

## REFUNDING/NEW MONEY ISSUE - BOOK-ENTRY-ONLY

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

## THE COMMONWEALTH OF MASSACHUSETTS



**\$300,000,000**  
**General Obligation Bonds**  
**Consolidated Loan of 2004**  
**Series D**

**\$506,340,000**  
**General Obligation**  
**Refunding Bonds**  
**2004 Series C**

**Dated: Date of Delivery**

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

*The Bonds will be issued by means of a book-entry-only system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company ("DTC") and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The Bonds will bear interest from their delivery date and interest will be payable on June 1, 2005 and semiannually thereafter on December 1 and June 1 calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are subject to redemption prior to maturity, as more fully described herein.*

The Bonds will constitute general obligations of The Commonwealth of Massachusetts (the "Commonwealth"), and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and on expenditures for debt service, see "SECURITY FOR THE BONDS" (herein) and the Information Statement (referred to herein) under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "LONG-TERM LIABILITIES – General Authority to Borrow; Limit on Debt Service Appropriations."

The Bonds are offered when, as and if issued and received by the Underwriters, and subject to the unqualified approving opinion as to legality of Ropes & Gray LLP, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Ropes & Gray LLP, Boston, Massachusetts, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Palmer & Dodge LLP, Boston, Massachusetts. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about November 18, 2004.

### Goldman, Sachs & Co.

**Bear, Stearns & Co. Inc.**  
**Lehman Brothers**

**Citigroup**  
**Merrill Lynch & Co.**

**JPMorgan**  
**UBS Financial Services Inc.**

**A.G. Edwards & Sons, Inc.**  
**Corby Capital Markets, Inc.**  
**Fidelity Capital Markets**  
**Morgan Keegan & Company, Inc.**  
**RBC Dain Rauscher Inc.**

**Advest, Inc.**  
**Eastern Bank Capital Markets**  
**First Albany Capital Inc.**  
**Ramirez & Co., Inc.**  
**Southwest Securities, Inc.**

**Banc of America Securities LLC**  
**Edward Jones**  
**M.R. Beal & Company**  
**Raymond James & Associates, Inc.**  
**Wachovia Bank, National Association**

October 28, 2004

**THE COMMONWEALTH OF MASSACHUSETTS**

**\$300,000,000  
General Obligation Bonds  
Consolidated Loan of 2004, Series D**

**Dated: Date of Delivery**

**Due: December 1, as shown below, except as indicated**

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield<sup>c</sup></u>
2019*	\$42,380,000	5.00%	3.89%
2020*	45,835,000	5.00	3.97
2021*	48,430,000	4.75	4.15
2022*	51,170,000	5.00	4.12
2023*	54,060,000	5.00	4.20
November 1, 2024*	58,125,000	5.00	4.28

**\$506,340,000  
General Obligation Refunding Bonds  
2004 Series C**

**Dated: Date of Delivery**

**Due: December 1, as shown below**

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
2014*	\$ 16,530,000	5.50%	3.50%
2016*	71,490,000	5.50	3.71
2017*	57,370,000	5.50	3.80
2017**	25,565,000	5.50	3.80
2018**	18,415,000	5.50	3.88
2019**	37,655,000	5.50	3.96
2020**	41,045,000	5.50	4.05
2021*	11,030,000	5.50	4.13
2022*	48,580,000	5.50	4.20
2022‡	61,665,000	5.50	4.20
2023‡	63,780,000	5.50	4.25
2024‡	53,215,000	5.50	4.30

<sup>c</sup> Priced at the stated yield to the December 1, 2014 redemption date at a redemption price of 100%. See “THE BONDS – Redemption” herein.

\* Insured by Financial Security Assurance Inc. See “BOND INSURANCE – Financial Security Assurance Bond Insurance Policy” herein.

\*\* Insured by MBIA Insurance Corporation. See “BOND INSURANCE – The MBIA Insurance Corporation Insurance Policy” herein.

‡ Insured by Ambac Assurance Corporation. See “BOND INSURANCE – Payment of Ambac Insured Bonds Pursuant to Ambac Policy” herein.

Other than with respect to information concerning Financial Security Assurance Inc. (“FSA”) contained herein under the heading “BOND INSURANCE” and in the specimen Municipal Bond Insurance Policy of FSA set forth in Appendix E – “Specimen Financial Guaranty Insurance Policies,” none of the information in this Official Statement has been supplied or verified by FSA and FSA makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

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

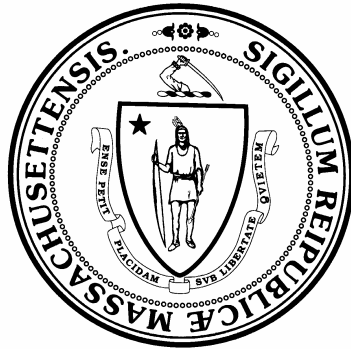
THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT: THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPECTIVE RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO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

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

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**THE COMMONWEALTH OF MASSACHUSETTS**



**CONSTITUTIONAL OFFICERS**

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

**LEGISLATIVE OFFICERS**

**Robert E. Travaglini.....President of the Senate**  
**Salvatore F. DiMasi.....Speaker of the House**

## OFFICIAL STATEMENT

### THE COMMONWEALTH OF MASSACHUSETTS

**\$300,000,000**

**General Obligation Bonds  
Consolidated Loan of 2004, Series D**

**\$506,340,000**

**General Obligation Refunding Bonds  
2004 Series C**

### INTRODUCTION

This Official Statement (including the cover pages and Appendices A through E attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of \$300,000,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 2004, Series D (the "New Money Bonds") and of \$506,340,000 aggregate principal amount of its General Obligation Refunding Bonds, 2004 Series C (the "Refunding Bonds") (the New Money Bonds and the Refunding Bonds, together, being the "Bonds"). The Bonds will be general obligations of the Commonwealth, and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and expenditures for debt service, see "SECURITY FOR THE BONDS" and the Information Statement (described below) under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "LONG-TERM LIABILITIES – General Authority to Borrow; Limit on Debt Service Appropriations."

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

#### **Purpose and Content of Official Statement**

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

Specific reference is made to the Commonwealth's Information Statement dated September 18, 2003 (the "September Information Statement"), as it appears as Appendix A in the Official Statement dated September 18, 2003 of the Commonwealth with respect to the Commonwealth's General Obligation Bond Anticipation Notes, 2003 Series A (the "September Official Statement"). A copy of the September Official Statement has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission and with the Municipal Securities Rulemaking Board. The information contained in the September Information Statement has been supplemented by the Commonwealth's Information Statement Supplement dated October 28, 2004 (the "October 28 Supplement"), which is attached hereto as Appendix A. The September Information Statement and the October 28 Supplement are referred to herein collectively as the "Information Statement". The Information Statement, contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth. Exhibit A to the Information Statement contains certain economic information concerning the Commonwealth. Exhibits B and C to the Information Statement contain the financial statements of the Commonwealth for the fiscal year ended June 30, 2003, prepared on a statutory basis and GAAP basis, respectively. Specific reference is made to said financial statements, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission (the "NRMSIRs"). The financial statements of the Commonwealth for the fiscal year ended June 30, 2004, prepared on a statutory basis, are expected to be released on November 1, 2004 and filed with the NRMSIRs as soon as possible thereafter. 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".

Attached hereto as Appendix B is a listing of the bonds to be refunded with the proceeds of the Refunding Bonds. Appendix C attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Bonds. Appendix D attached hereto contains the proposed form of the Commonwealth's continuing disclosure undertaking to be included in the forms of the Bonds to facilitate compliance by the Underwriters with the requirements of paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission. Appendix E attached hereto sets forth specimen financial guaranty insurance policies of Financial Security Assurance Inc., MBIA Insurance Corporation and Ambac Assurance Corporation.

## THE BONDS

### General

The Bonds will be dated their date of delivery and will bear interest from such date payable semiannually on June 1 and December 1 of each year, commencing June 1, 2005 (each an "Interest Payment Date") until the principal amount is paid. The Bonds will mature on December 1 (except as noted below) in the years and in the aggregate principal amounts, and shall bear interest at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months), as set forth on the inside cover page of this Official Statement. The Commonwealth will act as its own paying agent with respect to the Bonds. Notwithstanding the foregoing, the final maturity of the New Money Bonds will mature on November 1, 2024, and accrued and unpaid interest on the New Money Bonds maturing on November 1, 2024 will be payable on that date. The Commonwealth reserves the right to appoint from time to time a paying agent or agents or bond registrar for the Bonds.

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

### Redemption

*Optional Redemption.* The Refunding Bonds are not subject to redemption prior to maturity. The New Money Bonds will be subject to redemption on any date prior to their stated maturity dates on and after December 1, 2014 at the option of the Commonwealth from any monies legally available therefor, in whole or in part at any time, by lot, at 100% of the principal amount thereof, plus accrued interest to the redemption date.

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

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

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

## **Plan of Finance**

The Refunding Bonds are being issued pursuant to the provisions of Section 53A of Chapter 29 of the Massachusetts General Laws for the purpose of refunding the bonds set forth in Appendix B (the “Refunded Bonds”). The net proceeds of the Refunding Bonds will be applied as described in the following paragraph. Any accrued interest payable upon original delivery of the Refunding Bonds will be credited to the funds from which debt service on the Refunding Bonds is paid and will be used to pay interest on the Refunding Bonds. The net proceeds of the New Money Bonds will be applied as described below under Application of Proceeds.

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

## **Application of Proceeds**

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

The purposes for which the New Money Bonds will be issued have been authorized by the Legislature under various bond authorizations. A portion of the net proceeds will be used to finance or reimburse the Commonwealth for a variety of capital expenditures that are included within the current multi-year capital spending plan established by the Executive Office for Administration and Finance. The plan, which is an administrative guideline and is subject to amendment at any time, sets forth capital spending allocations over the next four fiscal years and establishes annual capital spending limits. See the Information Statement under the heading “COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN.”

## **SECURITY FOR THE BONDS**

The Bonds will be general obligations of the Commonwealth to which its full faith and credit will be pledged for the payment of principal and interest when due. However, it should be noted that Chapter 62F of the Massachusetts General Laws imposes an allowable state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit. It should be noted further that Section 60B of Chapter 29 of the Massachusetts General Laws imposes an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on general obligation debt of the Commonwealth. These statutes are both subject to amendment or repeal by the Legislature. Currently, both actual tax revenue growth and annual general obligation debt service are below the statutory limits. See the Information Statement under the headings



“COMMONWEALTH REVENUES – Limitations on Tax Revenues” and “LONG-TERM LIABILITIES – General Authority to Borrow; Limit on Debt Service Appropriations.”

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

## **BOND INSURANCE**

Financial Security Assurance Inc. (“FSA”) has made a commitment to issue a financial guaranty policy (the “FSA Policy”) relating to all of the New Money Bonds and a portion of the Refunded Bonds, as reflected on the inside cover of this Official Statement (the “FSA Insured Bonds”). MBIA Insurance Corporation (“MBIA”) has made a commitment to issue a financial guaranty insurance policy (the “MBIA Policy”) relating to a portion of the Refunded Bonds, as reflected on the inside cover of this Official Statement (the “MBIA Insured Bonds”). Ambac Assurance Corporation (“Ambac”) has made a commitment to issue a financial guaranty insurance policy (the “Ambac Policy”) relating to a portion of the Refunded Bonds, as reflected on the inside cover of this Official Statement (the “Ambac Insured Bonds”) (the FSA Insured Bonds, MBIA Insured Bonds and Ambac Insured Bonds collectively being the “Insured Bonds”). Certain information regarding payment of the FSA Insured Bonds pursuant to the FSA Policy, FSA, payment of the MBIA Insured Bonds pursuant to the MBIA Policy, MBIA, payment of the Ambac Insured Bonds pursuant to the Ambac Policy and Ambac appears below. The following information has been supplied by FSA, MBIA and Ambac, respectively, for inclusion in the Official Statement. No representations are made by the Commonwealth or the Underwriters as to the accuracy or completeness of the following information.

### **Financial Security Assurance Bond Insurance Policy**

Concurrently with the issuance of the Bonds, FSA will issue the FSA Policy for the FSA Insured Bonds. The FSA Policy guarantees the scheduled payment of principal of and interest on the FSA Insured Bonds when due as set forth in the form of the FSA Policy included in Appendix E to this Official Statement.

The FSA Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

### **Financial Security Assurance Inc.**

FSA is a New York domiciled financial guaranty insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. (“Holdings”). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or FSA is liable for the obligations of Financial Security.

At June 30, 2004, FSA’s total policyholders’ surplus and contingency reserves were approximately \$2,212,545,000 and its total unearned premium reserve was approximately \$1,501,280,000 in accordance with statutory accounting practices. At June 30, 2004, FSA’s total shareholders’ equity was approximately \$2,438,206,000 and its total net unearned premium reserve was approximately \$1,255,708,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the FSA Insured Bonds. Copies of materials incorporated by reference will be provided upon request to Financial Security Assurance Inc., 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone (212) 826-0100).

The FSA Policy does not protect investors against changes in market value of the FSA Insured Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. FSA makes no representation regarding the FSA Insured Bonds or the advisability of investing in the FSA Insured Bonds. FSA makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that FSA has provided to the Commonwealth the information presented under this caption for inclusion in the Official Statement.

### **The MBIA Insurance Corporation Insurance Policy**

The following information has been furnished by MBIA for use in this Official Statement. Reference is made to Appendix E for a specimen of the MBIA Policy.

The MBIA Policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Issuer to the Paying Agent or its successor of an amount equal to (i) the principal of (either at the stated maturity or by an advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the MBIA Insured Bonds as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed by the MBIA Policy shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner of the MBIA Insured Bonds pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law (a "Preference").

The MBIA Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any MBIA Insured Bonds. The MBIA Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of MBIA Insured Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. MBIA's policy also does not insure against nonpayment of principal of or interest on the MBIA Insured Bonds resulting from the insolvency, negligence or any other act or omission of the Paying Agent or any other paying agent for the MBIA Insured Bonds.

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by MBIA from the Paying Agent or any owner of a MBIA Insured Bond the payment of an insured amount for which is then due, that such required payment has not been made, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such insured amounts which are then due. Upon presentment and surrender of such MBIA Insured Bonds or presentment of such other proof of ownership of the MBIA Insured Bonds, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the MBIA Insured Bonds as are paid by MBIA, and appropriate instruments to effect the appointment of MBIA as agent for such owners of the MBIA Insured Bonds in any legal proceeding related to payment of insured amounts on the MBIA Insured Bonds, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners or the Paying Agent payment of the insured amounts due on such MBIA Insured Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

### **MBIA**

MBIA is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company ("MBIA Inc."). MBIA Inc. is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of

dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

MBIA does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding the policy and MBIA set forth under the heading "BOND INSURANCE". Additionally, MBIA makes no representation regarding the MBIA Insured Bonds or the advisability of investing in the MBIA Insured Bonds.

The MBIA Policy is not covered by the Property/Casualty Insurance Security Fund specified in Article 76 of the New York Insurance Law.

The following documents filed by MBIA Inc. with the Securities and Exchange Commission (the "SEC") are incorporated herein by reference:

- (1) MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003; and
- (2) MBIA Inc.'s Quarterly Report on Form 10-Q for the quarter ended June 30, 2004.

Any documents filed by MBIA Inc. pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act of 1934, as amended, after the date of this Official Statement and prior to the termination of the offering of the MBIA Insured Bonds offered hereby shall be deemed to be incorporated by reference in this Official Statement and to be a part hereof. Any statement contained in a document incorporated or deemed to be incorporated by reference herein, or contained in this Official Statement, shall be deemed to be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any such statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

MBIA Inc. files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) MBIA Inc.'s Annual Report on Form 10-K for the year ended December 31, 2003, and (2) MBIA Inc.'s Quarterly Reports on Form 10-Q for the quarters ended March 31, 2004 and June 30, 2004) are available (i) over the Internet at the SEC's web site at <http://www.sec.gov>; (ii) at the SEC's public reference room in Washington D.C.; (iii) over the Internet at MBIA Inc.'s web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2003, MBIA had admitted assets of \$9.9 billion (audited), total liabilities of \$6.2 billion (audited), and total capital and surplus of \$3.7 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2004 MBIA had admitted assets of \$10.5 billion (unaudited), total liabilities of \$6.7 billion (unaudited), and total capital and surplus of \$3.8 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Moody's Investors Service, Inc. rates the financial strength of MBIA "Aaa."

Standard & Poor's, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA "AAA."

Fitch Ratings rates the financial strength of MBIA "AAA."

Each rating of MBIA should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the MBIA Insured Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the MBIA Insured Bonds. MBIA does not guaranty the market price of the MBIA Insured Bonds nor does it guaranty that the ratings on the MBIA Insured Bonds will not be revised or withdrawn.

## **Payment Pursuant to Ambac Policy**

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

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

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

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

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

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

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

## **Ambac Assurance Corporation**

Ambac is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$8,142,000,000 (unaudited) and statutory capital of approximately \$4,824,000,000 (unaudited) as of June 30, 2004. Statutory capital consists of Ambac's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac.

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

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

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

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

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

1. Ambac Financial's Annual Report on Form 10-K for the fiscal year ended December 31, 2003 and filed on March 15, 2004;
2. Ambac Financial's Current Report on Form 8-K dated April 21, 2004 and filed on April 22, 2004;
3. Ambac Financial's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2004 and filed on May 10, 2004;
4. Ambac Financial's Current Report on Form 8-K dated July 21, 2004 and filed on July 22, 2004;
5. Ambac Financial's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2004 and filed on August 9, 2004;
6. Ambac Financial's Current Report on Form 8-K dated August 19, 2004 and filed on August 20, 2004; and
7. Ambac Financial's Current Report on Form 8-K dated October 20, 2004 and filed on October 20, 2004.

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

## LITIGATION

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

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

## BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company, New York, New York, will act as securities depository for the Bonds. The Bonds will initially be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of each series set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

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

Purchases of Bonds under the DTC system must be made by or through DTC Participants, which will receive a credit for the Bonds in the records of DTC. The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") is in turn to be recorded on the DTC Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations of their purchase providing details of the transaction, as well as periodic statements of their holdings, from the DTC Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds will be accomplished by entries made on the books of DTC Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

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

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

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

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

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

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

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

## **RATINGS**

The Bonds have been assigned ratings by FitchRatings, Moody's Investors Service, Inc. and Standard & Poor's Ratings Services of "AAA," "Aaa" and "AAA," respectively, based upon the understanding that the payment of the principal of and the interest on the Bonds will be guaranteed by a financial guaranty insurance policy to be issued simultaneously with the delivery of the Bonds by FSA, Ambac or MBIA, as applicable.

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

## **UNDERWRITING**

The Underwriters have agreed, subject to certain conditions, to purchase all of the Bonds from the Commonwealth at a discount from the initial offering prices of the Bonds equal to approximately 0.5177% of the aggregate principal amount of the Bonds. The Underwriters may offer and sell the Bonds to certain dealers and others (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices (or yields higher than the offering yields) stated on the inside cover page hereof. The principal offering prices (or yields) set forth on the inside cover page hereof may be changed from time to time after the initial offering by the Underwriters.

## **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

Causey Demgen & Moore Inc. will verify (a) the adequacy of the forecasted receipts of principal and interest on the Escrow Obligations and the forecasted payments of principal and interest to redeem the Refunded Bonds, and (b) the yields on the Refunding Bonds and the Escrow Obligations purchased with a portion of the proceeds of the sale of the Refunding Bonds. Such verification will be used in part by Ropes & Gray LLP, Bond Counsel, in concluding that the Bonds are not arbitrage bonds within the meaning of the Code. Causey Demgen & Moore Inc. has restricted its procedures to certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

## **TAX EXEMPTION**

Bond Counsel is of the opinion that, under existing law, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for the purpose of computing the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"); it should be noted, however, that the interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). Bond Counsel has not opined as to other federal tax consequences, if any, resulting from holding the Bonds.

The Code imposes certain requirements and restrictions on the use, expenditure and investment of proceeds of state and local governmental obligations, including the Bonds, and a requirement for payment to the federal government (called a "rebate") of certain proceeds derived from the investment thereof. Failure to comply with the Code's requirements subsequent to the issuance of the Bonds could cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of their issuance. On or before delivery of the Bonds to the original purchasers, the Commonwealth will provide covenants or certificates evidencing that it will take all lawful action necessary to comply with those provisions of the Code that, except for such compliance, would affect adversely the excludability of interest on the Bonds from gross income for federal income tax purposes. Bond Counsel's opinion with respect to the federal income tax treatment of interest on the Bonds is conditioned upon such compliance.

Prospective purchasers of the Bonds should also be aware that the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds, or, in the case of a financial institution, for that portion of the owner's interest expense allocated to interest on the Bonds. Interest on the Bonds earned by insurance



companies or allocable to certain dividends received by such companies may increase the taxable income of those companies as calculated under Subchapter L of the Code. In addition, interest on the Bonds earned by certain corporations could be subject to the foreign branch profits tax imposed by Section 884 of the Code, and may be included in passive investment income subject to federal income taxation under Section 1375 of the Code applicable to certain S corporations. The Code also requires recipients of certain social security and railroad retirement benefits to take into account receipts and accruals of interest on the Bonds in determining the portion of such benefits that are included in gross income and receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit under Section 32(i) of the Code. No assurance can be given that future legislation will not have adverse tax consequences for owners of the Bonds.

In the opinion of Bond Counsel, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Bonds. Prospective purchasers should be aware, however, that the Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon are included in the measure of Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.

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

The excess, if any, of the tax basis of the Bonds to a purchaser (other than a purchaser who holds such Bonds as inventory, stock in trade or for sale to customers in the ordinary course of business) over the amount payable at maturity is "bond premium." For federal income tax purposes, bond premium is amortized over the term of such Bonds, is not deductible and reduces the purchaser's adjusted tax basis. Bond purchasers should consult their tax advisers with respect to the tax consequences of bond premium.

On the date of delivery of the Bonds, the Underwriters will be furnished with an opinion of Bond Counsel substantially in the form attached hereto as Appendix C – "Proposed Form of Opinion of Bond Counsel."

### **OPINIONS OF COUNSEL**

The unqualified approving opinion as to the legality of the Bonds will be rendered by Ropes & Gray LLP, of Boston, Massachusetts, Bond Counsel. The proposed form of the opinion of Bond Counsel relating to the Bonds is attached hereto as Appendix C. Certain legal matters will also be passed upon by Ropes & Gray LLP of Boston, Massachusetts, as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Palmer & Dodge LLP of Boston, Massachusetts.

### **CONTINUING DISCLOSURE**

In order to assist the Underwriters in complying with paragraph (b)(5) of Rule 15c2-12, the Commonwealth will undertake in the Bonds to provide annual reports and notices of certain events. A description of this undertaking is set forth in Appendix D attached hereto.

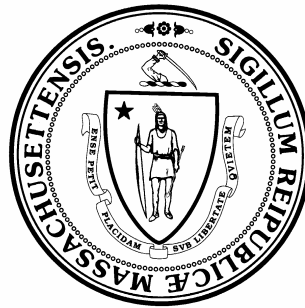
For information concerning the availability of certain other financial information from the Commonwealth, see the Information Statement under the heading "CONTINUING DISCLOSURE."

### **MISCELLANEOUS**

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



**THE  
COMMONWEALTH  
OF  
MASSACHUSETTS**



**INFORMATION STATEMENT SUPPLEMENT**

**Dated October 28, 2004**

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EXHIBITS

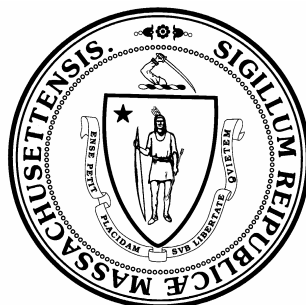
A. Economic Information as of September 30, 2004

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

B. Statutory Basis Financial Report for the year ended June 30, 2003

C. Comprehensive Annual Financial Report (GAAP basis) for the year ended June 30, 2003

**THE COMMONWEALTH OF MASSACHUSETTS**



**CONSTITUTIONAL OFFICERS**

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

**LEGISLATIVE OFFICERS**

**Robert E. Travaglini..... President of the Senate**  
**Salvatore F. DiMasi..... Speaker of the House**

**THE COMMONWEALTH OF MASSACHUSETTS  
INFORMATION STATEMENT SUPPLEMENT**

**OCTOBER 28, 2004**

This supplement (“Supplement”) to the Information Statement of The Commonwealth of Massachusetts (the “Commonwealth”) dated September 18, 2003 (the “September Information Statement”) is dated October 28, 2004, and contains information which updates the information contained in the September Information Statement. The September Information Statement appears in the Commonwealth’s Official Statement dated September 18, 2003 with respect to its \$550,000,000 General Obligation Bond Anticipation Notes, 2003 Series A, a copy of which has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. This Supplement and the September Information Statement must be read together and in their entirety in order to obtain the appropriate fiscal, financial and economic information concerning the Commonwealth through October 28, 2004. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the September Information Statement. Exhibit A to this Supplement, which is attached hereto, is the Statement of Economic Information as of September 30, 2004, which sets forth certain economic, demographic and statistical information concerning the Commonwealth. Exhibit B is the Statutory Basis Financial Report for the year ended June 30, 2003, and Exhibit C is the Comprehensive Annual Financial Report (GAAP basis) for the year ended June 30, 2003. Specific reference is made to said Exhibits B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission (the “NRMSIRs”). 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 Statutory Basis Financial Report for the year ended June 30, 2004 will be posted on this website the week of November 1, 2004 and filed with the NRMSIRs as soon as possible thereafter.

**RECENT DEVELOPMENTS**

**Fiscal 2003**

On June 30, 2003, the Commonwealth ended fiscal 2003 with a consolidated net surplus of approximately \$150.9 million. Of this amount the statutory surplus of \$75.7 million was transferred to the Stabilization Fund and \$75.2 million was carried forward into fiscal 2004 as an undesignated beginning balance. Also on June 30, 2003, \$40.8 million from the elimination of various Budgeted Operating Funds was transferred to the Stabilization Fund. These transfers resulted in a \$641.3 million ending balance of the Stabilization Fund as of June 30, 2003. Also on June 30, 2003, the negative \$1.802 billion fund balance of the Local Aid Fund was transferred to the General Fund’s fund balance as a result of the repeal of the Local Aid Fund.

**Fiscal 2004**

On November 21, 2003, the Governor signed into law “An Act Relative to Fiscal Relief Funds.” The legislation establishes a new budgeted operating fund called the Federal Medicaid Assistance Percentage Escrow Fund (“FMAP Escrow Fund”). All revenue received from the federal Jobs Growth Reconciliation Act of 2003 in fiscal 2004 and 2005, unless otherwise designated for a specific purpose, will be deposited into the FMAP Escrow Fund. The Executive Office for Administration and Finance estimates that after the transfer of \$55.0 million to the Uncompensated Care Trust and \$33.4 million to the newly created Economic Stimulus Fund (discussed below), \$346.2 million will be deposited into the FMAP Escrow Fund in fiscal 2004, which will exhaust the total amount available to the Commonwealth and, thus, would result in no additional money being deposited into the FMAP Escrow Fund in fiscal 2005. The FMAP Escrow Fund expires at the close of fiscal 2005, at which time any unexpended balance will be transferred to the Stabilization Fund. Also included in the bill were General Fund appropriations in the amount of \$5.6 million for costs associated with the relocation of state agencies to the Leverett Saltonstall State Office Building, and \$16.6 million for a reserve for the payment of court judgments and settlements.

On November 26, 2003, the Governor signed into law supplemental appropriations totaling approximately \$81.1 million and vetoed approximately \$30.1 million in proposed spending. The legislation included \$34.1 million for higher education collective bargaining contracts, \$6.0 million for school health programs, \$3.7 million for the Department of Social Services, \$3.6 million for the operations of the State Police Crime Laboratory, \$3.1 million for the Department of Mental Retardation's residential and day programs, and approximately \$30.6 million for other programs. Subsequently, \$26.2 million in vetoes were overridden by the Legislature, including \$10.0 million for operations of the University of Massachusetts, \$6.9 million for legislative information technology upgrades, \$5.9 million for Trial Court administrative costs, \$1.7 million for a reserve for the Help America Vote Act and an additional \$1.7 million of other overrides.

Also on November 26, 2003, the Governor signed into law "An Act Relative to Investments in Emerging Technologies to Promote Job Creation, Economic Stability and Competitiveness in the Massachusetts Economy." The legislation created the Economic Stimulus Trust Fund and directs the state comptroller to transfer to this fund \$33.6 million from the Health Care Security Trust Fund, \$33.6 million from the Stabilization Fund, and \$33.6 million from any monies received from the federal Jobs and Growth Reconciliation Act of 2003. The legislation also created several new tax incentives for Massachusetts businesses and established a one day sales tax holiday in August 2004. The Governor approved \$49.5 million in programs designed to promote economic growth, and \$20.8 million from the Workforce Training Fund for workforce training grants; however, the Governor vetoed \$50.5 million in proposed spending, which was subject to legislative override. Subsequently, \$44.0 million in vetoes were overridden by the Legislature, including \$12.5 million for the Emerging Technology Fund, \$10.0 million for the Massachusetts Research Center, \$7.5 million for the John Adams Institute, \$5.0 million for the Massachusetts Technology Development Corporation, \$4.5 million for workforce training grants, \$2.0 million for the Massachusetts Tourism Fund, \$1.3 million for the Massachusetts Math, Science, Tech, and Engineering Fund and \$1.0 million for the Massachusetts Technology Transfer Center.

On November 29, 2003, "An Act Relative to the Reform of the Unemployment Insurance System" became law. The legislation requires that any time that the solvency of the Unemployment Compensation Fund is in jeopardy and the continuation of benefit payments or federal loan repayments is in danger, a new uniform secondary adjustment payment, which is provided for in the legislation, shall be added to every employer's contribution rate. The new law, effective January 1, 2004, will eliminate over time the Unemployment Compensation Fund deficit projected in the September Information Statement. However, in order to cover this deficit, between January and April 2004 the Commonwealth incurred a total net liability of \$360.2 million from the federal government. No borrowings were necessary in May as originally anticipated and complete repayment of these borrowings occurred on May 13, 2004. The Commonwealth incurred no interest on these borrowings and did not incur any additional borrowings through September 30, 2004.

On February 18, 2004, the Governor filed a bill recommending \$133.1 million in supplemental appropriations. The bill included \$46.6 million for snow and ice removal costs, \$21.5 million for the underground storage tank reimbursement program, \$16.0 million for private counsel compensation and other indigent-related court costs, \$10.9 million for the workforce training fund grant program, and a total of \$26.0 million for other ongoing obligations. The bill also included \$7.9 million for costs that will be offset by corresponding revenues and \$4.7 million for new programs.

On March 5, 2004, the Governor signed into law an appropriations bill authorizing \$52.2 million in supplemental appropriations, all but \$3.1 million of which had been included in the supplemental appropriations bill filed by the Governor on February 18, 2004. The \$52.2 million appropriations act included \$35.0 million for snow and ice removal costs, a total of \$8.2 million for the Department of Transitional Assistance for public assistance payments, \$5.7 million for public safety costs associated with homeland security and \$3.2 million for the Department of Veteran's Services for veteran's benefits disbursements to cities and towns.

On April 5, 2004, the Governor signed into law \$64.1 million in supplemental appropriations, all but \$232,000 of which had been included in the supplemental appropriations bill filed by the Governor on February 18, 2004. Included in this appropriations act was \$21.0 million for the Department of Revenue to fund the underground storage tank reimbursement program, \$16.0 million for private counsel compensation and other indigent-related court costs, \$10.9 million for the workforce training fund grant program, \$7.0 for unemployment compensation and medical security payments, and a total of \$9.2 million for various other programs.

On June 3, 2004, the Governor filed a bill recommending \$457.2 million in supplemental appropriations. The bill included \$103.2 million in funding to address current year deficiencies and to make funds in several accounts available for expenditure in fiscal 2005. The appropriations bill recommended the creation of a One-Time Capital Improvement Trust Fund and transferred \$254.3 million from the General Fund into the fund for a variety of one-time capital project expenditures including road and bridge improvements, park renovations and information technology upgrades. The bill also recommended that \$100.0 million be reserved for fiscal 2005 as a one-time expenditure to be distributed to cities and towns through the existing lottery distribution formula in addition to any amount appropriated in the fiscal 2005 GAA.

On July 9, 2004, the Governor signed into law “An Act relative to the Financial Stability in the City of Springfield.” The legislation passed by the Legislature provided \$52 million for interest free loans to the City of Springfield. The amount of the loans was reduced by the Governor by \$30.0 million to \$22.0 million, but this reduction was subsequently reinstated by the Legislature. The legislation establishes the Springfield Recovery Trust Fund and transfers \$52.0 million to the fund to provide loans to the City of Springfield. The interest free loans to address the budgetary imbalance of the City are contingent on terms and conditions set forth in the legislation and subject to approval of the Secretary of Administration and Finance.

On September 17, 2004, the Governor signed into law \$423.8 million in supplemental appropriations and vetoed approximately \$76.1 million in additional spending recommended by the Legislature. The legislation included \$92.3 million for one-time capital improvements, \$90.8 million to fulfill fiscal 2004 Medicaid deficiencies, \$75.0 million in one-time local aid payments to be distributed in fiscal 2005, \$21.6 million to implement a new funding formula for charter public schools, \$16.8 million for private counsel public defenders, and \$92.7 million for all other programs and services. The bill also reserved an additional \$34.6 million in fiscal 2004 appropriations for expenditure in fiscal 2005. A total of \$382.1 million of approved spending was appropriated from the Commonwealth’s Stabilization Fund, with the balance of the expenditures funded from the General Fund.

**Fiscal 2004 Non-Tax Revenues**

On April 8, 2004, the Secretary of State’s securities division agreed to a settlement in which Putnam Investment Management, LLC admitted to allowing some managers and certain fund participants to engage in market timing in certain Putnam mutual funds and agreed to pay damages and fines. The settlement resulted in \$40.0 million in revenue to the General Fund in fiscal 2004. The funds were received on April 30, 2004 and deposited into the General Fund.

**Fiscal 2004 Tax Revenues**

Tax revenue collections for fiscal 2004, ended June 30, 2004, totaled \$15.953 billion, an increase of \$989.4 million or 6.6% over fiscal 2003. The following table shows the tax collections for each month of fiscal 2004 and the change from tax collections in the same month in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in each month that are dedicated to the MBTA.

**Fiscal 2004 Budgeted Tax Collections (in millions)<sup>(1)</sup>**

Month	Tax Collections	Change From Prior Year	Percentage Change	MBTA Portion <sup>(2)</sup>	Collections, Net of MBTA
July	\$1,067.0	\$54.3	5.4%	\$58.1	\$1,008.9
August	1,089.7	25.8	2.4	53.4	1,036.3
September	1,642.0	83.8	5.4	59.6	1,582.4
October	1,075.6	142.3	15.2	56.9	1,018.6
November	1,045.5	30.6	3.0	48.7	996.8
December	1,454.0	59.6	4.3	65.4	1,388.6
January	1,507.2	20.9	1.4	58.0	1,449.1
February	902.5	62.0	7.4	46.2	856.4
March	1,370.1	(21.6)	(1.6)	66.9	1,303.2



April	1,820.9	412.5	29.3	53.2	1,767.7
May	1,205.8	(82.2)	(6.4)	54.6	1,151.2
June	1,773.0	201.3	12.8	63.3	1,709.7
Total	\$15,953.3	\$989.3	6.6%	\$684.3	\$15,269.0

SOURCE: Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Includes adjustments of \$6.7 million on the account of the first quarter, \$11.9 million on the account of the second quarter, \$18.2 million on the account of the third quarter, and approximately \$5.2 million on the account of the fourth quarter.

The fiscal 2004 tax revenue increase of \$989.4 million over fiscal 2003 is attributable in large part to an increase of approximately \$262.6 million or 28.9% in income tax payments with returns and bills, an increase of approximately \$279.3 million or 3.9% in personal income tax withholdings, an increase of approximately \$182.7 million or 15.2% in income tax cash estimated payments, and an increase of approximately \$145.6 million or 9.5% in corporate and business tax collections, which appears to reflect the closing of certain tax loopholes as well as increased business taxable earnings.

On April 6, 2004, the Supreme Judicial Court held that the effective date of an act amending the capital gains tax statute violates amendment article 44 of the Massachusetts Constitution. Since the statute has a severability clause, the court remanded the case to the Supreme Judicial Court for Suffolk County for further proceedings to determine whether the statute should be construed to impose the new tax rate beginning on calendar year January 1, 2003, or whether the statute instead should be construed to impose the new tax rate beginning on January 1, 2002. The Department of Revenue estimates that if the statute is construed to impose the new tax rate beginning on January 1, 2002, the Commonwealth would collect an additional \$130 million to \$160 million in capital gains taxes. If the statute is construed to impose the new tax rate beginning on January 1, 2003, the Commonwealth would be required to pay an additional \$225 million to \$275 million in refunds. In both cases, most of the revenue impact would occur in fiscal 2005. Included in the Fiscal 2005 GAA – and signed by the Governor on June 25, 2004 – were two sections concerning capital gains tax rates: one section providing that the effective date of the capital gains tax statute is January 1, 2002 and another concerning an exemption for taxpayers who paid taxes on capital gains realized during January 1, 2002 to April 30, 2002. The plaintiffs have amended their complaint to challenge each of these sections. See “LEGAL MATTERS – Update of Existing Litigation” herein.

### Limitations on Tax Revenues

In fiscal 2004, cumulative net state tax revenues used to calculate the Commonwealth’s state tax revenue growth limit, as established in Chapter 62F of the General Laws, were \$16.053 billion, exceeding the permissible state tax revenue limit of \$15.695 billion by an estimated \$357.5 million. The excess amount was transferred to the Commonwealth’s Temporary Holding Fund, and subsequently transferred to the Stabilization Fund pursuant to the guidelines set forth in Chapter 62F, to reimburse the fund for all appropriations out of the fund during fiscal 2004.

See the September Information Statement under the heading “COMMONWEALTH REVENUES – Tax Revenue Forecasting; Fiscal 2004” and “– Limitations on Tax Revenues.”

### Fiscal 2005

On January 14, 2004, the Executive Office for Administration and Finance and the Chairpersons of the House and Senate Committees on Ways and Means jointly announced a consensus fiscal 2005 Commonwealth tax estimate of \$15.801 billion, of which \$684.3 million was dedicated to the MBTA and \$1.217 billion was dedicated to the Commonwealth’s annual pension obligation. The estimate was based upon a revised consensus tax estimate for fiscal 2004 of \$15.230 billion and assumed 3.75% baseline growth for fiscal 2005, which results in a \$15.801 billion tax estimate. Consensus was also reached on a new triennial pension schedule. The new schedule continued to fully amortize the Commonwealth’s unfunded pension liability by 2023 and continued to use five-year actuarial smoothing for the valuation of assets. The asset valuation date for the new schedule was December 31, 2003. On the liability side, the calculation included estimated actuarial losses during calendar year 2003 of \$250.0 million due to the 2003 early retirement incentive for state workers and another \$250.0 million for estimated actuarial losses on

the teachers' system. Finally, the amortization growth rate was increased from 4.15% to 4.50%. Using these assumptions, the fiscal 2005 pension payment will be \$1.217 billion, a \$384.5 million increase over the value transferred to meet the Commonwealth's pension obligation in fiscal 2004. As discussed below in "Fiscal 2005 Tax Revenues", the Executive Office for Administration and Finance released a revised fiscal 2005 Commonwealth tax estimate of \$16.231 billion, representing an increase of \$301.0 million over the consensus fiscal 2005 tax estimate released on January 14, 2004, after factoring in tax law changes since the earlier estimate.

On February 25, 2004, the Comptroller of the Commonwealth, in consultation with the Commissioner of Revenue, released the required certification of projected MBTA dedicated sales tax revenues for fiscal 2005 pursuant to General Laws Chapter 10, Section 35T. The certificate contained a projection of sales tax revenues dedicated to the MBTA in the amount of \$704.8 million, \$20.5 million greater than the amounts proposed in the consensus tax estimate released on January 14, 2004. This increase is directly attributable to a rise in inflation, not in tax revenues for calendar 2003.

On June 25, 2004, the Governor signed into law the fiscal 2005 GAA, and also vetoed \$108.5 million in spending, which reduced the value of the appropriations signed into law to \$22.402 billion. The Legislature has subsequently overridden \$95.5 million of the Governor's vetoes, bringing the total value of the GAA to \$22.498 billion. The GAA, including overrides, budgeted \$6.494 billion for Medicaid, \$3.611 billion for education excluding school building assistance, \$1.741 billion for debt service and \$10.652 billion for all other programs and services. In addition to the spending appropriated in the GAA, the Commonwealth has significant "off-budget" expenditures in the amounts of \$1.234 billion for fiscal 2005 pension obligations and \$395.7 million for the Commonwealth's school building assistance program.

The fiscal 2005 GAA is based upon a gross tax estimate of \$15.968 billion, consisting of the consensus fiscal 2005 Commonwealth tax estimate of \$15.801 billion, plus an additional \$89.0 million generated from the closing of various tax loopholes, \$65.5 million from enhanced tax audits, and \$12.7 million from the taxation of lottery prize assignment. The gross tax figure includes \$1.217 billion dedicated to the Commonwealth fiscal 2005 pension obligation and \$704.8 million in sales tax revenues dedicated to the MBTA. In order to comply with the Commonwealth's statutory balanced budget requirement, the GAA also appropriates \$340.0 million from the Stabilization Fund and \$270.0 million from the FMAP Escrow Fund. The legislation contains a provision to reduce the amount appropriated from the Stabilization Fund should tax revenues, by the third quarter of the fiscal year, exceed benchmarks set by the January 14, 2004 consensus tax estimate.

On August 10, 2004, the Governor signed into law legislation closing various so-called tax "loopholes" that was filed by the Governor on January 28, 2004. Although the fiscal 2005 GAA assumes \$89.0 million in additional tax revenue would be generated from the closing of the "loopholes" contained in this legislation, further analysis of the proposed legislation by the Department of Revenue estimates that \$79.0 million in additional tax revenue will be generated in fiscal 2005 by the law.

#### *Restructuring of the Executive Office of Transportation and Certain Related Transportation Authorities*

On July 21, 2004, the Governor signed an act restructuring the transportation system of the Commonwealth. The transportation system reforms accomplish the following:

- Rename the Executive Office of Transportation and Construction to become the Executive Office of Transportation;
- Establish Executive Office of Transportation as the principal transportation policy and planning agency for the Commonwealth;
- Place the Massachusetts Highway Department, the Registry of Motor Vehicles, the Massachusetts Aeronautics Commission, the Massachusetts Bay Transportation Authority, the Massachusetts Port Authority, the Massachusetts Turnpike Authority and all Regional Transportation Authorities within the Executive Office of Transportation;
- Name the Secretary of Transportation as the chairperson of the Massachusetts Aeronautics Commission and expand the commission's board to seven members;
- Name the Secretary of Transportation as the chairperson of the Massachusetts Turnpike Authority effective on July 1, 2007;

- Name the Secretary of Transportation as a member of the Massachusetts Port Authority board, effective on July 1, 2007;
- Establish a regional transit authority council for the purposes of coordination and sharing information and best practices among 14 regional transit authorities and the Massachusetts Bay Transportation Authority;
- Direct the Executive Office of Transportation, the Massachusetts Turnpike Authority and the Massachusetts Highway Department to identify costs savings and improved performance and services by eliminating or consolidating duplicative functions, sharing or coordinating resources, equipment, facilities, expertise, personnel and procurement; and
- Establish a 13-member special transportation finance commission to develop a comprehensive, multi-modal, long-range, transportation finance plan for the Commonwealth.

#### *School Building Assistance Program*

In July 2004, the Governor signed three separate pieces of legislation that reform and finance the Commonwealth's school building assistance program. Prior to the reform legislation, the Commonwealth was reimbursing 50 to 90 percent of the construction and borrowing costs on 748 school projects to cities, towns and regional school districts across the state. In addition to the 748 school projects currently receiving reimbursement, the Department of Education had approved an additional 425 school projects for funding; however, these school projects have not received any reimbursement from the Commonwealth. The Commonwealth estimates its share of the costs associated with these 425 school projects to be in excess of \$4.1 billion.

The school building assistance program legislation accomplishes the following:

- Establishes the Massachusetts School Building Authority ("MSBA"), an independent state authority, to administer and manage the school building assistance program;
- Creates a seven-member board to govern the MSBA;
- Names the State Treasurer as chair of the board and as appointing authority for the executive director position;
- Transfers the liabilities associated with the school building assistance program from the Commonwealth to the MSBA;
- Dedicates 1 cent of the Commonwealth's sales tax ("Dedicated Sales Tax") beginning fiscal 2011, excluding certain meals and special financing district sales taxes, to fund the MSBA and to pay for its transferred and future liabilities;
- Appropriates \$395.7 million in fiscal 2005, 70 percent of the Dedicated Sales Tax or at least \$488.7 million in fiscal 2006, 78 percent of the Dedicated Sales Tax or at least \$557.4 million in fiscal 2007, 85 percent of the Dedicated Sales Tax or at least \$634.7 million in fiscal 2008, 90 percent of the Dedicated Sales Tax or at least \$702.3 million in fiscal 2009 and 95 percent of the Dedicated Sales Tax in fiscal 2010 to the MSBA;
- Authorizes the issuance of \$1.0 billion of general obligation bonds to fund, in part, the liabilities of the MSBA;
- Transfers \$150.0 million from the fiscal 2004 surplus to fund, in part, the liabilities of the MSBA;
- Switches borrowing responsibility from local governments to the MSBA for the state's share of future school project costs;
- Authorizes up to \$10.0 billion of bonds to be issued by the MSBA;
- Extends the moratorium on the acceptance of new school projects until July 1, 2007;
- Honors existing reimbursement rates for all currently approved school projects;
- Provides reimbursement to the 425 approved school projects by fiscal 2008;
- Reduces the school building assistance program reimbursement rates beginning on July 1, 2005 by approximately 10 percentage points for all new school projects; and
- Limits the authority's grant making to \$500 million in fiscal 2008 and increases such amount by 4.5% in each subsequent fiscal year.

### *Transportation Bond Bill*

On August 10, 2004, the Governor signed into law a transportation bond authorization bill totaling \$2.501 billion. The bill would authorize \$425.0 million to leverage federal funds for the statewide road and bridge program, \$589.1 million for non-federally assisted transportation projects, \$450.0 million for Chapter 90 local road assistance, \$849.8 million to leverage federal funds for various MBTA mass transit projects, \$30.0 million for assistance in promoting transit oriented development, \$50.9 million in capital assistance to Regional Transit Authorities, \$56.6 million for rail improvement projects, \$28.6 million for Public Works and Economic Development and State Road Assistance Programs, \$10.5 million for technology projects and durable equipment, \$8.0 million for Mobility Assistance Program, and \$3.0 million for safety and security equipment.

### *Courts and Housing Bond Bill*

On August 10, 2004, the Governor signed into law a courts and housing bond authorization bill totaling \$520.0 million. The bill would authorize \$220.0 million in trial court planning and construction, \$25.0 million to assist homeowners with blindness or severe physical disabilities in making modifications to their primary residence, \$100.0 million for the development of community-based housing for the mentally ill and mentally retarded, \$25.0 million for the development and redevelopment of community-based housing for persons with disabilities who are institutionalized or at risk of being institutionalized, \$50.0 million for the state's Home Innovation Fund Program, and \$100.0 million for the purpose of financing construction and preservation of affordable housing.

On October 15, 2004, the Governor filed a bill recommending terms for the School Building Assistance, Transportation, and Courts and Housing bond bills.

### **Fiscal 2005 Tax Revenues**

Tax revenue collections for the first three months of fiscal 2005, ended September 30, 2004, totaled \$4,017.1 billion, an increase of \$218.5 million or 5.8% over the first three months of fiscal 2004. The following table shows the tax collections for the first three months of fiscal 2005 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 each month that are dedicated to the MBTA.

Month	Tax Collections	Change From Prior Year	Percentage Change	MBTA Portion (2)	Collections, Net of MBTA (3)
July	\$1,127.2	\$60.2	5.6%	\$59.2	\$1,068.0
August	1,192.1	102.4	9.4	56.5	1,135.6
September <sup>(4)</sup>	1,697.8	55.8	3.4	60.5	1,637.3
Total <sup>(4)</sup>	\$4,017.1	\$218.5	5.8%	\$176.2	\$3,840.9

SOURCE: Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Includes adjustments of \$10.8 million on the account of the first quarter.
- (3) Net of sales tax revenues dedicated to the MBTA.
- (4) Figures are preliminary.

The year-to-date tax revenue increase of \$218.5 million over fiscal 2004 is attributable in large part to an increase of approximately \$80.6 million or 4.7% in personal income tax withholdings, an increase of approximately \$76.5 million or 25.4% in income tax cash estimated payments, and an increase of approximately \$35.7 million or 3.7% in sales and use tax collections.

On October 15, 2004, the Executive Office for Administration and Finance released a revised Commonwealth tax estimate for fiscal 2005 and a preliminary projection for fiscal 2006. The revised fiscal 2005 Commonwealth tax estimate was \$16.231 billion, representing an increase of \$301.0 million over the consensus

fiscal 2005 tax estimate released on January 14, 2004, after factoring in tax law changes since the earlier estimate. The revised fiscal 2005 estimate assumed a lowered baseline growth estimate of 2.5% based on recent stock performance. The projection for fiscal 2006 tax revenues was \$17.035 billion, an increase of \$804.0 million over the fiscal 2005 tax estimate, assuming 5.0% baseline growth for fiscal 2006.

## **Cash Flow**

On September 1, 2004 the State Treasurer and the Secretary of Administration and Finance released the most recent cash flow statement for fiscal 2004 and the cash flow projection for fiscal 2005. The cash flow projection for fiscal 2005 is based on the GAA for fiscal 2005 and includes the value of all vetoes and subsequent overrides as well as all prior appropriations continued into fiscal 2005 from the prior fiscal year. The cash flow projection also reflects all 2004 supplemental appropriations bills either filed or enacted that would impact the Commonwealth's cash flow in fiscal 2005. It reflects authorized transfers between budgeted funds and certain reserve funds as provided for in the GAA and in subsequent legislation. The fiscal year 2005 projection is based on a gross tax estimate of \$15.932 billion, comprised of the January 14, 2004 consensus estimate of \$15.801 billion, plus an additional \$79.0 million generated from the closing of various tax loopholes, \$65.5 million from enhanced tax audits, \$11.8 million from the taxation of lottery prize assignment, and a loss of \$25.0 million due to the personal income tax exemption increase trigger pursuant to Chapter 186 of the Acts of 2002. The gross tax figure includes \$1.217 billion dedicated to the Commonwealth's fiscal 2005 pension obligation, \$704.8 million in sales tax revenues dedicated to the MBTA and \$362.7 million in sales tax revenues dedicated to the Massachusetts School Building Authority.

The cash flow projection has a July 1, 2004 starting balance of \$2.617 billion and projects a June 30, 2005 ending balance of \$2.148 billion. These figures do not include balances in the Commonwealth's Stabilization Fund or certain other off-budget reserve funds, but do include monies sequestered to pay for capital projects totaling \$864.0 million and \$393.6 million, respectively. Excluding these sequestered capital funds, the Commonwealth's operating cash balance opened the year at \$1.753 billion, and is projected to end the year at \$1.754 billion.

The Commonwealth's cash flow management incorporates the periodic use of commercial paper borrowing to meet cash flow needs. In particular, the Commonwealth makes local aid payments of approximately \$1 billion to its cities and towns at the end of each calendar quarter, which in recent years has often resulted in short-term cash flow borrowings. In September 2003, the Commonwealth issued \$150 million of revenue anticipation notes under its commercial paper program, which were repaid in November 2003. In December 2003 the Commonwealth issued \$450 million of revenue anticipation notes under its commercial paper program, which were repaid in January and February 2004. The cash flow projection for fiscal year 2005 projects cash flow borrowings under the Commonwealth's commercial paper program of \$450 million in December 2004 and \$100 million in March 2005, with a significant portion of the December borrowing remaining outstanding through the March payment.

The \$550 million in bond anticipation notes related to the Boston Convention and Exhibition Center issued in September 2003 were refinanced through the issuance in January 2004 of \$575 million of bond anticipation notes due April 20, 2004 and were then refinanced by \$575 million of bond anticipation notes issued under the Commonwealth's commercial paper program. The \$575 million of bond anticipation notes were paid from the proceeds of the \$694 million of special obligation bonds, which were issued on June 29, 2004.

The cash flow projection included an estimated \$1.766 billion in long-term borrowing for capital projects, including a \$316 million general obligation bond issue completed in August 2004, additional general obligation bond issues projected at \$350 million in November 2004, \$300 million in March 2005 and \$300 million in June 2005 and \$500 million of general obligation bonds expected to be issued in November on behalf of the Massachusetts School Building Authority.

The Commonwealth's next cash flow projection for fiscal 2005 is expected to be released on or before December 1, 2004.

See the September Information Statement under the heading "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS – Cash Flow".

## **UMass Dartmouth Lease Revenue Bonds**

In September 2000 the Massachusetts Development Finance Agency issued Lease Revenue Bonds (University of Massachusetts at Dartmouth, College of Visual and Performing Arts Project), 2000 Issue (the “UMass Dartmouth Lease Revenue Bonds”) in the principal amount of \$21,500,000 to finance the acquisition and rehabilitation of a facility to house the College of Visual and Performing Arts for the University of Massachusetts at Dartmouth (“UMass Dartmouth”). The facility was leased by a private limited partnership to the Commonwealth on behalf of UMass Dartmouth. The obligations of the Commonwealth under the lease, which were subject to annual appropriation, were pledged to secure the Lease Revenue Bonds. During the initial months of fiscal 2004, commencing July 1, 2003, monthly lease payments were not paid. Interest and scheduled principal in respect of the UMass Dartmouth Lease Revenue Bonds payable on August 1, 2003 were paid in full from previously available funds.

On September 26, 2003, Moody’s Investors Service placed the Lease Revenue Bonds on “Watchlist for possible downgrade” citing its belief that the Commonwealth had failed to appropriate lease payments for the facility financed by the UMass Dartmouth Lease Revenue Bonds. At the same time, Moody’s also placed on “Watchlist for possible downgrade” the \$416.3 million outstanding principal amount of lease revenue bonds of the Route 3 North Transportation Improvements Association. The latter are also secured by a lease, subject to annual appropriation, of the Commonwealth. While the fiscal 2004 GAA did contain an express appropriation for the Route 3 North lease, and all amounts due and payable thereunder have been paid by the Commonwealth, Moody’s justified the Watchlist classification of the Route 3 North lease revenue bonds by “the exposed weakness in the budget process” of the Commonwealth arising from the supposed failure to appropriate for the lease of the UMass Dartmouth facility.

The Executive Office for Administration and Finance and the Office of the State Treasurer have concluded that the fiscal 2004 GAA authorized payment of the UMass Dartmouth lease and that, while the Legislature did not provide a specific line item appropriation for the lease payments, it did so only because it intended that the lease payments be made from a general appropriation of approximately \$327.8 million for the University of Massachusetts.

The monthly lease payments were brought current on October 28, 2003 and remain current. On November 24, 2003 Moody’s downgraded the Lease Revenue Bonds from “A1” to “A2”. At the same time, Moody’s confirmed the “Aa3” rating for the Route 3 North lease revenue bonds. Both issues were removed from “Watchlist for possible downgrade”. On November 26, 2003 the Governor signed a supplemental budget for fiscal 2004, which included an appropriation of \$2.7 million for the facilities costs, including lease payments, associated with the College of Visual and Performing Arts at UMass Dartmouth. The Governor’s fiscal 2005 budget recommendation released on January 28, 2004 designated a separate appropriation to meet this obligation. The fiscal 2005 GAA signed into law on June 25, 2004, included \$2.6 million in a specific line item appropriation to fully fund this obligation.

## **Interest Rate Swap Agreement Dispute**

The Commonwealth is party to an interest rate swap agreement relating to the Commonwealth’s General Obligation Refunding Bonds, 2001 Series B and 2001 Series C, pursuant to which the Commonwealth makes payments at a fixed rate of 4.15% per annum and receives payments from its swap counterparty at a floating rate based on the actual rate on its bonds, which are variable rate obligation bonds. The notional amount of the swap currently is \$496,225,000 and the scheduled termination date is January 1, 2021. Swap payments are made monthly, with the Commonwealth netting its fixed rate obligation against the floating rate amount due from the swap counterparty. The swap documentation provide that the method for determining the floating rate obligation of the counterparty may change upon an “Event of Taxability” as defined therein. The swap counterparty has asserted that an Event of Taxability has occurred and that, as a result, commencing May 3, 2004, the Commonwealth’s monthly net payments to the counterparty must be increased. The Commonwealth disagrees with this assertion and, on April 23, 2004, filed a complaint in Suffolk County Superior Court seeking a declaratory judgment and related preliminary injunction relief. The swap payment made by the Commonwealth on May 3, 2004 and each monthly payment made thereafter have been calculated based on the pre-existing method. Had they been calculated as asserted by the swap counterparty, under market conditions on each such payment date through October 1, 2004,

the payments would have been approximately \$1.0 million greater in the aggregate. The termination value of the swap as of June 30, 2004 is believed to have been approximately \$31.8 million in favor of the swap counterparty and will vary from time to time. The Commonwealth has continued to make net swap payments based on its actual variable rate bond payments pending legal developments.

#### **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 1999 through 2004 and the Executive Office for Administration and Finance's estimates for fiscal 2005, but have been adjusted to reflect the impact of the MBTA forward funding legislation. See September Information Statement under the heading "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS – Massachusetts Bay Transportation Authority Financial Restructuring." The financial information presented includes all Budgeted Operating Funds of the Commonwealth. When the status of a fund has changed during this period, prior years have been restated to conform to the fiscal 2001 budget. See the September Information Statement under the heading "FINANCIAL RESULTS" The Commonwealth's audited statutory basis financial statements for the year ended June 30, 2003 were released on October 24, 2003.

The Commonwealth's audited statutory basis financial statements for the year ended June 30, 2004 are expected to be released on November 1, 2004.

**Budgeted Operating Funds Operations -- Statutory Basis**  
(in millions)(1)

	<u>Fiscal 2000</u>	<u>Fiscal 2001</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>	<u>Projected Fiscal 2005</u>
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$ 330.2	\$ 278.5	\$ 895.3	\$195.2	\$76.8	\$664.6
Tax Reduction Fund	6.8	7.2	33.6	-	-	-
Stabilization Fund	1,388.5	1,608.4	1,715.0	881.8	641.3	1,137.3
Undesignated	<u>386.9</u>	<u>391.3</u>	<u>369.5</u>	<u>311.0</u>	<u>34.7(7)</u>	<u>90.9</u>
Total	<u>2,112.4</u>	<u>2,286.4</u>	<u>3,013.3</u>	<u>1,388.0</u>	<u>752.8</u>	<u>1,892.8</u>
<u>Revenues and Other Sources</u>						
Taxes(2)	15,688.6	16,074.7	13,622.7	14,279.6(5)	15,269.0	15,526.2
Federal Reimbursements	3,645.6	3,974.2	4,334.9	4,523.6	5,098.5	4,954.6
Departmental and Other Revenues	1,359.9	1,425.9	1,485.2	1,494.8	1,847.8	1,956.6
Inter-fund Transfers from Non-budgeted Funds and Other Sources(3)	<u>1,893.0</u>	<u>1,385.9</u>	<u>1,732.0</u>	<u>1,689.2</u>	<u>1,773.0</u>	<u>1,382.4</u>
Budgeted Revenues and Other Sources	<u>22,587.0</u>	<u>22,860.6</u>	<u>21,174.9</u>	<u>21,987.2</u>	<u>23,988.3</u>	<u>23,819.8</u>
Inter-fund Transfers	<u>3,634.0</u>	<u>931.0</u>	<u>1,874.4</u>	<u>3,310.5(6)</u>	<u>2,058.7(8)</u>	<u>497.5</u>
Total Budgeted Revenues and Other Sources	<u>26,221.1</u>	<u>23,791.6</u>	<u>23,049.3</u>	<u>25,297.7</u>	<u>26,047.0</u>	<u>24,317.3</u>
<u>Expenditures and Uses</u>						
Programs and Services(4)	19,330.7	19,449.0	20,412.7	20,022.6	23,036.5	21,125.8
Debt Service	1,193.3	695.0	1,304.7	1,373.4	1,419.6	1,740.5
Pensions	986.3	1,040.1	795.8	813.5	701.9	-
Inter-fund Transfers to Non-budgeted Funds and Other Uses	<u>903.8</u>	<u>949.6</u>	<u>287.1</u>	<u>229.6</u>	<u>690.3(9)</u>	<u>1,612.6(11)</u>
Budgeted Expenditures and Other Uses	<u>22,414.1</u>	<u>22,133.7</u>	<u>22,800.3</u>	<u>22,439.1</u>	<u>22,848.3</u>	<u>24,478.9</u>
Inter-fund Transfers	<u>3,634.0</u>	<u>931.0</u>	<u>1,874.4</u>	<u>3,310.5(6)</u>	<u>2,058.7(8)</u>	<u>497.5</u>
Total Budgeted Expenditures and Other Uses	<u>26,048.1</u>	<u>23,064.7</u>	<u>24,674.7</u>	<u>25,749.6</u>	<u>24,907.0</u>	<u>24,976.4</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>172.9</u>	<u>726.8</u>	<u>(1,625.4)</u>	<u>(451.9)</u>	<u>1,140.0</u>	<u>(659.1)</u>
<u>Ending Fund Balances</u>						
Reserved or Designated	278.5	895.3	195.2	76.8	664.6(10)	26.1
Tax Reduction Fund	7.2	33.6	--	--	--	--
Stabilization Fund	1,608.4	1,715.0	881.8	641.3	1,137.3	1,109.1
Undesignated	<u>391.3</u>	<u>369.5</u>	<u>311.0</u>	<u>218.0</u>	<u>90.9</u>	<u>98.5</u>
Total	<u>\$ 2,285.4</u>	<u>\$ 3,013.3</u>	<u>\$ 1,388.0</u>	<u>\$ 936.1</u>	<u>\$ 1,892.8</u>	<u>\$ 1,233.7</u>

SOURCE: Fiscal 2000-2004, Office of the Comptroller; fiscal 2005, Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Net of \$654.6 million in fiscal 2001, \$664.3 million in fiscal 2002, \$684.3 million in fiscal 2003, \$684.3 million in fiscal 2004, and an estimated \$704.8 million in fiscal 2005 of dedicated sales tax transferred to the MBTA and moved off budget beginning in fiscal 2001.
- (3) Non-budgeted funds transfers to the Budgeted Operating Funds, which include profit from State Lottery and Arts Lottery Funds and reimbursements for the budgeted costs of the State Lottery Commission, accounted for \$902.1 million, \$931.6 million, \$941.3 million, \$944.7 million, and \$982.8 million in fiscal 2000 through fiscal 2004, respectively, and are estimated to account for \$1.048 billion in fiscal 2005.
- (4) The Executive Office for Administration and Finance estimates that approximately \$213.2 million in Medicaid expenditures were moved off-budget pursuant to the fiscal 2003 GAA and an additional \$75.3 million were transferred off budget in fiscal 2004. Total off-budget Medicaid expenditures in fiscal 2004 were \$288.5 million and are projected to be \$448.5 million in fiscal 2005.
- (5) Includes \$174.0 million in one-time revenue from tax amnesty program and approximately \$200.0 million from closing various so-called tax loopholes.
- (6) Inter-fund transfers increased substantially in fiscal 2003 due to the elimination of a number of Budgeted Operating Funds pursuant to the fiscal 2004 GAA, effective June 30, 2003.
- (7) The variance between fiscal 2003 ending fund balances and fiscal 2004 beginning fund balances reflect the transfer of the Convention Center Fund, Head Injury Trust Fund and Natural Heritage and Endangered Species Fund off budget.
- (8) Inter-fund transfers decreased in fiscal 2004 and 2005 due to the elimination of a number of Budgeted Operating Funds pursuant to the fiscal 2004 GAA and the fiscal 2005 GAA.



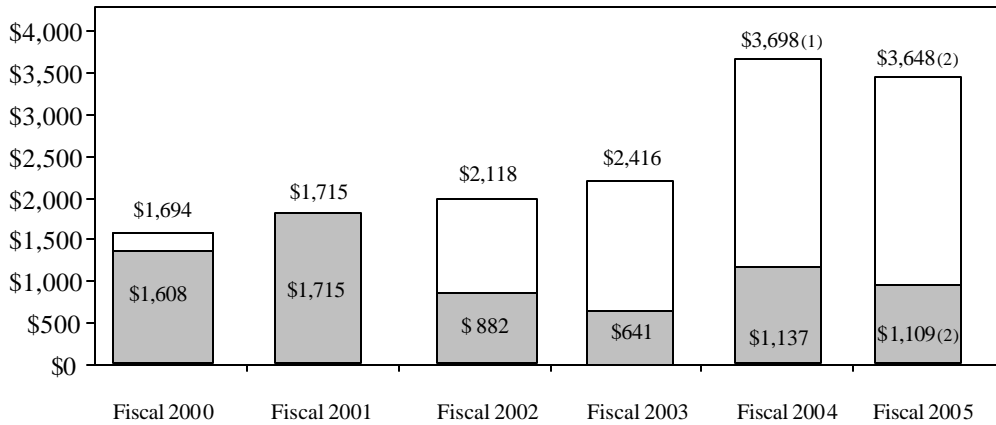
- (9) Reflects the transfer of \$150 million to the School Modernization and Reconstruction Trust Fund for school building assistance.
- (10) Includes \$270.0 million in fiscal 2004 FMAP revenue reserved for expenditure in fiscal 2005, \$75.0 million reserved for distribution to cities and towns in fiscal 2005, \$293.5 million in fiscal 2004 appropriations authorized to be expended in fiscal 2005, and \$26.1 million reserved for debt service.
- (11) Reflects the transfer of \$1.217 billion for the Commonwealth's fiscal 2005 pension fund obligation, and \$395.7 million to the School Modernization and Reconstruction Trust Fund for school building assistance.

**Stabilization Fund and Disposition of Year-End Surpluses**

The following graph sets forth ending balances in the Stabilization Fund for fiscal 2000 through 2004 and the estimate for fiscal year 2005.

The total of each column equals the maximum balance permitted under the statutory formula, and the gray area shows the amount of the actual balance.

**Stabilization Fund (in millions)**



SOURCES: Fiscal 1999-2004 Office of the Comptroller; fiscal 2005, Executive Office for Administration and Finance.

- (1) The fiscal 2004 GAA changed the ceiling on the balance of the Stabilization Fund from 10% to 15% of total current year revenues.
- (2) Fiscal 2005 is projected; subject to change.

## COMMONWEALTH REVENUES

### Commonwealth Revenues - Budgeted Operating Funds

(in millions)(1)

	<u>Fiscal 2000</u>	<u>Fiscal 2001(4)</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>	<u>Fiscal 2004(6)</u>	<u>Projected Fiscal 2005(6)</u>
<b>Tax Revenues:</b>						
Alcoholic Beverages	\$ 63.1	\$ 64.2	\$65.4	\$66.3	\$67.9	\$69.39
Banks	92.8	179.6	137.0	344.5	238.7	203.0
Cigarettes	279.9	270.5	275.0	451.0	425.4	422.0
Corporations	1,130.5	945.3	586.7	799.4	997.6	1,087.0
Deeds	115.9	129.6	134.3	147.8	187.1	178.6
Income	9,041.9	9,902.7	7,912.9	8,026.1	8,830.3	8,847.4
Inheritance and Estate	166.5	203.4	200.5	181.3	194.7	216.6
Insurance	334.6	356.6	382.9	387.8	420.2	420.3
Motor Fuel	652.6	659.9	666.8	676.4	684.2	680.0
Public Utilities	83.0	86.7	88.5	40.6	64.7	65.0
Racing	7.8	7.5	2.7	-	-	-
Room Occupancy	137.0	149.6	123.3	120.0	94.9	99.0
<b>Sales:</b>						
Regular	2,552.0	2,705.8	2,601.4	2,583.6	2,585.6	2,774.4
Meals	456.8	482.0	500.9	512.0	531.8	580.1
Motor Vehicles	<u>556.4</u>	<u>568.0</u>	<u>593.6</u>	<u>612.5</u>	<u>625.8</u>	<u>584.3</u>
Sub-Total-Sales	3,565.3	3,755.8	3,695.9	3,708.1	3,749.2	3,938.8
Miscellaneous	<u>17.5</u>	<u>17.9</u>	<u>15.1</u>	<u>14.3</u>	<u>4.4</u>	<u>4.0</u>
<b>Total Tax Revenues</b>	<u>15,688.6</u>	<u>16,729.2</u>	<u>14,287.1</u>	<u>14,963.8(5)</u>	<u>15,953.3</u>	<u>16,231.0</u>
MBTA Transfer (2)	—	(654.6)	(664.3)	(684.3)	(684.3)	(704.8)
<b>Total Budgeted Operating Tax Revenues</b>	<u>15,688.6</u>	<u>16,074.6</u>	<u>13,622.8</u>	<u>14,279.5</u>	<u>15,269.0</u>	<u>15,526.2</u>
<b>Non-Tax Revenues:</b>						
Federal Reimbursements	3,645.6	3,974.2	4,334.9	4,523.6	5,098.5	4,954.6
Departmental and Other Revenues	1,359.9	1,425.9	1,485.2	1,494.8	1,847.7	1,956.6
Inter-fund Transfers from Non - Budgeted Funds and Other Sources (3)	<u>1,893.0</u>	<u>1,385.9</u>	<u>1,732.0</u>	<u>1,689.2</u>	<u>1,773.1</u>	<u>1,382.4</u>
<b>Budgeted Non-Tax Revenues and Other Sources</b>	<u>6,898.5</u>	<u>6,786.0</u>	<u>7,552.2</u>	<u>7,707.6</u>	<u>8,719.3</u>	<u>8,293.6</u>
<b>Budgeted Operating Revenues and Revenues from Other Sources</b>	<u>\$ 22,587.0</u>	<u>\$ 22,860.6(4)</u>	<u>\$21,174.9</u>	<u>\$21,987.1</u>	<u>\$23,988.3</u>	<u>\$23,819.8</u>

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

- (1) Totals may not add due to rounding. The table does not reflect inter-fund transfers among budgeted funds and other sources that have no effect on ending balances.
- (2) If the law that moved support of the MBTA to a non-budgeted expenditure and transferred a dedicated portion of the Commonwealth's sales tax to the MBTA had been in effect in fiscal 2000, transfer of sales tax revenue to the MBTA would have been \$561.9 million. See the September Information Statement under the heading "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS – Massachusetts Bay Transportation Authority – Financial Restructuring."
- (3) Interfund transfers represent accounting transfers reallocating resources among funds. See the September Information Statement under the heading "COMMONWEALTH REVENUES—Federal and Other Non-Tax Revenues," including transfers between Stabilization Fund and budgeted operating funds. Non-budgeted funds transfers to the Budgeted Operating Funds, which include profits from the State Lottery and Arts Lottery Funds and reimbursements for the budgeted costs of the State Lottery Commission, accounted for \$902.1 million, \$931.6 million, \$941.3 million, \$944.7 million and \$982.8 million in fiscal 2000 through 2004, respectively, and are estimated to account for \$1.048 billion in fiscal 2005. This figure also includes annual tobacco settlement payments, which account for \$326.2 million in fiscal 2000, \$242.5 million in fiscal 2001, \$304.5 million in fiscal 2002, \$300.0 million in fiscal 2003 and \$253.6 million for fiscal 2004.
- (4) On July 1, 2000, the Mosquito and Greenhead Fly Control Fund was reclassified as a non-budgeted fund. Prior years have not been restated.

- (5) Includes approximately \$174.0 million in fiscal 2003 revenue resulting from a tax amnesty program. See the September Information Statement under the heading "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS – Fiscal 2003."
- (6) Beginning July 1, 2003, the Convention Center Fund, the Head Injury Treatment Services Fund and the Natural Heritage and Endangered Species Fund were reclassified as non-budgeted funds. Prior years have not been restated.

## **COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN**

### **Capital Spending Plan**

The following table sets forth the current capital investment plan of the Executive Office for Administration and Finance. It contains current estimates for capital investment by the Commonwealth as well as the estimated sources of funding for such capital investments for fiscal 2004 through fiscal 2008.

**Commonwealth Historical and Proposed Capital Spending (in millions)(1)(2)**

USES:	Fiscal	Fiscal	Fiscal	Fiscal	Fiscal	Projected	Projected	Projected	Projected
	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>
Information Technology	\$68	\$64	\$86	\$76	\$75	\$82	\$82	\$82	\$82
Infrastructure	197	179	235	274	251	293	293	293	293
Environment	142	140	156	134	113	131	131	131	131
Housing	80	79	106	112	121	123	123	123	123
Public Safety	15	23	8	37	20	24	24	24	24
Transportation									
CA/T Project	1,446	1,258	1,296	1,015	691	801	496	-	-
Non-CA/T Project	560	732	612	682	767	818	866	909	909
Economic Development									
Convention Centers	11	124	134	225	113	55	-	-	-
Other	87	102	99	86	64	53	53	53	53
Reserve	=	=	=	=	=	=	17	31	31
<b>Total Uses:</b>	<b><u>\$2,606</u></b>	<b><u>\$2,701</u></b>	<b><u>\$2,732</u></b>	<b><u>\$2,641</u></b>	<b><u>\$2,215</u></b>	<b><u>\$2,380</u></b>	<b><u>\$2,085</u></b>	<b><u>\$1,646</u></b>	<b><u>\$1,646</u></b>
<b>SOURCES:</b>									
Funds from General Obligation Debt	\$1,133	\$1,489	\$1,847	1,472	1,285	1,532	1,250	1,250	1,250
Funds from Special Obligation Debt	-	176	139	230	119	55	-	-	-
Funds from Grant Anticipation Notes	408	353	9	24	-	-	-	-	-
Operating Revenues(3)	96	141	195	354	133	152	195	-	-
Third-Party Payments	481	82	52	52	63	154	281	-	-
Federal Reimbursements	<u>487</u>	<u>460</u>	<u>490</u>	<u>509</u>	<u>615</u>	<u>487</u>	<u>359</u>	<u>396</u>	<u>396</u>
<b>Total Sources:</b>	<b><u>\$2,606</u></b>	<b><u>\$2,701</u></b>	<b><u>\$2,732</u></b>	<b><u>\$2,641</u></b>	<b><u>\$2,215</u></b>	<b><u>\$2,380</u></b>	<b><u>\$2,085</u></b>	<b><u>\$1,646</u></b>	<b><u>\$1,646</u></b>

SOURCE: Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) The Executive Office for Administration and Finance reviews capital expenditures on an annual basis and reserves the right to change out-year projections.
- (3) Operating revenues include Registry of Motor Vehicle fees transferred to the CA/T Project and the Statewide Road and Bridge Infrastructure Fund.

## Central Artery/Ted Williams Tunnel Project

As discussed in “RECENT DEVELOPMENTS – Fiscal 2005” above, on July 21, 2004, new legislation restructuring the Commonwealth’s transportation system was approved by the Governor. The new law redesignates the executive office of transportation and construction as the executive office of transportation and imposes new duties on, and provides new authority to, the secretary of transportation relating to the oversight of transportation policy, programs, and activities; it also affects the organization and operations of a number of state transportation agencies and authorities, including the Massachusetts Bay Transportation Authority, the Massachusetts Port Authority, and the Turnpike Authority. Among other provisions, the new law provides that the current chairman of the Turnpike Authority shall serve the remainder of his term, which expires July 1, 2007, after which time the state’s transportation secretary will chair the board of the Turnpike Authority but will not act as its chief executive officer, and it extends the terms of certain incumbent members to six years. Effective as of July 1, 2007, the new law also: reduces the terms of the Turnpike Authority board members from eight years to five years; provides that the board members shall serve without pay; eliminates the eligibility of the board members to participate in Turnpike Authority benefit plans; allows the employment by contract of not more than five years in duration of an executive director of the Turnpike Authority, whose salary may not exceed that of the commissioner of highways, as well as four other senior officers; and requires the Turnpike Authority annually to submit a schedule of all employee salaries and proposed increases to the state secretary of administration and finance and the state house and senate committees on ways and means. In addition, the law requires the Turnpike Authority to study a travel demand management plan and make recommendations for strategies to reduce traffic congestion, further participation in the electronic toll system, and reduce operating costs, and to work with the state department of highways to identify opportunities for cost savings.

*Progress/Schedule Update.* As of August 31, 2004, CA/T Project construction was 94.3% complete, based on the new cost/schedule update 11 (CSU Rev. 11) construction budget. The construction budget was increased from the CSU Rev. 10 budgeted amount of \$9.356 billion to \$9.422 billion, which incorporates the transfer of amounts previously included in the CSU Rev. 10 budget as contingent and cost savings in other areas; the total project budget has not increased. As of August 31, 2004, approximately \$13.888 billion was under contract or agreement, which constitutes 95.0% of total budgeted costs for the CA/T Project. That amount includes \$9.087 billion of construction commitments, which constitutes approximately 96.4% of the total construction budget of \$9.422 billion. The date for the I-93 complete southbound opening is now projected for March 2005 to June 2005, and the date for the CA/T Project substantial completion is now projected for May 2005 to September 2005, reflecting the achievement of previous construction milestones. The I-93 initial southbound public opening occurred on December 20, 2003.

CSU Rev. 11 was completed and filed on July 1, 2004. On July 30, 2004, the October 2004 Finance Plan was filed with the Federal Highway Administration. The independent auditor engaged by the Executive Office for Administration and Finance has filed its final report on CSU Rev. 11. The final report concluded that the total cost estimate of the CA/T Project in the amount of \$14.625 billion set forth in CSU Rev. 11 was aggressive but did not recommend that the estimate be increased.

The independent auditor engaged by the Executive Office for Administration and Finance has filed its final report on CSU Rev. 10. The final report concluded that the total cost estimate of the CA/T Project in the amount of \$14.625 billion set forth in CSU Rev. 10 was aggressive but did not recommend that the estimate be increased. The 2003 finance plan for the CA/T Project was filed with the Federal Highway Administration on September 26, 2003, and accepted and approved by the Federal Highway Administration on June 19, 2004, and all obligated funds have been accessed. See the September Information Statement under the heading “COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN – Central Artery/Ted Williams Tunnel Project; Cost/Schedule Update”.

The October 2002 Finance Plan provided that \$87 million in revenues from the projected resale of the Kneeland Street properties would be available for CA/T Project costs. That amount was increased to \$94 million in CSU Rev 10. In a letter dated January 22, 2004, the General Counsel of the United States General Accounting Office (GAO) responded to the February 20, 2003, letter from the Inspector General of the United States Department of Transportation requesting a legal opinion from the GAO regarding the proper characterization of funds from the resale of the Kneeland Street properties. The GAO opined that the proportionate federal share of proceeds from the sale of those properties retains its character as federal funds under Title 23, Section 156 of the

United States Code. The GAO further stated that such funds, if reinvested in the CA/T Project, do not count against the \$8.549 billion statutory cap on federal funding for the CA/T Project. The GAO's interpretation is consistent with the CA/T Project's planned use of those funds. See the September Information Statement under the heading "COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN – Central Artery/Ted Williams Tunnel Project; October 2002 Finance Plan".

*Claims and Economic Risks.* The Claims and Changes Department of the CA/T Project is responsible for administering the commercial aspects of the CA/T Project's construction contracts. In the Fall of 2002, the Turnpike Authority Chairman directed the Claims and Changes Department to establish a "close-out" plan to resolve the pending backlog of contractor claims on the CA/T Project (at that time there were nearly 5,000 outstanding change order issues and claims with an average age of over 300 days).

In February 2003, the National Academy of Engineering and the National Research Council (NRC) issued a report to the Turnpike Authority that identified as a major priority the resolution of outstanding contractor claims and changes and recommended a target resolution date of July 2004. The Turnpike Authority Chairman later approved, as part of the annual budget revision process, an Expedited Claim Resolution Plan prepared by the CA/T Claims Department with the objective of meeting the NRC's recommended target date. The claim resolution plan focused budget resources and established aggressive timetables for settlement of thousands of open issues on eighteen large construction contracts that were substantially complete pending close-out or that represented the major ongoing CA/T Project contracts. Together, these contracts represented over 80% of outstanding CA/T Project open claim and change matters. In general, the claim resolution plan provided for (1) targeting complete or nearly complete contracts that have a large number and magnitude of claims; (2) establishing a dedicated negotiation team comprised of a Team Leader with technical support from other CA/T personnel (estimators, schedulers, auditors, etc.); and (3) entering into structured negotiation agreements with contractors that provide for, among other things, scheduled claim submissions, negotiations, and, if necessary, mediation. Consistent with the NRC recommendation, a significant budget commitment was made to enhance the in-house staff and consultant resources necessary to support the claim resolution program. In addition, the Turnpike Authority retained nationally-recognized claims and audit experts to assist the CA/T Project staff in analyzing, negotiating, and documenting prompt and equitable resolutions of all open matters with CA/T Project construction contractors.

As of July 31, 2004, settlements in principle have been reached with contractors on seven of these priority contracts. These seven, of which four now await final implementing contract modifications, were settled within the parameters of the CA/T Project's budget cost estimates. In addition, significant progress has been made in the past few months during structured mediated negotiations on five other large CA/T contracts, including three representing the most complex contract disputes on the CA/T Project. Settlement in at least two of these cases is imminent and will fully address several hundred open CA/T Project issues. Based on the settlement progress to date and the expectations related to late Summer 2004 mediated global negotiations, the 2003 claim resolution plan has been revised as part of the CSU Rev. 11 budget cycle. The revisions recognize the ongoing mediation schedule and revised target dates through the end of 2004 and, in part, reallocate significant department budget resources to focus on the remaining unsettled priority contracts. CA/T Project claims personnel and related technical and consultant support budgets, as well as construction contract and special contingencies associated with anticipated claim settlement costs, have all been fully recognized in the October 2004 Finance Plan.

The outstanding claim from Honeywell Technology Solutions, Inc. is currently being handled by the Claims and Changes Department with assistance from other departments of the CA/T Project. Management of the CA/T Project believes that risks associated with nonperformance by Honeywell on its contract have been substantially mitigated.

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

Recent media reports refer to the financial difficulties of a particular CA/T Project contractor. The Turnpike Authority is monitoring that contractor's progress with respect to its obligations under CA/T Project contracts and its continuing ability to complete those obligations on an ongoing basis. The contractor continues to progress its work on the CA/T Project, and the Turnpike Authority has not received information that the contractor's financial status will prevent its contractual obligations from being met or the CA/T Project from being completed in accordance with the current schedule.

*Toll Discount Program.* On July 1, 2002, a toll discount program for members of the FASTLANE Program who operate non-commercial two-axle passenger vehicles went into effect, providing a 50% discount on the amount of the July 1, 2002 toll rate increase to participants. In April 2003, the discount program was extended through December 2003. Funding for this extension came from the Turnpike Authority's sale of certain real estate in May 2003 for approximately \$75 million. On September 18, 2003, the Turnpike Authority voted to extend the toll discount program through December 2004. Funding for this extension also came from the May 2003 sale of real estate by the Turnpike Authority. In compliance with its Trust Agreement, on December 31, 2003, the Turnpike Authority delivered to the trustee a certificate of an independent consultant verifying that it can meet its required debt service coverage ratios and maintain the toll discount program.

On September 2, 2004, the Turnpike Authority voted to extend the toll discount program through December 2005. Funding for these extensions will also come from the May 2003 sale of real estate by the Turnpike Authority. In compliance with its Trust Agreement, before January 2005 the Turnpike Authority will secure a certificate of an independent consultant verifying that it can meet its required debt service coverage ratios and maintain the toll discount program.

See the September Information Statement under the heading "COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN – Central Artery/Ted Williams Tunnel Project; Claims and Economic Risks".

## LONG-TERM LIABILITIES

The following table shows long-term debt of the Commonwealth as issued and retired from fiscal 2000 through fiscal 2004:

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

	<u>Fiscal 2000</u>	<u>Fiscal 2001</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003(2)</u>	<u>Fiscal 2004</u>
<b>Fiscal Year Beginning Balance (as of July 1)</b>	\$11,808,461	\$12,383,101	\$13,999,454	\$14,955,135	\$15,962,506
General and Special Obligation Debt Issued(1)	1,758,142	1,752,198	1,470,272	1,845,458(3)	1,925,990
County Debt Assumed	525	-	-	-	-
Grant Anticipation Notes Issued(1)	<u>-</u>	<u>577,605</u>	<u>-</u>	<u>-</u>	<u>-</u>
Subtotal	13,567,128	14,712,904	15,469,726	16,800,593	17,888,496
Debt Retired or Defeased, Exclusive of Refunding	(1,184,027)	(770,434)	(692,341)	(737,832)	(758,444)
Refunding Debt Issued, Net of Refunded Debt	<u>-</u>	<u>56,984</u>	<u>177,750</u>	<u>(100,255)</u>	<u>252,120(4)</u>
<b>Fiscal Year Ending Balance (June 30)</b>	<u><b>\$12,383,101</b></u>	<u><b>\$13,999,454</b></u>	<u><b>\$14,955,135</b></u>	<u><b>\$15,962,506</b></u>	<u><b>\$17,382,172</b></u>

SOURCE: Office of the Comptroller.

- (1) Including premium and discount.
- (2) On July 16, 2003, the Commonwealth issued special obligation notes for the purpose of refunding approximately \$408.0 million of federal grant anticipation notes in a crossover refunding. Interest on the refunding notes will be paid solely from an escrow funded by proceeds of the issue until the crossover dates in 2008 and 2010.
- (3) Includes \$116.0 million of bonds, which, although not legally defeased, will be paid in fiscal 2006 and 2008 from funds held in escrow by a third-party trustee.
- (4) Includes \$408.0 million of grant anticipation notes, which, although not legally defeased, will be paid from fiscal 2010 through 2015 from funds held in escrow by a third-party trustee.

## General Authority to Borrow

The outstanding Commonwealth debt amounts excluded from the limit are shown in the table below:

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

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Balance as of June 30	\$12,383,101	\$13,999,454	\$14,995,135	\$15,962,506	\$17,382,172
Less amounts excluded:					
(Discount)/Premium and issuance costs	(358,938)	(282,829)	(181,910)	(68,718)	1,120
Ch. 5, Acts of 1992 Refunding	(114,761)	(71,054)	(22,043)	(10,600)	-
Special Obligation Principal	(561,335)	(539,242)	(772,812)	(748,124)(1)	(1,347,882)
Federal Grant Anticipation Notes Principal	(899,991)	(1,500,000)	(1,500,000)	(1,500,000)(2)	(1,908,015)(2)
County Debt Assumed	(2,105)	(1,375)	(1,115)	(855)	(675)
MBTA Forward Funding	(325,000)	(325,000)	(625,000)	(680,869)	(601,027)
CA/T Project	-	(999,995)	(838,193)	(1,386,869)	(1,066,638)
Outstanding Direct Debt	<u>\$10,120,971</u>	<u>\$10,279,959</u>	<u>\$11,054,062</u>	<u>\$11,566,472</u>	<u>\$12,459,055</u>
Statutory Debt Limit	<u>\$10,549,032</u>	<u>\$11,076,483</u>	<u>\$11,630,307</u>	<u>\$12,211,823</u>	<u>\$12,822,414</u>

SOURCE: Office of the Comptroller.

- (1) Includes \$116.0 million of bonds, which, although not legally defeased, will be paid in fiscal 2006 and 2008 from funds held in escrow by a third-party trustee.
- (2) On July 16, 2003, the Commonwealth issued special obligation notes for the purpose of refunding approximately \$408.0 million of federal grant anticipation notes in a crossover refunding. Interest on the refunding notes will be paid solely from an escrow funded by proceeds of the issue until the crossover dates in 2008 and 2010. The refunding notes will effectively lower outstanding debt in comparison to the statutory debt limit on grant anticipation notes.

The following table shows the percentage of total appropriations expended or estimated to be 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)(1)

<u>Fiscal Year</u>	<u>Budgeted Debt Service</u>	<u>Total Budgeted Expenditures and Other Uses</u>	<u>Percentage</u>
1999	\$1,176.1	\$20,244.7	5.8%
2000	1,114.6	22,414.1	5.0
2001	599.7(2)	22,133.7	2.7
2002	1,219.0	22,800.3	5.4
2003	1,203.5	22,439.1	5.4
2004	1,227.0	22,848.3	5.4

SOURCES: Office of the Comptroller.

- (1) Reflects budgeted debt service subject to the provisions of Section 60B of Chapter 29 of the Massachusetts General Laws.
- (2) Does not include \$624.6 million of debt defeased from operating surplus that was non-budgeted.



The following table sets forth the amount of Commonwealth debt and debt related to general obligation contract assistance liabilities outstanding as of October 1, 2004:

**Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities  
As of October 1, 2004  
(in thousands)**

	<u>Long-Term (4)</u>	<u>Short-Term</u>
<b>COMMONWEALTH DEBT</b>		
General Obligation Debt	\$14,086,617(5)	\$75,100(7)
Special Obligation Debt (1)	1,405,930	-
Federal Grant Anticipation Notes (2)	<u>1,907,340(6)</u>	<u>-</u>
Subtotal Commonwealth Debt	<u>\$17,399,887</u>	<u>\$75,100</u>
<b>DEBT RELATED TO GENERAL OBLIGATION CONTRACT ASSISTANCE LIABILITIES (3)</b>		
Massachusetts Convention Center Authority	\$ 30,591	-
Massachusetts Development Finance Agency	33,100	-
Foxborough Industrial Development Financing Authority	<u>63,855</u>	<u>-</u>
Subtotal GO Contract Assistance Debt	<u>\$ 127,546</u>	<u>-</u>
<b>TOTAL</b>	<b><u>\$17,527,433</u></b>	<b><u>\$75,100</u></b>

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

- (1) Includes \$116.0 million of bonds, which, although not legally defeased, will be paid in fiscal 2006 and 2008 from funds held in escrow by a third-party trustee.
- (2) On July 16, 2003, the Commonwealth issued special obligation notes for the purpose of refunding approximately \$408.0 million of federal grant anticipation notes in a crossover refunding. See the September Information Statement under the heading "LONG-TERM LIABILITIES – Federal Grant Anticipation Notes."
- (3) Does not include general obligation contract assistance liabilities to the Massachusetts Water Pollution Abatement Trust and the Massachusetts Turnpike Authority. For information about such liabilities, see the September Information Statement under the heading "LONG-TERM LIABILITIES - General Obligation Contract Assistance Liabilities."
- (4) Long-term debt includes discount and costs of issuance.
- (5) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from October 1, 2004 through their maturity in the amount of \$59.6 million.
- (6) Includes capital appreciation interest accrued from October 1, 2004 through their maturity in the amount of \$35.1 million.
- (7) Includes \$75.1 million of commercial paper issued as bond anticipation notes in anticipation of certain payments to be received by the Commonwealth from the Massachusetts Port Authority to reimburse the Commonwealth for capital costs of the CA/T Project. See the September Information Statement under the heading "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS – Cash Flow."

**Debt Service Requirements on Commonwealth Bonds**

The following table sets forth, as of October 1, 2004, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal grant anticipation notes. For variable rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate exchange agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. For other variable rate bonds and for auction rate securities, the schedule assumes a 5% interest rate.

**Debt Service Requirements on Commonwealth Bonds October 1, 2004**  
(in thousands)

<i>General Obligation Bonds</i>					<i>Federal Grant Anticipation Notes</i>			<i>Special Obligation Bonds</i>			Total Debt Service Commonwealth Bonds
Fiscal Year	Principal	Interest on CABS at Maturity	Current Interest	Sub Total	Principal	Interest	Sub Total	Principal	Interest	Sub Total	
2005	\$563,499	-	\$ 483,566	\$1,047,065	-	\$95,223	\$95,223	\$27,370	\$59,506	\$86,876	\$1,229,164
2006	871,071	\$4,536	672,995	1,548,602	\$117,895	93,817	211,712	28,565	76,009	104,574	1,864,888
2007	903,064	5,189	630,805	1,539,058	123,825	87,887	211,712	30,560	73,862	104,422	1,855,192
2008	917,785	5,801	585,320	1,508,905	130,240	81,469	211,709	40,205	70,983	111,188	1,831,802
2009	916,036	6,904	539,347	1,462,286	137,230	74,478	211,708	42,020	68,129	110,149	1,784,143
2010	838,507	6,429	492,585	1,337,521	158,815	66,835	225,650	44,015	66,143	110,158	1,673,329
2011	845,935	6,981	446,694	1,299,609	214,620	57,206	271,826	46,190	62,881	109,071	1,680,507
2012	720,631	7,203	400,684	1,128,517	226,420	45,694	272,114	48,590	60,501	109,091	1,509,722
2013	786,210	7,977	360,663	1,154,849	208,410	35,110	243,520	51,115	57,949	109,064	1,507,433
2014	682,738	6,043	322,608	1,011,389	302,820	21,697	324,517	49,435	55,163	104,598	1,440,504
2015	663,061	5,417	288,451	956,929	287,065	7,185	294,250	98,520	52,594	151,114	1,402,293
2016	651,087	4,010	255,858	910,955	-	-	-	74,040	47,323	121,363	1,032,318
2017	658,674	2,555	223,929	885,158	-	-	-	65,920	43,405	109,325	994,483
2018	454,065	1,843	195,574	651,482	-	-	-	47,755	40,054	87,809	739,291
2019	454,660	1,235	171,806	627,702	-	-	-	50,230	37,702	87,932	715,634
2020	462,338	628	148,595	611,562	-	-	-	52,935	35,033	87,968	699,530
2021	651,948	451	118,896	771,294	-	-	-	55,775	32,228	88,003	859,297
2022	434,005	241	89,948	524,193	-	-	-	58,670	29,371	88,041	612,234
2023	305,782	127	71,009	376,918	-	-	-	30,195	26,366	56,561	433,479
2024	168,681	55	58,543	227,280	-	-	-	31,820	24,781	56,601	283,881
2025	98,627	-	51,782	150,409	-	-	-	33,535	23,110	56,645	207,054
2026	76,790	-	47,201	123,991	-	-	-	35,345	21,350	56,695	180,686
2027	197,460	-	40,329	237,789	-	-	-	37,250	19,494	56,744	294,534
2028	134,955	-	31,982	166,937	-	-	-	39,260	17,538	56,798	223,736
2029	178,335	-	24,000	202,335	-	-	-	41,375	15,477	56,852	259,187
2030	184,090	-	14,580	198,670	-	-	-	43,720	13,305	57,025	255,695
2031	192,960	-	4,669	197,629	-	-	-	46,310	10,791	57,101	254,730
2032	-	-	-	-	-	-	-	49,050	8,128	57,178	57,178
2033	-	-	-	-	-	-	-	51,755	5,308	57,063	57,063
2034	-	-	-	-	-	-	-	54,405	2,720	57,125	57,125
<b>TOTAL</b>	<b>\$14,012,993</b>	<b>\$73,625</b>	<b>\$6,772,419</b>	<b>\$20,859,036</b>	<b>\$1,907,340(1)</b>	<b>\$666,600</b>	<b>\$2,573,940</b>	<b>\$1,405,930(2)</b>	<b>\$1,157,205(2)</b>	<b>\$2,563,134</b>	<b>\$25,996,111</b>

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

- (1) Includes \$408.0 million of notes issued for a cross-over refunding of federal grant anticipation notes. Such notes will not be secured by federal highway grant revenues until the cross-over dates. Notes to be refunded on the crossover dates remain outstanding until that time.
- (2) Includes \$116.0 million of bonds which, although not legally defeased, will be paid in fiscal 2006 and 2008 from funds held in escrow by a third-party trustee

## General Obligation Contract Assistance Liabilities

*Boston Housing Authority West Broadway Homes IV Project.* In December 2003 the Boston Housing Authority (BHA) issued \$10 million of housing project bonds to finance a portion of the costs of construction of a 133-unit lower income public housing project in South Boston. Proceeds of the bonds were lent by the BHA to the West Broadway Redevelopment Limited Partnership (Partnership) which will own and operate the project. The general partner of the Partnership is a Massachusetts non-profit corporation controlled by the BHA. In addition, proceeds of an approximately \$10.8 million modernization grant from the Commonwealth and an approximately \$3.6 million grant from the City of Boston have been loaned to the Partnership by the BHA to be applied to costs of the project. The Partnership also expects to apply an equity investment from its limited partners to construction costs in the approximate amount of \$10 million. In December 2003 the BHA also issued \$9 million of housing project notes to mature December 1, 2006, the proceeds of which were loaned to the Partnership to be applied to construction costs in anticipation of the Partnership's equity investment. In accordance with an Amendment to Contract for Financial Assistance between the Commonwealth, acting by and through the Department of Housing and Community Development, and the BHA, the Commonwealth has agreed to advance additional grant funds to the BHA to be applied to the payment of the notes to the extent the Partnership's equity investment is not received in time or amount sufficient to pay the principal amount of the notes at maturity. The Commonwealth has also agreed in the Amendment to Contract for Financial Assistance to advance additional grant funds to the BHA in an amount sufficient to redeem all or a portion of the bonds on December 1, 2006 to the extent the project has failed to demonstrate budgeted revenue sufficiency by that date. Thereafter, the bonds will be secured by and payable solely from an assignment by the BHA of state operating subsidy funds allocable to the project, and other state assisted public housing projects owned by the BHA, loan repayments from the Partnership payable from project net income and reserve funds funded from bond and grant loan proceeds to the Partnership.

## STATE WORKFORCE

The following table sets forth information regarding the Commonwealth's workforce as of the end of fiscal years 1999 through 2004.

### Budget-Funded Workforce (1)

	<u>June 1999</u>	<u>June 2000</u>	<u>June 2001</u>	<u>June 2002</u>	<u>June 2003</u>	<u>June 2004</u>
Executive Office	93	89	88	72	86	65
Office of the Comptroller	110	106	109	107	102	102
Executive Departments						
Administration and Finance	3,153	3,225	3,180	2,974	2,921	2,791
Environmental Affairs	2,484	2,583	2,555	2,312	2,156	1,997
Housing and Community Development	113	111	117	109	98	92
Health and Human Services	23,164	23,483	23,157	21,803	21,440	20,682
Transportation and Construction	1,303	1,284	1,254	843	445	344
Board of Library Commissioners	17	20	20	18	13	12
Labor and Workforce Development	392	386	379	357	343	317
Economic Development	92	92	86	80	58	47
Consumer Affairs and Business Regulation	706	682	675	657	521	515
Department of Education	272	270	272	277	248	223
Board of Higher Education	14,840	15,251	15,481	14,038	14,117	11,844
Public Safety	9,520	9,409	9,686	9,567	9,148	8,765
Elder Affairs	<u>36</u>	<u>38</u>	<u>41</u>	<u>43</u>	<u>38</u>	<u>28</u>
Subtotal under Governor's authority (3)	56,295	57,029	57,100	53,257	51,734	47,824
Judiciary	7,829	8,013	7,944	7,379	7,233	7,175
Other (2)	<u>6,403</u>	<u>7,171</u>	<u>7,418</u>	<u>7,119</u>	<u>7,056</u>	<u>7,020</u>
Total (3)	<u>70,527</u>	<u>72,213</u>	<u>72,462</u>	<u>67,755</u>	<u>66,024</u>	<u>62,019</u>

SOURCE: Executive Office for Administration and Finance

- (1) Excludes employees whose positions are established in accounts funded by capital projects funds, direct federal grants, expendable trusts and other non-appropriated funds, as well as seasonal help, members of boards and commissions and staff of independent authorities. Numbers represent full-time equivalent positions (FTEs), not individual employees. Total may not add due to rounding.
- (2) Other includes staff of the Legislature and Executive Council, the office 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; it excludes elected members of the Legislature and Executive Council.
- (3) Some totals have been revised because of formula errors. Other than June 2004, no department-level detail has been altered. For June 2004, a more accurate query reported 7 additional FTEs, and a slightly altered distribution by department.

## LEGAL MATTERS

### Update of Existing Litigation

*Hancock v. Commissioner of Education.* In a report dated April 26, 2004, Superior Court Judge Margot Botsford recommended that the Supreme Judicial Court conclude that the Commonwealth is not meeting its duty to provide an education to children in the public schools as required by Part II, c. 5, section 2 of the Massachusetts Constitution. She further recommended remedial action in the form of an order directing the state defendants to (1) ascertain the actual cost of implementing the seven curriculum frameworks in the four focus districts, (2) determine the costs associated with measures to improve local districts' capacity to implement the necessary educational program effectively, and (3) implement any changes resulting from (1) and (2). She recommended that a limited time period such as six months be allotted for those tasks. She recommended inclusion of the following as items that "must be covered" in the order requiring a determination of costs: special education, implementation of all seven curriculum frameworks, "adequate school facilities," and universal preschool for three and four year olds unable to pay. She further recommended the following as items that "should be considered" in the determination of costs: increases in the foundation budget factors for teaching salaries, the low income factor, and the bilingual education factor; inclusion of a technology factor, teacher coaches, and school leadership; implementation of a class size system of under 20 for pre-k through third grade; provision of school libraries; and institution of remedial programs.

Judge Botsford's recommendations are now under consideration by the Supreme Judicial Court, which heard oral arguments on October 4, 2004. The potential fiscal impact is unknown.

*Raytheon v. Commissioner of Revenue.* The Commissioner of Revenue settled this case in September, 2003. The liability is no longer contingent.

*Peterson v. Commissioner of Revenue.* On April 6, 2004, the Supreme Judicial Court held that the effective date in the act amending the capital gains tax statute ("Act") violates amendment article 44 of the Massachusetts Constitution. Because the Act has a severability clause, the Court remanded the case to the Supreme Judicial Court for Suffolk County for further proceedings to determine whether it should be construed to impose the new tax rate beginning on calendar year January 1, 2003, or calendar year January 1, 2002. Included in the Fiscal 2005 GAA – and signed by the Governor on June 25, 2004 – were two sections concerning capital gains tax rates: one section providing that the effective date of the capital gains tax statute is January 1, 2002 and another concerning an exemption for taxpayers who paid taxes on capital gains realized during January 1, 2002 to April 30, 2002. The plaintiffs have amended their complaint to challenge each of these sections. See "RECENT DEVELOPMENTS – Fiscal 2004 Tax Revenues" above.

*Shwachman v. Commonwealth.* Suit was filed in Worcester Superior Court in May, 2004.

*Brown Rudnick Freed & Gesmer and Loeff Cabraser Heimann & Bernstein, LLP, et al. v. Commonwealth.* On December 19, 2003, a Suffolk Superior Court jury rejected the claims of the state's private tobacco attorneys that they should be paid a fee amounting to 25 percent of the state's tobacco settlement money. The jury awarded the plaintiffs 10.5% of the amount the Commonwealth receives under the tobacco Master Settlement Agreement through 2025. To date, however, the private tobacco attorneys have received, in direct payments from the tobacco companies under the MSA fee arbitration, more than 10.5% of what the Commonwealth has received under the

MSA. Because these arbitration payments are deducted from amounts the Commonwealth might itself otherwise owe private counsel, the Commonwealth at present owes nothing under the jury award. Whether the Commonwealth will in the future be required to pay any sum on private counsel's claim will depend on the actual payments received by the Commonwealth under the MSA through 2025. No appeal was filed within the time provided by the rule.

*General Mills, Inc. v. Commissioner of Revenue.* The taxpayer filed a petition for a writ of certiorari in the United States Supreme Court, which was docketed on January 30, 2004. On February 27, 2004, the Commissioner filed his brief in opposition. The Supreme Court denied the petition for a writ of certiorari on April 5, 2004.

*Ramos v. McIntire.* This case settled on September 30, 2004. The settlement consisted of equitable relief to one named plaintiff concerning the plaintiff's participation in a jobs-training program and attorneys fees of approximately \$8,000.

*Lopes v. Commonwealth.* In July, 2004, the Court affirmed the dismissal of claims by the estates of deceased smokers who argued that funds received by the Commonwealth in its settlement with tobacco manufacturers must be set off against amounts the estates owe the Medicaid program for treatment of their decedents' tobacco-related illnesses. The Court held that certain claims were barred by sovereign immunity and that others were foreclosed by a 1999 amendment to the federal Medicaid Act governing disposition of tobacco settlement payments.

*Rosie D. v. Governor.* Following the First Circuit's affirmance of the District Court's denial of the Governor's motion to dismiss based on sovereign immunity, the parties are conducting non-expert discovery, which will end August 27, 2004. Expert discovery will take place during the Fall of 2004, and a final pre-trial conference is scheduled for December 14, 2004.

*Goodridge v. Commissioner of Public Health.* On November 18, 2003, the Supreme Judicial Court declared "that barring an individual from the protections, benefits, and obligations of civil marriage solely because that person would marry a person of the same sex violates the Massachusetts Constitution." The court stayed entry of judgment "for 180 days to permit the Legislature to take such action as it may deem appropriate in light of" the court's opinion. On May 17, 2004, marriage became available to individuals marrying persons of the same sex.

*Ricci v. Murphy.* On July 14, 2004, a subset of plaintiffs filed a motion to reopen the case and enforce the final order of May 25, 1993, asserting various reasons why the Department of Mental Retardation is not in compliance with the 1993 final order, mostly relating to the Commonwealth's plan to close the Fernald Developmental Center. Another subgroup of plaintiffs (representing class members from the Dever and Wrentham Developmental Centers) continues to engage in a mediation process with the Department pursuant to a process prescribed by the final order. The Department filed a responsive pleading on August 16, 2004, asserting that all of the requirements of the final order were met. On August 28, 2004, the Disability Law Center filed a motion to intervene, asserting an interest on behalf of persons with disabilities in the closing of the facility which was allowed.

*Dzialo v. Greenfield.* This case settled for a total of \$936,000. All settlement amounts owing from the Commonwealth have been paid.

*Health Care for All v. Romney et al.* (United States District Court). A group of individual plaintiffs brought this complaint for injunctive and declaratory relief, challenging the Commonwealth's administration of the MassHealth dental program. Specifically, the plaintiffs assert that the Commonwealth's administration of the dental program fails to comply with the requirements allegedly imposed by federal Medicaid law. Discovery concluded in or about March 2004. The defendants have filed a motion for summary judgment as to all claims, and on October 1, 2004, the court issued a decision allowing the defendants' motion as to one count, finding that the so-called "equal access" provision of the federal Medicaid law contained no language establishing an individual right of action. The plaintiffs voluntarily dismissed two additional counts. No decision has yet issued on the plaintiffs' renewed request for class certification. Trial on the remaining claims began on October 18, 2004. The evidentiary portion of the trial concluded October 25, 2004. Further briefing and argument will take place through early February 2005, with the Court's decision to follow sometime thereafter. Although the plaintiffs have not quantified the cost of the services and program changes they seek, it is likely that the costs associated with such changes could amount to more than \$20 million.

## CONTINUING DISCLOSURE

On behalf of the Commonwealth, the State Treasurer will provide to each nationally recognized municipal securities information repository within the meaning of Rule 15c2-12 of the Securities and Exchange Commission, no later than 270 days after the end of each fiscal year of the Commonwealth, certain financial information and operating data relating to such fiscal year, as provided in said Rule 15c2-12, together with audited financial statements of the Commonwealth for such fiscal year. To date, the Commonwealth has complied with all of its continuing disclosure undertakings relating to the general obligation debt of the Commonwealth. However, the annual filings relating to the fiscal year ended June 30, 2001 for the Commonwealth's special obligation debt and for the Commonwealth's federal highway grant anticipation notes were filed two days late, on March 29, 2002. Proper notice of the late filings was provided on March 29, 2002 to the Nationally Recognized Municipal Securities Information Repositories and the Municipal Securities Rulemaking Board.

## AVAILABILITY OF OTHER FINANCIAL INFORMATION

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

## THE COMMONWEALTH OF MASSACHUSETTS

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

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

October 28, 2004

## ECONOMIC INFORMATION

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

All information is presented on a calendar-year basis unless otherwise indicated. **The section was prepared for release on September 30, 2004. Information in the text, tables, charts, and graphs was current as of September 23, 2004.** Sources of information are indicated in the text or immediately following the charts and tables. Although the Commonwealth considers the sources to be reliable, the Commonwealth has made no independent verification of the information presented herein and does not warrant its accuracy.

### Statistical Overview

<u>Population</u> (p. A-2)	<u>Massachusetts</u>	<u>United States</u>
Percent Change in Population, 2002-2003	0.2%	1.0%
<u>Personal Income, Consumer Prices, and Poverty</u> (p. A-7)		
Per Capita Personal Income, 2003	\$39,815	\$31,632
Average Annual Pay, 2002	\$44,954	\$36,764
Percent Change in CPI-U, 2002-2003*	3.8%	2.3%
Percent Change in CPI-U, Sept. 2003-Sept. 2004*	1.5%	2.5%
Poverty Rate, 2002-2003 Average	10.1%	12.3%
Average Weekly Manufacturing Earnings, May 2004(p)	\$683.49	\$660.48
Percent Change in Manufacturing Earnings, May 2003-May 2004(p)	1.7%	3.3%
<u>Employment</u> (p. A-15)		
Percent Change in Nonfarm Payroll Employment, Aug. 2003-Aug. 2004(p)	0.0%	1.3%
Unemployment Rate, 2003	5.4%	6.0%
Unemployment Rate, August, 2004	5.4%	5.4%
<u>Economic Base and Performance</u> (p. A-21)		
Percent Change in Gross State Product, 2000-2001	-0.4%	0.4%
Percent Change in International Exports, 2002-2003	11.7%	4.4%
Percent Change in Housing Permits Authorized, 2002-2003	8.5%	5.1%
<u>Human Resources and Infrastructure</u> (p. A-36)		
Expenditure Per Pupil, 2002 (estimate)	\$10,232	\$7,524
Percent of Adults with a Bachelor's Degree, March 2002	35.8%	26.5%

\* NOTE: Percent changes in the CPI-U are for the Boston area & the U.S.

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

The following sections provide detailed information on population characteristics, personal income, employment, economic base and performance, and human resources and infrastructure.

## **POPULATION CHARACTERISTICS**

Massachusetts is a densely populated state with a comparatively large percentage of its residents living in metropolitan areas. According to the 2000 census, the population density of Massachusetts is 809.8 persons per square mile, as compared to 79.6 for the United States as a whole. Among the 50 states, only Rhode Island and New Jersey have a greater population density. Massachusetts also ranks third among the states in percentage of residents living in metropolitan areas as they were defined at the time of the Census: 96.1 percent of Massachusetts residents live in metropolitan areas, compared with a national average of 80.3 percent. A subsequent version of this Economic Information section will introduce a new set of metropolitan area definitions based on whole counties. According to this new definition, announced in 2003 but not yet in general use, the entire state will be considered to be metropolitan except for the two island counties (99.6 percent of state residents in 2000.)

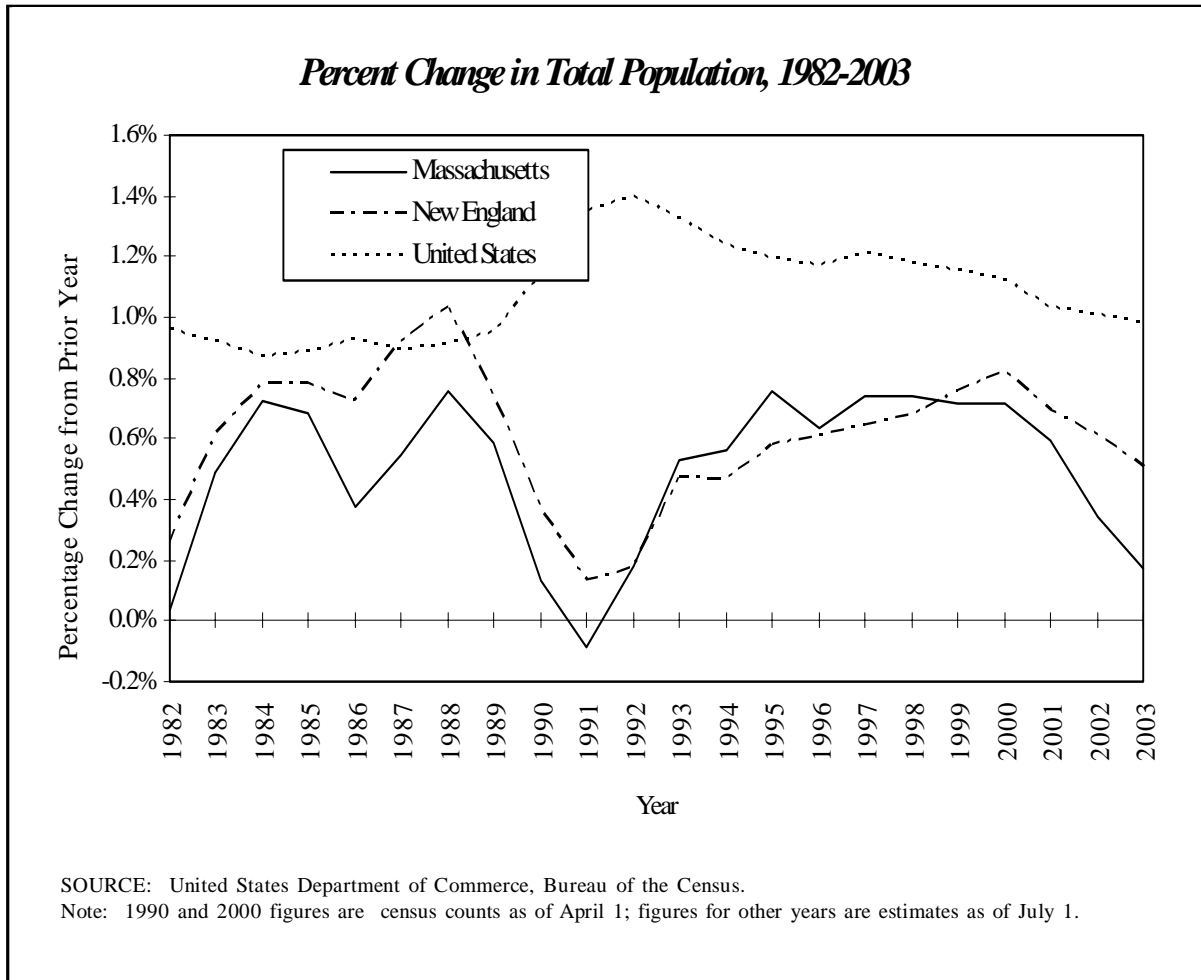
The State's population is concentrated in its eastern portion. The City of Boston is the largest city in New England, with a 2000 population of 589,141. Boston is the hub of the Boston-Worcester-Lawrence, MA-NH-ME-CT Consolidated Metropolitan Statistical Area (CMSA), which also includes all of southeastern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

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

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



As the following chart indicates, the percent change in population in Massachusetts since 1982 has been both lower and more erratic than the change in population for the United States as a whole. While this trend is similar to that experienced by New England, it differs considerably from the steady growth rates for the United States over the same period of time.



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

**Population, 1970-2003**

(in thousands)

Year	Massachusetts		New England		United States	
	Total	Percent Change	Total	Percent Change	Total	Percent Change
1970	5,689		11,847		203,302	
1971	5,738	0.9%	11,993	1.2%	206,827	1.7%
1972	5,760	0.4%	12,082	0.7%	209,284	1.2%
1973	5,781	0.4%	12,140	0.5%	211,357	1.0%
1974	5,774	-0.1%	12,146	0.0%	213,342	0.9%
1975	5,758	-0.3%	12,163	0.1%	215,465	1.0%
1976	5,744	-0.2%	12,192	0.2%	217,563	1.0%
1977	5,738	-0.1%	12,239	0.4%	219,760	1.0%
1978	5,736	0.0%	12,283	0.4%	222,095	1.1%
1979	5,738	0.0%	12,322	0.3%	224,567	1.1%
1980	5,737	0.0%	12,348	0.2%	226,546	0.9%
1981	5,769	0.6%	12,436	0.7%	229,466	1.3%
1982	5,771	0.0%	12,468	0.3%	231,664	1.0%
1983	5,799	0.5%	12,544	0.6%	233,792	0.9%
1984	5,841	0.7%	12,642	0.8%	235,825	0.9%
1985	5,881	0.7%	12,741	0.8%	237,924	0.9%
1986	5,903	0.4%	12,833	0.7%	240,133	0.9%
1987	5,935	0.5%	12,951	0.9%	242,289	0.9%
1988	5,980	0.8%	13,085	1.0%	244,499	0.9%
1989	6,015	0.6%	13,182	0.7%	246,819	0.9%
1990	6,023	0.1%	13,230	0.4%	249,623	1.1%
1991	6,018	-0.1%	13,248	0.1%	252,981	1.3%
1992	6,029	0.2%	13,271	0.2%	256,514	1.4%
1993	6,061	0.5%	13,334	0.5%	259,919	1.3%
1994	6,095	0.6%	13,396	0.5%	263,126	1.2%
1995	6,141	0.8%	13,473	0.6%	266,278	1.2%
1996	6,180	0.6%	13,555	0.6%	269,394	1.2%
1997	6,226	0.7%	13,642	0.6%	272,647	1.2%
1998	6,272	0.7%	13,734	0.7%	275,854	1.2%
1999	6,317	0.7%	13,838	0.8%	279,040	1.2%
2000	6,362	0.7%	13,952	0.8%	282,178	1.1%
2001	6,400	0.6%	14,048	0.7%	285,094	1.0%
2002	6,422	0.3%	14,134	0.6%	287,974	1.0%
2003	6,433	0.2%	14,205	0.5%	290,810	1.0%

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

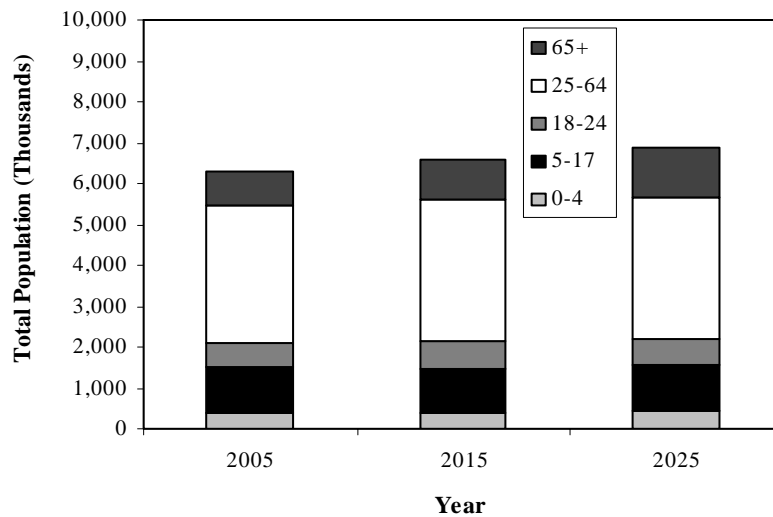
The next fifteen years are expected to bring about a considerable change in the age distribution of the Massachusetts population. As the following table and chart show, the population of Massachusetts is expected to be distributed more heavily in the 65 and over age groups in 2015 and in 2025. The chart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

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

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

SOURCE: United States Department of Commerce, Bureau of the Census.  
 Note: Projections released in 1996; new projections expected in 2005.

***Projected Massachusetts Population by Age Group, 2005-2025***



SOURCE: United States Department of Commerce, Bureau of the Census.  
 Note: Projections released in 1996; new projections expected in 2005.

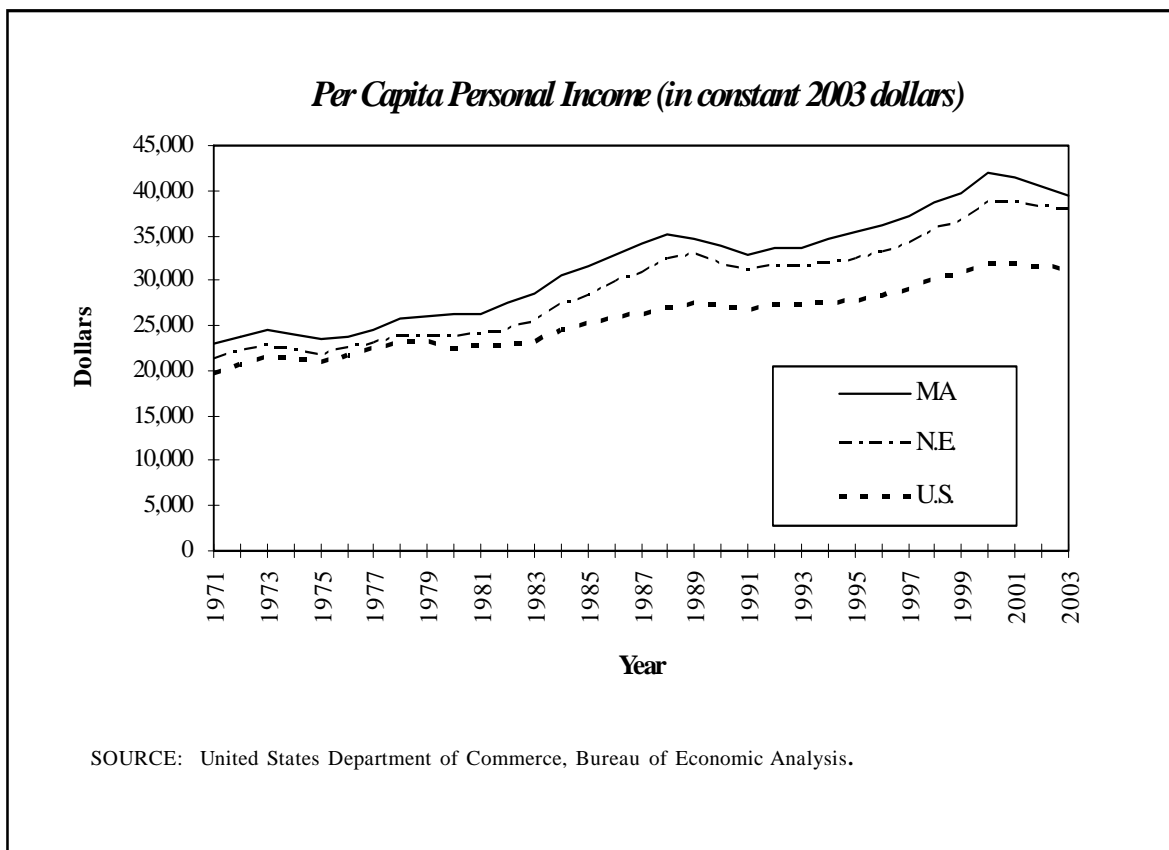
*Massachusetts Population by County  
1990 and 2000 Census*

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

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

## PERSONAL INCOME, CONSUMER PRICES, AND POVERTY

**Personal Income.** Since at least 1929, real and nominal per capita income levels have been consistently higher in Massachusetts than in the United States. After growing at an annual rate higher than that for the United States between 1982 and 1988, real income levels in Massachusetts declined between 1989 and 1991. Real per capita income levels in Massachusetts increased faster than the national average between 1994 and 1997. In 2000 Massachusetts had its highest per capita income growth in 16 years, exceeding the national growth rate by 1.6 percentage points. In 2001 and 2002, nominal and real income in both Massachusetts and the United States declined, while in 2003 the state showed a slight decline while the nation was essentially flat. Even with slight declines in income, both real and nominal income levels in Massachusetts remain well above the national average. Again in 2003 as in the past several years, only two states had higher levels of per capita personal income. The following chart illustrates real per capita personal income in Massachusetts, New England, and the United States since 1971.



The following table compares per capita personal income in Massachusetts, New England, and the United States for the period 1969-2003.

***Per Capita Personal Income, 1969-2003***

Year	Nominal Income (in current dollars)			Real Income (in 2003 dollars)			Percent Change in Real Income		
	MA	NE	U.S.	MA	NE	U.S.	MA	NE	U.S.
1969	4,201	4,185	3,836	22,661	20,982	19,232			
1970	4,483	4,445	4,085	22,738	21,079	19,372	0.3%	0.5%	0.7%
1971	4,752	4,680	4,342	22,960	21,262	19,727	1.0%	0.9%	1.8%
1972	5,109	5,029	4,717	23,838	22,137	20,764	3.8%	4.1%	5.3%
1973	5,547	5,481	5,231	24,428	22,714	21,678	2.5%	2.6%	4.4%
1974	6,016	5,958	5,707	23,958	22,237	21,300	-1.9%	-2.1%	-1.7%
1975	6,459	6,381	6,172	23,602	21,823	21,109	-1.5%	-1.9%	-0.9%
1976	6,998	6,959	6,754	23,782	22,504	21,841	0.8%	3.1%	3.5%
1977	7,620	7,593	7,405	24,623	23,055	22,484	3.5%	2.4%	2.9%
1978	8,430	8,413	8,245	25,887	23,742	23,268	5.1%	3.0%	3.5%
1979	9,385	9,392	9,146	26,142	23,803	23,180	1.0%	0.3%	-0.4%
1980	10,602	10,629	10,114	26,171	23,735	22,585	0.1%	-0.3%	-2.6%
1981	11,798	11,846	11,246	26,205	23,979	22,764	0.1%	1.0%	0.8%
1982	12,941	12,871	11,935	27,630	24,542	22,757	5.4%	2.3%	0.0%
1983	14,009	13,829	12,618	28,622	25,548	23,310	3.6%	4.1%	2.4%
1984	15,723	15,422	13,891	30,620	27,311	24,600	7.0%	6.9%	5.5%
1985	16,910	16,546	14,758	31,517	28,294	25,237	2.9%	3.6%	2.6%
1986	18,148	17,722	15,442	32,980	29,752	25,925	4.6%	5.2%	2.7%
1987	19,575	19,119	16,240	34,085	30,967	26,304	3.3%	4.1%	1.5%
1988	21,341	20,811	17,331	35,036	32,369	26,956	2.8%	4.5%	2.5%
1989	22,342	22,083	18,520	34,696	32,768	27,481	-1.0%	1.2%	1.9%
1990	23,043	22,712	19,477	33,826	31,974	27,420	-2.5%	-2.4%	-0.2%
1991	23,432	22,969	19,892	32,950	31,030	26,873	-2.6%	-3.0%	-2.0%
1992	24,538	24,172	20,854	33,670	31,701	27,350	2.2%	2.2%	1.8%
1993	25,176	24,752	21,346	33,573	31,518	27,181	-0.3%	-0.6%	-0.6%
1994	26,303	25,687	22,172	34,624	31,892	27,528	3.1%	1.2%	1.3%
1995	27,457	26,832	23,076	35,299	32,396	27,861	2.0%	1.6%	1.2%
1996	28,933	28,194	24,175	36,126	33,064	28,351	2.3%	2.1%	1.8%
1997	30,498	29,687	25,334	37,037	34,034	29,043	2.5%	2.9%	2.4%
1998	32,524	31,677	26,883	38,623	35,758	30,346	4.3%	5.1%	4.5%
1999	34,227	33,126	27,939	39,653	36,586	30,857	2.7%	2.3%	1.7%
2000	37,756	36,121	29,847	41,931	38,596	31,892	5.7%	5.5%	3.4%
2001	38,944	37,328	30,580	41,466	38,782	31,771	-1.1%	0.5%	-0.4%
2002	38,913	37,420	30,795	40,378	38,273	31,497	-2.6%	-1.3%	-0.9%
2003	39,408	38,018	31,459	39,408	38,018	31,459	-2.4%	-0.7%	-0.1%

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

Notes: Estimated population as of July 1. Massachusetts real income is calculated using Boston CPI-U data.

New England and United States real incomes are calculated using national CPI-U data.

**Annual pay in nominal dollars** has grown steadily in Massachusetts over the past decade. Average annual pay is computed by dividing the total annual payroll of employees covered by Unemployment Insurance programs by the average monthly number of employees. Data are reported by employers covered under the Unemployment Insurance programs. While levels of annual pay were nearly equal in Massachusetts and the United States in 1984, average annual pay levels in Massachusetts have grown more rapidly than the national average since that time. The level of annual pay in Massachusetts in 2002 was 22 percent higher than the national average: \$44,954 compared to \$36,764.

**Wage and Salary Disbursements.** Wage and Salary Disbursements by Place of Work is a component of personal income and measures monetary disbursements to employees. This includes compensation of corporate officers, commissions, tips, bonuses, and receipts in-kind. Although the data is recorded on a place-of-work basis, it is then adjusted to a place-of-residence basis so that the personal income of the recipients whose place of residence differs from their place of work will be correctly assigned to their state of residence. The table below details Wage and Salary Disbursements since 1990. Between 1991 and 2000, Massachusetts accounted for a steadily increasing percentage of the overall New England total, but in 2002 it dropped slightly to 50.3 percent.

**Annual Wage and Salary Disbursements, 1990-2003**

(in millions of dollars)

<i>Year</i>	<i>U.S.</i>	<i>N.E.</i>	<i>MA</i>	<i>MA as a pct. of N.E.</i>
<b>1990</b>	\$ 2,743,016	\$171,448	\$83,129	48.5%
<b>1991</b>	\$ 2,811,076	\$170,333	\$82,311	48.3%
<b>1992</b>	\$ 2,972,287	\$177,810	\$86,014	48.4%
<b>1993</b>	\$ 3,076,276	\$183,236	\$89,047	48.6%
<b>1994</b>	\$ 3,227,483	\$190,661	\$93,164	48.9%
<b>1995</b>	\$ 3,415,368	\$201,946	\$99,194	49.1%
<b>1996</b>	\$ 3,615,699	\$213,667	\$105,573	49.4%
<b>1997</b>	\$ 3,874,011	\$230,032	\$113,579	49.4%
<b>1998</b>	\$ 4,179,922	\$247,851	\$123,054	49.6%
<b>1999</b>	\$ 4,463,650	\$266,554	\$134,045	50.3%
<b>2000</b>	\$ 4,825,906	\$293,889	\$150,842	51.3%
<b>2001</b>	\$ 4,939,453	\$300,663	\$153,110	50.9%
<b>2002</b>	\$ 4,970,270	\$298,009	\$149,894	50.3%
<b>2003</b>	\$ 5,095,173	\$303,861	\$151,633	49.9%

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

**Consumer Prices.** Higher income levels in Massachusetts relative to the rest of the United States are offset to some extent by the higher cost of living in Massachusetts. The following table presents consumer price trends for the Boston metropolitan area and the United States for the period between 1970 and 2003. Data reflect changes to methodology made by the Bureau of Labor Statistics in January 1998 and indicate the Consumer Price Index for All Urban Consumers (CPI-U) and the percentage change in the Consumer Price Index for All Urban Consumers from the previous year. In 2003, the CPI-U for Boston increased 3.8 percent compared to an increase of 2.3 percent for the United States as a whole. The latest available data for May 2004 show that the CPI-U for the Boston metropolitan area grew at a rate of 3.2 percent from May 2003 compared with 3.1 percent for the U.S.

**Consumer Price Index for all Urban Consumers (CPI-U), 1970-2003**

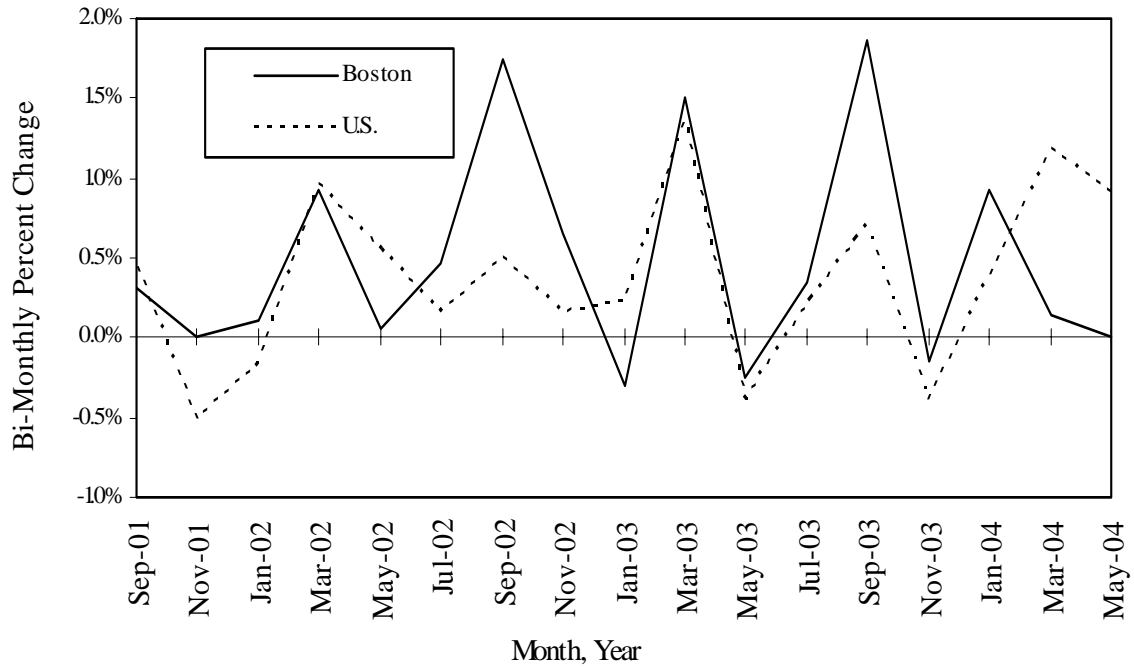
(not seasonally adjusted, (1982-1984=100))

<i>Year</i>	<i>Boston Metro Area</i>		<i>United States</i>	
	<i>CPI-U</i>	<i>Pct.Change</i>	<i>CPI-U</i>	<i>Pct. Change</i>
<b>1970</b>	40.2		38.8	
<b>1971</b>	42.2	5.0%	40.5	4.4%
<b>1972</b>	43.7	3.6%	41.8	3.2%
<b>1973</b>	46.3	5.9%	44.4	6.2%
<b>1974</b>	51.2	10.6%	49.3	11.0%
<b>1975</b>	55.8	9.0%	53.8	9.1%
<b>1976</b>	60.0	7.5%	56.9	5.8%
<b>1977</b>	63.1	5.2%	60.6	6.5%
<b>1978</b>	66.4	5.2%	65.2	7.6%
<b>1979</b>	73.2	10.2%	72.6	11.3%
<b>1980</b>	82.6	12.8%	82.4	13.5%
<b>1981</b>	91.8	11.1%	90.9	10.3%
<b>1982</b>	95.5	4.0%	96.5	6.2%
<b>1983</b>	99.8	4.5%	99.6	3.2%
<b>1984</b>	104.7	4.9%	103.9	4.3%
<b>1985</b>	109.4	4.5%	107.6	3.6%
<b>1986</b>	112.2	2.6%	109.6	1.9%
<b>1987</b>	117.1	4.4%	113.6	3.6%
<b>1988</b>	124.2	6.1%	118.3	4.1%
<b>1989</b>	131.3	5.7%	124.0	4.8%
<b>1990</b>	138.9	5.8%	130.7	5.4%
<b>1991</b>	145.0	4.4%	136.2	4.2%
<b>1992</b>	148.6	2.5%	140.3	3.0%
<b>1993</b>	152.9	2.9%	144.5	3.0%
<b>1994</b>	154.9	1.3%	148.2	2.6%
<b>1995</b>	158.6	2.4%	152.4	2.8%
<b>1996</b>	163.3	3.0%	156.9	3.0%
<b>1997</b>	167.9	2.8%	160.5	2.3%
<b>1998</b>	171.7	2.3%	163.0	1.6%
<b>1999</b>	176.0	2.5%	166.6	2.2%
<b>2000</b>	183.6	4.3%	172.2	3.4%
<b>2001</b>	191.5	4.3%	177.1	2.8%
<b>2002</b>	196.5	2.6%	179.9	1.6%
<b>2003</b>	203.9	3.8%	184.0	2.3%
<b>May-03</b>	202.3		183.5	
<b>May-04</b>	208.7	3.2%	189.1	3.1%

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



***Bi-Monthly Percent Change in Consumer Price Index for all Urban Consumers,  
September 2001 - May 2004***



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

***Consumer Confidence, Present Situation, and Future Expectations.*** These three measures offer multiple insights into consumer attitudes. The U.S. and New England measures are compiled from a national monthly survey of 5,000 households and are published by The Conference Board, Inc. The measures for Boston are conducted in a similar manner and published by the New England Economic Project (NEEP), based on the polling of 500 adult residents of Massachusetts. “Consumer confidence” is a measure of consumer optimism regarding overall economic conditions. “Future expectations” focuses on consumers’ attitudes regarding business conditions, employment, and employment income for the coming six months. “Present situation” measures the same attitudes as future expectations but at the time of the survey. Although the U.S. and the New England measures are compiled by a different source than the Boston measures, according to the Federal Reserve Bank of Boston the numbers are generally comparable. The following table and chart detail these three measures since 2000.

**Quarterly measures of Consumer Confidence, Present Situation, and Future Expectations for Massachusetts, New England, and the U.S., January 2000 - July 2004**

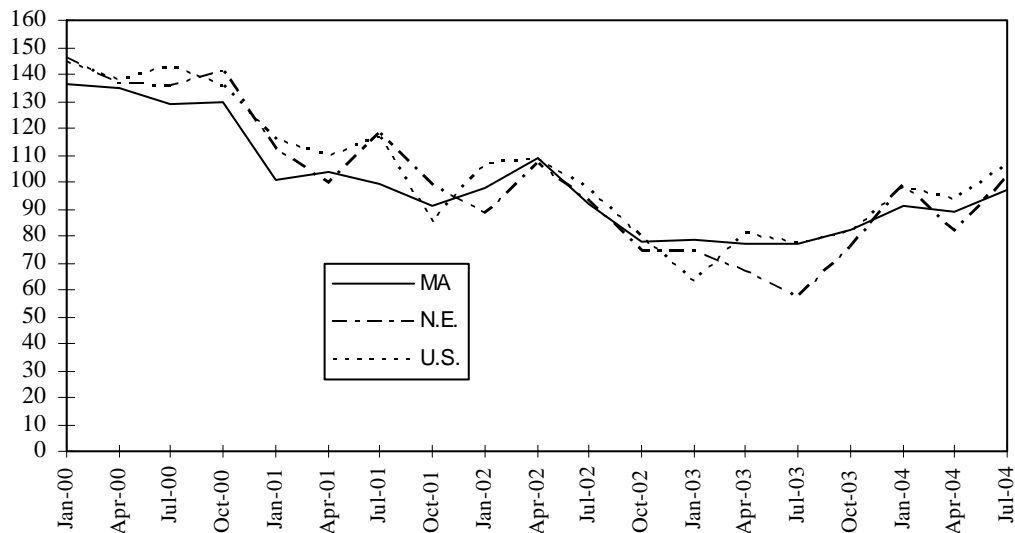
*(Not Seasonally Adjusted, except United States (1985=100))*

	Consumer Confidence			Present Situation			Future Expectations		
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.
Jan-00	136.0	145.9	144.7	151.0	193.1	183.1	125.0	114.5	119.1
Apr-00	135.0	136.5	137.7	155.0	195.7	179.8	122.0	97.0	109.7
Jul-00	129.0	135.4	143.0	156.0	196.9	186.8	111.0	94.4	113.7
Oct-00	130.0	140.7	135.8	157.0	195.5	176.8	111.0	104.1	108.4
Jan-01	101.0	111.9	115.7	139.0	173.9	170.4	76.0	70.5	79.3
Apr-01	104.0	99.5	109.9	124.0	161.7	156.0	91.0	58.0	79.1
Jul-01	99.0	117.5	116.3	108.0	170.8	151.3	93.0	82.0	92.9
Oct-01	91.0	98.6	85.3	94.0	105.6	107.2	90.0	64.0	70.7
Jan-02	97.8	88.5	107.0	98.1	85.5	72.0	97.6	90.5	130.0
Apr-02	109.0	106.7	108.5	84.0	115.5	106.8	125.0	100.8	109.6
Jul-02	92.0	92.4	97.4	68.0	96.3	99.4	108.0	89.9	96.1
Oct-02	78.0	74.2	79.6	48.0	70.8	77.2	97.0	76.5	81.1
Jan-03	78.8	74.4	63.0	75.3	63.9	28.0	81.1	81.5	86.0
Apr-03	77.0	66.4	81.0	31.0	52	75.2	108.0	76.0	84.8
Jul-03	77.0	56.8	77.0	41.0	42.8	63.0	101.0	66.2	86.3
Oct-03	82.0	75.5	81.7	36.0	57.4	67.0	112.0	87.6	91.5
Jan-04	91.0	98.2	97.7	48.0	86.5	86.1	119.0	106.1	105.3
Apr-04	89.0	81.2	93.0	53.0	74.8	90.4	113.0	85.5	94.8
Jul-04	97.0	101.4	105.7	66.0	102.9	106.4	119.0	100.3	105.3

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

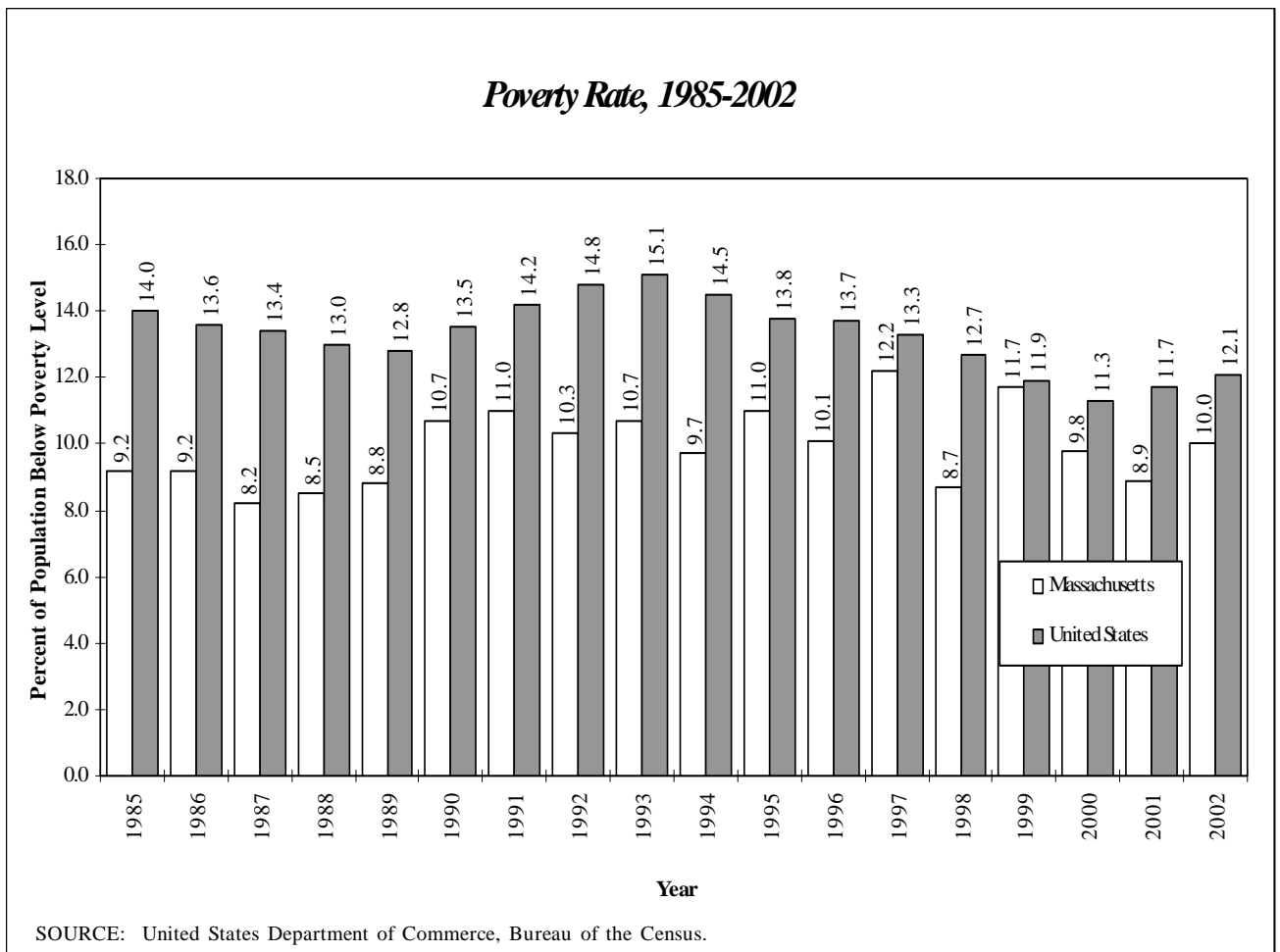
**Consumer Confidence for Massachusetts, New England, and the U.S. January 2000 – July 2004**

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



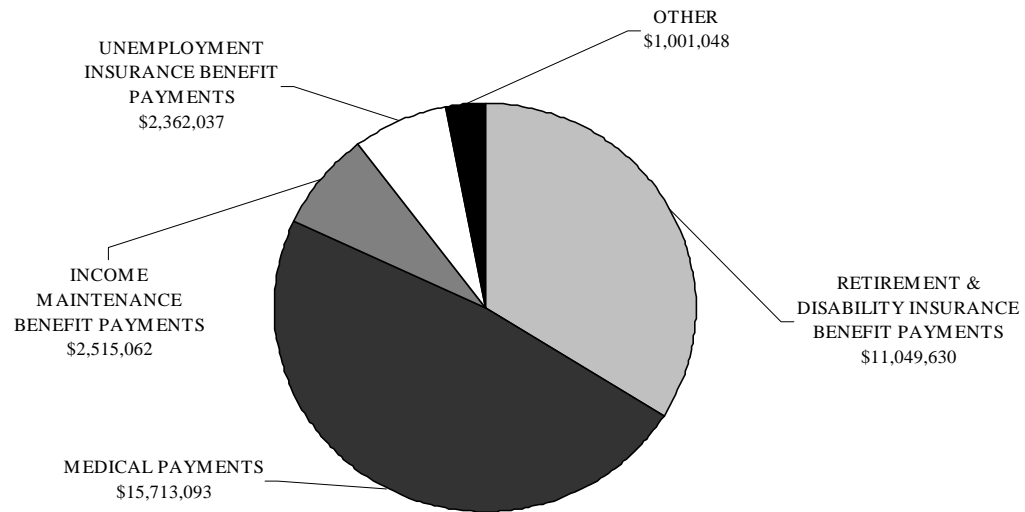
SOURCES: The Conference Board, Inc. (for U.S. and N.E. measures), New England Economic Project (for MA measure).

**Poverty.** The Massachusetts poverty rate remains below the national average. Since 1980, the percentage of the Massachusetts population below the poverty line has varied between 7.7 percent and 12.2 percent. During the same time, the national poverty rate varied between 11.3 percent and 15.1 percent. In 2001, the poverty rate in Massachusetts declined to 8.9 percent while the poverty rate in the United States rose slightly to 11.7 percent. Since 1980, the ratio of the Massachusetts rate of poverty to the United States rate of poverty has varied from a low of 0.51 in 1983 to 0.99 in 1999. These official poverty statistics are not adjusted for regional differences in the cost of living. The following chart illustrates the lower poverty rates in Massachusetts (1985-2002) compared with the national average during similar periods. Poverty estimates for states are not as reliable as national estimates. One should use caution when comparing poverty rate estimates across states, or poverty rates for the same state across years, because their variability is high.



**Transfer Payments.** Transfer payment income is payment to individuals from all levels of government and from businesses, for which no current services are performed, including payments to nonprofit institutions serving individuals. These payments accounted for more than 13 percent of total personal income in Massachusetts in 2002. The chart below does not include transfer payments from business or payments to non-profit organizations. Total transfer payments to individuals in Massachusetts totaled 32.1 billion dollars for 2002.

**Transfer Payments from Governments to Individuals in 2003 – Massachusetts (from Annual State Personal Income Estimates)**  
(thousands of dollars)



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

NOTE: The category "other" includes payments for: veterans benefit payments, federal education and training assistance payments, and other payments to individuals.

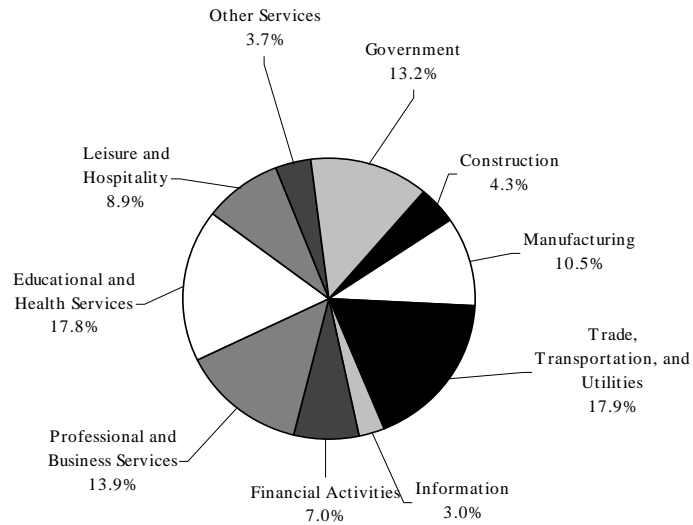
## EMPLOYMENT

***Employment by Industry.*** The charts on the following page show the distribution of non-agricultural payroll employment by industry in Massachusetts for 2002 and 2003 on the new North American Industry Classification System (NAICS) basis, and the corresponding shares for 1990 and 1991, the earliest years for which NAICS data is available. Subsequent versions of this Economic Information section will discuss these new sectors in more detail. Like many industrial states, Massachusetts has seen a steady decline of its manufacturing jobs base over the last two decades, both absolutely and as a share of total employment. Several NAICS service sectors have grown to take the place of manufacturing in driving the Massachusetts economy.

Total non-agricultural employment in Massachusetts declined 2.4 percent in 2002 and another 1.9 percent in 2003. In the first five months of 2004, manufacturing employment (on the seasonally adjusted NAICS basis) declined 2.8 percent from the same period in 2003, a much smaller decline than the annual declines in the previous three years (5.0%, 10.3%, and 6.2% in 2001, 2002, & 2003 respectively.)

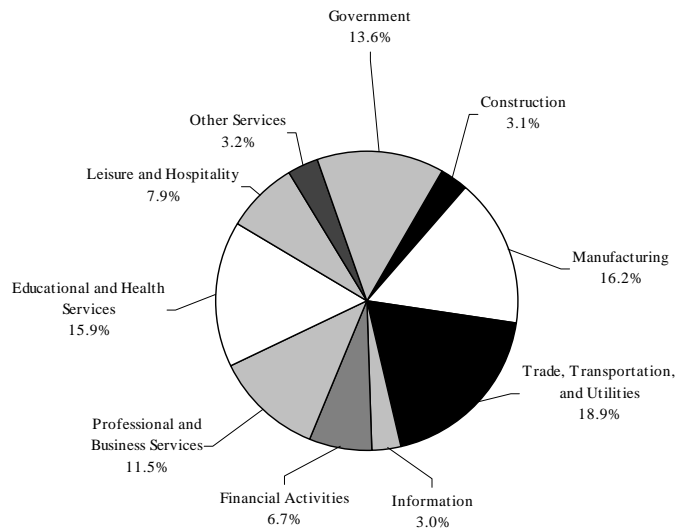
**Massachusetts Non-Farm Payroll Employment  
(NAICS Industry basis)**

**NAICS Super-Sectors: 2002-2003 Average Share**



SOURCE: MA Division of Unemployment Assistance.

**NAICS Super-Sectors: 1990-1991 Average Share**



SOURCE: MA Division of Unemployment Assistance.

***Largest Employers in Massachusetts.*** The following table lists the twenty-five largest employers in Massachusetts based upon employment data for June 2003. The list is unchanged from the previous list based on June 2002.

***Twenty-five Largest Massachusetts Employers in June 2003***  
*(Listed Alphabetically)*

---

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

SOURCE: MA Division of Unemployment Assistance.

**Unemployment.** The economic recession of the early 1990s caused unemployment rates in Massachusetts to rise significantly above the national average, as much as 2.3 points above in 1991. However, since 1994 the unemployment rate in Massachusetts has been consistently below the national average. The following table compares the annual civilian labor force, the number unemployed, and unemployment rates of Massachusetts, the New England states, and the United States between 1970 and 2003.

***Annual Average Civilian Labor Force and Unemployment, 1970-2003***

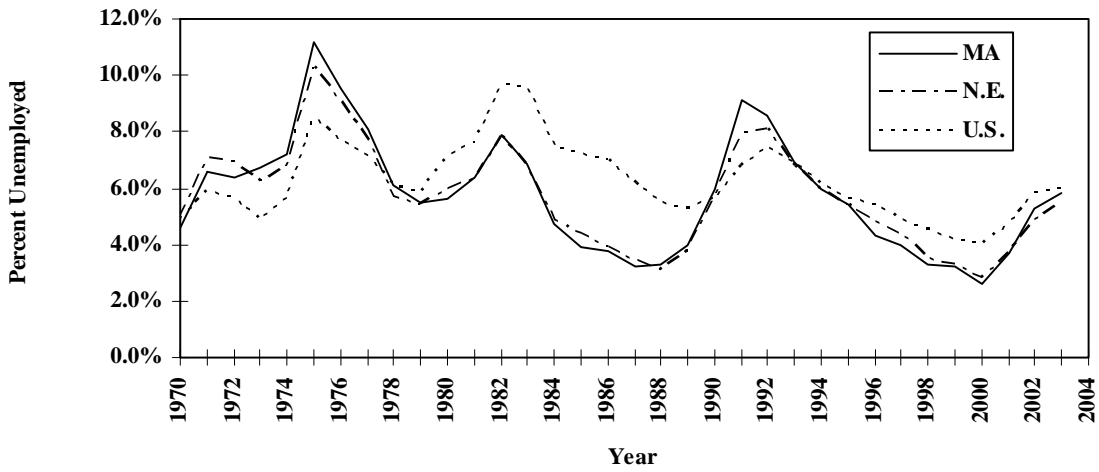
*(in thousands)*

Year	Civilian Labor Force			Unemployed			Unemployment Rate			MA Rate as
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.	Pct. of U.S.
1970	2,458	5,129	82,771	114	256	4,093	4.6%	5.0%	4.9%	93.9%
1971	2,447	5,157	84,382	161	364	5,016	6.6%	7.1%	5.9%	111.9%
1972	2,475	5,261	87,034	160	363	4,882	6.4%	6.9%	5.6%	114.3%
1973	2,549	5,387	89,429	171	336	4,365	6.7%	6.2%	4.9%	136.7%
1974	2,622	5,512	91,949	189	369	5,156	7.2%	6.7%	5.6%	128.6%
1975	2,700	5,634	93,775	306	581	7,929	11.2%	10.3%	8.5%	131.8%
1976	2,727	5,717	96,158	259	519	7,406	9.5%	9.1%	7.7%	123.4%
1977	2,753	5,816	99,009	223	447	6,991	8.1%	7.7%	7.1%	114.1%
1978	2,816	5,908	102,251	171	340	6,202	6.1%	5.7%	6.1%	100.0%
1979	2,871	6,100	104,962	159	332	6,137	5.5%	5.4%	5.8%	94.8%
1980	2,867	6,167	106,940	162	367	7,637	5.6%	6.0%	7.1%	78.9%
1981	2,947	6,260	108,670	187	397	8,273	6.4%	6.3%	7.6%	83.4%
1982	2,993	6,339	110,204	237	495	10,678	7.9%	7.8%	9.7%	81.3%
1983	2,977	6,365	111,550	205	434	10,717	6.9%	6.8%	9.6%	71.5%
1984	3,047	6,549	113,544	145	318	8,539	4.8%	4.9%	7.5%	63.5%
1985	3,051	6,632	115,461	120	292	8,312	3.9%	4.4%	7.2%	54.2%
1986	3,056	6,721	117,834	118	265	8,237	3.8%	3.9%	7.0%	54.3%
1987	3,086	6,829	119,865	99	229	7,425	3.2%	3.4%	6.2%	51.8%
1988	3,155	6,914	121,669	103	216	6,701	3.3%	3.1%	5.5%	60.1%
1989	3,180	6,998	123,869	127	269	6,528	4.0%	3.8%	5.3%	76.2%
1990	3,228	7,147	125,840	195	408	7,047	6.0%	5.7%	5.6%	107.1%
1991	3,162	7,082	126,346	286	569	8,628	9.1%	8.0%	6.8%	133.8%
1992	3,145	7,057	128,105	269	568	9,613	8.6%	8.1%	7.5%	114.7%
1993	3,164	7,025	129,200	219	479	8,940	6.9%	6.8%	6.9%	100.0%
1994	3,173	6,964	131,056	191	412	7,996	6.0%	5.9%	6.1%	98.4%
1995	3,164	6,955	132,304	170	373	7,404	5.4%	5.4%	5.6%	96.4%
1996	3,174	6,996	133,943	137	335	7,236	4.3%	4.8%	5.4%	79.6%
1997	3,260	7,121	136,297	131	314	6,739	4.0%	4.4%	4.9%	81.6%
1998	3,273	7,113	137,673	109	250	6,210	3.3%	3.5%	4.5%	73.3%
1999	3,275	7,171	139,368	105	236	5,880	3.2%	3.3%	4.2%	76.2%
2000	3,318	7,358	140,863	88	203	5,655	2.6%	2.8%	4.0%	65.0%
2001	3,393	7,422	141,815	125	272	6,742	3.7%	3.7%	4.7%	78.7%
2002	3,486	7,565	142,535	185	367	8,266	5.3%	4.9%	5.8%	91.4%
2003	3,416	7,554	146,510	198	409	8,774	5.8%	5.4%	6.0%	96.7%

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



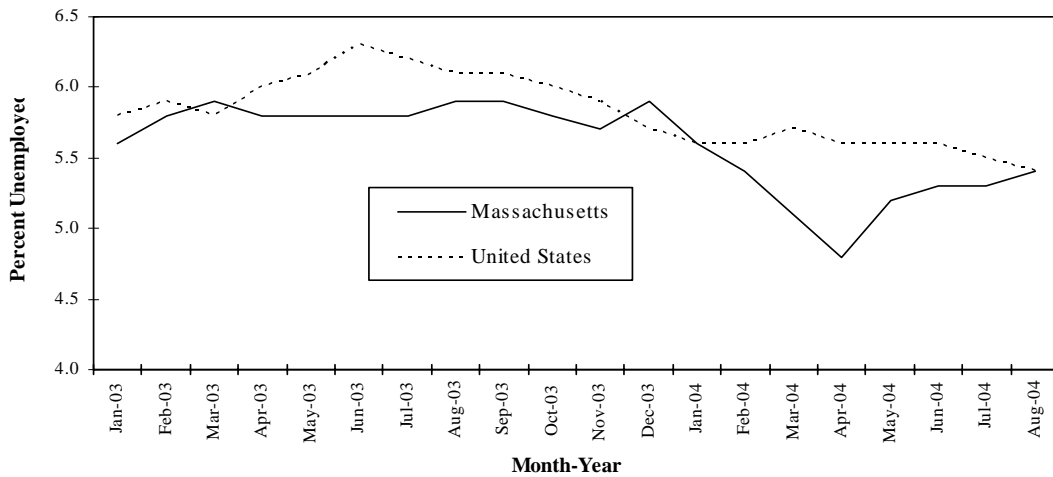
**Annual Average Unemployment Rate, 1970 -2003,  
Massachusetts, New England, and United States**



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

The unemployment rate in Massachusetts has been consistently below that of the United States ever since the recovery from the recession of the early 1990's, with the exception of two months in 2003. Unemployment levels in the United States as a whole and in the New England region have shown similar patterns in the last year, generally rising for much of the year, then falling slightly in recent months. The unemployment rate in Massachusetts dropped from 5.8 to 5.2 percent between May 2003 and May 2004, while the United States unemployment rate dropped from 6.1 to 5.6 percent over those same months. The following chart shows the unemployment rates for Massachusetts and the United States for each of the past seventeen months

**Monthly Unemployment Rate, January 2003 - August 2004**  
(seasonally adjusted)



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

### Help Wanted Advertising Index, 1989-2003

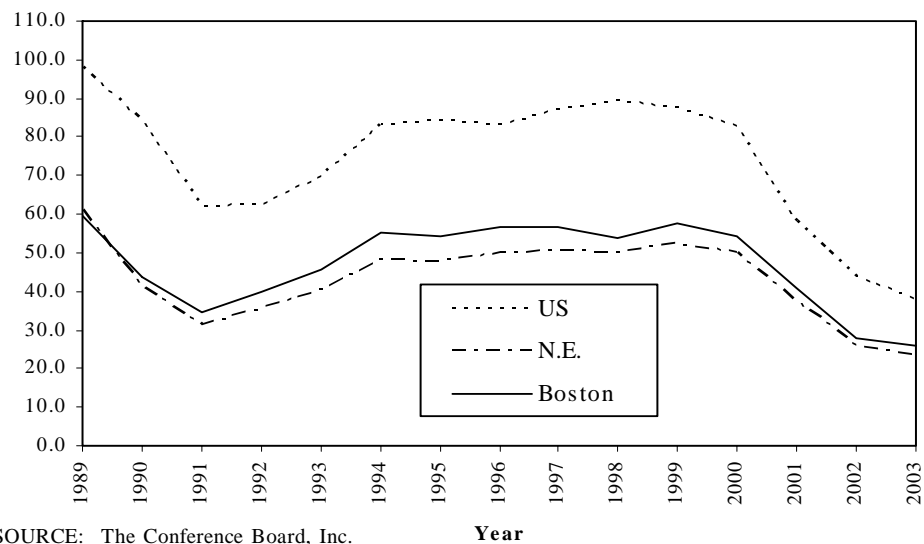
*seasonally adjusted 1987=100*

	US	% Change	N.E.	% Change	Boston	% Change
<b>1989</b>	98.0		60.8		59.5	
<b>1990</b>	83.8	-14.5%	41.5	-31.8%	43.5	-26.9%
<b>1991</b>	62.0	-26.0%	31.0	-25.3%	34.7	-20.3%
<b>1992</b>	62.5	0.8%	35.8	15.3%	39.9	15.1%
<b>1993</b>	69.4	11.1%	40.3	12.6%	45.4	13.8%
<b>1994</b>	82.9	19.4%	48.1	19.5%	55.4	22.0%
<b>1995</b>	84.3	1.6%	47.8	-0.7%	54.5	-1.7%
<b>1996</b>	83.2	-1.3%	49.8	4.2%	56.8	4.3%
<b>1997</b>	87.0	4.6%	50.6	1.7%	56.7	-0.3%
<b>1998</b>	89.4	2.8%	50.0	-1.2%	54.0	-4.7%
<b>1999</b>	87.3	-2.4%	52.4	4.8%	57.8	7.1%
<b>2000</b>	82.4	-5.5%	50.0	-4.6%	54.1	-6.5%
<b>2001</b>	58.3	-29.3%	37.7	-24.7%	40.9	-24.3%
<b>2002</b>	43.8	-24.9%	25.9	-31.2%	28.0	-31.6%
<b>2003</b>	37.8	-13.5%	23.8	-8.4%	25.8	-7.7%

SOURCE: The Conference Board, Inc.

### Help Wanted Advertising Index, 1989-2003

*(seasonally adjusted 1987=100)*

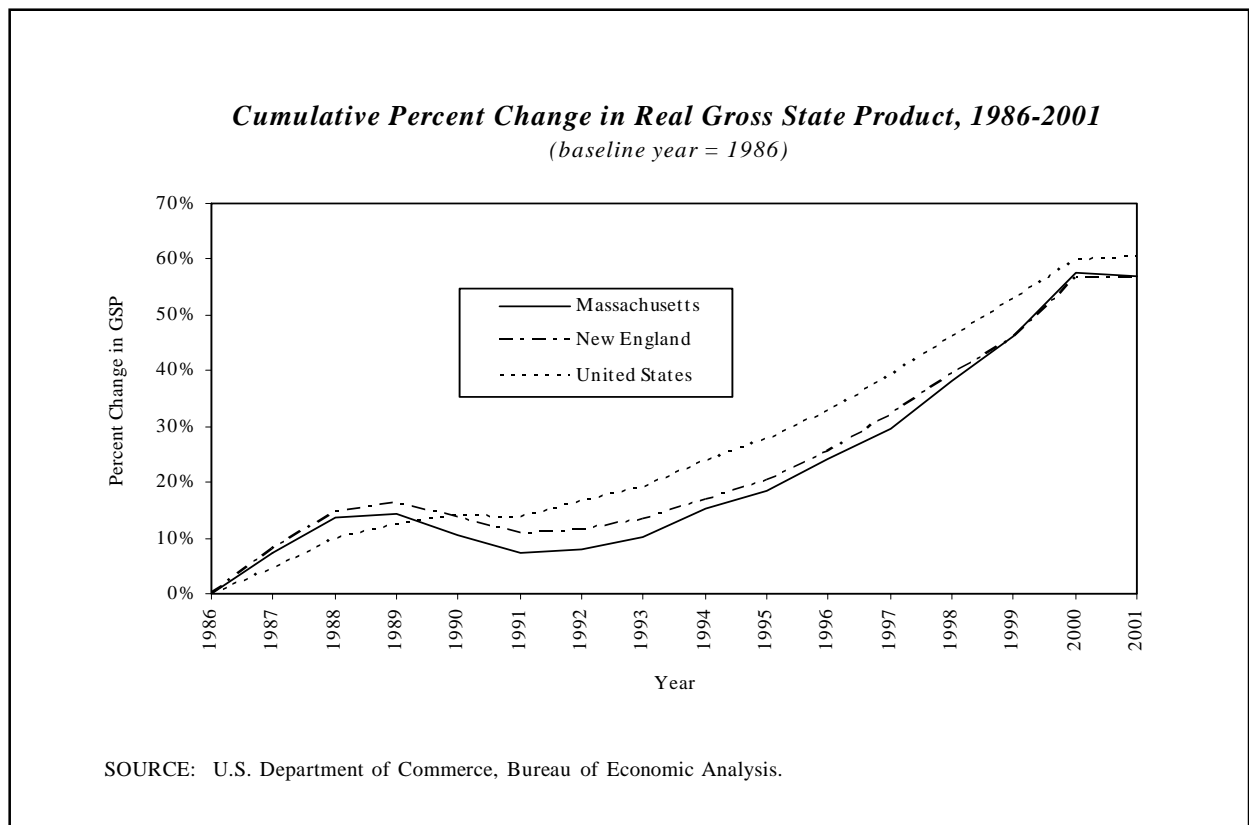


SOURCE: The Conference Board, Inc.

**Unemployment Compensation Trust Fund.** The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide for the payment of benefits to eligible individuals when they become unemployed through no fault of their own. Benefits are paid from the Commonwealth's Unemployment Compensation Trust Fund, financed through employer contributions. The assets and liabilities of the Commonwealth Unemployment Compensation Trust Fund are not assets and liabilities of the Commonwealth. As of May 31, 2004, the Massachusetts Unemployment Trust Fund had an overall surplus of \$210 million, of which the private contributory sector portion was \$132 million, and the Division of Employment and Training's April 2004 quarterly report indicates that the employer contributions to be provided should result in private contributory trust fund system reserves of \$1.475 billion by the end of 2008.

**ECONOMIC BASE AND PERFORMANCE**

In 1987 and 1988, the economies of Massachusetts and New England were among the strongest performers in the nation, with growth rates considerably higher than those for the national economy as a whole. Between 1989 and 1992, however, Massachusetts and New England experienced growth rates significantly below the national average. From 1992 to 1997, growth rates in Massachusetts and New England tracked the U.S. growth rate quite closely. In 1999 and 2000 the economies of both the Commonwealth and the region grew at a faster pace than the nation as a whole. However, both the U.S. and Massachusetts experienced slower growth in 2000 than in 1999, while New England's growth accelerated. Over the decade, growth of the Massachusetts economy averaged 3.9 percent, while New England and the nation have each experienced average growth of 3.5 percent. The Massachusetts economy is the largest in New England, making up an average of 47.7 percent of New England's total Gross State Product and an average of 2.7 percent of the nation's economy over the past decade. In 2001, Massachusetts experienced negative growth in the GSP of 0.4 percent, the first decline since 1991. New England GSP was flat in 2000 and the United States GSP grew by 0.4 percent.



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

### **Gross State Product, 1986-2001**

(millions of chained 1996 dollars)

Year	Massachusetts		New England		United States	
	GSP	Change	GSP	Change	Total GSP	Change
1986	\$169,338		\$350,747		\$5,816,661	
1987	181,855	7.4%	378,136	7.8%	6,072,815	4.4%
1988	192,255	5.7%	401,698	6.2%	6,386,132	5.2%
1989	193,839	0.8%	407,229	1.4%	6,538,634	2.4%
1990	187,167	-3.4%	398,368	-2.2%	6,630,740	1.4%
1991	181,901	-2.8%	388,572	-2.5%	6,615,685	-0.2%
1992	182,789	0.5%	391,385	0.7%	6,774,505	2.4%
1993	186,680	2.1%	397,470	1.6%	6,918,388	2.1%
1994	195,171	4.5%	410,014	3.2%	7,203,002	4.1%
1995	200,537	2.7%	422,524	3.1%	7,433,965	3.2%
1996	210,127	4.8%	439,596	4.0%	7,715,901	3.8%
1997	219,716	4.6%	463,498	5.4%	8,093,396	4.9%
1998	233,981	6.5%	488,673	5.4%	8,502,663	5.1%
1999	247,354	5.7%	511,623	4.7%	8,882,613	4.5%
2000	266,840	7.9%	549,341	7.4%	9,298,227	4.7%
2001	265,722	-0.4%	549,472	0.0%	9,335,399	0.4%

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

Chained dollars are utilized by the Bureau of Economic Analysis as a measure of real GSP.

The annual revision of BEA's gross state product (GSP) estimates for 1999-2000 and new estimates for 2001 were completed and released in May 2003.

The commercial base of Massachusetts is anchored by the fourteen 2003 Fortune 500 industrial and service firms headquartered within the state, as the following table indicates. The Fortune 500 firms are ranked according to total revenues in 2003. All companies listed in the 2003 Fortune 500 are also in the 2004. Nine out of thirteen companies improved their rank and Boston Scientific was added at 478.

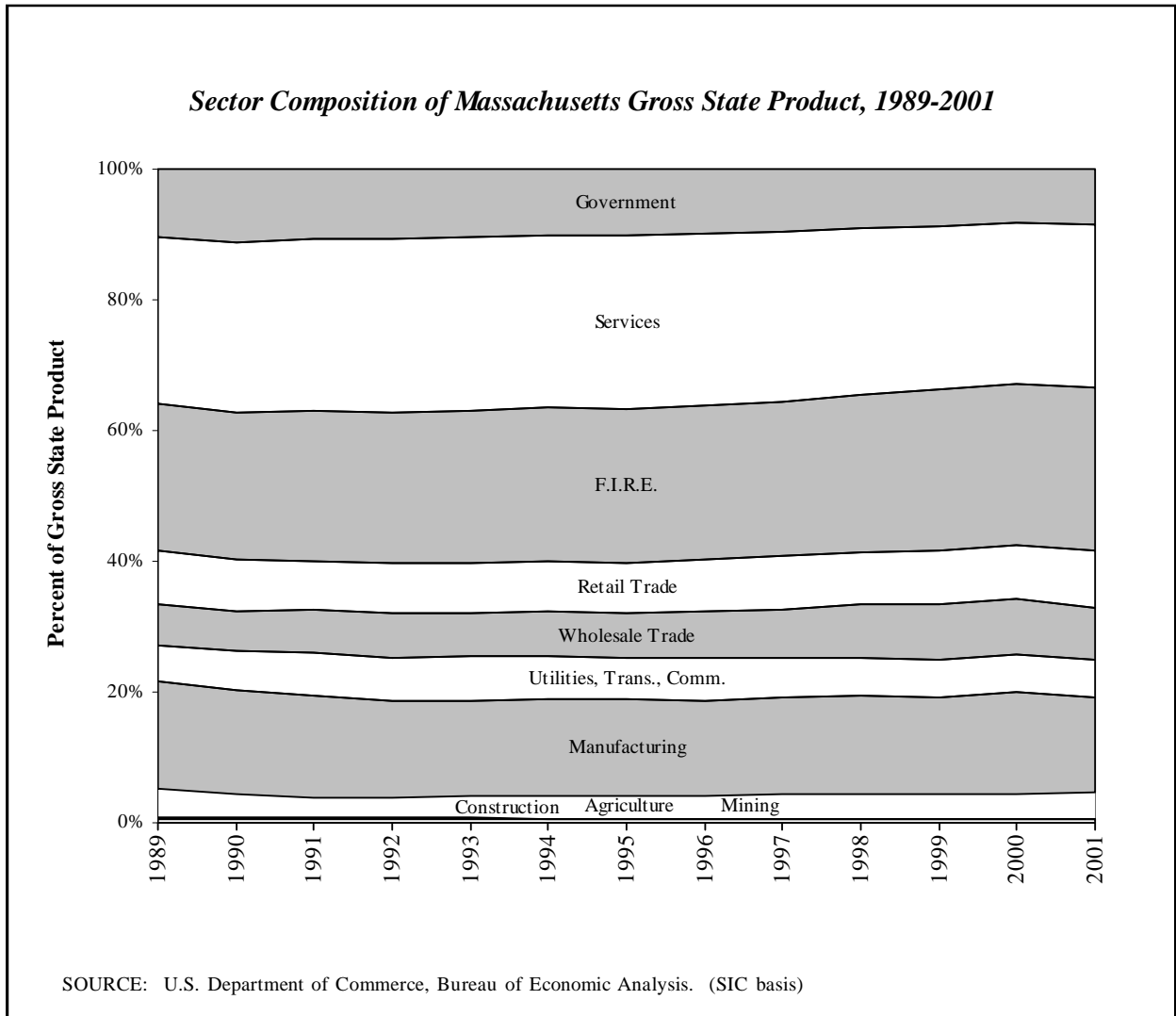
### **Massachusetts Companies in the 2004 Fortune 500**

Rank		Company	Industry	2003 revenues (millions)
2004	2003			
90	84	Mass. Mutual Life Insurance (Springfield)	Insurance: Life and Health (Mutual)	\$21,080
107	105	Raytheon (Lexington)	Aerospace	18,109
116	129	Liberty Mutual Group (Boston)	Insurance: Property and Casualty (Mutual)	16,914
140	115	FleetBoston (Boston)	Commercial Banks	14,362
148	161	TJX (Framingham)	Specialty Retailers	13,328
152	165	Staples (Framingham)	Specialty Retailers	13,181
192	208	John Hancock Financial Services (Boston)	Insurance: Life and Health (Stock)	10,071
215	218	Gillette (Boston)	Metal Products	9,252
277	295	BJ's Wholesale Club (Natick)	Specialty Retailers	6,724
299	308	EMC (Hopkinton)	Computer Peripherals	6,237
330	340	State Street Boston Corp. (Boston)	Commercial Banks	5,463
477	483	Reebok International (Canton)	Apparel	3,485
478	--	Boston Scientific (Natick)	Medical Products & Equipment	3,476
494	456	Allmerica Financial (Worcester)	Insurance: Property and Casualty (Stock)	3,264

SOURCE: *Fortune*, April 5, 2004.

**ECONOMIC BASE AND PERFORMANCE - SECTOR DETAIL (SIC BASIS)**

The economy of Massachusetts remains diversified among several industrial and non-industrial sectors. The three largest sectors of the economy (services, F.I.R.E., and manufacturing on the old S.I.C. basis) contributed a 64.5 percent of the GSP in 2001, the same as their combined contribution in 1990. The next release of the GSP will be on a NAICS basis. The data below show the contributions to the Massachusetts real Gross State Product of all industrial and non-industrial sectors.



### *Gross State Product by Industry in Massachusetts, 1992-2001*

*(millions of chained 1996 dollars)*

<b>Industrial Sector</b>	<b>1992</b>	<b>1993</b>	<b>1994</b>	<b>1995</b>	<b>1996</b>	<b>1997</b>	<b>1998</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>
<b>Ag., Forestry, Fishing</b>	\$1,173	\$1,194	\$1,124	\$1,098	\$1,143	\$1,280	\$1,263	\$1,362	\$1,465	\$1,539
<b>Mining</b>	99	94	107	97	94	82	88	79	92	97
<b>Construction</b>	5,696	6,130	6,753	6,933	7,477	8,026	8,780	9,479	10,136	10,469
<b>Manufacturing</b>	27,281	27,402	28,789	29,835	30,687	32,813	35,486	36,688	41,808	38,543
<b>Trans., Util., Comm.</b>	11,940	12,621	13,035	12,683	13,334	13,063	13,245	14,034	15,354	15,354
<b>Wholesale Trade</b>	12,457	12,548	13,367	13,645	15,100	16,677	19,131	21,411	22,885	21,385
<b>Retail Trade</b>	13,791	13,996	14,695	15,163	16,591	17,683	19,228	20,219	22,039	23,243
<b>F.I.R.E.</b>	42,213	43,415	46,077	47,742	49,536	51,595	56,158	60,732	65,517	66,609
<b>Services</b>	48,822	49,610	51,261	53,055	55,508	57,576	59,717	61,867	66,263	66,268
<b>Government</b>	19,285	19,690	19,969	20,315	20,657	20,968	21,135	21,872	22,092	22,292
<b>Total GSP</b>	182,789	186,680	195,171	200,537	210,127	219,716	233,981	247,354	266,840	265,722

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis. (SIC basis)

**Finance, Insurance, Real Estate.** The F.I.R.E. sector, the second largest contributor to the Massachusetts Gross State Product over the last decade, took the leading position in 2001 at 25.1 percent of GSP. In 2000, it contributed 24.0 percent of the Gross State Product. The sector has experienced yearly growth since the declines of 1989 to 1991, and was the only one of the top three sectors to grow in 2001, increasing by 1.7 percent over 2000.

**Services.** In 2001, the services sector, long the largest contributor to the Massachusetts Gross State Product, lost its leading position as it declined slightly in real terms from its 2000 level to represent 24.9 percent of GSP. After a period of stagnation and slight decline from 1989 to 1991, the sector showed solid growth through the 1990s and a 7.1 percent jump in 2000, but no growth in 2001.

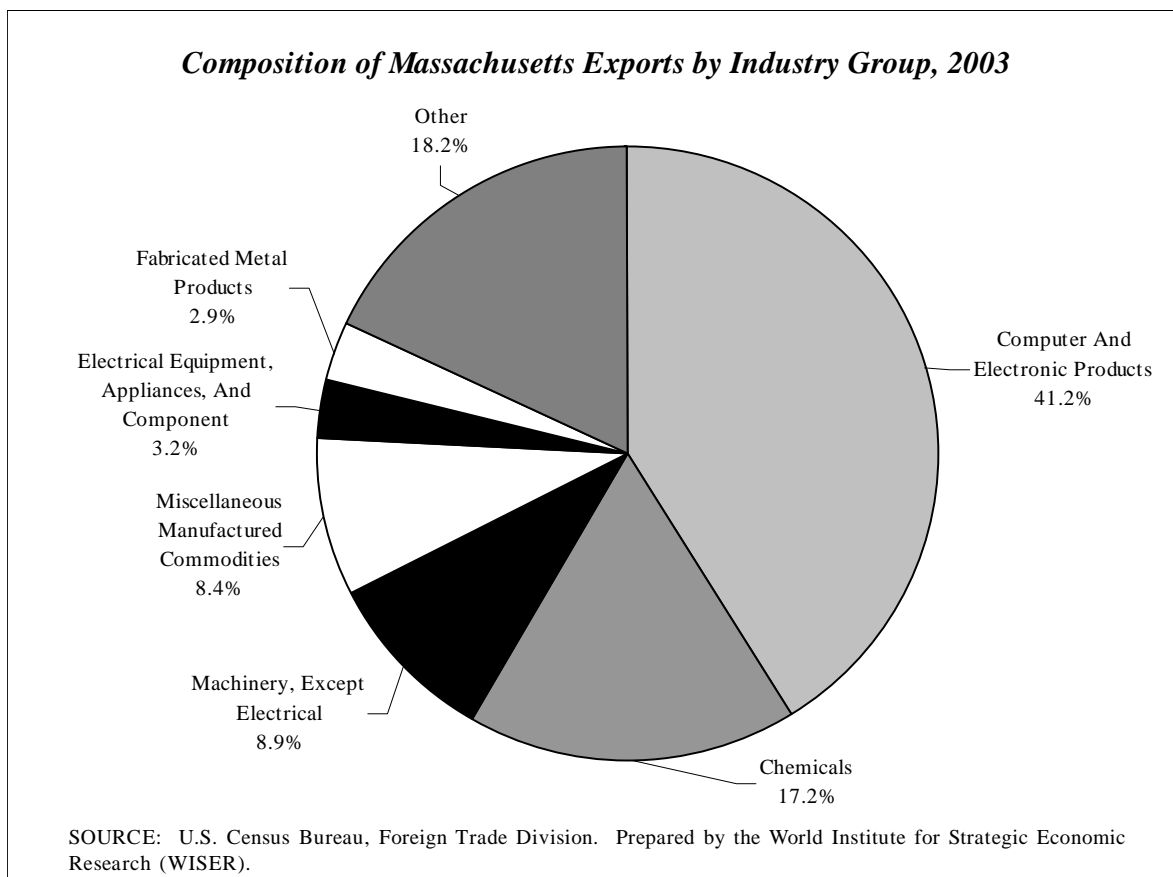
**Manufacturing.** The manufacturing sector was the third largest contributor to the Massachusetts Gross State Product in 2000, contributing 14.5 percent of the Gross State Product. Manufacturing in New England was hit hard during the recession of 1989-1991, and posted only moderate growth during the mid-nineties. The manufacturing sector grew at least 6.9 percent in three of the years from 1997 to 2000, including a gain of 14.0 percent in 2000, but suffered a 7.8 percent decline in 2001.

**Wholesale and Retail Trade.** Combined, the wholesale and retail trade sectors contributed 16.7 percent of the Massachusetts Gross State Product in 2001, with each sub-sector contributing almost equally to the total. Growth in the wholesale trade sector rebounded in 1991 and varied through the early 1990s but was very strong in the period from 1996 to 1999, increasing by more than 10 percent in each of those years. Growth of 6.9 percent in 2000 was offset by a decline of 6.6 percent in 2001, returning to 1999 levels. The retail sector was harder hit during the 1989-1991 recession, and did not rebound as quickly, with annual growth not exceeding 1.5 percent until 1994. In each of the six years from 1996 to 2001, however, retail growth exceeded 5 percent, including a 5.5 percent increase in 2001.

**Trade and International Trade.** A significant portion of what Massachusetts produces is exported internationally. Massachusetts ranked 10<sup>th</sup> in the United States, and first in New England, with \$18.7 billion in international exports in 2003. This represents an 11.7 percent increase from the previous year's exports from the Commonwealth, while national exports increased by 4.4 percent in the same period. Through July 2004, Massachusetts's exports totaled \$12.76 billion, an increase of 21.9 percent compared with exports in the first seven months of 2003. National exports were up 13.4 percent in the same period. It is not possible to provide balance of trade comparisons for Massachusetts because import data are not compiled on a state-by-state basis.

Massachusetts' five most important trading partners for 2003 were: Canada, with \$2.64 billion in purchases of Massachusetts exports; the Netherlands, with \$1.76 billion; Japan, with \$1.64 billion; Germany, with \$1.60 billion; and the United Kingdom, with \$1.43 billion in purchases. Between 2002 and 2003, the most significant growth in Massachusetts's exports among its top ten trading partners was in exports to the Netherlands, Malaysia and the Philippines, which increased by 66.9 percent, 74.9 percent and 63.9 percent, respectively.

Massachusetts' most important exports, as shown in the following chart, are computer and electronic products, chemical products, and non-electrical machinery. These categories reflect the adoption of the NAICS classification system, which groups computers with electronic products, rather than with machinery.



### *Value of International Shipments from Massachusetts, 1997-2003*

*(top ten industry groups ranked by value of 2003 sales, in millions)*

<i>Major Industry Group</i>	<i>1997</i>	<i>1998</i>	<i>1999</i>	<i>2000</i>	<i>2001</i>	<i>2002</i>	<i>2003</i>
Computer And Electronic Products	\$7,857	\$7,458	\$8,056	\$10,215	\$8,122	\$7,024	\$7,688
Chemicals	\$1,174	\$1,223	\$1,357	\$1,600	\$1,534	\$2,267	\$3,216
Machinery, Except Electrical	\$1,885	\$1,694	\$1,705	\$2,545	\$2,044	\$1,786	\$1,668
Miscellaneous Manufactured Commodities	\$768	\$835	\$925	\$1,053	\$1,213	\$1,210	\$1,571
Electrical Equipment, Appliances, And Component	\$570	\$596	\$720	\$834	\$691	\$649	\$592
Fabricated Metal Products	\$748	\$597	\$601	\$649	\$569	\$692	\$539
Primary Metal Manufacturing	\$282	\$335	\$283	\$358	\$272	\$248	\$425
Transportation Equipment	\$655	\$637	\$698	\$659	\$449	\$346	\$383
Plastics And Rubber Products	\$323	\$357	\$389	\$374	\$400	\$406	\$375
Paper	\$311	\$334	\$364	\$435	\$386	\$373	\$355
<b>Total Exports, Top Massachusetts Industries</b>	<b>\$14,574</b>	<b>\$14,065</b>	<b>\$15,098</b>	<b>\$18,722</b>	<b>\$15,679</b>	<b>\$15,002</b>	<b>\$16,812</b>
<b>Total Massachusetts Exports</b>	<b>\$16,526</b>	<b>\$15,878</b>	<b>\$16,805</b>	<b>\$20,514</b>	<b>\$17,490</b>	<b>\$16,708</b>	<b>\$18,663</b>
<b>Percent Change from Prior Year</b>		<b>-3.9%</b>	<b>5.8%</b>	<b>22.1%</b>	<b>-14.7%</b>	<b>-4.5%</b>	<b>11.7%</b>

SOURCE: World Institute for Strategic Economic Research (WISER). These figures reflect the changeover in export statistics reporting to the NAICS system from the SIC system. Categories and state totals are not comparable between systems. Pre-1997 data is not available.

**Transportation and Warehousing, and Utilities.** Massachusetts's major air and seaports are managed by the Massachusetts Port Authority (Massport), an independent public authority. Massport reported fiscal 2003 operating income of \$25.4 million (up 49 percent from fiscal 2002), with operating revenues up 18 percent (\$373.8 million in 2003 versus \$317.9 million in 2002) and operating costs up 16 percent (\$348.4 million in 2003 versus \$300.9 million in 2002).

In fiscal 2003, 22.5 million passengers (a 2.1 percent decrease from fiscal 2002) passed through Logan. Based on total passenger volume in calendar year 2002 data, Logan Airport was the most active airport in New England, the 20th most active in the U.S. and the 37th most active in the world, according to the Airports Council International (ACI). As of June 30, 2003, airline service at Logan, both scheduled and unscheduled, was provided by 54 airlines, including 7 U.S. major air carrier airlines, 17 non-U.S. flag carriers, and 12 regional and commuter airlines. JetBlue Airways commenced service from Logan January 7, 2004.

According to ACI, in calendar year 2002, Logan Airport ranked 17th in the nation in total air cargo volume. In fiscal year 2003, the airport handled more than 818 million pounds of cargo and mail (a 2.9 percent decrease from FY 2002). As of June 30, 2003, Logan was served by 9 all-cargo and small package/express carriers.

At Massport's Port of Boston properties, 2003 cargo throughput was 13.2 million metric tons (a 18.5 percent increase from 2002), automobile processing decreased 81 percent to 12,578 units, and cruise passenger trips decreased 4.4 percent to 200,352. Massachusetts total waterborne cargo shipped or received in 2002, from the Army Corps of Engineers data, decreased 1.2 percent (26,117 short tons), as did New England and the U.S., 3.9 and 1.9 percent respectively.



**Construction and Housing.** In 2001, construction activity contributed 3.9 percent of the Massachusetts Gross State Product. This sector experienced a significant decline between 1989 and 1991, with declines as large as 19.6 percent and 17.2 percent in 1990 and 1991. Beginning in 1992, however, the sector rebounded and has grown every year since, and by at least 6.9 percent in each year from 1995 to 2000. Growth tapered to 3.3 percent in 2001.

The following table shows the number of housing permits authorized on an annual basis in Massachusetts, New England, and the United States. Between 1983 and 1986, both Massachusetts and New England experienced strong growth in the number of housing permits authorized. This period was followed by a prolonged decline from 1987 to 1991 during which the number of housing permits authorized in Massachusetts declined by 71.2 percent. With the exception of a 12.9 percent drop in 1995, Massachusetts housing permit authorizations increased each year from 1992 to 1999, for a total increase in that period of 50.3 percent. All three regions experienced declines in 2000, and Massachusetts and New England saw continuing, if milder, decreases in authorizations for 2001. All regions experienced growth in 2002 and 2003, with New England surging by 14.2 percent from 2001, Massachusetts rebounding with 11.5 percent growth, while nationwide growth in authorizations was similar at 12.1 percent.

### *Housing Permits Authorized, 1969-2003*

<i>Year</i>	<i>Massachusetts</i>		<i>New England</i>		<i>United States</i>	
	<i>Total Permits</i>	<i>Percent Change</i>	<i>Total Permits</i>	<i>Percent Change</i>	<i>Total Permits</i>	<i>Percent Change</i>
<b>1969</b>	33,572		70,539		1,330,161	
<b>1970</b>	38,330	14.2%	74,068	5.0%	1,354,746	1.8%
<b>1975</b>	17,697	-27.5%	41,645	-21.0%	934,511	-12.4%
<b>1980</b>	16,055	-20.4%	40,195	-25.1%	1,171,763	-23.6%
<b>1981</b>	15,599	-2.8%	38,067	-5.3%	985,600	-15.9%
<b>1982</b>	15,958	2.3%	39,470	3.7%	1,000,500	1.5%
<b>1983</b>	22,950	43.8%	57,567	45.9%	1,605,221	60.4%
<b>1984</b>	28,471	24.1%	72,356	25.7%	1,689,667	5.3%
<b>1985</b>	39,360	38.2%	96,832	33.8%	1,732,335	2.5%
<b>1986</b>	43,877	11.5%	108,272	11.8%	1,771,832	2.3%
<b>1987</b>	40,018	-8.8%	101,222	-6.5%	1,542,499	-12.9%
<b>1988</b>	31,766	-20.6%	82,123	-18.9%	1,450,583	-6.0%
<b>1989</b>	21,634	-31.9%	53,543	-34.8%	1,345,084	-7.3%
<b>1990</b>	15,276	-29.4%	36,811	-31.2%	1,125,583	-16.3%
<b>1991</b>	12,624	-17.4%	31,111	-15.5%	953,834	-15.3%
<b>1992</b>	16,346	29.5%	36,876	18.5%	1,105,083	15.9%
<b>1993</b>	17,715	8.4%	39,225	6.4%	1,210,000	9.5%
<b>1994</b>	18,302	3.3%	40,459	3.1%	1,366,916	13.0%
<b>1995</b>	15,946	-12.9%	37,357	-7.7%	1,335,835	-2.3%
<b>1996</b>	17,360	8.9%	40,425	8.2%	1,419,083	6.2%
<b>1997</b>	17,554	1.1%	42,047	4.0%	1,442,251	1.6%
<b>1998</b>	18,958	8.0%	47,342	12.6%	1,619,500	12.3%
<b>1999</b>	18,977	0.1%	47,379	0.1%	1,663,916	2.7%
<b>2000</b>	17,342	-8.6%	43,735	-7.7%	1,598,332	-3.9%
<b>2001</b>	16,654	-4.0%	42,786	-2.2%	1,636,700	2.4%
<b>2002</b>	17,122	2.8%	47,173	10.3%	1,747,600	6.8%
<b>2003</b>	18,574	8.5%	48,845	3.5%	1,889,400	8.1%

SOURCES: Federal Reserve Bank of Boston; United States Department of Commerce.

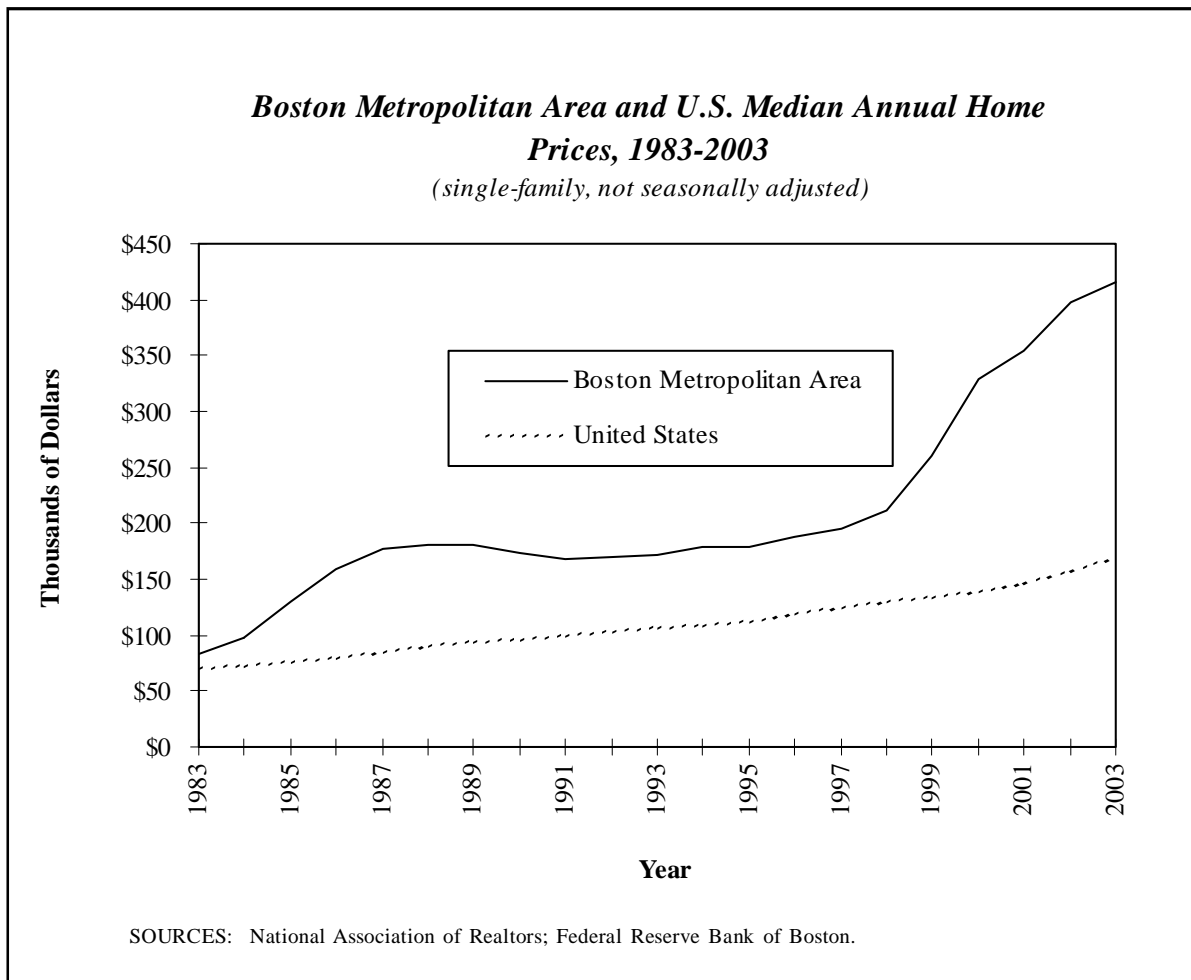
Both the economic recession of 1990-1991 and the subsequent economic recovery were strongly reflected in the Massachusetts housing sector, but the recession that began in 2001 has had a less pronounced impact on home sales. Significant declines in existing home sales in Massachusetts in 1989 and 1990 (of 10.9 percent and 28.8 percent, respectively) were followed by rapid sales growth between 1991 and 1993, when home sales in Massachusetts increased at a yearly rate substantially higher than the national average. Following this period of rapid growth, the growth in existing home sales slowed to a rate of 0.7 percent in 1994 and declined 2.6 percent in 1995. In 1996, 1997, and 1998, however, growth in existing home sales in Massachusetts was significant, outpacing the New England and national average in 1996 and 1997 with rates of 16.6 percent and 11.0 percent, respectively. This strong growth ended in 1999 when existing home sales in the Commonwealth declined 1.3 percent while growth in existing home sales nationally was 6.0 percent. In 2000, existing home sales in Massachusetts declined by 10 percent and did not start growing again until 2002. On a seasonally adjusted annual basis, existing home sales for the Commonwealth, New England, and the United States appear in the following table.

**Existing Home Sales, 1981-2003**  
(seasonally adjusted annual rates, in thousands)

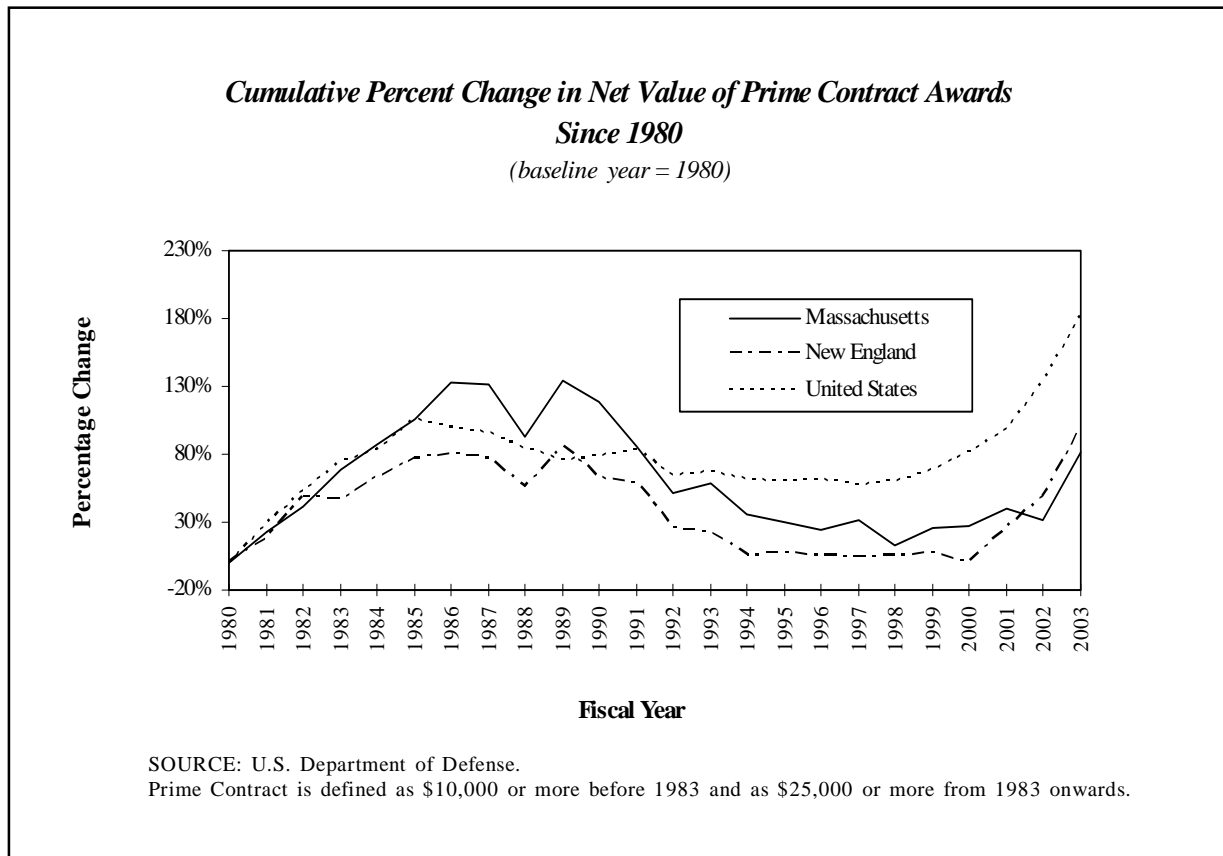
Year	Massachusetts		New England		United States	
	Sales	% Change	Sales	% Change	Sales	% Change
1981	43.0		105.8		2,575.0	
1982	42.6	-0.8%	98.6	-6.9%	2,117.5	-17.8%
1983	59.2	39.0%	141.3	43.3%	2,875.0	35.8%
1984	54.9	-7.3%	140.7	-0.4%	3,027.5	5.3%
1985	60.2	9.7%	157.0	11.6%	3,382.5	11.7%
1986	67.0	11.3%	169.2	7.8%	3,772.5	11.5%
1987	76.4	14.1%	174.5	3.1%	3,767.5	-0.1%
1988	76.6	0.2%	178.5	2.3%	3,882.5	3.1%
1989	68.2	-10.9%	163.0	-8.7%	3,672.0	-5.4%
1990	48.6	-28.8%	134.0	-17.8%	3,603.5	-1.9%
1991	53.4	10.0%	140.5	4.9%	3,533.3	-1.9%
1992	62.5	17.0%	170.6	21.4%	3,889.5	10.1%
1993	70.9	13.4%	193.8	13.6%	4,220.3	8.5%
1994	71.4	0.7%	200.3	3.4%	4,409.8	4.5%
1995	69.6	-2.6%	185.7	-7.3%	4,342.3	-1.5%
1996	81.2	16.6%	200.7	8.1%	4,705.3	8.4%
1997	90.1	11.0%	219.4	9.3%	4,908.8	4.3%
1998	99.9	10.8%	248.3	13.2%	5,585.3	13.8%
1999	98.5	-1.3%	253.3	2.0%	5,922.8	6.0%
2000	88.7	-10.0%	242.0	-4.4%	5,831.8	-1.5%
2001	87.5	-1.4%	239.6	-1.0%	6,026.3	3.3%
2002	91.9	5.0%	244.5	2.0%	6,421.3	6.6%
2003	96.5	5.0%	279.2	14.2%	6,994.8	8.9%

SOURCES: Federal Reserve Bank of Boston; National Association of Realtors. Revised May 2004  
N/A: Not Available

Median single-family home prices for the Boston Metropolitan area appear below. While Boston housing prices were 118.1 percent of the U.S. median in 1983, by 1987 Boston housing prices as a percent of the national median had reached 205.7 percent. After dipping to 160.9 percent of the national median in 1993 and remaining as low as 162.9 percent of the national median in 1998, Boston home prices soared to 237 percent of the national median in the fourth quarter of 2003. The Boston metropolitan area median home price rose to \$406,800 in the fourth quarter of 2003, compared to the national home price of \$171,600.



**Defense.** Following a peak at \$8.7 billion in the value of military prime contracts awarded to Massachusetts firms in fiscal 1986, defense-related contracts declined 17.2 percent by fiscal 1988 to \$7.2 billion. By fiscal 1995, the value of defense-related prime contracts had declined to \$4.8 billion. The net value of prime contract awards in Massachusetts oscillated between \$4.2 and \$4.9 billion from 1995 to 2000, but jumped 10.8 percent in 2001 to reach \$5.2 billion. The chart below illustrates the yearly changes in the value of Massachusetts military prime contracts from 1981 to 2003.



The importance of the defense industry to the Massachusetts economy is reflected in table on the following page, which shows the value of Department of Defense prime contract awards between 1980 and 2003. Since the early 1980s, the Commonwealth's share of New England's prime contract awards had remained around or above 50 percent. In 1998, Massachusetts' share of New England's prime contract awards dipped to 45.7 percent and in 1999, the Commonwealth's share recovered only some of its losses, rising to 49.9 percent. In 2000, the Commonwealth's share of New England's prime contract awards rose to a recent peak of 54.2 percent, but large increases elsewhere in New England in 2001 offset the Massachusetts increase and pushed the Commonwealth's share in the region back down to 47.3 percent. In 2002, the Commonwealth's share of the national total reached its lowest point in over two decades, but increased slightly to 3.6 percent in 2003 due to a \$1.6 billion increase in aircraft engine, missile and space system, services and weapons procurement contracts. Despite this trend, Massachusetts remains the eighth largest recipient in defense spending.

**Net Value of Department of Defense Prime Contract Awards, 1980-2003**

*(in millions)*

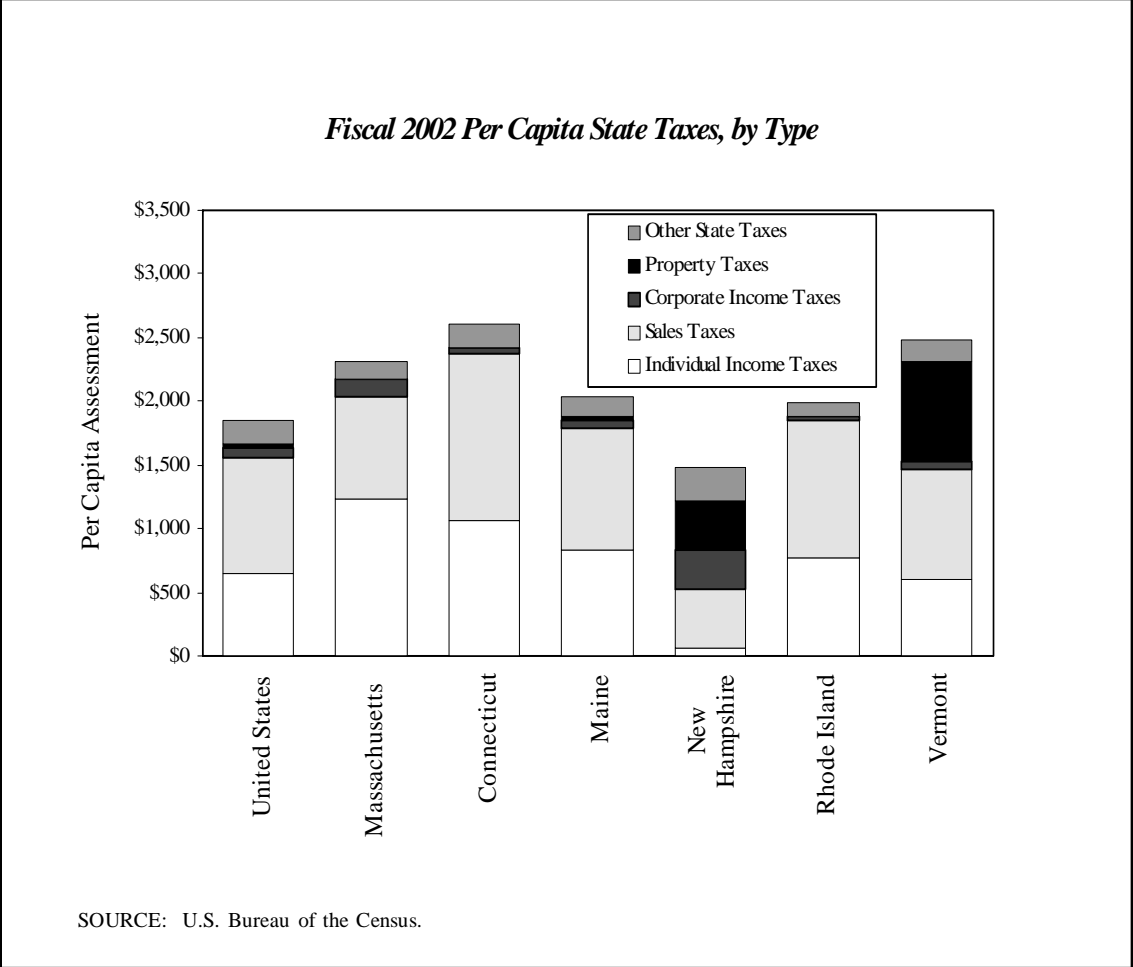
Fiscal Year	MA	N.E.	U.S.	Massachusetts' Share (as a Percent)	
				of New England	of U.S.
1980*	\$3,743	\$8,775	\$68,070	42.7%	5.5%
1981*	4,605	10,372	87,761	44.4%	5.2%
1982*	5,317	13,037	103,858	40.8%	5.1%
1983	6,328	12,967	118,744	48.8%	5.3%
1984	7,029	14,249	123,995	49.3%	5.7%
1985	7,714	15,487	140,096	49.8%	5.5%
1986	8,735	15,748	136,026	55.5%	6.4%
1987	8,685	15,606	133,262	55.7%	6.5%
1988	7,212	13,673	125,767	52.7%	5.7%
1989	8,757	16,268	119,917	53.8%	7.3%
1990	8,166	14,271	121,254	57.2%	6.7%
1991	6,933	13,889	124,119	49.9%	5.6%
1992	5,686	11,033	112,285	51.5%	5.1%
1993	5,936	10,779	114,145	55.1%	5.2%
1994	5,106	9,329	110,316	54.7%	4.6%
1995	4,846	9,375	109,005	51.7%	4.4%
1996	4,675	9,237	109,408	50.6%	4.3%
1997	4,910	9,152	106,561	53.6%	4.6%
1998	4,245	9,284	109,386	45.7%	3.9%
1999	4,715	9,456	114,875	49.9%	4.1%
2000	4,737	8,745	123,295	54.2%	3.8%
2001	5,248	11,094	135,225	47.3%	3.9%
2002	4,929	13,029	158,737	37.8%	3.1%
2003	6,800	17,544	191,221	38.8%	3.6%

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

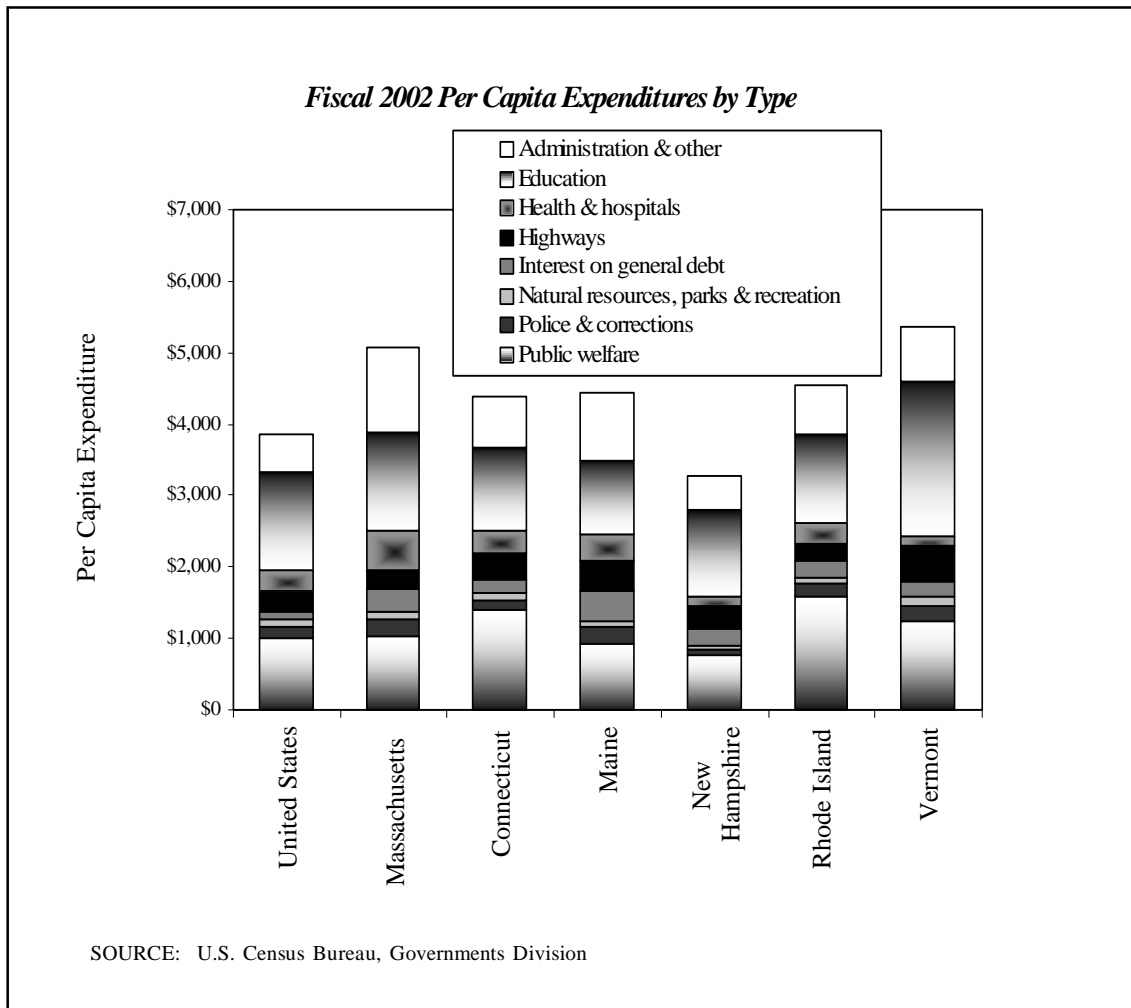
**Travel and Tourism.** The travel and tourism industry represents a substantial component of the overall Massachusetts economy. Massachusetts is one of the nation's most popular tourist and travel destinations for both domestic and international visitors. The greater Boston area is New England's most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

The Massachusetts Office of Travel and Tourism estimates that 24.3 million domestic travelers traveled to or within the Commonwealth in 2002, a decrease of 6.9 percent from 2001. Additionally, 1.8 million international travelers visited Massachusetts in 2002. Leisure is the primary reason for 77 percent of tourist trips to Massachusetts. The latest available economic impact data indicates that direct spending by visitors to Massachusetts totaled \$11.7 billion in 2001, a decrease of 12.0 percent from the 2000 level.

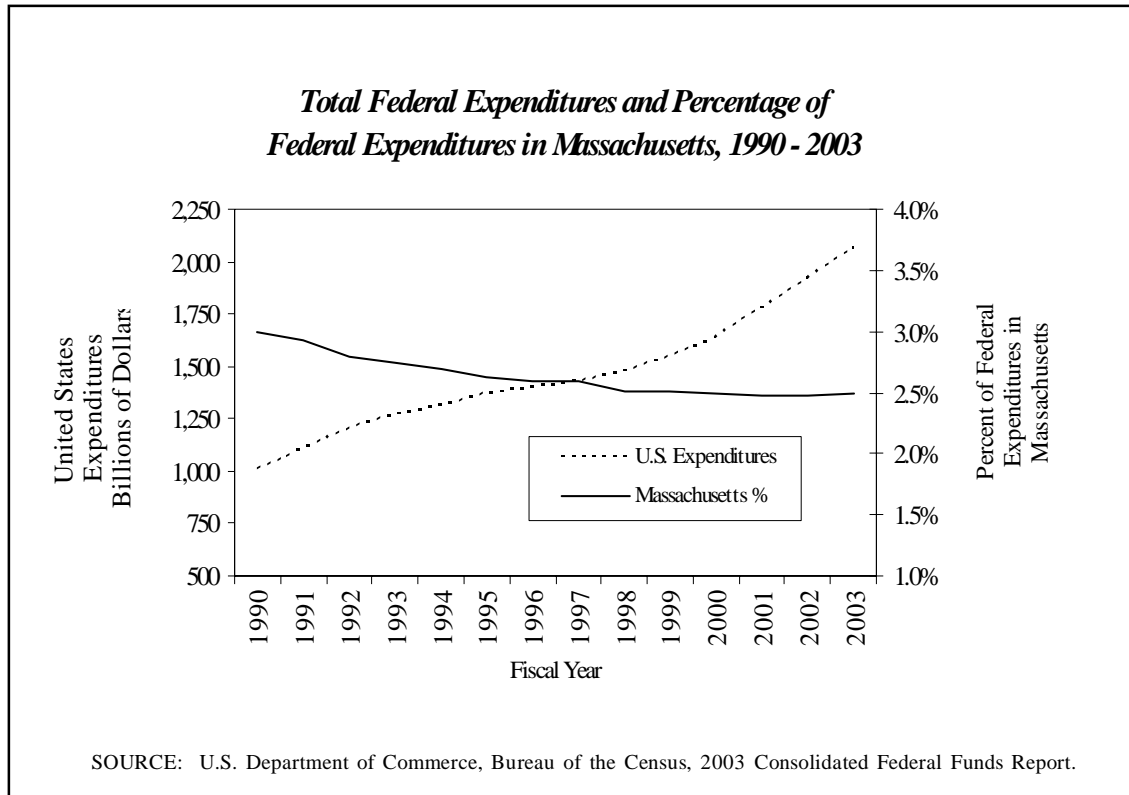
**State Taxes.** State taxes in Massachusetts are significantly higher than the national average. In 2002, the total per capita state tax bill in the United States was \$1,860. Citizens of the Commonwealth, however, paid \$2,308 on average, the sixth highest rate in the nation. In New England, citizens in Connecticut and Vermont paid more per capita, and all New England states except New Hampshire, 43rd, ranked the top 15 for per capita state tax collections. Over half of the state taxes in Massachusetts come from the state income tax. Per capita individual income taxes in Massachusetts were \$1,332. Across the New England states, there is wide variation in both total per capita state taxes and in the breakdown of those taxes, as illustrated in the following chart.



**State Government Spending in Massachusetts.** The following chart depicts fiscal 2002 per capita state expenditures by category for the six New England states and the U.S. average state expenditure. Massachusetts spent more state funds per capita on debt service (\$418) and less on education (\$1020) than any of its New England neighbors. The differences between states in per capita spending are similar to those in taxation, with intergovernmental transfers (to and from local and federal governments) accounting for the degree to which per capita spending exceeds per capita taxation. While all New England states used less than the national average of 28.5 percent for intergovernmental expenditures, the variation within the region is significant, with intergovernmental expenditures representing 13.0 percent of Rhode Island expenditures, 19.1 percent of Massachusetts expenditures, and 26.1 percent of Vermont expenditures.

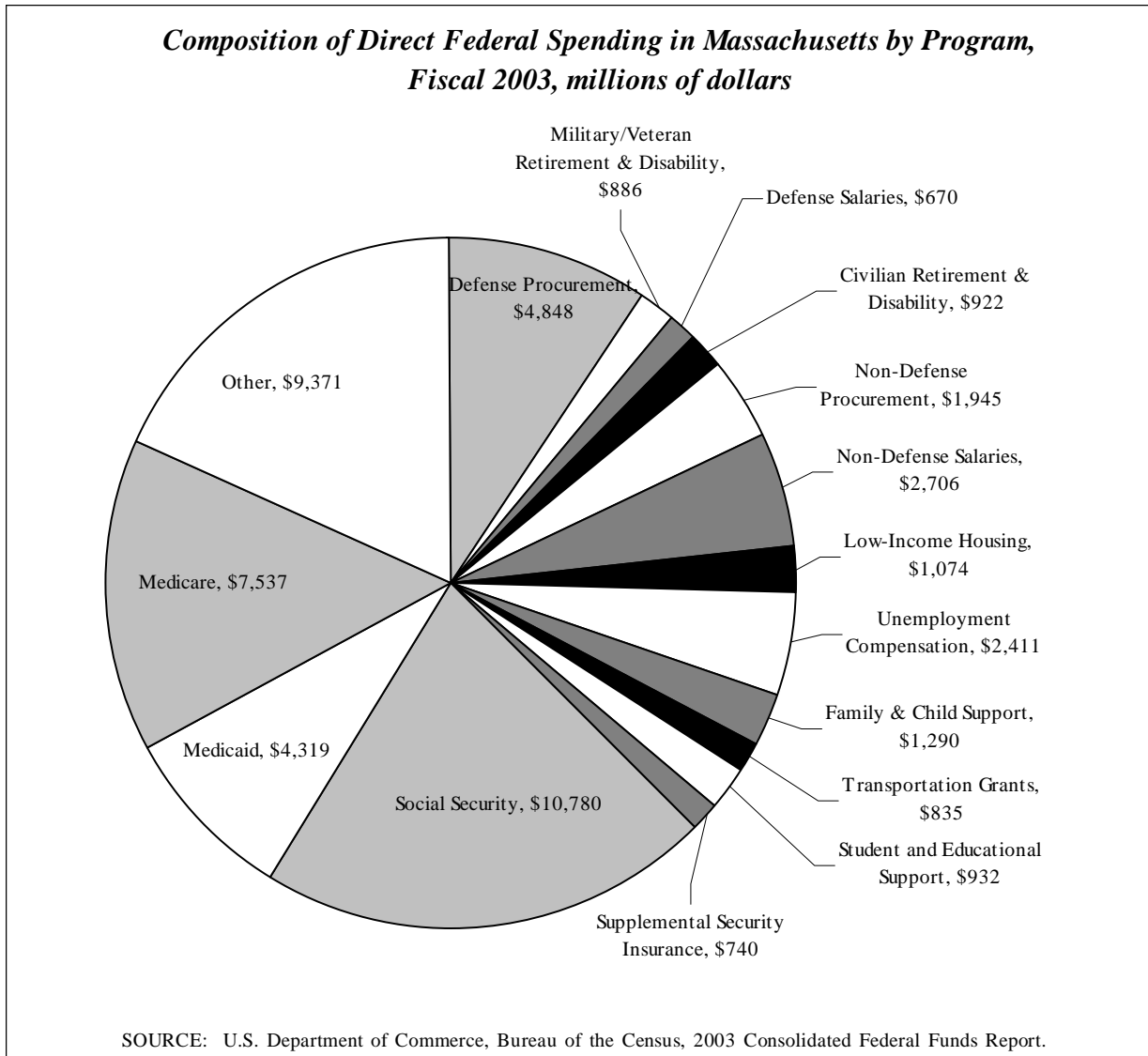


**Federal Government Spending in Massachusetts.** Federal government spending contributes a significant amount to the economy of Massachusetts. In fiscal 2003, Massachusetts ranked eleventh among states in per capita distribution of federal funds, with total spending of \$7,969 per person, excluding loans and insurance. Massachusetts' share of total federal spending declined steadily between 1990 and 1999, and has stabilized in the range of 2.48 percent to 2.52 percent between 1998 and 2003. The following chart shows total federal expenditures and the percentage of federal expenditures in Massachusetts. Federal spending includes grants to state and local governments, direct payments to individuals, wage and salary employment, and procurement contracts and includes only those expenditures that can be associated with individual states and territories.

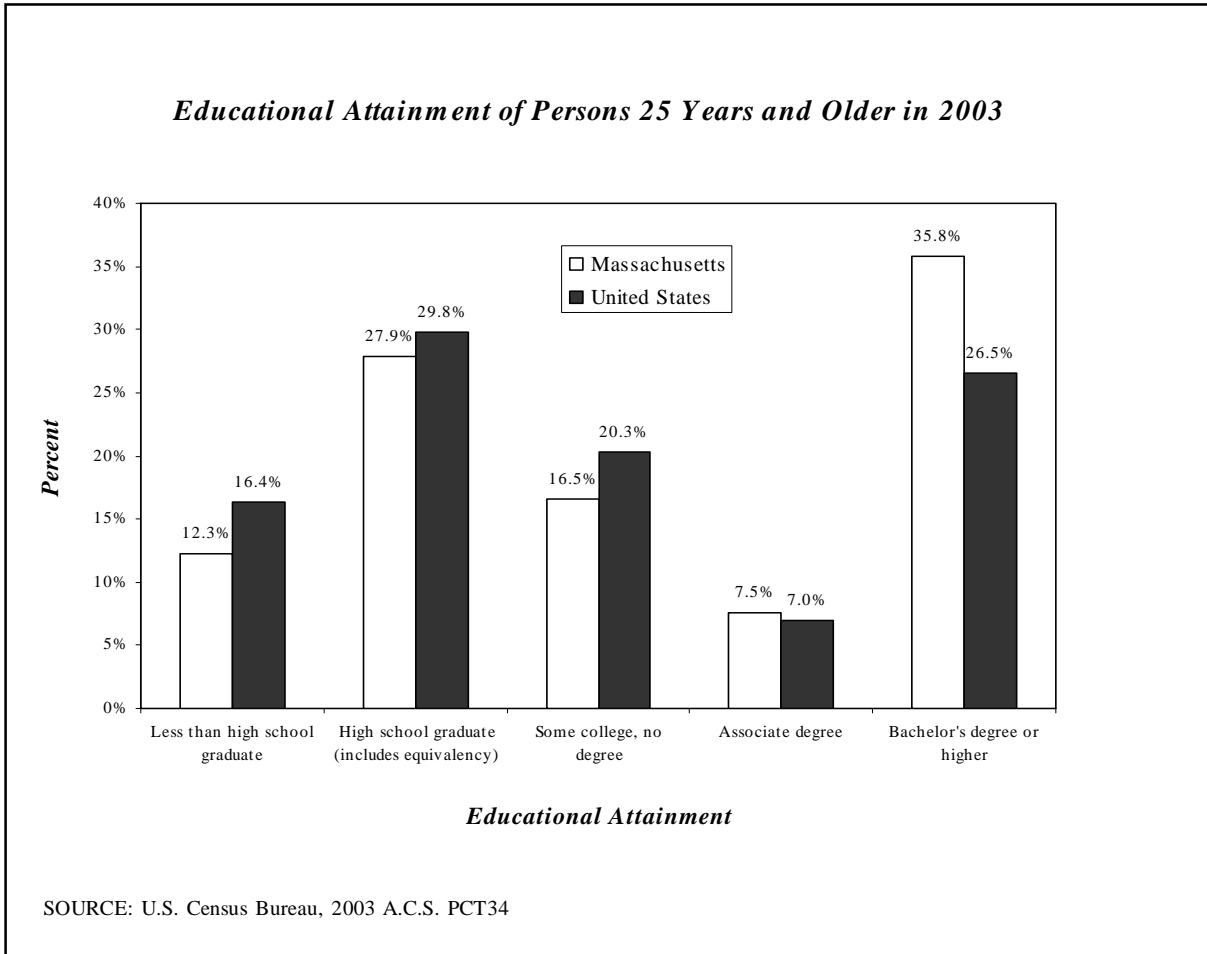




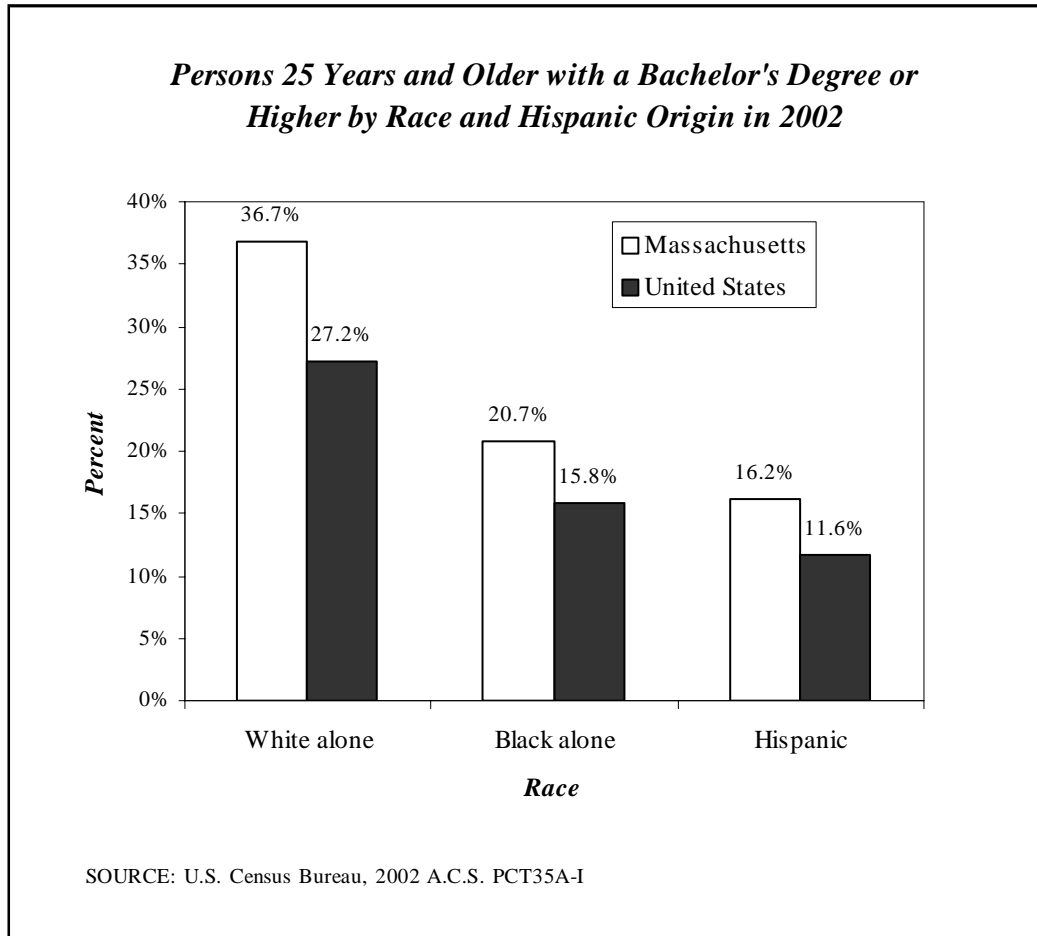
A large percentage of FY 2003 federal spending in Massachusetts was composed of health care and social programs like Medicare and Social Security. Massachusetts was above the national average in per capita federal grants to state and local governments, receiving \$2,071.73 per capita compared to a national average of \$1,496. Per capita federal spending on salaries and wages in 2003 was lower in Massachusetts than in the rest of the nation (\$535 compared to a national average of \$713) but Massachusetts was above the national average in per capita direct federal payments to individuals (\$4,062 compared to a national average of \$3,690). Massachusetts ranked 14<sup>th</sup> among states in per capita procurement contract awards (\$1,299 compared to a national average of \$1,011) in 2003. The following chart shows the composition of direct federal spending within Massachusetts in fiscal 2003, excluding loans and insurance.



**Human Resources.** The availability of a skilled and well-educated population is an important resource for the Commonwealth. The level of education reached by the population of Massachusetts compares favorably with the level in the United States as a whole. In 2003, the Census’s American Community Survey (ACS) reported that Massachusetts had a smaller proportion of persons who had not completed high school (12.3%) than the national average (16.4%) and a much higher proportion of persons with a bachelor’s degree or more (35.8%), than the nation (26.5%). Massachusetts ranked eighteenth in the nation in percentage of its 25 and older population having received a high school diploma or more and second in percentage of the same population with a bachelor’s degree or more in 2003.



While Massachusetts' black and Hispanic population achieved college degrees at roughly half the rate of the white population, they fared much better than the national average.



Massachusetts has a higher minority enrollment in institutions of higher education than New England. However, the percentage of enrollment of blacks, Hispanics, and Asians in higher education in Massachusetts is below the national average. These percentages, which do not include military academy enrollment, are seen in the chart below.

**Higher Education Enrollment by Race and Hispanic Origin in 2002**

	Black	Asian	Native American	White	Hispanic	Race Unknown
Massachusetts	6.0	5.9	0.4	60.9	4.8	15.3
New England	5.8	4.6	0.5	68.7	4.6	13.6
United States (2001)	11.0	5.9	0.9	64.2	9.1	NA

Note: Black, Asian, Native American and White totals reflect non-Hispanic population. Does not include the category non-resident alien. Table does not include enrollment at military academies. U.S. data from the U.S. Dept of Education.  
SOURCE: New England Board of Higher Education analysis of U.S. Department of Ed. Data.

Massachusetts is an internationally recognized center for higher education, with 431,855 students in undergraduate, professional and graduate programs in 2002, according to data supplied by the New England Board of Higher Education. The Institute of International Education reported the number of foreign students enrolled in Massachusetts colleges and universities in the 2002/2003 school year was 30,039, representing 5.41 percent of total foreign student enrollment in the United States. The Massachusetts public higher education system is composed of universities, state colleges, and community colleges with a combined enrollment of 187,492 students in 2002, almost half of whom attended part-time. In addition, Massachusetts has a system of private higher education that accounted for 56.7 percent of total enrollment in Massachusetts in 2002, and in which approximately one quarter of students attend school part-time. The strength of both public and private colleges and universities as centers for research and education contributes to the high quality of the Massachusetts work force and plays a key role in attracting and retaining business and industry within the state.

The higher education system in Massachusetts is particularly strong in post-graduate, scientific, and technical education, with 64.5 percent of New England's graduate science and engineering students attending Massachusetts institutions in 2001. The strength of the Massachusetts higher education system is evidenced by the draw it has upon new students. The strength of the Commonwealth's educational institutions is also reflected in the large number of degrees awarded. In 2001-2002, Massachusetts institutions conferred a total of 2,287 doctoral degrees.

The pre-eminence of higher education in Massachusetts contributes not only to the quality of its work force, but also to its stature in the nation and the world as a center for basic scientific research and for academic and entrepreneurial research and development. Doctorate-granting institutions in Massachusetts spent 4.8 percent of total national expenditures on R&D at such institutions in fiscal 2001, ranking Massachusetts fifth in the nation behind California, New York, Texas, and Pennsylvania. Doctorate-granting institutions in New England spent 7.9 percent (\$2.53 billion) of the total research and development funds (\$32.2 billion) spent by such institutions in fiscal 2001. Massachusetts institutions spent 61.6 percent of these funds (\$1.56 billion). [Source: National Science Foundation, Division of Science Resources Statistics, *Academic Research and Development Expenditures: Fiscal Year 2001*, NSF 03-316, Table B-23.]

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

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

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

*(in current, unadjusted dollars)*

<i>Fiscal Year</i>	<i>Massachusetts</i>	<i>United States</i>	<i>Ratio (MA/U.S.)</i>
<b>1981</b>	\$2,735	\$2,307	1.19
<b>1982</b>	2,823	2,525	1.12
<b>1983</b>	3,072	2,736	1.12
<b>1984</b>	3,298	2,940	1.12
<b>1985</b>	3,653	3,222	1.13
<b>1986</b>	4,031	3,479	1.16
<b>1987</b>	4,491	3,682	1.22
<b>1988</b>	4,965	3,927	1.26
<b>1989</b>	5,485	4,307	1.27
<b>1990</b>	5,766	4,643	1.24
<b>1991</b>	5,881	4,902	1.20
<b>1992</b>	5,952	5,023	1.18
<b>1993</b>	6,141	5,160	1.19
<b>1994</b>	6,423	5,327	1.21
<b>1995</b>	6,783	5,529	1.23
<b>1996</b>	7,033	5,689	1.24
<b>1997</b>	7,331	5,923	1.24
<b>1998</b>	7,778	6,189	1.26
<b>1999</b>	8,260	6,508	1.27
<b>2000</b>	8,761	6,911	1.27
<b>2001</b>	9,509	7,376	1.29
<b>2002</b>	10,232	7,524	1.36

SOURCE: United States Department of Education, National Center for Education Statistics.

Although spending on education is not necessarily an indicator of results, Massachusetts has spent from 12 to 36 percent more per pupil on primary and secondary education than the national average since at least 1981. During the 2001-2002 school year, Massachusetts increased per student expenditures to \$10,232; 36 percent higher than the national average. The preceding table shows expenditures per pupil for Massachusetts and the United States since fiscal 1981.

In the 2003 National Assessment of Educational Progress conducted by the U.S. Department of Education, 4<sup>th</sup> graders and 8<sup>th</sup> graders around the nation were given standardized exams in reading and math. Massachusetts's 2003 4<sup>th</sup> grade average scale reading scores were lower than 2002 but still higher than 48 other states and jurisdictions and not statistically different from the remaining 4. Massachusetts's 8<sup>th</sup> grade reading scores were higher in 2003 but not statistically different from 2002. Nationally, they were higher than 49 other jurisdictions and not statistically different from the remaining 3. Massachusetts's math scores for both 4<sup>th</sup> and 8<sup>th</sup> graders in 2003 were significantly higher than 2000. Nationally, 4<sup>th</sup> grade scores were higher than 49 other jurisdictions and not statistically different from the remaining 3 while 8<sup>th</sup> grade scores were higher than 42 other jurisdictions, not significantly different than 9 and lower than 1.

In 2002, the U.S. Department of Education tested 4<sup>th</sup> and 8<sup>th</sup> grade student's writing skills. Massachusetts's 4<sup>th</sup> grade average scale score was higher than those in 46 other jurisdictions, and lower than those in 1 jurisdiction. The 8<sup>th</sup> grade scores were higher than 1998 and higher than those in 41 jurisdictions and not statistically different from those in 5 in 2002.

In 2000, 4<sup>th</sup> and 8<sup>th</sup> graders were given standardized exams in science. Massachusetts 4<sup>th</sup> graders scored highest in the nation on the science exam and only 8<sup>th</sup> graders in Montana achieved statistically significant higher scores than 8<sup>th</sup> graders in Massachusetts.

Source: U.S. Department of Education, Institute of Education Sciences, National Center for Educational Statistics, National Assessment of Educational Progress (NAEP). "Jurisdictions" includes participating states and other jurisdictions (such as the District of Columbia and the Department of Defense Dependents Schools).

**Major Infrastructure Projects.** Several major public sector-sponsored construction projects are underway in the Boston region, providing significant economic and employment benefits to the state.

The "Big Dig," the world's largest highway project, includes the depression of the central artery which traverses the City of Boston, and the construction of a third harbor tunnel linking downtown Boston to Logan Airport. The new Central Artery is designed to meet Boston's future traffic demand and is anticipated to carry 245,000 vehicles per day by 2010 with minimal congestion. The Project will also strengthen connections among Boston's air, rail, and seaport terminals. By offering travelers and shippers increased choice and flexibility among these different modes of transportation, the Project is contributing to the creation of an integrated, intermodal transportation system for the entire region. The Ted Williams Tunnel, which stretches under Boston Harbor from South Boston to Logan Airport, opened to commercial traffic in late 1995 and to all traffic in December 2001, and will carry an estimated 98,000 vehicles daily in 2010. The Central Artery Project is due to be completed by 2005 at an estimated total cost of \$14.63 billion, with nearly half funded by the federal government. More than \$1.5 billion of the state's share of future federal funding is slated to go toward the Big Dig until 2012. As of April 4, 2004, construction is 93.5 percent complete.

The \$385 million Route 3 North project improves safety and travel along the Route 3 highway mainline and the adjacent roadways. Route 3 North is 21 miles in length from the Route 128 interchange in Burlington to the New Hampshire border. Initial survey and sub-surface work commenced along the Route 3 corridor in the fall of 2000 and the total project is estimated to take 42 months to complete. This design-build project includes adding a travel lane and two 10' shoulders in each direction, the replacement of 47 bridges, a park and ride facility as well as various environmental improvements.

The MBTA Silver Line project creates the first new MBTA rapid transit line in 90 years. The Silver Line is a state-of-the-art Bus Rapid Transit (BRT) system. This transit line is being completed in three phases. The first and second segments are being introduced as two, separate BRT lines: Silver Line Phase I, which has been open since 2002, travels along Washington Street between Dudley Square and Downtown; and Silver Line Phase II, now under construction and set to open in 2004, will run underground from South Station to the South Boston Waterfront and continue aboveground to the Boston Convention and Exhibition Center, Marine Industrial Park, and Logan Airport. The third phase, Silver Line Phase III, which is currently in design, will link Phases I and II. When the final phase has been completed, all three segments will connect to become the MBTA's fifth rapid transit line. It will offer a seamless link between the communities of Roxbury, the South End, Chinatown, Downtown, and South Boston. More than \$450 million has been invested in the Washington Street corridor in both commercial and residential development projects.

The MBTA Greenbush project will restore commuter rail service on the existing right-of-way known as the Greenbush corridor through the towns of Braintree, Weymouth, Hingham, Cohasset and Scituate, Massachusetts. The project begins at the connection with the existing MBTA Old Colony Main Line at the Braintree Wye in East Braintree, and extends 18 miles

easterly along the former New Haven Railroad Greenbush Branch to the terminus in the Greenbush section of Scituate. Notice to proceed for design was issued in April of 2002 and the project is targeted for completion in June of 2006.

The Massachusetts Executive Office of Transportation and Construction's Lawrence Gateway Project, generally regarded as an integral step in the renaissance of this historic mill city, will offer 1.2 million square feet of cost-effective, quality office space in the mills along the Merrimack River and the canal district, as well as dramatically improved access to Routes 495, 93 and 95.

On February 10, 2004, the governor filed a \$1.15 billion bill for capital transportation spending that guarantees the state will invest at least \$400 million every year in upgrading the Commonwealth's roads and bridges until the year 2012. The 2004 Transportation Bond Bill will provide three years worth of new capital authorization for critical transportation priorities. Funding provisions in the Bond Bill include \$425 million for federally assisted transportation projects to support the road and bridge program, \$300 million for Chapter 90 local aid, \$210 million for non-federally assisted roadway projects, \$102 million to protect rail freight properties and to provide capital assistance to Regional Transit Authorities (RTAs) and \$23 million for various local grant programs.

The Massachusetts Port Authority (Massport) owns and operates Logan International Airport, Hanscom Field, Worcester Regional Airport, the Port of Boston, and several smaller assets. Logan Airport is undergoing a more than \$4 billion modernization program that will result in improved access, modern facilities, and the latest customer amenities. In addition, Massport, which owns and operates Logan Airport, has been nationally-recognized for being the first U.S. airport authority to design and build an inline 100% bag screening system, deploy an anti-terrorism unit armed with submachine guns and hand held wireless computers, and implement behavior profiling to spot potential terrorists.

The Port of Boston has instituted port optimization, which consolidated all container operations at Conley Terminal in South Boston, where Massport invested \$50 million in four post-Panamax cranes, deeper berths and a modern, timesaving 10-lane gate facility. At the same time, Moran Terminal was transformed into Boston Autoport, a state-of-the-art facility that can offload 400 cars an hour and process over 100,000 cars a year. It increased warehousing by replacing two unused cargo buildings with a 200,000-square-foot warehouse and cargo transfer facility in South Boston, International Cargo Port Inc. Harbor dredging is now underway and, when complete, will improve navigation and safety, reduce cargo handling costs and further control product costs to New England businesses and consumers. It introduced value-added services for customers, such as the Harbor Maintenance Tax, which provides a dollar-for-dollar tax credit for shippers using the Port of Boston. It anticipates the expansion of 120,000 square feet of rehabilitated space to respond to increased demands by cruise lines and their passengers at the Black Falcon Cruise Terminal.

## TABLE OF REFUNDED BONDS

The bonds of the Commonwealth to be refunded with the proceeds of the Refunding Bonds are described below.

<u>Maturity Date</u>	<u>Amount</u>	<u>Coupon</u>
<b>\$250,000,000 General Obligation Bonds, Consolidated Loan of 1997, Series C:</b>		
August 1, 2017*	\$75,950,000	5.00%
<hr/>		
* To be redeemed on August 1, 2007 at a call price of 101%.		
<b>\$250,000,000 General Obligation Bonds, Consolidated Loan of 1998, Series B:</b>		
April 1, 2017*	\$18,320,000	4.75%
April 1, 2018*	19,190,000	4.75
	\$37,510,000	
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* To be redeemed on April 1, 2008 at a call price of 101%.		
<b>\$250,000,000 General Obligation Bonds, Consolidated Loan of 1999, Series B:</b>		
May 1, 2017*	\$17,160,000	5.00%
May 1, 2018*	18,015,000	4.75
May 1, 2019*	18,875,000	5.00
	\$54,050,000	
<hr/>		
* To be redeemed on May 1, 2009 at a call price of 101%.		
<b>\$250,000,000 General Obligation Bonds, Consolidated Loan of 2001, Series A:</b>		
January 1, 2020*	\$35,435,000	5.00%
January 1, 2021*	37,205,000	5.00
	\$72,640,000	
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* To be redeemed on January 1, 2011 at par.		



**\$935,530,000 General Obligation Bonds, Consolidated Loan of 2001, Series C:**

December 1, 2017*	\$1,205,000	4.70%
December 1, 2018*	210,000	4.80
December 1, 2019*	2,350,000	4.80
December 1, 2020*	3,725,000	4.90
December 1, 2021*	<u>11,725,000</u>	4.90
	\$19,215,000	

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\* To be redeemed on December 1, 2011 at par.

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

January 1, 2015*	\$17,630,000	4.50%
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\* To be redeemed on January 1, 2009 at par.

**\$670,745,000 General Obligation Bonds, Consolidated Loan of 2002, Series D:**

August 1, 2022*	\$50,000,000	5.00%
August 1, 2026*	<u>15,000,000**</u>	5.00
	\$65,000,000	

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\* To be redeemed on August 1, 2012 at par.

\*\* Represents the portion of the \$71,315,000 term bond which will be refunded and redeemed on August 1, 2012 at 100%. This refunded portion will be applied to the mandatory sinking fund payment of the term bond due on August 1, 2026. Unless otherwise redeemed in accordance with its terms, the remaining amount (\$56,315,000) will be subject to mandatory redemption on August 1, 2026 in the amount of \$30,205,000 and to payment at stated maturity on August 1, 2027 in the amount of \$26,110,000.

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

January 1, 2005	\$975,000	2.00%
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**\$288,745,000 General Obligation Bonds, Consolidated Loan of 2003, Series A:**

January 1, 2018*	\$6,025,000	4.25%
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\* To be redeemed on January 1, 2013 at par.

**\$191,460,000 General Obligation Bonds, Consolidated Loan of 2004, Series B:**

August 1, 2022*	\$60,655,000	5.00%
August 1, 2023*	63,765,000	5.00
August 1, 2024*	67,040,000	5.00
	<u>\$191,460,000</u>	

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\* To be redeemed on August 1, 2014 at par.

**\$300,000,000 General Obligation Bonds, Consolidated Loan of 2004, Series C:**

August 1, 2005	\$790,000	5.00%
August 1, 2006	830,000	5.00
August 1, 2007	870,000	5.00
August 1, 2008	920,000	5.00
August 1, 2009	970,000	5.00
August 1, 2010	1,020,000	5.00
August 1, 2011	1,070,000	5.00
August 1, 2012	1,120,000	5.00
August 1, 2013	1,170,000	5.00
August 1, 2015	1,140,000	3.85
	<u>\$9,900,000</u>	

## PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Bonds described below, Bond Counsel proposes to deliver an opinion in substantially the following form:



ROPES & GRAY LLP  
 ONE INTERNATIONAL PLACE BOSTON, MA 02110-2624 617-951-7000 F 617-951-7050  
 BOSTON NEW YORK SAN FRANCISCO WASHINGTON, DC

## Date of Delivery

The Honorable Timothy P. Cahill  
 Treasurer and Receiver-General  
 The Commonwealth of Massachusetts  
 State House - Room 227  
 Boston, Massachusetts 02133

Re: The Commonwealth of Massachusetts  
\$300,000,000 General Obligation Bonds Consolidated Loan of 2004, Series D and  
\$506,340,000 General Obligation Refunding Bonds, 2004 Series C (the "Bonds")

Dear Treasurer Cahill:

We have served as bond counsel to The Commonwealth of Massachusetts (the "Commonwealth") in connection with the issuance of the Bonds. In that capacity, we have examined a record of proceedings relating to the Bonds. We also have examined such provisions of applicable law and such other documents as we have deemed necessary in order to render this opinion.

The Bonds mature and bear interest and are subject to mandatory sinking fund and optional redemption at such times, in such amounts, at such prices and upon such terms and conditions as are set forth in the Bonds.

The Bonds are being issued by means of a book-entry system, with bond certificates immobilized at The Depository Trust Company, New York, New York ("DTC"), and are not available for distribution to the public, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. We have examined one of the Bonds, as executed.

Capitalized terms used herein, unless otherwise specified, shall have the meanings set forth in the Bonds.

In rendering our opinion, we have relied upon certain covenants of the Commonwealth and upon certifications and representations of fact made by certain officials of the Commonwealth.

We express no opinion as to laws other than the laws of the Commonwealth and the United States of America.

Based upon the foregoing, we are of the opinion that, under existing law:

The Honorable Timothy P. Cahill

Date of Delivery

The Bonds have been duly authorized by the Commonwealth, and the forms of the Bonds which we have examined and the forms of their execution are regular and proper.

The Bonds are legal and valid general obligations of the Commonwealth, and the full faith and credit of the Commonwealth are pledged to the payment of the principal of and interest on the Bonds. It should be noted, however, that Chapter 62F of the Massachusetts General Laws establishes a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit. It should further be noted that Chapter 29, Section 60B, of the Massachusetts General Laws imposes an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on general obligation debt of the Commonwealth.

Interest on the Bonds is not included in gross income for federal income tax purposes and such interest is not an item of tax preference for the purpose of computing the alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations, and such interest is included in the measure of certain other taxes imposed on corporations and in the measure of income of certain recipients of Social Security and Railroad Retirement benefits for the purpose of determining whether such benefits shall be included in the taxable income of such recipients. We call your attention to certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), relating to the use, expenditure and investment of the proceeds of the Bonds. Failure by the Commonwealth to comply with such requirements subsequent to the issuance of the Bonds may cause interest on the Bonds to become subject to federal income taxation retroactive to the date of their issuance. The Commonwealth has provided covenants or certificates evidencing that it will take lawful action necessary to comply with those provisions of the Code that, except for such compliance, would affect adversely the excludability of interest on the Bonds from gross income for federal income tax purposes. We express no opinion with respect to other federal tax consequences arising with respect to the Bonds.

Interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion with respect to other Massachusetts tax consequences arising with respect to the Bonds or as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other laws affecting creditors' rights hereafter enacted to the extent constitutionally applicable and that enforcement of such rights may also be subject to general principles of equity, regardless of whether applied in proceedings in equity or at law.

Very truly yours,

Ropes & Gray LLP

The Commonwealth of Massachusetts

General Obligation Bonds  
Consolidated Loan of 2004, Series D

General Obligation Refunding Bonds  
2004 Series C

Continuing Disclosure Undertaking  
[to be included in bond form]

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the Bonds to provide to each nationally recognized municipal securities information repository (each, a "NRMSIR") within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the "Rule") and to the state information depository for the Commonwealth, if any (the "SID"), within the meaning of the Rule, no later than 270 days after the end of each fiscal year of the Commonwealth, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Commonwealth for such fiscal year if audited financial statements are then available, provided, however, that if audited financial statements of the Commonwealth are not then available, such audited financial statements shall be delivered to each NRMSIR and the SID when they become available (but in no event later than 350 days after the end of such fiscal year) or (ii) notice of the Commonwealth's failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Commonwealth's Information Statement dated September 18, 2003 (the "Information Statement"), as it appears as Appendix A in the Official Statement dated September 18, 2003 of the Commonwealth with respect to its \$550,000,000 General Obligation Bond Anticipation Notes, 2003 Series A, and substantially in the same level of detail as is found in the referenced section of the Information Statement:

Financial Information and Operating Data Category	Reference to Information Statement for Level of Detail
1. Summary presentation on statutory accounting and five-year comparative basis of selected budgeted operating funds operations, concluding with prior fiscal year, plus estimates for current fiscal year	"DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS - Selected Financial Data - Statutory Basis "
2. Summary presentation on GAAP and five-year comparative basis of selected budgeted operating funds operations, concluding with prior fiscal year	"COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Selected Financial Data - GAAP Basis "
3. Summary presentation of actual revenues in budgeted operating funds on five-year comparative basis, concluding with prior fiscal year, plus estimates for current fiscal year	"COMMONWEALTH REVENUES - Statutory Basis Distribution of Budgetary Revenues "
4. So long as Commonwealth statutes impose limits on tax revenues, information as to compliance therewith in the prior fiscal year	"COMMONWEALTH REVENUES - Limitations on Tax Revenues "
5. Summary presentation of budgeted expenditures by selected, then-current major categories on five-year comparative basis and estimated expenditures for current fiscal year	"COMMONWEALTH PROGRAMS AND SERVICES"
6. Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any	"COMMONWEALTH PROGRAMS AND SERVICES - Commonwealth Pension Obligations"

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

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

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

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties<sup>1/</sup>;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) modifications to the rights of security holders;
- (viii) bond calls;
- (ix) defeasances;
- (x) release, substitution or sale of property securing repayment of the securities<sup>2/</sup> and
- (xi) rating changes.

Nothing herein shall preclude the Commonwealth from disseminating any information in addition to that required hereunder. If the Commonwealth disseminates any such additional information, nothing herein shall obligate the Commonwealth to update such information or include it in any future materials disseminated.

To the extent permitted by law, the foregoing provisions of this Bond related to the above-described undertakings to provide information shall be enforceable against the Commonwealth in accordance with the terms thereof by any owner of a Bond, including any beneficial owner acting as a third-party beneficiary (upon proof of its status as a beneficial owner reasonably satisfactory to the Treasurer and Receiver-General). To the extent permitted by law, any such owner shall have the right, for the equal benefit and protection of all owners of Bonds, by mandamus or other suit or proceeding at law or in equity, to enforce its rights against the Commonwealth and to compel the Commonwealth and any of its officers, agents or employees to perform and carry out their duties under the foregoing provisions as aforesaid, provided, however, that the sole remedy in connection with such undertakings shall be limited to an action to compel specific performance of the obligations of the Commonwealth in connection with such undertakings and shall not include any rights to monetary damages. The Commonwealth's obligations in respect of such undertakings shall terminate if no Bonds remain outstanding (without regard to an economic defeasance) or if the provisions of the Rule concerning continuing disclosure are no longer effective, whichever occurs first. The provisions of this Bond relating to such undertakings may be amended by the Treasurer and Receiver-General of the Commonwealth, without the consent of, or notice to, any owners of the Bonds, (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof by the Securities and Exchange Commission or its staff (whether required or optional), (b) to add a dissemination agent for the information required to be provided by such undertakings and to make any necessary or desirable provisions with respect thereto, (c) to add to the covenants of the Commonwealth for the benefit of the owners of Bonds, (d) to modify the contents, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertakings in a manner consistent with the provisions of state legislation establishing the SID or otherwise responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d) or (e), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change

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

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

in circumstances, and (ii) the amendment does not materially impair the interests of the owners of the Bonds, as determined either by a party unaffiliated with the Commonwealth (such as Commonwealth disclosure counsel or Commonwealth bond counsel) or by the vote or consent of owners of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment.





**FINANCIAL  
SECURITY  
ASSURANCE.**

## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment on the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or teletyped notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud, whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Counter signature]

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)

# FINANCIAL GUARANTY INSURANCE POLICY

## MBIA Insurance Corporation Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]  
[LEGAL NAME OF ISSUE]

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with U.S. Bank Trust National Association, in New York, New York, or its successor, sufficient for the payment of any such Insured Amounts which are then due. Upon presentment and surrender of such Obligations or presentment of such other proof of ownership of the Obligations, together with any appropriate instruments of assignment to evidence the assignment of the Insured Amounts due on the Obligations as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Obligations in any legal proceeding related to payment of Insured Amounts on the Obligations, such instruments being in a form satisfactory to U.S. Bank Trust National Association, U.S. Bank Trust National Association shall disburse to such owners, or the Paying Agent payment of the Insured Amounts due on such Obligations, less any amount held by the Paying Agent for the payment of such Insured Amounts and legally available therefor. This policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Obligation.

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

\_\_\_\_\_  
President

Attest:

\_\_\_\_\_  
Assistant Secretary

**SPECIMEN**

## Financial Guaranty Insurance Policy

Obligor:

Policy Number:

Obligations:

Premium:

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

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

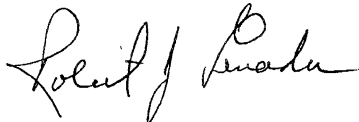
In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form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

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

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

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

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



President




Secretary

Effective Date:

Authorized Representative

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

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



Authorized Officer of Insurance Trustee