

NEW ISSUE - BOOK-ENTRY ONLY

In the opinion of Hale and Dorr, Bond Counsel, under existing statutes and court decisions and assuming continued compliance with the Internal Revenue Code of 1986, as amended, interest on the Bonds (which interest includes any original issue discount) is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of 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, under existing statutes, the Bonds and the interest thereon (which interest includes any original issue discount) are exempt from taxes imposed by the Commonwealth, although the Bonds and said interest may be included in the measure of estate and inheritance taxes and of certain corporation excise and franchise taxes. See "TAX EXEMPTION" herein.



THE COMMONWEALTH OF MASSACHUSETTS

\$150,000,000

**General Obligation Bonds
Consolidated Loan of 1995, Series A**

The Bonds will be issued by means of a book-entry-only system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company ("DTC") and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The Bonds will bear interest from February 1, 1995 and interest will be payable on August 1, 1995 and semiannually thereafter on February 1 and August 1 calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are subject to redemption prior to maturity, as more fully described herein.

The Bonds will constitute general obligations of The Commonwealth of Massachusetts (the "Commonwealth") and the full faith and credit of the Commonwealth are 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 and regarding dedicated state income tax revenues, see "SECURITY FOR THE BONDS" and "Appendix A - Commonwealth Information Statement" under the headings "COMMONWEALTH REVENUES - Limitations on Tax Revenues", "COMMONWEALTH PROGRAMS AND SERVICES - Debt Service" and "COMMONWEALTH BOND AND NOTE LIABILITIES".

The Bonds are offered when, as and if issued and received by the original purchasers, and subject to the unqualified approving opinion as to legality of Hale and Dorr, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Palmer & Dodge, Boston, Massachusetts, Disclosure Counsel. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about March 2, 1995.

February 22, 1995

THE COMMONWEALTH OF MASSACHUSETTS

\$150,000,000
General Obligation Bonds
Consolidated Loan of 1995, Series A

Dated: February 1, 1995

Due: February 1, as shown below

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
1996	\$4,315,000	5.20%	4.65%
1997	4,520,000	5.20	4.90
1998	4,750,000	5.20	5.00
1999	5,000,000	5.20	5.10
2000	5,270,000	5.20	100
2001	5,555,000	5¼	5.30
2002	5,855,000	5.30	5.35
2003	6,170,000	5.30	5.40
2004	6,510,000	5¾	5.45
2005	6,875,000	5.40	5.50
2006	7,260,000	5½	5.55
2007	7,670,000	5.60	5.65
2008	8,115,000	5.70	5.75
2009	8,590,000	5.70	5.80
2010	9,100,000	5¾	5.85
2011	9,640,000	5¾	5.90
2012	10,225,000	5¾	5.95
2013	10,845,000	5¾	6.00

\$23,735,000 5¾ % Term Bonds due February 1, 2015 -- Price 97.00%

(accrued interest, if any, to be added)

All of the Bonds other than the Bonds maturing on February 1, 1996 will be insured by Municipal Bond Investors Assurance Corporation. See "BOND INSURANCE."

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 original purchasers of the Bonds to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of any offer to buy nor shall there be any sale of the Bonds offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein has been furnished by the Commonwealth and includes information obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the original purchasers of the Bonds or, as to information from other sources, the Commonwealth. The information and expressions of opinion 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 and political subdivisions, since the date hereof, except as expressly set forth herein.

TABLE OF CONTENTS

INTRODUCTION	1
Purpose and Content of Official Statement	1
THE BONDS	1
General	1
Redemption	2
Application of Proceeds of the Bonds	3
SECURITY FOR THE BONDS	3
BOND INSURANCE	4
LITIGATION	5
BOOK-ENTRY-ONLY SYSTEM	5
RATINGS	7
TAX EXEMPTION	7
OPINIONS OF COUNSEL	8
COMPETITIVE SALE OF BONDS	8
MISCELLANEOUS	9
CONTINUING DISCLOSURE	9
AVAILABILITY OF OTHER INFORMATION	10
APPENDIX A - Commonwealth Information Statement	
Exhibit A - Economic Information	
Exhibit B - 1994 Combined Financial Statements - Statutory Basis	
Exhibit C - 1994 Combined Financial Statements - GAAP Basis	
APPENDIX B - Form of Bond Counsel Opinion	
APPENDIX C - Specimen Bond Insurance Policy	

THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

William F. Weld **Governor**
Argeo Paul Cellucci **Lieutenant Governor**
William F. Galvin **Secretary of the Commonwealth**
L. Scott Harshbarger **Attorney General**
Joseph D. Malone **Treasurer and Receiver-General**
A. Joseph DeNucci **Auditor**

LEGISLATIVE OFFICERS

William M. Bulger **President of the Senate**
Charles F. Flaherty **Speaker of the House**

OFFICIAL STATEMENT

THE COMMONWEALTH OF MASSACHUSETTS

\$150,000,000

**General Obligation Bonds
Consolidated Loan of 1995, Series A**

INTRODUCTION

This Official Statement (including the cover pages and Appendices A through C attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of \$150,000,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 1995, Series A (the "Bonds"). The Bonds will be 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. However, for information regarding certain statutory limits on state tax revenue growth and expenditures for debt service and regarding dedicated state income tax revenues, see "THE BONDS -- Security for the Bonds" and "Appendix A - Commonwealth Information Statement" under the headings "COMMONWEALTH REVENUES -- Limitations on Tax Revenues", "COMMONWEALTH PROGRAMS AND SERVICES -- Debt Service" and "COMMONWEALTH BOND AND NOTE LIABILITIES".

The Bonds are being issued to finance certain authorized capital projects of the Commonwealth. See "THE BONDS - Application of Proceeds".

Purpose and Content of Official Statement

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

Attached hereto as Appendix A is the Commonwealth Information Statement, dated February 22, 1995, (the "Commonwealth Information Statement"), which contains certain fiscal, budgetary, financial, and other general information concerning the Commonwealth as of its date. Exhibit A to the Commonwealth Information Statement contains certain economic information concerning the Commonwealth. Exhibits B and C to the Commonwealth Information Statement contain the financial statements of the Commonwealth for the fiscal year ending June 30, 1994, prepared on a statutory basis and a GAAP basis, respectively. Appendix B attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Bonds. Appendix C attached hereto contains a specimen of the bond insurance policy to be issued with respect to the Bonds maturing in the years 1997 through 2015 (the "Insured Bonds").

THE BONDS

General

The Bonds will be dated February 1, 1995 and will initially bear interest from such date payable semiannually on February 1 and August 1 of each year, commencing August 1, 1995 (each an "Interest Payment Date"), until the principal amount is paid. The Bonds will mature on February 1 in the years and in the aggregate principal amounts, and shall bear interest at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months), as set forth on the inside cover page of this Official Statement. The Commonwealth will act as its own paying agent with respect to the Bonds.

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

Redemption

The Bonds maturing on or prior to February 1, 2005 are not subject to redemption prior to their stated maturity dates.

Mandatory Sinking Fund Redemption. The Bonds having the stated maturity date of February 1, 2015 are subject to mandatory sinking fund redemption on February 1 in each of the years and each of the principal amounts set forth below, at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the redemption date:

<u>Year</u>	<u>Principal Amount</u>
2014	\$11,515,000
2015*	12,220,000

*Stated Maturity.

The Commonwealth shall be entitled to reduce its mandatory sinking fund redemption obligation in any year with respect to such Bonds by the principal amount of any such Bonds previously purchased or optionally redeemed by the Commonwealth.

Optional Redemption. The Bonds maturing on or after February 1, 2006 are subject to redemption prior to their stated maturity dates on or after February 1, 2005, at the option of the Commonwealth from any monies legally available therefor, in whole or in part at any time, by lot, at the redemption prices (expressed as percentages of the principal amount thereof), plus accrued interest to the redemption date, as follows:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
February 1, 2005 through January 31, 2006, inclusive	101%
February 1, 2006 through January 31, 2007, inclusive	100½
February 1, 2007 and thereafter	100

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

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

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

Application of Proceeds of the Bonds

The Bonds are being issued pursuant to the provisions of Section 49 of Chapter 29 of the Massachusetts General Laws and bond authorizations enacted by the Legislature. The net proceeds of the sale of the Bonds will be applied by the State Treasurer to the various purposes for which issuance of bonds have been authorized by the Legislature. Any accrued interest payable upon original delivery of the Bonds will be credited ratably to the funds from which debt service on the Bonds is paid and will be used to pay interest on the Bonds.

The purposes for which the Bonds will be issued have been authorized by the Legislature under various bond authorizations and are included within the current five-year capital spending plan established by the Governor (the "Capital Spending Plan"). The Capital Spending Plan, which is an administrative guideline and is subject to amendment by the Governor at any time, sets forth capital spending allocations over the next five fiscal years and establishes annual capital spending limits. The proceeds of the Bonds are to be applied in fiscal year 1995 to certain projects included within the categories of capital expenditures contained in the Capital Spending Plan. See "Appendix A - Commonwealth Information Statement" under the headings "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Overview of Capital Spending Process and Controls; *Five-Year Capital Spending Plan*" and "COMMONWEALTH BOND AND NOTE LIABILITIES -- Authorized But Unissued Debt".

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 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. These statutes are both subject to amendment or repeal by the Legislature. Currently, actual tax revenue growth and annual general obligation debt service are both below the statutory limits. See "Appendix A - Commonwealth Information Statement" under the headings "COMMONWEALTH REVENUES -- Limitations on Tax Revenues" and "COMMONWEALTH PROGRAMS AND SERVICES -- Debt Service". In addition, the Commonwealth has pledged up to 15% of the Commonwealth's income tax receipts to secure approximately \$1.24 billion of the Commonwealth's outstanding Fiscal Recovery Bonds, the debt service on which amounts to approximately \$279 million per year in fiscal 1995 through 1997, and \$130 million in fiscal 1998, at which time the Fiscal Recovery Bonds will be paid. See "Appendix A - Commonwealth Information Statement" under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES -- General Obligation Debt; *Dedicated Income Tax Debt*".

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 legislative appropriation. Enforcement of a claim for payment of principal of or interest on the Bonds also may be subject to the provisions of federal or Commonwealth statutes, if any, hereafter enacted extending the time for payment or imposing other constraints upon enforcement, insofar as the same may be constitutionally applied. The United States Bankruptcy Code is not applicable to the Commonwealth. Under Massachusetts law, the Bonds have all of the qualities and incidents of negotiable instruments under the Uniform Commercial Code.

BOND INSURANCE

The underwriters of the Bonds have contracted with Municipal Bond Investors Assurance Corporation (the "Insurer") for the issuance of a financial guaranty insurance policy to secure the Insured Bonds. The issuance of such policy is not a condition to the issuance and delivery of the Bonds by the Commonwealth to the Underwriters. The following information has been furnished by the Insurer for use in this Official Statement. Reference is made to Appendix C for a specimen of the Insurer's policy.

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

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

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

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obligated to pay the debts of or claims against the Insurer. The Insurer is a limited liability corporation rather than a several liability association. The Insurer is domiciled in the State of New York and licensed to do business in all 50 states, the District of Columbia and the Commonwealth of Puerto Rico.

As of December 31, 1993, the Insurer had admitted assets of \$3.1 billion (audited), total liabilities of \$2.1 billion (audited), and total capital and surplus of \$978 million (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of September 30, 1994, the Insurer had admitted assets of \$3.3 billion (unaudited), total liabilities of \$2.2 billion (unaudited), and total capital and surplus of \$1.1 billion (unaudited) determined in accordance with statutory accounting practices prescribed or

permitted by insurance regulatory authorities. Copies of the Insurer's year end financial statements prepared in accordance with statutory accounting practices are available from the Insurer. The address of the Insurer is 113 King Street, Armonk, New York 10504.

Moody's Investors Service rates the claims paying ability of the Insurer "Aaa". The Insured Bonds are rated in the highest rating category by Moody's.

Standard & Poor's Ratings Group, a division of McGraw Hill ("Standard & Poor's"), rates the claims paying ability of the Insurer "AAA". The Insured Bonds are rated in the highest rating category by Standard and Poor's.

The Moody's Investors Service rating of the Insurer should be evaluated independently of the Standard & Poor's rating of the Insurer. No application has been made to any other rating agency in order to obtain additional ratings on the Insured Bonds. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Insured Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of either or both ratings may have an adverse effect on the market price of the Insured Bonds.

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 "Appendix A - Commonwealth Information Statement" under the heading "LITIGATION".

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 fully registered Bond for each maturity set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, 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 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.

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 and premium, if any, 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 and premium, if any, on the Bonds to DTC is the responsibility of the Commonwealth; disbursement of such payments to DTC Participants and Indirect Participants shall be the responsibility of DTC; and disbursement of such payments to Beneficial Owners shall be the responsibility of the DTC Participants and the Indirect Participants.

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

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

Moody's Investors Service, Inc. and Standard & Poor's Ratings Group will assign their municipal bond ratings of "Aaa" and "AAA", respectively, to the Insured Bonds with the understanding that upon delivery of such Bonds, a policy insuring the payment when due of the principal of an interest on the Insured Bonds will be issued by the Insurer.

The Bonds, other than the Insured Bonds, have been assigned ratings by Fitch Investors Service, Inc., Moody's Investors Service, Inc. and Standard & Poor's Ratings Group. The rating assigned by Fitch Investors Service, Inc. for the Bonds is "A+". The rating assigned by Moody's Investors Service, Inc. for the Bonds is "A1". The rating assigned by Standard & Poor's Ratings Group for the Bonds is "A+".

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

TAX EXEMPTION

Bond Counsel, Hale and Dorr, is of the opinion that, under existing statutes and court decisions, except as described below, interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for the purpose of the federal alternative minimum tax imposed on individuals and corporations, but is includable in adjusted current earnings of corporate holders of the Bonds and therefore will be taken into account in the computation of the alternative minimum tax applicable to certain corporations. The

Internal Revenue Code of 1986, as amended (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 subject to federal income taxation, retroactive to the date of their issuance. On or before delivery of the Bonds to the original purchasers, the Commonwealth will covenant 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.

Bond Counsel has not opined as to other federal tax consequences of holding the Bonds. However, prospective purchasers of such Bonds should be aware that (i) section 265 of 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, that portion of a holder's interest expense allocated to such Bonds, (ii) with respect to insurance companies subject to the tax imposed by section 831 of the Code, section 832(b)(5)(B)(i) reduces the deduction for loss reserves by 15% of the sum of certain items, including interest on the Bonds, (iii) for taxable years beginning before January 1, 1996, interest on the Bonds earned by some corporations could be subject to the environmental tax imposed by section 59A of the Code, (iv) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by section 884 of the Code, (v) passive investment income, including interest on the Bonds, may be subject to federal income taxation under section 1375 of the Code for S corporations that have Subchapter C earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such S corporation is passive investment income and (vi) section 86 of the Code requires recipients of certain Social Security and Railroad Retirement benefits to take into account, in determining gross income, receipts or accruals of interest on the Bonds.

In the opinion of Bond Counsel, under existing statutes, the Bonds and the interest thereon are exempt from taxes imposed by the Commonwealth, although the Bonds and said interest may be included in the measure of estate and inheritance taxes and of certain corporation excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Bonds or interest thereon under the laws of jurisdictions other than the Commonwealth.

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

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. See "Appendix B - Form of Bond Counsel Opinion".

OPINIONS OF COUNSEL

The unqualified approving opinion as to the legality of the Bonds will be rendered by Hale and Dorr 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 Palmer & Dodge of Boston, Massachusetts, as Disclosure Counsel to the State Treasurer.

COMPETITIVE SALE OF BONDS

After competitive bidding on February 22, 1995, the Bonds were awarded to a group of underwriters (the "Underwriters") consisting of J.P. Morgan Securities Inc., Lehman Brothers, The First National Bank of Boston

and Dean Witter Reynolds Inc. The Underwriters have supplied the information as to the public offering yields or prices of the Bonds set forth on the inside cover hereof. If all of the Bonds are resold to the public at such yields or prices, the Underwriter has informed the Commonwealth that they anticipate the total Underwriter compensation, net of amounts to be applied to costs of issuance of the Bonds, to be \$1,073,000. The Underwriter may change the public offering yields or prices from time to time.

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.

CONTINUING DISCLOSURE

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

AVAILABILITY OF OTHER INFORMATION

Questions regarding this Official Statement or requests for additional financial information concerning the Commonwealth should be directed to Kenneth Olshansky, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, Twelfth Floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or Lowell Richards, 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 Olivia A. O'Neill, Esq., Hale and Dorr, 60 State Street, Boston, Massachusetts 02109, telephone (617) 526-6000.

THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Joseph D. Malone
Joseph D. Malone
Treasurer and Receiver-General

By /s/ Charles D. Baker
Charles D. Baker
Secretary for Administration and Finance

February 22, 1995

THE
COMMONWEALTH
OF
MASSACHUSETTS



INFORMATION STATEMENT

Dated February 22, 1995

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
THE GOVERNMENT	A-2	Debt Service	A-33
Executive Branch	A-3	Pensions	A-35
Legislative Branch	A-4	Higher Education	A-35
Judicial Branch	A-5	MBTA and Regional Transit Authorities	A-35
Independent Authorities and Agencies	A-5	Other Programs	A-37
Local Government	A-5	State Workforce	A-38
Initiative Petitions	A-6	Union Organization and Labor Negotiations	A-39
COMMONWEALTH BUDGET, FINANCIAL		COMMONWEALTH BOND AND NOTE LIABILITIES	A-41
MANAGEMENT AND CONTROLS	A-6	Overview	A-41
Operating Fund Structure	A-6	General Obligation Debt	A-45
Overview of Budgetary Process	A-7	Special Obligation Debt	A-46
Cash and Budgetary Controls	A-8	Debt Service Requirements on Commonwealth Bonds	A-47
Cash Management Practices of State Treasurer	A-8	Statutory Debt Limit on Direct Bonds	A-47
Fiscal Control, Accounting and Reporting Practices of		Authorized But Unissued Debt	A-48
Comptroller	A-8	Commonwealth Supported Debt	A-49
Overview of Capital Spending Process and Controls	A-10	Commonwealth Guaranteed Debt	A-50
Audit Practices of State Auditor	A-13	Indirect Obligations	A-50
FINANCIAL RESULTS	A-13	OTHER COMMONWEALTH LIABILITIES	A-52
Selected Financial Data - Statutory Basis	A-14	Retirement Systems and Pension Benefits	A-52
Selected Financial Data - GAAP Basis	A-16	Long Term Operating Leases	A-54
Fiscal Years 1990 Through 1994	A-17	Long Term Capital Leases and Certificates	
 		of Participation	A-54
1995 FISCAL YEAR	A-19	Water Pollution Abatement Trust	A-55
 		School Building Assistance	A-55
1996 FISCAL YEAR	A-21	Unemployment Compensation Trust Fund	A-56
COMMONWEALTH REVENUES	A-22	INVESTMENT POLICIES	A-56
Distribution of Revenues	A-22	LITIGATION	A-56
State Taxes	A-24	MISCELLANEOUS	A-59
Tax Revenue Forecasting	A-25	CONTINUING DISCLOSURE	A-60
Federal and Other Non-Tax Revenues	A-26	AVAILABILITY OF OTHER	
Limitations on Tax Revenues	A-27	FINANCIAL INFORMATION	A-60
COMMONWEALTH PROGRAMS AND SERVICES	A-28	EXHIBITS	
Local Aid	A-29	A. Economic Information	
Medicaid and Group Health Insurance	A-30	B. 1994 Combined Financial Statements - Statutory Basis	
Public Assistance	A-32	C. 1994 General Purpose Financial Statements - GAAP Basis	

THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

William F. Weld **Governor**
Argeo Paul Cellucci **Lieutenant Governor**
William F. Galvin **Secretary of the Commonwealth**
L. Scott Harshbarger **Attorney General**
Joseph D. Malone **Treasurer and Receiver-General**
A. Joseph DeNucci **Auditor**

LEGISLATIVE OFFICERS

William M. Bulger **President of the Senate**
Charles F. Flaherty **Speaker of the House**

[THIS PAGE INTENTIONALLY LEFT BLANK]

THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT

February 22, 1995

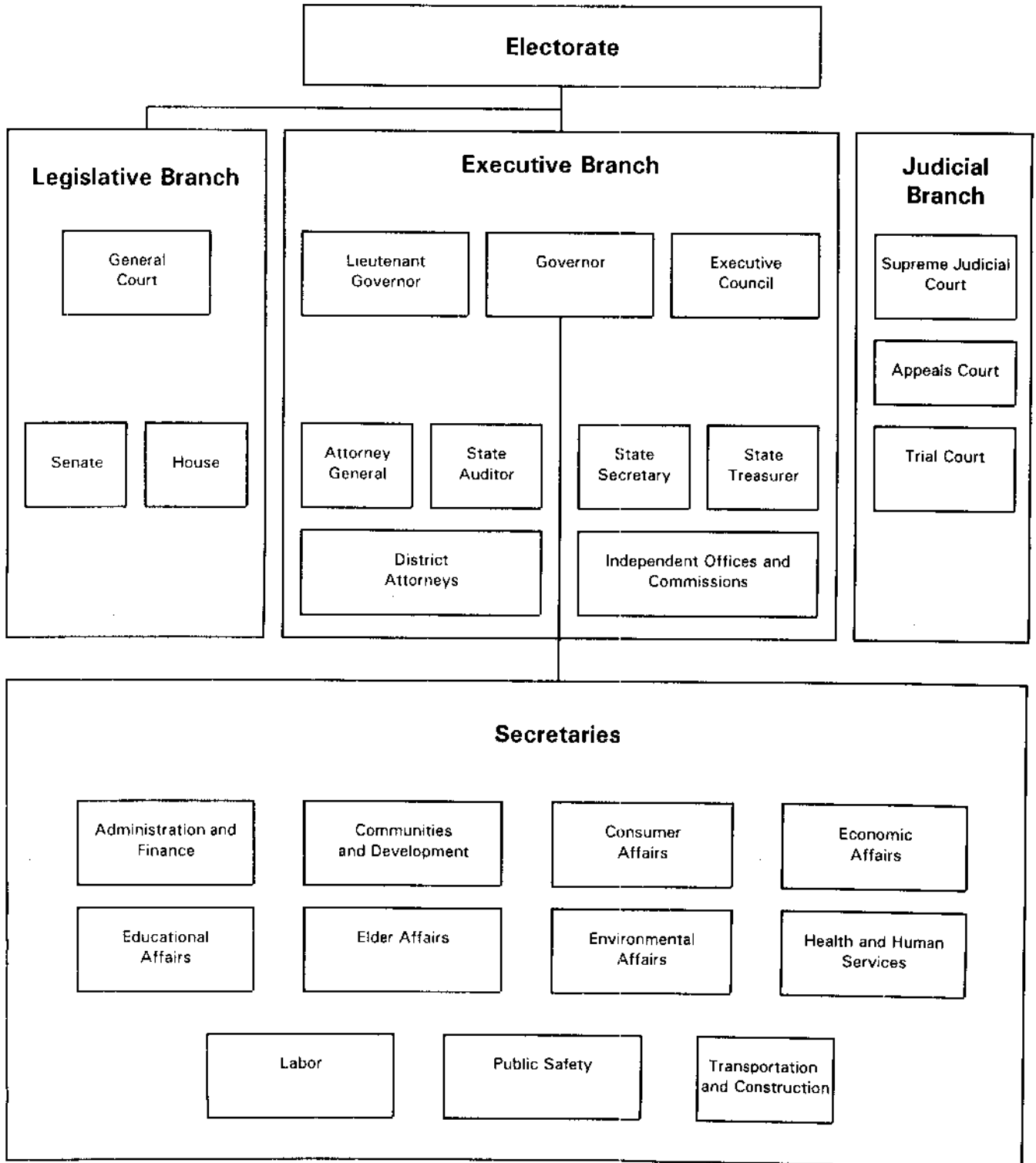
This Information Statement, together with the Exhibits attached hereto, is furnished by The Commonwealth of Massachusetts (the "Commonwealth"). It contains certain fiscal, financial and economic information concerning the Commonwealth and its ability to meet its obligations. The Commonwealth Information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

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

Exhibit A to this Information Statement sets forth certain economic, demographic and statistical information concerning the Commonwealth. Exhibits B and C contain the Commonwealth's fiscal 1994 combined financial statements (statutory basis) and fiscal 1994 general purpose financial statements (GAAP basis), respectively.

THE GOVERNMENT

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



Executive Branch

The Governor is the chief executive officer of the Commonwealth. Other elected members of the executive branch are the Lieutenant Governor (elected with the Governor), the Treasurer and Receiver-General (the "State Treasurer"), the Secretary of the Commonwealth, the Attorney General and the State Auditor. All are elected to four-year terms. The next election for these officers will be held in November 1998.

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

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

Governor's Cabinet. The Governor's Cabinet, which assists the Governor in administration and policy making, is comprised of the secretaries who head the eleven Executive Offices. Cabinet secretaries serve at the pleasure of the Governor. All agencies are grouped under one of the eleven Executive Offices for administrative purposes.

Approximately 76.4% of the Commonwealth's fiscal 1995 program expenditures in the budgeted operating funds is allocated to the Executive Offices. Listed below are the eleven Executive Offices, showing for each the name of its secretary and the percentage of the Commonwealth's fiscal 1995 program expenditures in the budgeted operating funds attributable thereto:

<u>Executive Office</u>	<u>Secretary</u>	<u>Approximate Percentage of Total Expenditures Supervised</u>
Administration and Finance	Charles D. Baker	5.5%
Communities and Development	Mary L. Padula	0.8
Consumer Affairs and Business Regulation	Priscilla H. Douglas	0.2
Economic Affairs	Gloria C. Larson	0.2
Educational Affairs	Piedad F. Robertson	16.6
Elder Affairs	Franklin P. Ollivierre	0.8
Environmental Affairs	Trudy Coxé	1.0
Health and Human Services	Gerald Whitburn	42.6
Labor	Christine E. Morris	0.2
Public Safety	Kathleen O'Toole	4.8
Transportation and Construction	James J. Kerasiotes	3.7

SOURCE: Executive Office for Administration and Finance.

Approximately 3.7% of the Commonwealth's fiscal 1995 expenditures in the budgeted operating funds are for the costs and expenses of the constitutional officers (other than the State Treasurer), the Legislature, the Judiciary, the Office of the Comptroller, the Board of Library Commissioners, the Office of the Inspector General, the State Ethics Commission and the Office of Campaign and Political Finance. The State Treasurer's budget contains approximately 19.3% of fiscal 1995 expenditures, including 5.3% for a portion of Commonwealth aid to cities, towns and regional school districts ("Local Aid"), 7.6% for debt service, 5.8% for pension costs, and 0.6% for other programs within the State Treasurer's office, including Lottery administration. See "COMMONWEALTH PROGRAMS AND SERVICES -- Local Aid", "-- Debt Service" and "-- Pensions". The remaining 0.6% of fiscal 1995 expenditures is reserved for contingencies.

The Governor's chief fiscal officer is the Secretary for Administration and Finance. The activities of the

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

All accounting policies and practices, publication of official financial reports and oversight of fiscal management functions are the responsibility of the Comptroller. The Comptroller also administers the annual state single audit and operates the state accounting system. The Comptroller is appointed by the Governor for a term coterminous with the Governor's and may be removed by the Governor only for cause. The preliminary and annual financial reports of the Commonwealth, single audit reports and any rules and regulations promulgated by the Comptroller must be reviewed by an advisory board. This board is chaired by the Secretary for Administration and Finance and includes the State Treasurer, the Attorney General, the State Auditor, the Chief Administrative Justice of the Trial Court and two persons with relevant experience appointed by the Governor for three-year staggered terms. The Commonwealth has retained the independent public accounting firm of Deloitte & Touche to audit the Commonwealth's general purpose financial statements and to conduct the state single audit. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS".

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

In addition to these responsibilities, the State Treasurer serves as Chairman of the Massachusetts Lottery Commission, the State Retirement Board, the Pension Reserve Investment Management Board, the Massachusetts Convention Center Authority, the Emergency Finance Board and the Massachusetts Water Pollution Abatement Trust. The State Treasurer also serves as a member of numerous other state boards and commissions.

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

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

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

Legislative Branch

The General Court (the "General Court" or the "Legislature") is the bicameral legislative body of the Commonwealth, consisting of a Senate of 40 members and a House of Representatives of 160 members. Members

of both the Senate and the House are elected to two-year terms in even-numbered years. The General Court meets every year, and sessions often extend throughout the year.

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

Judicial Branch

The judicial branch of state government is composed of the Supreme Judicial Court, the Appeals Court and the Trial Court. The Supreme Judicial Court has original jurisdiction over certain cases and hears appeals from both the Appeals Court, which is an intermediate appellate court, and, in some cases, directly from the Trial Court. The Supreme Judicial Court is authorized to render advisory opinions on important questions of law to the Governor, the General Court and the Governor's Council. Judges of the Supreme Judicial Court, the Appeals Court and the Trial Court are appointed by the Governor, with the advice and consent of the Governor's Council, to serve until the mandatory retirement age of 70 years.

Independent Authorities and Agencies

Within the Commonwealth 56 independent authorities and agencies have been established by the Legislature, the budgets of which are not included in the Commonwealth's annual budget. The Governmental Accounting Standards Board (GASB) statement number 14 established standards for determining significant financial or operation relationships between the primary government and its independent entities. Based on this statement, the Commonwealth has significant operational and/or financial relationships with 36 of these authorities. For example, the Commonwealth appropriates funds in the budget for subsidies, operating assistance and debt service payments, and is liable for the outstanding debt of certain of these authorities and agencies, such as the Massachusetts Bay Transportation Authority (the "MBTA"), the Boston Metropolitan District, the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority (the "Steamship Authority"), certain regional transit authorities ("RTA's"), the Massachusetts Convention Center Authority (the "MCCA") and the Massachusetts Government Land Bank (the "Land Bank"). The Commonwealth guarantees debt issued by four higher education building authorities and various local housing authorities, and may be called upon to provide capital reserve funding for the Massachusetts Housing Finance Agency (the "MHFA") and the Massachusetts Home Mortgage Finance Agency. See "COMMONWEALTH BOND AND NOTE LIABILITIES". Other independent authorities and agencies which issue their own debt for quasi-governmental purposes include the Massachusetts Educational Financing Authority, the Massachusetts Health and Educational Facilities Authority ("HEFA"), the Massachusetts Industrial Finance Agency ("MIFA"), the Massachusetts Port Authority, the Massachusetts Turnpike Authority, the Massachusetts Water Pollution Abatement Trust (see "OTHER COMMONWEALTH LIABILITIES - Water Pollution Abatement Trust") and the Massachusetts Water Resources Authority (the "MWRA"). A discussion of these entities and the relationship to the Commonwealth is included in footnote 1 to the fiscal 1994 general purpose financial statements - GAAP basis included as Exhibit C hereto.

Local Government

Below the level of state government are 14 county governments responsible for various functions, principally the operation of houses of correction and registries of probate and deeds. Each county government assesses its constituent cities and towns for the costs of its services.

All territory in the Commonwealth is in one of the 14 counties and in one of the 351 incorporated cities and towns which exercise the functions of local government. Cities and towns or regional school districts established by them provide elementary and secondary education. Cities are governed by several variations of the mayor-and-council or manager-and-council form. Most towns place executive power in a board of three or five

selectmen elected to one or three-year terms and retain legislative powers in the voters themselves, who assemble in periodic open or representative town meetings. Various local and regional districts exist for schools, parks, water and wastewater administration and certain other governmental functions.

Municipal revenues consist of property taxes, Local Aid, local receipts (including motor vehicle excise taxes, local option taxes, fines, licenses and permits, charges for local services, and investment income), and other available funds (including general and dedicated reserve funds). Following the enactment in 1980 of the tax limitation initiative petition commonly known as Proposition 2 1/2, most local governments have been forced to rely on other revenues, principally Local Aid, to support local programs and services. See "COMMONWEALTH PROGRAMS AND SERVICES -- Local Aid".

Initiative Petitions

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

COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS

Operating Fund Structure

Budgeted Operating Funds. The Commonwealth's operating fund structure satisfies the requirements of state finance law and is in accordance with generally accepted accounting principles ("GAAP"), as defined by the Governmental Accounting Standards Board. The General Fund and those special revenue funds which are appropriated in the annual state budget receive most of the non-bond and non-federal grant revenues of the Commonwealth. These funds are referred to in this Information Statement as the "budgeted operating funds" of the Commonwealth. They do not include the capital projects funds of the Commonwealth, into which the proceeds of Commonwealth bonds are deposited. See "Overview of Capital Spending Process and Controls; *Capital Projects Fund Structure*". The three principal budgeted operating funds are the General Fund, the Highway Fund and the Local Aid Fund. Expenditures from these three funds generally account for approximately 98% of total expenditures of the budgeted operating funds.

Stabilization Fund. State finance law provides for a Stabilization Fund relating to the use of fiscal year-end surpluses. A limitation equal to 0.5% of total tax revenues is imposed on the amount of any aggregate surplus in the Commonwealth's three principal budgeted operating funds which may be carried forward as a beginning balance for the next fiscal year. Any amount in excess of that limitation is reserved in the Stabilization Fund, from which funds can be appropriated (i) to make up any difference between actual state revenues and allowable state revenues in any fiscal year in which actual revenues fall below the allowable amount, (ii) to replace state and local losses of federal funds or (iii) for any event, as determined by the Legislature, which threatens the health, safety or welfare of the people or the fiscal stability of the Commonwealth or any of its political subdivisions. Up to 5% of total state tax revenues may be accumulated in the Stabilization Fund. Amounts in excess of that figure at the end of any fiscal year are to be applied to the reduction of personal income taxes.

Overview of Budgetary Process

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

The House Ways and Means Committee considers the Governor's budget recommendations and, with revisions, proposes a budget to the full House. Once approved by the House, the budget is considered by the Senate Ways and Means Committee, which in turn proposes a budget to be considered by the full Senate. After Senate action, generally a legislative conference committee develops a compromise budget for consideration by both branches of the Legislature, which upon adoption is sent to the Governor. Under the Massachusetts constitution, the Governor may veto the budget in whole or disapprove or reduce a specific line-item. The Legislature may override the Governor's veto or specific line-item vetoes by a two-thirds vote of both the House and Senate. The annual budget legislation, as finally enacted, is known as the General Appropriation Act.

In the event that a General Appropriation Act is not approved by the Legislature and the Governor prior to the beginning of a fiscal year on July 1, the Legislature and the Governor may approve a temporary budget under which funds for the Commonwealth's programs and services would be appropriated based upon the level of appropriations from the prior fiscal year budget. Temporary budgets have been utilized frequently in the Commonwealth pending final approval of the General Appropriation Act by the Legislature and the Governor.

During the course of the fiscal year, the Office of the Comptroller monitors budgetary accounts and notifies the Secretary for Administration and Finance and the House and Senate Committees on Ways and Means whenever the appropriation to any account has been depleted. Whenever the Governor believes that existing appropriations are insufficient to provide for projected expenditures under authorized programs, the Governor may seek supplemental appropriations for particular programs or spending items. Supplemental appropriations have been commonplace in recent years for various purposes, including, in particular, Medicaid and certain other public assistance programs.

Various procedures required by state finance law are used by the Commonwealth to monitor revenues and expenditures during the fiscal year. For example, quarterly revenue estimates are required to be made by the Secretary for Administration and Finance, and the Office of the Comptroller publishes a quarterly report of planned and actual revenues. See "COMMONWEALTH REVENUES -- Tax Revenue Forecasting". In addition, each department head is required to notify the Secretary for Administration and Finance and the House and Senate Committees on Ways and Means of any anticipated decrease in estimated revenues for his or her department from the federal government or other sources or whenever it appears that any appropriation will be insufficient to meet all expenditures required in the fiscal year by any law, rule, regulation or order not subject to administrative control. The Secretary for Administration and Finance must notify the Governor and the House and Senate Committees on Ways and Means whenever the Secretary determines that revenues will be insufficient to meet authorized expenditures. The Secretary for Administration and Finance is then required to compute projected deficiencies and, under Section 9C of Chapter 29 of the General Laws, the Governor is required to reduce allotments, to the extent lawfully permitted to do so, or submit proposals to the Legislature to raise additional revenues or to make appropriations from the Stabilization Fund to cover such deficiencies.

From time to time, the Governor's use of the Section 9C power to withhold allotments has been challenged by litigation. In May 1990 the Massachusetts Supreme Judicial Court invalidated a withholding of local school aid funds, ruling that Section 9C extended only to appropriations of funds to state agencies under the control of the

Governor.

Cash and Budgetary Controls

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

In addition, the Commonwealth's Finance Advisory Board is obligated by law to survey periodically the debt instruments of the Commonwealth and report on the Commonwealth's financial structure, including debt and financial marketing plans. The Board consists of the State Treasurer and four members appointed by the Governor.

Cash Management Practices of State Treasurer

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

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

The State Treasurer is required to prepare and submit quarterly to the House and Senate Committees on Ways and Means official cash flow projections for the current fiscal year. The projections must include estimated sources and uses of cash, together with the assumptions from which such estimates were derived and identification of any cash flow gaps. Regular meetings comparing estimated to actual revenues and expenditures are held among the Office of the State Treasurer, the Office of the Comptroller, the Department of Revenue and the Executive Office for Administration and Finance.

The State Treasurer's office, in conjunction with the Executive Office for Administration and Finance, is also required to develop quarterly and annual cash management plans to address any gap identified by the cash flow projections and variance reports.

Fiscal Control, Accounting and Reporting Practices of Comptroller

The Comptroller is responsible for oversight of fiscal management functions, establishment of all accounting policies and practices and publication of official financial reports. The Office of the Comptroller maintains the Massachusetts Management Accounting and Reporting System ("MMARS"), the centralized state accounting system that is used by all state agencies and departments except for independent state authorities. MMARS provides a ledger-based system of revenue and expenditure accounts enabling the Comptroller to control obligations and expenditures effectively and to ensure that appropriations are not exceeded during the course of the fiscal year. During fiscal 1992 the Commonwealth added a billing and accounts receivable subsystem to its statewide accounting system in order to automate the billing, collection and management of its non-tax revenues.

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

future expenditure.

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

In prior fiscal years, when the Commonwealth experienced cash shortfalls, the Comptroller, in consultation with the State Treasurer and the Executive Office for Administration and Finance, developed a procedure for prioritizing payments based upon state finance law and sound fiscal management practices. Under the current procedure, debt service on the Commonwealth's bonds and notes is given the highest priority among the Commonwealth's various payment obligations.

Internal Controls. The Comptroller maintains internal control policies and procedures in accordance with state finance law that state agencies are required to follow. Violations of state finance law or regulation, or other internal control weaknesses, must be reported to the State Auditor, who is authorized, among other things, to investigate and recommend corrective action.

Statutory Basis of Accounting. The Commonwealth adopts its budget and maintains its financial information on the basis of state finance law (the "statutory basis" or the "statutory basis of accounting"). The emphasis is on accountability and budgetary control over appropriations.

Under the statutory basis, tax and departmental revenues are accounted for on a modified cash basis by reconciling revenue to actual cash receipts confirmed by the State Treasurer. Certain limited revenue accruals are also recognized, including federal reimbursements receivable with respect to expenditures already made. Expenditures are measured on a modified cash basis with actual cash disbursements as confirmed by the State Treasurer, except that encumbrances for goods or services received on or before the end of a fiscal year are recognized as accounts payable and included in expenditures.

For the majority of Commonwealth programs and services, the measurement of expenditures under the statutory basis of accounting is equivalent to such measurement on a GAAP basis. However, for certain federally-mandated entitlement programs, such as Medicaid, expenditures are recognized to the extent of disbursements on appropriations made through June 30 of each fiscal year. The approximate net effect of this statutory practice is to charge in each fiscal year the Medicaid bills of the last two or three months of the preceding fiscal year and the first nine or ten months of the current fiscal year.

GAAP Basis of Accounting. Since fiscal 1986, the Comptroller has prepared Commonwealth financial statements on a GAAP basis. The emphasis is on demonstrating interperiod equity through the use of modified accrual accounting for the recognition of revenues and expenditures/expenses. In addition to the primary government, certain independent authorities and agencies of the Commonwealth are included as component units within the Commonwealth's reporting entity, primarily as non-budgeted enterprise funds.

Under GAAP, revenues are reported in the period in which they become both measurable and available. Revenues are "available" when they are expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants and reimbursements, local government assessments for operations of the MBTA and reimbursements for the use of materials and services. Tax accruals, which represent the estimated amounts due to the Commonwealth on previous filings, over and under withholdings, estimated payments on income earned and tax refunds and abatements payable, are all recorded as adjustments to statutory basis tax revenues. Expenditures/expenses are recorded in the period in which the related fund liability is incurred. Principal and interest on long-term debt obligations are recorded as fund liabilities when due. Major expenditure accruals are recorded for the cost of Medicaid claims that have been incurred but not paid, net cost of service

payments due to the MBTA, claims and judgments and compensated absences such as vacation pay earned by state employees. See "FINANCIAL RESULTS -- Selected Financial Data -- GAAP Basis" and "EXHIBIT C - 1994 General Purpose Financial Statements -- GAAP Basis".

Financial Reports. The Commonwealth's fiscal year ends on June 30 of each year. Throughout the year, the Comptroller prepares interim financial statements, and, in September, following the end of each fiscal year, the Comptroller issues the Preliminary Financial Report. These interim and preliminary financials are prepared on the statutory basis of accounting and are not audited, but they are considered authoritative. In the following January, the Comptroller publishes the Commonwealth's audited annual report. For fiscal 1986 through 1989 this report included audited financial statements on both the statutory basis of accounting and on the GAAP basis. Since fiscal 1990, these financial statements have been issued as two separate financial reports, one utilizing the statutory basis of accounting (the "Statutory Basis Financial Report") and the Comprehensive Annual Financial Report ("CAFR"), which is on a GAAP basis. The general purpose financial statements from these two reports of the Commonwealth for fiscal 1994 are attached hereto as Exhibits B and C, respectively. For fiscal 1990 through 1994 the independent auditor's opinions were unqualified. Copies of these financial reports are available at the address provided under "CONTINUING DISCLOSURE".

The Comptroller retains an independent certified public accounting firm to render certain opinions on its financial statements and on certain other reports required by the single audit. As part of the single audit, the independent auditors render a report on all programs involving federal funding for compliance with federal and state laws and regulations and assess the adequacy of internal control systems. A separate report is issued on all programs not involving federal funding.

The Commonwealth CAFRs for fiscal 1990 through fiscal 1993, from which certain information contained in this Information Statement has been derived, were each awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada ("GFOA"). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Such CAFR must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only.

The Comptroller believes that the Commonwealth's CAFR for fiscal 1994 will conform to Certificate of Achievement program standards, and it has been submitted to the GFOA.

Overview of Capital Spending Process and Controls

Capital Projects Fund Structure. Capital projects funds ("Capital Projects Funds") are used to account for financial activity related to the acquisition of major capital assets. Line item capital appropriations are authorized from Capital Projects Funds. This capital spending is financed principally from proceeds of Commonwealth bonds and bond anticipation notes, federal reimbursements and transfers from other governmental funds. The issuance of bonds and bond anticipation notes requires that both houses of the Legislature approve, by a two-thirds vote, a separate bond authorization to incur debt for a specific purpose. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- Overview". Pursuant to state finance law, the Governor, through the Secretary for Administration and Finance, has discretion over the allotment and, therefore, the actual expenditure of funds authorized by capital appropriations.

Five-Year Capital Spending Plan. In August 1991, the administration announced the development of a five-year capital spending plan (the "Five-Year Capital Spending Plan"). The Five-Year Capital Spending Plan, which is an administrative guideline and subject to amendment by the Governor at any time, sets forth capital spending allocations for the next five fiscal years and establishes capital spending limits. The Governor has also introduced a set of capital spending controls. See "*Capital Spending Controls*".

The policy objective of the Five-Year Capital Spending Plan is to limit the debt burden of the Commonwealth by controlling the relationship between current capital spending and the issuance of bonds by the Commonwealth. Capital appropriations enacted by the Legislature are typically matched with bond authorizations. The Governor, by utilizing his discretion over the allotment of funds for capital appropriations, may control the rate at which capital appropriations are expended, and therefore control the amount of bonds issued to finance such expenditures.

The following table, entitled "Summary of Five-Year Capital Spending Plan and Plan of Finance", sets forth current estimates of capital spending of the Commonwealth, including the MBTA, as well as the sources of funding for such capital spending, including federal aid, for fiscal years 1995 through 1999. Total capital spending for fiscal years 1995 through 1999 to be financed from Commonwealth debt is forecast at approximately \$4.634 billion, which is significantly below legislatively authorized capital spending levels. In addition, the Five-Year Capital Spending Plan also forecasts total MBTA capital expenditures of \$1.683 billion for fiscal years 1995 through 1999, which spending will be financed through the issuance of bonds by the MBTA and assumes that the projected level of Commonwealth capital spending will leverage additional federal aid of \$6.403 billion for this period. The anticipated levels of federal aid rely on certain assumptions concerning the level of federal participation in the funding of the third harbor tunnel and central artery projects and for state highways and bridge repair. The Legislature recently enacted and the Governor signed into law legislation providing for approximately \$3.3 billion of transportation related expenditures to be funded from federal aid and Commonwealth debt. This amount is in addition to legislation enacted earlier in fiscal 1995 that provides for approximately \$2.4 billion of similar transportation related expenditures. The Executive Office for Administration and Finance regularly reviews the Five-Year Capital Spending Plan to account for changes in the expected timing and amount of the Commonwealth's capital expenditures. These expenditures are included in the following table.

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

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>Total</u>
Uses of Funds						
Information Technology	\$ 25	\$ 20	\$ 21	\$ 17	\$ 19	\$ 102
Infrastructure(2)	128	168	217	237	214	964
Environmental Affairs						
Commonwealth Expenditures	114	73	61	48	74	370
Open Space Acquisition	<u>35</u>	<u>40</u>	<u>45</u>	<u>45</u>	<u>45</u>	<u>210</u>
Subtotal	149	113	106	93	119	580
Housing	58	65	77	78	78	356
Transportation						
Commonwealth Expenditures	453	413	348	302	363	1,879
MBTA	350	400	400	330	203	1,683
Federal Highway/MBTA Aid	<u>1,620</u>	<u>1,431</u>	<u>1,337</u>	<u>1,035</u>	<u>980</u>	<u>6,403</u>
Subtotal	2,423	2,244	2,085	1,667	1,546	9,965
Economic Development	0	103	117	118	150	488
Miscellaneous Capital Projects	<u>38</u>	<u>12</u>	<u>8</u>	<u>7</u>	<u>10</u>	<u>75</u>
Total	<u>\$2,821</u> (3)	<u>\$2,725</u>	<u>\$2,631</u>	<u>\$2,217</u>	<u>\$2,136</u>	<u>\$12,530</u>
Sources of Funds						
Federal Aid	\$1,620	\$1,431	\$1,337	\$1,035	\$ 980	\$6,403
Commonwealth Debt(4)	1,031 (5)	894	894	852	953	4,624
MBTA Bonds	<u>350</u>	<u>400</u>	<u>400</u>	<u>330</u>	<u>203</u>	<u>1,683</u>
Total	<u>\$3,001</u> (3)	<u>\$2,725</u>	<u>\$2,631</u>	<u>\$2,217</u>	<u>\$2,136</u>	<u>\$12,710</u>

SOURCE: Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Includes hospital consolidation, prison, courts, and higher education construction and miscellaneous other projects.
- (3) The difference between the total uses of funds and total sources of funds primarily relates to the timing of issuance of Commonwealth debt.
- (4) Includes general obligation bonds and special obligation bonds.
- (5) Includes expected issuance of approximately \$180 million of general obligation bonds for certain expenditures unrelated to fiscal 1995.

The Commonwealth anticipates that a substantial portion of the state financed share of the Five-Year Capital Spending Plan will be financed from the proceeds of general obligation debt. Due to the size and complexity of the Commonwealth's capital program, and other factors, the timing and amount of actual capital expenditures and debt issuances over the period will likely vary somewhat from the annual spending amounts contained in the Five-Year Capital Spending Plan.

The Legislature is currently considering a bill that would authorize and fund the expenditure by the Massachusetts Convention Center Authority of \$1 million to study the feasibility of several sites in Boston for a new or expanded convention center, with at least 600,000 square feet of exhibition space. The study would also address the feasibility and desirability of constructing a fixed seating facility to house sporting and entertainment events as part of, or separate from the convention center. The study and recommendations would be completed by late spring, and the legislation contemplates final action on the matter in the early summer. The facility would be financed substantially, if not entirely, by bonds to be issued by the Commonwealth or a special purpose entity. The Executive Office for Administration and Finance expects that any Commonwealth-related financing for this project would be accommodated within the current Five-Year Capital Spending Plan.

On January 11, 1995, the Governor submitted legislation to the Legislature which would create the Metropolitan Highway System, consisting of the two existing Boston harbor tunnels (now owned by the Massachusetts Turnpike Authority ("MTA")), the Tobin Bridge (now owned by the Massachusetts Port Authority ("Massport")), which connects Boston and Chelsea, the third harbor tunnel and the depressed central artery now under construction and the Boston extension portion of the Massachusetts turnpike (all of the roadway east of the interchange with Route 128). The system would be owned and operated by the MTA. The legislation provides for

various payments by the MTA to the Commonwealth with respect to the central artery and third harbor tunnels portions of the system and to the Massport with respect to the Tobin Bridge. These payments, as well as costs related to the equipping and initial operation of the system, would be financed on an interim basis by the issuance of up to \$449 million of notes by the MTA, which notes would be guaranteed by the Commonwealth. The legislation also authorizes the MTA to conduct an implementation study to determine a long-term financing plan for the system and to issue revenue bonds to refinance the guaranteed notes. Such bonds would be payable solely from the revenues of the system.

Capital Spending and Controls. In conjunction with the development of the Five-Year Capital Spending Plan, the Governor has directed the implementation of a number of accounting procedures and fiscal controls to limit agency capital spending to the levels established by the Five-Year Capital Spending Plan. Since July 1, 1991, all agency capital spending has been tracked against the Five-Year Capital Spending Plan on both a cash and an encumbrance accounting basis on MMARS, the Comptroller's statewide accounting system, and federal reimbursements have been budgeted and monitored against anticipated receipts.

The Governor is pursuing additional measures to limit the practice of shifting operating agency personnel costs and other operating expenditures to Capital Projects Funds. Implementation of this full-cost budgeting approach to relate the effect of capital spending more precisely to the operating budget should provide further incentive for agency managers to control capital spending.

Audit Practices of State Auditor

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

Within the State Auditor's office is the Division of Local Mandates, which evaluates all proposed and actual legislation to determine the financial impact on the Commonwealth's cities and towns. In accordance with state law, the Commonwealth is required to reimburse cities and towns for any costs incurred through mandated programs established after the passage of Proposition 2 1/2, the statewide tax limitation passed by initiative petition in 1980, unless expressly exempted from those provisions, and the State Auditor's financial analysis is used to establish the amount of reimbursement due. See "COMMONWEALTH PROGRAMS AND SERVICES -- Local Aid; Proposition 2 1/2".

FINANCIAL RESULTS

As the annual operating budget of the Commonwealth is adopted in accordance with the statutory basis of accounting, public and governmental discourse on the financial affairs of the Commonwealth has traditionally followed the statutory basis. Consequently, the financial information set forth in this document follows the statutory basis, except where otherwise noted. Since fiscal 1990, the Commonwealth has prepared separate audited financial reports on the statutory basis and on a GAAP basis. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Fiscal Control, Accounting and Reporting Practices of the Comptroller; Financial Reports". The fiscal 1994 statutory basis financial statements, as presented in the Statutory Basis Financial Report, are set forth in Exhibit B. The fiscal 1994 GAAP basis financial statements, as presented in the Comprehensive Annual Financial Report, are set forth in Exhibit C.

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 1990 through 1994 and unaudited estimates for fiscal 1995 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 1995 budget.

The Commonwealth currently has 37 active budgeted funds. During a fiscal year there are numerous transactions among these budgeted funds, which from the fund accounting perspective create offsetting inflows and outflows.

In conducting the budget process, the Executive Office for Administration and Finance excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds. The following table isolates this interfund activity from the budgeted sources and uses to align more clearly forecasts prepared during the budget process to the detailed fund accounting of the Commonwealth's annual financial statements. The table also isolates the assessments on municipalities collected by the Commonwealth and paid to the MBTA and RTA's. This activity is recorded in the Commonwealth's financial statements as part of the General Fund, but it is not appropriated or included in the budget process.

More detailed information with respect to each of fiscal years 1990 through 1995 is provided in the discussion following the table. Unless otherwise indicated, the financial information discussed for such fiscal years in this Information Statement is based upon the financial information contained in this table.

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

	Fiscal 1990	Fiscal 1991	Fiscal 1992	Fiscal 1993	Fiscal 1994	Estimated Fiscal 1995
<u>Beginning Fund Balances</u>						
Reserved or Designated Stabilization Fund (1)	\$124.9	\$174.5	\$119.8	\$236.2	\$110.4	\$79.3
Undesignated	--	--	59.2	230.4	309.5	382.9
	<u>(444.2)</u>	<u>(1,278.9)</u>	<u>58.1</u>	<u>82.8</u>	<u>142.6</u>	<u>127.1</u>
Total	<u>(319.3)</u>	<u>(1,104.4)</u>	<u>237.1</u>	<u>549.4</u>	<u>562.5</u>	<u>589.3</u>
<u>Revenues and Other Sources</u>						
Taxes	8,517.7	8,994.9	9,483.6	9,929.9	10,606.7	11,178.5
Federal Reimbursements (2)	1,717.5	2,777.1	2,393.5	2,674.1	2,901.2	3,034.6
Departmental and Other Revenues	1,131.7	1,204.9	1,187.3	1,327.1	1,187.9	1,249.4
Interfund Transfers from Non-budgeted Funds and Other Sources (3)	<u>641.3</u>	<u>656.6</u>	<u>663.9</u>	<u>778.5</u>	<u>853.9</u>	<u>897.8</u>
Budgeted Revenues and Other Sources	<u>12,008.2</u>	<u>13,633.5</u>	<u>13,728.3</u>	<u>14,709.6</u>	<u>15,549.7</u>	<u>16,360.3</u>
Mass Transit Assessments from Municipalities	123.9	130.2	130.9	137.4	140.4	144.3
Interfund Transfers among Budgeted Funds and Other Sources	<u>91.1</u>	<u>149.7</u>	<u>366.9</u>	<u>358.7</u>	<u>289.1</u>	<u>225.8</u>
Total Revenues and Other Sources	<u>12,223.2</u>	<u>13,913.4</u>	<u>14,226.1</u>	<u>15,205.7</u>	<u>15,979.2</u>	<u>16,730.4</u>
<u>Expenditures and Uses</u>						
Programs and Services	11,770.2	11,944.5	11,757.4	12,683.6	13,416.2	14,152.4(4)
Debt Service	770.9	942.3	898.3	1,139.5	1,149.4	1,241.8
Pensions	671.9	703.9	751.5	868.2	908.9	994.3
Interfund Transfers to Non-budgeted Funds and Other Uses	<u>46.7</u>	<u>64.0</u>	<u>8.8</u>	<u>5.1</u>	<u>48.4</u>	<u>60.0</u>
Budgeted Expenditures and Other Uses	<u>13,259.7</u>	<u>13,654.7</u>	<u>13,416.0</u>	<u>14,696.4</u>	<u>15,522.9</u>	<u>16,448.5</u>
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	123.9	130.2	130.9	137.4	140.4	144.3
Interfund Transfers among Budgeted Funds and Other Uses	<u>91.1</u>	<u>149.7</u>	<u>366.9</u>	<u>358.7</u>	<u>289.1</u>	<u>225.8</u>
Total Expenditures and Other Uses	<u>13,474.7</u>	<u>13,934.6</u>	<u>13,913.8</u>	<u>15,192.6</u>	<u>15,952.4</u>	<u>16,818.6</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(1,251.5)</u>	<u>(21.2)</u>	<u>312.3</u>	<u>13.1</u>	<u>26.8</u>	<u>(88.2)</u>
Prior Year Deficit Financing	466.4	1,362.7	--	--	--	--
<u>Ending Fund Balances</u>						
Reserved or Designated Stabilization Fund (1)	174.5	119.8	236.2	110.4	79.3	16.8
Undesignated	--	59.2	230.4	309.5	382.9	397.9
	<u>(1,278.9)</u>	<u>58.1</u>	<u>82.8</u>	<u>142.6</u>	<u>127.1</u>	<u>86.4</u>
Total	<u>\$(1,104.4)</u>	<u>\$237.1</u>	<u>\$549.4</u>	<u>\$562.5</u>	<u>\$589.3</u>	<u>\$501.1</u>

SOURCE: Fiscal 1990-1994, Office of the Comptroller. Estimated Fiscal 1995, Executive Office for Administration and Finance.

- (1) Stabilization Fund balances are not expendable without subsequent specific legislative authorization.
- (2) Includes \$513 million for fiscal 1991, \$198.6 million for fiscal 1992, \$236.3 million for fiscal 1993, and \$247.8 million for fiscal 1994 and an estimated \$233.0 million for fiscal 1995 in federal reimbursements resulting from claims for reimbursement of certain uncompensated care for Massachusetts hospitals. See "Fiscal Years 1990 Through 1994" and "1995 FISCAL YEAR".
- (3) Interfund transfers represent accounting transfers which reallocate resources among funds. Fund deficit support transfers of \$234.8 million in fiscal 1991 have been eliminated to facilitate comparative analysis. See "COMMONWEALTH REVENUES--Federal and Other Non-Tax Revenues".
- (4) Includes \$98.6 million currently reserved for contingencies. See "1995 FISCAL YEAR".

Annual budgeted revenues increased by approximately 13.5% in fiscal 1991, 0.7% in fiscal 1992, and 7.1% in fiscal 1993. Annual budgeted revenues increased from fiscal 1993 to fiscal 1994 by approximately 5.7% and are projected to increase by approximately 5.2% in fiscal 1995. Annual budgeted expenditures increased at an annual rate of approximately 3.0% in fiscal 1991, decreased from fiscal 1991 to fiscal 1992 by approximately 1.7% and increased by approximately 9.5% in fiscal 1993 and increased by approximately 5.6% in fiscal 1994. Annual budgeted expenditures are estimated to increase by approximately 6.0% in fiscal 1995. Ending fund balances in the budgeted operating funds for fiscal 1990 were negative \$1.104 billion. For fiscal 1991, these funds attained positive ending balances of \$237.1 million, of which \$59.2 million was reserved in the Commonwealth's Stabilization Fund pursuant to state finance law. Fiscal 1992 ended with positive fund balances of \$549.4 million, including \$230.4 million in the Stabilization Fund. Fiscal 1993 ended with positive fund balances of \$562.5 million, including \$309.5 million in the Stabilization Fund. Fiscal 1994 ended with fund balances of \$589.3 million, including \$382.9 million in the Stabilization Fund. Fiscal 1995 is estimated to end with fund balances of \$463.3 million, including \$397.9 in the Stabilization Fund. See "Fiscal Years 1990 Through 1994" and "1995 FISCAL YEAR".

Selected Financial Data - GAAP Basis

The following table provides financial results on a GAAP basis for fiscal years 1990 through 1994 for all budgeted operating funds of the Commonwealth.

Budgeted Operating Funds Operations - GAAP Basis (in millions)

	<u>Fiscal 1990</u>	<u>Fiscal 1991</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>	<u>Fiscal 1994</u>
Fund equity (deficit) at beginning of year	\$(946.2)	\$(1,895.5)	\$(761.2)	\$(317.4)(2)	\$(184.1)
Revenues and Sources					
Taxes	8,259.6	9,131.1	9,471.0	10,015.8	10,602.7
Federal Grants and Reimbursements	1,649.7	2,808.8	2,415.9	2,627.0	2,918.1
Department and Other Revenues	1,249.0	1,359.1	1,441.1	1,522.4	1,303.8
Interfund Transfers and Other Sources	<u>807.0</u>	<u>800.7</u>	<u>817.5</u>	<u>1,015.7</u>	<u>980.3</u>
Total	<u>11,965.3</u>	<u>14,099.7</u>	<u>14,145.5</u>	<u>15,181.0</u>	<u>15,804.9</u>
Expenditures and Uses					
Programs and Services	11,193.2	11,892.5	11,348.8	11,636.5	12,238.8
Debt Service	770.9	942.3	751.5	1,139.5	1,149.2
Pensions	671.9	706.5	898.3	893.5	830.2
Interfund Transfers and Other Uses (1)	<u>745.0</u>	<u>786.8</u>	<u>767.3</u>	<u>1,378.2</u>	<u>1,474.6</u>
Total	<u>13,381.0</u>	<u>14,328.1</u>	<u>13,765.9</u>	<u>15,047.7</u>	<u>15,692.8</u>
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	<u>(1,415.7)</u>	<u>(228.4)</u>	<u>379.6</u>	<u>133.3</u>	<u>112.1</u>
Prior Year Deficit Financing	466.4	1,362.7	--	--	0.0
Fund Equity (Deficit) at End of Year	<u>\$(1,895.5)</u>	<u>\$(761.2)</u>	<u>\$(381.6)</u>	<u>\$(184.1)</u>	<u>\$(72.0)</u>

SOURCE: Office of the Comptroller.

- (1) A fund deficit support transfer of \$234.8 million in fiscal 1991 has been eliminated to facilitate comparative analysis. See "COMMONWEALTH REVENUES -- Federal and Other Non-Tax Revenues".
- (2) As restated to reflect discrete presentation of the University and College Fund. This fund balance is increased \$64.2 million due to certain liabilities related to accrued salaries and fringe benefits being transferred to the University and College Fund.

Using a modified accrual basis of accounting, the GAAP financial statements have provided a picture of the financial condition of the budgeted operating funds that is different from that reported on the statutory basis. See "Selected Financial Data - Statutory Basis". As evidenced in the trend line of fund balance (deficit) over time,

there is a correlation between the GAAP basis measurement and the statutory basis measurement. While the difference in fund balance may vary in a given fiscal year, both bottom lines trend in the same direction. For a description of the differences between statutory basis and GAAP basis accounting, see "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Fiscal Control, Accounting and Reporting Practices of the Comptroller; *GAAP Basis of Accounting*".

Fiscal Years 1990 Through 1994

1990 Fiscal Year. Budgeted expenditures for fiscal 1990 were approximately \$13.260 billion. Budgeted revenues and other sources for fiscal 1990 were approximately \$12.008 billion. The fiscal 1990 operating loss equalled approximately \$1.252 billion and the deficit at the end of the fiscal year equalled \$1.104 billion. The fiscal 1990 deficit was financed, in arrears in the following year, from the proceeds of the \$1.416 billion of Fiscal Recovery Bonds issued under legislation enacted in July 1990. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- General Obligation Debt; *Dedicated Income Tax Debt*". Retroactive application of the proceeds of such financing would have resulted in a fiscal 1990 positive closing balance of \$258.3 million, on an adjusted basis. In order to conserve cash at the end of the fiscal year, the Commonwealth deferred until fiscal 1991 the disbursement of approximately \$1.26 billion of Local Aid due in fiscal 1990.

In July 1989 the Governor vetoed certain provisions included in the budget legislation for fiscal 1990, including approximately \$273.0 million of appropriations. One of these vetoes occasioned a default by the Commonwealth on a payment of \$2.5 million due September 1, 1989 on a general obligation basis to the Massachusetts Community Development Finance Corporation, to which the full faith and credit of the Commonwealth had been pledged. After the enactment of a supplemental appropriation in the amount of \$2.5 million to meet such payment, the payment was made on September 17, 1990.

1991 Fiscal Year. Budgeted expenditures for fiscal 1991 were approximately \$13.659 billion. Budgeted revenues and other sources for fiscal 1991 were \$13.634 billion. The fiscal 1991 operating loss equalled approximately \$21.2 million. Application of the adjusted fiscal 1990 fund balance of \$258.3 million resulted in a final fiscal 1991 budgetary surplus of \$237.1 million. State finance law required that approximately \$59.2 million of the fiscal year-end balance be credited to the Stabilization Fund. Amounts credited to the Stabilization Fund are not generally available to defray current year expenses without subsequent specific legislative authorization. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Commonwealth Fund Structure".

Upon taking office in January 1991, the new Governor undertook a comprehensive review of the Commonwealth's budget. Based on projected spending of \$14.105 billion, it was then estimated that \$850.0 million in budget balancing measures would be needed prior to the close of fiscal 1991. At that time, estimated tax revenues were revised to \$8.845 billion, \$903.0 million less than was estimated at the time the fiscal 1991 budget was adopted. The Governor proposed a series of legislative and administrative actions, including withholding of allotments under Section 9C, designed to eliminate the projected deficit. To address the projected deficit, a number of legislative measures were enacted, including a state employee furlough program, and the Governor took certain other administrative actions not requiring legislative approval. It is estimated that spending reductions achieved through savings initiatives and withholding of allotments totalled \$484.3 million for fiscal 1991.

In addition to reducing spending to close the projected budget deficit, the new administration, in May 1991, filed an amendment to its Medicaid state plan which enabled it to claim 50% federal reimbursement on uncompensated care payments provided to certain hospitals in the Commonwealth. As a result, in fiscal 1991, the Commonwealth obtained additional non-tax revenues in the form of federal reimbursements equal to approximately \$513.0 million on account of uncompensated care payments.

After disbursement in full of the semi-annual Local Aid distribution of \$1.018 billion due on June 28, 1991, retirement of all the Commonwealth's outstanding commercial paper and repayment of certain other short-term borrowings, as of June 30, 1991, the end of fiscal 1991, the Commonwealth had a cash balance of \$182.3 million. The fiscal 1991 year-end cash position compared favorably to the Commonwealth's cash position at the end of the prior fiscal year, when the Commonwealth's cash shortfall would have exceeded \$1.1 billion had the distribution of Local Aid not been postponed.

1992 Fiscal Year. Budgeted revenues and other sources for fiscal 1992 were \$13.728 billion, including tax revenues of \$9.484 billion. Budgeted revenues and other sources increased by approximately 0.7% from fiscal 1991 to fiscal 1992, while tax revenues increased by 5.4% for the same period.

Budgeted expenditures were approximately \$13.420 billion in fiscal 1992, which is \$238.7 million, or 1.7%, lower than fiscal 1991 budgeted expenditures. Final fiscal 1992 budgeted expenditures were approximately \$300 million higher than the initial July 1991 estimates of budgeted expenditures. While certain expenditures were less than originally estimated, spending for certain human services programs, in particular, was higher than initially estimated, including an increase of \$268.7 million for the Medicaid program and \$50.0 million for mental retardation consent decree requirements. Fiscal 1992 budgeted expenditures for Medicaid were \$2.818 billion, or 1.9% higher than fiscal 1991. This increase compares favorably with the 19.0% average annual growth rate of Medicaid expenditures for fiscal years 1988 through 1991. See "COMMONWEALTH PROGRAMS AND SERVICES -- Medicaid and Group Health Insurance".

Appropriations for the General Relief and Group Health Insurance programs were among the appropriations reduced by the Governor prior to signing the fiscal 1992 budget. The Legislature overrode the Governor's \$376.0 million reduction of the Group Health Insurance appropriation, in essence rejecting the Governor's proposal to increase the state employee and retiree share of health insurance costs from 10% to 25%. The General Relief program was abolished and replaced by Emergency Aid to the Elderly, Disabled and Children ("EAEDC"). The replacement of General Relief with EAEDC is estimated to have reduced expenditures in fiscal 1992 by \$55.1 million, or 29.1%, from spending levels in fiscal 1991 for the General Relief program. See "COMMONWEALTH PROGRAMS AND SERVICES -- Medicaid and Group Health Insurance" and "-- Public Assistance".

Overall, the budgeted operating funds ended fiscal 1992 with an excess of revenues and other sources over expenditures and other uses of \$312.3 million and with positive fund balances of \$549.4 million, when such excess is added to the fund balances of \$237.1 million carried forward from fiscal 1991. Total fiscal 1992 spending authority continued into fiscal 1993 was \$231.0 million.

After payment in full of the quarterly Local Aid distribution of \$514.0 million due on June 30, 1992, retirement of the Commonwealth's outstanding commercial paper (except for approximately \$50 million of bond anticipation notes) and certain other short-term borrowings, as of June 30, 1992, the Commonwealth showed a year-end cash position of approximately \$731.0 million. The fiscal 1992 ending balance compares favorably with the cash balance of \$182.3 million at the end of fiscal 1991.

1993 Fiscal Year. The budgeted operating funds of the Commonwealth ended fiscal 1993 with a surplus of revenues and other sources over expenditures and other uses of \$13.1 million and aggregate ending fund balances in the budgeted operating funds of the Commonwealth of approximately \$562.5 million. Budgeted revenues and other sources for fiscal 1993 totalled approximately \$14.710 billion, including tax revenues of \$9.930 billion. Total revenues and other sources increased by approximately 6.9% from fiscal 1992 to fiscal 1993, while tax revenues increased by 4.7% for the same period. In July, 1992, tax revenues had been estimated to be approximately \$9.685 billion for fiscal 1993. This amount was subsequently revised during fiscal 1993 to \$9.940 billion.

Commonwealth budgeted expenditures and other uses in fiscal 1993 totalled approximately \$14.696 billion, which is \$1.280 billion or approximately 9.6% higher than fiscal 1992 expenditures and other uses. Fiscal 1993 budgeted expenditures were \$23 million lower than the initial July 1992 estimates of fiscal 1993 budgeted expenditures.

As of June 30, 1993, after payment of all Local Aid and retirement of short-term debt, the Commonwealth showed a year-end cash position of approximately \$622.2 million, as compared to a projected position of \$485.1 million.

1994 Fiscal Year. The budgeted operating funds of the Commonwealth ended fiscal 1994 with a surplus of revenues and other sources over expenditures and other uses of \$26.8 million and aggregate ending fund balances in the budgeted operating funds of the Commonwealth of approximately \$589.3 million. Budgeted revenues and other sources for fiscal 1994 totalled approximately \$15.550 billion, including tax revenues of \$10.607 billion, \$87 million below the Department of Revenue's fiscal 1994 tax revenue estimate of \$10.694 billion. Total revenues and

other sources increased by approximately 5.7% from fiscal 1993 to fiscal 1994 while tax revenues increased by 6.8% for the same period.

Commonwealth budgeted expenditures and other uses in fiscal 1994 totalled \$15.523 billion, which is \$826.5 million or approximately 5.6% higher than fiscal 1993 budgeted expenditures and other uses.

As of June 30, 1994, the Commonwealth showed a year-end cash position of approximately \$757 million, as compared to a projected position of \$599 million.

In June, 1993, the Legislature adopted and the Governor signed into law comprehensive education reform legislation. This legislation required an increase in expenditures for education purposes above fiscal 1993 base spending of \$1.288 billion of approximately \$175 million in fiscal 1994. The Executive Office for Administration and Finance expects the annual increases in expenditures above the fiscal 1993 base spending of \$1.288 billion to be approximately \$396 million in fiscal 1995, \$625 million in fiscal 1996 and \$868 million in fiscal 1997. Additional annual increases are also expected in later fiscal years. The fiscal 1995 budget as signed by the Governor includes \$396 million in appropriations to satisfy this legislation.

1995 FISCAL YEAR

On July 10, 1994, the Governor signed into law the fiscal 1995 budget, which, together with authorizations contained in the final fiscal 1994 appropriations bill and expected supplemental appropriations relating to welfare and certain other programs, as described below, currently provides for approximately \$16.482 billion in fiscal 1995 expenditures. The Governor exercised his authority to veto and reduce individual line items and reduced total expenditures by approximately \$298.2 million and vetoed certain other law changes contained in the fiscal 1995 budget.

Included in the approximately \$298.2 million of vetoes noted above, the Governor vetoed approximately \$296.9 million in appropriations for the Executive Office of Human Services and the Department of Public Welfare, representing the estimate, at that time, of four months of funding for the Commonwealth's public assistance programs. On February 10, 1995, the Governor signed into law Chapter 5 of the Acts of 1995, which reforms the Commonwealth's program for Aid to Families with Dependent Children (AFDC). The revised program is scheduled to take effect on July 1, 1995, subject to federal approval of certain waivers. It reduces AFDC benefits to able-bodied recipients by 2.75% while allowing them to keep a larger portion of their earned wages, requires approximately 22,000 able-bodied parents with school-aged children to work or perform community service for 20 hours per week, and requires approximately 16,000 recipients who have children between the ages of two and six to participate in an education or training program or perform community service. The plan also establishes a pilot program for up to 2,000 participants that offers tax credits and wage subsidies to employers who hire welfare recipients. Parents who find employment will be provided with extended medical benefits and day care benefits for up to one year. The plan mandates paternal identification, expands funding for anti-fraud initiatives, and requires parents on AFDC to immunize their children. Parents who are disabled, caring for a disabled child, have a child under the age of two, or are teenagers living at home and attending high school, will continue to receive cash assistance.

Since most provisions of the new law do not take effect until July 1, 1995, the Executive Office for Administration and Finance projects that the reforms will not materially affect fiscal 1995 public assistance spending. The fiscal 1995 expenditure estimate of \$16.449 billion includes \$247.8 million appropriated in Chapter 5 to fund the Commonwealth's public assistance programs for the last four months of fiscal 1995. The new law's impact on fiscal 1996 projected spending for public assistance programs is currently being evaluated.

Budgeted revenues and other sources to be collected in fiscal 1995 are estimated by the Executive Office for Administration and Finance to be approximately \$16.360 billion. This amount includes estimated fiscal 1995 tax revenues of \$11.179 billion, which is approximately \$572 million higher than fiscal 1994 tax revenues of \$10.607 billion. In December, 1994, the Governor signed into law legislation modifying the capital gains tax by phasing out the tax for assets held longer than six years and increasing the no-tax status threshold for personal income tax purposes. The capital gains tax change is not effective until January 1, 1996 and, therefore, is not expected to affect fiscal 1995 tax revenues and to have only a minor effect on fiscal 1996 tax revenues. The no-tax

status change is estimated to reduce fiscal 1995 tax revenues by approximately \$5.5 million and fiscal 1996 tax revenues by \$13.3 million.

In recent months, the rate of growth in certain tax revenue categories, including, in particular, the income tax, has slowed. Fiscal 1994 tax revenues were approximately \$87 million below the Department of Revenue's tax revenue estimate of \$10.694 billion. On September 26, 1994, as required by law, the Secretary for Administration and Finance revised the fiscal 1995 tax revenue estimate to \$11.234 billion, a reduction of approximately \$75 million from the most recent estimate, which represented the \$11.328 billion consensus tax revenue estimate jointly endorsed in May, 1994 by the Secretary for Administration and Finance and the Chairmen of the House and Senate Ways and Means Committees in connection with preparation of the fiscal 1995 budget, less \$19.3 million of tax cuts signed by the Governor in the fiscal 1995 budget. On January 25, 1995, based on tax revenue collections through December 31, 1994, and in connection with the release of the budget recommendations for fiscal 1996, the Secretary for Administration and Finance further revised the fiscal 1995 tax revenue estimate to \$11.179 billion, a reduction of approximately \$55 million from the September 26, 1994 estimate, which amount includes the estimated \$5.5 million reduction related to the no-tax status change described above. However, the fiscal 1995 non-tax revenue estimate has been revised upward since September 26, 1994, and is projected to offset the expected decline in tax revenues. This upward revision is due primarily to higher than anticipated federal reimbursements.

The fiscal 1995 budget is based on numerous spending and revenue estimates, the achievement of which cannot be assured. The House initially overrode \$296.9 million of the Governor's vetoes relating to certain welfare programs contained in the fiscal 1995 budget as well as certain law changes which may have a financial impact on the Commonwealth. However, the Senate failed to override the Governor's veto by the end of the calendar 1994 legislative session. The \$16.449 billion of fiscal 1995 expenditures includes a reserve against certain contingencies currently in the amount of \$98.6 million. On October 7, 1994, the Governor filed a supplemental appropriation recommendation aggregating approximately \$44.5 million; the Legislature failed to act on this recommendation before the end of the calendar 1994 legislative session. On January 25, 1995, the Governor filed fiscal 1995 supplemental appropriation recommendations aggregating approximately \$43.6 million, which expenditures are included in the \$98.6 million contingency reserve for fiscal 1995 expenditures.

On November 8, 1994, the voters in the statewide general election approved an initiative petition, which became law on December 8, 1994, that would slightly increase the portion of gasoline tax revenue credited to the Highway Fund, one of the Commonwealth's three major budgetary funds, prohibit the transfer of money from the Highway Fund to other funds for non-highway purposes and exclude the Highway Fund balance from the computation of the "consolidated net surplus" for purposes of state finance laws. The initiative petition also provides that no more than 15% of gasoline tax revenues may be used for mass transportation purposes, such as expenditures related to the MBTA. The Executive Office of Administration and Finance currently does not expect this law to have any materially adverse impact on the fiscal 1995 budget or on other fiscal matters generally. This law is not a constitutional amendment and is subject to amendment or repeal by the Legislature, which may also, notwithstanding the terms of the initiative petition, appropriate moneys from the Highway Fund in such amounts and for such purposes as it determines, subject only to a constitutional restriction that such moneys be used for motor vehicle, highway, or mass transportation purposes. See "THE GOVERNMENT -- Initiative Petitions".

Cash Flow

The most recent cash flow projection prepared by the office of the State Treasurer in December, 1994 estimates the fiscal 1995 year-end cash position to be approximately \$447 million. This projection is based on the fiscal 1995 budget as originally signed by the Governor and supplemental appropriations enacted to date. The cash flow projection reflects actual results through October, 1994 and revenue and spending estimates as of December, 1994. On November 22, 1994, the Commonwealth issued \$240 million of general obligation notes to fund payments to the MBTA for its net cost of service. The notes mature on June 15, 1995 (rather than later in fiscal 1996 as had been assumed in earlier cash flow projections). The cash flow projection does not assume the issuance of any additional notes in June, 1995 to refinance such notes, although additional notes may be issued depending upon circumstances at that time. The ending balance included in the cash flow forecast and the estimated ending balance for the Commonwealth's operating budget will differ due to timing differences and the effect of certain non-budget items. In addition, events occurring subsequent to the preparation of this cash flow projection may cause the actual cash flow of the Commonwealth to vary from the projected cash flow. This cash flow projection assumes that the

Commonwealth will issue approximately \$600 million of long-term general obligation during the remainder of fiscal 1995 to finance capital projects and that no more than approximately \$145 million of short-term operating borrowings under the commercial paper program will be outstanding at any time during the remainder of fiscal 1995. The cash flow projection had assumed such commercial paper would have been issued in December, 1994. However, no commercial paper was issued, and as of February 22, 1995, no Commonwealth commercial paper is outstanding. The Commonwealth's practice is to use available cash for capital expenditures pending the issuance of long-term bonds and, in the event the amount of long-term debt is reduced or its issuance delayed due to market conditions or other circumstances, additional amounts of commercial paper may be outstanding from time to time. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- General Obligation Debt; *Commonwealth General Obligation Notes*".

1996 FISCAL YEAR

On January 25, 1995, the Governor submitted his fiscal 1996 budget recommendations to the Legislature. The proposal calls for budgeted expenditures of approximately \$16.737 billion. After adjusting for approximately \$147.9 million in higher education revenues and expenditures that the Governor's budget recommendation proposes moving to an off-budget trust fund for fiscal 1996, as described below, the recommended fiscal 1996 spending level is approximately \$436 million, or 2.6%, above currently estimated fiscal 1995 expenditures of \$16.449 billion. Proposed budgeted revenues for fiscal 1996 are approximately \$16.741 billion. The Governor's recommendation projects a fiscal 1996 ending balance of approximately \$505 million, of which approximately \$419 million will be in the Stabilization Fund. The Governor's budget recommendation is based on a fiscal 1996 tax revenue estimate of \$11.720 billion, an increase of approximately \$542 million, or approximately 4.8%, as compared to currently estimated fiscal 1995 tax revenues of \$11.179 billion. The Governor's fiscal 1996 budget recommendation proposes several reductions in personal and business taxes, including an increase of \$500 in the dependent allowance and a \$500 increase in the exemption for blind and elderly taxpayers, corporate tax credits for job training, revisions to the definitions of research and development tax credits for companies in the defense-industry, and a phasing out of the sales tax on bulk purchases of telecommunications services. The Executive Office of Administration and Finance estimates that these tax law changes would result in reduced tax revenues of approximately \$34.6 million in fiscal 1996.

Under the Governor's fiscal 1996 budget recommendations, non-tax revenues are estimated to total approximately \$5.021 billion in fiscal 1996. After adjusting for approximately \$147.9 million in higher education tuition revenues that the Governor's budget recommends shifting to an off-budget trust fund, the fiscal 1996 non-tax revenue projection represents a decrease of approximately \$13 million, or 0.3%, from estimated non-tax revenues for fiscal 1995. Major changes in projected non-tax revenues for fiscal 1996 include a decline in motor vehicle license and registration fees of approximately \$42 million, due mainly to alternate year licensing patterns and the delayed impact of the change in 1991 to a five year driver's license renewal period; a decrease of approximately \$17 million in abandoned property revenues, due to a one-time increase in abandoned property collections in fiscal 1995 resulting from a change in the Commonwealth's abandoned property laws; and a \$40 million increase due to a proposed initiative to provide incentives to state departments to optimize non-tax revenues.

The Governor's budget proposal generally maintains current service levels for most programs but also provides for increased funding to reflect various factors including inflation, increased medical costs, increased pension costs and higher debt services expenditures, as well as approximately \$228 million recommended to fully fund the education reform law passed in fiscal 1993. The proposal also contains recommendations to increase spending in certain priority areas. The Governor's budget proposal projects savings from reform of the state's welfare system, higher health insurance contributions from state employees and other administrative reductions. The recommendation also includes \$45 million allocated for a contingency reserve.

In connection with the fiscal 1996 budget recommendations, the Governor has also recommended the establishment of an off-budget tuition retention trust fund for higher education purposes. The revenues in and expenditures from such fund have previously been counted as Commonwealth budgeted revenues and expenditures.

The Governor's fiscal 1996 budget recommendations will now be taken up by the House Ways and Means Committee as the first step of legislative consideration of the fiscal 1996 budget. See "THE GOVERNMENT-- Overview of the Budgetary Process".

COMMONWEALTH REVENUES

In order to fund its programs and services, the Commonwealth collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, court revenues, assessments, reimbursements, interest earnings and transfers from its non-budgeted funds. In fiscal 1994, approximately 68.2% of the Commonwealth's annual budgeted revenues were derived from state taxes. In addition, the federal government provided approximately 18.7% of such revenues, with the remaining 13.1% provided from departmental revenues and transfers from non-budgeted funds.

Distribution of Revenues

The following table sets forth the Commonwealth's actual revenues in its budgeted operating funds for fiscal 1990 through 1994, and estimated revenues for fiscal 1995.

Commonwealth Revenues -- Budgeted Operating Funds
(in millions)

	Fiscal <u>1990</u>	Fiscal <u>1991(6)</u>	Fiscal <u>1992(6)</u>	Fiscal <u>1993(6)</u>	Fiscal <u>1994</u>	Estimated Fiscal <u>1995</u>
Tax Revenues:						
Alcoholic Beverages	\$ 70.8	\$ 66.2	\$ 63.5	\$ 60.6	\$ 60.2	\$ 60.0
Banks						
Commercial	64.5	27.4	17.6(8)	74.7	136.9	170.0
Savings	46.2	20.6	42.5	78.2	63.0	55.0
Cigarettes (1)	150.8	144.4	139.9	190.2	237.3	240.0
Corporations	698.4	612.2	643.8	737.4	782.3	851.0
Deeds	36.2	30.1	32.2	34.0	39.4	42.0
Income	4,465.2(4)	5,045.1(4)	5,337.0	5,374.9	5,689.8	6,027.5
Inheritance and Estate	276.4	249.5	260.2	267.3	277.5	240.0
Insurance (2)	273.0	267.8	284.8	280.5	290.2	299.0
Motor Fuel	301.9	464.2	541.1	557.2	562.6	575.0
Public Utilities	62.0	59.3	52.9	69.1	81.8	78.0
Racing	31.7	27.5	26.1	15.7	14.2	13.0
Room Occupancy	56.6	56.0	55.9	59.3	62.8	67.0
Sales						
Regular	1,370.5	1,392.1	1,443.6	1,548.1	1,664.3	1,772.0
Meals	295.9	291.7	296.3	303.2	323.4	347.0
Motor Vehicles	<u>290.0</u>	<u>225.6</u>	<u>238.7</u>	<u>272.9</u>	<u>314.5</u>	<u>335.0</u>
Sub-Total--Sales	1,956.4	1,909.4	1,978.6	2,124.2	2,302.2	2,454.0
Miscellaneous	27.6	<u>15.2</u>	<u>7.5</u>	<u>6.6</u>	6.5	7.0
Total	<u>8,517.7</u>	<u>8,994.9</u>	<u>9,483.6</u>	<u>9,929.9</u>	<u>10,606.7</u>	<u>11,178.5</u>
Non-Tax Revenues:						
Federal Reimbursements	1,717.5(5)	2,777.1(7)	2,393.5(7)	2,674.1(7)	2,901.2(7)	3,034.6(7)
Departmental and Other Revenues	1,131.7	1,204.9	1,187.3	1,327.1	1,187.9	1,249.4
Interfund Transfers from Non-budgeted Funds and Other Sources (3)	<u>641.3</u>	<u>656.6</u>	<u>663.9</u>	<u>778.5</u>	<u>853.9</u>	<u>897.8</u>
Budgeted Non-Tax Revenues and Other Sources	<u>3,490.5</u>	<u>4,638.6</u>	<u>4,244.7</u>	<u>4,779.7</u>	<u>4,943.0</u>	<u>5,181.8</u>
Budgeted Revenues and Other Sources	<u>12,008.2</u>	<u>13,633.5</u>	<u>13,728.3</u>	<u>14,709.6</u>	<u>15,549.7</u>	<u>16,360.3</u>
Mass Transit Assessments from Municipalities	123.9	130.2	130.9	137.4	140.4	144.3
Interfund Transfers among Budgeted Funds and Other Sources (3)	<u>91.1</u>	<u>149.7</u>	<u>366.9</u>	<u>358.7</u>	<u>289.1</u>	<u>225.8</u>
Total Revenues and Other Sources	<u>\$12,223.2</u>	<u>\$13,913.4</u>	<u>\$14,226.1</u>	<u>\$15,205.7</u>	<u>\$15,979.2</u>	<u>\$16,730.4</u>

SOURCE: Fiscal 1990-1994, Office of the Comptroller. Estimated Fiscal 1995, Executive Office for Administration and Finance.

- (1) As a result of legislation enacted by voter initiative petition, this excise tax was increased effective January 1, 1993. See "State Taxes; Other Taxes."
- (2) Includes \$7.6 million in 1990, \$7.2 million in 1991, \$6.6 million in 1992, \$8.0 million in 1993, and \$8.7 million in 1994, respectively, in fees collected by the Division of Insurance relating to high-risk insurance.
- (3) Interfund transfers represent accounting transfers which reallocate resources among funds. Fund deficit support transfers of \$234.8 million for fiscal 1991 have been eliminated to facilitate comparative analysis. Includes transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$59.2 million, \$170.0 million, \$76.9 million, and \$65.4 million in fiscal 1991, 1992, 1993, and 1994, respectively. See "Federal and Other Non-Tax Revenues" below.
- (4) Excludes \$444.5 million collected in fiscal 1990 and \$298.3 million collected in fiscal 1991 attributed to the temporary increase in the income tax dedicated to the Commonwealth Liability Reduction Fund and the Medical Assistance Liability Fund.
- (5) Excludes \$244 million of revenues attributable to federal reimbursements for expenditures from the Medical Assistance Liability Fund; such revenues were dedicated to such fund.
- (6) Includes the impact of tax law changes under Chapters 121 of the Acts of 1990, as amended. The total fiscal 1991 impact of the changes is an estimated increase in tax revenues in the amount of \$1.020 billion, while the fiscal 1992 and 1993 impacts of the changes are estimated at \$1.329 billion and \$1.318 billion, respectively.
- (7) Includes \$513 million for fiscal 1991, \$198.6 million for fiscal 1992, \$236.3 million for fiscal 1993, \$247.8 million in fiscal 1994

and an estimated \$233.0 million in fiscal 1995 in federal reimbursements resulting from claims for reimbursement of certain uncompensated care for Massachusetts hospitals. See "FINANCIAL RESULTS -- Fiscal Years 1990 Through 1994" and "1995 FISCAL YEAR".

(8) Reflects settlement of certain litigation, see "State Taxes: *Business Corporations Tax*".

State Taxes

The major components of state taxes are the income tax, which accounted for approximately 53.6% of total projected tax revenues in fiscal 1994, the sales and use tax, which accounted for approximately 21.7%, and the business corporations tax, which accounted for approximately 7.4%. Other tax and excise sources accounted for the remaining 17.3% of total fiscal 1994 tax revenues.

Income Tax. The Commonwealth assesses personal income taxes at flat rates, according to classes of income, after specified deductions and exemptions. A rate of 5.95% is applied to income from employment, professions, trades, businesses, rents, royalties, taxable pensions and annuities and interest from Massachusetts banks; a rate of 12% is applied to other interest (although interest on obligations of the United States and of the Commonwealth and its political subdivisions is exempt) and dividends; and a rate ranging from 12% on capital gains from the sale of assets held for one year and less to 0% on capital gains from the sale of certain assets held more than six years.

Under Chapter 151 of the Acts of 1990 up to 15% of state income tax revenue is pledged to the payment of debt service on approximately \$1.045 billion of outstanding Fiscal Recovery Bonds issued pursuant to Chapter 151. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- General Obligation Debt; *Dedicated Income Tax Debt*".

Partially as a result of income tax rate increases, state income tax revenues increased from fiscal 1990 to \$5.045 billion (excluding \$298.3 million collected pursuant to certain 1989 tax legislation) in fiscal 1991. These figures represent an increase of approximately 13.0%. State income tax revenues in fiscal 1992 were \$5.337 billion, which represents an increase from fiscal 1991 of approximately 5.8%. Income tax revenues in fiscal 1993 were \$5.375 billion, an increase of approximately 0.7% from fiscal 1992. Income tax revenues for fiscal 1994 were approximately \$5.690 billion, an increase of 5.9% from fiscal 1993. Income tax revenues for fiscal 1995 are currently expected to be approximately \$6.028 billion, an increase of 5.9% from fiscal 1994. As a result of a slowing rate of growth in certain tax revenue categories, including, in particular, the income tax, the Secretary of Administration and Finance reduced the total fiscal 1995 tax revenue estimate by \$75 million in September, 1994. On January 25, 1995, based on tax revenue collections through December 31, 1994, the Secretary for Administration and Finance revised the fiscal 1995 tax revenue estimate to \$11.179 billion, a reduction of approximately \$55 million from the September 1994 estimate. See "1995 FISCAL YEAR".

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

Annual sales and use tax revenues declined from \$1.956 billion in fiscal 1990 to \$1.909 billion for fiscal 1991. Sales and use tax revenues increased to \$1.979 billion in fiscal 1992 to \$2.124 billion in fiscal 1993 and to \$2.302 billion in fiscal 1994. Sales and use tax revenues are estimated to increase to \$2.454 billion in fiscal 1995.

Business Corporations Tax. Business corporations doing business in the Commonwealth, other than banks, trust companies, insurance companies, railroads, public utilities and safe deposit companies, are subject to an excise that has a property measure and an income measure. The value of Massachusetts tangible property (not taxed locally) or net worth allocated to the Commonwealth is taxed at \$2.60 per \$1,000 of value. The net income allocated to Massachusetts, which is based on gross income for federal taxes, is taxed at 9.5%. The minimum tax is \$456. Both rates and the minimum tax include a 14% surtax. Annual revenues from the business corporations

tax have declined significantly in recent years, from the high of \$887.1 million in fiscal 1989 to \$612.2 million in fiscal 1991. Business corporation tax revenues were \$643.8 million in fiscal 1992, representing an increase of \$31.5 million, or 5.1%, from fiscal 1991. For fiscal 1992, the excise tax on commercial and savings banks yielded \$60.2 million, representing an increase of approximately 25.2% over fiscal 1991. Due to the settlement by the Department of Revenue of a case pending before the Appellate Tax Board, the Commonwealth paid a taxpayer commercial bank \$37.0 million, thus reducing revenues from the commercial and savings bank excise tax in fiscal 1992 from \$97.1 million to \$60.2 million. For fiscal 1993, revenues from the business corporations tax increased to \$737.4 million, or approximately 14.5% above fiscal 1992 and tax revenues from banks increased to \$152.9 million or 154.5% above fiscal 1992. Fiscal 1994 tax revenues from corporations and banks were approximately \$782.3 million and \$199.9 million, respectively or approximately 6.1% and 30.7% above the respective fiscal 1993 amounts. Fiscal 1995 tax revenues from corporations and banks are estimated to be \$851.0 million and \$225.0 million, respectively.

Other Taxes. Other tax revenues of the Commonwealth are currently projected to total \$1.846 billion in fiscal 1995, a decrease of 0.01% over fiscal 1994. Other tax revenues are derived by the Commonwealth from motor fuels excise taxes, cigarette and alcoholic beverage excise taxes, estate and deed excises and other tax sources. The Commonwealth is authorized to issue special obligation highway bonds secured by a pledge of all or a portion of the Highway Fund, including revenues derived from all or a portion of the motor fuels excise tax. The Commonwealth issued \$103,770,000 of special obligation bonds in June, 1992 secured by a pledge of 2 cents of the 21-cent motor fuel excise tax imposed on gasoline and \$300,000,000 of special obligation bonds in June, 1994 secured by a pledge of an additional 4.86 cents of such excise tax and certain other monies. The portion of the motor fuel excise tax currently pledged to all special obligation bonds is estimated to be approximately \$168.7 million in fiscal 1995. Additional special obligation bonds may also be issued in the future secured by all or additional portions of the motor fuels excise tax. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- Special Obligation Debt".

On November 3, 1992, legislation was enacted by voter initiative petition which increased as of January 1, 1993, the tobacco excise tax by 1.25 cents per cigarette (25 cents per pack of 20 cigarettes) and 25% of the wholesale price of smokeless tobacco. Under the legislation, the revenues raised by this excise tax shall be credited to a new Health Protection Fund and expended, subject to appropriation by the Legislature, to pay for health programs and education relating to tobacco use. Total revenues deposited in the Health Protection Fund in fiscal 1993 and fiscal 1994 were \$59.5 million and \$116.3 million, respectively, and are estimated to be \$114.3 million in fiscal 1995.

Estate Tax Revisions. The fiscal 1993 budget included legislation which gradually phases down the current Massachusetts estate tax until it becomes a "sponge tax" in 1997. The "sponge tax" is based on the maximum amount of the credit for state taxes allowed for federal estate tax purposes. The estate tax is phased out by means of annual increases in the basic exemption from the original \$200,000 level. The exemption is increased to \$300,000 for 1993, \$400,000 for 1994, \$500,000 for 1995 and \$600,000 for 1996. In addition, the legislation includes a full marital deduction starting July 1, 1994. The marital deduction was limited to 50% of the Massachusetts adjusted gross estate until June 30, 1995. The static fiscal impact of the phase out of the estate tax was estimated to be approximately \$24.8 million in fiscal 1994 and is estimated to be approximately \$72.5 million in fiscal 1995.

Tax Revenue Forecasting

Under state law, on or before September 25 and March 15 of each year, the Secretary for Administration and Finance is required to submit to the Governor and to the House and Senate Committees on Ways and Means estimates of revenues available to meet appropriations and other needs in the current and following fiscal year. On or before October 15, January 15 and April 15, the Secretary is required to submit revised estimates for the current fiscal year unless, in his opinion, no significant changes have occurred since the last estimate of total available revenues. On or before May 15 of each year, the Secretary is required to develop jointly with the House and Senate Committees on Ways and Means a consensus tax revenue forecast for the following fiscal year. The Department of Revenue employs sophisticated economic modeling techniques and ongoing monitoring of tax revenue receipts and current taxpayer behavior to provide the Secretary with information on tax revenue trends.

In the past several years tax revenue forecasting has been complicated by uncertainty about the national and

state economies, federal and state tax law changes and decisions in certain state court cases affecting tax collections. In addition, certain tax revenues are difficult to predict with accuracy because of the variety of direct and indirect economic and non-economic factors affecting receipts. During each of the fiscal years 1990 and 1991, the official tax revenue forecasts made at the beginning of the year proved to be substantially more optimistic than the actual results. In July 1989 the Governor and Legislature approved a budget for fiscal 1990 based on 7% tax revenue growth; actual tax revenues decreased 3.4%. The fiscal 1991 budget was based on projected tax revenue growth of less than 1%, before taking into account revenues expected to be generated by the 1990 tax legislation. Once these additional revenues were added, the projection was for tax revenues of \$9.748 billion in fiscal 1991, reflecting projected growth of 14.4%. However, during the remainder of calendar year 1990, actual receipts lagged projections, resulting in reductions of the fiscal 1991 tax revenue estimates. Fiscal 1991 tax revenues were \$8.995 billion, which represents growth over fiscal 1990 of only 5.6%. See "FINANCIAL RESULTS -- Fiscal Years 1990 Through 1994".

The fiscal 1992 budget initially was based on the joint tax revenue estimate of \$8.292 billion, a 7.8% decrease from fiscal 1991. Actual fiscal 1992 tax revenues were \$9.484 billion, a 5.4% increase over fiscal 1991. The fiscal 1993 budget initially was based on a joint tax revenue estimate of \$9.685 billion, an increase of \$201.1 million, or 2.1%, from tax revenues for fiscal 1992. The actual fiscal 1993 tax revenues were \$9.930 billion, a 4.7% increase over fiscal 1992. See "FINANCIAL RESULTS -- Fiscal Years 1990 Through 1994".

In May, 1993, the chairpersons of the House and Senate Ways and Means Committee and the Secretary for Administration and Finance jointly endorsed an estimate of tax revenues for fiscal 1994 of \$10.540 billion, an increase of \$610 million, or 6.1%, from then expected tax revenues for fiscal 1993. The fiscal 1994 budget was based upon this tax revenue estimate. Actual fiscal 1994 tax revenues were \$10.607 billion, a 6.8% increase over fiscal 1993. See "FINANCIAL RESULTS--Fiscal Years 1990 through 1994."

In May, 1994, the chairpersons of the House and Senate Ways and Means Committee and the Secretary for Administration and Finance jointly endorsed an estimate of tax revenues for fiscal 1994 of \$11.328 billion, an increase of \$634 million, or 5.9%, from then expected tax revenues for fiscal 1994 of \$10.694 billion. The fiscal 1995 budget was based upon this tax revenue estimate, less \$19.3 million of tax cuts signed by the Governor in the fiscal 1995 budget. On September 26, 1994, the Secretary for Administration and Finance revised the fiscal 1995 tax revenue estimate to \$11.234 billion, a reduction of approximately \$75 million from the prior estimate. On January 25, 1995, based on tax revenue collections through December 31, 1994, the Secretary for Administration and Finance further revised the fiscal 1995 tax revenue estimate to \$11.179 billion, a reduction of approximately \$55 million from the September, 1994 estimate, which amount includes a \$5.5 million reduction estimated to result from a change in the no-tax status threshold for Massachusetts personal income tax purposes. See "1995 FISCAL YEAR". The Governor's fiscal 1996 budget recommendation projects total fiscal 1996 tax revenues to be approximately \$11.720 billion. See "1996 FISCAL YEAR".

Federal and Other Non-Tax Revenues

Revenues from the federal government are received through reimbursements for the federal share of federally-mandated programs such as Medicaid and Aid to Families with Dependent Children ("AFDC"). The amount of federal reimbursements received by the Commonwealth is determined by the amount of state expenditures for such programs. In fiscal 1991, federal reimbursements increased by 61.7% to \$2.777 billion from \$1.718 billion in fiscal 1990, owing mainly to the \$513.0 million reimbursement of uncompensated care payments. See "FINANCIAL RESULTS -- Fiscal Years 1990 Through 1994". Federal reimbursements in fiscal 1992 decreased by \$383 million to approximately \$2.394 billion, reflecting a decrease of \$349 million in uncompensated care payments. In fiscal 1993, federal reimbursements increased to \$2.674 billion as a result of increased spending for certain entitlement programs. Federal reimbursements for fiscal 1994 increased to \$2.915 billion and are estimated to increase to \$3.035 billion in fiscal 1995.

Departmental and other non-tax revenues are derived from licenses, registrations and fees generated through cash transactions and reimbursement and assessments for services. Annual revenues from these sources increased 6.4% from \$1.132 billion in fiscal 1990 to \$1.205 billion in fiscal 1991, decreased 1.5% to \$1.187 billion in fiscal 1992 increased 11.8% in fiscal 1993 to \$1.327 billion and decreased 10.5% to \$1.188 billion in fiscal 1994. Annual revenues from these sources are estimated to increase to approximately \$1.250 billion in fiscal 1995.

The decrease in fiscal 1994 was due to several factors including: the change in fiscal 1993 to biennial car registration at the Registry of Motor Vehicles; one-time receipt in fiscal 1993 of certain abandoned property revenues; and the one-time payment in fiscal 1993 to the Commonwealth of \$80 million from the Massachusetts Water Resources Authority. These revenue declines were partially offset by an increase in higher education tuition revenues due primarily to shifting higher education revenues and expenditures from off-budget to on-budget accounts in fiscal 1994. The expected increase in fiscal 1995 is due to various factors including primarily: the biennial car registration mentioned above, which is expected to increase revenue by approximately \$20 million in fiscal 1995; certain abandoned property initiatives that are expected to result in approximately \$15 million of additional revenues; additional Medicaid recoveries expected to amount to approximately \$24 million and increased child support collections in the amount of approximately \$11 million. The Governor's fiscal 1996 budget recommendation projects departmental and other non-tax revenues of \$1.099 billion, a decrease of approximately \$2 million after adjusting for approximately \$147.9 million in higher education revenue and spending that the recommendation proposes be moved to an off-budget trust fund.

Interfund transfers and other sources from non-budgeted funds are estimated to total \$897.8 million in fiscal 1995, an increase of 5.1% compared to fiscal 1994. For the budgeted operating funds, interfund transfers include transfers of profits from the State Lottery and Arts Lottery Funds and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for \$568.6 million, \$547.6 million, \$558.0 million, \$600.2 million and \$667.3 million in fiscal 1990 through 1994, respectively and which are expected to account for \$705.2 million in fiscal 1995. The Governor's fiscal 1996 budget recommendation projects fiscal 1996 interfund transfers of approximately \$930.4 million, an increase of 3.6% as compared to fiscal 1995, which amounts include \$729.4 million allocable to the Lottery.

In fiscal 1991, special laws authorized transfers among the General, Highway and Local Aid Funds to eliminate certain deficit fund balances. Transfers in respect of such deficits were \$234.8 million for fiscal 1991. These fund deficit transfers have been eliminated from the tables contained in this Information Statement to facilitate comparative analysis. Legislation included within the fiscal 1993 budget prohibits, beginning with fiscal 1992, the transfer of operating funds from the Highway Fund to the General Fund. See also "1995 FISCAL YEAR".

Limitations on Tax Revenues

In Massachusetts efforts to limit and reduce levels of taxation have been under way for several years. Limits were established on state tax revenues by legislation enacted on October 25, 1986 and by an initiative petition approved by the voters on November 4, 1986. The two measures are inconsistent in several respects.

Chapter 62F, which was added to the General Laws by initiative petition in November 1986, establishes a state tax revenue growth limit for each fiscal year equal to the average positive rate of growth in total wages and salaries in the Commonwealth, as reported by the federal government, during the three calendar years immediately preceding the end of such fiscal year. Chapter 62F also requires that allowable state tax revenues be reduced by the aggregate amount received by local governmental units from any newly authorized or increased local option taxes or excises. Any excess in state tax revenue collections for a given fiscal year over the prescribed limit, as determined by the State Auditor, is to be applied as a credit against the then current personal income tax liability of all taxpayers in the Commonwealth in proportion to the personal income tax liability of all taxpayers in the Commonwealth for the immediately preceding tax year. Unlike Chapter 29B, as described below, the initiative petition did not exclude principal and interest payments on Commonwealth debt obligations from the scope of its tax limit. However, the preamble contained in Chapter 62F provides that "although not specifically required by anything contained in this chapter, it is assumed that from allowable state tax revenues as defined herein the Commonwealth will give priority attention to the funding of state financial assistance to local governmental units, obligations under the state governmental pension systems, and payment of principal and interest on debt and other obligations of the Commonwealth".

The legislation enacted in October 1986, which added Chapter 29B to the General Laws, also establishes an allowable state revenue growth factor by reference to total wages and salaries in the Commonwealth. However, rather than utilizing a three-year average wage and salary growth rate, as used by Chapter 62F, Chapter 29B utilizes an allowable state revenue growth factor equal to one-third of the positive percentage gain in Massachusetts wages and salaries, as reported by the federal government, during the three calendar years immediately preceding the end

of a given fiscal year. Additionally, unlike Chapter 62F, Chapter 29B allows for an increase in maximum state tax revenues to fund an increase in local aid and excludes from its definition of state tax revenues (i) income derived from local option taxes and excises, and (ii) revenues needed to fund debt service costs.

Tax revenues in fiscal 1990 through fiscal 1994 were lower than the limit set by either Chapter 62F or Chapter 29B. The Executive Office for Administration and Finance currently estimates that state tax revenues in fiscal 1995 and fiscal 1996 will not reach the limit imposed by either of these statutes. See also "1995 FISCAL YEAR".

COMMONWEALTH PROGRAMS AND SERVICES

From fiscal 1990 to fiscal 1991 budgeted expenditures of the Commonwealth increased approximately 3.0% to \$13.655 billion. For fiscal 1992, budgeted expenditures were \$13.420 billion, representing a decline of 1.7% from the level of budgeted expenditures in fiscal 1991. Fiscal 1993 budgeted expenditures were \$14.696 billion, an increase of 9.6% from fiscal 1992. Fiscal 1994 budgeted expenditures were \$15.523 billion, an increase of 5.6% from fiscal 1993. See "FINANCIAL RESULTS -- Fiscal Years 1990 Through 1994". It is estimated that fiscal 1995 budgeted expenditures will be \$16.449 billion, an increase of 6.0% over fiscal 1994 levels. See "1995 FISCAL YEAR". The Governor's proposed fiscal 1996 budget recommends budgeted expenditures of \$16.737 billion, an increase of 2.6% over estimated fiscal 1995 expenditures, after adjusting for approximately \$147.9 million in higher education spending and revenue that the budget proposal recommends shifting to an off-budget trust fund. See "1996 FISCAL YEAR".

The following table identifies certain major spending categories of the Commonwealth and sets forth the budgeted expenditures for each fiscal year within each category.

Commonwealth Expenditures - Budgeted Operating Funds (in millions)

Expenditure Category	Fiscal 1990	Fiscal 1991	Fiscal 1992	Fiscal 1993	Fiscal 1994	Estimated Fiscal 1995
Direct Local Aid (1)	\$2,936.9	\$2,608.3	\$2,358.9	\$2,584.5	\$2,727.3	\$2,984.3
Medicaid	2,120.6(2)	2,765.3(3)	2,817.7(4)	3,151.4(4)	3,313.1(5)	3,411.4
Group Health Insurance	433.4	446.0	466.1	491.2	496.2	510.8
Public Assistance	1,000.9	1,092.3	1,065.0	1,074.9	1,100.3	1,161.0(6)
Debt Service (7)	770.9	942.3	898.3	1,139.5	1,149.4	1,241.8
Pensions	671.9	703.9	751.5	868.2	908.9	994.3
Higher Education	701.9	608.6	534.0	544.9(8)	672.5	708.1
MBTA and RTA's	354.5	406.1	449.6	499.0	522.3	520.1
Other Program Expenditures	4,222.0	4,017.9(9)	4,066.1(9)	4,375.7	4,584.5	4,856.7
Interfund Transfers to Non-budgeted Funds(10)	<u>46.7</u>	<u>64.0</u>	<u>8.8</u>	<u>5.1</u>	<u>48.4</u>	<u>60.0</u>
Budgeted Expenditures and Other Uses	<u>13,259.7</u>	<u>13,654.7(11)</u>	<u>13,416.0(11)</u>	<u>14,696.4</u>	<u>15,522.9</u>	<u>16,448.5(12)</u>
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	123.9	130.2	130.9	137.4	140.4	144.3
Interfund Transfers among Budgeted Funds and Other Uses(10)	<u>91.1</u>	<u>149.7</u>	<u>366.9</u>	<u>358.7</u>	<u>289.1</u>	<u>225.8</u>
Total Expenditures and Other Uses	<u>\$13,474.7</u>	<u>\$13,934.6</u>	<u>\$13,913.8</u>	<u>\$15,192.6</u>	<u>\$15,952.4</u>	<u>\$16,818.6</u>

SOURCE: Fiscal 1990-1994, Office of the Comptroller. Estimated Fiscal 1995, Executive Office for Administration and Finance.

(1) Aid reported to cities, towns and regional school districts by the Department of Revenue on its official communication, the so-called "cherry sheet", excluding certain pension funds, and including \$80.5 million in Commonwealth support to county jails, which is no

- longer included on the cherry sheet.
- (2) Fiscal 1990 Medicaid expenditures do not include \$488.0 million in retroactive rate adjustments and spending related to services rendered in prior fiscal years which were funded in the non-budgeted Medical Assistance Liability Fund.
 - (3) Includes \$194.2 million for retroactive rate settlements, including \$126.0 million raised through Fiscal Recovery Bonds issued in 1991 to resolve the deficit for fiscal year 1990.
 - (4) Includes expenditures of \$50.0 million in fiscal 1992 for retroactive rate adjustments and settlements.
 - (5) Includes approximately \$22.3 million of expenditures previously off-budget and classified as administrative expenses.
 - (6) Includes approximately \$33.3 million not previously classified as public assistance and \$24.0 million not previously classified as budgeted expenditures.
 - (7) Excludes debt service on notes issued under 1990 tax legislation to fund the fiscal 1989 deficit and certain Medicaid-related expenses. See "FINANCIAL RESULTS--Fiscal Years 1990 Through 1994". Reflects reduction of fiscal 1992 debt service by \$261.0 million as a result of the issuance of refunding bonds during fiscal 1992.
 - (8) Reflects the transfer of \$89.4 million in related tuition revenue and spending to an off-budget trust fund. See "Higher Education".
 - (9) Fiscal 1991 and fiscal 1992 expenditures have been restated to reflect surpluses in the Intragovernmental Service Fund of \$3.8 million in each year.
 - (10) Interfund transfers represent accounting transfers which reallocate resources among funds. Interfund deficit support transfers for fiscal 1991 of \$234.8 million have been eliminated to facilitate comparative analysis. Includes interfund transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$59.2 million, \$170.0 million, \$76.9 million and \$65.4 million in fiscal 1991, 1992, 1993, and 1994, respectively.
 - (11) Reflects the transfer of approximately \$89.4 million in related tuition revenue and spending from an off-budget trust fund to budgeted accounts.
 - (12) Includes \$98.6 million currently reserved for contingencies. See "1995 FISCAL YEAR".

Local Aid

Proposition 2 1/2. In November 1980, voters in the Commonwealth approved a statewide tax limitation initiative petition, commonly known as Proposition 2 1/2, to constrain levels of property taxation and to limit the charges and fees imposed on cities and towns by certain governmental entities, including county governments. Proposition 2 1/2 is not a provision of the state constitution and accordingly is subject to amendment or repeal by the Legislature. Proposition 2 1/2, as amended to date, limits the property taxes that may be levied by any city or town in any fiscal year to the lesser of (i) 2.5% of the full and fair cash valuation of the real estate and personal property therein, and (ii) 2.5% over the previous year's levy limit plus any growth in the tax base from certain new construction and parcel subdivisions. Proposition 2 1/2 also limits any increase in the charges and fees assessed by certain governmental entities, including county governments, on cities and towns to the sum of (i) 2.5% of the total charges and fees imposed in the preceding fiscal year, and (ii) any increase in charges for services customarily provided locally or services obtained by the city or town at its option. The law contains certain override provisions and, in addition, permits debt service on specific bonds and notes and expenditures for identified capital projects to be excluded from the limits by a majority vote at a general or special election. At the time Proposition 2 1/2 was enacted, many cities and towns had property tax levels in excess of the limit and were therefore required to roll back property taxes with a concurrent loss of revenues. Between fiscal 1981 and fiscal 1993, the aggregate property tax levy grew from \$3.347 billion to \$5.249 billion, representing an increase of approximately 56.8%. By contrast, according to federal Bureau of Labor Statistics, the consumer price index for all urban consumers in Boston grew during the same period by approximately 80%.

Many communities have responded to the limitation imposed by Proposition 2 1/2 through statutorily permitted overrides and exclusions. Override activity peaked in fiscal 1991, when 182 communities attempted votes on one of the three types of referenda questions (override of levy limit, exclusion of debt service, or exclusion of capital expenditures) and 100 passed at least one question, adding \$58.5 million to their levy limits. In fiscal 1992, 67 of 143 communities had successful votes totalling \$31.0 million. In fiscal 1993, 83 communities attempted a vote; two-thirds of them (56) passed questions aggregating \$16.4 million. Although Proposition 2 1/2 will continue to constrain local property tax revenues, significant capacity exists for overrides in nearly all cities and towns.

Commonwealth Financial Support for Local Governments. During the 1980s, the Commonwealth increased payments to its cities, towns and regional school districts ("Local Aid") to mitigate the impact of Proposition 2 1/2 on local programs and services. In fiscal 1995, approximately 32.1% of the Commonwealth's budget is estimated to be allocated to Local Aid. Local Aid payments to cities, towns and regional school districts take the form of both direct and indirect assistance. Direct Local Aid consists of general revenue sharing funds and specific program funds sent directly to local governments and regional school districts as reported on the so-called "cherry sheet" prepared by the Department of Revenue, excluding certain pension funds and nonappropriated funds. As a result of the education reform law enacted in June, 1993, a large portion of general revenue sharing funds are earmarked

for public education and are distributed through a formula designed to provide more aid to the Commonwealth's poorer communities. The education reform law also anticipates significant increases in these earmarked funds over the next several years, subject to appropriation. Another component of general revenue sharing, the Lottery and Additional Assistance programs, provides unrestricted funds for municipal use. There are also several specific programs funded through direct local aid, such as highway construction, school building construction, and police education incentives. In addition to direct Local Aid, the Commonwealth has provided substantial indirect aid to local governments, including, for example, payments for MBTA assistance and debt service, pensions for teachers, pension cost-of-living allowances for municipal retirees, housing subsidies and the costs of courts and district attorneys that formerly had been paid by the counties.

Direct Local Aid decreased from \$2.937 billion in fiscal 1990 to \$2.360 billion in fiscal 1992, increased to \$2.547 billion in fiscal 1993 and increased to \$2.727 billion in fiscal 1994. It is estimated that fiscal 1995 expenditures for direct Local Aid will be \$2.984 billion, which is an increase of approximately 9.4% above the fiscal 1994 level. The additional amount of indirect Local Aid provided over and above direct Local Aid was approximately \$2.069 billion in fiscal 1994. It is estimated that in fiscal 1995 approximately \$2.318 billion of indirect Local Aid will also be paid. The Governor's proposed fiscal 1996 budget includes approximately \$3.222 billion and \$2.585 billion of direct Local Aid and indirect Local Aid, respectively.

Initiative Law. A statute adopted by voter initiative petition at the November 1990 statewide election regulates the distribution of Local Aid to cities and towns. This statute requires that, subject to annual appropriation, no less than 40% of collections from personal income taxes, sales and use taxes, corporate excise taxes and lottery fund proceeds be distributed to cities and towns. Under the law, the Local Aid distribution to each city or town would equal no less than 100% of the total Local Aid received for fiscal 1989. Distributions in excess of fiscal 1989 levels would be based on new formulas that would replace the current Local Aid distribution formulas. By its terms, the new formula would have called for a substantial increase in direct Local Aid in fiscal 1992, and would call for such an increase in fiscal 1993 and in subsequent years. However, Local Aid payments expressly remain subject to annual appropriation, and fiscal 1992, fiscal 1993, and fiscal 1994 appropriations for Local Aid did not meet, and fiscal 1995 appropriations for Local Aid do not meet, the levels set forth in the initiative law.

Medicaid and Group Health Insurance

Medicaid. The Medicaid program provides health care to low-income children and families, the disabled and the elderly. The program, which is administered by the Division of Medical Assistance (an agency within the Executive Office of Health and Human Services), is 50% funded by federal reimbursements.

Since fiscal 1991, the Division of Medical Assistance has been able to reduce the average annual rate of growth in Medicaid spending to approximately 4.6%, down from average annual growth of 17% between fiscal 1987 and fiscal 1991. This decrease in the rate of growth is due to a number of savings and cost control initiatives that the Division of Medical Assistance continues to implement and refine, including managed care, utilization review and third party liability.

In fiscal 1992, Medicaid accounted for more than half of the Commonwealth's appropriations for health care. It was the largest item in the Commonwealth's budget and has been one of the fastest growing budget items. During fiscal years 1990, 1991, 1992, and 1993 Medicaid expenditures were \$2.121 billion, \$2.765 billion (including \$194 million paid in respect of retroactive provider settlements), \$2.818 billion and \$3.151 billion, respectively, representing an average annual increase of 14.1%. The increase from fiscal 1992 to fiscal 1993 resulted mainly from the one-time start-up costs of a new managed care program for Medicaid recipients. See "COMMONWEALTH PROGRAMS AND SERVICES-- Table of Commonwealth Expenditures-Budgeted Operating Funds". Expenditures for fiscal 1994 were \$3.313 billion, an increase of 5.1% over fiscal 1993 expenditures. The Executive Office for Administration and Finance estimates that fiscal 1995 Medicaid expenditures will be approximately \$3.411 billion, an increase of 3.0% over fiscal 1994 expenditures. For fiscal 1995, no supplemental Medicaid appropriations are currently expected to be necessary. The Governor's fiscal 1996 budget recommends \$3.431 billion for Medicaid expenditures, an increase of 0.4% over estimated fiscal 1995 expenditures, or 2.4% after adjustment for final, retroactive rate settlements paid in fiscal 1995.

Prior to fiscal 1994, substantial Medicaid expenditures were provided through supplemental appropriations because program requirements consistently exceeded initial appropriations. In addition, substantial amounts have been required to cover retroactive settlement of provider payments. In fiscal 1990, in addition to current expenditures, the Commonwealth financed, through the issuance of notes, payments of \$356.0 million to hospitals and nursing homes for rate settlements dating back as far as 1980 and \$132.0 million for program expenses incurred in fiscal 1989. These payments were made through the Medical Assistance Liability Fund established to fund certain Medicaid liabilities for prior years and were not included in the fiscal 1990 expenditure of \$2.121 billion stated in the preceding paragraph. In fiscal 1991, expenditures of \$194.2 million were made to fund prior year provider settlements. Medicaid expenditures for fiscal 1992 of \$2.818 billion included \$50.0 million for prior year provider settlements. See "FINANCIAL RESULTS -- Fiscal Years 1990 Through 1994". Fiscal 1994 and fiscal 1995 Medicaid expenditures include approximately \$123.0 million in final retroactive rate settlements funded through the final fiscal 1994 supplemental budget to pay pre-1992 liabilities to hospitals and nursing homes.

No supplemental appropriations were required in fiscal 1994 to fund expenditures related to fiscal 1994 services and none are currently anticipated in fiscal 1995.

Nursing home services currently account for more than 35% of the Medicaid budget. The Division of Medical Assistance has strengthened the admissions criteria to ensure that those not needing this care use less costly community services, rather than being inappropriately placed in nursing homes. This measure, along with certain other projects, has limited the average annual increase in long-term care costs to approximately 3% between fiscal 1992 and fiscal 1994 on a date of service basis, as compared to approximately 16% average annual increases for the previous two fiscal years. Medicaid costs in the long-term care area increased from \$1.158 billion in fiscal 1990 to approximately \$1.499 billion in fiscal 1994. The largest portion of these costs is for nursing home care. The nursing home population is also very dependent on Medicaid: 65% of all nursing home costs in the Commonwealth are paid by Medicaid as compared to the national average of 43%. The annual cost per beneficiary in a nursing home is approximately \$30,000. Over 35,000 elderly and disabled citizens were cared for in nursing homes through Medicaid in fiscal 1992 and 1993 and over 35,000 such citizens are expected to receive such care in fiscal 1994. The elderly population in the Commonwealth and the elderly Medicaid caseload both continue to grow. The future burdens of long-term care on Medicaid expenditures are expected to continue to be high.

The substantial reduction in recent rate of growth percentages has been achieved in spite of increasing caseloads. For the period of fiscal 1992 through fiscal 1994, the Division of Medical Assistance has been able to maintain a constant cost per recipient and thereby reduced the overall rate of growth. The actual rate of growth in the Medicaid program for these years is attributable to an increased number of clients, not increased per recipient costs. The total Medicaid caseload for fiscal 1995 is expected to reach approximately 650,000 recipients (approximately 11.0% of the most recently estimated population of the Commonwealth), as compared to approximately 523,000 recipients in fiscal 1990.

To further stem the considerable annual cost increases in the Medicaid program, the Administration has commenced the implementation of a managed care program, which is in addition to major rate control initiatives implemented since fiscal 1991. A waiver of federal regulations granting recipients freedom of choice of provider was approved by federal authorities in fiscal 1992. This waiver enables the program to assign certain recipients to primary care clinicians who will function as gatekeepers to specialty and inpatient care and to enroll recipients in need of mental health or substance abuse services in a capitated managed system of care. Selective contracts with certain service providers will also be executed in an effort to obtain services in a more cost-effective fashion. In addition, nursing home prescreening and community service planning for long-term care will be concentrated in 27 Home Care Corporations to provide a single entry point and coordinated nursing home diversion services for elderly Medicaid recipients. Other savings initiatives include the repricing and buy-in of Medicare services for Medicaid recipients and restrictions, both financial and clinical, on nursing home eligibility.

Group Health Insurance. The Group Insurance Commission provides individual and family health insurance coverage for Commonwealth employees and retirees. Coverage is provided through an indemnity plan, currently administered by the John Hancock Mutual Life Insurance Company, and through 10 health maintenance organizations. The Commonwealth currently pays approximately 85% of the costs for active employees and 90% of the costs for employees who retired on or before July 1, 1994. The Commonwealth will pay approximately 85% of the costs for employees who retire after July 1, 1994. For several years group health insurance expenditures

were the fastest growing expense item in the Commonwealth's budget, although recent increases have been more moderate. These costs rose at an average annual rate of 4.3% from \$433.4 million in fiscal 1990 to \$491.2 million in fiscal 1993. Group health insurance expenditures in fiscal 1994 were \$496.2 million, representing an increase of 1.0%. Fiscal 1995 expenditures for group health insurance are estimated to be \$510.8 million, an increase of 2.9% from expenditures for fiscal 1994. The reduced rate of increase in these expenses in recent years is attributable, in part, to more aggressive rate negotiations with providers, reductions in the state work force, increased management of the Commonwealth's indemnity plan, changes in benefits and copayments approved by the Group Insurance Commission, and increases in the employee health insurance contribution.

In fiscal 1995, legislation was enacted to enable any willing pharmacy to provide services and be compensated at the same rate offered to any pharmacy within an established health care network. The Group Insurance Commission believes that this legislation may decrease network utilization and cause the elimination or reduction of volume concessions and price discounts. The Group Insurance Commission had already established network contracts for fiscal 1995 and, therefore, will not incur higher costs in fiscal 1995 as a result of this legislation. The Group Insurance Commission is working with pharmacies to determine the fiscal 1996 impact of this legislation. The Governor has proposed fiscal 1996 expenditures of \$494.5 million for group health insurance, a decrease of 3.2% from estimated expenditures for fiscal 1995. The proposed reduction in spending for group health insurance in fiscal 1996 is due primarily to a recommendation in the Governor's budget to increase the state employee health insurance contribution from the current 15% to 25%, which would result in savings of approximately \$32 million in fiscal 1996.

Public Assistance

The Commonwealth administers three major programs of income assistance for its poorest residents: Aid to Families with Dependent Children ("AFDC"), Emergency Aid to the Elderly, Disabled and Children ("EAEDC") and the state supplement to federal Supplemental Security Income ("SSI"). The following table illustrates the recent expenditures within these categories.

Public Assistance Program Expenditures
(in millions)

Category of Public Assistance	Fiscal <u>1990</u>	Fiscal <u>1991</u>	Fiscal <u>1992</u>	Fiscal <u>1993</u>	Fiscal <u>1994</u>	Estimated Fiscal <u>1995(4)</u>
AFDC (1)	\$700.3	\$758.1	\$772.2	\$809.9	\$817.2	\$840.3
EAEDC (formerly General Relief) (2)	161.9	189.6	131.5	89.9	100.3	124.3(5)
SSI (3)	<u>138.7</u>	<u>144.6</u>	<u>161.3</u>	<u>175.1</u>	<u>182.8</u>	<u>196.4</u>
Total	<u>\$1,000.9</u>	<u>\$1,092.3</u>	<u>\$1,065.0</u>	<u>\$1,074.9</u>	<u>\$1,100.3</u>	<u>\$1,161.0</u>

SOURCE: Fiscal 1990-1994, Office of the Comptroller. Estimated Fiscal 1995, Executive Office for Administration and Finance.

- (1) Includes expenditures for Emergency Assistance, a component of AFDC designed to prevent homelessness and to shelter income-eligible families when they become homeless.
- (2) Includes outpatient medical services to EAEDC recipients.
- (3) Include benefits for blind recipients, which are administered by the Massachusetts Commission for the Blind.
- (4) Includes approximately \$33.3 million not previously classified as public assistance.
- (5) Includes \$24.0 million not previously classified as budgeted expenditures.

AFDC is currently 50% funded by federal reimbursements. Increasing caseloads between fiscal 1990 and fiscal 1993 caused AFDC expenditures to rise at an average annual rate of approximately 5.0% from \$700.3 million in fiscal 1990 to \$809.9 million in fiscal 1993. AFDC expenditures for fiscal 1994 were \$817.2 million, representing an increase of 0.9% over fiscal 1993. AFDC expenditures for fiscal 1995 are projected to be \$840.3 million, a 2.8% increase over fiscal 1994. The Governor has proposed replacing AFDC cash grants with an employment support program that will provide day care, health care and employment services, which were not

previously classified as Public Assistance. See "1995 FISCAL YEAR".

EAEDC (formerly General Relief) is funded entirely from state funds. Rising caseloads between fiscal 1990 and fiscal 1991, plus annual cost-of-living adjustments through fiscal 1989, caused expenditures to rise approximately 17.1%, from \$161.9 million in fiscal 1990 to \$189.6 million in fiscal 1991. EAEDC expenditures for fiscal 1992 were \$131.5 million, a 30.6% decrease from expenditures for General Relief in fiscal 1991. Fiscal 1993 EAEDC expenditures were \$89.9 million, a 31.6% decrease from fiscal 1992 expenditures. Fiscal 1994 EAEDC expenditures were \$100.3 million, an 11.6% increase from fiscal 1994 expenditures. Fiscal 1995 EAEDC expenditures are projected to be \$124.3 million, which amount includes \$24.0 million not previously classified as budgeted expenditures. This projection is based upon current caseload projections which are subject to change during the fiscal year. See "*Controls and Reforms*" and "LITIGATION".

SSI payments are funded entirely by the federal government up to \$446 per individual recipient per month and entirely by the Commonwealth above that amount. SSI payment levels in the Commonwealth for aged, disabled and blind individual recipients range from \$560 to \$596 per month. These levels include a Commonwealth supplement over and above federally approved assistance standards. Expenditures for SSI have risen at an average annual rate of 7.1% from \$138.7 million in fiscal 1990 to \$182.8 million in fiscal 1994. SSI expenditures for fiscal 1995 are projected to be \$196.4 million, an increase of 7.4% from fiscal 1994. This projection is based upon current caseload projections which are subject to change during the fiscal year. The Governor's fiscal 1996 budget recommendations propose expending \$774 million for the Employment Support Program which is proposed to replace AFDC (see "1995 FISCAL YEAR"), \$109.8 million for EAEDC, and \$200.9 million for SSI.

Controls and Reforms. The Department of Public Welfare in recent years has instituted tighter procedures and management controls. Stricter standards have been established to determine eligibility for AFDC, Emergency Assistance and EAEDC, including implementation of new disability criteria for EAEDC benefits. Litigation regarding the administration of the EAEDC program was resolved during fiscal 1994. The Department of Public Welfare also has instituted automated systems to redetermine eligibility for benefits and has taken steps to reduce welfare fraud. In addition, the Department of Revenue has improved its collection of child support payments.

Actions by the federal government in administering reimbursements to states for human services programs could affect the future receipt of federal reimbursements by the Commonwealth. These actions include placing limitations on the periods for which reimbursements may be claimed and possible imposition of sanctions if the rates of technical and substantive errors in the programs exceed permitted levels or if certain program controls are not in place. The Commonwealth has, in recent years, through improved management procedures and controls, lowered its error rates for the AFDC and food stamp programs, and the Department of Public Welfare reports that the Commonwealth is now below the target error rate level for each program. The Department of Public Welfare believes that its error rates are among the lowest in the country.

Debt Service

During the 1980s, Commonwealth financed capital expenditures grew substantially. Capital spending by the Commonwealth in the Capital Projects Funds rose from approximately \$600.0 million in fiscal 1987 to \$971.0 million in fiscal 1989. In November 1988, the Executive Office for Administration and Finance established an administrative limit on state financed capital spending in the Capital Projects Funds of \$925.0 million per fiscal year. Capital expenditures were \$936.0 million, \$847.0 million, \$694.1 million, \$575.9 million and \$760.6 million in fiscal 1990, fiscal 1991, fiscal 1992, fiscal 1993 and fiscal 1994, respectively. Commonwealth financed capital expenditures are projected to increase to approximately \$850.0 million in fiscal 1995. Capital expenditures are projected to be approximately \$900.0 million in fiscal 1996. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Overview of Capital Spending Process and Controls; *Five-Year Capital Spending Plan*".

The growth of capital expenditures during the 1980s accounts for the significant rise in annual debt service expenditures since fiscal 1989. Payments for debt service on Commonwealth general obligation bonds and notes increased approximately 22.2%, from \$770.9 million in fiscal 1990 to \$942.3 million in fiscal 1991. Debt service payments in fiscal 1992 were \$898.3 million, representing a 4.7% decrease from fiscal 1991, which resulted from a \$261.0 million one-time reduction achieved through the issuance of refunding bonds in September and October

1991. Debt service expenditures for fiscal 1993 and fiscal 1994 were \$1.140 billion and \$1.149 billion, respectively, and are projected to be \$1.242 billion for fiscal 1995 and \$1.267 billion for fiscal 1996. The fiscal 1993 and fiscal 1994 debt service expenditures reflect savings of \$62.9 million and \$57.3 million, respectively, achieved through the issuance of refunding bonds in October, 1992 and March, May and August, 1993. See "COMMONWEALTH BOND AND NOTE LIABILITIES". The amounts noted represent debt service payments on Commonwealth debt (including the Fiscal Recovery Bonds and the Special Obligation Bonds) but do not include debt service on notes issued to finance certain Medicaid-related liabilities, which were paid in full from non-budgeted funds. See "FINANCIAL RESULTS -- Fiscal Years 1990 Through 1994". Also excluded are debt service contract assistance payments to the MBTA (\$181.9 million projected in fiscal 1995), the Massachusetts Convention Center Authority (\$24.6 million projected in fiscal 1995), the Massachusetts Government Land Bank (\$6.0 million projected in fiscal 1995), the Massachusetts Water Pollution Abatement Trust (\$13.9 million projected in fiscal 1995) and grants to municipalities under the school building assistance program to defray a portion of the debt service costs on local school bonds (\$179.2 million projected in fiscal 1995). See "MBTA and Regional Transit Authorities", "COMMONWEALTH BOND AND NOTE LIABILITIES" and "OTHER COMMONWEALTH LIABILITIES".

In January 1990, legislation was enacted to impose a limit on debt service in Commonwealth budgets beginning in fiscal 1991. The law, as amended, which is codified as Section 60B of Chapter 29 of the General Laws, provides that no more than 10% of the total appropriations in any fiscal year may be expended for payment of interest and principal on general obligation debt (excluding the Fiscal Recovery Bonds) of the Commonwealth. This law may be amended or repealed by the Legislature or may be superseded in the General Appropriation Act for any year. The following table shows the percentage of total appropriations expended or estimated to be expended from the budgeted operating funds for debt service on general obligation debt (excluding debt service on Fiscal Recovery Bonds) in the fiscal years indicated:

**Debt Service Expenditures
(in millions)**

<u>Fiscal Year</u>	<u>Debt Service (1)</u>	<u>Total Budgeted Expenditures and Other Uses</u>	<u>Percentage</u>
1990	\$770.9	\$13,259.7	5.8%
1991	863.1	13,654.7	6.3
1992	656.1(2)	13,416.0	4.9
1993	861.1	14,696.4	5.9
1994	872.3	15,522.9	5.6
1995 (Estimated)	963.8	16,448.5	5.9

SOURCE: Fiscal 1990-1994, Office of the Comptroller. Estimated Fiscal 1995, Executive Office for Administration and Finance.

- (1) Excludes \$79.0 million in fiscal 1991, \$242.2 million in fiscal 1992, \$278.4 million in fiscal 1993; \$277.1 million in fiscal 1994 and \$278.0 million in fiscal 1995 in interest and principal payments related to Fiscal Recovery Bonds, which are not included in the calculation of the debt service limit.
- (2) Reflects reduction of debt service by \$261.0 million by issuance of refunding bonds in September and October 1991.

The estimated annual debt service on the Fiscal Recovery Bonds currently outstanding (a portion of which constitutes variable rate debt) ranges from approximately \$278.0 million in fiscal 1995 through fiscal 1997 and approximately \$130.0 million in fiscal 1998, at which time the entire amount of the Fiscal Recovery Bonds will be paid.

Five-Year Capital Spending Plan. The Five-Year Capital Spending Plan was instituted by the Governor in August 1991 to reduce the rate of growth of Commonwealth debt outstanding, and therefore, the payment of debt service. The Five-Year Capital Spending Plan projects Commonwealth capital spending to remain relatively constant during its five-year period. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Overview of Capital Spending Process; *Five-Year Capital Spending Plan*".

Pensions

The Commonwealth is responsible for the payment of pension benefits for state employees and for school teachers throughout the state. The Commonwealth is also responsible for cost of living increases payable to local government retirees. State pension expenditures have risen dramatically as the Commonwealth has appropriated moneys to partially address the unfunded liabilities that had accumulated over several decades of "pay-as-you-go" administration of the pension systems for which it is responsible. For several years during the 1980s, the Commonwealth made substantial direct appropriations to pension reserves, in addition to paying current benefits. In 1988, the Commonwealth adopted a funding schedule under which it is required to fund future pension liabilities currently and to amortize the accumulated unfunded liabilities over 40 years. Total pension expenditures increased at an average annual rate of 7.8% from \$671.9 million in fiscal 1990 to \$908.9 million in fiscal 1994. The estimated pension expenditures (inclusive of current benefits and pension reserves) for fiscal 1995 are \$994.3 million, including approximately \$36.5 million to fund the costs of an early retirement program for elementary and secondary school teachers mandated by the education reform legislation enacted in June 1993, representing an increase of 9.4% over fiscal 1994 expenditures. Fiscal 1996 pension expenditures are expected to be approximately \$1.044 billion, an increase of 5.0% over fiscal 1995 expenditures. See "OTHER COMMONWEALTH LIABILITIES -- Retirement Systems and Pension Benefits".

Higher Education

Total budgeted expenditures for higher education have declined between fiscal 1990 and fiscal 1994 at an average annual rate of 1.1% from \$701.9 million in fiscal 1990 to \$672.6 million in fiscal 1994. To accommodate these budget reductions, the public higher education system decreased its state-funded payroll by 1,261 full-time equivalent employees between June 1988 and December 1994. Decreases in appropriations have been partially mitigated by increases in tuition and fees in fiscal 1990 through fiscal 1994. In fiscal 1992 all but two of the campuses raised tuition by 6.0%. In fiscal 1993 tuition was raised at all campuses by 4.0%. Fiscal 1994 tuition revenues also reflect a 2.0% tuition increase. In addition, tuition increases for nonresident students have brought these tuitions to 100% of cost. Chapter 142 of the Acts of 1991 reorganized the Commonwealth's higher education system by creating a Secretary of Educational Affairs and replacing the Board of Regents with the Higher Education Coordinating Council. In fiscal 1995 an estimated \$708.1 million will be expended from the Commonwealth's budgeted operating funds for higher education. The Governor's fiscal 1996 budget recommends expending approximately \$558.1 million from the Commonwealth's budgeted operating funds for higher education. This amount does not include approximately \$147.9 million in spending that is currently classified as budgeted fund spending, but which the Governor's proposal recommends to be moved to an off-budget trust fund in fiscal 1996. See "1996 FISCAL YEAR".

MBTA and Regional Transit Authorities

The Commonwealth expends substantial amounts in support of the MBTA and certain regional transit authorities. Commonwealth support of these authorities takes the form of (i) guarantees of their debt service, (ii) certain contract assistance, and (iii) payment of their net cost of service. The Commonwealth is entitled to reimbursement from cities and towns within the service area of each authority for payment of net cost of service in excess of contract assistance payments.

Massachusetts Bay Transportation Authority. The MBTA finances and operates mass transit facilities within its territory, which consists of 78 cities and towns in the greater Boston metropolitan area, and to a limited extent outside its territory. The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. The Boston Metropolitan District no longer issues debt except for refunding purposes.

Commonwealth support of the MBTA includes all three forms of aid described above. First, a Commonwealth guarantee of MBTA debt obligations is provided by statutory requirements that the Commonwealth provide the MBTA funds sufficient to meet its obligations, including the principal and interest on MBTA and Boston Metropolitan District bonds and notes as they mature, to the extent that funds sufficient for this purpose are not otherwise available to the MBTA. Second, the Commonwealth has contracted to pay contract assistance equal to 90% of the debt service on MBTA bonds. Third, under applicable statutory provisions the Commonwealth is

required to pay the MBTA its net cost of service (current expenses, including debt service and lease obligations, minus current income). During the calendar year the MBTA's net cost of service, as certified to the Commonwealth by the MBTA on a calendar year basis, is financed by the issue of notes by either the MBTA itself or the Commonwealth or by payments by the Commonwealth. In the following fiscal year, the Commonwealth pays to the MBTA the net cost of service for such calendar year (to the extent that the Commonwealth has not already advanced funds for such net cost of service). The Commonwealth issues short-term notes (transit notes) to provide funds to make such payments. The Commonwealth assesses such net cost of service on the cities and towns in the MBTA territory after deducting certain contract assistance provided by the Commonwealth. Proposition 2 1/2, as amended, generally limits the increase in such assessments from one year to the next to 2.5% of the prior year's assessment. The Commonwealth pays its transit notes from the proceeds of the assessments and from such contract assistance and, if the foregoing proceeds are insufficient, from other funds of the Commonwealth.

Total expenditures for the purpose of paying costs related to the MBTA and regional transit authorities rose at an average annual rate of approximately 13.8% for fiscal years 1990 through 1994, from \$354.5 million in fiscal 1990 (of which \$333.9 million relates to the MBTA) to \$522.3 million in fiscal 1994 (of which \$490.4 million relates to the MBTA). Estimated expenditures for this purpose for fiscal 1995 are \$520.1 million (of which \$487.1 million relates to the MBTA). The Governor's fiscal 1996 budget recommends \$556.3 million for MBTA and regional transit authority expenditures, of which \$521.1 million relates to the MBTA.

In light of major expansion of service throughout the 1980s, the total MBTA operating expenses rose at an average annual rate of approximately 5.9% for fiscal years 1990 through 1994, from \$629.6 million in fiscal 1990 to \$793.3 million in fiscal 1994. For fiscal 1995, the MBTA has an approved budget of \$745.4 million. Management of the MBTA believes that this reduction of approximately \$48 million from the fiscal 1994 budget can be accomplished without reductions in the quantity and quality of service. For fiscal 1996, the MBTA has an approved budget of \$753.2 million, representing a reduction of \$35.1 million in operating expenses and an increase of \$43.0 million in debt service from the fiscal 1995 budget. The growth in the Commonwealth's share of the MBTA's budget reflects the statutory arrangements by which the MBTA is funded, declining federal assistance and constrained local support as a result of Proposition 2 1/2.

The information set forth above concerning the Commonwealth's total expenditures for the costs of the MBTA is based on the Commonwealth's fiscal year ending June 30. However, under state law, the MBTA continues to report its net cost of service to the Commonwealth on a calendar year basis for reimbursement and assessment purposes. The following table sets forth for the calendar years ended December 31, 1990 through December 31, 1994 (estimated), the amounts of (i) the MBTA's cost of service in excess of the MBTA's income from its own sources, (ii) federal operating assistance, (iii) Section 28 contract assistance, (iv) additional contract assistance, (v) interest and other charges incurred in state borrowings by the Commonwealth and (vi) the total of the Commonwealth's assessments on the cities and towns for the net cost of service allocated to such year.

MBTA Net Cost of Service Assessments
(in millions)

Year Ended December 31	Cost of Service in Excess of Income	Less: Federal Operating Assistance	Less: Section 28 Contract Assistance (1)	Less: Additional Contract Assistance and Other State Assistance (2)	Subtotal	Interest and Other Charges (3)	Amount Assessed or to be Assessed
1990	\$ 512.9	\$ 18.3	\$ 115.7	\$ 272.6	\$ 106.3	\$ 12.3	\$ 118.6
1991	575.0	18.2	137.7	307.2	111.9	9.7	121.6
1992	607.0	18.2	155.8	315.4	117.6	7.0	124.7
1993	610.3	18.2	165.6	304.2(4)	122.3	5.5	127.8
1994 (5)	633.6	17.8	198.6	296.2(6)	121.0	10.0	131.0

SOURCE: Massachusetts Bay Transportation Authority.

- (1) Contract assistance under Section 28 of the MBTA's enabling act for payment of a portion of debt service on certain of the MBTA's indebtedness.
- (2) Additional contract assistance and other state assistance provided by the Commonwealth.
- (3) Includes interest and other charges incurred in state borrowings by the Commonwealth and Boston Metropolitan District expenses of \$25,000 in each year.
- (4) The Commonwealth's fiscal 1995 budget contains appropriations, together with other prior appropriations, sufficient to provide this amount of additional state assistance.
- (5) Estimated.
- (6) The Governor's fiscal 1996 budget recommendation contains appropriations, together with other prior appropriations, sufficient to provide this amount of additional state assistance.

Regional Transit Authorities and Steamship Authority. There are 15 regional transit authorities organized in various areas of the state. The Woods Hole, Martha's Vineyard and Nantucket Steamship Authority operates ferry service to Martha's Vineyard and Nantucket. As with the MBTA, the Commonwealth is required under applicable statutory provisions to provide the regional transit authorities and the Steamship Authority with funds sufficient to meet the principal of and interest on their bonds and notes as they mature to the extent that funds sufficient for this purpose are not otherwise available.

The Commonwealth also is required under applicable statutory provisions to pay to the regional transit authorities and the Steamship Authority their net cost of service (current expenses, including debt service, minus current income). The Commonwealth recovers such amounts as are not paid by its contract assistance by assessments on the cities and towns served by such authorities. The Commonwealth is required under applicable statutory provisions relating to the regional transit authorities to provide contract assistance to such authorities in amounts equal to 50% of each authority's net cost of service, and such amounts are not assessed on the cities and towns served by such authorities.

The regional transit authorities have required aggregate net cost of service payments by the Commonwealth in fiscal 1990, 1991, 1992, 1993 and 1994 of \$20.6 million, \$23.6 million, \$28.5 million, \$31.1 million and \$31.9 million, respectively. Estimated payments for fiscal 1995 are \$33.0 million. Fiscal 1996 payments are expected to be approximately \$35.3 million. The Steamship Authority is currently self supporting, requiring no net cost of service payments or contract assistance.

Other Programs

In addition to those expenditures described above, the Commonwealth also expends substantial amounts on all other programs and services. Spending on other programs and services supported by the Commonwealth's budget decreased from \$4.222 billion in fiscal 1990 to \$4.018 billion in fiscal 1991, which is \$204.1 million, or 4.8%, less than fiscal 1990. Such expenditures increased by \$48.2 million, or 1.2%, to \$4.066 billion in fiscal 1992. Fiscal 1993 expenditures were \$4.376 billion, which is \$309.6 million, or 7.6% higher than fiscal 1992. Fiscal 1994 expenditures were \$4.585 billion, which is \$209.0 million or 4.8% more than fiscal 1993. Fiscal 1995

expenditures are estimated to be \$4.857 billion, which is \$272 million or 5.9% more than fiscal 1994. A large share of the projected fiscal 1995 spending in this category \$2.448 billion consists of spending on human services programs other than Medicaid and public assistance detailed earlier. This other human services spending for fiscal 1995 includes expenditures for the Departments of Mental Retardation (\$712.5 million), Mental Health (\$514.5 million), Social Services (\$381.5 million) Public Health (\$355.3 million) and other human services programs (\$484.2 million). The remaining \$2.409 billion in projected expenditures on other programs and services cover a wide variety of functions of state government, including, in particular, expenditures for the Judiciary, District Attorneys and the Attorney General (\$421.9 million) and for the Executive Office for Administration and Finance (\$332.1 million), Communities and Development (\$131.8 million), Environmental Affairs (\$163.1 million), Transportation and Construction (\$92.4 million), Public Safety (\$702.7 million) and Elder Affairs (\$125.9 million). The Governor's proposed fiscal 1996 budget recommends budgeted expenditures on other programs and services of \$4.999 billion.

State Workforce

As of December 31, 1994, the Commonwealth had approximately 63,983 full-time equivalent employees ("FTEs") in its standard workforce delivering programs and services funded by annual operating budget appropriations and retained revenues. This number does not include 393 seasonal FTEs or 126 members of boards or commissions. Approximately 54,316 of these FTEs work in executive branch agencies (including the Commonwealth's colleges and universities) under the control of the Governor, while the others work in the Legislature, Judiciary and other entities constitutionally or legally independent of the Governor (e.g., the offices of the State Treasurer, the Secretary of State, the State Auditor and the Attorney General). During fiscal 1994 approximately \$2.4 billion was expended for salaries for state employees funded through the annual operating budget. Between June 1988 and December 1994, the size of the standard workforce funded through the annual operating budget was reduced by approximately 16,356 FTE positions, or 20.4%. Between January 1991 and December 1994, the size of this workforce was reduced by approximately 8,518 in agencies under the control of the Governor, and by approximately 8,211 in the entire state government. The Governor has successfully implemented an aggressive program to reduce the state workforce since taking office in January 1991, through attrition, layoffs, and an early retirement program which took effect on July 1, 1992.

Budget-Funded Standard Workforce (1)

	<u>June 1988</u>	<u>January 1991</u>	<u>June 1994</u>	<u>December 1994</u>
Executive Office	105	53	88	84
State Comptroller	119	101	103	103
Executive Departments:				
Administration & Finance (2)	4,434	3,985	3,412	3,353
Environmental Affairs (3)	3,319	3,019	2,229	2,246
Communities & Development	182	123	108	104
Health and Human Services	38,665	35,441	23,610	23,547
Transportation & Construction	3,146	2,565	1,389	1,348
Board of Library Commissioners	19	14	14	14
Educational Affairs	--	--	15	16
Education	468	348	195	199
Higher Education	14,654	13,084	13,130	13,393
Public Safety	3,405	2,833	8,827	8,772
Economic Affairs	97	64	99	104
Elder Affairs	60	35	30	31
Consumer Affairs	755	725	614	611
Energy Resources	66	--	--	--
Labor	<u>464</u>	<u>443</u>	<u>390</u>	<u>392</u>
Subtotal Under Governor's Authority	69,958	62,833	54,255	54,316
Judiciary	6,157	5,856	5,861	5,927
Other (4)	<u>4,224</u>	<u>3,504</u>	<u>3,693</u>	<u>3,739</u>
Total	80,339	72,193	63,809	63,983

SOURCE: Executive Office for Administration and Finance.

- (1) The Budget-Funded Standard Workforce excludes employees whose positions are established in accounts funded by Capital Projects Funds, direct federal grants, expendable trusts and other non-appropriated funds, as well as seasonal help, members of boards and commissions, and staff of independent authorities. Numbers represent Full-Time Equivalent filled positions (FTEs), not individual employees.
- (2) Administration & Finance includes the Disabled Persons Protection Commission.
- (3) Environmental Affairs includes the Low-Level Radioactive Waste Management Board.
- (4) Other includes staff of the Legislature and Executive Council, the offices of the State Treasurer, Secretary, Auditor, and Attorney General, the eleven District Attorneys, and other agencies independent of the Governor; it excludes elected members of the Legislature and Executive Council.

In addition to the standard workforce funded by annual operating budget appropriations, as of December 31, 1994, the Commonwealth has approximately 13,178 FTEs whose positions are established in accounts funded from Capital Projects Funds, various direct federal grants, expendable trusts and other non-appropriated funds. Virtually all of these employees work in the executive branch, over half of them in public higher education. The Commonwealth also employs seasonal workers, primarily in its parks and other recreational facilities, varying in number from about 350 FTEs in the off-seasons to about 1,500 FTEs in mid-summer.

Union Organization and Labor Negotiations

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

In most cases, the Chief Administrative Justice of the Trial Court, the Lottery Commission, and public higher education management negotiate directly with their respective employee representatives, but all wage increases and other economic provisions contained in agreements reached as a result of such bargaining are subject to the review of the Governor and to funding approval by the Legislature. If the Governor does not recommend the requested appropriation to fund contractual increases, he may refer the contracts back to the parties for further negotiation.

Approximately 42,302 executive branch state employees are organized in eleven bargaining units, the employees of the Commonwealth's colleges and universities are organized in 25 bargaining units, and the employees of the judicial branch and the Lottery Commission are organized in six bargaining units. Public employees of the Commonwealth do not have a legal right to strike or otherwise withhold services. Unions representing certain state and metropolitan police are entitled to final and binding arbitration by a joint Labor-Management Committee.

All but one of the nine collective bargaining agreements between the Commonwealth and its employees have expired.

Agreements with the Alliance (the American Federation of State, County and Municipal Employees and the Service Employees International Union, representing units 2, 8 and 10), the National Association of Government Employees (NAGE, representing units 1, 3 and 6) and the Massachusetts Organization of State Engineers and Scientists (MOSES, representing unit 9) expired June 30, 1993. The agreement with the Coalition of Public Safety (COPS, representing Unit 5), which expired June 30, 1990, remains in effect. The parties did engage in collective bargaining for a new agreement; however, that bargaining resulted in an impasse. The parties are now in factfinding. The expired collective bargaining agreements remain in effect until new contracts are negotiated, or until successor collective bargaining agreement negotiations result in impasse.

Legislation to fund the economic provisions of the 1990 - 1993 agreements with the Alliance, NAGE and MOSES, which were negotiated in 1990, was not approved by the Governor in December, 1991 due to fiscal

conditions. The agreements would have cost the Commonwealth approximately \$289 million during their three year terms. The three unions filed lawsuits challenging the Governor's action. In August, 1992, the Massachusetts Supreme Judicial Court ruled that the Governor's action was constitutionally permissible. Economic benefits for these units remained unchanged from their previous agreements until December, 1992, when the legislature overrode the Governor's veto of legislation to grant wage increases of 6% effective December, 1992 and 7.25% effective June, 1993, which approximated the aggregate increases originally provided during the three year terms of the 1990-1993 agreements.

Negotiations for new contracts are currently underway with the Alliance, MOSES, MCOFU, MNA and COPS.

In April, 1992, the Commonwealth reached agreement with the Massachusetts Correction Officers Union (representing unit 4) for a three year contract which expired December 31, 1994. The agreement provided for a wage increase of 5.4% through job title upgrades, as well as an educational incentive program, both of which were implemented retroactive to January 1, 1992, at a total cost of approximately \$20.1 million through fiscal 1994. A supplemental agreement to this contract, negotiated in May, 1993, provided for 5% salary increases effective January 1, 1993, January 1, 1994 and July 1, 1994, and a longevity pay program effective March 1, 1993.

On July 1, 1992, the former Capitol, Metropolitan, Registry and State Police forces were consolidated into the Massachusetts Department of State Police. Negotiations between the Commonwealth and the State Police Association of Massachusetts (representing unit 5A) culminated with the signing in July, 1993 of a three year contract, which expires June 30, 1995. The contract grants a series of annual 6% salary increases, which are estimated to cost approximately \$14.9 million in fiscal 1995.

In March 1, 1994, the Commonwealth and the Massachusetts Nurses Association signed the successor agreement to the agreement that expired October, 1990. The new agreement, which expired December 31, 1994, called for a 4% pay raise effective July 1, 1992, a 2.5% increase effective July 1, 1993, a 1% increase effective July 1, 1994 and a 2.5% increase effective October 1, 1994. The contract is notable for being the first Commonwealth collective bargaining agreement to link an employee's salary increase to his or her performance. The agreement also provides for a reduction in overtime costs by paying employees at straight time for the first shift of overtime worked in any work week in which the employee uses sick leave. The cost of this agreement in fiscal 1995 is estimated to be approximately \$10.5 million.

Despite the present uncertainty with respect to the new agreements caused by fiscal conditions, the Commonwealth believes that its relationship with its employees is reasonably good.

The following table sets forth information regarding the eleven bargaining units that are within the responsibility of the Office of Employee Relations.

Office of Employee Relations Bargaining Units

Contract Unit	Bargaining Union	Type of Employee	FTEs (All Funds)	Expiration Dates
1	National Association of Government Employees	Clerical	5,616	6/30/93
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Non-professional hospital	11,056	6/30/93
3	National Association of Government Employees	Skilled trades	858	6/30/93
4	Massachusetts Correction Officers Federated Union	Corrections	3,602	12/31/94
5	Coalition of Public Safety	Police/Law enforcement	343	6/30/90
5a	State Police Association of Massachusetts	State Police	1,941	6/30/95
6	National Association of Government Employees	Administrative professionals	6,037	6/30/93
7	Massachusetts Nurses Associations	Health professionals	2,130	12/31/94
8	Alliance/Service Employees International Union	Social workers	7,274	6/30/93
9	Massachusetts Organization of Engineers and Scientists	Engineers/scientists	2,806	6/30/93
10	Alliance/Service Employees International Union	Secondary education	<u>637</u>	6/30/93
TOTAL			<u>42,302</u>	

SOURCE: Executive Office for Administration and Finance. Number of Standard Workforce FTEs (funded from non-budgeted as well as budgeted funds) as of December 31, 1994.

COMMONWEALTH BOND AND NOTE LIABILITIES

Overview

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

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

Commonwealth Bonds and Notes. The Commonwealth currently has three types of bonds and notes outstanding: general obligation debt, dedicated income tax debt, and special obligation debt. Dedicated income tax

debt consists of general obligation bonds or notes issued under Chapter 151 of the Acts of 1990, to which a portion of the Commonwealth's income tax receipts is dedicated for the payment of debt service. Special obligation revenue debt consists of special obligation revenue bonds ("Special Obligation Bonds") issued under Section 20 of Chapter 29 of the Massachusetts General Laws (the "Special Obligation Act") which may be secured by all or a portion of the revenues credited to the Commonwealth's Highway Fund. The Commonwealth has issued Special Obligation Bonds secured by a pledge of two cents of the Commonwealth's 21-cent gasoline tax. See "Special Obligation Debt."

Other Commonwealth Bond and Note Liabilities. Certain independent authorities and agencies within the Commonwealth are statutorily authorized to issue bonds and notes for which the Commonwealth is either directly, in whole or in part, or indirectly liable. The Commonwealth's liabilities with respect to these bonds and notes are classified as either (a) Commonwealth supported debt; (b) Commonwealth guaranteed debt; or (c) indirect obligations. Commonwealth supported debt arises from statutory requirements for payments by the Commonwealth with respect to debt service of the MBTA (including the Boston Metropolitan District), the Massachusetts Convention Center Authority, the Massachusetts Government Land Bank, the Steamship Authority and certain regional transit authorities. Commonwealth guaranteed debt consists of certain liabilities arising out of the Commonwealth's guarantees of the bonds of the four higher education building authorities, certain local housing authorities and certain bonds of the Town of Mashpee. Indirect obligations consist of (i) obligations of the Commonwealth to fund capital reserve funds pledged to certain MHFA bonds, (ii) the obligation of the Commonwealth, acting through the Higher Education Coordinating Council, to fund debt service, solely from moneys otherwise appropriated to HECC, on certain community college program bonds issued by the Massachusetts Health and Educational Facilities Authority, (iii) the obligation of the Commonwealth, acting through the Executive Office of Public Safety ("EOPS"), to fund debt service from amounts appropriated by the Legislature to EOPS, on certificates of participation issued to finance the new Plymouth County Correctional Facility; and (iv) the obligation of the Commonwealth to make lease payments from amounts appropriated by the Legislature with respect to the Massachusetts Information Technology Center now under construction in Chelsea, Massachusetts. See "Indirect Obligations." In addition, the Commonwealth has liabilities under certain tax exempt capital leases. See "OTHER COMMONWEALTH OBLIGATIONS -- Long Term Capital Leases".

Outstanding Bond and Note Liabilities. The following table sets forth the Commonwealth bond and note liabilities outstanding on January 1, 1995.

Commonwealth Bond and Note Liabilities
January 1, 1995
(in thousands)

	<u>Long Term(1)</u>	<u>Short Term</u>
COMMONWEALTH DEBT		
General Obligation Debt	\$8,360,095(2)	\$264,132
Dedicated Income Tax Debt	831,210	0
Special Obligation Debt	<u>403,770</u>	<u>0</u>
Subtotal Commonwealth Debt	<u>9,595,075</u>	<u>264,132</u>
COMMONWEALTH SUPPORTED DEBT		
MBTA	2,165,230	365,000(4)
Massachusetts Convention Center Authority	173,664	0
Massachusetts Government Land Bank	25,170	0
Boston Metropolitan District	47,685	0
Steamship Authority	34,249	2,900
Regional transit authorities	<u>30</u>	<u>67,417</u>
Subtotal Supported Debt	<u>2,446,028</u>	<u>435,317</u>
COMMONWEALTH GUARANTEED DEBT		
Higher education building authorities	234,615 (5)	0
Town of Mashpee	<u>400</u>	<u>0</u>
Subtotal Guaranteed Debt	<u>235,015</u>	<u>0</u>
TOTAL COMMONWEALTH BOND AND NOTE LIABILITIES	<u>\$ 12,276,118</u>	<u>\$ 699,449</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 "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 January 1, 1995 through their maturity in the amount of \$346.8 million. The Commonwealth also expects to issue \$150 million of general obligation bonds on March 2, 1995 for the purpose of financing various capital expenditures.
- (3) Represents \$240 million of Commonwealth General Obligation Notes issued on November 22, 1994 for the purpose of financing the MBTA's net cost of service and \$24.1 million of the Commonwealth's "minibonds" (which are redeemable at the request of the holder on one business day's notice and are treated as short term liabilities). See "General Obligation Debt; *Commonwealth General Obligation Notes and Minibonds*".
- (4) The MBTA expects to issue \$165 million of short-term notes for the purpose of refinancing a portion of its notes maturing on March 1, 1995. As of February 22, 1995, the MBTA also has \$139.0 million of commercial paper outstanding. See "Commonwealth Supported Debt; MBTA".
- (5) On February 8, 1995, the Southeastern Massachusetts University Building Authority sold \$35,715,000 of bonds to be guaranteed by the Commonwealth for the purpose of refunding approximately \$35 million of these outstanding bonds. The University of Lowell Building Authority currently expects to issue approximately \$24 million of bonds to be guaranteed by the Commonwealth in March, 1995, for the purpose of refunding approximately \$20.7 million of these outstanding bonds and to finance certain capital expenditures.

Trend of Long Term Bond Liabilities. The following table sets forth the outstanding long term Commonwealth debt and Commonwealth supported bond liabilities as of the end of the fiscal years indicated.

Long Term Bond Liabilities(1)(2)
Commonwealth Debt and Commonwealth Supported Debt
(in thousands)

<u>June 30</u>	<u>General Obligation Bonds (3)</u>	<u>Dedicated Income Tax Debt</u>	<u>Special Obligation Debt</u>	<u>Commonwealth Long Term Debt Subtotal (4)</u>	<u>MBTA Bonds</u>	<u>Other Supported Debt (5)</u>	<u>Total (4)</u>
1990	\$6,605,040	--	--	\$6,605,040	\$1,283,765	\$263,848	\$8,152,653
1991	7,164,195	\$1,416,145	--	8,580,340	1,475,480	247,574	10,303,394
1992	7,916,571	1,236,990	\$103,770	9,257,331	1,708,230	257,327	11,222,888
1993	8,082,823	1,044,865	103,770	9,231,458	2,015,405	291,482	11,538,345
1994	8,184,165	839,810	403,770	9,427,745	2,165,230	277,655	11,870,630

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

- (1) Does not include Commonwealth guaranteed debt. See "Commonwealth Guaranteed Debt".
- (2) Outstanding bond liabilities include discount and costs of issuance.
- (3) Does not include Dedicated Income Tax Debt. Commonwealth general obligation bonds include interest on capital appreciation bonds yet to be accrued from the end of the fiscal year indicated through their maturity in the following approximate amounts: fiscal 1990-\$175.38 million; fiscal 1991-\$399.64 million; fiscal 1992-\$451.29 million; fiscal 1993-\$389.40 million and fiscal 1994-\$361.5 million.
- (4) Totals may not add due to rounding.
- (5) Includes bonds of the MCCA, the Steamship Authority, the Land Bank, and the Boston Metropolitan District. Does not include bonds of regional transit authorities.

Long Term Debt Analysis. The following table sets forth outstanding long term Commonwealth debt and Commonwealth supported debt as of the end of the fiscal years indicated and the ratio of such indebtedness to certain economic indicators.

Long Term Debt Analysis
Commonwealth Debt and Commonwealth Supported Debt

<u>June 30</u>	<u>Amount (1)(2) (in thousands)</u>	<u>Net of CAB Interest Yet to be Accrued (in thousands)</u>	<u>Per Capita (3)</u>	<u>Ratio to Full Value of Real Estate (4)</u>	<u>Ratio to Personal Income (5)</u>
1990	\$8,152,653	\$7,977,273	\$1,326	2.13	5.87
1991	10,303,394	9,903,754	1,652	2.32	7.21
1992	11,222,888	10,771,598	1,797	2.52	7.61
1993	11,538,345	11,148,945	1,854	2.85	7.58
1994	11,870,630	11,418,996	1,899	2.92	7.76

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

- (1) Includes Commonwealth general obligation bonds, dedicated income tax bonds and Special Obligation Bonds, and bonds of the MBTA, the MCCA, the Steamship Authority, the Land Bank and the Boston Metropolitan District. Does not include bonds of the regional transit authorities. Does not include Commonwealth guaranteed debt. See "Commonwealth Guaranteed Debt".
- (2) Outstanding bond liabilities include discount and costs of issuance. Commonwealth general obligation bonds include interest on capital appreciation bonds yet to be accrued from the end of the fiscal year through their maturity. See "Table of Long Term Bond Liabilities; footnote 3" above.
- (3) Based on United States Census resident population estimates for Massachusetts of 6,016,000 for 1990, 5,995,000 for 1991 and 1992, and 6,012,000 for 1993 and 1994.
- (4) Based on Commonwealth Department of Revenue equalized valuation of assessed real estate of \$374.9 billion for 1990, \$427.6 billion for 1991 and 1992 and \$391.0 billion for 1993 and 1994.
- (5) Based on United States Department of Commerce, Bureau of Economic Analysis total personal income of \$135.9 billion for 1990, \$137.3 billion for 1991, \$141.6 billion for 1992 and \$147.1 billion for 1993 and 1994.

Maturities of Short Term Debt. The following table sets forth the maturities of the Commonwealth's short term liabilities outstanding as of January 1, 1995.

**Maturities of Short Term Liabilities
January 1, 1995
(in thousands)**

<u>Month Due</u>	<u>Commonwealth</u>	<u>MBTA</u>	<u>Regional Transit Authorities</u>	<u>Steamship Authority</u>	<u>Total</u>
Minibonds (1)	\$ 24,132	--	--	--	\$ 24,132
Commercial Paper (1 to 270 days)(2)	--	\$111,000	--	--	111,000
March, 1995	--	185,000	--	--	185,000
April, 1995	--	--	--	\$2,900	2,900
June, 1995	240,000	--	\$19,325	--	259,325
Fiscal 1996	--	180,000	48,092	--	228,092
Total	<u>\$264,132</u>	<u>\$476,000</u>	<u>\$67,417</u>	<u>\$2,900</u>	<u>\$810,449</u>

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

- (1) Minibonds are redeemable at the option of the holder on one business day's notice and are considered short term obligations. See "General Obligation Debt; *Minibonds*".
- (2) For a description of the MBTA's commercial paper program, see "Commonwealth Supported Debt; *MBTA*". As of February 22, 1995, the MBTA has \$139.0 million of commercial paper outstanding. For a description of the Commonwealth commercial paper program, see "General Obligation Debt; *Commonwealth General Obligation Notes*". As of February 22, 1995, the Commonwealth has no commercial paper outstanding.

General Obligation Debt

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

Dedicated Income Tax Debt. On August 1, 1990, the Governor signed into law Chapter 151 of the Acts of 1990, which provides, among other matters, for the authorization of the Commonwealth Fiscal Recovery Loan Act of 1990 to meet the deficit attributable to fiscal 1990, including certain Medicaid payments for prior service periods. Bonds issued pursuant to Chapter 151 ("Fiscal Recovery Bonds") must be repaid no later than December 31, 1997. The Commonwealth issued Fiscal Recovery Bonds in October and December 1990 in the aggregate principal amount of \$1.416 billion. The Fiscal Recovery Bonds constitute general obligation bonds of the Commonwealth, but are to be repaid from funds deposited in the Commonwealth Fiscal Recovery Fund established by Chapter 151 (the "Fiscal Recovery Fund"), deposits to which are to be held in trust and pledged to pay debt service on the Fiscal Recovery Bonds. Deposits to the Fiscal Recovery Fund are to be made from up to 15% of the Commonwealth's income tax receipts in each year that debt service is payable related to the Fiscal Recovery Bonds. Income tax receipts in excess of the amount needed in any fiscal year for debt service on account of Fiscal Recovery Bonds then outstanding, as certified by the Secretary for Administration and Finance in consultation with the State Treasurer, are paid into the Commonwealth's General Fund. Debt service related to the Fiscal Recovery Bonds in fiscal years 1995 through 1997 will not exceed approximately \$279 million per annum. Fifteen percent of the Commonwealth's income tax receipts for fiscal 1994 amounted to approximately \$853.5 million, while in fiscal 1995 it is estimated to amount to \$904.1 million. The outstanding principal amount of the Fiscal Recovery Bonds is not counted toward the statutory limit on outstanding direct bonds of the Commonwealth (see "Statutory Limit on Direct Bonds"), and interest on the Fiscal Recovery Bonds is not counted toward the statutory limitation on debt service payments. See "COMMONWEALTH PROGRAMS AND SERVICES -- Debt Service".

Commonwealth General Obligation Notes. The Commonwealth currently issues short term general obligation debt as revenue anticipation notes, bond anticipation notes, and transit notes issued to fund a portion of

the Commonwealth's net cost of service for the MBTA. Revenue anticipation notes may be issued by the State Treasurer in any fiscal year in anticipation of the receipts for that year. Revenue anticipation notes must be repaid no later than the close of the fiscal year in which they are issued. Bond anticipation notes may be issued by the State Treasurer in anticipation of the issuance of bonds. The Commonwealth utilizes a commercial paper program to facilitate the issuance of revenue and bond anticipation notes. Under the Commonwealth's current commercial paper program, the Commonwealth may issue up to \$600 million of short term general obligation debt under three series of notes; a line of credit is available through September 30, 1996 to secure up to \$200 million of principal of such commercial paper, letters of credit are available through October 31, 1996 to secure the balance of such commercial paper. As of February 22, 1995, the Commonwealth has no commercial paper outstanding. The Commonwealth's most recent cash flow projection indicates that no more than \$145 million of short term operating borrowings are expected to be outstanding under the commercial paper program at any time during the remainder of fiscal 1995. However, events occurring subsequent to the preparation of this projection may cause the actual cash flow of the Commonwealth to vary from the projected cash flow and additional commercial paper may be outstanding from time to time during fiscal 1995. See "1995 FISCAL YEAR -- Cash Flow".

Transit notes issued to fund the net cost of service payments to the MBTA may be issued by the State Treasurer pursuant to Chapter 161A of the General Laws, and may mature in the current or next succeeding fiscal year. The notes are general obligations of the Commonwealth, but are funded, in part, from assessments collected by the Commonwealth from cities and towns in the MBTA's territory. See "COMMONWEALTH PROGRAMS AND SERVICES -- MBTA and Regional Transit Authorities". As of January 1, 1995, the Commonwealth has \$240 million of outstanding transit notes which mature on June 15, 1995. As of January 1, 1995, no other revenue or bond anticipation notes were outstanding.

Minibonds. The State Treasurer is authorized by law to sell a portion of the Commonwealth's bonded indebtedness each year (not exceeding \$50 million net proceeds per year) in the form of small denomination bonds, or "minibonds", which are redeemable at the option of the holder on any business day prior to maturity (generally five years). As minibonds are redeemable on one business day's notice, the Comptroller accounts for minibonds as short term liabilities of the Commonwealth. Such minibonds are sold at a discount with no current interest payments; the redemption value accrues monthly. As of January 1, 1995 the Commonwealth had outstanding \$24.1 million in such minibonds; if all outstanding minibonds were to have been redeemed by the holders thereof on such date, the total redemption cost to the Commonwealth would have been approximately \$33.5 million.

Special Obligation Debt

The Special Obligation Act authorizes the Commonwealth to issue Special Obligation Bonds secured by all or a portion of revenues accounted to the Highway Fund. Revenues which are currently accounted to the Highway Fund are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax. Special Obligation Bonds are not general obligations of the Commonwealth. Chapter 33 of the Acts of 1991 authorizes the Commonwealth to issue Special Obligation Bonds in an aggregate amount not to exceed \$1.125 billion. As of January 1, 1995, the Commonwealth had outstanding \$403.77 million of Special Obligation Bonds, which includes \$103.77 million of such bonds secured by a pledge of two cents of the 21-cent motor fuels excise tax and \$300 million of another series of such bonds secured by a pledge of an additional 4.86 cents of the motor fuels excise tax and certain other moneys.

Debt Service Requirements on Commonwealth Bonds

The following table sets forth, as of January 1, 1995 the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, including the Fiscal Recovery Bonds, and Special Obligation Bonds.

Debt Service Requirements on Commonwealth Bonds (1) January 1, 1995 (in thousands)

Fiscal Year	GENERAL OBLIGATION BONDS (2)(3)				SPECIAL OBLIGATION BONDS			Total Debt Service Commonwealth Bonds
	Principal	Interest on CABs at Maturity	Current Interest	Subtotal	Principal	Interest	Subtotal	
1995 (4)	\$354,559	\$ --	\$223,231	\$577,790	\$9,050	\$11,197	\$20,247	\$598,037
1996	670,491	--	467,336	1,137,827	9,460	21,987	31,447	1,169,274
1997	698,060	--	423,475	1,121,535	9,845	21,604	31,449	1,152,984
1998	609,106	8,675	376,344	994,125	14,330	21,185	35,515	1,029,640
1999	534,083	9,704	342,671	886,458	15,010	20,508	35,518	921,976
2000	532,278	23,586	310,414	866,278	15,750	19,764	35,514	901,792
2001	484,026	61,445	282,384	827,855	16,555	18,957	35,512	863,367
2002	457,397	43,848	254,065	755,310	17,420	18,098	35,518	790,828
2003	447,475	59,609	229,893	736,977	18,585	16,929	35,514	772,491
2004	404,464	88,320	206,781	699,565	19,585	15,927	35,512	735,077
2005	406,588	95,981	185,585	688,154	20,665	14,852	35,517	723,671
2006	459,539	45,481	166,629	671,649	21,815	13,699	35,514	707,163
2007	491,466	14,985	143,172	649,623	23,050	12,467	35,517	685,140
2008	487,217	--	118,098	605,315	24,365	11,148	35,513	640,828
2009	464,888	--	90,935	555,823	25,740	9,771	35,511	591,334
2010	387,549	--	67,994	455,543	27,215	8,299	35,514	491,057
2011 and thereafter	850,485	--	91,922	942,407	115,330	16,424	131,754	1,074,161
TOTAL	\$8,739,671	\$ 451,634	\$3,980,929	\$13,172,234	\$403,770	\$272,816	\$676,586	\$13,848,820

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

- (1) Totals may not add due to rounding.
- (2) Includes Fiscal Recovery Bonds. Estimated debt service on the Fiscal Recovery Bonds (a portion of which constitute variable rate debt) will equal approximately \$279.0 million in fiscal 1995 through fiscal 1997 and \$130.0 million in fiscal 1998, at which time the Fiscal Recovery Bonds will be paid.
- (3) Excludes minibonds. Estimated debt service payable on outstanding minibonds (assuming interest is paid at maturity) in fiscal year 1995 is approximately \$33.5 million.
- (4) Does not include debt service paid in fiscal 1995 through January 1, 1995, including approximately \$274.1 million of general obligation bond principal, and approximately \$253.9 million of general and special obligation bond interest.

Statutory Debt Limit on Direct Bonds

Legislation enacted in December 1989 imposes a limit on the amount of outstanding "direct" bonds of the Commonwealth. The law, which is codified in Section 60A of Chapter 29, set a fiscal 1991 limit of \$6.8 billion, and provides that the limit for each subsequent fiscal year shall be 105% of the previous fiscal year's limit. The measurement of this limit is performed under the statutory basis of accounting which differs from GAAP in that the principal amount of outstanding bonds is measured net of discount and costs of issuance. The law further provides that bonds to be refunded from the proceeds of Commonwealth refunding bonds shall be excluded from outstanding "direct" bonds upon the issuance of the refunding bonds. Chapter 151 of the Acts of 1990 and the Special Obligation Act provide that the Fiscal Recovery Bonds and the Special Obligation Bonds, respectively, shall not be counted in computing the amount of bonds subject to this limit. Pursuant to Chapter 5 of the Acts of 1991,

\$287.2 million of the Commonwealth's refunding bonds issued in September and October 1991 are not counted in computing the amount of the bonds subject to this limit. The following table shows the amount of outstanding "direct" bonds of the Commonwealth, as compared with the appropriate statutory limit, as of the first day of each fiscal year in which the statutory limit has been in effect.

**Statutory Debt Limit on Direct Bonds
(in thousands)**

<u>Date</u>	<u>Outstanding Direct Bonds</u>	<u>Statutory Limit on Direct Bonds</u>
July 1, 1990	\$6,010,063	\$6,800,000
July 1, 1991	6,653,030	7,140,000
July 1, 1992	6,937,500	7,497,000
July 1, 1993	7,259,821	7,871,850
July 1, 1994	7,343,227	8,265,442
January 1, 1995	7,555,827	8,265,442

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

Authorized But Unissued Debt

General obligation bonds of the Commonwealth are authorized to correspond with capital appropriations. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Overview of Capital Spending Process". Over the last decade, the Commonwealth has typically had a large amount of authorized but unissued debt. However, the Commonwealth's actual expenditures for capital projects in a given year relate more to the capital needs of the Commonwealth in such year than to the total amount of authorized but unissued debt. Authorized but unissued general obligation debt at fiscal year end, and capital expenditures in the Capital Projects Funds, excluding the federally assisted highway construction fund, in the same fiscal year, are as follows:

**Authorized but Unissued General Obligation Debt
(in thousands)**

<u>Date</u>	<u>Authorized but Unissued General Obligation Debt</u>	<u>Capital Expenditures(1)</u>
June 30, 1990	\$5,383,743	\$936,068
June 30, 1991	4,937,306	847,057
June 30, 1992	6,393,832	694,057(2)
June 30, 1993	4,614,367	575,905
June 30, 1994	4,512,297	760,618

SOURCE: Office of the Comptroller.

- (1) Does not include \$537.5 million, \$1.892 billion, and \$835.7 million of refunding bond proceeds paid to escrow agents in fiscal 1992, fiscal 1993 and fiscal 1994, respectively, in order to decrease then outstanding general obligation bonds.
- (2) Does not include \$159.6 million deposited into the federally assisted highway construction fund to alleviate the fund deficit accumulated therein.

As of December 31, 1994, the authorized but unissued general obligation debt equalled \$6.380 billion, which amount includes \$1.670 billion allocable to transportation related projects authorized by the Legislature in fiscal 1995.

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

Pursuant to Chapter 33 of the Acts of 1991 ("Chapter 33"), the Commonwealth authorized the issuance of \$697 million of bonds for certain highway development and improvement projects which may only be issued as Special Obligation Bonds. The Special Obligation Bonds will be secured by a pledge of all or a portion of the revenues accounted for in the Commonwealth's Highway Fund. In addition, certain general obligation bonds authorized in Chapter 33 for such projects (which are reflected as Authorized but Unissued General Obligation Debt above) may be issued as Special Obligation Bonds, with the aggregate amount of Special Obligation Bonds not to exceed \$1.125 billion. Chapters 102 and 273 of the Acts of 1994 also authorize the issuance of up to \$1.474 billion of general obligation bonds for certain highway development and improvement projects, which bonds may also be issued as Special Obligation Bonds. See "Special Obligation Debt".

Commonwealth Supported Debt

MBTA. The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. Commonwealth support of MBTA bonds and notes includes (1) a Commonwealth guarantee of MBTA debt obligations provided by statutory requirements that the Commonwealth provide the MBTA funds sufficient to meet its obligations, including the principal and interest on MBTA and Boston Metropolitan District bonds and notes as they mature, to the extent that funds sufficient for this purpose are not otherwise available to the MBTA; (2) Commonwealth contract assistance equal to 90% of the debt service on MBTA bonds; and (3) under applicable statutory provisions, the Commonwealth's payment of MBTA's net cost of service (current expenses, including debt service and lease obligations, minus current income). Commonwealth obligations with respect to the MBTA are discussed at "COMMONWEALTH PROGRAMS AND SERVICES -- MBTA and Regional Transit Authorities". As of January 1, 1995, the MBTA had \$2.2 billion of outstanding long term bonds (exclusive of bonds that have been refunded), and \$365 million of outstanding short term notes. The MBTA expects to issue \$165 million of short-term notes on March 1, 1995 for the purpose of refinancing a portion of its outstanding notes maturing on such date. The MBTA also has established a commercial paper program in order to issue bond anticipation notes for capital purposes. Up to \$200 million of debt under two series of notes may be issued under this program. The notes are general obligations of the MBTA and ninety percent (90%) of the interest thereon is payable from contract assistance to be provided by the Commonwealth. As of February 22, 1995, \$139.0 million of commercial paper notes were outstanding under this program. As of January 1, 1995, the Boston Metropolitan District had approximately \$47.7 million of outstanding long term bonds. See "Overview; Outstanding Bond and Note Liabilities" and "Trend of Long Term Bond Liabilities".

Regional Transit Authorities and Steamship Authority. There are 15 regional transit authorities organized in various areas of the state. The Steamship Authority operates passenger ferries to Martha's Vineyard and Nantucket. Each of these entities issues its own bonds and notes. Commonwealth support of the bonds and notes of the regional transit authorities and the Steamship Authority includes (1) a Commonwealth guarantee pursuant to statutory provisions requiring the Commonwealth to provide each of these entities with funds sufficient to meet the principal of and interest on their bonds and notes as they mature to the extent that funds sufficient for this purpose are not otherwise available to such entity; (2) the Commonwealth's payment, under applicable statutory provisions, of the net cost of service of the regional transit authorities and the Steamship Authority (current expenses, including debt service, minus current income); and (3) with respect to the regional transit authorities, Commonwealth contract assistance to such authorities in amounts equal to 50% of their net cost of service. Commonwealth obligations with respect to the regional transit authorities are discussed at "COMMONWEALTH PROGRAMS AND SERVICES -- MBTA and Regional Transit Authorities". The Steamship Authority is currently self-supporting, requiring no net cost of service or contract assistance payments. As of January 1, 1995, the regional transit authorities had \$30,000 of outstanding long term bonds and \$67.4 million of outstanding short term notes. As of January 1, 1995, the Steamship Authority had \$34.3 million of outstanding long-term bonds and \$2.9 million of outstanding short-term notes. One regional transit authority currently expects to issue \$9,000,000 of certificates of participation in February, 1995 in order to finance the leasing of a number of buses. The obligations of the regional transit authority will be subject to annual appropriation. See "Overview; Outstanding Bond and Note Liabilities".

Massachusetts Convention Center Authority. The MCCA was created for the purpose of promoting the economic development of the Commonwealth by the development and operation of a major convention center in Boston and is authorized to issue bonds for any of its corporate purposes. Such bonds are fully secured by contract assistance payments by the Commonwealth, which payments are limited by statute to an amount equal to the annual

debt service on \$200 million of bonds outstanding at any one time. The assistance contract is a general obligation of the Commonwealth for which its full faith and credit are pledged. As of January 1, 1995, the MCCA had \$173.7 million of outstanding long term bonds on which the Commonwealth will pay approximately \$24.6 million in debt service contract assistance payments in fiscal 1995. See "Overview; *Outstanding Bond and Note Liabilities*" and "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Overview of Capital Spending Process and Controls; *Five Year Capital Spending Plan*."

Massachusetts Government Land Bank. The Land Bank assists in the development of state and federal surplus property for private use, and in the development of substandard, blighted or decadent open areas in the Commonwealth. The Land Bank has direct borrowing power and the Commonwealth is required to provide contract assistance payments for debt service obligations of the Land Bank of up to \$6 million per fiscal year for a period of twelve fiscal years, of which five years remain. Like the MCCA assistance contract, the contract with the Land Bank is a general obligation of the Commonwealth for which the full faith and credit of the Commonwealth are pledged. As of January 1, 1995, the Land Bank had \$25,170,000 of bonds outstanding, which are secured by the contract assistance from the Commonwealth, as described above. See "Overview; *Outstanding Bond and Note Liabilities*".

Commonwealth Guaranteed Debt

Local Housing Authorities. Local housing authorities have been created by legislation in each city and town in the Commonwealth and have the power, among other things, to undertake projects to provide housing for persons of low income. Prior to a readjustment of their financing methods effected by Chapter 4 of the Acts of 1976 ("Chapter 4"), such housing authorities financed housing projects by issuing Commonwealth guaranteed bonds and notes. The financing has been taken over by the Commonwealth, which makes grants to housing authorities to pay the costs of housing projects. Housing authorities can no longer make arrangements for the permanent financing of projects by Commonwealth guaranteed borrowing. Chapter 4 and certain bond covenants of the Commonwealth place limitations on the amount and period of guaranteed temporary notes which may be issued by housing authorities to finance planning and construction phases of housing projects. Chapter 4 also provides that no guaranteed notes may be issued unless a contract for grants which may be used to retire such notes is in effect. Housing authorities may issue revenue bonds to finance privately owned housing developments under a program authorized by the Legislature in 1984 (the "TELLER program"), but may not pledge their credit to secure such bonds. As of January 1, 1995, local housing authorities had no outstanding long term bonds guaranteed by the Commonwealth. See "Overview; *Outstanding Bond and Note Liabilities*".

Higher Education Building Authorities. Four higher education building authorities, created to assist institutions of public higher education in the Commonwealth, may issue bonds which are guaranteed as to their principal and interest by the Commonwealth. The guarantee is a general obligation of the Commonwealth for which its full faith and credit are pledged. In addition to such guarantee, certain revenues of these authorities, including dormitory rental income and student union fees, are pledged to their respective debt service requirements. While revenues thus far have been sufficient to meet debt service requirements, they have not been sufficient in all cases to pay operating costs. In such cases, the operating costs have been met by Commonwealth appropriations. As of January 1, 1995, the higher education building authorities had \$234.6 million of outstanding long term bonds guaranteed by the Commonwealth. On February 8, 1995, the Southeastern Massachusetts University Building Authority sold \$35,715,000 of bonds (guaranteed by the Commonwealth) for the purpose of advance refunding approximately \$35 million of outstanding bonds. The University of Lowell Building Authority currently expects to issue approximately \$24 million of bonds to be guaranteed by the Commonwealth in March, 1995, for the purpose of refunding approximately \$20.7 million of outstanding Commonwealth guaranteed bonds and to finance certain capital expenditures. See "Overview; *Outstanding Bond and Note Liabilities*".

Indirect Obligations

Massachusetts Housing Finance Agency and Massachusetts Home Mortgage Finance Agency. The legislation establishing the MHFA limits the outstanding indebtedness of MHFA issued for the purpose, among others, of financing certain multi-family housing projects within the Commonwealth to \$2.7 billion of bonds or notes (excluding certain notes issued for construction financing) and limits the proportion of such indebtedness that may be evidenced by notes rather than bonds.

MHFA also provides mortgage loan financing with respect to certain single-family residences within the Commonwealth. The acts establishing MHFA and the Massachusetts Home Mortgage Finance Agency ("MHMFA") place a \$1.7 billion aggregate limit on outstanding indebtedness of both MHFA and MHMFA to finance single-family housing. MHMFA no longer has any bonds outstanding and the issuance of additional debt of MHMFA is not currently contemplated.

Bonds and notes issued by MHFA are solely the obligations of MHFA, payable directly or indirectly from, and secured by a pledge of, revenues derived from MHFA's mortgage on or other interest in the financed housing. MHFA's enabling legislation also permits, and certain resolutions authorizing the respective issuance of multi-family and single-family housing bonds to date have required, the creation of a capital reserve fund in connection with the issuance of such bonds. With respect to multi-family housing bonds, any such capital reserve fund must be in an amount at least equal to the maximum annual debt service in any succeeding calendar year on all outstanding bonds secured by such capital reserve fund, including the bonds then being issued. With respect to single family housing bonds, any such fund must be maintained in an amount not less than one-quarter of the maximum amount of interest becoming due in the current or any succeeding fiscal year of the agency and not greater than the maximum amount of debt service becoming due in the current or any succeeding fiscal year on all outstanding bonds which are secured by such capital reserve fund. Upon certification by the chairman of MHFA to the Governor of any amount necessary to restore a capital reserve fund to the above-described requirement, the Legislature may, but is not legally bound to, make an appropriation in such amount. No such appropriation has been necessary to date.

As of January 1, 1995, multi-family obligations of the MHFA totaled approximately \$2.3 billion (of which approximately \$700 million were secured by capital reserve funds) and single-family obligations of the MHFA totaled approximately \$1.3 billion (of which approximately \$47 million were secured by capital reserve funds). As of such date the capital reserve funds were maintained at the required levels without Commonwealth appropriations and no payments from such funds have been necessary. Authorized but unissued amounts as of such date were approximately \$429 million for multi-family bonds and approximately \$410 million for single-family bonds.

HEFA Community Colleges Program Bonds. The Massachusetts Health and Educational Facilities Authority ("HEFA") issued, in January 1992, \$17,390,000 of its Revenue Bonds, Community Colleges Program Issue, Series A (the "Community Colleges Bonds") in order to fund loans to two of the Commonwealth's community colleges. The primary security for the Community Colleges Bonds are fees, rents, rates and other charges to students and other users of the projects financed. As additional security for the Community Colleges Bonds, the Commonwealth, acting through the Higher Education Coordinating Council ("HECC"), entered into a Contract for Financial Assistance, Maintenance and Services with HEFA. Pursuant to this contract, HECC agrees to provide financial assistance, from moneys legally available to it, if the revenues collected on behalf of HEFA are insufficient to pay debt service on the Community Colleges Bonds. Pursuant to the contract, the financial assistance will be provided solely from funds otherwise appropriated to HECC in the Commonwealth's operating budget. The financial assistance does not constitute either a general obligation, or a so-called "moral obligation", of the Commonwealth, as the Commonwealth is not obligated to continue to appropriate moneys to HECC, and the credit of the Commonwealth is not pledged to the Community Colleges Bonds.

Plymouth County Certificates of Participation. In May 1992 the County of Plymouth, Massachusetts ("Plymouth County") caused to be issued \$110,535,000 of certificates of participation (the "Plymouth COPs") to finance the construction of the new 1,140 bed Plymouth County Correctional Facility. The Commonwealth, acting through the Executive Office of Public Safety and the Department of Correction, entered into a Memorandum of Agreement ("MOA") with Plymouth County, under which the Commonwealth is obligated to pay for the availability of 380 beds of the facility, regardless of whether 380 state prisoners are housed therein. The amounts payable by the Commonwealth under the MOA will at least equal the debt service on the Plymouth COPs, but are subject to appropriation of said amounts by the Legislature to the Executive Office of Public Safety. The obligation of the Commonwealth under the MOA does not constitute a general obligation or a pledge of the credit of the Commonwealth.

City of Chelsea Commonwealth Lease Revenue Bonds. In November, 1993, the City of Chelsea, Massachusetts, acting through the Industrial Development Financing Authority of the City of Chelsea (the "City"), issued \$95,750,000 aggregate principal amount of City of Chelsea, Commonwealth of Massachusetts Lease Revenue Bonds (Massachusetts Information Technology Center Project - 1993 Issue) (the "Chelsea Bonds"). The proceeds

of the Chelsea Bonds were loaned to the Massachusetts Industrial Finance Agency ("MIFA") and applied to the cost of the acquisition, construction and equipping of a 419,000 gross square foot office building to be known as the Massachusetts Information Technology Center, which will be used as a tax processing facility of the Department of Revenue ("DOR") of the Commonwealth and a data processing information system center for DOR and certain other departments and agencies of the Commonwealth. The Chelsea Bonds bear interest at a variable rate and MIFA entered into an interest rate swap agreement with respect to the full amount of the Chelsea Bonds pursuant to which MIFA will receive variable rate payments equal to the interest due on the Chelsea Bonds and be obligated to make fixed rate payments in exchange therefor. Simultaneously with the issuance of the Chelsea Bonds, the Commonwealth entered into a 30-year lease with MIFA which provides for the payment of debt service on the Chelsea Bonds and other expenses and costs associated with the Project. The obligations of the Commonwealth do not constitute a general obligation or a pledge of the full faith and credit of the Commonwealth and are subject to annual appropriation by the Legislature. The Chelsea Bonds are limited obligations of the City and do not constitute a debt or pledge of the faith and credit of the City.

OTHER COMMONWEALTH LIABILITIES

Retirement Systems and Pension Benefits

Commonwealth Responsibility for Pension Costs. The Commonwealth is responsible for the payment of pension benefits for Commonwealth employees (members of the state employees' retirement system) and for teachers of the cities, towns and regional school districts throughout the state (members of the teachers retirement system, except for teachers in the Boston public schools who are members of the State-Boston retirement system but whose pensions are also the responsibility of the Commonwealth). Employees of certain independent authorities and agencies, such as the MWRA, and of counties, cities and towns (other than teachers) are covered by 104 separate retirement systems. However, the Commonwealth assumed responsibility, beginning in fiscal 1982, for payment of cost-of-living adjustments for the 104 local retirement systems, in accordance with the provisions of Proposition 2 1/2. The members of these state and local retirement systems do not participate in the federal Social Security System.

Pension Reserves and Employee Contributions. The state employees' and teachers' retirement systems are partially funded by employee contributions of regular compensation -- 5% for those hired before January 1, 1975, 7% for those hired from January 1, 1975 through December 31, 1983 and 8% for those hired on or after January 1, 1984, plus an additional 2% of compensation above \$30,000 per year for those hired on or after January 1, 1979.

The systems were originally established as "pay-as-you-go" systems, meaning that amounts were appropriated each year to pay current benefits, and no provision was made to fund currently the future liabilities already incurred. In fiscal 1978 the Commonwealth began to address the unfunded liabilities of the two state systems by making appropriations to pension reserves. Prior to the establishment of the pension funding program described below, the Commonwealth appropriated approximately \$680 million to the pension reserves during the mid-1980's, in addition to the pay-as-you-go pension costs during those years. As of December 31, 1994 the state's pension reserves, now administered by the Pension Reserves Investment Management Board, had grown to approximately \$4.925 billion. Under current law the pension reserves receive monies from excess earnings (i.e., earnings above the level credited to member accounts) in the retirement systems, withdrawal penalties on members leaving government employment with less than ten years of service and any amounts from the funding schedule described below in excess of pension payments.

Pension Funding Plan. Comprehensive pension funding legislation approved in January 1988 requires the Commonwealth to fund future pension liabilities currently and to amortize the Commonwealth's accumulated unfunded liabilities over 40 years. The legislation requires the Secretary for Administration and Finance to prepare a funding schedule which will provide for the normal cost of Commonwealth benefits (normal cost being that portion of the actuarial present value of pension benefits which is allocated to a valuation year by an actuarial cost method) and to amortize over 40 years, beginning July 1, 1988, the unfunded actuarial liability of the Commonwealth for its pension obligations. The schedule must include the Commonwealth's liability for future payments of cost of living adjustments to local systems. The funding schedule is to be updated every three years on the basis of new actuarial valuation reports prepared under the direction of the Secretary for Administration and Finance. The

Secretary is also required to conduct experience investigations every six years.

Funding schedules are required to be filed with the Legislature triennially on March 1 and are subject to legislative disapproval. The current funding schedule, which has been approved by the Legislature, was filed on October 26, 1994. (A different schedule, which was disapproved, had been originally filed on February 28, 1994.) If a schedule is not approved by the Legislature, payments are to be made in accordance with the most recent approved schedule; such payments must, however, at least equal the prior year's payments. The Commonwealth is contractually obligated to the members of the affected retirement systems to make appropriations in accordance with the funding schedule.

The funding schedule must provide for annual payments in each of the ten years ending fiscal 1998 which are at least equal to the total estimated pay-as-you-go pension costs in each such year. The schedule must not provide for any reductions in the pension reserves (as of January 1, 1988 plus growth at the actuarially assumed investment rate) in the first ten years of the schedule. The amortization component in the funding schedule is to grow from year to year by no more than 7.5%. (The current schedule uses a 2.5% annual increase in the amortization component.)

Current Funding Schedule and Actuarial Valuations. The funding schedule currently in effect requires total payments by the Commonwealth over 35 years as shown in the following table.

**Funding Schedule for Unfunded Pension Obligations
(in thousands)**

<u>Fiscal Year</u>	<u>Payments</u>	<u>Fiscal Year</u>	<u>Payments</u>
1995	\$ 889,985	2012	\$2,215,826
1996	927,508	2013	2,300,966
1997	965,903	2014	2,389,980
1998	1,004,764	2015	2,483,069
1999	1,043,109	2016	2,580,443
2000	1,091,988	2017	2,682,327
2001	1,142,918	2018	2,788,953
2002	1,196,000	2019	2,900,572
2003	1,251,339	2020	3,017,445
2004	1,309,046	2021	3,139,850
2005	1,369,238	2022	3,268,079
2006	1,432,039	2023	3,402,440
2007	1,519,931	2024	3,543,261
2008	1,588,348	2025	3,690,887
2009	1,634,696	2026	3,845,681
2010	2,056,423	2027	4,008,029
2011	2,134,372	2028	4,178,338
		2029	2,379,789

SOURCE: Division of Public Employee Retirement Administration.

The current funding schedule is based on actuarial valuations of the state employees' and teachers' retirement systems and the State-Boston retirement system as of January 1, 1993 and on a review of selected local systems for purposes of determining cost of living allowance costs. The unfunded actuarial accrued liability, as of January 1, 1993, relative to the two state systems, to Boston teachers and to cost-of-living allowances for local systems is reported in the schedule to be approximately \$7.445 billion, \$372.6 million and \$1.833 billion, respectively, for a total unfunded actuarial liability of \$9.651 billion. Such valuations are based on actuarial assumptions described in the current schedule, including future investment earnings at the rate of 8% per year, annual salary increases at the rate of 6% and annual cost-of-living increases for pensioners at the rate of 3%. "Actuarial accrued liability," as used above, is the estimated present value of all benefits to be paid to existing pensioners and current employees less the present value of the future normal costs associated with such employees. The "unfunded" liability is the amount by which the actuarial accrued liability exceeded accumulated assets set aside therefor and represents the present value of the amount that would have to be contributed in the future in addition to normal costs in order for the liability to be fully funded.

As stated above, annual payments under the funding schedule through fiscal 1998 must be at least equal to the total estimated pay-as-you-go benefit cost in such year. As a result of this requirement, the funding requirements for fiscal 1995, 1996, 1997 and 1998 are estimated to be increased to approximately \$959.9 million, \$1.007 billion, \$1.061 billion and \$1.128 billion, respectively. See "INVESTMENT POLICIES" for information regarding the investment policies relating to the Commonwealth's pension funds.

Long Term Operating Leases

In addition to Commonwealth owned buildings and facilities, the Commonwealth leases additional space from private parties. In fiscal 1994, rental expenditures under these operating leases totalled approximately \$86.9 million. Minimum future rental expenditure commitments of the Commonwealth under operating leases in effect at June 30, 1994 are set forth below. These amounts represent expenditure commitments of both budgeted and non-budgeted funds.

Operating Leases June 30, 1994 (in thousands)

<u>Fiscal Year</u>	<u>Operating Leases</u>
1995	\$86,460
1996	66,707
1997	53,430
1998	43,314
1999	28,524
2000 and thereafter	<u>8,224</u>
	<u>\$286,659</u>

SOURCE: Office of the Comptroller.

Long Term Capital Leases and Certificates of Participation

In certain circumstances, the Commonwealth has acquired certain types of capital assets under long term capital leases or through the issuance of certificates of participation ("COPs"). Typically, these arrangements relate to computer and telecommunications equipment, and to motor vehicles.

Long term total principal and interest obligations at June 30, 1994 related to capital leases and COPs are as follows:

Capital Lease and COP Obligations June 30, 1994 (in thousands)

<u>Fiscal Year</u>	<u>Capital Leases</u>	<u>COPs</u>
1995	\$24,355	\$ 2,668
1996	19,464	2,670
1997	14,428	2,671
1998	9,877	2,668
1999	7,196	2,671
2000 and thereafter	<u>6,125</u>	<u>2,673</u>
	<u>\$81,445(1)</u>	<u>\$16,021(1)</u>

SOURCE: Office of the Comptroller.

(1) As of June 30, 1994, the principal amounts of these obligations were \$50,954,000 and \$12,687,000 for capital leases and COPs respectively.

Water Pollution Abatement Trust

The Massachusetts Water Pollution Abatement Trust (the "Trust") was created in 1989 as a public instrumentality of the Commonwealth to implement the Commonwealth's state revolving fund program under Title VI of the federal Clean Water Act. The Trust is authorized to apply for and accept federal grants and associated Commonwealth matching grants to capitalize the revolving fund and to issue debt obligations to fund loans to local governmental units to finance eligible water pollution abatement projects. To date, the Trust has received approximately \$375 million in federal grants and approximately \$75 million in Commonwealth matching grants to capitalize the fund. The Trust has also received additional Commonwealth grants of approximately \$21 million to capitalize a separate revolving fund program for projects which are not eligible under the Clean Water Act. The Trust's enabling legislation authorizes the State Treasurer to issue up to \$122.3 million of Commonwealth general obligation bonds to fund Commonwealth grants to the Trust to capitalize the revolving fund and to finance other costs of the revolving fund program.

Capitalization grants received by the Trust and held in the revolving fund may be applied by the Trust to fund reserves to secure debt obligations issued by the Trust to make loans to local governmental units to finance eligible projects or to directly fund such loans. Obligations issued by the Trust are not a debt of the Commonwealth or any political subdivision thereof but are payable solely from revenues of the Trust including loan repayments payable by loan recipients, investment income from reserves and other moneys of the Trust and, for certain loans, contract assistance payments from the Commonwealth as described below. As of January 1, 1995, the Trust had approximately \$392.8 million of bonds outstanding for such purposes. At such date, approximately \$143.4 million of direct loans from the Trust to local governmental units were also outstanding, of which approximately \$26.7 million were temporary interim loans which are expected to be refinanced from the proceeds of bonds to be issued by the Trust during fiscal year 1995 and approximately \$116.7 million were direct loans to the City of New Bedford which are expected to be refinanced from the proceeds of bonds to be issued during fiscal year 1996.

Under the enabling legislation creating the Trust, each loan made by the Trust is required to provide for debt service subsidies or other financial assistance sufficient to result in the loan being the financial equivalent of a grant to the borrower of between 25% and 90% of the eligible cost of the financed project. Financial assistance sufficient to result in a 25% grant equivalency (or approximately 50% in the case of eligible direct loans) is provided either through the application of investment earnings on Trust reserves or through a fixed below-market interest rate on the loan. To date, financial assistance in excess of 25% (or 50% in the case of direct loans) has been provided through the application of contract assistance payments from the Commonwealth. The Trust's enabling legislation directs the State Treasurer to enter into contract assistance agreements with the Trust for such purpose providing for annual contract assistance payments to the Trust of up to \$20 million in the aggregate in each fiscal year through fiscal year 2025. The contract assistance agreements and the Trust's right to receive payments thereunder may be pledged by the Trust as security for repayment of the Trust's debt obligations.

Legislation was filed by the Governor in October, 1994 to expand the scope of the Trust's loan programs. Among other things, the Governor's bill recommends a \$19 million appropriation to provide additional matching funds for the Trust's revolving fund programs and authorizes the Trust to implement a water treatment facilities loan program. The Governor's bill also mandates that all new loans made by the Trust in fiscal years 1995 and 1996 shall provide for financial assistance sufficient to result in at least a 50% grant equivalency to the borrower and that interest payable after July 1, 1994 on loans made by the Trust prior to that date shall be forgiven so that such loans shall thereafter be equivalent to at least a 50% grant. All financial assistance in excess of 25% would continue to be funded from contract assistance payments from the Commonwealth. However, the amount of contract assistance required to fund the new requirements mandated by the bill would not be limited by the \$20 million annual limit currently included in the Trust's enabling act. Based on the Trust's current expectations of loan demand through fiscal year 1996, annual contract assistance payments may increase to \$30 million to \$40 million under the proposed legislation. The Legislature did not act upon the proposed legislation by the end of the calendar 1994 session and it has been refiled during the calendar 1995 session.

School Building Assistance

The school building assistance program was established in 1948 to promote the planning and construction of school buildings and the establishment of consolidated and regional schools in the Commonwealth. Under this

program, cities, towns, regional school districts and the three counties that maintain agricultural schools can obtain reimbursements from the Commonwealth for a portion of the construction costs (including any interest expense from indebtedness incurred) of approved school projects. With the exception of grants to assist cities, towns and regional school districts in the elimination of racial imbalance, the reimbursement percentage varies by municipality and may range from 50% to 90% of total construction costs. School projects for the purpose of eliminating racial imbalance are eligible for 90% reimbursement. Grants are usually payable over a period of up to 20 years to defray a portion of the debt service on city, town, district or county bonds issued to pay construction costs. Payment is made to cities, towns, regional school districts and counties from amounts annually appropriated for the school building assistance program. The following table shows the amount of the Commonwealth's obligation to pay such grants as of June 30, 1994.

**School Building Assistance Obligations
(in thousands)**

<u>Fiscal Year</u>	Budgeted School Building Assistance Obligations	<u>Fiscal Year</u>	Budgeted School Building Assistance Obligations
1995	\$167,586	2005	106,903
1996	159,107	2006	101,954
1997	152,959	2007	98,231
1998	139,629	2008	93,219
1999	131,304	2009	86,860
2000	127,763	2010	79,545
2001	123,923	2011	65,212
2002	120,238	2012	42,272
2003	117,724	2013	29,777
2004	112,104	2014	14,399
		Total	<u>\$2,070,709</u>

SOURCE: Department of Education, School Facilities Service Bureau.

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 December 31, 1994, the Massachusetts Unemployment Trust Fund had a surplus of \$160 million. The Department of Employment and Training's January 1995 quarterly report indicated that the additional increases in contributions provided by certain 1992 legislation should result in a private contributory account balance of \$362 million in the Unemployment Compensation Trust Fund by December 1995 and rebuild reserves in the system to \$1.4 billion by the end of 1999. See "Exhibit A - Economic Information" under the heading "Employment--Unemployment".

INVESTMENT POLICIES

For information with respect to the investment of Commonwealth funds, see note 4 to the fiscal 1994 statutory basis financial statements attached as Exhibit B and Note 3 to the fiscal 1994 GAAP basis financial statements attached as Exhibit C.

LITIGATION

There are pending in state and federal courts within the Commonwealth and in the Supreme Court of the United States various suits in which the Commonwealth is a party. In the opinion of the Attorney General, no litigation is pending or, to 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.

Commonwealth Programs and Services. From time to time actions are brought against the Commonwealth by the recipients of governmental services, particularly recipients of human services benefits, seeking expanded levels of services and benefits and by the providers of such services challenging the Commonwealth's reimbursement

rates and methodologies. To the extent that such actions result in judgments requiring the Commonwealth to provide expanded services or benefits or pay increased rates, additional operating and capital expenditures might be needed to implement such judgments. In June, 1993, in an action challenging the Commonwealth's funding of public primary and secondary education systems on both federal and state constitutional grounds *Webby v. Dukakis* (Supreme Judicial Court for Suffolk County No. 78-179) (now known as *McDuffy v. Robertson*, Supreme Judicial Court for Suffolk County No. 90-128), the Supreme Judicial Court ruled that the Massachusetts Constitution imposes an enforceable duty on the Commonwealth to provide adequate public education for all children in the Commonwealth and that the Commonwealth is not currently fulfilling this constitutional duty. However, the court also ruled that no present statutory enactment is to be declared unconstitutional. The court further ruled that the Legislature and Governor are to determine the necessary response to satisfy the Commonwealth's constitutional duty, although a single justice of the court may retain jurisdiction to determine whether, within a reasonable time, appropriate legislative action has been taken. It cannot now be determined what action, if any, the plaintiffs in *McDuffy* may take in response to this decision or whether the court will order any further relief.

Massachusetts Hospital Association v. Rate Setting Commission (Suffolk Superior Court No. 89-3215) challenges an element of the Medicaid rate setting methodology for hospitals. On October 12, 1993, the case was settled with the hospital association and most acute hospitals, thereby reducing the Commonwealth's potential liability in the pending case or in related rate appeals to approximately \$10 million.

In *Massachusetts Hospital Association et al. v. Department of Public Welfare et al.* (Suffolk Superior Court No. 90-7116B), the Massachusetts Hospital Association and a group of chronic care hospitals seek an injunction to compel the Department of Public Welfare to pay for Medicaid patients at chronic care hospitals at rates which were set by the Rate Setting Commission but disapproved by the Department of Public Welfare under its statutory authority to veto rates. The defendants were granted summary judgment on all claims, except the hospitals' claim that they paid a 2% increase in fiscal 1991 Medicaid rates over fiscal 1990 rates for inflation in wages and labor costs. The plaintiffs' appeal is under advisement in the Supreme Judicial Court.

In *Massachusetts Hospital Association et al. v. Department of Public Welfare et al.* (Suffolk Superior Court No. 92-4656C) the hospital association and certain chronic care hospitals challenged the adequacy of rates for fiscal year 1992 on the theory that the Rate Setting Commission made inadequate provision for labor cost inflation. The Superior Court denied the plaintiffs' motion for a preliminary injunction and the parties have commenced discovery.

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

In *Hodge et al. v. Gallant* (Suffolk Superior Court No. 93-0290G), plaintiffs allege that the Department of Public Welfare has unlawfully denied personal care attendant services to certain disabled Medicaid recipients. The Superior Court denied plaintiffs' motions for a preliminary injunction and class certification. If plaintiffs were to prevail on their claims and the Commonwealth were required to provide all of the services sought by plaintiffs to all similarly situated persons, a substantial increase in the annual cost to the Commonwealth of these services might eventually be required. The Department of Public Welfare currently estimates this increase to be as much as \$200 million per year.

Environmental Matters. The Commonwealth is engaged in various lawsuits involving environmental and related laws, including an action brought on behalf of the U.S. Environmental Protection Agency alleging violations of the Clean Water Act and seeking to enforce the clean-up of Boston Harbor. *United States v. Metropolitan District Commission* (U.S. District Court C.A. No. 85-0489-MA). See also *Conservation Law Foundation v. Metropolitan District Commission* (U.S. District Court C.A. No. 83-1614-MA). The Massachusetts Water Resources Authority (the "MWRA"), successor in liability to the Metropolitan District Commission, has assumed primary responsibility for developing and implementing a court approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. The MWRA did not meet

the July 1994 court-ordered date for start-up of the first two primary treatment batteries and related facilities, although testing of the major portion of the new facilities has since been substantially completed and the MWRA has begun to introduce flow into the new plant. The MWRA has also experienced significant delays on its two related tunnel projects, due to a number of factors. The MWRA did not meet the December 1994 court-ordered date for completion of the inter-island tunnel, and does not expect to meet the July 1995 date for completion of the outfall tunnel. The MWRA has kept the court apprised of the delays and other aspects of the project through regular court reports. The court has previously recognized some of the problems encountered by the MWRA due to the inherent uncertainties faced by the MWRA in completing a construction project of this magnitude. It has requested the MWRA to continue to report on developments on these matters. The MWRA has projected that the total cost of construction of the wastewater facilities required under the Court's order is approximately \$3.5 billion in current dollars, with approximately \$1.54 billion to be spent on or after July 1, 1994. Under the Clean Water Act, the Commonwealth may be liable for any costs of complying with any judgment in these or any other Clean Water Act cases to the extent the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment.

Taxes and Other Revenues. In *American Trucking Assns. et al. v. Nessen et al.* (Suffolk Superior Court No. 91-7048) plaintiffs challenge two fees imposed on trucks, arguing that they violate the Commerce Clause of the Constitution of the United States. In May, 1993, the Supreme Judicial Court struck down, on Commerce Clause grounds, several fees imposed on interstate motor carriers operating in the Commonwealth. The court remanded the case to the Superior Court to determine the appropriate remedy. The Superior Court has approved the parties' agreement establishing a refund mechanism. The Commonwealth's total liability equals approximately \$30 million, with \$20 million to be paid in fiscal 1995 (which amount has been appropriated) and the remaining \$10 million in fiscal 1996, assuming the appropriation of necessary funds.

Massachusetts Wholesalers of Malt Beverages v. Commonwealth (Suffolk Superior Court No. 90-1523) is a suit brought by associations of bottlers challenging the 1990 amendments to the bottle bill which escheat abandoned deposits to the Commonwealth. Plaintiffs claim a taking; the Commonwealth claims legitimate regulation of abandoned amounts. The case involves about \$22 million annually, from January, 1990 (i.e., approximately \$100 million total) plus certain amounts in deposit transaction funds and claimed interest. In March of 1993, the Supreme Judicial Court upheld the amendments except for the initial funding requirement, which the Court held severable. The Superior Court recently ruled that the Commonwealth is liable for certain amounts (plus interest) as a result of the Supreme Judicial Court's decision. The actual amount will be determined in further proceedings.

In *National Association of Government Employees v. Commonwealth*, Suffolk Superior 93-5509-E, the Superior Court declared that a line item in the Commonwealth's general appropriations act for fiscal 1994 that increased the state employees' percentage share of their group health insurance premiums from 10% to 15% violated the terms of several collective bargaining agreements, and hence was invalid under the contracts clause of the United States Constitution as regards employees covered by the agreements. The Commonwealth budget for fiscal 1995 has a similar line item. On February 9, 1995, the Supreme Judicial Court vacated the Superior Court's decision and declared that the fiscal 1994 line item did not violate the contracts clause. Several other unions have filed a companion suit asserting that the premium increase similarly violated other collective bargaining agreements. *Alliance, AFSCME/SEIU, AFL-CIO, et al. v. Commonwealth, et al.*, Suffolk Superior 94-3438-E. This latter suit is in its initial stages. Prior to the Supreme Judicial Court's decision, the Commonwealth's aggregate liability for all unionized employees was estimated to have been approximately \$32 million.

In addition, there are several tax cases pending which could result in significant refunds if taxpayers prevail. It is the policy of the Attorney General and the Commissioner of Revenue to defend such actions vigorously on behalf of the Commonwealth, and the descriptions that follow are not intended to imply that the Commissioner has conceded any liability whatsoever. In *BayBank, et al. v. Commissioner of Revenue*, the banks challenge the inclusion of income from tax exempt obligations in the measure of the bank excise tax. The Appellate Tax Board issued findings of fact and a report in favor of the Commissioner of Revenue on September 30, 1993. The case is pending in the Supreme Judicial Court. Taking into account all banks and all years at issue (1974 through 1986), there are 142 appeals consolidated in this case. The amount at issue is estimated to be approximately \$1.2 billion, which amount includes interest of approximately \$900 million and amounts involved in other related applications for abatement pending with the Commissioner of Revenue or with the Appellate Tax Board. The Supreme Judicial Court is expected to hear the appeal in March, 1995. S.J.C. Docket No. 6518. Approximately

\$150 million in taxes and interest in the aggregate are at issue in seven other cases pending before the Appellate Tax Board or on appeal to the Appeals Court or the Supreme Judicial Court.

The Commonwealth also appealed an April, 1994, a decision of the Appellate Tax Board which granted abatements to 12 Massachusetts banks in 102 consolidated appeals for tax years from 1984 to 1990. The Appellate Tax Board decision held that the measure of the bank excise tax did not include amounts paid by the banks in excess of face value to acquire federally-exempt bonds. The Commissioner of Revenue contends that these payments do not qualify for any deductions allowable under the Internal Revenue Code and, accordingly, cannot be deducted from gross income subject to the bank excise. The Supreme Judicial Court has granted the banks' application for direct appellate review of the appeal. The expected liability is approximately \$10 million, including similarly-situated banks and tax years after 1990. *Commissioner of Revenue v. BayBank Middlesex, et al., S.J.C. Docket No. 6683.*

Other Fiscal Matters. In *County of Barnstable et al. v. Commonwealth* (Suffolk Superior Court No.90-7439B) twelve Massachusetts counties seek reimbursement from the Commonwealth for the costs of courthouse maintenance on the theory that the state is required to pay them the amount of money necessary to maintain their courthouses at the "constitutional minimum" for the adequate provision of justice. The Supreme Judicial Court denied a request for an injunction to pay the sums sought and has referred the matter to the Superior Court for fact finding. The parties have completed a stipulation of facts with respect to two counties for an agreed upon test year, and the Superior Court has made findings and rulings regarding the ability of those two counties to provide courthouse facilities and services within their available sources of funds in that year. The Superior Court has now developed a record regarding expenditures for each facility in those two counties, and re-transfer to the Supreme Judicial Court was ordered in December, 1994. In early January 1995, the Supreme Judicial Court for Suffolk County reported to the full Supreme Judicial Court certain questions regarding the correctness of the Superior Court's findings and rulings, the process by which the Court will identify the facilities and services necessary to meet the constitutional minimum, and the nature of any remedy that might ultimately be entered.

In *Hayward v. National Information Systems, Inc.* (Norfolk Superior Court No. 92-2361), a lottery player seeks recovery of a \$9 million jackpot allegedly wrongfully denied him by the State Lottery Commission. The player seeks to have that amount trebled under the Commonwealth's Consumer Protection Act. The Superior Court has denied the Commonwealth's motion for summary judgment. A trial date of February 21, 1995 has been set.

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 Information Statement are only summarized, and such summaries do not purport to be complete statements of any of such provisions. Only the actual text of such provisions can be relied upon for completeness and accuracy.

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

The information, estimates and assumptions and expressions of opinion in this Information Statement are subject to change without notice. Neither the delivery of this Information Statement nor any sale made pursuant to this Information 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 Information Statement, except as expressly stated.

CONTINUING DISCLOSURE

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

The Commonwealth prepares its Comprehensive Annual Financial Report ("CAFR") with respect to each fiscal year ending June 30, which become available in January of the following fiscal year. Copies of the CAFR and other financial reports of the Comptroller referenced in this document may be obtained by requesting the same in writing from the Office of the Comptroller, The Commonwealth of Massachusetts, One Ashburton Place, Room 909, Boston, Massachusetts 02108.

AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding this Information Statement or requests for additional information concerning the Commonwealth should be directed to Kenneth Olshansky, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th Floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or Lowell Richards, 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 Information Statement should be directed to Walter J. St. Onge, III, Esq., Palmer & Dodge, One Beacon Street, Boston, Massachusetts 02108, telephone (617) 573-0100.

THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Joseph D. Malone
Joseph D. Malone
Treasurer and Receiver-General

By /s/ Charles D. Baker
Charles D. Baker
Secretary for Administration and Finance

February 22, 1995

ECONOMIC INFORMATION

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

All information is presented on a calendar-year basis unless otherwise indicated. Information is current as of January 13, 1995. Sources of information are indicated in the text or immediately following the charts and tables. Although the Commonwealth considers the sources to be reliable, the Commonwealth has made no independent verification of the information presented herein and does not warrant its accuracy.

OVERVIEW

Population Characteristics. Massachusetts experienced modest population increases between 1980 and 1990. The 1990 United States census count for Massachusetts was 6,016,425 or 4.9 percent more than the 5,737,093 counted in 1980. While the Massachusetts population did not increase significantly between 1989 and 1993, it increased by 0.4 percent between 1993 and 1994. Bureau of the Census estimates for 1994 show the Massachusetts population to be 6,041,123. In contrast, the total United States population increased by approximately 9.8 percent between 1980 and 1990, 3.6 percent between 1990 and 1993, and 1.0 percent between 1993 and 1994. According to the 1990 United States census, the City of Boston experienced a small population increase of 2.0 percent from 562,994 in 1980 to 574,283 in 1990. The Boston-Washington corridor, which includes the states of Massachusetts, Maryland, Delaware, Rhode Island, Connecticut, New York, New Jersey, Pennsylvania, and Virginia, was home to sixty million people in 1992, nearly one quarter of the entire United States population of 255 million.

Personal Income, Consumer Prices, and Poverty. Per capita personal income levels in Massachusetts have been consistently higher than those in the United States since 1970. While the growth in per capita income has slowed and real income levels have even declined in Massachusetts since 1988 (even as real income levels in the United States continued to grow), real income levels in Massachusetts in 1993 remained well above the national average: \$24,475 compared to \$20,781. The growth in levels of average annual pay in Massachusetts has been striking over the last ten years: since 1984, when levels of pay in Massachusetts were roughly equal to those in the United States, pay has grown at a rate two to three percentage points higher than that of the United States. As a result, preliminary data for 1993 show that the average level of pay in Massachusetts was \$30,229 while that in the United States was \$26,362. Some of the differences between Massachusetts and the United States can be explained by the comparatively high cost of living in Massachusetts. Since 1970, the Consumer Price Index (CPI-U) for the Boston Metropolitan area has been higher than that in the United States in every year except 1982. In November 1994, the CPI-U for the Boston Metropolitan area was 156.7 while that for the United States was 149.7; the percentage change from November 1993 was 1.4 percent and 2.7 percent, respectively. In addition to high income levels, Massachusetts has maintained a poverty rate well below the national average. In 1993, 10.7 percent of the Massachusetts population was below the poverty line, while 15.1 percent of the population of the United States fell below the poverty line.

Employment. Total employment levels in Massachusetts, which had declined between 1989 and 1992, grew at a rate of 1.7 percent between 1992 and 1993. The only employment sector which did not grow in 1993 was the manufacturing sector, which has experienced declining employment levels since 1985. The sector employing the greatest number of people in Massachusetts continues to be the services sector, which contributed approximately 33.5 percent of total seasonally adjusted non-agricultural employment in 1993. The unemployment rate in Massachusetts, which was below that of the United States between 1979 and 1989, has been higher than the national average since 1990. In 1993, however, the rate of unemployment in Massachusetts was not considerably higher than that of the United States: 6.9 percent compared to 6.8 percent. In December 1994, the unemployment rate in Massachusetts was 5.7 percent compared with a national unemployment rate of 5.4 percent.

Economic Base and Performance. Massachusetts has a diversified economic base which includes traditional manufacturing, high technology, and service industries. A substantial portion of products produced by these and other sectors is exported. Massachusetts ranked eleventh in the United States with nearly \$12.2 billion in international exports in 1993. Like most other industrial states, Massachusetts has seen a shift in employment from labor-intensive manufacturing industries (e.g., textiles, apparel, shoes, paper products) to technology and service-based industries like computers, biomedical technology, consulting, health care and business services.

Massachusetts is a leader in research and development of biotechnology, biomedical technology, software, robotics, and other high technology products. A large proportion of the Massachusetts total work force is employed in high technology related jobs. Nine of the fourteen Massachusetts companies listed in the 1994 Fortune 500 are engaged in the production of computer equipment, electronic components, or scientific/photographic instruments. Non-manufacturing high technology jobs have continued to increase their share of total employment in the state. The concentration of world-renowned research institutions, as well as a large number of smaller firms, has helped make Massachusetts a national center for high technology industries.

The recession of the late 1980s and early 1990s reversed the good fortunes which the construction industry felt in the mid-1980s. The industry is recovering in the 1990s, however. Housing permits issued in Massachusetts increased by 29.1 percent in 1992 and by 6.7 percent in 1993. This follows a prolonged decline in demand that extended from 1986 to 1991. Relative housing prices in Boston continue to outpace those of the rest of the nation, however. In 1983, the price for a single family home in the Boston Metropolitan area was 18 percent higher than the national average; by 1993, home prices were 61 percent higher than the national average.

The travel and tourism industry represents a significant component of the overall Massachusetts economy. The Massachusetts Office of Travel and Tourism estimates that a total of 31.9 million people visited the Commonwealth in 1993.

Human Resources and Infrastructure. Skilled human capital is the foundation of Massachusetts' economic strength. It provides the basis for a technologically dynamic and industrially diverse regional economy. The Massachusetts population is well-educated relative to the United States population, with 27.2 percent of Massachusetts residents over the age of 25 having received Bachelor's degrees, compared to 20.3 percent of the United States population. In addition, per pupil spending on public primary and secondary education in Massachusetts has been significantly higher than the national average since 1980. Preliminary estimates for the 1993-94 academic year show that Massachusetts spent twenty percent more per pupil than the national average.

The concentration of technical, engineering, managerial, scientific, and other professional skills within the Massachusetts work force is, in part, due to the 120 private and public colleges and universities located

throughout the state. The largest and best known of these institutions include Amherst College, Boston College, Boston University, Clark University, Harvard University, Holy Cross College, Massachusetts Institute of Technology, Mount Holyoke College, Northeastern University, Smith College, Tufts University, the University of Massachusetts, Wellesley College, and Williams College.

Massachusetts is also home to many of the nation's most well-known hospitals and medical institutions, including Massachusetts General, Children's, Beth Israel, and Brigham and Women's Hospitals and the Lahey Clinic. The Massachusetts medical establishment is recognized internationally as a center for health services, medical teaching, and research, attracting patients and health professionals from all over the world. The hospitals and other health care institutions provide a valuable link to the biomedical and biotechnical research and development activities conducted by approximately 178 biotechnology companies located in Massachusetts. Non-hospital employment in medically related research and development continues to grow.

Massachusetts possesses an extensive transportation system and related facilities. The City of Boston is the transportation and commercial center for New England and is the site of both a full-facility seaport and a major international airport. Boston's Logan International Airport is a major contributor to the economy of the greater Boston area, Massachusetts, and the New England region. Based upon the volume of air passengers served, in 1993 Logan Airport ranked first in New England, tenth in the United States, and sixteenth in the world according to the Massachusetts Port Authority ("Massport"). In 1993, Logan Airport served slightly more than 24 million arriving and departing passengers, more than double the number served in 1975. For the same period, Logan Airport ranked thirteenth nationally and twenty fourth in the world in total air cargo volume, handling nearly 700 million pounds of total cargo. Massachusetts also has several deep-water seaports. The Port of Boston handled more than 16 million tons of cargo in 1992 valued at more than \$7.3 billion. The state is also well served by the federal interstate highway system, including interstate routes 84, 90, 91, 93, 95, 295 and 495. The condition of the interstate highway system in Massachusetts is comparable to that of the rest of the United States, with the majority of the roadways rated in "good" or "very good" condition. Rail and trucking systems provide direct overland shipping throughout the United States and Canada.

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

POPULATION CHARACTERISTICS

Massachusetts is a densely populated state with a comparatively large percentage of its residents living in metropolitan areas. According to the 1990 census, the population density of Massachusetts is 767.6 persons per square mile, as compared to 70.3 for the United States as a whole. Among the 50 states, only Rhode Island and New Jersey have a greater population density. Massachusetts ranks third among the states in percentage of residents living in metropolitan areas: 96.2 percent of Massachusetts residents live in metropolitan areas, compared with a national average of 79.4 percent.

The City of Boston, the largest city in New England, has a population of 574,283, according to the 1990 United States Census. The official Metropolitan Statistical Area ("MSA") for Boston, with a 1990 population of 2,870,669, contains close to one-half of the Massachusetts population. The other Massachusetts cities with populations in excess of 100,000 include Worcester (169,759), situated approximately 40 miles west of Boston, Springfield (156,983), located in the Connecticut River Valley in western Massachusetts, and Lowell (103,439), located approximately 30 miles northwest of Boston, along the Merrimack River.

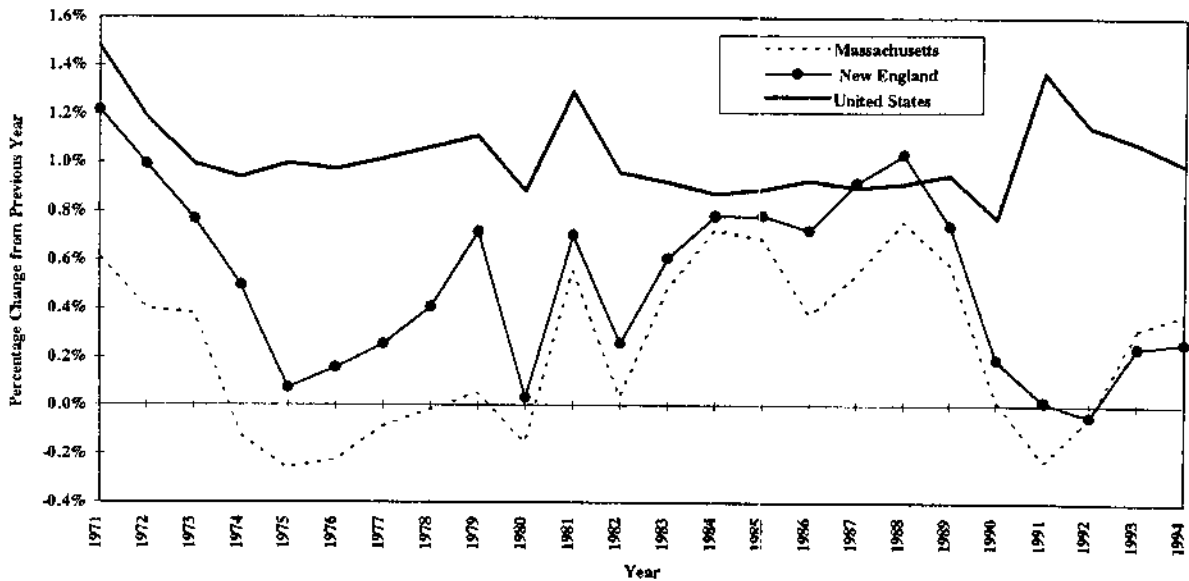
Worcester is the second largest city in New England, though its MSA, extending into Connecticut, is slightly smaller than Springfield's MSA. Its service, trade, and manufacturing industries combine for more

than 70 percent of Worcester's total employment. As a major medical and educational center, the Worcester area is home to 19 patient care facilities, including the University of Massachusetts Medical School, and twelve colleges and universities.

Springfield, the third largest city in the Commonwealth, enjoys a diverse body of corporate employers, the largest of which are the Bay State Medical Center, the Massachusetts Mutual Life Insurance Company, the Milton Bradley Company, and Smith and Wesson. In addition, Springfield is home to four independent colleges.

As the following chart indicates, the percentage change in population in Massachusetts since 1971 has been both lower and more erratic than the change in population for the United States as a whole. While this trend is similar to that experienced by New England, it differs considerably from the steady growth rates for the United States over the same period of time. Between 1989 and 1993, the rate of population growth in Massachusetts has been essentially zero. In 1994, however, the population of Massachusetts grew by 0.4 percent, compared to a 1.0 percent increase for the United States.

Percentage Change in Total Population, 1971-1994



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

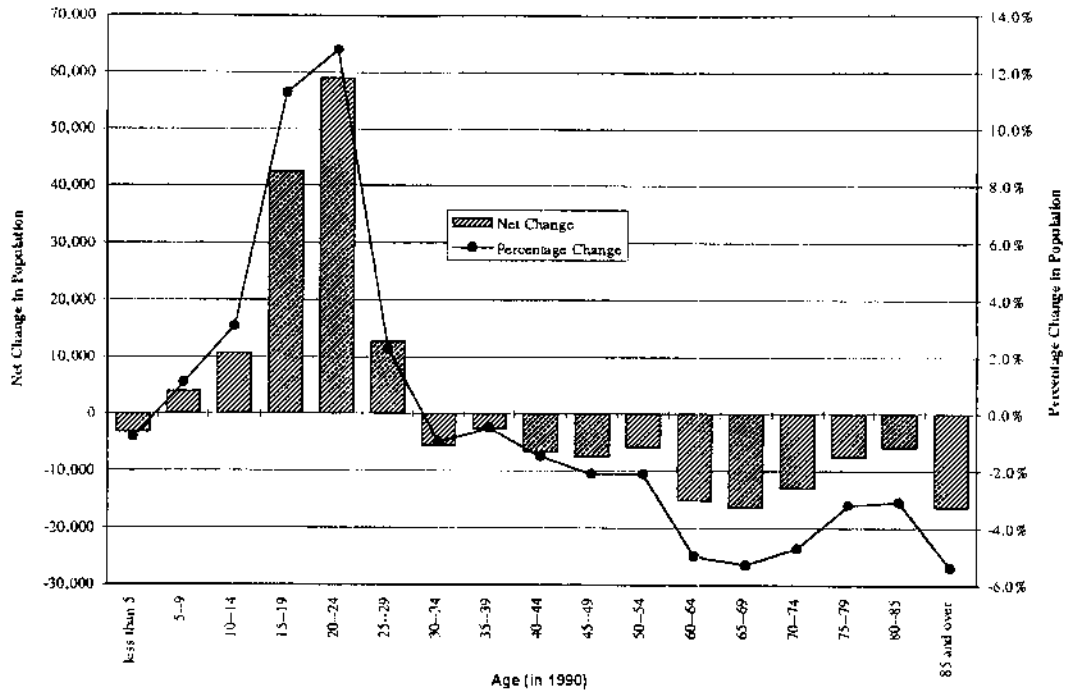
Population, 1970-1994
(in thousands)

Year	Massachusetts		New England		United States	
	Total	Percentage Change	Total	Percentage Change	Total	Percentage Change
1970	5,704		11,735		203,799	
1971	5,739	0.6%	11,878	1.2%	206,818	1.5%
1972	5,762	0.4%	11,996	1.0%	209,275	1.2%
1973	5,784	0.4%	12,088	0.8%	211,349	1.0%
1974	5,777	-0.1%	12,148	0.5%	213,334	0.9%
1975	5,762	-0.3%	12,157	0.1%	215,457	1.0%
1976	5,749	-0.2%	12,176	0.2%	217,554	1.0%
1977	5,744	-0.1%	12,207	0.3%	219,761	1.0%
1978	5,743	0.0%	12,257	0.4%	222,098	1.1%
1979	5,746	0.1%	12,345	0.7%	224,564	1.1%
1980	5,737	-0.2%	12,349	0.0%	226,542	0.9%
1981	5,769	0.6%	12,436	0.7%	229,466	1.3%
1982	5,771	0.0%	12,468	0.3%	231,664	1.0%
1983	5,799	0.5%	12,544	0.6%	233,792	0.9%
1984	5,841	0.7%	12,642	0.8%	235,825	0.9%
1985	5,881	0.7%	12,741	0.8%	237,924	0.9%
1986	5,903	0.4%	12,833	0.7%	240,133	0.9%
1987	5,935	0.5%	12,951	0.9%	242,289	0.9%
1988	5,980	0.8%	13,085	1.0%	244,499	0.9%
1989	6,015	0.6%	13,182	0.7%	246,819	0.9%
1990	6,016	0.0%	13,207	0.2%	248,718	0.8%
1991	6,002	-0.2%	13,209	0.0%	252,131	1.4%
1992	5,999	0.0%	13,203	0.0%	255,028	1.1%
1993	6,018	0.3%	13,235	0.2%	257,783	1.1%
1994	6,041	0.4%	13,270	0.3%	260,341	1.0%

SOURCE: United States Department of Commerce, Bureau of the Census.
1970, 1980, and 1990 estimates are as of April 1; estimates for other years are as of July 1.

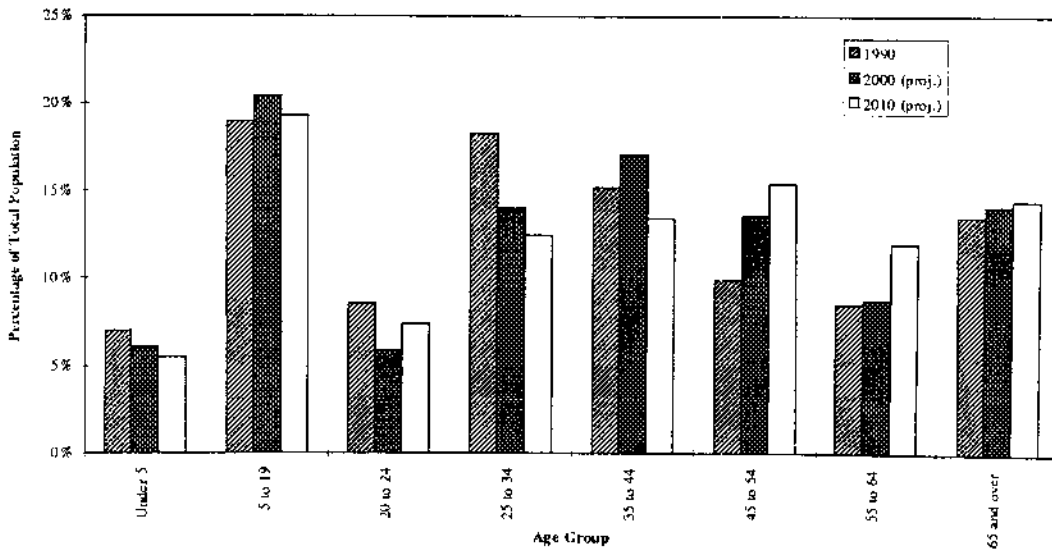
Net migration has not significantly contributed to changes in the Commonwealth's total population during the last decade, although preliminary evidence suggests that out-migration increased during the Commonwealth's recent economic downturn. However, net migration has reduced the age profile of the Massachusetts population. Between 1980 and 1990, considerable increases in the population of younger age groups (10 years to 30 years) coincided with smaller decreases in the population of all age groups representing people over thirty. The following chart shows the net change in Massachusetts population between 1980 and 1990, by five year classifications of ages.

Net Change in Massachusetts Population, by Age, 1980-1990



The next fifteen years are expected to bring about a considerable change in the age distribution of the Massachusetts population. As the following chart shows, the population of Massachusetts is expected to be distributed more heavily in the "45 and over" age groups in 2010 than it was in 1990. At the same time, the percentage of people between the ages of 20 and 44 is expected to decline.

Distribution of Massachusetts Population by Age, 1990-2010



The following table shows the distribution of population by age for Massachusetts in 1990 and the projected distribution of population by age in 2000 and 2010.

Distribution of Massachusetts Population by Age, 1990-2010
(in thousands)

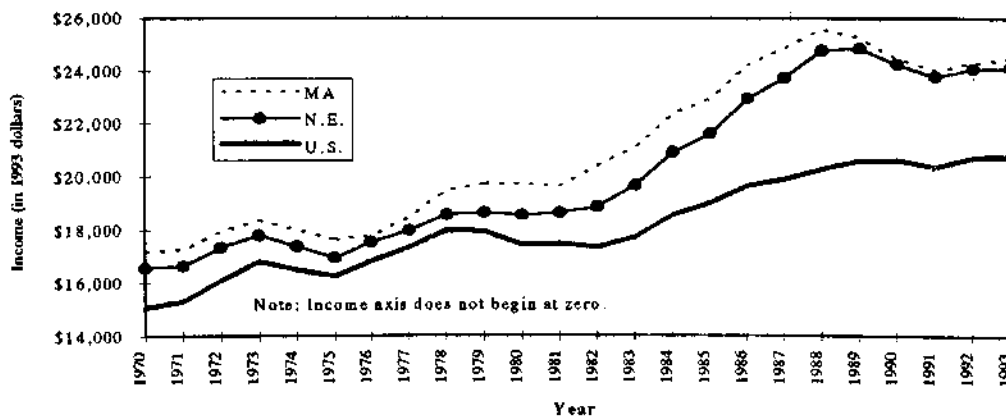
Age	1990 (Actual)		2000 (Projected)		2010 (Projected)	
	Number	Pct. of Total	Number	Pct. of Total	Number	Pct. of Total
Under 5	421	7.0%	362	6.1%	335	5.5%
5 to 19	1140	18.9%	1218	20.5%	1177	19.3%
20 to 24	517	8.6%	351	5.9%	451	7.4%
25 to 34	1099	18.3%	834	14.0%	760	12.5%
35 to 44	914	15.2%	1015	17.1%	820	13.5%
45 to 54	596	9.9%	808	13.6%	940	15.4%
55 to 64	514	8.5%	521	8.8%	732	12.0%
65 and over	815	13.5%	842	14.1%	881	14.5%

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

PERSONAL INCOME, CONSUMER PRICES, AND POVERTY

Personal Income. Since 1970, real and nominal per capita income levels have been consistently higher in Massachusetts than in the United States. Between 1982 and 1988, real income levels in Massachusetts grew at an annual rate higher than that for the United States. But, since 1989, the growth in real income levels in Massachusetts has slowed to a rate below that for real income levels in the United States. In fact, between 1989 and 1991, real per capita income levels in Massachusetts actually declined. Despite two years of positive growth, per capita real income in 1993 in Massachusetts was more than one thousand dollars below 1988 levels: \$24,475 compared to \$25,590. In contrast, real income levels in the United States have grown at a positive rate in nine of the ten years since 1983 and were higher in 1993 than at any time in the previous twenty-two years. Nevertheless, per capita income in Massachusetts remained considerably higher than that in the United States in 1993: \$24,475 versus \$20,781. In addition, per capita personal income in Massachusetts was fifth highest among the fifty states in 1993. The following chart illustrates real per capita personal income in Massachusetts, New England, and the United States since 1970.

Per Capita Personal Income, 1970-1993
(in constant 1993 dollars)



The following table compares per capita personal income in Massachusetts, New England, and the United States for the period 1970-1993.

Per Capita Personal Income, 1970-1993

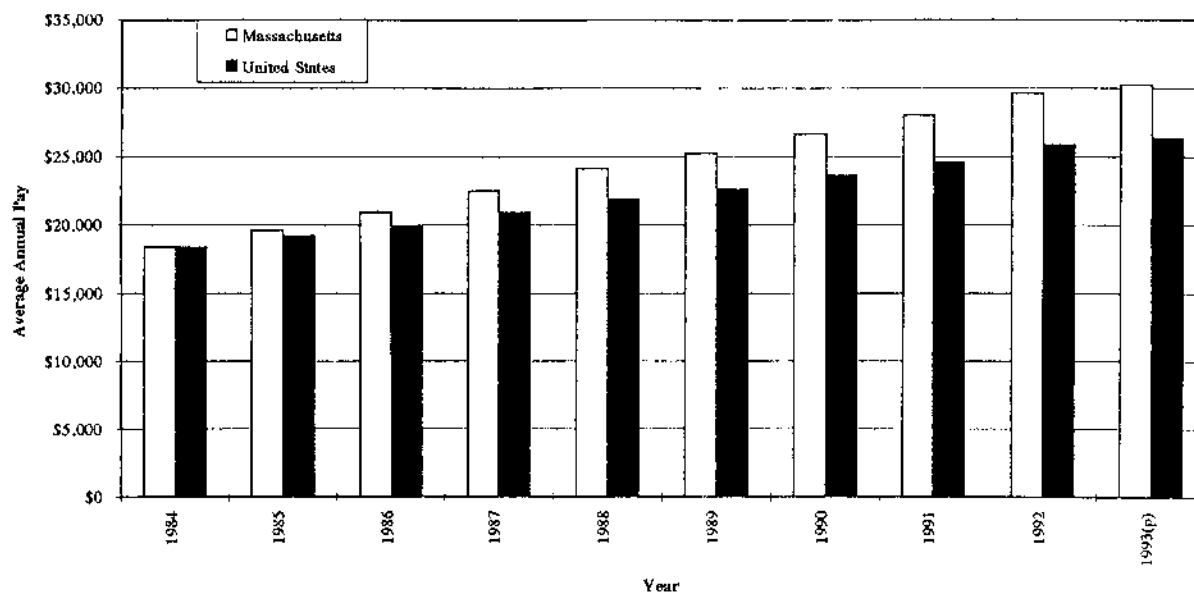
Year	Nominal Income (in current dollars)			Real Income (in 1993 dollars)			Percentage Change in Real Income		
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.
1970	\$4,515	\$4,445	\$4,047	\$17,173	\$16,554	\$15,072			
1971	4,771	4,665	4,294	17,286	16,644	15,321	0.7%	0.5%	1.6%
1972	5,130	5,013	4,659	17,949	17,330	16,106	3.8%	4.1%	5.1%
1973	5,564	5,466	5,168	18,374	17,789	16,819	2.4%	2.7%	4.4%
1974	6,033	5,927	5,628	18,017	17,372	16,496	-1.9%	-2.3%	-1.9%
1975	6,445	6,314	6,045	17,660	16,959	16,236	-2.0%	-2.4%	-1.6%
1976	6,988	6,902	6,629	17,808	17,523	16,835	0.8%	3.4%	3.7%
1977	7,620	7,537	7,267	18,464	17,972	17,328	3.7%	2.5%	2.9%
1978	8,466	8,380	8,117	19,495	18,572	17,989	5.6%	3.3%	3.8%
1979	9,448	9,374	9,017	19,735	18,658	17,947	1.2%	0.5%	-0.2%
1980	10,659	10,582	9,940	19,731	18,557	17,431	0.0%	-0.5%	-2.9%
1981	11,805	11,729	11,009	19,662	18,645	17,501	-0.3%	0.5%	0.4%
1982	12,750	12,604	11,583	20,413	18,873	17,344	3.8%	1.2%	-0.9%
1983	13,776	13,558	12,223	21,106	19,670	17,733	3.4%	4.2%	2.2%
1984	15,326	15,034	13,332	22,382	20,909	18,542	6.0%	6.3%	4.6%
1985	16,423	16,113	14,155	22,953	21,639	19,009	2.6%	3.5%	2.5%
1986	17,796	17,418	14,906	24,251	22,964	19,653	5.7%	6.1%	3.4%
1987	19,066	18,670	15,638	24,895	23,748	19,892	2.7%	3.4%	1.2%
1988	20,787	20,276	16,610	25,590	24,767	20,289	2.8%	4.3%	2.0%
1989	21,688	21,325	17,690	25,256	24,851	20,615	-1.3%	0.3%	1.6%
1990	22,248	21,935	18,667	24,490	24,251	20,638	-3.0%	-2.4%	0.1%
1991	22,796	22,421	19,199	24,038	23,787	20,369	-1.8%	-1.9%	-1.3%
1992	23,625	23,364	20,131	24,309	24,063	20,734	1.1%	1.2%	1.8%
1993	24,475	24,141	20,781	24,475	24,141	20,781	0.7%	0.3%	0.2%

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

Notes: Estimated population as of April 1 of that year. Massachusetts real income is calculated using Boston CPI-U data. New England and United States real income are calculated using national CPI-U data.

Although the growth in per capita personal income has fluctuated, annual pay has grown steadily in Massachusetts over the past nine years. Average annual pay is computed by dividing total annual payrolls of employees covered by Unemployment Insurance programs by the average monthly number of these employees. Data are reported by employers covered under the Unemployment Insurance programs. While levels of annual pay were nearly equal in Massachusetts and the United States in 1984, the rate of growth in annual pay has been consistently higher in Massachusetts than in the United States in the last nine years. As a result, preliminary estimates show that the level of annual pay in Massachusetts in 1993 was fifteen percent higher than the national average: \$30,229 as compared to \$26,362.

Average Annual Pay, 1984-1993
(in current dollars)



Average Annual Pay, 1984-1993
(in current dollars)

Year	Annual Pay			Percentage Change	
	Massachusetts	United States	Ratio (MA/U.S.)	Massachusetts	United States
1984	\$18,414	\$18,353	1.00		
1985	\$19,627	\$19,189	1.02	6.6%	4.6%
1986	\$20,925	\$19,966	1.05	6.6%	4.0%
1987	\$22,486	\$20,857	1.08	7.5%	4.5%
1988	\$24,143	\$21,872	1.10	7.4%	4.9%
1989	\$25,233	\$22,567	1.12	4.5%	3.2%
1990	\$26,699	\$23,602	1.13	5.8%	4.6%
1991	\$28,041	\$24,578	1.14	5.0%	4.1%
1992	\$29,664	\$25,903	1.15	5.8%	5.4%
1993(p)	\$30,229	\$26,362	1.15	1.9%	1.8%

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

(p) = preliminary estimates.

Consumer Prices. Higher income levels in Massachusetts relative to the rest of the United States are offset to some extent by the higher cost of living in Massachusetts. The following table presents consumer price trends for the Boston metropolitan area and the United States for the period between 1970 and November 1994. Data for each year indicate the Consumer Price Index for all urban consumers and the percentage change in the Consumer Price Index for all urban consumers from the previous year. The latest available data for November 1994 show that the Consumer Price Index of the Boston metropolitan area grew at a rate of 1.4 percent from November 1993; in the United States, growth for the comparable period was 2.7 percent.

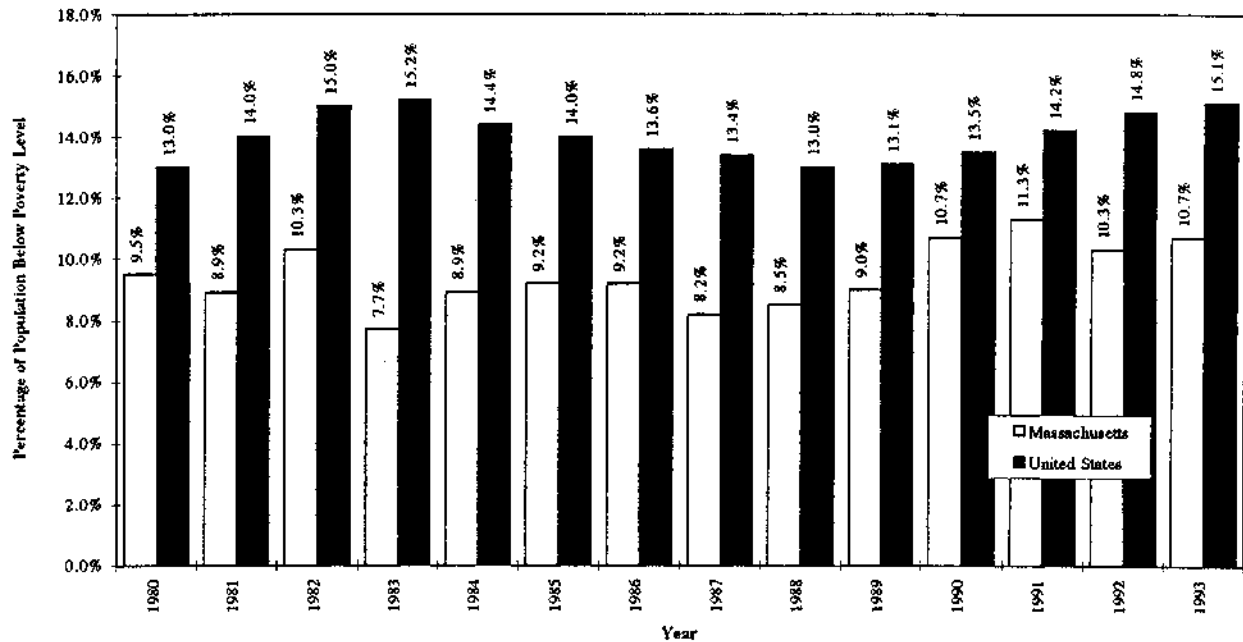
Consumer Price Index for all Urban Consumers (CPI-U), 1970-1994
(1982-1984=100)

<i>Year</i>	<i>CPI-U</i>		<i>Ratio (Boston/U.S.)</i>	<i>Pct. Change</i>	
	<i>Boston</i>	<i>U.S.</i>		<i>Boston</i>	<i>U.S.</i>
1970	40.2	38.8	103.6%		
1971	42.2	40.5	104.2%	5.0%	4.4%
1972	43.7	41.8	104.5%	3.6%	3.2%
1973	46.3	44.4	104.3%	5.9%	6.2%
1974	51.2	49.3	103.9%	10.6%	11.0%
1975	55.8	53.8	103.7%	9.0%	9.1%
1976	60.0	56.9	105.4%	7.5%	5.8%
1977	63.1	60.6	104.1%	5.2%	6.5%
1978	66.4	65.2	101.8%	5.2%	7.6%
1979	73.2	72.6	100.8%	10.2%	11.3%
1980	82.6	82.4	100.2%	12.8%	13.5%
1981	91.8	90.9	101.0%	11.1%	10.3%
1982	95.5	96.5	99.0%	4.0%	6.2%
1983	99.8	99.6	100.2%	4.5%	3.2%
1984	104.7	103.9	100.8%	4.9%	4.3%
1985	109.4	107.6	101.7%	4.5%	3.6%
1986	112.2	109.6	102.4%	2.6%	1.9%
1987	117.1	113.6	103.1%	4.4%	3.6%
1988	124.2	118.3	105.0%	6.1%	4.1%
1989	131.3	124.0	105.9%	5.7%	4.8%
1990	138.9	130.7	106.3%	5.8%	5.4%
1991	145.0	136.2	106.5%	4.4%	4.2%
1992	148.6	140.3	105.9%	2.5%	3.0%
1993	152.9	144.5	105.8%	2.9%	3.0%
Nov., 1993	154.5	145.8	106.0%		
Nov., 1994	156.7	149.7	104.7%	1.4%	2.7%

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

Poverty. The Massachusetts poverty rate is significantly below the national average. Since 1980, the percentage of the Massachusetts population below the poverty line has varied between 7.7 percent and 11.3 percent. During the same time, the national poverty rate varied between 13.0 percent and 15.2 percent. In 1993, the poverty rate in Massachusetts was 10.7 percent while the poverty rate in the United States was 15.1 percent. Since 1980, the ratio of the Massachusetts rate of poverty to the United States rate of poverty has varied from a low of 0.51 in 1983 to a high of 0.80 in 1991; the ratio in 1993 was 0.71. These official poverty statistics are not adjusted for regional differences in the cost of living. The following chart illustrates the lower poverty rates in Massachusetts compared with the national average from 1980 through 1993.

Poverty Rate, 1980-1993

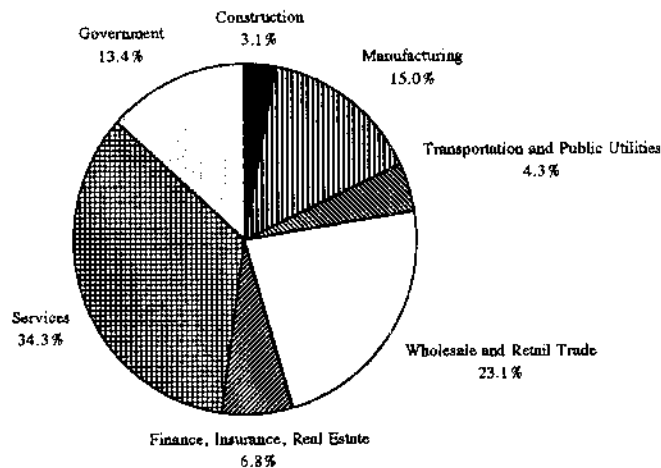


SOURCE: United States Department of Commerce, Bureau of the Census.

EMPLOYMENT

Employment by Industry. The Massachusetts services sector, with 34.3 percent of the non-agricultural work force in November 1994, is the largest employment sector in the Massachusetts economy, followed by wholesale and retail trade (23.1 percent), manufacturing (15.0 percent), and government employment (13.4 percent). The following chart shows the distribution of non-agricultural employment by industry in Massachusetts for November 1994 (data are not seasonally adjusted):

Massachusetts Non-Agricultural Employment by Industry, November 1994



During the economic downturn that ended in 1992, the construction, manufacturing, and trade sectors experienced the greatest decreases, with more modest declines taking place in the government, finance, insurance and real estate ("FIRE"), and services sectors over the same period. The most recent yearly figures, however, show that employment levels increased in all these sectors except manufacturing in 1993, and it is expected that the Central Artery/Tunnel Project and the Boston Harbor Cleanup will further contribute to the growth in employment levels in the construction sector. The only employment sector that did not grow in 1993 was the manufacturing sector, which has experienced employment declines since 1985. All other employment sectors experienced various degrees of growth in 1993, with the construction and services sectors growing most rapidly at rates of 9.9 percent and 4.2 percent, respectively. Total non-agricultural employment increased by 1.7 percent from 2.795 million to 2.841 million between 1992 and 1993.

The following table demonstrates the changes in employment by sector from 1980 through 1993.

Massachusetts Non-Agricultural Employment by Industry, 1980-1993
(in thousands)

Year	Construction		Manufacturing		Transportation and Public Utilities		Wholesale and Retail Trade		Finance, Insurance, Real Estate		Services		Government		Total Employment	
	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change
1980	77.4		673.3		121.6		576.6		159.0		634.0		412.3		2634.3	
1981	79.6	2.8%	668.0	-0.8%	120.1	-1.2%	581.3	0.8%	164.8	3.6%	663.5	4.7%	394.6	4.3%	2671.8	0.7%
1982	78.4	-1.5%	636.5	-4.7%	120.0	-0.1%	579.2	-0.4%	168.7	2.4%	683.5	3.0%	374.7	-5.0%	2642.0	-1.1%
1983	82.6	5.4%	629.0	-1.2%	118.2	-1.5%	612.7	5.8%	171.8	1.8%	705.8	3.3%	375.4	0.2%	2696.5	2.1%
1984	96.4	16.7%	667.6	6.1%	123.3	4.3%	659.0	7.6%	179.0	4.2%	754.0	6.8%	375.4	0.0%	2855.8	5.9%
1985	109.4	13.5%	649.7	-2.7%	125.4	1.7%	684.1	3.8%	188.1	5.1%	786.5	4.3%	385.3	2.6%	2930.0	2.6%
1986	123.2	12.6%	614.4	-5.4%	125.9	0.4%	709.7	3.7%	202.6	7.7%	818.4	4.1%	393.0	2.0%	2988.8	2.0%
1987	137.7	11.8%	599.1	-2.5%	131.0	4.1%	723.4	1.9%	217.9	7.6%	853.9	4.3%	401.2	2.1%	3065.8	2.6%
1988	142.1	3.2%	584.7	-2.4%	133.6	2.0%	739.4	2.2%	221.5	1.7%	896.6	5.0%	411.3	2.5%	3130.8	2.1%
1989	126.8	-10.8%	561.1	-4.0%	128.3	-4.0%	740.5	0.1%	217.3	-1.9%	924.1	3.1%	408.8	-0.6%	3108.6	-0.7%
1990	101.1	-20.3%	521.3	-7.1%	129.9	1.2%	700.1	-5.5%	213.3	-1.8%	915.7	-0.9%	402.2	-1.6%	2984.8	-4.0%
1991	78.8	-22.1%	485.0	-7.0%	123.4	-5.0%	650.6	-7.1%	201.8	-5.4%	890.5	-2.8%	389.9	-3.1%	2821.2	-5.5%
1992	73.6	-6.6%	465.7	-4.0%	121.4	-1.6%	640.5	-1.6%	196.7	-2.5%	913.5	2.6%	382.6	-1.9%	2795.1	-0.9%
1993	80.9	9.9%	453.5	-2.6%	123.5	1.7%	644.0	0.5%	199.3	1.3%	951.8	4.2%	387.4	1.3%	2841.5	1.7%

SOURCE: Massachusetts Department of Employment and Training.

Notes: Annual averages of monthly figures. Data are seasonally adjusted and subject to revision. Sum of the parts may not equal totals due to rounding.

The following table presents changes in non-agricultural employment by sector for November 1993 and November 1994. Total non-agricultural employment increased by 2.4 percent and average weekly manufacturing earnings rose 1.8 percent over that period of time.

Massachusetts Non-Agricultural Employment by Industry, Nov. 1993-Nov. 1994

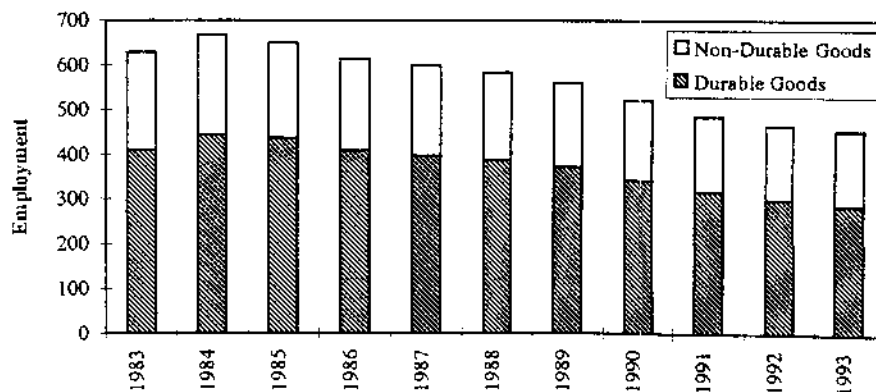
<i>Employment Sector</i>	<i>Nov. 1993</i>	<i>Pct. of Total</i>	<i>Nov. 1994</i>	<i>Pct. of Total</i>	<i>Pct. Change 1993-1994</i>
Construction	89.8	3.1%	92.2	3.1%	2.7%
Manufacturing	451.1	15.5%	447.3	15.0%	-0.8%
Transportation and Public Utilities	126.5	4.4%	127.3	4.3%	0.6%
Wholesale and Retail Trade	663.1	22.8%	686.4	23.1%	3.5%
Finance, Insurance, Real Estate	199.8	6.9%	201.1	6.8%	0.7%
Services	980.0	33.7%	1,021.4	34.3%	4.2%
Government	393.9	13.6%	397.9	13.4%	1.0%
Total Employment	2905.5	100.0%	2974.8	100.0%	2.4%
Average Weekly Manufacturing Earnings	\$518.34		\$527.90		1.8%

SOURCE: Massachusetts Department of Employment and Training.

Notes: Figures are preliminary and subject to revision. Sum of the parts may not equal totals due to rounding. Figures are not seasonally adjusted.

Manufacturing Employment. Like many industrial states, Massachusetts has seen a steady diminution of its manufacturing jobs base over the last decade. Total employment in the manufacturing sector has fallen each year since 1984. Between 1992 and 1993, manufacturing employment declined 2.6 percent, from 465,700 to 453,500. However, with the end of the recession and the beginning of recovery in 1992, the rate of overall decline has slowed significantly, from over 7 percent in both 1990 and 1991 to 2.6 percent in 1993. Between November 1993 and November 1994, manufacturing employment declined by only 0.8 percent. In 1993, the manufacture of non-durable goods posted its first positive employment gain since 1984. Although high technology manufacturing has been in a slowdown nationally as well as in Massachusetts, it is expected to outperform other types of manufacturing in the long-term. As of November 1994, high technology manufacturing employed 163,300 persons, down 6,400 persons (3.8 percent) from the 169,700 persons employed in this sector in November 1993. The general character of the Massachusetts manufacturing sector continues to show many small and diversified firms. Currently, approximately 80 percent of the manufacturing firms in Massachusetts employ fewer than 50 people.

Manufacturing Employment in Massachusetts, 1983-1993
(in thousands)



Manufacturing Establishment Employment by Industry in Massachusetts, 1983-1993
(selected industries, in thousands)

	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993
Durable Goods	409.2	443.5	436.0	409.1	398.0	388.1	372.1	342.7	317.0	299.6	286.4
Percentage Change	-1.3%	8.4%	-1.7%	-6.2%	-2.7%	-2.5%	-4.1%	-7.9%	-7.5%	-5.5%	-4.4%
Primary Metals	15.0	16.5	15.8	15.8	15.6	12.9*	12.3	11.3	10.3	9.3	9.1
Fabricated Metals	46.1	48.3	45.3	42.8	41.7	45.0*	43.2	40.9	37.9	36.2	35.7
Industrial Machinery	NA	NA	NA	NA	NA	100.0	95.8	85.2	76.6	72.5	67.3
Electronic & Elec.	97.9	109.7	111.3	107.4	105.2	82.2*	79.3	72.9	68.5	63.9	59.9
Transportation Equip.	35.0	40.3	41.6	37.1	35.4	32.4	30.6	27.8	26.0	24.1	21.7
Stone, Clay, & Glass	11.3	11.8	11.5	10.8	10.7	10.7	10.0	8.7	7.8	7.9	8.0
Instruments	57.7	59.1	58.0	55.1	54.5	72.4	71.2	69.4	65.6	61.6	59.8
Non-Durable Goods	219.7	224.1	213.6	205.3	201.1	196.5	189.0	178.6	168.0	166.1	167.1
Percentage Change	-1.1%	2.0%	-4.7%	-3.9%	-2.0%	-2.3%	-3.8%	-5.5%	-5.9%	-1.1%	0.6%
Apparel	35.9	36.0	31.7	27.8	25.4	23.7	22.0	19.2	17.7	17.7	16.9
Food & Kindred Prod.	24.1	24.0	23.1	22.7	21.4	21.0	20.5	20.1	19.6	19.3	20.1
Chemicals	16.8	17.8	17.6	17.2	18.0	18.6	18.4	17.7	17.3	16.5	16.3
Printing & Publishing	48.1	51.7	53.3	54.2	55.6	55.8	55.0	52.2	48.9	47.3	47.4
Textile Mill Prod.	20.2	20.2	18.8	17.7	17.1	16.3	15.5	14.6	14.1	14.6	15.1
Paper & Allied Prod.	26.0	26.9	25.9	24.8	24.7	24.3	23.4	22.5	21.1	20.7	20.1
Rubber & Misc. Plastics	30.5	31.0	29.3	29.4	28.7	26.9	25.3	23.8	22.1	22.9	24.3
Total Man. Employ.	629.0	667.6	649.7	614.4	599.1	584.7	561.1	521.3	485.0	465.7	453.5
Percentage Change	-1.2%	6.1%	-2.7%	-5.4%	-2.5%	-2.4%	-4.0%	-7.1%	-7.0%	-4.0%	-2.6%

SOURCE: Massachusetts Department of Employment and Training.

NA = Not Available.

* Break in series; 1988 and subsequent data not comparable with previous years for this industry.

Largest Employers in Massachusetts. The following table lists, in alphabetical order, the twenty-five largest private sector employers in Massachusetts in 1994. The group has remained relatively stable; two of the employers on the 1993 list, First HealthCare Corporation and Jewel Food Stores, Inc., fell from the list and were replaced by Harvard Community Health Plan, Inc., Market Basket, Inc., and Star Markets Company, Inc.

Twenty-Five* Largest Massachusetts Employers in 1994

American Telephone & Telegraph	Massachusetts Institute of Technology
Bank of Boston	May Department Stores Company
Blue Cross of Massachusetts, Inc.	New England Medical Centers Hospital
Boston University	New England Telephone & Telegraph
Brigham & Women's Hospital Inc.	Polaroid Corporation
Digital Equipment Corporation	Purity Supreme Inc.
Friendly Ice Cream Corporation	Raytheon Company
General Electric Company	S & S Credit Company, Inc.
Harvard Community Health Plan, Inc.	Sears, Roebuck & Company
Harvard University	Shaw's Supermarket, Inc.
John Hancock Mutual Life Insurance Company Inc.	Star Markets Company, Inc.
Market Basket, Inc.	State Street Bank & Trust Company
Massachusetts General Hospital	United Parcel Service, Inc.

SOURCE: Massachusetts Department of Employment and Training.

* Twenty-six companies are listed because the difference between the twenty-fifth and twenty-sixth largest employers in 1994 was not significant.

Unemployment. Between 1979 and 1989, the Massachusetts unemployment rate was significantly lower than the national average. By 1990, however, the Commonwealth's unemployment rate reached 6.0 percent, exceeding the national average for the first time since 1977. This softening of the Massachusetts labor market continued in the early 1990s, with the unemployment rate reaching 9.0 percent for the first time since 1976. Although employment was slow to respond to the beginning of the recovery in 1992, the average monthly unemployment rate in Massachusetts for 1993 stood at 6.9 percent, compared to the national 1993 monthly average of 6.8 percent. The Massachusetts unemployment rate in December 1994 was 5.7 percent, compared to 5.5 percent in November 1994 and 6.2 percent in December 1993. The unemployment rate in New England was 5.3 percent in December 1994, 5.8 percent in November 1994, and 6.1 percent in December 1993. The United States unemployment rate was 5.4 percent in December 1994, 5.6 percent in November 1994, and 6.4 percent in December 1993. Due to the Current Population Survey redesign, comparisons between 1994 data and data for earlier years are not advisable.

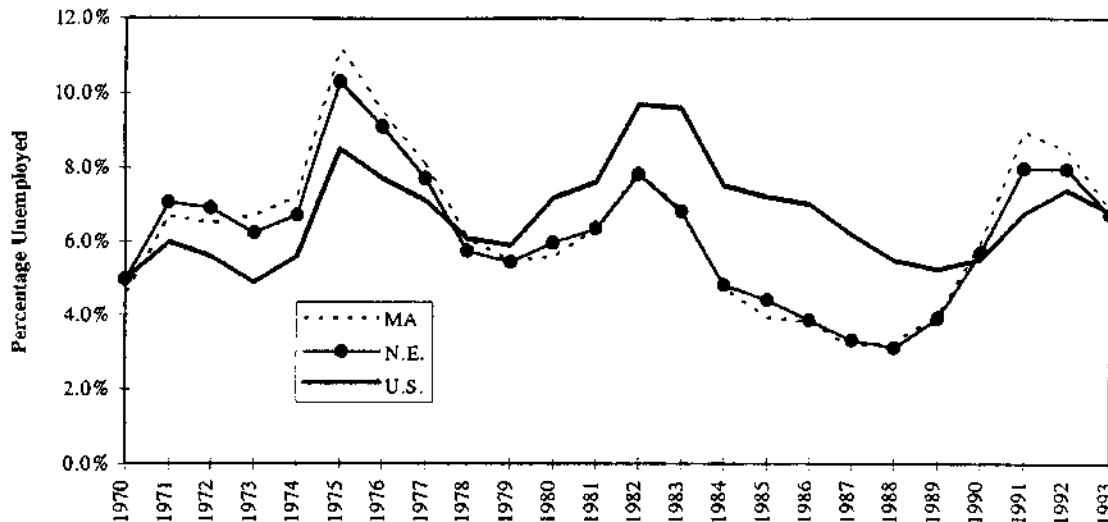
The following table compares the annual civilian labor force, the number unemployed, and unemployment rate averages of Massachusetts, the New England states, and the United States between 1970 and 1993.

Annual Average Civilian Labor Force and Unemployment, 1970-1993
(in thousands)

<i>Year</i>	<i>Civilian Labor Force</i>			<i>Unemployed</i>			<i>Unemployment Rate</i>			<i>MA Rate as Pct. of U.S.</i>
	<i>MA</i>	<i>N.E.</i>	<i>U.S.</i>	<i>MA</i>	<i>N.E.</i>	<i>U.S.</i>	<i>MA</i>	<i>N.E.</i>	<i>U.S.</i>	
1970	2,465	5,129	82,796	114	256	4,127	4.6%	5.0%	5.0%	92.0%
1971	2,459	5,157	84,376	164	364	5,022	6.7%	7.1%	6.0%	111.7%
1972	2,487	5,261	87,011	161	363	4,876	6.5%	6.9%	5.6%	116.1%
1973	2,557	5,387	89,411	171	336	4,359	6.7%	6.2%	4.9%	136.7%
1974	2,636	5,512	91,976	190	369	5,173	7.2%	6.7%	5.6%	128.6%
1975	2,725	5,634	93,770	306	581	7,940	11.2%	10.3%	8.5%	131.8%
1976	2,727	5,717	96,151	259	519	7,398	9.5%	9.1%	7.7%	123.4%
1977	2,754	5,816	98,984	223	447	6,967	8.1%	7.7%	7.1%	114.1%
1978	2,815	5,908	102,233	171	339	6,187	6.1%	5.8%	6.1%	100.0%
1979	2,870	6,100	104,961	159	332	6,135	5.5%	5.5%	5.9%	93.2%
1980	2,867	6,166	106,974	161	368	7,671	5.6%	6.0%	7.2%	78.1%
1981	2,946	6,262	108,676	187	399	8,278	6.4%	6.4%	7.6%	83.4%
1982	2,993	6,338	110,224	237	496	10,715	7.9%	7.8%	9.7%	81.3%
1983	2,978	6,363	111,515	205	433	10,694	6.9%	6.8%	9.6%	71.5%
1984	3,048	6,548	112,532	145	317	8,529	4.8%	4.8%	7.5%	63.5%
1985	3,053	6,632	115,467	120	292	8,313	4.0%	4.4%	7.2%	54.9%
1986	3,060	6,721	117,846	117	260	8,245	3.8%	3.9%	7.0%	54.9%
1987	3,087	6,829	119,853	98	227	7,414	3.2%	3.3%	6.2%	51.0%
1988	3,155	6,913	121,671	104	216	6,697	3.3%	3.1%	5.5%	59.7%
1989	3,180	7,002	123,851	127	273	6,524	4.0%	3.9%	5.3%	76.2%
1990	3,224	7,138	124,805	193	405	6,889	6.0%	5.7%	5.5%	108.2%
1991	3,165	7,085	125,312	284	564	8,443	9.0%	8.0%	6.7%	132.9%
1992	3,148	7,065	126,984	267	562	9,390	8.5%	8.0%	7.4%	114.5%
1993	3,170	7,035	128,035	217	473	8,727	6.9%	6.7%	6.8%	100.7%

SOURCES: Massachusetts Department of Employment and Training; United States Department of Labor, Bureau of Labor Statistics; Federal Reserve Bank of Boston.

Unemployment Rate, 1970-1993



The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide for the payment of benefits to eligible individuals when they are unemployed through no fault of their own. Benefits are paid from the Commonwealth's Unemployment Compensation Trust Fund, financed through employer and employee contributions.

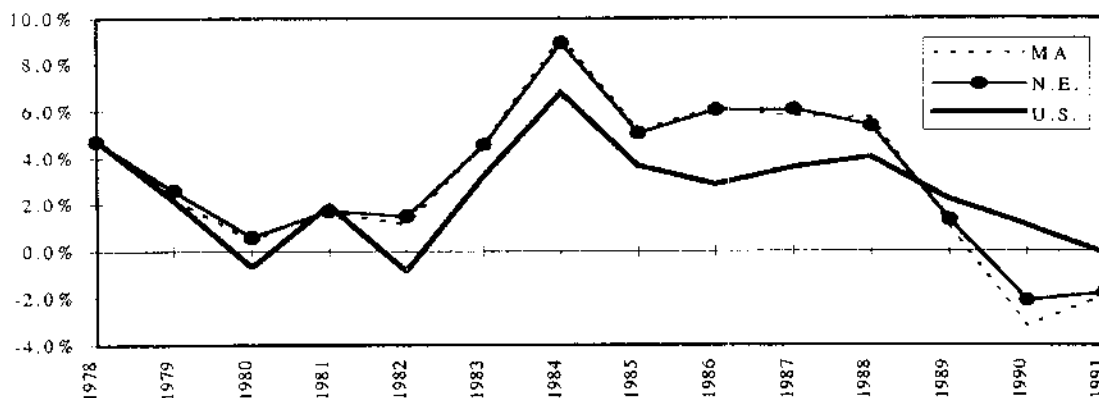
In September 1991 the reserves in the fund were exhausted due to the continued high level of unemployment. Between September 1991 and May 1994, benefit payments in excess of contributions were financed through repayable advances from the federal unemployment loan account. Legislation enacted in 1992 significantly increased employer contributions in order to reduce advances from the federal loan account and 1993 contributions exceeded benefit outlays by more than \$200 million. All federal advances were paid in May 1994 and since that time, the trust fund has been solvent. As of November 30, 1994, the Massachusetts Unemployment Trust Fund was running a surplus of \$216 million. Interest on federal advances of \$4.7 million was paid in September.

The Department of Employment and Training's October 1994 quarterly report indicates that the additional increases in contributions provided by the 1992 legislation should result in a balance of \$90 million in the Unemployment Compensation Trust Fund by December 1994 and rebuild reserves in the system to \$1.4 billion by the end of 1998, even if the Legislature acts to keep contribution rates at their current level for one more year.

ECONOMIC BASE AND PERFORMANCE

The economy of Massachusetts and New England was for much of the 1980s one of the strongest performers in the nation. This strength, presented in the graph and table below, can be seen in the rate of growth of Gross State Product for both Massachusetts and New England throughout much of the 1980s. The Massachusetts economy has been the strongest in New England, making up an average of 47 percent of New England's total Gross State Product for nearly two decades. Massachusetts' percentage of the United States Gross State Product has varied between 2.5 to 3.0 percent during the same time frame. However, both Massachusetts and New England suffered output declines to a much greater extent than the rest of the nation in the most recent recession.

Percentage Change in Real Gross State Product, 1978-1991



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

*Gross State Product, 1977-1991
(millions of 1987 constant dollars)*

Year	Massachusetts		New England		United States	
	GSP	Percentage Change	GSP	Percentage Change	Total GSP	Percentage Change
1977	\$88,480		\$185,066		\$3,478,517	
1978	92,734	4.8%	193,749	4.7%	3,643,391	4.7%
1979	94,823	2.3%	198,748	2.6%	3,722,513	2.2%
1980	95,276	0.5%	199,935	0.6%	3,697,140	-0.7%
1981	96,929	1.7%	203,374	1.7%	3,769,425	2.0%
1982	98,034	1.1%	206,405	1.5%	3,738,155	-0.8%
1983	102,564	4.6%	215,821	4.6%	3,859,508	3.2%
1984	112,020	9.2%	235,121	8.9%	4,121,329	6.8%
1985	117,806	5.2%	246,963	5.0%	4,270,981	3.6%
1986	125,045	6.1%	261,889	6.0%	4,391,529	2.8%
1987	132,250	5.8%	277,749	6.1%	4,548,182	3.6%
1988	139,786	5.7%	292,611	5.4%	4,731,458	4.0%
1989	141,242	1.0%	296,506	1.3%	4,836,446	2.2%
1990	136,717	-3.2%	290,280	-2.1%	4,888,324	1.1%
1991	134,086	-1.9%	285,140	-1.8%	4,883,224	-0.1%

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

Note: New England and United States figures include Massachusetts and New England GSP, respectively.

The commercial base of Massachusetts is anchored by the fourteen 1994 Fortune 500 industrial firms with headquarters within the state, as the following table indicates. The Fortune 500 firms are ranked according to total sales in 1993.

Massachusetts Companies in the 1994 Fortune 500

<i>Ranking</i>		<i>Company</i>	<i>Industry</i>	<i>1993 Sales (in millions)</i>
<i>1994</i>	<i>1993</i>			
29	27	Digital Equipment (Maynard)	Computer Equipment	\$14,371.4
52	54	Raytheon (Lexington)	Electronics	9,201.2
99	104	Gillette (Boston)	Consumer Products	5,410.8
176	170	EG & G (Wellesley)	Scientific, Photographic	2,697.9
206	211	Polaroid (Cambridge)	Scientific, Photographic	2,244.9
263	264	Cabot (Waltham)	Chemicals	1,614.3
309	361	Thermo Electron (Waltham)	Scientific, Photographic	1,249.7
311	225	Wang Laboratories (Lowell)	Computer Equipment	1,247.0
332	336	Ocean Spray (Lakeville)	Food Products	1,167.6
348	328	Data General (Westboro)	Computer Equipment	1,077.9
403	421	Kendall International (Mansfield)	Medical Products	816.3
412	-	EMC (Hopkinton)	Computer Equipment	782.6
426	425	Stanhome (Westfield)	Home Products	750.7
468	-	Analog Devices (Norwood)	Electronics	666.3

SOURCE: Fortune Magazine, April 18, 1994.

The current restructuring of the Massachusetts economy due to the economic recovery has brought new business opportunities to many. The incorporation of new businesses in Massachusetts reached a peak in 1986 and declined steadily over the next five years. Since 1991, however, the number of new business incorporations has grown at a steady rate. In addition, the total number of existing businesses in Massachusetts has been higher over the last three years than at any time in the last ten years.

According to Dun & Bradstreet, the business failure rate in Massachusetts, which was significantly lower than the national average between 1984 and 1989, has grown to a rate slightly higher than that of the United States. In 1993, the failure rate for Massachusetts was 1.4 percent while the failure rate for both New England and the United States was 1.0 percent. This is shown in the following table (total existing businesses, new business incorporations, and business failures are derived from different and unrelated data sources and survey techniques and should not be compared as if they constitute a self-contained, closed group of data). The following table shows the total number of existing businesses, business incorporations, and business failures for Massachusetts, New England, and the United States since 1980.

Business Failures and Incorporations, 1980-1993

Year	Total Existing Businesses			New Business Incorporations			Business Failures			Failure Rate		
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.
1980	NA	NA	NA	11,291	25,328	533,520	235	464	11,742	NA	NA	NA
1981	NA	NA	NA	12,625	28,134	581,242	226	553	15,694	NA	NA	NA
1982	NA	NA	NA	11,827	26,484	566,942	331	650	24,908	NA	NA	NA
1983	NA	NA	NA	12,599	28,723	600,420	398	831	31,334	NA	NA	NA
1984	123,021	276,551	4,867,102	14,159	32,027	634,991	513	1,203	52,078	0.4%	0.4%	1.1%
1985	125,551	284,259	4,978,521	15,801	37,943	664,235	683	1,228	57,253	0.5%	0.4%	1.2%
1986	129,464	291,842	5,134,666	17,321	41,940	702,738	725	1,109	61,616	0.6%	0.4%	1.2%
1987	150,714	340,333	5,991,274	17,222	42,027	685,572	633	1,021	61,111	0.4%	0.3%	1.0%
1988	142,307	328,750	5,826,224	16,438	40,251	685,095	555	1,052	57,097	0.4%	0.3%	1.0%
1989	175,227	442,068	7,747,846	14,078	35,299	676,565	771	1,282	50,361	0.4%	0.3%	0.7%
1990	180,471	441,000	7,993,026	12,465	31,383	647,386	1,913	3,087	60,747	1.1%	0.7%	0.8%
1991	218,384	514,000	8,237,383	11,706	28,864	628,604	2,839	5,654	88,140	1.3%	1.1%	1.1%
1992	222,867	531,111	8,824,454	12,197	28,686	666,800	3,031	6,214	97,069	1.4%	1.2%	1.1%
1993(p)	200,000	533,000	8,956,458	12,850	30,233	705,540	2,709	5,304	85,673	1.4%	1.0%	1.0%

SOURCE: The Dun & Bradstreet Corporation, Department of Economic Analysis.

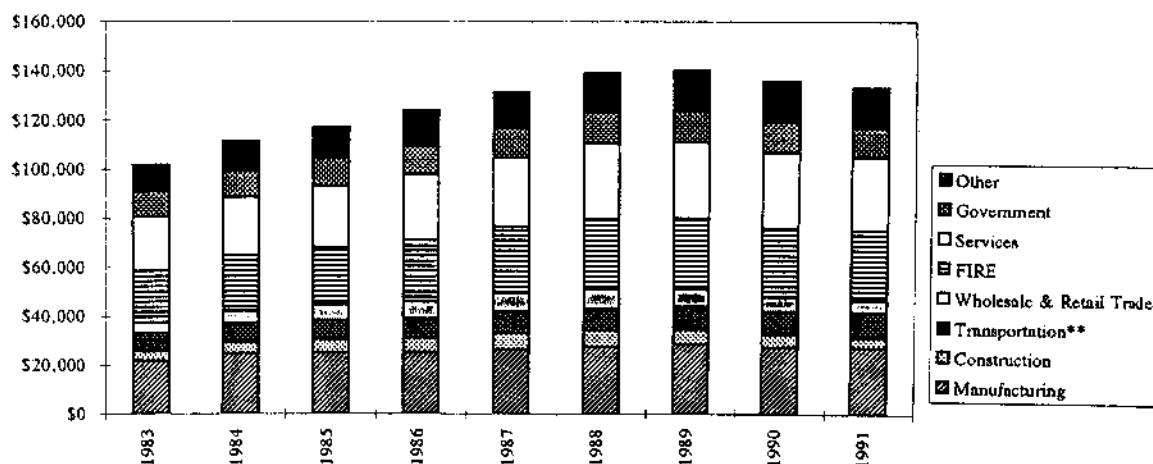
NA=Data not available for these years.

(p)=preliminary estimates.

Economic Base and Performance – Sector Detail

The economy of Massachusetts is highly diversified. The data below show the contribution to the Massachusetts real Gross State Product of several industrial and non-industrial sectors. These data clearly show some of the trends that have been prevalent in the Massachusetts economy over the past decade. For instance, the manufacturing sector's contribution to GSP was on a steady rise from 1983 to 1989, but then declined slightly in 1990 and 1991. This can be contrasted with the employment picture for manufacturing in Massachusetts. As shown earlier, employment in this sector has been in steady decline since 1984.

*Sectoral Composition of Massachusetts Gross State Product, 1983-1991
(millions of 1987 constant dollars)*



Gross State Product by Industry in Massachusetts, 1983-1991
(millions of 1987 constant dollars)

Sector	1983	1984	1985	1986	1987	1988	1989	1990	1991
Manufacturing	\$21,838	\$24,539	\$24,876	\$25,026	\$26,518	\$27,584	\$28,714	\$27,521	\$27,144
Construction	3,828	4,669	5,511	6,043	6,748	6,747	5,988	4,922	4,151
Agriculture*	648	640	774	977	999	982	913	916	1,011
Transportation**	7,360	7,801	7,963	7,946	8,817	9,037	9,483	9,719	10,397
Wholesale & Retail Trade	4,476	5,309	6,285	7,020	7,747	7,729	6,901	5,838	5,162
FIRE	21,045	22,555	23,566	24,960	26,806	28,840	29,221	28,121	28,147
Services	22,051	23,629	25,020	26,830	28,314	30,559	30,890	30,842	30,189
Government	10,578	10,675	11,177	11,555	11,842	12,440	12,380	12,627	11,766
Other	10,740	12,203	12,634	14,688	14,459	15,868	16,752	16,211	16,119
Total GSP	\$102,564	\$112,020	\$117,806	\$125,045	\$132,250	\$139,786	\$141,242	\$136,717	\$134,086

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

* Includes Forestry and Fisheries.

** Includes Public Utilities.

Services. The services sector is the largest sector in the economy of Massachusetts in terms of numbers of employees. This sector includes the broad categories of health services, business services, educational services, engineering and management services, and social services. In November 1994, services sector employment (not seasonally adjusted) was 1,021,400, representing some 34.3 percent of total nonagricultural employment. It contributed 22.5 percent of the Commonwealth's Gross State Product in 1991. The largest sector within services was the health care sector which contributed 6.4 percent of the GSP. The services sector has represented a major source of strength in the Massachusetts economy, increasing 23.5 percent between 1985 and 1989. After moderate declines in 1990 and 1991, the services sector employment levels reached new highs in 1993. Between November 1993 and November 1994, the services sector saw an increase in employment of 4.2 percent. An area with relatively high wages, business services employed more than 17.3 percent of services sector workers in November 1994. Compared with the nation as a whole, Massachusetts has a greater concentration in the area of business services.

Health Services. The health care industry continues to play an important role in the Massachusetts economy. Health services is the largest component of the services sector in terms of employment. In 1990, the health services sector numbered 270,900 workers, with 128,600 of those employed by hospitals. Health services employment continued to grow during the economic downturn in the early 1990s and by 1993 had reached 299,900. As of November 1994, health services employment had increased to 315,200, with 136,300 employed in hospitals.

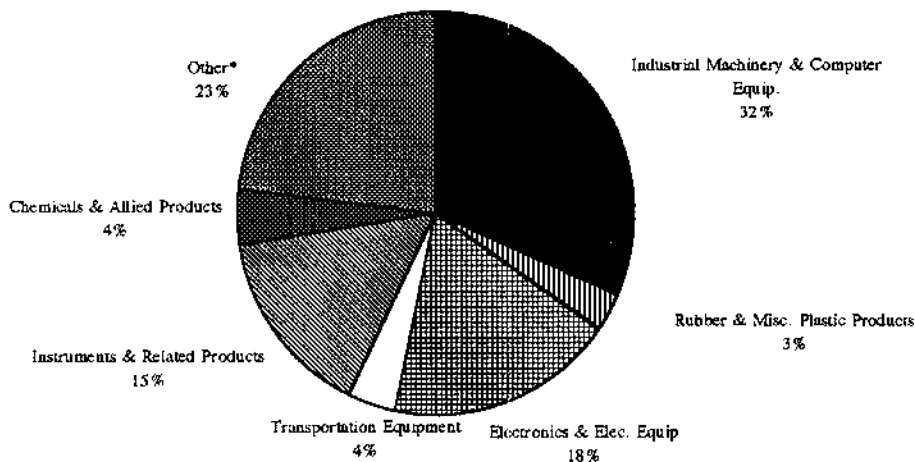
Trade and International Trade. In the mid-1980s the trade sector was an area of strong job growth, boosted by a growing export sector. Trade employment declined between 1990 and 1992 but there was a slight rebound of 0.5 percent between 1992 and 1993. In November 1994, retail and wholesale trade was the second largest employment sector in Massachusetts with 686,400, 3.5 percent above November 1993 levels. Of this number, about three-quarters were employed in retail trade.

A significant proportion of what Massachusetts produces is exported. Massachusetts ranked eleventh in the United States with nearly \$12.2 billion in international exports in 1993. However, the rate of growth in the Commonwealth's exports has increased slowly over time in comparison to some of the other states in the U.S., and has slowed significantly since the late 1980s. In 1993, the value of Massachusetts exports increased only 0.3 percent from the previous year, compared to 16.1 percent in 1988.

Manufactured goods accounted for 95.9 percent of all foreign trade receipts in 1993. Such a focus on production for export has given Massachusetts the fifth highest concentration of manufacturing

sector jobs dependent on exports in the nation, according to the Bureau of the Census 1987 Census of Manufacturers, the most recent data available. Three of the four states with greater concentrations border Massachusetts. According to the same report, 190,600 of Massachusetts' manufacturing jobs, which amounts to 6.4 percent of its civilian labor force, were dependent upon exports. Massachusetts' most important exports, as shown in the chart below, are industrial machinery, including computer equipment, electronic and electric equipment, and instruments and related products.

Percentage Composition of Massachusetts Exports by Industry Group, 1993



* Includes textiles, printing & publishing, paper, primary metal industries, and agricultural production.

Source: Massachusetts Institute for Social and Economic Research, University of Massachusetts at Amherst.

Massachusetts' most important trading partners for 1993 were: Canada, which purchased \$2.8 billion worth of products; Japan, which bought \$1.1 billion; and the United Kingdom and Germany which each purchased \$1.0 billion. In 1993, Massachusetts exported about \$4.3 billion to the European Union ("EU"). This was about 5 percent of all U.S. exports to the EU. Massachusetts also exported approximately \$2.9 billion to Japan and other Asian countries. This was about 60 percent of New England exports to Asia and about 2.5 percent of U.S. exports to Asia.

Value of International Shipments from Massachusetts, 1987-1993
(by major industry group, in millions)

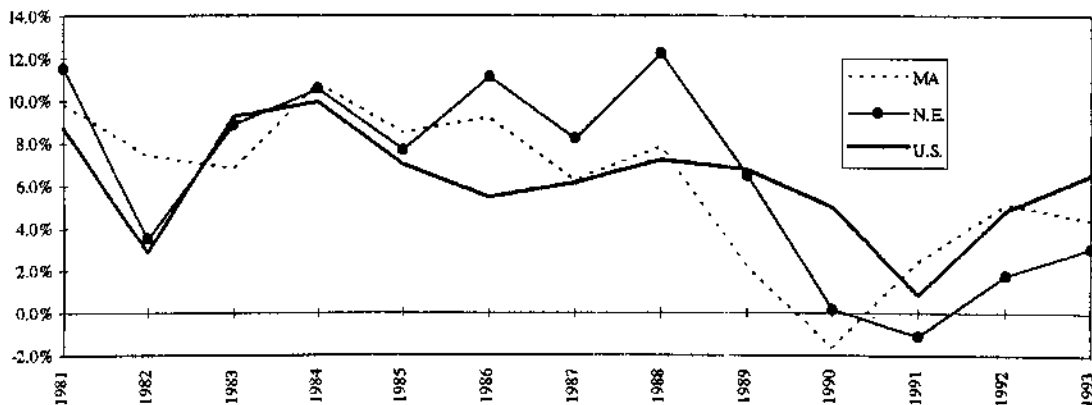
Major Industry Group	1987	1988	1989	1990	1991	1992	1993
Industrial Machinery & Computer Equip.	\$3,989.2	\$4,496.1	\$4,521.0	\$4,284.1	\$4,460.1	\$4,174.0	\$3,874.0
Electronics & Elec. Equip.(ex. Computers)	1,051.5	945.7	1,395.9	2,030.5	2,167.4	2,082.1	2,240.5
Instruments & Related Products	1,039.5	1,604.6	1,636.0	1,871.8	1,796.9	1,848.3	1,867.0
Chemicals & Allied Products	278.1	323.3	399.1	479.5	490.3	496.3	534.1
Transportation Equipment	591.9	562.0	433.6	403.0	352.2	479.0	499.1
Rubber & Misc. Plastic Products	162.3	212.4	192.4	214.0	196.7	236.8	373.8
Textile Mill Products	73.0	90.4	123.6	175.9	199.5	257.3	263.3
Printing & Publishing	59.4	59.1	101.8	105.1	141.6	161.5	171.2
Paper & Allied Products	106.3	156.5	175.0	202.9	194.0	243.1	242.8
Primary Metal Industries	106.2	172.3	170.7	182.7	216.5	200.0	211.5
Agricultural Production	33.9	42.2	24.6	34.2	45.2	54.2	48.4
Total from Above Industries	\$7,491.3	\$8,664.4	\$9,173.6	\$9,983.9	\$10,260.4	\$10,232.7	\$10,325.6
Total from All Industries-Massachusetts	\$8,349.3	\$9,691.8	\$10,472.0	\$11,586.8	\$11,891.4	\$12,157.6	\$12,194.8
Percentage Change		16.1%	8.0%	10.6%	2.6%	2.2%	0.3%

SOURCE: Massachusetts Institute for Social and Economic Research, University of Massachusetts at Amherst.

Retail Sales. Retail sales growth in the Commonwealth outpaced national sales growth during most of the 1980s, although in more recent years this has not been the case. In 1989 and 1990, the Massachusetts rate of retail sales growth dropped significantly below the national average. Traditionally retail sales has contributed between 9.0 and 9.5 percent of the Massachusetts Gross State Product. However, in 1991 this figure fell to 8.7 percent. In 1991 and 1992, retail sales growth in Massachusetts outpaced both New England and the nation.

According to the Federal Reserve Bank of Boston, retail sales for the month of August 1994 were 9.7 percent above the figures for the same month in 1993. The following chart and table show the annual retail sales activity for Massachusetts and the United States from 1980-1993.

Percentage Change in Retail Sales, 1981-1993



Annual Retail Sales Activity, 1980-1993
(in millions)

Year	Massachusetts		New England		United States	
	Sales	Percentage Change	Sales	Percentage Change	Sales	Percentage Change
1980	\$23,068		\$51,924		\$954,826	
1981	25,347	9.9%	57,919	11.5%	1,038,309	8.7%
1982	27,231	7.4%	59,949	3.5%	1,068,227	2.9%
1983	29,095	6.8%	65,277	8.9%	1,167,416	9.3%
1984	32,261	10.9%	72,194	10.6%	1,283,753	10.0%
1985	35,014	8.5%	77,765	7.7%	1,373,829	7.0%
1986	38,256	9.3%	86,431	11.1%	1,449,210	5.5%
1987	40,664	6.3%	93,557	8.2%	1,538,637	6.2%
1988	43,868	7.9%	105,028	12.3%	1,649,974	7.2%
1989	44,830	2.2%	111,903	6.5%	1,762,012	6.8%
1990	44,091	-1.6%	112,087	0.2%	1,849,941	5.0%
1991	45,163	2.4%	110,851	-1.1%	1,865,811	0.9%
1992	47,491	5.2%	112,804	1.8%	1,956,175	4.8%
1993	49,576	4.4%	116,265	3.1%	2,083,877	6.5%

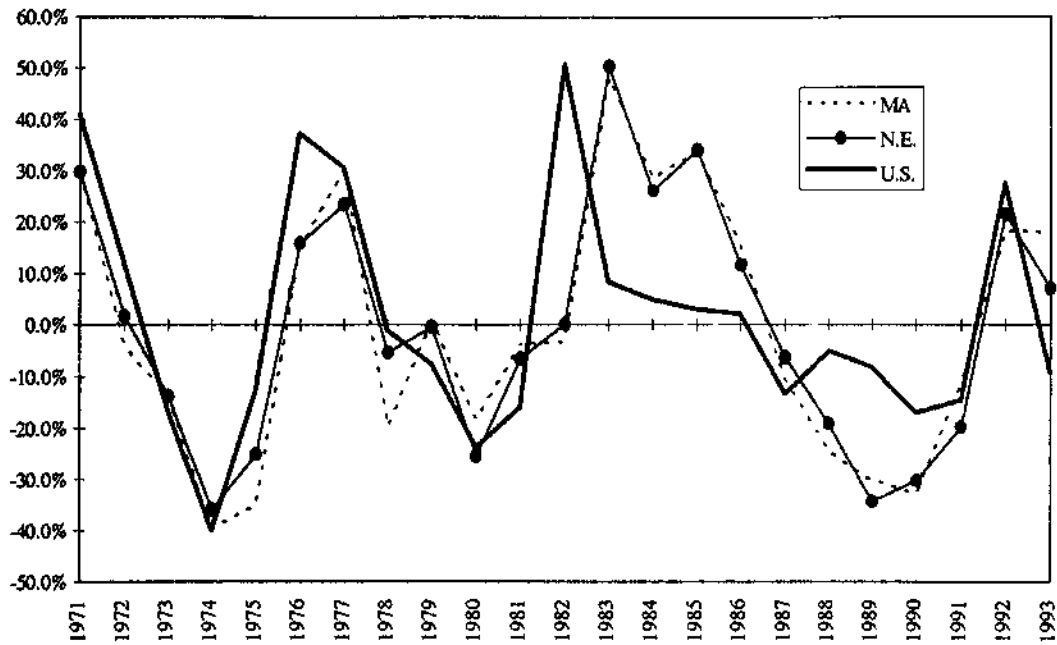
SOURCES: United States Department of Commerce; Federal Reserve Bank of Boston.

Finance, Insurance, and Real Estate. While the Finance, Insurance and Real Estate ("FIRE") sector experienced 23.7 percent growth in employment between 1984 and 1988, there was a 10.0 percent decline in employment between 1988 and 1993. However, this has masked a hastening rebound in early 1994 and a slight turnaround of 1.3 percent in 1993 from a year earlier. The total employment in FIRE was 199,300 in 1993, and 201,100 as of November 1994. FIRE contributed 21.0 percent of the Massachusetts Gross State Product in 1991. This figure was slightly higher than for 1989 and 1990 despite the recession that was depressing other sectors of the Massachusetts economy.

Housing and Construction. Fueled by the general growth of the rest of the Massachusetts economy, employment in the construction industry experienced dramatic growth in the first part of the 1980s, increasing by more than 80 percent between 1982 and 1988. This trend reversed direction between 1988 and 1992. Much of the earlier growth within the industry was lost with the downturn. Employment in the construction industry declined nearly 50 percent from 1988 to 1992 due to an excess supply in both the commercial and residential real estate markets. Since 1992, with the return to general growth in the Massachusetts economy, employment in construction has rebounded and in 1991 construction activity contributed 3.1 percent of the Massachusetts Gross State Product.

The following table shows the number of housing permits authorized on an annual basis in Massachusetts and the United States. In recent years there has been some improvement in the Massachusetts housing industry. This comes on the heels of a prolonged decline in the demand for housing permits that extended from 1986 to 1991; between those years, the total number of permits authorized declined by 72 percent. 1992 saw the first rise in the number of permits authorized since 1986, with an increase of 29.1 percent. Although the number of authorized permits again increased 6.7 percent between 1992 and 1993, the total number does not yet match the explosive growth between 1983 and 1985. However, it should be noted that the increase of 6.7 percent between 1992 and 1993 was far better than the performance of the nation, which saw a decline of 9.2 percent during the same period.

Percentage Change in Housing Permits Authorized, 1971-1993



Housing Permits Authorized, 1970-1993

Year	Massachusetts		New England		United States	
	Total Permits	Percentage Change	Total Permits	Percentage Change	Total Permits	Percentage Change
1970	39,500		74,230		1,355,000	
1971	51,400	30.1%	96,360	29.8%	1,913,000	41.2%
1972	49,300	-4.1%	98,080	1.8%	2,138,000	11.8%
1973	42,400	-14.0%	84,640	-13.7%	1,783,000	-16.6%
1974	25,600	-39.6%	54,310	-35.8%	1,068,000	-40.1%
1975	16,600	-35.2%	40,690	-25.1%	935,000	-12.5%
1976	19,100	15.1%	47,160	15.9%	1,285,000	37.4%
1977	24,900	30.4%	58,200	23.4%	1,678,000	30.6%
1978	20,000	-19.7%	55,100	-5.3%	1,659,000	-1.1%
1979	20,200	1.0%	54,900	-0.4%	1,534,000	-7.5%
1980	16,500	-18.3%	40,970	-25.4%	1,171,000	-23.7%
1981	16,700	1.2%	38,300	-6.5%	985,000	-15.9%
1982	15,400	-7.8%	38,370	0.2%	1,485,000	50.8%
1983	22,800	48.1%	57,700	50.4%	1,605,000	8.1%
1984	29,300	28.5%	72,760	26.1%	1,682,000	4.8%
1985	39,200	33.8%	97,570	34.1%	1,733,000	3.0%
1986	45,200	15.3%	108,880	11.6%	1,769,000	2.1%
1987	40,400	-10.6%	102,050	-6.3%	1,534,000	-13.3%
1988	30,500	-24.5%	82,587	-19.1%	1,456,000	-5.1%
1989	21,300	-30.2%	54,240	-34.3%	1,338,000	-8.1%
1990	14,300	-32.9%	37,860	-30.2%	1,111,000	-17.0%
1991	12,700	-11.2%	30,393	-19.7%	949,000	-14.6%
1992	16,400	29.1%	36,939	21.5%	1,211,000	27.6%
1993	17,500	6.7%	39,562	7.1%	1,100,000	-9.2%

SOURCES: Massachusetts Institute for Social and Economic Research; Federal Reserve Bank of Boston; United States Department of Commerce.

The current recovery in the regional economy is reflected in the housing sector. With existing home sales resuming an increasing trend in 1991, prices began rising slowly a year later. This stabilized the large loss of 42 percent that occurred in 1989 and 1990. Existing home sales have grown substantially faster than the U.S. average since 1991. On a seasonally adjusted annual rate basis, existing home sales for the Commonwealth, New England, and the United States appear in the table below.

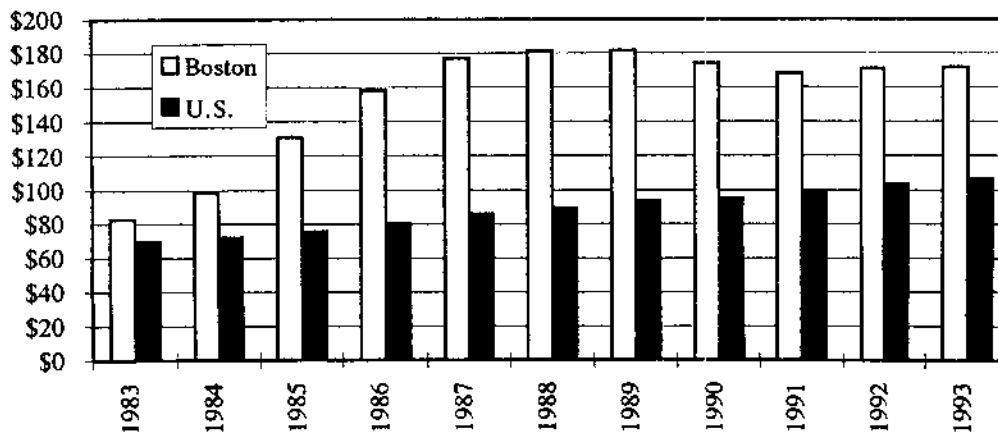
Existing Home Sales, 1983-1993
(seasonally adjusted annual rates, in thousands)

Year	Massachusetts		New England		United States	
	Sales	Percentage Change	Sales	Percentage Change	Sales	Percentage Change
1983	59.2		141.3		2,925.0	
1984	54.9	-7.3%	140.7	-0.4%	3,092.5	5.7%
1985	60.2	9.7%	157.0	11.6%	3,487.5	12.8%
1986	66.0	9.6%	169.2	7.8%	3,897.5	11.8%
1987	76.4	15.8%	174.5	3.1%	3,977.0	2.0%
1988	76.6	0.3%	178.5	2.3%	3,947.5	-0.7%
1989	67.4	-12.0%	142.8	-20.0%	3,807.5	-3.5%
1990	44.1	-34.6%	NA	NA	3,483.3	-8.5%
1991	49.5	12.2%	NA	NA	3,561.5	2.2%
1992	57.6	16.4%	139.7	NA	3,887.5	9.2%
1993	65.6	13.9%	159.1	13.9%	4,220.0	8.6%

SOURCES: Federal Reserve Bank of Boston; National Association of Realtors.
NA=Not Available.

Single family home prices for the Boston Metropolitan area (not seasonally adjusted) appear below. While Boston housing prices were 18 percent higher than the U.S. average in 1983, by 1987 Boston housing prices were more than double the national average and remained 61 percent above the national average in 1993.

Average Annual Home Prices, 1983-1993
(in thousands)



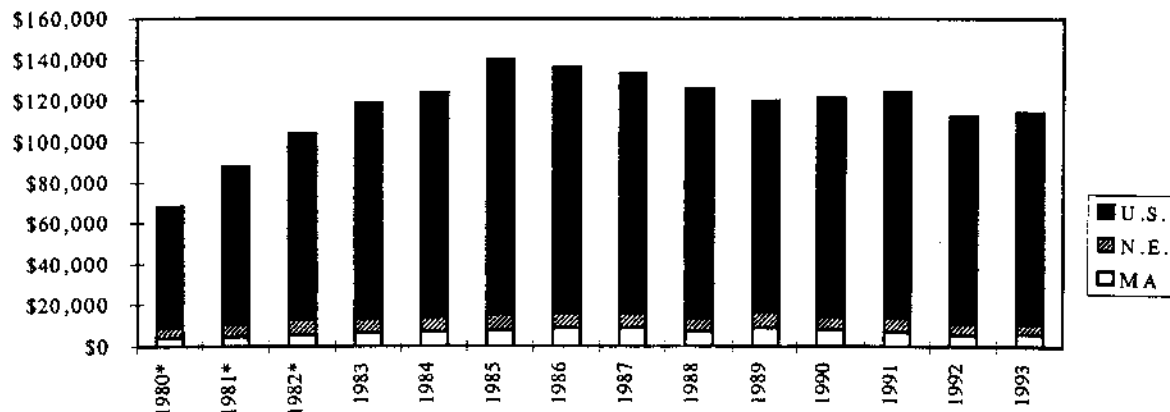
Average Annual Home Prices, 1983-1993
(in thousands)

Year	Boston	U.S.	Boston Prices as a Percentage of the U.S.
1983	\$82.3	\$69.7	118.1%
1984	98.0	72.4	135.4%
1985	130.8	75.3	173.7%
1986	158.2	80.2	197.3%
1987	176.5	85.8	205.7%
1988	180.7	89.5	201.9%
1989	181.5	93.1	195.0%
1990	173.8	95.2	182.6%
1991	168.5	99.4	169.5%
1992	170.5	103.6	164.6%
1993	171.4	106.5	160.9%

SOURCES: Federal Reserve Bank of Boston; National Association of Realtors.

Defense. An estimated 143,400 workers were employed in defense-related industries in 1992, accounting for approximately 5.0 percent of Massachusetts private sector employment. Following a peak in the value of military prime contracts awarded to Massachusetts firms in fiscal 1986 of \$8.7 billion, defense-related contracts declined 17 percent by fiscal 1988 to \$7.2 billion. By fiscal 1993, the value of defense-related prime contracts had declined to \$5.9 billion. The diversity of Massachusetts companies, particularly in the area of electronics and high technology research and development, has helped reduce the impact of the decline in national defense expenditures on the Massachusetts economy.

Total Prime Contract Awards, 1980-1993
(in millions)



* Prime Contract is defined as \$10,000 and above for these years; for remaining years it is defined as \$25,000 and above.

The importance of the defense industry to the Massachusetts economy is reflected in the following table. Since 1980, Massachusetts has increased its share of New England contract awards. In 1980, Massachusetts received 42.7 percent of total New England awards; by 1993 that had risen to 55.1 percent. This has come at the expense of neighboring New England states as New England's share of total contract awards has remained steady.

Net Value of Department of Defense Prime Contract Awards, 1980-1993
(in millions)

Year	MA	N.E.	U.S.	Percentage MA of N.E.	Percentage MA of U.S.
1980*	\$3,743	\$8,775	\$68,070	42.7%	5.5%
1981*	4,605	10,372	87,761	44.4%	5.2%
1982*	5,317	13,037	103,858	40.8%	5.1%
1983	6,328	12,967	118,744	48.8%	5.3%
1984	7,029	14,249	123,995	49.3%	5.7%
1985	7,714	15,487	140,096	49.8%	5.5%
1986	8,735	15,748	136,026	55.5%	6.4%
1987	8,685	15,606	133,262	55.7%	6.5%
1988	7,212	13,673	125,767	52.7%	5.7%
1989	8,757	16,268	119,917	53.8%	7.3%
1990	8,166	14,271	121,254	57.2%	6.7%
1991	6,933	13,889	124,119	49.9%	5.6%
1992	5,686	11,033	112,285	51.5%	5.1%
1993	5,936	10,779	114,145	55.1%	5.2%

SOURCE: United States Department of Defense.

* Prime Contract is defined as \$10,000 and above for these years; beginning in 1983 it is defined as \$25,000 and above.

Massachusetts leads the New England region in federally funded defense research activities, with contracts in amounts exceeding 1.9 times the national average. An estimated 6 percent of the goods and services in Massachusetts are attributable to the defense sector. It is unknown at this time what effect federal budget changes and international events will have on the level of defense contracts awarded within Massachusetts. To the extent there are federal spending reductions, they may have a significant impact on the level of defense related production and research in Massachusetts. However, since most contracts cover a period of years, the effect of any cancellations on federal spending reductions may not be directly experienced for some time.

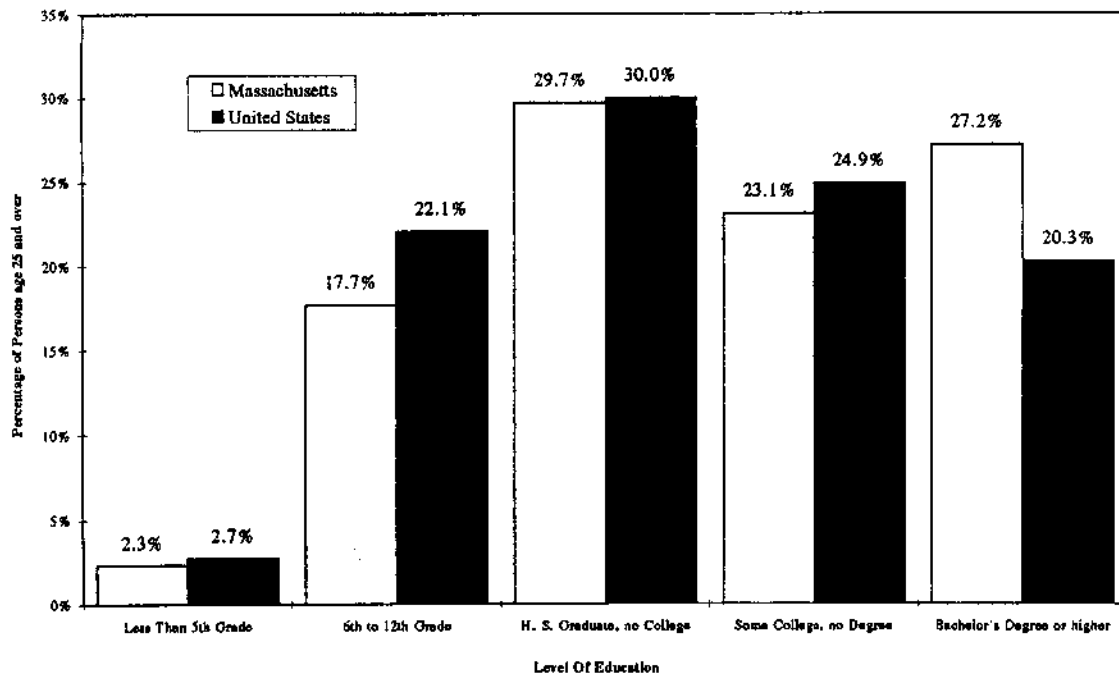
Travel and Tourism. The travel and tourism industry represents a substantial component of the overall Massachusetts economy. Massachusetts is one of the nation's most popular tourist and travel destinations for both domestic and overseas visitors. The greater Boston area represents New England's most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

The Massachusetts Office of Travel and Tourism estimates that a total of 31.9 million people visited the Commonwealth in 1993. Of these, 1.6 million were international visitors. It was also estimated that spending by domestic travelers was \$6.8 billion while the international travelers spent \$1.2 billion. This yielded estimated tax revenues of \$209 million for the Commonwealth.

HUMAN RESOURCES AND INFRASTRUCTURE

Human Resources. The availability of a skilled and well-educated population is an important resource for Massachusetts. The level of education reached by the population of Massachusetts compares favorably with the level in the United States as a whole. In both Massachusetts and the United States, less than three percent of the population over age 25 received less than a fifth grade education. The most significant difference between Massachusetts and the United States is the percentage of people over age 25 with a Bachelor's Degree or higher: 27.2 percent in Massachusetts as compared to 20.3 percent for the United States as a whole. The following chart shows this difference:

Educational Attainment, 1990



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

Although spending on education is not necessarily an indication of results, it is important to note that Massachusetts spends more per pupil than the national average on primary and secondary education. In fact, per pupil spending in Massachusetts has been significantly higher than the national average since 1980. The ratio of Massachusetts spending to the national average has varied from 1.13 in 1983-1984 to a high of 1.30 in 1986-1987. Preliminary estimates for the 1993-94 academic year show that Massachusetts spends 20 percent more on public elementary and secondary education than the United States average: \$6,361 per student compared to a national average of \$5,314 per student. While Massachusetts continues to spend more per student than the national average, neither average has increased above 1991-92 spending levels. The following table and chart show expenditures per pupil for Massachusetts and the United States since the 1979-80 academic year. Data for both the 1992-93 and 1993-94 academic years are preliminary estimates based upon state-reported preliminary data.

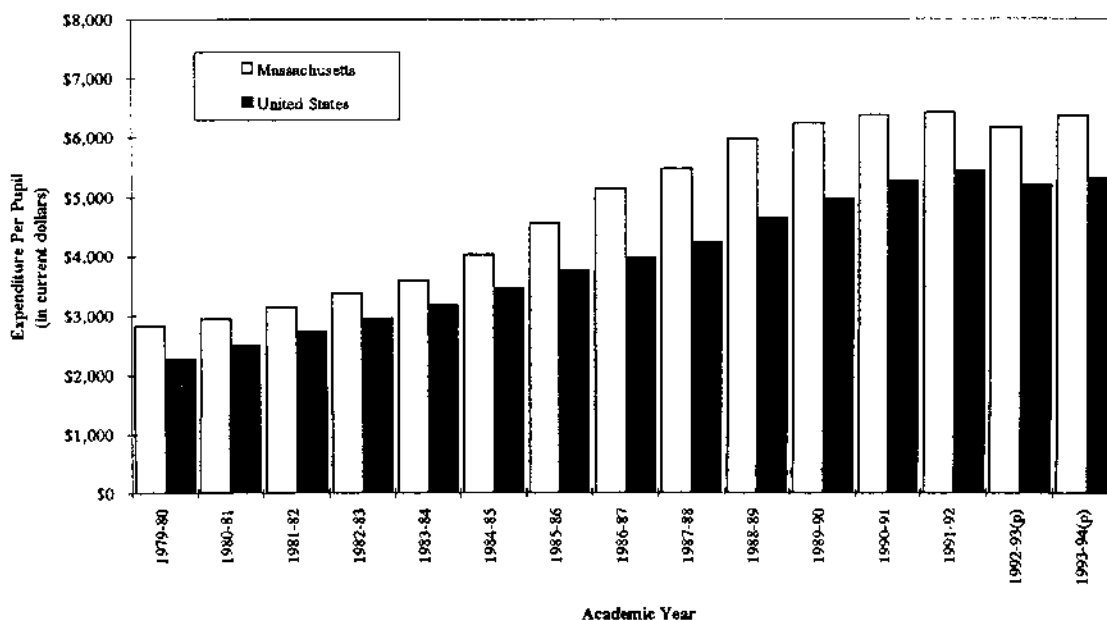
Expenditure Per Pupil in Public Elementary and Secondary Schools, 1980-1994
(in current, unadjusted dollars)

Academic Year	Massachusetts	United States	Ratio (MA/U.S.)
1979-80	\$2,819	\$2,272	1.24
1980-81	\$2,940	\$2,502	1.18
1981-82	\$3,137	\$2,726	1.15
1982-83	\$3,378	\$2,955	1.14
1983-84	\$3,595	\$3,173	1.13
1984-85	\$4,026	\$3,470	1.16
1985-86	\$4,562	\$3,756	1.21
1986-87	\$5,145	\$3,970	1.30
1987-88	\$5,471	\$4,240	1.29
1988-89	\$5,972	\$4,645	1.29
1989-90	\$6,237	\$4,962	1.26
1990-91	\$6,366	\$5,245	1.21
1991-92	\$6,408	\$5,421	1.18
1992-93(p)	\$6,163	\$5,193	1.19
1993-94(p)	\$6,361	\$5,314	1.20

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

(p) = preliminary estimates.

Expenditure Per Pupil in Public Elementary and Secondary Schools, 1980-1994



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

Massachusetts is an internationally recognized center for higher education, with 419,381 students in undergraduate, professional and graduate programs, according to data supplied by the New England Board of Higher Education. The number of foreign students enrolled in Massachusetts colleges and universities totals 23,721, slightly more than five percent of the U.S. total. The Massachusetts public higher education system is composed of universities, state colleges, and community colleges with a combined enrollment of 180,753 students. The strength of both public and private colleges and universities as centers for research, teaching, and education contributes to the high quality of the Massachusetts work force and plays a key role in attracting and retaining business and industry within the state.

The pre-eminence of higher education in Massachusetts contributes not only to the quality of its work force, but also to its stature in the nation and the world as a center for basic scientific research and for academic and entrepreneurial research and development. For example, Massachusetts institutions have a large number of Nobel Laureates. The Massachusetts Institute of Technology recently became the first university in the U.S. to receive more than 100 patents in a year. According to data gathered by the National Science Foundation, Massachusetts receives a higher proportion of both federal funding and private industry funding for research and development than the national average. Nationally, private industry funded 6.8 percent of university research and development ("R&D") at doctorate-granting institutions in 1992, compared with 9.4 percent for Massachusetts. In 1992, the federal government provided funding for 71.9 percent of all R&D activities in Massachusetts, compared to 58.8 percent for the nation as a whole during the same period. Massachusetts received 6.9 percent of total federal spending on R&D in 1992.

The higher education system in Massachusetts is particularly strong in post-graduate, scientific, and technical education. The strength of the Massachusetts higher education system is evidenced by the draw it has upon new students. In the Fall of 1992, 19,354 new students migrated into the Massachusetts higher education system while only 11,854 migrated out of Massachusetts. The strength of the Commonwealth's educational institutions is also reflected in the large number of degrees awarded. The following table shows the number of Massachusetts graduates with science and engineering degrees as a percentage of the entire United States population. Note that the figures are particularly strong for masters and doctoral degrees.

Science and Engineering Degrees Conferred in Massachusetts, 1991

	<i>Total Number</i>	<i>Massachusetts as Percentage of U.S. Total</i>
<i>Baccalaureate:</i>		
Mathematics	618	4.2%
Physical Sciences	751	4.5%
Engineering	2975	4.9%
<i>Masters:</i>		
Mathematics	244	6.8%
Physical Sciences	415	8.0%
Engineering	2189	9.3%
<i>Ph.D.:</i>		
Mathematics	69	7.4%
Physical Sciences	319	7.1%
Engineering	350	6.7%

SOURCE: New England Board of Higher Education analysis of U.S. Department of Education Data.

Note: Massachusetts population age 25 and over as a percentage of U.S. population age 25 and over in 1990 = 2.5%.

The diversity of federal funding sources reflects the diversity of the research and development work done at Massachusetts educational institutions. According to the National Science Foundation, of the \$750 million of total 1992 federal spending on college and university-based research and development in Massachusetts, 44.3 percent was from the Department of Health and Human Services, 19.0 percent was from the National Science Foundation, 16.3 percent was from the Department of Defense, 8.6 percent was from the Department of Energy, 6.3 percent was from the National Aeronautics and Space Administration, and 2.4 percent was from the Department of Agriculture.

Massachusetts colleges and universities are also significant employers within the state. Three Massachusetts private universities are among the Commonwealth's 25 largest non-governmental employers. The educational services sector includes only private institutions for education; public institutions are included in the government sector. According to the Massachusetts Department of

Employment and Training, educational services accounted for 130,000 jobs in November 1994, while in the government sector, state and local public education accounted for 167,500 jobs in November 1994.

Major Infrastructure Projects. The next decade brings significant work on several major public sector-sponsored construction projects, giving rise in Massachusetts to new economic and employment opportunities. The projects include the depression of the central artery which traverses the City of Boston, and the construction of a third harbor tunnel linking downtown Boston to Logan Airport. Final completion of the project is planned for 2003. The federal government will take responsibility for about 90 percent of the estimated \$7.7 billion cost of the project. Plans are to employ 5,000 on-site workers and 10,000 auxiliary workers during the peak years of construction, 1994 to 1995. Massport and the Massachusetts Bay Transportation Authority also plan to devote several billion dollars to maintenance and enhancements of the area's port, airport, and mass transportation facilities.

The Massachusetts Water Resources Authority is undertaking capital projects for the construction and rehabilitation of sewage collection and treatment facilities in order to bring wastewater discharges into Boston Harbor into compliance with federal and state pollution control requirements. The harbor cleanup project is estimated to cost \$3.5 billion in 1994 dollars. Work on the project began in 1988 and is expected to be completed in 1999, with the most significant expenditures occurring between 1990 and 1999. The majority of these expenditures will be paid for by local communities, in the form of user fees, with federal and state sources making up the difference. Cambridge Systematics estimates that during the peak years of the project, the cleanup will produce 3,600 construction jobs and 6,200 auxiliary jobs.

COMMONWEALTH OF MASSACHUSETTS

COMBINED FINANCIAL STATEMENTS -

STATUTORY BASIS

**Independent Auditors' Report**

Mr. William Kilmartin, Comptroller
The Commonwealth of Massachusetts

We have audited the accompanying combined financial statements - statutory basis of the Commonwealth of Massachusetts as of June 30, 1994, and for the year then ended. These combined financial statements - statutory basis are the responsibility of the management of the Commonwealth of Massachusetts. Our responsibility is to express an opinion on these combined financial statements - statutory basis based on our audit. We did not audit the financial statements of the Pension Reserves Investment Trust which is an investment vehicle for certain of the Commonwealth of Massachusetts' Pension Trust Funds, the financial statements of which reflect 31 and 8 percent, respectively, of the assets and revenues of the Fiduciary Fund Type. We did not audit the financial statements of the University of Massachusetts, Bridgewater State College and Massasoit Community College which statements reflect 82 percent of the assets and 77 percent of the revenues of the Non-appropriated Higher Education Funds. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Fiduciary and Non-appropriated Higher Education Fund Type referred to above, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements - statutory basis are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements - statutory basis. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement - statutory basis presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

As described in Note 2, the Commonwealth prepares its combined financial statements - statutory basis on a prescribed basis of accounting that demonstrates compliance with the General Laws and budgetary principles and funds of the Commonwealth of Massachusetts which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, based upon our audit and the reports of the other auditors, such combined financial statements - statutory basis present fairly, in all material respects, the financial position of the Commonwealth of Massachusetts as of June 30, 1994, and the results of its operations for the year then ended, on the basis of accounting described in Note 2.

As discussed in Note 2, the Fiduciary Fund Type includes investments representing 5.7% of the assets of the Fiduciary Fund Type, whose values have been estimated by management in the absence of readily ascertainable market values. The procedures used by management in arriving at the estimated value of such investments and the underlying documentation have been reviewed and inspected by us and by the other auditors', and, in the circumstances, we believe and the other auditors' report states their belief, that the procedures of management are reasonable and the documentation appropriate. However, determination of the value of these investments involves subjective judgment because the actual market value can be determined only by negotiation between the parties in a sales transaction. The estimated values of the investments may differ from the values that would have been used had a ready market existed for the investments.

Deloitte & Touche LLP

December 21, 1994

**COMMONWEALTH OF MASSACHUSETTS
 COMBINED BALANCE SHEET - STATUTORY BASIS -
 ALL FUND TYPES AND ACCOUNT GROUPS**

JUNE 30, 1994

(Amounts in thousands)

<u>ASSETS AND OTHER DEBITS</u>	Governmental Fund Types			Fiduciary Fund Types
	General	Special Revenue	Capital Projects	Trust and Agency
Cash and short-term investments	\$ 0	\$ 1,574,314	\$ 20,631	\$ 837,824
Cash on deposit with U.S. Treasury				33,001
Cash with fiscal agent		5,114		
Investments				11,613,209
Advances to related entity	170,093			
Assets held in trust				1,486,904
Receivables, net of allowance for uncollectibles:				
Taxes	4,721	688		
Due from federal government	131,111	126,825	155,301	
Other receivables	1,475	9,691		1,581,059
Due from cities and towns	133,042	1,177		
Due from other funds	9,897			377,439
Fixed assets:				
Land				
Buildings				
Machinery and equipment				
Construction in progress				
Amount to be provided for retirement of long-term obligations				
Total assets and other debits	\$ 450,339	\$ 1,717,809	\$ 175,932	\$ 15,929,436

Account Groups			Totals (Memorandum Only)			
General Fixed Assets	General Long-term Obligations	Subtotal (Memorandum Only)	Non- appropriated Higher Education	1994	1993	
\$ 0	\$ 0	\$ 2,432,769	\$ 129,247	\$ 2,562,016	\$ 2,327,042	
		33,001		33,001		
		5,114		5,114	3,797	
		11,613,209	273,391	11,886,600	11,342,003	
		170,093		170,093	199,881	
		1,486,904		1,486,904	1,518,389	
		5,409		5,409	3,651	
		413,237	8,496	421,733	307,420	
		1,592,225		1,592,225	1,300,158	
		134,219		134,219	141,271	
		387,336		387,336	391,934	
496,207		496,207		496,207	448,885	
3,362,971		3,362,971		3,362,971	3,243,522	
853,124		853,124		853,124	806,729	
30,449		30,449		30,449	155,090	
	9,497,475	9,497,475		9,497,475	9,296,238	
<u>\$ 4,742,751</u>	<u>\$ 9,497,475</u>	<u>\$ 32,513,742</u>	<u>\$ 411,134</u>	<u>\$ 32,924,876</u>	<u>\$ 31,486,110</u>	

(Continued)

COMMONWEALTH OF MASSACHUSETTS
 COMBINED BALANCE SHEET - STATUTORY BASIS -
 ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1994

(Amounts in thousands)

<u>LIABILITIES, FUND EQUITY AND OTHER CREDITS</u>	<u>Governmental Fund Types</u>			<u>Fiduciary Fund Types</u>
	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Trust and Agency</u>
Liabilities:				
Deficiency in cash and short-term investments	\$ 362,851	\$ 0	\$ 170,605	\$ 2,487
Accounts payable	384,454	366,169	306,493	1,812,422
Accrued payroll	62,018	18,910	1,980	368
Agency liabilities				2,008,390
Due to federal government				
Due to cities and towns				11,937
Due to other funds				381,116
Obligations under lease/purchase				
Bonds, notes payable and certificate of participation	240,000		49,062	29,462
Deferred revenue	32,919			
Total liabilities	1,082,242	385,079	528,140	4,246,182
Fund equity and other credits:				
Investment in general fixed assets				
Fund balances (deficit):				
Reserved for:				
Continuing appropriations	59,621	14,624		
Commonwealth stabilization		382,907		
Debt service		5,114		
Pension benefits				11,535,422
Unemployment benefits				30,514
Unreserved:				
Designated for specific purpose		111,493		117,318
Undesignated	(691,524)	818,592	(352,208)	
Total fund equity (deficit) and other credits	(631,903)	1,332,730	(352,208)	11,683,254
Total liabilities, fund equity and other credits	\$ 450,339	\$ 1,717,809	\$ 175,932	\$ 15,929,436

See notes to combined financial statements - statutory basis.

Account Groups			Totals (Memorandum Only)		
General Fixed Assets	General Long-term Obligations	Subtotal (Memorandum Only)	Non- appropriated Higher Education	1994	1993
\$ 0	\$ 0	\$ 535,943	\$ 0	\$ 535,943	\$ 623,945
		2,869,538	37,092	2,906,630	2,186,267
		83,276	459	83,735	72,953
		2,008,390	4,973	2,013,363	2,011,740
					269,429
		11,937		11,937	12,710
		381,116	6,220	387,336	391,934
	69,730	69,730		69,730	64,780
	9,427,745	9,746,269		9,746,269	9,585,617
		32,919		32,919	
	<u>9,497,475</u>	<u>15,739,118</u>	<u>48,744</u>	<u>15,787,862</u>	<u>15,219,375</u>
4,742,751		4,742,751		4,742,751	4,654,326
		74,245		74,245	106,626
		382,907		382,907	309,512
		5,114		5,114	3,797
		11,535,422		11,535,422	11,096,499
		30,514		30,514	
		228,811	13,613	242,424	(13,014)
		(225,140)	348,777	123,637	108,989
<u>4,742,751</u>		<u>16,774,624</u>	<u>362,390</u>	<u>17,137,014</u>	<u>16,266,735</u>
<u>\$ 4,742,751</u>	<u>\$ 9,497,475</u>	<u>\$ 32,513,742</u>	<u>\$ 411,134</u>	<u>\$ 32,924,876</u>	<u>\$ 31,486,110</u>

**COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 STATUTORY BASIS - ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUNDS
 AND NON-APPROPRIATED HIGHER EDUCATION FUNDS**

FISCAL YEAR ENDED JUNE 30, 1994

(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Type
	General	Special Revenue	Capital Projects	Expendable Trust
Revenues:				
Taxes	\$ 6,297,759	\$ 4,317,626	\$ 0	\$ 1,147,975
Assessments	191,796	354,354		1,207
Federal grants and reimbursements	2,892,189	1,228,347	944,738	257,905
Departmental	525,006	3,327,588	267	3,972
Miscellaneous	175,259	70,406	674	61,138
Total revenues	10,082,009	9,298,321	945,679	1,472,197
Other financing sources:				
Proceeds of general obligation bonds			392,208	
Proceeds of special obligation bonds			297,998	
Proceeds of refunding bonds			835,795	
Fringe benefit cost recovery	189,156			
Operating transfers in	192,840	863,478	152,542	5,863
Stabilization transfer		65,423		
Other sources			35,370	3,095
Total other financing sources	381,996	928,901	1,713,913	8,958
Total revenues and other financing sources	10,464,005	10,227,222	2,659,592	1,481,155
Expenditures:				
Legislature	42,853		257	
Judiciary	68,128	273,700	702	3,689
Inspector General	1,271		150	
Governor and Lieutenant Governor	4,292			
Secretary of the Commonwealth	9,081	2,549		4
Treasurer and Receiver-General	101,789	1,956,059	47,626	19
Auditor of the Commonwealth	10,167	733		167
Attorney General	19,720	2,501	1,124	1,124
Ethics Commission	527	537		
District Attorney	8,071	39,207	328	3,609
Office of Campaign & Political Finance	311	317		
Disabled Persons Protection Commission	1,325			
Board of Library Commissioners		5,399	734	1
Comptroller	5,865	525	4,123	
Administration and finance	693,700	270,678	122,540	1,293

Subtotal (Memorandum Only)	Non- appropriated Higher Education	Totals (Memorandum Only)	
		1994	1993
\$ 11,763,360	\$ 0	\$ 11,763,360	\$ 10,928,395
547,357		547,357	617,258
5,323,179	186,374	5,509,553	5,334,697
3,856,833	916,371	4,773,204	4,270,768
307,477	205,570	513,047	626,312
<u>21,798,206</u>	<u>1,308,315</u>	<u>23,106,521</u>	<u>21,777,430</u>
392,208		392,208	368,367
297,998		297,998	
835,795		835,795	1,891,468
189,156		189,156	138,296
1,214,723	283	1,215,006	1,069,796
65,423		65,423	76,872
38,465		38,465	44,038
<u>3,033,768</u>	<u>283</u>	<u>3,034,051</u>	<u>3,588,837</u>
<u>24,831,974</u>	<u>1,308,598</u>	<u>26,140,572</u>	<u>25,366,267</u>
43,110		43,110	41,127
346,219		346,219	311,198
1,421		1,421	1,398
4,292		4,292	3,651
11,634		11,634	13,840
2,105,493		2,105,493	1,670,698
11,067		11,067	10,530
24,469		24,469	22,198
1,064		1,064	1,002
51,215		51,215	47,001
628		628	545
1,325		1,325	
6,134		6,134	18,891
10,513		10,513	7,654
1,088,211		1,088,211	1,037,994

(Continued)

**COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 STATUTORY BASIS - ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUNDS
 AND NON-APPROPRIATED HIGHER EDUCATION FUNDS**

FISCAL YEAR ENDED JUNE 30, 1994

(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Type
	General	Special Revenue	Capital Projects	Expendable Trust
Expenditures (continued):				
Environmental affairs	\$ 23,118	\$ 144,575	\$ 117,629	\$ 4,935
Communities and development	113,233	248,027	33,694	2,335
Health and human services	3,270,133	1,013,327	14,019	20,292
Transportation and construction	619,168	146,225	1,325,809	830
Education	145	457,359	2,966	1,299
Educational affairs	1,943	1,152		
Higher education	670,148	16,061	5,621	80
Public safety	313,986	370,110	6,311	3,727
Economic affairs	14,588	196,911	1,890	1,103,593
Elder affairs	125,573	29,851	651	60
Consumer affairs	25,852	6,433		3,538
Labor	20,977	2,492	15	28,238
Direct local aid		2,727,313		
Medicaid	3,273,777	39,350		
Pension	313,264	595,684		
Debt service:				
Principal retirement	308,323	322,898		
Interest and fiscal charges	288,908	231,255		
Total expenditures	10,350,236	9,101,228	1,686,189	1,178,833
Other financing uses:				
Payments to refunded bond escrow agent			835,795	
Fringe benefit cost assessment		103,241	14,916	2,287
Operating transfers out	4,822	1,052,514	155,049	2,489
Stabilization transfer	39,254	26,169		
Other uses				
Total other financing uses	44,076	1,181,924	1,005,760	4,776
Total expenditures and other financing uses	10,394,312	10,283,152	2,691,949	1,183,609
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	69,693	(55,930)	(32,357)	297,546
Fund balances (deficits) at beginning of year	(701,596)	1,388,660	(319,851)	(155,554)
Fund balances (deficits) at end of year	\$ (631,903)	\$ 1,332,730	\$ (352,208)	\$ 141,992

See notes to combined financial statements - statutory basis.

Subtotal (Memorandum Only)	Non- appropriated Higher Education	Totals (Memorandum Only)	
		1994	1993
\$ 290,257	\$ 0	\$ 290,257	\$ 288,621
397,289		397,289	399,965
4,317,771		4,317,771	4,167,138
2,092,032		2,092,032	1,773,298
461,769		461,769	485,004
3,095		3,095	9,591
691,910	1,175,775	1,867,685	1,688,759
694,134		694,134	626,536
1,316,982		1,316,982	1,713,385
156,135		156,135	149,774
35,823		35,823	32,599
51,722		51,722	48,493
2,727,313		2,727,313	2,546,501
3,313,127		3,313,127	3,151,361
908,948		908,948	868,154
631,221		631,221	592,493
520,163		520,163	550,175
<u>22,316,486</u>	<u>1,175,775</u>	<u>23,492,261</u>	<u>22,279,574</u>
835,795		835,795	1,891,468
120,444	68,712	189,156	138,296
1,214,874	130	1,215,004	1,069,784
65,423		65,423	76,872
			257
<u>2,236,536</u>	<u>68,842</u>	<u>2,305,378</u>	<u>3,176,677</u>
<u>24,553,022</u>	<u>1,244,617</u>	<u>25,797,639</u>	<u>25,456,251</u>
278,952	63,981	342,933	(89,984)
211,659	298,409	510,068	600,052
<u>\$ 490,611</u>	<u>\$ 362,390</u>	<u>\$ 853,001</u>	<u>\$ 510,068</u>

**COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - STATUTORY BASIS - BUDGET AND ACTUAL -
 GENERAL AND BUDGETED SPECIAL REVENUE FUNDS
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)**

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$ 6,179,800	\$ 6,297,759	\$ 117,959
Assessments		191,796	191,796
Federal grants and reimbursements	2,913,900	2,892,189	(21,711)
Departmental	819,225	525,006	(294,219)
Miscellaneous		175,259	175,259
Total revenues	9,912,925	10,082,009	169,084
Other financing sources:			
Fringe benefit cost recovery		189,156	189,156
Operating transfers in	160,675	192,840	32,165
Stabilization transfer			
Other sources	5,000		(5,000)
Total other financing sources	165,675	381,996	216,321
Total revenues and other financing sources	10,078,600	10,464,005	385,405
Expenditures:			
Legislature	59,235	42,853	16,382
Judiciary	69,098	68,128	970
Inspector General	1,281	1,271	10
Governor and Lieutenant Governor	4,996	4,292	704
Secretary of the Commonwealth	9,272	9,081	191
Treasurer and Receiver-General	105,386	101,789	3,597
Auditor of the Commonwealth	10,174	10,167	7
Attorney General	19,936	19,720	216
Ethics Commission	527	527	
District Attorney	8,134	8,071	63
Office of Campaign and Political Finance	314	311	3
Disabled Persons Protection Committee	1,328	1,325	3
Board of Library Commissioners			
Comptroller	5,882	5,865	17
Administration and finance	749,459	693,700	55,759
Environmental affairs	25,003	23,118	1,885
Communities and development	120,075	113,233	6,842

Budgeted Special Revenue Funds			Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 4,380,200	\$ 4,308,922	\$ (71,278)	\$ 10,560,000	\$ 10,606,681	\$ 46,681
	21,688	21,688		213,484	213,484
8,600	9,042	442	2,922,500	2,901,231	(21,269)
447,100	465,676	18,576	1,266,325	990,682	(275,643)
	45,808	45,808		221,067	221,067
<u>4,835,900</u>	<u>4,851,136</u>	<u>15,236</u>	<u>14,748,825</u>	<u>14,933,145</u>	<u>184,320</u>
				189,156	189,156
542,000	598,657	56,657	702,675	791,497	88,822
	65,423	65,423		65,423	65,423
			5,000		(5,000)
<u>542,000</u>	<u>664,080</u>	<u>122,080</u>	<u>707,675</u>	<u>1,046,076</u>	<u>338,401</u>
<u>5,377,900</u>	<u>5,515,216</u>	<u>137,316</u>	<u>15,456,500</u>	<u>15,979,221</u>	<u>522,721</u>
			59,235	42,853	16,382
275,403	271,835	3,568	344,501	339,963	4,538
			1,181	1,271	10
			4,996	4,292	704
2,121	1,891	230	11,393	10,972	421
21,928	20,250	1,678	127,314	122,039	5,275
733	733		10,907	10,900	7
800	785	15	20,736	20,505	231
537	537		1,064	1,064	
38,088	37,783	305	46,222	45,854	368
320	317	3	634	628	6
			1,328	1,325	3
2,304	2,300	4	2,304	2,300	4
525	525		6,407	6,390	17
245,801	229,151	16,650	995,260	922,851	72,409
132,805	123,658	9,147	157,808	146,776	11,032
25,749	24,895	854	145,824	138,128	7,696

(Continued)

COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - STATUTORY BASIS - BUDGET AND ACTUAL -
 GENERAL AND BUDGETED SPECIAL REVENUE FUNDS
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
Expenditures (continued).			
Health and human services	\$ 3,368,359	\$ 3,270,133	\$ 98,226
Transportation and construction	621,447	619,168	2,279
Education	147	145	2
Educational affairs	2,024	1,943	81
Higher education	674,480	670,148	4,332
Public safety	319,456	313,986	5,470
Economic affairs	15,580	14,588	992
Elder affairs	127,044	125,573	1,471
Consumer affairs	27,548	25,852	1,696
Labor	22,303	20,977	1,326
Direct local aid			
Medicaid	3,290,149	3,273,777	16,372
Pension	328,447	313,264	15,183
Debt service:			
Principal retirement	327,453	308,323	19,130
Interest and fiscal charges	312,186	288,908	23,278
Total expenditures	10,626,723	10,350,236	276,487
Other financing uses:			
Fringe benefit cost assessment			
Operating transfers out	4,822	4,822	
Stabilization transfer		39,254	(39,254)
Total other financing uses	4,822	44,076	(39,254)
Total expenditures and other financing uses	10,631,545	10,394,312	237,233
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(552,945)	69,693	622,638
Fund balances (deficits) at beginning of year	(701,596)	(701,596)	
Fund balances (deficits) at end of year	\$ (1,254,541)	\$ (631,903)	\$ 622,638

See notes to general purpose financial statements.

Budgeted Special Revenue Funds			Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 148,274	\$ 124,664	\$ 23,610	\$ 3,516,633	\$ 3,394,797	\$ 121,836
145,988	141,458	4,530	767,435	760,626	6,809
104,894	95,757	9,137	105,041	95,902	9,139
655	608	47	2,679	2,551	128
2,610	2,398	212	677,090	672,546	4,544
354,904	342,926	11,978	674,360	656,912	17,448
16,277	15,279	998	31,857	29,867	1,990
5,187	4,340	847	132,231	129,013	2,318
5,945	5,016	929	33,493	30,868	2,625
			22,303	20,977	1,326
2,739,827	2,727,313	12,514	2,739,827	2,727,313	12,514
39,350	39,350		3,329,499	3,313,127	16,372
623,449	595,684	27,765	951,896	908,948	42,948
347,569	322,183	25,386	675,022	630,506	44,516
236,293	229,967	6,326	548,479	518,875	29,604
<u>5,518,336</u>	<u>5,361,603</u>	<u>156,733</u>	<u>16,145,059</u>	<u>15,711,839</u>	<u>433,220</u>
	46,436	(46,436)		46,436	(46,436)
122,662	123,940	(1,278)	127,484	128,762	(1,278)
	26,169	(26,169)		65,423	(65,423)
<u>122,662</u>	<u>196,545</u>	<u>(73,883)</u>	<u>127,484</u>	<u>240,621</u>	<u>(113,137)</u>
<u>5,640,998</u>	<u>5,558,148</u>	<u>82,850</u>	<u>16,272,543</u>	<u>15,952,460</u>	<u>320,083</u>
(263,098)	(42,932)	220,166	(816,043)	26,761	842,804
<u>1,264,169</u>	<u>1,264,169</u>		<u>562,573</u>	<u>562,573</u>	
<u>\$ 1,001,071</u>	<u>\$ 1,221,237</u>	<u>\$ 220,166</u>	<u>\$ (253,470)</u>	<u>\$ 589,334</u>	<u>\$ 842,804</u>

**COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND BALANCES -
 STATUTORY BASIS - NONEXPENDABLE TRUST FUNDS AND PENSION TRUST FUNDS**

FISCAL YEAR ENDED JUNE 30, 1994

(Amounts in thousands)

	Fiduciary Fund Types		Totals (Memorandum Only)	
	Non- expendable Trust Funds	Pension Trust Funds	1994	1993
Operating revenues:				
Employees contributions:	\$ 0	\$ 383,904	\$ 383,904	\$ 349,531
Investment earnings		245,446	245,446	1,301,368
Total operating revenues		629,350	629,350	1,650,899
Other financing sources:				
Operating transfers in		675,069	675,069	76,489
Total operating revenues and other financing sources		1,304,419	1,304,419	1,727,388
Operating expenses:				
Administration		3,676	3,676	3,276
Payments to beneficiaries and cities and towns		186,751	186,751	177,194
Total operating expenses		190,427	190,427	180,470
Other financing uses:				
Operating transfers out	2	675,069	675,071	76,501
Total operating expenses and other financing uses	2	865,496	865,498	256,971
Net income (deficit)	(2)	438,923	438,921	1,470,417
Fund balances at beginning of year	5,842	11,096,499	11,102,341	9,631,924
Fund balances at end of year	\$ 5,840	\$ 11,535,422	\$ 11,541,262	\$ 11,102,341

See notes to combined financial statements - statutory basis.

**COMMONWEALTH OF MASSACHUSETTS
STATUTORY BASIS FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994**

1. FINANCIAL STATEMENT PRESENTATION:

Introduction - The accompanying combined financial statements - statutory basis of the Commonwealth of Massachusetts (the Commonwealth) are presented in accordance with the requirements of Section 12 of Chapter 7A of the Massachusetts General Laws. Concurrently, the Office of the Comptroller publishes the Commonwealth's Comprehensive Annual Financial Report (CAFR) which is prepared on the basis of generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board, the authoritative standard-setting body for establishing governmental accounting and financial reporting principles.

The combined financial statements - statutory basis include all budgeted and non-budgeted funds and account groups of the Commonwealth, as recorded by the Office of the Comptroller in compliance with Massachusetts General Laws and in accordance with the Commonwealth's budgetary principles. The non-appropriated funds of the Commonwealth's public institutions of higher education are also presented, as directed by special statute.

The combined financial statements - statutory basis are not intended to include independent authorities or other organizations included in the Commonwealth's reporting entity as it would be defined under GAAP.

Fund Accounting - The Commonwealth reports its statutory basis financial position and results of operations in funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund balances, revenues and expenditures. Transactions between funds within a fund type, if any, have not been eliminated.

Account groups are accounting entities used to provide accountability for the Commonwealth's general fixed assets and long-term obligations. They are not considered funds because they do not report expendable available financial resources and related liabilities.

These fund types and account groups are organized as follows:

Governmental Fund Types - Governmental Funds support the governmental functions of the Commonwealth.

General Fund - is the primary operating fund of the Commonwealth. It is used to account for all governmental transactions, except those which state finance law or other statutes require to be accounted for in another fund.

Special Revenue Funds - are established by law to account for specific revenue sources that have been segregated from the General Fund to support specific governmental activities. As discussed in Note 3, many of the Special Revenue Funds are included in the annual appropriation process and are considered budgeted funds.

The major budgeted Special Revenue Funds are the Highway and Local Aid Funds which, with the General Fund, are often identified as the operating funds of the Commonwealth. The Federal Grants and Lotteries Funds are examples of non-budgeted funds which support governmental activity.

**COMMONWEALTH OF MASSACHUSETTS
STATUTORY BASIS FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994**

Capital Projects Funds - are used to account for financial resources used to acquire or construct major capital assets and to finance local capital projects. These resources are derived primarily from proceeds of general obligation bonds, which are generally received after the expenditure has been incurred, and from federal reimbursements. Therefore, deficit balances in Capital Projects Funds represent amounts to be financed.

Fiduciary Fund Types - Fiduciary Funds are used to account for assets held by the Commonwealth in a trustee capacity (Trust Funds), or as an agent (Agency Funds) for individuals, private organizations, other governmental units, and/or other funds.

Expendable Trust Funds - account for trusts whose principal and investment income may be expended for their designated purpose. The Unemployment Compensation Fund accounts for unemployment taxes collected from employers, interest earned or paid on the trust fund balance and the payment of benefits to the unemployed.

Nonexpendable Trust Funds - account for trusts whose principal cannot be spent. Within this fund type, the Massachusetts School Fund's principal balance of \$5,000,000 earned investment income of \$142,000, which was credited directly to the Local Aid Fund for expenditure during fiscal year 1994, as required by statute.

Pension Trust Funds - are used to account for the assets, liabilities and fund balances held in trust for the State Employees' and Teachers' Annuities Funds and the Pension Reserve Fund.

Agency Funds - are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations.

Account Groups - Account Groups establish control and accountability over the Commonwealth's general fixed assets and long-term obligations, primarily its bonded debt.

General Fixed Assets Account Group - is used to account for the general fixed assets of the Commonwealth.

General Long-term Obligations Account Group - is used to account for long-term bonds and notes payable as well as obligations under lease/purchase agreements.

Non-appropriated Higher Education Funds - The non-appropriated funds of the Commonwealth's public institutions of higher education have been recorded as a separate fund type which combines a variety of statutory basis financial activities to report in compliance with Section 15C of Chapter 15A, of Massachusetts General Laws.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Statutory basis of accounting - The Statutory Basis Financial Report is prepared from the Commonwealth's books and records and other official reports which are maintained on the basis of accounting used in the preparation of the Commonwealth's legally adopted annual budget (statutory basis). The statutory basis emphasizes accountability and the budgetary control of appropriations, and the Statutory Basis Financial Report is not intended to present the Commonwealth's financial condition and results of operations in conformity with GAAP.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Revenues are generally recognized when the cash deposit is received by Treasury. However, revenues receivable for federal grants and reimbursements are recognized when related expenditures are incurred, and amounts due from certain political subdivisions of the Commonwealth are recognized when considered measurable and available at year end. GAAP requires that revenues be recognized when measurable and available.

Expenditures generally are recorded when the related cash disbursement occurs. At year end, payroll is accrued and payables are recognized, to the extent of approved encumbrances, for goods or services received by June 30. Costs incurred under the federally-sponsored Medicaid program, amounts required to settle claims and judgments against the Commonwealth, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment. Under GAAP, liabilities are recognized to the extent of costs incurred, without regard to statutory encumbrance limitations.

The accounting policies followed in preparing the accompanying combined financial statements - statutory basis are described as follows.

Cash and short-term investments and investments - The Commonwealth follows the practice of pooling the cash and cash equivalents of its Governmental and Fiduciary Funds. Cash equivalents consist of short-term investments which are stated at cost. Interest earned on pooled cash is allocated to the General Fund and Expendable Trust Funds and to certain Special Revenue Funds when so directed by law.

Investments of the Pension Trust Funds are stated at market. The Massachusetts State Teachers and Employees Retirement Systems Trust (Master's Trust) and the Pension Reserve Investment Trust Fund (PRIT), collectively the Pension Trust Funds have acquired investments in real estate, venture capital funds, real estate funds, limited partnerships, futures pools, international hedge pools, commodities pools, balanced pools, leverage buyouts, private placements and other alternative investments. The structure, risk profile, return potential and marketability of these investments differ from traditional equity and fixed income investments. The estimated values, determined by management with input from the investment managers, of these alternative investments were \$434,131,507 in the Master's Trust and \$635,426,769 in the PRIT.

Other investments are stated at cost.

Receivables - Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the Commonwealth for its expenditures on federally-funded reimbursement and grant programs are reported as "Due from federal government."

Advances to related entity - The Commonwealth periodically provides working capital advances to the Massachusetts Bay Transportation Authority (MBTA) to fund its net cost of service. A portion of these advances is financed by sales of short-term notes which are repaid through subsequent appropriations by the Legislature and assessments to cities and towns for their respective shares of the MBTA's net cost of service.

Inventories - Purchases of materials and supplies are recorded as expenditures. No inventories are reported on the statutory basis.

**COMMONWEALTH OF MASSACHUSETTS
STATUTORY BASIS FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994**

General fixed assets - General fixed asset acquisitions are recorded as expenditures in the Governmental Fund Types and Expendable Trust Funds. They are also capitalized in the General Fixed Assets Account Group in the year of purchase. General fixed assets are capitalized at historical cost, or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at fair market value at the time of donation.

The Commonwealth capitalizes all land. It capitalizes buildings and equipment, including computer software, with costs in excess of fifteen thousand dollars at the date of acquisition and with expected useful lives greater than one year. Infrastructure (roads, bridges, tunnels, dams, water and sewer systems, etc.) is not capitalized. No depreciation is provided on general fixed assets.

Interfund/intrafund transactions - During the course of its operations, the Commonwealth records transactions between funds and/or between departments. On the statutory basis, transactions between Governmental and Fiduciary Fund Types are recorded as adjustments to the funds' cash accounts. As a result, a fund may report a deficiency in cash and short-term investments.

Transactions of a buyer/seller nature between departments within a fund are not eliminated. GAAP requires that such transactions within a fund be eliminated.

Risk financing - The Commonwealth does not insure for workers' compensation, casualty, theft, tort claims and other losses, and such liabilities are not recognized on the statutory basis until encumbered and/or processed for payment. For workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Public Employee Retirement Administration. For personal injury or property damages, Chapter 258 of the Massachusetts General Laws limits the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances. The Group Insurance Commission administers contributory health care and other insurance programs for the Commonwealth's employees and retirees.

Encumbrances - Encumbrance accounting is utilized in the Governmental Fund Types as a significant aspect of budgetary control. The full amounts of purchase orders, contracts and other commitments of appropriated resources are encumbered and recorded as deductions from appropriations prior to actual expenditure, ensuring that such commitments do not exceed appropriations. Encumbrances outstanding at year end for goods or services received on or before June 30 are reported as statutory basis liabilities and expenditures; excess encumbrances are lapsed.

Fringe benefit cost recovery - The Commonwealth appropriates and pays the fringe benefit costs of its employees and retirees through the General Fund and a budgeted Special Revenue Fund. These fringe benefits include the costs of employees' health insurance, pensions, unemployment compensation, and other costs necessary to support the state work force. As directed by Chapter 29, Sections 5D and 6B(f) of the Massachusetts General Laws, these costs are assessed to other funds based on their payroll costs, net of credits for direct payments. Since these fringe benefit costs are not appropriated in the budget, the required assessment creates a variance between budget and actual expenditures at year end.

Compensated absences - Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their then-current rate of pay. Vacation and sick leave are recorded as expenditures when paid.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Fund balances - The Commonwealth reports fund balances as reserved where legally restricted for a specific future use. Otherwise, these balances are considered unreserved.

Fund balance has been reserved as follows:

"Reserved for continuing appropriations" - identifies unexpended amounts in appropriations which the Legislature has specifically authorized to be carried into the next fiscal year.

"Reserved for Commonwealth stabilization" - identifies amounts set aside according to Section 5C of Chapter 29 of the Massachusetts General Laws, which limits to 0.5% of tax collections the amount of undesignated fund balance in the General, Highway, and Local Aid Funds that can be carried forward to the next fiscal year. Any amount in excess of that limit is transferred to the Commonwealth Stabilization Fund, from which appropriations may be made for purposes specified in Section 2H of Chapter 29B.

"Reserved for debt service" - identifies amounts held by fiscal agents to fund future debt service obligations pertaining to the Commonwealth Fiscal Recovery Loan Act of 1990, and to Special Obligation Revenue Bonds authorized under Section 20 of Chapter 29 of the Massachusetts General Laws and Chapter 33, Acts of 1991.

"Reserved for pension benefits" - identifies amounts invested to finance the Commonwealth's public employee retirement systems.

Unreserved fund balance is segregated into two components:

"Designated for specific purpose" - identifies all unreserved fund balances for which the Legislature or Executive Branch has evidenced an intention to restrict for a specific purpose.

"Undesignated" - consists of cumulative surpluses or deficits of the Governmental Fund Types not otherwise designated.

Total columns - memorandum only - Total and subtotal columns on the combined financial statements - statutory basis are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present consolidated financial position, results of operations or changes in financial position. Interfund eliminations have not been made in the aggregation of this data.

Reclassification - Certain reclassifications have been made to the 1993 balances to conform to the presentation used in 1994.

3. BUDGETARY CONTROL:

Chapter 29B of the Massachusetts General Laws requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature which includes estimates of revenues, expenditures and other financing sources and uses anticipated during the coming fiscal year. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies and estimating revenues and other financing sources available to support the expenditures.

**COMMONWEALTH OF MASSACHUSETTS
STATUTORY BASIS FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994**

Before signing the appropriation act, the Governor may veto or reduce any item, subject to legislative override. Further changes to the budget established in the annual appropriation act may be made via supplemental appropriation acts or other legislative acts. These must also be signed by the Governor and are subject to the line item veto.

The majority of the Commonwealth's appropriations are non-continuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior fiscal year be carried forward and made available for current spending. In addition, the Legislature may direct that certain revenues be retained and made available for spending within an appropriation account.

Generally, expenditures may not exceed the level of spending authorized for an appropriation account. Certain interfund assessments to allocate fringe benefits and other costs, however, are mandated by Sections 5D and 6B(f) of Chapter 29 of the Massachusetts General Laws. These allocations are not itemized in the appropriation process and are not separately budgeted.

The original fiscal year 1994 appropriation act was Chapter 110, Act of 1993. This appropriation act authorized \$14,825,102,000 in direct appropriations and \$611,422,000 in authorizations to retain and expend certain non-tax revenues, plus \$125,869,000 of interagency chargebacks. Chapter 110 included projections of \$10,560,000,000 in tax revenues and approximately \$4,887,800,000 in non-tax revenues. With these revenues (exclusive of chargebacks) projected to total approximately \$15,447,800,000, and with unreserved balances of approximately \$142,638,000 carried forward from fiscal year 1993, the budget as presented in this original appropriation act was considered to be in balance. Subsequently, the Legislature overrode the governor's veto of \$20,990,000 in direct appropriations bringing the total direct appropriations to \$14,846,092,000.

During fiscal year 1994, the Legislature also passed and the Governor signed, with some modification through veto, Chapters 151, 495, 496, 497, Acts of 1993, and Chapters 18, 49, Acts of 1994, which included numerous supplemental budgetary appropriations. These increases added \$242,282,000 in direct appropriations, \$18,001,000 in additional retained revenue authorizations and \$3,515,000 of interagency chargebacks. Subsequent to June 30, 1994 the Legislature passed and the Governor signed Chapter 126 of the Acts of 1994 which included \$119,857,000 in additional supplemental appropriations. Fiscal year 1994 appropriations, retained revenues, and interagency chargebacks totaled \$15,967,038,000. Appropriations continued from fiscal year 1993, totaled approximately \$106,626,000, and certain intrafund and interfund transfers directed by statute, totaled approximately \$197,550,000.

Because revenue budgets are not updated subsequent to the original appropriation act, the comparison of the initial revenue budget to the subsequent, and often modified, expenditure budget can be misleading. Also, these financial statements portray fund accounting with gross inflows and outflows, thus creating a second discrepancy to separately published budget documents.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

In conducting the budget process, the Commonwealth excludes those interfund transactions that by their nature have no impact on the combined fund balance of the budgeted funds. The following table isolates this interfund activity from the budgeted sources and uses to align more clearly forecasts prepared during the budget process to the detailed fund accounting of the Commonwealth's annual financial statements (amounts in thousands):

	<u>Revenues and other financing sources</u>	<u>Expenditures and other financing uses</u>
As presented in the combined budget and actual statement - statutory basis:	\$ 15,979,221	\$ 15,952,460
Adjustments to revenues and expenditures:		
Municipal transit assessments	(140,365)	(140,365)
Charges from the Intragovernmental Service Fund	(96,868)	(96,368)
Adjustments to other financing sources and uses:		
MBTA subsidy transfer from the Highway Fund to the General Fund	(60,386)	(60,386)
School Choice	(17,908)	(17,908)
Fringe benefit cost assessments to budgeted funds	(46,436)	(46,436)
Transfer from the Intragovernmental Service Fund to the General Fund	(1,601)	(1,601)
RMV License Plates	(494)	(494)
Stabilization transfers	<u>(65,423)</u>	<u>(65,423)</u>
As presented on budgetary documents:	<u>\$ 15,549,740</u>	<u>\$ 15,522,979</u>

The enacting or supplemental legislation determines the budgeted fund or funds to which the appropriation is assigned. If no Special Revenue Fund is identified, the appropriation is considered part of the General Fund.

The budgeted funds, the combined financial statements - statutory basis include a combined budget and actual statement. Following is a list of budgeted funds grouped by specific categories.

**COMMONWEALTH OF MASSACHUSETTS
STATUTORY BASIS FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994**

Administrative Control Funds are:

Intragovernmental Services Fund, Revenue Maximization Fund, and Commonwealth Fiscal Recovery Fund.

Major Budgeted Special Revenue Funds are:

Highway Fund, Local Aid Fund, and Commonwealth Stabilization Fund.

Budgeted Environmental (Special Revenue) Funds are:

Natural Heritage and Endangered Species Fund, Mosquito and Greenhead Fly Control Fund, Inland Fisheries and Game Fund, Environmental Challenge Fund, Toxics Use Reduction Fund, Clean Environment Fund, Environmental Permitting and Compliance Assurance Fund, Underground Storage Tank Petroleum Product Cleanup Fund, Environmental Law Enforcement Fund, Public Access Fund, Harbors and Inland Waters Maintenance Fund, Marine Fisheries Fund, Watershed Management Fund, Low Level Radioactive Waste Management Fund, Asbestos Cost Recovery fund and Clean Air Act Compliance Funds.

Other Budgeted (Special Revenue) Funds are:

Antitrust Law Enforcement Fund, Victim and Witness Assistance Fund, Intercity Bus Capital Assistance Fund, State Transportation Building Management Fund, Springfield State Office Building Management Fund, Motorcycle Safety Fund, Re-Employment and Job Placement Fund, Trust Fund for the Head Injury Treatment Services Fund, Massachusetts Tourism Fund, Health Care Access Fund, Ponkapoag Recreational Fund, Division of Insurance Fund, Health Protection Fund, and Leo J. Martin Recreation Fund.

The Child Care Affordability Scholarship Assistance Fund, established as a budgeted fund in fiscal year 1991, the Health Insurance Hardship Trust Fund established in 1988, and the Motor Vehicle Emission Inspection Compliance Fund established in 1994, as nonbudgeted special revenue funds, have had no activity and no financial statements are presented.

The Office of the Comptroller has the responsibility to ensure that budgetary control is maintained on an individual appropriation account basis. Encumbrances or expenditures will not be approved by the Comptroller if they exceed the account's total spending authorization, based on appropriations, balances carried forward from the prior year and retained revenues. In the combined budget and actual statement, the expenditure budget amounts represent this total spending authority.

4. DEPOSITS AND INVESTMENTS:

The Commonwealth maintains a cash and short-term investment pool that is available for use by all funds. Each fund type's net equity in this pool is displayed on the combined balance sheet as either "Cash and short-term investments" or "Deficiency in cash and short-term investments". The investments of the Pension Trust Funds are held and managed in separate and pooled trusts.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

The Office of the Treasurer and Receiver-General (the Treasury) manages the Commonwealth's short-term investment pool. Statutes authorize investment in obligations of the U.S. Treasury, authorized bonds of all states, banker's acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poor's Corporation and Moody's Commercial Paper Record and repurchase agreements that any of these obligations secure. Such investments are carried at cost, which approximates market.

The pooled cash and short-term investments at June 30, 1994, are as follows (amounts in thousands):

	Carrying Value
Cash	\$ 712,163
Certificates of deposit	2,900
	715,063
Short-term investments:	
U.S. Treasury obligations	489,000
Commercial paper	102,919
Short-term investment pool	280,600
Repurchase agreements	355,000
	1,227,519
Non-appropriated Higher Education Fund Type cash managed at the campus level	121,606
	\$ 2,064,188

The Pension Trust Funds have invested a significant portion of their portfolios on two pooled trusts which account for their operations in a manner similar to mutual fund. The trusts are permitted to invest in equity securities, fixed income securities, real estate and other alternatives. The investments are carried at market value. At June 30, 1994, they are as follows (amounts in thousands):

Investments:	
Equity securities	\$ 6,571,068
U.S. government and government agency securities	2,027,604
Fixed income securities	1,473,849
Real estate	629,032
Commercial paper	10,352
Money market investments	225,979
Mutual funds	966
Alternative investments	440,842
Foreign government treasury obligations	183,815
Other	49,702
	\$ 11,613,209

**COMMONWEALTH OF MASSACHUSETTS
STATUTORY BASIS FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994**

5. SHORT-TERM FINANCING AND CREDIT AGREEMENTS:

Section 47 of Chapter 29 of the Massachusetts General Laws authorizes the Treasurer to issue temporary notes in anticipation of revenue or bond financing. When this short-term debt does not meet long-term refinancing criteria, it is classified among fund liabilities.

General Fund -As authorized by Chapter 161A of the Massachusetts General Laws, the Commonwealth issues short-term notes to finance working capital advances from the Treasury to the MBTA. The Commonwealth retires these notes through subsequent appropriations and assessments to cities and towns. The notes outstanding at June 30, 1994, totaled \$240,000,000, with an interest rate of 3.4% and a yield of 2.86%, and matured in November, 1994. The Commonwealth subsequently issued comparable notes, also in the amount of \$240,000,000, with an interest rate of 5%, maturing in June, 1995.

The balance of other revenue anticipation notes outstanding fluctuates during the fiscal year but must be reduced to zero at June 30. During fiscal year 1994, amounts outstanding for the Revenue Anticipation Notes (RAN's) ranged from zero to \$250,000,000 and for the Bond Anticipation Notes (BAN's) ranged from zero to \$180,000,000. Such borrowings were subject to a guarantee of up to \$600,000,000 through letter of credit agreements.

Capital Projects Funds - The Commonwealth has issued five-year term minibonds, which are redeemable upon demand, to finance its capital projects. At June 30, 1994, minibonds outstanding in the Capital Projects Funds totaled \$49,062,000, with interest rates ranging from 5.0% to 8.0%.

The Commonwealth may issue bond anticipation notes to temporarily finance its capital projects, but it must reduce the balance to \$200,000,000 at June 30. There were such notes outstanding at June 30, 1994.

Letter of credit agreements - During fiscal year 1994, the Commonwealth maintained letter of credit agreements with several banks in order to provide credit and liquidity support for its commercial paper program. The letters of credit were available to secure up to \$600,000,000 of Commonwealth commercial paper plus interest thereon. Advances were available, subject to certain limitations and bearing interest at the bank rate as defined, in anticipation of revenue or bond proceeds and repayable by the following June 30, subject to extension in certain circumstances, at the Commonwealth's option. No such advances were drawn during the fiscal year ended June 30, 1994, or subsequent thereto. These agreements expire September 30, 1994 through October 29, 1994. The average costs are approximately 0.3% on unutilized amounts and approximately 0.4% on utilized amounts.

Subsequent to June 30, 1994, the Commonwealth established a line of credit with a bank to provide liquidity support for up to \$200,000,000 of commercial paper notes, which line of credit expires September 30, 1996. In addition, the Commonwealth entered into letter of credit agreements with two banks to provide credit and liquidity support for up to \$400,000,000 of commercial paper notes, plus interest thereon. These letters of credit expire on September 30, 1996 and October 31, 1996, respectively. The average costs of all three facilities are approximately 0.077% on unutilized amounts and approximately 0.11% on utilized amounts.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Line of credit agreement - The Commonwealth maintained a revolving line of credit agreement with a bank through June 30, 1994, in the amount of \$150,000,000. Under this agreement, interest was charged at the lesser of the federal funds rate plus 1.5%, or prime, with commitment fees payable quarterly on the excess of the commitment amount over the average daily outstanding principal amount drawn. Commitment fees totaled \$75,000. This line of credit agreement was not utilized during the fiscal year and was allowed to expire on June 30, 1994.

6. LONG-TERM BONDS:

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

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including bonds and notes issued by it and all claims with respect thereto. However, the property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires legislative appropriation. Enforcement of a claim for the payment of principal or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth statutes, if any, enacted to extend the time for payment or impose other constraints upon enforcement.

As of June 30, 1994, the Commonwealth had three types of bonds outstanding: general obligation bonds, dedicated income tax bonds, and special obligation bonds. The general obligation bonds are authorized and issued primarily to provide funds for state-owned capital projects and local government improvements. They are backed by the full faith and credit of the Commonwealth and paid from the Governmental Funds, in which debt service principal and interest payments are appropriated. Section 49 of Chapter 29 of the Massachusetts General Laws provides for the allocation of bond proceeds to these authorizations in arrears, as expenditures are made, unless the proceeds are allocated at the time of issuance.

During fiscal year 1991, dedicated income tax bonds were issued as authorized by Chapter 151, Acts of 1990, to finance the combined net undesignated fund deficit in the General and Local Aid Funds at June 30, 1990. These bonds are designated Fiscal Recovery Loan, Act of 1990, and they are secured by the pledge of certain dedicated income tax revenues and the investment earnings thereon.

During fiscal year 1992 and again during fiscal year 1994, the Commonwealth issued special obligation revenue bonds as authorized under Section 20 of Chapter 29 of the Massachusetts General Laws. These bonds are secured by all or a portion of revenues credited to the Highway Fund and are not general obligations of the Commonwealth. At June 30, 1994, the Commonwealth had outstanding \$403,770,000 of such special obligation bonds, secured by a pledge of 6.86 cents of the 21-cent motor fuel excise tax imposed on gasoline.

**COMMONWEALTH OF MASSACHUSETTS
STATUTORY BASIS FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994**

For financial reporting purposes, long-term bonds are carried at their face amount, which includes discount and any issuance costs financed. The outstanding amount represents the total principal to be repaid; for capital appreciation bonds, it represents total principal and interest to be repaid. When short-term debt has been refinanced on a long-term basis it is reported as outstanding at its face amount.

The amount of bonds authorized but unissued is measured in accordance with the statutory basis of accounting, with only the net proceeds (exclusive of discount and costs of issuance) deducted from the total authorized by the Legislature.

General and special obligation long-term bonds outstanding and bonds authorized-unissued at June 30, 1994, are as follows (amounts in thousands):

Purpose	Outstanding		Authorized -unissued
	Amount	Maturity dates	Amount
Deficit reduction:			
Fiscal recovery	\$ 839,810	1994 -1998	\$ 57,274
Capital projects:			
General	4,965,236	1994 - 2014	2,613,220
Highway	2,427,619	1994 - 2014	965,681
Local aid	1,105,083	1994 - 2013	855,998
Other	89,997	1994 - 2025	20,124
Capital projects bonds	8,587,935		4,455,023
Total	\$ 9,427,745		\$ 4,512,297

Interest rates on the Commonwealth's bonded debt outstanding at June 30, 1994 ranged from 1.10% to 14.12%.

Changes in long-term bonds outstanding and bonds authorized-unissued for the year ended June 30, 1994, are as follows (amounts in thousands):

	Bonds outstanding	Authorized -unissued
Balance, July 1, 1993	\$ 9,231,458	\$ 4,614,367
General and special obligation bonds:		
Principal less discount and issuance costs	690,206	(690,206)
Discount and issuance costs	9,794	
General obligation refunding bonds:		
Principal less discount and issuance costs	835,795	
Discount and issuance costs	7,200	
Bonds retired	(1,346,708)	
Increase in bonds authorized		612,611
Expiration of authorizations		(24,475)
Balance, June 30, 1994	\$ 9,427,745	\$ 4,512,297

NOTES TO THE COMBINED FINANCIAL STATEMENTS

At June 30, 1994, debt service requirements to maturity for principal (including discount, capital appreciation and issuance costs) and interest are as follows (amounts in thousands):

Year ending June 30	Principal	Interest	Total
1995	\$ 646,279	\$ 490,506	\$ 1,136,785
1996	666,961	453,264	1,120,225
1997	694,365	410,257	1,104,622
1998	618,262	368,262	986,524
1999	543,937	338,349	882,286
2000 and thereafter	6,257,941	2,097,805	8,355,746
Total	<u>\$ 9,427,745</u>	<u>\$ 4,158,443</u>	<u>\$ 13,586,188</u>

The Commonwealth issued bonds and notes under negotiated contracts and under competitive bidding contracts during the fiscal year 1994. The costs for legal counsel and underwriting fees under the negotiated contracts were \$260,000 and \$5,762,975, and the competitive bidding contract costs were estimated at \$235,000 and \$1,982,000, respectively.

Subsequent to June 30, 1994, the Commonwealth issued \$250,000,000 in general obligation bonds, with interest rates ranging from 5.0% to 6.0%, and \$200,000,000 in general obligation bonds, with interest rates ranging from 5.5% to 7%.

Advance refundings and defeased bonds- As authorized by Section 53A of Chapter 29 of the Massachusetts General Laws, the Commonwealth advance refunded certain general obligation and other bonds through the issuance of \$842,995,000 of general obligation refunding bonds during fiscal year 1994. Proceeds totaling approximately \$839,094,000 were used to purchase U.S. Government securities which were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liabilities therefor have been removed from the General Long-term Obligations Account Group. As a result of these advance refundings, the Commonwealth decreased its current year debt service payments and has taken advantage of lower interest rates, and it has decreased its aggregate debt service payments by approximately \$65,942,000 over the next 20 years and incurred an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$49,339,000. At June 30, 1994, approximately \$749,925,000 of the bonds so refunded remain outstanding and are considered defeased.

In prior years, the Commonwealth also defeased certain general obligation and other bonds by placing the proceeds of refunding bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 1994, approximately \$2,577,000,000 of bonds outstanding from advance refundings in prior fiscal years are considered defeased.

Statutory debt limit - In fiscal years 1990 and 1991, Section 60A of Chapter 29, of the Massachusetts General Laws was amended to establish a limit on the amount of direct debt outstanding, effective at the

**COMMONWEALTH OF MASSACHUSETTS
STATUTORY BASIS FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994**

beginning of fiscal year 1991. By statutorily limiting the Commonwealth's ability to issue direct debt, these amendments provide a control on annual capital spending. The first-year limit was \$6,800,000,000 with an increase of 5% allowed in each successive fiscal year. The direct debt limit for fiscal year 1994 was \$7,871,850,000.

For purposes of determining compliance with the limit, direct debt is defined to include general obligation bonds and minibonds at the amount of their original net proceeds. It excludes discount and issuance costs, if any, financed by these bonds. It also excludes dedicated income tax bonds issued under Chapter 151, Acts of 1990, special obligation bonds issued under Section 20 of Chapter 29 of the Massachusetts General Laws, refunded bonds, refunding bonds issued under Section 5 of Chapter 5, Acts of 1991, and bond anticipation notes. Outstanding direct debt, as defined, totaled approximately \$7,392,292,000 at June 30, 1994.

A telecommunications system was acquired in 1988 for the University of Massachusetts (UMass). The system was financed, under a trust agreement, through the issuance of certificates of participation for approximately \$18,700,000, which bear interest at an average rate of 7.38% and mature in varying semiannual installments through year 2000. Payments are funded from UMass student fees and approximate the trustee's payments to certificate holders.

Future minimum payments under non-cancelable certificates of participation are as follows (amounts in thousands):

<u>Year ending June 30</u>	<u>Amount</u>
1995	\$ 2,668
1996	2,670
1997	2,671
1998	2,668
1999	2,671
2000 and thereafter	<u>2,673</u>
Total payments	16,021
Less: Amount representing interest	<u>(3,334)</u>
Present value of payments	<u>\$ 12,687</u>

NOTES TO THE COMBINED FINANCIAL STATEMENTS

7. OBLIGATIONS UNDER LEASE AND LEASE/PURCHASE AGREEMENTS:

In order to finance the acquisition of equipment, the Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease purchase (TELP) agreements, which are accounted for as capital leases. These agreements are for various terms, and contain clauses indicating that their continuation is subject to appropriation by the Legislature. For the fiscal year ended June 30, 1994, lease/purchase expenditures under these agreements totaled approximately \$27,555,000.

At June 30, 1994, the Commonwealth's aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totals \$69,730,000. This liability is reported in the General Long-term Obligations Account Group. Equipment acquired under capital leases and included in the General Fixed Assets Account Group totaled approximately \$90,889,000.

The Commonwealth has numerous operating lease agreements for real property and equipment with varying terms. These agreements contain provisions indicating that continuation is subject to appropriation by the Legislature. Rental expense for the fiscal year ended June 30, 1994 was approximately \$106,186,000.

The following is a schedule of future minimum payments under non-cancelable leases as of June 30, 1994 (amounts in thousands):

Year ending June 30	Capital Leases			Operating leases
	Commonwealth	UMass	Total	
1995	\$ 18,629	\$ 5,726	\$ 24,355	\$ 86,460
1996	14,676	4,788	19,464	66,707
1997	10,545	3,883	14,428	53,430
1998	7,071	2,806	9,877	43,314
1999	5,084	2,112	7,196	28,524
2000 and thereafter	2,786	3,339	6,125	8,224
Total	58,791	22,654	81,445	\$ 286,659
Less: Amount representing interest	(7,837)	(3,878)	(11,715)	
Present value of minimum lease payments	\$ 50,954	\$ 18,776	\$ 69,730	

**COMMONWEALTH OF MASSACHUSETTS
STATUTORY BASIS FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994**

8. INDIVIDUAL FUND DEFICITS:

The General Fund and certain Special Revenue and Capital Projects Funds included in the combined totals have fund deficits at June 30, 1994, as follows (amounts in thousands):

<u>Fund</u>	
General	\$ 631,903
Budgeted Special Revenue:	
Environmental:	
Natural Heritage and Endangered Species	18
Environmental Permitting and Compliance Assurance	9,135
Low Level Radioactive Waste Management	54
Other:	
Antitrust Law Enforcement	1,144
Victim and Witness Assistance	3,125
Intercity Bus Capital Assistance	8,307
Leo J. Martin Recreation	36
Non-budgeted Special Revenue:	
Other:	
Government Land Bank	21,454
Federally-assisted Housing	9,762
Capital Projects:	
General	210,991
Highway	82,007
Local Aid:	
Community Development Action Grants	40,504
Lockup Facilities Improvements	178
County Correctional Facilities	504
Local Infrastructure	227
Water Pollution Control	13,129
Other:	
State Recreation Areas	702
Metropolitan Parks	4,304
Intercity Bus Capital Assistance	<u>5</u>
Total	<u>\$ 1,037,459</u>

In order to resolve the deficits in the budgeted General and Special Revenue Funds, the Comptroller has recommended the authorization of transfers from other budgeted funds with surplus balances or a plan of fund consolidation. For the non-budgeted Special Revenue Funds, the Comptroller has recommended similar budgeted transfers to subsidize and resolve the deficits, or their consolidation into budgeted funds. Such steps require legislative action.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

In the Capital Projects Funds, the recognition of minibonds as fund liabilities accounts for \$49,062,000 of the reported fund deficits. The remaining deficits to be financed, approximately \$303,423,000, reflect the time lag between capital expenditures and the receipt or allocation of proceeds from the sale of related bonds. Subsequently, on August 9, 1994, the Commonwealth issued \$250,000,000 of General Obligation Bonds to finance the deficit.

9. MEDICAID COSTS:

The Commonwealth provides medical care for low-income, elderly and other residents who qualify for such assistance under the federally-sponsored Medical Assistance Program, known as Medicaid. The Commonwealth pays the full cost of care and is reimbursed by the federal government for 50% of that cost. For the fiscal year ended June 30, 1994, the General Fund and Local Aid Funds include \$3,313,126,524 in expenditures for Medicaid claims processed for payment.

The combined financial statements - statutory basis include Medicaid claims processed but unpaid at June 30, 1994, as accounts payable of approximately \$10,433,661. In addition, the Commonwealth estimates its liability, as determined in accordance with generally accepted accounting principles at \$814,000,000. This amount includes estimates of both the cost of care provided as of June 30, 1994, for which claims have not been processed, and the cost associated with nursing home and hospital rate settlements and other costs. Of this amount, 50% is expected to be reimbursed by the federal government.

Subsequent to June 30, 1994, the Commonwealth reached settlements with certain hospitals, and it also certified disputed nursing home rates on a retroactive basis. These actions are expected to reduce the Commonwealth's Medicaid liability as measured by GAAP for fiscal year 1994.

10. RETIREMENT SYSTEMS:

The Commonwealth is responsible for the pension benefits of Commonwealth employees (members of the State Employees' Retirement System) and the teachers of its cities, towns, regional school districts and Quincy College (members of the Teachers' Retirement System, except for teachers in the Boston public schools, who are members of the State-Boston Retirement System but whose pensions are also the responsibility of the Commonwealth). The members of the retirement systems do not participate in the Social Security System. The Commonwealth has also assumed responsibility for payment of cost-of-living adjustments (COLA) for the separate (non-teacher) retirement systems of its cities, towns and counties.

Employees of certain independent authorities and agencies, such as the MBTA, and of counties, cities and towns (other than teachers) are covered by separate retirement systems. Also, certain Commonwealth employees and current retirees employed prior to the establishment of the State Employees' Retirement System are covered on a "pay-as-you-go" basis.

Plan descriptions - State Employees' Retirement System (SERS) is a single employer defined benefit public employee retirement system (PERS), covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies.

Teachers' Retirement System (TRS) is an agent multiple employer defined benefit PERS. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit

**COMMONWEALTH OF MASSACHUSETTS
 STATUTORY BASIS FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 1994**

requirements of TRS. The TRS covers certified teachers in cities (except the City of Boston), towns, regional school districts and Quincy College.

State - Boston Retirement System (SBR) is an agent multiple employer defined benefit PERS. SBR provides pension benefits to all full-time employees upon commencement of employment with any of the various government agencies covered by SBR. The Commonwealth is a non-employer contributor and is only responsible for the actual cost of pension benefits for SBR participants who serve in the City of Boston's School Department in a teaching capacity. The cost of pension benefits of the other participants is the responsibility of the City of Boston.

The Commonwealth has assumed financial responsibility for the COLA granted to participants in the 104 retirement systems of its cities, towns and counties. Any future COLA granted by the Legislature to employees of these plans will also be the responsibility of the Commonwealth. The individual employer governments are responsible for the basic pension benefits.

Membership - Membership in SERS, TRS as of January 1, 1993 and SBR as of January 1, 1994 is as follows:

	<u>SERS</u>	<u>TRS</u>	<u>SBR</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>45,419</u>	<u>30,168</u>	<u>2,354</u>
Current employees:			
Vested	36,398	44,782	3,872
Nonvested	<u>47,114</u>	<u>17,206</u>	<u>2,011</u>
Subtotal	<u>83,512</u>	<u>61,988</u>	<u>5,883</u>
Total	<u>128,931</u>	<u>92,156</u>	<u>8,237</u>

Benefit provisions - Chapter 32 of the Massachusetts General Laws establishes uniform benefit and contribution requirements for all contributory PERS. The statute provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, level of compensation, and group classification.

The retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total contributions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 80%-85% pension and 15%-20% annuity.

Members become vested after ten years of creditable service. A superannuating retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years

NOTES TO THE COMBINED FINANCIAL STATEMENTS

of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55.

Contributions required and contributions made - The funding policies for the retirement systems' have also been established by Chapter 32 of the Massachusetts General Laws. The annuity portion of the SERS, TRS and SBRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation - 5% for those hired before January 1, 1975, 7% for those hired from January 1, 1975, through December 31, 1983, and 8% for those hired on or after January 1, 1984, plus an additional 2% of compensation above \$30,000 per year for those hired on or after January 1, 1979.

The Commonwealth's contribution for the pension benefit portion of the retirement allowance of SERS and TRS and required payments to cover SBRS and COLA contributions was originally established on a "pay-as-you-go" basis. As a result, amounts were appropriated each year to pay current benefits, without a systematic provision to fully fund future liabilities already incurred. In fiscal year 1988, with the adoption of Chapter 697, Acts of 1987 (Chapter 697), the Commonwealth addressed the unfunded liabilities of SERS, TRS and its participation in SBRS and its COLA obligation. Chapter 697 requires systematic funding on a current basis, including amortizing the unfunded liabilities and liabilities for future COLA payments to local systems, over 40 years.

Chapter 697 also directs the Secretary for Administration and Finance to prepare a funding schedule to meet these requirements, and to update this funding schedule every three years on the basis of new actuarial valuation reports prepared under the Secretary's direction. Any such schedule is subject to legislative approval. If a schedule is not so approved, payments are to be made in accordance with the most recently approved schedule. Chapter 697 further provides that if, during the first 10 years of scheduled payments, the pension benefits paid exceed the scheduled contribution, the Commonwealth's contribution shall equal these benefits payments.

The current approved funding schedule, based on the January 1, 1990 valuation, was filed with the Legislature on March 1, 1991. It required contributions by the Commonwealth of \$763,749,000 during the fiscal year ended June 30, 1993. Because total pay-as-you-go benefits exceeded this amount, no additional Commonwealth contribution was required.

Actual contributions for the year ended June 30, 1994, are as follows (amounts in thousands):

	Employee contributions	Commonwealth contributions
SERS	\$ 212,625	\$ 415,173
TRS	171,273	328,707
SBRS	14,056	28,223
COLA		94,287
	\$ 397,954	\$ 866,390
Total		

During fiscal year 1994, the Commonwealth also made payments totaling approximately \$22,209,000 to retirees employed prior to the establishment of the current plans and to non-contributory plans.

**COMMONWEALTH OF MASSACHUSETTS
STATUTORY BASIS FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994**

Postretirement health care and life insurance benefits - In addition to providing pension benefits, the Commonwealth is statutorily required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs, which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and agencies. The Commonwealth recognizes its share of the cost of providing these benefits when paid. These payments totaled approximately \$126,026,713 for the fiscal year ended June 30, 1994.

11. COMMITMENTS AND CONTINGENCIES:

Under Chapters 161A and 161B of the General Laws, the Commonwealth is obligated to pay a portion of the debt service and the net costs of service of MBTA and certain regional transit authorities. The Commonwealth recovers a portion of these payments through assessments to the cities and towns served. Fiscal year 1994 net expenditures were \$490,428,951 and \$31,855,619, respectively. For fiscal year 1995, the Commonwealth has appropriated \$500,901,506 and \$33,973,184 to the MBTA and regional transit authorities, respectively. These appropriations cover net costs of service for the calendar year ended December 31, 1993.

The Commonwealth is also statutorily obligated to provide contract assistance for debt service obligations to the Massachusetts Convention Center Authority (MCCA) and the Government Land Bank. Such assistance totaled \$17,583,383 in fiscal year 1994. For fiscal year 1994, appropriations for this purpose totaled \$30,610,780.

At June 30, 1994, the aggregate outstanding debt for which the Commonwealth is obligated to provide contract assistance support totaled approximately \$2,442,885,000 long term and \$433,269,000 for short term. In addition, the Commonwealth guarantees the debt of certain local governments and public higher education building authorities. The guaranteed debt outstanding at June 30, 1994, was approximately \$235,916,000.

At June 30, 1994, the Commonwealth had commitments approaching \$1,636,000,000 for various construction projects. The majority of these construction commitments relate to a major infrastructure project known as the Central Artery Project in which Federal participation is anticipated. The remainder relate to a wide range of building construction projects.

A number of lawsuits are pending or threatened against the Commonwealth which arose from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. For those cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated, the Attorney General estimates the liability to be approximately \$73,500,000. Of this amount approximately \$61,500,000 is expected to be paid in fiscal year 1995; and \$12,000,000 is expected to be paid thereafter. Appellate Tax Board cases included in the amount to be paid in 1995 total \$17,500,000. No accrual has been made for these amounts in the combined financial statements - statutory basis.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Workers' compensation costs are recognized when claims are presented and paid. The Commonwealth's outstanding liability for such claims at June 30, 1994, is estimated to be \$341,900,000, of which approximately \$54,100,000 is expected to be recognized during fiscal year 1994. No accrual has been made for these amounts in the combined financial statements - statutory basis.

The Commonwealth receives significant financial assistance from the federal government. Entitlement to these resources is generally conditional upon compliance with terms and conditions of the grant or reimbursement agreements and with applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits. Any disallowances become liabilities of the fund which received the assistance. At June 30, 1994, the Commonwealth estimates that liabilities, if any, which may result from such audits are not material.

Chapter 200A of the Massachusetts General Laws, the Commonwealth's Abandoned Property Law, requires deposit of certain unclaimed assets into a managed Agency Fund. The statute requires the excess amount over \$500,000 each June 30 to be remitted to the General Fund, where it is included as miscellaneous revenue. Amounts remitted during fiscal year 1994 totaled \$54,298,192. Since inception, approximately \$484,660,192 has been remitted. This represents a contingency, because claims for refunds can be made by the owners of the property. No material amounts have been repaid.

12. NON-TAX REVENUE INITIATIVES:

Chapter 653, Acts of 1989, amended Chapter 29 of the Massachusetts General Laws, by adding Sections 29D and 29E, which authorize certain non-tax revenue initiatives and require reporting thereon, as follows.

Debt collection - Private debt collectors were engaged, with fees, on a contingent basis, from the proceeds collected. Collections and fees paid during fiscal year 1994 were: (amounts in thousands):

<u>Department Collectors</u>	<u>Collections</u>	<u>Fees</u>
Allen Daniels Associates	\$ 36	\$ 5
Credit Control Services	227	74
Collection Co. of America	9	2
Glenn Associates, Inc.	1	1
Payco-American Corporation	4	1
Walker	1	1
	<u>278</u>	<u>84</u>
Totals	<u>\$ 278</u>	<u>\$ 84</u>

No amounts were collected by the following, and no fees were paid: Capital Credit Corporation and Financial Collection Agency.

**COMMONWEALTH OF MASSACHUSETTS
 STATUTORY BASIS FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 1994**

Under a similar program for the Commonwealth's public institutions of higher education, the following amounts were collected and fees paid (amounts in thousands):

<u>Debt Collectors</u>	<u>Collections</u>	<u>Fees</u>
Allen Daniels Associates	\$ 107	\$ 21
Collection Co. of America	402	141
Glenn Associates, Inc.	93	10
Payco-American Corporation	<u>205</u>	<u>61</u>
Totals	<u>\$ 807</u>	<u>\$ 233</u>

Revenue maximization - Contractors were engaged to assist several of the Commonwealth's departments in the identification and collection of federal and other revenues. During fiscal year 1994, approximately \$51,000,000 was collected through such efforts, which included approved billing of third parties responsible for patients in Commonwealth-operated hospitals. After contractor fees were paid on a contingent basis, the Commonwealth received approximately \$47,000,000.

Utility Audits- Massachusetts General Law, Chapter 29 Section 29G, authorized the Department of Procurement and General Services to solicit services and enter into contingent contracts on behalf of governmental entities for the potential recoupment of overcharges associated with utility expenses. In fiscal year 1994 two providers were selected to perform reviews of utility billings. As of June 30 reviews were either in process or completed for twelve state managed facilities. Vendors selected were: Utility Management Group and Precision Flow Laboratories. During fiscal year 1994, \$16,000 was recouped and \$6,400 was paid to the Utility Management Group, resulting in a net benefit to the Commonwealth of \$9,600. In addition, during fiscal year 1994, reviews were in process for 32 municipalities who have taken advantage of the master service agreement negotiated by Procurement and General Services.

COMMONWEALTH OF MASSACHUSETTS -

GENERAL PURPOSE FINANCIAL STATEMENTS

**Independent Auditors' Report**

Mr. William Kilmartin, Comptroller
The Commonwealth of Massachusetts

We have audited the accompanying general purpose financial statements of the Commonwealth of Massachusetts as of June 30, 1994, and for the year then ended. These general purpose financial statements are the responsibility of the management of the Commonwealth of Massachusetts. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the University of Massachusetts, Massasoit Community College, Bridgewater State College, and the State College Building Authority, which statements reflect 74 percent of the total assets and 76 percent of the revenues of the University and College Fund Type. We did not audit the financial statements of the Pension Reserves Investment Trust which is an investment vehicle for certain of the Commonwealth of Massachusetts' Pension Trust Funds, the financial statements which reflect 26 percent of the total assets and 8 percent of the revenues of the Fiduciary Fund Type. Except for the Massachusetts Convention Center Authority, which represents 4 and 3 percent of assets and revenues respectively, we did not audit the financial statements of the entities which comprise the Component Units Column. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University and College Fund Type, Fiduciary Fund Type and the discretely presented Component Units referred to above, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the general purpose financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based upon our audit and the reports of the other auditors, such general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth of Massachusetts as of June 30, 1994, and the results of its operations and cash flows of its Nonexpendable Trust Fund and discretely presented Component Units for the year then ended in conformity with generally accepted accounting principles.

As discussed in note 15, the Commonwealth adopted Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity."

As discussed in Note 1, the Fiduciary Fund Type includes investments representing 5.7 percent of the assets of the Fiduciary Fund Types, whose values have been estimated by management in the absence of readily ascertainable market values. The procedures used by management in arriving at the estimated value of such investments and the underlying documentation have been reviewed and inspected by us and by the other auditors' and, in the circumstances, we believe and the other auditors' report states their belief, that the procedures of management are reasonable and the documentation appropriate. However, determination of the value of these investments involves subjective judgment because the actual market value can be determined only by negotiation between the parties in a sales transaction. The estimated values of the investments may differ from the values that would have been used had a ready market existed for the investments.

As discussed in Note 1, the discretely presented Component Units include investments representing 1 percent of their total assets, whose values have been estimated by management in the absence of readily ascertainable market values. The procedures used by management in arriving at the estimated value of such investments and the underlying documentation have been reviewed and inspected by other auditors' and, the other auditors' report states their belief, that the procedures of management are reasonable and the documentation appropriate. However, determination of the value of these investments involves subjective judgment because the actual market value can be determined only by negotiation between the parties in a sales transaction. The estimated values of the investments may differ from the values that would have been used had a ready market existed for the investments

Our audit was made for the purpose of forming an opinion on the general purpose financial statements taken as a whole. The required supplementary information on the public employee retirement systems is presented for the purpose of additional analysis and is not a required part of the general purpose financial statements of the Commonwealth of Massachusetts. The supplementary information is the responsibility of the management of the Commonwealth of Massachusetts. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, based on our audit and the reports of other auditors, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Deloitte & Touche LLP

December 21, 1994

COMMONWEALTH OF MASSACHUSETTS
 COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS AND
 DISCRETELY PRESENTED COMPONENT UNITS

JUNE 30, 1994

(Amounts in thousands)

	Primary			
	Governmental Fund Types			Fiduciary Fund Types
	General	Special Revenue	Capital Projects	Trust and Agency
ASSETS AND OTHER DEBITS				
Cash and short-term investments	\$ 33,975	\$ 1,023,832	\$ 2,636	\$ 1,749,344
Cash with fiscal agent	786	4,328		
Deposits				33,001
Investments				11,613,208
Restricted investments			83,319	
Investments of deferred compensation plan				945,401
Annuity contracts				1,045,084
Assets held in trust				1,550,917
Receivables, net of allowance for uncollectibles:				
Taxes	612,921	432,216		319,802
Due from federal government	580,130	145,162	155,301	655
Loans				7,420
Other receivables	179,002	95,396	1,271	1,642,070
Due from cities and towns	213,331	1,177		
Due from primary government				
Due from other funds	9,897	149,972	20,632	2,487
Inventory				
Fixed assets				
Other assets				
Amounts available for retirement of general long-term obligations				
Amounts to be provided for retirement of general long-term obligations				
Total assets and other debits	\$ 1,630,042	\$ 1,852,083	\$ 263,159	\$ 18,909,389
LIABILITIES, FUND EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable	\$ 1,239,818	\$ 362,597	\$ 305,902	\$ 1,832,981
Accrued payroll	62,098	18,831	1,980	368
Compensated absences	90,493	52,601	3,799	200
Tax refunds and abatements payable	335,988	216,813		8,475
Due to cities and towns				11,937
Due to other funds			170,604	6,164
Due to component unit	326,228	100,763	18,180	
Due to federal government	30,780	2,100		
Deferred revenue	95,382	70,912	880	29,844
Prizes payable				1,045,084

University and College Fund Type	Government				Component Units
	Account Groups		Totals (Memorandum Only)		Component Units
	General Fixed Assets	General Long-term Obligations	1994	1993 (As restated)	
University and Colleges					
\$ 87,949	\$ 0	\$ 0	\$ 2,897,736	\$ 2,565,086	\$ 272,708
55,268			60,382	3,797	
			33,001	49,506	
255,295			11,868,503	11,347,123	173,830
			83,319		59,380
			945,401	895,768	
			1,045,084	975,442	
			1,550,917	1,518,389	
			1,364,939	1,457,317	
9,378			890,626	778,786	105,588
44,471			51,891	51,697	426,780
130,334			2,048,073	1,729,849	41,869
			214,508	205,166	376
					445,171
28,459			211,447	413,105	
13,572			13,572	13,633	39,418
2,058,075	3,066,682		5,124,757	5,034,261	4,823,218
9,921			9,921	9,625	139,078
		87,647	87,647	3,797	
		14,558,611	14,558,611	14,027,470	
<u>\$ 2,692,722</u>	<u>\$ 3,066,682</u>	<u>\$ 14,646,258</u>	<u>\$ 43,060,335</u>	<u>\$ 41,079,817</u>	<u>\$ 6,527,416</u>
\$ 45,369	\$ 0	\$ 0	\$ 3,786,667	\$ 3,188,696	\$ 89,257
54,078			137,355	134,580	42,744
91,348		81,823	320,264	321,064	296
			561,276	534,160	
			11,937	12,710	475
34,679			211,447	413,105	
			445,171	373,885	
			32,880	282,429	1,045
6,016			203,034	236,862	55,351
			1,045,084	975,442	

(Continued)

**COMMONWEALTH OF MASSACHUSETTS
 COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS AND
 DISCRETELY PRESENTED COMPONENT UNITS
 JUNE 30, 1994
 (Amounts in thousands)**

	Primary			
	Governmental Fund Types			Fiduciary Fund Types
	General	Special Revenue	Capital Projects	Trust and Agency
Liabilities (continued):				
Deferred compensation benefits payable	\$ 0	\$ 0	\$ 0	\$ 945,401
Agency liabilities				3,010,656
Claims and judgments	132,937	23,714	3,715	167
Deposits and unearned revenue		62,791		27,116
Other accrued liabilities				
Capital leases				
Bonds, notes payable and certificates of participation	240,000		49,062	
School construction grants				
Unfunded pension costs				
Total liabilities	2,553,724	911,122	554,122	6,918,393
Fund equity and other credits:				
Investment in general fixed assets				
Contributed capital				
Retained earnings:				
Reserved for investment programs				
Unreserved				
Fund balances (deficit):				
Reserved for pension benefits				11,563,156
Reserved for unemployment benefits				296,676
Reserved for claims and judgements			83,319	
Restricted				
Unexpended plant funds				
Renewals and replacements		4,328		
Retirement of indebtedness				
Net investment in plant				5,840
Reserved for specific purpose				
Unreserved	(923,682)	936,633	(374,282)	125,324
Total fund equity (deficit) and other credits	(923,682)	940,961	(290,963)	11,990,996
Total liabilities, fund equity and other credits	\$ 1,630,042	\$ 1,852,083	\$ 263,159	\$ 18,909,389

See notes to general purpose financial statements.

University and College Fund Type	Government				Component Units
	Account Groups		Totals (Memorandum Only)		Component Units
	General Fixed Assets	General Long-term Obligations	1994	1993	
\$ 0	\$ 0	\$ 0	\$ 945,401	\$ 895,768	\$ 0
6,819			3,017,475	2,892,422	
71,981		435,595	668,109	694,098	1,224
6,997			6,997	5,776	
60,008			149,915	124,313	195,172
19,558		50,954	70,512	46,016	38
260,933		9,427,745	9,977,740	9,860,099	3,144,173
		2,070,709	2,070,709	1,926,082	
		2,579,432	2,579,432	2,362,254	
<u>657,786</u>		<u>14,646,258</u>	<u>26,241,405</u>	<u>25,279,761</u>	<u>3,529,775</u>
	3,066,682		3,066,682	3,012,230	3,050,729
					51,847 (104,935)
			11,563,156	11,121,148	
			296,676		
			83,319		
102,153			102,153	83,907	
25,779			25,779	27,868	
15,677			15,677	15,647	
21,528			25,856	23,148	
1,779,441			1,779,441	1,734,458	
			5,840	5,842	
90,358			(145,649)	(224,192)	
<u>2,034,936</u>	<u>3,066,682</u>		<u>16,818,930</u>	<u>15,800,056</u>	<u>2,997,641</u>
<u>\$ 2,692,722</u>	<u>\$ 3,066,682</u>	<u>\$ 14,646,258</u>	<u>\$ 43,060,335</u>	<u>\$ 41,079,817</u>	<u>\$ 6,527,416</u>

COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)

	Primary		
	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Revenues:			
Taxes	\$ 6,550,346	\$ 4,061,025	\$ 0
Assessments	207,933	336,576	
Federal grants and reimbursements	2,908,959	1,255,412	944,738
Departmental	502,139	3,241,766	629
Miscellaneous	174,040	78,667	2,033
Total revenues	10,343,417	8,973,446	947,400
Other financing sources:			
Proceeds of general obligation bonds			690,206
Proceeds of refunding bonds			835,796
Proceeds of capital leases	33,550		
Operating transfers in	350,455	863,831	152,542
Other			35,371
Total other financing sources	384,005	863,831	1,713,915
Total revenues and other financing sources	10,727,422	9,837,277	2,661,315
Expenditures:			
Current:			
Legislature	43,096		
Judiciary	62,863	275,618	
Inspector General	1,394		
Governor and Lieutenant Governor	4,330		
Secretary of the Commonwealth	9,082	2,597	
Treasurer and Receiver-General	95,968	1,956,433	
Auditor of the Commonwealth	10,253	733	
Attorney General	35,671	2,496	
Ethics Commission	512	563	
District Attorney	8,035	39,304	
Office of Campaign and Political Finance	302	334	
Disabled Persons Protection Commission	1,514		
Board of Library Commissioners		5,411	
Comptroller	6,369		
Administration and finance	689,556	173,863	
Environmental affairs	23,084	146,198	
Communities and development	109,715	248,030	
Health and human services	3,291,038	1,034,452	
Transportation and construction	51,194	68,958	
Education	488	457,391	
Educational affairs	1,956	1,155	

Government		
Fiduciary Fund Type	Totals (Memorandum Only)	
Expendable Trust	1994	1993 (As restated)
\$ 1,125,539	\$ 11,736,910	\$ 11,093,768
1,207	545,716	599,415
257,551	5,366,660	5,130,180
3,528	3,748,062	3,392,308
60,191	314,931	445,958
<u>1,448,016</u>	<u>21,712,279</u>	<u>20,661,629</u>
	690,206	368,367
	835,796	1,891,468
	33,550	13,297
5,863	1,372,691	1,179,928
138	35,509	46,382
<u>6,001</u>	<u>2,967,752</u>	<u>3,499,442</u>
<u>1,454,017</u>	<u>24,680,031</u>	<u>24,161,071</u>
	43,096	40,798
3,689	342,170	307,781
	1,394	1,304
	4,330	3,680
4	11,683	14,111
19	2,052,420	1,659,490
167	11,153	10,458
1,124	39,291	37,061
	1,075	1,003
3,609	50,948	47,143
	636	539
	1,514	
	5,411	4,620
	6,369	5,546
1,325	864,744	683,459
4,716	173,998	167,293
433	358,178	364,781
20,283	4,345,773	4,085,252
829	120,981	274,270
1,296	459,175	469,886
	3,111	9,602

(Continued) Exhibit C-9

**COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)**

	Primary		
	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Expenditures (continued):			
Current (continued):			
Higher education	\$ 65,402	\$ 1,898	\$ 0
Public safety	330,119	365,305	
Economic affairs	16,903	195,977	
Elder affairs	125,587	29,839	
Consumer affairs	25,845	6,502	
Labor	20,898	2,208	
Direct local aid		2,727,313	
Medicaid	3,176,777	39,350	
Capital outlay:			
Local aid			100,105
Capital acquisition and construction			1,463,602
Pension	233,777	596,415	
Debt service:			
Principal retirement	513,278	118,016	
Interest and fiscal charges	352,575	167,290	
Total expenditures	9,307,581	8,663,649	1,563,707
Other financing uses:			
Payments to refunded bond escrow agent			835,796
Operating transfers out	6,923	1,122,183	169,965
Transfers of appropriations	632,609	2,302	
Transfers of bond proceeds			15,324
Transfers to component units	582,453	116,751	2,195
Other uses			
Total other financing uses	1,221,985	1,241,236	1,023,280
Total expenditures and other other financing uses	10,529,566	9,904,885	2,586,987
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	197,856	(67,608)	74,328
Fund balances (deficits) at beginning of year	(1,121,538)	1,008,569	(365,291)
Fund balances (deficits) at end of year	\$ (923,682)	\$ 940,961	\$ (290,963)

See notes to general purpose financial statements.

Government		
Fiduciary Fund Type	Totals (Memorandum Only)	
Expendable Trust	1994	1993 (As restated)
\$ 79	\$ 67,379	\$ 69,459
3,728	699,152	613,082
1,082,791	1,295,671	1,708,096
60	155,486	149,717
3,538	35,885	32,322
28,249	51,355	48,658
	2,727,313	2,546,501
	3,216,127	3,151,361
	100,105	104,876
	1,463,602	1,132,549
	830,192	893,438
	631,294	592,493
	519,865	550,174
<u>1,155,939</u>	<u>20,690,876</u>	<u>19,780,803</u>
	835,796	1,891,468
4,776	1,303,847	1,724,479
	634,911	618,817
	15,324	24,796
	701,399	
		257
<u>4,776</u>	<u>3,491,277</u>	<u>4,259,817</u>
<u>1,160,715</u>	<u>24,182,153</u>	<u>24,040,620</u>
293,302	497,878	120,451
128,698	(349,562)	(470,013)
<u>\$ 422,000</u>	<u>\$ 148,316</u>	<u>\$ (349,562)</u>

COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - STATUTORY BASIS - BUDGET AND ACTUAL -
 GENERAL AND BUDGETED SPECIAL REVENUE FUNDS
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Taxes	\$ 6,179,800	\$ 6,297,759	\$ 117,959
Assessments		191,796	191,796
Federal grants and reimbursements	2,913,900	2,892,189	(21,711)
Departmental	819,225	525,006	(294,219)
Miscellaneous		175,259	175,259
Total revenues	9,912,925	10,082,009	169,084
Other financing sources:			
Fringe benefit cost recovery		189,156	189,156
Operating transfers in	160,675	192,840	32,165
Stabilization transfer			
Other sources	5,000		(5,000)
Total other financing sources	165,675	381,996	216,321
Total revenues and other financing sources	10,078,600	10,464,005	385,405
Expenditures:			
Legislature	59,235	42,853	16,382
Judiciary	69,098	68,128	970
Inspector General	1,281	1,271	10
Governor and Lieutenant Governor	4,996	4,292	704
Secretary of the Commonwealth	9,272	9,081	191
Treasurer and Receiver-General	105,386	101,789	3,597
Auditor of the Commonwealth	10,174	10,167	7
Attorney General	19,936	19,720	216
Ethics Commission	527	527	
District Attorney	8,134	8,071	63
Office of Campaign and Political Finance	314	311	3
Disabled Persons Protection Committee	1,328	1,325	3
Board of Library Commissioners			
Comptroller	5,882	5,865	17
Administration and finance	749,459	693,700	55,759
Environmental affairs	25,003	23,118	1,885
Communities and development	120,075	113,233	6,842

Budgeted Special Revenue Funds			Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 4,380,200	\$ 4,308,922	\$ (71,278)	\$ 10,560,000	\$ 10,606,681	\$ 46,681
	21,688	21,688		213,484	213,484
8,600	9,042	442	2,922,500	2,901,231	(21,269)
447,100	465,676	18,576	1,266,325	990,682	(275,643)
	45,808	45,808		221,067	221,067
<u>4,835,900</u>	<u>4,851,136</u>	<u>15,236</u>	<u>14,748,825</u>	<u>14,933,145</u>	<u>184,320</u>
				189,156	189,156
542,000	598,657	56,657	702,675	791,497	88,822
	65,423	65,423		65,423	65,423
			5,000		(5,000)
<u>542,000</u>	<u>664,080</u>	<u>122,080</u>	<u>707,675</u>	<u>1,046,076</u>	<u>338,401</u>
<u>5,377,900</u>	<u>5,515,216</u>	<u>137,316</u>	<u>15,456,500</u>	<u>15,979,221</u>	<u>522,721</u>
			59,235	42,853	16,382
275,403	271,835	3,568	344,501	339,963	4,538
			1,281	1,271	10
			4,996	4,292	704
2,121	1,891	230	11,393	10,972	421
21,928	20,250	1,678	127,314	122,039	5,275
733	733		10,907	10,900	7
800	785	15	20,736	20,505	231
537	537		1,064	1,064	
38,088	37,783	305	46,222	45,854	368
320	317	3	634	628	6
			1,328	1,325	3
2,304	2,300	4	2,304	2,300	4
525	525		6,407	6,390	17
245,801	229,151	16,650	995,260	922,851	72,409
132,805	123,658	9,147	157,808	146,776	11,032
25,749	24,895	854	145,824	138,128	7,696

(Continued)

COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
 FUND BALANCES - STATUTORY BASIS - BUDGET AND ACTUAL -
 GENERAL AND BUDGETED SPECIAL REVENUE FUNDS
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
Expenditures (continued):			
Health and human services	\$ 3,368,359	\$ 3,270,133	\$ 98,226
Transportation and construction	621,447	619,168	2,279
Education	147	145	2
Educational affairs	2,024	1,943	81
Higher education	674,480	670,148	4,332
Public safety	319,456	313,986	5,470
Economic affairs	15,580	14,588	992
Elder affairs	127,044	125,573	1,471
Consumer affairs	27,548	25,852	1,696
Labor	22,303	20,977	1,326
Direct local aid			
Medicaid	3,290,149	3,273,777	16,372
Pension	328,447	313,264	15,183
Debt service:			
Principal retirement	327,453	308,323	19,130
Interest and fiscal charges	312,186	288,908	23,278
Total expenditures	10,626,723	10,350,236	276,487
Other financing uses:			
Fringe benefit cost assessment			
Operating transfers out	4,822	4,822	
Stabilization transfer		39,254	(39,254)
Total other financing uses	4,822	44,076	(39,254)
Total expenditures and other financing uses	10,631,545	10,394,312	237,233
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(552,945)	69,693	622,638
Fund balances (deficits) at beginning of year	(701,596)	(701,596)	
Fund balances (deficits) at end of year	\$ (1,254,541)	\$ (631,903)	\$ 622,638

See notes to general purpose financial statements.

Budgeted Special Revenue Funds			Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 148,274	\$ 124,664	\$ 23,610	\$ 3,516,633	\$ 3,394,797	\$ 121,836
145,988	141,458	4,530	767,435	760,626	6,809
104,894	95,757	9,137	105,041	95,902	9,139
655	608	47	2,679	2,551	128
2,610	2,398	212	677,090	672,546	4,544
354,904	342,926	11,978	674,360	656,912	17,448
16,277	15,279	998	31,857	29,867	1,990
5,187	4,340	847	132,231	129,913	2,318
5,945	5,016	929	33,493	30,868	2,625
			22,303	20,977	1,326
2,739,827	2,727,313	12,514	2,739,827	2,727,313	12,514
39,350	39,350		3,329,499	3,313,127	16,372
623,449	595,684	27,765	951,896	908,948	42,948
347,569	322,183	25,386	675,022	630,506	44,516
236,293	229,967	6,326	548,479	518,875	29,604
<u>5,518,336</u>	<u>5,361,603</u>	<u>156,733</u>	<u>16,145,059</u>	<u>15,711,839</u>	<u>433,220</u>
	46,436	(46,436)		46,436	(46,436)
122,662	123,940	(1,278)	127,484	128,762	(1,278)
	26,169	(26,169)		65,423	(65,423)
<u>122,662</u>	<u>196,545</u>	<u>(73,883)</u>	<u>127,484</u>	<u>240,621</u>	<u>(113,137)</u>
<u>5,640,998</u>	<u>5,558,148</u>	<u>82,850</u>	<u>16,272,543</u>	<u>15,952,460</u>	<u>320,083</u>
(263,098)	(42,932)	220,166	(816,043)	26,761	842,804
<u>1,264,169</u>	<u>1,264,169</u>		<u>562,573</u>	<u>562,573</u>	
<u>\$ 1,001,071</u>	<u>\$ 1,221,237</u>	<u>\$ 220,166</u>	<u>\$ (253,470)</u>	<u>\$ 589,334</u>	<u>\$ 842,804</u>

COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN RETAINED EARNINGS/FUND BALANCES AND CHANGES IN CONTRIBUTED CAPITAL -
 NONEXPENDABLE AND PENSION TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)

	Primary	
	Fiduciary Fund Types	
	Nonexpendable Trust Funds	Pension Trust Funds
Operating revenues:		
Contributions	\$ 0	\$ 1,130,868
Investment income		245,446
Charges for services		
Donations		
Other		
Total operating revenues		1,376,314
Operating expenses:		
Cost of services and administration		3,677
Retirement benefits and refunds		930,630
Depreciation		
Total operating expenses		934,307
Operating income (loss)		442,007
Nonoperating revenues (expenses):		
Operating grants		
Interest income		
Other revenues		
Interest expense		
Other expenses		
Nonoperating revenues (expenses), net		
Income (loss) before operating transfers		442,007
Transfers:		
Transfers in from primary government		
Operating transfers out	(2)	
Total transfers	(2)	
Net income (loss)	(2)	442,007

Government		Component Units
Totals (Memorandum Only)		
1994	1993	Component Units
\$ 1,130,868	\$ 1,072,789	\$ 0
245,446	1,301,368	245,690
		670
		1,989
<u>1,376,314</u>	<u>2,374,157</u>	<u>248,349</u>
3,677	3,276	789,561
930,630	898,399	177,095
<u>934,307</u>	<u>901,675</u>	<u>966,656</u>
<u>442,007</u>	<u>1,472,482</u>	<u>(718,307)</u>
		59,998
		29,780
		4,786
		(144,854)
		(26,029)
		<u>(76,319)</u>
<u>442,007</u>	<u>1,472,482</u>	<u>(794,626)</u>
		701,399
<u>(2)</u>		<u>701,399</u>
<u>(2)</u>		<u>(93,227)</u>
<u>442,005</u>	<u>1,472,482</u>	

(Continued)

**COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN RETAINED EARNINGS/FUND BALANCES AND CHANGES IN CONTRIBUTED CAPITAL -
 NONEXPENDABLE AND PENSION TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)**

	Primary	
	Fiduciary Fund Types	
	Nonexpendable Trust Funds	Pension Trust Funds
Add: Depreciation of fixed assets acquired from contributed capital	\$ 0	\$ 0
Increase (decrease) in retained earnings/fund balances	<u>(2)</u>	<u>442,007</u>
Retained earnings/fund balances at beginning of year	<u>5,842</u>	<u>11,121,149</u>
Retained earnings/fund balances at end of year	<u>\$ 5,840</u>	<u>\$ 11,563,156</u>
 Contributed capital at beginning of year		
Add: Capital contributions		
Less: Depreciation of fixed assets acquired from contributed capital		
Contributed capital at end of year		

<u>Government</u>		<u>Component Units</u>
<u>Totals (Memorandum Only)</u>		
<u>1994</u>	<u>1993</u>	<u>Component Units</u>
\$ <u>0</u>	\$ <u>0</u>	\$ <u>94,534</u>
<u>442,005</u>	<u>1,472,482</u>	<u>1,307</u>
<u>11,126,991</u>	<u>9,654,509</u>	<u>(54,395)</u>
\$ <u>11,568,996</u>	\$ <u>11,126,991</u>	\$ <u>(53,088)</u>
		\$ 2,941,413
		203,850
		<u>(94,534)</u>
		\$ <u>3,050,729</u>

COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF CASH FLOWS -
 NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS
 FISCAL YEAR ENDED JUNE 30, 1994

(Amounts in thousands)

	Primary Government	Component Units
	Fiduciary Fund Type	
	Nonexpendable Trust Funds	Component Units
Cash flows from operating activities:		
Operating income (loss)	\$ 0	\$ (718,307)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:		
Depreciation		177,095
Other nonoperating revenues		4,786
Other nonoperating expenses		(26,029)
Change in assets and liabilities:		
Due from federal government		52,595
Loans		(225,277)
Other receivables		(13,846)
Due from cities and towns		(55)
Due from primary government		(12,104)
Inventory		1,075
Restricted and other assets		(15,853)
Accounts payable	60	30,270
Accrued payroll		9,365
Compensated absences		92
Deferred revenue		9,858
Claims and judgements		3
Other accrued liabilities		14,210
Due to cities and towns		(80)
	<u>60</u>	<u>6,105</u>
Net cash provided by (used for) operating activities	<u>60</u>	<u>(712,202)</u>
Cash flows from noncapital financing activities:		
Operating grants		59,998
Operating transfers	(2)	701,399
	<u>(2)</u>	<u>761,397</u>
Net cash provided by (used for) noncapital financing activities	<u>(2)</u>	<u>761,397</u>

(Continued)

COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF CASH FLOWS -
 NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)

	Primary Government	Component Units
	Fiduciary Fund Type	
	Nonexpendable Trust Funds	Component Units
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	\$ 0	\$ (279,249)
Proceeds from the issuance of bonds and notes		1,375,198
Interest on bonds and notes		(144,854)
Capital contributions		203,850
Principal payments on bonds and notes		(1,064,692)
Proceeds from sale of equipment		1,191
Net cash provided by (used for) capital and related financing activities		91,444
Cash flows from investing activities:		
Purchases of investments		(1,478,223)
Sales and maturities of investments		1,360,957
Interest income		29,780
Net cash provided by (used for) investing activities	0	(87,486)
Net increase (decrease) in cash and cash equivalents	58	53,153
Cash and cash equivalents at beginning of year	5,782	219,555
Cash and cash equivalents at end of year	\$ 5,840	\$ 272,708
Reconciliation:		
Cash and cash equivalents at end of year	\$ 5,840	\$ 272,708
Cash and cash equivalents at end of year, Pension Trust, Expendable Trust and Agency	1,807,517	
Cash and cash equivalents per the Combined Balance Sheet	\$ 1,813,357	\$ 272,708

See notes to the general purpose financial statements.

**COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF CHANGES IN FUND BALANCES -
 UNIVERSITY AND COLLEGE FUND TYPE
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)**

	Current Funds			Endowment and Similar Funds
	Unrestricted	Restricted	Loan Fund	
Revenues and other additions:				
Unrestricted current funds revenues	\$ 1,083,311	\$ 0	\$ 0	\$ 0
Federal appropriations		7,526	228	
Federal grants and contracts		176,127	1,627	
State grants and contracts		23,182	76	
Local grants and contracts		2,278		
Private gifts, grants and contracts		64,050	13	1,272
Investment income		72	35	4
Endowment Income		530		82
Net realized gain (loss) on investments				2,754
Interest on loans receivable			814	
Reimbursed loan cancellations			1,348	
Other income		348	422	
Expended for plant facilities				
Retirement of indebtedness				
Other additions		72	468	
Total revenue and other additions	1,083,311	274,185	5,031	4,112
Expenditures and other deductions:				
Educational and general expenditures	1,119,339	262,854		
Auxiliary enterprises expenditures	171,118			
Indirect costs recovered		32,055		
Hospital expenditures	225,006			
Group practice plan expenditures	111,400			
Refunded to grantors and donors		313		
Loan cancellations and write-offs			700	
Administrative and collection costs			2,668	561
Retirement of indebtedness				
Interest on indebtedness				
Expended for plant facilities				
Depreciation and amortization				
Disposal of plant facilities				
Other deductions				
Total expenditures and other deductions	1,626,863	295,222	3,368	561

Plant Funds	Totals	
	1994	1993
\$ 0	\$ 1,083,311	\$ 975,642
	7,754	7,277
329	178,083	177,910
13,649	36,907	6,656
	2,278	2,481
1,653	66,988	61,898
2,533	2,644	2,472
	612	416
	2,754	618
	814	813
	1,348	27
192	962	523
50,042	50,042	71,887
13,330	13,330	12,219
1,124	1,664	8,329
82,852	1,449,491	1,329,168
	1,382,193	1,302,053
	171,118	124,027
	32,055	32,669
	225,006	218,583
	111,400	99,603
	313	237
	700	1,165
1,586	4,815	2,821
23,171	23,171	12,219
11,609	11,609	19,936
13,330	13,330	41,268
20,003	20,003	11,539
10,140	10,140	11,538
556	556	3,602
80,395	2,006,409	1,881,260

(Continued)

**COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF CHANGES IN FUND BALANCES -
 UNIVERSITY AND COLLEGE FUND TYPE
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)**

	Current Funds		Loan Fund	Endowment and Similar Funds
	Unrestricted	Restricted		
Mandatory transfers:				
Principal and interest	\$ (27,506)	\$ 0	\$ 0	\$ 0
Renewals and replacements	(517)			
Student loan fund matching	(435)	320	115	
Other mandatory transfers	(68,822)			
Nonmandatory transfers:				
Transfers of appropriation	606,969	27,652	9	
Transfers of bond proceeds		14,723		
Unexpended plant funds	(11,324)			
Renewals and replacements	(6,410)	(8,089)		
Other nonmandatory transfers	(15,455)	(2,133)	(507)	30,159
Total transfers	476,500	32,473	(383)	30,159
Net increase (decrease) for the year	(67,052)	11,436	1,280	33,710
Fund balances at the beginning of year	122,977	21,781	47,403	20,976
Fund balances at end of year	\$ 55,925	\$ 33,217	\$ 48,683	\$ 54,686

See notes to general purpose financial statements.

Plant Funds	Totals	
	1994	1993
\$ 27,506	\$ 0	\$ 0
517		
(20)	(68,842)	(72,695)
281	634,911	618,817
601	15,324	24,796
11,324		
14,499		
(12,064)		
<u>42,644</u>	<u>581,393</u>	<u>570,918</u>
45,101	24,475	18,826
<u>1,797,324</u>	<u>2,010,461</u>	<u>1,991,635</u>
<u>\$ 1,842,425</u>	<u>\$ 2,034,936</u>	<u>\$ 2,010,461</u>

**COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES -
 UNIVERSITY AND COLLEGE FUND TYPE
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)**

	Current Funds		Totals	
	Unrestricted	Restricted	1994	1993
Revenues and other additions:				
Tuition and fees	\$ 489,110	\$ 0	\$ 489,110	\$ 379,069
Federal appropriations		7,411	7,411	7,158
Federal grants and contracts	16	138,951	138,967	154,461
State grants and contracts	887	19,717	20,604	5,972
Local grants and contracts	32	1,979	2,011	2,247
Private gifts, grants and contracts	2,910	51,315	54,225	82,059
Endowment income	170	652	822	204
Sales and service, educational	9,351		9,351	10,333
Sales and service, auxiliary enterprises	176,536		176,536	121,366
Sales and service, hospital	229,763		229,763	225,165
Sales and service, group practice plan	110,732		110,732	84,517
Recovery of indirect costs	32,055		32,055	32,669
Other investment income	14,411	82	14,493	16,401
Other	17,338	371	17,709	68,354
Total current funds revenues	1,083,311	220,478	1,303,789	1,189,975
Expenditures:				
Instruction	540,228	29,102	569,330	521,977
Research	37,377	85,076	122,453	125,053
Public service	37,433	31,234	68,667	42,876
Academic support	100,729	20,830	121,559	114,340
Student services	73,080	3,846	76,926	95,512
Institutional support	166,353	3,499	169,852	145,761
Operation and maintenance of plant	126,365	11,409	137,774	138,854
Scholarships and fellowships	37,774	77,858	115,632	119,680
Auxiliary enterprises	171,118		171,118	124,027
Hospital	225,006		225,006	218,583
Group practice plan	111,400		111,400	99,603
Total current funds expenditures	1,626,863	262,854	1,889,717	1,746,266

**COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES -
 UNIVERSITY AND COLLEGE FUND TYPE
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)**

	Current Funds		Totals	
	Unrestricted	Restricted	1994	1993
Transfers and other changes:				
Mandatory transfers:				
Principal and interest	\$ (27,506)	\$ 0	\$ (27,506)	\$ (32,896)
Renewals and replacements	(517)		(517)	(1,381)
Student loan fund matching	(435)	320	(115)	(397)
Other	(68,822)		(68,822)	(72,695)
Transfers of appropriation	606,969	27,652	634,621	615,633
Transfers of bond proceeds		14,723	14,723	8,716
Unexpended plant funds	(11,324)		(11,324)	(3,800)
Renewals and replacements	(6,410)	(8,089)	(14,499)	(8,211)
Other nonmandatory transfers	(15,455)	(2,133)	(17,588)	(953)
Refunds to grantors		(313)	(313)	(222)
Excess of restricted receipts over transfers to revenue		21,652	21,652	247
Total transfers and other changes	476,500	53,812	530,312	504,041
Total increase (decrease) in fund balances	\$ (67,052)	\$ 11,436	\$ (55,616)	\$ (52,250)

See notes to general purpose financial statements.

COMMONWEALTH OF MASSACHUSETTS
 COMBINING BALANCE SHEET -
 DISCRETELY PRESENTED COMPONENT UNITS

JUNE 30, 1994

(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Regional Transit Authorities	Water Pollution Abatement Trust
<u>ASSETS</u>			
Cash and short-term investments	\$ 42,164	\$ 12,436	\$ 155,554
Investments		197	127,250
Restricted investments	17,791		
Receivables, net of allowance for uncollectibles:			
Due from federal government	7,500	3,546	82,542
Loans			352,315
Other receivables	28,158	4,497	7,701
Due from cities and towns			
Due from primary government	361,020	54,833	16,378
Inventory	39,083	302	
Fixed assets	4,502,170	94,496	571
Other assets	132,054	3,260	436
Total assets	\$ 5,129,940	\$ 173,567	\$ 742,747
<u>LIABILITIES AND FUND EQUITY</u>			
Liabilities:			
Accounts payable	\$ 54,324	\$ 7,786	\$ 0
Accrued payroll	41,679	536	
Compensated absences			
Due to cities and towns			
Due to federal government			
Deferred revenue	49,168	573	
Obligations under lease/purchase and other financing arrangements			
Claims and judgments		1,224	
Other accrued liabilities	165,945	3,432	6,987
Capital leases			
Bonds, notes payable and certificates of participation	2,550,774	65,717	319,535
Total liabilities	2,861,890	79,268	326,522
Fund equity:			
Contributed capital	2,433,829	92,681	409,030
Retained earnings (deficits):			
Reserved for investment programs			
Unreserved	(165,779)	1,618	7,195
Total fund equity	2,268,050	94,299	416,225
Total liabilities and fund equity	\$ 5,129,940	\$ 173,567	\$ 742,747

Massachusetts Convention Center Authority	Economic Development Authorities	Total
\$ 12,530	\$ 50,024	\$ 272,708
	46,383	173,830
33,623	7,966	59,380
	12,000	105,588
	74,465	426,780
337	1,176	41,869
	376	376
10,120	2,820	445,171
	33	39,418
204,932	21,049	4,823,218
<u>2,642</u>	<u>686</u>	<u>139,078</u>
<u>\$ 264,184</u>	<u>\$ 216,978</u>	<u>\$ 6,527,416</u>
\$ 20,863	\$ 6,284	\$ 89,257
	529	42,744
	296	296
	475	475
	1,045	1,045
424	5,186	55,351
		1,224
12,324	6,484	195,172
	38	38
<u>190,238</u>	<u>17,909</u>	<u>3,144,173</u>
<u>223,849</u>	<u>38,246</u>	<u>3,529,775</u>
44,613	70,576	3,050,729
	51,847	51,847
<u>(4,278)</u>	<u>56,309</u>	<u>(104,935)</u>
<u>40,335</u>	<u>178,732</u>	<u>2,997,641</u>
<u>\$ 264,184</u>	<u>\$ 216,978</u>	<u>\$ 6,527,416</u>

COMMONWEALTH OF MASSACHUSETTS
COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
RETAINED EARNINGS AND CHANGES IN CONTRIBUTED CAPITAL -
DISCRETELY PRESENTED COMPONENT UNITS
FISCAL YEAR ENDED JUNE 30, 1994
(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Regional Transit Authorities	Water Pollution Abatement Trust
Operating revenues:			
Charges for services	\$ 199,550	\$ 34,718	\$ 0
Donations			
Other		188	
Total operating revenues	199,550	34,906	
Operating expenses:			
Cost of services and administration	625,130	91,889	5,682
Depreciation	153,865	12,067	227
Total operating expenses	778,995	103,956	5,909
Operating income (loss)	(579,445)	(69,050)	(5,909)
Nonoperating revenues (expenses):			
Operating grants	17,230	11,699	2,278
Interest income	4,503	400	19,102
Other revenues	1,135	308	576
Interest expense	(116,044)	(1,881)	(14,230)
Other expenses	(12,383)	(629)	
Nonoperating revenues (expenses), net	(105,559)	9,897	7,726
Income (Loss) before transfers	(685,004)	(59,153)	1,817
Transfers:			
Transfers in from primary government	606,442	47,761	2,981
Total transfers	606,442	47,761	2,981
Net income (loss)	(78,562)	(11,392)	4,798
Add: Depreciation of fixed assets acquired from contributed capital	74,603	11,765	227
Increase (decrease) in retained earnings	(3,959)	373	5,025
Retained earnings (deficits) at beginning of year	(161,820)	1,245	2,170
Retained earnings (deficits) at end of year	\$ (165,779)	\$ 1,618	\$ 7,195

Massachusetts Convention Center Authority	Economic Development Authorities	Total
\$ 6,999	\$ 4,423	\$ 245,690
	670	670
	1,801	1,989
<u>6,999</u>	<u>6,894</u>	<u>248,349</u>
16,410	50,450	789,561
8,502	2,434	177,095
<u>24,912</u>	<u>52,884</u>	<u>966,656</u>
<u>(17,913)</u>	<u>(45,990)</u>	<u>(718,307)</u>
	28,791	59,998
245	5,530	29,780
178	2,589	4,786
(11,233)	(1,466)	(144,854)
<u>(8,511)</u>	<u>(4,506)</u>	<u>(26,029)</u>
<u>(19,321)</u>	<u>30,938</u>	<u>(76,319)</u>
<u>(37,234)</u>	<u>(15,052)</u>	<u>(794,626)</u>
21,968	22,247	701,399
<u>21,968</u>	<u>22,247</u>	<u>701,399</u>
<u>(15,266)</u>	<u>7,195</u>	<u>(93,227)</u>
7,939		94,534
<u>(7,327)</u>	<u>7,195</u>	<u>1,307</u>
<u>3,049</u>	<u>100,961</u>	<u>(54,395)</u>
<u>\$ (4,278)</u>	<u>\$ 108,156</u>	<u>\$ (53,088)</u>

(Continued)

COMMONWEALTH OF MASSACHUSETTS
 COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
 RETAINED EARNINGS AND CHANGES IN CONTRIBUTED CAPITAL -
 DISCRETELY PRESENTED COMPONENT UNITS
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)

	Massachusetts Bay Transportation Authority	Regional Transit Authorities	Water Pollution Abatement Trust
Contributed capital at beginning of year	\$ 2,420,849	\$ 93,654	\$ 312,509
Add: Capital contributions Other	87,583	10,792	96,748
Less: Depreciation of fixed assets acquired from contributed capital	(74,603)	(11,765)	(227)
Contributed capital at end of year	<u>\$ 2,433,829</u>	<u>\$ 92,681</u>	<u>\$ 409,030</u>

<u>Massachusetts Convention Center Authority</u>	<u>Economic Development Authorities</u>	<u>Total</u>
\$ 47,984	\$ 66,417	\$ 2,941,413
4,568	4,159	203,850
<u>(7,939)</u>	<u> </u>	<u>(94,534)</u>
<u>\$ 44,613</u>	<u>\$ 70,576</u>	<u>\$ 3,050,729</u>

**COMMONWEALTH OF MASSACHUSETTS
COMBINING STATEMENT OF CASH FLOWS -
DISCRETELY PRESENTED COMPONENT UNITS
FISCAL YEAR ENDED JUNE 30, 1994
(Amounts in thousands)**

	Massachusetts Bay Transportation Authority	Regional Transit Authorities	Water Pollution Abatement Trust
Cash flows from operating activities:			
Operating income (loss)	\$ (579,445)	\$ (69,050)	\$ (5,909)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:			
Depreciation	153,865	12,067	227
Other nonoperating revenues	1,135	308	576
Other nonoperating expenses	(12,383)	(629)	
Change in assets and liabilities:			
Due from federal government	981	186	57,563
Loans			(213,391)
Other receivables	(7,902)	(1,047)	(4,915)
Due from cities and towns			
Due from primary government	(24,507)	(5,086)	18,030
Inventory	1,077	(2)	
Restricted and other assets	(13,662)	(1,216)	473
Accounts payable	13,563	5,524	
Accrued payroll	9,325		
Compensated absences			
Deferred revenue	7,607	43	
Claims and judgements		3	
Other accrued liabilities	3,345	584	4,097
Due to cities and towns		(80)	
Total adjustments	132,444	10,655	(137,340)
Net cash provided by (used for) operating activities	(447,001)	(58,395)	(143,249)
Cash flows from noncapital financing activities:			
Operating grants	17,230	11,699	2,278
Transfers in from primary government	606,442	47,761	2,981
Net cash provided by (used for) noncapital financing activities	623,672	59,460	5,259

<u>Massachusetts Convention Center Authority</u>	<u>Economic Development Authorities</u>	<u>Total</u>
\$ (17,913)	\$ (45,990)	\$ (718,307)
8,502	2,434	177,095
178	2,589	4,786
(8,511)	(4,506)	(26,029)
	(6,135)	52,595
	(11,886)	(225,277)
193	(175)	(13,846)
	(55)	(55)
(3,830)	3,289	(12,104)
		1,075
(232)	(1,216)	(15,853)
9,085	2,098	30,270
	40	9,365
	92	92
(2)	2,210	9,858
		3
4,023	2,161	14,210
		(80)
<u>9,406</u>	<u>(9,060)</u>	<u>6,105</u>
<u>(8,507)</u>	<u>(55,050)</u>	<u>(712,202)</u>
	28,791	59,998
<u>21,968</u>	<u>22,247</u>	<u>701,399</u>
<u>21,968</u>	<u>51,038</u>	<u>761,397</u>

(Continued)

COMMONWEALTH OF MASSACHUSETTS
 COMBINING STATEMENT OF CASH FLOWS -
 DISCRETELY PRESENTED COMPONENT UNITS
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)

	Massachusetts Bay Transportation Authority	Regional Transit Authorities	Water Pollution Abatement Trust
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets	\$ (257,242)	\$ (9,546)	\$ (4)
Proceeds from the issuance of bonds and notes	1,099,415	37,028	178,085
Interest on bonds and notes	(116,044)	(1,881)	(14,230)
Capital contributions	87,583	10,792	96,748
Principal payments on bonds and notes	(1,004,677)	(37,617)	(7,125)
Proceeds from sale of equipment		17	
Net cash provided by (used for) capital and related financing activities	<u>(190,965)</u>	<u>(1,207)</u>	<u>253,474</u>
Cash flows from investing activities:			
Purchases of investments	(1,308,504)	(12)	(80,647)
Sales and maturities of investments	1,309,387		588
Interest income	4,503	400	19,102
Net cash provided by (used for) investing activities	<u>5,386</u>	<u>388</u>	<u>(60,957)</u>
Net increase (decrease) in cash and cash equivalents	<u>(8,908)</u>	<u>246</u>	<u>54,527</u>
Cash and cash equivalents at beginning of year	<u>51,072</u>	<u>12,190</u>	<u>101,027</u>
Cash and cash equivalents at end of year	<u>\$ 42,164</u>	<u>\$ 12,436</u>	<u>\$ 155,554</u>

<u>Massachusetts Convention Center Authority</u>	<u>Economic Development Authorities</u>	<u>Total</u>
\$ (10,768)	\$ (1,689)	\$ (279,249)
30,909	29,761	1,375,198
(11,233)	(1,466)	(144,854)
4,568	4,159	203,850
(4,250)	(11,023)	(1,064,692)
	1,174	1,191
<u>9,226</u>	<u>20,916</u>	<u>91,444</u>
(68,363)	(20,697)	(1,478,223)
47,171	3,811	1,360,957
245	5,530	29,780
<u>(20,947)</u>	<u>(11,356)</u>	<u>(87,486)</u>
1,740	5,548	53,153
<u>10,790</u>	<u>44,476</u>	<u>219,555</u>
<u>\$ 12,530</u>	<u>\$ 50,024</u>	<u>\$ 272,708</u>

COMMONWEALTH OF MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accompanying financial statements of the Commonwealth of Massachusetts (the Commonwealth) have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Commonwealth accounting policies are described below.

a. Reporting Entity -

The state government is comprised of three branches: the Executive Branch, with the Governor as the chief executive officer; the Legislative Branch, consisting of a Senate of 40 members and a House of Representatives of 160 members; and the Judicial Branch made up of the Supreme Judicial Court, the Appeals Court and the Trial Court. In addition, the Legislature has established 56 independent authorities and agencies. Below the level of state government are 14 county governments and 351 cities and towns exercising the functions of local governments.

For financial reporting purposes, the Commonwealth of Massachusetts has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Commonwealth has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Commonwealth are such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by generally accepted accounting principles, these financial statements present the Commonwealth of Massachusetts (the primary government) and its component units. The Commonwealth has included 36 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth.

Blended Component Units - Blended component units are entities which are legally separate from the Commonwealth, but are so intertwined with the Commonwealth that they are, in substance, the same as the Commonwealth or entities providing services entirely or almost entirely to the Commonwealth. The following Component Units are blended within the Primary Government:

The Pension Reserves Investment Trust Fund (PRIT) was created in 1984, through General Laws Chapter 661 of the Acts of 1983 as amended by the Acts of 1987. PRIT is the investment portfolio for the assets of member state and local retirement systems.

The Pension Reserves Investment Management (PRIM) Board manages and provides general supervision of the investments of PRIT. PRIM is governed by a board of directors comprised of 9 members including the Governor, State Treasurer, a representative from Public Safety, a representative from the State Employee's Retirement System and an investment specialist appointed by the Governor.

The Massachusetts State Teachers and Employees Retirement Systems Trust (MASTERS Trust) is a combined investment fund for the State Employees' Annuity Fund and the Teachers' Annuity Fund. The MASTERS Trust was established by the State Treasurer, as Trustee, under a Declaration of Trust dated January 1, 1989, pursuant to authority granted under MGL, Chapter 29, Section 38a.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

The Massachusetts State College Building Authority provides dormitories, dining commons and other facilities primarily for use by students and staff of certain state colleges of the Commonwealth. The building authority is governed by a board of a members appointed by the Governor.

The Southeastern Massachusetts University Building Authority provides residence halls and a dining center; it is governed by a 9 member board.

The University of Massachusetts Building Authority provides dormitories, dining commons and other buildings and structures for the use of the University of Massachusetts and its students and staff; it is governed by a 9 member board.

The University of Massachusetts Medical School Teaching Hospital Trust Fund accumulates the results from operations of the Teaching Hospital. The Board of Trustees of the University of Massachusetts is the governing body of the Teaching Hospital.

The University of Massachusetts Medical School Group Practice Plan is a trust fund that receives and distributes revenue from medical services to its members. Each member of the clinical faculty of the Medical School is required to be a member of the Group Practice Plan. The Group Practice Plan is governed by a 24 member board of which 23 are appointed by the Governor.

The University of Massachusetts Medical Center Self-Insurance Trust provides professional liability, hospital premises liability and physicians' and surgeons' liability coverage for the Medical Center, the Teaching Hospital and the Group Practice Plan. The Self-Insurance Trust is governed by a 24 member board of which 23 are appointed by the Governor.

Discrete Component Units - Discrete component units are entities which are legally separate from the Commonwealth, but are financially accountable to the Commonwealth, or whose relationships with the Commonwealth are such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. The Component Units column of the combined financial statements include the financial data of the following entities:

The Massachusetts Bay Transportation Authority (MBTA) operates mass transit facilities within the Greater Boston metropolitan area, which consists of 78 cities and towns. The MBTA is overseen by a seven member board of directors appointed by the Governor. The Commonwealth guarantees the debt of the MBTA and funds deficiencies in the net cost of service.

The Regional Transit Authorities (RTA's) provide railway transportation to areas not serviced by the MBTA. The RTA's are fiscally dependent on the Commonwealth as evidenced from the need for approval by the Secretary of the Executive Office of Transportation and Construction before an RTA can issue bonded debt. In addition, the Commonwealth subsidizes a minimum of 50% of the net cost of service for the RTA's. There are 14 RTA's as follows:

- Berkshire Regional Transit Authority
- Brockton Area Transit Authority
- Cape Ann Transportation Authority
- Cape Cod Regional Transit Authority
- Franklin Regional Transit Authority
- Greater Attleboro/Taunton Regional Authority

**COMMONWEALTH OF MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994**

- Greenfield-Montague Transportation Area
- Lowell Regional Transit Authority
- Martha's Vineyard Transit Authority
- Merrimack Valley Regional Transit Authority
- Montachusett Regional Transit Authority
- Pioneer Valley Transit Authority
- Southeastern Regional Transit Authority
- Worcester Regional Transit Authority

The Massachusetts Water Pollution Abatement Trust (WPAT) provides a combination of federal and Commonwealth funds for water pollution abatement projects. WPAT is governed by a three member board of directors that includes the State Treasurer, Commissioner of the Department of Environmental Protection and the Secretary for Administration and Finance.

The Massachusetts Convention Center Authority (MCCA) manages the operation of the John B. Hynes Veterans Memorial Convention Center and the Boston Common Parking Garage. The MCCA is governed by a 7 member board of directors which includes the State Treasurer and 4 appointments made by the Governor. The Commonwealth provides grants to fund annual debt service of the bonds issued and subsidies to fund annual operating deficits.

Economic Development -

The Massachusetts Community Development Finance Corporation (MCDFC) provides community development in economically depressed areas in Massachusetts. The MCDFC is governed by a board of directors comprised of 9 members including the Secretary of Manpower Affairs, Secretary of Communities and Development, the Secretary for Administration and Finance and 6 appointments made by the Governor.

The Bay State Skills Corporation (BSSC) identifies occupations that are in high demand, seeks out educational and training organizations and then funds creative skills training programs. BSSC is governed by a 19 member board of directors including the Secretary of Economic Affairs, Commissioner of Welfare, Chancellor of the Board of Regents, Commissioner for Department of Education, Commissioner for Department of Employment and Training and 14 appointments made by the Governor. The operations are almost entirely funded through Commonwealth grants.

The Massachusetts Industrial Service Program (ISP) provides high risk financing to troubled businesses, assists displaced workers and assists communities to foster economic vitality. ISP has a 5 member board of trustees including the Secretary of Economic Affairs and the Secretary of Labor and 3 appointments by the Governor. ISP relies on Commonwealth funding to operate.

The Massachusetts International Trade Council stimulates export development through export assistance programs and promotion of foreign investment in Massachusetts industries. The entity is funded with Commonwealth grants. The governor appoints the 2 member board.

The Government Land Bank (GLB) aids public and private agencies in the conversion and redevelopment of surplus Commonwealth and federal property, and blighted, decadent or substandard property for the purpose of stimulating economic development and provide housing to low and moderate income persons. The GLB is governed by a board of directors comprised of 10 members including the Commissioner of Administration, the Secretary of Communities and Development and 8

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

appointments made by the Governor. The GLB has access to \$40 million of general obligation bonds and the Commonwealth also provides subsidy assistance. The GLB also needs Commonwealth approval to issue bonded debt.

The Massachusetts Technology Park Corporation (MTPC) manages Massachusetts educational centers that foster economic development within the Commonwealth by providing Massachusetts colleges and universities with access to equipment, machinery and instructional assistance necessary to offer programs in certain emerging areas of science and technology. MTPC is governed by a board of directors comprised of 23 members including the Secretary of Economic Affairs, the Secretary for Administration and Finance, the Chancellor of the Board of Regents and 20 appointments made by the Governor. The Commonwealth provides grants to fund operations.

The Community Economic Development Assistance Corporation (CEDAC) provides development assistance to nonprofit corporations to expand the supply of affordable housing and to foster the revitalization of economically distressed areas. The Governor appoints the 9 member board of directors.

The Massachusetts Corporation for Education Telecommunications (MCET) operates a statewide telecommunication network for the Commonwealth public and private sector to improve the quality of education. MCET is governed by a board of directors comprised of 18 members of which 12 are appointed by the Governor. The Corporation receives grants from the Commonwealth to fund its programs.

The Massachusetts Housing Partnership (MHP) addresses local needs for affordable housing and neighborhood development through group effort of the public and private sectors and state and local government. The entity is governed by a 7 member board of directors of which 2 members are appointed by the Governor, and one member is the Secretary for Administration and Finance and one is the Secretary of Communities and Development. The Commonwealth provides funding to MHP.

The Massachusetts Zoological Corporation manages Franklin Park Zoo and the Walter D. Stone Memorial Zoo. The Corporation's 11 member board is appointed by the Governor. The Commonwealth subsidizes a substantial portion of the operations of the zoos.

The combining financial statements - Component units condensed financial statements are included in the component unit column of the general purpose financial statements. Complete financial statements of the individual component units can be obtained directly from their respective administrative offices:

Massachusetts Bay Transportation
Authority
Ten Park Plaza
Boston, MA 02116

Lowell Regional Transit Authority
145 Thorndike Street
Lowell, MA 01852

Government Land Bank
One Court Street, Suite 200
Boston, MA 02108

Massachusetts Convention Center
Authority
900 Boylston Street
Boston, MA 02115

Merrimack Valley Regional Transit
Authority
85 Railroad Avenue
Bradford, MA 01835

Massachusetts Community Development
Finance Corporation
10 Post Office Square, Suite 1090
Boston, MA 02109

**COMMONWEALTH OF MASSACHUSETTS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 1994**

Berkshire Regional Transit Authority 67 Downing Parkway Pittsfield, MA 01201	Montachusett Regional Transit Authority Rear 1427 Water Street Fitchburg, MA 01420	Massachusetts Corporation for Education Telecommunications 38 Sidney Street Cambridge, MA
Brockton Area Transit Authority 70 School Street Brockton, MA 02401	Pioneer Valley Transit Authority 2808 Main Street Springfield, MA 01107	Massachusetts Housing Partnership 2 Oliver Street Boston, MA 02109
Cape Ann Transportation Authority PO Box 511 Gloucester, MA 01931	Southeastern Regional Transit Authority 25 North Sixth Street New Bedford, MA 02740	Massachusetts Industrial Service Program 100 Cambridge Street, Room 1302 Boston, MA 02202
Cape Cod Regional Transit Authority 585 Main Street, PO Box F Dennis, MA 02638	Martha's Vineyard Transit Authority PO box 158 Edgartown, MA 02539	Massachusetts International Trade Council, Inc. 100 Cambridge Street, Room 1302 Boston, MA 02202
Franklin Regional Transit Authority 474 Main Street Greenfield, MA 01301	Worcester Regional Transit Authority 287 Grove Street Worcester, MA 01605	Massachusetts Technology Park Corporation 75 North Drive Westborough, MA 01581
Greater Attleboro/Taunton Regional Authority 7 Mill Street Attleboro, MA 02703	Bay State Skills Corporation 101 Summer Street Boston, MA 02100	Water Pollution Abatement Trust Office of the State Treasurer One Ashburton Place, 12th Floor Boston, MA 02108
Greenfield-Montague Transportation Area 382 Deerfield Street Greenfield, MA 01301	Massachusetts Community Economic Development Assistance Corporation 19 Temple Street Boston, MA 02111	Commonwealth Zoological Corporation 1 Franklin Park Road Boston, MA 02121

The following organizations do not meet the criteria for inclusion in the reporting entity, and are excluded from the general purpose financial statements: Massachusetts Turnpike Authority, Massachusetts Port Authority, Massachusetts Water Resources Authority, Massachusetts Housing Finance Agency, Massachusetts Health and Educational Facilities Authority, Massachusetts Technology Development Corporation and Massachusetts Industrial Finance Agency.

The Commonwealth does not exercise any oversight responsibility and maintains no special financing relationships with these entities.

In addition the Massachusetts Horse Racing Authority and the Massachusetts Centers of Excellence Corporation are entities established in general law but are currently inactive.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

b. Fund Accounting -

The Commonwealth reports its financial position and results of operations in funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have not been eliminated.

Account groups are accounting entities used to provide accountability for the Commonwealth's general fixed assets and general long-term obligations. They are not considered funds because they do not report expendable available financial resources and related liabilities.

The Commonwealth has established the following fund categories (further divided by fund types), and account groups:

Governmental Funds - account for the general governmental activities of the Commonwealth.

The General Fund is the primary operating fund of the Commonwealth. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

Special Revenue Funds are used to account for specific revenue sources, other than expendable trusts or major capital financing, that have been segregated according to state finance law to support specific governmental activities.

Capital Projects Funds are used to account for financial resources used to acquire or construct major capital assets and to finance local capital projects. These resources are derived primarily from proceeds of general obligation bonds and federal reimbursements.

Fiduciary Funds - are used to account for assets held by the Commonwealth in a trustee capacity, or as an agent for individuals, private organizations, other governmental units, and/or other funds.

Expendable Trust Funds are used to account for trusts whose principal and income may be expended for their designated purpose.

Nonexpendable Trust Funds are used to account for trusts whose principal cannot be spent.

Pension Trust Funds are used to account for the assets, liabilities and fund equities held in trust for the State Employees' and Teachers' Retirement Systems.

Agency Funds are used to account for assets the Commonwealth holds on behalf of others. Agency Funds are custodial in nature and do not involve measurement of operations.

University and College Fund - is used to account for the activities specific to the operation of the Commonwealth's public institutions of higher education, including its medical school

Current Funds are comprised of unrestricted funds which may be used at the discretion of the individual institutions' governing bodies and restricted funds which must be utilized for specific purposes established by others.

COMMONWEALTH OF MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994

Loan funds account for resources available to make loans to students, faculty and staff.

Endowment and Similar Funds are comparable to trust funds, and they must be administered according to the terms of specific agreements.

Plant Funds are used to account for resources that have been or will be invested to acquire or repair fixed assets or for the related debt service.

Account Groups - establish control and accountability over the Commonwealth's general fixed assets and general long-term obligations.

The General Fixed Assets Account Group is used to account for general fixed assets of the Commonwealth, excluding the fixed assets of the University and College Fund and the discretely presented Component Units.

The General Long-term Obligations Account Group is used to account for long-term bonds and notes issued by the Commonwealth, capital leases, certificates of participation, unpaid pension costs, compensated absences, claims and judgments and other long-term obligations, excluding the liabilities of the University and College Fund and the discretely presented Component Units.

Component Units - account for the activity of the entities that are separate from the primary government but are financially accountable to the Commonwealth. The Component Units are discretely presented in the general purpose financial statements.

c. *Measurement Focus and Basis of Accounting* -

Governmental and Expendable Trust Funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Revenues from other sources are recognized when received. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities when due.

Component Units, Nonexpendable Trust and Pension Trust Funds are reported using a flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This measurement focus emphasizes the determination of net income.

Agency Fund assets and liabilities are reported using the modified accrual basis of accounting. They are custodial in nature and do not measure results of operations or have a measurement focus.

University and College Fund activities are reported using the accrual basis of accounting, except that depreciation is recorded only for those plant fund assets related to the hospital and group practice plan.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

Statutory (Budgetary) Accounting - The Commonwealth's books and records and other official reports are maintained on the basis of accounting used in the preparation of the Commonwealth's legally adopted annual budget (statutory basis). The statutory basis emphasizes accountability and the budgetary control of appropriations, and the Statutory Basis Financial Report is not intended to present the Commonwealth's financial condition and results of operations in conformity with GAAP.

Under the statutory basis, revenues are generally recognized when the cash deposit is received. However, revenues receivable for federal grants and reimbursements are recognized when related expenditures are incurred, and amounts due from certain political subdivisions of the Commonwealth are recognized when considered measurable and available at year end.

Expenditures generally are recorded when the related cash disbursement occurs. At year end, payroll is accrued and payables are recognized, to the extent of approved encumbrances, for goods or services received by June 30. Costs incurred under the federally-sponsored Medicaid program, amounts required to settle claims and judgments against the Commonwealth, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment.

d. Cash and Short-term Investments and Investments -

The Commonwealth follows the practice of pooling cash and cash equivalents for some of its Governmental and Fiduciary Funds. Cash equivalents consist of short-term investments with an original maturity of three months or less and are stated at cost. There are instances where a fund with a cash deficit will borrow from another fund. These interfund borrowings are reported as "Due from other funds" and "Due to other funds" on the balance sheet. Interest earned on pooled cash is allocated to the General Fund, Expendable Trust Funds and to certain Special Revenue Funds when so directed by law.

The Pension Trust Funds, with investments totaling \$11,613,208,000, are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments. Equity securities of the Pension Trust Funds and deferred compensation plan investments are stated at market. The Pension Trust Funds have acquired investments in real estate, venture capital funds, real estate funds, limited partnerships, futures pools, international hedge pools, commodities pools, balanced pools, leverage buyouts, private placements and other alternative investments. The structure, risk profile, return potential and marketability differ from traditional equity and fixed income investments. As of June 30, 1994, the estimated values, determined by management with input from the investment managers, of these alternative investments were \$434,131,507 in the MASTERS Trust and \$635,426,769 in PRIT representing 2.3% and 3.4%, respectively of the total assets of the Fiduciary Fund Type.

Included in the discretely presented Component Units is \$6,977,000 in investments, whose valuation was determined by management. In making its valuations, management considered the cost of investments, current and past operating results, current economic conditions and their effect on the borrowers, estimated realizable values of collateral, and other factors pertinent to the valuation of investments. There is no public market for most of the investments. Management, in making its evaluation, has in many instances relied on financial data and on estimates by management of the companies they have invested in as to the effect of future developments.

**COMMONWEALTH OF MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994**

Investments of the University of Massachusetts (UMass) are stated at the lower-of-cost or market (except for debt instruments to be held to maturity which are carried at amortized cost). Other investments are stated at cost or amortized cost.

Annuity contracts represent guaranteed investment contracts and are carried at present value.

e. Receivables -

Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the Commonwealth for its expenditures on federally-funded reimbursement and grant programs are reported as "Due from federal government." The receivables in the University and College Fund and Component Units column are amounts that have arisen in the normal course of operations.

f. Inventories and Other Assets -

The costs of materials and supplies are recorded as expenditures in Governmental Funds when purchased. Such inventories are not material in total to the financial statements and therefore are not recorded.

Inventories included within the University and College Fund and the Component Unit column are stated at the lower of cost, using the first-in, first-out method, or market (on the purchase or consumption method).

g. Fixed Assets -

For Governmental Funds, general fixed asset acquisitions are recorded as expenditures in the acquiring fund and capitalized in the General Fixed Assets Account Group in the year purchased. General fixed assets are recorded at historical cost, or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at the estimated fair market value at the date of the donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Improvements are capitalized.

The Commonwealth capitalizes all land. It capitalizes buildings and equipment, including computer software, with costs in excess of fifteen thousand dollars at the date of acquisition and expected useful lives of greater than one year. Interest incurred during construction is not material and it is not capitalized. Public domain general fixed assets or Infrastructure (roads, bridges, tunnels, dams, water and sewer systems, etc.) are not capitalized. No depreciation is provided on general fixed assets.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

Fixed assets of the University and College Fund are recorded at cost when purchased or constructed. Major construction projects financed through the issuance of Commonwealth bonds are not recognized as additions to investment in plant until completed. All land and library collections are capitalized. The University of Massachusetts and state colleges capitalize all other fixed assets with costs in excess of one thousand dollars. The community colleges capitalize all other fixed assets with costs in excess of fifteen thousand dollars consistent with the Commonwealth's fixed asset policy. No provision for depreciation is recognized except for depreciation recorded on the University of Massachusetts Medical School Teaching Hospital, Group Practice Plan, and Worcester City Campus Corporations fixed assets, which is recorded on a straight line basis over the estimated useful lives of the assets.

Fixed assets of the Component Units are capitalized upon purchase and depreciated on a straight-line basis over the estimated useful lives of the assets. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are as follows:

Structures and improvements	3 - 100 years
Equipment, furniture, fixtures and vehicles	3 - 25 years

h. Interfund/Intrafund Transactions -

During the course of its operations, the Commonwealth records transactions between funds and/or between departments. Transactions of a buyer/seller nature between departments within a fund are not eliminated from the individual fund statements. Receivables and payables resulting from transactions between funds are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

Receivables and payables resulting from transactions between Component Units and the primary government are classified as Due to/from primary government or Due to/from Component Units.

i. Fringe Benefit Cost Recovery -

The Commonwealth appropriates and pays the fringe benefit costs of its employees and retirees through the General Fund. These fringe benefits include the costs of employees' health insurance, pensions, unemployment compensation and other costs necessary to support the workforce. As directed by Massachusetts General Laws, these costs are assessed to other funds based on payroll costs, net of credits for direct payments. Since fringe benefit costs are not separately appropriated or otherwise provided for in these funds, the required assessment creates an unfavorable budget variance in the budgeted funds.

j. School Construction Grants -

The Commonwealth is committed to reimburse certain cities, towns and regional school districts for a portion of their debt service costs for school construction and renovation. This liability is recorded in the General Long-term Obligations Account Group.

**COMMONWEALTH OF MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994**

k. Compensated Absences -

For Governmental Funds and Expendable Trust Funds, vested or accumulated vacation and sick leave expected to be liquidated with expendable available financial resources are reported as expenditures and fund liabilities. Amounts that are not expected to be so liquidated are reported in the General Long-term Obligations Account Group.

Employees are granted vacation and sick leave in varying amounts based on collective bargaining agreements and state laws. Upon retirement, termination or death, certain employees are compensated for unused vacation and sick leave (subject to certain limitations) at their then-current rate of pay.

In the University and College Funds and the discretely presented Component Units, employees' accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue.

l. Lottery Revenue and Prizes -

Ticket revenues and prizes awarded by the Massachusetts Lottery Commission are recognized as drawings are held. For certain prizes payable in installments, the Commonwealth purchases annuities in the Commonwealth's name, which are recorded as annuity contracts and prizes payable in the Agency Funds. The Commonwealth retains the risk related to such annuities.

m. Risk Financing -

The Commonwealth does not insure for workers' compensation, casualty, theft, tort claims and other losses. Such losses, including estimates of amounts incurred but not reported, are included as accrued liabilities in the accompanying financial statements when the claim is incurred. For workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Public Employee Retirement Administration and another program for individuals working on the Central Artery/Third Harbor Tunnel Project managed by the Massachusetts Highway Department. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances. The Group Insurance Commission administers health care and other insurance for the Commonwealth's employees and retirees.

n. Total Columns - Memorandum Only -

Total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present consolidated financial position, results of operations or cash flows. Interfund eliminations have not been made in the aggregation of this data.

Certain "Memorandum Only" columns for 1993 are labeled "as restated" to reflect the adoption of GASB Statement No. 14 as discussed in Note 15.

o. Reclassifications -

For the fiscal year ended June 30, 1994, certain reclassifications have been made to the 1993 balances to conform to the presentation used in 1994.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

The presentation of the separately issued Component Units financial statements has been reclassified to conform to the accounting classifications used by the Commonwealth.

p. Future Adoption of Accounting Pronouncements -

The GASB has issued the following statements which the Commonwealth has not yet adopted and which require adoption subsequent to June 30, 1994:

<u>Statement No.</u>		<u>Adoption required in fiscal year</u>
10	Accounting and Financial Reporting for Risk Financing and Related Insurance Issues	1995
19	Governmental College and University Omnibus Statement (Risk Financing Activities)	1995
20	Accounting and Financial Reporting for Proprietary Funds and Other Entities That Use Proprietary Fund Accounting	1995
21	Accounting for Escheat Property	1995
22	Accounting for Taxpayer-Assessed Tax Revenues in Governmental Funds	1995
24	Accounting and Reporting for Certain Grants and Other Financial Assistance	1995
25	Financial Reporting for Defined Benefit Pension Plans and Note Disclosure for Defined Contribution Plans	1996
26	Financial Reporting for Postretirement Healthcare Plans administered by Defined Benefit Pension Plans	1996
27	Accounting for Pensions by State and Local Governmental Employers	1997

The implication of these statements to the Commonwealth's fiscal practices and financial reports is being evaluated.

COMMONWEALTH OF MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994

2. BUDGETARY CONTROL:

State finance law requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature which includes estimates of revenues, expenditures and other financing sources and uses anticipated during the coming fiscal year. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies, at the individual appropriation account level, in an annual appropriation act.

For fiscal year 1994, the Legislature included in the general appropriation act a revenue budget to show the estimates of amounts expected to be available to finance appropriated expenditures.

Before signing the appropriation act, the Governor may veto or reduce any specific item, subject to legislative override. Further changes to the budget established in the annual appropriation may be made via supplemental appropriation acts or other legislative acts. These also must be approved by the Legislature and signed by the Governor and are subject to line item veto.

The majority of the Commonwealth's appropriations are non-continuing accounts which lapse at the end of each fiscal year. Others are continuing accounts for which the Legislature has authorized that an unspent balance from the prior fiscal year be carried forward and made available for current spending. In addition, the Legislature may direct that certain revenues be retained and made available for spending within an appropriation account.

Generally, expenditures may not exceed the level of spending authorized for an individual appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Certain interfund assessments to allocate fringe benefits and other costs are mandated by state finance law but not itemized in the appropriation process or separately budgeted. In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, to withhold allotment of appropriated funds, effectively reducing the account's expenditure budget, upon determination that available revenues will be insufficient to meet authorized expenditures.

The original fiscal year 1994 appropriation act authorized a total of \$14,825,102,000 in direct appropriations, \$611,422,000 in authorizations to retain and expend certain non-tax revenues and \$125,869,000 of interagency chargebacks. The act also included estimates of \$10,560,000,000 in tax revenues and approximately \$4,887,800,000 in non-tax revenues. With these revenues (exclusive of chargebacks) projected to total approximately \$15,447,800,000, and with unreserved balances of approximately \$142,638,000 carried forward from fiscal year 1993, the budget as presented in this original appropriation act was considered to be in balance. Subsequently, the Legislature overrode the Governor's veto of \$20,990,000 in direct appropriations bringing the total direct appropriations to \$14,846,092,000.

During fiscal year 1994, the Legislature also passed and the Governor signed, with some modification through veto, several supplemental budgetary appropriations. These amounts added approximately \$242,282,000 in direct appropriations and \$18,001,000 in additional retained revenue authorizations and \$3,515,000 of inter-agency chargebacks.

Subsequent to June 30, 1994, the Legislature passed and the Governor signed, with modification through veto, approximately \$119,857,000 in additional supplemental appropriations cumulative. These actions raised to approximately \$15,967,038,000 the total of appropriations and retained revenue authorizations.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

Appropriations continued from fiscal year 1993 totaled approximately \$106,626,000, and certain intrafund and interfund transfers and expenditures, directed by statute, totaled approximately \$197,550,000.

Because revenue budgets are not updated subsequent to the original appropriations act, the comparisons of the initial budgeted revenue to the subsequent, and often modified, expenditure budget can be misleading. Also, the financial statements portray fund accounting with gross inflows and outflows, thus creating a second discrepancy to separately published budget documents.

Line item appropriations are enacted for the General Fund and certain Special Revenue Fund activities. For these funds, a Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Statutory Basis - Budget and Actual - General and Budgeted Special Revenue Funds is included. The Budgeted Special Revenue Funds itemized in the CAFR are the Highway, Local Aid, Commonwealth Stabilization, Administrative Control, Environmental and under the label of Other, all remaining budgeted funds.

The Office of the Comptroller has the responsibility to ensure that budgetary control is maintained on an individual line item appropriation account basis. Budgetary control is exercised through the State Accounting System, Massachusetts Management Accounting and Reporting System (MMARS). Encumbrances and expenditures are not allowed to exceed the appropriation account total available spending authorization. This results in unfavorable budget to actual variances in "Other financing uses."

A MMARS report, internally identified as RPT226, is used by management and the Office of the Comptroller to monitor spending against budget. This report provides information at the individual line item appropriation account level, which is the legal level of budgetary control. For financial reporting, the Commonwealth groups these appropriation accounts by character and secretariat to conform to its organizational structure.

On the statutory basis, the Commonwealth Stabilization and Administrative Control Funds are segregated from the General Fund and reclassified as budgeted Special Revenue Funds to reflect the intent of the Legislature, which established statutory funds for specific appropriated activities. These funds are included in the General Fund in the general purpose financial statements, consistent with their presentation in prior fiscal years.

**COMMONWEALTH OF MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994**

A reconciliation of the statutory basis General and budgeted Special Revenue funds to the GAAP basis General and all Special Revenue funds presented in the financial statements is as follows (amounts in thousands):

	<u>General</u>	<u>Special Revenue</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (statutory basis)	\$ 69,693	\$ (42,932)
Entity differences:		
Excess (deficiency) of revenues and other sources over expenditures and other uses for:		
Non-budgeted Special Revenue Funds		18,167
Perspective differences:		
Certain activities treated as Special Revenue Funds for statutory and as part of the General Fund for GAAP	73,489	(73,489)
Basis of accounting differences:		
Net decrease in taxes receivable	(51,662)	(22,666)
Net increase/(decrease) in due from federal government	(10,479)	165
Net decrease in other receivables and other assets	(184,380)	(4,828)
Net increase in tax refunds and abatements payable	(18,892)	(6,824)
Net decrease in accounts payable and other liabilities	<u>320,087</u>	<u>64,799</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	<u>\$ 197,856</u>	<u>\$ (67,608)</u>

3. DEPOSITS AND INVESTMENTS:

Cash and Short-term Investments - The Commonwealth maintains a cash and short-term investment pool which is utilized by the Governmental and Fiduciary Fund types.

As of June 30, 1994, the carrying amount of the Primary Government's total cash and cash equivalents was \$768,086,000 and the corresponding bank balances were \$802,731,000. Bank deposits in the amount of \$571,662,000 were insured by the Federal Deposit Insurance Corporation, and \$231,069,000 were uninsured and uncollateralized.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

As of June 30, 1994, the carrying amount of the discretely presented Component Unit's total cash and cash equivalents was \$188,097,000, and the corresponding bank balances were \$187,480,000. Bank deposits of \$94,549,000 were insured by the Federal Deposit Insurance Corporation and \$92,931,000 were uninsured and uncollateralized.

Investments - The Commonwealth maintains an investment pool, the Massachusetts Municipal Depository Trust (MMDT), that is available for use by all funds. The deposits and investments of the Component Units and the University and College Funds and the investments of the Pension Trust Funds are held separately from those of other Commonwealth funds, with the exception of their investments in MMDT.

Statutes authorize the Primary Government to invest in obligations of the U.S. Treasury, authorized bonds of all states, banker's acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poors Corporation and Moody's Commercial Paper Record and repurchase agreements that any of these obligations secure. Investments in the MMDT are carried at cost, which approximates market. The Pension Trust Funds are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments. In the following table, these alternative investments, venture capital and futures pools are classified as other investments. The investment policies of the Component Units are the same as the Primary Government's, except that they permit investment in equity securities.

Short-term investments and investments are classified as to collateral risk into the following three categories:

- Category 1: Insured or registered, or securities held by the Commonwealth or its agent in the Commonwealth's name.
- Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Commonwealth's name.
- Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commonwealth's name.

**COMMONWEALTH OF MASSACHUSETTS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 1994**

Primary Government -

Investments of the Primary Government at June 30, 1994, are as follows (amounts in thousands):

<u>Investment</u>	<u>Carrying amount</u>			<u>Total</u>	<u>Market value</u>
	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>		
Repurchase agreements	\$ 429,339	\$ 2,413	\$ 0	\$ 431,752	\$ 431,752
U.S. Treasury obligations	465,226	5,838		471,064	471,064
Commercial paper	788,549			788,549	788,549
Government obligations	2,700,419	77,348		2,777,767	2,777,767
Equity securities	6,571,068	17,537	246	6,588,851	6,588,856
Fixed income securities	1,473,848	65,998		1,539,846	1,539,898
Asset backed investments		17,651		17,651	17,651
Notes		1,514		1,514	1,514
Other		2,514	212	2,726	2,704
	<u>\$ 12,428,449</u>	<u>\$ 190,813</u>	<u>\$ 458</u>	12,619,720	12,619,755
Money market investments				262,183	262,183
Mutual fund investments				5,869	5,869
Deferred compensation plan mutual funds				945,401	945,401
Annuity contracts				1,045,084	1,045,084
Eurodollar contracts				34,445	34,445
Real Estate				629,032	629,032
Assets held in trust				1,550,917	1,550,917
Cash on deposit with insurance carriers				83,319	83,319
Deposits with U.S. Treasury				33,001	33,001
Certificate of deposit				504,650	504,650
Total				<u>\$ 17,713,621</u>	<u>\$ 17,713,656</u>

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

Following is a reconciliation of investments as summarized above to the balance as recorded in the combined balance sheet (amounts in thousands):

Investments as summarized above	\$ 17,713,621
Less: Short-term investments reported in the combined balance sheet as cash and short-term investments	2,187,396
Restricted investments reported separately in the combined balance sheet	83,319
Deferred compensation plan mutual funds reported separately in the combined balance sheet	945,401
Assets held in trust reported separately in the combined balance sheet	1,550,917
Annuity contracts reported separately in the combined balance sheet	1,045,084
Deposits reported separately in the combined balance sheet	<u>33,001</u>
Investments as reported on the combined balance sheet	<u>\$ 11,868,503</u>

Following is a reconciliation of the balance of cash and short-term investments at June 30, 1994 (amounts in thousands):

Carrying amount of cash and cash equivalents	\$ 768,086
Short-term investments	<u>2,187,396</u>
Cash and short-term investments as reported on the combined balance sheet	<u>\$ 2,955,482</u>

**COMMONWEALTH OF MASSACHUSETTS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 1994**

Component Units - Investments of the discretely presented Component Units at June 30, 1994, are as follows (amounts in thousands):

<u>Investment</u>	<u>Carrying amount</u>			<u>Total</u>	<u>Market value</u>
	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>		
Repurchase agreements	\$ 2,549	\$ 0	\$ 31,150	\$ 33,699	\$ 33,699
U.S. Treasury obligations	18,025	38,210		56,235	56,718
Commercial paper	24,363			24,363	24,363
Government obligations		33,063	10,605	43,668	43,524
Equity securities		185	1,499	1,684	1,684
Notes		3,025	6,572	9,597	8,377
Other	1,837	1,598		3,435	3,443
	<u>\$ 46,774</u>	<u>\$ 76,081</u>	<u>\$ 49,826</u>	172,681	171,808
Money market investments				14,823	14,823
Mutual fund investments				67	67
Guaranteed income contracts				<u>130,250</u>	<u>130,250</u>
Total				<u>\$ 317,821</u>	<u>\$ 316,948</u>

Following is a reconciliation of investments summarized above to the balance as recorded in the combined balance sheet (amounts in thousands):

Investments as summarized above	\$ 317,821
Less: Short-term investments reported in the combined balance sheet as cash and short-term investments	84,611
Restricted investments reported separately in the combined balance sheet	<u>59,380</u>
Investments as reported on the combined balance sheet	<u>\$ 173,830</u>

Following is a reconciliation of the balance of cash and short-term investments at June 30, 1994 (amounts in thousands):

Carrying amount of cash and cash equivalents	\$ 188,097
Short-term investments	<u>84,611</u>
Cash and short-term investments as reported on the combined balance sheet	<u>\$ 272,708</u>

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

4. RECEIVABLES:

Taxes, federal reimbursements, loans and other receivables are presented in the various funds as follows (amounts in thousands):

Primary Government -

	<u>Taxes</u>	<u>Due from federal government</u>	<u>Loans</u>	<u>Other</u>	<u>Allowance for uncollectibles</u>	<u>Net receivable</u>
General Fund	\$ 915,390	\$ 590,058	\$ 0	\$ 880,800	\$ (1,014,195)	\$ 1,372,053
Special Revenue Funds	633,862	145,773		117,395	(224,256)	672,774
Capital Projects Funds		155,301		1,419	(148)	156,572
Trust and Agency	356,848	7,176	7,421	1,666,612	(68,110)	1,969,947
University and College Fund		9,378	49,568	158,205	(32,968)	184,183
Subtotal	1,906,100	907,686	56,989	2,824,431		4,355,529
Less: Allowance for uncollectible accounts	<u>(541,161)</u>	<u>(17,060)</u>	<u>(5,098)</u>	<u>(776,358)</u>	<u>\$ (1,339,677)</u>	
Net receivable	<u>\$ 1,364,939</u>	<u>\$ 890,626</u>	<u>\$ 51,891</u>	<u>\$ 2,048,073</u>		<u>\$ 4,355,529</u>

Component Units -

	<u>Due from federal government</u>	<u>Loans</u>	<u>Other</u>	<u>Allowance for uncollectibles</u>	<u>Net receivable</u>
MBTA	\$ 7,500	\$ 0	\$ 28,158	\$	\$ 35,658
RTA's	3,546		4,497		8,043
WPAT	82,542	352,315	7,701		442,558
MCCA			400	(63)	337
Economic Development	12,320	78,237	4,870	(7,786)	87,641
Subtotal	105,908	430,552	45,626		574,237
Less: Allowance for uncollectible accounts	<u>(320)</u>	<u>(3,772)</u>	<u>(3,757)</u>	<u>\$ (7,849)</u>	
Net receivable	<u>\$ 105,588</u>	<u>\$ 426,780</u>	<u>\$ 41,869</u>		<u>\$ 574,237</u>

**COMMONWEALTH OF MASSACHUSETTS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 1994**

5. RECEIVABLES AND PAYABLES BETWEEN FUNDS AND COMPONENT UNITS:

Receivables and payables between funds and component units at June 30, 1994 are summarized as follows (amounts in thousands):

	<u>Due from</u>	<u>Due to</u>
General Fund:		
Component Units:		
MBTA	\$	\$ 267,914
RTA		45,384
MCCA		10,120
Economic Development Authorities		2,810
Trust and Agency Funds:		
Pension Trust	3,677	
University and College Fund:		
Current - Unrestricted	6,220	
Subtotal	<u>9,897</u>	<u>326,228</u>
Special Revenue Funds:		
Capital Projects Funds:		
Highway		
Local Aid	149,972	
Other		
Component Units:		
MBTA		93,106
RTA		7,647
Economic Development		10
Subtotal	<u>149,972</u>	<u>100,763</u>
Capital Projects Funds:		
Special Revenue Funds:		
Local Aid		149,972
Capital Projects Funds:		
Highway	19,957	
Federal Highway Construction		20,632
Other	675	
Component Units:		
RTA		1,802
WPAT		16,378
Subtotal	<u>20,632</u>	<u>188,784</u>
Fiduciary Funds:		
Expendable Trust Funds:		
Expendable Trust		2,487
Unemployment Compensation	2,487	
Pension Trust Funds:		
General Fund		3,677
Subtotal	<u>2,487</u>	<u>6,164</u>
University and College Fund:		
General Fund		6,220
University and College Fund:		
Current - Unrestricted	23,395	655
Current - Restricted	15	27,515
Loan		11
Endowment	390	
Plant	4,659	278
Subtotal	<u>28,459</u>	<u>34,679</u>

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

(Continued):		<u>Due from</u>	<u>Due to</u>
Component units:			
General Fund		326,228	
Special Revenue:			
Federal Grants		10	
Highway Fund		100,753	
Capital Projects Funds:			
General		1,802	
Local Aid		16,378	
	Subtotal	<u>445,171</u>	<u>0</u>
Total		\$ <u>656,618</u>	\$ <u>656,618</u>

6. FIXED ASSETS:

Primary Government-

General Fixed Asset Account Group - Changes in general fixed assets by category at June 30, 1994 are as follows (amounts in thousands):

	<u>Balance at June 30, 1993</u>	<u>Additions and adjustments</u>	<u>Retirements and adjustments</u>	<u>Balance at June 30, 1994</u>
Land	\$ 407,904	\$ 47,529	\$ 344	\$ 455,089
Buildings	2,112,155	132,952	21,055	2,224,052
Machinery and equipment	347,039	88,746	66,402	369,383
Construction in progress	<u>145,132</u>	<u>12,504</u>	<u>139,478</u>	<u>18,158</u>
Total	\$ <u>3,012,230</u>	\$ <u>281,731</u>	\$ <u>227,279</u>	\$ <u>3,066,682</u>

College and University Fund Type -

Fixed assets consist of the following at June 30, 1994 (amounts in thousands):

Land and improvements	\$ 41,129
Buildings	1,633,311
Equipment	483,410
Construction in progress	<u>12,291</u>
	2,170,141
Less: accumulated depreciation (hospital and group practice plan)	<u>112,066</u>
Total	\$ <u>2,058,075</u>

**COMMONWEALTH OF MASSACHUSETTS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 1994**

Component Units -

Fixed assets reported in the Commonwealth's Component Units consist of the following at June 30, 1994 (amounts in thousands):

	<u>Amount</u>
Land and improvements	\$ 243,875
Structures and improvements	4,166,110
Equipment, furniture, fixtures and vehicles	<u>1,491,754</u>
Total	5,901,739
Less accumulated depreciation	<u>1,402,849</u>
Net fixed assets	4,498,890
Property held for expansion	7,439
Construction in progress	<u>316,889</u>
Total	<u>\$ 4,823,218</u>

7. SHORT-TERM FINANCING AND CREDIT AGREEMENTS:

Primary Government -

Section 47 of Chapter 29 of the Massachusetts General Laws authorizes the Treasurer to issue temporary notes in anticipation of revenue or bond financing. When this short-term debt does not meet long-term refinancing criteria, it is classified among fund liabilities.

General Fund - As authorized by Chapter 161A of the Massachusetts General Laws, the Commonwealth issues short-term notes to finance working capital advances to the MBTA. The Commonwealth retires these notes through subsequent appropriations and assessments to cities and towns. The notes outstanding at June 30, 1994, totaled \$240,000,000, with an interest rate of 3.4% and a yield of 2.86%. The notes matured in November, 1994.

The balance of revenue anticipation notes (RAN's) fluctuates during the fiscal year but must be reduced to zero at June 30. During the course of fiscal year 1994, amounts outstanding for the RAN's ranged from zero to \$250,000,000.

Capital Projects Funds - The Commonwealth has issued five-year term minibonds, which are redeemable upon demand, to finance its capital projects. At June 30, 1994, minibonds outstanding in the Capital Projects Funds totaled \$49,062,000, with interest rates ranging from 5.0% to 8.0%.

The Commonwealth may issue bond anticipation notes (BAN's) to temporarily finance its capital projects, but it must reduce the balance to \$200,000,000 at June 30. BAN's ranged from zero to \$180,000,000 during FY94, with no such notes outstanding at June 30, 1994.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

Letter of Credit Agreements - During fiscal year 1994, the Commonwealth maintained letter of credit agreements with several banks in order to provide credit and liquidity support for its commercial paper program. The letters of credit were available to secure up to \$600,000,000 of Commonwealth commercial paper plus interest thereon. Advances were available, subject to certain limitations and bearing interest at the bank rate as defined, in anticipation of revenue or bond proceeds and repayable by the following June 30, subject to extension in certain circumstances, at the Commonwealth's option. No such advances were drawn during the fiscal year ended June 30, 1994, or subsequent thereto. These agreements expire September 30, 1994 through October 29, 1994. The average costs are approximately 0.3% on unutilized amounts and approximately 0.4% on utilized amounts.

Subsequent to June 30, 1994, the Commonwealth established a line of credit with a bank to provide liquidity support for up to \$200,000,000 of commercial paper notes, which line of credit expires September 30, 1996. In addition, the Commonwealth entered into letter of credit agreements with two banks to provide credit and liquidity support for up to \$400,000,000 of commercial paper notes, plus interest thereon. These letters of credit expire on September 30, 1996 and October 31, 1996, respectively. The average costs of all three facilities are approximately 0.077% on unutilized amounts and approximately 0.11% on utilized amounts.

Line of Credit Agreement - The Commonwealth maintained a revolving line of credit agreement with a bank through June 30, 1994, in the amount of \$150,000,000. Under this agreement, interest was charged at the lesser of the federal funds rate plus 1.5%, or prime, with commitment fees payable quarterly on the excess of the commitment amount over the average daily outstanding principal amount drawn. Commitment fees totaled \$75,000. This line of credit agreement was not utilized during the fiscal year and was allowed to expire on June 30th.

In December, 1990, the University of Massachusetts Medical School Teaching Hospital Trust obtained a \$11,000,000 loan to finance the construction of a building. The loan is payable over 13 years and the Teaching Hospital has been making payments in accordance with the loan agreement since September 1993.

Component Units -

MBTA short-term notes payable outstanding at June 30, 1994 totaled \$365,000,000. Of this amount, \$180,000,000 are due September 30, 1994 with an interest rate of 3.5% and \$185,000,000 mature March 1, 1995 with an interest rate of 3.75%.

The MBTA also issued commercial paper to act as financing for capital expenditures. At June 30, 1994, \$8,000,000 of this commercial paper was outstanding.

Subsequent to June 30, 1994, The Massachusetts Bay Transportation Authority issued \$180,000,000 of revenue anticipation notes carrying an interest rate of 5%. The notes mature on September 8, 1995.

The RTA's had the following short-term notes payable outstanding at June 30, 1994: Pioneer Valley \$11,000,000; Merrimack Valley \$7,647,000; Southeast Regional \$6,002,000; Worcester Regional \$12,579,000; Brockton Area \$7,095,000; Montachusset \$7,300,000; all other Regional Transit Authorities \$14,049,000. All notes mature during fiscal year 1995 and have interest rates ranging from 2.6% to 4.1%.

**COMMONWEALTH OF MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994**

Subsequent to June 30, 1994, the Brockton Area Transit Authority issued \$7,800,000 in revenue anticipation notes with an interest rate of 4% and due in July 1995. Also subsequent to June 30, 1994, the Pioneer Valley Transit Authority refinanced \$11,000,000 of bond anticipation notes.

As of June 30, 1994, the Economic Development Authorities have \$661,000 outstanding in short-term notes.

8. LONG-TERM DEBT:

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

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including bonds and notes issued by it and all claims with respect thereto. However, the property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires legislative appropriation. Enforcement of a claim for the payment of principal or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth statutes, if any, enacted to extend the time for payment or impose other constraints upon enforcement.

As of June 30, 1994, the Commonwealth had three types of bonds outstanding: general obligation, dedicated income tax and, special obligation.

The general obligation bonds are authorized and issued primarily to provide funds for Commonwealth-owned capital projects and local government improvements. They are backed by the full faith and credit of the Commonwealth and paid from the Governmental Funds, in which debt service principal and interest payments are appropriated. Massachusetts General Laws provide for the allocation of bond proceeds to these authorizations in arrears, as expenditures are made, unless the proceeds are allocated at the time of issuance.

The dedicated income tax bonds relate entirely to the deficit financing authorization of fiscal year 1990. As a remedy to that financial situation, the Legislature authorized bonds, to be repaid from tax revenues within seven years.

During fiscal year 1992 and again during fiscal year 1994, the Commonwealth issued special obligation revenue bonds as authorized under Massachusetts General Laws. Such bonds may be secured by all or a portion of revenues credited to the Highway Fund and are not general obligations of the Commonwealth. At June 30, 1994, the Commonwealth had outstanding \$403,770,000 of such bonds, secured by a pledge of 6.86 cents of the 21 cent per gallon motor fuel excise tax collected on gasoline.

For financial reporting purposes, long-term bonds are carried at their face amount, which includes discount and any issuance costs financed. The outstanding amount represents the total principal to be repaid; for

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

capital appreciation bonds, it represents total principal and interest to be repaid. When short-term debt has been refinanced on a long-term basis, it is reported as outstanding as its face amount.

The amount of bonds authorized but unissued is measured in accordance with Commonwealth statutes. Only the net proceeds of bonds (exclusive of discount and costs of issuance) are deducted from the total authorized by the Legislature.

General obligation, dedicated income tax and special obligation long-term bonds outstanding (including discount and issuance costs) and bonds authorized-unissued at June 30, 1994, are as follows (amounts in thousands):

Purpose	Outstanding		Authorized -unissued
	Amount	Maturity dates	Amount
Deficit reduction:			
Fiscal recovery	\$ 839,810	1994-1998	\$ 57,274
Capital projects:			
General	4,965,236	1994-2014	2,613,220
Highway	2,427,619	1994-2014	965,681
Local aid	1,105,083	1994-2013	855,998
Other	89,997	1994-2025	20,124
Capital projects bonds	<u>8,587,935</u>		<u>4,455,023</u>
Total	\$ <u>9,427,745</u>		\$ <u>4,512,297</u>

Interest rates on the Commonwealth's bonded debt outstanding at June 30, 1994 ranged from 1.10% to 14.12%.

**COMMONWEALTH OF MASSACHUSETTS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 1994**

Changes in long-term bonds (including discount and issuance costs) and bonds authorized unissued for the year ended June 30, 1994, are as follows (amounts in thousands):

	<u>Bonds outstanding</u>	<u>Authorized -unissued</u>
Balance, July 1, 1993	\$ 9,231,458	\$ 4,614,367
General and special obligation bonds:		
Principal less discount and issuance costs	690,206	(690,206)
Discount and issuance costs	9,794	
General obligation refunding bonds:		
Principal less discount and issuance costs	835,796	
Discount and issuance costs	7,200	
Bonds retired	(1,346,709)	
Increase in bonds authorized		612,611
Expiration of authorizations		(24,475)
	<u> </u>	<u> </u>
Balance, June 30, 1994	<u>\$ 9,427,745</u>	<u>\$ 4,512,297</u>

At June 30, 1994, debt service requirements to maturity for principal (including discount and issuance costs) and interest are as follows (amounts in thousands):

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1995	\$ 646,279	\$ 490,506	\$ 1,136,785
1996	666,961	453,264	1,120,225
1997	694,365	410,257	1,104,622
1998	618,262	368,262	986,524
1999	543,937	338,349	882,286
2000 and thereafter	<u>6,257,941</u>	<u>2,097,805</u>	<u>8,355,746</u>
Total	<u>\$ 9,427,745</u>	<u>\$ 4,158,443</u>	<u>\$ 13,586,188</u>

Subsequent to June 30, 1994, the Commonwealth issued \$250,000,000 in general obligation bonds, with interest rates ranging from 5.0% to 6.0%, and \$200,000,000 in general obligation bonds, with interest rates ranging from 5.5% to 7%.

Statutory Debt Limit - In fiscal year 1990, Massachusetts General Laws were amended to establish a limit on the amount of direct debt outstanding, effective at the beginning of fiscal year 1991. By statutorily limiting the Commonwealth's ability to issue direct debt, these amendments provide a control on annual capital spending. The first-year limit was \$6,800,000,000, with an increase of 5% allowed in each successive fiscal year. The statutory debt limit for fiscal year 1994 was \$7,871,850,000.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

For purposes of determining compliance with the limit, direct debt is defined to include general obligation bonds and minibonds at the amount of their original net proceeds. It excludes discount and issuance costs, if any, financed by these bonds. It also excludes dedicated income tax bonds, certain special obligation bonds, refunded bonds, certain refunding bonds and bond anticipation notes. Outstanding direct debt, as defined, totaled approximately \$7,392,292,000 at June 30, 1994.

Advance Refundings and Defeased Bonds - As authorized by the Massachusetts General Laws, the Commonwealth advance refunded certain general obligation and other bonds through the issuance of \$842,995,000 of general obligation refunding bonds during fiscal year 1994. Proceeds totaling approximately \$839,094,000 were used to purchase U.S. Government securities which were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liabilities therefore have been removed from the General Long-term Obligations Account Group. As a result of these advance refundings, the Commonwealth decreased current year debt service payments and has taken advantage of lower interest rates, and it has decreased its aggregate debt service payments by approximately \$65,942,000 over the next 20 years and incurred an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$49,339,000. At June 30, 1994, approximately \$749,925,000 of the bonds refunded remain outstanding and are considered defeased.

In prior years, the Commonwealth also defeased certain general obligation and other bonds by placing the proceeds of bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 1994, approximately \$2,577,000,000 of bonds outstanding from advance refundings in prior fiscal years are considered defeased.

Changes in General Long-term Obligations - The Commonwealth records its liability for long-term bonds in the General Long-term Obligations Account Group. Other general long-term obligations recognized by the Commonwealth are its obligations under capital lease agreements (Note 12), school construction grants to partially reimburse cities and towns for their debt service payments on bonds issued to finance construction of local or regional schools (Note 1), compensated absences (Note 1), unfunded pension costs (Note 10) and claims and judgments related to workers' compensation, lawsuits or other claims pending or threatened (Notes 1 and 14).

**COMMONWEALTH OF MASSACHUSETTS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 1994**

General Long Term Debt Obligations Account Group - During the year ended June 30, 1994, the following changes occurred in liabilities reported in the General Long-term Obligations Account Group (amounts in thousands):

	Long-term bonds	Capital leases	School construction grants	Compensated absences
Balance, July 1, 1993	\$ 9,231,458	\$ 33,329	\$ 1,926,082	\$ 76,280
Bond issuances	1,526,002			
Bond discount	16,994			
Bond principal payments (excluding minibonds)	(1,346,709)			
Excess of total pension contributions required over total contribu- tions made				
Net increase (decrease)	<u>17,625</u>	<u>17,625</u>	<u>144,627</u>	<u>5,543</u>
Balance, June 30, 1994	<u>\$ 9,427,745</u>	<u>\$ 50,954</u>	<u>\$ 2,070,709</u>	<u>\$ 81,823</u>

	Unfunded pension costs	Claims, judgments and other	Total
(Continued):			
Balance, July 1, 1993	\$ 2,362,254	\$ 401,864	\$ 14,031,267
Bond issuances			1,526,002
Bond discount			16,994
Bond principal payments (excluding minibonds)			(1,346,709)
Excess of total pension contributions required over total contribu- tions made	217,178		217,178
Net increase (decrease)	<u>33,731</u>	<u>33,731</u>	<u>201,526</u>
Balance, June 30, 1994	<u>\$ 2,579,432</u>	<u>\$ 435,595</u>	<u>\$ 14,646,258</u>

University and College Fund - Building authorities related to the University of Massachusetts and the state colleges have issued bonds for construction of higher education facilities and equipment. Such bonds are guaranteed by the Commonwealth in an aggregate amount not to exceed \$182,000,000. The bond agreements generally provide that revenues from student fees are pledged as collateral on the bonds and establish bond reserve funds, bond funds, and maintenance reserve funds. The University of Massachusetts has also entered into various loan agreements as a participant in the Massachusetts Health and Educational Facilities Authority's ongoing capital asset program to finance construction projects and equipment.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

University and College Fund long-term debt outstanding at June 30, 1994 was as follows (amounts in thousands):

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>	<u>Maturity dates</u>
MHEFA capital asset program	Variable	\$ 10,666	1995-2006
Building authorities	3.0% - 9.9%	<u>237,580</u>	1995-2018
		\$ <u>248,246</u>	

Maturities of principal are as follows (amounts in thousands):

<u>Years ending June 30</u>	<u>Amount</u>
1995	\$ 8,131
1996	8,597
1997	9,004
1998	9,820
1999	10,997
2000 and thereafter	<u>201,697</u>
Total	\$ <u>248,246</u>

Changes in bonds outstanding reported in the University and College Fund Type are as follows (amounts in thousands):

	<u>Amount</u>
Balance, July 1, 1993	\$ 255,159
Principal less issuance and discount cost	398
Bonds retired, net of amortization of discount	<u>(7,311)</u>
Balance, June 30, 1994	\$ <u>248,246</u>

The University of Massachusetts acquired a telecommunications system through debt financed through certificates of participation which bear interest at an average rate of 7.38% and mature in varying semi-annual installments through fiscal year 2000. Lease payments are funded from UMass student fees and approximate the trustee's payments to certificate holders.

**COMMONWEALTH OF MASSACHUSETTS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 1994**

Changes in non-cancelable certificates of participation for the University and College Fund Type are as follows (amounts in thousands):

Years ending June 30	Amount
1995	\$ 2,668
1996	2,670
1997	2,671
1998	2,668
1999 and thereafter	<u>5,344</u>
Total payments	16,021
Less: Amount representing interest	<u>(3,334)</u>
Present value of debt financed	<u>\$ 12,687</u>

At June 30, 1994, approximately \$87,834,000 of bonds from prior advance refundings of the University and College Fund building authorities are considered defeased.

Component Units -

Bonds and notes outstanding at June 30, 1994, net of unamortized discount of \$15,421,000 and unamortized deferred loss on refunding of \$125,660,000 are as follows (amounts in thousands):

Purpose	Interest rates	Amount	Maturity dates
MBTA:			
General transportation system	3.83% - 8.00%	\$ 2,024,963	2005 - 2024
Boston Metropolitan District	1.61% - 9.28 %	49,477	2002 - 2025
RTA's:			
Transportation bonds		45	1995 - 1997
MCCA:			
Current interest serial bonds	2.50% - 6.00%	132,096	1994 - 2008
Compound interest serial bonds	5.38% - 6.80%	58,142	2000 - 2013
WPAT:			
Serial Bonds	2.00% - 5.50%	232,535	1995 - 2011
Term Bonds	5.25% - 5.60%	87,000	2013 - 2014
Economic Development:			
Notes Payable	7.87%	<u>17,248</u>	1995 - 2001
Total		<u>\$ 2,601,506</u>	

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

Maturities of principal are as follows (amounts in thousands):

Years ending June 30	MBTA	RTA's	MCCA	WPAT	Economic Development	Total
1995	\$ 75,478	\$ 15	\$ 17,235	\$ 12,195	\$ 2,098	\$ 107,021
1996	69,559	15	18,105	11,920	1,883	101,482
1997	72,434	15	19,105	12,235	2,111	105,900
1998	75,077		20,195	12,695	3,590	111,557
1999 and thereafter	<u>1,922,159</u>		<u>116,259</u>	<u>270,490</u>	<u>7,719</u>	<u>2,316,627</u>
Total	<u>\$ 2,214,707</u>	<u>\$ 45</u>	<u>\$ 190,899</u>	<u>\$ 319,535</u>	<u>\$ 17,401</u>	<u>\$ 2,742,587</u>

The amounts above represent the face amount of bonds and notes outstanding and may differ from the amounts included in the combined balance sheet due to treatment of original issue discount in the general purpose financial statements.

During the fiscal year ended June 30, 1994, the following changes occurred in bonds and notes payable reported in the Component Units (amounts in thousands):

	MBTA	RTA's	MCCA	WPAT	Economic Development	Total
Balance, July 1, 1993	\$ 1,925,467	\$ 115	\$ 163,539	\$ 148,575	\$ 670	\$ 2,238,366
Principal less discount and issuance costs	544,415		30,909	178,085	18,678	772,087
Debt retired, net of amortization of discount	(369,242)	(70)	(4,210)	(7,125)	(2,100)	(382,747)
Deferred loss on refunding	<u>(26,200)</u>					<u>(26,200)</u>
Balance, June 30, 1994	<u>\$ 2,074,440</u>	<u>\$ 45</u>	<u>\$ 190,238</u>	<u>\$ 319,535</u>	<u>\$ 17,248</u>	<u>\$ 2,601,506</u>

The MBTA issued certificates of participation in the amounts of \$28,565,000 on December 15, 1988 and \$85,795,000 on August 30, 1990 to finance the purchase of commuter rail coaches. Under the terms of the applicable agreement, the MBTA's obligation to make the annual payments on the certificates is subject to the Commonwealth's appropriation of necessary funds in its annual budget. The certificates bear interest at rates ranging from 6.1% to 7.8% and mature as follows (amounts in thousands):

COMMONWEALTH OF MASSACHUSETTS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 1994

Year ending June 30	Amount
1995	\$ 2,770
1996	2,875
1997	2,990
1998	3,110
1999 and thereafter	<u>92,325</u>
	104,070
Less: Unamortized discount	<u>736</u>
Total	<u>\$ 103,334</u>

During fiscal year 1994, the MBTA raised \$344,415,000 through the issuance of refunding bonds to advance refund \$343,920,000 of its outstanding general transportation system bonds. Net proceeds of \$363,000,000 were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the MBTA's refunded bonds are considered to be defeased, and the liability for those bonds has been removed from the Component Units. This advance refunding resulted a loss on defeasance of \$26,200,000, which is being amortized as a component of interest cost in accordance with the requirements of GASB Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities". As a result of the advance refunding, the MBTA reduced its aggregate debt service payments by approximately \$14,600,000 from fiscal year 1994 to 2022 and achieved an economic gain of approximately \$14,100,000.

In prior years, the Massachusetts Bay Transportation Authority defeased in-substance several General Transportation System Bonds by placing the proceeds of new bonds in an irrevocable trust fund to provide for future debt service payments on the old debt. These payments began in 1994. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 1994, \$825,510,000 of these bonds outstanding are considered defeased.

The legislation under which the MBTA was established provides that if, at any time, the MBTA is unable to meet any interest or principal payments due on its debt, sufficient funds will be remitted by the Commonwealth to meet such obligations.

The legislation which authorizes the issuance of Massachusetts Convention Center Authority debt securities provides for participation by the Commonwealth in the full payment of the annual debt service costs.

On October 1, 1994, the Massachusetts Water Pollution Abatement Trust issued bonds of \$80,925,000 of tax-exempt bonds. A portion of the proceeds was used to refinance interim loans issued to South Essex Sewerage District during year 1994.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

9. INDIVIDUAL FUND DEFICITS:

The General Fund, certain Special Revenue Funds and Capital Projects Funds included in the combined totals have fund deficits at June 30, 1994, as follows (amounts in thousands):

<u>Fund</u>	<u>Amount</u>
General	\$ 923,682
Special Revenue:	
Lotteries	1,957
Capital Projects:	
General	212,914
Highway	85,852
Local Aid	70,917
Other	4,962

The deficit in the General Fund reflects the accrual of liabilities for Medicaid claims at June 30, 1994, and for subsidies to transit authorities for operating deficits incurred but not yet funded. These liabilities will be paid in subsequent periods as the Legislature appropriates funds. The deficits in the Lotteries Funds reflect the impact of accruals, created essentially by timing differences, which reverse in the next fiscal year.

In the Capital Projects Funds, the recognition of minibonds as fund liabilities accounts for \$49,062,000 of the reported fund deficits. The remaining deficits reflect the time lag between capital expenditures and the receipt or allocation of proceeds from the sale of related bonds. Subsequently on August 9, 1994, the Commonwealth issued \$250,000,000 in general obligation bond related to the capital projects funds.

10. RETIREMENT SYSTEMS:

Primary Government -

The Commonwealth is statutorily responsible for the pension benefits for Commonwealth employees (members of the State Employees' Retirement System) and for teachers of the cities, towns, regional school districts throughout the Commonwealth and Quincy College (members of the Teachers' Retirement System, except for teachers in the Boston public schools, who are members of the State-Boston Retirement System but whose pensions are also the responsibility of the Commonwealth). Employees of certain independent authorities and agencies, such as the MBTA, and of counties, cities and towns (other than teachers) are covered by separate retirement systems. The members of the retirement systems do not participate in the Social Security System. The Commonwealth has also assumed responsibility for payment of cost-of-living adjustments (COLA) for the separate (non-teacher) retirement systems of its cities, towns and counties.

Certain Commonwealth employees and current retirees employed prior to the establishment of the State Employees' Retirement System are covered on a "pay-as-you-go" basis.

**COMMONWEALTH OF MASSACHUSETTS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 1994**

Plan Descriptions -

State Employees' Retirement System (SERS) is a single employer defined benefit public employee retirement system (PERS), covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies. The SERS is administered by the Commonwealth and is part of the reporting entity.

Teachers' Retirement System (TRS) is an agent multiple employer defined benefit PERS. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of the TRS. The TRS covers certified teachers in cities (except the City of Boston), towns, regional school districts and Quincy College. The TRS is administered by the Commonwealth and is part of the reporting entity.

State - Boston Retirement System (SBRS) is an agent multiple employer defined benefit PERS. SBRS provides provision benefits to all full-time employees upon commencement of employment with any of the various government agencies covered by SBRS. The Commonwealth is a non-employer contributor and is only responsible for the actual cost of pension benefits for SBRS participants who serve in the City of Boston's School Department in a teaching capacity. The cost of pension benefits of the other participants is the responsibility of the City of Boston. SBRS is not administered by the Commonwealth, and it is not part of the reporting entity.

The Commonwealth has assumed financial responsibility for the COLA granted to participants in the retirement systems of cities, towns and counties. Any future COLA granted by the Legislature to employees of these plans will also be the responsibility of the Commonwealth. The individual employer governments are responsible for the basic pension benefits. The retirement systems are not administered by the Commonwealth and are not part of the reporting entity.

Membership - Current membership in SERS, TRS as of January 1, 1993 and SBRS as of January 1, 1994 is as follows:

	<u>SERS</u>	<u>TRS</u>	<u>SBRS</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>45,419</u>	<u>30,168</u>	<u>2,354</u>
Current employees:			
Vested	36,398	44,782	3,872
Nonvested	<u>47,114</u>	<u>17,206</u>	<u>2,011</u>
Subtotal	<u>83,512</u>	<u>61,988</u>	<u>5,883</u>
Total	<u><u>128,931</u></u>	<u><u>92,156</u></u>	<u><u>8,237</u></u>

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

The covered payroll for employees of the Commonwealth covered by SERS was \$3,094,000,000. The covered payroll for employees of the cities and towns covered by TRS is \$2,573,506,000. The covered payroll for employees of the City of Boston covered by SBRS is \$217,958,000. The covered payroll amounts approximate the employer payroll.

Benefit Provisions - Massachusetts General Laws establish uniform benefit and contribution requirements for all contributory PERS. These requirements provide for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, and group classification.

Retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. Average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55.

Funding Status and Progress - The amounts shown below as the pension benefit obligation are a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the System on an ongoing basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarially determined present value of credited projected benefits and is independent of the funding method used to determine contributions to the System.

The SERS and TRS pension benefit obligations were computed as part of the actuarial valuation as of January 1, 1993, updated to January 1, 1994. The SBRS pension benefit obligations were computed as part of an actuarial valuation as of January 1, 1994. Significant actuarial assumptions used in the calculation of contribution requirements and pension benefit obligation include (a) rates of return on investments of present and future assets of 8% per year (b) projected salary increases of 6% per year (c) cost of living increases of 3% per year and (d) interest rate credited to the annuity savings fund of 3.1% per year.

**COMMONWEALTH OF MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994**

The total unfunded pension benefit obligation is as follows (amounts in millions):

	<u>SERS</u>	<u>TRS</u>	<u>SBRS</u>	<u>COLA</u>	<u>Total</u>
Pension benefit obligation:					
Retirees and others currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	\$ 4,288	\$ 3,101	\$ 312	\$ 1,452	\$ 9,153
Current employees:					
Accumulated employee contributions including allocated interest	1,932	2,199	190		4,321
Commonwealth financed:					
Non-vested	668	288	30	93	1,079
Vested	<u>2,069</u>	<u>3,370</u>	<u>186</u>	<u>492</u>	<u>6,117</u>
Total pension benefit obligation	8,957	8,958	718	2,037	20,670
Net assets available for benefits, at market	<u>5,802</u>	<u>5,956</u>	<u>443</u>		<u>12,201</u>
Unfunded pension benefit obligation	<u>\$ 3,155</u>	<u>\$ 3,002</u>	<u>\$ 275</u>	<u>\$ 2,037</u>	<u>\$ 8,469</u>

Pension benefit obligation -

Contributions Required and Contributions Made - The retirement systems' funding policies have been established by statute. The annuity portion of the SERS, TRS and SBRS retirement allowance is funded by employees, who contribute a percentage of their regular compensation - 5% for those hired before January 1, 1975, 7% for those hired from January 1, 1975, through December 31, 1983, and 8% for those hired on or after January 1, 1984, plus an additional 2% of compensation above \$30,000 per year for those hired on or after January 1, 1979.

The Commonwealth's contribution for the pension benefit portion of the retirement allowance of SERS and TRS and required payments to cover SBRS and COLA contributions were originally established on a "pay-as-you-go" basis. As a result, amounts were appropriated each year to pay current benefits, without a systematic provision to fully fund future liabilities already incurred. Beginning in fiscal year 1988, the Commonwealth enacted the Pension Reform Act of 1987 and addressed the unfunded liability of SERS, TRS and its participation in SBRS and its COLA obligation. This legislation requires funding on a current basis, including amortizing the unfunded liabilities and liabilities for future COLA payments to local systems, over 40 years.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

This legislation also directs the Secretary for Administration and Finance to prepare a funding schedule to meet these requirements, and to update this funding schedule every three years on the basis of new actuarial valuation reports prepared under the Secretary's direction. Any such schedule is subject to legislative approval. If a schedule is not so approved, payments are to be made in accordance with the most recently approved schedule. This legislation further provides that if, during the first ten years of scheduled payments, the pension benefits paid exceed the scheduled contribution, the Commonwealth's contribution shall equal these benefit payments.

The current legislatively approved funding schedule, based on the January 1, 1990 valuation, was filed with the Legislature on March 1, 1991. It required contributions by the Commonwealth of \$806,584,000 during the fiscal year ended June 30, 1994. Because total benefit payments exceeded this amount, no additional Commonwealth contribution was required.

GAAP requires that pension expenditures (costs) be based on an acceptable actuarial cost method and that they not be less than:

- Normal cost
- Interest on any unfunded prior service costs
- A provision for vested benefits when the total present value of vested benefits exceeds by 5% or more the value of the plan

The funding schedule discussed above follows an acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability. However, the amortization of the accrued actuarial liability has been legislatively determined to be significantly lower in the first years of the 40-year funding period. Therefore, the fiscal year 1994 contribution did not cover the minimum expenditure recognition required by GAAP. The difference between the total contributions required and the total contributions made is recorded as a liability in the General Long-term Obligations Account Group.

**COMMONWEALTH OF MASSACHUSETTS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 1994**

Contributions required and made based on the minimum expenditure recognition required by GAAP are as follows (amounts in millions):

	<u>SERS</u>	<u>TRS</u>	<u>SBRS</u>	<u>COLA</u>	<u>Total</u>
Minimum contribution requirement:					
Normal cost	\$ 430	\$ 320	\$ 25	\$ 51	\$ 826
Amortization of unfunded actuarial liability	161	104	9	98	372
Interest on unfunded actuarial liability	<u>100</u>	<u>111</u>	<u>10</u>	<u>64</u>	<u>285</u>
Total contributions required	<u>\$ 691</u>	<u>\$ 535</u>	<u>\$ 44</u>	<u>\$ 213</u>	<u>\$ 1,483</u>
Contributions made:					
By employees	\$ 212	\$ 174	\$ 14	\$ 0	\$ 400
% of covered payroll	6.90%	6.75%	6.50%	N/A	N/A
By the Commonwealth	415	329	28	94	866
% of covered payroll	<u>13.40%</u>	<u>12.80%</u>	<u>12.90%</u>	<u>N/A</u>	<u>N/A</u>
Total contributions made	<u>\$ 627</u>	<u>\$ 503</u>	<u>\$ 42</u>	<u>\$ 94</u>	<u>\$ 1,266</u>

The total contributions required for SERS, TRS and SBRS are based on the entry age normal cost method using the same actuarial assumptions used to compute the pension benefit obligation.

During the year ended June 30, 1994, the Commonwealth's pension expenditure also included payments totaling \$22,209,000 to current retirees employed prior to the establishment of the current plans and to non-contributory plans.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

Trend Information - The following table presents the required three-year trend information:

	Year	% SERS	% TRS	% SBRIS
Net assets available for benefits as a percentage of the pension benefit obligation applicable to employees:	1994	64.7	66.5	61.6
	1993	60.3	60.9	52.7
	1992	66.6	58.1	48.5
Unfunded pension benefit obligation as a percentage of annual covered payroll:	1994	101.9	116.7	126.5
	1993	114.4	135.8	161.9
	1992	89.5	169.6	197.2
Commonwealth's contributions to the pension plan as a percentage of annual covered payroll:	1994	13.8	12.8	12.9
	1993	14.3	12.5	13.2
	1992	12.7	14.0	14.4

Ten-year historical trend information for SERS, TRS and SBRIS may be found on page 170 of the Commonwealth's Comprehensive Annual Financial Report. This report presents information about progress made in accumulating sufficient assets to pay benefits when due.

Certain information was not available for SERS, TRS and the Commonwealth's participation in SBRIS. Total annual payroll for SERS, TRS and SBRIS approximates annual covered payroll; however, actual annual total payroll amounts are not available this year, and have not been available in prior years. Annual covered payroll amounts were not available prior to 1990. Ten-year trend data of SBRIS for revenues and expenditures is not available in their separately issued report.

Component Units -

Condensed Pension Information - Of the 27 discretely presented component units 22 maintain separate pension plans.

**COMMONWEALTH OF MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994**

Postretirement Health Care and Life Insurance Benefits - In addition to providing pension benefits, the Commonwealth is statutorily required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies. The Commonwealth recognizes its share of the costs of providing these benefits when paid. These payments totaled approximately \$126,027,000 for the fiscal year ended June 30, 1994.

11. DEFERRED COMPENSATION PLAN:

The Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees of the Commonwealth and its political subdivisions, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Commonwealth (without being restricted to the provision of benefits under the plan), subject only to the claims of the Commonwealth's general creditors and its political subdivisions participating in the plan. Participants' rights under the plan are equal to the fair market value of the deferred account for each participant. All plan assets are stated at market value.

It is the opinion of the Commonwealth that it has no liability for losses under the plan, but it does have the duty of due care which would be required of an ordinary prudent investor. The plan assets are subject to the claims of the Commonwealth's general creditors; however, plan assets have not been used in the past to satisfy such claims.

Of the \$945,401,000 in the plan at June 30, 1994, \$636,500,000 was applicable to the Commonwealth; the remaining \$308,901,000 represents the assets of cities and towns participating in the plan. The assets and liabilities of the deferred compensation plan are included in Agency Funds at June 30, 1994.

12. CAPITAL LEASES:

Primary Government -

In order to finance the acquisition of equipment, the Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease purchase (TELP) agreements which are accounted for as capital leases. These agreements are for various terms and contain clauses indicating that their continuation is subject to appropriation by the Legislature.

At June 30, 1994, the Commonwealth's aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totals \$50,954,000. This liability is reported in the General Long-term Obligations Accounts Group. Equipment acquired under capital leases and included in the General Fixed Assets Account Group totals approximately \$76,802,000.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

The Commonwealth leases real property and equipment under numerous operating lease agreements for varying terms. These agreements contain clauses which indicate that their continuation is subject to appropriation by the Legislature. Rental expense for the year ended June 30, 1994 was approximately \$100,925,000.

The following is a schedule of future minimum lease payments under non-cancelable leases for the Commonwealth as of June 30, 1994 (amounts in thousands):

Years ending June 30	Capital leases	Operating leases
1995	\$ 18,629	\$ 81,466
1996	14,676	62,520
1997	10,545	50,269
1998	7,071	40,947
1999	5,084	28,451
2000 and thereafter	2,786	8,184
Total payments	58,791	\$ 271,837
Less: amount representing interest	(7,837)	
Present value of minimum lease payments	\$ 50,954	

University and College Fund - At June 30, 1994, aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totaled \$19,558,000. Equipment acquired under capital leases and included in University and College Fund fixed assets totaled approximately \$14,087,000.

The University and College Fund Type leases real property and equipment under numerous operating lease agreements for varying terms. Rental expense for the fiscal year ended June 30, 1994 was approximately \$5,261,000.

The following schedule summarizes future minimum payments under non-cancelable leases for the University and College Fund Type (amounts in thousands):

**COMMONWEALTH OF MASSACHUSETTS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 1994**

Years ending June 30	Capital leases	Operating leases
1995	\$ 6,173	\$ 4,994
1996	5,150	4,187
1997	3,883	3,161
1998	2,806	2,367
1999	2,112	73
2000 and thereafter	<u>3,339</u>	<u>40</u>
Total payments	23,463	<u>\$ 14,822</u>
Less: amount representing interest	<u>(3,905)</u>	
Present value of minimum lease payments	<u>\$ 19,558</u>	

Component Units -

The MBTA has entered into several sale-leaseback agreements with major financial institutions, covering equipment and rolling stock, which have been accounted for as operating leases. The leases expire through 2013. Upon termination, the MBTA may purchase the equipment and rolling stock at prices equal to the lesser of a stated percentage (40%-70%) of the lessor's original purchase price or residual fair market value, as defined.

The Economic Development Authorities and the RTA's have operating leases for office space.

The future minimum rental payments required under operating leases having initial or remaining non-cancelable lease terms in excess of one year are as follows (amounts in thousands):

Years ending June 30	MBTA	RTA's	Economic Development Authorities
1995	\$ 12,068	\$ 15,700	\$ 1,047
1996	12,068	9,000	770
1997	12,068		471
1998	12,068		369
1999	13,669		223
2000 and thereafter	<u>188,739</u>		
Total payments	<u>\$ 250,680</u>	<u>\$ 24,700</u>	<u>\$ 2,880</u>

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

13. COMMITMENTS:

Primary Government -

Governmental Funds - The Commonwealth is obligated to provide annual subsidies to the MBTA and regional transit authorities for contract assistance, debt service assistance and their net cost of service deficiencies. For fiscal year 1994, these subsidies totaled \$606,442,000 for the MBTA and \$47,761,000 for the RTA's. The net cost of service subsidy is recognized as a current liability of the Commonwealth, but is funded in arrears. At June 30, 1994, the Commonwealth has recorded the unpaid portion as a liability due to the MBTA of \$361,020,000 and due to RTA's of \$54,833,000. The cities and towns served by the MBTA and RTA's will be assessed their proportionate shares of the net cost of service. A receivable from cities and towns of \$208,089,000 is recorded at June 30, 1994, to account for these future reimbursements. The MBTA has also recorded net deferred charges of \$81,975,000 at June 30, 1994, which will be included in the Commonwealth's net cost of service subsidy in future periods. The Commonwealth has recognized its liability for these future costs in the General Long-term Obligations Account Group.

The Commonwealth is also statutorily obligated to provide contract assistance for debt service obligations to the MCCA and the Government Land Bank. Such assistance totaled \$17,583,383 in fiscal year 1994.

At June 30, 1994, the aggregate outstanding debt for which the Commonwealth is obligated to provide contract assistance support totaled approximately \$2,442,885,000 long-term and \$433,269,000 short-term. In addition, the Commonwealth guarantees the debt of certain local governments and of the building authorities included in the University and College Fund. The guaranteed debt outstanding at June 30, 1994, was approximately \$235,916,000.

At June 30, 1994, the Commonwealth had commitments approaching \$1,636,000,000 for various construction projects. The majority relate to new construction funding for a major infrastructure program known as the Central Artery Project, in which federal participation is anticipated. The remainder relate to a wide range of building construction projects.

Pension Trust Funds - At June 30, 1994, PRIT had outstanding commitments to invest \$281,000,000 in real estate, \$18,000,000 in venture capital and \$208,000,000 in special equity investments.

University and College Fund Type - The UMass hospital has agreements with Blue Cross of Massachusetts, Inc., the Social Security Administration under the Medicare program and the Commonwealth of Massachusetts under the Medicaid program that govern payments to the hospital for services rendered to patients covered by these programs and require the hospital to prepare and file settlement reports annually. Provisions have been made in the financial statements for the estimated final settlements with such third party payors.

Component Units -

As of June 30, 1994, the WPAT has agreed to provide loans of \$173,000,000 to various local government units to be funded with grant awards received through June 30, 1994.

**COMMONWEALTH OF MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994**

The MBTA has entered into several long term contracts to purchase commuter rail coaches, locomotives and rapid transit cars. The unpaid amounts under these contracts total approximately \$139,754,000 at June 30, 1994.

The MCCA has entered into a general construction contract for the renovation and rehabilitation of the Boston Common Parking Garage. The total cost, including architectural, engineering and other costs, is expected to be approximately \$35,000,000.

Massachusetts Housing Partnership Fund (MHP) has executed seven loan agreements with five banks for an amount of \$172,644,973 pursuant to the Massachusetts Nationwide Interstate Banking and Community Reinvestment Act (Chapter 102 of the Acts of 1990). These bank loan agreements are the source of funding to borrowers through MHP.

14. CONTINGENCIES:

Primary Government -

A number of lawsuits are pending or threatened against the Commonwealth which arose from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. For those cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated, the Attorney General estimates the liability to be approximately \$73,500,000. Of this amount approximately \$61,500,000, which is expected to be paid during fiscal year 1995, is recorded in fund liabilities; approximately \$12,000,000 expected to be paid thereafter, is recorded as a liability in the General Long-term Obligations Account Group. Appellate Tax Board cases included in the amount to be paid in 1995 total \$17,500,000.

Workers' compensation and group health insurance costs for Commonwealth employees are recognized when claims are incurred. The Commonwealth's outstanding liability for such claims at June 30, 1994, including claims incurred but not reported, is estimated to be \$341,900,000. Of this total, approximately \$54,100,000 is expected to be paid during fiscal year 1995; \$47,900,000 is included among fund liabilities and \$6,200,000 is reported in the University and College Fund. Of the remainder, approximately \$256,800,000, is recorded as a liability in the General Long-term Obligations Account Group and \$31,000,000 is included in the liabilities of the University and College Fund.

The Commonwealth has assumed responsibility for worker's compensation claims for all contractors and subcontractors working on the Central Artery project. The Commonwealth's liability as of June 30, 1994 for such claims is estimated to be \$86,278,000. The Commonwealth has established reserves through a combination of bond proceeds and federal funds in its capital project funds to pay these liabilities.

The Commonwealth receives significant financial assistance from the federal government. Entitlement to the resources is generally conditional upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits. Any disallowances become liabilities of the fund which received the assistance. As of June 30, 1994, the Commonwealth estimates that liabilities, if any, which may result from such audits are not material.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

The Commonwealth's abandoned property law requires deposit of certain unclaimed assets into a managed Agency Fund. The statute requires the excess amount over \$500,000 each June 30 to be remitted to the General Fund, where it is included in miscellaneous revenue. Amounts remitted during fiscal year 1994 totaled \$54,298,192. Since inception, approximately \$484,660,000 has been remitted. This represents a contingency, because claims for refunds can be made by the owners of the property. No material amounts have been repaid.

University and College Fund Type - The University of Massachusetts is contingently liable for \$20,500,000 of Massachusetts Health and Educational Facilities Authority revenue bonds, issued by the University of Massachusetts Foundation, Inc. In the event the Foundation fails to make any payment, the University will transfer any amounts unpaid and due to the Foundation.

Component Units -

The Massachusetts Convention Center Authority was involved in six lawsuits arising primarily as a result of the Phase II expansion and renovation of the Hynes Convention Center since January 1989. Three cases have been dismissed pursuant to a settlement of July 28, 1994 for an amount of \$15,500,000. The authority had retained security deposits of \$12,900,000 plus interest of \$2,600,000 against the cost of the settlement. An initial payment of \$12,500,000 was made in July 1994, and the remaining balance is payable in separate installments during fiscal year 1996 and 1997.

15. ACCOUNTING CHANGE - CHANGE IN REPORTING ENTITY:

For the fiscal year ended June 30, 1994, the Commonwealth adopted Governmental Accounting Standards Board Statement No. 14 (GASB 14), "The Financial Reporting Entity." GASB 14 requires that the financial statements present (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

As a result of the adoption of GASB 14, all entities which have previously been reported within Enterprise Funds are now classified in a discretely presented column labeled component units. In addition, certain entities which have previously been excluded from the reporting entity have been added in the current fiscal year, and three entities which were previously included are now excluded from the reporting entity. See Note 1 for a description of the component units included in the reporting entity.

The effect of adopting GASB 14 is to reduce beginning fund equity in the Component Units column (previously reported as Enterprise Funds) by \$2,088,289,000.

[THIS PAGE INTENTIONALLY LEFT BLANK]

HALE AND DORR

C O U N S E L L O R S A T L A W

60 STATE STREET, BOSTON, MASSACHUSETTS 02109
617-526-6000 • FAX 617-526-5000

FORM OF OPINION OF BOND COUNSEL FOR THE BONDS

March __, 1995

The Honorable Joseph D. Malone
Treasurer and Receiver-General
The Commonwealth of Massachusetts
State House, Room 227
Boston, Massachusetts 02133

Re: The Commonwealth of Massachusetts \$150,000,000
General Obligation Bonds, Consolidated Loan of 1995,
Series A

Dear Treasurer Malone:

We have examined a record of proceedings relating to the issuance by the Commonwealth of Massachusetts (the "Commonwealth") of its \$150,000,000 General Obligation Bonds, Consolidated Loan of 1995, Series A, dated February 1, 1995 (the "Bonds"). We have also 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 redemption at such times, in such amount, 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 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 issued by DTC and its participants.

The Honorable Joseph D. Malone
Treasurer and Receiver General
The Commonwealth of Massachusetts
March __, 1995
Page 2

In rendering our opinions set forth below, we have relied as to questions of fact material to our opinion upon representations of the Commonwealth contained in the certified proceedings and other certifications of public officials (including certifications as to the use, expenditure and investment of the proceeds of the Bonds) furnished to us without undertaking to verify the same by independent investigation.

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

1. The Bonds have been duly authorized and are the legal and valid general obligations of the Commonwealth to which its full faith and credit are pledged for payment of principal and interest when due.

It should be noted, however, that the provisions of Chapter 62F of the Massachusetts General Laws establish a state tax revenue growth limit and do not exclude principal and interest payments on the Bonds and other Commonwealth debt obligations from the scope of the limit. It should be further noted that the provisions of Chapter 29, Section 60B of the Massachusetts General Laws impose an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on certain general obligation debt of the Commonwealth, including the Bonds, and that Chapter 151 of the Acts of 1990 dedicates certain state tax revenues for debt service on previously issued Fiscal Recovery Bonds of the Commonwealth. The property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment against the Commonwealth generally requires 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 Commonwealth statutes, if any, hereafter enacted extending the time for payment or imposing other constraints upon enforcement, insofar as the same may be constitutionally applied.

2. Under existing statutes and court decisions, interest on the Bonds (including any original issue discount properly allocable to the holder thereof) is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, but is includable in "adjusted current earnings" of corporate holders of the Bonds and therefore will be taken into account in the computation of the alternative minimum tax applicable to certain corporations.

The Honorable Joseph D. Malone
Treasurer and Receiver General
The Commonwealth of Massachusetts
March __, 1995
Page 3

In rendering the foregoing opinion that interest on the Bonds is, as of the date hereof, excludable from gross income for federal income tax purposes we have assumed the continued compliance by the Commonwealth with certain provisions of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that the interest on the Bonds be, or continue to be, excluded from gross income for federal income tax purposes. The Commonwealth has covenanted to comply with each such requirement. Failure to comply with certain of such requirements could cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding other federal tax consequences arising with respect to the Bonds.

3. Under existing statutes, the Bonds and the interest thereon (including any original issue discount properly allocable to the holder thereof) are exempt from taxes imposed by the Commonwealth, although the Bonds and said interest may be included in the measure of estate and inheritance taxes and of certain corporate excise and franchise taxes.

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.

We are members of the bar of the Commonwealth of Massachusetts, and we express no opinion as to laws other than the laws of the Commonwealth and the United States of America.

Very truly yours,

HALE AND DORR

[THIS PAGE INTENTIONALLY LEFT BLANK]



FINANCIAL GUARANTY INSURANCE POLICY
Municipal Bond Investors Assurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

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

[PAR]
 [LEGAL NAME OF ISSUE]

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

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

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

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

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this _____ day of _____

COUNTERSIGNED:

 Resident Licensed Agent

 City, State

STD-RCS-51/1/84

MUNICIPAL BOND INVESTORS
 ASSURANCE CORPORATION

SPECIMEN

 Agent:

 Assistant Secretary







