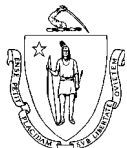


REFUNDING / NEW MONEY ISSUE - BOOK-ENTRY-ONLY

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

THE COMMONWEALTH OF MASSACHUSETTS



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

Dated: August 1, 2002
Due: August 1, as shown
on the inside cover hereof

\$102,820,000
General Obligation
Refunding Bonds
2002 Series B

Dated: Date of Delivery
Due: February 1, as shown
on the inside cover hereof

\$108,825,000
General Obligation
Refunding Bonds
2003 Series A
(Delayed Delivery)

Dated: Date of Delivery
Due: August 1, as shown on
the inside cover hereof

The Bonds will be issued by means of a book-entry-only system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company ("DTC") and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The 2002 Series D Bonds will bear interest from August 1, 2002 and interest will be payable on February 1, 2003 and semiannually thereafter on August 1 and February 1, calculated on the basis of a 360-day year of twelve 30-day months. The 2002 Series D Bonds are subject to redemption prior to maturity, as more fully described herein. The 2002 Series B Refunding Bonds will bear interest from their date of delivery and interest will be payable on February 1, 2003 and semiannually thereafter on August 1 and February 1, calculated on the basis of a 360-day year of twelve 30-day months. The 2003 Series A Delayed Delivery Bonds will bear interest from their date of delivery and interest will be payable on August 1, 2003 and semiannually thereafter on February 1 and August 1, calculated on the basis of a 360-day year of twelve 30-day months. The 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds are not subject to redemption prior to their stated dates of maturity.

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

The Bonds are offered when, as and if issued and received by the Underwriters, and subject to the unqualified approving opinion as to legality of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Ropes & Gray, Boston, Massachusetts, Disclosure Counsel. Certain matters will be passed upon for the Underwriters by their counsel, Holland & Knight LLP, Boston, Massachusetts. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about September 10, 2002, with respect to the 2002 Series D Bonds, on or about November 5, 2002 with respect to the 2002 Series B Refunding Bonds and on or about May 6, 2003 with respect to the 2003 Series A Delayed Delivery Bonds

Salomon Smith Barney

Bear, Stearns & Co. Inc.
JPMorgan

Lehman Brothers

Goldman, Sachs & Co.
UBS PaineWebber Inc.

Advest, Inc.
Corby North Bridge Securities
H.C. Wainwright & Co., Inc.
Merrill Lynch & Co.
Quick & Reilly, Inc.
RBC Dain Rauscher Inc.

A.G. Edwards & Sons, Inc.
Fahnestock & Co. Inc
Janney Montgomery Scott Inc.
Morgan Stanley
Ramirez & Co., Inc.
State Street Capital Markets, LLC

CIBC World Markets
First Albany Corporation
Mellon Financial Markets, Inc.
Prudential Securities
Raymond James & Associates, Inc.
Wachovia Bank National Association

August 21, 2002

THE COMMONWEALTH OF MASSACHUSETTS

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

Dated: August 1, 2002

Due: August 1, as shown below

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
2003	\$ 6,735,000	2½%	1.30%
2007	17,300,000	5¼	2.82
2007	12,030,000	3	2.82
2009	8,885,000	5¼	3.35
2009	3,000,000	3.30	3.35
2010	34,980,000	5¼	3.62
2011	1,920,000	3⅞	3.69
2012	24,815,000	5¼	3.84
2013	3,300,000	3⅞	3.93
2014	5,280,000	4	4.04
2015	500,000	5	4.17
2015	2,000,000	4⅛	4.17
2016	2,070,000	4⅛	4.25
2017	32,675,000	5½	4.37
2018	119,520,000	5½	4.47
2019	80,365,000	5½	4.56
2019	53,130,000†*	5⅜	4.53
2020	2,350,000	5½	4.62
2020	39,660,000†*	5⅜	4.63
2021	41,995,000†*	5⅜	4.71
2022	56,920,000†*	5⅜	4.79
2022	50,000,000†*	5	4.96

\$71,315,000* 5.00% Term Bond Due August 1, 2027 at a price of 99¼.

(accrued interest, if any, to be added)

\$102,820,000
General Obligation Refunding Bonds
2002 Series B

Dated: Date of Delivery

Due: February 1, as shown below

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
2006	\$102,820,000	5.00%	2.64%

\$108,825,000
General Obligation Refunding Bonds
2003 Series A (Delayed Delivery)

Dated: Date of Delivery

Due: August 1, as shown below

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
2008	\$108,825,000	5⅞%	3.65%

† Priced at the stated yield to the August 1, 2012 optional redemption date at a redemption price of 100%. See "THE BONDS – Redemption."

* Insured by MBIA Insurance Corporation (the "Insured Bonds"). See "BOND INSURANCE."

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

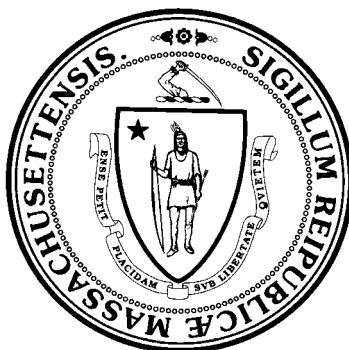
THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT: THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPECTIVE RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO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

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

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THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

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

OFFICIAL STATEMENT

THE COMMONWEALTH OF MASSACHUSETTS

\$670,745,000

**General Obligation Bonds
Consolidated Loan of 2002, Series D**

\$102,820,000

**General Obligation Refunding Bonds
2002 Series B**

\$108,825,000

**General Obligation Refunding Bonds
2003 Series A (Delayed Delivery)**

INTRODUCTION

This Official Statement (including the cover pages and Appendices A through F attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the “Commonwealth”) of \$670,745,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 2002, Series D (the “2002 Series D Bonds”), of \$102,820,000 aggregate principal amount of its General Obligation Refunding Bonds, 2002 Series B (the “2002 Series B Refunding Bonds”) and of \$108,825,000 aggregate principal amount of its General Obligation Refunding Bonds, 2003 Series A (Delayed Delivery) (the “2003 Series A Delayed Delivery Bonds”) (collectively, the “Bonds”). The Bonds will be general obligations of the Commonwealth, and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and expenditures for debt service, see “SECURITY FOR THE BONDS” and the March Information Statement (described below) under the headings “COMMONWEALTH REVENUES – Limitations on Tax Revenues” and “COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Limit on Debt Service Appropriations.”

The 2002 Series D Bonds are being issued to finance certain authorized capital projects of the Commonwealth and to advance refund certain bonds of the Commonwealth as set forth in Appendix B – Table of Refunded Bonds. The 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds are being issued to currently refund certain bonds of the Commonwealth, also as set forth in Appendix B – Table of Refunded Bonds. See “THE BONDS – Plan of Finance” and “Application of Proceeds.”

The 2002 Series D Bonds are expected to be delivered on or about September 10, 2002. The 2002 Series B Refunding Bonds are expected to be delivered on or about November 5, 2002. The 2003 Series A Delayed Delivery Bonds are expected to be delivered on or about May 6, 2003. Salomon Smith Barney Inc. is the sole underwriter (the “Delayed Delivery Underwriter”) with respect to the 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds.

Payment of the principal of and interest on certain of the 2002 Series D Bonds when due will be insured by a municipal bond insurance policy issued by MBIA Insurance Corporation as set forth on the inside cover hereof. See “BOND INSURANCE.”

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 F. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document.

Specific reference is made to the Commonwealth’s Information Statement dated March 25, 2002 (the “March Information Statement”), as it appears as Appendix A in the Official Statement dated March 25, 2002 of the

Commonwealth with respect to the Commonwealth's General Obligation Bond Anticipation Notes, 2002 Series A (the "March Official Statement"). A copy of the March Official Statement has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission and with the Municipal Securities Rulemaking Board. The information contained in the March Information Statement has been supplemented by the Commonwealth Information Statement Supplement dated August 21, 2002 (the "Supplement"), which is attached hereto as Appendix A. The March Information Statement, as supplemented by the Supplement, contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth. Exhibit A to the Supplement contains certain economic information concerning the Commonwealth. Exhibits B and C to the Supplement contain the financial statements of the Commonwealth for the fiscal year ended June 30, 2001, prepared on a statutory basis and for the fiscal year ended June 30, 2001, prepared on a GAAP basis, respectively. Specific reference is made to said Exhibits B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. The financial statements are also available at the home page of the Comptroller of the Commonwealth located at www.state.ma.us/osc.

Attached hereto as Appendix B is a list of the bonds to be refunded with the proceeds of the Bonds. Appendix C attached hereto contains the proposed forms of legal opinions of Bond Counsel with respect to the Bonds. Appendix D attached hereto contains the proposed form of the Commonwealth's continuing disclosure undertaking to be included in the form of the Bonds to facilitate compliance by the Underwriters with the requirements of paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission. Appendix E attached hereto contains the proposed form of Delayed Delivery Contract (as such term is defined herein) with respect to the 2003 Series A Delayed Delivery Bonds.

THE BONDS

General

The 2002 Series D Bonds will be dated August 1, 2002 and will bear interest from such date payable semiannually on February 1 and August 1 of each year, commencing February 1, 2003 (each an "Interest Payment Date") until the principal amount is paid. The 2002 Series D Bonds will mature on August 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 2002 Series B Refunding Bonds will be dated as of their date of delivery and will bear interest from such date payable semiannually on February 1 and August 1 of each year, commencing February 1, 2003 (each an "Interest Payment Date") until the principal amount is paid. The 2002 Series B Refunding 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 2003 Series A Delayed Delivery Bonds will be dated as of their date of delivery and will bear interest from such date payable semiannually on February 1 and August 1 of each year, commencing August 1, 2003 (each an "Interest Payment Date") until the principal amount is paid. The 2003 Series A Delayed Delivery Bonds will mature on August 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. The Commonwealth reserves the right to appoint from time to time a paying agent or agents or bond registrar for the Bonds.

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

owner of the Bonds for all purposes, including notices and voting. The Commonwealth will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. See “BOOK-ENTRY-ONLY SYSTEM.”

Redemption

The 2002 Series D Bonds maturing on or prior to August 1, 2018 will not be subject to redemption prior to their stated maturity dates. The 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds will not be subject to redemption prior to their stated maturity dates.

Optional Redemption. Certain of the 2002 Series D Bonds maturing on and after August 1, 2019, as set forth on the inside cover hereof, will be subject to redemption prior to their stated maturity dates on and after August 1, 2012 at the option of the Commonwealth from any moneys legally available therefor, in whole or in part at any time, by lot, at 100% of the principal amount thereof, plus accrued interest to the redemption date.

Mandatory Sinking Fund Redemption. The 2002 Series D Bonds maturing on August 1, 2027 are subject to mandatory sinking fund redemption on August 1 in each of the years and each of the principal amounts set forth below plus accrued interest to the redemption date, as follows:

<u>Year</u>	<u>Amount</u>
2026.....	\$45,205,000
2027.....	26,110,000

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 Bond previously purchased or optionally redeemed by the Commonwealth.

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 moneys 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.

Plan of Finance

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 for the purpose of financing the projects so authorized and pursuant to the provisions of Section 53A of Chapter 29 of the Massachusetts General Laws for the purpose of refunding certain bonds set forth in Appendix B (the “Refunded Bonds”).

The Commonwealth, upon delivery of each series of Bonds, will enter into three refunding escrow agreements (collectively, the “Escrow Agreements”) with an escrow agent (the “Escrow Agent”) to be selected for the Refunded Bonds. The Escrow Agreements will provide for the deposit of a portion of the net proceeds of the Bonds with the Escrow Agent in separate accounts to be applied immediately upon receipt to purchase non-callable direct obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America, obligations of certain federal agencies specified in Section 49 of Chapter 29 of the Massachusetts General Laws or of any agency or corporation which has been created pursuant to an act of Congress of

the United States as an agency or instrumentality of the United States of America, bank time deposits or certificates of deposit that are secured by such obligations, repurchase agreements with banks in respect of any such obligations or advance-refunded or defeased bonds that are secured by such obligations (the "Escrow Obligations") and to funding, if needed, a cash deposit in such accounts. The Escrow Agreements will require that maturing principal of and interest on the Escrow Obligations, plus any initial cash deposits, be held in trust in such accounts and paid to the Commonwealth solely for the payment of the principal of and redemption premium, if any, and interest on the Refunded Bonds. According to the report described herein under the heading "VERIFICATION OF MATHEMATICAL COMPUTATIONS", the Escrow Obligations will mature at such times and earn interest in such amounts that, together with any initial cash deposits, will produce sufficient monies to make such payments on the Refunded Bonds to and including their respective maturity or redemption dates, each as set forth in Appendix B.

Application of Proceeds

The portion of the net proceeds of the sale of the 2002 Series D Bonds remaining after the funding of the Escrow Agreement will be applied by the Treasurer and Receiver-General of the Commonwealth (the "State Treasurer") to the various purposes for which the issuance of bonds has been authorized by the Legislature or to the payment of bond anticipation notes previously issued for such purposes, or to reimburse the state treasury for expenditures previously made pursuant to such laws. Any accrued interest payable upon original delivery of the 2002 Series D Bonds will be credited ratably to the funds from which debt service on the 2002 Series D Bonds is paid and will be used to pay interest on the 2002 Series D Bonds. Any premium received by the Commonwealth upon original delivery of the 2002 Series D Bonds will be treated as net proceeds of the issue except to the extent that the State Treasurer may determine to apply all or a portion of such net premium to the costs of issuance thereof and other financing costs related thereto or to the payment of the principal of or sinking fund installments with respect to the 2002 Series D Bonds.

The purposes for which the 2002 Series D Bonds will be issued have been authorized by the legislature under various bond authorizations. The portion of the net proceeds remaining after the funding of the Escrow Agreement will be used to finance or reimburse the Commonwealth for a variety of capital expenditures that are included within the current five-year capital spending plan established by the Executive Office for Administration and Finance. The plan, which is an administrative guideline and is subject to amendment at any time, sets forth capital spending allocations over the next five fiscal years and establishes annual capital spending limits. See the March Information Statement and the Supplement under the heading "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES."

The net proceeds of the sale of the 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds will be applied as set forth above under the heading "Plan of Finance". Any premium received by the Commonwealth upon original delivery of the 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds will be treated as net proceeds of the issue except to the extent that the State Treasurer may determine to apply all or a portion of such net premium to the costs of issuance thereof and other financing costs related thereto or to the payment of the principal of or sinking fund installments with respect to the 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds.

Settlement Date of 2002 Series B Bonds and Delayed Delivery of 2003 Series A Delayed Delivery Bonds

Subject to the terms of the Purchase Contracts (as defined below), the Commonwealth expects that the 2002 Series B Refunding Bonds will be issued and delivered on or about November 5, 2002 and that the 2003 Series A Delayed Delivery Bonds will be issued and delivered on or about May 6, 2003, or at such later date or dates as may be mutually agreed upon by the Commonwealth and the Delayed Delivery Underwriter (each such date of delivery, a "Settlement Date").

The following is a description of certain provisions of each of the Bond Purchase Agreements between the Commonwealth and the Delayed Delivery Underwriter with respect to the Bonds (the "Purchase Contracts"). This description is not to be considered a full statement of the terms of the Purchase Contracts and accordingly is qualified by reference thereto and is subject to the full text thereof.

All purchasers of 2003 Series A Delayed Delivery Bonds are required to execute and deliver to the Delayed Delivery Underwriter a Delayed Delivery Contract substantially in the form of Appendix E. No Delayed Delivery Contract is required for the 2002 Series B Refunding Bonds.

Settlement. Delivery of the 2002 Series B Refunding Bonds and the Delayed Delivery Underwriter's obligation under the Purchase Contract to purchase, to accept delivery of and to pay for them at the time of their settlement are conditioned upon the Commonwealth's having tendered performance of its obligations under the Purchase Contract with respect to the delivery of an opinion, dated the date of the date of delivery of the 2002 Series B Refunding Bonds, of Bond Counsel in substantially the form included as Appendix B hereto, and the delivery of a letter from each of Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services confirming that they have rated the 2002 Series B Refunding Bonds then being delivered at least "AA-", "Aa2" and "AA-", respectively. Delivery of the 2002 Series B Refunding Bonds is further contingent upon the delivery of certain certificates, reports and legal opinions, and the satisfaction of other conditions as of the settlement date. Events which may prevent those conditions from being satisfied include, among others, (i) changes in law affecting the Commonwealth, the validity or enforceability of the 2002 Series B Refunding Bonds or the tax-exempt status of the interest thereon as described herein and (ii) litigation which may be threatened or filed with a court of appropriate jurisdiction affecting the issuance of or security for the 2002 Series B Refunding Bonds.

Delivery of the 2003 Series A Delayed Delivery Bonds and the Delayed Delivery Underwriter's obligation under the Purchase Contract to purchase, to accept delivery of and to pay for the 2003 Series A Delayed Delivery Bonds at the time of their settlement are conditioned upon the Commonwealth's having tendered performance of its obligations under the Purchase Contract with respect to the delivery of an opinion, dated the date of the date of delivery of the 2003 Series A Delayed Delivery Bonds, of Bond Counsel in substantially the form included as Appendix B hereto, and the delivery of a letter from each of Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Services confirming that they have rated the 2003 Series A Delayed Delivery Bonds then being delivered. Delivery of the 2003 Series A Delayed Delivery Bonds is further contingent upon the delivery of certain certificates, reports, and legal opinions, and the satisfaction of other conditions as of the settlement date. Events which may prevent those conditions from being satisfied include, among others, (i) changes in law affecting the Commonwealth, the validity or enforceability of the 2003 Series A Delayed Delivery Bonds or the tax-exempt status of the interest thereon as described herein and (ii) litigation which may be threatened or filed with a court of appropriate jurisdiction affecting the issuance of or security for the 2003 Series A Delayed Delivery Bonds.

The Delayed Delivery Underwriter may terminate the Purchase Contracts without liability therefor by notification to the Commonwealth at any time on or after Closing and on or prior to the delivery of the 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds under certain limited conditions set forth therein.

During the period of time between the date of the Official Statement for the 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds (the "Official Statement") and the issuance and delivery of the 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds (each a "Delayed Delivery Period"), certain information contained in the Official Statement could change in a material respect. The Commonwealth has agreed to provide a certificate of the Commonwealth dated the Settlement Date for each of the 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds, to the effect that the official statement of the Commonwealth, as updated, supplemented and delivered to the Delayed Delivery Underwriter, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading. Any changes in such information will not permit the Delayed Delivery Underwriter to terminate a Purchase Contract unless the change is an event described under "Termination of Purchase Contract" below. In addition to the risks set forth above, purchasers of 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds are subject to certain additional risks, some of which are described below.

Ratings Risk. Settlement of the 2003 Series A Delayed Delivery Bonds is not subject to confirmation of ratings. No assurance can be given that the ratings currently applicable to the Commonwealth will be the ratings in effect with respect to the 2003 Series A Delayed Delivery Bonds as of their date of delivery and lower ratings could adversely affect the market value of the 2003 Series A Delayed Delivery Bonds.

Secondary Market Risk. The Delayed Delivery Underwriter is not obligated to make a secondary market in 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds and no assurances can be given that a secondary market will exist for the 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds during the Delayed Delivery Period. Purchasers of the 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds should assume that the 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds will be illiquid throughout their respective Delayed Delivery Periods.

Market Value Risk. The market value of the 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds as of their date of delivery may be affected by a variety of factors including, without limitation, general market conditions; the Commonwealth's ratings, in the case of the 2003 Series A Delayed Delivery Bonds, the financial condition and business operations of the Commonwealth and federal and Commonwealth income tax and other laws. The market value of the 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds on their respective settlement dates could be greater or less than the agreed purchase price therefor by the initial purchasers thereof, and the difference could be substantial. Neither the Commonwealth nor the Delayed Delivery Underwriter make any representation as to the market price of the 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds as of their respective Settlement Dates.

Tax Law Risks. Subject to the additional conditions of settlement described under "Conditions of Settlement" below, the Purchase Contracts obligate the Commonwealth to deliver and the purchaser to acquire the 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds if the Commonwealth delivers opinions of Bond Counsel substantially in the forms set forth in Appendix B. During the Delayed Delivery Period new legislation, new court decisions, new regulations, or new rulings may be enacted, promulgated or interpreted that might prevent Bond Counsel from rendering its opinion or otherwise affect the substance of such opinion. Notwithstanding that the enactment of new legislation, new court decisions or the promulgation of new regulations or rulings might diminish the value of, or otherwise affect, the federal tax exemption for interest payable on "state or local bonds," the Commonwealth might be able to satisfy the requirements for the delivery of the 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds. In such event, the purchasers would be required to accept delivery of the 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds. Prospective purchasers are encouraged to consult their tax advisors regarding the likelihood of any changes in tax law and the consequences of such changes to such purchasers.

Conditions of Settlement. The settlement and the issuance of the 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds will not require further action by the Commonwealth. The settlement documents include, among other items, the opinion of Bond Counsel in substantially the form set forth as Appendix B hereto and certain supplementary opinions of Bond Counsel, Ropes & Gray as Disclosure Counsel (with respect only to the Commonwealth's continuing disclosure undertaking), and a certificate of the Commonwealth dated the Settlement Date for each of the 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds, to the effect that the official statement of the Commonwealth, as updated, supplemented and delivered to the Delayed Delivery Underwriter, does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

Termination of Purchase Contracts. The Delayed Delivery Underwriter may terminate a Purchase Contract by notification to the Commonwealth, at any time on or prior to a settlement date, if (a) as a result of any legislation, regulation, ruling, order, release, court, decision or judgment, or action by the United States Department of the Treasury, the Internal Revenue Service, or the Securities and Exchange Commission, either issued, effective, adopted, or proposed, (i) Bond Counsel cannot issue an opinion in the form attached as Appendix B to the Official Statement with respect to the exclusion of interest on the 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds from federal and state income taxation or (ii) the offering or sale of the 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds would be in violation of any provision of the Securities Act of 1933, as amended (the "1933 Act"), the Securities Exchange Act of 1934, as amended, or the Trust Indenture Act of 1939, as amended, or the offering or sale of the 2002 Series B Refunding Bonds and the 2003 Series A Delayed Delivery Bonds would be subject to registration under the 1933 Act or similar federal law; (b) for any other reason Bond Counsel cannot deliver the opinion referenced above; (c) the 2002 Series B Refunding Bonds shall not have been rated at least "AA-", "Aa2" and "AA-", by Fitch Ratings, Moody's Investor's Service and Standard & Poor's Ratings Services, respectively, and (d) any of Fitch Ratings, Moody's Investors Service, or Standard & Poor's Ratings Services shall have failed to rate the 2003 Series A Delayed Delivery Bonds as of their date of delivery.

SECURITY FOR THE BONDS

The Bonds will be general obligations of the Commonwealth to which its full faith and credit will be pledged for the payment of principal and interest when due. However, it should be noted that Chapter 62F of the Massachusetts General Laws imposes a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit. It should be noted further that Section 60B of Chapter 29 of the Massachusetts General Laws imposes an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on general obligation debt of the Commonwealth. These statutes are both subject to amendment or repeal by the Legislature. Currently, both actual tax revenue growth and annual general obligation debt service are below the statutory limits. See the March Information Statement under the headings “COMMONWEALTH REVENUES – Limitations on Tax Revenues” and “COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Limit on Debt Service Appropriations.”

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

BOND INSURANCE

Concurrently with the issuance of the Insured Bonds, MBIA Insurance Corporation (“MBIA”) will issue its municipal bond insurance policy (the “MBIA Policy”) with respect to the Insured Bonds. The following information has been furnished by MBIA for use in this Official Statement. Reference is made to Appendix F for a specimen of the MBIA Policy.

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

The MBIA Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Insured Bonds. The MBIA Policy does not, under any circumstance, insure against loss relating to: (i) optional or mandatory redemptions (other than mandatory sinking fund redemptions); (ii) any payments to be made on an accelerated basis; (iii) payments of the purchase price of Insured Bonds upon tender by an owner thereof; or (iv) any Preference relating to (i) through (iii) above. The MBIA 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 the Commonwealth or any other 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 MBIA from the Commonwealth or 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, MBIA on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with 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 MBIA, and appropriate

instruments to effect the appointment of MBIA 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 or the Paying Agent payment of the insured amounts due on such Insured Bonds, less any amount held by the Paying Agent for the payment of such insured amounts and legally available therefor.

MBIA Insurance Corporation (“MBIA”) is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company (the “Company”). The Company is not obligated to pay the debts of or claims against MBIA. MBIA is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. MBIA has three branches, one in the Republic of France, one in the Republic of Singapore and one in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by MBIA, changes in control and transactions among affiliates. Additionally, MBIA is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

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

The following documents filed by the Company with the Securities and Exchange Commission (the “SEC”) are incorporated herein by reference:

- (1) The Company’s Annual Report on Form 10-K for the year ended December 31, 2001; and
- (2) The Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002.

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

The Company files annual, quarterly and special reports, information statements and other information with the SEC under File No. 1-9583. Copies of the SEC filings (including (1) the Company’s Annual Report on Form 10-K for the year ended December 31, 2001, and (2) the Company’s Quarterly Report on Form 10-Q for the quarter ended June 30, 2002), are available (i) over the Internet at the SEC’s web site at <http://www.sec.gov>; (ii) at the SEC’s public reference room in Washington D.C.; (iii) over the Internet at the Company’s web site at <http://www.mbia.com>; and (iv) at no cost, upon request to MBIA Insurance Corporation, 113 King Street, Armonk, New York 10504. The telephone number of MBIA is (914) 273-4545.

As of December 31, 2001, MBIA had admitted assets of \$8.5 billion (audited), total liabilities of \$5.6 billion (audited), and total capital and surplus of \$2.9 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of June 30, 2002, MBIA had admitted assets of \$8.7 billion (unaudited), total liabilities of \$5.7 billion (unaudited), and total capital and surplus of \$3.0 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Moody’s Investors Service, Inc. rates the financial strength of MBIA “Aaa.” Standard & Poor’s, a division of The McGraw-Hill Companies, Inc. rates the financial strength of MBIA “AAA.” Fitch Ratings rates the financial strength of MBIA “AAA.” Each rating of MBIA should be evaluated independently. The ratings reflect the

respective rating agency's current assessment of the creditworthiness of MBIA and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold the Insured Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Insured Bonds. MBIA does not guaranty the market price of the Insured Bonds nor does it guaranty that the ratings on the Insured Bonds will not be revised or withdrawn.

LITIGATION

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

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RATINGS

The Bonds (except for the Insured Bonds) have been assigned ratings of "AA-," "Aa2" and "AA-" by Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, respectively. The Insured Bonds have been assigned ratings of "AAA," "Aaa" and "AAA" by Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, respectively, based on the understanding that the payment of the principal of and interest on the Insured Bonds will be guaranteed by a municipal bond insurance policy to be issued by MBIA simultaneously with the delivery of the Insured Bonds.

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

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase all of the 2002 Series D Bonds from the Commonwealth at a discount from the initial offering prices of the 2002 Series D Bonds and equal to approximately 0.531% of the aggregate principal amount of the 2002 Series D Bonds. The Underwriters may offer and sell the 2002 Series D Bonds to certain dealers and others (including dealers depositing 2002 Series D Bonds into investment trusts) at prices lower than the public offering prices (or yields higher than the offering yields) stated on the inside cover page hereof. The principal offering prices (or yields) set forth on the inside cover page hereof may be changed from time to time after the initial offering by the Underwriters.

The Delayed Delivery Bond Underwriter has agreed, subject to certain conditions, to purchase all of the 2002 Series B Refunding Bonds and all of the 2003 Series A Delayed Delivery Bonds from the Commonwealth at a discount from the initial offering prices of the 2002 Series B Refunding Bonds equal to approximately 0.279% of the aggregate principal amount of the 2002 Series B Refunding Bonds and at a discount from the initial offering prices of the 2003 Series A Delayed Delivery Bonds equal to approximately 0.279% of the aggregate principal amount of the 2003 Series A Delayed Delivery Bonds. The Underwriters may offer and sell the 2002 Series B Refunding Bonds and all of the 2003 Series A Delayed Delivery Bonds to certain dealers and others (including dealers depositing 2002 Series B Refunding Bonds and all of the 2003 Series A Delayed Delivery Bonds into investment trusts) at prices lower than the public offering prices (or yields higher than the offering yields) stated on the inside cover page hereof. The principal offering prices (or yields) set forth on the inside cover page hereof may be changed from time to time after the initial offering by the Delayed Delivery Underwriter. See "THE BONDS – Settlement Date of the 2002 Series B Bonds and Delayed Delivery of 2003 Series A Delayed Delivery Bonds.

VERIFICATION OF MATHEMATICAL COMPUTATIONS

Causey Demgen & Moore Inc., a firm of independent public accountants will deliver to the Commonwealth, on or before the settlement date of the Bonds, its verification report indicating that it has verified, in accordance with standards established by the American Institute of Certified Public Accountants, the information and assertions provided by the Commonwealth and its representatives. Included in the scope of the report will be a verification of the mathematical accuracy of (a) the mathematical computations of the adequacy of the cash and the maturing principal of and interest on, the Escrow Obligations to pay, when due, the maturing principal of, interest on and related call premium requirements of the Refunded Bonds being refunded from proceeds of the Bonds and (b) the mathematical computations supporting the conclusion of Bond Counsel that the Bonds are not "arbitrage bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations promulgated thereunder.

TAX EXEMPTION

Bond Counsel is of the opinion that, under existing law, interest on the Bonds will not be included in the gross income of holders of such Bonds for federal income tax purposes. This opinion is expressly conditioned upon compliance with certain requirements of the Code, which requirements must be satisfied after the date of issuance of the Bonds in order to assure that the interest on the Bonds is and continues to be excludable from the gross income of the holders of such Bonds. Failure to comply could cause the interest on the Bonds to be included in the gross income of the holders thereof, retroactive to the date of issuance of such Bonds. In particular, and without limitation, those requirements include restrictions on the use, expenditure and investment of bond proceeds and the payment of rebate, or penalties in lieu of rebate, to the United States, subject to certain exceptions. The Commonwealth has provided covenants and certificates as to its continued compliance with such requirements.

In the opinion of Bond Counsel, under existing law, interest on the Bonds will not constitute a preference item under section 57(a)(5) of the Code for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations under section 55 of the Code. However, interest on the Bonds will be included in "adjusted current earnings" of corporate holders of such Bonds and therefore will be taken into account under section 56(g) of the Code in the computation of the alternative minimum tax applicable to certain corporations.

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 losses incurred by 15% of the sum of certain items, including interest on the Bonds, (iii) 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, (iv) 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 S 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, (v) 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 and (vi) receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit under section 32(i) of the Code.

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

For federal and Massachusetts 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 all 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 advisers with respect to the computations of original issue during the period in which any such Bond is held.

An amount equal to the excess, if any, of the purchase price of a Bond over the principal amount payable at maturity constitutes amortizable bond premium for federal and Massachusetts tax purposes. The required amortization of such premium during the term of a Bond will result in reduction of the holder's tax basis in such Bond. Such amortization also will result in reduction of the amount of the stated interest on the Bond taken into account as interest for tax purposes. Holders of Bonds purchased at a premium should consult their own tax advisers with respect to the determination and treatment of such premium for federal income tax purposes and with respect to state or local tax consequences of owning such Bonds.

On the date of delivery of the Bonds, the original purchasers thereof will be furnished with an opinion of Bond Counsel substantially in the form attached hereto. See "Appendix C - Forms of Opinions of Bond Counsel."

OPINIONS OF COUNSEL

The unqualified approving opinions as to the legality of the Bonds will be rendered by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. of Boston, Massachusetts, Bond Counsel to the State Treasurer. The proposed forms of the opinions of Bond Counsel relating to the Bonds are attached hereto as Appendix C. Certain legal matters will also be passed upon by Ropes & Gray of Boston, Massachusetts, as Disclosure Counsel to the State Treasurer. Certain legal matters will be passed on for the Underwriters by their counsel, Holland & Knight LLP of Boston, Massachusetts.

CONTINUING DISCLOSURE

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

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

MISCELLANEOUS

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

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

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

AVAILABILITY OF OTHER INFORMATION

Questions regarding this Official Statement or requests for additional financial information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900 or Laura Guadagno, Assistant Secretary for Capital Resources and Chief Development Officer, 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 John R. Regier, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone 617/542-6000.

THE COMMONWEALTH OF MASSACHUSETTS

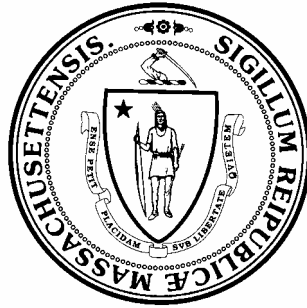
By /s/ Shannon P. O'Brien
Shannon P. O'Brien
Treasurer and Receiver-General

By /s/ Kevin J. Sullivan
Kevin J. Sullivan
Secretary of Administration and Finance

August 21, 2002

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**THE
COMMONWEALTH
OF
MASSACHUSETTS**



INFORMATION STATEMENT SUPPLEMENT

Dated August 21, 2002

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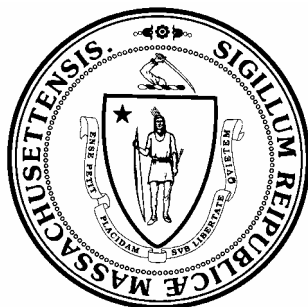
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(Exhibits B and C are included by reference, and have been filed with Nationally Recognized Municipal Securities Information Repositories).

B. Statutory Basis Financial Report for the year ended June 30, 2001

C. Comprehensive Annual Financial Report (GAAP basis) for the year ended June 30, 2001

THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

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

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THE COMMONWEALTH OF MASSACHUSETTS
INFORMATION STATEMENT SUPPLEMENT

August 21, 2002

This supplement (“Supplement”) to the Information Statement of The Commonwealth of Massachusetts (the “Commonwealth”) dated March 25, 2002 (the “March Information Statement”) is dated August 21, 2002, and contains information which updates the information contained in the March Information Statement. The March Information Statement appears in the Commonwealth’s Official Statement dated March 25, 2002 with respect to its \$180,000,000 General Obligation Bond Anticipation Notes, 2002 Series A, a copy of which has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. Exhibit A to this Supplement is the Statement of Economic Information as of June 28, 2002, which sets forth certain economic, demographic and statistical information concerning the Commonwealth. Exhibits B and C are the Statutory Basis Financial Report for the year ended June 30, 2001 and the Comprehensive Annual Financial Report (GAAP basis) for the year ended June 30, 2001, respectively. Specific reference is made to said Exhibits A, B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. The financial statements are also available at the web site of the Comptroller of the Commonwealth located at <http://www.state.ma.us/osc/Reports/reportsfinancial.htm>. This Supplement and the March Information Statement must be read collectively and in their entirety in order to obtain the appropriate fiscal, financial and economic information concerning the Commonwealth through August 21, 2002. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the March Information Statement.

RECENT DEVELOPMENTS

Fiscal 2002

Fiscal Year-End Balance. Since the date of the March Information Statement, Commonwealth tax collections have lagged behind the prior year by substantial margins, resulting in reduced tax revenue estimates and budget adjustments. On April 15, 2002 the Acting Governor and legislative leaders announced an agreement to address the fiscal 2002 budget shortfall as then estimated. The April 15, 2002 plan was based on a fiscal 2002 consensus tax revenue estimate of \$14.750 billion and a deficit then identified to be \$689 million.

On April 23, 2002, the Acting Governor filed a capital outlay bill that moved approximately \$102 million of pay-as-you-go capital projects to bond funding. The Commonwealth had used surplus operating revenues from fiscal 1998-2000 to create several capital project funds. The proposed legislation would transfer monies from those capital project funds into the general fund, and allow for the capital projects to be funded by bond proceeds instead of operating funds. The affected capital projects will be absorbed under the \$1.2 billion bond cap. The Executive Office for Administration and Finance anticipates a one-time transfer of \$50 million of bond cap from fiscal 2002 to fiscal 2003. The capital outlay bill was enacted on July 31, 2002. See “COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES—Proposed Capital Spending Authorizations.”

On May 8, 2002, the Acting Governor proposed supplemental appropriations in the amount of approximately \$24.2 million to fund various deficiencies, including the account from which judgments and settlements against the Commonwealth are paid, emergency cash assistance and food stamps through the Department of Transitional Assistance, energy-related costs in correctional facilities and prenatal care for low-income uninsured women through the Department of Public Health. The proposal included a \$24 million transfer from the MBTA Infrastructure Renovation Fund to the General Fund. The proposal also included recommendations for funding for programs that would carry into fiscal 2003.

On May 17, 2002, the Acting Governor signed into law a bill that included approximately \$371 million of supplemental appropriations and authorized the use of approximately \$408 million in reserves to balance the fiscal 2002 budget. These reserves include \$200 million from the Stabilization Fund, \$115 million from pay-as-you-go capital funds, \$56 million from the Caseload Mitigation Fund, \$35 million from the Medical Security Trust, and \$1.4 million from the Voting Equipment Revolving Loan Fund. The legislation also extended the Commonwealth’s pension funding schedule to 2023, and reduced the fiscal 2002 pension funding payment by \$134 million. It also drew \$60 million from the fiscal 2002 tobacco settlement and reduced the Capital Needs Investment Trust by \$23

million in fiscal 2002. The legislation enacted on May 17, 2002 was intended to give effect to the April 15 agreement among the Acting Governor and legislative leaders. In addition to the legislation that was enacted on May 17, 2002, the agreement called for \$40 million in savings resulting from management initiatives relating to the Commonwealth's debt and \$24 million in unspecified savings, which would be identified through further review and negotiation.

Based on continuing tax revenue shortfalls, in May 2002 the Executive Office for Administration and Finance reduced the fiscal 2002 tax revenue estimate by an additional \$470 million to \$14.280 billion.

On May 23, 2002, the Acting Governor filed legislation that proposed using approximately \$509 million of certain reserve funds for the purposes of balancing the current fiscal year budget. These fund transfers included up to \$310 million from the Stabilization Fund to the General Fund, \$90 million from the Health Care Security Trust Fund to the General Fund and \$109 million from the Health Care Security Trust Fund to the Children's and Seniors' Health Care Assistance Fund. On June 25, 2002 the Acting Governor signed into law a bill authorizing the transfer of up to \$300 million from the Stabilization Fund to the General Fund.

On July 15, 2002, the House Committee on Ways and Means reported out a final fiscal 2002 supplemental appropriation that proposes approximately \$9 million in appropriations, which includes \$3.5 million for a new state police class, \$2.5 million for the Brownfields Revitalization Project, \$1.2 million for judgments and settlements and \$1 million for the Group Insurance Commission. The bill also authorizes the state comptroller to use up to \$180 million of additional Stabilization Fund monies to close out fiscal 2002. This bill also continues \$29 million of fiscal 2002 appropriations into fiscal year 2003. Legislative action transferring reserve funds into the General Fund will be required to achieve balance in fiscal 2002.

Tax Revenue. Tax collections in fiscal 2002 were significantly less than those in fiscal 2001. The following table shows the tax collections for each month through June 2002 and the decrease from tax collections in the same month in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in each month which are dedicated to the MBTA.

Fiscal 2002 Tax Collections (in millions)

<u>Month</u>	<u>Tax Collections</u>	<u>Decrease from Year Prior</u>	<u>Percentage Decrease</u>	<u>MBTA Portion</u>
July	\$1,026	\$38	3.6%	\$56.7
August	1,113	32	2.8	56.8
September	1,524	222	12.7	45.9
October	969	116	10.7	60.1
November	1,043	43	4.0	51.7
December	1,329	95	6.6	46.4
January	1,580	357	18.4	68.9
February	802	110	12.1	40.6
March	1,295	155	10.7	50.5
April	1,350	204	13.1	54.2
May	1,080	394	26.7	53.5
June (1)	1,166	686	37.0	52.8
Total (2)	<u>\$14,280</u>	<u>\$2,449</u>	<u>14.6%</u>	<u>\$638.2</u>

SOURCE: Executive Office for Administration and Finance.

- (1) June total includes the estimated amount of personal income tax refunds for tax returns received on or before June 30, 2002, but which will be paid during the fiscal 2002 accounts payable period, which extends to September 15, 2002.
- (2) Estimated, subject to change. Final fiscal 2002 tax revenue collections will be reduced by approximately \$265 million due to a delay in processing income tax refund payments. See below. Detail may not add to totals due to rounding.

Due to workforce reductions resulting from cuts to the Department of Revenue's administrative budget, processing of tax year 2001 income tax returns was delayed. Over the January to June 2002 period, approximately \$265 million in income tax refunds were delayed, compared to the same period in 2001. The State Comptroller will

account for the tax refund liability in fiscal 2002, although payments are being processed in early fiscal 2003. However, it is uncertain what the impact of similar delays may be on total fiscal 2003 tax collections, as delays in refund processing could recur in the January to June 2003 period if Department of Revenue staff reductions remain in place during all of fiscal 2003. On May 17, 2002 the Acting Governor signed legislation that included \$1 million to help the Department of Revenue deal with the processing backlog. It is not expected that the ongoing delay in processing tax year 2001 income tax returns will have a material impact on the timely deposit of payments enclosed with those returns during fiscal 2002 or 2003.

On March 9, 2002 federal legislation was enacted that allows an additional first-year depreciation deduction for corporations equal to 30 percent of the cost of certain types of property purchased on or after September 11, 2001 and before September 11, 2004. Under Massachusetts law, corporations (including insurance, public utilities, and financial institutions organized as corporations) had been taxed on the basis of their net income as calculated for federal taxation purposes, after depreciation allowances are deducted. Unincorporated businesses are also allowed depreciation allowances based on the federal tax code. As a result, the taxable income of corporations and unincorporated businesses subject to Massachusetts tax was expected to be reduced in tax years 2001 through 2003 by the new federal depreciation deduction, be increased for approximately 11 years thereafter, and in the long-run be approximately revenue neutral. On April 18, 2002, the Acting Governor signed into law a bill that “decoupled” the Massachusetts revenue code from federal depreciation provisions. The law effectively repealed the additional depreciation deduction for the purposes of Massachusetts state tax. However, since corporate taxpayers had already adjusted their payments due on March 15, 2002, the Department of Revenue estimates that the impacts of the federal provision were to reduce fiscal 2002 tax revenue collections by \$30 million, and increase fiscal 2003 tax collections by the same amount.

Cash Flow

On May 24, 2002 the State Treasurer and the Secretary of Administration and Finance released the most recent cash flow projection for fiscal 2002. The cash flow projection for fiscal 2002 was based on the General Appropriations Act (the “GAA”) signed on December 1, 2001 (including the value of all vetoes and subsequent overrides) and supplemental appropriations enacted or anticipated. It reflects authorized transfers between budgeted funds and certain reserve funds as provided for in the GAA and in subsequent legislation. The cash flow projection incorporated a tax revenue estimate of \$14.350 billion. The projection showed a beginning balance for fiscal 2002 of \$3.365 billion and an ending balance of \$862.4 million. In both cases the balances included amounts available for capital purposes, but excluded amounts available in the Commonwealth’s Stabilization Fund and certain other reserve funds. Of the \$3.365 billion that was available at the beginning of fiscal 2002, roughly 65% or \$2.206 billion represented segregated bond funds.

The Acting Governor submitted legislation intended to help balance the fiscal 2002 budget and to improve the Commonwealth’s year-end cash position in June 2002. Legislation was enacted to increase bonding authority available to fund the remaining portion of an accumulated deficit related to MBTA forward-funding (see the March Information Statement under the heading “FINANCIAL RESULTS—Massachusetts Bay Transportation Authority – Financial Restructuring”), to provide certain authorization necessary to claim available federal reimbursement related to the CA/T Project, and to authorize additional transfers from the Commonwealth’s reserve funds.

The Commonwealth finished fiscal year 2002 with a June 30, 2002 cash balance of \$2.01 billion. This included sequestered capital funds totaling \$1.206 billion and an operating cash balance of \$804 million. Prior to June 30, 2002, the Commonwealth transferred an additional \$300 million from the Stabilization Fund into its operating funds pursuant to legislation that was approved by the Acting Governor on June 25, 2002. In addition to the capital and operating fund balances noted, the Commonwealth had available at year-end various reserve fund balances totaling approximately \$1.6 billion, including \$1.06 billion in the Commonwealth’s Stabilization Fund.

The Commonwealth maintains a commercial paper program supported by lines and a letter of credit from commercial banks. The program allows for the periodic issuance of commercial paper as either bond anticipation notes or revenue anticipation notes for operating purposes. The overall capacity of the Commonwealth’s commercial paper program was increased from \$600 million to \$1.0 billion during fiscal 2002. In December 2001, the Commonwealth issued \$200 million of commercial paper as bond anticipation notes to fund capital projects and \$600 million in commercial paper as revenue anticipation notes (“RANs”) to help meet its \$1.05 billion quarterly local aid payment due on March 31, 2002. Prior to December 2001, the Commonwealth had not used short-term borrowing to finance operating payments since March 1996. The \$200 million of commercial paper related to

capital projects was retired from the proceeds of the Commonwealth's 2002 Series A bond sale in January 2002. The commercial paper issued as RANs in December 2001 was partially repaid during January and February of 2002. Additional RANs were issued under the commercial paper program in March 2002, bringing the outstanding total to \$683 million at the end of that month. These notes were retired in April and May 2002. The Commonwealth issued \$200 million in commercial paper as bond anticipation notes on August 1, 2002, which is expected to be retired by proceeds of the Commonwealth's General Obligation Bonds, Consolidated Loan of 2002, Series D. All commercial paper of the Commonwealth issued for operating purposes in a fiscal year is required by State finance law to be paid not later than June 30 of such year.

Net proceeds of long-term debt issuance during fiscal 2002 totaled \$1.481 billion (not including refunding bonds) including \$1.181 billion for capital projects and \$300 million to fund a portion of an accumulated operating deficit related to MBTA forward-funding. Net proceeds from bond anticipation notes issued during fiscal 2002 (in addition to those under the commercial paper program) totaled \$540 million, of which \$358 million (related to the Boston Convention and Exhibition Center) were issued in September 2001, and \$182 million (related to certain CA/T Project expenditures) were issued in March 2002.

The cash flow projection released on May 24, 2002 also included a projection for fiscal 2003. The projection was based on the Acting Governor's January 2002 budget proposal for fiscal 2003, as revised to take into account reductions in anticipated tax revenue collections and certain proposed spending reductions. It was also based on the April 2002 consensus tax revenue estimate of \$14.716 billion, which estimate has subsequently been revised downward by the Executive Office for Administration and Finance (see "Fiscal 2003," below). In addition, the cash flow projection did not take into account tax increases and certain other spending differences included in subsequently passed Legislation. As such, the fiscal 2003 cash flow projection should only be considered as a starting point for analysis of the cash impact of current budget proposals. The current cash projection for fiscal 2003 shows a year-end cash position of approximately \$181 million. Segregated funds are expected to total approximately \$200 million, yielding a cash operating deficit of about \$19 million.

The Commonwealth's next cash flow projection is due August 25, 2002.

Fiscal 2003

On April 15, 2002, the Acting Governor and legislative leaders reached a consensus on the fiscal 2003 tax revenue estimate of \$14.716 billion. The Department of Revenue estimated that \$684 million of sales tax revenue dedicated to the MBTA is included in the \$14.716 billion figure. On June 11, 2002, the Executive Office for Administration and Finance revised its fiscal 2003 tax revenue estimate downward to \$14.175 billion, based on its forecast of lower growth in income and corporate tax revenue in fiscal 2003 than previously projected. In July 2002, the Executive Office for Administration and Finance again revised the tax revenue estimate downward to \$14.116 billion. The Department of Revenue's revised estimate assumed that tax cuts scheduled to take effect under then-current tax law would remain in effect.

On June 25, 2002, the Acting Governor signed an interim budget to allow state services to continue for the first month of fiscal 2003. On July 22, 2002 the Acting Governor signed an additional interim budget to allow state services to continue for the first two weeks of August.

On July 19, 2002, the Legislature passed legislation that the Department of Revenue estimates would increase Commonwealth tax revenues by approximately \$1.236 billion through increases in the cigarette tax, the tax on capital gains, elimination of the personal income tax charitable deduction, and increases in personal income tax exemptions. In addition, the fiscal 2003 General Appropriations Act increased certain fees, which would increase revenues by approximately \$80 million. The tax increase legislation was vetoed by the Acting Governor, but the veto was overridden.

Also on July 19, 2002, the Legislature passed the conference budget. The Legislature's enacted budget was based on a tax revenue estimate of \$14.116 billion, plus the \$1.236 billion in estimated tax increases. The fiscal 2003 conference budget also included provisions that would conform state tax treatment of certain retirement accounts and mobile telecommunications services to federal law, which the Department of Revenue estimates will reduce fiscal 2003 tax collections by approximately \$8 million. These estimates yield a fiscal 2003 tax revenue estimate of \$15.344 billion. Under the conference budget, \$684 million of sales tax revenue would be dedicated to the MBTA. The conference budget directly appropriates \$22.96 billion in fiscal 2003. This does not include

approximately \$350 million in Medicaid related health care spending that was moved off-budget. After accounting for this off-budget spending, the conference budget is \$23.3 billion or 2% over estimated fiscal 2002 spending. On July 29, 2002 the Acting Governor vetoed approximately \$355 million of spending from the conference budget.

The fiscal 2003 conference budget eliminated Medicaid eligibility for approximately 50,000 long term unemployed adults as of April 1, 2003. This change resulted in a spending reduction of \$52 million, however, the Division of Medical Assistance estimates that the shift of this population from MassHealth to emergency health services could result in increased costs to the “free care pool” of approximately \$30 million in fiscal 2003, or approximately \$140 million on an annualized basis. The conference budget also adjusted the pharmacy reimbursement methodology for pharmacy providers under Medicaid, for a savings of \$60 million in fiscal 2003. Some major pharmacy chains as well as some independent pharmacies, representing in the aggregate over 50% of the Medicaid pharmacy network, stated their intent to withdraw from the Medicaid program if the reduced reimbursement rates become effective. The Acting Governor has agreed to maintain pharmacy reimbursement rates at previous levels for 60 days. Division of Health Care Finance and Policy has tentatively scheduled a hearing for September 5, 2002 to determine a new pharmacy reimbursement methodology, which would be implemented on October 2, 2002. This delay will reduce the savings expected to be achieved by a lower reimbursement rate, and the final rate cannot yet be known. The Commonwealth’s expenditures for Medicaid pharmacy benefits are 50% reimbursable by the federal government.

The conference budget also utilized 100% of the fiscal 2003 annual tobacco settlement payment, which is estimated by the Executive Office for Administration and Finance to be approximately \$290 million, as well as \$917 million in reserves from the following sources: \$790 million from the Stabilization Fund, \$75 million from the Caseload Mitigation Fund, \$32 million from the Ratepayer Parity Trust and \$20 million from the Clean Elections Fund. The Acting Governor vetoed the transfer of \$790 million from the Stabilization Fund to the General Fund and reduced the transfer to \$550 million.

On July 29, 2002 the Acting Governor filed a technical corrections bill related to the fiscal year 2003 General Appropriations Act. This bill includes language that would establish a three tiered, income-based contribution system for state employee health benefit premiums and language that would transfer the ending fiscal year 2003 balances of the Tobacco Settlement Fund and the Health Protection Fund to the General Fund.

On July 31, 2002 the legislature overrode approximately \$77 million of the Acting Governor’s vetoes, including \$41 million at the Group Insurance Commission, \$27.9 million for Kindergarten Expansion Grants, \$5 million for Community Health Center Grants, and \$2.3 million for State Police Patrols. These overrides will be funded through one or a combination of the following options: additional transfers from the Stabilization Fund or other reserves to the General Fund, 9C allotment reductions, end-of-year appropriation reversions, or other actions that are available to the Acting Governor and the Legislature.

Preliminary July 2002 tax revenues totaled \$1.020 billion, a decrease of \$6 million, or 0.6%, from July 2001 tax collections, and \$4 million below the July benchmark estimate corresponding to the revenue estimate of \$15.344 billion (which includes the tax increases of \$1.2 billion enacted over the Acting Governor’s veto, as described above under the heading “Fiscal 2003”) upon which the fiscal 2003 budget is based. Of the \$4 million shortfall, \$2.9 million was the result of a change in the way the state accounts for deeds excise taxes collected from county governments, which resulted in no deeds excise taxes being recorded as July revenue.

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 1998 through 2003, but have been adjusted to reflect the impact of the MBTA forward funding legislation. See March Information Statement under the heading “FINANCIAL RESULTS - Massachusetts Bay Transportation Authority.” The financial information presented includes all budgeted operating funds of the Commonwealth. When the status of a fund has changed during this period, prior years have been restated to conform to the fiscal 2001 budget. See the March Information Statement under the heading “FINANCIAL RESULTS.”

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

	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001	Estimated Fiscal 2002(2)	Estimated Fiscal 2003(6)
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$ 225.1	\$ 286.3	\$ 330.2	\$ 278.5	\$ 895.3	\$ 50.6
Tax Reduction Fund	91.8	367.7	6.8	7.2	33.6	-
Stabilization Fund	799.3	1,159.6	1,388.5	1,608.4	1,715.0	1,057.0
Undesignated	277.8	378.5	386.9	391.3	367.1	308.4
Fund Balance Restatement	--	--	--	--	--	--
Total	<u>1,394.0</u>	<u>2,192.1</u>	<u>2,112.4</u>	<u>2,285.4</u>	<u>3,011.0</u>	<u>1,416.0</u>
<u>Revenues and Other Sources</u>						
Taxes	14,026.3	14,291.5	15,688.6	16,074.7(4)	13,616.0(4)	14,659.7(4)(5)
Federal Reimbursements	3,361.2	3,442.9	3,645.6	3,974.2	4,347.1	4,399.8
Departmental and Other Revenues	1,286.4	1,297.8	1,359.9	1,431.8	1,473.3	1,491.2
Interfund Transfers from Non-budgeted Funds and Other Sources	<u>1,125.9</u>	<u>1,132.8</u>	<u>1,893.0</u>	<u>1,385.9</u>	<u>1,790.7</u>	<u>1,456.5</u>
Budgeted Revenues and Other Sources	<u>19,799.8</u>	<u>20,165.0</u>	<u>22,587.1</u>	<u>22,866.6</u>	<u>21,227.1</u>	<u>22,007.2</u>
Mass Transit Assessments from Municipalities	155.6	159.9	15.8	--	--	--
Interfund Transfers among Budgeted Funds and Other Sources	<u>1,449.2</u>	<u>1,242.0</u>	<u>3,618.2(3)</u>	<u>931.0</u>	<u>1,584.4</u>	<u>991.5</u>
Total Revenues and Other Sources	<u>21,404.6</u>	<u>21,566.9</u>	<u>26,221.1</u>	<u>23,797.6</u>	<u>22,811.5</u>	<u>22,998.7</u>
<u>Expenditures and Uses</u>						
Programs and Services	16,238.6	17,341.1	19,330.7	19,474.3	20,607.7	20,450.5
Debt Service	1,213.4	1,173.8	1,193.3	676.0	1,349.2	1,417.7
Pensions	1,069.8	990.2	986.3	1,040.1	795.8	813.5
Interfund Transfers to Non-budgeted Funds and Other Uses	<u>479.9</u>	<u>739.6</u>	<u>903.8</u>	<u>950.6</u>	<u>69.2</u>	<u>74.7</u>
Budgeted Expenditures and Other Uses	<u>19,001.7</u>	<u>20,244.7</u>	<u>22,414.1</u>	<u>22,141.0</u>	<u>22,821.9</u>	<u>22,756.4</u>
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	155.6	159.9	15.8	--	--	--
Interfund Transfers among Budgeted Funds and Other Uses	<u>1,449.2</u>	<u>1,242.0</u>	<u>3,618.2</u>	<u>931.0</u>	<u>1,584.4</u>	<u>991.5</u>
Total Expenditures and Other Uses	<u>20,606.5</u>	<u>21,646.6</u>	<u>26,048.1</u>	<u>23,072.0</u>	<u>24,406.3</u>	<u>23,747.9</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>798.1</u>	<u>(79.7)</u>	<u>173.0</u>	<u>725.6</u>	<u>(1,594.8)</u>	<u>(749.2)</u>
<u>Ending Fund Balances</u>						
Reserved or Designated	286.3	330.2	278.5	895.3	50.6	26.1
Tax Reduction Fund	367.7	6.8	7.2	33.6	--	--
Stabilization Fund	1,159.6	1,388.5	1,608.4	1,715.0	1,057.0	527.0
Undesignated	<u>378.5</u>	<u>386.9</u>	<u>391.3</u>	<u>367.1</u>	<u>308.4</u>	<u>113.7</u>
Total	<u>\$ 2,192.1</u>	<u>\$ 2,112.4</u>	<u>\$ 2,285.4</u>	<u>\$ 3,011.0</u>	<u>\$ 1,416.0</u>	<u>\$ 666.8</u>

SOURCE: Fiscal 1998-2001, Office of the Comptroller; fiscal 2002-2003, Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Estimated fiscal 2002 is based on the General Appropriation Act, as supplemented to date, and certain transfers from reserves that were proposed by the Acting Governor but have not yet been authorized by the Legislature, including the use of other reserve funds instead of certain stabilization fund monies to achieve statutory balance in fiscal 2002. See "RECENT DEVELOPMENTS – Fiscal 2002" above.
- (3) Reflects legislation in the final supplemental appropriations act for fiscal 2000 requiring the Comptroller to transfer funds from the General Fund to the Local Aid Fund and Highway Fund at the end of fiscal 2000, eliminating deficits in these funds.
- (4) Net of \$654.6 million in fiscal 2001, a projected \$664.0 million in fiscal 2002 and a projected \$684.3 million in fiscal 2003 of dedicated sales tax to be transferred to the MBTA that were moved outside of the budget (are no longer budgeted) beginning in fiscal 2001.
- (5) Does not include \$43 million in fiscal 2003 revenue estimated to result from a proposed tax amnesty authorized in the budget, to be implemented in fiscal 2003. This amount does appear in the total reported under "Departmental Revenues."
- (6) Estimated, subject to change. Estimate is based on preliminary analysis of fiscal 2003. The Executive Office for Administration and Finance estimates that approximately \$350 million in Medicaid related health care spending that was moved off-budget by the fiscal 2003 General Appropriation Act. See "Fiscal 2003."

In the following table, to facilitate comparison, the revenues and expenditures for fiscal 1998 to 2000, inclusive, have been reduced by the actual amount paid to the MBTA in each of those fiscal years to reflect the transfer off-budget of MBTA subsidies beginning in fiscal 2001.

Budgeted Operating Funds -- Adjusted for MBTA Operations
(in millions)(1)(2)

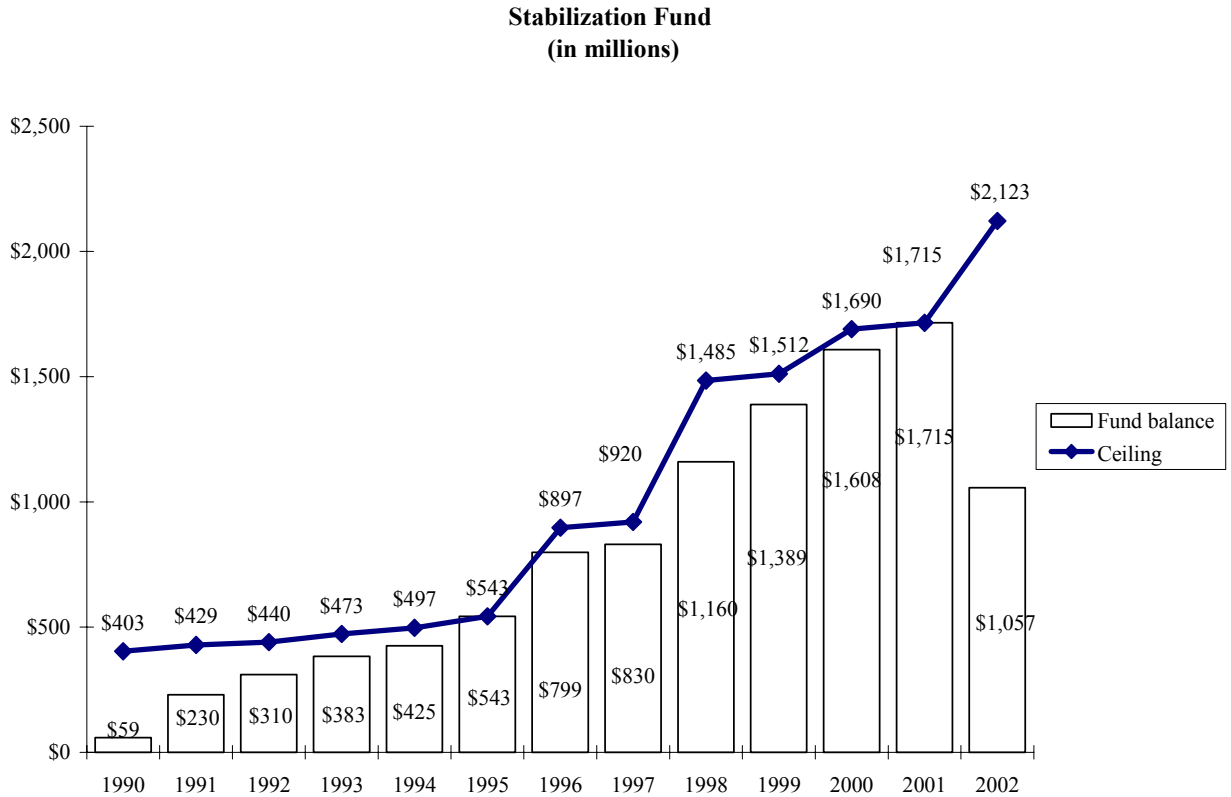
	<u>Fiscal 1998</u>	<u>Fiscal 1999</u>	<u>Fiscal 2000</u>	<u>Fiscal 2001</u>	<u>Estimated Fiscal 2002(3)</u>	<u>Estimated Fiscal 2003(6)</u>
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$ 225.1	\$ 286.3	\$ 330.2	\$ 278.5	\$ 895.3	\$ 50.6
Tax Reduction Fund	91.8	367.7	6.8	7.2	33.6	-
Stabilization Fund	799.3	1,159.6	1,388.5	1,608.4	1,715.0	1,057.0
Undesignated	277.8	378.5	386.9	391.3	367.1	308.4
Fund Balance Restatement	--	--	--	--	--	--
Total	<u>1,394.0</u>	<u>2,192.1</u>	<u>2,112.4</u>	<u>2,285.4</u>	<u>3,011.0</u>	<u>1,416.0</u>
<u>Revenues and Other Sources</u>						
Taxes	14,026.3	14,291.5	15,688.6	16,074.7(4)	13,616.0(4)	14,659.7(4)(5)
Federal Reimbursements	3,361.2	3,442.9	3,645.6	3,974.2	4,347.1	4,399.8
Departmental and Other Revenues	1,286.4	1,297.8	1,359.9	1,431.8	1,473.3	1,491.2
Interfund Transfers from Non-budgeted Funds and Other Sources (6)	<u>1,125.9</u>	<u>1,132.8</u>	<u>1,893.0</u>	<u>1,385.9</u>	<u>1,790.7</u>	<u>1,456.5</u>
Budgeted Revenues and Other Sources	<u>19,799.8</u>	<u>20,165.0</u>	<u>22,587.1</u>	<u>22,866.6</u>	<u>21,227.1</u>	<u>22,007.2</u>
MBTA Adjustment (2)	(491.1)	(499.1)	(561.9)	NA	NA	NA
Adjusted Budgeted Revenues and Other Sources	<u>19,308.7</u>	<u>19,665.9</u>	<u>22,025.2</u>	<u>22,866.6</u>	<u>21,227.1</u>	<u>22,007.2</u>
<u>Expenditures and Uses</u>						
Programs and Services	16,238.6	17,341.1	19,330.7	19,474.3	20,607.7	20,450.5
Debt Service	1,213.4	1,173.8	1,193.3	676.0	1,349.2	1,417.7
Pensions	1,069.8	990.2	986.3	1,040.1	795.8	813.5
Interfund Transfers to Non-budgeted Funds and Other Uses	<u>479.9</u>	<u>739.6</u>	<u>903.8</u>	<u>950.6</u>	<u>69.2</u>	<u>74.7</u>
Budgeted Expenditures and Other Uses	<u>19,001.7</u>	<u>20,244.7</u>	<u>22,414.1</u>	<u>22,141.0</u>	<u>22,821.9</u>	<u>22,756.4</u>
MBTA Adjustment (2)	(491.1)	(499.1)	(561.9)	NA	NA	NA
Adjusted Expenditures and Other Uses	<u>18,510.6</u>	<u>19,745.6</u>	<u>21,852.2</u>	<u>22,141.0</u>	<u>22,821.9</u>	<u>22,756.4</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>798.1</u>	<u>(79.7)</u>	<u>172.9</u>	<u>725.6</u>	<u>(1,594.8)</u>	<u>(749.2)</u>
<u>Ending Fund Balances</u>						
Reserved or Designated	286.3	330.2	278.5	895.3	50.6	26.1
Tax Reduction Fund	367.7	6.8	7.2	33.6	--	--
Stabilization Fund	1,159.6	1,388.5	1,608.4	1,715.0	1,057.0	527.0
Undesignated	<u>378.5</u>	<u>386.9</u>	<u>391.3</u>	<u>367.1</u>	<u>308.4</u>	<u>113.7</u>
Total	<u>\$ 2,192.1</u>	<u>\$ 2,112.4</u>	<u>\$ 2,285.4</u>	<u>\$ 3,011.0</u>	<u>\$ 1,416.0</u>	<u>\$ 666.8</u>

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

- (1) Totals may not add due to rounding. The table does not reflect interfund transfers among budgeted funds and other sources, which have no effect on the ending balance of the table. The amounts of the transfers were \$1,449.2 million, \$1,242.0 million, \$3,618.2 million, and \$931 million in fiscal 1998-2001 respectively, and are estimated to be \$1,584.4 million for fiscal 2002 and \$1,027.5 million for fiscal 2003..
- (2) To facilitate comparison, the table has been adjusted for fiscal 1998 through fiscal 2000, inclusive, to reflect a transfer off-budget of MBTA operations that began in fiscal 2001 by subtracting the amount of Commonwealth payments to the MBTA in each of those fiscal years.
- (3) Estimated fiscal 2002 is based on the General Appropriation Act, as supplemented to date, and certain transfers from reserves that were proposed by the Acting Governor but have not yet been authorized by the Legislature, including the use of other reserve funds instead of certain stabilization fund monies to achieve statutory balance in fiscal 2002. See "RECENT DEVELOPMENTS – Fiscal 2002" above.
- (4) Net of \$654.6 million in fiscal 2001, a projected \$664.0 million in fiscal 2002 and a projected \$684.3 million in fiscal 2003 of dedicated sales tax to be transferred to the MBTA that were moved outside of the budget (are no longer budgeted) beginning in fiscal 2001.
- (5) Does not include \$43 million in fiscal 2003 revenue estimated to result from a proposed tax amnesty authorized in the budget, to be implemented in fiscal 2003. This amount does appear in the total reported under "Departmental Revenues."
- (6) Estimated, subject to change. Estimate is based on preliminary analysis of fiscal 2003. The Executive Office for Administration and Finance estimates that approximately \$350 million in Medicaid related health care spending that was moved off-budget by the fiscal 2003 General Appropriation Act. See "Fiscal 2003."

Stabilization Fund and Disposition of Year-End Surpluses

The following graph sets forth the balance in the Stabilization Fund for fiscal 1990 through fiscal 2001 and the estimate for fiscal 2002:



SOURCE: Fiscal 1990-2001, Office of the Comptroller; fiscal 2002, Executive Office for Administration and Finance.

- (1) Legislative action to transfer reserve funds into the General Fund will be required to achieve balance in fiscal 2002. Accordingly, the estimated balance for fiscal 2002 may be reduced. See "Fiscal 2002."
- (2) Stabilization Fund balance for fiscal 2003 cannot currently be estimated. See "Fiscal 2003."

Initiative Petitions

Two voter initiative petitions for laws that the sponsors seek to have considered at the November 2002 general election were certified by the Secretary of State on December 20, 2001 as having received supporting signatures of 57,100 voters collected and filed by December 5, 2001. Both of the initiative petitions were certified by the Secretary of State as having received the required signatures of an additional 9,517 voters collected and filed by July 31, 2002. One of these petitions would abolish the state personal income tax commencing July 1, 2003. The other petition relates to bilingual education. Passage of the initiative petition abolishing the state personal income tax, absent repeal or modification by legislation, would have a substantial material adverse effect on state revenues. The two voter initiative petitions will appear on the ballot in November 2002. See the March Information Statement under the headings "THE GOVERNMENT – Initiative Petitions" and "COMMONWEALTH REVENUES – Limitation on Tax Revenues".

COMMONWEALTH REVENUES

Commonwealth Revenues - Budgeted Operating Funds Adjusted for MBTA Operations (in millions)(1)

	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001	Estimated Fiscal 2002	Estimated Fiscal 2003
Tax Revenues:						
Alcoholic Beverages	\$ 60.2	\$ 61.0	\$ 63.1	\$ 64.2	\$64.0	\$65.1
Banks	156.0	108.5	92.9	179.6	148.2	144.0
Cigarettes	300.8	284.4	279.9	270.5	279.0	453.7
Corporations	1,066.9	1,008.9	1,130.5	945.3	595.0	635.8
Deeds	79.7	98.0	116.0	129.6	120.0	94.1
Income	8,031.9	8,036.6	9,041.9	9,902.7	7,939.0	8,645.1
Inheritance and Estate	191.3	173.9	166.5	203.4	169.0	125.4
Insurance	310.8	336.3	334.6	356.5	366.3	362.9
Motor Fuel	621.3	636.5	652.6	659.9	662.0	686.0
Public Utilities	131.9	132.5	83.0	86.7	98.3	90.2
Racing	9.2	8.3	7.8	7.5	2.8	-
Room Occupancy	96.2	119.4	137.0	149.6	128.2	136.5
Sales - Regular	2,122.0	2,351.2	2,552.1	2,705.8(4)	2,601.0	2,751.0
Sales - Meals	392.5	436.2	456.8	482.0	498.0	498.4
Sales - Motor Vehicles	448.0	482.4	556.4	568.0(4)	593.0	563.7
Transfer to MBTA	--	--	--	(654.6)	(664.0)	(684.3)
Sub-Total-Sales	<u>2,962.5</u>	<u>3,269.8</u>	<u>3,565.3</u>	<u>3,101.2</u>	<u>3,028.0</u>	<u>3,128.9</u>
Miscellaneous	<u>7.6</u>	<u>17.4</u>	<u>17.5</u>	<u>17.9</u>	<u>16.2</u>	<u>11.9</u>
Total	<u><u>14,026.3</u></u>	<u><u>14,291.5</u></u>	<u><u>15,688.6</u></u>	<u><u>16,074.6</u></u>	<u><u>13,616.0</u></u>	<u><u>14,659.7</u></u>
Non-Tax Revenues:						
Federal Reimbursements (2)	3,361.2	3,442.9	3,645.6	3,974.2	4,347.1	4,399.8
Departmental and Other Revenues	1,286.4	1,297.8	1,359.9	1,431.8	1,473.3	1,491.2
Interfund Transfers from Non - Budgeted Funds and Other Sources (3)	<u>1,125.9</u>	<u>1,132.8</u>	<u>1,893.0</u>	<u>1,385.9</u>	<u>1,790.7</u>	<u>1,456.5</u>
Budgeted Non-Tax Revenues and Other Sources	<u><u>5,773.6</u></u>	<u><u>5,873.5</u></u>	<u><u>6,898.5</u></u>	<u><u>6,791.9</u></u>	<u><u>7,611.1</u></u>	<u><u>7,347.5</u></u>
Budgeted Revenues and Other Sources	<u><u>19,799.8</u></u>	<u><u>20,165.0</u></u>	<u><u>22,587.0</u></u>	<u><u>22,866.6</u></u>	<u><u>21,227.1</u></u>	<u><u>22,007.2</u></u>
MBTA Adjustment (4)	<u>(491.1)</u>	<u>(499.1)</u>	<u>(561.9)</u>	NA	NA	NA
Adjusted Revenues and Other Sources	<u><u>\$19,308.7</u></u>	<u><u>\$19,665.9</u></u>	<u><u>\$22,035.7</u></u>	<u><u>\$22,866.6</u></u>	<u><u>\$21,227.1</u></u>	<u><u>\$22,007.2</u></u>

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

- (1) Totals may not add due to rounding. The table does not reflect interfund transfers among budgeted funds and other sources that have no effect on ending balances. The amounts of the transfers in fiscal 1998-2001 were \$1,449.2 million, \$1,242.0 million, \$3,618.2 million and \$241.0 million, respectively. In addition, the table does not reflect the receipt and payment of certain municipal mass transit assessments totaling \$155.6 million, \$159.9 million and \$15.8 million in fiscal 1998 through 2001, respectively.
- (2) Includes \$265.5 million, \$184.7 million, \$179.0 million, \$187.4 million and an estimated \$199 million in fiscal 1998-2001 respectively, resulting from claims for federal reimbursement of certain uncompensated care for Massachusetts hospitals.
- (3) Interfund transfers represent accounting transfers reallocating resources among funds. See the March Information Statement under the heading "COMMONWEALTH REVENUES—Federal and Other Non-Tax Revenues." Includes transfers between Stabilization Fund and budgeted operating funds. Transfers to Stabilization Fund were \$317.4 million, \$165.6, \$114.9 million and \$51.7 million in fiscal 1998-2001 respectively. On August 10, 1998, Acting Governor Cellucci approved legislation providing for the transfer of \$200 million to Tax Reduction Fund as of June 30, 1998. Additional transfers in 2000 included transfer of \$500 million to Debt Defeasance Fund and transfer of \$3.0 billion to eliminate fund deficits in Highway and Local Aid Funds. Additional transfers in 2001 included \$579.2 million to Transitional Escrow Fund, \$624.2 million for debt defeasance, \$25.9 million to Tax Reduction Fund, \$53.9 million to Sewer Rate Relief Fund and \$34.4 million for Capital Projects.
- (4) To facilitate comparison, the revenues have been reduced to reflect the transfer off-budget of MBTA operations in fiscal 2001 by subtracting the actual amount of Commonwealth payments to the MBTA in fiscal 1996 to fiscal 2000, inclusive. In fiscal 2001, the Executive Office for Administration and Finance transferred \$664 million of dedicated sales tax to the MBTA. For fiscal 2002, the Executive Office for Administration and Finance projects transferring \$684 million of dedicated sales tax to the MBTA. The amount of sales tax receipts to be transferred to the MBTA could be greater based on higher overall sales tax receipts. See "FINANCIAL RESULTS - Massachusetts Bay Transportation Authority - Financial Restructuring."

STATE WORKFORCE

Employee Retirement Incentive Plan

On March 20, 2002 the Governor signed Chapter 62, the main provision of which extended the Early Retirement Incentive Program to employees whose positions are funded from capital, federal or trust accounts. There were 712.7 full-time equivalent employees who applied for the expanded incentive before the April 19, 2002 deadline, of whom 46.5 are funded from the operating budget. The expected budgetary impact is minimal since the bulk of the positions are funded from non-budgetary accounts. However, the additional liability resulting from the retirement of employees who received the incentive must be amortized as part of the annual pension appropriation.

COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES

Capital Spending Plan

The following table sets forth Commonwealth capital spending for fiscal 1997 through 2001 and the Commonwealth's five-year capital plan for fiscal 2002 through 2006. Historical spending is presented in a manner consistent with the five-year plan. See the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Commonwealth Historical and Proposed Capital Spending."

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

USES:	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>Est. 2002</u>	<u>Est. 2003</u>	<u>Est. 2004</u>	<u>Est. 2005</u>	<u>Est. 2006</u>
Information technology	\$ 56	\$ 86	\$ 111	\$ 68	\$ 64	\$ 79	\$ 91	\$ 115	\$ 105	\$ 105
Infrastructure	222	237	224	197	179	222	238	245	232	232
Environment	104	141	132	142	140	132	130	124	125	125
Housing	62	80	82	80	79	106	102	101	101	101
Public Safety	21	16	12	15	23	5	9	9	9	9
Transportation(2)	1,675	1,969	2,029	2,006	2,014	2,059	2,014	1,669	1,098	846
Economic development(3)	89	119	98	98	246	179	295	174	76	64
Reserve(4)(5)	--	--	--	--	--	123	100	86	143	115
Total Uses	<u>\$ 2,230</u>	<u>\$ 2,648</u>	<u>\$ 2,687</u>	<u>\$ 2,606</u>	<u>\$ 2,745</u>	<u>\$ 2,904</u>	<u>\$ 2,978</u>	<u>\$ 2,523</u>	<u>\$ 1,889</u>	<u>\$ 1,597</u>
SOURCES:										
Long-Term Debt										
GO Debt Subject to Statutory Limit	\$ 1,055(6)	\$ 1,000(7)	\$ 1,000(8)	\$ 1,000	\$ 1,007	\$ 1,025(5)(9)	\$ 1,250	\$ 1,200	\$ 1,200	\$ 1,200
GO Debt Not Subject to Statutory Limit	--	--	26	133	482	512	524	102	100	--
Special Obligation Debt	--	--	--	--	176	267(12)	230	109	12	--
Grant Anticipation Notes	--	295	412	408	353	33	--	--	--	--
Operating Revenues(10)(11)	80	159	252	96	161	341	225	455	144	39
Third-Party Payments	60	405	412	481	106	140	211	86	109	90
Federal Reimbursements	<u>1,036</u>	<u>788</u>	<u>586</u>	<u>487</u>	<u>460</u>	<u>587</u>	<u>538</u>	<u>571</u>	<u>324</u>	<u>268</u>
Total Sources	<u>\$ 2,230</u>	<u>\$ 2,648</u>	<u>\$ 2,687</u>	<u>\$ 2,606</u>	<u>\$ 2,745</u>	<u>\$ 2,904</u>	<u>\$ 2,978</u>	<u>\$ 2,523</u>	<u>\$ 1,889</u>	<u>\$ 1,597</u>

SOURCES: Fiscal 1997-2001, Office of the Comptroller; Fiscal 2002-2006, Executive Office for Administration and Finance. Breakdown of CA/T Project, CA/T Project.

- (1) Totals may not add due to rounding.
- (2) Includes CA/T Project spending of \$971 million, \$1.428 billion, \$1.515 billion, \$1.464 billion and \$1.303 billion in fiscal 1997 through fiscal 2001, respectively. CA/T Project estimated spending from fiscal 2002-2006 is \$1.297 billion, \$1.256 billion, \$875 million, \$485 million and \$182 million, respectively. See "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES—Central Artery/Ted Williams Tunnel Project; *CA/T Project Cash Flow*".
- (3) Includes amounts formerly labeled "Wastewater Treatment." For fiscal 2001 through fiscal 2005, also includes approximately \$669 million for convention centers in Boston, Worcester and Springfield that are expected to be funded permanently by special obligation bonds.
- (4) Reserve for unanticipated capital spending needs within a given fiscal year, to be allocated among the listed categories. Fiscal 2002 includes \$91 million in pay-as-you-go funds.
- (5) The Legislature has passed a bill that converts \$115 million of pay-as-you-go projects to bond projects. These projects will be absorbed under the \$1.2 billion bond cap. The bill includes transferring the \$115 million to the Commonwealth's general fund for the purpose of balancing the fiscal 2002 operating budget.
- (6) Includes \$100 million in spending that was anticipated to be funded by payments from the Turnpike Authority; such payments were received June 28, 1998.
- (7) Includes \$19 million for the Worcester Convention Center expected to be funded permanently by special obligation bonds. See footnote 3.
- (8) Includes \$11 million for convention center payments expected to be funded permanently by special obligation bonds. See footnote 3.
- (9) The Executive Office for Administration and Finance will perform a one-time transfer of \$50 million million of bond cap from fiscal 2002 to fiscal 2003.
- (10) Estimates for fiscal 2002 through 2006, inclusive, include funds on deposit and certain dedicated fees and earnings.
- (11) Tax revenue in the amount of \$45 million is scheduled to be transferred to the Capital Needs Investment Trust annually through fiscal 2005. This pay as you go money is not included in the above chart, but includes annual payments of \$20 million to the Affordable Housing Trust, \$11 million for information technology improvements and projects at the Department of Education, and \$14 million for deferred maintenance at state facilities. The fiscal 2003 General Appropriation Act reduces funding for the Capital Needs Investment Trust ("CNIT") from \$45 million to \$23 million. Payments will be as follows: \$20 million to the Affordable Housing Trust, \$3 million is to be expended by the Department of Education.
- (12) Includes \$74.0 million subject to the Statutory Debt Limit. See the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Statutory Debt Limit on Direct Debt."

Central Artery/Ted Williams Tunnel Project

Recent Developments. On July 31, 2002, the Legislature passed legislation that, among other items, increased the number of members of the Turnpike Authority board from three to five members and created a commission to study and report on the effects of implementing tolls on the neighborhoods near interchanges 16 and 17 prior to the actual implementation of any tolls. The legislation also contained provisions that could be interpreted as requiring that the toll discount program, as approved by the Turnpike Authority board on June 28, 2002 (discussed further below), be made permanent. It is the position of the Turnpike Authority that due to the precise language of the legislation, the toll discount program remains subject to annual evaluation by the Turnpike Authority board and available funding and subordinate to payments for Western Turnpike and Metropolitan Highway System debt service and expense commitments.

In July 2002 two individuals filed a purported class action against the Turnpike Authority, Doran and Saunders et al. v. the Massachusetts Turnpike Authority, U.S. District Court of Massachusetts, Civ. Action No. 11361-NG, alleging that the toll discount program (as detailed below) violates the commerce clause of the U.S. Constitution because it favors Massachusetts residents. Plaintiffs are seeking injunctive relief as well as damages. The plaintiffs have not yet certified the class. The Turnpike Authority intends to oppose this claim. As to the merits and ultimate outcome of this case, the Turnpike Authority expresses no opinion.

On July 24, 2002 the CA/T Project announced the results of its annual cost/schedule update (“CSU 9”). The CA/T Project projected that its budget would remain at \$14.625 billion. CSU 9 also reported that I-90 is scheduled to open in November 2002, with a possible delay extending until December 2002, I-93 northbound is scheduled to open in December 2002, with a possible delay extending until January 2003, and the initial opening of I-93 southbound is scheduled for December 2003, with a possible delay extending until January 2004. Substantial completion is estimated to be in February 2005, with a possible delay extending until March 2005. The CSU 9 contingency account is budgeted at \$334.9 million, the management contingency account is budgeted at \$294 million and the CEO contingency account is budgeted at \$40.9 million. As of July 24, 2002, construction was 81% complete. CSU 9 will form the basis for the budget portion of the 2002 finance plan, which the CA/T Project anticipates will be filed with the Federal Highway Administration on or before September 1, 2002.

As it has for the past three fiscal years, the Executive Office for Administration and Finance has engaged an independent auditor to review and evaluate CSU 9. The Secretary of Administration and Finance relies upon the findings of the report of the independent auditor in completing the certification required by the U.S. Department of Transportation in connection with the federal oversight of the CA/T Project and the U.S. Department of Transportation’s approval of the CA/T Project’s finance plan. The report of the independent auditor has not yet been completed. The final report is not expected to be complete until late August 2002, and the findings of the independent auditor may result in a final cost exposure that is higher than the estimate of the Turnpike Authority referenced above. See the March Information Statement under the heading “COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Central Artery/Ted Williams Tunnel Project; *Federal Oversight.*”

On July 26, 2002, the Federal Highway Administration announced the results of their annual budget review of the CA/T Project. The Federal Highway Administration estimates the total cost of the project to be \$14.46 billion. The Massachusetts State Auditor has also recently issued an interim report concluding that the CSU 9 projected budget of \$14.625 billion is overstated by approximately \$88 million.

On June 28, 2002, the Turnpike Authority board approved an initial six-month toll discount program for members of the FASTLANE Program who operate non-commercial two-axle passenger vehicles. The toll discount program will provide a 50% discount from the amount of the toll rate increase, to reduce the impact on commuters of toll rates, which increased on July 1, 2002. The discount became effective July 1, 2002. As of July 25, 2002, the toll discount is being credited in the toll lane. Discounts from July 1 through July 24, 2002 will be credited to customers’ account statements. The board intends for the program to be revenue neutral to the Metropolitan Highway System by finding offsetting revenues. The board voted to transfer \$9 million from the Massachusetts Turnpike Authority general fund to a special sub-account within the general fund, to finance the toll discount program for six months. To generate additional revenues for the FASTLANE toll discount program, the board voted to schedule public hearings required for proposed changes to the toll structure for commercial vehicles and for interchanges 16 and 17. One such public hearing has been held; however, due to the legislation passed on July 31,

2002, the Turnpike Authority is unable to implement proposed toll changes at these interchanges until the study (mentioned above in the first paragraph under this section's *Recent Developments*) has been completed.

The board also voted to request the Legislature to enact legislation that would dedicate all gas tax revenues generated at the Turnpike Authority's service areas to the Turnpike Authority. The board voted to dedicate any such revenues to the FASTLANE toll discount program. As of the end of the formal legislative session on July 31, 2002, no such action had been taken by the Legislature. There are various prerequisites, including among others legislative action to secure partial funding and at least two public hearings 30 days prior to the effective date of any change in toll structure as well as the completion of the above-mentioned study, which must be satisfied to secure such revenues. There can be no assurances that such prerequisite actions will take place. The FASTLANE toll discount program will be reviewed annually by the board, and subject to available funding. The FASTLANE toll discount program will be subordinate to payments for Western Turnpike and Metropolitan Highway System debt service and expense commitments.

Also on June 28, 2002, the Turnpike Authority board delivered notice of termination to the Chief Executive Officer pursuant to his employment contract. The termination became effective August 1, 2002. Prior to his termination, the Chief Executive Officer delegated all of his powers to the Chairman of the Turnpike Authority board.

On June 12, 2002 legislation authorizing an additional \$150 million in Transportation Infrastructure Fund bonds was signed into law by the Acting Governor. This legislation secures the final funding outlined in the October 2001 finance plan for the CA/T Project. The October 2001 finance plan was approved by the Federal Highway Administration upon receipt of notification of the signed legislation, which notification was delivered on June 13, 2002. With the approval of the October 2001 finance plan, the CA/T Project is able to obligate federal funds.

On March 16, 2002, the CA/T Project received a claim on a contract for \$91.6 million from Honeywell Technology Solutions, Inc. ("Honeywell"). In negotiations between Honeywell and the CA/T Project on the contract, Honeywell stated its intent not to continue to perform work on an accelerated basis as directed by the CA/T Project. Subsequently, as a result of continued negotiations, an agreement has been reached between the CA/T Project and Honeywell whereby Honeywell has agreed to continue accelerated work and meet a schedule coinciding with the CA/T Project's schedule. The Honeywell contract includes installation of systems necessary to open the roadway. If Honeywell fails to implement this agreement this may have an adverse impact on CA/T Project cost and schedule. In addition, like any other critical path contractor, if Honeywell were to abandon the contract altogether this may result in a substantial and material impact to CA/T Project cost and schedule. On August 14, 2002, the CA/T Project received a revised claim for a component of the original \$91.6 million Honeywell claim, increasing the cost of that component from \$12.7 million to \$23.4 million.

Each annual finance plan budgets for the potential cost of change orders on all awarded and unawarded contracts. For awarded contracts, the budgeted value includes future allowance for owner directed changes and potential contractor claims that may result in change orders. Each annual finance plan also includes a change order allowance for unawarded contracts and a contingency for unanticipated owner - directed changes and contractor claims that result in change orders. As part of the construction process, new claims and issues are filed or identified on an ongoing basis. These claims and issues include claims from contractors that may or may not have been submitted to the CA/T Project with a specific contractor cost proposal. The CA/T Project evaluates and assigns a budgeted value for each claim or issue, but the final value of each claim or issue may deviate from the budgeted value. These deviations are accounted for in the finance plan by various allowance and contingency accounts and are tracked and reported in an aggregate amount in the CA/T Project management monthly report. Because of these fluctuating and imprecise variables, any dollar amount associated with an individual claim or issue, or the sum of claims or issues, may not reflect the ultimate impact, if any, on the final CA/T Project cost.

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

extent of such a material impact would depend on a number of factors that would have to be assessed on a case-by-case basis upon the occurrence of such an event.

The Federal Highway Administration has directed that approximately \$32 million previously expended for administrative costs, and some future administrative costs estimated by Turnpike Authority finance staff to be less than \$20 million, be included in total CA/T Project costs. These costs, totaling \$52 million, have been included in CSU 9.

As part of a June 22, 2000 partnership agreement among the Federal Highway Administration, the Executive Office of Transportation and Construction, the Turnpike Authority and the Massachusetts Highway Department, the Commonwealth is required to maintain a balanced statewide transportation program, including spending at least \$400 million in each state fiscal year for construction activities and transportation projects other than the CA/T Project. For fiscal 2002 such spending, as of July 5, 2002, is approximately \$405 million.

Commencing September 22, 2001, an infiltration of seawater into an excavation area on the west shore of Fort Point Channel caused a delay of the completion of the affected segment of the I-90 (east-west) portion of the CA/T Project. Remedial efforts succeeded in blocking the infiltration in November 2001. Increased costs and schedule delays associated with this event have been incorporated into CSU 9.

CA/T Project Cash Flow. The cash flow estimate contained in the March Information Statement was based on information as of September 30, 2001 and released in the December 31, 2001 project management monthly report. The table below provides estimates that are consistent with the revised CA/T Project cash flow (with an information cut-off date as of December 31, 2001 and release date of March 16, 2002) that extend to fiscal 2006, when the final project close-out process is expected to be completed. The Turnpike Authority and the Executive Office for Administration and Finance believe that such estimates of future costs are realistic and that the assumptions underlying the October 2001 finance plan, as updated by the revised cash flow estimates, are reasonable and appropriate. In light of the risks involved in large construction projects such as the CA/T Project, however, including the risks that change orders and contract bids might exceed projections, that schedule slippages might occur due to unanticipated conditions or circumstances, that change order and right-of-way disputes might be resolved on terms that are less favorable to the project than currently projected and that certain engineering designs might require modification, the actual amount and timing of construction costs may differ significantly from current estimates.

Central Artery Construction Cash Flow (1)(2)
(in millions)(3)

	<u>Through 2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>Totals</u>
Project Construction Uses:	\$10,380	\$1,297	\$1,256	\$875	\$485	\$182	\$--	\$14,475
Project Construction Sources:								
Federal highway reimbursements	5,856	368	329	260	186	51	0	7,049
Commonwealth GO Bond/Note (4)	1,163	150	126	86	59	14	0	1,598
Third Party Payments (5)	1,614	75	11	86	109	90	0	1,985
GANs	1,467	33	0	0	0	0	0	1,500
Infrastructure Fund	<u>279</u>	<u>672</u>	<u>791</u>	<u>443</u>	<u>132</u>	<u>26</u>	<u>0</u>	<u>2,343</u>
Total Sources	<u>\$10,380</u>	<u>\$1,297</u>	<u>\$1,256</u>	<u>\$875</u>	<u>\$485</u>	<u>\$182</u>	<u>\$0</u>	<u>\$14,475</u>

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

- (1) These figures are based on an information cut-off date of December 31, 2001 and do not include the net increase of \$150 million in total project costs identified in the March 11, 2002 report issued by the Office of Inspector General of the federal Department of Transportation in connection with the review of the October 2001 finance plan, as discussed in the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES — Central Artery/Ted Williams Tunnel Project".
- (2) Figures shown are proposed by CA/T Project, and preliminary. Approval by Executive Office for Administration and Finance is pending.
- (3) Totals may not add due to rounding.
- (4) Does not include bonds or notes authorized by legislation approved May 17, 2000, which are included in the Infrastructure Fund line. State fiscal 2001 includes \$24 million of interest earnings on Turnpike Authority funds, and state fiscal 2003 includes \$21 million of additional Commonwealth general obligation bonds to fulfill an MOU agreement between the Commonwealth and the Turnpike Authority.
- (5) Reflects payments received or to be received from the Turnpike Authority and the Port Authority, but excludes payments to be deposited in the Infrastructure Fund, which are included in the Infrastructure Fund line. The fiscal year amounts assume that the Commonwealth will finance costs in anticipation of receipts from the Port Authority through cash advances funded by general revenues or through the issuance of interim debt, if necessary.

General Authority to Borrow and Types of Long-Term Liabilities

The following table sets forth the amount of Commonwealth debt and debt related to general obligation contract assistance liabilities outstanding as of July 1, 2002.

Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities (in thousands)

	<u>Long-Term (2)</u>	<u>Short-Term</u>
COMMONWEALTH DEBT		
General Obligation Debt (6)	\$12,444,672(3)	\$530,000(5)
Special Obligation Debt (7)	837,911	-
Federal Grant Anticipation Notes	<u>1,499,325(4)</u>	<u>-</u>
Subtotal Commonwealth Debt	<u>\$14,781,908</u>	<u>\$530,000</u>
DEBT RELATED TO GENERAL OBLIGATION CONTRACT ASSISTANCE LIABILITIES (1)		
Massachusetts Convention Center Authority	\$ 46,926	-
Massachusetts Development Finance Agency	53,670	-
Foxborough Industrial Development Financing Authority	<u>67,025</u>	<u>-</u>
Subtotal GO Contract Assistance Debt	<u>167,621</u>	<u>-</u>
TOTAL	<u>\$14,949,529</u>	<u>\$530,000</u>

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

- (1) Does not include general obligation contract assistance liabilities to the Massachusetts Water Pollution Abatement Trust and the Massachusetts Turnpike Authority. For such liabilities calculated as of January 1, 2002, see the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - General Obligation Contract Assistance Liabilities." These liabilities increased during fiscal 2002.
- (2) Long-term debt includes discount and costs of issuance.
- (3) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from July 1, 2002 through their maturity in the amount of \$77.2 million.
- (4) Includes capital appreciation interest accrued from July 1, 2002 through their maturity in the amount of \$40.9 million.
- (5) Includes \$350 million of general obligation bond anticipation notes due September 1, 2003, which were issued to finance costs associated with the construction of the Boston Convention and Exhibition Center and other capital projects. (To the extent the proceeds of such notes are expended for the convention center, such notes are expected to be paid from the proceeds of special obligation bonds that can lawfully be issued regardless of the completion status of the convention center. See the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - Special Obligation Debt; *Boston Convention and Exhibition Center Fund*"). In addition, the total includes \$180 million bond anticipation notes issued in March 2002 in anticipation of certain payments to be received by the Commonwealth from the Massachusetts Port Authority to reimburse Commonwealth for capital costs of the Central Artery/Ted Williams Tunnel Project. See the March Information Statement under the heading "2002 FISCAL YEAR - Cash Flow." In addition, on August 1, 2002, the Commonwealth issued \$200 million of commercial paper.
- (6) On June 20, 2002 the Commonwealth sold \$2,274,665,000 of general obligation refunding and new money bonds. Bonds in the amount of \$1,828,230,000 were delivered on July 2, 2002, of which \$1,329,000,000 represents refunding bonds and \$499,230,000 represents new-money bonds. The remaining \$446,435,000 of bonds are expected to be delivered on November 5, 2002. On August 21, 2002 the Commonwealth sold \$882,390,000 of general obligation refunding and new money bonds. New money bonds in the amount of \$313,020,000 are expected to be delivered on September 10, 2002. Refunding bonds in the amount of \$357,725,000, \$102,820,000 and \$108,825,000 are expected to be delivered on September 10, 2002, November 5, 2002 and May 6, 2003, respectively. The Commonwealth expects to issue an additional \$5.1 million of general obligation bonds in early September as part of the U.Plan program.
- (7) Includes \$190.1 million of bonds, which, while not legally defeased, will be paid in fiscal years 2003, 2004, 2006 and 2008 from funds held in escrow by a third-party trustee.

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The following table sets forth the amount of Commonwealth debt and debt related to general obligation contract assistance liabilities as of the end of the fiscal years indicated.

Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities
(in thousands) (1)(2)

<u>June 30</u>	<u>General Obligation Bonds (3)</u>	<u>Dedicated Income Tax Debt</u>	<u>Special Obligation Debt (6)</u>	<u>Federal Grant Anticipation Notes</u>	<u>Commonwealth Long-Term Debt Subtotal (2)</u>	<u>GO Contract Assistance Debt (4)</u>	<u>Total</u>
1997	\$ 9,620,633	\$ 129,900	\$ 520,760	--	\$ 10,271,293	\$ 145,314	\$ 10,416,607
1998	9,872,598	--	606,005	\$ 600,000	11,078,603	201,904	11,280,507
1999	10,301,011	--	585,730	921,720	11,808,461	174,884	11,983,345
2000	10,896,896	--	564,485	921,720	12,383,101	213,789	12,596,890
2001	11,957,934	--	542,195	1,499,325	13,999,454	189,489	14,188,940
2002	12,619,727	--	837,910	1,499,325	14,956,962	169,101	15,126,063
2002(5)	12,444,673	--	837,910	1,499,325	14,781,908	167,621	14,949,529

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

- (1) Totals may not add due to rounding.
- (2) Outstanding bond liabilities include discount and costs of issuance.
- (3) Does not include dedicated income tax debt issued in fiscal 1991 and retired in fiscal 1998, which was general obligation debt also secured by a special pledge of income tax receipts. 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 1997 – \$198.6 million; fiscal 1998 – \$305.8 million; fiscal 1999 – \$315.4 million; fiscal 2000 – \$286.8 million; and fiscal 2001 - \$433.8 million, fiscal 2002 - \$359.1 million.
- (4) Includes bonds of the Massachusetts Convention Center Authority, the Massachusetts Development Finance Agency (as successor to the Massachusetts Government Land Bank) and the Foxborough Industrial Development Financing Authority.
- (5) As of July 1, 2002.
- (6) Includes \$190.1 million of bonds, which, while not legally defeased, will be paid in fiscal years 2003, 2004, 2006 and 2008 from funds held in escrow by a third-party trustee.

Proposed Capital Spending Authorizations

On July 31, 2002 the legislature passed the following bond bills in the respective appropriation amounts noted: \$752 million for Division of Capital Asset Management, \$301 million for Transportation, \$509 million for Housing, and \$754 million for Environmental Affairs.

The legislature also passed a \$101.8 million capital outlay bill. This legislation will allow for bond funds to be used in place of certain pay-as-you capital funds previously transferred to the General Fund. See “RECENT DEVELOPMENTS—Fiscal 2002.”

The formal legislative session ended on August 1, 2002, and the Executive Office for Administration and Finance has not yet fully completed its analysis of actions taken by the Legislature in the final day of the session. As a result, all information relative to legislative actions on the final day of the formal session are preliminary and subject to change. See the March Information Statement under the heading “THE GOVERNMENT—Legislative Branch.”

Debt Service Requirements on Commonwealth Bonds

The following table sets forth, as of July, 2002, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal grant anticipation notes. For variable rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate exchange agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. For other variable rate bonds and for auction rate securities, the schedule assumes a 5% interest rate.

Debt Service Requirements on Commonwealth Bonds July 1, 2002
(in thousands)(1)

Fiscal Year	<i>General Obligation Bonds</i>				<i>Federal Grant Anticipation Notes</i>			<i>Special Obligation Bonds(1)</i>			Total Debt Service Commonwealth Bonds
	Principal	Interest on CABS at Maturity	Current Interest	Sub Total	Principal	Interest	Sub Total	Principal	Interest	Sub Total	
2003	\$518,630	\$28,108	\$621,342	\$1,168,079	-	\$74,822	\$74,822	\$24,865	\$43,657	\$68,522	\$1,311,423
2004	662,929	68,020	583,185	1,314,135	-	74,822	74,822	26,070	42,449	68,519	1,457,476
2005	785,453	9,338	550,882	1,345,674	-	74,822	74,822	27,370	41,156	68,526	1,489,022
2006	778,371	4,536	512,022	1,294,929	\$117,895	73,416	191,311	43,950	39,713	83,663	1,569,903
2007	806,529	5,999	472,315	1,284,842	123,825	67,486	191,311	46,775	37,566	84,341	1,560,495
2008	813,897	5,756	433,178	1,252,832	130,240	61,068	191,308	57,310	34,687	91,997	1,536,137
2009	812,122	6,490	390,624	1,209,236	137,230	54,077	191,307	42,020	31,833	73,853	1,474,396
2010	772,168	6,244	348,269	1,126,681	144,515	46,792	191,307	63,070	29,847	92,917	1,410,905
2011	782,846	6,643	308,095	1,097,583	152,230	39,080	191,310	46,190	26,585	72,775	1,361,668
2012	653,389	6,753	264,473	924,614	160,530	30,775	191,305	48,590	24,205	72,795	1,188,714
2013	652,363	7,477	231,160	891,001	168,470	22,837	191,307	51,115	21,653	72,768	1,155,075
2014	544,977	5,404	201,274	751,655	177,760	13,549	191,309	49,435	18,866	68,301	1,011,265
2015	524,267	4,669	173,208	702,145	186,630	4,674	191,304	78,525	16,298	94,823	988,271
2016	505,156	3,241	147,702	656,100	-	-	-	52,965	12,076	65,041	721,141
2017	509,866	1,903	124,953	636,721	-	-	-	43,710	9,265	52,975	689,696
2018	356,503	1,130	101,959	459,593	-	-	-	24,445	7,080	31,525	491,117
2019	347,217	568	84,072	431,857	-	-	-	25,755	5,766	31,521	463,378
2020	295,972	159	67,615	363,747	-	-	-	27,140	4,381	31,521	395,268
2021	397,662	78	49,458	447,198	-	-	-	28,590	2,931	31,521	478,718
2022	157,670	15	34,811	192,496	-	-	-	30,020	1,501	31,521	224,017
2023	22,035	-	29,134	51,169	-	-	-	24,865	43,657	68,522	51,169
2024	24,060	-	27,905	51,965	-	-	-	-	-	-	51,965
2025	30,059	-	26,533	56,592	-	-	-	-	-	-	56,592
2026	76,790	-	23,660	100,450	-	-	-	-	-	-	100,450
2027	80,455	-	19,714	100,169	-	-	-	-	-	-	100,169
2028	84,240	-	15,581	99,821	-	-	-	-	-	-	99,821
2029	88,335	-	11,249	99,584	-	-	-	-	-	-	99,584
2030	92,550	-	6,710	99,260	-	-	-	-	-	-	99,260
2031	95,630	-	1,992	97,622	-	-	-	-	-	-	97,622
2032	-	-	-	-	-	-	-	-	-	-	-
TOTAL	\$12,272,139	\$172,533	\$5,863,076	\$18,307,749	\$1,499,325	\$638,221	\$2,137,546	\$837,911	\$451,514	\$1,289,424	\$21,734,719

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

(1) Includes \$74.0 million not exempt from the Statutory Debt Limit. See the March Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES – Statutory Debt Limit on Direct Debt."

LEGAL MATTERS

Update of Existing Litigation

Bates v. Director of the Office of Campaign and Political Finance, Supreme Judicial Court. Plaintiffs alleged that the Director of the Office of Campaign and Political Finance was violating the Clean Elections law by declining to distribute public campaign finance funds to qualifying candidates absent a legislative appropriation for that purpose. On January 25, 2002, the Supreme Judicial Court ruled on the merits that the Legislature has a constitutional duty either to appropriate funds necessary to implement the Clean Elections law, or to repeal the law. On February 25, 2002, the Court ruled that candidates who have been certified under the Clean Elections law, but who have not received funding due to the lack of appropriated funds, are entitled to the entry of money judgments against the Commonwealth in amounts equal to the amount of Clean Elections funding due them. The Court accordingly ordered judgment for one plaintiff in the amount of \$811,050. That judgment was partially satisfied on February 28, 2002, out of an account appropriated for the payment of damages awards generally, but no further appropriated money is currently available to pay the remainder of the judgment. Plaintiffs moved for an order permitting them to execute the judgment on various funds in the state Treasury, notwithstanding the absence of an appropriation; that motion was denied by a single justice of the Supreme Judicial Court on March 12, 2002. On April 5, 2002 a single justice of the Supreme Judicial Court granted plaintiffs' motion for issuance of executions to be satisfied by levy and sale of the Commonwealth's real or personal property. Plaintiffs' motion to shorten the notice period for sales of real property, and to set aside any surplus proceeds of such sales to be used to satisfy future judgments, was denied. Subsequently, certain Commonwealth property has been sold at auction to satisfy some of the outstanding portion of the existing judgments, and plaintiffs have identified other Commonwealth property upon which to levy for the balance. On June 11, 2002, the Director of the Office of Campaign and Political Finance advised the Senate Ways and Means Committee that, given the number of candidates who had qualified or still could qualify for Clean Elections funding during the 2002 election cycle, the maximum amount required to fund the Clean Elections system for the 2002 election cycle was estimated at \$9,553,461.

Massachusetts Ambulance Association v. Division of Medical Assistance, Suffolk Superior Court No. 00-1262-B. The case has been settled on the following terms. Defendants have agreed to increase prospectively the rates paid to ambulance services under the Medicaid program. The rates will increase by approximately \$15-18 million per year, with half of the amount of the increase to be reimbursed by the federal government. The settlement does not provide relief for prior years.

Massachusetts Extended Care Federation et al. v. Division of Health Care Finance and Policy and Division of Medical Assistance, et al. A nursing home trade association along with eight individual nursing facilities have sued the Division of Medical Assistance and the Division of Health Care Finance and Policy seeking to preliminarily and permanently enjoin the existing Medicaid payment rates established for nursing facilities by the Division of Health Care Finance and Policy and to implement higher rates. Plaintiffs challenge several components of the nursing facility rate-setting regulation, including but not limited to the cost adjustment factor, the occupancy standard, standard payments for nursing, the Administrative & General allowance and the total payment adjustment. On February 11, 2002, a hearing on plaintiffs' motion for a preliminary injunction was held in Suffolk Superior Court. Following the hearing, the Court issued an order denying said motion, finding that the plaintiffs failed to show a risk of imminent, irreparable harm. The staff at the Division of Health Care Finance and Policy had estimated that if the plaintiffs were successful on all claims, the Commonwealth's liability could exceed \$300 million annually, but that such an outcome would be unlikely on the merits of the claims. On July 31, 2002, the parties filed with the Court a Stipulation of Dismissal, without prejudice.

Tolman v. Finneran, United States District Court, C.A. No. 01-10756-PBS. The appeal was dismissed the First Circuit as moot and the district court order was vacated as moot.

Rolland v. Swift, U.S. District Court C.A. No. 98-32208 KPN. On May 3, 2002, the court ruled that the Commonwealth is obligated to provide "active treatment" to plaintiffs and required the Commonwealth to take certain steps within specified periods to comply with such obligation. Defendants have appealed the order of May 3, 2002.

New England Division of the American Cancer Society, et al. v. Sullivan, et al., Supreme Judicial Court for Suffolk County No. SJC-02-0092. On June 14, 2002 the Court issued a decision finding in favor of the Acting Governor.

Boston & Maine Railroad v. Commonwealth, Middlesex Superior Court C.A. No. 99-3928E. The plaintiff seeks \$29 million for a taking of land in Cambridge for the CA/T Project.

Athol Memorial Hospital v. Commissioner of the Division of Medical Assistance. On August 6, 2002, the Supreme Judicial Court held that the plaintiff hospitals, which had failed to exhaust their administrative remedies when their claims for Medicaid reimbursement were denied, could not later challenge the validity of the Division of Medical Assistance regulations via a breach of contract action.

CONTINUING DISCLOSURE

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

AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding this Information Statement or requests for additional information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900 (ext. 564), or to Laura Guadagno, Assistant Secretary for Capital Resources and Chief Development Officer, 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 Lawrence D. Bragg, III, Ropes & Gray, One International Place, Boston, Massachusetts 02110, telephone 617/951-7000.

THE COMMONWEALTH OF MASSACHUSETTS

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

By /s/ Kevin J. Sullivan
Kevin J. Sullivan
Secretary of Administration and Finance

August 21, 2002

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ECONOMIC INFORMATION

The information in this section was prepared by the Massachusetts Institute for Social and Economic Research ("MISER") at the University of Massachusetts 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 that may have a bearing on the Commonwealth's fiscal and economic affairs.

All information is presented on a calendar-year basis unless otherwise indicated. **Information is current as of June 28th, 2002.** 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.

<u>Statistical Overview</u>		
	<u>Massachusetts</u>	<u>United States</u>
<u>Population</u> (p. A-2)		
Percentage Change in Population, 1999–2001*	0.3%	1.2%
<u>Personal Income, Consumer Prices, and Poverty</u> (p. A-7)		
Per Capita Personal Income, 2001	\$38,845	\$30,271
Average Annual Pay, 2000(p)	\$44,326	\$35,296
Percentage Change in CPI-U, 1999-2001**	4.3%	2.8%
Percentage Change in CPI-U, May 2001–May 2002**	2.0%	1.2%
Poverty Rate, 2000	10.9%	11.5%
Average Weekly Manufacturing Earnings, May 2002(p)	\$641.72	\$622.91
Percentage Change in Manufacturing Earnings, May 2001-May 2002(p)	3.4%	3.8%
<u>Employment</u> (p. A-17)		
Unemployment Rate, 2001	3.7%	4.8%
Unemployment Rate, May 2002	4.4%	5.8%
<u>Economic Base and Performance</u> (p. A-26)		
Percentage Change in Gross State Product, 1999-2000	7.1%	4.5%
Percentage Change in International Exports, 2000-2001	-14.7%	-6.3%
Percentage Change in Housing Permits Authorized, 2000-2001	-4.0%	2.5%
<u>Human Resources and Infrastructure</u> (p. A-39)		
Expenditure Per Pupil, 1998	\$8,260	\$6,508
Percentage Adults with a Bachelor's Degree, March 2000	33.2%	24.4%
*Note: Percentages may be exaggerated pending updates to 1999 estimates.		
** Note: Percentage changes in CPI-U data are for Boston and the U.S.		

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

The following sections provide detailed information on population characteristics, personal income, employment, economic base and performance, and human resources and infrastructure. It should be noted that although some of the 2000 census counts have been made available, some of the data below is still only available from the 1990 census. Future versions of this economic information will include new counts as they become available.

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

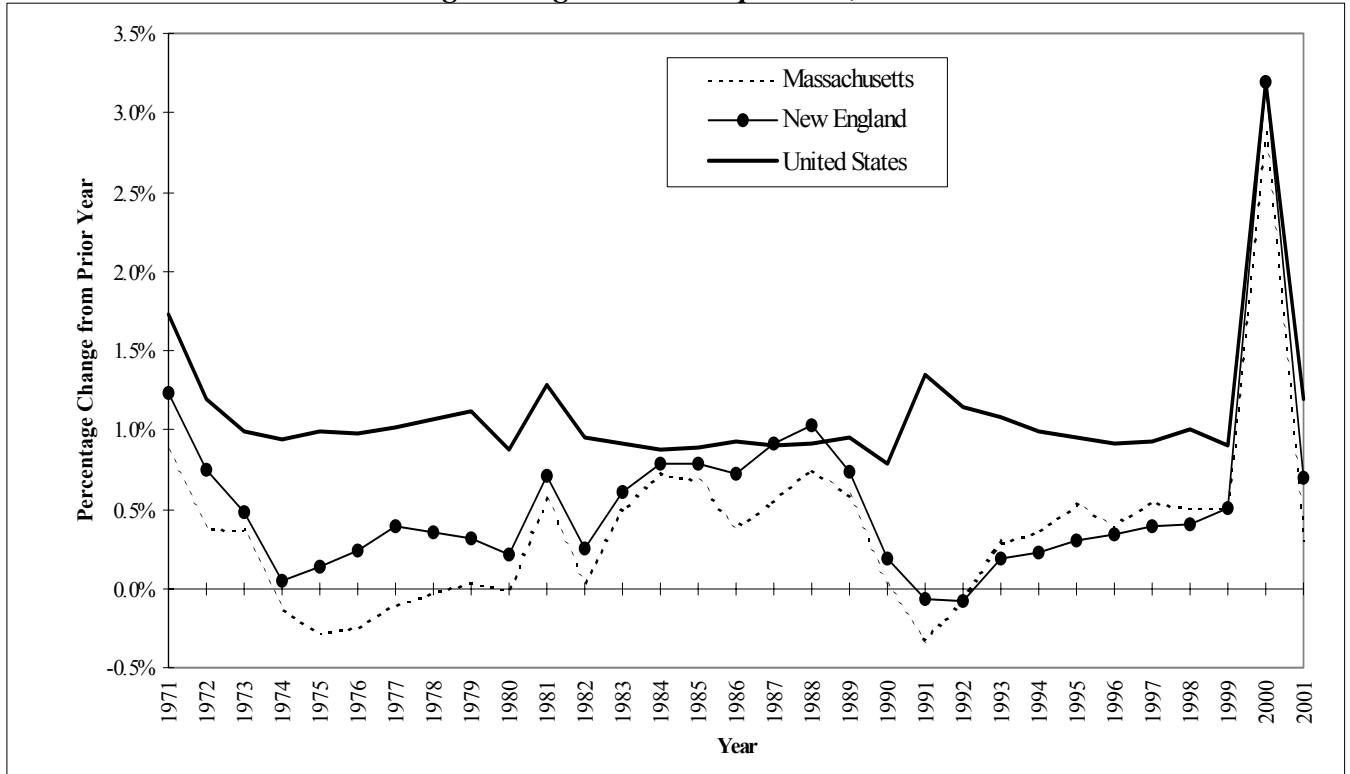
The second largest component of that CMSA is the Worcester, MA-CT PMSA, with a 2000 population of 511,389. Worcester, situated approximately 40 miles west of Boston with a 2000 population of 172,648, is the second largest city in New England. Its service, trade, and manufacturing industries combine for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

The largest Metropolitan Statistical Area ("MSA") within Massachusetts which is not a part of this larger CMSA is the Springfield MSA, with a 1990 population of 591,932. Springfield, the third largest city in the Commonwealth with a 2000 population of 152,082, is located in the Connecticut River Valley in western Massachusetts and enjoys a diverse body of corporate employers, the largest of which are the Bay State Medical Center, the Massachusetts Mutual Life Insurance Company, the Milton Bradley Company, and Smith and Wesson. In addition, Springfield is home to four independent colleges.

As the following chart indicates, the 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.

Percentage Change in Total Population, 1971-2001



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

Note: 1980, 1990, and 2000 census counts are as of April 1; estimates for other years are as of July 1. Estimates for 1991 to 1999 have not been updated to reflect 2000 Census information, which may result in exaggerated changes in total population between 1999 and 2000.

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

Population, 1970-2001
(in thousands)

Year	Massachusetts		New England		United States	
	Total	Percentage Change	Total	Percentage Change	Total	Percentage Change
1970	5,689		11,847		203,302	
1971	5,738	0.9%	11,993	1.2%	206,827	1.7%
1972	5,760	0.4%	12,082	0.7%	209,284	1.2%
1973	5,781	0.4%	12,140	0.5%	211,357	1.0%
1974	5,774	-0.1%	12,146	0.0%	213,342	0.9%
1975	5,758	-0.3%	12,163	0.1%	215,465	1.0%
1976	5,744	-0.2%	12,192	0.2%	217,563	1.0%
1977	5,738	-0.1%	12,239	0.4%	219,760	1.0%
1978	5,736	0.0%	12,283	0.4%	222,095	1.1%
1979	5,738	0.0%	12,322	0.3%	224,567	1.1%
1980	5,737	0.0%	12,348	0.2%	226,546	0.9%
1981	5,769	0.6%	12,436	0.7%	229,466	1.3%
1982	5,771	0.0%	12,468	0.3%	231,664	1.0%
1983	5,799	0.5%	12,544	0.6%	233,792	0.9%
1984	5,841	0.7%	12,642	0.8%	235,825	0.9%
1985	5,881	0.7%	12,741	0.8%	237,924	0.9%
1986	5,903	0.4%	12,833	0.7%	240,133	0.9%
1987	5,935	0.5%	12,951	0.9%	242,289	0.9%
1988	5,980	0.8%	13,085	1.0%	244,499	0.9%
1989	6,015	0.6%	13,182	0.7%	246,819	0.9%
1990	6,016	0.0%	13,207	0.2%	248,791	0.8%
1991	5,999	-0.3%	13,201	0.0%	252,153	1.4%
1992	5,993	-0.1%	13,188	-0.1%	255,030	1.1%
1993	6,109	1.9%	13,216	0.2%	257,783	1.1%
1994	6,031	-1.3%	13,243	0.2%	260,327	1.0%
1995	6,062	0.5%	13,283	0.3%	262,803	1.0%
1996	6,085	0.4%	13,328	0.3%	265,229	0.9%
1997	6,115	0.5%	13,378	0.4%	267,784	1.0%
1998	6,144	0.5%	13,429	0.4%	270,248	0.9%
1999	6,175	0.5%	13,496	0.5%	272,691	0.9%
2000	6,357	2.9%	13,923	3.2%	281,422	3.2%
2001	6,379	0.3%	14,022	0.7%	284,797	1.2%

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

Note: 1970, 1980, 1990, and 2000 census counts are as of April 1; estimates for other years are as of July 1. Estimates for 1991 to 1999 have not been updated to reflect 2000 Census information, which may result in exaggerated changes in total population between 1999 and 2000.

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

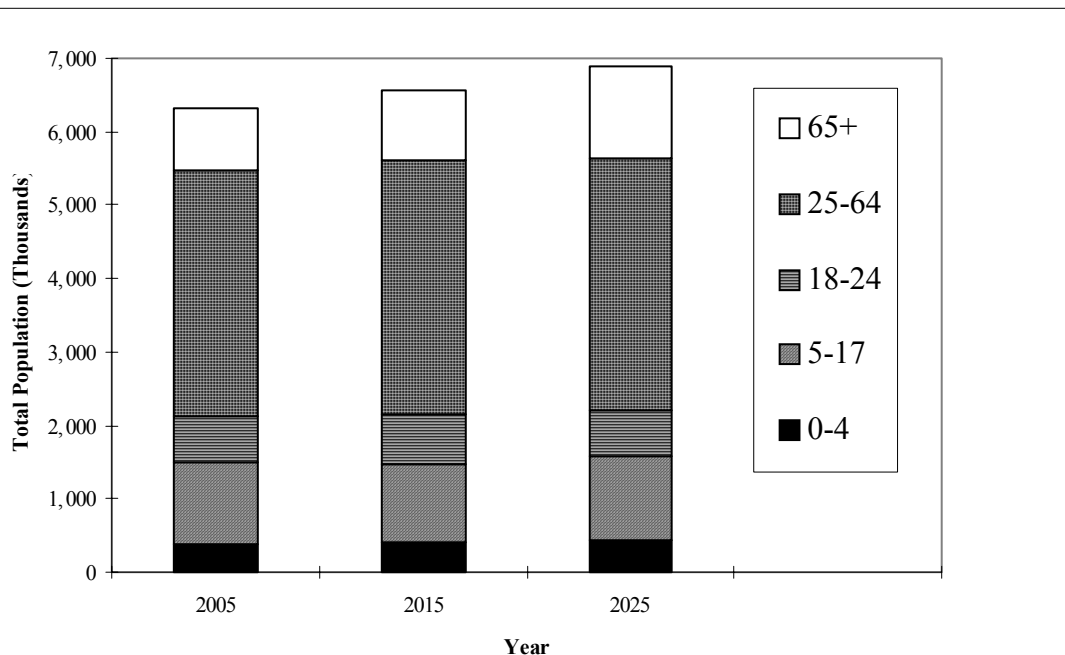
Projected Massachusetts Population By Age Group, 2005-2025
(in thousands)

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

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

Note: Projections made prior to the 2000 Census.

Projected Massachusetts Population By Age Group, 2005-2025



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

Note: Projections made prior to the 2000 Census.

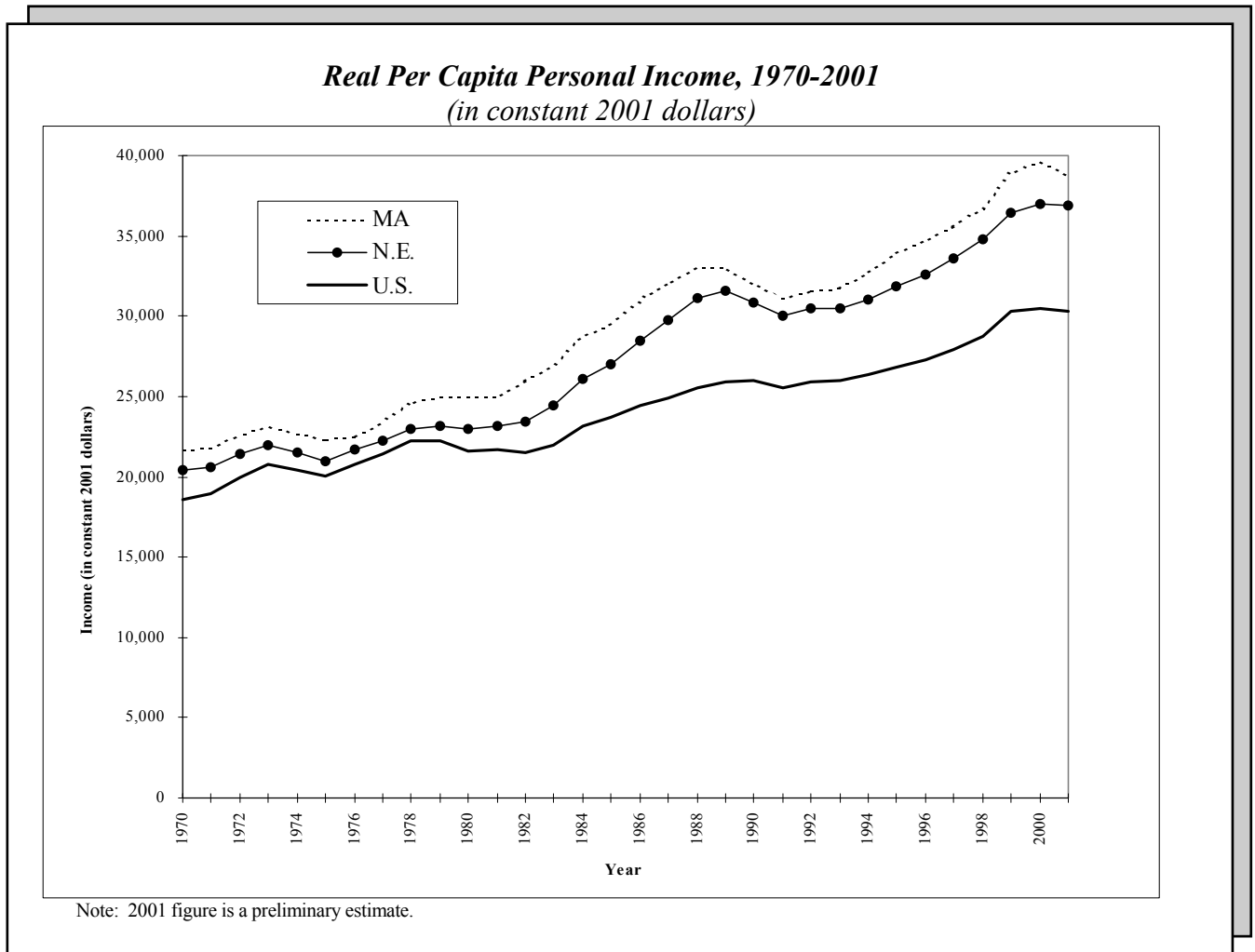
**Massachusetts Population by County
1990 and 2000 Census**

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

SOURCE: U.S. 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. After growing at an annual rate higher than that for the United States between 1982 and 1988, real income levels in Massachusetts declined between 1989 and 1991. Real per capita income levels in Massachusetts have increased faster than the national average between 1993 and 1997, showing growth rates between 0.3 and 3.8 percent in this period. In 1999 Massachusetts had its highest per capita income growth in 15 years, exceeding the national growth rate by 1.6 percentage points. In 2001(p), nominal and real income in Massachusetts and the United States has shown a slight decline. Even with slight declines in income, both real and nominal income levels in Massachusetts remain well above the national average. Massachusetts had the third highest level of per capita personal income in the United States in 2001(p). The following chart illustrates real per capita personal income in Massachusetts, New England, and the United States since 1970.



The following table compares per capita personal income in Massachusetts, New England, and the United States for the period 1970-2001(p)

Per Capita Personal Income, 1970-2001

Year	<i>Nominal Income (in current dollars)</i>			<i>Real Income (in 2001 dollars)</i>			<i>Percentage Change in Real Income</i>		
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.
1970	\$4,547	\$4,479	\$4,077	21,660	20,444	18,609			
1971	4,804	4,702	4,327	21,800	20,561	18,921	0.6%	0.6%	1.7%
1972	5,162	5,054	4,699	22,621	21,413	19,909	3.8%	4.1%	5.2%
1973	5,600	5,504	5,211	23,162	21,954	20,785	2.4%	2.5%	4.4%
1974	6,074	5,978	5,676	22,718	21,475	20,390	-1.9%	-2.2%	-1.9%
1975	6,495	6,375	6,100	22,290	20,985	20,080	-1.9%	-2.3%	-1.5%
1976	7,042	6,962	6,690	22,476	21,669	20,822	0.8%	3.3%	3.7%
1977	7,684	7,606	7,334	23,320	22,228	21,433	3.8%	2.6%	2.9%
1978	8,536	8,455	8,196	24,618	22,966	22,262	5.6%	3.3%	3.9%
1979	9,552	9,478	9,118	24,989	23,121	22,242	1.5%	0.7%	-0.1%
1980	10,780	10,705	10,062	24,992	23,008	21,626	0.0%	-0.5%	-2.8%
1981	11,978	11,899	11,144	24,987	23,183	21,712	0.0%	0.8%	0.4%
1982	12,945	12,787	11,715	25,958	23,467	21,500	3.9%	1.2%	-1.0%
1983	14,009	13,748	12,356	26,881	24,445	21,970	3.6%	4.2%	2.2%
1984	15,703	15,319	13,571	28,721	26,112	23,132	6.8%	6.8%	5.3%
1985	16,842	16,420	14,410	29,481	27,026	23,718	2.6%	3.5%	2.5%
1986	18,100	17,610	15,106	30,893	28,456	24,409	4.8%	5.3%	2.9%
1987	19,600	19,075	15,945	32,053	29,738	24,858	3.8%	4.5%	1.8%
1988	21,417	20,810	17,038	33,022	31,153	25,507	3.0%	4.8%	2.6%
1989	22,634	22,103	18,153	33,012	31,568	25,927	0.0%	1.3%	1.6%
1990	23,210	22,741	19,156	31,999	30,814	25,957	-3.1%	-2.4%	0.1%
1991	23,590	23,078	19,623	31,155	30,008	25,516	-2.6%	-2.6%	-1.7%
1992	24,538	24,150	20,547	31,622	30,484	25,936	1.5%	1.6%	1.6%
1993	25,333	24,903	21,220	31,728	30,521	26,007	0.3%	0.1%	0.3%
1994	26,433	25,934	22,056	32,679	30,991	26,357	3.0%	1.5%	1.3%
1995	28,097	27,439	23,059	33,925	31,886	26,796	3.8%	2.9%	1.7%
1996	29,591	28,872	24,164	34,701	32,589	27,275	2.3%	2.2%	1.8%
1997	31,239	30,427	25,288	35,630	33,574	27,903	2.7%	3.0%	2.3%
1998	32,902	32,007	26,482	36,696	34,776	28,773	3.0%	3.6%	3.1%
1999	35,733	34,264	28,518	38,880	36,423	30,315	6.0%	4.7%	5.4%
2000	37,992	35,983	29,676	39,627	37,007	30,520	1.9%	1.6%	0.7%
2001(p)	38,845	36,870	30,271	38,845	36,870	30,271	-2.0%	-0.4%	-0.8%

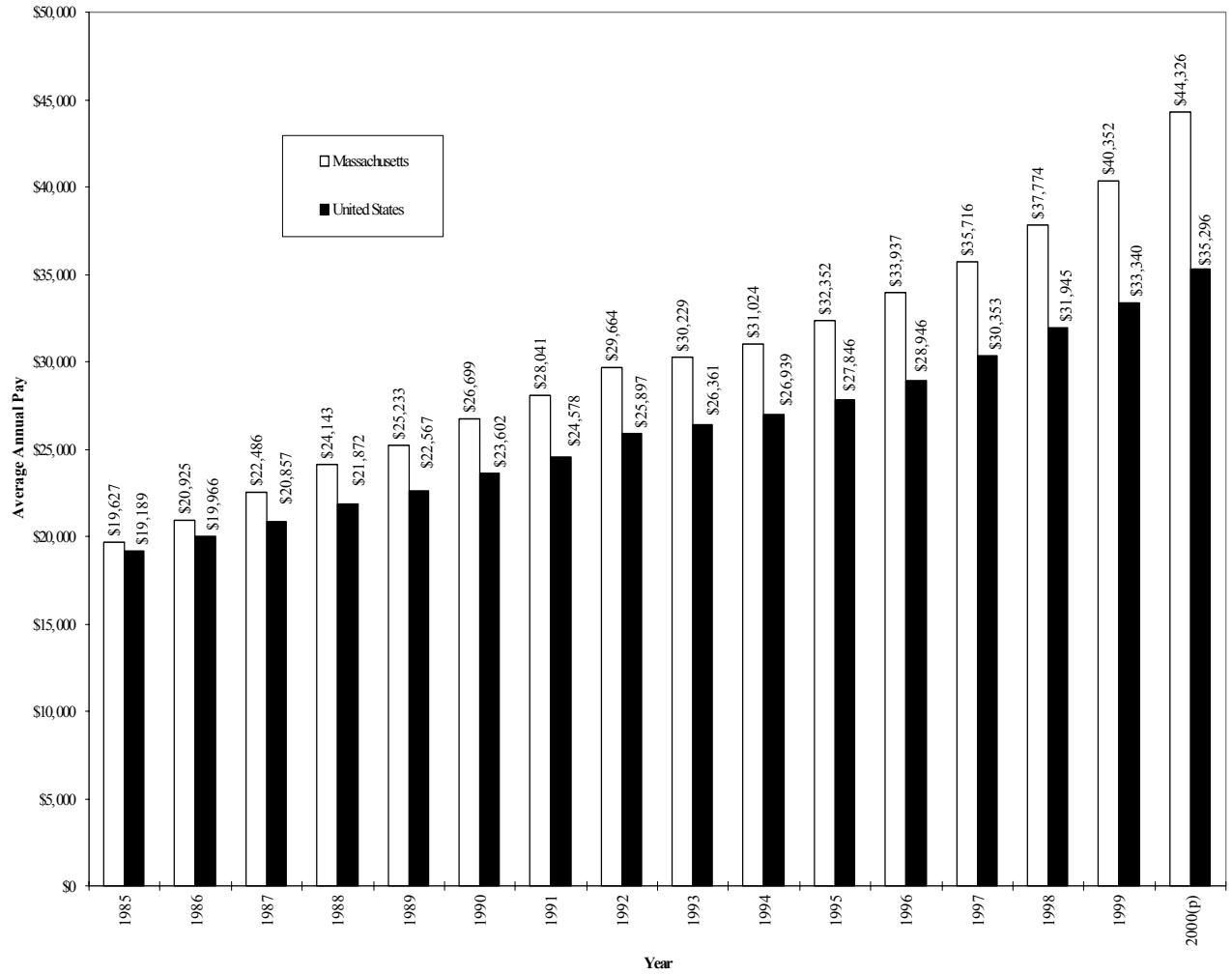
SOURCE: United States Department of Commerce, Bureau of Economic Analysis.

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

(p) = preliminary estimates.

Annual pay in nominal dollars has grown steadily in Massachusetts over the past ten years. Average annual pay is computed by dividing the total annual payroll of employees covered by Unemployment Insurance programs by the average monthly number of employees. Data are reported by employers covered under the Unemployment Insurance programs. While levels of annual pay were nearly equal in Massachusetts and the United States in 1984, average annual pay levels in Massachusetts have grown more rapidly than the national average since that time. Following a period between 1985 and 1992 in which average annual pay levels in Massachusetts grew at a rate between 5 and 7 percent, growth slowed to less than 3 percent in 1993 and 1994. However, growth levels have exceeded 4 percent in the past six years and, as a result, preliminary estimates show that the level of annual pay in Massachusetts in 2000 was 26 percent higher than the national average: \$44,326(p) compared to \$35,296(p). In 2000, average annual pay levels in Massachusetts had the highest growth rates in the nation and remained the fourth highest pay level in the nation.

Average Annual Pay, 1985-2000
(in current dollars)



SOURCE: United States Department of Labor, Bureau of Labor Statistics.
(p)= preliminary estimates.

Median Household Income Estimates, 1995-1998
(Small Area Income and Poverty Estimates)

<i>Year</i>	<i>MA</i>	<i>U.S.</i>	<i>Percent MA above U.S.</i>
1995	\$39,025	\$34,076	14.52%
1996	40,686	35,492	14.63%
1997	43,015	37,005	16.24%
1998	44,934	38,885	15.56%

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

Wage and Salary Disbursements. Wage and Salary Disbursements by place of work is a component of personal income and measures monetary disbursements to employees. This includes compensation of corporate officers, commissions, tips, bonuses, and receipts in-kind. Although the data is recorded on a place-of-work basis, it is then adjusted to a place-of-residence basis so that the income of the recipients whose place of residence differs from their place of work will be correctly assigned to their state of residence. The table below details Wage and Salary Disbursements since 1990. Since 1991, Massachusetts has accounted for a steadily increasing percentage of the overall New England total and in 2000 it counted for 51.4 percent.

Wage and Salary Disbursements, Yearly Averages, 1990-2000
(in millions of dollars)

<i>Year</i>	<i>U.S.</i>	<i>N.E.</i>	<i>MA</i>	<i>MA as a pct. of N.E.</i>
1990	\$ 2,743,643	\$171,476	\$83,145	48.5%
1991	2,812,323	170,387	82,342	48.3%
1992	2,974,791	177,918	86,074	48.4%
1993	3,079,080	183,355	89,111	48.6%
1994	3,232,379	190,869	93,272	48.9%
1995	3,421,108	202,237	99,350	49.1%
1996	3,623,084	214,074	105,794	49.4%
1997	3,885,685	230,761	113,977	49.4%
1998	4,189,579	248,473	123,408	49.7%
1999	4,469,290	267,956	134,307	50.1%
2000	4,835,800	294,636	151,352	51.4%

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

Manufacturing Hours and Earnings. Recent increases in manufacturing employment have been accompanied by increases in manufacturing earnings, with weekly earnings in the manufacturing sector growing at a rate of 3.4 percent over the past year. While this growth can be attributed largely to an increase in average hourly earnings (from \$15.17 in May 2001 to \$15.69 in May 2002(p)), it is important to note that employees in the manufacturing sector have averaged 41 or more work hours per week in 8 of the past 18 months. The following table shows average weekly hours, hourly earnings, weekly earnings, and the percentage change in weekly earnings compared to the same month in the previous year. Data are not adjusted to reflect seasonal variations in employment and compensation levels.

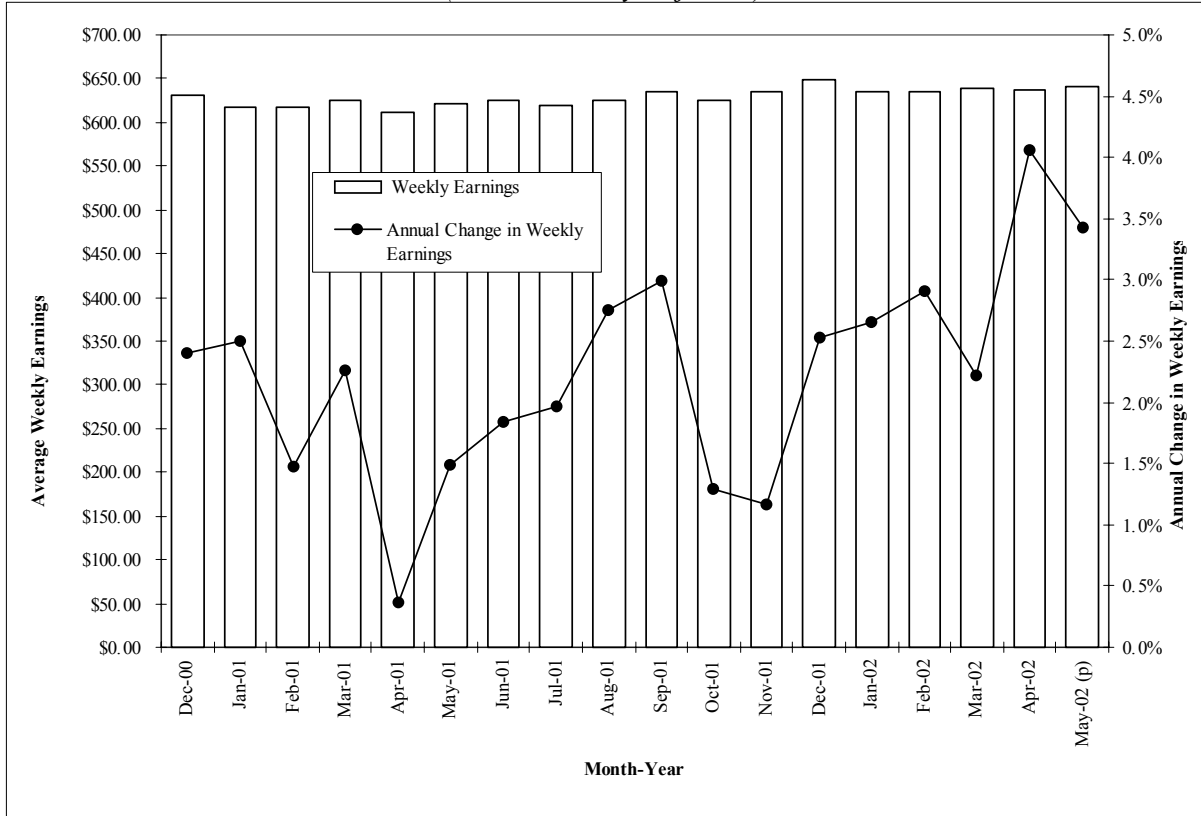
**Average Weekly Manufacturing Hours and Earnings in Massachusetts,
December 2000 – May 2002**
(not seasonally adjusted)

<i>Month</i>	<i>Weekly Hours</i>	<i>Hourly Earnings</i>	<i>Weekly Earnings</i>	<i>Annual Change in Weekly Earnings</i>
Dec-00	42.3	\$14.94	\$631.96	2.4%
Jan-01	41.3	14.96	617.85	2.5%
Feb-01	41.1	15.03	617.73	1.5%
Mar-01	41.3	15.15	625.70	2.3%
Apr-01	40.4	15.16	612.46	0.4%
May-01	40.9	15.17	620.45	1.5%
Jun-01	41.0	15.24	624.84	1.8%
Jul-01	40.3	15.36	619.01	2.0%
Aug-01	40.7	15.35	624.75	2.8%
Sep-01	41.1	15.46	635.41	3.0%
Oct-01	40.3	15.50	624.65	1.3%
Nov-01	40.8	15.57	635.26	1.2%
Dec-01	41.4	15.65	647.91	2.5%
Jan-02	40.5	15.65	634.23	2.7%
Feb-02	40.7	15.62	635.73	2.9%
Mar-02	41.0	15.60	639.60	2.2%
Apr-02	40.8	15.62	637.30	4.1%
May-02 (p)	40.9	15.69	641.72	3.4%

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

(p)=preliminary estimates.

**Average Weekly Manufacturing Earnings in Massachusetts,
December 2000—May 2002**
(not seasonally adjusted)



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

Note: Vertical axis does not begin at zero.

(p)=preliminary estimate.

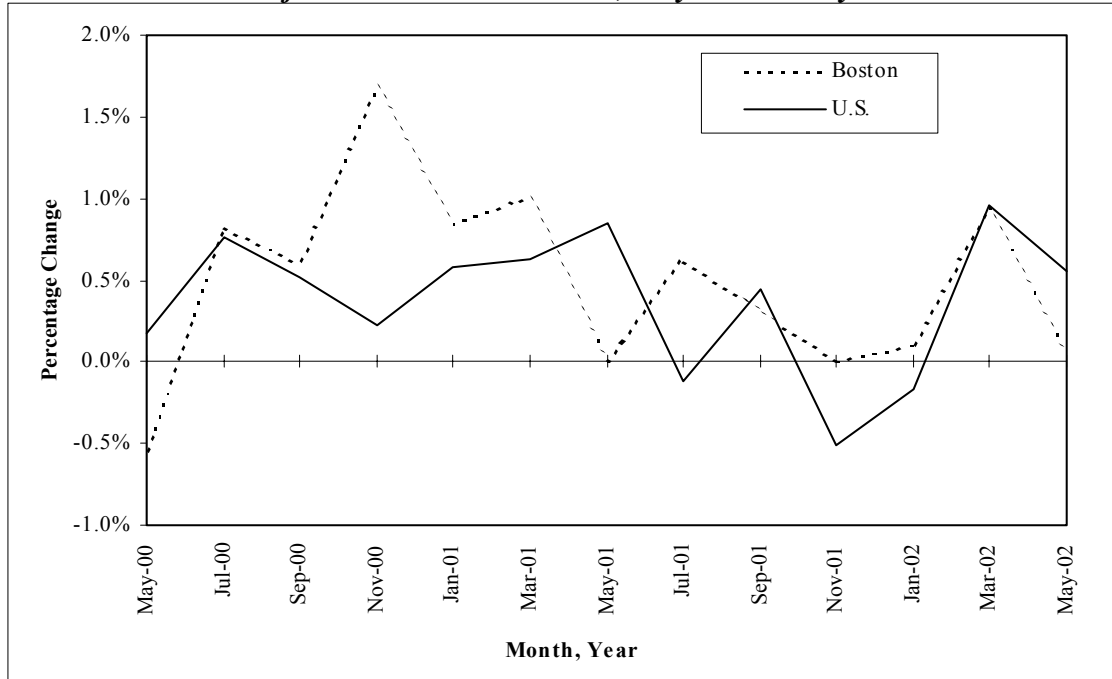
Consumer Prices. Higher income levels in Massachusetts relative to the rest of the United States are offset to some extent by the higher cost of living in Massachusetts. The following table presents consumer price trends for the Boston metropolitan area and the United States for the period between 1970 and 2001. Data reflect changes to methodology made by the Bureau of Labor Statistics in January 1998 and indicate the Consumer Price Index for all urban consumers (CPI-U) and the percentage change in the Consumer Price Index for all urban consumers from the previous year. In 2001, the CPI-U for Boston increased 4.3 percent compared to an increase of 2.8 percent for the United States as a whole. The latest available data for May 2002 show that the CPI-U for the Boston metropolitan area grew at a rate of 2.0 percent from May 2001 compared with 1.2 percent for the U.S.

Consumer Price Index for all Urban Consumers (CPI-U), 1970-2001
(1982-1984=100)

<i>Year</i>	<i>Boston</i>		<i>U.S.</i>	
	<i>CPI-U</i>	<i>Pct. Change</i>	<i>CPI-U</i>	<i>Pct. Change</i>
1970	40.2		38.8	
1971	42.2	5.0%	40.5	4.4%
1972	43.7	3.6%	41.8	3.2%
1973	46.3	5.9%	44.4	6.2%
1974	51.2	10.6%	49.3	11.0%
1975	55.8	9.0%	53.8	9.1%
1976	60.0	7.5%	56.9	5.8%
1977	63.1	5.2%	60.6	6.5%
1978	66.4	5.2%	65.2	7.6%
1979	73.2	10.2%	72.6	11.3%
1980	82.6	12.8%	82.4	13.5%
1981	91.8	11.1%	90.9	10.3%
1982	95.5	4.0%	96.5	6.2%
1983	99.8	4.5%	99.6	3.2%
1984	104.7	4.9%	103.9	4.3%
1985	109.4	4.5%	107.6	3.6%
1986	112.2	2.6%	109.6	1.9%
1987	117.1	4.4%	113.6	3.6%
1988	124.2	6.1%	118.3	4.1%
1989	131.3	5.7%	124.0	4.8%
1990	138.9	5.8%	130.7	5.4%
1991	145.0	4.4%	136.2	4.2%
1992	148.6	2.5%	140.3	3.0%
1993	152.9	2.9%	144.5	3.0%
1994	154.9	1.3%	148.2	2.6%
1995	158.6	2.4%	152.4	2.8%
1996	163.3	3.0%	156.9	3.0%
1997	167.9	2.8%	160.5	2.3%
1998	171.7	2.3%	163.0	1.6%
1999	176.0	2.5%	166.6	2.2%
2000	183.6	4.3%	172.2	3.4%
2001	191.5	4.3%	177.1	2.8%
May-01	190.9		177.7	
May-02	194.8	2.0%	179.8	1.2%

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

***Bi-Monthly Percentage Change in Consumer Price Index
for all Urban Consumers, May 2000 – May 2002***



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

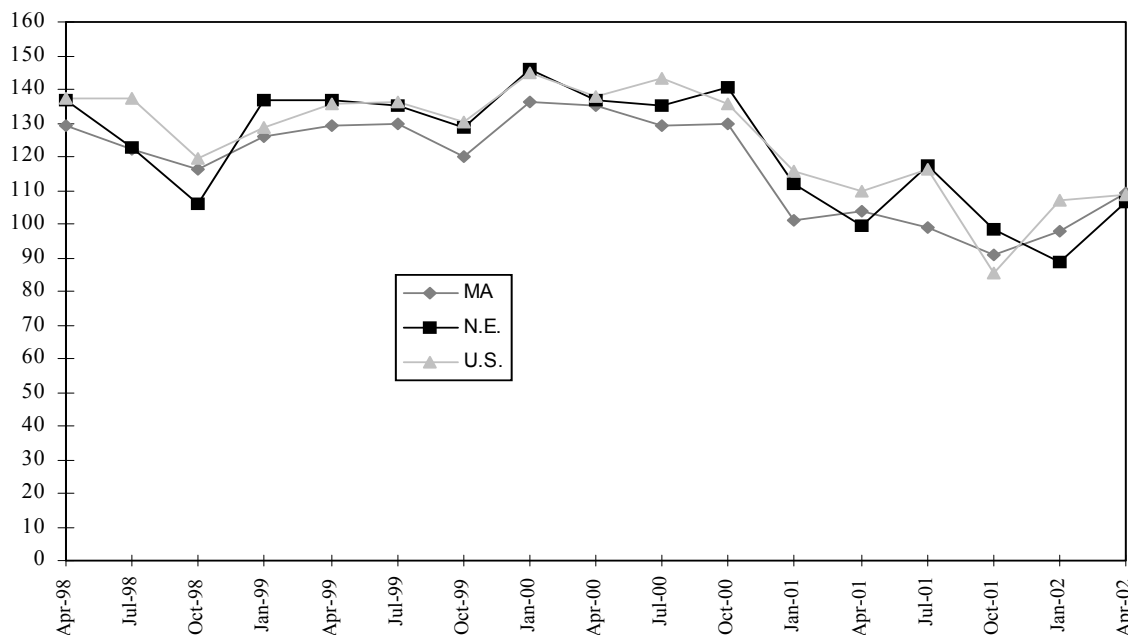
Consumer Confidence, Present Situation, and Future Expectations. These three measures offer different insight into consumer attitudes. The U.S. and New England measures are compiled from a national monthly survey of 5,000 households and are published by The Conference Board, Inc. The measures for Boston are conducted in a similar manner and published by the New England Economic Project (NEEP), based on the polling of 500 adult residents of Massachusetts. “Consumer confidence” is a measure of consumer optimism regarding overall economic conditions. “Future expectations” focuses on consumers’ attitudes regarding business conditions, employment, and employment income for the coming six months. “Present situation” measures the same attitudes as future expectations but at the time of the survey. Although the U.S. and the New England measures are compiled by a different source than the Boston measures, according to the Federal Reserve Bank of Boston the numbers are generally comparable. The following table and chart detail these three measures since 1998.

**Tri-Monthly Consumer Confidence, Present Situation, and Future Expectations
for Massachusetts, New England, and the U.S., 1998 – 2002**
(Not Seasonally Adjusted, except United States (1985=100))

	Consumer Confidence			Present Situation			Future Expectations		
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.
Apr-98	129.0	136.5	137.2	145.0	168.2	169.3	119.0	115.4	115.8
Jul-98	122.0	122.7	137.2	145.0	166.9	172.9	107.0	93.2	113.4
Oct-98	116.0	106.1	119.3	141.0	170.4	165.2	101.0	63.3	88.7
Jan-99	126.0	136.8	128.9	148.0	173.2	172.9	111.0	112.6	99.6
Apr-99	129.0	136.9	135.5	148.0	185.4	175.5	116.0	104.6	108.8
Jul-99	130.0	135.1	136.2	150.0	194.9	179.2	116.0	95.3	107.6
Oct-99	120.0	128.8	130.5	154.0	181.6	173.9	98.0	93.6	101.5
Jan-00	136.0	145.9	144.7	151.0	193.1	183.1	125.0	114.5	119.1
Apr-00	135.0	136.5	137.7	155.0	195.7	179.8	122.0	97.0	109.7
Jul-00	129.0	135.4	143.0	156.0	196.9	186.8	111.0	94.4	113.7
Oct-00	130.0	140.7	135.8	157.0	195.5	176.8	111.0	104.1	108.4
Jan-01	101.0	111.9	115.7	139.0	173.9	170.4	76.0	70.5	79.3
Apr-01	104.0	99.5	109.9	124.0	161.7	156.0	91.0	58.0	79.1
Jul-01	99.0	117.5	116.3	108.0	170.8	151.3	93.0	82.0	92.9
Oct-01	91.0	98.6	85.3	94.0	105.6	107.2	90.0	64.0	70.7
Jan-02	97.8	88.5	107.0	98.1	85.5	72.0	97.6	90.5	130.0
Apr-02	109.0	106.7	108.5	84.0	115.5	106.8	125.0	100.8	109.6

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

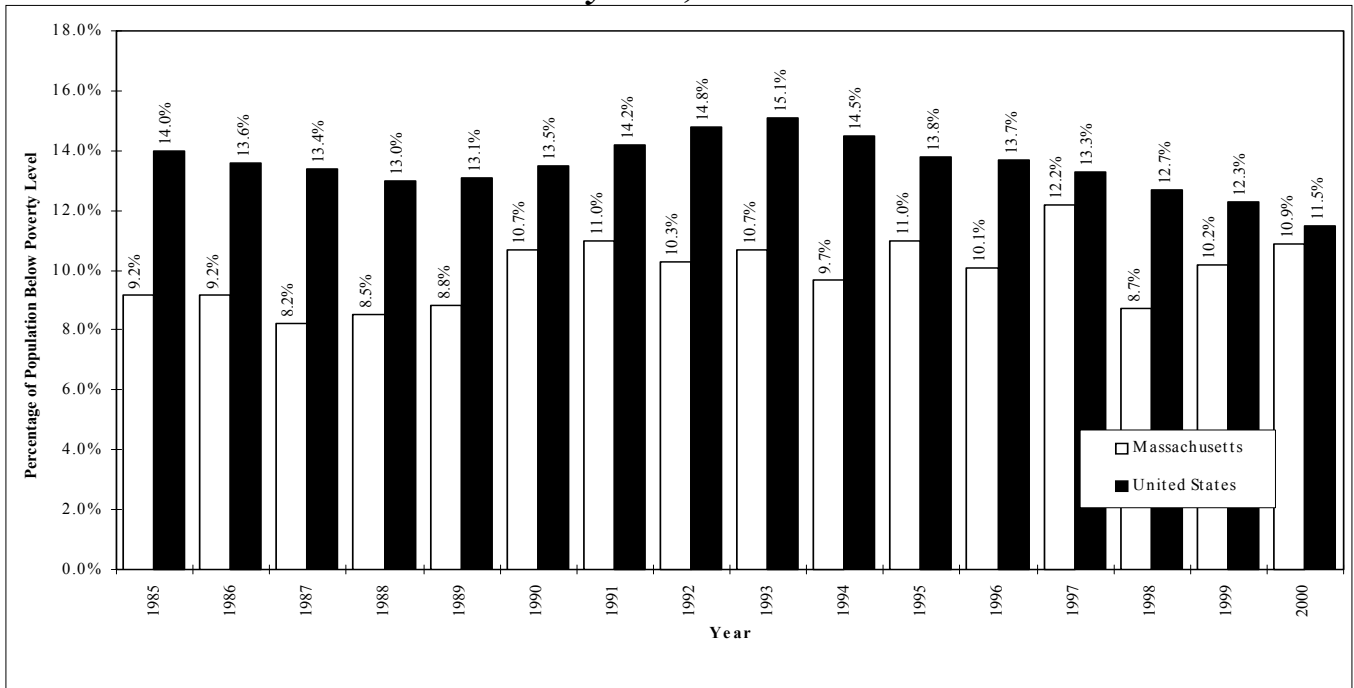
**Consumer Confidence for Massachusetts, New England, and the U.S.
April 1998 - April 2002**
(Not Seasonally Adjusted, except United States (1985=100))



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

Poverty. The Massachusetts poverty rate remains below the national average. Since 1980, the percentage of the Massachusetts population below the poverty line has varied between 7.7 percent and 11.7 percent. During the same time, the national poverty rate varied between the current 11.8 percent and 15.2 percent. In 1999, the poverty rate in Massachusetts jumped to 10.2 percent while the poverty rate in the United States declined slightly to 12.3 percent. Since 1980, the ratio of the Massachusetts rate of poverty to the United States rate of poverty has varied from a low of 0.51 in 1983 to 0.95 in 2000. These official poverty statistics are not adjusted for regional differences in the cost of living. The following chart and table illustrate both the overall lower poverty rates in Massachusetts (1985-2000) and the lower poverty rates for children (1995-1998) compared with the national average during similar periods.

Poverty Rate, 1985-2000



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

Estimates for Related Children, Age 5-17, in Families in Poverty for U.S. and Massachusetts, 1995-1998 (Small Area Income and Poverty Estimates)

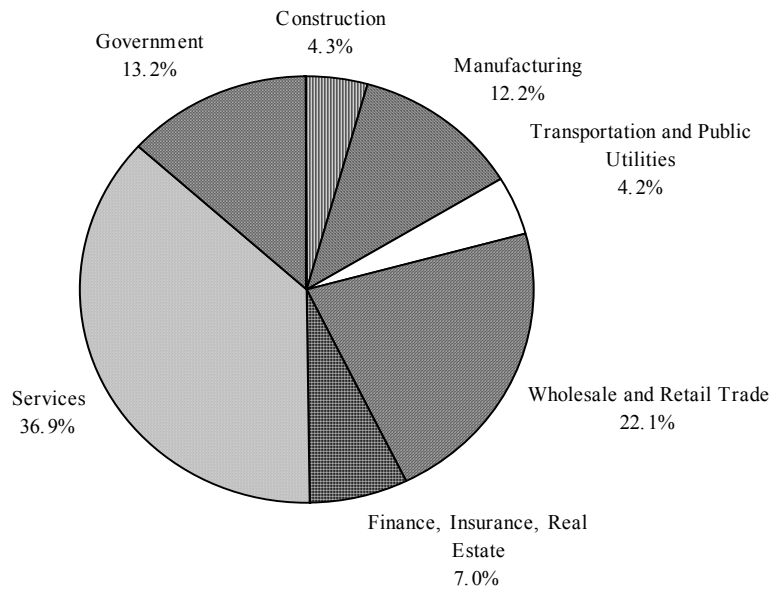
Year	MA	U.S.	Rank among states
1995	13.6%	18.7%	31st
1996	13.7%	18.6%	34th
1997	16.1%	18.4%	23rd
1998	14.4%	17.5%	29th

SOURCE: United States Department of Commerce, Bureau of the Census.
Note: Ranking begins with highest percentage and includes the District of Columbia.

EMPLOYMENT

Employment by Industry. The Massachusetts services sector, with 36.9 percent of the non-agricultural work force in May 2002(p), is the largest employment sector in the Massachusetts economy, followed by wholesale and retail trade (22.1 percent), government (13.2 percent), and manufacturing (12.2 percent). The following chart shows the distribution of non-agricultural employment by industry in Massachusetts for May 2002 (preliminary).

Massachusetts Non-Agricultural Employment by Industry, May 2002 (p)
(not seasonally adjusted)



SOURCE: Massachusetts Division of Employment and Training.

Between 1988 and 1992, total employment in Massachusetts declined 10.7 percent. The construction, manufacturing, and trade sectors experienced the greatest decreases during this time, with more modest declines taking place in the government and finance, insurance and real estate ("FIRE") sectors. The economic recovery that began in 1993 has been accompanied by increased employment levels; and between 1994 and 1997, total employment levels in Massachusetts have increased at yearly rates greater than 2.0 percent. In 2001, employment levels in all but two industries increased or remained constant. The most rapid growth in 2001 came in the construction sector and the FIRE sector, which grew at rates of 5.8 percent and 1.9 percent, respectively. Total non-agricultural employment in Massachusetts grew at a rate of 0.3 percent in 2001.

The following table shows the changes in employment by sector from 1983 through 2001.

Massachusetts Non-Agricultural Employment by Industry, 1983-2001
(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
1983	82.6		629.0		118.2		612.7		171.8		705.8		375.4		2696.5	
1984	96.4	16.7%	667.6	6.1%	123.3	4.3%	659.1	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	80.1	8.8%	454.8	-2.3%	124.0	2.1%	648.4	1.2%	201.5	2.4%	942.8	3.2%	387.5	1.3%	2840.2	1.6%
1994	86.0	7.4%	447.2	-1.7%	127.4	2.7%	669.4	3.2%	206.9	2.7%	975.7	3.5%	390.0	0.6%	2903.8	2.2%
1995	89.8	4.4%	446.1	-0.2%	127.0	-0.3%	687.2	2.7%	205.3	-0.8%	1024.9	5.0%	395.1	1.3%	2976.6	2.5%
1996	94.0	4.7%	444.7	-0.3%	129.1	1.7%	695.1	1.1%	208.2	1.4%	1063.2	3.7%	400.0	1.2%	3035.4	2.0%
1997	100.3	6.7%	447.9	0.7%	132.9	2.9%	706.9	1.7%	212.2	1.9%	1103.1	3.8%	404.6	1.2%	3118.7	2.7%
1998	108.4	8.1%	448.2	0.1%	136.5	2.7%	720.8	2.0%	218.3	2.9%	1133.6	2.8%	411.6	1.7%	3178.6	1.9%
1999	119.2	10.0%	433.6	-3.3%	139.7	2.3%	734.9	2.0%	226.3	3.7%	1163.9	2.7%	417.4	1.4%	3236.8	1.8%
2000	129.2	8.4%	437.3	0.9%	144.2	3.2%	744.1	1.3%	228.3	0.9%	1214.2	4.3%	424.5	1.7%	3323.3	2.7%
2001	136.7	5.8%	423.5	-3.2%	144.7	0.3%	739.7	-0.6%	232.6	1.9%	1227.5	1.1%	428.7	1.0%	3334.9	0.3%

SOURCE: Massachusetts Division of Employment and Training. Annual averages of monthly figures. Data are subject to revision.

The following table presents changes in non-agricultural employment by sector between May 2001 and May 2002. Total non-agricultural employment declined by 1.3 percent during that period.

Massachusetts Non-Agricultural Employment by Industry, May 2001-May 2002 (p)
(in thousands)

Employment Sector	May 2001	Pct. of Total	May 2002	Pct. of Total	Pct. Change May 2001-May 2002
Mining	1.5	0.0%	1.6	0.0%	6.7%
Construction	138.8	4.1%	142.8	4.3%	2.9%
Manufacturing	425.8	12.7%	402.8	12.2%	-5.4%
Transportation and Public Utilities	147.6	4.4%	140.3	4.2%	-4.9%
Wholesale and Retail Trade	736.8	22.0%	731.3	22.1%	-0.7%
Finance, Insurance, Real Estate	231.5	6.9%	232.3	7.0%	0.3%
Services	1236.7	36.8%	1223.7	36.9%	-1.1%
Government	438.0	13.0%	437.0	13.2%	-0.2%
Total Employment	3,356.7	100.0%	3,311.8	100.0%	-1.3%

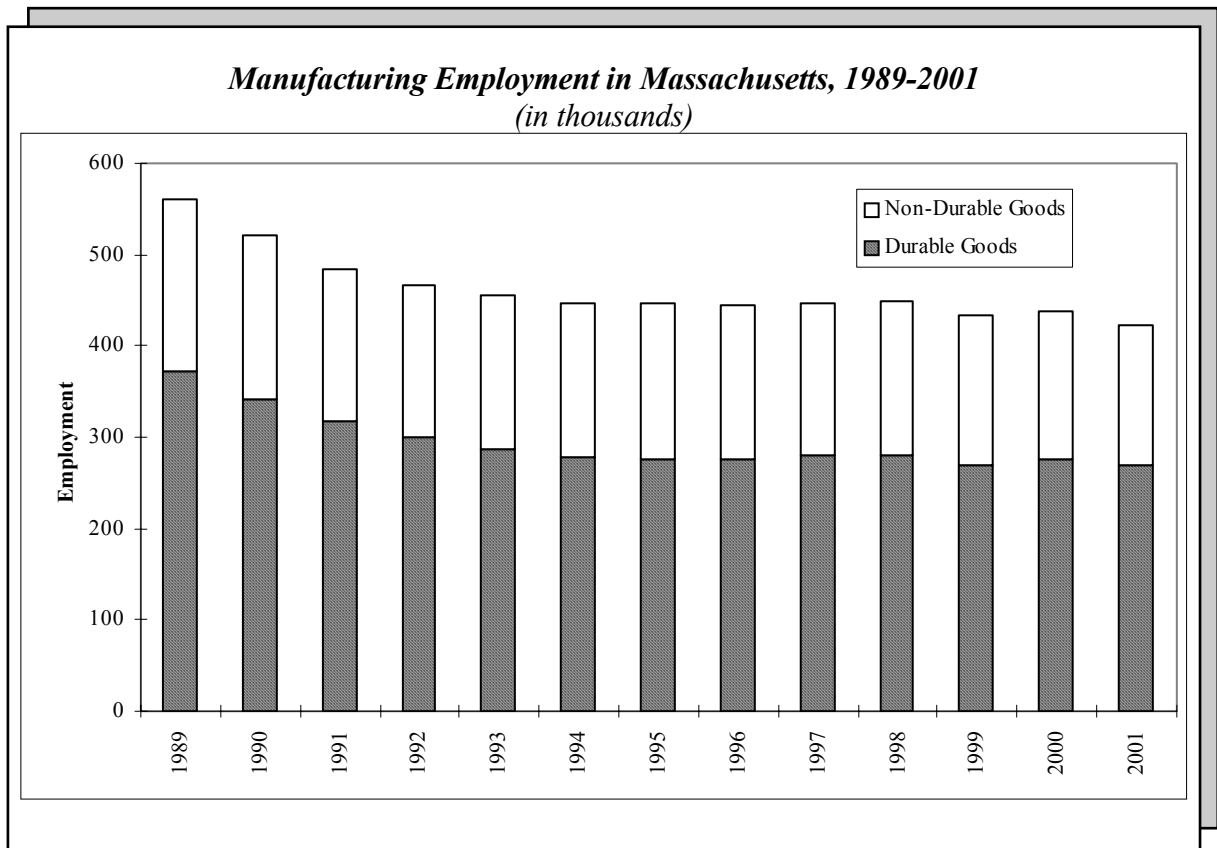
SOURCE: Massachusetts Division of Employment and Training.

Notes: 2002 figures are preliminary and subject to revision. Sum of the parts may not equal totals due to rounding. Figures are not seasonally adjusted.

Services Employment. The services sector is the largest sector in the Massachusetts economy in terms of number of employees. This sector includes the categories of health services, business services, educational services, engineering and management services, and social services. After moderate declines in 1990 and 1991, employment levels in the services sector reached consecutive new highs in each year between 1993 and 2001. Between May 2001 and May 2002, the services sector saw a decrease in employment of 1.1 percent, and in May 2002, services sector employment (not seasonally adjusted) was 1,223,700, representing 36.9 percent of total non-agricultural employment.

Wholesale and Retail Trade Employment. 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 has increased in eight of the last nine years. In May 2002, wholesale and retail trade was the second largest employment sector in Massachusetts with 731,300 employees, 0.7 percent below May 2001 levels.

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 declined in every year between 1984 and 1996, falling a total of 33.4 percent. Recent growth rates have fluctuated with 1997, 1998, and 2000 showing small improvements and 1999 and 2001 showing the largest declines since 1992. Between May 2001 and May 2002, manufacturing employment declined 5.4 percent.



Manufacturing Establishment Employment by Industry in Massachusetts, 1989-2001
(selected industries, in thousands)

Industry	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Durable Goods	372.1	342.7	317.0	299.6	287.0	278.2	276.3	276.8	279.7	281.1	269	274.9	269.0
Percentage Change	-4.1%	-7.9%	-7.5%	-5.5%	-4.2%	-3.1%	-0.7%	0.2%	1.0%	0.5%	-4.3%	2.2%	-2.1%
Primary Metals	12.3	11.3	10.3	9.3	9.1	9.2	9.6	10.2	10.5	10.1	9.8	10.3	9.60
Fabricated Metals	43.2	40.9	37.9	36.2	35.6	35.8	36.6	36.4	37.0	36.8	34.8	34.9	32.50
Industrial Machinery	95.8	85.2	76.6	72.5	67.3	63.6	63.4	64.2	64.4	64.9	60.4	62.4	61.80
Electronic & Elec. Equip.	79.3	72.9	68.5	63.9	59.9	59.5	60.2	60.9	62.1	62.4	61.1	65	64.00
Transportation Equip.	30.6	27.8	26.0	24.1	21.9	19.2	18.3	18.8	19.2	19.4	18.1	16.8	15.80
Stone, Clay, & Glass	10.0	8.7	7.8	7.9	8.0	8.1	8.3	8.2	8.5	8.9	8.9	9.2	9.00
Instruments	71.2	69.4	65.6	61.6	60.4	57.8	55.0	53.9	53.4	53.6	50.3	50.7	51.80
Non-Durable Goods	189.0	178.6	168.0	166.1	168.1	168.9	169.7	167.9	168.1	167.1	164.6	162.4	154.5
Percentage Change	-3.8%	-5.5%	-5.9%	-1.1%	1.2%	0.5%	0.5%	-1.1%	0.1%	-0.6%	-1.5%	-1.3%	-4.9%
Apparel	22.0	19.2	17.7	17.7	17.2	16.8	16.0	15.1	14.1	13.1	11.4	10.4	9.2
Food & Kindred Prod.	20.5	20.1	19.6	19.3	19.8	20.3	21.1	21.7	21.7	21.9	22.0	21.7	21.8
Chemicals	18.4	17.7	17.3	16.5	16.9	16.3	16.0	17	17.4	17.8	18.1	18.0	17.9
Printing & Publishing	55.0	52.2	48.9	47.3	47.5	48.0	49.0	48.6	8.9	49.3	49.8	50.3	48.1
Textile Mill Prod.	15.5	14.6	14.1	14.6	15.1	15.4	15.2	14.8	14.5	14.0	13.0	12.9	11.8
Paper & Allied Prod.	23.4	22.5	21.1	20.7	20.3	19.9	19.8	19.3	19.4	19.4	19.3	19.1	18.3
Rubber & Misc. Plastics	25.3	23.8	22.1	22.9	24.4	25.3	26.4	25.7	26.6	27.0	26.9	26.3	24.1
Total Man. Employ.	561.1	521.3	485.0	465.7	455.1	447.2	446.1	444.7	447.9	448.2	433.6	437.3	423.5
Percentage Change	-4.0%	-7.1%	-7.0%	-4.0%	-2.3%	-1.7%	-0.2%	-0.3%	0.7%	0.1%	-3.3%	0.9%	-3.2%

SOURCE: Massachusetts Division of Employment and Training.

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

Government Employment. Federal, state, and local government employment declined 0.2 percent over the last year and employed 437,000 workers in May 2002, which accounted for 13.2 percent of total non-agricultural employment in Massachusetts.

Finance, Insurance, and Real Estate Employment. While the Finance, Insurance and Real Estate sector experienced 23.7 percent growth in employment between 1984 and 1988, there was an 11.2 percent decline in employment between 1988 and 1992. Since that time, the sector has experienced modest annual growth rates. With an increase of 2.2 percent in 1998 and a 3.7 increase in 1999, employment levels in this sector rose above 1988 levels for the first time. As of May 2002, total employment in the FIRE sector was 232,300, an increase of 0.3 percent from May 2001.

Construction Employment. 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, when employment in the construction industry declined nearly 50 percent. Increased economic growth in the Massachusetts economy since 1993 has contributed to a rebound in employment levels in the construction industry, which grew at annual rates in excess of 4 percent between 1993 and 2001. In May 2002, the construction sector employed 142,800 people, an increase of 2.9 percent over May 2001 levels.

Largest Employers in Massachusetts. The following table lists the twenty-five largest employers in Massachusetts based upon employment data for June 2001. The compiled list excludes government agencies

but does include non-profit organizations. New to this list is the Children's Hospital Corporation which replaces the Marsh & McLennan Company.

***Twenty-five Largest Massachusetts Employers in June 2001
(Listed Alphabetically)***

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

SOURCE: Massachusetts Division of Employment and Training.

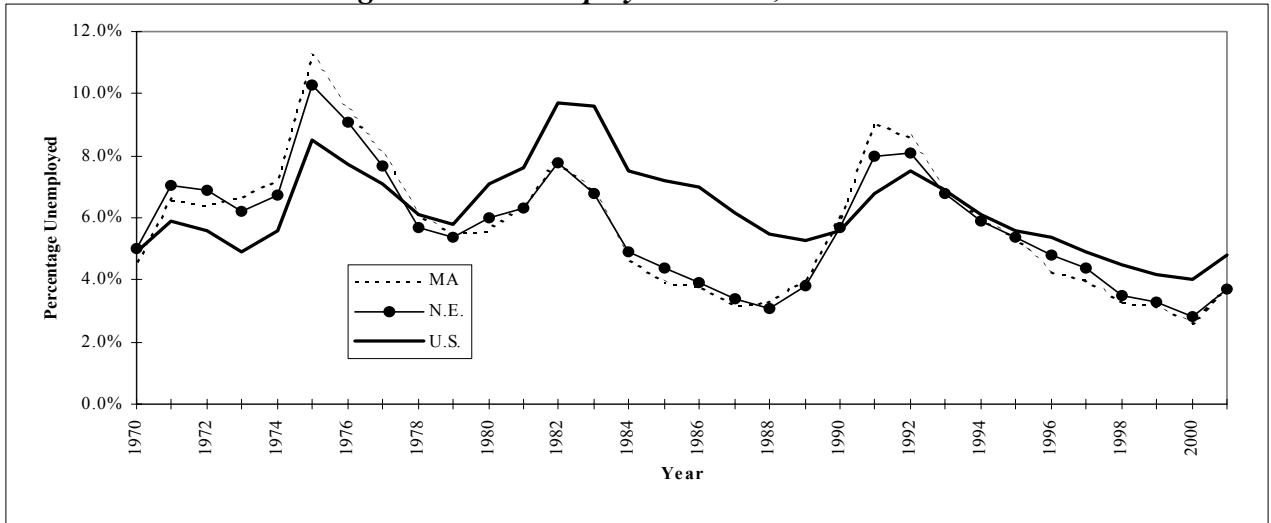
Unemployment. While the Massachusetts unemployment rate was significantly lower than the national average between 1979 and 1989, the economic recession of the early 1990s caused unemployment rates in Massachusetts to rise significantly above the national average. However, the economic recovery that began in 1993 has caused unemployment rates in Massachusetts to decline faster than the national average. As a result, since 1994 the unemployment rate in Massachusetts has been below the national average. 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 2001.

Annual Average Civilian Labor Force and Unemployment, 1970-2001
(in thousands)

Year	Civilian Labor Force			Unemployed			Unemployment Rate			MA Rate as Pct. of U.S.
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.	
1970	2,458	5,129	82,771	114	256	4,093	4.6%	5.0%	4.9%	93.9%
1971	2,447	5,157	84,382	161	364	5,016	6.6%	7.1%	5.9%	111.9%
1972	2,475	5,261	87,034	160	363	4,882	6.4%	6.9%	5.6%	114.3%
1973	2,549	5,387	89,429	171	336	4,365	6.7%	6.2%	4.9%	136.7%
1974	2,622	5,512	91,949	189	369	5,156	7.2%	6.7%	5.6%	128.6%
1975	2,700	5,634	93,775	306	581	7,929	11.2%	10.3%	8.5%	131.8%
1976	2,727	5,717	96,158	259	519	7,406	9.5%	9.1%	7.7%	123.4%
1977	2,753	5,816	99,009	223	447	6,991	8.1%	7.7%	7.1%	114.1%
1978	2,816	5,908	102,251	171	340	6,202	6.1%	5.7%	6.1%	100.0%
1979	2,871	6,100	104,962	159	332	6,137	5.5%	5.4%	5.8%	94.8%
1980	2,867	6,167	106,940	162	367	7,637	5.6%	6.0%	7.1%	78.9%
1981	2,947	6,260	108,670	187	397	8,273	6.4%	6.3%	7.6%	83.4%
1982	2,993	6,339	110,204	237	495	10,678	7.9%	7.8%	9.7%	81.3%
1983	2,977	6,365	111,550	205	434	10,717	6.9%	6.8%	9.6%	71.5%
1984	3,047	6,549	113,544	145	318	8,539	4.8%	4.9%	7.5%	63.5%
1985	3,051	6,632	115,461	120	292	8,312	3.9%	4.4%	7.2%	54.2%
1986	3,056	6,721	117,834	118	265	8,237	3.8%	3.9%	7.0%	54.3%
1987	3,086	6,829	119,865	99	229	7,425	3.2%	3.4%	6.2%	51.8%
1988	3,155	6,914	121,669	103	216	6,701	3.3%	3.1%	5.5%	60.1%
1989	3,180	6,998	123,869	127	269	6,528	4.0%	3.8%	5.3%	76.2%
1990	3,228	7,147	125,840	195	408	7,047	6.0%	5.7%	5.6%	107.1%
1991	3,162	7,082	126,346	286	569	8,628	9.1%	8.0%	6.8%	133.8%
1992	3,145	7,057	128,105	269	568	9,613	8.6%	8.1%	7.5%	114.7%
1993	3,164	7,025	129,200	219	479	8,940	6.9%	6.8%	6.9%	100.0%
1994	3,173	6,964	131,056	191	412	7,996	6.0%	5.9%	6.1%	98.4%
1995	3,164	6,955	132,304	170	373	7,404	5.4%	5.4%	5.6%	96.4%
1996	3,174	6,996	133,943	137	335	7,236	4.3%	4.8%	5.4%	79.6%
1997	3,260	7,121	136,297	131	314	6,739	4.0%	4.4%	4.9%	81.6%
1998	3,273	7,113	137,673	109	250	6,210	3.3%	3.5%	4.5%	73.3%
1999	3,275	7,171	139,368	105	236	5,880	3.2%	3.3%	4.2%	76.2%
2000	3,237	7,194	140,863	86	199	5,655	2.6%	2.8%	4.0%	65.0%
2001	3,284	7,212	141,815	121	264	6,742	3.7%	3.7%	4.8%	77.1%

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

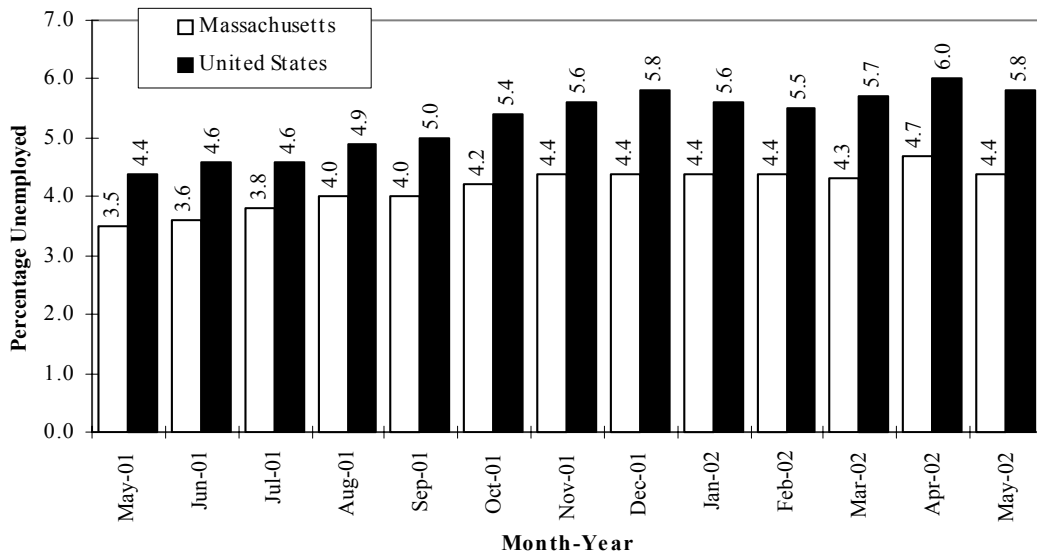
Average Annual Unemployment Rate, 1970-2001



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

The unemployment rate in Massachusetts has been consistently below that of the United States over the past twelve months. Unemployment levels in the United States as a whole and in the New England region have shown similar patterns in the last year. The unemployment rate in Massachusetts increased from 3.5 percent in May of 2001 to 4.4 percent in May of 2002, and the United States unemployment rate also increased from 4.4 percent to 5.8 percent between these same months. The following chart shows the unemployment rates for Massachusetts and the United States for each of the past twelve months.

Monthly Unemployment Rate, May 2001—May 2002 (seasonally adjusted)



SOURCE: Massachusetts Division of Employment and Training.

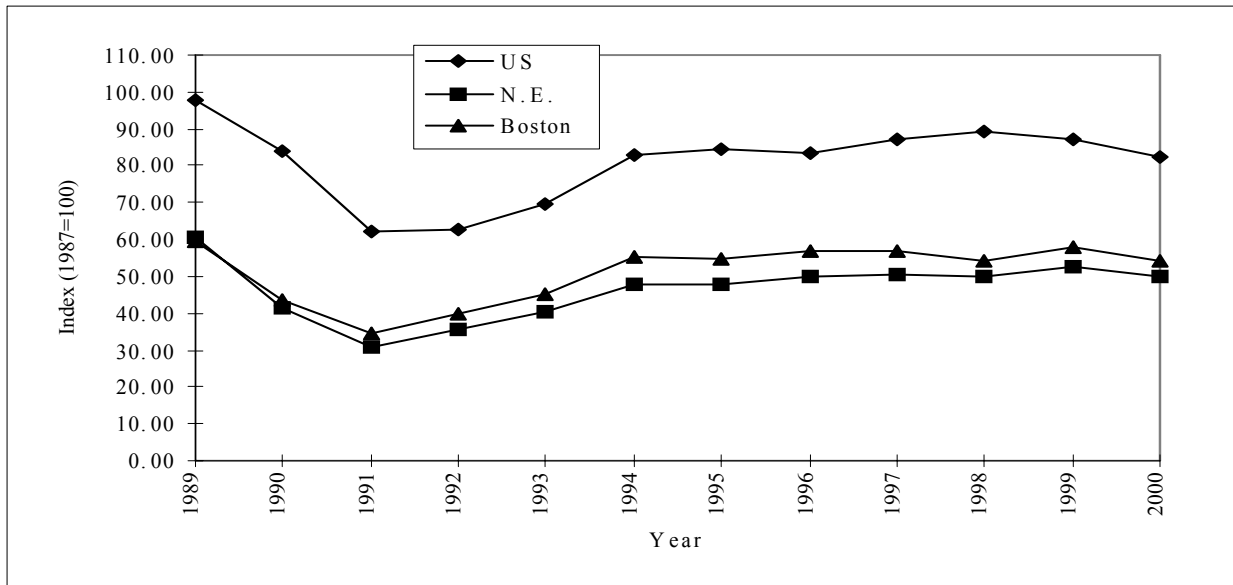
Help Wanted Advertising Index, 1989-2000

	US	% Change	N.E.	% Change	Boston	% Change
1989	98.00		60.83		59.50	
1990	83.83	-14.46%	41.50	-31.78%	43.50	-26.89%
1991	62.00	-26.04%	31.00	-25.30%	34.67	-20.31%
1992	62.50	0.81%	35.75	15.32%	39.92	15.14%
1993	69.42	11.07%	40.25	12.59%	45.42	13.78%
1994	82.92	19.45%	48.08	19.46%	55.42	22.02%
1995	84.25	1.61%	47.75	-0.69%	54.50	-1.65%
1996	83.17	-1.29%	49.75	4.19%	56.83	4.28%
1997	87.00	4.61%	50.58	1.68%	56.67	-0.29%
1998	89.42	2.78%	50.00	-1.15%	54.00	-4.71%
1999	87.25	-2.42%	52.42	4.83%	57.83	7.10%
2000	82.42	-5.54%	50.00	-4.61%	54.08	-6.49%
Dec-00	79.00		50.00		57.00	
Dec-01	47.00	-40.51%	30.00	-40.00%	34.00	-40.35%

SOURCE: The Conference Board, Inc.

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

Help Wanted Advertising Index, 1989-2000



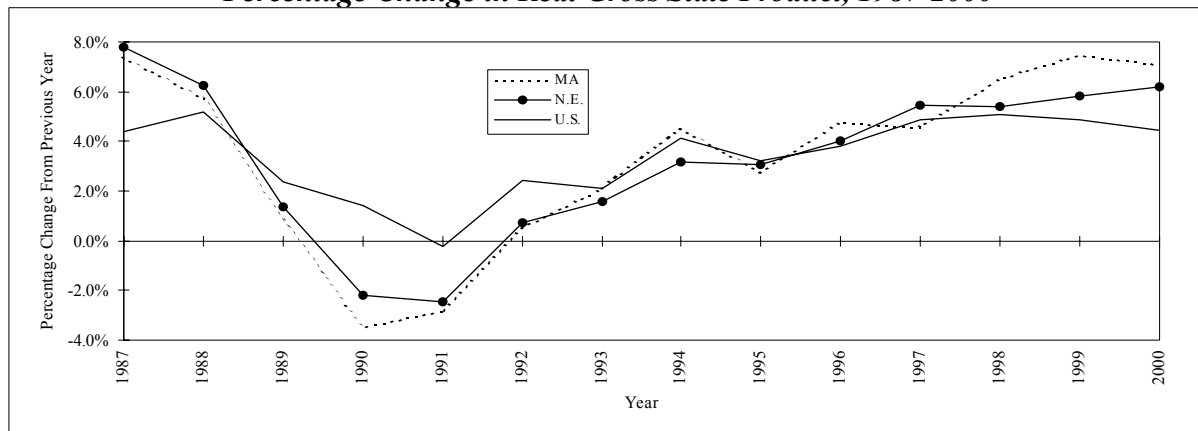
SOURCE: The Conference Board, Inc.

Unemployment Compensation Trust Fund. The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide for the payment of benefits to eligible individuals when they are unemployed through no fault of their own. Benefits are paid from the Commonwealth's Unemployment Compensation Trust Fund, financed through employer contributions. The assets and liabilities of the Commonwealth Unemployment Compensation Trust Fund are not assets and liabilities of the Commonwealth. As of May 31, 2002, the private contributory sector of the Massachusetts Unemployment Trust Fund had a surplus of \$1.446 billion, and the Division of Employment and Training's April 2002 quarterly report indicates that the contributions provided by current law should result in trust fund system reserves of \$1.503 billion by the end of 2006.

ECONOMIC BASE AND PERFORMANCE

In 1987 and 1988, the economies of Massachusetts and New England were among the strongest performers in the nation, with growth rates considerably higher than those for the national economy as a whole. Between 1989 and 1992, however, Massachusetts and New England experienced growth rates significantly below the national average. From 1992 to 1997, growth rates in Massachusetts and New England tracked the U.S. growth rate quite closely. In 1999 and 2000, the economies of both the Commonwealth and the region grew at a faster pace than the nation as a whole. However, both the U.S. and Massachusetts experienced slower growth in 2000 than in 1999, while New England's growth accelerated. Over the last decade, growth of the Massachusetts economy has averaged 3.8 percent, while New England and the nation have experienced average growth of 3.3 percent and 3.5 percent, respectively. The Massachusetts economy is the largest in New England, making up an average of 47.6 percent of New England's total Gross State Product and an average of 2.7 percent of the nation's economy over the past decade.

Percentage Change in Real Gross State Product, 1987-2000



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

Gross State Product, 1986-2000
(millions of chained 1996 dollars)

Year	Massachusetts		New England		United States	
	GSP	Percentage Change	GSP	Percentage Change	Total GSP	Percentage Change
1986	\$169,338		\$350,747		\$5,816,661	
1987	181,855	7.4%	378,136	7.8%	6,072,815	4.4%
1988	192,255	5.7%	401,698	6.2%	6,386,132	5.2%
1989	193,839	0.8%	407,229	1.4%	6,538,634	2.4%
1990	187,125	-3.5%	398,368	-2.2%	6,630,740	1.4%
1991	181,855	-2.8%	388,577	-2.5%	6,615,685	-0.2%
1992	182,789	0.5%	391,385	0.7%	6,774,505	2.4%
1993	186,680	2.1%	397,470	1.6%	6,918,388	2.1%
1994	195,171	4.5%	410,014	3.2%	7,203,002	4.1%
1995	200,537	2.7%	422,524	3.1%	7,433,965	3.2%
1996	210,127	4.8%	439,596	4.0%	7,715,901	3.8%
1997	219,716	4.6%	463,498	5.4%	8,093,396	4.9%
1998	233,981	6.5%	488,637	5.4%	8,502,663	5.1%
1999	251,482	7.5%	517,174	5.8%	8,915,954	4.9%
2000	269,308	7.1%	549,304	6.2%	9,314,279	4.5%

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

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

The commercial base of Massachusetts is anchored by the thirteen 2002 *Fortune* 500 industrial and service firms with headquarters within the state, as the following table indicates. The *Fortune* 500 firms are ranked according to total revenues in 2001.

Massachusetts Companies in the 2002 Fortune 500, By Rank				
2002	2001	Company	Industry	2001 revenues (in millions)
104	173	Mass. Mutual Life Insurance (Springfield)	Insurance: Life and Health (Mutual)	\$19,340
106	80	Fleet (Boston)	Commercial Banks	19,190
119	82	Raytheon (Lexington)	Aerospace	16,867
142	111	Liberty Mutual Group (Boston)	Insurance: Property and Casualty (Mutual)	14,256
178	192	Staples (Framingham)	Specialty Retailers	10,744
179	196	TJX (Framingham)	Specialty Retailers	10,709
209	233	John Hancock Financial Services (Boston)	Insurance: Life and Health (Stock)	9,361
240	172	Gillette (Boston)	Metal Products	8,084
263	260	EMC (Hopkinton)	Computer Peripherals	7,091
313	345	State Street Boston Corp. (Boston)	Commercial Banks	5,637
331	377	BJ's Wholesale Club (Natick)	Specialty Retailers	5,278
471	440	Allmerica Financial (Worcester)	Insurance: Property and Casualty (Stock)	3,312
481	N/A	Nstar (Boston)	Utilities: Gas & Electric	3,192

Source: *Fortune*, April 15, 2002.

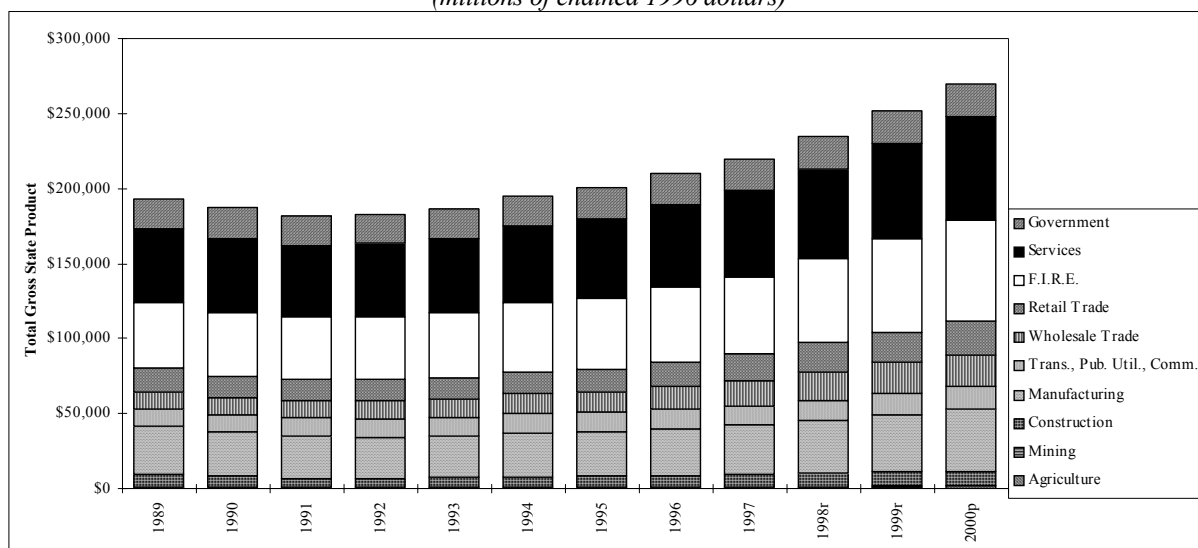
All but one of the companies listed in the 2001 *Fortune* 500 are also on the 2002 list, with Thermo Electron dropping off the list to number 522 while Nstar ascended to number 481. Fleet Bank lost its top ranking in Massachusetts as Mass. Mutual's revenues increased by \$8 billion to vault the company into the leading slot.

Along with the thirteen 2002 *Fortune* 500 companies with headquarters in Massachusetts, five of *Fortune's* 2001 Top 100 fastest growing companies in the country are based in Massachusetts. Three Massachusetts companies entered this ranking, released in September of 2001. They are Affiliated Managers Group in Boston, ranked 23rd, Zoll Medical in Burlington, ranked 35th, and Act Manufacturing in Hudson, ranked 55th. Two companies from the 2000 ranking remain on the list for 2001. They are Polymedica in Woburn, which dropped from 30th to 74th, and Biogen in Cambridge, which dropped from 69th to 98th. The 2001 *Fortune* Top 100 firms are ranked according to annual growth rates in earnings per share, revenue, and total return in stock price.

Economic Base and Performance – Sector Detail

The economy of Massachusetts remains diversified among several industrial and non-industrial sectors. The three largest sectors of the economy contributed roughly the same percentage of the total Massachusetts Gross State Product in 2000 as they did in 1989. In 2000, the three largest sectors of the Massachusetts economy (services, F.I.R.E., and manufacturing) contributed 65.6 percent of the total Massachusetts Gross State Product while the remaining seven sectors contributed 34.4 percent. In 1990, these same three largest sectors contributed 64.5 percent of the total Massachusetts Gross State Product. The data below show the contributions to the Massachusetts real Gross State Product of several industrial and non-industrial sectors.

Sector Composition of Massachusetts Gross State Product, 1989-2000
(millions of chained 1996 dollars)



SOURCE: United States Department of Commerce, Bureau of Economic Analysis. (p=preliminary; r=revised 06/02)

Gross State Product by Industry in Massachusetts, 1990-2000
(millions of chained 1996 dollars)

Industrial Sector	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998(r)	1999(r)	2000(p)
Ag., Forestry, Fishing	\$1,269	\$1,210	\$1,231	\$1,173	\$1,194	\$1,124	\$1,098	\$1,143	\$1,280	\$1,263	\$1,371	\$1,454
Mining	86	71	74	99	94	107	97	94	82	88	79	94
Construction	8,497	6,832	5,655	5,696	6,130	6,753	6,933	7,477	8,026	8,780	9,576	10,271
Manufacturing	32,078	29,620	28,344	27,281	27,402	28,789	29,835	30,687	32,813	35,486	37,906	40,752
Trans., Util., Comm.	10,676	11,295	12,062	11,940	12,621	13,035	12,683	13,334	13,063	13,245	14,207	15,284
Wholesale Trade	12,130	11,461	11,706	12,457	12,548	13,367	13,645	15,100	16,677	19,131	20,887	21,507
Retail Trade	15,832	14,619	13,673	13,791	13,996	14,695	15,163	16,591	17,683	19,228	20,414	22,296
F.I.R.E.	43,511	42,293	41,881	42,213	43,415	46,077	47,742	49,536	51,595	56,158	62,564	67,115
Services	48,819	48,841	47,421	48,822	49,610	51,261	53,055	55,508	57,576	59,717	62,993	68,734
Government	20,299	20,749	19,646	19,285	19,690	19,969	20,315	20,657	20,968	21,135	21,838	22,080
Total GSP	\$193,839	\$187,167	\$181,901	\$182,789	\$186,680	\$195,171	\$200,537	\$210,127	\$219,716	\$233,981	\$251,482	\$269,308

SOURCE: United States Department of Commerce, Bureau of Economic Analysis. (p=preliminary; r=revised 06/02)

Services. The services sector remains the largest contributor to the Massachusetts Gross State Product, comprising 25.5 percent of the Commonwealth's Gross State Product in 2000. After a period of stagnation and slight decline from 1989 to 1991, the sector has grown in every year since then. Growth accelerated strongly in 1999 and 2000, with respective yearly growth rates of 5.5 percent and 9.1 percent. Much of this growth is due to a rapid rise in business services, which now account for 29.5 percent of all services, and 7.5 percent of GSP. Health services ranks second with a 23.6 percent share of the service sector and 6.0 percent of GSP.

Finance, Insurance, Real Estate. The FIRE sector has been the second largest contributor to the Massachusetts Gross State Product over the last decade. In 2000, it contributed 24.0 percent of the Gross State Product. The sector has experienced yearly growth since the declines of 1989 to 1991, and accelerated growth from 1997 to 1999, when growth peaked at 11.4 percent. In 2000, FIRE was up 7.3 percent over 1999.

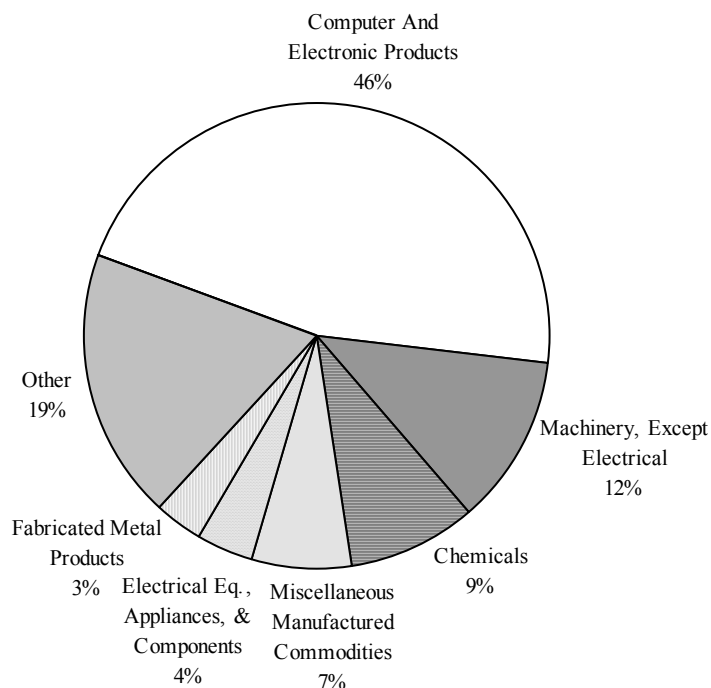
Manufacturing. The manufacturing sector was the third largest contributor to the Massachusetts Gross State Product in 2000, contributing 15.2 percent of the Gross State Product. Manufacturing in New England was hit hard during the recession of 1989-1991, and posted only moderate growth during the mid-nineties. From 1997 to 2000, however, the manufacturing sector has grown at least 6.9 percent annually, including a gain of 7.5 percent in 2000.

Wholesale and Retail Trade. Taken together, the wholesale and retail trade sectors contributed 16.4 percent of the Massachusetts Gross State Product in 2000, with each sub-sector contributing almost equally to the total. Growth in the wholesale trade sector rebounded in 1991 and varied through the early 1990s but was very strong in the 1996, 1997, and 1998 with rates of 10.7 percent, 10.4 percent, and 14.7 percent, respectively. Wholesale sector growth tapered to 9.2 percent in 1999 and 3.0 percent in 2000. The retail sector was harder hit during the recession, and did not rebound as quickly, with growth not exceeding 1.5 percent until 1994. In the last five years, however, retail growth has ranged from 6.2 percent to 9.4 percent, including strong growth of 9.2 percent in 2000.

Trade and International Trade. A significant portion of what Massachusetts produces is exported internationally. Massachusetts ranked tenth in the United States, and first in New England, with \$17.5 billion in international exports in 2001. This represents a 14.7 percent decrease from the previous year's exports from the Commonwealth, while national exports decreased by 6.3 percent in the same period. In the first quarter of 2002, Massachusetts exports totaled \$3.8 billion, a decrease of 24.2 percent over exports in the first quarter of 2001. National exports were down 15.1 percent in the same period. It is not possible to provide balance of trade comparisons for Massachusetts because import data are not compiled on a state-by-state basis.

Massachusetts' most important exports, as shown in the following chart, are computer and electronic products, non-electrical machinery, and chemical products. It should be noted that these categories reflect a newer industrial classification system which groups computers with electronic products, rather than with machinery.

Composition of Massachusetts Exports by Industry Group, 2000



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

Massachusetts' five most important trading partners for 2001 were: Canada, which purchased \$2.84 billion worth of products; Japan, which purchased \$1.96 billion; the United Kingdom, which bought \$1.85 billion; Germany, which purchased \$1.40 billion; and France, which bought \$0.86 billion worth of products. Between 2000 and 2001, the most significant growth in Massachusetts exports among its top ten trading partners was in exports to Germany and Ireland, which increased 2.5 percent and 5.36 percent, respectively.

Value of International Shipments from Massachusetts, 1997-2001

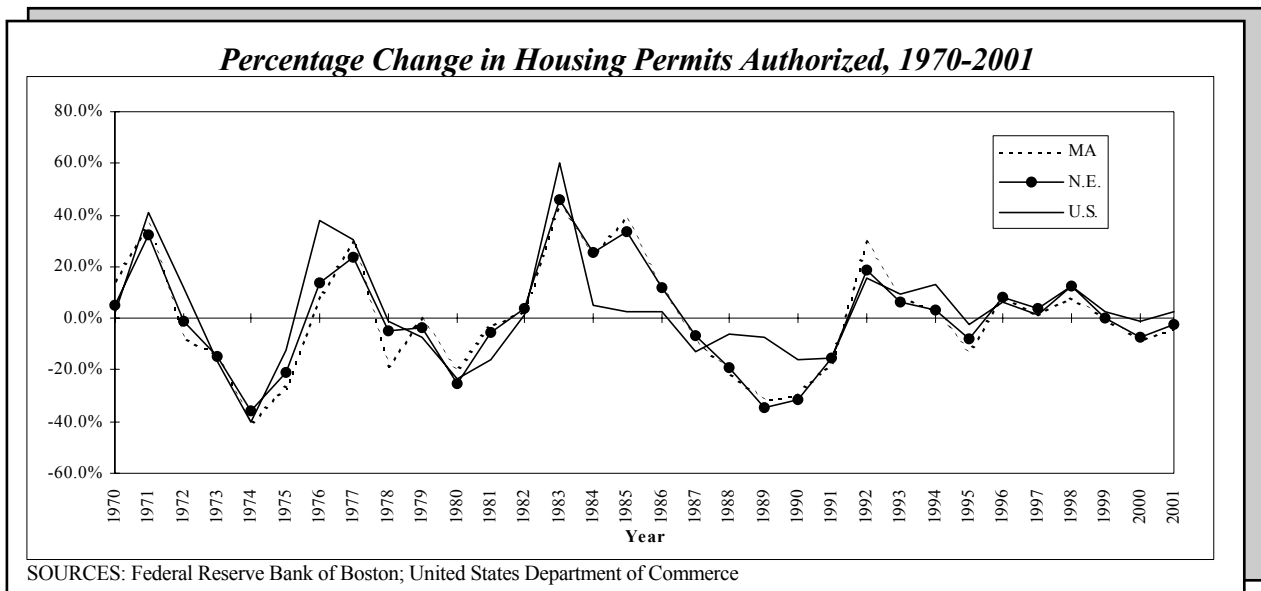
(top ten industry groups ranked by value of 2001 sales, in millions)

Major Industry Group	1997	1998	1999	2000	2001
Computer and Electronic Products	\$7,857	\$7,458	\$8,056	\$10,215	\$8,122
Machinery, Except Electrical	1,885	1,694.1	1,704.7	2,545.1	2,043.7
Chemicals	1,174	1,223.0	1,356.7	1,600.2	1,533.5
Miscellaneous Manufactured Commodities	768	834.8	925.4	1,053.5	1,213.0
Electrical Eq., Appliances, & Components	570	596.0	720.0	834.0	691.4
Fabricated Metal Products	748	597.0	601.4	649.3	568.9
Transportation Equipment	655	636.8	697.8	658.9	449.0
Plastics and Rubber Products	323	357.3	389.3	373.6	399.9
Paper	311	334.0	363.5	434.6	386.4
Food and Kindred Products	234	219.6	211.5	232.9	286.1
Total Exports, Top 10 Massachusetts Industries	\$14,292	\$13,731	\$14,815	\$18,364	\$15,408
Total Massachusetts Exports	\$16,526	\$15,878	\$16,805	\$20,514	\$17,490
Percentage Change from Prior Year	n/a	-3.9%	5.8%	22.1%	-14.7%

SOURCE: Massachusetts Institute for Social and Economic Research, University of Massachusetts - Amherst. These figures reflect the changeover in export statistics reporting to the NAICS system from the SIC system. Categories and state totals are not comparable between systems, so pre-1997 data are no longer suitable for this report.

Construction and Housing. In 2000, construction activity contributed 3.8 percent of the Massachusetts Gross State Product. This sector experienced a significant decline between 1989 and 1991, with declines as large as 19.6 percent and 17.2 percent in 1990 and 1991. Beginning in 1992, however, the sector rebounded and has grown every year since, and by at least 7 percent in each year from 1995 to 2000.

The following chart and table show the number of housing permits authorized on an annual basis in Massachusetts, New England, and the United States. Between 1983 and 1986, both Massachusetts and New England experienced strong growth in the number of housing permits authorized. This period was followed by a prolonged decline between 1986 and 1991 during which the number of housing permits authorized in Massachusetts declined by 71.2 percent. While the growth in the number of permits authorized in Massachusetts declined each year between 1992 and 1995, the number of housing permits authorized grew each year between 1995 and 1999 in Massachusetts, New England, and in the United States, reaching its highest level in Massachusetts since 1989. 1999 proved to be a plateau year in authorizations, with all three regions experiencing declines in 2000. Massachusetts and New England were harder hit and saw continuing, if milder, decreases in authorizations, whereas the national statistic increased for 2001.



Housing Permits Authorized, 1969-2001

<i>Year</i>	<i>Massachusetts</i>		<i>New England</i>		<i>United States</i>	
	<i>Total Permits</i>	<i>Percentage Change</i>	<i>Total Permits</i>	<i>Percentage Change</i>	<i>Total Permits</i>	<i>Percentage Change</i>
1969	33,572		70,539		1,330,161	
1970	38,330	14.2%	74,068	5.0%	1,354,746	1.8%
1971	52,116	36.0%	97,801	32.0%	1,913,601	41.3%
1972	48,261	-7.4%	96,517	-1.3%	2,138,862	11.8%
1973	41,422	-14.2%	82,306	-14.7%	1,782,526	-16.7%
1974	24,397	-41.1%	52,718	-35.9%	1,067,065	-40.1%
1975	17,697	-27.5%	41,645	-21.0%	934,511	-12.4%
1976	19,190	8.4%	47,441	13.9%	1,286,942	37.7%
1977	24,872	29.6%	58,658	23.6%	1,678,629	30.4%
1978	20,315	-18.3%	55,733	-5.0%	1,657,933	-1.2%
1979	20,164	-0.7%	53,654	-3.7%	1,533,436	-7.5%
1980	16,055	-20.4%	40,195	-25.1%	1,171,763	-23.6%
1981	15,599	-2.8%	38,067	-5.3%	985,600	-15.9%
1982	15,958	2.3%	39,470	3.7%	1,000,500	1.5%
1983	22,950	43.8%	57,567	45.9%	1,605,221	60.4%
1984	28,471	24.1%	72,356	25.7%	1,689,667	5.3%
1985	39,360	38.2%	96,832	33.8%	1,732,335	2.5%
1986	43,877	11.5%	108,272	11.8%	1,771,832	2.3%
1987	40,018	-8.8%	101,222	-6.5%	1,542,499	-12.9%
1988	31,766	-20.6%	82,123	-18.9%	1,450,583	-6.0%
1989	21,634	-31.9%	53,543	-34.8%	1,345,084	-7.3%
1990	15,276	-29.4%	36,811	-31.2%	1,125,583	-16.3%
1991	12,624	-17.4%	31,111	-15.5%	953,834	-15.3%
1992	16,346	29.5%	36,876	18.5%	1,105,083	15.9%
1993	17,715	8.4%	39,225	6.4%	1,210,000	9.5%
1994	18,302	3.3%	40,459	3.1%	1,366,916	13.0%
1995	15,946	-12.9%	37,357	-7.7%	1,335,835	-2.3%
1996	17,360	8.9%	40,425	8.2%	1,419,083	6.2%
1997	17,554	1.1%	42,047	4.0%	1,442,251	1.6%
1998	18,958	8.0%	47,342	12.6%	1,619,500	12.3%
1999	18,977	0.1%	47,379	0.1%	1,663,916	2.7%
2000	17,342	-8.6%	43,735	-7.7%	1,598,332	-3.9%
2001	16,654	-4.0%	42,786	-2.2%	1,638,499	2.5%

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

Both the economic recession of 1989 and 1990 and the subsequent economic recovery were reflected in the housing sector. Significant declines in existing home sales in Massachusetts in 1989 and 1990 (of 10.9 percent and 28.8 percent, respectively) were followed by rapid sales growth between 1991 and 1993, when home sales in Massachusetts increased at a yearly rate substantially higher than the national average. Following this period of rapid growth, the growth in existing home sales slowed to a rate of 0.7 percent in 1994 and declined 2.6 percent in 1995. In 1996, 1997, and 1998, however, growth in existing home sales in Massachusetts was significant, outpacing the national average in 1996 and 1997 with rates of 16.6 percent and 11.0 percent, respectively. This strong growth ended in 1999 when existing home sales in the Commonwealth declined 1.3 percent while growth in existing home sales nationally was 6.0 percent. In 2000, existing home sales in Massachusetts declined by 4.6 percent, but a slight rebound of 2.0 percent occurred in 2001. On a seasonally adjusted annual rate basis, existing home sales for the Commonwealth, New England, and the United States appear in the following table.

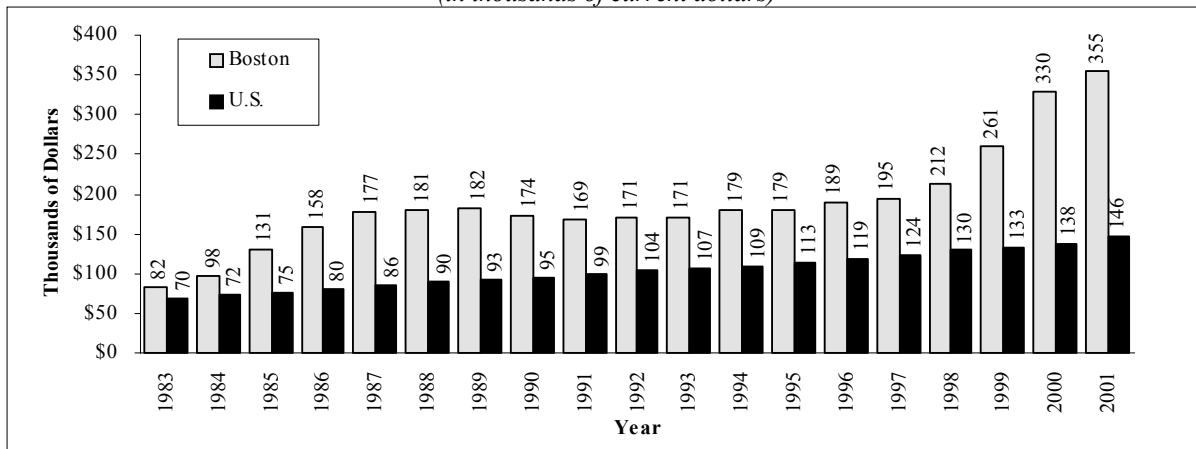
Existing Home Sales, 1981-2001
(seasonally adjusted annual rates, in thousands)

Year	Massachusetts		New England		United States	
	Sales	Percentage Change	Sales	Percentage Change	Sales	Percentage Change
1981	43.0		105.8		2,575.0	
1982	42.6	-0.8%	98.6	-6.9%	2,117.5	-17.8%
1983	59.2	39.0%	141.3	43.3%	2,875.0	35.8%
1984	54.9	-7.3%	140.7	-0.4%	3,027.5	5.3%
1985	60.2	9.7%	157.0	11.6%	3,382.5	11.7%
1986	67.0	11.3%	169.2	7.8%	3,772.5	11.5%
1987	76.4	14.1%	174.5	3.1%	3,767.5	-0.1%
1988	76.6	0.2%	178.5	2.3%	3,882.5	3.1%
1989	68.2	-10.9%	163.0	-8.7%	3,672.0	-5.4%
1990	48.6	-28.8%	134.0	-17.8%	3,603.5	-1.9%
1991	53.4	10.0%	140.5	4.9%	3,533.3	-1.9%
1992	62.5	17.0%	170.6	21.4%	3,889.5	10.1%
1993	70.9	13.4%	193.8	13.6%	4,220.3	8.5%
1994	71.4	0.7%	200.3	3.4%	4,409.8	4.5%
1995	69.6	-2.6%	185.7	-7.3%	4,342.3	-1.5%
1996	81.2	16.6%	200.7	8.1%	4,705.3	8.4%
1997	90.1	11.0%	219.4	9.3%	4,908.8	4.3%
1998	99.9	10.8%	248.3	13.2%	5,585.3	13.8%
1999	98.5	-1.3%	253.3	2.0%	5,922.8	6.0%
2000	95.3	-4.6%	261.3	5.2%	5,831.8	4.4%
2001	97.2	2.0%	262.7	0.5%	6,071.5	4.1%

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

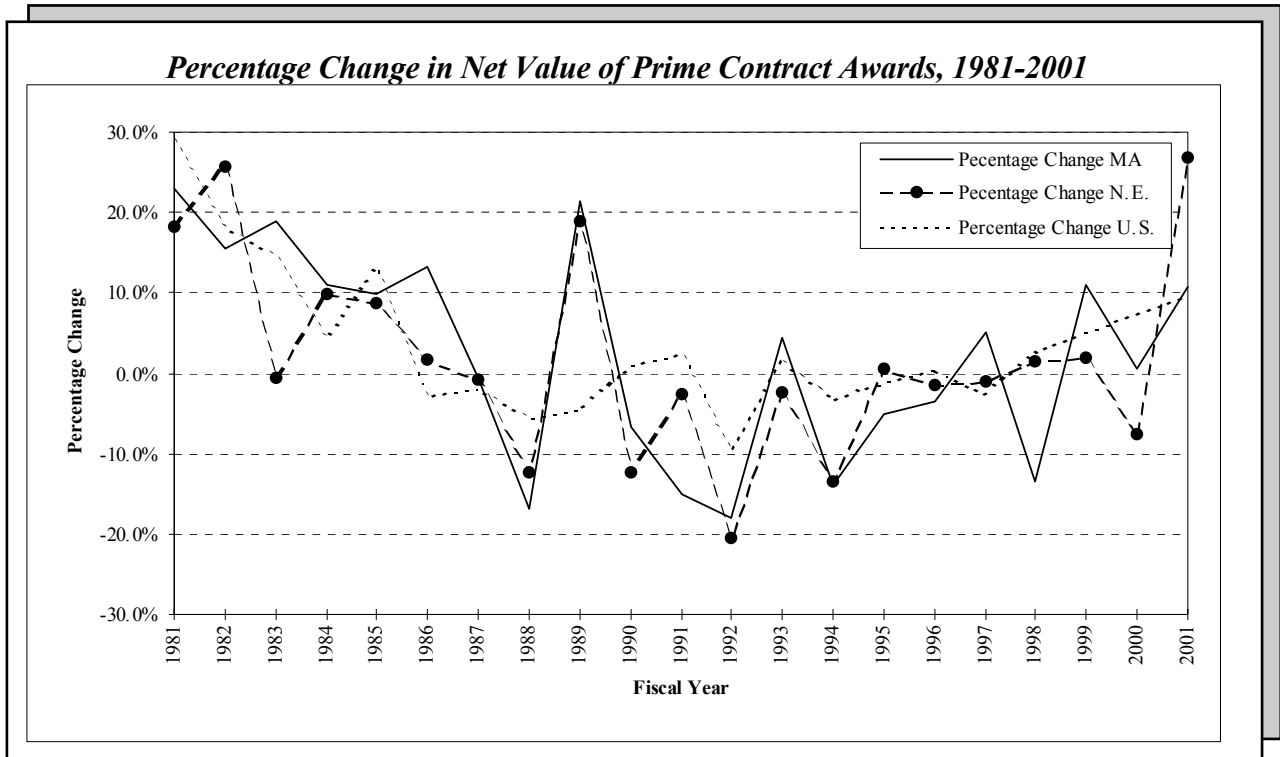
Single family home prices for the Boston Metropolitan area (not seasonally adjusted) appear below. While Boston housing prices were 18.1 percent higher than the U.S. average in 1983, by 1987 Boston housing prices as a percentage of the national average had reached a peak of 205.7 percent. After dipping to 60.9 percent higher than the national average in 1993 and remaining as low as 62.9 percent above the national average in 1998, Boston home prices soared to 238.1 percent of the national average in 2000. In 2001, Boston home prices rose to 241.7 percent of the national average.

Average Annual Home Prices, 1983-2001
(in thousands of current dollars)



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

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



The importance of the defense industry to the Massachusetts economy is reflected in table on the following page, which shows the value of Department of Defense prime contract awards between 1981 and 2001. Since the early 1980s, the Commonwealth's share of New England's prime contract awards had remained around or above 50 percent. In 1998, Massachusetts' share of New England's prime contract awards dipped to 45.7 percent and in 1999, the Commonwealth's share recovered only some of its losses, rising to 49.8 percent. In 2000, the Commonwealth's share of New England's prime contract awards rose to a recent peak of 54.2 percent, but large increase elsewhere in New England in 2001 offset the Massachusetts increase and pushed the Commonwealth's share in the region back down to 47.3 percent. In 2000, the Commonwealth's share of the national total also reached its lowest point in at least the last two decades, but this share increased slightly to 3.9 percent in 2001.

Net Value of Department of Defense Prime Contract Awards, 1980-2001
(in millions)

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

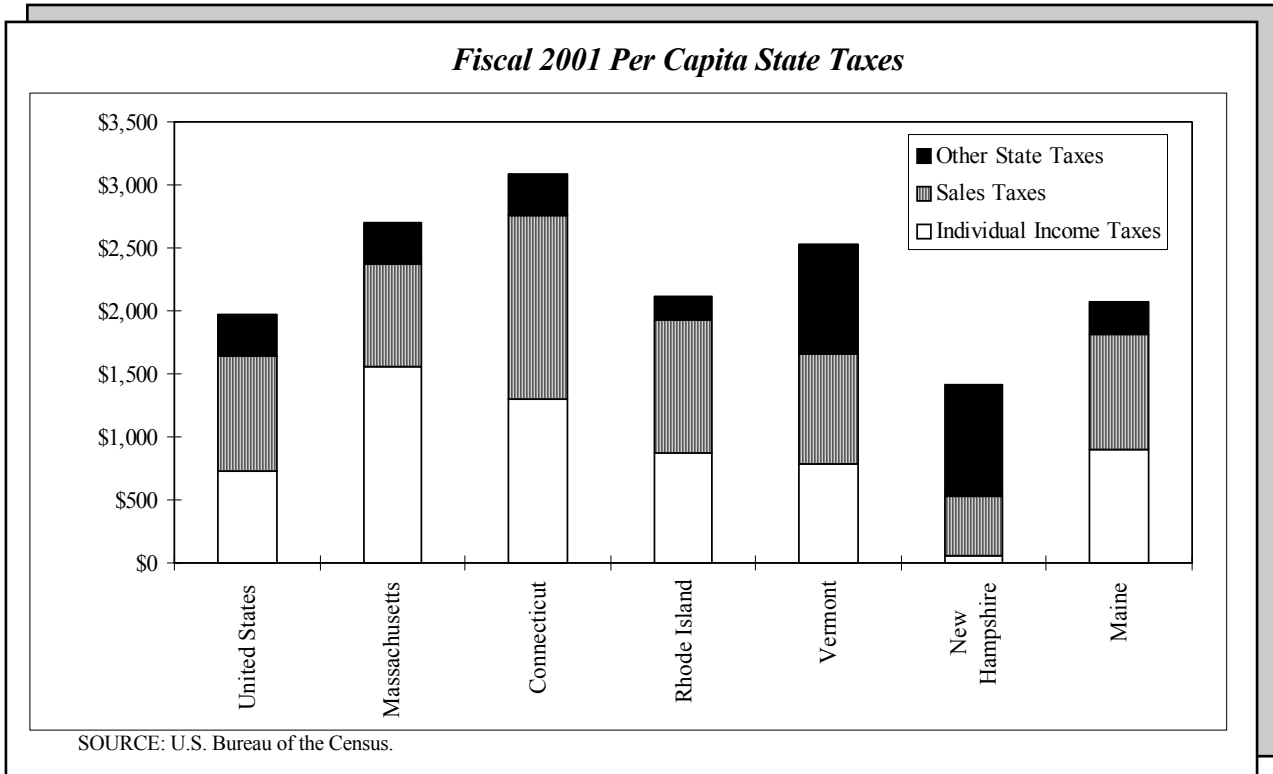
SOURCE: United States Department of Defense.

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

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

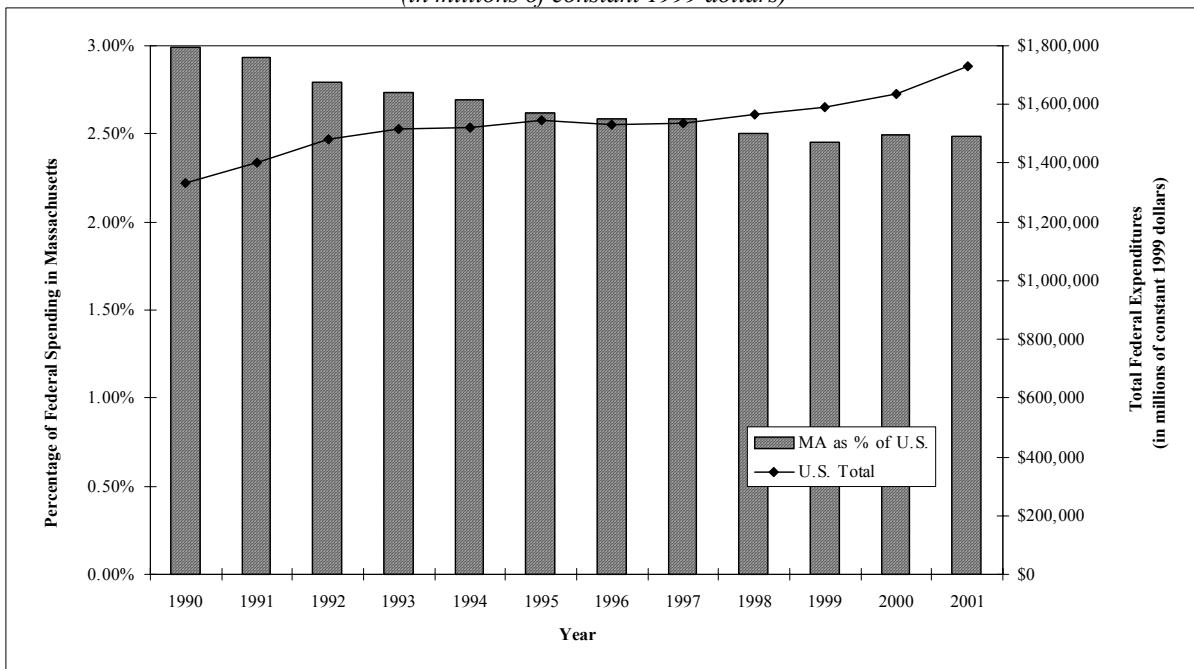
The Massachusetts Office of Travel and Tourism estimates that 26.1 million domestic travelers traveled to or within the Commonwealth in 2001, an increase of 5.2 percent from 2000. Additionally, 2.1 million international travelers visited Massachusetts in 2001. The latest available economic impact data indicates that spending by visitors to Massachusetts remains significant, with direct spending totaling \$13.3 billion in 2000, an increase of 9.0 percent over the 1999 level. The tragic events of September 11, 2001 are expected to result in a reported loss of \$241 million for the lodging industry. As a result, the Governor has created a Travel and Tourism Recovery Task Force to create a business plan to help the travel industry recover.

State Taxes. State taxes in Massachusetts are significantly higher than the national average. In 2001, the total per capita state tax bill in the United States was \$1967, the fifth highest in the nation. Citizens of the Commonwealth, however, paid \$2700 on average. In New England, only citizens in Connecticut paid more per capita: \$3092. Over half of the state taxes in Massachusetts come from the state income tax. Per capita individual income taxes in Massachusetts were \$1552. Across the New England states, there is wide variation in both total per capita state taxes and in the breakdown of those taxes. The chart below displays total per capita state taxes, per capita state income taxes, and per capita general sales taxes for the United States and each of the New England states.



Federal Government Spending in Massachusetts. Federal government spending contributes a significant amount to the economy of Massachusetts. In fiscal 2001, Massachusetts ranked thirteenth among states in per capita distribution of federal funds, with total spending of \$6,926 per person. Massachusetts' share of total federal spending declined steadily between 1990 and 1999, and has stabilized in the range of 2.45 percent to 2.49 percent between 1999 and 2001. The following chart shows total federal expenditures and the percentage of federal expenditures in Massachusetts. Total federal spending data were converted to 1999 dollars by MISER using Consumer Price Index data for the United States. Federal spending includes grants to state and local governments, direct payments to individuals, wage and salary employment, and procurement contracts and includes only those expenditures which can be associated with individual states and territories.

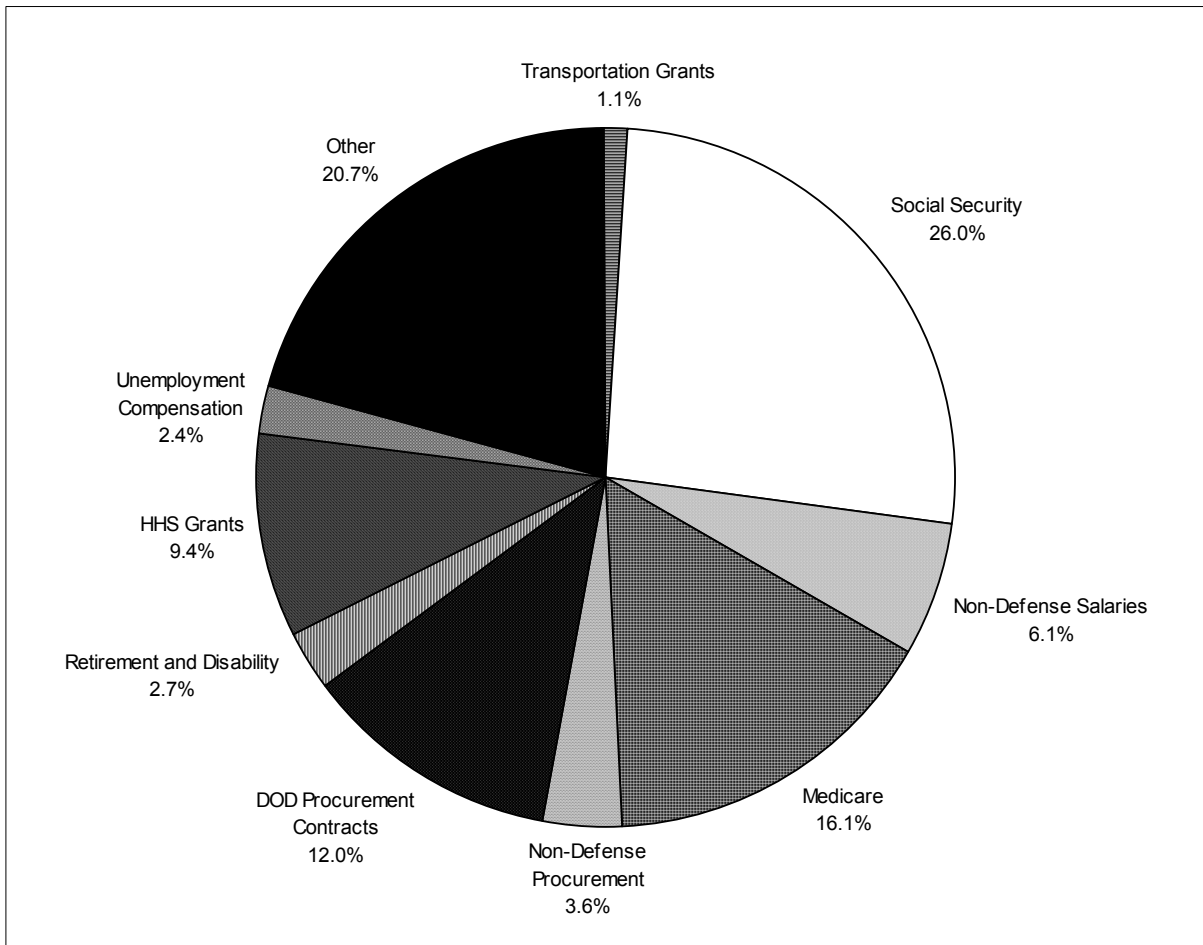
**Total Real Federal Expenditures and
Percentage of Federal Expenditures in Massachusetts, 1990-2001**
(in millions of constant 1999 dollars)



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

A large percentage of federal spending in Massachusetts in 2001 was composed of health care and social programs like Medicare and Social Security. Massachusetts was above the national average in per capita federal grants to state and local governments, receiving \$1,531 per capita compared to a national average of \$1,205. Per capita federal spending on salaries and wages in 2001 was lower in Massachusetts than in the rest of the nation (\$506 compared to a national average of \$668) but Massachusetts was above the national average in per capita direct federal payments to individuals (\$3,762 compared to a national average of \$3,377). Massachusetts ranked tenth among states in per capita procurement contract awards (\$1,079 compared to a national average of \$875) in 2001. The following chart shows the composition of federal spending within Massachusetts in fiscal 2001.

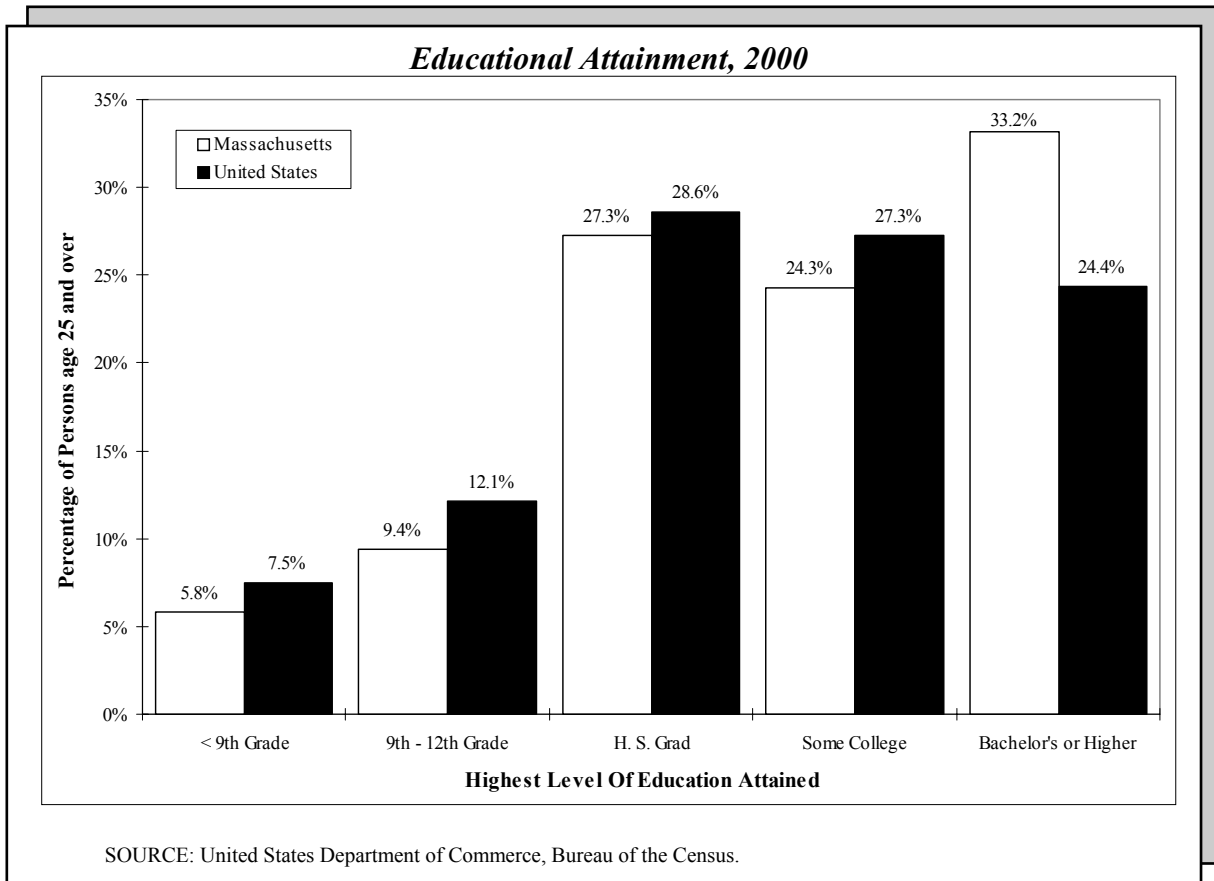
Composition of Federal Spending in Massachusetts by Program, Fiscal 2001



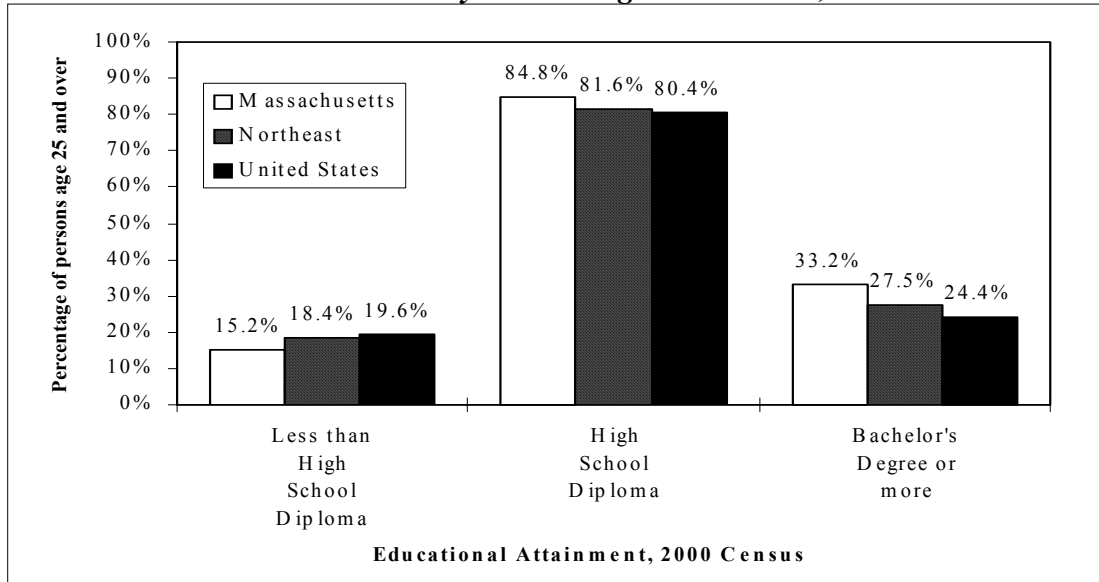
SOURCE: United States Department of Commerce, Bureau of the Census.

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 Massachusetts, 15.2 percent of residents age 25 and above never graduated from high school, as compared with 19.6 percent of their peers nationwide. The most significant difference between Massachusetts and the United States is the percentage of people age 25 and above with a Bachelor's Degree or higher: 33.2 percent in Massachusetts as compared to 24.4 percent for the United States as a whole. The proportion of college graduates increased by 4 percentage points in both the state and the nation between 1990 and 2000. The following chart shows the differences in educational attainment between Massachusetts and the United States for key threshold levels of education.



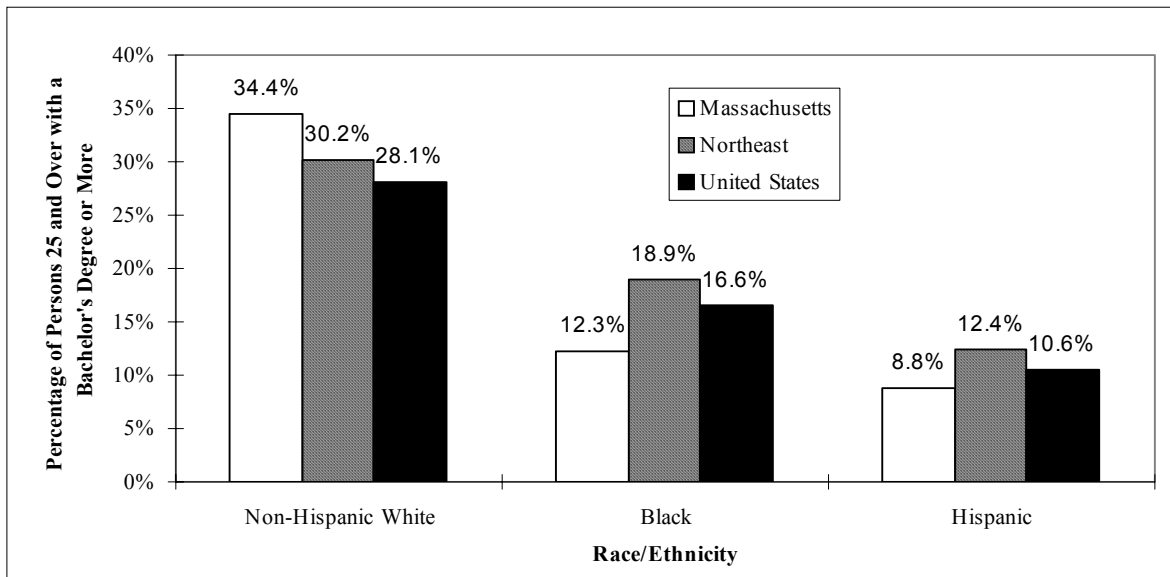
Educational Attainment by Persons Age 25 and Over, March 2000



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

Massachusetts has a smaller percentage of persons who have not completed high school than the Northeast or the United States as a whole and a higher percentage of persons with a bachelor's degree or more. Massachusetts ranks thirty-first in the nation in percentage of its population having received a high school diploma or more. The Commonwealth ranks second among the fifty states in percentage of persons over 25 with a bachelor's degree or more. However, these data obscure significant differences in educational attainment across racial and ethnic lines. While blacks and Hispanics fare worse than whites in educational attainment throughout the nation, the difference is more pronounced in Massachusetts than in the nation as a whole. As the chart below indicates, a far higher percentage of whites have a bachelor's degree or more in Massachusetts than in the rest of the nation, but blacks and Hispanics in Massachusetts trail the national average.

Persons 25 and Over With a Bachelor's Degree or More By Race/Ethnicity, March 2000



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

Massachusetts has a higher percentage of minority enrollment in institutions of higher education than New England. However, the percentage of enrollment of blacks, Hispanics, and Asians in higher education in Massachusetts is below the national average. The most recent national figures available for 1998, and the introduction of a “race unknown” category for the 2000 regional figures makes accurate comparison between regions and the nation impossible. These percentages are seen in the chart below.

	<i>Black</i>	<i>Hispanic</i>	<i>Asian</i>	<i>Race Unknown</i>
Massachusetts	5.4	4.5	5.7	15.0
New England	5.1	4.2	4.3	12.5
United States (1998)	10.9	8.7	6.2	N/A

SOURCE: New England Board of Higher Education, *Connections*, Spring 2002.

In the 1998 National Assessment of Educational Progress conducted by the U.S. Department of Education, 4th graders and 8th graders around the nation were given standardized exams in reading. Among 4th graders, only students in Connecticut achieved statistically significant higher reading scores than students in Massachusetts while among 8th graders, no state had statistically significant higher reading scores than Massachusetts. In a similar 2000 study, 4th and 8th graders were given standardized exams in science. In science, only 8th graders in Montana achieved statistically significant higher scores than 8th graders in Massachusetts. Additionally, Massachusetts 4th graders scored highest in the nation on the science exam. In 2000, 4th and 8th graders were given standardized exams in mathematics. Massachusetts scores for both 4th and 8th graders in 2000 were significantly higher than scores from both 1992 and 1996. Additionally, Massachusetts 4th graders were the highest scoring in the nation. Only 8th graders in Minnesota, Montana, Maine, and Kansas scored higher than those in Massachusetts.

Although spending on education is not necessarily an indicator of results, Massachusetts has spent from 12 to 27 percent more per pupil on primary and secondary education than the national average since at least 1981. In fiscal 1999, Massachusetts increased per student expenditures to \$8260, 27 percent higher than the national average. The following table shows expenditures per pupil for Massachusetts and the United States since fiscal 1981.

Expenditure Per Pupil in Public Elementary and Secondary Schools, 1981-1999
(in current, unadjusted dollars)

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

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

Massachusetts is an internationally recognized center for higher education, with 413,305 students in undergraduate, professional and graduate programs in 2000, according to data supplied by the New England Board of Higher Education. The number of foreign students enrolled in Massachusetts colleges and universities in 2000 was 29,395, representing 5.4 percent of total foreign student enrollment in the United States. The Massachusetts public higher education system is composed of universities, state colleges, and community colleges with a combined enrollment of 178,729 students in 2000, almost half of whom attended part-time. In addition, Massachusetts has a system of private higher education that accounted for 56.8 percent of total enrollment in Massachusetts in 2000, and in which approximately one quarter of students attend school part-time. The strength of both public and private colleges and universities as centers for research and education contributes to the high quality of the Massachusetts work force and plays a key role in attracting and retaining business and industry within the state.

The higher education system in Massachusetts is particularly strong in post-graduate, scientific, and technical education, with 65 percent of New England's graduate science and engineering students attending Massachusetts institutions. The strength of the Massachusetts higher education system is evidenced by the draw it has upon new students. In the Fall of 2000, 16,867 first-time freshmen migrated into the Massachusetts higher education system from outside New England, representing 27 percent of all incoming freshmen in that year. The strength of the Commonwealth's educational institutions is also reflected in the large number of degrees awarded. In 2000, Massachusetts institutions conferred a total of 2,275 doctoral degrees. This represents 4.8 percent of the total number of doctoral degrees conferred in the United States in 2000.

The pre-eminence of higher education in Massachusetts contributes not only to the quality of its work force, but also to its stature in the nation and the world as a center for basic scientific research and for academic and entrepreneurial research and development. Doctorate-granting institutions in Massachusetts spent 5.0 percent of total national expenditures on R&D at such institutions in fiscal 2000, ranking Massachusetts fifth in the nation behind only California, New York, Texas, and Pennsylvania. Doctorate-granting institutions in New

England spent 7.9 percent (\$2.33 billion) of the total research and development funds (\$29.6 billion) spent by such institutions in fiscal 2000. Massachusetts institutions spent 63.0 percent of these funds (\$1.47 billion). [Source: National Science Foundation, Division of Science Resources Statistics, *Academic Research and Development Expenditures: Fiscal Years 2000*, NSF 02-308, Table B-23.]

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

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

Major Infrastructure Projects. Several major public sector-sponsored construction projects are underway or recently completed in the Boston region, providing significant economic and employment benefits to the state. The "Big Dig," the world's largest highway project, includes the depression of the central artery which traverses the City of Boston, and the construction of a third harbor tunnel linking downtown Boston to Logan Airport. The new Central Artery is designed to meet Boston's future traffic demand and is anticipated to carry 245,000 vehicles per day by 2010 with minimal congestion. The Project will also strengthen connections among Boston's air, rail, and seaport terminals. By offering travelers and shippers increased choice and flexibility among these different modes of transportation, the Project is contributing to the creation of an integrated, intermodal transportation system for the entire region. The Ted Williams Tunnel, which stretches under Boston Harbor from South Boston to Logan Airport, opened to commercial traffic in late 1995 and to all traffic in December 2001, and will carry an estimated 98,000 vehicles daily in 2010. Although several 2002 openings have been delayed by one to two months, the Central Artery Project is expected to be completed by 2004 at an estimated total cost of \$14.63 billion, with nearly half funded by the federal government. The number of workers on the job is approximately 4,300 as of May 2002, and construction is 80 percent complete.

The Massachusetts Port Authority (Massport) owns and operates Logan International Airport, the Port of Boston, and several smaller assets. A \$1 billion modernization program is well underway at the airport, including expansion of terminal space. Other Massport capital projects that were planned for the next five years may be subject to delays due to the impact of the September 11, 2001, events on the organization's finances. While the airport has been tremendously profitable for the authority (returning \$80 million in profits on \$326 million in revenues in fiscal 2001), Massport has revised its revenue forecast based on reduced projections of passengers (to 70 percent of previous levels) and parking revenues (to 65 percent). Massport, under new leadership since April of 2002, reports success in reducing costs through layoffs and retirement incentives, but uncertainty in the air travel industry makes future predictions particularly difficult at this time. In fiscal 2001, 27.2 million passengers (a 1.3% decrease from fiscal 2000) and more than 980 million pounds of cargo and mail (a 6.6% decrease) passed through Logan. At the Port of Boston, which operates at a marginal loss, fiscal 2001 saw a four percent decrease in cargo throughput to 16.3 million metric tons, a 13 percent decrease in

automobile throughput to 80 thousand units, and a 28 percent increase in cruise passengers to 253 thousand trips.

In November 2001, the Massachusetts Water Resources Authority declared substantial completion of the Boston Harbor Project, 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 project cost was approximately \$3.6 billion, with \$859 million in federal and state grant funding and the balance paid for by local communities, in the form of user fees. The centerpiece of the project is a new sewage treatment plant on Deer Island. Within one year of the September, 2000, cessation of sewage releases into the harbor, improvements in the waters of Massachusetts Bay were reported, including: 30 to 70 percent reductions in bacterial counts indicating the presence of sewage, a 55 percent reduction in nitrogen levels, a 31 percent reduction in phosphorous levels, a 49 percent reduction in chlorophyll levels, and 12 percent increase in water clarity.

TABLE OF REFUNDED BONDS

The bonds of the Commonwealth to be refunded with the proceeds of the 2002 Series D Bonds are described below under the heading "2002 SERIES D REFUNDED BONDS." The bonds of the Commonwealth to be refunded with the proceeds of the 2002 Series B Refunding Bonds are described below under the heading "2002 SERIES B REFUNDED BONDS." The bonds of the Commonwealth to be refunded with the proceeds of the 2003 Series A Refunding Bonds are described below under the heading "2003 SERIES A REFUNDED BONDS."

2002 SERIES D REFUNDED BONDS

<u>Maturity Date</u>	<u>Amount</u>	<u>Coupon</u>
\$463,790,000 General Obligation Bonds, Consolidated Loan of 1991, Series A:		
June 1, 2004	\$ 1,615,000*	7.500%

* Represents the portion of the outstanding \$14,275,000 June 1, 2004 term bond which will be refunded and paid at maturity in the amount of \$1,615,000 on June 1, 2004. Of the remaining amount (\$12,660,000) of term bonds with a stated maturity of June 1, 2004, \$12,660,000 is to be paid through mandatory sinking fund redemption on June 1, 2003.

\$200,000,000 General Obligation Bonds, Consolidated Loan of 1992, Series D:

May 1, 2006	\$ 435,000*	8.000%
May 1, 2008	<u>12,710,000**</u>	6.000
	\$13,145,000	

* Represents the portion of the outstanding \$20,960,000 May 1, 2006 term bond which will be refunded and redeemed at par in the amount of \$210,000 on May 1, 2005 and paid at maturity in the amount of \$225,000 on May 1, 2006. Of the remaining amount (\$20,525,000) of term bonds with a stated maturity of May 1, 2006, \$9,865,000 is to be paid through mandatory sinking fund redemption on May 1, 2005 and \$10,660,000 is to be paid at maturity.

** Represents the portion of the outstanding \$24,215,000 May 1, 2008 term bond which will be refunded and redeemed at par in the amount of \$245,000 on May 1, 2007 and paid at maturity in the amount of \$12,465,000 on May 1, 2008. Of the remaining amount (\$11,505,000) of term bonds with a stated maturity of May 1, 2008, \$11,505,000 is to be paid through mandatory sinking fund redemption on May 1, 2007.

\$250,000,000 General Obligation Bonds, Consolidated Loan of 1996, Series B:

June 1, 2004	\$10,410,000	5.500%
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\$300,000,000 General Obligation Bonds, Consolidated Loan of 1997, Series B:

June 1, 2004	\$4,250,000*	5.000%
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* Represents the portion of the outstanding \$12,055,000 serial bond which will be refunded and paid at maturity on June 1, 2004. The remaining amount (\$7,805,000) is to be paid at maturity.

<u>Maturity Date</u>	<u>Amount</u>	<u>Coupon</u>
\$250,000,000 General Obligation Bonds, Consolidated Loan of 1998, Series B:		

April 1, 2009	\$ 435,000*	5.000%
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* Represents the portion of the outstanding \$12,315,000 serial bond which will be refunded and redeemed on April 1, 2008 at a call price of 101%. Unless otherwise redeemed earlier in accordance with its terms, the remaining amount (\$11,880,000) is to be paid at maturity.

\$250,000,000 General Obligation Bonds, Consolidated Loan of 1999, Series B:		
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May 1, 2010*	\$12,110,000	4.500%
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*To be redeemed on May 1, 2009 at a call price of 101%.

\$500,000,000 General Obligation Bonds, Consolidated Loan of 1999, Series C:		
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September 1, 2010*	\$7,745,000	5.000%
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*To be redeemed on September 1, 2009 at a call price of 101%.

\$496,305,000 General Obligation Bonds, Consolidated Loan of 2000, Series A:		
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February 1, 2011*	\$3,500,000	5.300%
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*To be redeemed on February 1, 2010 at a call price of 101%.

\$740,305,000 General Obligation Bonds, Consolidated Loan of 2000, Series B:		
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June 1, 2008*	\$ 16,850,000	5.500%
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* Represents the portion of the outstanding \$18,760,000 serial bond which will be refunded and paid at par on June 1, 2008. The remaining amount (\$1,910,000) is to be paid at maturity.

\$563,735,000 General Obligation Bonds, Consolidated Loan of 2000, Series C:		
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October 1, 2011*	\$2,290,000	4.875%
October 1, 2018*	27,175,000	5.375
October 1, 2019*	<u>770,000</u>	5.450
	\$30,235,000	

*To be redeemed on October 1, 2010 at par.

<u>Maturity Date</u>	<u>Amount</u>	<u>Coupon</u>
\$250,000,000 General Obligation Bonds, Consolidated Loan of 2001, Series A:		
January 1, 2018*	\$32,185,000	5.250%
January 1, 2019*	<u>14,650,000**</u>	5.250
	\$46,835,000	

* To be redeemed on January 1, 2011 at par.

** Represents the portion of the outstanding \$33,765,000 serial bond which will be refunded and redeemed on January 1, 2011 at par. Unless otherwise redeemed earlier in accordance with its terms, the remaining amount (\$19,115,000) is to be paid at maturity.

\$250,000,000 General Obligation Bonds, Consolidated Loan of 2001, Series B:

May 1, 2011*	\$23,450,000	5.000%
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*To be redeemed on May 1, 2010 at par.

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

December 1, 2014*	\$5,610,000	4.500%
December 1, 2015*	3,235,000	4.600
December 1, 2016*	2,465,000	4.625
December 1, 2018*	42,990,000	5.375
December 1, 2019*	<u>43,230,000</u>	5.375
	\$97,530,000	

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

\$492,440,000 General Obligation Bonds, Consolidated Loan of 2002, Series B:

March 1, 2013*	\$ 7,795,000	4.500%
March 1, 2013*	16,755,000	5.000
March 1, 2014*	3,510,000	4.625
March 1, 2019*	33,605,000	5.500
March 1, 2020*	35,455,000	5.500
March 1, 2021*	<u>2,295,000**</u>	5.250
	\$99,415,000	

*To be redeemed on March 1, 2012 at par.

** Represents the portion of the outstanding \$37,400,000 serial bond which will be refunded and redeemed on March 1, 2012 at par. Unless otherwise redeemed earlier in accordance with its terms, the remaining amount (\$35,105,000) is to be paid at maturity.

2002 SERIES B REFUNDED BONDS

<u>Maturity Date</u>	<u>Amount</u>	<u>Coupon</u>
\$899,390,000 General Obligation Refunding Bonds, 1993 Series A:		
February 1, 2006*	\$106,285,000	5.200%

*To be redeemed on February 1, 2003 at a call price of 102%.

2003 SERIES A REFUNDED BONDS

\$842,995,000 General Obligation Refunding Bonds, 1993 Series C:		
August 1, 2008*	\$113,395,000	5.200%

*To be redeemed on August 1, 2003 at a call price of 102%.

PROPOSED FORMS OF OPINIONS OF BOND COUNSEL

Upon the delivery of the Bonds, Bond Counsel proposes to deliver to the Underwriters opinions in substantially the following forms:

MINTZ LEVIN
COHN FERRIS
GLOVSKY AND
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617 542 6000
617 542 2241 fax
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[To the Underwriters]

We have acted as bond counsel to The Commonwealth of Massachusetts (the “Commonwealth”) in connection with the issuance by the Commonwealth of \$670,745,000 General Obligation Bonds, Consolidated Loan of 2002, Series D, dated August 1, 2002 (the “Bonds”). In such capacity, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials and others 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:

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

(b) Interest on the Bonds will not be included in the gross income of the holders of the Bonds for federal income tax purposes. This opinion is rendered subject to the condition that the Commonwealth comply with certain requirements of the Internal Revenue Code of 1986, as amended, which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon is and continues to be excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be included in the gross income of holders of the Bonds retroactive to the date of issuance of the Bonds. While interest on the Bonds will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, interest on the Bonds will be included in the “adjusted current earnings” of corporate holders of the Bonds and therefore will be taken into account in the computation of the alternative minimum tax

applicable to certain corporations. We express no opinion as to other federal tax consequences resulting from holding the Bonds.

(c) Interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion as to other Massachusetts tax consequences arising with respect to the Bonds nor as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.

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

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

MINTZ LEVIN
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[To the Underwriter]

We have acted as bond counsel to The Commonwealth of Massachusetts (the “Commonwealth”) in connection with the issuance by the Commonwealth of \$102,820,000 General Obligation Refunding Bonds, 2002 Series B, dated the date of delivery (the “Bonds”). In such capacity, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials and others 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:

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

(b) Interest on the Bonds will not be included in the gross income of the holders of the Bonds for federal income tax purposes. This opinion is rendered subject to the condition that the Commonwealth comply with certain requirements of the Internal Revenue Code of 1986, as amended, which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon is and continues to be excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be included in the gross income of holders of the Bonds retroactive to the date of issuance of the Bonds. While interest on the Bonds will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, interest on the Bonds will be included in the “adjusted current earnings” of corporate holders of the Bonds and therefore will be taken into account in the computation of the alternative minimum tax applicable to certain corporations. We express no opinion as to other federal tax consequences resulting from holding the Bonds.

(c) Interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion as to other Massachusetts tax consequences arising with respect to the Bonds nor as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.

(d) For federal and Massachusetts tax purposes, interest includes original issue discount. Original issue discount with respect to the Bonds is equal to the excess, if any, of the stated redemption price at maturity of such Bonds over the initial offering price thereof to the public, excluding underwriters and other intermediaries, at which price a substantial amount of all Bonds with the same maturity were sold. Original

issue discount accrues actuarially over the term of the Bonds. Holders should consult their own tax advisers with respect to the computation of original issue discount on such accruals of interest during the period in which any such Bond is held.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

MINTZ LEVIN
COHN FERRIS
GLOVSKY AND
POPEO PC

Boston
New York
Reston
Washington
New Haven

One Financial Center
Boston, Massachusetts 02111
617 542 6000
617 542 2241 fax
www.mintz.com

[To the Underwriter]

We have acted as bond counsel to The Commonwealth of Massachusetts (the “Commonwealth”) in connection with the issuance by the Commonwealth of \$108,825,000 General Obligation Refunding Bonds, 2003 Series A (Delayed Delivery), dated the date of delivery (the “Bonds”). In such capacity, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials and others 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:

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

(b) Interest on the Bonds will not be included in the gross income of the holders of the Bonds for federal income tax purposes. This opinion is rendered subject to the condition that the Commonwealth comply with certain requirements of the Internal Revenue Code of 1986, as amended, which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon is and continues to be excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be included in the gross income of holders of the Bonds retroactive to the date of issuance of the Bonds. While interest on the Bonds will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, interest on the Bonds will be included in the “adjusted current earnings” of corporate holders of the Bonds and therefore will be taken into account in the computation of the alternative minimum tax applicable to certain corporations. We express no opinion as to other federal tax consequences resulting from holding the Bonds.

(c) Interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion as to other Massachusetts tax consequences arising with respect to the Bonds nor as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.

(d) For federal and Massachusetts tax purposes, interest includes original issue discount. Original issue discount with respect to the Bonds is equal to the excess, if any, of the stated redemption price at maturity of such Bonds over the initial offering price thereof to the public, excluding underwriters and other

intermediaries, at which price a substantial amount of all Bonds with the same maturity were sold. Original issue discount accrues actuarially over the term of the Bonds. Holders should consult their own tax advisers with respect to the computation of original issue discount on such accruals of interest during the period in which any such Bond is held.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

The Commonwealth of Massachusetts

General Obligation Bonds
Consolidated Loan of 2002, Series D

General Obligation Refunding Bonds
2002 Series B

General Obligation Refunding Bonds
2003 Series A (Delayed Delivery)

Continuing Disclosure Undertaking
[to be included in bond form]

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the Bonds to provide to each nationally recognized municipal securities information repository (each, a “NRMSIR”) within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”) and to the state information depository for the Commonwealth, if any (the “SID”), within the meaning of the Rule, no later than 270 days after the end of each fiscal year of the Commonwealth, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Commonwealth for such fiscal year if audited financial statements are then available, provided, however, that if audited financial statements of the Commonwealth are not then available, such audited financial statements shall be delivered to each NRMSIR and the SID when they become available (but in no event later than 350 days after the end of such fiscal year) or (ii) notice of the Commonwealth’s failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Commonwealth’s Information Statement dated March 25, 2002 (the “Information Statement”), as it appears as Appendix A in the Official Statement dated March 25, 2002 relating to the Commonwealth’s General Obligation Bond Anticipation Notes, 2002 Series B, and substantially in the same level of detail as is found in the referenced section of the Information Statement:

Financial Information and Operating Data Category	Reference to Information Statement for Level of Detail
1. Summary presentation on statutory accounting and five-year comparative basis of selected budgeted operating funds operations, concluding with prior fiscal year, plus estimates for current fiscal year	“FINANCIAL RESULTS - Selected Financial Data - Statutory Basis”
2. Summary presentation on GAAP and five-year comparative basis of selected budgeted operating funds operations, concluding with prior fiscal year	“FINANCIAL RESULTS - Selected Financial Data - GAAP Basis”
3. Summary presentation of actual revenues in budgeted operating funds on five-year comparative basis, concluding with prior fiscal year, plus estimates for current fiscal year	“COMMONWEALTH REVENUES - Distribution of Revenues”
4. So long as Commonwealth statutes impose limits on tax revenues, information as to compliance therewith in the prior fiscal year	“COMMONWEALTH REVENUES - Limitations on Tax Revenues”

Financial Information and Operating Data Category	Reference to Information Statement for Level of Detail
5. Summary presentation of budgeted expenditures by selected, then-current major categories on five-year comparative basis and estimated expenditures for current fiscal year	“COMMONWEALTH PROGRAMS AND SERVICES”
6. Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any	“COMMONWEALTH PROGRAMS AND SERVICES - Commonwealth Pension Obligations”
7. If and to the extent otherwise updated in the prior fiscal year, summary presentation of the size of the state workforce	“STATE WORKFORCE”
8. Five-year summary presentation of actual capital project expenditures	“COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - Capital Spending Plan”
9. Statement of Commonwealth debt and debt related to general obligation contract liabilities as of the end of the prior fiscal year	“COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - General Authority to Borrow and Types of Long-Term Liabilities - Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities”
10. Five-year comparative presentation of long term Commonwealth debt and debt related to general obligation contract liabilities as of the end of the prior fiscal year	“COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - General Authority to Borrow and Types of Long-Term Liabilities - Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities”
11. Annual fiscal year debt service requirements for Commonwealth general obligation and special obligation bonds, beginning with the current fiscal year	“COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - Debt Service Requirements on Commonwealth Bonds”
12. Annual fiscal year contract assistance requirements for Commonwealth general obligation contract assistance, beginning with the current fiscal year	“COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - General Obligation Contract Assistance Liabilities”
13. Annual fiscal year budgetary contractual assistance liabilities for Commonwealth, beginning with the current fiscal year	“COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - Budgetary Contractual Assistance Liabilities”
14. Five-year summary presentation of authorized but unissued general obligation debt	“COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - Authorized But Unissued Debt”
15. So long as Commonwealth statutes impose a limit on the amount of outstanding “direct” bonds, information as to compliance therewith as of the end of the prior fiscal year	“COMMONWEALTH CAPITAL SPENDING AND LONG-TERM LIABILITIES - Statutory Debt Limit on Direct Debt”

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

accounting principles in effect from time to time. Such financial statements shall be audited by a firm of certified public accountants appointed by the Commonwealth.

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

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

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

To the extent permitted by law, the foregoing provisions of this Bond related to the above-described undertakings to provide information shall be enforceable against the Commonwealth in accordance with the terms thereof by any owner of a Bond, including any beneficial owner acting as a third-party beneficiary (upon proof of its status as a beneficial owner reasonably satisfactory to the Treasurer and Receiver-General). To the extent permitted by law, any such owner shall have the right, for the equal benefit and protection of all owners of Bonds, by mandamus or other suit or proceeding at law or in equity, to enforce its rights against the Commonwealth and to compel the Commonwealth and any of its officers, agents or employees to perform and carry out their duties under the foregoing provisions as aforesaid, provided, however, that the sole remedy in connection with such undertakings shall be limited to an action to compel specific performance of the obligations of the Commonwealth in connection with such undertakings and shall not include any rights to monetary damages. The Commonwealth's obligations in respect of such undertakings shall terminate if no Bonds remain outstanding (without regard to an economic defeasance) or if the provisions of the Rule concerning continuing disclosure are no longer effective, whichever occurs first. The provisions of this Bond relating to such undertakings may be amended by the Treasurer and Receiver-General of the Commonwealth, without the consent of, or notice to, any owners of the Bonds, (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof by the Securities and

^{1/}Not applicable to the Bonds, since there is no debt service reserve fund securing the Bonds.

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

Exchange Commission or its staff (whether required or optional), (b) to add a dissemination agent for the information required to be provided by such undertakings and to make any necessary or desirable provisions with respect thereto, (c) to add to the covenants of the Commonwealth for the benefit of the owners of Bonds, (d) to modify the contents, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertakings in a manner consistent with the provisions of state legislation establishing the SID or otherwise responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d) or (e), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances, and (ii) the amendment does not materially impair the interests of the owners of the Bonds, as determined either by a party unaffiliated with the Commonwealth (such as Commonwealth disclosure counsel or Commonwealth bond counsel) or by the vote or consent of owners of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment.

8864806_7

FORM OF DELAYED DELIVERY CONTRACT

_____, 2002

Salomon Smith Barney Inc.
 Municipal Securities Division
 390 Greenwich Street, 2nd Floor
 New York, New York 10013

Re: The Commonwealth of Massachusetts General Obligation
 Refunding Bonds, 2003 Series A (Delayed Delivery) (the
 “2003 Series A Delayed Delivery Bonds”)

Ladies and Gentlemen:

The undersigned (the “Purchaser”) hereby agrees to purchase from Salomon Smith Barney Inc. (“Salomon Smith Barney”), when, as, and if issued and delivered to Salomon Smith Barney by The Commonwealth of Massachusetts (the “Commonwealth”) and Salomon Smith Barney agrees to sell to the Purchaser

<u>Par Amount</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>CUSIP Number</u>	<u>Yield</u>

in aggregate principal amount of the above-referenced 2003 Series A Delayed Delivery Bonds offered by the Commonwealth under the Preliminary Official Statement dated August 1, 2002, the Preliminary Official Statement Supplement dated August 19, 2002 (the “Supplement”) and the Official Statement dated _____, 2002 (as updated) (the “Official Statement”), receipt and review of copies of which (including without limitation the section entitled “THE BONDS – Plan of Finance” therein) is hereby acknowledged at a purchase price (plus accrued interest, if any, from the date of initial delivery of the 2003 Series A Delayed Delivery Bonds), at the interest rates, principal amounts and maturity dates shown above, and on the further terms and conditions set forth in this Delayed Delivery Contract.

The Purchaser hereby purchases and agrees to accept delivery of such 2003 Series A Delayed Delivery Bonds from Salomon Smith Barney on May 6, 2003 (the “Settlement Date”).

Payment for the 2003 Series A Delayed Delivery Bonds which the Purchaser has agreed to purchase on the Settlement Date shall be made to Salomon Smith Barney or to its order on the Settlement Date upon delivery to the Purchaser of the 2003 Series A Delayed Delivery Bonds then to be purchased by the Purchaser through the book-entry system of The Depository Trust Company.

Upon issuance by the Commonwealth of the 2003 Series A Delayed Delivery Bonds and purchase thereof by Salomon Smith Barney, the obligation of the Purchaser to take delivery hereunder shall be unconditional except in the event that between the date of its Delayed Delivery Contract and the Settlement Date, (a) as a result of any legislation, regulation, ruling order, release, court decision or judgment or action by the U.S. Congress, Department of the Treasury, Internal Revenue Service, or Securities and Exchange Commission (or comparable agencies in the Commonwealth), either issued, effective, adopted, or proposed, (i) Bond Counsel is not able to render its opinion substantially in the form attached as Appendix B to the Supplement; or (ii) the offering or sale of the 2003 Series A Delayed Delivery Bonds would be in violation of any provision of the Securities Act of 1933, as amended (the "1933 Act"), the Securities Exchange Act of 1934, as amended, or the Trust Indenture Act of 1939, as amended, or the offering or sale of the 2003 Series A Delayed Delivery Bonds would be subject to registration under the 1933 Act or similar federal law; (b) if for any other reason, Bond Counsel is not able to render its opinion substantially in the form attached as Appendix B to the Supplement; or (c) the 2003 Series A Delayed Delivery Bonds are not rated by Fitch Ratings, Moody's Investors Service and Standard & Poor's Ratings Group on the Settlement Date.

The Purchaser represents and warrants that, as of the date of this Delayed Delivery Contract, the Purchaser is not prohibited from Purchasing the 2003 Series A Delayed Delivery Bonds hereby agreed to be purchased by it under the laws of the jurisdiction to which the Purchaser is subject.

This Delayed Delivery Contract will inure to the benefit of and be binding upon the parties hereto and their respective successors, but will not be assignable by either party without the written consent of the other.

The Purchaser acknowledges that Salomon Smith Barney is entering into an agreement with the Commonwealth to purchase the 2003 Series A Delayed Delivery Bonds in reliance in part on the performance by the Purchaser of its obligations hereunder.

The Purchaser agrees that it will at all times satisfy the minimum initial and maintenance margin requirements of Regulation T of the Board of Governors of the Federal Reserve System, Rule 431 of the New York Governors of the Federal Reserve System, Rule 431 of the New York Stock Exchange, Inc., and any other margin regulations applicable to Salomon Smith Barney.

This Delayed Delivery Contract may be executed by either of the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such counterparts shall together constitute one and the same instrument.

It is understood that the acceptance by Salomon Smith Barney of any Delayed Delivery Contract (including this one) is in Salomon Smith Barney's sole discretion and that, without limiting the foregoing, acceptances of such contracts need not be on a first-come, first-served basis. If this Delayed Delivery Contract is acceptable to the Selling Underwriter, it is requested that Salomon Smith Barney sign the form of acceptance below and mail or delivery one of the counterparts hereof to the Purchaser at its address set forth below. This will become a binding contract between Salomon Smith Barney and the Purchaser when such counterpart is so mailed or delivered by Salomon Smith Barney. This Delayed Delivery Contract does not constitute a customer confirmation pursuant to Rule G-15 of the Municipal Securities Rulemaking Board.

The Commonwealth shall be deemed a third party beneficiary of this Delayed Delivery Contract.

This Delayed Delivery Contract shall be construed and administered under the laws of the State of New York.

Purchaser

Address

Telephone

By: _____

Name: _____

Title: _____

Accepted: _____

SALOMON SMITH BARNEY INC.

Name: _____

Title: _____

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FINANCIAL GUARANTY INSURANCE POLICY

**MBIA Insurance Corporation
Armonk, New York 10504**

Policy No. [NUMBER]

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

**[PAR]
[LEGAL NAME OF ISSUE]**

Upon receipt of telephonic or telegraphic notice, such notice subsequently confirmed in writing by registered or certified mail, or upon receipt of written notice by registered or certified mail, by the Insurer from the Paying Agent or any owner of an Obligation the payment of an Insured Amount for which is then due, that such required payment has not been made, the Insurer on the due date of such payment or within one business day after receipt of notice of such nonpayment, whichever is later, will make a deposit of funds, in an account with 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] day of [MONTH, YEAR].

MBIA Insurance Corporation

President

Attest:

Assistant Secretary

SPECIMEN