

NEW ISSUE — BOOK-ENTRY ONLY

In the opinion of Bond Counsel, under existing law and assuming continued compliance with the Internal Revenue Code of 1986, as amended, interest on the Bonds (which interest includes any original issue discount) is excludable from gross income for federal income tax purpose and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, although interest on the Bonds will be taken into account in determining adjusted current earnings for the purposes of computing the alternative minimum tax imposed upon certain corporations. In the opinion of Bond Counsel, the Bonds and the interest thereon are exempt from taxes imposed by existing Massachusetts laws, although the Bonds and said interest may be included in the measure of estate and inheritance taxes and of certain corporation excise and franchise taxes. See "TAX EXEMPTION" herein.

\$250,000,000



THE COMMONWEALTH OF MASSACHUSETTS

**General Obligation Bonds
Consolidated Loan of 1994, Series B**

Dated: August 1, 1994

**Due: August 1, as shown
on the inside hereof**

The Bonds will be issued by means of a book-entry 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 1, 1994 and interest will be payable on February 1, 1995 and semiannually thereafter on August 1 and February 1. The Bonds are subject to redemption prior to maturity, as more fully described herein.

The Bonds will constitute general obligations of The Commonwealth of Massachusetts (the "Commonwealth") and the full faith and credit of the Commonwealth are pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and on expenditures for debt service and regarding dedicated state income tax revenues, see "SECURITY FOR THE BONDS" and "Appendix A — Commonwealth Information Statement" under the headings "COMMONWEALTH REVENUES — Limitations on Tax Revenues", "COMMONWEALTH PROGRAMS AND SERVICES — Debt Service" and "COMMONWEALTH BOND AND NOTE LIABILITIES".

The Bonds are offered when, as and if issued and received by the original purchasers, and subject to the unqualified approving opinion as to legality of Warner & Stackpole, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Palmer & Dodge, Boston, Massachusetts, Disclosure Counsel. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about August 18, 1994.

August 9, 1994

THE COMMONWEALTH OF MASSACHUSETTS

\$250,000,000
General Obligation Bonds
Consolidated Loan of 1994, Series B

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
1995	\$7,495,000	5 %	3.90%
1996	7,790,000	5	4.40
1997	8,120,000	5	4.55
1998	8,485,000	5	4.80
1999	8,885,000	5	4.95
2000	9,320,000	5	5.10
2001	9,795,000	5.10	5.20
2002	10,300,000	5.20	5.30
2003	10,845,000	5.30	5.40
2004*	11,430,000	5.40	5.50
2005*	12,055,000	5 1/2	5.60
2006*	12,725,000	5.60	5.70
2007*	13,445,000	5.70	5.80
2008*	14,220,000	5.75	5.90
2009*	15,060,000	5.80	6
2010*	15,955,000	5 7/8	6.05
2011*	16,910,000	6	6.10
2012*	17,935,000	6	6.15
2013	19,030,000	6	6.20
2014	20,200,000	6	6.20

(accrued interest, if any, to be added)

*Insured by Financial Guaranty Insurance Company. See "BOND INSURANCE".

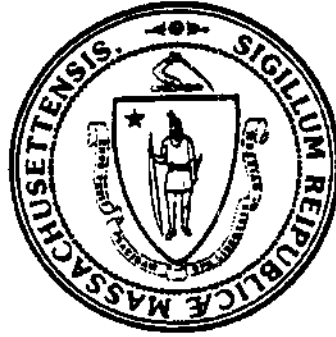
FOR NEW HAMPSHIRE RESIDENTS: THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

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

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THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

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

OFFICIAL STATEMENT

\$250,000,000

THE COMMONWEALTH OF MASSACHUSETTS General Obligation Bonds Consolidated Loan of 1994, Series B

INTRODUCTION

This Official Statement (including the cover pages and Appendices A and B attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of \$250,000,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 1994, Series B (the "Bonds"). The Bonds will be general obligations of the Commonwealth, and the full faith and credit of the Commonwealth are pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and regarding dedicated state income tax revenues, see "SECURITY FOR THE BONDS" and "Appendix A-Commonwealth Information Statement" under the headings "COMMONWEALTH REVENUES--Limitations on Tax Revenues", "COMMONWEALTH PROGRAMS AND SERVICES--Debt Service" and "COMMONWEALTH BOND AND NOTE LIABILITIES".

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

Purpose and Content of Official Statement

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

Attached hereto as Appendix A is the Commonwealth Information Statement, dated February 17, 1994, as supplemented by the Information Statement Supplement dated August 9, 1994 (collectively, the "Commonwealth Information Statement"), which contains certain fiscal, budgetary, financial, and other general information concerning the Commonwealth as of its date. Exhibit A to the Commonwealth Information Statement contains certain economic information concerning the Commonwealth. Exhibits B and C to the Commonwealth Information Statement contain the financial statements of the Commonwealth for the fiscal year ending June 30, 1993, prepared on a statutory basis and a GAAP basis, respectively. Appendix B attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Bonds. Appendix C attached hereto contains a specimen of the municipal bond new issue insurance policy to be issued with respect to the Bonds maturing in the years 2004 through 2012 (the "Insured Bonds").

THE BONDS

General

The Bonds will be dated August 1, 1994 and will initially bear interest from such date payable semiannually on February 1 and August 1 of each year, commencing February 1, 1995 (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.

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

Redemption

The Bonds maturing on or prior to August 1, 2004 are not subject to redemption prior to their stated maturity dates.

Optional Redemption. The Bonds maturing on or after August 1, 2005 are subject to redemption prior to their stated maturity dates on or after August 1, 2004, at the option of the Commonwealth from any monies legally available therefor, in whole or in part at any time, by lot, at the redemption prices (expressed as percentages of the principal amount thereof), plus accrued interest to the redemption date, as follows:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
August 1, 2004 through July 31, 2005, inclusive	102%
August 1, 2005 through July 31, 2006, inclusive	101
August 1, 2006 and thereafter	100

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

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

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

Application of Proceeds

The Bonds are being issued pursuant to the provisions of Section 49 of Chapter 29 of the Massachusetts General Laws and bond authorizations enacted by the Legislature. The net proceeds of the sale of the Bonds will be applied by the State Treasurer to the various purposes for which issuance of bonds have been authorized by the

Legislature. Any accrued interest payable upon original delivery of the Bonds will be credited ratably to the funds from which debt service on the Bonds is paid and will be used to pay interest on the Bonds.

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

SECURITY FOR THE BONDS

The Bonds will be general obligations of the Commonwealth to which its full faith and credit will be pledged for the payment of principal and interest when due. However, it should be noted that Chapter 62F of the Massachusetts General Laws imposes a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit. It should be noted further that Chapter 29, Section 60B, of the Massachusetts General Laws imposes an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on general obligation debt of the Commonwealth. These statutes are both subject to amendment or repeal by the Legislature. Currently, actual tax revenue growth and annual general obligation debt service are both below the statutory limits. See "Appendix A - Commonwealth Information Statement" under the headings "COMMONWEALTH REVENUES -- Limitations on Tax Revenues" and "COMMONWEALTH PROGRAMS AND SERVICES -- Debt Service". In addition, the Commonwealth has pledged up to 15% of the Commonwealth's income tax receipts to secure approximately \$1.24 billion of the Commonwealth's outstanding Fiscal Recovery Bonds, the debt service on which amounts to approximately \$279 million per year in fiscal 1995 through 1997, and \$130 million in fiscal 1998, at which time the Fiscal Recovery Bonds will be paid. See "Appendix A - Commonwealth Information Statement" under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES -- General Obligation Debt; *Dedicated Income Tax Debt*".

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

BOND INSURANCE

The Underwriters of the Bonds have contracted with Financial Guaranty Insurance Company ("Financial Guaranty") for the issuance of a municipal bond new issue insurance policy to secure the Insured Bonds. The issuance of such policy is not a condition to the issuance and delivery of the Bonds by the Commonwealth to the Underwriters. The following information has been furnished by Financial Guaranty for use in this Official Statement. Reference is made to Appendix C for a specimen of the Financial Guaranty's policy.

Concurrently with the issuance of the Insured Bonds, Financial Guaranty Insurance Company will issue its Municipal Bond New Issue Insurance Policy for the Bonds (the "Policy"). The Policy unconditionally guarantees the payment of that portion of the principal and interest on the Insured Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Commonwealth. Financial Guaranty will make such payments

to State Street Bank and Trust Company, N.A., or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal and interest is due or on the business day next following the day on which Financial Guaranty shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Insured Bonds of the nonpayment of such amount by the Commonwealth. The Fiscal Agent will disburse such amount due on any Insured Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owner's right to receive payment of the principal and interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owner's rights to payment of such principal and interest shall be vested in Financial Guaranty. The term "nonpayment" in respect of an Insured Bond includes any payment of principal or interest made to an owner of an Insured Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The Policy is non-cancellable and the premium will be fully paid at the time of delivery of the Insured Bonds. The Policy covers failure to pay principal of the Insured Bonds on their respective stated maturity dates, and not on any other date on which the Insured Bonds may have been accelerated, and covers the failure to pay an installment of interest on the stated date for its payment.

This Official Statement contains a section regarding the ratings assigned to the Insured Bonds and references should be made to such section for a discussion of such ratings and the basis for their assignment to the Insured Bonds. Reference should be made to the description of the Commonwealth and the Bonds for a discussion of the ratings, if any, assigned to such entity's outstanding parity debt that is not secured by credit enhancement and the circumstances, if any, under which the Commonwealth is required to provide additional or substitute credit enhancement, and related matters.

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

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of March 31, 1994, the total capital and surplus of Financial Guaranty was approximately \$804,000,000. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 115 Broadway, New York, New York 10006, Attention: Communications Department (telephone number: (212) 312-3000) or to the New York State Insurance Department at 160 West Broadway, 18th Floor, New York, New York 10013, Attention: Property Companies Bureau (telephone number: (212) 602-0389).

LITIGATION

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

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

To facilitate subsequent transfers, all Bonds deposited by DTC Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. 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 within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each DTC Participant in such issue to be redeemed.

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

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

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

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

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 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 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

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

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

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

TAX EXEMPTION

Bond Counsel is of the opinion that, under existing law, except as described below, interest on the Bonds is excludable from gross income for federal income tax purposes and is not an item of tax preference for the purpose of the federal alternative minimum tax imposed on individuals and corporations, but is includable in "adjusted current earnings" of corporate holders of the Bonds and therefore will be taken into account in the computation of the alternative minimum tax applicable to certain corporations. See "Appendix B--Form of Bond Counsel Opinion". The Internal Revenue Code of 1986, as amended (the "Code"), imposes certain requirements and restrictions on the use and investment of proceeds of state and local governmental obligations, including the Bonds, and a requirement for payment to the federal government (called a "rebate") of certain proceeds derived from the investment thereof. Failure to comply with the Code's requirements subsequent to the issuance of the Bonds could cause interest on the Bonds to become subject to federal income taxation, retroactive to the date of their issuance. On or before delivery of the Bonds to the original purchasers, the Commonwealth will provide covenants or certificates evidencing that it will take all lawful action necessary to comply with those provisions of the Code that, except for such compliance, would affect adversely the excludability of interest on the Bonds from gross income for federal income tax purposes. Bond Counsel's opinion with respect to federal tax consequences is conditioned upon such compliance.

The Code provides that interest on obligations such as the Bonds is also included in the measure of the environmental tax and the foreign branch profits tax imposed upon corporations and may be included in passive investment income subject to federal income taxation under provisions of the Code applicable to certain S corporations. The Code further provides that interest on the Bonds may be includable in the modified adjusted gross income of certain recipients of Social Security and Railroad Retirement benefits for the purpose of determining whether a portion of such benefits shall be included in the taxable income of such recipients. In addition, certain otherwise deductible underwriting losses of property and casualty insurance companies will be reduced by a portion of the interest received by such companies on the Bonds and no deduction will be allowed for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of such institution's interest expense that is allocated to interest on the Bonds.

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

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

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

OPINIONS OF COUNSEL

The unqualified approving opinion as to the legality of the Bonds will be rendered by Warner & Stackpole of Boston, Massachusetts, Bond Counsel to the State Treasurer. The proposed form of the opinion of Bond Counsel relating to the Bonds is attached as Appendix B. Certain legal matters will be passed upon for the State Treasurer by Palmer & Dodge of Boston, Massachusetts, as Disclosure Counsel to the State Treasurer.

COMPETITIVE SALE OF BONDS

After competitive bidding on August 9, 1994, the Bonds were awarded to a group of underwriters (the "Underwriters") consisting of Merrill Lynch & Co., Merrill Lynch, Pierce, Fenner & Smith Incorporated and J. C. Bradford & Co. The Underwriters have supplied the information as to the public offering yields or prices of the Bonds set forth on the inside cover hereof. If all of the Bonds are resold to the public at such yields or prices, the Underwriters have informed the Commonwealth that they anticipate the total Underwriters' compensation, net of amounts to be applied to costs of issuance of the Bonds, to be \$1,652,500. The Underwriters may change the public offering yields or prices from time to time.

MISCELLANEOUS

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

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

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

CONTINUING DISCLOSURE

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

AVAILABILITY OF OTHER INFORMATION

Questions regarding this Official Statement or requests for additional financial information concerning the Commonwealth should be directed to Kenneth Olshansky, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, Twelfth Floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or Lowell Richards, Director of Debt Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to this Official Statement should be directed to George E. Curtis, Esq., Warner & Stackpole, 75 State Street, Boston, Massachusetts 02109, telephone (617) 951-9000.

THE COMMONWEALTH OF MASSACHUSETTS

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

By /s/ Mark E. Robinson
Mark E. Robinson
Secretary for Administration and Finance

August 9, 1994

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**THE
COMMONWEALTH
OF
MASSACHUSETTS**



INFORMATION STATEMENT

Dated February 17, 1994

INFORMATION STATEMENT SUPPLEMENT

Dated August 9, 1994

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THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT SUPPLEMENT

August 9, 1994

This supplement to the Information Statement of The Commonwealth of Massachusetts (the "Commonwealth") dated February 17, 1994 (the "Commonwealth Information Statement"), is dated August 9, 1994 (the "August 9, 1994 Supplement") and contains information which updates the information contained in the Commonwealth Information Statement. The August 9, 1994 Supplement and the Commonwealth 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 9, 1994. All capitalized terms not otherwise defined in this August 9, 1994 Supplement shall have the meanings ascribed to them in the Commonwealth Information Statement.

RECENT DEVELOPMENTS

Fiscal 1995

On July 10, 1994, the Governor signed into law the fiscal 1995 budget, which, together with expected supplemental appropriations relating to welfare and certain other programs, as described below, provides for approximately \$16.3 billion in fiscal 1995 expenditures. The Governor exercised his authority to veto and reduce individual line items and reduced total expenditures by approximately \$298.2 million and vetoed certain other law changes contained in the fiscal 1995 budget.

Included in the approximately \$298.2 million of vetoes noted above, the Governor vetoed approximately \$296.9 million in appropriations for the Executive Office of Human Services and the Department of Public Welfare, representing four months of funding for the Commonwealth's welfare programs. The Governor plans to refile his proposal to eliminate the cash grant portion of the Aid to Families With Dependent Children (AFDC) program and create an Employment Support program, as well as request budgetary authorization to fund welfare expenditures for the last four months of fiscal 1995 under a reformed welfare system. The fiscal 1995 expenditure estimate of \$16.3 billion assumes a full year of funding for the Commonwealth welfare programs.

Budgeted revenues and other sources to be collected in fiscal 1995 are estimated by the Executive Office for Administration and Finance to be approximately \$16.3 billion. This amount includes estimated fiscal 1995 tax revenues of \$11.309 billion, which is approximately \$703 million higher than fiscal 1994 tax revenues of \$10.606 billion. The fiscal 1995 tax revenue amount represents the \$11.328 billion consensus tax revenue estimate jointly endorsed in May, 1994 by the Secretary for Administration and Finance and the Chairmen of the House and Senate Ways and Means Committees in connection with preparation of the fiscal 1995 budget, less \$19.3 million of tax cuts signed by the Governor in the 1995 budget. In addition, the final fiscal 1994 supplemental appropriations bill as passed by the House includes a provision to raise the "no tax status" for heads of households and joint filers. This proposal, if enacted, would result in an \$18.9 million reduction in fiscal 1995 tax revenues.

In recent months, the rate of growth in certain tax revenue categories, including, in particular, the income tax, has slowed. Fiscal 1994 tax revenues were approximately \$88 million below the Department of Revenue's tax revenue estimate of \$10.694 billion. Although the Department of Revenue has not revised the fiscal 1995 consensus tax revenue estimate arrived at jointly with the Legislature in May, 1994, it will continue to analyze the fiscal 1994 results and the fiscal 1995 tax revenue collections and incorporate this analysis and other information into the revenue estimates required by law. The next estimate will be made on September 25, 1994. See also "Fiscal 1994."

The fiscal 1995 budget is based on numerous spending and revenue estimates, the achievement of which cannot be assured. To date, the House has overridden \$296.9 million of the Governor's vetoes relating to certain welfare programs contained in the fiscal 1995 budget as well as certain law changes which may have a financial

impact on the Commonwealth. The Senate initially voted to sustain the Governor's veto. However, a motion to reconsider this vote is pending and could be considered at any time before the end of the current legislative session. The override of other vetoes has not yet been considered by the Legislature and it is possible that the Legislature may vote to override such vetoes later in fiscal 1995. The \$16.3 billion of fiscal 1995 expenditures includes a reserve against certain contingencies, including the possibility of tax revenues being less than the consensus tax revenue estimate. In addition, the Executive Office for Administration and Finance anticipates and has provided for supplemental appropriations that may be required in fiscal 1995. While the actual amount of supplemental appropriations and the contingency reserve will not be determined until after enactment of the final fiscal 1994 supplemental appropriations bill and review of agency spending plans, which is expected to be completed in the fall, the Executive Office for Administration and Finance currently expects the amount of fiscal 1995 supplemental appropriations to be approximately \$70 million, which amount is included in the expected total fiscal 1995 expenditures of \$16.3 billion.

Fiscal 1994

The Commonwealth is in the process of closing its fiscal 1994 financial records. Financial information for fiscal 1994 contained in this August 9, 1994 Supplement is unaudited and provided by the Executive Office for Administration and Finance. The Preliminary Financial Report of the Commonwealth containing financial information for fiscal 1994 is expected to be issued by the Comptroller on September 15, 1994. Audited financial information is expected to be published in January, 1995.

Unless otherwise indicated, the information regarding fiscal 1994 revenues and expenditures contained in this August 9, 1994 Supplement is based upon the most recent estimates of the Executive Office for Administration and Finance made prior to the end of fiscal 1994 and does not reflect the final fiscal 1994 supplemental appropriations now being considered by the Legislature, spending reversions and other year-end adjustments and activity, which are expected to be contained in the Preliminary Financial Report. The actual total revenues and other sources, total expenditures and other uses and fund balances of the Commonwealth's budgeted operating funds as of the end of fiscal 1994 will be determined in conjunction with the issuance of the Preliminary Financial Report.

The Department of Revenue's preliminary figures indicate fiscal year 1994 tax revenue collections were \$10.606 billion, \$88 million below the Department of Revenue's fiscal year 1994 tax revenue estimate of \$10.694 billion. The Executive Office for Administration and Finance controlled spending sufficiently to offset this revenue reduction. Fiscal 1994 tax revenue collections were \$676 million above fiscal 1993 tax revenues of \$9.930 billion. Budgeted revenues and other sources, including non-tax revenues, collected in fiscal 1994 were estimated by the Executive Office for Administration and Finance to have been approximately \$15.529 billion before taking into account the \$88 million tax revenue reduction described above.

The Governor has submitted final fiscal 1994 appropriations bills to the Legislature, which provide for approximately \$15.7 million of aggregate appropriations. In July, 1994, the House approved \$3.9 million in fiscal 1994 appropriations and \$21.2 million in fiscal 1995 appropriations including prior fiscal 1994 appropriations continued into fiscal 1995. On August 2, 1994, the Senate approved final fiscal 1994 and fiscal 1995 supplemental appropriations aggregating over \$209 million. A House and Senate conference committee is now considering this legislation.

Budgeted expenditures and other uses of funds in fiscal 1994 were estimated by the Executive Office for Administration and Finance to have been approximately \$15.692 billion before taking into account the expenditure reductions implemented to offset the \$88 million tax revenue reduction.

As of June 30, 1994, the Commonwealth showed a year-end cash position of approximately \$757 million, as compared to a projected position of \$599 million. See "Commonwealth Information Statement" under the headings "FINANCIAL RESULTS -- Selective Financial Data -- Statutory Basis" on page A-13 and "1994 FISCAL YEAR" on page A-19.

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth audited statutory basis financial statements for fiscal 1990 through 1993 and the unaudited estimates for fiscal 1994 of the Executive Office for Administration and Finance, as described above. See "Commonwealth Information Statement" under the heading "FINANCIAL RESULTS" on page A-12.

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

	Fiscal <u>1990</u>	Fiscal <u>1991</u>	Fiscal <u>1992</u>	Fiscal <u>1993</u>	Estimated Fiscal <u>1994</u>
<u>Beginning Fund Balances</u>					
Reserved or Designated	\$124.9	\$174.5	\$119.8	\$236.2	\$110.4
Stabilization Fund (1)	--	--	59.2	230.4	309.5
Undesignated	<u>(444.2)</u>	<u>(1,278.9)</u>	<u>58.1</u>	<u>82.8</u>	<u>142.6</u>
Total	<u>(319.3)</u>	<u>(1,104.4)</u>	<u>237.1</u>	<u>549.4</u>	<u>562.5</u>
<u>Revenues and Other Sources</u>					
Taxes	8,517.7	8,994.9	9,483.6	9,929.9	10,694.0(4)
Federal Reimbursements (2)	1,717.5	2,777.1	2,393.5	2,674.1	2,905.9
Departmental and Other Revenues	1,131.7	1,204.9	1,187.3	1,327.1	1,105.9
Interfund Transfers from Non-budgeted Funds and Other Sources (3)	<u>641.3</u>	<u>656.6</u>	<u>663.9</u>	<u>778.5</u>	<u>823.3</u>
Budgeted Revenues and Other Sources	<u>12,008.2</u>	<u>13,633.5</u>	<u>13,728.3</u>	<u>14,709.6</u>	<u>15,529.1</u>
Mass Transit Assessments from Municipalities	123.9	130.2	130.9	137.4	140.8
Interfund Transfers among Budgeted Funds and Other Sources	<u>91.1</u>	<u>149.7</u>	<u>366.9</u>	<u>358.7</u>	<u>198.9</u>
Total Revenues and Other Sources	<u>12,223.2</u>	<u>13,913.4</u>	<u>14,226.1</u>	<u>15,205.7</u>	<u>15,868.8</u>
<u>Expenditures and Uses</u>					
Programs and Services	11,770.2	11,944.5	11,757.4	12,683.6	13,549.5(5)
Debt Service	770.9	942.3	898.3	1,139.5	1,171.4
Pensions	671.9	703.9	751.5	868.6	941.0
Interfund Transfers to Non-budgeted Funds and Other Uses	<u>46.7</u>	<u>64.0</u>	<u>8.8</u>	<u>5.1</u>	<u>30.0</u>
Budgeted Expenditures and Other Uses	<u>13,259.7</u>	<u>13,654.7</u>	<u>13,416.0</u>	<u>14,696.4</u>	<u>15,691.9(6)</u>
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	123.9	130.2	130.9	137.4	140.8
Interfund Transfers among Budgeted Funds and Other Uses	<u>91.1</u>	<u>149.7</u>	<u>366.9</u>	<u>358.7</u>	<u>198.9</u>
Total Expenditures and Other Uses	<u>13,474.7</u>	<u>13,934.6</u>	<u>13,913.8</u>	<u>15,192.6</u>	<u>16,031.6</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(1,251.5)</u>	<u>(21.2)</u>	<u>312.3</u>	<u>13.1</u>	<u>(162.8)(7)</u>
Prior Year Deficit Financing	466.4	1,362.7	--	--	--
<u>Ending Fund Balances</u>					
Reserved or Designated	174.5	119.8	236.2	110.4	3.8
Stabilization Fund (1)	--	59.2	230.4	309.5	316.5
Undesignated	<u>(1,278.9)</u>	<u>58.1</u>	<u>82.8</u>	<u>142.6</u>	<u>79.4</u>
Total	<u>\$(1,104.4)</u>	<u>\$237.1</u>	<u>\$549.4</u>	<u>\$562.5</u>	<u>\$399.7</u>

SOURCE: Fiscal 1990-1993, Office of the Comptroller. Estimated Fiscal 1994, Executive Office for Administration and Finance (represents most recently published estimates set forth in the Commonwealth's Information Statement Supplement dated June 8, 1994, see "Fiscal 1994").

- (1) Stabilization Fund balances are not expendable without subsequent specific legislative authorization.
(2) Includes \$513 million for fiscal 1991, \$198.6 million for fiscal 1992 and \$236.3 million for fiscal 1993 in federal reimbursements resulting from claims for reimbursement of certain uncompensated care for Massachusetts hospitals. See "Commonwealth Information

Statement" under the headings "FINANCIAL RESULTS--Fiscal Years 1989 Through 1993" on page A-16 and "1994 FISCAL YEAR" on page A-19.

- (3) Interfund transfers represent accounting transfers which reallocate resources among funds. Fund deficit support transfers of \$234.8 million in fiscal 1991 have been eliminated to facilitate comparative analysis. See "Commonwealth Information Statement" under the heading "COMMONWEALTH REVENUES--Federal and Other Non-Tax Revenues" on page A-26.
- (4) Does not reflect \$88 million tax revenue reduction. See "Fiscal 1994" above.
- (5) Includes \$75.4 million reserved for contingencies.
- (6) Includes \$127.4 million transferred from off-budget expenditure accounts to on-budget expenditure accounts for fiscal 1994 but does not reflect expenditure reductions implemented to offset the \$88 million tax revenue reduction. See "Fiscal 1994" above.
- (7) Does not reflect revenue and expenditure reductions or pending legislative action discussed above. Although unaudited preliminary information is not expected to be available until September 15, 1994, the Executive Office for Administration and Finance expects any actual excess (deficiency) of revenues and other sources over expenditures and other uses to be less than this amount. See "Fiscal 1994" above.

Commonwealth Revenues

The following table sets forth the Commonwealth's actual revenues in its budgeted operating funds for fiscal 1990 through 1993 and estimated revenues for fiscal 1994. See "Fiscal 1994" above.

Commonwealth Revenues -- Budgeted Operating Funds
(in millions)

	<u>Fiscal</u> <u>1990</u>	<u>Fiscal</u> <u>1991(7)</u>	<u>Fiscal</u> <u>1992(7)</u>	<u>Fiscal</u> <u>1993(7)</u>	<u>Estimated</u> <u>Fiscal</u> <u>1994</u>
Tax Revenues:					
Alcoholic Beverages	\$ 70.8	\$ 66.2	\$ 63.5	\$ 60.6	\$ 58.0
Banks					
Commercial	64.5	27.4	17.6(9)	74.7	95.0
Savings	46.2	20.6	42.5	78.2	66.0
Cigarettes (1)	150.8	144.4	139.9	190.2	238.0
Corporations	698.4	612.2	643.8	737.4	875.0
Deeds (2)	36.2	30.1	32.2	34.0	38.0
Income	4,465.2(5)	5,045.1(5)	5,337.0	5,374.9	5,746.6
Inheritance and Estate	276.4	249.5	260.2	267.3	253.0
Insurance (3)	273.0	267.8	284.8	280.5	296.8
Motor Fuel	301.9	464.2	541.1	557.2	560.0
Public Utilities	62.0	59.3	52.9	69.1	53.4
Racing	31.7	27.5	26.1	15.7	14.0
Room Occupancy	56.6	56.0	55.9	59.3	60.0
Sales					
Regular	1,370.5	1,392.1	1,443.6	1,548.1	1,688.0
Meals	295.9	291.7	296.3	303.2	330.0
Motor Vehicles	<u>290.0</u>	<u>225.6</u>	<u>238.7</u>	<u>272.9</u>	<u>315.0</u>
Sub-Total--Sales	1,956.4	1,909.4	1,978.6	2,124.2	2,333.0
Miscellaneous	<u>27.6</u>	<u>15.2</u>	<u>7.5</u>	<u>6.6</u>	<u>7.2</u>
Total	<u>8,517.7</u>	<u>8,994.9</u>	<u>9,483.6</u>	<u>9,929.9</u>	<u>10,694.0(10)</u>
Non-Tax Revenues:					
Federal Reimbursements	1,717.5(6)	2,777.1(8)	2,393.5(8)	2,674.1(8)	2,905.9(8)
Departmental and Other Revenues	1,131.7	1,204.9	1,187.3	1,327.1	1,105.9
Interfund Transfers from Non-budgeted Funds and Other Sources (4)	<u>641.3</u>	<u>656.6</u>	<u>663.9</u>	<u>778.5</u>	<u>823.3</u>
Budgeted Non-Tax Revenues and Other Sources	<u>3,490.5</u>	<u>4,638.6</u>	<u>4,244.7</u>	<u>4,779.7</u>	<u>4,835.1</u>
Budgeted Revenues and Other Sources	<u>12,008.2</u>	<u>13,633.5</u>	<u>13,728.3</u>	<u>14,709.6</u>	<u>15,529.1</u>
Mass Transit Assessments from Municipalities	123.9	130.2	130.9	137.4	140.8
Interfund Transfers among Budgeted Funds and Other Sources (4)	<u>91.1</u>	<u>149.7</u>	<u>366.9</u>	<u>358.7</u>	<u>198.9</u>
Total Revenues and Other Sources	<u>\$12,223.2</u>	<u>\$13,913.4</u>	<u>\$14,226.1</u>	<u>\$15,205.7</u>	<u>\$15,868.8</u>

SOURCE: Fiscal 1990-1993, Office of the Comptroller. Estimated Fiscal 1994, Executive Office for Administration and Finance (represents most recently published estimates set forth in Commonwealth's Information Statement Supplement dated June 8, 1994, see "Fiscal 1994").

- (1) As a result of legislation enacted by voter initiative petition, this excise tax was increased effective January 1, 1993. See "State Taxes; Other Taxes."
- (2) At the end of the 1992 legislative session, the Legislature overrode the Governor's veto of legislation that doubled the deeds excise tax. The increased revenues are applied directly to county purposes and are not counted as Commonwealth revenues. See "State Taxes; Other Taxes".
- (3) Includes \$7.4 million in 1990, \$7.2 million in 1991, \$7.7 million in 1992 and \$8.0 million in 1993, respectively, in fees collected by the Division of Insurance relating to high-risk insurance.
- (4) Interfund transfers represent accounting transfers which reallocate resources among funds. Fund deficit support transfers of \$234.8 million for fiscal 1991 have been eliminated to facilitate comparative analysis. Includes transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$59.2 million, \$170.0 million and \$76.9 million in fiscal 1991, 1992 and 1993, respectively. See "Commonwealth Information Statement" under the heading "COMMONWEALTH REVENUES--Federal and Other Non-Tax Revenues" on page A-26.
- (5) Excludes \$444.5 million collected in fiscal 1990 and \$298.3 million collected in fiscal 1991 attributed to the temporary increase in

- the income tax dedicated to the Commonwealth Liability Reduction Fund and the Medical Assistance Liability Fund.
- (6) Excludes \$244 million of revenues attributable to federal reimbursements for expenditures from the Medical Assistance Liability Fund; such revenues were dedicated to such fund.
 - (7) Includes the impact of tax law changes under Chapters 121 and 151 of the Acts of 1990. The total fiscal 1991 impact of the changes is an estimated increase in tax revenues in the amount of \$1.020 billion, while the fiscal 1992 and 1993 impacts of the changes are estimated at \$1.329 billion and \$1.318 billion, respectively.
 - (8) Includes \$513 million for fiscal 1991, \$198.6 million for fiscal 1992, \$236.3 million for fiscal 1993 and an estimated \$219 million in fiscal 1994 in federal reimbursements resulting from claims for reimbursement of certain uncompensated care for Massachusetts hospitals. See "Commonwealth Information Statement" under the headings "FINANCIAL RESULTS--Fiscal Years 1989 Through 1993" on page A-16 and "1994 FISCAL YEAR" on page A-19.
 - (9) Reflects settlement of certain litigation, see "State Taxes; *Business Corporations Tax*".
 - (10) Does not reflect \$88 million tax revenue reduction. See "Fiscal 1994" above.

On May 25, 1994, a constitutional amendment authorizing graduated income tax rates received the votes of at least 25 percent of all members of the Legislature, voting in joint session and, accordingly, will be on the 1994 state-wide ballot in November. Although the Legislature failed to act upon a related initiative petition by May 4, 1994, the petition will nevertheless be placed on the November ballot since its sponsors collected a sufficient number of additional signatures by the July 6, 1994 deadline to have it placed on the ballot. See "Commonwealth Information Statement" under the heading "COMMONWEALTH REVENUES -- State Taxes" on page A-23.

Commonwealth Programs and Services

The following table identifies certain major spending categories of the Commonwealth and sets forth the budgeted expenditures for each fiscal year within each category. The table sets forth actual expenditures for fiscal 1990 through 1993 and estimated expenditures for fiscal 1994. See "Fiscal 1994" above.

Commonwealth Expenditures - Budgeted Operating Funds (in millions)

<u>Expenditure Category</u>	<u>Fiscal 1990</u>	<u>Fiscal 1991</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>	<u>Estimated Fiscal 1994</u>
Direct Local Aid (1)	\$2,936.9	\$2,608.3	\$2,358.9	\$2,546.5	\$2,733.7
Medicaid	2,120.6(2)	2,765.3(3)	2,817.7(4)	3,151.4(4)	3,267.7(5)
Group Health Insurance	433.4	446.0	466.1	491.2	504.7
Public Assistance	1,000.9	1,092.3	1,065.0	1,074.9	1,107.0
Debt Service (6)	770.9	942.3	898.3	1,139.5	1,171.4
Pensions	671.9	703.9	751.5	868.2	941.0
Higher Education	701.9	608.6	534.0	544.9(7)	669.2(8)
MBTA and RTA's	354.5	406.1	449.6	499.0	522.2
Other Program Expenditures	4,222.0	4,017.9(9)	4,066.1(9)	4,375.7	4,745.0(11)
Interfund Transfers to Non-budgeted Funds(10)	<u>46.7</u>	<u>64.0</u>	<u>8.8</u>	<u>5.1</u>	<u>30.0</u>
Budgeted Expenditures and Other Uses	<u>13,259.7</u>	<u>13,654.7(8)</u>	<u>13,416.0(8)</u>	<u>14,696.4</u>	<u>15,691.9(12)</u>
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	123.9	130.2	130.9	137.4	140.8
Interfund Transfers among Budgeted Funds and Other Uses(10)	<u>91.1</u>	<u>149.7</u>	<u>366.9</u>	<u>358.7</u>	<u>198.9</u>
Total Expenditures and Other Uses	<u>\$13,474.7</u>	<u>\$13,934.6</u>	<u>\$13,913.8</u>	<u>\$15,192.6</u>	<u>\$16,031.6</u>

SOURCE: Fiscal 1990-1993, Office of the Comptroller. Estimated Fiscal 1994, Executive Office for Administration and Finance (represents most recently published estimates set forth in Commonwealth's Information Statement Supplement dated June 8, 1994, see "Fiscal 1994").

- (1) Aid reported to cities, towns and regional school districts by the Department of Revenue on its official communication, the so-called

- "cherry sheet", excluding certain pension funds, and including \$80.5 million in Commonwealth support to county jails, which is no longer included on the cherry sheet.
- (2) Fiscal 1990 Medicaid expenditures do not include \$488.0 million in retroactive rate adjustments and spending related to services rendered in prior fiscal years which were funded in the non-budgeted Medical Assistance Liability Fund.
 - (3) Includes \$194.2 million for retroactive rate settlements, including \$126.0 million raised through Fiscal Recovery Bonds issued in 1991 to resolve the deficit for fiscal year 1990.
 - (4) Includes expenditures of \$50.0 million in fiscal 1992 for retroactive rate adjustments and settlements.
 - (5) Includes approximately \$22.3 million of expenditures previously off-budget and classified as administrative expenses.
 - (6) Reflects reduction of fiscal 1992 debt service by \$261.0 million as a result of the issuance of refunding bonds during fiscal 1992.
 - (7) Reflects the transfer of \$89.4 million in related tuition revenue and spending to an off budget trust fund.
 - (8) Reflects the transfer of approximately \$89.4 million in related tuition revenue and spending from an off-budget trust fund to budgeted accounts.
 - (9) Fiscal 1991 and fiscal 1992 expenditures have been restated to reflect surpluses in the Intragovernmental Service Fund of \$3.8 million in each year.
 - (10) Interfund transfers represent accounting transfers which reallocate resources among funds. Interfund deficit support transfers for fiscal 1991 of \$234.8 million have been eliminated to facilitate comparative analysis. Includes interfund transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$59.2 million, \$170.0 million and \$76.9 million in fiscal 1991, 1992 and 1993, respectively.
 - (11) Includes \$75.4 million reserve for contingencies. See "Commonwealth Information Statement" under the heading "1994 FISCAL YEAR" on page A-19.
 - (12) Does not reflect expenditure reductions implemented to offset the \$88 million tax revenue reduction. See "Fiscal 1994" above.

Five-Year Capital Spending Plan

The following table, entitled "Summary of Five-Year Capital Spending Plan and Plan of Finance", sets forth current estimates of capital spending of the Commonwealth, including the MBTA, as well as the sources of funding for such capital spending, including federal aid, for fiscal years 1994 through 1998. Total capital spending for fiscal years 1994 through 1998 to be financed from Commonwealth debt is forecast at \$4.4 billion, which is significantly below legislatively authorized capital spending levels. In addition, the Five-Year Capital Spending Plan also forecasts total MBTA capital expenditures of \$1.394 billion for fiscal years 1994 through 1998, which spending will be financed through the issuance of bonds by the MBTA and assumes that the projected level of Commonwealth capital spending will leverage additional federal aid of \$6.815 billion for this period. The anticipated levels of federal aid rely on certain assumptions concerning the level of federal participation in the funding of the third harbor tunnel and central artery projects and for state highways and bridge repair. The Executive Office for Administration and Finance is currently reviewing the Five-Year Capital Spending Plan in order to include expected fiscal 1999 spending and, if necessary, to make other revisions as well.

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

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>Total</u>
Uses of Funds						
Information Technology	\$ 21	\$ 13	\$ 20	\$ 21	\$ 17	\$ 92
Infrastructure(2)	101	203	218	217	237	976
Environmental Affairs						
Commonwealth Expenditures	119	98	73	61	48	399
Open Space Acquisition	<u>35</u>	<u>35</u>	<u>40</u>	<u>45</u>	<u>45</u>	<u>200</u>
Subtotal	154	133	113	106	93	599
Housing	44	70	70	77	78	339
Transportation						
Commonwealth Expenditures	417	333	363	348	302	1,763
MBTA	200	394	316	255	229	1,394
Federal Highway/MBTA Aid	<u>1,392</u>	<u>1,620</u>	<u>1,431</u>	<u>1,337</u>	<u>1,035</u>	<u>6,815</u>
Subtotal	2,009	2,347	2,110	1,940	1,566	9,972
Economic Development	30 (3)	97	108	117	118	470
Miscellaneous Capital Projects	<u>13</u>	<u>19</u>	<u>12</u>	<u>8</u>	<u>7</u>	<u>59</u>
Total	<u>\$2,372</u> (4)	<u>\$2,882</u> (4)	<u>\$2,651</u>	<u>\$2,486</u>	<u>\$2,116</u>	<u>\$12,507</u>
Sources of Funds						
Federal Aid	\$1,392	\$1,620	\$1,431	\$1,337	\$1,035	\$6,815
Commonwealth Debt(5)	700	1,050 (6)	904	894	852	4,400
MBTA Bonds	<u>200</u>	<u>394</u>	<u>316</u>	<u>255</u>	<u>229</u>	<u>1,394</u>
Total	<u>\$2,292</u> (4)	<u>\$3,064</u> (4)	<u>\$2,651</u>	<u>\$2,486</u>	<u>\$2,116</u>	<u>\$12,609</u>

SOURCE: Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Includes hospital consolidation, prison construction, courts, higher education and miscellaneous other projects.
- (3) Does not include \$67.0 million in fiscal 1994 to be spent on transportation projects related to economic development.
- (4) The difference between the total uses of funds and total sources of funds primarily relates to the timing of issuance of Commonwealth debt.
- (5) Includes general obligation bonds and special obligation bonds.
- (6) Includes expected issuance of approximately \$180 million of general obligation bonds for certain expenditures unrelated to fiscal 1995.

See "Commonwealth Information Statement" under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS; Overview of Capital Spending Process and Controls" on page A-10.

Commonwealth Bond and Note Liabilities

On January 27, 1994, the Commonwealth issued \$200,000,000 of its General Obligation Bonds, Consolidated Loan of 1994, Series A, the net proceeds of which were used to finance various capital projects of the Commonwealth. On June 28, 1994, the Commonwealth issued \$300,000,000 of its Special Obligation Revenue Bonds, 1994 Series A (the "1994 Special Obligation Bonds") to finance various highway related projects. As of July 1, 1994, the Commonwealth had outstanding \$403.77 million of Special Obligation Bonds, which includes \$103.77 million of such bonds secured by a pledge of two cents of the motor fuels excise tax and the 1994 Special Obligation Bonds, which are secured by a pledge of an additional 4.86 cents of the motor fuels excise tax and certain other moneys. See "Commonwealth Information Statement" under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES--Special Obligation Debt" on page A-45.

As of August 9, 1994, the Commonwealth had no commercial paper outstanding. See "Commonwealth Information Statement" under the headings COMMONWEALTH BOND AND NOTE LIABILITIES -- Overview" on page A-40, "--Overview; *Maturities of Short Term Debt*" on page A-44 and "-- General Obligation Debt; *Commonwealth General Obligation Notes*" on page A-45.

On March 1, 1994, the MBTA issued \$185,000,000 of its 1994 Series A Notes to finance a portion of its

net cost of service. On June 22, 1994, the MBTA issued \$544,415,000 of its General Transportation System Bonds, 1994 Series A Refunding and 1994 Series B, the net proceeds of which were applied to advance refund approximately \$343.9 aggregate principal amount of outstanding MBTA bonds and to finance various capital projects of the MBTA (including the payment of \$190 million of then outstanding MBTA commercial paper issued for such purposes). As of August 9, 1994, \$27 million of commercial paper notes were outstanding under the MBTA's commercial paper program. See "Commonwealth Information Statement" under the headings "COMMONWEALTH PROGRAMS AND SERVICES -- MBTA and Regional Transit Authorities" on page A-35 and "COMMONWEALTH BOND AND NOTE LIABILITIES -- Commonwealth Supported Debt; MBTA" on page A-48.

On March 15, 1994, the Steamship Authority issued \$12,014,000 of its Steamship Bonds, 1994 Series, in order to advance refund \$10,805,000 of the Steamship Authority's outstanding bonds. As a result of the issuance of such bonds, aggregate debt service requirements relating to the Steamship Authority's Bonds (calculated on a present value basis) will be reduced by approximately \$435,000 in fiscal years 1995 through 2012. See "Commonwealth Information Statement" under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES -- Commonwealth Supported Debt; Regional Transit Authorities and Steamship Authority" on page A-48.

COMMONWEALTH BOND AND NOTE LIABILITIES

The following table sets forth the Commonwealth bond and note liabilities outstanding as of July 1, 1994.

Commonwealth Bond and Note Liabilities July 1, 1994 (in thousands)

	<u>Long Term</u> (1)	<u>Short Term</u>
COMMONWEALTH DEBT		
General Obligation Debt	\$8,133,003 (2)	\$289,578 (3)
Dedicated Income Tax Debt	839,810	--
Special Obligation Debt	<u>403,770</u>	<u> </u>
Subtotal Commonwealth Debt	<u>9,376,583</u>	<u>289,578</u>
COMMONWEALTH SUPPORTED DEBT		
MBTA	2,165,230	365,000 (4)
Massachusetts Convention Center Authority	190,899	--
Massachusetts Government Land Bank	--	--
Boston Metropolitan District	52,477	--
Steamship Authority	34,249	2,900
Regional transit authorities	<u>30</u>	<u>65,369</u>
Subtotal Supported Debt	<u>2,442,885</u>	<u>433,269</u>
COMMONWEALTH GUARANTEED DEBT		
Local housing authorities	--	--
Higher education building authorities	235,516	--
Town of Mashpee	<u>400</u>	<u> </u>
Subtotal Guaranteed Debt	<u>235,916</u>	<u> </u>
TOTAL COMMONWEALTH BOND AND NOTE LIABILITIES	<u>\$12,055,384</u>	<u>\$722,847</u>

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

- (1) Long term debt includes discount and costs of issuance. Does not include long term capital lease obligations. See "Commonwealth Information Statement" under the headings "COMMONWEALTH BOND AND NOTE LIABILITIES--Indirect Obligations; Plymouth County Certificates of Participation" on page A-50 and "OTHER COMMONWEALTH LIABILITIES--Long Term Capital Leases" on page A-53.
- (2) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from July 1, 1994 through their

- maturity in the amount of \$361.5 million.
- (3) Represents \$240 million of Commonwealth General Obligation Notes issued on November 23, 1993 for the purpose of financing the MBTA's net cost of service and \$49.6 million of the Commonwealth's "minibonds" (which are redeemable at the request of the holder on one business day's notice and are treated as short term liabilities). See "Commonwealth Information Statement" under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES--General Obligation Debt; *Commonwealth General Obligation Notes and Minibonds*" on page A-45.
 - (4) As of August 9, 1994, the MBTA also has \$27 million of commercial paper outstanding. See "Commonwealth Information Statement" under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES--Commonwealth Supported Debt; *MBTA*" on page A-48.

See "Commonwealth Information Statement" under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES" on page A-40.

The office of the State Treasurer is currently soliciting proposals to provide letters or lines of credit with respect to the Commonwealth's commercial paper program in order to provide for the issuance of up to \$600 million of commercial paper. (The current letters of credit, which secure the issuance of up to \$600 million of commercial paper, expire by October 28, 1994.) As of August 9, 1994, no commercial paper is outstanding. The Commonwealth's current cash flow projection indicates that the maximum amount of short term operating borrowings expected to be outstanding under the commercial paper program at any time during fiscal 1995 will be \$335 million. In addition, up to \$200 million of commercial paper issued as bond anticipation notes may be outstanding during fiscal 1995. However, events occurring subsequent to the preparation of this projection may cause the actual cash flow of the Commonwealth to vary from the projected cash flow and additional commercial paper may be outstanding from time to time during fiscal 1995. See "Commonwealth Information Statement" under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES -- General Obligation Debt; *Commonwealth General Obligation Notes*" on page A-45.

Debt Service Requirements on Commonwealth Bonds

The following table sets forth, as of July 1, 1994 the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, including the Fiscal Recovery Bonds, and Special Obligation Bonds.

Debt Service Requirements on Commonwealth Bonds (1) July 1, 1994 (in thousands)

Fiscal Year	GENERAL OBLIGATION BONDS (2)(3)			SPECIAL OBLIGATION BONDS			Total Debt Service Commonwealth Bonds	
	Principal	Interest on CABs at Maturity	Current Interest	Subtotal	Principal	Interest		Subtotal
1995	\$589,018		\$438,894	\$1,027,912	\$9,050	\$22,394	\$31,444	\$1,059,356
1996	657,541		431,070	1,088,611	9,460	21,987	31,447	1,120,058
1997	684,560		388,444	1,073,004	9,845	21,604	31,449	1,104,453
1998	595,297	\$8,675	346,865	950,837	14,330	21,185	35,515	986,352
1999	519,263	9,704	317,626	846,593	15,010	20,508	35,518	882,111
2000	516,601	23,586	286,720	826,907	15,750	19,764	35,514	862,421
2001	461,859	61,445	259,556	782,860	16,555	18,957	35,512	818,372
2002	442,607	43,848	232,478	718,933	17,420	18,098	35,518	754,451
2003	429,407	59,609	209,114	698,130	18,585	16,929	35,514	733,644
2004	385,194	88,320	187,054	660,568	19,585	15,927	35,512	696,080
2005	386,626	95,981	167,007	649,614	20,665	14,852	35,517	685,131
2006	435,602	45,481	149,235	630,318	21,815	13,699	35,514	665,832
2007	470,500	14,985	127,122	612,607	23,050	12,467	35,517	648,124
2008	462,707		103,461	566,168	24,365	11,148	35,513	601,681
2009	439,148		78,312	517,460	25,740	9,771	35,511	552,971
2010	360,204		56,067	416,271	27,215	8,299	35,514	451,785
2011 and thereafter	685,045		64,362	749,407	115,330	16,424	131,754	881,161
TOTAL	\$8,521,179	\$451,634	\$3,843,387	\$12,816,200	\$403,770	\$284,013	\$687,783	\$13,503,983

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

- (1) Totals may not add due to rounding.
- (2) Includes Fiscal Recovery Bonds. Estimated debt service on the Fiscal Recovery Bonds (a portion of which constitute variable rate debt) will equal approximately \$279.0 million in fiscal 1995 through fiscal 1997 and \$130.0 million in fiscal 1998, at which time the Fiscal Recovery Bonds will be paid.
- (3) Excludes minibonds. Estimated debt service payable on outstanding minibonds (assuming interest is paid at maturity) in fiscal year 1995 is approximately \$63.7 million.
- (4) Does not include debt service paid in fiscal 1995 on July 1, 1994, including approximately \$48.2 million of general obligation bond principal and approximately \$28.7 million of general obligation bond interest.

Pursuant to an amendment enacted into law in fiscal 1994, the Commonwealth is required to provide contract assistance payments for debt service obligations of the Massachusetts Government Land Bank of up to \$6 million per fiscal year for a period of twelve years (as compared to seven years under prior law), of which five years (as compared to two years under prior law) remain. See "Commonwealth Information Statement" under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES -- Commonwealth Supported Debt; Massachusetts Government Land Bank" on page A-49.

OTHER COMMONWEALTH LIABILITIES

On February 28, 1994, the Secretary for Administration and Finance submitted a revised funding schedule with respect to the normal cost of Commonwealth pension benefits as well as the amortization of the unfunded actuarial liability of the Commonwealth for its pension obligations. On April 13, 1994, the Chairman of the House Ways and Means Committee notified the Secretary for Administration and Finance that the revised schedule was

disapproved. As provided by law, the current funding schedule therefore remains in effect. Under both the current and proposed schedules, the total estimated pay-as-you go benefit costs for the fiscal years 1994 through 1997 exceed the scheduled payments and accordingly, as provided under law, the pay-as-you go amounts are expected to be appropriated. See "Commonwealth Information Statement" under the heading "OTHER COMMONWEALTH LIABILITIES -- Retirement Systems and Pension Benefits" on page A-50.

LITIGATION

There are pending in state and federal courts within the Commonwealth various suits in which the Commonwealth is a party. In the opinion of the Attorney General, no litigation is pending or, to his knowledge, threatened which is likely to result, either individually or in the aggregate, in final judgments against the Commonwealth that would affect materially its financial condition. The following updates the litigation described in the Commonwealth Information Statement and includes a description of any material litigation which has arisen since the date thereof.

Update of Existing Litigation

Recent settlements in *Massachusetts Hospital Association v. Rate Setting Commission* have further reduced the Commonwealth's potential liability to approximately \$10 million. See "Commonwealth Information Statement" under the heading "LITIGATION -- Commonwealth Programs and Services" on page A-56.

The plaintiffs' appeal in *Massachusetts Hospital Association et al. v. Department of Public Welfare et al.* (Suffolk Superior Court No. 90-7116B) is awaiting argument in the Appeals Court. See "Commonwealth Information Statement" under the heading "LITIGATION - Commonwealth Programs and Services" on page A-56.

In *United States v. Metropolitan District Commission*, the MWRA expects to miss deadlines for (a) completion of the outfall and the inter-island tunnels and (b) commencement of operation of new primary batteries A and B. The Court has recognized some of the problems encountered by the MWRA due to the recent severe winter and the inherent uncertainties faced by the MWRA in completing a construction project of this magnitude. It has requested the MWRA to continue to report on developments on these matters. The MWRA currently has projected that the total cost of construction of the wastewater facilities required under the Court's order is approximately \$3.5 billion in current dollars, with approximately \$1.78 billion to be spent on or after January 1, 1994. See "Commonwealth Information Statement" under the heading "LITIGATION--Environmental Matters" on page A-56.

Greenworld Inc. et al. v. Brown et al. and *The Bays' Legal Fund v. Browner* have been dismissed by the First Circuit Court of Appeals as moot. See "Commonwealth Information Statement" under the heading "LITIGATION - Environmental Matters" on page A-57.

In *Massachusetts Wholesalers of Malt Beverages v. Commonwealth*, the parties have cross-moved for entry of judgment, and the Superior Court heard argument on April 26, 1994. See "Commonwealth Information Statement" under the heading "LITIGATION -- Taxes and Other Revenues" on page A-57.

BayBank, et al. v. Commissioner of Revenue, is pending in the Supreme Judicial Court, SJC No. 6518. Taking into account all banks and all years at issue (1974 through 1986), there are 142 appeals consolidated in this case. The amount at issue is estimated to be approximately \$1.2 billion, which amount includes interest of approximately \$900 million and amounts involved in other related applications for abatements pending with the Commissioner of Revenue or with the Appellate Tax Board. The Supreme Judicial Court is expected to hear the appeal in the fall of 1994. See "Commonwealth Information Statement" under the heading "LITIGATION--Taxes and Other Revenues" on page A-57.

The Supreme Judicial Court heard argument in *South Boston Savings Bank v. Commissioner of Revenue* in February, 1994. See "Commonwealth Information Statement" under the heading "LITIGATION--Taxes and Other Revenues" on page A-57.

In *American Trucking Assns. et al. v. Nessen et al.* the Superior Court has approved the parties' agreement establishing a refund mechanism. The Commonwealth's total liability equals approximately \$30 million, with \$20 million to be paid in fiscal 1995 and the remaining \$10 million in fiscal 1996, assuming the appropriation of necessary funds. See "Commonwealth Information Statement" under the heading "LITIGATION - Taxes and Other Revenues" on page A-57.

On July 21, 1994, the Supreme Judicial court affirmed the grants of summary judgment to the defendants in *Liability Investigative Fund Effort, Inc. et al. v. Commonwealth of Massachusetts et al.* and *Slocum v. Medical Malpractice Joint Underwriting Association of Massachusetts et al.* See "Commonwealth Information Statement" under the heading "LITIGATION - Other Fiscal Matters" on page A-58.

New Litigation

In *National Association of Government Employees v. Commonwealth*, Suffolk Superior 93-5509-E, the Superior Court declared that a line item in the Commonwealth's general appropriations act for fiscal 1994 that increased the state employees' percentage share of their group health insurance premiums from 10% to 15% violated the terms of several collective bargaining agreements, and hence was invalid under the contracts clause of the United States Constitution as regards employees covered by the agreements. The Commonwealth appealed the Superior Court's decision and the Supreme Judicial Court has granted direct appellate review. No argument date has yet been set. Several other unions have filed a companion suit asserting that the premium increase similarly violated other collective bargaining agreements. *Alliance, AFSCME/SEIU, AFL-CIO, et al. v. Commonwealth, et al.*, Suffolk Superior 94-3438-E. This latter suit is in its initial stages. If the Superior Court decision in favor of the state employees is upheld, the Commonwealth's aggregate liability for is estimated to be approximately \$32 million.

AVAILABILITY OF OTHER INFORMATION

Questions regarding this August 9, 1994 Supplement or requests for additional financial information concerning the Commonwealth should be directed to Kenneth O'Leary, Deputy Treasurer, Office of the Treasurer-Receiver General, One Ashburton Place, Twelfth Floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or Lowell Richards, Director of Debt Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to this August 9, 1994 Supplement should be directed to Walter J. St. Onge, III, Esq., Palmer & Dodge, One Beacon Street, Boston, Massachusetts 02108, telephone (617) 573-0100.

THE COMMONWEALTH OF MASSACHUSETTS

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

By /s/ Mark E. Robinson
Mark E. Robinson
Secretary for Administration and Finance

August 9, 1994

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ECONOMIC INFORMATION

The information in this section was prepared by the Massachusetts Institute for Social and Economic Research ("MISER") at the University of Massachusetts, Amherst, Massachusetts and may be relevant in evaluating the economic and financial condition and prospects of the Commonwealth of Massachusetts. MISER is designated as the Commonwealth's State Data Center and archives much of the data about Massachusetts. The demographic information and statistical data, which have been obtained by MISER from the sources indicated, do not necessarily present all factors which may have a bearing on the Commonwealth's fiscal and economic affairs. The information in this Exhibit A to the August 9, 1994 Supplement replaces the information set forth in Exhibit A to the Commonwealth Information Statement.

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

OVERVIEW

Population. Massachusetts experienced modest population increases between 1980 and 1990 and perhaps a very small decline thereafter. The 1990 U.S. census count is 6,016,425 or 4.9% more than the 5,737,093 counted in 1980. Bureau of the Census estimates for 1993 show the Massachusetts population to be 6,012,268. In contrast, the total United States population increased by approximately 9.8% over the period of 1980 to 1990, and these numbers are estimated to have increased again by 3.6% from 1990 to 1993. According to the 1990 U.S. census, the City of Boston experienced a small population increase of 2.0% from 562,994 in 1980, to 574,283 in 1990. The Boston-Washington corridor, which includes the states of Rhode Island, Connecticut, New York, New Jersey, and Pennsylvania, is home to sixty million people, one quarter of the entire U.S. population.

Infrastructure. Massachusetts possesses an extensive transportation system and related facilities. The City of Boston is the transportation and commercial center for New England and is the site of both a full-facility seaport and a major international airport. Boston's Logan International Airport is a major contributor to the economy of the greater Boston area, Massachusetts and the New England region. Based upon its volume of air passengers served, in 1993 Logan Airport ranks first in New England, tenth in the United States, and sixteenth in the world according to the Massachusetts Port Authority ("Massport"). In 1993, Logan Airport served slightly more than 24 million arriving and departing passengers, more than double the number served in 1975. For the same period, Logan Airport ranked thirteenth nationally and twenty fourth in the world in total air cargo volume, handling nearly 700 million pounds of total cargo. Massachusetts also has several deep-water seaports. The Port of Boston handled more than 16 million tons of cargo in 1992 valued at more than \$7.3 billion.

The state is also well served by the federal interstate highway system, including interstate routes 84, 90, 91, 93, 95, 295 and 495. Rail and trucking systems provide direct overland shipping throughout the United States and Canada.

Human Resources. Skilled human capital is the foundation of Massachusetts' economic strength. It provides the basis for a technologically dynamic and industrially diverse regional economy. The concentration of technical, engineering, managerial, scientific and other professional skills within the Massachusetts work force is, in part, due to the 120 private and public colleges and universities located throughout the state. The largest and best known of these institutions include the Massachusetts Institute of Technology, Harvard University, Tufts University, Boston College, the University of Massachusetts, Williams College, Boston University, Wellesley College, Amherst College, Smith College, Mount Holyoke College, Clark University, Holy Cross College, and Northeastern University.

Economic Base. Massachusetts has a diversified economic base which includes traditional manufacturing, high technology and service industries. A substantial portion of products produced by these and other sectors are exported. Like most other industrial states, Massachusetts has seen a shift in employment from labor-intensive

manufacturing industries (i.e. textiles, apparel, shoes, paper products, etc.) to technology and service-based industries like computers, biomedical technology, consulting, health care and business services.

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

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

Population Characteristics

Massachusetts is a densely populated urban state with a population density of 769 persons per square mile, as compared to 70.1 for the United States, according to the preliminary 1990 census. Among the 50 states, only Rhode Island and New Jersey have a greater population density.

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

Worcester is the second largest city in New England, though its MSA, extending into Connecticut, is slightly smaller than Springfield's MSA. Its service, trade, and manufacturing industries combine for more than 70% of Worcester's total employment. As a major medical and educational center, the Worcester area is home to 19 patient care facilities, including the University of Massachusetts Medical School, and twelve colleges and universities.

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

The following table compares the population growth rates of Massachusetts with those of the United States, the New England States, and the Thirteen Large States (both as defined in footnotes (1) and (2), respectively, to the table below).

**Population
1970-1993 (In Thousands)**

<u>Mid-Year</u>	<u>United States</u>		<u>Massachusetts</u>		<u>New England States(1)</u>		<u>Thirteen Large States(2)</u>	
	<u>Total</u>	<u>% Change Over Preceding Period</u>	<u>Total</u>	<u>% Change Over Preceding Period</u>	<u>Total</u>	<u>% Change Over Preceding Period</u>	<u>Total</u>	<u>% Change Over Preceding Period</u>
1970(3)	203,799	--	5,704	--	11,878	--	126,112	--
1980(3)	226,542	11.2	5,737	0.5	12,349	4.0	138,342	9.7
1981	229,466	1.3	5,769	0.6	12,436	0.7	140,238	1.4
1982	231,664	1.0	5,771	0.0	12,468	0.3	141,717	1.1
1983	233,792	0.9	5,799	0.5	12,544	0.6	143,218	1.1
1984	235,825	0.9	5,841	0.7	12,642	0.8	144,651	1.0
1985	237,924	0.9	5,881	0.7	12,741	0.8	146,217	1.1
1986	240,133	0.9	5,903	0.4	12,833	0.7	147,935	1.2
1987	242,289	0.9	5,935	0.6	12,951	0.9	149,563	1.1
1988	244,499	0.9	5,980	0.8	13,085	1.0	151,157	1.1
1989	246,819	0.9	6,015	0.6	13,182	0.7	152,842	1.1
1990(3)	248,710	0.8	6,016	0.0	13,207	0.2	154,170	0.9
1991	252,137	1.4	5,995	(0.3)	13,201	(0.05)	156,300	1.4
1992	255,078	1.2	5,993	(0.03)	13,196	(0.04)	158,051	1.1
1993	257,908	1.1	6,012	0.3	13,230	0.1	159,677	1.0

SOURCES: United States Department of Commerce, Bureau of the Census

- (1) New England States include Massachusetts, Connecticut, Maine, New Hampshire, Rhode Island, Vermont.
- (2) California, Florida, Georgia, Illinois, Massachusetts, Michigan, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Texas and Virginia. Massachusetts ranks 13th in size as of the 1990 census.
- (3) As of April 1 of that year; intercensal and postcensal populations are estimated by the Bureau of the Census.

For the most part, net migration has not contributed to much change during the Commonwealth's population during the last decade. Preliminary evidence suggests that out-migration increased during the Commonwealth's recent economic downturn. However, the net migration into or out of the Commonwealth has had the effect of reducing the age profile of the Massachusetts population. The following table shows the net change in Massachusetts population between 1980 and 1990, by five year classification of ages.

**Residual Change (Net of Deaths) in Massachusetts Population
by Age Group, 1980-1990**

<u>Age in 1990</u>	<u>Net Change 1980-1990</u>	<u>Rate of Change (10 year % change)</u>	<u>Age in 1990</u>	<u>Net Change 1980-1990</u>	<u>Rate of Change (10 year % change)</u>
less than 5	-3258	-0.8%	45-49	-7481	-2.1%
5-9	3991	1.1%	50-54	-5792	-2.1%
10-14	10588	3.1%	55-59	-8581	-3.1%
15-19	42520	11.3%	60-64	-15193	-5.0%
20-24	58878	12.8%	65-69	-16460	-5.3%
25-29	12692	2.3%	70-74	-12995	-4.7%
30-34	-5543	-1.0%	75-79	-7488	-3.2%
35-39	-2484	-0.5%	80-85	-5826	-3.1%
40-44	-6679	-1.5%	85 and over	-16364	-5.4%
			Total	14,525.02	0.2%

SOURCE: Computed by Massachusetts Institute for Social and Economic Research, MISER, University of Massachusetts.

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

**Distribution of Population by Age
(In Thousands)**

<u>Age</u>	<u>1990</u>		<u>2000 Projected</u>		<u>2010 (Projected)</u>	
	<u>Number</u>	<u>% of Total</u>	<u>Number</u>	<u>% of Total</u>	<u>Number</u>	<u>% of Total</u>
Under 5	421	7.0	362	6.1	335	5.5
5 to 19	1,140	19.0	1,218	20.5	1,177	19.3
20 to 24	517	8.6	351	5.9	451	7.4
25 to 34	1,099	18.3	834	14.0	760	12.5
35 to 44	914	15.2	1,015	17.1	820	13.5
45 to 54	596	10.0	808	13.6	940	15.4
55 to 64	514	8.6	521	8.8	732	12.0
65 and over	815	13.5	842	14.1	881	14.5

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

Personal Income

For the period 1988-1993, per capita Personal Income growth in Massachusetts was among the highest in the nation. Though the growth rate of per capita Personal Income has slowed in Massachusetts in the last two years, per capita Personal Income is currently the fourth highest among the fifty states. Per capita Personal Income for Massachusetts residents was \$24,563 in 1993, as compared to the national average of \$20,817.

The following table compares per capita Personal Income in Massachusetts with the United States and the New England States for the periods indicated.

**Per Capita Personal Income
1988-1993**

	<u>Massachusetts</u>	<u>United States</u>	<u>New England States</u>
1988	\$20,787	\$16,610	\$20,276
1989	21,688	17,690	21,325
1990	22,248	18,667	21,935
1991	22,719	19,163	22,338
1992	23,676	20,105	23,406
1993	24,563	20,817	24,265
 <u>% Change</u>			
1988-89	4.3%	6.5%	5.2%
1989-90	2.6	5.5	2.9
1990-91	2.1	2.7	1.8
1991-92	4.2	4.9	4.8
1992-93	3.7	3.5	3.7

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

Cost of Living

While per capita Personal Income is, on a relative scale, higher in Massachusetts than in the United States as a whole, this is offset to some extent by the higher cost of living in Massachusetts.

The following table presents information on consumer price trends for the Boston metropolitan area and the United States for the period between 1985 and 1993. Data for each year indicates the growth in the average annual Consumer Price Index for all urban consumers between that year and the prior year. The latest available data for January, 1994 show that the Consumer Price Index grew at a rate of only 1.1% from January, 1993; in the United States, growth for the comparable period was 2.5%.

**Changes in Consumer Price Index for All Urban Consumers
All Items**

	<u>United States</u>	<u>Boston Metro</u>
1985	3.5%	4.4%
1986	1.9	2.7
1987	3.7	4.3
1988	4.1	5.9
1989	4.8	5.8
1990	5.4	5.8
1991	4.2	4.5
1992	3.0	2.4
1993	3.0	3.0

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

Employment

The Massachusetts service sector, at 34.2% of the work force in May of 1994, is the largest sector in the Massachusetts economy. This can be compared to the nation as a whole where approximately 27% of all jobs are in the service sector. Government employment in Massachusetts was 13.3%, somewhat below the national average.

During the economic downturn that ended in 1992, the Construction, Manufacturing and Trade sectors experienced the greatest decreases, more modest declines taking place in the Government, Finance, Insurance and Real Estate ("FIRE") and Services sectors over the same period. It is expected that the Central Artery/Tunnel Project and the Boston Harbor Cleanup, with their employment of substantial numbers of construction workers, will be an anodyne for the Construction sector's past ills. As it has entered its recovery Massachusetts manufacturing employment losses have continued, although at a slower pace. The construction and trade sectors have been improving. Construction's growth for the period 1992 to 1993, as appropriate for a cyclical indicator, has recently moved strongly ahead at 9.9%.

The table below demonstrates the changes in employment by sector from 1991 through 1993.

**Massachusetts Employment by Industry--Annual Averages
(In Thousands) (A) 1991-1993**

	<u>1991</u>	<u>1992</u>	<u>1991-92</u> <u>% change</u>	<u>1993</u>	<u>1992-93</u> <u>% change</u>
Total Nonagricultural Employment	2,821.2	2,795.1	(0.9)	2,841.5	1.7
Sector					
Construction	78.8	73.6	(6.6)	80.9	9.9
Manufacturing	485.0	465.7	(4.0)	453.5	(2.6)
Transportation & Public Utilities	123.4	121.4	(1.6)	123.5	1.7
Wholesale and Retail Trade	650.6	640.5	(1.6)	644.0	0.5
FIRE	201.8	196.7	(2.5)	199.3	1.3
Services	890.5	913.4	2.6	951.8	4.2
Government	389.9	382.6	(1.9)	387.4	1.3
Civilian Labor Force	3,166.0	3,149.0	(0.5)	3,170.0	0.7
Unemployed	284.0	267.0	(6.0)	217.0	(18.7)
Unemployment Rate	9.0%	8.5%		6.9%	

SOURCE: Massachusetts Department of Employment and Training.

(A) Sum of parts may not equal totals due to rounding.

The following table presents changes in Nonagricultural Employment by sector for May, 1993 and May, 1994. Total Nonagricultural Employment increased by 3.2% between May, 1993 and May, 1994.

**Massachusetts Employment by Industry--Monthly
(In Thousands) (1)**

	<u>May</u> <u>1993</u>	<u>% of total</u>	<u>May</u> <u>1994</u>	<u>% of total</u>	<u>% change</u> <u>1993-94</u>
Total Nonagricultural Employment	2831.1	100	2920.7	100	3.2
Sector					
Construction	77.3	2.7	88.9	3.0	15.0
Manufacturing	456.7	16.1	447.1	15.3	(2.1)
Transportation & Public Utilities	122.4	4.3	128.2	4.4	4.7
Wholesale and Retail Trade	643.0	22.7	666.2	22.8	3.6
FIRE	198.6	7.0	202.1	6.9	1.8
Services	944.1	33.3	998.0	34.2	5.7
Government	387.8	13.7	389.0	13.3	0.3
Average Weekly Earnings Manufacturing (dollars)	\$508.4		\$525.4		3.3
Civilian Labor Force	3152.0		3155.0		0.1
Unemployed	217.0		183.0		(15.7)
Unemployment Rate	6.9%		5.8%		

SOURCE: Massachusetts Department of Employment and Training and US Department of Labor, Bureau of Labor Statistics.

(1) Preliminary, subject to revision. Sum of the parts may not equal totals due to rounding. Figures are seasonally adjusted except average weekly earnings.

Business and Employment Base

The following table lists, in alphabetical order, the twenty-five largest private sector employers in Massachusetts as of June, 1993. The group has remained relatively stable, only Shawmut Bank and Wang Laboratories falling from the list, being replaced by May Department Stores and the New England Medical Centers Hospital.

Commonwealth of Massachusetts Twenty-Five Largest Massachusetts Employers

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

SOURCE: Massachusetts Department of Employment and Training.

As indicated in the following table, the commercial base of Massachusetts is anchored by the fourteen Fortune 500 industrial firms headquartered within the state. The Fortune 500 firms are ranked according to total sales.

Massachusetts Companies in The Fortune 500

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

SOURCE: Fortune Magazine, April 18, 1994.

Only Dr. Holdings, a computer equipment producer, and Amoskeag, a financial services firm, fell from earlier ratings (in 1992) among the group of industries in the Fortune 500. These companies were replaced,

however, by Kendall International and EMC so that the total of the Commonwealth's firms in the Fortune 500 remained stable.

The current restructuring of the Massachusetts economy due to the economic recovery has brought new business opportunities to many. The following table shows both the average monthly and the annual totals for new business incorporations over the period from 1991 through 1993 for Massachusetts, New England and the United States. Massachusetts' new incorporations by 1993 had climbed back to pre-1990 levels - a recovery stronger than the region but not quite so strong as nationally.

New Business Incorporations 1991-1993				
	12 Month Totals			<u>% Change 1992-93</u>
	<u>1991</u>	<u>1992</u>	<u>1993</u>	
Massachusetts	976	1,016	1,071	5.4
New England	2,406	2,391	2,519	5.4
United States(1)	52,487	55,567	58,578	6.0

SOURCE: Dun & Bradstreet, Department of Economic Analysis, *New Business Incorporations*.

(1) Unadjusted, estimated

Unfortunately, with any such restructuring, businesses also fail. According to Dun & Bradstreet, an average of 244 Massachusetts businesses failed per month between January and December 1993. This is compared to an average of 253 for the same period in 1992. For the same period in 1993, an average of 442 New England businesses failed monthly, as compared to 517 in the same months of 1992. This is shown in the following table.

Business Failures 1992-1993			
	Monthly Averages		<u>% Change 1992-93</u>
	<u>1992</u>	<u>1993</u>	
Massachusetts	253	244	(3.2)
New England	517	442	(14.6)
United States(1)	8,089	7,139	(11.7)

SOURCE: Dun & Bradstreet, Department of Economic Analysis.

Labor Force

The availability of skilled labor is an important resource for Massachusetts industries. The higher education system is particularly strong in post-graduate, scientific and technical education. The strength of the Massachusetts higher education system is evidenced by the draw it has upon new students. According to the New England Board of Higher Education (NEBHE), almost twice as many new students migrated into the Massachusetts higher education system as migrated out in 1988. The strength of the Commonwealth's educational institutions is also reflected in the large number of degrees awarded. The following table shows the number of Massachusetts graduates with science and engineering degrees as a percentage of the entire United States population. Note that the figures are particularly strong for doctoral degrees.

**Science and Engineering Degrees Conferred
Massachusetts Total and Percent of U.S. Total: 1991**

		<u>Total</u>	<u>Massachusetts %</u>
<i>Baccalaureate:</i>	Mathematics	618	4.2%
	Physical Sciences	751	4.5
	Engineering	2,975	4.9
<i>Master's:</i>	Mathematics	244	6.8
	Physical Science	415	8.0
	Engineering	2,189	9.3
<i>Ph.D's:</i>	Mathematics	69	7.4
	Physical Science	319	7.1
	Engineering	350	6.7

SOURCE: NEBHE analysis of U.S. Department of Education data.

NOTE: Massachusetts population as a percent of U.S. Total = 2.3%.

Unemployment

From 1980 to 1989, Massachusetts' unemployment rate was significantly lower than the national average. By 1990, however, the Commonwealth's unemployment rate reached 6.0%, exceeding the national average for the first time since 1977. This softening of Massachusetts labor markets then continued to deteriorate rapidly over the early 1990's. The average monthly unemployment rate in Massachusetts for 1993 stood at approximately 6.9%, as compared to the national 1993 monthly average of 6.8%. The Massachusetts unemployment rate in July 1994 was 5.9%, as compared to 6.0% for June 1994 and 6.5% for July 1993. The United States unemployment rate in July 1994 was 6.1%, as compared to 6.0% for June 1994 and 6.5% for July 1993. Due to the Current Population Survey redesign, comparisons between 1994 data and data for earlier years are not advisable.

The following table compares the annual labor force, unemployment and unemployment rate averages of Massachusetts and the United States for each of the years as indicated. It also shows a comparison of Massachusetts rates to United States rates for each of the years indicated.

**Annual Average Civilian Labor Force, Unemployment and
Unemployment Rates for Massachusetts and the United States,**

1980-1993

(In Thousands)

Year	Civilian Labor Force		Unemployed		Unemployment Rate		MA Rate % of US
	MA	US	MA	US	MA	US	
1980	2,867	106,940	162	7,637	5.6%	7.1%	78.9
1985	3,051	115,461	120	8,312	3.9	7.2	54.2
1986	3,058	117,834	118	8,237	3.8	7.0	54.3
1987	3,086	119,865	99	7,425	3.2	6.2	51.6
1988	3,155	121,669	103	6,701	3.3	5.5	60.0
1989	3,180	128,869	127	6,528	4.0	5.3	75.5
1990	3,166	124,787	189	6,874	6.0	5.5	109.1
1991	3,127	125,303	280	8,426	9.0	6.7	134.3
1992	3,148	126,985	267	9,390	8.5	7.4	114.9
1993	3,170	128,035	217	8727	6.9	6.8	101.5

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

Unemployment Compensation Trust Fund

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

In September, 1991 the reserves in the fund were exhausted due to the continued high unemployment. Since that time, benefit payments in excess of contributions have been financed through repayable advances from the federal unemployment loan account. Legislation enacted in 1992 significantly increased employer contributions in order to reduce advances from the federal loan account and 1993 contributions exceeded benefit outlays by more than \$200 million. As of June 30, 1994, the Massachusetts Unemployment Trust Fund had a positive balance of \$37 million, as compared to a deficit of \$120 million at the end of December 1993.

The Department of Employment and Training's most recent quarterly report indicates that the additional increases in contributions provided by the 1992 legislation should rebuild reserves in the system to almost \$1 billion by the end of 1998, even if the Legislature acts to keep contribution rates at their current level for one more year.

Interest due in September, 1994 on federal advances is estimated at \$4.7 million.

Recent Economic Performance

Sectoral Detail

Services

The services sector is the largest sector in the economy of Massachusetts in terms of numbers of employees. This sector includes the broad categories of health services, business services, educational services, engineering and management services, and social services. In May 1994, service sector employment was 998,000, representing some 34.2% of total nonagricultural employment. The service sector represented a major source of strength in the Massachusetts economy, increasing 17.5% between 1985 and 1989. After moderate declines in 1990 and 1991, the service sector employment levels reached new highs in 1993. Between May 1993 and May 1994 the service sector saw an increase in employment by some 5.7%. An area with relatively high wages, business services employed more than 16% of service sector workers in May of 1994. As compared with the nation, Massachusetts has a greater concentration in the area of business services.

Health Services

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

The current outlook for health services, including employment levels, is uncertain. The industry is buoyed by strong demand for health services. Per capita health care spending in Massachusetts is 25% above the national average, according to a recent study published by the Families U.S.A. Foundation, though, this reflects, in part, the fact that Massachusetts health care costs are well above the national average. The high cost of health care has led to recent efforts to contain costs by businesses as well as governments. Cutbacks in federal reimbursements, combined with the rising costs of patient care, contributed to operating deficits in over half of Massachusetts' hospitals in 1988. The deficits were also caused in part by an excess of acute care beds in the state. Recent restructuring of the hospital sector has led to the conversion of many acute care beds to long term care beds throughout the state. This may result in improved state-wide occupancy rates, as well as a reduction in the cost of long-term care.

It is not possible at this time to predict how the various health care reform measures now being considered by Congress will affect the health care industry in Massachusetts.

Educational Services

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

The pre-eminence of higher education in Massachusetts contributes not only to the quality of its work force, but also to its stature in the nation and the world as a center for basic scientific research and for academic and entrepreneurial research and development. For example, Massachusetts institutions have a large number of Nobel Laureates. The Massachusetts Institute of Technology recently became the first university in the U.S. to receive more than 100 patents in a year. Nationally, private industry funded only 6.4% of University research and development ("R&D") at doctorate-granting institutions in 1991. This is significantly lower than the 9.0% percent figure for Massachusetts. The federal government provides funding for 71.5% of all R&D activities in

Massachusetts, compared to 58.0% for the nation as a whole during the same period. Massachusetts was fourth in the nation in total federal dollars pledged to R&D work at research institutions.

The diversity of federal funding sources reflects the diversity of the research and development work done at Massachusetts educational institutions. Of the \$679 million of total federal spending on college and university-based research and development in 1991 in Massachusetts, 47.0% was from the Department of Health and Human Services, 18.1% was from the National Science Foundation, 15.6% was from the Department of Defense, 9.8% was from the Department of Energy, and 2.9% was from the Department of Agriculture.

Massachusetts colleges and universities are also significant employers within the state. Four Massachusetts private universities are among the Commonwealth's 25 largest non-governmental employers. The educational services sector includes only private institutions for education; public institutions are included in the government sector. According to the Massachusetts Department of Employment and Training, educational services accounted for 120,600 jobs in 1993, while in the government sector, state and local public education accounted for 155,700 jobs.

Trade

During the mid-1980's the trade sector was an area of strong job growth, boosted by a growing export sector. Trade employment declined between 1990 and 1992 but there was a slight rebound of 0.5% between 1992 and 1993. In May 1994, retail and wholesale trade was the second largest employment sector in Massachusetts with 666,200 workers, 3.6% above May, 1993 levels. Of this number, about three-quarters were employed in retail trade.

Retail Sales

Retail sales growth in the Commonwealth outpaced national sales growth during the mid-80's, though in more recent years this has not been the case. According to the Federal Reserve Bank of Boston, retail sales for the month of July, 1993 were 0.8% above the figures for the same month in 1992. The following table sets forth annual retail sales activity for Massachusetts and the United States from 1988-1993.

Annual Retail Sales Activity
(adjusted for seasonal variations and trading day differences)
1988-1993 (In Millions)

	<u>Massachusetts</u>	<u>% Change</u>	<u>United States</u>	<u>% Change</u>
1988	\$45,327	9.5%	\$1,650,468	7.1%
1989	46,089	1.7	1,746,965	5.8
1990	44,141	(4.2)	1,825,507	4.5
1991	44,863	1.6	1,842,739	0.9
1992	47,491	5.9	1,956,175	5.8
1993	49,976	4.2	2,083,877	6.5

SOURCE: United States Department of Commerce; Federal Reserve Bank of Boston

Manufacturing

Recently, like virtually all industrial states, Massachusetts has seen a steady diminution of its manufacturing job base. Between 1992 and 1993, manufacturing employment declined 3.2%, from 460,700 to 446,100. While high technology manufacturing is in a slowdown nationally as well as in Massachusetts, it is expected to outperform manufacturing in the long-term. As of May 1994, high technology manufacturing employed 168,000 persons, down

by 9,200 from a year earlier. Generally, the Massachusetts manufacturing sector is made up of many small and diversified firms. Currently, about 80% of the manufacturing firms in Massachusetts employ fewer than 50 people.

**Manufacturing Establishment Employment by Industry
in Massachusetts
1991-1993
(In Thousands)**

	<u>1991</u>		<u>1992</u>		<u>1993</u>	
	<u>Jobs</u>	<u>%</u>	<u>Jobs</u>	<u>%</u>	<u>Jobs</u>	<u>%</u>
<u>Durable Goods</u>						
Primary Metals	10.3	3.2	9.3	3.1	9.1	3.2
Fabricated Metals	37.9	12.0	36.2	12.1	35.7	12.5
Industrial Machinery	76.6	24.2	72.5	24.2	67.3	23.5
Electrical and Electronics	68.5	21.6	63.9	21.3	59.9	20.9
Transportation	26.0	8.2	24.1	8.0	21.7	7.6
Stone, Clay, & Gas	7.8	2.5	7.9	2.6	8.0	2.8
Instruments	65.6	20.7	61.6	20.6	59.8	20.9
Other Durable Goods	24.3	7.7	24.1	8.0	24.9	8.7
Total Durable Goods	317.0	100.0	299.6	100.0	286.4	100.0
<u>Non-Durable Goods</u>						
Apparel and Related	17.7	10.5	17.7	10.7	16.9	10.1
Food Products	19.6	11.7	19.3	11.6	20.1	12.0
Chemical Products	17.3	10.3	16.5	9.9	16.3	9.8
Printing and Publishing	48.9	29.1	47.3	28.5	47.4	28.4
Textile Mill Products	14.1	8.4	14.6	8.8	15.1	9.0
Paper Products	21.1	12.6	20.7	12.5	20.1	12.0
Other Non-Durable Goods	29.3	17.4	30.0	18.1	31.2	18.7
Total Non-Durable Goods	168.0	100.0	166.1	100.0	167.1	100.0
Total Manufacturing Employ.	485.0		465.7		453.5	

SOURCE: Massachusetts Department of Employment and Training.

International Trade

A significant proportion of what Massachusetts produces is exported. Massachusetts ranked eleventh in the United States with more than \$12.2 billion in exports in 1993. The amount of the Commonwealth's exports have increased slowly over time in comparison to some of the other states in the U.S., increasing only 0.3% from the previous year. Manufactured goods accounted for 95.9% of all foreign trade receipts in 1993. Such a focus on production for export has given Massachusetts the fifth highest concentration of manufacturing sector jobs dependent on exports in the nation, according to the Bureau of the Census' 1987 Census of Manufacturers (the most recent data available). Three of the four states with greater concentrations border Massachusetts. According to the same report, 190,600 of Massachusetts' manufacturing jobs, which amounts to 6.4% of its civilian labor force, were dependent upon exports. Massachusetts' most important exports are industrial machinery including computer equipment, electronic and electric equipment and instruments and related products.

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

**Massachusetts - Total Dollar Value of
Export Shipments by Major Industry Group
1989 and 1993**

<u>Major Industry Group</u>	<u>Massachusetts</u>		<u>Percent Change 1989 - 1993</u>		
	<u>1989</u>	<u>1993</u>	<u>Mass.</u>	<u>New England</u>	<u>U.S.</u>
Total All Industries	\$10,471,988,332	\$12,194,833,110	16.45%	27.12%	33.53%
Manufacturing	10,182,123,284	11,695,366,815	14.86	21.80	22.66
Industrial machinery, computer equipment	4,520,966,289	3,873,987,016	(14.31)	(10.97)	35.40
Electronic, electric equip., excluding computers	1,395,937,425	2,240,488,731	60.50	51.67	69.76
Instruments and related products	1,635,974,528	1,867,013,760	14.12	21.77	37.95
Fabricated Metal Products	426,317,202	625,753,955	46.78	16.18	14.68
Chemicals and Allied Products	399,128,333	534,097,385	33.81	15.33	18.90
Transportation Equipment	433,584,243	499,068,395	15.10	27.59	36.03
Rubber and misc. plastics products	192,380,454	373,833,043	94.31	107.07	82.56
Textile Mill Products	123,576,983	263,293,011	113.05	105.29	66.82
Paper and Allied Products	174,952,180	242,760,182	38.75	22.67	13.94
Primary Metal Industries	170,672,033	211,461,841	23.89	33.03	64.46

SOURCE: University of Massachusetts at Amherst.

Finance, Insurance and Real Estate

While the Finance, Insurance and Real Estate ("FIRE") sector experienced 23.7% growth in employment between 1984 and 1988, there was a 10.0% decrease in employment between 1988 and 1993. However, this masks a hastening rebound in early 1994 and a slight turnaround of 1.3% in 1993 from 1992 figures. The total employment in FIRE was 199,300 in 1993, and 202,000 as of May, 1994.

Construction

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

The following table shows the number of housing permits authorized on an annual basis in Massachusetts and the United States. The number of Massachusetts permits increased 18.0% between 1992 and 1993, while the national rate declined by 9.2% during the same period. In recent months there has been some improvement in the Massachusetts housing industry. The total value of new construction contracts has also risen.

**Housing Permits Authorized in Massachusetts and the United States
1980-1993**

	<u>Massachusetts</u>	<u>United States</u>
1980	16,500	1,171,000
1981	15,900	985,000
1982	15,400	1,485,000
1983	22,800	1,605,000
1984	29,300	1,682,000
1985	39,200	1,733,000
1986	45,200	1,769,000
1987	40,400	1,534,000
1988	30,500	1,456,000
1989	21,300	1,338,000
1990	14,300	1,111,000
1991	12,700	949,000
1992	15,000	1,211,000
1993	17,700	1,100,000

SOURCE: Department of Commerce, Bureau of the Census and the Federal Reserve Bank of Boston.

Defense

An estimated 143,400 workers were employed in defense-related industries in 1992, accounting for approximately 5.0% of Massachusetts private sector employment. Following a peak in the value of military prime contracts awarded to Massachusetts firms in fiscal 1986 of \$8.7 billion, defense-related contracts declined approximately 20% in real (inflation-adjusted) terms in fiscal 1988 to \$7.2 billion. By fiscal 1992, the value of defense-related prime contracts had declined to \$5.7 billion. The diversity of Massachusetts companies, particularly in the area of electronics and high technology research and development, has helped reduce the impact of the decline in national defense expenditures on the Massachusetts economy.

The importance of the defense industry to the Massachusetts economy is reflected in the tables below.

**Defense Indicators for New England and the Nation
(Thousands of Dollars)**

	<u>Prime Contract Awards 1992</u>	<u>% Employment Defense Related</u>
Connecticut	\$3,099,444	5.9%
Maine	1,304,968	4.3
Massachusetts	5,686,386	5.0
New Hampshire	424,396	2.7
Rhode Island	454,571	4.0
Vermont	63,027	2.1
Total New England	11,032,792	4.7
Total United States	112,284,649	4.1

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

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

Travel and Tourism

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

The Massachusetts Office of Travel and Tourism estimates that a total of 26.7 million people visited the Commonwealth in 1991. Of these, 1.5 million were international visitors. It was also estimated that spending by domestic travellers was \$6.5 billion. The immediate tax revenue from this spending is estimated to be \$177 million for the Commonwealth.

Housing Indicators

The current recovery in the regional economy is reflected in the housing sector. With sales resuming an increasing trend in 1990, prices began rising slowly a year later. This stabilized the large loss of 4.3% that occurred between 1989 and 1990. On a seasonally adjusted annual rate basis, existing home sales for the Commonwealth appear in the table below.

**Existing Home Sales
1988-1993
(In Thousands, Seasonally Adjusted Annual Rates)**

1988	93.6
1989	67.4
1990	44.1
1991	49.6
1992	57.6
1993	65.6

SOURCE: Federal Reserve Bank of Boston figures based on the National Association of Realtors *Home Sales*.

Single family home prices for the Boston Metropolitan area (not seasonally adjusted) appear below.

**Home Prices for Boston Metropolitan Area
1988-1993
(In Thousands)**

1988	\$180.7
1989	181.5
1990	173.8
1991	168.5
1992	170.5
1993	171.4

SOURCE: Federal Reserve Bank of Boston figures based on the National Association of Realtors *Home Sales*.

Major Infrastructure Projects

The next decade brings significant work on several major public sector-sponsored construction projects, giving rise in Massachusetts to new employment opportunities. The projects include the depression of the central artery which traverses the City of Boston, and the construction of a third harbor tunnel linking downtown Boston to Logan Airport. Final completion of the project is planned for 2003. The federal government will take responsibility for about 90% of the estimated \$7.7 billion cost of the project. Plans are to employ 5,000 on-site workers and 10,000 auxiliary workers during the peak year of construction, 1994 to 1995.

Massport and the Massachusetts Bay Transportation Authority also plan to devote several billion dollars to maintenance and enhancements of the area's port, airport and mass transportation facilities.

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

THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT

February 17, 1994

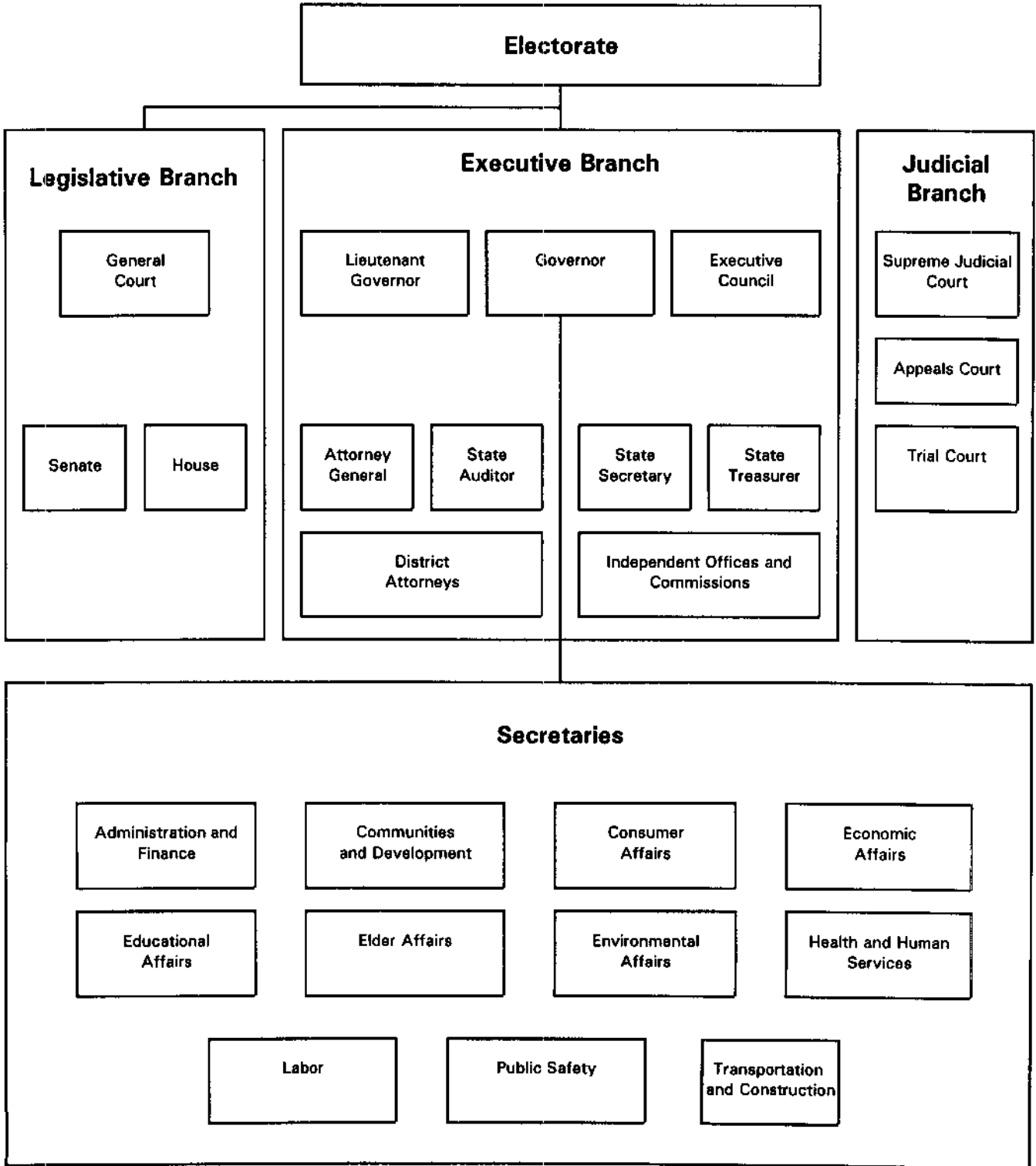
This Information Statement, together with the Exhibits attached hereto, is furnished by The Commonwealth of Massachusetts (the "Commonwealth"). It contains certain fiscal, financial and economic information concerning the Commonwealth and its ability to meet its obligations. The Commonwealth Information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

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

Exhibit A to this Information Statement sets forth certain economic, demographic and statistical information concerning the Commonwealth. Exhibits B and C contain the Commonwealth's fiscal 1993 combined financial statements (statutory basis) and fiscal 1993 general purpose financial statements (GAAP basis), respectively.

THE GOVERNMENT

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



Executive Branch

The Governor is the chief executive officer of the Commonwealth. Other elected members of the executive branch are the Lieutenant Governor (elected with the Governor), the Treasurer and Receiver-General (the "State Treasurer"), the Secretary of the Commonwealth, the Attorney General and the State Auditor. All are elected to four-year terms. The next election for these officers will be held in November 1994.

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

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

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

Approximately 76.4% of the Commonwealth's fiscal 1994 program expenditures in the budgeted operating funds is allocated to the Executive Offices. Listed below are the eleven Executive Offices, showing for each the name of its secretary and the percentage of the Commonwealth's fiscal 1994 program expenditures in the budgeted operating funds attributable thereto:

<u>Executive Office</u>	<u>Secretary</u>	<u>Approximate Percentage of Total Expenditures Supervised</u>
Administration and Finance (1)	Mark E. Robinson	5.5%
Communities and Development	Mary L. Padula	0.9
Consumer Affairs and Business Regulation	Priscilla H. Douglas	0.2
Economic Affairs	Gloria C. Larson	0.2
Educational Affairs	Piedad F. Robertson	15.8
Elder Affairs	Franklin P. Ollivierre	0.8
Environmental Affairs	Trudy Coxé	1.0
Health and Human Services	Charles Baker	43.2
Labor	Christine E. Morris	0.1
Public Safety	Thomas C. Rapone	4.8
Transportation and Construction	James J. Kerasiotes	3.9

SOURCE: Executive Office for Administration and Finance.

(1) The Secretary for Administration and Finance is also the Commissioner of Administration.

Approximately 3.7% of the Commonwealth's fiscal 1994 expenditures in the budgeted operating funds are for the costs and expenses of the constitutional officers (other than the State Treasurer), the Legislature, the Judiciary, the Office of the Comptroller, the Board of Library Commissioners, the Office of the Inspector General, the State Ethics Commission and the Office of Campaign and Political Finance. The State Treasurer's budget contains approximately 19.3% of fiscal 1994 expenditures, including 5.3% for a portion of Commonwealth aid to cities, towns and regional school districts ("Local Aid"), 7.5% for debt service, 5.9% for pension costs, and 0.6% for other programs within the State Treasurer's office, including Lottery administration. See "COMMONWEALTH PROGRAMS AND SERVICES -- Local Aid", "-- Debt Service" and "-- Pensions". The remaining 0.6% of fiscal 1994 expenditures is reserved for contingencies.

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

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

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

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

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

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

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

Legislative Branch

The General Court (the "General Court" or the "Legislature") is the bicameral legislative body of the Commonwealth, consisting of a Senate of 40 members and a House of Representatives of 160 members. Members of both the Senate and the House are elected to two-year terms in even-numbered years. The General Court meets every year, and sessions often extend throughout the year.

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

Judicial Branch

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

Independent Authorities and Agencies

Within the Commonwealth 31 independent authorities and agencies have been established by the Legislature, the budgets of which are not included in the Commonwealth's annual budget. The Commonwealth does, however, appropriate funds in the budget for subsidies, operating assistance and debt service payments, and is liable for the outstanding debt of certain of these authorities and agencies, such as the Massachusetts Bay Transportation Authority (the "MBTA"), the Boston Metropolitan District, the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority (the "Steamship Authority"), certain regional transit authorities ("RTA's"), the Massachusetts Convention Center Authority (the "MCCA") and the Massachusetts Government Land Bank (the "Land Bank"). The Commonwealth guarantees debt issued by four higher education building authorities and various local housing authorities, and may be called upon to provide capital reserve funding for the Massachusetts Housing Finance Agency (the "MHFA") and the Massachusetts Home Mortgage Finance Agency. See "COMMONWEALTH BOND AND NOTE LIABILITIES". Other independent authorities and agencies which issue their own debt for quasi-governmental purposes include the Massachusetts Educational Financing Authority, the Massachusetts Health and Educational Facilities Authority ("HEFA"), the Massachusetts Industrial Finance Agency, the Massachusetts Port Authority, the Massachusetts Turnpike Authority, the Massachusetts Water Pollution Abatement Trust (see "OTHER COMMONWEALTH LIABILITIES - Water Pollution Abatement Trust") and the Massachusetts Water Resources Authority (the "MWRA").

Local Government

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

All territory in the Commonwealth is in one of the 14 counties and in one of the 351 incorporated cities and towns which exercise the functions of local government. Cities and towns or regional school districts established by them provide elementary and secondary education. Cities are governed by several variations of the mayor-and-council or manager-and-council form. Most towns place executive power in a board of three or five selectmen elected to one or three-year terms and retain legislative powers in the voters themselves, who assemble

in periodic open or representative town meetings. Various local and regional districts exist for schools, parks, water and wastewater administration and certain other governmental functions.

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

Initiative Petitions

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

COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS

Operating Fund Structure

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

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

Overview of Budgetary Process

Generally, funds for the Commonwealth's programs and services must be appropriated by the Legislature.

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

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

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

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

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

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

Cash and Budgetary Controls

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

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

Cash Management Practices of State Treasurer

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

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

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

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

Fiscal Control, Accounting and Reporting Practices of Comptroller

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

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

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

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

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

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

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

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

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

Under GAAP, revenues are reported in the period in which they become both measurable and available. Revenues are "available" when they are expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants and reimbursements, local government assessments for operations of the MBTA and reimbursements for the use of materials and services. Tax accruals, which represent the estimated amounts due to the Commonwealth on previous filings, over and under withholdings, estimated payments on income earned and tax refunds and abatements payable, are all recorded as adjustments to statutory basis tax revenues. Expenditures/expenses are recorded in the period in which the related fund liability is incurred. Principal and interest on long-term debt obligations are recorded as fund liabilities when due. Major expenditure accruals are recorded for the cost of Medicaid claims that have been incurred but not paid, net cost of service payments due to the MBTA, claims and judgments and compensated absences such as vacation pay earned by state employees. See "FINANCIAL RESULTS -- Selected Financial Data -- GAAP Basis" and "EXHIBIT C - 1993

General Purpose Financial Statements -- GAAP Basis".

Financial Reports. The Commonwealth's fiscal year ends on June 30 of each year. Throughout the year, the Comptroller prepares interim financial statements, and, in September, following the end of each fiscal year, the Comptroller issues the Preliminary Financial Report. These interim and preliminary financials are prepared on the statutory basis of accounting and are not audited, but they are considered authoritative. In the following January, the Comptroller publishes the Commonwealth's audited annual report. For fiscal 1986 through 1989 this report included audited financial statements on both the statutory basis of accounting and on the GAAP basis. Since fiscal 1990, these financial statements have been issued as two separate financial reports, one utilizing the statutory basis of accounting (the "Statutory Basis Financial Report") and the Comprehensive Annual Financial Report ("CAFR"), which is on a GAAP basis. The general purpose financial statements from these two reports of the Commonwealth for fiscal 1993 are attached hereto as Exhibits B and C, respectively. For fiscal 1990 through 1993 the independent auditor's opinions were unqualified. Copies of these financial reports are available at the address provided under "CONTINUING DISCLOSURE".

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

The CAFRs for fiscal 1990 through fiscal 1992, from which certain information contained in this Information Statement has been derived, were each awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (the "GFOA"). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the basic contents of which conform to program standards. Such report must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The Comptroller believes that the Commonwealth's CAFR for fiscal 1993 will conform to Certificate of Achievement program standards, and it will be submitted to the GFOA.

Overview of Capital Spending Process and Controls

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

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

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

at which capital appropriations are expended, and therefore control the amount of bonds issued to finance such expenditures.

The following table, entitled "Summary of Five-Year Capital Spending Plan and Plan of Finance", sets forth capital spending of the Commonwealth, including the MBTA, as well as the sources of funding for such capital spending, including federal aid, for fiscal years 1994 through 1998. Total capital spending for fiscal years 1994 through 1998 to be financed from Commonwealth debt is forecast at \$4.25 billion, which is significantly below legislatively authorized capital spending levels. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- Authorized But Unissued Debt". In addition, the Five-Year Capital Spending Plan also forecasts total MBTA capital expenditures of \$1.500 billion for fiscal years 1994 through 1998, which spending will be financed through the issuance of bonds by the MBTA (see "COMMONWEALTH BOND AND NOTE LIABILITIES -- Commonwealth Supported Debt; MBTA") and assumes that the projected level of Commonwealth capital spending will leverage additional federal aid of \$6.815 billion for this period. The anticipated levels of federal aid rely on certain assumptions concerning the level of federal participation in the funding of the third harbor tunnel and central artery projects and for state highways and bridge repair.

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

	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>Total</u>
Uses of Funds						
Information Technology	\$ 21	\$ 13	\$ 20	\$ 21	\$ 17	\$ 97
Infrastructure(2)	101	203	218	217	237	1,036
Environmental Affairs						
Commonwealth Expenditures	119	98	73	61	48	399
Open Space Acquisition	<u>35</u>	<u>35</u>	<u>40</u>	<u>45</u>	<u>45</u>	<u>200</u>
Subtotal	154	133	113	106	93	599
Housing	44	36	27	28	39	174
Transportation						
Commonwealth Expenditures	417	333	363	348	302	1,763
MBTA	306	394	316	255	229	1,500
Federal Highway/MBTA Aid	<u>1,392</u>	<u>1,620</u>	<u>1,431</u>	<u>1,337</u>	<u>1,035</u>	<u>6,815</u>
Subtotal	2,115	2,347	2,110	1,940	1,566	10,078
Economic Development	30 (3)	107	108	117	118	506
Miscellaneous Capital Projects	<u>13</u>	<u>19</u>	<u>12</u>	<u>8</u>	<u>7</u>	<u>73</u>
Total	<u>\$2,478</u>	<u>\$2,858</u>	<u>\$2,608</u>	<u>\$2,437</u>	<u>\$2,077</u>	<u>\$12,563</u>
Sources of Funds						
Federal Aid	\$1,392	\$1,620	\$1,431	\$1,337	\$1,035	\$6,815
Commonwealth Debt(4)	780 (5)	846	860	845	813	4,250
MBTA Bonds	<u>306</u>	<u>394</u>	<u>316</u>	<u>255</u>	<u>229</u>	<u>1,500</u>
Total	<u>\$2,478</u>	<u>\$2,860</u>	<u>\$2,607</u>	<u>\$2,437</u>	<u>\$2,077</u>	<u>\$12,565</u>

SOURCE: Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Includes hospital consolidation, prison construction, courts, higher education and miscellaneous other projects.
- (3) Does not include \$67.0 million in fiscal 1994 to be spent on transportation projects related to economic development.
- (4) Includes general obligation bonds and special obligation bonds.
- (5) Does not include expected issuance of approximately \$145 million of special obligation bonds for certain expenditures unrelated to fiscal 1994.

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

The Legislature is currently considering a bill that provides for construction of a 650,000 square foot

assembly and convention facility, including a 70,000 seat capacity indoor stadium, in Boston. The current version of the legislation provides for the facility to be constructed, owned and operated by the MCCA and authorizes the issuance of up to \$700 million of bonds of the MCCA to finance construction. The legislation also provides for the issuance of up to \$200 million of additional bonds of the MCCA to finance interest during construction. All such bonds would be fully payable from contract assistance payments to be made by the Commonwealth. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- Commonwealth Supported Debt; *Massachusetts Convention Center Authority*." The legislation further authorizes the issuance of up to \$100 million of general obligation bonds of the Commonwealth to finance the construction or rehabilitation of other civic, convention center and exhibition hall facilities throughout the Commonwealth. The Executive Office for Administration and Finance is considering what modifications, if any, may be necessary to the current Five-Year Capital Spending Plan in order to accommodate these projects.

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

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

Audit Practices of State Auditor

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

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

FINANCIAL RESULTS

As the annual operating budget of the Commonwealth is adopted in accordance with the statutory basis of accounting, public and governmental discourse on the financial affairs of the Commonwealth has traditionally followed the statutory basis. Consequently, the financial information set forth in this document follows the statutory basis, except where otherwise noted. Since fiscal 1990, the Commonwealth has prepared separate audited financial reports on the statutory basis and on a GAAP basis. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Fiscal Control, Accounting and Reporting Practices of the Comptroller; *Financial Reports*". The fiscal 1993 statutory basis financial statements, as presented in the Statutory Basis Financial Report, are set forth in Exhibit B. The fiscal 1993 GAAP basis financial statements, as presented in the Comprehensive Annual Financial Report, are set forth in Exhibit C.

Selected Financial Data - Statutory Basis

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth's audited statutory basis financial statements for fiscal 1989 through 1993 and unaudited estimates for fiscal 1994 prepared by the Executive Office for Administration and Finance. The financial information presented includes all budgeted operating funds of the Commonwealth. When the status of a fund has changed during this period, prior years have been restated to conform to the fiscal 1994 budget.

The Commonwealth currently has 34 active budgeted funds. During a fiscal year there are numerous transactions among these budgeted funds, which from the fund accounting perspective create offsetting inflows and outflows.

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

More detailed information with respect to each of fiscal years 1989 through 1994 is provided in the discussion following the table. Unless otherwise indicated, the financial information discussed for such fiscal years in this Information Statement is based upon the financial information contained in this table.

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

	<u>Fiscal 1989</u>	<u>Fiscal 1990</u>	<u>Fiscal 1991</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>	<u>Estimated Fiscal 1994</u>
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$170.3	\$124.9	\$174.5	\$119.8	\$236.2	\$110.4
Stabilization Fund (1)	112.3	--	--	59.2	230.4	309.5
Undesignated	<u>70.6</u>	<u>(444.2)</u>	<u>(1,278.9)</u>	<u>58.1</u>	<u>82.8</u>	<u>142.6</u>
Total	<u>353.2</u>	<u>(319.3)</u>	<u>(1,104.4)</u>	<u>237.1</u>	<u>549.4</u>	<u>562.5</u>
<u>Revenues and Other Sources</u>						
Taxes	8,815.4	8,517.7	8,994.9	9,483.6	9,929.9	10,694.0
Federal Reimbursements (2)	1,542.0	1,717.5	2,777.1	2,393.5	2,674.1	2,896.3
Departmental and Other Revenues	949.1	1,131.7	1,204.9	1,187.3	1,327.1	1,120.9
Interfund Transfers from Non-budgeted Funds and Other Sources (3)	<u>663.9</u>	<u>641.3</u>	<u>656.6</u>	<u>663.9</u>	<u>778.5</u>	<u>823.8</u>
Budgeted Revenues and Other Sources	<u>11,970.4</u>	<u>12,008.2</u>	<u>13,633.5</u>	<u>13,728.3</u>	<u>14,709.6</u>	<u>15,535.0</u>
Mass Transit Assessments from Municipalities	120.7	123.9	130.2	130.9	137.4	140.8
Interfund Transfers among Budgeted Funds and Other Sources	<u>217.7</u>	<u>91.1</u>	<u>149.7</u>	<u>366.9</u>	<u>358.7</u>	<u>200.2</u>
Total Revenues and Other Sources	<u>12,308.8</u>	<u>12,223.2</u>	<u>13,913.4</u>	<u>14,226.1</u>	<u>15,205.7</u>	<u>15,876.0</u>
<u>Expenditures and Uses</u>						
Programs and Services	11,302.1	11,770.2	11,944.5	11,757.4	12,683.6	13,585.4(4)
Debt Service	649.8	770.9	942.3	898.3	1,139.5	1,179.1
Pensions	659.7	671.9	703.9	751.5	868.6	951.0
Interfund Transfers to Non-budgeted Funds and Other Uses	<u>31.3</u>	<u>46.7</u>	<u>64.0</u>	<u>8.8</u>	<u>5.1</u>	<u>0.0</u>
Budgeted Expenditures and Other Uses	<u>12,642.9</u>	<u>13,259.7</u>	<u>13,654.7</u>	<u>13,416.0</u>	<u>14,696.4</u>	<u>15,715.5(5)</u>
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	120.7	123.9	130.2	130.9	137.4	140.8
Interfund Transfers among Budgeted Funds and Other Uses	<u>217.7</u>	<u>91.1</u>	<u>149.7</u>	<u>366.9</u>	<u>358.7</u>	<u>200.2</u>
Total Expenditures and Other Uses	<u>12,981.3</u>	<u>13,474.7</u>	<u>13,934.6</u>	<u>13,913.8</u>	<u>15,192.6</u>	<u>16,056.5</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(672.5)</u>	<u>(1,251.5)</u>	<u>(21.2)</u>	<u>312.3</u>	<u>13.1</u>	<u>(180.5)</u>
Prior Year Deficit Financing	--	466.4	1,362.7	--	--	--
<u>Ending Fund Balances</u>						
Reserved or Designated	124.9	174.5	119.8	236.2	110.4	3.8
Stabilization Fund (1)	--	--	59.2	230.4	309.5	315.5
Undesignated	<u>(444.2)</u>	<u>(1,278.9)</u>	<u>58.1</u>	<u>82.8</u>	<u>142.6</u>	<u>62.7</u>
Total	<u>\$(319.3)</u>	<u>\$(1,104.4)</u>	<u>\$237.1</u>	<u>\$549.4</u>	<u>\$562.5</u>	<u>\$382.0</u>

SOURCE: Fiscal 1989-1993, Office of the Comptroller. Estimated Fiscal 1994, Executive Office for Administration and Finance.

- (1) Stabilization Fund balances are not expendable without subsequent specific legislative authorization.
(2) Includes \$513 million for fiscal 1991, \$198.6 million for fiscal 1992 and \$236.3 million for fiscal 1993 in federal reimbursements resulting from claims for reimbursement of certain uncompensated care for Massachusetts hospitals. See "Fiscal Years 1989 Through 1993" and "1994 FISCAL YEAR".

- (3) Interfund transfers represent accounting transfers which reallocate resources among funds. Fund deficit support transfers of \$234.8 million in fiscal 1991 have been eliminated to facilitate comparative analysis. See "COMMONWEALTH REVENUES -- Federal and Other Non-Tax Revenues".
- (4) Includes \$108.1 million reserved for contingencies.
- (5) Includes \$127.4 million transferred from off-budget expenditure accounts to on-budget expenditure accounts for fiscal 1994.

Annual budgeted revenues increased by approximately 0.3% in fiscal 1990, increased by 13.5% in fiscal 1991 and increased by approximately 0.7% in fiscal 1992. Annual budgeted revenues increased from fiscal 1992 to fiscal 1993 by approximately 7.1% and are projected to increase by approximately 5.6% in fiscal 1994. Annual budgeted expenditures increased at annual rates of approximately 4.9% in fiscal 1990 and 3.0% in fiscal 1991. Annual budgeted expenditures decreased from fiscal 1991 to fiscal 1992 by approximately 1.7% and increased by approximately 9.5% in fiscal 1993 and are estimated to increase by approximately 6.9% in fiscal 1994. Fund balances in the budgeted operating funds declined from opening balances of \$353.2 million in fiscal 1989 to ending balances of negative \$1.104 billion in fiscal 1990. For fiscal 1991, these funds attained positive ending balances of \$237.1 million, of which \$59.2 million was reserved in the Commonwealth's Stabilization Fund pursuant to state finance law. Fiscal 1992 ended with positive fund balances of \$549.4 million, including \$230.4 million in the Stabilization Fund. Fiscal 1993 ended with positive fund balances of \$562.5 million, including \$309.5 million in the Stabilization Fund. Fiscal 1994 is estimated to end with a current operating loss of \$180.5 million and ending fund balances of \$382.0 million. See "Fiscal Years 1989 Through 1993" and "1994 FISCAL YEAR".

Selected Financial Data - GAAP Basis

The following table provides financial results on a GAAP basis for fiscal years 1989 through 1993 for all budgeted operating funds of the Commonwealth.

In its fiscal 1993 CAFR, the Commonwealth has adopted the guidance of the Governmental Accounting Standards Board (GASB) Statement No. 15 "Governmental College and University Accounting and Financial Reporting Models" and discretely presented the University and College Fund Type. In prior years, the financial activity of institutions of higher education was blended into Governmental, Proprietary, and Fiduciary Fund Types. The reason for the change is to provide a more focused basis for future measurements of financial performance, to provide comparability with other states who prepare CAFRs, and to demonstrate accountability for the Commonwealth's institutions of higher education. In order to accomplish the transition to discrete presentation, fiscal 1992 amounts have been restated. A complete discussion of this restatement is included in footnote 16 to the 1993 General Purpose Financial Statements - GAAP Basis included as Exhibit C hereto.

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

	<u>Fiscal 1989</u>	<u>Fiscal 1990</u>	<u>Fiscal 1991</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>
Fund equity (deficit) at beginning of year	\$(51.6)	\$(946.2)	\$(1,895.5)	\$(761.2)	\$(317.4)(2)
<u>Revenues and Sources</u>					
Taxes	8,685.2	8,259.6	9,131.1	9,471.0	10,015.8
Federal Grants and Reimbursements	1,736.8	1,649.7	2,808.8	2,415.9	2,627.0
Department and Other Revenues	1,085.1	1,249.0	1,359.1	1,441.1	1,522.4
Interfund Transfers and Other Sources	<u>804.4</u>	<u>807.0</u>	<u>800.7</u>	<u>817.5</u>	<u>1,015.7</u>
Total	<u>12,311.5</u>	<u>11,965.3</u>	<u>14,099.7</u>	<u>14,145.5</u>	<u>15,181.0</u>
<u>Expenditures and Uses</u>					
Programs and Services	11,160.1	11,193.2	11,892.5	11,348.8	11,636.5
Debt Service	649.8	770.9	942.3	751.5	1,139.5
Pensions	662.9	671.9	706.5	898.3	893.5
Interfund Transfers and Other Uses (1)	<u>733.3</u>	<u>745.0</u>	<u>786.8</u>	<u>767.3</u>	<u>1,378.2</u>
Total	<u>13,206.1</u>	<u>13,381.0</u>	<u>14,328.1</u>	<u>13,765.9</u>	<u>15,047.7</u>
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	<u>(894.6)</u>	<u>(1,415.7)</u>	<u>(228.4)</u>	<u>379.6</u>	<u>133.3</u>
Prior Year Deficit Financing	--	466.4	1,362.7	--	--
Fund Equity (Deficit) at End of Year	<u>\$(946.2)</u>	<u>\$(1,895.5)</u>	<u>\$(761.2)</u>	<u>\$(381.6)</u>	<u>\$(184.1)</u>

SOURCE: Office of the Comptroller.

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

Using a modified accrual basis of accounting, the GAAP financial statements have provided a picture of the financial condition of the budgeted operating funds that is different from that reported on the statutory basis. See "Selected Financial Data - Statutory Basis". As evidenced in the trend line of fund balance (deficit) over time, there is a correlation between the GAAP basis measurement and the statutory basis measurement. While the difference in fund balance may vary in a given fiscal year, both bottom lines trend in the same direction. For a description of the differences between statutory basis and GAAP basis accounting, see "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Fiscal Control, Accounting and Reporting Practices of the Comptroller; *GAAP Basis of Accounting*".

Fiscal Years 1989 Through 1993

1989 Fiscal Year. Budgeted expenditures for fiscal 1989 were approximately \$12.643 billion. Budgeted revenues and other sources for fiscal 1989 were approximately \$11.970 billion. The fiscal 1989 operating loss equalled approximately \$672.5 million. With fund balances from prior years depleted, the Commonwealth ended the fiscal year with fund balances in deficit by \$319.3 million. A related cash deficit as of the end of fiscal 1989 forced the State Treasurer to defer until fiscal 1990 certain fiscal 1989 disbursements, including the payment of approximately \$305.0 million in Local Aid. In order to fund the fiscal 1989 deficit, legislation was enacted in July 1989 providing for certain income tax increases and authorizing a borrowing payable by January 31, 1991 of not more than \$475.0 million. The Legislature separately authorized certain Medicaid-related borrowings and direct expenditures to pay \$488.0 million for services provided to recipients of the Medicaid program in fiscal years prior to fiscal 1990. Under the legislation, the additional revenues resulting from the tax were to be credited to two non-budgeted funds established pursuant to the legislation (the Commonwealth Liability Reduction Fund and the Medical

Assistance Liability Fund) and all such revenues, and the investment earnings thereon, were impressed with a trust to pay the fiscal 1989 deficit and Medicaid related borrowings, all of which have been retired. See "COMMONWEALTH PROGRAMS AND SERVICES -- Medicaid and Group Health Insurance".

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

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

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

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

In addition to reducing spending to close the projected budget deficit, the new administration, in May 1991, filed an amendment to its Medicaid state plan which enabled it to claim 50% federal reimbursement on uncompensated care payments provided to certain hospitals in the Commonwealth. As a result, in fiscal 1991, the Commonwealth obtained additional non-tax revenues in the form of federal reimbursements equal to approximately \$513.0 million on account of uncompensated care payments. This reimbursement claim was based upon then recent amendments to federal law contained in the Omnibus Budget Reconciliation Act of 1990 and, consequently, on relatively undeveloped federal laws, regulations and guidelines. At the request of the federal Health Care Financing Administration, the Office of Inspector General of the United States Department of Health and Human Services has conducted an audit of the reimbursement, the final results of which have not yet been reported to the Commonwealth. The administration, which had reviewed the matter with the Health Care Financing Administration prior to claiming the reimbursement, believes that the Commonwealth will prevail in the audit. Should it not prevail, the Commonwealth would have the right to contest and appeal but could be required to repay all or part of the Medicaid reimbursement, with interest, or to have such amount deducted from future reimbursement payments.

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

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

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

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

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

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

On June 23, 1993, the Office of the Comptroller concluded an analytical review for fiscal 1992 pertaining to the Commonwealth's Unemployment Compensation Trust Fund. Certain amounts totalling \$416.2 million, previously accounted for and reported in the audited financial statements as loans from the federal government, were determined to have been revenues, primarily federal grants under the Emergency Unemployment Compensation program enacted by the United States Congress during fiscal 1992. The Commonwealth's Comprehensive Annual Financial Report, and other schedules related to the audit of federal financial assistance programs for fiscal 1992, were restated accordingly. The effect of this restatement was to decrease liabilities and the fund deficit in the Unemployment Compensation Trust Fund as originally reported at June 30, 1992. This restatement was restricted to the Unemployment Compensation Trust Fund and did not affect the budgeted funds of the Commonwealth.

1993 Fiscal Year. The budgeted operating funds of the Commonwealth ended fiscal 1993 with a surplus of revenues and other sources over expenditures and other uses of \$13.1 million and aggregate ending fund balances in the budgeted operating funds of the Commonwealth of approximately \$562.5 million. Budgeted revenues and

other sources for fiscal 1993 totalled approximately \$14.710 billion, including tax revenues of \$9.930 billion. Total revenues and other sources increased by approximately 6.9% from fiscal 1992 to fiscal 1993, while tax revenues increased by 4.7% for the same period. In July, 1992, tax revenues had been estimated to be approximately \$9.685 billion for fiscal 1993. This amount was subsequently revised during fiscal 1993 to \$9.940 billion.

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

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

1994 FISCAL YEAR

On July 19, 1993, the Governor signed into law the fiscal 1994 budget. As signed by the Governor, the budget authorizes approximately \$15.463 billion in fiscal 1994 expenditures. The Legislature had originally approved a fiscal 1994 budget with appropriations totalling \$15.545 billion. The Governor exercised his authority to veto and reduce individual line-items and reduced total expenditures by approximately \$82.4 million in order to bring the fiscal 1994 budget into balance and to fund fiscal 1993 appropriations continued into fiscal 1994 and certain other fiscal 1994 expenditures which the Governor believes will be necessary. On January 14, 1994, the Governor signed into law supplemental appropriations totalling approximately \$157.9 million. Including an additional \$8.1 million in fiscal 1994 supplemental appropriation recommendations that the Governor plans to file, and an approximate \$100 million contingency reserve in fiscal 1994 for possible additional spending, fiscal 1994 budgeted expenditures are currently estimated to be approximately \$15.716 billion. On February 17, 1994, the Governor filed a supplemental appropriation bill recommending approximately \$47.4 million in fiscal 1994 spending authority for the additional costs to the Commonwealth and cities and towns of snow and ice removal due to the unusually severe winter weather. This amount will be applied against the fiscal 1994 contingency reserve and therefore will not increase expected total budgeted expenditures for fiscal 1994.

Fiscal 1994 budgeted revenues and other sources are currently estimated by the Executive Office for Administration and Finance to be approximately \$15.535 billion. This amount includes estimated fiscal 1994 tax revenues of \$10.694 billion, which is \$764 million, or 7.7% higher than fiscal 1993 tax revenues of \$9.930 billion. The fiscal 1994 tax revenue amount represents the \$10.540 billion consensus tax revenue estimate jointly endorsed by the Secretary for Administration and Finance and the Chairmen of the House and Senate Ways and Means Committees in connection with preparation of the fiscal 1994 budget, plus \$20 million of additional tax receipts expected to be received from a one-year tax amnesty program mandated by the fiscal 1994 budget plus approximately \$134 million of additional tax revenues currently estimated to be received in fiscal 1994. The revised tax revenue estimate is based on tax revenue collections through December 1993, which as of that time were approximately \$140.4 million above the benchmark established by the Department of Revenue at the start of fiscal 1994. Fiscal 1994 non-tax revenues are currently estimated by the Executive Office for Administration and Finance to be approximately \$4.841 billion, an increase of approximately \$61.2 million, or 1.3%, over fiscal 1993 non-tax revenues of approximately \$4.780 billion.

Based on currently estimated revenues and expenditures, the Executive Office for Administration and Finance projects a fiscal 1994 ending balance of approximately \$382.0 million, of which approximately \$315.5 million will be in the Stabilization Fund.

In July 1993, the Secretary for Administration and Finance instituted a hiring freeze on all executive branch agencies to help ensure that agency expenditures remain within their fiscal 1994 budget authorizations. In August 1993, the Executive Office for Administration and Finance announced that approximately 1,280 state employees would be laid off in the near future, in addition to approximately 350 employees previously laid off in fiscal 1994.

Approximately 320 of the positions were eliminated in order to keep expected fiscal 1994 expenditures within current appropriations. The services provided by the balance of the positions are expected to continue to be provided, but by private vendors. The affected agencies included the Department of Mental Retardation (approximately 914 positions), the Department of Public Health (approximately 189 positions), the Department of Mental Health (approximately 132 positions), the Department of Employment and Training (approximately 360 positions) and the Highway Department (approximately 33 positions). It is uncertain whether additional cutbacks in personnel and programmatic costs will be required in order to maintain a balanced budget for fiscal 1994.

In June, 1993, the Legislature adopted and the Governor signed into law comprehensive education reform legislation. The Executive Office for Administration and Finance expects this legislation will require annual increases in expenditures for education purposes above fiscal 1993 base spending of \$1.289 billion of approximately \$175 million in fiscal 1994, \$389.4 million in fiscal 1995 and \$614.2 million in fiscal 1996. Additional annual increases are also expected in later fiscal years. The fiscal 1994 budget as signed by the Governor includes \$175 million in appropriations to satisfy this legislation. On July 1, 1993, the Governor proposed certain amendments to the education reform legislation, which, among other things, would modify the spending requirements imposed on cities and towns under the legislation. The amendments are not expected to have any material fiscal impact on the Commonwealth.

The fiscal 1994 budget is based on numerous spending and revenue estimates, the achievement of which cannot be assured. To date, the Legislature has overridden approximately \$21.0 million of the Governor's vetoes relating to the fiscal 1994 budget. The override of additional line-item vetoes has not yet been considered by the Legislature and it is possible that the Legislature may vote to override such vetoes later in fiscal 1994.

Cash Flow

The most recent cash flow projection prepared by the office of the State Treasurer estimates the fiscal 1994 year-end cash position to be approximately \$677.7 million. This projection is based on the fiscal 1994 budget as originally signed by the Governor, the supplemental appropriations recently enacted by the Legislature as well as a \$108.1 million contingency reserve. The cash flow projection reflects actual results through January, 1994 and current revenue and spending estimates. The ending balance included in the cash flow forecast and the estimated ending balance for the Commonwealth's operating budget will differ due to timing differences and the effect of certain non-budget items. In addition, events occurring subsequent to the preparation of this cash flow projection may cause the actual cash flow of the Commonwealth to vary from the projected cash flow. The current cash flow projection assumes that the Commonwealth will issue approximately \$275 million of long-term general obligation bonds and approximately \$250 million of long-term special obligation bonds during the remainder of fiscal 1994 to finance capital projects and that no short-term operating borrowings under the commercial paper program will be outstanding at any time during the remainder of fiscal 1994. The office of the State Treasurer currently expects to issue up to \$200 million of bond anticipation notes in fiscal 1994 under the commercial paper program, which notes are expected to be retired with the proceeds of special obligation bonds. As of February 17, 1994, \$180 million of such notes are outstanding under the commercial paper program. The Commonwealth's practice is to use available cash for capital expenditures pending the issuance of long-term bonds and, in the event the amount of long-term debt is reduced or its issuance delayed due to market conditions or other circumstances, additional amounts of commercial paper may be outstanding from time to time. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- General Obligation Debt; *Commonwealth General Obligation Notes*".

1995 FISCAL YEAR

On January 21, 1994, the Governor submitted his fiscal 1995 budget recommendation to the Legislature. The proposal calls for budgeted expenditures of approximately \$16.139 billion. This recommended spending level is approximately \$423.8 million, or 2.7%, above currently estimated fiscal 1994 expenditures of \$15.716 billion. Proposed budgeted revenues for fiscal 1994 are approximately \$16.141 billion, and exceed proposed budgeted expenditures by approximately \$1.5 million. The Governor's recommendation projects a fiscal 1995 ending balance of approximately \$383.4 million, of which approximately \$325.0 million will be in the Stabilization Fund. The Governor's budget recommendation is based on a tax revenue estimate of \$11.226 billion, an increase of approximately \$532 million, or approximately 5.0%, as compared to currently estimated fiscal 1994 tax revenues of \$10.694 billion. The Governor's fiscal 1995 budget submission also proposes tax reductions aggregating \$105 million in fiscal 1995, which include a reduction in the income tax rate from 5.95% to 5.85%, an increase in certain income tax exemptions and an increase in the no-tax status threshold for low-income taxpayers. The fiscal 1995 tax revenue estimate of \$11.226 billion is net of the \$105 million tax reduction proposal. The annualized impact of these reductions is estimated to be approximately \$270 million.

Under the Governor's budget recommendation, non-tax revenues are estimated to increase to approximately \$4.915 billion in fiscal 1995, an increase of approximately \$73.9 million, or 1.5%, over estimated non-tax revenues for fiscal 1994. Such non-tax revenues would include \$125 million from a new video lottery game and water-based gambling to be run by the State Lottery Commission, which are proposed in the Governor's budget recommendation.

The Governor's budget proposal generally maintains current service levels for most programs but also provides for increased funding to reflect various factors including inflation, increased medical costs, increased pension costs and higher debt services expenditures, as well as approximately \$214.4 million recommended to fully fund the education reform law passed in fiscal 1993. The proposal also contains recommendations to increase spending in certain priority areas. The Governor's budget proposal also projects savings from reform of the state's welfare system, increased privatization of state services, higher health insurance contributions from state employees and other administrative reductions. The recommendation also includes \$30 million allocated for a contingency reserve.

The Governor's fiscal 1995 budget recommendation will now be taken up by the House Ways and Means Committee as the first step of legislative consideration of the fiscal 1995 budget. See "THE GOVERNMENT -- Overview of the Budgetary Process".

COMMONWEALTH REVENUES

In order to fund its programs and services, the Commonwealth collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, court revenues, assessments, reimbursements, interest earnings and transfers from its non-budgeted funds. In fiscal 1993, approximately 67.7% of the Commonwealth's annual budgeted revenues were derived from state taxes. In addition, the federal government provided approximately 17.9% of such revenues, with the remaining 14.4% provided from departmental revenues and transfers from non-budgeted funds.

Distribution of Revenues

The following table sets forth the Commonwealth's actual revenues in its budgeted operating funds for fiscal 1989 through 1993 and estimated revenues for fiscal 1994.

Commonwealth Revenues -- Budgeted Operating Funds
(In millions)

	Fiscal <u>1989</u>	Fiscal <u>1990</u>	Fiscal <u>1991(7)</u>	Fiscal <u>1992(7)</u>	Fiscal <u>1993(7)</u>	Estimated Fiscal <u>1994</u>
Tax Revenues:						
Alcoholic Beverages	\$ 75.8	\$ 70.8	\$ 66.2	\$ 63.5	\$ 60.6	\$ 58.0
Banks						
Commercial	125.2	64.5	27.4	17.6(9)	74.7	95.0
Savings	98.3	46.2	20.6	42.5	78.2	66.0
Cigarettes (1)	158.6	150.8	144.4	139.9	190.2	238.0
Corporations	887.1	698.4	612.2	643.8	737.4	875.0
Deeds (2)	45.2	36.2	30.1	32.2	34.0	38.0
Income	4,286.7	4,465.2(5)	5,045.1(5)	5,337.0	5,374.9	5,746.6
Inheritance and Estate	258.6	276.4	249.5	260.2	267.3	253.0
Insurance (3)	301.6	273.0	267.8	284.8	280.5	290.0
Motor Fuel	306.9	301.9	464.2	541.1	557.2	560.0
Public Utilities	72.2	62.0	59.3	52.9	69.1	53.4
Racing	32.7	31.7	27.5	26.1	15.7	14.0
Room Occupancy	57.9	56.6	56.0	55.9	59.3	60.0
Sales						
Regular	1,445.9	1,370.5	1,392.1	1,443.6	1,548.1	1,688.0
Meals	296.9	295.9	291.7	296.3	303.2	330.0
Motor Vehicles	<u>341.2</u>	<u>290.0</u>	<u>225.6</u>	<u>238.7</u>	<u>272.9</u>	<u>315.0</u>
Sub-Total--Sales	2,084.0	1,956.4	1,909.4	1,978.6	2,124.2	2,333.0
Miscellaneous	<u>24.6</u>	<u>27.6</u>	<u>15.2</u>	<u>7.5</u>	<u>6.6</u>	<u>14.0</u>
Total	<u>8,815.4</u>	<u>8,517.7</u>	<u>8,994.9</u>	<u>9,483.6</u>	<u>9,929.9</u>	<u>10,694.0</u>
Non-Tax Revenues:						
Federal Reimbursements	1,542.0	1,717.5(6)	2,777.1(8)	2,393.5(8)	2,674.1(8)	2,896.3(8)
Departmental and Other Revenues	949.1	1,131.7	1,204.9	1,187.3	1,327.1	1,120.9
Interfund Transfers from Non-budgeted Funds and Other Sources (4)	<u>663.9</u>	<u>641.3</u>	<u>656.6</u>	<u>663.9</u>	<u>778.5</u>	<u>823.8</u>
Budgeted Non-Tax Revenues and Other Sources	<u>3,155.0</u>	<u>3,490.5</u>	<u>4,638.6</u>	<u>4,244.7</u>	<u>4,779.7</u>	<u>4,841.0</u>
Budgeted Revenues and Other Sources	<u>11,970.4</u>	<u>12,008.2</u>	<u>13,633.5</u>	<u>13,728.3</u>	<u>14,709.6</u>	<u>15,535.0</u>
Mass Transit Assessments from Municipalities	120.7	123.9	130.2	130.9	137.4	140.8
Interfund Transfers among Budgeted Funds and Other Sources (4)	<u>217.7</u>	<u>91.1</u>	<u>149.7</u>	<u>366.9</u>	<u>358.7</u>	<u>200.2</u>
Total Revenues and Other Sources	<u>\$12,308.8</u>	<u>\$12,223.2</u>	<u>\$13,913.4</u>	<u>\$14,226.1</u>	<u>\$15,205.7</u>	<u>\$15,876.0</u>

SOURCE: Fiscal 1989-1993, Office of the Comptroller. Estimated Fiscal 1994, Executive Office for Administration and Finance.

- (1) As a result of legislation enacted by voter initiative petition, this excise tax was increased effective January 1, 1993. See "State Taxes; Other Taxes."
- (2) At the end of the 1992 legislative session, the Legislature overrode the Governor's veto of legislation that doubled the deeds excise tax. The increased revenues are applied directly to county purposes and are not counted as Commonwealth revenues. See "State Taxes; Other Taxes".
- (3) Includes \$7.0 million in 1989, \$7.6 million in 1990, \$7.2 million in 1991, \$6.6 million in 1992 and \$8.0 million in 1993, respectively, in fees collected by the Division of Insurance relating to high-risk insurance.
- (4) Interfund transfers represent accounting transfers which reallocate resources among funds. Fund deficit support transfers of \$234.8 million for fiscal 1991 have been eliminated to facilitate comparative analysis. Includes transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$59.2 million, \$170.0 million and \$76.9 million in fiscal 1991, 1992 and 1993, respectively. In fiscal 1989, \$120.2 million was transferred from the Stabilization Fund to the General Fund.

- See "Federal and Other Non-Tax Revenues" below.
- (5) Excludes \$444.5 million collected in fiscal 1990 and \$298.3 million collected in fiscal 1991 attributed to the temporary increase in the income tax dedicated to the Commonwealth Liability Reduction Fund and the Medical Assistance Liability Fund.
 - (6) Excludes \$244 million of revenues attributable to federal reimbursements for expenditures from the Medical Assistance Liability Fund; such revenues were dedicated to such fund.
 - (7) Includes the impact of tax law changes under Chapters 121 and 151 of the Acts of 1990. The total fiscal 1991 impact of the changes is an estimated increase in tax revenues in the amount of \$1.020 billion, while the fiscal 1992 and 1993 impacts of the changes are estimated at \$1.329 billion and \$1.318 billion, respectively.
 - (8) Includes \$513 million for fiscal 1991, \$198.6 million for fiscal 1992, \$236.3 million for fiscal 1993 and an estimated \$219 million in fiscal 1994 in federal reimbursements resulting from claims for reimbursement of certain uncompensated care for Massachusetts hospitals. See "FINANCIAL RESULTS -- Fiscal Years 1989 Through 1993" and "1994 FISCAL YEAR".
 - (9) Reflects settlement of certain litigation, see "State Taxes; *Business Corporations Tax*".

State Taxes

The major components of state taxes are the income tax, which accounts for 54.1% of total projected tax revenues in fiscal 1994, the sales and use tax, which accounts for 22.0%, and the business corporations tax, which accounts for 7.1%. Other tax and excise sources account for the remaining 16.8% of total tax revenues.

Income Tax. The Commonwealth assesses personal income taxes at flat rates, according to classes of income, after specified deductions and exemptions. A rate of 5.95% is applied to income from employment, professions, trades, businesses, partnerships, rents, royalties, taxable pensions and annuities and interest from Massachusetts banks; and a rate of 12% is applied to other interest (although interest on obligations of the United States and of the Commonwealth and its political subdivisions is exempt), dividends and net capital gains (after a 50% deduction).

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

Partially as a result of income tax rate increases, state income tax revenues increased steadily in fiscal 1989, 1990 and 1991 to, respectively, \$4.287 billion, \$4.465 billion (excluding \$444.5 million collected pursuant to certain 1989 tax legislation) and \$5.045 billion (excluding \$298.3 million collected pursuant to the 1989 tax legislation). These figures represent an average annual increase over the period fiscal 1989 to 1991 of approximately 8.5%. State income tax revenues in fiscal 1992 were \$5.337 billion, which represents an increase from fiscal 1991 of approximately 5.8%. Income tax revenue in fiscal 1993 were \$5.375 billion, an increase of approximately 0.7% from fiscal 1992. Income tax revenues for fiscal 1994 are expected to be approximately \$5.747 billion, an increase of 6.9% from fiscal 1993.

In connection with the Governor's submission to the Legislature of his fiscal 1995 budget recommendation, he has proposed certain income tax reductions, which would reduce fiscal 1995 income tax revenues by approximately \$105 million. The annualized impact of these reductions is estimated to be approximately \$270 million. See "1995 FISCAL YEAR".

A citizens' group, known as the Tax Equity Alliance of Massachusetts, has proposed a change in the Massachusetts individual income tax law that would result in the creation of a graduated income tax structure. This proposed law would change provisions of the state personal income tax laws if a proposed amendment to the Massachusetts Constitution allowing income tax rates to be graduated is approved at the 1994 state-wide election. The proposed law would (1) establish graduated income tax rates to replace the existing tax rate structure, (2) change exemptions and deductions relating to dependents, child care expenses, head of household status and personal exemptions, (3) establish a property tax and water rate credit of up to \$200 for taxpayers below certain income levels, (4) increase the maximum income levels for no-tax status and the limited income credit, (5) establish a "Capital Formation Incentive" to replace the existing capital gains exclusion, and (6) provide that taxpayers will not pay more Massachusetts income tax in 1995 than they would have paid under 1992 law, if their adjusted gross income is below \$60,000 for single filers, \$100,000 for married couples filing jointly or \$50,000 for married

persons filing separately.

The Department of Revenue estimates that the static impact of the graduated income tax structure proposed by the initiative petition would increase 1995 income tax liability by \$44 million in comparison to current law.

The constitutional amendment authorizing graduated income tax rates will be on the 1994 state-wide ballot if it receives the votes of at least 25 percent of all members of the Legislature, voting in joint session. The initiative petition will be submitted to the Legislature for consideration during the 1994 session. The petition's sponsors collected the required number of signatures and those signatures were certified by the Elections Division on December 1, 1993. The Legislature now has until May 4, 1994 to enact the petition into law, approve the petition's placement on the 1994 ballot, or reject the petition. If the Legislature rejects the petition, the petition will nevertheless be placed on the ballot if its sponsors can collect a sufficient number of additional signatures by July 6, 1994.

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

Annual sales and use tax revenues declined from \$2.084 billion in fiscal 1989 to \$1.956 billion in fiscal 1990 and \$1.909 billion for fiscal 1991. Sales and use tax revenues increased to \$1.979 billion in fiscal 1992 and to \$2.124 billion in fiscal 1993 and are estimated at \$2.333 billion in fiscal 1994.

Business Corporations Tax. Business corporations doing business in the Commonwealth, other than banks, trust companies, insurance companies, railroads, public utilities and safe deposit companies, are subject to an excise that has a property measure and an income measure. The value of Massachusetts tangible property (not taxed locally) or net worth allocated to the Commonwealth is taxed at \$2.60 per \$1,000 of value. The net income allocated to Massachusetts, which is based on gross income for federal taxes, is taxed at 9.5%. The minimum tax is \$456. Both rates and the minimum tax include a 14% surtax. Annual revenues from the business corporations tax have declined significantly in recent years, from the high of \$887.1 million in fiscal 1989 to \$612.2 million in fiscal 1991. Business corporation tax revenues were \$643.8 million in fiscal 1992, representing an increase of \$31.5 million, or 5.1%, from fiscal 1991. For fiscal 1992, the excise tax on commercial and savings banks yielded \$60.2 million, representing an increase of approximately 25.2% over fiscal 1991. Due to the settlement by the Department of Revenue of a case pending before the Appellate Tax Board, the Commonwealth paid a taxpayer commercial bank \$37.0 million, thus reducing revenues from the commercial and savings bank excise tax in fiscal 1992 from \$97.1 million to \$60.2 million. For fiscal 1993, revenues from the business corporations tax increased to \$737.4 million, or approximately 14.5% above fiscal 1992 and tax revenues from banks increased to \$152.9 million or 154.4% above fiscal 1992. Fiscal 1994 tax revenues from corporations and banks are estimated to be \$875.0 million and \$161.0 million, respectively.

Other Taxes. Other tax revenues of the Commonwealth are currently projected to total \$1.578 billion in fiscal 1994, an increase of 2.5% over fiscal 1993. Other tax revenues are derived by the Commonwealth from motor fuels excise taxes, cigarette and alcoholic beverage excise taxes, estate and deed excises and other tax sources. The Commonwealth is authorized to issue special obligation highway bonds secured by a pledge of all or a portion of the Highway Fund, including revenues derived from all or a portion of the motor fuels excise tax. The Commonwealth issued \$103,770,000 of special obligation bonds on June 24, 1992 secured by a pledge of 2 cents of the 21 cent motor fuel excise tax imposed on gasoline. The portion of the motor fuel excise tax currently pledged to the special obligation bonds is estimated to be \$47.7 million in fiscal 1994. The Commonwealth expects to issue up to \$250 million of additional special obligation bonds in fiscal 1994 secured by an additional portion of the motor fuels excise tax. Additional special obligation bonds may also be issued in the future secured by all or additional portions of the motor fuels excise tax. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- Special

Obligation Debt".

On November 3, 1992, legislation was enacted by voter initiative petition which imposed, as of January 1, 1993, a new excise tax of 1.25 cents per cigarette (25 cents per pack of 20 cigarettes) and 25% of the wholesale price of smokeless tobacco. Under the legislation, the revenues raised by this excise tax shall be credited to a new Health Protection Fund and expended, subject to appropriation by the Legislature, to pay for health programs and education relating to tobacco use. Total revenues deposited in the Health Protection Fund in fiscal 1993 were \$59.5 million and are estimated to be \$116.7 million in fiscal 1994.

In addition, in January 1993, the Legislature overrode the Governor's veto of a 100% increase in the deeds excise tax. The increased revenues from this excise tax will be retained by county governments and applied to certain county costs. The availability of these revenues will reduce Commonwealth expenditures for county purposes by an equal amount.

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

Tax Revenue Forecasting

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

In the past several years tax revenue forecasting has been complicated by uncertainty about the national and state economies, federal and state tax law changes and decisions in certain state court cases affecting tax collections. In addition, certain tax revenues are difficult to predict with accuracy because of the variety of direct and indirect economic and non-economic factors affecting receipts. During each of the fiscal years 1989 through 1991, the official tax revenue forecasts made at the beginning of the year proved to be substantially more optimistic than the actual results. The June 1988 tax revenue estimate for fiscal 1989 was for 10.9% growth; actual tax revenue growth for the year was 6.6%. In July 1989 the Governor and Legislature approved a budget for fiscal 1990 based on 7% tax revenue growth; actual tax revenues decreased 3.4%. The fiscal 1991 budget was based on projected tax revenue growth of less than 1%, before taking into account revenues expected to be generated by the 1990 tax legislation. Once these additional revenues were added, the projection was for tax revenues of \$9.748 billion in fiscal 1991, reflecting projected growth of 14.4%. However, during the remainder of calendar year 1990, actual receipts lagged projections, resulting in reductions of the fiscal 1991 tax revenue estimates. Fiscal 1991 tax revenues were \$8.995 billion, which represents growth over fiscal 1990 of only 5.6%. See "FINANCIAL RESULTS -- Fiscal Years 1989 Through 1993".

The fiscal 1992 budget initially was based on the joint tax revenue estimate of \$8.292 billion, a 7.8% decrease from fiscal 1991. Actual fiscal 1992 tax revenues were \$9.484 billion, a 5.4% increase over fiscal 1991. The fiscal 1993 budget initially was based on a joint tax revenue estimate of \$9.685 billion, an increase of \$201.4 million, or 2.1%, from tax revenues for fiscal 1992. The actual fiscal 1993 tax revenues were \$9.930 billion, a 4.7%

increase over fiscal 1992. See "FINANCIAL RESULTS -- Fiscal Years 1989 Through 1993".

On May 13, 1993, the chairpersons of the House and Senate Ways and Means Committee and the Secretary for Administration and Finance jointly endorsed an estimate of tax revenues for fiscal 1994 of \$10.540 billion, an increase of \$610 million, or 6.1%, from then expected tax revenues for fiscal 1993. The fiscal 1994 budget was based upon this tax revenue estimate. The Executive Office for Administration and Finance currently estimates total fiscal 1994 tax revenues to be \$10.694 billion. See "1994 FISCAL YEAR". The Governor's fiscal 1995 budget recommendation projects total fiscal 1995 tax revenues to be \$11.226 billion. See "1995 FISCAL YEAR".

Federal and Other Non-Tax Revenues

Revenues from the federal government are received through reimbursements for the federal share of federally mandated programs such as Medicaid and Aid to Families with Dependent Children ("AFDC"). The amount of federal reimbursements received by the Commonwealth is determined by the amounts of state expenditures for such programs. Federal reimbursements increased approximately 11.4% from \$1.542 billion in fiscal 1989 to \$1.718 billion in fiscal 1990. In fiscal 1991, federal reimbursements increased by 61.7% to \$2.777 billion, owing mainly to the \$513.0 million reimbursement of uncompensated care payments. See "FINANCIAL RESULTS -- Fiscal Years 1989 Through 1993". Federal reimbursements in fiscal 1992 decreased by \$383 million to approximately \$2.394 billion, reflecting a decrease of \$349 million in uncompensated care payments. In fiscal 1993, federal reimbursements increased to \$2.674 billion as a result of increased spending for certain entitlement programs. Federal reimbursements for fiscal 1994 are estimated to increase to \$2.896 billion.

Departmental and other non-tax revenues are derived from licenses, registrations and fees generated through cash transactions and reimbursement and assessments for services. Annual revenues from these sources increased from \$949.1 million in fiscal 1989 to \$1.205 billion in fiscal 1991, representing an annual average increase of approximately 12.8%, decreased 1.5% to \$1.121 billion in fiscal 1992 and increased 11.8% in fiscal 1993 to \$1.327 billion. Annual revenues from these sources are estimated to decrease to \$1.121 billion in fiscal 1994. This decrease is due to several factors including: the change in fiscal 1993 to biennial car registration at the Registry of Motor Vehicles, which is expected to result in a revenue loss of \$34 million in fiscal 1994; one-time receipt in fiscal 1993 of abandoned property revenues of approximately \$101.0 million; and the one-time payment in fiscal 1993 to the Commonwealth of \$80 million from the Massachusetts Water Resources Authority. These revenue declines are expected to be partially offset by an increase in higher education tuition revenues of approximately \$87.9 million due primarily to shifting higher education revenues and expenditures from off-budget to on-budget accounts in fiscal 1994.

The increase in departmental and other non-tax revenues from fiscal 1992 to fiscal 1993 resulted from certain initiatives, including \$110.0 million resulting from changes in the state's abandoned property law, and \$17.0 million from the acceleration of certain motor vehicle registrations. Commencing in fiscal 1990, the Commonwealth, through the Office of the Comptroller and other organizations, has initiated numerous projects to improve the management and collection of federal and departmental revenues.

Interfund transfers and other sources from non-budgeted funds are estimated to total \$823.7 million in fiscal 1994, an increase of 5.8% compared to fiscal 1993. For the budgeted operating funds, interfund transfers include transfers of profits from the State Lottery and Arts Lottery Funds and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for \$541.2 million, \$568.6 million, \$547.6 million, \$558.0 million and \$583.0 million in fiscal 1989 through 1993, respectively. The increase in interfund transfers from non-budgeted funds between fiscal 1993 and fiscal 1994 is primarily due to projected increases in lottery revenues.

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

Limitations on Tax Revenues

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

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

The legislation enacted in October 1986, which added Chapter 29B to the General Laws, also establishes an allowable state revenue growth factor by reference to total wages and salaries in the Commonwealth. However, rather than utilizing a three-year average wage and salary growth rate, as used by Chapter 62F, Chapter 29B utilizes an allowable state revenue growth factor equal to one-third of the positive percentage gain in Massachusetts wages and salaries, as reported by the federal government, during the three calendar years immediately preceding the end of a given fiscal year. Additionally, unlike Chapter 62F, Chapter 29B allows for an increase in maximum state tax revenues to fund an increase in local aid and excludes from its definition of state tax revenues (i) income derived from local option taxes and excises, and (ii) revenues needed to fund debt service costs.

Tax revenues in fiscal 1989 through fiscal 1993 were lower than the limit set by either Chapter 62F or Chapter 29B. The Executive Office for Administration and Finance currently estimates that state tax revenues in fiscal 1994 and fiscal 1995 will not reach the limit imposed by either of these statutes.

COMMONWEALTH PROGRAMS AND SERVICES

From fiscal 1989 to fiscal 1990 budgeted expenditures of the Commonwealth increased approximately 4.9% to \$13.260 billion. Fiscal 1991 budgeted expenditures were \$13.655 billion, or a 3.0% increase over fiscal 1990 budgeted expenditures. For fiscal 1992, budgeted expenditures were \$13.420 billion, representing a decline of 1.7% from the level of budgeted expenditures in fiscal 1991. Fiscal 1993 budgeted expenditures were \$14.696 billion, an increase of 9.6% from fiscal 1992. See "FINANCIAL RESULTS -- Fiscal Years 1989 Through 1993". It is estimated that fiscal 1994 budgeted expenditures will be \$15.716 billion, an increase of 6.9% over fiscal 1993 levels. The Governor's proposed fiscal 1995 budget recommends budgeted expenditures of \$16.139 billion, an increase of 2.7% over estimated fiscal 1994 expenditures. See "1995 FISCAL YEAR".

Commonwealth expenditures since fiscal 1989 largely reflect significant growth in several programs and services provided by the Commonwealth. The following table identifies certain major spending categories of the Commonwealth and sets forth the budgeted expenditures for each fiscal year within each category.

**Commonwealth Expenditures - Budgeted Operating Funds
(in millions)**

Expenditure Category	Fiscal 1989	Fiscal 1990	Fiscal 1991	Fiscal 1992	Fiscal 1993	Estimated Fiscal 1994
Direct Local Aid (1)	\$2,960.9	\$2,936.9	\$2,608.3	\$2,358.9	\$2,546.5	\$2,736.9
Medicaid	1,833.5	2,120.6(2)	2,765.3(3)	2,817.7(4)	3,151.4(4)	3,267.7(5)
Group Health Insurance	341.4	433.4	446.0	466.1	491.2	499.4
Public Assistance	924.3	1,000.9	1,092.3	1,065.0	1,074.9	1,128.5
Debt Service (6)	649.8	770.9	942.3	898.3	1,139.5	1,179.1
Pensions	659.7	671.9	703.9	751.5	868.2	951.0
Higher Education	743.4	701.9	608.6	534.0	544.9(7)	669.6(8)
MBTA and RTA's	309.5	354.5	406.1	449.6	499.0	521.0
Other Program Expenditures	4,189.1	4,222.0	4,017.9(9)	4,066.1(9)	4,375.7	4,762.3(11)
Interfund Transfers to Non-budgeted Funds(10)	<u>31.3</u>	<u>46.7</u>	<u>64.0</u>	<u>8.8</u>	<u>5.1</u>	<u>0.0</u>
Budgeted Expenditures and Other Uses	<u>12,642.9</u>	<u>13,259.7</u>	<u>13,654.7(8)</u>	<u>13,416.0(8)</u>	<u>14,696.4</u>	<u>15,715.5</u>
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	120.7	123.9	130.2	130.9	137.4	140.8
Interfund Transfers among Budgeted Funds and Other Uses(10)	<u>217.7</u>	<u>91.1</u>	<u>149.7</u>	<u>366.9</u>	<u>358.7</u>	<u>200.2</u>
Total Expenditures and Other Uses	<u>\$12,981.3</u>	<u>\$13,474.7</u>	<u>\$13,934.6</u>	<u>\$13,913.8</u>	<u>\$15,192.6</u>	<u>\$16,056.5</u>

SOURCE: Fiscal 1989-1993, Office of the Comptroller. Estimated Fiscal 1994, Executive Office for Administration and Finance.

- (1) Aid reported to cities, towns and regional school districts by the Department of Revenue on its official communication, the so-called "cherry sheet", excluding certain pension funds, and including \$80.5 million in Commonwealth support to county jails, which is no longer included on the cherry sheet.
- (2) Fiscal 1990 Medicaid expenditures do not include \$488.0 million in retroactive rate adjustments and spending related to services rendered in prior fiscal years which were funded in the non-budgeted Medical Assistance Liability Fund.
- (3) Includes \$194.2 million for retroactive rate settlements, including \$126.0 million raised through Fiscal Recovery Bonds issued in 1991 to resolve the deficit for fiscal year 1990.
- (4) Includes expenditures of \$50.0 million in fiscal 1992 for retroactive rate adjustments and settlements.
- (5) Includes approximately \$22.3 million of expenditures previously off-budget and classified as administrative expenses.
- (6) Excludes debt service on notes issued under 1989 tax legislation to fund the fiscal 1989 deficit and certain Medicaid-related expenses. See "FINANCIAL RESULTS--Fiscal Years 1989 Through 1993". Reflects reduction of fiscal 1992 debt service by \$261.0 million as a result of the issuance of refunding bonds during fiscal 1992.
- (7) Reflects the transfer of \$89.4 million in related tuition revenue and spending to an off-budget trust fund. See "Higher Education".
- (8) Reflects the transfer of approximately \$89.4 million in related tuition revenue and spending from an off-budget trust fund to budgeted accounts.
- (9) Fiscal 1991 and fiscal 1992 expenditures have been restated to reflect surpluses in the Intragovernmental Service Fund of \$3.8 million in each year.
- (10) Interfund transfers represent accounting transfers which reallocate resources among funds. Interfund deficit support transfers for fiscal 1991 of \$234.8 million have been eliminated to facilitate comparative analysis. Includes interfund transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$59.2 million, \$170.0 million and \$76.9 million in fiscal 1991, 1992 and 1993, respectively. In fiscal 1989, \$120.2 million was transferred from the Stabilization Fund to the General Fund.
- (11) Includes \$108.1 million reserve for contingencies. See "1994 FISCAL YEAR".

Local Aid

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

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

Commonwealth Financial Support for Local Governments. During the 1980s, the Commonwealth increased payments to its cities, towns and regional school districts ("Local Aid") to mitigate the impact of Proposition 2 1/2 on local programs and services. In fiscal 1994, approximately 28.7% of the Commonwealth's budget is estimated to be allocated to Local Aid. Local Aid payments to cities, towns and regional school districts take the form of both direct and indirect assistance. Direct Local Aid consists of general revenue sharing funds and specific program funds sent directly to local governments and regional school districts as reported on the so-called "cherry sheet" prepared by the Department of Revenue, excluding certain pension funds and nonappropriated funds. As a result of the education reform law enacted in June, 1993, a large portion of general revenue sharing funds are earmarked for public education and are distributed through a formula designed to provide more aid to the Commonwealth's poorer communities. The education reform law also anticipates significant increases in these earmarked funds over the next several years, subject to appropriation. Another component of general revenue sharing, the Lottery and Additional Assistance programs, provides unrestricted funds for municipal use. There are also several specific programs funded through direct local aid, such as highway construction, school building construction, and police education incentives. In addition to direct Local Aid, the Commonwealth has provided substantial indirect aid to local governments, including, for example, payments for MBTA assistance and debt service, pensions for teachers, pension cost-of-living allowances for municipal retirees, housing subsidies and the costs of courts and district attorneys that formerly had been paid by the counties.

Direct Local Aid decreased from \$2.961 billion in fiscal 1989 to \$2.328 billion in fiscal 1992 and increased to \$2.547 billion in fiscal 1993. It is estimated that fiscal 1994 expenditures for direct Local Aid will be \$2.737 billion, which is an increase of approximately 7.5% above the fiscal 1993 level. The additional amount of indirect Local Aid provided over and above direct Local Aid was approximately \$2.146 billion in fiscal 1993. It is estimated that in fiscal 1994 approximately \$2.188 billion of indirect Local Aid will also be paid. The Governor's proposed fiscal 1995 budget includes approximately \$2.969 billion and \$2.275 billion of direct Local Aid and indirect Local Aid, respectively.

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

Medicaid and Group Health Insurance

In recent years, health care related costs have risen dramatically in the Commonwealth and across the nation, and the increase in the Commonwealth's Medicaid and group health insurance costs reflects this trend. The Commonwealth has instituted various reforms in order to control the rate of expenditure growth in these areas. In fiscal 1991 and 1992 the Commonwealth instituted various additional reforms in its health care system, particularly with respect to Medicaid. These include rate initiatives for long-term care, revised nursing home admissions criteria, expanded recovery of third party liability payments and extensive use of managed care.

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

In fiscal 1992, Medicaid accounted for more than half of the Commonwealth's appropriations for health care. It was the largest item in the Commonwealth's budget and has been one of the fastest growing budget items. During fiscal years 1989, 1990, 1991 and 1992 Medicaid expenditures were \$1.834 billion, \$2.121 billion, \$2.765 billion (including \$194 million paid in respect of retroactive provider settlements) and \$2.818 billion, respectively, representing an average annual increase of 15.4%. See "COMMONWEALTH PROGRAMS AND SERVICES -- Table of Commonwealth Expenditures-Budgeted Operating Funds". Expenditures for fiscal 1993 were \$3.151 billion, an increase of 11.8% over fiscal 1992 expenditures. The increase from fiscal 1992 to fiscal 1993 resulted mainly from the one-time start-up costs of a new managed care program for Medicaid recipients. The Executive Office for Administration and Finance estimates that fiscal 1994 Medicaid expenditures will be approximately \$3.268 billion, an increase of 3.7% over fiscal 1993 expenditures. For fiscal 1994, no supplemental Medicaid appropriations are currently expected to be necessary. The Governor's fiscal 1995 budget recommends \$3.345 billion for Medicaid expenditures, an increase of 2.4% over estimated fiscal 1994 expenditures.

Substantial Medicaid expenditures in recent years have been provided through supplemental appropriations because program requirements have consistently exceeded initial appropriations. In addition, substantial amounts have been required to cover retroactive settlement of provider payments. In fiscal 1990, in addition to current expenditures, the Commonwealth financed, through the issuance of notes, payments of \$356.0 million to hospitals and nursing homes for rate settlements dating back as far as 1980 and \$132.0 million for program expenses incurred in fiscal 1989. These payments were made through the Medical Assistance Liability Fund established to fund certain Medicaid liabilities for prior years and were not included in the fiscal 1990 expenditure of \$2.121 billion stated in the preceding paragraph. In fiscal 1991, expenditures of \$194.2 million were made to fund prior year provider settlements. See "FINANCIAL RESULTS -- Fiscal Years 1989 Through 1993". Medicaid expenditures for fiscal 1992 of \$2.818 billion include \$50.0 million for prior year provider settlements.

The large Medicaid expenditure increases experienced in recent years have been driven by several forces, including rising health care costs in general and, in particular, forces affecting the aggregate cost of long-term care for the elderly. Medicaid costs in the long-term care area increased from \$942.0 million in fiscal 1989 to approximately \$1.400 billion in fiscal 1993. The largest portion of these costs is for nursing home care. The Commonwealth has a significantly larger portion of its elderly population living in nursing homes than the national average. The nursing home population is also very dependent on Medicaid: 65% of all nursing home costs in the

Commonwealth are paid by Medicaid as compared to the national average of 43%. The annual cost per beneficiary in a nursing home ranges from \$25,000 to \$30,000. Over 35,000 elderly and disabled citizens were cared for in nursing homes through Medicaid in fiscal 1992 and 1993 and over 35,000 such citizens are expected to receive such care in fiscal 1994. The elderly population in the Commonwealth and the elderly Medicaid caseload both continue to grow. The future burdens of long-term care on Medicaid expenditures are expected to continue to be high.

Other factors also contribute to increases in Medicaid expenditures, including caseload growth in categorically eligible groups such as families in the AFDC program and AIDS-related cases. Higher unemployment levels are also, in part, responsible for caseload growth. New federal mandates for Medicaid eligible services also increase Medicaid costs. The total Medicaid caseload for fiscal 1994 is expected to reach 650,000 recipients (approximately 11% of the population of the Commonwealth), as compared to 491,946 recipients in fiscal 1989.

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

Group Health Insurance. The Group Insurance Commission provides individual and family health insurance coverage for Commonwealth employees and retirees. Coverage is provided through an indemnity plan, currently administered by the John Hancock Mutual Life Insurance Company, and through 10 health maintenance organizations. The Commonwealth currently pays approximately 85% of the costs for active employees and 90% of the costs for retired employees. For several years group health insurance expenditures were the fastest growing expense item in the Commonwealth's budget. These costs rose at an average annual rate of 11.5% from \$341.4 million in fiscal 1989 to \$466.1 million in fiscal 1992. Group health insurance expenditures in fiscal 1993 were \$491.2 million and are estimated to be \$499.4 million in fiscal 1994, representing an increase of 1.7%. The Governor has proposed fiscal 1995 expenditures of \$477.3 million for group health insurance, a decrease of 4.4% from estimated expenditures for fiscal 1994. The reduced rate of increase in these expenses in recent years is attributable, in part, to rate negotiations with providers, reductions in the state work force, increased management of the Commonwealth's indemnity plan, and changes in benefits and copayments approved by the Group Insurance Commission. The modest projected increase in fiscal 1994 reflects several savings proposals, including establishing a preferred provider organization, a managed mental health/substance abuse program and a redesigned indemnity plan for state employees (\$24.2 million projected savings) and increasing the employee health insurance contribution from 10% to 15% (\$47.0 million projected savings). The projected decrease from fiscal 1994 to fiscal 1995 is primarily due to the Governor's proposal in his fiscal 1995 budget recommendation to increase the employee health insurance contribution from 15% to 25%.

Public Assistance

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

Public Assistance Program Expenditures (in millions)

Category of Public Assistance	Fiscal 1989	Fiscal 1990	Fiscal 1991	Fiscal 1992	Fiscal 1993	Estimated Fiscal 1994
AFDC (1)	\$654.0	\$700.3	\$758.1	\$772.2	\$809.9	\$835.8
EAEDC (formerly General Relief) (2)	131.2	161.9	189.6	131.5	89.9	100.7
SSI (3)	<u>139.1</u>	<u>138.7</u>	<u>144.6</u>	<u>161.3</u>	<u>175.1</u>	<u>192.0</u>
Total	<u>\$924.3</u>	<u>\$1,000.9</u>	<u>\$1,092.3</u>	<u>\$1,065.0</u>	<u>\$1,074.9</u>	<u>\$1,128.5</u>

SOURCE: Fiscal 1989-1993, Office of the Comptroller. Estimated fiscal 1994, Executive Office for Administration and Finance.

- (1) Includes expenditures for Emergency Assistance, a component of AFDC designed to prevent homelessness and to shelter income-eligible families when they become homeless.
- (2) Includes outpatient medical services to EAEDC recipients.
- (3) Include benefits for blind recipients, which are administered by the Massachusetts Commission for the Blind.

AFDC is currently 50% funded by federal reimbursements. Increasing caseloads since fiscal 1989, plus legislatively-mandated annual cost-of-living adjustments through fiscal 1989, have caused AFDC expenditures to rise at an average annual rate of approximately 5.7% from \$654.0 million in fiscal 1989 to \$772.2 million in fiscal 1992. AFDC expenditures for fiscal 1993 were \$809.9 million, representing an increase of 4.9% over fiscal 1992. AFDC expenditures for fiscal 1994 are projected to be \$835.8 million, a 3.2% increase over fiscal 1993.

EAEDC (formerly General Relief) is funded entirely from state funds. Rising caseloads since fiscal 1989, plus annual cost-of-living adjustments through fiscal 1989, caused expenditures to rise at an average annual rate of approximately 20.2%, from \$131.2 million in fiscal 1989 to \$189.6 million in fiscal 1991. EAEDC expenditures for fiscal 1992 were \$131.5 million, a 30.6% decrease from expenditures for General Relief in fiscal 1991. Fiscal 1993 EAEDC expenditures were \$89.9 million, a 31.6% decrease from fiscal 1992 expenditures. Fiscal 1994 EAEDC expenditures are projected to be \$100.7 million, a 12.0% increase from fiscal 1993 expenditures. This projection is based upon current caseload projections which are subject to change during the fiscal year. See "Controls and Reforms" and "LITIGATION".

SSI payments are funded entirely by the federal government up to \$422 per individual recipient per month and entirely by the Commonwealth above that amount. SSI payment levels in the Commonwealth for aged, disabled and blind individual recipients range from \$548 to \$584 per month. These levels include a Commonwealth supplement over and above federally approved assistance standards. Expenditures for SSI have risen at an average annual rate of 7.3% from \$139.1 million in fiscal 1989 to \$175.1 million in fiscal 1993. SSI expenditures for fiscal 1994 are projected to be \$192.0 million, an increase of 9.7% from fiscal 1993. The Governor's fiscal 1995 budget recommendation proposes replacing AFDC cash grants with an employment support program that will provide day care, health care and employment services, which were not previously classified as Public Assistance. The fiscal 1995 budget recommendation proposes expending \$818.4 million for employment support (approximately \$111.9 million of which would not previously have been classified as Public Assistance), \$53.5 million for Emergency Assistance (formerly classified as AFDC), \$91.6 million for EAEDC and \$209.1 million for SSI.

Controls and Reforms. In an attempt to control all human services expenditures, the Department of Public Welfare in recent years has instituted tighter procedures and management controls. Stricter standards have been established to determine eligibility for AFDC Emergency Assistance and EAEDC, including implementation of new disability criteria for EAEDC benefits. Litigation has been instituted challenging the establishment of certain eligibility criteria for EAEDC applicants. See "LITIGATION". The Department of Public Welfare also has instituted automated systems to redetermine eligibility for benefits and has taken steps to reduce costs of health provider services by increased screening and placement of patients at proper levels of care, encouraging use of generic drugs and expanding audits of Medicaid providers. In addition, the Department of Revenue has improved its collection of child support payments, although actual collections have declined recently due to the lagging economy and rising unemployment.

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

Debt Service

During the 1980s, Commonwealth financed capital expenditures grew substantially. Capital spending by the Commonwealth in the Capital Projects Funds rose from approximately \$600.0 million in fiscal 1987 to \$971.0 million in fiscal 1989. In November 1988, the Executive Office for Administration and Finance established an administrative limit on state financed capital spending in the Capital Projects Funds of \$925.0 million per fiscal year. Capital expenditures were \$936.0 million, \$847.0 million, \$694.1 million and \$575.9 million in fiscal 1990, fiscal 1991, fiscal 1992 and fiscal 1993, respectively. Commonwealth financed capital expenditures are projected to increase to approximately \$780.0 million in fiscal 1994. Capital expenditures are projected to be approximately \$846 million in fiscal 1995. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Overview of Capital Spending Process and Controls; *Five-Year Capital Spending Plan*".

The growth of capital expenditures during the 1980s accounts for the significant rise in annual debt service expenditures since fiscal 1989. Payments for debt service on Commonwealth general obligation bonds and notes increased at an average annual rate of approximately 20.4%, from \$649.8 million in fiscal 1989 to \$942.3 million in fiscal 1991. Debt service payments in fiscal 1992 were \$898.3 million, representing a 4.7% decrease from fiscal 1991, which resulted from a \$261.0 million one-time reduction achieved through the issuance of refunding bonds in September and October 1991. Debt service expenditures for fiscal 1993 were \$1.140 billion and are projected to be \$1.179 billion for fiscal 1994 and \$1.295 billion for fiscal 1995. The fiscal 1993 and fiscal 1994 debt service expenditures reflect savings of \$62.9 million and \$57.3 million, respectively, achieved through the issuance of refunding bonds in October, 1992 and March, May and August, 1993. See "COMMONWEALTH BOND AND NOTE LIABILITIES". The amounts noted represent debt service payments on Commonwealth debt (including the Fiscal Recovery Bonds and the Special Obligation Bonds) but do not include debt service on notes issued to finance the fiscal 1989 deficit and certain Medicaid-related liabilities, which were paid in full from non-budgeted funds. See "FINANCIAL RESULTS -- Fiscal Years 1989 Through 1993". Also excluded are debt service contract assistance payments to the MBTA (\$172.0 million projected in fiscal 1994), the Massachusetts Convention Center Authority (\$10.6 million projected in fiscal 1994), the Massachusetts Government Land Bank (\$6.0 million projected in fiscal 1994), the Massachusetts Water Pollution Abatement Trust (\$8.0 million projected in fiscal 1994) and grants to municipalities under the school building assistance program to defray a portion of the debt service costs on local school bonds (\$159.0 million projected in fiscal 1994). See "MBTA and Regional Transit Authorities", "COMMONWEALTH BOND AND NOTE LIABILITIES" and "OTHER COMMONWEALTH LIABILITIES".

In January 1990, legislation was enacted to impose a limit on debt service in Commonwealth budgets beginning in fiscal 1991. The law, as amended, which is codified as Section 60B of Chapter 29 of the General

Laws, provides that no more than 10% of the total appropriations in any fiscal year may be expended for payment of interest and principal on general obligation debt (excluding the Fiscal Recovery Bonds) of the Commonwealth. This law may be amended or repealed by the Legislature or may be superseded in the General Appropriation Act for any year. The following table shows the percentage of total appropriations expended or estimated to be expended from the budgeted operating funds for debt service (excluding debt service on Fiscal Recovery Bonds) in the fiscal years indicated:

**Debt Service Expenditures
(In millions)**

<u>Fiscal Year</u>	<u>Debt Service (1)</u>	<u>Total Budgeted Expenditures and Other Uses</u>	<u>Percentage</u>
1989	\$649.8	\$12,642.9	5.1%
1990	770.9	13,259.7	5.8
1991	863.1	13,654.7	6.3
1992	656.1(2)	13,416.0	4.9
1993	861.1	14,696.4	5.9
1994 (Estimated)	900.4	15,715.5	5.7

SOURCE: Fiscal 1989-1993, Office of the Comptroller. Estimated Fiscal 1994, Executive Office for Administration and Finance.

- (1) Excludes \$79.0 million in fiscal 1991, \$242.2 million in fiscal 1992, \$278.4 million in fiscal 1993 and \$278.7 million in fiscal 1994 in interest and principal payments related to Fiscal Recovery Bonds, which are not included in the calculation of the debt service limit.
- (2) Reflects reduction of debt service by \$261.0 million by issuance of refunding bonds in September and October 1991.

The estimated debt service on the Fiscal Recovery Bonds currently outstanding (a portion of which constitutes variable rate debt) ranges from approximately \$278.7 million in fiscal 1994 through fiscal 1997 and approximately \$130.0 million in fiscal 1998, at which time the entire amount of the Fiscal Recovery Bonds will be paid.

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

Pensions

The Commonwealth is responsible for the payment of pension benefits for state employees and for school teachers throughout the state. The Commonwealth is also responsible for cost of living increases payable to local government retirees. State pension expenditures have risen dramatically as the Commonwealth has appropriated moneys to partially address the unfunded liabilities that had accumulated over several decades of "pay-as-you-go" administration of the pension systems for which it is responsible. For several years during the 1980s, the Commonwealth made substantial direct appropriations to pension reserves, in addition to paying current benefits. In 1988, the Commonwealth adopted a funding schedule under which it is required to fund future pension liabilities currently and to amortize the accumulated unfunded liabilities over 40 years. Total pension expenditures increased at an average annual rate of 7.1% from \$659.7 million in fiscal 1989 to \$868.2 million in fiscal 1993. The estimated pension expenditures (inclusive of current benefits and pension reserves) for fiscal 1994 are \$951.0 million (including approximately \$20.0 million to fund the costs of an early retirement program for elementary and secondary school teachers mandated by the education reform legislation enacted in June 1993 (see "1994 FISCAL YEAR")), representing an increase of 9.5% over fiscal 1993 expenditures. Fiscal 1995 pension expenditures are expected to be approximately \$1.018 billion, which amount includes approximately \$40.0 million to fund the cumulative costs of the teachers' early retirement program referenced above. See "OTHER COMMONWEALTH LIABILITIES -- Retirement Systems and Pension Benefits".

Higher Education

Total budgeted expenditures for higher education have declined between fiscal 1989 and fiscal 1993 at an average annual rate of 7.2% from \$743.4 million in fiscal 1989 to \$544.9 million in fiscal 1993. To accommodate these budget reductions, the public higher education system decreased its state-funded payroll by 1,515 full-time equivalent employees between June 1988 and October 1993. Decreases in appropriations have been partially mitigated by increases in tuition and fees in fiscal 1989 through fiscal 1993. In fiscal 1992 all but two of the campuses raised tuition by 6.0%. In fiscal 1993 tuition was raised at all campuses by 4.0%. Fiscal 1994 tuition revenues will also reflect a 2.0% tuition increase. In addition, tuition increases for nonresident students have brought these tuitions to 100% of cost. Chapter 142 of the Acts of 1991 reorganized the Commonwealth's higher education system by creating a Secretary of Educational Affairs and replacing the Board of Regents with the Higher Education Coordinating Council. In fiscal 1994 an estimated \$669.6 million will be expended from the Commonwealth's budgeted operating funds for higher education. The Governor has proposed higher education expenditures of \$527.6 million in fiscal 1995. This amount reflects the Governor's proposal contained in his fiscal 1995 budget recommendation that \$151.1 million of tuition revenues currently deposited in the General Fund of the Commonwealth instead be retained by higher education institutions and that Commonwealth appropriations for such institutions be reduced by an equal amount.

MBTA and Regional Transit Authorities

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

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

Commonwealth support of the MBTA includes all three forms of aid described above. First, a Commonwealth guarantee of MBTA debt obligations is provided by statutory requirements that the Commonwealth provide the MBTA funds sufficient to meet its obligations, including the principal and interest on MBTA and Boston Metropolitan District bonds and notes as they mature, to the extent that funds sufficient for this purpose are not otherwise available to the MBTA. Second, the Commonwealth has contracted to pay contract assistance equal to 90% of the debt service on MBTA bonds. Third, under applicable statutory provisions the Commonwealth is required to pay the MBTA its net cost of service (current expenses, including debt service and lease obligations, minus current income). During the calendar year the MBTA's net cost of service, as certified to the Commonwealth by the MBTA on a calendar year basis, is financed by the issue of notes by either the MBTA itself or the Commonwealth or by payments by the Commonwealth. In the following fiscal year, the Commonwealth pays to the MBTA the net cost of service for such calendar year (to the extent that the Commonwealth has not already advanced funds for such net cost of service). The Commonwealth issues short-term notes (transit notes) to provide funds to make such payments. The Commonwealth assesses such net cost of service on the cities and towns in the MBTA territory after deducting certain contract assistance provided by the Commonwealth. Proposition 2 1/2, as amended, generally limits the increase in such assessments from one year to the next to 2.5% of the prior year's assessment. The Commonwealth pays its transit notes from the proceeds of the assessments and from such contract assistance and, if the foregoing proceeds are insufficient, from other funds of the Commonwealth.

Total expenditures for the purpose of paying costs related to the MBTA and regional transit authorities have risen at an average annual rate of approximately 12.6% for fiscal years 1989 through 1993, from \$309.5 million in fiscal 1989 (of which \$290.7 million relates to the MBTA) to \$499.0 million in fiscal 1993 (of which \$467.9 million relates to the MBTA). Estimated expenditures for this purpose for fiscal 1994 are \$521.0 million (of which

\$489.2 million relates to the MBTA), representing an increase of 4.4% over fiscal 1993. The Governor's fiscal 1995 budget recommends \$544.9 million for MBTA and regional transit authority expenditures, of which \$510.9 million relates to the MBTA.

In light of major expansion of service throughout the 1980s, the total MBTA operating expenses have risen at an average annual rate of approximately 7.0% for fiscal years 1989 through 1993, from \$575.9 million in fiscal 1989 to \$753.5 million in fiscal 1993. The MBTA Advisory Board has approved an operating budget for fiscal 1994 of \$796.6 million, which represents an increase over fiscal 1993 of approximately 5.7%. For fiscal 1995, the MBTA's board of directors approved a budget of \$754.5 million. Management of the MBTA believes that this reduction of approximately \$42 million from the fiscal 1994 budget can be accomplished without reductions in the quantity and quality of service. The Advisory Board, expressing concerns about the effect of the \$42 million reduction in service, approved full funding for fiscal 1995 debt service, but approved only two months' funding (July 1, 1994 through August 31, 1994) for other operating expenses. The Advisory Board had indicated its intention to use the Authority's fiscal 1994 fourth quarter operating results to further evaluate the Authority's fiscal 1995 budget request. The growth in the Commonwealth's share of the MBTA's budget reflects the statutory arrangements by which the MBTA is funded, declining federal assistance and constrained local support as a result of Proposition 2 1/2.

The information set forth above concerning the Commonwealth's total expenditures for the costs of the MBTA is based on the Commonwealth's fiscal year ending June 30. However, under state law, the MBTA continues to report its net cost of service to the Commonwealth on a calendar year basis for reimbursement and assessment purposes. The following table sets forth for the calendar years ended December 31, 1989 through December 31, 1993, the amounts of (i) the MBTA's cost of service in excess of the MBTA's income from its own sources, (ii) federal operating assistance, (iii) Section 28 contract assistance, (iv) additional contract assistance, (v) interest and other charges incurred in state borrowings by the Commonwealth and (vi) the total of the Commonwealth's assessments on the cities and towns for the net cost of service allocated to such year.

**MBTA Net Cost of Service Assessments
(in millions)**

Year Ended <u>December 31</u>	Cost of Service in Excess of Income	Less: Federal Operating Assistance	Less: Section 28 Contract Assistance (1)	Less: Additional Contract Assistance and Other State Assistance (2)	Subtotal	Interest and Other Charges (3)	Amount Assessed or to be Assessed
1989	\$464.3	\$18.5	\$96.8	\$245.4	\$103.6	\$12.1	\$115.7
1990	512.9	18.3	115.7	272.6	106.3	12.3	118.6
1991	575.0	18.2	137.7	307.2	111.9	9.7	121.6
1992	607.0	18.2	155.8	315.4(4)	117.6	7.0	124.7
1993(5)	630.1	17.6	181.6	315.4(6)	115.5	12.1	127.6

SOURCE: Massachusetts Bay Transportation Authority.

- (1) Contract assistance under Section 28 of the MBTA's enabling act for payment of a portion of debt service on certain of the MBTA's indebtedness.
- (2) Additional contract assistance and other state assistance provided by the Commonwealth.
- (3) Includes interest and other charges incurred in state borrowings by the Commonwealth and Boston Metropolitan District expenses of \$25,000 in each year.
- (4) The fiscal 1994 budget contains appropriations, together with other prior appropriations, sufficient to provide this amount of additional state assistance.
- (5) Preliminary.
- (6) The Governor's fiscal 1995 budget recommendation contains appropriations, together with other prior appropriations, sufficient to provide this amount of additional state assistance.

Regional Transit Authorities and Steamship Authority. There are 15 regional transit authorities organized

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

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

The regional transit authorities have required aggregate net cost of service payments by the Commonwealth in fiscal 1989, 1990, 1991, 1992 and 1993 of \$18.8 million, \$20.6 million, \$23.6 million, \$28.5 million and \$31.1 million, respectively. Estimated payments for fiscal 1994 are \$31.9 million. Fiscal 1995 payments are expected to be approximately \$34.0 million. The Steamship Authority is currently self supporting, requiring no net cost of service payments or contract assistance.

Other Programs

In addition to those expenditures described above, the Commonwealth also expends substantial amounts on all other programs and services. Spending on other programs and services supported by the Commonwealth's budget increased from \$4.189 billion in fiscal 1989 to \$4.222 billion in fiscal 1990, an increase of 0.8%. Fiscal 1991 spending on other programs and services decreased to \$4.018 billion, which is \$204.1 million, or 4.8%, less than fiscal 1990. Such expenditures increased by \$48.2 million, or 1.2%, to \$4.066 billion in fiscal 1992. Fiscal 1993 expenditures were \$4.376 billion, which is \$309.6 million, or 7.6% higher than fiscal 1992. Fiscal 1994 expenditures are estimated to be \$4.762 billion (including \$108.1 million reserved for contingencies), which is \$386 million or 8.8% more than fiscal 1993. A large share of the projected fiscal 1994 spending in this category (\$2.392 billion) consists of spending on human services programs other than Medicaid and public assistance detailed earlier. This other human services spending for fiscal 1994 includes expenditures for the Departments of Mental Retardation (\$666.4 million), Mental Health (\$507.3 million), Social Services (\$368.3 million) and Public Health (\$343.6 million). The remaining \$2.370 billion in projected expenditures on other programs and services cover a wide variety of functions of state government, including, in particular, expenditures for the Judiciary, District Attorneys and the Attorney General (\$402.0 million) and for the Executive Office for Administration and Finance (\$291.3 million), Communities and Development (\$139.8 million), Environmental Affairs (\$153.4 million), Transportation and Construction (\$97.4 million), Public Safety (\$660.4 million) and Elder Affairs (\$121.6 million). The Governor's proposed fiscal 1995 budget recommends budgeted expenditures on other programs and services of \$4.803 billion, including \$30.0 million reserved for contingencies.

State Work Force

As of January 1, 1994, the Commonwealth had approximately 64,014 full-time equivalent employees ("FTEs") in its standard work force delivering programs and services funded by annual operating budget appropriations and retained revenues. This number does not include 331 seasonal FTEs or 119 members of Boards or Commissions. Approximately 54,611 of these FTEs work in executive branch agencies (including employees of the Commonwealth's colleges and universities) under the control of the Governor, while the others work in the Legislature, Judiciary and other entities constitutionally independent of the Governor (e.g., the Offices of the State Treasurer, the Secretary of State, the State Auditor and the Attorney General). During fiscal 1993 approximately \$2.4 billion was expended for salaries for state employees funded through the budget. Between June 1988 and January 1994, the size of the standard work force funded by annual operating budget appropriations was reduced by 16,325 FTE positions, or approximately 20.3%. Between January 1991 and January 1994, the size of the Commonwealth's standard work force was reduced by approximately 8,230 in executive agencies under the control of the Governor and by approximately 8,180 in the entire state government. The Governor has successfully

implemented an aggressive program to reduce the state-wide work force by a net of at least 7,500 FTEs between taking office in January 1991 and the beginning of fiscal 1994 through attrition, layoffs and an early retirement program (which took effect on July 1, 1992).

Full-Time Equivalent Work Force (1)

	<u>June 1988</u>	<u>January 1991</u>	<u>January 1993</u>	<u>January 1994</u>
Executive Branch (2):				
Governor's Office (3)	105	53	62	85
State Comptroller	119	101	101	101
Executive Departments:				
Administration & Finance	4,434	3,985	3,235	3,441
Environmental Affairs	3,319	3,019	2,134	2,250
Communities & Development	182	123	103	112
Human Services (4)	38,665	35,441	25,415	23,858
Transportation & Construction	3,146	2,565	1,748	1,520
Board of Library Commissioners	19	14	12	14
Education (5)	468	348	211	212
Higher Education (5)(6)	14,654	13,084	12,943	13,083
Public Safety (4)	3,405	2,833	8,717	8,795
Economic Affairs (7)	97	64	91	90
Elder Affairs	60	35	26	30
Consumer Affairs	755	725	595	625
Energy Resources (8)	66	--	--	--
Labor	464	443	433	395
Subtotal	69,958	62,833	55,826	54,611
Judiciary	6,157	5,858	5,290	5,723
Other (9)	4,224	3,502	3,454	3,680
Total	80,339	72,193	64,570	64,014

SOURCE: Executive Office for Administration and Finance.

- (1) Excludes employees whose salaries are paid from direct federal grants, expendable trust funds and Capital Projects Funds.
- (2) Includes only employees under control of the Governor.
- (3) Includes staff of the Lieutenant Governor, formerly included in "Other".
- (4) Includes transfer of personnel of Parole Board, Department of Corrections and MDC Police to Public Safety in July 1991.
- (5) Chapter 142 of the Acts of 1991 combined the Department of Education and a successor to the Board of Regents under a newly created Secretary of Educational Affairs.
- (6) Includes University of Massachusetts, state colleges and community colleges.
- (7) Includes transfer of certain personnel from Consumer Affairs to Economic Affairs.
- (8) Department functions were taken over by other departments in fiscal 1990.
- (9) Includes Legislative staff, Offices of State Treasurer, Secretary of State, State Auditor, Attorney General and others constitutionally independent of the Governor. Does not include elected representatives, senators or members of the Governor's Cabinet.

In addition to the standard work force funded by annual operating budget appropriations, the Commonwealth has employees whose salaries are paid from various direct federal grants, expendable trust funds, and Capital Projects Funds. Virtually all of these employees work in the executive branch, over half of them in public higher education. Excluding personnel paid from certain higher education trust funds, the number of non-budgeted FTEs has increased from 11,366 in June 1988 to 13,630 in January 1994, an increase of approximately 19.9%. The Commonwealth also employs seasonal workers, primarily in its parks and other recreational facilities, varying in number from about 350 FTEs in the off-seasons to about 2,000 FTEs in midsummer.

Union Organization and Labor Negotiations

Under Chapter 150E of the General Laws, all employees of the Commonwealth, with the exception of managerial and confidential employees, have the right to bargain collectively with the Commonwealth through

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

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

Approximately 47,000 executive branch state employees are organized in eleven bargaining units, the employees of the Commonwealth's colleges and universities are organized in 25 bargaining units, and the employees of the judicial branch and the Lottery Commission are organized in six bargaining units. Public employees of the Commonwealth do not have a legal right to strike or otherwise withhold services. Unions representing certain state and metropolitan police are entitled to final and binding arbitration by a joint Labor-Management Committee.

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

Agreements with the Alliance (the American Federation of State, County and Municipal Employees and the Service Employees International Union, representing units 2, 8 and 10), the National Association of Government Employees (NAGE, representing units 1, 3 and 6) and the Massachusetts Organization of State Engineers and Scientists (MOSES, representing unit 9) expired June 30, 1993. Agreements with the Coalition of Public Safety (COPS, representing unit 5) and the Massachusetts Nurses Association (MNA, representing unit 7) expired June 30, 1990 and October 3, 1990, respectively. The expired collective bargaining agreements remain in effect until new contracts are negotiated, or until successor collective bargaining agreement negotiations result in impasse.

Legislation to fund the economic provisions of the 1990 - 1993 agreements with the Alliance, NAGE and MOSES, which were negotiated in 1990, was not approved by the Governor in December, 1991 due to fiscal conditions. The agreements would have cost the Commonwealth approximately \$289 million during their three year terms. The three unions filed lawsuits challenging the Governor's action. In August, 1992, the Massachusetts Supreme Judicial Court ruled that the Governor's action was constitutionally permissible. Economic benefits for these units remained unchanged from their previous agreements until December, 1992, when the legislature overrode the Governor's veto of legislation to grant wage increases of 6% effective December, 1992 and 7.25% effective June, 1993, which approximated the aggregate increases originally provided during the three year terms of the 1990-1993 agreements.

Negotiations for new contracts are currently underway with the MNA and COPS, and MOSES and NAGE have requested to begin negotiations.

In April, 1992, the Commonwealth reached agreement with the Massachusetts Correction Officers Union (representing unit 4) for a three year contract which expires December 31, 1994. The agreement provides for a wage increase of 5.4% through job title upgrades, as well as an educational incentive program, both of which were implemented retroactive to January 1, 1992, at a total cost of approximately \$20.1 million through fiscal 1994. A supplemental agreement to this contract, negotiated in May, 1993, provides for 5% salary increases effective January 1, 1993, January 1, 1994 and July 1, 1994, and a longevity pay program effective March 1, 1993. Legislation to fund the supplemental agreement, which is estimated to cost approximately \$12.6 million through fiscal 1994, is currently pending legislative approval.

On July 1, 1992, the former Capitol, Metropolitan, Registry and State Police forces were consolidated into the Massachusetts Department of State Police. Negotiations between the Commonwealth and the State Police Association of Massachusetts (representing unit 5A) culminated with the signing in July, 1993 of a three year contract, which expires June 30, 1995. The contract grants a series of annual 6% salary increases, which are estimated to cost approximately \$17.6 million through year 1994. Legislation to fund this contract has also been submitted to the legislature for approval.

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

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

Office of Employee Relations Bargaining Units

Contract Unit	Bargaining Union	Type of Employee	No. of Employees	Expiration Dates
1	National Association of Government Employees	Clerical	6,878	6/30/93
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Non-professional hospital	13,524	6/30/93
3	National Association of Government Employees	Skilled trades	1,022	6/30/93
4	Massachusetts Correction Officers Federated Union	Corrections	3,803	12/31/94
5	Coalition of Public Safety	Police/Law enforcement	290	6/30/90
5a	State Police Association of Massachusetts	State Police	1,912	6/30/95
6	National Association of Government Employees	Administrative professionals	5,862	6/30/93
7	Massachusetts Nurses Associations	Health professionals	2,607	9/30/90
8	Alliance/Service Employees International Union	Social workers	7,570	6/30/93
9	Massachusetts Organization of Engineers and Scientists	Engineers/scientists	2,844	6/30/93
10	Alliance/Service Employees International Union	Secondary education	<u>688</u>	6/30/93
TOTAL			<u>47,000</u>	

SOURCE: Office of Employee Relations. Number of employees as of October 23, 1993.

COMMONWEALTH BOND AND NOTE LIABILITIES

Overview

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

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

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

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

Outstanding Bond and Note Liabilities. The following table sets forth the Commonwealth bond and note liabilities outstanding on January 1, 1994.

Commonwealth Bond and Note Liabilities
January 1, 1994
(in thousands)

	<u>Long Term</u> (1)	<u>Short Term</u>
COMMONWEALTH DEBT		
General Obligation Debt	\$8,118,006 (2)	\$311,982 (3)
Dedicated Income Tax Debt	1,036,765	--
Special Obligation Debt	<u>103,770</u>	<u> </u>
Subtotal Commonwealth Debt	<u>9,258,541</u>	<u>311,982</u>
COMMONWEALTH SUPPORTED DEBT		
MBTA	2,015,405	375,000 (4)
Massachusetts Convention Center Authority	190,899	--
Massachusetts Government Land Bank	--	--
Boston Metropolitan District	54,354	--
Steamship Authority	34,385	2,900
Regional transit authorities	<u>100</u>	<u>68,923</u>
Subtotal Supported Debt	<u>2,295,143</u>	<u>446,823</u>
COMMONWEALTH GUARANTEED DEBT		
Local housing authorities	--	--
Higher education building authorities	241,902	--
Town of Mashpee	<u>600</u>	<u> </u>
Subtotal Guaranteed Debt	<u>242,502</u>	<u> </u>
TOTAL COMMONWEALTH BOND AND NOTE LIABILITIES	<u>\$11,796,186</u>	<u>\$758,805</u>

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

- (1) Long term debt includes discount and costs of issuance. Does not include long term capital lease obligations. See "Indirect Obligations - Plymouth County Certificates of Participation" and "OTHER COMMONWEALTH LIABILITIES -- Long Term Capital Leases".
- (2) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from January 1, 1994 through their maturity in the amount of \$375.7 million. On January 27, 1994, the Commonwealth issued \$200 million of general obligation bonds to finance various capital expenditures.
- (3) Represents \$240 million of Commonwealth General Obligation Notes issued on November 23, 1993 for the purpose of financing the MBTA's net cost of service and \$71.982 million of the Commonwealth's "minibonds" (which are redeemable at the request of the holder on one business day's notice and are treated as short term liabilities). As of February 17, 1994, the Commonwealth has \$180 million of commercial paper outstanding as bond anticipation notes. See "General Obligation Debt; Commonwealth General Obligation Notes and Minibonds".
- (4) As of February 17, 1994, the MBTA also has \$136 million of commercial paper outstanding. See "Commonwealth Supported Debt; MBTA."

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

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

<u>June 30</u>	<u>General Obligation Bonds (3)</u>	<u>Dedicated Income Tax Debt</u>	<u>Special Obligation Debt</u>	<u>Commonwealth Long Term Debt Subtotal (4)</u>	<u>MBTA Bonds</u>	<u>Other Supported Debt (5)</u>	<u>Total (4)</u>
1989	\$5,370,628	--	--	\$5,370,628	\$1,113,010	\$280,992	\$6,764,630
1990	6,605,040	--	--	6,605,040	1,283,765	263,848	8,152,653
1991	7,164,195	\$1,416,145	--	8,580,340	1,475,480	247,574	10,303,394
1992	7,916,571	1,236,990	\$103,770	9,257,331	1,708,230	257,327	11,222,888
1993	8,082,823	1,044,865	103,770	9,231,458	2,015,405	291,482	11,538,345

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

- (1) Does not include Commonwealth guaranteed debt. See "Commonwealth Guaranteed Debt".
- (2) Outstanding bond liabilities include discount and costs of issuance.
- (3) Does not include Dedicated Income Tax Debt. Commonwealth general obligation bonds include interest on capital appreciation bonds yet to be accrued from the end of the fiscal year indicated through their maturity in the following approximate amounts: fiscal 1988-\$0; fiscal 1989-\$74.43 million; fiscal 1990-\$175.38 million; fiscal 1991-\$399.64 million; fiscal 1992-\$451.29 million; and fiscal 1993-\$389.40 million.
- (4) Totals may not add due to rounding.
- (5) Includes bonds of the MCCA, the Steamship Authority, the Land Bank, and the Boston Metropolitan District. Does not include bonds of regional transit authorities.

From May, 1992 through August, 1993 the Commonwealth has issued \$2.975 billion in refunding bonds to refinance existing long-term debt obligations of the Commonwealth. These transactions have generated \$189 million in gross debt service savings for the Commonwealth in fiscal years 1992 through 2011, the bulk of which (\$154 million) occurs in fiscal years 1993, 1994 and 1995. These transactions yield approximately \$154 million in savings on a present value basis.

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

Long Term Debt Analysis
Commonwealth Debt and Commonwealth Supported Debt

<u>June 30</u>	<u>Amount (1)(2) (in thousands)</u>	<u>Net of CAB Interest Yet to be Accrued (in thousands)</u>	<u>Per Capita (3)</u>	<u>Ratio to Full Value of Real Estate (4)</u>	<u>Ratio to Personal Income (5)</u>
1989	\$6,764,630	\$6,690,200	\$1,136	1.78	5.09
1990	8,152,653	7,977,273	1,326	2.13	5.87
1991	10,303,394	9,903,754	1,652	2.32	7.21
1992	11,222,888	10,771,598	1,796	2.52	7.69
1993	11,538,345	11,148,945	1,859	2.85	7.80

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

- (1) Includes Commonwealth general obligation bonds, dedicated income tax bonds and Special Obligation Bonds, and bonds of the MBTA, the MCCA, the Steamship Authority, the Land Bank and the Boston Metropolitan District. Does not include bonds of the regional transit authorities. Does not include Commonwealth guaranteed debt. See "Commonwealth Guaranteed Debt".
- (2) Outstanding bond liabilities include discount and costs of issuance. Commonwealth general obligation bonds include interest on capital appreciation bonds yet to be accrued from the end of the fiscal year through their maturity. See "Table of Long Term Bond Liabilities; footnote 3" above.

- (3) Based on United States Census resident population estimates for Massachusetts of 5,890,000 for 1988, 5,891,000 for 1989, 6,016,000 for 1990, 5,996,000 for 1991 and 5,998,000 for 1992 and 1993.
- (4) Based on Commonwealth Department of Revenue equalized valuation of assessed real estate of \$221.5 billion for 1988, \$374.9 billion for 1989 and 1990 and \$427.6 billion for 1991 and 1992; and \$391.0 billion for 1993.
- (5) Based on United States Department of Commerce, Bureau of Economic Analysis total personal income of \$123.3 billion for 1988, \$131.4 billion for 1989, \$135.9 billion for 1990, \$137.3 billion for 1991 and an estimated \$140.1 billion for 1992.

Maturities of Short Term Debt. The following table sets forth the maturities of the Commonwealth's short term liabilities outstanding as of January 1, 1994.

**Maturities of Short Term Liabilities
January 1, 1994
(in thousands)**

<u>Month Due</u>	<u>Commonwealth</u>	<u>MBTA</u>	<u>Regional Transit Authorities</u>	<u>Steamship Authority</u>	<u>Total</u>
Minibonds (1)	\$71,982				\$ 71,982
Commercial Paper (1 to 270 days)(2)	250,000	\$126,000			376,000
January 1994			1,177		1,177
March 1994		195,000	870	\$2,900	198,770
June 1994			13,220		13,220
Fiscal 1995	<u>240,000</u>	<u>180,000</u>	<u>53,656</u>		<u>473,656</u>
Total	\$561,982	\$501,000	\$68,923	\$2,900	\$1,134,805

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

- (1) Minibonds are redeemable at the option of the holder on one business day's notice and are considered short term obligations. See "General Obligation Debt; *Minibonds*".
- (2) For a description of the MBTA's commercial paper program, see "Commonwealth Supported Debt; *MBTA*". As of February 17, 1994, the MBTA has \$136 million of commercial paper outstanding. For a description of the Commonwealth commercial paper program, see "General Obligation Debt; *Commonwealth General Obligation Notes*". As of February 17, 1994, the Commonwealth has \$180 million of commercial paper outstanding as bond anticipation notes.

General Obligation Debt

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

Dedicated Income Tax Debt. On August 1, 1990, the Governor signed into law Chapter 151 of the Acts of 1990, which provides, among other matters, for the authorization of the Commonwealth Fiscal Recovery Loan Act of 1990 to meet the deficit attributable to fiscal 1990, including certain Medicaid payments for prior service periods. Bonds issued pursuant to Chapter 151 ("Fiscal Recovery Bonds") must be repaid no later than December 31, 1997. The Commonwealth issued Fiscal Recovery Bonds in October and December 1990 in the aggregate principal amount of \$1.416 billion. The Fiscal Recovery Bonds constitute general obligation bonds of the Commonwealth, but are to be repaid from funds deposited in the Commonwealth Fiscal Recovery Fund established by Chapter 151 (the "Fiscal Recovery Fund"), deposits to which are to be held in trust and pledged to pay debt service on the Fiscal Recovery Bonds. Deposits to the Fiscal Recovery Fund are to be made from up to 15% of the Commonwealth's income tax receipts in each year that debt service is payable related to the Fiscal Recovery Bonds. Income tax receipts in excess of the amount needed in any fiscal year for debt service on account of Fiscal Recovery Bonds then outstanding, as certified by the Secretary for Administration and Finance in consultation with the State Treasurer, are paid into the Commonwealth's General Fund. Debt service related to the Fiscal Recovery Bonds in fiscal years 1994 through 1997 will not exceed approximately \$279 million per annum. Fifteen percent of the Commonwealth's income tax receipts for fiscal 1993 amounted to approximately \$806.2 million, while in

fiscal 1994 it is estimated to amount to \$857.1 million. The outstanding principal amount of the Fiscal Recovery Bonds is not counted toward the statutory limit on outstanding direct bonds of the Commonwealth (see "Statutory Limit on Direct Bonds"), and interest on the Fiscal Recovery Bonds is not counted toward the statutory limitation on debt service payments. See "COMMONWEALTH PROGRAMS AND SERVICES -- Debt Service".

Commonwealth General Obligation Notes. The Commonwealth currently issues short term general obligation debt as revenue anticipation notes, bond anticipation notes, and transit notes issued to fund a portion of the Commonwealth's net cost of service for the MBTA. Revenue anticipation notes may be issued by the State Treasurer in any fiscal year in anticipation of the receipts for that year. Revenue anticipation notes must be repaid no later than the close of the fiscal year in which they are issued. Bond anticipation notes may be issued by the State Treasurer in anticipation of the issuance of bonds. The Commonwealth utilizes a commercial paper program to facilitate the issuance of revenue and bond anticipation notes. Under the Commonwealth's commercial paper program, the Commonwealth may issue up to \$700 million of short term general obligation debt under three series of notes; letters of credit are available through October 28, 1994 to secure such commercial paper. As of February 17, 1994, the Commonwealth has \$180 million of commercial paper outstanding as bond anticipation notes. Such notes are expected to be retired with the proceeds of special obligation bonds. The Commonwealth's current cash flow projection indicates that no short term operating borrowings are expected to be outstanding under the commercial paper program at any time during the remainder of fiscal 1994. However, events occurring subsequent to the preparation of this projection may cause the actual cash flow of the Commonwealth to vary from the projected cash flow and additional commercial paper may be outstanding from time to time during fiscal 1994. See "1994 FISCAL YEAR -- Cash Flow".

Transit notes issued to fund the net cost of service payments to the MBTA may be issued by the State Treasurer pursuant to Chapter 161A of the General Laws, and may mature in the current or next succeeding fiscal year. The notes are general obligations of the Commonwealth, but are funded, in part, from assessments collected by the Commonwealth from cities and towns in the MBTA's territory. See "COMMONWEALTH PROGRAMS AND SERVICES -- MBTA and Regional Transit Authorities". As of February 17, 1994, the Commonwealth has \$240 million of outstanding transit notes which mature on November 22, 1994. As of February 17, 1994, no other revenue or bond anticipation notes were outstanding.

Minibonds. The State Treasurer is authorized by law to sell a portion of the Commonwealth's bonded indebtedness each year (not exceeding \$50 million net proceeds per year) in the form of small denomination bonds, or "minibonds", which are redeemable at the option of the holder on any business day prior to maturity (generally five years). As minibonds are redeemable on one business day's notice, the Comptroller accounts for minibonds as short term liabilities of the Commonwealth. Such minibonds are sold at a discount with no current interest payments; the redemption value accrues monthly. As of January 1, 1994 the Commonwealth had outstanding \$71.982 million in such minibonds; if all outstanding minibonds were to have been redeemed by the holders thereof on such date, the total redemption cost to the Commonwealth would have been approximately \$110.0 million.

Special Obligation Debt

The Special Obligation Act authorizes the Commonwealth to issue Special Obligation Bonds secured by all or a portion of revenues accounted to the Highway Fund. Revenues which are currently accounted to the Highway Fund are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax. Special Obligation Bonds are not general obligations of the Commonwealth. Chapter 33 of the Acts of 1991 authorizes the Commonwealth to issue Special Obligation Bonds in an aggregate amount not to exceed \$1.125 billion. As of January 1, 1994, the Commonwealth had outstanding \$103.77 million of Special Obligation Bonds secured by a pledge of two cents of the 21-cent motor fuels excise tax. The Commonwealth expects to issue up to \$250 million of Special Obligation Bonds in fiscal 1994 and to pledge an additional two cents of the motor fuels excise tax to secure the Special Obligation Bonds.

Debt Service Requirements on Commonwealth Bonds

The following table sets forth, as of January 1, 1994 the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, including the Fiscal Recovery Bonds, and Special Obligation Bonds.

Debt Service Requirements on Commonwealth Bonds (1) January 1, 1994 (in thousands)

Fiscal Year	GENERAL OBLIGATION BONDS (2)(3)				SPECIAL OBLIGATION BONDS			Total Debt Service Commonwealth Bonds
	Principal	Interest on CABs at Maturity	Current Interest	Subtotal	Principal	Interest	Subtotal	
1994 (4)	\$333,707		\$204,133	\$537,840		\$3,116	\$3,116	\$ 540,956
1995	633,769		458,313	1,092,082		6,232	6,232	1,098,314
1996	650,686		421,912	1,072,598		6,232	6,232	1,078,830
1997	677,470		379,560	1,057,030		6,232	6,232	1,063,262
1998	587,942	\$8,675	338,264	934,861	\$4,070	6,232	10,302	945,183
1999	511,623	9,704	309,320	830,647	4,285	6,016	10,301	840,948
2000	508,646	23,586	278,719	810,951	4,525	5,776	10,301	821,252
2001	453,563	61,445	251,894	766,902	4,785	5,514	10,299	777,201
2002	433,957	43,848	225,172	702,977	5,070	5,231	10,301	713,278
2003	420,368	59,609	202,189	682,166	5,370	4,927	10,297	682,463
2004	375,739	88,320	180,535	644,594	5,700	4,599	10,299	654,893
2005	376,736	95,981	160,914	633,631	6,055	4,246	10,301	643,932
2006	425,243	45,481	143,597	614,321	6,430	3,868	10,298	624,619
2007	459,640	14,985	121,971	596,596	6,835	3,466	10,301	608,897
2008	451,307		98,831	550,138	7,260	3,039	10,299	560,437
2009	427,178		74,229	501,407	7,695	2,603	10,298	511,705
2010	347,624		52,583	400,207	8,160	2,141	10,301	410,508
2011 and thereafter	627,939		57,045	684,984	27,530	3,368	30,898	715,882
TOTAL	\$8,703,137	\$451,634	\$3,959,181	\$13,113,952	\$103,770	\$82,838	\$186,608	\$13,300,560

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

- (1) Totals may not add due to rounding.
- (2) Includes Fiscal Recovery Bonds. Estimated debt service on the Fiscal Recovery Bonds (a portion of which constitute variable rate debt) will equal approximately \$279.0 million in fiscal 1994 through fiscal 1997 and \$130.0 million in fiscal 1998, at which time the Fiscal Recovery Bonds will be paid.
- (3) Excludes minibonds. Estimated debt service payable on outstanding minibonds (assuming interest is paid at maturity) in fiscal years 1994 and 1995 is approximately \$53.8 million and \$64.2 million, respectively.
- (4) Does not include debt service paid in fiscal 1994 through January 1, 1994, including approximately \$257.8 million of general obligation bond principal, approximately \$250.5 million of general obligation bond interest, approximately \$8.1 million of fiscal recovery bond principal, approximately \$29.4 million of fiscal recovery bond interest and approximately \$3.1 million of special obligation bond interest.

Statutory Debt Limit on Direct Bonds

Legislation enacted in December 1989 imposes a limit on the amount of outstanding "direct" bonds of the Commonwealth. The law, which is codified in Section 60A of Chapter 29, set a fiscal 1991 limit of \$6.8 billion, and provides that the limit for each subsequent fiscal year shall be 105% of the previous fiscal year's limit. The measurement of this limit is performed under the statutory basis of accounting which differs from GAAP in that the principal amount of outstanding bonds is measured net of discount and costs of issuance. The law further provides that bonds to be refunded from the proceeds of Commonwealth refunding bonds shall be excluded from outstanding "direct" bonds upon the issuance of the refunding bonds. Chapter 151 of the Acts of 1990 and the

Special Obligation Act provide that the Fiscal Recovery Bonds and the Special Obligation Bonds, respectively, shall not be counted in computing the amount of bonds subject to this limit. Pursuant to Chapter 5 of the Acts of 1991, \$287.2 million of the Commonwealth's refunding bonds issued in September and October 1991 are not counted in computing the amount of the bonds subject to this limit. The following table shows the amount of outstanding "direct" bonds of the Commonwealth, as compared with the appropriate statutory limit, as of the first day of each fiscal year in which the statutory limit has been in effect.

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

<u>Date</u>	<u>Outstanding Direct Bonds</u>	<u>Statutory Limit on Direct Bonds</u>
July 1, 1990	\$6,010,063	\$6,800,000
July 1, 1991	6,653,030	7,140,000
July 1, 1992	6,937,500	7,497,000
July 1, 1993	7,259,821	7,871,850
January 1, 1994	7,349,057	7,871,850

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

Authorized But Unissued Debt

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

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

<u>Date</u>	<u>Authorized but Unissued General Obligation Debt</u>	<u>Capital Expenditures(1)</u>
June 30, 1989	\$6,323,810	\$970,668
June 30, 1990	5,383,743	936,068
June 30, 1991	4,937,306	847,057
June 30, 1992	6,393,832	694,057(2)
June 30, 1993	4,614,367	579,905

SOURCE: Office of the Comptroller.

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

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

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

Commonwealth Supported Debt

MBTA. The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. Commonwealth support of MBTA bonds and notes includes (1) a Commonwealth guarantee of MBTA debt obligations provided by statutory requirements that the Commonwealth provide the MBTA funds sufficient to meet its obligations, including the principal and interest on MBTA and Boston Metropolitan District bonds and notes as they mature, to the extent that funds sufficient for this purpose are not otherwise available to the MBTA; (2) Commonwealth contract assistance equal to 90% of the debt service on MBTA bonds; and (3) under applicable statutory provisions, the Commonwealth's payment of MBTA's net cost of service (current expenses, including debt service and lease obligations, minus current income). Commonwealth obligations with respect to the MBTA are discussed at "COMMONWEALTH PROGRAMS AND SERVICES -- MBTA and Regional Transit Authorities". As of January 1, 1994, the MBTA had \$2.015 billion of outstanding long term bonds (exclusive of bonds that have been refunded), and \$375 million of outstanding short term notes. The MBTA recently established a commercial paper program in order to issue bond anticipation notes for capital purposes. Up to \$200 million of debt under two series of notes may be issued under this program. The notes are general obligations of the MBTA and ninety percent (90%) of the interest thereon is payable from contract assistance to be provided by the Commonwealth. As of February 17, 1994, \$136 million of commercial paper notes were outstanding under this program. As of January 1, 1994, the Boston Metropolitan District had \$54.4 million of outstanding long term bonds. See "Overview; *Outstanding Bond and Note Liabilities*" and "*Trend of Long Term Bond Liabilities*".

Regional Transit Authorities and Steamship Authority. There are 15 regional transit authorities organized in various areas of the state. The Steamship Authority operates passenger ferries to Martha's Vineyard and Nantucket. Each of these entities issues its own bonds and notes. Commonwealth support of the bonds and notes of the regional transit authorities and the Steamship Authority includes (1) a Commonwealth guarantee pursuant to statutory provisions requiring the Commonwealth to provide each of these entities with funds sufficient to meet the principal of and interest on their bonds and notes as they mature to the extent that funds sufficient for this purpose are not otherwise available to such entity; (2) the Commonwealth's payment, under applicable statutory provisions, of the net cost of service of the regional transit authorities and the Steamship Authority (current expenses, including debt service, minus current income); and (3) with respect to the regional transit authorities, Commonwealth contract assistance to such authorities in amounts equal to 50% of their net cost of service. Commonwealth obligations with respect to the regional transit authorities are discussed at "COMMONWEALTH PROGRAMS AND SERVICES -- MBTA and Regional Transit Authorities". The Steamship Authority is currently self-supporting, requiring no net cost of service or contract assistance payments. As of January 1, 1994, the regional transit authorities had \$100,000 of outstanding long term bonds and \$68.9 million of outstanding short term notes. As of January 1, 1994, the Steamship Authority had \$34.4 million of outstanding long-term bonds and \$2.9 million of outstanding short-term notes. See "Overview; *Outstanding Bond and Note Liabilities*".

Massachusetts Convention Center Authority. The MCCA was created for the purpose of promoting the economic development of the Commonwealth by the development and operation of a major convention center in Boston and is authorized to issue bonds for any of its corporate purposes. Such bonds are fully secured by contract assistance payments by the Commonwealth, which payments are limited by statute to an amount equal to the annual debt service on \$200 million of bonds outstanding at any one time. The assistance contract is a general obligation of the Commonwealth for which its full faith and credit are pledged. As of January 1, 1994, the MCCA had \$190.9 million of outstanding long term bonds on which the Commonwealth will pay approximately \$10.6 million in debt service contract assistance payments in fiscal 1994. The outstanding bonds of the MCCA include \$31.5 million of

bonds issued in July, 1993 to finance certain renovations to the Boston Common Parking Garage, which is owned and operated by the MCCA. All of the principal of and interest on such bonds is payable from contract assistance to be provided by the Commonwealth. See "Overview; *Outstanding Bond and Note Liabilities*" and "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Overview of Capital Spending Process and Controls; *Five Year Capital Spending Plan*."

Massachusetts Government Land Bank. The Land Bank assists in the development of state and federal surplus property for private use, and in the development of substandard, blighted or decadent open areas in the Commonwealth. The Land Bank has direct borrowing power and the Commonwealth is required to provide contract assistance payments for debt service obligations of the Land Bank of up to \$6 million per fiscal year for a period of seven fiscal years, of which two years remain. Like the MCCA assistance contract, the contract with the Land Bank is a general obligation of the Commonwealth for which the full faith and credit of the Commonwealth are pledged. As of January 1, 1994, the Land Bank had no outstanding long term bonds. See "Overview; *Outstanding Bond and Note Liabilities*".

Commonwealth Guaranteed Debt

Local Housing Authorities. Local housing authorities have been created by legislation in each city and town in the Commonwealth and have the power, among other things, to undertake projects to provide housing for persons of low income. Prior to a readjustment of their financing methods effected by Chapter 4 of the Acts of 1976 ("Chapter 4"), such housing authorities financed housing projects by issuing Commonwealth guaranteed bonds and notes. The financing has been taken over by the Commonwealth, which makes grants to housing authorities to pay the costs of housing projects. Housing authorities can no longer make arrangements for the permanent financing of projects by Commonwealth guaranteed borrowing. Chapter 4 and certain bond covenants of the Commonwealth place limitations on the amount and period of guaranteed temporary notes which may be issued by housing authorities to finance planning and construction phases of housing projects. Chapter 4 also provides that no guaranteed notes may be issued unless a contract for grants which may be used to retire such notes is in effect. Housing authorities may issue revenue bonds to finance privately owned housing developments under a program authorized by the Legislature in 1984 (the "TELLER program"), but may not pledge their credit to secure such bonds. As of January 1, 1994, local housing authorities had no outstanding long term bonds guaranteed by the Commonwealth. See "Overview; *Outstanding Bond and Note Liabilities*".

Higher Education Building Authorities. Four higher education building authorities, created to assist institutions of public higher education in the Commonwealth, may issue bonds which are guaranteed as to their principal and interest by the Commonwealth. The guarantee is a general obligation of the Commonwealth for which its full faith and credit are pledged. In addition to such guarantee, certain revenues of these authorities, including dormitory rental income and student union fees, are pledged to their respective debt service requirements. While revenues thus far have been sufficient to meet debt service requirements, they have not been sufficient in all cases to pay operating costs. In such cases, the operating costs have been met by Commonwealth appropriations. As of January 1, 1994, the higher education building authorities had \$241.9 million of outstanding long term bonds guaranteed by the Commonwealth. See "Overview; *Outstanding Bond and Note Liabilities*".

Indirect Obligations

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

MHFA and the Massachusetts Home Mortgage Finance Agency ("MHMFA") also provide mortgage loan financing with respect to certain single-family residences within the Commonwealth. The acts establishing MHFA and MHMFA place a \$1.7 billion aggregate limit on outstanding indebtedness of both MHFA and MHMFA to finance single-family housing. MHMFA no longer has any bonds outstanding.

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

As of January 1, 1994 multi-family obligations of the MHFA totaled \$2.309 billion (secured by capital reserve funds of approximately \$72.1 million) and single-family obligations of the MHFA totaled \$1.238 billion (secured by capital reserve funds of approximately \$8.3 million). As of such date the capital reserve funds were maintained at the required levels without Commonwealth appropriations and no payments from such funds have been necessary. Authorized but unissued amounts as of such date were approximately \$391 million for MHFA multi-family bonds and approximately \$462 million for, collectively, MHFA and MHMFA single-family bonds.

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

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

City of Chelsea Commonwealth Lease Revenue Bonds. On November 10, 1993, the City of Chelsea, Massachusetts, acting through the Industrial Development Financing Authority of the City of Chelsea (the "City") and the Massachusetts Industrial Finance Agency ("MIFA") issued \$95,750,000 aggregate principal amount of City of Chelsea, Commonwealth of Massachusetts Lease Revenue Bonds (Massachusetts Information Technology Center Project - 1993 Issue) (the "Chelsea Bonds"). The proceeds of the Chelsea Bonds were loaned to MIFA and applied to the cost of the acquisition, construction and equipping of a 419,000 gross square foot office building to be known as the Massachusetts Information Technology Center, which will be used as a tax processing facility of the Department of Revenue ("DOR") of the Commonwealth and a data processing information system center for DOR and certain other departments and agencies of the Commonwealth. The Chelsea Bonds bear interest at a variable

rate and MIFA has entered into an interest rate swap agreement with respect to the full amount of the Chelsea Bonds pursuant to which MIFA will receive variable rate payments equal to the interest due on the Chelsea Bonds and be obligated to make fixed rate payments in exchange therefor. Simultaneously with the issuance of the Chelsea Bonds, the Commonwealth entered into a 30-year lease with MIFA which provides for the payment of debt service on the Chelsea Bonds and other expenses and costs associated with the Project. The obligations of the Commonwealth do not constitute a general obligation or a pledge of the full faith and credit of the Commonwealth and are subject to annual appropriation by the Legislature. The Chelsea Bonds are limited obligations of the City and do not constitute a debt or pledge of the faith and credit of the City.

OTHER COMMONWEALTH LIABILITIES

Retirement Systems and Pension Benefits

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

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

The systems were originally established as "pay-as-you-go" systems, meaning that amounts were appropriated each year to pay current benefits, and no provision was made to fund currently the future liabilities already incurred. In fiscal 1978 the Commonwealth began to address the unfunded liabilities of the two state systems by making appropriations to pension reserves. Prior to the establishment of the pension funding program described below, the Commonwealth appropriated approximately \$680 million to the pension reserves during the mid-1980's, in addition to the pay-as-you-go pension costs during those years. As of December 31, 1993 the state's pension reserves, now administered by the Pension Reserves Investment Management Board, had grown to approximately \$4.124 billion. Under current law the pension reserves receive monies from excess earnings (i.e., earnings above the level credited to member accounts) in the retirement systems, withdrawal penalties on members leaving government employment with less than ten years of service and any amounts from the funding schedule described below in excess of pension payments.

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

Funding schedules are required to be filed with the Legislature triennially on March 1 and are subject to legislative disapproval. The current funding schedule, which has been approved by the Legislature, was filed on

March 1, 1991. If a schedule is not approved by the Legislature, payments are to be made in accordance with the most recent approved schedule; such payments must, however, at least equal the prior year's payments. The Commonwealth is contractually obligated to the members of the affected retirement systems to make appropriations in accordance with the funding schedule.

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

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

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

<u>Fiscal Year</u>	<u>Payments</u>	<u>Fiscal Year</u>	<u>Payments</u>
1994	\$ 806,584	2012	\$2,308,379
1995	852,121	2013	2,452,220
1996	900,546	2014	2,605,910
1997	952,059	2015	2,770,155
1998	1,006,873	2016	2,945,717
1999	1,065,218	2017	3,133,409
2000	1,127,339	2018	3,334,109
2001	1,193,502	2019	3,548,755
2002	1,263,987	2020	3,778,359
2003	1,339,100	2021	4,024,002
2004	1,419,166	2022	4,286,850
2005	1,504,533	2023	4,568,153
2006	1,595,576	2024	4,869,251
2007	1,715,338	2025	5,191,587
2008	1,818,970	2026	5,536,710
2009	1,929,575	2027	5,906,280
2010	2,047,650	2028	6,302,086
2011	2,173,727		

SOURCE: Division of Public Employee Retirement Administration.

The funding schedule is based on actuarial valuations of the state employees' and teachers' retirement systems and the State-Boston retirement system as of January 1, 1990 and on a cost of living allowance valuation as of July 1, 1987. The valuation results were brought forward to January 1, 1990 for cost of living adjustment benefits. The unfunded actuarial accrued liability, as of January 1, 1990, relative to the two state systems, to Boston teachers and to cost-of-living allowances for local systems is reported in the schedule to be \$8.438 billion, \$427 million and \$2.004 billion, respectively, for a total unfunded actuarial liability of \$10.869 billion. Such valuations are based on actuarial assumptions described in the March 1, 1991 schedule, including future investment earnings at the rate of 8% per year, an annual inflation rate of 4.5%, annual salary increases at the rate of 6% and annual cost-of-living increases for pensioners at the rate of 3%. Actual cost-of-living adjustments for fiscal 1989, 1990 and 1991 were, respectively, 4%, zero and zero. The Legislature authorized 5% cost of living adjustments, effective January 1, 1992, for the remainder of fiscal 1992 and fiscal 1993. On September 16, 1992 the Legislature overrode the Governor's veto of appropriations funding these adjustments for fiscal 1993. Fiscal 1993 spending authority was increased by \$60 million as a result of these adjustments. On November 17, 1992, the Legislature overrode the Governor's veto of approximately \$14.9 million of spending authority passed by the Legislature to fund 5% cost of living adjustments for certain Commonwealth, county and municipal retirees for the period January 1, 1992 through June 30, 1992. This spending authority is included within fiscal 1992 pension expenditures. "Actuarial accrued liability," as used above, is the estimated present value of all benefits to be paid to existing

pensioners and current employees less the present value of the future normal costs associated with such employees. The "unfunded" liability is the amount by which the actuarial accrued liability exceeded accumulated assets set aside therefor and represents the present value of the amount that would have to be contributed in the future in addition to normal costs in order for the liability to be fully funded.

As stated above, annual payments under the funding schedule through fiscal 1998 must be at least equal to the total estimated pay-as-you-go benefit cost in such year. As a result of this requirement, the funding requirement will be increased for fiscal 1994 to an estimated \$844 million. Estimates for succeeding years are not available.

An actuarial valuation as of January 1, 1993 has been completed, which shows that as of such date, the total unfunded actuarial liability of the Commonwealth's state employees' and teachers' retirement systems and the Boston teachers' retirement system and of cost-of-living allowances for local systems was approximately \$9.651 billion, which represents a reduction of approximately \$1.217 billion from the January 1, 1990 total unfunded actuarial liability. This reduction is attributable to asset growth, work force reduction and improved data.

Long Term Rental Leases

In addition to Commonwealth owned buildings and facilities, the Commonwealth leases additional space from private parties. In fiscal 1993, rental expenditures under these operating leases totalled approximately \$86.9 million. Minimum future rental expenditure commitments of the Commonwealth under operating leases in effect at June 30, 1993 are set forth below. These amounts represent expenditure commitments of both budgeted and non-budgeted funds.

**Rental Expenditure Commitments
June 30, 1993(1)
(in thousands)**

<u>Fiscal Year</u>	<u>Rental Expenditure Commitments</u>
1994	\$ 79,098
1995	60,259
1996	43,271
1997	8,844
1998	4,109
1999 and thereafter	<u>9,520</u>
	<u>\$205,101</u>

SOURCE: Office of the Comptroller.

(1) The most recently available information.

Long Term Capital Leases

In certain circumstances, the Commonwealth has acquired certain types of capital assets under long term lease/purchase agreements. Typically, these lease/purchase agreements relate to computer and telecommunications equipment, and to motor vehicles.

Long term total principal and interest obligations at June 30, 1993 related to lease/purchase agreements and tax-exempt Certificates of Participation (COPs) are as follows:

Lease/Purchase and COP Obligations
June 30, 1993(1)
(in thousands)

<u>Fiscal Year</u>	<u>Lease/Purchase</u>	<u>COPs</u>	<u>Total</u>
1994	\$23,831	\$ 2,671	\$26,502
1995	15,208	2,668	17,876
1996	8,393	2,670	11,063
1997	3,648	2,671	6,319
1998	2,769	2,668	5,437
1999 and thereafter	<u>8,498</u>	<u>5,344</u>	<u>13,842</u>
	<u>\$62,347</u> (2)	<u>\$18,692</u> (2)	<u>\$81,039</u>

SOURCE: Office of the Comptroller.

- (1) The most recently available information.
(2) As of June 30, 1993, the principal amounts of these obligations were \$50,685,000 and \$14,653,000 for lease/purchase and COPs, respectively.

Water Pollution Abatement Trust

The Commonwealth organized the Massachusetts Water Pollution Abatement Trust (the "Trust") in July, 1989 to issue debt obligations for purposes of funding loans to local governmental units to finance water pollution abatement projects in conjunction with state revolving loan fund programs established under Title VI of the Federal Clean Water Act. Debt service payments on loans made by the Trust for eligible costs of the projects are subsidized by funds available to the Trust to result in each loan being the financial equivalent of a grant to the borrower of at least 25% of the eligible costs of the project.

On October 8, 1992, the Governor approved Chapter 203 of the Acts of 1992 ("Chapter 203") which amended the legislation that established the Trust. Chapter 203 reduced to \$122.3 million from \$1.43 billion, the Commonwealth's authorization to issue its general obligation bonds or notes to capitalize the state revolving fund, pay administrative expenses associated with the Trust's programs and subsidize and secure local governmental units' obligations to the Trust. In addition to providing state funds to capitalize the Trust, Chapter 203 also directs the State Treasurer to enter into contract assistance agreements with the Trust to provide payments from the Commonwealth to the Trust of up to \$20 million per fiscal year through fiscal year 2025 in order to provide moneys to the Trust to make loan subsidies in excess of the minimum 25% grant equivalency. Such agreements and the Trust's right to receive payments thereunder may be pledged by the Trust as security for repayment of the Trust's debt obligations.

In March, 1993, the Trust issued approximately \$148 million of its revenue bonds to fund loans to the MWRA to finance costs of its Boston Harbor treatment facility and in July, 1993, the Trust issued an additional \$91.1 million of revenue bonds to fund loans to twenty-one other cities, towns and public authorities in the Commonwealth. On January 6, 1994, the Trust issued approximately \$87 million of revenue bonds for a loan to MWRA. During the remainder of fiscal year 1994, the Trust intends to issue approximately \$90 million of additional revenue bonds for loans to other governmental units. In addition to revenue bond financed loans, the Trust has also issued commitments to the City of New Bedford for direct loans aggregating approximately \$167 million to finance the city's new wastewater treatment facility and to date has funded approximately \$72 million of the loans. The Trust intends to refinance its loans to New Bedford with revenue bonds to be issued by the Trust in fiscal year 1996 or 1997.

Under Chapter 203, each of the loans made by the Trust to date or for which it has issued a loan commitment will provide for contract assistance and other subsidies sufficient to result in the loan being the financial equivalent of a grant to the borrower of between 25% and 90% of the eligible cost of the project. Financial assistance in excess of 25% (or approximately 50% in the case of direct loans to New Bedford) is provided through contract assistance payments from the Commonwealth.

School Building Assistance

The school building assistance program was established in 1948 to promote the planning and construction of school buildings and the establishment of consolidated and regional schools in the Commonwealth. Under this program, cities, towns, regional school districts and the three counties that maintain agricultural schools can obtain reimbursements from the Commonwealth for a portion of the construction costs (including any interest expense from indebtedness incurred) of approved school projects. With the exception of grants to assist cities, towns and regional school districts in the elimination of racial imbalance, the reimbursement percentage varies by municipality and may range from 50% to 90% of total construction costs. School projects for the purpose of eliminating racial imbalance are eligible for 90% reimbursement. Grants are usually payable over a period of up to 20 years to defray a portion of the debt service on city, town, district or county bonds issued to pay construction costs. Payment is made to cities, towns, regional school districts and counties from amounts annually appropriated for the school building assistance program. The following table shows the amount of the Commonwealth's obligation to pay such grants as of June 30, 1993.

School Building Assistance Obligations (in thousands)

<u>Fiscal Year</u>	<u>Budgeted School Building Assistance Obligations</u>	<u>Fiscal Year</u>	<u>Budgeted School Building Assistance Obligations</u>
1994	\$161,779,437	2004	\$95,282,682
1995	150,507,026	2005	93,755,400
1996	138,992,379	2006	89,143,519
1997	131,190,549	2007	85,490,223
1998	120,340,831	2008	81,011,519
1999	112,636,287	2009	75,129,962
2000	109,802,225	2010	67,769,451
2001	106,269,714	2011	53,564,407
2002	102,849,394	2012	30,942,935
2003	100,613,032	2013	<u>21,976,672</u>
		Total	<u>\$1,929,047,644</u>

SOURCE: Department of Education, School Facilities Service Bureau.

Unemployment Compensation Trust Fund

The assets and liabilities of the Commonwealth Unemployment Compensation Trust Fund are not assets and liabilities of the Commonwealth. See "Exhibit A - Economic Information" under the heading "Unemployment Compensation Trust Fund".

LITIGATION

There are pending in state and federal courts within the Commonwealth and in the Supreme Court of the United States various suits in which the Commonwealth is a party. In the opinion of the Attorney General, no litigation is pending or, to his knowledge, threatened which is likely to result, either individually or in the aggregate, in final judgments against the Commonwealth that would affect materially its financial condition.

Commonwealth Programs and Services. From time to time actions are brought against the Commonwealth by the recipients of governmental services, particularly recipients of human services benefits, seeking expanded levels of services and benefits and by the providers of such services challenging the Commonwealth's reimbursement rates and methodologies. To the extent that such actions result in judgments requiring the Commonwealth to provide expanded services or benefits or pay increased rates, additional operating and capital expenditures might be needed to implement such judgments. In June, 1993, in an action challenging the Commonwealth's funding of public primary and secondary education systems on both federal and state constitutional grounds *Webby v. Dukakis*

(Supreme Judicial Court for Suffolk County No. 78-179) (now known as *McDuffy v. Robertson*, Supreme Judicial Court for Suffolk County No. 90-128), the Supreme Judicial Court ruled that the Massachusetts Constitution imposes an enforceable duty on the Commonwealth to provide adequate public education for all children in the Commonwealth and that the Commonwealth is not currently fulfilling this constitutional duty. However, the court also ruled that no present statutory enactment is to be declared unconstitutional. The court further ruled that the Legislature and Governor are to determine the necessary response to satisfy the Commonwealth's constitutional duty, although a single justice of the court may retain jurisdiction to determine whether, within a reasonable time, appropriate legislative action has been taken. It cannot now be determined what action, if any, the plaintiffs in *McDuffy* may take in response to this decision or whether the court will order any further relief. *Massachusetts Hospital Association v. Rate Setting Commission* (Suffolk Superior Court No. 89-3215) challenges an element of the Medicaid rate setting methodology for hospitals. On October 12, 1993, the case was settled with the hospital association and most acute hospitals, thereby reducing the Commonwealth's potential liability in the pending case or in related rate appeals to approximately \$15 million.

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

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

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

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

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

by the deadline. The Court has not as yet responded to this information. The MWRA currently projects that the total cost of construction of the wastewater facilities required under the Court's order is approximately \$3.5 billion in current dollars. Under the Clean Water Act, the Commonwealth may be liable for any costs of complying with any judgment in these or any other Clean Water Act cases to the extent the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment.

Two actions were filed arguing that the remedial plan for the Boston Harbor cleanup project will jeopardize endangered species and should be halted or further remedial measures should be taken. The District Court has entered judgment for the defendants and the plaintiffs have appealed. *Greenworld Inc. et al. v. Brown et al.* (U.S. District Court C.A. No. 93-10623-MA); *The Bays' Legal Fund v. Browner* (U.S. District Court C.A. No. 93-10883-MA).

Taxes and Other Revenues. In *American Trucking Assns. et al. v. Nessen et al.* (Suffolk Superior Court No. 91-7048) plaintiffs challenge two fees imposed on trucks, arguing that they violate the Commerce Clause of the Constitution of the United States. In May, 1993, the Supreme Judicial Court struck down, on Commerce Clause grounds, several fees imposed on interstate motor carriers operating in the Commonwealth. The court remanded the case to the Superior Court to determine the appropriate remedy. Refunds will be limited to fees paid on or after November 15, 1988 and may be limited to the discriminatory portion (rather than the entirety) of the fees in question.

Massachusetts Wholesalers of Malt Beverages v. Commonwealth (Suffolk Superior Court No. 90-1523) is a suit brought by associations of bottlers challenging the 1990 amendments to the bottle bill which escheat abandoned deposits to the Commonwealth. Plaintiffs claim a taking; the Commonwealth claims legitimate regulation of abandoned amounts. The case involves about \$22 million annually, from January, 1990 (i.e., approximately \$80-90 million total) plus certain amounts in deposit transaction funds and claimed interest. In March of 1993, the Supreme Judicial Court upheld the amendments except for the initial funding requirement, which the Court held severable. The parties are now trying to determine the practical effect of the ruling.

In addition, there are several tax cases pending which could result in significant refunds if taxpayers prevail. It is the policy of the Attorney General and the Commissioner of Revenue to defend such actions vigorously on behalf of the Commonwealth, and the descriptions that follow are not intended to imply that the Commissioner has conceded any liability whatsoever. Such matters include a case involving whether capital gains taxation on a stock sale may be avoided by assigning the stock to Delaware corporations on the day before the sale. A decision in favor of the taxpayer was issued by the Appellate Tax Board on August 31, 1990. The Appeals Court reversed that decision on December 18, 1992. However, the Supreme Judicial Court granted further appellate review and on December 14, 1993, the Court issued a decision affirming the Appellate Tax Board's decision in favor of the taxpayer. On December 28, 1993, the Supreme Judicial Court denied the Commissioner's petition for rehearing. Approximately \$46 million in taxes and interest was at issue. *Koch v. Commissioner of Revenue*, SJC No. 6190. In *BayBank, et al. v. Commissioner of Revenue*, the banks challenge the inclusion of income from tax exempt obligations in the measure of the bank excise tax. The Appellate Tax Board issued a finding of fact and report in favor of the Commissioner of Revenue on September 30, 1993. An appeal has been taken to the Appeals Court and the banks have applied for direct appellate review with the Supreme Judicial Court. Approximately \$400 million is at issue. A.T.B. Docket 140012. Approximately \$150 million in taxes and interest in the aggregate are at issue in seven other cases pending before the Appellate Tax Board or on appeal to the Appeals Court or the Supreme Judicial Court.

On June 23, 1993 the Commonwealth filed an appeal with the Appeals Court from a decision of the Appellate Tax Board which held in favor of a commercial bank on the calculation of amounts owed for bank excise taxes under statutes in effect in 1983 and 1984 when such bank converted from chartered mutual savings bank status to that of a bank corporation of stockholder form. The bank has filed an application for direct appellate review by the Supreme Judicial Court which has been granted. However, one of the two issues has been settled and refunds have been issued. Potential liability if the bank ultimately prevails on the remaining issue could reach approximately \$10 million if applied to similarly situated banks. *South Boston Savings Bank v. Commissioner of Revenue* (Appeals Court No. 93-P-837).

Other Fiscal Matters. In *County of Barnstable et al. v. Commonwealth* (Suffolk Superior Court No.90-7439B) twelve Massachusetts counties seek reimbursement from the Commonwealth for the costs of courthouse maintenance on the theory that the state is required to pay them the amount of money necessary to maintain their courthouses at the "constitutional minimum" for the adequate provision of justice. The Supreme Judicial Court denied a request for an injunction to pay the sums sought and has referred the matter to the Superior Court for fact finding. The parties are working toward a stipulation of facts. The cases of four of the twelve counties have been dismissed.

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

Liability Investigative Fund Effort, Inc. et al. v. Commonwealth of Massachusetts et al., No. 89-949 (Hampden Superior) and *Slocum v. Medical Malpractice Joint Underwriting Association of Massachusetts, et al.*, No. 89-2101 (Hampden Superior) are two actions (one a purported class action) brought by plaintiff physicians against the Commonwealth, the Commissioner of Insurance and the Medical Malpractice Joint Underwriting Association ("JUA") seeking declarations that the deficit recoupment statute, St. 1975, 362, §6, and the deferred premium liability statute, St. 1986, c. 351, §38, are unconstitutional to the extent they authorize collection of "retroactive premiums" by the JUA. The plaintiffs are seeking restitution of those amounts, allegedly totalling approximately \$200 million for the class. It appears that the claim for restitution runs only against the JUA, which collected the premiums, but the complaints are not clear on this point. In 1991, the Supreme Judicial Court reversed the Superior Court's dismissal of the complaints. In 1992, the Superior Court denied plaintiffs' motion for class certification, and in 1993, the Superior Court granted summary judgment and entered judgment for the defendants. The plaintiffs appealed and on December 15, 1993, the Supreme Judicial Court allowed their application for direct appellate review.

MISCELLANEOUS

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

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

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

CONTINUING DISCLOSURE

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

The Commonwealth prepares its Comprehensive Annual Financial Report ("CAFR") with respect to each fiscal year ending June 30, which become available in January of the following fiscal year. Copies of the CAFR

and other financial reports of the Comptroller referenced in this document may be obtained by requesting the same in writing from the Office of the Comptroller, The Commonwealth of Massachusetts, One Ashburton Place, Room 909, Boston, Massachusetts 02108.

AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding this Information Statement or requests for additional information concerning the Commonwealth should be directed to Kenneth Olshansky, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th Floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or Howard Merkowitz, Assistant Budget Director, Budget Bureau, Executive Office for Administration and Finance, State House, Room 272, Boston, Massachusetts 02133, telephone (617) 727-2081. Questions regarding legal matters relating to this Information Statement should be directed to Walter J. St. Onge, III, Esq., Palmer & Dodge, One Beacon Street, Boston, Massachusetts 02108, telephone (617) 573-0100.

THE COMMONWEALTH OF MASSACHUSETTS

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

By /s/ Mark E. Robinson
Mark E. Robinson
Secretary for Administration and Finance

February 17, 1994

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ECONOMIC INFORMATION

This section provides certain information concerning the economic and financial condition of the Commonwealth. The demographic information and statistical data, which have been obtained from the sources indicated, do not necessarily present all factors which may have a bearing on the Commonwealth's fiscal and economic affairs.

All information is presented on a calendar-year basis unless otherwise indicated. Sources of information are indicated in the text or immediately following the charts and tables. Although the Commonwealth considers the sources to be reliable, the Commonwealth has made no independent verification of the information presented herein and does not warrant its accuracy. Certain information contained in this Exhibit has been compiled with the assistance of the Massachusetts Institute for Social and Economic Research ("MISER"), at the University of Massachusetts at Amherst.

OVERVIEW

Population. Massachusetts experienced a modest increase in population between 1980 and 1990. The 1990 U.S. census count is 6,016,425 or 4.9% more than the 5,737,093 counted in 1980. In contrast, the total United States population increased by approximately 9.8% over the same period. According to the 1990 U.S. census, the City of Boston experienced a small population increase of 2.0% from 562,994 in 1980, to 574,283 in 1990. The Boston-Washington corridor, which includes the states of Massachusetts, Rhode Island, Connecticut, New York, New Jersey, and Pennsylvania, is home to sixty million people, one-quarter of the entire U.S. population.

Infrastructure. Massachusetts possesses an extensive transportation system and related facilities. The City of Boston is the transportation and commercial center for New England and is the site of both a full-facility seaport and a major international airport. Boston's Logan International Airport is a major contributor to the economy of the greater Boston area, Massachusetts and the New England region. Based upon its volume of air passengers served, Logan Airport ranks first in New England, ninth in the United States, and fourteenth in the world, according to the Massachusetts Port Authority ("Massport") 1991 Annual Report. In 1990, Logan Airport served nearly 23 million arriving and departing passengers, more than double the number served in 1975. For the same period, Logan Airport ranked eleventh nationally and twenty-fourth in the world in total air cargo volume, handling 310 thousand metric tons of cargo and mail. Massachusetts has several deep-water seaports. In 1990, the Port of Boston handled almost 22 million tons of cargo, valued at more than \$8 billion.

The state is also well served by the federal interstate highway system, including interstate routes 84, 90, 91, 93, 95, 295 and 495. Rail and trucking systems provide direct overland shipping throughout the United States and Canada.

Human Resources. Skilled human capital is the foundation of Massachusetts' economic strength, providing the basis for a technologically dynamic and industrially diverse regional economy. The concentration of technical, engineering, managerial, scientific and other professional skills within the Massachusetts work force is, in part, due to the 120 private and public colleges and universities located throughout the state. The largest and best known of these institutions include Amherst College, Boston College, Boston University, Clark University, Harvard University, The College of the Holy Cross, the Massachusetts Institute of Technology, Mount Holyoke College, Northeastern University, Smith College, Tufts University, the University of Massachusetts, Wellesley College, and Williams College.

Economic Base. Massachusetts has a diversified economic base which includes traditional manufacturing, high technology and service industries. A substantial portion of products produced by these and other sectors are exported. Like most other industrial states, Massachusetts has seen a shift in employment from labor-intensive manufacturing industries (i.e., textiles, apparel, shoes, paper products, etc.) to technology and service-based industries like computers, biomedical technology, consulting, health care and business services.

Today Massachusetts is a leader in research and development of biotechnology, biomedical technology,

software, robotics, and other high technology products. A large proportion of Massachusetts' total work force is employed in high technology-related jobs. Nine of the 15 Massachusetts companies listed in the 1992 Fortune 500 are engaged in the production of computer equipment, electronic components or instruments. Nonmanufacturing high technology jobs have maintained their share of total employment in the state. The concentration of world-renowned research institutions, growing biotechnology companies and computer and electronics companies, as well a large number of smaller firms, has helped make Massachusetts a national center for biotechnology and high technology industries.

Massachusetts is also home to many of the nation's most well-known hospitals and medical institutions, including Massachusetts General, Children's, and Brigham and Women's hospitals and the Lahey Clinic. The Massachusetts medical establishment is recognized internationally as a center for health services, medical teaching and research, attracting patients and health professionals from all over the world. The hospitals and other health care institutions provide a valuable link to the biomedical and biotechnical research and development activities conducted by approximately 140 biotechnology companies located in Massachusetts. Non-hospital employment in medically related research and development continues to accelerate.

Population Characteristics

Massachusetts is a densely populated urban state with a population density of 769 persons per square mile, as compared to 70.1 for the United States, according to the 1990 census. Among the 50 states, only Rhode Island and New Jersey have a greater population density.

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

Worcester is the second largest city in New England. Its service, trade, and manufacturing industries combine for more than 70% of Worcester's total employment. As a major medical and educational center, the Worcester area is home to 18 patient care facilities, including the University of Massachusetts Medical School, and twelve colleges and universities.

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

The following table compares the population growth rates of Massachusetts with those of the United States, the New England States, and the Eleven Large States (the latter two groupings are defined in footnotes one and two thereof).

**Population - 1970-1992
(in thousands)**

Mid-Year	United States		Massachusetts		New England States (1)		Eleven Large States (2)	
	Total	% Change	Total	% Change	Total	% Change	Total	% Change
1970	203,799	--	5,704	--	11,878	--	116,873	--
1975	215,457	5.7	5,762	1.0	12,176	2.5	122,399	4.7
1980	227,255	5.5	5,743	(0.4)	12,368	1.6	127,932	4.5
1981	229,457	1.0	5,768	0.4	12,435	0.5	129,219	1.0
1982	231,669	1.0	5,771	0.1	12,468	0.3	130,576	1.1
1983	233,806	1.0	5,800	0.5	12,545	0.6	131,933	1.0
1984	235,847	0.9	5,841	0.7	12,643	0.8	133,184	1.0
1985	237,950	0.9	5,881	0.7	12,742	0.8	134,553	1.0
1986	240,162	0.9	5,903	0.4	12,835	0.7	136,056	1.1
1987	242,321	0.9	5,936	0.6	12,953	0.9	137,444	1.0
1988	244,534	0.9	5,981	0.8	13,086	1.0	138,823	1.0
1989	246,820	0.9	6,016	0.6	13,182	0.7	140,311	1.1
1990 (3)	249,466	1.1	6,020	0.1	13,222	0.3	141,975	1.2
1991	252,177	1.1	5,996	(0.4)	13,197	(0.2)	143,368	1.0
1992	255,082	1.2	5,998	0.0	13,200	0.0	144,853	1.0

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

- (1) Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.
(2) California, Florida, Illinois, Massachusetts, Michigan, New Jersey, New York, North Carolina, Ohio, Pennsylvania and Texas.
(3) The 1990 midyear (July 1) estimates reflect the April 1, 1990 census count and three months of estimated population change.

An estimated net out-migration of 36,000 people held 1992 Massachusetts population growth to only 2,000 people.

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

**Distribution of Population by Age
(in thousands)**

Age	1990		2000 (Projected)	
	Number	% of Total	Number	% of Total
Under 5	421	7.0	353	5.7
5 to 19	1,140	19.0	1,210	19.4
20 to 24	517	8.6	386	6.2
25 to 34	1,099	18.3	912	14.6
35 to 44	914	15.2	1,082	17.3
45 to 54	596	10.0	864	13.8
55 to 64	514	8.6	555	8.9
65 and over	815	13.5	876	14.0

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

Personal Income

Per capita personal income in Massachusetts is the third highest in the nation. Per capita personal income for Massachusetts residents, unadjusted for differentials in the cost of living, was \$23,811 in 1992, as compared to the national average of \$20,114.

The following table compares per capita personal income in Massachusetts with the United States and the New England States for the periods indicated.

**Per Capita Personal Income
1985-1992**

	<u>Massachusetts</u>	<u>% Change</u>	<u>United States</u>	<u>% Change</u>	<u>New England States</u>	<u>% Change</u>
1985	\$16,371	--	\$14,155	--	\$16,084	--
1986	17,680	8.0%	14,907	5.3%	17,323	7.7%
1987	18,998	7.5	15,638	4.9	18,626	7.5
1988	20,638	8.6	16,615	6.2	20,159	8.2
1989	21,818	5.7	17,696	6.5	21,347	5.9
1990	22,434	2.8	18,668	5.5	22,035	3.2
1991	22,870	1.9	19,169	2.7	22,439	1.8
1992	23,811	4.1	20,114	4.9	23,488	4.7

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

Cost of Living

While per capita personal income is, on a relative scale, higher in Massachusetts than in the United States as a whole, this is offset to some extent by the higher cost of living in Massachusetts.

The following table presents information on consumer price trends for the Boston metropolitan area and the United States for the period between 1985 and 1991. Data for 1993 indicates that between November 1992 and November 1993, the consumer price index for all urban consumers in the Boston metropolitan area grew at the rate of 2.7%, while the consumer price index for the United States, over the same period, also grew at the rate of 2.7%.

**Changes in Consumer Price Index for All Urban Consumers
All Items**

	<u>United States</u>	<u>Boston Metro</u>
1985	3.6%	4.5%
1986	1.9	2.6
1987	3.7	4.4
1988	4.1	6.1
1989	4.8	5.7
1990	5.4	5.8
1991	4.2	4.4
1992	3.0	2.5
1993(1)	2.7	2.7

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

(1) Represents twelve month period between November, 1992 and November, 1993.

Employment

The Massachusetts service sector, at 33% of the work force in 1992, is the largest sector in the Massachusetts economy. In the nation as a whole, about 26% of all jobs are in the service sector. Government employment is below the national average, representing less than 14% of the Massachusetts work force. The construction, manufacturing and trade sectors experienced the greatest decreases between 1989 and 1992, with more modest declines taking place in the government; finance, insurance and real estate ("FIRE"); and services sectors over the same period. More recently, employment has shown positive growth.

The table below demonstrates the changes in employment by sector.

**Massachusetts Employment by Industry -- Annual Averages
(in thousands)**

	<u>1990(1)</u>	<u>1989-1990 % Change</u>	<u>1991(1)</u>	<u>1990-1991 % Change</u>	<u>1992(1)</u>	<u>1991-1992 % Change</u>
Total Nonagricultural Employment	2,984.8	(4.0)	2,821.2	(5.5)	2,778.3	(1.5)
Sector						
Mining	1.4	(12.5)	1.2	(14.3)	1.1	(8.3)
Construction	101.1	(20.3)	78.8	(22.7)	72.1	(8.5)
Manufacturing	521.3	(7.1)	485.0	(7.0)	462.1	(4.7)
Transportation & Communications	129.9	1.2	123.4	(5.0)	120.3	(2.5)
Wholesale and Retail Trade	700.1	(5.5)	650.6	(7.1)	641.3	(1.4)
FIRE	213.3	(1.8)	201.8	(5.4)	195.9	(2.9)
Services	915.7	(0.9)	890.5	(2.8)	907.3	1.9
Government	402.2	(1.6)	389.9	(3.1)	378.3	(3.0)
Civilian Labor Force	3,166.0	(0.4)	3,127.0	(1.2)	3,126.0	(0.0)
Unemployed	189.0	48.8	280.0	48.1	265.0	(5.4)
Unemployment Rate	6.0%		9.0%		8.5%	

SOURCE: Massachusetts Department of Employment and Training.

(1) Sum of parts may not equal totals due to rounding.

Nonagricultural employment in November 1993 totaled 2,814,100, as compared to 2,801,400 for October 1993 and 2,802,800 for November 1992. The following table presents changes in nonagricultural employment by sector for November 1992 and November 1993. The most recent data indicates that total nonagricultural employment increased by 0.4% between November 1992 and November 1993.

**Massachusetts Employment by Industry -- Monthly Averages
(in thousands)**

	November <u>1992</u>	% of <u>Total</u>	November <u>1993(1)</u>	% of <u>Total</u>	% Change Between November 1992 and November 1993
Total Nonagricultural Employment	2,802.8	100.0	2,814.1	100.0	0.4
Sector					
Construction	77.9	2.8	82.5	2.9	5.9
Manufacturing	458.4	16.4	440.6	15.7	(3.9)
Transportation & Communications	122.4	4.4	119.9	4.3	(2.0)
Wholesale & Retail Trade	651.9	23.3	653.5	23.2	0.2
FIRE	194.6	6.9	192.9	6.9	(0.9)
Services	917.2	32.7	943.1	33.5	2.8
Government	379.2	13.5	380.4	13.5	0.3
High Tech Manufacturing	177.8	6.3	163.8	5.8	(7.9)
High Tech Non-Manufacturing	91.4	3.3	92.7	3.3	1.4
Civilian Labor Force (2)	3,129.0		3,158.0		0.9
Unemployed (2)	277.0		207.0		(25.3)
Unemployment Rate (2)	8.9		6.6		
Average Weekly Earnings (dollars)					
Manufacturing	508.0		516.3		1.6

SOURCE: Massachusetts Department of Employment and Training and US Department of Labor, Bureau of Labor Statistics.

(1) Sum of the parts may not equal totals due to rounding.

(2) Figures are seasonally adjusted.

Business and Employment Base

The following table contains, in alphabetical order, the 25 largest non-governmental sector employers in Massachusetts as of June 1992.

**Commonwealth of Massachusetts
Twenty-Five Largest Non-Governmental Massachusetts Employers**

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

SOURCE: Massachusetts Department of Employment and Training.

As indicated in the following table, the commercial base of Massachusetts is anchored by the 15 Fortune 500 industrial firms headquartered within the state. The Fortune 500 firms are ranked according to total sales.

Massachusetts Companies in Fortune 500

<u>Ranking</u>		<u>Company</u>	<u>Industry</u>	<u>1992 Sales</u>	<u>1991 Sales</u>
<u>1992</u>	<u>1991</u>			<u>\$ Millions</u>	<u>\$ Millions</u>
27	28	DIGITAL EQUIPMENT (Maynard)	Computer Equipment	\$14,027.0	\$14,024.2
54	51	RAYTHEON (Lexington)	Electronic Components	9,118.9	9,355.5
104	107	GILLETTE (Boston)	Personal Care Products/Cutlery	5,190.1	4,705.6
170	167	EG & G (Wellesley)	Instruments	2,788.8	2,127.1
211	203	POLAROID (Cambridge)	Photographic Equipment	2,168.2	2,096.0
225	201	WANG LABORATORIES (Lowell) (1)	Computer Equipment	1,909.5	2,691.3
264	256	CABOT (Waltham)	Chemical Products	1,562.2	1,579.9
307	292	AMOSKEAG (Boston)	Financial Services	1,247.9	1,244.4
328	295	DATA GENERAL (Westboro)	Computer Equipment	1,127.0	1,237.0
336	346	OCEAN SPRAY (Lakeville)	Food Products	1,090.8	946.0
342	-	SEABOARD (Chestnut Hill)	Agribusiness	1,060.7	-
361	385	THERMO ELECTRON (Waltham)	Instruments	975.3	830.1
419	412	MILLIPORE (Bedford)	Instruments	777.0	748.0
421	-	KENDALL INTERNATIONAL (Mansfield)	Medical Products	774.9	-
425	424	STANHOME (Westfield)	Home Products	744.1	710.2

SOURCE: *Fortune Magazine*, April 19, 1993.

(1) Filed for reorganization under Chapter 11 of the United States Bankruptcy Code on August 18, 1992.

The following table shows the average monthly new business incorporations for 1987 through 1991 for Massachusetts, New England and the United States.

New Business Incorporations Monthly Averages 1988-1992

	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
Massachusetts	1,366	1,171	1,037	976	1,016
New England	3,353	2,967	2,606	2,406	2,389
United States	56,940	56,587	53,449	52,487	55,729

SOURCE: Department of Economic Analysis, *New Business Incorporations*, Dunn & Bradstreet, and the Federal Reserve Bank of Boston.

Massachusetts is experiencing mild growth in new businesses. According to Dunn & Bradstreet, in June 1993, 1,135 new businesses were incorporated in the Commonwealth, as compared to 1,023 in June 1992. Furthermore, in the first half of 1993, 6,635 new businesses were incorporated, an increase of 3.8% over the first half of 1992, when 6,322 new businesses were incorporated. New England as a whole saw an increase in new business incorporations of 7.8% during the first half of 1993 over the first half of 1992.

Some businesses in Massachusetts are failing, however. According to Dunn & Bradstreet, 2,547 businesses have failed in Massachusetts between January 1993 and November 1993, while 2,820 businesses failed during the equivalent period in 1992. The average for the six New England states for the same period a 12.9% decrease in business failures over the same two periods; from 5,729 in 1992 to 4,988 in 1993.

Labor Force

Massachusetts' labor force participation rate is higher than the national rate. In 1992, 67.5% of non-institutional working-age Massachusetts residents were in the labor force. This is 1.2% higher than the equivalent national rate. During the mid-1980s when the state's unemployment rate dropped below 3%, there was concern that Massachusetts' high labor force participation rate might exacerbate the upward pressure on wages. During the current economic downturn, however, the high labor force participation rate provides a modest damper on the effective familial impact of unemployment -- many of those unemployed are members of households with more than one worker. The presence of additional, employed workers in the family lessens the impact of unemployment on those workers who find themselves unemployed.

The availability of skilled labor is an important resource for Massachusetts industries. The higher education system is particularly strong in post-graduate, scientific and technical education. The strength of the Massachusetts higher education system is evidenced by the draw it has upon new students. According to the New England Board of Higher Education (NEBHE), almost twice as many new students migrated into the Massachusetts higher education system as migrated out in 1988. The strength of the Commonwealth's educational institutions is also reflected in the large number of degrees awarded. The following table shows the number of Massachusetts graduates with science and engineering degrees as a percentage of the entire United States population. Note that the figures are particularly strong for doctoral degrees.

Science and Engineering Degrees Conferred As a Percent of U.S. Total: 1989

		<u>Massachusetts</u>
<u>Baccalaureate:</u>	Mathematics	4.0%
	Physical Science	4.2
	Engineering	5.0
<u>Master's:</u>	Mathematics	4.2
	Physical Science	4.5
	Engineering	7.4
<u>Ph.D.'s:</u>	Mathematics	7.6
	Physical Science	6.7
	Engineering	7.0

SOURCE: NEBHE analysis of U.S. Department of Education data.

Massachusetts population as a percent of U.S. total equals 2.4%.

Unemployment

From 1980 to 1989, Massachusetts' unemployment rate was significantly lower than the national average. By 1990, however, unemployment reached 6.0% and for the first time since 1977, the Commonwealth's unemployment rate exceeded the national average. The Massachusetts unemployment rate peaked in 1991 at 9.0% and dropped to 6.9% in 1993.

The Massachusetts unemployment rate in January 1994 was 7.2%, while the United States unemployment rate was 6.7%. The January 1994 estimates were produced using a redesigned Current Population Survey questionnaire and collection methodology. Comparisons between 1994 data and data for earlier months are not advisable. However, in using the prior methodology, the Massachusetts unemployment rate in December 1993 was 6.2%, as compared to 6.4% for November 1993 and 8.0% for January 1993. The United States unemployment rate in December 1993 was 6.4%, as compared to 6.5% for November 1993 and 7.1% for January 1993.

The following table compares the annual unemployment averages of Massachusetts and the United States

on an absolute basis and as a percentage of the total civilian labor force for each of the years indicated. It also shows a comparison of Massachusetts rates to United States rates for each of the years indicated.

**Annual Average Civilian Labor Force, Unemployment and
Unemployment Rates for Massachusetts and United States,
1980-1993
(in thousands)**

Year	Civilian Labor Force		Unemployment		Unemployment Rate		Mass. Rate as % of U.S. Rate
	Mass.	U.S.	Mass.	U.S.	Mass.	U.S.	
1980	2,867	106,940	162	7,637	5.6%	7.1%	78.9
1981	2,947	108,670	187	8,273	6.4	7.6	84.2
1982	2,993	110,204	237	10,678	7.9	9.7	81.4
1983	2,977	111,550	205	10,717	6.9	9.6	71.9
1984	3,047	113,544	145	8,539	4.8	7.5	64.0
1985	3,051	115,461	120	8,312	3.9	7.2	54.2
1986	3,058	117,834	118	8,237	3.8	7.0	54.3
1987	3,086	119,865	99	7,425	3.2	6.2	51.6
1988	3,155	121,669	103	6,701	3.3	5.5	60.0
1989	3,180	128,869	127	6,528	4.0	5.3	75.5
1990	3,224	124,787	193	6,874	6.0	5.5	109.1
1991	3,166	125,303	284	8,426	9.0	6.7	134.3
1992	3,149	126,983	267	9,384	8.5	7.4	114.9
1993	3,170	128,103	217	8,714	6.9	6.8	101.5

SOURCE: Massachusetts Department of Employment and Training; United States Department of Labor, Bureau of Labor Statistics.

Unemployment Compensation Trust Fund

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

The Commonwealth has exhausted the reserves in the Unemployment Compensation Trust Fund due to the continued high levels of unemployment. When a state unemployment trust fund exhausts all available reserves the federal unemployment loan account advances the funds needed to continue the payment of benefits. If a state has outstanding advances on January 1 for two successive years, the rate of federal employer contributions is gradually increased to repay the advances. The federal unemployment contribution would increase .3% on the first \$7,000 earned per employee each year that such advances are outstanding.

Since the last quarter of 1991, benefit payments in excess of contributions have been financed through repayable advances from the federal unemployment loan account. Legislation enacted in 1992 significantly increased employer contributions in order to reduce advances from the federal loan account and the Department of Employment and Training estimates that 1993 revenues will exceed benefit payments. As of January 31, 1994, the Massachusetts Unemployment Compensation Trust Fund was in deficit by \$147 million, as compared to \$377 million as of December 31, 1992.

The Department of Employment and Training estimates that the additional increases in contributions provided by the 1992 legislation should result in a positive balance in the Unemployment Compensation Trust Fund prior to December 1994 and rebuild reserves in the system to over \$1 billion by the end of 1996.

RECENT PERFORMANCE

After declining since 1989, Massachusetts employment in 1993 has shown positive annual growth. A comparison of total nonagricultural employment in November 1992 with that in November 1993 indicates an increase of 0.4%. Per capita personal income growth has slowed, after several years during which the per capita personal income growth rate in Massachusetts was among the highest in the nation. Between the second quarter of 1992 and the second quarter of 1993, aggregate personal income in Massachusetts increased 4.0%, as compared to 5.5% for the nation as a whole.

Economic Performance by Sector

Services. The services sector is the largest sector in the economy of Massachusetts in terms of numbers of employees. The services sector includes the broad categories of health services, business services, educational services, engineering and management services, and social services. In November 1993, service sector employment was 943,100, representing 33.5% of total nonagricultural employment. Between November 1992 and November 1993, service sector employment increased 2.8%. An area with relatively high wages, business services employed 16.0% of service sector workers in November 1993. As compared with the nation, Massachusetts has a greater concentration of employment in business services.

Health Services. The health care industry continues to play an important role in the Massachusetts economy. Health services is the largest component of the service sector in terms of employment. In November 1993, the health services sector numbered 303,200 workers, with 137,100 of those employed by hospitals. This constitutes a 3.8% increase in total health service workers during the preceding year. Hospital employment increased by 1.1% for this period.

The current outlook for health services is uncertain. Per capita health care spending in Massachusetts is 25% above the national average, according to a recent study published by the Families U.S.A. Foundation, though this reflects, in part, the fact that Massachusetts health care costs are well above the national average. The high cost of health care has led to recent efforts to contain costs by businesses as well as governments. The effect of the proposed national health care reforms now being considered in Congress also cannot be predicted.

Educational Services. Massachusetts is an internationally recognized center for higher education, with approximately 418,874 students in undergraduate, professional and graduate programs, according to recent data supplied by the New England Board of Education. The number of foreign students enrolled in Massachusetts colleges and universities totals approximately 22,320 or about 5.5% of the U.S. total. The Massachusetts public higher education system is composed of universities, state colleges, and community colleges with a combined enrollment of approximately 184,700 students. The strength of both public and private colleges and universities as centers for research, teaching, and education contributes to the high quality of the Massachusetts work force and plays a key role in attracting and retaining business and industry within the state.

The preeminence of higher education in Massachusetts contributes not only to the quality of its work force, but also to its stature in the nation and the world as a center for basic scientific research and for academic and entrepreneurial research and development. For example, Massachusetts institutions have a large number of Nobel Laureates. Nationally, private industry funded only 7.1% of university research and development ("R&D") at doctorate-granting institutions in 1990. This is lower than the 9.6% figure for Massachusetts. The federal government provides funding for 72.2% of all R&D activities in Massachusetts, compared to 58.9% for the nation as a whole during the same period.

Federal funding sources reflect the diversity of the research and development work done at Massachusetts educational institutions. According to the most recent figures from the National Science Foundation, of the \$699 million total federal obligations on college and university-based research and development in fiscal 1991 in Massachusetts, 44.6% was from the Department of Health and Human Services, 17.6% was from the National Science Foundation, 15.6% was from the Department of Defense (with 14.1% in research and 1.5% in

development), 10.5% was from the Department of Energy, and 2.5% was from the Department of Agriculture.

Federal spending on research institutions in Massachusetts helps leverage the \$3.1 billion in total federal R&D obligations to Massachusetts businesses and institutions for fiscal 1991. Of this money, 60.4% was from the Department of Defense, 25% from the Department of Health and Human Services, and 4.0% from the National Science Foundation.

The Massachusetts colleges and universities are also significant employers within the state. Three of the state's private universities are among the state's 25 largest non-governmental employers. The educational services sector includes only private institutions for education; public institutions are included in the government sector. According to the Massachusetts Department of Employment and Training, educational services accounted for 130,100 jobs in November 1993, while in the government sector, state and local public education accounted for 158,700 jobs.

Trade. During the mid-1980s the trade sector was an area of strong job growth, boosted by a growing export sector. Trade employment began to decline in 1990 due to weakness in the retail sector. In November 1993, retail and wholesale trade was the second-largest employment sector in Massachusetts, with 653,500 workers. Of this number, about three-quarters were employed in retail trade.

Retail Sales. Retail sales growth in the Commonwealth outpaced national sales growth during the mid-1980s, though in more recent years this has not been the case. According to the Federal Reserve Bank of Boston, retail sales for the month of September 1993 were 5.0% above the September 1992 level. The following table sets forth annual retail sales activity for Massachusetts and the United States from 1985 through 1991.

Annual Retail Sales Activity
(adjusted for seasonal variations and trading day differences)
1985-1991 (In Millions)

	<u>Massachusetts</u>	<u>% Change</u>	<u>United States</u>	<u>% Change</u>
1985	\$35,094	--	\$1,375,027	--
1986	38,337	9.2	1,449,636	5.4
1987	40,765	6.3	1,541,299	6.3
1988	43,875	7.6	1,657,594	7.5
1989	44,857	2.2	1,762,165	6.3
1990	44,063	(1.8)	1,849,792	5.0
1991	45,245	2.7	1,865,477	0.8
1992	47,451	4.9	1,962,423	5.2

SOURCE: United States Department of Commerce.

Manufacturing. Today, like virtually all industrial states, Massachusetts has seen a steady diminution of its manufacturing job base. Between 1990 and 1991, manufacturing employment declined 7.1%, from 521,300 to 484,500. Between 1991 and 1992, manufacturing employment declined 4.7%, from 485,000 to 462,100. Manufacturing employment stood at 440,600 workers in November 1993. High technology manufacturing is in a slowdown nationally as well as in Massachusetts. As of November 1993, high technology manufacturing employed 163,800 persons. Generally, the Massachusetts manufacturing sector is made up of many small and diversified firms. Currently, about 80% of the manufacturing firms in Massachusetts employ fewer than 50 people.

The following table shows annual trends in manufacturing employment by industry for Massachusetts for 1990 through 1992.

**Manufacturing Establishment Employment by
Industry in Massachusetts
1990-1992 (in thousands)**

	<u>1990</u>		<u>1991</u>		<u>1992</u>	
	<u>Jobs(1)</u>	<u>%</u>	<u>Jobs(1)</u>	<u>%</u>	<u>Jobs(1)</u>	<u>%</u>
Durable Goods						
Primary Metals	11.3	3.3	10.3	3.2	9.3	3.1
Fabricated Metals	40.9	11.9	37.9	12.0	36.0	12.2
Industrial Machinery and Equipment	85.2	24.9	76.6	24.2	70.1	23.7
Electrical and Electronic Equipment	72.9	21.3	68.5	21.6	63.7	21.5
Transportation Equipment	27.8	8.1	26.0	8.2	24.2	8.2
Stone, Clay and Glass	8.7	2.5	7.8	2.5	7.8	2.6
Instruments	69.4	20.3	65.6	20.7	61.2	20.7
Other Durable Goods	<u>26.5</u>	<u>7.7</u>	<u>24.1</u>	<u>7.5</u>	<u>23.9</u>	<u>8.1</u>
Total Durable Goods	342.7	100.0	317.0	100.0	296.1	100.0
Non-Durable Goods						
Apparel and Related Goods	19.2	10.8	17.7	10.5	17.8	10.7
Food Products	20.1	11.3	19.6	11.7	18.9	11.4
Chemical Products	17.7	9.9	17.3	10.3	17.0	10.2
Printing and Publishing	52.2	29.2	48.9	29.1	47.5	28.6
Textile Mill Products	14.6	8.2	14.1	8.4	14.5	8.7
Paper Products	22.5	12.6	21.1	12.6	20.9	12.6
Other Non-Durable Goods	<u>32.3</u>	<u>18.1</u>	<u>29.3</u>	<u>17.4</u>	<u>29.4</u>	<u>17.7</u>
Total Non-Durable Goods	178.6	100.0	168.0	100.0	166.0	100.0
Total Manufacturing Employees	<u>521.3</u>		<u>485.0</u>		<u>462.1</u>	

SOURCE: Department of Labor, Bureau of Labor Statistics; Massachusetts Department of Employment and Training.

(1) Sum of parts may not equal totals due to rounding.

International Trade. Much of what Massachusetts produces is exported abroad. Massachusetts had \$12.2 billion in exports in 1992. This represented an increase of 2.2% in the value of exports from the previous year. Manufactured goods accounted for more than 90% of all receipts in 1992. Such a focus on production for export has given Massachusetts the fifth highest concentration of manufacturing sector jobs dependent on exports in the nation, according to the Bureau of the Census' 1987 Census of Manufacturers (the most recent data available). Three of the four states with greater concentrations border Massachusetts. According to the same report, 190,400 of Massachusetts' manufacturing jobs, which amounts to 6.4% of its civilian labor force, were dependent upon exports. Massachusetts' most important exports are industrial machinery including computer equipment, electronic and electric equipment excluding computer equipment and instruments and related products. The following chart describes the top ten manufactured exports in 1992, compared with 1991.

Massachusetts Exports Dollar Value of Ten Manufactured Shipments by Major Industry Group

<u>Majority Industry Group</u>	<u>Massachusetts</u>		<u>Percent Change 1991 - 1992</u>		
	<u>1991</u>	<u>1992</u>	<u>Mass.</u>	<u>New England</u>	<u>U.S.</u>
Total All Industries	11,891,432,633	12,157,614,431	2.2	3.6	6.1
Industrial machinery, computer equipment	4,460,085,434	4,174,019,460	(6.4)	(7.9)	5.2
Electronic, electric equip., excluding computer	2,167,372,161	2,082,088,043	(3.9)	8.0	10.1
Instruments and related products	1,796,899,213	1,848,348,302	2.9	6.3	4.8
Fabricated Metal Products	565,600,762	726,886,596	1.2	9.1	1.5
Chemicals and allied products	490,303,304	496,293,157	28.8	30.1	9.5
Transportation equipment	352,205,403	479,039,404	36.0	(3.6)	8.3
Textile mill products	199,510,625	257,271,266	29.0	31.2	7.7
Paper and allied products	194,032,653	243,108,182	20.4	16.4	11.0
Rubber and misc. plastics products	196,704,632	236,833,389	25.3	12.2	7.6
Miscellaneous	179,137,076	208,215,914	16.2	7.5	9.9

SOURCE: Data from U.S. Bureau of Census, Foreign Trade Division. Adjustments performed by MISER, University of Massachusetts at Amherst.

Massachusetts' most important trading partners for 1992 were: Canada, which purchased \$2.6 billion worth of products; Japan, which bought \$1.1 billion; Germany, which bought \$1.1 billion; and the United Kingdom, which bought \$1.1 billion. In 1992, Massachusetts exported about \$4.7 billion to the European Community ("EC"). This was about 5% of all US exports to the EC.

Finance, Insurance and Real Estate. While the Finance, Insurance and Real Estate sector experienced 23.7% growth in employment between 1984 and 1988, there was an 11.7% decrease in employment between 1988 and 1992. The total employment in FIRE was 195,900 in 1992, and 192,900 as of November 1993. One reason for the decline has been the slowdown in the real estate market, which, in turn, has contributed to the decline in the banking industry. Many banks in New England have experienced dramatic increases in troubled real estate loans. A number of Massachusetts banks have failed in recent years, including Bank of New England, N.A., Capital Bank, Eliot Savings Bank, First American Bank for Savings and Home Owners Savings Bank. Bank of New England was purchased by Fleet/Norstar Financial Group, which is based in Rhode Island. Other Massachusetts banks have also discussed the possibility of mergers with or acquisitions by non-Massachusetts banks.

Construction. Employment in the construction industry experienced dramatic growth in the first part of the 1980's, increasing by more than 70% between 1982 and 1988. This trend, however, has reversed direction, with employment in the construction industry declining between 1988 and 1991 as a result of excess supply in both the residential and commercial real estate markets. However, construction employment as of September, 1993 is up as compared to September, 1992.

The following table shows the number of housing permits authorized on an annual basis in Massachusetts and the United States. The number of Massachusetts permits increased 29.2% between 1991 and 1992, while the number of housing permits issued nationally increased 15.5% over the same period. In October 1993, 1,742 housing permits, with a value of approximately \$194 million, were issued. In September 1993, the value of total construction contracts was 23% below the September 1992 monthly average.

**Housing Permits Authorized in Massachusetts and the United States
1982-1992**

<u>Calendar Year</u>	<u>Massachusetts</u>	<u>United States</u>
1982	15,400	1,485,000
1983	22,800	1,605,000
1984	29,300	1,682,000
1985	39,200	1,733,000
1986	45,200	1,769,000
1987	40,400	1,534,000
1988	30,500	1,456,000
1989	21,300	1,338,000
1990	14,300	1,110,800
1991	12,700	948,000
1992	16,400	1,095,000

SOURCE: Department of Commerce, Bureau of the Census.

Defense. An estimated 107,000 workers were employed in civilian defense-related jobs in 1990, according to the Defense Budget Project. This accounts for approximately 3% of Massachusetts private sector employment. Following a peak in the value of military prime contracts awarded to Massachusetts firms in fiscal 1986 of \$8.7 billion, defense-related contracts declined approximately 20% in real (inflation-adjusted) terms in fiscal 1988 to \$7.2 billion. In fiscal 1989, the value of defense-related prime contracts increased to \$8.0 billion representing a significant rebound from fiscal 1988 activity levels. Despite a national slowdown in defense-related expenditures, Massachusetts currently receives almost three times its proportionate share of defense contracts on the basis of population. The diversity of Massachusetts companies, particularly in the area of electronics and high technology research and development, has helped reduce the impact of the decline in national defense expenditures on the Massachusetts economy.

The importance of the defense industry to the Massachusetts economy is reflected in the tables below.

**Defense Indicators for New England and the Nation
Prime Contract Awards per capita
FY 1987-89 Average**

	<u>Total</u>	<u>Research</u>	<u>Percent of Production Related to Defense Estimated for 1989</u>
Connecticut	\$1,651	\$81	7.6%
Maine	480	5	6.8
Massachusetts	1,405	364	6.0
New Hampshire	437	51	5.2
Rhode Island	446	29	4.6
Vermont	<u>241</u>	<u>30</u>	<u>4.2</u>
Total New England	\$1,176	\$194	6.2%
Total United States	\$514	\$89	4.7%

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

Massachusetts leads the New England region in federally funded defense research activities, with contracts in amounts exceeding 1.9 times the national average. An estimated 6% of the goods and services in Massachusetts are attributable to the defense sector. It is unknown at this time what effect federal budget deliberations and international events will have on the level of defense contracts awarded within Massachusetts. To the extent there are federal spending reductions, they may have a significant impact on the level of defense related production and

research in Massachusetts. However, since most contracts cover a period of years, the effect of any cancellations or federal spending reductions may not be directly experienced for some time. One estimate, offered by the Defense Budget Project, does project that civilian defense related employment in Massachusetts will decline to 90,000 by 1993.

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

The Massachusetts Office of Travel and Tourism estimates that a total of 30 million people visited the Commonwealth in 1991. Of these, 1.5 million were international visitors. It is also estimated that spending by domestic travellers was \$5.7 billion; the figure is about \$1 billion for international travellers. The immediate tax revenues from this spending is estimated to be \$189 million for the Commonwealth and \$110 million for local governments.

Housing Indicators

For the third quarter of 1993 existing home sales in Massachusetts were 68,600. On a seasonally adjusted annual rate basis, existing home sales for the Commonwealth appear in the table below.

**Existing Home Sales
(In Thousands, Seasonally Adjusted Annual Rates)**

<u>Year</u>	<u>Existing Home Sales</u>
1989	67.4
1990	44.1
1991	49.5
1992	57.6

SOURCE: Federal Reserve Bank of Boston figures based on the National Association of Realtors *Homes Sales*.

Single family home prices for the Boston Metropolitan area (not seasonally adjusted) appear below.

**Home Prices for Boston Metropolitan Area
(In Thousands)**

<u>Year</u>	<u>Home Prices (1)</u>
1988	\$180.7
1989	181.5
1990	173.8
1991	168.5
1992	170.5

SOURCE: Federal Reserve Bank of Boston figures based on the National Association of Realtors *Homes Sales*.

(1) Represents average price of home in Boston Metropolitan Area.

Relatively high housing prices in the Boston area are often cited as a detriment to the location or expansion plans of businesses interested in operating in the area. Prices may continue to moderate over the near term due to the reduced level of sales. However, this trend is not expected to change the high cost factor radically.

Major Infrastructure Projects

Over the next decade, Massachusetts has a very full public-construction agenda which will not only improve mobility, but will also provide a substantial number of construction and related employment opportunities. Foremost on this agenda is the Central Artery/Third Harbor Tunnel (CA/THT) project, the largest public works project in progress in the country. This \$6 billion project consists of the construction of a third tunnel under Boston Harbor linking the Massachusetts Turnpike and downtown Boston with Logan International Airport, and the depression into tunnels of the Central Artery that traverses the City of Boston. Major project components are well underway, including the \$217 million Third Harbor Tunnel. This contract was awarded in 1992 and fabrication of the tunnel and associated construction activities has begun. Federal funds will finance approximately 90% of the cost of the CA/THT project. Plans are for the CA/THT project to employ approximately 5,000 on-site workers and 10,000 auxiliary workers during the mid-1990s peak years of construction.

Massport plans to invest more than \$2 billion in improvements to the port of Boston and Logan Airport between 1990 and 1999. Airport improvements include work on the terminals and runways. The Massachusetts Bay Transportation Authority also plans to devote several billion dollars to maintenance and enhancement of the area's transport facilities.

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

COMBINED FINANCIAL STATEMENTS -
STATUTORY BASIS



Independent Auditors' Report

Mr. William Kilmartin, Comptroller
The Commonwealth of Massachusetts

We have audited the accompanying combined financial statements - statutory basis of the Commonwealth of Massachusetts as of June 30, 1993, and for the year then ended. These combined financial statements - statutory basis are the responsibility of the management of the Commonwealth of Massachusetts. Our responsibility is to express an opinion on these combined financial statements - statutory basis based on our audit. We did not audit the financial statements of the Pension Reserves Investment Trust which is an investment vehicle for certain of the Commonwealth of Massachusetts' Pension Trust Funds, the financial statements of which reflect 28 and 12 percent, respectively, of the assets and revenues of the Fiduciary Fund Type. We did not audit the financial statements of the University of Massachusetts and Massasoit Community College which statements reflect 74 percent of the assets and 68 percent of the revenues of the Non-appropriated Higher Education Funds. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Fiduciary and Non-appropriated Higher Education Fund Type referred to above, is based solely on the reports of the other auditors.

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

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

In our opinion, based upon our audit and the reports of the other auditors, such combined financial statements - statutory basis present fairly, in all material respects, the financial position of the Commonwealth of Massachusetts as of June 30, 1993, and the results of its operations for the year then ended, on the basis of accounting described in Note 2.

As discussed in Note 2, the financial statements of the Non-appropriated Higher Education Fiduciary Fund Type included in the combined financial statements - statutory basis have been restated to reflect the addition of an entity affiliated with the University of Massachusetts. In addition, as described in Note 2 certain agency activities of the Non-appropriated Higher Education Fund Type have been reclassified from fund balance to liabilities.

As discussed in Note 2, the Fiduciary Fund Type includes investments representing 7.9% of the assets of the Fiduciary Fund Type, whose values have been estimated by management in the absence of readily ascertainable market values. The procedures used by management in arriving at the estimated value of such investments and the underlying documentation have been reviewed and inspected by us and by the other auditors', and, in the circumstances, we believe and the other auditors' report states their belief, that the procedures of management are reasonable and the documentation appropriate. However, determination of the value of these investments involves subjective judgment because the actual market value can be determined only by negotiation between the parties in a sales transaction. The estimated values of the investments may differ from the values that would have been used had a ready market existed for the investments.

Deloitte & Touche

December 28, 1993

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

JUNE 30, 1993

(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Types			Account Groups			Totals	
										(Memorandum Only)	
	General	Special Revenue	Capital Projects	Trust and Agency	General Fixed Assets	General Long-term Obligations	Subtotal (Memorandum Only)	Non-appropriated Higher Education (As restated)	1993	1992 (As restated)	
ASSETS AND OTHER DEBITS											
Cash and short-term investments	\$ 0	\$ 1,572,229	\$ 0	\$ 432,881	\$ 0	\$ 0	\$ 2,005,110	\$ 106,112	\$ 2,111,222	\$ 1,691,528	
Cash with fiscal agent		3,797					3,797		3,797	5,156	
Investments											
Advances to related entity	199,881			11,335,857			11,335,857	230,232	11,566,089	10,079,472	
Assets held in trust				1,518,389			1,518,389		1,518,389	256,060	
Receivables, net of allowance for uncollectibles:											
Taxes	3,119	532					3,651		3,651	3,071	
Due from federal government	105,958	101,682	87,209				294,849	12,571	307,420	300,409	
Other receivables	1,008	10,604					11,613		11,613	14,434	
Due from cities and towns	139,814	1,457					141,271		141,271	123,399	
Due from other funds	15,884			376,050			391,934		391,934	377,783	
Fixed assets:											
Land											
Buildings					448,885		448,885		448,885	412,579	
Machinery and equipment					3,243,622		3,243,622		3,243,622	3,183,617	
Construction in progress					806,729		806,729		806,729	726,938	
Amount to be provided for retirement of long-term obligations					155,090		155,090		155,090	190,392	
Total assets and other debits	\$ 465,665	\$ 1,690,301	\$ 87,209	\$ 13,663,177	\$ 4,654,326	\$ 9,296,238	\$ 29,656,916	\$ 348,915	\$ 30,205,831	\$ 28,281,255	

(Continued)

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

JUNE 30, 1993

(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Types		Account Groups		Totals	
	General	Special Revenue	Capital Projects	Trust and Agency	General Fixed Assets	General Long-term Obligations	Subtotal (Memorandum Only)	Non-appropriated Higher Education (As restated)	(Memorandum Only)
LIABILITIES, FUND EQUITY AND OTHER CREDITS									
Liabilities:									
Deficiency in cash and short-term investments	\$ 549,333	\$ 0	\$ 74,612	\$ 0	\$ 0	\$ 0	\$ 623,945	\$ 0	\$ 300,460
Accounts payable	320,689	288,178	246,581	44,090			899,538	36,176	751,872
Accrued payroll	57,239	13,463	1,434	333			72,469	484	47,875
Agency liabilities				2,010,502			2,010,502	1,238	2,053,249
Due to federal government				269,429			269,429		308,033
Due to cities and towns				12,710			12,710		13,284
Due to other funds				378,328			378,326	12,608	377,783
Obligations under lease/purchase						64,780	64,780		68,209
Bonds and notes payable	240,000		84,433			9,231,458	9,555,891		9,614,968
Total Liabilities	1,167,261	301,641	407,060	2,716,390		9,296,238	13,888,590	50,508	13,939,096
Fund equity and other credits:									
Investment in General fixed assets					4,654,326		4,654,326		4,654,326
Fund balances (deficit):									
Reserved for:									
Continuing appropriations	64,007	42,619					106,626		231,030
Commonwealth stabilization		309,512					309,512		290,380
Debt service		3,797					3,797		5,156
Pension benefits				11,096,499			11,096,499		9,626,070
Unreserved:									
Designated for specific purpose	(765,603)	124,491	(319,851)	(149,712)			(25,221)	12,207	(58,129)
Undesignated		908,241					(177,213)	286,202	197,469
Total fund equity (deficit) and other credits	(701,596)	1,388,660	(319,851)	10,946,787	4,654,326		15,968,326	298,409	14,745,222
Total Liabilities, fund equity and other credits	\$ 465,665	\$ 1,690,301	\$ 87,209	\$ 13,663,177	\$ 4,654,326	\$ 9,296,238	\$ 29,856,916	\$ 348,915	\$ 30,205,831

See notes to combined financial statements - statutory basis.

(Continued)

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

FISCAL YEAR ENDED JUNE 30, 1993

(Amounts in thousands)

	Governmental Fund Types				Fiduciary Fund Type	Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trust		Subtotal (Memorandum Only)	Non-appropriated Higher Education (As restated)
Revenues:							
Taxes	\$ 5,906,225	\$ 4,028,568	\$ 0	\$ 993,582	\$ 10,928,395	\$ 0	\$ 10,928,395
Assessments	190,595	423,023		3,640	617,258		617,258
Federal grants and reimbursements	2,662,268	1,171,995	727,395	638,064	5,199,722	134,975	5,334,697
Departmental	478,429	2,888,785	526	3,006	3,370,746	900,022	4,270,768
Miscellaneous	322,522	58,633	274	59,849	441,278	185,034	626,312
Total revenues	9,560,039	8,571,024	728,195	1,698,141	20,557,389	1,220,031	21,777,420
Other financing sources:							
Proceeds of general obligation bonds			368,367		368,367		368,367
Proceeds of special obligation bonds			1,891,468		1,891,468		1,891,468
Proceeds of refunding bonds					138,296		138,296
Fringe benefit cost recovery	138,288	761,146	108,080	2,768	1,069,784	12	1,069,796
Operating transfers in	197,780	76,872			76,872		76,872
Stabilization transfer			26,104	1,683	44,038		44,038
Other sources	16,250	1					170,020
Total other financing sources	352,326	838,019	2,394,029	4,451	3,588,825	12	3,588,837
Total revenues and other financing sources	9,912,365	9,409,043	3,122,224	1,702,592	24,146,224	1,220,043	25,366,267
Expenditures:							
Legislature	41,123		4		41,127		41,127
Judiciary	84,185	223,923	911	2,179	311,198		311,198
Inspector General	1,279		119		1,398		1,398
Governor and Lieutenant Governor	3,651				3,651		3,651
Secretary of the Commonwealth	11,705	2,118	10	7	13,840		13,840
Treasurer and Receiver - General	102,863	1,553,309	14,486	20	1,670,698		1,670,698
Auditor of the Commonwealth	9,466	717		347	10,530		10,530
Attorney General	17,884	2,421	1,221	672	22,198		22,198
Ethics Commission	1,002	32,910		3,039	1,002		1,002
District Attorney	11,052				47,001		47,001
Office of Campaign and Political Finance	545				545		545
Board of Library Commissioners		4,530	14,360	1	18,891		18,891
Comptroller	5,037	525	2,092		7,654		7,654
Administration and finance	709,412	218,833	108,617	1,132	1,037,994		1,037,994

(Continued)

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -- STATUTORY BASIS --
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS

FISCAL YEAR ENDED JUNE 30, 1993
(Amounts in thousands)

	Governmental Fund Types				Fiduciary Fund Type		Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trust	Subtotal (Memorandum Only)	Non-appropriated Higher Education (As restated)	1993	1992 (As restated)
Expenditures (continued):								
Environmental affairs	28,625	132,303	122,083	5,610	288,621		288,621	237,676
Communities and development	172,419	191,263	33,073	3,210	399,965		399,965	427,233
Health and human services	3,153,277	906,007	10,969	56,885	4,167,138		4,167,138	4,011,797
Transportation and construction	596,270	226,365	949,844	819	1,773,298		1,773,298	1,242,497
Education	10,187	460,145	13,456	1,216	485,004		485,004	430,984
Educational affairs	2,201	7,390			9,591		9,591	3,461
Higher education	543,497	14,833	6,831	164	565,325	1,123,434	1,688,759	1,691,311
Public safety	325,647	284,128	14,502	2,259	626,536		626,536	571,231
Economic affairs	21,813	190,056	1,736	1,499,780	1,713,385		1,713,385	1,880,114
Elder affairs	122,323	27,413	12	26	149,774		149,774	136,593
Consumer affairs	24,957	5,100	1	2,541	32,599		32,599	29,899
Labor	22,370	1,802		24,321	48,493		48,493	50,802
Direct local aid	5,318	2,541,183			2,546,501		2,546,501	2,358,926
Medicaid	3,151,361				3,151,361		3,151,361	2,817,674
Pension	338,460	529,694			868,154		868,154	751,519
Debt service:								
Principal retirement	290,516	301,975			592,493		592,493	342,282
Interest and fiscal charges	319,674	230,501			550,175		550,175	598,784
Total expenditures	10,168,141	8,089,444	1,294,327	1,804,428	21,156,140	1,123,434	22,279,574	20,710,942
Other financing uses:								
Payments to refunded bond escrow agent		52,696	1,891,468		1,891,468		1,891,468	574,313
Fringe benefit cost assessment		11,613	1,513	1,513	65,822	72,474	136,298	91,059
Operating transfers out	37,964	920,770	108,254	2,574	1,069,562	222	1,069,784	923,963
Stabilization transfer	46,123	30,749			76,872		76,872	170,020
Other uses		257			257		257	
Total other financing uses	84,087	1,004,472	2,011,335	4,087	3,103,981	72,698	3,176,677	1,759,355
Total expenditures and other financing uses	10,252,228	9,093,916	3,305,662	1,808,515	24,260,121	1,196,130	25,456,251	22,470,297
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(339,863)	315,127	(183,438)	94,277	(113,897)	23,913	(89,984)	100,346
Fund balances (deficit) at beginning of year	(361,733)	1,073,533	(136,413)	(249,831)	325,556	274,496	600,052	499,708
Fund balances (deficit) at end of year	\$(701,596)	\$ 1,388,660	\$(319,851)	\$(155,554)	\$ 211,659	\$ 298,409	\$ 510,068	\$ 600,052

See notes to combined financial statements -- statutory basis

(Continued)

COMMONWEALTH OF MASSACHUSETTS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - STATUTORY BASIS
BUDGET AND ACTUAL - GENERAL AND BUDGETED SPECIAL REVENUE FUNDS

FISCAL YEAR ENDED JUNE 30, 1993

(Amounts in thousands)

	General Fund		Budgeted Special Revenue Funds		Totals (Memorandum Only)		Variance Favorable (Unfavorable)
	Budget	Actual	Budget	Actual	Budget	Actual	
Revenues:							
Taxes	\$ 5,796,200	\$ 5,906,225	\$ 3,888,800	\$ 4,023,669	\$ 9,685,000	\$ 9,929,894	\$ 244,894
Assessments		190,595		7,913		198,508	198,508
Federal grants and reimbursements	2,648,600	2,662,268	5,600	11,808	2,654,200	2,674,076	19,876
Departmental	729,800	478,429	482,900	542,003	1,212,700	1,020,432	(192,268)
Miscellaneous		322,522		36,489		359,011	359,011
Total revenues	9,174,600	9,560,039	4,377,300	4,621,862	13,551,900	14,181,921	630,021
Other financing sources:							
Fringe benefit cost recovery		138,296				138,296	138,296
Operating transfers in	305,900	197,780	536,800	594,569	842,700	792,349	(50,351)
Stabilization transfer				76,872		76,872	76,872
Other sources	45,000	16,250		1	45,000	16,251	(28,749)
Total other financing sources	350,900	352,326	536,800	671,442	887,700	1,023,768	136,068
Total revenues and other financing sources	9,525,500	9,912,365	4,914,100	5,293,324	14,439,600	15,205,689	766,089
Expenditures:							
Legislature	54,028	41,123			54,028	41,123	12,905
Judiciary	86,179	84,185			314,749	306,010	8,739
Inspector General	1,289	1,279	228,570	221,825	1,289	1,279	10
Governor and Lieutenant Governor	4,253	3,651			4,253	3,651	602
Secretary of the Commonwealth	11,825	11,705	1,401	1,395	13,226	13,100	126
Treasurer and Receiver - General	108,657	102,883	1,207	807	109,864	103,690	6,174
Auditor of the Commonwealth	9,469	9,466	717	717	10,186	10,183	3
Attorney General	18,195	17,884	734	712	18,929	18,596	333
Ethics Commission	1,009	1,002			1,009	1,002	7
District Attorney	13,163	11,052	33,489	31,191	46,652	42,243	4,409
Office of Campaign and Political Finance	547	545			547	545	2
Board of Library Commissioners			2,198	1,729	2,198	1,729	469
Comptroller	5,046	5,037	525	525	5,571	5,562	9
Administration and finance	757,799	709,412	216,229	202,356	974,028	911,768	62,260
Environmental affairs	31,668	28,625	120,962	111,053	152,630	139,678	12,952
Communities and development	179,533	172,419	1,874	1,682	181,407	174,101	7,306

(Continued)

COMMONWEALTH OF MASSACHUSETTS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - STATUTORY BASIS
BUDGET AND ACTUAL - GENERAL AND BUDGETED SPECIAL REVENUE FUNDS

FISCAL YEAR ENDED JUNE 30, 1993
 (Amounts in thousands)

	General Fund		Budgeted Special Revenue Funds		Totals		
	Budget	Actual	Budget	Actual	Budget	Actual	
						Variance	
						Favorable	
						(Unfavorable)	
Expenditures (continued):							
Health and human services	3,295,589	3,193,277	42,354	15,931	3,337,943	3,209,208	128,735
Transportation and construction	606,500	586,270	249,252	221,812	855,752	816,082	37,670
Education	10,745	10,187	72,270	71,444	83,015	81,631	1,384
Educational affairs	2,374	2,201	7,323	7,323	9,697	9,524	173
Higher education	557,799	543,497	14,302	1,448	559,410	544,945	14,465
Public safety	332,089	325,647	273,778	259,043	605,867	584,690	21,177
Economic affairs	23,152	21,813	18,263	15,273	41,435	37,086	4,349
Elder affairs	123,974	122,323	3,194	3,188	127,168	125,511	1,657
Consumer affairs	26,288	24,957	4,780	4,322	31,068	29,279	1,789
Labor	24,473	22,370			24,473	22,370	2,103
Direct local aid	5,368	5,318	2,549,519	2,541,183	2,554,895	2,546,501	8,384
Medical	3,158,280	3,151,361			3,158,280	3,151,361	6,919
Pension	350,517	339,460	532,983	529,694	883,500	868,154	15,346
Debt services:							
Principal retirement	290,518	290,518	306,889	300,561	597,408	591,079	6,327
Interest and fiscal charges	361,711	319,674	257,102	228,770	618,813	549,444	70,369
Total expenditures	10,452,035	10,168,141	4,927,243	4,773,984	15,379,278	14,942,125	437,153
Other financing uses:							
Fringe benefit cost assessment				9,635		9,635	(9,635)
Operating transfers out	37,964	37,964	125,707	125,707	163,671	163,671	0
Stabilization transfer		46,123		30,749		76,872	(76,872)
Other uses				257		257	(257)
Total other financing uses	37,964	84,087	125,707	166,348	163,671	250,435	(86,764)
Total expenditures and other financing uses	10,489,999	10,252,228	5,052,950	4,940,332	15,542,949	15,192,560	350,389
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(964,499)	(359,863)	(138,850)	352,992	(1,103,349)	13,129	1,116,478
Fund balances (deficit) at beginning of year	(361,733)	(361,733)	911,177	911,177	549,444	549,444	
Fund balances (deficit) at end of year	\$ (1,326,232)	\$ (701,596)	\$ 772,327	\$ 1,264,169	\$ (553,905)	\$ 562,573	\$ 1,116,478

See notes to combined financial statements - statutory basis.

(Continued)

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

FISCAL YEAR ENDED JUNE 30, 1993

(Amounts in thousands)

	Fiduciary Fund Types		Totals (Memorandum Only)	
	Non- expendable Trust Funds	Pension Trust Funds	1993	1992
Operating revenues:				
Contributions:				
Local pension systems	\$ 0	\$ 0	\$ 0	\$ 1,718
Employees		349,531	349,531	340,517
Investment earnings		1,301,368	1,301,368	1,136,969
Total operating revenues		1,650,899	1,650,899	1,479,304
Other financing sources:				
Operating transfers in		76,489	76,489	101,554
Total operating revenues and other financing sources		1,727,388	1,727,388	1,580,858
Operating expenses:				
Administration		3,276	3,276	2,947
Payments to beneficiaries and cities and towns		177,194	177,194	198,516
Total operating expenses		180,470	180,470	199,463
Other financing uses:				
Operating transfers out	12	76,489	76,501	101,559
Total operating expenses and other financing uses	12	256,959	256,971	301,022
Net income (deficit)	(12)	1,470,429	1,470,417	1,279,836
Fund balances at beginning of year	5,854	9,826,070	9,831,924	8,352,088
Fund balances at end of year	\$ 5,842	\$ 11,096,499	\$ 11,102,341	\$ 9,831,924

See notes to combined financial statements - statutory basis.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

1. Financial Statement Presentation:

Introduction -

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

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

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

Fund Accounting -

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

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

1. Financial Statement Presentation (Continued):

These fund types and account groups are organized as follows:

Governmental Fund Types -

Governmental Funds support the governmental functions of the Commonwealth.

General Fund - is the primary operating fund of the Commonwealth. It is used to account for all governmental transactions, except those which state finance law or other statutes require to be accounted for in another fund. Certain activities reported in Special Revenue Funds in the combined financial statements - statutory basis are included in the General Fund under GAAP.

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

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

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

Fiduciary Fund Types -

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

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

1. Financial Statement Presentation (Continued):

Fiduciary Fund Types (continued) -

Nonexpendable Trust Funds - account for trusts whose principal cannot be spent. Within this fund type, the Massachusetts School Fund's principal balance of \$5,000,000 earned investment income of \$101,000, which was credited directly to the Local Aid Fund for expenditure during fiscal year 1993, as required by statute.

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

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

Account Groups -

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

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

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

Non-appropriated Higher Education Funds -

The non-appropriated funds of the Commonwealth's public institutions of higher education have been recorded as a separate fund type which combines a variety of statutory basis financial activities to report in compliance with Section 339 of Chapter 138, Acts of 1991.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

2. Summary of Significant Accounting Policies:

statutory basis of accounting -

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

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

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

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

Cash and short-term investments and investments -

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

2. Summary of Significant Accounting Policies (Continued):

Cash and short-term investments and investments (Continued) -

Investments of the Pension Trust Funds are stated at market. The Massachusetts State Teachers and Employees Retirement Systems Trust (the Trust) and the Pension Reserves Investment Trust Fund (the Fund), collectively the Pension Trust Funds have acquired investments in real estate, venture capital funds, real estate funds, limited partnerships, futures pools, international hedge pools, commodities pools, balanced pools, leverage buyouts, private placements and other alternative investments. The structure, risk profile, return potential and marketability of these investments differ from traditional equity and fixed income investments. The estimated values, determined by management with input from the investment managers, of these alternative investments were \$487,529,832 in the Trust and \$588,502,887 in the Fund.

Other investments are stated at cost.

Receivables -

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

Advances to related entity -

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

Inventories -

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

2. Summary of Significant Accounting Policies (Continued):

General fixed assets -

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

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

Interfund/intrafund transactions -

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

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

Risk financing -

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

2. Summary of Significant Accounting Policies (Continued):

Encumbrances -

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

Fringe benefit cost recovery -

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

Compensated absences -

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

Fund balances -

In the Governmental Fund Types, fund balances are reported as reserved where legally restricted for a specific future use. Otherwise, these balances are considered unreserved.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

2. Summary of Significant Accounting Policies (Continued):

Fund balances (Continued) -

Fund balance has been reserved as follows:

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

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

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

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

Unreserved fund balance is segregated into two components:

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

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

Total columns - memorandum only -

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

2. Summary of Significant Accounting Policies (Continued):

Restatement -

The Commonwealth has redefined the Non-appropriated Higher Education Fund Type to include the University of Massachusetts Medical School - Group Practice Plan. This change was made to include activity that, while reported in a separate entity, is an integral part of the University of Massachusetts Medical School. The effect of the change was to increase July 1, 1992 fund balance in the Non-appropriated Higher Education Fund Type by \$13,821,000.

In fiscal year 1993, the Commonwealth has also reported agency activity within the Higher Education Non-appropriated Fund Type as changes in assets and liabilities. Such activity was previously reported as revenues and expenditures. This change was made to more appropriately represent the Commonwealth's custodial responsibility for such agency accounts. The effect on the Higher Education Non-appropriated Fund Type was to decrease July 1, 1992 fund balance by \$3,116,000.

Reclassification -

Certain reclassifications have been made to the 1992 balances to conform to the presentation used in 1993.

3. Budgetary Control:

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

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

3. Budgetary Control (Continued):

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

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

The original fiscal year 1993 appropriation act was Chapter 133, Acts of 1992, which authorized \$13,840,981,000 in direct appropriations, \$547,426,000 in authorizations to retain and expend certain non-tax revenues and \$175,766,000 of interagency chargebacks. Chapter 133 included projections of \$9,685,000,000 in tax revenues and approximately \$4,754,600,000 in non-tax revenues. With these revenues (exclusive of chargebacks) projected to total approximately \$14,439,600,000, and with unreserved balances of approximately \$82,878,000 carried forward from fiscal year 1992, the budget as presented in this original appropriation act was considered to be in balance.

During fiscal year 1993, the Legislature also passed and the Governor signed, with some modification through veto, Chapters 152, 165, 218, 248, 267 and 289, Acts of 1992, and Chapters 19, 20, 50 and 78, Acts of 1993, which included numerous supplemental budgetary appropriations. These added approximately \$412,636,000 in direct appropriations and \$35,397,000 in additional retained revenue authorizations.

Subsequent to June 30, 1993, the Legislature passed and the Governor signed with modification through veto, Chapter 151, Acts of 1993, which included approximately \$76,383,000 in additional supplemental appropriations. This raised the total of fiscal year 1993 budgetary appropriations and retained revenue authorizations to approximately \$15,088,589,000. Appropriations continued from fiscal year 1992 totaled approximately \$231,030,000, and certain intrafund and interfund transfers, directed by statute, totaled approximately \$223,330,000.

Because revenue budgets are not updated subsequent to the original appropriation act, the comparison of the initial revenue budget to the subsequent, and often modified, expenditure budget can be misleading.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

3. Budgetary Control (Continued):

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

	<u>Revenues and other financing sources</u>	<u>Expenditures and other financing uses</u>
As presented in the combined budget and actual statement - statutory basis:	\$15,205,689	\$15,192,560
Adjustments to revenues and expenditures:		
Municipal transit assessments	(137,383)	(137,383)
School choice	(10,857)	(10,833)
Charges from the Intragovernmental Service Fund	(102,626)	(102,626)
Adjustments to other financing sources and uses:		
MBTA subsidy transfer from the Highway Fund to the General Fund	(58,890)	(58,890)
Early retirement reserve transfers	(86,988)	(86,988)
Fringe benefit cost assessments to budgeted funds	(9,635)	(9,635)
Transfer from the Intragovernmental Service Fund to the General Fund	(11,445)	(11,445)
Other operating transfers	(1,396)	(1,396)
Stabilization transfers	<u>(76,872)</u>	<u>(76,872)</u>
As presented on budgetary documents:	<u>\$14,709,597</u>	<u>\$14,696,492</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

3. Budgetary Control (Continued):

The enacting or supplemental legislation determines the budgeted fund or funds to which the appropriation is assigned. If no Special Revenue Fund is specified, the appropriation is considered part of the General Fund. For these budgeted funds, the combined financial statements - statutory basis include a combined budget and actual statement.

The budgeted Special Revenue Funds are the Highway Fund, Local Aid Fund, Commonwealth Stabilization Fund, certain administrative control funds (Intragovernmental Service, Maximization and Commonwealth Fiscal Recovery) several environmental funds (Natural Heritage and Endangered Species, Mosquito and Greenhead Fly Control, Inland Fisheries and Game, Environmental Challenge, Toxics Use Reduction, Clean Environment, Environmental Permitting and Compliance Assurance, Underground Storage Tank Petroleum Product Cleanup, Environmental Law Enforcement, Public Access, Harbors and Inland Waters Maintenance, Marine Fisheries, Watershed Management and Low Level Radioactive Waste Management Funds), and various other funds (Antitrust Law Enforcement, Victim and Witness Assistance, Intercity Bus Capital Assistance, State Transportation Building Management, Springfield State Office Building Management, Motorcycle Safety, Re-Employment and Job Placement, Trust Fund for the Head Injury Treatment Services, Massachusetts Tourism, Health Care Access, Ponkapoag Recreational, Division of Insurance and Health Protection Funds).

The Child Care Affordability Scholarship Assistance Fund, established as a budgeted fund in fiscal 1991, and the Asbestos Cost Recovery Fund, established in fiscal year 1993, have had no appropriations or revenues.

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

4. Deposits and Investments:

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

4. Deposits and Investments (Continued):

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

The pooled cash and short-term investments at June 30, 1993, are as follows (amounts in thousands):

	<u>Carrying value</u>
Cash	\$ 241,702
Certificates of deposit	<u>1,100</u>
	242,802
Short-term investments:	
U.S. Treasury obligations	28,717
Commercial paper	99,019
Short-term investment pool	308,156
Repurchase agreements	<u>720,000</u>
	1,398,694
Non-appropriated Higher Education Fund Type cash managed at the campus level	<u>92,380</u>
Total	<u>\$1,491,074</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

4. Deposits and Investments (Continued):

The Pension Trust Funds have invested a significant portion of their portfolios in two pooled trusts which account for their operations in a manner similar to a mutual fund. The trusts are permitted to invest in equity securities, fixed income securities, real estate and other alternative investments. These investments are carried at market value. At June 30, 1993, they are as follows (amounts in thousands):

Investments:

Equity securities	\$ 5,672,501
U.S. government and government agency securities	2,261,656
Fixed income securities	1,460,943
Real estate	685,001
Commercial paper	8,673
Money market investments	593,108
Mutual funds	16,858
Alternative investments	336,393
Foreign government treasury obligations	183,218
Other	<u>37,179</u>
Subtotal	11,255,530
Net noninvestment assets and liabilities of pooled trusts	<u>80,327</u>
Total	<u>\$11,335,857</u>

5. Short-term Financing and Credit Agreements:

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

General Fund -

As authorized by Chapter 161A of the Massachusetts General Laws, the Commonwealth issues short-term notes to finance working capital advances from the Treasury to the MBTA. The Commonwealth retires these notes through subsequent appropriations and assessments to cities and towns. The notes outstanding at June 30, 1993, totaled \$240,000,000, with an interest rate of 3.0%, and matured in November, 1993. The Commonwealth subsequently issued comparable notes, also in the amount of \$240,000,000, with an interest rate of 3.4%, maturing in November, 1994.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

5. Short-term Financing and Credit Agreements (Continued):

General Fund (continued) -

The balance of other revenue anticipation notes outstanding fluctuates during the fiscal year but must be reduced to zero at June 30. During fiscal year 1993, amounts outstanding ranged from zero to \$370,000,000. Such borrowings were subject to a guarantee of up to \$700,000,000 through letter of credit agreements.

Capital Projects Funds -

The Commonwealth has issued five-year term minibonds, which are redeemable upon demand, to finance its capital projects. At June 30, 1993, minibonds outstanding in the Capital Projects Funds totaled \$84,433,000, with interest rates ranging from 5.0% to 9.7%.

The Commonwealth may issue bond anticipation notes to temporarily finance its capital projects, but it must reduce the balance to \$200,000,000 at June 30. No such notes outstanding at June 30, 1993.

Letter of credit agreements -

During fiscal year 1993, the Commonwealth maintained letter of credit agreements with several banks to borrow up to \$700,000,000 as a combination of advances and guarantees to provide credit and liquidity support for its commercial paper program. These agreements expire October 29, 1993 through September 30, 1994, and the average costs are approximately 0.3% on unutilized amounts and approximately 0.4% on utilized amounts.

Advances were available, subject to certain limitations and bearing interest at the bank rate as defined, in anticipation of revenue or bond proceeds and repayable by the following September 30, or convertible to term advances, at the Commonwealth's option. No such advances were drawn during the fiscal year ended June 30, 1993, or subsequent thereto.

During fiscal year 1993 the guarantee feature was utilized, and related fees totaled approximately \$2,031,000.

Subsequent to June 30, 1993, expiring letters of credit totaling \$300,000,000 were renewed, in the same aggregate amount, through October 28, 1994, with more favorable fees on both utilized and unutilized amounts.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

5. Short-term Financing and Credit Agreements (Continued):

Line of credit agreement -

The Commonwealth maintained a revolving line of credit agreement with a bank through June 30, 1993, in the amount of \$150,000,000. Under this agreement, interest was charged at the lesser of the federal funds rate plus 1.5%, or prime, with commitment fees payable quarterly on the excess of the commitment amount over the average daily outstanding principal amount drawn. This line of credit agreement was not utilized during fiscal year 1993; commitment fees totaled \$75,000.

6. Long-term Bonds:

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

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

6. Long-term Bonds (Continued):

As of June 30, 1993, the Commonwealth had three types of bonds outstanding: general obligation bonds, dedicated income tax bonds, and special obligation bonds. The general obligation bonds are authorized and issued primarily to provide funds for state-owned capital projects and local government improvements. They are backed by the full faith and credit of the Commonwealth and paid from the Governmental Funds, in which debt service principal and interest payments are appropriated. Section 49 of Chapter 29 of the Massachusetts General Laws provides for the allocation of bond proceeds to these authorizations in arrears, as expenditures are made, unless the proceeds are allocated at the time of issuance.

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

During fiscal year 1992, the Commonwealth issued special obligation revenue bonds as authorized under Section 20 of Chapter 29 of the Massachusetts General Laws. These bonds are secured by all or a portion of revenues credited to the Highway Fund and are not general obligations of the Commonwealth. Chapter 33, Acts of 1991, authorized the issuance of such special obligation bonds in an aggregate amount not to exceed \$1,125,000,000, in fiscal years 1992 through 1994. At June 30, 1993, the Commonwealth had outstanding \$103,770,000 of such special obligation bonds, secured by a pledge of 2 cents of the 21-cent motor fuel excise tax imposed on gasoline.

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

6. Long-term Bonds (Continued):

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

General and special obligation long-term bonds outstanding and bonds authorized-unissued at June 30, 1993, are as follows (amounts in thousands):

<u>Purpose</u>	<u>Outstanding</u>		<u>Authorized</u>
	<u>Amount</u>	<u>Maturity</u> <u>dates</u>	<u>-unissued</u> <u>Amount</u>
Deficit reduction:			
Fiscal recovery	<u>\$1,044,865</u>	1994 - 1998	<u>\$ 57,274</u>
Capital projects:			
General	5,652,564	1994 - 2019	2,260,330
Highway	1,583,804	1994 - 2013	1,388,369
Local aid	759,466	1994 - 2013	840,283
Other	<u>190,759</u>	1994 - 2015	<u>68,111</u>
Capital projects bonds	<u>8,186,593</u>		<u>4,557,093</u>
Total	<u>\$9,231,458</u>		<u>\$4,614,367</u>

Interest rates on the Commonwealth's bonded debt outstanding at June 30, 1993 ranged from 1.1% to 9.6%.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

6. Long-term Bonds (Continued):

Changes in long-term bonds outstanding and bonds authorized-unissued for the year ended June 30, 1993, are as follows (amounts in thousands):

	<u>Bonds outstanding</u>	<u>Authorized -unissued</u>
Balance, July 1, 1992	\$9,264,430	\$6,393,833
General and special obligation bonds:		
Principal less discount and issuance costs	418,567	(418,567)
Discount and issuance costs	8,118	
General obligation refunding bonds:		
Principal less discount and issuance costs	1,891,468	
Discount and issuance costs	26,182	
Bonds retired	(2,327,107)	
Increase in bonds authorized		141,100
Expiration of authorizations		(1,552,199)
Retirement of bond anticipation notes	(50,200)	50,200
Balance, June 30, 1993	<u>\$9,231,458</u>	<u>\$4,614,367</u>

At June 30, 1993, debt service requirements to maturity for principal (including discount, capital appreciation and issuance costs) and interest are as follows (amounts in thousands):

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1994	\$ 599,695	\$ 503,141	\$1,102,836
1995	630,269	465,497	1,095,766
1996	643,831	429,277	1,073,108
1997	670,380	387,169	1,057,549
1998	593,332	346,126	939,458
1999 and thereafter	<u>6,093,951</u>	<u>2,235,888</u>	<u>8,329,839</u>
Total	<u>\$9,231,458</u>	<u>\$4,367,098</u>	<u>\$13,598,556</u>

In connection with the issuance of bonds and notes, the Commonwealth's fiscal year 1993 costs for legal counsel and underwriting fees were approximately \$712,000 and \$12,734,000, respectively.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

6. Long-term Bonds (Continued):

Subsequent to June 30, 1993, the Commonwealth issued \$842,995,000 in general obligation refunding bonds, as authorized by Section 53A of Chapter 29 of the Massachusetts General Laws, with interest rates ranging from 4.1% to 6.0%, and \$200,000,000 in general obligation bonds, with interest rates ranging from 3.5% to 4.875%.

Advance refundings and defeased bonds

As authorized by Section 53A of Chapter 29 of the Massachusetts General Laws, the Commonwealth advance refunded certain general obligation and other bonds through the issuance of \$1,917,650,000 of general obligation refunding bonds during fiscal year 1993. Proceeds totaling approximately \$1,890,000,000 were used to purchase U.S. Government securities which, with a cash deposit of approximately \$1,194,000, were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liabilities therefor have been removed from the General Long-term Obligations Account Group. As a result of these advance refundings, the Commonwealth decreased its current year debt service payments and has taken advantage of lower interest rates, and it has decreased its aggregate debt service payments by approximately \$102,732,000 over the next 20 years and incurred an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$95,150,000. At June 30, 1993, approximately \$1,270,000,000 of the bonds so refunded remain outstanding and are considered defeased.

In prior years, the Commonwealth also defeased certain general obligation and other bonds by placing the proceeds of refunding bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 1993, approximately \$1,543,000,000 of bonds outstanding from advance refundings in prior fiscal years are considered defeased.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

6. Long-term Bonds (Continued):

Statutory debt limit -

In fiscal years 1990 and 1991, Section 60A of Chapter 29, of the Massachusetts General Laws was amended to establish a limit on the amount of direct debt outstanding, effective at the beginning of fiscal year 1991. By statutorily limiting the Commonwealth's ability to issue direct debt, these amendments provide a control on annual capital spending. The first-year limit was \$6,800,000,000, with an increase of 5% allowed in each successive fiscal year. The direct debt limit for fiscal year 1993 was \$7,497,000,000.

For purposes of determining compliance with the limit, direct debt is defined to include general obligation bonds and minibonds at the amount of their original net proceeds. It excludes discount and issuance costs, if any, financed by these bonds. It also excludes dedicated income tax bonds issued under Chapter 151, Acts of 1990, special obligation bonds issued under Section 20 of Chapter 29 of the Massachusetts General Laws, refunded bonds, refunding bonds issued under Section 5 of Chapter 5, Acts of 1991, and bond anticipation notes. Outstanding direct debt, as defined, totaled approximately \$7,304,584,000 at June 30, 1993.

7. Obligations under Lease and Lease/Purchase Agreements:

In order to finance the acquisition of equipment, the Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease purchase (TELP) agreements, which are accounted for as capital leases. These agreements are for various terms, and contain clauses indicating that their continuation is subject to appropriation by the Legislature.

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

7. Obligations under Lease and Lease/Purchase Agreements (Continued):

At June 30, 1993, the Commonwealth's aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totals \$64,780,000. This liability is reported in the General Long-term Obligations Account Group. Equipment acquired under capital leases and included in the General Fixed Assets Account Group totaled approximately \$111,750,000.

The Commonwealth leases real property and equipment under numerous operating lease agreements for varying terms. These agreements contain clauses which indicate that their continuation is subject to appropriation by the Legislature. Rental expense for the fiscal year ended June 30, 1993 was approximately \$86,903,000.

The following is a schedule of future minimum payments under non-cancellable leases as of June 30, 1993 (amounts in thousands):

<u>Year ending June 30</u>	<u>Capital leases</u>			<u>Operating Leases</u>
	<u>Commonwealth</u>	<u>UMass</u>	<u>Total</u>	
1994	\$18,205	\$ 8,055	\$26,260	\$79,098
1995	10,908	6,741	17,649	60,259
1996	5,387	5,527	10,914	43,271
1997	1,562	4,757	6,319	8,844
1998	947	4,690	5,637	4,109
1999 and thereafter	<u>2,661</u>	<u>11,181</u>	<u>13,842</u>	<u>9,520</u>
Total	39,670	40,751	80,421	<u>\$205,101</u>
Less: Amount representing interest	<u>(5,709)</u>	<u>(9,932)</u>	<u>(15,641)</u>	
Present value of minimum lease payments	<u>\$33,961</u>	<u>\$30,819</u>	<u>\$64,780</u>	

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

8. Individual Fund Deficits:

The General Fund and certain Special Revenue and Capital Projects Funds included in the combined totals have fund deficits at June 30, 1993, as follows (amounts in thousands):

<u>Fund</u>	
General	\$ 701,596
Budgeted Special Revenue:	
Environmental:	
Natural Heritage and Endangered Species	32
Environmental Permitting and Compliance Assurance	5,267
Other:	
Antitrust Law Enforcement	905
Victim and Witness Assistance	2,276
Intercity Bus Capital Assistance	8,705
Non-budgeted Special Revenue:	
Other:	
Government Land Bank	20,259
Federally-assisted Housing	9,078
Capital Projects:	
General	158,440
Highway	119,343
Local Aid:	
Community Development Action Grants	20,901
Lockup Facilities Improvements	179
County Correctional Facilities	519
Local Infrastructure	87
Water Pollution Control	11,562
Other:	
State Recreation Areas	1,508
Metropolitan Parks	7,352
Intercity Bus Capital Assistance	<u>7</u>
Total	<u>\$1,068,016</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(continued)

8. Individual Fund Deficits (Continued):

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

In the Capital Projects Funds, the recognition of minibonds as fund liabilities accounts for \$84,433,000 of the reported fund deficits. The remaining deficits to be financed, approximately \$235,465,000, reflect the time lag between capital expenditures and the receipt or allocation of proceeds from the sale of related bonds. During the fiscal year ended June 30, 1993, the Commonwealth continued its policy of reducing the time elapsed between those events. Certain restrictions within Section 20 of Chapter 29 limit the Commonwealth's ability to sell special obligation bonds which would finance approximately \$76,428,000 of the deficit in the Highway Capital Projects Fund. Legislative changes have been requested to eliminate these restrictions. If legislative changes are not enacted and bonds are not sold prior to March 1, 1994, then the Commonwealth could lose the ability to reimburse its Treasury for all or a portion of these funds.

9. Medicaid Costs:

The Commonwealth provides medical care for low-income, elderly and other residents who qualify for such assistance under the federally-sponsored Medical Assistance Program, known as Medicaid. The Commonwealth pays the full cost of care and is reimbursed by the federal government for 50% of that cost. For the fiscal year ended June 30, 1993, the General Fund includes \$3,151,361,000 in expenditures for Medicaid claims processed for payment.

The combined financial statements - statutory basis include Medicaid claims processed but unpaid at June 30, 1993, as accounts payable of approximately \$6,093,000. In addition, the Commonwealth estimates its liability, as determined in accordance with generally accepted accounting principles at \$931,000,000. This amount includes estimates of both the cost of care provided as of June 30, 1993, for which claims have not been processed, and the cost associated with nursing home and hospital rate settlements and other costs. Of this amount, 50% is expected to be reimbursed by the federal government.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

9. Medicaid Costs (Continued):

Subsequent to June 30, 1993, the Commonwealth reached settlements with certain hospitals, and it also certified disputed nursing home rates on a retroactive basis. These actions are expected to reduce the Commonwealth's Medicaid liability in fiscal year 1994.

10. Retirement Systems:

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

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

Plan descriptions -

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

Teachers' Retirement System (TRS) is an agent multiple employer defined benefit PERS. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of TRS. The TRS covers certified teachers in cities (except the City of Boston), towns, regional school districts and Quincy College.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

10. Retirement Systems (Continued):

Plan descriptions (continued) -

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

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

Membership -

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

	<u>SERS</u>	<u>TRS</u>	<u>SBR</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	45,419	30,168	2,186
Current employees:			
Vested	36,398	44,782	3,522
Nonvested	<u>47,114</u>	<u>17,206</u>	<u>2,126</u>
Subtotal	<u>83,512</u>	<u>61,988</u>	<u>5,648</u>
Total	<u>128,931</u>	<u>92,156</u>	<u>7,834</u>

Benefit provisions -

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

10. Retirement Systems (Continued):

Benefit provisions (Continued) -

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

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55.

Contributions required and contributions made -

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

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

10. Retirement Systems (Continued):

Contributions required and contributions made (continued) -

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

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

Actual contributions for the year ended June 30, 1993, are as follows (amounts in thousands):

	<u>Employee contributions</u>	<u>Commonwealth contributions</u>
SERS	\$191,604	\$418,217
TRS	157,927	302,988
SBRs	14,758	27,184
COLA	<u>-</u>	<u>96,673</u>
Total	<u>\$364,289</u>	<u>\$845,062</u>

During fiscal year 1993, the Commonwealth also made payments totaling approximately \$23,092,000 to retirees employed prior to the establishment of the current plans and to non-contributory plans.

Chapter 22, Acts of 1992, established an early retirement incentive program under which eligible state employees could elect to receive enhanced pension benefits in exchange for retiring as of July 1, 1992. The effect of this incentive program was to increase the SERS portion of the Commonwealth's pension liability by approximately \$193,000,000.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

10. Retirement Systems (Continued):

Postretirement health care and life insurance benefits -

In addition to providing pension benefits, the Commonwealth is statutorily required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs, which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and agencies.

The Commonwealth recognizes its share of the cost of providing these benefits when paid. These payments totaled approximately \$118,108,000 for the fiscal year ended June 30, 1993.

11. Commitments and Contingencies:

Under Chapters 161A and 161B of the Massachusetts General Laws, the Commonwealth is obligated to pay a portion of the debt service and the net costs of service of MBTA and certain regional transit authorities. The Commonwealth recovers a portion of these payments through assessments to the cities and towns served. Fiscal year 1993 net expenditures were \$467,922,000 and \$31,108,000, respectively. For fiscal year 1994, the Commonwealth has appropriated \$493,251,000 and \$31,856,000 to the MBTA and regional transit authorities, respectively. These appropriations cover net costs of service for the calendar year ended December 31, 1992.

The Commonwealth is also statutorily obligated to provide contract assistance for debt service obligations of to the Massachusetts Convention Center Authority (MCCA) and the Government Land Bank. Such assistance totaled \$11,842,000 in fiscal year 1993. For fiscal year 1994, appropriations for this purpose total \$16,546,000.

At June 30, 1993, the aggregate outstanding debt for which the Commonwealth is obligated to provide contract assistance support totaled approximately \$2,306,887,000. In addition, the Commonwealth guarantees the debt of certain local governments and public higher education building authorities. The guaranteed debt outstanding at June 30, 1993, was approximately \$242,949,000.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

11. Commitments and Contingencies (Continued):

At June 30, 1993, the Commonwealth had commitments approaching \$1,027,136,000 for various construction projects. The majority of these construction commitments relate to a major infrastructure project known as the Central Artery Project in which Federal participation is anticipated. The remainder relate to a wide range of building construction projects.

A number of lawsuits are pending or threatened against the Commonwealth which arose from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. For those cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated, the Attorney General estimates the liability to be approximately \$100,200,000. Of this amount approximately \$66,200,000 is expected to be paid during fiscal year 1993; approximately \$34,000,000 is expected to be paid thereafter. No accrual has been made for these amounts in the combined financial statements - statutory basis.

Various cases are currently before the Appellate Tax Board, involving approximately \$560,000,000 of taxes and related interest. For those cases in which it is probable that a loss will be incurred, the Department of Revenue estimates the Commonwealth's liability to be approximately \$80,700,000. Approximately \$60,700,000 is expected to be settled during fiscal year 1993 and is included within fund liabilities; the remaining \$20,000,000 is expected to be paid after June 30, 1993 and is included with the general long-term debt account group. No accrual has been made for these amounts in the combined financial statements - statutory basis.

Workers' compensation costs are recognized when claims are presented and paid. The Commonwealth's outstanding liability for such claims at June 30, 1993, is estimated to be \$359,200,000, of which approximately \$57,500,000 is expected to be recognized during fiscal year 1994. No accrual has been made for these amounts in the combined financial statements - statutory basis.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

11. Commitments and Contingencies (Continued):

The Commonwealth receives significant financial assistance from the federal government. Entitlement to these resources is generally conditional upon compliance with terms and conditions of the grant or reimbursement agreements and with applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits. Any disallowances become liabilities of the fund which received the assistance. At June 30, 1993, the Commonwealth estimates that liabilities, if any, which may result from such audits are not material.

Chapter 200A of the Massachusetts General Laws, the Commonwealth's Abandoned Property Law, requires deposit of certain unclaimed assets into a managed Agency Fund. The statute requires the excess amount over \$500,000 each June 30 to be remitted to the General Fund, where it is included as miscellaneous revenue. Amounts remitted during fiscal year 1993 totaled \$148,962,000. Since inception, approximately \$430,400,000 has been remitted. This represents a contingency, because claims for refunds can be made by the owners of the property. No material amounts have been repaid.

12. Non-tax Revenue Initiatives:

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

Debt collection -

Private debt collectors were engaged, with fees to be paid, on a contingent basis, from the proceeds collections. Collections and fees paid during fiscal year 1993 were as follows (amounts in thousands):

<u>Debt Collector</u>	<u>Collections</u>	<u>Fees</u>
Associated Credit Services, Inc.	\$115	\$20
Credit Control Services, Inc.	16	3
Glenn Associates, Inc.	7	2
Payco-American Corporation	<u>23</u>	<u>4</u>
	<u>\$161</u>	<u>\$29</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

12. Non-tax Revenue Initiatives (Continued):

No amounts were collected by the following, and no fees were paid: Allen Daniel Associates, Inc., Bristol Associates, Capital Credit Corporation, Coldata, Inc., Collection Company of America, Credit Management Associates, Delta Management Associates, Inc., Financial Collection Agency, Osborne Associates, Inc., and Walker Associates, Inc.

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

<u>Debt Collector</u>	<u>Collections</u>	<u>Fees</u>
Allen Daniel Associates, Inc.	\$1,108	\$203
Coldata, Inc.	1	
Collection Company of America	661	235
Delta Management Associates, Inc.	51	12
Glenn Associates, Inc.	306	72
Payco-American Corporation	<u>664</u>	<u>159</u>
	<u>\$2,791</u>	<u>\$681</u>

Revenue maximization -

Contractors were engaged to assist several of the Commonwealth's departments in the identification and collection of federal and other revenues. During fiscal year 1993, approximately \$5,306,000 was collected through such efforts, which included approved billing of third parties responsible for patients in Commonwealth-operated hospitals. After contractor fees were paid, on a contingent basis, the Commonwealth received approximately \$4,762,000.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

13. Pension Reserves Investment Management Board Expenditures:

In compliance with Section 61 of Chapter 153, Acts of 1992, the Board recorded expenditures totaling approximately \$19,647,000. The expenditures recorded in the Massachusetts Management Accounting and Reporting System (MMARS), by subsidiary code, are as follows (amounts in thousands):

<u>Subsidiary</u>	<u>Title</u>	<u>Annual Expenditures</u>
AA	Regular employee compensation	\$ 329
BB	Regular employee related expenses	44
DD	Pension and insurance-related expenditures	180
EE	Administrative expenses	114
GG	Energy costs and space rental expenses	132
HH	Consultant services (to departments)	18,778
JJ	Operational services	18
KK	Equipment purchase	51
LL	Equipment lease-purchase lease and rental maintenance and repair	<u>1</u>
		<u>\$19,647</u>

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COMMONWEALTH OF MASSACHUSETTS -
GENERAL PURPOSE FINANCIAL STATEMENTS

Independent Auditors' Report

Mr. William Kilmartin, Comptroller
The Commonwealth of Massachusetts

We have audited the accompanying general purpose financial statements of the Commonwealth of Massachusetts as of June 30, 1993, and for the year then ended. These general purpose financial statements are the responsibility of the management of the Commonwealth of Massachusetts. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the University of Massachusetts, Massasoit Community College and the State College Building Authority, which statements reflect 72 percent of the total assets and 81 percent of the revenues of the University and College Fund Type. We did not audit the financial statements of the Pension Reserves Investment Trust which is an investment vehicle for certain of the Commonwealth of Massachusetts' Pension Trust Funds, the financial statements which reflect 24 percent of the total assets and 23 percent of the revenues of the Fiduciary Fund Type. Except for the Massachusetts Technology Development Corporation and the Massachusetts Convention Center Authority, which represents 2 percent of assets and revenues, we did not audit the financial statements of the entities which comprise the Proprietary Fund Type. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University and College Fiduciary and Proprietary Funds Types referred to above, is based solely on the reports of the other auditors.

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

In our opinion, based upon our audit and the reports of the other auditors, such general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth of Massachusetts as of June 30, 1993, and the results of its operations and cash flows of its Proprietary Fund Type and Nonexpendable Trust Fund for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 16 to the general purpose financial statements, the Commonwealth of Massachusetts has changed its method of reporting the activities of Commonwealth of Massachusetts institutions of higher education and the institutions' affiliated entities.

As discussed in Note 1, the Fiduciary Fund Type includes investments representing 6.5 percent of the assets of the Fiduciary Fund Types, whose values have been estimated by management in the absence of readily ascertainable market values. The procedures used by management in arriving at the estimated value of such investments and the underlying documentation have been reviewed and inspected by us and by the other auditors' and, in the circumstances, we believe and the other auditors' report states their belief, that the procedures of management are reasonable and the documentation appropriate. However, determination of the value of these investments involves subjective judgment because the actual market value can be determined only by negotiation between the parties in a sales transaction. The estimated values of the investments may differ from the values that would have been used had a ready market existed for the investments.

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

Deloitte & Touche

December 28, 1993

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

JUNE 30, 1993

(Amounts in thousands)

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types		University and College Fund Type		Account Groups			Totals	
	General	Special Revenue	Capital Projects	Enterprise	Trust and Agency	University and Colleges	General Fixed Assets	Long-term Obligations	(Memorandum Only)		1993	1992			
	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	\$	(As related)
ASSETS AND OTHER DEBITS															
Cash and short-term investments	0	935,257	0	229,498	1,278,555	139,251	0	0	0	2,592,561	2,290,066				
Deposits						49,506				49,506					
Investments				118,776	11,335,857	235,352				11,689,985	9,958,012				
Restricted investments				767,408						767,408	1,146,034				
Investments of deferred compensation plan					895,768					895,768	764,690				
Annuity contracts					975,442					975,442	937,249				
Assets held in trust					1,518,389					1,518,389	1,583,758				
Receivables, net of allowance for uncollectibles:															
Taxes	662,981	454,726			339,610					1,457,317	1,345,561				
Due from federal government	565,455	112,373	87,209	179,132	1,009	12,739				957,918	968,006				
Loans				171,752	8,151	43,546				223,449	105,965				
Other receivables	184,460	53,668	457	29,199	71,352	131,367				470,503	306,707				
Due from cities and towns	203,709	1,457								205,166	185,737				
Due from other funds	15,884	313,139	57,353	385,485	409	26,320				798,590	443,692				
Inventory				40,160		13,633				53,793	40,316				
Fixed assets				8,251,859		2,022,031				13,286,120	10,767,764				
Restricted and other assets				128,931		8,625				138,556	122,163				
Amounts to be provided for retirement of general long-term obligations															
Total assets and other debits	\$ 1,632,490	\$ 1,970,650	\$ 145,019	\$ 10,302,200	\$ 16,424,542	\$ 2,683,370	\$ 3,012,230	\$ 14,031,267	\$ 50,101,736	\$ 44,489,421					

(Continued)

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

JUNE 30, 1993
 (Amounts in thousands)

	Governmental Fund Types				Proprietary Fund Types		Fiduciary Fund Types		University and College Fund Type		Account Groups		Totals (Memorandum Only)	
	General		Special Revenue	Capital Projects	Enterprise	Trust and Agency	University and Colleges	General Fixed Assets	Long-term Obligations			1993	1992	
													(As restated)	
LIABILITIES, FUND EQUITY AND OTHER CREDITS														
Liabilities:														
Accounts payable	\$ 1,269,207	\$ 263,175	\$ 242,144	\$ 204,126	\$ 92,075	\$ 39,942	\$ 0	\$ 0	\$ 0	\$ 2,130,699	\$ 1,886,466			
Accrued payroll	54,578	13,410	1,432	32,354	333	64,829				166,934	72,810			
Compensated absences	93,474	44,679	3,031		412	103,188				321,064	244,492			
Tax refunds and abatements payable	317,066	209,941			7,123					534,160	664,516			
Due to cities and towns					12,710					12,710	16,410			
Due to other funds	466,316	94,983	174,716		3,685	36,690				798,590	443,692			
Due to federal government	13,000				269,429					282,429	308,033			
Deferred revenue	136,364	66,357	437	211,876	28,568	5,136				448,836	360,336			
Prizes payable					975,442					975,442	937,249			
Deferred compensation benefits payable					895,768					895,768	764,696			
Agency liabilities	143,985	79,466	1,150		2,883,236					2,892,422	2,957,494			
Claims and judgments					136						401,864			
Deposits and unearned revenue											5,776			
Other accrued liabilities		70,040	2,966	211,140						335,453	336,133			
Capital leases											46,016			
Bonds, notes payable and certificates of participation	240,000		84,434	4,667,297		274,481				9,231,458	13,923,144			
School construction grants										1,926,082	1,616,495			
Unfunded pension costs										2,362,254	2,117,695			
Total liabilities	2,754,026	962,051	510,310	5,326,893	5,169,917	672,909				14,031,267	26,326,375		27,298,873	
Fund equity and other credits:														
Investment in general fixed assets										3,012,230	3,012,230		2,979,943	
Contributed capital										5,046,901	5,046,901		5,078,131	
Retained earnings														
Reserved for investment programs														
Unreserved														
Fund balances (deficit):														
Unrestricted														
Restricted														
Unexpended plant funds														
Renewals and replacements														
Retirement of indebtedness														
Net investment in plant														
Reserved for pension benefits														
Reserved for specific purpose														
Unreserved	(1,121,538)	1,008,569	(365,291)	4,975,307	11,255,625	2,010,461				9,012,260	20,775,363		17,191,548	
Total fund equity (deficit) and other credits	(1,121,538)	1,008,569	(365,291)	4,975,307	11,255,625	2,010,461				9,012,260	20,775,363		17,191,548	
Total liabilities, fund equity and other credits	\$ 1,632,488	\$ 1,970,620	\$ 145,019	\$ 10,302,200	\$ 16,424,542	\$ 2,683,370				\$ 3,012,230	\$ 50,101,738		\$ 44,490,421	

See notes to general purpose financial statements.

(Concluded)

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS

FISCAL YEAR ENDED JUNE 30, 1993
(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects		1993	1992 (As restated)
Revenues:						
Taxes	\$ 6,215,150	\$ 3,805,616	\$ 0	\$ 1,073,002	\$ 11,093,768	\$ 10,320,163
Assessments	192,072	404,778		2,565	599,415	789,552
Federal grants and reimbursements	2,616,844	1,157,020	720,007	636,309	5,130,180	4,512,512
Departmental	517,912	2,791,133	553	3,054	3,312,652	2,821,271
Miscellaneous	347,558	35,012	264	63,124	445,958	458,360
Total revenues	9,889,536	8,193,559	720,824	1,778,054	20,581,973	18,900,859
Other financing sources:						
Proceeds of general obligation bonds			368,367		368,367	720,847
Proceeds of special obligation bonds			1,891,468		1,891,468	100,000
Proceeds of refunding bonds	13,297				13,297	574,313
Proceeds of capital leases	353,563	715,507	108,090	2,768	1,179,928	1,030,517
Operating transfers in	20,278		26,104		46,382	54,379
Other						
Total other financing sources	987,138	715,507	2,394,029	2,768	3,499,442	2,497,563
Total revenues and other financing sources	10,276,674	8,909,066	3,114,853	1,780,822	24,081,415	21,398,421
Expenditures:						
Current:						
Legislature	40,798	217,773		2,179	40,798	44,569
Judiciary	87,829				307,781	314,956
Inspector General	1,304				1,304	979
Governor and Lieutenant Governor	3,680				3,680	3,611
Secretary of the Commonwealth	11,955	2,149		7	14,111	11,747
Treasurer and Receiver - General	104,224	1,555,247		19	1,659,490	1,379,284
Auditor of the Commonwealth	9,394	717		347	10,458	10,401
Attorney General	33,969	2,420		672	37,061	18,861
Ethics Commission	1,003				1,003	870
District Attorney	11,087	33,017		3,039	47,143	42,306
Office of Campaign and Political Finance	539				539	516
Board of Library Commissioners	51	4,568		1	4,620	4,004
Comptroller	5,546				5,546	5,536
Administration and finance	575,926	106,364		1,169	683,459	829,928

(Continued)

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS

FISCAL YEAR ENDED JUNE 30, 1993

(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects		1993	1992 (As restated)
Expenditures (continued):						
Current (continued):						
Environmental affairs	29,230	132,397		5,666	167,293	148,128
Communities and development	172,354	191,260		1,167	364,781	399,145
Health and human services	3,149,776	894,106		51,370	4,095,252	4,030,490
Transportation and construction	47,394	226,097		779	274,270	92,863
Education	10,098	458,598		1,190	469,886	393,865
Educational affairs		7,390			9,602	16,926
Higher education	67,128	2,167		164	69,459	32,723
Public safety	335,147	275,681		2,254	613,082	659,660
Economic affairs	20,625	189,604		1,497,867	1,708,096	1,872,862
Elder affairs	122,300	27,394		23	149,717	136,572
Consumer affairs	24,822	4,959		2,541	32,322	29,523
Labor	22,337	1,999		24,322	48,658	50,121
Direct local aid	5,318	2,541,183			2,546,501	2,278,426
Medicaid	3,151,361				3,151,361	2,852,674
Capital outlay:						
Local aid			104,876		104,876	87,145
Capital acquisition and construction			1,132,549		1,132,549	1,102,236
Pension	347,676	545,762			893,438	751,519
Debt service:						
Principal retirement	482,843	109,850			592,493	342,282
Interest and fiscal charges	390,063	160,091			550,174	559,784
Total expenditures	9,267,809	7,690,793	1,237,425	1,594,776	19,780,803	18,503,532
Other financing uses:						
Payments to refunded bond escrow agent			1,891,468		1,891,468	574,313
Operating transfers out	604,389	993,112	122,891	4,087	1,724,479	2,187,669
Transfers of appropriations	617,374	1,443			618,817	
Transfers of bond proceeds			24,796		24,796	
Other uses		257			257	
Total other financing uses	1,221,763	994,812	2,039,155	4,087	4,259,817	2,761,982
Total expenditures and other financing uses	10,489,572	8,675,605	3,276,580	1,598,863	24,040,620	21,265,514
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(212,898)	233,461	(161,727)	181,959	40,795	132,907
Fund balances (deficit) at beginning of year	(988,296)	775,108	(203,564)	(53,261)	(470,013)	(602,920)
Residual equity transfer	79,656				79,656	
Fund balances (deficit) at end of year	\$ (1,121,538)	\$ 1,008,569	\$ (365,291)	\$ 128,698	\$ (349,562)	\$ (470,013)

See notes to general purpose financial statements

(Concluded)

COMMONWEALTH OF MASSACHUSETTS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - STATUTORY BASIS
BUDGET AND ACTUAL - GENERAL AND BUDGETED SPECIAL REVENUE FUNDS

FISCAL YEAR ENDED JUNE 30, 1983

(Amounts in thousands)

	General Fund		Budgeted Special Revenue Funds		Totals		Variance Favorable (Unfavorable)
	Budget	Actual	Budget	Actual	Budget	Actual	
Revenues:							
Taxes	\$ 5,796,200	\$ 5,906,225	\$ 3,888,800	\$ 4,023,669	\$ 9,685,000	\$ 9,929,894	\$ 244,894
Assessments		190,595		7,913		198,508	198,508
Federal grants and reimbursements	2,648,600	2,662,268	5,600	11,808	2,654,200	2,674,076	19,876
Departmental	729,800	478,429	482,900	542,003	1,212,700	1,020,432	(192,268)
Miscellaneous		322,522		36,489		359,011	359,011
Total revenues	9,174,600	9,560,039	4,377,300	4,621,882	13,551,900	14,181,921	630,021
Other financing sources:							
Fringe benefit cost recovery		138,296				138,296	138,296
Operating transfers in	305,900	197,780	536,800	594,569	842,700	792,349	(50,351)
Stabilization transfer				76,872		76,872	76,872
Other sources	45,000	16,250		1	45,000	16,251	(28,749)
Total other financing sources	350,900	352,326	536,800	671,442	887,700	1,023,766	136,066
Total revenues and other financing sources	9,525,500	9,912,365	4,914,100	5,293,324	14,439,600	15,205,689	766,089
Expenditures:							
Legislature	41,123	12,905			54,028	41,123	12,905
Judiciary	84,185	1,994			314,749	306,010	8,739
Inspector General	1,279	10	228,570	221,825	1,289	1,279	10
Governor and Lieutenant Governor	4,253	602			4,253	3,651	602
Secretary of the Commonwealth	11,825	11,705	1,401	1,395	13,228	13,100	126
Treasurer and Receiver - General	108,657	102,863	1,207	807	109,864	103,690	6,174
Auditor of the Commonwealth	9,469	9,466	717	717	10,188	10,183	3
Attorney General	18,195	17,884	734	712	18,929	18,596	333
Ethics Commission	1,009	1,002			1,009	1,002	7
District Attorney	13,163	11,052	33,489	31,191	46,652	42,243	4,409
Office of Campaign and Political Finance	547	545	2,198	1,729	547	545	2
Board of Library Commissioners			2,198	1,729	2,198	1,729	469
Comptroller	5,046	5,037	525	525	5,571	5,562	9
Administration and finance	757,799	709,412	216,229	202,356	974,028	911,768	62,260
Environmental affairs		28,625	120,962	111,053	152,630	139,678	12,952
Communities and development	179,533	172,419	1,874	1,682	181,407	174,101	7,306

(Continued)

COMMONWEALTH OF MASSACHUSETTS
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - STATUTORY BASIS
BUDGET AND ACTUAL - GENERAL AND BUDGETED SPECIAL REVENUE FUNDS

FISCAL YEAR ENDED JUNE 30, 1993
(Amounts in thousands)

	General Fund		Budgeted Special Revenue Funds		Totals	
	Budget	Actual	Budget	Actual	Budget	Actual
Expenditures (continued):						
Health and human services	3,295,589	3,183,277	42,354	15,931	3,337,943	3,209,208
Transportation and construction	606,500	596,270	249,252	221,812	855,752	818,082
Education	10,745	10,187	72,270	71,444	83,015	81,631
Educational affairs	2,374	2,201	7,323	7,323	9,697	9,524
Higher education	557,799	543,497	1,611	1,448	559,410	544,945
Public safety	332,089	325,647	273,778	259,043	605,867	584,690
Economic affairs	23,152	21,813	18,283	15,273	41,435	37,086
Elder affairs	123,974	122,323	3,194	3,188	127,168	125,511
Consumer affairs	26,288	24,957	4,780	4,322	31,068	29,279
Labor	24,473	22,370			24,473	22,370
Direct local aid	5,366	5,318	2,549,519	2,541,183	2,554,885	2,546,501
Medicaid	3,158,280	3,151,361			3,158,280	3,151,361
Pension	350,517	338,460	532,983	529,694	883,500	866,154
Debt service:						
Principal retirement	290,518	290,518	306,888	300,581	597,406	591,079
Interest and fiscal charges	361,711	319,674	257,102	228,770	618,813	548,444
Total expenditures	10,452,035	10,168,141	4,927,243	4,773,984	15,379,278	14,942,125
Other financing uses:						
Fringe benefit cost assessment				9,635	163,671	9,635
Operating transfers out	37,964	37,964	125,707	125,707	163,671	163,671
Stabilization transfer		46,123		30,749	76,872	76,872
Other uses				257	257	257
Total other financing uses	37,964	84,087	125,707	166,348	163,671	250,435
Total expenditures and other financing uses	10,489,999	10,252,228	5,052,950	4,940,332	15,542,949	15,192,560
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(964,499)	(339,863)	624,636	352,992	(1,103,349)	1,116,478
Fund balances (deficit) at beginning of year	(361,733)	(361,733)	911,177	911,177	549,444	549,444
Fund balances (deficit) at end of year	\$(1,326,232)	\$(701,596)	\$ 772,327	\$ 1,264,169	\$(553,905)	\$ 1,116,478

(Conclude)

See notes to general purpose financial statements.

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENSES,
CHANGES IN RETAINED EARNINGS/FUND BALANCES AND CHANGES IN CONTRIBUTED CAPITAL -
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS

FISCAL YEAR ENDED JUNE 30, 1993

(Amounts in thousands)

	Proprietary	Fiduciary		Totals	
	Fund Type	Fund Types		(Memorandum Only)	
	Enterprise	Nonexpendable	Pension	1993	1992
	Funds	Trust Funds	Trust Funds		(As restated)
Operating revenues:					
Contributions	\$ 0	\$ 0	\$ 1,072,789	\$ 1,072,789	\$ 967,133
Investment income			1,301,368	1,301,368	1,136,969
Charges for services	488,771			488,771	434,157
Donations	533			533	915
Other	2,519			2,519	2,179
Total operating revenues	491,823		2,374,157	2,865,960	2,541,353
Operating expenses:					
Cost of services and administration	798,435		3,276	801,711	778,660
Retirement benefits and refunds			898,399	898,399	825,511
Depreciation	260,460			260,460	230,434
Total operating expenses	1,058,895		901,675	1,960,570	1,834,805
Operating income (loss)	(567,072)		1,472,482	905,410	706,548
Nonoperating revenues (expenses)					
Operating grants	19,850			19,850	20,254
Interest income	61,286			61,286	46,158
Other revenues	3,839			3,839	2,336
Interest expense	(264,187)			(264,187)	(218,696)
Other expenses	(43,728)			(43,728)	(49,932)
Nonoperating revenues (expenses), net	(222,940)			(222,940)	(197,880)
Income (loss) before operating transfers and extraordinary item	(790,012)		1,472,482	682,470	508,668
Transfers and extraordinary item:					
Operating transfers in	617,246			617,246	606,439
Extraordinary item - loss on defeasance					(41,305)
Total transfers and extraordinary item	617,246			617,246	565,134
Net income (loss)	(172,766)		1,472,482	1,299,716	1,073,802

(Continued)

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENSES,
 CHANGES IN RETAINED EARNINGS/FUND BALANCES AND CHANGES IN CONTRIBUTED CAPITAL -
 ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS

FISCAL YEAR ENDED JUNE 30, 1993

(Amounts in thousands)

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)	
	Enterprise Funds	Nonexpendable Trust Funds	Pension Trust Funds	1993	1992 (As restated)
Add: Depreciation of fixed assets acquired from contributed capital	152,130			152,130	136,083
Transfer of extraordinary item to contributed capital					41,305
Increase (decrease) in retained earnings/fund balances	<u>(20,636)</u>		1,472,482	<u>1,451,846</u>	<u>1,251,190</u>
Retained earnings/fund balances at beginning of year	<u>(50,958)</u>	5,779	9,648,666	<u>9,603,487</u>	<u>8,352,297</u>
Retained earnings/fund balances at end of year	<u>\$ (71,594)</u>	<u>\$ 5,779</u>	<u>\$ 11,121,148</u>	<u>\$ 11,055,333</u>	<u>\$ 9,603,487</u>
Contributed capital at beginning of year	\$ 5,078,131	\$ 0	\$ 0	\$ 5,078,131	\$ 4,959,299
Add: Capital contributions	200,976			200,976	298,220
Less: Depreciation of fixed assets acquired from contributed capital	(152,130)			(152,130)	(136,083)
Residual equity transfer	(79,656)			(79,656)	
Loss on defeasance					(41,305)
Other	<u>(420)</u>			<u>(420)</u>	
Contributed capital at end of year	<u>\$ 5,046,901</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,046,901</u>	<u>\$ 5,078,131</u>

See notes to general purpose financial statements.

(Concluded)

COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF CASH FLOWS -
 ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
 FISCAL YEAR ENDED JUNE 30, 1993
 (Amounts in thousands)

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)	
	Enterprise funds	Nonexpendable Trust Funds	1993	1992 (As restated)
Cash flows from operating activities:				
Operating loss	\$ (567,072)	\$ 0	\$ (567,072)	\$ (569,096)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:				
Depreciation	260,460		260,460	230,434
Gain on sale of equipment	(379)		(379)	
Other nonoperating revenues	3,839		3,839	2,336
Other nonoperating expenses	(43,728)		(43,728)	(49,932)
Other	(420)		(420)	
Change in assets and liabilities:				
Due from federal government	(13,522)		(13,522)	(93,081)
Loans	(74,723)		(74,723)	(77,668)
Other receivables	17,681		17,681	(14,368)
Due from other funds	(46,092)		(46,092)	(45,493)
Inventory	156		156	7,760
Restricted and other assets	(7,685)		(7,685)	25,023
Accounts payable	31,824	3	31,827	40,021
Accrued payroll	2,200		2,200	37,662
Deferred revenue	31,303		31,303	30,597
Other accrued liabilities	4,939		4,939	(19,929)
Total adjustments	165,853	3	165,856	73,364
Net cash used for operating activities	(401,219)	3	(401,216)	(495,732)
Cash flows from noncapital financing activities:				
Operating grants	19,850		19,850	20,254
Operating transfers	617,246		617,246	606,439
Residual equity transfers	(79,656)		(79,656)	
Net cash provided by noncapital financing activities	557,440		557,440	626,693
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(711,624)		(711,624)	(789,120)
Proceeds from the issuance of bonds and notes	2,894,761		2,894,761	2,941,272
Interest on bonds and notes	(264,187)		(264,187)	(216,696)
Capital contributions	200,976		200,976	296,220
Principal payments on bonds and notes	(1,427,890)		(1,427,890)	(1,452,448)
Amortization of bond discount	10,109		10,109	1,429
Loss on refunding	(206,960)		(206,960)	(41,305)
Proceeds from sale of equipment	771		771	
Payment to escrow agent	(1,786,938)		(1,786,938)	(147,006)
Receipts from capital grants				600
Net cash provided by (used for) capital and related financing activities	(1,290,982)		(1,290,982)	592,946

(Continued)

COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF CASH FLOWS -
 ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND
 FISCAL YEAR ENDED JUNE 30, 1993
 (Amounts in thousands)

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)	
	Enterprise funds	Nonexpendable Trust Funds	1993	1992 (As restated)
Cash flows from investing activities:				
Purchases of investments	(1,430,792)		(1,430,792)	(3,292,350)
Sales and maturities of investments	2,613,243		2,613,243	2,537,104
Interest income	81,286		81,286	46,158
Net cash provided by investing activities	<u>1,243,737</u>		<u>1,243,737</u>	<u>(709,088)</u>
Net increase in cash and cash equivalents	108,978	3	108,979	14,819
Cash and cash equivalents at beginning of year	<u>120,522</u>	<u>5,779</u>	<u>126,301</u>	<u>111,482</u>
Cash and cash equivalents at end of year	<u>\$ 229,498</u>	<u>\$ 5,782</u>	<u>\$ 235,280</u>	<u>\$ 126,301</u>
Reconciliation:				
Cash and cash equivalents at end of year	\$ 229,498	\$ 5,782	\$ 235,280	\$ 126,301
Cash and cash equivalents at end of year, Pension Trust, Expendable Trust and Agency		1,272,773	1,272,773	1,205,289
Cash and cash equivalents per the Combined Balance Sheet	<u>\$ 229,498</u>	<u>\$ 1,278,555</u>	<u>\$ 1,508,053</u>	<u>\$ 1,331,590</u>

See notes to general purpose financial statements

(Concluded)

COMMONWEALTH OF MASSACHUSETTS
 STATEMENT OF CHANGES IN FUND BALANCES - UNIVERSITY AND COLLEGE FUND
 FISCAL YEAR ENDED JUNE 30, 1993
 (Amounts in thousands)

	Current Funds		Loan Fund	Endowment and Similar Funds	Plant Funds	Total
	Unrestricted	Restricted				
Revenues and other additions:						
Unrestricted current funds revenues	\$ 975,642	\$ 0	\$ 0	\$ 0	\$ 0	\$ 975,642
Federal appropriations		7,277				7,277
Federal grants and contracts		176,228	1,353		329	177,910
State grants and contracts		8,594	62			6,656
Local grants and contracts		2,481				2,481
Private gifts, grants and contracts		53,340	3	408	6,147	61,898
Investment income		588	21	56	2,223	2,888
Interest on loans receivable			813			813
Net realized gain (loss) on investments				618		616
Reimbursed loan cancellations			27			27
Other income		358	61		104	523
Expended for plant facilities					71,887	71,887
Retirement of indebtedness					12,219	12,219
Other additions		119	4,578	369	3,263	8,329
Total revenue and other additions	975,642	246,985	6,918	1,451	98,172	1,329,168
Expenditures and other deductions:						
Educational and general expenditures	1,043,259	258,794				1,302,053
Auxiliary enterprises expenditures	124,027					124,027
Indirect costs recovered		32,669				32,669
Hospital expenditures	218,583					218,583
Group practice plan expenditures	99,603					99,603
Refunded to grantors and donors		222	15			237
Loan cancellations and write-offs			1,165			1,165
Administrative and collection costs			615	286	1,920	2,821
Retirement of indebtedness					12,219	12,219
Interest on indebtedness					19,936	19,936
Expended for plant facilities					41,268	41,268
Depreciation and amortization					11,539	11,539
Disposal of plant facilities					11,538	11,538
Other deductions			21		3,581	3,602
Total expenditures and other deductions	1,485,472	291,685	1,816	286	102,001	1,881,260
Mandatory transfers:						
Principal and interest	(32,896)				32,896	
Renewals and replacements	(1,381)				1,381	
Student loan fund matching		(397)	397			
Other mandatory transfers	(72,685)					(72,695)
Nonmandatory transfers:						
Transfers of appropriation	579,888	35,809			3,120	618,817
Transfers of bond proceeds		8,744			16,052	24,796
Unexpended plant funds	(4,000)				4,000	
Renewals and replacements	(7,922)	(117)			8,039	
Other nonmandatory transfers	(274)	(479)	(48)	43	758	
Total transfers	480,720	43,560	349	43	68,246	570,916
Net increase (decrease) for the year	(49,110)	(1,140)	5,451	1,208	62,417	18,826
Fund balances at the beginning of year	172,087	22,921	41,952	19,768	1,734,907	1,991,635
Fund balances at end of year	\$ 122,977	\$ 21,781	\$ 47,403	\$ 20,976	\$ 1,797,324	\$ 2,010,461

See notes to general purpose financial statements.

COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES -
 UNIVERSITY AND COLLEGE FUND

FISCAL YEAR ENDED JUNE 30, 1993

(Amounts in thousands)

	Current Funds		
	Unrestricted	Restricted	Total
Revenues and other additions:			
Tuition and fees	\$ 379,069	\$ 0	\$ 379,069
Federal appropriations		7,158	7,158
Federal grants and contracts	377	154,084	154,461
State grants and contracts	671	5,301	5,972
Local grants and contracts	26	2,221	2,247
Private gifts, grants and contracts	37,758	44,301	82,059
Endowment income	204		204
Sales and service, educational	10,333		10,333
Sales and service, auxiliary enterprises	121,366		121,366
Sales and service, hospital	225,165		225,165
Sales and service, group practice plan	84,517		84,517
Recovery of indirect costs	32,652	17	32,669
Other investment income	15,610	791	16,401
Other	67,894	460	68,354
Total current funds revenues	975,642	214,333	1,189,975
Expenditures:			
Instruction	483,392	36,585	521,977
Research	37,754	87,299	125,053
Public service	14,819	28,057	42,876
Academic support	101,987	12,353	114,340
Student services	87,514	5,998	93,512
Institutional support	143,393	2,368	145,761
Operation and maintenance of plant	136,088	2,766	138,854
Scholarships and fellowships	38,312	81,368	119,680
Auxiliary enterprises	124,027		124,027
Hospital	218,583		218,583
Group practice plan	99,603		99,603
Total current funds expenditures	1,485,472	258,794	1,744,266
Transfers and other changes:			
Mandatory transfers:			
Principal and interest	(32,896)		(32,896)
Renewals and replacements	(1,381)		(1,381)
Student loan fund matching		(397)	(397)
Other	(72,695)		(72,695)
Nonmandatory transfers and other changes:			
Transfers of appropriation	579,888	35,745	615,633
Transfers of bond proceeds		8,716	8,716
Unexpended plant funds	(3,800)		(3,800)
Renewals and replacements	(7,922)	(289)	(8,211)
Other nonmandatory transfers	(474)	(479)	(953)
Refunds to grantors		(222)	(222)
Excess of transfers to revenue over restricted receipts		247	247
Total transfers and other changes	480,720	43,321	504,041
Total decrease in fund balances	\$ (49,110)	\$ (1,140)	\$ (50,250)

See notes to general purpose financial statements.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

1. Summary of Significant Accounting Policies:

The accompanying financial statements of the Commonwealth of Massachusetts (the Commonwealth) have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Commonwealth's accounting policies are described below.

a. Reporting Entity -

The financial statements include the departments, agencies, boards, and commissions governed by the legislative, judicial and constitutional offices of the Commonwealth, the public institutions of higher education, and the State Employees' and Teachers' Retirement Systems. Also reported are the independent authorities and other organizations over which oversight authority is exercised. These authorities, which are reported as Enterprise Funds, were included based on the following criteria:

- Commonwealth's ability to exercise oversight responsibility, evidenced by:
 - Financial interdependency
 - Selection of governing authority
 - Designation of management
 - Ability to significantly influence operations
 - Accountability for fiscal matters

- Scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens.

- Existence of special financing relationships, regardless of whether the government exercises oversight responsibility.

The following authorities are included in the reporting entity:

Massachusetts Bay Transportation Authority (MBTA)
Massachusetts Convention Center Authority (MCCA)
Massachusetts Water Resources Authority (MWRA)
Bay State Skills Corporation
Government Land Bank
Massachusetts Community Development Finance Corporation
Massachusetts Industrial Finance Agency

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

1. Summary of Significant Accounting Policies (Continued):

a. Reporting Entity (Continued) -

Massachusetts Technology Development Corporation
Massachusetts Technology Park Corporation
Massachusetts Water Pollution Abatement Trust (WPAT)

The following authorities are excluded from the reporting entity:

The Massachusetts Turnpike Authority - Board members are appointed by the Governor for staggered three-year terms but do not maintain a significant relationship with the Commonwealth. The Turnpike Authority is financially independent of the Commonwealth because it establishes its own rates, issues debt and sets budgets without Commonwealth oversight. Debt is supported solely from its revenues.

The Massachusetts Port Authority - Board members are appointed by the Governor for staggered seven-year terms, but the Port Authority is considered financially independent of the Commonwealth because it selects management staff, sets user charges, issues debt, establishes budgets and controls aspects of general aviation and other transportation management and development without oversight by the Commonwealth. The Commonwealth provides no funding, and the Port Authority's debt is supported solely by its own revenues.

Massachusetts Home Finance Agency, Massachusetts Housing Finance Agency and Massachusetts Health and Educational Facilities Authority (MHEFA) - The Commonwealth does not have the ability to significantly influence operations of these entities, nor does it guarantee their debt. Therefore, the Commonwealth does not exercise oversight responsibility over them. The Commonwealth maintains no special financing relationships with these entities.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

1. Summary of Significant Accounting Policies (Continued):

b. Fund Accounting -

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

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

The Commonwealth has established the following fund categories, fund types and account groups:

Governmental Funds - account for the general governmental functions of the Commonwealth.

The General Fund is the primary operating fund of the Commonwealth. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

Special Revenue Funds are used to account for specific revenue sources, other than expendable trusts or major capital financing, that have been segregated according to state finance law to support specific governmental activities.

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

1. Summary of Significant Accounting Policies (Continued):

b. Fund Accounting (Continued) -

Proprietary Funds - are used to account for activities similar to those found in the private sector where net income and capital maintenance are measured.

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

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

Expendable Trust Funds are used to account for trusts whose principal and income may be expended for their designated purpose.

Nonexpendable Trust Funds are used to account for trusts whose principal cannot be spent.

Pension Trust Funds are used to account for the assets, liabilities and fund equities held in trust for the State Employees' and Teachers' Retirement Systems.

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

University and College Fund - is used to account for the activities specific to the operation of the Commonwealth's public institutions of higher education, including its medical school, and related Hospital, Group Practice Plan and building authorities.

Current Funds are used to account for unrestricted funds which may be used at the discretion of the individual institutions' governing bodies and for restricted funds which must be utilized for specific purposes established by others.

Loan funds account for resources available to make loans to students, faculty and staff.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

1. Summary of Significant Accounting Policies (Continued):

b. Fund Accounting (Continued) -

University and College Fund (Continued) -

Endowment and Similar Funds are comparable to trust funds, in that they must be administered according to the terms of specific agreements.

Plant Funds are used to account for resources that have been or will be invested to acquire or repair fixed assets or for the related debt service.

Account Groups - establish control and accountability over the Commonwealth's general fixed assets and general long-term obligations.

The General Fixed Assets Account Group is used to account for general fixed assets of the Commonwealth, which exclude the fixed assets of the Enterprise and University and College Funds.

The General Long-term Obligations Account Group is used to account for general and special obligation long-term bonds and notes issued by the Commonwealth, obligations under capital leases, certificates of participation, unpaid pension costs, compensated absences, claims and judgments and other long-term obligations, except for the liabilities of the Enterprise and University and College Funds.

c. Basis of Accounting -

Governmental and Expendable Trust Funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Revenues from other sources are recognized when received. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities when due.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

1. Summary of Significant Accounting Policies (Continued):

c. Basis of Accounting (Continued) -

Enterprise, Nonexpendable Trust and Pension Trust Funds are reported using a flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Agency Fund assets and liabilities are reported using the modified accrual basis of accounting.

University and College Fund activities are reported using the accrual basis of accounting, except that depreciation is recorded only for those plant fund assets related to the hospital and group practice plan.

Statutory (Budgetary) Accounting -

The Commonwealth's budgets are adopted in accordance with a statutory basis of accounting which is not in accordance with GAAP. Revenues are generally recognized when cash is received. However, revenues receivable for federal grants and reimbursements are recognized when related expenditures are incurred. Amounts due from certain political subdivisions of the Commonwealth are recognized when considered measurable and available at year end.

Expenditures generally are recorded when the related cash disbursement occurs. At year end, payroll is accrued and payables are recognized, to the extent of approved encumbrances, provided that the goods or services have been received by June 30. Other encumbrances are lapsed. Costs incurred under the federally-sponsored Medicaid program, amounts required to settle claims and judgments against the Commonwealth, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment.

Under the statutory basis of accounting, the Commonwealth uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the Governmental Funds, encumbrance accounting is a significant aspect of budgetary control.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

1. Summary of Significant Accounting Policies (Continued):

d. Cash and Short-term Investments and Investments -

The Commonwealth follows the practice of pooling cash and cash equivalents for all of its Governmental and Fiduciary Funds. Cash equivalents consist of short-term investments with an original maturity of three months or less and are stated at cost. Because this cash is pooled, an individual Governmental or Fiduciary fund may have a cash deficit. In these instances, the fund with the cash deficit will borrow from another fund. These interfund borrowings are reported as "Due from other funds" and "Due to other funds" on the balance sheet. Interest earned on pooled cash is allocated to the General Fund, Expendable Trust Funds and to certain Special Revenue Funds when so directed by law.

Equity securities of the Pension Trust Funds and deferred compensation plan investments are stated at market. The Massachusetts State Teachers and Employees Retirement Systems Trust (MASTERS) and the Pension Reserves Investment Trust Fund (PRIT), collectively the Pension Trust Funds have acquired investments in real estate, venture capital funds, real estate funds, limited partnerships, futures pools, international hedge pools, commodities pools, balanced pools, leverage buyouts, private placements and other alternative investments. The structure, risk profile, return potential and marketability differ from traditional equity and fixed income investments. As of June 30, 1993, the estimated values, determined by management with input from the investment managers, of these alternative investments were \$487,529,832 in the Trust and \$588,502,887 in the Fund.

Investments of the University of Massachusetts (UMass) are stated at the lower-of-cost or market (except for debt instruments to be held to maturity which are carried at amortized cost). Other investments are stated at cost or amortized cost.

Annuity contracts represent guaranteed investment contracts and are carried at present value.

e. Receivables -

Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the Commonwealth for its expenditures on federally-funded reimbursement and grant programs are reported as "Due from federal government." The receivables in the Proprietary and University and College Funds are amounts that have arisen in the normal course of business.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

1. Summary of Significant Accounting Policies (Continued):

f. Inventories -

The costs of materials and supplies are recorded as expenditures in Governmental Funds when purchased. Such inventories are not material in total to the financial statements.

Inventories included within Enterprise and the University and College Funds are stated at the lower of cost, using the first-in, first-out method, or market.

g. Fixed Assets -

For Governmental Funds, general fixed asset acquisitions are recorded as expenditures in the acquiring fund and capitalized in the General Fixed Assets Account Group in the year purchased. General fixed assets are recorded at historical cost, or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at fair market value at the time of the donation.

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

Fixed assets of the Enterprise Funds are capitalized upon purchase and depreciated on a straight-line basis over the estimated useful lives of the assets. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are as follows:

Structures and improvements	3 - 100 years
Equipment, furniture, fixtures and vehicles	3 - 25 years

Fixed assets of the University and College Fund are recorded at cost when purchased or constructed. Major construction projects financed through the issuance of Commonwealth bonds are not recognized as additions to investment in plant until completed. For fixed assets related to the hospital and group practice plan, depreciation is recorded on a straight line basis over the estimated useful lives of the assets.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

1. Summary of Significant Accounting Policies (Continued):

h. Interfund/Intrafund Transactions -

During the course of its operations, the Commonwealth records transactions between funds and/or between departments. Transactions of a buyer/seller nature between departments within a fund are not eliminated from the individual fund statements. Receivables and payables resulting from transactions between funds are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

i. Fringe Benefit Cost Recovery -

The Commonwealth appropriates and pays the fringe benefit costs of its employees and retirees through the General Fund. These fringe benefits include the costs of employees' health insurance, pensions, unemployment compensation and other costs necessary to support the state workforce. As directed by Massachusetts General Laws, these costs are assessed to other funds based on their payroll costs, net of credits for direct payments. Since these fringe benefit costs are not separately appropriated or otherwise provided for in these funds, the required assessment creates an unfavorable budget variance in the budgeted funds.

j. School Construction Grants -

The Commonwealth is committed to reimburse certain cities, towns and regional school districts for a portion of their debt service costs for school construction and renovation. This liability is recorded in the General Long-term Obligations Account Group.

k. Compensated Absences -

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

For Governmental Funds and Expendable Trust Funds, vested or accumulated vacation and sick leave that are expected to be liquidated with expendable available financial resources are reported as expenditures and fund liabilities. Amounts that are not expected to be so liquidated are reported in the General Long-term Obligations Account Group.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

1. Summary of Significant Accounting Policies (Continued):

k. Compensated Absences (Continued) -

In the Enterprise and the University and College Funds, employees' accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue.

l. Lottery Revenue and Prizes -

Ticket revenues and prizes awarded by the Massachusetts Lottery Commission are recognized as drawings are held. For certain prizes payable in installments, the Commonwealth purchases annuities in the Commonwealth's name, which are recorded as annuity contracts and prizes payable in the Agency Funds. The Commonwealth retains the risk related to such annuities.

m. Risk Financing -

The Commonwealth does not insure for workers' compensation, casualty, theft, tort claims and other losses. Such losses, including estimates of amounts incurred but not reported, are included as accrued liabilities in the accompanying financial statements when the claim is incurred. For workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Public Employee Retirement Administration. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances. The Group Insurance Commission administers health care and other insurance for the Commonwealth's employees and retirees.

n. Total Columns - Memorandum Only -

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(continued)

1. Summary of Significant Accounting Policies (Continued):

o. Reclassifications -

For the fiscal year ended June 30, 1993, certain reclassifications have been made to the 1992 balances to conform to the presentation used in 1993.

The presentation of the separately issued Enterprise Funds financial statements has been reclassified to conform to the accounting classifications used by the Commonwealth.

p. Future Adoption of Accounting Pronouncements -

The GASB has issued the following statements which the Commonwealth has not yet adopted and which require adoption subsequent to June 30, 1993:

<u>Statement No.</u>		<u>Adoption required in fiscal year</u>
14	The Financial Reporting Entity	1994
16	Accounting for Compensated Absences	1994
18	Accounting for Municipal Solid Waste Landfill Closure and Postclosure Care Costs	1994
20	Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting	1995
21	Accounting for Escheat Property	1995
22	Accounting for Taxpayer-Assessed Tax Revenues in Governmental Funds	1995

The impact of these statements has not yet been determined.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

2. Budgetary Control:

State finance law requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature which includes estimates of revenues, expenditures and other financing sources and uses anticipated during the coming fiscal year. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies, at the individual appropriation account level, in an annual appropriation act.

For fiscal year 1993, the Legislature enacted a provision requiring that the general appropriation act include a revenue budget to show the estimates of amounts expected to be available to finance appropriated expenditures.

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

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

Generally, expenditures may not exceed the level of spending authorized for an individual appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Certain interfund assessments to allocate fringe benefits and other costs are mandated by state finance law but not itemized in the appropriation process or separately budgeted. In addition, Massachusetts General Laws authorize the Commissioner of Administration, with the approval of the Governor, to withhold allotment of appropriated funds, effectively reducing the account's expenditure budget, upon determination that available revenues will be insufficient to meet authorized expenditures.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

2. Budgetary Control (Continued):

The original fiscal year 1993 appropriation act authorized a total of \$13,840,981,000 in direct appropriations, \$547,426,000 in authorizations to retain and expend certain non-tax revenues and \$175,766,000 of interagency chargebacks. The act also included estimates of \$9,685,000,000 in tax revenues and approximately \$4,754,600,000 in non-tax revenues. With these revenues (exclusive of chargebacks) projected to total approximately \$14,439,600,000, and with unreserved balances of approximately \$82,878,000 carried forward from fiscal year 1992, the budget as presented in this original appropriation act was considered to be in balance.

During fiscal year 1993, the Legislature also passed and the Governor signed, with some modification through veto, several supplemental budgetary appropriations. These amounts added approximately \$412,636,000 in direct appropriations and \$35,397,000 in additional retained revenue authorizations.

Subsequent to June 30, 1993, the Legislature passed and the Governor signed, with modification through veto, approximately \$76,383,000 in additional supplemental appropriations. These actions raised to approximately \$15,088,589,000 the total of appropriations and retained revenue authorizations. Appropriations continued from fiscal year 1992 totaled approximately \$231,030,000, and certain intrafund and interfund transfers and expenditures, directed by statute, totaled approximately \$223,330,000.

Because a practice of legally updated revenue budgets is not in place, the revenue projections included in the original appropriation act are used as the budgeted revenues in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Statutory Basis - Budget and Actual - General and Budgeted Special Revenue Funds (combined budget and actual statement). As a result, the comparison of the initial revenue budget to the subsequent, and often modified, expenditure budget can be misleading.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

2. Budgetary Control (Continued):

Appropriations are enacted for the General Fund and certain Special Revenue Fund activities. For these funds, a Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Statutory Basis - Budget and Actual - General and Budgeted Special Revenue Funds is included. The Budgeted Special Revenue Funds presented are the Highway, Local Aid, Commonwealth Stabilization, Administrative Control, Environmental and Other.

The Office of the Comptroller has the responsibility to ensure that budgetary spending control is maintained on an individual appropriation account basis. Budgetary control is exercised through the Massachusetts Management Accounting and Reporting System (MMARS). MMARS ensures that encumbrances or expenditures are not processed if they exceed the appropriation account's total available spending authorization, which is considered its budget. However, the Legislature has directed certain interfund transfers which are not budgeted. This results in unfavorable budget to actual variances in both "Other financing sources" and "Other financing uses."

A MMARS report, internally identified as RPT226, is used by management and the Office of the Comptroller to monitor spending against budget. This report provides information at the individual appropriation account level, which is the legal level of budgetary control and it is available from the Office of the Comptroller. For financial reporting, the Commonwealth groups these appropriation accounts by character and secretariat to conform to its organizational structure.

On the statutory basis, the Commonwealth Stabilization and Administrative Control Funds are segregated from the General Fund and reclassified as budgeted Special Revenue Funds to reflect the intent of the Legislature, which established statutory funds for specific appropriated activities. These accounts are included in the General Fund in the combined financial statements, consistent with their presentation in prior fiscal years.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

2. Budgetary Control (Continued):

The following is a reconciliation of the statutory basis excess of revenues and other financing sources over expenditures and other financing uses of the General and budgeted Special Revenue Funds to the GAAP basis presented in the financial statements (amounts in thousands):

	<u>General</u>	<u>Special Revenue</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (statutory basis)	(\$339,863)	\$352,992
Entity differences:		
Excess (deficiency) of revenues and other sources over expenditures and other uses for:		
Non-budgeted Special Revenue Funds		(36,218)
Perspective differences:		
Certain activities treated as Special Revenue Funds for statutory and as part of the General Fund for GAAP	66,936	(66,936)
Basis of accounting differences:		
Residual equity transfer	(79,656)	
Net increase in taxes receivable	66,401	37,823
Net decrease in due from federal government	(32,424)	(2,251)
Net increase (decrease) in other receivables and other assets	270,221	(2,686)
Net decrease in tax refunds and abatements payable	42,608	29,060
Net increase in accounts payable and other liabilities	<u>(207,121)</u>	<u>(78,323)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	<u>(\$212,898)</u>	<u>\$233,461</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

3. Deposits and Investments:

Cash and Short-term Investments -

The Commonwealth maintains a cash and short-term investment pool which is utilized by the Governmental and Fiduciary Fund types.

As of June 30, 1993, the carrying amount of the Commonwealth's total cash and short-term investments was \$366,083,000, and the corresponding bank balances were \$77,459,000. Bank deposits in the amount of \$19,120,000 were insured by the Federal Deposit Insurance Corporation, and \$58,339,000 were uninsured and uncollateralized.

Investments -

The Commonwealth maintains an investment pool, the Massachusetts Municipal Depository Trust (MMDT), that is available for use by all funds. The deposits and investments of the Enterprise and the University and College Funds and the investments of the Pension Trust Funds are held separately from those of other state funds, with the exception of their investments in MMDT.

Statutes authorize the Commonwealth to invest in obligations of the U.S. Treasury, authorized bonds of all states, banker's acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poors Corporation and Moody's Commercial Paper Record and repurchase agreements that any of these obligations secure. Investments in the MMDT are carried at cost, which approximates market. The investment policies of the entities included in the Enterprise Funds are the same as the Commonwealth's, except that they permit investment in equity securities. The Pension Trust Funds are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments. In the following table, these alternative investments, venture capital and futures pools are classified as other investments.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

3. Deposits and Investments (Continued):

Investments (Continued) -

Short-term investments and investments are classified as to collateral risk into the following three categories:

- Category 1: Insured or registered, or securities held by the Commonwealth or its agent in the Commonwealth's name.
- Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Commonwealth's name.
- Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commonwealth's name.

Investments at June 30, 1993, are as follows (amounts in thousands):

<u>Investment</u>	<u>Carrying amount</u>			<u>Total</u>	<u>Market value</u>
	<u>Category 1</u>	<u>Category 2</u>	<u>Category 3</u>		
Repurchase agreements	\$ 823,191	\$ 2,447	\$ 68,543	\$ 894,181	\$ 894,181
U.S. Treasury obligations	558,695	30,590	36,795	626,080	626,697
Commercial paper	839,044		8,830	847,874	847,874
Government obligations	2,335,375	136,165	12,413	2,483,953	2,485,802
Equity securities	5,694,745	14,709	7,214	5,716,668	5,717,362
Fixed income securities	1,457,036	53,818	1,494	1,512,348	1,512,944
Eurodollar contracts		54,908		54,908	54,272
Asset backed investments	14,141	41,366		55,507	55,552
Notes		<u>7,997</u>	<u>3,962</u>	<u>11,959</u>	<u>17,594</u>
	11,722,227	342,000	139,251	12,203,478	12,212,278
Money market investments				1,106,768	1,107,068
Mutual fund investments				18,345	18,345
Deferred compensation plan					
mutual funds				895,768	895,768
Annuity contracts				975,442	975,442
Guaranteed income contracts				318,753	318,753
Real estate				703,031	703,031
Assets held in trust				1,518,389	1,518,389
Other				<u>373,002</u>	<u>373,002</u>
Total				<u>\$18,112,976</u>	<u>\$18,122,076</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

3. Deposits and Investments (Continued):

Investments (Continued) -

The Pension Trust Funds hold approximately 85% of the investments in Category 1, the Enterprise Funds hold 33% and 51% of the investments in Categories 2 and 3, and the University and College Fund holds 67% and 32% of Categories 2 and 3, respectively.

The following is a reconciliation of the two different investment amounts at June 30, 1993 (amounts in thousands):

Investments as summarized above	\$18,112,976
Less: Short-term investments reported in the combined balance sheet as cash and short-term investments	2,265,984
Restricted investments reported separately in the combined balance sheet	767,408
Deferred compensation plan mutual funds reported separately in the combined balance sheet	895,768
Assets held in trust reported separately in the combined balance sheet	1,518,389
Annuity contracts reported separately in the combined balance sheet	<u>975,442</u>
Investments as reported on the combined balance sheet	<u>\$11,689,985</u>

The following is a reconciliation of the balance of cash and short-term investments at June 30, 1993 (amounts in thousands):

Carrying amount of cash and cash equivalents	\$ 366,083
Short-term investments	<u>2,265,984</u>
Cash and short-term investments as reported on the combined balance sheet	<u>\$2,632,067</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

4. Receivables:

The following schedule details the taxes, federal, loans and other receivables presented in the various funds (amounts in thousands):

	<u>Taxes</u>	<u>Due from federal government</u>	<u>Loans</u>	<u>Other</u>	<u>Allowance for uncollectibles</u>	<u>Net receivable</u>
General Fund	\$ 897,581	\$ 597,131	\$ 0	\$ 808,876	(\$ 890,691)	\$1,412,897
Special Revenue Funds	611,126	112,983		90,767	(194,109)	620,767
Capital Projects Funds		87,209		721	(264)	87,666
Enterprise Funds		179,132	175,584	29,291	(3,924)	380,083
Trust and Agency	369,548	1,838	8,151	251,535	(210,950)	420,122
University and College Fund		<u>34,929</u>	<u>48,855</u>	<u>134,614</u>	<u>(30,746)</u>	<u>187,652</u>
Subtotal	1,878,255	1,013,222	232,590	1,315,804		
Less: Allowance for uncollectible accounts	<u>(420,938)</u>	<u>(55,304)</u>	<u>(9,141)</u>	<u>(845,301)</u>	<u>(\$1,330,684)</u>	
Net receivable	<u>\$1,457,317</u>	<u>\$ 957,918</u>	<u>\$223,449</u>	<u>\$ 470,503</u>		<u>\$3,109,187</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

5. Interfund Transactions:

Interfund receivables and payables at June 30, 1993 are summarized as follows (amounts in thousands):

	<u>Due from</u>	<u>Due to</u>
General Fund:		
Special Revenue Funds:		
Local Aid	\$ 0	\$237,938
Enterprise Funds:		
MBTA		242,065
MCCA		6,290
Economic Development Authorities		23
Trust and Agency Funds:		
Pension Trust	3,276	
University and College Fund:		
Current - Unrestricted	<u>12,608</u>	
Subtotal	<u>15,884</u>	<u>486,316</u>
Special Revenue Funds:		
General Fund	237,938	
Capital Projects Funds:		
Highway	74,704	
Enterprise Funds:		
MBTA		94,448
University and College Fund:		
Current - Unrestricted	<u>497</u>	<u>535</u>
Subtotal	<u>313,139</u>	<u>94,983</u>
Capital Projects Funds:		
Special Revenue Funds:		
Local Aid		74,704
Capital Projects Funds:		
General		39,937
Highway		3,749
Federal Highway Construction	57,295	
Local Aid		13,667
Other	58	
Enterprise Funds:		
Economic Development Authorities		31,059
MWRA		<u>11,600</u>
Subtotal	<u>57,353</u>	<u>174,716</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

5. Interfund Transactions (Continued):

	<u>Due from</u>	<u>Due to</u>
Enterprise Funds:		
General Fund	248,378	
Special Revenue:		
Highway Fund	94,448	
Capital Projects Funds:		
General	13,450	
Local Aid	<u>29,209</u>	
Subtotal	<u>385,485</u>	<u>0</u>
Fiduciary Funds:		
Expendable Trust Funds:		
Expendable Trust	409	
Unemployment Compensation		409
Pension Trust Funds:		
General		<u>3,276</u>
Subtotal	<u>409</u>	<u>3,685</u>
University and College Fund:		
General Fund		12,608
Special Revenue Funds:		
Other	535	497
University and College Fund:		
Current - Unrestricted		51
Current - Restricted	25,785	25,664
Plant		<u>70</u>
Subtotal	<u>26,320</u>	<u>38,890</u>
Total	<u>\$798,590</u>	<u>\$798,590</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

6. Fixed Assets:

General Fixed Assets -

The following schedule shows the changes in general fixed assets by category at June 30, 1993, as restated for the removal of assets related to the University and College Fund Type (amounts in thousands):

	<u>June 30, 1992</u> (as restated)	<u>Additions and</u> <u>adjustments</u>	<u>Retirements and</u> <u>adjustments</u>	<u>June 30, 1993</u>
Land	\$ 376,873	\$ 31,178	\$ 147	\$ 407,904
Buildings	2,090,893	53,901	32,639	2,112,155
Machinery and equipment	323,497	47,453	23,911	347,039
Construction in progress	<u>188,680</u>	<u>5,191</u>	<u>48,739</u>	<u>145,132</u>
 Total	 <u>\$2,979,943</u>	 <u>\$137,723</u>	 <u>\$105,436</u>	 <u>\$3,012,230</u>

Fixed assets reported in the Commonwealth's Enterprise Funds consist of the following at June 30, 1993 (amounts in thousands):

	<u>Amount</u>
Land and improvements	\$ 294,692
Structures and improvements	6,804,621
Equipment, furniture, fixtures and vehicles	<u>1,318,602</u>
 Total at cost	 8,417,915
 Less accumulated depreciation	 <u>1,631,944</u>
 Net fixed assets	 6,785,971
 Property held for expansion	 7,439
Construction in progress	<u>1,458,449</u>
 Total	 <u>\$8,251,859</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

6. Fixed Assets (Continued):

General Fixed Assets (Continued) -

Fixed assets of the University and College Fund Type consist of the following at June 30, 1993:

Land and improvements	\$ 40,993
Buildings	1,612,431
Equipment	461,210
Construction in progress	<u>9,958</u>
	2,124,592
Less: accumulated depreciation (hospital and group practice plan)	<u>(102,561)</u>
Total	<u>\$2,022,031</u>

7. Short-term Financing and Credit Agreements:

The Commonwealth has issued short-term notes in anticipation of revenue or bond financing. When this short-term debt does not meet the long-term refinancing criteria, it is classified among fund liabilities.

General Fund -

The Commonwealth issues short-term notes to provide working capital to the MBTA. The Commonwealth retires these notes through subsequent appropriations and assessments to cities and towns. The notes outstanding at June 30, 1993, totaled \$240,000,000 with an interest rate of 3.0%, and matured in November, 1993. The Commonwealth subsequently issued comparable notes, also in the amount of \$240,000,000, with an interest rate of 3.4%, maturing in November, 1994.

Capital Projects Funds -

The Commonwealth has issued five-year term minibonds, which are redeemable upon demand, to finance capital projects. At June 30, 1993, minibonds outstanding in the Capital Projects Funds totaled \$84,434,000, with interest rates ranging from 5.0% to 9.7%.

The Commonwealth may issue bond anticipation notes to temporarily finance its capital projects, but it must reduce the balance to \$200,000,000 at June 30. No such notes were outstanding at June 30, 1993.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

7. Short-term Financing and Credit Agreements (Continued):

Letter of Credit Agreements -

During fiscal year 1993, the Commonwealth maintained letter of credit agreements with several banks to borrow up to \$700,000,000 as a combination of advances and guarantees to provide credit and liquidity support for its commercial paper program. These agreements expire October 29, 1993 through September 30, 1994, and the average costs are approximately 0.3% on unutilized amounts and approximately 0.4% on utilized amounts.

Advances were available, subject to certain limitations and bearing interest at the bank rate as defined, in anticipation of revenue or bond proceeds and repayable by the following September 30, or convertible to term advances, at the Commonwealth's option. No such advances were drawn during the fiscal year ended June 30, 1993, or subsequent thereto.

During fiscal year 1993 the guarantee feature was utilized, and related fees totaled approximately \$2,031,000.

Subsequent to June 30, 1993, expiring letters of credit totaling \$300,000,000 were renewed, in the same aggregate amount, through October 28, 1994. The fees on both utilized and unutilized amounts were more favorable than those in existence in 1993.

Line of Credit Agreement -

The Commonwealth maintained a revolving line of credit agreement with a bank through June 30, 1993, in the amount of \$150,000,000. Under this agreement, interest was charged at the lesser of the federal funds rate plus 1.5%, or prime, with commitment fees payable quarterly on the excess of the commitment amount over the average daily outstanding principal amount drawn. This line of credit agreement was not utilized during fiscal year 1993; commitment fees totaled \$75,000.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

7. Short-term Financing and Credit Agreements (Continued):

Enterprise Funds -

MBTA short-term notes payable outstanding at June 30, 1993 totaled \$365,000,000. Of this amount, \$170,000,000 are due October 1, 1993 with an interest rate of 3.5% and \$195,000,000 mature March 2, 1994 with an interest rate of 2.8%.

The MBTA also issued commercial paper to act as financing for capital expenditures. At June 30, 1993, \$52,000,000 of this commercial paper was outstanding.

During fiscal year, 1993 Massachusetts Technical Park Corporation obtained a \$1,850,000 line of credit with an interest rate of prime plus 1% per annum. Borrowings at June 30, 1993 totaled \$805,000 and were subsequently repaid.

University and College Funds -

In December, 1990, the UMass Medical School Teaching Hospital Trust obtained a \$11,000,000 line of credit to finance the construction of a building. At June 30, 1993, it had drawn down the entire amount.

8. Long-term Debt:

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

8. Long-term Debt (Continued):

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

As of June 30, 1993, the Commonwealth had three types of bonds outstanding: general obligation, dedicated income tax, and special obligation. The general obligation bonds are authorized and issued primarily to provide funds for state-owned capital projects and local government improvements. They are backed by the full faith and credit of the Commonwealth and paid from the Governmental Funds, in which debt service principal and interest payments are appropriated. Massachusetts General Laws provide for the allocation of bond proceeds to these authorizations in arrears, as expenditures are made, unless the proceeds are allocated at the time of issuance.

The dedicated income tax bonds relate entirely to the deficit financing authorization of fiscal year 1990. As a remedy to that financial situation, the Legislature authorized these bonds, to be repaid from tax revenues within seven years.

During fiscal year 1992, the Commonwealth issued special obligation revenue bonds as authorized under Massachusetts General Laws. Such bonds may be secured by all or a portion of revenues credited to the Highway Fund and are not general obligations of the Commonwealth. The issuance of such special obligation bonds is authorized in an aggregate amount not to exceed \$1,125,000,000, in fiscal years 1992 through 1994. At June 30, 1993, the Commonwealth had outstanding \$103,770,000 of such bonds, secured by a pledge of 2 cents of the 21-cent motor fuel excise tax collected on gasoline.

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

8. Long-term Debt (Continued):

The amount of bonds authorized but unissued is measured in accordance with Commonwealth statutes. Only the net proceeds of bonds (exclusive of discount and costs of issuance) are deducted from the total authorized by the Legislature.

General obligation, dedicated income tax and special obligation long-term bonds outstanding (including discount and issuance costs) and bonds authorized-unissued at June 30, 1993, are as follows (amounts in thousands):

<u>Purpose</u>	<u>Outstanding amount</u>	<u>Maturity dates</u>	<u>Authorized -unissued</u>
Deficit reduction:			
Fiscal recovery	\$1,044,865	1994-1998	\$ 57,274
Capital projects:			
General	5,652,564	1994-2019	2,260,330
Highway	1,583,804	1994-2013	1,388,369
Local aid	759,466	1994-2013	840,283
Other	<u>190,759</u>	1994-2025	<u>68,111</u>
Subtotal	<u>8,186,593</u>		<u>4,557,093</u>
Total	<u>\$9,231,458</u>		<u>\$4,614,367</u>

Interest rates on the Commonwealth's bonded debt outstanding at June 30, 1993 ranged from 1.1% to 9.6%.

Changes in long-term bonds (including discount and issuance costs) and bonds authorized unissued for the year ended June 30, 1993, are as follows (amounts in thousands):

	<u>Bonds outstanding</u>	<u>Authorized -unissued</u>
Balance, July 1, 1992	\$9,264,430	\$6,393,833
General and special obligation bonds:		
Principal less discount and issuance costs	418,567	(418,567)
Discount and issuance costs	8,118	
General obligation refunding bonds:		
Principal less discount and issuance costs	1,891,468	
Discount and issuance costs	26,182	
Bonds retired (excluding minibonds)	(2,327,107)	
Increase in bonds authorized		141,100
Expiration of authorizations		(1,552,199)
Retirement of long-term bond anticipation notes	<u>(50,200)</u>	<u>50,200</u>
Balance, June 30, 1993	<u>\$9,231,458</u>	<u>\$4,614,367</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

8. Long-term Debt (Continued):

At June 30, 1993, debt service requirements to maturity for principal (including discount and issuance costs) and interest are as follows (amounts in thousands):

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1994	\$ 599,695	\$ 503,141	\$ 1,102,836
1995	630,269	465,497	1,095,766
1996	643,831	429,277	1,073,108
1997	670,380	387,169	1,057,549
1998	593,332	346,126	939,458
1999 and thereafter	<u>6,093,951</u>	<u>2,235,888</u>	<u>8,329,839</u>
Total	<u>\$9,231,458</u>	<u>\$4,367,098</u>	<u>\$13,598,556</u>

Subsequent to June 30, 1993, the Commonwealth issued \$842,995,000 in general obligation refunding bonds and \$200,000,000 in general obligation bonds, with interest rates ranging from 4.1% to 6.0% and from 3.5% to 4.875%, respectively.

Statutory Debt Limit -

In fiscal year 1990, Massachusetts General Laws were amended to establish a limit on the amount of direct debt outstanding, effective at the beginning of fiscal year 1991. By statutorily limiting the Commonwealth's ability to issue direct debt, these amendments provide a control on annual capital spending. The first-year limit was \$6,800,000,000, with an increase of 5% allowed in each successive fiscal year. The statutory debt limit for fiscal year 1993 was \$7,497,000,000.

For purposes of determining compliance with the limit, direct debt is defined to include general obligation bonds and minibonds at the amount of their original net proceeds. It excludes discount and issuance costs, if any, financed by these bonds. It also excludes dedicated income tax bonds, certain special obligation bonds, refunded bonds, certain refunding bonds and bond anticipation notes. Outstanding direct debt, as defined, totaled approximately \$7,304,584,000 at June 30, 1993.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

8. Long-term Debt (Continued):

Advance Refundings and Defeased Bonds -

As authorized by the Massachusetts General Laws, the Commonwealth advance refunded certain general obligation and other bonds through the issuance of \$1,917,650,000 of general obligation refunding bonds during fiscal year 1993. Proceeds totaling approximately \$1,891,000,000 were used to purchase U.S. Government securities which, with a cash deposit of \$1,194,000, were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liabilities therefore have been removed from the General Long-term Obligations Account Group. As a result of these advance refundings, the Commonwealth decreased current year debt service payments and has taken advantage of lower interest rates, and it has decreased its aggregate debt service payments by approximately \$102,732,000 over the next 20 years and incurred an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$95,150,000. At June 30, 1993, approximately \$1,270,000,000 of the bonds refunded remain outstanding and are considered defeased.

In prior years, the Commonwealth also defeased certain general obligation and other bonds by placing the proceeds of bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 1993, approximately \$1,543,000,000 of bonds outstanding from advance refundings in prior fiscal years are considered defeased.

Changes in General Long-term Obligations -

The Commonwealth records its liability for long-term bonds in the General Long-term Obligations Account Group. Other general long-term obligations recognized by the Commonwealth are its obligations under capital lease agreements (Note 13), school construction grants to partially reimburse cities and towns for their debt service payments on bonds issued to finance construction of local or regional schools (Note 1), compensated absences (Note 1), unfunded pension costs (Note 11) and claims and judgments related to workers' compensation, lawsuits or other claims pending or threatened (Notes 1, 14 and 15).

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

B. Long-term Debt (Continued):

Changes in General Long-term Obligations (Continued) -

During the year ended June 30, 1993, the following changes occurred in liabilities reported in the General Long-term Obligations Account Group (amounts in thousands):

	<u>Long-term</u>	<u>Capital</u>	<u>School</u>	<u>Compensated</u>	<u>Unfunded</u>	<u>Claims,</u>	
	<u>bonds</u>	<u>leases</u>	<u>construction</u>	<u>absences</u>	<u>pension</u>	<u>judgments</u>	<u>Total</u>
			<u>grants</u>		<u>costs</u>	<u>and other</u>	
Balance, July 1, 1992							
(As restated)	\$9,264,430	\$37,252	\$1,616,485	\$86,818	\$2,117,685	\$389,435	\$13,512,105
Bond issuances	2,310,035						2,310,035
Bond discount	34,300						34,300
Bond principal payments (excluding minibonds)	(2,327,107)						(2,327,107)
Long-term bond antici- pation notes payable	(50,200)						(50,200)
Excess of total pension contributions required over total contribu- tions made					244,569		244,569
Net increase (decrease)	<u> </u>	<u>(3,923)</u>	<u>309,597</u>	<u>(10,538)</u>	<u> </u>	<u>12,429</u>	<u>307,565</u>
Balance, June 30, 1993	<u>\$9,231,458</u>	<u>\$33,329</u>	<u>\$1,926,082</u>	<u>\$ 76,280</u>	<u>\$2,362,254</u>	<u>\$401,864</u>	<u>\$14,031,267</u>

University and College Fund -

Building authorities related to UMass and the state colleges have issued bonds for construction of higher education facilities and equipment. Such bonds are guaranteed by the Commonwealth in an aggregate amount not to exceed \$100,000,000. The bond agreements generally provide that net revenues from student fees are pledged as collateral on the bonds and establish bond reserve funds, bond funds, and maintenance reserve funds. UMass has also entered into various loan agreements as a participant in MHEFA's ongoing capital asset program to finance construction projects and equipment.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

8. Long-term Debt (Continued):

University and College Fund (Continued) -

University and College Fund long-term debt outstanding at June 30, 1993 was as follows (amounts in thousands):

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>	<u>Maturity dates</u>
MHEFA capital asset program	Variable	\$ 11,597	1994 - 2006
Building authorities	3.0% - 9.9%	<u>243,562</u>	1994 - 2018
		<u>\$255,159</u>	

Maturities of principal are as follows (amounts in thousands):

<u>Year ending June 30</u>	<u>Amount</u>
1994	\$ 7,981
1995	8,010
1996	8,618
1997	9,026
1998	9,744
1999 and thereafter	<u>211,780</u>
Total	<u>\$255,159</u>

Changes in bonds outstanding reported in the University and College Fund Type are as follows (amounts in thousands):

	<u>Amount</u>
Balance July 1, 1992	\$253,049
Principal less discount and issuance costs	7,903
Bonds retired, net of amortization of discount	<u>(5,793)</u>
Balance, June 30, 1993	<u>\$255,159</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

8. Long-term Debt (Continued):

University and College Fund (Continued) -

UMass acquired a telecommunications system through non-lease debt financing made under a trust agreement, through the issuance of certificates of participation which bear interest at an average rate of 7.38% and mature in varying semi-annual installments through fiscal year 2000. Lease payments are funded from UMass student fees and approximate the trustee's payments to certificate holders.

Changes in non-cancellable certificates of participation for the University and College Fund Type are as follows (amounts in thousands):

<u>Year ending June 30</u>	<u>Amount</u>
1994	\$ 3,627
1995	3,625
1996	3,617
1997	3,615
1998	3,612
1999 and thereafter	<u>6,681</u>
Total payments	24,777
Less: Amount representing interest	<u>(5,455)</u>
Minimum non-lease debt financing	<u>\$19,322</u>

At June 30, 1993, approximately \$77,865,000 of bonds outstanding from prior years' advance refundings of the University and College Fund building authorities are considered defeased.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

8. Long-term Debt (Continued):

Enterprise Funds -

Bonds and notes outstanding at June 30, 1993, net of unamortized discount of \$194,337 and unamortized deferred loss on refunding of \$205,196, are as follows (amounts in thousands):

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>	<u>Maturity dates</u>
MBTA:			
General transportation system	3.62% - 7.71%	\$1,871,114	1994-2023
Boston Metropolitan District	1.60% - 9.28%	54,353	1994-2025
MCCA:			
Current interest serial bonds	3.80% - 6.00%	116,440	1994-1999
Compound interest serial bonds	6.40% - 6.80%	47,099	2000-2005
MURA:			
General revenue bonds	2.00% - 7.25%	1,905,907	1994-2022
Economic Development:			
Serial bonds	2.00% - 5.35%	105,705	1994-2008
Term bonds	5.45%	<u>42,870</u>	2013
Total		<u>\$4,143,488</u>	

Maturities of principal are as follows (amounts in thousands):

<u>Year ending June 30</u>	<u>MBTA</u>	<u>MCCA</u>	<u>MURA</u>	<u>Economic Development</u>	<u>Total</u>
1994	\$ 33,046	\$ 4,250	\$ 39,110	\$ 5,950	\$ 102,356
1995	55,456	16,245	142,795	5,145	219,641
1996	64,846	17,085	52,075	5,305	139,311
1997	67,651	18,050	39,525	5,480	130,706
1998	70,287	19,100	41,705	5,680	136,772
1999 and thereafter	<u>1,758,472</u>	<u>88,939</u>	<u>1,845,809</u>	<u>121,015</u>	<u>3,814,235</u>
Total	<u>\$2,069,758</u>	<u>\$163,669</u>	<u>\$2,161,019</u>	<u>\$148,575</u>	<u>\$4,543,021</u>

The amounts above represent the face amount of bonds and notes outstanding and may differ from the amounts included in the combined balance sheet due to treatment of original issue discount in the general purpose financial statements.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

8. Long-term Debt (Continued):

Enterprise Funds (Continued) -

During the fiscal year ended June 30, 1993, the following changes occurred in bonds, notes payable and certificates of participation, reported in the Enterprise Funds (amounts in thousands):

	<u>MBTA</u>	<u>MCCA</u>	<u>MURA</u>	<u>Economic Development</u>	<u>Total</u>
Balance, July 1, 1992 (as restated)	\$2,345,158	\$163,525	\$1,796,993	\$ 2,500	\$4,308,176
Principal less discount and issuance costs	1,086,170		1,207,213	148,575	2,441,958
Debt retired, net of amortization of discount	(528,742)	14	(174,134)	(2,500)	(705,362)
Deferred loss on refunding	(105,200)		(101,760)		(206,960)
Defeased debt	<u>(765,915)</u>		<u>(822,405)</u>		<u>(1,588,320)</u>
Balance, June 30, 1993	<u>\$2,031,471</u>	<u>\$163,539</u>	<u>\$1,905,907</u>	<u>\$148,575</u>	<u>\$4,249,492</u>

MBTA -

The legislation under which the MBTA was established provides that if, at any time, the MBTA is unable to meet any interest or principal payments due on its debt, sufficient funds will be remitted by the Commonwealth to meet such obligations.

The MBTA issued certificates of participation in the amounts of \$28,565,000 on December 15, 1988 and \$85,795,000 on August 30, 1990 to finance the purchase of commuter rail coaches. Under the terms of the applicable agreement, the MBTA's obligation to make the annual payments on the certificates is subject to the Commonwealth's appropriation of necessary funds in its annual budget. The certificates bear interest at rates ranging from 6.1% to 7.8% and mature as follows (amounts in thousands):

<u>Year ending June 30</u>	<u>Amount</u>
1994	\$ 2,670
1995	2,770
1996	2,875
1997	2,990
1998	3,110
1999 and thereafter	<u>92,325</u>
	106,740
Less: Unamortized discount	<u>(736)</u>
Total	<u>\$106,004</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

8. Long-term Debt (Continued):

Enterprise Funds (Continued) -

During fiscal year 1993, the MBTA raised \$887,420,000 through the issuance of refunding bonds to advance refund \$765,915,000 of its outstanding general transportation system bonds. Net proceeds of \$861,600,000 plus an additional \$1,173,000 were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the MBTA's refunded bonds are considered to be defeased, and the liability for those bonds has been removed from the Enterprise Funds. This advance refunding resulted a loss on defeasance of \$105,200,000, which is being amortized as a component of interest cost in accordance with the requirements of GASB Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities". As a result of the advance refunding, the MBTA reduced its aggregate debt service payments by approximately \$43,500,000 from fiscal year 1993 to 2022 and achieved an economic gain of approximately \$44,800,000.

MWRA -

The MWRA's bonds are collateralized by a lien and pledge on certain of its revenues and other monies. Discount and issuance costs are being amortized over the life of the bonds.

During fiscal year 1993, the MWRA raised \$972,965,000 through the issuance of general revenue refunding bonds to advance refund \$822,405,000 of its outstanding bonds. Net proceeds of \$924,165,000 were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the MWRA's refunded bonds are considered to be defeased, and the liability for those bonds has been removed from the Enterprise Funds. The MWRA advance refunding resulted in a loss on defeasance of \$101,760,000 which is being amortized as a component of interest cost in accordance with the requirements of GASB Statement No. 23 for the year ended June 30, 1993. As a result of the advance refunding, the MWRA reduced its aggregate debt service payments by approximately \$39,495,000 over the period from fiscal year 1993 to 2022 and achieved an economic gain of approximately \$25,552,000.

MCCA -

The legislation which authorizes the issuance of MCCA debt securities provides for participation by the Commonwealth in the full payment of the annual debt service costs.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

8. Long-term Debt (Continued):

Enterprise Funds (Continued) -

Economic Development -

In prior fiscal years, these entities defeased portions of their bonds by placing the proceeds of new bonds in trusts to provide for future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Enterprise Funds. At June 30, 1993, \$182,625,000 of such bonds outstanding are considered defeased.

9. Individual Fund Deficits:

The General Fund and certain Special Revenue and Capital Projects Funds included in the combined totals have fund deficits at June 30, 1993, as follows (amounts in thousands):

<u>Fund</u>	<u>Amount</u>
General	\$1,121,538
Special Revenue:	
Federal Grants	17,732
Lotteries	1,992
Capital Projects:	
General	172,531
Highway	122,596
Local Aid	65,430
Other	8,819

The deficit in the General Fund reflects the accrual of liabilities for Medicaid claims at June 30, 1993, and for subsidies to transit authorities for operating deficits incurred but not yet funded. These liabilities will be paid in subsequent periods as the Legislature appropriates funds. Deficits in the non-budgeted Federal Grants and Lotteries Funds also reflect the impact of accruals. However, these deficits are created essentially by timing differences, which reverse in the next fiscal year.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

9. Individual Fund Deficits (Continued):

In the Capital Projects Funds, the recognition of minibonds as fund liabilities accounts for \$84,434,000 of the reported fund deficits. The remaining deficits to be financed reflect the time lag between capital expenditures and the receipt or allocation of proceeds from the sale of related bonds. During the fiscal year ended June 30, 1993, the Commonwealth continued its policy of reducing the time elapsed between those events. Subsequent to June 30, 1993, the Commonwealth issued \$200,000,000 in general obligation bond related to the capital projects funds. Certain restrictions within Section 20 of Chapter 29 limit the Commonwealth's ability to sell special obligation bonds which would finance approximately \$76,428,000 of the deficit in the Highway Capital Projects Fund. Legislative changes have been requested to eliminate these restrictions. If legislative changes are not enacted and bonds are not sold prior to March 1, 1994, then the Commonwealth could lose the ability to issue such bonds as exempt from U.S. taxes.

10. Segment Information - Enterprise Funds:

selected financial information with respect to various segment activities included in the Enterprise Funds is as follows (amounts in thousands):

	Segments			
	Transportation	Conventions and Parking	Water Supply and Waste Disposal	Economic Develop- ment
Operating revenues	\$ 186,572	\$ 8,204	\$ 294,670	\$ 2,377
Depreciation	145,944	8,397	101,777	4,342
Operating income (loss)	(571,723)	(15,331)	40,484	(20,502)
Operating grants	17,643			2,207
Nonoperating revenues (expenses), net	(113,836)	(10,228)	(112,077)	13,201
Operating transfers	584,478	20,875		11,893
Net income (loss)	(101,081)	(4,684)	(71,593)	4,592
Current capital contributions	74,416		49,973	76,587
Fixed asset additions	207,833	1,323	502,297	171
Total assets	4,984,776	235,077	4,456,584	625,763
Bonds, notes payable and certificates of participation	2,448,471	163,539	1,905,907	149,380
Net working capital	(154,578)	7,930	428,643	323,627
Total retained earnings (deficit)	(161,820)	3,049		87,177

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

11. Retirement Systems:

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

Certain Commonwealth employees and current retirees employed prior to the establishment of the State Employees' Retirement System are covered on a "pay-as-you-go" basis.

Plan Descriptions -

State Employees' Retirement System (SERS) is a single employer defined benefit public employee retirement system (PERS), covering substantially all employees of the Commonwealth and certain employees of the independent authorities and agencies. The SERS is administered by the Commonwealth and is part of the reporting entity.

Teachers' Retirement System (TRS) is an agent multiple employer defined benefit PERS. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of the TRS. The TRS covers certified teachers in cities (except the City of Boston), towns, regional school districts and Quincy College. The TRS is administered by the Commonwealth and is part of the reporting entity.

State - Boston Retirement System (SBRS) is an agent multiple employer defined benefit PERS. SBRS provides provision benefits to all full-time employees upon commencement of employment with any of the various government agencies covered by SBRS. The Commonwealth is a non-employer contributor and is only responsible for the actual cost of pension benefits for SBRS participants who serve in the City of Boston's School Department in a teaching capacity. The cost of pension benefits of the other participants is the responsibility of the City of Boston. SBRS is not administered by the Commonwealth, and it is not part of the reporting entity.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

11. Retirement Systems (Continued):

Plan Descriptions (Continued) -

The Commonwealth has assumed financial responsibility for the COLA granted to participants in the retirement systems of cities, towns and counties. Any future COLA granted by the Legislature to employees of these plans will also be the responsibility of the Commonwealth. The individual employer governments are responsible for the basic pension benefits. The retirement systems are not administered by the Commonwealth and are not part of the reporting entity.

Membership -

Current membership in SERS, TRS and SBRS as of January 1, 1993 is as follows:

	<u>SERS</u>	<u>TRS</u>	<u>SBRS</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>45,419</u>	<u>30,168</u>	<u>2,186</u>
Current employees:			
Vested	36,398	44,782	3,522
Nonvested	<u>47,229</u>	<u>18,210</u>	<u>2,148</u>
Subtotal	<u>83,627</u>	<u>62,992</u>	<u>5,670</u>
Total	<u>129,046</u>	<u>93,160</u>	<u>7,856</u>

The covered payroll for employees of the Commonwealth covered by SERS was \$2,918,971,000. The covered payroll for employees of the cities and towns covered by TRS is \$2,427,836,000. The covered payroll for employees of the City of Boston covered by SBRS is \$205,621,000. The covered payroll amounts approximate the employer payroll.

Benefit Provisions -

Massachusetts General Laws establish uniform benefit and contribution requirements for all contributory PERS. These requirements provide for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation. Benefit payments are based upon a member's age, length of creditable service, and group classification.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

11. Retirement Systems (Continued):

Benefit Provisions (Continued) -

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

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55.

Funding Status and Progress -

The amounts shown below as the pension benefit obligation are a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the System on an ongoing basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarially determined present value of credited projected benefits and is independent of the funding method used to determine contributions to the System.

The SERS, TRS and SBRS pension benefit obligations were computed as part of the actuarial valuation as of January 1, 1993. Significant actuarial assumptions used in the calculation of contribution requirements and pension benefit obligation include (a) rates of return on investments of present and future assets of 8% per year for SERS and TRS and SBRS (b) projected salary increases of 6% per year for SERS and TRS and SBRS (c) cost of living increases of 3% per year and (d) interest rate credited to the annuity savings fund of 5.5% per year.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

11. Retirement Systems (Continued):

Funding Status and Progress (Continued) -

The total unfunded pension benefit obligation is as follows (amounts in millions):

	<u>SERS</u>	<u>TRS</u>	<u>SBRS</u>	<u>COLA</u>	<u>Total</u>
Pension benefit obligation:					
Retirees and others currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	\$4,429	\$3,238	\$285	\$1,432	\$ 9,385
Current employees:					
Accumulated employee contributions including allocated interest	1,661	1,984	170		3,814
Commonwealth financed:					
Non-vested	647	283	35	89	1,055
Vested	<u>1,672</u>	<u>2,934</u>	<u>213</u>	<u>402</u>	<u>5,222</u>
Total pension benefit obligation	8,409	8,440	704	1,923	19,476
Net assets available for benefits, at market	<u>5,071</u>	<u>5,142</u>	<u>370</u>		<u>10,584</u>
Unfunded pension benefit obligation	<u>\$3,338</u>	<u>\$3,298</u>	<u>\$334</u>	<u>\$1,923</u>	<u>\$8,892</u>

Contributions Required and Contributions Made -

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

11. Retirement Systems (Continued):

Contributions Required and Contributions Made (Continued) -

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

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

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

GAAP requires that pension expenditures (costs) be based on an acceptable actuarial cost method and that they not be less than:

- Normal cost
- Interest on any unfunded prior service costs
- A provision for vested benefits when the total present value of vested benefits exceeds by 5% or more the value of the plan

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

11. Retirement Systems (Continued):

Contributions Required and Contributions Made (Continued) -

The funding schedule discussed above follows an acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability. However, the amortization of the accrued actuarial liability has been legislatively determined to be significantly lower in the first years of the 40-year funding period. Therefore, the fiscal year 1993 contribution did not cover the minimum expenditure recognition required by GAAP. The difference between the total contributions required and the total contributions made is recorded as a liability in the General Long-term Obligations Account Group.

Contributions required and made based on the minimum expenditure recognition required by GAAP are as follows (amounts in millions):

	<u>SERS</u>	<u>TRS</u>	<u>SBRS</u>	<u>COLA</u>	<u>Total</u>
Minimum contribution requirement:					
Normal cost	\$405.7	\$302.2	\$26.2	\$ 48.4	\$ 782.5
Amortization of unfunded actuarial liability	158.7	132.2	14.2	40.7	396.2
Interest on unfunded actuarial liability	<u>94.3</u>	<u>105.5</u>	<u>19.9</u>	<u>54.9</u>	<u>264.6</u>
 Total contributions required	 <u>\$658.7</u>	 <u>\$540.3</u>	 <u>\$50.3</u>	 <u>\$194.0</u>	 <u>\$1,443.3</u>
Contributions made:					
By employees	\$191.6	\$157.9	\$14.8	\$ 0	\$ 364.3
% of covered payroll	6.5%	6.5%	7.2%	N/A	N/A
By the Commonwealth	418.2	303.0	27.2	96.7	845.1
% of covered payroll	<u>14.3%</u>	<u>12.5%</u>	<u>13.2%</u>	<u>N/A</u>	<u>N/A</u>
 Total contributions made	 <u>\$609.8</u>	 <u>\$460.9</u>	 <u>\$42.0</u>	 <u>\$ 46.8</u>	 <u>\$1,209.4</u>

The total contributions required for SERS, TRS and SBRS are based on the entry age normal cost method using the same actuarial assumptions used to compute the pension benefit obligation.

During the year ended June 30, 1993, the Commonwealth's pension expenditure also included payments totaling \$23,092,000 to current retirees employed prior to the establishment of the current plans and to non-contributory plans.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

11. Retirement Systems (Continued):

Contributions Required and Contributions Made (Continued) -

Massachusetts General Laws established an early retirement incentive program under which eligible state employees could elect to receive enhanced pension benefits in exchange for retiring as of July 1, 1992. The effect of this incentive program was to increase the pension liability by approximately \$193,000,000.

Trend Information -

The following table presents the required three-year trend information:

	<u>Year</u>	%	%	%
		<u>SERS</u>	<u>TRS</u>	<u>SBRS</u>
Net assets available for benefits as a percentage of the pension benefit obligation applicable to employees:	1993	60.3	60.9	52.7
	1992	66.6	58.1	48.5
	1991	59.1	46.2	54.4
Unfunded pension benefit obligation as a percentage of annual covered payroll:	1993	114.4	135.8	161.9
	1992	89.5	169.6	197.2
	1991	121.8	230.8	124.1
Commonwealth's contributions to the pension plan as a percentage of annual covered payroll:	1993	14.3	12.5	13.2
	1992	12.7	14.0	14.4
	1991	13.5	12.9	12.7

Ten-year historical trend information for SERS, TRS and SBRS may be found on pages 151 and 152 of the Commonwealth's Comprehensive Annual Financial Report. This report presents information about progress made in accumulating sufficient assets to pay benefits when due.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

11. Retirement Systems (Continued):

Trend Information (Continued) -

Certain information was not available for SERS, TRS and the Commonwealth's participation in SBRS. Total annual payroll for SERS, TRS and SBRS approximates annual covered payroll; however, actual annual total payroll amounts are not available this year, and have not been available in prior years. Annual covered payroll amounts were not available prior to 1990. Ten-year trend data of SBRS for revenues and expenditures is not available in their separately issued report.

Enterprise Funds' Condensed Pension Information -

The following authorities included as Enterprise Funds maintain their own pensions plans. More detailed information concerning these plans is available in the separate financial statements. The pension benefit obligation and net assets available for benefits for each plan are as follows (amounts in thousands):

	<u>Pension benefit obligation</u>	<u>Net assets available for benefits</u>
MBTA	\$987,589	\$950,367
MWRA	22,218	21,015

The two authorities met their actuarially determined employer contribution requirements.

Postretirement Health Care and Life Insurance Benefits -

In addition to providing pension benefits, the Commonwealth is statutorily required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies.

The Commonwealth recognizes its share of the costs of providing these benefits when paid. These payments totaled approximately \$118,108,000 for the fiscal year ended June 30, 1993.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

12. Deferred Compensation Plan:

The Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees of the Commonwealth and its political subdivisions, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Commonwealth (without being restricted to the provision of benefits under the plan), subject only to the claims of the Commonwealth's general creditors and its political subdivisions participating in the plan. Participants' rights under the plan are equal to the fair market value of the deferred account for each participant. All plan assets are stated at market value.

It is the opinion of the Commonwealth that it has no liability for losses under the plan, but it does have the duty of due care which would be required of an ordinary prudent investor. The plan assets are subject to the claims of the Commonwealth's general creditors; however, plan assets have not been used in the past to satisfy such claims.

Of the \$895,768,000 in the plan at June 30, 1993, \$603,084,000 was applicable to the Commonwealth; the remaining \$292,684,000 represents the assets of cities and towns participating in the plan. The assets and liabilities of the deferred compensation plan are included in Agency Funds at June 30, 1993.

13. Capital Leases:

In order to finance the acquisition of equipment, the Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease purchase (TELP) agreements which are accounted for as capital leases. These agreements are for various terms and contain clauses indicating that their continuation is subject to appropriation by the Legislature.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

13. Capital Leases (Continued):

At June 30, 1993, the Commonwealth's aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totals \$33,329,000. This liability is reported in the General Long-term Obligations Accounts Group. Equipment acquired under capital leases and included in the General Fixed Assets Account Group totals approximately \$68,507,000.

The Commonwealth leases real property and equipment under numerous operating lease agreements for varying terms. These agreements contain clauses which indicate that their continuation is subject to appropriation by the Legislature. Rental expense for the year ended June 30, 1993 was approximately \$79,795,000.

The following is a schedule of future minimum lease payments under non-cancellable leases for the Commonwealth as of June 30, 1993 (amounts in thousands):

<u>Year ending June 30</u>	<u>Capital leases</u>	<u>Operating leases</u>
1994	\$17,993	\$ 72,796
1995	10,739	55,869
1996	5,220	40,235
1997	1,446	8,252
1998	889	4,047
1999 and thereafter	<u>2,661</u>	<u>9,514</u>
Total payments	38,948	<u>\$190,715</u>
Less: amount representing interest	<u>(5,619)</u>	
Present value of net minimum lease payments	<u>\$33,329</u>	

University and College Fund -

At June 30, 1993, aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totaled \$12,687,000. Equipment acquired under capital leases and included in University and College Fund fixed assets totaled approximately \$16,000,000.

The University and College Fund Type leases real property and equipment under numerous operating lease agreements for varying terms. Rental expense for the fiscal year ended June 30, 1993 was approximately \$6,943,000.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

13. Capital Leases (Continued):

University and College Fund (Continued) -

The following schedule summarizes future minimum payments under non-cancellable leases for the University and College Fund Type (amounts in thousands):

<u>Year ending June 30</u>	<u>Capital leases</u>	<u>Operating leases</u>
1994	\$ 4,882	\$ 6,340
1995	3,512	4,428
1996	2,226	3,057
1997	1,258	594
1998	936	62
1999 and thereafter	<u>4,500</u>	<u>6</u>
Total payments	17,314	<u>\$14,487</u>
Less: amount representing interest	<u>(4,627)</u>	
Present value of minimum lease payments	<u>\$12,687</u>	

Enterprise Funds -

The MBTA has entered into several sale-leaseback agreements with major financial institutions, covering equipment and rolling stock, which have been accounted for as operating leases. The leases expire through 2013. Upon termination, the MBTA may purchase the equipment and rolling stock at prices equal to the lesser of a stated percentage (40%-70%) of the lessor's original purchase price or residual fair market value, as defined.

The MWRA leases electric power assets, office space in Boston and other property under long-term operating leases.

The Economic Development Authorities have operating leases for office space.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

13. Capital Leases (Continued):

Enterprise Funds (Continued) -

The future minimum rental payments required under operating leases having initial or remaining non-cancellable lease terms in excess of one year are as follows (amounts in thousands):

<u>Year ending June 30</u>	<u>MBTA</u>	<u>MWRA</u>	<u>Economic Development Authorities</u>
1994	\$ 12,068	\$ 12,531	\$ 489,817
1995	12,068	18,696	434,230
1996	12,068	19,825	259,686
1997	12,068	20,223	146,003
1998	13,669	19,874	
1999 and thereafter	<u>188,739</u>	<u>227,423</u>	<u> </u>
Total	<u>\$250,680</u>	<u>\$318,572</u>	<u>\$1,329,736</u>

14. Commitments:

The Commonwealth is obligated to provide annual subsidies to the MBTA and regional transit authorities for contract assistance, debt service assistance and their net cost of service deficiencies. For fiscal year 1993, these subsidies totaled \$584,478,000 for the MBTA and \$31,108,000 for the regional transit authorities. The net cost of service subsidy is recognized as a current liability of the Commonwealth, but is funded in arrears. At June 30, 1993, the Commonwealth has recorded the unpaid portion as a liability due to the MBTA of \$336,513,000. The cities and towns served by the MBTA and regional transit authorities will be assessed their proportionate shares of the net cost of service. A receivable from cities and towns of \$188,569,000 is recorded at June 30, 1993, to account for these future reimbursements. The MBTA has also recorded net deferred charges at June 30, 1993, which will be included in the Commonwealth's net cost of service subsidy in future periods. The Commonwealth has recognized its liability for these future costs in the General Long-term Obligations Account Group.

The Commonwealth is also statutorily obligated to provide contract assistance for debt service obligations to the MCCA and the Government Land Bank. Such assistance totaled \$11,842,000 in fiscal year 1993.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

14. Commitments (Continued):

At June 30, 1993, the aggregate outstanding debt for which the Commonwealth is obligated to provide contract assistance support totaled \$2,306,887,000. In addition, the Commonwealth guarantees the debt of certain local governments and of the building authorities included in the University and College Fund. The guaranteed debt outstanding at June 30, 1993, was approximately \$242,949,000.

At June 30, 1993, the Commonwealth had commitments approaching \$1,027,136,000 for various construction projects. The majority relate to new construction funding for a major infrastructure program known as the Central Artery Project, in which federal participation is anticipated. The remainder relate to a wide range of building construction projects.

Enterprise Funds -

As part of a major capital improvement program, the MWRA has entered into a number of contracts for the design and construction of facilities. At June 30, 1993, commitments under these contracts aggregated approximately \$1,100,000,000.

The MWRA is required by a decision of a federal district court to comply with a detailed schedule of actions to achieve and maintain compliance with the requirements of the Clean Water Act. The schedule includes the construction of new primary treatment facilities, commencing December 1990 and finishing by July 1995, and the construction of secondary treatment facilities during 1995 to be completed during 1999. Other matters are still outstanding.

The MWRA has accepted responsibility and legal liability for undertaking measures to control discharges from combined sewer overflows (CSO) into Boston Harbor and adjacent waters, excluding liability for any failure to undertake such measures prior to February 27, 1987. It is in substantial compliance with a federal district court order which provides a schedule for implementation of short-term controls for CSO discharges and planning long-term controls. In fiscal year 1991, the MWRA's recommended plan for the long-term control options, aggregating \$1,200,000,000, was approved by the federal district court and regulatory agencies.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

14. Commitments (Continued):

Enterprise Funds (Continued) -

The MWRA's operating and construction plans, designed to comply with the federal district court's schedule, anticipate capital expenditures of approximately \$6,000,000,000 from fiscal 1990 to 1999 based upon the current design and construction plan. Funding is expected to come from various federal and state grants and from MWRA's debt proceeds. As of August 16, 1993, the federal government authorized \$280,000,000 in such grants. From 1988 to 1993, the Commonwealth is authorized to receive \$332,000,000 from the federal government for loans from the revolving loan fund.

As of June 30, 1993, the WPAT has entered into binding commitments to provide \$149,000,000 in loans to fund four MWRA projects through the revolving loan fund. It has also agreed to provide loans of \$494,000,000, with \$450,000,000 to be funded with grant awards received through June 30, 1993, and \$44,000,000 for approved ineligible costs to be funded from the Commonwealth - capitalized state revolving fund.

The MBTA has entered into several long term contracts to purchase commuter rail coaches, locomotives and rapid transit cars. The unpaid amounts under these contracts total approximately \$91,638,000 at June 30, 1993.

The MCCA has entered into a general construction contract for the renovation and rehabilitation of the Boston Common Parking Garage. The total cost, including architectural, engineering and other costs, is expected to be approximately \$35,000,000.

As of June 30, 1993, the Government Land Bank had committed to issuing mortgages of \$21,102,000.

Pension Trust Funds -

At June 30, 1993, PRIT had outstanding commitments to invest \$61,000,000 in real estate, \$45,000,000 in venture capital and \$181,000,000 in special equity investments.

At June 30, 1993, MASTERS was committed to invest an additional \$16,800,000 in certain partnership investments.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

14. Commitments (Continued):

University and College Fund Type

The University and College Fund has outstanding purchase commitments under construction contracts which total approximately \$320,000,000.

The UMass hospital has agreements with Blue Cross of Massachusetts, Inc., the Social Security Administration under the Medicare program and the Commonwealth of Massachusetts under the Medicaid program that govern payments to the hospital for services rendered to patients covered by these programs and require the hospital to prepare and file settlement reports annually. Provisions have been made in the financial statements for the estimated final settlements with such third party payors.

15. Contingencies:

A number of lawsuits are pending or threatened against the Commonwealth which arose from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. For those cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated, the Attorney General estimates the liability to be approximately \$100,200,000. Of this amount approximately \$66,200,000, which is expected to be paid during fiscal year 1994, is recorded in fund liabilities; approximately \$34,000,000 expected to be paid thereafter, is recorded as a liability in the General Long-term Obligations Account Group.

Various cases are currently before the Appellate Tax Board, involving approximately \$560,000,000 of taxes and related interest. For those cases in which it is probable that a loss will be incurred, the Department of Revenue estimates the Commonwealth's liability to be approximately \$80,700,000. Approximately \$60,700,000, which is expected to be settled during fiscal year 1994, is included among fund liabilities, approximately \$20,000,000, which is expected to be settled after June 30, 1994, is recorded as a liability in the General Long-term Obligations Account Group.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

15. Contingencies (Continued):

Workers' compensation and group health insurance costs are recognized when claims are incurred. The Commonwealth's outstanding liability for such claims at June 30, 1993, including claims incurred but not reported, is estimated to be \$406,500,000. Of this total, approximately \$103,700,000 is expected to be paid during fiscal year 1994; \$97,800,000 is included among fund liabilities and \$5,900,000 is reported in the University and College Fund. Of the remainder, approximately \$272,000,000, is recorded as a liability in the General Long-term Obligations Account Group and \$30,800,000 is included in the liabilities of the University and College Fund.

The Commonwealth receives significant financial assistance from the federal government. Entitlement to the resources is generally conditional upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits. Any disallowances become liabilities of the fund which received the assistance. As of June 30, 1993, the Commonwealth estimates that liabilities, if any, which may result from such audits are not material.

The Commonwealth's abandoned property law requires deposit of certain unclaimed assets into a managed Agency Fund. The statute requires the excess amount over \$500,000 each June 30 to be remitted to the General Fund, where it is included in miscellaneous revenue. Amounts remitted during fiscal year 1993 totaled \$148,962,000. Since inception, approximately \$430,400,000 has been remitted. This represents a contingency, because claims for refunds can be made by the owners of the property. No material amounts have been repaid.

University and College Fund Type -

UMass is contingently liable for \$20,050,000 of MNEFA revenue bonds.

Enterprise Funds -

A substantial part of the MWRA's construction programs have become or may become subject to court supervision as a result of a finding of liability for a Clean Water Act violation by the MDC's sewerage operations. In addition, the court has reserved the right to order further remedial action and assess penalties. The MWRA cannot predict whether penalties will be requested by litigants or assessed by the courts in the future. No penalties have been assessed through June 30, 1993.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

16. Restatement

For the fiscal year ended June 30, 1993, the Commonwealth changed its method of reporting the activities of its public institutions of higher education, including its medical school, and the related medical center, physician's group practice plan, and building authorities.

In prior years these activities were blended with the appropriate Governmental, Proprietary and Fiduciary Fund Types and Account Groups of the Commonwealth. For the fiscal year ended June 30, 1993, the Commonwealth adopted GASB Statement No. 15, "Governmental College and University Accounting and Financial Reporting Models". These activities are reported in a University and College Fund Type in accordance with the AICPA Industry Audit Guide for Audits of Colleges and Universities. The beginning fund balances and fund equity of the account group of the Commonwealth were restated to reflect this change as follows:

	<u>General</u>	<u>Special Revenue</u>	<u>Capital Projects</u>	<u>Enterprise</u>	<u>Trust and Agency</u>	<u>University and College</u>	<u>General Fixed Assets</u>	<u>Totals</u>
Fund balance (deficit)/equity as previously reported	(\$821,168)	\$776,989	(\$203,564)	\$5,291,625	\$9,620,953	\$ 0	\$4,513,546	\$19,178,381
Change in fund classification necessary to establish University and College Fund Type	(167,128)	(1,881)		(264,452)	(19,769)	1,986,833	(1,533,603)	
Change in perspec- tive due to the use of the AICPA College Guide						4,802		4,802
Fund balance (deficit)/equity as restated	<u>(\$988,296)</u>	<u>\$775,108</u>	<u>(\$203,564)</u>	<u>\$5,027,173</u>	<u>\$9,601,184</u>	<u>\$1,991,635</u>	<u>\$2,979,943</u>	<u>\$19,183,183</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1993

(Continued)

17. Subsequent Events:

Enterprise Funds -

On July 1, 1993, the MCCA raised \$30,909,064, net of an original issued discount of \$570,936, through the issuance of tax-exempt revenue bonds to fund the renovation and rehabilitation of the Boston Common Parking Garage and the acquisition, construction, renovation and expansion of related or accessory facilities. The Commonwealth committed to pay contract assistance to MCCA in an amount equal to the scheduled principal of, and interest on, the bonds.

In October 1993, Massachusetts Technology Park Corporation entered into an operating lease with an unrelated third party, under the terms of which it leased an intergrated circuit fabrication facility for an initial term of five years commencing on November 1, 1993. The approximate future minimum lease payments for the next five years and thereafter amount to \$3,880,000.

On July 15, 1993, the Massachusetts Water Pollution Abatement Trust raised \$91,100,000 through the issuance of tax-exempt Water Pollution Abatement Bonds to fund loans to local governments to finance or refinance certain portions of water pollution abatement projects.

In October 1993, the Government Land Bank received a commitment from the Bank of Boston to loan it \$15,000,000 to capitalize the Emerging Technology Fund, which will be used to stimulate private financing for specialized manufacturing and research and development facilities.

PUBLIC EMPLOYEE RETIREMENT SYSTEMS -
REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF MASSACHUSETTS
PUBLIC EMPLOYEE RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF FUNDING PROGRESS

FOR FISCAL YEAR 1993
(Amount in thousands)

Fiscal year	(1) Net assets available for benefits	(2) Pension benefit obligation	(3) % Funded (1)/(2)	(4) Unfunded pension benefit obligation (2) - (1)	(5) Annual covered payroll	(6) Unfunded pension benefit obligation as a percentage of covered payroll (4)/(5)
<u>State Employees' Retirement System</u>						
1993	55,071,000	58,409,000	60.30%	\$3,338,000	\$2,919,000	114.35%
1992	4,699,000	7,061,000	66.55%	2,362,000	2,638,000	89.54%
1991	4,052,000	6,854,000	59.12%	2,802,000	2,300,000	121.83%
<u>Teachers' Retirement System</u>						
1993	\$5,142,000	\$8,440,000	60.92%	\$3,298,000	\$2,428,000	135.83%
1992	4,784,000	8,230,000	58.13%	3,446,000	2,032,000	169.59%
1991	4,088,000	8,853,000	46.15%	4,767,000	2,065,000	230.85%
<u>State - Boston Retirement System</u>						
1993	\$370,000	\$704,000	52.56%	\$334,000	\$208,000	162.14%
1992	342,000	705,000	48.51%	363,000	184,000	197.28%
1991	301,000	553,000	54.43%	252,000	203,000	124.14%

Analysis of the funding progress is only available as of January 1, 1991, 1992, and 1993, the dates of the most recent actuarial valuations and the interim update

COMMONWEALTH OF MASSACHUSETTS
 PUBLIC EMPLOYEE RETIREMENT SYSTEMS
 REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES BY SOURCE AND EXPENSES BY TYPE
 FOR FISCAL YEARS 1988 THROUGH 1993
 (Amounts in thousands)

State Employees' Retirement System

Revenues By Source

<u>Fiscal year</u>	<u>Employee contribution</u>	<u>Employer contribution</u>	<u>Contribution as a percentage of payroll</u>	<u>Investment income</u>	<u>Total</u>
1988	\$172,607	\$268,993	11.7%	\$64,858	\$506,458
1989	192,332	271,927	10.6%	487,971	952,230
1990	192,065	292,101	10.4%	298,513	782,679
1991	196,413	313,485	13.6%	111,472	621,370
1992	191,501	333,828	12.7%	497,003	1,022,332
1993	191,604	418,217	14.3%	517,733	1,127,554

Expenses By Type

<u>Fiscal year</u>	<u>Benefits</u>	<u>Administration expenses</u>	<u>Other</u>	<u>Total</u>
1988	\$245,573	\$2,800	\$73,856	\$322,229
1989	299,101	2,930	84,185	386,216
1990	288,284	2,595	94,420	385,299
1991	311,433	2,052	107,504	420,989
1992	333,828	1,857	132,828	468,513
1993	418,217	1,910	113,634	533,761

Teachers' Retirement System

Revenues By Source

<u>Fiscal year</u>	<u>Employee contribution</u>	<u>Employer contribution</u>	<u>Contribution as a percentage of payroll</u>	<u>Investment income</u>	<u>Total</u>
1988	\$125,223	\$243,966	12.6%	\$100,537	\$469,726
1989	126,004	252,443	14.1%	411,303	789,750
1990	141,545	252,717	11.4%	291,711	686,073
1991	144,173	268,010	13.0%	183,554	595,737
1992	146,637	284,498	14.0%	639,966	1,071,101
1993	159,980	302,988	12.5%	783,635	1,246,603

Expenses By Type

<u>Fiscal year</u>	<u>Benefits</u>	<u>Administration expenses</u>	<u>Other</u>	<u>Total</u>
1988	\$224,909	\$1,484	\$48,539	\$272,932
1989	237,332	1,471	49,539	288,342
1990	250,214	1,282	54,355	305,851
1991	266,924	1,088	59,106	327,118
1992	284,498	1,090	63,688	349,276
1993	302,988	1,366	63,560	367,914

Fiscal year 1988 is the first year for which complete revenue and expense information is available. Information for the years prior to 1988 is not available.

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WARNER & STACKPOLE
ATTORNEYS AT LAW
Established 1874

75 State Street
Boston
Massachusetts 02109

August 18, 1994

Telephone: (617) 951-9000
Telecopier: (617) 951-9151
Telex: 940139

The Honorable Joseph D. Malone
Treasurer and Receiver-General
The Commonwealth of Massachusetts
State House - Room 227
Boston, Massachusetts 02133

The Commonwealth of Massachusetts
\$250,000,000 General Obligation Bonds,
Consolidated Loan of 1994
Series B

Dear Treasurer Malone:

We have examined a record of proceedings relating to the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of its \$250,000,000 General Obligation Bonds, Consolidated Loan of 1994, Series B, dated August 1, 1994 (the "Bonds"). We have also examined such provisions of applicable law and such other documents as we have deemed necessary in order to render this opinion.

The Bonds mature and bear interest and are subject to redemption at such times, in such amounts, at such prices and upon such terms and conditions as are set forth in the Bonds. The Bonds are being issued by means of a book entry system, with certificates immobilized at The Depository Trust Company, New York, New York ("DTC"), and are not available for distribution to the public, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures issued by DTC and its participants.

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

1. The Bonds have been duly authorized and are legal and valid general obligations of the Commonwealth to which its full faith and credit are pledged for payment of principal and interest when due.

The provisions of Chapter 62F of the Massachusetts General Laws establish a state tax revenue growth limit and do not exclude principal and interest payments on the Bonds and other Commonwealth debt obligations from the scope of the limit. The provisions of Chapter 29, Section 60B of the Massachusetts General Laws impose an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on certain general obligation debt of the Commonwealth, including the Bonds. Chapter 151 of the Acts of 1990 dedicates certain state tax revenues for debt service on previously issued Fiscal Recovery Bonds of the Commonwealth. The property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment against the Commonwealth generally requires legislative appropriation. Enforcement of a claim for payment of principal of or interest on the Bonds may also be subject to the provisions of federal or Commonwealth statutes, if any, hereafter enacted extending the time for payment or imposing other constraints upon enforcement, insofar as the same may be constitutionally applied.

2. Interest on the Bonds (including any original issue discount properly allocable to a holder thereof) is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, but is includable in "adjusted current earnings" of corporate holders of the Bonds and therefore will be taken into account in the computation of the alternative minimum tax applicable to certain corporations. However, we express no opinion

WARNER & STACKPOLE

as to (a) a denial of a deduction for interest on indebtedness incurred to purchase or carry the Bonds, or in the case of a financial institution, that portion of the holder's interest expense allocable to interest on the Bonds; (b) the possible inclusion of interest on the Bonds in calculating the environmental tax which may be imposed on corporations which hold the Bonds; (c) the possible reduction of loss deductions incurred by non-life insurance companies which hold the Bonds; (d) the possible inclusion of interest on the Bonds in the taxable base of a United States branch of a foreign corporation for purposes of the tax imposed by Section 884 of the Internal Revenue Code of 1986, as amended (the "Code"); (e) the effect of accounting for interest on the Bonds for purposes of determining the taxability of social security and railroad retirement benefits; (f) the possible inclusion of interest on the Bonds in excess net passive income of certain subchapter S corporations as imposed by Section 1375 of the Code; and (g) any other federal tax consequences arising with respect to the Bonds.

In rendering the foregoing opinion that interest on the Bonds is, as of the date hereof, excludable from gross income for federal income tax purposes we have (a) relied as to questions of fact material to our opinion upon representations of the Commonwealth (including representations as to the use and investment of proceeds of the Bonds), without undertaking to verify the same by independent investigation, and (b) assumed the continued compliance by the Commonwealth with its covenants relating to the use of the proceeds of the Bonds, and other covenants specifically designed to assure that the interest on the Bonds is, and continues to be, excludable from gross income for federal income tax purposes. The inaccuracy of any such representations or the noncompliance with any of such covenants may cause interest on the Bonds to become includable in gross income for Federal income tax purposes retroactive to the date of issuance of the Bonds.

3. The Bonds and the interest thereon (including any original issue discount properly allocable to a holder thereof) are exempt from taxes imposed by the Commonwealth, although the Bonds and said interest may be included in the measure of estate and inheritance taxes and of certain corporate excise and franchise taxes.

Very truly yours,

WARNER & STACKPOLE

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



A GE Capital Company

Municipal Bond New Issue Insurance Policy

Issuer:	Policy Number:
	Control Number:
Bonds:	Premium:

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

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

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

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a

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



A GE Capital Company

Municipal Bond New Issue Insurance Policy

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

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

President

Effective Date:

Authorized Representative

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

Authorized Officer

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



A GE Capital Company

Endorsement To Financial Guaranty Insurance Company Insurance Policy

Policy Number:

Control Number:

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

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

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

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer

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

FGIC is a registered service mark used by Financial Guaranty Insurance Company under license from its parent company, FGIC Corporation.





