

**NEW 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 original issue discount. See "TAX EXEMPTION" herein.*



**THE COMMONWEALTH OF MASSACHUSETTS**

**\$500,000,000**

**General Obligation Bonds  
Consolidated Loan of 1998, Series C**

Dated: August 15, 1998

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 Bonds will bear interest from August 15, 1998 and interest will be payable on February 1, 1999 and semiannually thereafter on August 1 and February 1, calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are subject to redemption prior to maturity, as more fully described herein.*

The Bonds will constitute general obligations of The Commonwealth of Massachusetts (the "Commonwealth"), and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and on expenditures for debt service, see "SECURITY FOR THE BONDS" (herein) and the Commonwealth Information Statement (referred to herein) under the headings "COMMONWEALTH REVENUES—Limitations on Tax Revenues" and "COMMONWEALTH BOND AND NOTE 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 Underwriters by their counsel, Palmer & Dodge, LLP, Boston, Massachusetts. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about September 17, 1998.

**Merrill Lynch & Co.**

**Goldman, Sachs & Co.**

**Lehman Brothers**

**PaineWebber Incorporated**

**Salomon Smith Barney**

**Bank Boston, N.A.**

**Advest, Inc.**

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

**First Albany Corporation**

**Prudential Securities Incorporated**

**Roosevelt & Cross, Inc.**

**Fleet Securities, Inc.**

**Artemis Capital Group, Inc.**

**Corby North Bridge Securities**

**Hambrecht & Quist LLC**

**Pryor, McClendon, Counts & Co., Inc.**

**Tucker Anthony Incorporated**

**State Street Bank and Trust Company**

**A.G. Edwards & Sons, Inc.**

**Cowen & Company**

**J.P. Morgan Securities Inc.**

**Raymond James & Associates, Inc.**

**William E. Simon & Sons Municipal  
Securities Inc.**

August 28, 1998

# THE COMMONWEALTH OF MASSACHUSETTS

**\$500,000,000**  
**General Obligation Bonds**  
**Consolidated Loan of 1998, Series C**

**Dated: August 15, 1998**

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

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
2008	\$ 5,000,000	4.40%	100%
2008	30,965,000	5.25	4.40
2009	5,000,000	4.50	100
2009	31,345,000	5.25	4.50
2010	5,000,000	4.60	100
2010	33,300,000	5.25	4.60*
2011	40,365,000	5.25	4.68*
2012	42,545,000	5.25	4.78**
2013	44,840,000	5.25	4.83**
2014	47,255,000	5.25	4.88**
2015	49,805,000	5.25	4.95**
2016	20,000,000	5.25	5.00**
2016	32,445,000	5.00	100
2017	55,320,000	5.25	4.88
2018	27,810,000	5.25	4.90
2018	29,005,000	0.00	5.02

(accrued interest, if any, to be added)

\* Yield to August 1, 2008 (earliest optional redemption date). See "THE BONDS – Redemption; *Optional Redemption*."

\*\* Yield to August 1, 2010 (earliest date for optional redemption at par). See "THE BONDS – Redemption; *Optional Redemption*."

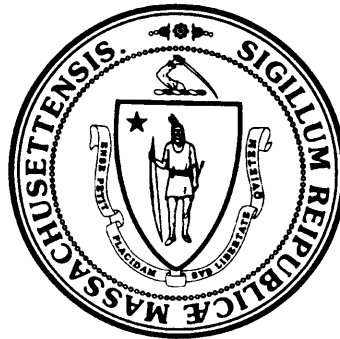
No dealer, broker, salesperson or other person has been authorized by The Commonwealth of Massachusetts or the Underwriters of the Bonds to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations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

**IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS 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**

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

**LEGISLATIVE OFFICERS**

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

## OFFICIAL STATEMENT

### THE COMMONWEALTH OF MASSACHUSETTS

**\$500,000,000**

**General Obligation Bonds  
Consolidated Loan of 1998, Series C**

#### INTRODUCTION

This Official Statement (including the cover pages and Appendices A through C attached hereto provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of \$500,000,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 1998, Series C (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 Commonwealth Information Statement (described below) under the headings "COMMONWEALTH REVENUES—Limitations on Tax Revenues" and "COMMONWEALTH BOND AND NOTE LIABILITIES—Limit on Debt Service Appropriations."

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

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

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

Specific reference is made to the Commonwealth's Information Statement dated May 5, 1998 (the "May Information Statement"), as it appears in the Commonwealth's Official Statement dated April 30, 1998 (except for Appendix A) with respect to its General Obligation Bonds, Consolidated Loan of 1998, Series B (the "1998 Series B Official Statement"). A copy of the 1998 Series B 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 May Information Statement has been supplemented by the Commonwealth Information Statement Supplement dated August 21, 1998 (the "Supplement"), which, except for Exhibit A thereto, is attached hereto as Appendix A. The May 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 May Information Statement contain the financial statements of the Commonwealth for the fiscal year ended June 30, 1997, prepared on a statutory basis and a GAAP basis, respectively. Specific reference is made to said Exhibits A, B and C, copies of which, along with the entire Supplement, have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission.

Appendix B attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Bonds. Appendix C attached hereto contains the proposed form of the Commonwealth's continuing disclosure undertaking to be included in the form of the Bonds to facilitate compliance by the Underwriters with the requirements of paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission.

## THE BONDS

### General

The Bonds will be dated August 15, 1998 and will bear interest from such date payable semiannually on February 1 and August 1 of each year, commencing February 1, 1999 (each an "Interest Payment Date") until the principal amount is paid. The 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 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 Bonds maturing on or prior to August 1, 2008 and maturing on August 1, 2017 and August 1, 2018 will not be subject to redemption prior to their stated maturity dates.

*Optional Redemption.* The Bonds maturing on or after August 1, 2009, except for the Bonds maturing on August 1, 2017 and August 1, 2018, will be subject to redemption prior to their stated maturity dates on or after August 1, 2008 at the option of the Commonwealth from any moneys legally available therefor, in whole or in part at any time, by lot, at the redemption prices (expressed as percentages of the principal amount thereof) plus accrued interest to the redemption date, as follows:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
August 1, 2008 through July 31, 2009, inclusive	101%
August 1, 2009 through July 31, 2010, inclusive	100½
August 1, 2010 and thereafter	100

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

On the specified redemption date, all Bonds called for redemption shall cease to bear interest, provided the Commonwealth has 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. At or about the time it issues the Bonds, the Commonwealth also expects to issue variable-rate general obligation refunding bonds in the aggregate principal amount of \$499,520,000. In anticipation of the issuance of such refunding bonds, the Commonwealth has entered into interest exchange agreements related to such variable-rate bonds under which the Commonwealth will be a fixed-rate payor.

## **Application of Proceeds of the Bonds**

The net proceeds of the sale of the Bonds will be applied by the State Treasurer to the various purposes for which the issuance of bonds has been authorized pursuant to special laws enacted by the Legislature or to reimburse the state treasury for expenditures previously made pursuant to such laws. Any accrued interest payable upon original delivery of the Bonds will be credited ratably to the funds from which debt service on the Bonds is paid and will be used to pay interest on the Bonds. Any premium received by the Commonwealth upon original delivery of the Bonds will be applied to the costs of issuance thereof and other financing costs related thereto or, without appropriation, to the payment of the principal of the Bonds.

## **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 May Information Statement under the headings "COMMONWEALTH REVENUES—Limitations on Tax Revenues" and "COMMONWEALTH BOND AND NOTE LIABILITIES—Limit on Debt Service Appropriations."

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including the Bonds, and all claims with respect thereto. However, the property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires a legislative appropriation. Enforcement of a claim for payment of principal 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.

## **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 May Information Statement under the heading "LITIGATION" and the Supplement under the heading "UPDATE OF EXISTING LITIGATION."

## BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the Bonds. The Bonds will initially be issued exclusively in book-entry form, and one fully registered Bond for each maturity set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, will be deposited with DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants (the "DTC Participants") deposit with DTC. DTC also facilitates the settlement among DTC Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of the DTC Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as banks, securities brokers and dealers, and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants"). The rules applicable to DTC and the DTC Participants are on file with the Securities and Exchange Commission.

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

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

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

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

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

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



**TO THE DTC PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS OR WITH RESPECT TO ANY OTHER ACTION TAKEN BY DTC AS BOND OWNER.**

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

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Commonwealth. Under such circumstances, unless a substitute depository is retained by the Commonwealth, Bonds will be delivered and registered as designated by the Beneficial Owners. The Beneficial Owner, upon registration of Bonds held in the Beneficial Owner's name, will become the Bondowner.

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

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

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

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

**RATINGS**

The Bonds have been assigned ratings by Fitch IBCA, Inc., Moody's Investors Service, Inc. and Standard & Poor's Ratings Service of "AA-," "Aa3" and "AA-," respectively.

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

## UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase all of the Bonds from the Commonwealth at an aggregate purchase price of \$497,816,816.66 (which is equal to the principal amount of the Bonds plus net original issue premium of \$411,374.85 less underwriting discount of \$2,594,558.19), plus accrued interest from the dated date of the Bonds to the delivery date. The Underwriters may offer and sell the Bonds to certain dealers and others (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices (or yields higher than the offering yields) stated on the inside cover page hereof. The principal offering prices (or yields) set forth on the inside cover page hereof may be changed from time to time after the initial offering by the Underwriters.

## 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 the Bonds for federal income tax purposes. This opinion is expressly conditioned upon continued compliance with certain requirements imposed by the Internal Revenue Code of 1986, as amended (the "Code"), which must be satisfied subsequent to the date of issuance of the Bonds in order to assure that the interest on the Bonds is and continues to be excluded from the gross income of the holders of the Bonds. 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. In particular, and without limitation, those requirements include restrictions on the use, expenditure and investment of proceeds of the Bonds 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, since the Bonds are not "private activity bonds" under the Code, 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 the 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 arising with respect to the Bonds. However, prospective purchasers should be aware of certain collateral consequences which may result under federal tax law for certain holders of the Bonds: (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 the 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 certain 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 is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the Bonds. Prospective purchasers should be aware, however, that the Bonds are included in the measure of Massachusetts estate and inheritance taxes, and the Bonds and the interest thereon are included in the measure of Massachusetts corporate excise and franchise taxes. Bond Counsel has not opined as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.

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

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

On the date of delivery of the Bonds, the original purchasers will be furnished with an opinion of Bond Counsel substantially in the form attached hereto as Appendix B - "Form of Opinion of Bond Counsel."

#### **OPINIONS OF COUNSEL**

The unqualified approving opinion as to the legality of the Bonds will be rendered by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. of Boston, Massachusetts, Bond Counsel to the State Treasurer. The proposed form of the opinion of Bond Counsel relating to the Bonds is attached hereto as Appendix B. Certain legal matters will also be passed upon by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. of Boston, Massachusetts, as Disclosure Counsel to the State Treasurer. Certain legal matters will be passed upon for the Underwriters by their counsel, Palmer & Dodge LLP.

#### **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 C attached hereto.

For information concerning the availability of certain other financial information from the Commonwealth, see the May 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 Catherine R. Frazer, Director of Debt Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Official Statement and the Bonds should be directed to John R. Regier or Navjeet Bal, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone 617/542-6000.

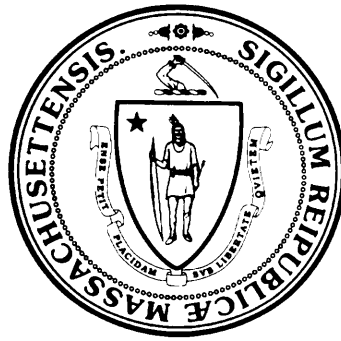
## THE COMMONWEALTH OF MASSACHUSETTS

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

By /s/ Charles D. Baker  
Charles D. Baker  
*Secretary of Administration and Finance*

August 28, 1998

THE  
COMMONWEALTH  
OF  
MASSACHUSETTS



INFORMATION STATEMENT SUPPLEMENT

Dated August 21, 1998

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# THE COMMONWEALTH OF MASSACHUSETTS

## INFORMATION STATEMENT SUPPLEMENT

August 21, 1998

Specific reference is made to the Information Statement dated May 5, 1998 (the "May Information Statement") of The Commonwealth of Massachusetts (the "Commonwealth"), as it appears in the Official Statement dated April 30, 1998 of the Commonwealth with respect to its \$250,000,000 General Obligation Bonds, Consolidated Loan of 1998, Series B (the "Official Statement"). A copy of the 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. This supplement ("Supplement") to the May Information Statement is dated August 21, 1998 and contains information which updates the information contained in the May Information Statement. Exhibit A to this Supplement sets forth certain economic, demographic and statistical information concerning the Commonwealth. This Supplement and the May 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, 1998. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the May Information Statement.

### RECENT DEVELOPMENTS

#### End of Formal Legislative Sessions

Pursuant to the joint rules of the House of Representatives and the Senate, the final formal session of the 1997-1998 legislative session occurred on July 31, 1998. See the May Information Statement under the heading "THE GOVERNMENT—Legislative Branch." It is expected that the Legislature will continue to meet in twice weekly informal sessions until the conclusion of the legislative session on January 5, 1999. Legislation that does not require a formal roll-call vote may be enacted in informal sessions with the unanimous consent of the members present. Bond authorizations and veto overrides are among the matters that require formal roll-call votes. The Legislature is also empowered to suspend its rules and convene in a formal session if each house votes to do so.

#### Fiscal 1999

The House of Representatives approved its version of the fiscal 1999 budget on May 7, 1998, and the Senate approved its version on June 3, 1998. After passage of two interim, partial budgets to provide for expenditures during the first 30 days of the fiscal year, the legislative conference committee appointed to reconcile the two versions of the fiscal 1999 budget released its report on July 20, 1998, and the budget was enacted by the Legislature on the same day. Acting Governor Cellucci approved it on July 30, 1998. The Governor vetoed or reduced appropriations totalling approximately \$100.9 million. On July 31, 1998 the Legislature overrode several of those vetoes, restoring approximately \$63.1 million of appropriations. After accounting for the value of vetoes and subsequent overrides, the budget provides for total appropriations of approximately \$19.5 billion.

The fiscal 1999 appropriation for pension funding is approximately \$965.3 million. This amount is consistent with the amount requested by the Acting Governor, but is approximately \$93.9 million less than the amount required by the most recently approved pension funding schedule. The smaller appropriation is based on the assumption that a revised funding schedule will require reduced funding because of the 1997 change in law eliminating Commonwealth responsibility for funding cost-of-living adjustments incurred by local pension systems. A revised funding schedule has not yet been submitted to the Legislature. See the May Information Statement under the headings "1999 FISCAL YEAR" and "OTHER COMMONWEALTH LIABILITIES—Retirement Systems and Pension Benefits; *Pension Funding Plan*."

The fiscal 1999 budget is based on a consensus tax revenue forecast of \$14.4 billion, as agreed by both houses of the Legislature in May. The tax cuts incorporated into the budget, valued by the Department of Revenue at \$990 million in fiscal 1999, had the effect of reducing the consensus forecast to \$13.41 billion. See "State Taxes." Tax

collections in July, 1998 totalled \$895.5 million, an increase of \$96.4 million, or 12.1%, over July, 1997. On August 19, 1998 the Executive Office for Administration and Finance raised the fiscal 1999 tax estimate by \$200 million to \$13.61 billion. This estimate does not reflect the Acting Governor's recommendation of an additional \$287.5 million tax reduction pursuant to legislation he filed on August 10, 1998. See "Fiscal 1998 Year-end Surplus."

### **Fiscal 1998**

Preliminary results indicate that tax collections for fiscal 1998 totalled approximately \$14.026 billion, an increase of \$1.161 billion, or 9.0%, over fiscal 1997, and approximately \$326 million higher than the final estimate for the year made by the Executive Office for Administration and Finance. On May 5, 1998 the estimate for the year was raised from \$13.154 billion to \$13.3 billion, and on June 10, 1998 it was raised to \$13.7 billion. Projected total fiscal 1998 expenditures are \$18.887 billion, including approximately \$123 million in anticipated additional fiscal 1998 supplemental appropriations. Among the anticipated appropriations are \$46.1 million for Medicaid (see "Medicaid") and \$8 million for environmental remediation of certain underground storage tanks in the Commonwealth. If such remediation efforts are not underway by December 23, 1998, the Commonwealth may be liable for substantial penalties imposed by the federal Environmental Protection Agency.

The Legislature has enacted several bills providing for disposition of the fiscal 1998 surplus, but it has not completed action on final fiscal 1998 appropriations. The final fiscal 1998 supplemental appropriation bill or bills are expected to authorize certain additional post-fiscal 1998 spending to be charged to fiscal 1998. Acting Governor Cellucci has also filed a bill calling for a one-time tax cut of \$287.5 million to be charged to fiscal 1998. See "Fiscal 1998 Year-end Surplus."

### **Medicaid**

Although the Commonwealth has undertaken a number of successful savings and cost control initiatives in the last five years, the Medicaid program has also expanded the income eligibility ceiling from 100% to 133% of the federal poverty level. In fiscal 1998, due to changes in state law and in the state's federal waiver, the Medicaid program enrolled over 150,000 new members. The original appropriations for this health care expansion, based on census data that was several years old, were estimated to fund 83,000 new members. As a result of this higher than expected enrollment, Acting Governor Cellucci has filed a request for supplemental appropriations of \$46.1 million for the health care expansion portion of the Medicaid program. (The Medicaid funding level in the fiscal 1999 budget is sufficient to meet this higher than expected enrollment.) The requested appropriations are expected to bring fiscal 1998 spending to approximately \$3.652 billion, an increase of 5.7% over fiscal 1997. Traditional Medicaid spending has remained within the appropriated spending amounts and expected population growth projections.

### **Fiscal 1998 Year-end Surplus**

Legislation approved by Acting Governor Cellucci on July 21, 1998 increased the ceiling, effective June 30, 1998, on the amount that can be maintained in the Stabilization Fund from 5% to 7.5% of budgeted revenues. See the May Information Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Operating Fund Structure; *Year-end Surpluses*." Based on current estimates of fiscal 1998 results, this change increased the statutory ceiling from approximately \$984.8 million to approximately \$1.477 billion. The current projected fiscal 1998 ending balance in the Stabilization Fund is \$972.2 million, assuming enactment of additional tax cuts aggregating \$287.5 million as proposed by the Acting Governor (see below).

In July, 1998 the Legislature also enacted several bills specifically providing for disposition of the fiscal 1998 surplus:

The fiscal 1999 budget approved by the Acting Governor on July 30, 1998 contains a provision calling for the Comptroller to transfer \$162.5 million, as of June 30, 1998, from the General Fund to a newly established Tax Exemption Escrow Trust Fund. By June 30, 1999 the Comptroller is to transfer \$162.5 million plus interest from the new fund back to the General Fund. The effect of this provision is to charge to fiscal 1998 the approximate cost



allocable to fiscal 1998 of the retroactive income tax reductions approved by the Acting Governor on July 21, 1998. See "State Taxes."

On August 5, 1998, Acting Governor Cellucci approved legislation establishing a new Brownfields Revitalization Fund as of June 30, 1998 and providing for the transfer of \$45 million to that fund, to be used through the 2001 fiscal year to fund a \$15 million access to capital program to be administered by the Massachusetts Office of Business Development and a \$30 million Brownfields Redevelopment Fund to be administered by the Massachusetts Development Finance Agency. The legislation also contains an additional \$12 million in fiscal 1998 appropriations, which are made available through fiscal 2001, to fund brownfields-related costs of the Attorney General and the Department of Environmental Protection.

On August 10, 1998 Acting Governor Cellucci approved legislation establishing a Teacher Quality Endowment Fund and transferring \$60 million from the General Fund into the new fund as of June 30, 1998. Earnings from the investment of moneys credited to the new fund are to be used by the state Commissioner of Education to pay signing bonuses to incoming teachers and salary bonuses to existing teachers under a new master teacher corps program. The corpus of the fund is to be left intact. The legislation also provided for the transfer from the General Fund, as of June 30, 1998, of \$200 million to the Tax Reduction Fund (to be applied to a temporary increase in the personal exemptions applicable to 1998 income taxes) and \$150 million to the Stabilization Fund (in addition to any other transfer required by state finance law). In addition, the legislation authorized approximately \$62.9 million in additional revenues from the state lottery to be distributed to cities and towns on account of fiscal 1998.

Also on August 10, 1998 Acting Governor Cellucci gave his partial approval to legislation providing for a variety of capital appropriations to be charged to fiscal 1998. The bill enacted by the Legislature called for the transfer, as of June 30, 1998, of approximately \$272.4 million from the General Fund and approximately \$106.9 million from the Highway Fund to a Capital Improvement and Investment Trust Fund to finance various specified capital expenditures through fiscal 2000. Acting Governor Cellucci vetoed many of the proposed capital expenditures, reducing the amount of the General Fund transfer to approximately \$96.2 million and the amount of the Highway Fund transfer to \$93 million. The Governor filed legislation on the same day calling for an additional \$287.5 million to be transferred to the Tax Reduction Fund. That bill has been referred to the House Committee on Ways and Means. Under existing law, the effect of the vetoes is to increase the amount of the fiscal 1998 surplus that will be credited to the Stabilization Fund and the Capital Projects Fund. See the May Information Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Operating Fund Structure; *Year-end Surpluses.*"

On August 12, 1998, Acting Governor Cellucci approved a fiscal 1998 supplemental appropriations bill providing for approximately \$70.9 million in fiscal 1998 appropriations to be made available in fiscal 1999 to fund various collective bargaining agreements.

### **Cash Flow Statements**

The cash flow statement for fiscal years 1998 and 1999 which was due on May 25, 1998 has not been released. The next cash flow statement is due on August 25, 1998. See the May Information Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Cash Management Practices of State Treasurer."

### **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 1993 through 1997 and estimates for fiscal 1998 prepared by the Executive Office for Administration and Finance. The spending estimate for fiscal 1998 assumes approval by the Legislature of approximately \$123 million of supplemental appropriations that have not yet been enacted. 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 1998 budget. See the May Information Statement under the heading "FINANCIAL RESULTS."

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

	Fiscal 1993	Fiscal 1994	Fiscal 1995	Fiscal 1996	Fiscal 1997	Estimated Fiscal 1998
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$236.2	\$110.4	\$79.3	\$128.1	\$263.4	\$225.1
Tax Reduction Fund	-	-	-	-	231.7 (2)	91.8
Stabilization Fund	230.4	309.5	382.9	425.4	543.3	799.3
Undesignated	82.8	142.6	127.1	172.5	134.0	277.8
Fund Balance Restatement	=	=	=	=	0.7(3)	(128.0)(4)
<b>Total</b>	<u>549.4</u>	<u>562.5</u>	<u>589.3</u>	<u>726.0</u>	<u>1,173.0</u>	<u>1,266.0</u>
<u>Revenues and Other Sources</u>						
Taxes	9,929.9	10,606.7	11,163.4	12,049.2	12,864.5	14,026.1
Federal Reimbursements	2,674.1	2,901.2	2,969.7	3,039.1	3,019.6	3,370.3
Departmental and Other Revenues	1,327.1	1,187.9	1,273.1	1,208.1	1,267.9	1,288.4
Interfund Transfers from Non-budgeted Funds and Other Sources	<u>778.5</u>	<u>853.9</u>	<u>981.0</u>	<u>1,031.1</u>	<u>1,018.0</u>	<u>1,011.8</u>
<b>Budgeted Revenues and Other Sources</b>	<u>14,709.6</u>	<u>15,549.7</u>	<u>16,387.2</u>	<u>17,327.5</u>	<u>18,170.0</u>	<u>19,696.6</u>
Mass Transit Assessments from Municipalities	137.4	140.4	143.9	147.6	151.5	152.1
Interfund Transfers among Budgeted Funds and Other Sources	<u>358.7</u>	<u>289.1</u>	<u>399.7</u>	<u>896.2</u>	<u>901.8</u>	<u>1,135.2</u>
<b>Total Revenues and Other Sources</b>	<u>15,205.7</u>	<u>15,979.2</u>	<u>16,930.8</u>	<u>18,371.3</u>	<u>19,223.3</u>	<u>20,983.9</u>
<u>Expenditures and Uses</u>						
Programs and Services	12,683.6	13,416.2	14,010.3	14,650.7	15,218.8	16,157.3
Debt Service	1,139.5	1,149.4	1,230.9	1,183.6	1,275.5	1,238.8
Pensions	868.2	908.9	968.8	1,004.6	1,069.2	1,069.9
Interfund Transfers to Non-budgeted Funds and Other Uses (1)	<u>5.1</u>	<u>48.4</u>	<u>40.4</u>	<u>42.2</u>	<u>385.5</u>	<u>421.1</u>
<b>Budgeted Expenditures and Other Uses</b>	<u>14,696.4</u>	<u>15,522.9</u>	<u>16,250.5</u>	<u>16,881.1</u>	<u>17,949.0</u>	<u>18,887.1</u>
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	137.4	140.4	143.9	147.6	151.5	152.1
Interfund Transfers among Budgeted Funds and Other Uses	<u>358.7</u>	<u>289.1</u>	<u>399.7</u>	<u>896.2</u>	<u>901.8</u>	<u>1,135.2</u>
<b>Total Expenditures and Other Uses</b>	<u>15,192.6</u>	<u>15,952.4</u>	<u>16,794.1</u>	<u>17,924.9</u>	<u>19,002.3</u>	<u>20,174.4</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>13.1</u>	<u>26.8</u>	<u>136.7</u>	<u>446.4</u>	<u>221.0</u>	<u>809.5</u>
Transfer of Excess to Capital Projects Fund	--	--	--	--	--	(0.3) (5)
<b>Net Balance</b>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>809.2</u>
<u>Ending Fund Balances</u>						
Reserved or Designated	110.4	79.3	128.1	263.4	225.1	203.7
Tax Reduction Fund	--	--	--	231.7 (2)	91.8	491.0 (6)
Tax Exemption Escrow Trust Fund	--	--	--	--	--	162.5 (7)
Stabilization Fund	309.5	382.9	425.4	543.3	799.3	972.2
Undesignated	<u>142.6</u>	<u>127.1</u>	<u>172.5</u>	<u>134.0</u>	<u>277.8</u>	<u>245.9</u>
<b>Total</b>	<u>\$562.5</u>	<u>\$589.3</u>	<u>\$726.0</u>	<u>\$1,172.4</u>	<u>\$1,394.0</u>	<u>\$2,075.3</u>

SOURCE: Fiscal 1993-1997, Office of the Comptroller; fiscal 1998, Executive Office for Administration and Finance.

1. Includes transfers to the Capital Investment Trust Fund (see the May Information Statement under the heading "1997 FISCAL YEAR END SURPLUS") and the Capital Improvement and Investment Trust Fund (see "Fiscal 1998 Year-end Surplus") for fiscal 1997 and fiscal 1998, respectively.
2. Represents excess amount of \$81.7 million transferred from the Stabilization Fund to the Tax Reduction Fund and a \$150 million appropriation made to the Tax Reduction Fund.
3. The fund balance restatement for fiscal 1997 is the result of the reclassification of the Drug Analysis Fund from a non-budgeted fund to a budgeted fund.
4. The fund balance restatement for fiscal 1998 relates to the Caseload Increase Mitigation Fund. See the May Information Statement under the heading "1997 FISCAL YEAR END SURPLUS."
5. The amount of any Capital Project Fund transfer will be determined by the Comptroller when the books are closed for fiscal 1998 on

- October 31, 1998. After the books are closed, such amount will be treated as an interfund transfer to non-budgeted funds and other uses.
6. Assumes enactment of legislation filed by the Acting Governor on August 10, 1998 providing for an additional transfer of \$287.5 million to the Tax Reduction Fund. See "Fiscal 1998 Year-end Surplus." If such legislation is not enacted, state finance law provides that an additional \$172.5 million will be transferred to the Stabilization Fund and \$115 million will be transferred to the Capital Projects Fund. See the May Information Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Operating Fund Structure; *Year-end Surpluses.*"
  7. See "Fiscal 1998 Year-end Surplus."

## State Taxes

On July 21, 1998, Acting Governor Cellucci approved legislation reducing the rate of tax on "Part A" income (interest and dividends) from 12% to 5.95%, effective January 1, 1999. The fiscal 1999 cost is estimated to be \$117 million; the fully annualized cost is estimated to be \$239 million. The legislation also phased in a doubling of the personal exemptions applicable to the "Part B" ("earned") income tax, effective January 1, 1998, with an estimated fiscal 1999 cost of \$600 million (which includes costs for January 1, 1998 to June 30, 1998) and an estimated fully annualized cost of \$492 million. In addition, the legislation conformed state tax law to federal law with respect to Roth and educational IRA's, deferred compensation, capital gains on the sale of a personal residence, travel and entertainment deductions and the definition of short-term capital gains. The estimated aggregate fiscal 1999 cost of these additional changes is less than \$5 million, and the estimated aggregate annualized cost, excluding the Roth IRA, is also less than \$5 million. The full impact of the Roth IRA change will only be felt as those now contributing to Roth IRA's withdraw their investments, over a period starting more than 20 years from now. The amount of the tax cut due to the Roth IRA change depends on many factors, including the amounts invested, rates of return earned on those investments and the period over which the earnings are withdrawn. No definite estimate is currently available for events so far into the future. See the May Information Statement under the heading "COMMONWEALTH REVENUES—State Taxes; *Income Tax.*"

On July 1, 1998, the proponents of the initiative petition to change the rate on Part B income to the same rate applicable to Part A income filed sufficient additional signatures to place the proposal on the November, 1998 ballot. In light of the subsequent enactment of the legislation described above, the petition would have no effect on the Part B income tax rate unless the Part A rate were to be changed from its current level of 5.95%. See the May Information Statement under the heading "COMMONWEALTH REVENUES—State Taxes; *Income Tax.*"

On August 10, 1998, Acting Governor Cellucci approved legislation that will reduce insurance company taxes over five years in essentially the manner provided in the legislation approved by the House of Representatives on April 30, 1998, though the enacted legislation, unlike the House bill, does not eliminate the 14% surcharge on the gross premium income of property and casualty insurers. The estimated fiscal 1999 cost of these changes is \$5 million, and the estimated fully phased-in aggregate annual value of these tax reductions is \$48 million. See the May Information Statement under the heading "COMMONWEALTH REVENUES—State Taxes; *Insurance Taxes.*"

As noted above under "Fiscal 1998 Year-end Surplus," on August 10, 1998 Acting Governor Cellucci also approved legislation that transfers \$200 million to the Tax Reduction Fund as of June 30, 1998. The legislation directs the Commissioner of Revenue to increase 1998 tax year personal exemptions so as to reduce aggregate taxes by the balance in the Tax Reduction Fund as of December 31, 1998, including any interest earned on the fund's balances. The Executive Office for Administration and Finance estimates that by December 31, 1998 the Tax Reduction Fund will have a balance of approximately \$210 million. The personal exemption increases authorized under this legislation are for the 1998 tax year only. In subsequent years, personal exemptions will revert to their statutorily authorized levels. As also noted above, on August 10, 1998 Acting Governor Cellucci filed legislation calling for the transfer of an additional \$287.5 million to the Tax Reduction Fund as of June 30, 1998.

## The Government

On August 13, 1998, Acting Governor Cellucci approved legislation abolishing county government in Hampshire, Essex and Berkshire Counties on January 1, 1999, July 1, 1999 and July 1, 2000, respectively, generally as provided in the 1997 legislation that abolished county government in Middlesex, Hampden and Worcester counties. See the May Information Statement under the heading "THE GOVERNMENT—Local Government." The Secretary of

Administration and Finance is to conduct an audit of all remaining county assets and liabilities and report to the Legislature by February 1, 1999. The Secretary is also to analyze, in consultation with the Public Employee Retirement Administration Commission, the potential cost to the Commonwealth of transferring current and retired county employees to the state retirement system and report to the Legislature by December 31, 1998. Acting Governor Cellucci vetoed provisions in the legislation that would have placed responsibility for county retirees on the remaining municipalities making up the county retirement system.

### Five-Year Capital Spending

The following table sets forth the Commonwealth's current five-year capital plan. See the May Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING—Five-Year Capital Spending Plan." Except with respect to fiscal 1998, which includes \$50 million for fiscal 1997 expenditures, the table assumes that all Commonwealth bonds related to a particular year's expenditures will be issued in the same year. In practice, Commonwealth capital expenditures usually occur prior to the issuance of the related bonds. Accordingly, it is customary for some Commonwealth bonds to be issued in a subsequent fiscal year to finance capital expenditures made in the prior fiscal year.

The five-year capital plan does not include expenditures from the Capital Investment Trust Fund (see the May Information Statement under the heading "1997 FISCAL YEAR END SURPLUS"), the Capital Improvement and Investment Trust Fund (see "Fiscal 1998 Year-end Surplus") or capital expenditures from any potential year-end surplus (see the May Information Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Operating Fund Structure; Year-end Surpluses").

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

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>Total</u>
<b>Uses of Funds</b>						
Information Technology	\$ 56	\$ 48	\$ 29	\$ 29	\$ 29	\$ 191
Infrastructure	237	214	202	202	202	1,057
Environment	93	119	105	105	105	527
Wastewater Treatment	8	4	35	35	35	117
Housing	67	67	71	71	71	347
Transportation						
Central Artery/Tunnel Project	1,435	1,671	1,575	1,079	568	6,328
All Other	492	535	417	430	482	2,355
Transportation Subtotal	1,927	2,206	1,992	1,508	1,050	8,683
Public Safety	15	9	9	9	9	51
Economic Development	66	51	36	36	36	225
Total Uses	<u>\$ 2,469</u>	<u>\$ 2,718</u>	<u>\$ 2,479</u>	<u>\$ 1,995</u>	<u>\$ 1,537</u>	<u>\$ 11,198</u>
<b>Sources of Funds</b>						
Commonwealth Long Term Debt	\$ 1,050	\$ 1,000	\$ 1,000	\$ 1,000	\$ 1,000	\$ 5,050
Commonwealth Notes	0	0	0	80	55	135
Third Party-Supported Expenditures	245	670	412	131	31	1,489
Grant Anticipation Notes	294	450	521	235	0	1,500
Federal Aid	930	598	547	550	450	3,074
Total Sources	<u>\$ 2,519</u>	<u>\$ 2,718</u>	<u>\$ 2,479</u>	<u>\$ 1,995</u>	<u>\$ 1,537</u>	<u>\$ 11,248</u>

SOURCE: Executive Office for Administration and Finance.

Due to the size and complexity of the Commonwealth's capital program, and other factors, the timing and amount of actual capital expenditures and debt issuances over the period will likely vary somewhat from the annual spending amounts contained in the five-year capital spending plan.

On July 1, 1998, the responsibility for monitoring the five-year capital plan was transferred from the Executive Office for Administration and Finance to the Fiscal Affairs Division (formerly Budget Bureau) within the

Executive Office. The Fiscal Affairs Division is reviewing agency spending plans and expects in September, 1998 to complete its review and publish a revised five-year capital spending plan incorporating spending projections through fiscal 2003, consistent with the current \$1 billion administrative limit on the amount of bond-financed state capital spending.

### **Federal Highway Funding**

On June 9, 1998, the President approved the Transportation Equity Act for the 21<sup>st</sup> Century ("TEA-21"), successor legislation to the Intermodal Surface Transportation Efficiency Act of 1991. See the May Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING—Five-Year Capital Spending Plan." Technical corrections to TEA-21 were approved by the President on July 22, 1998. TEA-21, as amended, clarifies the amount of federal highway aid the Commonwealth can expect to receive through federal fiscal year 2003. (Federal fiscal years end on September 30.) According to the Federal Highway Administration, Commonwealth apportionments for those years are as follows: \$642.9 million in federal fiscal year 1998, \$486.9 million in federal fiscal year 1999, \$496.8 million in federal fiscal year 2000, \$506.0 million in federal fiscal year 2001, \$515.5 million in federal fiscal year 2002 and \$525.0 million in federal fiscal year 2003. As a result of the annual Congressional appropriations process, it is likely that the Commonwealth will receive an annual obligation authority ceiling at the outset of each year that is less than 100% of the estimated apportionments during the six-year life of the legislation. ("Obligation authority" is the amount of federal funds that a state can obligate in a given federal fiscal year.) Additional funding may be available at the end of each federal fiscal year through Federal Highway Administration redistributions of unused obligation authority from states unable to use their full amount to those states with the greatest need.

For federal fiscal year 1998, the Commonwealth's total obligation authority, not including any redistribution benefit, is \$567.6 million, or 88% of its TEA-21 apportionment. For federal fiscal year 1999, both houses of Congress have passed appropriations bills that set the nationwide obligation authority at 90% of the TEA-21 apportionment level for that year. These bills are now subject to conference committee negotiations. If the 90% funding level survives conference committee and is included in the appropriations bill both houses pass into law, the Federal Highway Administration will use the appropriations bill to apply distribution formulas set in TEA-21 to establish state-by-state obligation authority ceilings. Under such a scenario, the 10% initial reduction in funding is expected to be spread evenly among the states.

For financial planning purposes in the project finance plans for the Central Artery/Ted Williams Tunnel project, the Federal Highway Administration allows the Commonwealth to assume obligation authority equal to 100% of the annual apportionment, but no redistribution. Accordingly, the Commonwealth's five-year capital plan assumes federal highway aid equal to 100% of the TEA-21 apportionments for the 1999 fiscal year and beyond. For fiscal 1998, the plan assumes the \$567.6 million in obligation authority already made available to Massachusetts with no consideration given for redistribution. See "Five-Year Capital Spending Plan."

### **Metropolitan Highway System**

On June 23, 1998 the Supreme Judicial Court ruled that the Attorney General had improperly certified the initiative petition that would have prohibited the collection of tolls relating to the Metropolitan Highway System, the Massachusetts Turnpike and the Tobin Bridge because the petition involved matters excluded from the initiative petition process by the state constitution. Accordingly, the petition will not be placed before the voters. See the May Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING—Metropolitan Highway System."

On May 18, 1998 Acting Governor Cellucci approved legislation authorizing a \$1.5 billion federal highway grant anticipation note program. See the May Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING—Proposed Capital Spending Authorizations." This legislation amended the original grant anticipation note authorization enacted in 1997 by providing authorization for the issuance of up to \$1.5 billion in grant anticipation notes to provide partial funding for the Central Artery/Ted Williams Tunnel project and establishing a Federal Highway Grant Anticipation Note Trust Fund as the primary credit support for grant anticipation note financings. The legislation contains a statutory covenant that as long as any such grant anticipation notes remain outstanding, the Commonwealth will deposit all federal highway reimbursements into the trust fund, to

be released to the Commonwealth once all the debt service and reserve funding obligations of the trust agreement securing the grant anticipation notes have been met. If the United States Congress reduces the aggregate amount appropriated nationwide for federal highway spending to less than \$17.1 billion *and* debt service coverage with respect to the notes falls below 120%, then the legislation further pledges that 10¢ per gallon of existing motor fuel tax collections will be deposited into the trust fund, to be used for debt service on the notes, subject to legislative appropriation. The notes are not general obligations of the Commonwealth. The legislation authorizes the issuance of notes yielding aggregate net proceeds of up to \$1.5 billion, to mature no later than June 30, 2015, although the amount of notes that can be issued is currently capped at \$900 million, the amount of the capital appropriation that was enacted in connection with the initial grant anticipation note authorization in 1997, until additional spending is authorized. An increase in the related appropriation item is expected to be requested by the Governor in early 1999. On June 30, 1998 the Commonwealth issued grant anticipation notes with a face amount of \$600 million, yielding net proceeds of approximately \$580.6 million and maturing between fiscal 2006 and fiscal 2015, inclusive. Under the trust agreement securing the notes, which will secure the entire \$1.5 billion program, aggregate annual debt service on grant anticipation notes may not exceed \$216 million.

On August 7, 1998, Acting Governor Cellucci approved legislation authorizing advances from the state treasury, effective as of June 30, 1998, and the issuance of up to \$600 million of general obligation notes in anticipation of contributions to the Central Artery/Ted Williams Tunnel project expected to be made by the Massachusetts Port Authority and the Massachusetts Turnpike Authority. Such notes must mature by June 30, 2007. This legislation will enable the Commonwealth to reimburse certain expenses incurred by the project in fiscal 1998 by the issuance of such notes, as envisioned by the project finance plan. As contemplated by the September 12, 1997 memorandum of understanding between the Turnpike Authority and the Executive Office for Administration and Finance, this legislation also provides for the Commonwealth to enter into a contract with the Turnpike Authority providing for payments by the Commonwealth of up to \$25 million per year for forty years for the operation and maintenance of the Central Artery following the transfer of operating responsibility for the Central Artery from the Massachusetts Highway Department to the Turnpike Authority. The legislation provides that the contract will be a general obligation of the Commonwealth for which the the faith and credit of the Commonwealth will be pledged for the benefit of the Turnpike Authority and of the holders of any bonds or notes of the Turnpike Authority which may be secured by a pledge of the contract or of amounts to be received by the Turnpike Authority under the contract. See the May Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING—Metropolitan Highway System" and "—Proposed Capital Spending Authorizations."

On July 23, 1998 a joint asset assessment study was submitted to the Legislature by the Executive Office for Administration and Finance, the Department of the State Auditor, the Division of Capital Planning and Operations, the Turnpike Authority and the Port Authority, as required by legislation approved in March, 1997. See the May Information Statement under the heading "COMMONWEALTH CAPITAL SPENDING—Metropolitan Highway System." The 1997 legislation required that the study identify any additional segments of the Metropolitan Highway System and the value of such segments that might be acquired by the Port Authority in connection with an additional payment of up to \$100 million to the Commonwealth. The study concludes that the Port Authority has the capacity to finance the acquisition of roadways valued at up to \$300 million and recommends that certain roadways identified in the study be transferred to the Port Authority in exchange for payments totalling up to \$300 million, based on the value to the Port Authority of the acquired roadways as determined in accordance with a methodology described in the study. On August 13, 1998 the Port Authority and the Executive Office for Administration and Finance entered into a new memorandum of understanding, superseding the July 25, 1997 memorandum of understanding, which acknowledges the \$12,115,000 payment made by the Port Authority in September, 1997 and provides that the Port Authority will, subject to a definitive agreement among the Port Authority, the Massachusetts Highway Department and the Turnpike Authority with respect to the Port Authority's paying \$300 million in the aggregate for the assets identified in the joint study, make payments to the Commonwealth according to the following schedule: \$30,735,000 in fiscal 1999, \$52,236,000 in fiscal 2000, \$104,914,000 in fiscal 2003, \$50 million in fiscal 2004 and \$50 million in fiscal 2005. The Port Authority has also agreed to use diligent efforts to enter into an agreement with the Turnpike Authority and the Massachusetts Highway Department by September 30, 1998.

On July 28, 1998, the State Auditor, who had participated in the joint asset assessment study, issued a report which, among other items, questions whether the transfer of cash from the Port Authority to the Commonwealth and the transfer of roadway assets from the Commonwealth to the Port Authority can lawfully be consummated as planned. The report acknowledges that officials at the Federal Highway Administration and the Central Artery/Ted Williams Tunnel project have determined that the transaction can be consummated as planned. Other Commonwealth officials and the Port Authority have made a similar determination.

The table below presents the projected sources and uses of funds for the Central Artery/Ted Williams Tunnel project from fiscal 1998 to fiscal 2005, inclusive. The table is based on the project's construction cost review as of March 31, 1998 and reflects federal highway reimbursement projections that are consistent with expected funding levels under TEA-21. (As noted above, the table assumes receipt of the full state apportionment under TEA-21. See "Federal Highway Funding.") Federal reimbursements are projected to be slightly lower than the average apportionment of \$550 million per year that the Commonwealth had assumed prior to the passage of TEA-21. Federal reimbursements through fiscal 2005 are approximately \$141 million lower than previous estimates. The Commonwealth has increased its general obligation funding for the project by approximately \$36 million, consistent with the \$1 billion annual capital spending plan limitation. An additional \$100 million will be provided from the Massachusetts Turnpike Authority to be received in fiscal 2000, bringing the Turnpike Authority's contribution to \$1.3 billion financed from the combination of future toll increases, operating efficiencies and additional non-toll revenues.



Central Artery Construction Cash Flow  
(in thousands)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>Total</u>
<b>Central Artery Construction Uses</b>	\$1,434,711	\$1,670,516	\$1,575,204	\$1,078,905	\$568,322	\$322,958	\$241,579	\$28,197	\$6,920,392
<b>Central Artery Construction Sources</b>									
Federal highway reimbursements	\$787,699	\$419,608	\$417,264	\$433,477	\$331,734	\$257,759	\$190,214	\$16,849	\$2,854,604
Commonwealth general obligation bonds and bond anticipation notes	107,900	131,000	225,000	280,000	205,302	61,998	44,092	10,496	1,065,788
Third-party payments and notes issued in anticipation thereof	245,051	669,828	411,759	130,750	31,286	3,201	7,273	852	1,500,000
Federal grant anticipation notes	<u>294,061</u>	<u>450,080</u>	<u>521,181</u>	<u>234,678</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>1,500,000</u>
<b>Total Sources</b>	<u>\$1,434,711</u>	<u>\$1,670,516</u>	<u>\$1,575,204</u>	<u>\$1,078,905</u>	<u>\$568,322</u>	<u>\$322,958</u>	<u>\$241,579</u>	<u>\$28,197</u>	<u>\$6,920,392</u>

Interim Debt Schedule  
(in thousands)

	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>Total</u>
<b>Issuance</b>													
Federal grant anticipation notes	\$294,061	\$450,080	\$521,181	\$234,678	0	0	0	0	0	0	0	0	\$1,500,000
Notes in anticipation of third-party payments	232,936	73,154	190,433	65,750	22,993	0	0	0	0	0	0	0	585,266
Bond anticipation notes	<u>0</u>	<u>0</u>	<u>0</u>	<u>80,000</u>	<u>55,302</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>135,302</u>
<b>Total Issuance</b>	<u>\$526,997</u>	<u>\$523,234</u>	<u>\$711,614</u>	<u>\$380,428</u>	<u>\$78,295</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>\$2,220,568</u>
<b>Interim Debt Retirement</b>													
Federal reimbursements	0	0	0	0	0	\$88,414	\$205,630	\$267,414	\$275,000	\$275,000	\$275,000	\$113,542	\$1,500,000
Third-party payments	0	0	0	0	0	493,391	42,727	49,148	0	0	0	0	585,266
General obligation bonds	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>38,002</u>	<u>35,908</u>	<u>61,392</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>135,302</u>
<b>Total Retirement</b>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>\$619,807</u>	<u>\$284,265</u>	<u>\$377,954</u>	<u>\$275,000</u>	<u>\$275,000</u>	<u>\$275,000</u>	<u>\$113,542</u>	<u>\$2,220,568</u>

SOURCE: Executive Office for Administration and Finance

## Update of Proposed Capital Spending Authorizations

On July 28, 1998 Acting Governor Cellucci approved a revised version of the bond authorization bill that former Governor Weld had vetoed on May 16, 1997. The 1998 legislation authorizes \$730.3 million of capital spending, to be funded by Commonwealth general obligation bonds, for courthouses owned and to be owned by the Commonwealth.

On August 7, 1998 Acting Governor Cellucci approved legislation authorizing \$296 million in Commonwealth general obligation bonds to finance the renovation of existing public housing units and other low-income housing creation and improvement projects.

On July 28, 1998 the House of Representatives rejected the Senate version of the Foxboro Stadium legislation and approved a slightly modified version of its earlier bill. No further action was taken by the Senate prior to the conclusion of the last scheduled formal legislative session on July 31, 1998.

On June 30, 1998 the House of Representatives approved MBTA bond legislation that would have authorized the Massachusetts Bay Transportation Authority to issue an additional \$315.7 million of bonds to be backed by 90% Commonwealth contract assistance and would also have authorized the issuance of \$675 million of Commonwealth general obligation bonds to "forward fund" the operations of the MBTA as contemplated by the legislation earlier approved by the House Committee on Ways and Means. On July 31, 1998 the Senate approved a modified version of the bill providing for \$143.2 million of MBTA bonds and eliminating the forward-funding provisions. A conference committee was appointed to reconcile the differences between the two bills, but the committee did not release its report prior to the conclusion of the last scheduled formal legislative session on July 31, 1998.

The legislation approved by Acting Governor Cellucci on August 10, 1998 establishing the Capital Improvement and Investment Trust Fund also authorized the issuance of \$10 million of Commonwealth general obligation bonds for a program of loan guaranties and interest subsidies to disabled homeowners who need to modify their homes.

On April 28, 1998 Acting Governor Cellucci filed legislation to provide for the widening and improvement of state Route 3 North by means of a design/build procurement and private financing. Under the bill, the Secretary of Transportation and Construction would solicit proposals from private developers to enter into a lease/lease-back arrangement with the Massachusetts Highway Department for a term of up to 40 years. The credit of the Commonwealth would not be pledged to the payment of any debt instruments issued for the project. On May 15, 1998 the Executive Office of Transportation and Construction and the Highway Department issued a request for qualifications/proposals consistent with the proposed legislation, estimating the cost of the project to be \$200 million and contemplating the issuance of tax exempt bonds by a special purpose "63-20" corporation. On July 20, 1998 the Legislature's Committee on Transportation approved a revised version of the legislation, limiting the cost of the project to \$200 million, requiring any debt to be tax exempt and limiting the annual lease payments to be made by the Highway Department to \$18 million. Otherwise, the Secretary of Transportation and Construction would have to receive specific approval of the agreement with the developer from the Transportation Committee. On July 30, 1998 the House of Representatives approved the bill. On July 31, 1998 the Senate approved an amended version of the bill, limiting the term of the arrangement to the lesser of 25 years or the useful life of the project, limiting the aggregate cost, including interest expense, to \$265 million and requiring a project labor agreement. Later that day, the House rejected the Senate amendments. The bill awaits further action by the Senate.

On July 1, 1998 the House of Representatives approved legislation that would authorize the issuance of \$134 million in Commonwealth general obligation bonds for the purpose of preserving and maintaining certain real property assets of the Commonwealth. On July 31, 1998 the Senate approved a revised version of the bill providing for \$293 million in new bond authorizations. The House rejected certain provisions in the Senate bill, and no final legislative action was taken prior to the conclusion of the final scheduled formal legislative session.

## Update of Existing Litigation

In *Hodge v. Gallant* (Suffolk Superior Court No. 93-0290G), the parties have stipulated to the dismissal of the case.

In *Massachusetts Wholesalers of Malt Beverages s. Commonwealth* (Suffolk Superior Court No. 90-1523), litigation with the remaining group of plaintiffs, the Massachusetts Wholesalers of Malt Beverages has been settled. The Legislature has appropriated approximately \$8 million to implement the terms of the resulting judgment.

In *Perini Corporation v. Commissioner of Revenue* (Supreme Judicial Court No. 6657) the Department of Revenue has paid approximately \$17 million to date in abatements in accordance with the judgment rendered in the case. To date, the total amount for abatements requested, including those that have been paid, and that are in the process of being evaluated, is \$35 million.

In *Spaulding Rehabilitation Hospital Corporation v. Massachusetts Highway Department* (Suffolk Superior Court No. 95-4360C), the plaintiff has appealed the Superior Court's judgment for the Commonwealth dismissing the complaint.

*Commonwealth of Massachusetts v. Ruggles Center Joint Venture* (Suffolk Superior Court No. 47-1764-A) and *Ruggles Center, LLC v. Beacon Construction Corporation* (Suffolk Superior Court No. 96-0637-E) have been consolidated for discovery. Total potential liability to the Commonwealth in these cases is approximately \$35 million.

In *DiBiase v. Commissioner of Insurance* (Supreme Judicial Court No. 7754), the Supreme Judicial Court has ordered direct appellate review of the case.

In *Boston Wharf Co. v. Commonwealth of Massachusetts* (Suffolk Superior Court No. 96-0028), judgment was entered on April 22, 1998 which requires the Commonwealth to pay \$16 million.

*Thomas Rich v. Commonwealth of Massachusetts* (Norfolk Superior Court No. 94-2319) and *Shea v. Commonwealth* (Norfolk Superior Court No. 97-1070-B) are eminent domain cases concerning property in the City of Quincy. The Commonwealth faces a potential liability of \$30 million. The cost of remediation of contaminated soil will also be an issue.

Pursuant to a verdict on the Trilling Way parcel in *P&P Realty Co., Inc. v. Department of Public Works* (Suffolk Superior Court No. 92-2081), the Commonwealth will pay \$6 million. The Commonwealth's total potential liability remains \$22 million.

## YEAR 2000 COMPLIANCE

The "year 2000 problem" is the result of shortcomings in many electronic data processing systems and other equipment that make operations beyond the year 1999 troublesome. For many years, computer programmers eliminated the first two digits from a year when writing programs. Accordingly, many programs, if not corrected, will not be able to distinguish between the year 2000 and the year 1900. This may cause the programs to process data inaccurately or to stop processing data altogether. Another factor that may cause problems in programs is that some programs are unable to detect the year 2000 as a leap year. Problems affecting a wide range of governmental activities are likely to result if computers and other electronic equipment that are dependent upon date-sensitive coding are not corrected. These problems have the potential for causing a disruption of government services.

In June, 1997, the Executive Office for Administration and Finance established a Year 2000 Program Management Office within its Information Technology Division. The purpose of the office is to ensure accurate monitoring of the Commonwealth's progress in achieving "year 2000 compliance," *i.e.*, remediating or replacing and redeploying affected systems, as well as to identify risk areas and risk mitigation activities and serve as a resource for all state agencies and departments. The program management office has asked agencies to identify "mission critical" and "essential" systems. Mission critical systems are those which directly affect the health, safety

or livelihood of citizens, which directly affect state revenues or whose loss would severely jeopardize agency delivery of services. Essential systems are those whose loss would cause a disruption of some agency services but would not prevent the agency from delivering primary services. The most recent report issued by the program management office on July 22, 1998 for the April-June, 1998 quarter indicates that the office is currently monitoring year 2000 compliance efforts for 169 state agencies, including independent agencies and constitutional offices. The office assigns a quarterly status code – green (low risk), yellow (medium risk) or red (significantly high risk) – to agencies based on information collected from telephone and personal interviews. The criteria for the status codes becomes increasingly more stringent each quarter; the status codes for the most recent quarter are based on the likelihood for achieving year 2000 compliance with respect to mission critical systems by January 31, 1999 and with respect to essential systems by May 31, 1999. Of the 169 state agencies rated for the April-June, 1998 quarter, 110 were rated green, 27 were rated yellow and 32 were rated red. Those agencies have identified 261 mission critical systems and 192 essential systems; 173, or 66%, of the mission critical systems and 115, or 60%, of the essential systems are not yet compliant. The report notes that approximately 20% of the agencies had regressed on their compliance efforts, adding to the number of high-risk systems. There are still agencies that do not have effective compliance projects in place. Few agencies have begun to address the need for contingency planning. The report also notes that year 2000 exposure for “embedded systems,” particularly devices used for control systems is high. This exposure affects only a few agencies, but the impact of failures would be significant, *e.g.*, switches and signals for the MBTA, a variety of systems at Logan Airport for the Port Authority, toll collection and ticket systems for the Turnpike Authority, water and sewer management and treatment systems for the Massachusetts Water Resources Authority and traffic signals for the Massachusetts Highway Department.

Legislation approved by the Acting Governor on August 10, 1998 appropriates \$20.4 million for expenditure by the Information Technology Division to achieve year 2000 compliance for the six Executive Offices and other departments which report directly to the Governor. This amount, together with previously appropriated amounts and expenditures at the departmental level from existing funds, is anticipated to be sufficient to meet most of the remediation efforts for such Executive Offices and departments. The Secretary of Administration and Finance is to report quarterly to the Legislature on the progress being made to address the year 2000 compliance efforts, and to assess the sufficiency of funding levels.

### **COMMONWEALTH BOND AND NOTE LIABILITIES**

The following table sets forth the Commonwealth bond and note liabilities outstanding as of July 1, 1998.

**Commonwealth Bond and Note Liabilities**  
**July 1, 1998**  
(in thousands)

	<u>Long-Term</u> (1)	<u>Short-Term</u>
<b>COMMONWEALTH DEBT</b>		
General Obligation Debt	\$ 9,803,288 (2)	0
Special Obligation Debt	606,005	0
Federal Grant Anticipation Notes	<u>600,000</u> (3)	<u>0</u>
Subtotal Commonwealth Debt	<u>11,009,293</u>	<u>0</u>
<b>COMMONWEALTH-SUPPORTED DEBT</b>		
Massachusetts Bay Transportation Authority	3,210,730 (4)	\$325,000 (5)
Massachusetts Convention Center Authority	116,259	0
Massachusetts Government Land Bank	85,645	0
Boston Metropolitan District	38,992	0
Steamship Authority	34,123	5,000
Regional Transit Authorities	<u>0</u>	<u>71,730</u>
Subtotal Supported Debt	<u>3,485,749</u>	<u>401,730</u>
<b>COMMONWEALTH-GUARANTEED DEBT</b>		
Massachusetts Turnpike Authority	0	55,905
Higher Education Building Authorities	<u>234,069</u>	<u>0</u>
Subtotal Guaranteed Debt	<u>234,069</u>	<u>55,905</u>
<b>TOTAL COMMONWEALTH BOND AND NOTE LIABILITIES</b>	<b><u>\$14,729,111</u></b>	<b><u>\$457,635</u></b>

- (1) Long-term debt includes discount and costs of issuance. Does not include long-term capital lease obligations. See the May Information Statement under the headings "COMMONWEALTH BOND AND NOTE LIABILITIES—Indirect Obligations: *Plymouth County Certificates of Participation*" and "OTHER COMMONWEALTH LIABILITIES—Long-Term Capital Leases."
- (2) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from July 1, 1998 through their maturity in the amount of \$304.5 million. On August 1, 1998 the Commonwealth issued \$17.7 million of general obligation bonds under the U. Plan. See the May Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES—General Obligation Debt: *U. Plan.*"
- (3) See "Metropolitan Highway System."
- (4) Includes bonds and refunding bonds, excluding such bonds that have been refunded. Does not include certificates of participation and other long-term lease obligations.
- (5) Includes \$160 million of notes due September 4, 1998 and \$165 million of notes due February 26, 1999. The MBTA has solicited bids for the sale on September 1, 1998 of \$160 million of notes to be issued on September 3, 1998 and to mature on September 3, 1999. In addition, as of August 21, 1998, the MBTA has outstanding \$146.2 million of commercial paper issued as bond anticipation notes. See the May Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES - Commonwealth Supported Debt: *Massachusetts Bay Transportation Authority.*"

**OTHER COMMONWEALTH LIABILITIES**

**Unemployment Compensation Trust Fund**

The assets and liabilities of the Commonwealth Unemployment Compensation Trust Fund are not assets and liabilities of the Commonwealth. As of June 30, 1998 the private contributory sector of the Massachusetts Unemployment Trust Fund had a surplus of \$1.604 billion. The Division of Employment and Training's April, 1998, quarterly report indicated that the contributions provided by current law should result in a private contributory account balance of \$1.7 billion in the Unemployment Compensation Trust Fund by December, 1998 and rebuild reserves in the system to \$2.305 billion by the end of 2002. See Exhibit A, "Economic Information," under the heading "Employment—Unemployment."

## AVAILABILITY OF OTHER INFORMATION

Questions regarding this Supplement or the May Information Statement or requests for additional financial information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Deputy Treasurer, Office of the Treasurer-Receiver General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900, or Catherine Frazer, Director of Debt Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Supplement or the May Information Statement should be directed to John R. Regier or Navjeet K. Bal, 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/ Joseph D. Malone  
Joseph D. Malone  
*Treasurer and Receiver-General*

By /s/ Charles D. Baker  
Charles D. Baker  
*Secretary of Administration and Finance*

August 21, 1998

PROPOSED FORM OF OPINION OF BOND COUNSEL

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

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

One Financial Center  
Boston, Massachusetts 02111

701 Pennsylvania Avenue, N.W.  
Washington, D.C. 20004  
Telephone: 202/434-7300  
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Telephone: 617/542-6000  
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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 \$500,000,000 General Obligation Bonds, Consolidated Loan of 1998, Series C, dated August 15, 1998 (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.



Commonwealth of Massachusetts  
 General Obligation Bonds  
 Consolidated Loan of 1998, Series C

Continuing Disclosure Undertaking

[to be included in bond form]

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the Bonds to provide to each nationally recognized municipal securities information repository (each, a "NRMSIR") within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the "Rule") and to the state information depository for the Commonwealth, if any (the "SID"), within the meaning of the Rule, no later than 270 days after the end of each fiscal year of the Commonwealth, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Commonwealth for such fiscal year if audited financial statements are then available, provided, however, that if audited financial statements of the Commonwealth are not then available, such audited financial statements shall be delivered to each NRMSIR and the SID when they become available (but in no event later than 350 days after the end of such fiscal year) or (ii) notice of the Commonwealth's failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Commonwealth's Information Statement dated May 5, 1998 (the "Information Statement"), as it appears in the Official Statement dated April 30, 1998 (except for Appendix A) relating to the Commonwealth's General Obligation Bonds, Consolidated Loan of 1998, Series B, and substantially in the same level of detail as is found in the referenced section of the Information Statement:

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

<b>Financial Information and Operating Data Category</b>	<b>Reference to Information Statement for Level of Detail</b>
6. If and to the extent otherwise updated in the prior fiscal year, summary presentation of the size of the state workforce	"COMMONWEALTH PROGRAMS AND SERVICES - State Workforce"
7. Statement of Commonwealth bond and note liabilities as of the end of the prior fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Overview - Outstanding Bond and Note Liabilities"
8. Five-year comparative presentation of long term Commonwealth debt and selected Commonwealth-supported debt as of the end of the prior fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Overview - Long Term Bond Liabilities"
9. Annual fiscal year debt service requirements for Commonwealth general obligation and special obligation bonds, beginning with the current fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Debt Service Requirements on Commonwealth Bonds"
10. So long as Commonwealth statutes impose a limit on the amount of outstanding "direct" bonds, information as to compliance therewith as of the end of the prior fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Statutory Debt Limit on Direct Bonds"
11. Five-year summary presentation of authorized but unissued general obligation debt and actual capital project expenditures	"COMMONWEALTH BOND AND NOTE LIABILITIES - Authorized But Unissued Debt"
12. Annual fiscal year debt service contract assistance requirements for Commonwealth-supported debt, beginning with the current fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Debt Service Contract Assistance Requirements on Commonwealth-Supported Debt"
13. Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any	"OTHER COMMONWEALTH LIABILITIES - Retirement Systems and Pension Benefits"
14. Summary presentation of operating lease commitments for future fiscal years as of the end of the prior fiscal year	"OTHER COMMONWEALTH LIABILITIES - Long Term Operating Leases"
15. Summary presentation of long-term capital leases for future fiscal years as of the end of the prior fiscal year	"OTHER COMMONWEALTH LIABILITIES - Long Term Capital Leases"
16. Summary presentation of school building assistance program commitments for future fiscal years as of the end of the prior fiscal year	"OTHER COMMONWEALTH LIABILITIES - School Building Assistance"

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

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

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

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

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

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

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

**(i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances, and (ii) the amendment does not materially impair the interests of the owners of the Bonds, as determined either by a party unaffiliated with the Commonwealth (such as Commonwealth disclosure counsel or Commonwealth bond counsel) or by the vote or consent of owners of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment.**

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DO NOT STAPLE THIS FORM

S R B FORM G - 3 6 (O S) - F O R O F F I C I A L S T A T E M E N T S

SECTION I - MATERIALS SUBMITTED

THIS FORM IS SUBMITTED IN CONNECTION WITH (check one):

1. [X] A FINAL OFFICIAL STATEMENT RELATING TO A PRIMARY OFFERING OF MUNICIPAL SECURITIES (enclose two (2) copies)
(a) DATE RECEIVED FROM ISSUER: 09/03/1998 (b) DATE SENT TO MSRB: 09/03/1998

2. [ ] AN AMENDED OFFICIAL STATEMENT WITHIN THE MEANING OF RULE G-36(d) (enclose two (2) copies)
(a) DATE RECEIVED FROM ISSUER: (b) DATE SENT TO MSRB:

IF MATERIALS SUBMITTED WITH THIS FORM CONSIST OF MORE THAN ONE DOCUMENT (e.g. preliminary official statement and wrap, even if physically attached), PLEASE CHECK HERE: [X] C. IF THIS FORM AMENDS PREVIOUSLY SUBMITTED FORM WITHOUT CHANGING MATERIALS SUBMITTED, PLEASE CHECK HERE (include copy of original form G-36 (OS)): [ ]

SECTION II - IDENTIFICATION OF ISSUE(S)

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

NAME OF ISSUER: THE COMMONWEALTH OF MASSACHUSETTS GENERAL OBLIGATION BOND CONSOLIDATED LOAN OF 1998, SERIES C
DESCRIPTION: CURRENTS
STATE: MA
DATE: 08/15/1998

NAME OF ISSUER:
DESCRIPTION:
STATE:
DATE:

NAME OF ISSUER:
DESCRIPTION:
STATE:
DATE:

SECTION III - TRANSACTION INFORMATION

LATEST FINAL MATURITY DATE OF ALL SECURITIES IN OFFERING: 08/01/2018
DATE OF FINAL AGREEMENT TO PURCHASE, OFFER OR SELL SECURITIES (Date of Sale): 08/28/1998
ACTUAL OR EXPECTED DATE OF DELIVERY OF SECURITIES TO UNDERWRITER(S) (Bond Closing): 09/17/1998
IF THESE SECURITIES ADVANCE REFUND ALL OR A PORTION OF ANOTHER ISSUE, PLEASE CHECK HERE: [ ]
A separate Form G-36(ARD) and copies of the advance refunding documents must be submitted for each issue advance refunded.

SECTION IV - UNDERWRITER ASSESSMENT INFORMATION

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

MANAGING UNDERWRITER: Merrill Lynch & Co. SEC REG. NUMBER: 007691

TOTAL PAR VALUE OF ALL SECURITIES IN OFFERING \$ 500,000,000
PAR AMOUNT OF SECURITIES UNDERWRITTEN (if different from the amount shown in item B above): \$
CHECK ALL THAT APPLY

- 1. [ ] At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent.
2. [ ] At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent.
3. [ ] This offering is exempt from SEC rule 15c2-12 under section (c)(1) of that rule. Section (c)(1) of SEC rule 15c2-12 states that an offering is exempt from the requirements of the rule if the securities offered have authorized denominations of \$100,000 or more and sold to no more than 35 persons each of whom the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment; and (2) is not purchasing for more than one account, or with a view toward distributing the securities.

SECTION V - CUSIP INFORMATION

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

CUSIP-9 NUMBERS OF THE ISSUE(S)

Maturity Date	CUSIP Number	Maturity Date	CUSIP Number	Maturity Date	CUSIP Number
08/01/2008A	575827RM4	08/01/2008B	575827RY8	08/01/2009A	575827RN2
08/01/2009B	575827RZ5	08/01/2010A	575827RP7	08/01/2010B	575827SA9
08/01/2011A	575827RQ5	08/01/2012A	575827RR3	08/01/2013A	575827RS1
08/01/2014A	575827RT9	08/01/2015A	575827RU6	08/01/2016A	575827RV4
08/01/2016B	575827SC5	08/01/2017A	575827RW2	08/01/2018A	575827RX0
08/01/2018B	575827SB7				

IF ANY OF THE ABOVE SECURITIES HAS A "CUSIP-6" BUT NO "CUSIP-9", CHECK HERE AND LIST THEM BELOW:

(Please see instructions in Form G-36 Manual)

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

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

IF ANY OF THESE SECURITIES IS INELIGIBLE FOR CUSIP NUMBER ASSIGNMENT, PLEASE CHECK HERE:

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

SECTION VI - MANAGING UNDERWRITER'S CERTIFICATION AND SIGNATURE

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

*Rec'd  
Sept 4, 1998  
MSRB*

ON BEHALF OF \_\_\_\_\_