

**NEW ISSUE - BOOK-ENTRY-ONLY**

*In the opinion of Bond Counsel, under existing law and assuming continued compliance by the Commonwealth with the Internal Revenue Code of 1986, as amended, 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 federal alternative minimum tax imposed on individuals and corporations, although interest on the Bonds will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed upon 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. See "TAX EXEMPTION" herein.*



**\$401,500,000**  
**THE COMMONWEALTH OF MASSACHUSETTS**  
**General Obligation Bonds**  
**Consolidated Loan of 2000**  
**(Auction Rate Securities)**

**\$100,000,000**  
**2000 Series D**

**\$100,000,000**  
**2000 Series E**

**\$100,000,000**  
**2000 Series F**

**\$101,500,000**  
**2000 Series G**

**Dated: Date of Delivery**

**Due: as shown on the inside cover**

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 are initially issued as auction rate securities in a seven-day mode; and each series of Bonds is subject to conversion, at the option of the Commonwealth and subject to certain restrictions, to other auction rate modes or to bear interest at fixed rates. The Bonds will bear interest from the date of delivery thereof for the applicable Initial Period set forth on the inside front cover of this Official Statement at the rates established by Goldman, Sachs & Co. and thereafter at the applicable ARS Rate (as defined herein) determined pursuant to the Auction Procedures (as defined herein). The Bonds are subject to optional redemption, mandatory sinking fund redemption and mandatory tender for purchase prior to maturity, as more fully described herein.

The Bank of New York, New York, New York, will initially serve as Auction Agent and Paying Agent for the Bonds. Each of the underwriters listed below will initially serve as a Broker-Dealer with respect to the Bonds.

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."

Payment of the principal of and interest on the Bonds on the regularly scheduled due dates for payment thereof will be insured (as further described herein) in accordance with a municipal bond insurance policy to be issued simultaneously with the delivery of the Bonds by Financial Guaranty Insurance Company.



**Financial Guaranty Insurance  
Company**

FGIC is a registered service mark used by Financial Guaranty Insurance Company, a private company not affiliated with any U.S. Government agency.

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, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., 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 December 13, 2000.

**Goldman, Sachs & Co.**

**Salomon Smith Barney**

**Merrill Lynch & Co.**

**Morgan Stanley Dean Witter  
Morgan Stanley & Co. Incorporated**

November 30, 2000

**THE COMMONWEALTH OF MASSACHUSETTS**  
**\$401,500,000**  
**General Obligation Bonds**  
**Consolidated Loan of 2000**  
**(Auction Rate Securities)**

**\$100,000,000 Series D**

<u>Final Maturity</u>	<u>Last Day of Initial Period</u>	<u>Initial Auction Period</u>	<u>First Auction Date</u>	<u>First Interest Payment Date</u>
December 1, 2030	December 18, 2000	Seven-Day Mode	December 19, 2000	December 20, 2000

**\$100,000,000 Series E**

<u>Final Maturity</u>	<u>Last Day of Initial Period</u>	<u>Initial Auction Period</u>	<u>First Auction Date</u>	<u>First Interest Payment Date</u>
December 1, 2030	December 19, 2000	Seven-Day Mode	December 20, 2000	December 21, 2000

**\$100,000,000 Series F**

<u>Final Maturity</u>	<u>Last Day of Initial Period</u>	<u>Initial Auction Period</u>	<u>First Auction Date</u>	<u>First Interest Payment Date</u>
December 1, 2030	December 21, 2000	Seven-Day Mode	December 22, 2000	December 26, 2000

**\$101,500,000 Series G**

<u>Final Maturity</u>	<u>Last Day of Initial Period</u>	<u>Initial Auction Period</u>	<u>First Auction Date</u>	<u>First Interest Payment Date</u>
December 1, 2030	December 21, 2000	Seven-Day Mode	December 22, 2000	December 26, 2000

**Price of all Bonds: 100%**

**For New Hampshire residents: these securities have not been approved or disapproved by the Securities and Exchange Commission or any state securities commission, nor has the Securities and Exchange Commission or any state securities commission passed upon the accuracy or adequacy of this Official Statement. Any representation to the contrary is a criminal offense.**

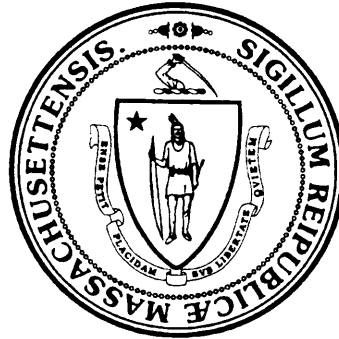
No dealer, broker, salesperson or other person has been authorized by The Commonwealth of Massachusetts or the Underwriters of the Bonds to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations 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 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.

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**THE COMMONWEALTH OF MASSACHUSETTS**



**CONSTITUTIONAL OFFICERS**

**Argeo Paul Cellucci.....Governor**  
**Jane M. Swift .....Lieutenant Governor**  
**William F. Galvin.....Secretary of the Commonwealth**  
**Thomas F. Reilly ..... Attorney General**  
**Shannon P. O'Brien ..... Treasurer and Receiver-General**  
**A. Joseph DeNucci.....Auditor**

**LEGISLATIVE OFFICERS**

**Thomas F. Birmingham.....President of the Senate**  
**Thomas M. Finneran .....Speaker of the House**

## OFFICIAL STATEMENT

**\$401,500,000**

### THE COMMONWEALTH OF MASSACHUSETTS

**General Obligation Bonds  
Consolidated Loan of 2000  
(Auction Rate Securities)**

**\$100,000,000  
Series D**

**\$100,000,000  
Series E**

**\$100,000,000  
Series F**

**\$101,500,000  
Series G**

### INTRODUCTION

This Preliminary 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 "Issuer" or the "Commonwealth") of its General Obligation Bonds, Consolidated Loan of 2000 (Auction Rate Securities) Series D (the "Series D Bonds"), Series E (the "Series E Bonds") and Series F (the "Series F Bonds"), each in the aggregate principal amount of \$100,000,000, and Series G (the "Series G Bonds" and collectively with the Series D Bonds, the Series E Bonds and the Series F Bonds, the "Bonds," the "ARS" or the "ARS Bonds"), in the aggregate principal amount of \$101,500,000. 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 Commonwealth Information Statement (described below) under the headings "COMMONWEALTH REVENUES - Limitations on Tax Revenues" and "COMMONWEALTH BOND AND NOTE LIABILITIES - Limit on Debt Service Appropriations."

The Bonds are being issued primarily to finance a portion of the costs of construction of the Commonwealth's Central Artery/Tunnel Project and also to finance certain other capital projects of the Commonwealth. See "THE BONDS - Plan of Finance."

#### **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 March 3, 2000 (the "March Information Statement"), as it appears as Appendix A in the Official Statement dated August 9, 2000 of the Route 3 North Transportation Improvements Association with respect to its Commonwealth of Massachusetts Lease Revenue Bonds, Series 2000 (the "Route 3 Official Statement"). A copy of the Route 3 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 March Information Statement has been supplemented by the Commonwealth Information Statement Supplement dated November 27, 2000 (the "Supplement"), which is attached hereto as Appendix A. The March Information Statement, as supplemented by the Supplement, contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth.

Appendix B attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Bonds. Appendix C attached hereto contains the proposed form of the Commonwealth's continuing disclosure undertaking to be included in the form of the Bonds. Appendix D attached hereto contains definitions and a summary of provisions of the Bonds relating to the auction rate security features and other matters. Appendix E

contains a specimen form of the municipal bond insurance policy to be issued by Financial Guaranty Insurance Company (the "Bond Insurer").

## THE BONDS

### General

The following is a summary of certain provisions of the Bonds relating to the auction rate security features. The Bonds while bearing interest at an Auction Rate are hereinafter referred to as "ARS Bonds." Reference is made to the ARS Bonds of each Series, each in its entirety, copies of which will be available for inspection during business hours at the offices of the Treasurer and Receiver-General of the Issuer and of the Paying Agent, for detailed provisions of the ARS Bonds. For definitions of certain terms and additional detailed information relating to the ARS Bonds, see "Definitions" in Appendix D.

This Official Statement, in general, describes the ARS Bonds only during an ARS Rate Period, which is the period beginning on the delivery date of the ARS Bonds of each Series and ending on the date on which interest on the ARS Bonds of such Series is changed to a fixed rate of interest to maturity.

### Description of the ARS Bonds

The ARS Bonds will be issued in the aggregate principal amount of \$401,500,000, comprised of four Series, in the principal amount of \$100,000,000 each for the Series D Bonds, the Series E Bonds and the Series F Bonds, and in the principal amount of \$101,500,000 for the Series G Bonds. Each Series of the ARS Bonds will be dated as of the date of initial delivery and will mature on December 1, 2030.

The ARS Bonds will be issued initially as bonds that bear interest at an ARS Rate but may be converted at the option of the Issuer, subject to certain restrictions, to bonds that bear interest at Fixed Interest Rates. Each Series of the ARS Bonds will bear interest from their date of delivery for the applicable Initial Period set forth on the inside front cover of this Official Statement at the rates established by Goldman, Sachs & Co. and thereafter at the applicable ARS Rate determined pursuant to the Auction Procedures (as hereinafter defined). Following the Initial Period, each Series of the ARS Bonds initially will bear interest for seven-day Auction Periods, but all (and not less than all) of each Series may be converted to a daily, seven-day, 28-day, 35-day, three-month or six-month Auction Period or a Special Auction Period. The Special Auction Period is any period of not less than seven days nor more than 1,092 days which is not another Auction Period. Upon conversion from an ARS Rate Period to a Fixed Rate Period, the ARS Bonds of each Series will be subject to mandatory tender on the conversion date at a price equal to 100% of the principal amount thereof plus accrued interest, if any, to such date. Interest on the ARS Bonds of each Series in a daily, seven-day, 28-day, 35-day or three-month Auction Period or Special Auction Period of 180 days or less shall be computed on the basis of a 360-day year for the actual number of days elapsed. Interest on the ARS Bonds of a Series in a six-month Auction Period or a Special Auction Period of more than 180 days shall be computed on the basis of a 360-day year of twelve 30-day months. See "APPENDIX D – Auction Procedures."

Payments of principal of and interest on each Series of the ARS Bonds are insured by a municipal bond insurance policy provided by the Bond Insurer. See "Bond Insurance."

**While the ARS Bonds of each series provide that the ARS Bonds of such series may, under certain circumstances set forth therein, be converted to a fixed rate of interest, this Official Statement describes each series of ARS Bonds only during the period in which they bear interest at an ARS Rate. The ARS Bonds of each series are subject to mandatory tender in the event of any such conversion. See "Conversion of ARS Bonds to a Fixed Rate Period" herein.**

The ARS Bonds of each Series will be issued as fully registered bonds without coupons and in denominations of \$25,000 or any integral multiple thereof while such ARS Bonds bear interest at an ARS Rate. The ARS Bonds of each Series will be registered in the name of Cede & Co., as nominee of DTC, pursuant to DTC's Book-Entry-Only System. Purchases of beneficial interests in the ARS Bonds of each Series will be made in book-entry form, without certificates. If at any time the Book-Entry-Only System is discontinued for any Series of ARS

Bonds, the ARS Bonds of such Series will be exchangeable for other fully registered certificated ARS Bonds of the same Series in any authorized denominations, maturity and interest rate. See "Book-Entry-Only System" herein. The Issuer may impose a charge sufficient to reimburse the Issuer for any tax, fee or other governmental charge required to be paid with respect to such exchange or any transfer of an ARS Bond. The cost, if any, of preparing each new ARS Bond issued upon such exchange or transfer, and any other expenses of the Issuer incurred in connection therewith, will be paid by the person requesting such exchange or transfer.

Interest on the ARS Bonds of each Series will be payable by check mailed to the registered owners thereof. However, interest on the ARS Bonds of each Series will be paid to any owner of \$1,000,000 or more in aggregate principal amount of ARS Bonds of such Series by wire transfer to a wire transfer address within the continental United States upon the written request of such owner received by the Trustee not less than five days prior to the Record Date. As long as the ARS Bonds of any Series are registered in the name of Cede & Co., as nominee of DTC, such payments with respect to such Series will be made directly to DTC. See "Book-Entry-Only System" herein.

#### **Certain Definitions Relating to the ARS Bonds**

In addition to the following definitions, certain defined terms used in this Official Statement to describe certain terms and conditions applicable to the ARS Bonds are set forth in Appendix D attached hereto.

"ARS Rate" means with respect to each Series of ARS Bonds, while such Series of ARS Bonds bear interest at an ARS Rate, the rate of interest to be borne by such Series of ARS Bonds during each Auction Period which (other than for the Initial Period) shall equal the Auction Rate for each Auction Period; provided, however, that, if the Auction Agent shall have failed to determine the Auction Rate for any Auction Period with respect to the ARS Bonds of any Series, the ARS Rate for such Series of ARS Bonds for such Auction Period shall be the No Auction Rate; provided, further, that if a failure by the Issuer to pay principal, premium or interest on any ARS Bond of any Series when due (a "Payment Default") shall have occurred (provided, however, that solely for purposes of this provision, payment by the Bond Insurer of such principal, premium or interest shall be deemed to cure such Payment Default and no suspension of the Auction Procedures shall occur), the ARS Rate for such Series for the Auction Period during which such Payment Default shall have occurred and each Auction Period thereafter commencing prior to the date on which the Payment Default shall have ceased to be continuing, shall be the Default Rate for such Auction Period; provided, further, that in no event shall the ARS Rate exceed the lesser of 12% per annum or the maximum rate of interest permitted by law; and provided, further, in the event of a failed conversion from an ARS Rate to a Fixed Interest Rate or the conversion from one Auction Period to another Auction Period, the ARS Bonds of the affected Series will continue as ARS Bonds with a seven-day Auction Period and bear interest at the Maximum ARS Rate for the next Auction Period.

"Auction Date" means with respect to each Series of ARS Bonds, during any period in which the Auction Procedures are not suspended in accordance with the provisions of such Series of ARS Bonds, (i) if the ARS Bonds of such Series are in a daily Auction Period, each Business Day, (ii) if the ARS Bonds of such Series are in a Special Auction Period, the last Business Day of the Special Auction Period, and (iii) if the ARS Bonds of such Series are in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Series of ARS Bonds (whether or not an Auction shall be conducted on such date); provided, however, that the last Auction Date with respect to the ARS Bonds of each Series in an Auction Period other than the daily Auction Period or Special Auction Period shall be the earlier of (a) the Business Day next preceding the Interest Payment Date next preceding the conversion date for the ARS Bonds of such Series and (b) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for the ARS Bonds of such Series; and provided, further, that if the ARS Bonds of such Series are in a daily Auction Period, the last Auction Date shall be the earlier of (x) the Business Day next preceding the conversion date for the ARS Bonds of such Series and (y) the Business Day next preceding the final maturity date for the ARS Bonds of such Series. The last Business Day of a Special Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there will be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion.

"Auction Period" means, with respect to each Series of ARS Bonds,

(i) with respect to such Series of ARS Bonds in a Special Auction Period, such Special Auction Period;

(ii) with respect to such Series of ARS Bonds in a daily mode, a period beginning on each Business Day and extending to but not including the next succeeding Business Day;

(iii) in the case of the Series D Bonds, with respect to such Series of ARS Bonds in a seven-day mode, a period of generally seven days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(iv) in the case of the Series E Bonds, with respect to such Series of ARS Bonds in a seven-day mode, a period of generally seven days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(v) in the case of the Series F Bonds, with respect to such Series of ARS Bonds in a seven-day mode, a period of generally seven days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(vi) in the case of the Series G Bonds, with respect to such Series of ARS Bonds in a seven-day mode, a period of generally seven days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(vii) in the case of the Series D Bonds, with respect to such Series of ARS Bonds in the 28-day mode, a period of generally 28 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the fourth Tuesday thereafter (unless such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(viii) in the case of the Series E Bonds, with respect to such Series of ARS Bonds in the 28-day mode, a period of generally 28 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the fourth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(ix) in the case of the Series F Bonds, with respect to such Series of ARS Bonds in the 28-day mode, a period of generally 28 days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the fourth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(x) in the case of the Series G Bonds, with respect to such Series of ARS Bonds in the 28-day mode, a period of generally 28 days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the fourth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(xi) in the case of the Series D Bonds, with respect to such Series of ARS Bonds in the 35-day mode, a period of generally 35 days beginning on a Wednesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Tuesday) and ending on the fifth Tuesday thereafter (unless



such Tuesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(xii) in the case of the Series E Bonds, with respect to such Series of ARS Bonds in the 35-day mode, a period of generally 35 days beginning on a Thursday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Wednesday) and ending on the fifth Wednesday thereafter (unless such Wednesday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(xiii) in the case of the Series F Bonds, with respect to such Series of ARS Bonds in the 35-day mode, a period of generally 35 days beginning on a Monday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Sunday) and ending on the fifth Sunday thereafter (unless such Sunday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(xiv) in the case of the Series G Bonds, with respect to such Series of ARS Bonds in the 35-day mode, a period of generally 35 days beginning on a Tuesday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on a Monday) and ending on the fifth Monday thereafter (unless such Monday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day);

(xv) with respect to such Series of ARS Bonds in a three-month mode, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the first day of the month that is the third calendar month following the beginning date of such Auction Period;

(xvi) with respect to such Series of ARS Bonds in a six-month mode, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding June 1 and December 1;

(xvii) and provided, however, that (A) if there is a conversion of a Series of ARS Bonds from a daily Auction Period to a seven-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and will end on the next succeeding day of the week specified above in subparagraph (iii), (iv), (v) or (vi), as applicable, with respect to such Series of ARS Bonds on the last day of the Auction Period referred to therein, (B) if there is a conversion from a daily Auction Period to a 28-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and will end on the day of the week specified above in subparagraph (vii), (viii), (ix) or (x), as applicable, with respect to such Series of ARS Bonds on the last day of the Auction Period referred to therein which is more than 21 days but not more than 28 days from such date of conversion, and (C) if there is a conversion from a daily Auction Period to a 35-day Auction Period, the next Auction Period will begin on the date of the conversion (i.e., the Interest Payment Date for the prior Auction Period) and will end on the day of the week specified above in subparagraph (xi), (xii), (xiii) or (xiv), as applicable, with respect to such Series of ARS Bonds on the last day of the Auction Period referred to therein which is more than 28 days but not more than 35 days from such date of conversion.

“Business Day” means any day other than a Saturday, a Sunday or any other day on which the Paying Agent or the Auction Agent is authorized or required by law to be closed for business.

“Interest Payment Date” means, with respect to each Series of ARS Bonds, December 20, 2000 for the Series D Bonds, December 21, 2000 for the Series E Bonds, December 26, 2000 for the Series F Bonds and December 26, 2000 for the Series G Bonds for the Initial Period of each such Series, respectively, and thereafter: (a) when used with respect to any Auction Period other than a daily Auction Period or a Special Auction Period, the Business Day immediately following such Auction Period; (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period; (c) when used with respect to a Special Auction Period of (i) seven or more but fewer than 92 days, the Business Day immediately following such Special Auction Period, or (ii) 92 or more days, each thirteenth Wednesday with respect to the Series D Bonds, each thirteenth Thursday with respect to the Series E Bonds, each thirteenth Monday with respect to the Series F Bonds

and each thirteenth Tuesday with respect to the Series G Bonds after the first day of such Special Auction Period or the next Business Day if such Wednesday, Thursday, Monday or Tuesday (as appropriate) is not a Business Day and on the Business Day immediately following such Special Auction Period; (d) after the Fixed Rate Conversion Date, each June 1 and December 1; and (e) the final maturity date for such Series.

So long as each Series of the ARS Bonds is in a seven-day mode, then (subject to adjustment in the event that such a day is not a Business Day), the Interest Payment Date for such Series shall be the day of the week specified below for such Series:

<u>Series of ARS</u>	<u>Interest Payment Date</u>
D	Wednesday
E	Thursday
F	Monday
G	Tuesday

Auction Agent

The Issuer and the Paying Agent will enter into the Auction Agreement initially with The Bank of New York, pursuant to which The Bank of New York shall perform the duties of Auction Agent. The Auction Agreement will provide, among other things, that the Auction Agent will determine the Auction Rate for each Auction in accordance with the Auction Procedures.

Auction Date

An Auction to determine the interest rate with respect to each Series of the ARS Bonds for the next succeeding Auction Period will be held on each Business Day while the ARS Bonds of such Series are in a daily Auction Period and if converted to any other Auction Period on the Business Day next preceding each Interest Payment Date for the ARS Bonds of such Series. So long as each Series of the ARS Bonds is in a seven-day mode, then (subject to adjustment in the event that such a day is not a Business Day), the Auction Date for each Series shall be the day of the week specified below for each Series and the first Auction for each Series of the ARS Bonds will take place on the date specified below for such Series:

<u>Series of ARS</u>	<u>Auction Date</u>	<u>First Auction Date</u>
D	Tuesday	December 19, 2000
E	Wednesday	December 20, 2000
F	Friday	December 22, 2000
G	Monday	December 22, 2000

Orders of Existing Owners and Potential Owners

The procedure for submitting orders prior to the Submission Deadline on each Auction Date is described in Appendix D, as are the particulars with regard to the determination of the Auction Rate and the allocation of ARS Bonds of each Series bearing interest at ARS Rates (collectively, the "Auction Procedures").

Amendment of Auction Procedures

The provisions of the ARS Bonds concerning the Auction Procedures, including without limitation the definitions of Default Rate, Maximum ARS Rate, Minimum ARS Rate, ARS Index, ARS Multiple, No Auction

Rate and ARS Rate, may be amended by obtaining the consent of the owners of each Series of ARS Bonds. All owners will be deemed to have consented if on the first Auction Date occurring at least 20 days after the Auction Agent mailed notice to such owners the ARS Rate determined for such date is the Winning Bid Rate.

#### Conversion from One Auction Period to Another

The ARS Bonds of each Series may be converted at the option of the Issuer from one Auction Period to another Auction Period. Such conversion shall only occur, however, if Sufficient Clearing Bids exist at the Auction immediately preceding the conversion. On the conversion date for a Series of ARS Bonds selected for conversion from one Auction Period to another, any ARS Bonds of such Series which are not the subject of a specific Hold Order or Bid will be deemed to be subject to a Sell Order. In the event of a failed conversion to another Auction Period due to the lack of Sufficient Clearing Bids, the ARS Bonds of the affected Series will automatically convert to a seven-day Auction Period and will bear interest at the Maximum ARS Rate. In connection with a conversion from one Auction Period to another, written notice of such conversion will be given in accordance with the Auction Procedures; however, the ARS Bonds of the affected Series will not be subject to mandatory tender on such conversion date.

#### Conversion of ARS Bonds to a Fixed Rate Period

At the option of the Issuer, all (but not less than all) of any Series of the ARS Bonds may be converted to bear interest at a Fixed Rate, provided that all Series need not be converted if one or more Series is converted, all as described in Appendix D. On the Fixed Rate Conversion Date applicable to the ARS Bonds of the Series to be converted, the ARS Bonds of such Series shall be subject to mandatory tender at a purchase price equal to 100% of the principal amount thereof, plus accrued interest. The purchase price of the ARS Bonds so tendered is payable solely from the proceeds of the remarketing of such ARS Bonds. In the event that the conditions of a conversion are not satisfied, including the failure to remarket all applicable ARS Bonds on a mandatory tender date, such ARS Bonds will not be subject to mandatory tender and will be returned to their owners, and all of the ARS Bonds of such Series will automatically convert to a seven-day Auction Period and will bear interest at the Maximum ARS Rate. It is currently anticipated that, should any of the ARS Bonds be converted to bear interest at a Fixed Rate, a remarketing memorandum or remarketing circular will be distributed describing such ARS Bonds during such Rate Period.

#### Special Considerations Relating to the ARS Bonds Bearing Interest at ARS Rates

The ARS Bonds provide that the Auction Agent may resign from its duties as Auction Agent by giving at least 90 days notice or 30 days notice, if it has not been paid, to the Issuer and the Paying Agent and do not require, as a condition to the effectiveness of such resignation, that a replacement Auction Agent be in place if its fee has not been paid. Each Broker-Dealer Agreement provides that the Broker-Dealer thereunder may resign upon five Business Days notice or immediately, in certain circumstances, and does not require, as a condition to the effectiveness of such resignation, that a replacement Broker-Dealer be in place. For any Auction Period during which there is no duly appointed Auction Agent, or during which there is no duly appointed Broker-Dealer, it will not be possible to hold Auctions, with the result that the interest rate on the ARS Bonds of each affected Series Bonds will be the No Auction Rate.

Bondholders may not be able to sell their ARS Bonds in an Auction if there are not Sufficient Clearing Bids, in which case Bondholders may be required to hold their ARS Bonds and such ARS Bonds will bear interest at the Maximum ARS Rate until a new ARS Rate has been established pursuant to the Auction Procedures.

Each Broker-Dealer Agreement will provide that a Broker-Dealer may submit an Order in Auctions for its own account. If a Broker-Dealer submits an Order for its own account in any Auction, it might have an advantage over other Bidders in that it would have knowledge of orders placed through it in that Auction; such Broker-Dealer, however, would not have knowledge of Orders submitted by other Broker-Dealers (if any) in that Auction. In each Broker-Dealer Agreement, Broker-Dealers will agree to handle customer orders in accordance with their respective duties under applicable securities laws and rules.

Each of the Underwriters has advised the Issuer that it intends initially to make a market in each Series of the ARS Bonds between Auctions; however, none of the Underwriters is obligated to make such markets, and no assurance can be given that secondary markets therefor will develop.

Changes to the Auction Periods and Auction Dates do not require the amendment of the Auction Procedures or any consents.

### Redemption Provisions

**Mandatory Sinking Fund Redemption.** Each Series of the ARS Bonds will be subject to mandatory sinking fund redemption and shall be redeemed by sinking fund installments on December 1 in each of the years and in the amounts set forth below at a redemption price equal to the principal amount thereof, plus accrued interest to the date of redemption, as follows (provided, however, that while any ARS Bonds to be redeemed bear interest at an ARS Rate in any Auction Period other than a daily Auction Period, if such December 1 is not an Interest Payment Date, the redemption shall occur on the Interest Payment Date immediately preceding such December 1):

Year*	<u>Amount</u>			
	<u>Series D Bonds</u>	<u>Series E Bonds</u>	<u>Series F Bonds</u>	<u>Series G Bonds</u>
2020	\$23,375,000	\$23,375,000	\$23,375,000	\$24,225,000
2025	11,300,000	11,300,000	11,300,000	11,625,000
2026	11,850,000	11,850,000	11,850,000	12,150,000
2027	12,475,000	12,500,000	12,500,000	12,500,000
2028	13,100,000	13,100,000	13,075,000	13,100,000
2029	13,725,000	13,700,000	13,725,000	13,725,000
2030**	14,175,000	14,175,000	14,175,000	14,175,000

\* The ARS Bonds are not subject to mandatory sinking fund redemption in the years 2021 through 2024.

\*\* Final maturity.

**Optional Redemption of the ARS Bonds.** During an ARS Rate Period, the ARS Bonds of each Series may be redeemed in whole or in part on any Interest Payment Date, at the principal amount of the ARS Bonds of such Series to be redeemed without premium; provided, however, in the event of a partial redemption of any Series of ARS Bonds bearing interest at an ARS Rate, the aggregate principal amount not so redeemed shall be an integral multiple of \$25,000 and the aggregate principal amount of ARS Bonds of such Series bearing interest at an ARS Rate which will remain outstanding is at least \$10,000,000 unless otherwise consented to by the Broker-Dealers.

### Plan of Finance

The Bonds are being issued pursuant to the provisions of Section 49 of Chapter 29 of the Massachusetts General Laws and in bond authorizations contained in various special laws enacted by the legislature. A substantial portion of the net proceeds of the sale of the Bonds will be applied by the Treasurer and Receiver-General of the Commonwealth (the "State Treasurer") to finance or reimburse the Commonwealth for a portion of the costs of construction of the Central Artery/Tunnel Project ("CA/T Project"). The CA/T Project involves the depression of a portion of Interstate 93 in downtown Boston (the Central Artery), which is now an elevated highway, and the construction of a new tunnel under Boston Harbor (the Ted Williams Tunnel), which has been substantially completed and is now open, to link the Boston terminus of the Massachusetts Turnpike (Interstate 90) to Logan International Airport and points north.

Net proceeds not applied to CA/T Project costs will be applied by the State Treasurer to the various purposes for which the issuance of bonds has been authorized pursuant to such special laws or to the payment of bond anticipation notes previously issued for such purposes.

### 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 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 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 March Information Statement under the headings "COMMONWEALTH REVENUES—Limitations on Tax Revenues" and "COMMONWEALTH BOND AND NOTE LIABILITIES – 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 of the qualities and incidents of negotiable instruments under the Uniform Commercial Code. The Bonds are not subject to acceleration.

### **BOND INSURANCE**

Concurrently with the issuance of the Bonds, Financial Guaranty Insurance Company ("Financial Guaranty") will issue its Municipal Bond New Issue Insurance Policy for the Bonds (the "Policy"). The Policy unconditionally guarantees the payment of that portion of the principal of and interest on the Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the issuer of the Bonds (the "Issuer"). Financial Guaranty will make such payments to State Street Bank and Trust Company, N.A., or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Bonds or the Paying Agent of the nonpayment of such amount by the Issuer. The Fiscal Agent will disburse such amount due on any Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal and interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal and interest shall be vested in Financial Guaranty. The term "nonpayment" in respect of a Bond includes any payment of principal or interest made to an owner of a Bond 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.

The Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Bonds. The Policy covers failure to pay principal of the Bonds on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment.

This Official Statement contains a section regarding the ratings to be assigned to the Bonds and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the Bonds.

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

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of September 30, 2000, the total capital and surplus of Financial Guaranty was approximately \$1.126 billion. Financial Guaranty prepares financial statements on the basis of both

statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 115 Broadway, New York, New York 10006, Attention: Communications Department (telephone number: 212-312-3000) or to the New York State Insurance Department at 25 Beaver Street, New York, New York 10004-2319, Attention: Financial Condition Property/Casualty Bureau (telephone number: 212-480-5187).

## 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 March Information Statement and "Appendix A – Commonwealth Information Statement Supplement" under the heading "LEGAL MATTERS."

## BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Bonds. The Bonds will initially be issued exclusively in book-entry form, and one or more fully registered Bonds of each series 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 settlement among DTC Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of the DTC Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as banks, securities brokers and dealers, and trust companies 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.

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, but Beneficial Owners are expected to receive written confirmations of their purchase providing details of the Bonds acquired, 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 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. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. effect no 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 Cede & Co. 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. 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 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.**

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, unless a substitute depository is retained by the Commonwealth, 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 determine that continuation of the system of book-entry transfers through DTC (or a successor depository) is not in the best interest of the Beneficial Owners. In such event, Bonds will be delivered and registered as designated by the Beneficial Owners.

The principal of and interest on the Bonds will be paid to DTC or its nominee, Cede & Co., as registered owner of the Bonds. Upon receipt of moneys, 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 unless DTC has reason to believe it will not receive payment on the payable date. 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 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.

A Beneficial Owner shall give notice to elect to have its Bonds purchased or tendered, through its Participant, to the Tender Agent, and shall effect delivery of such Bonds by causing the DTC Participant to transfer

the Participant's interest in the Bonds, on DTC's records, to the Tender Agent. The requirement for physical delivery of Bonds in connection with a demand for purchase or a mandatory purchase will be deemed satisfied when the ownership rights in the Bond are transferred by the DTC Participants on DTC's records.

**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

Application for ratings on the Bonds has been made with Fitch, Inc., Moody's Investors Service and Standard & Poor's Ratings Services.

Such ratings, when issued, will 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 price of the Bonds equal to .2676% 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 cover page hereof.

## 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.

The opinion of Bond Counsel as to federal and Massachusetts tax matters shall not include the continuation of any exemption with respect to the Bonds of any Series from and after the date that the Bonds of such Series are converted to Fixed Rate Indebtedness.

On the date of delivery of the Bonds, the original purchasers will be furnished with an opinion of Bond Counsel substantially in the form attached hereto as "Appendix B - 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 of Boston, Massachusetts, Bond Counsel to the State Treasurer. The proposed form of the opinion of Bond Counsel relating to the Bonds is attached as Appendix B. Certain legal matters will be passed upon for the State Treasurer by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. of Boston, Massachusetts, as Disclosure Counsel to the State Treasurer. 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)(15) of Rule 15c2-12 of the Securities and Exchange Commission, 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 C attached hereto.

For information concerning the availability of certain other financial information from the Commonwealth, see the March 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.

All estimates and assumptions in this Official Statement have been made on the best information available and are believed to be reliable, but no representations whatsoever are made that such estimates and assumptions are correct. So far as any statements in this Official Statement involve any matters of opinion, whether or not expressly

so stated, they are intended merely as such and not as representations of fact. The various tables may not add due to rounding of figures.

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

#### AVAILABILITY OF OTHER INFORMATION

Questions regarding this Official Statement or requests for additional financial 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, or Scott A. Jordan, Director of Debt Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Official Statement and the Bonds should be directed to Lawrence D. Bragg, III, Esq., Ropes & Gray, One International Place, Boston, Massachusetts 02110, telephone 617/951-7000.

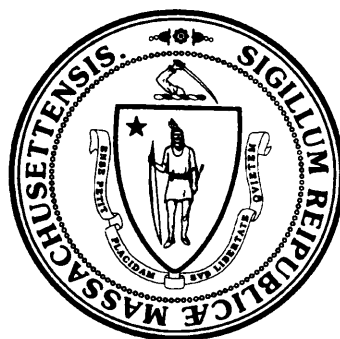
#### THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Shannon P. O'Brien  
Shannon P. O'Brien  
*Treasurer and Receiver-General*

By /s/ Stephen P. Crosby  
Stephen P. Crosby  
*Secretary of Administration and Finance*

November 30, 2000

**THE  
COMMONWEALTH  
OF  
MASSACHUSETTS**



**INFORMATION STATEMENT**

**Dated March 3, 2000**

**INFORMATION STATEMENT SUPPLEMENT**

**Dated November 27, 2000**

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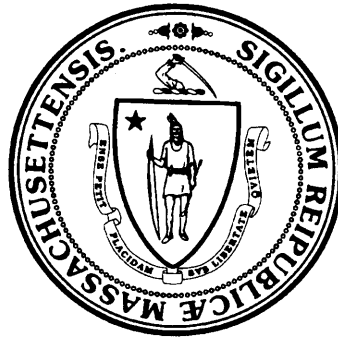
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**THE COMMONWEALTH OF MASSACHUSETTS**



**CONSTITUTIONAL OFFICERS**

**Argeo Paul Cellucci..... Governor**  
**Jane M. Swift ..... Lieutenant Governor**  
**William F. Galvin ..... Secretary of the Commonwealth**  
**Thomas F. Reilly..... Attorney General**  
**Shannon P. O'Brien ..... Treasurer and Receiver-General**  
**A. Joseph DeNucci..... Auditor**

**LEGISLATIVE OFFICERS**

**Thomas F. Birmingham..... President of the Senate**  
**Thomas M. Finneran ..... Speaker of the House**

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# THE COMMONWEALTH OF MASSACHUSETTS

## INFORMATION STATEMENT SUPPLEMENT

November 27, 2000

This supplement ("Supplement") to the Information Statement of The Commonwealth of Massachusetts (the "Commonwealth") dated March 3, 2000 (the "March Information Statement") is dated November 27, 2000 and contains information which updates the information contained in the March Information Statement. Exhibit A to this Supplement sets forth certain economic, demographic and statistical information concerning the Commonwealth. Exhibit B to this Supplement is the fiscal 2000 Statutory Basis Financial Report of the Commonwealth. Exhibit C to this Supplement is the fiscal 1999 Comprehensive Annual Financial Report (GAAP basis) of the Commonwealth. Specific reference is made to said Exhibits A, 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 financial statements are also available on the Comptroller's web site located at <http://www.state.ma.us/osc/Reports/reportsfinancial.htm>. This Supplement and the March Information Statement must be read collectively and in their entirety in order to obtain the appropriate fiscal, financial and economic information concerning the Commonwealth through November 27, 2000. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the March Information Statement.

### RECENT DEVELOPMENTS

#### Fiscal 2001

On April 14, 2000 the House of Representatives approved its version of the fiscal 2001 budget. The House budget provided for total appropriations of approximately \$21.8 billion and was based on a tax revenue estimate of \$15.928 billion, including \$645 million of sales tax receipts dedicated to the Massachusetts Bay Transportation Authority as a result of forward funding legislation. See the March Information Statement under the heading "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority." The House tax revenue estimate was approximately \$245 million higher than the estimate contained in the Governor's fiscal 2001 budget recommendations, after adjusting for proposed tax cuts in the Governor's budget. The House budget provided for the current expenditure of 30% of tobacco settlement moneys to be received in fiscal 2001 rather than 50% as recommended by the Governor. The House budget included a provision that would have reduced the personal income tax rate starting in tax year 2003 under conditions of continuing growth in the state economy. The House budget also included, with some modifications, the Governor's proposal to revamp the school building assistance program. See the March Information Statement under the heading "2001 FISCAL YEAR."

On May 25, 2000 the Senate approved its version of the fiscal 2001 budget, which provided for total spending of approximately \$21.549 billion and was based on a tax revenue estimate of approximately \$15.849 billion, essentially equivalent to the House estimate after adjusting for proposed tax cuts in the Senate budget. Like the Governor, but unlike the House, the Senate recommended spending 50% of tobacco settlement moneys to be received in fiscal 2001 and thereafter. The Senate budget provided for a personal income tax deduction for charitable contributions. The Senate budget also provided for pay-as-you-go capital spending during fiscal years 2001 through 2005.

Based on tax revenue through April, the Secretary of Administration and Finance did not agree with the Legislature's proposed tax revenue estimate, and consensus was not reached by May 15, 2000 as required by state finance law (see the March Information Statement under the heading "COMMONWEALTH REVENUES - Tax Revenue Forecasting"). On June 12, 2000 the Secretary of Administration and Finance informed the chairmen of the House and Senate Committees on Ways and Means that the administration accepted the legislative consensus tax revenue estimate for fiscal 2001 (\$15.928 billion before any tax cuts), based on higher-than-expected tax collections in May, 2000.

According to estimates by the Executive Office for Administration and Finance, total spending in the House budget was approximately \$370 million more than the Governor's recommendations, as adjusted upward by newly identified appropriation needs of approximately \$70 million since the Governor's budget was filed in January. Total spending in the Senate budget was approximately \$210 million more than the Governor's adjusted recommendations.

On July 17, 2000 the legislative conference committee charged with reconciling the differences between the House and Senate versions of the fiscal 2001 budget released its report, and the compromise budget was enacted by both houses of the Legislature on July 18, 2000. The Governor approved the budget on July 28, 2000 after vetoing approximately \$175 million of appropriations. On July 31, 2000 the Legislature restored approximately \$88.2 million of appropriations by overriding the Governor's vetoes. Taking into account the vetoes and overrides, the fiscal 2001 budget provides for total spending of approximately \$21.464 billion. It provides for charitable contributions to be deductible from personal income taxes, but does not reduce personal income tax rates. See "State Taxes." Assumed tax revenues, including sales tax receipts dedicated to the MBTA and taking into account the charitable contributions deduction, are \$15.849 billion. The budget provides for 30% of tobacco settlement moneys to be expended in fiscal 2001. It also contains the Senate provisions for pay-as-you-go capital spending. "See Update of Proposed Capital Spending Authorizations." As recommended by the Governor, the budget appropriates \$922 million for the state's pension funding schedule and an additional \$100 million related to increased pension liabilities due to the conversion to new actuarial software.

On August 29, 2000 the Governor filed a bill recommending fiscal 2001 supplemental appropriations totaling approximately \$30.9 million, of which approximately \$28.4 million was to correct underfunding in several appropriation items in the fiscal 2001 budget. On October 2, 2000 the House Committee on Ways and Means approved supplemental appropriations totaling approximately \$73 million. On October 4, 2000 the Governor filed a bill recommending fiscal 2001 supplemental appropriations totaling approximately \$32 million for a one-time mitigation of recent increases in fuel costs for low-income families, the elderly and state agencies which pay fuel costs out of their regular operating budgets. On November 2, 2000 the Governor approved fiscal year 2001 supplemental appropriations totaling \$4.5 million for the family shelter program of the Department of Transitional Assistance. On November 9, 2000 the Governor approved fiscal 2001 supplemental appropriations totaling \$17 million, of which \$12 million were for the low-income energy assistance program and \$5 million were to increase heating oil supplies in the Commonwealth.

On October 11, 2000 the Secretary of Administration and Finance announced a revised fiscal 2001 revenue estimate of \$16.209 billion, an increase of \$360 million, or 2.2%, over the prior estimate of \$15.849 billion. Taking into account the reduction in personal income tax rates approved by the voters on November 7, 2000 (see "State Taxes," below), the revised estimate for fiscal 2001 is \$16.074 billion. (Reductions attributable to charitable deductions, also approved by the voters, were included in previous estimates because of the legislative enactment of such deductions as part of the fiscal 2001 budget.) The revised total includes \$645 million of sales tax receipts dedicated to the Massachusetts Bay Transportation Authority. (See the March Information Statement under the heading "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority.")

Tax collections in October, 2000 totaled approximately \$1.088 billion, an increase of approximately \$48.9 million, or 4.7%, over October, 1999. The October total includes approximately \$58.3 million of sales tax receipts dedicated to the MBTA. Year-to-date tax collections through October, 2000 totaled approximately \$5.043 billion, an increase of approximately \$488.4 million, or 10.7%, over the comparable period in fiscal 2000. The year-to-date total includes approximately \$221.8 million of sales tax receipts dedicated to the MBTA. The benchmark range for collections through October, 2000, based on the fiscal 2001 tax revenue estimate of \$16.074 billion, was \$4.669 billion to \$4.889 billion.

#### **Fiscal 2000**

On a statutory basis, tax collections in fiscal 2000 totaled approximately \$15.702 billion, an increase of approximately \$1.398 billion, or 9.8%, over fiscal 1999, and approximately \$243.6 million higher than the final estimate for fiscal 2000.



The Division of Medical Assistance experienced an estimated deficiency of \$202.1 million in fiscal 2000 resulting from increased caseloads, rate increases and an internal accounting issue relating to the Division's 52-week billing system, which is equipped to pay medical bills from providers for only 364 days per year. Bills for a "53<sup>rd</sup> week" must be paid on occasion to account for the lost billing days in previous years. Corrective action is planned to prevent future deficiencies related to the Division's billing system. The deficiency was partially offset with \$67.5 million in reversions, resulting in a net deficiency of \$134.6 million. The deficiency was offset further by increased federal reimbursements of \$101.1 million, for a net balance sheet impact of \$33.5 million. On June 23, 2000 the Governor approved supplemental appropriations sufficient to eliminate the deficiency.

On May 5, 2000, the Governor approved a fiscal 2000 supplemental appropriations bill containing approximately \$85.7 million of appropriations to make up deficiencies in certain accounts, including \$25.3 million for the statewide snow and ice removal program. On June 23, 2000 the Governor approved a supplemental appropriations bill containing approximately \$202.3 million of appropriations to make up deficiencies in certain accounts, including the Division of Medical Assistance accounts described above. On July 28, 2000 the Governor approved a supplemental appropriations bill containing approximately \$62.8 million of appropriations, including \$50 million for the Chapter 90 local road and bridge program and funds for the Registry of Motor Vehicles. On August 10, 2000 the Governor approved the final supplemental appropriations bill for fiscal 2000, containing approximately \$342 million of additional fiscal 2000 appropriations after vetoing approximately \$20 million. The bill provided for approximately \$149.5 million of fiscal 2000 appropriations to be available for expenditure in fiscal 2001. The bill provided for an \$87.7 million distribution of lottery proceeds to cities and towns and contained provisions for disposing of additional fiscal 2000 surplus revenues as described below.

On May 17, 2000 the Governor approved legislation providing for \$500 million in surplus fiscal 2000 revenues to be deposited in the Debt Defeasance Trust Fund. See "COMMONWEALTH CAPITAL SPENDING – Central Artery/Ted Williams Tunnel Project." On July 19, 2000 the Governor filed legislation that would have authorized the deposit in the Debt Defeasance Trust Fund of \$150 million in additional fiscal 2000 surplus revenues. As enacted by the Legislature, the final fiscal 2000 supplemental appropriations bill provided for approximately \$86.9 million of fiscal 2000 surplus revenues to be transferred to the Capital Improvement and Investment Trust Fund for specified capital expenditures through fiscal 2003; in approving the bill on August 10, 2000, the Governor reduced this amount by approximately \$20.1 million. The final supplemental appropriations act also provided for \$10 million of fiscal 2000 surplus revenues to be transferred to the Teacher, Principal and Superintendent Quality Endowment Fund (formerly the Teacher Quality Endowment Fund) and approximately \$66.6 million of such revenues to be transferred to a new MBTA Infrastructure Renovation Fund for specified capital expenditures by the Massachusetts Bay Transportation Authority through fiscal 2005 that are not included in the Authority's own capital spending plan. See the March Information Statement under the heading "FINANCIAL RESULTS – Selected Financial Data - Statutory Basis."

In accordance with state finance law, on October 31, 2000, the Comptroller issued the final, audited Statutory Basis Financial Report of the Commonwealth for fiscal 2000. The Comptroller expects to issue the fiscal 2000 Comprehensive Annual Financial Report (GAAP basis) on or before December 31, 2000 and to file it with each Nationally Recognized Municipal Securities Information Repository upon its release.

## **State Taxes**

On November 7, 2000 Massachusetts voters approved two initiative petitions that will reduce personal income taxes. See the March Information Statement under the heading "COMMONWEALTH REVENUES – State Taxes; *Income Tax*." One of the approved petitions sets the Part B income tax rate at 5.6% on January 1, 2001, 5.3% on January 1, 2002 and 5% on January 1, 2003 and thereafter. The Department of Revenue estimates that this change will reduce fiscal 2001 revenues by \$135 million, fiscal 2002 revenues by \$457 million and fiscal 2003 revenues by \$883 million. The annualized value of the reduction, once fully effective in fiscal 2004, is estimated to be approximately \$1.154 billion. The other approved petition provides for a personal income tax deduction for charitable contributions, effective January 1, 2001. The petition essentially re-enacts a provision for such a deduction included in the fiscal 2001 budget. The Department of Revenue estimates the cost of the deduction to be \$70 million to \$90 million in fiscal 2001 and \$157 million to \$192 million annually thereafter. The initiative petition that would have established tax credits for amounts paid as tolls and motor vehicle excise taxes was disapproved by the voters.

Legislation approved by the Governor on July 28, 2000 as part of the fiscal 2001 budget froze the motor fuels excise tax at 21¢ per gallon of fuel, which has been the effective tax rate for many years. Under prior law, the tax per gallon was 19.1% of the weighted average selling price per gallon of fuel, but not less than 21¢. See the March Information Statement under the heading "COMMONWEALTH REVENUES – State Taxes; *Other Taxes*."

On September 19, 2000 the State Auditor issued his report calculating whether net state tax revenues in fiscal 2000 exceeded allowable state tax revenues under the limit set by Chapter 62F of the Massachusetts General Laws. See the March Information Statement under the heading "COMMONWEALTH REVENUES – Limitations on Tax Revenues." For fiscal 2000, net state tax revenues, as determined by the State Auditor pursuant to Chapter 62F, were approximately \$15.702 billion and allowable state tax revenues were approximately \$16.694 billion.

On October 11, 2000 the Secretary of Administration and Finance estimated that fiscal 2002 tax revenues will total \$16.551 billion, including \$671 million in sales tax receipts dedicated to the MBTA. This estimate has since been reduced to \$16.090 billion to reflect passage on November 7, 2000 of the initiative petition to reduce personal income tax rates.

### **Cash Flow Projection**

A cash flow projection for fiscal 2001 was released by the State Treasurer and the Secretary of Administration and Finance on August 25, 2000. According to the report, fiscal 2001 is projected to end with a cash balance of \$2.016 billion, excluding any fiscal 2001 activity that will occur after June 30, 2001 and excluding the Stabilization Fund. The corresponding figure for the end of fiscal 2000 was approximately \$1.991 billion, of which \$650 million was set aside for fiscal 2001 cash defeasance transactions, \$160 million was set aside for disbursement to the Massachusetts Bay Transportation Authority and \$230 million represented moneys sequestered for capital projects, leaving approximately \$951 million as general operating cash. It is likewise anticipated that less than half of the cash balance forecast for the end of fiscal 2001 will be available as general operating cash, due primarily to the \$3 billion of Commonwealth bond and note issues forecast for fiscal 2001. The anticipated debt offerings include \$2 billion in general obligation bonds (\$500 million in September, 2000, \$750 million in October, 2000 and \$250 million each in December, 2000, March, 2001 and May, 2001), \$600 million in federal grant anticipation notes (September, 2000) and \$400 million in bond anticipation notes (September, 2000). Of the general obligation bonds, \$1 billion is expected to be issued for the Central Artery/Ted Williams Tunnel project, as are all of the federal grant anticipation notes. See "COMMONWEALTH CAPITAL SPENDING – Central Artery/Ted Williams Tunnel Project." The bond anticipation notes are general obligation notes being issued to finance costs associated with the Boston Convention and Exhibition Center in anticipation of special obligation bonds and other capital costs. See the March Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES – Special Obligation Debt; *Boston Convention and Exhibition Center Fund*." (The Commonwealth did issue \$400 million of bond anticipation notes on September 7, 2000. The Commonwealth issued \$220 million of additional bond anticipation notes through its commercial paper program on September 27, 2000 in anticipation of issuing federal grant anticipation notes in November, 2000. On November 15, 2000 the Commonwealth sold federal grant anticipation notes in the aggregate principal amount of \$577.6 million; such notes are expected to be delivered on November 30, 2000. On November 2, 2000 the Commonwealth issued general obligation bonds in the aggregate principal amount of approximately \$563.7 million. Additional general obligation bonds are now expected to be issued as follows: \$925 million in December, 2000 (including \$275 million as variable rate demand bonds and \$400 million as auction rate securities) and \$250 million each in March and May, 2001.)

The next cash flow projection is expected to be filed shortly.

### **Medicaid**

On June 15, 2000 the federal Health Care Financing Administration (HCFA) sent a letter to nine states, including Massachusetts, New York and Florida, indicating that portions of their Medicaid programs might be funded with impermissible taxes on health care providers, jeopardizing federal reimbursements collected on any Medicaid program expenditures funded with such taxes. In the case of Massachusetts, the letter related to the portion of the Commonwealth's Medicaid program funded by the uncompensated care pool. (The Medicaid program is 50% funded by federal reimbursements. See the March Information Statement under the heading "COMMONWEALTH PROGRAMS AND SERVICES – Medicaid.") HCFA promulgated regulations in 1993 regarding the collection of taxes imposed on health care providers and establishing a process for waiver approval of state taxes subject to the regulations. The state Division of Medical Assistance (DMA), which administers the Medicaid program in the

Commonwealth, filed a waiver request in February, 1993 relating to the permissibility of the Commonwealth's assessment on acute care hospitals to fund the uncompensated care pool in Massachusetts. The waiver request has been resubmitted three times since 1993, with DMA providing additional information each time as requested by HCFA. DMA believes that its pending waiver request addresses the concerns that have been articulated by HCFA and that the Commonwealth's implementation of the uncompensated care pool assessment is within the federal law pertaining to provider taxes. The June 15 HCFA letter requested the Commonwealth to resubmit its waiver request by July 30, 2000. The letter further stated that if HCFA were to make a final determination that the Commonwealth had imposed an impermissible provider tax, HCFA would undertake an audit of the Commonwealth's uncompensated care pool program and seek retroactive repayment of federal Medicaid reimbursements. Under federal regulations, recoupment of federal Medicaid reimbursements is generally accomplished by withholding a portion of future Medicaid reimbursements to the state owing the repayment. States can appeal a request for repayment to an appeals panel within the U. S. Department of Health and Human Services and then to a federal district court. From 1993, when the first waiver request was submitted, through fiscal 1999, the Commonwealth received an estimated \$920 million in federal Medicaid reimbursements related to expenditures associated with the uncompensated care pool, and the Commonwealth has continued to collect approximately \$37 million per fiscal quarter for each quarter following fiscal 1999. On July 28, 2000 HCFA extended the deadline for the submission of DMA's waiver request from July 30, 2000 to August 31, 2000 for collections that occurred from 1993 to the present ("original tax"), and to September 30, 2000 for certain amounts collected from 1998 to the present ("new tax"). DMA filed its "original tax" submission in response to HCFA's letter on August 31, 2000 and its "new tax" submission on September 29, 2000. In addition, HCFA allowed DMA to supplement its "original tax" submission (filed August 31, 2000) so long as it did so by September 30, 2000. Accordingly, DMA filed additional documents on September 29, 2000, which supplemented its response relative to the "original tax." Officials from DMA continue to meet with the Massachusetts Congressional delegation and officials from HCFA to discuss ways of resolving this issue. Clarification of the law surrounding permissible provider taxes is a national issue and resolution could take several years.

#### **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 1996 through 2000 and estimates for fiscal 2001 prepared by the Executive Office for Administration and Finance. 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 March Information Statement under the heading "FINANCIAL RESULTS."

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

	<u>Fiscal 1996</u>	<u>Fiscal 1997</u>	<u>Fiscal 1998</u>	<u>Fiscal 1999</u>	<u>Fiscal 2000</u>	<u>Estimated Fiscal 2001</u>
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$ 128.1	\$ 263.4	\$ 225.1	\$ 286.3	\$ 330.2	\$ 278.5
Tax Reduction Fund	--	231.7	91.8	367.7	6.8	7.2
Stabilization Fund	425.4	543.3	799.3	1,159.6	1,388.5	1,608.4
Undesignated	172.5	134.0	277.8	378.5	386.9	391.3
Fund Balance Restatement	--	0.6(2)	--	--	--	--
<b>Total</b>	<u>726.0</u>	<u>1,173.0</u>	<u>1,394.0</u>	<u>2,192.1</u>	<u>2,112.4</u>	<u>2,285.4</u>
<u>Revenues and Other Sources</u>						
Taxes	12,049.2	12,864.5	14,026.3	14,291.5	15,688.6	15,429.0(4)
Federal Reimbursements	3,039.1	3,019.6	3,361.2	3,442.9	3,645.6	3,843.9
Departmental and Other Revenues	1,208.1	1,267.9	1,286.4	1,297.8	1,359.9	1,417.3
Interfund Transfers from Non-budgeted Funds and Other Sources	<u>1,031.1</u>	<u>1,018.0</u>	<u>1,125.9</u>	<u>1,132.8</u>	<u>1,893.0</u>	<u>1,242.4</u>
<b>Budgeted Revenues and Other Sources</b>	<u>17,327.5</u>	<u>18,170.0</u>	<u>19,799.8</u>	<u>20,165.0</u>	<u>22,587.1</u>	<u>21,932.6</u>
Mass Transit Assessments from Municipalities	147.6	151.5	155.6	159.9	15.8	---
Interfund Transfers among Budgeted Funds and Other Sources	<u>896.2</u>	<u>901.8</u>	<u>1,449.2</u>	<u>1,242.0</u>	<u>3,618.2(3)</u>	<u>208.9</u>
<b>Total Revenues and Other Sources</b>	<u>18,371.3</u>	<u>19,223.3</u>	<u>21,404.6</u>	<u>21,566.9</u>	<u>26,221.1</u>	<u>22,141.5</u>
<u>Expenditures and Uses</u>						
Programs and Services	14,650.7	15,218.8	16,238.6	17,341.1	19,330.7	19,611.3
Debt Service	1,183.6	1,275.5	1,213.4	1,173.8	1,193.3	1,370.5
Pensions	1,004.6	1,069.2	1,069.8	990.2	986.3	1,041.5
Interfund Transfers to Non-budgeted Funds And Other Uses	<u>42.2</u>	<u>385.5</u>	<u>479.9</u>	<u>739.6</u>	<u>903.8</u>	<u>87.3</u>
<b>Budgeted Expenditures and Other Uses</b>	<u>16,881.1</u>	<u>17,949.0</u>	<u>19,001.7</u>	<u>20,244.7</u>	<u>22,414.1</u>	<u>22,110.6</u>
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	147.6	151.5	155.6	159.9	15.8	---
Interfund Transfers among Budgeted Funds and Other Uses	<u>896.2</u>	<u>901.8</u>	<u>1,449.2</u>	<u>1,242.0</u>	<u>3,618.2</u>	<u>208.9</u>
<b>Total Expenditures and Other Uses</b>	<u>17,924.9</u>	<u>19,002.3</u>	<u>20,606.5</u>	<u>21,646.6</u>	<u>26,048.1</u>	<u>22,319.5</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>446.4</u>	<u>221.0</u>	<u>798.1</u>	<u>(79.7)</u>	<u>173.0</u>	<u>(178.0)</u>
Transfer of Excess to Capital Projects Fund Net Balance	---	---	---	---	---	(6.9)(5) <u>(184.9)</u>
<u>Ending Fund Balances</u>						
Reserved or Designated	263.4	225.1	286.3	330.2	278.5	26.1
Tax Reduction Fund	231.7	91.8	367.7	6.8	7.2	8.0
Stabilization Fund	543.3	799.3	1,159.6	1,388.5	1,608.4	1,693.3
Undesignated	<u>134.0</u>	<u>277.8</u>	<u>378.5</u>	<u>386.9</u>	<u>391.3</u>	<u>373.1</u>
<b>Total</b>	<u>\$ 1,172.4</u>	<u>\$ 1,394.0</u>	<u>\$ 2,192.1</u>	<u>\$ 2,112.4</u>	<u>\$ 2,285.4</u>	<u>\$ 2,100.5</u>

SOURCE: Fiscal 1996-2000, Office of the Comptroller; fiscal 2001, Executive Office for Administration and Finance.

- Totals may not add due to rounding.
- The fund balance restatement for fiscal 1997 is the result of the reclassification of the Drug Analysis Fund from a non-budgeted fund to a budgeted fund.
- Reflects legislation in the final supplemental appropriations act for fiscal 2000 requiring the Comptroller to transfer funds from the General Fund to the Local Aid Fund and Highway Fund at the end of fiscal 2000, eliminating deficits in these funds.
- Reflects the October 11, 2000 estimate of \$16.209 billion, less \$645 million of sales tax receipts dedicated to the Massachusetts Bay Transportation Authority (see the March Information Statement under the heading "COMMONWEALTH PROGRAMS AND SERVICES - Massachusetts Bay Transportation Authority) and less \$135 million to reflect the passage of the November, 2000 ballot question reducing personal income taxes (see "State Taxes").
- The amount of any Capital Projects Fund transfer will be determined by the Comptroller when the books are closed for fiscal 2001 on October 31, 2001. After the books are closed, such amount will be treated as an interfund transfer to non-budgeted funds and other uses.

## COMMONWEALTH CAPITAL SPENDING

### Five-Year Capital Spending Plan

The following table sets forth the Commonwealth's current five-year capital plan. See the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING – Five-Year Capital Spending Plan." The table assumes that all Commonwealth bonds related to a particular year's expenditures will be issued in the same year. In practice, Commonwealth capital expenditures usually occur prior to the issuance of the related bonds. Accordingly, it is customary for some Commonwealth bonds to be issued in a subsequent fiscal year to finance capital expenditures made in the prior fiscal year.

The five-year capital plan governs bond-funded expenditures and does not, therefore, include expenditures from the Capital Investment Trust Fund, the Capital Improvement and Investment Trust Fund or the Capital Needs Investment Trust Fund (see "Fiscal 2000," "Update of Proposed and Approved Capital Spending Authorizations" and the March Information Statement under the heading "FINANCIAL RESULTS - Selected Financial Data - Statutory Basis") or capital expenditures from the fiscal 2000 year-end surplus (see "Fiscal 2000" and the March Information Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS – Operating Fund Structure; Year-end Surpluses").

### Summary of Five-Year Capital Spending Plan and Plan of Finance (in millions)(1)

<b>USES:</b>	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>2003</u></b>	<b><u>2004</u></b>	<b><u>2005</u></b>	<b><u>Total</u></b>
<b>Category</b>						
Information Technology	\$ 53	\$ 49	\$ 49	\$ 49	\$ 49	\$ 249
Infrastructure	185	201.5	201.5	202	202	992
Environment	104	104	104	104	105	521
Housing	74.5	72	72	71	71	360.5
Transportation						
Central Artery/Tunnel Project	1,744	1,371	940	658	240	4,953
All Other	<u>718</u>	<u>662</u>	<u>631</u>	<u>487</u>	<u>813</u>	<u>3,311</u>
Transportation Subtotal	2,462	2,033	1,571	1,145	1,053	8,264
Public Safety	19	9	9	9	9	55
Economic Development (2)	295	275	182	61	44	857
Reserve (3)	4	4	95	135	135	373
<b>Total Uses</b>	<b><u>\$ 3,197</u></b>	<b><u>\$ 2,747</u></b>	<b><u>\$ 2,284</u></b>	<b><u>\$ 1,776</u></b>	<b><u>\$ 1,668</u></b>	<b><u>\$ 11,672</u></b>
<b>SOURCES:</b>						
<b>Category</b>						
Commonwealth General Obligation Debt	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 5,000
Commonwealth Special Obligation Debt	248	227	138	16	0	629
Third Party-Supported Expenditures	117	38	11	37	181	384
Federal Grant Anticipation Notes	386	0	0	0	0	386
Federal Aid	781	599	452	387	387	2,606
Transportation Infrastructure Fund (4)	<u>666</u>	<u>883</u>	<u>684</u>	<u>336</u>	<u>100</u>	<u>2,669</u>
<b>Total Sources</b>	<b><u>\$ 3,197</u></b>	<b><u>\$ 2,747</u></b>	<b><u>\$ 2,284</u></b>	<b><u>\$ 1,776</u></b>	<b><u>\$ 1,668</u></b>	<b><u>\$ 11,672</u></b>

SOURCE: Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Includes amounts formerly labeled "Wastewater Treatment." Also includes approximately \$629 million for convention centers in Boston, Worcester and Springfield that are expected to be funded by special obligation bonds.
- (3) Reserve for unanticipated capital spending needs within a given fiscal year, to be allocated as needed among the listed categories.
- (4) Sources include up to \$1.35 billion of Commonwealth bonds; uses include \$100 million annually for the statewide road and bridge program. See "Central Artery/Ted Williams Tunnel Project."

## Central Artery/Ted Williams Tunnel Project

On March 15, 2000 the Massachusetts Turnpike Authority filed with the Federal Highway Administration a finance plan update for the Central Artery/Ted Williams Tunnel project describing the components of the additional project cash needs of \$1.398 billion, expected total cash outlays of \$13.064 billion and the Governor's proposed funding plan. See the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING – Central Artery/Ted Williams Tunnel Project." The plan contained the same cash flow projections set forth in the March Information Statement. The plan included as an appendix an interim cost validation report by the consultants that had been retained by the Turnpike Authority to undertake an independent assessment of its findings. The consultants analyzed only the estimates related to design and construction costs, which amounted to \$975 million of the \$1.398 billion total. The consultants reported that the \$975 million assessment was realistic but also indicated that they had identified risk areas of potential additional costs totaling approximately \$300 million.

On April 11, 2000 the U. S. Secretary of Transportation released a report dated March 31, 2000 that had been prepared by a task force of federal officials pursuant to the action plan that the Secretary had announced on February 17, 2000. The task force report stated that senior management of the Central Artery/Ted Williams Tunnel project had deliberately withheld information about cost overruns from the Federal Highway Administration and recommended a change in project leadership, as well as an evaluation of whether the Turnpike Authority should continue to be responsible for the management of the project. The report validated the methodology used by the Turnpike Authority to identify the potential \$1.4 billion cost overrun as realistic and consistent with normal industry practice, but stated that there were risks that could lead to cost exposures in addition to those identified in the March 15, 2000 finance plan update in the range of \$300 million to \$480 million. The task force estimated that a realistic total cost estimate for the project was \$13.4 billion to \$13.6 billion. The report stated that the Commonwealth appeared to have adequate resources to finance the additional costs but had not yet identified precisely how it would do so, noting that several of the elements in the Governor's proposed funding plan did not appear to have state legislative support. Upon receiving the report, the Governor requested and received the resignation of the chairman of the Turnpike Authority and appointed a new chairman.

On May 8, 2000 the Turnpike Authority received a letter from the Federal Highway Administration stating that it could not accept the March 15, 2000 finance plan update as filed. The letter indicated that the most critical issue to resolve was the identification of new funding resources and said that if sufficient new funding sources were not made available by the approval of appropriate legislation by May 19, 2000, the federal government would withhold additional "obligation authority" for the project. See the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING – Federal Highway Funding." The letter further stated that prior to May 19, 2000 any use of obligation authority would be available only for work that could not be deferred without cost increases. (Obligation authority has since been reinstated.) In addition, the letter stated that a completely revised finance plan update had to be submitted by June 16, 2000. Finally, the letter provided that total obligation authority for the project would be limited to the amount described in the March 15, 2000 finance plan update (\$7.049 billion plus grant anticipation notes of \$1.5 billion), and "advance construction" authorizations for the project would be limited to the amount specified in previously accepted finance plan updates (the existing balance, which was approximately \$2.864 billion at the end of fiscal 1999, plus \$222 million). Under federal highway funding statutes, the "advance construction" approach allows states, with Federal Highway Administration approval, to begin a project before amassing all of the obligation authority needed to cover the federal share of that project, and the Commonwealth has used this approach extensively for the Central Artery/Ted Williams Tunnel project. The limits on obligation authority and advance construction authorizations contained in the letter are consistent with the amount of federal funding contemplated in connection with a total project cost of \$11.667 billion, meaning that all additional costs will have to be met with non-federal funds. According to the May 8, 2000 letter, the revised finance plan update must provide for funding resources consistent with total project costs in excess of \$13.1 billion, as indicated by the higher estimates described in the March 31, 2000 federal task force report and the independent cost validation report appended to the March 15, 2000 finance plan, and must provide for full funding of a balanced statewide road and bridge program.

On May 17, 2000 the Governor approved legislation to provide financing for the additional costs of the Central Artery/Ted Williams Tunnel project and for the statewide road and bridge program. The legislation authorizes approximately \$1.520 billion of Commonwealth bonds, which may be issued as general obligations or as special obligations payable from the gasoline tax. The legislation reinstates certain fees collected by the Registry of Motor Vehicles which will be credited to the Highway Fund and which are expected to generate approximately \$100 million per year to offset debt service costs associated with the foregoing bonds and to provide direct funding for the project. (Legislation clarifying that such fees may be pledged to secure special obligation bonds was approved by the Governor on June 30, 2000.) The legislation also provides for the sale of a highway exit ramp by the Commonwealth to the Massachusetts Port Authority in exchange for \$65 million (by December 31, 2000 with a possible six-month extension) and for the additional payment to the Commonwealth by the Massachusetts Turnpike Authority of \$200 million by September 1, 2000. (This amount was paid on September 1, 2000.) Such moneys have been or will be deposited in a new Central Artery and Statewide Road and Bridge Infrastructure Fund and used to pay additional costs of the Central Artery/Ted Williams Tunnel project and to fund the statewide road and bridge program to the extent of at least \$100 million per year for each of fiscal years 2001 through 2005. In addition the legislation authorizes up to \$650 million to be deposited in the Debt Defeasance Trust Fund (up to \$500 million from surplus fiscal 2000 revenues and up to \$150 million from accumulated surpluses from fiscal years 1997, 1998 and 1999 which were originally credited to the Capital Projects Fund), where such moneys are to be used by December 31, 2000 to establish a sinking fund to retire certain Commonwealth bonds, or bonds issued prior to June 30, 2000 by other state agencies or authorities, at maturity. See the March Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES – Cash Defeasance." During each of the next five fiscal years, an amount equal to the amount that would otherwise have been appropriated for debt service on the defeased Commonwealth bonds is to be transferred by the Comptroller from the applicable budgetary operating funds to the Central Artery and Statewide Road and Bridge Infrastructure Fund. In the case of defeased bonds issued by other state agencies or authorities, such agencies or authorities are required to pay over to the Commonwealth, for transfer to the Fund, the amounts that they would have otherwise paid for debt service.

On June 16, 2000 the Massachusetts Turnpike Authority filed with the Federal Highway Administration a finance plan update identifying total project costs, expressed as cash needs through completion in fiscal 2005, of \$13.513 billion. This cost figure was based upon the previously identified project cash requirement of \$11.667 billion, plus \$1.846 billion in additional costs (including \$53 million for a garage and surface restoration work to be funded out of Turnpike Authority resources that had previously been excluded from the project budget). The estimate of additional costs was \$448 million higher than the revised estimates released on February 1, 2000 but was consistent with the range of estimated additional costs contained in the March 31, 2000 federal task force report. The June 16, 2000 finance plan update included a \$130 million contingency for Central Artery/Ted William Tunnel project needs.

By letter dated June 15, 2000, the Federal Highway Administration informed the Massachusetts Turnpike Authority that it had been designated a "high-risk grantee" with respect to activities related to the Central Artery/Ted Williams Tunnel project. The letter indicated that such designation will remain in effect until the completion of the project. According to the letter, the designation means that more detailed financial reports and additional project monitoring will be required on the project. On June 22, 2000, the Federal Highway Administration, the Executive Office of Transportation and Construction, the Massachusetts Turnpike Authority and the Massachusetts Highway Department signed a project partnership agreement setting out the federal reporting and monitoring requirements for the project and stipulating that federal funding for the project will not exceed \$8.549 billion, as contemplated by the May 8, 2000 Federal Highway Administration letter.

In March, 2000, the Executive Office for Administration and Finance engaged the services of an independent consulting and accounting firm to review costs associated with the Central Artery/Ted Williams Tunnel project. On August 7, 2000 the Executive Office received the firm's report. The report recommended that project officials should budget for \$2.140 billion in additional costs, an increase of \$294 million over the amount provided for in the June 16, 2000 finance plan update. The consultant's report also detailed other scenarios and suggested a range of further potential budget exposures of up to an additional \$280 million.

On August 8, 2000 the Turnpike Authority received a letter from the Federal Highway Administration stating that it would defer action on the June 16, 2000 finance plan update in view of the consultant's report released on August 7, 2000 and would instead await the filing of the next scheduled finance plan on October 1, 2000.

On September 29, 2000 the Turnpike Authority filed with the Federal Highway Administration a new finance plan dated October 1, 2000. The October 1, 2000 finance plan is based on information as of June 30, 2000 and the results of a comprehensive cost and schedule evaluation. The finance plan estimates total project costs to be \$14.075 billion, an increase of \$562 million over the estimates contained in the June 16, 2000 finance plan update. Most of the increase is contained in a \$203 million increase in estimated construction costs and the addition of a project contingency budget of \$258 million.

The project cost estimates contained in the October 1, 2000 finance plan are \$2.408 billion higher than the \$11.667 billion project budget in place prior to the announcement of additional costs on February 1, 2000. Excluding the \$53 million for a garage and surface restoration work that had been added to the project budget in the June 16, 2000 update (and which is being financed from Turnpike Authority resources), the difference between the October 1, 2000 estimate and the pre-February 1, 2000 estimate is \$2.355 billion. The finance plan contemplates that \$2.168 billion of this amount will be defrayed by amounts in the Central Artery and Statewide Road and Bridge Infrastructure Fund established by the legislation approved on May 17, 2000. The balance of the increase, \$185 million, is budgeted to come from the proceeds of the sale of certain real estate assets by the Turnpike Authority (approximately \$152 million was received on July 14, 2000) and investment earnings thereon (\$40 million anticipated, \$33 million budgeted). The \$2.168 billion figure to be provided by the Central Artery and Statewide Road and Bridge Infrastructure Fund consists of \$1.35 billion of Commonwealth bond proceeds, \$231 million of license and registration fees not used for debt service, \$664 million from avoided debt service related to debt defeasance transactions, \$200 million from the Turnpike Authority, \$65 million from the Port Authority and \$159 million in interest earnings through fiscal year 2005 on the balances in the Central Artery and Statewide Road and Bridge Infrastructure Fund itself, less \$500 million that is budgeted to be spent on highway and bridge projects not related to the Central Artery/Ted Williams Tunnel project.

The October 1, 2000 finance plan also identifies additional funding sources that could be utilized as a contingency if there were to be growth in the project cost estimate. One potential source of funds is additional sales of Turnpike Authority real estate assets, including assets made available after completion of the project (estimated range of values -- \$142 million to \$309 million). Other sources include up to \$150 million of proceeds of additional revenue bonds that could be supported by the currently projected Metropolitan Highway System tolls and \$50 million expected to be withdrawn from the owner-controlled insurance program trust fund for the project.

Internal project cost estimates prepared by the Massachusetts Division of the Federal Highway Administration as of September 27, 2000 totalled \$13.8 billion. The Division indicated at that time that the estimates used by the Turnpike Authority in preparing the October 1, 2000 finance plan constituted a reasonable representation of expected costs to be used as a basis for budgetary planning. The Turnpike Authority is still awaiting final Federal Highway Administration approval of the October 1, 2000 finance plan.

On October 23, 2000 the President of the United States approved legislation providing for appropriations for the U. S. Department of Transportation and related agencies for the federal fiscal year ending September 30, 2001. The legislation provides that the U. S. Secretary of Transportation is to withhold obligation of federal funds and all project approvals for the Central Artery/Ted Williams Tunnel project in federal fiscal year 2001 and thereafter unless the Secretary has approved the annual update of the project finance plan (approval of the October 1, 2000 finance plan need not occur until December 1, 2000) and has determined that the Commonwealth is in full compliance with the June 22, 2000 project partnership agreement described above and is maintaining a balanced statewide transportation program, including spending at least \$400 million each year for construction activities and transportation projects other than the Central Artery/Ted Williams Tunnel project. In addition, the legislation limits total federal funding to \$8.549 billion, as previously contemplated by the Federal Highway Administration's May 8, 2000 letter described above. This limit is consistent with the October 1, 2000 finance plan. Finally, the legislation ties future federal funding for the project to an annual finding by the Inspector General of the U. S. Department of Transportation that the annual update of the project finance plan is consistent with Federal Highway Administration financial plan guidance. Should any federal assistance be withheld from the project pursuant to such legislation, such funding would nonetheless be available to the Commonwealth for projects other than the Central Artery/Ted Williams Tunnel project. Moreover, the legislation provides that federal funds will not be withheld if the Secretary of Administration and Finance certifies that such funds are required to pay all or any portion of the principal of federal grant anticipation notes issued for the project.



The table below provides cash flow estimates that are consistent with the revised project cost estimates (as of June 30, 2000) that are contained in the October 1, 2000 finance plan and that extend to fiscal 2005, when the project is expected to be completed. The Turnpike Authority and the Executive Office for Administration and Finance believe that such estimates of future costs are realistic and that the assumptions underlying the October 1, 2000 finance plan are reasonable and appropriate. In light of the risks involved in large construction projects such as the Central Artery/Ted Williams Tunnel Project, however, including the risks that change orders and contract bids might exceed projections, that schedule slippages might occur due to unanticipated conditions or circumstances, that change order and right-of-way disputes might be resolved on terms that are less favorable to the project than currently projected and that certain engineering designs might require modification, the actual amount and timing of construction costs may differ significantly from current estimates. The Turnpike Authority has identified certain schedule exposures in connection with the completion of various segments of the project. Based on the information currently available, the Turnpike Authority does not anticipate that budgeted contingency funds will be needed to fund such schedule exposures.

**Central Artery Construction Cash Flow**  
(in thousands)(1)

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Totals</u>
<b>Project Construction Uses:</b>	<u>\$ 1,744,100</u>	<u>\$ 1,370,600</u>	<u>\$ 940,200</u>	<u>\$ 657,500</u>	<u>\$ 240,400</u>	<u>\$ 4,952,800</u>
<b>Project Construction Sources:</b>						
Federal highway reimbursements (2)	455,700	374,800	283,700	341,400	27,900	1,483,500
Commonwealth GO Bonds/Notes (3)	220,000	175,000	62,000	44,000	31,200	532,200
Third Party Contributions (4)	116,500	38,000	10,700	36,600	181,400	383,200
GANs	385,700	0	0	0	0	385,700
Transportation Infrastructure Fund	<u>566,200</u>	<u>782,800</u>	<u>583,900</u>	<u>235,500</u>	<u>0</u>	<u>2,168,400</u>
<b>Total Sources</b>	<u>\$ 1,744,100</u>	<u>\$ 1,370,600</u>	<u>\$ 940,300</u>	<u>\$ 657,500</u>	<u>\$ 240,500</u>	<u>\$ 4,953,000</u>

SOURCE: Executive Office for Administration and Finance and Massachusetts Turnpike Authority.

1. Totals may not add due to rounding. The companion table included in the March Information Statement under the caption "Interim Debt Schedule" has not been updated and should be disregarded. It has been the Commonwealth's practice to finance the cash needs of the project out of general revenues when necessary in anticipation of federal and other third-party payments, and such practice is expected to continue. If necessary, the Commonwealth retains the legal authority to issue bond anticipation notes for such purpose.
2. Assumes TEA-21 apportionment. See the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING – Federal Highway Funding."
3. Does not include bonds or notes authorized by legislation approved May 17, 2000, which are included in the Transportation Infrastructure Fund line. Fiscal 2001 figure includes \$45 million in anticipated pay-as-you-go funding and interest earnings thereon.
4. Reflects payments to be received from the Turnpike Authority and the Port Authority, including an additional \$53 million to be received from the Turnpike Authority for a garage and surface restoration work, but excludes payments to be deposited in the Central Artery and Statewide Road and Bridge Infrastructure Fund, which are included in the Transportation Infrastructure Fund line. The fiscal year amounts assume that the Commonwealth will finance costs in anticipation of such receipts through cash advances funded by general revenues or through the issuance of interim debt, if necessary.

**Update of Proposed Capital Spending Authorizations**

The fiscal 2001 budget approved by the Governor on July 28, 2000 established a new Capital Needs Investment Trust Fund, in which \$45 million of income tax receipts is to be deposited in each of fiscal years 2001 through 2005 for pay-as-you-go capital spending. Of the \$45 million, \$20 million is to be deposited each year in a new Affordable Housing Trust Fund, where it will be available for expenditure by the Massachusetts Housing Finance Agency to assist in the creation and preservation of affordable housing, \$11 million is to be used by the Department of Education for statewide technology systems and grants to local school districts for educational technology, \$9 million is to be used by the Division of Capital Asset Management and Maintenance for scheduled and deferred maintenance of state property and \$5 million is to be used by the Division for the redevelopment of state facilities formerly operated by human service agencies.

On June 28, 2000 the House of Representatives approved legislation that would authorize \$123 million of Commonwealth general obligation bonds to provide for compliance with life safety codes, remediation of environmental hazards and preservation and management of the Commonwealth's real property assets. On July 29, 2000 the Senate approved similar legislation authorizing \$117 million of Commonwealth general obligation bonds. Compromise legislation that would authorize \$117 million of Commonwealth general obligation bonds was enacted on July 31, 2000 and approved by the Governor on August 10, 2000.

On June 28, 2000 the House of Representatives approved legislation that would authorize \$116.8 million of Commonwealth general obligation bonds to provide for emergency maintenance of environmental assets of the Commonwealth. The legislation was approved with amendments by the Senate on July 27, 2000. The compromise version enacted by the Legislature on July 31, 2000 authorizes \$145.1 million of general obligation bonds, including \$19 million for matching capitalization grants for the state revolving fund program. See the March Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES – Commonwealth-Supported Debt; *Massachusetts Water Pollution Abatement Trust*. The legislation also de-authorizes \$106.7 million of authorized but unissued general obligation bonds. The legislation was approved by the Governor on August 10, 2000.

On July 19, 2000, in response to responses received from various development teams to redevelop the Saltonstall State Office Building, the Governor filed legislation that would authorize the Massachusetts Development Finance Agency to undertake such redevelopment. See the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING – Proposed Capital Spending Authorizations." The provisions of the Governor's bill were added to the bond authorization legislation approved August 10, 2000 relating to preservation and management of the Commonwealth's real property assets. Under the provisions relating to the Saltonstall Building, the building is to be leased to the Massachusetts Development Finance Agency (for a lease term of up to 50 years, with extension terms permitted for an aggregate of 30 more years), which is to renovate it and lease half of it back to the Commonwealth for office space and related parking (for a comparable lease term). The remainder of the building is to be redeveloped as private office space, as well as private housing units and retail establishments.

On July 27, 2000 the Governor filed legislation to authorize the acquisition and financing by the city of Boston of a designated site in Boston for a new open air ballpark for major league baseball. Such legislation was enacted by the Legislature with minor amendments on July 29, 2000 and approved by the Governor on August 10, 2000. The legislation authorizes \$100 million of Commonwealth general obligation bonds for transportation-related infrastructure improvements near the site. The legislation also provides that state sales tax receipts from establishments in and around the ballpark in excess of those received during fiscal 2001 (but not more than \$1.5 million per year) are to be paid over to the city of Boston.

On July 31, 2000 the legislative conference committee considering the transportation bond bill released its report. See the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING – Proposed Capital Spending Authorizations." Later that same day, the report was accepted and the transportation bond bill was enacted by both houses of the Legislature. The bill was approved by the Governor on August 10, 2000. The legislation authorizes approximately \$3.014 billion of transportation-related capital spending to occur over several years, with approximately \$1.616 billion to be funded by Commonwealth general obligation bonds and approximately \$1.397 billion to be funded by federal reimbursements. The legislation also authorizes an additional \$150 million in spending for the Central Artery/Ted Williams Tunnel project to be funded by federal grant anticipation notes, completing the legislative authorization for the \$1.5 billion federal grant anticipation note program contemplated by the project finance plan. See the March Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES – Federal Grant Anticipation Notes."

The final fiscal 2000 supplemental appropriations bill approved by the Governor on August 10, 2000 provides for approximately \$66.7 million of fiscal 2000 surplus revenues to be transferred to the Capital Improvement and Investment Trust Fund for specified capital expenditures through fiscal 2003 and approximately \$66.6 million of such fiscal 2000 surplus revenues to be transferred to a new MBTA Infrastructure Renovation Fund for specified capital expenditures by the Massachusetts Bay Transportation Authority through fiscal 2005 that are not included in the Authority's own capital spending plan. See "Fiscal 2000."

## LEGAL MATTERS

### Update of Existing Litigation

In *Lopez v. Board of Education, et al.* the Supreme Judicial Court for Suffolk County on March 21, 2000 declared that the Legislature had taken appropriate steps within a reasonable time to implement education reform. The plaintiffs have voluntarily dismissed their appeal to the full Supreme Judicial Court.

In *The First National Bank of Boston v. Commissioner of Revenue*, the Department of Revenue refunded \$35.3 million in April, 2000 to the First National Bank of Boston for tax year 1993 for reasons unrelated to the claims against the Department of Revenue. The bank has accordingly withdrawn all of its claims for tax year 1993. The Commissioner and the bank entered into a settlement on August 31, 2000 pursuant to which \$27.5 million has been refunded to the bank for tax years 1992 and 1994.

In *General Mills, Inc. v. Commissioner of Revenue* (Appellate Tax Board No. F223398), the taxpayer challenges a corporate excise tax, including the proper treatment of the sale of two of its subsidiaries. The total exposure to the Commonwealth, including tax, interest and penalties, is approximately \$36 million. The Appellate Tax Board issued a decision awarding an abatement of \$634,077. The Board has not yet issued its findings of fact and report.

In *Tenneco, Inc. v. Commissioner of Revenue* (Appellate Tax Board Nos. F162137-F162140), the taxpayer seeks \$34.3 million in excise taxes and interest. On September 6, 2000, the Appellate Tax Board issued findings of fact and a report in support of its 1998 decision in favor of the Commissioner. On October 31, 2000, the taxpayer filed a notice of appeal.

In *EG&G, Inc. v. Commissioner of Revenue* (Appellate Tax Board Nos. F245459, F245460, F245461, F253131, F233126), the taxpayer seeks \$21.2 million in excise taxes and interest.

In *United States v. MWRA*, the court ruled on May 5, 2000 that the MWRA does not need to build a filtration system based on a finding that ozonation treatment and improvement of the Wachusett watershed are sufficient actions at this time. On June 2, 2000, the U.S. District Court entered a judgment in accordance with its ruling of May 5, 2000, denying the United States' motion for injunctive relief. The United States filed a notice of appeal on July 3, 2000.

In *Valerie Anderson v. Cellucci* (now re-captioned *Boulet v. Cellucci*), the court granted plaintiffs' motion for partial summary judgment and issued an order requiring the defendant agencies to provide services to all eligible individuals on the waiting list within 90 days. However, the court invited the Commonwealth to propose alternative relief by August 15, 2000, which the Commonwealth did. The Department of Mental Retardation currently estimates the potential exposure to the Commonwealth to be a total of \$85 million over fiscal years 2002-2006.

*Shea v. Commonwealth* has been settled for \$5,750,000.

In *Boston & Maine Railroad v. Commonwealth* (C.A. No. 99-3928E), pending in Middlesex Superior Court, the plaintiff may seek \$40 million for a taking of land in Cambridge for the Central Artery/ Ted Williams Tunnel project.

### SEC Investigation

On May 8, 2000 the State Treasurer's office was advised that the staff of the Securities and Exchange Commission is conducting a formal investigation in the matter of "Certain Municipal Securities/Massachusetts Central Artery (B-1610)," pursuant to a formal order of private investigation issued by the Commission.

## COMMONWEALTH BOND AND NOTE LIABILITIES

The following table sets forth the Commonwealth bond and note liabilities outstanding as of October 1, 2000.

<b>Commonwealth Bond and Note Liabilities</b>		
<b>October 1, 2000</b>		
<b>(in thousands)</b>		
	<u>Long-Term (1)</u>	<u>Short-Term</u>
<b>COMMONWEALTH DEBT</b>		
General Obligation Debt	\$ 10,413,932(2)	\$ 620,000(5)
Special Obligation Debt	564,485	0
Federal Grant Anticipation Notes	<u>921,720(3)</u>	<u>0</u>
Subtotal Commonwealth Debt	11,900,137	620,000
<b>COMMONWEALTH-SUPPORTED DEBT</b>		
Massachusetts Bay Transportation Authority	3,602,360(4)	\$ 0
Massachusetts Convention Center Authority	57,981	0
Massachusetts Development Finance Agency	71,765	0
Boston Metropolitan District	33,471	0
Foxborough Industrial Development Financing Authority	69,810	0
Steamship Authority	44,039	0
Regional Transit Authorities	<u>0</u>	<u>81,207</u>
Subtotal Supported Debt	3,879,426	81,207
<b>COMMONWEALTH-GUARANTEED DEBT</b>		
Higher Education Building Authorities	<u>212,451</u>	<u>0</u>
Subtotal Guaranteed Debt	212,451	0
<b>TOTAL COMMONWEALTH BOND AND NOTE LIABILITIES</b>	<u><u>\$ 15,992,014</u></u>	<u><u>\$ 701,207</u></u>

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

1. Long-term debt includes discount and costs of issuance. Does not include long-term capital lease obligations. See the March Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES – Indirect Obligations: *Plymouth County Certificates of Participation*" and "OTHER COMMONWEALTH LIABILITIES – Long-Term Capital Leases."
2. Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from October 1, 2000 through their maturity in the amount of \$217.6 million. On November 2, 2000 the Commonwealth issued additional general obligation bonds in the aggregate principal amount of approximately \$563.7 million.
3. Includes capital appreciation interest accrued from October 1, 2000 through their maturity in the amount of \$45.0 million. On November 15, 2000 the Commonwealth sold additional federal grant anticipation notes in the aggregate principal amount of \$577.6 million. Such notes are expected to be delivered on November 30, 2000.
4. Includes bonds and refunding bonds, excluding such bonds that have been refunded. Does not include certificates of participation and other long-term lease obligations. Because of legislation enacted in November, 1999 that restructured the finances of the Massachusetts Bay Transportation Authority, the Commonwealth no longer makes direct debt service payments on the MBTA's bonds, but the Commonwealth remains obligated to pay the debt service on MBTA bonds issued prior to July 1, 2000 if the MBTA cannot. See the March Information Statement under the heading "COMMONWEALTH PROGRAMS AND SERVICES – Massachusetts Bay Transportation Authority."
5. Includes \$400 million of general obligation bond anticipation notes to finance costs associated with the construction of the Boston Convention and Exhibition Center and other capital projects (see the March Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES – Special Obligation Debt: *Boston Convention and Exhibition Center Fund*") and \$220 million of interim notes issued as commercial paper in anticipation of federal grant anticipation notes, which were sold on November 15, 2000, as described in note 4.

**Maturities of Short-Term Debt**

The following table sets forth the maturities of the Commonwealth’s short-term liabilities as described in the previous table.

**Maturities of Short-Term Liabilities  
(in thousands)**

<u>Year Due</u>	<u>Commonwealth</u>	<u>Regional Transit Authorities</u>	<u>Total</u>
Commercial paper	\$220,000	0	\$220,000
Fiscal 2001	0	\$ 19,305	19,305
Fiscal 2002	<u>400,000</u>	<u>61,602</u>	<u>461,602</u>
Total	<u>\$620,000</u>	<u>\$ 80,907</u>	<u>\$700,907</u>

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

**Statutory Debt Limit on Direct Debt**

The statutory limit on “direct” bonds during fiscal year 2001 is \$11,076,483,462. As noted in the March Information Statement under the heading “COMMONWEALTH BOND AND NOTE LIABILITIES – Statutory Debt Limit on Direct Debt,” the statutory limit on direct bonds excludes certain categories of Commonwealth bonds. In addition to the bonds described in the March Information Statement, the \$1.35 billion of bonds to be issued pursuant to Chapter 87 of the Acts of 2000, as amended, payable from the Central Artery and Statewide Road and Bridge Infrastructure Fund are not to be counted in computing the amount of bonds subject to the statutory limit on direct bonds. See “COMMONWEALTH CAPITAL SPENDING – Central Artery/Ted Williams Tunnel Project.” The outstanding Commonwealth debt amounts excluded from the limit as of October 1, 2000 are shown in the table below (see the March Information Statement under the heading “COMMONWEALTH BOND AND NOTE LIABILITIES – Statutory Debt Limit on Direct Debt”):

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

	<u>Bonds Outstanding</u>
Balance as of October 1, 2000	\$11,900,137
Less amounts excluded:	
Discount and issuance costs	(348,137)
Federal grant anticipation notes	(899,991)
Assumed county debt	(1,675)
Chapter 5 of the Acts of 1991 refunding bonds	(98,519)
Special obligation bonds	(561,335)
Bonds to retire MBTA notes	<u>(325,000)</u>
Outstanding Direct Debt	<u>\$ 9,665,480</u>

SOURCE: Office of the Comptroller.

**Debt Service Requirements on Commonwealth Bonds**

The following table sets forth, as of October 1, 2000, 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. See the March Information Statement under the heading “COMMONWEALTH BOND AND NOTE LIABILITIES – Synthetic Fixed Rate Bonds.” (This table does not include the \$563.7 million general obligation bonds issued on November 2, 2000 or the \$577.6 million federal grant anticipation notes sold on November 15, 2000.)

**Debt Service Requirements on Commonwealth Bonds  
October 1, 2000  
(in thousands)(1)**

Fiscal Year	General Obligation Bonds			Federal Grant Anticipation Notes			Special Obligation Bonds			Total Debt Service Commonwealth Bonds
	Principal	Interest	Sub Total	Principal	Interest	Sub Total	Principal	Interest	Sub Total	
2001	204,458	346,235	563,623	-	42,570	42,570	22,290	29,830	52,120	658,313
2002	638,275	496,611	1,180,302	-	42,570	42,570	23,415	28,708	52,123	1,274,994
2003	650,346	465,667	1,164,664	-	42,570	42,570	24,865	27,258	52,123	1,259,357
2004	637,069	434,934	1,140,024	-	42,570	42,570	26,070	26,051	52,121	1,234,714
2005	705,503	403,235	1,118,077	-	42,570	42,570	27,370	24,758	52,128	1,212,775
2006	728,766	367,690	1,100,992	\$ 73,165	41,733	114,898	28,805	23,315	52,120	1,268,010
2007	743,610	329,828	1,078,273	76,785	38,114	114,899	30,350	21,774	52,124	1,245,296
2008	737,400	293,331	1,035,901	80,580	34,319	114,899	31,995	20,126	52,121	1,202,921
2009	730,784	253,559	990,369	84,840	30,061	114,901	33,675	18,444	52,119	1,157,389
2010	665,811	215,575	887,069	89,160	25,741	114,901	35,335	16,791	52,126	1,054,096
2011	671,502	179,919	857,612	93,715	21,180	114,895	37,300	14,829	52,129	1,024,636
2012	521,112	143,629	671,038	98,640	16,260	114,900	39,320	12,813	52,133	838,070
2013	525,560	116,108	648,779	102,985	11,913	114,898	41,470	10,650	52,120	815,797
2014	416,324	93,374	514,746	108,495	6,405	114,900	37,530	8,369	45,899	675,545
2015	417,459	71,524	493,316	113,355	1,544	114,899	39,455	6,440	45,895	654,110
2016	372,985	52,004	427,967	-	-	-	41,530	4,368	45,898	473,865
2017	294,003	36,434	332,110	-	-	-	43,710	2,186	45,896	378,006
2018	221,327	23,479	245,750	-	-	-	-	-	-	245,750
2019	178,203	13,554	192,175	-	-	-	-	-	-	192,175
2020 and thereafter	107,700	6,108	113,946	-	-	-	-	-	-	113,946
<b>TOTAL</b>	<b>\$10,168,197</b>	<b>\$4,342,798</b>	<b>\$14,756,733</b>	<b>\$921,720</b>	<b>\$440,119</b>	<b>\$1,361,839</b>	<b>\$564,485</b>	<b>\$296,708</b>	<b>\$861,193</b>	<b>\$16,979,765</b>

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

(1) Totals may not add due to rounding.

### **Commonwealth-Supported Debt**

On June 29, 2000 the Town of Foxborough, acting by and through the Foxborough Industrial Development Financing Authority, issued \$69,810,000 of its Foxboro Stadium Infrastructure Improvement Bonds payable from Commonwealth contract assistance. See the March Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES – Commonwealth-Supported Debt; *Foxborough Industrial Development Financing Authority.*"

### **Indirect Obligations**

On August 17, 2000 the Route 3 North Transportation Improvements Association issued its Commonwealth of Massachusetts Lease Revenue Bonds, Series 2000, in the aggregate principal amount of \$394,305,000, payable from lease payments to be appropriated annually by the Commonwealth through fiscal 2033. See the March Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES – Indirect Obligations; *Route 3 North.*"

### **Cash Defeasance Transactions**

On July 28, 2000, the State Treasurer expended approximately \$182.1 million from the Debt Defeasance Trust Fund to purchase securities and establish a sinking fund to provide for the payment of certain Commonwealth general obligation bonds maturing on August 1, 2000. On August 9, 2000, the State Treasurer expended approximately \$217.7 million from the Debt Defeasance Trust Fund to purchase securities and establish a sinking fund to provide for the payment of additional Commonwealth general obligation bonds maturing on various dates to and including February 1, 2001. The securities purchased on August 9, 2000 consisted of certain obligations issued by the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association which are being held by a third-party trustee in an irrevocable trust fund held by a third-party trustee. The approximate principal amount of Commonwealth general obligation bonds defeased pursuant to the July 28, 2000 and August 9, 2000 transactions is \$392.3 million. The amounts that would have been expended for debt service on such bonds in fiscal 2001 (approximately \$403.0 million) will be deposited in the Central Artery and Statewide Road and Bridge Infrastructure Fund. See "COMMONWEALTH CAPITAL SPENDING – Central Artery/Ted Williams Tunnel Project."

## **OTHER COMMONWEALTH LIABILITIES**

### **Pension Funding Schedule and Actuarial Valuations**

The funding schedule filed by the Secretary of Administration and Finance on March 1, 2000 has been deemed approved by the Legislature, although the House Committee on Ways and Means has indicated to the Secretary that it has concerns about some of the assumptions and is awaiting the results of the experience study referred to below. See the March Information Statement under the heading "OTHER COMMONWEALTH LIABILITIES – Retirement Systems and Pension Benefits; *Current Funding Schedule and Actuarial Valuations.*"

On May 18, 2000 the Pension Reserves Investment Management (PRIM) Board informed the Public Employee Retirement Administration Commission (PERAC) that the PRIM Board consultants, based on discussions with PERAC's actuary, had substantially revised their estimates contained in the report presented to the PRIM Board on November 23, 1999. See the March Information Statement under the heading "OTHER COMMONWEALTH LIABILITIES – Retirement Systems and Pension Benefits; *Current Funding Schedule and Actuarial Valuations.*" In November, 1999 the consultants had indicated that the impact of their preliminary experience study could be as much as \$2 billion in additional unfunded actuarial liability; the revised estimate is \$200 million.

On September 15, 2000 PERAC released an actuarial valuation of the state employees' and teachers' retirement systems and the State-Boston retirement system for teachers as of January 1, 2000. The unfunded actuarial accrued liability based on this valuation is approximately \$773.4 million for state employees, approximately \$2.739 billion for state teachers, approximately \$521 million for Boston teachers and \$803 million for cost-of-living increases granted for local systems prior to July, 1997, for a total unfunded liability of

approximately \$4.837 billion. The valuation as of January 1, 2000 is based on actuarial assumptions including future investment earnings at a rate of 8.25% per year, annual salary increases of 6% and annual cost-of-living increases for pensioners at the rate of 3% on the first \$12,000 of benefits. The valuation continues the phase-in of an actuarial valuation of assets methodology that was begun with the valuation as of January 1, 1998; in the valuation as of January 1, 2000 assets are valued at 91% of market value. See the March Information Statement under the heading "OTHER COMMONWEALTH LIABILITIES – Retirement Systems and Pension Benefits; *Current Funding Schedule and Actuarial Valuations.*"

On October 18, 2000 PERAC released an experience study of the state employees' retirement system for calendar years 1995 through 1999. An experience study for the teachers' retirement system is expected to be completed later in 2000. The study of the state employees' system indicated that active and retired employees are living longer than previously assumed, are not becoming disabled as often as assumed, are not receiving the forecasted salary increases and are not withdrawing from the pension system as often as previously assumed. The net effect of the revised assumptions on the amount of the state's unfunded actuarial accrued liability for the system as of January 1, 2000 is estimated to be an increase of approximately \$33.3 million, from approximately \$773.4 million to approximately \$806.8 million.

#### **Unemployment Compensation Trust Fund**

The assets and liabilities of the Commonwealth Unemployment Compensation Trust Fund are not assets and liabilities of the Commonwealth. As of October 31, 2000 the private contributory sector of the Massachusetts Unemployment Trust Fund had a surplus of \$2.014 billion. The Division of Employment and Training's October, 2000 quarterly report indicated that the contributions provided by current law should increase reserves in the system to \$2.537 billion by the end of 2004. See Exhibit A, "Economic Information," under the heading "Employment – Unemployment Compensation Trust Fund."

### **AVAILABILITY OF OTHER INFORMATION**

Questions regarding this Supplement or the March Information Statement or requests for additional financial information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Deputy Treasurer, Office of the Treasurer-Receiver General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900 (x 564), or Scott A. Jordan, Director of Debt Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Supplement or the March Information Statement should be directed to John R. Regier, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone 617/542-6000.

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

By /s/ Shannon P. O'Brien

Shannon P. O'Brien  
Treasurer and Receiver-General

By /s/ Stephen P. Crosby

Stephen P. Crosby  
Secretary of Administration and Finance

November 27, 2000

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FORM OF OPINION OF BOND COUNSEL

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[Date of Delivery]

The Honorable Shannon P. O'Brien  
Treasurer and Receiver-General  
The Commonwealth of Massachusetts  
State House - Room 227  
Boston, Massachusetts 02133

Re: The Commonwealth of Massachusetts \$401,500,000 General Obligation Bonds, Consolidated Loan of 2000, Series D through Series G dated December \_\_\_\_\_, 2000 (collectively, the "Bonds")

Dear Treasurer O'Brien:

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 of each Series, each 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:

- (a) 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.

(b) 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.

(c) 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.

(d) 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.

Our opinions set forth in paragraphs (c) and (d) above shall not include the continuation of any exemption with respect to interest on the Bonds of any Series from and after the date that the Bonds of such Series are converted to Fixed Rate Indebtedness.

Very truly yours,

Ropes & Gray

The Commonwealth of Massachusetts

General Obligation Bonds  
 Consolidated Loan of 2000, Series \_\_\_\_  
 (Auction Rate Securities)

Continuing Disclosure Undertaking

[to be included in bond form  
 for each Series]

On behalf of The Commonwealth of Massachusetts (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 March 3, 2000 as supplemented by the Information Statement Supplement dated November 27, 2000 (as so supplemented, the "Information Statement"), as it appears in the Official Statement dated November 30, 2000 relating to the Commonwealth's General Obligation Bonds, Consolidated Loan of 2000, Series D through Series G (Auction Rate Securities), and substantially in the same level of detail as is found in the referenced section of the Information Statement:

Continuing Disclosure Information	Reference Information Statement
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.	"FINANCIAL RESULTS – 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.	"FINANCIAL RESULTS – 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 – Distribution of 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. If and to the extent otherwise updated in the prior fiscal year, summary presentation of the size of the state workforce.	"COMMONWEALTH PROGRAMS AND SERVICES – State Workforce"
7. Five-year summary presentation of actual capital project expenditures.	"COMMONWEALTH CAPITAL SPENDING – Historical Capital Spending"
8. Statement of Commonwealth bond and note liabilities as of the end of the prior fiscal year.	"COMMONWEALTH BOND AND NOTE LIABILITIES – Overview – Outstanding Bond and Note Liabilities"
9. Five-year comparative presentation of long term Commonwealth debt and selected Commonwealth-supported debt as of the end of the prior fiscal year.	"COMMONWEALTH BOND AND NOTE LIABILITIES – Overview – Long Term Bond Liabilities"
10. Annual fiscal year debt service requirements for Commonwealth general obligation and special obligation bonds, beginning with the current fiscal year.	"COMMONWEALTH BOND AND NOTE LIABILITIES – Debt Service Requirements on Commonwealth Bonds"
11. 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.	"COMMONWEALTH BOND AND NOTE LIABILITIES – Statutory Debt Limit on Direct Bonds"
12. Five-year summary presentation of authorized but unissued general obligation debt.	"COMMONWEALTH BOND AND NOTE LIABILITIES – Authorized But Unissued Debt"
13. Annual fiscal year debt service contract assistance requirements for Commonwealth-supported debt, beginning with the current fiscal year.	"COMMONWEALTH BOND AND NOTE LIABILITIES – Debt Service Contract Assistance Requirements on Commonwealth-Supported Debt"
14. Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any.	"OTHER COMMONWEALTH LIABILITIES – Retirement Systems and Pension Benefits"
15. Summary presentation of operating lease commitments for future fiscal years as of the end of the prior fiscal year.	"OTHER COMMONWEALTH LIABILITIES – Long Term Operating Leases"
16. Summary presentation of long-term capital leases for future fiscal years as of the end of the prior fiscal	"OTHER COMMONWEALTH LIABILITIES – Long Term Capital Leases"

Financial Information and Operating Data Category	
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.	"FINANCIAL RESULTS – 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.	"FINANCIAL RESULTS – 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 – Distribution of 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. If and to the extent otherwise updated in the prior fiscal year, summary presentation of the size of the state workforce.	"COMMONWEALTH PROGRAMS AND SERVICES – State Workforce"
year.	
17. Summary presentation of school building assistance program commitments for future fiscal years as of the end of the prior fiscal year.	"OTHER COMMONWEALTH LIABILITIES – School Building Assistance"

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

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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.

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 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 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.

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**SUMMARY OF DEFINITIONS AND PROVISIONS OF THE  
BONDS RELATING TO THEIR AUCTION RATE SECURITY FEATURES,  
CONVERSION TO FIXED RATE INDEBTEDNESS AND OTHER MATTERS**

**Definitions**

“Agent Member” means a member of, or participant in, the Securities Depository who shall act on behalf of a Bidder.

“ARS” means the Bonds while they bear interest at the ARS Rate.

“ARS Bonds” means the Bonds.

“ARS Index” is defined below under “Auction Procedures – ARS Index”.

“ARS Multiple” means, with respect to each Series of ARS Bonds as of any Auction Date, the percentage of ARS Index (in effect on such Auction Date) determined as set forth below, based on the Prevailing Rating of the ARS Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date:

Prevailing Rating	Percentage of ARS Index
AAA/AAA/Aaa	125%
AA/AA/Aa	150
A/A/A	200
Below A/A/A	250

“ARS Rate” means, for each Series of the ARS Bonds, the rate of interest to be borne by the ARS Bonds of such Series during each Auction Period determined as described below under “Auction Procedures – Determination of ARS Rate”; provided, however, in no event may the ARS Rate exceed the Maximum Interest Rate.

“ARS Rate Period” means, with respect to each Series of ARS Bonds after the Initial Period relating thereto any period of time commencing on the day following such Initial Period and ending on a Fixed Rate Conversion Date or the maturity date for such Series of ARS Bonds.

“Auction” means each periodic implementation of the Auction Procedures.

“Auction Agent” means the auctioneer appointed in accordance with the terms described below under “Auction Agent” and shall initially be The Bank of New York.

“Auction Agreement” means the Auction Agreement dated as of December 1, 2000 among the Issuer, the Paying Agent and the Auction Agent and each other agreement among the Issuer, the Auction Agent and the Paying Agent pursuant to which the Auction Agent agrees to follow the procedures specified in the ARS Bonds, with respect to the ARS Bonds while bearing interest at an ARS Rate, as each such agreement may from time to time be amended or supplemented.

“Auction Date” means during any period in which the Auction Procedures are not suspended in accordance with the provisions hereof, (i) with respect to each Series of ARS Bonds in a daily Auction Period, each Business Day, (ii) with respect to each Series of ARS Bonds in a Special Auction Period, the last Business Day of the Special Auction Period, and (iii) with respect to each Series of ARS Bonds in any other Auction Period, the Business Day next preceding each Interest Payment Date for such Series of ARS Bonds (whether or not an Auction shall be conducted on such date); provided, however, that the last Auction Date with respect to each Series of ARS Bonds in an Auction Period other than a daily Auction Period or Special Auction Period shall be the earlier of (a) the Business

Day next preceding the Interest Payment Date next preceding the Fixed Rate Conversion Date for such Series of ARS Bonds and (b) the Business Day next preceding the Interest Payment Date next preceding the final maturity date for such Series of ARS Bonds; and provided, further, that with respect to each Series of ARS Bonds in a daily Auction Period, the last Auction Date shall be the earlier of (x) the Business Day next preceding the Fixed Rate Conversion Date for such Series of ARS Bonds and (y) the Business Day next preceding the final maturity date for Series of ARS Bonds. The last Business Day of a Special Auction Period shall be the Auction Date for the Auction Period which begins on the next succeeding Business Day, if any. On the Business Day preceding the conversion from a daily Auction Period to another Auction Period, there shall be two Auctions, one for the last daily Auction Period and one for the first Auction Period following the conversion.

“Auction Date Weekday” means (i) with respect to the Series D Bonds, Tuesday, (ii) with respect to the Series E Bonds, Wednesday, (iii) with respect to the Series F Bonds, Friday and (iv) with respect to the Series G Bonds, Monday.

“Auction Period” means (i) a Special Auction Period, (ii) with respect to each Series of the ARS Bonds in a daily mode, a period beginning on each Business Day and extending to but not including the next succeeding Business Day, (iii) with respect to each Series of ARS Bonds in a seven-day mode, a period of generally seven days beginning on the applicable Interest Payment Date Weekday (or the day following the last day of the prior Auction Period if the prior Auction Period does not end on the applicable Auction Date Weekday) and ending on the applicable Auction Date Weekday thereafter (unless such Auction Date Weekday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (iv) with respect to each Series of ARS Bonds in a 28-day mode, a period of generally 28 days beginning on the applicable Interest Payment Date Weekday (or the last day of the prior Auction Period if the prior Auction Period does not end on the applicable Auction Date Weekday) and ending on the fourth applicable Auction Date Weekday thereafter (unless such Auction Date Weekday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (v) with respect to each Series of ARS Bonds in a 35-day mode, a period of generally 35 days beginning on the applicable Interest Payment Date Weekday (or the last day of the prior Auction Period if the prior Auction Period does not end on the applicable Auction Date Weekday) and ending on the fifth applicable Auction Date Weekday thereafter (unless such Auction Date Weekday is not followed by a Business Day, in which case on the next succeeding day followed by a Business Day), (vi) with respect to each Series of ARS Bonds in a three-month mode, a period of generally three months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the first day of the month that is the third calendar month following the beginning date of such Auction Period, and (vii) with respect to each Series of ARS Bonds in a semiannual mode, a period of generally six months (or shorter period upon a conversion from another Auction Period) beginning on the day following the last day of the prior Auction Period and ending on the next succeeding June 1 or December 1; provided, however, that (a) if there is a conversion of any Series of ARS Bonds (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding applicable Auction Date Weekday (unless such applicable Auction Date Weekday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the applicable Auction Date Weekday (unless such applicable Auction Date Weekday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 21 days but not more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the applicable Auction Date Weekday (unless such Auction Date is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion, or (b) if there is a conversion of any Series of ARS Bonds (i) from a daily Auction Period to a seven-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the next succeeding applicable Auction Date Weekday (unless such applicable Auction Date Weekday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day), (ii) from a daily Auction Period to a 28-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the applicable Auction Date (unless such applicable Auction Date Weekday is not followed by a Business Day, in which case on the next succeeding day followed by a Business Day)

which is more than 21 days but no more than 28 days from such date of conversion, and (iii) from a daily Auction Period to a 35-day Auction Period, the next Auction Period shall begin on the date of the conversion (*i.e.*, the Interest Payment Date for the prior Auction Period) and shall end on the applicable Auction Date Weekday (unless such applicable Auction Date Weekday is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day) which is more than 28 days but no more than 35 days from such date of conversion.

“Auction Procedures” means the procedures for conducting Auctions for ARS Bonds during an ARS Rate Period described herein.

“Auction Rate” means for each Series of ARS Bonds for each Auction Period, (i) if Sufficient Clearing Bids exist, the Winning Bid Rate, provided, however, if all of such Series of ARS Bonds are the subject of Submitted Hold Orders, the Minimum ARS Rate with respect to such Series of ARS Bonds and (ii) if Sufficient Clearing Bids do not exist, the Maximum ARS Rate with respect to such Series of ARS Bonds.

“Available Bonds” means for each Series of ARS Bonds on each Auction Date, the aggregate principal amount of such Series of ARS Bonds that are not the subject of Submitted Hold Orders.

“Bid” has the meaning specified in subsection (a) under “Auction Procedures – Orders by Existing Owners and Potential Owners” below.

“Bidder” means each Existing Owner and Potential Owner who places an Order.

“Bond Counsel” means any attorney or firm of attorneys of nationally recognized standing in the field of law relating to general obligation debt of states and their political subdivisions, selected by the Issuer, and may be an attorney or firm regularly providing services to the Issuer, the Paying Agent, the Auction Agent, any Broker-Dealer or any Owner.

“Bond Insurer” means Financial Guaranty Insurance Company.

“Broker-Dealer” means any entity that is permitted by law to perform the function required of a Broker-Dealer described herein that is a member of, or a direct participant in, the Securities Depository, that has been selected by the Issuer and that is a party to a Broker-Dealer Agreement with the Auction Agent.

“Broker-Dealer Agreement” means an agreement among the Auction Agent, the Issuer and a Broker-Dealer pursuant to which such Broker-Dealer agrees to follow the procedures described herein, as such agreement may from time to time be amended or supplemented.

“Business Day” means any day other than a Saturday, a Sunday or any other day on which the Paying Agent or the Auction Agent is authorized or required by law to be closed for business.

“Date of Original Delivery” means the date on which the ARS Bonds are first issued and delivered.

“Default Rate” means, in respect of any Auction Period other than a daily Auction Period, a per annum rate equal to three hundred percent (300%) of the ARS Index determined on the Auction Date next preceding the first day of such Auction Period or in the case of each Series of ARS Bonds in a daily Auction Period, three hundred percent (300%) of the ARS Index determined on the Auction Date which was the first day of such Auction Period, provided, however, the Default Rate shall not exceed the Maximum Interest Rate.

“Existing Owner” means a Person who is listed as the beneficial owner of Series ARS Bonds in the records of the Auction Agent.

“Fitch” means Fitch and its successors and assigns.

“Fixed Rate” means the fixed rate or rates of interest to be borne by a Series of ARS Bonds converted to Fixed Rate Indebtedness on or after a Fixed Rate Conversion Date.

“Fixed Rate Conversion Date” means a date on which all of a Series of ARS Bonds are converted to Fixed Rate Indebtedness as provided under “Conversion to Fixed Rate Indebtedness” below. The Fixed Rate Conversion Date shall be (i) the second regularly scheduled Interest Payment Date following the final Auction Date with respect to such Series of ARS Bonds bearing interest at an ARS Rate in an ARS Rate Period other than a daily Auction Period or (ii) the next regularly scheduled Interest Payment Date with respect to such Series of ARS Bonds bearing interest at an ARS Rate in a daily Auction Period.

“Fixed Rate Indebtedness” means, as of any date of determination, any indebtedness bearing interest at a fixed rate for the remainder of its term.

“Fixed Rate Period” means a period, commencing on a Fixed Rate Conversion Date for a Series of ARS Bonds and ending on the final maturity date therefor, during which such Series of ARS Bonds shall be Fixed Rate Indebtedness.

“Hold Order” has the meaning specified in subsection (a) under “Auction Procedures – Orders by Existing Owners and Potential Owners” below.

“Initial Period” means the period from the date of initial delivery of a Series of ARS Bonds to but not including the first Auction Date for such Series of ARS Bonds.

“Interest Payment Date” with respect to each Series of ARS Bonds bearing interest at ARS Rates, means the initial Interest Payment Date specified for such Series in this Official Statements and thereafter (a) when used with respect to any Auction Period other than a daily Auction Period or a Special Auction Period, the Business Day immediately following such Auction Period, (b) when used with respect to a daily Auction Period, the first Business Day of the month immediately succeeding such Auction Period, (c) when used with respect to a Special Auction Period of (i) seven or more but fewer than 92 days, the Business Day immediately following such Special Auction Period, or (ii) 92 or more days, each thirteenth applicable Interest Payment Date Weekday after the first day of such Special Auction Period or the next Business Day if such applicable Interest Payment Date Weekday is not a Business Day and on the Business Day immediately following such Special Auction Period, (d) after the Fixed Rate Conversion Date, each June 1 and December 1, and (e) the Maturity Date.

“Interest Payment Date Weekday” means (i) with respect to the Series D Bonds, Wednesday, (ii) with respect to the Series E Bonds, Thursday, (iii) with respect to the Series F Bonds, Monday, and (iv) with respect to the Series G Bonds, Tuesday.

“Issuer” means The Commonwealth of Massachusetts.

“Maturity Date” means, with respect to each Series of ARS Bonds, December 1, 2030.

“Maximum Interest Rate” means the lesser of twelve percent (12%) or the maximum rate of interest permitted by applicable law.

“Maximum ARS Rate” means as of any Auction Date, the product of the ARS Index multiplied by the ARS Multiple; provided, however, that in no event shall the Maximum ARS Rate exceed the lesser of (x) 12% or (y) the maximum rate of interest permitted by applicable law, anything herein to the contrary notwithstanding.

“Minimum ARS Rate” means, as of any Auction Date, with respect to each Series of ARS Bonds 50% of the ARS Index in effect on such Auction Date.

“Moody’s” means Moody’s Investors Service, Inc. and its successors and assigns.

“No Auction Rate” means, as of any Auction Date, with respect to each Series of ARS Bonds, the rate determined by multiplying the Percentage of ARS Index set forth below, based on the Prevailing Rating of such Series of ARS Bonds in effect at the close of business on the Business Day immediately preceding such Auction Date, by the ARS Index:

<u>Prevailing Rating</u>	<u>Percentage of ARS Index</u>
AAA/AAA/Aaa	65%
AA/AA/Aa	70
A/A/A	85
Below A/A/A	100

provided, however, in no event shall the No Auction Rate exceed the Maximum ARS Rate.

“Order” means a Hold Order, Bid or Sell Order.

“Owner” means the Registered Owner of an ARS Bond.

“Paying Agent” means The Bank of New York, its successors and assigns, or any replacement Paying Agent appointed by the Issuer with notice to the Auction Agent and the Broker-Dealers.

“Paying Agent Agreement” means the Paying Agent Agreement dated as of December 1, 2000 between the Issuer and the Paying Agent and each other agreement between the Issuer and the Paying Agent pursuant to which the Paying Agent agrees to act as paying agent with respect to the ARS Bonds.

“Person” means any natural person, corporation, limited liability company, partnership, trust, joint venture, association, company, estate, unincorporated organization or government or any agency or political subdivision thereof.

“Potential Owner” means any Person, including any Existing Owner, who may be interested in acquiring a beneficial interest in ARS Bonds in addition to the ARS Bonds currently owned by such Person, if any.

“Prevailing Rating” means with respect to each Series of ARS Bonds (a) AAA/AAA/Aaa if such Series of ARS Bonds shall have a rating of AAA or better by each of S&P and Fitch and a rating of Aaa or better by Moody’s, (b) if not AAA/AAA/Aaa, AA/AA/Aa if such Series of ARS Bonds shall have a rating of AA- or better by each of S&P and Fitch and a rating of Aa3 or better by Moody’s, (c) if not AAA/AAA/Aaa or AA/AA/Aa, A/A/A if such Series of ARS Bonds shall have a rating of A- or better by each of S&P and Fitch and a rating of A3 or better by Moody’s and (d) if not AAA/AAA/Aaa, AA/AA/Aa or A/A/A, then below A/A/A, whether or not such Series of ARS Bonds is rated by any securities rating agency. For purposes of this definition, S&P’s rating categories of “AAA”, “AA” and “A-“. Fitch’s rating categories of “AAA”, “AA” and “A” and Moody’s rating categories of “Aaa,” “Aa3” and “A3,” shall be deemed to refer to and include the respective rating categories correlative thereto in the event that any such Rating Agencies shall have changed or modified their generic rating categories or if any successor thereto appointed in accordance with the definitions thereof shall use different rating categories. If the ARS Bonds of a Series are not rated by a Rating Agency, the requirement of a rating by such Rating Agency shall be disregarded. If the ratings for the ARS Bonds of a Series are split between two of the foregoing categories, the lower rating shall determine the Prevailing Rating. If there is no rating, then the ARS Rate shall be the Maximum ARS Rate.

“Principal Office” means, with respect to the Auction Agent, the office thereof designated in writing to the Issuer, the Paying Agent and each Broker-Dealer.

“Rating Agency” means each of Fitch, Moody’s and S&P.

“Record Date” means during an ARS Rate Period other than a daily Auction Period, the second Business Day preceding an Interest Payment Date therefor, and during a daily Auction Period, the last Business Day of the month preceding an Interest Payment Date.

“Remarketing Agent” means any entity that is permitted by law to underwrite or act as placement advisor with respect to general obligations of the Issuer and that is selected to perform the function of determining the fixed rate or rates applicable to a Series of ARS Bonds from and after a Fixed Rate Conversion Date.

“S&P” means Standard & Poor’s Ratings Service, a division of The McGraw-Hill Companies, Inc., and its successors and assigns.

“Securities Depository” means The Depository Trust Company and its successors and assigns or any other securities depository selected by the Issuer which agrees to follow the procedures required to be followed by such securities depository in connection with a Series of ARS Bonds.

“Sell Order” has the meaning specified in subsection (a) under “Auction Procedures -- Orders by Existing Owners and Potential Owners” below.

“Special Auction Period” means, with respect to any Series of ARS Bonds, any period of not less than seven nor more than 1092 days which begins on an Interest Payment Date and ends on a day of the week immediately prior to the Interest Payment Date Weekday for such Series unless such day of the week is not followed by a Business Day, in which case on the next succeeding day which is followed by a Business Day.

“Submission Deadline” means 1:00 p.m., New York City time, on each Auction Date for a Series of ARS Bonds not in a daily Auction Period and 11:00 a.m., New York City time, on each Auction Date for a Series of ARS Bonds in a daily Auction Period, or such other time on such date as shall be specified from time to time by the Auction Agent pursuant to the Auction Agreement as the time by which Broker-Dealers are required to submit Orders to the Auction Agent.

“Submitted Bid” has the meaning specified in subsection (b) under “Auction Procedures – Determination of ARS Rate” below.

“Submitted Hold Order” has the meaning specified in subsection (b) under “Auction Procedures – Determination of ARS Rate” below.

“Submitted Order” has the meaning specified in subsection (b) under “Auction Procedures – Determination of ARS Rate” below.

“Submitted Sell Order” has the meaning specified in subsection (b) under “Auction Procedures – Determination of ARS Rate” below.

“Sufficient Clearing Bids” means with respect to Series of ARS Bonds, an Auction for which the aggregate principal amount of such Series of ARS Bonds that are the subject of Submitted Bids by Potential Owners specifying one or more rates not higher than the Maximum ARS Rate is not less than the aggregate principal amount of such Series or ARS Bonds that are the subject of Submitted Sell Orders and of Submitted Bids by Existing Owners specifying rates higher than the Maximum ARS Rate.

“Winning Bid Rate” means with respect to a Series of ARS Bonds the lowest rate specified in any Submitted Bid for such Series of ARS Bonds which if selected by the Auction Agent as the ARS Rate would cause the aggregate principal amount of such Series of ARS Bonds that are the subject of Submitted Bids specifying a rate not greater than such rate to be not less than the aggregate principal amount of Available Bonds of such series.

## **Auction Procedures**

### *Orders by Existing Owners and Potential Owners.*

(a) Prior to the Submission Deadline on each Auction Date:

(i) each Existing Owner may submit to a Broker-Dealer, in writing or by such other method as shall be reasonably acceptable to such Broker-Dealer, information as to:

(A) the principal amount of a Series of ARS Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period for such Series without regard to the rate determined by the Auction Procedures for such Auction Period,

(B) the principal amount of a Series of ARS Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably commits to continue to hold for the next succeeding Auction Period for such Series if the rate determined by the Auction Procedures for such Auction Period shall not be less than the rate per annum then specified by such Existing Owner (and which such Existing Owner irrevocably offers to sell on the next succeeding Interest Payment Date (or the same day in the case of a daily Auction Period) if the rate determined by the Auction Procedures for the next succeeding Auction Period shall be less than the rate per annum then specified by such Existing Owner), and/or

(C) the principal amount of a Series of ARS Bonds, if any, held by such Existing Owner which such Existing Owner irrevocably offers to sell on the next succeeding Interest Payment Date for such Series (or on the same day in the case of a daily Auction Period) without regard to the rate determined by the Auction Procedures for the next succeeding Auction Period for such Series; and

(ii) for the purpose of implementing the Auctions and thereby to achieve the lowest possible interest rate on each Series of ARS Bonds, the Broker-Dealers shall contact Potential Owners, including Persons that are Existing Owners, to determine the principal amount of such Series of ARS Bonds, if any, which each such Potential Owner irrevocably offers to purchase if the rate determined by the Auction Procedures for the next succeeding Auction Period is not less than the rate per annum then specified by such Potential Owner.

For the purposes hereof, an Order containing the information referred to in clause (i)(A) above is herein referred to as a "Hold Order", an Order containing the information referred to in clause (i)(B) or (ii) above is herein referred to as a "Bid", and an Order containing the information referred to in clause (i)(C) above is herein referred to as a "Sell Order."

(b)(i) A Bid by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of the applicable Series of ARS Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be less than the rate specified therein; or

(B) such principal amount or a lesser principal amount of the applicable Series of ARS Bonds to be determined as described in subsection (a)(v) under "Allocation of ARS Bonds" below if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate; or

(C) a lesser principal amount of the applicable Series of ARS Bonds to be determined as described in subsection (b)(iv) under "Allocation of ARS Bonds" below if such specified rate shall be higher than the Maximum ARS Rate and Sufficient Clearing Bids do not exist.

(ii) A Sell Order by an Existing Owner shall constitute an irrevocable offer to sell:

(A) the principal amount of the applicable Series of ARS Bonds specified in such Sell Order;  
or

(B) such principal amount or a lesser principal amount of the applicable Series of ARS Bonds as described in subsection (b)(iv) under "Allocation of ARS Bonds" below if Sufficient Clearing Bids do not exist.

(iii) A Bid by a Potential Owner shall constitute an irrevocable offer to purchase:

(A) the principal amount of the applicable Series of ARS Bonds specified in such Bid if the rate determined by the Auction Procedures on such Auction Date shall be higher than the rate specified therein; or

(B) such principal amount or a lesser principal amount of the applicable Series of ARS Bonds as described in subsection (a)(vi) under "Allocation of ARS Bonds" below if the rate determined by the Auction Procedures on such Auction Date shall be equal to such specified rate.

(c) Anything herein to the contrary notwithstanding:

(i) for purposes of any Auction, any Order which specifies ARS Bonds to be held, purchased or sold in a principal amount which is not \$25,000 or an integral multiple thereof shall be rounded down to the nearest \$25,000, and the Auction Agent shall conduct the Auction Procedures as if such Order had been submitted in such lower amount;

(ii) for purposes of any Auction other than during a daily Auction Period, any portion of an Order of an Existing Owner which relates to an ARS Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be invalid with respect to such portion and the Auction Agent shall conduct the Auction Procedures as if such portion of such Order had not been submitted;

(iii) for purposes of any Auction other than during a daily Auction Period, no portion of an ARS Bond which has been called for redemption on or prior to the Interest Payment Date next succeeding such Auction shall be included in the calculation of Available Bonds for such Auction; and

(iv) the Auction Procedures shall be suspended with respect to each Series of ARS Bonds during the period commencing on the date of the Auction Agent's receipt of notice from the Paying Agent or the Issuer of the occurrence of a failure to pay principal, premium or interest on any ARS Bonds of such Series when due (provided, however, that for purposes of this provision only payment by the Bond Insurer shall be deemed to cure such failure and no such suspension of the Auction Procedures shall occur) but shall resume two Business Days after the date on which the Auction Agent receives notice from the Paying Agent that such failure has been waived or cured, with the next Auction to occur on the next regularly scheduled Auction Date occurring thereafter.

*Submission of Orders by Broker-Dealers to Auction Agent.*

(a) Each Broker-Dealer shall submit to the Auction Agent in writing or by such other method as shall be reasonably acceptable to the Auction Agent, including such electronic communication acceptable to the parties, prior to the Submission Deadline on each Auction Date, all Orders obtained by such Broker-Dealer and, if requested, specifying with respect to each Order:

(i) the name of the Bidder placing such Order;

(ii) the aggregate principal amount of the applicable Series of ARS Bonds, if any, that are the subject of such Order;

(iii) to the extent that such Bidder is an Existing Owner:



(A) the principal amount of the applicable Series of ARS Bonds, if any, subject to any Hold Order placed by such Existing Owner;

(B) the principal amount of the applicable Series of ARS Bonds, if any, subject to any Bid placed by such Existing Owner and the rate specified in such Bid; and

(C) the principal amount of the applicable Series of ARS Bonds, if any, subject to any Sell Order placed by such Existing Owner; and

(iv) to the extent such Bidder is a Potential Owner, the rate specified in such Bid.

(b) If any rate specified in any Bid contains more than three figures to the right of the decimal point, the Auction Agent shall round such rate up to the next highest one thousandth of one percent (0.001%).

(c) If an Order or Orders covering all of the ARS Bonds of a Series held by an Existing Owner is not submitted to the Auction Agent prior to the Submission Deadline, the Auction Agent shall deem a Hold Order to have been submitted on behalf of such Existing Owner covering the principal amount of such Series of ARS Bonds held by such Existing Owner and not subject to Orders submitted to the Auction Agent; provided, however, that if there is a conversion from one Auction Period to another Auction Period and Orders have not been submitted to the Auction Agent prior to the Submission Deadline covering the aggregate principal amount of such Series of ARS Bonds to be converted held by such Existing Owner, the Auction Agent shall deem a Sell Order to have been submitted on behalf of such Existing Owner covering the principal amount of such Series of ARS Bonds to be converted held by such Existing Owner not subject to Orders submitted to the Auction Agent.

(d) If one or more Orders covering in the aggregate more than the principal amount of Outstanding ARS Bonds of a Series held by any Existing Owner are submitted to the Auction Agent, such Orders shall be considered valid as follows:

(i) all Hold Orders shall be considered Hold Orders, but only up to and including in the aggregate the principal amount of such Series of ARS Bonds held by such Existing Owner;

(ii) (A) any Bid of an Existing Owner shall be considered valid as a Bid of an Existing Owner up to and including the excess of the principal amount of such Series of ARS Bonds held by such Existing Owner over the principal amount of such Series of ARS Bonds subject to Hold Orders referred to in paragraph (i) above;

(B) subject to clause (A) above, all Bids of an Existing Owner with the same rate shall be aggregated and considered a single Bid of an Existing Owner up to and including the excess of the principal amount of such Series of ARS Bonds held by such Existing Owner over the principal amount of such Series of ARS Bonds held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above;

(C) subject to clause (A) above, if more than one Bid with different rates is submitted on behalf of such Existing Owner, such Bids shall be considered Bids of an Existing Owner in the ascending order of their respective rates up to the amount of the excess of the principal amount of such Series of ARS Bonds held by such Existing Owner over the principal amount of such Series of ARS Bonds held by such Existing Owner subject to Hold Orders referred to in paragraph (i) above; and

(D) the principal amount, if any, of such Series of ARS Bonds subject to Bids not considered to be Bids of an Existing Owner under this paragraph (ii) shall be treated as the subject of a Bid by a Potential Owner;

(iii) all Sell Orders shall be considered Sell Orders, but only up to and including a principal amount of such Series of ARS Bonds equal to the excess of the principal amount of such Series of ARS Bonds held by such Existing Owner over the sum of the principal amount of such Series of ARS Bonds considered to be subject to Hold

Orders pursuant to paragraph (i) above and the principal amount of such Series of ARS Bonds considered to be subject to Bids of such Existing Owner pursuant to paragraph (ii) above.

(e) If more than one Bid is submitted on behalf of any Potential Owner with respect to a Series of ARS Bonds, each Bid submitted with the same rate shall be aggregated and considered a single Bid and each Bid submitted with a different rate shall be considered a separate Bid with the rate and the principal amount of such Series of ARS Bonds specified therein.

(f) Any Bid submitted for ARS Bonds of a Series by an Existing Owner or a Potential Owner specifying a rate lower than the Minimum ARS Rate shall be treated as a Bid specifying the Minimum ARS Rate.

(g) None of the Issuer, the Paying Agent or the Auction Agent shall be responsible for the failure of any Broker-Dealer to submit an Order to the Auction Agent on behalf of any Existing Owner or Potential Owner.

*Determination of ARS Rate.*

(a) Not later than 9:30 a.m., New York City time, on each Auction Date for each Series of ARS Bonds, the Auction Agent shall advise the Broker-Dealers and the Paying Agent by telephone or other electronic communication acceptable to the parties of the Minimum ARS Rate, the Maximum ARS Rate and the ARS Index for such Series of ARS Bonds.

(b) Promptly after the Submission Deadline on each Auction Date for each Series of ARS Bonds, the Auction Agent shall assemble all Orders submitted or deemed submitted to it by the Broker-Dealers (each such Order as submitted or deemed submitted by a Broker-Dealer being hereinafter referred to as a "Submitted Hold Order," a "Submitted Bid" or a "Submitted Sell Order," as the case may be, and collectively as a "Submitted Order") and shall determine (i) the Available Bonds, (ii) whether there are Sufficient Clearing Bids, and (iii) the Auction Rate.

(c) Promptly after the Auction Agent has made the determinations pursuant to subsection (b) above, the Auction Agent shall advise the Paying Agent by telephone (promptly confirmed in writing), telex or facsimile transmission or other electronic communication acceptable to the parties of the Auction Rate for the next succeeding Auction Period and the Paying Agent shall promptly notify DTC of such Auction Rate.

(d) In the event the Auction Agent fails to calculate, or for any reason fails to timely provide, the Auction Rate for any Auction Period of a Series of ARS Bonds, the ARS Rate for such Auction Period, with respect to such Series of ARS Bonds, shall be the No Auction Rate; provided, however, that if the Auction Procedures are suspended due to the failure to pay principal of, premium or interest on any Series of ARS Bond, the ARS Rate for the next succeeding Auction Period for such Series of ARS Bonds shall be the Default Rate.

(e) In the event of a failed conversion of a Series of ARS Bonds to Fixed Rate Indebtedness or in the event of a failure to change the length of the current Auction Period of a Series of ARS Bonds due to the lack of Sufficient Clearing Bids at the Auction on the Auction Date for the first new Auction Period, the ARS Rate for the next Auction Period shall be the Maximum ARS Rate and the Auction Period of such Series of ARS Bonds shall be a seven-day Auction Period.

(f) If any Series of ARS Bonds are not rated, then the ARS Rate for such Series of ARS Bonds shall be the Maximum ARS Rate.

*Allocation of ARS Bonds.*

(a) In the event of Sufficient Clearing Bids for a Series of ARS Bonds, subject to the further provisions of subsections (c) and (d) below, Submitted Orders for such Series of ARS Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the ARS Bonds of such Series that are the subject of such Submitted Hold Order;

(ii) the Submitted Sell Order of each Existing Owner shall be accepted and the Submitted Bid of each Existing Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected, thus requiring each such Existing Owner to sell the ARS Bonds of such Series that are the subject of such Submitted Sell Order or Submitted Bid;

(iii) the Submitted Bid of each Existing Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the ARS Bonds of such Series that are the subject of such Submitted Bid;

(iv) the Submitted Bid of each Potential Owner specifying any rate that is lower than the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the ARS Bonds of such Series that are the subject of such Submitted Bid;

(v) the Submitted Bid of each Existing Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Existing Owner to continue to hold the ARS Bonds of such Series that are the subject of such Submitted Bid, but only up to and including the principal amount of such Series of ARS Bonds obtained by multiplying (A) the aggregate principal amount of Outstanding ARS Bonds of such Series which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraph (iii) or (iv) above by (B) a fraction the numerator of which shall be the principal amount of Outstanding ARS Bonds of such Series held by such Existing Owner subject to such Submitted Bid and the denominator of which shall be the aggregate principal amount of Outstanding ARS Bonds of such Series subject to such Submitted Bids made by all such Existing Owners that specified a rate equal to the Winning Bid Rate, and the remainder, if any, of such Submitted Bid shall be rejected, thus requiring each such Existing Owner to sell any excess amount of ARS Bonds of such Series;

(vi) the Submitted Bid of each Potential Owner specifying a rate that is equal to the Winning Bid Rate shall be accepted, thus requiring each such Potential Owner to purchase the ARS Bonds of such Series that are the subject of such Submitted Bid, but only in an amount equal to the principal amount of ARS Bonds of such Series obtained by multiplying (A) the aggregate principal amount of Outstanding ARS Bonds of such Series which are not the subject of Submitted Hold Orders described in paragraph (i) above or of Submitted Bids described in paragraph (iii), (iv) or (v) above by (B) a fraction the numerator of which shall be the principal amount of Outstanding ARS Bonds of such Series subject to such Submitted Bid and the denominator of which shall be the sum of the aggregate principal amount of Outstanding ARS Bonds of such Series subject to such Submitted Bids made by all such Potential Owners that specified a rate equal to the Winning Bid Rate, and the remainder of such Submitted Bid shall be rejected; and

(vii) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Winning Bid Rate shall be rejected.

(b) In the event there are not Sufficient Clearing Bids for a Series of ARS Bonds, subject to the further provisions of subsections (c) and (d) below, Submitted Orders for such Series of ARS Bonds shall be accepted or rejected as follows in the following order of priority:

(i) the Submitted Hold Order of each Existing Owner shall be accepted, thus requiring each such Existing Owner to continue to hold the ARS Bonds that are the subject of such Submitted Hold Order;

(ii) the Submitted Bid of each Existing Owner specifying any rate that is not higher than the Maximum ARS Rate with respect to such Series of ARS Bonds, shall be accepted, thus requiring each such Existing Owner to continue to hold the ARS Bonds of such Series that are the subject of such Submitted Bid;

(iii) the Submitted Bid of each Potential Owner specifying any rate that is not higher than the Maximum ARS Rate with respect to such Series of ARS Bonds, shall be accepted, thus requiring each such Potential Owner to purchase the ARS Bonds of such Series that are the subject of such Submitted Bid;

(iv) the Submitted Sell Orders of each Existing Owner shall be accepted as Submitted Sell Orders and the Submitted Bids of each Existing Owner specifying any rate that is higher than the Maximum ARS Rate with respect to such Series of ARS Bonds, shall be deemed to be and shall be accepted as Submitted Sell Orders, in both cases only up to and including the principal amount of the ARS Bonds of such Series obtained by multiplying (A) the aggregate principal amount of the ARS Bonds of such Series subject to Submitted Bids described in paragraph (iii) of this subsection (b) by (B) a fraction the numerator of which shall be the principal amount of Outstanding ARS Bonds of such Series held by such Existing Owner subject to such Submitted Sell Order or such Submitted Bid deemed to be a Submitted Sell Order and the denominator of which shall be the principal amount of Outstanding ARS Bonds of such Series subject to all such Submitted Sell Orders and such Submitted Bids deemed to be Submitted Sell Orders, and the remainder of each such Submitted Sell Order or Submitted Bid shall be deemed to be and shall be accepted as a Hold Order and each such Existing Owner shall be required to continue to hold such excess amount of ARS Bonds of such Series; and

(v) the Submitted Bid of each Potential Owner specifying any rate that is higher than the Maximum ARS Rate with respect to such Series of ARS Bonds shall be rejected.

(c) If, as a result of the procedures described in subsection (a) or (b) above, any Existing Owner or Potential Owner would be required to purchase or sell an aggregate principal amount of ARS Bonds which is not an integral multiple of \$25,000 on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, round up or down the principal amount of ARS Bonds to be purchased or sold by any Existing Owner or Potential Owner on such Auction Date so that the aggregate principal amount of ARS Bonds purchased or sold by each Existing Owner or Potential Owner on such Auction Date shall be an integral multiple of \$25,000, even if such allocation results in one or more of such Existing Owners or Potential Owners not purchasing or selling any ARS Bonds on such Auction Date.

(d) If, as a result of the procedures described in subsection (a) above, any Potential Owner would be required to purchase less than \$25,000 in principal amount of ARS Bonds on any Auction Date, the Auction Agent shall by lot, in such manner as it shall determine in its sole discretion, allocate ARS Bonds for purchase among Potential Owners so that the principal amount of ARS purchased on such Auction Date by any Potential Owner shall be an integral multiple of \$25,000, even if such allocation results in one or more of such Potential Owners not purchasing ARS Bonds on such Auction Date.

*Notice of ARS Rate.*

(a) On each Auction Date, the Auction Agent shall notify by telephone or other telecommunication device or other electronic communication acceptable to the parties or in writing each Broker-Dealer that participated in the Auction held on such Auction Date of the following with respect to each Series of ARS Bonds for which an Auction was held on such Auction Date:

(i) the ARS Rate determined on such Auction Date for the succeeding Auction Period;

(ii) whether Sufficient Clearing Bids existed for the determination of the Winning Bid Rate;

(iii) if such Broker-Dealer submitted a Bid or a Sell Order on behalf of an Existing Owner, whether such Bid or Sell Order was accepted or rejected and the principal amount of the ARS Bonds of the applicable Series, if any, to be sold by such Existing Owner;

(iv) if such Broker-Dealer submitted a Bid on behalf of a Potential Owner, whether such Bid was accepted or rejected and the principal amount of the ARS Bonds of the applicable Series, if any, to be purchased by such Potential Owner;

(v) if the aggregate principal amount of such Series of ARS Bonds to be sold by all Existing Owners on whose behalf such Broker-Dealer submitted Bids or Sell Orders is different from the aggregate principal amount of such Series of ARS Bonds to be purchased by all Potential Owners on whose behalf such Broker-Dealer submitted a Bid, the name or names of one or more Broker-Dealers (and the Agent Member, if any, of each such other Broker Dealer) and the principal amount of such Series of ARS Bonds to be (A) purchased from one or more Existing Owners on whose behalf such other Broker-Dealers submitted Bids or Sell Orders or (B) sold to one or more Potential Owners on whose behalf such Broker-Dealer submitted Bids; and

(vi) the immediately succeeding Auction Date for such Series of ARS Bonds.

(b) On each Auction Date with respect to each Series of ARS Bonds for which an Auction was held on such Auction Date, each Broker-Dealer that submitted an Order on behalf of any Existing Owner or Potential Owner shall: (i) advise each Existing Owner and Potential Owner on whose behalf such Broker-Dealer submitted an Order as to (A) the ARS Rate determined on such Auction Date, (B) whether any Bid or Sell Order submitted on behalf of each such Owner was accepted or rejected and (C) the immediately succeeding Auction Date; (ii) instruct each Potential Owner on whose behalf such Broker-Dealer submitted a Bid that was accepted, in whole or in part, to instruct such Existing Owner's Agent Member to pay to such Broker-Dealer (or its Agent Member) through the Securities Depository the amount necessary to purchase the principal amount of such Series of ARS Bonds to be purchased pursuant to such Bid (including, with respect to any Series of ARS Bonds in a daily Auction Period, accrued interest if the purchase date is not an Interest Payment Date for such ARS Bonds) against receipt of such ARS Bonds; and (iii) instruct each Existing Owner on whose behalf such Broker-Dealer submitted a Sell Order that was accepted or a Bid that was rejected, in whole or in part, to instruct such Existing Owner's Agent Member to deliver to such Broker-Dealer (or its Agent Member) through the Securities Depository the principal amount of such ARS Bonds to be sold pursuant to such Bid or Sell Order against payment therefor.

*ARS Index.*

(a) The ARS Index on any Auction Date with respect to each Series of ARS Bonds in any Auction Period of 35 days or less shall be the Seven-Day "AA" Composite Commercial Paper Rate on such date. The ARS Index with respect to each Series of ARS Bonds in any Auction Period greater than 35 days shall be the rate on United States Treasury Securities having a maturity which most closely approximates the length of the Auction Period, as last published in *The Bond Buyer*. If either rate is unavailable, the ARS Index shall be an index or rate agreed to by all Broker-Dealers and consented to by the Issuer.

"Seven-Day 'AA' Composite Commercial Paper Rate" on any date of determination, means (A) the interest equivalent of the seven-day rate on commercial paper placed on behalf of non-financial issuers whose corporate bonds are rated AA by S&P, or the equivalent of such rating by S&P, as made available on a discount basis or otherwise by the Federal Reserve Bank of New York for the Business Day immediately preceding such date of determination, or (B) if the Federal Reserve Bank of New York does not make available any such rate, then the arithmetic average of such rates, as quoted on a discount basis or otherwise, by Goldman, Sachs & Co., Lehman Commercial Paper Inc., Morgan Stanley & Co. Incorporated and Merrill Lynch, Pierce, Fenner & Smith Incorporated or, in lieu of any thereof, their respective affiliates or successors which are commercial paper dealers (the "Commercial Paper Dealers"), to the Auction Agent before the close of business on the Business Day immediately preceding such date of determination.

For purposes of the definition of Seven-Day "AA" Composite Commercial Paper Rate, the "interest equivalent" means the equivalent yield on a 360-day basis of a discount-basis security to an interest-bearing security. If any Commercial Paper Dealer does not quote a commercial paper rate required to determine the Seven-Day "AA" Composite Commercial Paper Rate, the Seven-Day "AA" Composite Commercial Paper Rate shall be determined on the basis of the quotation or quotations furnished by the remaining Commercial Paper Dealer or Commercial Paper Dealers and any substitute commercial paper dealer not included within the definition of Commercial Paper Dealer above, which may be CS First Boston Corporation or its affiliates or successors which are commercial paper dealers (a "Substitute Commercial Paper Dealer"), selected by the Paying Agent (who shall be under no liability for such selection) to provide such commercial paper rate or rates not being supplied by any Commercial Paper Dealer or Commercial Paper Dealers, as the case may be, or if the Paying Agent does not select

any such Substitute Commercial Paper Dealer or Substitute Commercial Paper Dealers, by the remaining Commercial Paper Dealer or Commercial Paper Dealers.

(b) If for any reason on any Auction Date the ARS Index shall not be determined as hereinabove provided, the ARS Index shall be the ARS Index for the Auction Period ending on such Auction Date.

(c) The determination of the ARS Index as provided herein shall be conclusive and binding upon the Issuer, the Paying Agent, the Broker-Dealers, the Auction Agent and the Owners of the applicable Series of ARS Bonds.

*Miscellaneous Provisions Regarding Auctions.*

(a) During an ARS Rate Period with respect to a Series of ARS Bonds, the provisions and the definitions described herein under "Auction Procedures", including without limitation the definitions of Maximum ARS Rate, Minimum ARS Rate, No Auction Rate, ARS Index, Default Rate, ARS Multiple and the ARS Rate, may be amended, by obtaining the consent of the owners of all Outstanding ARS Bonds of the affected Series bearing interest at an ARS Rate as follows. If on the first Auction Date occurring at least 20 days after the date on which the Paying Agent mailed notice of such proposed amendment to the registered owners of the Outstanding ARS Bonds of such Series, (i) the ARS Rate which is determined on such date is the Winning Bid Rate and (ii) there is delivered to the Issuer and the Paying Agent an opinion of Bond Counsel to the effect that such amendment shall not adversely affect the validity of the ARS Bonds of such Series or any exemption from federal income tax to which the interest on the ARS Bonds of such Series would otherwise be entitled, the proposed amendment shall be deemed to have been consented to by the owners of all affected Outstanding ARS Bonds of such Series bearing interest at an ARS Rate.

(c) During an ARS Rate Period with respect to a Series of ARS Bonds, so long as the ownership of the ARS Bonds of such Series is maintained in book-entry form by the Securities Depository, an Existing Owner or a beneficial owner may sell, transfer or otherwise dispose of an ARS Bond of such Series only pursuant to a Bid or Sell Order in accordance with the Auction Procedures or to or through a Broker-Dealer, provided that (i) in the case of all transfers other than pursuant to Auctions such Existing Owner or its Broker-Dealer or its Agent Member advises the Auction Agent of such transfer and (ii) a sale, transfer or other disposition of ARS Bonds of such Series from a customer of a Broker-Dealer who is listed on the records of that Broker-Dealer as the holder of such ARS Bonds to that Broker-Dealer or another customer of that Broker-Dealer shall not be deemed to be a sale, transfer or other disposition for purposes of this paragraph if such Broker-Dealer remains the Existing Owner of the ARS Bonds so sold, transferred or disposed of immediately after such sale, transfer or disposition.

*Changes in Auction Period or Auction Date.*

(a) Changes in Auction Period.

(i) During any ARS Rate Period, the Issuer may from time to time on any Interest Payment Date, change the length of the Auction Period with respect to all of the ARS Bonds of each Series among daily, seven-days, 28-days, 35-days, three months, six months and a Special Auction Period in order to accommodate economic and financial factors that may affect or be relevant to the length of the Auction Period and the interest rate borne by such Series of ARS Bonds; provided, however, in the case of a change from a Special Auction Period the date of such change shall be the Interest Payment Date immediately following the last day of the final Auction Period. The Issuer shall initiate the change in the length of the Auction Period by giving written notice to the Paying Agent, the Bond Insurer, the Auction Agent, the Broker-Dealers and the Securities Depository that the Auction Period shall change if the conditions described herein are satisfied and the proposed effective date of the change, at least ten Business Days prior to the Auction Date for such Auction Period.

(ii) Any such changed Auction Period shall be for a period of one day, seven-days, 28-days, 35-days, three months, six months or a Special Auction Period and shall be for all of the ARS Bonds of the affected Series in an ARS Rate Period.

(iii) The change in the length of the Auction Period for a Series of ARS Bonds shall not be allowed unless Sufficient Clearing Bids existed at both the Auction before the date on which the notice of the proposed change was given as provided in this subsection (a) and the Auction immediately preceding the proposed change.

(iv) The change in length of the Auction Period for a Series of ARS Bonds shall take effect only if (A) the Paying Agent and the Auction Agent receive, by 11:00 a.m., New York City time, on the Business Day before the Auction Date for the first such Auction Period, a certificate from the Issuer consenting to the change in the length of the Auction Period specified in such certificate and (B) Sufficient Clearing Bids exist at the Auction on the Auction Date for such first Auction Period. For purposes of the Auction for such first Auction Period only, each Existing Owner shall be deemed to have submitted Sell Orders with respect to all of its ARS Bonds of the affected Series except to the extent such Existing Owner submits an Order with respect to ARS Bonds of such Series. If the condition referred to in (A) above is not met, the Auction Rate for the next Auction Period shall be determined pursuant to the Auction Procedures and the Auction Period shall be the Auction Period determined without reference to the proposed change. If the condition referred to in (A) is met but the condition referred to in (B) above is not met, the Auction Rate for the next Auction Period shall be the Maximum ARS Rate, and the Auction Period shall be a seven-day Auction Period.

(v) On the conversion date for ARS Bonds of a Series selected for conversion from one Auction Period to another, any ARS Bonds of such Series which are not the subject of a specific Hold Order or Bid shall be deemed to be subject to a Sell Order.

(b) Changes in Auction Date. During any ARS Rate Period with respect to a Series of ARS Bonds, the Auction Agent, with the written consent of the Issuer, may specify an earlier Auction Date for any Business Day earlier (but in no event more than five Business Days earlier) than the Auction Date that would otherwise be determined in accordance with the definition of "Auction Date" in order to conform with then current market practice with respect to similar securities or to accommodate economic and financial factors that may affect or be relevant to the day of the week constituting an Auction Date and the interest rate borne on such Series of ARS Bonds. The Auction Agent shall provide notice of its determination to specify an earlier Auction Date for an Auction Period by means of a written notice delivered at least 45 days prior to the proposed changed Auction Date to the Paying Agent, the Issuer, the Broker-Dealers and the Securities Depository.

#### **Auction Agent**

##### *Auction Agent.*

(a) The Auction Agent shall be appointed by the Issuer to perform the functions specified herein and in the Auction Agreement. The Auction Agent shall designate its Principal Office and signify its acceptance of the duties and obligations imposed upon it hereunder by a written instrument, delivered to the Issuer, the Paying Agent and each Broker-Dealer which shall set forth such procedural and other matters relating to the implementation of the Auction Procedures as shall be satisfactory to the Issuer and the Paying Agent.

(b) Subject to any applicable governmental restrictions, the Auction Agent may be or become the owner of or trade in ARS Bonds with the same rights as if such entity were not the Auction Agent.

*Qualifications of Auction Agent; Resignation; Removal.* The Auction Agent shall be (a) a bank or trust company organized under the laws of the United States or any state or territory thereof having a combined capital stock, surplus and undivided profits of at least \$30,000,000, or (b) a member of NASD having a capitalization of at least \$30,000,000 and, in either case, authorized by law to perform all the duties imposed upon it by the ARS Bonds and the Auction Agreement and a member of or a participant in the Securities Depository. The Auction Agent may at any time resign and be discharged of the duties and obligations created by hereby and by the Auction Agreement by giving at least ninety (90) days notice to the Issuer, the Bond Insurer and the Paying Agent. The Auction Agent may be removed at any time by the Issuer by written notice, delivered to the Auction Agent, the Issuer, the Bond Insurer and the Paying Agent. Upon any such resignation or removal, the Paying Agent shall appoint a successor Auction Agent meeting the requirements described in this paragraph. In the event of the resignation or removal of the Auction Agent, the Auction Agent shall pay over, assign and deliver any moneys and ARS Bonds held by it in such capacity to its successor. The Auction Agent shall continue to perform its duties hereunder until its successor

has been appointed by the Issuer. In the event that the Auction Agent has not been compensated for its services, the Auction Agent may resign by giving thirty (30) days notice to the Issuer and the Paying Agent even if a successor Auction Agent has not been appointed.

### **Conversion to Fixed Rate Indebtedness**

#### *Conversion.*

(a) **Notice.** At the option of the Issuer, all (but not less than all) of each Series of ARS Bonds outstanding may be converted to Fixed Rate Indebtedness on a Fixed Rate Conversion Date selected by the Issuer. The Issuer shall give notice of any proposed conversion not fewer than 15 days (or, if such Series of ARS Bonds are then in a six-month Auction Period or a Special Auction Period of more than 180 days, 30 days) before the proposed Fixed Rate Conversion Date to the Registered Owner, the Paying Agent, the Auction Agent and each Broker-Dealer. Such notice will state:

- (1) the title, outstanding principal amount and CUSIP number(s) of the ARS Bonds to be converted to Fixed Rate Indebtedness
- (2) the proposed Fixed Rate Conversion Date;
- (3) that all the ARS Bonds of such Series will be subject to mandatory tender for purchase on the Fixed Rate Conversion Date, at a price equal to par plus accrued interest to the Fixed Rate Conversion Date;
- (4) the consequences of a failed conversion (which shall be as provided in subsection (c) below);
- (5) the time and address at which the ARS Bonds of such Series are to be tendered for purchase;
- (6) that the conversion of the ARS Bonds of such Series to Fixed Rate Indebtedness will not become effective unless the Issuer shall have received, no later than one day before the proposed Fixed Rate Conversion Date, an opinion of Bond Counsel to the effect that the conversion to Fixed Rate Indebtedness is permitted under the laws of The Commonwealth of Massachusetts and will not adversely affect the exclusion of interest on the ARS Bonds of such Series from the gross income of the Registered Owner or the beneficial owners of the ARS Bonds of such Series for federal income tax purposes; and
- (7) that after the Fixed Rate Conversion Date, the Registered Owner and any beneficial owners shall have no further rights with respect to the ARS Bonds of such Series so converted except to receive the purchase price therefor on the Fixed Rate Conversion Date, with no interest accruing thereon.

Such notice to the Owners shall be made by first class mail or, at the Issuer's option, certified mail, return receipt requested. Any notice mailed as provided above to the Registered Owner at its address listed in the registration books of the Issuer shall be conclusively presumed to have been duly given, whether or not the Registered Owner received the notice, and the failure of the Registered Owner to receive any such notice shall not affect the validity of the action described in such notice. For so long as a Series of ARS Bonds is registered in the name of Cede & Co., as nominee for DTC, notices of mandatory tender for purchase of ARS Bonds of such Series shall be given to DTC only, and neither the Issuer, the Paying Agent nor any other Person shall have any responsibility for the delivery of any of such notices by DTC to any participants of DTC or by any direct or indirect participants of DTC to beneficial owners of such Series of ARS Bonds.

(b) **Terms of Fixed Rate Indebtedness.** The Remarketing Agent shall determine the Fixed Rate with respect to a Series of ARS Bonds on a Business Day at least one Business Day prior to the proposed Fixed Rate Conversion Date for such Series. The Fixed Rate shall be determined by the Remarketing Agent as the lowest rate or rates of interest that, in the judgment of the Remarketing Agent, would cause the applicable Series of ARS Bonds



to have a market value as of the date of determination equal to the principal amount thereof, plus accrued interest, if any, taking into account prevailing market conditions. The Series of ARS Bonds so converted shall be subject to mandatory sinking fund redemption as set forth in the ARS Bonds of such Series on the Date of Original Delivery and shall be subject to optional redemption at the times and in the amounts determined by the Issuer on or before the Fixed Rate Conversion Date.

(c) Failure to Convert. If any of the conditions to conversion of a Series of ARS Bonds to Fixed Rate Indebtedness are not met, such conversion shall not take effect and the next Auction Period for such Series shall be a seven-day Auction Period and the Auction Rate of such Auction Period shall be the Maximum ARS Rate.

*Mandatory Tender.*

(a) Agreement to Tender. Each Registered Owner, by its acceptance hereof, agrees to tender its ARS Bonds of Series to the Paying Agent for purchase on the Fixed Rate Conversion Date for such Series, properly endorsed for transfer in blank, at the time and address specified in such notice.

(b) Purchase of Tendered Bonds. Delivery to the Paying Agent of ARS Bonds to be tendered for purchase, together with wire payment instructions satisfactory to the Paying Agent, is required to be made by 1:00 p.m., New York City time, on the Fixed Rate Conversion Date in order for tendering Owners to be paid in immediately available funds by 4:00 p.m., New York City time, on such day. If ARS Bonds are delivered after 1:00 p.m., New York City time, payment will be made on the next Business Day without any additional accrued interest. ARS Bonds which are required to be tendered for purchase shall cease bearing interest from and after the date tender is required regardless of whether such ARS Bonds are presented for payment and Owners shall have no further rights with respect to such ARS Bonds other than the right to receive payment of the purchase price upon surrender of the ARS Bonds.

For so long as the ARS Bonds of a Series are registered in the name of Cede & Co., as nominee for DTC, delivery of ARS Bonds of such Series required to be tendered for purchase shall be effected by the transfer by a direct participant of DTC on the Fixed Rate Conversion Date of a book entry credit to the account of the Paying Agent of a beneficial interest in such ARS Bonds required to be tendered for purchase on that date. For so long as the ARS Bonds of Series are registered in the name of Cede & Co., as nominee for DTC, payment of the purchase price therefor shall be paid directly to DTC in accordance with any Letter of Representation with DTC.

In receiving ARS Bonds as described herein, the Paying Agent shall be acting as a conduit and shall not be purchasing such ARS Bonds for its own account. The performance of the Paying Agent's duties is subject to certain terms and standards set forth in the Paying Agent Agreement.

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**Exhibit A**



Financial Guaranty Insurance  
 Company  
 115 Broadway  
 New York, NY 10006  
 (212) 312-3000  
 (800) 352-0001

A GE Capital Company

**Municipal Bond  
 New Issue Insurance Policy**

<b>Issuer:</b>	<b>Policy Number:</b>
	<b>Control Number:</b> 0010001
<b>Bonds:</b>	<b>Premium:</b>

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, 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 and means, when referring to interest on a Bond, the stated date

Financial Guaranty Insurance  
Company  
115 Broadway  
New York, NY 10006  
(212) 312-3000  
(800) 352-0001



A GE Capital Company

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## Municipal Bond New Issue Insurance Policy

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for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

A handwritten signature in black ink, appearing to be "A. L. H.", written over a horizontal line.

**President**

**Effective Date:**

**Authorized Representative**

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

A handwritten signature in black ink, appearing to be "Quincy Brown", written over a horizontal line.

**Authorized Officer**

Financial Guaranty Insurance  
Company  
115 Broadway  
New York, NY 10006  
(212) 312-3000  
(800) 352-0001



A GE Capital Company

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## Endorsement To Financial Guaranty Insurance Company Insurance Policy

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**Policy Number:**

**Control Number:** 0010001

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It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder 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.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

**President**

**Effective Date:**

**Authorized Representative**

**Acknowledged as of the Effective Date written above:**

**Authorized Officer  
State Street Bank and Trust Company, N.A., as Fiscal Agent**

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MSRB

FORM G-36(OS) - FOR OFFICIAL STATEMENT

SECTION I - MATERIALS SUBMITTED

- A. THIS FORM IS SUBMITTED IN CONNECTION WITH (check one):
- A FINAL OFFICIAL STATEMENT RELATING TO A PRIMARY OFFERING OF MUNICIPAL SECURITIES (enclose two (2) copies)
    - (a) DATE RECEIVED FROM ISSUER: 12/6/2000 (b) DATE SENT TO MSRB: 12/8/2000
  - AN AMENDED OFFICIAL STATEMENT WITHIN THE MEANING OF RULE G-36(d) (enclose two (2) copies)
    - (a) DATE RECEIVED FROM ISSUER: \_\_\_\_\_ (b) DATE SENT TO MSRB: \_\_\_\_\_
- B. IF MATERIALS SUBMITTED WITH THIS FORM CONSIST OF MORE THAN ONE DOCUMENT (e.g., preliminary official statement and wrap, even if physically attached), PLEASE CHECK HERE:
- C. IF THIS FORM AMENDS PREVIOUSLY SUBMITTED FORM WITHOUT CHANGING MATERIALS SUBMITTED, PLEASE CHECK HERE (include copy of original Form G-36(OS)):

SECTION II - IDENTIFICATION OF ISSUE(S)

Each issue must be listed separately. If more space is needed to list additional issues, please include on separate sheet and check here:

- A. NAME OF ISSUER: The Commonwealth of Massachusetts STATE: MA  
 DESCRIPTION OF ISSUE: GENERAL OBLIGATION 2000 SR D, E, F, G DATED: 12/13/00
- B. NAME OF ISSUER: \_\_\_\_\_ STATE: \_\_\_\_\_  
 DESCRIPTION OF ISSUE: \_\_\_\_\_ DATED: \_\_\_\_\_
- C. NAME OF ISSUER: \_\_\_\_\_ STATE: \_\_\_\_\_  
 DESCRIPTION OF ISSUE: \_\_\_\_\_ DATED: \_\_\_\_\_

SECTION III - TRANSACTION INFORMATION

- A. LATEST FINAL MATURITY DATE OF ALL SECURITIES IN OFFERING: 12/1/2030
- B. DATE OF FINAL AGREEMENT TO PURCHASE, OFFER OR SELL SECURITIES (Date of Sale): 12/8/00
- C. ACTUAL OR EXPECTED DATE OF DELIVERY OF SECURITIES TO UNDERWRITER(S) (Bond Closing): 12/13/00
- D. IF THESE SECURITIES ADVANCE REFUND ALL OR A PORTION OF ANOTHER ISSUE, PLEASE CHECK HERE:   
 A separate Form G-36(ARD) and copies of the advance refunding documents must be submitted for each issue advance refunded.

SECTION IV - UNDERWRITING ASSESSMENT INFORMATION

This information will be used by the MSRB to compute any rule A-13 underwriting assessment that may be due on this offering. The managing underwriter will be sent an invoice if a rule A-13 assessment is due on the offering.

- A. MANAGING UNDERWRITER: Goldman Sachs & Co SEC REG. NUMBER: 8-0012
- B. TOTAL PAR VALUE OF ALL SECURITIES IN OFFERING: \$ 401,500,000
- C. PAR AMOUNT OF SECURITIES UNDERWRITTEN (if different from amount shown in item B above): \$ \_\_\_\_\_
- D. CHECK ALL THAT APPLY
- At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent.
  - At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value or more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent.
  - This offering is exempt from SEC Rule 15c2-12 under section (d)(1)(i) of that rule. Section (d)(1)(i) of SEC Rule 15c2-12 states that an offer is exempt from the requirements of the rule if the securities offered have authorized denominations of \$100,000 or more and are sold to no more than 35 persons each of whom the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment; and (2) is not purchasing for more than one account, or with a view toward distributing the securities.



**SECTION V - CUSIP INFORMATION**

MSRB rule G-34 requires that CUSIP numbers be assigned to each new issue of municipal securities unless the issue is ineligible for CUSIP number assignment under the eligibility criteria of the CUSIP Service Bureau.

**A. CUSIP-9 NUMBERS OF ISSUE(S)**

S, D  
A  
E  
P

Maturity Date	CUSIP Number	Maturity Date	CUSIP Number	Maturity Date	CUSIP Number
12/1/2030	575827R69				
12/1/2030	575827R77				
12/1/2030	575827R85				
12/1/2030	575827R93				

**B** IF ANY OF THE ABOVE SECURITIES HAS A "CUSIP-6" BUT NO "CUSIP-9". CHECK HERE AND LIST THEM BELOW:   
 (Please see instructions in Form G-36 Manual)

LIST ALL CUSIP-6 NUMBERS ASSIGNED: \_\_\_\_\_

State the reason why such securities have not been assigned a "CUSIP-9" \_\_\_\_\_

**C** IF ANY OF THESE SECURITIES IS INELIGIBLE FOR CUSIP NUMBER ASSIGNMENT. PLEASE CHECK HERE.

State the reason why such securities are ineligible for CUSIP number assignment \_\_\_\_\_

**SECTION VI - MANAGING UNDERWRITER'S CERTIFICATION AND SIGNATURE**

THE UNDERSIGNED CERTIFIES THAT THE MATERIALS ACCOMPANYING THIS FORM ARE AS DESCRIBED IN SECTION I ABOVE THAT ALL OTHER INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT. THE UNDERSIGNED ACKNOWLEDGES THAT SUCH MATERIALS WILL BE PUBLICLY DISSEMINATED.

DEC 11 2000

ON BEHALF  
SECTION I

SIGNED \_\_\_\_\_

NAME \_\_\_\_\_

PHONE \_\_\_\_\_  
to be reem

detailed in  
or noted

form an  
ered sent

materials to MSRB, MSIL System, 1640 King Street, Suite

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