THE

COMMONWEALTH

OF

MASSACHUSETTS

INFORMATION STATEMENT SUPPLEMENT

Dated March 5, 2009

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CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

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

THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT SUPPLEMENT

March 5, 2009

This supplement ("Supplement") to the Information Statement of The Commonwealth of Massachusetts (the "Commonwealth") dated August 22, 2008 (the "August Information Statement") is dated March 5, 2009 and contains information which updates the information contained in the August Information Statement. The August Information Statement has been filed with each Nationally Recognized Municipal Securities Information Repository (NRMSIR) currently recognized by the Securities and Exchange Commission (SEC). This Supplement and the August Information Statement must be read collectively and in their entirety in order to obtain the appropriate fiscal, financial and economic information concerning the Commonwealth through March 5, 2009. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the August Information Statement.

The August Information Statement, as supplemented hereby, includes three exhibits. Exhibit A, is the Statement of Economic Information as of December 31, 2008, which sets forth certain economic, demographic and statistical information concerning the Commonwealth. Exhibits B and C are, respectively, the Commonwealth's Statutory Basis Financial Report for the year ended June 30, 2008 and the Commonwealth's Comprehensive Annual Financial Report, reported in accordance with generally accepted accounting principles (GAAP), for the year ended June 30, 2008. 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. Specific reference is made to said Exhibits A, B and C, copies of which have been filed with each NRMSIR currently recognized by the Securities and Exchange Commission. The financial statements are also available at the web site of the Comptroller of the Commonwealth located at http://www.mass.gov/osc by clicking on "Publications and Reports" and then "Financial Reports."

RECENT DEVELOPMENTS

Fiscal 2008

As of June 30, 2008, the Commonwealth ended fiscal 2008 with an undesignated budgetary fund balance of $115 million, which includes the statutorily required 0.5% tax revenue carry-forward into fiscal 2008 of $105 million.

For fiscal 2008, the Commonwealth's audited financial statements report a year-end balance in the Stabilization Fund of $2.119 billion. The year closed with additional reserve fund balances of $171.5 million, $25 million of which is commonly known as "consolidated net surplus" and is dedicated to the Massachusetts Life Sciences Investment Fund under the fiscal 2009 budget. The total ending fund balance in the budgeted operating funds was approximately $2.406 billion.

On October 28, 2008, the Governor approved legislation to allow the Comptroller to address timing discrepancies in the receipt of federal reimbursements owed to the Commonwealth for fiscal 2008. In part, the timing discrepancy was a consequence of the then-ongoing negotiation of the Medicaid waiver, which delayed collection of federal reimbursements on expenditures made during fiscal 2008. See "COMMONWEALTH EXPENDITURES - Medicaid" below. Accordingly, the legislation authorizes the Comptroller to use those federal reimbursements in fiscal 2009 to make needed transfers to the Stabilization Fund and the State Lottery Fund, as the Legislature and Governor intended for fiscal 2008. The Commonwealth has now received most of the deferred federal reimbursements and will soon transfer these and additional amounts to the Stabilization Fund and the State Lottery Fund. The legislation also provides the Comptroller with discretion to adjust the timing of these transfers to minimize the impact on the Commonwealth's cash flow.

On October 31, 2008, the Comptroller released audited financial statements for fiscal 2008 on the statutory basis of accounting (the Commonwealth's Statutory Basis Financial Report). On December 23, 2008, the Comptroller released audited financial statements for fiscal 2008 prepared in accordance with generally accepted accounting principles (the Commonwealth's Comprehensive Annual Financial Report). See the August Information Statement under the heading "THE GOVERNMENT - Executive Branch; *State Comptroller*."

Fiscal 2009

On October 15, 2008, pursuant to Section 9C of Chapter 29 of the Massachusetts General Laws, the Secretary of Administration and Finance advised the Governor of a probable deficiency of revenue of approximately $1.421 billion with respect to the appropriations approved to date for fiscal 2009 and certain non-discretionary spending obligations that had not been budgeted, including snow and ice removal costs, health and human services caseload exposures, increased debt service and public safety costs. See the August Information Statement under the heading "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Overview of Operating Budget Process." The $1.421 billion projected shortfall to cover expenses resulted from a projected $1.1 billion reduction in state tax revenues (see "Tax Revenue Forecasting" below) and $321 million in projected costs not accounted for in the fiscal 2009 budget.

On October 15, 2008, the Governor announced a plan to close the projected $1.421 billion shortfall. The plan consisted of three major components: (i) $1.053 billion in spending reductions and controls, (ii) a $200 million transfer from the Stabilization Fund and (iii) $168 million of additional revenues.

The most significant element of the Governor's plan was $1.053 billion in spending reductions and controls. Approximately $755 million in reductions were made pursuant to Section 9C to accounts within state agencies under the Governor's control and through other spending controls. The other spending controls were expected to result in savings of $146 million from deficiencies not being funded, $52 million from pension funding reconciliation (revising the previous funding schedule to take into account the valuation report described below under "COMMONWEALTH EXPENDITURES - Pension") and $100 million in pension funding deferrals. The remaining deficiency was met by voluntary reductions in the budgets of the judiciary, the Legislature, other constitutional offices and district attorneys, which are not subject to the Governor's authority to reduce spending pursuant to Section 9C.

On October 15, 2008, in order to implement the voluntary reductions and address the remainder of the deficiency, the Governor filed emergency supplemental budget legislation to extend the state pension funding schedule from 2023 to 2025 (permitting a $100 million reduction in the amount to be funded in fiscal 2009 - see the August Information Statement under the heading "COMMONWEALTH EXPENDITURES - Pension"), authorize the withdrawal of an additional $200 million from the Stabilization Fund to meet fiscal 2009 obligations, formalize the voluntary spending reductions provided within non-executive accounts, establish tiers of state employee health insurance contributions based on ability to pay (expected to provide $28.5 million for the remainder of fiscal 2009), authorize up to $80 million to be spent for emergency snow and ice removal (in excess of previously appropriated amounts) and authorize the Governor to transfer amounts among appropriation line items within certain limits. On October 30, 2008, the Legislature enacted such legislation with some modifications; the Legislature's version authorized $50 million for snow and ice removal and placed stricter limits on the Governor's line item transfer authority, and the Legislature did not include the provisions relating to state employee health insurance. The Legislature and the Governor also agreed on a two-month tax amnesty program to be implemented by the Department of Revenue and completed by June 30, 2009. The final legislation, approved by the Governor on January 7, 2009, allows the Department of Revenue to select which tax types and tax periods will be eligible for the tax amnesty provisions, under which the Department will waive accrued penalties for taxpayers with outstanding tax obligations. Such taxpayers will be required to pay their outstanding tax obligations and any accrued interest. On February 23, 2009, the Department of Revenue announced a limited tax amnesty program to be in effect from March 1, 2009 to April 30, 2009. The Department estimates that the program will result in $10 million to $20 million of revenue.

In his October 15, 2008 announcement, along with the proposals contained in the legislation and the Section 9C reductions, the Governor identified $168 million in additional revenues not previously budgeted for fiscal 2009, including $100 million in anticipated Department of Revenue judgments and settlements, $55 million in federal grants under the Temporary Assistance for Needy Families program and $13 million in local revenues anticipated under previously proposed legislation that would authorize municipalities to levy property taxes on certain telecommunications equipment (which would offset a like amount of General Fund moneys otherwise required to supplement lottery-funded local aid - see the August Information Statement under the heading "COMMONWEALTH REVENUES - Federal and Other Non-Tax Revenues; *Lottery Revenues*").

On January 13, 2009, the Secretary of Administration and Finance advised the Governor, pursuant to Section 9C, of a further deficiency of revenue of approximately $1.101 billion with respect to the appropriations approved to date for fiscal 2009. On the same day, the Secretary made a further downward revision to the fiscal 2009 tax revenue estimate. See "Tax Revenue Forecasting" below.

On January 22, 2009, the Governor approved legislation giving him the authority to reduce fiscal 2009 local aid distributions, in addition to his previously authorized powers to reduce state spending under Section 9C. (Aggregate reductions in local aid are limited under the law to one-third of the total fiscal 2009 spending reductions ordered by the Governor.) On January 28, 2009, in conjunction with the filing of his fiscal 2010 budget recommendations (see "Fiscal 2010 Budget Proposals" below), the Governor announced a plan to close the additional $1.101 billion shortfall in fiscal 2009. The plan consists of an additional $191 million in expenditure reductions (including $128 million in reduced local aid distributions), $68 million in additional revenues ($25 million from expected tax settlements, $25 million from increased sales taxes resulting from a proposed elimination of certain exemptions, as described below under "State Taxes," and $18 million from anticipated revisions of Registry of Motor Vehicles fees), $533 million in anticipated additional federal Medicaid funds (see "Federal and Other Non-Tax Revenues" below) and an additional draw of $327 million from the Stabilization Fund. On the same day, the Governor filed legislation to implement his plan for fiscal 2009, including the provisions previously rejected by the Legislature to establish tiers of state employee health insurance contributions based on ability to pay (such provisions would be effective as of January 1, 2009 and are expected to provide $28.5 million in budget savings in fiscal 2009).

The Executive Office for Administration and Finance is in the midst of its annual mid-year review, in which the current spending and revenue projections for fiscal 2009 will be reviewed and updated. A number of issues and exposures have been identified, including recent settlements, changes in federal law, and additional deficiencies such as snow and ice removal costs. Initial estimates of these additional exposures total approximately $200 million to $230 million. As part of the review process, the Executive Office for Administration and Finance will continue to monitor these exposures, as well as year-to-date tax collections (see "Fiscal 2009 Tax Collections"). The mid-year review is expected to be completed by late March.

On October 15, 2008, the Governor also stated that he intended to file additional legislation to carry out certain agency consolidations to make state government more efficient, to reform the state's pension system and to dismantle the Massachusetts Turnpike Authority and reassign its assets and operating responsibilities.

On February 5, 2009, the Senate Chairman of the Joint Committee on Transportation filed legislation to establish a new Massachusetts Surface Transportation Authority that would assume responsibility for operating, maintaining and financing the Commonwealth's roads, bridges and transit operations, including those currently under the jurisdiction of the Massachusetts Highway Department, the Division of Conservation and Recreation, the Massachusetts Turnpike Authority, the Massachusetts Port Authority, the Massachusetts Bay Transportation Authority and the regional transit authorities.

On February 24, 2009, the Governor filed legislation designed to reform the state transportation system. The legislation would create a consolidated state Department of Transportation within the Executive Office of Transportation and Public Works that would have four administrative divisions: a highway division, a rail and transit division, an aviation and port division, and a division of motor vehicles. The Massachusetts Turnpike Authority would be abolished by July 1, 2010, its debt and other financial obligations would be assumed by the Department of Transportation, and its assets would be transferred to the highway division. The Tobin Bridge, now owned and operated by the Massachusetts Port Authority, would also be transferred to the highway division, and the Department of Transportation would assume all of the Port Authority's obligations relating to the bridge. The Department of Transportation and the Port

Authority would have 90 days after the effective date of the bill to agree on an amount of compensation to the Port Authority for the bridge; 70% of the funds received by the Port Authority would have to be expended on a list of specified transportation projects. The legislation would create a Transportation Fund (to replace the existing Highway Fund) to which a variety of transportation-related revenues would be dedicated and which would be used, among other things, to secure special obligation bonds to be issued by the Commonwealth. The legislation would provide for a 19¢ increase in the gasoline tax, effective July 1, 2009 (annually adjusted for inflation beginning July 1, 2011), that would be dedicated to various transportation purposes, including 6¢ that would be dedicated to the MBTA and 4¢ that would be used for Turnpike Authority-related purposes. The legislation would also mandate that all regional transit authorities move to a forward-funded budgeting system.

Preliminary tax revenue collections for the first eight months of fiscal 2009, ended February 28, 2009, totaled $11,805 billion, a decrease of $669 million, or 5.4%, compared to the same period in fiscal 2008. The following table shows the tax collections for the first eight months of fiscal 2009 and the change from tax collections in the same period in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in fiscal 2009 that are dedicated to the Massachusetts Bay Transportation Authority and the Massachusetts School Building Authority.

Fiscal 2009 Tax Collections (in millions) (1)

Month	Tax Collections	Change from Prior Year	Percentage Change	MBTA Portion (3)	MSBA Portion	Tax Collections: Net of MBTA and MSBA
July	$1,381.6	$85.6	6.6	$60.7	$54.6	$1,266.3
August	1,309.1	51.0	4.1	56.9	51.2	1,201.0
September	2,099.4	(108.6)	(4.9)	74.2	49.3	1,976.0
October	1,150.2	(57.3)	(4.7)	57.6	51.9	1,040.7
November	1,256.2	(59.6)	(4.5)	52.0	46.8	1,157.4
December	1,862.4	17.9	1.0	82.1	46.1	1,734.2
January	1,790.7	(409.8)	(18.6)	62.5	56.2	1,672.0
February(2)	955.3	(188.0)	(16.4)	46.8	42.1	866.4
March						
April						
May						
June						
Total (2)	$11,805.1	($668.8)	(5.4)	$492.8	$398.2	$10,914.1

SOURCE: Executive Office for Administration and Finance.
(1) Details may not add to Total due to rounding.
(2) Figures are preliminary.
(3) Includes adjustment of $19.4 million on account of the first quarter and $31 million on account of the second quarter related to the inflation-adjusted floor applicable to tax receipts dedicated to the MBTA.

The year-to-date tax revenue decrease of $669 million through February 28, 2009 is attributable in large part to a decrease of approximately $330 million, or 20.2%, in income cash estimated payments, a decrease of approximately $47 million, or-0.8%, in withholding collections, a decrease of approximately $135 million, or 4.9%, in sales tax collections and a decrease of approximately $125 million, or 11.7%, in corporate and business tax collections, which are partially offset by changes in other revenues (net of refunds). The year-to-date fiscal year 2009 collections (through February) were $62 million below the benchmark estimate for the corresponding period, based on the Secretary of Administration and Finance's revised fiscal 2009 revenue estimate of $19.450 billion announced on January 13, 2009 (see "Tax Revenue Forecasting" below).

Fiscal 2010 Budget Proposals

On January 28, 2009, the Governor filed with the Legislature his budget recommendations for fiscal 2010. The Governor's recommendations are based on the consensus tax revenue estimate for fiscal 2010 of $19.530 billion (see "Tax Revenue Forecasting" below), plus $325 million in anticipated additional sales taxes resulting from a proposed elimination of certain exemptions, as well as increases to the state's meals tax and hotel/motel room occupancy tax (see "State Taxes" below). The Governor's recommendations call for total spending in fiscal 2010 to exceed total anticipated spending in fiscal 2009 by just 0.5%.

Overall, the Governor proposes to use $1.4 billion in Stabilization Funds over fiscal years 2009 and 2010. For fiscal 2009, $601 million has already been authorized and an additional $325 million is recommended to help close the remaining shortfall. See "Fiscal 2009" above. The fiscal 2010 budget will rely on an additional $489 million, not including the suspension of the statutorily required deposit. At the end of fiscal 2010, the balance of the Stabilization Fund is expected to be approximately $850 million to $888 million, depending on investment earnings.

The American Recovery and Reinvestment Act of 2009 was signed by the President on February 17, 2009 and includes aid to states through increases in the federal medical assistance percentage (FMAP), which is the federal matching percentage for the Medicaid program. In total, the federal legislation provides approximately $87 billion in FMAP funding to states, territories and the District of Columbia, based on expenditures made between October 1, 2008 and December 31, 2010. The federal aid amounts included in the Governor's fiscal 2009 and fiscal 2010 budget blueprints were based on then-current estimates of temporarily enhanced federal Medicaid matching funds expected to be available to the Commonwealth in those years. Based on the Commonwealth's understanding of the version of the federal bill that was pending in the U. S. House of Representatives when the Governor released his budget recommendations, the Governor's budget proposal assumes $1.244 billion of stimulus FMAP funds over fiscal 2009 and fiscal 2010. The fiscal 2009 budget would rely on $533 million (see "Fiscal 2009" above), and the fiscal 2010 budget would rely on $711 million. The Commonwealth's total amount of stimulus FMAP over the 27-month period will ultimately depend on actual Medicaid spending, as well as the Commonwealth's unemployment rate, which is taken into account by the FMAP formula specified in the federal stimulus legislation. The Commonwealth is currently working to implement the FMAP provisions of the stimulus bill and expects to begin drawing the associated revenues shortly.

The FMAP funds are one component of the American Recovery and Reinvestment Act of 2009, which also includes substantial additional funding to stimulate job creation, limit cuts to core social services and protect vulnerable citizens in Massachusetts and other states. The Executive Office for Administration included only the FMAP funds in the previously mentioned solutions to the fiscal 2009 and fiscal 2010 budget shortfalls, based on its knowledge of early versions of the federal stimulus bill, its recognition that many new federal funding streams are not suited for use in the state operating budget and its desire to be conservative in projecting ultimate amounts of federal aid. The Executive Office for Administration and Finance continues to analyze the American Recovery and Reinvestment Act and is awaiting federal guidance on when the funding will be available and how it can be used. In the event the amount of federal aid received is less than what is assumed in the budget solutions, the remaining balance in the Stabilization Fund could be used.

The amount of federal aid and Stabilization Fund moneys used in solving the fiscal 2009 and fiscal 2010 shortfalls was calibrated to ensure that the amounts used in fiscal 2010 were less than what was programmed for use in fiscal 2009. This places a greater emphasis on cuts, savings and revenues to balance the fiscal 2010 budget, solutions that have longer-term benefits. The Governor's fiscal 2010 budget recommendations would leave one-time resources available at the end of fiscal 2010 equal to those used in balancing the fiscal 2010 budget. The projected FMAP balance of $355 million, when combined with the projected $850 million to $888 million Stabilization Fund balance at the end of fiscal 2010, would leave equivalent levels of reserves in fiscal 2011 to those that were used in fiscal 2010.

Consistent with the Governor's proposal for the second half of fiscal 2009, the Governor's fiscal 2010 budget recommendations would base state employee health care contributions on salary levels and affordability rather than date of hire, a change that is expected to result in $60.4 million of budget savings in fiscal 2010. Medicaid cost controls and savings in fiscal 2010 are expected to amount to $357 million

($178 million in state dollars net of federal reimbursement). Taking into account off-budget reductions, the total Medicaid savings are expected to be $374 million ($187 million in net state dollars) from the level of spending that will be required to maintain the same level and provision of medical services funded following the Section 9C spending cuts announced on October 15, 2008. Local aid reductions would total $220 million from fiscal 2009 funding levels, and reductions to Executive and Non-Executive branch agencies would total $871 million from the level of spending that would be required to maintain the same level and provision of services by these agencies following the October 15, 2008 spending cuts under Section 9C. The Governor's fiscal 2010 budget recommendations would maintain Chapter 70 funding at fiscal 2009 levels. As the Governor's budget recommendations were being developed, funding Chapter 70 at the formula level would have cost an additional $300 million for fiscal 2010.

The Governor's fiscal 2010 budget recommendations anticipate revisions of Registry of Motor Vehicles fees (expected to generate an additional $74.5 million in fiscal 2010), an increase in nursing home assessments (expected to generate an additional $75 million in fiscal 2010), additional federal funding provided by the TANF Contingency Fund in the amount of $73 million and an additional $20 million in unclaimed bottle deposits resulting from an expansion of the "bottle bill" to require deposits on more types of bottles. The Governor is proposing to convert the existing seven county sheriffs to state sheriffs to provide for more stable and predictable budgeting and to achieve cost savings by allowing the state Group Insurance Commission to provide their employees' health care.

The Governor's fiscal 2010 budget recommendations would require adoption of a funding schedule for the Commonwealth's unfunded OPEB liability. See the August Information Statement under the heading "COMMONWEALTH EXPENDITURES - Other Post-Retirement Benefit Obligations (OPEB)." Under the Governor's proposal, funding would be phased in, starting as early as fiscal 2011, using tobacco settlement proceeds and a portion of budget surpluses.

To alleviate financial stress on cities and towns, the Governor is proposing to authorize an increase from 4.0% to 5.0% (increase of 4.5% to 5.5% for the City of Boston) in the allowable local option hotel/motel rooms occupancy tax (expected to generate a maximum of $24 million in fiscal 2010, should all cities and towns elect to impose the increase), a new local option 1% meals tax (expected to generate a maximum of $125 million in fiscal 2010, should all cities and towns elect to impose the increase). The Governor is also proposing an additional 1% state meals tax (in addition to the existing 5% tax), and an increase in the state room occupancy tax rate from 5.7% to 6.84%. Revenues from the incremental increases in both of such rates would be dedicated to local aid (expected to generate $149 million in fiscal 2010). See "State Taxes" below. He is also proposing, as he did last year, to eliminate the property tax exemption for certain telecommunications equipment, which is expected to add an aggregate $50 million in fiscal 2010 to municipal tax revenues.

The Governor's fiscal 2010 budget recommendations also propose a new mechanism for budgeting for revenues generated by taxes on capital gains. As part of the annual process for developing a consensus tax revenue estimate, a maximum amount of capital gains tax revenues would be identified for inclusion in the annual estimate for budgeting purposes, based on multi-year trends. The amount, if any, of capital gains taxes received during the ensuing fiscal year in excess of the maximum budgeted amount would be deposited in the Stabilization Fund, to the extent that total tax revenue collections exceed the annual tax revenue estimate.

Tax Revenue Forecasting

Based on an analysis of fiscal 2009 year-to-date revenue trends and taking into account revised economic forecasts and recommendations of the Department of Revenue and outside economists from the Governor's Council of Economic Advisors, on October 15, 2008, the Secretary of Administration and Finance revised the fiscal 2009 revenue estimate downward by $1.1 billion, from $21.402 billion to $20.302 billion. On January 13, 2009, the Secretary made a further revision, reducing the estimate by an additional $852 million, to $19.450 billion.

On January 13, 2009, the Secretary of Administration and Finance and the chairs of the House and Senate Committees on Ways and Means jointly announced their consensus tax revenue estimate for fiscal 2010. See the August Information Statement under the heading "COMMONWEALTH REVENUES - Tax Revenue Forecasting." The fiscal 2010 consensus revenue estimate calls for tax receipts of $19.530 billion, including $767 million dedicated to the MBTA, $641 million dedicated to the MSBA and $1.376 billion dedicated to pension funding. The fiscal 2010 estimate represents actual revenue growth of 0.4%, but a decline of 0.1% baseline, compared to the revised fiscal 2009 estimate of $19.450 billion.

The fiscal 2010 consensus tax revenue estimate assumes that the national and state economies will remain in recession at least through the middle of calendar year 2009 and then begin a slow recovery. In developing the consensus estimate, state officials relied on economic forecasts from Moody's Economy.com, Global Insight and the New England Economic Partnership (NEEP). The economic forecasts upon which the consensus revenue estimate is based are as follows:

- As measured by real gross domestic product (GDP), the economy declined in both the third and fourth quarters of calendar year 2008 and is projected to decline through at least the second quarter of calendar year 2009. GDP growth for the full fiscal year 2009 is projected to be between 0% and negative 1% compared to growth of 2% in fiscal 2007 and 2.4% in fiscal 2008. In fiscal 2010, GDP growth is projected to range from -0.1% to +1.6%.

- Massachusetts employment is expected to decline by 1.1% to 1.8% over the remainder of fiscal 2009, and by 0.5% to 1.1% for fiscal 2009 as a whole. For fiscal 2010, Massachusetts employment is expected to decline by 1.0% to 2.2%.

- Massachusetts personal income (excluding capital gains) is expected to grow by only 1.0% to 2.5% over the remainder of fiscal 2009 and 1.9% to 3.1% for fiscal 2009 as a whole. For fiscal 2010, Massachusetts personal income is projected to grow by 1.6% to 2.3%.

- Massachusetts wages and salaries are projected to grow by between 0.6% and 2.0% for the remainder of fiscal 2009 and 2.0% to 3.2% for the year as a whole. For fiscal 2010, the growth in Massachusetts wages and salaries is projected to range from -0.7% to +1.3%.

- Massachusetts retail sales are expected to decline by 6.3% to 6.8% over the remainder of fiscal 2009 and by 4.3% to 5.5% for the fiscal year as a whole. (A significant portion of the fiscal 2009 retail sales decline is the result of falling fuel prices, which do not affect sales tax revenue.) For fiscal 2010, Massachusetts retail sales are projected to grow by 1.4% to 1.5%.

- Corporate profits at the national level are expected to decline by 4.9% to 13.3% over the remainder of fiscal 2009, and by 6.0% to 18.9% for the fiscal year as whole (there are no forecasts for state corporate profits). For fiscal 2010, growth in corporate profits is projected to range from -3.5% to +16.3%.

In addition to the economic forecasts described above, the consensus revenue estimate takes into account forecasts for capital gains realizations and taxes. The consensus agreement capital gains forecast is based on the following considerations:

- Preliminary tax year 2007 data indicates that Massachusetts capital gains realizations increased by approximately 23% in tax year 2007, to $35.9 billion. Fiscal 2008 taxes on those capital gains totaled approximately $2.080 billion, an increase of approximately $426 million, or 26%, from fiscal 2007 (taxes on tax year 2007 capital gains realizations were paid mostly in fiscal 2008).

- The stock market, as measured by the average of the S&P 500 over the entire year, declined by 17.6% in calendar 2008 (which largely determines fiscal 2009 capital gains taxes) and is expected to decline by an additional 13.6%-19.4% in calendar 2009 (which largely determines fiscal 2010 capital gains taxes). Economy.com, the only economic forecasting firm to project capital gains, estimates that capital gains realizations declined approximately 40.5% in tax year 2008 compared to 2007 and will decline by an additional 1.1% in tax year 2009. After considering more conservative scenarios developed by the Department of Revenue, the consensus agreement assumes that Massachusetts capital gains realizations will decline by 47.5% in calendar 2008 and an additional 20% in calendar 2009.

Because most of the recent asset market declines occurred in the second half of calendar 2008, many taxpayers did not adjust their estimated capital gains tax payments downward in the first half of 2008. Capital gains tax payments over the remainder of fiscal 2009 will be reduced below what would ordinarily be consistent with a 48% decline in capital gains realizations, as taxpayers now adjust their payments downward to align them with their full tax year 2008 capital gains tax liabilities. The fiscal 2009 estimate assumes that these adjustments will result in a reduction in fiscal 2009 capital gains taxes of 59% from fiscal 2008. Furthermore, because capital gains taxes will be reduced by more than 48% in fiscal 2009, the consensus estimate assumes that fiscal 2010 capital gains taxes will decline by only 1.5% from fiscal 2009, despite a much larger 20% decline in tax year 2009 capital gains realizations.

In addition to the economic assumptions described above, two other factors are expected to affect revenue growth between January and June, 2009, compared to fiscal 2008:

- Between January and June, 2008, the Commonwealth received approximately $244 million in one-time corporate payments, which are not expected to recur in fiscal 2009;
- Tax revenue collections are projected to be increased by a net of approximately $205 million due to corporate tax reform and other revenue initiatives.

State Taxes

Income Tax. On November 4, 2008, the initiative petition that would have reduced and then eliminated the state personal income tax was defeated by a better than 2-to-1 margin. See the August Information Statement under the heading "COMMONWEALTH REVENUES - State Taxes; *Income Tax*."

Sales and Use Tax. Sales and Use Tax. On January 28, 2009, the Governor filed legislation to eliminate, effective April 1, 2009, the current sales tax exemption for candy, sweetened soft drinks and alcoholic beverages purchased for off-site consumption. The Department of Revenue estimates that enactment of the Governor's proposed legislation by April 1, 2009 would result in increased tax receipts in fiscal 2009 of $25 million and in fiscal 2010 of $150 million. Of the fiscal 2010 receipts, $28.5 million would be dedicated to the Massachusetts School Building Authority, leaving $121.5 million to defray state expenditures related to wellness programs. The Governor's proposed legislation would also impose a new 1% statewide sales tax on the retail sales of meals (in addition to the current 5% tax). Moneys received on account of this increase (an estimated $125 million in fiscal 2010) would be dedicated to local aid. See the August Information Statement under the heading "COMMONWEALTH REVENUES - State Taxes; *Sales and Use Tax*."

Room Occupancy Tax. The Governor's fiscal 2010 budget recommendations propose an increase from 5.7% to 6.84% in the hotel/motel room occupancy tax imposed by the Commonwealth. Moneys received on account of this increase (an estimated $24 million in fiscal 2010) would be dedicated to local aid.

Cigarette Tax. On February 4, 2009, the President approved the federal Children's Health Insurance Program Reauthorization Act of 2009, which increases the federal cigarette tax by 61¢ per pack, from 39¢ to $1.00 per pack, effective April 1, 2009. The Department of Revenue expects that the increased federal cigarette tax will reduce cigarette sales in the Commonwealth and thus the amount of state cigarette tax revenue collected. Under current law, any decline in cigarette tax collections in fiscal 2009 and fiscal 2010 from currently assumed levels would reduce revenue transferred to the Commonwealth Care Trust Fund, but not affect revenue deposited in the General Fund. The Department of Revenue is in the process of estimating the state revenue impact of the federal cigarette tax increase.

Federal and other Non-Tax Revenues

Medicaid. The Governor's fiscal 2010 budget recommendations and his plan announced on January 28, 2009 to eliminate the fiscal 2009 budget shortfall assume that the Commonwealth will receive additional federal Medicaid subsidies in the amount of $533 million in fiscal 2009, $711 million in fiscal 2010 and $335 million in fiscal 2011 as a result of the federal economic stimulus legislation then being debated in the United States Congress. These revenues are expected to be used to avoid further cuts to health care-related expenditures.

Lottery Revenues. The fiscal 2009 budget assumes total net transfers from the Lottery of $1.005 billion to fund various commitments appropriated by the Legislature from the State Lottery Fund and the Arts Lottery Fund ($12.7 million for services and operation of the Massachusetts Cultural Council, $1 million for a compulsive gamblers treatment program, $78.6 million to the General Fund for the activities of the General Fund, $810.9 million for local aid to cities and towns and $102.3 million for administrative expenses of the Lottery), with the balance, if any, to be transferred to the General Fund. The assumed $1.005 billion figure was initially estimated to be approximately $17.4 million higher than the Lottery Commission's initial estimate of its operating revenues for fiscal 2009 of $988 million. However, due to the negative economic climate, the Lottery Commission has since revised its estimate for operating revenues in fiscal 2009 to $954.1 million (this includes a $1million spending reduction in operating expenses). After the $1 million spending reduction in operating expenses and an additional $2 million spending reduction in administrative expenses, the result is an expected shortfall of $49.3 million against the assumed $1.005 billion. Overall Lottery revenues for fiscal 2009 are currently trending closer to revenues reported in fiscal 2006 and fiscal 2007 of $4.524 billion and $4.460 billion, respectively, than the record revenues reported in fiscal 2008 of $4.709 billion.

Tobacco Settlement. The recently enacted federal cigarette tax increase (see "State Taxes; *Cigarette Tax*" above) may have an adverse effect on the amount of tobacco settlement payments that the Commonwealth can expect to receive in future years. See the August Information Statement under the heading "COMMONWEALTH REVENUES - Federal and Other Non-Tax Revenues; *Tobacco Settlement*." No attempt has yet been made to quantify the amount of any expected decrease.

Cash Flow

A cash flow forecast for fiscal 2009 and fiscal 2010 was released on March 4, 2009 by the State Treasurer and the Secretary of Administration and Finance. The fiscal 2009 cash flow forecast incorporated actual spending and revenue through January, 2009.

The March 4, 2009 cash flow reports an actual cash balance on January 30, 2009 of $1.276 billion, approximately $24.3 million lower than the July 1, 2008 cash balance of $1.301 billion that opened the fiscal year.

The March 4, 2009 forecast is based on actual spending and revenue through January, 2009 and then-current estimates for the remainder of fiscal 2009. The forecast takes into account the expenditure reductions and revised fiscal 2009 tax revenue estimate announced on October 15, 2008 and further revisions made on January 13, 2009. See "Fiscal 2009." The forecast is also based on the five-year capital investment plan published in August, 2007 by the Executive Office for Administration and Finance. The forecast reflects current Lottery projections described above under "Federal and Other Non-Tax Revenues; *Lottery Revenues*." The forecast assumes the receipt of $288.5 million on April 15, 2009 pursuant to the tobacco master settlement agreement.

Based on the March 4, 2009 projections, the fiscal 2009 forecast shows an overall decline in the non-segregated cash balance from $1.198 billion to $1.093 billion. Several factors affect the overall decline in the cash balance, including general obligation bond proceeds received in fiscal 2008 which are projected to be spent in fiscal 2009, fiscal 2008 appropriations carried forward and authorized to be expended in fiscal 2009 and transfers resulting from the fiscal 2008 consolidated net surplus calculation.

The March 4, 2009 forecast takes into account the cash flow borrowings that the Commonwealth has undertaken to date, including the $750 million of revenue anticipation notes issued on October 10, 2008 (to be repaid in equal installments on April 30, 2009 and May 29, 2009) and borrowings under the Commonwealth's $1 billion commercial paper program, currently outstanding in the amount of $800 million. The forecast anticipates that $800 million of commercial paper will be outstanding at least through the end of March, 2009.

The March 4, 2009 projection, like previous projections, anticipates the issuance by the Commonwealth of $1.9 billion in bonds in fiscal year 2009 to fund capital projects. In addition, the report notes that past capital spending was not funded from the proceeds of bonds issued in prior fiscal years and therefore additional borrowing of approximately $192.9 million is expected to occur in fiscal 2009 to reimburse those expenditures. To date, the Commonwealth has issued $500 million in bonds in September, 2008 and $525 million in bonds in February, 2009, the proceeds of which have been applied to capital spending. The cash flow forecast assumes the issuance of $450 million in May, 2009 and $279 million in June, 2009. The bond anticipation notes issued on December 17, 2008 in the amount of $350 million were paid on March 5, 2009. The Commonwealth repaid $200 million in outstanding commercial paper on

February 6, 2009, with the remaining $800 million expected to remain outstanding at least through the end of March, 2009.

The fiscal 2010 projections are based on the Governor's fiscal 2010 budget recommendations. This does not signify endorsement by the State Treasurer of the Governor's recommendations.

The Commonwealth's five-year capital investment plan, which is reviewed annually, calls for fiscal 2010 bond issuance of approximately $2.0 billion. This amount includes $1.6 billion in bond cap, $126.1 million of borrowing capacity carried forward from fiscal year 2008 and nearly $300 million of borrowing for the accelerated bridge program.

The fiscal 2010 forecast further assumes cash flow borrowings of $1.050 billion in August, 2009 in three equal tranches of $350 million. The three tranches are forecast to mature in April, May, and June, 2010, respectively. The forecast also assumes the issuance of $400 million in commercial paper to enhance the Commonwealth's liquidity at the end of calendar 2009. All short-term borrowings are forecast to be retired by the end of fiscal 2010. The forecast assumes the receipt of $294.8 million in April, 2010 pursuant to the tobacco master settlement agreement.

The Commonwealth's next cash flow projection is expected to be released on or before June 1, 2009.

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

(as of September 2, 2008)

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

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

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

(as of March 1, 2009)

	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Opening Balance	$1,198.2	$832.5	$790.5	$753.7	$1,090.4	$1,259.4	$1,014.3	$1,275.7	$595.1	$659.0	$1,311.7	$1,066.1
CP /RANs Issuance (2)	-	500.0	233.6	750.0	490.5	270.0	-	-	-	-	-	-
Total Receipts	2,736.3	3,346.2	4,026.0	4,064.4	3,783.6	4,289.5	3,422.0	2,872.9	4,427.7	4,815.1	3,689.5	4,730.9
Total Expenditures	3,101.9	3,387.9	4,372.1	3,627.7	3,614.5	4,756.3	3,160.6	3,554.4	4,669.9	4,162.3	3,935.1	4,603.9
Central Artery Settlement	-	-	-	-	-	-			306.1	-	-	-
Stabilization Transfers	-	-	310.0	(100.0)	-	221.9	-	-	-	-	-	(100.0)
Closing Balance	$832.6	$790.7	$754.3	$1,090.5	$1,259.5	$1,014.4	$1,275.8	$594.2	$659.0	$1,311.7	$1,066.1	$1,093.1

SOURCE: Office of the Treasurer and Receiver-General.
(1) Totals may not add due to rounding.
(2) To date, the Commonwealth has issued $750 million of RANs, and the maximum amount of commercial paper outstanding will not exceed $1 billion.

Overview of Fiscal 2010 Non-Segregated Operating Cash Flow (in millions) (1)
(as of March 1, 2009)

	Jul	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	June
Opening Balance	$1,093.0	$1,217.8	$1,902.3	$1,439.9	$1,269.4	$1,246.5	$863.3	$1,279.1	$885.4	$1,033.6	$1,816.4	$1,750.7
CP /RANs Issuance (2)	-	1,050.0	-	-	-	400.0	-	-	-	-	-	-
Total Receipts	3,344.0	4,290.3	3,976.1	3,392.4	3,559.5	4,361.1	3,824.4	3,140.7	4,371.8	4,827.1	3,747.2	4,555.7
Total Expenditures	3,218.0	3,605.8	4,438.4	3,562.8	3,582.4	4,744.3	3,408.6	3,534.3	4,712.6	4,044.3	3,821.8	4,806.4
Central Artery Settlement	-	-	-	-	-	-			489.0	-	-	-
Stabilization Transfers	-	-	-	-	-	-	-	-	-	-	-	-
Closing Balance	$1,219.0	$1,902.3	$1,439.9	$1,269.4	$1,246.5	$863.3	$1,279.1	$885.5	$1,033.6	$1,816.4	$1,750.8	$1,500.0

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

COMMONWEALTH REVENUES

Statutory Basis Distribution of Budgetary Revenues

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

Commonwealth Revenues - Budgeted Operating Funds

(in millions)(1)

	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Projected Fiscal 2009(8)
Tax Revenues:						
Alcoholic Beverages	$ 67.9	$ 68.6	$ 68.9	$ 71.0	$ 71.2	$ 71.1
Banks	238.7	198.9	349.9	340.9	547.8	345.4
Cigarettes	425.4	423.6	435.3	438.1	436.9	461.6
Corporations	997.6	1,062.7	1,390.7	1,587.6	1,512.2	1,625.1
Deeds	187.0	220.3	210.1	194.1	153.9	106.8
Income	8,830.3	9,690.3	10,483.4	11,399.6	12,483.8	11,398.0
Inheritance and Estate	194.7	255.1	196.3	249.6	254.0	278.7
Insurance(2)	420.2	423.4	448.5	418.6	417.7	411.7
Motor Fuel	684.2	685.5	671.8	676.1	672.2	651.3
Public Utilities	64.7	71.1	118.5	178.3	120.2	50.0
Room Occupancy	88.9	97.8	105.8	111.1	119.2	118.4
Sales:						
Regular	2,591.6	2,746.6	2,864.7	2,927.7	2,952.2	2,844.4
Meals	531.7	555.6	584.1	608.7	632.9	644.9
Motor Vehicles	625.8	584.2	555.5	531.1	501.6	439.4
Sub-Total–Sales	3,749.2	3,886.4	4,004.3	4,067.5	4,086.7	3,928.7
Miscellaneous(3)	4.2	3.9	4.0	3.8	3.1	3.3
Total Tax Revenues	15,953.3	17,087.9	18,487.4	19,736.3	20,879.2	19,450.0
MBTA Transfer	(684.3)	(704.8)	(712.6)	(734.0)	(756.0)	(767.1)
MSBA Transfer (4)	-	(395.7)	(488.7)	(557.4)	(634.7)	(702.3)
Total Budgeted Operating Tax Revenues	15,269.0	15,987.4	17,286.2	18,444.9	19,488.5	17,980.6
Non-Tax Revenues:						
Federal Reimbursements (5)	5,098.5	4,697.0	5,210.1	6,167.6	6,429.5	7,748.4
Departmental and Other Revenues(6)	1,847.7	1,948.9	2,094.3	2,218.4	2,355.9	2,457.9
Inter-fund Transfers from Non - Budgeted Funds and Other Sources (7)	1,773.1	1,740.1	1,714.9	1,785.0	2,039.3	2,992.1
Budgeted Non-Tax Revenues and Other Sources	8,719.3	8,386.0	9,019.3	10,171.0	10,824.7	13,198.4
Budgeted Revenues and Revenues from Other Sources	$23,988.3	$24,373.4	$26,305.5	$28,615.9	$30,313.2	$31,179.0

SOURCE: Fiscal 2004-2008, Office of the Comptroller; fiscal 2009, Executive Office for Administration and Finance.

(1) Totals may not add due to rounding. Table does not reflect inter-fund transfers among budgeted funds and other sources that have no effect on ending balances. Excludes certain miscellaneous taxes expended outside the budget process.

(2) Includes unemployment insurance surcharges.

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

(4) Beginning in fiscal 2005, sales tax transfers to the MSBA replaced budgetary appropriations for school building assistance. Actual expenditures for school building assistance in fiscal 2004 was $551.4 million.

(5) Federal reimbursements include increases in Medicaid matching funds (Federal Medical Assistance Percentage).

(6) Excludes intergovernmental revenues.

(7) Inter-fund transfers from non-budgeted funds and other sources include profits from the State Lottery, tobacco settlement funds and abandoned property proceeds, as well as other transfers.

(8) This table reflects the fiscal 2009 revised tax revenue estimate of $19.450 billion and does not include approximately $50 million in additional revenues, related to the elimination of certain sales tax exemptions and non-amnesty settlements, that were part of the Governor's plan, filed in January, to close the additional fiscal 2009 shortfall (see "Fiscal 2009").

COMMONWEALTH EXPENDITURES

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

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

Expenditure Category	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Projected Fiscal 2009
Direct Local Aid(2)	$4,149.2	$4,224.1	$4,430.0	$4,805.2	$5,040.5	$5,213.1
Medicaid(3)	5,742.4	5,977.2	6,852.5	7,550.4	8,246.3	8,416.5
Other Health and Human Services	4,174.2	4,226.0	4,433.6	4,625.3	4,796.5	4,979.9
Group Insurance	787.6	846.4	963.7	1,022.3	852.5(10)	896.0
Dept. of Elementary and Secondary Education	394.0	476.7	408.6	459.0	485.8	588.4
Higher Education	831.3	915.0	987.8	1,115.7	1,084.4	1,027.7
Dept. of Early Education and Care	338.7	348.8	387.1	507.1	549.9	555.8
Public Safety(4)	1,203.2	1,206.5	1,288.0	1,399.2	1,544.4	1,463.8
Energy and Environmental Affairs	169.2	181.1	202.0	238.5	227.1	221.5
Debt Service	1,569.2	1,738.8	1,826.7	2,234.4	1,990.1	2,105.3
Budgeted Pension Transfers	701.9(5)	1,216.9	1,274.7	1,335.2	1,398.6	1,314.4
Other Program Expenditures	2,097.1	1,927.2	2,138.7	2,364.9	2,414.1	2,289.6
Sub Total - Programs and Services before transfers to Non-budgeted funds	$22,158.0	$23,284.7	$25,193.4	$27,657.2	$28,630.2	29,072.0
Inter-fund Transfers to Non-budgeted Funds						
Commonwealth Care Trust Fund(6)	-	-	-	722.1	1,045.9	1,022.3
State Retiree Benefit Trust Fund	-	-	-	-	354.7	372.0
Medical Assistance Trust Fund(7)	-	-	70.0	364.0	376.7	509.0
Other	690.3	494.4	321.2	179.6	400.9	1,187.9
Sub Total	$690.3	$494.4	$391.2	$1,265.7	$2,178.2	$3,091.2
Budgeted Expenditures and Other Uses	$22,848.3	$23,779.1	$25,584.6	$28,922.9	$30,808.4	$32,163.2
Adjustment for items moved off budget(8)	(551.4)(9)	-	-	-	-	-
Adjusted Budgeted Expenditures and Other Uses	$22,296.9	$23,779.1	$25,584.6	$28,922.9	$30,808.4	$32,163.2

SOURCES: Fiscal 2004-2008 Office of the State Comptroller; Fiscal 2009 and off-budget adjustments, Executive Office for Administration and Finance.

(1) Totals may not add due to rounding. Table does not reflect inter-fund transfers among budgeted funds and other sources that have no effect on ending balances. Excludes certain miscellaneous taxes expended outside the budget process.

(2) Restated fiscal 2004 to fiscal 2007 Direct Local Aid differ from Direct Local Aid expenditures reported in the fiscal 2004 to 2007 SBFRs.
(3) Excludes off-budget Medicaid spending in fiscal 2004, 2005, 2006 and 2007 estimated at $288 million, $292 million, $292 million and $290 million, respectively. Fiscal 2004 also excludes budgeted expenditures for the administration of the Medicaid program. Fiscal 2005 through 2007 include program administration.
(4) Public Safety comprises expenditures for the Executive Office of Public Safety and Security, plus the Commonwealth's expenditures for sheriffs. Prior fiscal years have been restated to identify public safety spending.
(5) The fiscal 2004 general appropriations act funded the Commonwealth's scheduled pension obligation using $687.3 million in cash and a transfer of assets to the pension fund valued at $145 million. The asset transfer has not occurred and is not expected to occur. The amount in the table also includes non-contributory pensions paid from the General Fund.
(6) Commonwealth Care Trust Fund transfers are based on projected program spending offset in part by revenues dedicated to the Trust Fund, including certain cigarette tax revenue dedicated to the Trust Fund beginning in fiscal 2009.
(7) Medical Assistance Trust Fund transfers are shown according to date of payment, rather than date of service or authorization year.
(8) Includes expenditures for school building assistance in fiscal 2004 preceding off-budget restructuring of these expenditures. The amounts are subtracted from that year to facilitate trend analysis.
(9) Includes $150 million transferred from surplus for initial funding of grants by the MSBA.
(10) Prior to fiscal 2008, spending for both active and retired state employees is included within Group Insurance. In fiscal 2008, spending for retired employees occurs within the State Retiree Benefit Trust Fund to reflect new accounting requirements specified in Government Accounting Standards Board (GASB) statement 45.

Medicaid

On September 30, 2008, the Commonwealth announced that it had reached an agreement in principle with the federal Centers for Medicare and Medicaid Services (CMS) to continue through June 30, 2011 its section 1115 demonstration waiver, under which the Commonwealth operates the majority of its Medicaid program (including the 2006 health reform expansions), as well as other key elements of the Commonwealth's health care reform initiative. See the August Information Statement under the heading "COMMONWEALTH EXPENDITURES - Medicaid." The prior approval was set to expire on June 30, 2008, and was extended several times in order to allow the Commonwealth and CMS to complete discussions regarding terms for the next three years. A final written agreement was signed on December 22, 2008.

The agreement authorizes federal reimbursement for approximately $21.2 billion in state health care spending from fiscal 2009 through fiscal 2011, $4.3 billion more in spending than was authorized for fiscal 2006 through fiscal 2008. It enables the Commonwealth to claim federal reimbursement for all programs at current eligibility and benefit levels (including for Commonwealth Care's subsidized coverage of adults up to 300% of the federal poverty level).

Within the overall $21.2 billion spending authority, the agreement authorizes the Commonwealth to claim federal reimbursement over the three-year renewal period for approximately $5 billion of spending within the Safety Net Care Pool, a capped pool of funding used to support several key elements of the Commonwealth's health reform effort, including Commonwealth Care and the Health Safety Net Trust Fund. This is a $1 billion increase in the Commonwealth's authority to claim federal reimbursement for programs in the Safety Net Care Pool, compared to the fiscal 2006 through fiscal 2008 waiver period. The agreement also transforms the Safety Net Care Pool by shifting from a series of annual caps to a three-year aggregate cap. Together, this increased authority to secure federal reimbursement and greater flexibility will allow the Commonwealth to meet all of its federal funding projections for fiscal 2009 and to plan ahead to meet all of its commitments for fiscal 2010 and fiscal 2011.

Health Care Reform Legislation

On October 1, 2008, the Division of Health Care Finance and Policy adopted final regulations revising the "fair share" test, which requires employers with 11 or more full-time equivalent employees (FTEs) to make a "fair and reasonable" premium contribution to their employees' health insurance or pay a fee to the Commonwealth. See the August Information Statement under the heading "COMMONWEALTH EXPENDITURES - Health Care Reform Legislation."

Previously, the regulations provided that an employer met the "fair and reasonable" contribution standard if either (i) 25% or more of its full-time employees enrolled in the employer's group health plan, or (ii) it offered to contribute at least 33% towards the premium cost for a group health plan for full-time employees who worked at least 90 days. The revised regulations, which took effect January 1, 2009, maintain this test for firms with 50 or fewer FTEs but require larger firms to meet both the employee enrollment and the employer contribution standards. Moreover, under the revised regulations, firms would also be considered to meet the "fair and reasonable contribution" standard if 75% or more of their full-time employees enroll in their group health plans.

These new regulations are projected to generate $30 million in revenue for a full year of implementation, to support government-funded health insurance programs. (Because of the delayed effective date and a quarterly filing and payment schedule, the first year's revenues will be collected partly in fiscal 2009 and partly in fiscal 2010.) The Commonwealth estimates that approximately 1,100 firms will be liable for the fair share contribution under the new regulations.

Office of Disability and Community Services

Under the settlement agreement approved June 16, 2008 in *Rolland v. Patrick et al.*, the Commonwealth expects to devote an additional $17-20 million each year to pay for the placement of the affected individuals and the provision of active treatment. See the August Information Statement under the headings "COMMONWEALTH EXPENDITURES - Office of Disabilities and Community Services" and "LEGAL MATTERS."

Pension

On September 10, 2008, PERAC released its actuarial valuation of the total pension obligation as of January 1, 2008. See the August Information Statement under the heading "COMMONWEALTH EXPENDITURES - Pension; *Valuation of Pension Obligation*." The unfunded actuarial accrued liability as of that date for the total obligation was approximately $12.105 billion, including approximately $2.420 billion for the State Employees' Retirement System, $8.072 billion for the Massachusetts Teachers' Retirement System, $1.237 billion for Boston Teachers and $376 million for cost-of-living increases reimbursable to local systems. The valuation study estimated the total actuarial accrued liability as of January 1, 2008 to be approximately $56.637 billion (comprised of $22.821 billion for state employees, $30.955 billion for state teachers, $2.485 billion for Boston Teachers and $376 million for cost-of-living increases reimbursable to local systems). Total assets were valued at approximately $44.532 billion based on a five-year average valuation method, which equaled 90.4% of the January 1, 2008 total asset market value. The valuation method was the same as the method used in the 2007 valuation.

The following table shows the valuation of accrued liabilities and assets from 2004 through 2008:

Pension Fund Valuation and Unfunded Accrued Liabilities (in millions)

			Unfunded Accrued Liabilities		
Valuation Date	Total Actuarial Accrued Liability	Actuarial Value of Assets(1)	Unfunded Actuarial Liability(2)	Market Value of Unfunded Liability	Valuation Date
January 1, 2004	$46,059	$34,045	$12,014	$14,350	January 1, 2004
January 1, 2005	48,358	34,939	13,419	12,861	January 1, 2005
January 1, 2006	50,865	36,377	14,488	11,844	January 1, 2006
January 1, 2007	53,761	40,412	13,349	8,859	January 1, 2007
January 1, 2008	56,637	44,532	12,105	7,402	January 1, 2008

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

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

October 30, 2008, the Legislature enacted legislation that the Governor had filed on October 15, 2008 to extend the funding schedule from 2023 to 2025. On January 13, 2009 the Secretary of Administration and Finance and legislative leaders agreed upon a pension funding level of $1.376 billion for fiscal 2010. This amount was based upon the final January 1, 2008 actuarial results and reflected the recently extended funding schedule deadline of 2025. On February 11, 2009 the Secretary of Administration and Finance filed, as required by law, an updated funding schedule with the Legislature that provides for both the normal cost of Commonwealth benefits and the amortization (by June 30, 2025) of the unfunded actuarial liability of the Commonwealth for its pension obligations. The schedule is based upon the same set of assumptions used to arrive at the agreed upon fiscal 2010 pension funding level. The filed schedule is pending Legislative approval. See "RECENT DEVELOPMENTS - Fiscal 2009."

SELECTED FINANCIAL DATA

Statutory Basis

During a fiscal year there are numerous transactions among these budgeted funds, which from a fund accounting perspective create offsetting inflows and outflows. In conducting the budget process, the Executive Office for Administration and Finance excludes those inter-fund transactions that by their nature have no impact on the combined fund balance of the budgeted funds. The following table isolates this inter-fund activity from the budgeted sources and uses to align more clearly forecasts prepared during the budget process to the detailed fund accounting of the Commonwealth's annual financial statements.

Budgeted Operating Funds -- Statutory Basis

(in millions)(1)

	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Projected Fiscal 2009
Beginning Fund Balances						
Reserved or Designated	$ 76.8	$ 664.6	$ 355.6	$ 947.2	$ 351.3	$ 171.5
Bay State Competitiveness Investment Fund	-	-	-	-	100.0	-
Transitional Escrow Fund	-	-	304.8	-	-	-
Stabilization Fund	641.3	1,137.3	1,728.4	2,154.7	2,335.0	2,119.2
Undesignated	34.7	90.9	98.4	106.2	114.7	115.1
Total	752.8	1,892.8	2,487.2	3,208.1	2,901.0	2,405.8
Revenues and Other Sources						
Tax Revenues	15,269.0	15,987.4	17,286.2	18,444.9	19,488.5	17,980.6(4)
Federal Reimbursements	5,098.5	4,697.0	5,210.1	6,167.6	6,429.5	7,748.4
Departmental and Other Revenues	1,847.7	1,948.9	2,094.3	2,218.4	2,355.9	2,457.9
Inter-fund Transfers from Non-budgeted Funds and Other Sources (2)	1,773.1	1,740.2	1,714.9	1785.0	2,039.3	2,992.1
Budgeted Revenues and Other Sources	23,988.3	24,373.4	26,305.5	28,615.9	30,313.2	31,179.0
Inter-fund Transfers	2,058.7	2,231.3	1,358.1	552.9	2,226.3	1,184.7
Total Budgeted Revenues and Other Sources	26,047.0	26,604.7	27,663.6	29,168.8	32,539.5	32,363.7
Expenditures and Uses						
Programs and Services	22,158.0	23,284.7	25,193.4	27,657.2	28,630.2	29,072.0
Inter-fund Transfers to Non-budgeted Funds and Other Uses	690.3	494.4	391.2	1,265.7	2,178.2	3,091.2
Budgeted Expenditures and Other Uses	22,848.3	23,779.1	25,584.6	28,922.9	30,808.4	32,163.2
Inter-fund Transfers	2,058.7	2,231.2	1,358.1	553.0	2,226.3	1,184.7
Total Budgeted Expenditures and Other Uses	24,907.0	26,010.3	26,942.7	29,475.9	33,034.7	33,347.9
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	1,140.0	594.4	720.9	(307.1)	(495.2)	(984.2)
Ending Fund Balances						
Reserved or Designated (3)	664.6	355.6	947.2	351.3	171.5	15.6
Bay State Competitiveness Investment Fund	-	-	-	100.0	-	-
Transitional Escrow Fund	-	304.8	-	-	-	-
Stabilization Fund	1,137.3	1,728.4	2,154.7	2,335.0	2,119.2	1,346.4
Undesignated	90.9	98.4	106.2	114.7	115.1	109.5
Total	$1,892.8	$2,487.2	$3,208.1	$2,901.0	$2,405.8	$1,471.5

SOURCES: Fiscal 2004-2008, Office of the Comptroller; fiscal 2009, Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

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

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

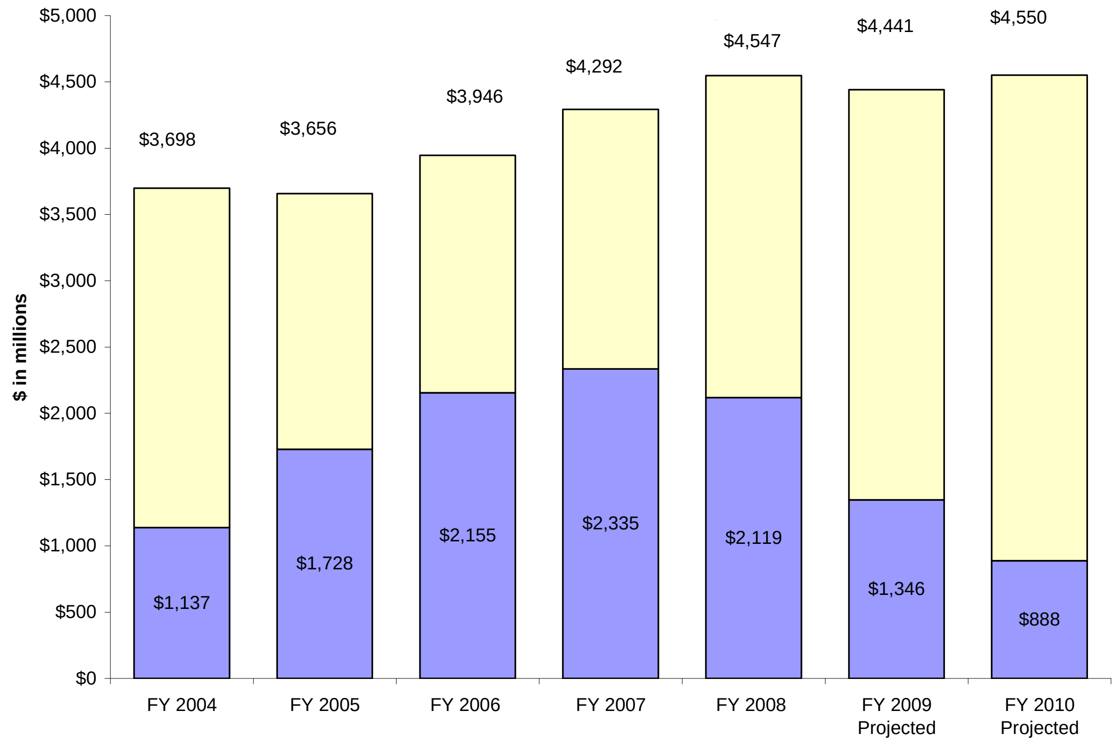
(4) This table reflects the fiscal 2009 revised tax revenue estimate of $19.450 billion, net of transfers to the MSBA and MBTA. This table does not include approximately $50 million in additional revenues related to the elimination of certain sales tax exemptions and non-amnesty settlements that are part of the Governor's plan, filed in January, to close the additional fiscal 2009 shortfall (see "Fiscal 2009").

Stabilization Fund

The fiscal 2009 budget suspends the statutorily required deposit and authorizes the transfer of Stabilization Fund investment earnings in fiscal 2009 to the General Fund. The Governor's budget recommendations for fiscal 2010 propose to do the same in fiscal 2010. See the August Information Statement under the heading "SELECTED FINANCIAL DATA - Stabilization Fund." The Governor's budget proposals for fiscal 2010 and his plan for closing the budget shortfall in fiscal 2009 contemplate withdrawing an aggregate total of $1.4 billion from the Stabilization Fund during those two fiscal years, with a projected ending balance of $888 million at the end of fiscal 2010. See "RECENT DEVELOPMENTS - Fiscal 2009 and Fiscal 2010 Budget Proposals."

Stabilization Fund Balance Compared to Allowable Stabilization Fund Balance

(in millions)



SOURCES: Fiscal 2004-2008, Office of the Comptroller; fiscal 2009 and fiscal 2010, Executive Office for Administration and Finance.

The following table shows the sources and uses of the Stabilization Fund during fiscal 2004 through 2008:

Stabilization Fund Sources and Uses (in thousands)

	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008
Beginning fund balances	$ 641,325	$1,137,320	$1,728,355	$2,154,664	$2,335,021
Revenues and Other Sources					
Consolidated net surplus	663,457	776,959	353,990	90,883	-
Lottery transfer taxes	-	3,996	4,204	2,680	2,243
CA/T project cost recoveries	695	90	-	-	-
Investment income	5,259	17,270	68,115	86,794	96,930
Transfers due to fund consolidation	-	-	-	-	-
Excess permissible tax revenue	357,465	135,991	20,000	-	-
Transfer from Transitional Escrow Fund	-	-	-	-	-
Total Revenues and Other Sources	1,026,876	934,306	446,309	180,357	99,173
Total Expenditures and Other Uses	530,881	343,271	20,000	-	315,000
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	495,995	591,035	426,309	180,357	(215,827)
Ending fund balances	$1,137,320	$1,728,355	$2,154,664	$2,335,021	$2,119,194
Allowable Stabilization Fund Balance	$3,697,771	$3,656,015	$3,945,820	$4,292,382	$4,546,976

SOURCE: Office of the Comptroller.

LONG-TERM LIABILITIES

General Obligation Debt

On September 11, 2008, the Commonwealth issued fixed-rate general obligation bonds in the aggregate principal amount of $652,790,000 to refund certain auction-rate bonds (outstanding in the aggregate principal amount of $163,650,000) and to finance capital expenditures expected to occur in fiscal 2009. On November 25, 2008, the Commonwealth issued fixed-rate general obligation bonds in the aggregate principal amount of $544,290,000 to refund certain variable-rate demand bonds of the Commonwealth (outstanding in the aggregate principal amount of $246,655,000) and certain variable-rate demand bonds issued by the Route 3 North Transportation Improvements Association (outstanding in the aggregate principal amount of $294 million). On March 2, 2009, the Commonwealth issued general obligation bonds in the amount of $525 million. A portion of the proceeds was applied to the payment of bond anticipation notes that matured on March 5, 2009.

Interest Rate Swaps

On September 15, 2008, Lehman Brothers Holdings Inc. ("LBHI"), the corporate parent of Lehman Brothers Derivatives Products Inc. ("LBDP") and Lehman Brothers Special Financing Inc. ("LBSF"), filed for bankruptcy. At the time of the filing, the Commonwealth had outstanding interest rate swaps with LBDP and LBSF. See the August Information Statement under the heading "LONG-TERM LIABILITIES - Interest Rate Swaps." The Commonwealth's outstanding interest rate swap with LBDP was subject to automatic termination upon such bankruptcy filing, with payment of a termination amount by the Commonwealth due within five days of notice of such termination. However, no notice of termination was given and, on September 16, 2008, the swap was assigned by the parties to LBSF and is no longer subject to automatic termination. LBHI was the guarantor of the swaps originally entered into with LBSF, and as a result of LBHI's bankruptcy filing, those swaps became subject to termination at the option of the Commonwealth. On October 3, 2008, LBSF filed for bankruptcy. On October 8, 2008, the Commonwealth terminated all of its original LBSF swaps and assigned them to different counterparties without incurring any net termination costs. On November 17, 2008, the Commonwealth terminated its remaining swap and assigned it to a different counterparty without incurring net termination costs.

Budgetary Contract Assistance Liabilities

City of Chelsea Commonwealth Lease Revenue Bonds. By virtue of the bankruptcy filing by LBHI described above under "Interest Rate Swaps," the interest rate swaps with LBSF related to the City of Chelsea Lease Revenue Bonds became subject to termination at the option of the Commonwealth. See the August Information Statement under the heading "LONG-TERM LIABILITIES - Budgetary Contract Assistance Liabilities; *City of Chelsea Commonwealth Lease Revenue Bonds*." On December 17, 2008, the Commonwealth refunded the bonds with general obligation debt of the Commonwealth and terminated the related swap, using previously appropriated funds and other available funds related to the lease revenue bonds to pay termination costs.

Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds. On November 25, 2008, the Commonwealth issued general obligation bonds to refund the $294 million of variable-rate bonds that had been issued by the Route 3 North Transportation Improvements Association in 2002 and to replace them with fixed-rate Commonwealth bonds. See the August Information Statement under the heading "LONG-TERM LIABILITIES - Budgetary Contract Assistance Liabilities; *Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds*." The associated swap agreement was assumed by the Commonwealth (without Ambac insurance) and assigned to outstanding Commonwealth variable-rate bonds that were previously unhedged. The related debt service deposit agreements were terminated. After this refunding, the Route 3 North Transportation Improvements Association has two series of bonds outstanding in the aggregate principal amount of $34,655,000.

Contingent Liabilities

Massachusetts Turnpike Authority. By virtue of the bankruptcy filing by LBHI described above under "Interest Rate Swaps," the Lehman swaptions described in the August Information Statement under the heading "LONG-TERM LIABILITIES - Contingent Liabilities; *Massachusetts Turnpike Authority*" became subject to termination at the option of the Turnpike Authority, and on December 22, 2008, the Turnpike Authority terminated all of its Lehman swaptions and its Lehman basis swap at a net aggregate cost to the Turnpike Authority of approximately $3.2 million. The Turnpike Authority has received notice from the counterparty to the terminated Lehman swaptions disputing the Turnpike Authority's calculation of the termination amounts but without stating an alternative amount. On October 2, 2008, Moody's Investor's Service, Inc. announced a downgrade of its ratings of the Turnpike Authority's senior and subordinated Metropolitan Highway System Bonds to Baa2 from A3 and Baa3 from Baa1, respectively. As a result of this downgrade, the Turnpike Authority has been required to post collateral with respect to a basis swap it entered into in 1999 with JPMorgan Chase Bank in a notional amount of $100 million. Due to recent market volatility, the amount of posted collateral has been as high as approximately $19.1 million. As of March 5, 2009, the aggregate termination costs of the Turnpike Authority's remaining swaps are estimated (based on mid-market valuations) to be approximately $378.3 million for the UBS swaps and $16.1 million for the JPMorgan Chase Bank basis swap. On January 23, 2009, the Governor filed legislation to permit the Commonwealth to guarantee Turnpike Authority payment obligations to counterparties under its swap agreements, the previous guaranty authorization having expired on January 15, 2009. Under the Governor's proposed bill, such authorization would extend to June 30, 2009. The House approved the bill on February 9, 2009, and the Senate approved an amended version on March 5, 2009. The Senate version of the bill would require the State Treasurer's approval, as well as the Governor's, for any Commonwealth-supported bonds to be issued by the Turnpike Authority or for any Commonwealth guaranty of Turnpike Authority payment obligations under swap agreements. The Senate legislation would also prohibit all quasi-public state entities and independent authorities from entering into derivative financial transactions.

COMMONWEALTH CAPITAL INVESTMENT PLAN

Capital Investment Plan

On December 17, 2008, the Governor released a five-year capital investment plan for fiscal 2009 through fiscal 2013, totaling nearly $14 billion. The completion and publication of the plan, which is an update to the plan issued in August, 2007, was delayed in order to take into account the impacts of the economic downturn and the turmoil in the financial markets.

With the release of the five-year capital investment plan, the Governor announced that the annual administrative limit on the amount of bond-funded capital expenditures in the Commonwealth's regular capital program, known as the "bond cap," will be $1.575 billion for fiscal 2009. In addition, because legislative authorization for planned capital spending was obtained later than originally anticipated, capital spending was lower than originally planned in fiscal 2008 and $152.3 million of the unused bond cap from that year will be carried forward to support spending in fiscal 2009. The bond cap for fiscal 2010 is projected to be $1.6 billion, and is projected to increase by $100 million each subsequent fiscal year through fiscal 2013 (together with $126.1 million and $62.6 million of unused fiscal 2008 bond cap carried forward to fiscal 2010 and fiscal 2011, respectively).

The bond cap determination is based on the debt affordability policy described in the updated debt affordability analysis. Under this policy, the Commonwealth will set the annual borrowing limit at a level designed to keep debt service within 8% of budgeted revenues. For this purpose, debt service includes principal and interest payments on all general obligation debt, special obligation gas tax debt, interest on federal grant anticipation notes, general obligation contract assistance payment obligations and budgetary contract assistant payment obligations on certain capital lease financings. In addition, while the recently created accelerated structurally-deficient bridge program will be funded outside of the bond cap, the related debt service costs of the program have been fully accounted for under the debt affordability policy in setting the bond cap at the designated levels. See August Information Statement under the heading "COMMONWEALTH CAPITAL INVESTMENT PLAN – Capital Investment Plan."

In addition to keeping debt service within 8% of budgeted revenues, the debt management policy limits future annual growth in the bond cap for the regular capital program to not more than $125 million. This additional constraint is designed to ensure that projected growth in the bond cap will be held to stable and sustainable levels. As noted above, the bond cap is expected to grow by $25 million from fiscal 2009 to fiscal 2010 and by $100 million in each succeeding fiscal year through fiscal 2013 as a result of the primary constraint imposed by the 8% limit.

The Executive Office for Administration and Finance will revisit the debt capacity and affordability analysis periodically, and at least every year, to revise estimates for future years by taking into account fluctuations in interest rates, budgeted revenues and other changes affecting the Commonwealth's debt capacity. In addition, the Executive Office for Administration and Finance will annually assess the appropriateness of the methodology and constraints for establishing the bond cap.

In the past, the Commonwealth aggregated its capital expenditures into seven major categories based primarily on agencies responsible for spending and carrying out capital projects: economic development, environment, housing, information technology, infrastructure and facilities, public safety, and transportation. The following table sets forth historical capital spending in fiscal 2004 through fiscal 2008 according to these categories.

Commonwealth Historical Capital Spending
(in millions)

	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008
Information technology	$ 75	$ 61	$ 88	$ 53	$ 65
Infrastructure	251	262	283	271	186
Environment	113	122	142	153	188
Housing	121	122	129	140	172
Public safety	20	18	19	18	19
Transportation	1,458	1,300	1,189	1,120	1,109
Convention centers	113	54	12	2	-
Other	64	39	30	29	43
School building assistance	-	565	435	-	-
Total Uses	$2,215	$2,543	$2,327	$1,786	$1,782

The capital investment plan for fiscal 2009 through fiscal 2013 is designed to allocate resources strategically to invest in the Commonwealth's public facilities and programs and represents the Governor's vision for public infrastructure. The following tables show the allocation of bond cap spending by major investment category and the allocation of total capital spending from all sources of funding by major investment category for fiscal 2009 through fiscal 2013.

Capital Investment Plan - Total Bond Cap
(in millions - may not add due to rounding)

Investment Category:	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	5-Year Total	% of 5-Year Total
Community Investment	$ 254.0	$ 244.0	$ 248.4	$ 248.4	$ 242.7	$ 1,237.5	13.9%
Corrections	27.0	22.2	30.7	39.6	51.6	171.1	1.9
Courts	129.1	131.6	50.8	39.6	65.1	416.2	4.7
Economic Development	77.8	83.5	80.5	87.0	92.0	420.8	4.7
Energy/Environment	122.8	113.4	118.4	114.9	108.9	578.4	6.5
Health/Human Services	68.5	81.9	89.5	84.7	71.5	396.1	4.4
Higher Education	72.5	116.2	168.5	173.0	190.1	720.3	8.1
Housing	168.5	166.0	161.0	161.0	161.0	817.5	9.2
Information Technology	87.0	82.7	82.7	81.7	82.2	416.3	4.7
Public Safety	27.4	27.6	30.0	28.7	26.1	139.8	1.6
State Buildings	84.1	75.7	80.6	84.1	87.1	411.6	4.6
Transportation	608.5	581.2	621.3	657.3	721.7	3,190.0	35.8
Total	$ 1,727.2	$1,726.0	$ 1,762.4	$ 1,800.0	$ 1,900.0	$ 8,915.6	100.0%

Capital Investment Plan - All Sources of Funding
(in millions - may not add due to rounding)

Investment Category:	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013	5-Year Total	% of 5-Year Total
Community Investment	$ 254.0	$ 244.0	$ 248.4	$ 248.4	$ 242.7	$ 1,237.5	8.6%
Corrections	27.3	25.2	33.7	39.6	51.6	177.4	1.2
Courts	129.1	131.6	61.4	48.2	74.0	444.3	3.1
Economic Development	84.8	128.5	165.5	167.0	167.0	712.8	5.0
Energy/Environment	125.0	116.4	118.6	115.0	108.9	583.9	4.1
Health/Human Services	68.5	81.9	89.5	84.7	71.5	396.1	2.8
Higher Education	81.6	121.0	174.5	179.0	192.7	748.8	5.2
Housing	193.0	166.0	161.0	161.0	161.0	842.0	5.9
Information Technology	111.9	82.7	82.7	81.7	82.2	441.2	3.1
Public Safety	42.6	45.6	39.5	28.6	26.1	182.4	1.3
State Buildings	84.1	75.7	80.6	84.1	87.1	411.6	2.9
Transportation	1,259.1	1,313.4	1,589.3	1,865.2	2,106.9	8,133.9	56.8
Total	$2,461.0	$2,532.0	$ 2,844.7	$ 3,102.5	$ 3,371.7	$14,311.9	100.0%

The different sources of funding for the capital program, as provided in the table above, include:

- Bond cap – Commonwealth borrowing to support the regular capital program;
- Federal – federal reimbursements for capital expenditures, primarily for transportation projects;
- Third-party – contributions made by third parties to capital projects being carried out by the Commonwealth and Commonwealth contributions to the Central Artery/Tunnel project from annual operating revenues;
- Project-Financed Bonds – self-supporting bonds payable by the Commonwealth from a new project-related stream of revenue; and
- Accelerated Bridge – Commonwealth gas tax bonds or federal grant anticipation notes issued to fund the accelerated structurally-deficient bridge program.

Capital Investment Plan: Sources of Funds
(in millions - may not add due to rounding)

Fiscal Year	Bond Cap	Federal Reimbursements	Third Party	Project Financed	Accelerated Bridge Program	Total
2009	$ 1,727.3	$ 426.2	$ 120.6	$ 22.2	$ 164.9	$ 2,461.2
2010	1,726.1	409.0	36.2	63.0	297.8	2,532.1
2011	1,762.6	416.5	73.0	198.3	394.5	2,844.9
2012	1,800.0	480.6	87.5	188.7	545.8	3,102.6
2013	1,900.0	538.6	90.0	226.2	617.0	3,371.8
	$ 8,916.0	$2,270.9	$ 407.3	$ 698.4	$2,020.0	$14,312.6

LEGAL MATTERS

Matters described in the August Information Statement under the heading "LEGAL MATTERS" are updated as follows:

Ricci v. Patrick, United States District Court, First Circuit Court of Appeals. On October 1, 2008, the United States Court of Appeals for the First Circuit reversed District Court orders requiring the Commonwealth to keep open an expensive and outmoded institution for the care of mentally retarded citizens. In response to a motion for panel rehearing filed by opposing parties, the Court of Appeals, on November 18, 2008, directed entry of judgment dismissing with prejudice all claims made which resulted in the issuance of the contested District Court orders. On February 2, 2009, the parties whose claims were dismissed filed a petition for writ of certiorari in the United States Supreme Court. The Commonwealth will urge the Supreme Court to deny the petition.

Hutchinson v. Patrick et al., United States District Court, Western Division. After a fairness hearing on July 25, 2008, where there were no objections from class members, the court entered an order on September 19, 2008, approving the final comprehensive settlement agreement and retaining jurisdiction over the case pending compliance with the terms of the settlement agreement.

Rolland v. Patrick, United States District Court, Western Division. A group of class members is challenging the court-approved settlement agreement on appeal to the United States Court of Appeals for the First Circuit. This case carries the potential for a prospective increase in annual program costs of more than $20 million.

Rosie D. et al v. the Governor, United States District Court, Western Division. On January 14, 2009, the Court allowed plaintiffs' motion for $7 million in legal fees. On February 27, 2009, at defendants' request, the court modified the program implementation schedule set forth in its judgment by delaying several deadlines for starting new programs; the plan as modified contemplates full implementation by December 1, 2009. The cost of implementation is likely to exceed $20 million annually beginning in fiscal 2009.

Disability Law Center, Inc. v. Massachusetts Department of Correction et al, United States District Court. Disability Law Center, Inc. ("DLC") has received the medical and mental health records of numerous inmates. The parties have been engaged in settlement discussions, and the next status report to the Court is due on February 17, 2009. While DLC requests only injunctive relief, estimated increased program costs could amount to over $25 million in the event of an adverse outcome.

In re: Disallowance by the U. S. Department of Health and Human Services Centers of Medicare and Medicaid Services(Targeted Case Management). On December 31, 2008, the Departmental Appeals Board affirmed the disallowance. The Commonwealth filed an appeal of the disallowance in federal district court on February 25, 2009.

Philip DeMoranville and others v. Commonwealth of Massachusetts, Suffolk Superior Court. The court dismissed the case in January, 2009 for failure to exhaust administrative remedies. The plaintiff has filed a notice of appeal.

Fleet Funding, Inc. & Fleet Funding II, Inc. v. Commissioner of Revenue, Appeals Court. The Commissioner of Revenue and Bank of America have settled a longstanding dispute over efforts by the former Fleet National Bank (which Bank of America thereafter acquired) to avoid state taxation by the use of real estate investment trust (REIT) subsidiaries. The settlement includes the outright dismissal of the Bank's appeal of an adverse Appellate Tax Board ruling for the 1999 tax year, an appeal that if successful would have resulted in a refund to the Bank of $53 million (inclusive of penalties and interest). The settlement also includes a payment by the Bank of $121 million to resolve still-pending Board proceedings for other tax years that involve the same REIT-related issues. The net gain for the Commonwealth from the settlement is, accordingly, $174 million.

Commonwealth of Massachusetts v. Philip Morris Inc., RJ Reynolds Tobacco Company, Lorillard Tobacco Company, et. al. (2006 NPM Adjustment) The SFD proceeding for a 2006 NPM adjustment commenced in May 2008 and is presently underway.

Cutting Edge Enterprises, Inc. v. National Association of Attorneys General et al., United States District Court, Southern District of New York; *Cutting Edge Enterprises, Inc. v. National Association of Attorneys General et al*, United States Bankruptcy Court, Middle District of North Carolina. In January, 2008, Cutting Edge voluntarily dismissed its action and on February 5, 2008, the case was officially closed.

Conservation Law Foundation, Inc. v. Romney, United States District Court. This case was dismissed by agreement on August 19, 2008.

The Arborway Committee v. Executive Office of Transportation et al., Suffolk Superior Court. The Commonwealth has moved for summary judgment on statute of limitations grounds; a hearing on the Commonwealth's motion has not been scheduled. Discovery is proceeding simultaneously with the motion for summary judgment.

Goldberg (Logan Outdoor Advertising Trust) v. Commonwealth, Suffolk Superior Court. In this case, the plaintiff alleges eminent-domain-type damages in connection with four billboards at the East Boston entrance to Logan Airport, which are in a park newly created by the Central Artery/Tunnel project as a mitigation measure. One of the four billboards was removed pursuant to a license agreement in 1999, and the trial as to the damages caused by that removal took place in December 2008. The jury found that the Massachusetts Highway Department made a 9+-year temporary taking of this billboard. For that temporary taking the plaintiff is entitled to $1.8 million dollars plus interest. The Commonwealth has filed post-trial motions in an effort to reduce its liability. The Commonwealth expects to take the totality of the plaintiff's property rights in this area in the near future, thereby leading to an anticipated second trial, likely to occur in 2009. The plaintiff values the loss of these property rights at an undisclosed amount believed to be in the vicinity of $20 million.

TJX Companies v. Commissioner of Revenue ("*TJX I*"), Appeals Court. The parties argued this case to the Massachusetts Appeals Court on November 3, 2008.

Capital One Bank and Capital One F.S.B. v. Commissioner of Revenue, Supreme Judicial Court. On January 8, 2009, the Supreme Judicial Court upheld a financial institutions excise tax on a company issuing credit cards to Massachusetts residents that amounted to approximately $2 million for the years at issue in the case. The taxpayer had argued that the Commerce Clause of the U. S. Constitution requires that a corporation have a physical presence in a state before that state may impose an excise measured by the corporation's net income. The Court held that a physical presence is not required and that the company's contacts with Massachusetts customers created a substantial nexus with Massachusetts. The taxpayer has 90 days from entry of judgment in which to file a petition for a writ of certiorari in the United States Supreme Court.

Central Artery/Ted Williams Tunnel Cost Recovery Program Litigation (Suffolk Superior Court). The Commonwealth has reached a global settlement on 14 construction contracts with Modern Continental (now in bankruptcy proceedings). The global settlement allocates $21 million to the Commonwealth's claim for damages in *Commonwealth et al. v. Bechtel Corp. et al*. The Bankruptcy Court has approved the settlement agreement and the appeal period has run, so the agreement is now effective.

Boston Harbor Clean-Up. The Massachusetts Water Resources Authority ("MWRA"), successor to the Metropolitan District Commission, has assumed primary responsibility for developing and implementing a federal-court-approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with federal Clean Water Act requirements. The total cost of the construction required under the District Court's order, not including Combined Sewer Overflow ("CSO") costs, was approximately $ 3.8 billion. The MWRA anticipates spending approximately $964 million for CSO projects going forward.

Perini Corp., Kiewit Constr. Corp., Jay Cashman, Inc., d/b/a Perini - Kiewit - Cashman Joint Venture v. Commonwealth. In several related cases and potential litigation, plaintiffs make claims for alleged increased costs arising from differing site conditions and other causes of delay on the Central Artery/Tunnel Project. Plaintiffs have asserted claims in excess of $130 million. These claims are at various stages of resolution in proceedings before the Superior Court or a Central Artery Tunnel Project Dispute Review Board ("DRB") panel. The DRB has recently issued decisions on some of the claims, awarding plaintiffs $55 million on claims of $73.8 million. Those decisions may be the subject of further proceedings. Plaintiffs also still have in excess of $60 million in claims pending.

The following matters are not described in the August Information Statement:

Geoffrey, Inc. v. Commissioner of Revenue, Supreme Judicial Court. On January 8, 2009, the Supreme Judicial Court upheld a foreign corporation excise tax (amounting to approximately $1.2 million for the years at issue) on an out-of-state company that received royalties for the use of its trademarks by its subsidiaries operating in Massachusetts. The taxpayer had argued that the Commerce Clause of the United States Constitution requires that a corporation have a physical presence in a state before that state may impose an excise measured by the corporation's net income. The Court rejected the argument and held that Geoffrey (the name of the giraffe in the Toys-R-Us logo) was taxable because it licensed its intangible property for use in Massachusetts and derived income from the use of its property in Massachusetts. These contacts, said the Court, created a substantial nexus with the Commonwealth that satisfies the Commerce Clause. The taxpayer has 90 days from entry of judgment in which to file a petition for a writ of certiorari in the United States Supreme Court.

Vibo Corporation, Inc. d/b/a General Tobacco v. Jack Conway, et al., United States District Court, Western District of Kentucky. This case involves a challenge by General Tobacco, a tobacco manufacturer and importer, to the Tobacco Master Settlement Agreement (MSA). General Tobacco joined the MSA in 2004. General Tobacco was not an original party to the MSA and, as such, is labeled a Subsequent Participating Manufacturer (SPM). General Tobacco has sued 52 state attorneys general, including the Attorney General of the Commonwealth, as well as the original Participating Manufacturers and a certain subset of SPMs. General Tobacco has alleged violations of antitrust and constitutional law, and also fraud in the inducement of its joining the MSA. General Tobacco seeks permanent injunctive relief from certain MSA payment provisions and, if granted, such a decision could negatively affect millions of dollars in future payments from SPMs to the Commonwealth anticipated under the MSA. On December 10, 2008, the District Court dismissed all claims on jurisdictional grounds.

MISCELLANEOUS

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

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

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

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

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

CONTINUING DISCLOSURE

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

On behalf of the Commonwealth, the State Treasurer will provide to each NRMSIR within the meaning of Rule 15c2-12 of the SEC, no later than 270 days after the end of each fiscal year of the Commonwealth, certain financial information and operating data relating to such fiscal year, as provided in said Rule 15c2-12, together with audited financial statements of the Commonwealth for such fiscal year. In December, 2008, in conjunction with adoption of amendments to Rule 15c2-12, the SEC designated the Municipal Securities Rulemaking Board (MSRB) as the sole NRMSIR, effective July 1, 2009. To date, the Commonwealth has complied with all of its continuing disclosure undertakings relating to the general obligation debt of the Commonwealth and has not failed in the last six years to comply with its continuing disclosure undertakings with respect to its special obligation debt and federal grant anticipation notes. However, the annual filings relating to the fiscal year ended June 30, 2001 for the Commonwealth's special obligation debt and for the Commonwealth's federal highway grant anticipation notes were filed two days late, on March 29, 2002. Proper notice of the late filings was provided on March 29, 2002 to the NRMSIRs and 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 August Information Statement or this Supplement requests for additional information concerning the Commonwealth should be directed to Colin MacNaught, Assistant Treasurer for Debt Management, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or to Karol Ostberg, Director of Capital Finance, or Lori D. Hindle, Capital Finance Program Manager, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to the August Information Statement or this Supplement should be directed to John R. Regier, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone (617) 348-1720.

THE COMMONWEALTH OF MASSACHUSETTS

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

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

March 5, 2009