

**THE  
COMMONWEALTH  
OF  
MASSACHUSETTS**



**INFORMATION STATEMENT SUPPLEMENT**

**Dated July 31, 2007**

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**THE COMMONWEALTH OF MASSACHUSETTS**



**CONSTITUTIONAL OFFICERS**

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

**LEGISLATIVE OFFICERS**

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

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

**July 31, 2007**

This supplement (“Supplement”) to the Information Statement of The Commonwealth of Massachusetts (the “Commonwealth”) dated May 9, 2007 (the “May Information Statement”) is dated July 31, 2007 and contains information which updates the information contained in the May Information Statement. The May Information Statement appears as Appendix A to the Official Statement dated May 9, 2007 for the Commonwealth’s \$498,565,000 General Obligation Bonds, Consolidated Loan of 2007, Series A, and \$553,135,000 General Obligation Refunding Bonds, 2007 Series A, a copy of which has been filed with each Nationally Recognized Municipal Securities Information Repository (NRMSIR) currently recognized by the Securities and Exchange Commission. This Supplement and the May Information Statement must be read collectively and in their entirety in order to obtain the appropriate fiscal, financial and economic information concerning the Commonwealth through July 31, 2007. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the May Information Statement.

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

**RECENT DEVELOPMENTS**

**Fiscal 2007**

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

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

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

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

*Lottery Revenues.* The fiscal 2007 budget assumed total net transfers from the Lottery of \$1.105 billion, including the \$920 million aggregate distribution to cities and towns (which was mandated by the budget, regardless of the actual amount of transfers from the Lottery). The assumed \$1.105 billion figure was \$67 million higher than the State Lottery Commission's projections for fiscal 2007, which were \$1.038 billion. The State Lottery Commission estimates that actual fiscal 2007 lottery revenues were \$981.0 million, \$57 million less than the Commission's original projections and \$124 million less than the amount assumed in the fiscal 2007 budget. There is no provision in current law for dealing with this shortfall in net lottery revenues in fiscal 2007, which is expected to result in the State Lottery Fund, a non-budgeted fund, ending fiscal 2007 in a deficit position.

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

**Fiscal 2007 Tax Collections (in millions) (1)**

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

SOURCE: Executive Office for Administration and Finance.

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

(2) Figures are preliminary.

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

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

## **Fiscal 2008**

The Legislature approved the fiscal 2008 budget on July 2, 2007, and it was approved by the Governor on July 12, 2007. The Governor vetoed \$40.7 million of appropriations. The budget appropriates \$26.771 billion for the fiscal year, including \$7.929 billion for Medicaid, \$4.301 billion for education (excluding the school building assistance program), \$2.072 billion for debt service and contract assistance and \$12.469 for all other programs and services. The budget increases Chapter 70 education funding to cities and towns by \$220 million to \$3.726 billion. The budget also increases the distribution of lottery revenues to cities and towns to \$935 million, an increase of \$15 million over the fiscal 2007 level. Overall, local aid to cities and towns increases by 5.8% in the fiscal 2008 budget.

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

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

Legislation passed by the House of Representatives on July 26, 2007, and currently under consideration in the Senate, would establish a sales tax holiday during the period August 11-12, 2007. The Department of Revenue estimates that this legislation, if enacted in its current form, would reduce fiscal 2008 sales tax collections by approximately \$17.5 million.

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

## **Life Sciences Legislation**

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

the beneficiaries of previously received tax benefits would be required to repay some or all of such tax benefits to the Commonwealth.

## **Cash Flow**

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

Fiscal 2007 opened with a starting balance of \$2.072 billion of cash and is projected to have a June 30, 2007 ending balance of \$1.274 billion. These figures are somewhat higher than the reported figures for the close of fiscal 2006 because of system improvements in the State Treasurer's ability to calculate a more discrete figure. These figures do not include balances in the Stabilization Fund or certain other off-budget reserve funds, but do include moneys sequestered to pay for projected capital projects totaling \$222.2 million with respect to the starting balance and \$92.7 million with respect to the ending balance. Excluding these sequestered capital funds, the Commonwealth's operating cash balance opened the year at \$1.850 billion and is projected to end the fiscal year at \$1.182 billion, a \$668 million decrease. A portion of the overall decline in the operating cash balance is due to approximately \$935 million in supplemental spending authorized in fiscal 2006 which was carried forward into fiscal 2007. The projection also reflects the November, 2006 transfer of \$353.9 million of fiscal 2006 surplus dollars, plus \$6.9 million in accrued interest, to the Stabilization Fund. The Commonwealth also received \$25.1 million in fiscal 2007 from Massport as the first installment of the \$50 million of total reimbursement to be paid in the next few months for the cost of property that is being transferred to Massport by the Turnpike Authority.

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

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

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

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

## **SELECTED FINANCIAL DATA**

### **Statutory Basis Distribution of Budgetary Revenues**

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

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

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

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

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

## **Statutory Basis**

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

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

## Budgeted Operating Funds -- Statutory Basis

(in millions)(1)

	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006	Estimated Fiscal 2007	Projected Fiscal 2008
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$195.2	\$76.8	\$664.6	\$355.6	\$947.2	\$167.0
Bay State Competitiveness Investment Fund						15.0
Tax Reduction Fund	-	-	-	-	-	
Transitional Escrow Fund				304.8	-	-
Stabilization Fund	881.8	641.3	1,137.3	1,728.4	2,154.7	2,373.4
Undesignated	<u>311.0</u>	<u>34.7</u>	<u>90.9</u>	<u>98.4</u>	<u>106.2</u>	<u>114.9</u>
Total	<u>1,388.0</u>	<u>752.8(5)</u>	<u>1,892.8</u>	<u>2,487.2</u>	<u>3,208.1</u>	<u>2,670.3</u>
<u>Revenues and Other Sources</u>						
Tax Revenues	14,279.5	15,269.0	15,987.4	17,286.2	18,844.6	18,488.3
Federal Reimbursements	4,523.6	5,098.5	4,697.0	5,210.1	6,002.3	6,338.0
Departmental and Other Revenues	1,494.8	1,847.7	1,948.9	2,094.3	2,052.1	2,425.5
Inter-fund Transfers from Non- budgeted Funds and Other Sources (2)	1,689.2	1,773.1	1,740.2	1,714.9	788.6	694.0
Budgeted Revenues and Other Sources	21,987.1	23,988.3	24,373.4	26,305.5	27,287.6	27,945.8
Inter-fund Transfers	<u>3,310.5(4)</u>	<u>2,058.7</u>	<u>2,231.3</u>	<u>1,358.1</u>	<u>286.9</u>	<u>648.1</u>
Total Budgeted Revenues and Other Sources	<u>25,297.7</u>	<u>26,047.0</u>	<u>26,604.7</u>	<u>27,663.3</u>	<u>27,574.5</u>	<u>28,593.9</u>
<u>Expenditures and Uses</u>						
Programs and Services (3)	22,209.5	21,456.1	22,067.7	23,918.7	26,490.3	26,942.6
Inter-fund Transfers to Non- budgeted Funds and Other Uses	229.6	1,392.2	1,711.3	1,665.9	1,335.2	1,398.6
Budgeted Expenditures and Other Uses	22,439.1	22,848.3	23,779.1	25,584.6	27,825.5	28,341.2
Inter-fund Transfers	<u>3,310.5(4)</u>	<u>2,058.7</u>	<u>2,231.2</u>	<u>1,358.1</u>	<u>286.9</u>	<u>648.1</u>
Total Budgeted Expenditures and Other Uses	<u>25,749.6</u>	<u>24,907.0</u>	<u>26,010.3</u>	<u>26,942.7</u>	<u>28,112.4</u>	<u>28,989.3</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(451.9)</u>	<u>1,140.0</u>	<u>594.4</u>	<u>720.9</u>	<u>(537.9)</u>	<u>(395.4)</u>
<u>Ending Fund Balances</u>						
Reserved or Designated(6)	76.8	664.6	355.6	947.2	167.0	10.7
Bay State Competitiveness Fund					15.0	
Tax Reduction Fund	--	--	--	--	--	--
Transitional Escrow Fund	--	--	304.8	--	--	--
Stabilization Fund	641.3	1,137.3	1,728.4	2,154.7	2,373.4	2,148.6
Undesignated	<u>218.0</u>	<u>90.9</u>	<u>98.4</u>	<u>106.2</u>	<u>114.9</u>	<u>115.6</u>
Total	<u>\$936.1</u>	<u>\$1,892.8</u>	<u>\$2,487.2</u>	<u>\$3,208.1</u>	<u>\$2,670.3</u>	<u>\$2,274.9</u>

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

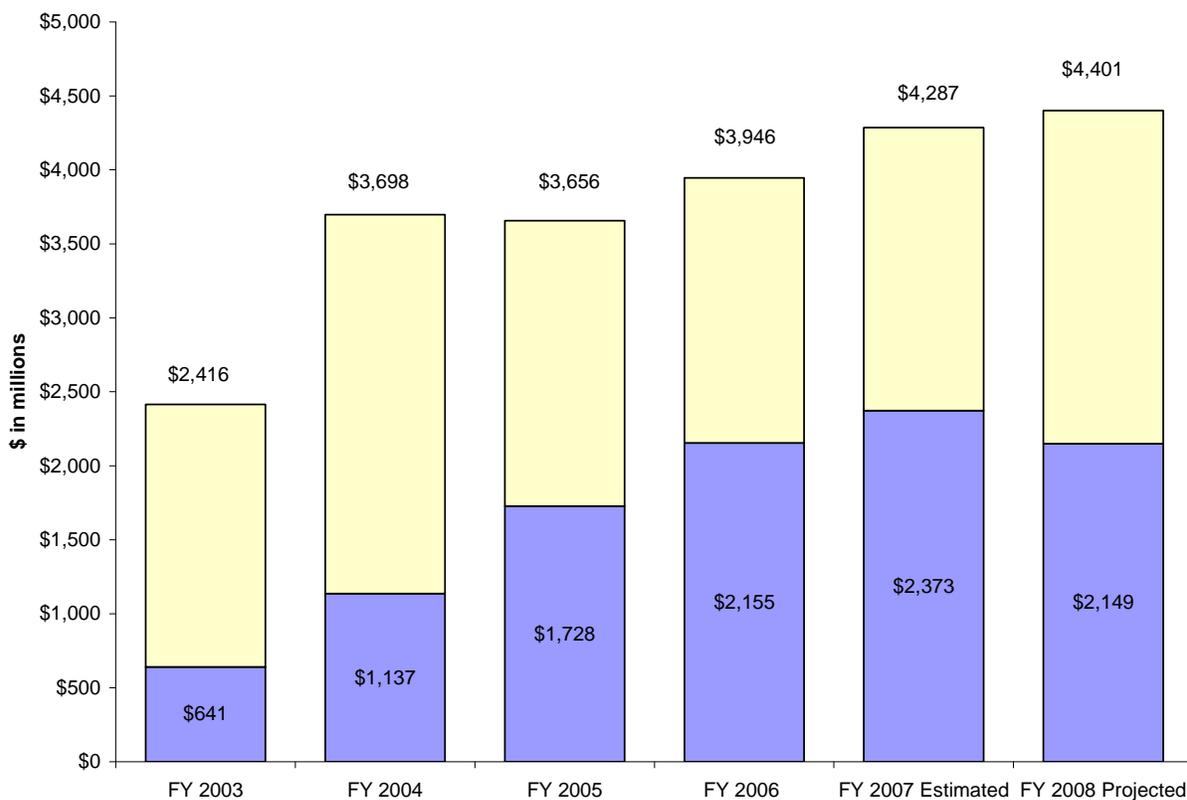
(1) Totals may not add due to rounding.

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

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

**Stabilization Fund**

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



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

**COMMONWEALTH PROGRAMS AND SERVICES**

**Pension and Other Post-Retirement Benefit Obligations**

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

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

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

## **COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN**

### **Capital Spending Plan**

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

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

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

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

**Bond Cap**  
**(in thousands)**

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

SOURCE: Executive Office for Administration and Finance.

(1) Based on April 2007 estimate.

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

The five-year capital spending plan for fiscal 2008 through fiscal 2012 is expected to be completed in August, 2007. It is anticipated that the Governor will file comprehensive bond bills in September, 2007 to obtain the borrowing authorization necessary to fund the capital spending plan.

**Central Artery/Ted Williams Tunnel Project**

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

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

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

plan update is completed, it is anticipated that a supplement to the finance plan will be filed by the Turnpike Authority in order to address the funding shortfall related to the federal interest credit described above and to address any cost or other issues that might be raised in connection with the federal review.

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

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

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

### LONG-TERM LIABILITIES

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

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

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

SOURCE: Office of the Comptroller.

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

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

**Calculation of the Debt Limit (in thousands)**

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

SOURCE: Office of the Comptroller.

- (1) Includes three series of outstanding crossover refunding bonds, two of which are special obligation bonds and one of which consists of federal grant anticipation notes. The refunding escrows funded by these bonds and related premiums are used to pay interest on the refunding bonds until the refunded bonds are callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continues to be paid from pledged revenues as before.
- (2) Capital appreciation bonds reported at original net proceeds for the purposes of calculating debt limit, not at maturity value.

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

**Long Term Commonwealth Debt (in thousands) (1)**

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

SOURCE: Office of the Comptroller.

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

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

The following table sets forth, as of July 1, 2007, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal grant anticipation notes. For variable rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate exchange agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. For other variable rate bonds and for auction rate securities, the schedule assumes a 5% interest rate.

**Debt Service Requirements on Commonwealth Bonds as of July 1, 2007**  
(in thousands)(1)

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

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

(1) Amounts are preliminary.

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

## STATE WORKFORCE

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

### Budget-Funded Workforce (1)

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

SOURCE: Executive Office for Administration and Finance.

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

### Unions and Labor Negotiations

Under Chapter 150E of the General Laws, all employees of the Commonwealth, with the exception of managerial and confidential employees and employees of the legislature, have the right to bargain collectively with the Commonwealth through certified employee organizations recognized as exclusive bargaining representatives for appropriate bargaining units. Collective bargaining with employees of the Commonwealth's colleges and universities, its judicial branch and the Lottery Commission generally is conducted directly by those entities. The Human Resources Division of the Executive Office for Administration and Finance conducts the collective bargaining negotiations with all other employees of the Commonwealth. Such negotiations may cover wages, hours and other terms and conditions of employment, but may not include the levels of pension and group insurance benefits. All labor agreements negotiated by the Human Resources Division are subject to approval by the Secretary of Administration and Finance and, once approved, are forwarded to the Legislature for funding approval. Labor contracts are often funded by supplemental appropriations.

The Trial Court, the Lottery Commission, state sheriffs, the Registries of Deeds under the control of the Secretary of the Commonwealth and public higher education management negotiate directly with their respective employee representatives, but all wage increases and other economic provisions contained in agreements negotiated

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

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

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

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

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

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

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

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

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

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

The following table sets forth information regarding the 12 bargaining units that are within the responsibility of the Human Resources Division.

## Human Resources Division Bargaining Units(1)(2)

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

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.

(2) Numbers represent full-time equivalent filled positions (FTEs) in the standard workforce as of July 7, 2007 whose positions are established in accounts funded by all sources (the annual operating budget, capital projects funds, direct federal grants and expendable trusts and other non-appropriated funds).

## LEGAL MATTERS

There are pending in state and federal courts within the Commonwealth and in the Supreme Court of the United States various suits in which the Commonwealth is a party. In the opinion of the Attorney General, no litigation is pending or, to her knowledge, threatened which is likely to result, either individually or in the aggregate, in final judgments against the Commonwealth that would affect materially its financial condition.

### Programs and Services

From time to time actions are brought against the Commonwealth by the recipients of governmental services, particularly recipients of human services benefits, seeking expanded levels of services and benefits and by the providers of such services challenging the Commonwealth's reimbursement rates and methodologies. To the extent that such actions result in judgments requiring the Commonwealth to provide expanded services or benefits or pay increased rates, additional operating and capital expenditures might be needed to implement such judgments.

*Ricci v. Okin*. Challenges by residents of five state schools for the retarded (U.S. District Court C.A. No. 72-469-T) resulted in a consent decree in the 1970's, which required the Commonwealth to upgrade and rehabilitate the facilities in question and to provide services and community placements in western Massachusetts. The District Court issued orders in October, 1986, leading to termination of active judicial supervision. On May 25, 1993, the District Court entered a final order vacating and replacing all consent decrees and court orders. In their place, the final order requires lifelong provision of individualized services to class members and contains requirements regarding staffing, maintenance of effort (including funding) and other matters.

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

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

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

## **Taxes**

There are several tax cases pending that could result in significant refunds if taxpayers prevail. It is the policy of the Attorney General and the Commissioner of Revenue to defend such actions vigorously on behalf of the Commonwealth, and the descriptions that follow are not intended to imply that the Commissioner has conceded any liability whatsoever. As of, July 20, 2007, approximately \$ 100 million in contingent liabilities exist in the aggregate in tax cases pending before the Appellate Tax Board, Appeals Court or Supreme Judicial Court. These contingent liabilities include both taxes and interest. Several cases comprise a sizeable share of these liabilities.

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

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

## **Other Revenues**

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

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

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

## **Other**

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

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

## **MISCELLANEOUS**

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

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

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

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

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

## **CONTINUING DISCLOSURE**

The Commonwealth prepares its Statutory Basis Financial Report and its Comprehensive Annual Financial Report with respect to each fiscal year ending June 30. The Statutory Basis Financial Report becomes available by

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

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

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

#### **AVAILABILITY OF OTHER FINANCIAL INFORMATION**

Questions regarding this Information Statement Supplement or requests for additional information concerning the Commonwealth should be directed to Patrick F. Landers, III, Assistant Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone (617) 367-3900 (ext. 226), or to Jay Gonzalez, Assistant Secretary for Capital Finance and Intergovernmental Affairs, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to this Information Statement Supplement should be directed to John R. Regier, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone (617) 348-1720.

#### **THE COMMONWEALTH OF MASSACHUSETTS**

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

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

July 31, 2007

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