REFUNDING / NEW MONEY ISSUE - BOOK-ENTRY-ONLY

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

THE COMMONWEALTH OF MASSACHUSETTS

$288,745,000
General Obligation Bonds
Consolidated Loan of 2003
Series A

Dated: March 1, 2003
Due: January 1, as shown on the inside cover hereof

$359,380,000
General Obligation
Refunding Bonds
2003 Series B

Dated: As shown on the inside cover hereof
Due: As shown on the inside cover hereof

$418,250,000
General Obligation
Refunding Bonds
2003 Series C
(Delayed Delivery)

Dated: Date of Delivery
Due: December 1, as shown on the inside cover hereof

The Bonds will be issued by means of a book-entry-only system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company ("DTC") and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The Series A Bonds will bear interest from March 1, 2003 and interest will be payable on July 1, 2003 and semiannually thereafter on January 1 and July 1, calculated on the basis of a 360-day year of twelve 30-day months. The Series B Refunding Bonds will bear interest from March 1, 2003 (or, in the case of the CPI Bonds, their date of delivery) and interest will be payable on June 1, 2003 and semiannually thereafter on December 1 and June 1, calculated on the basis of a 360-day year of twelve 30-day months (or, in the case of the CPI Bonds, a 365/366-day year). The Series C Refunding Bonds will bear interest from their date of delivery and interest will be payable on December 1, 2003 and semiannually thereafter on December 1 and June 1, calculated on the basis of a 360-day year of twelve 30-day months. The Series A Bonds are subject to redemption prior to maturity, as more fully described herein. The Series B Refunding Bonds and Series C Refunding Bonds are not subject to redemption.

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 March Information Statement (referred to herein) under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Limit on Debt Service Appropriations."

The Series A Bonds and Series B Refunding 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. The Series C Refunding Bonds are offered when, as and if issued and received by the Delayed Delivery Underwriter, 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 Ropes & Gray, Boston, Massachusetts, Disclosure Counsel. Certain matters will be passed upon for the Underwriters by their counsel, Holland & Knight LLP, Boston, Massachusetts. The Series A Bonds and the Series B Refunding Bonds are expected to be available for delivery at DTC in New York, New York, on or about March 12, 2003. The Series C Refunding Bonds are expected to be available for delivery at DTC in New York, New York, on or about May 6, 2003.

Lehman Brothers

Bear, Stearns & Co. Inc. | **Goldman, Sachs & Co.**
JPMorgan | **Salomon Smith Barney** | **UBS PaineWebber Inc.**

Advest, Inc.	**A.G. Edwards & Sons, Inc.**	**CIBC World Markets**
Corby North Bridge Securities	**Eastern Bank Capital Markets**	**Fahnestock & Co. Inc**
First Albany Corporation	**Janney Montgomery Scott Inc.**	**Mellon Financial Markets, Inc.**
Merrill Lynch & Co.	**Morgan Stanley**	**Prudential Securities**
Quick & Reilly, Inc.	**Ramirez & Co., Inc.**	**Raymond James & Associates, Inc.**
RBC Dain Rauscher Inc.	**State Street Capital Markets, LLC**	**Wachovia Bank, National Association**

February 28, 2003

THE COMMONWEALTH OF MASSACHUSETTS

$288,745,000
General Obligation Bonds
Consolidated Loan of 2003, Series A

Dated: March 1, 2003 **Due: January 1, as shown below**

Maturity	Amount	Interest Rate	Price or Yield	Maturity	Amount	Interest Rate	Price or Yield
2006	$11,080,000	2.500%	1.72%	2014	$9,595,000	3.900%	3.93%
2007	5,725,000	4.000	2.13	2015	15,580,000	5.250	4.04[C]
2007	5,635,000	3.000	2.13	2016	16,400,000	5.250	4.12[C]
2008	2,495,000	4.000	2.60	2017	17,260,000	5.250	4.20[C]
2008	9,260,000	3.000	2.60	2018[†]	12,145,000	5.250	4.20[C]
2009	12,010,000	3.000	2.98	2018	6,025,000	4.250	4.31
2010	6,630,000	5.000	3.29	2019	19,060,000	5.000	4.40[C]
2010	5,870,000	3.300	3.29	2020	20,015,000	5.125	4.44[C]
2011	4,655,000	3.500	3.52	2021	29,955,000	5.000	4.57[C]
2012	2,845,000	3.700	3.68	2022	33,725,000	5.000	4.66[C]
2013	9,535,000	5.250	3.80	2023	10,280,000	5.000	4.73[C]
2013	4,715,000	3.800	100%	2023	12,915,000	4.625	4.73
2014	5,335,000	5.250	3.93[C]				

(accrued interest, if any, to be added)

$359,380,000
General Obligation Refunding Bonds
2003 Series B

Dated: March 1, 2003, except as indicated **Due: December 1, as shown below, except as indicated**

Maturity	Amount	Interest Rate	Price or Yield	Maturity	Amount	Interest Rate	Price or Yield
2004[*]	$34,285,000	3.500%	NRO	2010[‡]	$3,575,000	3.250%	3.29%
2004	116,265,000	4.000	NRO	2011[‡]	8,135,000	5.000	3.52
2005	1,440,000	2.500	1.50%	2011[‡]	6,485,000	3.500	3.52
2006	2,995,000	2.500	1.80	2012[‡]	28,690,000	CPI rate[§]	107.491
2007	3,450,000	2.500	2.23	2012[‡]	1,555,000	3.625	3.68
2008[‡]	3,870,000	5.000	2.60	2013[‡]	27,160,000	5.000	3.80
2008[‡]	9,085,000	3.000	2.60	2013[‡]	23,000,000	CPI rate[§]	107.021
2009[‡]	12,210,000	5.000	2.98	2013[‡]	6,990,000	3.800	100%
2009[‡]	14,025,000	3.000	2.98	2014[‡]	45,765,000	CPI rate[§]	106.273
2010[‡]	10,400,000	5.000	3.29				

(accrued interest, if any, to be added)

$418,250,000
General Obligation Refunding Bonds
2003 Series C (Delayed Delivery)

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

Maturity	Amount	Interest Rate	Price or Yield	Maturity	Amount	Interest Rate	Price or Yield
2004	$87,490,000	4.000%	1.75%	2006[‡]	$111,115,000	5.000%	2.19%
2005	104,945,000	5.000	1.85	2007[‡]	114,700,000	5.000	2.58

(accrued interest, if any, to be added)

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† Insured by Ambac Assurance Corporation. See "BOND INSURANCE."
C Priced at the stated yield to the January 1, 2013 optional redemption date at a redemption price of 100%.
* Maturing June 1, 2004.
§ Dated the date of delivery. See "THE BONDS—Plan of Finance" and Appendix E—CPI BONDS.
‡ Insured by XL Capital Assurance Inc. See "BOND INSURANCE."

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

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

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

TABLE OF CONTENTS

THE COMMONWEALTH OF MASSACHUSETTS

CONSTITUTIONAL OFFICERS

W. Mitt Romney	**Governor**
Kerry Healey	**Lieutenant Governor**
William F. Galvin	**Secretary of the Commonwealth**
Thomas F. Reilly	**Attorney General**
Timothy P. Cahill	**Treasurer and Receiver-General**
A. Joseph DeNucci	**Auditor**

LEGISLATIVE OFFICERS

Robert E. Travaglini	**President of the Senate**
Thomas M. Finneran	**Speaker of the House**

OFFICIAL STATEMENT

THE COMMONWEALTH OF MASSACHUSETTS

$288,745,000
General Obligation Bonds
Consolidated Loan of 2003, Series A

$359,380,000
General Obligation Refunding Bonds
2003 Series B

$418,250,000
General Obligation Refunding Bonds
2003 Series C (Delayed Delivery)

INTRODUCTION

This Official Statement (including the cover pages and Appendices A through E attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of $288,745,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 2003 Series A (the "Series A Bonds"), of $359,380,000 aggregate principal amount of its General Obligation Refunding Bonds, 2003 Series B (the "Series B Refunding Bonds") and of $418,250,000 aggregate principal amount of its General Obligation Refunding Bonds, 2003 Series C (Delayed Delivery) (the "Series C Refunding Bonds") (the Series A Bonds, Series B Refunding Bonds and the Series C Refunding Bonds, together, being 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 March Information Statement (described below) under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Limit on Debt Service Appropriations."

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

The Series A Bonds and the Series B Refunding Bonds are expected to be delivered on or about March 12, 2003. The Series C Refunding Bonds are expected to be delivered on or about May 6, 2003. Lehman Brothers is the sole underwriter (the "Delayed Delivery Underwriter") with respect to the Series C Refunding Bonds.

Purpose and Content of Official Statement

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

Specific reference is made to the Commonwealth's Information Statement dated March 25, 2002 (the "March Information Statement"), as it appears as Appendix A in the Official Statement dated March 25, 2002 of the Commonwealth with respect to the Commonwealth's General Obligation Bond Anticipation Notes, 2002 Series A (the "March Official Statement"). A copy of the March Official Statement has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission and with the Municipal Securities Rulemaking Board. The information contained in the March Information Statement has been supplemented by the Commonwealth Information Statement Supplement dated February 28, 2003 (the "Supplement"), which is attached hereto as Appendix A. The March Information Statement, as supplemented by the

Supplement, contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth. Exhibit A to the Supplement contains certain economic information concerning the Commonwealth. Exhibits B and C to the March Information Statement contain the financial statements of the Commonwealth for the fiscal year ended June 30, 2002, prepared on a statutory basis and on a GAAP basis, respectively. Specific reference is made to said Exhibits B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. The financial statements are also available at the home page of the Comptroller of the Commonwealth located at http://www.massgov.com/osc/Reports/reportsfinancial.htm.

Attached hereto as Appendix B is a listing of the bonds to be refunded with the proceeds of the Bonds. Appendix C attached hereto contains the proposed forms of legal opinions 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 forms of the Bonds to facilitate compliance by the Underwriters with the requirements of paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission. Appendix E attached hereto sets forth specimen municipal bond insurance policies of Ambac Assurance Corporation and XL Capital Assurance Inc..

THE BONDS

General

The Series A Bonds will be dated March 1, 2003 and will bear interest from such date payable semiannually on July 1 and January 1 of each year, commencing July 1, 2003 (each an "Interest Payment Date") until the principal amount is paid. The Series A Bonds will mature on January 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 Series B Refunding Bonds will be dated March 1, 2003 (except as specified below) and will bear interest from such date payable semiannually on June 1 and December 1 of each year, commencing June 1, 2003 (each an "Interest Payment Date") until the principal amount is paid. The Series B Refunding Bonds will mature on December 1, except for the serial bond maturing on June 1, 2004, 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, except as specified below), as set forth on the inside cover page of this Official Statement. A portion of the Series B Refunding Bonds will be issued as CPI Bonds dated the date of delivery and bearing interest at a floating rate (calculated on the basis of a 365/366-day year). See Appendix E-CPI Bonds. The Series C Refunding Bonds will be dated as of their date of delivery and will bear interest from such date payable annually on June 1 and December 1 of each year, commencing December 1, 2003 (each an "Interest Payment Date") until the principal amount is paid. The Series C Refunding Bonds will mature on December 1 in the years and in the aggregate principal amounts, and shall bear interest at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months), as set forth on the inside cover page of this Official Statement. The Commonwealth will act as its own paying agent with respect to the Bonds. The Commonwealth reserves the right to appoint from time to time a paying agent or agents or bond registrar for the Bonds.

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

Redemption

Optional Redemption. The Series A Bonds maturing on and after January 1, 2014 will be subject to redemption on any date prior to their stated maturity dates on and after January 1, 2013 at the option of the Commonwealth from any moneys legally available therefor, in whole or in part at any time, by lot, at 100% of the principal amount thereof, plus accrued interest to the redemption date. The Series B Refunding Bonds and the Series C Refunding Bonds are not subject to optional redemption.

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

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

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

Plan of Finance

The Series B Refunding Bonds and the Series C Refunding 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"). The net proceeds of the Series B Refunding Bonds and the Series C Refunding Bonds will be applied as described below. Any accrued interest payable upon original delivery of the Series B Refunding Bonds will be credited to the funds from which debt service on the Series B Refunding Bonds is paid and will be used to pay interest on the Series B Refunding Bonds. The net proceeds of the Series A Bonds will be applied as described below. See "THE BONDS—Application of Proceeds."

The Commonwealth, upon the delivery of the Series B Refunding Bonds and the Series C Refunding Bonds, will enter into refunding escrow agreements (the "Escrow Agreements") with an escrow agent (the "Escrow Agent") to be selected for the Refunded Bonds. The Escrow Agreements will provide for the deposit of the net proceeds of the Series B Refunding Bonds and the Series C Refunding Bonds, respectively, with the Escrow Agent in separate accounts to be applied immediately upon receipt to purchase non-callable direct obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America, obligations of certain federal agencies specified in Section 49 of Chapter 29 of the Massachusetts General Laws or of any agency or corporation which has been created pursuant to an act of Congress of the United States as an agency or instrumentality of the United States of America, bank time deposits or certificates of deposit that are secured by such obligations, repurchase agreements with banks in respect of any such obligations or advance-refunded or defeased bonds that are secured by such obligations (the "Escrow Obligations") and to funding, if needed, a cash deposit in such account. Each Escrow Agreement will require that maturing principal of and interest on the Escrow Obligations held under such Escrow Agreement, plus any initial cash deposit, be held in trust in such account and paid to the Commonwealth solely for the payment of the principal of and redemption premium, if any, and interest on the Refunded Bonds subject to such Escrow Agreement. According to the report described in "VERIFICATION OF MATHEMATICAL COMPUTATIONS," the Escrow Obligations held under each Escrow Agreement will mature at such times and earn interest in such amounts that, together with any initial cash deposit, will produce sufficient monies to make such payments on the Refunded Bonds subject to such Escrow Agreement to and including their respective maturity or redemption dates, each as set forth in Appendix B.

In connection with the issuance of the CPI Bonds identified in the front cover hereto, the Commonwealth expects to enter into two interest rate exchange (or "swap") agreements with certain counterparties pursuant to which the counterparties will be obligated to pay the Commonwealth an amount equal to the variable rate payment on the CPI Bonds and the Commonwealth will be obligated to pay the counterparties a stipulated fixed rate. See the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES -- General Obligation Debt; *Synthetic Fixed Rate Bonds*." Because the CPI Bonds are not redeemable prior to their stated maturity, there is no liquidity facility associated with the CPI Bonds. See Appendix E—CPI Bonds.

Application of Proceeds

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

The purposes for which the Series A Bonds will be issued have been authorized by the Legislature under various bond authorizations. The portion of the net proceeds will be used to finance or reimburse the Commonwealth for a variety of capital expenditures that are included within the current five-year capital spending plan established by the Executive Office for Administration and Finance. The plan, which is an administrative guideline and is subject to amendment at any time, sets forth capital spending allocations over the next five fiscal years and establishes annual capital spending limits. See the March Information Statement and the Supplement under the heading "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES."

Delayed Delivery of Series C Refunding Bonds

Subject to the terms of the Purchase Contract (as defined below), the Commonwealth expects that the Series C Refunding Bonds will be issued and delivered on or about May 6, 2003, or at such later date as may be mutually agreed upon by the Commonwealth and the Delayed Delivery Underwriter ("Settlement Date").

The following is a description of certain provisions of the Bond Purchase Agreement between the Commonwealth and the Delayed Delivery Underwriter with respect to the Series C Refunding Bonds (the "Purchase Contract"). This description is not to be considered a full statement of the terms of the Purchase Contract and accordingly is qualified by reference thereto and is subject to the full text thereof.

Settlement. Delivery of the Series C Refunding Bonds and the Delayed Delivery Underwriter's obligation under the Purchase Contract to purchase, to accept delivery of and to pay for them at the time of their settlement are conditioned upon the Commonwealth's having tendered performance of its obligations under the Purchase Contract with respect to the delivery of an opinion, dated the date of the date of delivery of the Series C Refunding Bonds, of Bond Counsel in substantially the form included as Appendix C hereto, and the delivery of a letter from each of Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services confirming that they have rated the Series C Refunding Bonds then being delivered. Delivery of the Series C Refunding Bonds is further contingent upon the delivery of certain certificates, reports and legal opinions and the satisfaction of other conditions as of the Settlement Date. Events which may prevent those conditions from being satisfied include, among others, (i) changes in law affecting the Commonwealth, the validity or enforceability of the Series C Refunding Bonds or the tax-exempt status of the interest thereon as described herein and (ii) litigation which may be threatened or filed with a court of appropriate jurisdiction affecting the issuance of or security for the Series C Refunding Bonds.

The Delayed Delivery Underwriter may terminate the Purchase Contract without liability therefor by notification to the Commonwealth at any time on or after the date of delivery of the Series A Bonds and the Series B Refunding Bonds and on or prior to the delivery of the Series C Refunding Bonds under certain limited conditions set forth therein.

During the time between the date of the Official Statement for the Series C Refunding Bonds (the "Official Statement") and the issuance and delivery of the Series C Refunding Bonds (the "Delayed Delivery Period"), certain information contained in the Official Statement could change in a material respect. Any changes in such information will not permit the Delayed Delivery Underwriter to terminate the Purchase Contract unless the change is an event described under "Termination of Purchase Contract" below. The Commonwealth has agreed to provide a certificate of the Commonwealth dated the Settlement Date for the Series C Refunding Bonds, to the effect that the information statement of the Commonwealth, as updated, supplemented and delivered to the Delayed Delivery Underwriter, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

In addition to the risks set forth above, purchasers of Series C Refunding Bonds are subject to certain additional risks, some of which are described below.

Ratings Risk. Settlement of the Series C Refunding Bonds is not subject to confirmation of ratings. No assurance can be given that the ratings currently applicable to the Commonwealth will be the ratings in effect with respect to the Series C Refunding Bonds as of their date of delivery and lower ratings could adversely affect the market value of the Series C Refunding Bonds.

Secondary Market Risk. The Delayed Delivery Underwriter is not obligated to make a secondary market in Series C Refunding Bonds and no assurances can be given that a secondary market will exist for the Series C Refunding Bonds during the Delayed Delivery Period. Purchasers of the Series C Refunding Bonds should assume that the Series C Refunding Bonds will be illiquid throughout the Delayed Delivery Period.

Market Value Risk. The market value of the Series C Refunding Bonds as of their date of delivery may be affected by a variety of factors including, without limitation, general market conditions; the Commonwealth's ratings, the financial condition and business operations of the Commonwealth and federal and Commonwealth income tax and other laws. The market value of the Series C Refunding Bonds on their Settlement Date could be greater or less than the agreed purchase price therefor by the initial purchasers thereof, and the difference could be substantial. Neither the Commonwealth nor the Delayed Delivery Underwriter make any representation as to the market price of the Series C Refunding Bonds as of their Settlement Date.

Tax Law Risks. Subject to the additional conditions of settlement described under "Conditions of Settlement" below, the Purchase Contract obligates the Commonwealth to deliver and the purchaser to acquire the Series C Refunding Bonds if the Commonwealth delivers an opinion of Bond Counsel substantially in the form set forth in Appendix C. During the Delayed Delivery Period new legislation, new court decisions, new regulations, or new rulings may be enacted, promulgated or interpreted that might prevent Bond Counsel from rendering its opinion or otherwise affect the substance of such opinion. However, notwithstanding that the enactment of new legislation, new court decisions or the promulgation of new regulations or rulings might diminish the value of, or otherwise affect, the federal tax exemption for interest payable on "state or local bonds," Bond Counsel might be able to deliver the opinion and the Commonwealth might then be able to satisfy the requirements for the delivery of the Series C Refunding Bonds. In such event, the purchasers would be required to accept delivery of the Series C Refunding Bonds. Prospective purchasers are encouraged to consult their tax advisors regarding the likelihood of any changes in tax law and the consequences of such changes to such purchasers.

Conditions of Settlement. The settlement and the issuance of the Series C Refunding Bonds will not require further action by the Commonwealth. The settlement documents include, among other items, the opinion of Bond Counsel in substantially the form set forth as Appendix C hereto and certain supplementary opinions of Bond Counsel, Ropes & Gray as Disclosure Counsel (with respect only to the Commonwealth's continuing disclosure undertaking), and a certificate of the Commonwealth dated the Settlement Date for the Series C Refunding Bonds, to the effect that the official statement of the Commonwealth, as updated, supplemented and delivered to the Delayed Delivery Underwriter, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

Termination of Purchase Contract. The Delayed Delivery Underwriter may terminate a Purchase Contract by notification to the Commonwealth, at any time on or prior to the Settlement Date, if (a) as a result of any legislation, regulation, ruling, order, release, court, decision or judgment, or action by the United States Department of the Treasury, the Internal Revenue Service, or the Securities and Exchange Commission, either issued, effective, adopted, or proposed, (i) Bond Counsel cannot issue an opinion in the form attached as Appendix C to the Official Statement with respect to the exclusion of interest on the Series C Refunding Bonds from federal and state income taxation or (ii) the offering or sale of the Series C Refunding Bonds would be in violation of any provision of the Securities Act of 1933, as amended (the "1933 Act"), the Securities Exchange Act of 1934, as amended, or the Trust Indenture Act of 1939, as amended, or the offering or sale of the Series C Refunding Bonds would be subject to registration under the 1933 Act or similar federal law; (b) for any other reason Bond Counsel cannot deliver the opinion referenced above; or (c) any of Fitch Ratings, Moody's Investors Service, Inc., or Standard & Poor's Ratings Services shall have failed to rate the Series C Refunding Bonds as of their date of delivery.

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 March Information Statement under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Limit on Debt Service Appropriations."

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

BOND INSURANCE

Ambac Assurance Corporation ("Ambac") has made a commitment to issue a financial guaranty insurance policy (the "Ambac Policy") relating to the $12,145,000 principal amount of Series A Bonds maturing on January 1, 2018 and bearing interest at the rate of 5.250% (the "Series A Insured Bonds"). XL Capital Assurance Inc. ("XL Capital") has made a commitment to issue a financial guaranty insurance policy (the "XL Capital Policy") relating to those Series B Refunding Bonds maturing on and after December 1, 2008 and also relating to those Series C Refunding Bonds maturing on and after December 1, 2006 (the "Series B and Series C Insured Bonds") (the Series A Insured Bonds and the Series B and Series C Insured Bonds, collectively, being the "Insured Bonds.") Certain information regarding Payment of the Series A Insured Bonds Pursuant to the Ambac Policy, Ambac Assurance Corporation, and XL Capital Assurance Inc. appears below. The following information has been supplied by Ambac and XL Capital, respectively, for inclusion in the Official Statement. No representations are made by the Commonwealth, the Underwriters or the Delayed Delivery Underwriter as to the accuracy or completeness of the following information.

Payment of Series A Insured Bonds Pursuant to Ambac Policy

Ambac has made a commitment to issue the Ambac Policy relating to the Series A Insured Bonds, effective as of the date of issuance of the Series A Insured Bonds. Under the terms of the Ambac Policy, Ambac will pay to The Bank of New York, in New York, New York or any successor thereto (the "Insurance Trustee") that portion of the principal of and interest on the Series A Insured Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Commonwealth. Ambac will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac shall have received notice of Nonpayment from the Commonwealth. The insurance will extend for the term of the Series A Insured Bonds and, once issued, cannot be canceled by Ambac.

The Ambac Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Series A Insured Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Series A Insured Bonds, Ambac will remain obligated to pay principal of and interest on outstanding Series A Insured Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Series A Insured Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Commonwealth has notice that any payment of principal of or interest on a Series A Insured Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Commonwealth has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

The Ambac Policy does not insure any risk other than Nonpayment, as defined in the Ambac Policy. Specifically, the Ambac Policy does not cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.

2. payment of any redemption, prepayment or acceleration premium.

3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee , Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Ambac Policy, payment of principal requires surrender of Series A Insured Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Series A Insured Bonds to be registered in the name of Ambac to the extent of the payment under the Ambac Policy. Payment of interest pursuant to the Ambac Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder's right to payment to Ambac.

Upon payment of the insurance benefits, Ambac will become the owner of the Series A Insured Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Series A Insured Bond and will be fully subrogated to the surrendering Holder's rights to payment.

Ambac Assurance Corporation

Ambac Assurance Corporation ("Ambac") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam and the Commonwealth of Puerto Rico, with admitted assets of approximately $5,802,000,000 (unaudited) and statutory capital of approximately $3,564,000,000 (unaudited) as of September 30, 2002. Statutory capital consists of Ambac's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac.

Ambac has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Commonwealth on the Series A Insured Bonds.

Ambac makes no representation regarding the Series A Insured Bonds or the advisability of investing in the Series A Insured Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac and presented under the heading "BOND INSURANCE" or the specimen Ambac Policy attached at Appendix F.

The parent company of Ambac, Ambac Financial Group, Inc. (the "Company"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including Ambac. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac's financial statements prepared in accordance with statutory accounting standards are available from Ambac. The address of Ambac's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

The following documents filed by Ambac with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1) Ambac's Annual Report on Form 10-K for the fiscal year ended December 31, 2001 and filed on March 26, 2002;
2) Ambac's Current Report on Form 8-K dated April 17, 2002 and filed on April 18, 2002;
3) Ambac's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2002 and filed on May 13, 2002;
4) Ambac's Current Report on Form 8-K dated July 17, 2002 and filed on July 19, 2002;
5) Ambac's Current Report on Form 8-K dated August 14, 2002 and filed on August 14, 2002;
6) Ambac's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2002 and filed on August 14, 2002;
7) Ambac's Current Report on Form 8-K dated October 16, 2002 and filed on October 17, 2002;
8) Ambac's Quarterly Report on Form 10-Q for the fiscal quarterly period ended September 30, 2002 and filed on November 14, 2002;
9) Ambac's Current Report on Form 8-K dated November 18, 2002 and filed on November 20, 2002; and
10) Ambac's Current Report on Form 8-K dated January 23, 2003 and filed on January 24, 2003.

All documents subsequently filed by Ambac pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above.

XL Capital Assurance Inc.

XL Capital Assurance Inc. ("XL Capital") is a monoline financial guaranty insurance company incorporated under the laws of the State of New York. XL Capital is currently licensed to do insurance business in, and is subject to the insurance regulation and supervision by, the State of New York, forty-seven other states, the District of Columbia, Puerto Rico, the U.S Virgin Islands and Singapore. XL Capital has license applications pending, or intends to file an application, in each of those states in which it is not currently licensed.

XL Capital is an indirect wholly owned subsidiary of XL Capital Ltd., a Cayman Islands corporation ("XL Capital Ltd."). Through its subsidiaries, XL Capital Ltd. is a leading provider of insurance and reinsurance coverages and financial products to industrial, commercial and professional service firms, insurance companies and other enterprises on a worldwide basis. The common stock of XL Capital Ltd. is publicly traded in the United States and listed on the New York Stock Exchange (NYSE: XL). XL Capital Ltd. is not obligated to pay the debts of or claims against XL Capital.

XL Capital was formerly known as The London Assurance of America Inc. ("London"), which was incorporated on July 25, 1991 under the laws of the State of New York. On February 22, 2001, XL Reinsurance America Inc. ("XL Re") acquired 100% of the stock of London. XL Re merged its former financial guaranty subsidiary, known as XL Capital Assurance Inc. (formed September 13, 1999) with and into London, with London as the surviving entity. London immediately changed its name to XL Capital Assurance Inc. All previous business of London was 100% reinsured to Royal Indemnity Company, the previous owner at the time of acquisition.

XL Capital has entered into a facultative quota share reinsurance agreement with XL Financial Assurance Ltd ("XLFA"), an insurance company organized under the laws of Bermuda, and an affiliate of XL Capital. Pursuant to this reinsurance agreement, XL Capital expects to cede up to 90% of its business to XLFA. XL Capital may also cede reinsurance to third parties on a transaction-specific basis, which cessions may be any or a combination of quota share, first loss or excess of loss. Such reinsurance is used by XL Capital as a risk management device and to comply with statutory and rating agency requirements and does not alter or limit XL Capital's obligations under any financial guaranty insurance policy. With respect to any transaction insured by XL Capital, the percentage of risk ceded to XLFA may be less than 90% depending on certain factors including, without limitation, whether XL Capital has obtained third party reinsurance covering the risk. As a result, there can be no assurance as to the percentage reinsured by XLFA of any given financial guaranty insurance policy issued by XL Capital, including the XL Capital Policy.

As of December 31, 2001, XLFA had total assets, liabilities, redeemable preferred shares and shareholders' equity of US $543,538,559 (audited), US $244,403,576 (audited), US $39,000,000 (audited) and US $260,134,983 (audited) respectively, determined in accordance with generally accepted accounting principles in the United States. XLFA's insurance financial strength is rated "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch. In addition, XLFA has obtained a financial enhancement rating of "AAA" from Standard & Poor's.

The obligations of XLFA to XL Capital under the reinsurance agreement described above are unconditionally guaranteed by XL Insurance (Bermuda) Ltd ("XLI"), a Bermuda company and one of the world's leading excess commercial insurers. XLI is a wholly owned indirect subsidiary of XL Capital Ltd. In addition to having an "A+" rating from A.M. Best, XLI's insurance financial strength is rated "Aa2" by Moody's and "AA" by Standard & Poor's and Fitch.

Notwithstanding the capital support provided to XL Capital described in this section, owners of the Series B and Series C Insured Bonds will have direct recourse against XL Capital only, and neither XLFA nor XLI will be directly liable to owners of the Series B and Series C Insured Bonds.

XL Capital's insurance financial strength is rated "Aaa" by Moody's and "AAA" by Standard & Poor's and Fitch, Inc. ("Fitch"). In addition, XL Capital has obtained a financial enhancement rating of "AAA" from Standard & Poor's. These ratings reflect Moody's, Standard & Poor's and Fitch's current assessment of XL Capital's creditworthiness and claims-paying ability as well as the reinsurance arrangement with XLFA described under "Reinsurance" above.

The above ratings are not recommendations to buy, sell or hold securities, including the Series B and Series C Insured Bonds and are subject to revision or withdrawal at any time by Moody's, Standard & Poor's or Fitch. Any downward revision or withdrawal of these ratings may have an adverse effect on the market price of the Series B and Series C Insured Bonds. XL Capital does not guaranty the market price of the Series B and Series C Insured Bonds nor does it guaranty that the ratings on the Series B and Series C Insured Bonds will not be revised or withdrawn.

As of December 31, 2000, XL Capital had total admitted assets of $86,959,000 (audited), total liabilities of $5,275,000 (audited) and total capital and surplus of $81,684,000 (audited) determined in accordance with statutory accounting practices prescribed or pemitted by insurance regulatory authorities ("S&P"). As of December 31, 2001, XL Capital had total admitted assets of $158,442,157 (audited), total liabilities of $48,899,461 (audited) and total capital and surplus of $109,542,696 (audited) determined in accordance with S&P.

For further information concerning XL Capital and XLFA, see the financial statements of XL Capital and XLFA, and the notes thereto, incorporated by reference in this Official Statement. The financial statements of XL Capital and XLFA are included as exhibits to the periodic reports filed with the Securities and Exchange Commission (the "Commission") by XL Capital Ltd. and may be reviewed at the EDGAR website maintained by the Commission. All financial statements of XL Capital and XLFA included in, or as exhibits to, documents filed by XL Capital Ltd. pursuant to Section 13(a), 13(c), 14 or 15(d) of the Securities and Exchange Act of 1934 on or prior to the date of this Official Statement, or after the date of this Official Statement but prior to termination of the offering of the Series B and Series C Insured Bonds, shall be deemed incorporated by reference in this Official Statement. Except for the financial statements of XL Capital and XLFA, no other information contained in XL Capital Ltd.'s reports filed with the Commission are incorporated by reference. Copies of the statutory quarterly and annual statements filed with the State of New York Insurance Department by XL Capital are available upon request to the State of New York Insurance Department.

XL Capital is regulated by the Superintendent of Insurance of the State of New York. In addition, XL Capital is subject to regulation by the insurance laws and regulations of the other jurisdictions in which it is licensed. As a financial guaranty insurance company licensed in the State of New York, XL Capital is subject to Article 69 of the New York Insurance Law, which, among other things, limits the business of each insurer to financial guaranty insurance and related lines, prescribes minimum standards of solvency, including minimum capital requirements, establishes contingency, loss and unearned premium reserve requirements, requires the maintenance of minimum surplus to policyholders and limits the aggregate amount of insurance which may be written and the maximum size of any single risk exposure which may be assumed. XL Capital is also required to file detailed annual financial statements with the New York Insurance Department and similar supervisory agencies in each of the other jurisdictions in which it is licensed.

The extent of state insurance regulation and supervision varies by jurisdiction, but New York and most other jurisdictions have laws and regulations prescribing permitted investments and governing the payment of dividends, transactions with affiliates, mergers, consolidations, acquisitions or sales of assets and incurrence of liabilities for borrowings.

The financial guaranty insurance policies issued by XL Capital, including the XL Capital Policy, are not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York insurance law.

The principal executive offices of XL Capital are located at 1221 Avenue of the Americas, New York, New York 10020 and its telephone number at this address is (212) 478-3400.

XL Capital accepts no responsibility for the accuracy or completeness of this Official Statement or any other information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding XL Capital and its affiliates set forth under this heading. In addition, XL Capital makes no representation regarding the Series B and Series C Insured Bonds or the advisability of investing in the Series B and Series C Insured Bonds.

LITIGATION

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

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

BOOK-ENTRY-ONLY SYSTEM

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

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

Purchases of Bonds under the DTC system must be made by or through DTC Participants, which will receive a credit for the Bonds in the records of DTC. The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") is in turn to be recorded on the DTC Participants' and Indirect Participants' records. Beneficial

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

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

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

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

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

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

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

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

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

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

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

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

RATINGS

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

For the Insured Bonds, the ratings assigned by Fitch, Moody's and Standard & Poor's are "AAA," "Aaa" and "AAA," respectively, based upon the understanding that the payment of the principal of and interest on the Insured Bonds will be guaranteed by a municipal bond insurance policy to be issued simultaneously with the delivery of the Insured Bonds by Ambac, with respect to the Series A Insured Bonds and by XL Capital Assurance Inc., with respect to the Series B Insured Bonds.

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

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase all of the Series A Bonds and all of the Series B Refunding Bonds from the Commonwealth at a discount from the initial offering prices of the Series A Bonds and the Series B Refunding Bonds equal to approximately 0.3965% of the aggregate principal amount of the Series A Bonds and the Series B Refunding Bonds. The Underwriters may offer and sell the Series A Bonds and the Series B Refunding Bonds to certain dealers and others (including dealers depositing Series A Bonds and Series B Refunding 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.

The Delayed Delivery Bond Underwriter has agreed, subject to certain conditions, to purchase all of the Series C Refunding Bonds from the Commonwealth at a discount from the initial offering prices equal to approximately 0.3937% of the aggregate principal amount of the Series C Refunding Bonds. The Delayed Delivery Bond Underwriter may offer and sell the Series C Refunding Bonds to certain dealers and others (including dealers depositing Series C Refunding 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 Delayed Delivery Underwriter. See "THE BONDS–Delayed Delivery of Series C Refunding Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

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

TAX EXEMPTION

Bond Counsel is of the opinion that, under existing law, interest on the Bonds will not be included in the gross income of holders of such Bonds for federal income tax purposes. This opinion is expressly conditioned upon compliance with certain requirements of the Code, which requirements must be satisfied after the date of issuance of the Bonds in order to assure that the interest on the Bonds is and continues to be excludable from the gross income of the holders of such Bonds. Failure to comp ly could cause the interest on the Bonds to be included in the gross income of the holders thereof, retroactive to the date of issuance of such Bonds. In particular, and without limitation, those 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 its continued compliance with such requirements.

In the opinion of Bond Counsel, under existing law, 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 such 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 other federal tax consequences of holding the Bonds. However, prospective purchasers of such Bonds should be aware that (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 such 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% 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 S corporations that have Subchapter S 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 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 disqualify the recipient thereof from obtaining the earned income credit under section 32(i) of the Code.

In the opinion of Bond Counsel, interest on the Bonds and any profit on the sale thereof are 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 in 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 state or local tax consequences of owning such Bonds.

On the date of delivery of the Bonds, the original purchasers thereof will be furnished with an opinion of Bond Counsel substantially in the form attached hereto. See "Appendix C – Proposed Forms of Opinions of Bond Counsel."

OPINIONS OF COUNSEL

The unqualified approving opinions 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. The proposed forms of the opinions of Bond Counsel relating to the Bonds are attached hereto as Appendix C. Certain legal matters will also be passed upon by Ropes & Gray of Boston, Massachusetts, as Disclosure Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, Holland & Knight 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 March Information Statement under the heading "CONTINUING DISCLOSURE."

MISCELLANEOUS

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

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

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

AVAILABILITY OF OTHER INFORMATION

Questions regarding this Official Statement or requests for additional financial information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900 or Peter Schwarzenbach, 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 617/542-6000.

THE COMMONWEALTH OF MASSACHUSETTS

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

By /s/ Eric A. Kriss
Eric A. Kriss
Secretary of Administration and Finance

February 28, 2003

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THE

COMMONWEALTH

OF

MASSACHUSETTS

INFORMATION STATEMENT SUPPLEMENT

Dated February 28, 2003

TABLE OF CONTENTS

INFORMATION STATEMENT SUPPLEMENT DATED FEBRUARY 28, 2003

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

B. Statutory Basis Financial Report for the year ended June 30, 2002

C. Comprehensive Annual Financial Report (GAAP basis) for the year ended June 30, 2002

THE COMMONWEALTH OF MASSACHUSETTS

CONSTITUTIONAL OFFICERS

W. Mitt Romney .... Governor
Kerry Healey..Lieutenant Governor
William F. Galvin .... Secretary of the Commonwealth
Thomas F. Reilly..Attorney General
Timothy P. Cahill ....Treasurer and Receiver-General
A. Joseph DeNucci... Auditor

LEGISLATIVE OFFICERS

Robert E. Travaglini...President of the Senate
Thomas M. Finneran...Speaker of the House

THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT SUPPLEMENT

February 28, 2003

This supplement ("Supplement") to the Information Statement of The Commonwealth of Massachusetts (the "Commonwealth") dated March 25, 2002 (the "March Information Statement") is dated February 28, 2003, and contains information which updates the information contained in the March Information Statement. The March Information Statement appears in the Commonwealth's Official Statement dated March 25, 2002 with respect to its $180,000,000 General Obligation Bond Anticipation Notes, 2002 Series A, a copy of which has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. This Supplement and the March 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 February 28, 2003. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the March Information Statement. Exhibit A to this Supplement is the Statement of Economic Information as of January 3, 2003. Exhibit A sets forth certain economic, demographic and statistical information concerning the Commonwealth. Exhibits B and C are the Statutory Basis Financial Report for the year ended June 30, 2002 and the Comprehensive Annual Financial Report (GAAP basis) for the year ended June 30, 2002, respectively. Specific reference is made to said Exhibits B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. The financial statements are also available at the web site of the Comptroller of the Commonwealth located at http://www.massgov.com/osc/Reports/reportsfinancial.htm.

The Commonwealth's GAAP financial statements for the year ended June 30, 2002, incorporated herein by reference as Exhibit C, have implemented new reporting standards established by Government Accounting Standards Board (GASB) Statements 34, 35, 37 and 38. See the March Information Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS – Fiscal Control, Accounting and Reporting Practices of Comptroller." The new GAAP financial statements present a government-wide perspective, including debt, fixed assets and accrual activity on a comprehensive balance sheet. Under the new presentation, 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, have been added to the statements. The Commonwealth's statement of revenues, expenditures and changes in fund balances has also been completely reorganized.

RECENT DEVELOPMENTS

Fiscal 2004

On February 5, 2003 the Secretary for Administration and Finance and the legislative leadership announced a consensus estimate of Commonwealth tax revenues for fiscal 2004 of $14.678 billion, of which $684.3 million is sales tax revenue dedicated to the MBTA. The $14.678 billion figure is approximately $30 million greater than the administration's estimated tax revenues for fiscal 2003, an increase of less than 1%. In presenting the consensus estimate, the Secretary estimated a shortfall in fiscal 2004 between projected spending requests from agencies and projected revenues of up to $3 billion.

On February 26, 2003, the Governor released his budget proposal for fiscal 2004, constituting a balanced budget as required by state finance law. The proposal budgeted $22.858 billion for programs and services, including $6.502 billion for Medicaid, $4.110 billion for education, $1.593 billion for debt service and $11.164 billion for all other programs and services. The proposal was based on a tax estimate of $14.800 billion, comprised of the consensus tax revenue estimate of $14.678 billion plus $166 million in additional revenues attributable to legislation closing tax loopholes and adjusting the sales tax on used motor vehicles, as well as new proposals to reduce above-market interest paid on refunds and abatements. This figure also reflects an adjustment of $44.1 million in revenues moved off-budget that are dedicated to the Convention Center Trust Fund. The tax revenue figure includes $684.3 million in sales tax revenues dedicated to the MBTA. The Governor proposed significant changes to government organization and structure in the budget, in large part to generate cost savings. The total budgeted amount is approximately $396 million, or 1.8% greater than estimated total spending in fiscal 2003. However, the proposed fiscal 2004 budget includes activities of funds that are not counted in budgeted operating funds for fiscal 2003; after adding those items to fiscal 2003 spending for comparability, the growth in fiscal 2004 is approximately $124 million, or 0.5%.

The Governor's proposed budget will be subject to legislative review and modification prior to enactment.

Fiscal 2003

Enactment of Fiscal 2003 General Appropriation Act. On April 15, 2002, Acting Governor Swift and legislative leaders reached consensus on a fiscal 2003 tax revenue estimate of $14.716 billion. The Department of Revenue estimated that $684 million of sales tax revenue dedicated to the MBTA was included in the $14.716 billion figure. On June 11, 2002, the Executive Office for Administration and Finance revised its fiscal 2003 tax revenue estimate downward to $14.175 billion, reflecting a reduced forecast of lower growth in income and corporate tax revenue. In July 2002, the Executive Office for Administration and Finance again revised the tax revenue estimate downward to $14.116 billion. The revised estimate assumed that tax cuts scheduled to take effect under then-current tax law would remain in effect.

On June 25, 2002, Acting Governor Swift signed an interim budget to allow state services to continue for the first month of fiscal 2003. On July 22, 2002 Acting Governor Swift signed an additional interim budget to allow state services to continue for the first two weeks of August.

On July 19, 2002, the Legislature passed legislation that the Department of Revenue estimated would increase Commonwealth tax revenues in fiscal 2003 by approximately $1.241 billion (compared to then-current law) through increases in the cigarette tax, the tax on capital gains, elimination of the personal income tax charitable deduction, decreases in personal income tax exemptions and a delay in the implementation of Question 4, which would have reduced the tax rate on most non-capital gains income from 5.3% in tax year 2002 to 5.0% in tax year 2003. In addition, the fiscal 2003 General Appropriation Act ("GAA"), also passed on July 19, 2002, increased certain fees, which would increase revenues by approximately $80 million. The tax increase legislation was vetoed by Acting Governor Swift, but the veto was overridden.

The fiscal 2003 GAA was based on a tax revenue estimate of $14.116 billion, plus the $1.241 billion in estimated tax increases. It included provisions that would conform state tax treatment of certain retirement accounts and mobile telecommunications services to federal law, which the Department of Revenue estimated would reduce fiscal 2003 tax collections by approximately $8 million. The fiscal 2003 GAA also included provisions for a tax amnesty to be implemented in fiscal 2003, which the Department of Revenue estimated would increase tax revenue collections by $43 million. These estimates yielded a fiscal 2003 tax revenue estimate of $15.393 billion. Under the GAA, $684 million of sales tax revenue would be dedicated to the MBTA. The GAA directly appropriated $22.96 billion in fiscal 2003. This does not include approximately $350 million in Medicaid related health care spending that was moved off-budget. After accounting for this off-budget spending, the fiscal 2003 GAA provided for $23.3 billion, or 2.2% over fiscal 2002 spending.

On July 29, 2002 Acting Governor Swift vetoed approximately $355 million of spending from the GAA. On July 31, 2002 the Legislature overrode approximately $77 million of Acting Governor Swift's vetoes, including $41 million at the Group Insurance Commission, $27.9 million for Kindergarten Expansion Grants, $5 million for Community Health Center Grants, and $2.3 million for State Police Patrols.

The fiscal 2003 GAA eliminated Medicaid eligibility for approximately 50,000 long term unemployed adults as of April 1, 2003. This change resulted in a spending reduction of $52 million, however, the Division of Medical Assistance estimated that the shift of this population from MassHealth to emergency health services could result in increased costs to the "free care pool" of approximately $30 million in fiscal 2003, or approximately $140 million on an annualized basis. The GAA also adjusted the pharmacy reimbursement methodology for pharmacy providers under Medicaid, for a savings of $60 million in fiscal 2003. Some major pharmacy chains as well as some independent pharmacies, representing in the aggregate over 50% of the Medicaid pharmacy network, stated their intent to withdraw from the Medicaid program if the reduced reimbursement rates became effective. Acting Governor Swift agreed to maintain pharmacy reimbursement rates at previous levels for 60 days. Division of Health Care Finance and Policy announced a new pharmacy reimbursement methodology on October 2, 2002, which reduced the savings to $6 million in fiscal 2003. The two largest pharmacy chains in the Commonwealth have stated their intent to continue to participate in the Medicaid program under the revised reimbursement methodology.

The Commonwealth's expenditures for Medicaid pharmacy benefits are 50% reimbursable by the federal government. The fiscal 2003 GAA also implemented new pharmacy and nursing home user fees.

The GAA also utilized 100% of the fiscal 2003 annual tobacco settlement payment, which is estimated by the Executive Office for Administration and Finance to be approximately $290 million, as well as $917 million in reserves from the following sources: $790 million from the Stabilization Fund, $75 million from the Caseload Mitigation Fund, $32 million from the Ratepayer Parity Trust and $20 million from the Clean Elections Fund. Acting Governor Swift vetoed the transfer of $790 million from the Stabilization Fund to the General Fund and reduced the transfer to $550 million.

Revenue Estimate Reductions and Actions of Swift Administration. On October 17, 2002, the Secretary of Administration and Finance reduced the official fiscal 2003 tax revenue estimate by $247 million to $15.145 billion, including $43 million anticipated to be collected from the fiscal 2003 tax amnesty program. The Executive Office for Administration and Finance estimated that the tax revenue decline, legislative overrides of Acting Governor Swift's vetoes to the GAA and other budgetary deficiencies including Medicaid costs in the aggregate would amount to an approximately $297 million statutory deficit against the budget adopted in the fiscal 2003 GAA. In response to the lower tax revenue estimate, Acting Governor Swift reduced allotments to certain budgetary accounts pursuant to authority under Chapter 29, Section 9C of the Massachusetts General Laws in the amount of approximately $98 million to partially address the anticipated revenue shortfall.

On October 23, 2002, Acting Governor Swift filed legislation that included technical corrections and other proposals to improve the financial condition of the Commonwealth. The legislation provided for maximizing federal reimbursements that are funded through Temporary Assistance to Needy Families, Child Care Development and Social Services block grants, which are projected to generate an additional $23 million in federal reimbursements to the Commonwealth in the aggregate. The legislation was enacted on October 30, 2002.

On December 9, 2002, Acting Governor Swift again reduced allotments in the amount of approximately $60.7 million to partially address an additional anticipated revenue shortfall. These reductions included $38.7 million allocated to water and sewer rate relief, a $10 million subsidy payment to the Convention Center Authority and a $10 million reduction in Temporary Assistance For Dependent Children grant payments. Acting Governor Swift also identified $6.1 million in savings by reducing a deficiency and $48.6 million in additional revenues from the tax amnesty program to offset some of the additional anticipated revenue shortfall.

On December 30, 2002, Acting Governor Swift signed into law a bill to extend tax amnesty for two additional months, beginning January 1, 2003. The Department of Revenue has estimated that the extended amnesty will increase tax revenue collections by an additional $15 million.

Revenue Estimate Reduction and Actions by Romney Administration. On November 5, 2002, the Commonwealth elected a new Governor, W. Mitt Romney, a new Lieutenant Governor, Kerry Healey and a new Treasurer and Receiver-General, Timothy P. Cahill, each of whom took office in January 2003.

Soon after Governor Romney assumed office in January 2003, his administration began projecting a budget shortfall in fiscal 2003 of approximately $650 million, which was comprised of lower than anticipated tax revenues in the amount of approximately $497 million, higher than expected deficiencies and lower non-tax revenues in the amount of approximately $65 million, and $38 million in lower than expected reversions. Also included in the shortfall was $50 million in spending reductions to minor funded accounts. The reductions were previously implemented; however, the savings had not yet been transferred to the General Fund.

On January 17, 2003, Governor Romney signed an act expanding his authority under Chapter 29, Section 9C of the Massachusetts General Laws to reduce allotted spending across state government with the exception of the legislative branch, the judicial branch, the Inspector General, the Office of the Comptroller or the Constitutional officers for fiscal 2003. Under these expanded powers, Governor Romney gained authority to reduce local aid payments to cities and towns, but any allotment reduction in local aid would be restricted to not more than one-third of the total reductions made by the Governor in the current fiscal year after the effective date of the act.

On January 30, 2003, Governor Romney announced $343 million in allotment reductions and other savings initiatives pursuant to his expanded powers under Chapter 29, Section 9C of the Massachusetts General Laws, as amended. Local government aid and lottery distributions to cities and towns were reduced by $114 million as part of the reduction package. Other spending cuts were made to Medicaid in the amount of approximately $75 million, education programs by approximately $25 million, higher education and state colleges in the amount of approximately $16 million, transitional assistance in the amount of approximately $12 million, housing in the amount of approximately $10 million, a prescription drug program for seniors in the amount of $10 million, other health and human services in the amount of approximately $46 million and all other areas in the amount of approximately $35 million.

Also on January 30, 2003, Governor Romney filed legislation to make supplemental appropriations, allow for various fund transfers, reduce spending, increase revenue by closing certain tax law loopholes, and increase certain fees. The total value of the savings measures, fund transfers, revenue enhancements, and contingency reserves is $307 million, which, in tandem with the $343 million in 9C reductions, would close the estimated $650 million gap. Supplemental appropriations in the amount of approximately $91 million were requested to fund deficiencies in Medicaid, public counsel, judgment and settlements, and other accounts. In the legislation, the Governor proposed additional spending reductions to be achieved by increasing state employee contributions for health benefit plans, using nursing home fees for other Medicaid expenditures, eliminating earmarks, and other reductions in Medicaid programs, for a projected savings of approximately $60 million. The transfer provisions would transfer any unexpended balances resulting from 9C reductions in various minor funded accounts to the General Fund, $12 million from the Workforce Training Fund, $1.5 million designated for the Massachusetts Fishermen's Partnership, Inc. from the Uncompensated Care Trust Fund, and the balance of the Clean Elections Judgment Fund. As a contingency, the legislation proposed that the State Comptroller, at the direction of the Secretary for Administration and Finance, should transfer any positive balance in the Caseload Increase Mitigation Fund and the Health Protection Fund into the General Fund, as well any amount from the Stabilization Fund necessary to end the fiscal year in statutory balance. The legislation also proposed fee increases and tax law changes to close loopholes in certain corporate, inheritance, and real estate income trust taxation.

On February 3, 2003, The Executive Office for Administration and Finance reduced the October 15, 2003, tax revenue estimate by $497 million to $14.648 million, including revenue collected from the fiscal 2003 tax amnesty program. The Executive Office for Administration and Finance now expects that the Massachusetts economic recovery will be further delayed than previous estimates. The delayed economic recovery will result in lower tax revenue collections over the remainder of fiscal 2003 than were projected. The reduction to the fiscal 2003 tax revenue estimate is composed of a $177 million reduction in withholding collections, a $150 million reduction in estimated capital gains tax revenues, a $135 million reduction in other income taxes, and a $65 million reduction in sales tax revenues, offset in part by smaller increases in other tax revenue sources.

On February 6, 2003, Governor Romney filed legislation to increase filing fees with Registers of Deeds effective March 1, 2003, and to levy a separate surcharge on filings. Initial estimates indicate that the filing fee increases may result in additional revenue of approximately $32 million for fiscal 2003 and up to $217 million for fiscal 2004. However, the Executive Office for Administration and Finance has not yet fully analyzed its revenue projection for the filing fee increases. The separate surcharge on filings would not benefit the General Fund, as the legislation would also create a new fund into which surcharge monies would be deposited called the Registers Technological Fund, under the control of the Secretary of the Commonwealth, for the purpose of modernizing technology at registries of deeds. The other filing fee increases would be remitted to the General Fund.

On February 25, 2003, legislation was enacted to increase filing fees at the Registries of Deeds and to levy a separate surcharge on all Registry of Deeds filings. The filing fee increases are estimated to result in additional revenue of approximately $61 million for fiscal 2003 and approximately $217 million for fiscal 2004. The separate surcharge on filings will be deposited in the Registers Technological Fund, for the purpose of modernizing technology at registries of deeds. The other filing fee increases will be remitted to the General Fund. Pursuant to the legislation, transfers in the amounts of $12 million from the Workforce Training Fund, the balance of the Clean Elections Judgment Fund, $6.5 million from the Caseload Increase Mitigation Fund and $6.5 million from the Health Protection Fund were moved to the General Fund. The legislation also directs the Massachusetts Technology Collaborative to establish a plan within 15 days to ensure that $17 million will be transferred from the Renewable Energy Trust Fund by June 30, 2003. The legislation contains a provision that will generate approximately $60 million from demutualization. In addition, the legislation allows for the transfer of savings achieved in minor funds by prior allotment reductions under Chapter 29, Section 9C of the Massachusetts General Laws to the General Fund. The legislation also closed loopholes in certain corporate, inheritance and real estate income trust taxation. The Department of Revenue is in process of estimating the revenue impact of the tax provisions of the legislation, which differ in part from the tax proposals previously submitted by the Governor. The funds generated from closing tax loopholes will be deposited in the Stabilization Fund.

Tax Revenues. In 2002, the processing of tax year 2001 income tax returns was delayed due to workforce reductions at the Department of Revenue. While delays are possible in 2003, none are anticipated at this time due to staffing changes and other efficiency measures. The following table shows tax revenue collections for each month through January 2003 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 each month which are dedicated to the MBTA.

Fiscal 2003 Budgeted Tax Collections (in millions)

Month	Tax Collections	Change from Year Prior(1)	Percentage Change	MBTA Portion	Collections, net of MBTA
July	$1,012.7	($13.4)	(1.3%)	$57.5	$955.2
August	1,063.8	(49.3)	(4.4)	54.0	1,009.8
September	1,558.2	33.9	2.2	59.6(2)	1,498.6
October	933.3	(36.1)	(3.7)	55.1	878.2
November	1,014.9	(28.4)	(2.7)	48.7	966.2
December	1,394.4	65.4	4.9	67.3(2)	1,327.1
January	1,486.3	(93.7)	(5.9)	65.8	14,20.5
February	839.8	37.7	4.7	43.2	796.6
Total	$9,303.3(3)	($83.8)	(0.9%)	$451.2	$8,852.2

SOURCE: Executive Office for Administration and Finance.

(1) Net of sales tax revenues dedicated to the MBTA.
(2) Includes adjustments of $8.1 million on the account of the first quarter, and $13.4 million on the account of the second quarter to increase revenues to MBTA base amount for first quarter of fiscal 2003.
(3) Includes approximately $134 million in revenues from the tax amnesty program.

Cash Flow

On February 25, 2003 the State Treasurer and the Secretary of Administration and Finance released the most recent cash flow projection for fiscal 2003. The cash flow projection was based on the fiscal 2003 GAA, including the value of all vetoes and subsequent overrides, and supplemental appropriations enacted through the date of the release. It reflects authorized transfers between budgeted funds provided for in the GAA and in subsequent legislation and takes account of certain actions taken by the Governor designed to reduce current year spending. The cash flow projection incorporated a tax revenue estimate for fiscal 2003 of $14.648 billion, including the value of enacted tax increases and sales tax revenues dedicated to the MBTA. After factoring in $265 million of fiscal 2002 tax refunds that were paid in July and August of 2002 and $54 million for accounting-period timing differences, the tax estimate for cash flow purposes was $14.329 billion. The cash flow projection also incorporated significant use of cash reserves, resulting in a net cash inflow of $1.093 billion, including $730 million from the Stabilization Fund ($550 million related to fiscal 2003 and $180 million related to closing the books in fiscal 2002) and $363 million from various other funds.

On June 30, 2002 the Commonwealth had a cash balance of $2.010 billion, including $412 million ear-marked to pay issued but outstanding checks. The cash flow projection (which excludes such ear-marked amounts) shows a beginning balance for fiscal 2003 of $1.598 billion, including $1.206 billion in segregated bond funds. The cash flow projects an ending balance of $1.156 billion, including $957 million in segregated bond funds. Excluding segregated bond funds, the beginning and ending cash balances for fiscal 2003 would be $391 million and $199 million, respectively, exclusive of amounts ear-marked for unpaid checks. The projection also excludes amounts available in the Commonwealth's Stabilization Fund and certain other reserve funds totaling approximately $840 million.

The Commonwealth maintains a commercial paper program supported by lines and a letter of credit from commercial banks. The program allows for the periodic issuance of commercial paper as either bond anticipation notes or revenue anticipation notes for operating purposes. The overall capacity of the Commonwealth's commercial paper program was increased from $600 million to $1.0 billion during fiscal 2002.

The Commonwealth issued $200 million in commercial paper as bond anticipation notes on August 1, 2002, which were retired by proceeds of the Commonwealth's General Obligation Bonds, Consolidated Loan of 2002, Series D in September 2002. In September, 2002 the Commonwealth issued $700 million of commercial paper as revenue anticipation notes in advance of the Commonwealth's local aid payment on September 30, 2002, which were retired in December. Also in December 2002, the Commonwealth issued $700 million of commercial paper as revenue anticipation notes in advance of the Commonwealth's local aid payment on December 31, 2002, of which $300 million remains outstanding. The Commonwealth anticipates several cash flow borrowings for operating purposes during the remainder of fiscal 2003 similar to those in the prior year. In particular, the Commonwealth anticipates issuing $790 million of commercial paper at the end of March 2003, to be repaid by the end of April 2003. The pattern of the Commonwealth's cash flow borrowings is largely the result of temporary cash imbalances caused by quarterly local aid payments to cities and towns, which total approximately $1.1 billion on the last day of each calendar quarter.

All commercial paper of the Commonwealth issued for operating purposes in a fiscal year is required by State finance law to be paid not later than June 30 of such year.

Net proceeds of long-term debt issuance during fiscal 2003 are projected to total $2.16 billion (not including refunding bonds). This includes some $420 million in bonds ear-marked for the Central Artery Project and $285 million in bonds ear-marked for working capital related to the MBTA. Some $1.61 billion of this amount was issued through the end of December 2002. An additional $300 million of bonds are expected to be delivered in March 2003 from the current issue. An additional bond sale of $250 million is projected for June 2003. The Commonwealth also expects to issue $135 million in bond anticipation notes during fiscal 2003 related to the Boston Convention and Exhibition Center.

The Commonwealth's next cash flow projection, which is due May 25, 2003, will incorporate projected changes to the Commonwealth's fiscal year 2003 fiscal situation and initial projections for fiscal year 2004. The Commonwealth anticipates that its short-term cash position may be strained by the timing of certain spending reduction and revenue enhancement measures, which, although expected to mitigate the fiscal 2003 budget shortfall, may not be realized as cash to the Commonwealth until later in fiscal 2003.

Fiscal 2002

Fiscal Year-End Balance. After the date of the March Information Statement, Commonwealth tax collections continued to lag behind the prior year by substantial margins, resulting in reduced tax revenue estimates and budget adjustments. On April 15, 2002 Acting Governor Swift and legislative leaders announced an agreement to address the fiscal 2002 budget shortfall as then estimated. The April 15, 2002 plan was based on a fiscal 2002 consensus tax revenue estimate of $14.750 billion and a deficit then identified to be $689 million.

On April 23, 2002, Acting Governor Swift filed a capital outlay bill that moved approximately $102 million of pay-as-you-go capital projects to bond funding. The capital outlay bill was enacted on July 31, 2002. The Commonwealth had used surplus operating revenues from fiscal 1998-2000 to create several capital project funds. The legislation transferred monies from those capital project funds into the General Fund, and allowed for the capital projects to be funded by bond proceeds instead of operating funds. The affected capital projects were absorbed under the $1.2 billion annual administrative bond cap. The Executive Office for Administration and Finance also made a one-time transfer of $25 million to $50 million of bond cap from fiscal 2002 to fiscal 2003. See "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES—Proposed Capital Spending Authorizations."

On May 8, 2002, Acting Governor Swift proposed supplemental appropriations in the amount of approximately $24.2 million to fund various deficiencies, including the account from which judgments and settlements against the Commonwealth are paid, emergency cash assistance and food stamps through the Department of Transitional Assistance, energy-related costs in correctional facilities and prenatal care for low-income uninsured women through the Department of Public Health. The proposal included a $24 million transfer from the MBTA Infrastructure Renovation Fund to the General Fund. The proposal also included recommendations for funding for programs that would carry into fiscal 2003.

On May 17, 2002, Acting Governor Swift signed into law a bill that included approximately $371 million of supplemental appropriations and authorized the use of approximately $408 million in reserves to balance the fiscal 2002 budget. These reserves included $200 million from the Stabilization Fund, $115 million from pay-as-you-go capital funds, $56 million from the Caseload Mitigation Fund, $35 million from the Medical Security Trust, and $1.4 million from the Voting Equipment Revolving Loan Fund. The legislation also extended the Commonwealth's pension funding schedule to 2023, and reduced the fiscal 2002 pension funding payment by $134 million. It also drew $60 million from the fiscal 2002 tobacco settlement and reduced the Capital Needs Investment Trust by $23 million in fiscal 2002. This legislation was intended to give effect to the April 15 agreement among Acting Governor Swift and legislative leaders. In addition to this legislation, the agreement called for $40 million in savings resulting from management initiatives relating to the Commonwealth's debt and $24 million in unspecified savings, to be identified through further review and negotiation.

Based on continuing tax revenue shortfalls, in May 2002 the Executive Office for Administration and Finance reduced the fiscal 2002 tax revenue estimate by an additional $470 million to $14.280 billion. On May 23, 2002, Acting Governor Swift filed legislation that proposed using approximately $509 million of certain reserve funds for the purposes of balancing the current fiscal year budget. These fund transfers included up to $310 million from the Stabilization Fund to the General Fund, $90 million from the Health Care Security Trust Fund to the General Fund and $109 million from the Health Care Security Trust Fund to the Children's and Seniors' Health Care Assistance Fund. On June 25, 2002 Acting Governor Swift signed into law a bill authorizing the transfer of up to $300 million from the Stabilization Fund to the General Fund.

On August 30, 2002, Acting Governor Swift signed a final fiscal 2002 supplemental appropriation in the amount of $49 million, which included $9.5 million for public safety costs relating to September 11th, $7 million for the Department of Mental Retardation, $6.4 million for the Division of Youth Services, $3.5 million for a new state police class, $2.5 million for the Registry of Motor Vehicles, $2.5 million for brownfields, $1.5 million for the Children's Medical Security Plan and $1.3 million for the Judgments and Settlements account. The legislation also authorized the state comptroller to use up to $180 million of additional Stabilization Fund monies to close out fiscal 2002, transferred $24 million of MBTA infrastructure fund monies to the General Fund and continued approximately $54 million of additional fiscal 2002 appropriations into fiscal 2003.

Tax Revenue. Tax collections in fiscal 2002 were significantly less than those in fiscal 2001. The following table shows the tax collections for each month of fiscal 2002 the decrease from tax collections in the same month in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in each month which are dedicated to the MBTA.

Fiscal 2002 Budgeted Tax Collections (in millions)

Month	Tax Collections	Decrease from Year Prior	Percentage Decrease	MBTA Portion	Collections, net of MBTA
July	$1,026.07	$38.03	3.57%	$56.74	$969.33
August	1,113.05	30.14	2.64	56.79	1,056.26
September	1,524.35	219.60	12.59	45.91	1,478.44
October	969.31	115.91	10.68	60.11	909.20
November	1,043.35	43.28	3.98	51.66	991.69
December	1,328.98	94.55	6.64	60.96	1,268.02
January	1,579.95	357.13	18.44	68.93	1,511.02
February	802.07	110.40	12.10	40.59	761.47
March	1,295.03	155.04	10.69	56.56	1,238.47
April	1,349.78	204.04	13.13	54.22	1,295.56
May	1,083.34	394.24	26.68	53.49	1,029.84
June (1)	1,171.77	679.81	36.72	58.37	1,113.40
Total (2)	$14,287.06	$2,442.19	14.09%	$664.35	$13,622.71

SOURCE: Executive Office for Administration and Finance.

(1) June total includes the amount of personal income tax refunds for tax returns received on or before June 30, 2002, but which were classified as deposits during the fiscal 2002 accounts payable period, which extended to September 15, 2002.

(2) Detail may not add to totals due to rounding.
(3) The Commonwealth is required to transfer a minimum of $664.4 million to the MBTA. January, April and June figures include quarterly adjustments of $14.5 million, $6.0 million and $5.6 million, respectively to raise the MBTA portion to the minimum level. The $5.6 million was paid to the MBTA during the Commonwealth's "accounts payable" period. See the March Information Statement under the heading "FINANCIAL RESULTS - Massachusetts Bay Transportation Authority - Financial Restructuring."

Due to workforce reductions resulting from cuts to the Department of Revenue's administrative budget, processing of tax year 2001 income tax returns was delayed. Over the January to June 2002 period, approximately $265 million in income tax refunds and approximately $9 million in tax payments were delayed, compared to the same period in 2001. The State Comptroller accrued the tax refund liability and related receivables in fiscal 2002, although payments and deposits were processed in early fiscal 2003. On May 17, 2002 Acting Governor Swift signed legislation that included $1 million to help the Department of Revenue deal with the processing backlog.

On March 9, 2002 federal tax legislation was enacted that allowed an additional first-year depreciation deduction for corporations equal to 30 percent of the cost of certain types of property purchased on or after September 11, 2001 and before September 11, 2004. Under Massachusetts law, corporations (including insurance, public utilities, and financial institutions organized as corporations) had been taxed on the basis of their net income as calculated for federal taxation purposes, after depreciation allowances are deducted. Unincorporated businesses also were allowed depreciation allowances based on the federal tax code. As a result, the taxable income of corporations and unincorporated businesses subject to Massachusetts tax was expected to be reduced in tax years 2001 through 2003 by the new federal depreciation deduction, be increased for approximately 11 years thereafter, and in the long-run be approximately revenue neutral. On April 18, 2002, Acting Governor Swift signed into law a bill that "decoupled" the Massachusetts revenue code from federal depreciation provisions. The law effectively repealed the additional depreciation deduction for the purposes of Massachusetts state tax. However, since corporate taxpayers had already adjusted their payments due on March 15, 2002, the Department of Revenue estimates that the impacts of the federal provision were to reduce fiscal 2002 tax revenue collections by $30 million, and increase fiscal 2003 tax collections by the same amount.

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 1998 through 2003, but have been adjusted to reflect the impact of the MBTA forward funding legislation. See March Information Statement under the heading "FINANCIAL RESULTS - Massachusetts Bay Transportation Authority." The financial information presented includes all budgeted operating funds of the Commonwealth. When the status of a fund has changed during this period, prior years have been restated to conform to the fiscal 2001 budget. See the March Information Statement under the heading "FINANCIAL RESULTS." The Commonwealth's audited statutory basis financial statements for the year ended June 30, 2002 were released on October 25, 2002.

Budgeted Operating Funds Operations -- Statutory Basis

(in millions)(1)

	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001(2)	Fiscal 2002	Estimated Fiscal 2003(6)
Beginning Fund Balances						
Reserved or Designated	$ 225.1	$ 286.3	$ 330.2	$ 278.5	$ 895.3	$ 195.2
Tax Reduction Fund	91.8	367.7	6.8	7.2	33.6	-
Stabilization Fund	799.3	1,159.6	1,388.5	1,608.4	1,715.0	881.8
Undesignated	277.8	378.5	386.9	391.3	369.5	311.0
Fund Balance Restatement	--	–	–	1.0	–	–
Total	1,394.0	2,192.1	2,112.4	2,286.4	3,013.3	1,388.0
Revenues and Other Sources						
Taxes	14,026.3	14,291.5	15,688.6	16,074.7(4)	13,622.7(4)	13,963.7(4)(5)
Federal Reimbursements	3,361.2	3,442.9	3,645.6	3,974.2	4,334.9	4,595.9
Departmental and Other Revenues	1,286.4	1,297.8	1,359.9	1,425.9	1,485.2	1,399.5(7)
Interfund Transfers from Non-budgeted Funds and Other Sources	1,125.9	1,132.8	1,893.0	1,385.9	1,732.0	1,449.4(9)
Budgeted Revenues and Other Sources	19,799.8	20,165.0	22,587.1	22,860.6	21,174.9	21,408.5
Mass Transit Assessments from Municipalities	155.6	159.9	15.8	--	--	--
Interfund Transfers among Budgeted Funds and Other Sources	1,449.2	1,242.0	3,618.2(3)	931.0	1,874.4	924.1
Total Revenues and Other Sources	21,404.6	21,566.9	26,221.1	23,797.6	23,049.3	22,332.6(8)
Expenditures and Uses						
Programs and Services	16,238.6	17,341.1	19,330.7	19,448.8	20,412.7	20,156.5(10)
Debt Service	1,213.4	1,173.8	1,193.3	695.2	1,304.7	1,417.7
Pensions	1,069.8	990.2	986.3	1,040.1	795.8	813.5
Interfund Transfers to Non-budgeted Funds and Other Uses	479.9	739.6	903.8	949.7	287.1	74.7
Budgeted Expenditures and Other Uses	19,001.7	20,244.7	22,414.1	22,133.7	22,800.3	22,462.4
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	155.6	159.9	15.8	--	--	--
Interfund Transfers among Budgeted Funds and Other Uses	1,449.2	1,242.0	3,618.2	931.0	1,874.4	924.1
Total Expenditures and Other Uses	20,606.5	21,646.6	26,048.1	23,064.7	24,674.7	23,386.5
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	798.1	(79.7)	173.0	726.9	(1,625.3)	(1,053.9)
Ending Fund Balances						
Reserved or Designated	286.3	330.2	278.5	895.3	195.2	26.1
Tax Reduction Fund	367.7	6.8	7.2	33.6	--	--
Stabilization Fund	1,159.6	1,388.5	1,608.4	1,715.0	881.8	337.6
Undesignated	378.5	386.9	391.3	369.5	311.0	(29.6)
Total	$ 2,192.1	$ 2,112.4	$ 2,285.4	$ 3,013.3	$ 1,388.0	$ 334.1

SOURCE: Fiscal 1998-2002, Office of the Comptroller; fiscal 2003, Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.
(2) Beginning balance restated for comparison purposes due to the reclassification of the Mosquito and Greenhead Fly Control Fund from a budgeted to a non-budgeted fund as of July 1, 2002.
(3) Reflects legislation in the final supplemental appropriations act for fiscal 2000 requiring the Comptroller to transfer funds from the General Fund to the Local Aid Fund and Highway Fund at the end of fiscal 2000, eliminating deficits in these funds.
(4) Net of $654.6 million in fiscal 2001, $664.4 million in fiscal 2002 and a projected $684.3 million in fiscal 2003 of dedicated sales tax to be transferred to the MBTA that were moved outside of the budget (are no longer budgeted) beginning in fiscal 2001.
(5) Includes revenue from a tax amnesty program; excludes anticipated tax revenue to be generated from closing various tax loopholes included in legislation filed by Governor Romney on January 30, 2003.
(6) Estimated based on preliminary analysis, subject to change. The Executive Office for Administration and Finance estimates that approximately $350 million in Medicaid related health care spending was moved off-budget by the fiscal 2003 General Appropriation Act. See "Fiscal 2003."
(7) Department of Revenue excludes revenue enhancements from legislation filed by Governor Romney on January 30, 2003.
(8) Revenue and Other Sources excludes revenue and excise tax which would be generated by raising fees at the Registry of Deeds in the legislation filed by Governor Romney on February 6, 2003.
(9) Interfund Transfers from Non-budgeted Funds and Other Sources excludes various transfers requested by Governor Romney on January 30, 2003.
(10) Programs and Services expenditures include $343 million in allotment reductions implemented on February 6, 2003.

In the following table, to facilitate comparison, the revenues and expenditures for fiscal 1998 to 2000, inclusive, have been reduced by the actual amount paid to the MBTA in each of those fiscal years to reflect the transfer off-budget of MBTA subsidies beginning in fiscal 2001.

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

	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002	Estimated Fiscal 2003(5)
Beginning Fund Balances						
Reserved or Designated	$ 225.1	$ 286.3	$ 330.2	$ 278.5	$ 895.3	$ 195.2
Tax Reduction Fund	91.8	367.7	6.8	7.2	33.6	-
Stabilization Fund	799.3	1,159.6	1,388.5	1,608.4	1,715.0	881.8
Undesignated	277.8	378.5	386.9	391.3	369.5	311.0
Fund Balance Restatement	–	–	–	1.0	–	–
Total	1,394.0	2,192.1	2,112.4	2,286.4	3,013.3	1,388.0
Revenues and Other Sources						
Taxes	14,026.3	14,291.5	15,688.6	16,074.7(3)	13,622.7(3)	13,963.7(3)(4)
Federal Reimbursements	3,361.2	3,442.9	3,645.6	3,974.2	4,334.9	4,595.9
Departmental and Other Revenues	1,286.4	1,297.8	1,359.9	1,425.9	1,485.2	1,399.5
Interfund Transfers from Non-budgeted Funds and Other Sources	1,125.9	1,132.8	1,893.0	1,385.9	1,732.0	1,449.4(8)
Budgeted Revenues and Other Sources	19,799.8	20,165.0	22,587.1	22,860.6	21,174.9	21,408.5(7)
MBTA Adjustment (2)	(491.1)	(499.1)	(561.9)	NA	NA	NA
Adjusted Budgeted Revenues and Other Sources	19,308.7	19,665.9	22,025.2	22,860.6	21,174.9	21,408.5(7)
Expenditures and Uses						
Programs and Services	16,238.6	17,341.1	19,330.7	19,448.8	20,412.7	20,156.5(9)
Debt Service	1,213.4	1,173.8	1,193.3	695.2	1,304.7	1,417.7
Pensions	1,069.8	990.2	986.3	1,040.1	795.8	813.5
Interfund Transfers to Non-budgeted Funds and Other Uses	479.9	739.6	903.8	949.6	287.1	74.7
Budgeted Expenditures and Other Uses	19,001.7	20,244.7	22,414.1	22,133.7	22,800.3	22,462.4
MBTA Adjustment (2)	(491.1)	(499.1)	(561.9)	NA	NA	NA
Adjusted Expenditures and Other Uses	18,510.6	19,745.6	21,852.2	22,133.7	22,800.3	22,462.4
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	798.1	(79.7)	172.9	726.8	(1,625.4)	(1,053.9)
Ending Fund Balances						
Reserved or Designated	286.3	330.2	278.5	895.3	195.2	26.1
Tax Reduction Fund	367.7	6.8	7.2	33.6	--	--
Stabilization Fund	1,159.6	1,388.5	1,608.4	1,715.0	881.8	337.6
Undesignated	378.5	386.9	391.3	369.5	311.0	(29.6)
Total	$ 2,192.1	$ 2,112.4	$ 2,285.4	$ 3,013.3	$ 1,388.0	$ 334.1

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

(1) Totals may not add due to rounding. The table does not reflect interfund transfers among budgeted funds and other sources, which have no effect on the ending balance of the table. The amounts of the transfers were $1,449.2 million, $1,242.0 million, $3,618.2 million, $931.0 million and $1,874.4 million in fiscal 1998-2002 respectively, and is estimated to be $1,027.5 million for fiscal 2003.
(2) To facilitate comparison, the table has been adjusted for fiscal 1998 through fiscal 2000, inclusive, to reflect a transfer off-budget of MBTA operations that began in fiscal 2001 by subtracting the amount of Commonwealth payments to the MBTA in each of those fiscal years.
(3) Net of $654.6 million in fiscal 2001, $664.4 million in fiscal 2002 and a projected $684.3 million in fiscal 2003 of dedicated sales tax to be transferred to the MBTA that were moved outside of the budget (are no longer budgeted) beginning in fiscal 2001.
(4) Includes revenue from a tax amnesty program; excludes anticipated tax revenue to be generated from closing various tax loopholes included in legislation filed by Governor Romney on January 30, 2003.
(5) Estimated based on preliminary analysis, subject to change. The Executive Office for Administration and Finance estimates that approximately $350 million in Medicaid related health care spending was moved off-budget by the fiscal 2003 General Appropriation Act. See "Fiscal 2003."
(6) Department of Revenue excludes revenue enhancements from legislation filed by Governor Romney on January 30, 2003.
(7) Budgeted Revenues and Other Sources excludes revenue and excise tax which would be generated by raising fees at the Registry of Deeds in the legislation filed by Governor Romney on February 6, 2003.
(8) Interfund Transfers from Non-budgeted Funds and Other Sources excludes various transfers requested by Governor Romney on January 30, 2003.
(9) Programs and Services expenditures include $343 million in allotment reductions implemented on February 6, 2003.

Selected Financial Data – GAAP Basis

The Commonwealth's GAAP financial statements for the year ended June 30, 2002, incorporated herein by reference as Exhibit C, have implemented new reporting standards established by Government Accounting Standards Board (GASB) Statements 34, 35, 37 and 38. See the March Information Statement under the heading "Commonwealth Budget, Financial Management and Controls – Fiscal Control, Accounting and Reporting Practices of Comptroller." The new GAAP financial statements present a government-wide perspective, including debt, fixed assets and accrual activity on a comprehensive balance sheet. Under the new presentation, 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, have been added to the statements. The Commonwealth's statement of revenues, expenditures and changes in fund balances has also been completely reorganized.

To understand the transition between the Commonwealth's budgetary fund balance to which the Commonwealth's stakeholders gauge fiscal health, its "fund perspective" balance as depicted in the fund financial statements (which are similar to previously issued GAAP financial statements) and the Commonwealth's governmental financial position under this new presentation, a series of additions, accruals and adjustments must be analyzed as follows:

Governmental Funds - Statutory to GAAP - Fund Perspective and to Governmental Net Assets

(Amounts in millions)

Budgeted Operating Fund Balance - Statutory Basis, June 30, 2002		**$ 1,388.0**
Plus: Non - Budgeted Special Revenue Fund Balances		856.1
Capital Projects Fund Balances		30.3
Governmental Fund Balance - Statutory Basis, June 30, 2002		**$ 2,274.4**
Plus: Expendable Trust and Similar Fund Statutory Balances that are considered Governmental Funds under GASB 34		229.9
Liability Management Fund Net Assets		1.7
Owner Controlled Insurance Program Net Assets		239.9
Debt Service Fund Net Assets		236.5
Adjusted Statutory Governmental Fund Balance		**2,982.4**
Accruals, net of allowances and deferrals for {Increases / (decreases)}:		
Taxes	$ 646.5	
Medicaid	(393.1)	
Compensated absences	(246.1)	
MBTA	(23.7)	
Massachusetts Water Pollution Abatement Trust	(33.8)	
Massachusetts Turnpike Authority	(16.1)	
Regional transit authorities	(72.5)	
Other nonmajor component unit accruals	(4.6)	
Uncompensated care liability	(110.3)	
Claims, judgements and other risks	(76.1)	
Workers' compensation and group insurance	(85.3)	
Other accruals	(99.4)	
Net increase / (decrease) to governmental fund balances		(514.5)
Governmental fund balance (fund perspective)		**$ 2,467.9**
Plus: Fixed assets including infrastructure		25,641.2
Less: Accumulated depreciation		(6,414.3)
Plus: Deferred revenue		317.1
Less: Long term liabilities		(29,427.4)
Total Governmental net assets (entity wide perspective)		**$ (7,415.5)**

The Commonwealth's Governmental net assets are negative due to three major factors. First, the Commonwealth is primarily financing the construction of the Central Artery / Tunnel Project. Upon completion of each stage of the project, the costs of construction borne by the Commonwealth will transfer to the Massachusetts Turnpike Authority, with a smaller amount transferring to the Massachusetts Port Authority. The untransferred portion of the project as of June 30, 2002 was $9,666,140,000. Second, the Commonwealth incurs long – term obligations for which the Commonwealth has no offsetting assets. These obligations include contract assistance due to authorities, the present value of school building assistance obligations and compensated absences. The total of these accruals amounts to $4,806,141,000. The final adjustment relates to the decision to "forward fund" the MBTA. Bonds have been issued to fund the deficit created in fiscal 2000 due to the funding of the MBTA. The total bonds issued for the forward funding is $625,000,000. The governmental net assets change had these amounts not been recognized would have been a positive change of $15,097,281,000. The negative unrestricted net assets would have been reduced to $623.8 million.

The largest portion of the Commonwealth's net assets reflects its investment in capital assets, such as land, buildings, equipment and infrastructure (roads, bridges, and other immovable assets), less any related debt used to acquire those assets that is still outstanding. The Commonwealth uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the Commonwealth's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Additional restrictions are put on net assets. These restrictions represents resources that are subject to external restrictions on how they must be used. The remaining balance of unrestricted net assets may be used to meet the Commonwealth's ongoing obligations to citizens and creditors. However, due to the factors discussed previously, the negative unrestricted net assets presented are not indicative of the Commonwealth's fiscal well being, as they represent accounting adjustments and funding decisions. The table below reconciles the Commonwealth's net assets (amounts in millions.)

Historical cost of governmental capital assets, including infrastructure	$25,641.2	
Less: accumulated depreciation	(6,414.3)	
Historical cost of governmental capital assets, including infrastructure, net	$19,226.9	
Less: Total outstanding debt	(14,955.1)	
Adjust for debt issued and outstanding for the Convention Center Authority, the MBTA forward funding and local government capital projects	1,339.5	
Investment in capital assets, net of related debt		$5,611.3
Restrictions on net assets are for:		
Unexpended bond proceeds	$1,053.8	
Retirement of indebtedness	350.8	
Central artery workers' compensation and general liability	239.9	
Continuing appropriations	168.0	
Total restrictions of net assets		2,694.3
Unrestricted net deficit		(15,721.1)
Governmental Net Assets		$(7,415.5)

The following table provides financial results on a GAAP basis for fiscal 1998 through fiscal 2002 for all budgeted operating funds of the Commonwealth.

Budgeted Operating Funds --GAAP Basis
(in millions)

	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002
Beginning fund balances	$ 1,096.3	$ 1,841.4	$ 1,704.9	$ 2,325.1	$2,947.6
Restatement of beginning fund balance (1)	-	-	-	-	2.6
Revenues and Financing Sources					
Taxes	14,021.8	14,308.1	15,681.9	16,099.9	13,710.4
Federal Grants and Reimbursements	3,337.6	3,425.8	3,776.3	4,023.1	4,347.6
Department and Other Revenues	1,404.0	927.4	947.9	1,433.3	1,438.0
Interfund Transfers and Other Sources	1,576.5	1,994.4	5,508.0	1,567.1	1,853.0
Total	20,339.9	20,655.7	25,914.1	23,123.4	21,349.0
Expenditures and Financing Uses					
Programs and Services	15,477.6	16,471.3	17,912.4	18,459.8	19,978.8
Debt Service	1,213.3	1,173.8	1,913.3	1,407.9	1,304.7
Pensions	414.3	324.2	398.2	318.3	237.5
Interfund Transfers and Other Uses	2,489.6	2,822.9	5,790.0	2,314.9	1,586.2
Total	19,594.8	20,792.2	25,293.9	22,500.9	23,107.2
Excess (deficit)	745.1	(136.5)	620.2	622.5	(1,758.2)
Ending budgeted fund balances – GAAP fund perspective	$ 1,841.4	$ 1,704.9	$ 2,325.1	$ 2,947.6	$1,192.0

SOURCE: Office of the Comptroller

(1) The Mosquito and Greenhead Fly Fund became a non-budgeted fund in FY 2002.

Differences between statutory and GAAP basis can be summarized in five major adjustments. Those adjustments are for Medicaid, taxes, compensated absences, claims and judgments and amounts due to authorities. As evidenced in the trend line of fund balance (deficit) over time, however, these adjustments connect between the GAAP basis measurement when viewed using a fund perspective under GASB 34 and the statutory basis measurement. While the difference in fund balance may vary in a given fiscal year, both balances generally trend in the same direction. For a description of the differences between statutory basis and GAAP basis accounting, see "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS – Fiscal Control, Accounting and Reporting Practices of the Comptroller; *GAAP Basis of Accounting*." The following reconciles the ending budgeted fund balance – GAAP fund perspective and statutory fund balances for budgeted funds (amounts in millions):

Reconciliation of Budgeted Operating Funds --GAAP Basis to Budgeted Operating Funds – Statutory Basis
(in millions)

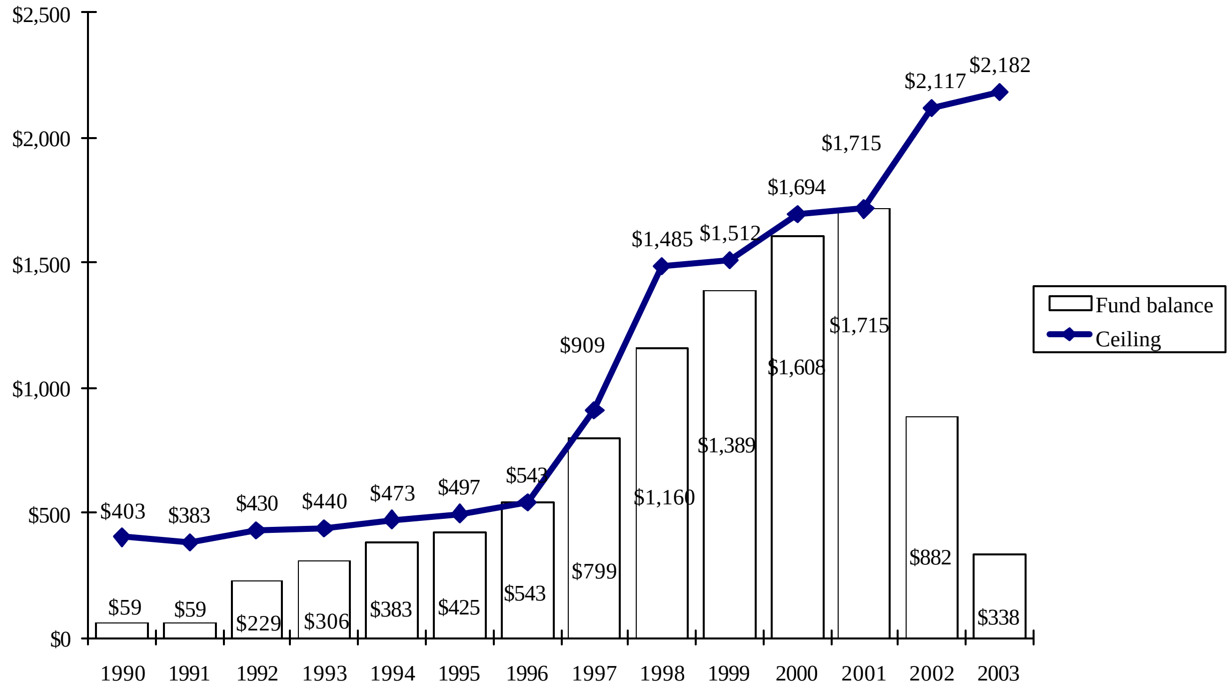
	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002
Ending budgeted fund balances – GAAP fund perspective	$ 1,841.4	$ 1,704.9	$ 2,325.1	$ 2,947.6	$1,192.0
Plus / (Minus) adjustments for:					
Medicaid, net of receivables	242.6	230.6	236.7	367.7	393.1
Taxes	(505.1)	(517.1)	(509.4)	(565.6)	(627.9)
Compensated absences – current portion	158.2	168.6	198.1	216.7	221.5
Claims and judgments – current portion	59.2	101.4	98.5	93.7	161.8
Amounts due to authorities – current portion	447.5	519.7	34.6	56.1	106.7
Other	(51.7)	(95.7)	(98.2)	(105.2)	(59.3)
Budgeted Operating Fund Balance – Statutory Basis	$2,192.1	$2,112.4	$2,285.4	$3,011.0	$1,388.0

SOURCE: Office of the Comptroller

Stabilization Fund and Disposition of Year-End Surpluses

The following graph sets forth the balance in the Stabilization Fund for fiscal 1990 through 2002 and the estimate for fiscal 2003:

Stabilization Fund
(in millions)



SOURCE: Fiscal 1990-2002, Office of the Comptroller; fiscal 2003, Executive Office for Administration and Finance.

Initiative Petitions

A voter initiative petition to abolish the state personal income tax commencing July 1, 2003 failed in the Commonwealth's general election on November 5, 2002. Another petition relating to bilingual education was passed by voters on November 5, 2002. The law mandates English immersion programs for Massachusetts students to be implemented by public schools for the school year beginning in the fall of 2003. The Department of Education is analyzing the fiscal 2004 budgetary impact of the new law. The new law will have no budgetary impact in fiscal 2003.

COMMONWEALTH REVENUES

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

	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001(5)	Fiscal 2002	Est. Fiscal 2003
Tax Revenues:						
Alcoholic Beverages	$ 60.2	$ 61.0	$ 63.1	$ 64.2	$65.4	$65.0
Banks	156.0	108.5	92.9	179.6	137.0	180.4
Cigarettes	300.8	284.4	279.9	270.5	275.0	454.2
Corporations	1,066.9	1,008.9	1,130.5	945.3	586.7	653.1
Deeds	79.7	98.0	116.0	129.6	134.3	142.9
Income	8,031.9	8,036.6	9,041.9	9,902.7	7,912.9	8,006.1
Inheritance and Estate	191.3	173.9	166.5	203.4	200.6	145.9
Insurance	310.8	336.3	334.6	356.5	382.9	381.3
Motor Fuel	621.3	636.5	652.6	659.9	666.8	692.4
Public Utilities	131.9	132.5	83.0	86.7	88.4	73.5
Racing	9.2	8.3	7.8	7.5	2.7	-
Room Occupancy	96.2	119.4	137.0	149.6	123.3	128.0
Sales - Regular	2,122.0	2,351.2	2,552.1	2,705.8(4)	2,601.4	2,605.9
Sales - Meals	392.5	436.2	456.8	482.0	500.9	512.6
Sales - Motor Vehicles	448.0	482.4	556.4	568.0(4)	593.6	591.0
Transfer to MBTA	--	--	--	(654.6)	(664.3)	(684.3)
Sub-Total–Sales	2,962.5	3,269.8	3,565.3	3,101.2	3,031.6	3,025.2
Miscellaneous	7.6	17.4	17.5	17.9	15.1	15.6
Total	14,026.3	14,291.5	15,688.6	16,074.6	13,622.7	13,963.7(6)
Non-Tax Revenues:						
Federal Reimbursements (2)	3,361.2	3,442.9	3,645.6	3,974.2	4,334.9	4,595.9
Departmental and Other Revenues	1,286.4	1,297.8	1,359.9	1,425.9	1,485.2	1,399.5
Interfund Transfers from Non-Budgeted Funds and Other Sources (3)	1,125.9	1,132.8	1,893.0	1,385.9	1,732.0	1,449.4
Budgeted Non-Tax Revenues and Other Sources	5,773.6	5,873.5	6,898.5	6,786.0	7,552.2	7,444.8
Budgeted Revenues and Other Sources	19,799.8	20,165.0	22,587.0	22,860.6	21,174.9	21,408.5
MBTA Adjustment (4)	(491.1)	(499.1)	(561.9)	NA	NA	NA
Adjusted Revenues and Other Sources	$19,308.7	$19,665.9	$22,035.7	$22,860.6	$21,174.9	$21,408.5

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

(1) Totals may not add due to rounding. The table does not reflect interfund transfers among budgeted funds and other sources that have no effect on ending balances. The amounts of the transfers in fiscal 1998-2002 were $1,449.2 million, $1,242.0 million, $3,618.2 million and $931.0 million, respectively. In addition, the table does not reflect the receipt and payment of certain municipal mass transit assessments totaling $155.6 million, $159.9 million and $15.8 million in fiscal 1998 through 2001, respectively.

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

(3) Interfund transfers represent accounting transfers reallocating resources among funds. See the March Information Statement under the heading "COMMONWEALTH REVENUES—Federal and Other Non-Tax Revenues." Includes transfers between Stabilization Fund and budgeted operating funds. Transfers to Stabilization Fund were $317.4 million, $165.6, $114.9 million and $51.7 million in fiscal 1998-2001 respectively. No funds were transferred in fiscal 2002 to the Stabilization Fund, however, $1.03 billion was transferred from the Stabilization Fund to the General Fund to balance the fiscal 2002 budget. August 10, 1998, Acting Governor Cellucci approved legislation providing for the transfer of $200 million to Tax Reduction Fund as of June 30, 1998. Additional transfers in 2000 included transfer of $500 million to Debt Defeasance Fund and transfer of $3.0 billion to eliminate fund deficits in Highway and Local Aid Funds. Additional transfers in 2001 included $579.2 million to Transitional Escrow Fund, $624.2 million for debt defeasance, $25.9 million to Tax Reduction Fund, $53.9 million to Sewer Rate Relief Fund and $34.4 million for Capital Projects.

(4) To facilitate comparison, the revenues have been reduced to reflect the transfer off-budget of MBTA operations in fiscal 2001 by subtracting the actual amount of Commonwealth payments to the MBTA in fiscal 1996 to fiscal 2000, inclusive. In fiscal 2002, the Executive Office for Administration and Finance transferred $664 million of dedicated sales tax to the MBTA. For fiscal 2003, the Executive Office for Administration and Finance projects transferring $684 million of dedicated sales tax to the MBTA. The amount of sales tax receipts to be transferred to the MBTA could be greater based on higher overall sales tax receipts. See the March Information Statement under the heading "FINANCIAL RESULTS - Massachusetts Bay Transportation Authority - Financial Restructuring."

(5) Beginning balance restated for comparison purposes due to the reclassification of the Mosquito and Greenhead Fly Control Fund from a budgeted to a non-budgeted fund as of July 1, 2002.

(6) Includes $134 million in fiscal 2003 revenue resulting from a tax amnesty program. See "RECENT DEVELOPMENTS—Fiscal 2003."

STATE WORKFORCE

Employee Retirement Incentive Plan

As a means of reducing payroll costs in fiscal 2002 and 2003, the Commonwealth adopted an Early Retirement Incentive Program ("ERIP") to offer an enhanced pension benefit to retirement-eligible employees. See the March Information Statement under the heading "STATE WORKFORCE—Employee Retirement Incentive Plan." As required under Section 15 of Chapter 219 of the Acts of 2001, the Secretary of Administration and Finance filed a report with the Legislature on October 1, 2002, detailing fiscal 2002 and 2003 savings achieved from the ERIP. The findings show that Executive Branch and Higher Education retirees from the operating budget totaled 3,240, saving the Commonwealth $30.8 million in fiscal 2002 and $165.8 million in fiscal 2003. The savings will be offset in part by the costs of filling positions vacated by those retirees, which are estimated to be $1.4 million in fiscal 2003 and $29.0 million in fiscal 2003. The report did not provide cost or savings estimates for Constitutional Officers, the Courts, or the Legislature, nor did it attempt to summarize the total spent on sick and vacation time buy-out costs, which were evenly spread among fiscal 2003, 2004 and 2005.

On March 20, 2002 the Governor signed Chapter 62, the main provision of which extended ERIP to employees whose positions are funded from capital, federal or trust accounts. There were 712.7 full-time equivalent employees who applied for the expanded incentive before the April 19, 2002 deadline, of whom 46.5 were funded from the operating budget. The budgetary impact will be minimal since the bulk of the positions were funded from non-budgetary accounts. However, the additional liability resulting from the retirement of employees who received the incentive must be amortized as part of the annual pension appropriation.

The following table sets forth information regarding the Commonwealth's workforce as of the end of fiscal years 1998 through 2002, and at the end of December 2002.

Budget-Funded Workforce (1)

	June 1998	June 1999	June 2000	June 2001	June 2002	December 2002
Executive Office	80	93	89	79	72	55
Office of the Comptroller	113	110	106	109	107	102
Executive Departments						
Administration and Finance	3,080	3,153	3,225	3,429	2,974	2,909
Environmental Affairs	2,442	2,484	2,583	2,586	2,312	2,250
Housing and Community Development	118	113	111	115	109	97
Health and Human Services	23,125	23,164	23,483	23,745	21,803	21,464
Transportation and Construction	1,262	1,303	1,284	1,216	843	814
Board of Library Commissioners	20	17	20	20	18	15
Labor and Workforce Development	379	392	386	374	357	353
Economic Development	100	92	92	88	80	67
Consumer Affairs and Business Regulation	666	706	682	708	657	644
Department of Education	220	272	270	271	277	246
Board of Higher Education	14,184	14,840	15,251	15,560	14,038	14,435
Public Safety	9,115	9,520	9,409	9,685	9,567	9,294
Elder Affairs	35	36	38	44	43	39
Subtotal under Governor's authority	54,939	56,295	57,029	58,030	53,257	52,784
Judiciary	7,309	7,829	8,013	8,204	7,379	7,151
Other (2) (3)	4,766	6,403	7,171	7,421	7,119	7,085
Total	67,014	70,527	72,213	73,654	67,755	67,019

SOURCE: Executive Office for Administration and Finance

(1) Excludes employees whose positions are established in accounts funded by capital projects funds, direct federal grants, expendable trusts and other non-appropriated funds, as well as seasonal help, members of boards and commissions, and staff of independent authorities. Numbers represent full-time equivalent positions (FTEs), not individual employees. Total may not add due to rounding.

(2) Other includes staff of the Legislature and Executive Council, the office of the State Treasurer, Secretary, Auditor, and Attorney General, the eleven District Attorneys, and other agencies independent from the Governor; it excludes elected members of the Legislature and Executive Council.

(3) This includes the offices of several former county sheriffs which have become state agencies. FTE's from former county sheriffs' offices totaled 1,986 in 1998, 2,743 in 1999, 3,011 in 2000, 2,961 in 2001, 2,936 in 2002, and 2,941 in December 2002.

Commonwealth Pension Obligations

Acting Governor Swift's fiscal 2003 budget proposal filed on January 23, 2002, recommended funding the Commonwealth's pension obligations in accordance with a schedule that incorporated the January 1, 2001 actuarial valuation of the total pension obligation and would extend amortization of the unfunded pension liability from June 30, 2018 to June 30, 2028. On March 1, 2002 the Secretary of Administration and Finance submitted to the Legislature a new funding schedule reflecting this proposal and reflecting the increased unfunded liability reported in the PERAC valuation released in September 2001. Pursuant to this schedule the pension funding appropriation for fiscal 2002 would be reduced to $778.4 million (as proposed by the Acting Governor in legislation filed in February 2002) and the pension funding appropriation for fiscal 2003 would be $796.1 million.

On April 15, 2002, Acting Governor Swift and Legislative leaders agreed to a new schedule that incorporated the January 1, 2001 actuarial valuation and would extend amortization of the unfunded pension liability from June 30, 2018 to June 30, 2023. The schedule included updated estimates for the cost of enhanced teacher retirement benefits enacted in 2000 and preliminary cost estimates for the ERIP. The fiscal 2003 GAA appropriated $796.758 million to the Commonwealth's pension liability fund pursuant to this schedule.

Extended Funding Schedule for Pension Obligations
Reflected in General Appropriation Act
As Passed in July 2002
(in thousands)

Fiscal Year	Payments	Fiscal Year	Payments
2002	$ 778,408	2013	$1,277,830
2003	796,758	2014	1,335,728
2004	832,335	2015	1,396,298
2005	897,490	2016	1,459,663
2006	937,909	2017	1,525,956
2007	980,179	2018	1,595,315
2008	1,024,387	2019	1,667,884
2009	1,070,625	2020	1,743,815
2010	1,118,986	2021	1,823,265
2011	1,169,570	2022	1,906,403
2012	1,222,482	2023	1,993,402

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

PERAC prepared an actuarial valuation of the total pension obligation dated January 1, 2002, which was released on September 24, 2002. The unfunded actuarial accrued liability as of that date for the total obligation was approximately $7.369 billion, including unfunded actuarial accrued liabilities of $959 million for the State Employees' Retirement System, $4.908 billion for the State Teachers' Retirement System, $772 million for Boston Teachers and $730 million for cost-of-living increases. The valuation study estimated the total actuarial accrued liability as of January 1, 2002 to be approximately $39.067 billion (comprised of $15.961 billion for state employees, $20.620 billion for state teachers, $1.756 billion for Boston teachers and $730 million for cost-of-living increases). Total assets were valued at approximately $31.699 billion, which reflected the five-year average valuation method and equaled 110.4% of market value.

COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES

Capital Spending Plan

The following table sets forth Commonwealth capital spending for fiscal 1997 through 2002 and the Commonwealth's five-year capital plan for fiscal 2003 through 2007. Historical spending is presented in a manner consistent with the five-year plan. See the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Commonwealth Historical and Proposed Capital Spending."

Commonwealth Historical and Proposed Capital Spending

(in millions)(1)

USES:	1998	1999	2000	2001(11)	2002	Est. 2003	Est. 2004	Est. 2005	Est. 2006	Est. 2007
Information technology	$ 86	$ 111	$ 68	$ 64	$ 86	$ 86	$ 115	$ 105	$ 105	$ 105
Infrastructure	237	224	197	179	235	282	279	252	252	252
Environment	141	132	142	140	156	129	125	125	125	125
Housing	80	82	80	79	106	114	113	101	101	101
Public Safety	16	12	15	23	8	41	29	21	21	21
Transportation(2)	1,969	2,029	2,006	1,990	1,233	2,028	1,632	1,290	923	710
Economic development(3)	119	98	98	226	250	350	222	47	44	54
Reserve(4)	--	--	--	--	--	1	26	114	117	107
Total Uses	$ 2,648	$2,687	$2,606	$2,701	$2,732	$3,030	$2,540	$2,055	$1,688	$1,475
SOURCES:										
Long-Term Debt										
GO Debt Subject to Statutory Limit	$ 1,000(6)	$1,000(7)	$1,000	$1,007	$1,152(5)	$1,225	$1,200	$1,200	$1,200	$1,200
GO Debt Not Subject to Statutory Limit	--	26	133	482	695	576	103	100	--	--
Special Obligation Debt	--	--	--	176	139(10)	259	148	--	--	--
Grant Anticipation Notes	295	412	408	353	9	--	--	--	--	--
Operating Revenues(8)(9)	159	252	96	141	195	27	480	283	22	--
Third-Party Payments	405	412	481	82	52	245	117	134	185	--
Federal Reimbursements	788	586	487	460	490	698	492	338	281	275
Total Sources	$2,648	$2,687	$2,606	$2,701	$2,732	$3,030	$2,540	$2,055	$1,688	$1,475

SOURCES: Fiscal 1998-2002, Office of the Comptroller; Fiscal 2003-2007, Executive Office for Administration and Finance. Breakdown of CA/T Project, CA/T Project.

(1) Totals may not add due to rounding. Uses include statutory basis expenditures including applicable fringe benefits and the transfer to Affordable Housing Trust in the amount of $20 million per year as mentioned in footnote (10) below, but exclusive of other transfers. Fiscal 2000 includes $325 million of one-time transfers to "forward-fund" the MBTA.

(2) Includes CA/T Project spending of $1.428 billion, $1.515 billion, $1.464 billion, $1.303 billion and $1.187 billion in fiscal 1998 through fiscal 2002, respectively. CA/T Project estimated spending from fiscal 2003-2006 is $1.254 billion, $907 million, $588 million and $221 million, respectively. See "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES—Central Artery/Ted Williams Tunnel Project; *CA/T Project Cash Flow*".

(3) Includes amounts formerly labeled "Wastewater Treatment." For fiscal 2001 through fiscal 2005, also includes approximately $669 million for convention centers in Boston, Worcester and Springfield that are expected to be funded permanently by special obligation bonds.

(4) Reserve for unanticipated capital spending needs within a given fiscal year, to be allocated among the listed categories. Fiscal 2002 includes $91 million in pay-as-you-go funds. Fiscal 2003 reserve includes $31 million of pay-as-you-go funds.

(5) Legislation was enacted which converted $115 million of pay-as-you-go projects to bond projects. The legislation resulted in a transfer of $115 million to the Commonwealth's General Fund for the purpose of balancing the fiscal 2002 operating budget. Most of the affected projects were to be absorbed under fiscal 2002 administrative bond cap. The remaining projects will be absorbed under the fiscal 2003 bond cap.

(6) Includes $19 million for the Worcester Convention Center expected to be funded permanently by special obligation bonds. See footnote 3.

(7) Includes $11 million for convention center payments expected to be funded permanently by special obligation bonds. See footnote 3.

(8) Estimates for fiscal 2003 through 2007, inclusive, include funds on deposit and certain dedicated fees and earnings.

(9) Tax revenue in the amount of $45 million is scheduled to be transferred to the Capital Needs Investment Trust ("CNIT") annually through fiscal 2005. This pay as you go money is not included in the above chart, but includes annual payments of $20 million to the Affordable Housing Trust, $11 million for information technology improvements and projects at the Department of Education, and $14 million for deferred maintenance at state facilities. The fiscal 2003 General Appropriation Act reduces funding for the CNIT from $45 million to $23 million. Payments will be as follows: $20 million to the Affordable Housing Trust, $3 million is to be expended by the Department of Education.

(10) Includes $74.0 million subject to the Statutory Debt Limit. See the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Statutory Debt Limit on Direct Debt."

(11) Fiscal 2001 has been restated to conform to the presentation of fiscal 2002.

Central Artery/Ted Williams Tunnel Project

Progress/Schedule Update. As of December 31, 2002, CA/T Project construction was 86.8% complete. As of that date, approximately $13.3 billion was under contract or agreement and approximately 91% of all construction scope was under contract. On January 18, 2003, the I-90 extension to the Ted Williams Tunnel and East Boston/Logan Airport was opened to general traffic. As of January 31, 2003, the CA/T Project was projecting an opening of I-93 Northbound in March 2003. This schedule delay is due to delays in completion of components of the Integrated Project Control System, which slowed the opening of I-90. The CA/T Project is currently exploring schedule initiatives to mitigate the impact of this delay; however, without schedule initiatives, there will be a corresponding delay in the remaining other CA/T Project milestones' opening dates. Additional schedule costs associated with these dates are currently within the CA/T Project schedule contingency budget. Current trends indicate the following opening dates for the CA/T Project:

Milestone:	Current Trend
I-93 northbound opening:	March 2003
I-93 initial southbound opening:	March 2004
I-93 complete southbound opening:	February 2005
CA/T Project substantial completion:	May 2005

October 2002 Finance Plan. In the Turnpike Authority's most recent annual cost and schedule update ("CSU 9"), the CA/T Project projected that its budget would remain at $14.625 billion. The CSU 9 contingency account was budgeted at $334.9 million, of which approximately $62 million was allocated for unanticipated risks. CSU 9 is the basis for the budget and schedule portion of the Turnpike Authority's annual finance plan which was filed with the Federal Highway Administration ("FHWA") for approval on August 31, 2002 (the "October 2002 Finance Plan"). Federal approval has not yet been attained, with the result that commencing October 1, 2002, the U.S. Department of Transportation is withholding future obligation of federal funds for the CA/T Project. This withholding is not expected to adversely affect CA/T Project cash flow, assuming that federal approval is obtained by August 31, 2003.

The Executive Office for Administration and Finance engaged an independent auditor to review and evaluate CSU 9, as required for the U.S. Department of Transportation's approval of the October 2002 Finance Plan. In its final report dated September 30, 2002, the independent auditor did not recommend an increase to the overall CA/T Project budget of $14.625 billion. However, the auditor found that an I-90 opening of January 2003, an I-93 northbound opening of March 2003 and an I-93 southbound opening of May 2004 are more likely than the projected opening dates stated by the Turnpike Authority in CSU 9.

On July 26, 2002, FHWA announced its estimate of the total CA/T Project cost to be $14.46 billion in connection with its annual budget review of the CA/T Project. On July 22, 2002, the Massachusetts State Auditor issued an interim report concluding that the CSU 9 projected budget of $14.625 billion is overfunded by approximately $88 million.

The U.S. Department of Transportation Office of the Inspector General and the General Accounting Office have taken a position that monies realized from the resale of property originally purchased with federal funds should retain their federal character and not become state funds. FHWA, which has responsibility for issuing and interpreting regulations on the subject, disagrees with that interpretation and has taken a position that such monies become state funds upon resale of such property. The Turnpike Authority has budgeted $87 million for CA/T Project costs from the projected resale of its Kneeland Street properties, which fall into this category, in the October 2002 Finance Plan. Senator John McCain has requested the U.S. Secretary of Transportation to abolish the federal rule allowing characterization of such monies as state funds. If FHWA changes its position, the CA/T Project would be required to replace approximately $50-60 million of newly characterized federal funds with state funds in order to maintain compliance with the $8.549 billion cap on federal funding for the CA/T Project. In the event this were to occur, the CA/T project would seek a reallocation by the Commonwealth of federal highway program funds so as not to increase the total cost of the CA/T Project or alter the cash flow of CA/T Project funding. Alternatively, the CA/T Project estimates that sale or lease of additional surface artery real estate could yield additional funds beyond the current estimated CA/T Project budget; however, use of such funds would be limited to the extent such properties were originally purchased with federal funds, similar to the Kneeland Street properties. If reallocation of federal funds or realization of sufficient additional revenues from surface artery real estate or other sources were not possible, the CA/T Project could potentially face a revenue shortfall.

Claims and Economic Risks. Each annual finance plan, including the October 2002 Finance Plan, budgets for the potential cost of change orders on all awarded and unawarded contracts. Any dollar amount associated with an individual claim or issue, or the sum of claims or issues, may not reflect the ultimate impact, if any, on the final CA/T Project cost. The contract claim of Honeywell Technology Solutions, Inc. received on March 16, 2002 now totals $123.9 million. As a result of negotiations between the CA/T Project and Honeywell on the claim, the parties have entered into an agreement dated October 18, 2002, reaffirming contract metrics and schedule milestone dates. While Honeywell has completed its work in relation to the I-90 opening, significant work remains to be completed by Honeywell, including installation of systems necessary to open the roadway. If Honeywell fails to perform work on an accelerated basis or if Honeywell were to abandon the contract, it might result in a substantial and material impact to CA/T Project cost and schedule.

The current weak economy and resolution of contractor claims, including global settlements, at amounts lower, and/or received later, than anticipated by contractors, among other factors, create cash flow and credit issues for affected CA/T Project contractors. Such financial difficulty could affect the ability of a contractor to complete CA/T Project contract work. If an affected contractor with significant critical path contract work toward an overall project completion milestone were to become insolvent, or otherwise fail to complete its contract work, it is possible that there would be a substantial and material impact on CA/T Project schedule and cost.

Bond Ratings. On October 23, 2002, Fitch Ratings downgraded the Massachusetts Turnpike Authority's Metropolitan Highway System revenue bonds. The senior bonds went from a rating of A to BBB+ and the subordinate bonds went from a rating of A- to BBB. The rating outlook on these bonds is stable. On January 23, 2003, Moody's Investors Service also downgraded the Massachusetts Turnpike Authority's Metropolitan Highway System revenue bonds. The senior bonds were downgraded from A2 to A3, and the subordinate bonds were downgraded from A3 to Baa1. These ratings downgrades did not affect the Massachusetts Turnpike Authority's Western Turnpike revenue bonds, which are separate from the Metropolitan Highway System. Both Fitch Ratings and Moody's Investors Service affirmed their ratings and stable outlook on the Western Turnpike revenue bonds. For further information please consult Fitch Ratings and Moody's Investors Service, respectively.

Toll Discount Program. On July 1, 2002, a toll discount program for members of the FASTLANE Program who operate non-commercial two-axle passenger vehicles went into effect, providing a 50% discount on the amount of the July 1, 2002 toll rate increase to participants. To finance the toll discount program for six months, the Turnpike Authority board voted to transfer $9 million from the Turnpike Authority's general fund to a special sub-account within the general fund. In December 2002, the Turnpike Authority extended the toll discount program until March 31, 2003, due to less than anticipated costs of funding the program. In order to fund the toll discount program beyond March 31, 2003, additional revenues must be secured. To generate additional revenues for the continuation of the toll discount program, the board has made several proposals, most of which would require legislation, study and hearings before implementation.

Legislation passed on July 31, 2002, contained provisions that could be interpreted as requiring that the toll discount program be made permanent. It is the position of the Turnpike Authority that the toll discount program remains subject to annual evaluation by the Turnpike Authority board and available funding, and is subordinate to payments for Western Turnpike and Metropolitan Highway System debt service and expense commitments. If the Legislature requires the toll discount program be made permanent without providing offsetting funding, the Turnpike Authority could potentially face a revenue shortfall. In addition, before any toll discount program could be made permanent, the Turnpike Authority's Trust Agreement would require the Turnpike Authority to deliver a certificate of an independent consultant verifying certain debt service coverage ratios to the trustee.

In July 2002, two individuals filed a purported class action against the Turnpike Authority in connection with the toll discount program. The case has been dismissed.

October 2001 Finance Plan. On June 13, 2002, the October 2001 finance plan was approved by FHWA, which approval enabled the CA/T Project to obligate federal funds for federal fiscal 2002.

CA/T Project Cash Flow. The table below provides cash flow estimates that were presented in the October 2002 Finance Plan. The estimates extend to fiscal 2006, when the final project close-out process is expected to be completed. Actual amounts and timing of construction costs may differ significantly from current estimates.

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

	Cumulative Through 2001(2)	2002	2003	2004	2005	2006	Totals
Project Construction Uses:	$10,468	$1,187	$1,254	$907	$588	$221	$14,625
Project Construction Sources:							
Federal highway reimbursements (3)	5,889	342	464	237	111	6	7,049
Commonwealth GO Bond/Note (4)	1,179	150	105	86	60	8	1,588
State Interest on Turnpike Authority Funds	24	--	21	--	--	--	45
Third Party Contributions (5)	1,590	16	13	112	131	90	1,950
GANs	1,467	33	--	--	--	--	1,500
Transportation Infrastructure Fund (6)	279	646	645	467	283	22	2,343
Insurance Trust Revenue	39	--	7	5	3	96	150
Total Sources	$10,468	$1,187	$1,254	$907	$588	$221	$14,625

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

(1) Totals may not add due to rounding.
(2) This chart is based on the Commonwealth's fiscal year. It should be noted that the Commonwealth's fiscal year ends on June 30 while the Turnpike Authority's fiscal year ends on December 31.
(3) Assumes the Transportation Equity Act for the 21st Century (TEA-21) successor legislation is passed for federal fiscal year 2004 and beyond. Projections assume federal authorizations equal to 2003 in federal fiscal 2004 – 2006.
(4) Does not include bonds or notes authorized by May 17, 2000 legislation, which are included in the Transportation Infrastructure Fund line.
(5) Payments to be received from the Turnpike Authority and the Port Authority described in the October 2000, 2001 and 2002 Finance Plans, but excluding payments to be received from the Turnpike Authority and the Port Authority as required by May 17, 2000 legislation. (The latter payments are included in the Transportation Infrastructure Fund line). The fiscal year amounts assume that the Commonwealth will finance costs in anticipation of such receipts through cash advances funded by general revenues or through the issuance of interim debt, if necessary.
(6) Central Artery and Statewide Road and Bridge Transportation Infrastructure Fund established pursuant to legislation approved by the Governor on May 17, 2000. Includes $200 million to be received from the Turnpike Authority and $65 million to be received from the Port Authority.

General Authority to Borrow and Types of Long-Term Liabilities

The following table sets forth the amount of Commonwealth debt and debt related to general obligation contract assistance liabilities outstanding as of January 1, 2003.

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

	Long-Term (2)	Short-Term
COMMONWEALTH DEBT		
General Obligation Debt (6)	$13,566,704(3)	$1,180,000(5)
Special Obligation Debt (7)	837,911	-
Federal Grant Anticipation Notes	1,499,325(4)	-
Subtotal Commonwealth Debt	$15,903,940	$1,180,000
DEBT RELATED TO GENERAL OBLIGATION CONTRACT ASSISTANCE LIABILITIES (1)		
Massachusetts Convention Center Authority	$ 38,527	-
Massachusetts Development Finance Agency	53,670	-
Foxborough Industrial Development Financing Authority	67,025	-
Subtotal GO Contract Assistance Debt	159,222	-
TOTAL	$16,063,162	$1,180,000

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

(1) Does not include general obligation contract assistance liabilities to the Massachusetts Water Pollution Abatement Trust and the Massachusetts Turnpike Authority. For such liabilities calculated as of January 1, 2002, see the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - General Obligation Contract Assistance Liabilities." These liabilities increased during fiscal 2002.

(2) Long-term debt includes discount and costs of issuance.

(3) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from January 1, 2003 through their maturity in the amount of $73.1 million.

(4) Includes capital appreciation interest accrued from January 1, 2003 through their maturity in the amount of $39.7 million.

(5) Includes $350 million of general obligation bond anticipation notes due September 1, 2003, which were issued to finance costs associated with the construction of the Boston Convention and Exhibition Center and other capital projects. (To the extent the proceeds of such notes are expended for the convention center, such notes are expected to be paid from the proceeds of special obligation bonds that can lawfully be issued regardless of the completion status of the convention center. See the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - Special Obligation Debt; *Boston Convention and Exhibition Center Fund*"). In addition, the total includes $180 million bond anticipation notes issued in March 2002 in anticipation of certain payments to be received by the Commonwealth from the Massachusetts Port Authority to reimburse Commonwealth for capital costs of the Central Artery/Ted Williams Tunnel Project. See the March Information Statement under the heading "2002 FISCAL YEAR – Cash Flow." In addition, in December 2002, the Commonwealth issued $700 million of commercial paper as revenue anticipation notes, of which $300 million remains outstanding as of February 19, 2003.

(6) On August 21, 2002 the Commonwealth sold $882,390,000 of general obligation refunding and new money bonds. Refunding bonds and new money bonds in the amounts, respectively, of $357,725,000 and $313,020,000 were delivered on September 10, 2002. Refunding bonds in the amount of $102,820,000 were delivered on November 5, 2002 and additional refunding bonds in the amount of $108,825,000 are expected to be delivered on May 6, 2003. In December 2002, the Commonwealth issued an additional $734.4 million of general obligation new money bonds for general capital purposes and to fund a working capital deficit related to the MBTA and $5.1 million of general obligation bonds as part of the U.Plan program.

(7) Includes $190.1 million of bonds, which, while not legally defeased, will be paid in fiscal 2003, 2004, 2006 and 2008 from funds held in escrow by a third-party trustee.

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

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

June 30	General Obligation Bonds (3)	Dedicated Income Tax Debt	Special Obligation Debt (6)	Federal Grant Anticipation Notes	Commonwealth Long-Term Debt Subtotal (2)	GO Contract Assistance Debt (4)	Total
1997	$ 9,620,633	$ 129,900	$ 520,760	--	$ 10,271,293	$ 145,314	$ 10,416,607
1998	9,872,598	--	606,005	$ 600,000	11,078,603	201,904	11,280,507
1999	10,301,011	--	585,730	921,720	11,808,461	174,884	11,983,345
2000	10,896,896	--	564,485	921,720	12,383,101	213,789	12,596,890
2001	11,957,934	--	542,195	1,499,325	13,999,454	189,489	14,188,940
2002	12,619,726	--	837,911	1,499,325	14,956,962	169,101	15,126,063
2002(5)	12,444,673	--	837,911	1,499,325	14,781,908	167,621	14,949,529
2003(7)	13,566,704	--	837,911	1,499,325	15,903,940	159,222	16,063,162

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

(1) Totals may not add due to rounding.
(2) Outstanding bond liabilities include discount and costs of issuance.
(3) Does not include dedicated income tax debt issued in fiscal 1991 and retired in fiscal 1998, which was general obligation debt also secured by a special pledge of income tax receipts. Commonwealth general obligation bonds include interest on capital appreciation bonds yet to be accrued from the end of the fiscal year indicated through their maturity in the following approximate amounts; fiscal 1997 – $198.6 million; fiscal 1998 – $305.8 million; fiscal 1999 – $315.4 million; fiscal 2000 – $286.8 million; and fiscal 2001 - $433.8 million, fiscal 2002 - $359.1 million.
(4) Includes bonds of the Massachusetts Convention Center Authority, the Massachusetts Development Finance Agency (as successor to the Massachusetts Government Land Bank) and the Foxborough Industrial Development Financing Authority.
(5) As of July 1, 2002.
(6) Includes $190.1 million of bonds, which, while not legally defeased, will be paid in fiscal 2003, 2004, 2006 and 2008 from funds held in escrow by a third-party trustee.
(7) As of January 1, 2003.

Proposed Capital Spending Authorizations

On July 31, 2002 the legislature passed the following bond bills in the respective appropriation amounts noted: $752 million for Division of Capital Asset Management, $301 million for Transportation, $509 million for Housing, and $754 million for Environmental Affairs.

The legislature also passed a $101.8 million capital outlay bill. This legislation will allow for bond funds to be used in place of certain pay-as-you-go capital funds previously transferred to the General Fund. See "RECENT DEVELOPMENTS—Fiscal 2002."

Debt Service Requirements on Commonwealth Bonds

The following table sets forth, as of January 1, 2003, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal grant anticipation notes. For variable rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate exchange agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. For other variable rate bonds and for auction rate securities, the schedule assumes a 5% interest rate.

Debt Service Requirements on Commonwealth Bonds as of January 1, 2003

(in thousands)(1)

	General Obligation Bonds				*Federal Grant Anticipation Notes*			*Special Obligation Bonds(1)*			
Fiscal Year	Principal	Interest on CABS at Maturity	Current Interest	Sub Total	Principal	Interest	Sub Total	Principal	Interest	Sub Total	Total Debt Service Commonwealth Bonds
2003	$188,621	$13,595	$271,001	$473,217	-	$37,411	$37,411	$24,865	$21,828	$46,693	$557,321
2004	657,919	68,020	667,951	1,393,891	-	74,822	74,822	26,070	42,449	68,519	1,537,232
2005	810,868	9,338	630,820	1,451,027	-	74,822	74,822	27,370	41,156	68,526	1,594,376
2006	801,391	4,536	590,894	1,396,821	$117,895	73,416	191,311	43,950	39,713	83,663	1,671,795
2007	830,264	5,189	550,515	1,385,968	123,825	67,486	191,311	46,775	37,566	84,341	1,661,620
2008	839,247	5,390	509,411	1,354,049	130,240	61,068	191,308	57,310	34,687	91,997	1,637,354
2009	838,522	6,235	466,388	1,311,145	137,230	54,077	191,307	42,020	31,833	73,853	1,576,305
2010	800,153	5,980	422,409	1,228,542	144,515	46,792	191,307	63,070	29,847	92,917	1,512,766
2011	812,966	6,468	377,127	1,196,561	152,230	39,080	191,310	46,190	26,585	72,775	1,460,646
2012	687,919	6,617	333,455	1,027,991	160,530	30,775	191,305	48,590	24,205	72,795	1,292,090
2013	691,148	7,402	295,894	994,444	168,470	22,837	191,307	51,115	21,653	72,768	1,258,519
2014	586,052	5,366	263,724	855,142	177,760	13,549	191,309	49,435	18,866	68,301	1,114,752
2015	566,557	4,668	234,436	805,662	186,630	4,674	191,304	78,525	16,298	94,823	1,091,788
2016	549,191	3,269	206,813	759,273	-	-	-	52,965	12,076	65,041	824,315
2017	558,446	1,954	179,897	740,297	-	-	-	43,710	9,265	52,975	793,272
2018	406,673	1,195	155,316	563,183	-	-	-	24,445	7,080	31,525	594,708
2019	403,112	639	134,940	538,690	-	-	-	25,755	5,766	31,521	570,211
2020	408,457	199	113,538	522,194	-	-	-	27,140	4,381	31,521	553,715
2021	540,502	104	89,874	630,479	-	-	-	28,590	2,931	31,521	661,999
2022	307,195	29	67,601	374,826	-	-	-	30,020	1,501	31,521	406,347
2023	128,955	-	54,008	182,963	-	-	-	24,866	43,657	68,522	182,963
2024	24,060	-	49,999	74,059	-	-	-	-	-	-	74,059
2025	30,059	-	48,627	78,686	-	-	-	-	-	-	78,686
2026	76,790	-	45,754	122,544	-	-	-	-	-	-	122,544
2027	125,660	-	40,678	166,338	-	-	-	-	-	-	166,338
2028	131,805	-	34,199	166,004	-	-	-	-	-	-	166,004
2029	192,485	-	25,917	218,402	-	-	-	-	-	-	218,402
2030	202,925	-	15,746	218,671	-	-	-	-	-	-	218,671
2031	212,570	-	5,062	217,632	-	-	-	-	-	-	217,632
2032	-	-	-	-	-	-	-	-	-	-	-
TOTAL	$13,410,510	$156,194	$6,881,996	$20,448,700	$1,499,325	$600,810	$2,100,135	$837,911	$429,686	$1,267,596	$23,816,431

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

(1) Includes $74.0 million not exempt from the Statutory Debt Limit. See the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Statutory Debt Limit on Direct Debt."

LEGAL MATTERS

Update of Existing Litigation

Sherwin-Williams Co. v. Commissioner of Revenue, Supreme Judicial Court. On October 31, 2002, the Supreme Judicial Court issued its decision reversing the ruling of the Appellate Tax Board. The Appellate Tax Board had upheld a determination by the Commissioner of Revenue that certain royalties paid by Sherwin-Williams regarding transfer and licensing-back transactions between Sherwin-Williams and two wholly-owned subsidiaries were not properly deductible. Sherwin-Williams had requested an abatement in the amount of $59,445.40 in corporate excise taxes. However, the holding of the Court may apply to other corporate excise taxpayers generally. The Governor has proposed legislation to remove these deductions. See "RECENT DEVELOPMENTS—Fiscal 2003." The Commissioner of Revenue has filed a petition for rehearing in the Supreme Judicial Court.

Bates v. Director of the Office of Campaign and Political Finance, Supreme Judicial Court. Plaintiffs alleged that the Director of the Office of Campaign and Political Finance was violating the Clean Elections law by declining to distribute public campaign finance funds to qualifying candidates absent a legislative appropriation for that purpose. On January 25, 2002, the Supreme Judicial Court ruled on the merits that the Legislature has a constitutional duty either to appropriate funds necessary to implement the Clean Elections law, or to repeal the law. On February 25, 2002, the Court ruled that candidates who have been certified under the Clean Elections law, but who have not received funding due to the lack of appropriated funds, are entitled to the entry of money judgments against the Commonwealth in amounts equal to the amount of Clean Elections funding due them. The Court accordingly ordered judgment for one plaintiff in the amount of $811,050. That judgment was partially satisfied on February 28, 2002, out of an account appropriated for the payment of damages awards generally, but no further appropriated money is currently available to pay the remainder of the judgment. Plaintiffs moved for an order permitting them to execute the judgment on various funds in the state Treasury, notwithstanding the absence of an appropriation; that motion was denied by a single justice of the Supreme Judicial Court on March 12, 2002. On April 5, 2002 a single justice of the Supreme Judicial Court granted plaintiffs' motion for issuance of executions to be satisfied by levy and sale of the Commonwealth's real or personal property. Plaintiffs' motion to shorten the notice period for sales of real property, and to set aside any surplus proceeds of such sales to be used to satisfy future judgments, was denied. Subsequently, certain Commonwealth property has been sold at auction to satisfy some of the outstanding portion of the existing judgments, and plaintiffs have identified other Commonwealth property upon which to levy for the balance. On June 11, 2002, the Director of the Office of Campaign and Political Finance advised the Senate Ways and Means Committee that, given the number of candidates who had qualified or still could qualify for Clean Elections funding during the 2002 election cycle, the maximum amount required to fund the Clean Elections system for the 2002 election cycle was estimated at $9,553,461. Subsequent to the conclusion of the 2002 election cycle, the case has been dismissed as moot.

Tolman v. Finneran, United States District Court, C.A. No. 01-10756-PBS. The appeal was dismissed the First Circuit as moot and the district court order was vacated as moot.

Massachusetts Ambulance Association v. Division of Medical Assistance, Suffolk Superior Court No. 00-1262-B. The case has been settled on the following terms. Defendants have agreed to increase prospectively the rates paid to ambulance services under the Medicaid program. The rates will increase by approximately $15-18 million per year, with half of the amount of the increase to be reimbursed by the federal government. The settlement does not provide relief for prior years.

Massachusetts Extended Care Federation et al. v. Division of Health Care Finance and Policy and Division of Medical Assistance, et al. A nursing home trade association along with eight individual nursing facilities have sued the Division of Medical Assistance and the Division of Health Care Finance and Policy seeking to preliminarily and permanently enjoin the existing Medicaid payment rates established for nursing facilities by the Division of Health Care Finance and Policy and to implement higher rates. Plaintiffs challenge several components of the nursing facility rate-setting regulation, including but not limited to the cost adjustment factor, the occupancy standard, standard payments for nursing, the Administrative & General allowance and the total payment adjustment. On February 11, 2002, a hearing on plaintiffs' motion for a preliminary injunction was held in Suffolk Superior Court. Following the hearing, the Court issued an order denying said motion, finding that the plaintiffs failed to show a risk of imminent, irreparable harm. The staff at the Division of Health Care Finance and Policy estimates that if the plaintiffs are successful on all claims, the Commonwealth's liability could exceed $300 million annually, but that such an outcome is unlikely on the merits of the claims. A stipulation of dismissal without prejudice was filed on July 30, 2002.

Rolland v. Romney (U.S. Court of Appeals for the First Circuit No. 02-1697). This case is a class action brought by a group of adults with mental retardation or other developmental disabilities residing in Massachusetts nursing homes, to compel the Commonwealth to provide certain services to nursing home residents with mental retardation. In January 2000, the District Court approved a settlement agreement among the parties providing that the Commonwealth would offer certain benefits to the affected class until 2007. In March 2001, the District Court found the Commonwealth to be in noncompliance with the settlement agreement, and lifted the agreement's stay of litigation. In May 2002, the District Court held that the Commonwealth was in violation of federal law as well as the agreement by its failure to provide specialized services to residents who required them. The Commonwealth appealed the decision of the District Court. On January 28, 2003, the U.S. Court of Appeals for the First Circuit affirmed the decision of the District Court.

New England Division of the American Cancer Society, et al. v. Sullivan, et al., Supreme Judicial Court for Suffolk County No. SJC-02-0092. On June 14, 2002 the Court issued a decision finding in favor of Acting Governor Swift.

Boston & Maine Railroad v. Commonwealth, Middlesex Superior Court C.A. No. 99-3928E. The plaintiff sought $29 million for a taking of land in Cambridge for the CA/T Project. The case was settled for $18.6 million. Judgment was entered on December 10, 2002.

Athol Memorial Hospital v. Commissioner of the Division of Medical Assistance. On August 6, 2002, the Supreme Judicial Court held that the plaintiff hospitals, which had failed to exhaust their administrative remedies when their claims for Medicaid reimbursement were denied, could not later challenge the validity of the Division of Medical Assistance regulations via a breach of contract action.

Massachusetts Hospital Association, et. al., v. Commissioner of the Division of Medical Assistance (Suffolk Superior Court Nos. 99-2324-E and 99-0750-C). The Superior Court, on June 20, 2002, ruled in favor of the Division of Medical Assistance, finding that the Division of Medical Assistance complied with the mandate of the Supreme Judicial Court and that its new regulations were valid. Plaintiff hospitals did not appeal.

Hancock v. Driscoll (formerly *McDuffy v. Robertson*), Supreme Judicial Court. On June 27, 2002, the Single Justice transferred the case to the Superior Court for discovery and trial. A judge of the Superior Court has established a schedule for the case pursuant to which it will be tried. The amount of expenditures ultimately sought by the plaintiffs or required of the Commonwealth is uncertain but could be many hundreds of millions of dollars.

Brown Rudnick v. Commonwealth, Suffolk Superior Court. In an early ruling in the case, the Court found that Brown Rudnick's arguments may ultimately inure to the benefit of all five law firms that represented the Commonwealth in the legal action against tobacco manufacturers. The effect of this ruling is to increase the potential exposure for the Commonwealth from $500 million to approximately $1.3 billion.

Rosie D. v. Governor, First Circuit Court of Appeals. The plaintiff asserted claims under the Early and Periodic Screening, Diagnostic and Treatment provisions of the federal Medicaid law. Specifically, the plaintiffs assert that the Commonwealth is required to, yet does not, provide them with intensive home-based mental health services. The Governor's motion to dismiss based on sovereign immunity was denied in the United States District Court. An appeal from that ruling was argued before the First Circuit Court of Appeals on September 11, 2002. On November 7, 2002, the First Circuit Court of Appeals affirmed the United States District Court's denial of the Governor's motion. The plaintiffs have not quantified the cost of the services they seek, but it could amount to more than $20 million.

Hingham Healthcare v. Division of Health Care Finance and Policy, Suffolk Superior Court. This case challenges the capital component (approximately 11%) of the overall rate paid to nursing facilities by Medicaid. Should the plaintiffs be successful, potential liability would range from $10-20 million per year in increased rates.

The Superior Court granted the Commonwealth's motion for summary judgment on July 19, 2002. Plaintiffs have filed a notice of appeal.

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

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, is engaged in preliminary discussions with federal Natural Resource Trustees, including the United States Army and Air Force, the Department of Interior and the National Oceanic and Atmospheric Administration regarding natural resource damages at the Massachusetts Military Reservation on Cape Cod. The Commonwealth's Executive Office of Environmental Affairs is the State Natural Resources Trustee. Federal Trustees claim that the Commonwealth and others are liable for natural resource damages due to widespread contamination primarily from past military activities at the Reservation. This asserted liability also may extend to response actions and related activities necessary to remediate the site. The assessment process for natural resource damages is set forth in federal regulations and is expected to take many months to complete. 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.

Goodridge v. Commissioner of Public Health, Supreme Judicial Court. In this case, seven same-sex couples claim a statutory or constitutional right to marry and receive marriage-related benefits. Depending on the scope of the court's decision, a decision in the plaintiffs' favor could cost the Commonwealth an indeterminable amount in various forms of state tax deductions and benefits. The Superior Court granted summary judgment in favor of the defendant. Plaintiffs have appealed and the Supreme Judicial Court will hear plaintiffs' appeal in March, 2003.

Dzialo v. Greenfield, Franklin Superior Court. In this case, an 11-year old boy suffered severe injuries while attending a camp program at Greenfield Community College. During a water rescue simulation, the boy's foot became caught between rocks and he was submerged for over twenty minutes, suffering catastrophic brain injuries, which will likely be permanent. The plaintiffs allege civil rights and negligence claims. The plaintiff's expert witness estimates total damages at approximately $80 million, which includes compensatory damages to care for the boy the remainder of his life. The cap on the negligence claims is $300,000 under the Massachusetts Tort Claims Act. The plaintiffs, however, are alleging civil rights violations, which are not subject to the cap.

In *Tenneco, Inc. v. Commissioner of Revenue* (Appellate Tax Board Nos. F162137-F162140), the taxpayer sought $34.3 million in excise taxes and interest. On September 6, 2000, the Appellate Tax Board issued findings of fact and a report in support of its 1998 decision in favor of the Commissioner. On October 31, 2000, the taxpayer filed a notice of appeal. On January 9, 2003, the Appeals Court affirmed the decision of the Appellate Tax Board.

Spaulding Rehabilitation Hospital Corporation v. Massachusetts Highway Department (Suffolk Superior Court No. 95-4360C) and *Spaulding Rehabilitation Hospital Corp. v. Commonwealth* (Suffolk Superior Court No. 99-5733-E). In a settlement agreement approved by the Superior Court effective January 29, 2003, the parties settled both actions. The Commonwealth agreed to pay an additional $16 million to the plaintiff. The plaintiff agreed to dismiss its appeal in 95-4360.

CONTINUING DISCLOSURE

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

AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding this Information Statement or requests for additional information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900 (ext. 564), or to David Westervelt, Fiscal Affairs Division, Executive Office for Administration and Finance, State House, Room 272, Boston, Massachusetts 02133, telephone 617/727-2081. Questions regarding legal matters relating to this Information Statement should be directed to Lawrence D. Bragg, III, Ropes & Gray, One International Place, Boston, Massachusetts 02110, telephone 617/951-7000.

THE COMMONWEALTH OF MASSACHUSETTS

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

By /s/ Eric A. Kriss
Eric A. Kriss
Secretary of Administration and Finance

February 28, 2003

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ECONOMIC INFORMATION

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

All information is presented on a calendar-year basis unless otherwise indicated. **Information is current as of January 3rd, 2003.** Sources of information are indicated in the text or immediately following the charts and tables. Although the Commonwealth considers the sources to be reliable, the Commonwealth has made no independent verification of the information presented herein and does not warrant its accuracy.

Statistical Overview

	Massachusetts	United States
Population ***(p. A-2)***		
Percentage Change in Population, 2000–2001	0.5%	1.2%
Personal Income, Consumer Prices, and Poverty ***(p. A-7)***		
Per Capita Personal Income, 2001	$38,907	$30,472
Average Annual Pay, 2001(p)	$44,976	$36,214
Percentage Change in CPI-U, 2000-2001**	4.3%	2.8%
Percentage Change in CPI-U, Nov. 2001–Nov. 2002**	4.0%	2.2%
Poverty Rate, 2001	8.9%	11.7%
Average Weekly Manufacturing Earnings, Nov. 2002(p)	$648.97	$634.68
Percentage Change in Manufacturing Earnings, Nov. 2001-Nov. 2002(p)	2.2%	3.5%
Employment ***(p. A-18)***		
Unemployment Rate, 2001	3.7%	4.8%
Unemployment Rate, Nov. 2002	5.0%	6.0%
Economic Base and Performance ***(p. A-28)***		
Percentage Change in Gross State Product, 1999-2000	7.1%	4.5%
Percentage Change in International Exports, 2000-2001	-14.7%	-6.3%
Percentage Change in Housing Permits Authorized, 2000-2001	-4.0%	2.5%
Human Resources and Infrastructure ***(p. A-42)***		
Expenditure Per Pupil, 2002 (estimate)	$9,883	$7,524
Percentage Adults with a Bachelor's Degree, March 2000	33.2%	24.4%

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

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

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

Population Characteristics

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

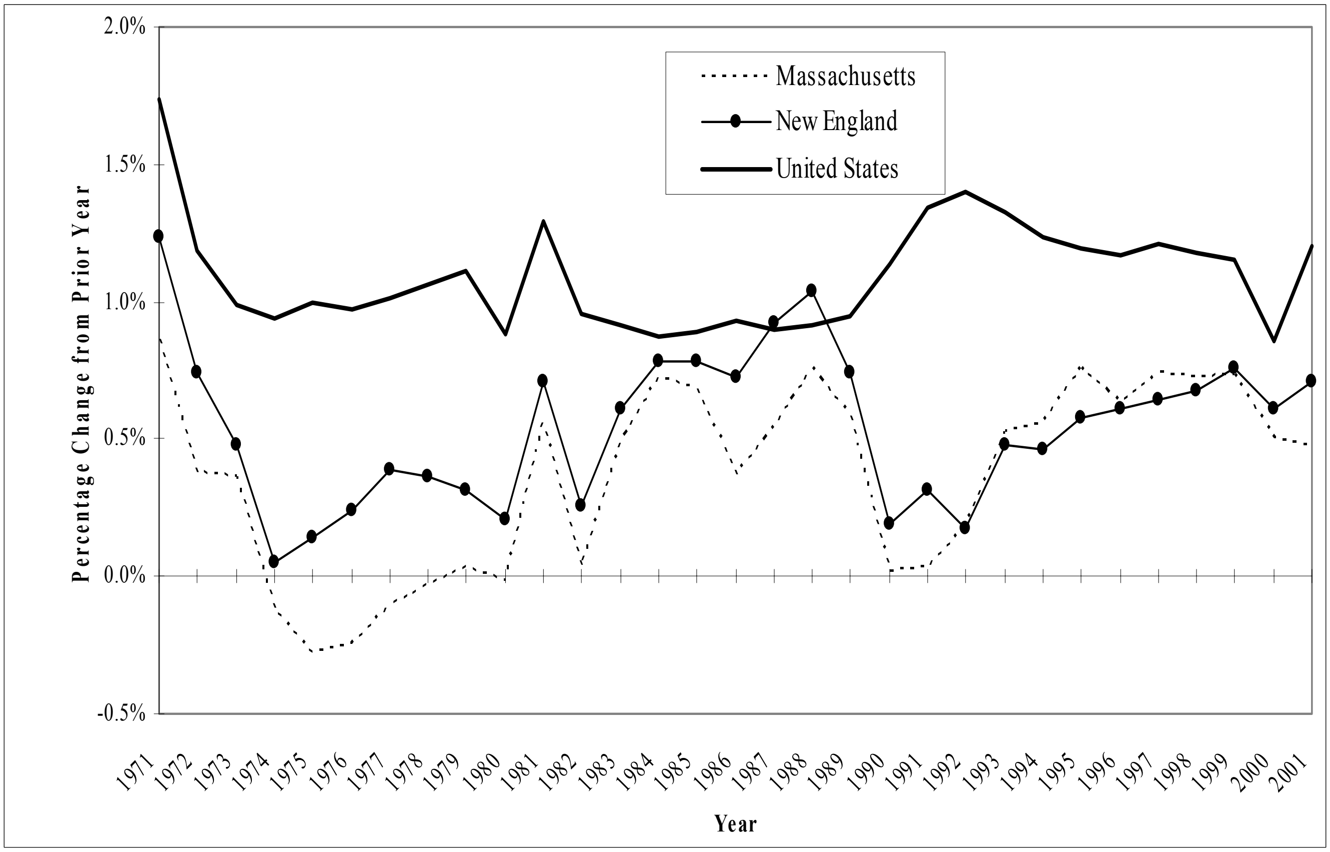
The State's population is concentrated in its eastern portion. The City of Boston is the largest city in New England, with a 2000 population of 589,141. Boston is the hub of the Boston-Worcester-Lawrence, MA-NH-ME-CT Consolidated Metropolitan Statistical Area ("CMSA"), which also includes all of southeastern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

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

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

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

Percentage Change in Total Population, 1971-2001



SOURCE: United States Department of Commerce, Bureau of the Census.
Note: 1980, 1990, and 2000 census counts are as of April 1; estimates for other years are as of July 1.

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

Population, 1970-2001
(in thousands)

	Massachusetts		***New England***		***United States***	
Year	*Total*	*Percentage Change*	*Total*	*Percentage Change*	*Total*	*Percentag e Change*
1970	5,689		11,847		203,302	
1971	5,738	0.9%	11,993	1.2%	206,827	1.7%
1972	5,760	0.4%	12,082	0.7%	209,284	1.2%
1973	5,781	0.4%	12,140	0.5%	211,357	1.0%
1974	5,774	-0.1%	12,146	0.0%	213,342	0.9%
1975	5,758	-0.3%	12,163	0.1%	215,465	1.0%
1976	5,744	-0.2%	12,192	0.2%	217,563	1.0%
1977	5,738	-0.1%	12,239	0.4%	219,760	1.0%
1978	5,736	0.0%	12,283	0.4%	222,095	1.1%
1979	5,738	0.0%	12,322	0.3%	224,567	1.1%
1980	5,737	0.0%	12,348	0.2%	226,546	0.9%
1981	5,769	0.6%	12,436	0.7%	229,466	1.3%
1982	5,771	0.0%	12,468	0.3%	231,664	1.0%
1983	5,799	0.5%	12,544	0.6%	233,792	0.9%
1984	5,841	0.7%	12,642	0.8%	235,825	0.9%
1985	5,881	0.7%	12,741	0.8%	237,924	0.9%
1986	5,903	0.4%	12,833	0.7%	240,133	0.9%
1987	5,935	0.5%	12,951	0.9%	242,289	0.9%
1988	5,980	0.8%	13,085	1.0%	244,499	0.9%
1989	6,015	0.6%	13,182	0.7%	246,819	0.9%
1990	6,016	0.0%	13,207	0.2%	249,622	1.1%
1991	6,018	0.0%	13,248	0.3%	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	6,271	0.7%	13,734	0.7%	275,854	1.2%
1999	6,317	0.7%	13,838	0.8%	279,040	1.2%
2000	6,349	0.5%	13,923	0.6%	281,422	0.9%
2001	6,379	0.5%	14,022	0.7%	284,797	1.2%

SOURCE: United States Department of Commerce, Bureau of the Census.
Note: 1970, 1980, 1990, and 2000 census counts are as of April 1; estimates for other years are as of July 1.

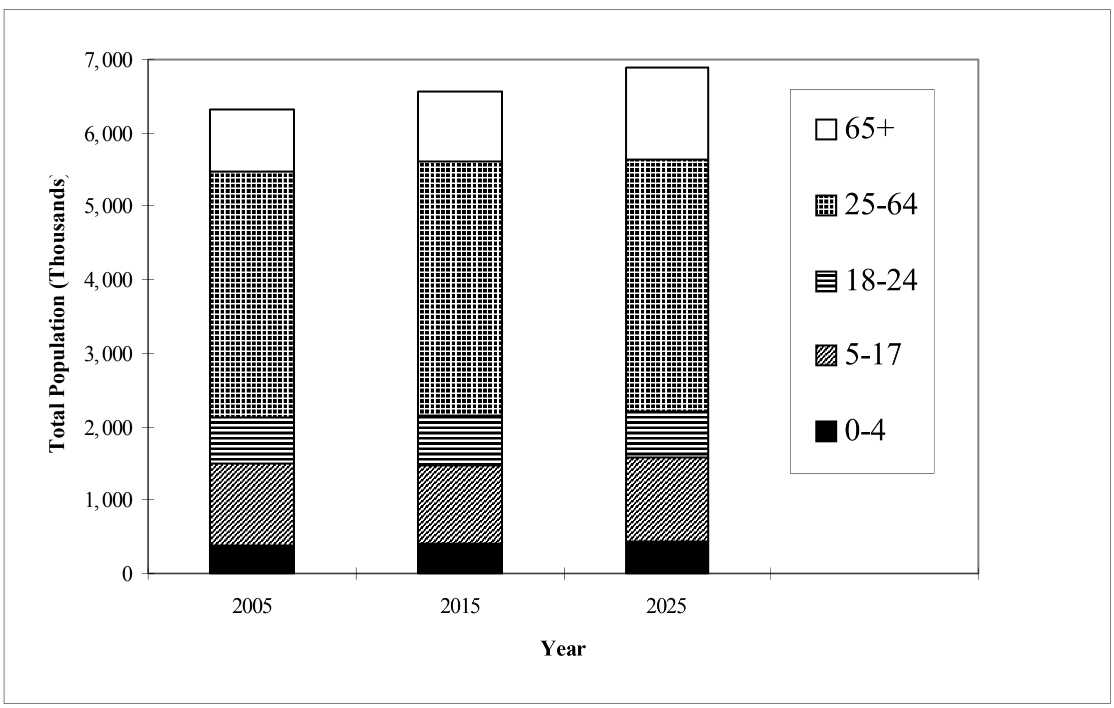
The next fifteen years are expected to bring about a considerable change in the age distribution of the Massachusetts population. As the following table and chart show, the population of Massachusetts is expected to be distributed more heavily in the 65 and over age groups in 2015 and in 2025. The chart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

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

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

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

Projected Massachusetts Population By Age Group, 2005-2025



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

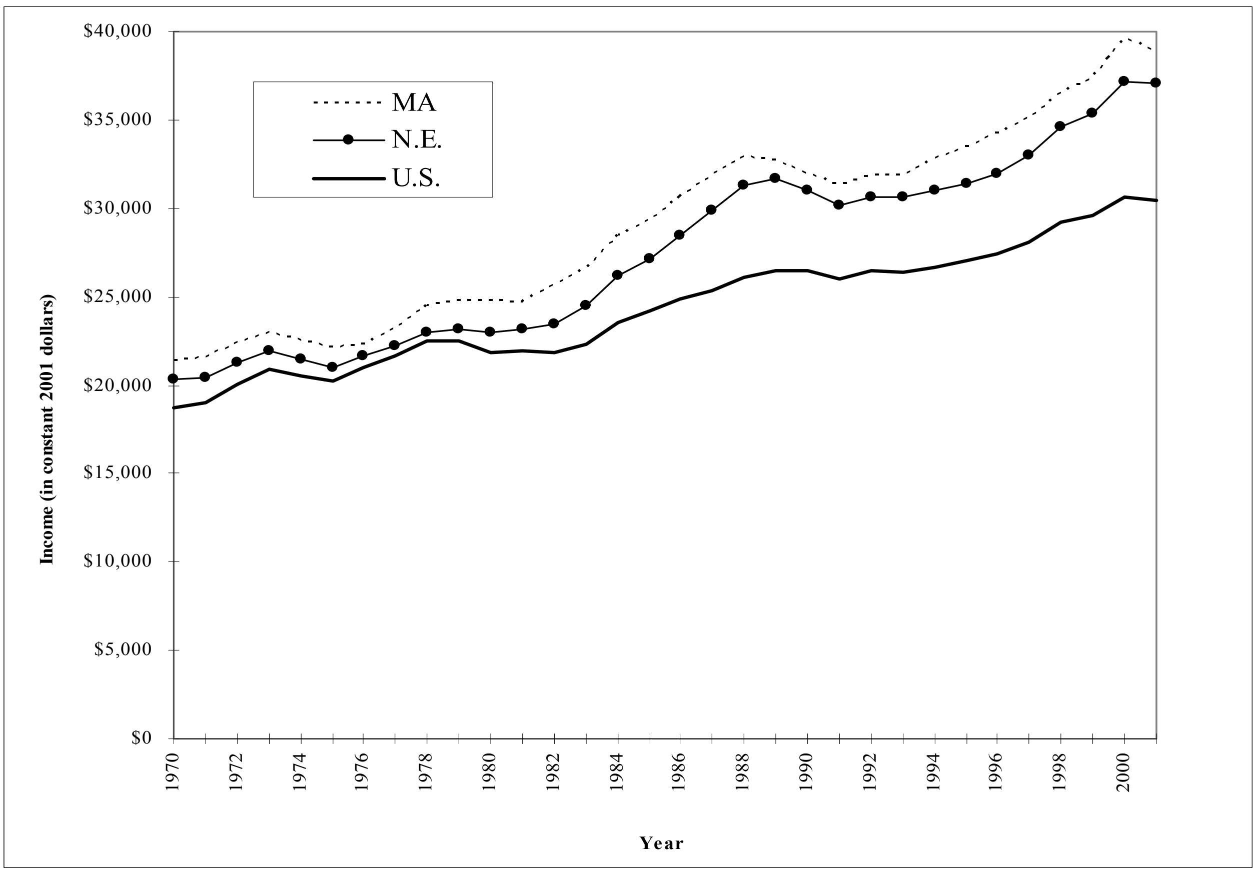
Massachusetts Population by County
1990 and 2000 Census

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

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

Personal Income. Since 1970, real and nominal per capita income levels have been consistently higher in Massachusetts than in the United States. After growing at an annual rate higher than that for the United States between 1982 and 1988, real income levels in Massachusetts declined between 1989 and 1991. Real per capita income levels in Massachusetts have increased faster than the national average between 1993 and 1997, showing growth rates between 0.3 and 3.8 percent in this period. In 1999 Massachusetts had its highest per capita income growth in 15 years, exceeding the national growth rate by 1.6 percentage points. In 2001(p), nominal and real income in Massachusetts and the United States has shown a slight decline. Even with slight declines in income, both real and nominal income levels in Massachusetts remain well above the national average. Massachusetts had the third highest level of per capita personal income in the United States in 2001(p). The following chart illustrates real per capita personal income in Massachusetts, New England, and the United States since 1970.

Real Per Capita Personal Income, 1970-2001
(in constant 2001 dollars)



Note: 2001 figure is a preliminary estimate.

The following table compares per capita personal income in Massachusetts, New England, and the United States for the period 1970-2001(p)

Per Capita Personal Income, 1970-2001 (p)

	Nominal Income (in current dollars)			***Real Income (in 2001 dollars)***			***Percentage Change in Real Income***		
Year	*MA*	*N.E.*	*U.S.*	*MA*	*N.E.*	*U.S.*	*MA*	*N.E.*	*U.S.*
1970	$4,486	$4,453	$4,095	$21,370	$20,325	$18,691			
1971	4,748	4,680	4,348	21,546	20,465	19,013	0.8%	0.7%	1.7%
1972	5,106	5,031	4,723	22,375	21,316	20,011	3.8%	4.2%	5.2%
1973	5,551	5,490	5,242	22,959	21,898	20,909	2.6%	2.7%	4.5%
1974	6,024	5,970	5,720	22,531	21,446	20,548	-1.9%	-2.1%	-1.7%
1975	6,439	6,363	6,155	22,098	20,946	20,261	-1.9%	-2.3%	-1.4%
1976	6,994	6,959	6,756	22,323	21,660	21,028	1.0%	3.4%	3.8%
1977	7,636	7,612	7,421	23,174	22,246	21,687	3.8%	2.7%	3.1%
1978	8,480	8,465	8,291	24,457	22,993	22,520	5.5%	3.4%	3.8%
1979	9,472	9,483	9,230	24,780	23,133	22,516	1.3%	0.6%	0.0%
1980	10,673	10,701	10,183	24,744	22,999	21,886	-0.1%	-0.6%	-2.8%
1981	11,830	11,883	11,280	24,678	23,152	21,977	-0.3%	0.7%	0.4%
1982	12,803	12,800	11,901	25,673	23,491	21,841	4.0%	1.5%	-0.6%
1983	13,859	13,755	12,554	26,593	24,458	22,322	3.6%	4.1%	2.2%
1984	15,549	15,341	13,824	28,440	26,149	23,563	6.9%	6.9%	5.6%
1985	16,720	16,471	14,705	29,268	27,110	24,203	2.9%	3.7%	2.7%
1986	17,954	17,638	15,397	30,643	28,501	24,880	4.7%	5.1%	2.8%
1987	19,504	19,156	16,284	31,896	29,864	25,386	4.1%	4.8%	2.0%
1988	21,334	20,915	17,403	32,894	31,311	26,053	3.1%	4.8%	2.6%
1989	22,458	22,200	18,566	32,755	31,707	26,516	-0.4%	1.3%	1.8%
1990	23,208	22,884	19,572	31,997	31,008	26,520	-2.3%	-2.2%	0.0%
1991	23,671	23,175	20,023	31,262	30,134	26,036	-2.3%	-2.8%	-1.8%
1992	24,731	24,299	20,960	31,871	30,673	26,458	1.9%	1.8%	1.6%
1993	25,453	24,984	21,539	31,879	30,621	26,398	0.0%	-0.2%	-0.2%
1994	26,559	25,928	22,340	32,834	30,984	26,696	3.0%	1.2%	1.1%
1995	27,689	27,040	23,255	33,433	31,422	27,024	1.8%	1.4%	1.2%
1996	29,166	28,340	24,270	34,203	31,989	27,395	2.3%	1.8%	1.4%
1997	30,773	29,924	25,412	35,098	33,019	28,040	2.6%	3.2%	2.4%
1998	32,714	31,829	26,893	36,486	34,582	29,219	4.0%	4.7%	4.2%
1999	34,322	33,226	27,880	37,345	35,320	29,637	2.4%	2.1%	1.4%
2000	37,960	36,167	29,770	39,593	37,196	30,617	6.0%	5.3%	3.3%
2001(p)	38,907	37,115	30,472	38,907	37,115	30,472	-1.7%	-0.2%	-0.5%

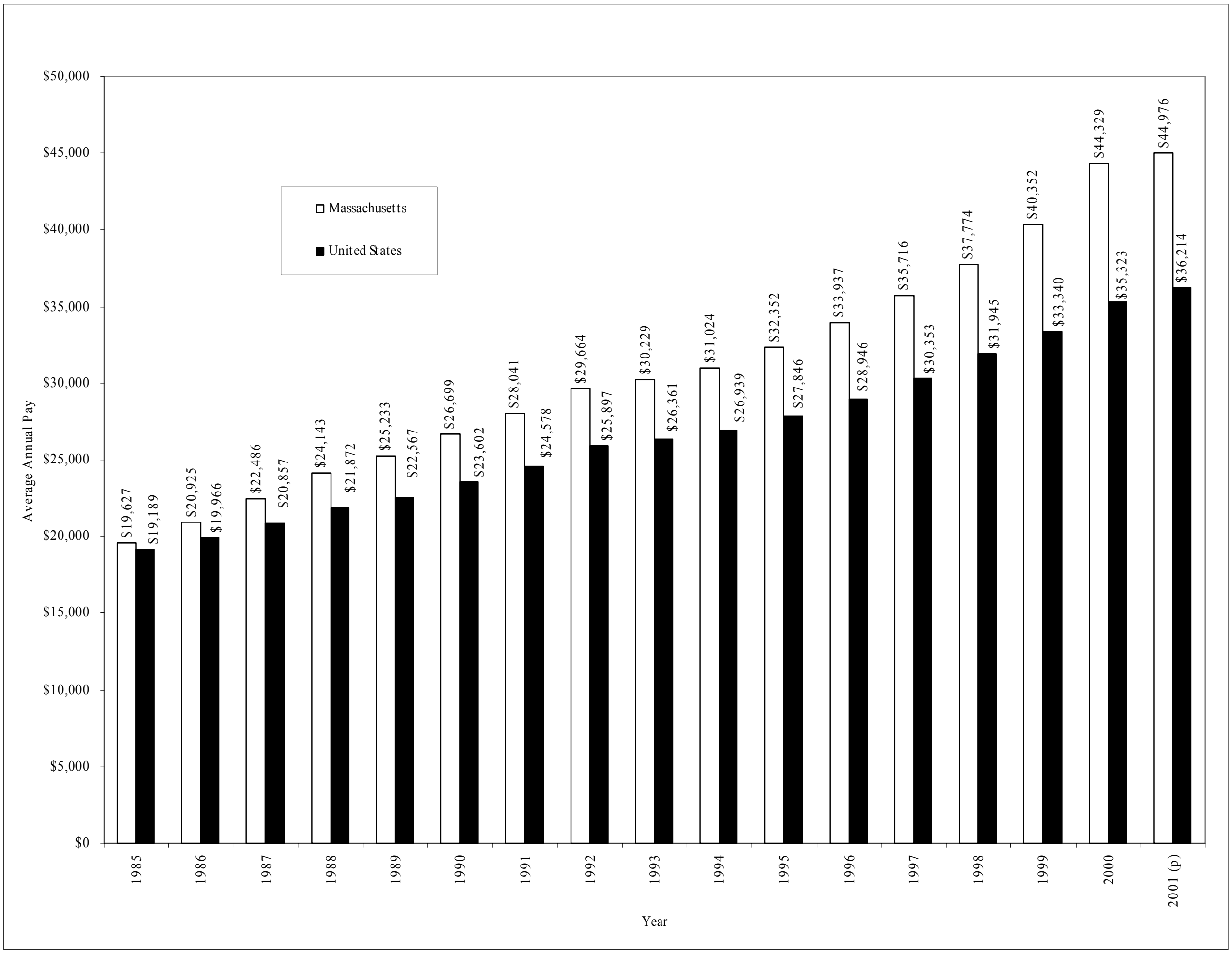
SOURCE: United States Department of Commerce, Bureau of Economic Analysis.

Notes: Estimated population as of April 1 of that year. Massachusetts real income is calculated by MISER using Boston CPI-U data. New England and United States real income are calculated using national CPI-U data.

(p) = preliminary estimates.

Annual pay in nominal dollars has grown steadily in Massachusetts over the past ten years. Average annual pay is computed by dividing the total annual payroll of employees covered by Unemployment Insurance programs by the average monthly number of employees. Data are reported by employers covered under the Unemployment Insurance programs. While levels of annual pay were nearly equal in Massachusetts and the United States in 1984, average annual pay levels in Massachusetts have grown more rapidly than the national average since that time. Following a period between 1985 and 1992 in which average annual pay levels in Massachusetts grew at a rate between 5 and 7 percent, growth slowed to less than 3 percent in 1993 and 1994. However, growth levels have exceeded 4 percent in six of the past seven years and, as a result, preliminary estimates show that the level of annual pay in Massachusetts in 2001 was 24 percent higher than the national average: $44,976(p) compared to $36,214(p). In 2001, average annual pay levels in Massachusetts remained the fourth highest in the nation.

Average Annual Pay, 1985-2001 (p)
(in current dollars)



SOURCE: United States Department of Labor, Bureau of Labor Statistics.
NOTE: 2001 data is calculated using NAICS and therefore is not comparable to earlier data in this series.
(p)= preliminary estimates.

Median Household Income Estimates, 1995-1998

(Small Area Income and Poverty Estimates)

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

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

Wage and Salary Disbursements. Wage and Salary Disbursements by place of work is a component of personal income and measures monetary disbursements to employees. This includes compensation of corporate officers, commissions, tips, bonuses, and receipts in-kind. Although the data is recorded on a place-of-work basis, it is then adjusted to a place-of-residence basis so that the income of the recipients whose place of residence differs from their place of work will be correctly assigned to their state of residence. The table below details Wage and Salary Disbursements since 1990. Between 1991 and 2000, Massachusetts accounted for a steadily increasing percentage of the overall New England total and in 2001 it dropped slightly to 51.0 percent.

Wage and Salary Disbursements, Yearly Averages, 1990-2001

(in millions of dollars)

Year	*U.S.*	*N.E.*	*MA*	*MA as a pct. of N.E.*
1990	$ 2,743,643	$171,476	$83,145	48.5%
1991	2,812,323	170,387	82,342	48.3%
1992	2,974,791	177,918	86,074	48.4%
1993	3,079,080	183,355	89,111	48.6%
1994	3,232,379	190,869	93,272	48.9%
1995	3,421,108	202,237	99,350	49.1%
1996	3,623,084	214,074	105,794	49.4%
1997	3,885,685	230,761	113,977	49.4%
1998	4,189,579	248,473	123,408	49.7%
1999	4,468,305	266,891	134,270	50.3%
2000	4,834,179	294,616	151,332	51.4%
2001	4,948,115	301,310	153,635	51.0%

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

Manufacturing Hours and Earnings. Recent increases in manufacturing employment have been accompanied by increases in manufacturing earnings, with weekly earnings in the manufacturing sector growing at a rate of 2.2 percent over the past year. While this growth can be attributed largely to an increase in average hourly earnings (from $15.57 in November 2001 to $15.79 in November 2002(p)), it is important to note that employees in the manufacturing sector have averaged 41 or more work hours per week in 7 of the past 18 months. The following table shows average weekly hours, hourly earnings, weekly earnings, and the percentage change in weekly earnings compared to the same month in the previous year. Data are not adjusted to reflect seasonal variations in employment and compensation levels.

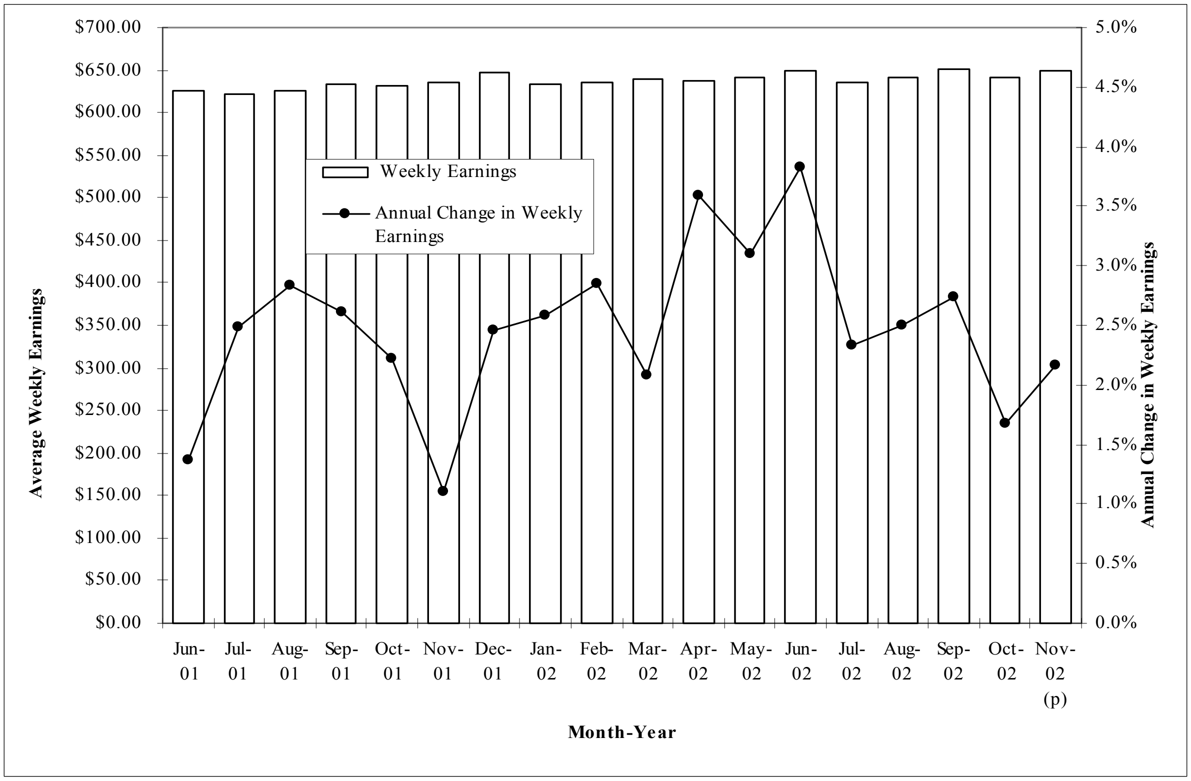
Average Weekly Manufacturing Hours and Earnings in Massachusetts, June 2001 – November 2002 (p)

(not seasonally adjusted)

Month	*Weekly Hours*	*Hourly Earnings*	*Weekly Earnings*	*Annual Change in Weekly Earnings*
Jun-01	41.0	$15.26	$625.60	1.4%
Jul-01	40.4	15.39	621.76	2.5%
Aug-01	40.6	15.41	625.65	2.8%
Sep-01	41.9	15.49	633.54	2.6%
Oct-01	40.7	15.50	630.85	2.2%
Nov-01	40.8	15.57	635.26	1.1%
Dec-01	41.4	15.65	647.91	2.5%
Jan-02	40.5	15.66	634.23	2.6%
Feb-02	40.7	15.62	635.73	2.8%
Mar-02	41.0	15.60	639.60	2.1%
Apr-02	40.8	15.62	637.30	3.6%
May-02	40.9	15.66	640.49	3.1%
Jun-02	41.4	15.69	649.57	3.8%
Jul-02	40.4	15.75	636.30	2.3%
Aug-02	40.9	15.68	641.31	2.5%
Sep-02	41.3	15.76	650.89	2.7%
Oct-02	40.8	15.72	641.38	1.7%
Nov-02 (p)	41.1	15.79	648.97	2.2%

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

Average Weekly Manufacturing Earnings in Massachusetts,
June 2001—November 2002
(not seasonally adjusted)



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

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 2001. Data reflect changes to methodology made by the Bureau of Labor Statistics in January 1998 and indicate the Consumer Price Index for all urban consumers (CPI-U) and the percentage change in the Consumer Price Index for all urban consumers from the previous year. In 2001, the CPI-U for Boston increased 4.3 percent compared to an increase of 2.8 percent for the United States as a whole. The latest available data for July 2002 show that the CPI-U for the Boston metropolitan area grew at a rate of 1.9 percent from July 2001 compared with 1.5 percent for the U.S.

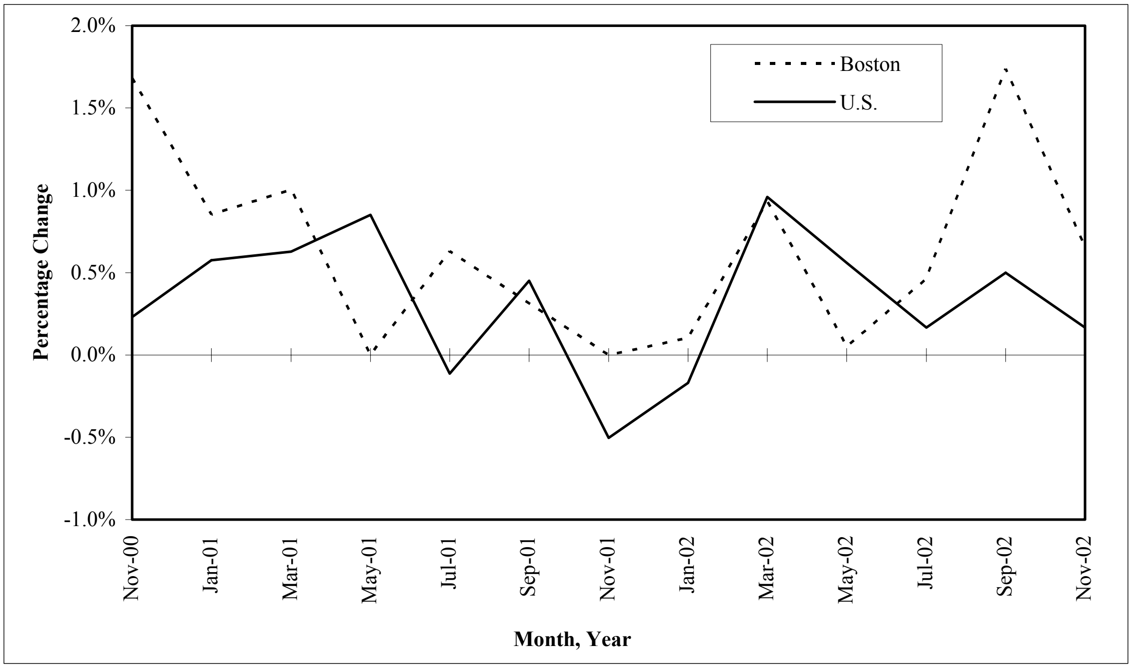
Consumer Price Index for all Urban Consumers (CPI-U), 1970-2001

(1982-1984=100)

	Boston		*U.S.*	
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%
Nov-01	192.7		177.4	
Nov-02	200.4	4.0%	181.3	2.2%

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

Bi-Monthly Percentage Change in Consumer Price Index for all Urban Consumers, July 2000 – July 2002



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

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

Tri-Monthly Consumer Confidence, Present Situation, and Future Expectations for Massachusetts, New England, and the U.S., 1998 – 2002

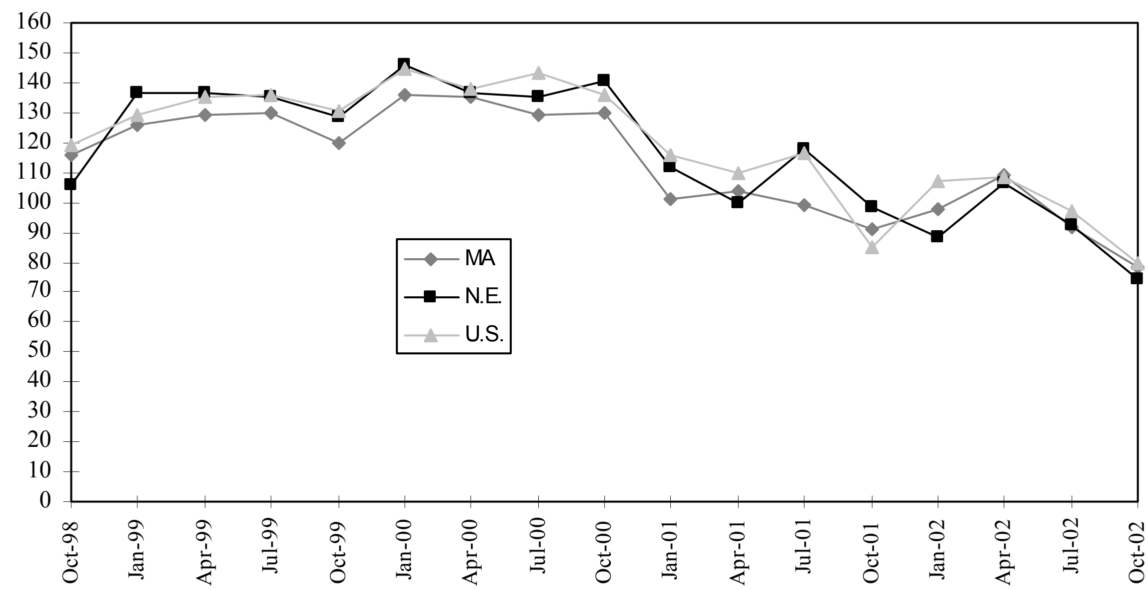
(Not Seasonally Adjusted, except United States (1985=100))

	Consumer Confidence			Present Situation			Future Expectations		
	MA	**N.E.**	**U.S.**	**MA**	**N.E.**	**U.S.**	**MA**	**N.E.**	**U.S.**
Oct-98	116.0	106.1	119.3	141.0	170.4	165.2	101.0	63.3	88.7
Jan-99	126.0	136.8	128.9	148.0	173.2	172.9	111.0	112.6	99.6
Apr-99	129.0	136.9	135.5	148.0	185.4	175.5	116.0	104.6	108.8
Jul-99	130.0	135.1	136.2	150.0	194.9	179.2	116.0	95.3	107.6
Oct-99	120.0	128.8	130.5	154.0	181.6	173.9	98.0	93.6	101.5
Jan-00	136.0	145.9	144.7	151.0	193.1	183.1	125.0	114.5	119.1
Apr-00	135.0	136.5	137.7	155.0	195.7	179.8	122.0	97.0	109.7
Jul-00	129.0	135.4	143.0	156.0	196.9	186.8	111.0	94.4	113.7
Oct-00	130.0	140.7	135.8	157.0	195.5	176.8	111.0	104.1	108.4
Jan-01	101.0	111.9	115.7	139.0	173.9	170.4	76.0	70.5	79.3
Apr-01	104.0	99.5	109.9	124.0	161.7	156.0	91.0	58.0	79.1
Jul-01	99.0	117.5	116.3	108.0	170.8	151.3	93.0	82.0	92.9
Oct-01	91.0	98.6	85.3	94.0	105.6	107.2	90.0	64.0	70.7
Jan-02	97.8	88.5	107.0	98.1	85.5	72.0	97.6	90.5	130.0
Apr-02	109.0	106.7	108.5	84.0	115.5	106.8	125.0	100.8	109.6
Jul-02	92.0	92.4	97.4	68.0	96.3	99.4	108.0	89.9	96.1
Oct-02	78.0	74.2	79.6	48.0	70.8	77.2	97.0	76.5	81.1

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

Consumer Confidence for Massachusetts, New England, and the U.S. October 1998 - October 2002

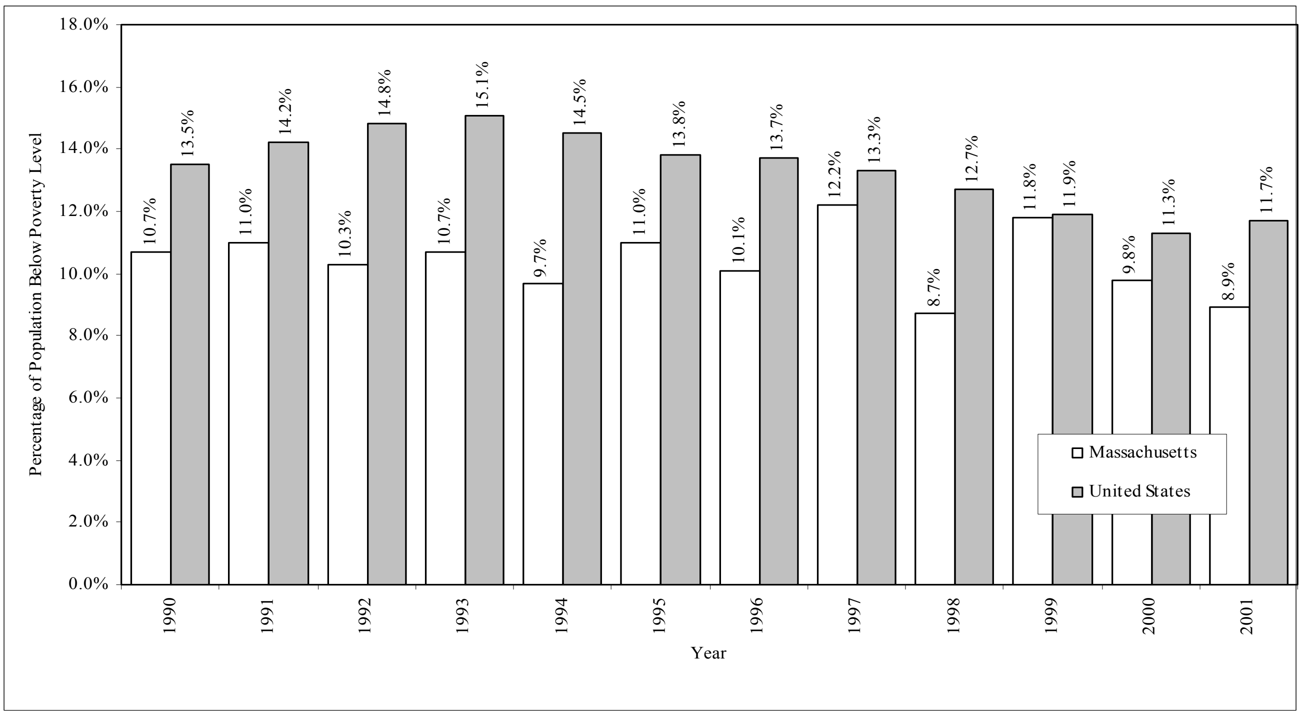
(Not Seasonally Adjusted, except United States (1985=100))



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

Poverty. The Massachusetts poverty rate remains below the national average. Since 1980, the percentage of the Massachusetts population below the poverty line has varied between 7.7 percent and 12.2 percent. During the same time, the national poverty rate varied between the current 11.8 percent and 15.1 percent. In 2001, the poverty rate in Massachusetts declined to 8.9 percent while the poverty rate in the United States rose slightly to 11.7 percent. Since 1980, the ratio of the Massachusetts rate of poverty to the United States rate of poverty has varied from a low of 0.51 in 1983 to 0.99 in 1999. These official poverty statistics are not adjusted for regional differences in the cost of living. The following chart and table illustrate both the overall lower poverty rates in Massachusetts (1990-2001) and the lower poverty rates for children (1995-1998) compared with the national average during similar periods.

Poverty Rate, 1990-2001



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

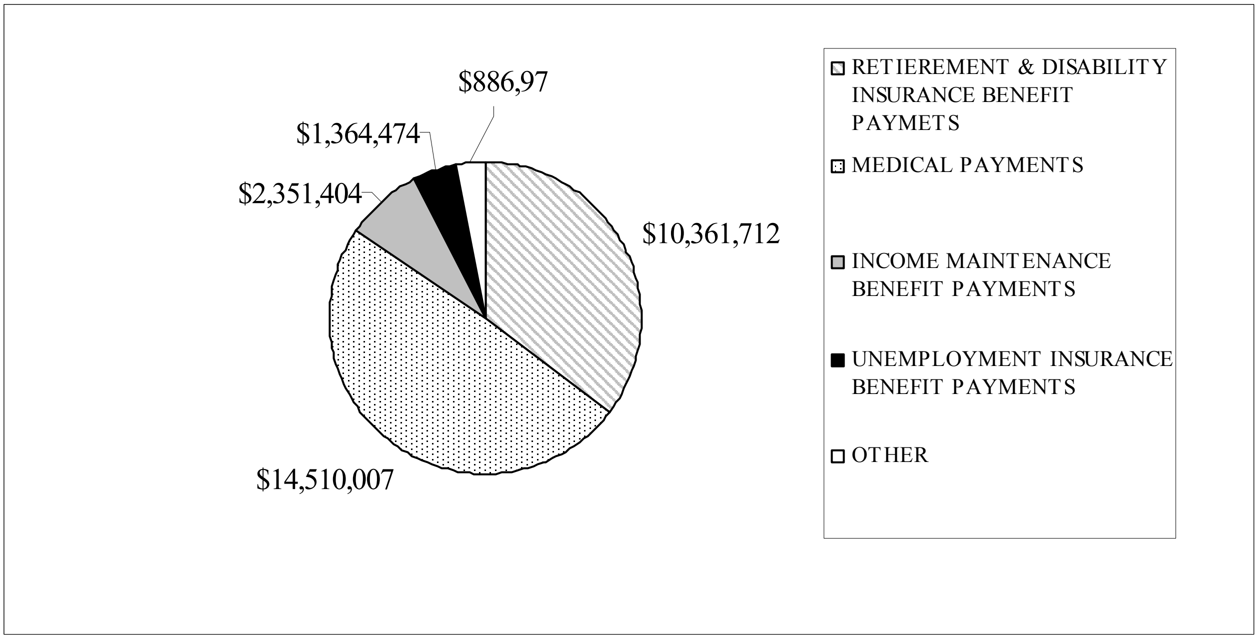
Estimates for Related Children, Age 5-17, in Families in Poverty for U.S. and Massachusetts, 1995-1998

(Small Area Income and Poverty Estimates)

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

SOURCE: United States Department of Commerce, Bureau of the Census.
Note: Ranking begins with highest percentage and includes the District of Columbia.

Transfer Payments to Individuals – Massachusetts
Annual State Personal Income Estimates
2001
(thousands of dollars)

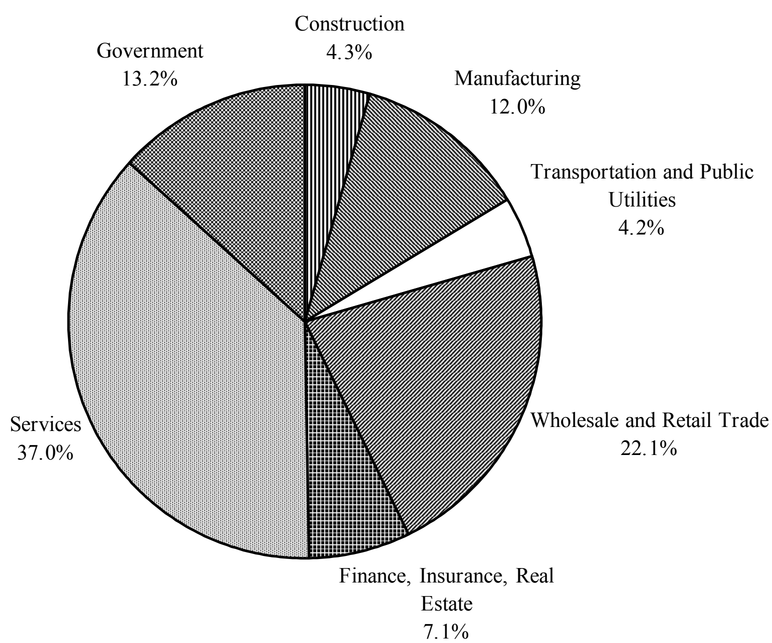


SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.
Note: The category "other" includes payments for: veterans benefit payments, federal education and training assistance payments, and other payments to individuals.

Transfer Payments to Individuals. Transfer payment income is payment to individuals from the federal government for which no current services are performed. They are payments by government to individuals and nonprofit institutions serving individuals. These payments accounted for more than 13 percent of total personal income at the national level in 2001. The chart above does not include transfer payments from business or from non-profit organizations to individuals. Total transfer payments to individuals in Massachusetts totaled 30.8 billion dollars for 2001.

Employment by Industry. The Massachusetts services sector, with 37.0 percent of the non-agricultural work force in November 2002(p), is the largest employment sector in the Massachusetts economy, followed by wholesale and retail trade (22.1 percent), government (13.2 percent), and manufacturing (12.0 percent). The following chart shows the distribution of non-agricultural employment by industry in Massachusetts for November 2002 (preliminary).

Massachusetts Non-Agricultural Employment by Industry, November 2002 (p)
(not seasonally adjusted)



SOURCE: Massachusetts Division of Employment and Training.

Between 1988 and 1992, total employment in Massachusetts declined 10.7 percent. The construction, manufacturing, and trade sectors experienced the greatest decreases during this time, with more modest declines taking place in the government and finance, insurance and real estate ("FIRE") sectors. The economic recovery that began in 1993 has been accompanied by increased employment levels; and between 1994 and 1997, total employment levels in Massachusetts have increased at yearly rates greater than 2.0 percent. In 2001, employment levels in all but two industries increased or remained constant. The most rapid growth in 2001 came in the construction sector and the FIRE sector, which grew at rates of 5.8 percent and 1.9 percent, respectively. Total non-agricultural employment in Massachusetts grew at a rate of 0.3 percent in 2001.

The following table shows the changes in employment by sector from 1983 through 2001.

Massachusetts Non-Agricultural Employment by Industry, 1983-2001
(in thousands)

	Construction		*Manufacturing*		*Transportation and Public Utilities*		*Wholesale and Retail Trade*		*Finance, Insurance, Real Estate*		*Services*		*Government*		*Total Employment*	
Year	*Number Employed*	*Pct. Change*	*Number Employed*	*Pct. Change*	*Number Employed*	*Pct. Change*	*Number Employed*	*Pct. Change*	*Number Employed*	*Pct. Change*	*Number Employed*	*Pct. Change*	*Number Employed*	*Pct. Change*	*Number Employed*	*Pct. Change*
1983	82.6		629.0		118.2		612.7		171.8		705.8		375.4		2696.5	
1984	96.4	16.7%	667.6	6.1%	123.3	4.3%	659.1	7.6%	179.0	4.2%	754.0	6.8%	375.4	0.0%	2855.8	5.9%
1985	109.4	13.5%	649.7	-2.7%	125.4	1.7%	684.1	3.8%	188.1	5.1%	786.5	4.3%	385.3	2.6%	2930.0	2.6%
1986	123.2	12.6%	614.4	-5.4%	125.9	0.4%	709.7	3.7%	202.6	7.7%	818.4	4.1%	393.0	2.0%	2988.8	2.0%
1987	137.7	11.8%	599.1	-2.5%	131.0	4.1%	723.4	1.9%	217.9	7.6%	853.9	4.3%	401.2	2.1%	3065.8	2.6%
1988	142.1	3.2%	584.7	-2.4%	133.6	2.0%	739.4	2.2%	221.5	1.7%	896.6	5.0%	411.3	2.5%	3130.8	2.1%
1989	126.8	-10.8%	561.1	-4.0%	128.3	-4.0%	740.5	0.1%	217.3	-1.9%	924.1	3.1%	408.8	-0.6%	3108.6	-0.7%
1990	101.1	-20.3%	521.3	-7.1%	129.9	1.2%	700.1	-5.5%	213.3	-1.8%	915.7	-0.9%	402.2	-1.6%	2984.8	-4.0%
1991	78.8	-22.1%	485.0	-7.0%	123.4	-5.0%	650.6	-7.1%	201.8	-5.4%	890.5	-2.8%	389.9	-3.1%	2821.2	-5.5%
1992	73.6	-6.6%	465.7	-4.0%	121.4	-1.6%	640.5	-1.6%	196.7	-2.5%	913.5	2.6%	382.6	-1.9%	2795.1	-0.9%
1993	80.1	8.8%	454.8	-2.3%	124.0	2.1%	648.4	1.2%	201.5	2.4%	942.8	3.2%	387.5	1.3%	2840.2	1.6%
1994	86.0	7.4%	447.2	-1.7%	127.4	2.7%	669.4	3.2%	206.9	2.7%	975.7	3.5%	390.0	0.6%	2903.8	2.2%
1995	89.8	4.4%	446.1	-0.2%	127.0	-0.3%	687.2	2.7%	205.3	-0.8%	1024.9	5.0%	395.1	1.3%	2976.6	2.5%
1996	94.0	4.7%	444.7	-0.3%	129.1	1.7%	695.1	1.1%	208.2	1.4%	1063.2	3.7%	400.0	1.2%	3035.4	2.0%
1997	100.3	6.7%	447.9	0.7%	132.9	2.9%	706.9	1.7%	212.2	1.9%	1103.1	3.8%	404.6	1.2%	3118.7	2.7%
1998	108.4	8.1%	448.2	0.1%	136.5	2.7%	720.8	2.0%	218.3	2.9%	1133.6	2.8%	411.6	1.7%	3178.6	1.9%
1999	119.2	10.0%	433.6	-3.3%	139.7	2.3%	734.9	2.0%	226.3	3.7%	1163.9	2.7%	417.4	1.4%	3236.8	1.8%
2000	129.2	8.4%	437.3	0.9%	144.2	3.2%	744.1	1.3%	228.3	0.9%	1214.2	4.3%	424.5	1.7%	3323.3	2.7%
2001	136.7	5.8%	423.5	-3.2%	144.7	0.3%	739.7	-0.6%	232.6	1.9%	1227.5	1.1%	428.7	1.0%	3334.9	0.3%

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

The following table presents changes in non-agricultural employment by sector between November 2001 and November 2002. Total non-agricultural employment declined by 1.3 percent during that period.

Massachusetts Non-Agricultural Employment by Industry, November 2001-November 2002 (p)
(in thousands)

Employment Sector	*November 2001*	*Pct. of Total*	*November 2002*	*Pct. of Total*	*Pct. Change Nov. 2001-Nov. 2002*
Mining	1.6	0.0%	1.6	0.0%	0.0%
Construction	142.8	4.3%	142.6	4.3%	-0.1%
Manufacturing	413.4	12.4%	396.8	12.0%	-4.0%
Transportation and Public Utilities	141.2	4.2%	137.6	4.2%	-2.5%
Wholesale and Retail Trade	747.8	22.4%	730.1	22.1%	-2.4%
Finance, Insurance, Real Estate	232.4	7.0%	232.7	7.1%	0.1%
Services	1223.7	36.6%	1220.6	37.0%	-0.3%
Government	438.0	13.1%	435.9	13.2%	-0.5%
Total Employment	3,340.9	100.0%	3,297.9	100.0%	-1.3%

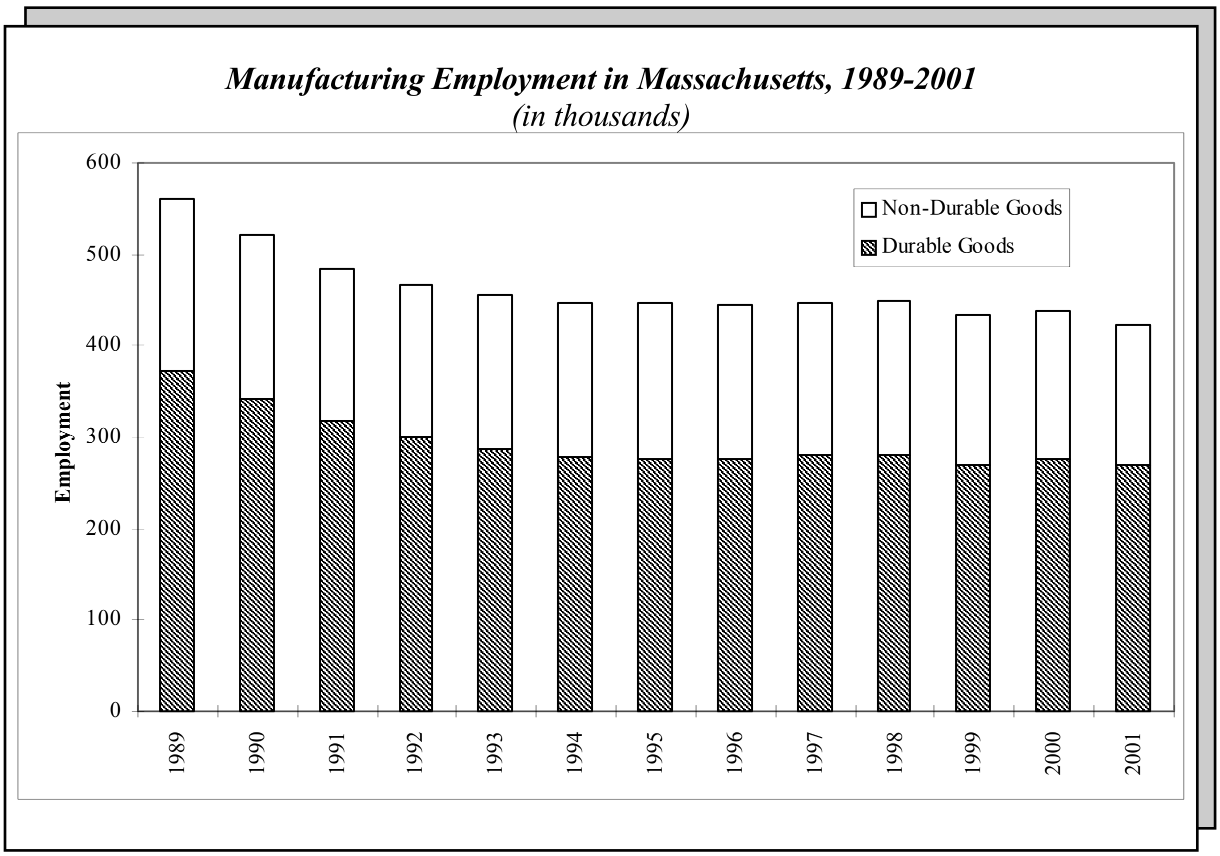
SOURCE: Massachusetts Division of Employment and Training.

Notes: 2002 figures are preliminary and subject to revision. Sum of the parts may not equal totals due to rounding. Figures are not seasonally adjusted.

Services Employment. The services sector is the largest sector in the Massachusetts economy in terms of number of employees. This sector includes the categories of health services, business services, educational services, engineering and management services, and social services. After moderate declines in 1990 and 1991, employment levels in the services sector reached consecutive new highs in each year between 1993 and 2001. Between November 2001 and November 2002, the services sector saw a decrease in employment of 0.3 percent, and in November 2002, services sector employment (not seasonally adjusted) was 1,220,600, representing 37.0 percent of total non-agricultural employment.

Wholesale and Retail Trade Employment. In the mid-1980s the trade sector was an area of strong job growth, boosted by a growing export sector. Trade employment declined between 1990 and 1992 but has increased in eight of the last nine years. In November 2002, wholesale and retail trade was the second largest employment sector in Massachusetts with 730,100 employees, 2.4 percent below November 2001 levels.

Manufacturing Employment. Like many industrial states, Massachusetts has seen a steady diminution of its manufacturing jobs base over the last decade. Total employment in the manufacturing sector declined in every year between 1984 and 1996, falling a total of 33.4 percent. Recent growth rates have fluctuated with 1997, 1998, and 2000 showing small improvements and 1999 and 2001 showing the largest declines since 1992. Between November 2001 and November 2002, manufacturing employment declined 4.0 percent.



Manufacturing Establishment Employment by Industry in Massachusetts, 1989-2001

(selected industries, in thousands)

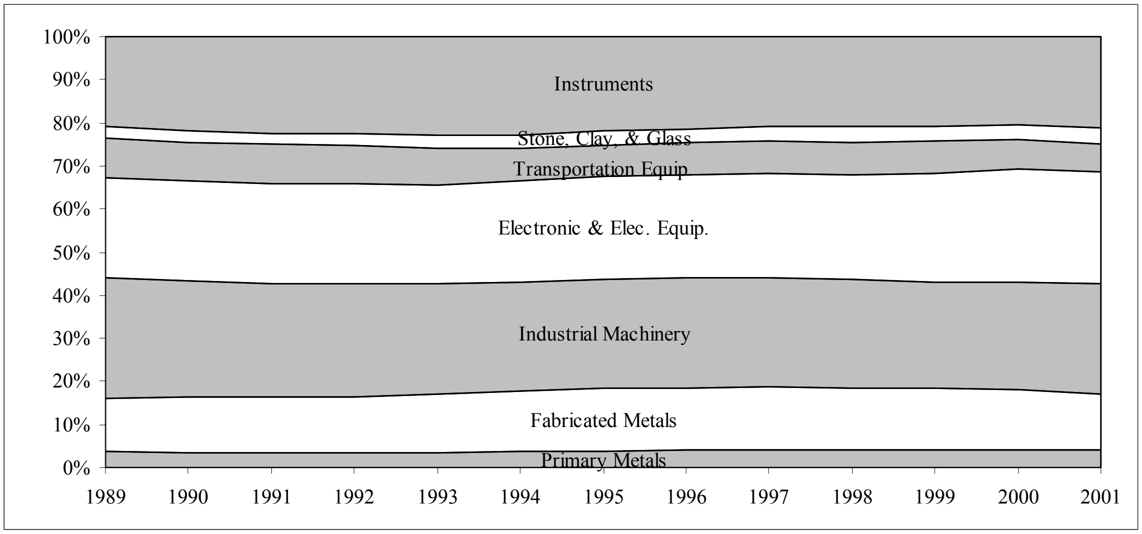
Industry	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*
Durable Goods	372.1	342.7	317.0	299.6	287.0	278.2	276.3	276.8	279.7	281.1	269	274.9	269.0
Percentage Change	-4.1%	-7.9%	-7.5%	-5.5%	-4.2%	-3.1%	-0.7%	0.2%	1.0%	0.5%	-4.3%	2.2%	-2.1%
Primary Metals	12.3	11.3	10.3	9.3	9.1	9.2	9.6	10.2	10.5	10.1	9.8	10.3	9.6
Fabricated Metals	43.2	40.9	37.9	36.2	35.6	35.8	36.6	36.4	37.0	36.8	34.8	34.9	32.5
Industrial Machinery	95.8	85.2	76.6	72.5	67.3	63.6	63.4	64.2	64.4	64.9	60.4	62.4	61.8
Electronic & Elec. Equip.	79.3	72.9	68.5	63.9	59.9	59.5	60.2	60.9	62.1	62.4	61.1	65	64.0
Transportation Equip.	30.6	27.8	26.0	24.1	21.9	19.2	18.3	18.8	19.2	19.4	18.1	16.8	15.8
Stone, Clay, & Glass	10.0	8.7	7.8	7.9	8.0	8.1	8.3	8.2	8.5	8.9	8.9	9.2	9.0
Instruments	71.2	69.4	65.6	61.6	60.4	57.8	55.0	53.9	53.4	53.6	50.3	50.7	51.8
Non-Durable Goods	189.0	178.6	168.0	166.1	168.1	168.9	169.7	167.9	168.1	167.1	164.6	162.4	154.5
Percentage Change	-3.8%	-5.5%	-5.9%	-1.1%	1.2%	0.5%	0.5%	-1.1%	0.1%	-0.6%	-1.5%	-1.3%	-4.9%
Apparel	22.0	19.2	17.7	17.7	17.2	16.8	16.0	15.1	14.1	13.1	11.4	10.4	9.2
Food & Kindred Prod.	20.5	20.1	19.6	19.3	19.8	20.3	21.1	21.7	21.7	21.9	22.0	21.7	21.8
Chemicals	18.4	17.7	17.3	16.5	16.9	16.3	16.0	17	17.4	17.8	18.1	18.0	17.9
Printing & Publishing	55.0	52.2	48.9	47.3	47.5	48.0	49.0	48.6	8.9	49.3	49.8	50.3	48.1
Textile Mill Prod.	15.5	14.6	14.1	14.6	15.1	15.4	15.2	14.8	14.5	14.0	13.0	12.9	11.8
Paper & Allied Prod.	23.4	22.5	21.1	20.7	20.3	19.9	19.8	19.3	19.4	19.4	19.3	19.1	18.3
Rubber & Misc. Plastics	25.3	23.8	22.1	22.9	24.4	25.3	26.4	25.7	26.6	27.0	26.9	26.3	24.1
Total Man. Employ.	561.1	521.3	485.0	465.7	455.1	447.2	446.1	444.7	447.9	448.2	433.6	437.3	423.5
Percentage Change	-4.0%	-7.1%	-7.0%	-4.0%	-2.3%	-1.7%	-0.2%	-0.3%	0.7%	0.1%	-3.3%	0.9%	-3.2%

SOURCE: Massachusetts Division of Employment and Training.

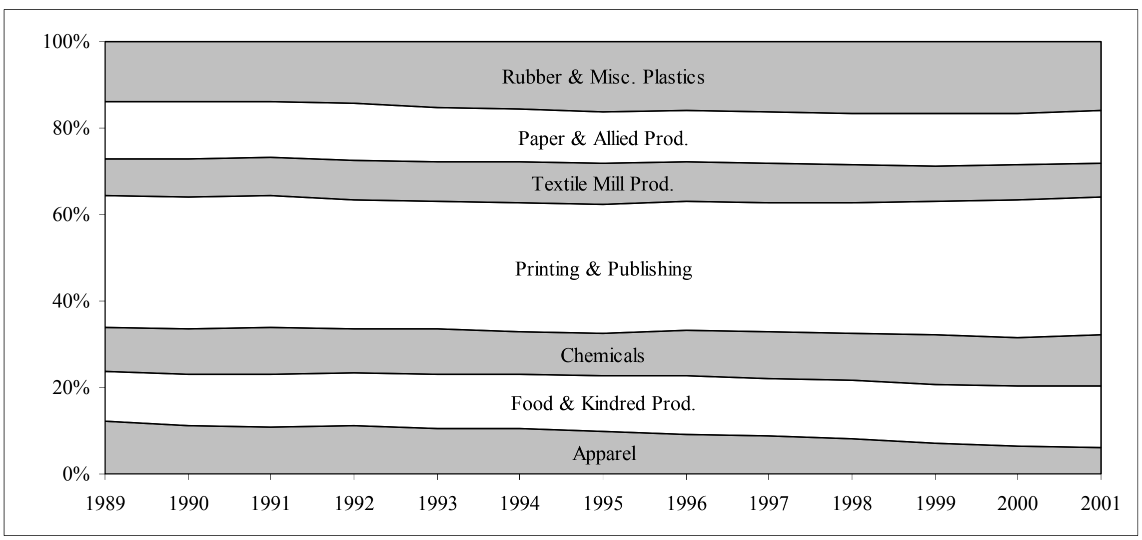
Percentage of Manufacturing Employment by Industry, Durable and Non-durable Goods 1989-2001

(selected industries)

Durable Goods



Non-Durable Goods



SOURCE: Massachusetts Division of Employment and Training

Government Employment. Federal, state, and local government employment declined 0.5 percent over the last year and employed 435,900 workers in November 2002, which accounted for 13.2 percent of total non-agricultural employment in Massachusetts.

Finance, Insurance, and Real Estate Employment. While the Finance, Insurance and Real Estate sector experienced 23.7 percent growth in employment between 1984 and 1988, there was an 11.2 percent decline in employment between 1988 and 1992. Since that time, the sector has experienced modest annual growth rates. With an increase of 2.2 percent in 1998 and a 3.7 increase in 1999, employment levels in this sector rose above 1988 levels for the first time. As of November 2002, total employment in the FIRE sector was 232,700, a slight increase from November 2001.

Construction Employment. Fueled by the general growth of the rest of the Massachusetts economy, employment in the construction industry experienced dramatic growth in the first part of the 1980s, increasing by more than 80 percent between 1982 and 1988. This trend reversed direction between 1988 and 1992, when employment in the construction industry declined nearly 50 percent. Increased economic growth in the Massachusetts economy since 1993 has contributed to a rebound in employment levels in the construction industry, which grew at annual rates in excess of 4 percent between 1993 and 2001. In November 2002, the construction sector employed 142,600 people, a decrease of 0.1 percent over November 2001 levels.

Largest Employers in Massachusetts. The following table lists the twenty-five largest employers in Massachusetts based upon employment data for June 2002. The compiled list excludes government agencies but does include non-profit organizations. New to this list is the Baystate Medical Center, Southcoast Hospitals Group, and Tufts University which replaces Compaq Computer Corporation, General Electric, and Lucent Technologies.

Twenty-five Largest Massachusetts Employers in June 2002
(Listed Alphabetically)

Baystate Medical Center	May Department Stores
Beth Israel Deaconess Hospital	Raytheon Company
Boston University	Sears, Roebuck & Company
Brigham & Women’s Hospital	Shaw’s Supermarkets
The Children’s Hospital Corporation	Southcoast Hospitals Group
Demoulas Supermarkets	S&S Credit Corporation
E.M.C. Corporation	State Street Bank & Trust Company
Fleet National Bank	Tufts University
Friendly Ice Cream Corporation	UMass Memorial Medical Center
General Hospital Corporation	United Parcel Service
Harvard University	Verizon New England
Home Depot USA	Wal-Mart Associates
Massachusetts Institute of Technology	

SOURCE: Massachusetts Division of Employment and Training.

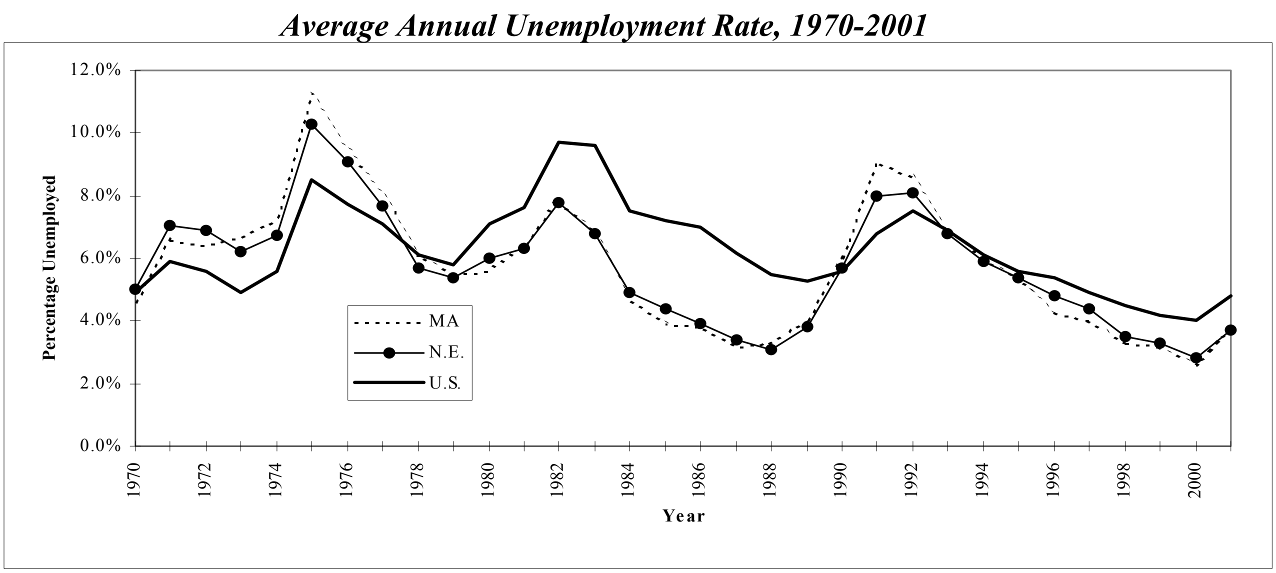
Unemployment. While the Massachusetts unemployment rate was significantly lower than the national average between 1979 and 1989, the economic recession of the early 1990s caused unemployment rates in Massachusetts to rise significantly above the national average. However, the economic recovery that began in 1993 has caused unemployment rates in Massachusetts to decline faster than the national average. As a result, since 1994 the unemployment rate in Massachusetts has been below the national average. The following table compares the annual civilian labor force, the number unemployed, and unemployment rate averages of Massachusetts, the New England states, and the United States between 1970 and 2001.

Annual Average Civilian Labor Force and Unemployment, 1970-2001

(in thousands)

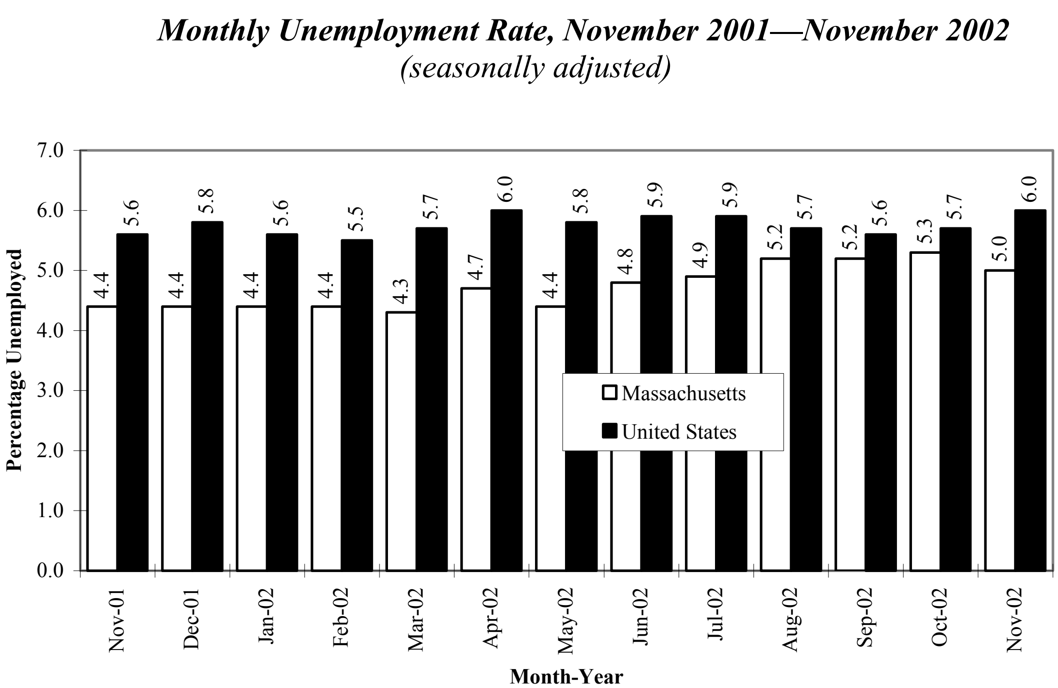
	Civilian Labor Force			Unemployed			Unemployment Rate			MA Rate as
Year	*MA*	*N.E.*	*U.S.*	*MA*	*N.E.*	*U.S.*	*MA*	*N.E.*	*U.S.*	Pct. of U.S.
1970	2,458	5,129	82,771	114	256	4,093	4.6%	5.0%	4.9%	93.9%
1971	2,447	5,157	84,382	161	364	5,016	6.6%	7.1%	5.9%	111.9%
1972	2,475	5,261	87,034	160	363	4,882	6.4%	6.9%	5.6%	114.3%
1973	2,549	5,387	89,429	171	336	4,365	6.7%	6.2%	4.9%	136.7%
1974	2,622	5,512	91,949	189	369	5,156	7.2%	6.7%	5.6%	128.6%
1975	2,700	5,634	93,775	306	581	7,929	11.2%	10.3%	8.5%	131.8%
1976	2,727	5,717	96,158	259	519	7,406	9.5%	9.1%	7.7%	123.4%
1977	2,753	5,816	99,009	223	447	6,991	8.1%	7.7%	7.1%	114.1%
1978	2,816	5,908	102,251	171	340	6,202	6.1%	5.7%	6.1%	100.0%
1979	2,871	6,100	104,962	159	332	6,137	5.5%	5.4%	5.8%	94.8%
1980	2,867	6,167	106,940	162	367	7,637	5.6%	6.0%	7.1%	78.9%
1981	2,947	6,260	108,670	187	397	8,273	6.4%	6.3%	7.6%	83.4%
1982	2,993	6,339	110,204	237	495	10,678	7.9%	7.8%	9.7%	81.3%
1983	2,977	6,365	111,550	205	434	10,717	6.9%	6.8%	9.6%	71.5%
1984	3,047	6,549	113,544	145	318	8,539	4.8%	4.9%	7.5%	63.5%
1985	3,051	6,632	115,461	120	292	8,312	3.9%	4.4%	7.2%	54.2%
1986	3,056	6,721	117,834	118	265	8,237	3.8%	3.9%	7.0%	54.3%
1987	3,086	6,829	119,865	99	229	7,425	3.2%	3.4%	6.2%	51.8%
1988	3,155	6,914	121,669	103	216	6,701	3.3%	3.1%	5.5%	60.1%
1989	3,180	6,998	123,869	127	269	6,528	4.0%	3.8%	5.3%	76.2%
1990	3,228	7,147	125,840	195	408	7,047	6.0%	5.7%	5.6%	107.1%
1991	3,162	7,082	126,346	286	569	8,628	9.1%	8.0%	6.8%	133.8%
1992	3,145	7,057	128,105	269	568	9,613	8.6%	8.1%	7.5%	114.7%
1993	3,164	7,025	129,200	219	479	8,940	6.9%	6.8%	6.9%	100.0%
1994	3,173	6,964	131,056	191	412	7,996	6.0%	5.9%	6.1%	98.4%
1995	3,164	6,955	132,304	170	373	7,404	5.4%	5.4%	5.6%	96.4%
1996	3,174	6,996	133,943	137	335	7,236	4.3%	4.8%	5.4%	79.6%
1997	3,260	7,121	136,297	131	314	6,739	4.0%	4.4%	4.9%	81.6%
1998	3,273	7,113	137,673	109	250	6,210	3.3%	3.5%	4.5%	73.3%
1999	3,275	7,171	139,368	105	236	5,880	3.2%	3.3%	4.2%	76.2%
2000	3,237	7,194	140,863	86	199	5,655	2.6%	2.8%	4.0%	65.0%
2001	3,284	7,212	141,815	121	264	6,742	3.7%	3.7%	4.8%	77.1%

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 has been consistently below that of the United States over the past twelve months. Unemployment levels in the United States as a whole and in the New England region have shown similar patterns in the last year. The unemployment rate in Massachusetts increased from 4.4 percent in November of 2001 to 5.0 percent in November of 2002, and the United States unemployment rate also increased from 5.6 percent to 6.0 percent between these same months. The following chart shows the unemployment rates for Massachusetts and the United States for each of the past twelve months.



SOURCE: Massachusetts Division of Employment and Training.

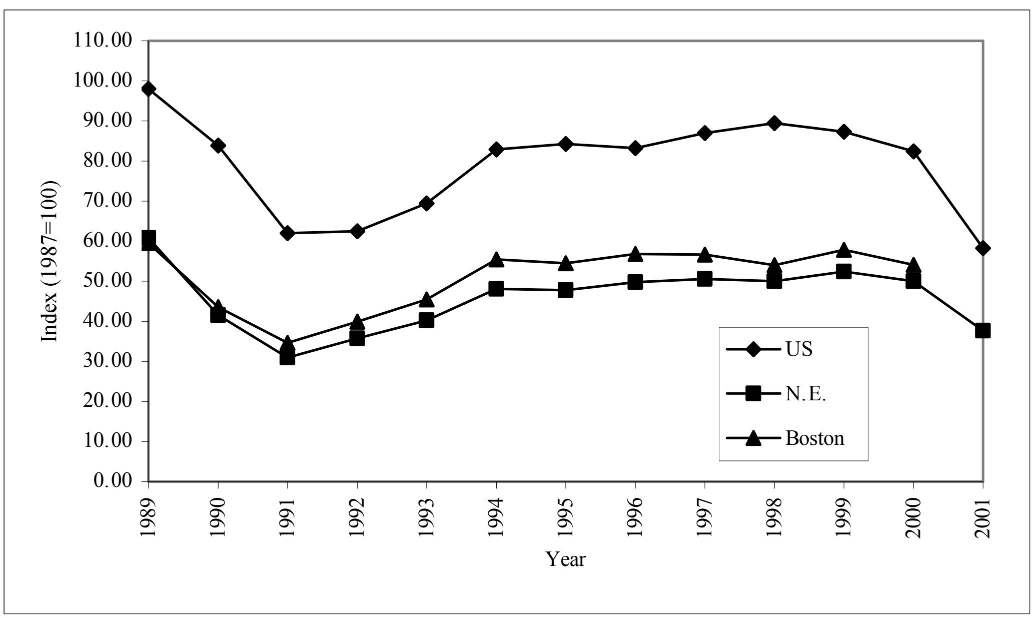
Help Wanted Advertising Index, 1989-2001
(Seasonally Adjusted), 1987=100)

	US	% Change	N.E.	% Change	Boston	% Change
1989	98.00		60.83		59.50	
1990	83.83	-14.46%	41.50	-31.78%	43.50	-26.89%
1991	62.00	-26.04%	31.00	-25.30%	34.67	-20.31%
1992	62.50	0.81%	35.75	15.32%	39.92	15.14%
1993	69.42	11.07%	40.25	12.59%	45.42	13.78%
1994	82.92	19.45%	48.08	19.46%	55.42	22.02%
1995	84.25	1.61%	47.75	-0.69%	54.50	-1.65%
1996	83.17	-1.29%	49.75	4.19%	56.83	4.28%
1997	87.00	4.61%	50.58	1.68%	56.67	-0.29%
1998	89.42	2.78%	50.00	-1.15%	54.00	-4.71%
1999	87.25	-2.42%	52.42	4.83%	57.83	7.10%
2000	82.42	-5.54%	50.00	-4.61%	54.08	-6.49%
2001	58.25	-29.33%	37.65	-24.70%	40.92	-24.33%

SOURCE: The Conference Board, Inc.

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

Help Wanted Advertising Index, 1989-2001



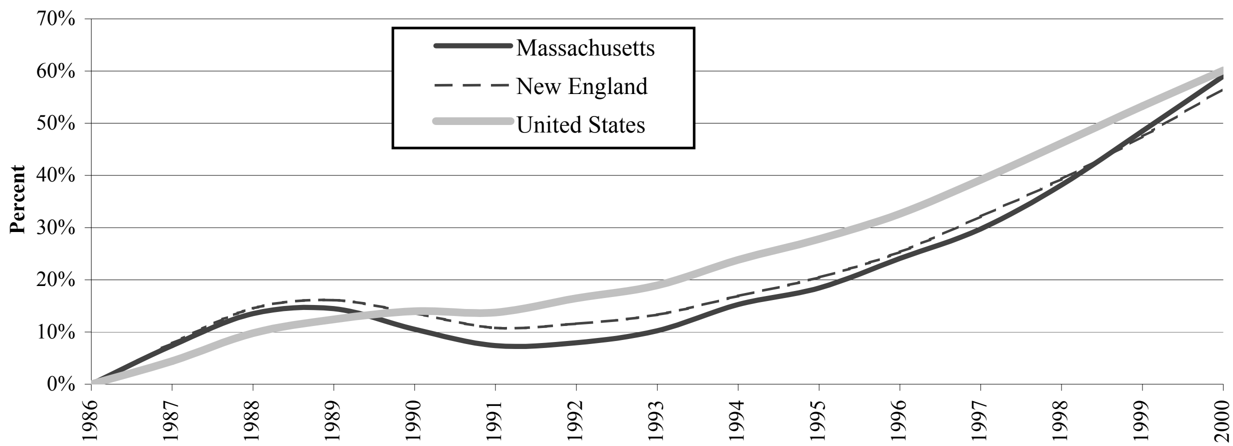
SOURCE: The Conference Board, Inc.

Unemployment Compensation Trust Fund. The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide for the payment of benefits to eligible individuals when they are unemployed through no fault of their own. Benefits are paid from the Commonwealth's Unemployment Compensation Trust Fund, financed through employer contributions. The assets and liabilities of the Commonwealth Unemployment Compensation Trust Fund are not assets and liabilities of the Commonwealth. As of November 30, 2002, the private contributory sector of the Massachusetts Unemployment Trust Fund had a surplus of $965 million, and the Division of Employment and Training's November 2002 quarterly report indicates that the contributions provided should result in trust fund system reserves of $1.342 billion by the end of 2006.

In 1987 and 1988, the economies of Massachusetts and New England were among the strongest performers in the nation, with growth rates considerably higher than those for the national economy as a whole. Between 1989 and 1992, however, Massachusetts and New England experienced growth rates significantly below the national average. From 1992 to 1997, growth rates in Massachusetts and New England tracked the U.S. growth rate quite closely. In 1999 and 2000, the economies of both the Commonwealth and the region grew at a faster pace than the nation as a whole. However, both the U.S. and Massachusetts experienced slower growth in 2000 than in 1999, while New England's growth accelerated. Over the last decade, growth of the Massachusetts economy has averaged 3.8 percent, while New England and the nation have experienced average growth of 3.3 percent and 3.5 percent, respectively. The Massachusetts economy is the largest in New England, making up an average of 47.6 percent of New England's total Gross State Product and an average of 2.7 percent of the nation's economy over the past decade.

Cumulative Percentage Change in Real Gross State Product, 1986-2000

(baseline year = 1986)



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

Gross State Product, 1986-2000

(millions of chained 1996 dollars)

	Massachusetts		*New England*		*United States*	
Year	*GSP*	*Percentage Change*	*GSP*	*Percentage Change*	*Total GSP*	*Percentage Change*
1986	$169,338		$350,747		$5,816,661	
1987	181,855	7.4%	378,136	7.8%	6,072,815	4.4%
1988	192,255	5.7%	401,698	6.2%	6,386,132	5.2%
1989	193,839	0.8%	407,229	1.4%	6,538,634	2.4%
1990	187,125	-3.5%	398,368	-2.2%	6,630,740	1.4%
1991	181,855	-2.8%	388,577	-2.5%	6,615,685	-0.2%
1992	182,789	0.5%	391,385	0.7%	6,774,505	2.4%
1993	186,680	2.1%	397,470	1.6%	6,918,388	2.1%
1994	195,171	4.5%	410,014	3.2%	7,203,002	4.1%
1995	200,537	2.7%	422,524	3.1%	7,433,965	3.2%
1996	210,127	4.8%	439,596	4.0%	7,715,901	3.8%
1997	219,716	4.6%	463,498	5.4%	8,093,396	4.9%
1998	233,981	6.5%	488,637	5.4%	8,502,663	5.1%
1999	251,482	7.5%	517,174	5.8%	8,915,954	4.9%
2000	269,308	7.1%	549,304	6.2%	9,314,279	4.5%

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis. Note: Chained dollars are utilized by the Bureau of Economic Analysis as a measure of real GSP.

The commercial base of Massachusetts is anchored by the thirteen 2002 Fortune 500 industrial and service firms with headquarters within the state, as the following table indicates. The Fortune 500 firms are ranked according to total revenues in 2001. All but one of the companies listed in the 2001 Fortune 500 are also on the 2002 list, with Thermo Electron dropping off the list to number 522 while Nstar ascended to number 481. Fleet Bank lost its top ranking in Massachusetts as Mass. Mutual's revenues increased by $8 billion to vault the company into the leading slot.

Massachusetts Companies in the 2002 Fortune 500, By Rank

2002	2001	Company	Industry	2001 revenues (in millions)
104	173	Mass. Mutual Life Insurance (Springfield)	Insurance: Life and Health (Mutual)	$19,340
106	80	Fleet (Boston)	Commercial Banks	19,190
119	82	Raytheon (Lexington)	Aerospace	16,867
142	111	Liberty Mutual Group (Boston)	Insurance: Property and Casualty (Mutual)	14,256
178	192	Staples (Framingham)	Specialty Retailers	10,744
179	196	TJX (Framingham)	Specialty Retailers	10,709
209	233	John Hancock Financial Services (Boston)	Insurance: Life and Health (Stock)	9,361
240	172	Gillette (Boston)	Metal Products	8,084
263	260	EMC (Hopkinton)	Computer Peripherals	7,091
313	345	State Street Boston Corp. (Boston)	Commercial Banks	5,637
331	377	BJ's Wholesale Club (Natick)	Specialty Retailers	5,278
471	440	Allmerica Financial (Worcester)	Insurance: Property and Casualty (Stock)	3,312
481	N/A	Nstar (Boston)	Utilities: Gas & Electric	3,192

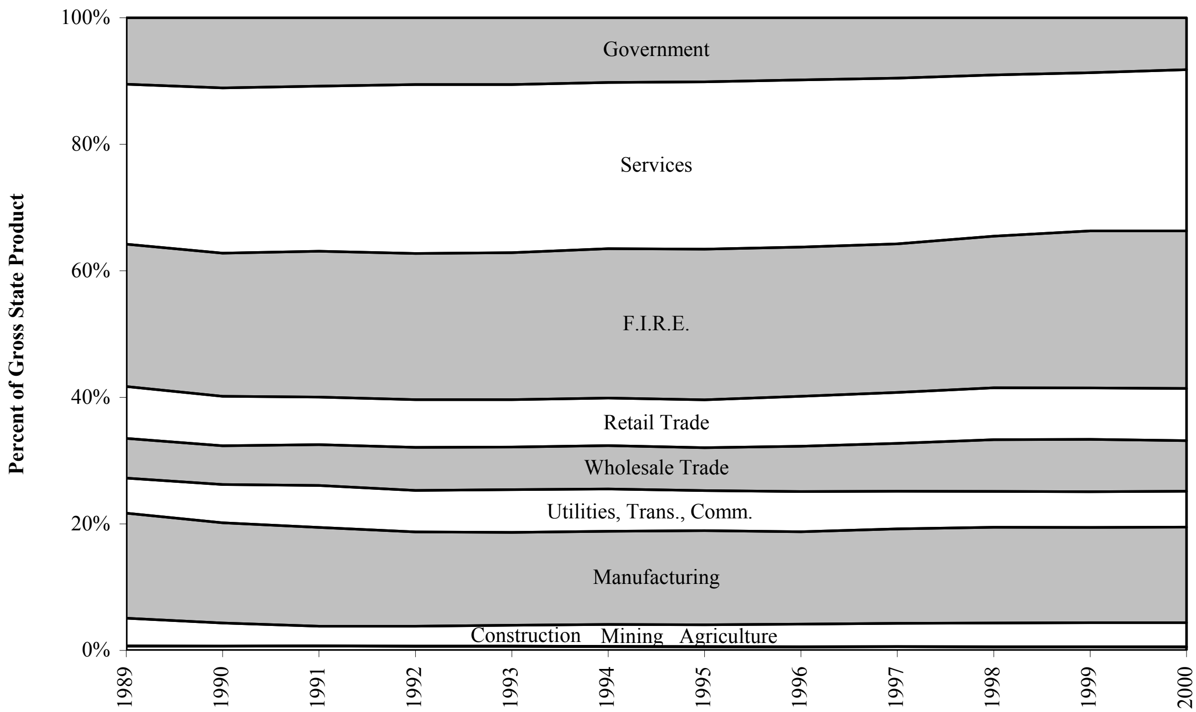
SOURCE: *Fortune*, April 15, 2002.

Five of *Fortune*'s 2002 Top 100 fastest growing U.S. companies are based in Massachusetts. Three Massachusetts companies entered this ranking, released in September of 2002. They are: Cytyc, a medical testing device company, ranked 8th; Investors Financial Services, a data processing services firm, ranked 39th; and Tweeter Home Entertainment Group, an audio products company, ranked 93rd. Zoll Medical, a medical devices company, moved from 35th to 30th, and Polymedica, a medical testing firm, rose from 74th to 42nd, and is in its third year on the high growth list. The 2002 *Fortune* Top 100 firms are ranked according to annual growth rates in earnings per share, revenue, and total return in stock price. [*Fortune*, September 2, 2002.]

Economic Base and Performance – Sector Detail

The economy of Massachusetts remains diversified among several industrial and non-industrial sectors. The three largest sectors of the economy contributed roughly the same percentage of the total Massachusetts Gross State Product in 2000 as they did in 1989. In 2000, the three largest sectors of the Massachusetts economy (services, F.I.R.E., and manufacturing) contributed 65.6 percent of the total Massachusetts Gross State Product while the remaining seven sectors contributed 34.4 percent. In 1990, these same three largest sectors contributed 64.5 percent of the total Massachusetts Gross State Product. The data below show the contributions to the Massachusetts real Gross State Product of several industrial and non-industrial sectors.

Sector Composition of Massachusetts Gross State Product, 1989-2000



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

Gross State Product by Industry in Massachusetts, 1989-2000

(millions of chained 1996 dollars)

Industrial Sector	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Ag., Forestry, Fishing	$1,269	$1,210	$1,231	$1,173	$1,194	$1,124	$1,098	$1,143	$1,280	$1,263	$1,371	$1,454
Mining	86	71	74	99	94	107	97	94	82	88	79	94
Construction	8,497	6,832	5,655	5,696	6,130	6,753	6,933	7,477	8,026	8,780	9,576	10,271
Manufacturing	32,078	29,620	28,344	27,281	27,402	28,789	29,835	30,687	32,813	35,486	37,906	40,752
Trans., Util., Comm.	10,676	11,295	12,062	11,940	12,621	13,035	12,683	13,334	13,063	13,245	14,207	15,284
Wholesale Trade	12,130	11,461	11,706	12,457	12,548	13,367	13,645	15,100	16,677	19,131	20,887	21,507
Retail Trade	15,832	14,619	13,673	13,791	13,996	14,695	15,163	16,591	17,683	19,228	20,414	22,296
F.I.R.E.	43,511	42,293	41,881	42,213	43,415	46,077	47,742	49,536	51,595	56,158	62,564	67,115
Services	48,819	48,841	47,421	48,822	49,610	51,261	53,055	55,508	57,576	59,717	62,993	68,734
Government	20,299	20,749	19,646	19,285	19,690	19,969	20,315	20,657	20,968	21,135	21,838	22,080
Total GSP	$193,839	$187,167	$181,901	$182,789	$186,680	$195,171	$200,537	$210,127	$219,716	$233,981	$251,482	$269,308

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

Services. The services sector remains the largest contributor to the Massachusetts Gross State Product, comprising 25.5 percent of the Commonwealth's Gross State Product in 2000. After a period of stagnation and slight decline from 1989 to 1991, the sector has grown in every year since then. Growth accelerated strongly in 1999 and 2000, with respective yearly growth rates of 5.5 percent and 9.1 percent. Much of this growth is due to a rapid rise in business services, which now account for 29.5 percent of all services, and 7.5 percent of GSP. Health services ranks second with a 23.6 percent share of the service sector and 6.0 percent of GSP.

Finance, Insurance, Real Estate. The F.I.R.E. sector has been the second largest contributor to the Massachusetts Gross State Product over the last decade. In 2000, it contributed 24.0 percent of the Gross State Product. The sector has experienced yearly growth since the declines of 1989 to 1991, and accelerated growth from 1997 to 1999, when growth peaked at 11.4 percent. In 2000, F.I.R.E. was up 7.3 percent over 1999.

Manufacturing. The manufacturing sector was the third largest contributor to the Massachusetts Gross State Product in 2000, contributing 15.2 percent of the Gross State Product. Manufacturing in New England was hit hard during the recession of 1989-1991, and posted only moderate growth during the mid-nineties. From 1997 to 2000, however, the manufacturing sector has grown at least 6.9 percent annually, including a gain of 7.5 percent in 2000.

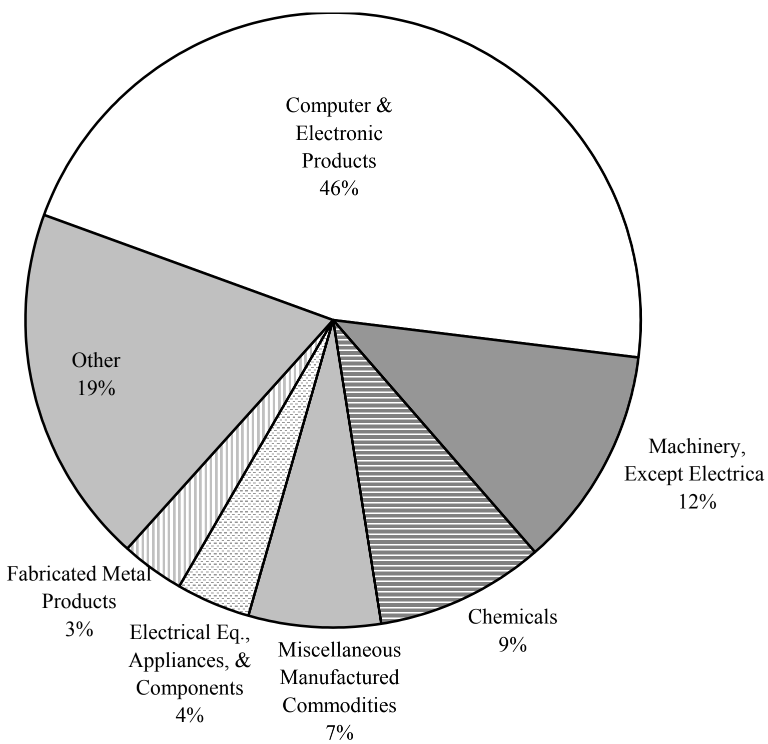
Wholesale and Retail Trade. Taken together, the wholesale and retail trade sectors contributed 16.4 percent of the Massachusetts Gross State Product in 2000, with each sub-sector contributing almost equally to the total. Growth in the wholesale trade sector rebounded in 1991 and varied through the early 1990s but was very strong in the 1996, 1997, and 1998, with rates of 10.7 percent, 10.4 percent, and 14.7 percent, respectively. Wholesale sector growth tapered to 9.2 percent in 1999 and 3.0 percent in 2000. The retail sector was harder hit during the 1989-1991 recession, and did not rebound as quickly, with growth not exceeding 1.5 percent until 1994. In the last five years, however, retail growth has ranged from 6.2 percent to 9.4 percent, including strong growth of 9.2 percent in 2000.

Trade and International Trade. A significant portion of what Massachusetts produces is exported internationally. Massachusetts ranked tenth in the United States, and first in New England, with $17.5 billion in international exports in 2001. This represents a 14.7 percent decrease from the previous year's exports from the Commonwealth, while national exports decreased by 6.3 percent in the same period. Through October of 2002, Massachusetts exports totaled $13.9 billion, a decrease of 5.9 percent compared with exports in the first ten months of 2001. National exports were down 6.4 percent in the same period. It is not possible to provide balance of trade comparisons for Massachusetts because import data are not compiled on a state-by-state basis.

Massachusetts' most important exports, as shown in the following chart, are computer and electronic products, non-electrical machinery, and chemical products. It should be noted that these categories reflect a newer industrial classification system which groups computers with electronic products, rather than with machinery.

Massachusetts' five most important trading partners for 2001 were: Canada, with $2.84 in purchases of U.S. products; Japan, with $1.96 billion; the United Kingdom, with $1.85 billion; Germany, with $1.40 billion; and France, with $860 million in purchases. Between 2000 and 2001, the most significant growth in Massachusetts exports among its top ten trading partners was in exports to Germany and Ireland, which increased 2.5 percent and 5.36 percent, respectively.

Composition of Massachusetts Exports by Industry Group, 2001



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

Value of International Shipments from Massachusetts, 1997-2001

(top ten industry groups ranked by value of 2001 sales, in millions)

Major Industry Group	*1997*	*1998*	*1999*	*2000*	*2001*
Computer & Electronic Products	$7,857	$7,458	$8,056	$10,215	$8,122
Machinery, Except Electrical	$1,885	$1,694	$1,705	$2,545	$2,044
Chemicals	$1,174	$1,223	$1,357	$1,600	$1,534
Miscellaneous Manufactured Commodities	$768	$835	$925	$1,053	$1,213
Electrical Eq., Appliances, & Components	$570	$596	$720	$834	$691
Fabricated Metal Products	$748	$597	$601	$649	$569
Transportation Equipment	$655	$637	$698	$659	$449
Plastics & Rubber Products	$323	$357	$389	$374	$400
Paper	$311	$334	$364	$435	$386
Food and Kindred Products	$234	$220	$211	$233	$286
Total Exports,Top 10 Massachusetts Industries	$14,292	$13,731	$14,815	$18,364	$15,408
Total Massachusetts Exports	$16,526	$15,878	$16,805	$20,514	$17,490
Percentage Change from Prior Year	n/a	-3.9%	5.8%	22.1%	-14.7%

SOURCE: Massachusetts Institute for Social and Economic Research, University of Massachusetts - Amherst. These figures reflect the changeover in export statistics reporting to the NAICS system from the SIC system. Categories and state totals are not comparable between systems.

Construction and Housing. In 2000, construction activity contributed 3.8 percent of the Massachusetts Gross State Product. This sector experienced a significant decline between 1989 and 1991, with declines as large as 19.6 percent and 17.2 percent in 1990 and 1991. Beginning in 1992, however, the sector rebounded and has grown every year since, and by at least 7 percent in each year from 1995 to 2000.

The following table shows the number of housing permits authorized on an annual basis in Massachusetts, New England, and the United States. Between 1983 and 1986, both Massachusetts and New England experienced strong growth in the number of housing permits authorized. This period was followed by a prolonged decline between 1986 and 1991 during which the number of housing permits authorized in Massachusetts declined by 71.2 percent. With the exception of a 12.9 percent drop in 1995, Massachusetts housing permit authorizations increased each year from 1992 to 1999, for a total increase in that period of 50.3 percent. All three regions experienced declines in 2000. Massachusetts and New England were harder hit and saw continuing, if milder, decreases in authorizations, whereas the national statistic increased for 2001.

Housing Permits Authorized, 1969-2001

Year	Massachusetts Total Permits	Massachusetts Percentage Change	New England Total Permits	New England Percentage Change	United States Total Permits	United States Percentage Change
1969	33,572		70,539		1,330,161	
1970	38,330	14.2%	74,068	5.0%	1,354,746	1.8%
1971	52,116	36.0%	97,801	32.0%	1,913,601	41.3%
1972	48,261	-7.4%	96,517	-1.3%	2,138,862	11.8%
1973	41,422	-14.2%	82,306	-14.7%	1,782,526	-16.7%
1974	24,397	-41.1%	52,718	-35.9%	1,067,065	-40.1%
1975	17,697	-27.5%	41,645	-21.0%	934,511	-12.4%
1976	19,190	8.4%	47,441	13.9%	1,286,942	37.7%
1977	24,872	29.6%	58,658	23.6%	1,678,629	30.4%
1978	20,315	-18.3%	55,733	-5.0%	1,657,933	-1.2%
1979	20,164	-0.7%	53,654	-3.7%	1,533,436	-7.5%
1980	16,055	-20.4%	40,195	-25.1%	1,171,763	-23.6%
1981	15,599	-2.8%	38,067	-5.3%	985,600	-15.9%
1982	15,958	2.3%	39,470	3.7%	1,000,500	1.5%
1983	22,950	43.8%	57,567	45.9%	1,605,221	60.4%
1984	28,471	24.1%	72,356	25.7%	1,689,667	5.3%
1985	39,360	38.2%	96,832	33.8%	1,732,335	2.5%
1986	43,877	11.5%	108,272	11.8%	1,771,832	2.3%
1987	40,018	-8.8%	101,222	-6.5%	1,542,499	-12.9%
1988	31,766	-20.6%	82,123	-18.9%	1,450,583	-6.0%
1989	21,634	-31.9%	53,543	-34.8%	1,345,084	-7.3%
1990	15,276	-29.4%	36,811	-31.2%	1,125,583	-16.3%
1991	12,624	-17.4%	31,111	-15.5%	953,834	-15.3%
1992	16,346	29.5%	36,876	18.5%	1,105,083	15.9%
1993	17,715	8.4%	39,225	6.4%	1,210,000	9.5%
1994	18,302	3.3%	40,459	3.1%	1,366,916	13.0%
1995	15,946	-12.9%	37,357	-7.7%	1,335,835	-2.3%
1996	17,360	8.9%	40,425	8.2%	1,419,083	6.2%
1997	17,554	1.1%	42,047	4.0%	1,442,251	1.6%
1998	18,958	8.0%	47,342	12.6%	1,619,500	12.3%
1999	18,977	0.1%	47,379	0.1%	1,663,916	2.7%
2000	17,342	-8.6%	43,735	-7.7%	1,598,332	-3.9%
2001	16,654	-4.0%	42,786	-2.2%	1,638,499	2.5%

SOURCE: Massachusetts Institute for Social and Economic Research; Federal Reserve Bank of Boston; US Department of Commerce.

Both the economic recession of 1989-1991 and the subsequent economic recovery were reflected in the housing sector. Significant declines in existing home sales in Massachusetts in 1989 and 1990 (of 10.9 percent and 28.8 percent, respectively) were followed by rapid sales growth between 1991 and 1993, when home sales in Massachusetts increased at a yearly rate substantially higher than the national average. Following this period of rapid growth, the growth in existing home sales slowed to a rate of 0.7 percent in 1994 and declined 2.6 percent in 1995. In 1996, 1997, and 1998, however, growth in existing home sales in Massachusetts was significant, outpacing the national average in 1996 and 1997 with rates of 16.6 percent and 11.0 percent, respectively. This strong growth ended in 1999 when existing home sales in the Commonwealth declined 1.3 percent while growth in existing home sales nationally was 6.0 percent. In 2000, existing home sales in Massachusetts declined by 4.6 percent, but a slight rebound of 2.0 percent occurred in 2001. On a seasonally adjusted annual rate basis, existing home sales for the Commonwealth, New England, and the United States appear in the following table.

Existing Home Sales, 1981-2001

(seasonally adjusted annual rates, in thousands)

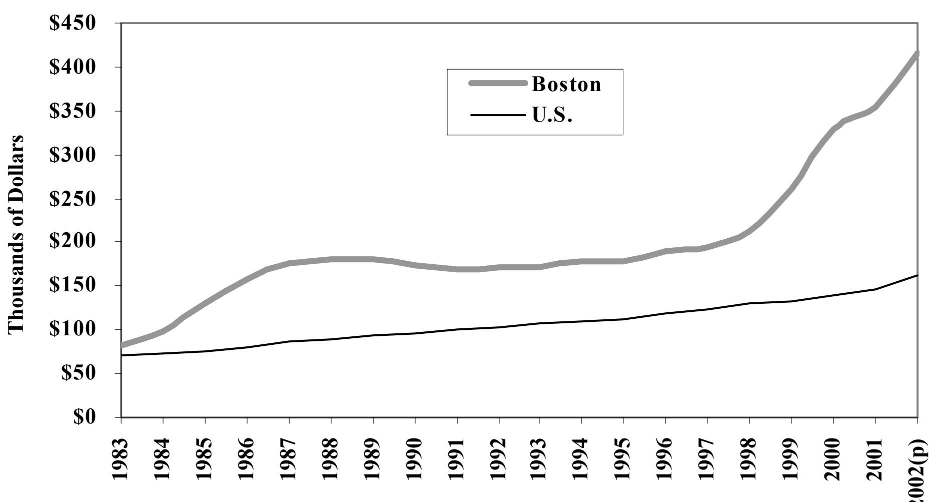
	Massachusetts		*New England*		*United States*	
Year	*Sales*	*% Change*	*Sales*	*% Change*	*Sales*	*% Change*
1981	43.0		105.8		2,575.0	
1982	42.6	-0.8%	98.6	-6.9%	2,117.5	-17.8%
1983	59.2	39.0%	141.3	43.3%	2,875.0	35.8%
1984	54.9	-7.3%	140.7	-0.4%	3,027.5	5.3%
1985	60.2	9.7%	157.0	11.6%	3,382.5	11.7%
1986	67.0	11.3%	169.2	7.8%	3,772.5	11.5%
1987	76.4	14.1%	174.5	3.1%	3,767.5	-0.1%
1988	76.6	0.2%	178.5	2.3%	3,882.5	3.1%
1989	68.2	-10.9%	163.0	-8.7%	3,672.0	-5.4%
1990	48.6	-28.8%	134.0	-17.8%	3,603.5	-1.9%
1991	53.4	10.0%	140.5	4.9%	3,533.3	-1.9%
1992	62.5	17.0%	170.6	21.4%	3,889.5	10.1%
1993	70.9	13.4%	193.8	13.6%	4,220.3	8.5%
1994	71.4	0.7%	200.3	3.4%	4,409.8	4.5%
1995	69.6	-2.6%	185.7	-7.3%	4,342.3	-1.5%
1996	81.2	16.6%	200.7	8.1%	4,705.3	8.4%
1997	90.1	11.0%	219.4	9.3%	4,908.8	4.3%
1998	99.9	10.8%	248.3	13.2%	5,585.3	13.8%
1999	98.5	-1.3%	253.3	2.0%	5,922.8	6.0%
2000	95.3	-4.6%	261.3	5.2%	5,831.8	4.4%
2001	97.2	2.0%	262.7	0.5%	6,071.5	4.1%

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

Single family home prices for the Boston Metropolitan area (not seasonally adjusted) appear below. While Boston housing prices were 18.1 percent higher than the U.S. average in 1983, by 1987 Boston housing prices as a percentage of the national average had reached a peak of 205.7 percent. After dipping to 60.9 percent higher than the national average in 1993 and remaining as low as 62.9 percent above the national average in 1998, Boston home prices soared 141.7 percent above the national average in 2001. The average Boston area home price in 2002 (through September) rose to $415,800, 2.57 times the national average.

Boston Area and U.S. Average Annual Home Prices, 1983-2001

(in thousands of current dollars)

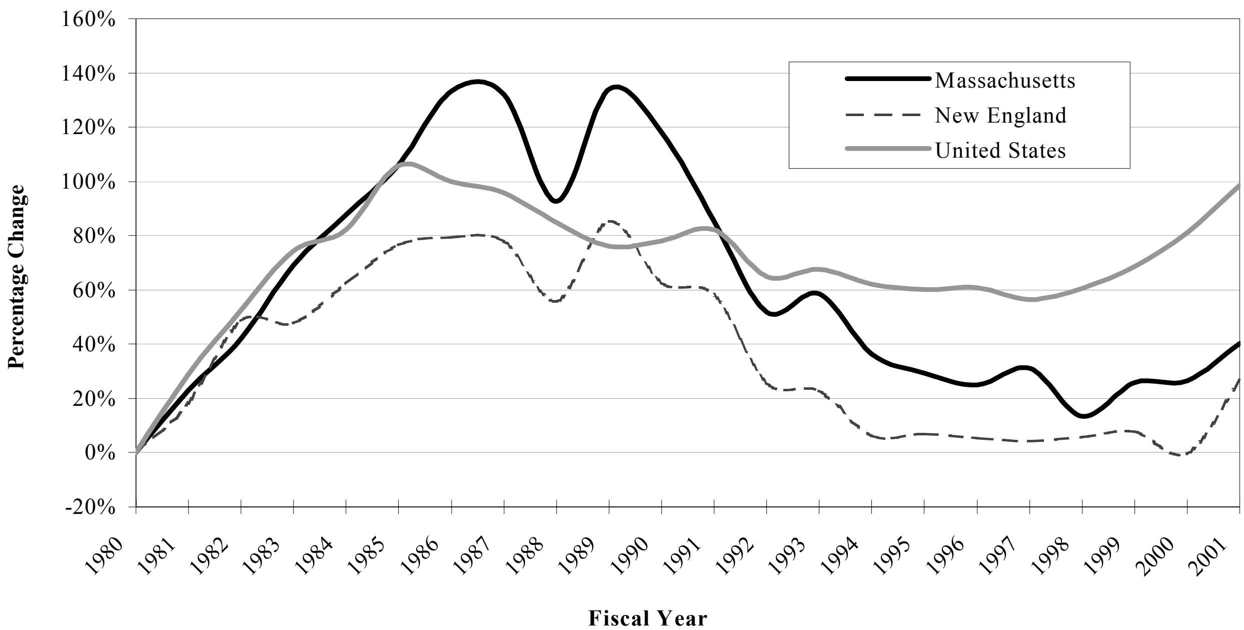


SOURCES: National Association of Realtors; Federal Reserve Bank of Boston. (p = projected based on results for first three quarters).

Defense. Following a peak at $8.7 billion in the value of military prime contracts awarded to Massachusetts firms in fiscal 1986, defense-related contracts declined 17.2 percent by fiscal 1988 to $7.2 billion. By fiscal 1995, the value of defense-related prime contracts had declined to $4.8 billion. The net value of prime contract awards in Massachusetts oscillated between $4.2 and $4.9 billion from 1995 to 2000, but jumped 10.8 percent in 2001 to reach $5.2 billion. The chart below illustrates the yearly changes in the value of Massachusetts military prime contracts from 1981 to 2001.

Cumulative Percentage Change in Net Value of Prime Contract Awards Since 1980

(Baseline Year = 1980)



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

The importance of the defense industry to the Massachusetts economy is reflected in table on the following page, which shows the value of Department of Defense prime contract awards between 1981 and 2001. Since the early 1980s, the Commonwealth's share of New England's prime contract awards had remained around or above 50 percent. In 1998, Massachusetts' share of New England's prime contract awards dipped to 45.7 percent and in 1999, the Commonwealth's share recovered only some of its losses, rising to 49.8 percent. In 2000, the Commonwealth's share of New England's prime contract awards rose to a recent peak of 54.2 percent, but large increase elsewhere in New England in 2001 offset the Massachusetts increase and pushed the Commonwealth's share in the region back down to 47.3 percent. In 2000, the Commonwealth's share of the national total also reached its lowest point in at least the last two decades, but this share increased slightly to 3.9 percent in 2001. Despite this declining trend, Massachusetts remains the sixth largest recipient in defense spending, behind California, Virginia, Texas, Florida, and Georgia.

Net Value of Department of Defense Prime Contract Awards, 1980-2001

(in millions of real dollars)

Fiscal Year	*MA*	*N.E.*	*U.S.*	*MA as Percentage of N.E.*	*MA as Percentage of U.S.*
1980*	$3,743	$8,775	$68,070	42.7%	5.5%
1981*	4,605	10,372	87,761	44.4%	5.2%
1982*	5,317	13,037	103,858	40.8%	5.1%
1983	6,328	12,967	118,744	48.8%	5.3%
1984	7,029	14,249	123,995	49.3%	5.7%
1985	7,714	15,487	140,096	49.8%	5.5%
1986	8,735	15,748	136,026	55.5%	6.4%
1987	8,685	15,606	133,262	55.7%	6.5%
1988	7,212	13,673	125,767	52.7%	5.7%
1989	8,757	16,268	119,917	53.8%	7.3%
1990	8,166	14,271	121,254	57.2%	6.7%
1991	6,933	13,889	124,119	49.9%	5.6%
1992	5,686	11,033	112,285	51.5%	5.1%
1993	5,936	10,779	114,145	55.1%	5.2%
1994	5,106	9,329	110,316	54.7%	4.6%
1995	4,846	9,375	109,005	51.7%	4.4%
1996	4,675	9,237	109,408	50.6%	4.3%
1997	4,910	9,152	106,561	53.6%	4.6%
1998	4,245	9,284	109,386	45.7%	3.9%
1999	4,715	9,456	114,875	49.9%	4.1%
2000	4,737	8,745	123,295	54.2%	3.8%
2001	5,248	11,094	135,225	47.3%	3.9%

SOURCE: United States Department of Defense.

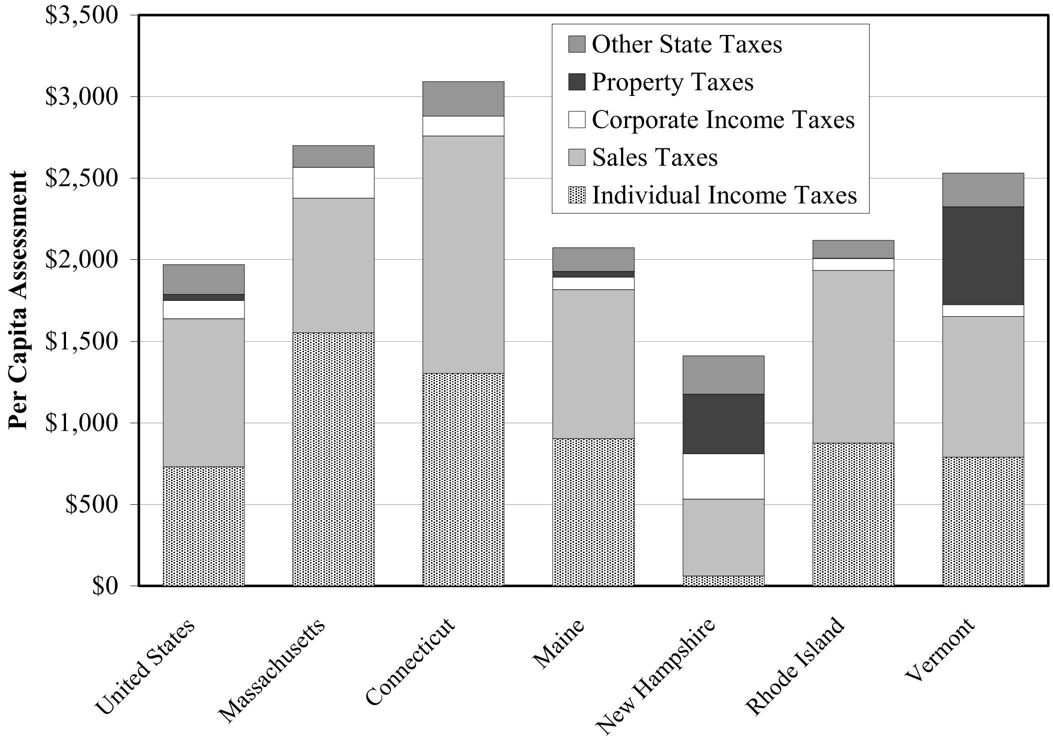
* Prime Contract is defined as $10,000 and above for these years; beginning in 1983 it is defined as $25,000 and above.

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

The Massachusetts Office of Travel and Tourism estimates that 26.1 million domestic travelers traveled to or within the Commonwealth in 2001, an increase of 5.2 percent from 2000. Additionally, 2.1 million international travelers visited Massachusetts in 2001. The latest available economic impact data indicates that spending by visitors to Massachusetts remains significant, with direct spending totaling $13.3 billion in 2000, an increase of 9.0 percent over the 1999 level.

State Taxes. State taxes in Massachusetts are significantly higher than the national average. In 2001, the total per capita state tax bill in the United States was $1967. Citizens of the Commonwealth, however, paid $2700 on average, the fifth highest rate in the nation. In New England, only citizens in Connecticut paid more per capita: $3092. Over half of the state taxes in Massachusetts come from the state income tax. Per capita individual income taxes in Massachusetts were $1552. 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.

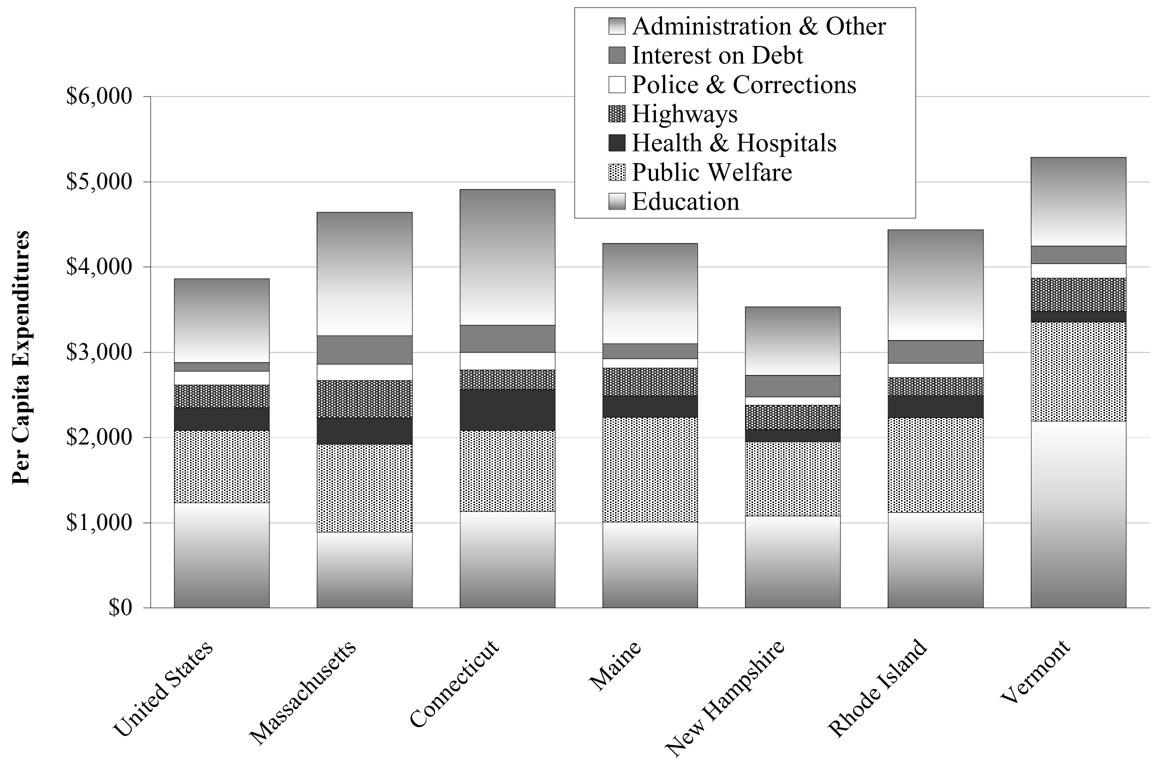
Fiscal 2001 Per Capita State Taxes, by Type



SOURCE: U.S. Bureau of the Census.

State Government Spending in Massachusetts. The following chart depicts fiscal 2000 per capita state expenditures by category for the six New England states and the U.S. average state expenditure. Massachusetts spent more state funds per capita on highways ($439) and debt service ($335) and less on education ($890) than any of its New England neighbors. The differences between states in per capita spending are similar to those in taxation, with intergovernmental transfers (to and from local and federal governments) accounting for the degree to which per capita spending exceeds per capita taxation. While all New England states used less than the national average of 30.2 percent for intergovernmental expenditures, the variation within the region is significant, with intergovernmental expenditures representing 14.6 percent of Rhode Island expenditures, 21.2 percent of Massachusetts expenditures, and 28.9 percent of Vermont expenditures.

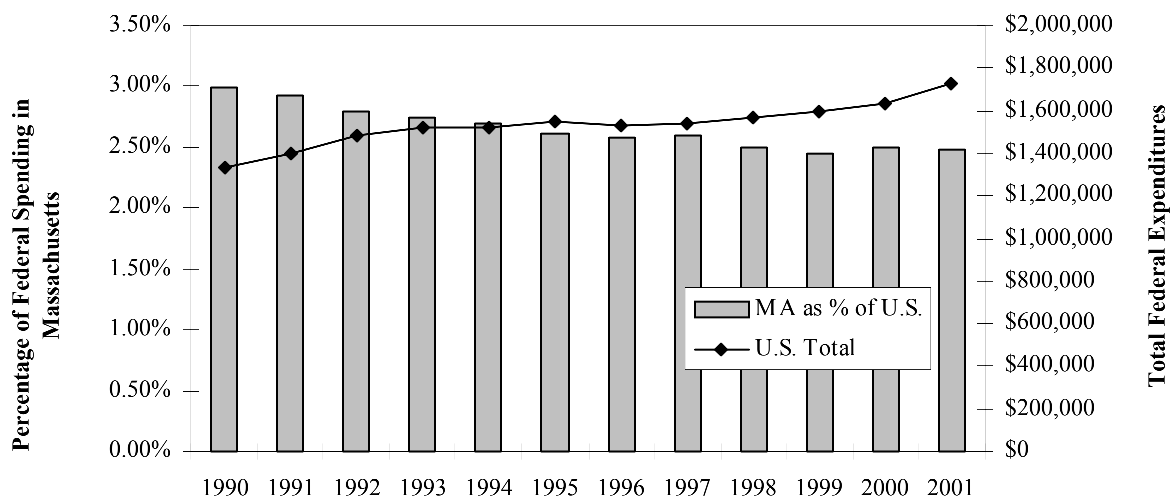
Fiscal 2000 Per Capita State Expenditures by Type



SOURCE: U.S. Bureau of the Census, revised September 2002.

Federal Government Spending in Massachusetts. Federal government spending contributes a significant amount to the economy of Massachusetts. In fiscal 2001, Massachusetts ranked thirteenth among states in per capita distribution of federal funds, with total spending of $6,926 per person. Massachusetts' share of total federal spending declined steadily between 1990 and 1999, and has stabilized in the range of 2.45 percent to 2.49 percent between 1999 and 2001. The following chart shows total federal expenditures and the percentage of federal expenditures in Massachusetts. Total federal spending data were converted to 2000 dollars by MISER using Consumer Price Index data for the United States. Federal spending includes grants to state and local governments, direct payments to individuals, wage and salary employment, and procurement contracts and includes only those expenditures which can be associated with individual states and territories.

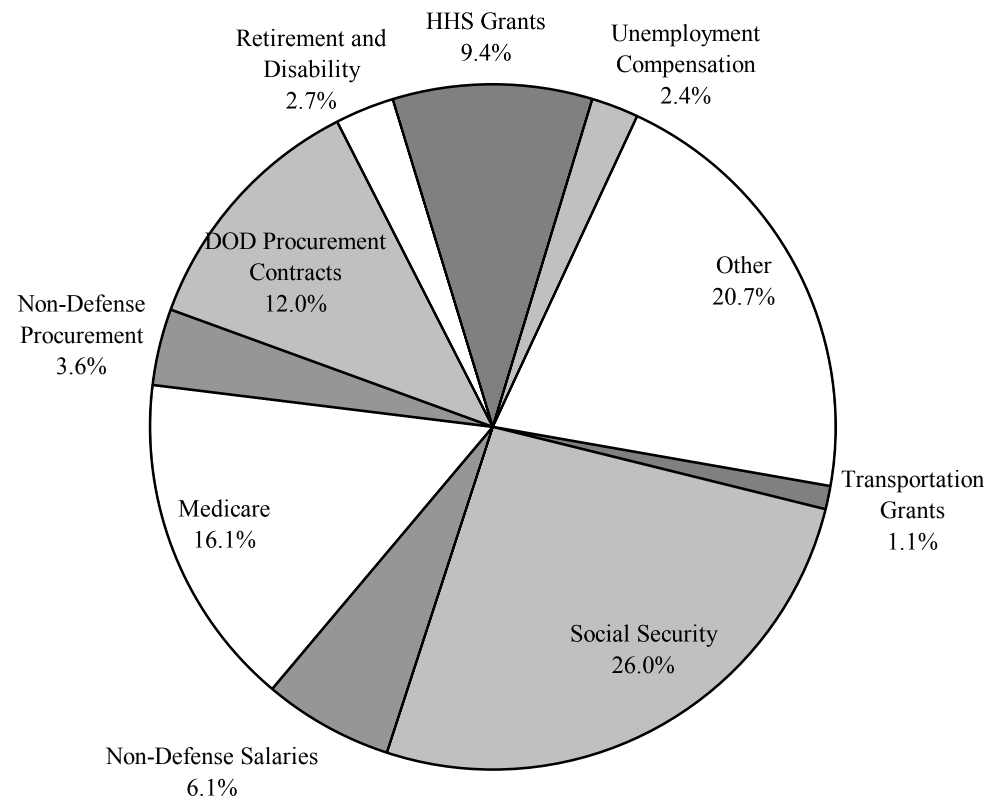
Total Real Federal Expenditures and
Percentage of Federal Expenditures in Massachusetts, 1990-2001
(in millions of constant 2000 dollars)



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

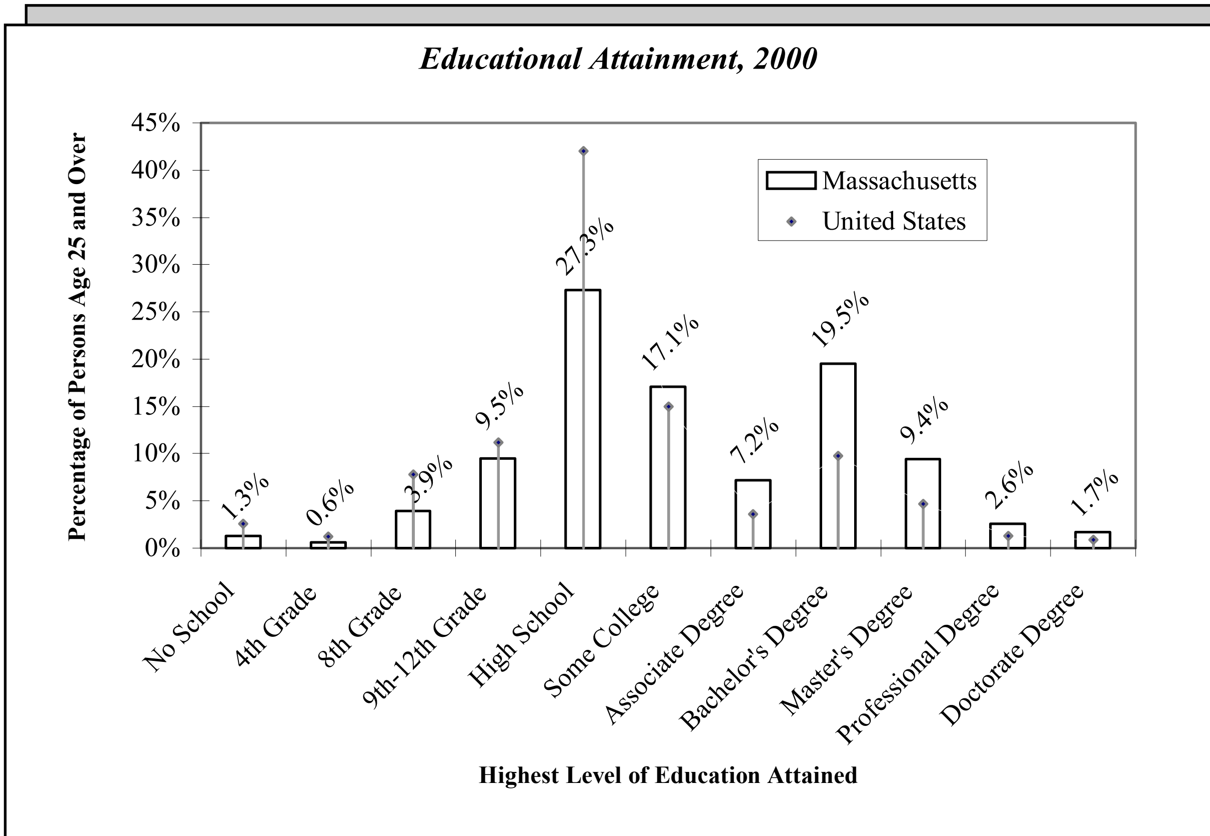
A large percentage of federal spending in Massachusetts in 2001 was composed of health care and social programs like Medicare and Social Security. Massachusetts was above the national average in per capita federal grants to state and local governments, receiving $1,531 per capita compared to a national average of $1,205. Per capita federal spending on salaries and wages in 2001 was lower in Massachusetts than in the rest of the nation ($506 compared to a national average of $668) but Massachusetts was above the national average in per capita direct federal payments to individuals ($3,762 compared to a national average of $3,377). Massachusetts ranked tenth among states in per capita procurement contract awards ($1,079 compared to a national average of $875) in 2001. The following chart shows the composition of federal spending within Massachusetts in fiscal 2001.

Composition of Federal Spending in Massachusetts by Program, Fiscal 2001



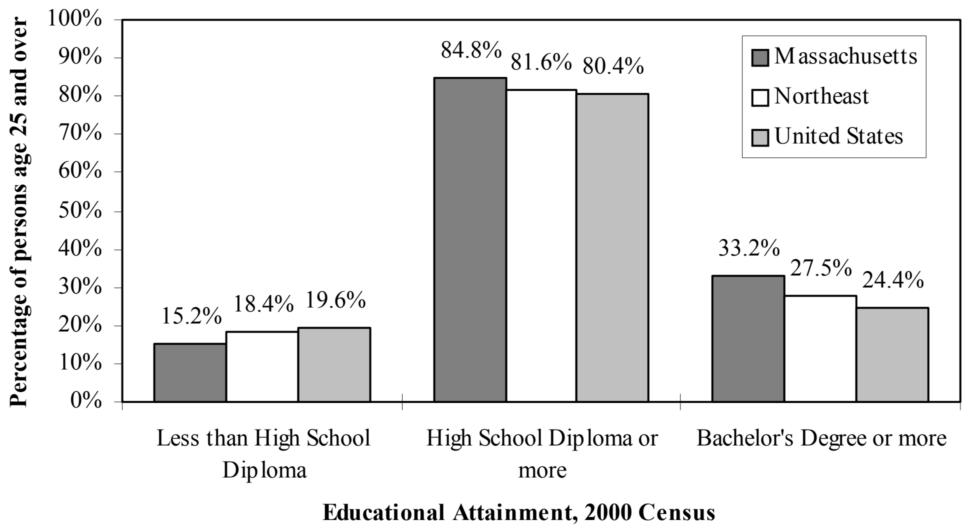
SOURCE: United States Department of Commerce, Bureau of the Census

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 Massachusetts, 15.2 percent of residents age 25 and above never graduated from high school, as compared with 19.6 percent of their peers nationwide. A significant difference between Massachusetts and the United States is the percentage of people age 25 and above with a Bachelor's Degree or higher: 33.2 percent in Massachusetts as compared to 24.4 percent for the United States as a whole. The proportion of college graduates increased by 4 percentage points in both the state and the nation between 1990 and 2000. Relative to the nation as a whole, Massachusetts has a lower percentage of adults (25 and older) who ended their schooling after high school or earlier, and a greater percentage of adults in every post-secondary category. The following chart shows the differences in educational attainment between Massachusetts and the United States for key threshold levels of education. Actual percentages are given for Massachusetts only, and each category represents the highest educational level reached for individuals in that group.



SOURCE: United States Department of Commerce, Bureau of the Census, Census 2000.

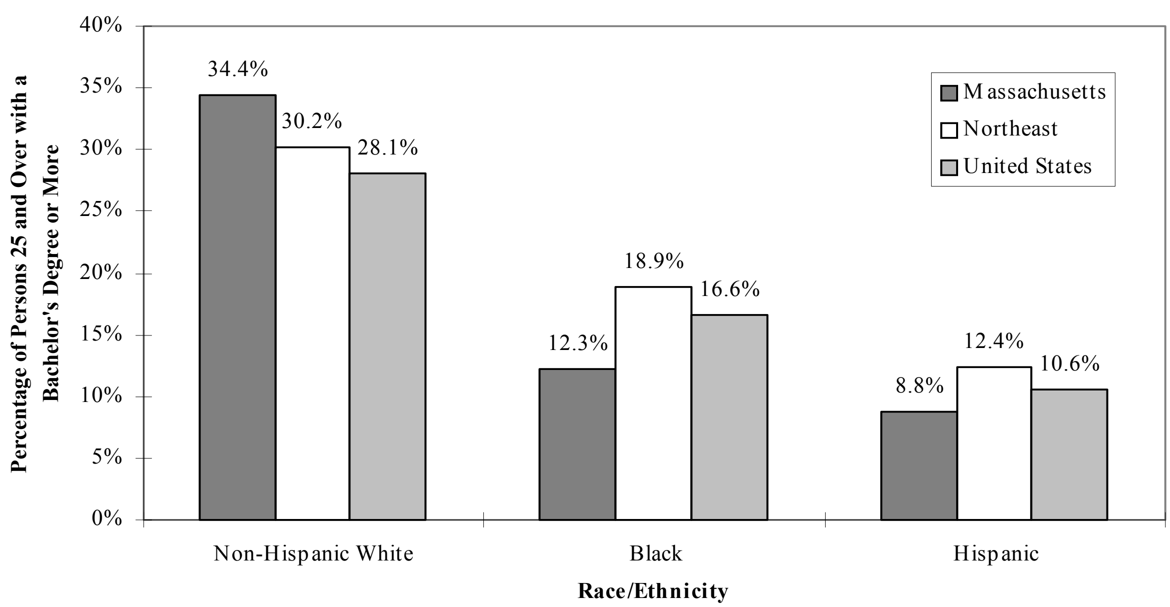
Educational Attainment by Persons Age 25 and Over, 2000



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

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

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



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

Massachusetts has a higher percentage of minority enrollment in institutions of higher education than New England. However, the percentage of enrollment of blacks, Hispanics, and Asians in higher education in Massachusetts is below the national average. The most recent national figures available for 1998, and the introduction of a "race unknown" category for the 2000 regional figures makes accurate comparison between regions and the nation impossible. These percentages are seen in the chart below.

Percentage Minority Enrollment in Higher Education, 2000

	Black	Hispanic	Asian	Race Unknown
Massachusetts	5.4	4.5	5.7	15.0
New England	5.1	4.2	4.3	12.5
United States (1998)	10.9	8.7	6.2	N/A

SOURCE: New England Board of Higher Education, *Connections*, Spring 2002.

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

Although spending on education is not necessarily an indicator of results, Massachusetts has spent from 12 to 27 percent more per pupil on primary and secondary education than the national average since at least 1981. In fiscal 2002, Massachusetts increased per student expenditures to an estimated $9883, 31 percent higher than the national average. The following table shows expenditures per pupil for Massachusetts and the United States since fiscal 1981.

Per Pupil Expenditure in Public Elementary and Secondary Schools, 1981-2002

(in current, unadjusted dollars)

Fiscal Year	Massachusetts	United States	Ratio (MA/US)
1981	$2,735	$2,307	1.19
1982	2,823	2,525	1.12
1983	3,072	2,736	1.12
1984	3,298	2,940	1.12
1985	3,653	3,222	1.13
1986	4,031	3,479	1.16
1987	4,491	3,682	1.22
1988	4,965	3,927	1.26
1989	5,485	4,307	1.27
1990	5,766	4,643	1.24
1991	5,881	4,902	1.20
1992	5,952	5,023	1.18
1993	6,141	5,160	1.19
1994	6,423	5,327	1.21
1995	6,783	5,529	1.23
1996	7,033	5,689	1.24
1997	7,331	5,923	1.24
1998	7,778	6,189	1.26
1999	8,260	6,508	1.27
2000	8,761	6,911	1.27
2001(e)	9,077	7,156	1.27
2002(e)	9,883	7,524	1.31

SOURCE: United States Department of Education, National Center for Educational Statistics.
(e = official NCES estimate of expenditures and/or student population)

Massachusetts is an internationally recognized center for higher education, with 413,305 students in undergraduate, professional and graduate programs in 2000, according to data supplied by the New England Board of Higher Education. The number of foreign students enrolled in Massachusetts colleges and universities in 2000 was 29,395, representing 5.4 percent of total foreign student enrollment in the United States. The Massachusetts public higher education system is composed of universities, state colleges, and community colleges with a combined enrollment of 178,729 students in 2000, almost half of whom attended part-time. In addition, Massachusetts has a system of private higher education that accounted for 56.8 percent of total enrollment in Massachusetts in 2000, and in which approximately one quarter of students attend school part-time. 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 65 percent of New England's graduate science and engineering students attending Massachusetts institutions. The strength of the Massachusetts higher education system is evidenced by the draw it has upon new students. In the Fall of 2000, 16,867 first-time freshmen migrated into the Massachusetts higher education system from outside New England, representing 27 percent of all incoming freshmen in that year. The strength of the Commonwealth's educational institutions is also reflected in the large number of degrees awarded. In 2000, Massachusetts institutions conferred a total of 2,275 doctoral degrees. This represents 4.8 percent of the total number of doctoral degrees conferred in the United States in 2000.

The pre-eminence of higher education in Massachusetts contributes not only to the quality of its work force, but also to its stature in the nation and the world as a center for basic scientific research and for academic and entrepreneurial research and development. Doctorate-granting institutions in Massachusetts spent 5.0 percent of total national expenditures on R&D at such institutions in fiscal 2000, ranking Massachusetts fifth in the nation behind only California, New York, Texas, and Pennsylvania. Doctorate-granting institutions in New England spent 7.9 percent ($2.33 billion) of the total research and development funds ($29.6 billion) spent by such institutions in fiscal 2000. Massachusetts institutions spent 63.0 percent of these funds ($1.47 billion). [Source: National Science Foundation, Division of Science Resources Statistics, *Academic Research and Development Expenditures: Fiscal Year 2000,* NSF 02-308, Table B-23.]

The diversity of federal funding sources reflects the variety of research and development work performed at Massachusetts educational institutions. Of the $1.16 billion in total fiscal 2000 federal outlays for science and engineering research to universities and colleges in Massachusetts (and their affiliated federally funded research and development centers), 48.8 percent was from the Department of Health and Human Services, 14.1 percent was from the National Science Foundation, 25.6 percent was from the Department of Defense, 6.2 percent was from the Department of Energy, and 3.6 percent was from the National Aeronautics and Space Administration. Massachusetts ranked 4th in the nation in 2000 in total federal outlays for research and development, with total federal spending of $4.15 billion in the state. The educational sector captured 28.0 percent of this pool, while industry garnered 40.4 percent and non-profit institutions received 25.2 percent. [Source: National Science Foundation, Division of Science Resources Statistics, *Federal Funds for Research and Development: Fiscal Years 2000, 2001, and 2002*, NSF 02-321, Tables C-85, C-83b.]

Given the quality of the Commonwealth's research and development sector, it is not surprising that Massachusetts fares better than the national average in homes with telephone, computer, and internet access. In 1998, 95.5 percent of homes in Massachusetts had telephones compared with 94.1 percent of homes in the United States. In 2001, among homes in Massachusetts, 59.1 percent had a computer compared with 56.5 percent nationally, and 54.7 percent of homes in Massachusetts had internet access while 50.5 percent of homes nationwide had such access. In New England, however, only Rhode Island had a lower percentage of households with a computer and only Vermont, Rhode Island and Maine had a lower percentage of households with internet access. [Sources: National Telecommunications and Information Administration (NTIA*), A Nation Online*, 2/2002; NTIA*, Falling Through The Net—Toward Digital Inclusion*, 10/2000.]

Major Infrastructure Projects. Several major public sector-sponsored construction projects are underway or recently completed in the Boston region, providing significant economic and employment benefits to the state. The "Big Dig," the world's largest highway project, includes the depression of the central artery which traverses the City of Boston, and the construction of a third harbor tunnel linking downtown Boston to Logan Airport. The new Central Artery is designed to meet Boston's future traffic demand and is anticipated to carry 245,000 vehicles per day by 2010 with minimal congestion. The Project will also strengthen connections among Boston's air, rail, and seaport terminals. By offering travelers and shippers increased choice and flexibility among these different modes of transportation, the Project is contributing to the creation of an integrated, intermodal transportation system for the entire region. The Ted Williams Tunnel, which stretches under Boston Harbor from South Boston to Logan Airport, opened to commercial traffic in late 1995 and to all traffic in December 2001, and will carry an estimated 98,000 vehicles daily in 2010. Although several 2002 openings have been delayed by one to two months, the Central Artery Project is expected to be completed by 2004 at an estimated total cost of $14.63 billion, with nearly half funded by the federal government. As of November 30, 2002, construction is 86.0 percent complete.

The Massachusetts Port Authority (Massport) owns and operates Logan International Airport, the Port of Boston, and several smaller assets. A $3.7 billion, ten-year modernization program is well underway at the Authority's key facilities, including expansion of airport terminal space. Massport, under new leadership since April of 2002, responded to the events of September 11, 2001, by reducing some operating costs in fiscal 2002 via layoffs and retirement incentives while increasing security-related expenditures. Massport reported fiscal 2002 operating income of $17 million (down 53.3 percent from fiscal 2001), with operating revenues down 3.4 percent and operating costs up 2.8 percent. In fiscal 2002, 22.1 million passengers (a 19.3 percent decrease from fiscal 2001) and more than 842 million pounds of cargo and mail (a 14.1 percent decrease) passed through

Logan. At the Port of Boston, 2001 cargo throughput was 16.3 million metric tons (a four percent decline from 2000), automobile imports decreased 13 percent to 80,000 units, and cruise passenger trips increased 28 percent to 253,000.

TABLE OF REFUNDED BONDS

The bonds of the Commonwealth to be refunded with the proceeds of the 2003 Series B Refunding Bonds are described below under the heading "2003 SERIES B REFUNDED BONDS." The bonds of the Commonwealth to be refunded with the proceeds of the 2003 Series C Refunding Bonds are described below under the heading "2003 SERIES C REFUNDED BONDS."

2003 SERIES B REFUNDED BONDS

	Maturity Date	Amount	Coupon
$124,505,000 General Obligation Refunding Bonds, 1992 Series A:			
	August 1, 2003*	$7,935,000	6.40%

*To be redeemed on April 11, 2003 at a call price of 102%.

	Maturity Date	Amount	Coupon
$90,195,000 General Obligation Refunding Bonds, 1992 Series B:			
	August 1, 2003*	$425,000	6.40%
	August 1, 2004*	450,000	6.50
	August 1, 2005*	480,000	6.50
		$1,355,000	

*To be redeemed on April 11, 2003 at a call price of 102%.

	Maturity Date	Amount	Coupon
$899,390,000 General Obligation Refunding Bonds , 1993 Series A:			
	February 1, 2004*	$49,450,000	5.00%
	February 1, 2005*	95,560,000	5.10
		$145,010,000	

*To be redeemed on April 11, 2003 at a call price of 102%.

	Maturity Date	Amount	Coupon
$200,000,000 General Obligation Bonds, Consolidated Loan of 1993, Series B:			
	October 1, 2010*	$13,225,000	4.875%
	October 1, 2011*	13,900,000	4.875
	October 1, 2013*	29,980,000	4.875
		$57,105,000	

*To be redeemed on October 1, 2003 at a call price of 102%.

	Maturity Date	Amount	Coupon
$200,000,000 General Obligation Bonds, Consolidated Loan of 1994, Series A:			
	January 1, 2013*	$14,615,000	5.00%
	January 1, 2014*	15,365,000	5.00
		$29,980,000	

*To be redeemed on January 1, 2004 at a call price of 102%.

$250,000,000 General Obligation Bonds, Consolidated Loan of 1998, Series B:

April 1, 2003	$1,700,000*	4.500%
April 1, 2007	2,000,000**	6.00
April 1, 2008	2,500,000***	6.00
April 1, 2009	11,880,000†	5.00
	$18,080,000	

* Represents the portion of the outstanding $9,095,000 serial bond which will be refunded and paid at maturity on April 1, 2003. The remaining amount ($7,395,000) is to be paid at maturity.

** Represents the portion of the outstanding $10,960,000 serial bond which will be refunded and paid at maturity on April 1, 2007. The remaining amount ($8,960,000) is to be paid at maturity.

*** Represents the portion of the outstanding $11,615,000 serial bond which will be refunded and paid at maturity on April 1, 2008. The remaining amount ($9,115,000) is to be paid at maturity.

† To be redeemed on April 1, 2008 at a call price of 101%.

$250,000,000 General Obligation Bonds, Consolidated Loan of 2002, Series A:

January 1, 2010*	$25,000,000	4.000%

* To be redeemed on January 1, 2009 at par.

$734,350,000 General Obligation Bonds, Consolidated Loan of 2002, Series E:

January 1, 2014*	$24,860,000	5.500%
January 1, 2015*	44,360,000	5.500
	$69,220,000	

*To be redeemed on January 1, 2013 at par.

2003 SERIES C REFUNDED BONDS

$842,995,000 General Obligation Refunding Bonds, 1993 Series C:

August 1, 2004*	$103,495,000	4.900%
August 1, 2005*	104,975,000	4.95
August 1, 2006*	111,115,000	5.00
August 1, 2007*	114,700,000	5.00
	$434,285,000	

*To be redeemed on August 1, 2003 at a call price of 102%.

PROPOSED FORMS OF OPINIONS OF BOND COUNSEL

Upon the delivery of the Bonds, Bond Counsel proposes to deliver to the Underwriters opinions in substantially the following forms:

MINTZ LEVIN
COHN FERRIS
GLOVSKY AND
POPEO PC

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Reston
Washington
New Haven

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617 542 6000
617 542 2241 fax
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[To the Underwriters]

We have acted as bond counsel to The Commonwealth of Massachusetts (the "Commonwealth") in connection with the issuance by the Commonwealth of $288,745,000 General Obligation Bonds, Consolidated Loan of 2003, Series A, dated March 1, 2003 (the "Series A 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 Series A 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 Series A 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 Series A Bonds will not be included in the gross income of the holders of the Series A 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 Series A 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 Series A Bonds to be included in the gross income of holders of the Series A Bonds retroactive to the date of issuance of the Series A Bonds. While interest on the Series A 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 Series A Bonds will be included in the "adjusted current earnings" of corporate holders of the Series A 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 Series A Bonds.

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

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

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.

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[To the Underwriters]

We have acted as bond counsel to The Commonwealth of Massachusetts (the "Commonwealth") in connection with the issuance by the Commonwealth of $359,380,000 General Obligation Refunding Bonds, 2003 Series B, dated March 1, 2003 (the "Series B Refunding 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 Series B Refunding 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 Series B Refunding 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 Series B Refunding Bonds will not be included in the gross income of the holders of the Series B Refunding 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 Series B Refunding 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 Series B Refunding Bonds to be included in the gross income of holders of the Series B Refunding Bonds retroactive to the date of issuance of the Series B Refunding Bonds. While interest on the Series B Refunding 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 Series B Refunding Bonds will be included in the "adjusted current earnings" of corporate holders of the Series B Refunding 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 Series B Refunding Bonds.

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

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

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.

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[To the Underwriter]

We have acted as bond counsel to The Commonwealth of Massachusetts (the "Commonwealth") in connection with the issuance by the Commonwealth of $418,250,000 General Obligation Refunding Bonds, 2003 Series C (Delayed Delivery), dated the date of delivery (the "Series C Refunding 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 Series C Refunding 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 Series C Refunding 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 Series C Refunding Bonds will not be included in the gross income of the holders of the Series C Refunding 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 Series C Refunding 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 Series C Refunding Bonds to be included in the gross income of holders of the Series C Refunding Bonds retroactive to the date of issuance of the Series C Refunding Bonds. While interest on the Series C Refunding 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 Series C Refunding Bonds will be included in the "adjusted current earnings" of corporate holders of the Series C Refunding 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 Series C Refunding Bonds.

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

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

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

General Obligation Bonds
Consolidated Loan of 2003, Series A

General Obligation Refunding Bonds
2003 Series B

General Obligation Refunding Bonds
2003 Series C (Delayed Delivery)

Continuing Disclosure Undertaking
[to be included in bond form]

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the Bonds to provide to each nationally recognized municipal securities information repository (each, a "NRMSIR") within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the "Rule") and to the state information depository for the Commonwealth, if any (the "SID"), within the meaning of the Rule, no later than 270 days after the end of each fiscal year of the Commonwealth, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Commonwealth for such fiscal year if audited financial statements are then available, provided, however, that if audited financial statements of the Commonwealth are not then available, such audited financial statements shall be delivered to each NRMSIR and the SID when they become available (but in no event later than 350 days after the end of such fiscal year) or (ii) notice of the Commonwealth's failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Commonwealth's Information Statement dated March 25, 2002 (the "Information Statement"), as it appears as Appendix A in the Official Statement dated March 25, 2002 relating to the Commonwealth's General Obligation Bond Anticipation Notes, 2002 Series A, and substantially in the same level of detail as is found in the referenced section of the Information Statement:

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

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

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

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

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

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

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

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

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

(vii) modifications to the rights of security holders;

(viii) bond calls;

(ix) defeasances;

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

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

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

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

CPI BONDS

The following definitions apply to the descriptions of the CPI Bonds and the MUNI-CPI Rate contained in the Official Statement to which this Appendix E is appended.

"Calculation Agent" means, initially, Goldman, Sachs & Co. or such other Calculation Agent as may be selected by the Commonwealth, their successors or assigns.

"Constant Rate" varies among the CPI Bonds and is set forth below under the heading "The CPI Bonds: Maturities, Principal Amounts and Constant Rates."

"CPI-U" means the non-seasonally adjusted U.S. Commonwealth Average All Items Consumer Price Index for All Urban Consumers, published monthly by the Bureau of Labor Statistics of the U.S. Department of Labor. See "THE CPI BONDS—Description of CPI-U" herein.

"Days in the Year" means 365 or if any portion of an interest period falls in a leap year 365 plus the number of days in that portion of the interest period falling in a leap year divided by 366. For example, if a June 1 interest payment falls in a leap year the Days in the Year will be 365 plus the actual days in the period January through May (152) divided by 366; for the following December 1 the Days in the Year will be 365 plus the actual days in the period June through November (184) divided by 366; and for June 1 of the following year the Days in the Year will be 365 plus the actual days in December (30) divided by 366.

"Floating Rate-CPI" means the rate, calculated by the Calculation Agent on the Reset Date immediately prior to each Interest Payment Date, equal to (a) the quotient of (1) the Reference CPI-U for the current Interest Payment Date minus the Reference CPI-U for the immediately preceding Interest Payment Date (or in the case of the first Interest Payment Date, the Initial CPI-U), divided by (2) the Reference CPI-U for the immediately preceding Interest Payment Date (or in the case of the first Interest Payment Date, the Initial CPI-U), multiplied by (b) the quotient of (1) the Days in the Year in which the current Interest Payment Date falls, divided by (2) the actual number of days in the current interest period. The resulting product will be truncated to six decimal places and rounded to five decimal places.

"Initial CPI-U" equals 180.9.

"Interest Payment Date" means June 1 and December 1.

"MUNI-CPI Rate" means for each maturity the sum of the Floating Rate-CPI plus the Constant Rate for such maturity. If for any Interest Payment Date the sum of the Floating Rate-CPI plus the Constant Rate results in zero or a negative number, the MUNI-CPI Rate will be zero for that Interest Payment Date. In no event will the MUNI-CPI Rate exceed 18% per annum.

"Reference CPI-U" means the CPI-U for the third calendar month immediately preceding the Interest Payment Date.

"Reference Month" means the third calendar month immediately preceding the relevant Interest Payment Date.

"Reset Date" means a date that is not earlier than the fifth Business Day following the release of the Reference CPI-U for the applicable Interest Payment Date or later than the date which is seven days prior to the respective Interest Payment Date.

"Treasury Inflation-Protection Securities" means the inflation-indexed securities issued by the United States Treasury.

The CPI Bonds: Maturities, Principal Amounts and Constant Rates.

CPI Bonds Maturing December 1	Principal Amount	Constant Rate
2012	$28,690,000	1.92%
2013	23,000,000	1.90
2014	45,765,000	1.81

MUNI-CPI Rate -General

The CPI Bonds bear interest at a floating MUNI-CPI Rate such that each interest payment thereon takes into account inflation and deflation from the Reference Month with respect to the immediately preceding Interest Payment Date. The MUNI-CPI Rate has two components, which are together paid to the bondholder semiannually: (i) the Floating Rate-CPI, which increases or decreases during each semiannual period to correspond to the percentage change in the CPI-U and (ii) the Constant Rate. If for any Interest Payment Date the sum of the Floating Rate-CPI and the Constant Rate results in zero or a negative number the interest rate for the CPI Bonds for such Interest Payment Date will be zero. In no event will the MUNI-CPI Rate exceed 18% per annum.

Calculating the MUNI-CPI Rate; Interest Payments

The MUNI-CPI Rate for the CPI Bonds equals the Floating Rate-CPI plus the Constant Rate. The Floating Rate-CPl equals the change in CPI-U multiplied by the quotient of (i) the number of Days in the Year in which the Interest Payment Date falls divided by (ii) the actual number of days in the current interest period. The change in the CPI-U will equal the quotient of (a) the Reference CPI-U for the current Interest Payment Date minus the Reference CPI-U for the immediately preceding Interest Payment Date (or in the case of the first Interest Payment Date, the Initial CPI-U), divided by (b) the Reference CPI-U for the immediately preceding Interest Payment Date (or in the case of the first Interest Payment Date, the Initial CPI-U).
The MUNI-CPI Rate per annum on the CPI Bonds for any interest period will be determined as follows and will depend on the value of the Current Reference CPI-U and the Preceding Reference CPI-U as shown below:

$$\text{Floating Rate-CPI} = \frac{\text{Current Reference CPI-U - Preceding Reference CPI-U}}{\text{Preceding Reference CPI-U}} \textbf{ multiplied by } \frac{\text{Days in the Year}}{\text{Actual Days in Current Interest Period}^{(1)}}$$

MUNI-CPI Rate = Floating Rate CPI-U determined for the applicable Interest Payment Date plus the Constant Rate

Current Reference CPI-U = The Reference CPI-U for the current Interest Payment Date.

Preceding Reference CPI-U = The Reference CPI-U for the immediately preceding Interest Payment Date (or the Initial CPI-U for the initial interest calculation).

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(1) The current interest period will include the preceding Interest Payment Date and will exclude the day on which the current Interest Payment Date falls.

The Floating Rate-CPI will be truncated to six decimal places and rounded to five decimal places. If the number in the sixth decimal place is five or higher, the fifth decimal place will be rounded up.

Interest on the CPI Bonds at the MUNI-CPI Rate will be payable in arrears on each Interest Payment Date to the owners thereof as of the applicable Record Date and will be computed on the basis of a 365 or 366-day year (as applicable) for the number of days actually elapsed. Interest will accrue at the MUNI-CPI Rate on the principal amount from and including the delivery date or the immediately preceding Interest Payment Date to, but not including, the next succeeding Interest Payment Date. The MUNI-CPI Rate is determined in arrears on each Reset Date and applied retroactively to all days in the relevant interest period. Interest payments on any Interest Payment Date shall equal the principal amount of CPI Bonds multiplied by the MUNI-CPI Rate multiplied by the quotient obtained by dividing (1) the actual number of days in the relevant interest period by (2) the Days in the Year in which the Interest Payment Date falls. The determination of any MUNI-CPI Rate by the Calculation Agent will be final, absent manifest error. The minimum MUNI-CPI Rate for any interest period will be zero and the maximum will be 18%.

Interest on the CPI Bonds shall be paid on each Interest Payment Date; provided, however, that notwithstanding anything herein to the contrary, for purposes of calculating interest accruals at the MUNI-CPI Rate for any interest period, the Interest Payment Dates shall be deemed to be June 1 and December 1, without regard for whether any of such dates is a Business Day.

At or prior to 12:00 Noon (New York Commonwealth time) on each Reset Date, the Calculation Agent shall calculate the Floating Rate-CPI applicable to the next succeeding Interest Payment Date and shall supply to the Bond Trustee and the Commonwealth the Floating Rate-CPI so determined and the number of days in the period to which such Floating Rate-CPI applies in writing or by electronic communication promptly confirmed in writing. As noted, the calculation of the Floating Rate-CPI by the Calculation Agent shall be final and conclusive and binding on the Bond Trustee, the holders of the CPI Bonds and the Commonwealth, absent manifest error.

There will be no adjustment to the principal amount of the CPI Bonds at maturity or at any other time during the term of the CPI Bonds. The amount that holders of the CPI Bonds will receive at maturity is equal to the principal amount of CPI Bonds purchased by such holders.

Example. Assume if the Constant Rate is 1.1%, the Reference CPI-U for the current Interest Payment Date is 184.5 (the CPI-U for the month of March) and the Initial CPI-U (or the Reference CPI-U for the previous Interest Payment Date) was 181.7. Further assume the actual number of days in the current interest period are 183, and assuming no portion of the current interest period falls in a leap year, the Days in the Year are 365. The Floating Rate-CPI and the amount of interest paid on $1,000 of principal amount of CPI Bonds for such interest period would be as follows:

$$\text{Floating Rate-CPI} = \frac{184.5}{181.7} \times \frac{365}{183}$$

$$= 0.030735$$

$$= 0.030735 \text{ (truncated to six decimal places)}$$

$$\text{Floating Rate-CPI} = 0.03073 \text{ (rounded to five decimal places)}$$

$$\text{MUNI-CPI Rate} = 0.0110 + 0.03073$$

$$= 0.04174$$

Amount of interest paid for the calculation period on $1,000 principal amount of CPI Bonds:

$$\text{Interest Paid} = 4.174\% \times \frac{183}{365} \times \$1,000$$

$$= \$20.93$$

The numbers in the foregoing example are given for illustration and information purposes only and are in no way a prediction of the CPI-U or interest rates on the CPI Bonds offered hereby.

Description of CPI-U

The CPI-U is a measure of the average change in consumer prices over time in a fixed market basket of goods and services, including food, clothing, shelter, fuels, transportation, charges for doctors' and dentists' services, and drugs. In calculating the CPI-U, price changes for the various items are averaged together with weights that represent their importance in the spending of urban households in the United States. The contents of the market basket of goods and services and the weights assigned to the various items are updated periodically to take into account changes in consumer expenditure patterns.

The CPI-U is expressed in relative terms in relation to a time base reference period for which the level is set at 100. For example, if the CPI-U for the [1982-1984] reference period is 100.0, an increase of 16.5 percent from that period would be shown as 116.5. The CPI-U for a particular month is generally released and published in the following month. From time to time, the CPI-U is rebased to a more recent base reference period. The base reference period for the CPI Bonds will be the [1982-1984] period with an average of 100.0. This is the same base reference period used by the U.S. Treasury for purposes of calculating the inflation adjustment for the Treasury Inflation-Protection Securities first auctioned on January 29, 1997 (CUSIP #9128272M3).

If a previously reported CPI-U is revised, the CPI Bonds will continue to use the previously reported CPI-U in calculating interest payments. If CPI-U is rebased to a different year, the CPI Bonds will continue to use the CPI-U based on the base reference year in effect on the date the CPI Bonds were issued.

If while a Treasury Inflation-Protection Security is outstanding, the applicable CPI-U is (1) discontinued, (2) in the judgment of the Secretary of the U.S. Treasury, fundamentally altered in a manner materially adverse to the interests of an investor in Treasury Inflation-Protection Securities, or (3) in the judgment of the Secretary of the U.S. Treasury, altered by legislation or executive order in a manner materially adverse to the interests of an investor in Treasury Inflation-Protection Securities (each, a "Material Alteration"), the U.S. Treasury has announced that, after consulting with the Bureau of Labor Statistics, or any successor agency, the U.S. Treasury will substitute an appropriate alternative index and will notify the public of the substitute index and how it will be applied (the "Substitute Index and Methodology"). Determinations of the Secretary of the U.S. Treasury in this regard will be final. If the U.S. Treasury announces a Substitute Index and Methodology for determining the CPI-U while a Treasury Inflation-Protection Security is outstanding, the MUNI-CPI Rate will be calculated based on such Substitute Index and Methodology. Determinations of the Calculation Agent of the MUNI-CPI Rate utilizing the Substitute Index and Methodology will be final.

For any date in respect of which the Reference CPI-U is determined (a "Reference Date"), if (i) while a Treasury Inflation-Protection Security that requires a determination of the CPI-U for such Reference Date (the "Reference TIP") is outstanding, a Material Alteration has occurred, and the U.S. Treasury has not notified the public of a Substitute Index and Methodology or (ii) while a Reference TIP is not outstanding, and in the judgment of the Calculation Agent the CPI-U is (a) discontinued, (b) fundamentally altered in a manner materially adverse to the interests of an investor in the CPI Bonds, or (c) altered by legislation or executive order in a manner materially adverse to the interests of an investor in the CPI Bonds, then the Calculation Agent will substitute an appropriate alternative index and will determine how it will be applied, which, in the judgment of the Calculation Agent, will result in interest payments on the CPI Bonds which are substantially the same as those which would have been calculated utilizing the methodology for determining CPI-U applicable on the date the CPI Bonds were issued. Determinations of the Calculation Agent in this regard will be final.

If the CPI-U for a particular month is not reported by the last day of the following month, the U.S. Treasury has indicated that it will announce an index number based on the last twelve-month change in the CPI-U available (the "Substitute Index Number"). Any calculations of the Commonwealth's payment obligations on the CPI Bonds that rely on that month's CPI-U will be based on the Substitute Index Number. The formula for calculating the Substitute Index Number to be used is:

$$\text{Reference CPI-U}_M = \text{CPI} - \text{U}_{M-1} \quad x \quad \left[\frac{\text{CPI-U}_{M-1}}{\text{CPI-U}_{M-13}} \right]^{1/12}$$

This Substitute Index Number will be used for all subsequent calculations that rely on that month's index number and will not be replaced by the actual CPI-U when it is reported. Generalizing for the last reported CPI-U issued N months prior to month M:

$$\text{Reference CPI-U}_M = \text{CPI} - \text{U}_{M-N} \quad x \quad \left[\frac{\text{CPI-U}_{M-N}}{\text{CPI-U}_{M\ N-12}} \right]^{N/12}$$

M= current month

In the event that the Secretary of the U.S. Treasury has not announced a Substitute Index Number pursuant to the immediately preceding paragraph, then the Calculation Agent will determine the Substitute Index Number based on the formula set forth above.

Bondholder's Considerations

Holders of the CPI Bonds should note that the MUNI-CPI Rate will increase or decrease on each Interest Payment Date as the Floating Rate-CPI increases or decreases from the Reference Month with respect to the immediately preceding Interest Payment Date. Therefore, application of the MUNI-CPI Rate to the par amount will result in lower interest if the Floating Rate-CPI decreases from the Reference Month with respect to the immediately preceding Interest Payment Date and higher interest if the Floating Rate-CPI increases from the Reference Month with respect to the immediately preceding Interest Payment Date. If for any Interest Payment Date the sum of the Floating Rate-CPI and the Constant Rate is zero or a negative number, the MUNI-CPI Rate for such period will be zero.

An investment in securities with interest determined by reference to an inflation index involves factors independent of the creditworthiness of the Commonwealth or otherwise not associated with an investment in securities with interest determined by reference to a fixed rate, floating rate or other index-linked rate. Such factors may include, without limitation, the volatility of the CPI-U, the amount of other securities linked to the CPI-U, the level, direction and volatility of the market interest rates generally, the possibility that the inflation index may be subject to significant changes, that changes in the inflation index may or may not correlate to changes in interest rates generally or with changes in other indices and that the resulting interest may be greater or less than that payable on other securities of similar maturities. **In addition, in the event of a reduction in the rate of increase in the inflation index or deflation, the amount of the semiannual interest payments may decrease or may be zero.**

The value of the inflation index may depend on a number of factors, including economic, financial and political events over which the Commonwealth has no control. The historical experience of the inflation index should not be taken as an indication of its performance during the term of the CPI Bonds. While the CPI-U measures changes for prices in goods and services, movements in the CPI-U that have occurred in the past are not necessarily indicative of changes that may occur in the future. The calculation of the index ratio incorporates an approximate three-month lag, which may have an impact on the trading price of the securities, particularly during periods of significant, rapid changes in the index. In addition, there can be no assurance that accrued interest determined prior to the release of the Reference CPI-U will accurately reflect the rate payable on the next succeeding Interest Payment Date.

BOND INSURANCE

Ambac

Financial Guaranty Insurance Policy

Ambac Assurance Corporation
One State Street Plaza, 15th Floor
New York, New York 10004
Telephone: (212) 668-0340

Obligor: Policy Number:

Obligations: Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President

Anne G. Gill

Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Authorized Officer of Insurance Trustee

Form No.: 2B-0012 (1/01)

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XL CAPITAL ASSURANCE

1221 Avenue of the Americas
New York, New York 10020
Telephone: (212) 478-3400

MUNICIPAL BOND INSURANCE POLICY

ISSUER: [ ]

BONDS: [ ]

Policy No: [ ]

Effective Date: [ ]

XL Capital Assurance Inc. (XLCA), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy (which includes each endorsement attached hereto), hereby agrees unconditionally and irrevocably to pay to the trustee (the "Trustee") or the paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the benefit of the Owners of the Bonds or, at the election of XLCA, to each Owner, that portion of the principal and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment.

XLCA will pay such amounts to or for the benefit of the Owners on the later of the day on which such principal and interest becomes Due for Payment or one (1) Business Day following the Business Day on which XLCA shall have received Notice of Nonpayment (provided that Notice will be deemed received on a given Business Day if it is received prior to 10:00 a.m. New York time on such Business Day; otherwise it will be deemed received on the next Business Day), but only upon receipt by XLCA, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in XLCA. Upon such disbursement, XLCA shall become the owner of the Bond, any appurtenant coupon to the Bond or the right to receipt of payment of principal and interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by XLCA hereunder. Payment by XLCA to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of XLCA under this Policy.

In the event the Trustee or Paying Agent has notice that any payment of principal or interest on a Bond which has become Due for Payment and which is made to an Owner by or on behalf of the Issuer of the Bonds has been recovered from the Owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such Owner within the meaning of any applicable bankruptcy law, such Owner will be entitled to payment from XLCA to the extent of such recovery if sufficient funds are not otherwise available.

The following terms shall have the meanings specified for all purposes of this Policy, except to the extent such terms are expressly modified by an endorsement to this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment", when referring to the principal of Bonds, is when the stated maturity date or a mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity, unless XLCA shall elect, in its sole discretion, to pay such principal due upon such acceleration; and, when referring to interest on the Bonds, is when the stated date for payment of interest has been reached. "Nonpayment" means the failure of the Issuer to have provided sufficient funds to the Trustee or Paying Agent for payment in full of all principal and interest on the Bonds which are Due for Payment. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to XLCA which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

XLCA may, by giving written notice to the Trustee and the Paying Agent, appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy. From and after the date of receipt by the Trustee and the Paying Agent of such notice, which shall specify the name and notice address of the Insurer's Fiscal Agent, (a) copies of all notices required to be delivered to XLCA pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to XCLA and shall not be deemed received until received by both and (b) all payments required to be made by XLCA under this Policy may be made directly by XLCA or by the Insurer's Fiscal

Agent on behalf of XLCA. The Insurer's Fiscal Agent is the agent of XLCA only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of XLCA to deposit or cause to be deposited sufficient funds to make payments due hereunder.

Except to the extent expressly modified by an endorsement hereto, (a) this Policy is non-cancelable by XLCA, and (b) the Premium on this Policy is not refundable for any reason. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Bond, other than at the sole option of XLCA, nor against any risk other than Nonpayment. This Policy sets forth the full undertaking of XLCA and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto.

THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, XLCA has caused this Policy to be executed on its behalf by its duly authorized officers.

SPECIMEN
Name:
Title:

SPECIMEN
Name:
Title: