THE

COMMONWEALTH

OF

MASSACHUSETTS

INFORMATION STATEMENT

Dated March 26, 2009

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A. Economic Information

B. Statutory Basis Financial Report for the year ended June 30, 2008.

C. Comprehensive Annual Financial Report (GAAP basis) for the year ended June 30, 2008.

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**
Robert A. DeLeo .... **Speaker of the House**

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THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT

March 26, 2009

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

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

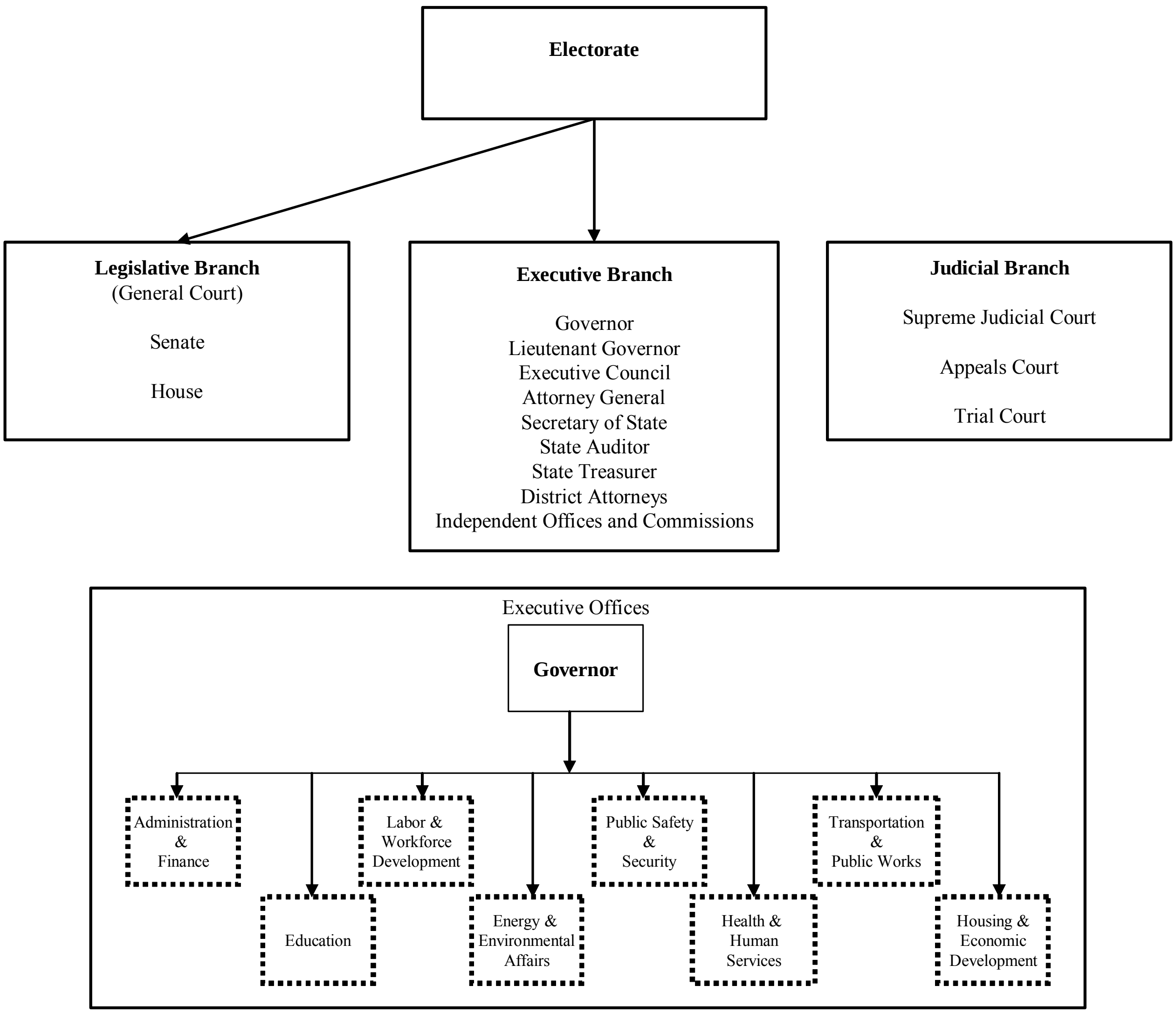
Exhibit A to this Information Statement is the Statement of Economic Information as of December 31, 2008. Exhibit A sets forth certain economic, demographic and statistical information concerning the Commonwealth.

Exhibits B and C, respectively, are the Commonwealth's Statutory Basis Financial Report for the year ended June 30, 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 Information Statement is a part.

Specific reference is made to said Exhibits B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository (NRMSIR) currently recognized by the Securities and Exchange Commission (SEC). The financial statements are also available at the home page of the Comptroller of the Commonwealth located at http://www.mass.gov/osc by clicking on "Financial Reports/Audits."

THE GOVERNMENT

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



Executive Branch

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

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

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

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

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

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

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

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

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

State Comptroller. Accounting policies and practices, publication of official financial reports and oversight of fiscal management functions are the responsibility of the Comptroller. The Comptroller also administers the Commonwealth's annual state single audit and manages the state accounting system. The Comptroller is appointed by the Governor for a term coterminous with the Governor's and may be removed by the Governor only for cause. The annual financial reports of the Commonwealth, single audit reports and any rules and regulations promulgated by the Comptroller must be reviewed by an advisory board. This board is chaired by the Secretary of Administration and Finance and includes the State Treasurer, the Attorney General, the State Auditor, the Chief Administrative Justice of the Trial Court and two persons with relevant experience appointed by the Governor for three-year terms. The Commonwealth's audited annual reports include audited financial statements on both the statutory basis of accounting (the Statutory Basis Financial Report, or SBFR) and the GAAP basis (the Comprehensive Annual Financial Report, or CAFR). The Statutory Basis Financial Report for the year ended June 30, 2008, included herein by reference as Exhibit B, and the Comprehensive Annual Financial Report for the year ended June 30, 2008, included herein by reference as Exhibit C, were audited by KPMG LLP, as stated in its reports appearing therein. KPMG LLP has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has it performed any procedures relating to the official statement of which this Information Statement is a part. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS."

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

Legislative Branch

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

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

Judicial Branch

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

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

Independent Authorities and Agencies

The Legislature has established a number of independent authorities and agencies within the Commonwealth, the budgets of which are not included in the Commonwealth's annual budget. The Governmental Accounting Standards Board (GASB) Statements 14 and 39 articulate standards for determining significant financial or operational relationships between the primary government and its independent entities. In fiscal 2008, the Commonwealth had significant operational or financial relationships, or both, as defined by GASB Statements 14 and 39 (as amended), with 31 of these authorities. A discussion of these entities and the relationship to the Commonwealth is included in footnote 1 to the fiscal 2008 Basic Financial Statements in the CAFR, included herein by reference as Exhibit C.

Local Government

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

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

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

Initiative Petitions

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

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

COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS

Operating Fund Structure

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

Two of the budgeted operating funds account for most of the Commonwealth's appropriated spending: the General Fund and the Highway Fund, from which approximately 97.8% of the statutory basis budgeted operating fund outflows in fiscal 2008 were made. The remaining approximately 2.2% of statutory operating fund outflows occurred in other operating funds: the Stabilization Fund, the Workforce Training Fund; the Massachusetts Tourism Fund; the Inland Fisheries and Game Fund; the Division of Energy Resources Credit Trust Fund and three administrative control funds, the Temporary Holding Fund, the Intragovernmental Service Fund and the Bay State Competitivenss Investment Fund. There were also four inactive funds which were authorized by law but had no activity: the Tax Reduction Fund, the Collective Bargaining Reserve Fund, the Dam Safety Trust Fund and the International Educational and Foreign Language Grant Fund. In fiscal 2008, the Commonwealth Stabilization Fund had both inflows and outflows.

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

Overview of Operating Budget Process

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

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

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

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

Cash and Budgetary Controls

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

Capital Investment Process and Controls

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

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

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

Cash Management Practices of State Treasurer

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

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

The State Treasurer, in conjunction with the Executive Office for Administration and Finance, is required to submit quarterly cash flow projections for the then current fiscal year to the House and Senate Committees on Ways and Means on or before each September 1, December 1, March 1 and June 1. The projections must include estimated sources and uses of cash, together with the assumptions from which such estimates were derived and identification of any cash flow gaps. See "FISCAL 2009 AND FISCAL 2010 – Cash Flow." The State Treasurer's office, in conjunction with the Executive Office for Administration and Finance, is also required to develop quarterly and annual cash management plans to address any gap identified by the cash flow projections and variance reports. The State Treasurer's office oversees the issuance of short-term debt to meet cash flow needs, including the issuance of commercial paper. See "LONG-TERM LIABILITIES – General Obligation Debt."

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

Fiscal Control, Accounting and Reporting Practices of Comptroller

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

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

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

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

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

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

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

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

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

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

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

Major expenditure accruals are recorded for the cost of Medicaid claims that have been incurred but not paid, claims and judgments and workers' compensation claims incurred but not reported and contract assistance to state authorities. See Exhibit C - Comprehensive Annual Financial Report for the year ended June 30, 2008; Notes to the Basic Financial Statements.

Audit Practices of State Auditor

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

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

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

COMMONWEALTH REVENUES

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

Statutory Basis Distribution of Budgetary Revenues

The following table sets forth the Commonwealth's revenues in its budgeted operating funds for fiscal 2004 through fiscal 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	310.4
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	1,654.4
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	11,430.6
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	384.7
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	8,074.2
Departmental and Other Revenues(6)	1,847.7	1,948.9	2,094.3	2,218.4	2,355.9	2,439.5
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	2,882.2
Budgeted Non-Tax Revenues and Other Sources	8,719.3	8,386.0	9,019.3	10,171.0	10,824.7	13,395.9
Budgeted Revenues and Revenues from Other Sources	$23,988.3	$24,373.4	$26,305.5	$28,615.9	$30,313.2	$31,376.5

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 2009, to close the additional fiscal 2009 shortfall (see "FISCAL 2009 AND FISCAL 2010 - Fiscal 2009").

State Taxes

The major components of state taxes are the income tax, which is projected to account for approximately 58.8% of total tax revenues in fiscal 2009, the sales and use tax, which is projected to account for approximately 20.2%, and the corporations and other business and excise taxes (including taxes on insurance companies, financial institutions and public utility corporations), which are projected to account for approximately 12.1%. Other tax and excise sources are projected to account for the remaining 8.9% of total fiscal 2008 tax revenues.

Effects of Tax Law Changes. During fiscal 2002 and fiscal 2003, legislation was implemented that had the net effect of reducing revenues by decreasing income tax rates or increasing or establishing various deductions and credits. In addition, several administrative changes were implemented that reduced revenues. During fiscal 2003, legislation was implemented that reversed or delayed some of the previous tax reductions, and implemented increases in other taxes. The Department of Revenue estimates that in fiscal 2004, the impact of tax law and administrative changes (including the non-recurrence of some fiscal 2003 revenues from certain loophole closings and that year's tax amnesty program) was to reduce tax collections by approximately $110 million compared to fiscal 2003. The Department of Revenue estimates that tax law changes increased tax collections by approximately $31 million in fiscal 2005 compared to fiscal 2004, reduced tax collections by approximately $154 million in fiscal 2006 compared to fiscal 2005, reduced tax collections by approximately $113 million in fiscal 2007 compared to fiscal 2006, reduced tax collections by approximately $34 million in fiscal 2008 compared to fiscal 2007 and will increase tax collections by approximately $200 million to $250 million in fiscal 2009 compared to fiscal 2008. See "Fiscal 2008 and Fiscal 2009 Tax Revenues" below.

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

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

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

The 2002 legislation also included a mechanism by which the tax year 2001 personal exemptions and charitable deductions could be gradually restored, and the tax rate on Part B income could be gradually reduced to 5.0%, contingent upon "baseline" state tax revenue growth (*i.e.*, revenue growth after factoring out the impact of tax law and administrative processing changes) growing by 2.5% more than the rate of inflation for state and government purchases. Specifically, the personal exemption would be restored in four equal annual increases, contingent upon sufficient tax revenue growth in the immediately preceding fiscal year. Commencing in the year following the final personal exemption increase, the personal income tax rate would be reduced from 5.3% to 5.0%

in six equal annual reductions of 0.05%, again contingent on sufficient revenue growth in each preceding fiscal year. In the tax year following that in which the personal income tax rate was reduced to 5.0%, the charitable deduction would be restored. In fiscal 2002 and 2003, tax revenue growth was such that personal exemptions remained at 2002 levels for tax years 2003 and 2004, respectively. In fiscal 2004, fiscal 2005, fiscal 2006 and fiscal 2007, baseline tax revenue growth was sufficient to trigger an increase in the personal exemptions for tax years 2005, 2006, 2007 and 2008, respectively, with the fiscal 2008 increase being the final of the four under the 2002 legislation. Fiscal 2008 inflation-adjusted baseline tax revenue growth over fiscal 2007 was insufficient to trigger a tax rate reduction. Fiscal 2009 revenues are projected to be less than fiscal 2008 revenues, so no tax rate reduction is expected to be triggered.

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

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

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

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

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

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

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

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

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

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

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

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

The Department of Revenue estimates that the structural corporate tax law changes combined with the gradual reductions in the business corporations tax rate, the large S corporations tax rates and the financial institutions tax rate (see *"Financial Institutions Tax"* below) will increase revenues by approximately $255 million in fiscal 2009 (reflecting less than a full year's impact of the changes), $345.2 million in fiscal 2010, $239.9 million in fiscal 2011, $169.1 million in fiscal 2012 and $145 million in fiscal 2013 and thereafter.

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

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

Revenue estimates that the REIT legislation has resulted in revenue increases of $40 million to $60 million in each of the ensuing fiscal years and will continue to yield approximately the same amount in future fiscal years.

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

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

Other Taxes. Other tax revenues are derived by the Commonwealth from excise taxes on motor fuels, cigarettes, alcoholic beverages and deeds, and hotel/motel room occupancy, among other tax sources. The excise tax on motor fuels is 21¢ per gallon. The tax on hotel/motel room occupancy is 5.7%.

The tax on cigarettes was raised in fiscal 2003 from 76¢ per pack to $1.51 per pack; the same legislation also raised the tax rate on other types of tobacco products. The Department of Revenue estimates that this change resulted in additional revenue of approximately $185 million in fiscal 2003, $155 million to $160 million in fiscal 2004 and $155 million in fiscal 2005 and thereafter. On July 1, 2008, the Governor approved legislation raising the tax from $1.51 per pack to $2.51 per pack. In January, 2009, the Department of Revenue estimated that this change would result in additional revenue of approximately $160 million in fiscal 2009 and $130 million thereafter. However, the federal Children's Health Insurance Program Reauthorization Act of 2009, approved by the President on February 4, 2009, increased the federal cigarette tax by 62¢ per pack, from 39¢ to $1.01 per pack, effective April 1, 2009, and 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. The Department of Revenue is in the process of estimating the state revenue impact of the federal cigarette tax increase.

Legislation was enacted in March, 2003 that allowed the Commissioner of Revenue to provide incentives for inheritance trusts to settle future obligations during fiscal 2003. Through this program, approximately $34 million was raised in fiscal 2004, but inheritance tax collections in subsequent years were reduced.

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

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

In July, 2007, the Commonwealth revised its film tax credit to provide tax credits of 25% of certain production costs incurred by film production companies in Massachusetts that incurred at least $50,000 of film production costs in the state. Such production companies were also granted a sales and use tax exemption for goods purchased in the Commonwealth. A film production company may elect either to transfer all or part of its production credit to another taxpayer or to claim a refund of 90% of the amount that is not currently used. There is no cap on the amount of film tax credits that may be claimed. Under current law, the film tax credit will expire on January 1, 2023. Since the program's inception, approximately $159 million in tax credits have been approved or are currently in the process of being approved by the Department of Revenue, and at least $35 million in tax credits is being generated by projects that are expected to be completed before the end of fiscal 2009. Of the $159 million in approved or pending tax credits, approximately $134 million have been transferred or sold to taxpayers other than the production companies whose activity generated them. The Department of Revenue estimates that the tax credits reduced fiscal 2007 tax revenues by approximately $12 million, reduced fiscal 2008 tax revenues by approximately $9 million and will reduce fiscal 2009 tax revenues by between $138 million and $173 million, not including any offsetting tax revenue from the film-related economic activity generated by the tax incentives. Virtually all of the reduction in tax payments resulting from credits that have been transferred or sold is reflected in the insurance, financial institutions, public utilities, and corporate tax categories. The Department of Revenue is required to prepare an annual report of the impact of the film tax credit, and is in the process of preparing its 2009 study.

Under legislation approved June 16, 2008 in support of the life sciences industry, up to $25 million per year in tax incentives will be available to certified life sciences companies over a ten-year period, commencing January 1, 2009 for an aggregate amount of $250 million. The Department of Revenue estimates that this program will result in a revenue reduction of approximately $10 million in fiscal 2009.

Tax Revenue Forecasting

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

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

Tax Revenue Forecasting (in millions)

	Fiscal 2004	Fiscal 2005	Fiscal 2006(1)	Fiscal 2007	Fiscal 2008	Projected Fiscal 2009
Consensus forecast	$14,678	$15,801	$17,336	$18,975	$19,879	$20,987
Interim pre-budget revision 1	NONE	NONE	NONE	NONE	NONE	NONE
Interim pre-budget revision 2	NONE	NONE	NONE	NONE	NONE	NONE
Total taxes per enacted budget	$14,808	$15,968	$17,448	$18,969	$19,879	$21,402
October revision	-	16,231	17,957	19,132	20,225	20,302
January revision	15,230	-	18,158	19,300	20,225	19,450
Actual budgeted operating tax revenues	$15,269	$15,987	$17,286	$18,445	$19,489	
Actual revenues as a percentage of consensus forecast	104%	101%	100%	97%	98%	
Actual revenues as a percentage of total taxes per enacted budget	103%	100%	99%	97%	98%	

SOURCE: Executive Office for Administration and Finance.

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

Economic Projections

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

The following section outlines the projections underlying the development of the fiscal 2010 consensus tax revenue estimate as presented in the Governor's fiscal 2010 budget recommendations. 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 December 15, 2008, the Secretary of Administration and Finance and the House and Senate Committees on Ways and Means heard public testimony from representatives of the Department of Revenue, the Federal Reserve Bank of Boston, the Massachusetts Taxpayers Foundation and the Beacon Hill Institute. On January 13, 2009, the Secretary made a further revision to the fiscal 2009 estimate, reducing the estimate by an additional $852 million, to $19.450 billion. On January 13, 2009, the Secretary of Administration and Finance and legislative leaders also announced agreement on a consensus fiscal 2010 tax revenue estimate. 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 estimates are 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.

Monthly updates to the economic forecasts from Moody's Economy.com and Global Insight since the consensus revenue estimate reflect the ongoing deterioration in the national and state economies. The Secretary of Administration and Finance is continuing to work with the Department of Revenue and outside economists from the Governor's Council of Economic Advisors to closely monitor economic trends and to evaluate their likely impact on state tax revenues. The Secretary is statutorily required to revise the fiscal 2009 estimate by April 15, 2009. While the Secretary's evaluation of economic trends and state tax revenue impacts is ongoing, current economic forecasts suggest that the consensus tax revenue estimate will likely need to be reduced.

Fiscal 2008 and Fiscal 2009 Tax Revenues

Fiscal 2008. Tax revenue collections for fiscal 2008 totaled $20.879 billion, an increase of $1.143 billion, or 5.8%, over fiscal 2007. The following table shows the tax collections for the twelve months of fiscal 2008 and the change from tax collections in the same months in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in such months that were dedicated to the MBTA and to the MSBA.

Fiscal 2008 Tax Collections (in millions) (1)

Month	Tax Collections	Change from Prior Year	Percentage Change	MBTA Portion (2)	MSBA Portion	Tax Collections: Net of MBTA and MSBA
July	$1,296.0	$49.4	4.0%	$64.7	$55.0	$1,176.4
August	1,258.1	70.0	5.9	57.1	48.5	1,152.5
September	2,208.0	139.1	6.7	67.2	48.4	2,092.4
October	1,207.5	(37.3)	(3.0)	59.8	50.9	1,096.8
November	1,315.9	86.1	7.1	55.6	47.3	1,212.9
December	1,844.6	60.2	3.4	73.5	47.2	1,723.9
January	2,200.4	147.6	7.2	68.6	58.3	2,073.6
February	1,143.3	156.1	15.8	51.3	43.6	1,048.4
March	1,915.5	147.5	8.3	69.1	42.9	1,803.5
April	2,733.8	397.7	17.0	57.2	48.6	2,628.1
May	1,492.4	(43.7)	(2.8)	55.4	47.1	1,390.0
June	2,263.4	(29.9)	(1.3)	76.5	97.1	2,089.8
Total	$20,879.0	$1,142.7	5.8%	$756.0	$634.7	$19,488.5

SOURCE: Executive Office for Administration and Finance.

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

(2) Includes adjustment of $10.4 million on account of the first quarter, an adjustment of $18 million on account of the second quarter, an adjustment of $18.7 million on account of the third quarter, and an adjustment of $18.2 million on account of the fourth quarter related to the inflation-adjusted floor applicable to tax receipts dedicated to the MBTA.

The tax revenue increase of $1.143 billion in fiscal 2008 over fiscal 2007 was attributable in large part to an increase of approximately $433 million, or 5.0%, in withholding collections, an increase of approximately $387 million, or 18.4%, in income tax estimated payments, an increase of approximately $299 million, or 15.2%, in income tax payments with returns and extensions, an increase of approximately $21 million, or 0.5%, in sales and use tax collections and an increase of $72 million, or 2.9%, in corporate and business tax collections, which were partially offset by changes in other revenues (net of refunds). The fiscal 2008 collections were $654 million above the fiscal 2008 consensus tax estimate of $20.225 billion, adjusted for subsequent tax law changes. Of this above-benchmark performance in revenues, $218 million was due to three one-time settlement payments representing prior years' liabilities received in February and March.

Fiscal 2009. Preliminary tax revenue collections for the first 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)	$11,805.0	($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.

Legislation approved by the Governor on July 23, 2008 requires the Department of Revenue to submit to the Legislature semi-monthly reports of preliminary tax revenues, one on or before the third business day following the fifteenth day of each month and one on or before the third business day of the following month.

The Department of Revenue released its March mid-month tax revenue report on March 19, 2009. The report indicated that through March 16, 2009, March, 2009 month-to-date tax collections totaled $881 million, down $146 million from the same period in March, 2008, with the full-month March benchmark (based on the $19.450 billion estimate) projecting total tax revenues of $1.656 billion, a decrease of $255 million from March, 2008. The report noted that the month-to-date decline through March 16 was primarily the result of lower corporate and business tax collections compared to March, 2008, with smaller declines in income and sales tax collections. The report also noted that the decline in corporate and business tax collections was anticipated in the consensus revenue estimate and incorporated in the March monthly benchmark, as was much of the income tax decline.

The report cautioned that growth in revenues received through the 16th day of March was not necessarily indicative of what the growth for the full month would be, since most revenue for March (primarily sales, meals, motor fuels, and rooms tax payments) is received in the second half of the month and there are processing and timing related issues that complicate month-to-date comparisons to the prior year.

Federal and Other Non-Tax Revenues

Federal revenues are collected through reimbursements for the federal share of entitlement programs such as Medicaid and through block grants for programs such as Transitional Assistance to Needy Families (TANF). The amount of federal reimbursements to be received is determined by state expenditures for these programs. The Commonwealth receives reimbursement for approximately 50% of its spending for Medicaid programs. Block grant funding for TANF is received quarterly and is contingent upon a maintenance-of-effort spending level determined annually by the federal government. Federal reimbursements for fiscal 2008 were $ 6.429 billion. Federal reimbursements for fiscal 2009 are currently projected to be $8.074 billion. Fiscal 2009 federal reimbursements are currently projected to include $806 million due to increases in the federal medical assistance percentage (FMAP), which is the federal matching percentage for the Medicaid program. See "FISCAL 2009 AND FISCAL 2010 – American Recovery and Reinvestment Act."

Departmental and other non-tax revenues are derived from licenses, tuition, fees and reimbursements and assessments for services. For fiscal 2008, departmental and other non-tax revenues were $2.355 billion. The largest budgeted departmental revenues, assessments and miscellaneous revenues in fiscal 2008 included $422.0 million for Registry of Motor Vehicles fees, fines and assessments, $190.9 million from filing, registration and other fees paid to the Secretary of State's office, $232.1 million in housing authority and municipal payments on behalf of retired teachers to the Commonwealth for group health insurance, $73.0 million in tuition remitted to schools of higher education, $148.4 million from underground storage cleanup, deeds excise and other non-tax fees and remittances received by the Department of Revenue and $120.1 million in fees, fines and assessments charged by the court systems. For fiscal 2009, departmental and other non-tax revenues are projected to be $2.439 billion.

Lottery Revenues. For the budgeted operating funds, inter-fund transfers include transfers of profits from the State Lottery Fund and the Arts Lottery Fund and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for net transfers from the Lottery of $985.2 million, $1.018 billion, $1.035 billion $1.103 and $1.128 billion in fiscal 2004 through 2008, respectively. Under state law, the net balance in the State Lottery Fund, as determined by the Comptroller on each September 30, December 31, March 31 and June 30, is to be used to provide local aid.

The fiscal 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.

For fiscal 2010, the State Lottery Commission is currently projecting net operating revenues of $955.8 million to fund various commitments expected to be appropriated by the Legislature from the State Lottery Fund and Arts Lottery Fund. The fiscal 2010 budget has not yet been finalized, but assuming the commitments from the State Lottery Fund and Arts Lottery Fund remain the same in fiscal 2010 as in fiscal 2009, it is projected that the State Lottery Fund, a non-budgeted fund, would end fiscal 2010 in a deficit position of approximately $49.5 million.

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

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

Tobacco settlement payments were initially deposited in a permanent trust fund (the Health Care Security Trust), with only a portion of the moneys made available for appropriation. Beginning in fiscal 2003, however, the Commonwealth has appropriated the full amount of tobacco settlement receipts in each year's budget. The balance accumulated in the Health Care Security Trust amounted to $509.7 million at the end of fiscal 2007. The fiscal 2008 budget established the State Retiree Benefits Trust Fund for the purposes of depositing, investing and disbursing amounts set aside solely to meet liabilities of the state employee' retirement system for health care and other non-pension benefits for retired members of the system. The State Retiree Benefits Trust Fund is funded in the fiscal 2008 budget through a $354 million transfer from the General Fund for the purpose of making expenditures for current retirees which, prior to fiscal year 2008, had been made from appropriations within the Group Insurance Commission. The fiscal 2008 budget required the Health Care Security Trust's balance to be transferred to the State Retiree Benefits Trust Fund on or before June 30, 2008. The fiscal 2009 budget transfers all payments received by the Commonwealth in fiscal 2009 pursuant to the master settlement agreement from the Health Care Security Trust to the General Fund. See "FISCAL 2009 AND FISCAL 2010."

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

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

Fiscal Year	Initial Payments	Annual Payments	Total Payments
2000	$186.6(2)	$139.6	$326.2(2)
2001	78.2	164.2	242.5
2002	82.8	221.7	304.5
2003	86.4	213.6	300.0
2004	-	253.6	253.6
2005	-	257.4	257.4
2006	-	236.3	236.3
2007	-	245.4	245.4
2008	-	288.5	288.5
Projected 2009	-	292.4	292.4
Total	$434.0	$2,312.7	$2,746.8

SOURCE: Fiscal 2000-2008, Office of the Comptroller; fiscal 2009, Executive Office for Administration and Finance.

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

(2) Payments received for both 1999 and 2000.

Limitations on Tax Revenues

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

Tax revenues in fiscal 2004 through 2008 were lower than the "allowable state tax revenue" limit set by Chapter 62F and are expected to be lower than the allocable limit in fiscal 2009.

Chapter 62F was amended by the fiscal 2003 and fiscal 2004 general appropriations acts to establish an additional tax revenue limitation. The fiscal 2003 budget created a quarterly cumulative "permissible tax revenue" limit equal to the cumulative year-to-date actual state tax revenue collected during the same fiscal period in the prior fiscal year, increased by the sum of the most recently available year-over-year inflation rate plus two percentage points. Effective July 1, 2003, at the end of each quarter the Commissioner of Revenue must calculate cumulative permissible tax revenue. The Comptroller must then divert tax revenue in excess of permissible tax revenue from the General Fund to a Temporary Holding Fund to make such excess revenue unavailable for expenditure. If actual tax revenue collections fall short of the permissible limit, the difference flows back into the General Fund. At the end of each fiscal year, tax revenue in excess of permissible state tax revenue for the year is to be held in the Temporary Holding Fund pending disposition by the Comptroller. The Comptroller is required to first use any funds in the Temporary Holding Fund to reimburse the Commonwealth Stabilization Fund for any amounts expended from the Stabilization Fund during the fiscal year. The general law amendments in the fiscal 2004 budget require that at the end of each fiscal year, the Comptroller must transfer remaining excess revenue from the Temporary Holding Fund back to the General Fund for inclusion in consolidated net surplus. The Governor has proposed in his fiscal 2010 budget recommendations to eliminate the Temporary Holding Fund and establish a Capital Gains Revenue Holding Fund. See "FISCAL 2009 AND 2010 - Fiscal 2010 Budget Proposals."

As of December 31, 2008 actual state tax revenue has not exceeded the permissible state tax revenue limit set by Chapter 62F.

The following table shows the quarter by quarter trend of the Temporary Holding Fund from inception through the end of fiscal 2008:

TEMPORARY HOLDING FUND
(dollar amounts in thousands)

	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008
First quarter - period ended September 30					
Cumulative net tax revenues, current fiscal year	$ 3,827,761	$ 4,046,871	$ 4,362,131	$ 4,512,171	$ 4,796,700
Cumulative net tax revenues, prior fiscal year	3,645,653	3,827,761	4,046,872	4,367,285	4,542,170
Permissible growth rate(1)	4.34%	4.54%	6.32%	8.05%	6.94%
Permissible state tax revenues(2)	$ 3,803,874	$ 4,001,694	$ 4,302,513	$ 4,718,720	$ 4,857,306
Cumulative net revenues, current fiscal year, in excess of permissible revenues	$ 23,886	$ 45,177	$ 59,618	$ -	$ -
Second quarter - period ended December 31					
Cumulative net tax revenues, current fiscal year	$ 7,436,091	$ 7,889,352	$ 8,526,671	$ 8,831,036	$ 9,194,513
Cumulative net tax revenues, prior fiscal year	7,001,044	7,436,091	7,889,352	8,526,671	8,831,036
Permissible growth rate(1)	4.83%	4.80%	6.88%	7.62%	6.93%
Permissible state tax revenues(2)	$ 7,339,194	$ 7,792,800	$ 8,432,376	$ 9,175,977	$ 9,442,585
Cumulative net revenues, current fiscal year, in excess of permissible revenues	$ 96,897	$ 96,552	$ 94,295	$ -	$ -
Third quarter - period ended March 31					
Cumulative net tax revenues, current fiscal year	$ 11,241,207	$ 11,994,248	$ 12,946,485	$ 13,659,295	$ 14,485,334
Cumulative net tax revenues, prior fiscal year	10,735,180	11,241,206	11,994,245	12,946,485	13,659,294
Permissible growth rate(1)	4.32%	5.41%	7.44%	6.92%	7.41%
Permissible state tax revenues(2)	$ 11,198,940	$ 11,849,018	$ 12,886,497	$ 13,841,734	$ 14,671,584
Cumulative net revenues, current fiscal year, in excess of permissible revenues	$ 42,267	$ 145,230	$ 59,988	$ -	$ -
Fourth Quarter - Period ending June 30					
Cumulative net tax revenues, current fiscal year	$ 16,052,917	$ 17,190,450	$ 18,592,175	$ 19,848,064	$ 21,009,329
Cumulative net tax revenues, prior fiscal year	15,030,503	16,052,917	17,190,450	18,592,175	19,848,064
Permissible growth rate(1)	4.42%	6.24%	7.85%	6.52%	7.66%
Permissible state tax revenues(2)	$ 15,695,453	$ 17,054,459	$ 18,540,072	$ 19,804,571	$ 21,368,426
Cumulative net revenues, current fiscal year, in excess of permissible revenues	$ 357,464	$ 135,991	$ 52,103	$ 43,493	$ -

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

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 those years 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	$5,135.6
Medicaid(3)	5,742.4	5,977.2	6,852.5	7,550.4	8,246.3	8,626.7
Other Health and Human Services	4,174.2	4,226.0	4,433.6	4,625.3	4,796.5	4,870.2
Group Insurance	787.6	846.4	963.7	1,022.3	852.5(10)	961.3
Dept. of Elementary and Secondary Education	394.0	476.7	408.6	459.0	485.8	586.4
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	569.2
Public Safety(4)	1,203.2	1,206.5	1,288.0	1,399.2	1,544.4	1,546.7
Energy and Environmental Affairs	169.2	181.1	202.0	238.5	227.1	223.5
Debt Service	1,569.2	1,738.8	1,826.7	2,234.4	1,990.1	2,104.7
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	2,312.9
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	29,279.3
Inter-fund Transfers to Non-budgeted Funds						
Commonwealth Care Trust Fund(6)	-	-	-	722.1	1,045.9	991.8
State Retiree Benefit Trust Fund	-	-	-	-	354.7	352.0
Medical Assistance Trust Fund(7)	-	-	70.0	364.0	376.7	568.0
Other	690.3	494.4	321.2	179.6	400.9	1,189.9
Sub Total	$690.3	$494.4	$391.2	$1,265.7	$2,178.2	$3,101.7
Budgeted Expenditures and Other Uses	$22,848.3	$23,779.1	$25,584.6	$28,922.9	$30,808.4	$32,381.0
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	$32,381.0

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.

Local Aid

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

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

The State Lottery Fund and the Additional Assistance program comprise the other major components of direct local aid, providing unrestricted funds for municipal use. In fiscal 2008, cities and towns received $935 million in aid from the State Lottery Fund, resulting in a deficit in the Fund of $113 million. To eliminate a portion of the $113 million deficit, $81 million was transferred to the Fund from the General Fund, leaving a deficit in the Fund of $32 million. The fiscal 2009 budget provides for State Lottery Fund distributions of approximately $1.005 billion. See "COMMONWEALTH REVENUES - Federal and Other Non-Tax Revenues; *Lottery Revenues*." Additional Assistance totaling $378.5 million was also provided to cities and towns in fiscal 2008. The Commonwealth is projected to spend $342.9 million on Additional Assistance in fiscal 2009.

Property Tax Limits. In November, 1980, voters in the Commonwealth approved a statewide tax limitation initiative petition, commonly known as Proposition 2½, to constrain levels of property taxation and to limit the charges and fees imposed on cities and towns by certain governmental entities, including county governments. Proposition 2½ is not a provision of the state constitution and accordingly is subject to amendment or repeal by the Legislature. Proposition 2½, as amended to date, limits the property taxes that may be levied by any city or town in any fiscal year to the lesser of (i) 2.5% of the full and fair cash valuation of the real estate and personal property therein or (ii) 2.5% over the previous year's levy limit plus any growth in the tax base from certain new construction and parcel subdivisions. The law contains certain voter override provisions and, in addition, permits debt service on specific bonds and notes and expenditures for identified capital projects to be excluded from the limits by a majority vote at a general or special election. Between fiscal 1981 and fiscal 2008, the aggregate property tax levy grew from $3.347 billion to $10.992 billion, a compound annual growth rate of 4.46%.

Medicaid

The Commonwealth's Medicaid program, called MassHealth, provides health care to low-income children and families, certain low-income adults, disabled individuals and low-income elders. The program, administered by the Office of Medicaid within the Executive Office of Health and Human Services, receives 50% in federal reimbursement on most expenditures. Beginning in fiscal 1999, payments for some children's benefits became 65% federally reimbursable under the Children's Health Insurance Program (CHIP).

Nearly 30% of the Commonwealth's budget is devoted to Medicaid. It is the largest and has been one of the fastest growing items in the Commonwealth's budget. Medicaid spending from fiscal 2005 to fiscal 2009 is estimated to have grown by 7.4% on a compound annual basis. During the same period, Medicaid enrollment is estimated to have increased 4.8% on a compound annual basis, driven largely by eligibility expansions and the individual mandate prescribed by the 2006 health care reform legislation. See "Health Care Reform" below.

Based on enactment of legislation filed by the Governor in January, 2009 to close fiscal 2009 budget shortfalls, the fiscal 2009 budget includes $8.579 billion for Medicaid programs and administrative expenses (after the Governor's 9C spending reductions totaling $238.5 million, partially offset by $177 million in spending adjustments to fund certain program deficiencies). This amount is a 3.9% increase in spending over fiscal year 2008 levels. These spending levels are supported in part by increases in the federal medical assistance percentage (FMAP) made available through the American Recovery and Reinvestment Act of 2009. The Executive Office for Administration and Finance currently estimates that the Commonwealth will receive $533 million in additional funding in fiscal 2009 through this FMAP increase.

Updated estimates based on the final version of the American Recovery and Reinvestment Act of 2009 suggest that the Commonwealth will in fact receive greater amounts of additional federal revenue through increases in the FMAP. The Commonwealth now expects to receive $806 million in fiscal 2009 and over $1.1 billion in fiscal 2010 in additional Medicaid matching funds. On March 25, 2009, the Governor proposed a framework for using the additional revenues beyond its original estimates of FMAP receipts ($273 million in additional FMAP funds in fiscal 2009 and $406 million in fiscal 2010) to help fund additional, high-priority Medicaid spending and address other potential health care-related needs. As a result of a mid-year review, fiscal 2009 spending for the Medicaid program is now projected to be $8.626 billion. This figure reflects potential spending shortfalls as well as Medicaid spending priorities supported through updated estimates of FMAP receipts. Among other things, the additional funding will allow for the Medicaid program to address some remaining shortfalls in the program and protect key safety net services.

	Fiscal 2005	**Fiscal 2006**	**Fiscal 2007**	**Fiscal 2008**	**Fiscal 2009 GAA**	**Fiscal 2009 Estimated Spending**
Budgeted Medicaid program expenses (1)	$5,875.30	$6,756.40	$7,412.50	$8,102.50	$8,447.40	$8,483.00
(2)	120.10	$127.60	133.76	132.37	145.47	143.70
Budgeted Medicaid administrative expenses	422.20	$332.50	288.50	-	-	-
Off Budget Medicaid expenses (3) (4)	$6,417.60	$7,216.50	$7,834.76	$8,234.87	$8,592.87	$8,626.70
Total expenditures	3.0%	12.4%	8.6%	5.1%	4.3%	4.8%
Annual percentage growth in total expenditures						
Enrollment	988,287	1,042,345	1,094,844	1,138,725	1,190,923	1,172,464
Annual percentage growth in enrollment	3.8%	5.5%	5.0%	4.0%	4.6%	3.0%
Per-enrollee expenditures	$5,994.93	$6,481.92	$6,770.37	$7,115.42	$7,093.16	7,235.19
Annual percentage growth in per-enrollee expenditures	-1.8%	9.0%	4.5%	5.1%	-0.3%	1.7%

SOURCE: Executive Office for Administration and Finance.

(1) Reflects the fiscal 2009 budget after 9C's and deficiencies in spending in the program

(2) All fiscal years reflect spending through June 30th.
(3) Off-budget spending does not include a revenue offset for Medicare "buy-in" payments in 2005 ($242.5 million in fiscal 2005). Beginning in fiscal 2006, these payments are reflected in budgeted Medicaid program expenses.
(4) Off-budget spending does not include increases in hospital and physician rates mandated by health care reform legislation. Such costs are paid from the Commonwealth Care Trust Fund, which is off-budget and described in the health care reform table below

Federal 1115 MassHealth Demonstration Waiver

July 1, 2008 – June 30, 2011 Waiver Period

On December 22, 2008, the Commonwealth announced that it had reached a final written agreement 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 "COMMONWEALTH EXPENDITURES - Medicaid."

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.

Health Care Reform

In April, 2006, the Commonwealth enacted health care reform legislation designed to expand health insurance coverage to virtually all of its residents. The legislation is based on a framework of shared responsibility for expanding health coverage. It requires individuals 18 years and older who can afford health insurance to maintain coverage. In turn, the law reformed state health insurance markets and created the Commonwealth Health Insurance Connector Authority (the "Connector Authority") to offer individuals a greater choice of affordable private health insurance plans. It also provides low-income adults and children with new opportunities to enroll in affordable, government-subsidized coverage through expanded eligibility for Medicaid and the newly created Commonwealth Care program. Under the health care reform law, businesses with 11 or more full-time employees must either contribute to health insurance coverage for their employees or pay an assessment and must allow their employees to pay their share of the costs of health insurance coverage on a pre-tax basis (known as a Section 125, or "cafeteria plan" option).

MassHealth. The health care reform legislation expanded eligibility for MassHealth, restored certain MassHealth benefits and services that had been cut during prior fiscal crises and created new MassHealth programs. Eligibility for the MassHealth children's health insurance program (SCHIP) program was increased to 300% of the federal poverty level, as was eligibility for MassHealth's Insurance Partnership program. The legislation also increased or eliminated enrollment caps for MassHealth Essential (which offers benefits to long-term unemployed adults), MassHealth-HIV Family Assistance (which covers individuals up to 200% of the federal poverty level who are HIV-positive) and CommonHealth (which covers disabled individuals). Enrollment caps for all of these programs have since been eliminated. Moreover, it restored optional MassHealth benefits that had been discontinued in fiscal 2002, including adult dental benefits and coverage for glasses, chiropractic services and prosthetics. The legislation also created new smoking cessation and wellness programs within MassHealth.

Additionally, the health care reform legislation provided for rate increases for acute care hospitals, physicians and managed care organizations. To reflect the need to maintain support for safety net institutions after the sunsetting of previous mechanisms for making supplemental payments to these health systems, Section 122 of the health care reform legislation requires the Commonwealth to make transitional supplemental payments to certain safety net providers through fiscal 2009. MassHealth spending attributable to health care reform is divided between the MassHealth spending totals listed above (see "Medicaid" above) and certain amounts distributed through the Commonwealth Care Trust Fund (see "Health Care Reform; *Commonwealth Care Trust Fund and Health Safety Net Trust Fund Cost Projections*" below).

Connector Authority, Commonwealth Care, Commonwealth Choice. The health care reform legislation created the Connector Authority to administer the new Commonwealth Care program, a subsidized health insurance coverage program for adults whose income is up to 300% of the federal poverty level and who do not have access to employer-sponsored insurance. Commonwealth Care began enrolling individuals on October 1, 2006. As of March 1, 2009, over 165,000 residents with incomes up to 300% of the federal poverty level were enrolled in Commonwealth Care.

The fiscal 2009 budget includes $869 million for Commonwealth Care, based on prior cost and enrollment projections anticipating that the program would grow to 225,000 members by the end of fiscal 2009. However, net enrollment has been lower than expected (enrollment is currently at the same level as at the end of fiscal year 2008), as new sign-ups for Commonwealth Care have been fully offset by members leaving the program on their own and on account of eligibility verification processes. Thus, Commonwealth Care is currently projected to cost approximately $788 million in fiscal year 2009. Although costs for Commonwealth Care are lower than expected in fiscal 2009, program financing remains a challenge, given the significant decline in state tax revenues. The program is expected to be fully funded in fiscal 2009 and fiscal 2010, reflecting its importance as a core component of the Commonwealth's safety net for economically vulnerable citizens. The Connector Authority continues to monitor cost and enrollment trends for fiscal 2009 and will revise estimates based on updated information. The cost estimates discussed above represent projections of gross funding needs for Commonwealth Care (net of enrollee contributions) and do not account for federal reimbursement under the Commonwealth's Medicaid waiver.

Through the Commonwealth Choice program, the Connector Authority is also responsible for offering unsubsidized, affordable health insurance plans to individuals whose income exceeds 300% of the federal poverty level but who do not currently have access to health coverage. Commonwealth Choice also allows small businesses to offer their employees a choice of health insurance plans. As of March 1, 2009, more than 21,000 individuals have enrolled in health plans through the Commonwealth Choice program.

Health Safety Net/Health Safety Net Trust Fund. The Division of Health Care Finance and Policy administers the Health Safety Net (formerly the Uncompensated Care Pool), which reimburses acute care hospitals and community health centers in Massachusetts for eligible services provided to low-income uninsured and underinsured residents of the Commonwealth. As the Commonwealth implements health care reform and aims to insure nearly every resident, the Division is carefully monitoring utilization and costs paid from the Health Safety Net Trust Fund. To date, the Division reports that Health Safety Net service volume for hospitals and community health centers decreased by 36% during the six-month period of April, 2008 through September, 2008, as compared to the same six-month period during the prior year. Total costs declined by 38%, comparing Health Safety Net fiscal 2008 to the prior year. (The Health Safety Net's fiscal year runs from October 1 through September 30.)

Pending finalization of claims data review, Health Safety Net expenditures for un-reimbursed care provided to low-income uninsured and underinsured individuals at acute care hospitals and community health centers were $415.6 million in the Health Safety Net's fiscal 2008. The General Fund contributed $49.6 million in funding for the Health Safety Net in fiscal 2008, while $344 million is expected to be generated from hospital and insurer assessments and surplus funds transferred from prior-year balances. In addition, $60 million in reimbursement for care provided to low-income uninsured and underinsured individuals provided at acute hospitals is expected to be funded by supplemental payments made from other sources. This results in a projected $38 million surplus for Health Safety Net in its fiscal 2008, which has been accounted for on the Commonwealth's fiscal 2009 balance sheet and has helped to limit the total amount of emergency spending cuts needed in other health care accounts.

The fiscal 2009 budget authorizes $453 million in payments made during the Health Safety Net's fiscal 2009 for care provided to low-income uninsured and underinsured individuals at acute care hospitals and community health centers. The General Fund contributed $63 million to the Trust Fund, and $320 million is expected to be generated from hospital and insurer assessments to pay for Health Safety Net costs. In addition, $70 million in reimbursement for care provided to low-income uninsured and underinsured individuals provided at acute hospitals is expected to be funded by supplemental payments made from other sources. Based on updated projections, Health Safety Net expenditures are likely to be $28 million to $47 million lower than the $453 million provided for in fiscal 2009, but the Executive Office for Administration and Finance has proposed retaining the full fiscal 2009 funding in the Trust Fund as a cushion to support actual Health Safety Net spending needs. The Commonwealth also expects to use $64 million in previously appropriated funds contained within the Health Safety Net Trust Fund for other one-time costs associated with the provision of un-reimbursed care to uninsured and underinsured individuals.

The Division of Health Care Finance and Policy continues to monitor Health Safety Net service volume and costs, to assess the appropriate level of funding for the Health Safety Net Trust Fund and to analyze constantly evolving trends relating to Trust Fund care demand. There are expected to be corresponding budget adjustments as more data emerges regarding demand on the Health Safety Net Trust Fund.

Commonwealth Care Trust Fund and Health Safety Net Trust Fund Cost Projections. Many parts of health care reforms are funded through the Commonwealth Care Trust Fund and the Health Safety Net Trust Fund. The chart below describes spending through these Trust Funds in fiscal 2007-2009, as well as the sources of revenues transferred into these Trust Funds. The revenues listed below do not include federal matching funds generated by this spending, which are deposited in the General Fund.

	Commonwealth Care Trust Fund Spending		
Spending Categories (1)	Fiscal 2007	Fiscal 2008	Fiscal 2009
Commonwealth Care (2)	$ 132.9	$ 629.8	$ 788.3
Section 122 Supplemental Payments (3)	200.0	180.0	160.0
Provider Rates (4)	70.9	165.0	198.2
Total Spending	**$ 403.8**	**$ 974.8**	**$1,146.5**
	Commonwealth Care Trust Fund Revenue		
Dedicated Revenue to the CCTF			
Rolling Surplus (5)	$ -	$ (28.3)	$ (20.0)
Cigarette Tax Revenue (6)	-	-	(160.0)
Individual Tax Penalties	-	(9.7)	(12.4)
Fair Share Assessment (7)	-	(5.4)	(10.3)
One-Time Hospital Assessment (8)	-	-	(15.0)
Total General Fund Contribution to CCTF excluding HSNTF contributions	(403.8)	(931.4)	(928.8)
Total Revenue	**$ 403.8**	**$ 974.8**	**$ 1,146.5**
	Health Safety Net Trust Fund Spending		
Spending Categories (9)	Fiscal 2007 (10)	Fiscal 2008 (11)	Fiscal 2009 (12)
Health Safety Net	$ 665.0	$ 415.60	$ 406.0
One-Time Payment for Uncompensated Care			64.0
Dedicated Revenue to the HSN			
Provider and Insurer Assessments	$ (320.0)	$ (320.0)	$ (320.0)
Offset	(70.0)	(60.0)	(70.0)
General Fund Contribution (for HSN and one-time payments)	(290.0)	(49.6)	(63.0)
Dedicated funding for One-time Provider Payment			(64.0)
Rolling Surplus		(24.0)	
Total General Fund Contribution to CCTF including HSNTF	**$ (693.80)**	**$ (981.0)**	**$ (991.80)**

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

(1) Overall Spending is gross and therefore does not include federal reimbursements.
(2) Reflects only the General Fund-supported portion of the Commonwealth Care program and does not reflect spending that is supported by enrollee contributions. See "Connector Authority, Commonwealth Care, Commonwealth Choice" for discussion of additional budget pressures on Commonwealth Care.
(3) S. 122 payments are based on date of service not date of payment. This reflects supplemental payments made to hospital specified in section 122 of the health care reform legislation.
(4) Provider rates are based on date of service not date of payment. This reflects hospital and physician increases specified in section 128 of the health care reform legislation.
(5) In fiscal 2008, this category reflects surplus funds that were transferred to the trust fund during fiscal 2007 that were not spent. In fiscal 2009, this category reflects funds that were held aside as it relates to the hospital pay-for-performance efforts specified in the health care reform legislation.
(6) Starting in fiscal year 2009, the state raised cigarette taxes by $1 per pack and dedicated the increased revenues to the Commonwealth Care Trust Fund.

(7) Fair Share revenue is net of administrative funding to run the program at the Division of Unemployment Assistance.
(8) The one-time hospital assessment of $20 million was enacted as part of the legislation filed in 2009 to raise revenues to support health care spending. The Commonwealth Care Trust Fund will only receive $15 million in FY09 due to the fact that the assessment is based on a hospital fiscal year not a state fiscal year.

(9) Health Safety Net spending is based on a hospital fiscal year which runs from October 1 to September 30.
(10) In FY07 the $15.2 million HSN surplus is based in $665 million in demand and $320 million in assessments, $70 million in offsets from the Medical Assistance Trust Fund, $290 million in General Fund contributions.
(11) In FY08 the $38 million HSN surplus is based on $415.6 million in demand and $320 million in assessments, $60 million in offsets from the Medical Assistance Trust Fund, $49.6 million in general fund contributions, and $24 million in rollover from the prior year. This figure excludes an additional $64 million one-time spending that was to be contributed for a one-time payment for uncompensated care. If this figure were to include the $64 million one-time revenue for uncompensated care the General Fund contribution to the HSN would be $113.9 million; therefore the General Fund contribution to the Commonwealth Care Trust Fund

would be $1.045 billion.

(12) In FY09 there is a potential $47 million surplus, based on waiver spending assumption of $406 million and $320 million in assessments, $70 million in offsets, and $63 million in general fund contribution. The surplus could be lower based on actual spending needs in the HSN. The fiscal year 2009 funding in excess of waiver spending assumptions within the HSN will be used as a cushion that can be applied to support actual spending needs. Also in FY09, a $64 million one-time payment for uncompensated care is paid out from the $64 million contributed to HSNTF.

Other Health and Human Services

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

Expenditure Category	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	Projected Fiscal 2009
Office of Health Services						
Dept. of Mental Health	$561.9	$569.8	$603.4	$630.2	$651.0	$648.1
Dept. of Public Health	408.6	431.1	473.6	543.6	546.8	559.4
Division of Healthcare and Finance Policy	9.4	9.2	9.9	10.3	11.7	17.2
Sub Total	$979.9	$1,010.1	$1,086.9	$1,184.1	$1,209.6	$1,224.7
Office of Children, Youth, and Family Services						
Dept. of Social Services	681.3	700.9	729.2	783.4	816.2	813.5
Dept. of Transitional Assistance	779.9	772.2	781.8	781.9	814.2	910.7
Dept of Youth Services	123.9	130.3	141.9	152.8	157.3	158.5
Office for Refugees and Immigrants	0.2	0.3	0.7	1.2	1.6	0.6
Sub Total	$1,585.3	$1,603.7	$1,653.6	$1,719.3	$1,789.3	$1,883.3
Office of Disabilities and Community Services						
Dept. of Mental Retardation	1,007.1	1,058.1	1,122.2	1,179.6	1,228.9	1,264.5
Other	108.1	112.0	118.6	128.3	135.9	129.4
Sub Total	$1,115.2	$1,170.1	$1,240.8	$1,307.9	$1,364.8	$1,393.9
Dept of Elder Affairs	288.3	299.5	305.6	278.8	293.9	278.8
Executive Office of Human services (1)	155.4	90.8	111.7	92.5	92.6	37.5
Veterans' Services and Other	50.1	51.8	35.0	42.7	46.4	52.0
Sub Total	$493.8	$442.1	$452.3	$414.0	$432.9	$368.3
Budgeted Expenditures and Other Uses	$4,174.2	$4,226.0	$4,433.6	$4,625.3	$4,796.6	$4,870.2

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

(1) Includes the Department of Medical Assistance (DMA) which was a separate department through fiscal 2004; but consolidated into the Executive Office of Human Services in fiscal 2005.

Office of Health Services

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

For fiscal 2008, the Office of Health Services spent $1.209 billion to provide health programs and services. The Office is projected to spend $1.224 billion in fiscal 2009. Department of Mental Health spending was $651.0 million in fiscal 2008 and is projected to be $648.1 million in fiscal 2009. The Department of Public Health's fiscal 2008 spending was $546.8 million and is projected to be $559.4 million in fiscal 2009. Division of Health Care Finance and Policy spending was $11.7 million in fiscal 2008 and is projected to be $17.2 million in fiscal 2009.

Office of Children, Youth and Family Services

The Office of Children, Youth and Family Services works to provide services to children and their families through a variety of programs and services. The programs and services are offered through the Department of Social Services, the Department of Youth Services, the Department of Transitional Assistance and the Office of Refugees and Immigrants. The collaborative goal of this office is to work to ensure that individuals, children and families are provided with public assistance needed as well as access to programs that will allow for them to be safe and self-sufficient. The Office of Children, Youth and Family Services overall actual spending was $1.789 billion in fiscal 2008 and is projected to be $1.883 billion in fiscal 2009.

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

Total TAFDC expenditures in fiscal 2008 were $ 287.6 million, or $3.4 million more than fiscal 2007. Total TAFDC expenditures in fiscal 2009 are projected to be $299.0 million, or $11.4 million more than fiscal 2008. Fiscal 2008 expenditures for the EAEDC program were $ 71.6 million, an increase from fiscal 2007 spending of $67.3 million. Fiscal 2009 expenditures for the EAEDC program are estimated to total $78.8 million, an increase from fiscal 2008 spending of $7.2 million. In fiscal 2008, the state's supplemental SSI spending was $212.3 million, $6.9 million, or 3.4%, greater than expenditures in fiscal 2007. In fiscal 2009, the state's supplemental SSI spending is projected to be $218.0 million, $5.7 million, or 2.7%, greater than expenditures in fiscal 2008.

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

Welfare Reform. Under new federal TANF program rules, Massachusetts must meet the federal work participation rate (*i.e.,* the current percentage of families receiving assistance that are participating in work or training-related activities allowed under the program) of 50% for all TANF families and 90% for two-parent families. Through fiscal 2006, Massachusetts was eligible under the federal program rules to lower the state's total required work participation rate requirement by applying credits earned through annual caseload reductions while continuing to meet federal requirements for state maintenance of effort spending. The Commonwealth is awaiting a formal determination with respect to the fiscal 2007 caseload reduction credit methodology. Beginning in fiscal 2008, Massachusetts became subject to a new methodology in determining the total annual caseload reduction credit that can be applied to the state's workforce participation target. Because the new methodology diminished the state's ability to lower its workforce participation target, the state has established a new supplemental nutrition program.

Working families enrolled in this new program are counted towards the workforce participation rate and allow the state to meet the federal participation rate. This avoids potential losses in federal revenue due to penalties, while providing the working poor with a meaningful food assistance benefit.

Housing Reform. Reorganization legislation approved by the Governor in February, 2009 consolidates all of the housing and homeless-related activities currently provided by the Department of Transitional Assistance (DTA) into the Department of Housing and Community Development (DHCD). In total, $133.7 million is expected to be transferred from DTA to DHCD in fiscal 2010. The legislation is intended to enable DHCD to achieve better coordination between programs designed to serve the homeless and programs to supply affordable housing.

Office of Disabilities and Community Services

The Office of Disabilities and Community Services assists in the welfare of many disadvantaged residents of Massachusetts through a variety of agencies. Programs and services are provided by the Massachusetts Rehabilitation Commission, the Massachusetts Commission for the Deaf and Hard of Hearing, the Massachusetts Commission for the Blind, the Department of Mental Retardation (to be re-named the Department of Developmental Services on July 1, 2009) and the Soldiers' Homes in Chelsea and Holyoke. These agencies provide assistance to this population and create public awareness to the citizens of the Commonwealth. Other facets of the Office of Disabilities and Community Services include both oversight and inter-agency collaboration which attend to the needs of the community, disabled and multi-disabled population. This holistic approach is designed to ensure that those of all ages with disabilities are able to lead functionally equivalent lives despite limitations that they may face.

The current lawsuit of *Rolland v. Patrick et al.* (originally *Rolland v. Cellucci*) affects both the Department of Mental Retardation and the Office of Disabilities and Community Services. Pursuant to the terms of the settlement, the Department of Mental Retardation must provide specialized services to those individuals residing in nursing facilities, place individuals into the community and divert the placement of new individuals. For the past eight years, the Department of Mental Retardation has addressed the needs of the 1,675 individuals with mental retardation and developmental disabilities residing in skilled nursing facilities. Under the settlement agreement, the Commonwealth expected 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 "LEGAL MATTERS."

In fiscal 2008, spending for these agencies and the services that they provided totaled $1.4 billion. A considerable portion of this, $1.2 billion, was expended by the Department of Mental Retardation. The Massachusetts Rehabilitation Commission followed in spending by utilizing approximately $54.1 million in fiscal 2008. The remaining amount was allocated between the Massachusetts Rehabilitation Commission, the Massachusetts Commission for the Blind, the Massachusetts Commission for the Deaf and Hard of Hearing and the Massachusetts and Holyoke Soldiers' Home. In fiscal 2009, the Office of Disabilities and Community Services is projected to spend approximately $1.393 billion. Of that amount, the Department of Mental Retardation is expected to spend $1.264 billion.

Department of Elder Affairs

The Department of Elder Affairs (Elder Affairs) provides a variety of services and programs to eligible seniors and their families. Elder Affairs administers supportive and congregate housing programs, regulates assisted living residences, provides home care and caregiver support services, and nutrition programs. Eligibility for services is based largely on age, income, and disability status. The Department of Elder Affairs also administers the Prescription Advantage Program. The Department of Elder Affairs spent $294.0 million on senior programs (*e.g.*, housing, nutrition, protective services) in fiscal 2008 and is projected to spend $278.8 million in fiscal 2009.

Personal Care Attendant Services. The Executive Office of Health and Human Services, through Elder Affairs, offers personal care attendant (PCA) services to individuals with disabilities. This community-based service is in line with Elder Affairs' commitment to providing safe, effective services in the most appropriate setting. Legislation enacted in 2006 established the Personal Care Attendant Quality Home Care Workforce Council (PCA Council) within, but not subject to the control of, the Executive Office of Health and Human Services. As a result of the legislation, PCAs are public employees for the purpose of collective bargaining with the PCA Council but do not receive state employee pension or health benefits. The PCA Council is charged with recruitment and training of PCAs, establishing a referral directory to match consumers with PCAs and assisting consumers in making contact with potential candidates. On November 7, 2007, PCAs voted to be represented by the Service Employees International Union (SEIU) 1199 in their negotiations with the PCA Council. The PCA Council has reached a tentative three-year agreement with the PCAs which includes wage increases, paid time off, benefits and a commitment to study the need and options for health insurance benefits for PCAs and to negotiate an agreement regarding health insurance benefits based on the study to commence in fiscal 2010.

Department of Veterans' Services

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

In fiscal 2008, the Department of Veterans' Services spent $46.4 million on veterans' programs (*e.g.*, outreach, housing and benefits). Projected fiscal 2009 spending is $52.0 million.

Group Insurance

The Group Insurance Commission (GIC) provides health insurance benefits to approximately 300,000 active and retired state employees and their dependents. Currently, employee contributions are based on date of hire; all employees hired on or before June 30, 2003 contribute 15% of total premium costs and employees hired after June 30, 2003 pay 20% of premium costs.

The fiscal 2009 budget is consistent with Government Accounting Standards Board (GASB) Statement No. 45 and the state's intent to consolidate spending for current retirees with deposits towards the Commonwealth's non-pension retiree liability. See "Other Post-Retirement Benefit Obligations (OPEB)." The original fiscal 2009 budget appropriated $833 million for the GIC to fund health coverage for active employees and their dependents, as well as administrative costs. The fiscal 2009 budget authorizes transfers of up to $372 million to the State Retiree Benefits Trust Fund for the purpose of making expenditures for current retirees and their dependents. Budgeted funding at the GIC in fiscal 2009, including health coverage for active and retired employees and other costs, totals $1.26 billion, a 7.6% increase over fiscal 2008 budgeted amounts.

A current analysis of GIC fiscal 2009 spending indicates total spending of $1.3 billion, $45.7 million higher than expected. The shortfall is the result of unrealized savings of $31.7 million and an estimated utilization increase of $14 million. The governor filed legislation in October, 2008 to reform the employee contribution structure from date-of-hire to one based on salary. The value of savings was estimated to be $28.5 million; however, legislative action on this proposal is still pending. The additional $3.2 million in planned savings was based on an assumption that reduction in the state workforce would lead to decreased utilization. A greater than expected number of high cost cases not only offset this $3.2 million in planned savings but also resulted in an approximately $14 million deficiency.

Pension

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

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

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

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

Unfunded Actuarial Accrued Liability. The retirement systems were originally established as "pay-as-you-go" systems, meaning that amounts were appropriated each year to pay current benefits, and no provision was made to fund currently the future liabilities already incurred. In fiscal 1988, the Commonwealth began to address the unfunded liabilities of the two state systems by making appropriations to pension reserves. Prior to the establishment of the pension funding program described below, the Commonwealth appropriated approximately $680 million to the pension reserves during the mid-1980's, in addition to the pay-as-you-go pension costs during those years. Comprehensive pension funding legislation was approved in January, 1988 to require the Commonwealth to fund future pension liabilities currently and to amortize the Commonwealth's accumulated unfunded liability. Under current law such unfunded liability is required to be amortized to zero by June 30, 2025.

The Secretary of Administration and Finance is required by law to prepare a funding schedule providing for both the normal cost of Commonwealth benefits (normal cost being that portion of the actuarial present value of pension benefits which is allocated to a valuation year by an actuarial cost method) and the amortization by June 30, 2025, of the unfunded actuarial liability of the Commonwealth for its pension obligations. The funding schedule is required to be updated periodically on the basis of new actuarial valuation reports prepared under the direction of the Secretary of Administration and Finance. Funding schedules are to be filed with the Legislature triennially by January 15 and are subject to legislative approval. If a schedule is not approved by the Legislature, payments are to be made in accordance with the most recently approved schedule at a level at least equal to the prior year's payments.

The most recent funding schedule was adopted in March, 2009.

Approved Funding Schedule for Pension Obligations (in thousands)

Fiscal Year	Payments	Fiscal Year	Payments
2009	$1,314,396	2019	$2,088,934
2010	1,376,619	2020	2,188,189
2011	1,441,811	2021	2,292,199
2012	1,510,115	2022	2,401,195
2013	1,581,681	2023	2,515,416
2014	1,656,666	2024	2,635,117
2015	1,735,235	2025	2,760,563
2016	1,817,561		
2017	1,903,824		
2018	1,994,216		

SOURCE: Executive Office for Administration and Finance.

Valuation of Pension Obligation. On September 10, 2008, PERAC released its actuarial valuation of the total pension obligation as of January 1, 2008. 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 final January 1, 2008 actuarial results and reflects the recently extended funding schedule deadline of 2025.

On March 6, 2009 PERAC released its actuarial report of the State Retirement System as of January 1, 2009. The unfunded actuarial accrued liability as of that date was $6.73 billion and reflects the significant investment loss in 2008 (market value return of -29.4%). The valuation estimated the total actuarial accrued liability as of January 1, 2009 to be approximately $23.72 billion. Total assets were valued at approximately $16.99 billion based on a five-year average valuation method, which equaled 110% of the January 1, 2009 total asset market value. Under the asset valuation methodology, the value of assets must be between 90% and 110% of the market value. PERAC plans to release its actuarial report for the total pension obligation as of January 1, 2009 in September, 2009.

Other Post-Retirement Benefit Obligations (OPEB)

Accounting standards promulgated in 2004 by the Governmental Accounting Standards Board (GASB) required the Commonwealth to begin disclosing its liability for other post-employment benefits (commonly referred to as "OPEB") in its fiscal 2008 financial reports. An initial valuation report by an independent actuarial firm of the Commonwealth's liability for these health care and life insurance benefits was released in June, 2006. The January 1, 2008 valuation report was released on December 4, 2008.

According to the December, 2008 report, assuming no pre-funding, the actuarial accrued liability of the Commonwealth for OPEB obligations earned through January 1, 2008 was $15.637 billion. If partial pre-funding was assumed, the actuarial accrued liability was reduced to $11.649 billion. This difference is solely attributable to the standards requirement that a lower discount rate must be used without pre-funding. Under partial pre-funding, the annual required contribution was calculated in December, 2008 to commence at $981.4 million for fiscal 2009 and projected to increase to $1.65 billion for fiscal 2018.

Should the Commonwealth not fully fund the amortization of the actuarial liability, a liability for the difference between the amount funded and the actuarially required contribution will be reflected on the Commonwealth's statement of net assets, as presented on a GAAP basis. The liability will increase or decrease each year depending on the amount funded, investment return and changes in amortization and assumptions. This change in liability will be reflected either as a revenue or expense item in the Commonwealth's statement of activities as presented on a GAAP basis, dependent on these factors.

In making these calculations, the independent actuarial firm utilized employment and other data provided by the Commonwealth and assumed annual claims growth initially at 10.5% in 2006 (used for initial valuation) declining to 9.5% in the current valuation and ultimately to 5% after ten years and continuation of current benefit levels and current retiree contribution requirements.

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

The difference between the value of pre-funded and non-pre-funded OPEB liabilities is due to the discount rate used in the calculation. In the absence of pre-funding, the discount rate must approximate the Commonwealth's rate of return on non-pension (liquid) investments over the long term, estimated at 4.5% for the purpose of this study. In the event of pre-funding, the discount rate would increase to a standard return on long-term investments, estimated at 6.40% for the purpose of this study. In order to qualify its OPEB liabilities as pre-funded, the Commonwealth must deposit annual contributions in a qualifying trust in accordance with the requirements of GASB Statement No. 45 (and similar to the program for funding the Commonwealth's unfunded actuarial liability for pensions).

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

A copy of the December, 2008 valuation report discussed above may be viewed at the website of the Comptroller of the Commonwealth at http://www.mass.gov/osc. Click on "Financial Reports/Audits."

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

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

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

The Governor's fiscal 2010 budget recommendations would require adoption of a funding schedule for the Commonwealth's unfunded OPEB liability. 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. The Governor, in the legislation he filed on January 28, 2009 (see "FISCAL 2009 AND FISCAL 2010 - Fiscal 2009"), also included a number technical sections that related to the administration and management of the State Retiree Benefits Trust fund. Both the provisions included in the Governor's fiscal 2010 budget recommendation and the accompanying legislation filed on January 28, 2009 are consistent with recommendations put forth by the commission.

Executive Office of Education

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

Department of Elementary and Secondary Education

The Department of Elementary and Secondary Education serves the student population from kindergarten through twelfth grade by providing support for students, educators, schools and districts and by providing state leadership. Fiscal 2008 spending was $485.5 million. Fiscal 2009 spending is projected to be $586.4 million. These totals do not include the $3.726 billion appropriated for Chapter 70 aid in fiscal 2008 or the $3.949 billion appropriated in fiscal 2009. The Department of Elementary and Secondary Education is governed by the Executive Office of Education and by the Board of Education, which will now include 13 members. There are 328 school districts in the Commonwealth, serving over 950,000 students.

Department of Higher Education

Fiscal 2008 spending was $1.084 billion. Fiscal 2009 spending is projected to be $1.027 billion. The Commonwealth's system of higher education includes the five-campus University of Massachusetts, nine state colleges and 15 community colleges. The higher education system is coordinated by the Department of Higher Education which has a governing board, the Board of Higher Education, and each institution of higher education is governed by a separate board of trustees. The Board of Higher Education nominates, and the Secretary of Education appoints, a Commissioner of Higher Education, who is responsible for carrying out the policies established by the board at the Department of Higher Education.

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

Department of Early Education and Care

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

In fiscal 2008, the Department spent approximately $549.9 million. The largest accounts responsible for spending include TANF-related child care ($181.6 million), low-income children ($208.9 million) and supportive child care ($66.8 million). The Department is projected to spend $569.2 million in fiscal 2009.

Public Safety

The Commonwealth spent a total of $1.527 billion in fiscal 2008 for the Executive Office of Public Safety and Security and sheriffs. The Office is projected to spend $1.546 billion in fiscal 2009. Twelve state agencies fall under the umbrella of the Executive Office of Public Safety and Security. The largest is the Department of Correction, which operates 18 correctional facilities and centers across the Commonwealth, expended $540 million in fiscal 2008 and is expected to expend $543.8 million in fiscal 2009. The State Police spent $286.5 million in fiscal 2008 and is projected to spend $290 million in fiscal 2009. Other public safety agencies include the Parole Board, the Department of Fire Services, the Military Division, the Office of the Chief Medical Examiner and six other public safety related agencies. In addition to expenditures for these twelve state public safety agencies, the Commonwealth provides funding for the operation of 16 regional jails and correctional facilities that are managed by independently elected sheriffs, for which the Commonwealth expended $500.8 million in fiscal 2008 and is expected to spend $509.6 million in fiscal 2009. Expenditures for all other public safety agencies were $199.4 million in fiscal 2008 and are projected at $202.7 million for fiscal 2009.

Energy and Environmental Affairs

In fiscal 2008, the Executive Office of Environmental Affairs was reorganized into the Executive Office of Energy and Environmental Affairs. This reorganization included the transfer of the Department of Energy Resources and Department of Public Utilities from the Executive Office of Economic Development to the new secretariat. The Executive Office of Energy and Environmental Affairs spent $23.8 million in fiscal 2008 and projected to spend $21.6 million in fiscal 2009 for policy development, environmental law enforcements services and oversight of agencies and programs. Six state agencies and numerous boards fall under the umbrella of the Executive Office of Energy and Environmental Affairs. The largest is the Department of Conservation and Recreation, which operates over 600,000 acres of public parkland, recreational facilities, watersheds and forests across the Commonwealth, expending $97 million in fiscal 2008 and a projected $94 million in fiscal 2009. Other environmental agencies include the Department of Agricultural Resources, responsible for the state's agricultural and food safety programs, which spent $18 million in fiscal 2008 and projected to spend $17.9 million in fiscal 2009, the Department of

Environmental Protection, which spent $59.3 million in fiscal 2008 and projected to spend $58.5 million in fiscal 2009 for clean air, water, recycling and environmental remediation programs, and the Department of Fish and Game, which spent $19 million in fiscal 2008 and is projected to spend $18.8 million in fiscal 2009 for the management and protection of endangered species, fisheries and habitat. Additional agencies include the Department of Public Utilities, which spent $7.1 million in fiscal 2008 and projected to spend $9.5 million in fiscal 2009 for oversight of electric, gas, water and transportation utilities and the Department of Energy Resources, which spent $1.6 million in fiscal 2008 and projected to spend $2.9 million in fiscal 2009 for energy planning, management and oversight.

Debt Service

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

Other Program Expenditures

The remaining expenditures on other programs and services for state government amounted to $2.414 billion in fiscal 2008 and are projected to be $2.312 billion in fiscal 2009, including the judiciary ($803.3 million in fiscal 2009), district attorneys ($99.8 million in fiscal 2009), the Attorney General ($41.7 million in fiscal 2009), the Executive Office for Administration and Finance ($354.4 million in fiscal 2009), the Executive Office of Transportation and Public Works ($284.6 million in fiscal 2009), the Executive Office for Housing and Economic Development ($222.2 million in fiscal 2009), the Executive Office of Labor and Workforce Development ($75.5 million in fiscal 2009) and various other programs ($430.5 million in fiscal 2009).

SELECTED FINANCIAL DATA

Statutory Basis

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth's audited statutory basis financial statements for fiscal 2004 through 2008. Projections for fiscal 2009 have been prepared by the Executive Office for Administration and Finance. Except where otherwise indicated, they are based on the office's most recent estimate of tax revenue (as officially issued) and non-tax revenue, on enacted appropriations adjusted for projected reversions and on supplemental appropriations filed by the Governor that remain before the Legislature. The financial information presented includes all budgeted operating funds of the Commonwealth. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS — Operating Fund Structure" for additional detail.

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

Budgeted Operating Funds -- Statutory Basis

(in millions)(1)

	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	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	8,074.2
Departmental and Other Revenues	1,847.7	1,948.9	2,094.3	2,218.4	2,355.9	2,439.5
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	2,882.2
Budgeted Revenues and Other Sources	23,988.3	24,373.4	26,305.5	28,615.9	30,313.2	31,376.5
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	32,561.2
Expenditures and Uses						
Programs and Services	22,158.0	23,284.7	25,193.4	27,657.2	28,630.2	29,279.3
Inter-fund Transfers to Non-budgeted Funds and Other Uses	690.3	494.4	391.2	1,265.7	2,178.2	3,101.7
Budgeted Expenditures and Other Uses	22,848.3	23,779.1	25,584.6	28,922.9	30,808.4	32,381.0
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	33,565.7
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	1,140.0	594.4	720.9	(307.1)	(495.2)	(1,004.5)
Ending Fund Balances						
Reserved or Designated (3)	664.6	355.6	947.2	351.3	171.5	21.0
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	1,327.2
Undesignated	90.9	98.4	106.2	114.7	115.1	108.9
Total	$1,892.8	$2,487.2	$3,208.1	$2,901.0	$2,405.8	$1,457.1

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 AND FISCAL 2010 - Fiscal 2009").

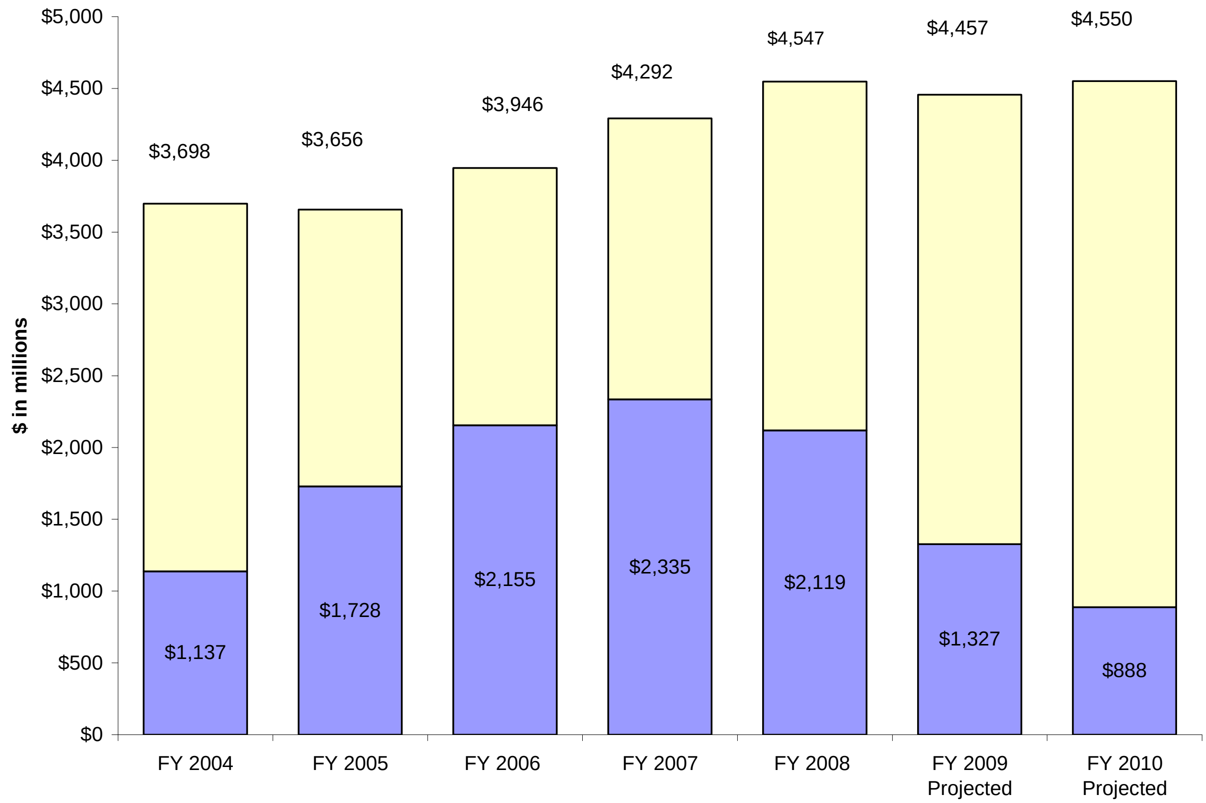
Stabilization Fund

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

Required Deposits and Allowable Stabilization Fund Balance. Beginning July 1, 2004, state finance law has provided that (i) 0.5% of the net tax revenues from each fiscal year must be deposited into the Stabilization Fund at fiscal year-end, (ii) 0.5% of current-year net tax revenues must be made available for the next fiscal year before the year-end surplus is calculated and (iii) any remaining amount of the year-end surplus must be transferred to the Stabilization Fund. Prior to fiscal 2004, the allowable Stabilization Fund balance at fiscal year-end could not exceed 10% of the total revenues for that year. Since fiscal 2004, the allowable Stabilization Fund balance has been 15% of total current-year revenues. If the Stabilization Fund balance exceeds the allowable limit, the excess amounts are to be transferred to the Tax Reduction Fund. The fiscal 2009 budget suspends the statutorily required deposit and transfers the projected fiscal 2009 investment earnings of the Stabilization Fund to the General Fund. The Governor's budget recommendations for fiscal 2010 propose to do the same in fiscal 2010. See "SELECTED FINANCIAL DATA - Stabilization Fund."

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. Estimated and projected balances for fiscal 2009 and 2010 are made prior to the calculation of consolidated net surplus.

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.

GAAP Basis

The Commonwealth's GAAP financial statements for the year ended June 30, 2008, incorporated herein by reference as Exhibit C, are prepared in accordance with reporting standards first established by GASB Statements 34 and 35, as amended. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Fiscal Control, Accounting and Reporting Practices of Comptroller." The GAAP financial statements present a government-wide perspective, including debt, fixed assets and accrual activity on a comprehensive statement of net assets. All fixed assets, including road and bridge infrastructure and all long-term liabilities, including outstanding debt and commitments of long-term assistance to municipalities and authorities, are part of the statements. The Commonwealth's statement of revenues, expenditures and changes in fund balances are presented as a statement of activities.

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

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

Governmental Funds – Statutory Basis, June 30, 2008:	
Budgeted Fund Balance	$ 2,405.8
Non-Budgeted Special Revenue Fund Balance	1,910.1
Capital Project Fund Balance	(205.7)
Governmental Fund Balance – Statutory Basis, June 30, 2008	**4,110.3**
Plus:	
Expendable Trust and Similar Statutory Balances that are considered Governmental Funds for GAAP Reporting Purposes	452.3
Owner Controlled Insurance Program Net Assets	77.1
Trust fund reclassified as Permanent trust fund	5.0
Adjusted Statutory Governmental Fund Balance – June 30, 2008	**4,644.6**
Accruals, net of allowances and deferrals for increases / (decreases):	
Taxes	$ 1,632.5
Medicaid	(285.6)
Master Settlement Agreement receivables	144.1
Assessments and receivables	142.6
Amounts due to authorities and municipalities, net	(401.1)
Claims, judgments and other risks	(27.0)
Amounts due to health care providers and insurers	(101.2)
Workers' compensation and group insurance	(101.0)
Other accruals	(159.7)
Net Increase to governmental fund balances	**843.6**
Massachusetts School Building Authority fund balance	1,574.5
Total changes to governmental funds	**2,418.1**
Governmental Fund Balance (fund perspective)	**7,062.7**
Plus: Capital assets including infrastructure, net of accumulated depreciation	18,620.6
Plus: Deferred inflows of resources	640.2
Plus: Pension cumulative over/(under) funding	102.9
Less: Post employment benefits other than pensions over/(under) funding	(155.7)
Less: School construction grants payable	(7,861.7)
Less: CA/T Project assets to be transferred to Turnpike Authority	(7,231.5)
Less: Long Tern debt, unamortized premiums and deferred losses on refundings	(18,764.2)
Less: Compensated Absences	(468.6)
Less: Capital Leases	(383.8)
Less: Accrued Interest on Bonds	(300.3)
Less: Other Long term Liabilities	(422.1)
Total Governmental Net Assets (entity-wide perspective)	**$(9,161.5)**

SOURCE: Office of the Comptroller

The liabilities of the Commonwealth exceeded its assets at the end of fiscal 2008 by over $4.6 billion, an improvement of over $699 million during the fiscal year. Of the $4.6 billion deficit amount, "unrestricted net assets" is reported as a negative $9.9 billion, offset by $3.4 billion in "restricted net assets." There are two primary reasons for negative unrestricted net assets. Upon completion, the Central Artery/Ted Williams Tunnel will be owned by the Massachusetts Turnpike Authority and the Massachusetts Port Authority. The Commonwealth, however, is paying for the construction of these assets and retains a large amount of related debt. Similarly, the Commonwealth has a liability of $4.5 billion for its share of the construction costs of schools owned and operated by municipalities through the Massachusetts School Building Authority (MSBA). The MSBA began approving new grants in fiscal 2008. The total payments made by the School Building Authority in fiscal 2008 excluding debt service and administrative costs were $765 million. During the fiscal year, net asset balances of $1.7 billion were set aside for unemployment benefits and $926 million for debt retirement.

Revenues – GAAP Basis. The measurement of revenues for the budgeted operating funds from a statutory basis differs from governmental revenues on a GAAP basis in that certain funds that are not governmental for statutory purposes are included on a GAAP basis, including revenue accruals for Medicaid and taxes, which are included on a GAAP basis but not on a statutory basis. In addition, internal transfers are eliminated under GAAP from an entity-wide perspective. The following table shows the distribution of major sources of revenue in fiscal 2008:

Comparison of Fiscal 2008 Governmental Revenues (in millions)

	Governmental Funds	GAAP Basis – Governmental	
	Statutory Basis	Fund Perspective	Entity-wide Perspective
Taxes	$21,009	$21,120	$21,174
Federal Revenue	9,002	9,718	9,983
Departmental and Miscellaneous Revenue	17,141	19,298	22,151
Total	$47,152	$50,136	$53,308

SOURCE: Office of the Comptroller

Financial Results—GAAP Basis. The following table provides financial results on a GAAP basis for fiscal 2004 through fiscal 2008 for all governmental operating funds of the Commonwealth.

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

	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008
Beginning fund balances	$2,021.0	$4,424.4	$5,048.6	$7,263.2	$7,735.9
Restatement due to fund reclassification	-	-	-	5.0	-
Revenues and Financing Sources	44,371.7	43,532.6	47,189.9	49,402.2	50,136.8
Expenditures and Financing Uses	41,968.3	42,908.4	44,975.3	48,934.5	50,810.0
Excess (deficit)	2,403.4	624.2	2,214.6	472.7	(673.2)
Ending fund balances—GAAP fund perspective	$4,424.4	$5,048.6	$7,263.2	$7,735.9	$7,062.7

SOURCE: Office of the Comptroller

Financial Reports. The Commonwealth issues audited annual reports, including audited financial statements on both the statutory basis of accounting and the GAAP basis. These financial statements are issued as two separate reports, the SBFR and the CAFR. The SBFR is published by the Comptroller by October 31 and the CAFR is published by the Comptroller by the second Wednesday in January. The SBFR for the year ended June 30, 2008 and the CAFR for the year ended June 30, 2008 are included herein by reference as Exhibits B and C, respectively. For fiscal 1991 through 2008 the independent auditor's opinions were unqualified. Copies of these financial reports are available at the address provided under "CONTINUING DISCLOSURE." The SBFR for fiscal 1997 through fiscal 2008 and the CAFR for fiscal 1994 through fiscal 2008 are also available on the web site of the Comptroller of the Commonwealth located at http://www.mass.gov/osc by clicking on "Financial Reports/Audits."

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

For each year beginning in fiscal 1991, the Commonwealth CAFRs, from which certain information contained in this Information Statement has been derived, have been awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. Fiscal 2007 marked the seventeenth consecutive year that the Commonwealth has received this award. The CAFR for fiscal 2008 has been submitted to the GFOA for the award.

Discussion of Financial Condition

As the annual operating budget of the Commonwealth is adopted in accordance with the statutory basis of accounting, public and governmental discourse on the financial affairs of the Commonwealth has traditionally followed the statutory basis. Consequently, the financial information set forth in this document follows the statutory basis, except where otherwise noted. Since fiscal 1990, the Commonwealth has prepared separate audited financial reports on the statutory basis and on a GAAP basis. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS – Fiscal Control, Accounting and Reporting Practices of Comptroller; *Financial Reports*." The SBFR for the year ended June 30, 2008 is included herein by reference as Exhibit B. The CAFR for the year ended June 30, 2008 is included herein by reference as Exhibit C. Without limiting the generality of the references to the SBFR and CAFR for the year ended June 30, 2008, attention is called in particular to the portion of the CAFR under the heading "Management's Discussion and Analysis."

Auditor's Report on Fiscal 2008 CAFR

The basic financial statements included in the CAFR of the Commonwealth for the year ended June 30, 2008 were audited by KPMG LLP (KPMG). The KPMG audit report dated October 29, 2008 on the general purpose financial statements included in the CAFR for the year ended June 30, 2008 contained an unqualified opinion. A copy of the audit report of KPMG dated October 29, 2008 has been filed with each NRMSIR currently recognized by the SEC and is incorporated by reference in Exhibit C to this Information Statement and in each statement in this Information Statement referred to the Commonwealth CAFR for the year ended June 30, 2008. KPMG has not been engaged to perform, and has not performed, since the respective dates of its reports included herein, any procedures on the financial statements addressed in such reports, nor has said independent auditor performed any procedures relating to the official statement of which this Information Statement is a part.

FISCAL 2009 AND FISCAL 2010

Fiscal 2008 Ending Balance

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 $2.406 billion.

Fiscal 2009

On July 3, 2008, the Legislature passed the fiscal 2009 budget, and on July 13, 2008, the Governor approved it, vetoing or reducing line items totaling $122.5 million. The Legislature subsequently overrode $56.5 million of the Governor's line item vetoes, bringing the total amount of authorized spending in the original fiscal 2009 budget to $28.167 billion. The original fiscal 2009 budget assumed the use of $401 million transferred from the Stabilization Fund, the suspension of the statutorily required Stabilization Fund deposit equal to 0.5% of fiscal 2009 tax revenues (approximately $107 million), $285 million in new tax revenues as a result of corporate tax reform legislation and $157 million in additional revenues generated through enhanced collection and enforcement measures. The fiscal 2009 budget also relied upon approximately $174 million in additional revenue from the $1-

per-pack cigarette tax increase that the Governor signed into law on July 1, 2008 (the entire increase is dedicated to the Commonwealth Care Trust Fund per legislation). See "STATE TAXES."

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 "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 and $321 million in projected costs not accounted for in the fiscal 2009 budget. See "COMMONWEALTH REVENUES - Tax Revenue Forecasting."

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 "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 "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 "COMMONWEALTH REVENUES - Tax Revenue Forecasting."

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 were 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 consisted 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, and $18 million from anticipated revisions of Registry of Motor Vehicles fees), $533 million in anticipated additional federal Medicaid funds (see "American Recovery and Reinvestment Act" 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 (the planned $28.5 million in budget savings for fiscal 2009 from these provisions was based on a January 1, 2009 effective date).

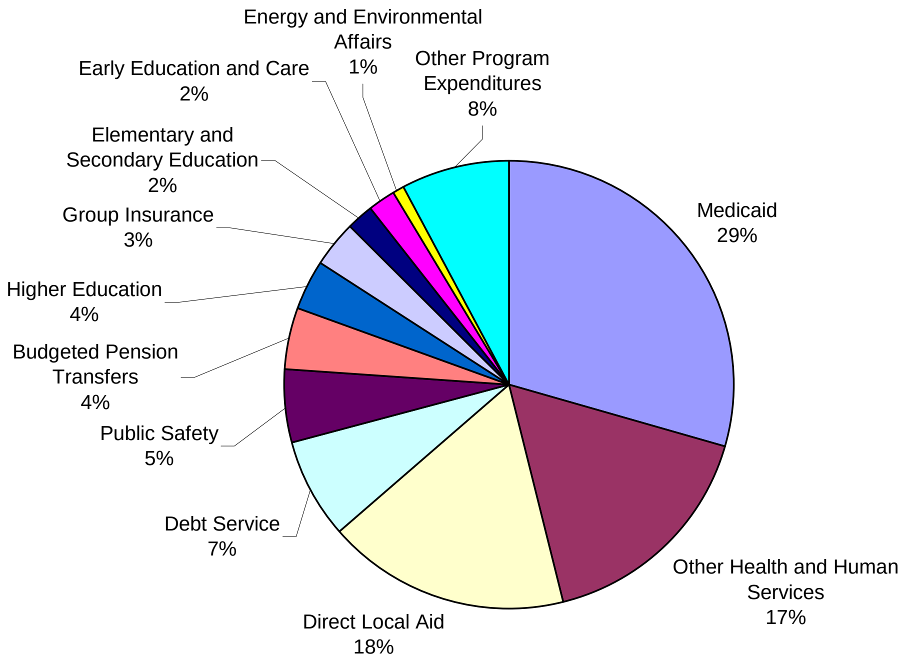
The legislation filed on January 28, 2009 would eliminate, effective April 1, 2009, the current sales tax exemption for candy, sweetened soft drinks and alcoholic beverages purchased for off-site consumption. The Department of Revenue estimates that, assuming a June 1, 2009 effective date, enactment of the Governor's proposed legislation would result in increased tax receipts 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. The legislation is now being considered by the Legislature's Joint Committee on Revenues.

On March 12, 2009, the Legislature enacted such legislation without the tax-related provisions or the provisions relating to Registry of Motor Vehicles fees and state employee health insurance. The tax-related provisions were referred to the Legislature's Joint Committee on Revenues (see below). The Governor subsequently approved the legislation on March 20, 2009.

The Executive Office for Administration and Finance recently completed its annual mid-year review, in which current spending and revenue projections for fiscal 2009 were reviewed and updated. After updating its initial enhanced FMAP estimates and accounting for the loss of planned revenue relating to those provisions not included in the enacted version of the Governor's supplemental legislation filed in January, other gains and losses in non-tax revenue estimates, projected deficiencies yet to be filed, anticipated budgetary reversions and tax collections through February that are below the year-to-date benchmark, the Executive Office for Administration and Finance is projecting a potential additional $70 million to $100 million budget exposure in fiscal 2009, before taking into account additional revenue shortfalls that could materialize during the remainder of the fiscal year. The Executive Office for Administration and Finance continues to closely monitor tax revenue collections and evaluate economic forecasts, and it will take appropriate action, as necessary, to ensure a balanced budget. See "COMMONWEALTH REVENUES - Economic Projections."

The following graph depicts the breakdown of major categories of estimated budgeted operating spending for fiscal 2009.

Fiscal 2009 Projected Operating Spending



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 "COMMONWEALTH REVENUES - Tax Revenue Forecasting"), 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 "COMMONWEALTH REVENUES - State Taxes"). 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 Governor's fiscal 2010 budget recommendations also rely on $711 million in additional federal revenues through increases in the federal medical assistance percentage made available under the American Recovery and Reinvestment Act of 2009. Updated estimates suggest that over $1.1 billion in additional federal Medicaid matching funds will be available to the Commonwealth in fiscal 2010. See "American Recovery and Reinvestment Act" below.

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 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. On March 19, 2009 the Governor announced that he would commit $168 million in federal education recovery funds to ensure that every district in the Commonwealth reached so-called foundation spending levels for fiscal 2010. In a March 24, 2009 announcement Governor Patrick committed $162 million in federal education recovery funds to restore reductions to the Commonwealth's higher education system that were included in his fiscal 2010 budget recommendations.

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.

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), as well as 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.

American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 provides federal funding to stimulate job creation, limit cuts to core social services and protect vulnerable citizens in the Commonwealth and other states. The Commonwealth expects to receive billions of dollars in funding for programs that will provide direct budgetary relief, help to meet increased demand for unemployment insurance and other safety net programs and fund transportation, energy efficiency and other capital project needs.

On March 19, 2009, the Executive Office for Administration and Finance presented the Governor's economic recovery plan for the Commonwealth to the Legislature's Joint Committee on Federal Stimulus Oversight. As part of that presentation, the Committee was briefed on the American Recovery and Reinvestment Act, including initial estimates of the amount of federal aid the Commonwealth would receive under the federal bill, how the moneys would be distributed, what accountability and transparency processes had been and would be put in place, and the role that the American Recovery and Reinvestment Act played in the larger economic recovery plan. On March 20, 2009, the Governor filed legislation to facilitate the Commonwealth's compliance with the American Recovery and Reinvestment Act's eligibility requirements, deadlines and the accomplishment of its objectives.

One component of the American Recovery and Reinvestment Act that provides significant, direct budgetary relief to states is the increase 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 additional 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 assumed $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 (see "Fiscal 2010" above).

Updated estimates based on the final version of the American Recovery and Reinvestment Act of 2009 suggest that the Commonwealth will in fact receive greater amounts of additional federal revenue through increases in the federal medical assistance percentage. Accounting for projected fiscal 2009 and fiscal 2010 spending eligible for Medicaid matching funds and projected state unemployment levels, the Commonwealth now expects to receive $806 million in fiscal 2009 and over $1.1 billion in fiscal 2010 in additional Medicaid matching funds. On March 25, 2009, the Governor proposed a framework for using the additional revenues beyond its original estimates of FMAP receipts ($273 million in additional FMAP funds in fiscal 2009 and $406 million in fiscal 2010) to help fund additional, high-priority Medicaid spending and address other potential health care-related needs. 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 other component of the American Recovery and Reinvestment Act that provides significant direct budgetary relief to states is the State Fiscal Stabilization Fund. The Commonwealth is expected to receive approximately $994 million from the Fund, 81.8% of which must be used (a) to restore state aid to school districts to the greater of the fiscal 2008 or fiscal 2009 level in fiscal 2009, fiscal 2010 and fiscal 2011 (and to fund K-12 formula increases for fiscal 2010 and fiscal 2011) and (b) to restore state support to public institutions of higher education to the greater of the fiscal 2008 or fiscal 2009 level to the extent feasible. Funds also may be used to support early childhood education, and any remaining funding must be allocated to school districts based on the Title I formula.

Cash Flow

The State Treasurer is responsible for cash management and ensuring that all Commonwealth financial obligations are met on a timely basis. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Cash Management Practices of State Treasurer." Cash flow management incorporates the periodic use of short-term borrowing to meet cash flow needs for both capital and operating expenditures. In particular, the Commonwealth makes local aid payments of approximately $1 billion to its cities and towns at the end of each calendar quarter, which in recent years has often resulted in the need for short-term cash flow borrowings. All short-term cash flow borrowings, including both commercial paper and revenue anticipation notes, must be repaid by the end of the fiscal year (June 30). The state currently has liquidity support for a $1 billion tax-exempt commercial paper program for general obligation notes, through five $200 million credit lines due to expire in January, 2010, June, 2010, December, 2010 (two lines) and September, 2011, respectively. The Commonwealth has relied upon this $1 billion commercial paper capacity for additional liquidity since 2002.

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 reported 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 was based on actual spending and revenue through January, 2009 and then-current estimates for the remainder of fiscal 2009. The forecast took 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 was also based on the five-year capital investment plan published in December, 2008 by the Executive Office for Administration and Finance. See "COMMONWEALTH CAPITAL INVESTMENT PLAN." The forecast reflected Lottery projections described above under "COMMONWEALTH REVENUES - Federal and Other Non-Tax Revenues; *Lottery Revenues*." The forecast assumed 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 showed an overall decline in the non-segregated cash balance from $1.198 billion to $1.093 billion. Several factors affected the overall decline in the cash balance, including general obligation bond proceeds received in fiscal 2008 which were 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 took into account the cash flow borrowings that the Commonwealth had undertaken to that point, 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 anticipated that $800 million of commercial paper would be outstanding at least through the end of March, 2009.

The March 4, 2009 projections like previous projections, anticipated the issuance by the Commonwealth of $1.9 billion in bonds in fiscal year 2009 to fund capital projects. In addition, the report noted that past capital spending had not been funded from the proceeds of bonds issued in prior fiscal years and therefore additional borrowing of approximately $192.9 million were 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 assumed the issuance of $450 million in May, 2009 and $279 million in June, 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 were based on the Governor's fiscal 2010 budget recommendations. The Governor's budget recommendations have traditionally been used as the starting point for the cash flow projections and were used in the March 4, 2009 projections even though the State Treasurer and the Secretary of Administration and Finance have not reached final agreement on the underlying assumptions contained in 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. See "COMMONWEALTH CAPITAL INVESTMENT PLAN."

The fiscal 2010 forecast further assumed cash flow borrowings of $1.050 billion in August, 2009 in three equal tranches of $350 million. The three tranches were forecast to mature in April, May, and June, 2010, respectively. The forecast also assumed the issuance of $400 million in commercial paper to enhance the Commonwealth's liquidity at the end of calendar 2009. All short-term borrowings were forecast to be retired by the end of fiscal 2010. The forecast assumed 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 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	-	-	-	-	-	-				-	-	-
Stabilization Transfers	-	-	310.0	(100.0)	-	221.9	-	-	306.1	-	-	(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	-	-	-	-	-	-				-	-	-
Stabilization Transfers	-	-	-	-	-	-	-	-	489.0	-	-	-
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.

LONG-TERM LIABILITIES

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

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

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

SOURCE: Office of the Comptroller.

(1) Including premium, discount and accretion of capital appreciation bonds. Capital appreciation bonds are reported at original net proceeds for the purposes of calculating debt limit compliance.

(2) As of June 30, 2008, includes $408.0 million of grant anticipation notes, which, although not legally defeased, will be paid in fiscal 2009 and 2011 from funds held in escrow by a third-party trustee.

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

General Authority to Borrow

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

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

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

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

Calculation of the Debt Limit (in thousands)

	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008
Balance as of June 30	$17,382,172	$17,856,799	$18,461,406	$18,736,961	$18,734,440
Plus/ (Less) amounts excluded:					
Unamortized (discount)/premium and issuance costs	1,120	70,937	112,673	102,043	123,390
1991 refunding/restructuring	-	-	-	-	-
Special obligation debt (1)	(1,347,882)	(1,485,548)	(1,291,266)	(1,260,941)	(1,126,668)
Federal grant anticipation notes (1)	(1,908,015)	(1,908,015)	(1,789,876)	(1,666,690)	(1,536,206)
Assumed county debt	(675)	(600)	(525)	(450)	(375)
MBTA forward funding	(601,027)	(511,546)	(416,830)	(368,873)	(309,203)
Transportation Infrastructure Fund	(1,066,638)	(1,336,741)	(1,476,287)	(1,462,870)	(1,434,654)
MSBA	-	(500,000)	(1,000,002)	(946,285)	(946,285)
Outstanding Direct Debt(2)	$12,459,055	$12,185,286	$12,599,293	$13,132,895	$13,504,384
Statutory Debt Limit	$12,822,414	$13,463,535	$14,136,712	$14,843,547	$15,585,725

SOURCE: Office of the Comptroller.

(1) Includes federal grant anticipation notes issued as crossover refunding bonds. The refunding escrows funded by these bonds and related premiums are used to pay interest on the refunding bonds until the refunded bonds are callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continues to be paid from pledged revenues as before.

(2) Capital appreciation bonds reported at original net proceeds for the purposes of calculating debt limit, not at maturity value.

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

Debt Service Expenditures (in millions)

Fiscal Year	Budgeted Debt Service	Total Budgeted Expenditures and Other Uses	Percentage
2004	1,227.0	22,848.3	5.4
2005	1,398.7	23,779.1	5.9
2006	1,422.8	25,584.6	5.6
2007	1,611.6	28,922.9	5.6
2008	1,867.9	28,852.9	6.4

SOURCE: Office of the Comptroller.

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

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

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

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

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

The following table sets forth the amounts of Commonwealth long-term general obligation debt, special obligation debt and federal grant anticipation notes outstanding, exclusive of unamortized bond premiums, as of the end of the last five fiscal years and as of January 2, 2009.

Long Term Commonwealth Debt (in thousands)

	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Fiscal 2008	January 2, 2009
General Obligation Debt	$14,126,275	$14,463,236	$15,383,366	$15,822,591	$16,086,470	$16,073,654
Special Obligation Debt	1,347,882	1,485,548	1,288,595	1,248,750	1,112,590	1,112,110
Federal Grant Anticipation Notes (1)	1,908,015	1,908,015	1,789,445	1,665,620	1,535,380	1,203,725
TOTAL	$17,382,172	$17,856,799	$18,461,406	$18,736,961	$18,734,440	$18,389,489

SOURCE: Office of the Comptroller.

(1) Includes federal grant anticipation notes issued as crossover refunding bonds. The refunding escrows funded by these bonds and related premiums are used to pay interest on the refunding bonds until the refunded bonds are callable and then to redeem the refunded bonds. Interest on the refunded bonds prior to redemption continues to be paid from pledged revenues as before.

General Obligation Debt

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

As of January 2, 2009, the Commonwealth had approximately $16.1 billion in general obligation bonds outstanding, of which $12.5 billion, or approximately 78% is fixed-rate debt and $3.6 billion, or 22%, is variable-rate debt.

Of the variable-rate debt outstanding, the interest rates on $3.3 billion, or approximately 20% of total general obligation debt, have been synthetically fixed by means of floating-to-fixed interest rate exchange (“swap”) agreements. The Commonwealth has entered into interest rate swaps with various counterparties pursuant to which the counterparties are obligated to pay the Commonwealth an amount equal to the variable-rate payment on the related bonds or a payment based on a market index of tax-exempt variable-rate bonds, and the Commonwealth is obligated to pay the counterparties a stipulated fixed rate. Under legislation approved by the Governor on August 11, 2008, scheduled, periodic payments to be made by the Commonwealth pursuant to swap agreements in existence on August 1, 2008 or entered into after such date shall constitute general obligations of the Commonwealth to which its full faith and credit are pledged. The floating rate received by the Commonwealth is used to offset the variable rate paid to bondholders. In most cases, only the net difference in interest payments is actually exchanged with the counterparty. In all cases, the Commonwealth remains responsible for making interest payments to the variable-rate bondholders. The intended effect of the agreements is essentially to fix the Commonwealth’s interest rate obligations with respect to its variable-rate bonds at lower fixed rates than it would have otherwise achieved if the obligations had been issued initially as fixed rate bonds. As of January 2, 2009, all of the Commonwealth’s interest rate swaps were floating-to-fixed rate agreements. The remaining variable-rate debt of $301 million, or approximately 2% of the total outstanding general obligation debt, is unhedged and, accordingly, floats with interest rates re-set on a daily or weekly basis.

The Commonwealth’s outstanding general obligation variable-rate debt consists of several variable-rate structures. Most are variable-rate demand bonds (VRDBs). These are long-term bonds whose interest rates re-set daily or weekly. Because these bonds offer bondholders a “put” or tender feature, they are supported by stand-by liquidity facilities with commercial banks which require the applicable bank to purchase any bonds that are tendered and not successfully remarketed. Unless and until remarketed, the Commonwealth would be required to pay the bank interest on such bonds at a rate tied to a taxable rate, such as the prime rate. In addition, the Commonwealth may be required to amortize the principal of any such bonds according to an accelerated schedule. Such liquidity facilities typically expire well before the final maturity date of the related bonds and are expected to be renewed. As of January 2, 2009, the Commonwealth had $2.2 billion in outstanding VRDBs. This accounts for approximately 14% of total general obligation debt and approximately 61% of total general obligation variable-rate debt. All of these bonds are uninsured.

The Commonwealth has also issued general obligation variable-rate debt in the form of auction-rate securities. Like VRDBs, these are long-term bonds whose interest rates are re-set at pre-determined, short-term intervals. Unlike VRDBs, these bonds do not provide bondholders with a put option and therefore do not require a supporting liquidity facility. However, the market generally has required that auction-rate securities be secured by bond insurance. The Commonwealth's auction-rate securities have long-term nominal maturities of 20 years or more with interest rates re-set every seven days. A periodic "Dutch auction" process is designed to provide a mechanism of liquidity to bondholders, with bonds re-priced and traded in auctions managed by broker-dealers.

Beginning in February, 2008, several auctions of the Commonwealth's auction-rate bonds began to fail, meaning there were insufficient bids from investors to purchase the securities being offered for sale by existing holders. Four of the Commonwealth's series of auction-rate bonds have experienced auction failure since February 13, 2008. Auction failures have been systemic throughout the municipal bond market, driven by credit and liquidity concerns caused primarily by widespread downgrades and negative rating outlooks of a number of municipal bond insurers. Upon auction failure, the interest rate paid to bondholders is the failure rate as specified in the bond documents. For the four series of Commonwealth bonds whose auctions have failed (Series 2000 D, E, F & G) and remain outstanding, the failure rate is based on a multiple of a specified commercial paper index, with a maximum rate of 12%. Since February, 2008, the Commonwealth's interest costs based on the failure rate have remained within budgeted amounts and well below the 12% maximum rate. At this time, the Commonwealth has no plans to refund or redeem these bonds.

The remaining outstanding variable-rate debt pays interest to bondholders based on certain indices. For example, as of January 2, 2009 the Commonwealth had $197 million of bonds that pay interest based on the consumer price index (CPI), as well as $845.8 million of bonds that pay interest based on the London interbank offered rate (LIBOR). These bonds make up approximately 1% and 5% of total outstanding general obligation indebtedness, respectively. In terms of total outstanding variable-rate debt, these bonds account for approximately 5% and 23%, respectively. All of the CPI and LIBOR bonds are hedged with interest rate swaps pursuant to which the Commonwealth receives from the swap counterparty the precise variable-rate interest due on the bonds. The Commonwealth is currently evaluating a refinancing transaction whereby the holders of the LIBOR bonds would be given the opportunity to tender their bonds for redemption. The bonds tendered for redemption would be extinguished. The tender offer would be financed by the issuance of new variable-rate demand bonds, and the existing interest rate swap agreements would either be assigned to the new bonds, assigned to other variable-rate bonds or terminated. Whether any such transaction takes place will depend on market conditions and the terms on which owners of the LIBOR bonds may be willing to tender their bonds for redemption.

As of January 2, 2009, the Commonwealth had outstanding approximately $150.5 ($79 million principal and $71.5 million discount) of variable rate "U. Plan" bonds, sold in conjunction with a college savings program administered by the Massachusetts Educational Financing Authority, which bear deferred interest at a rate equal to the percentage change in the consumer price index plus 2%, together with current interest at the rate of 0.5%.

Notes. The Commonwealth is authorized to issue short-term general obligation debt as revenue anticipation notes or bond anticipation notes. Revenue anticipation notes may be issued by the State Treasurer in any fiscal year in anticipation of the receipts for that year. Revenue anticipation notes must be repaid no later than the close of the fiscal year in which they are issued. Bond anticipation notes may be issued by the State Treasurer in anticipation of the issuance of bonds, including special obligation bonds. See "Special Obligation Debt." In addition, the Commonwealth currently has liquidity support for a $1 billion commercial paper program which it utilizes regularly for cash flow purposes. See "Cash Flow." In addition to borrowing via its $1 billion commercial paper program, the Commonwealth issued $750 million revenue anticipation notes on October 10, 2008 (to be repaid in equal installments on April 30, 2009 and May 29, 2009). All cash flow borrowings will be retired by the fiscal year-end (June 30, 2009).

Special Obligation Debt

Highway Fund. Section 2O of Chapter 29 of the General Laws authorizes the Commonwealth to issue special obligation bonds secured by all or a portion of revenues accounted to the Highway Fund. Revenues, which are currently accounted to the Highway Fund, are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax. Chapter 33 of the Acts of 1991 authorizes the Commonwealth to issue such special obligation bonds in an aggregate amount not to exceed $1.125 billion. As of January 2, 2009, the Commonwealth had outstanding $483.4 million of such special obligation bonds secured by a pledge of 6.86¢ of the 21¢ motor fuels excise tax. These amounts are exclusive of crossover refunding bonds, which have been issued to refund a portion of the outstanding special obligation bonds described above in fiscal 2012. Of the total amount outstanding, approximately $96.5 million was issued as variable rate debt with interest rates tied to the consumer price index (CPI). These bonds have been hedged via a floating-to-fixed interest rate swap agreement.

On August 4, 2008, the Governor approved legislation that authorizes the issuance of an additional $1.9 billion of special obligation bonds secured by a pledge of motor fuels excise tax receipts to fund a portion of the Commonwealth's accelerated structurally-deficient bridge program. The legislation provides for a pledge of up to 10¢ of the 21¢ motor fuels excise tax to secure the outstanding special obligation bonds described above and the bridge program bonds. To date, no such bonds have been issued. See "COMMONWEALTH CAPITAL INVESTMENT PLAN."

Convention Center Fund. Chapter 152 of the Acts of 1997, as amended, authorizes $694.4 million of special obligation bonds to be issued for the purposes of building a new convention center in Boston ($609.4 million), the Springfield Civic Center ($66 million) and the Worcester convention center ($19 million). The bonds are payable from moneys credited to the Convention Center Fund created by such legislation, which include certain hotel tax receipts from hotels in Boston, Cambridge, Springfield and Worcester, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, a surcharge on sightseeing tours and cruises in Boston and sales tax receipts from certain hotels and other retail establishments in Boston, Cambridge and Springfield. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance, the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). In June, 2004, the Commonwealth issued $686.7 million of special obligation bonds secured solely by the pledge of receipts of tax revenues within the special districts surrounding the centers and other special revenues connected to such facilities, $638.7 million of which remained outstanding as of January 2, 2009. Of this amount, approximately $86.5 million was issued as variable rate debt with interest rates tied to the CPI. These bonds have been hedged via a floating-to fixed interest rate swap agreement.

Federal Grant Anticipation Notes

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

On July 16, 2003, the Commonwealth issued special obligation refunding notes for the purpose of refunding approximately $418 million of outstanding federal grant anticipation notes in December, 2008 and December, 2010. Pursuant to the crossover refunding method employed, interest on the refunding notes is paid solely by an escrow account established with the proceeds of the notes, until the crossover dates on which the refunded bonds are callable. After the crossover dates, the applicable refunding notes are secured by the Grant Anticipation Note Fund. The first crossover date occurred on December 15, 2008, when approximately

$263.9 million of refunded notes were redeemed. The second and final crossover date will occur on December 15, 2010, when approximately $154.4 million of refunded notes will be redeemed.

As of January 2, 2009, $1.2 billion of such notes, inclusive of the special obligation crossover refunding notes, remained outstanding. All of these notes are fixed-rate obligations.

On August 4, 2008, the Governor approved legislation authorizing the issuance of an additional $1.1 billion of grant anticipation notes secured by future federal funds. Any such notes will not be secured by a contingent pledge of motor fuels excises. The Commonwealth intends to begin to amortize the principal of any such notes in fiscal 2016, after the federal grant anticipation notes for the CA/T project described above have been paid in full. Similar to the notes issued for the CA/T project, the Commonwealth expects to pay interest on the notes for the bridge program from state appropriations. To date, no such notes have yet been issued. See "COMMONWEALTH CAPITAL INVESTMENT PLAN."

Interest Rate Swaps

The following table describes the interest rate swap agreements that the Commonwealth has entered into in connection with certain of its outstanding bond issues as of March 26, 2009.

Swap Structure	Associated Bond Issue	Outstanding Notional Amount (in thousands)	Bond Floating Rate	Swap Fixed Rate Paid (Range)	Swap Variable Rate Received	Effective Date	Termination Date	Counterparty
	General Obligation Bonds:							
Floating-to-fixed	Series 1997B	$162,768	VRDB	4.659%	Cost of Funds	8/12/1997	8/1/2015	Goldman Sachs Matsui Marine Derivative Products Co., LP
Floating-to-fixed	Series 1997B	108,512	VRDB	4.659%	Cost of Funds	8/12/1997	8/1/2015	Ambac Financial Services, LP
Floating-to-fixed	Series 1998A (refunding)	295,986	LIBOR	4.174%	LIBOR	11/17/2008	9/1/2016	Deutsche Bank AG
	Consolidated Loan of 2006, Series B							
	Central Artery Loan of 2000, Series A							
	Central Artery Loan of 2000, Series B							
Floating-to-fixed	Series 1998A	197,324	VRDB	4.174%	Cost of Funds	9/17/1998	9/1/2016	Citi Swapco, Inc.
Floating-to-fixed	Series 2001B & C	496,225	VRDB	4.150%	Cost of Funds	2/20/2001	1/1/2021	Morgan Stanley Derivative Products Inc.
Floating-to-fixed	Series 2003B	87,455	CPI	4.500%	Cost of Funds/CPI	3/12/2003	3/1/2014	Goldman Sachs Matsui Marine Derivative Products Co., LP
Floating-to-fixed	Series 2003B	10,000	CPI	4.500%	Cost of Funds/CPI	10/8/2008	3/1/2013	Deutsche Bank AG
Floating-to-fixed	Series 2005A	540,725	SIFMA	2.925 - 4.000%	SIFMA	3/29/2005	2/1/2028	Citi
Floating-to-fixed	Series 2006C	100,000	CPI	3.730 - 3.850%	Cost of Funds/CPI	11/29/2006	11/1/2020	Citi
Floating-to-fixed	Consolidated Loan of 2007, Series A	400,000	LIBOR	4.420%	LIBOR	5/30/2007	5/1/2037	Barclays Bank, PLC
Floating-to-fixed	Series 2007A (refunding)	31,665	LIBOR	3.963%	Cost of Funds/LIBOR	10/8/2008	11/2/2025	Deutsche Bank AG
Floating-to-fixed	Series 2007A (refunding)	414,130	LIBOR	4.083%	Cost of Funds/LIBOR	10/8/2008	8/1/2018	Bank of New York Mellon
Floating-to-fixed	Central Artery Loan of 2000, Series A	109,125	SIFMA	3.942%	SIFMA	10/8/2008	8/1/2018	Merrill Lynch Capital Services, Inc.
Floating-to-fixed	Central Artery of 2000, Series A	54,525	SIFMA	3.942%	SIFMA	8/16/2008	6/15/2033	Bear Stearns Financial Products

Floating-to-fixed	Consolidated Loan of 2006, Series A	294,000	LIBOR	4.515%	LIBOR	11/25/2008	6/15/2033	Citibank Financial Products, Inc.
	Consolidated Loan of 2000, Series D							
Subtotal		3,020,470						
Special Obligation Dedicated Tax Revenue Bonds (CPI Based Swaps):	*Special Obligation Dedicated Tax Revenue Bonds (CPI Based Swaps):*							
Floating-to-fixed	Series 2004	28,863	CPI	4.450 - 5.250%	Cost of Funds/CPI	6/29/2004	1/1/2018	Goldman Sachs Capital Markets, LP
Floating-to-fixed	Series 2004	28,863	CPI	4.450 - 5.250%	Cost of Funds/CPI	6/29/2004	1/1/2018	J.P. Morgan Chase Bank
Floating-to-fixed	Series 2004	28,863	CPI	4.450 - 5.250%	Cost of Funds/CPI	6/29/2004	1/1/2018	J. P. Morgan Chase Bank
Floating-to-fixed	Series 2005A	96,490	CPI	4.771 - 5.060%	Cost of Funds/CPI	6/12/2005	6/1/2022	Merrill Lynch Capital Services, Inc.
Subtotal		183,079						
Total		$3,485,519						

Liquidity Facilities

The following table describes the liquidity facilities that the Commonwealth has in connection with certain of its outstanding bond issues as of March 26, 2009.

Associated Program	Facility Amount (in thousands)	Bank	Facility Type	Termination Date
Commercial Paper				
Series D	$200,000	Bayerische Landesbank Girozentrale	Line	11/30/2015
Series E	200,000	Dexia Credit Local	Line/Letter	9/27/2011
Series F	200,000	JPMorgan Chase Bank	Letter	6/30/2010
Series G	200,000	BNP Paribas	Line	12/27/2010
Series H	200,000	The Bank of Nova Scotia	Line	12/29/2010
Variable Rate Bonds				
1997 Series B (Refunding)	271,280	Helaba	Line	8/1/2015
1998 Series A (Refunding)	246,655	JP Morgan Chase Bank	Line	3/12/2010
2000 Series A	200,000	Landesbank Baden-Wurttemberg	Line	12/29/2015
2000 Series B	75,590	State Street Bank	Line	1/29/2012
2001 Series B (Refunding)	248,110	Landesbank Hessen-Thuringen (Helaba)	Line	12/31/2015
2001 Series C (Refunding)	248,115	State Street Bank	Line	2/20/2011
2005 Series A (Refunding)	548,885	Citibank	Line	3/15/2010
2006 Series A	150,000	Dexia Credit Local	Line	3/03/2013
2006 Series B	200,000	Bank of America	Line	3/03/2011

Debt Service Requirements

The following table sets forth, as of January 2, 2009, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal grant anticipation notes. For variable-rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate swap agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. For other variable-rate bonds, the schedule assumes a 5% interest rate.

Debt Service Requirements on Commonwealth Bonds as of January 2, 2009
(in thousands)

	General Obligation Bonds				*Federal Grant Anticipation Notes(1)*			*Special Obligation Bonds*			
Fiscal Year	Principal (3)	Current Interest	Interest on CABS at Maturity (2)	Sub Total	Principal	Interest	Sub Total	Principal	Interest	Sub Total	Total Debt Service Commonwealth Bonds
2009	$ 246,252	$361,694		$ 607,946	$189,235	$39,269	$228,504	$33,960	$12,482	$46,442	$ 882,892
2010	1,006,962	758,517	$6,913	1,772,392	221,100	47,049	268,149	35,530	57,887	93,417	2,133,958
2011	1,022,632	705,242	7,768	1,735,642	134,860	18,241	153,101	37,240	56,178	93,418	1,982,161
2012	922,808	651,712	8,266	1,582,786	112,780	7,931	120,711	39,135	54,290	93,425	1,796,922
2013	991,724	602,999	9,413	1,604,136	47,290	7,204	54,494	41,150	52,258	93,408	1,752,038
2014	885,387	556,126	7,735	1,449,248	90,445	10,052	100,497	37,170	50,020	87,190	1,636,935
2015	876,152	512,784	7,111	1,396,047	408,015	86,221	494,236	59,065	48,117	107,182	1,997,465
2016	932,824	471,265	5,733	1,409,821				60,975	44,918	105,893	1,515,714
2017	821,531	429,559	4,172	1,255,261				64,675	41,617	106,292	1,361,553
2018	695,057	391,987	3,230	1,090,274				46,350	38,425	84,775	1,175,049
2019	684,053	356,488	20,762	1,061,304				48,775	36,121	84,896	1,146,200
2020	763,869	321,648	1,875	1,087,392				49,020	33,499	82,519	1,169,911
2021	954,284	279,401	1,613	1,235,298				51,515	31,064	82,579	1,317,877
2022	747,714	237,166	1,428	986,309				54,355	28,292	82,647	1,068,956
2023	687,399	201,232	1,175	889,806				36,960	25,428	62,388	952,194
2024	609,991	169,340	918	780,249				28,990	23,443	52,433	832,682
2025	550,540	141,391	626	692,556				30,625	21,848	52,473	745,029
2026	410,114	117,487	459	528,060				32,360	20,164	52,524	580,584
2027	406,125	97,841	276	504,242				34,190	18,384	52,574	556,816
2028	218,770	82,213	175	301,158				36,125	16,504	52,629	353,787
2029	289,637	69,542	52	359,231				38,170	14,517	52,687	411,918
2030	272,805	55,368		328,173				40,330	12,418	52,748	380,921
2031	284,270	41,142		325,412				42,610	10,199	52,809	378,221
2032	93,995	31,817		125,812				45,020	7,856	52,876	178,688
2033	96,830	27,278		124,108				47,565	5,380	52,945	177,053
2034	94,630	22,695		117,325				50,250	2,764	53,014	170,339
2035	99,175	18,031		117,206							117,206
2036	103,785	13,152		116,937							116,937
2037	109,475	8,024		117,499							117,499
2038	84,835	2,619		87,454							87,454
	10,330	252		10,582							10,582
TOTAL	$15,973,952	$7,736,012	$89,702	$23,799,666	$1,203,725	$215,967	$1,419,692	$1,122,110	764,072	1,886,182	$27,105,541

SOURCE: Office of the State Treasurer and 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. The amount of debt is calculated based on net proceeds as provided under state finance law relative to debt limits.

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

General Obligation Contract Assistance Liabilities

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

Massachusetts Water Pollution Abatement Trust. The Massachusetts Water Pollution Abatement Trust was created to implement the Commonwealth's state revolving fund program under Title VI of the federal Clean Water Act and the federal Safe Drinking Water Act. The Trust is authorized to apply for and accept federal grants and associated Commonwealth matching grants to capitalize the revolving funds and to issue debt obligations to make loans to local governmental units to finance eligible water pollution abatement and water treatment projects. Under state law, each loan made by the Trust is required to provide for debt service subsidies or other financial assistance sufficient to result in most new loans being the financial equivalent of a two percent interest loan. To subsidize its loans, the Trust receives contract assistance payments from the Commonwealth. Under the Trust's enabling act, the annual contract assistance maximum for the Clean Water Act program is $71 million, and the contract assistance maximum for the Safe Drinking Water Act program is $17 million. The contract assistance agreements constitute general obligations of the Commonwealth for which its faith and credit are pledged, and the Trust's right to receive payments thereunder may be pledged by the Trust as security for repayment of the Trust's debt obligations. As of January 2, 2009 the Trust had approximately $3.1 billion of bonds outstanding. The Trust issued additional fixed-rate bonds in the aggregate principal amount of $409,530,000 on March 18, 2009. Approximately 16% of the aggregate debt service on such bonds is expected to be paid from Commonwealth contract assistance.

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

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

The following table sets forth the Commonwealth's general obligation contract assistance requirements pursuant to contracts with the Massachusetts Turnpike Authority and the Massachusetts Water Pollution Abatement Trust. These figures are as of January 2, 2009.

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

Fiscal Year	Massachusetts Water Pollution Abatement Trust	Massachusetts Turnpike Authority(2)	Total
2009	$66,856	$25,000	$91,856
2010	67,871	25,000	92,871
2011	67,049	25,000	92,049
2012	65,423	25,000	90,423
2013	62,934	25,000	87,934
2014	59,893	25,000	84,893
2015	58,462	25,000	83,462
2016	53,632	25,000	78,632
2017	46,522	25,000	71,522
2018	40,832	25,000	65,832
2019	41,016	25,000	66,016
2020	35,454	25,000	60,454
2021	27,936	25,000	52,936
2022	18,774	25,000	43,774
2023	19,186	25,000	44,186
2024	11,188	25,000	36,188
2025	7,234	25,000	32,234
2026 through 2045	12,969	500,000(3)	512,969
Total	$763,231	$925,000	$1,688,231

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

(1) Totals may not add due to rounding.

(2) Reimbursement for operating and maintenance costs expended in the prior state fiscal year. These costs are projections and are subject to review pursuant to the contract for financial assistance. These projections do not include certain costs submitted by the Massachusetts Turnpike Authority for reimbursement, which the Executive Office for Administration and Finance has determined not to be reimbursable under the contract. The disputed costs remain subject to review and discussion.

(3) Signifies $25 million per year for fiscal 2026 to fiscal 2045, inclusive.

Budgetary Contract Assistance Liabilities

Plymouth County Certificates of Participation. In May, 1992, Plymouth County caused to be issued approximately $110.5 million of certificates of participation to finance the construction of a county correctional facility. In March 1999, Plymouth County caused to be issued approximately $140.1 million of certificates of participation to advance refund the 1992 certificates, construct an administration office building and auxiliary facilities near the county correctional facility and fund repairs and improvements to the facility. The certificates are insured by Ambac Assurance Corporation (Ambac) and bear interest at a fixed rate with a final maturity of April 1, 2022. The Commonwealth, acting through the Executive Office of Public Safety and Security and the Department of Correction, is obligated under a memorandum of agreement with Plymouth County to pay for the availability of 380 beds (out of 1,140) in the facility, regardless of whether 380 state prisoners are housed therein. The amounts payable by the Commonwealth will at least equal the debt service on the outstanding certificates of participation, but are subject to appropriation of such amounts by the Legislature in the annual budgetary line item for the Executive Office of Public Safety and Security. The obligation of the Commonwealth under the memorandum of agreement does not constitute a general obligation or a pledge of the credit of the Commonwealth. As of January 2, 2009, such certificates were outstanding in the aggregate principal amount of $99,570,000. The Commonwealth is considering refunding opportunities, including issuing refunding bonds as Commonwealth general obligation bonds, which is permitted pursuant to authorization granted in legislation approved by the Governor on August 11, 2008.

Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds. In August, 2000, the Route 3 North Transportation Improvements Association issued approximately $394.3 million of lease revenue bonds to finance the reconstruction and widening of a portion of state Route 3 North. In May, 2002, the Route 3 North Transportation Improvements Association issued approximately $312.7 million of additional lease revenue bonds, $305.6 million of which were issued as refunding bonds. In connection with the financing, the Commonwealth leased the portion of the highway to be improved to the Association, and the Association leased the property back to the Commonwealth pursuant to a sublease. Under the sublease, the Commonwealth is obligated to make payments equal to the debt service on the bonds and certain other expenses associated with the project. The obligations of the Commonwealth do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. In May, 2007 and November, 2008, the Commonwealth sold general obligation bonds to refund most of the lease revenue bonds and replace them with fixed-rate general obligation bonds. In connection with the November, 2008 refunding, 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. As of January 2, 2009, the Route 3 North Transportation Improvements Association had $34,655,000 of such lease revenue bonds outstanding, all of which are fixed-rate. In 2005, the developer of the project submitted a request for equitable adjustment pursuant to the development agreement between the developer, the Executive Office of Transportation and Construction and the Massachusetts Highway Department. As of June 17, 2008, the parties reached a settlement in principle with the developer. On June 23, 2008, the developer filed for bankruptcy protection. On August 8, 2008, the Commonwealth, the developer and the sureties executed a settlement agreement resolving all claims on the project, which, due to the developer's bankruptcy filing on June 23, 2008,was subject to the Bankruptcy Court's approval. Such approval was received on December 18, 2008. The period to appeal approval of the settlement agreement expired on December 30, 2008.

Saltonstall Building Redevelopment Corporation Project. In May, 2002, MassDevelopment issued $195.8 million of lease revenue bonds pursuant to an agreement to loan the proceeds of the bonds to the MassDevelopment/ Saltonstall Building Redevelopment Corporation. The loan was used to finance the redevelopment of the Saltonstall State Office Building. Under the provisions of the legislation relating to the building's redevelopment, the building was leased to MassDevelopment/Saltonstall Building Redevelopment Corporation for a term of up to 50 years, with extension terms permitted for an aggregate of 30 more years. MassDevelopment/Saltonstall Building Redevelopment Corporation is obligated to pay $2,450,000 per year to the Commonwealth for the lease. Due to lower than anticipated cash flow and required priority funding of the project reserve, rent and interest payments to the Commonwealth accrued for several years until the Project Reserve fund was replenished to $5 million. As of March 16, 2009, MassDevelopment/Saltonstall Building Redevelopment Corporation has paid the Commonwealth $2,887,370 in ground rent and $414,574 in accrued interest in fiscal 2009. For March through June, 2009, the additional projected ground rent payments will be $863,843, and the accrued interest payments will be $22,000. The accrued rent balance as of March 17, 2009 is approximately $4.7 million, and the accrued interest is approximately $3.4 million. MassDevelopment/Saltonstall Building Redevelopment Corporation has renovated the building and subleased half of it back to the Commonwealth for office space and related parking (for a comparable lease term), in respect of which sublease the Commonwealth makes sublease payments to MassDevelopment/Saltonstall Building Redevelopment Corporation. The remainder of the building has been redeveloped as private office space, as well as private housing units and retail establishments. The obligations of the Commonwealth under the office sublease do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. The Commonwealth's full-year costs include $7,065,000 per year of base rent and parking space rent for the first five years, after which the parking space rent may be adjusted for fair market value every five years. In addition, included in the table below are the Commonwealth's estimated pro-rata share of office operating expense reimbursements, escalating at 3% per year and also the Commonwealth's replacement reserve contribution calculated at 21¢ per rental square foot per year. On July 24, 2008, MassDevelopment/Salstonstall Building Redevelopment Corporation redeemed approximately $21.1 million of the outstanding bonds. As of February 28, 2009, MassDevelopment/Saltonstall Building Redevelopment Corporation had approximately $170.2 million of such lease revenue bonds outstanding.

Long-Term Operating Leases and Capital Leases. In addition to Commonwealth-owned buildings and facilities, the Commonwealth leases additional space from private parties. In certain circumstances, the Commonwealth has acquired certain types of capital assets under long-term capital leases; typically, these arrangements relate to computer and telecommunications equipment and to motor vehicles. Minimum future rental expenditure commitments of the Commonwealth under operating leases and long-term principal and interest obligations related to capital leases in effect at June 30, 2008 are set forth in the table below. These amounts represent expenditure commitments of both budgeted and non-budgeted funds.

Budgetary Contract Assistance Liabilities (in thousands)(1)

Fiscal Year	Plymouth County Certificates of Participation	Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds	MassDevelopment/ Saltonstall Building Redevelopment Corporation Lease Revenue Bonds(3)	Other Leases(4)	Total
2009	$10,247	$9,619	$9,506	$143,004	$172,376
2010	10,244	9,618	9,578	118,530	147,970
2011	10,245	9,618	9,693	88,309	117,865
2012	10,240	5,409	9,770	69,400	94,819
2013	10,245	1,129	9,848	46,300	67,522
2014	10,244	1,130	9,929	26,332	47,635
2015	10,250	1,128	10,012	26,332	47,722
2016	10,245	1,129	10,155	26,332	47,861
2017	10,238	1,116	10,243	26,332	47,929
2018	10,244	--	10,334	26,332	46,910
2019	10,244	--	10,428	14,457	35,129
2020	10,246	--	10,524	14,457	35,227
2021	10,243	--	10,658	14,457	35,358
2022	10,252	--	10,760	14,457	35,469
2023	--	--	10,866	14,457	25,323
2024	--	--	10,974	11,012	21,986
2025 through 2034	--		116,923	90,249	207,172
Total	$143,426	$39,896	$280,201	$770,749	$1,234,272

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

(1) Totals may not add due to rounding.
(2) Assumes payment based on fixed rates stipulated in interest rate swap agreements associated with auction-rate bonds. The Commonwealth is currently considering refinancing options.
(3) Cash flows from the Commonwealth represent gross payments to MassDevelopment, including projections provided by MassDevelopment of the Commonwealth's share of operating costs and other items that are subject to change.
(4) As of June 30, 2008.

Contingent Liabilities

Massachusetts Bay Transportation Authority. The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. Prior to July 1, 2000, the Commonwealth supported MBTA bonds, notes and other obligations through guaranties of the debt service on its bonds and notes, contract assistance generally equal to 90% of the debt service on outstanding MBTA bonds and payment of the MBTA's net cost of service (current expenses, including debt service, minus current income). Beginning July 1, 2000, the Commonwealth's annual obligation to support the MBTA for operating costs and debt service is limited to a portion of the revenues raised by the Commonwealth's sales tax, but the Commonwealth remains contingently liable for the payment of MBTA bonds and notes issued prior to July 1, 2000 and for MBTA payment obligations related to leases, reimbursement obligations, interest exchange agreements and other financing obligations entered into prior to July 1, 2000. The Commonwealth's obligation to pay such prior bonds is a general obligation for which its full faith and credit have been pledged. As of January 2, 2009, the Massachusetts Bay Transportation Authority had approximately $967.6 million of such prior bonds outstanding. Such bonds are currently scheduled to mature annually through fiscal 2030, with annual debt service in the range of approximately $166 million to $156 million through fiscal 2013 and declining thereafter.

Woods Hole, Martha's Vineyard and Nantucket Steamship Authority. The Steamship Authority operates passenger ferries to Martha's Vineyard and Nantucket. The Steamship Authority issues its own bonds and notes. Commonwealth support of the bonds and notes of the Steamship Authority includes a Commonwealth guaranty pursuant to statutory provisions requiring the Commonwealth to provide the Authority with funds sufficient to meet the principal of and interest on their bonds and notes as they mature to the extent that funds sufficient for this purpose are not otherwise available to the Authority and the Commonwealth's payment, under applicable statutory provisions, of the net cost of service of the Steamship Authority (current expenses, including debt service, minus current income). The Steamship Authority is currently self-supporting, requiring no net cost of service or contract assistance payments. As of January 2, 2009 the Steamship Authority had approximately $55.85 million of bonds outstanding and $5 million in notes outstanding. The Commonwealth's obligations to the Steamship Authority are general obligations for which its full faith and credit have been pledged.

University of Massachusetts Building Authority and Massachusetts State College Building Authority. These higher education building authorities, created to assist institutions of public higher education in the Commonwealth, have outstanding bonds which are guaranteed as to their principal and interest by the Commonwealth. The guaranty is a general obligation of the Commonwealth for which its full faith and credit is pledged. In addition to such guaranty, certain revenues of these authorities, including dormitory rental income and student union fees, are pledged to their respective debt service requirements. As of January 2, 2009, the Massachusetts State College Building Authority had approximately $49.6 million of Commonwealth-guaranteed debt outstanding. Under its enabling act, the Massachusetts State College Building Authority is not permitted to issue any additional Commonwealth-guaranteed debt. The University of Massachusetts Building Authority may have outstanding up to $200 million in Commonwealth-guaranteed debt and had approximately $136.8 million of Commonwealth-guaranteed debt outstanding as of January 2, 2009.

Massachusetts Housing Finance Agency (MassHousing). MassHousing is authorized to issue bonds to finance multi-family housing projects within the Commonwealth and to provide mortgage loan financing with respect to certain single-family residences within the Commonwealth. Such bonds are solely the obligations of MassHousing, payable directly or indirectly from, and secured by a pledge of, revenues derived from MassHousing's mortgage on or other interest in the financed housing. MassHousing's enabling legislation also permits the creation of a capital reserve fund in connection with the issuance of such bonds. No single-family housing bonds secured by capital reserve funds are outstanding, and no such bonds have been issued by MassHousing since 1985. As of December 31, 2008, MassHousing had outstanding approximately $ 346.5 million of multi-family housing bonds secured by capital reserve funds. Any such capital reserve fund must be in an amount at least equal to the maximum annual debt service in any succeeding calendar year on all outstanding bonds secured by such fund. All such capital reserve funds are maintained at their required levels. If amounts are withdrawn from a capital reserve fund to pay debt service on bonds secured by such fund, upon certification by the chairperson of MassHousing to the Governor of any amount necessary to restore the fund to the above-described requirement, the Legislature may, but is not legally bound to, make an appropriation in such amount. No such appropriation has been necessary to date.

Massachusetts Turnpike Authority. In 2001, the Turnpike Authority entered into certain contracts with UBS AG (UBS), giving UBS the right to enter into five separate interest rate swap agreements (the "UBS swaptions") with the Turnpike Authority. The UBS swaptions have an aggregate notional amount of $800 million and pertain to an equal amount of outstanding Turnpike Authority bonds. All five of the UBS swaptions have been exercised by UBS, with two becoming effective on January 1, 2008 in the aggregate notional amount of $126,725,000, a third becoming effective on July 1, 2008 in the notional amount of $207,665,000, and the final two becoming effective on January 1, 2009 in the notional amount of $465,610,000. These UBS swaptions and related interest rate swap agreements provide for the Turnpike Authority to make fixed-rate payments to UBS and to receive variable-rate payments from UBS. It was originally expected in 2001 that if any UBS swaptions were exercised, the Turnpike Authority would refund the related fixed-rate bonds with variable-rate bonds, and a commitment for bond insurance was purchased from Ambac Assurance Corporation (Ambac) in 2001 to insure the anticipated refunding bonds. As a result of the recent adverse market conditions in the municipal bond market and the recent downgrades of Ambac's credit ratings, and the Turnpike Authority's own underlying financial condition and credit ratings, the Turnpike Authority has been unable to date to refund the bonds related to the UBS swap agreements. As a result, it is continuing to pay interest on its outstanding fixed-rate bonds and a synthetic fixed rate to UBS, while receiving only a variable rate on the related UBS swap agreements. The Authority faces a potential termination cost associated with the UBS swaps if Ambac's credit rating were to fall below certain levels.

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 the notional amount of $100 million. Due to recent market volatility, the amount of posted collateral has been as high as approximately $19.1 million.

On August 11, 2008, the Governor approved legislation authorizing the Secretary of Administration and Finance, with the approval of the Governor, to provide certain types of credit support for payment obligations of the Turnpike Authority on certain bonds and interest rate swap agreements. To address the incremental interest costs being incurred by the Turnpike Authority as a result of its inability to issue the $800 million of variable-rate refunding bonds associated with the UBS swaps, the legislation authorizes the Commonwealth to agree to pay debt service on such bonds in the event that the Turnpike Authority fails to do so. The legislation provides that any payment obligations of the Commonwealth pursuant to any such credit support be subject to appropriation by the Legislature and not secured by a pledge of the faith and credit of the Commonwealth. To address the increased risk of termination of swaps in the event of further downgrades of Ambac, the legislation also authorized the Commonwealth, between October 1, 2008 and January 15, 2009, to guarantee the Turnpike Authority's payment obligations to the counterparties under the swap agreements described above if the Secretary and the Turnpike Authority determined such a guaranty to be necessary to avoid a termination of the swaps. The Secretary was authorized by the legislation to provide for any payment obligations of the Commonwealth pursuant to such a guaranty to be secured by a pledge of the faith and credit of the Commonwealth or to be subject to appropriation by the Legislature. Following the expiration on January 15, 2009 of the Secretary's authority to guarantee the Turnpike Authority's swap obligations, the Governor filed legislation on January 23, 2009 to renew the authorization. The House approved the bill on February 9, 2009, and the Senate approved an amended version on March 5, 2009. On March 19, 2009, the House approved a further amended version of the bill, and the Senate concurred in the House's version. The bill is still awaiting final enactment. The final version of the bill requires the Secretary of Administration and Finance to consult with the State Treasurer before providing credit support to the Turnpike Authority.

As of March 26, 2009, the aggregate termination costs of the Turnpike Authority's swaps were estimated (based on mid-market valuations) to be approximately $371.3 million for the UBS swaps and $16.5 million for the JPMorgan Chase Bank basis swap.

On September 15, 2008, Lehman Brothers Holdings Inc. ("LBHI") filed for bankruptcy. At that time the Turnpike Authority had outstanding five swaptions and a basis swap with Lehman Brothers Special Financing Inc., a wholly owned subsidiary of LBHI. By virtue of the bankruptcy filing, these agreements became subject to termination at the option of the Turnpike Authority, and on December 22, 2008, the Turnpike Authority terminated all of the agreements at a net aggregate cost to the Turnpike Authority of approximately $3.2 million. The Turnpike Authority has received notice from Lehman Brothers Special Financing Inc. disputing the Turnpike Authority's calculation of the termination amounts relating to the swaptions but without stating an alternative amount.

Regional Transit Authorities. There are 15 regional transit authorities throughout the Commonwealth that provide public transportation in 231 municipalities with areas not served by the MBTA. These authorities are funded from operating revenues, federal subsidies, state subsidies and assessments paid by the participating municipalities. The subsidies and local assessments are paid one fiscal year in arrears to reimburse the authorities for the net cost of service not covered by operating revenues. In anticipation of receipt of these subsidies and local assessments in the following fiscal year, the authorities issue revenue anticipation notes to fund their net costs of service. In 2002, the Legislature repealed a law which provided for all debt of regional transit authorities to be guaranteed by the Commonwealth. The Commonwealth, however, has continued to fund a significant portion of the authorities' net cost of service in arrears, and other subsidies and local assessments continue to be paid in arrears to cover the prior fiscal year's net cost of service. As a result, authorities have had to continue to issue revenue anticipation notes, and the interest cost in connection with their annual revenue anticipation notes has been higher in recent years than it would have been if the Commonwealth guaranty had been in place. Legislation approved by the Governor on July 13, 2008, reinstated the Commonwealth guaranty for revenue anticipation notes issued by regional transit authorities. Similar to the law previously repealed, the legislation provides that the Commonwealth is required to pay any principal or interest on any such note if the authority does not have sufficient funds to make the payment and grants the holder of any such note the right to require such payment by the Commonwealth, which right is enforceable as a claim against the Commonwealth. As of January 2, 2009, revenue anticipation notes issued by regional transit authorities were outstanding in the aggregate principal amount of approximately $138.8 million.

Authorized But Unissued Debt

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

Authorized but Unissued Debt (in thousands)

Fiscal Year	Authorized But Unissued Debt
2004	$6,827,993
2005	9,506,821
2006	7,668,331
2007	8,349,391
2008	7,043,446

SOURCE: Office of the Comptroller.

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

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

COMMONWEALTH CAPITAL INVESTMENT PLAN

Capital Investment Plan

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

The Executive Office for Administration and Finance sets an annual administrative limit on the amount of bond-funded capital expenditures. The purpose of the administrative limit, known as the "bond cap," is to keep Commonwealth debt within affordable levels. The stated annual bond cap for fiscal 2004 through 2008 was $7.3 billion, plus unexpended amounts carried forward from prior years. It should be noted, however, that Commonwealth debt for the Central Artery/Ted Williams Tunnel (CA/T) project, the Boston and Springfield convention center projects and the Massachusetts School Building Authority's school building assistance program was issued in excess of the bond cap during the last several fiscal years.

On December 17, 2008, the Governor released a five-year capital investment plan for fiscal 2009 through fiscal 2013, totaling over $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 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 has been 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 Executive Office for Administration and Finance 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. However, when a project financed with debt payable by the Commonwealth directly or indirectly generates new state revenue that is applied to the payment of such debt, the Executive Office for Administration and Finance will exclude the debt, the related debt service payment obligations and the new revenue used to pay such obligations from the debt affordability analysis. For example, bonds issued by MassDevelopment and payable by the Commonwealth pursuant to the I-Cubed program or for the parkway at the former South Weymouth naval base is expected to be excluded from the bond cap, as the Commonwealth's payment liability with respect to such bonds is expected to be limited to the new state tax revenues generated from the private development supported by the infrastructure improvements financed by the bonds.

For purpose of the debt affordability analysis, budgeted revenue includes all Commonwealth taxes and other revenues available to pay Commonwealth operating expenses, including debt service, pensions and other budgetary obligations. It does not include off-budget revenues dedicated to the Massachusetts Bay Transportation Authority, the Massachusetts School Building Authority and the Massachusetts Convention Center Authority. The fiscal 2009 estimate was based on the fiscal 2009 consensus tax revenue estimate as revised by the Secretary of Administration and Finance on October 15, 2008; it does not take into account the subsequent downward revision of $1.1 billion on January 13, 2009. The fiscal 2010 estimate assumes 0% percent growth from fiscal 2009 budgeted revenues based on the October 15, 2008 revised tax revenue estimate, and fiscal 2011 through fiscal 2013 estimates assume 3% annual growth in budgeted revenues over the fiscal 2009 and fiscal 2010 estimates.

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.

The following table shows the annual bond cap, the resulting estimated total annual debt service payment obligations and the estimated debt service as a percentage of estimated budgeted revenues, all as presented in the debt affordability analysis published on December 17, 2008. The Commonwealth intends to re-evaluate the annual bond cap amount in accordance with the policy described above and to publish an updated affordability analysis on an annual basis.

Bond Cap (in thousands)

	Fiscal 2009	Fiscal 2010	Fiscal 2011	Fiscal 2012	Fiscal 2013
Bond Cap[1]	$ 1,525,000	$ 1,600,000	$ 1,700,000	$ 1,800,000	$1,900,000
Total Debt Service Obligations	2,174,446	2,226,535	2,341,575	2,333,542	2,532,267
Estimated Budgeted Revenue	30,324,600	30,324,600	31,324,338	32,171,368	33,136,509
Debt Service as % of Budgeted Revenues	7.17%	7.34%	7.50%	7.25%	7.64%

SOURCE: Executive Office for Administration and Finance, Debt Affordability Analysis, modified analysis, published December 18, 2008.

(1) Includes fiscal 2008 unused bond cap that has been carried forward to fiscal 2009, fiscal 2010 and fiscal 2011 of $152.3 million, $126.1 million and $62.2 million, respectively.

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

For fiscal 2008 through fiscal 2012, the Executive Office for Administration and Finance re-characterized capital spending into 13 categories based on spending purpose, rather than spending agency: community investments, corrections, courts, economic development, energy and environment, health and human services, higher education, housing, information technology, maintenance, public safety, state office buildings and facilities, and transportation. This new presentation of capital investment categories results in certain expenditures appearing in categories that are different from those in which they had been categorized in the historical capital spending table above. For example, Chapter 90 local aid for municipal transportation projects appears in the community investment category, rather than the transportation category, because these funds are invested in municipally-owned assets. Similarly, expenditures for Department of Conservation and Recreation roads and bridges appear in the transportation category, rather than the energy and environment category.

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 reflected 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.

The following table shows the sources of capital funds for fiscal 2008 and the estimated sources of funds for the next five fiscal years:

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

SOURCE: Executive Office for Administration and Finance.

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

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 March 25, 2009, the Senate approved a revised version of the legislation. Under the Senate bill, the state highway system and the western turnpike would be transferred to the new Authority on July 1, 2009, the Tobin Bridge (now owned by the Massachusetts Port Authority) and the Massachusetts Highway System would be transferred on July 1, 2010, and the public transit system would be transferred on July 1, 2011. A new Surface Transportation Trust Fund would be established, effective July 1, 2009, to receive all transportation-related revenues, and expenditures from that fund would be made by the new Authority. The new Authority would be authorized to issue bonds payable from revenues allocated to the Trust Fund and other resources available to it, subject to a ceiling of $10 billion of bonds outstanding at any time. Except as described below, the Authority's debt would not be a debt of the Commonwealth or secured by a pledge of the Commonwealth's full faith and credit. Among the revenues that would be deposited in the Surface Transportation Trust Fund would be the gasoline tax receipts that are pledged to the payment of outstanding Commonwealth special obligation bonds, and the new Authority would become responsible for paying the debt service on those bonds.

The Senate bill would direct the State Treasurer, on behalf of the Commonwealth, to loan the new Surface Transportation Authority an amount not to exceed $100 million in order to provide funds to the Authority during the period between the effective date of the legislation and December 31, 2009. The loan would have to be repaid, with interest, by June 30, 2010. The Authority would be authorized, prior to June 30, 2014, to issue up to $1 billion of Commonwealth-guaranteed notes to repay the Commonwealth loan, to pay costs of projects and to pay operating costs of the Authority. Such notes would be issued either in anticipation of revenues or of bonds, and all such notes would have to mature by June 30, 2014. The terms of the Commonwealth guaranty would be determined by the Secretary of Administration and Finance, with the approval of the Governor. The State Treasurer would be authorized to issue general obligation notes of the Commonwealth (maturing in not more than 18 months from their date) in order to fund the initial loan to the Authority, and would also be authorized to issue up to $1 billion of Commonwealth general obligation bonds if needed to pay the principal of Commonwealth-guaranteed Authority notes and up to $150 million of general obligation bonds if needed to pay interest on such notes. Such Commonwealth bonds would be authorized for maximum terms of 20 years. The Authority would be required to reimburse the Commonwealth according to a schedule to be determined by the Secretary of Administration and Finance at the time the bonds were issued.

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.

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

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

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

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

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

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

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

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

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

On August 4, 2008, the Governor approved legislation authorizing $2.984 billion in Commonwealth bonds to finance an accelerated structurally deficient bridge program. The program, which was developed in collaboration with the State Treasurer, is expected to finance over 250 bridge projects over the next eight years with approximately $1.9 billion of special obligation bonds secured by a portion of the gas tax and $1.1 billion of grant anticipation notes secured by future federal funds. By accelerating the investment in bridges, the Commonwealth expects to realize hundreds of millions of dollars of savings from avoided inflation and deferred maintenance costs. The proposed legislation targets bridges under the jurisdiction of the Massachusetts Highway Department and the

Department of Conservation and Recreation. The additional borrowing for the program will be in addition to the bond cap amounts to fund the regular capital program but will be taken into account under the state's existing debt policy to ensure that annual debt service is maintained at a level which will not exceed 8% of budgeted revenues.

Central Artery/Ted Williams Tunnel Project

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

Project Status. The CA/T project was substantially completed in January, 2006, with all major ramps, roadway and streets open for public use and most major contracts in the closeout phase. The major components of the work remaining for final completion of the CA/T project include reconstruction of the downtown surface street system, completion of the traffic management system and construction of certain parks. Remaining work will be completed in 2009, except for certain park elements, which are expected to be completed in 2010 by the Division of Conservation and Recreation after the transfer of remaining CA/T project park funding to the Division.

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

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

The CA/T project finance plans submitted through October, 2003 received the requisite approvals. The subsequent finance plan, based on CSU 11, was submitted in July, 2004, and, based on a May, 2007 finance plan update and subsequent supplements thereto, the finance plan received requisite approval on March 13, 2009. The remaining $162 million of federal funds for the project were withheld from the project pending the federal approval (the federal funds are now expected to be received in total by June 30, 2009). The delay in receiving federal approval was due primarily to questions raised regarding the availability of certain budgeted project financing sources and to the desire of the Federal Highway Administration to review a finance plan with updated cost estimates and funding sources. The Commonwealth has made funds available to the CA/T project to bridge the ultimate receipt of federal funds. The Commonwealth expects to continue this practice, to the extent necessary, until the federal funds are received.

Based on the updated cost estimate of $14.808 billion and certain other cash flow adjustments reflected in the recently approved May, 2007 updated finance plan, $210 million of additional funding was needed for the project. Pursuant to a September, 2008 agreement between the Commonwealth and the Turnpike Authority (which updated and amended a May, 2007 agreement), the Commonwealth agreed to cover the $210 million funding shortfall from the following two sources: (a) at least $177 million projected to be available in the Statewide Road and Bridge and Central Artery/Tunnel Infrastructure Fund (TIF) and (b) up to $33 million of Commonwealth bond proceeds. This commitment by the Commonwealth to cover the funding shortfall is subject to the following conditions: (i) the Turnpike Authority must cover any future shortfalls in Turnpike Authority funding to complete the project and any costs in excess of $14.808 billion; (ii) all cost recoveries and insurance proceeds that are received by the Turnpike Authority or the Commonwealth shall be deposited into the TIF to pay project costs in lieu of the additional amounts committed by the Commonwealth or to reimburse the Commonwealth for project costs already paid, except to the extent such cost recoveries are required to be credited to the Central Artery/Tunnel Project Repairs and Maintenance Trust Fund; (iii) to the extent that, by June 30, 2010, the amounts described in clause (ii) above received by or paid to the Commonwealth have aggregated less than the portion of the $210 million funding shortfall paid from Commonwealth bonds, the Turnpike Authority will pay the difference to the Commonwealth by not later than January 1, 2011; and (iv) to the extent legally and practically feasible, the Turnpike Authority must comply with new reporting requirements to improve the transparency of project financing matters to the Commonwealth.

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

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

The settlement agreement and recently passed legislation require that the settlement amounts and certain other cost recovery amounts be deposited in a trust fund and dedicated to non-routine maintenance of the CA/T project and reimbursement of certain costs incurred by the Commonwealth and the Turnpike Authority to repair components of the project. All other cost recoveries, insurance proceeds and certain real estate proceeds will be deposited in the TIF for purposes of paying costs of the CA/T project or reimbursing the Commonwealth for payment of such costs.

July, 2006 Incident and Other Quality Concerns. On July 10, 2006, concrete ceiling panels in the eastbound portal of the I-90 Seaport Access Tunnel (Seaport Tunnel) that leads to the Ted Williams Tunnel came loose and fell on a traveling automobile and the roadway, causing bodily injury and the death of the passenger in the automobile, and extensive property damage to the Seaport Tunnel (the "Accident"). On July 10, 2007, the National Transportation Safety Board released its findings pertaining to the Accident. The Board's assessment was that the proximate cause of the failure was the use of a fast-setting epoxy anchoring system which was susceptible to "creep," *i.e.,* the tendency for slippage or elongation with the application of sustained tensile loads. Repairs and other work related to the Accident and included in the May, 2007 finance plan update are estimated to cost $48 million. These costs were borne by the Commonwealth. The Commonwealth and the Turnpike Authority anticipate that all such costs, and certain other project costs incurred by the Commonwealth and the Turnpike

Authority, are eligible for reimbursement from the settlement amounts deposited in the CA/T trust fund described above.

Following the Accident and pursuant to a new state law enacted in response to the Accident, the Executive Office of Transportation and Public Works assumed oversight and responsibility for the inspection and remediation of the Seaport Tunnel. In addition, the Commonwealth instituted a comprehensive safety audit of all tunnels that are part of the Metropolitan Highway System, including the tunnels that are part of the CA/T project (the so-called "stem-to-stern" review). The Legislature appropriated $20 million to fund the audit. Phase I of the safety audit addressed the most safety-critical elements of the CA/T project, including the tunnel components, as well as ceiling systems of the Sumner, Callahan and Central Artery North Area tunnels. Phase IA of the safety review responded to comments and Phase I recommendations and developed a scope and work plan for Phase II. Phase II of the safety review included follow-up services related to the findings of Phase I and review of structural and life safety systems in other elements of the Metropolitan Highway System. As a result of the Phase I review, the epoxy anchors securing the ceiling panels in the Seaport Tunnel were replaced, and the tunnel was subsequently reopened. The Phase I review of the Ted Williams Tunnel ceiling panel anchors showed some evidence of distress and/or pull-out. Repairs were made at those locations that most concerned inspectors and other less urgent 'suspect' anchorage locations have been identified and are being inspected on a yearly basis. In addition to Phases I and IA of the safety review, Phase II is now also complete. Consistent with earlier phases, the review concluded that "[o]verall, structural systems were conservatively designed and fundamentally robust, but not without some areas of concern. All immediate safety concerns have been mitigated, and what remains is the remediation of approximately 240 less urgent issues that will be addressed through the Turnpike Authority's capital improvement program, the Central Artery/Tunnel Project Repairs and Maintenance Trust Fund and Turnpike Authority maintenance forces.

STATE WORKFORCE

The following table sets forth information regarding the Commonwealth's workforce as of the end of the last four fiscal years and as of December, 2008.

Budget-Funded Workforce (1)

	June 2005	June 2006	June 2007	June 2008	December 2008
Executive Office	71	66	79	81	75
Office of the Comptroller	124	122	124	124	119
Executive Departments					
Administration and Finance (3)	2,913	2,990	2,791	2,904	2,905
Energy and Environmental Affairs (2)	1,984	2,057	2,168	2,236	2,222
Housing and Community Development (2)	94	91	-	-	-
Early Education and Care (4)	-	164	189	-	-
Health and Human Services	21,066	21,022	21,072	21,449	21,135
Transportation and Public Works	1,139	1,078	1,087	1,245	1,207
Board of Library Commissioners	11	12	13	13	13
Economic Development (2)	935	960	-	-	-
Housing and Economic Development (2)	-	-	610	650	637
Labor and Workforce Development (2)	-	-	320	307	316
Executive Office of Education (4)				13,781	15,110
Department of Education (4)	241	266	269	-	-
Board of Higher Education (4)	13,198	12,932	13,319	-	-
Public Safety and Security	8,109	8,430	8,457	8,627	8,623
Elder Affairs	51	34	44	47	50
Subtotal under Governor's authority	49,934	50,223	50,543	51,463	52,410
Judiciary	7,435	7,630	7,993	8,021	7,955
Other (5)	7,352	7,594	7,947	8,245	8,218
Total	64,721	65,447	66,483	67,729	68,583

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 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.

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

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

(5) Other includes members of the Legislature and their staff, the offices of the State Treasurer, Secretary, Auditor and Attorney General, the eleven District Attorneys, the seven former county sheriffs that have become state agencies, and other agencies independent from the Governor.

Unions and Labor Negotiations

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

The Trial Court, the Lottery Commission, state sheriffs, the Registries of Deeds under the control of the Secretary of the Commonwealth, public higher education management and the PCA Council negotiate directly with their respective employee representatives, but all wage increases and other economic provisions contained in agreements negotiated by the Lottery Commission, state sheriffs, Registries of Deeds, higher education management and the PCA Council are subject to the review of the Governor and to funding approval by the Legislature. If the Governor does not recommend the requested appropriation to fund contractual increases, he may refer the contracts back to the parties for further negotiation.

Approximately 39,549 executive branch full-time-equivalent state employees are organized in 12 bargaining units, the employees of the Commonwealth's colleges and universities are organized in 28 bargaining units, and the employees of the judicial branch, the Lottery Commission, the Registries of Deeds, state sheriffs and the PCAs are organized in 30 bargaining units. Public employees of the Commonwealth do not have a legal right to strike or otherwise withhold services. The members of the National Association of Government Employees have ratified a successor contract which requires final approval from the Legislature. Tentative agreements have been reached with the Service Employees International Union and the Alliance Unit 2 (American Federation of State, Country and Municipal Employees). Negotiations are actively underway with the Massachusetts Organization of State Engineers and Scientists and the New England Police Benevolent Association to replace their contracts which expired June 30, 2008, and with the Massachusetts Nurses Association and the State Police Association of Massachusetts to replace their contracts which expired December 31, 2008.

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

(1) The National Association of Government Employees, representing Units 1, 3 and 6, has ratified a one-year extension from July, 2008 to June, 2009, and a three-year contract from July, 2009 to June, 2012 that provided increases of 0%, 1%, 3% and 3% in July, 2008, 2009, 2010 and 2011, respectively. The contract still requires legislative approval. The total estimated cost of the contract is $33.7 million.

(2) The contract with the Service Employees International Union, representing employees in units 8 and 10, expired December 31, 2007. A tentative agreement is expected to be submitted for a ratification vote by the members on April 2, 2009.

(3) The contract with the Alliance Unit 2 (American Federation of State, Country and Municipal Employees) expired June 30, 2008. A tentative agreement is expected to be submitted for a ratification vote by the members on April 9, 2009.

(4) The contract with the Massachusetts Organization of State Engineers and Scientists expired June 30, 2008.

(5) The contract with the New England Police Benevolent Association, representing Unit 4A, expired June 30, 2008.

(6) The contract with the Massachusetts Nurses Association expired December 31, 2008.

(7) The contract with the State Police Association of Massachusetts expired December 31, 2008.

(8) The Massachusetts Correction Officers Federated Union is under contract until June, 2009. A one-year extension covers the period from July, 2008 to June, 2009 and provided a 3% increase in July, 2008.

(9) The Coalition of Public Safety is under contract until June, 2009. A two-year contract covers the period from July, 2007 to June, 2009 and provided a 2.5% in July, 2007 and a 3% increase in July, 2008.

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	2,792	6/30/08[3]
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Institutional services	8,953	6/30/08[3]
3	National Association of Government Employees	Skilled trades	586	6/30/08[3]
4	Massachusetts Correction Officers Federated Union	Corrections	3,926	6/30/09
4A	Corrections Captains	Corrections	87	6/30/08
5	Coalition of Public Safety	Law enforcement	216	6/30/09
5A	State Police Association of Massachusetts	State Police	1,735	12/31/08
6	National Association of Government Employees	Administrative professionals	8,540	6/30/08[3]
7	Massachusetts Nurses Association	Health professionals	1,735	12/31/08
8	Alliance/Service Employees International Union	Social workers	7,315	12/31/07[3]
9	Massachusetts Organization of State Engineers and Scientists	Engineers/scientists	3,048	6/30/08
10	Alliance/Service Employees International Union	Secondary education	594	12/31/07[3]
		Total	39,549	

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 March 14, 2009 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).
(3) Tentative agreements pending final approval.

LEGAL MATTERS

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

Programs and Services

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

Ricci v. Okin, United States District Court, First Circuit Court of Appeals. Challenges by residents of five state schools for the retarded in the 1970's resulted in a consent decree which required the Commonwealth to upgrade and rehabilitate the facilities in question and to provide services and community placements in Massachusetts. On May 25, 1993, the District Court vacated all consent decrees and court orders, replacing them with a final order requiring lifelong provision of individualized services to class members and imposing requirements regarding staffing, maintenance of effort (including funding) and other matters. On July 14, 2004, a subset of plaintiffs filed a motion to reopen the case and enforce the final order of May 25, 1993, asserting various reasons why the Department of Mental Retardation allegedly is not in compliance with the 1993 final order, mostly relating to the Commonwealth's plan to close the Fernald Developmental Center. On August 14, 2007, the District Court reopened the case, restored it to the active docket, and, *inter alia*, ordered the Department to continue to offer Fernald Developmental Center as a residential placement option for its residents. The Department appealed the District Court's actions to the United States Court of Appeals for the First Circuit. On October 1, 2008, the Court of Appeals reversed the District Court orders. 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 that 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 has urged the Supreme Court to deny the petition.

Hutchinson et al v. Patrick et al, United States District Court, Western Division. This is a class action seeking declaratory and injunctive relief brought by two organizations and five individuals with brain injuries who are residents of various nursing facilities. Plaintiffs claim that they and a class of brain-injured individuals are entitled to, among other things, placement in community settings. Plaintiffs assert claims under the Americans with Disabilities Act, the Rehabilitation Act and the Medicaid Act. Plaintiffs filed their complaint on May 17, 2007 and filed an amended complaint on June 18, 2007. Defendants filed their answer to the amended complaint on July 16, 2007. Pursuant to the plaintiffs' motion, which the defendants opposed, the District Court certified a class of approximately 8,000 Massachusetts residents who now, or at any time during the litigation, are Medicaid-eligible, have suffered a brain injury after the age of 22 and either reside in a nursing or rehabilitation facility or are eligible for admission to such a facility. The potential fiscal impact of an adverse decision is unknown, but could be millions of dollars annually. The parties reached settlement and a settlement agreement was signed on May 30, 2008. 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. This is a class action by mentally retarded nursing home patients seeking community placements and services that resulted in a settlement agreement. In July, 2001, the District Court found that the Commonwealth had breached portions of the agreement and was in violation of certain legal requirements related to the provision of "active treatment" to class members. The United States Court of Appeals for the First Circuit affirmed the District Court's order in January, 2003. In April, 2007, the District Court found that, despite a "tremendous amount of work," and substantial improvement in the provision of services, the Commonwealth has not yet ensured that all class members receive active treatment. A court monitor was appointed to evaluate whether each class member is receiving active treatment. The parties have now reached a new settlement agreement under which 640 community placements would be created; placement of a class member in the community would take the place of any further obligation to provide "active treatment" to that individual. After a hearing on May 22, 2008, the court found that the agreement is fair, reasonable and adequate, and approved it in a written decision issued June 16, 2008. A group of class members 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.

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

Rosie D. et al v. The Governor, United States District Court, Western Division. In a memorandum of decision dated January 26, 2006, the District Court ruled in favor of a class of Medicaid-recipient children that the Commonwealth fails to provide the home- and community-based services required under the Early and Periodic Screening, Diagnosis and Treatment ("EPSDT") provisions of the Medicaid Act. On February 22, 2007, the District Court adopted the defendants' proposed remedial plan, with some modifications, and, on July 16, 2007, entered judgment in accordance with that plan, as modified. The Commonwealth did not appeal from that judgment and has begun implementation of its remedial plan. The plan originally contemplated full implementation by June 30, 2009, but, on the Commonwealth's motion, the court modified the judgment to extend the date for full implementation to November 30, 2009. On January 14, 2009, the Court allowed plaintiffs' motion for $7 million in legal fees. 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. The Disability Law Center (DLC) filed suit against the Department of Correction (DOC) and various senior DOC officials, alleging that confining prisoners with mental illness in segregation beyond a short period violates the Eighth Amendment, the Americans with Disabilities Act and the Rehabilitation Act of 1973. DLC asks the court to enjoin DOC from confining mentally ill prisoners in segregation for more than one week and to require DOC to establish a maximum security residential treatment unit or units as an alternative to segregation. DLC has proposed a broad definition of mental illness which, if adopted, would cover a large percentage of DOC's segregation population. DLC's counsel and consultants (a psychiatrist, a psychologist and a corrections specialist) have toured several DOC facilities and have interviewed numerous segregation inmates. 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.

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

Medicaid Audits and Regulatory Reviews

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

In re: Centers for Medicare and Medicaid Services regulations (Uncompensated Care Pool/Health Safety Net Trust Fund). The federal Health Care Financing Administration (now CMS) asserted in June, 2000 that the portion of the Medicaid program funded by the Commonwealth's Health Safety Net Trust Fund (formerly the Uncompensated Care Pool) might violate federal regulations regarding permissible taxes on health care providers. Since 1993, MassHealth has sought federal waivers for the Commonwealth's assessment on acute care hospitals and surcharge payers, respectively, which fund the Uncompensated Care Pool and its successor, the Health Safety Net Trust Fund. The Commonwealth believes that the assessments are within the federal law pertaining to health care-related taxes. Under federal regulations, if the Commonwealth were ultimately determined to have imposed an impermissible health care-related tax, the federal government could seek retroactive repayment of federal Medicaid reimbursements. By the end of pool fiscal year 2009, the Commonwealth will have collected an estimated $4.656 billion in acute hospital assessments since 1990 and an estimated $1.557 billion in surcharge payments since 1998. Clarification of the law surrounding permissible provider taxes is a national issue involving a number of states. New federal regulations on health care-related taxes are, in large part, subject to a moratorium on implementation through June 30, 2009.

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

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

Taxes

There are several tax cases pending that could result in significant refunds if taxpayers prevail. It is the policy of the Attorney General and the Commissioner of Revenue to defend such actions vigorously on behalf of the Commonwealth, and the descriptions that follow are not intended to imply that the Commissioner has conceded any liability whatsoever. As of March 31, 2008, $139 million in contingent liabilities exist in the aggregate in tax cases pending before the Appellate Tax Board, Appeals Court or Supreme Judicial Court. These contingent liabilities include both taxes and interest. Several cases comprise a sizeable share of these liabilities.

TJX Companies v. Commissioner of Revenue ("TJX I & TJX II"), Appellate Tax Board, Appeals Court. In *TJX II*, the taxpayer is challenging a tax liability of approximately $17 million (including interest) at the Appellate Tax Board arising from the Commissioner's disallowance of deductions for various royalty payments and interest taken in connection with transactions between several subsidiaries of the taxpayer. The Appellate Tax Board decided *TJX I* in favor of the Commissioner in 2006 and, on August 15, 2007, issued a 112-page report, affirming the taxpayer's liability of approximately $24 million, but also requiring a refund of approximately $1.8 million, which has been made. TJX has appealed the Board's decision and the parties argued this case to the Massachusetts Appeals Court on November 3, 2008. The Board has stayed *TJX II* pending the outcome of *TJX I*, although the facts and circumstances of each are slightly different. According to the statement of agreed facts submitted to the Appellate Tax Board in *TJXI*, the amount in dispute, exclusive of interest, was approximately $9.8 million. According to the Appellate Tax Board decision, the amount of the abatement granted was $840,731.

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 in 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. On March 19, 2009, Capital One Bank filed a petition for a writ of certiorari in the United States Supreme Court.

MBNA America Bank v. Commissioner of Revenue, Greenwood Trust Company v. Commissioner of Revenue, Providian National Bank v. Commissioner of Revenue, Appellate Tax Board, Appeals Court. These are claims under the Commerce Clause of the United States Constitution challenging the application of the financial institutions excise to certain credit card companies. The total potential refund in these cases is approximately $25 million. In *Capital One Bank*, the Board rejected the claims and upheld the excise. The Supreme Judicial Court affirmed in January, 2009. Capital One Bank has filed a petition for a writ of certiorari in the United States Supreme Court.

Philip DeMoranville and others v. Commonwealth of Massachusetts, Suffolk Superior Court. Plaintiff, on his own behalf and on behalf of similarly situated taxpayers, challenges a 2005 statute that authorizes the abatement of approximately $200 million in capital gains taxes, alleging that the Legislature's determination that no interest shall be paid on the refunds is unconstitutional. Should the plaintiff prevail, the total potential refund could be approximately $56 million. On May 15, 2008, the Commonwealth served a motion to dismiss the complaint for failure to state a claim upon which relief can be granted. The Court dismissed the case in January, 2009 for failure to exhaust administrative remedies. The plaintiff has filed a notice of appeal.

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.

Other Revenues

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

On April 18, 2006, upon the PMs’ withholding of the payment due April 17, 2006, the Commonwealth filed an emergency motion in Middlesex County Superior Court seeking immediate payment of the disputed amount and a judicial declaration that the Commonwealth diligently enforced its escrow statute during 2003. The PMs filed a motion to compel arbitration. On June 22, 2006, the Superior Court allowed the PMs’ motion to compel arbitration of the diligent-enforcement dispute and dismissed the Commonwealth’s complaint. The Commonwealth appealed the Superior Court’s order, and the Supreme Judicial Court allowed its application for direct appellate review. On April 23, 2007, the Supreme Judicial Court affirmed the Superior Court’s order dismissing the Commonwealth’s complaint and compelling arbitration of the diligent-enforcement dispute. The Supreme Judicial Court did not resolve the merits of the diligent-enforcement dispute, leaving that determination to a panel of arbitrators selected in accordance with the terms of the MSA.

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

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

(2005 NPM Adjustment) The SFD proceeding for a 2005 NPM Adjustment commenced in May 2007. Because the OPMs did suffer the requisite market share loss in 2005, they are seeking to reduce, by approximately $709 million, the MSA payments they made to the states for 2005 sales. In February 2008, the Firm again found that the disadvantages experienced by the OPMs as a result of the MSA were a significant factor in the OPMs’ 2005 market-share loss. Immediately following the Firm’s determination, the OPMs requested that the Independent Auditor issue an adjustment to their April 2008 annual MSA payment in the amount of $709 million, which would have reduced the initial 2008 pay-out to Massachusetts by approximately $28 million to $30 million. The Independent Auditor notified the parties that it would not make the adjustment until a fact finder resolved whether the states had diligently enforced their escrow statutes during 2005. Philip Morris paid its entire April 2008 annual

MSA payment, but R. J. Reynolds and Lorillard withheld their portion of the NPM Adjustment, which reduced the initial 2008 payout to Massachusetts by approximately $21 million. Consistent with the procedures outlined above, the States can avoid the 2005 NPM Adjustment if it is determined that the States diligently enforced their individual NPM Escrow Statutes. If the Commonwealth does not prevail, future MSA payments to Massachusetts would be reduced by an amount yet to be determined, but not exceeding the full amount of the state's 2005 MSA payment, depending upon the outcome of similar NPM proceedings against other states.

(2006 NPM Adjustment) The SFD proceeding for a 2006 NPM Adjustment commenced in May 2008. Because the OPMs did suffer the requisite market share loss in 2006, they are seeking to reduce, by approximately $611 million, the MSA payments they made to the States for 2006 sales. In March, 2009, the Firm again found that the disadvantages experienced by the OPMs as a result of the MSA were a significant factor in the OPMs' 2006 market-share loss. As in past years, we anticipate that one or more of the OPMs will withhold a portion of their payments due on April 15, 2009, to account for the 2006 NPM Adjustment. This withholding could reduce the Commonwealth's anticipated payment by approximately $24 million or less, depending on how many OPMs withhold payments. Consistent with the procedures outlined above, the States can avoid the 2006 NPM Adjustment if it is determined that the States diligently enforced their individual NPM escrow statutes. If the Commonwealth does not prevail, future MSA payments to the Commonwealth would be reduced by an amount yet to be determined, but not exceeding the full amount of the state's 2006 MSA payment, depending upon the outcome of similar NPM proceedings against other States.

At the present time, no arbitration panel has been selected and no arbitration proceeding has been scheduled to resolve the ongoing NPM adjustment disputes. In January, 2009, however, the Commonwealth and other settling states entered into an agreement on arbitration with the OPMs. Broadly stated, the agreement on arbitration provides for a national arbitration proceeding to resolve the ongoing NPM adjustment disputes. As consideration for the states' assent to this agreement, the OPMs agreed, among other things, to release the funds withheld from their April, 2008 MSA payments in connection with the 2005 NPM adjustment dispute. Notwithstanding this release of funds, the OPMs continue to contest the states' diligent enforcement of their escrow statutes. Nevertheless, as a result of this agreement, on February 26, 2009, the Independent Auditor released approximately $21.8 million in withheld 2005 MSA payments to the Commonwealth.

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

In re Aggregate Industries Settlement. In June, 2007, the Attorney General and the United States Attorney for the District of Massachusetts resolved four civil cases and one criminal matter with Aggregate Industries NE, Inc., arising out of Aggregate's supply of concrete products to the Central Artery/Ted Williams Tunnel project. In addition to a guilty plea on a charge of conspiracy to defraud the government, the settlement requires Aggregate to make total payments of $50 million, including approximately $6.2 million to the Commonwealth, approximately $1.1 million of which the Commonwealth must in turn pay to "relators" (whistleblowers). In addition, the settlement provides that approximately $27.1 million plus accrued interest will be paid into a trust fund for future repairs and maintenance of structures related to the project. The four civil cases resolved by this agreement are: *Commonwealth of Massachusetts ex rel. Chase v. Aggregate Industries, Inc. et al* in Suffolk Superior Court and *United States ex rel. Harrington and Finney v. Aggregate Industries, Inc. et al*, *United States ex rel. Chase v. Aggregate Industries, Inc. et al*, and *United States ex rel. Johnston v. Aggregate Industries PLC et al*, all in the United States District Court.

Environment

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

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

The Arborway Committee v. Executive Office of Transportation et al, Suffolk Superior Court. The plaintiff, a volunteer group of residents and merchants in Jamaica Plain, filed a complaint in February, 2007, seeking to compel the Commonwealth to restore electric light-rail service between Heath Street and the Forest Hills station in Boston. Green Line service along this route - known as the Arborway Line - was discontinued in 1984. The plaintiff claims that the Commonwealth's failure to restore the Arborway Line is a breach of a memorandum of Understanding entered into between the Commonwealth and the Conservation Law Foundation in 1990. The Commonwealth has moved for summary judgment on statute of limitations grounds; a hearing on the Commonwealth's motion has been scheduled for April 9, 2009. Discovery is proceeding simultaneously with the motion for summary judgment.

Boston Harbor Clean-Up. The Commonwealth is engaged in various lawsuits in the United States District Court concerning environmental and related laws, including an action brought by the federal Environmental Protection Agency alleging violations of the Clean Water Act and seeking to reduce the pollution in Boston Harbor, *e.g., United States v. Metropolitan District Commission*; *Conservation Law Foundation v. Metropolitan District Commission*. The Massachusetts Water Resources Authority (MWRA), successor in liability to the Metropolitan District Commission, has assumed primary responsibility for developing and implementing a court-approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. The total cost of construction of the wastewater facilities required under the Court's order, not including combined sewer overflow (CSO) costs, was approximately $3.8 billion. The MWRA anticipates spending $964 million for CSO projects going forward. Under the Clean Water Act, the Commonwealth may be liable for any cost of complying with any judgment in these or any other Clean Water Act cases to the extent that the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment.

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

Other

Historical Nipmuc Tribe v. Commonwealth of Massachusetts, Land Court. The Historical Nipmuc Tribe seeks the return of "State Parks and other unsettled Lands" in Central Massachusetts that are allegedly illegally obtained Nipmuc tribal homelands, as well as restitution for the Commonwealth's use of this property. This case is currently stayed pending plaintiff's efforts to retain counsel.

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

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

Goldberg v. Commonwealth, Suffolk Superior Court. In this case, the plaintiff alleges eminent-domain-type damages in connection with four billboards at the East Boston entrance to Logan Airport, which are in the vicinity of parkland newly created by the Central Artery/Ted Williams Tunnel project. 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.

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

Central Artery/Ted Williams Tunnel Cost Recovery Program Litigation (Suffolk Superior Court). In 2004, the Commonwealth and the Massachusetts Turnpike Authority filed ten civil actions against section design consultants of the Central Artery/Ted Williams Tunnel project, claiming that the designers' errors and omissions caused the project to expend additional costs during construction. The actions were filed as part of the project's cost recovery program to recoup extra costs directly attributable to the designers' errors and omissions in design. The Commonwealth and the Turnpike Authority also filed a complaint in 2004 against the project's management consultant, Bechtel/Parsons Brinckerhoff (B/PB), a joint venture. The main claim in this case is B/PB's failure to disclose the true cost of the project. The cost recovery efforts were transferred to the Attorney General's office effective February 1, 2005. In addition, in November, 2006, the Commonwealth, on behalf of the Massachusetts Highway Department, along with the Turnpike Authority, brought an action against B/PB and other defendants alleging breach of contract, negligence and other claims arising out of the July, 2006, ceiling collapse in the I-90 Connector Tunnel of the CA/T project. In late January, 2008, the Attorney General and United States Attorney resolved potential criminal and civil claims against B/PB for \$399 million, \$35 million of which was allocated to the ceiling collapse case. In addition, a settlement was also reached with 24 section design consultants for another

$51 million dollars to resolve certain cost recovery issues associated with the design of the project. In total, the Attorney General and the United States Attorney recovered $458 million, including interest. The majority of the $458 million will be held in the Central Artery/Tunnel Project Repair and Maintenance Trust Fund to provide for future non-routine repairs and maintenance of the Central Artery and Ted Williams Tunnel. In the November, 2006 civil action involving the collapse of the ceiling in the I-90 Connector Tunnel, the Commonwealth has reached settlement agreements or agreed to dismiss each of the remaining defendants. Once the appropriate closing documents are signed and filed with the court in the next several weeks, the litigation will be concluded. Once payments called for under the settlement agreements are made, the Commonwealth will have recovered a total of $78,375,000 in damages specifically for the ceiling collapse. The settlement agreements with the defendants other than B/PB provide that payments from those settlement agreements are to be made to the Central Artery and State Road Bridge Infrastructure Fund.

MISCELLANEOUS

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

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

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

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

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

CONTINUING DISCLOSURE

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

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

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

AVAILABILITY OF OTHER FINANCIAL INFORMATION

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

THE COMMONWEALTH OF MASSACHUSETTS

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

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

March 26, 2009

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