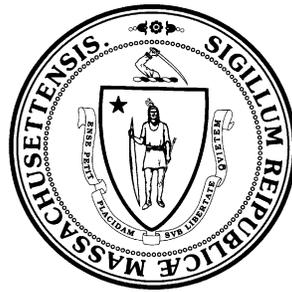


**THE  
COMMONWEALTH  
OF  
MASSACHUSETTS**



**INFORMATION STATEMENT SUPPLEMENT**

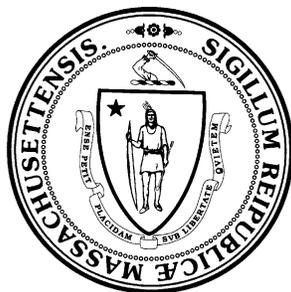
**Dated January 9, 2012**

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**THE COMMONWEALTH OF MASSACHUSETTS**



**CONSTITUTIONAL OFFICERS**

**Deval L. Patrick.....Governor**  
**Timothy P. Murray ..... Lieutenant Governor**  
**William F. Galvin..... Secretary of the Commonwealth**  
**Martha Coakley..... Attorney General**  
**Steven Grossman..... Treasurer and Receiver-General**  
**Suzanne M. Bump ..... Auditor**

**LEGISLATIVE OFFICERS**

**Therese Murray..... President of the Senate**  
**Robert A. DeLeo..... Speaker of the House**

**THE COMMONWEALTH OF MASSACHUSETTS**  
**INFORMATION STATEMENT SUPPLEMENT**

**January 9, 2012**

This supplement (“Supplement”) to the Information Statement of The Commonwealth of Massachusetts (the “Commonwealth”) dated March 15, 2011 (the “March Information Statement”) is dated January 9, 2012 and contains information which updates the information contained in the March Information Statement. The March Information Statement has been filed with the Municipal Securities Rulemaking Board. 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 January 9, 2012. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the March Information Statement.

The March Information Statement, as supplemented hereby, includes three exhibits. Exhibit A is the Statement of Economic Information, which sets forth certain economic, demographic and statistical information concerning the Commonwealth. Exhibits B and C are, respectively, the Commonwealth’s Statutory Basis Financial Report for the year ended June 30, 2010 and the Commonwealth’s Comprehensive Annual Financial Report, reported in accordance with generally accepted accounting principles (GAAP), for the year ended June 30, 2010. Specific reference is made to said Exhibits A, B and C, copies of which have been filed with the Municipal Securities Rulemaking Board. Specific reference is also made to the Commonwealth’s Statutory Basis Financial Report and Comprehensive Annual Financial Report for the year ended June 30, 2011, copies of which have been filed with the Municipal Securities Rulemaking Board. The Commonwealth’s independent auditor has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has said independent auditor performed any procedures relating to the official statement of which this Supplement is a part. The financial statements are also available at the web site of the Comptroller of the Commonwealth located at <http://www.mass.gov/osc> by clicking on “Publications and Reports” and then “Financial Reports.”

**RECENT DEVELOPMENTS**

**Fiscal 2011**

Through June 30, 2011, the end of fiscal 2011, the Governor had approved fiscal 2011 supplemental appropriations legislation totaling \$1.511 billion. After accounting for offsetting revenues (primarily federal Medicaid reimbursements), the net value of the spending is \$661.3 million. The fiscal 2011 supplemental funding amount is somewhat larger than is typical, because it includes the expenditure of a significant amount of enhanced FMAP funds that were made available by the federal government after the Governor approved the original fiscal 2011 budget. Most of the supplemental funding was necessary to support state safety net programs and services affected by increased caseloads and utilization as a result of the economic downturn, such as the MassHealth program and the emergency family shelters program at the Department of Housing and Community Development. This supplemental funding also included \$42 million for costs associated with providing legal representation to indigent persons in criminal and civil court cases and \$21.1 million for increased caseloads at the Department of Transitional Assistance. There were also other unanticipated costs, such as increased funding for snow and ice removal, that required supplemental funding.

On October 27, 2011, the Governor approved the final fiscal 2011 supplemental appropriations bill. (The final supplemental appropriations bill for a particular fiscal year is customarily enacted and approved in the third or fourth month of the ensuing fiscal year.) The bill provides for the deposit of \$350 million of fiscal 2011 year-end surplus resources into the Stabilization Fund. In addition to the Stabilization Fund deposit, the bill provides \$132.1 million in additional fiscal 2011 appropriations and authorizes a further \$22 million in already-authorized fiscal 2011 funding to be made available in fiscal 2012. Highlights of the supplemental funding include \$39 million of fiscal 2011 surplus funds to support infrastructure projects across the state, \$10 million for cities and towns affected by the June 1, 2011 tornado for costs not reimbursed through the Federal Emergency Management Agency,

\$6.2 million to reimburse cities and towns for a portion of the costs incurred in responding to the December, 2008 ice storm, \$12 million for judicial operations, \$11.2 million for children's clothing allowances under foster care and Transitional Aid for Families with Dependent Children and \$9.5 million to fund a portion of the state's costs of the Low-Income Housing Tax Credit. The legislation authorizes \$36.8 million in expenditures (\$35.2 million after accounting for offsetting revenues) from fiscal 2012 resources, which have been included in the updated forecasts for fiscal 2012 prepared by the Executive Office for Administration and Finance.

On November 2, 2011, the Comptroller issued the fiscal 2011 Statutory Basis Financial Report (SBFR), which closes the books on fiscal 2011 and incorporates the impact of the fiscal 2011 final supplemental appropriations bill approved by the Governor on October 27, 2011. As reported in the SBFR, fiscal 2011 budgeted fund total revenues and other financing sources exceeded fiscal 2011 budgeted fund total expenditures and other uses by \$998 million, and fiscal 2011 ended with a budgeted fund balance of \$1.901 billion. Of that amount, \$1.379 billion was reserved in the Stabilization Fund, \$400 million was reserved for continuing appropriations and debt service and \$122 million was undesignated.

The Stabilization Fund balance of \$1.379 billion at the end of fiscal 2011 represents a \$709 million increase from the close of fiscal 2010. The \$709 million increase in fiscal 2011 resulted from \$9.0 million in Stabilization Fund investment earnings, \$1.6 million in statutorily required deposits on account of withholding taxes on certain Lottery winnings, a \$350 million deposit authorized in the fiscal 2011 final supplemental appropriations bill, and statutorily required deposits from the fiscal 2011 consolidated net surplus of \$103.9 million (equal to 0.5% of fiscal 2011 tax revenues) and \$244.8 million (from the remaining consolidated net surplus).

The fiscal year 2011 Comprehensive Annual Financial Report (CAFR) was released by the Comptroller, dated January 3, 2012. The CAFR provides the Commonwealth's fiscal year 2011 results according to Generally Accepted Accounting principles.

See the March Information Statement under the heading "FISCAL 2011 AND FISCAL 2012 – Fiscal 2011."

## **Fiscal 2012**

The House of Representatives approved its version of the fiscal 2012 budget on April 28, 2011, the Senate approved its version on May 26, 2011, and a legislative conference committee released its report on June 30, 2011. The budget was enacted by the Legislature on July 1, 2011 and approved by the Governor on July 11, 2011. A \$1.250 billion interim budget for the first ten days of fiscal 2012 had been enacted by the Legislature and approved by the Governor on June 27, 2011. Total spending in the final fiscal 2012 budget approved by the Governor amounts to approximately \$30.598 billion. The budget assumes tax revenues of \$20.615 billion, reflecting the fiscal 2012 consensus tax estimate of \$20.525 billion, which was adjusted for the impact of revenue initiatives enacted as part of the budget (most notably a one-year delay of the FAS 109 deductions (additional \$45.9 million)), enhanced tax enforcement initiatives (additional \$61.5 million) and the impact of a two-day sales tax holiday held on August 13-14, 2011 (reduction of \$20.6 million). The fiscal 2012 budget authorizes a \$200 million withdrawal from the Stabilization Fund, the use of fiscal 2012 interest earnings on the Stabilization Fund and an additional \$103.7 million in savings achieved by suspending the statutorily required deposit into the Stabilization Fund of 0.5% of total tax revenue. The fiscal 2012 budget projections contained in this Supplement assume a transfer of \$185 million from the Stabilization Fund rather than the authorized \$200 million. On that assumption, and after taking into account the \$163.2 million certified by the Attorney General and the Commissioner of Revenue for transfer to the Stabilization Fund through December related to one-time settlements (see below) as well as the \$20 million withdrawal from the Fund called for in the recently passed gaming legislation to support start-up costs of the Massachusetts Gaming Commission, the Stabilization Fund is projected to have a \$1.337 billion balance at the end of fiscal 2012. The gaming legislation provides that upon receipt by the Massachusetts Gaming Commission of sufficient initial license fees, the Commission will transfer \$20 million back to the Stabilization Fund.

On October 17, 2011, the Secretary of Administration and Finance, based on available data on tax revenue collections and economic trends, revised the fiscal 2012 tax revenue estimate from \$20.615 billion to \$21.010 billion. A portion of the increase in the tax revenue estimate is proposed to be used to support supplemental appropriations filed by the Governor on October 17, 2011, as described below, and the balance is proposed to be preserved to address non-tax revenue shortfalls and other cost exposures that may occur later in the fiscal year. To

address non-tax revenue shortfalls that have already occurred in fiscal 2012, the Secretary also revised the aggregate fiscal 2012 non-tax revenue projection downward by \$26 million from the level assumed in the enacted fiscal 2012 budget. The revised tax estimate assumes that the income tax rate will be reduced to 5.25%, effective January 1, 2012. See “COMMONWEALTH REVENUE AND EXPENDITURES – State Taxes; *Income Tax*.”

On November 11, 2011 the Governor approved supplemental budget legislation containing approximately \$52 million in supplemental appropriations, including \$21 million for the Department of Housing and Community Development’s emergency assistance (EA) program, which provides shelter and other emergency housing services to low-income families with children and pregnant women who are homeless, \$18.2 million for the Department of Housing and Community Development’s HomeBase program and \$10 million for a reserve to offset fiscal 2012 costs of state agencies incurred in response to the August Tropical Storm Irene.

Pursuant to a recent change in state finance law, \$163.2 million received by the Commonwealth on account of one-time judgments and settlements thus far in fiscal 2012 has been certified by the Attorney General and the Commissioner of Revenue for transfer to the Stabilization Fund. See “COMMONWEALTH REVENUES AND EXPENDITURES – Federal and Other Non-Tax Revenues; *Settlements and Judgments*.”

See the March Information Statement under the heading “FISCAL 2011 AND FISCAL 2012 –Fiscal 2012 Budget Proposals.”

### **Fiscal 2013 Budget Proposals**

A fiscal 2013 consensus tax revenue estimate is expected to be announced by the Secretary of Administration and Finance on or about January 17, 2012. The Governor is expected to file his budget recommendations for fiscal 2013 with the Legislature on or about January 25, 2012. The Governor’s recommended budget will be based on the consensus tax revenue estimate and is expected to be a balanced budget proposal.

The House of Representatives generally approves its version of the budget in late April, and the Senate generally approves its version in late May. The differences between the two versions are then reconciled by a legislative conference committee during the month of June, so that a final version can be enacted by the Legislature and sent to the Governor for his approval prior to the start of the new fiscal year on July 1.

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## COMMONWEALTH REVENUES AND EXPENDITURES

### Statutory Basis Distribution of Budgetary Revenues and Expenditures

The following table sets forth the Commonwealth's revenues and expenditures for fiscal 2007 through fiscal 2011 and projected revenues and expenditures for fiscal 2012.

#### Budgeted Operating Funds – Statutory Basis (in millions)(1)

	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>	<u>Projected Fiscal 2012(8)</u>
<b>Beginning Fund Balances</b>						
Reserved or Designated	\$947.20	\$351.30	\$171.50	\$68.90	\$122.0	\$400.1
Bay State Competitiveness Investment Fund	-	100	-	-	-	-
Stabilization Fund	2,154.70	2,335.00	2,119.20	841.3	669.8	1,379.1
Undesignated	106.2	114.7	115.1	106.4	111.3	121.7
<b>Total</b>	<b><u>\$3,208.10</u></b>	<b><u>\$2,901.00</u></b>	<b><u>\$2,405.80</u></b>	<b><u>\$1,016.60</u></b>	<b><u>\$903.1</u></b>	<b><u>\$1,900.8</u></b>
<b>Revenues and Other Sources</b>						
Alcoholic Beverages	71	71.2	71.9	71	72.7	75.3
Banks	340.9	547.8	242.6	234.9	(11.0)	11
Cigarettes	438.1	436.9	456.8	456.2	453.6	447.6
Corporations	1,587.60	1,512.20	1,548.60	1,600.30	1,951.4	1,838.9
Deeds	194.1	153.9	105.5	137.9	140.2	126.2
Income	11,399.60	12,483.80	10,583.70	10,110.30	11,576.0	12,102.6
Inheritance and Estate	249.6	254	259.7	221.4	309.6	256.9
Insurance	418.6	417.7	356.7	330	340.3	360.2
Motor Fuel	676.1	672.2	654	654.6	660.8	656.4
Public Utilities	178.3	120.2	(1.7)	(0.3)	(8.8)	7.1
Room Occupancy	111.1	119.2	109.5	101.6	110.4	115.1
Sales:						
Regular	2,927.70	2,952.20	2,799.70	3,282.80	3,476.3	3,513.3
Meals	608.7	632.9	629.6	759.6	813.3	844.3
Motor Vehicles	531.1	501.6	439.3	569.3	615.2	638.3
Sub-Total–Sales	4,067.50	4,086.70	3,868.60	4,611.70	4,904.8	4,995.9
Miscellaneous	3.8	3.1	3.3	14.1	16.6	16.7
<b>Total Tax Revenues</b>	<b><u>\$19,736.30</u></b>	<b><u>\$20,879.20</u></b>	<b><u>\$18,259.50</u></b>	<b><u>\$18,543.70</u></b>	<b><u>\$20,516.6</u></b>	<b><u>\$21,010.0</u></b>
MBTA Transfer	(734)	(756)	(767.1)	(767.1)	(767.1)	(779.1)
MSBA Transfer	(557.4)	(634.7)	(702.3)	(605.2)	(654.6)	(664.3)
WTF Transfer(2)	-	-	-	-	-	(19.2)
<b>Total Budgeted Operating Tax Revenues</b>	<b><u>\$18,444.90</u></b>	<b><u>\$19,488.50</u></b>	<b><u>\$16,790.00</u></b>	<b><u>\$17,171.40</u></b>	<b><u>\$19,094.9</u></b>	<b><u>\$19,547.4</u></b>
Federal Reimbursements	6,167.60	6,429.50	8,250.90	8,548.80	9,299.5	7,739.4
Departmental and Other Revenues	2,218.40	2,355.90	2,326.20	2,800.90	2,912.3	3,062.5
Inter-fund Transfers from Non-budgeted Funds and other sources (3)	1,785.00	2,039.30	1,850.30	1,788.80	1,768.6	1,930.9
<b>Budgeted Revenues and Other Sources</b>	<b><u>\$28,615.90</u></b>	<b><u>\$30,313.20</u></b>	<b><u>\$29,217.40</u></b>	<b><u>\$30,310.00</u></b>	<b><u>\$33,075.3</u></b>	<b><u>\$32,280.2</u></b>
Inter-fund Transfers	552.9	2,226.30	1,963.80	770.8	3,460.9	822.0
<b>Total Budgeted Revenues and Other Sources</b>	<b><u>\$29,168.80</u></b>	<b><u>\$32,539.50</u></b>	<b><u>\$31,181.20</u></b>	<b><u>\$31,080.80</u></b>	<b><u>\$36,536.3</u></b>	<b><u>\$33,102.2</u></b>
<b>Expenditures and Uses</b>						
Direct Local Aid	4,805.20	5,040.50	4,723.60	4,837.40	4,784.7	4,881.1
Medicaid (4)	7,550.40	8,246.30	8,679.20	9,287.60	10,237.3	10,432.6
Other Health and Human Services	4,625.30	4,796.50	4,828.30	4,616.60	4,614.8	4,774.0
Group Insurance	1,022.30	852.5	973.1	1,063.80	1,130.3	1,209.7

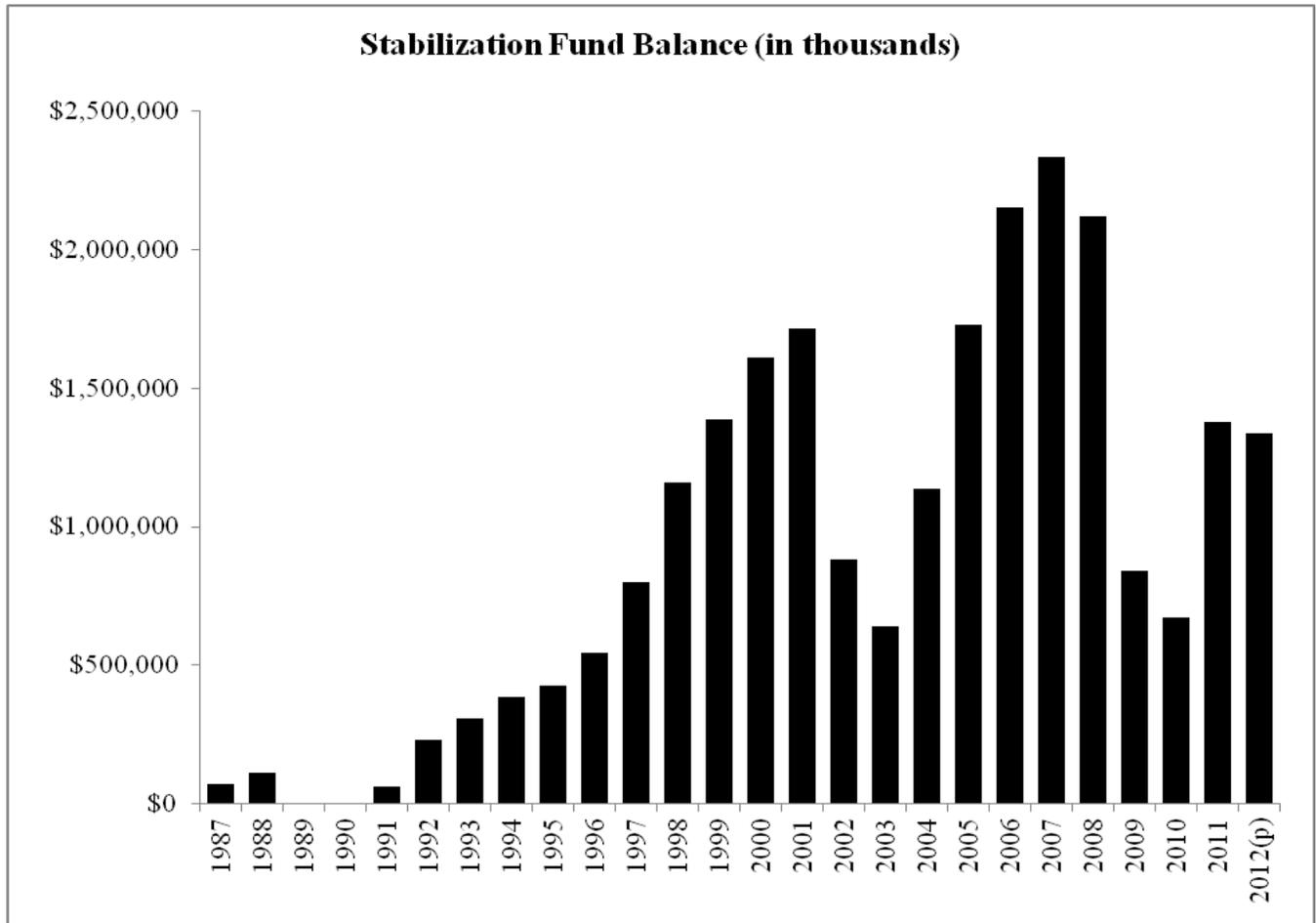
	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>	<u>Projected Fiscal 2012(8)</u>
Department of Elementary and Secondary Education	459	485.8	495.9	358.1	349.4	507.7
Higher Education	1,115.70	1,084.40	1,035.50	845.6	943.0	924.5
Department of Early Education and Care	507.1	549.9	560.3	513.5	515.1	509.4
Public Safety	1,399.20	1,544.40	1,514.30	1,423.20	905.0	1,449.0
Energy and Environmental Affairs	238.5	227.1	215.9	202.2	185.6	194.1
Debt Service	2,234.40	1,990.10	2,011.70	1,979.90	1,663.9	2,267.0
Post Employment Benefits (5)	1,335.20	1,398.60	1,314.40	1,748.60	1,838.9	1,892.3
Other Program Expenditures	<u>2,364.90</u>	<u>2,414.10</u>	<u>2,350.90</u>	<u>2,509.00</u>	<u>2,850.4</u>	<u>2,145.0</u>
<b>Total - Programs and Services before transfers to Non-budgeted funds</b>	<b>\$27,657.20</b>	<b>\$28,630.20</b>	<b>\$28,703.10</b>	<b>\$29,384.50</b>	<b>\$30,018.6</b>	<b>\$31,187.4</b>
Inter-fund Transfers to Non-budgeted Funds						
Commonwealth Care Trust Fund	722.1	1,045.90	987.6	631.7	739.0	728.0
State Retiree Benefit Trust Fund (5)	-	\$354.70	\$352.00	-	-	-
Medical Assistance Trust Fund	364	376.7	374	313.3	886.1	394.0
Massachusetts Transportation Trust Fund	-	-	-	(6)	195.1	180.1
Other	<u>179.6</u>	<u>400.9</u>	<u>189.9</u>	<u>94.1</u>	<u>238.8</u>	<u>232.25</u>
<b>Total Inter-Fund Transfers to Non-Budgeted Funds</b>	<b>\$1,265.70</b>	<b>\$2,178.20</b>	<b>\$1,903.50</b>	<b>\$1,039.10</b>	<b>\$2,059.0</b>	<b>\$1,534.4</b>
Budgeted Expenditures and Other Uses	<u>\$28,922.90</u>	<u>\$30,808.40</u>	<u>\$30,606.60</u>	<u>\$30,423.60</u>	<u>\$32,077.6</u>	<u>\$32,721.7</u>
Inter-fund Transfers	<u>553</u>	<u>2,226.30</u>	<u>1,963.80</u>	<u>770.8</u>	<u>3,460.9</u>	<u>822.0</u>
<b>Total Budgeted Expenditures and Other Uses</b>	<b>\$29,475.90</b>	<b>\$33,034.70</b>	<b>\$32,570.40</b>	<b>\$31,194.40</b>	<b>\$35,538.5</b>	<b>\$33,543.7</b>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>	<b><u>(\$307.10)</u></b>	<b><u>(\$495.20)</u></b>	<b><u>(\$1,389.20)</u></b>	<b><u>(\$113.60)</u></b>	<b><u>\$997.8</u></b>	<b><u>(\$441.5)</u></b>
<u>Ending Fund Balances</u>						
Reserved or Designated (7)	351.3	171.5	68.9	122	400.1	19.2
Bay State Competitiveness Investment Fund	100.0	-	-	-	-	-
Stabilization Fund	2,335.00	2,119.20	841.3	669.8	1,379.1	1,337.3
Undesignated	<u>114.7</u>	<u>115.1</u>	<u>106.4</u>	<u>111.3</u>	<u>121.7</u>	<u>105.0</u>
<b>Total</b>	<b>\$2,901.00</b>	<b>\$2,405.80</b>	<b>\$1,016.60</b>	<b>\$903.10</b>	<b>\$1,900.8</b>	<b>\$1,461.5</b>

SOURCES: Fiscal 2007-2011, Office of the Comptroller; fiscal 2012, Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) The fiscal year 2012 budget adopted changes to the Workforce Training Fund, which annually is funded through employer contributions for workforce training initiatives for incumbent workers in the private sector. Beginning in fiscal 2012 the WTF will not be subject to annual appropriation and the employer contributions, estimated at \$19.2 million, are transferred directly to the WTF after their collection.
- (3) Inter-fund Transfers from Non-budgeted Funds and Other Sources include profits from the State Lottery, transfer of tobacco settlement funds to allow their expenditure, abandoned property proceeds as well as other inter-fund transfers.
- (4) Excludes off-budget Medicaid spending in fiscal 2006 and fiscal 2007 estimated at \$292 million and \$290 million, respectively. Fiscal 2006 through fiscal 2009 included program administration.
- (5) Starting in fiscal 2010 Post Employment Benefits include budgeted pension transfers and State Retiree Benefit Trust Fund.
- (6) Transfers of approximately \$133.4 million in fiscal 2010 are included in "Other Program Expenditures" above.
- (7) Consists largely of appropriations from previous years, authorized to be expended in current years.
- (8) Based on the fiscal 2012 budget tax revenue estimate of \$21.010 billion, which was revised by the Executive Office for Administration and Finance on October 17, 2011.

See the March Information Statement "COMMONWEALTH REVENUES AND EXPENDITURES – Statutory Basis Distribution of Budgetary Revenues and Expenditures."

The following chart shows the Stabilization Fund balance from fiscal 1987 through fiscal 2011 (actual) and fiscal 2012 (projected).



SOURCE: Fiscal 1987-Fiscal 2011, Office of the Comptroller; Fiscal 2012 (projected), Executive Office for Administration and Finance.

See the March Information Statement “SELECTED FINANCIAL DATA – Stabilization Fund.”

### State Taxes

*Income Tax.* State tax receipts for fiscal 2011 were significantly higher than receipts during fiscal 2010. See “Fiscal 2010, Fiscal 2011 and Fiscal 2012 Tax Revenues – *Fiscal 2011*,” below. Pursuant to state law, the state income tax rate will be reduced from 5.3% to 5.25% (effective January 1, 2012), because the growth in fiscal 2011 inflation adjusted baseline revenues (as defined in state law) over fiscal 2010 exceeded 2.5%, and because, for each consecutive three-month period starting in August and ending in November, 2011, there was positive inflation-adjusted baseline revenue growth as compared to the same consecutive three-month period in calendar 2010. The Department of Revenue estimates that the revenue impact of this rate reduction for fiscal 2012 will be between \$52 million and \$56 million (with a mid-point of \$54 million). The revenue impact for fiscal 2013 (assuming no further rate reduction in calendar year 2013) is expected to be between \$111 million and \$117 million (mid-point of \$114 million).

See the March Information Statement under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – State Taxes; *Income Tax*.”

*Tax Expenditure Commission.* The fiscal 2012 budget established a study commission on tax expenditures to review and evaluate the administration and fiscal impact of tax expenditures and make recommendations to the Legislature on the administrative efficiency and cost benefit of tax expenditures. Tax expenditures include credits, deductions and exemptions from the basic provisions of the state tax code. The commission is chaired by the Secretary of Administration and Finance and includes legislators and economists. The commission's report, which may include proposed legislation, is due April 30, 2012.

## Tax Revenue Forecasting

On December 12, 2011, the Secretary of Administration and Finance and the House and Senate Ways and Means Committees conducted a hearing on state tax revenue estimates for fiscal 2013. The Commissioner of Revenue provided a forecast that fiscal 2013 tax revenue collections will be \$21.612 billion to \$21.763 billion, reflecting an actual growth of 2.7% to 3.2% from the projected fiscal 2012 revenues, and baseline growth of 4.4% to 4.9% from the fiscal 2012 forecasting base, which represents growth of \$560 million to \$683 million over projected fiscal 2012 revenues.

The Secretary of Administration and Finance and the Committees on Ways and Means also heard public testimony from economists and state budget experts from Northeastern University, the Massachusetts Taxpayers Foundation and the Beacon Hill Institute, who provided a range of forecasts for fiscal 2013 tax revenue collections, from \$21.447 billion to \$22.287 billion.

The Secretary of Administration and Finance is expected to announce a fiscal 2013 consensus tax revenue estimate on or about January 17, 2012.

See the March Information Statement under the heading "COMMONWEALTH REVENUES AND EXPENDITURES – Tax Revenue Forecasting."

## Fiscal 2010, Fiscal 2011 and Fiscal 2012 Tax Revenues

*Fiscal 2011.* Tax revenues for fiscal 2011, ended June 30, 2011, totaled approximately \$20.517 billion, an increase of approximately \$1.973 billion, or 10.6%, over the same period in fiscal 2010. The following table shows the tax collections for fiscal 2011 and the change from tax collections in the same period in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in the same month that are dedicated to the MBTA and the MSBA.

<b>Fiscal 2011 Tax Collections (in millions)(1)</b>						<b>Tax Collections: Net of MBTA and MSBA</b>
<b>Month</b>	<b>Tax Collections</b>	<b>Change from Prior Year</b>	<b>Percentage Change</b>	<b>MBTA Portion(3)</b>	<b>MSBA Portion</b>	<b>MSBA</b>
July	\$1,352.7	\$102.1	8.2%	\$60.3	\$60.3	\$1,232.1
August	1,385.6	89.1	6.9	55.3	55.3	1,275.0
September	2,015.1	249.2	14.1	76.2	51.9	1,887.1
October	1,342.9	118.0	9.6	55.3	55.3	1,232.3
November	1,426.6	137.9	10.7	52.9	52.9	1,320.8
December	2,072.3	186.4	9.9	83.5	54.5	1,934.2
January	2,052.7	207.6	11.2	66.1	66.1	1,920.5
February	932.5	(70.1)	(7.0)	45.9	45.9	840.8
March	1,773.8	149.1	9.2	79.8	48.8	1,645.6
April	2,505.4	757.9	43.4	54.6	54.6	2,396.1
May	1,504.6	(69.7)	(4.4)	53.0	53.0	1,398.6
June (1)	<u>2,152.4</u>	<u>115.7</u>	<u>5.7</u>	<u>84.1</u>	<u>55.9</u>	<u>2,012.4</u>
<b>Total (2)</b>	<b><u>\$20,516.6</u></b>	<b><u>\$1,972.9</u></b>	<b><u>10.6%</u></b>	<b><u>\$767.1</u></b>	<b><u>\$654.7</u></b>	<b><u>\$19,094.9</u></b>

SOURCE: Executive Office for Administration and Finance.

(1) Figures are final.

(2) Totals may not add due to rounding.

(3) Includes adjustments of \$24.3 million on account of the first quarter, \$29 million on account of the second quarter, \$31 million on account of the third quarter, and 28.1 million on account of the fourth quarter.

The tax revenue increase of approximately \$1.973 billion for fiscal 2011 compared to fiscal 2010 is attributable, in large part, to an increase of approximately \$431.8 million, or 34.2%, in income tax payments with returns and extensions (mostly in April), an increase of approximately \$573.5 million, or 6.5%, in withholding collections, an increase of approximately \$373.2 million, or 25.1%, in income tax estimated payments, a decrease of approximately \$101.3 million, or 6.7%, in income tax refunds, an increase of approximately \$293.1 million, or 6.4%, in sales and use tax collections, and an increase of approximately \$107.6 million, or 5.1%, in corporate and business tax collections. Fiscal 2011 tax collections were approximately \$732.6 million above the January 18, 2011 fiscal 2011 tax revenue estimate of \$19.784 billion, which was an upward revision from the consensus estimate used for the original fiscal 2011 budget (adjusted for the impacts of the economic development bill and the sales tax holidays in August, 2010).

See the March Information Statement under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – Fiscal 2010, Fiscal 2011, and Fiscal 2012 Tax Revenues; *Fiscal 2011*.”

*Fiscal 2012.* The fiscal 2012 budget approved by the Governor on July 11, 2011 assumes tax revenues of \$20.636 billion, reflecting the fiscal 2012 consensus tax estimate of \$20.525 billion which was adjusted for the impact of revenue initiatives enacted as part of the budget, most notably including a one-year delay of the FAS 109 deductions (\$45.9 million) and enhanced tax enforcement initiatives (\$61.5 million). On August 1, 2011, the Governor approved legislation establishing a sales tax holiday on August 13-14, 2011. The \$20.615 billion estimate also reflects the revenue loss impact from this two-day sales tax holiday, which is expected to be \$20.9 million. (The estimate of \$20.9 million was certified by the Commissioner of Revenue on December 30, 2011). As noted above, on October 17, 2011, the Secretary of Administration and Finance, based on available data on tax revenue collections and economic trends, revised the fiscal 2012 tax revenue estimate from \$20.615 billion to \$21.010 billion. See “RECENT DEVELOPMENTS – Fiscal 2012.”

Tax revenues for the first six months of fiscal 2012, ended December 31, 2011, totaled approximately \$9.847 billion, an increase of approximately \$252.0 million, or 2.6%, over the same period in fiscal 2011. The following table shows the tax collections for the first six months of fiscal 2012 and the change from tax collections in the same period in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections during the same six-month period that are dedicated to the MBTA and the MSBA.

<b>Fiscal 2012 Tax Collections (in millions)(1)</b>						
<b>Month</b>	<b>Tax Collections</b>	<b>Change from Prior Year</b>	<b>Percentage Change</b>	<b>MBTA Portion(3)</b>	<b>MSBA Portion</b>	<b>Tax Collections: Net of MBTA and MSBA</b>
July	\$1,444.6	\$91.9	6.8%	\$59.6	\$59.6	\$1,325.3
August	1,425.3	39.7	2.9%	54.1	54.1	1,317.0
September	2,195.8	180.8	9.0%	81.0	52.4	2,062.4
October	1,448.8	105.8	7.9%	56.5	56.5	1,335.8
November	1,363.3	(63.3)	(4.4%)	52.9	52.9	1,257.5
December(1)	1,969.4	(102.9)	(5.0%)	85.4	57.3	1,826.6
<b>Total (2)</b>	<b>\$9,847.1</b>	<b>\$252.0</b>	<b>2.6%</b>	<b>\$389.5</b>	<b>\$332.8</b>	<b>\$9,124.8</b>

SOURCE: Executive Office for Administration and Finance.

(1) Figures are preliminary

(2) Totals may not add due to rounding.

(3) Includes adjustments of \$28.6 million on the account of the first quarter, and \$28.1 million on the account of second quarter.

The year-to-date tax revenue increase of approximately \$252.0 million through December 31, 2011 from the same period in fiscal 2011 is attributable, in large part, to an increase of approximately \$174.4 million, or 3.8%, in withholding collections, an increase of approximately \$34.2 million, 18.0%, in income payments with returns and bills, a decrease of approximately \$36.1 million, or 16.7%, in income cash refunds, an increase of approximately \$39.7 million, or 1.6%, in sales and use tax collections, an increase of approximately \$19.8 million, or 15.2%, in estate collections, which were partly offset by a decrease of approximately \$32.9 million, 4.6%, in income cash estimated payments, and a decrease of approximately \$34.9 million, or 3.7%, in corporate and business collections. Year-to-date fiscal 2012 tax collections (through December) were approximately \$49 million below the year-to-date benchmark for the fiscal 2012 tax revenue estimate of \$21.010 billion, which was revised from \$20.615 billion by the Secretary of Administration and Finance on October 17, 2011. See “RECENT DEVELOPMENTS – Fiscal 2012.”

See the March Information Statement under the heading “FISCAL 2011 AND FISCAL 2012 – Fiscal 2012 Budget Proposals.”

**Federal and Other Non-Tax Revenues**

On August 2, 2011, the President approved the Budget Control Act of 2011, which provides for between \$2.1 trillion and \$2.4 trillion of budgetary savings to the federal government over ten years. The first phase of federal spending reductions is to be implemented through \$917 billion in discretionary reductions. However, specific details concerning these reductions, particularly how they may affect state budgets, have not yet been provided by the federal government. The Commonwealth will continue to assess how it may be affected by these reductions and will take appropriate measures to prepare for and manage their impacts.

*Lottery Revenues.* Fiscal 2011 Lottery operating revenues were \$976.5 million, resulting in a \$10 million deficit against \$986.5 million in commitments appropriated by the Legislature from the State Lottery Fund and the Arts Lottery Fund, including Lottery administrative expenses and appropriations for local aid to cities and towns. Fiscal 2011 Lottery contributions to local aid totaled \$802.2 million.

The fiscal 2012 budget assumes total transfers from the Lottery of \$986.5 million to fund various commitments appropriated by the Legislature from the State Lottery Fund and the Arts Lottery Fund, including Lottery administrative expenses, and \$809.8 million in appropriations for local aid to cities and towns, with the balance, if any, to be transferred to the General Fund for the general activities of the Commonwealth. For fiscal 2012, the State Lottery Commission is currently projecting net operating revenues of \$996.4 million to fund the assumed transfers.

See the March Information Statement under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – Federal and Other Non-Tax Revenues; *Lottery Revenues.*”

*Tobacco Settlement.*

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

<u>Fiscal Year</u>	<u>Initial Payments</u>	<u>Annual Payments</u>	<u>Total Payments</u>
2000	\$186.6(2)	\$139.6	\$326.2(2)
2001	78.2	164.2	242.5
2002	82.8	221.7	304.5
2003	86.4	213.6	300.0
2004	-	253.6	253.6
2005	-	257.4	257.4
2006	-	236.3	236.3
2007	-	245.4	245.4
2008	-	288.5	288.5
2009	-	315.2	315.2
2010	-	263.7	263.7
2011	-	248.7	248.7
<b>Total</b>	<b><u>\$434.00</u></b>	<b><u>\$2,894.10</u></b>	<b><u>\$3,328.20</u></b>

SOURCE: Office of the Comptroller.

(1) Amounts are approximate. Totals may not add due to rounding.

(2) Payments received for both 1999 and 2000.

*Gaming.* On November 22, 2011 the Governor approved legislation that would authorize the licensing of up to three regional resort casinos (one per region) and one slot facility (up to 1,250 slots) in the Commonwealth. The legislation would establish an appointed, independent state gaming commission to oversee the implementation of the law and the regulation of the resultant gaming facilities. Licensing fees collected by the commission would be applied to a variety of one-time state and local purposes, and gaming revenues received by the Commonwealth would be applied to a variety of ongoing expenses, including local aid and education, with stipulated percentages also deposited in the Stabilization Fund and applied to debt reduction. The legislation stipulates that initial licensing fees, which would be set by the gaming commission, must be at least \$85 million per casino and \$25 million for the slot facility. Neither the sponsors of the legislation nor the Executive Office for Administration and Finance have

released any cost or revenue projections. The Commonwealth's fiscal 2012 budget does not assume any revenue from expanded gaming.

*Settlements and Judgments.* The fiscal 2012 budget amended state finance law to provide that any one-time settlement or judgment amounting to \$10 million or more is to be deposited in the Stabilization Fund rather than used as revenue for the current fiscal year. Upon receiving a joint certification from the Commissioner of Revenue and the Attorney General that a state agency is in receipt of a one-time settlement or judgment for the Commonwealth in excess of \$10 million in any one fiscal year, the Comptroller is to transfer the proceeds of the settlement or judgment from the General Fund to the Stabilization Fund. Thus far in fiscal 2012, the Attorney General and Commissioner of Revenue have certified \$163.2 million for transfer to the Stabilization Fund on account of settlements and judgments. Such transfers are made on a bi-monthly basis.

### Limitations on Tax Revenues

On September 27, 2011, the Department of Revenue certified that cumulative state tax revenues for fiscal 2011 exceeded the permissible state tax revenue limit set by Chapter 62F by approximately \$1.187 billion. Because \$9.0 million in Stabilization Fund investment income was transferred to the General Fund during fiscal 2011, as required by the fiscal 2011 budget, that same amount was transferred back to the Stabilization Fund before the remaining cumulative excess as of the end of fiscal 2011 was transferred back to the General Fund for inclusion in the consolidated net surplus.

The following table shows the quarter by quarter trend of the Temporary Holding Fund for fiscal 2007 through the third quarter of fiscal 2011.

<b>Temporary Holding Fund</b> (in thousands)					
	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>	<u>Fiscal 2012</u>
<b><u>First quarter - period ended September 30</u></b>					
Cumulative net tax revenues, current fiscal year	\$4,796,700	\$4,870,214	\$4,374,038	\$4,819,581	\$5,136,829
Cumulative net tax revenues, prior fiscal year	4,542,170	4,796,700	4,870,214	4,374,038	4,819,581
Permissible growth rate(1)	6.94%	7.89%	4.13%	2.57%	4.72%
Permissible state tax revenues(2)	<u>4,857,306</u>	<u>5,175,160</u>	<u>5,080,266</u>	<u>4,486,538</u>	<u>5,047,065</u>
Cumulative net revenues, current fiscal year, in excess of permissible revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$333,042</u>	<u>\$89,764</u>
<b><u>Second quarter - period ended December 31</u></b>					
Cumulative net tax revenues, current fiscal year	\$9,194,513	\$9,200,005	\$8,834,580	\$9,732,050	
Cumulative net tax revenues, prior fiscal year	8,831,036	9,194,513	9,200,005	8,834,580	
Permissible growth rate(1)	6.93%	8.34%	2.10%	3.47%	
Permissible state tax revenues(2)	<u>9,442,585</u>	<u>9,960,876</u>	<u>9,392,837</u>	<u>9,140,698</u>	
Cumulative net revenues, current fiscal year, in excess of permissible revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$591,351</u>	
<b><u>Third quarter - period ended March 31</u></b>					
Cumulative net tax revenues, current fiscal year	\$14,485,334	\$13,599,204	\$13,358,852	\$14,550,178	
Cumulative net tax revenues, prior fiscal year	13,659,294	14,485,334	13,599,204	13,358,852	
Permissible growth rate(1)	7.41%	7.60%	2.00%	4.04%	
Permissible state tax revenues(2)	<u>14,671,584</u>	<u>15,586,799</u>	<u>13,871,188</u>	<u>13,898,416</u>	
Cumulative net revenues, current fiscal year, in excess of permissible revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>651,763</u>	
<b><u>Fourth Quarter - Period ending June 30</u></b>					
Cumulative net tax revenues, current fiscal year	\$21,009,329	\$18,513,036	\$18,792,777	\$20,776,223	
Cumulative net tax revenues, prior fiscal year	19,848,064	21,009,085	18,513,036	18,792,777	
Permissible growth rate(1)	7.66%	6.27%	1.61%	4.24%	
Permissible state tax revenues(2)	<u>21,368,426</u>	<u>22,325,305</u>	<u>18,810,911</u>	<u>19,588,839</u>	
Cumulative net revenues, current fiscal year, in excess of permissible revenues	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,187,394</u>	

SOURCES: Office of the Comptroller .

(1) Defined as inflation plus 2%, but not less than 0%.

(2) Defined as cumulative net state tax revenues, prior fiscal year, multiplied by 1 plus the permissible growth rate.

See the March Information Statement under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – Limitations on Tax Revenues.”

### **Medicaid and the Commonwealth Care Trust Fund**

*Federal 1115 MassHealth Demonstration Waiver.* The Commonwealth’s 1115 waiver expired on June 30, 2011, but the Commonwealth received six successive one-month extensions from the Centers for Medicare and Medicaid Services (CMS) while renewal negotiations continued. On December 20, 2011 the waiver was renewed by CMS and will extend through June 30, 2014. The \$26.750 billion agreement, which represents a \$5.690 billion increase over the previous waiver, preserves existing eligibility and benefit levels in the Medicaid and Commonwealth Care programs and includes more than \$13.3 billion in revenue to the Commonwealth through federal financial participation. During the three-year waiver period, the Commonwealth will fully implement the federal Affordable Care Act, whose major provisions go into effect on January 1, 2014. The waiver supports spending authority to support alternative payment models and integrated care through Delivery System Transformation Initiative (DSTI) incentive payments to eligible safety net hospitals. The total amount of payments to these safety net providers over the three year period is up to \$628 million, of which up to \$82.2 million is expected to be covered by state resources annually.

See the March Information Statement under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – Medicaid and the Commonwealth Care Trust Fund; *Federal 1115 MassHealth Demonstration Waiver.*”

### **Other Health and Human Services**

*Office of Children, Youth, and Family Services.* The first paragraph on page A-29 of the March Information Statement has been revised to read as follows: Through the Department of Transitional Assistance, the Commonwealth-funds three major programs of public assistance for eligible state residents: transitional aid to families with dependent children (TAFDC); emergency aid to the elderly, disabled and children (EAEDC); and the state supplemental benefits for residents enrolled in the federal supplemental security income (SSI) program. In addition, the Department is responsible for administering the entirely federally funded Supplemental Nutrition Assistance Program (SNAP, formerly food stamps), which provides food assistance to low-income families and individuals. Lastly, beginning in fiscal 2008, the Department established a new supplemental nutritional program, which provides small supplemental benefits to certain working families currently enrolled in the SNAP program.

See the March Information Statement under the heading “COMMONWEALTH REVENUES AND EXPENDITURES – Other Health and Human Services; *Office of Children, Youth, and Family Services.*”

## **PENSION AND OPEB FUNDING**

### **Retirement Systems**

On November 16, 2011, the Governor approved legislation containing pension reforms, including increasing the retirement ages, eliminating early retirement subsidies and increasing the period for average earnings from the highest three years to the highest five years for all new state employees who join a retirement system on or after April 2, 2012. The legislation is expected by the Executive Office for Administration and Finance to generate savings over the next 30 years estimated at more than \$3 billion for the Commonwealth and nearly \$2 billion for municipalities. These savings projections are not assumed in the revised pension funding schedule.

See the March Information Statement under the heading “PENSION AND OPEB FUNDING – Retirement Systems.”

### **Funding Schedule**

The fiscal 2012 budget amended state law to extend the time period for amortizing the Commonwealth’s unfunded liability. Under the new law, the liability is to be amortized to zero by June 30, 2040. The fiscal 2012 budget also contains language requiring that pension funding amounts for fiscal 2012 through fiscal 2017 must be equal to or greater than the amounts for those years specified in the proposed funding schedule filed by the Secretary

of Administration and Finance on January 18, 2011. See the March Information Statement under the heading "PENSION AND OPEB FUNDING – Funding Schedule."

### **Actuarial Valuations**

On September 30, 2011, pursuant to Chapter 32 of the Massachusetts General Laws, the Public Employee Retirement Administration Commission (PERAC) released its actuarial valuation of the Commonwealth's total pension obligation as of January 1, 2011. This valuation was based on the plan provisions in effect at the time and is based on member data and asset information as of December 31, 2010. See the March Information Statement under the heading "PENSION AND OPEB FUNDING."

The unfunded actuarial accrued liability as of that date for the total obligation was approximately \$18.589 billion, including approximately \$4.998 billion for the Massachusetts State Employees' Retirement System (MSERS), \$11.773 billion for the Massachusetts Teachers' Retirement System (MTRS), \$1.536 billion for Boston Teachers and \$282 million for cost-of-living increases reimbursable to local systems. The valuation study estimated the total actuarial accrued liability as of January 1, 2011 to be approximately \$64.219 billion (comprised of \$26.243 billion for MSERS, \$34.891 billion for MTRS, \$2.804 billion for Boston Teachers and \$282 million for cost-of-living increases reimbursable to local systems). Total assets were valued on an actuarial basis at approximately \$45.631 billion based on a five-year average valuation method, which equaled 110% of the January 1, 2011 total asset market value.

The principal assumptions used in the valuation were an investment return assumption of 8.25% and a salary increase assumption based on Group and years of service. The ultimate salary increase rate is 4.5% for Groups 1 and 2, 5.0% for Groups 3 and 4, and 4.75% for teachers. The assumption is higher in early years of employment and grades down to the ultimate rate. All assumptions other than the investment return assumption are based on PERAC's most recent Experience Study Analysis for the State Retirement System, published in 2007 and the Massachusetts Teachers' Retirement System, published in 2008.

The Actuarial Cost Method which was used to determine pension liabilities in this valuation is known as the Entry Age Normal Cost Method. Under this method, the Normal Cost for each active member on the valuation date is determined as the level percent of salary, which, if paid annually from the date the employee first became a retirement system member, would fully fund by retirement, death, disability or termination, the projected benefits which the member is expected to receive. The Actuarial Liability for each member is determined as the present value as of the valuation date of all projected benefits which the member is expected to receive, minus the present value of future annual Normal Cost payments expected to be made to the fund. Since only active members have a Normal Cost, the Actuarial Liability for inactive, retirees, and survivors is simply equal to the present value of all projected benefits. The Unfunded Actuarial Liability is the Actuarial Liability less current assets.

The Normal Cost for a member will remain a level percent of salary for each year of membership, except for changes in provisions of the plan or the actuarial assumptions employed in projection of benefits and present value determinations. The Normal Cost for the entire system will also be changed by the addition of new members or the retirement, death, disability, or termination of members. The Actuarial Liability for a member will increase each year to reflect the additional accrual of Normal Cost. It will also change if the plan provisions or actuarial assumptions change.

Differences each year between the actual experience of the plan and the experience projected by the actuarial assumptions are reflected by adjustments to the Unfunded Actuarial Liability. An experience difference which increases the Unfunded Actuarial Liability is an Actuarial Loss and one which decreases the Unfunded Actuarial Liability is an Actuarial Gain.

The Actuarial Value of Assets is determined in accordance with the deferred recognition method under which 20% of the gains or losses occurring in the prior year are recognized, 40% of those occurring two years prior are recognized, etc., so that 100% of gains and losses occurring five years ago are recognized. This has the effect of smoothing the short-term volatility of market values over a five-year period. The actuarial value of assets will be adjusted, if necessary, in order to remain between 90% and 110% of market value. In valuations prior to 1998, plan assets were determined at market value. As part of the 1998 valuation, this methodology was adjusted to reduce the

potential volatility in the market value approach from year to year. The actuarial value of assets as of January 1, 2011 is 110% of the market value (the 110% limit has applied as of January 1, 2009, 2010 and 2011). The unfunded actuarial liability decreased from \$20.0 billion on January 1, 2010 to \$18.6 billion on January 1, 2011. However, the unfunded liability is expected to increase in the ensuing years as remaining 2008 investment losses are recognized and the 90%-110% corridor no longer applies.

The following table shows the valuation of accrued liabilities and assets from 2007 through 2011:

**Pension Fund Valuation and Unfunded Accrued Liabilities (in millions)**  
**Unfunded Accrued Liabilities**

<u>Valuation Date(Jan. 1)</u>	<u>Total Actuarial Accrued Liability</u>	<u>Actuarial Value of Assets(1)</u>	<u>Unfunded Actuarial Liability(2)</u>	<u>Market Value of Unfunded Liability</u>
2007	53,761	40,412	13,349	8,859
2008	56,637	44,532	12,105	7,402
2009	59,142	37,058	22,084	25,453
2010	61,576	41,589	19,986	23,767
2011	64,219	45,631	18,589	22,737

SOURCE: Public Employee Retirement Administration Commission.

(1) Based on five-year average smoothing methodology.

(2) Based on actuarial valuation.

The following table shows the pension funding progress from 2007 through 2011:

**Pension Funding Progress for the last five fiscal years**

(Amounts in thousands except for percentages)

	<u>Actuarial Value of Plan Assets</u>	<u>Actuarial Accrued Liability</u>	<u>Unfunded Actuarial Liability (UAAL)</u>	<u>Funded Ratio</u>	<u>Annual Covered Payroll</u>	<u>UAAL as % of Covered Payroll</u>
<b><u>State Employees' Retirement System</u></b>						
Actuarial Valuation as of Jan. 1						
<b>2011</b>	\$ 21,244,900	\$ 26,242,776	\$ 4,997,876	81.0%	\$ 4,808,250	103.94%
<b>2010</b>	19,019,062	24,862,421	5,843,359	76.5%	4,711,563	124.00%
<b>2009</b>	16,992,214	23,723,240	6,731,026	71.6%	4,712,655	142.80%
<b>2008</b>	20,400,656	22,820,502	2,419,846	89.4%	4,574,233	52.90%
<b>2007</b>	18,445,225	21,670,810	3,225,585	85.1%	4,391,891	73.40%
<b><u>Teachers' Retirement System</u></b>						
Actuarial Valuation as of Jan. 1						
<b>2011</b>	\$ 23,117,952	\$ 34,890,991	\$ 11,773,039	66.3%	\$ 5,558,311	211.81%
<b>2010</b>	21,262,462	33,738,966	12,476,504	63.0%	5,509,698	226.40%
<b>2009</b>	18,927,731	32,543,782	13,616,051	58.2%	5,389,895	252.60%
<b>2008</b>	22,883,553	30,955,504	8,071,951	73.9%	5,163,498	156.30%
<b>2007</b>	20,820,392	29,320,714	8,500,322	71.0%	4,969,092	171.10%

SOURCE: Public Employee Retirement Administration Commission.

See the March Information Statement under the heading "PENSION AND OPEB FUNDING – Actuarial Valuations."

**Annual Required Contributions**

The following table sets forth the annual required contribution (ARC) by the Commonwealth under generally accepted accounting principles, its reimbursement to Boston for its payments to SBRS (the fiscal 2010 payment includes both the final payment in arrears and the first annual contribution under 2010 legislation described in the March Information Statement under the heading "PENSION AND OPEB FUNDING – Retirement Systems") and payments for municipal COLAs for each of the fiscal years indicated. The ARC is determined annually based on the most recent Commonwealth valuation. Valuations have been performed annually since January 1, 2000. As noted in

the March Information Statement under the heading “PENSION AND OPEB FUNDING – Funding Schedule,” the Commonwealth also develops a revised funding schedule by statute at least every three years, and the Commonwealth made the full contribution required, under the then-current funding schedule, for each year displayed in the table. The prior funding schedule was filed in February, 2009 and based on valuation results as of January 1, 2008. Since the funding schedule can be several years old when the ARC is determined, the funding schedule information lags the more current ARC information except in the year in which the funding schedule is developed. Accordingly, in some years the ARC will exceed the contribution made and in other years the contribution made will exceed the ARC. Due to significant investment losses in 2008, the unfunded liability (and therefore the ARC) increased significantly for fiscal 2009. However, the funding schedule was based on the 2008 valuation before the market downturn. This accounts for the discrepancy between the ARC and contributions made in fiscal 2009. In fiscal 2010 the discrepancy is accounted for by the market downturn and the double payment to SBRS described above. As noted in the March Information Statement under the heading “PENSION AND OPEB FUNDING – Funding Schedule,” in January, 2011, a revised Commonwealth schedule was filed that extended the amortization period to 2040.

**Annual Required Contributions and Other Pension Contributions**  
(amounts in thousands)

	SERS	MTRS	Total	COLA(1)	BTRS(1)
<u>2011</u>					
Annual required contribution (ARC).....	\$471,096	\$767,960	\$1,239,056	n/a	n/a
Contributions made, excluding COLAs.....	<u>431,166</u>	<u>855,201</u>	<u>1,286,367</u>	<u>34,153</u>	<u>121,290</u>
% Funded for the fiscal year.....	92%	111%	104%		
<u>2010</u>					
Annual required contribution (ARC).....	\$646,932	\$1,106,052	\$1,752,984	n/a	n/a
Contributions made, excluding COLAs.....	<u>410,682</u>	<u>690,397</u>	<u>1,101,079</u>	<u>32,683</u>	<u>242,857</u>
% Funded for the fiscal year.....	63%	62%	63%		
<u>2009</u>					
Annual required contribution.....	697,340	1,149,629	1,846,969	n/a	n/a
Contributions made, excluding COLAs.....	<u>397,482</u>	<u>781,026</u>	<u>1,178,508</u>	<u>34,696</u>	<u>122,216</u>
% Funded for the fiscal year.....	57%	68%	64%		
<u>2008</u>					
Annual required contribution.....	369,866	749,853	1,119,719	n/a	n/a
Contributions made, excluding COLAs.....	<u>460,788</u>	<u>809,000</u>	<u>1,269,788</u>	<u>34,000</u>	<u>98,000</u>
% Funded for the fiscal year.....	125%	108%	113%		
<u>2007</u>					
Annual required contribution.....	432,219	763,798	1,196,017	n/a	n/a
Contributions made, excluding COLAs.....	<u>435,610</u>	<u>747,000</u>	<u>1,182,610</u>	<u>37,005</u>	<u>93,300</u>
% Funded for the fiscal year.....	101%	98%	99%		

SOURCE: Office of the Comptroller.

(1) COLA and BTRS contributions are additional amounts funded by the Commonwealth, but are not part of the Commonwealth’s funding of ARC.

See the March Information Statement under the heading “PENSION AND OPEB FUNDING – Annual Required Contributions.”

## **PRIT Fund Investments**

The PRIM Board's overall investment performance goal is to achieve an annual rate of return that exceeds the targeted actuarial rate of return used in determining the Commonwealth's pension obligations (currently 8.25%). The investment policy statement adopted by the PRIM Board requires a comprehensive review of the PRIM Board's asset allocation plan and its underlying assumptions at reasonable intervals of not more than three to five years. In addition, the investment policy statement requires that the PRIM Board conduct an annual evaluation of the PRIT Fund's asset allocation. The PRIM Board's last comprehensive review of the PRIT Fund asset allocation was conducted in the beginning of fiscal 2011.

In addition to asset allocation diversification, the PRIM Board seeks to diversify the PRIT Fund by choosing complementary investment styles and strategies within asset classes. The PRIM Board also develops detailed investment guidelines for each investment manager to ensure that portfolios are adequately diversified at the individual manager level.

The PRIT Fund's asset allocation plan currently uses the following categories of investments (the description is as of June 30, 2011):

*Domestic Equity.* Domestic Equity constitutes 22% of the PRIT Fund portfolio, approximately 23% of which is invested using a large capitalization stock strategy (two active managers), with the remaining 77% invested under a Russell 3000 index strategy (one passive manager). The portfolio is style neutral as between growth- and value-oriented stocks.

*International Equity.* International Equity constitutes 22% of the PRIT Fund portfolio which is allocated to one passively managed account (which comprises 44% of the portfolio) and four actively managed accounts (56% of the portfolio). The PRIM Board maintains a target weighting of 50% passive and 50% active for the international equity portfolio. The primary strategy for this portfolio is investing in companies in developed market, industrialized nations outside of the United States.

*Emerging Markets.* Emerging Markets constitutes 7% of the PRIT Fund portfolio, which is allocated to three active managers (which comprise about 76% of the emerging market portfolio) and one passive manager (24%). Since May, 2010, the PRIM Board has targeted a weighting of 75% active and 25% passive for this portfolio.

*Core Fixed Income.* Core Fixed Income constitutes 13% of the PRIT Fund portfolio, which is invested in corporate, government and mortgage-backed securities in the investment grade bond market (37% active, 36% passive). Approximately 13% is invested in global inflation linked bonds, and approximately 10% in U. S. Treasury Inflation Protected Securities. The balance of the portfolio (4%) contains investments under the PRIM Board's economically targeted investment (ETI) program.

*Value-Added Fixed Income.* Value Added Fixed Income constitutes 6% of the PRIT Fund portfolio, which is invested in distressed debt (44%), high-yield bonds (24%), emerging markets debt (23%) and bank loans (9%).

*Private Equity.* Private Equity constitutes 11% of the PRIT Fund portfolio. Two components comprise the private equity portfolio: venture capital (early-stage and multi-stage) and special equity partnerships (large market buyout, middle market buyout, and growth equity). These private market investments are illiquid and typically have 10- to 15-year life cycles. The portfolio is highly diversified at the underlying portfolio company level.

*Real Estate.* Real estate holdings constitute 8% of the PRIT Fund portfolio, which consists of directly-owned properties (73%) and real estate investment trusts (27%).

*Timber/Natural Resources.* Timber/Natural Resources constitutes 4% of the PRIT Fund portfolio, which is invested in both timberland investments (52%), and natural resource-oriented companies (48%) such as oil, mining and energy companies.

*Hedge Funds.* Hedge Funds constitute 7% of the PRIT Fund portfolio. This portfolio has investments in five active hedge funds of funds managers and one residual liquidating portfolio.

**PRIT Fund Asset Allocation**  
(As of June 30)

	<u>2011</u>	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Domestic Equity	22.00%	19.90%	24.40%	26.10%	29.90%
International Equity	21.70%	20.00%	19.00%	20.00%	21.00%
Emerging Markets	6.60%	5.70%	5.00%	5.50%	5.50%
Fixed Income	13.20%	14.00%	13.00%	16.80%	15.40%
Value-Added Fixed Income	6.00%	7.00%	7.70%	5.00%	4.60%
Private Equity	10.70%	10.60%	9.60%	8.40%	6.70%
Real Estate	8.20%	9.10%	10.90%	10.90%	8.60%
Timber/Natural Resources	4.00%	4.10%	4.70%	2.10%	3.20%
Hedge Funds	7.20%	7.70%	5.70%	5.20%	5.10%
Portable Alpha Wind Down(1)	0.40%	1.90%	0.00%	0.00%	0.00%

(1) Prior to January 1, 2010, Portable Alpha Assets were reflected in the Domestic Equity portfolio.

SOURCE: Pension Reserves Investment Management Board.

The following table sets forth the gross investment rates of return for the assets in the PRIT Fund for the last five fiscal years:

**PRIT Fund Rates of Return**

<u>Fiscal Year</u>	<u>Rate of Return</u>
<b>2011</b>	22.30%
<b>2010</b>	12.82%
<b>2009</b>	(23.87)%
<b>2008</b>	(1.81)%
<b>2007</b>	19.92%
<b>5yr average</b>	4.35%
<b>10yr average</b>	6.53%
<b>Assumed Rate</b>	8.25%

SOURCE: Pension Reserves Investment Management Board.

See the March Information Statement under the heading “PENSION AND OPEB FUNDING – PRIT Fund Investments.”

**Other Post-Retirement Benefit Obligations (OPEB)**

The fiscal 2012 budget provides that 10% of all tobacco settlement payments received by the Commonwealth in fiscal 2013 are to be deposited in the State Retiree Benefits Trust Fund, with the amount of payments to be deposited increasing by 10 percentage points in each succeeding year until the amount to be deposited reaches 100% of the payments. See “COMMONWEALTH REVENUE AND EXPENDITURES – Federal and Other Non-Tax Revenues; *Tobacco Settlement*” and the March Information Statement under the heading “PENSION AND OPEB FUNDING – Other Post-Retirement Benefit Obligations (OPEB).”

**STATE WORKFORCE**

**Unions and Labor Negotiations**

Concessions made by most state collective bargaining units to help the Commonwealth manage through the fiscal challenges caused by the recession over the last couple of years included delaying wage increases to which the Commonwealth had previously agreed by one year. If tax revenue collections exceeded certain thresholds, however, then the wage increases would be delayed by six months instead of one year. In either case, the delay of the wage increases results in permanent annual savings to the Commonwealth of tens of millions of dollars.

Fiscal year 2011 tax revenue collections exceeded the threshold in the collective bargaining agreements that triggers a six-month wage increase delay for fiscal years 2011 and 2012 instead of a one-year delay. Because the fiscal year 2011 and fiscal year 2012 budgets had been based on tax revenue estimates that were below the threshold, those budgets did not fund the additional costs associated with a six-month delay instead of a one-year delay. The Executive Office of Administration estimates that the potential aggregate additional cost resulting from tax revenues exceeding the threshold is \$110 million for fiscal years 2011 and 2012 combined. As a result of the fact that this cost was not anticipated and is not budgeted, the Executive Office of Administration and Finance has been negotiating with state collective bargaining units to amend the collective bargaining agreements to eliminate the provisions that allow the delayed wage increases to be accelerated by six months in exchange for a two-year extension of the existing collective bargaining agreements. Several of the Commonwealth's largest employee unions have already agreed to the contract amendments and negotiations are continuing with the other unions. At this point, the Executive Office of Administration and Finance does not plan to seek supplemental appropriations to fund any costs associated with the provisions providing for a six-month acceleration of the delayed wage increases previously negotiated.

See the March Information Statement under the heading "STATE WORKFORCE – Unions and Labor Negotiations."

### **CASH FLOW**

On September 6, 2011, the State Treasurer and the Secretary of Administration and Finance released cash flow statements for fiscal 2011 and fiscal 2012. On December 1, 2011, the State Treasurer and the Secretary of Administration and Finance released a revised cash flow statement for fiscal 2012. The September 6, 2011 cash flow statement for fiscal 2011 and the December 1, 2011 cash flow statement for fiscal 2012 are summarized in the tables below.

The next cash flow statement is expected to be released on or about February 29, 2012. See the March Information Statement under the heading "FISCAL 2011 AND FISCAL 2012 – Cash Flow."

**Overview of Final Fiscal 2011 Non-Segregated Operating Cash Flow (in millions) (1)**  
(as of August 31, 2011)

	<u>Jul-10</u>	<u>Aug-10</u>	<u>Sep -10</u>	<u>Oct -10</u>	<u>Nov -10</u>	<u>Dec-10</u>	<u>Jan-11</u>	<u>Feb-11</u>	<u>Mar-11</u>	<u>Apr-11</u>	<u>May-11</u>	<u>June-11</u>	<u>Total FY 2011</u>
<b>Opening Non-Segregated Operating Cash Balance</b>	\$844.3	\$1,082.2	\$1,852.1	\$1,715.3	\$1,522.2	\$1,661.9	\$1,558.0	\$1,948.2	\$1,591.3	\$924.8	\$2,246.0	\$2,363.0	\$844.3
<b>Operating Activities:</b>													
Budgetary Funds:													
<i>Transfer from/(to) Stabilization Fund</i>	\$0.0	\$0.0	\$12.7	\$0.0	(\$11.3)	\$0.0	\$0.0	\$0.0	\$0.0	\$4.3	\$0.0	\$0.0	\$5.8
Total Budgetary Revenue/Inflows	\$2,642.8	\$2,369.4	\$3,004.9	\$2,476.0	\$2,841.3	\$3,231.5	\$3,010.1	\$2,402.1	\$3,131.8	\$4,043.8	\$2,669.6	\$3,383.1	\$35,206.5
Total Budgetary Expenditures/Outflows	\$2,461.6	\$2,273.0	\$3,096.3	\$2,376.6	\$2,643.2	\$3,135.5	\$2,152.3	\$2,666.7	\$3,360.6	\$2,628.5	\$2,071.2	\$2,889.7	\$31,755.2
Net Budgetary Funds	\$181.2	\$96.4	(\$91.4)	\$99.4	\$198.1	\$96.0	\$857.8	(\$264.6)	(\$228.8)	\$1,415.3	\$598.4	\$493.5	\$3,451.3
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	\$748.4	\$730.7	\$755.9	\$757.5	\$1,117.3	\$440.0	\$810.8	\$876.8	\$475.6	\$1,317.7	\$658.0	\$707.7	\$9,396.5
Total Non Budgetary Expenditures/Outflows	\$892.6	\$949.0	\$933.0	\$944.0	\$981.5	\$1,235.6	\$925.5	\$934.3	\$1,065.3	\$859.9	\$1,038.8	\$1,076.1	\$11,835.7
Net Non Budgetary Funds	(\$144.2)	(\$218.4)	(\$177.1)	(\$186.5)	\$135.8	(\$795.6)	(\$114.7)	(\$57.5)	(\$589.7)	\$457.8	(\$380.8)	(\$368.3)	(\$2,439.2)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	(\$14.5)	\$1.5	\$1.6	\$1.9	\$1.6	\$1.9	\$1.6	\$7.7	\$1.6	\$1.6	\$7.5	\$3.2	\$17.4
<b>Net Operating Activities</b>	\$22.5	(\$120.4)	(\$266.9)	(\$85.2)	\$335.6	(\$697.6)	\$744.7	(\$314.4)	(\$816.9)	\$1,874.6	\$225.1	\$128.4	\$1,029.5
<b>Federal Grants:</b>													
Total Federal Grants Revenue/Inflows	\$277.5	\$194.3	\$278.9	\$180.7	\$179.5	\$330.0	\$48.8	\$383.3	\$379.3	\$191.6	\$322.0	\$361.8	\$3,127.8
Total Federal Grants Expenditures/Outflows	\$230.2	\$332.8	\$188.1	\$195.7	\$235.8	\$294.5	\$253.3	\$278.7	\$301.8	\$250.1	\$317.1	\$287.4	\$3,165.5
<b>Net Federal Grants</b>	\$47.3	(\$138.5)	\$90.8	(\$15.0)	(\$56.2)	\$35.6	(\$204.5)	\$104.6	\$77.5	(\$58.5)	\$4.9	\$74.4	(\$37.8)
<b>Capital Funds:</b>													
Total Capital Revenue/Inflows	\$422.4	\$56.4	\$256.4	\$146.2	\$68.1	\$754.1	\$35.2	\$30.5	\$250.8	\$52.8	\$511.2	\$311.7	\$2,895.8
Total Capital Expenditures/Outflows:	\$254.3	\$227.5	\$217.1	\$239.0	\$207.7	\$195.9	\$185.3	\$177.6	\$177.9	\$193.0	\$193.0	\$245.1	\$2,513.4
<b>Net Capital Funds</b>	\$168.1	(\$171.1)	\$39.3	(\$92.8)	(\$139.6)	\$558.2	(\$150.0)	(\$147.1)	\$72.9	(\$140.1)	\$318.3	\$66.6	\$382.4
<b>Financing Activities:</b>													
Cash Flow Financing Activities Inflows:													
<i>Commercial Paper</i>	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<i>Revenue Anticipation Notes (RANS)</i>	\$0.0	\$1,200.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$1,200.0
Total Cash Flow Financing Activities Inflows	\$0.0	\$1,200.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$1,200.0
Cash Flow Financing Activities Outflows:													
<i>Commercial Paper – (Principal + Interest)</i>	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<i>RANS – (Principal + Interest)</i>	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$354.7	\$431.4	\$432.0	\$1,218.1
Total Cash Flow Financing Activities Outflows	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$354.7	\$431.4	\$432.0	\$1,218.1
<b>Net Financing Activities</b>	\$0.0	\$1,200.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$354.7)	(\$431.4)	(\$432.0)	(\$18.1)
<b>Ending Non-Segregated Operating Cash Balance</b>	\$1,082.2	\$1,852.1	\$1,715.3	\$1,522.2	\$1,661.9	\$1,558.0	\$1,948.2	\$1,591.3	\$924.8	\$2,246.0	\$2,363.0	\$2,200.4	\$2,200.4

SOURCE: Office of the Treasurer and Receiver-General.  
(1) Totals may not add due to rounding.

**Overview of Fiscal 2012 Non-Segregated Operating Cash Flow (in millions) (1)**  
(as of November 30, 2011)

	<u>Jul-11</u>	<u>Aug-11</u>	<u>Sep -11</u>	<u>Oct -11</u>	<u>Nov -11(2)</u>	<u>Dec-11 (2)</u>	<u>Jan-12 (2)</u>	<u>Feb-12 (2)</u>	<u>Mar-12(2)</u>	<u>Apr-12 (2)</u>	<u>May-12(2)</u>	<u>June-12(2)</u>	<b>Total FY 2012 (2)</b>
<b>Opening Non-Segregated Operating Cash Balance</b>	\$2,200.4	\$2,194.6	\$2,153.0	\$1,461.9	\$1,522.5	\$1,445.7	\$981.4	\$1,531.8	\$1,005.3	\$356.7	\$1,376.2	\$759.1	\$2,200.4
<b>Operating Activities:</b>													
Budgetary Funds:													
<i>Transfer from/(to) Stabilization Fund</i>	\$0.0	\$0.0	\$2.8	(\$71.3)	(\$717.7)	\$185.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$601.3)
Total Budgetary Revenue/Inflows	\$2,275.6	\$2,555.9	\$2,865.4	\$2,377.4	\$1,674.0	\$3,221.9	\$3,157.0	\$2,212.3	\$3,254.3	\$4,161.7	\$2,507.4	\$3,531.3	\$33,794.2
Total Budgetary Expenditures/Outflows	\$2,304.8	\$2,444.0	\$3,434.0	\$1,929.3	\$2,671.9	\$3,486.1	\$2,435.0	\$2,546.7	\$3,783.6	\$2,331.3	\$2,364.1	\$3,154.3	\$32,885.1
Net Budgetary Funds	(\$29.3)	\$111.9	(\$568.6)	\$448.2	(\$997.9)	(\$264.3)	\$722.1	(\$334.4)	(\$529.3)	\$1,830.4	\$143.3	\$377.0	\$909.1
Non Budgetary Funds (Non Budgetary, Higher Ed and Trust Funds):													
Total Non Budgetary Revenue/Inflows	\$842.3	\$900.7	\$794.1	\$438.4	\$829.6	\$889.0	\$822.6	\$701.6	\$962.8	\$678.7	\$663.6	\$837.3	\$9,360.7
Total Non Budgetary Expenditures/Outflows	\$806.7	\$1,018.2	\$1,029.3	\$803.5	\$1,038.5	\$1,106.0	\$1,037.0	\$898.2	\$1,067.5	\$906.0	\$826.0	\$946.0	\$11,482.9
Net Non Budgetary Funds	\$35.6	(\$117.5)	(\$235.2)	(\$365.1)	(\$208.9)	(\$217.0)	(\$214.4)	(\$196.6)	(\$104.7)	(\$227.3)	(\$162.4)	(\$108.7)	(\$2,122.2)
Net Undesignated Revenue/Inflows and Expenditures/Outflows	\$7.1	(\$10.6)	\$1.2	\$1.3	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$1.0	\$7.1
<b>Net Operating Activities</b>	\$13.4	(\$16.2)	(\$802.5)	\$84.4	(\$1,205.8)	(\$480.3)	\$508.7	(\$530.0)	(\$632.9)	\$1,604.1	(\$18.1)	\$269.4	(\$1,206.0)
<b>Federal Grants:</b>													
Total Federal Grants Revenue/Inflows	\$191.0	\$299.9	\$178.1	\$156.5	\$245.0	\$295.0	\$250.0	\$230.0	\$225.0	\$250.0	\$225.0	\$285.6	\$2,831.0
Total Federal Grants Expenditures/Outflows	\$231.7	\$284.9	\$185.0	\$178.8	\$230.0	\$291.5	\$233.0	\$234.0	\$241.5	\$234.5	\$224.0	\$275.5	\$2,844.4
<b>Net Federal Grants</b>	(\$40.7)	\$14.9	(\$6.9)	(\$22.3)	\$15.0	\$3.5	\$17.0	(\$4.0)	(\$16.5)	\$15.5	\$1.0	\$10.1	(\$13.4)
<b>Capital Funds:</b>													
Total Capital Revenue/Inflows	\$288.0	\$222.9	\$355.1	\$234.2	\$156.9	\$242.0	\$242.1	\$216.3	\$209.9	\$226.1	\$226.1	\$285.1	\$2,904.6
Total Capital Expenditures/Outflows:	\$266.4	\$263.3	\$236.8	\$235.7	\$242.8	\$229.5	\$217.4	\$208.7	\$209.1	\$226.1	\$226.1	\$285.1	\$2,847.0
<b>Net Capital Funds</b>	21.62	(40.32)	118.26	(1.48)	(85.93)	12.48	24.68	7.57	0.77	0.00	0.00	0.00	\$57.6
<b>Financing Activities:</b>													
Cash Flow Financing Activities Inflows:													
<i>Commercial Paper</i>	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<i>Revenue Anticipation Notes (RANS)</i>	\$0.0	\$0.0	\$0.0	\$0.0	\$1,200.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$1,200.0
Total Cash Flow Financing Activities Inflows	\$0.0	\$0.0	\$0.0	\$0.0	\$1,200.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$1,200.0
Cash Flow Financing Activities Outflows:													
<i>Commercial Paper – (Principal + Interest)</i>	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
<i>RANS – (Principal + Interest)</i>	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$600.0	\$600.0	\$0.0	\$1,200.0
Total Cash Flow Financing Activities Outflows	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0	\$600.0	\$600.0	\$0.0	\$1,200.0
<b>Net Financing Activities</b>	\$0.0	\$0.0	\$0.0	\$0.0	\$1,200.0	\$0.0	\$0.0	\$0.0	\$0.0	(\$600.0)	(\$600.0)	\$0.0	(\$0.0)
<b>Ending Non-Segregated Operating Cash Balance</b>	\$2,194.6	\$2,153.0	\$1,461.9	\$1,522.5	\$1,445.7	\$981.4	\$1,531.8	\$1,005.3	\$356.7	\$1,376.2	\$759.1	\$1,038.6	\$1,038.6

SOURCE: Office of the Treasurer and Receiver-General.

(1) Totals may not add due to rounding.

(2) Figures are estimated.

## LONG-TERM LIABILITIES

### General and Special Obligation Long-Term Debt Issuance and Repayment Analysis (in thousands) (1)

	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>
<b>Beginning Balance as of July 1</b>	\$18,461,406	\$18,736,961	\$18,734,440	\$19,264,569	\$19,726,507
Debt Issued	1,556,485	1,280,824	1,887,108	1,667,584	2,233,368
Subtotal	<u>20,017,891</u>	<u>20,017,785</u>	<u>20,621,548</u>	<u>20,932,153</u>	<u>21,959,875</u>
Debt retired or defeased, exclusive of refunded debt	(1,399,715)	(1,179,730)	(1,227,029)	(1,207,150)	(974,770)
Refunding debt issued, net of refunded debt (3)	<u>118,785</u>	<u>(103,615)</u>	<u>(129,950)</u>	<u>1,504</u>	<u>(110,050)</u>
<b>Ending Balance June 30 (2)</b>	<b><u>\$18,736,961</u></b>	<b><u>\$18,734,440</u></b>	<b><u>\$19,264,569</u></b>	<b><u>\$19,726,507</u></b>	<b><u>\$20,875,055</u></b>

SOURCE: Office of the Comptroller.

- (1) Including premium, discount and accretion of capital appreciation bonds.
- (2) Includes federal grant anticipation notes issued as crossover refunding bonds. The refunding escrows funded by these bonds and related premiums are used to pay interest on the refunding bonds until the refunded bonds are callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continues to be paid from pledged revenues as before.
- (3) Amounts may be negative due to defeasances of debt of authorities from the issuance of Commonwealth debt as afforded under General Laws.

See the March Information Statement under the heading “LONG-TERM LIABILITIES– General and Special Obligation Long-Term Debt Issuance and Repayment Analysis.”

### Outstanding Long Term Commonwealth Debt (in thousands)

	<u>Fiscal 2007</u>	<u>Fiscal 2008</u>	<u>Fiscal 2009</u>	<u>Fiscal 2010</u>	<u>Fiscal 2011</u>
General Obligation Debt	\$15,822,591	\$16,086,470	\$17,051,724	\$17,655,539	\$18,516,760
Special Obligation Debt	1,248,750	1,112,590	1,078,630	1,063,501	1,591,505
Federal Grant Anticipation Notes	<u>1,665,620</u>	<u>1,535,380</u>	<u>1,134,215</u>	<u>997,467</u>	<u>766,790</u>
<b>TOTAL</b>	<b><u>\$18,736,961</u></b>	<b><u>\$18,734,440</u></b>	<b><u>\$19,264,569</u></b>	<b><u>\$19,726,507</u></b>	<b><u>\$20,875,055</u></b>

SOURCE: Office of the Comptroller.

See the March Information Statement under the heading “LONG-TERM LIABILITIES–Outstanding Long Term Commonwealth Debt.”

### Debt Service Requirements

The following table sets forth, as of December 31, 2011, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal grant anticipation notes. For variable-rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate swap agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. For other variable-rate bonds, the schedule assumes a 5% interest rate.

See the March Information Statement under the heading “LONG-TERM LIABILITIES–Debt Service Requirements.”

**Debt Service Requirements on Commonwealth Bonds as of December 31, 2011 through Maturity (in thousands) (1)**

**General Obligation Bonds**

**Federal Highway Grant Anticipation Notes**

Period Ending	<b>General Obligation Bonds</b>			<b>Build America Bonds</b>			<b>Federal Highway Grant Anticipation Notes</b>				
	Principal	Compounded Interest	Gross Interest	Subsidies	Net Interest	Debt Service	Principal	Gross Interest	Build America Bonds Subsidies	Net Interest	Debt Service
6/30/2012	\$353,995	\$0	\$436,247	\$(18,279)	\$417,969	\$771,964	\$47,425	\$15,197	\$(747)	\$14,450	\$61,875
6/30/2013	1,342,899	9,413	833,785	(36,557)	797,228	2,149,540	161,285	26,876	(1,494)	25,382	186,667
6/30/2014	1,266,297	7,735	780,851	(36,557)	744,294	2,018,326	170,710	17,450	(1,494)	15,956	186,666
6/30/2015	1,128,428	7,686	728,595	(36,557)	692,038	1,828,152	178,390	9,773	(1,494)	8,279	186,669
6/30/2016	1,176,015	6,652	677,145	(36,557)	640,588	1,823,254	11,390	4,098	(1,434)	2,664	14,054
6/30/2017	952,287	5,580	625,688	(36,557)	589,131	1,546,997	11,635	3,720	(1,302)	2,418	14,053
6/30/2018	890,300	4,237	581,076	(36,557)	544,518	1,439,055	11,925	3,277	(1,147)	2,130	14,055
6/30/2019	874,266	3,688	537,247	(36,557)	500,690	1,378,644	12,245	2,780	(973)	1,807	14,052
6/30/2020	870,829	2,970	495,789	(36,300)	459,489	1,333,288	12,600	2,235	(782)	1,453	14,053
6/30/2021	1,133,033	2,566	446,606	(35,014)	411,593	1,547,191	12,985	1,648	(577)	1,071	14,056
6/30/2022	1,036,371	2,274	395,098	(32,698)	362,400	1,401,044	13,390	1,020	(357)	663	14,053
6/30/2023	814,238	2,130	349,448	(31,412)	318,036	1,134,403	<u>13,830</u>	<u>348</u>	<u>(122)</u>	<u>226</u>	<u>14,056</u>
6/30/2024	764,750	1,796	311,112	(31,295)	279,817	1,046,364					
6/30/2025	711,860	1,679	276,229	(31,295)	244,934	958,473					
6/30/2026	664,501	1,577	243,763	(30,776)	212,987	879,065					
6/30/2027	575,599	1,524	214,822	(30,203)	184,619	761,742					
6/30/2028	535,965	1,667	189,596	(28,953)	160,643	698,275					
6/30/2029	643,744	1,021	162,772	(26,687)	136,085	780,849					
6/30/2030	604,701	623	131,113	(22,892)	108,221	713,545					
6/30/2031	517,331	355	97,984	(16,808)	81,176	598,863					
6/30/2032	258,797	157	82,021	(14,776)	67,245	326,199					
6/30/2033	187,300		69,908	(12,440)	57,468	244,768					
6/30/2034	188,585		60,460	(11,068)	49,392	237,977					
6/30/2035	196,755		50,745	(9,647)	41,098	237,853					
6/30/2036	205,130		40,643	(8,177)	32,466	237,596					
6/30/2037	214,730		30,106	(6,654)	23,452	238,182					
6/30/2038	194,135		19,102	(5,077)	<b>14,025</b>	208,160					
6/30/2039	123,805		10,940	(3,445)	7,495	131,300					
6/30/2040	91,905		4,596	(1,609)	2,988	94,893					
<b>TOTAL</b>	<b>\$18,518,550</b>	<b>\$65,328</b>	<b>\$8,883,490</b>	<b>\$(701,404)</b>	<b>\$8,182,085</b>	<b>\$26,765,963</b>	<b>\$657,810</b>	<b>\$88,422</b>	<b>\$(11,923)</b>	<b>\$76,499</b>	<b>\$734,309</b>

Period Ending	Special Obligation Revenue Bonds (Convention Center)			Special Obligation Revenue Bonds (CTF-Accelerated Bridge Program) Build America					Special Obligation Revenue Bonds (Gas Tax)		
	Principal	Interest	Debt Service	Principal	Gross Interest	Bonds Subsidies	Net Interest	Debt Service	Principal	Interest	Debt Service
6/30/2012		\$17,243	\$17,243		\$16,312	\$(6,157)	\$10,155	\$10,155	\$39,135	\$9,902	\$49,037
6/30/2013		34,486	34,486		32,623	(12,314)	20,309	20,309	41,150	17,772	58,922
6/30/2014		34,486	34,486		32,623	(12,314)	20,309	20,309	37,170	15,534	52,704
6/30/2015	\$19,995	34,486	54,481		32,623	(12,314)	20,309	20,309	39,070	13,631	52,701
6/30/2016	21,075	33,436	54,511		32,623	(12,314)	20,309	20,309	39,900	11,482	51,382
6/30/2017	22,210	32,330	54,540		32,623	(12,314)	20,309	20,309	42,465	9,287	51,752
6/30/2018	23,310	31,164	54,474		32,623	(12,314)	20,309	20,309	23,040	7,261	30,301
6/30/2019	24,475	30,126	54,601		32,623	(12,314)	20,309	20,309	24,300	5,994	30,294
6/30/2020	23,380	28,842	52,222		32,623	(12,314)	20,309	20,309	25,640	4,658	30,298
6/30/2021	24,610	27,673	52,283		32,623	(12,314)	20,309	20,309	26,905	3,392	30,297
6/30/2022	25,970	26,380	52,350		32,623	(12,314)	20,309	20,309	28,385	1,912	30,297
6/30/2023	27,440	24,952	52,392		32,623	(12,314)	20,309	20,309	9,520	476	9,996
6/30/2024	28,990	23,443	52,433	\$21,325	32,623	(12,314)	20,309	41,634	0	0	0
6/30/2025	30,625	21,848	52,473	22,395	31,546	(11,937)	19,609	42,004	0	0	0
6/30/2026	32,360	20,164	52,524	23,550	30,381	(11,529)	18,851	42,401	0	0	0
6/30/2027	34,190	18,384	52,574	24,860	29,054	(11,065)	17,989	42,849	0	0	0
6/30/2028	36,125	16,504	52,629	26,245	27,655	(10,575)	17,079	43,324	0	0	0
6/30/2029	38,170	14,517	52,687	27,710	26,177	(10,058)	16,119	43,829	0	0	0
6/30/2030	40,330	12,418	52,748	29,250	24,616	(9,512)	15,105	44,355	0	0	0
6/30/2031	42,610	10,199	52,809	30,880	22,969	(8,935)	14,034	44,914	0	0	0
6/30/2032	45,020	7,856	52,876	32,635	21,200	(8,316)	12,884	45,519	0	0	0
6/30/2033	47,565	5,380	52,945	34,485	19,329	(7,661)	11,668	46,153	0	0	0
6/30/2034	50,250	2,764	53,014	36,440	17,353	(6,970)	10,383	46,823	0	0	0
6/30/2035				38,505	15,265	(6,239)	9,026	47,531	0	0	0
6/30/2036				40,685	13,058	(5,466)	7,591	48,276	0	0	0
6/30/2037				42,995	10,726	(4,650)	6,076	49,071	0	0	0
6/30/2038				45,430	8,262	(3,718)	4,544	49,974	0	0	0
6/30/2039				48,005	5,659	(2,546)	3,112	51,117	0	0	0
6/30/2040				50,730	2,907	(1,308)	1,599	52,329	0	0	0
<b>TOTAL</b>	<b>\$638,700</b>	<b>\$509,081</b>	<b>\$1,147,781</b>	<b>\$576,125</b>	<b>\$713,947</b>	<b>\$(274,414)</b>	<b>\$439,533</b>	<b>\$1,015,658</b>	<b>\$376,680</b>	<b>\$101,300</b>	<b>\$477,980</b>

SOURCE: Office of the Comptroller.  
(1) Totals may not add due to rounding.

## Liquidity Facilities

The following table describes the liquidity facilities that the Commonwealth had in connection with certain of its outstanding bond issues as of December 31, 2011.

<u>Variable Rate Bonds</u>	<u>Facility Amount (in thousands)</u>	<u>Bank</u>	<u>Facility Type</u>	<u>Termination Date</u>
1997 Series B (Refunding)	\$271,280	Helaba(1)	Line	2/08/2012
1998 Series A (Refunding)	\$222,355	JP Morgan Chase Bank	Line	3/12/2013
2000 Series A	\$200,000	Bank of America	Line	12/23/2014
2000 Series B	\$75,590	State Street Bank	Line	3/29/2012
2001 Series B (Refunding)	\$248,110	Landesbank Hessen- Thuringen (Helaba)(2)	Line	2/08/2012
2001 Series C (Refunding)	\$248,115	State Street Bank	Line	2/20/2014
2006 Series A	\$150,000	Wells Fargo Bank, National Association	Line	8/15/2014
2006 Series B	\$200,000	Bank of America	Line	4/02/2012

SOURCE: Office of the Treasurer and Receiver General.

(1) The Commonwealth will replace Helaba with JPMorgan Chase Bank effective 1/11/2012.

(2) The Commonwealth is currently negotiating with other banks to replace the existing bank on this facility.

## Budgetary Contract Assistance Liabilities

*City of Chelsea Commonwealth Lease Revenue Bonds.* In November, 1993, the Chelsea Industrial Development Financing Authority issued approximately \$95.8 million of lease revenue bonds. The proceeds of the bonds were loaned to the Massachusetts Industrial Finance Agency (now MassDevelopment) and applied to the cost of the Massachusetts Information Technology Center, a tax and data processing facility of the Department of Revenue and certain other departments and agencies of the Commonwealth. The bonds bore interest at a variable rate, and under two interest rate swap agreements that were entered into at the time with Lehman Brothers Special Financing, Inc. (LBSF), MassDevelopment received variable rate payments with respect to the bonds and was obligated to make fixed rate payments in exchange therefor. Simultaneously with the issuance of the bonds, the Commonwealth entered into a 30-year lease, which provided for the payment of debt service on the bonds, including swap related payments, and certain other expenses associated with the project. In September, 2008, LBSF and its parent, Lehman Brothers Holdings Inc. (LBHI), filed for bankruptcy. In December, 2008, the bonds were refinanced by the Commonwealth through the issuance of general obligation debt, and the Commonwealth made a \$2.3 million payment to LBSF to terminate the swap agreements. In May, 2010, LBHI advised the Executive Office for Administration and Finance that it calculated the termination value to be approximately \$13.7 million. In June, 2011, LBHI issued a subpoena to the Executive Office for Administration and Finance relating to the termination of the swap agreements. Any obligation of the Commonwealth with respect to this termination does not constitute a general obligation or a pledge of the credit of the Commonwealth or of MassDevelopment and is subject to appropriation by the Legislature.

## Authorized but Unissued Debt

<u>Fiscal Year</u>	<u>Authorized But Unissued Debt</u>
2007	8,349,391
2008	7,043,446
2009	19,517,272
2010	18,516,310
2011	15,870,432

SOURCE: Office of the Comptroller.

See the March Information Statement under the heading “LONG-TERM LIABILITIES—Authorized But Unissued Debt.”

### COMMONWEALTH CAPITAL INVESTMENT PLAN

In November, 2011, the Governor released a five-year capital investment plan for fiscal 2012 through fiscal 2016, totaling over \$17.3 billion. With the release of the plan, the Governor announced that the bond cap is expected to be \$1.75 billion for fiscal 2012, plus \$148 million in unused bond cap from fiscal 2011 which has been carried forward to support spending in fiscal 2012. The bond cap for fiscal 2013 is projected to be \$1.875 billion, and is projected to increase by \$125 million in each subsequent fiscal year through fiscal 2016.

The following table shows the annual bond cap, the resulting estimated total annual debt service payment obligations and the estimated debt service as a percentage of estimated budgeted revenues, all as presented in the debt affordability analysis released in November, 2011.

	<b>Bond Cap (in thousands)</b>				
	<b><u>Fiscal 2012</u></b>	<b><u>Fiscal 2013</u></b>	<b><u>Fiscal 2014</u></b>	<b><u>Fiscal 2015</u></b>	<b><u>Fiscal 2016</u></b>
Bond Cap (1)	\$1,898,000	\$1,875,000	\$2,000,000	\$2,125,000	\$2,250,000
Total Debt Service Obligations	2,155,501	2,362,788	2,435,106	2,516,124	2,685,599
Estimated Budgeted Revenues	32,266,808	33,117,853	34,106,820	35,125,321	36,178,258
Debt Service as % of Budgeted Revenues	6.68%	7.13%	7.14%	7.16%	7.42%

SOURCE: Executive Office for Administration and Finance, Debt Affordability Analysis, released November, 2011.

(1) Includes \$148 million of fiscal 2011 unused bond cap that has been carried forward to fiscal 2012.

In terms of funding from the U.S. government for surface transportation and transit projects, the 2005 multi-year national highway bill - Safe, Accountable, Flexible, Efficient Transportation Equity Act - A Legacy for Users (SAFETEA-LU) - expired in 2009. Since then, the authorization for federal transportation programs (as funded by 14.1¢ of the 18.4¢ in federal gasoline taxes and 20.1¢ of the 24.4¢ in federal diesel taxes) has been extended several times, most recently on September 19, 2011 until March 31, 2012. The U. S. Congress will need to continue passing additional continuing resolutions, or perhaps several short-term measures, to keep surface transportation programs funded until such time as a new highway bill is enacted. Ideally, a new, multi-year highway reauthorization bill will be passed which will allow for multi-year contracts to be extended which is critical for large surface transportation infrastructure projects to be undertaken and completed.

The U. S. Senate and the U. S. House of Representatives are currently considering conflicting proposals for the long-term reauthorization of the program. The Senate is proposing a two-year extension at existing funding levels, which would require approximately \$12 billion in additional federal revenues, either through a revenue increase or a reallocation of budget authority from other programs. The House is proposing a six-year extension funded from existing revenue streams, which would translate into a reduction of approximately 30% in federal transportation funding.

The Commonwealth is monitoring these developments and developing contingency plans for each.

For the table in the March Information Statement captioned “Capital Investment Plan – Sources of Funds,” the forecast for federal funding was based on level funding from the prior year.

See the March Information Statement under the heading “COMMONWEALTH CAPITAL INVESTMENT PLAN.”

### LEGAL MATTERS

Matters described in the March Information Statement under the heading “LEGAL MATTERS” are updated as follows:

## **Programs and Services**

*Rosie D., et al. v. The Governor*, United States District Court, Western Division. MassHealth estimates that its implementation of program changes in compliance with the Remedy Order will increase its costs, including administrative costs, by approximately \$215 million annually.

*Disability Law Center, Inc. v. Massachusetts Department of Correction et al.*, United States District Court. In December, 2011, the parties entered into a settlement agreement, which is subject to court approval. In order to implement the terms of the settlement, the Department of Corrections will need to hire additional staff at a cost of approximately \$5.6 million per year.

*Finch, et al. v. Commonwealth Health Insurance Connector Authority, et al. Finch, et al. v. Commonwealth Health Insurance Connector Authority, et al.* On January 5, 2012, the Supreme Judicial Court held that the Massachusetts statute limiting the eligibility of many legal immigrants for Commonwealth Care violates the equal protection provisions of the Massachusetts Constitution. This decision has significant fiscal implications for the Commonwealth, adding several tens of million dollars in costs in fiscal 2012 and more than \$150 million in annual costs in fiscal 2013. The Executive Office for Administration and Finance and the Commonwealth Health Insurance Connector Authority are working expeditiously to identify the resources required, obtain needed appropriations of funds by the Legislature, and determine and implement the operational steps that must be taken to integrate all eligible, legal immigrants into the Commonwealth Care program in accordance with the Court's decision as quickly as possible.

*Connor B., ex rel. Vigurs, et al. v. Patrick, et al.*, United States District Court, Western Division. On September 6, 2011, the defendants moved to decertify the class on the basis of *Wal-Mart Stores, Inc. v. Dukes*, 131 S.Ct. 2541 (2011), but this motion was denied on November 10, 2011.

*Massachusetts Community College Council, Inc., et al. v. Board of Higher Education, et al.*, Suffolk County Superior Court. In July, 2011, the complaint was amended to name additional defendants, namely the boards of trustees of several community colleges. While the case is not a class action, if the plaintiffs prevail, it is expected that the Commonwealth would likely make similarly situated persons eligible for coverage or contribution. If plaintiffs obtain rights to enroll in GIC health care coverage, those who would become eligible for enrollment in GIC health insurance coverage might also successfully argue for pension benefits in a separate, subsequent proceeding. It is not possible, at this time, to accurately estimate the costs that would be incurred if the plaintiffs prevail, but it appears that funding for any health care coverage for the individual plaintiffs as a result of this action would be from funds controlled by the board of trustees of each community college employing a plaintiff. The state law governing community colleges provides that the division of continuing education is to be run at no expense to the Commonwealth.

## **Medicaid Audits and Regulatory Reviews**

*In re: Centers for Medicare and Medicaid Services regulations (Uncompensated Care Pool/Health Safety Net Trust Fund)*. By the end of pool fiscal year 2012 the Commonwealth will have collected an estimated \$5.157 billion in acute hospital assessments since 1990 and an estimated \$2.037 billion in surcharge payments since 1998.

*In re: Disallowance of 2005 MassHealth acute hospital supplemental payments*. In February 2011, CMS sent EOHHS a Notice of Disallowance of \$25,543,963 in FFP for payments to UMMHC. EOHHS filed a Request for Reconsideration with the U.S. Department of Health and Human Services on March 31, 2011.

*Boston Medical Center Corp. and Boston Medical Center Health Plan, Inc. v. Secretary of the Executive Office of Health and Human Services*, Suffolk Superior Court. Plaintiffs have appealed to the Massachusetts Appeals Court, and their appellate brief was filed on September 30, 2011. Boston Medical Center's appeal and Holyoke Medical Center's appeal (see below) were consolidated. The Commonwealth's consolidated brief was filed on October 28, 2011.

*Holyoke Medical Center, Inc., et al. v. Secretary of the Executive Office of Health & Human Services*, Suffolk Superior Court. Plaintiffs have appealed to the Massachusetts Appeals Court, and their appellate brief was filed on September 30, 2011. Holyoke Medical Center's appeal and Boston Medical Center's appeal (see above) were consolidated. The Commonwealth's consolidated brief was filed on October 28, 2011.

## **Taxes**

*Feeney, et al. v. Dell, Inc. v. Commissioner of Revenue*, Middlesex Superior Court. On November 3, 2011, the Superior Court denied Dell's renewed motion to dismiss. Subsequently, the Appeals Court granted Dell's request to consider an interlocutory appeal from that ruling; the appeal is now pending on the Appeals Court's docket.

*Vodafone Americas, Inc. v. Commissioner of Revenue*, Appellate Tax Board. In June, 2011, the parties entered into a broad settlement of these and other issues in this dispute, requiring the Commonwealth to issue a refund to Vodafone in the amount of approximately \$170,000.

## **Other Revenues**

*Commonwealth of Massachusetts v. Philip Morris Inc., RJ Reynolds Tobacco Company, Lorillard Tobacco Company, et al.*, Supreme Judicial Court, Middlesex Superior Court (a/k/a the Tobacco Master Settlement Agreement, Nonparticipating Manufacturer ("NPM") Adjustment Dispute)(2003 NPM Adjustment). On November 3, 2011, the manufacturers advised the arbitrators that Massachusetts was one of 14 states and territories whose claims of "diligence" were no longer being contested. Since the December 5, 2011 deadline for any state to challenge the claim of another state has passed, Massachusetts's claim to its allocable share of the 2003 NPM Adjustment is no longer in dispute. Massachusetts can expect to receive approximately \$30 million withheld by certain manufacturers from the payment due April 15, 2006. Due to certain reallocation provisions of the MSA and orders entered by the arbitration panel, Massachusetts cannot expect to receive this money before 2013, after resolution of the contested states' claims by the arbitration panel. Those hearings will begin in May, 2012 and are not expected to be concluded before the end of calendar year 2012.

*Grand River Enterprises Six Nations, Ltd. v. William Pryor, et al.*, United States District Court, New York. The court has granted the states' summary judgment motion on all counts, prompting the plaintiff to file a motion for reconsideration and a notice of appeal with the United States Court of Appeals for the Second Circuit.

*Sandra Murphy, et al. v. Massachusetts Turnpike Authority*, Supreme Judicial Court. Plaintiffs' motion for direct appellate relief was allowed on May 25, 2011. Plaintiffs' initial brief and the Turnpike Authority's brief have both been filed with the court. Plaintiffs filed a reply brief on December 16, 2011. Oral argument has not yet been scheduled.

*Carol Surprenant v. Massachusetts Turnpike Authority, Massachusetts Port Authority, and Massachusetts Department of Transportation*. United States District Court. The Plaintiff has voluntarily dismissed her appeal, and a judgment of dismissal was entered on August 4, 2011.

## **Environment**

*National Association of Government Employees v. Commonwealth*, Suffolk Superior Court, and *Association of County Employees v. McDonald*, Plymouth Superior Court. Although the Supreme Judicial Court's opinion in *Boston Housing Auth. v. National Conf. of Firemen & Oilers, Local 3*, held evergreen clauses to be generally invalid, the recently enacted Chapter 198 of the Acts of 2011 revived certain ones.

## **Other**

*Perini Corp., Kiewit Construction Corp., Jay Cashman, Inc. d/b/a Perino-Kiewit-Cashman Joint Venture v. Commonwealth*. In several related cases and potential litigation, plaintiffs make claims for alleged increased costs arising from differing site conditions and other causes of delay on the Central Artery/Ted Williams Tunnel project. Plaintiffs have asserted claims in excess of \$160 million. These claims are at various stages of resolution, including

the Superior Court and the Central Artery Tunnel Project Dispute Review Board (“DRB”) panel. The DRB has issued decisions on some of the claims, awarding plaintiffs approximately \$69.6 million on claims of approximately \$102.8 million. Those decisions are now the subject of further court proceedings. Plaintiffs also still have in excess of \$62 million in claims pending.

In May, 2011, the Massachusetts Appeals Court upheld the award of approximately \$5 million in post-award interest on two DRB awards and the Supreme Judicial Court denied the Commonwealth’s request for further appellate review of that decision.

*Local 589, Amalgamated Transit Union, et al. v. Commonwealth of Massachusetts, et al.*, Suffolk Superior Court. On April 13, 2011, the Superior Court (a) approved the voluntary filing of an amended complaint by plaintiffs that had the effect of dropping the pension claims from the case, and (b) entered summary judgment for the Commonwealth on the remaining health-insurance claims. The plaintiffs have appealed the entry of summary judgment on the health-insurance claims, and the Superior Court is in the process of assembling the appellate record.

In November, 2011, the Legislature enacted Chapter 189 of the Acts of 2011, which amends the 2009 transportation reform legislation to allow the MBTA to engage in collective bargaining over supplemental health insurance coverage that provides benefits above and beyond that provided by the Group Insurance Commission.

*OPEIU, Local 6 and the Massachusetts Trial Court.* In April, 2011, the Governor signed a supplemental budget containing a \$30 million appropriation to the Trial Court that will be applied toward the arbitration award. OPEIU, Local 6 has since agreed to dismiss the Superior Court action.

## **New Legal Matters**

The matters described below commenced after the March Information Statement was published.

*Disability Policy Consortium, Inc., et al v. Commonwealth of Massachusetts.* United States District Court. On July 26, 2011, the Disability Policy Consortium, Inc. (DPC) and eight individuals, claiming to be “qualified individuals” within the definition of the Americans with Disabilities Act Title II (ADA) and Section 504 of the Rehabilitation Act, filed suit in federal district court alleging that MassHealth does not meet its obligations under the ADA and Section 504 of the Rehabilitation Act. Plaintiffs claim that MassHealth forms, materials and other information are not accessible to persons with visual, hearing or other developmental/cognitive disabilities and that MassHealth has failed to provide plaintiffs reasonable accommodations required under the ADA and other federal laws so that they can access services, complete forms, and access notices, bills and other materials. Plaintiffs also allege that MassHealth’s violations of the ADA and the Rehabilitation Act are intentional and longstanding. Plaintiffs seek injunctive relief, money damages and reasonable attorney’s fees and costs. Defendant has filed an answer and the matter is now in the discovery phase.

*Administrative proceeding regarding challenge to MassHealth’s payment system for acute hospital outpatient services.* A total of 60 petitioners have filed claims for administrative hearings before the MassHealth Board of Hearings (BOH), challenging MassHealth’s former Ambulatory Payment Group (APG) payment system for acute hospital outpatient services. The petitioners generally claim that there were errors in the payment system that resulted in incorrect payments to the petitioners, and that MassHealth’s efforts to correct those errors through a “parallel system” were ineffective and continued to result in incorrect payments from October, 1997 through December, 2003. While a number of these petitioners had entered into settlements regarding payments for services provided from October, 1997 through December, 2000, the administrative appeals of all 60 petitioners involve payments for the period 2001 through 2003, and for some of those petitioners the appeals involve payments for the entire time period. Five of the 60 petitioners had filed complaints in Superior Court in 2005. The Superior Court actions were stayed in 2007 and remanded to BOH. The current BOH hearing began on November 6, 2008 and is ongoing. During the course of these proceedings, MassHealth agreed to rerun and reprice the disputed claims, the results of which may form the basis for a potential global settlement. Of the 60 petitioners that filed claims regarding incorrect payments from the former APG system, only five petitioners have proposed a specific written dollar settlement associated with those claims. The aggregate dollar settlement amount proposed by only those petitioners is approximately \$10.4 million. The dollar amount associated with the claims made by the rest of the petitioners could be significantly more.

*Home Depot U.S.A., Inc. v. Commissioner of Revenue*, Appellate Tax Board. On or about October 13, 2011, Home Depot USA filed a withdrawal with prejudice at the Appellate Tax Board. The Commissioner retained the entire amount at issue.

*Potential suit asserting a sales/use tax abatement claim.* This matter involves a tax abatement claim in the amount of \$21.8 million filed as a result of a class action suit against the taxpayer. This matter has not been filed with the Appellate Tax Board.

*Potential suit asserting corporate excise/public utilities (M.G.L. c. 63) abatement claims.* The taxpayer and related entities have filed amended returns/abatements seeking \$96 million. This matter has not yet been filed with the Appellate Tax Board.

*Slater et al. v. Harold W. Clarke et al.*, United States District Court, Washington, and United States Court of Appeals for the Ninth Circuit (interlocutory appeal). Plaintiffs in this civil suit seek damages and injunctive and declaratory relief from a number of Massachusetts defendants, including current or former employees of the Department of Correction, the Commonwealth Fusion Center, the Executive Office of Public Safety and Security, and the Worcester County District Attorney's Office, in connection with the murders of Beverly and Brian Mauck, in Washington State, by Daniel Tavares, a former Massachusetts inmate. Plaintiffs allege that Massachusetts officials improperly and prematurely released Tavares from Massachusetts custody and that, after Tavares fled to Washington State, Massachusetts officials failed to extradite Tavares, knowing that he posed a danger to Washington residents.

Plaintiffs voluntarily dismissed the suit against the former Commissioner of the Department of Correction, Harold W. Clarke. The remaining defendants moved to dismiss the complaint on the grounds of lack of personal jurisdiction, absolute prosecutorial immunity, qualified immunity, and failure to state a claim upon which relief may be granted. The court dismissed the case against William Lochrie, an employee of the Department of Correction Office of Investigative Services, for lack of personal jurisdiction. The court denied the motions to dismiss of the remaining defendants with respect to personal jurisdiction and absolute immunity. The court has yet to rule on the remaining issues raised in defendants' motions to dismiss. Defendants filed a notice of interlocutory appeal to the Ninth Circuit Court of Appeals on the issues of personal jurisdiction and absolute immunity. The appeal has been docketed and remains pending.

## MISCELLANEOUS

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

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

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

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

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

### **CONTINUING DISCLOSURE**

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

On behalf of the Commonwealth, the State Treasurer will provide to the Municipal Securities Rulemaking Board (MSRB), 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 Rule 15c2-12 of the federal Securities and Exchange Commission, together with audited financial statements of the Commonwealth for such fiscal year. To date, the Commonwealth has complied with all of its continuing disclosure undertakings relating to the general obligation debt of the Commonwealth and has not failed in the last seven years to comply with its continuing disclosure undertakings with respect to its special obligation debt and federal grant anticipation notes. However, the annual filings relating to the fiscal year ended June 30, 2001 for the Commonwealth's special obligation debt and for the Commonwealth's federal highway grant anticipation notes were filed two days late, on March 29, 2002. Proper notice of the late filings was provided on March 29, 2002 to the MSRB.

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

## AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding the March Information Statement or this Supplement or requests for additional information concerning the Commonwealth should be directed to Colin MacNaught, Assistant Treasurer for Debt Management, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or to Scott Jordan, Assistant Secretary for Capital Finance and Intergovernmental Affairs, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to the March Information Statement or this Supplement should be directed to John R. Regier, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone (617) 348-1720.

### THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Steven Grossman  
Steven Grossman  
Treasurer and Receiver-General

By /s/ Jay Gonzalez  
Jay Gonzalez  
Secretary of Administration and Finance

January 9, 2012

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