returns and extensions, an increase of approximately $21 million, or 0.5%, in sales and use tax collections and an increase of $72 million, or 2.9%, in corporate and business tax collections, which are partially offset by changes in other revenues (net of refunds). The preliminary fiscal 2008 collections are $655.6 million above the fiscal 2008 consensus tax estimate of $20.225 billion adjusted for subsequent tax law changes. Of this above-benchmark performance in revenues, $218 million is due to three one-time settlement payments representing prior years' liabilities received in February and March.

Fiscal 2009. Preliminary tax revenue collections for the first month of fiscal 2009 totaled $1.383 billion, an increase $86.8 million, or 6.7%, over the same month in fiscal 2008. The following table shows the tax collections for the first month of fiscal 2009 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 fiscal 2009 that are dedicated to the MBTA and to the MSBA.

Fiscal 2009 Tax Collections (in millions) (1)

Month	Tax Collections	Change from Prior Year	Percentage Change	MBTA Portion	MSBA Portion	Tax Collections: Net of MBTA and MSBA
July(2)	$1,382.8	$86.8	6.7%	$60.5	$51.4	$1,271.0
August						
September						
October						
November						
December						
January						
February						
March						
April						
May						
June						
Total	$1,382.8	$86.8	6.7%	$60.5	$51.4	$1,271.0

SOURCE: Executive Office for Administration and Finance.
(1) Details may not add to Total due to rounding.
(2) Figures are preliminary.

The tax revenue increase of $86.8 million in July, 2008 is attributable in large part to an increase of approximately $29.3 million, or 5.3%, in withholding collections, an increase of approximately $69.9 million, or 139.6%, in corporate and business tax collections which are partially offset by changes in other revenues (net of refunds) and by the decline of $18.7 million, or 4.9%, in sales and use tax collections. The July, 2008 collections were $38 million above the July, 2008 benchmark, which was based on the fiscal 2009 estimate of $21.402 billion (consensus fiscal 2009 estimate of $20.987 billion adjusted for subsequent tax law changes). However, all of the July growth and more than the entire July surplus was accounted for by a corporate settlement payment of $80 million that was received in July.

Federal and Other Non-Tax Revenues

Federal revenues are collected through reimbursements for the federal share of entitlement programs such as Medicaid and through block grants for programs such as Transitional Assistance to Needy Families (TANF). The amount of federal reimbursements to be received is determined by state expenditures for these programs. The Commonwealth receives reimbursement for approximately 50% of its spending for Medicaid programs. Block grant funding for TANF is received quarterly and is contingent upon a maintenance-of-effort spending level determined annually by the federal government. In fiscal 2007, federal reimbursements for budgeted operating activity amounted to $6.168 billion. Federal reimbursements for fiscal 2008 are currently estimated to be $6.421 billion. Federal reimbursements for fiscal 2009 are currently projected to be $6.948 billion. Estimated fiscal 2008 federal reimbursement has been reduced to reflect notices of deferred federal reimbursement for supplemental payments to safety net hospitals in the amount of $40.7 million for "Section 122" payments, as well as an additional $42 million to reflect anticipated deferred federal reimbursement for other payments to safety net hospitals that were made before the Commonwealth secured approval through its Medicaid State Plan. The Commonwealth is also monitoring a resolution at the federal level of an additional $67.8 million in reimbursement on supplemental payments that are currently being included in the Commonwealth's estimates of federal reimbursement, and while the Commonwealth anticipates a resolution in the future, it is not certain that the claiming process will be completed in time for the revenue to be credited to fiscal 2008. In this case, revenue will be claimed and credited to fiscal 2009 federal reimbursement. See "COMMONWEALTH EXPENDITURES."

Departmental and other non-tax revenues are derived from licenses, tuition, fees and reimbursements and assessments for services. For fiscal 2008, departmental and other non-tax revenues are estimated to be $2.379 billion. The largest budgeted departmental revenues, assessments and miscellaneous revenues in fiscal 2008 included $428.4 million for Registry of Motor Vehicles fees, fines and assessments, $188.9 million from filing, registration and other fees paid to the Secretary of State's office, $229.9 million in housing authority and municipal payments on behalf of retired teachers to the Commonwealth for group health insurance, $73.2 million in tuition remitted to schools of higher education, $146 million from underground storage cleanup, deeds excise and other non-tax fees and remittances received by the Department of Revenue and $117.1 million in fees, fines and assessments charged by the court systems. For fiscal 2009, departmental and other non-tax revenues are projected to be $2.558 billion.

Lottery Revenues. For the budgeted operating funds, inter-fund transfers include transfers of profits from the State Lottery Fund and the Arts Lottery Fund and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for net transfers from the Lottery of $957.5 million, $985.2 million, $1.018 billion, $1.035 billion and $1.103 billion in fiscal 2003 through 2007, respectively, and are estimated by the State Lottery Commission at $1.005 billion in fiscal 2008. Under state law, the net balance in the State Lottery Fund, as determined by the Comptroller on each September 30, December 31, March 31 and June 30, is to be used to provide local aid. The fiscal 2007 budget assumed total net transfers from the Lottery of $1.103 billion to fund various commitments appropriated by the Legislature from the State Lottery Fund and the Arts Funds, including Lottery administrative expenses and $920 million in appropriations for local aid to cities and towns, with the balance, if any, to be transferred to the General Fund for the general activities of the Commonwealth. The assumed $1.103 billion figure was $118.8 million higher than the State Lottery Commission's actual operating revenues for fiscal 2007, which were $984 million. However, the $920 million in local aid spending was distributed to municipalities. Supplemental budget legislation approved by the Governor on August 8, 2008 provides for approximately $118.8 million to be transferred from the General Fund to the State Lottery Fund to resolve this fund imbalance.

The fiscal 2008 budget assumed total net transfers from the Lottery of $1.129 billion to fund various commitments appropriated by the Legislature from the State Lottery Fund and the Arts Lottery Fund, including Lottery administrative expenses and $935 million in appropriations for local aid to cities and towns, with the balance, if any, to be transferred to the General Fund for the general activities of the Commonwealth. The assumed $1.129 billion figure was approximately $124 million higher than the State Lottery Commission's original estimate of its operating revenues for fiscal 2008. It is currently estimated at $117 million. In order to fund the $935 million local aid distribution to cities and towns mandated by the fiscal 2008 budget, a transfer of $117 million from the General Fund to the State Lottery Fund was authorized by supplemental budget legislation approved by the Governor on August 8, 2008.

For fiscal 2009, the State Lottery Commission is currently projecting net transfers of $1.028 billion, which is estimated to result in $810.9 million of such transfers being available for local aid to cities and towns after paying Lottery administration expenses. The fiscal 2009 budget provides for $810.9 million in aid from Lottery funds and an additional $124.2 million from the General Fund.

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

The Commonwealth's allocable share of the base amounts payable under the master settlement agreement is approximately 4.04%. The Commonwealth's allocable share of the base amounts under the agreement through 2025 is more than $8.3 billion, subject to adjustments, reductions and offsets. However, in pending litigation tobacco manufacturers are claiming that because of certain developments they are entitled to reduce future payments under the master settlement agreement, and certain manufacturers withheld payments to the states due in April, 2006, April, 2007 and April, 2008. The Commonwealth believes it is due the full amount and is pursuing its claim to unreduced payments. See "LEGAL MATTERS - Taxes and Revenues." The Commonwealth was also awarded $414.3 million from a separate Strategic Contribution Fund established under the master settlement agreement to reward certain states' particular contributions to the national tobacco litigation effort. This additional amount, also subject to a number of adjustments, reductions and offsets, is payable in equal annual installments during the years 2008 through 2017.

Tobacco settlement payments were initially deposited in a permanent trust fund (the Health Care Security Trust), with only a portion of the moneys made available for appropriation. Beginning in fiscal 2003, however, the Commonwealth has appropriated the full amount of tobacco settlement receipts in each year's budget. The balance accumulated in the Health Care Security Trust amounted to $509.7 million at the end of fiscal 2007. The fiscal 2008 budget established the State Retiree Benefits Trust Fund for the purposes of depositing, investing and disbursing amounts set aside solely to meet liabilities of the state employee' retirement system for health care and other non-pension benefits for retired members of the system. The State Retiree Benefits Trust Fund is funded in the fiscal 2008 budget through a $354 million transfer from the General Fund for the purpose of making expenditures for current retirees which, prior to fiscal year 2008, had been made from appropriations within the Group Insurance Commission. The fiscal 2008 budget required the Health Care Security Trust's balance to be transferred to the State Retiree Benefits Trust Fund on or before June 30, 2008. The transfer will be made as of that date once the balance of the fund is determined subsequent to the Commonwealth's annual state single audit. See "FISCAL 2008 AND FISCAL 2009."

The following table sets forth the tobacco settlement amounts received by the Commonwealth to date. The table does not include approximately $30 million in withheld payments in fiscal 2006, approximately $27 million in withheld payments in fiscal 2007 and approximately $21 million in withheld payments in fiscal 2008 that the Commonwealth continues to pursue. See "LEGAL MATTERS - Taxes and Revenues."

Payments Received Pursuant to the Tobacco Master Settlement Agreement (in millions)(1)

Fiscal Year	Initial Payments	Annual Payments	Total Payments
2000	$186.6(2)	$139.6	$326.2(2)
2001	78.2	164.2	242.5
2002	82.8	221.7	304.5
2003	86.4	213.6	300.0
2004	-	253.6	253.6
2005	-	257.4	257.4
2006	-	236.3	236.3
2007	-	245.4	245.4
2008	-	288.5	288.5
Total	$434.0	$2,020.3	$2,454.3

SOURCE: Fiscal 2000-2008, Office of the Comptroller; fiscal 2008 is preliminary .
(1) Amounts are approximate. Totals may not add due to rounding.
(2) Payments received for both 1999 and 2000.

Limitations on Tax Revenues

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

Tax revenues in fiscal 2003 through 2007 were lower than the "allowable state tax revenue" limit set by Chapter 62F and are estimated to have been lower than the allowable limit in fiscal 2008.

Chapter 62F was amended by the fiscal 2003 and fiscal 2004 general appropriations acts to establish an additional tax revenue limitation. The fiscal 2003 budget created a quarterly cumulative "permissible tax revenue" limit equal to the cumulative year-to-date actual state tax revenue collected during the same fiscal period in the prior fiscal year, increased by the sum of the most recently available year-over-year inflation rate plus two percentage points. Effective July 1, 2003, at the end of each quarter the Commissioner of Revenue must calculate cumulative permissible tax revenue. The Comptroller must then divert tax revenue in excess of permissible tax revenue from the General Fund to a Temporary Holding Fund to make such excess revenue unavailable for expenditure. If actual tax revenue collections fall short of the permissible limit, the difference flows back into the General Fund. At the end of each fiscal year, tax revenue in excess of permissible state tax revenue for the year is to be held in the Temporary Holding Fund pending disposition by the Comptroller. The Comptroller is required to first use any funds in the Temporary Holding Fund to reimburse the Commonwealth Stabilization Fund for any amounts expended from the Stabilization Fund during the fiscal year. The general law amendments in the fiscal 2004 budget require that at the end of each fiscal year, the Comptroller must transfer remaining excess revenue from the Temporary Holding Fund back to the General Fund for inclusion in consolidated net surplus.

Actual state tax revenue for fiscal 2008 is estimated not to have exceeded the permissible state tax revenue limit set by Chapter 62F.

The following table shows the quarter by quarter trend of the Temporary Holding Fund from inception through the end of fiscal 2007:

TEMPORARY HOLDING FUND
(dollar amounts in thousands)

	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007
First quarter - period ended September 30				
Cumulative net tax revenues, current fiscal year	$ 3,827,761	$ 4,046,871	$ 4,362,131	$ 4,512,171
Cumulative net tax revenues, prior fiscal year	3,645,653	3,827,761	4,046,872	4,367,285
Permissible growth rate(1)	4.34%	4.54%	6.32%	8.05%
Permissible state tax revenues(2)	$ 3,803,874	$ 4,001,694	$ 4,302,513	$ 4,718,720
Cumulative net revenues, current fiscal year, in excess of permissible revenues	$ 23,886	$ 45,177	$ 59,618	$ -
Second quarter - period ended December 31				
Cumulative net tax revenues, current fiscal year	$ 7,436,091	$ 7,889,352	$ 8,526,671	$ 8,831,036
Cumulative net tax revenues, prior fiscal year	7,001,044	7,436,091	7,889,352	8,526,671
Permissible growth rate(1)	4.83%	4.80%	6.88%	7.62%
Permissible state tax revenues(2)	$ 7,339,194	$ 7,792,800	$ 8,432,376	$ 9,175,977
Cumulative net revenues, current fiscal year, in excess of permissible revenues	$ 96,897	$ 96,552	$ 94,295	$ -
Third quarter - period ended March 31				
Cumulative net tax revenues, current fiscal year	$ 11,241,207	$ 11,994,248	$ 12,946,485	$ 13,659,295
Cumulative net tax revenues, prior fiscal year	10,735,180	11,241,206	11,994,245	12,946,485
Permissible growth rate(1)	4.32%	5.41%	7.44%	6.92%
Permissible state tax revenues(2)	$ 11,198,940	$ 11,849,018	$ 12,886,497	$ 13,841,734
Cumulative net revenues, current fiscal year, in excess of permissible revenues	$ 42,267	$ 145,230	$ 59,988	$ -
Fourth Quarter - Period ending June 30				
Cumulative net tax revenues, current fiscal year	$ 16,052,917	$ 17,190,450	$ 18,592,175	$ 19,848,064
Cumulative net tax revenues, prior fiscal year	15,030,503	16,052,917	17,190,450	18,592,175
Permissible growth rate(1)	4.42%	6.24%	7.85%	6.52%
Permissible state tax revenues(2)	$ 15,695,453	$ 17,054,459	$ 18,540,072	$ 19,804,571
Cumulative net revenues, current fiscal year, in excess of permissible revenues	$ 357,464	$ 135,991	$ 52,103	$ 43,493

SOURCE: Office of the Comptroller and Executive Office for Administration and Finance.
(1) Defined as inflation plus 2%, but not less than 0%.
(2) Defined as cumulative net state tax revenues, prior fiscal year, multiplied by 1 plus the permissible growth rate.

COMMONWEALTH EXPENDITURES

The following table identifies certain major spending categories of the Commonwealth and sets forth the budgeted expenditures for each fiscal year within each category. In addition, budgeted expenditures and other uses are adjusted to reflect the school building assistance program payments in fiscal 2004 as if they had been non-budgeted in that year as they are beginning in fiscal 2005 with the creation of the Massachusetts School Building Authority.

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

Expenditure Category	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Estimated Fiscal 2008	Projected Fiscal 2009
Direct Local Aid(2)	$4,149.2	$4,224.1	$4,430.0	$4,805.2	$5,040.5	$5,263.6
Medicaid(3)	5,742.4	5,977.2	6,852.5	7,550.4	8,248.5	8,596.6
Other Health and Human Services	4,174.2	4,226.0	4,433.6	4,625.3	4,845.2	4,999.2
Group Insurance	787.6	846.4	963.7	1,022.3	858.9(8)	927.7
Dept. of Elementary and Secondary Education	394.0	476.7	408.6	459.0	569.6	630.9
Higher Education	831.3	915.0	987.8	1,115.7	1,079.2	1,085.8
Dept. of Early Education and Care	338.7	348.8	387.1	507.1	551.9	590.1
Public Safety(4)	1,203.2	1,206.5	1,288.0	1,399.2	1,543.1	1,536.2
Energy and Environmental Affairs	169.2	181.1	202.0	238.5	230.8	239.8
Debt Service	1,569.2	1,738.8	1,826.7	2,234.4	2,074.7	2,107.9
Budgeted Pension Transfers	701.9(5)	1,216.9	1,274.7	1,335.2	1,398.6	1,465.0
Other Program Expenditures	2,097.1	1,927.2	2,138.7	2,364.9	2,236.0	2,312.2
Sub Total - Programs and Services	$22,158.0	$23,284.7	$25,193.4	$27,657.2	$28,677.0	29,755.8
Inter-fund Transfers to Non-budgeted Funds						
Commonwealth Care Trust Fund	-	-	-	722.1	1,045.9	1,117.6
State Retiree Benefit Trust Fund	-	-	-	-	354.7	372.0
Medical Assistance Trust Fund	-	-	70.0	364.0	326.5	346.0
Other	690.3	494.4	321.2	179.6	868.6	549.4
Sub Total	$690.3	$494.4	$391.2	$1,265.7	$2,595.7	$2,385.0
Budgeted Expenditures and Other Uses	$22,848.3	$23,779.1	$25,584.6	$28,922.9	$31,272.7	$32,140.8
Adjustment for items moved off budget(6)	(551.4)(7)	-	-	-	-	-
Adjusted Budgeted Expenditures and Other Uses	$22,296.9	$23,779.1	$25,584.6	$28,922.9	$31,272.7	$32,140.8

SOURCES: Fiscal 2004-2007 Office of the State Comptroller; fiscal 2008, fiscal 2009 and off-budget adjustments, 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) Restated fiscal 2004 to fiscal 2007 Direct Local Aid differ from Direct Local Aid expenditures reported in the fiscal 2004 to 2007 SBFRs.

(3) Excludes off-budget Medicaid spending in fiscal 2004, 2005, 2006 and 2007 estimated at $329.2 million, $422.2 million, $332.5 million and $359.4 million, respectively. Fiscal 2004 also excludes budgeted expenditures for the administration of the Medicaid program. Fiscal 2005 through 2007 include program administration.

(4) Public Safety comprises expenditures for the Executive Office of Public Safety and Security, plus the Commonwealth's expenditures for sheriffs. Prior fiscal years have been restated to identify public safety spending.

(5) The fiscal 2004 general appropriations act funded the Commonwealth's scheduled pension obligation using $687.3 million in cash and a transfer of assets to the pension fund valued at $145 million. The asset transfer has not occurred and is not expected to occur. The amount in the table also includes non-contributory pensions paid from the General Fund.

(6) Includes expenditures for school building assistance in fiscal 2004 preceding off-budget restructuring of these expenditures. The amounts are subtracted from that year to facilitate trend analysis.

(7) Includes $150 million transferred from surplus for initial funding of grants by the MSBA.

(8) Prior to fiscal 2008, spending for both active and retired state employees is included within Group Insurance. In fiscal 2008, spending for retired employees occurs within the State Retiree Benefit Trust Fund to reflect new accounting requirements specified in Government Accounting Standards Board (GASB) statement 45.

Local Aid

Commonwealth Financial Support for Local Governments. The Commonwealth makes substantial payments to its cities, towns and regional school districts (local aid) to mitigate the impact of local property tax limits on local programs and services. See "Local Aid - *Property Tax Limits*." Local aid payments to cities, towns and regional school districts take the form of both direct and indirect assistance. Direct local aid consists of general revenue sharing funds and specific program funds sent directly to local governments and regional school districts as reported on the so-called "cherry sheet" prepared by the Department of Revenue, excluding certain pension funds and non-appropriated funds. In fiscal 2008, approximately $5.040 billion (17.5%) of the Commonwealth's budget was allocated to direct local aid.

As a result of comprehensive education reform legislation enacted in June, 1993, a large portion of general revenue sharing funds is earmarked for public education and is distributed through a formula specified in Chapter 70 of the General Laws designed to provide more aid to the Commonwealth's poorer communities. The legislation requires the Commonwealth to distribute aid to ensure that each district reaches at least a minimum level of spending per public education pupil. Since fiscal 1994, the Commonwealth has fully funded the requirements imposed by this legislation in each of its annual budgets. Beginning in fiscal 2007, the Legislature implemented a new model for the Chapter 70 program which was adjusted to resolve aspects of the formulas that were perceived to be creating inequities in the aid distribution. In fiscal 2009, the third year of this five-year model, the Commonwealth will provide a total of $3.949 billion of state aid through the Chapter 70 program.

The State Lottery Fund and the Additional Assistance program comprise the other major components of direct local aid, providing unrestricted funds for municipal use. In fiscal 2008, cities and towns received $935 million in aid from the State Lottery Fund, resulting in a deficit in the Fund that will require a transfer of $117 million from the General Fund (estimates of the deficit have been as high as $124 million), as provided in supplemental budget legislation approved by the Governor on August 8, 2008. The fiscal 2009 budget provides for State Lottery Fund distributions of approximately $810.9 million, with an additional $124.2 million to be provided from the General Fund. See "COMMONWEALTH REVENUES - Federal and Other Non-Tax Revenues; *Lottery Revenues*." Additional Assistance totaling $378.5 million was also provided to cities and towns in fiscal 2008. The fiscal 2009 budget also provides for Additional Assistance in the amount of $378.5 million.

Property Tax Limits. In November, 1980, voters in the Commonwealth approved a statewide tax limitation initiative petition, commonly known as Proposition 2½, to constrain levels of property taxation and to limit the charges and fees imposed on cities and towns by certain governmental entities, including county governments. Proposition 2½ is not a provision of the state constitution and accordingly is subject to amendment or repeal by the Legislature. Proposition 2½, as amended to date, limits the property taxes that may be levied by any city or town in any fiscal year to the lesser of (i) 2.5% of the full and fair cash valuation of the real estate and personal property therein or (ii) 2.5% over the previous year's levy limit plus any growth in the tax base from certain new construction and parcel subdivisions. The law contains certain voter override provisions and, in addition, permits debt service on specific bonds and notes and expenditures for identified capital projects to be excluded from the limits by a majority vote at a general or special election. Between fiscal 1981 and fiscal 2007, the aggregate property tax levy grew from $3.347 billion to $10.489 billion, a compound annual growth rate of 4.44%.

Medicaid

The Commonwealth's Medicaid program, called MassHealth, provides health care to low-income children and families, certain low-income adults, disabled individuals and low-income elders. The program, administered by the Office of Medicaid within the Executive Office of Health and Human Services, receives 50% in federal reimbursement on most expenditures. Beginning in fiscal 1999, payments for some children's benefits became 65% federally reimbursable under the State Children's Health Insurance Program (SCHIP). Congress and the Centers for Medicare and Medicaid Services are currently considering the reauthorization of the national SCHIP program, which is presently authorized through March, 2009.

Nearly 30% of the Commonwealth's budget is devoted to Medicaid. It is the largest and has been one of the fastest growing items in the Commonwealth's budget. Medicaid spending from fiscal 2003 to fiscal 2008 is estimated to have grown by 8.9% on a compound annual basis. Although the Commonwealth's Medicaid program has been growing by 8.9% on a compound annual basis for the past five years, it has experienced a leveling off in the past two fiscal years, in which the growth rate has been below 5.5%. During the same period, Medicaid enrollment is estimated to have increased 2.7%, driven largely by eligibility expansions authorized in 2006 by health care reform legislation. See "Health Care Reform Legislation."

The fiscal 2008 budget included $8.25 billion for Medicaid program and administrative expenses within MassHealth's on-budget accounts, a 9.3% increase over fiscal 2007 on-budget expenditures. Based on MassHealth's most recent forecast, fiscal 2008 expenditures are currently projected to be approximately $36 million over the original fiscal 2008 spending authorization. On June 17, 2008, the Governor approved $36 million in supplemental appropriations. The same legislation reduced the appropriation for the Medicare Part D clawback by $10.7 million. (The Medicare Part D clawback is a payment that the Commonwealth makes annually to the federal Centers for Medicare and Medicaid Services in compliance with Title XIX of the Social Security Act, to pay a portion of the costs of providing prescription drug coverage for Medicare beneficiaries. Even with the reduced appropriation, the Commonwealth will fully satisfy the obligation to the federal Centers for Medicare and Medicaid Services for Medicare Part D in fiscal 2009.)

The fiscal 2009 budget includes $8.59 billion for Medicaid programs and administrative expenses (after the Governor's vetoes of $51.2 million in MassHealth funding). The increase in spending is a 4.1% increase over fiscal 2008. MassHealth's recent forecast also indicates that the fiscal 2009 budget, including both cost and available revenue projections, may result in costs to the General Fund of approximately $200 million more than what is contemplated by the fiscal 2009 budget. The revised estimate reflects, in large part, a projected increase in enrollment. To help meet the funding needs of MassHealth and Commonwealth Care and ensure shared responsibility for financing state health coverage, the Governor approved legislation on August 8, 2008, as part of a final fiscal 2008 supplemental appropriations bill, providing additional revenues from health care reform stakeholders and authorizing the use of excess funds from the Medical Security Trust Fund. The legislation includes a one-time $33 million assessment on insurer surplus net worth for fiscal 2009, a one-time $20 million increase in the provider Health Safety Net Trust Fund assessment to help pay for state health coverage costs, authorization to transfer up to $35 million from the Medical Security Trust Fund for fiscal 2009 and a change to quarterly reporting for payment of the employer "fair share" assessment. Additionally, the Administration has proposed a draft regulation (not yet final) changing the "fair share" test, under which annual employer fair share contribution net revenue is projected to be approximately $45 million. These revenues are net of additional federal matching funds that would accompany their expenditure on state health coverage through MassHealth and Commonwealth Care.

	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Estimated Fiscal 2008	Budgeted Fiscal 2009(1)
	$ 5,485,10	$ 5,742.40	$ 5,875.30	$ 6,756.80	$ 7,412.60	$ 8,112.65	$ 8,447.40
Budgeted Medicaid administrative expenses (2)	110.10	105.10	121.70	127.70	133.80	142.30	145.37
Total On Budgeted Expenditures	5,595.20	5,847.50	5,997.00	6,884.50	7,546.40	8,254.95	8,592.77
Off Budget Medicaid expenses (3), (4)	201.40	329.20	422.20	332.50	288.50	-	-
Total Expenditures	5,796.60	6,176.70	6,419.40	7,217.00	7,834.90	8,254.95	8,592.77
Annual percentage growth in total expenditures	9.3%	6.6%	3.9%	12.4%	8.6%	5.4%	4.1%
Enrollment	986,601	951,960	987,953	1,041,890	1,094,101	1,124,501	1,150,303
Annual percentage growth in enrollment	-2%	-3.5%	3.8%	5.5%	5.0%	2.8%	2.3%
Per-enrollee expenditures	5,875.32	6,488.40	6,497.48	6,926.83	7,161.04	7,340.99	7,470.00
Annual percentage growth in per-enrollee expenditures	11%	10.4%	0.1%	6.6%	3.4%	2.5%	4.3%

SOURCE: Executive Office for Administration and Finance.

(1) Reflects the fiscal 2009 budget, including vetoes submitted by the Governor when he approved the budget on July 13, 2008.
(2) All fiscal years reflect spending through June 30.
(3) Off-budget spending does not include a revenue offset for Medicare "buy-in" payments in fiscal 2003, 2004 and 2005 ($174.9 million in fiscal 2003, $202.3 million in fiscal 2004 and $242.5 million in fiscal 2005). Beginning in fiscal 2006, these payments are reflected in budgeted Medicaid program expenses.
(4) Off-budget spending does not include increases in hospital and physician rates mandated by health care reform legislation. Such costs are paid from the Commonwealth Care Trust Fund, which is off-budget and described in the health care reform table below.

Federal 1115 MassHealth Demonstration Waiver

July 1, 2005 – June 30, 2008 Waiver Period

The Commonwealth operates the majority of its Medicaid program under a federal section 1115 demonstration project waiver ("waiver"), which is currently authorized through August 25, 2008. The Commonwealth is actively working with the federal government to secure a renewal of this authority through June 30, 2011; while prior authority was set to expire on June 30, 2008, the Commonwealth and the federal Centers for Medicare and Medicaid Services (CMS) agreed to extend the current terms for four two-week periods, in order to provide appropriate time in which to complete discussions. The Commonwealth will evaluate the need for additional short-term extensions as negotiations progress.

The current waiver reflects a new funding mechanism for hospital-supplemental payments. Supplemental payments are in addition to ordinary Medicaid rate payments for providing care to Medicaid members. The Commonwealth had used funding provided by other government entities (primarily local governments and the state-owned medical school) as the non-federal share of these supplemental Medicaid payments. The transfer of the non-federal share to the Medicaid agency to fund supplemental payments is called an inter-governmental transfer.

As a part of the 1115 waiver renewal negotiations, the Commonwealth and CMS agreed to sunset most inter-governmental transfers as a mechanism for financing the non-federal share of hospital supplemental payments effective June 30, 2005. The Commonwealth and CMS further agreed to sunset inter-governmental transfers as a mechanism to fund supplemental payments to Medicaid managed care organizations effective June 30, 2006. Sunsetting inter-governmental transfer funding mechanisms and, as a result, ending the associated supplemental payments would have had no net effect on the Commonwealth's financial condition because both spending and revenue would have been reduced by an equal amount. However, since the termination of supplemental payments would be disruptive to the Commonwealth's safety net hospital system, the Commonwealth has worked to identify alternative non-federal funding mechanisms to use in place of the inter-governmental transfer mechanisms previously used in order to continue supplemental payments to certain hospitals. The Commonwealth is using a new federally permissible inter-governmental transfer mechanism to finance supplemental payments to an acute publicly funded safety net hospital in each year of the current waiver term (fiscal 2006 through fiscal 2008). There is no net financial impact to the General Fund from these payments, because the public hospital contributes the non-federal share. These payments, as well as all other supplemental payments made to providers within the state, are subject to the approval of CMS. The Commonwealth continues to monitor CMS policy and regulatory changes regarding available reimbursement for supplemental payments, and is actively engaged with CMS staff on this matter. See "LEGAL MATTERS" for information on the current status of revenue deferrals related to supplemental payments.

The 1115 Demonstration Project waiver renewal also allowed for a mechanism by which the Commonwealth could continue to receive federal funding available prior to the inter-governmental transfer changes. CMS agreed to provide federal reimbursement on certain fully state-funded health care programs already operated by the Commonwealth (known as "Designated State Health Programs"). As the authority for Designated State Health Programs exists within the capped Safety Net Care Pool, Designated State Health Program revenue decreases from fiscal 2007 to fiscal 2008 as federal reimbursement increases for new programs created under health care reform and operated under the waiver (most notably, Commonwealth Care). The Commonwealth received $185 million in fiscal 2007 and $94.3 million in fiscal 2008 in federal reimbursement on these Designated State Health Programs.

July 1, 2008 – June 30, 2011 Waiver Period

On June 29, 2007, the Commonwealth submitted an application to CMS to renew the waiver through June 30, 2011. The provisions of the waiver will guide how the Commonwealth moves forward in designing not only the Medicaid program, but also the broader health care reform initiative, including the Commonwealth Care program and Health Safety Net Trust Fund. As such, the waiver agreement will reflect the federal reimbursement the Commonwealth can expect for several important programs, including (but not limited to):

- Medicaid waiver populations (i.e., individuals that are not eligible under traditional Medicaid rules, but for which CMS has agreed to allow eligibility)
- Commonwealth Care
- Health Safety Net Trust Fund

- Hospital Supplemental Payments
- Children's Behavioral Health Services (specifically related to the *Rosie D. et al v. Romney* lawsuit. See "LEGAL MATTERS.")

One condition of the 1115 waiver is that the cost of services provided under the waiver must not exceed the cost of the traditional Medicaid program if a waiver had not been granted. The Commonwealth must periodically submit statements of "budget neutrality" in order to affirm that the state has not violated this provision of the waiver agreement. The Commonwealth submitted a budget neutrality statement to CMS in support of the renewal application on December 24, 2007 and is currently engaged in discussions with CMS to finalize the terms of the renewal. The Commonwealth's goal is to have a new agreement in place by August 25, 2008. As noted above, the Commonwealth is currently operating under a fourth two-week extension of the terms that were to expire on June 30, 2008, in order to allow for ample time to reach an agreement. The Commonwealth will evaluate the need for additional short-term extensions as negotiations progress.

The final waiver agreement will inform the overall level of federal financial participation available under the waiver for fiscal 2009 through 2011. Consequently, the Commonwealth's projections for fiscal 2009 through 2011 are expected to be updated subsequent to waiver approval, based on this final agreement.

Health Care Reform Legislation

In April, 2006, legislation was enacted to reform health care by mandating that individuals 18 years and older purchase insurance, while offering subsidized coverage to uninsured residents whose income falls below 300% of the federal poverty level and providing new, affordable products for uninsured residents whose income exceeds this threshold. The reform also made several changes within MassHealth, including expanding benefits to individuals not previously eligible and increasing caseload caps (and eliminating associated wait-lists) for some programs. The reform asks employers to play a role by requiring that businesses with 11 or more full-time employees either contribute to coverage or pay an assessment. These businesses must also establish a mechanism wherein employees can pay for health insurance coverage on a pre-tax basis (known as a Section 125, or "cafeteria plan" option). Businesses that are subject to this requirement but do not comply may potentially face a surcharge. The legislation also created the Commonwealth Health Insurance Connector Authority (Connector Authority), charged with linking uninsured residents to affordable, and in some cases subsidized, coverage.

MassHealth. The health care reform legislation restored MassHealth benefits that had been discontinued in fiscal 2002, including adult dental benefits and coverage for glasses, chiropractic services, and prosthetics. The legislation also created new benefits, including smoking cessation and wellness benefits. The legislation also increased enrollment caps for several MassHealth populations and increased eligibility for several programs. The caseload limit for MassHealth Essential, which offers benefits to long-term unemployed adults and which previously had an enrollment cap of 44,000 individuals, was increased to allow up to 60,000 enrollees to join and eliminate a waitlist for the program. Enrollment caps were also increased for MassHealth-HIV Family Assistance, which covers individuals up to 200% of the federal poverty level who are HIV-positive, and the Insurance Partnership, and the enrollment cap for adults in CommonHealth, which covers disabled individuals, was eliminated. Eligibility for MassHealth's SCHIP program was increased to 300% of the federal poverty level, as was eligibility for MassHealth's Insurance Partnership program

Finally, the legislation provided for rate increases for acute care hospitals, physicians and managed care organizations. In addition, to reflect the need to maintain support for the safety net after the sunsetting of old inter-governmental transfers as a mechanism for making supplemental payments, the Commonwealth is also committed to making transitional supplemental payments to providers through fiscal 2009.

Connector Authority, Commonwealth Care, Commonwealth Choice. The legislation created the Connector Authority, responsible for administering the new Commonwealth Care program, a subsidized health coverage program for individuals and families whose income is up to 300% of the federal poverty level and who do not have access to employer-sponsored insurance. Commonwealth Care began enrolling individuals on October 1, 2006, and as of July 1, 2008, over 174,000 residents with income up to 300% of the federal poverty level were enrolled in health plans. Individuals with income between 150% and 300% of the federal poverty level contribute to their coverage on a sliding scale through monthly premiums. In November, 2007, the Connector Authority began re-determining eligibility for individuals who had been enrolled in the program for 12 months, as mandated by the 1115 waiver agreement with CMS. The fiscal 2008 budget included $472 million for the Commonwealth Care program; however, enrollment has been considerably higher than initially projected. As a result, on May 30, 2008, the Governor approved legislation directing $153 million in supplemental funds to the program. These supplemental funds and other funds in the Commonwealth Care Trust Fund will contribute to a total fiscal 2008 program cost of approximately $630 million.

The fiscal 2009 budget includes $869 million for Commonwealth Care. Projecting Commonwealth Care enrollment and costs continues to be challenging in light of the relative newness of the overall program and the impact of the recently initiated re-determination process. Previous projections based on enrollment trends through early calendar year 2008 suggested that, within a range of estimates, Commonwealth Care would enroll 255,000 individuals by the end of fiscal 2009, with an accompanying total program cost of $1.082 billion. While net enrollment growth has since stabilized over the past few months, driven primarily by disenrollments due to re-determinations of enrollee eligibility, the program is still subject to some potential enrollment pressures, including the prospect of enrollment growth accompanying any economic downturn and re-enrollment of some individuals who were disenrolled through the re-determination process. Moreover, even if fiscal 2009 year-end enrollment matches the budgeted assumption of 225,000 individuals, costs for Commonwealth Care are still projected to be at least moderately over budget due to higher-than-budgeted final rates for plan coverage, reflecting updated information about member costs, and lower-than-budgeted aggregate enrollee contributions on account of case mix (which have been estimated to add about $70 million on top of the $869 million in budgeted program costs in their own right). Another potential cost pressure for Commonwealth Care is the impact of risk-sharing arrangements with the managed care organizations providing plan coverage. The staff of the Connector is continuing to monitor evolving enrollment and cost trends to further inform fiscal 2009 estimates. The cost estimates discussed above represent projections of gross funding needs for Commonwealth Care and thus do not account for federal reimbursement. Consistent with the current Medicaid waiver, the Commonwealth is seeking the continuation of federal matching funds for spending on Commonwealth Care in its negotiations with CMS to renew its Medicaid waiver through fiscal 2011.

To help meet the funding needs of MassHealth and Commonwealth Care and ensure shared responsibility for financing state health coverage, the Governor approved legislation on August 8, 2008, as part of a final fiscal 2008 supplemental appropriations bill, providing additional revenues from health care reform stakeholders and authorizing the use of excess funds from the Medical Security Trust Fund. This legislation includes a one-time $33 million assessment on insurer surplus net worth for fiscal 2009, a one-time $20 million increase in the provider Health Safety Net Trust Fund assessment to help pay for state health coverage costs, authorization to transfer up to $35 million from the Medical Security Trust Fund for fiscal 2009 and a change to quarterly reporting for payment of the employer “fair share” assessment. Additionally, the Administration has proposed a draft regulation (not yet final) changing the “fair share” test, under which annual employer fair share contribution net revenue is projected to be approximately $45 million. These revenues are net of additional federal matching funds that would accompany their expenditure on state health coverage through MassHealth and Commonwealth Care.

The Connector Authority is also responsible for offering new, affordable products to individuals whose income exceeds 300% of the federal poverty level but who do not currently have access to health coverage. On May 1, 2007, the Connector Authority launched the Commonwealth Choice program to offer individuals a range of unsubsidized affordable health insurance plans. As of July 1, 2008, over 18,000 individuals have enrolled in health plans through the Commonwealth Choice program.

Health Safety Net Trust Fund. The Division of Health Care Finance and Policy administers the Health Safety Net Trust Fund (formerly the Uncompensated Care Pool), which reimburses acute care hospitals and community health centers in Massachusetts for eligible services provided to low-income uninsured and underinsured people. As the Commonwealth implements health care reform and aims to insure nearly every resident, the Division is carefully monitoring utilization and costs paid from the Health Safety Net Trust Fund. Division staff, in conjunction with the Executive Office of Health and Human Services and the Executive Office for Administration and Finance, continue to monitor trends in demand and utilization of free care. To date, the Division reports that utilization has decreased by 15% in the Trust Fund’s fiscal 2007 (the Trust Fund’s fiscal year runs from October 1 through September 30) as compared to the Trust Fund’s fiscal 2006, and that during the same time period, total costs declined by 9%.

Projected expenditures from the Health Safety Net Trust Fund and additional payments for un-reimbursed care provided to low-income uninsured and underinsured individuals at acute care hospitals and community health centers are $497.6 million in the Trust Fund's fiscal 2008. The General Fund is expected to contribute $113.6 million to the Trust Fund, while $344 million is expected to be generated from hospital and insurer assessments and surplus funds from fiscal 2007. In addition, $40 million in reimbursement for care provided to low-income uninsured and underinsured individuals provided at acute hospitals is expected to be funded by supplemental payments made from other sources.

The fiscal 2009 budget authorizes $453 million for payments made during the Trust Fund's fiscal 2009 for care provided to low-income uninsured and underinsured individuals at acute care hospitals and community health centers. The General Fund is expected to contribute $63 million to the Trust Fund, and $320 million is expected to be generated from hospital and insurer assessments to pay for Trust Fund costs. In addition, $70 million in reimbursement for care provided to low-income uninsured and underinsured individuals provided at acute hospitals is expected to be funded by supplemental payments made from other sources.

For both fiscal 2008 and fiscal 2009, the Division of Health Care Finance and Policy continues to monitor service utilization of the Health Safety Net Trust Fund, to assess the appropriate level of funding for the Trust Fund and to analyze constantly evolving trends relating to Trust Fund care demand, particularly in view of state spending on Commonwealth Care. There will be corresponding budget adjustments as more data emerges regarding demand on the Health Safety Net Trust Fund.

Cost Projections. As the Commonwealth moves into the second full year of implementation of health care reform, the Executive Office for Administration and Finance, in consultation with the Executive Office of Health and Human Services, the Connector Authority and other stakeholders, are closely monitoring the costs of the initiative. The Commonwealth is learning more about the characteristics of the uninsured population, and the state is already experiencing the impact of nearly 440,000 residents having newly enrolled in health coverage through a combination of private and public programs. The Commonwealth has seen a reduction in the number of individuals accessing free care through the state's safety net hospitals and community health centers, and as the reform moves toward its second stage, stakeholders from all branches of government are focused on opportunities to contain costs not only of the programs associated with the reform, but for health care programs across the state.

Spending Categories(1)	Fiscal 2007	Estimated Fiscal 2008	Budgeted Fiscal 2009
Commonwealth Care (2)	$ 132.9	$ 629.8	$ 869.4
Transfer to the Health Safety Net Trust Fund (3)	290.0	113.6	63.0
Hospital Supplemental Payments (4)	200.0	180.0	160.0
Hospital and Physician Rate Increases (5)	70.9	165.9	225.2
Total Spending from Commonwealth Care Trust Fund (6)	$ 693.8	$ 1,089.2	$1,317.6
Funds Other than General Fund Available to CCTF			
Rolling surplus (7)	-	$ 28.3	$ 20.0
Employer Fair Share Revenue (8)	-	5.4	5.0
Individual Tax Penalty Revenue (9)	-	9.7	-
Cigarette Tax Revenue (10)	-	-	175.0
Total Funds Other than General Fund Available to CCTF	-	$ 43.4	$ 200.0
General Fund Transfer to the CCTF	$ 693.8	$ 1,045.9	$1,117.6
Related Federal Reimbursement			
Commonwealth Care (11)	$ 50.9	$ 268.3	$ 360.0
Spending within Health Safety Net Trust Funds (12)	265.8	156.0	191.5
Hospital Supplemental Payments (13)	100.0	90.0	80.0
Hospital and Physician Rate Increases (14)	35.5	82.9	112.6
Total Related Federal Reimbursement to General Fund	$ 452.1	$ 597.3	$ 744.3

SOURCE: Executive Office of Administration and Finance. Fiscal 2009 figures are based on the fiscal 2009 budget. As discussed above, the Governor approved legislation on August 8, 2008 raising additional revenues for state health programs and has filed a draft regulation that would also increase revenues under the "fair share" test. These revenues will subsequently be allocated among MassHealth and Commonwealth Care based on actual program costs. Accordingly, this chart does not yet reflect or allocate those additional revenues.

(1) The spending categories included in the table above include general fund support for expenditures only within the Commonwealth Care Trust Fund.
(2) Reflects only the General Fund-supported portion of the Commonwealth Care program and does not reflect spending that is supported by enrollee contributions. See "Connector Authority, Commonwealth Care, Commonwealth Choice" for discussion of additional budget pressures on Commonwealth Care.
(3) Transfer to the Health Safety Net Trust Fund reflects only the General Fund's contribution to the Trust Fund**.** As indicated above, overall reimbursements for care for uninsured and underinsured individuals are also supported by assessment revenue and-other supplemental payments to providers. Appropriate levels of funding for the HSNTF will be continually re-assessed against new projections and current state spending assumptions. See previous discussion of "Health Safety Net Trust Fund."
(4) Reflects supplemental payments to hospitals that were specified in the health care reform legislation.
(5) Reflects hospital and physician rate increases specified in the health care reform legislation.
(6) The General Fund's contribution to total spending from the Commonwealth Care Trust Fund is offset by other revenues available to the Trust Fund. Accordingly, while total spending from the Trust Fund in fiscal 2008 is estimated to be **$**1.089 billion, this is expected to be offset by $43.4 million in other available revenue, leaving a General Fund contribution of $1.046 billion. In fiscal 2009, total spending from the Trust Fund is projected to be $1.317 billion, which is expected to be offset by $200 million in other available revenue; therefore, the projected General Fund contribution in fiscal 2009, after accounting for other available revenues**,** is $1.117 billion.
(7) In fiscal 2008, this category reflects surplus funds that were transferred to the trust fund during fiscal 2007 that were not spent. In fiscal 2009, this category reflects funds that were held aside as it relates to the hospital pay-for-performance efforts specified in the health care reform legislation.
(8) Reflects "fair share" contributions specified in the health care reform legislation. Does not reflect statutory changes to fair share collections included in legislation approved August 8, 2008 or proposed regulatory changes to the fair share test (which are not yet final). Under these proposed regulatory changes, annual employer fair share contribution net revenue is projected to be approximately $45 million.
(9) Total amounts deposited in the Commonwealth Care Trust Fund to date reflecting tax penalties paid in fiscal 2008 by individuals who could have afforded health insurance but did not secure coverage as of December 31, 2007. The Executive Office for Administration and Finance and the Department of Revenue have not yet estimated potential tax penalty revenue for fiscal 2009. They will be analyzing final fiscal 2008 tax penalty revenues and other data to develop such an estimate.

(10) The fiscal 2009 budget directs $175 million of incremental cigarette tax revenue to the Commonwealth Care Trust Fund.
(11) Reflects federal reimbursements received on account of Commonwealth Care expenditures. In this table, revenue for Commonwealth Care does not include enrollee contributions or administrative claims.
(12) Reflects federal reimbursements received on account of hospital health safety net expenditures. The Health Safety Net Trust Fund also makes expenditures for free care provided at community health centers, as well as health safety net demonstration projects. The Commonwealth has the opportunity to claim federal reimbursement for these expenditures through Designated State Health Programs (DSHP), subject to the availability of DSHP revenue.
(13) Reflects federal reimbursements on account of payments to hospitals that were specified in the health care reform legislation.
(14) Reflects federal reimbursements received on account of hospital and physician rate increases specified in the health care reform legislation.

Other Health and Human Services

Other Health and Human Services—Budgeted Operating Funds (in millions)

Expenditure Category	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Estimated Fiscal 2008	Projected Fiscal 2009
Office of Health Services						
Dept. of Mental Health	$561.9	$569.8	$603.4	$630.2	$670.5	$685.4
Dept. of Public Health	408.6	431.1	473.6	543.6	551.1	589.7
Division of Healthcare and Finance Policy	9.4	9.2	9.9	10.3	14.5	17.5
Sub Total	$979.9	$1,010.1	$1,086.9	$1,184.1	$1,236.1	$1,292.6
Office of Children, Youth, and Family Services						
Dept. of Social Services	681.3	700.9	729.2	783.4	815.6	836.5
Dept. of Transitional Assistance	779.9	772.2	781.8	781.9	866.0	892.6
Dept of Youth Services	123.9	130.3	141.9	152.8	160.6	163.1
Office for Refugees and Immigrants	0.2	0.3	0.7	1.2	0.5	0.7
Sub Total	$1,585.3	$1,603.7	$1,653.6	$1,719.3	$1,842.7	$1,892.9
Office of Disabilities and Community Services						
Dept. of Mental Retardation	1,007.1	1,058.1	1,122.2	1,179.6	1,237.0	1,271.3
Other	108.1	112.0	118.6	128.3	130.4	134.5
Sub Total	$1,115.2	$1,170.1	$1,240.8	$1,307.9	$1,367.4	$1,405.8
Dept of Elder Affairs	288.3	299.5	305.6	278.8	292.8	296.1
Executive Office of Human services (1)	155.4	90.8	111.7	92.5	60.3	60.4
Veterans' Services and Other	50.1	51.8	35.0	42.7	45.9	51.4
Sub Total	$493.8	$442.1	$452.3	$414.0	$399.0	$407.9
Budgeted Expenditures and Other Uses	$4,174.2	$4,226.0	$4,433.6	$4,625.3	$4,845.2	$4,999.2

SOURCES: Fiscal 2004-2007 Office of the State Comptroller; fiscal 2008-2009, Executive Office for Administration and Finance.
(1) Includes the Department of Medical Assistance (DMA) which was a separate department through fiscal 2004; but consolidated into the Executive Office of Human Services in fiscal 2005.

Office of Health Services

The Office of Health Services encompasses programs and services from the Department of Public Health, the Department of Mental Health and the Division of Health Care Finance and Policy. Their goal is to promote healthy people, families, communities and environments through coordinated care. The departments work in unison to determine that individuals and families can live and work in their communities self sufficiently and safely. The following are a few examples of programs and services provided by this office: substance abuse programs, immunization services, early intervention programs, environmental health services, youth violence programs, supportive housing and residential services for the mentally ill of all ages, and emergency and acute hospital services. The Division of Health Care Finance and Policy works to improve the delivery of and financing of health care by providing information, developing policies and promoting efficiency that benefit the people of the Commonwealth.

For fiscal 2008, the Office of Health Services is estimated to have spent $1.236 billion to provide health programs and services. The Office is projected to spend $1.293 billion in fiscal 2009. The Department of Public Health's fiscal 2008 spending was an estimated $551.1 million and is projected to be $589.7 million in fiscal 2009. Department of Mental Health spending is estimated to have been $670.5 million in fiscal 2008 and is projected to be $685.4 in fiscal 2009. Division of Health Care Finance and Policy spending is estimated to have been $14.5 million in fiscal 2008 and is projected to be $17.5 million in fiscal 2009.

Office of Children, Youth and Family Services

The Office of Children, Youth and Family Services works to provide services to children and their families through a variety of programs and services. The programs and services are offered through the Department of Social Services, the Department of Youth Services, the Department of Transitional Assistance and the Office of Refugees and Immigrants. The collaborative goal of this office is to work to ensure that individuals, children and families are provided with public assistance needed as well as access to programs that will allow for them to be safe and self-sufficient. The Office of Children, Youth and Family Services overall actual spending is estimated to have been $1.843 billion in fiscal 2008 and is projected to be $1.893 billion in fiscal 2009.

Through the Department of Transitional Assistance, the Commonwealth administers four major programs of public assistance for eligible state residents: transitional aid to families with dependent children (TAFDC); emergency assistance; emergency aid to the elderly, disabled and children (EAEDC); and the state supplemental benefits for residents enrolled in the federal supplemental security income (SSI) program. In addition, the Department is responsible for administering the entirely federally funded food stamps program, which provides food assistance to low-income families and individuals. The Department oversees state homeless shelter programs and spending for families and individuals. Lastly, beginning in fiscal 2008, the Department established a new supplemental nutritional program, which provides small supplemental benefits to working families currently enrolled in the food stamps program.

Total TAFDC expenditures in fiscal 2008 are estimated to have been $287.8 million, or $3.6 million more than fiscal 2007. TAFDC fiscal 2009 expenditures are projected to be $302.7million. Fiscal 2008 expenditures for the EAEDC program are estimated to total $72.2 million, an increase from fiscal 2007 spending of $67.3 million. Total fiscal 2009 EAEDC expenditures are projected to be $72.5 million. In fiscal 2008, the state's supplemental SSI spending is estimated to have been $212.2 million, $6.8 million, or 3.0%, greater than expenditures in fiscal 2007. Fiscal 2009 SSI expenditures are projected to be $219.3 million.

Federal Welfare Spending. The federal welfare reform legislation that was enacted on August 22, 1996 eliminated the federal entitlement program of aid to families with dependent children and replaced it with block grant funding for transitional assistance to needy families (TANF). The TANF program replaced Title IV-A of the Social Security Act and allows states greater flexibility in designing programs that promote work and self-sufficiency. The block grant for the Commonwealth was established at $459.4 million annually for federal fiscal years 1997 through 2006. The Commonwealth must meet federal maintenance-of-effort requirements in order to be eligible for the full TANF grant award. In February, 2006, federal legislation reauthorized the TANF block grant providing $459.4 million annually to the Commonwealth for the next five years, provided that the Commonwealth meets federal work requirements outlined below.

Welfare Reform. Under new federal TANF program rules, Massachusetts must increase its current work participation rate (*i.e.,* the current percentage of families receiving assistance that are participating in work or training-related activities allowed under the program) from 16.7% to 50% for all TANF families and 90% for two parent families beginning in federal fiscal year 2007. Through fiscal 2007, Massachusetts has been eligible under the federal program rules to lower the state's total required work participation rate requirement by applying credits earned through annual caseload reductions while continuing to meet federal requirements for state maintenance of effort spending. The Commonwealth is awaiting approval of the fiscal 2007 caseload reduction credit methodology. In fiscal 2008, Massachusetts will be subject to a new methodology in determining the total annual caseload reduction credit that can be applied to the state's workforce participation target. Because the new methodology will diminish the state's ability to lower its workforce participation target, the state has established a new supplemental nutrition program. Working families enrolled in this new program can be counted towards the workforce participation rate and allow the state to avoid losses in federal revenue in fiscal 2008, while providing the working poor with a meaningful food assistance benefit.

For long-term improvement in the state's workforce participation rate, the Department of Transitional Assistance has implemented initiatives to meet federal work participation standards within the provisions of existing state law. Such efforts included engaging more individuals and families in eligible work and training activities and better aligning funding with federal regulations, both to minimize the number of individuals in the calculation that are not participating and to maximize the number that are meeting the federal requirement.

Office of Disabilities and Community Services

The Office of Disabilities and Community Services assists in the welfare of many disadvantaged residents of Massachusetts through a variety of agencies. Programs and services are provided by the Massachusetts Rehabilitation Commission, the Massachusetts Commission for the Deaf and Hard of Hearing, the Massachusetts Commission for the Blind, the Department of Mental Retardation and the Soldiers' Homes in Chelsea and Holyoke. These agencies provide assistance to this population and create public awareness to the citizens of the Commonwealth. Other facets of the Office of Disabilities and Community Services include both oversight and inter-agency collaboration which attend to the needs of the community, disabled and multi-disabled population. This holistic approach is designed to ensure that those of all ages with disabilities are able to lead functionally equivalent lives despite limitations that they may face.

The current lawsuit of *Rolland v. Patrick et al.* (originally *Rolland v. Cellucci*) affects both the Department of Mental Retardation and the Office of Disabilities and Community Services. Pursuant to the terms of the settlement, the Department of Mental Retardation must provide specialized services to those individuals residing in nursing facilities, place individuals into the community and divert the placement of new individuals. For the past eight years, the Department of Mental Retardation has addressed the needs of the 1,675 individuals with mental retardation and developmental disabilities residing in skilled nursing facilities. The settlement also required the Commonwealth to devote an additional $5 million each year to pay for the placement of these individuals. See "LEGAL MATTERS."

In fiscal 2007, spending for these agencies and services that they provide totaled $1.3 billion. A considerable portion of this, $1.2 billion, was expended by the Department of Mental Retardation. The Massachusetts Rehabilitation Commission followed in spending by utilizing approximately $39 million in fiscal 2007. The remaining amount was allocated between the Massachusetts Commission for the Blind, the Massachusetts Commission for the Deaf and Hard of Hearing and the Massachusetts and Holyoke Soldiers' Home. Fiscal 2008 produced a similar trend in spending, with the Office of Disabilities and Community Services estimated to have spent approximately $1.367 billion. The largest expenditures occurred similarly at the Department of Mental Retardation, receiving over 90% of this funding, or $1.237 billion. The Office of Disabilities and Community Services is projected to spend $1.406 billion in fiscal 2009. Of that amount, the Department of Mental Retardation is expected to spend $1.271 billion.

Department of Elder Affairs

The Department of Elder Affairs (Elder Affairs) provides a variety of services and programs to eligible seniors and their families. Elder Affairs administers supportive and congregate housing programs, regulates assisted living residences, provides home care and caregiver support services, and nutrition programs. Eligibility for services is based largely on age, income, and disability status. The Department of Elder Affairs also administers the Prescription Advantage Program. The Department of Elder Affairs is estimated to have spent $292.8 million on senior programs (*e.g.*, housing, nutrition, protective services) in fiscal 2008 and is projected to spend $296.1 million in fiscal 2009.

Personal Care Attendant Services. The Executive Office of Health and Human Services, through Elder Affairs, offers personal care attendant (PCA) services to individuals with disabilities. This community-based service is in line with Elder Affairs' commitment to providing safe, effective services in the most appropriate setting. Legislation enacted in 2006 established the Personal Care Attendant Quality Home Care Workforce Council (PCA

Council) within, but not subject to the control of, the Executive Office of Health and Human Services. As a result of the legislation, PCAs are public employees for the purpose of collective bargaining with the PCA Council but do not receive state employee pension or health benefits. The PCA Council is charged with recruitment and training of PCAs, establishing a referral directory to match consumers with PCAs and assisting consumers in making contact with potential candidates. On November 7, 2007, PCAs voted to be represented by the Service Employees International Union (SEIU) 1199 in their negotiations with the PCA Council. The PCA Council has reached a tentative three-year agreement with the PCAs which includes wage increases, paid time off, benefits and a commitment to study the need and options for health insurance benefits for PCAs and to negotiate an agreement regarding health insurance benefits based on the study to commence in fiscal 2010.

Department of Veterans' Services

The Department of Veterans' Services provides a variety of services, programs and benefits to eligible veterans and their families. The Department of Veterans' Services provides outreach services to help eligible veterans enroll in a variety of programs, administers supportive housing and homeless services, and provides over 65,000 veterans, veterans' spouses and parents with annuity and benefit payments.

In fiscal 2008, the Department of Veterans' Services is estimated to have spent $45.9 million on veterans' programs (*e.g.*, outreach, housing and benefits). Projected fiscal 2009 spending is $51.4 million.

Group Insurance

The Group Insurance Commission (GIC) provides health insurance benefits to approximately 286,000 active and retired state employees and their dependents. Currently, the GIC has a tiered structure for employee contributions to health coverage. All employees hired on or before June 30, 2003 contribute 15% of total premium costs. All employees hired after June 30, 2003 pay 20% of premium costs.

The fiscal 2008 budget made a change to the way in which the GIC makes payments for retiree health care costs in response to the requirements of Government Accounting Standards Board (GASB) Statement No. 45 and the state's intent to consolidate spending for current retirees with deposits towards the Commonwealth's non-pension retiree liability. See "Other Post-Retirement Benefit Obligations (OPEB)." The original fiscal 2008 budget appropriated $831 million for the GIC to fund health coverage for active employees and their dependents as well as administrative costs. The original fiscal 2008 budget also authorized transfers of up to $343.2 million to the State Retiree Benefits Trust Fund for the purpose of making expenditures for current retirees and their dependents. Budgeted funding at the GIC in fiscal 2008, including health coverage for active and retired employees and other costs totaled $1.17 billion, a 14% increase over fiscal 2007 budgeted amounts.

A preliminary analysis of GIC fiscal 2008 spending indicates total spending of $1.21 billion, $42.4 million higher than originally expected. A portion of the shortfall was accounted for in the State Retiree Benefits Trust Fund, and on May 30, 2008 the Governor approved legislation directing $11.5 million in supplemental funds to the Trust Fund. The remainder of the shortfall was driven by unanticipated utilization of active employees and their dependents. On June 17, 2008, the Governor approved legislation providing supplemental funding in the amount of $30 million. The fiscal 2009 budget includes $1.28 billion for GIC expenditures.

Pension

Almost all non-federal public employees in Massachusetts participate in defined-benefit pension plans administered pursuant to state law by 106 public retirement systems. The Commonwealth is responsible for the payment of pension benefits for Commonwealth employees (members of the state employees' retirement system) and for teachers of the cities, towns and regional school districts throughout the state (including members of the Massachusetts teachers' retirement system and teachers in the Boston public schools, who are members of the State-Boston retirement system but whose pensions are also the responsibility of the Commonwealth). Employees of certain independent authorities and agencies, such as the Massachusetts Water Resources Authority, and of counties, cities and towns (other than teachers) are covered by 104 separate retirement systems. Pension benefits for state employees are administered by the State Board of Retirement, and pension benefits for teachers are administered by the Teachers' Retirement Board. Investment of the assets of the state employees' and Massachusetts teachers' retirement systems is managed by the Pension Reserves Investment Management (PRIM) Board. In the case of all other retirement systems, the retirement board for the system administers pension benefits and manages investment of assets. Many such retirement boards invest their assets with the PRIM Board, and legislation approved in 2007 allows the PRIM Board to take over the assets of local retirement systems that are less than 65% funded and have failed to come within 2% of the PRIM Board's performance over a ten-year period. With a very small number of exceptions, the members of these state and local retirement systems do not participate in the federal Social Security System.

Legislation approved in 1997 provided, subject to legislative approval, for annual increases in cost-of-living allowances equal to the lesser of 3% or the previous year's percentage increase in the United States Consumer Price Index on the first $12,000 of benefits for members of the state employees' and teachers' retirement systems. The Commonwealth pension funding schedule (discussed below) assumes that annual increases of 3% will be approved for its retirees. Local retirement systems that have established pension funding schedules may opt in to the requirement as well, with the costs and actuarial liabilities attributable to the cost-of-living allowances required to be reflected in such systems' funding schedules. Legislation approved in 1999 allows local retirement systems to increase the cost-of-living allowance up to 3% during years that the previous year's percentage increase in the United States consumer price index is less than 3%.

The fiscal 2009 budget approved by the Legislature included an outside section that would increase the base, from $12,000 to $16,000, to which cost-of-living adjustments (COLAs) are applied for state employees and local teachers whose pensions are the responsibility of the Commonwealth. The Public Employee Retirement Administration Commission (PERAC) estimates that this provision, if enacted into law, would increase the actuarial liability of the pension system by approximately $1.07 billion and increase the normal cost by $24 million. Based on the current Commonwealth pension funding schedule (4.5% increasing amortization to fiscal 2023), this would translate into an additional cost of $119 million in the first year of the schedule (assuming payment began in fiscal 2008). PERAC based their analysis on their September, 2005 study of cost-of-living adjustments and an update they performed in 2007 to reflect the passage of time since their original study. On July 13, 2008, the Governor returned this section to the Legislature with a proposed amendment that would limit the COLA base adjustment to those retirees whose annual pension payments are below $40,000. The Legislature subsequently enacted a bill limiting the COLA base adjustment for fiscal 2009 but not for subsequent years. After fiscal 2009, the COLA base adjustment would apply to state employees, local teachers and Boston teachers. The Boston teachers were not originally included in the COLA base increase but were added by the Legislature's enacted amendment. All of the various bills contemplate an extension of the Commonwealth's pension funding schedule from 2023 to 2026. This would have the effect of maintaining appropriation amounts from the current schedule and lengthening the schedule to pay the additional costs of the COLA base adjustment provision. On August 7, 2008, the Governor vetoed both the amended COLA base adjustment as well as the extension of the funding schedule. See "Unfunded Actuarial Accrued Liability" below.

Employee Contributions. The state employees' and Massachusetts teachers' retirement systems are partially funded by employee contributions of regular compensation – 5% for those hired before January 1, 1975, 7% for those hired from January 1, 1975 through December 31, 1983, 8% for those hired from January 1, 1984 through June 30, 1996 and 9% for those hired on or after July 1, 1996, plus an additional 2% of compensation above $30,000 per year for all those members hired on or after January 1, 1979. Employee contributions are 12% of compensation for members of the state police hired after July 1, 1996. Legislation enacted in fiscal 2000 establishing an alternative superannuation retirement benefit program for members of the Massachusetts teachers' retirement system and teachers of the State-Boston retirement system mandates that active members who opt for the alternative program and all teachers hired on or after July 1, 2001 contribute 11% of regular compensation. Members who elect to participate are required to make a minimum of five years of retirement contributions at the 11% rate. Approximately 45,000 active teachers joined the enhanced benefit program and will retire under the terms of the program over the next 30 years.

Early Retirement Incentive Program. As a means of reducing payroll costs in fiscal 2002 and 2003, the Commonwealth adopted two early retirement incentive programs, each of which offered an enhanced pension benefit to retirement-eligible employees. The Public Employee Retirement Administration Commission (PERAC) has reported that the 2002 program resulted in an increased actuarial liability of $312.2 million and that the 2003 program resulted in an increased actuarial liability of $224.8 million.

Unfunded Actuarial Accrued Liability. The retirement systems were originally established as "pay-as-you-go" systems, meaning that amounts were appropriated each year to pay current benefits, and no provision was made to fund currently the future liabilities already incurred. In fiscal 1988, the Commonwealth began to address the unfunded liabilities of the two state systems by making appropriations to pension reserves. Prior to the establishment of the pension funding program described below, the Commonwealth appropriated approximately $680 million to the pension reserves during the mid-1980's, in addition to the pay-as-you-go pension costs during those years. Comprehensive pension funding legislation was approved in January, 1988 to require the Commonwealth to fund future pension liabilities currently and to amortize the Commonwealth's accumulated unfunded liability. Under current law such unfunded liability is required to be amortized to zero by June 30, 2023.

The Secretary of Administration and Finance is required by law to prepare a funding schedule providing for both the normal cost of Commonwealth benefits (normal cost being that portion of the actuarial present value of pension benefits which is allocated to a valuation year by an actuarial cost method) and the amortization by June 30, 2023, of the unfunded actuarial liability of the Commonwealth for its pension obligations. The funding schedule is required to be updated periodically on the basis of new actuarial valuation reports prepared under the direction of the Secretary of Administration and Finance. Funding schedules are to be filed with the Legislature triennially by January 15 and are subject to legislative approval. If a schedule is not approved by the Legislature, payments are to be made in accordance with the most recently approved schedule at a level at least equal to the prior year's payments.

The most recent funding schedule was adopted in March, 2004.

Approved Funding Schedule for Pension Obligations (in thousands)

Fiscal Year	Payments	Fiscal Year	Payments
2005	$1,216,936	2015	$1,936,059
2006	1,274,675	2016	2,028,266
2007	1,335,176	2017	2,124,903
2008	1,398,573	2018	2,226,183
2009	1,465,004	2019	2,332,332
2010	1,534,617	2020	2,443,587
2011	1,607,565	2021	2,560,194
2012	1,684,010	2022	2,682,414
2013	1,764,121	2023	2,810,519
2014	1,848,075		

SOURCE: Executive Office for Administration and Finance.

On January 30, 2008, PERAC provided the Secretary of Administration and Finance with an updated funding schedule based on a fiscal 2009 appropriation of $1.465 billion. At its meeting on February 26, 2008, the Commission voted to recommend that schedule. The updated schedule reflects plan assets as of December 31, 2007. The schedule maintains the amortization basis in the current funding schedule (4.5% annual increasing amortization of unfunded liability to 2023). The schedule estimates the actuarial liabilities as of December 31, 2007. This schedule has not yet been filed by the Secretary with the Legislature.

PERAC-Recommended Funding Schedule for Pension Obligations (in thousands)

Fiscal Year	Payments	Fiscal Year	Payments
2009	$1,465,004	2017	$2,130,201
2010	1,538,957	2018	2,231,625
2011	1,612,036	2019	2,337,920
2012	1,688,614	2020	2,449,320
2013	1,768,860	2021	2,566,075
2014	1,852,951	2022	2,688,443
2015	1,941,073	2023	2,816,696
2016	2,033,421		

SOURCE: Executive Office for Administration and Finance.

Valuation of Pension Obligation. On August 24, 2007, PERAC released its actuarial valuation of the total pension obligation as of January 1, 2007. The unfunded actuarial accrued liability as of that date for the total obligation was approximately $13.349 billion, including approximately $3.226 billion for the State Employees' Retirement System, $8.500 billion for the Massachusetts Teachers' Retirement System, $1.221 billion for Boston Teachers and $402 million for cost-of-living increases reimbursable to local systems. The valuation study estimated the total actuarial accrued liability as of January 1, 2007 to be approximately $53.761 billion (comprised of $21.671 billion for state employees, $29.321 billion for state teachers, $2.368 billion for Boston Teachers and $402 million for cost-of-living increases reimbursable to local systems). Total assets were valued at approximately $40.412 billion based on a five-year average valuation method, which equaled 90.0% of the January 1, 2007 total asset market value. The valuation method was the same as the method used in the 2006 valuation, except that the actuarial value of assets was determined so as not to be less than 90% or greater than 110% of market value. In prior valuations, the asset corridor was 85% to 115% of the market value.

The following table shows the valuation of accrued liabilities and assets from 2003 through 2007:

Pension Fund Valuation and Unfunded Accrued Liabilities (in millions)

			Unfunded Accrued Liabilities		
Valuation Date	Total Actuarial Accrued Liability	Actuarial Value of Assets(1)	Unfunded Actuarial Liability(2)	Market Value of Unfunded Liability	Valuation Date
January 1, 2003	$43,030	$29,629	$13,401	$17,266	January 1, 2003
January 1, 2004	46,059	34,045	12,014	14,350	January 1, 2004
January 1, 2005	48,358	34,939	13,419	12,861	January 1, 2005
January 1, 2006	50,865	36,377	14,488	11,844	January 1, 2006
January 1, 2007	53,761	40,412	13,349	8,859	January 1, 2007

SOURCE: Public Employee Retirement Administration Commission.
(1) Based on five-year average smoothing methodology.
(2) Based on actuarial valuation.

The existing funding schedule is based on the January 1, 2003 actuarial liability, brought forward on an estimated basis to January 1, 2004, and on asset values on January 1, 2004. The proposed funding schedule recommended by PERAC is based on the January 1, 2007 actuarial liability, brought forward on an estimated basis to January 1, 2008, and on asset values on December 31, 2007.

Other Post-Retirement Benefit Obligations (OPEB)

Accounting standards promulgated in 2004 by the Governmental Accounting Standards Board (GASB) required the Commonwealth to begin disclosing its liability for other post-employment benefits (commonly referred to as "OPEB") in its fiscal 2008 financial reports. An initial valuation report by an independent actuarial firm of the Commonwealth's liability for these health care and life insurance benefits was released in June, 2006. The report presented two separate calculations of the Commonwealth's OPEB liability, depending on whether the liability would be pre-funded in a manner meeting the requirements of GASB Statement No. 45.

According to the June, 2006 report, assuming no pre-funding, the actuarial accrued liability of the Commonwealth for OPEB obligations earned through January 1, 2006 was $13.287 billion. If pre-funding was assumed, the actuarial accrued liability was reduced to $7.562 billion. This difference is solely attributable to the standards requirement that a lower discount rate must be used without pre-funding. Under pre-funding, the annual required contribution was calculated in June, 2006 to commence at $702.9 million for fiscal 2006 and projected to increase to $1.205 billion for fiscal 2016. The independent actuarial firm updated these projections on January 24, 2007 for the purpose of providing estimates for the Governor's fiscal 2008 budget recommendations. Assuming pre-funding, the annual required contribution was calculated to be $763.1 million in fiscal 2008, increasing to $1.223 billion in fiscal 2016. The January 24, 2007 update reported that without the pre-funding assumption the Commonwealth would be required to record a projected $1.203 billion expense in fiscal 2008, increasing to $2.818 billion in fiscal 2016.

Should the Commonwealth not fully fund the amortization of the actuarial liability, a liability for the difference between the amount funded and the actuarially required contribution will be reflected on the

Commonwealth's statement of net assets, as presented on a GAAP basis. The liability will increase or decrease each year depending on the amount funded, investment return and changes in amortization and assumptions. This change in liability will be reflected either as a revenue or expense item in the Commonwealth's statement of activities as presented on a GAAP basis, dependent on these factors.

In making these calculations, the independent actuarial firm utilized employment and other data provided by the Commonwealth and assumed annual claims growth initially at 10.5% and declining to 5% after ten years and continuation of current benefit levels and current retiree contribution requirements.

The independent actuarial report covered only the Commonwealth's OPEB obligations for Commonwealth employees and their survivors. Municipalities and authorities of the Commonwealth, even if their health care coverage is administered by the Group Insurance Commission, will perform their own valuations, as the Commonwealth acts only as an agent for these entities with respect to OPEB and does not assume the risk or financial burden of their health care costs.

The difference between the value of pre-funded and non-pre-funded OPEB liabilities is due to the discount rate used in the calculation. In the absence of pre-funding, the discount rate must approximate the Commonwealth's rate of return on non-pension (liquid) investments over the long term, estimated at 4.5% for the purpose of this study. In the event of pre-funding, the discount rate would increase to a standard return on long-term investments, estimated at 8.25% for the purpose of this study. In order to qualify its OPEB liabilities as pre-funded, the Commonwealth must deposit annual contributions in a qualifying trust in accordance with the requirements of GASB Statement No. 45 (and similar to the program for funding the Commonwealth's unfunded actuarial liability for pensions).

GASB Statement No. 45 requires that OPEB obligations be recalculated at two-year intervals. Such calculations may be affected by many factors, including changing experience and assumptions regarding future health care claims, by whether or not the Commonwealth enacts legislation that qualifies its OPEB obligations to be calculated on a pre-funded basis, by changes in the Commonwealth's employee profile and possibly by changes in OPEB coverage levels and retiree contribution requirements. Accordingly, it should be anticipated that the actuarial accrued liability of the Commonwealth for OPEB liabilities may fluctuate.

A copy of the June, 2006 valuation report discussed above may be viewed at the website of the Comptroller of the Commonwealth at http://www.mass.gov/osc. Click on "Financial Reports/Audits."

The executive and legislative branches have been working to develop a short- and long- term strategy for addressing the Commonwealth's OPEB liability. The State Retiree Benefits Trust Fund was created, and in fiscal 2008 spending for current retirees' healthcare occurred from the Trust Fund, helping to consolidate the state's retiree funding efforts and better project future liabilities. In fiscal 2008, the Trust Fund benefited from a one-time transfer of approximately $400 million from the Health Care Security Trust. The fiscal 2008 budget also established a special commission, consisting of representatives of the executive and legislative branches, to study the Commonwealth's liability for paying retiree health care and other non-pension benefits.

The special commission released its report in July, 2008. In its report, the special commission recommends that the Commonwealth develop a strategy to pre-fund the Commonwealth's OPEB liability. The commission identifies three funding sources -- tobacco settlement funds, unanticipated budgetary surpluses and annual legislative appropriations -- and recommends funneling funds from all three sources to the State Retiree Benefits Trust Fund in order to address the unfunded OPEB liability. With regard to tobacco settlement funds, the commission advises a phased-in approach, whereby a specified percentage of the settlement funds (increasing from 25% of such funds in year one to 90% of such funds in year four and thereafter) would be transferred to the State Retiree Benefits Trust Fund. In addition to using the tobacco settlement funds, the commission further recommends that the Commonwealth allocate 50% of any unanticipated surplus funds in a budget surplus year to the Trust Fund. Finally, the commission recommends that annual appropriations to the Trust Fund be included in each annual budget so as to eliminate the unfunded liability by 2038.

The fiscal 2009 budget does not include any of the special commission's recommendations for addressing the Commonwealth's OPEB liability. Many of the recommendations will require separate legislation.

Executive Office of Education

Recently enacted reorganization legislation created an Executive Office of Education encompassing the Department of Early Education and Care, the Department of Elementary and Secondary Education (previously the Department of Education) and the Department of Higher Education (previously the Board of Higher Education). In September, 2007, the Governor created a "Readiness Project" and called on a diverse group of education, business and civic leaders to look to the future of public education in the Commonwealth and offer a set of recommendations to transform the state system of public education into a comprehensive, integrated, student-centered education system that begins before kindergarten and continues through grade 12 and beyond. In June, 2008, the Project issued a report containing a series of recommendations for improving public education in Massachusetts, and on June 23, 2008, the Governor appointed a Readiness Finance Commission comprised of education, business and policy leaders to identify short-term cost savings and potential new revenue sources, while outlining several options to correct perceived shortcomings of the current state funding formula for public education.

Department of Elementary and Secondary Education

The Department of Elementary and Secondary Education serves the student population from kindergarten through twelfth grade by providing support for students, educators, schools and districts and by providing state leadership. Fiscal 2008 spending is estimated to have been $569.6 million. Fiscal 2009 spending is projected to be $631 million. These totals do not include the $3.726 billion appropriated for Chapter 70 aid in fiscal 2008 or the $3.949 billion appropriated in fiscal 2009. The Department of Elementary and Secondary Education is governed by the Executive Office of Education and by the Board of Education, which will now include 13 members. There are 328 school districts in the Commonwealth, serving over 950,000 students.

Department of Higher Education

Fiscal 2008 spending is estimated to have been $1.079 billion**.** Fiscal 2009 spending is projected to be $1.085 billion. The Commonwealth's system of higher education includes the five-campus University of Massachusetts, nine state colleges and 15 community colleges. The higher education system is coordinated by the Department of Higher Education which has a governing board, the Board of Higher Education, and each institution of higher education is governed by a separate board of trustees. The Board of Higher Education nominates, and the Secretary of Education appoints, a Commissioner of Higher Education, who is responsible for carrying out the policies established by the board at the Department of Higher Education.

The operating revenues of each institution consist primarily of state appropriations and of student fees that are set by the board of trustees of each institution. Tuition levels are set by the board of Higher Education. State-supported tuition revenue is required to be remitted to the State Treasurer by each institution; however, the Massachusetts College of Art and Design and the Massachusetts Maritime Academy have the authority to retain tuition indefinitely and through fiscal 2009, respectively. The board of trustees of each institution submits annually audited financial statements to the Comptroller and the board of Higher Education. The Department of Higher Education prepares annual operating budget requests on behalf of all institutions, which are submitted to the Executive Office of Education and subsequently to the Executive Office for Administration and Finance and to the House and Senate Committees on Ways and Means. The Legislature appropriates funds for the higher education system in the Commonwealth's annual operating budget in various line items for each institution.

Department of Early Education and Care

The Department of Early Education and Care provides support to children and families seeking a foundational education. Additionally, the Department strives to educate current and prospective early education and care providers in a variety of instructive aspects. Included within the Department's programs and services are supportive child care, TANF-related child care, low-income child care, Head Start grants, universal pre-kindergarten, quality enhancement programs, professional development programs, mental health programs, healthy families programs and family support and engagement programs. Two of these programs, the supportive and TANF-related child care, help children receiving or referred services by the Department of Social Services or the Department of Transitional Assistance.

In fiscal 2008, the Department is estimated to have spent approximately $551.9 million. The largest accounts responsible for spending include TANF-related child care ($181.1 million), low-income children ($209.8 million) and supportive child care ($67.3 million). The Department is projected to spend $590.1 million in fiscal 2009.

Public Safety

The Commonwealth is estimated to have spent a total of $1.543 billion in fiscal 2008 for the Executive Office of Public Safety and Security and sheriffs. The Office is projected to spend $1.536 billion in fiscal 2009. Twelve state agencies fall under the umbrella of the Executive Office of Public Safety and Security. The largest is the Department of Correction, which operates 18 correctional facilities and centers across the Commonwealth, expending an estimated $543.7 million in fiscal 2008. The State Police are estimated to have spent $291.7 million in fiscal 2008. Other public safety agencies include the Parole Board, the Department of Fire Services, the Military Division, the Office of the Chief Medical Examiner and six other public safety related agencies. In addition to expenditures for these twelve state public safety agencies, the Commonwealth provides funding for the operation of 16 regional jails and correctional facilities that are managed by independently elected sheriffs, for which the Commonwealth estimates spending of $279.9 million in fiscal 2008. Expenditures for all other public safety agencies are estimated to have been $426.7 million for fiscal 2008.

Energy and Environmental Affairs

In fiscal 2008, the Executive Office of Environmental Affairs was reorganized into the Executive Office of Energy and Environmental Affairs. This reorganization included the transfer of the Department of Energy Resources and Department of Public Utilities from the Executive Office of Economic Development to the new secretariat. The Executive Office of Energy and Environmental Affairs is estimated to have spent $24 million in fiscal 2008 and projected to spend $24.6 million in fiscal 2009 for policy development, environmental law enforcements services and oversight of agencies and programs. Six state agencies and numerous boards fall under the umbrella of the Executive Office of Energy and Environmental Affairs. The largest is the Department of Conservation and Recreation, which operates over 600,000 acres of public parkland, recreational facilities, watersheds and forests across the Commonwealth, expending an estimated $99.4 million in fiscal 2008 and a projected $101.8 million in fiscal 2009. Other environmental agencies include the Department of Agricultural Resources, responsible for the state's agricultural and food safety programs, which is estimated to have spent $18.1 million in fiscal 2008 and projected to spend $19.3 million in fiscal 2009, the Department of Environmental Protection, which is estimated to have spent $60.3 million in fiscal 2008 and projected to spend $62.3 million in fiscal 2009 for clean air, water, recycling and environmental remediation programs, and the Department of Fish and Game, which is estimated to have spent $20 million in fiscal 2008 and is projected to spend $21.1 million in fiscal 2009 for the management and protection of endangered species, fisheries and habitat. Additional agencies include the Department of Public Utilities, estimated to have spent $7.3 million in fiscal 2008 and projected to spend $7.3 million in fiscal 2009 for oversight of electric, gas, water and transportation utilities and the Department of Energy Resources, estimated to have spent $1.7 million in fiscal 2008 and projected to spend $2.5 million in fiscal 2009 for energy planning, management and oversight.

Debt Service

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

Other Program Expenditures

The remaining expenditures on other programs and services for state government amounted to an estimated $2.236 billion in fiscal 2008 and are projected to be $2.312 billion in fiscal 2009, including the judiciary ($823 million in fiscal 2008), district attorneys ($102.1 million in fiscal 2008), the Attorney General ($41.2 million in fiscal 2008), the Executive Office for Administration and Finance ($413.9 million in fiscal 2008), the Executive Office of Transportation and Public Works ($243.3 million in fiscal 2008), the Executive Office for Housing and Economic Development ($249 million in fiscal 2008), the Executive Office of Labor and Workforce Development ($69.7 million in fiscal 2008) and various other programs ($293.8 million in fiscal 2008).

SELECTED FINANCIAL DATA

Statutory Basis

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth's audited statutory basis financial statements for fiscal 2004 through 2007. Estimates for fiscal 2008 and projections for fiscal 2009 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. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS — Operating Fund Structure" for additional detail.

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 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Estimated Fiscal 2008	Projected Fiscal 2009
Beginning Fund Balances						
Reserved or Designated	$ 76.8	$ 664.6	$ 355.6	$ 947.2	$ 351.3	$ 127.0
Bay State Competitiveness Investment Fund	-	-	-	-	100.0	-
Transitional Escrow Fund	-	-	304.8	-	-	-
Stabilization Fund	641.3	1,137.3	1,728.4	2,154.7	2,335.0	2,246.8
Undesignated	34.7	90.9	98.4	106.2	114.7	121.2
Total	752.8	1,892.8	2,487.2	3,208.1	2,901.0	2,495.0
Revenues and Other Sources						
Tax Revenues	15,269.0	15,987.4	17,286.2	18,444.9	19,489.9	19,932.6
Federal Reimbursements	5,098.5	4,697.0	5,210.1	6,167.6	6,420.5 (4)	6,947.5
Departmental and Other Revenues	1,847.7	1,948.9	2,094.3	2,218.4	2,379.2	2,558.3
Inter-fund Transfers from Non-budgeted Funds and Other Sources (2)	1,773.1	1,740.2	1,714.9	1785.0	2,569.7	2,286.7
Budgeted Revenues and Other Sources	23,988.3	24,373.4	26,305.5	28,615.9	30,859.3	31,725.2
Inter-fund Transfers	2,058.7	2,231.3	1,358.1	552.9	664.6	613.6
Total Budgeted Revenues and Other Sources	26,047.0	26,604.7	27,663.6	29,168.8	31,523.9	32,338.8
Expenditures and Uses						
Programs and Services	22,158.0	23,284.7	25,193.4	27,657.2	28,677.0	29,755.8
Inter-fund Transfers to Non-budgeted Funds and Other Uses	690.3	494.4	391.2	1,265.7	2,595.7	2,385.0
Budgeted Expenditures and Other Uses	22,848.3	23,779.1	25,584.6	28,922.9	31,272.7	32,140.8
Inter-fund Transfers	2,058.7	2,231.2	1,358.1	553.0	664.6	613.6
Total Budgeted Expenditures and Other Uses	24,907.0	26,010.3	26,942.7	29,475.9	31,937.3	32,754.4

Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	1,140.0	594.4	720.9	(307.1)	(413.4)	(415.6)
Ending Fund Balances						
Reserved or Designated (3)	664.6	355.6	947.2	351.3	127.0	10.3
Bay State Competitiveness Investment Fund	-	-	-	100.0	-	-
Transitional Escrow Fund	-	304.8	-	-	-	-
Stabilization Fund	1,137.3	1,728.4	2,154.7	2,335.0	2,246.8	1,942.4
Undesignated	90.9	98.4	106.2	114.7	121.2	123.1
Total	$1,892.8	$2,487.2	$3,208.1	$2,901.0	$2,495.0	$2,075.8

SOURCES: Fiscal 2004-2007, Office of the Comptroller; fiscal 2008-2009, 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 as well as other inter-fund transfers.

(3) Consists largely of appropriations from previous years, authorized to be expended in current years.

(4) Estimated fiscal 2008 federal reimbursement has been reduced to reflect notices of deferred federal reimbursement for supplemental payments to safety net hospitals in the amount of $40.7 million for "Section 122" payments, as well as an additional $42 million to reflect anticipated deferred federal reimbursement for other payments to safety net hospitals that were made before the Commonwealth secured approval through its Medicaid State Plan. The Commonwealth is also monitoring a resolution at the federal level of an additional $67.8 million in reimbursement on supplemental payments that are currently being included in the Commonwealth's estimates of federal reimbursement, and while the Commonwealth anticipates a resolution in the future, it is not certain that the claiming process will be completed in time for the revenue to be credited to fiscal 2008. In this case, revenue will be claimed and credited to fiscal 2009 federal reimbursement.

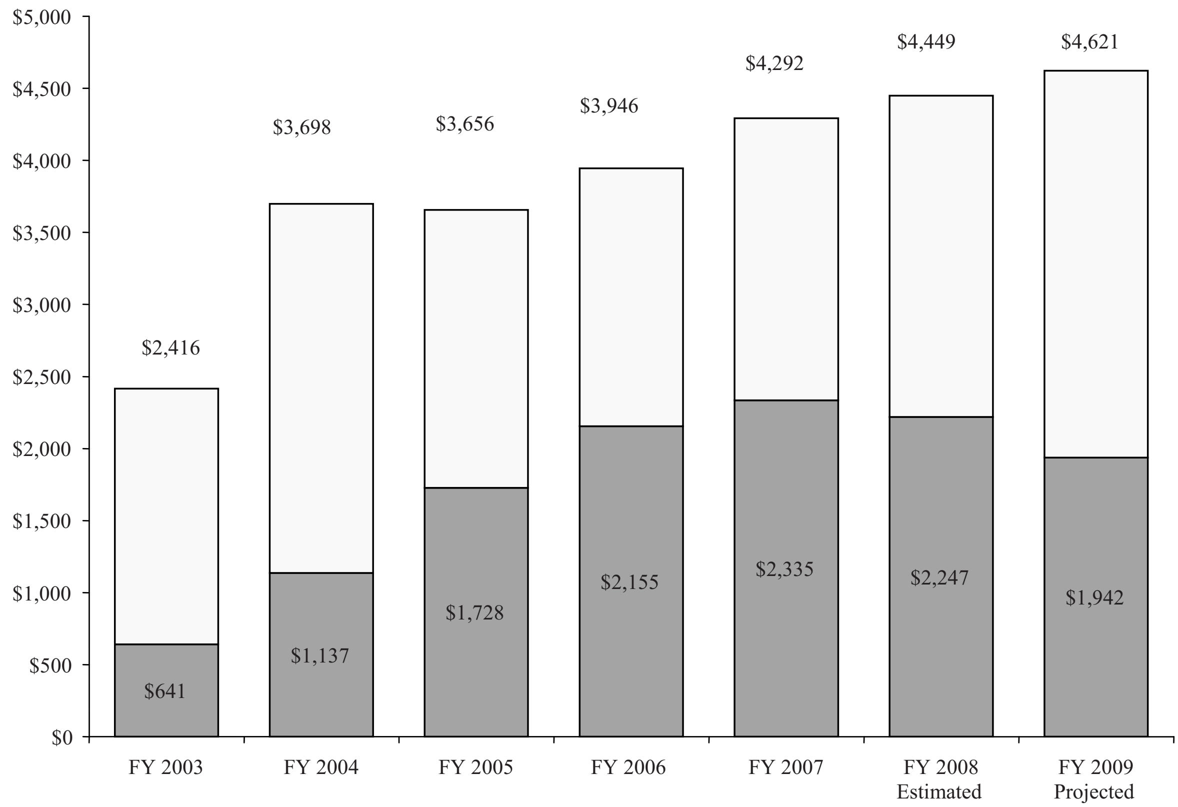
Stabilization Fund

The Stabilization Fund is established by state finance law as a reserve of surplus revenues to be used for the purposes of covering revenue shortfalls, covering state or local losses of federal funds or for any event which threatens the health, safety or welfare of the people or the fiscal stability of the Commonwealth or any of its political subdivisions. The fund is sometimes referred to as the state's "rainy day fund," serving as a source of financial support for the state budget in times of slow or declining revenue growth and as the primary source of protection against having to make drastic cuts in state services in periods of economic downturns.

Required Deposits and Allowable Stabilization Fund Balance. Beginning July 1, 2004, state finance law has provided that (i) 0.5% of the net tax revenues from each fiscal year must be deposited into the Stabilization Fund at fiscal year-end, (ii) 0.5% of current-year net tax revenues must be made available for the next fiscal year before the year-end surplus is calculated and (iii) any remaining amount of the year-end surplus must be transferred to the Stabilization Fund. Prior to fiscal 2004, the allowable Stabilization Fund balance at fiscal year-end could not exceed 10% of the total revenues for that year. Since fiscal 2004, the allowable Stabilization Fund balance has been 15% of total current-year revenues. If the Stabilization Fund balance exceeds the allowable limit, the excess amounts are to be transferred to the Tax Reduction Fund. The fiscal 2009 budget suspends the statutorily required deposit and transfers the projected fiscal 2009 investment earnings of the Stabilization Fund to the General Fund. See "FISCAL 2008 AND FISCAL 2009."

Stabilization Fund Balance Compared to Allowable Stabilization Fund Balance

(in millions)



SOURCES: Fiscal 2003-2007, Office of the Comptroller; fiscal 2008 and fiscal 2009, Executive Office for Administration and Finance. Estimated and projected balances for fiscal 2008 and 2009 are made prior to the calculation of consolidated net surplus.

The following table shows the sources and uses of the Stabilization Fund during fiscal 2003 through 2007:

Stabilization Fund Sources and Uses (in thousands)

	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007
Beginning fund balances	$ 881,771	$ 641,325	$1,137,320	$1,728,355	$2,154,664
Revenues and Other Sources					
Consolidated net surplus	75,673	663,457	776,959	353,990	90,883
Lottery transfer taxes	-	-	3,996	4,204	2,680
CA/T project cost recoveries	-	695	90	-	-
Investment income	6,456	5,259	17,270	68,115	86,794
Transfers due to fund consolidation	227,425	-	-	-	-
Excess permissible tax revenue	-	357,465	135,991	20,000	-
Transfer from Transitional Escrow Fund	-	-	-	-	-
Total Revenues and Other Sources	309,554	1,026,876	934,306	446,309	180,357
Total Expenditures and Other Uses	550,000	530,881	343,271	20,000	-
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(240,446)	495,995	591,035	426,309	180,357
Ending fund balances	$ 641,325	$1,137,320	$1,728,355	$2,154,664	$2,335,021
Allowable Stabilization Fund Balance	$ 2,415,827	$3,697,771	$3,656,015	$3,945,820	$4,292,382

SOURCE: Office of the Comptroller. Fiscal 2008 data will be available upon completion of the fiscal 2008 audit.

GAAP Basis

The Commonwealth's GAAP financial statements for the year ended June 30, 2007, incorporated herein by reference as Exhibit C, are prepared in accordance with reporting standards first established by GASB Statements 34 and 35, as amended. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Fiscal Control, Accounting and Reporting Practices of Comptroller." The GAAP financial statements present a government-wide perspective, including debt, fixed assets and accrual activity on a comprehensive statement of net assets. All fixed assets, including road and bridge infrastructure and all long-term liabilities, including outstanding debt and commitments of long-term assistance to municipalities and authorities, are part of the statements. The Commonwealth's statement of revenues, expenditures and changes in fund balances are presented as a statement of activities.

The table below presents the transition from the Commonwealth's statutory basis budgetary fund balance to the "fund perspective" balance, as depicted in the fund financial statements, and then to the Commonwealth's "entity-wide" governmental financial position. Differences between statutory and GAAP basis can be summarized in five major adjustments. Those adjustments are for Medicaid (as well as the somewhat related liability for uncompensated care), taxes, projected amounts due to the Commonwealth in the next fiscal year under the master tobacco settlement agreement, claims and judgments and amounts due to authorities. As evidenced in the trend line of fund balance (deficit) over time, however, these adjustments connect the GAAP basis measurement when viewed using a fund perspective under GAAP and the statutory basis measurement. While the difference in fund balances may vary in a given fiscal year, both balances generally trend in the same direction. To convert to a full accrual basis, major adjustments are made for the net book value of the Commonwealth's assets, inclusive of infrastructure, the realizable value of long-term deferred revenues (largely from tax payment plans) and the amount of the Commonwealth's outstanding long-term debt and other liabilities.

Governmental Funds – Statutory to GAAP – Fund Perspective and to Governmental Net Assets (in millions)

Governmental Funds – Statutory Basis, June 30, 2007:	
Budgeted Fund Balance	$2,901.0
Non-Budgeted Special Revenue Fund Balance	1,734.5
Capital Project Fund Balance	5.7
Governmental Fund Balance – Statutory Basis, June 30, 2007	**4,641.2**
Plus:	
Expendable Trust and Similar Statutory Balances that are considered Governmental Funds for GAAP Reporting Purposes	395.5
Owner Controlled Insurance Program Net Assets	100.1
Trust fund reclassified as Permanent trust fund	5.0
Adjusted Statutory Governmental Fund Balance – June 30, 2007	**5,141.8**
Accruals, net of allowances and deferrals for increases / (decreases):	
Taxes	1,524.5
Medicaid	(264.1)
Master Settlement Agreement receivables	145.0
Assessments and receivables	123.7
Contract Assistance Due to Component Units	(409.9)
Uncompensated Care liability	(155.9)
Claims, judgments and other risks	(38.0)
Workers' compensation and group insurance	(126.5)
Other accruals	(110.5)
Net Increase to governmental fund balances	688.3
Massachusetts School Building Authority fund balance	1,905.8
Total changes to governmental funds	2,594.1
Governmental Fund Balance (fund perspective)	**7,735.9**
Plus: Fixed assets including infrastructure, net of accumulated depreciation	18,549.6
Plus: Deferred revenue	539.7
Less: Pension cumulative overfunding/underfunding	(75.6)
Less: School construction grants payable	(8,667.5)
Less: CA/T Project assets to be transferred to Turnpike Authority	(7,363.2)
Less: Bonds payable, current and long term	(18,737.0)
Less: Other current and long term liabilities	(1,578.7)
Total Governmental Net Assets (entity-wide perspective)	**$(9,596.8)**

SOURCE: Office of the Comptroller

Net Assets – GAAP Basis. The liabilities of the Commonwealth exceeded its assets at the end of fiscal 2007 by over $5.2 billion, an improvement of over $1.3 billion during the fiscal year. Of the $5.2 billion deficit amount, "unrestricted net assets" is reported as a negative $10.4 billion, offset by $3.3 billion in "restricted net assets." There are two primary reasons for negative unrestricted net assets. Upon completion, the Central Artery/Ted Williams Tunnel will be owned by the Massachusetts Turnpike Authority and the Massachusetts Port Authority. The Commonwealth, however, is paying for the construction of these assets and retains a large amount of related debt. Similarly, the Commonwealth has a liability of $4.5 billion for its share of the construction costs of schools owned and operated by municipalities through the Massachusetts School Building Authority (MSBA). The MSBA began approving new grants in fiscal 2008. Due to a previous statutory moratorium on the awarding of new grants prior to July 1, 2007, this overall liability of $4.5 billion decreased by $1.8 billion during fiscal 2007 due to grant payments made to municipalities during the year and reductions of grant payment obligations due to audits done by the MSBA. During the fiscal year, significant restricted net asset balances were set aside for unemployment benefits and debt retirement.

Revenues – GAAP Basis. The measurement of revenues for the budgeted operating funds from a statutory basis differs from governmental revenues on a GAAP basis in that certain funds that are not governmental for statutory purposes are included on a GAAP basis, including revenue accruals for Medicaid and taxes, which are included on a GAAP basis but not on a statutory basis. In addition, internal transfers are eliminated under GAAP from an entity-wide perspective. The following table shows the distribution of major sources of revenue in fiscal 2007:

Comparison of Fiscal 2007 Governmental Revenues (in millions)

	Governmental Funds	GAAP Basis – Governmental	
	Statutory Basis	Fund Perspective	Entity-wide Perspective
Taxes	$18,593	$19,985	$20,001
Federal Revenue	8,353	9,335	9,336
Departmental and Miscellaneous Revenue	8,782	8,786	8,473
Total	$35,728	$38,107	$37,810

SOURCE: Office of the Comptroller

Financial Results—GAAP Basis. The following table provides financial results on a GAAP basis for fiscal 2003 through fiscal 2007 for all governmental operating funds of the Commonwealth.

Governmental Fund Operations – GAAP Basis – Fund Perspective (in millions)

	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007
Beginning fund balances	$2,467.9	$2,021.0	$4,424.4	$5,048.6	$7,263.2
Restatement due to fund reclassification	-	-	-	-	5.0
Revenues and Financing Sources	42,798.0	44,371.7	43,532.6	47,189.9	49,402.2
Expenditures and Financing Uses	43,244.9	41,968.3	42,908.4	44,975.3	48,934.5
Excess (deficit)	(446.9)	2,403.4	624.2	2,214.6	467.7
Ending fund balances—GAAP fund perspective	$2,021.0	$4,424.4	$5,048.6	$7,263.2	$7,735.9

SOURCE: Office of the Comptroller

Financial Reports. The Commonwealth issues audited annual reports, including audited financial statements on both the statutory basis of accounting and the GAAP basis. These financial statements are issued as two separate reports, the SBFR and the CAFR. The SBFR is published by the Comptroller by October 31 and the CAFR is published by the Comptroller by the second Wednesday in January. The SBFR for the year ended June 30, 2007 and the CAFR for the year ended June 30, 2007 are included herein by reference as Exhibits B and C, respectively. For fiscal 1991 through 2007 the independent auditor's opinions were unqualified. Copies of these financial reports are available at the address provided under "CONTINUING DISCLOSURE." The SBFR for fiscal 1997 through fiscal 2007 and the CAFR for fiscal 1994 through fiscal 2007 are also available on the web site of the Comptroller of the Commonwealth located at http://www.mass.gov/osc by clicking on "Financial Reports/Audits."

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

For each year beginning in fiscal 1991, the Commonwealth CAFRs, from which certain information contained in this Information Statement has been derived, have been awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. Fiscal 2006 marked the sixteenth consecutive year that the Commonwealth has received this award. The CAFR for fiscal 2007 has been submitted to the GFOA for the award.

Discussion of Financial Condition

As the annual operating budget of the Commonwealth is adopted in accordance with the statutory basis of accounting, public and governmental discourse on the financial affairs of the Commonwealth has traditionally followed the statutory basis. Consequently, the financial information set forth in this document follows the statutory basis, except where otherwise noted. Since fiscal 1990, the Commonwealth has prepared separate audited financial reports on the statutory basis and on a GAAP basis. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS – Fiscal Control, Accounting and Reporting Practices of Comptroller; *Financial Reports*." The SBFR for the year ended June 30, 2007 is included herein by reference as Exhibit B. The CAFR for the year ended June 30, 2007 is included herein by reference as Exhibit C. Without limiting the generality of the references to the SBFR and CAFR for the year ended June 30, 2007, attention is called in particular to the portion of the CAFR under the heading "Management's Discussion and Analysis."

Auditor's Report on Fiscal 2007 CAFR

The basic financial statements included in the CAFR of the Commonwealth for the year ended June 30, 2007 were audited by KPMG LLP (KPMG). The KPMG audit report dated December 24, 2007 on the general purpose financial statements included in the CAFR for the year ended June 30, 2007 contained an unqualified opinion. A copy of the audit report of KPMG dated December 24, 2007 has been filed with each NRMSIR currently recognized by the SEC and is incorporated by reference in Exhibit C to this Information Statement and in each statement in this Information Statement referred to the Commonwealth CAFR for the year ended June 30, 2007. KPMG has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has said independent auditor performed any procedures relating to the official statement of which this Information Statement is a part.

FISCAL 2008 AND FISCAL 2009

Fiscal 2007 Ending Balance

As of June 30, 2007, the Commonwealth ended fiscal 2007 with an undesignated budgetary fund balance of $190.9 million, net of a 0.5% tax revenue carry-forward into fiscal 2008 of $99.2 million. The $190.9 million is commonly known as "consolidated net surplus." The undesignated budgetary fund balance of $190.9 million was designated as follows: the Legislature suspended the requirement in state finance law that 0.5% of total fiscal 2007 tax revenues be deposited in the Stabilization Fund and instead mandated that $90.9 million be deposited in the Stabilization Fund, with the remaining $100 million being split among the Alternative and Clean Energy Investment Trust Fund ($43 million), the Life Sciences Investment Fund ($15 million), the Emerging Technology Fund ($15 million), the Affordable Housing Trust Fund ($10 million), the Smart Growth Housing Trust Fund ($10 million) and the Cultural Facilities Fund ($7 million).

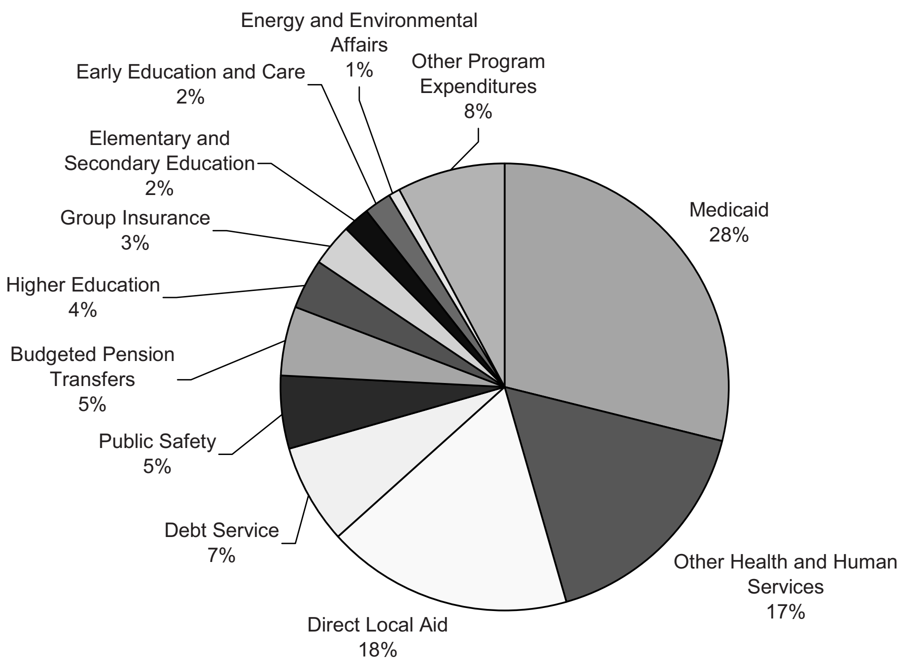
For fiscal 2007, the Commonwealth's audited financial statements report a year-end balance in the Stabilization Fund of $2.335 billion. The balance reflects the $90.9 million transfer described above, as well as $89.5 million of investment earnings and additional taxes deposited into the fund. The year closed with additional reserve fund balances of $451.3 million (including the $100 million in transfers described above) and undesignated fund balances of $114.7 million. The total ending fund balance in the budgeted operating funds was $2.901 billion.

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 Legislature overrode $36.9 million of those vetoes. The original budget appropriated $26.808 billion for the fiscal year, including $8.250 billion for Medicaid, $5.948 billion for education (excluding the school building assistance program), $2.074 billion for debt service and contract assistance and $10.536 billion for all other programs and services. The original budget increased Chapter 70 education funding to cities and towns by $220 million to $3.726 billion. The original budget also increased 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. Appropriations totaling $343.1 million in fiscal 2007 were authorized as prior appropriations continued (PACs), allowing these funds to be spent in fiscal 2008. Approximately $353.3 million in supplemental appropriations for fiscal 2008 have been approved to date, with another $21 million pending in the Legislature. Based on historical trends and fiscal 2008 spending to date, the Executive Office for Administration and Finance is currently anticipating approximately $237.3 million in reversions on account of fiscal 2008 ($78.2 million of which are anticipated to be carried forward into fiscal 2009).

The following is a graph depicting the breakdown of major categories of estimated budgeted operating spending for fiscal 2008, including fiscal 2008 appropriations to date and anticipated fiscal 2008 supplemental appropriations and reversions.

Fiscal 2008 Estimated Operating Spending



In addition to this spending in the budgeted operating funds, the Commonwealth has significant “off-budget” expenditures in fiscal 2008 in the amounts of dedicated sales taxes transferred to the MBTA and MSBA, projected to be in the amounts of $756 million and $634.7 million, respectively.

The original fiscal 2008 budget relied 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 2008 tax revenues (approximately $100 million). The original fiscal 2008 budget also relied 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 had proposed to amend the budget to decrease the size of the Health Care Security Trust Fund transfer to $111.5 million, the amount which would have been required had his vetoes been sustained. On November 28, 2007, the Governor approved legislation providing for a $150 million transfer from the Health Care Security Trust to the General Fund.

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 reduced fiscal 2008 sales tax collections by approximately $17.5 million.

On November 20, 2007, the Governor signed legislation appropriating $15 million for the Low Income Heating and Energy Program, which provides support to low-income families during the winter heating season.

On January 4, 2008, the Governor approved $56.9 million in supplemental appropriations, including $23.1 million to fund recently approved collective bargaining contracts, $10 million to fund health care costs at the Department of Corrections, $4.1 million for additional funding at the Department of Transitional Assistance, $3.5 million for relocation costs of the Middlesex District Attorney's office and $16.2 million for other programs and services.

On March 21, 2008, the Governor approved $89.2 million in supplemental appropriations, including $70.4 million for incurred snow and ice removal costs at the Massachusetts Highway Department and the Department of Conservation and Recreation, $7.3 million to make a final payment for the outstanding balance on the judgment in *Jane C. Edmonds v. Elaine L. Chao*, $6 million to address a shortfall facing the regional transit authorities, $2.7 million to fund newly ratified collective bargaining contracts, $2.3 million for the Military Division, which had incurred a deficiency to support payroll and housing costs of National Guardsman deployed to the Pilgrim power plant for security services, and approximately $500,000 for other programs and services.

On May 30, 2008, the Governor approved $84.3 million in supplemental appropriations, including $25.5 million to address the increasing welfare caseloads at the Department of Transitional Assistance and Department of Early Education and Care, $17.7 million for the Committee for Public Counsel Services, $10.3 million for incurred snow and ice removal costs at the Massachusetts Highway Department and the Department of Conservation and Recreation and $10.1 million for County Corrections. The supplemental bill also authorizes the transfer of an additional $187.3 million to the Commonwealth Care Trust Fund, of which $153.1 million would be for the Commonwealth Care Program and $15.7 million would be for the Health Safety Net Trust Fund. The bill also authorizes the transfer of $11.5 million to the State Retiree Benefits Trust Fund to support utilization of health care and other non-pension benefits for retired members of the system. The Commonwealth anticipates it will receive an additional $92.3 million in federal reimbursement due to the increased spending.

On June 17, 2008 the Governor approved supplemental appropriations totaling $115.7 million, including $36 million for MassHealth caseload, payment rate and utilization increases that cannot be absorbed through savings in other areas within the MassHealth program (in addition to reducing the appropriation by $11 million for the Medicare Part D clawback), $29.4 million for the Group Insurance Commission to address increased costs for state employee health created by unanticipated utilization, $14.9 million for County Corrections to address deficiencies in the offices of six County Sheriffs, $10 million for increased caseloads at the Department of Social Services and the Department of Transitional Assistance and $2.4 million for the State Police to address a cruiser fuel deficiency and overtime pay obligations.

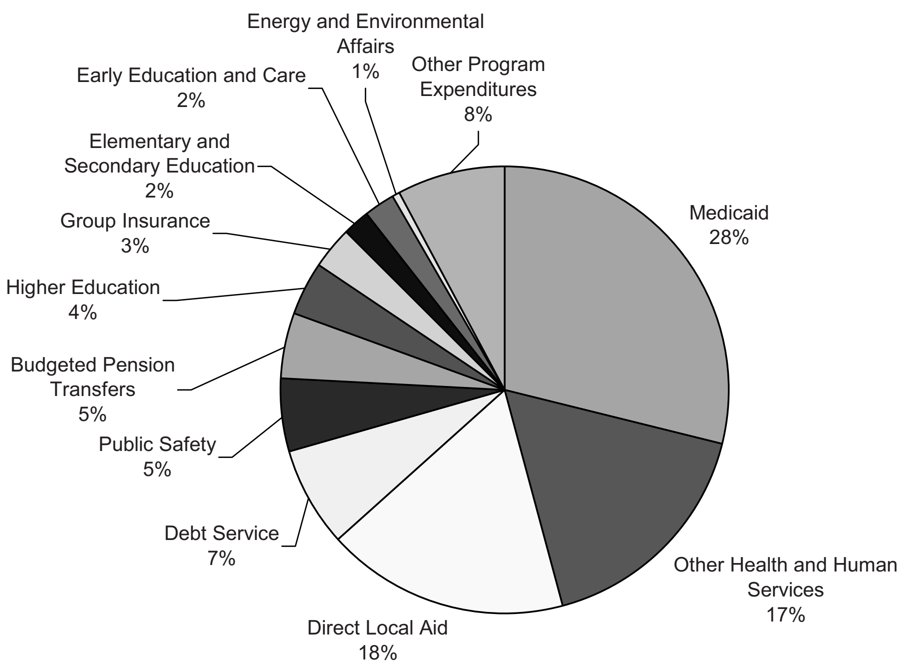
On August 8, 2008, the Governor approved supplemental appropriations totaling $46.5 million, including a new $20 million line item for collective bargaining costs, $10 million for the low income home energy assistance program, $4.7 million for charter school funding and $4.3 million for the underground storage tank program. The bill also includes $236 million of transfers that fully fund two years of prior Lottery Fund shortfalls and a transfer of $100 million in fiscal 2008 surplus revenues to the Stabilization Fund. The bill also contains a number of health care reform initiatives, as described above under "COMMONWEALTH EXPENDITURES - Health Care Reform Legislation." The bill also includes an additional $7.4 million in fiscal 2009 appropriations for a handful of accounts.

Tax Revenue Estimate Update. On October 30, 2007, as a result of a periodic review required by state finance law, the Executive Office for Administration and Finance increased the tax revenue estimate for fiscal 2008 by $399.7 million to $20.225 billion. The $20.225 billion estimate was confirmed when the fiscal 2009 consensus tax revenue estimate was announced on January 8, 2008. Preliminary tax revenue collections for fiscal 2008 total $20.881 billion.

Fiscal 2009

On January 23, 2008, Governor Patrick filed his fiscal 2009 budget recommendations, providing for $28.165 billion in spending, based upon the fiscal 2009 consensus tax revenue figure of $20.987 billion. The following graph depicts the breakdown of major categories of estimated budgeted operating spending for fiscal 2009.

Fiscal 2009 Projected Operating Spending



On July 3, 2008, the Legislature passed the fiscal 2009 budget, and on July 13, 2008, the Governor approved it, vetoing or reducing line items totaling $122.5 million. The Legislature has subsequently overridden $56.5 million of the Governor's line item vetoes, bringing the total amount of authorized spending in the fiscal 2009 budget to $28.167 billion.

The fiscal 2009 budget assumes the use of $401 million transferred from the Stabilization Fund, the suspension of the statutorily required Stabilization Fund deposit equal to 0.5% of fiscal 2009 tax revenues (approximately $107 million), $285 million in new tax revenues as a result of the recently passed corporate tax reform legislation and $157 million in additional revenues generated through enhanced collection and enforcement measures. The fiscal 2009 budget also relies upon approximately $174 million in additional revenue from the $1-per-pack cigarette tax increase that the Governor signed into law on July 1, 2008 (the entire increase is dedicated to the Commonwealth Care Trust Fund per legislation). See "STATE TAXES."

In the filing letter that accompanied his line item reductions and vetoes, the Governor noted that while the Massachusetts economy has so far outperformed the struggling national economy, experts project that worsening national economic circumstances, including rising energy costs, could cause state revenues to drop below fiscal 2009 budgeted estimates. Current economic forecasts suggest that fiscal 2009 tax revenues could be approximately $400 million less than the consensus revenue estimate upon which the budget was based. This reflects a projected decrease in various types of state tax revenues, including capital gains tax revenues which are expected to be lower in part due to the recent poor performance of the stock market.

Moreover, an updated analysis of demands on state resources suggests that the Commonwealth will likely face approximately $600 million in program costs and departmental revenue exposures not contemplated by the fiscal 2009 budget. A large portion of these exposures are related to safety net services that are particularly important in an economic downturn, including increased funding requirements for providing subsidized health insurance through MassHealth and Commonwealth Care. Energy costs have also been skyrocketing in recent months, imposing increasing hardships on families and businesses. In total, these updated revenue forecasts and cost estimates for fiscal 2009 suggest the potential need for approximately $1 billion of budgetary solutions.

In light of these evolving fiscal and economic circumstances, the Governor has developed plans to manage state finances through these challenges, including the fiscal 2009 budget vetoes described above, proposals for new health care reforms (described under "COMMONWEALTH EXPENDITURES - Health Care Reform Legislation"), proposals to capture departmental revenues that have been previously identified by the Executive Office for Administration and Finance and have not been included in the fiscal 2009 budget ($80 million of which was captured in early August due to a one-time tax settlement) and the prudent use of reserves that were generated through a combination of higher-than-projected revenue collections during fiscal 2008 and spending controls that were imposed by the Executive Office for Administration and Finance in April, 2008 to help address some spending exposures in fiscal 2009.

The Governor is also currently engaging in a planning process for making fiscal 2009 budget cuts pursuant to his "Section 9C" spending reduction authority to the extent such cuts appear to be necessary when the Secretary of Administration and Finance updates the fiscal 2009 tax revenue estimates in October, 2008. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Overview of Operating Budget Process." In anticipation of the potential need to use his Section 9C authority to reduce budgetary spending, the Governor filed legislation on July 13, 2008 seeking expanded Section 9C authority to authorize cuts to a broader scope of budgetary spending. The Legislature has not acted on the Governor's proposal.

The Executive Office for Administration and Finance will work closely with the Department of Revenue to monitor the Commonwealth's tax collections throughout fiscal 2009 and to implement aspects of this fiscal management plan that are within its control to the extent necessary during the course of the fiscal year.

Cash Flow

The State Treasurer is responsible for cash management and ensuring that all Commonwealth financial obligations are met on a timely basis. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Cash Management Practices of State Treasurer." Cash flow management incorporates the periodic use of short-term 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 the need for short-term cash flow borrowings. All short-term cash flow borrowings, including both commercial paper and revenue anticipation notes, must be repaid by the end of the fiscal year (June 30). The state currently has liquidity support for a $1 billion tax-exempt commercial paper program for general obligation notes, through five $200 million credit lines due to expire in September 2008, June 2010, December 2010 (two lines) and November 2015, respectively. The Commonwealth has relied upon this $1 billion commercial paper capacity for additional liquidity since 2002.

A cash flow forecast for fiscal 2008 and fiscal 2009, dated May 30, 2008, was released by the State Treasurer and the Secretary of Administration and Finance. For fiscal 2008, the cash flow projection was based on that fiscal year's tax estimate of $20.225 billion, as well as the budget signed into law on July 12, 2007. The projection included the value of all vetoes and subsequent overrides as well as all prior appropriations continued into fiscal 2008 from the prior fiscal year. The cash flow projection also reflected all supplemental appropriations bills either filed or enacted that would affect the Commonwealth's cash flow in fiscal 2008. It reflected authorized transfers between budgeted funds and certain reserve funds as provided for in the fiscal 2008 budget and in subsequent legislation. The fiscal 2008 projection incorporated actual spending and revenue through April 30, 2008 and estimates for the remainder of fiscal 2008 as of April 30, 2008. The gross tax figure included $1.399 billion dedicated to the Commonwealth's fiscal 2008 pension obligation, $756 million in sales tax revenues dedicated to the MBTA and $634.7 million in sales tax revenues dedicated to the MSBA, plus a $17.8 million payment made to the MBTA in October, 2007 as an adjustment relating to the inflation-adjusted floor applicable to the prior fiscal year. The cash flow projection assumed a $315 million transfer from the Stabilization Fund and a transfer of $150 million from the Healthcare Security Trust Fund. The forecast also included an inflow of $292 million on April 15, 2008 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 "LEGAL MATTERS."

The Commonwealth opened fiscal 2008 with a starting cash balance of $1.591 billion and with no short-term debt outstanding. The May 30, 2008 cash flow report projected a year-end cash balance of $1.112 billion. The actual cash balance on June 30, 2008 was $1.156 billion, or approximately $479 million lower than the July 1, 2007 cash balance of $1.591 billion that opened the fiscal year. Several factors explain the overall decline in the fiscal 2008 cash balance, including (i) the transfer of $92.8 million in fiscal 2007 surplus dollars, including interest earnings, to the Stabilization Fund, (ii) $228 million in general obligation bond proceeds received in May, 2007 which were projected to be spent in fiscal 2008 and (iii) $441 million in reserved fiscal 2007 fund balances carried forward and authorized to be expended in fiscal 2008. In addition, the fiscal 2008 budget assumed total net transfers from the State Lottery of $1.129 billion, which was approximately $117 million higher than the State Lottery Commission's projected operating revenues for fiscal 2008. In order to distribute $935 million in local aid to cities and towns as required by the fiscal 2008 budget, a transfer of $117 million is projected to be necessary to resolve this fund imbalance for fiscal 2008. The May 30 cash flow projection contemplated a projected $124 million shortfall in the Lottery funds. (The Lottery fund is also carrying a fiscal 2007 deficit based on a $118.4 million difference between assumed total net transfers from the State Lottery of $1.011 billion and actual recorded Lottery revenues of $892.7 million.)

Through its commercial paper program, the Commonwealth borrowed $200 million in October, 2007, $300 million in November, 2007 and an additional $500 million in December, 2007. Due to additional liquidity needs, the Commonwealth sold a revenue anticipation note for $400 million on December 21, 2007 that was repaid on March 21, 2007 and sold another $400 million revenue anticipation note on March 28, 2008 that was repaid on April 25, 2008. All short-term cash flow borrowings, including both commercial paper and revenue anticipation notes, were repaid by the end of the fiscal year (June 30, 2008).

The Commonwealth issued $1.5 billion in general obligation bonds to support capital spending in fiscal 2008. These funds were the result of two bond issues. In May, 2007, the Commonwealth borrowed $228 million, and in August, 2007, the Commonwealth borrowed an additional $1.3 billion and invested $1.2 billion of the proceeds in guaranteed investment contracts that are being drawn on monthly. As of July 31, 2008, approximately $238 million of bond proceeds remain in these guaranteed investment contracts.

The May 30, 2008 cash flow report also included a projection for fiscal 2009. This projection was based on the Governor's fiscal 2009 budget recommendations and does not reflect spending and revenue projections included in the fiscal 2009 budget enacted by the Legislature. The fiscal 2009 projections were also based on the Administration's five-year capital investment plan published in August, 2007. The Governor's fiscal 2009 budget proposal was based on a gross tax estimate of $20.987 billion and appropriated a total of $28.165 billion. The Governor's recommendations also included a proposal for $296.6 million of additional corporate tax revenues and a proposal for $166 million of additional revenues due to enhanced revenue and enforcement policies, to be implemented by the Department of Revenue. The gross tax figure includes $1.465 billion dedicated to the Commonwealth's pension obligations, $768 million in sales tax revenues dedicated to the MBTA and $702 million in sales tax revenues dedicated to the MSBA. The fiscal 2009 budget assumes total net transfers from the State Lottery of $1.028 billion, which is an insufficient amount to fully fund local aid to cities and towns. The fiscal 2009 cash flow projection also included an inflow of $288.5 million on April 15, 2009 pursuant to the tobacco master settlement agreement.

The Commonwealth's next cash flow projection is expected to be released on or before September 1, 2008.

Based on these projections, the fiscal 2009 forecast showed an overall decline in the non-segregated cash balance from $1.112 billion to $546.2 million. Significant tightening of the Commonwealth's cash position was forecast for the second quarter of the fiscal year, which would require a series of cash flow borrowings. Preliminarily, the forecast assumed the issuance of revenue anticipation notes in the amount of $750 million in September, 2008, followed by the issuance of $1 billion of commercial paper in November and December, 2008. However, actual cash balances for the beginning of fiscal 2009 have been lower than forecast. The month-end balance for July 2008 was $752.9 million compared to a balance of $1.292 billion for July 2007. The decline in available balances, coupled with the fact that July is regularly one of the lower months during the fiscal year in terms of tax revenue inflows, led to the issuance of $500 million in commercial paper on August 7, 2008. The commercial paper is expected to provide sufficient liquidity through the month of August.

In terms of long-term borrowing, the Commonwealth expects to issue up to $1.8 billion in bonds in fiscal 2009 to fund capital projects, including $1.625 billion for planned fiscal 2009 capital expenditures and up to $175 million for the structurally deficient bridge program. Unexpended bond proceeds from fiscal 2008 are expected to be sufficient to cover planned fiscal 2008 capital expenditures being carried forward into fiscal 2009 and certain other capital expenditures originally authorized to be funded from operating reserves and ultimately authorized to be funded from bonds in connection with a transaction in May, 2007 in which operating reserves were applied to defease outstanding bonds. See "COMMONWEALTH CAPITAL INVESTMENT PLAN."

Overview of Fiscal 2008 Non-Segregated Operating Cash Flow (in millions) (1)

(as of May 30, 2008)

	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Opening Balance	$1,590.8	$1,291.8	$1,186.9	$724.7	$456.8	$393.4	$499.3	$1,238.9	$573.2	$314.9	$1,369.2	$1,286.7
CP /RANs Issuance	-	-	-	200.0	300.0	900.0	-	-	400.0	-	-	-
Total Receipts	2,687.8	3,055.6	3,491.6	2,558.7	3,130.8	3,449.9	3,343.6	3,112.5	4,209.7	4,812.26	3,774.1	4,508.2
Total Expenditures	2,987.1	3,173.4	3,953.4	3,026.1	3,400.8	4,483.6	3,100.8	3,376.6	4,939.7	3,757.7	3,856.4	4,641.1
Central Artery Settlement	-	-	-	-	-	-	401.2	(401.2)	-	-	-	-
Stabilization Transfers	-	-	-	-	(92.9)	240.0	-	-	72.0	-	-	3.0
Closing Balance	$1,291.5	$1,187.4	$725.1	$457.2	$393.8	$499.7	$1,239.3	$573.6	$315.2	$1,369.5	$1,286.9	$1,156.8

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

Overview of Fiscal 2009 Non-Segregated Operating Cash Flow (in millions) (1)

(as of May 30, 2008)

	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Opening Balance	$1,156.6	$808.4	$892.3	1,036.5	679.2	$671.2	$36.5	$721.6	$51.2	$78.1	$869.9	$330.3
CP /RANs Issuance	-	500.0	750.0	-	300.0	200.0	-	-	-	-	-	-
Total Receipts	2,858.4	3,252.4	3,967.4	3,022.3	3,042.4	3,819.5	4,000.5	2,757.8	4,389.3	4,960.8	3,362.8	4,692.1
Total Expenditures	3,206.3	3,668.3	4,572.9	3,379.3	3,350.2	4,653.9	3,315.2	3,427.9	4,763.2	4,168.8	3,902.1	4,855.5
Central Artery Settlement	-	-	-	-	-	-			-	-	-	-
Stabilization Transfers	-	-	-	-	-	-	-	-	401.0	-	-	-
Closing Balance	$808.7	$892.5	$1,036.7	$679.5	$671.4	$36.7	$721.8	$51.5	$78.3	$870.1	$330.5	$166.9

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

LONG-TERM LIABILITIES

The following table shows long-term debt of the Commonwealth as issued and retired from fiscal 2004 through fiscal 2008, exclusive of unamortized bond premiums:

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

	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008(4)
Fiscal Year Beginning Balance (as of July 1)	$15,962,506	$17,382,172	$17,856,799	$18,461,406	$18,736,961
General and special obligation debt issued	1,925,990	1,267,281	1,770,346	1,556,485	1,280,824
Subtotal	17,888,496	18,649,453	19,627,145	20,017,891	20,017,785
Debt retired or defeased, exclusive of refunded debt	(758,444)	(882,266)	(1,024,542)	(1,399,715)	(1,179,730)
Refunding debt issued, net of refunded debt	252,120	89,612	(141,197)	118,785	(103,615)
Fiscal Year Ending Balance (June 30) (2), (3)	$17,382,172	$17,856,799	$18,461,406	$18,736,961	$18,734,440

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) As of June 30, 2008, 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.

(3) Includes unallocated debt as of June 30, 2008 amounting to $335 million in principal with $339 million in net proceeds (inclusive of premiums). Maturity dates will range from fiscal 2009 to fiscal 2038.

(4) Amounts are preliminary.

General Authority to Borrow

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

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

Statutory Limit on Direct Debt. Legislation enacted in December 1989 imposes a limit on the amount of outstanding "direct" bonds of the Commonwealth. The law, which is codified in Section 60A of Chapter 29 of the General Laws, set a fiscal 1991 limit of $6.8 billion and provided that the limit for each subsequent fiscal year was to be 105% of the previous fiscal year's limit. This limit is calculated under the statutory basis of accounting, which differs from GAAP in that the principal amount of outstanding bonds is measured net of underwriters' discount, costs of issuance and other financing costs. The law further provides that bonds to be refunded from the proceeds of Commonwealth refunding bonds are to be excluded from outstanding "direct" bonds upon the issuance of the refunding bonds. Pursuant to special legislation enacted over the years, certain outstanding Commonwealth debt obligations are not counted in computing the amount of bonds subject to the limit, including Commonwealth refunding/restructuring bonds issued in September and October, 1991, federal grant anticipation notes, bonds issued to pay operating notes issued by the MBTA or to reimburse the Commonwealth for advances to the MBTA, bonds payable from the Central Artery and Statewide Road and Bridge Infrastructure Fund, bonds issued to finance the MSBA and bonds issued to finance the Commonwealth's accelerated structurally-deficient bridge program. The statutory limit on "direct" bonds during fiscal 2009 is approximately $15.6 billion.

The outstanding Commonwealth debt, the amounts of such outstanding debt excluded from the statutory debt limit, the net amounts of such outstanding 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 on a statutory basis:

Calculation of the Debt Limit (in thousands)

	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008(3)
Balance as of June 30	$17,382,172	$17,856,799	$18,461,406	$18,736,961	$18,734,440
Plus/ (Less) amounts excluded:					
Unamortized (discount)/premium and issuance costs	1,120	70,937	112,673	102,043	123,390
1991 refunding/restructuring	-	-	-	-	-
Special obligation debt (1)	(1,347,882)	(1,485,548)	(1,291,266)	(1,260,941)	(1,126,668)
Federal grant anticipation notes (1)	(1,908,015)	(1,908,015)	(1,789,876)	(1,666,690)	(1,536,206)
Assumed county debt	(675)	(600)	(525)	(450)	(375)
MBTA forward funding	(601,027)	(511,546)	(416,830)	(368,873)	(309,203)
Transportation Infrastructure Fund	(1,066,638)	(1,336,741)	(1,476,287)	(1,462,870)	(1,434,654)
MSBA	-	(500,000)	(1,000,002)	(946,285)	(946,285)
Outstanding Direct Debt(2)	$12,459,055	$12,185,286	$12,599,293	$13,132,895	$13,504,439
Statutory Debt Limit	$12,822,414	$13,463,535	$14,136,712	$14,843,547	$15,585,725

SOURCE: Office of the Comptroller.

(1) Includes federal grant anticipation notes issued as crossover refunding bonds. 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.

(3) Amounts are preliminary.

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

Debt Service Expenditures (in millions)(1)

Fiscal Year	Budgeted Debt Service	Total Budgeted Expenditures and Other Uses	Percentage
2004	1,227.0	22,848.3	5.4
2005	1,398.7	23,779.1	5.9
2006	1,422.8	25,584.6	5.6
2007	1,611.6	28,922.9	5.6

SOURCE: Fiscal 2004-2007, Office of the Comptroller. Fiscal 2008 figures will be available upon completion of the fiscal 2008 audit.

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

Other Long-Term Liabilities. The Commonwealth is also authorized to pledge its credit in aid of and provide contractual support for certain independent authorities and political subdivisions within the Commonwealth. These Commonwealth liabilities are classified as (a) general obligation contract assistance liabilities, (b) budgetary contractual assistance liabilities or (c) contingent liabilities. In addition, the Commonwealth is authorized to pledge its credit in support of scheduled, periodic payments to be made by the Commonwealth under interest rate swaps and other hedging agreements related to bonds or notes of the Commonwealth.

General obligation contract assistance liabilities arise from statutory requirements for payments by the Commonwealth to the Massachusetts Water Pollution Abatement Trust, the Massachusetts Turnpike Authority and the Massachusetts Development Finance Agency that are used by such entities to pay a portion of the debt service on certain of their outstanding bonds. Such liabilities constitute a pledge of the Commonwealth's credit for which a two-thirds vote of the Legislature is required.

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

Contingent liabilities relate to debt obligations of independent authorities and agencies of the Commonwealth, or payment obligations of such entities on hedging transactions related to such debt, that are expected to be paid without Commonwealth assistance, but for which the Commonwealth has some kind of liability if expected payment sources do not materialize. These liabilities consist of guaranties and similar obligations with respect to which the Commonwealth's credit has been or may be pledged, as in the case of certain debt obligations of the MBTA, regional transit authorities, the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority, and the higher education building authorities. Under legislation approved by the Governor on August 11, 2008, the Commonwealth may pledge its credit to guarantee payment obligations of the Massachusetts Turnpike Authority with respect to certain hedging transactions or provide financial support subject to annual appropriation and without a pledge of the state's credit. The same legislation authorizes the Commonwealth to provide credit support to the Turnpike Authority in connection with the issuance of certain refunding bonds, subject to annual appropriation and without a pledge of the state's credit. In addition, the Commonwealth has certain statutorily contemplated payment obligations with respect to which the Commonwealth's credit has not been pledged, as in the case of the Commonwealth's obligation to replenish the capital reserve funds securing certain debt obligations of the Massachusetts Housing Finance Agency and the Commonwealth's obligation to fund debt service, solely from moneys otherwise appropriated for the affected institution, owed by certain community colleges and state colleges on bonds issued by the Massachusetts Health and Educational Facilities Authority and the Massachusetts State College Building Authority.

The following table sets forth the amounts of Commonwealth long-term general obligation debt, special obligation debt and federal grant anticipation notes outstanding, exclusive of unamortized bond premiums, as of the end of the last five fiscal years and as of June 30, 2008.

Long Term Commonwealth Debt (in thousands) (1)

	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008(2)
General Obligation Debt	$14,126,275	$14,463,236	$15,383,366	$15,822,591	$16,086,470
Special Obligation Debt	1,347,882	1,485,548	1,288,595	1,248,750	1,112,590
Federal Grant Anticipation Notes (1)	1,908,015	1,908,015	1,789,445	1,665,620	1,535,380
TOTAL	$17,382,172	$17,856,799	$18,461,406	$18,736,961	$18,734,440

SOURCE: Office of the Comptroller.

(1) Includes federal grant anticipation notes issued as crossover refunding bonds. 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) Amounts are preliminary.

General Obligation Debt

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

As of July 2, 2008, the Commonwealth had approximately $15.9 billion in outstanding general obligation bonds outstanding, of which $11.9 billion, or approximately 75% is fixed-rate debt and $4.0 billion, or 25%, is variable-rate debt.

Of the variable-rate debt outstanding, the interest rates on $3.0 billion, or approximately 17% of total general obligation debt, have been synthetically fixed by means of floating-to-fixed interest rate exchange (“swap”) agreements. The Commonwealth has entered into interest rate swaps with various counterparties pursuant to which the counterparties are obligated to pay the Commonwealth an amount equal to the variable-rate payment on the related bonds or a payment based on a market index of tax-exempt variable-rate bonds, and the Commonwealth is obligated to pay the counterparties a stipulated fixed rate. Under legislation approved by the Governor on August 11, 2008, scheduled, periodic payments to be made by the Commonwealth pursuant to swap agreements in existence on August 1, 2008 or entered into after such date shall constitute general obligations of the Commonwealth to which its full faith and credit are pledged. The floating rate received by the Commonwealth is used to offset the variable rate paid to bondholders. In most cases, only the net difference in interest payments is actually exchanged with the counterparty. In all cases, the Commonwealth remains responsible for making interest payments to the variable-rate bondholders. The intended effect of the agreements is essentially to fix the Commonwealth’s interest rate obligations with respect to its variable-rate bonds. As of July 2, 2008, all of the Commonwealth’s interest rate swaps were floating-to-fixed rate agreements. The remaining variable-rate debt of $1.0 billion, or approximately 7% of the total outstanding general obligation debt, is unhedged and, accordingly, floats with interest rates re-set on a daily or weekly basis.

The Commonwealth’s outstanding general obligation variable-rate debt consists of several variable-rate structures. Most are variable-rate demand bonds (VRDBs). These are long-term bonds whose interest rates re-set daily or weekly. Because these bonds offer bondholders a “put” or tender feature, they are supported by stand-by liquidity facilities with commercial banks which require the applicable bank to purchase any bonds that are tendered and not successfully remarketed. Unless and until remarketed, the Commonwealth would be required to pay the bank interest on such bonds at a rate tied to a taxable rate, such as the prime rate. In addition, the Commonwealth may be required to amortize the principal of any such bonds according to an accelerated schedule. Such liquidity facilities typically expire well before the final maturity date of the related bonds and are expected to be renewed. As of July 2, 2008, the Commonwealth had $2.4 billion in outstanding VRDBs. This accounts for approximately 15% of total general obligation debt and approximately 60% of total general obligation variable-rate debt. All of these bonds are uninsured.

The Commonwealth has also issued general obligation variable-rate debt in the form of auction-rate securities. Like VRDBs, these are long-term bonds whose interest rates are re-set at pre-determined, short-term intervals. Unlike VRDBs, these bonds do not provide bondholders with a put feature and therefore do not require a supporting credit facility. The Commonwealth's auction-rate securities have long-term nominal maturities of over 20 years with interest rates re-set every seven days. A periodic "Dutch auction" process is designed to provide a mechanism of liquidity to bondholders, with bonds re-priced and traded in auctions managed by broker-dealers. As of July 2, 2008, approximately $551.9 million in Commonwealth general obligation auction-rate securities were outstanding. This represents approximately 3% of total general obligation indebtedness and approximately 14% of total general obligation variable-rate debt.

Beginning in February, 2008, several auctions of the Commonwealth's auction-rate bonds began to fail, meaning there were insufficient bids from investors to purchase the securities being offered for sale by existing holders. Four of the Commonwealth's six series of auction-rate bonds have experienced auction failure since February 13, 2008. Auction failures have been systemic throughout the municipal bond market, driven by credit and liquidity concerns caused primarily by widespread downgrades and negative rating outlooks of a number of municipal bond insurers. Upon auction failure, the interest rate paid to bondholders is the failure rate as specified in the bond documents. For the four series of Commonwealth bonds whose auctions have failed ($400 million outstanding), the failure rate is based on a multiple of a specified commercial paper index, with a maximum rate of 12%. The failed and undersubscribed auctions have resulted in higher interest costs, but these costs have remained within budgeted amounts and well below the maximum rate. The Commonwealth is currently considering refinancing options for its auction-rate bonds. The Commonwealth expects to issue bonds in September, 2008 to refund some of its auction-rate securities and replace them with fixed-rate bonds. The Commonwealth is also considering inviting holders of certain of its auction-rate bonds to tender their bonds for redemption.

The remaining outstanding variable-rate debt pays interest to bondholders based on certain indices. For example, as of July 2, 2008 the Commonwealth had $197.5 million of bonds that pay interest based on the consumer price index (CPI), as well as $845.8 million of bonds that pay interest based on the London interbank offered rate (LIBOR). These bonds make up approximately 1% and 5% of total outstanding general obligation indebtedness, respectively. In terms of total outstanding variable-rate debt, these bonds account for approximately 5% and 21%, respectively. All of the CPI and LIBOR bonds are hedged with interest rate swaps pursuant to which the Commonwealth receives from the swap counterparty the precise variable-rate interest due on the bonds. The Commonwealth is currently evaluating a refinancing transaction whereby the holders of the LIBOR bonds would be given the opportunity to tender their bonds for redemption. The bonds tendered for redemption would be extinguished. The tender offer would be financed by the issuance of new variable-rate demand bonds, and the existing interest rate swap agreements would either be assigned to the new bonds, assigned to other variable-rate bonds or terminated. Whether any such transaction takes place will depend on market conditions and the terms on which owners of the LIBOR bonds may be willing to tender their bonds for redemption.

As of July 2, 2008, the Commonwealth had outstanding approximately $83 million of variable rate "U. Plan" bonds, sold in conjunction with a college savings program administered by the Massachusetts Educational Facility Authority, which bear deferred interest at a rate equal to the percentage change in the consumer price index plus 2%, together with current interest at the rate of 0.5%.

Notes. The Commonwealth is authorized to issue short-term general obligation debt as revenue anticipation notes or bond anticipation notes. Revenue anticipation notes may be issued by the State Treasurer in any fiscal year in anticipation of the receipts for that year. Revenue anticipation notes must be repaid no later than the close of the fiscal year in which they are issued. Bond anticipation notes may be issued by the State Treasurer in anticipation of the issuance of bonds, including special obligation convention center bonds. See "Special Obligation Debt." In addition, the Commonwealth currently has liquidity support for a $1 billion commercial paper program which it utilizes regularly for cash flow purposes. See "Cash Flow." In addition to borrowing via its $1 billion commercial paper program, the Commonwealth issued $400 million revenue anticipation notes on December 21, 2007 that were repaid on March 21, 2008 and issued $400 million of revenue anticipation notes on March 28, 2008 that were repaid on April 25, 2008. All cash flow borrowings were retired by the fiscal year-end (June 30, 2008).

Special Obligation Debt

Highway Fund. Section 2*O* of Chapter 29 of the General Laws authorizes the Commonwealth to issue special obligation bonds secured by all or a portion of revenues accounted to the Highway Fund. Revenues, which are currently accounted to the Highway Fund, are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax. Chapter 33 of the Acts of 1991 authorizes the Commonwealth to issue such special obligation bonds in an aggregate amount not to exceed $1.125 billion. As of July 2, 2008, the Commonwealth had outstanding $619.6 million of such special obligation bonds, including $610.1 million of such bonds secured by a pledge of 6.86¢ of the 21¢ motor fuels excise tax. These amounts are exclusive of crossover refunding bonds, which have been issued to refund a portion of the outstanding special obligation bonds described above in fiscal 2012. Of the total amount outstanding, approximately $96.5 million was issued as variable rate debt with interest rates tied to the consumer price index (CPI). These bonds have been hedged via a floating-to-fixed interest rate swap agreement.

On August 4, 2008, the Governor approved legislation that authorizes the issuance of an additional $1.9 billion of special obligation bonds secured by a pledge of motor fuels excise tax receipts to fund a portion of the Commonwealth's accelerated structurally deficient bridge program. The legislation provides for a pledge of up to 10¢ of the 21¢ motor fuels excise tax to secure the outstanding special obligation bonds described above and the bridge program bonds. See "COMMONWEALTH CAPITAL INVESTMENT PLAN."

Convention Center Fund. Chapter 152 of the Acts of 1997, as amended, authorizes $694.4 million of special obligation bonds to be issued for the purposes of building a new convention center in Boston ($609.4 million), the Springfield Civic Center ($66 million) and the Worcester convention center ($19 million). The bonds are payable from moneys credited to the Convention Center Fund created by such legislation, which include certain hotel tax receipts from hotels in Boston, Cambridge, Springfield and Worcester, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, a surcharge on sightseeing tours and cruises in Boston and sales tax receipts from certain hotels and other retail establishments in Boston, Cambridge and Springfield. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance, the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). In June, 2004, the Commonwealth issued $686.7 million of special obligation bonds secured solely by the pledge of receipts of tax revenues within the special districts surrounding the centers and other special revenues connected to such facilities, $638.7 million of which remained outstanding as of July 2, 2008. Of this amount, approximately $86.6 million was issued as variable rate debt with interest rates tied to the CPI. These bonds have been hedged via a floating-to fixed interest rate swap agreement.

Federal Grant Anticipation Notes

The Commonwealth has issued federal grant anticipation notes yielding aggregate net proceeds of $1.5 billion, the full amount authorized to finance the current cash flow needs of the CA/T project, in anticipation of future federal reimbursements. The legislation authorizing such notes contains a statutory covenant that as long as any such grant anticipation notes remain outstanding, the Commonwealth will deposit all federal highway reimbursements into the Grant Anticipation Note Trust Fund, to be released to the Commonwealth once all the debt service and reserve funding obligations of the trust agreement securing the grant anticipation notes have been met. If the United States Congress reduces the aggregate amount appropriated nationwide for federal highway spending to less than $17.1 billion and debt service coverage with respect to the notes falls below 120%, then the legislation further pledges that 10¢ per gallon of existing motor fuel tax collections will be deposited into the trust fund, to be used for debt service on the notes, subject to legislative appropriation. Principal amortization of the notes began in fiscal 2006 and will continue through fiscal 2015. Under the trust agreement securing the notes, aggregate annual debt service on grant anticipation notes may not exceed $216 million unless the rating agencies rating the notes confirm that exceeding $216 million in annual debt service will not cause them to withdraw or reduce their credit ratings. Such notes and the interest thereon are secured solely by the pledge of federal highway construction reimbursement payments and by a contingent pledge of certain motor fuels excises. In practice, the interest on such notes has been paid from state appropriations.

On July 16, 2003, the Commonwealth issued special obligation refunding notes for the purpose of refunding approximately $408 million of outstanding federal grant anticipation notes in December, 2008 and

December, 2010. Pursuant to the crossover refunding method employed, interest on the notes will be paid solely by an escrow account established with the proceeds of the notes. Upon the redemption of $408 million of outstanding federal grant anticipation notes on the crossover dates in 2008 and 2010, the refunding notes will become secured by the Grant Anticipation Note Trust Fund.

As of July 2, 2008, $1.53 billion of such notes, inclusive of the special obligation crossover refunding notes, remained outstanding. All of these notes are fixed-rate obligations.

On August 4, 2008, the Governor approved legislation authorizing the issuance of an additional $1.1 billion of grant anticipation notes secured by future federal funds. Any such notes will not be secured by a contingent pledge of motor fuels excises. The Commonwealth intends to begin to amortize the principal of any such notes in fiscal 2016, after the federal grant anticipation notes for the CA/T project described above have been paid in full. Similar to the notes issued for the CA/T project, the Commonwealth expects to pay interest on the notes for the bridge program from state appropriations. See "COMMONWEALTH CAPITAL INVESTMENT PLAN."

Interest Rate Swaps

The following table describes, as of July 2, 2008, the interest rate swap agreements that the Commonwealth has entered into in connection with certain of its outstanding bond issues.

Swap Structure	Associated Bond Issue	Outstanding Notional Amount (in thousands)	Bond Floating Rate	Swap Fixed Rate Paid (Range)	Swap Variable Rate Received	Effective Date	Termination Date	Counterparty
	General Obligation Bonds:							
Floating-to-fixed	Series 1997B	$162,768	VRDB	4.659%	Cost of Funds	8/12/1997	8/1/2015	Goldman Sachs Matsui Marine Derivative Products Co., LP
Floating-to-fixed	Series 1997B	108,512	VRDB	4.659%	Cost of Funds	8/12/1997	8/1/2015	Ambac Financial Services, LP
Floating-to-fixed	Series 1998A & B	298,308	VRDB	4.174%	Cost of Funds	9/17/1998	9/1/2016	Lehman Brothers Derivative Products Inc.
Floating-to-fixed	Series 1998A & B	198,872	VRDB	4.174%	Cost of Funds	9/17/1998	9/1/2016	Salomon SwapCo, Inc.
Floating-to-fixed	Series 2001B & C	496,225	VRDB	4.150%	Cost of Funds	2/20/2001	1/1/2021	Morgan Stanley Derivative Products Inc.
Floating-to-fixed	Series 2003B	87,455	CPI	4.500%	Cost of Funds/CPI	3/12/2003	3/1/2014	Goldman Sachs Matsui Marine Derivative Products Co., LP
Floating-to-fixed	Series 2003B	10,000	CPI	4.500%	Cost of Funds/CPI	3/12/2003	3/1/2013	Lehman Brothers Special Financing Inc.
Floating-to-fixed	Series 2005A	548,885	VRDB	2.925 - 4.000%	SIFMA	3/29/2005	2/1/2028	Citi
Floating-to-fixed	Series 2006C	100,000	CPI	3.730 - 3.850%	Cost of Funds/CPI	11/29/2006	11/1/2020	Citi
Floating-to-fixed	Series 2007A[1]	400,000	LIBOR	4.420%	LIBOR	5/30/2007	5/1/2037	Lehman Brothers Special Financing Inc.
Floating-to-fixed	Series 2007A[1] (refunding)	445,795	LIBOR	3.963 - 4.083%	LIBOR	5/30/2007	11/2/2025	Lehman Brothers Special Financing Inc.
Floating-to-fixed	Series 2007 D-1[2]	109,125	ARS	3.942%	SIFMA	8/16/2007	8/1/2018	Merrill Lynch Capital Services, Inc.
Floating-to-fixed	Series 2007 D-2[2]	54,525	ARS	3.942%	SIFMA	8/16/2007	8/1/2018	J.P. Morgan Chase Bank
Subtotal		3,020,470						
Special Obligation Dedicated Tax Revenue Bonds (CPI Based Swaps):	*Special Obligation Dedicated Tax Revenue Bonds (CPI Based Swaps):*							
Floating-to-fixed	Series 2004	28,863	CPI	4.450 - 5.250%	Cost of Funds/CPI	6/29/2004	1/1/2018	Goldman Sachs Capital Markets, LP
Floating-to-fixed	Series 2004	28,863	CPI	4.450 - 5.250%	Cost of Funds/CPI	6/29/2004	1/1/2018	J.P. Morgan Chase Bank
Floating-to-fixed	Series 2004	28,863	CPI	4.450 - 5.250%	Cost of Funds/CPI	6/29/2004	1/1/2018	J. P. Morgan Chase Bank
Floating-to-fixed	Series 2005A	96,490	CPI	4.771 - 5.060%	Cost of Funds/CPI	6/12/2005	6/1/2022	Merrill Lynch Capital Services, Inc.
Subtotal		183,079						
Total		$3,203,549						

1 The Commonwealth is currently evaluating a refinancing transaction for the Series 2007A and Series 2007A (refunding) bonds whereby the holders of the bonds would be given the opportunity to tender their bonds for redemption.
2 If and to the extent that the Series 2007 D-1 and D-2 bonds are redeemed in September, 2008, the Commonwealth expects to reassign these swap agreements to other currently unhedged variable-rate bonds.

Debt Service Requirements

The following table sets forth, as of July 2, 2008, 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 swap 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. Certain of the Commonwealth's auction-rate securities have experienced failed auctions in recent months, although the aggregate interest costs for fiscal 2008 were still well below the 5% rate assumed in this schedule. The Commonwealth expects to redeem all of its outstanding auction-rate securities during the summer of 2008 and to replace them with fixed-rate bonds.

Debt Service Requirements on Commonwealth Bonds as of July 2, 2008

(in thousands)(1)

	General Obligation Bonds				*Federal Grant Anticipation Notes(2)*			*Special Obligation Bonds*			
Fiscal Year	Principal (3)	Current Interest	Interest on CABS at Maturity (3)	Sub Total	Principal	Interest	Sub Total	Principal	Interest	Sub Total	Total Debt Service Commonwealth Bonds
2009	$1,047,533	$747,695	$ 6,904	$1,802,132	137,230	74,478	211,708	$33,960	$42,207	$ 76,167	$ 2,090,007
2010	992,722	721,178	6,913	1,720,813	158,815	66,835	225,650	35,530	57,887	93,417	2,039,879
2011	1,008,302	668,202	7,768	1,684,272	214,620	57,206	271,826	37,240	56,178	93,418	2,049,516
2012	895,563	614,886	8,266	1,518,715	226,420	45,694	272,114	39,135	54,290	93,425	1,884,253
2013	973,089	566,712	9,413	1,549,214	208,410	35,110	243,520	41,150	52,258	93,408	1,886,141
2014	860,818	520,518	7,279	1,388,615	302,820	21,697	324,517	37,170	50,020	87,190	1,800,322
2015	863,102	477,542	6,814	1,347,458	287,065	7,185	294,250	59,065	48,117	107,182	1,748,889
2016	914,715	436,733	5,416	1,356,864	-	-	-	60,975	44,918	105,893	1,462,757
2017	834,828	394,521	3,826	1,233,175	-	-	-	64,675	41,617	106,292	1,339,467
2018	657,359	359,549	2,947	1,019,854	-	-	-	46,350	38,425	84,775	1,104,629
2019	649,608	325,666	20,461	995,734	-	-	-	48,775	36,121	84,896	1,080,630
2020	728,202	292,655	1,601	1,022,457	-	-	-	49,020	33,499	82,519	1,104,977
2021	923,551	252,047	1,421	1,177,019	-	-	-	51,515	31,064	82,579	1,259,599
2022	717,259	211,324	1,258	929,841	-	-	-	54,355	28,292	82,647	1,012,489
2023	647,150	177,119	1,031	825,300	-	-	-	36,960	25,428	62,388	887,688
2024	573,059	146,988	682	720,729	-	-	-	28,990	23,443	52,433	773,162
2025	506,586	120,988	458	628,033	-	-	-	30,625	21,848	52,473	680,506
2026	363,885	99,348	312	463,545	-	-	-	32,360	20,164	52,524	516,069
2027	357,519	82,100	176	439,795	-	-	-	34,190	18,384	52,574	492,370
2028	167,644	68,974	104	236,723	-	-	-	36,125	16,504	52,629	289,352
2029	235,910	58,920	-	294,830	-	-	-	38,170	14,517	52,687	347,517
2030	242,575	46,819	-	289,394	-	-	-	40,330	12,418	52,748	342,142
2031	252,425	34,184	-	286,609	-	-	-	42,610	10,199	52,809	339,418
2032	60,460	26,517	-	86,977	-	-	-	45,020	7,856	52,876	139,853
2033	61,505	23,699	-	85,204	-	-	-	47,565	5,380	52,945	138,149
2034	86,545	20,201	-	106,746	-	-	-	50,520	2,764	53,014	159,760
2035	90,680	15,947	-	106,627	-	-	-	-	-	-	106,627
2036	94,865	11,493	-	106,358	-	-	-	-	-	-	106,358
2037	100,105	6,811	-	106,916	-	-	-	-	-	-	106,916
2038	75,000	1,875	-	76,875	-	-	-	-	-	-	76,875
TOTAL	$15,982,564	$7,531,212	$93,051	$23,606,828	$1,535,380	$308,204	$1,843,584	$1,222,110	$793,797	$1,915,907	**27,364,714**

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

(1) Amounts are preliminary until completion of the Commonwealth’s fiscal 2008 audit.

(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.

(3) Totals may not add up due to rounding.

General Obligation Contract Assistance Liabilities

Massachusetts Turnpike Authority. The Commonwealth is obligated to pay contract assistance to the Massachusetts Turnpike Authority pursuant to legislation enacted in 1998 and a contract for financial assistance dated as of February 19, 1999 between the Turnpike Authority and the Commonwealth. The payments are in recognition of the financial burden imposed on the Turnpike Authority by virtue of its assumption of the responsibility for operation and maintenance of certain roadways in the Metropolitan Highway System that were formerly maintained by the Commonwealth. The Commonwealth's obligation to make such payments is a general obligation for which the faith and credit of the Commonwealth is pledged for the benefit of the Turnpike Authority and its bondholders. The contract provides that no later than September 1 of each year the Turnpike Authority is to submit to the Secretary of Transportation a certificate setting forth the total amount of costs incurred by the Turnpike Authority during the prior fiscal year in connection with the operation and maintenance of the roadways covered by the contract. The contract further provides that as soon as practicable following receipt of such certificate, but no later than December 1 of such year, the Commonwealth is to pay the Turnpike Authority the amount set forth in such certificate, subject to Commonwealth review, provided that such annual payment may not be more than $25 million. Payments are required under the contract through fiscal year 2045.

Massachusetts Water Pollution Abatement Trust. The Massachusetts Water Pollution Abatement Trust was created to implement the Commonwealth's state revolving fund program under Title VI of the federal Clean Water Act and the federal Safe Drinking Water Act. The Trust is authorized to apply for and accept federal grants and associated Commonwealth matching grants to capitalize the revolving funds and to issue debt obligations to make loans to local governmental units to finance eligible water pollution abatement and water treatment projects. Under state law, each loan made by the Trust is required to provide for debt service subsidies or other financial assistance sufficient to result in most new loans being the financial equivalent of a two percent interest loan. To subsidize its loans, the Trust receives contract assistance payments from the Commonwealth. Under the Trust's enabling act, the annual contract assistance maximum for the Clean Water Act program is $71 million, and the contract assistance maximum for the Safe Drinking Water Act program is $17 million. The contract assistance agreements constitute general obligations of the Commonwealth for which its faith and credit are pledged, and the Trust's right to receive payments thereunder may be pledged by the Trust as security for repayment of the Trust's debt obligations. As of April 1, 2008, the Trust had approximately $3.207 billion of bonds outstanding. Approximately 17% of the aggregate debt service on such bonds is expected to be paid from Commonwealth contract assistance.

Massachusetts Development Finance Agency. On June 12, 2008, the Governor approved legislation amending a 2006 law authorizing an "infrastructure investment incentive" program, known as "I-Cubed." The amendment, among other things, clarifies the manner in which the program is to be financed and the security for the related bonds. Under the program, up to $250 million of public infrastructure improvements to support significant new private developments may be financed by bonds issued by the Massachusetts Development Finance Agency (MassDevelopment) that will be secured by and payable from a general obligation pledge of contract assistance from the Commonwealth. Until a related new private development is completed and occupied, the developer's property will be assessed by the municipality in amounts equal to the debt service cost on the bonds to reimburse the Commonwealth for such cost. After each phase of the private development is completed and occupied, the municipality will be required to reimburse the Commonwealth for any portion of the debt service cost on the bonds that is not covered by new state tax revenues generated from the related private development. The municipality's reimbursement obligation will be secured by a general obligation pledge of the municipality, a local aid intercept and a reserve fund which must be funded in an amount equal to or greater than two years of debt service on the bonds. The obligation of the municipality ends when the Commonwealth has collected revenues sufficient to pay principal and interest payments to date plus all remaining principal payments due. Regulations are still being developed pursuant to this legislation, and no such bonds have yet been issued.

Legislation approved by the Governor on August 8, 2008 includes an authorization to finance up to $43 million of the costs of a parkway at the former South Weymouth naval air base to support the development of the former base. Similar to the I-Cubed program financing model, the bonds to finance the parkway would be issued by MassDevelopment and would be secured and payable from a general obligation pledge of contract assistance from the Commonwealth. In the event that the new state tax revenues generated from the new private development are less than the debt service cost on the bonds, the South Shore Tri-Town Development Corporation, a public entity with municipal taxing and other powers over the geographic area of the former base, would be required to reimburse the Commonwealth for any such shortfall. The legislation provides that such payment obligations of the Corporation be secured by a general obligation pledge of the Corporation.

The following table sets forth the Commonwealth's general obligation contract assistance requirements pursuant to contracts with the Massachusetts Turnpike Authority and the Massachusetts Water Pollution Abatement Trust. These figures are as of January 2, 2008.

General Obligation Contract Assistance Requirements (in thousands)(1)

Fiscal Year	Massachusetts Water Pollution Abatement Trust	Massachusetts Turnpike Authority(2)	Total
2009	$66,856	$25,000	$91,856
2010	66,887	25,000	91,887
2011	65,911	25,000	90,911
2012	64,289	25,000	89,289
2013	61,798	25,000	86,798
2014	58,753	25,000	83,753
2015	57,320	25,000	82,320
2016	52,492	25,000	77,492
2017	45,379	25,000	70,379
2018	39,691	25,000	64,691
2019	39,874	25,000	64,874
2020	34,308	25,000	59,308
2021	26,791	25,000	51,791
2022	17,631	25,000	42,631
2023	18,043	25,000	43,043
2024	10,040	25,000	35,040
2025	6,091	25,000	31,091
2026 through 2045	3,985	500,000(3)	503,985
Total	$736,139	$925,000	$1,661,139

SOURCES: Massachusetts Water Pollution Abatement Trust column – Office of the State Treasurer; Massachusetts Turnpike Authority column - Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.
(2) Reimbursement for operating and maintenance costs expended in the prior state fiscal year. These costs are projections and are subject to review pursuant to the contract for financial assistance. These projections do not include certain costs submitted by the Massachusetts Turnpike Authority for reimbursement, which the Executive Office for Administration and Finance has determined not to be reimbursable under the contract. The disputed costs remain subject to review and discussion.
(3) Signifies $25 million per year for fiscal 2026 to fiscal 2045, inclusive.

Budgetary Contract Assistance Liabilities

Plymouth County Certificates of Participation. In May, 1992, Plymouth County caused to be issued approximately $110.5 million of certificates of participation to finance the construction of a county correctional facility. In March 1999, Plymouth County caused to be issued approximately $140.1 million of certificates of participation to advance refund the 1992 certificates, construct an administration office building and auxiliary facilities near the county correctional facility and fund repairs and improvements to the facility. The certificates are insured by Ambac Assurance Corporation (Ambac) and bear interest at a fixed rate with a final maturity of April 1, 2022. The Commonwealth, acting through the Executive Office of Public Safety and Security and the Department of Correction, is obligated under a memorandum of agreement with Plymouth County to pay for the availability of 380 beds (out of 1,140) in the facility, regardless of whether 380 state prisoners are housed therein. The amounts payable by the Commonwealth will at least equal the debt service on the outstanding certificates of participation, but are subject to appropriation of such amounts by the Legislature in the annual budgetary line item for the Executive Office of Public Safety and Security. The obligation of the Commonwealth under the memorandum of agreement does not constitute a general obligation or a pledge of the credit of the Commonwealth. As of July 2, 2008, such certificates were outstanding in the aggregate principal amount of $102.2 million. The Commonwealth may consider refunding opportunities, including issuing refunding bonds as Commonwealth general obligation bonds, which is permitted pursuant to authorization granted in legislation approved by the Governor on August 11, 2008.

City of Chelsea Commonwealth Lease Revenue Bonds. In November, 1993, the Chelsea Industrial Development Financing Authority issued approximately $95.8 million of lease revenue bonds. The proceeds of the bonds were loaned to the Massachusetts Industrial Finance Agency (now MassDevelopment) and applied to the cost of the Massachusetts Information Technology Center, a tax processing facility of the Department of Revenue and a data processing information system center for the Department and for certain other departments and agencies of the Commonwealth. The bonds are insured by Financial Security Assurance (FSA), formerly Capital Guaranty, and bear interest at a variable rate. Under an interest rate swap agreement, MassDevelopment receives variable rate payments with respect to the full amount of the bonds and is obligated to make fixed rate payments in exchange therefor. Simultaneously with the issuance of the bonds, the Commonwealth entered into a 30-year lease, which provides for the payment of debt service on the bonds, payments under the swap agreement and certain other expenses associated with the project. The obligations of the Commonwealth do not constitute a general obligation or a pledge of the credit of the Commonwealth or of MassDevelopment and are subject to annual appropriation by the Legislature. Such bonds, which have a final maturity of June, 2023, were outstanding in the aggregate amount of $67,250,000 as of July 2, 2008. In recent months, there have been failed auctions with respect to such bonds, which were issued as auction-rate securities. On July 21, 2008, Moody's placed FSA under review for possible downgrade. If FSA were to be downgraded below certain thresholds specified in the interest rate swap agreement, the agreement could become subject to termination at the option of the counterparty, triggering termination costs (currently estimated at approximately $6.6 million) for which the Commonwealth would be liable under the lease. The Commonwealth is currently considering refinancing options, including issuing refunding bonds as Commonwealth general obligation bonds, which is permitted pursuant to authorization granted in legislation approved by the Governor on August 11, 2008.

Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds. In August, 2000, the Route 3 North Transportation Improvements Association issued approximately $394.3 million of lease revenue bonds to finance the reconstruction and widening of a portion of state Route 3 North. In May, 2002, the Route 3 North Transportation Improvements Association issued approximately $312.7 million of additional lease revenue bonds, $305.6 million of which were issued as refunding bonds. In connection with the financing, the Commonwealth leased the portion of the highway to be improved to the Association, and the Association leased the property back to the Commonwealth pursuant to a sublease. Under the sublease, the Commonwealth is obligated to make payments equal to the debt service on the bonds and certain other expenses associated with the project. The obligations of the Commonwealth do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. On May 9, 2007, the Commonwealth sold general obligation bonds to refund approximately $53.4 million of the lease revenue bonds. As of July 2, 2008, the Route 3 North Transportation Improvements Association had $376.5 million of such lease revenue bonds outstanding, of which $82.5 million are fixed-rate bonds and $294 million are variable-rate bonds with an associated interest rate swap agreement. The variable-rate bonds and the associated swap agreement are insured by Ambac. If Ambac were to be downgraded below certain thresholds specified in the swap agreement, the agreement could become subject to termination at the option of the counterparty, triggering termination costs (currently estimated at approximately $46 million) for which the Commonwealth would be liable under the sublease. In connection with the recent credit deterioration and ratings downgrades of Ambac, there have been failed remarketings with respect to the variable-rate bonds, and the counterparty under the associated interest rate swap agreement exercised its right to make variable payments to the Association related to a taxable index rather than to pay the Association's variable interest costs on the bonds. The net effect of this change is to expose the Association to basis risk and potentially to increased costs, for which the Commonwealth is liable under the sublease. For fiscal 2008, such increased costs amounted to approximately $1 million, which were funded by supplemental appropriations approved by the Governor on August 8, 2008. Such increased costs have continued in fiscal 2009. For the 30-day period ended on July 15, 2008, such increased costs amounted to approximately $1.3 million. The Commonwealth is planning to refinance the variable-rate bonds as Commonwealth general obligation bonds, as authorized by legislation approved May 29, 2008. In connection with any such refinancing, the Commonwealth may terminate existing debt service deposit agreements which provided an advance payment of $8.3 million when such agreements were entered into in 2000. The termination value of the agreements is currently estimated to be approximately $6 million. In 2005, the developer of the project submitted a request for equitable adjustment pursuant to the development agreement between the developer, the Executive Office of Transportation and Construction and the Massachusetts Highway Department. As of June 11, 2008, the parties reached a settlement in principle with the developer. On June 23, 2008, the developer filed for bankruptcy protection. On August 8, 2008, the Commonwealth, the developer and the sureties executed a settlement agreement resolving all claims on the project. Due to the developer's bankruptcy filing on June 23, 2008, however, the developer will not be able to agree to the settlement unless the Bankruptcy Court approves it and no appeal is taken. If final approval is not obtained from the Bankruptcy Court, the settlement agreement will be null and void, except to the extent the parties further agree in writing.

Saltonstall Building Redevelopment Corporation Project. In May, 2002, MassDevelopment issued $195.8 million of lease revenue bonds pursuant to an agreement to loan the proceeds of the bonds to the MassDevelopment/ Saltonstall Building Redevelopment Corporation. The loan was used to finance the redevelopment of the Saltonstall State Office Building. Under the provisions of the legislation relating to the building's redevelopment, the building was leased to MassDevelopment/Saltonstall Building Redevelopment Corporation for a term of up to 50 years, with extension terms permitted for an aggregate of 30 more years. MassDevelopment/Saltonstall Building Redevelopment Corporation is obligated to pay $2,450,000 per year to the Commonwealth for the lease. Due to lower than anticipated cash flow and required priority funding of the project reserve, rent and interest payments to the Commonwealth have accrued in the amounts of $5,512,500 and $306,289, respectively, as of May 31, 2008. Rent payments will commence once the project reserve fund is replenished to $5 million, which is anticipated to occur in fiscal 2009. MassDevelopment/Saltonstall Building Redevelopment Corporation has renovated the building and subleased half of it back to the Commonwealth for office space and related parking (for a comparable lease term), in respect of which sublease the Commonwealth makes sublease payments to MassDevelopment/Saltonstall Building Redevelopment Corporation. The remainder of the building has been redeveloped as private office space, as well as private housing units and retail establishments. The obligations of the Commonwealth under the office sublease do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. The Commonwealth's full-year costs include $7,065,000 per year of base rent and parking space rent for the first five years, after which the parking space rent may be adjusted for fair market value every five years. In addition, included in the table below are the Commonwealth's estimated pro-rata share of office operating expense reimbursements, escalating at 3% per year and also the Commonwealth's replacement reserve contribution calculated at 21¢ per rental square foot per year. On July 24, 2008, MassDevelopment/Salstonstall Building Redevelopment Corporation redeemed approximately $21.1 million of the outstanding bonds. As of July 24, 2008, MassDevelopment/Saltonstall Building Redevelopment Corporation had $171,960,000 of such lease revenue bonds outstanding.

Long-Term Operating Leases and Capital Leases. In addition to Commonwealth-owned buildings and facilities, the Commonwealth leases additional space from private parties. In certain circumstances, the Commonwealth has acquired certain types of capital assets under long-term capital leases; typically, these arrangements relate to computer and telecommunications equipment and to motor vehicles. Minimum future rental expenditure commitments of the Commonwealth under operating leases and long-term principal and interest obligations related to capital leases in effect at June 30, 2007 are set forth in the table below. These amounts represent expenditure commitments of both budgeted and non-budgeted funds.

Budgetary Contract Assistance Liabilities (in thousands)(1)

Fiscal Year	Plymouth County Certificates of Participation	City of Chelsea Commonwealth Lease Revenue Bonds(2)	Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds(3)	MassDevelopment/ Saltonstall Building Redevelopment Corporation Lease Revenue Bonds(5)	Other Leases(6)	Total
2009	$10,247	$6,465	$24,667	$9,506	$143,942	$194,827
2010	10,244	6,465	24,145	9,578	117,857	168,289
2011	10,245	6,453	24,342	9,693	89,768	140,501
2012	10,240	6,453	22,756	9,770	190,777	239,996
2013	10,245	6,453	22,859	9,848	27,060	76,465
2014	10,244	6,453	22,860	9,929	27,060	76,546
2015	10,250	6,453	22,857	10,012	27,060	76,632
2016	10,245	6,435	22,854	10,155	27,060	76,749
2017	10,238	6,435	21,748	10,243	27,060	75,724
2018	10,244	6,435	25,683	10,334	13,723	66,419
2019	10,244	6,435	26,003	10,428	13,723	66,833
2020	10,246	6,435	26,038	10,524	13,723	66,966
2021	10,243	6,435	26,074	10,658	13,723	67,133
2022	10,252	6,395	26,110	10,760	13,723	67,240
2023	--	6,379	26,150	10,866	11,686	55,081
2024	--	--	26,191	10,974	11,686	48,851
2025 through 2034	--	--	238,016(4)	116,923	53,654	408,593
Total	$143,426	$96,579	$629,352	$280,201	$823,285	$1,972,845

SOURCES: Other Leases column - Office of the Comptroller; GAAP Basis, all other columns - Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

(2) Assumes payment based on fixed rates stipulated in interest rate swap agreements associated with auction-rate bonds. The Commonwealth is currently considering refinancing options.

(3) Assumes payment based on fixed rates stipulated in interest rate swap agreements associated with variable rate bonds. Actual costs are projected to be higher, because of changes in the payments received under the swap agreements. See "Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds." The Commonwealth plans to refinance the variable rate bonds in the fall of 2008 with general obligation bonds of the Commonwealth.

(4) Approximately $26.5 million per year for fiscal 2025 through fiscal 2033, inclusive.

(5) Cash flows from the Commonwealth represent gross payments to MassDevelopment, including projections provided by MassDevelopment of the Commonwealth's share of operating costs and other items that are subject to change.

(6) As of June 30, 2007.

Contingent Liabilities

Massachusetts Bay Transportation Authority. The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. Prior to July 1, 2000, the Commonwealth supported MBTA bonds and notes through guaranties of the debt service on its bonds and notes, contract assistance generally equal to 90% of the debt service on outstanding MBTA bonds and payment of the MBTA's net cost of service (current expenses, including debt service, minus current income). Beginning July 1, 2000, the Commonwealth's annual obligation to support the MBTA for operating costs and debt service is limited to a portion of the revenues raised by the Commonwealth's sales tax, but the Commonwealth remains contingently liable for the payment of MBTA bonds and notes issued prior to July 1, 2000. The Commonwealth's obligation to pay such prior bonds is a general obligation for which its full faith and credit have been pledged. As of June 1, 2008, the Massachusetts Bay Transportation Authority had approximately $955.3 million of such prior bonds outstanding. Such bonds are currently scheduled to mature annually through fiscal 2030, with annual debt service in the range of approximately $166 million to $156 million through fiscal 2013 and declining thereafter.

Woods Hole, Martha's Vineyard and Nantucket Steamship Authority. The Steamship Authority operates passenger ferries to Martha's Vineyard and Nantucket. The Steamship Authority issues its own bonds and notes. Commonwealth support of the bonds and notes of the Steamship Authority includes a Commonwealth guaranty pursuant to statutory provisions requiring the Commonwealth to provide the Authority with funds sufficient to meet the principal of and interest on their bonds and notes as they mature to the extent that funds sufficient for this purpose are not otherwise available to the Authority and the Commonwealth's payment, under applicable statutory provisions, of the net cost of service of the Steamship Authority (current expenses, including debt service, minus current income). The Steamship Authority is currently self-supporting, requiring no net cost of service or contract assistance payments. As of June 1, 2008, the Steamship Authority had approximately $55.9 million of bonds outstanding and $5 million in notes outstanding. The Commonwealth's obligations to the Steamship Authority are general obligations for which its full faith and credit have been pledged.

University of Massachusetts Building Authority and Massachusetts State College Building Authority. These higher education building authorities, created to assist institutions of public higher education in the Commonwealth, have outstanding bonds which are guaranteed as to their principal and interest by the Commonwealth. The guaranty is a general obligation of the Commonwealth for which its full faith and credit is pledged. In addition to such guaranty, certain revenues of these authorities, including dormitory rental income and student union fees, are pledged to their respective debt service requirements. As of July 2, 2008, the Massachusetts State College Building Authority had approximately $49.6 million of Commonwealth-guaranteed debt outstanding. Under its enabling act, the Massachusetts State College Building Authority is not permitted to issue any additional Commonwealth-guaranteed debt. The University of Massachusetts Building Authority may have outstanding up to $200 million in Commonwealth-guaranteed debt and had approximately $156.2 million of Commonwealth-guaranteed debt outstanding as of July 2, 2008.

Massachusetts Housing Finance Agency (MassHousing). MassHousing is authorized to issue bonds to finance multi-family housing projects within the Commonwealth and to provide mortgage loan financing with respect to certain single-family residences within the Commonwealth. Such bonds are solely the obligations of MassHousing, payable directly or indirectly from, and secured by a pledge of, revenues derived from MassHousing's mortgage on or other interest in the financed housing. MassHousing's enabling legislation also permits the creation of a capital reserve fund in connection with the issuance of such bonds. No single-family housing bonds secured by capital reserve funds are outstanding, and no such bonds have been issued by MassHousing since 1985. As of June 30, 2008, MassHousing had outstanding approximately $386.1 million of multi-family housing bonds secured by capital reserve funds. Any such capital reserve fund must be in an amount at least equal to the maximum annual debt service in any succeeding calendar year on all outstanding bonds secured by such fund. All such capital reserve funds are maintained at their required levels. If amounts are withdrawn from a capital reserve fund to pay debt service on bonds secured by such fund, upon certification by the chairperson of MassHousing to the Governor of any amount necessary to restore the fund to the above-described requirement, the Legislature may, but is not legally bound to, make an appropriation in such amount. No such appropriation has been necessary to date.

Massachusetts Turnpike Authority. In 2001, the Turnpike Authority entered into certain contracts with UBS AG (UBS), giving UBS the right to enter into five separate interest rate swap agreements (the "UBS swaptions") with the Turnpike Authority. The UBS swaptions have an aggregate notional amount of $800 million and pertain to an equal amount of outstanding Turnpike Authority bonds. Three of the UBS swaptions have been exercised by UBS, with two becoming effective on January 1, 2008 in the aggregate notional amount of $126,725,000 and a third becoming effective on July 1, 2008 in the notional amount of $207,665,000. The two remaining UBS swaptions, if exercised on the next possible exercise date, would take effect on January 1, 2009. The Turnpike Authority believes it is likely that UBS will exercise the remaining swaptions if current market conditions continue. These UBS swaptions and related interest rate swap agreements provide for the Turnpike Authority to make fixed-rate payments to UBS and to receive variable-rate payments from UBS. In 2002, the Turnpike Authority also entered into five additional swaptions with Lehman Brothers Special Financing Inc., which mirror the notional amounts and maturities of the swaptions described above (the "Lehman swaptions") and, if exercised, provide for the Turnpike Authority to make variable-rate payments to the counterparty and to receive fixed-rate payments from the counterparty. To date, the Lehman swaptions have not been exercised. It was originally expected in 2001 that if any UBS swaptions were exercised, the Turnpike Authority would refund the related fixed-rate bonds with variable-rate bonds, and a commitment for bond insurance was purchased from Ambac Assurance Corporation (Ambac) in

2001 to insure the anticipated refunding bonds. As a result of the recent adverse market conditions in the municipal bond market and the recent downgrades of Ambac's credit ratings, and the Turnpike Authority's own underlying financial condition and credit ratings, the Turnpike Authority has been unable to date to refund the bonds related to the UBS swaptions that have taken effect. As a result, it is continuing to pay interest on its outstanding fixed-rate bonds and a synthetic fixed rate to UBS, while receiving only a variable rate on the related UBS swaptions. In addition, the Authority faces a potential termination cost associated with the UBS swaps and swaptions if Ambac's credit rating were to fall below certain levels and a potential termination cost associated with the Lehman swaptions if the ratings on the Authority's bonds were to fall below certain levels. The termination costs of these interest rate swap agreements are based on the market values of the agreements which have recently exceeded $200 million in total.

As a result of these circumstances facing the Turnpike Authority, the Governor approved legislation on August 11, 2008 authorizing the Secretary of Administration and Finance, with the approval of the Governor, to provide certain types of credit support for payment obligations of the Turnpike Authority on certain bonds and interest rate swap agreements of the Turnpike Authority. To address the incremental interest costs being incurred by the Turnpike Authority as a result of its inability to issue the $334.9 million of variable-rate refunding bonds associated with the UBS swaptions that have been exercised by UBS, the legislation authorizes the Commonwealth to agree to pay debt service on such bonds in the event that the Turnpike Authority fails to do so. In addition, if UBS gives notice to the Turnpike Authority that it intends to exercise the two remaining swaptions effective as of January 1, 2009, the legislation authorizes the Commonwealth to provide similar credit support for the $465.1 million of variable-rate refunding bonds the Turnpike Authority would issue in connection with those swaptions. The legislation provides that any payment obligations of the Commonwealth pursuant to any such credit support be subject to appropriation by the Legislature and not secured by a pledge of the faith and credit of the Commonwealth. To address the increased risk of termination of swaptions in the event of further downgrades of Ambac or of the Turnpike Authority, the legislation also authorizes the Commonwealth to guarantee the Turnpike Authority's payment obligations to the counterparties under the swap agreements described above if the Secretary and the Turnpike Authority determine such a guaranty to be necessary to avoid a termination of the swaptions. The Secretary may provide for any payment obligations of the Commonwealth pursuant to such a guaranty to be secured by a pledge of the faith and credit of the Commonwealth or to be subject to appropriation by the Legislature. The authorization to provide any such guaranty of the Turnpike Authority's payment obligations to counterparties under the swap agreements is not effective until October 1, 2008 and expires on January 15, 2009.

Regional Transit Authorities. There are 15 regional transit authorities throughout the Commonwealth that provide public transportation in 231 municipalities with areas not served by the MBTA. These authorities are funded from operating revenues, federal subsidies, state subsidies and assessments paid by the participating municipalities. The subsidies and local assessments are paid one fiscal year in arrears to reimburse the authorities for the net cost of service not covered by operating revenues. In anticipation of receipt of these subsidies and local assessments in the following fiscal year, the authorities issue revenue anticipation notes to fund their net costs of service. In 2002, the Legislature repealed a law which provided for all debt of regional transit authorities to be guaranteed by the Commonwealth. The Commonwealth, however, has continued to fund a significant portion of the authorities' net cost of service in arrears, and other subsidies and local assessments continue to be paid in arrears to cover the prior fiscal year's net cost of service. As a result, authorities have had to continue to issue revenue anticipation notes, and the interest cost in connection with their annual revenue anticipation notes has been higher in recent years than it would have been if the Commonwealth guaranty had been in place. Legislation approved by the Governor on July 13, 2008, reinstated the Commonwealth guaranty for revenue anticipation notes issued by regional transit authorities. Similar to the law previously repealed, the legislation provides that the Commonwealth is required to pay any principal or interest on any such note if the authority does not have sufficient funds to make the payment and grants the holder of any such note the right to require such payment by the Commonwealth, which right is enforceable as a claim against the Commonwealth. As of June 30, 2008, revenue anticipation notes issued by regional transit authorities were outstanding in the aggregate principal amount of approximately $135 million.

Authorized But Unissued Debt

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

Authorized but Unissued Debt (in thousands)

Fiscal Year	Authorized But Unissued Debt
2004	$6,827,993
2005	9,506,821
2006	7,668,331
2007	8,348,991
2008	7,256,259

SOURCE: Office of the Comptroller. The amount for fiscal 2008 is preliminary.

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

There is $38 million of authorized but unissued debt under Chapter 33 of the Acts of 1991 that can only be issued as special obligation bonds secured by receipts in the Commonwealth's Highway Fund. See "Special Obligation Debt." In addition, several of the statutes authorizing general obligation bonds for transportation purposes also authorize such bonds to be issued as special obligation highway bonds, at the discretion of the Governor and the State Treasurer.

COMMONWEALTH CAPITAL INVESTMENT PLAN

Capital Investment Plan

The Executive Office for Administration and Finance develops and manages a multi-year capital investment plan. This plan coordinates capital expenditures by state agencies and authorities that are funded by Commonwealth debt, certain operating revenues, third-party payments and federal grants.

The Executive Office for Administration and Finance sets an annual administrative limit on the amount of bond-funded capital expenditures. The purpose of the administrative limit, known as the "bond cap," is to keep Commonwealth debt within affordable levels. The stated annual bond cap for fiscal 2004 through 2007 was $1.25 billion, plus unexpended amounts carried forward from prior years. It should be noted, however, that Commonwealth debt for the Central Artery/Ted Williams Tunnel (CA/T) project, the Boston and Springfield convention center projects and the Massachusetts School Building Authority's school building assistance program was issued in excess of the bond cap during the last several fiscal years. On July 31, 2007, the Governor announced that the annual bond cap would be $1.5 billion for fiscal 2008 and is expected to increase by $125 million for each subsequent fiscal year through fiscal year 2012. The bond cap determination is based on a debt management policy described in a debt affordability analysis released by the Executive Office for Administration and Finance on July 31, 2007.

Under this policy, the Commonwealth sets 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 was the budgeted revenue amount used in the Governor's fiscal 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, annual revenue growth will be projected at the lesser of 3% or the actual compound annual revenue growth experienced over the prior ten years. 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 through fiscal 2012. This additional constraint is designed to ensure that projected growth in the bond cap will be held to stable and sustainable levels.

The Administration will 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. For example, bonds issued by MassDevelopment and payable by the Commonwealth pursuant to the I-Cubed program or for the parkway at the former South Weymouth naval base would be excluded from the bond cap as the Commonwealth's payment liability with respect to such bonds would be limited to the new state tax revenues generated from the private development supported by the infrastructure improvements financed by the bonds. See "LONG-TERM LIABILITIES – General Obligation Contract Assistance Liabilities."

The following table shows the annual bond cap, the resulting estimated total annual debt service payment obligations and the estimated debt service as a percentage of estimated budgeted revenues, all as presented in the debt affordability analysis published on July 31, 2007. As shown in the table, the bond cap was expected to result in debt service decreasing as a percentage of budgeted revenues by fiscal year 2012. This was a function of the rate at which outstanding debt was expected to amortize, the projected increases in budgeted revenues, the assumed amortization of two-thirds of the annual bond cap amounts over 20 years and one-third over 30 years and the fact that, although the stated bond cap was increasing as compared to prior years, the amount of General Fund-supported debt actually issued in prior years often exceeded the stated bond cap. The Commonwealth intends to re-evaluate the annual bond cap amount in accordance with the policy described above and to publish an updated affordability analysis on an annual basis.

Bond Cap (in thousands)

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

SOURCE: Executive Office for Administration and Finance, Debt Affordability Analysis, published July 31, 2007.

The next bond cap analysis is expected to be completed in August, 2008. It is anticipated that the bond cap amounts projected for fiscal years 2009 through 2012 in the July 31, 2007 debt affordability analysis and shown above will be confirmed in the updated debt affordability analysis. In addition, it is anticipated that borrowing for the accelerated structurally deficient bridge program described below, and being carried out in addition to the regular capital budget, will be taken into account in the updated debt affordability analysis to ensure that debt service on all such proposed debt does not exceed 8% of budgeted revenues.

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.

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 2003 through fiscal 2007 according to these categories:

Commonwealth Historical Capital Spending (in millions) (1)

USES:	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007
Information technology	$ 76	$ 75	$ 61	$ 88	$ 53
Infrastructure	274	251	262	283	271
Environment	134	113	122	142	153
Housing	112	121	122	129	140
Public safety	37	20	18	19	18
Transportation					
CA/T project	1,015	691	509	318	228
Non-CA/T projects	682	767	791	871	892
Economic development					
Convention centers	225	113	54	12	2
Other	86	64	39	30	29
School building assistance	-	-	565	435	-
Total Uses:	$2,641	$2,215	$2,543	$2,327	$1,786
SOURCES:					
Funds from general obligation debt	$1,472	$1,285	$1,850	$1,647	$1,208
Funds from special obligation debt	230	119	64	9	2
Funds from grant anticipation notes	24	-	-	-	-
Operating revenues and third-party payments	406	196	293	318	75(2)
Federal reimbursements	509	615	336	353	501(3)
Total Sources:	$2,641	$2,215	$2,543	$2,327	$1,786

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

(1) Totals may not add due to rounding.

(2) Does not include $44 million originally authorized to be funded by operating revenues and ultimately funded by bonds in connection with a transaction in May, 2007 in which operating revenues were used to defease other bonds, pursuant to special legislation.

(3) Includes $104 million of temporary expenditures by the Commonwealth in anticipation of federal reimbursements for the Central Artery/Ted Williams Tunnel project that are being withheld from the project by the federal government pending approval of the Turnpike Authority's finance plan for the project. See "Central Artery/Ted Williams Tunnel Project."

For fiscal 2008 through fiscal 2012, the Executive Office for Administration and Finance re-characterized capital spending into 13 categories based on spending purpose, rather than spending agency: community investments, corrections, courts, economic development, energy and environment, health and human services, higher education, housing, information technology, maintenance, public safety, state office buildings and facilities, and transportation. 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.

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

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

	Fiscal 2007	Fiscal 2008	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012
Community Investment Program	$ 182	$ 271	$ 272	$ 273	$ 267	$ 267
Corrections	34	19	19	25	35	47
Courts	117	69	72	93	86	83
Economic Development	13	55	117	147	143	159
Energy & Environment	128	141	138	137	122	116
Health & Human Services	22	42	60	77	96	88
Higher Education	32	125	133	146	172	200
Housing	129	171	171	162	167	167
Information Technology	53	127	108	82	83	80
Building Maintenance	28	31	30	31	30	30
Public Safety	25	48	55	76	72	43
State Office Buildings & Facilities	28	26	34	42	54	44
Transportation (3)	996	1,026	991	1,003	1,240	1,364
Total:	$1,786	$2,150	$2,199	$2,292	$2,565	$2,687

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

(2) Fiscal 2008 based on approved capital budget as of June 12, 2008. It is anticipated that between $225 million and $325 million of fiscal 2008 budgeted expenditures will be carried forward for expenditure in future fiscal years, in large part due to the lack of bond authorizations in fiscal 2008 to carry out the planned capital spending. Fiscal 2009 through fiscal 2012 amounts are the amounts presented in the August, 2007 capital investment plan.

(3) Does not include certain amounts related to the Central Artery/Ted William Tunnel project for fiscal 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 August, 2007 five-year capital investment plan is based on the debt affordability analysis described above. The bond cap for fiscal 2008 consisted of the $1.5 billion of new bonds referenced in the table above based on the debt affordability analysis, plus unexpended bond-financed amounts 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 sources of capital funds for fiscal 2007 and the estimated sources of funds for the next five fiscal years:

Projected Capital Funding Sources (in millions)(1)

	Fiscal 2007	Fiscal 2008(1)	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012
Bond cap	$1,208.0	$1,661.0	$1,625.0	$1,750.0	$1,875.0	$2,000.0
Federal funds	501.0	385.2	459.9	475.3	526.7	517.5
Project-funded bonds	2.2	29.0	51.2	62.7	157.8	162.0
Other/third party	75.0	98.8	62.6	4.4	5.3	7.0
Total:	$1,786.2	$2,174.4	$2,198.7	$2,292.4	$2,564.8	$2,686.5

SOURCE: Executive Office for Administration and Finance.

(1) Fiscal 2008 based on approved capital budget as of June 12, 2008. Approximately $23.8 million has not been budgeted. It is anticipated that between $225 million and $325 million of these amounts will not be expended in fiscal 2008 and will be carried forward for expenditure in future fiscal years, in large part due to the lack of bond authorization in fiscal 2008 to carry out the planned capital spending. Fiscal 2009 through fiscal 2012 amounts are the amounts presented in the August 2007 capital investment plan. .

An updated five-year capital investment plan is expected to be completed in August, 2008.

Legislation enacted in 2004 established a special Transportation Finance Commission to develop a comprehensive, multi-modal, long-range transportation finance plan for the Commonwealth. The Commission was charged with analyzing the state's long-term capital and operating needs for the transportation system and the funds expected to be available for such needs, as well as recommending how to close any perceived funding gap through potential cost savings, efficiencies and additional revenues. On March 28, 2007, the Commission issued a report containing its analysis of the Commonwealth's ability to fund needed surface transportation improvements over the next 20 years. For state-controlled roads and bridges and state environmental transit commitments related to the Central Artery/Ted Williams Tunnel project, the report identifies funding needs of $25.670 billion and expected available state and federal funding of $16.820 billion, leaving a funding gap of $8.849 billion. The report also identifies substantial needs and funding gaps related to the Massachusetts Turnpike system, local roads and bridges, MBTA operations and capital needs and the Tobin Bridge (owned and operated by the Massachusetts Port Authority). In total, the report estimated a funding gap for all of these transportation assets of between $15 billion and $19 billion over the next 20 years. On September 17, 2007, the Transportation Finance Commission issued its second report, containing recommendations for closing the funding gap identified in the commission's first report. The commission recommended 22 reform initiatives, which it estimated could save approximately $2.5 billion over 20 years. The report also included six proposals for transportation revitalization; the commission estimated that these proposals could generate more than $18.7 billion in new revenue to fund transportation infrastructure improvements over 20 years.

The Patrick administration is working on major transportation reform initiatives with the objectives of better coordinating statewide transportation policy, more efficiently managing the Commonwealth's road, bridge and transit assets and more effectively financing its transportation infrastructure investments.

In April, 2007, the Governor announced his plan to proceed with the South Coast Rail Project. The South Coast Rail Project is a $1.435 billion project to extend commuter rail service from Boston to the southeastern region of Massachusetts. The initial planning phase of the project is expected to last through fiscal year 2010 and cost approximately $23.4 million, which is expected to be funded with proceeds of general obligation bonds of the Commonwealth. A finance plan for the design and construction phase of the project, expected to run from fiscal years 2011 through 2017, is anticipated to be completed by January 1, 2010. The finance plan is expected to rely in part on new state tax revenues that will be generated from economic development along the new rail corridor.

On June 16, 2008, the Governor approved legislation in support of the life sciences industry that is consistent in structure and funding amounts with the bill originally filed by the Governor on July 17, 2007. Among other initiatives and provisions relating to the Massachusetts Life Sciences Center, the legislation authorizes the borrowing of $500 million over a 10-year period to fund capital investments and infrastructure improvements around the state to support research and development of new projects in the life sciences industry. The legislation also contemplates the spending of $250 million of operating funds over the next 10 years to support research and fellowships and $250 million in tax credits over the next ten years for companies that bring jobs to Massachusetts in the life sciences industry.

On August 7, 2008, the Governor approved a $2.2 billion higher education bond authorization. The legislation includes authorizations for new buildings, renovation projects and capital improvements at each of the Commonwealth's public higher education campuses. Of the $2.2 billion total authorization, $1.2 billion would be dedicated to capital investments at state and community colleges, and $1 billion would be dedicated to capital investments at the University of Massachusetts. The authorized amounts are expected to be expended over a ten-year period.

On August 4, 2008, the Governor approved legislation creating a Massachusetts Broadband Institute within the Massachusetts Technology Collaborative. The Institute is to administer a new Broadband Incentive Fund, to be capitalized by general obligation bonds in the amount of $40 million, to invest in long-lived, publicly owned broadband infrastructure, enabling private firms to partner with the state to connect the Commonwealth's un-served and underserved communities to broadband services.

On May 29, 2008, the Governor approved a $1.275 billion affordable housing bond bill which includes $500 million for the preservation and improvement of the Commonwealth's 50,000 units of state-owned public housing. The legislation also provides authorization for various programs that subsidize the development and preservation of privately owned affordable housing, including $200 million for the Affordable Housing Trust Fund and $125 million for the Housing Stabilization Fund.

On November 29, 2007, the Governor filed a three-year, $2.9 billion transportation bond bill designed to leverage additional federal funds for a total investment of $4.8 billion. In December, 2007, the Federal Highway Administration and the Federal Transit Administration notified the Commonwealth that they would not approve the Commonwealth's statewide transportation improvement plan and subsequent federal reimbursements of future transportation projects until the Commonwealth could demonstrate that adequate bond authorizations were available. The Legislature split the Governor's bill into two parts, and on April 17, 2008, the Governor approved a partial version of the bill, authorizing $1.6 billion for transportation improvements and leveraging $1.9 billion in federal reimbursements. Also included in this legislation were $150 million for Chapter 90 grants to cities and towns for local roads and bridges in fiscal 2009 and $700 million for certain mass transit improvements required as part of the state implementation plan. The legislation approved on April 17, 2008 is expected to bring the Commonwealth into compliance with the Federal Highway Administration and Federal Transit Authority orders. On August 8, 2008, the Governor approved a second transportation bond bill authorizing $1.445 billion for road and bridge projects and other transportation-related capital investments.

On August 14, 2008 the Governor approved a $1.657 billion land, parks and clean energy bond bill. This legislation includes funding for land protection and acquisition and funding to enhance state parks and rebuild related infrastructure. The legislation also includes authorization for new programs to address environmental challenges.

On August 11, 2008, the Governor approved a $3.3 billion general government bond bill making targeted investments in public safety, city and town facilities, state buildings, and information technology systems. Included in the bill is authorization to assist communities with local infrastructure needs, improvements to state and county correctional facilities, improvements to court facilities throughout Massachusetts and capital repairs, on-going maintenance and unforeseen emergency capital needs at state office buildings and facilities. The legislation also authorizes targeted investments to spur economic development in our communities, including funding to help small businesses throughout the Commonwealth. To enhance government services provided to all citizens of the Commonwealth, the legislation includes funding to modernize critical state information technology systems, including funding to replace and upgrade the outdated and overburdened systems at the Department of Revenue and the Registry of Motor Vehicles.

Bond authorization legislation enacted in 2008 includes provisions that will de-authorize nearly $800 million of old, unused bond authorizations. The capital investment plan described above was developed assuming the bond bills were adopted as originally filed by the Governor. Although the total amounts of certain bond authorizations passed by the Legislature exceeded the amounts filed by the Governor, the Executive Office for Administration and Finance will continue to determine the annual borrowing amounts based on the debt affordability policy described above.

On August 4, 2008, the Governor approved legislation authorizing $2.984 billion in Commonwealth bonds to finance an accelerated structurally deficient bridge program. The program, which was developed in collaboration with the State Treasurer, is expected to finance over 250 bridge projects over the next eight years with approximately $1.9 billion of special obligation bonds secured by a portion of the gas tax and $1.1 billion of grant anticipation notes secured by future federal funds. By accelerating the investment in bridges, the Commonwealth expects to realize hundreds of millions of dollars of savings from avoided inflation and deferred maintenance costs. The proposed legislation targets bridges under the jurisdiction of the Massachusetts Highway Department and the Department of Conservation and Recreation. The additional borrowing for the program will be in addition to the bond cap amounts to fund the regular capital program but will be taken into account under the state's existing debt policy to ensure that annual debt service is maintained at a level which will not exceed 8% of budgeted revenues.

Central Artery/Ted Williams Tunnel Project

One of the largest components of the Commonwealth's capital program in recent years has been the Central Artery/Ted Williams Tunnel (CA/T) project, a major construction project that is part of the completion of the federal interstate highway system. The CA/T project has involved the replacement of the elevated portion of Interstate 93 in downtown Boston (the Central Artery) with an underground expressway, and the construction of a new tunnel under Boston harbor (the Ted Williams Tunnel) linking the Boston terminus of the Massachusetts Turnpike (Interstate 90) to Logan International Airport and points north. The CA/T project is administered by the Massachusetts Turnpike Authority (Turnpike Authority).

Project Status. The CA/T project was substantially completed in January, 2006, with all major ramps, roadway and streets open for public use and most major contracts in the closeout phase. The major components of the work remaining for final completion of the CA/T project include reconstruction of the downtown surface street system, completion of the traffic management system and construction of certain parks. Remaining work is expected to be completed in 2008, except for one park and certain other project elements, which are expected to be completed in 2010.

Project Budget and Oversight and Delay of Federal Funding. Periodically, the Turnpike Authority has produced a cost/schedule update for the project, of which the most recent version, Revision 11 (CSU 11), was prepared in July, 2004 and included a $14.625 billion CA/T project budget. In addition, and in accordance with federal and state law, the CA/T project develops finance plans which must receive certain federal and state approvals.

In October, 2000, following an announcement by CA/T project officials of substantially increased cost estimates, a federal law was enacted that requires the U. S. Secretary of Transportation to withhold federal funds and all project approvals for the CA/T project in each federal fiscal year unless the Secretary has approved an annual update of the project’s finance plan for such year and has determined that the Commonwealth is maintaining a balanced statewide transportation program and is in full compliance with a project partnership agreement among the Federal Highway Administration, the Executive Office of Transportation and Public Works, the Turnpike Authority and the Massachusetts Highway Department. In addition, the law limits total federal funding for the CA/T project to $8.549 billion (including $1.5 billion to pay the principal of federal grant anticipation notes), consistent with the project partnership agreement. Finally, the law ties future federal funding for the project to an annual finding by the Inspector General of the U. S. Department of Transportation that the annual update of the project’s finance plan is consistent with Federal Highway Administration financial plan guidance. Should any federal assistance be withheld from the CA/T project pursuant to such law, such funding is nonetheless available to the Commonwealth for projects other than the CA/T project. Moreover, the law provides that federal funds will not be withheld if the Secretary of Administration and Finance certifies that such funds are required to pay all or any portion of the principal of federal grant anticipation notes issued for the CA/T project.

The CA/T project finance plans submitted through October, 2003 received the requisite approvals. The subsequent finance plan, based on CSU 11, was submitted in July, 2004, but this finance plan has not received federal approval. As a result, the remaining $162 million of federal funds for the project have been withheld from the project pending federal approval (the amount withheld has increased since last year as it includes certain cost recoveries that were required to be credited back to the federal government). The delay in receiving federal approval is due primarily to questions raised regarding the availability of certain budgeted project financing sources and to the desire of the Federal Highway Administration to review a finance plan with updated cost estimates and funding sources. The Commonwealth has made funds available to the CA/T project to bridge the ultimate receipt of federal funds. The Commonwealth expects to continue this practice, to the extent necessary, until the federal funds are received.

On May 23, 2007 the Massachusetts Turnpike Authority filed a finance plan update with the Federal Highway Administration. The May, 2007 finance plan update included an updated cost estimate of $14.798 billion, exclusive of certain cost recoveries, insurance payments and credits received or to be received thereafter. This increased cost estimate reflected changes in scope and the cost of delay in completion of the project, including delays and increased costs attributable to redeployment of CA/T project staff and contractors to address the remediation of the July, 2006 incident described below.

Based on the updated cost estimate and certain other cash flow adjustments reflected in the May, 2007 updated finance plan, $210 million of additional funding was needed for the project. Pursuant to a May, 2007 agreement between the Commonwealth and the Turnpike Authority, the Commonwealth agreed to cover the $210 million funding shortfall from the following two sources: (a) at least $140 million projected to be available in the Statewide Road and Bridge and Central Artery/Tunnel Infrastructure Fund (TIF) through June 30, 2009; and (b) up to $70 million of Commonwealth bond proceeds. This commitment by the Commonwealth to cover the funding shortfall is subject to the following conditions: (i) the Turnpike Authority must cover any future shortfalls in Turnpike Authority funding to complete the project and any costs in excess of $14.798 billion; (ii) all cost recoveries, insurance proceeds and, until the amounts advanced to the project by the Commonwealth described in (a) and (b) above are recovered, proceeds of the sale of certain real property of the Turnpike Authority related to the project that are received by the Turnpike Authority or the Commonwealth shall be deposited into the TIF to pay project costs in lieu of the additional amounts committed by the Commonwealth or to reimburse the Commonwealth for project costs already paid; (iii) to the extent that, by June 30, 2010, the amounts described in clause (ii) above received by or paid to the Commonwealth have aggregated less than the portion of the $210 million funding shortfall paid from Commonwealth bonds, the Turnpike Authority will pay the difference to the Commonwealth by not later than January 1, 2011; and (iv) to the extent legally and practically feasible, the Turnpike Authority must comply with new reporting and accounting requirements to improve the transparency of project financing matters to the Commonwealth.

The revised project cost estimates reflected in the May, 2007 updated finance plan were based on assumptions concerning the resolution of claims, liquidated damages and back charges to the Turnpike Authority that the Turnpike Authority believed to be reasonable. The actual resolution of such amounts could vary from those assumptions. The order of magnitude of the additional exposure related to such claims, liquidated damages and back charges was estimated to be $160 million as of May, 2007.

The federal government has not yet approved the May, 2007 updated finance plan for the project. In connection with its review of the May, 2007 updated finance plan, the federal government has raised a number of questions that the Turnpike Authority and the Commonwealth have been working to address. The May, 2007 updated finance plan included certain assumptions as to the timing of the availability of surplus funds in the owner-controlled insurance program (OCIP) trust to pay costs of the project, which assumptions were questioned by the federal government. Since the May, 2007 submission, the Turnpike Authority has obtained written approval from the OCIP trust insurer, AIG, for the withdrawal of approximately $43 million in OCIP trust funds to meet project cash flow needs. As a result of the use of different assumptions to address the concerns raised by the federal government regarding the availability of surplus funding in the OCIP trust and regarding costs to be paid by the OCIP trust, the total CA/T project cost is now expected to be approximately $9 million higher than was reported in May, 2007, but all of this additional cost is expected to be paid from additional amounts available from the OCIP trust.

The Turnpike Authority expects to file an updated finance plan with the federal government to reflect the impact of AIG's recent commitment to release excess funds from the OCIP trust and the changed assumptions regarding the OCIP trust on the project cash flow and to formally address all of the other issues raised by the federal government with respect to the May, 2007 finance plan update. The Commonwealth and the Turnpike Authority expect the updated finance plan will satisfy the requirements for federal approval and will result in the release of the withheld federal funds for the project.

Recent Settlement. On January 23, 2008, the United States Attorney General and the Massachusetts Attorney General entered into a global resolution of criminal and civil claims with the joint venture of Bechtel/Parsons Brinckerhoff, Bechtel Infrastructure Corp. and PB Americas, Inc., f/k/a Parsons Brinckerhoff Quade and Douglas, Inc. ("Bechtel/Parsons Brinckerhoff"), the management consultant to the CA/T project. Bechtel/Parsons Brinckerhoff agreed to pay over $407 million to resolve its criminal and civil liabilities in connection with the collapse of part of the I-90 Connector Tunnel ceiling (described below) and defects in the slurry walls of the Tip O'Neill Tunnel. In addition, 24 section design consultants, other contractors who worked on various parts of the project, agreed to pay an additional $51 million to resolve certain cost-recovery issues associated with the design of the CA/T project. In total, the United States and the Commonwealth will recover $458 million, including interest. These settlements followed an earlier settlement with Aggregate Industries Northeast Region for $42.7 million relating to cost recovery issues with the CA/T project. In total, the United States and the Commonwealth will recover $500.7 million, including interest from all of these settlements. The Commonwealth has received $413.8 million to date, including interest, of which $17 million has been deposited in the Statewide Road and Bridge and Central Artery/Tunnel Infrastructure Fund. This settlement does not release the defendants from future catastrophic events having an aggregate cost of greater than $50 million, but the liability of Bechtel/Parsons Brinckerhoff for such a future catastrophic event is capped at $100 million.

The settlement agreement and recently passed legislation require that the settlement amounts and certain other cost recovery amounts be deposited in a trust fund and dedicated to non-routine maintenance of the CA/T project and reimbursement of certain costs incurred by the Commonwealth and the Turnpike Authority to repair components of the project. All other cost recoveries, insurance proceeds and certain real estate proceeds will be deposited in the TIF for purposes of paying costs of the CA/T project or reimbursing the Commonwealth for payment of such costs. The Turnpike Authority and the Commonwealth are currently negotiating an amendment to the May, 2007 agreement described above to reflect, among other things, these recent developments with respect to cost recoveries and the application of such cost recoveries.

July, 2006 Incident and Other Quality Concerns. On July 10, 2006, concrete ceiling panels in the eastbound portal of the I-90 Seaport Access Tunnel (Seaport Tunnel) that leads to the Ted Williams Tunnel came loose and fell on a traveling automobile and the roadway, causing bodily injury and the death of the passenger in the automobile, and extensive property damage to the Seaport Tunnel (the “Accident”). On July 10, 2007, the National Transportation Safety Board released its findings pertaining to the Accident. 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,” *i.e.,* the tendency for slippage or elongation with the application of sustained tensile loads. Repairs and other work related to the Accident and included in the May, 2007 finance plan update are estimated to cost $48 million. These costs are currently being borne by the Commonwealth. The Commonwealth and the Turnpike Authority anticipate that all such costs, and certain other project costs incurred by the Commonwealth and the Turnpike Authority, are eligible for reimbursement from the settlement amounts deposited in the CA/T trust fund described above.

Following the Accident and pursuant to a new state law enacted in response to the Accident, the Executive Office of Transportation and Public Works assumed oversight and responsibility for the inspection and remediation of the Seaport Tunnel. In addition, the Commonwealth instituted a comprehensive safety audit of all tunnels that are part of the Metropolitan Highway System, including the tunnels that are part of the CA/T project (the so-called “stem-to-stern” review). The Legislature appropriated $20 million to fund the audit. Phase I of the safety audit addressed the most safety-critical elements of the CA/T project, including the tunnel components, as well as ceiling systems of the Sumner, Callahan and Central Artery North Area tunnels. Phase IA of the safety review responded to comments and Phase I recommendations and developed a scope and work plan for Phase II. Phase II of the safety review includes follow-up services related to the findings of Phase I and review of structural and life safety systems in other elements of the Metropolitan Highway System. As a result of the Phase I review, the epoxy anchors securing the ceiling panels in the Seaport Tunnel were replaced, and the tunnel was subsequently reopened. The Phase I review of the Ted Williams Tunnel ceiling panel anchors showed some evidence of distress and/or pull-out. Repairs were made at those locations that most concerned inspectors and other less urgent ‘suspect’ anchorage locations have been identified and strain gauges installed with monthly monitoring while contracts are developed for final repairs. Phases I and IA of the safety review have been completed. Phase II is expected to be completed in June, 2008. The Phase I report noted that the Authority has been responsive to the “stem-to-stern” recommendations. An implementation plan has been developed based on coordination between the Authority and the stem-to-stern team. The Phase I review concluded that “[o]verall, structural systems were conservatively designed and fundamentally robust, but not without some areas of concern. Phase I identified immediate and near-term concerns mainly related to falling hazards from unsound concrete, loose tunnel fixtures, and damaged metal poles, as well as loose anchorages of precast curtain walls at abutments. All immediate and near-term concerns will be reinspected in June by the consultant, FHWA, and DOT-IG to verify that the reported conditions have been addressed.”

SEC Inquiry. In late August and early September 2006, the Securities and Exchange Commission (SEC) sent letters to certain departments and instrumentalities of the Commonwealth requesting voluntary provision of documents and information regarding safety reviews of the CA/T project during the period January 1, 2004 to the present and related disclosures. On January 8, 2008, the SEC notified the Commonwealth that the SEC did not intend to pursue any enforcement action, thus closing the inquiry.

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)

	June 2004	June 2005	June 2006	June 2007	June 2008
Executive Office	73	71	66	79	81
Office of the Comptroller	102	124	122	124	124
Executive Departments					
Administration and Finance (4)	2,791	2,913	2,990	2,791	2,904
Energy and Environmental Affairs (3)	1,997	1,984	2,057	2,168	2,236
Housing and Community Development (3)	92	94	91	-	-
Early Education and Care (5)	-	-	164	189	-
Health and Human Services	20,682	21,066	21,022	21,072	21,449
Transportation and Public Works	344	1,139(2)	1,078	1,087	1,245
Board of Library Commissioners	12	11	12	13	13
Economic Development (3)	879	935	960	-	-
Housing and Economic Development (3)	-	-	-	610	650
Labor and Workforce Development (3)	-	-	-	320	307
Executive Office of Education (5)					13,781
Department of Education (5)	223	241	266	269	-
Board of Higher Education (5)	11,844	13,198	12,932	13,319	-
Public Safety and Security	8,765	8,109(2)	8,430	8,457	8,627
Elder Affairs	28	51	34	44	47
Subtotal under Governor's authority	47,832	49,934	50,223	50,543	51,463
Judiciary	7,175	7,435	7,630	7,993	8,021
Other (6)	7,220	7,352	7,594	7,947	8,245
Total	62,227	64,721	65,447	66,483	67,729

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) Effective April 10, 2007, the Massachusetts Commission Against Discrimination became an independent agency, separating from the Executive Office for Administration and Finance, a shift of 61 FTEs.

(5) Effective March 10, 2008, the Department of Early Education and Care, Department of Education and Board of Higher Education were consolidated under the Executive Office of Education.

(6) 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. The Human Resources Division of the Executive Office for Administration and Finance conducts the collective bargaining negotiations with all employees of the Commonwealth (except those noted below). 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, public higher education management and the PCA Council 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, higher education management and the PCA Council 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 40,141 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, the Lottery Commission, the Registries of Deeds, state sheriffs and the PCAs are organized in 30 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 Service Employees International Union to replace its contract which expired December 31, 2007, with the Massachusetts Organization of State Engineers and Scientists, the National Association of Government Employees, the Alliance Unit 2 (American Federation of State, Country and Municipal Employees) and the New England Police Benevolent Association to replace their contracts which expired June 30, 2008, and with the Massachusetts Nurses Association and the State Police Association of Massachusetts to replace their contracts which expire December 31, 2008.

The following is a description of certain terms of the most recent agreements with the collective bargaining units within the responsibility of the Human Resources Division. Negotiations are underway with the units that have contracts that have expired.

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

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

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

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

(5) The New England Police Benevolent Association, representing Unit 4A, has a one-year contract from July, 2007 to June, 2008 that provided a 3% increase in July, 2007. The total estimated cost of the contract is $290,000.

(6) The Massachusetts Nurses Association has a one-year contract from January, 2008 to December, 2008 that provided a 3.3% increase in January, 2008. The total estimated cost of the contract is $7.5 million.

(7) 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 a 3.75% increase in January, 2008. The total estimated cost of the contract is $108.7 million.

(8) 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 three-year contract and an accompanying one-year extension cover the period from July, 2005 to June, 2009 and provided an 8% increase in

October, 2006 and a 3% increase in July, 2007, and provides for a 3% increase in July, 2008. The total estimated cost of the contract is $49.6 million.

(9) The Coalition of Public Safety is under contract until June, 2009. The period from July, 2004 to June, 2005 did not provide for any salary increases. A three year contract and an accompanying one-year extension cover the period from July, 2005 to June, 2009 and provided a 6.5% increase in January, 2007 and a 2.5% increase in July, 2007, and provides for a 3% increase in July, 2008. The total estimated cost of the contracts is $4.2 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	2,876	6/30/08
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Institutional services	9,246	6/30/08
3	National Association of Government Employees	Skilled trades	612	6/30/08
4	Massachusetts Correction Officers Federated Union	Corrections	3,933	6/30/09
4A	Corrections Captains	Corrections	91	6/30/08
5	Coalition of Public Safety	Law enforcement	224	6/30/09
5A	State Police Association of Massachusetts	State Police	1,844	12/31/08
6	National Association of Government Employees	Administrative professionals	8,546	6/30/08
7	Massachusetts Nurses Association	Health professionals	1,760	12/31/08
8	Alliance/Service Employees International Union	Social workers	7,439	12/31/07
9	Massachusetts Organization of State Engineers and Scientists	Engineers/scientists	2,970	6/30/08
10	Alliance/Service Employees International Union	Secondary education	600	12/31/07
		Total	40,141	

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 5, 2008 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, United States District Court, First Circuit Court of Appeals. Challenges by residents of five state schools for the retarded in the 1970's resulted in a consent decree which required the Commonwealth to upgrade and rehabilitate the facilities in question and to provide services and community placements in Massachusetts. On May 25, 1993, the District Court vacated all consent decrees and court orders, replacing them with a final order requiring lifelong provision of individualized services to class members and imposing 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. On August 14, 2007, the District Court reopened the case, restored it to the active docket and ordered the Department to continue to offer Fernald Developmental Center as a residential placement option for its residents. The Department has appealed that order to the United States Court of Appeals for the First Circuit. If the Department is required to keep Fernald open indefinitely, additional operational, maintenance and infrastructure costs will possibly be in the millions of dollars. Oral argument on the Commonwealth's appeal is scheduled for September 3, 2008.

Hutchinson et al v. Patrick et al, United States District Court, Western Division. This is a class action seeking declaratory and injunctive relief brought by two organizations and five individuals with brain injuries who are residents of various nursing facilities. Plaintiffs claim that they and a class of brain-injured individuals are entitled to, among other things, placement in community settings. Plaintiffs assert claims under the Americans with Disabilities Act, the Rehabilitation Act and the Medicaid Act. Plaintiffs filed their complaint on May 17, 2007 and filed an amended complaint on June 18, 2007. Defendants filed their answer to the amended complaint on July 16, 2007. Pursuant to the plaintiffs' motion, which the defendants opposed, the District Court certified a class of approximately 8,000 Massachusetts residents who now, or at any time during the litigation, are Medicaid-eligible, have suffered a brain injury after the age of 22 and either reside in a nursing or rehabilitation facility or are eligible for admission to such a facility. The potential fiscal impact of an adverse decision is unknown, but could be millions of dollars annually. The parties reached settlement and a settlement agreement was signed on May 30, 2008. At a hearing on July 25, 2008, the court approved the settlement. The court will conduct a hearing on September 16, 2008 to determine the form of its order of approval.

Rolland v. Patrick, United States District Court, Western Division. This is a class action by mentally retarded nursing home patients seeking community placements and services that resulted in a settlement agreement. In July, 2001, the District Court found that the Commonwealth had breached portions of the agreement and was in violation of certain legal requirements related to the provision of "active treatment" to class members. The United States Court of Appeals for the First Circuit affirmed the District Court's order in January, 2003. In April, 2007, the District Court found that, despite a "tremendous amount of work," and substantial improvement in the provision of services, the Commonwealth has not yet ensured that all class members receive active treatment. A court monitor was appointed to evaluate whether each class member is receiving active treatment. The parties have now reached a new settlement agreement under which 640 community placements would be created; placement of a class member in the community would take the place of any further obligation to provide "active treatment" to that individual. After a hearing on May 22, 2008, the court found that the agreement is fair, reasonable and adequate, and approved it in a written decision issued June 16, 2008. A group of class members who objected to the settlement agreement have filed a notice of appeal from that order of approval. This case carries the potential for a prospective increase in annual program costs of more than $17 million.

Health Care for All v. Romney et al. United States District Court. A group of individual plaintiffs brought this action for injunctive and declaratory relief, challenging the Commonwealth's administration of the MassHealth dental program. Specifically, the plaintiffs asserted that the Commonwealth's administration of the dental program fails to comply with federal Medicaid law. On February 8, 2006, the District Court entered judgment against the state defendants on three counts of the plaintiffs' third amended complaint with respect to MassHealth-eligible members under age 21. Pursuant to that judgment, the Commonwealth must develop and implement a remedial plan to improve access to Medicaid-covered dental services for MassHealth-eligible members under age 21. Crucial aspects of the plan, including certain regulatory changes and the retention of a third-party administrator for the MassHealth dental plan, have already been implemented, but it is anticipated that additional program costs necessary to comply with the judgment will be incurred over the next several fiscal years. It is not possible, at this time, to accurately estimate the amount of likely future program costs that will be required to comply with the judgment.

Rosie D. et al v. The Governor, United States District Court, Western Division. In a memorandum of decision dated January 26, 2006, the District Court ruled in favor of a class of Medicaid-recipient children that the Commonwealth fails to provide the home- and community-based services required under the Early and Periodic Screening, Diagnosis and Treatment ("EPSDT") provisions of the Medicaid Act. On February 22, 2007, the District Court adopted the defendants' proposed remedial plan, with some modifications, and, on July 16, 2007, entered judgment in accordance with that plan, as modified. The Commonwealth did not appeal from that judgment and has begun implementation of its remedial plan. The plan contemplates full implementation by June 30, 2009. The cost of implementation is likely to exceed $20 million in fiscal 2009. Currently pending before the Court is plaintiffs' motion for $7 million in legal fees.

Disability Law Center, Inc. v. Massachusetts Department of Correction et al, United States District Court. The Disability Law Center (DLC) filed suit against the Department of Correction (DOC) and various senior DOC officials, alleging that confining prisoners with mental illness in segregation beyond a short period violates the Eighth Amendment, the Americans with Disabilities Act and the Rehabilitation Act of 1973. DLC asks the court to enjoin DOC from confining mentally ill prisoners in segregation for more than one week and to require DOC to establish a maximum security residential treatment unit or units as an alternative to segregation. DLC has proposed a broad definition of mental illness which, if adopted, would cover a large percentage of DOC's segregation population. DLC's counsel and consultants (a psychiatrist, a psychologist and a corrections specialist) have toured several DOC facilities and have interviewed numerous segregation inmates. At present, discovery is ongoing. While DLC requests only injunctive relief, estimated increased program costs could amount to $24.8 million in the event of an adverse outcome.

Harper et al. v. Massachusetts Department of Transitional Assistance, United States District Court. This lawsuit was filed by four individuals seeking to represent a class of indigent disabled individuals who apply for or receive subsistence-level cash and/or food stamp benefits from the Massachusetts Department of Transitional Assistance. Plaintiffs allege that the Department's practices and policies with respect to processing applications for benefits, notifying recipients of changes in benefits and identifying applicants or recipients with disabilities fail to make reasonable accommodations for applicants and recipients with disabilities, and therefore violate the Americans with Disabilities Act and the Rehabilitation Act of 1973. Plaintiffs seek systemic changes to the Department's policies for processing benefits applications, notifying applicants or recipients of benefit awards or changes and making disability determinations. The Department has answered the complaint, and the parties will soon engage in class certification practice and commence discovery. Though the suit is in its incipient stages and the existence and scope of liability are contested, the cost of implementing the changes demanded by the plaintiffs could cost millions of dollars.

Medicaid Audits and Regulatory Reviews

In re: Disallowance by the U. S. Department of Health and Human Services Centers of Medicare and Medicaid Services(Targeted Case Management). On March 20, 2008, the Centers for Medicare and Medicaid Services (CMS) issued a notice of disallowance of $86,645,347 in Federal Financial Participation (FFP). As the basis for the disallowance, CMS cited the final findings of an audit conducted by the Office of the Inspector General of the U. S. Department of Health and Human Services regarding Medicaid targeted case management claims for children in the target group of abused or neglected children involved with the Department of Social Services. The Commonwealth is appealing the CMS disallowance to the Departmental Appeal Board of the U. S. Department of Health and Human Services. Briefing in the appeal was completed on July 28, 2008.

In re: Centers for Medicare and Medicaid Services regulations (Uncompensated Care Pool/Health Safety Net Trust Fund). The federal Health Care Financing Administration (now CMS) asserted in June, 2000 that the portion of the Medicaid program funded by the Commonwealth's Uncompensated Care Pool might violate federal regulations regarding permissible taxes on health care providers. Since 1993, MassHealth has sought federal waivers for the Commonwealth's assessment on acute care hospitals and surcharge payers, respectively, which fund the Uncompensated Care Pool and its successor, the Health Safety Net Trust Fund. The Commonwealth believes that the assessments are within the federal law pertaining to health care-related taxes. Under federal regulations, if the Commonwealth were ultimately determined to have imposed an impermissible health care-related tax, the federal government could seek retroactive repayment of federal Medicaid reimbursements. The Commonwealth has collected an estimated $4.496 billion in acute hospital assessments since 1990 and an estimated $1.397 billion in surcharge payments since 1998. Clarification of the law surrounding permissible provider taxes is a national issue involving a number of states. New federal regulations on health care-related taxes are, in large part, subject to a moratorium on implementation through April 1, 2009.

In re: Deferral of 2005 MassHealth acute hospital supplemental payments. In March, 2006, CMS deferred payment of claims for FFP totaling almost $52.5 million. This amount represents the federal share of the portion of MassHealth supplemental payments to Boston Medical Center ("BMC"), Cambridge Health Alliance ("CHA") and UMass Memorial Health Care, Inc. ("UMMHC") hospitals attributable to dates of service on or before fiscal 2003. CMS released $16.4 million in FFP for payments to BMC and CHA and is holding $27 million in FFP for payments to UMMHC pending resolution of OIG audit discussed below. EOHHS returned $9 million in FFP based on its own update of projected payment limits.

In re: Deferral of 2007 MassHealth acute hospital supplemental payments. In October and December, 2007, CMS deferred payment of claims for FFP totaling approximately $51 million. This amount represents the federal share of the portion of state fiscal year 2007 MassHealth Safety Net Care supplemental payments to BMC and CHA that exceed the hospitals' costs, but are below their charges. MassHealth submitted its response to CMS on February 7, 2008.

In re: Audit by the U. S. Department of Health and Human Services Office of the Inspector General (UMMHC hospital supplemental payments). The OIG is auditing MassHealth supplemental payments made to the UMass Memorial Health Care hospitals in 2004 and 2005. In a draft report, the OIG identified an overpayment of $40 million in FFP based on the allowability of hospital-based physician services. The OIG is now reconsidering its findings.

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 March 31, 2008, $139 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 ("TJX I & TJX II"), Appellate Tax Board, Appeals Court. In *TJX II*, the taxpayer is challenging a tax liability of approximately $17 million (including interest) at the Appellate Tax Board 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. The Appellate Tax Board decided *TJX I* in favor of the Commissioner in 2006 and, on August 15, 2007, issued a 112-page report, affirming the taxpayer's liability of approximately $24 million, but also requiring a refund of approximately $1.8 million, which has been made. TJX has appealed the Board's decision. The Board has stayed *TJX II* pending the outcome of *TJX I*, although the facts and circumstances of each are slightly different. According to the statement of agreed facts submitted to the Appellate Tax Board in *TJXI*, the amount in dispute, exclusive of interest, was approximately $9.8 million. According to the Appellate Tax Board decision, the amount of the abatement granted was $840,731.

MBNA America Bank v. Commissioner of Revenue, Greenwood Trust Company v. Commissioner of Revenue, Providian National Bank v. Commissioner of Revenue, Appellate Tax Board, Appeals Court. These are claims under the Commerce Clause of the United States Constitution challenging the application of the financial institutions excise to certain credit card companies. The total potential refund in these cases is approximately $25 million. In *Capital One Bank*, the Board rejected the claims and upheld the excise. The Supreme Judicial Court will hear Capital One's appeal in October, 2008.

Philip DeMoranville and others v. Commonwealth of Massachusetts, Suffolk Superior Court. Plaintiff, on his own behalf and on behalf of similarly situated taxpayers, challenges a 2005 statute that authorizes the abatement of approximately $200 million in capital gains taxes, alleging that the Legislature's determination that no interest shall be paid on the refunds is unconstitutional. Should the plaintiff prevail, the total potential refund could be approximately $56 million. On May 15, 2008, the Commonwealth served a motion to dismiss the complaint for failure to state a claim upon which relief can be granted.

Fleet Funding, Inc. & Fleet Funding II, Inc. v. Commissioner of Revenue, Appeals Court Appellants seek an abatement of financial institution excise tax for the year 1999. The issues include whether the Commissioner of Revenue properly disregarded, as a sham, transactions undertaken by the Fleet Funding entities to avoid Massachusetts taxation of interest on real estate loans. The Appellate Tax Board issued findings of fact and a report for the Commissioner on February 21, 2008. The Commissioner has collected approximately $53 million as a result of this decision, which must be refunded if the appellants prevail on appeal.

Other Revenues

Commonwealth of Massachusetts v. Philip Morris Inc., RJ Reynolds Tobacco Company, Lorillard Tobacco Company, et. al. (2003 NPM Adjustment) This matter arises under the Tobacco Master Settlement Agreement ("MSA") entered into in 1998, that settled litigation and claims by Massachusetts and 45 other states, DC, Puerto Rico, Guam, the Virgin Islands, American Samoa, and the Northern Marianas (collectively the "States"), against the major tobacco manufacturers. Under the MSA, payments made by the Original Participating Manufacturers ("OPMs") and Subsequent Participating Manufacturers (collectively the Participating Manufacturers or "PMs") are subject to a number of adjustments. One such adjustment is the Non-Participating Manufacturer ("NPM") Adjustment, which can be triggered if the OPMs suffer a specified market share loss as compared to the OPMs' market share during the base year 1997. Because the OPMs did suffer the requisite market share loss in 2003, the OPMs are seeking to reduce, by $1.1 billion (or 18.6%), the $6.2 billion payment they made to the States for 2003. Under the MSA, a nationally recognized economic firm selected jointly by the States and the OPMs must make a determination that "the disadvantages experienced" by the PMs as a result of complying with the MSA were "a significant factor contributing to the Market Share Loss" for 2003. Even if such a determination is made, the States can still avoid the $1.1 billion adjustment if it is determined that the States "diligently enforced" their individual NPM Escrow Statutes. The Significant Factor Determination (SFD) proceeding got underway in June, 2005. The economic firm issued its final determination on March 27, 2006 and found that the disadvantages experienced by the OPMs as a result of the MSA were a significant factor in the OPMs' market share loss in 2003. Immediately following the firm's determination, the OPMs requested that the Independent Auditor issue an adjustment to their April, 2006 annual MSA payment in the amount of $1.1 billion which would have reduced the initial 2006 payout to Massachusetts by approximately $45 million to $50 million. The Independent Auditor notified the parties that it would not make the adjustment until a fact finder resolved whether the States had diligently enforced their escrow statutes during 2003. Philip Morris paid its entire April, 2006 annual MSA payment, but R. J. Reynolds and Lorillard withheld their portion of the NPM Adjustment which reduced the initial 2006 payout to Massachusetts by approximately $30 million.

On April 18, 2006, upon the PMs' withholding of the payment due April 17, 2006, the Commonwealth filed an emergency motion in Middlesex County Superior Court seeking immediate payment of the disputed amount and a judicial declaration that the Commonwealth diligently enforced its escrow statute during 2003. The PMs filed a motion to compel arbitration. On June 22, 2006, the Superior Court allowed the PMs' motion to compel arbitration of the diligent-enforcement dispute and dismissed the Commonwealth's complaint. The Commonwealth appealed the Superior Court's order, and the Supreme Judicial Court allowed its application for direct appellate review. On April 23, 2007, the Supreme Judicial Court affirmed the Superior Court's order dismissing the Commonwealth's complaint and compelling arbitration of the diligent-enforcement dispute. The Supreme Judicial Court did not resolve the merits of the diligent-enforcement dispute, leaving that determination to a panel of arbitrators selected in accordance with the terms of the MSA. At the present time, no arbitration panel has been selected, and no arbitration proceeding has been scheduled.

If the Commonwealth prevails in establishing that it diligently enforced its NPM escrow statute during 2003, then it will be immune from any potential NPM adjustment that the Independent Auditor may be required to make, and the approximately $30 million in withheld payments will have to be released to the Commonwealth. If, on the other hand, the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, but not exceeding the full amount of the state's 2003 MSA payment, depending upon the outcome of similar NPM proceedings against other states.

(2004 NPM Adjustment) The SFD proceeding for a 2004 NPM Adjustment commenced in May, 2006. Because the OPMs did suffer the requisite market share loss in 2004, they are seeking to reduce, by approximately $1.1 billion, the MSA payments they made to the States for 2004 sales. In February, 2007, the economic firm again found that the disadvantages experienced by the OPMs as a result of the MSA were a significant factor in the OPMs' 2004 market-share loss. Immediately following the firm's determination, the OPMs requested that the Independent Auditor issue an adjustment to their April, 2007 annual MSA payment in the amount of $1.1 billion, which would have reduced the initial 2007 pay-out to Massachusetts by approximately $45 million to $50 million. The Independent Auditor notified the parties that it would not make the adjustment until a fact finder resolved whether the States had diligently enforced their escrow statutes during 2004. Philip Morris paid its entire April, 2007 annual MSA payment, but R. J. Reynolds and Lorillard withheld their portion of the NPM Adjustment, which reduced the initial 2007 payout to Massachusetts by approximately $30 million. Consistent with the procedures outlined above, the States can avoid the 2004 NPM Adjustment if it is determined that the States diligently enforced their individual NPM Escrow Statutes. If the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, but not exceeding the full amount of the state's 2004 MSA payment, depending upon the outcome of similar NPM proceedings against other states.

(2005 NPM Adjustment) The SFD proceeding for a 2005 NPM Adjustment commenced in May, 2007. Because the OPMs did suffer the requisite market share loss in 2005, they are seeking to reduce, by approximately $709 million, the MSA payments they made to the states for 2005 sales. In February, 2008, the economic firm again found that the disadvantages experienced by the OPMs as a result of the MSA were a significant factor in the OPMs' 2005 market-share loss. Immediately following the firm's determination, the OPMs requested that the Independent Auditor issue an adjustment to their April, 2008 annual MSA payment in the amount of $709 million, which would have reduced the initial 2008 pay-out to Massachusetts by approximately $28 million to $30 million. The Independent Auditor notified the parties that it would not make the adjustment until a fact finder resolved whether the states had diligently enforced their escrow statutes during 2005. Philip Morris paid its entire April, 2008 annual MSA payment, but R. J. Reynolds and Lorillard withheld their portion of the NPM Adjustment, which reduced the initial 2008 payout to Massachusetts by approximately $20 million. Consistent with the procedures outlined above, the States can avoid the 2005 NPM Adjustment if it is determined that the States diligently enforced their individual NPM Escrow Statutes. If the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, but not exceeding the full amount of the state's 2005 MSA payment, depending upon the outcome of similar NPM proceedings against other states.

Grand River Enterprises Six Nations, Ltd. v. William Pryor, et al., United States District Court, New York. This case arises out of a challenge to the Tobacco Master Settlement Agreement ("MSA") that was initiated in 2002 by a group of companies that manufacture, import or distribute cigarettes manufactured by tobacco companies not parties to the MSA, otherwise called Non-Participating Manufacturers ("NPMs"). These NPMs sued 31 Attorneys General, including the Attorney General of the Commonwealth, alleging that the MSA, the States' escrow statutes and NPM enforcement actions violate the federal constitution and federal law. More specifically, the plaintiffs alleged that the States' escrow and certification statutes violate Section 1 of the Sherman Antitrust Act, are preempted by the Federal Cigarette Labeling and Advertising Act and violate the dormant commerce clause of the United States Constitution. In April, 2006, the States filed a petition for *certiorari* asking the United States Supreme Court to review whether the District Court has jurisdiction over the defendants. This petition was denied in October, 2006. Grand River also sought to preliminarily enjoin enforcement of state escrow statutes against it, but this motion was denied and the denial affirmed by the U. S. Court of Appeals for the Second Circuit. Plaintiffs are seeking a final judgment that the MSA is illegal, and such a decision could negatively affect the billions of dollars in future payments to the States anticipated under the MSA. The parties are currently in discovery.

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*, United States Bankruptcy Court, Middle District of North Carolina. The plaintiff, now in bankruptcy, is a Subsequent Participating Manufacturer ("SPM") which filed suit in the Southern District of New York in January, 2006 against numerous states, including Massachusetts, alleging that the states' refusal to list the plaintiff as an approved SPM on their tobacco directories violates the terms of the MSA and the Sherman Antitrust Act. In March, 2006, the District Court dismissed the suit for lack of personal jurisdiction over the defendant states and the National Association of Attorneys General. The plaintiff subsequently filed bankruptcy in the Middle District of North Carolina. In its complaint filed in the bankruptcy court, the plaintiff asks the court to declare that states' refusal to list the plaintiff as an approved SPM on their tobacco directories violates the terms of the MSA and the Sherman Antitrust Act and tortiously interferes with the plaintiff's business. If the court finds no breach of the MSA, the plaintiff asks the court to find that certain provisions of the MSA are pre-empted by the Sherman Antitrust Act and are therefore unenforceable. The defendant states have filed a motion to dismiss the Sherman Act claim and a motion requesting that the court abstain from ruling on the breach-of-contract and tortious interference claims because those claims are being litigated in a Maryland state court. If the plaintiff ultimately obtains a judgment invalidating portions of the MSA, that result could make it more likely that future payments to Massachusetts and other states would be reduced by amounts that could be significant but cannot be estimated at this time. Cutting Edge has now moved to withdraw its adversary proceeding but that motion has not yet been allowed.

In re Aggregate Industries Settlement. In June, 2007, the Attorney General and the United States Attorney for the District of Massachusetts 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.

Environment

Wellesley College v. Commonwealth, Suffolk Superior Court. Wellesley College has threatened to seek contribution from the Commonwealth for costs related to the clean-up of environmental contamination on the Wellesley College campus and adjacent areas including Lake Waban. In September, 2001, the Court entered judgment incorporating a partial settlement between the parties, under which the College will fund a clean-up of hazardous materials at the campus and the northern shoreline of Lake Waban that is expected to cost approximately $40 million. The judgment has since been amended by agreement of the parties and with approval of the court. Under the terms of the partial settlement and judgment, the Commonwealth has reimbursed the college approximately $1.1 million (approximately 2.5% of total clean-up costs) from an escrow account after the Department of Environmental Protection (DEP) determined that a portion of the Lake Waban shoreline clean-up was properly performed. Other issues that may lead to counterclaims by the College against the Commonwealth or its agencies include (1) groundwater contamination, estimated to cost $2 million or more depending on future decisions by DEP on appropriate clean-up; and (2) clean-up of Lake Waban itself, for which DEP has now approved a temporary solution, reviewable every five years. (If a full clean-up of the lake is required in the future, it could cost up to $100 million.)

In re Massachusetts Military Reservation (pre-litigation). The Commonwealth, through the Executive Office of Environmental Affairs, the Department of Environmental Protection and the Attorney General's office, were engaged in discussions with federal Natural Resource Trustees, including the United States Army and Air Force, the Department of the Interior and the National Oceanic and Atmospheric Administration, and private contractors regarding natural resource damages at the Massachusetts Military Reservation on Cape Cod. Federal Trustees and private contractors claim that the Commonwealth and others are liable for natural resource damages due to widespread contamination primarily from past military activities at the Reservation and are responsible for response actions and related clean-up activities. The assessment process for natural resource damages is set out in federal regulations and has not been completed. While no recent comprehensive estimate of natural resource damages and response actions is available, it is expected that the damages and response actions may cost at least tens of millions of dollars.

Conservation Law Foundation, Inc. v. Romney, United States District Court. An environmental advocacy group, the Conservation Law Foundation, seeks declaratory and injunctive relief against the Commonwealth, the Massachusetts Bay Transportation Authority (MBTA) and the Massachusetts Turnpike Authority under the citizen-suit provision of the federal Clean Air Act to compel the construction of certain specified mass transit projects in the greater Boston area. While the projects' combined total cost is approximately $3 billion, about $1.9 billion of that amount either has been budgeted by the MBTA already or is to be provided by outside funding sources, leaving approximately $1.1 billion uncovered if all of the projects were to be ordered in full by the District Court. On November 28, 2006, the parties entered into a settlement agreement which contemplates a proposed revision to the Massachusetts State Implementation Plan (SIP) under the Clean Air Act that would have the Commonwealth move forward on various transit projects (including designing a connector between the Red and Blue subway lines), provides interim deadlines and increases provisions for public participation and oversight. The proposed SIP revision also specifically contemplates the possibility of delays to, and substitutions for, the transit projects, providing for specific mitigation in either event. The proposed SIP revision has been submitted to the federal Environmental Protection Agency (EPA) for approval. On December 5, 2006, upon the joint motion of the parties, the Court stayed the litigation pending the EPA's approval of the revised SIP, at which time it is contemplated that the litigation will be dismissed. On November 5, 2007, the EPA issued a notice of proposed rule to accept the revised SIP.

The Arborway Committee v. Executive Office of Transportation 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 1984. 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 currently in the discovery phase.

Boston Harbor Clean-Up. The Commonwealth is engaged in various lawsuits in the United States District Court concerning environmental and related laws, including an action brought by the federal Environmental Protection Agency alleging violations of the Clean Water Act and seeking to reduce the pollution in Boston Harbor, *e.g., United States v. Metropolitan District Commission*; *Conservation Law Foundation v. Metropolitan District Commission*. The Massachusetts Water Resources Authority (MWRA), successor in liability to the Metropolitan District Commission, has assumed primary responsibility for developing and implementing a court-approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. The total cost of construction of the wastewater facilities required under the Court's order, not including combined sewer overflow (CSO) costs, was approximately $3.5 billion. The MWRA anticipates spending $976 million for CSO projects overall, which includes escalation to the mid-point of construction and contingency for contracts not yet awarded. Under the Clean Water Act, the Commonwealth may be liable for any cost of complying with any judgment in these or any other Clean Water Act cases to the extent that the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment.

United States v. South Essex Sewerage District, United States District Court. This is another federal Clean Water Act case in which the Commonwealth faces the same type of potential liability as above.

Other

Historical Nipmuc Tribe v. Commonwealth of Massachusetts, Land Court. 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. This case is currently stayed pending plaintiff's efforts to retain counsel.

Shwachman v. Commonwealth, Worcester Superior Court. This is an eminent domain matter arising from a taking in Worcester of property necessary for the construction of a new Worcester County courthouse. The pro tanto amount was approximately $6.65 million. The property owner suggests that his estimated damages are in excess of $30 million. In addition to the owner's opinion that damages exceed $30 million, the plaintiff has disclosed a summary of his expert appraiser's opinion that the damages equal approximately $18 million. Suit was filed May 17, 2004, and discovery is ongoing. Trial will likely occur in 2009.

Perini Corp., Kiewit Constr. Corp., Jay Cashman, Inc., d/b/a Perini - Kiewit - Cashman Joint Venture v. Commonwealth. In several related cases and potential litigation, plaintiffs make claims for alleged increased costs arising from differing site conditions and other causes of delay on the Central Artery/Ted Williams Tunnel project.

Plaintiffs have asserted claims in excess of $130 million. These claims are at various stages of resolution, including the Superior Court and the Central Artery Tunnel Project Dispute Review Board panels.

Goldberg v. Commonwealth, Suffolk Superior Court. In this case, the plaintiff alleges eminent-domain-type damages in connection with four billboards at the East Boston entrance to Logan Airport, which are in the vicinity of parkland newly created by the Central Artery/Ted Williams Tunnel project. The plaintiff claims to be subject to a regulation that prohibits billboards within 300 feet of a park. Thus, the plaintiff expects to lose the four billboards and values the loss of these property rights at approximately $20 million. There is a trial date scheduled for late 2008.

In re: Historic Renovation of Suffolk County Courthouse. This matter is now in suit, captioned *Suffolk Construction Co. and NER Construction Management, Inc. d/b/a Suffolk/NER v. Commonwealth of Massachusetts Division of Capital Asset Management*, Suffolk Superior Court. The general contractor for this historic renovation project sued the Division of Capital Asset Management claiming that it is owed additional amounts for extra costs and delays associated with the project. Total exposure is approximately $60 million ($16 million in claims of the general contractor and $44 million in pass-through claims from subcontractors).

Central Artery/Ted Williams Tunnel Cost Recovery Program Litigation (Suffolk Superior Court). In 2004, the Commonwealth and the Massachusetts Turnpike Authority filed ten civil actions against section design consultants of the Central Artery/Ted Williams Tunnel project, claiming that the designers' errors and omissions caused the project to expend additional costs during construction. The actions were filed as part of the project's cost recovery program to recoup extra costs directly attributable to the designers' errors and omissions in design. The Commonwealth and the Turnpike Authority also filed a complaint in 2004 against the project's management consultant, Bechtel/Parsons Brinckerhoff (B/PB), a joint venture. The main claim in this case is B/PB's failure to disclose the true cost of the project. The cost recovery efforts were transferred to the Attorney General's office effective February 1, 2005. In addition, in November, 2006, the Commonwealth, on behalf of the Massachusetts Highway Department, along with the Turnpike Authority, brought an action against B/PB and other defendants alleging breach of contract, negligence and other claims arising out of the July, 2006, ceiling collapse in the I-90 Connector Tunnel of the CA/T project. In late January, 2008, the Attorney General and United States Attorney resolved potential criminal and civil claims against B/PB for $399 million. In addition, a settlement was also reached with 24 section design consultants for another $51 million dollars to resolve certain cost recovery issues associated with the design of the project. In total, the Attorney General and the United States Attorney recovered $458 million, including interest. The majority of the $458 million will be held in a new state Central Artery/Tunnel Project Repair and Maintenance Trust Fund to provide for future non-routine repairs and maintenance of the Central Artery and Ted Williams Tunnel. The November, 2006, civil action involving the collapse of the ceiling in the I-90 Connector Tunnel is still pending against other defendants.

MISCELLANEOUS

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

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

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

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

The information, estimates and assumptions and expressions of opinion in this Information Statement are subject to change without notice. Neither the delivery of this Information Statement nor any sale made pursuant to any official statement of which this Information Statement is 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 Information Statement, except as expressly stated.

CONTINUING DISCLOSURE

The Commonwealth prepares its Statutory Basis Financial Report and its Comprehensive Annual Financial Report with respect to each fiscal year ending June 30. The Statutory Basis Financial Report becomes available by October 31 of the following fiscal year and the Comprehensive Annual Financial Report becomes available in January of the following fiscal year. Copies of such reports and other financial reports of the Comptroller referenced in this document may be obtained by requesting the same in writing from the Office of the Comptroller, One Ashburton Place, Room 909, Boston, Massachusetts 02108. The financial statements are also available at the Comptroller's web site located at http://www.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 six 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 or requests for additional information concerning the Commonwealth should be directed to Colin MacNaught, Assistant Treasurer for Debt Management, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or to Karol Ostberg, Director of Capital Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to this Information Statement should be directed to John R. Regier, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone (617) 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 22, 2008

ECONOMIC INFORMATION - Quarter 4, FY 2008

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 August 8, 2008. Information in the text, tables, charts, and graphs was current as of August 1, 2008.** 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

	Massachusetts	United States
Population *(p. A-2)*		
Estimated Percent Change in Population, April 1, 2000–July 1, 2007	1.6%	7.2%
Personal Income, Consumer Prices, and Poverty *(p. A-7)*		
Per Capita Personal Income, 2007	$49,082	$38,611
Average Annual Pay, All Industries, 2006	$52,435	$42,535
Percent Change in CPI-U*, 2006-2007	1.9%	2.8%
Percent Change in CPI-U*, May 2007- May 2008	4.0%	4.2%
Poverty Rate, 2004-2006 Average	10.5%	12.5%
Average Weekly Earnings, Manufacturing Production Workers: 2007	$783.88	$711.36
Percent Change from previous year	5.5%	2.9%
Employment *(p. A-15)*		
Percent Change in Nonfarm Payroll Employment, June 2007-June 2008(p)	0.3%	-0.1%
Unemployment Rate, 2007	4.5%	4.6%
Unemployment Rate, June, 2008 (seasonally adjusted)	5.2%	5.5%
Economic Base and Performance *(p. A-20)*		
Percent Change in Gross Domestic Product, 2006-2007	2.5%	2.0%
Percent Change in International Exports, 2006-2007	5.1%	12.1%
Percent Change in Housing Permits Authorized, 2006-2007	-21.6%	-24.0%
Human Resources *(p. A-39)*		
Expenditure Per Pupil, 2006	$11,981	$9,138
Percent of Adults with a Bachelor's Degree or higher, 2006	37.0%	27.0%

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

Massachusetts is a densely populated state with a well-educated population, comparatively high income levels, 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 consistently lower poverty rate and, except during the recession of the early 1990s and the recent period of slow recovery from the recession of 2001, considerably lower unemployment rates in Massachusetts than in the United States since 1980. The state has had a slightly lower unemployment rate than the nation for the last thirteen months, but at 5.2%, the state's June 2008 unemployment rate is significantly higher than the annual low of 4.1% in April 2008.

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

Population Characteristics

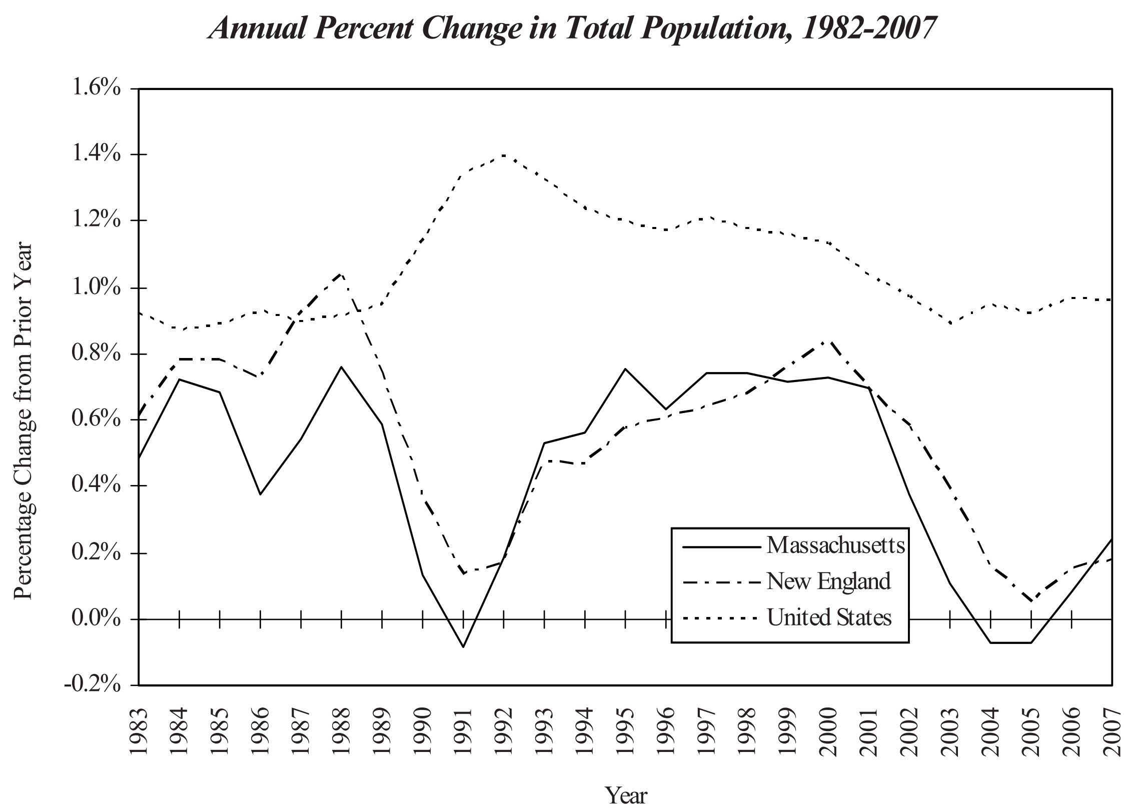
Massachusetts is a relatively slow growing but densely populated state with a comparatively large percentage of its residents living in metropolitan areas. The population density of Massachusetts was estimated as of July 1, 2007 to be 822.7 persons per square mile, as compared to 85.3 for the United States as a whole. Among the 50 states, only Rhode Island and New Jersey have a greater population density. Massachusetts also 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 definition, the entire state is considered metropolitan except for the two island counties (99.6 percent of state residents lived outside of these counties in 2007) 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 2007 population estimated at 599,351, or 9.3 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 2007 estimated at 4,482,857 or 31.4 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 2007 estimated at 1,858,216.

The second largest MSA in the state is the Worcester, MA MSA, with a 2007 population estimated at 781,352. The city of Worcester, situated approximately 40 miles west of Boston with a 2007 population estimated at 173,966, is the second largest city in New England as well as the second largest in the state. As a major medical and education 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, MA MSA, with a 2007 population estimated at 682,657. Springfield, the third largest city in the Commonwealth with a 2007 population estimated at 149,938, 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, 2007, the Massachusetts population has grown by 1.6% since Census 2000, and only seven states have grown more slowly. Most of that growth occurred between 2000 and 2003; since then only about 11,000 people have been added to the state's population according to these estimates.



SOURCE: United States Department of Commerce, Bureau of the Census.
Note: Figures for all years shown are estimates as of July 1.

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, 1972-2007

(in thousands)

	Massachusetts		***New England***		***United States***	
Year	*Total*	*Percent Change*	*Total*	*Percent Change*	*Total*	*Percent Change*
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%	282,194	1.1%
2001	6,408	0.7%	14,050	0.7%	285,112	1.0%
2002	6,432	0.4%	14,132	0.6%	287,888	1.0%
2003	6,439	0.1%	14,187	0.4%	290,448	0.9%
2004	6,434	-0.1%	14,210	0.2%	293,192	0.9%
2005	6,429	-0.1%	14,217	0.0%	295,896	0.9%
2006	6,434	0.1%	14,239	0.2%	298,755	1.0%
2007	6,450	0.2%	14,264	0.2%	301,621	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.

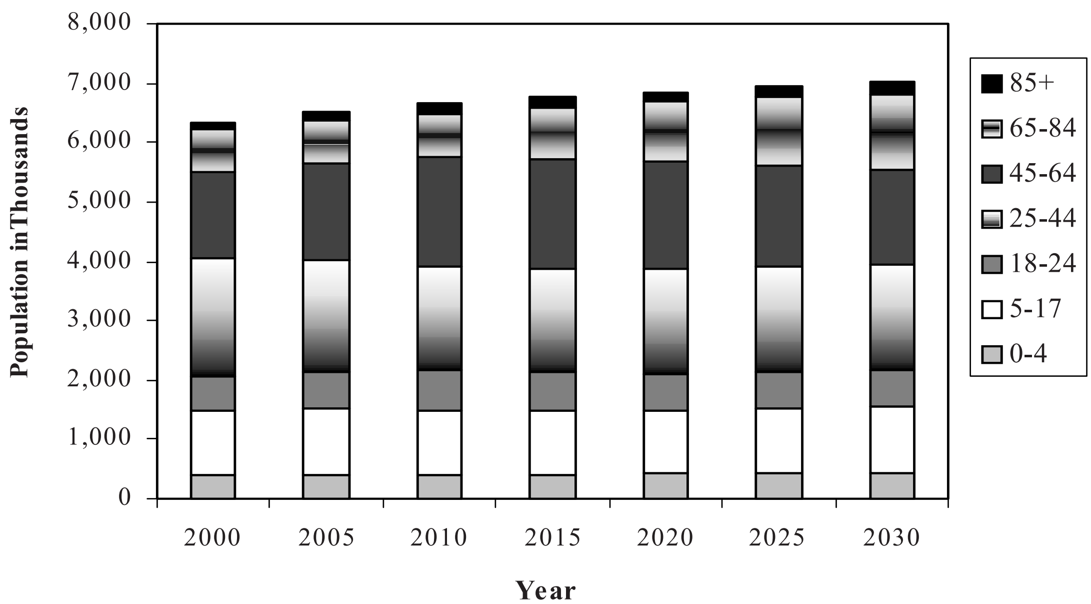
Projected Massachusetts Population by Age Group, 2000-2030

(in thousands)

Year	*0-4*	*5-17*	*18-24*	*25-44*	*45-64*	*65-84*	*85+*	*All Ages*	*Median Age*
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.

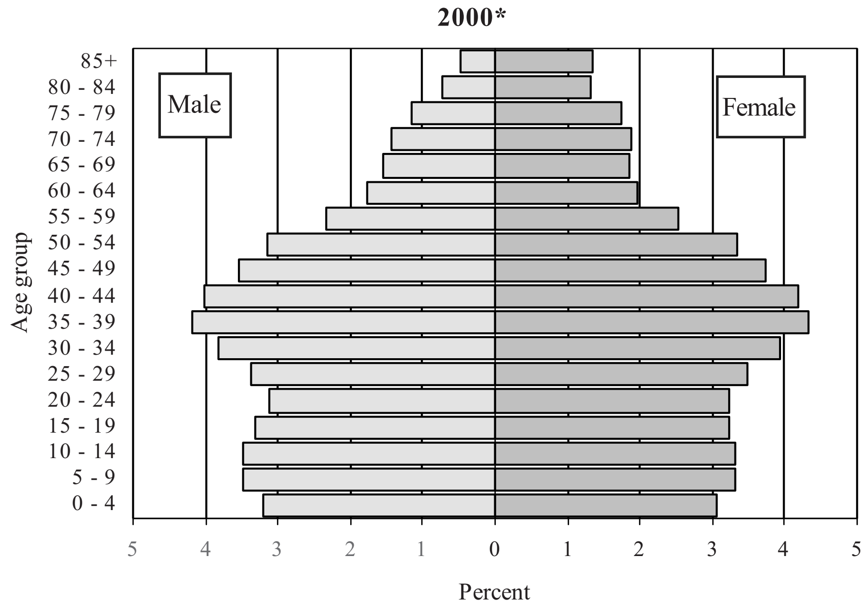
Projected Massachusetts Population by Age Group 2000-2030



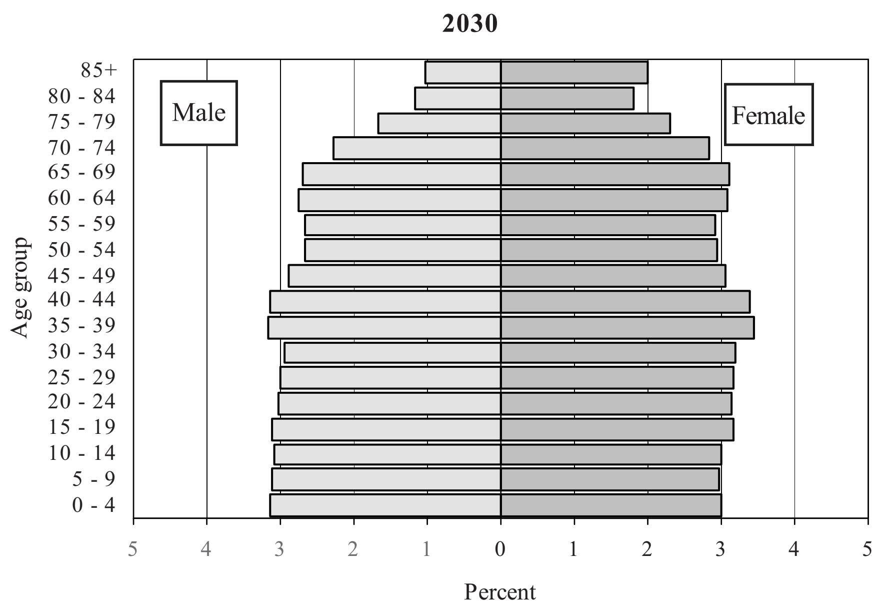
Actual Census 2000 counts as of April 1; all other figures are projections as of July 1 of the indicated year. Interim Population Projections through 2030 released April 21, 2005 by the Population Division, Bureau of the Census, United States Department of Commerce. More recent estimates of the 2005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

Population Pyramids of Massachusetts

(percent of total population)



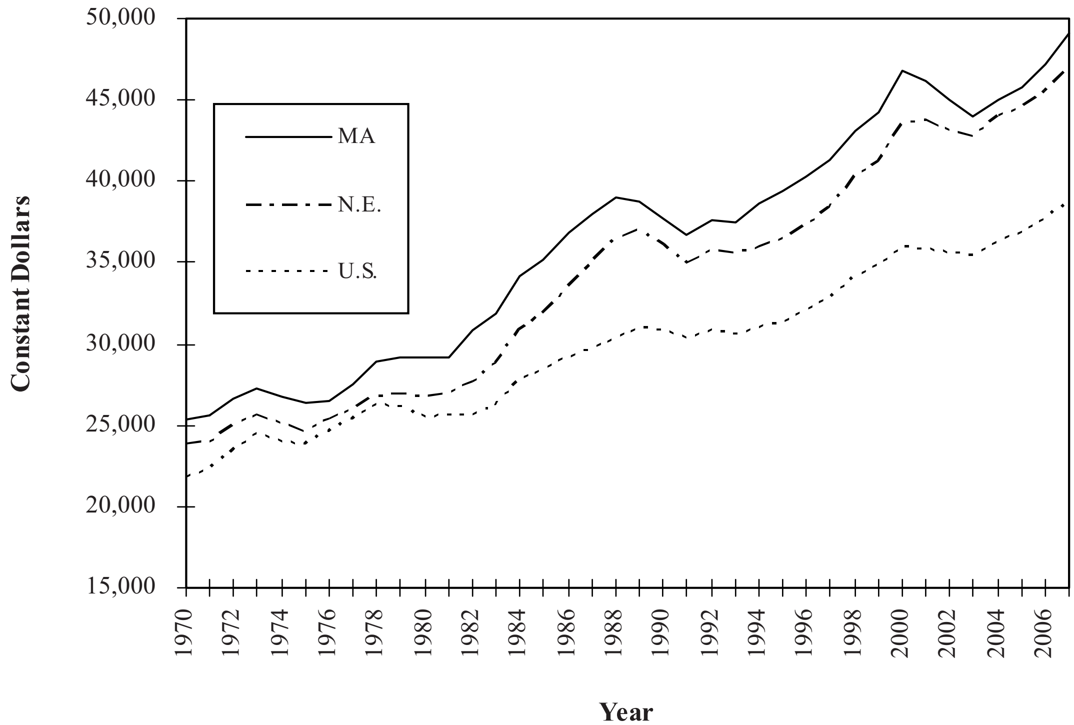
*Note: Actual Census 2000 counts as of April 1.



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

Personal Income. 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 2001 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 2005, 2006, and 2007, income in the state grew faster than in the nation. For the last fifteen 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.

Real Per Capita Personal Income, 1970-2007
(in constant 2007 dollars)



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

The following table compares per capita personal income in Massachusetts, New England, and the United States for the period 1970-2007.

Per Capita Personal Income, 1970-2007

	Nominal Income (in current dollars)			Real Income (in 2007 dollars)			Percent Change in Real Income		
Year	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.
1970	4,483	4,445	4,085	25,360	23,753	21,830	5.4%	6.7%	6.9%
1971	4,752	4,680	4,342	25,608	23,960	22,229	1.0%	0.9%	1.8%
1972	5,109	5,029	4,717	26,587	24,946	23,398	3.8%	4.1%	5.3%
1973	5,547	5,481	5,231	27,245	25,596	24,428	2.5%	2.6%	4.4%
1974	6,016	5,958	5,707	26,721	25,058	24,002	-1.9%	-2.1%	-1.7%
1975	6,459	6,381	6,172	26,323	24,592	23,787	-1.5%	-1.9%	-0.9%
1976	6,998	6,959	6,754	26,523	25,358	24,611	0.8%	3.1%	3.5%
1977	7,620	7,593	7,405	27,462	25,979	25,336	3.5%	2.4%	2.9%
1978	8,430	8,413	8,245	28,871	26,754	26,220	5.1%	3.0%	3.5%
1979	9,385	9,392	9,146	29,156	26,823	26,121	1.0%	0.3%	-0.4%
1980	10,602	10,629	10,114	29,189	26,746	25,450	0.1%	-0.3%	-2.6%
1981	11,798	11,846	11,246	29,226	27,021	25,652	0.1%	1.0%	0.8%
1982	12,941	12,871	11,935	30,816	27,655	25,644	5.4%	2.3%	0.0%
1983	14,009	13,829	12,618	31,922	28,788	26,267	3.6%	4.1%	2.4%
1984	15,723	15,422	13,891	34,150	30,776	27,721	7.0%	6.9%	5.5%
1985	16,910	16,546	14,758	35,151	31,884	28,438	2.9%	3.6%	2.6%
1986	18,148	17,722	15,442	36,783	33,527	29,213	4.6%	5.2%	2.7%
1987	19,575	19,119	16,240	38,015	34,896	29,641	3.3%	4.1%	1.5%
1988	21,341	20,811	17,331	39,075	36,475	30,376	2.8%	4.5%	2.5%
1989	22,342	22,083	18,520	38,696	36,925	30,968	-1.0%	1.2%	1.9%
1990	23,043	22,712	19,477	37,726	36,030	30,898	-2.5%	-2.4%	-0.2%
1991	23,432	22,969	19,892	36,749	34,967	30,282	-2.6%	-3.0%	-2.0%
1992	24,538	24,172	20,854	37,552	35,723	30,819	2.2%	2.2%	1.8%
1993	25,176	24,752	21,346	37,444	35,516	30,629	-0.3%	-0.6%	-0.6%
1994	26,303	25,687	22,172	38,615	35,938	31,020	3.1%	1.2%	1.3%
1995	27,457	26,832	23,076	39,369	36,505	31,395	2.0%	1.6%	1.2%
1996	28,933	28,194	24,175	40,292	37,258	31,947	2.3%	2.1%	1.8%
1997	30,498	29,687	25,334	41,307	38,351	32,728	2.5%	2.9%	2.4%
1998	32,524	31,677	26,883	43,077	40,294	34,196	4.3%	5.1%	4.5%
1999	34,227	33,126	27,939	44,225	41,227	34,771	2.7%	2.3%	1.7%
2000	37,750	36,117	29,845	46,758	43,488	35,936	5.7%	5.5%	3.3%
2001	38,875	37,323	30,574	46,165	43,696	35,795	-1.3%	0.5%	-0.4%
2002	38,862	37,364	30,821	44,975	43,064	35,522	-2.6%	-1.4%	-0.8%
2003	39,449	37,950	31,504	43,997	42,764	35,501	-2.2%	-0.7%	-0.1%
2004	41,444	40,058	33,123	44,987	43,969	36,357	2.2%	2.8%	2.4%
2005	43,612	41,909	34,757	45,831	44,493	36,900	1.9%	1.2%	1.5%
2006	46,299	44,327	36,714	47,193	45,590	37,760	3.0%	2.5%	2.3%
2007	49,082	46,948	38,611	49,082	46,948	38,611	4.0%	3.0%	2.3%

SOURCE: United States Department of Commerce, Bureau of Economic Analysis.
Notes: Using midyear population estimates from the Census Bureau and two CPI-U series from the U.S. Bureau of Labor Statistics for price inflation.

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 2006 was 23 percent higher than the national average: $52,435 compared to $42,535.

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 increased, but in the subsequent years the Massachusetts share of the New England total has remained essentially constant at 50% while the Massachusetts share of the U.S. total has dropped back slightly from 3.1% to 2.9%.

Annual Wage and Salary Disbursements, 1990-2007

(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	$ 5,388,680	$321,473	$160,189	49.8%
2005	$ 5,661,026	$332,680	$165,051	49.6%
2006	$ 6,015,158	$350,407	$174,363	49.8%
2007p	$ 6,358,737	$371,566	$185,264	49.9%

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

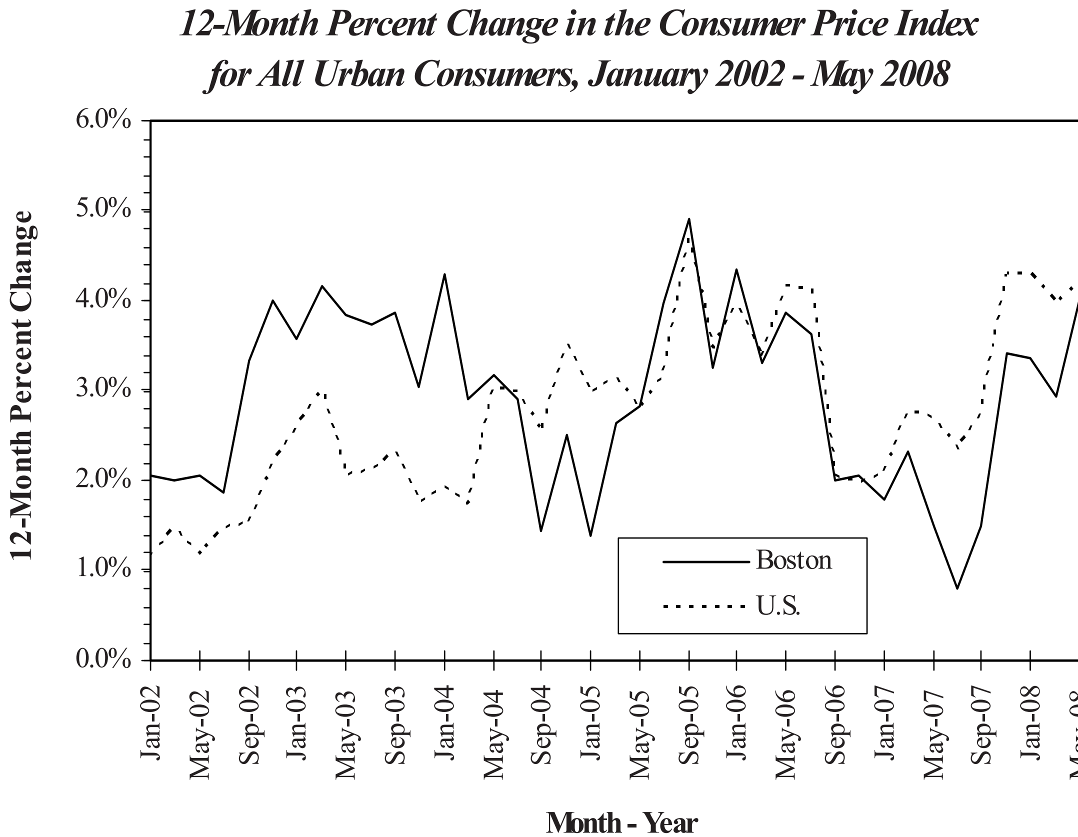
Consumer Prices. Higher income levels in Massachusetts relative to the rest of the United States are offset to some extent by the higher cost of living in Massachusetts. The following table presents consumer price trends for the Boston metropolitan area and the United States for the period between 1970 and 2007. 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 2007, the CPI-U for Boston increased by 1.9 percent over the average for 2006, while the index for the United States as a whole increased by 2.8 percent. The latest available data for May 2008 show that the CPI-U for the Boston metropolitan area grew at a rate of 4 percent from May 2007, compared with 4.2 percent for the U.S.

Consumer Price Index for All Urban Consumers (CPI-U), 1970-2007

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

	Boston Metro Area		United States	
Year	*CPI-U*	*Pct.Change*	*CPI-U*	*Pct. Change*
1970	40.2		38.8	
1971	42.2	5.0%	40.5	4.4%
1972	43.7	3.6%	41.8	3.2%
1973	46.3	5.9%	44.4	6.2%
1974	51.2	10.6%	49.3	11.0%
1975	55.8	9.0%	53.8	9.1%
1976	60.0	7.5%	56.9	5.8%
1977	63.1	5.2%	60.6	6.5%
1978	66.4	5.2%	65.2	7.6%
1979	73.2	10.2%	72.6	11.3%
1980	82.6	12.8%	82.4	13.5%
1981	91.8	11.1%	90.9	10.3%
1982	95.5	4.0%	96.5	6.2%
1983	99.8	4.5%	99.6	3.2%
1984	104.7	4.9%	103.9	4.3%
1985	109.4	4.5%	107.6	3.6%
1986	112.2	2.6%	109.6	1.9%
1987	117.1	4.4%	113.6	3.6%
1988	124.2	6.1%	118.3	4.1%
1989	131.3	5.7%	124.0	4.8%
1990	138.9	5.8%	130.7	5.4%
1991	145.0	4.4%	136.2	4.2%
1992	148.6	2.5%	140.3	3.0%
1993	152.9	2.9%	144.5	3.0%
1994	154.9	1.3%	148.2	2.6%
1995	158.6	2.4%	152.4	2.8%
1996	163.3	3.0%	156.9	3.0%
1997	167.9	2.8%	160.5	2.3%
1998	171.7	2.3%	163.0	1.6%
1999	176.0	2.5%	166.6	2.2%
2000	183.6	4.3%	172.2	3.4%
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%
2007	227.4	1.9%	207.3	2.8%
May-07	226.2		207.9	
May-08	235.3	4.0%	216.6	4.2%

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



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. A score of 100 is considered neutral. According to the Conference Board, consumer confidence nationally reached a six year high point of 111.9 in July 2007, but it has declined 49 points by April, 2008. The Mass Insight Corporation reports that after drawing nearly even with the U.S. index in October, 2006, the Massachusetts index has declined 47 points over the next six quarters, trailing the national number in April, 2008 (the most recent survey month for the quarterly Massachusetts index) by almost 9 points. At 54, the Massachusetts index is at its lowest point since October 1991, when it was 52. The following table and chart detail the recent record of these measures.

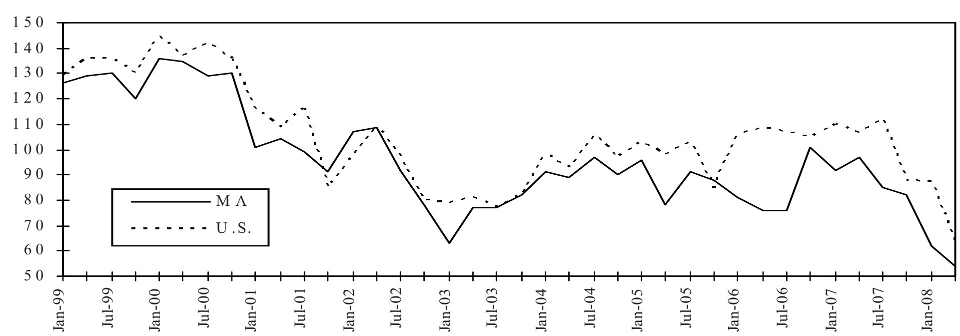
Consumer Confidence, Present Situation, and Future Expectations for Massachusetts and the U.S. January 2001 - April 2008 (1985=100)

	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
Jul-07	85.0	111.9	80.0	138.3	90.0	94.4
Oct-07	82.0	87.8	76.0	115.7	86.0	69.1
Jan-08	62.0	87.3	49.0	114.3	71.0	69.3
Apr-08	54.0	62.8	35.0	81.9	67.0	50.0

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 2008

(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 slightly 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 2006, the estimated poverty rate in Massachusetts increased to 12.0 percent (a statistically significant increase) while the poverty rate in the United States dropped to 12.3 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 - 2006) 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,. 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.

Poverty Rate, 1985-2006

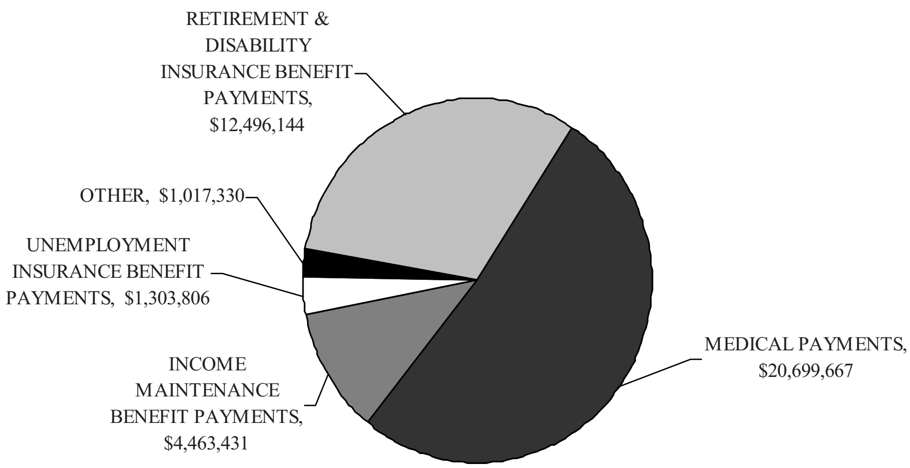
SOURCE: United States Department of Commerce, Bureau of the Census.

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 13.8 percent of total personal income in Massachusetts in 2006. 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 and businesses totaled 41.2 billion dollars for 2006. Almost 52 percent of government transfer payments to individuals were medical payments.

Transfer Payments from Governments to Individuals in Massachusetts in 2006

(From Annual State Personal Income Estimates)

(in thousands of current dollars)

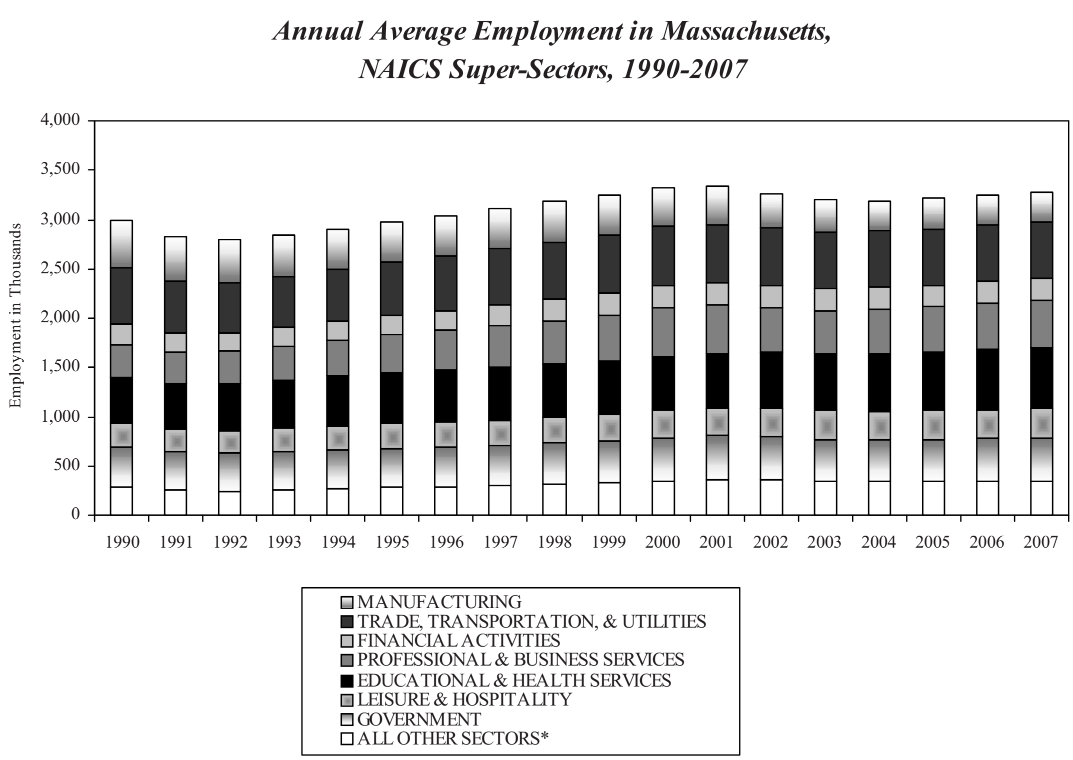


SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.
NOTE: The category "other" includes veterans' benefit payments, federal education and training assistance payments, and a small residual of miscellaneous other payments to individuals.

Employment 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 2006-2007 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 and 1.1 percent in 2006. In 2007 employment grew another 1.0 percent, but the state still had 62 thousand (1.9%) fewer jobs than in the peak year of 2001. The comparable growth rate for the nation in 2007 was 1.1 percent. The latest seasonally adjusted estimate (3295.3 for June, 2008) is about 44 thousand below the 2001 annual average and 89 thousand below the peak month (3384.0 in February, 2001).

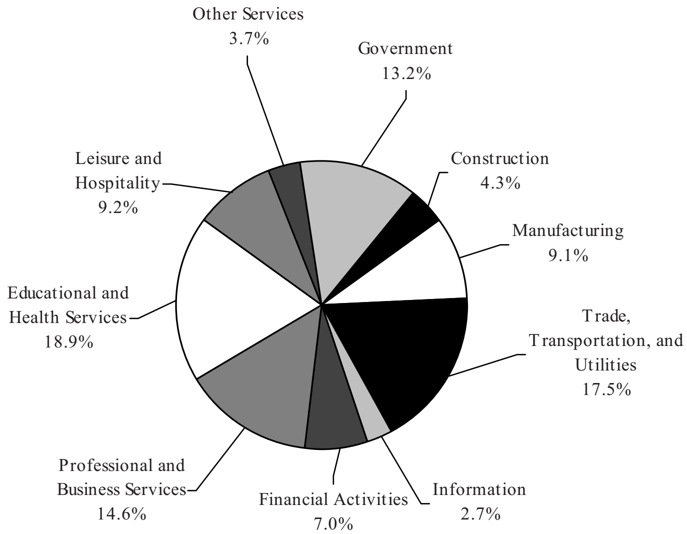
In 2004, manufacturing employment declined 3.5 percent from the year before; a smaller decline than the steep annual declines in the previous three years. The declines for 2005 and 2006 were 2.4 percent and 1.8 percent respectively, which are better than the long-term average rate of decline since 1990 (3.0 percent per year). The average for 2007 was only 1.5 percent below the comparable 2006 level, the best year for manufacturing in Massachusetts since 2000. The seasonally adjusted estimates for the first six months of 2008 average 1.4 percent below the comparable estimates for early 2007.



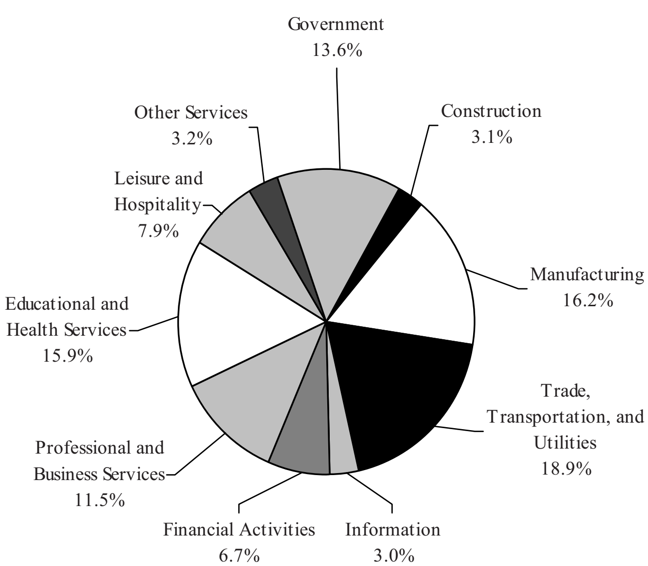
SOURCE: MA Division of Unemployment Assistance.
*Includes Mining & Natural Resources, Construction, Information, and Other Services.

Massachusetts Non-Farm Payroll Employment
(NAICS Industry basis)

NAICS Super-Sectors: 2006-2007 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, 2007. The CVS Pharmacy and the Target Corporation replace Big Y Foods and the Federated Retail department store chain from the June, 2006 list. As noted, the list may not include some employers who do business in the state under multiple legal names or register each facility as a separate employer.

Twenty-five Largest Private Employers in Massachusetts in June, 2007

(listed alphabetically)

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

SOURCE: Massachusetts Executive Office of Labor & Workforce Development, Division of Unemployment Assistance, Research Department.

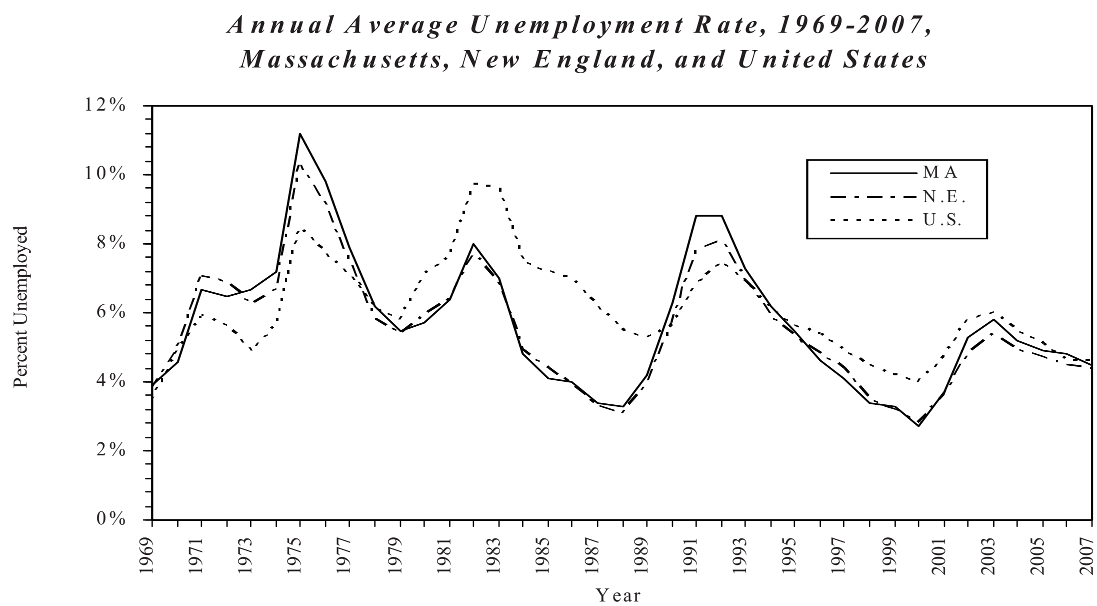
Unemployment. The economic recession of the early 1990s caused unemployment rates in Massachusetts to rise significantly above the national average, as much as 2.1 points above in 1991. Then from 1995 through 2005 the unemployment rate in Massachusetts was consistently below the national average. In 2006 the annual rate for the state was 0.2 percentage points above the national rate, while the rate for 2007 was 0.1 points below the national rate of 4.6 percent. The following table compares the annual civilian labor force, the number unemployed, and the unemployment rates of Massachusetts, New England, and the United States from 1969 to 2007.

Annual Average Civilian Labor Force and Unemployment, 1969-2007

(in thousands)

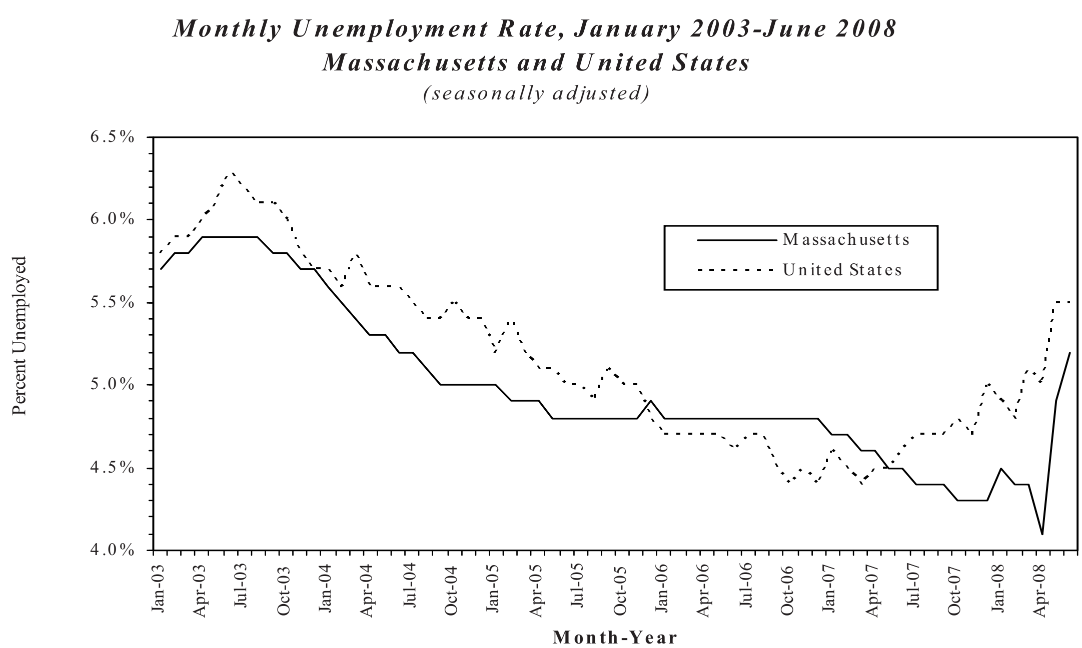
Year	Civilian Labor Force MA	Civilian Labor Force N.E.	Civilian Labor Force U.S.	Unemployed MA	Unemployed N.E.	Unemployed U.S.	Unemployment Rate MA	Unemployment Rate N.E.	Unemployment Rate U.S.	MA Rate as Pct. of U.S.
1969	2,581	5,201	80,734	100	198	2,832	3.9%	3.8%	3.5%	111.2%
1970	2,465	5,128	82,771	113	253	4,093	4.6%	4.9%	4.9%	93.7%
1971	2,459	5,157	84,382	163	364	5,016	6.6%	7.1%	5.9%	112.7%
1972	2,487	5,260	87,034	161	363	4,882	6.5%	6.9%	5.6%	115.6%
1973	2,557	5,387	89,429	171	336	4,365	6.7%	6.2%	4.9%	136.1%
1974	2,637	5,514	91,949	190	368	5,156	7.2%	6.7%	5.6%	128.5%
1975	2,725	5,633	93,775	305	578	7,929	11.2%	10.3%	8.5%	131.5%
1976	2,726	5,714	96,158	268	521	7,406	9.8%	9.1%	7.7%	127.3%
1977	2,760	5,820	99,009	218	437	6,991	7.9%	7.5%	7.1%	111.3%
1978	2,809	5,936	102,251	173	343	6,202	6.2%	5.8%	6.1%	101.6%
1979	2,863	6,080	104,962	156	326	6,137	5.5%	5.4%	5.8%	94.8%
1980	2,886	6,154	106,940	164	365	7,637	5.7%	5.9%	7.1%	80.3%
1981	2,938	6,268	108,670	189	400	8,273	6.4%	6.4%	7.6%	84.2%
1982	2,966	6,345	110,204	236	489	10,678	8.0%	7.7%	9.7%	82.5%
1983	2,972	6,386	111,550	209	434	10,717	7.0%	6.8%	9.6%	72.9%
1984	3,032	6,540	113,544	146	318	8,539	4.8%	4.9%	7.5%	64.0%
1985	3,049	6,630	115,461	125	290	8,312	4.1%	4.4%	7.2%	56.9%
1986	3,080	6,724	117,834	123	264	8,237	4.0%	3.9%	7.0%	57.1%
1987	3,114	6,827	119,865	105	228	7,425	3.4%	3.3%	6.2%	54.8%
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%	79.2%
1990	3,226	7,128	125,840	204	409	7,047	6.3%	5.7%	5.6%	112.5%
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%	117.3%
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%	101.6%
1995	3,205	7,053	132,304	176	375	7,404	5.5%	5.3%	5.6%	98.2%
1996	3,231	7,118	133,943	148	340	7,236	4.6%	4.8%	5.4%	85.2%
1997	3,293	7,228	136,297	135	315	6,739	4.1%	4.4%	4.9%	83.7%
1998	3,322	7,257	137,673	113	253	6,210	3.4%	3.5%	4.5%	75.6%
1999	3,355	7,327	139,368	110	234	5,880	3.3%	3.2%	4.2%	78.6%
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	3,407	7,508	146,510	198	407	8,774	5.8%	5.4%	6.0%	96.7%
2004	3,380	7,481	147,401	177	366	8,149	5.2%	4.9%	5.5%	94.5%
2005	3,375	7,520	149,320	164	353	7,591	4.9%	4.7%	5.1%	96.1%
2006	3,405	7,607	151,428	164	345	7,001	4.8%	4.5%	4.6%	104.3%
2007	3,408	7,648	153,124	153	340	7,078	4.5%	4.4%	4.6%	97.8%

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



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

The unemployment rate in Massachusetts was consistently below the national average from mid-1995 through November, 2005, with similar patterns of gradual improvement after the mid-2003 peak. The Massachusetts rate exceeded the U.S. rate for seventeen months starting in December, 2005, but only four of those differences exceeded 0.2 percent. Since April, 2007 the state rate has been below the comparable U.S. rate, seasonally adjusted. The following graph illustrates the movement of the state and national unemployment rates over the past sixty-six months.



SOURCE: MA Division of Unemployment Assistance.

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 June 30, 2008, the Massachusetts Unemployment Trust Fund had a balance of $1.410 billion, of which the private contributory account portion was $1.294 billion. The Division of Unemployment Assistance's July 2008 Unemployment Insurance Trust Fund report indicates that under the current economic outlook, private contributory account reserves are estimated to be $1.565 billion at the end of 2012.

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 Standard Industrial Code (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.

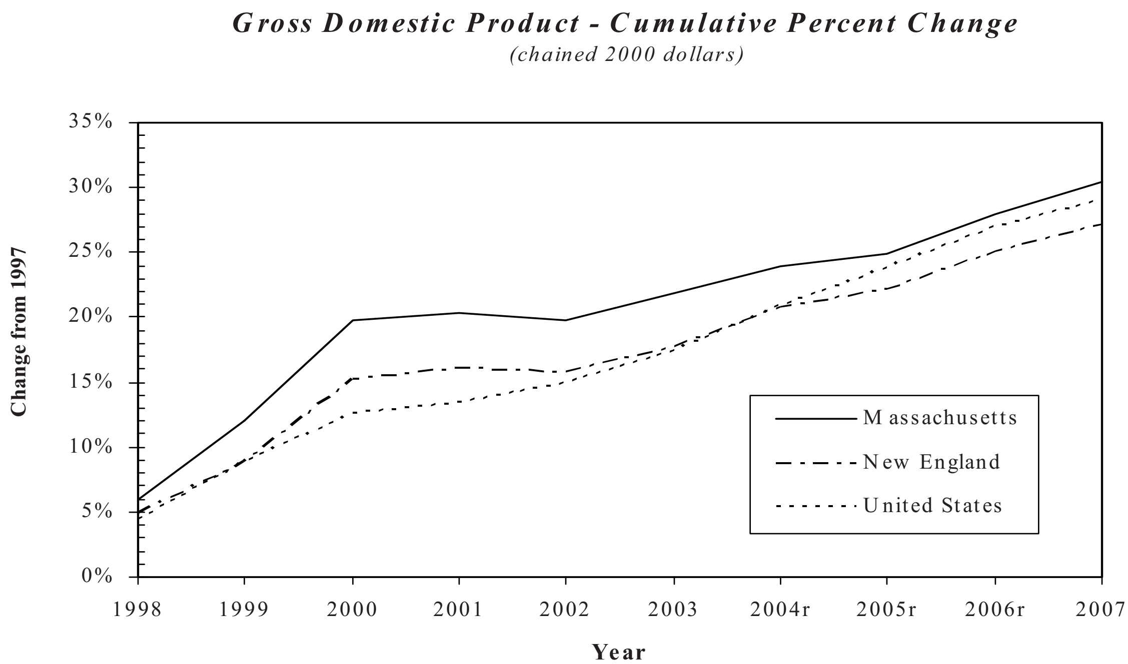
Between 2001 and 2007 gross domestic product in Massachusetts, New England and the sum of all states GDP grew approximately 46.2, 47.2 and 54.7 percent respectively in current dollars. Between 2001 and 2007 gross domestic product in Massachusetts, New England and the sum of all states GDP grew approximately 10.4, 11.6 and 16.6 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 fifth highest GDP per capita in 2007, $47,351.

Gross Domestic Product - Cumulative Change

(millions of chained 2000 dollars)

	Massachusetts		*New England*		*United States*	
Year	*GDP*	*Change from 1997*	*GDP*	*Change from 1997*	*GDP*	*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%
2004r	$286,541	23.9%	$597,196	20.7%	$10,580,223	20.8%
2005r	$289,363	24.9%	$606,068	22.2%	$10,899,704	23.9%
2006r	$298,036	27.9%	$623,136	25.0%	$11,240,107	27.0%
2007	$305,400	30.4%	$636,223	27.1%	$11,467,503	29.0%

SOURCE: Bureau of Economic Analysis, U.S. Department of Commerce. Last revised: June 2008.
Next release date: June 2009.



SOURCE: Bureau of Economic Analysis, U.S. Department of Commerce. Last revised: June 2008.
Next release date: June 2009.

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

(millions of chained 2000 dollars)

	Massachusetts		*New England*		*United States*	
Year	*GDP*	*Annual change*	*GDP*	*Annual change*	*GDP*	*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%
2004r	$286,541	2.0%	$597,196	3.0%	$10,580,223	3.5%
2005r	$289,363	1.0%	$606,068	1.5%	$10,899,704	3.0%
2006r	$298,036	3.0%	$623,136	2.8%	$11,240,107	3.1%
2007	$305,400	2.5%	$636,223	2.1%	$11,467,503	2.0%

SOURCE: Bureau of Economic Analysis, U.S. Department of Commerce. Last revised: June 2008.
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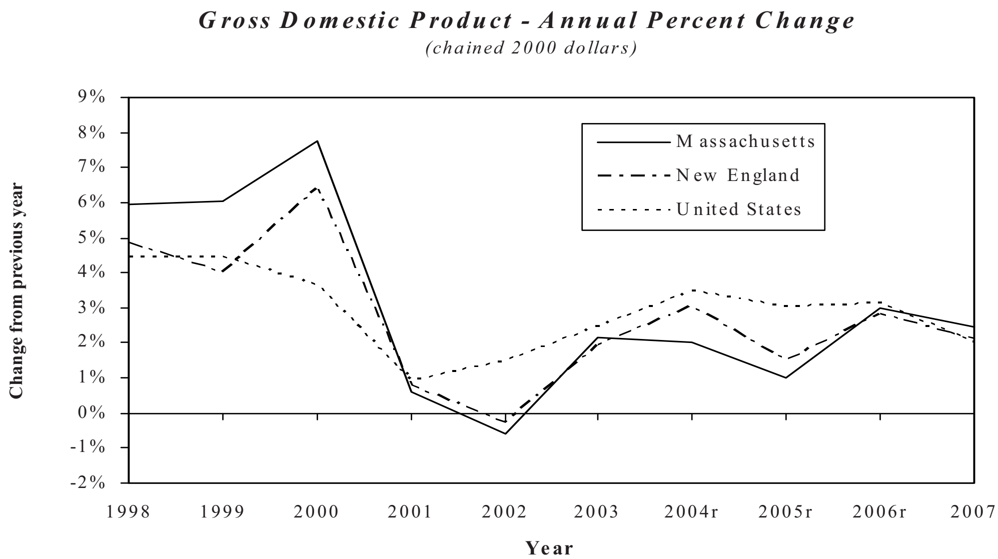


SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis. Revised June 2008. Next release date: June 2009.

The commercial base of Massachusetts is anchored by the twenty-two 2008 Fortune 1000 companies (twelve of which are Fortune 500) headquartered in Massachusetts. Rejoining the Massachusetts 2008 Fortune 1000 list was PerkinElmer (943rd). Beacon Roofing Supply, a diversified whole company, joined the Fortune 1000 (994th). When comparing the 2008 Fortune 1000 to 2007's, eleven Massachusetts companies gained and nine lost rank. Thermo Fisher Scientific climbed 280 places on the list (from 549th to 269th); the largest leap for a Massachusetts company.

Massachusetts Companies in the 2008 Fortune 500 and 1000 Lists

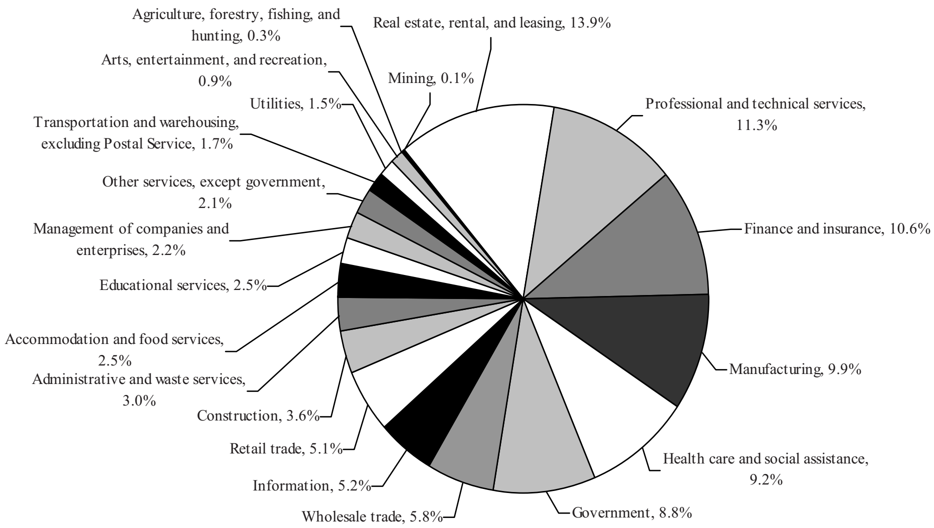
Rank 2008	2007	*Company*	*Industry*	*2007 revenues (millions)*
94	95	Liberty Mutual Ins. Group (Boston)	Insurance: P & C (stock)	$25,961
99	90	Mass. Mutual Life Ins. (Springfield)	Insurance: Life, Health (mutual)	$25,268
112	96	Raytheon (Waltham)	Aerospace and Defense	$22,426
128	126	Staples (Framingham)	Specialty Retailers	$19,373
132	133	TJX (Framingham)	Specialty Retailers	$18,647
201	224	EMC (Hopkinton)	Computer Peripherals	$13,230
225	263	State St. Corp. (Boston)	Commercial Banks	$11,818
269	549	Thermo Fisher Scientific (Waltham)	Scientific, Photo, Control Equipment	$9,746
291	287	BJ's Wholesale Club (Natick)	Specialty Retailers	$9,005
310	308	Boston Scientific (Natick)	Medical Products & Equipment	$8,357
364	491	Global Partners (Waltham)	Energy	$6,758
499	648	Perini (Framingham)	Engineering, Construction	$4,628
572	620	Genzyme (Cambridge)	Pharmaceuticals	$3,814
631	569	NSTAR (Boston)	Utilities: Gas & Electric	$3,262
648	698	Biogen Idec (Cambridge)	Pharmaceuticals	$3,172
712	710	Hanover Insurance Group (Worcester)	Insurance: P & C (stock)	$2,787
718	728	Analog Devices (Norwood)	Semiconductors and Other Electronic Components	$2,740
722	780	Iron Mountain (Boston)	Diversified Outsourcing	$2,730
751	732	Cabot (Boston)	Chemicals	$2,616
902	873	Commerce Group (Webster)	Insurance: P & C (stock)	$1,982
943	N.A.	PerkinElmer (Waltham)	Scientific, Photo, Control Equipment	$1,787
994	N.A.	Beacon Roofing Supply (Peabody)	Wholesalers: Diversified	$1,646

SOURCE: *Fortune*, May 5, 2008.

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, finance and insurance, and manufacturing, contributed 45.6 percent of the GDP in 2007. The following pie chart displays the latest sector contributions to the Massachusetts GDP.

NAICS* Sector Composition of Massachusetts Gross Domestic Product 2007

(in current dollars)



*North American Industry Classification System
SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised June 2008.

GDP Subsectors. When measured in chained 2000 dollars, the cumulative change in Massachusetts total GDP was 10.4 percent between 2001 and 2007. Between 2001 and 2006 (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 2001-2006*
Funds, trusts, and other financial vehicles	158.1%
Motor vehicle, body, trailer, and parts manufacturing	88.2%
Pipeline transportation	76.9%
Information and data processing services	68.3%
Water transportation	-23.9%
Petroleum and coal products manufacturing	-24.1%
Electrical equipment and appliance manufacturing	-27.6%
Textile and textile product mills	-47.0%

*North American Industry Classification System.
SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised June 2008.

Gross Domestic Product by Industry in Massachusetts

(millions of chained 2000 dollars)

NAICS* Industry Sector	1999	2000	2001	2002	2003	2004r	2005r	2006r	2007
Total Gross Domestic Product by State	$255,189	$274,949	$276,634	$274,997	$280,881	$286,541	$289,363	$298,036	$305,400
Private industries	231,945	251,645	253,140	251,272	257,997	263,890	266,547	275,233	283,005
Agriculture, forestry, fishing, and hunting	469	540	587	668	701	733	797	772	782
Mining	109	124	141	139	142	153	144	151	194
Utilities	3,218	3,453	3,162	3,137	3,486	3,782	3,706	3,625	3,914
Construction	10,995	11,159	11,850	11,412	10,544	10,301	10,323	9,301	8,085
Manufacturing	30,126	37,204	35,011	35,376	38,071	36,568	36,695	39,222	42,009
Wholesale trade	17,749	16,173	17,819	17,214	17,959	18,042	17,124	17,779	17,641
Retail trade	13,650	14,519	15,713	15,997	16,644	17,028	17,616	17,569	18,092
Transportation and warehousing, excluding Postal Service	4,766	5,172	5,063	4,915	4,835	5,138	5,184	5,337	5,500
Information	12,083	13,017	13,710	13,676	13,936	15,344	17,494	18,853	20,184
Finance and insurance	26,693	29,915	29,890	29,781	30,529	32,001	30,330	32,818	33,923
Real estate, rental, and leasing	34,129	35,587	37,683	37,379	37,952	38,341	38,872	39,663	39,973
Professional and technical services	24,648	28,560	28,572	27,397	27,486	30,480	31,728	33,572	35,107
Management of companies and enterprises	6,870	7,506	6,152	5,673	5,778	5,082	5,223	5,121	5,185
Administrative and waste services	8,252	8,382	7,400	7,042	7,459	7,440	7,793	7,998	8,532
Educational services	5,591	5,915	5,851	5,978	6,003	6,062	5,905	5,851	6,052
Health care and social assistance	19,496	20,363	20,484	21,179	22,241	22,764	23,349	24,418	25,427
Arts, entertainment, and recreation	1,906	1,911	2,023	2,152	2,244	2,337	2,344	2,348	2,502
Accommodation and food services	6,251	6,594	6,510	6,556	6,734	6,952	6,924	7,010	7,104
Other services, except government	5,307	5,549	5,477	5,570	5,596	5,532	5,424	5,370	5,522
Government	23,272	23,304	23,493	23,710	22,960	22,798	22,970	23,056	22,805

* North American Industry Classification System

SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised June 2008.

Cumulative Percent Change in GDP by Industry in Massachusetts

(millions of chained 2000 dollars)

NAICS* Industry Sector	1999 to 2000	2001	2002	2003	2004r	2005r	2006r	2007
Total Gross Domestic Product by State	7.7%	8.4%	7.8%	9.9%	11.9%	12.9%	15.9%	18.4%
Private industries	8.5%	9.1%	8.3%	11.0%	13.3%	14.3%	17.6%	20.4%
Agriculture, forestry, fishing, and hunting	15.1%	23.8%	37.6%	42.6%	47.1%	55.9%	52.7%	54.0%
Mining	13.8%	27.5%	26.1%	28.2%	36.0%	30.1%	34.9%	63.4%
Utilities	7.3%	-1.1%	-1.9%	9.2%	17.7%	15.7%	13.5%	21.5%
Construction	1.5%	7.7%	4.0%	-3.6%	-5.9%	-5.7%	-15.6%	-28.7%
Manufacturing	23.5%	17.6%	18.6%	26.3%	22.3%	22.7%	29.5%	36.7%
Wholesale trade	-8.9%	1.3%	-2.1%	2.2%	2.7%	-2.4%	1.4%	0.7%
Retail trade	6.4%	14.6%	16.4%	20.4%	22.7%	26.2%	25.9%	28.9%
Transportation and warehousing, excluding Postal Service	8.5%	6.4%	3.5%	1.9%	8.1%	9.0%	12.0%	15.0%
Information	7.7%	13.1%	12.8%	14.7%	24.8%	38.8%	46.6%	53.7%
Finance and insurance	12.1%	12.0%	11.6%	14.1%	19.0%	13.7%	21.9%	25.3%
Real estate, rental, and leasing	4.3%	10.2%	9.4%	10.9%	11.9%	13.3%	15.3%	16.1%
Professional and technical services	15.9%	15.9%	11.8%	12.1%	23.0%	27.1%	32.9%	37.5%
Management of companies and enterprises	9.3%	-8.8%	-16.6%	-14.7%	-26.8%	-24.0%	-25.9%	-24.7%
Administrative and waste services	1.6%	-10.1%	-15.0%	-9.1%	-9.3%	-4.6%	-1.9%	4.7%
Educational services	5.8%	4.7%	6.9%	7.3%	8.3%	5.7%	4.8%	8.2%
Health care and social assistance	4.4%	5.0%	8.4%	13.4%	15.8%	18.4%	22.9%	27.1%
Arts, entertainment, and recreation	0.3%	6.1%	12.5%	16.8%	20.9%	21.2%	21.4%	27.9%
Accommodation and food services	5.5%	4.2%	4.9%	7.6%	10.9%	10.5%	11.7%	13.1%
Other services, except government	4.6%	3.3%	5.0%	5.4%	4.3%	2.3%	1.3%	4.2%
Government	0.1%	0.9%	1.9%	-1.3%	-2.0%	-1.2%	-0.9%	-2.0%

* North American Industry Classification System

SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised June 2008.

Gross Domestic Product by Industry in Massachusetts

(as a percent of total GDP chained 2000 dollars)

NAICS* Industry Sector	1999	2000	2001	2002	2003	2004r	2005r	2006r	2007
Total Gross Domestic Product by State	100.0%	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%	92.1%	92.1%	92.3%	92.7%
Agriculture, forestry, fishing, and hunting	0.2%	0.2%	0.2%	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%
Mining	0.0%	0.0%	0.1%	0.1%	0.1%	0.1%	0.0%	0.1%	0.1%
Utilities	1.3%	1.3%	1.1%	1.1%	1.2%	1.3%	1.3%	1.2%	1.3%
Construction	4.3%	4.1%	4.3%	4.1%	3.8%	3.6%	3.6%	3.1%	2.6%
Manufacturing	11.8%	13.5%	12.7%	12.9%	13.6%	12.8%	12.7%	13.2%	13.8%
Wholesale trade	7.0%	5.9%	6.4%	6.3%	6.4%	6.3%	5.9%	6.0%	5.8%
Retail trade	5.3%	5.3%	5.7%	5.8%	5.9%	5.9%	6.1%	5.9%	5.9%
Transportation and warehousing, excluding Postal Service	1.9%	1.9%	1.8%	1.8%	1.7%	1.8%	1.8%	1.8%	1.8%
Information	4.7%	4.7%	5.0%	5.0%	5.0%	5.4%	6.0%	6.3%	6.6%
Finance and insurance	10.5%	10.9%	10.8%	10.8%	10.9%	11.2%	10.5%	11.0%	11.1%
Real estate, rental, and leasing	13.4%	12.9%	13.6%	13.6%	13.5%	13.4%	13.4%	13.3%	13.1%
Professional and technical services	9.7%	10.4%	10.3%	10.0%	9.8%	10.6%	11.0%	11.3%	11.5%
Management of companies and enterprises	2.7%	2.7%	2.2%	2.1%	2.1%	1.8%	1.8%	1.7%	1.7%
Administrative and waste services	3.2%	3.0%	2.7%	2.6%	2.7%	2.6%	2.7%	2.7%	2.8%
Educational services	2.2%	2.2%	2.1%	2.2%	2.1%	2.1%	2.0%	2.0%	2.0%
Health care and social assistance	7.6%	7.4%	7.4%	7.7%	7.9%	7.9%	8.1%	8.2%	8.3%
Arts, entertainment, and recreation	0.7%	0.7%	0.7%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Accommodation and food services	2.4%	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%	1.8%
Government	9.1%	8.5%	8.5%	8.6%	8.2%	8.0%	7.9%	7.7%	7.5%

* North American Industry Classification System

SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised June 2008.

Rank of Industry Contribution to GDP in Massachusetts

(millions of chained 2000 dollars)

NAICS* Industry Sector	1999	2000	2001	2002	2003	2004r	2005r	2006r	2007
Total Gross Domestic Product by State									
Private industries									
Agriculture, forestry, fishing, and hunting	19	19	19	19	19	19	19	19	19
Mining	20	20	20	20	20	20	20	20	20
Utilities	17	17	17	17	17	17	17	17	17
Construction	10	10	10	10	10	10	10	10	11
Manufacturing	2	1	2	2	1	2	2	2	1
Wholesale trade	7	7	7	7	7	7	9	8	9
Retail trade	8	8	8	8	8	8	7	9	8
Transportation and warehousing, excluding Postal Service	16	16	16	16	16	15	16	15	15
Information	9	9	9	9	9	9	8	7	7
Finance and insurance	3	3	3	3	3	3	4	4	4
Real estate, rental, and leasing	1	2	1	1	2	1	1	1	2
Professional and technical services	4	4	4	4	4	4	3	3	3
Management of companies and enterprises	12	12	13	14	14	16	15	16	16
Administrative and waste services	11	11	11	11	11	11	11	11	10
Educational services	14	14	14	13	13	13	13	13	13
Health care and social assistance	6	6	6	6	6	6	5	5	5
Arts, entertainment, and recreation	18	18	18	18	18	18	18	18	18
Accommodation and food services	13	13	12	12	12	12	12	12	12
Other services, except government	15	15	15	15	15	14	14	14	14
Government	5	5	5	5	5	5	6	6	6

* North American Industry Classification System

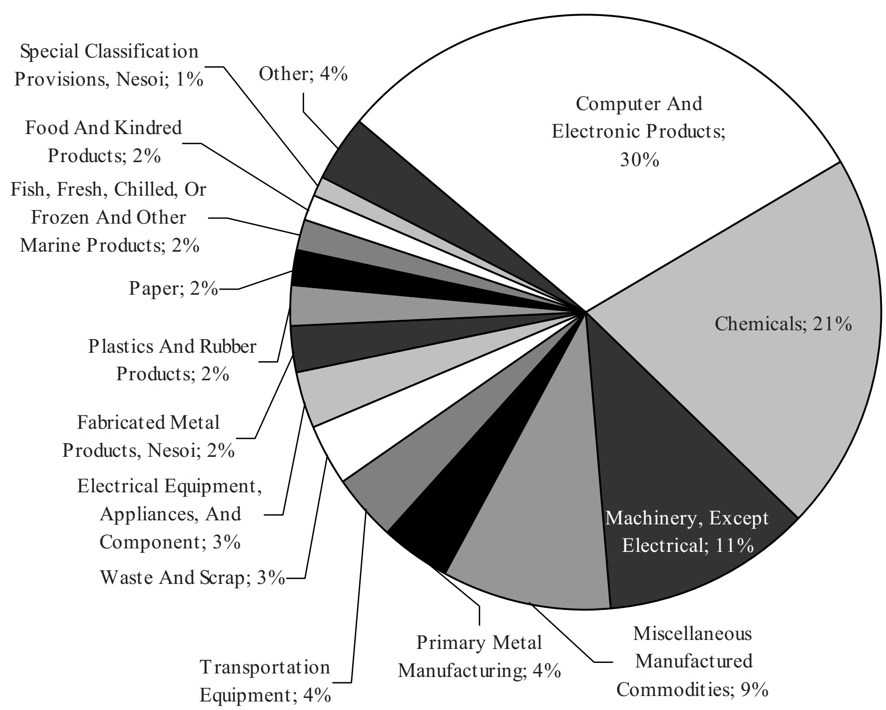
SOURCE: United States Department of Commerce, Bureau of Economic Analysis. Revised June 2008.

GDP Overview. Between 2001 and 2007, the portion of the total GDP in chained 2000 dollars, from the private industry sector increased 1.2 percent, and it decreased 1.0 percent in the government sector. Contributions by each industry to total GDP have remained steady for most sectors. The exceptions were information, up 1.7 percent, professional and technical services, up 1.2 percent, and manufacturing, up 1.1 percent. When the 2001 to 2007 industry contributions to total annual GDP are ranked according to their dollar value, the top five have remained fairly constant. In 2007 they were manufacturing, real estate, rental and leasing, professional and technical services, finance and insurance, and health care and social assistance.

International Trade. Massachusetts ranked 14th in the United States, and first in New England, with $25.2 billion in international exports in 2007. This represents a 5.1 percent increase from the previous year's exports from the Commonwealth, while national exports increased by 12.1 percent in the same year. In May 2008, Massachusetts's exports totaled $12.2 billion, an increase of 16.0 percent compared with exports in the fifth month of 2007. National exports were up 17.7 percent and New England, 15.2 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 2007 were: Canada, with $3.4 billion in purchases of Massachusetts exports; Germany with $2.4 billion; United Kingdom, with $2.3 billion; the Netherlands, with $2.2 billion; and Japan, with $2.2 billion in purchases. Between 2006 and 2007, the most significant growth in Massachusetts exports among its top ten trading partners was in exports to Taiwan, 35.8 percent, and France, 24.2 percent.

Composition of Massachusetts Exports by Industry Group, 2007



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

Value of International Shipments from Massachusetts, 1998-2007

(top ten industry groups ranked by value of 2007 exports, in millions)

Major Industry Group	***1998***	***1999***	***2000***	***2001***	***2002***	***2003***	***2004***	***2005***	***2006***	***2007***
Computer And Electronic Products	$7,458	$8,056	$10,215	$8,122	$7,024	$7,688	$7,475	$7,004	$7,520	$7,711
Chemicals	$1,223	$1,357	$1,600	$1,534	$2,267	$3,216	$4,907	$5,284	$5,188	$5,247
Machinery, Except Electrical	$1,694	$1,705	$2,545	$2,044	$1,786	$1,668	$2,456	$2,315	$2,736	$2,877
Miscellaneous Manufactured Commodities	$835	$925	$1,053	$1,213	$1,210	$1,571	$1,927	$2,111	$2,240	$2,317
Primary Metal Manufacturing	$335	$283	$358	$272	$248	$425	$423	$405	$647	$982
Transportation Equipment	$637	$698	$659	$449	$346	$383	$453	$481	$547	$887
Waste And Scrap	$104	$75	$106	$146	$183	$190	$322	$328	$597	$847
Electrical Equipment, Appliances, And Component	$596	$720	$834	$691	$649	$592	$752	$815	$872	$769
Fabricated Metal Products, Nesoi	$597	$601	$649	$569	$692	$539	$621	$664	$679	$614
Plastics And Rubber Products	$357	$389	$374	$400	$406	$375	$404	$469	$530	$582
Total Exports, Top Massachusetts Industries	$13,836	$14,809	$18,393	$15,438	$14,812	$16,648	$19,739	$19,877	$21,556	$22,834
Total Massachusetts Exports	$15,878	$16,805	$20,514	$17,490	$16,708	$18,663	$21,837	$22,043	$24,047	$25,285
Percent Change from Prior Year	-3.9%	5.8%	22.1%	-14.7%	-4.5%	11.7%	17.0%	0.9%	9.1%	5.1%

SOURCE: World Institute for Strategic Economic Research (WISER). These figures reflect the changover 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 2001 and 2007, the combined real gross domestic product of the transportation and warehousing and utilities sector increased 14.5 percent when measured with year 2000 chained dollars. These combined sectors contributed 3.1 percent to the total Massachusetts Real Domestic Product in 2007; 0.1 percent less than it did in 2001.

Massachusetts's major air and seaports are managed by the Massachusetts Port Authority (Massport), an independent public authority. Massport reported fiscal 2007 operating income of $39.8 million, down 9.1 percent from fiscal 2006, operating revenues up 5.9 percent, $526.8 million in 2007 versus $497.6 million in 2006, and operating expenses up 7.3 percent, $487.0 million in 2007 versus $453.8 million in 2006.

According to Massport, Boston Logan International Airport is currently served by 56 scheduled and non-scheduled air carriers, of which 45 are scheduled airlines, including 16 foreign flag carriers. Boston Logan International Airport has domestic service to 76 destinations and international service to 33 destinations. Based on total passenger volume in calendar year 2007 data, Logan Airport was the most active airport in New England and remained the 19th most active in the U.S. according to the Federal Aviation Authority. Massport reported that as of June, year-to-date 2008, total airport flight operations were down 4.8 percent and total airport passengers were down 4.9 percent from the same period in 2007.
As of June 30, 2006, Logan was served by 11 all-cargo and small package/express carriers. According to the FAA, Logan Airport ranked 26th in the nation in total air cargo volume in calendar year 2006. In 2006, the airport handled 1.1 billion pounds of cargo, a 4.2 percent decrease from 2005. Massport reported that as of June, year-to-date 2008, the combined cargo and mail volume was down 5.0 percent and total airport mail was up 11.8 percent from the same period in 2007. Please refer to the Aviation Activity charts on the following page.

At Massport's Port of Boston properties, 2007 total cargo throughput was 15.5 million metric tons, a 1.0 percent increase from 2006. Automobile processing decreased 17 percent to 10,179 units, and cruise passenger trips increased 12 percent to 234,284. Total containerized cargo increased 20.0 percent to 1.7 million metric tons. Massport reported that between July 2007 and June 2008, total containerized cargo was up 8.4 percent compared to the same period the previous year. The Army Corps of Engineers reported Massachusetts total waterborne cargo shipped or received in 2006, decreased 4.9 percent to 27.4 million short tons, from 2005. Waterborne cargo in New England decreased 6.5 percent and the U.S increased 2.4 percent. Please refer to the Waterborne Tonnage by State charts on the following page.

Aviation Activity for Massachusetts Primary Airports

Passenger Boardings	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
General Edward Lawrence Logan International	13,613,507	11,739,553	11,077,238	11,087,799	12,758,020	13,214,923	13,544,552	13,783,214
Nantucket Memorial	296,451	272,460	253,422	229,300	243,313	252,757	276,866	161,366
Barnstable Municipal-Boardman/Polando Field	205,906	197,106	180,807	158,360	167,522	177,761	206,980	86,972
Worcester Regional	52,916	79,653	37,298	2,234	1,274	2,036	14,823	450
Laurence G Hanscom Field	82,204	71,381	40,419	19,375	17,049	13,887	14,560	15,736
Marthas Vineyard	71,150	65,374	59,500	53,011	49,480	48,977	45,881	48,833
New Bedford Regional	22,882	21,786	21,667	21,097	19,686	17,960	15,211	14,557
Provincetown Municipal	15,694	12,986	10,533	11,801	11,424	10,236	11,375	12,449
Total	14,360,710	12,460,299	11,680,884	11,582,977	13,267,768	13,738,537	14,130,248	14,123,577

Cargo - Gross Landed Weight (lbs.)	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*	*2007*
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	1,100,485,850	n/a

Change in Aviation Activity at Massachusetts Primary Airports

Passenger Boardings	*2000-2001*	*2001-2002*	*2002-2003*	*2003-2004*	*2004-2005*	*2005-2006*	*2006-2007*
General Edward Lawrence Logan International	-13.8%	-5.6%	0.1%	15.1%	3.6%	2.5%	1.8%
Nantucket Memorial	-8.1%	-7.0%	-9.5%	6.1%	3.9%	9.5%	-41.7%
Barnstable Municipal-Boardman/Polando Field	-4.3%	-8.3%	-12.4%	5.8%	6.1%	16.4%	-58.0%
Worcester Regional	50.5%	-53.2%	-94.0%	-43.0%	59.8%	628.0%	-97.0%
Laurence G Hanscom Field	-13.2%	-43.4%	-52.1%	-12.0%	-18.5%	4.8%	8.1%
Martha's Vineyard	-8.1%	-9.0%	-10.9%	-6.7%	-1.0%	-6.3%	6.4%
New Bedford Regional	-4.8%	-0.5%	-2.6%	-6.7%	-8.8%	-15.3%	-4.3%
Provincetown Municipal	-17.3%	-18.9%	12.0%	-3.2%	-10.4%	11.1%	9.4%
Total	-13.2%	-6.3%	-0.8%	14.5%	3.5%	2.9%	0.0%

Cargo	*2000-2001*	*2001-2002*	*2002-2003*	*2003-2004*	*2004-2005*	*2005-2006*	*2006-2007*
General Edward Lawrence Logan International	-7.4%	-2.3%	-5.7%	-2.3%	-2.0%	-4.2%	n/a

SOURCE: Federal Aviation Administration Jul 2008.
http://www.faa.gov/airports_airtraffic/airports/planning_capacitypassenger_allcargo_stats/

Waterborne Tonnage by State (In Units of 1000 Tons)

State	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*
U.S. total	2,424,596	2,386,558	2,340,292	2,394,199	2,551,939	2,527,622	2,588,440
Maine	31,769	30,586	29,140	31,698	32,447	32,353	28,103
Massachusetts	26,973	26,446	26,117	30,655	31,787	28,812	27,411
Connecticut	18,959	18,267	17,610	18,579	20,075	19,617	19,340
Rhode Island	9,089	9,170	8,437	9,417	9,764	10,972	11,016
New Hampshire	4,462	4,447	4,108	4,971	4,795	5,254	4,823
Vermont	0	0	0	0	0	0	0
New England	91,252	88,916	85,412	95,320	98,868	97,008	90,693

Waterborne Tonnage by State - Percent Change from Previous Year

State	*2000-2001*	*2001-2002*	*2002-2003*	*2003-2004*	*2004-2005*	*2005-2006*
U.S. total	-1.6%	-1.9%	2.3%	6.6%	-1.0%	2.4%
Maine	-3.7%	-4.7%	8.8%	2.4%	-0.3%	-13.1%
Massachusetts	-2.0%	-1.2%	17.4%	3.7%	-9.4%	-4.9%
Connecticut	-3.6%	-3.6%	5.5%	8.1%	-2.3%	-1.4%
Rhode Island	0.9%	-8.0%	11.6%	3.7%	12.4%	0.4%
New Hampshire	-0.3%	-7.6%	21.0%	-3.5%	9.6%	-8.2%
Vermont	-	-	-	-	-	-
New England	-2.6%	-3.9%	11.6%	3.7%	-1.9%	-6.5%

SOURCE: Army Core of Engineers, Waterborne Commerce Statistics Center (WCSC) Feb 2008.
http://www.iwr.usace.army.mil/ndc/wcsc/wcsc.htm

Construction and Housing. In 2007, construction activity contributed 2.6 percent to the total Massachusetts Gross Domestic Product (GDP) when measured in 2000 chained dollars. The construction sector contributed 4.3 percent to state GDP in 2001. Overall loss between 2001 and 2007 was 1.6 percent in real dollars.

Housing Permits Authorized

	Massachusetts		***New England***		***United States***	
Year	*Total Permits*	*Percent Change*	*Total Permits*	*Percent Change*	*Total Permits*	*Percent Change*
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%
2007	15,358	-21.6%	37,532	-19.8%	1,398,415	-24.0%

SOURCES: Federal Reserve Bank of Boston; United States Department of Commerce. June 2008.

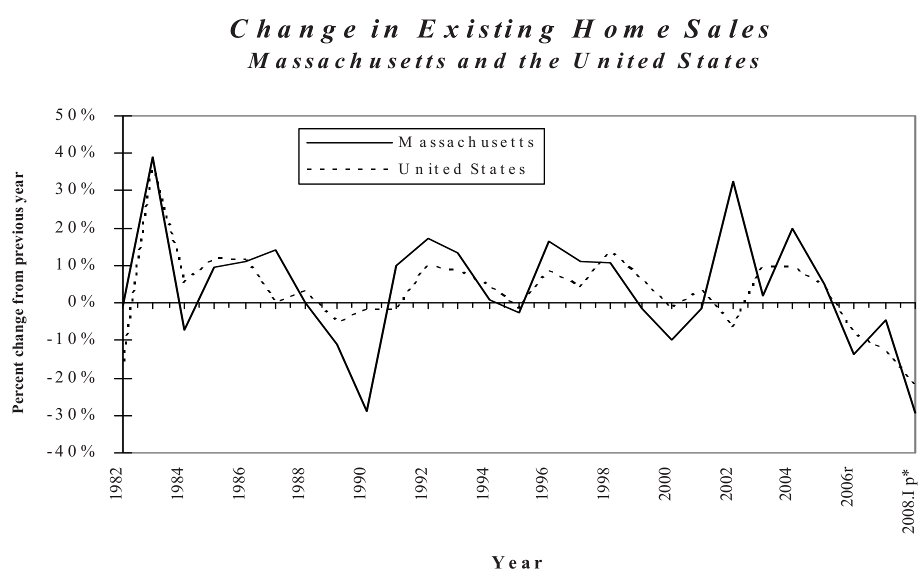
Home Sales. Sales of existing single-family homes for Massachusetts and the U S are presented in the following chart and graph. Seasonally adjusted rates are used in reporting quarterly data to factor out seasonal variations in resale activity.

Existing Home Sales

(Quarterly rates are seasonally adjusted, rates in thousands)

	Massachusetts		*United States*	
Year	*Sales*	*% Change*	*Sales*	*% Change*
1981	43.0		2,575.0	
1985	60.2	40.2%	3,382.5	31.4%
1990	48.6	-19.4%	3,603.5	6.5%
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%
2004	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%
2007r	122.4	-4.4%	5,652.0	-12.8%
2007.I	140.0		6,363.0	
2008.I p*	99.2	-29.1%	4,950.0	-22.2%

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



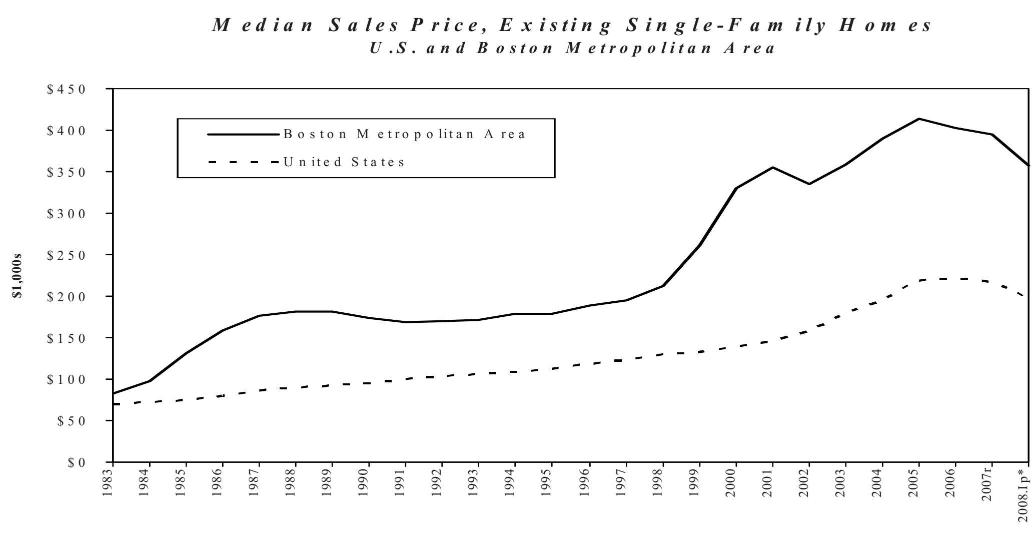
SOURCES: National Association of Realtors. Federal Reserve Bank of Boston. p= preliminary, r=revised.*=change from previous year's quarter.

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

(Quarterly price not seasonally adjusted, price in thousands)

Year	*Boston Metropolitan Area*	*United States*	*Boston Prices as a Percent of the U.S.*	*Boston Annual Percent Change*	*U.S. Annual Percent Change*
1983	$82	$70	118.1%		
1984	$98	$72	135.4%	19.1%	3.9%
1985	$131	$75	173.7%	33.5%	4.0%
1986	$158	$80	197.3%	20.9%	6.5%
1987	$177	$86	205.7%	11.6%	7.0%
1988	$181	$90	201.9%	2.4%	4.3%
1989	$182	$93	195.0%	0.4%	4.0%
1990	$174	$95	182.6%	-4.2%	2.3%
1991	$169	$99	169.5%	-3.0%	4.4%
1992	$171	$104	164.6%	1.2%	4.2%
1993	$171	$107	160.9%	0.5%	2.8%
1994	$179	$109	164.7%	4.4%	2.1%
1995	$179	$113	158.6%	-0.2%	3.7%
1996	$189	$119	158.7%	5.7%	5.6%
1997	$195	$124	157.1%	3.0%	4.0%
1998	$212	$130	162.9%	8.9%	5.1%
1999	$261	$133	196.2%	23.1%	2.2%
2000	$330	$138	238.3%	26.4%	4.1%
2001	$355	$146	242.4%	7.6%	5.8%
2002	$335	$158	212.1%	-5.5%	8.0%
2003	$359	$180	198.9%	6.9%	14.0%
2004	$390	$195	199.6%	8.7%	8.3%
2005	$413	$219	188.7%	6.0%	12.2%
2006	$402	$222	181.3%	-2.7%	1.3%
2007r	$396	$218	181.6%	-1.6%	-1.85%
2007.I	$387	$213	182.2%		
2008.I p*	$357	$196	181.9%	-7.8%	-7.67%



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

Federal Contracts. The total dollar value of all federal contracts performed in Massachusetts increased an average of 11 percent every year since 2000, similar to the U.S. average of 11.2 percent. The following two pages compare Massachusetts federal contract dollars to the U.S. total and summarize the period between fiscal year 2000 up to the second and part of third quarter and the latest full year available.

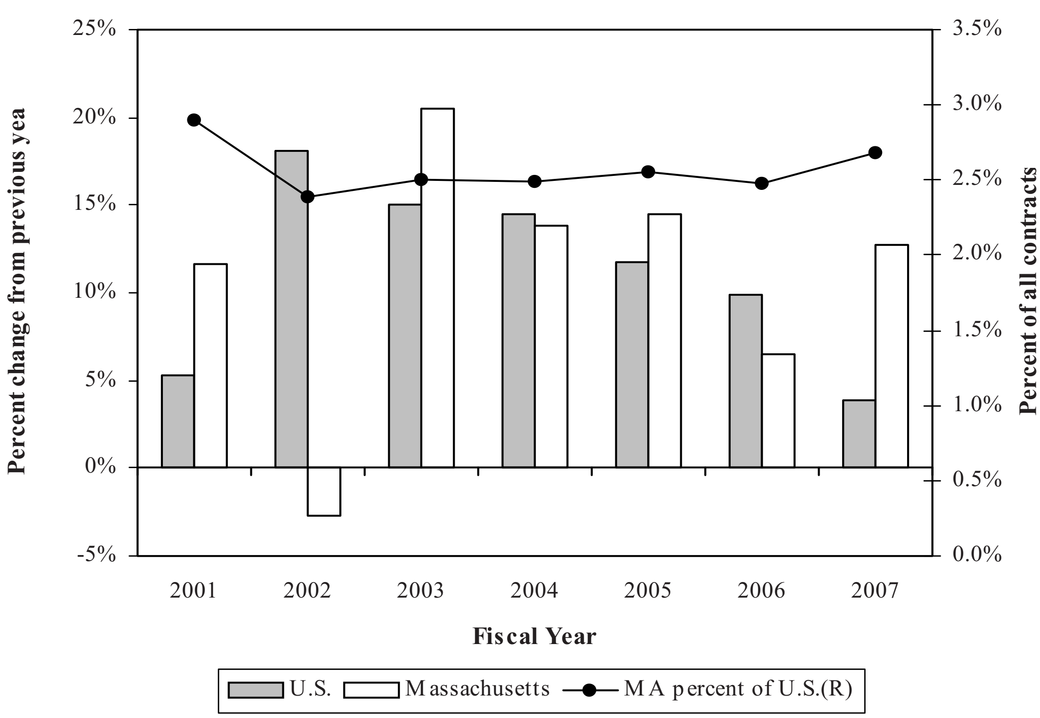
Federal Contracts Performed in Massachusetts and the U.S.

Year	*Massachusetts*	*MA percent increase from previous year*	*MA portion of all*	*U.S.*	*U.S. percent increase from previous year*
2000	$5,713,505,463		2.7%	$208,841,000,000	
2001	6,380,163,118	11.7%	2.9%	219,802,000,000	5.2%
2002	6,209,687,064	-2.7%	2.4%	259,595,000,000	18.1%
2003	7,480,679,804	20.5%	2.5%	298,514,000,000	15.0%
2004	8,514,858,647	13.8%	2.5%	341,876,000,000	14.5%
2005	9,752,102,597	14.5%	2.6%	382,115,000,000	11.8%
2006	10,388,689,794	6.5%	2.5%	419,892,000,000	9.9%
2007	11,709,615,513	12.7%	2.7%	436,363,000,000	3.9%
2008 3Q*	4,072,475,296		2.6%	153,871,000,000	
Total	$70,221,777,296			$2,720,869,000,000	

SOURCE: http://www.usaspending.gov.

*Note: FY 2008 only includes data up to second and part of third quarter.

Massachusetts Share of Federal Contracts Grows



SOURCE: http://www.usaspending.gov.

*Note: FY 2008 only includes data up to second and part of third quarter.

Summary of Federal Contracts Performed in Massachusetts

FY 2000 to Q3-2008
Total dollars: **$70,221,777,295**
Massachusetts is ranked **10** among states for all years.
Total number of contractors: **33,147**
Total number of transactions: **544,978**

Top 5 Products Or Services Sold	
Gas Turbines And Jet Engines, Aircraft; Prime Moving, And Components	$7,592,057,421
Engineering -- Advanced Development (R&D)	2,861,556,694
Other Research And Development -- Advanced Development (R&D)	2,404,920,876
Other Research And Development -- Engineering Development (R&D)	2,159,252,017
Miscellaneous Communication Equipment	2,112,994,732

Top 5 Contracting Agencies Purchasing From Contractor(S)	
Navy, Department Of The	$21,520,724,817
Army, Department Of The (Except Corps Of Engineers Civil Program Financing)	17,329,332,299
Air Force, Department Of The (Headquarters, Usaf)	14,667,619,450
Defense Logistics Agency	2,417,321,816
Veterans Affairs, Department Of	2,131,017,280

Top 10 Contractors	
Raytheon Company	$12,736,701,720
General Dynamics Corporation	9,611,408,472
General Electric Company	8,525,227,884
Massachusetts Institute Of Technology	4,042,518,859
The Charles Stark Draper Laboratory Inc	2,433,559,012
The Mitre Corporation	2,141,613,554
Textron Inc.	1,476,167,245
Raytheon Company (Unknown Parent Company, No D & B Number)	1,009,278,981
L-3 Communications Holdings, Inc.	894,649,370
Amerisourcebergen Corporation	769,877,992

SOURCE: http://www.usaspending.gov.

Federal Contracts Performed in Massachusetts in:

Fiscal Year: 2007
Total dollars: **$11,709,615,513**
The amount is **2.7%** of all awarded dollars for the fiscal year.
Massachusetts is ranked **11** among states for this year.
Total number of contractors: **6,421**
Total number of transactions: **118,260**

Top 5 Products Or Services Sold	
Engineering -- Advanced Development (R&D)	$1,188,346,323
Gas Turbines And Jet Engines, Aircraft; Prime Moving, And Components	$827,756,634
Defense Electronics And Communication Equipment -- Basic Research (R&D)	$681,117,217
Defense Missile And Space Systems -- Engineering Development (R&D)	$463,599,644
Maintenance, Repair And Rebuilding Of Equipment -- Guided Missiles	$403,907,557

Top 5 Contracting Agencies Purchasing From Contractor(S)	
Navy, Department Of The	$4,024,761,560
Army, Department Of The (Except Corps Of Engineers Civil Program Financing)	$2,945,617,676
Air Force, Department Of The (Headquarters, Usaf)	$2,298,152,498
Missile Defense Agency	$470,943,339
Veterans Affairs, Department Of	$295,321,497

Top 10 Contractors	
Raytheon Company	$3,230,721,363
General Dynamics Corporation	$1,217,178,318
General Electric Company	$1,146,414,355
Massachusetts Institute Of Technology	$669,865,417
The Charles Stark Draper Laboratory Inc	$629,347,321
Bae Systems Plc	$319,705,221
The Mitre Corporation	$297,562,450
Qinetiq North America Operations Llc	$245,996,608
Textron Inc.	$183,901,730
Mckesson Corporation	$149,602,400

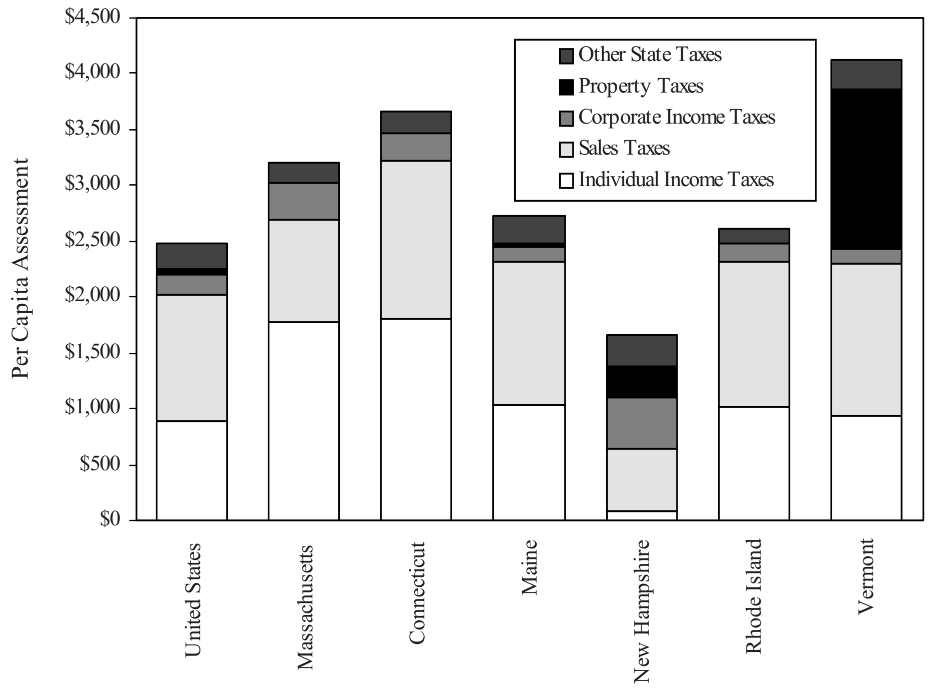
SOURCE: http://www.usaspending.gov.

Travel and Tourism. In 2007, the arts, entertainment, recreation and accommodations industries contributed 3.1 percent to Massachusetts total GDP (real 2000 dollars). The Massachusetts Office of Travel and Tourism (MOTT) reported an annual increase of 0.1 percent in museum and attraction attendance, 11.9 million visitors, in 2007. May 2008 museum and attraction attendance is up 4.6 percent compared to May 2007 and the May 2008 year-to-date attendance is up 4.9 percent compared to May 2007.

State Taxes. Per capita state taxes in Massachusetts are significantly higher, 28.8 percent, than the national average. In fiscal year 2007, the total per capita state tax bill in the United States was $2,487. Citizens of the Commonwealth however, paid $3,204 on average, the tenth highest (ninth last year) in the nation and an increase of 6.3 percent from the previous year's $3,013. In New England, citizens in Connecticut and Vermont paid more per capita, and all New England states except New Hampshire (49th) ranked in the top third for per capita state tax collections.

In fiscal year 2007, over half, 55.2 percent, of the state taxes in Massachusetts came from the state income tax. Per capita individual income taxes in Massachusetts were $1,767, up 8.5 percent from $1,629 in fiscal year 2006. Also increasing in fiscal year 2007 were sales receipts at 1.0 percent and corporate net income at 13.1 percent. Other taxes (licenses, death and gift, and documentary and stock transfer) increased 4.0 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.

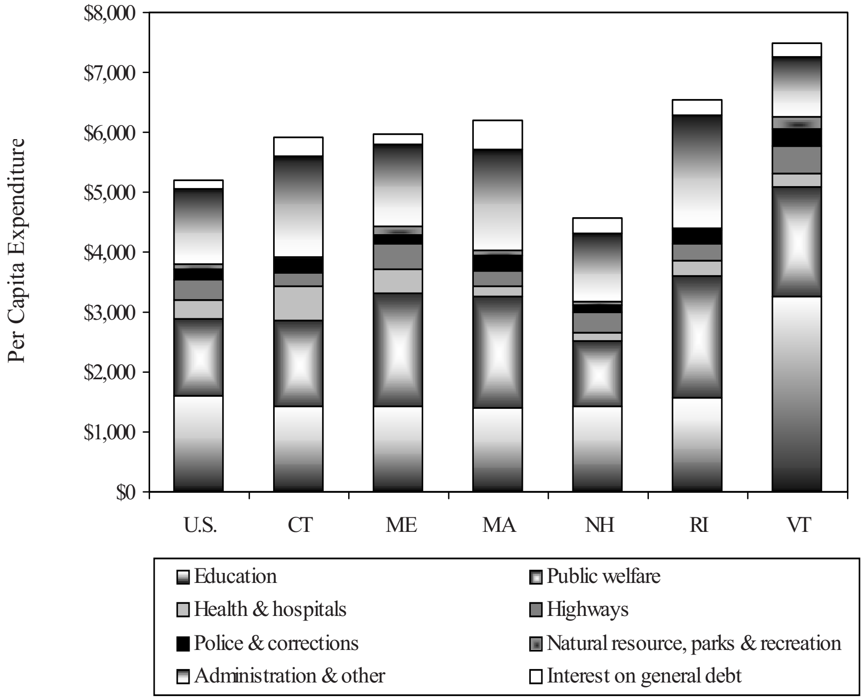
Fiscal 2007 Per Capita State Government Taxes, by Type



SOURCE: U.S. Bureau of the Census, Governments Division.

State Government Spending in Massachusetts. The following chart depicts fiscal 2006 per capita state general expenditures by category for the six New England states and the U.S. average state expenditure. Massachusetts ranked 11th in the nation in per capita expenditures, $6,198 in 2006 while it ranked 9th and spent less, $5,911 in 2005. This represents a 4.9 percent increase in per capita expenditures from 2005 to 2006. Massachusetts spent more state funds per capita on debt service, $487 in 2006 than any of its New England neighbors.

Fiscal 2006 Per Capita State Government General Expenditures, by Type



SOURCE: U.S. Census Bureau, Governments Division

Fiscal 2006 Per Capita State Government General Expenditures, by Type

For the U.S. and New England States

General expenditures, by function	*U.S.*	*CT*	*ME*	*MA*	*NH*	*RI*	*VT*
Education	$1,613	$1,440	$1,420	$1,401	$1,440	$1,560	$3,264
Public welfare	$1,267	$1,408	$1,893	$1,843	$1,066	$2,049	$1,818
Health & hospitals	$321	$568	$400	$187	$142	$252	$226
Highways	$333	$229	$430	$261	$340	$284	$456
Police & corrections	$184	$233	$147	$248	$124	$214	$303
Natural resource, parks & recreation	$86	$42	$142	$81	$59	$51	$180
Administration & other	$1,262	$1,687	$1,368	$1,690	$1,130	$1,881	$1,007
Interest on general debt	$127	$307	$174	$487	$263	$260	$235
Total	$5,193	$5,914	$5,974	$6,198	$4,565	$6,552	$7,487
State's rank of total per capita expenditures		14	13	11	35	8	4

SOURCE: U.S. Census Bureau, Governments Division

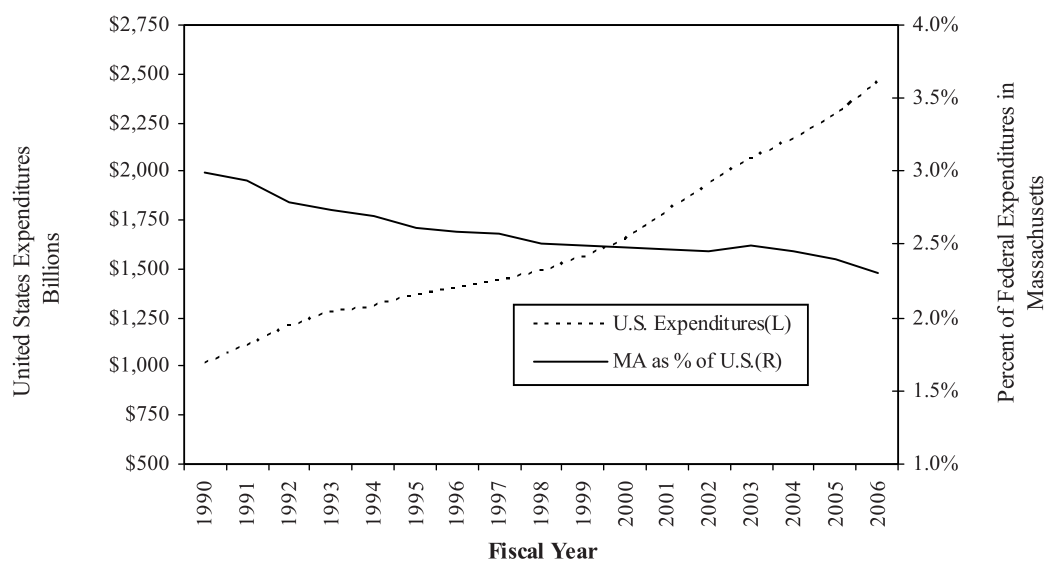
Massachusetts Per Capita State Government General Expenditures, by Type
FY 2000-2006

General expenditures, by function	*2000*	*2001*	*2002*	*2003*	*2004*	*2005*	*2006*
Education	$890	$1,026	$1,020	$1,055	$1,183	$1,346	$1,401
Public welfare	$1,030	$1,135	$932	$824	$1,647	$1,719	$1,843
Health & hospitals	$308	$363	$377	$372	$172	$177	$187
Highways	$439	$400	$427	$378	$471	$276	$261
Police & corrections	$191	$213	$223	$230	$215	$222	$248
Natural resource, parks & recreation	$58	$88	$86	$95	$90	$76	$81
Administration & other	$1,392	$1,473	$1,630	$1,755	$1,815	$1,660	$1,690
Interest on general debt	$335	$371	$418	$386	$401	$435	$487
Total	$4,643	$5,067	$5,115	$5,095	$5,994	$5,911	$6,198

SOURCE: US Census Bureau, Governments Division.

Federal Government Spending in Massachusetts. Federal government spending contributes significantly to the Massachusetts economy. In fiscal 2006, Massachusetts ranked fifteenth among states in per capita distribution of federal funds, with total spending of $8,889 per person, excluding loans and insurance. While federal spending in Massachusetts has increased every year since 1990, its share of total U.S. spending has declined every year since 1990. 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.

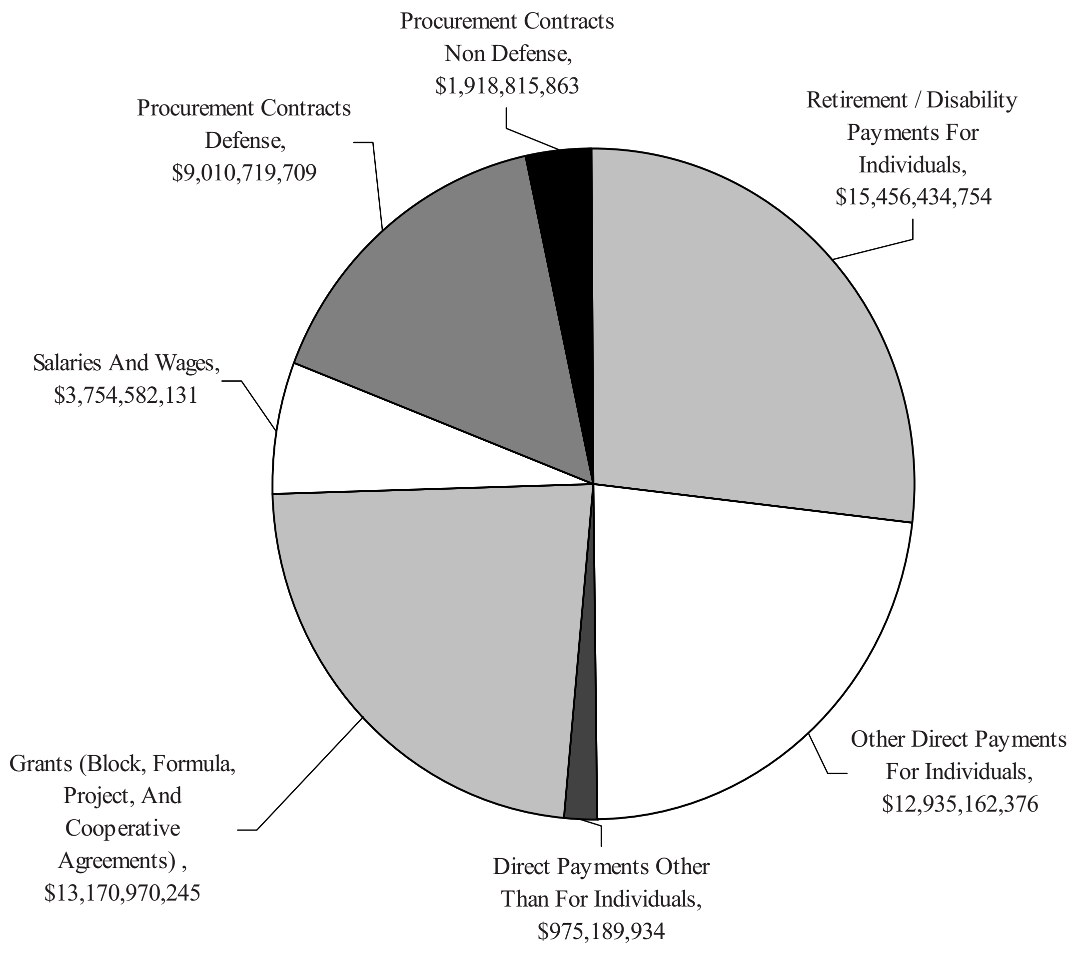
Total Federal Expenditures and Percentage of Federal Expenditures in Massachusetts



SOURCE: Consolidated Federal Funds Report for Fiscal Year 2006. http://harvester.census.gov/cffr/index.html

Half of FY 2006 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 $2,046 per capita compared to a national average of $1,630. Per capita federal spending on salaries and wages in 2006 was lower in Massachusetts than in the rest of the nation at $583 compared to a national average of $794, but Massachusetts was above the national average in per capita direct federal payments to individuals at $4,562 compared to a national average of $4,333. Massachusetts ranked 12th among states in per capita procurement contract awards at $1,698 compared to a national average of $1,301 in 2006. The following chart shows the composition of direct federal spending within Massachusetts in fiscal 2006, excluding loans and insurance.

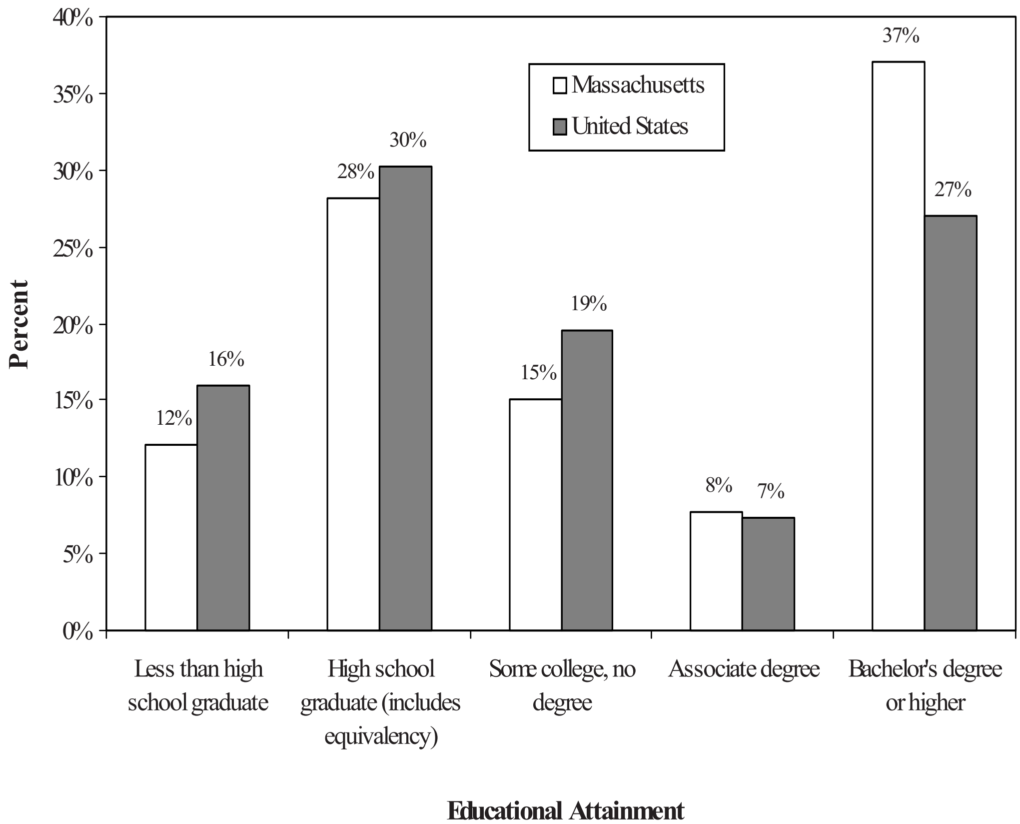
Composition of $57.2 Billion Direct Federal Spending in Massachusetts by Program - Fiscal Year 2006



SOURCE: U.S. Census Bureau, Consolidated Federal Funds Report: FY 2006.

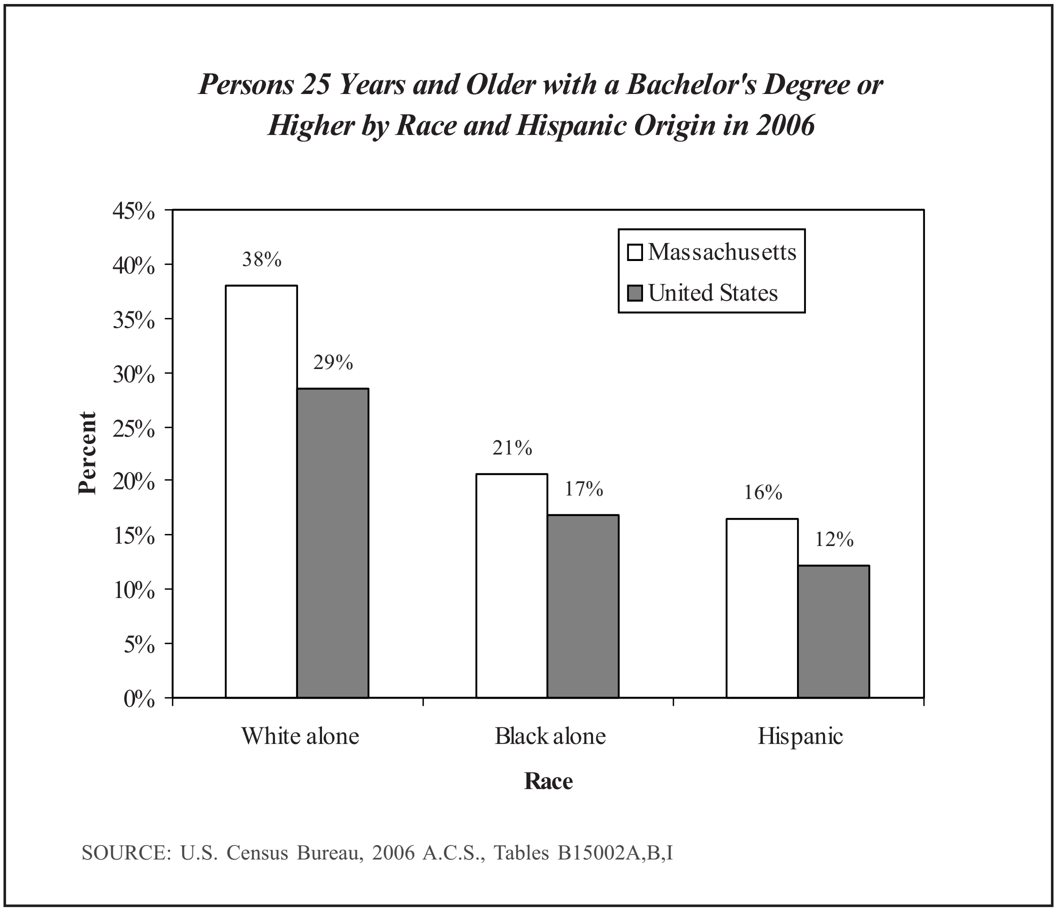
Human Resources. The availability of a skilled and well-educated population is an important resource for the Commonwealth. The level of education reached by the population of Massachusetts compares favorably with the level in the United States as a whole. In 2006, the Census Bureau's American Community Survey (ACS) reported that Massachusetts had a smaller proportion of persons who had not completed high school (12.1 percent) than the national average (15.9 percent) and a much higher proportion of persons with a bachelor's degree or more (37.0 percent) than the nation (27.0 percent).

Educational Attainment of Persons 25 Years and Older in 2006



SOURCE: U.S. Census Bureau, 2006 American Community Survey, Selected Social Characteristics.

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 2006

	White alone	Black alone	Asian alone	Indian/Alaskan Native alone	Other race	Hispanic or Latino
Massachusetts	77.4%	7.8%	8.6%	0.3%	5.8%	6.8%
New England	80.6%	7.5%	6.3%	0.3%	5.2%	6.3%
United States	71.0%	13.8%	7.0%	0.7%	7.4%	11.7%

SOURCE: U.S. Census Bureau, 2006 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 the Institute of International Education, 28,680 foreign students were enrolled in Massachusetts colleges and universities in the 2006/2007 school year. This was a 2.4 percent increase from the previous year, and Massachusetts is still 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 postdoctorates.

The preeminence 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 or $2.2 billion of total national academic expenditures on Research and Development in fiscal 2006. Massachusetts is still ranked sixth in the nation behind California, New York, Texas, Maryland and Pennsylvania.

Life sciences receive almost half of the research and development funds performed at Massachusetts educational institutions. Of the $2.2 billion in total fiscal 2006 outlays for science and engineering research to universities and colleges in Massachusetts, 49.0 percent was for life sciences, 17.7 percent for engineering, 12.1 percent for physical sciences, 8.9 percent for environmental, 4.7 percent for math and computer, 3.8 percent for social sciences, 2.1 percent for other sciences and 1.8 percent for psychology. Massachusetts ranked 6th in the nation in 2006 for research and development funds performed at educational institutions.

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 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 31 percent more per pupil on primary and secondary education than the national average since 1981. During the 2005-2006 school year, Massachusetts increased per student expenditures to $11,981; 31 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

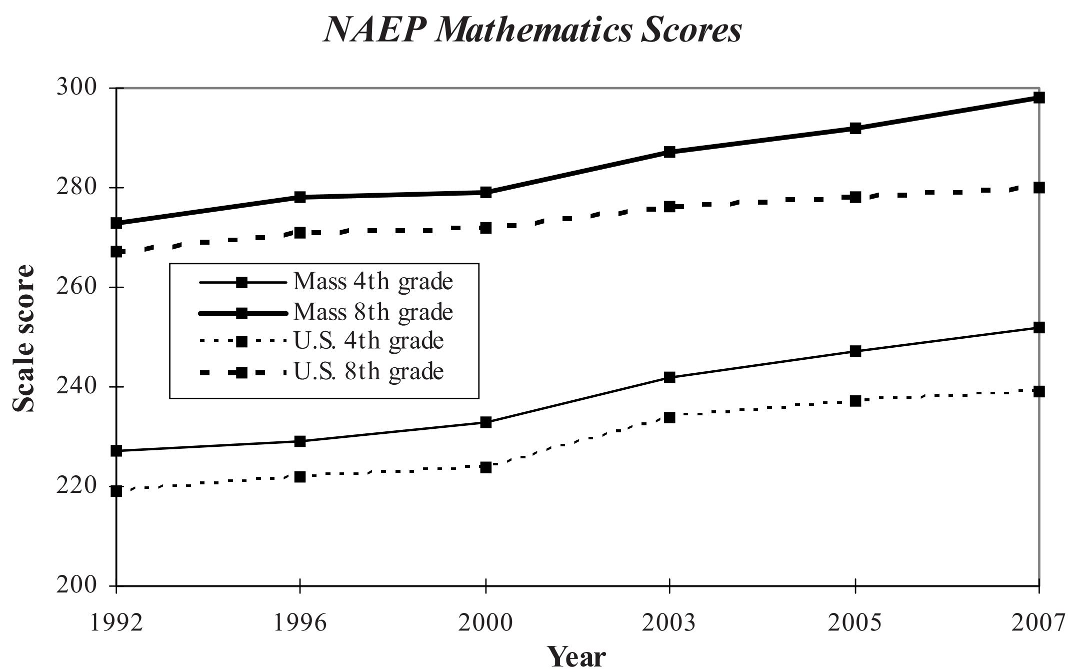
(in current, unadjusted dollars)

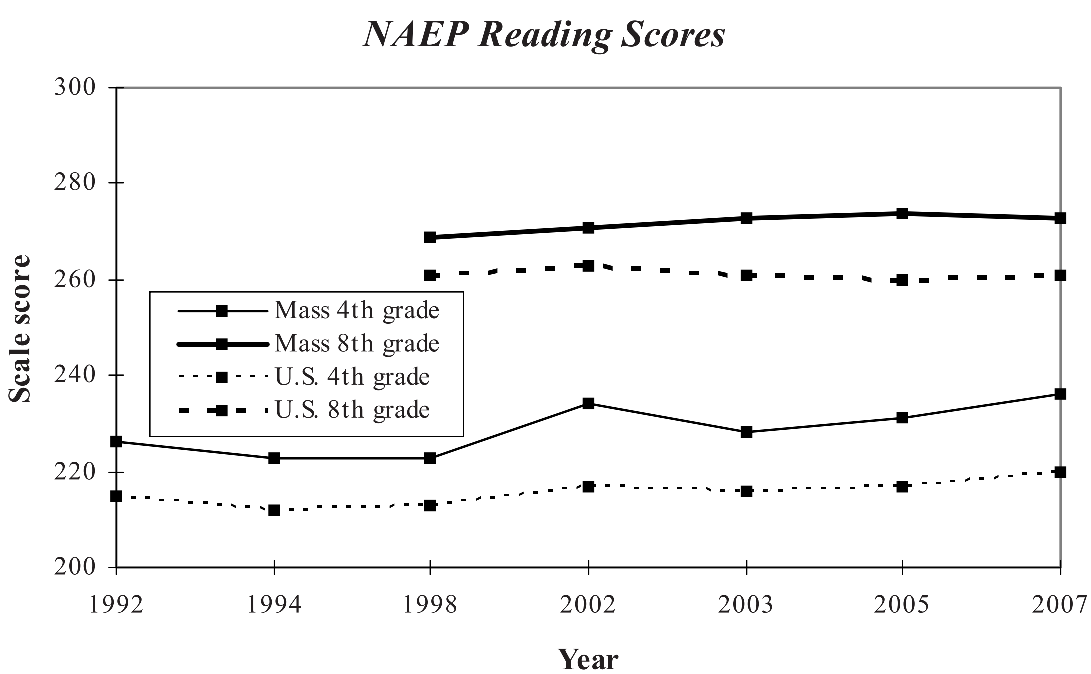
Fiscal Year	*Massachusetts*	*United States*	*Ratio (MA/U.S.)*
1981	$2,735	$2,307	1.19
1982	2,823	2,525	1.12
1983	3,072	2,736	1.12
1984	3,298	2,940	1.12
1985	3,653	3,222	1.13
1986	4,031	3,479	1.16
1987	4,491	3,682	1.22
1988	4,965	3,927	1.26
1989	5,485	4,307	1.27
1990	5,766	4,643	1.24
1991	5,881	4,902	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
2006	11,981	9,138	1.31

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.





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.gov/regional/index.htm
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

Mass. Executive Office of Labor and Workforce Development, Division of Unemployment Assistance
http://lmi2.detma.org/Lmi/LMIDataProg.asp
U.S. Department of Labor, Bureau of Labor Statistics
http://www.bls.gov/data/home.htm.

Economic Base and Performance

U.S. Department of Commerce, Bureau of Economic Analysis
http://www.bea.gov/regional/index.htm
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.gov/regional/index.htm
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Institute of International Education
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TABLE OF REFUNDED BONDS

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

Commonwealth of Massachusetts, General Obligation Bonds, Consolidated Loan of 2007 (Auction Rate Securities), Series D-1

Maturity Date	Amount	Coupon
August 1, 2018	$81,850,000	Variable Rate

* To be redeemed on October 8, 2008 at a call price of 100%.

Commonwealth of Massachusetts, General Obligation Bonds, Consolidated Loan of 2007 (Auction Rate Securities), Series D-2

Maturity Date	Amount	Coupon
August 1, 2018	$81,800,000	Variable Rate

* To be redeemed on October 10, 2008 at a call price of 100%.

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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 $652,790,000 General Obligation Bonds, Consolidated Loan of 2008, Series A, 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 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

$652,790,000
General Obligation Bonds
Consolidated Loan of 2008, Series A

Continuing Disclosure Undertaking
[to be included in bond form]

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the Bonds to provide to each nationally recognized municipal securities information repository (each, a "NRMSIR") within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the "Rule") and to the state information depository for the Commonwealth, if any (the "SID"), within the meaning of the Rule, no later than 270 days after the end of each fiscal year of the Commonwealth, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Commonwealth for such fiscal year if audited financial statements are then available, provided, however, that if audited financial statements of the Commonwealth are not then available, such audited financial statements shall be delivered to each NRMSIR and the SID when they become available (but in no event later than 350 days after the end of such fiscal year) or (ii) notice of the Commonwealth's failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Commonwealth's Information Statement dated August 22, 2008 (the "Information Statement"), as it appears as Appendix A in the Official Statement dated September 4, 2008 of the Commonwealth with respect to its $652,790,000 General Obligation Bonds, Consolidated Loan of 2008, 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"
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 EXPENDITURES"

Financial Information and Operating Data Category		Reference to Information Statement for Level of Detail
6.	Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any	"COMMONWEALTH EXPENDITURES - Pension"
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 INVESTMENT PLAN - Capital Investment 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 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"
15.	Summary presentation of the then-current, Commonwealth interest rate swap agreements	"LONG-TERM LIABILITIES - Interest Rate Swaps"

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 difficulties1/;

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

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

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

(vii) modifications to the rights of security holders;

(viii) bond calls;

(ix) defeasances;

(x) release, substitution or sale of property securing repayment of the securities2/ and

(xi) rating changes.

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

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

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.

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.

THE COMMONWEALTH OF MASSACHUSETTS • General Obligation Bonds Consolidated Loan of 2008, Series A

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