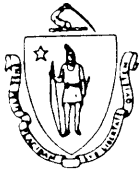


NEW ISSUE - BOOK-ENTRY-ONLY

In the opinion of Bond Counsel, under existing law and assuming continued compliance by the Commonwealth with the Internal Revenue Code of 1986, as amended, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for the purpose of computing the federal alternative minimum tax imposed on individuals and corporations, although interest on the Bonds will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed upon certain corporations. In the opinion of Bond Counsel, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. For federal and Massachusetts tax purposes, interest includes original issue discount. See "TAX EXEMPTION" herein.



THE COMMONWEALTH OF MASSACHUSETTS

\$200,000,000
General Obligation Bonds
Consolidated Loan of 1996, Series C

The Bonds will be issued by means of a book-entry-only system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company ("DTC") and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The Bonds will bear interest from September 1, 1996 and interest will be payable on March 1, 1997 and semiannually thereafter on September 1 and March 1, calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are subject to redemption prior to maturity, as more fully described herein.

The Bonds will constitute general obligations of The Commonwealth of Massachusetts (the "Commonwealth"), and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and on expenditures for debt service 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 Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Disclosure Counsel. Settlement of the issue is expected at DTC in New York, New York, on or about September 26, 1996.

September 18, 1996

THE COMMONWEALTH OF MASSACHUSETTS

\$200,000,000
General Obligation Bonds
Consolidated Loan of 1996, Series C

Dated: September 1, 1996

Due: September 1, as shown below

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
1997	\$ 6,215,000	4.75 %	NRO
1998	6,455,000	4.75	4.30 %
1999	6,720,000	4.75	4.50
2000	7,015,000	4.75	4.60
2001	7,325,000	4.75	4.70
2002	7,660,000*	4.75	100
2003	8,015,000*	5.00	4.85
2004	8,395,000*	5.00	4.95
2005	8,805,000*	5.00	5.05
2006	9,240,000*	5.05	5.15
2007	9,705,000*	5.25	100
2008	10,205,000*	5.30	5.35
2009	10,740,000*	5.375	5.45
2010	11,315,000*	5.375	5.55
2011	11,925,000*	5.375	5.60
2012	12,575,000*	5.375	5.65
2013	13,270,000*	5.375	5.70
2014	14,005,000*	5.375	5.70
2015	14,790,000*	5.50	NRO
2016	15,625,000	5.70	NRO

(accrued interest, if any, to be added)

*Insured by MBIA Insurance Corporation. See "BOND INSURANCE."

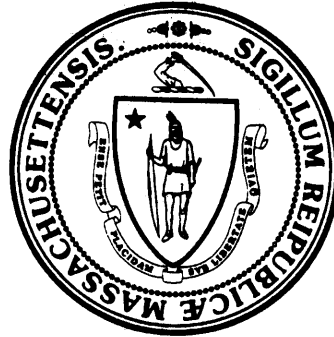
FOR NEW HAMPSHIRE RESIDENTS: THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT.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

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

LEGISLATIVE OFFICERS

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

OFFICIAL STATEMENT

THE COMMONWEALTH OF MASSACHUSETTS

\$200,000,000
General Obligation Bonds
Consolidated Loan of 1996, Series C

INTRODUCTION

This Official Statement (including the cover pages and Appendices A through D attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of \$200,000,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 1996, Series C (the "Bonds"). The Bonds will be general obligations of the Commonwealth, and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and expenditures for debt service 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 of the Bonds."

Purpose and Content of Official Statement

This Official Statement describes the terms and use of proceeds of, and security for, the Bonds. This introduction is subject in all respects to the additional information contained in this Official Statement, including Appendices A through D. 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 16, 1996, as supplemented as of September 18, 1996 (the "Commonwealth Information Statement"), which contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth. 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 ended June 30, 1995, prepared on a statutory basis and a GAAP basis, respectively. Appendix B attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Bonds. Appendix C attached hereto contains a specimen of the bond insurance policy to be issued with respect to the Bonds. Appendix D attached hereto contains the proposed form of the Commonwealth's continuing disclosure undertaking to be included in the form of the Bonds to facilitate compliance by the underwriters with the requirements of paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission.

THE BONDS

General

The Bonds will be dated September 1, 1996 and will bear interest from such date payable semiannually on March 1 and September 1 of each year, commencing March 1, 1997 (each an "Interest Payment Date") until the principal amount is paid. The Bonds will mature on September 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 clearing house funds to DTC or its nominee as registered owner of the Bonds. The record date for payments on account of the Bonds will be the business day next preceding an Interest Payment Date. As long as the book-entry-only system remains in effect, DTC or its nominee will be recognized as the owner of the Bonds for all purposes, including notices and voting. The Commonwealth will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. See "BOOK-ENTRY-ONLY SYSTEM."

Redemption

The Bonds maturing on or prior to September 1, 2006 will not be subject to redemption prior to their stated maturity dates.

Optional Redemption. The Bonds maturing on or after September 1, 2007 will be subject to redemption prior to their stated maturity dates on or after September 1, 2006 at the option of the Commonwealth from any moneys legally available therefor, in whole or in part at any time, by lot, at the redemption prices (expressed as percentages of the principal amount thereof) plus accrued interest to the redemption date, as follows:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
September 1, 2006 through August 31, 2007, inclusive	101 %
September 1, 2007 through August 31, 2008, inclusive	100½
September 1, 2008 and thereafter	100

Mandatory Redemption. The Bonds are not subject to mandatory redemption.

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

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

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

Application of Proceeds of the Bonds

The Bonds are being issued pursuant to the provisions of Section 49 of Chapter 29 of the Massachusetts General Laws and bond authorizations contained in various special laws enacted by the legislature. The net proceeds of the sale of the Bonds will be applied by the Treasurer and Receiver-General of the Commonwealth (the "State Treasurer") to the various purposes for which the issuance of bonds has been authorized pursuant to such special

laws, or to the payment of bond anticipation notes previously issued for such purposes, or to reimburse the state treasury for expenditures previously made pursuant to such laws. Any accrued interest payable upon original delivery of the Bonds will be credited ratably to the funds from which debt service on the Bonds is paid and will be used to pay interest on the Bonds. Any premium received by the Commonwealth upon original delivery of the Bonds will be applied to the costs of issuance thereof and other financing costs related thereto or, without appropriation, to the payment of the principal of or sinking fund installments with respect to 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 1997 to certain projects included within the categories of capital expenditures contained in the Capital Spending Plan. See "Appendix A - Commonwealth Information Statement" under the headings "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS - Overview of Capital Spending Process and Controls; *Five-Year Capital Spending Plan*" and "COMMONWEALTH BOND AND NOTE LIABILITIES - Authorized But Unissued Debt."

SECURITY FOR THE BONDS

The Bonds will be general obligations of the Commonwealth to which its full faith and credit will be pledged for the payment of principal and interest when due. However, it should be noted that Chapter 62F of the Massachusetts General Laws imposes a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit. It should be noted further that Section 60B of Chapter 29 of the Massachusetts General Laws imposes an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on general obligation debt of the Commonwealth. These statutes are both subject to amendment or repeal by the Legislature. Currently, both actual tax revenue growth and annual general obligation debt service are below the statutory limits. See "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 its income tax receipts to secure approximately \$383 million of the Commonwealth's outstanding Fiscal Recovery Bonds, the debt service on which amounts to approximately \$279 million in fiscal 1997 and \$130 million in fiscal 1998, at which time the final maturity of the Fiscal Recovery Bonds will be paid. See "Appendix A - Commonwealth Information Statement" under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES - General Obligation Debt; *Dedicated Income Tax Debt*."

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

BOND INSURANCE

The Underwriters (as defined herein) of the Bonds have contracted with MBIA Insurance Corporation (the "Insurer") for the issuance of a financial guaranty insurance policy to secure the Bonds maturing on September 1, 2002 through September 1, 2015 (collectively, the "Insured Bonds"). The issuance of such a policy is not a condition to the issuance and delivery of the Bonds by the Commonwealth to the Underwriters. The following

information has been furnished by the Insurer for use in this Official Statement. Reference is made to Appendix C for a specimen of the Insurer's policy.

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

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

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

The Insurer, formerly known as Municipal Bond Investors Assurance Corporation, is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obligated to pay the debts of or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer has one European branch in the Republic of France.

As of December 31, 1995 the Insurer had admitted assets of \$3.8 billion (audited), total liabilities of \$2.5 billion (audited), and total capital and surplus of \$1.3 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of March 31, 1996, the Insurer had admitted assets of \$4.0 billion (unaudited), total liabilities of \$2.7 billion (unaudited), and total capital and surplus of \$1.3 billion (unaudited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. All information regarding the Insurer, a wholly owned subsidiary of MBIA Inc., including the financial statements of the Insurer for the year ended December 31, 1995, prepared in accordance with generally accepted accounting principles, included in the Annual Report on Form 10-K of MBIA Inc. for the year ended December 31, 1995 is hereby incorporated by reference into this Official Statement and shall

be deemed to be a part hereof. Any statement contained in a document incorporated by reference herein shall be modified or superseded for purposes of this Official Statement to the extent that a statement contained herein or in any other subsequently filed document which also is incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Official Statement.

Furthermore, copies of the Insurer's year end financial statements prepared in accordance with statutory accounting practices are available from the Insurer. A copy of the Annual Report on Form 10-K of MBIA Inc. is available from the Insurer or the Securities and Exchange Commission. The address of the Insurer is 113 King Street, Armonk, New York 10504.

Moody's Investors Service ("Moody's") rates the claims paying ability of the Insurer "Aaa."

Standard & Poor's, a division of The McGraw Hill Companies, Inc. ("Standard & Poor's"), rates the claims paying ability of the Insurer "AAA."

Fitch Investors Service, L.P., rates the claims paying ability of the Insurer "AAA."

Each rating of the Insurer should be evaluated independently. The ratings reflect the respective rating agency's current assessment of the creditworthiness of the Insurer and its ability to pay claims on its policies of insurance. Any further explanation as to the significance of the above ratings may be obtained only from the applicable rating agency.

The above ratings are not recommendations to buy, sell or hold the Insured Bonds, and such ratings may be subject to revision or withdrawal at any time by the rating agencies. Any downward revision or withdrawal of any of the above ratings may have an adverse effect on the market price of the Insured Bonds. The Insurer does not guarantee the market price of the Insured Bonds nor does it guarantee that the ratings on the Insured Bonds will not be revised or withdrawn.

LITIGATION

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

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

BOOK-ENTRY-ONLY SYSTEM

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

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC

holds securities that its participants (the "DTC Participants") deposit with DTC. DTC also facilitates the settlement among DTC Participants of securities transactions, such as transfers and pledges, in deposited securities through electronic computerized book-entry changes in accounts of the DTC Participants, thereby eliminating the need for physical movement of securities certificates. DTC Participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is owned by a number of the DTC Participants and by the New York Stock Exchange, Inc., the American Stock Exchange, Inc. and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as banks, securities brokers and dealers, and trust companies that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants"). The rules applicable to DTC and the DTC Participants are on file with the Securities and Exchange Commission.

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

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

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

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

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

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

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

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

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

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

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

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

RATINGS

Fitch Investors Service, L.P., Moody's Investors Service, Inc. and Standard & Poor's 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 financial guaranty insurance policy insuring the payment when due of the principal of and interest on the Insured Bonds will be issued by MBIA Insurance Corporation.

The Bonds, other than the Insured Bonds, have been assigned ratings by Fitch Investors Service, L.P., Moody's Investors Service, Inc. and Standard & Poor's. The rating assigned by Fitch Investors Service, L.P. is "A+," the rating assigned by Moody's Investors Service, Inc. is "A1," and the rating assigned by Standard & Poor's 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, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for the purpose of computing the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"); it should be noted, however, that the interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations. Bond Counsel has not opined as to other federal tax consequences, if any, resulting from holding the Bonds.

The Code imposes certain requirements and restrictions on the use, expenditure and investment of proceeds of state and local governmental obligations, including the Bonds, and a requirement for payment to the federal government (called a "rebate") of certain proceeds derived from the investment thereof. Failure to comply with the Code's requirements subsequent to the issuance of the Bonds could cause interest on the Bonds to become included in gross income for federal income tax purposes retroactive to the date of their issuance. On or before delivery of the Bonds to the original purchasers, the Commonwealth will provide covenants or certificates evidencing that it will take all lawful action necessary to comply with those provisions of the Code that, except for such compliance, would affect adversely the excludability of interest on the Bonds from gross income for federal income tax purposes. Bond Counsel's opinion with respect to the federal income tax treatment of interest on the Bonds is conditioned upon such compliance.

Prospective purchasers of the Bonds should be aware that the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds, or, in the case of a financial institution, for that portion of the owner's interest expense allocated to interest on the Bonds and, for insurance companies subject to the tax imposed by Section 831 of the Code, reduces the deduction for loss reserves by 15 percent of the sum of certain items, including interest on the Bonds. In addition, interest on the Bonds earned by certain corporations could be taken into account in determining the environmental tax imposed by Section 59A of the Code, or the foreign branch profits tax imposed by Section 884 of the Code, and may be included in passive investment income subject to federal income taxation under Section 1375 of the Code applicable to certain S corporations. The Code also requires recipients of certain social security and railroad retirement benefits to take into account receipts and accruals of interest on the Bonds in determining the portion of such benefits that are included in gross income and receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit under Section 32(i) of the Code. No assurance can be given that future legislation will not have adverse tax consequences for owners of the Bonds.

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

For federal and Massachusetts 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 substantially identical Bonds were sold. Original issue discount accrues over the term of a Bond in accordance with Section 1272 of the Code. Purchasers of Bonds should consult their own tax advisers with respect to the computation of original issue discount on such accruals of interest during the period in which any such Bond is held.

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

COMPETITIVE SALE OF BONDS

After competitive bidding on September 18, 1996, the Bonds were awarded to a group of underwriters (the "Underwriters") led by Goldman, Sachs & 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 Underwriter compensation, net of amounts to be applied to costs of issuance of the Bonds and insurance, to be \$903,900. The Underwriters may change the public offering yields or prices from time to time.

CONTINUING DISCLOSURE

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

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

MISCELLANEOUS

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

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

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

AVAILABILITY OF OTHER INFORMATION

Questions regarding this Official Statement or requests for additional financial information concerning the Commonwealth should be directed to Kenneth Olshansky, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900, or Lowell Richards, Assistant Secretary for Capital Resources, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Official Statement and the Bonds should be directed to Walter J. St. Onge, III, Palmer & Dodge LLP, One Beacon Street, Boston, Massachusetts 02108, telephone 617/573-0389.

THE COMMONWEALTH OF MASSACHUSETTS

By/s/ Joseph D. Malone

Joseph D. Malone
Treasurer and Receiver-General

By/s/ Charles D. Baker

Charles D. Baker
Secretary of Administration and Finance

September 18, 1996

T3/645658.1

**THE
COMMONWEALTH
OF
MASSACHUSETTS**



INFORMATION STATEMENT

Dated February 16, 1996

INFORMATION STATEMENT SUPPLEMENT

Dated September 18, 1996

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THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

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

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THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT SUPPLEMENT

September 18, 1996

This supplement to the Information Statement of The Commonwealth of Massachusetts (the "Commonwealth") dated February 16, 1996 (the "Commonwealth Information Statement") is dated September 18, 1996 (the "September 18, 1996 Supplement") and contains information which updates the information contained in the Commonwealth Information Statement. The September 18, 1996 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 September 18, 1996. All capitalized terms not otherwise defined in this September 18, 1996 Supplement shall have the meanings ascribed to them in the Commonwealth Information Statement.

Exhibits B and C to the Information Statement contain the Commonwealth's fiscal 1995 combined financial statements (statutory basis) and fiscal 1995 general purpose financial statements (GAAP basis), respectively.

RECENT DEVELOPMENTS

The Government

Of the eight bills filed by the Governor on January 23, 1996 under Amendment Article 87 of the state constitution in connection with his government reorganization plan, two became law in March. Other legislative action with respect to the Governor's proposals took place as part of the fiscal 1997 budget process. Pursuant to the reorganization laws and the fiscal 1997 budget, effective July 1, 1996, the number of Executive Offices was reduced from eleven to six, with the elimination of the Executive Office of Communities and Development (which became the Department of Housing and Community Development), the Executive Office of Consumer Affairs and Business Regulation (which became the Department of Consumer Affairs and Business Regulation), the Executive Office of Economic Affairs (which became the Department of Economic Development, with certain functions transferred to a new Department of Labor and Workforce Development), the Executive Office of Labor (which became part of the Department of Labor and Workforce Development) and the Executive Office of Education, and a hundred various state boards and commissions were abolished. The other six reorganization bills filed by the Governor were disapproved by the legislature. See "Commonwealth Information Statement" under the heading "THE GOVERNMENT -- Government Reorganization Plan" on page A-6.

Speaker of the House Charles F. Flaherty resigned on April 9, 1996, and the members of the House of Representative elected Thomas M. Finneran to be the new Speaker. Joseph Gallant has succeeded Gerald Whitburn as Secretary of Health and Human Services.

1997 Fiscal Year

The Legislature enacted the fiscal 1997 budget on June 20, 1996, and the Governor approved it on June 30, 1996. The budget provides for approximately \$17.452 billion in fiscal 1997 expenditures. The Executive Office for Administration and Finance estimates total spending in fiscal 1997 to be approximately \$17.704 billion, including \$235.5 million in continuing appropriations from fiscal 1996. The Executive Office for Administration and Finance estimates fiscal 1997 total revenues to be approximately \$17.296 billion, including approximately \$12.197 billion in tax revenues. The tax revenue estimate amounts to an increase of approximately \$146 million, or 1.2%, over estimated fiscal 1996 tax collections. The estimate is based on the consensus revenue estimate of \$12.177 billion

agreed to by the Legislature and the Governor in May, 1996, adjusted for actual fiscal 1996 tax collections and various changes in law enacted after that date, including a \$150 million reduction in fiscal 1997 tax revenues funded by a fiscal 1996 transfer from the General Fund to the Tax Reduction Fund (see "1996 Fiscal Year"), a tuition tax deduction enacted as part of the fiscal 1997 budget, a change in the way state tax liability is calculated for certain mutual fund service corporations, an increase in the cigarette tax passed by the Legislature over the Governor's veto and a provision in the fiscal 1997 budget increasing the number of auditors in the Department of Revenue (projected in the budget to result in an approximate \$21 million increase in fiscal 1997 tax collections). See "Commonwealth Revenues."

The recent enactment of federal welfare reform legislation is not expected to have a material effect on the Commonwealth's finances in fiscal 1997. The Executive Office for Administration and Finance is currently evaluating the impact of the legislation on the Commonwealth's spending for public assistance programs.

Tax collections in August, 1996 totalled approximately \$841.9 million, approximately \$46.0 million, or 5.8%, higher than collections in August, 1995. Year-to-date tax collections total approximately \$1.600 billion, approximately \$57.7 million, or 3.7%, higher than collections in the corresponding period in fiscal 1996. The year-to-date collections are \$18.6 million above the midpoint of the benchmark range (\$1.487 billion to \$1.672 billion) contemplated by the Department of Revenue's estimates.

1996 Fiscal Year

On September 16, 1996, the Comptroller released his preliminary financial report for fiscal year 1996. The budgeted operating funds of the Commonwealth ended fiscal 1996 with a surplus of revenues and other sources over expenditures and other uses of \$426.4 million resulting in aggregate ending fund balances in the budgeted operating funds of the Commonwealth of approximately \$1.152 billion. Budgeted revenues and other sources for fiscal 1996 totalled approximately \$17.323 billion, including tax revenues of approximately \$12.049 billion, approximately \$365 million higher than the most recent official estimate in May, 1996. Budgeted revenues and other sources increased by approximately 5.7% from fiscal 1995 to fiscal 1996, while tax revenues increased by approximately 7.9% for the same period. Income tax withholding payments increased by approximately 8.0% from fiscal 1995, and total income tax collections by approximately 12.3%. (The Department of Revenue believes that the strong tax revenue growth in fiscal 1996 was due partly to one-time factors that may not recur in fiscal 1997. These include the rise in the stock and bond markets in calendar 1995, which may have created unusually large capital gains and thus increases in personal income tax payments in fiscal 1996. These factors have been incorporated into the Department's forecast for fiscal 1997 tax revenues.) Budgeted expenditures and other uses in fiscal 1996 totalled approximately \$16.896 billion, an increase of approximately \$645.7 million, or 4.0%, over fiscal 1995.

The fiscal 1996 year-end transfer to the Stabilization Fund amounted to approximately \$179.4 million, bringing the Stabilization Fund balance to approximately \$627.1 million, which exceeded the amount that can remain in the Stabilization Fund by law, \$543.3 million. Under state finance law, year-end surplus amounts (as defined in the law) in excess of the amount that can remain in the Stabilization Fund are transferred to the Tax Reduction Fund, to be applied, subject to legislative appropriation, to the reduction of personal income taxes. The balance in the Tax Reduction Fund, as reflected in the Comptroller's report, is approximately \$233.8 million. Legislation approved by the Governor on July 30, 1996 appropriated \$150 million from the Tax Reduction Fund for personal income tax reductions in fiscal 1997, to be implemented by a temporary increase in the amount of the personal exemption allowable for the 1996 taxable year; the Governor has filed legislation to provide for similar treatment of the balance of approximately \$83.8 million. See "Commonwealth Information Statement" under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Operating Fund Structure; *Stabilization Fund*" on page A-7.

The Comptroller's report also demonstrates that tax revenues in fiscal 1996 were lower than the limit set by Chapter 29B of the General Laws (approximately \$13.215 billion). See "Commonwealth Information Statement" under the heading "COMMONWEALTH REVENUES -- Limitations on Tax Revenues" on page A-27.

The final fiscal 1996 appropriation bills approved by the Governor on July 30, 1996 and August 10, 1996 contained approximately \$246.9 million in fiscal 1996 appropriations, approximately \$38.2 million in fiscal 1997 appropriations and approximately \$221.7 million in fiscal 1996 appropriations continued for use in fiscal 1997. Amounts carried forward from fiscal 1995 and deposited in the Cost Relief Fund were appropriated in these bills for further subsidies to local units of government for costs of water pollution abatement projects. See "Commonwealth Information Statement" under the heading "1996 FISCAL YEAR" on page A-18.

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 1991 through 1995 and unaudited preliminary figures for fiscal 1996 prepared by the Office of the Comptroller. When the status of a fund has changed during this period, prior years have been restated to conform to the fiscal 1996 status. See "Commonwealth Information Statement" under the heading "FINANCIAL RESULTS" on page A-13.

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

	Fiscal <u>1991</u>	Fiscal <u>1992</u>	Fiscal <u>1993</u>	Fiscal <u>1994</u>	Fiscal <u>1995</u>	Preliminary (unaudited) Fiscal <u>1996</u>
<u>Beginning Fund Balances</u>						
Reserved and/or Designated Stabilization Fund (1)	\$174.5	\$119.8	\$236.2	\$110.4	\$79.3	\$128.1
Undesignated	<u>(1,278.9)</u>	<u>58.1</u>	<u>82.8</u>	<u>142.6</u>	<u>127.1</u>	<u>172.5</u>
Total	<u>(1,104.4)</u>	<u>237.1</u>	<u>549.4</u>	<u>562.5</u>	<u>589.3</u>	<u>726.0</u>
<u>Revenues and Other Sources</u>						
Taxes	8,994.9	9,483.6	9,929.9	10,606.7	11,163.4	12,049.2
Federal Reimbursements (2)	2,777.1	2,393.5	2,674.1	2,901.2	2,969.7	3,037.7
Departmental and Other Revenues	1,204.9	1,187.3	1,327.1	1,187.9	1,273.1	1,204.1
Interfund Transfers from Non-budgeted Funds and Other Sources (3)	<u>656.6</u>	<u>663.9</u>	<u>778.5</u>	<u>853.9</u>	<u>981.0</u>	<u>1,031.7</u>
Budgeted Revenues and Other Sources	<u>13,633.5</u>	<u>13,728.3</u>	<u>14,709.6</u>	<u>15,549.7</u>	<u>16,387.2</u>	<u>17,322.7</u>
Mass Transit Assessments from Municipalities	130.2	130.9	137.4	140.4	143.9	147.6
Interfund Transfers among Budgeted Funds and Other Sources(3)	<u>149.7</u>	<u>366.9</u>	<u>358.7</u>	<u>289.1</u>	<u>399.7</u>	<u>880.2</u>
Total Revenues and Other Sources	<u>13,913.4</u>	<u>14,226.1</u>	<u>15,205.7</u>	<u>15,979.2</u>	<u>16,930.8</u>	<u>18,350.5</u>
<u>Expenditures and Uses</u>						
Programs and Services	11,944.5	11,757.4	12,683.6	13,416.2	14,010.3	14,666.0
Debt Service	942.3	898.3	1,139.5	1,149.4	1,230.9	1,183.4
Pensions	703.9	751.5	868.2	908.9	968.8	1,004.6
Interfund Transfers to Non-budgeted Funds and Other Uses	<u>64.0</u>	<u>8.8</u>	<u>5.1</u>	<u>48.4</u>	<u>40.4</u>	<u>42.3</u>
Budgeted Expenditures and Other Uses	<u>13,654.7</u>	<u>13,416.0</u>	<u>14,696.4</u>	<u>15,522.9</u>	<u>16,250.5</u>	<u>16,896.3</u>
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	130.2	130.9	137.4	140.4	143.9	147.6
Interfund Transfers among Budgeted Funds and Other Uses(3)	<u>149.7</u>	<u>366.9</u>	<u>358.7</u>	<u>289.1</u>	<u>399.7</u>	<u>880.2</u>
Total Expenditures and Other Uses	<u>13,934.6</u>	<u>13,913.8</u>	<u>15,192.6</u>	<u>15,952.4</u>	<u>16,794.1</u>	<u>17,924.1</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(21.2)</u>	<u>312.3</u>	<u>13.1</u>	<u>26.8</u>	<u>136.7</u>	<u>426.4</u>
Prior Year Deficit Financing	1,362.7	--	--	--	--	--
<u>Ending Fund Balances</u>						
Reserved and/or Designated Tax Reduction Fund	119.8	236.2	110.4	79.3	128.1	261.5
Stabilization Fund (1)	--	--	--	--	--	233.8(4)
Undesignated	<u>59.2</u>	<u>230.4</u>	<u>309.5</u>	<u>382.9</u>	<u>425.4</u>	<u>543.3</u>
Total	<u>58.1</u>	<u>82.8</u>	<u>142.6</u>	<u>127.1</u>	<u>172.5</u>	<u>113.9</u>
Total	<u>\$237.1</u>	<u>\$549.4</u>	<u>\$562.5</u>	<u>\$589.3</u>	<u>\$726.0</u>	<u>\$1,152.5</u>

SOURCE: Office of the Comptroller.

- (1) Stabilization Fund balances are not expendable without subsequent specific legislative authorization.
- (2) Includes \$513 million for fiscal 1991, \$198.6 million for fiscal 1992, \$236.3 million for fiscal 1993, \$247.8 million for fiscal 1994, \$231.8 million for fiscal 1995 and \$212.5 million for fiscal 1996 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 1991 through 1995" on page A-17 and "1996 FISCAL YEAR" on page A-18.
- (3) Interfund transfers represent accounting transfers which reallocate resources among funds. Fund deficit support transfers of \$234.8 million for fiscal 1991 have been eliminated to facilitate comparative analysis. Includes transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$59.2 million, \$170.0 million, \$76.9 million, \$65.4 million, \$27.9 million and \$179.4 million in fiscal 1991, 1992, 1993, 1994, 1995 and 1996, respectively. See "Commonwealth Information Statement" under the heading "COMMONWEALTH REVENUES -- Federal and Other Non-Tax Revenues" on page A-25. A portion of the \$179.4 million transferred to the Stabilization Fund in fiscal 1996 was subsequently transferred to the Tax Reduction Fund. See "1996 Fiscal Year."
- (4) Represents excess amounts transferred from the Stabilization Fund to the Tax Reduction Fund. See "1996 Fiscal Year."

Cash Flows

As of June 30, 1996, the Commonwealth had a cash position of approximately \$889 million, not including the Stabilization Fund. This compares to a projected position of \$645.5 million. The fiscal 1996 year-end cash position reflected approximately \$161.7 million in advance payments for fiscal 1997 expenses and approximately \$110 million in capital expenditures for which the Commonwealth had not yet issued bonds or notes to reimburse itself.

The most recent quarterly cash flow projections prepared by the office of the State Treasurer, which include monthly forecasts through the end of fiscal 1997, are dated August 29, 1996 and estimate the fiscal 1997 year-end cash position to be approximately \$352.9 million. These projections incorporate the fiscal 1997 budget as enacted and the final appropriation bills for fiscal 1996.

The Commonwealth currently has no outstanding commercial paper. The current cash flow projection anticipates that the Commonwealth will need to borrow for operating needs under its commercial paper program in October, 1996 in the amount of \$75 million and in March, 1997 in the amount of \$255 million. Each borrowing is projected to be repaid in the following month. The current cash flow projection anticipates the issuance of bond anticipation notes in the amount of \$40 million in October, 1996, \$200 million in November, 1996 and \$50 million in March, 1997. Such notes may be issued on a stand-alone basis or through the commercial paper program. Legislation approved by the Governor on August 10, 1996 raised the limit on outstanding commercial paper issued as bond anticipation notes from \$200 million to \$400 million.

The office of the State Treasurer will prepare an updated cash flow projection in November, 1996.

The ending balance projected in the cash flow forecast for fiscal 1997 and the estimated ending balance for the Commonwealth's operating budget for fiscal 1997 are likely to differ due to timing differences and the effect of certain non-budget items.

See "Commonwealth Information Statement" under the headings "1996 FISCAL YEAR -- Cash Flow" on page A-20 and "COMMONWEALTH BOND AND NOTE LIABILITIES - General Obligation Debt; *Commonwealth General Obligation Notes*" on page A-43.

Commonwealth Revenues

The following table sets forth the Commonwealth's actual revenues in its budgeted operating funds for fiscal 1991 through 1996 (the 1996 figures being preliminary). See "Commonwealth Information Statement" under the heading "COMMONWEALTH REVENUES" on page A-21.

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

	Fiscal <u>1991(1)</u>	Fiscal <u>1992(1)</u>	Fiscal <u>1993(1)</u>	Fiscal <u>1994</u>	Fiscal <u>1995</u>	Preliminary (unaudited) Fiscal <u>1996</u>
Tax Revenues:						
Alcoholic Beverages	\$ 66.2	\$ 63.5	\$ 60.6	\$ 60.2	\$ 60.7	\$59.7
Banks						
Commercial	27.4	17.6(2)	74.7	136.9	164.5	150.6
Savings	20.6	42.5	78.2	63.0	41.4	68.0
Cigarettes (3)	144.4	139.9	190.2	237.3	234.2	232.8
Corporations	612.2	643.8	737.4	782.3	911.0	876.3
Deeds	30.1	32.2	34.0	40.2	40.3	41.0
Income	5,045.1(4)	5,337.0	5,374.9	5,689.8	5,974.2	6,706.9
Inheritance and Estate	249.5	260.2	267.3	277.5	209.3	188.0
Insurance (5)	267.8	284.8	280.5	290.2	292.6	294.1
Motor Fuel	464.2	541.1	557.2	562.6	577.5	598.8
Public Utilities	59.3	52.9	69.1	81.8	88.7	132.9
Racing	27.5	26.1	15.7	13.4	12.7	11.4
Room Occupancy	56.0	55.9	59.3	62.8	68.8	72.9
Sales						
Regular	1,392.1	1,443.6	1,548.1	1,664.3	1,796.6	1,886.7
Meals	291.7	296.3	303.2	323.4	344.3	358.0
Motor Vehicles	225.6	238.7	272.9	314.5	340.4	365.4
Sub-Total--Sales	1,909.4	1,978.6	2,124.2	2,302.2	2,481.3	2,610.1
Miscellaneous	<u>15.2</u>	<u>7.5</u>	<u>6.6</u>	<u>6.5</u>	<u>6.2</u>	<u>5.7</u>
Total	<u>8,994.9</u>	<u>9,483.6</u>	<u>9,929.9</u>	<u>10,606.7</u>	<u>11,163.4</u>	<u>12,049.2</u>
Non-Tax Revenues:						
Federal Reimbursements(6)	2,777.1	2,393.5	2,674.1	2,901.2	2,969.7	3,037.7
Departmental and Other Revenues	1,204.9	1,187.3	1,327.1	1,187.9	1,273.1	1,204.1
Interfund Transfers from Non-budgeted Funds and Other Sources (7)	<u>656.6</u>	<u>663.9</u>	<u>778.5</u>	<u>853.9</u>	<u>981.0</u>	<u>1,031.7</u>
Budgeted Non-Tax Revenues and Other Sources	<u>4,638.6</u>	<u>4,244.7</u>	<u>4,779.7</u>	<u>4,943.0</u>	<u>5,223.8</u>	<u>5,273.5</u>
Budgeted Revenues and Other Sources	<u>13,633.5</u>	<u>13,728.3</u>	<u>14,709.6</u>	<u>15,549.7</u>	<u>16,387.2</u>	<u>17,322.7</u>
Mass Transit Assessments from Municipalities	130.2	130.9	137.4	140.4	143.9	147.6
Interfund Transfers among Budgeted Funds and Other Sources (7)	<u>149.7</u>	<u>366.9</u>	<u>358.7</u>	<u>289.1</u>	<u>399.7</u>	<u>880.2</u>
Total Revenues and Other Sources	<u>\$13,913.4</u>	<u>\$14,226.1</u>	<u>\$15,205.7</u>	<u>\$15,979.2</u>	<u>\$16,930.8</u>	<u>\$18,350.5</u>

SOURCE: Office of the Comptroller.

- (1) Includes the impact of tax law changes under Chapters 121 of the Acts of 1990, as amended. The total fiscal 1991 impact of the changes was an estimated increase in tax revenues in the amount of \$1.020 billion, while the fiscal 1992 and 1993 impacts of the changes were estimated at \$1.329 billion and \$1.318 billion, respectively.
- (2) Reflects settlement of certain litigation, see "State Taxes; *Business Corporations Tax*."
- (3) As a result of legislation enacted by the voters, this excise tax was increased effective January 1, 1993. See "Commonwealth Information Statement" under the heading "COMMONWEALTH REVENUES -- State Taxes; *Other Taxes*" on page A-24.
- (4) Excludes \$298.3 million collected in fiscal 1991 and attributed to the temporary increase in the income tax dedicated to the Commonwealth Liability Reduction Fund and the Medical Assistance Liability Fund.
- (5) Includes \$7.2 million in 1991, \$6.6 million in 1992, \$8.0 million in 1993, \$8.7 million in 1994, \$8.4 million in 1995 and an estimated \$9.2 million in fiscal 1996 in fees collected by the Division of Insurance relating to high-risk insurance.
- (6) Includes \$513 million for fiscal 1991, \$198.6 million for fiscal 1992, \$236.3 million for fiscal 1993, \$247.8 million in fiscal 1994, \$231.8 million in fiscal 1995 and \$212.5 million in fiscal 1996 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 1991 through 1995" on page A-17 and "1996 FISCAL YEAR" on page A-20.
- (7) Interfund transfers represent accounting transfers which reallocate resources among funds. Fund deficit support transfers of \$234.8 million for fiscal 1991 have been eliminated to facilitate comparative analysis. Includes transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$59.2 million, \$170.0 million, \$76.9 million, \$65.4 million, \$27.9 million and \$179.4 million in fiscal 1991, 1992, 1993, 1994, 1995 and 1996, respectively. See "Commonwealth Information Statement" under the heading "COMMONWEALTH REVENUES -- Federal and Other Non-Tax Revenues" on page A-25. A portion of the \$179.4 million transferred to the Stabilization Fund in fiscal 1996 was subsequently transferred to the Tax Reduction Fund. See "1996 Fiscal Year."

On August 8, 1996, the Governor approved legislation making two changes in the apportionment formula for the business corporations tax payable by certain mutual fund service corporations. Effective January 1, 1997, the legislation changes the computation of the sales factor; instead of sourcing sales from the state where the seller bears the cost of performing the services relating to the sale, the corporations will source sales to the state of domicile of the ultimate consumer of the service. Effective July 1, 1997, the legislation changes the current three-factor formula to a single sales factor formula, just as the November, 1995 legislation did for certain federal defense contractors and, over time, for manufacturing firms. The new law requires the affected corporations to increase their numbers of employees by 5% per year for five years, subject to exceptions for adverse economic conditions affecting the stock market or the amount of assets under their management. The Department of Revenue estimates that the changes will result in a revenue reduction of approximately \$10 million in fiscal 1997 and approximately \$39 million to \$53 million on an annualized basis, starting in fiscal 1998. These estimates do not take into account any increased economic activity that may be stimulated by the tax cuts.

On May 9, 1996 the Governor proposed reducing the motor fuels excise tax by 4.3 cents per gallon, until such time as the federal gasoline tax is reduced by that amount. The estimated annual revenue cost to the Commonwealth would be approximately \$115 million to \$125 million. The Legislature did not act on such proposal prior to concluding its formal sessions on July 31, 1996.

On July 24, 1996, the Legislature overrode the Governor's veto of legislation imposing a 25-cents-per-pack tax increase on cigarettes, as well as a 25% increase in the tax on smokeless tobacco and a 15% tax on cigars and smoking tobacco, all effective October 1, 1996. The Department of Revenue estimates that these changes will result in approximately \$74 million in additional tax revenue for fiscal 1997, approximately \$80 million to \$90 million in additional revenue in fiscal 1998 and, when demand for cigarettes fully adjusts to the higher tobacco product prices expected to result from the legislation, between \$73 million and \$83 million by fiscal year 2000.

On August 9, 1996, the Governor signed legislation providing a tax credit to shippers that pay federal harbor maintenance taxes on cargo passing through Massachusetts ports. The Department of Revenue estimates that there will be no impact on revenues in fiscal 1997 as a result of this tax credit, and that the annualized revenue loss will be approximately \$3 million to \$4 million, beginning in fiscal 1998.

The fiscal 1997 budget, approved by the Governor on June 30, 1996, includes a new tax deduction for the amount by which tuition payments to two- or four-year colleges, net of financial aid, exceed 25% of the taxpayer's adjusted gross income. The Department of Revenue estimates that this deduction will result in a revenue reduction of approximately \$10 million in fiscal 1997 and approximately \$14 million on an annualized basis thereafter.

The fiscal 1996 supplemental appropriations bill approved on July 30, 1996 mandates a personal income tax reduction of \$150 million to be implemented by a temporary increase in the amount of the personal exemption allowable for the 1996 taxable year. See "1996 Fiscal Year." The Department of Revenue's fiscal 1997 tax revenue forecasts have been adjusted for this \$150 million reduction.

On August 9, 1996, the Governor approved legislation authorizing the State Lottery Commission to participate with other states in a multi-jurisdictional lottery. Beginning in September, 1996, the Commission joined with the states of Illinois, Georgia, Maryland, Michigan and Virginia in a multi-state game that is estimated to generate an additional \$30 million per year in net lottery revenues.

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 Massachusetts Bay Transportation Authority, as well as the sources of funding for such capital spending, including federal aid, for fiscal years 1997 through 2001. Total capital spending for fiscal years 1997 through 2001 to be financed from Commonwealth debt is forecast at approximately \$4.5 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 approximately \$1.328 billion for fiscal years 1997 through 2001, which spending is expected to be financed through the issuance

of MBTA bonds, and assumes that the projected level of Commonwealth capital spending will leverage additional federal transportation aid of approximately \$6.042 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, as well as mass transit. The Executive Office for Administration and Finance regularly reviews the Five-Year Capital Spending Plan to account for changes in the expected timing and amount of the Commonwealth's capital expenditures. The table assumes that all Commonwealth bonds related to a particular year's expenditures will be issued in the same year. In practice, Commonwealth capital expenditures often occur prior to the issuance of the related bonds. Accordingly, it is customary for some Commonwealth bonds to be issued in a subsequent fiscal year to finance capital expenditures made in the prior fiscal year. Fiscal 1996 capital expenditures amounting to approximately \$110 million are expected to be financed through the issuance of bonds in fiscal 1997; such bonds are not included in the following table. See "Commonwealth Information Statement" under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Overview of Capital Spending Process and Controls" on pp. A-10 through A-13, inclusive.

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

	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>Total</u>
Uses of Funds						
Information Technology	\$ 31	\$ 32	\$ 29	\$ 29	\$ 29	\$ 150
Infrastructure(1)	217	237	214	202	202	1,072
Environment(2)	106	93	119	105	105	528
Wastewater Treatment	35	35	35	35	35	175
Housing	62	67	67	71	71	338
Transportation						
Commonwealth Expenditures	367	358	388	413	413	1,939
Third Party-Supported Expenditures(3)	300	200	180	0	0	680
MBTA	382	388	184	187	187	1,328
Federal Highway/MBTA Aid(4)	<u>1,179</u>	<u>1,493</u>	<u>1,680</u>	<u>858</u>	<u>832</u>	<u>6,042</u>
Subtotal	2,228	2,439	2,432	1,458	1,432	9,989
Public Safety	20	15	9	9	9	62
Miscellaneous	<u>62</u>	<u>63</u>	<u>39</u>	<u>36</u>	<u>36</u>	<u>236</u>
Total	<u>\$2,761</u>	<u>\$2,981</u>	<u>\$2,944</u>	<u>\$1,945</u>	<u>\$1,919</u>	<u>\$12,550</u>
Sources of Funds						
Federal Aid(4)	\$1,179	\$1,493	\$1,680	\$858	\$832	\$6,042
Commonwealth Debt (5)	900	900	900	900	900	4,500
Third Party Debt Proceeds(3)	300	200	180	0	0	680
MBTA Bonds	<u>382</u>	<u>388</u>	<u>184</u>	<u>187</u>	<u>187</u>	<u>1,328</u>
Total	<u>\$2,761</u>	<u>\$2,981</u>	<u>\$2,944</u>	<u>\$1,945</u>	<u>\$1,919</u>	<u>\$12,550</u>

SOURCE: Executive Office for Administration and Finance.

- (1) Includes hospital consolidation, prison, courts and higher education construction and miscellaneous other projects.
- (2) Includes open space acquisition.
- (3) Pursuant to legislation enacted in August, 1995, the Massachusetts Turnpike Authority and the Massachusetts Port Authority are expected to make various payments to the Commonwealth for use in meeting transportation-related obligations. Detailed recommendations as to the amount and terms of such payments are expected to be included in the joint feasibility study required by such legislation to be completed by December 1, 1996. The MBTA may also make contributions to transportation project funding related to collateral improvements. Pending the enactment of legislation to effect such payments, the Commonwealth may issue notes periodically in anticipation of the receipt of such payments. If such payments are not ultimately received in amounts sufficient to pay such notes, the Commonwealth has authority to issue bonds to retire the notes. Estimates are from those used in the current "Central Artery/Tunnel Finance Plan" prepared annually by the Massachusetts Highway Department. See "Commonwealth Information Statement" under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Overview of Capital Spending Process and Controls; *Five-Year Capital Spending Plan*" on p. A-12.
- (4) Figures for 1998 through 2001 are estimates developed in accordance with Federal Highway Administration guidelines. Actual amounts are subject to provisions of successor legislation to the federal Intermodal Surface Transportation Efficiency Act of 1991.
- (5) Includes general obligation bonds and special obligation bonds.

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.

On February 26, 1996, the Governor approved the seaport improvements bond legislation (\$280 million) enacted by the legislature on February 14, 1996.

On June 7, 1996, the Governor approved transportation bond legislation authorizing approximately \$975.6 million in expenditures (to be funded by approximately \$598.7 million of state bonds). On July 30, 1996, the Governor approved additional bond legislation authorizing approximately \$2.4 billion in state transportation-related expenditures (to be funded by approximately \$1.269 billion of state bonds), as well as \$250 million (to be funded by state bonds) for the first phase of forward funding the working capital needs of the MBTA (see "Massachusetts Bay Transportation Authority"), \$20 million in state bonds for capitalization grants to the Massachusetts Water Pollution Abatement Trust (see "Other Commonwealth Liabilities -- Massachusetts Water Pollution Abatement Trust") and approximately \$449.1 million in bonds to be issued by the MBTA. The two transportation bills, when combined, satisfy the Governor's current requests for transportation funding and allow the Commonwealth access to all remaining unobligated federal assistance available to the state under the Intermodal Surface Transportation Efficiency Act of 1991.

On August 7, 1996, the Governor approved legislation authorizing \$30 million in state bonds for the acquisition of lands fronting on rivers and streams, and on August 9, 1996, he approved legislation authorizing approximately \$302.2 million in state bonds to fund information technology expenditures at state agencies and public elementary schools.

The Legislature failed to enact, prior to the conclusion of formal legislative sessions on July 31, 1996, several sizable bond authorization bills which had been approved in differing forms by the House and Senate. Bond legislation can only be enacted in formal legislative sessions, and no formal sessions are currently anticipated before 1997.

It is the plan of the Executive Office for Administration and Finance to approve expenditures from the recently enacted bond authorizations in a manner consistent with the Five-Year Capital Spending Plan.

See "Commonwealth Information Statement" under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Overview of Capital Spending Process and Controls" on pp. A-10 to A-13, inclusive.

Massachusetts Bay Transportation Authority

Pursuant to the transportation bond legislation approved by the Governor on July 30, 1996, the State Treasurer is to undertake a study of the cash management practices of the MBTA, and a special commission is to be established to review all aspects of the MBTA's finances. The purpose of the cash management study, which is due in late January, 1997, is to trace the history of the MBTA's practice of receiving net cost of service advances, calculate the interest cost to the Commonwealth of making such advances and provide the State Treasurer's recommendations on how to reduce or eliminate the need for such advances. The 17-member commission will be chaired by the Secretary of Administration and Finance and will consist largely of senior state officials and legislative leaders in finance-related or transportation-related positions. The commission is to develop by April, 1997 a plan to implement a prospective budgeting system and a schedule for phasing in the system. Commonwealth bonds have been authorized in the amount of \$250 million to fund the first phase of a prospective budgeting system, with funds to be drawn down for the purpose no earlier than July 1, 1997. By late October, 1997, the commission is to develop a second-phase implementation plan, detailing the aspects of the MBTA's operations to be subject to prospective budgeting and the costs and savings associated with the implementation of such a system. See "Commonwealth Information Statement" under the headings "COMMONWEALTH PROGRAMS AND SERVICES -- MBTA

and Regional Transit Authorities" on pp. A-35 and A-36 and "COMMONWEALTH BOND AND NOTE LIABILITIES-- Commonwealth-Supported Debt; *MBTA*" on p. A-47.

COMMONWEALTH BOND AND NOTE LIABILITIES

The following table sets forth the Commonwealth's bond and note liabilities outstanding on July 1, 1996.

Commonwealth Bond and Note Liabilities July 1, 1996 (in thousands)

	<u>Long-Term</u> (1)	<u>Short-Term</u>
COMMONWEALTH DEBT		
General Obligation Debt	\$9,093,509 (2)	\$240,000 (3)
Dedicated Income Tax Debt	382,964	0
Special Obligation Debt	<u>535,260</u>	<u>0</u>
Subtotal Commonwealth Debt	<u>10,011,733</u>	<u>240,000</u>
COMMONWEALTH-SUPPORTED DEBT		
MBTA	2,283,330	325,000 (4)
Massachusetts Convention Center Authority	155,559	0
Massachusetts Government Land Bank	17,985	0
Boston Metropolitan District	44,208	0
Steamship Authority	39,164	0
Regional transit authorities	<u>15</u>	<u>68,819</u>
Subtotal Supported Debt	<u>2,540,261</u>	<u>393,819</u>
COMMONWEALTH-GUARANTEED DEBT		
Massachusetts Turnpike Authority	0	259,315
Higher education building authorities	<u>245,918</u>	<u>0</u>
Subtotal Guaranteed Debt	<u>245,918</u>	<u>259,315</u>
TOTAL COMMONWEALTH BOND AND NOTE LIABILITIES	<u>\$12,797,912</u>	<u>\$893,134</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 and Certificates of Participation" on page A-53.
- (2) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from July 1, 1996 through their maturity in the amount of \$489 million. The Commonwealth sold \$19 million of college opportunity bonds on August 2, 1996. The Commonwealth sold \$200 million of bonds on September 18, 1996, which are expected to be delivered on September 26, 1996.
- (3) \$240 million of Commonwealth general obligation notes issued on June 11, 1996 and due June 10, 1997 for the purpose of financing the MBTA's net cost of service. See "Commonwealth Information Statement" under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES -- General Obligation Debt; *Commonwealth General Obligation Notes*" on page A-43.
- (4) Includes \$160 million of notes due September 6, 1996 and \$165 million of notes due February 28, 1997. On August 29, 1996, the MBTA sold \$160 million of notes due September 5, 1997, the proceeds of which were used to retire the notes due September 6, 1996. In addition, as of September 18, 1996, the MBTA has \$145.8 million of commercial paper issued as bond anticipation notes outstanding. See "Commonwealth Information Statement" under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES -- Commonwealth Supported Debt; *MBTA*" on page A-47.

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

OTHER COMMONWEALTH LIABILITIES

Retirement Systems and Pension Benefits

Pursuant to legislation enacted as part of the fiscal 1997 budget, public employees hired on or after July 1, 1996 must contribute 9% of their regular compensation to their retirement system, and members of the state police hired on or after such date must contribute 12%.

Another provision in the fiscal 1997 budget directs the Secretary of Administration and Finance and the State Treasurer, in preparation for the Legislature's adoption of a new funding schedule pursuant to the state's pension funding plan, to conduct a study of the retirement systems to evaluate options to reduce the state's unfunded pension liability, including an analysis of the pension structure and benefit program of the systems and comparisons with other public and private retirement systems, an analysis of the cost of benefits to employees, teachers and the Commonwealth and an analysis of potential alternative benefit systems, including a defined contribution program. The study is due on or before December 1, 1996.

On August 9, 1996, the Governor approved legislation authorizing the transfer to the Pension Reserves Investment Management Board of all assets of the state employees' and teachers' retirement systems currently managed by the State Treasurer.

Water Pollution Abatement Trust

On July 30, 1996, the Governor approved bond legislation authorizing an additional \$20 million in Commonwealth bonds for capitalization grants to the Trust's revolving fund.

The final fiscal 1996 appropriation bills contain provisions requiring the Trust, in connection with any loan made on or after October 1, 1995, to provide debt service subsidies or other financial assistance sufficient to result in the loan being the financial equivalent of a grant to the borrower of 50% of the eligible cost of the financed project. Additional contract assistance from the Commonwealth was also authorized in an amount up to \$8 million per fiscal year through the fiscal year ending June 30, 2025.

On August 6, 1996, the President signed the federal Safe Drinking Water Act, which creates a new state revolving fund program for drinking water and provides authorization for \$1 billion per year in federal capitalization grants through federal fiscal year 2003. Like the wastewater program, the new program requires a 20% state match to receive federal capitalization grants. The Trust's enabling legislation already authorizes it to administer such a loan program. Implementation of the program by the Trust awaits the authorization of matching funds from the Commonwealth and the issuance of regulations by the federal Environmental Protection Agency.

Unemployment Compensation Trust Fund

As of June 30, 1996, the Massachusetts Unemployment Trust Fund had a surplus of \$687 million. The Division of Employment and Training's August, 1996 quarterly report indicates that the contributions provided by current law should result in a private contributory account balance of \$777 million in the Unemployment Compensation Trust Fund by December, 1996 and rebuild reserves in the system to \$1.614 billion by the end of 2000. See "Exhibit A - Economic Information" under the heading "Employment--Unemployment" and see "Commonwealth Information Statement" under the heading "OTHER COMMONWEALTH LIABILITIES -- Unemployment Compensation Trust Fund" on page A-55.

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

In *Massachusetts Wholesalers of Malt Beverages v. Commonwealth* (Suffolk Superior Court No. 90-1523), the Commonwealth in February, 1996 settled all remaining issues with one group of plaintiffs, the Massachusetts Soft Drink Association. Payments to that group will total approximately \$7 million. The legislature has appropriated the funds necessary for these payments in its final supplemental budget for fiscal 1996. Litigation with the other group of plaintiffs, the Massachusetts Wholesalers of Malt Beverages, is still pending.

In *Perini Corporation v. Commissioner of Revenue* (Supreme Judicial Court No. 6657), the Supreme Judicial Court, on April 30, 1996, entered a partial final judgment implementing its decision for tax years ending prior to January 1, 1995. The Department of Revenue estimates that tax revenues in the amount of \$40 million to \$55 million may be abated as a result of the partial final judgement. On May 13, 1996, the Court entered an order for judgment and memorandum concerning relief for tax years ending on or after January 1, 1996. A final judgement was entered on June 6, 1996. The Department of Revenue is estimating the fiscal impact of that ruling.

In *Spaulding Rehabilitation Hospital Corporation v. Massachusetts Highway Department* (Suffolk Superior Court No. 95-4360C), Spaulding has signed interrogatories indicating that it believes that the property is worth more than \$60 million.

In *McCourt Co., Inc. v. Commonwealth* (Suffolk Superior Court No. 94-2032), the Commonwealth estimates its potential liability to be between \$75 million and \$135 million.

In *County of Barnstable v. Commonwealth* (Suffolk Superior Court No. 90-7439B), the Supreme Judicial Court, in February, 1996, held that (i) the legislature has delegated to the counties the obligation to meet any shortfall in appropriated rents; (ii) Bristol and Norfolk counties had failed to prove an inability to do so; and (iii) no purpose would be served by further litigation.

See "Commonwealth Information Statement" under the heading "LITIGATION" on page A-55.

AVAILABILITY OF OTHER INFORMATION

Questions regarding this September 18, 1996 Supplement or requests for additional financial information concerning the Commonwealth should be directed to Kenneth Olshansky, Deputy Treasurer, Office of the Treasurer-Receiver General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900, or Lowell Richards, Assistant Secretary for Capital Resources, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this September 18, 1996 Supplement should be directed to John R. Regier or Navjeet K. Bal, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone 617/542-6000.

THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Joseph D. Malone

Joseph D. Malone
Treasurer and Receiver-General

By /s/ Charles D. Baker

Charles D. Baker
Secretary of Administration and Finance

September 18, 1996

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THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT

February 16, 1996

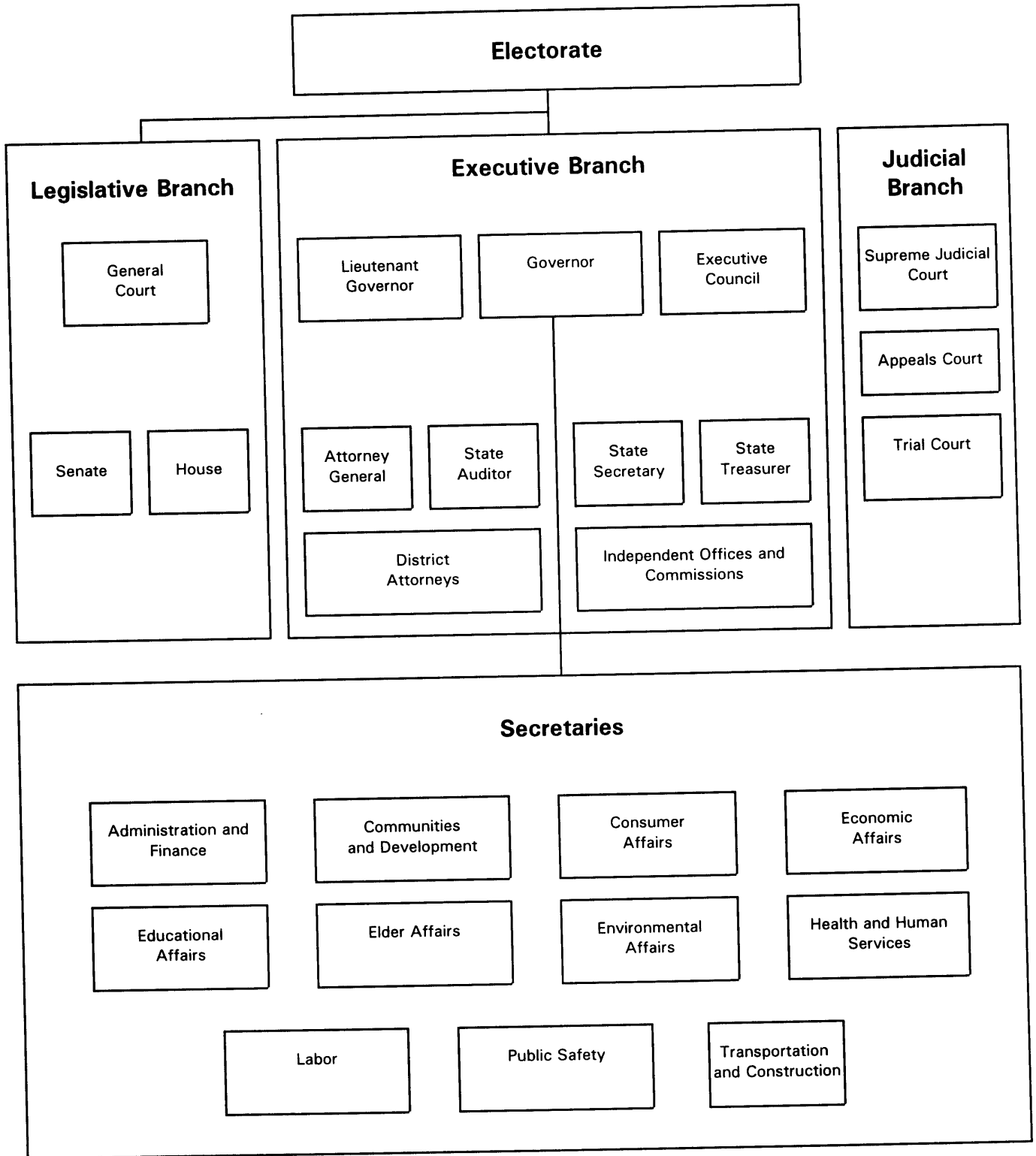
This Information Statement, together with the Exhibits attached hereto, is furnished by The Commonwealth of Massachusetts (the "Commonwealth"). It contains certain fiscal, financial and economic information concerning the Commonwealth and its ability to meet its obligations. The Commonwealth Information 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 future social, environmental and economic conditions, among other things, 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 1995 combined financial statements (statutory basis) and fiscal 1995 general purpose financial statements (GAAP basis), respectively.

THE GOVERNMENT

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



Executive Branch

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

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

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

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

Approximately 76.4% of the Commonwealth's fiscal 1996 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 1996 program expenditures in the budgeted operating funds attributable thereto:

Executive Offices		
<u>Executive Office</u>	<u>Secretary</u>	<u>Approximate Percentage of Total Expenditures Supervised</u>
Administration and Finance	Charles D. Baker	5.6%
Communities and Development	Mary L. Padula	0.8
Consumer Affairs and Business Regulation	Priscilla H. Douglas	0.2
Economic Affairs	Gloria C. Larson	0.2
Educational Affairs	Michael Sentance	17.7
Elder Affairs	Franklin P. Ollivierre	0.7
Environmental Affairs	Trudy Coxé	1.0
Health and Human Services	Gerald Whitburn	41.5
Labor	Christine E. Morris	0.1
Public Safety	Kathleen O'Toole	5.0
Transportation and Construction	James J. Kerasiotes	3.6

SOURCE: Executive Office for Administration and Finance.

Approximately 3.8% of the Commonwealth's fiscal 1996 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 18.9% of fiscal 1996 expenditures, including 5.5% for a portion of Commonwealth aid to cities, towns and regional school districts ("Local Aid"), 7.0% for debt service, 5.8% for pension costs, and 0.6% for other programs within the State Treasurer's office, including Lottery administration. See "COMMONWEALTH PROGRAMS AND SERVICES -- Local Aid," "-- Debt Service" and "-- Pensions." The remaining 0.9% of fiscal 1996 expenditures is reserved for contingencies.

The Governor's chief fiscal officer is the Secretary of 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 of 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 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 Board of Retirement, the Pension Reserves 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 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 public utility and 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, administration of state lobbying laws 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. The joint rules of the House and Senate, as modified in June, 1995, require all formal business to be concluded by the end of July in even-numbered years and by the third Wednesday in November in odd-numbered years.

The House of Representatives must originate any bill that 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 house. 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 re-enactment, at which point the Governor has no further right to return the bill a second time with a recommendation to amend.

On December 6, 1995, an initiative petition containing the necessary 64,928 signatures was filed with the Secretary of the Commonwealth calling for legislative sessions to be limited to the first six months of each year and for legislative salaries to be reduced substantially. If the petition is not approved by the Legislature by May 1, 1996, the petitioners can have it placed before the voters at the November, 1996 general election by collecting another 10,821 signatures by July 3, 1996. See "Initiative Petitions."

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 certain 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

The Legislature has established 56 independent authorities and agencies within the Commonwealth, the budgets of which are not included in the Commonwealth's annual budget. The Governmental Accounting Standards Board (GASB) statement number 14 articulates standards for determining significant financial or operational relationships between the primary government and its independent entities. Based on this statement, the Commonwealth has significant operational or financial relationships, or both, with 36 of its 56 authorities. For example, the Commonwealth appropriates budgetary funds for subsidies, operating assistance and debt service payments (and is liable for all or a portion of the outstanding debt) of certain of these authorities and agencies, such as the Massachusetts Bay Transportation Authority ("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 ("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 replenish the capital reserve funds of the Massachusetts Housing Finance Agency ("MHFA") and the Massachusetts Home Mortgage Finance Agency. The Commonwealth has also guaranteed certain bond anticipation notes issued by the Massachusetts Turnpike Authority ("MTA"), but the Commonwealth has no liability for the MTA's bonds. See "COMMONWEALTH BOND AND NOTE LIABILITIES." The Commonwealth also appropriates budgetary funds for certain debt service payments of the Massachusetts Water Pollution Abatement Trust. See "OTHER COMMONWEALTH LIABILITIES - Water Pollution Abatement Trust." Other independent authorities and agencies which issue their own debt for quasi-governmental purposes include the Massachusetts Educational Financing Authority, the Massachusetts Health and Educational Facilities Authority ("HEFA"), the Massachusetts Industrial Finance Agency ("MIFA"), the Massachusetts Port Authority and the Massachusetts Water Resources Authority ("MWRA"). A discussion of these entities and the relationship to the Commonwealth is included in footnote 1 to the fiscal 1995 general purpose financial statements - GAAP basis included as Exhibit C hereto.

Local Government

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

All territory in the Commonwealth is in one of the 14 counties and in one of the 351 incorporated cities and towns which exercise the functions of local government. Cities and towns or regional school districts established by them provide elementary and secondary education. Cities are governed by several variations of the mayor-and-council or manager-and-council form. Most towns place executive power in a board of three or five selectmen elected to one- or three-year terms and retain legislative powers in the voters themselves, who assemble in periodic open or representative town meetings. Various local and regional districts exist for schools, parks, water and wastewater administration and certain other governmental functions.

Municipal revenues consist of property taxes, Local Aid, local receipts (including motor vehicle excise taxes, local option taxes, fines, licenses and permits, charges for local services and investment income) and other available funds (including general and dedicated reserve funds). Following the enactment in 1980 of the tax limitation initiative petition commonly known

as Proposition 2½, 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."

Government Reorganization Plan

On November 1, 1995 the Governor released a proposal to reorganize state government, and on January 23, 1996 he filed implementing legislation. The Governor proposes to eliminate five of the eleven Executive Offices, as well as 74 state agencies and more than a hundred state boards and commissions. The Executive Offices of Communities and Development, Consumer Affairs and Business Regulation, Economic Affairs, Education and Labor would be eliminated. The basic functions of state government would be consolidated in six Secretariats (Administration and Finance, Elder Affairs, Environmental Affairs, Family Services, Public Property and Public Safety) and two newly created boards (Board of Education and Training and Board of Higher Education). The state's civil service system would be reformed, and state management personnel would be limited to twelve years of service. State employee contributions for health insurance coverage would be increased to 25% of the total group premium. State procurement procedures would be centralized, and the procurement of architectural and engineering design services would be simplified. The Commonwealth would no longer be responsible for cost-of-living allowances for local retirees. The plan would "sunset" all state regulations on January 1, 1997 and require state agencies to justify the retention of particular regulations. Periodic passenger vehicle registration fees will be eliminated and operator license renewal fees will be reduced to \$2.

The reorganization plan also contemplates the private outsourcing of certain management and operational functions of various state departments, including one state college and one campus of the University of Massachusetts, and independent authorities, including the MBTA, the Massachusetts Port Authority and the MWRA. The plan contemplates that the MBTA's commuter rail operations would be transferred to a newly created Massachusetts Railroad Authority and that the MBTA Advisory Board would be abolished. The fifteen regional transit authorities would be consolidated into four. County government would be abolished, and county debt and lease obligations outstanding on June 30, 1997 would be assumed by the Commonwealth. (The amount of county bonds and bond anticipation notes outstanding as of November 1, 1995 was \$30 million.) The Governor would be given approval authority over capital expenditures of the Massachusetts Port Authority and the Massachusetts Turnpike Authority in excess of \$1 million.

The Governor effectuated the sunset of state regulations by executive order on February 9, 1996, and has indicated his intention to effectuate certain of the other reorganization proposals by executive order, including the implementation of permanent passenger vehicle registration and lifetime operator licenses. Most of the proposals will require enactment by the Legislature of enabling legislation. Among the 38 legislative proposals filed by the Governor on January 23, 1996 were eight bills filed under Amendment Article 87 of the state constitution, which provides that reorganization plans filed by the Governor cannot be amended by the Legislature and become effective automatically unless disapproved by a majority vote in either the House of Representatives or the Senate within 60 days of filing. Unless disapproved, such proposals will take effect on July 1, 1996. Seven of the eight Article 87 proposals provide the general administrative framework for the reduction of Executive Offices from eleven to six and for the consolidation of the various state operating agencies within those six secretariats; the eighth bill would abolish a hundred boards and commissions. If one or more of the eight bills filed under Article 87 is disapproved, the proposals contained therein may become the subject of legislation pursuant to ordinary legislative procedures.

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 97% 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. The final fiscal 1995 supplemental budget modified, with respect to the fiscal 1995 year-end surplus, the provisions of state law governing deposits to the Stabilization Fund. See "FINANCIAL RESULTS -- Fiscal Years 1991 through 1995; *Fiscal Year 1995.*"

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 are to 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 of Representatives. 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, a legislative conference committee generally develops a compromise budget for consideration by both houses 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 specific line items. 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 years in which the General Appropriation Act is not approved by the Legislature and the Governor prior to the beginning of the applicable fiscal year, the Legislature and the Governor generally approve a temporary budget under which funds for the Commonwealth's programs and services are appropriated based upon the level of appropriations from the prior fiscal year budget.

During the course of the fiscal year, the Comptroller monitors budgetary accounts and notifies the Secretary of Administration and Finance and the House and Senate Committees on Ways and Means whenever the appropriation for a particular 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. Although supplemental appropriations have been commonplace for many years for various purposes, including, in particular, Medicaid and certain other public assistance programs, the extent of the Commonwealth's reliance on such appropriations has diminished in recent years. See "FINANCIAL RESULTS -- Fiscal Years 1991 through 1995; 1996 Fiscal Year."

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 of Administration and Finance, and 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 of 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 of 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 of 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 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 of 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 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 pursuant to 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 moneys.

The Cash Management Division of the State Treasurer's office 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 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 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 moneys 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 moneys 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 or allotment is insufficient. These obligations include debt service, which is specifically exempted by the state constitution 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 those procedures, which are still in effect, 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 of accounting" or "statutory basis"). 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 at or before the end of a fiscal year are recognized as accounts payable and included in expenditures.

For most 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 under the statutory basis of accounting 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 inter-period 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 of 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, "1995 General Purpose Financial Statements -- GAAP Basis."

Financial Reports. The Commonwealth's fiscal year ends on June 30. Throughout the year, the Comptroller prepares interim financial statements, and each September, following the end of the fiscal year, the Comptroller issues a Preliminary Financial Report. These interim and preliminary financial reports are prepared on the statutory basis of accounting and are not audited, but they are considered authoritative. In January, the Comptroller publishes the Commonwealth's audited annual report. For fiscal years 1986 through 1989 this report included audited financial statements on both the statutory basis of accounting and the GAAP basis. Since fiscal 1990, these financial statements have been issued as two separate reports, one utilizing the statutory basis of accounting (the "Statutory Basis Financial Report") and one utilizing the GAAP basis, the Comprehensive Annual Financial Report ("CAFR"). The general purpose financial statements for fiscal 1995 from these two reports are attached hereto as Exhibits B and C, respectively. For fiscal 1991 through 1995 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 opinions on the Commonwealth's financial statements and on certain other reports required by the single audit. As part of the single audit, the independent auditors render a report on all programs involving federal funding for compliance with federal and state laws and regulations and assess the adequacy of internal control systems. A separate report is issued on all programs not involving federal funding.

The Commonwealth CAFRs for fiscal 1991 through fiscal 1994, from which certain information contained in this Information Statement has been derived, were each awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada ("GFOA"). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Such CAFR must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The Commonwealth has submitted the fiscal 1995 CAFR to the GFOA. The Comptroller believes that the 1995 CAFR will conform to the Certificate of Achievement program requirements.

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. Such 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, bond authorizations to incur debt for specific purposes. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- Overview." Pursuant to state finance law, the Governor, through the Secretary of 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 Governor 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 a period of 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 Commonwealth's debt burden by controlling the relationship between current capital spending and the issuance of Commonwealth bonds. Capital appropriations enacted by the Legislature are typically supported by bond authorizations. The Governor, by utilizing his discretion over the allotment of capital appropriations, may control the rate at which capital expenditures occur, and therefore control the amount of bonds issued to finance such expenditures.

The following table, entitled "Summary of Five-Year Capital Spending Plan and Plan of Finance," sets forth current estimates of capital spending of the Commonwealth, including the MBTA, as well as the sources of funding for such capital spending, including federal aid, for fiscal years 1996 through 2000. Total capital spending for fiscal years 1996 through 2000 to be financed from Commonwealth debt is forecast at approximately \$4.498 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 approximately \$1.501 billion for fiscal years 1996 through 2000, which spending is expected to be financed through the issuance of MBTA bonds, and assumes that the projected level of Commonwealth capital spending will leverage additional federal transportation aid of approximately \$6.368 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, as well as mass transit. Because of the uncertainties associated with the federal legislative process with respect to future levels of federal financial assistance to states for transportation infrastructure improvements, the reliability of these assumptions regarding federal aid in fiscal years 1997 through 2000 is uncertain. The Executive Office for Administration and Finance regularly reviews the Five-Year Capital Spending Plan to account for changes in the expected timing and amount of the Commonwealth's capital expenditures. The table assumes that all Commonwealth bonds related to a particular year's expenditures will be issued in the same year. In practice, Commonwealth capital expenditures often occur prior to the issuance of the related bonds. Accordingly, it is customary for some Commonwealth bonds to be issued in a subsequent fiscal year to finance capital expenditures made in the prior fiscal year. Fiscal 1995 capital expenditures amounting to approximately \$239 million will be financed through the issuance of bonds in fiscal 1996; such bonds are not included in the following table.

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

	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>Total</u>
Uses of Funds						
Information Technology	\$ 20	\$ 21	\$ 17	\$ 19	\$ 19	\$ 96
Infrastructure(1)	114	217	237	214	202	984
Environmental Affairs						
Commonwealth Expenditures	77	61	48	74	60	320
Wastewater Treatment	25	25	25	25	25	125
Open Space Acquisition	<u>40</u>	<u>45</u>	<u>45</u>	<u>45</u>	<u>45</u>	<u>220</u>
Subtotal	142	131	118	144	130	665
Housing	65	77	78	78	71	369
Transportation						
Commonwealth Expenditures	450	367	358	388	413	1,976
Turnpike Authority-Supported Expenditures(2)	100	0	0	0	0	100
MBTA	360	382	388	184	187	1,501
Federal Highway/MBTA Aid	<u>1,174</u>	<u>1,212</u>	<u>1,399</u>	<u>1,552</u>	<u>1,031</u>	<u>6,368</u>
Subtotal	2,084	1,961	2,145	2,124	1,631	9,945
Economic Development/Miscellaneous	<u>107</u>	<u>87</u>	<u>92</u>	<u>57</u>	<u>65</u>	<u>408</u>
Total	<u>\$2,532</u>	<u>\$2,494</u>	<u>\$2,687</u>	<u>\$2,636</u>	<u>\$2,118</u>	<u>\$12,467</u>
 Sources of Funds						
Federal Aid	\$1,174	\$1,212	\$1,399	\$1,552	\$1,031	\$6,368
Commonwealth Debt (3)	898	900	900	900	900	4,498
Turnpike Authority Debt Proceeds(2)	100	0	0	0	0	100
MBTA Bonds	<u>360</u>	<u>382</u>	<u>388</u>	<u>184</u>	<u>187</u>	<u>1,501</u>
Total	<u>\$2,532</u>	<u>\$2,494</u>	<u>\$2,687</u>	<u>\$2,636</u>	<u>\$2,118</u>	<u>\$12,467</u>

SOURCE: Executive Office for Administration and Finance.

- (1) Includes hospital consolidation, prison, courts and higher education construction and miscellaneous other projects.
- (2) Legislation enacted in August, 1995 provides for a \$100 million payment from the Massachusetts Turnpike Authority to the Commonwealth for use in meeting transportation-related obligations. See discussion below.
- (3) Includes general obligation bonds and special obligation bonds.

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.

On August 10, 1995 the Governor signed legislation which transferred to the Massachusetts Turnpike Authority ("MTA") a new tunnel under the Boston Harbor, the Ted Williams Tunnel, which links the current terminus of the Massachusetts Turnpike with Logan Airport. The legislation authorizes the MTA to issue, prior to June 30, 1999, up to \$300 million of Commonwealth-guaranteed notes to finance, among other things, the payment to the Commonwealth of the acquisition costs of the Ted Williams Tunnel. On February 1, 1996, the MTA issued \$259,315,000 of its guaranteed bond anticipation notes, to provide for, among other things the payment to the Commonwealth no later than April 26, 1996 of \$100 million as partial payment for the Ted Williams Tunnel. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- Commonwealth-Guaranteed Debt; *Massachusetts Turnpike Authority*." Additional payments, if any, are to be determined pursuant to a joint feasibility study to be undertaken by the MTA and the Executive Office of Transportation and Construction ("EOTC"). The feasibility study is also to address, with the participation of the Massachusetts Port Authority, payments to be made by the Port Authority for the cost of construction of the third harbor tunnel and for the annual operating and maintenance costs of the tunnel and to identify Commonwealth assets to be transferred to the Port Authority commensurate with the value of the capital contribution required from the Port Authority. The feasibility study is also to encompass the governance, need and implementation of a metropolitan highway system. The feasibility study is to be completed by December 1, 1996; the House of Representatives has passed legislation (as part of a supplemental appropriations bill which is pending before a legislative conference committee) that would require a "complete interim draft" of the study to be filed with the Legislature by June 1, 1996. The August, 1995 legislation also authorizes capital expenditures of \$400 million for various transportation projects throughout the Commonwealth to be financed through the issuance of general obligation bonds, in order to satisfy certain requirements relating to federal assistance.

In recent months, the Governor has signed into law several capital outlay bills authorizing Commonwealth bonds in the aggregate amount of approximately \$1.851 billion for higher education campus improvements (\$617 million), prison construction (\$486 million), open space and environmental enhancement (\$399 million), certain county courthouses and lock-ups (\$104 million), oil and hazardous materials clean-up (\$100 million), information technology systems in the trial court (\$75 million) and various other capital projects (\$70 million). The Executive Office for Administration and Finance plans to authorize expenditures under the above measures in a manner consistent with the annual spending limitations established under the Five-Year Capital Spending Plan.

On February 14, 1996, the Legislature enacted and sent to the Governor a capital outlay bill that would authorize \$195 million in Commonwealth bonds for seaport improvements and \$85 million to provide freight rail service lines with a so-called doublestacking capacity. The Governor has not yet taken action with respect to the bill. The legislative conference committee that produced the final version of the bill did not include provisions in the Senate version of the bill which would have authorized \$100 million for convention centers throughout the state and Commonwealth-supported debt in the amount of \$500 million to be issued by the Massachusetts Convention Center Authority to finance a new convention center in Boston. A similar convention center authorization passed the Senate as a separate bill and has not been acted on by the House of Representatives. The House did not approve any measure in 1995 related to the construction of a new convention center or sports facility in Boston.

The House Ways and Means Committee is considering a bond authorization bill filed by the Governor on September 22, 1995 and approved by the Legislature's Committee on Transportation on January 22, 1996 which, as so approved, would authorize Commonwealth bonds in the amount of approximately \$1.802 billion and MBTA bonds in the amount of \$365.6 million for a variety of transportation 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, 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 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 2½, the statewide tax limitation enacted by the voters 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 2½.*"

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 1995 statutory basis financial statements, as presented in the Statutory Basis Financial Report, are set forth in Exhibit B. The fiscal 1995 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 1991 through 1995 and estimates for fiscal 1996 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 1996 budget.

The Commonwealth currently has 39 active budgeted operating 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 1991 through 1996 is provided in the discussion following the table. Unless otherwise indicated, the financial information discussed for such fiscal years in this Information Statement is based upon the financial information contained in this table.

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

	Fiscal <u>1991</u>	Fiscal <u>1992</u>	Fiscal <u>1993</u>	Fiscal <u>1994</u>	Fiscal <u>1995</u>	Estimated Fiscal <u>1996</u>
<u>Beginning Fund Balances</u>						
Reserved or Designated Stabilization Fund (1)	\$174.5	\$119.8	\$236.2	\$110.4	\$79.3	\$128.1
Undesignated	<u>(1,278.9)</u>	<u>59.2</u>	<u>230.4</u>	<u>309.5</u>	<u>382.9</u>	<u>425.4</u>
Total	<u>(1,104.4)</u>	<u>237.1</u>	<u>549.4</u>	<u>562.5</u>	<u>589.3</u>	<u>726.0</u>
<u>Revenues and Other Sources</u>						
Taxes	8,994.9	9,483.6	9,929.9	10,606.7	11,163.4	11,603.8(2)
Federal Reimbursements (3)	2,777.1	2,393.5	2,674.1	2,901.2	2,969.7	2,968.7
Departmental and Other Revenues	1,204.9	1,187.3	1,327.1	1,187.9	1,273.1	1,179.0
Interfund Transfers from Non-budgeted Funds and Other Sources (4)	<u>656.6</u>	<u>663.9</u>	<u>778.5</u>	<u>853.9</u>	<u>981.0</u>	<u>1,010.4</u>
Budgeted Revenues and Other Sources	<u>13,633.5</u>	<u>13,728.3</u>	<u>14,709.6</u>	<u>15,549.7</u>	<u>16,387.2</u>	<u>16,761.9</u>
Mass Transit Assessments from Municipalities	130.2	130.9	137.4	140.4	143.9	147.5
Interfund Transfers among Budgeted Funds and Other Sources	<u>149.7</u>	<u>366.9</u>	<u>358.7</u>	<u>289.1</u>	<u>399.7</u>	<u>316.5</u>
Total Revenues and Other Sources	<u>13,913.4</u>	<u>14,226.1</u>	<u>15,205.7</u>	<u>15,979.2</u>	<u>16,930.8</u>	<u>17,225.9</u>
<u>Expenditures and Uses</u>						
Programs and Services	11,944.5	11,757.4	12,683.6	13,416.2	14,010.3	14,671.8(5)
Debt Service	942.3	898.3	1,139.5	1,149.4	1,230.9	1,198.5
Pensions	703.9	751.5	868.2	908.9	968.8	1,014.2
Interfund Transfers to Non-budgeted Funds and Other Uses	<u>64.0</u>	<u>8.8</u>	<u>5.1</u>	<u>48.4</u>	<u>40.4</u>	<u>50.0</u>
Budgeted Expenditures and Other Uses	<u>13,654.7</u>	<u>13,416.0</u>	<u>14,696.4</u>	<u>15,522.9</u>	<u>16,250.5</u>	<u>16,934.5</u>
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	130.2	130.9	137.4	140.4	143.9	147.5
Interfund Transfers among Budgeted Funds and Other Uses	<u>149.7</u>	<u>366.9</u>	<u>358.7</u>	<u>289.1</u>	<u>399.7</u>	<u>316.5</u>
Total Expenditures and Other Uses	<u>13,934.6</u>	<u>13,913.8</u>	<u>15,192.6</u>	<u>15,952.4</u>	<u>16,794.1</u>	<u>17,398.5</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(21.2)</u>	<u>312.3</u>	<u>13.1</u>	<u>26.8</u>	<u>136.7</u>	<u>(172.6)</u>
Prior Year Deficit Financing	1,362.7	--	--	--	--	--
<u>Ending Fund Balances</u>						
Reserved or Designated Stabilization Fund (1)	119.8	236.2	110.4	79.3	128.1	28.5
Undesignated	<u>59.2</u>	<u>230.4</u>	<u>309.5</u>	<u>382.9</u>	<u>425.4</u>	<u>446.4</u>
Total	<u>\$237.1</u>	<u>\$549.4</u>	<u>\$562.5</u>	<u>\$589.3</u>	<u>\$726.0</u>	<u>\$553.5</u>

SOURCE: Fiscal 1991-1995, Office of the Comptroller; fiscal 1996, Executive Office for Administration and Finance.

- (1) Stabilization Fund balances are not expendable without subsequent specific legislative authorization.
- (2) Includes the impact of enacted and proposed legislation reforming corporate excise taxes, estimated by the Department of Revenue to be a \$49 million reduction (\$44 million enacted, \$5 million proposed) in fiscal 1996. See "COMMONWEALTH REVENUES -- State Taxes; *Business Corporations Tax*."
- (3) Includes \$513 million for fiscal 1991, \$198.6 million for fiscal 1992, \$236.3 million for fiscal 1993, \$247.8 million for fiscal 1994, \$231.9 million for fiscal 1995 and an estimated \$221.0 million for fiscal 1996 in federal reimbursements resulting from claims for reimbursement of certain uncompensated care for Massachusetts hospitals. See "Fiscal Years 1991 through 1995" and "1996 FISCAL YEAR."
- (4) 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."
- (5) Includes \$145.2 million currently reserved for contingencies.

In comparison to the prior fiscal year, annual budgeted revenues increased by approximately 0.7% in fiscal 1992, 7.1% in fiscal 1993, 5.7% in fiscal 1994 and 5.4% in fiscal 1995 and are projected to increase by approximately 2.3% in fiscal 1996. In comparison to the prior fiscal year, annual budgeted expenditures decreased by approximately 1.7% in fiscal 1992 and increased by approximately 9.5% in fiscal 1993, 5.6% in fiscal 1994 and 4.7% in fiscal 1995. Annual budgeted expenditures are estimated to increase by approximately 4.2% in fiscal 1996. In comparison to the prior fiscal year-end, ending fund balances in the budgeted operating funds for fiscal 1992 totalled \$549.4 million, which was \$312.3 million, or 131.7%, higher than fiscal 1991, for fiscal 1993 totalled \$562.5 million, which was \$13.1 million, or 2.4% higher than fiscal 1992, for fiscal 1994 totalled \$589.3 million, which was \$26.8 million, or 4.8%, higher than fiscal 1993 and for fiscal 1995 totalled \$726.0 million, which was \$136.7 million, or 23.2% higher than fiscal 1994. The ending fund balances for fiscal 1996 are projected to be \$553.5 million which is \$172.6 million, or 23.8%, lower than the fiscal 1995 year-end balances. See "Fiscal Years 1991 through 1995" and "1996 FISCAL YEAR."

Selected Financial Data - GAAP Basis

The following table provides financial results on a GAAP basis for fiscal years 1991 through 1995 for all budgeted operating funds of the Commonwealth.

Budgeted Operating Funds Operations - GAAP Basis (in millions)

	<u>Fiscal 1991</u>	<u>Fiscal 1992</u>	<u>Fiscal 1993</u>	<u>Fiscal 1994</u>	<u>Fiscal 1995</u>
Fund equity (deficit) at beginning of year	\$(1,895.5)	\$(761.2)	\$(317.4)(1)	\$(184.1)	\$(72.0)
Equity Transfer	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>0.0</u>	<u>91.0</u>
Restated Beginning Balance	(1,895.5)	(761.2)	(317.4)(1)	(184.1)	19.0(3)
<u>Revenues and Sources</u>					
Taxes	9,131.1	9,471.0	10,015.8	10,602.7	11,253.4
Federal Grants and Reimbursements	2,808.8	2,415.9	2,627.0	2,918.1	2,850.0
Department and Other Revenues	1,359.1	1,441.1	1,522.4	1,303.8	1,336.3
Interfund Transfers and Other Sources	<u>800.7</u>	<u>817.5</u>	<u>1,015.7</u>	<u>980.3</u>	<u>1,077.8</u>
Total	<u>14,099.7</u>	<u>14,145.5</u>	<u>15,181.0</u>	<u>15,804.9</u>	<u>16,517.5</u>
<u>Expenditures and Uses</u>					
Programs and Services	11,892.5	11,348.8	11,636.5	12,238.8	13,017.8
Debt Service	942.3	751.5	1,139.5	1,149.2	1,163.4
Pensions	706.5	898.3	893.5	830.2	642.2
Interfund Transfers and Other Uses(2)	<u>786.8</u>	<u>767.3</u>	<u>1,378.2</u>	<u>1,474.6</u>	<u>1,425.7</u>
Total	<u>14,328.1</u>	<u>13,765.9</u>	<u>15,047.7</u>	<u>15,692.8</u>	<u>16,249.1</u>
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	<u>(228.4)</u>	<u>379.6</u>	<u>133.3</u>	<u>112.1</u>	<u>268.4</u>
Prior Year Deficit Financing	1,362.7	--	--	--	--
Fund Equity (Deficit) at End of Year	<u>\$(761.2)</u>	<u>\$(381.6)</u>	<u>\$(184.1)</u>	<u>\$(72.0)</u>	<u>\$287.4</u>

SOURCE: Office of the Comptroller.

- (1) 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.
- (2) 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."
- (3) As restated to reflect the adoption of internal service funds in the proprietary fund type for certain types of risk financing activity. See Exhibit C - 1995 General Purpose Financial Statements, Note 15.

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, however, 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 1991 through 1995

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.

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 had been estimated when the fiscal 1991 budget had been adopted. The Governor proposed a series of legislative and administrative actions, including the 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 the 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.

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 was \$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 compared 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. Total fiscal 1992 spending authority continued into fiscal 1993 amounted to \$231.0 million.

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.

1994 Fiscal Year. The budgeted operating funds of the Commonwealth ended fiscal 1994 with a surplus of revenues and other sources over expenditures and other uses of \$26.8 million and aggregate ending fund balances in the budgeted operating funds of the Commonwealth of approximately \$589.3 million. Budgeted revenues and other sources for fiscal 1994 totalled approximately \$15.550 billion, including tax revenues of \$10.607 billion, \$87 million below the Department of Revenue's fiscal 1994 tax revenue estimate of \$10.694 billion. Total revenues and other sources increased by approximately 5.7% from fiscal 1993 to fiscal 1994 while tax revenues increased by 6.8% for the same period.

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

In June, 1993, the Legislature adopted and the Governor signed into law comprehensive education reform legislation, requiring substantial annual increases in state appropriations for education purposes over fiscal 1993 base expenditures of approximately \$1.288 billion. See "COMMONWEALTH PROGRAMS AND SERVICES -- Local Aid; *Commonwealth Financial Support for Local Governments.*"

1995 Fiscal Year. Fiscal 1995 tax revenue collections totalled \$11.163 billion, approximately \$12 million above the Department of Revenue's revised fiscal year 1995 tax revenue estimate of \$11.151 billion, and approximately \$556 million, or 5.2%, above fiscal 1994 tax revenues of \$10.607 billion. Budgeted revenues and other sources, including non-tax revenues, collected in fiscal 1995 totalled \$16.387 billion, approximately \$837 million, or 5.4%, above fiscal 1994 budgeted revenues of \$15.550 billion. Budgeted expenditures and other uses of funds in fiscal 1995 were approximately \$16.251 billion, approximately \$728 million, or 4.7% above fiscal 1994 budgeted expenditures and uses of \$15.523 billion. The Commonwealth ended fiscal 1995 with an operating gain of \$137 million and an ending fund balance of \$726 million.

The final fiscal 1995 supplemental budget modified, with respect to the fiscal 1995 year-end surplus, the provisions of state law governing deposits to the Stabilization Fund. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Operating Fund Structure; *Stabilization Fund.*" For fiscal 1995, surplus funds as defined in the law (the sum of the undesignated fund balances at year-end in the three principal operating funds) in excess of the amount which can be carried forward as a beginning balance for fiscal 1996 are to be credited, *first*, to the Stabilization Fund, to the extent of 0.25% of total tax revenues, *second*, to a newly created Cost Relief Fund, to the extent of 0.5% of total tax revenues, and, *third*, to the Stabilization Fund, to the extent of any remaining amount. Amounts in the Cost Relief Fund can be appropriated (i) to subsidize the costs of water pollution abatement projects financed by Massachusetts Water Pollution Abatement Trust loans (limited to \$8 million per fiscal year), (ii) to finance loans to homeowners to facilitate compliance with state environmental regulations governing the subsurface disposal of sanitary waste (limited to \$8 million per fiscal year), (iii) to provide assistance in the mitigation of sewer rate increases and (iv) for unanticipated obligations, unavoidable deficiencies or extraordinary expenditures of the Commonwealth. As calculated by the Comptroller, the amount of surplus funds (as so defined) for fiscal 1995 was approximately \$94.9 million, of which \$55.9 million was available to be carried forward as a beginning balance for fiscal 1996. Of the balance, approximately \$27.9 million was deposited in the Stabilization Fund, and approximately \$11.1 million was deposited in the Cost Relief Fund.

1996 FISCAL YEAR

The fiscal 1996 budget is based on numerous spending and revenue estimates, the achievement of which cannot be assured. The budget was enacted by the Legislature on June 12, 1995 and signed by the Governor on June 21, 1995. Fiscal 1996 appropriations in the Annual Appropriations Act total approximately \$16.847 billion, including approximately \$25 million in gubernatorial vetoes overridden by the legislature. In the final supplemental budget for fiscal 1995, approved on August 24,

1995, another \$71.1 million of appropriations were continued for use in fiscal 1996. The Executive Office for Administration and Finance projects that fiscal 1996 spending will total approximately \$16.935 billion, a \$684 million, or 4.2%, increase over fiscal 1995 spending. The largest single spending increase in the fiscal 1996 budget is approximately \$232 million to continue funding the comprehensive education reform legislation enacted in 1993. See "COMMONWEALTH PROGRAMS AND SERVICES -- Local Aid; *Commonwealth Financial Support for Local Governments.*"

As of February 1, 1996 the Governor had signed into law fiscal 1996 supplemental appropriations totalling approximately \$23.5 million, including approximately \$12.6 million to fund higher education collective bargaining contracts and \$5.6 million for the Department of Social Services. These appropriations were offset by approximately \$10.4 million in line item reductions, including a reduction of \$9.8 million for the state's debt service contract assistance to the MBTA. Both the House and Senate have passed supplemental appropriation bills totalling \$64.8 million primarily relating to snow and ice removal costs incurred by both the Commonwealth and cities and towns. The bills are currently awaiting resolution by a conference committee of the House and Senate. On January 26, 1996 and February 9, 1996, the Governor filed additional supplemental appropriation bills totalling approximately \$7.3 million for costs relating to prison overcrowding relief as well as reimbursement costs associated with a court settlement. No action has been taken on these bills by either branch of the Legislature.

Budgeted revenues and other sources to be collected in fiscal 1996 are estimated by the Executive Office for Administration and Finance to be approximately \$16.762 billion. This amount includes estimated fiscal 1996 tax revenues of \$11.604 billion, which is approximately \$441 million, or 4.0%, higher than fiscal 1995 tax revenues. The tax revenue projection is based upon the consensus estimate of approximately \$11.639 billion, adjusted for a revenue reduction of \$1.7 million resulting from bank tax reform enacted in July, 1995, a reduction totalling \$44 million resulting from the corporate excise tax reform enacted in November, 1995 and a further reduction of \$5 million projected to result from additional corporate excise tax reform still pending before the Legislature, as well as approximately \$16 million from certain revenue maximization initiatives. Through January, 1996, tax revenue collections have totalled approximately \$6.619 billion, approximately \$337 million, or 6.0%, greater than tax revenue collections for the same period in fiscal 1995.

Fiscal 1996 non-tax revenues are projected to total approximately \$5.158 billion, approximately \$66 million, or 1.3%, less than fiscal 1995 non-tax revenues of approximately \$5.224 billion. Federal reimbursements are projected to decrease by approximately \$1 million, from approximately \$2.970 billion in fiscal 1995 to approximately \$2.969 billion in fiscal 1996, primarily as a result of increased reimbursements for Medicaid spending, offset by a reduction in reimbursements received in fiscal 1995 for one-time Medicaid expenses incurred in fiscal 1994 and fiscal 1995.

Fiscal 1996 departmental revenues are projected to decline by approximately \$94 million, or 7.4%, from approximately \$1.273 billion in fiscal 1995 to approximately \$1.179 billion in fiscal 1996. Major changes in projected non-tax revenues for fiscal 1996 include a decline in motor vehicle license and registration fees of approximately \$52 million, due mainly to alternate-year licensing patterns and the delayed impact of the 1991 change to a five-year driver's license renewal period, a reduction of approximately \$17 million in abandoned property revenues (due to a one-time increase in abandoned property collections in fiscal 1995 resulting from a change in the Commonwealth's abandoned property laws) and a decrease of approximately \$45 million due to nonrecurring revenues received in fiscal 1995 from hospitals and nursing homes as part of Medicaid final rate settlements and other reimbursements by municipal hospitals to the state. These and a number of other smaller reductions are partially offset by projected increases in departmental revenues of approximately \$20 million due to revenue maximization initiatives included in the fiscal 1996 budget.

Fiscal 1996 consolidated transfers are projected to increase by approximately \$29.0 million, or 3.0%, from \$981.0 million in fiscal 1995 to approximately \$1.010 billion in fiscal 1996, primarily as a result of a \$35.7 million transfer from a non-budgeted fund to an economic development fund established in the fiscal 1996 budget.

Cash Flow

As of June 30, 1995, the Commonwealth had a cash position of approximately \$372.5 million, not including the Stabilization Fund. This compared to a projected position of \$353.0 million. The fiscal 1995 year-end cash position reflected approximately \$102.9 million in advance payments for fiscal 1996 expenses and approximately \$239.0 million in capital expenditures for which the Commonwealth had not yet issued bonds or notes to reimburse itself.

The State Treasurer's most recent cash flow projection for fiscal 1996, dated November 30, 1995, contains monthly forecasts through the end of the fiscal year. The cash flow projection anticipates a year-end cash position of approximately \$453.7 million. This projection is based upon the budget enacted by the Legislature for fiscal 1996 and includes a \$128.5 million contingency reserve. The projection assumes that \$115 million in advance payments for fiscal 1997 expenses will be made prior to June 30, 1996. The Commonwealth is scheduled to complete an updated cash flow projection at the end of February, 1996.

The Commonwealth currently has outstanding \$98 million of commercial paper, which was originally issued as bond anticipation notes to reimburse the Commonwealth for capital expenditures. The Commonwealth anticipates retiring these notes in March, 1996 with the proceeds of long-term bonds.

The current cash flow projection anticipates no need for the Commonwealth to borrow for operating needs under its commercial paper program during the remainder of fiscal 1996. The State Treasurer may issue additional commercial paper periodically during fiscal 1996 depending on the timing of future bond sales. See "COMMONWEALTH BOND AND NOTE LIABILITIES - General Obligation Debt; *Commonwealth General Obligation Notes.*"

The year-end cash position projected for fiscal 1996 is likely to differ from the estimated ending balance for the Commonwealth's budgeted operating funds for fiscal 1996 due to timing differences and the effect of certain items relating to non-budgeted funds.

1997 FISCAL YEAR

On January 23, 1996, the Governor submitted his fiscal 1997 budget recommendations to the Legislature, implementing certain of the recommendations previously proposed in his reorganization plan released on November 1, 1995. See "THE GOVERNMENT -- Government Reorganization Plan." The proposal calls for budgeted expenditures of approximately \$16.739 billion. After adding back \$151 million in higher education expenditures and \$511 million in transitional assistance and other human services programs that the Governor's budget would move to non-budgeted funds, and subtracting approximately \$45 million in additional budgeted revenue and spending that would result from the proposal that the Commonwealth assume certain county government functions, proposed fiscal 1997 spending totals \$17.360 billion. This represents an increase of \$426 million, or 2.5%, over currently estimated fiscal 1996 expenditures of \$16.935 billion. Proposed budgeted revenues for fiscal 1997 are approximately \$16.807 billion. After adjusting for the spending and revenue shifts between budgeted and non-budgeted funds described above, proposed fiscal 1997 budgeted revenues total approximately \$17.429 billion, an increase of approximately \$667 million, or 4.0%, over currently projected fiscal 1996 revenues. The Governor's recommendations project a fiscal 1997 ending balance of approximately \$622 million, including \$467 million in the Stabilization Fund.

The Governor's budget recommendations are based on a fiscal 1997 tax revenue estimate of \$11.968 billion. After subtracting \$37 million in additional deeds excise tax revenue that the Commonwealth would collect in fiscal 1997 under the proposal that the state assume many of the functions of county governments, this represents a \$328 million, or 2.8%, increase over estimated fiscal 1996 tax revenues of \$11.604 billion. The estimate also reflects an assumed reduction in personal income tax rates, as proposed by the Governor, projected to reduce base tax revenues by approximately \$133 million in fiscal 1997. See "COMMONWEALTH REVENUES -- State Taxes; *Income Tax.*" The fiscal 1997 tax revenue estimate also takes into account the effect of the recently enacted "single sales factor" for calculating corporate excise tax liability, which will result in an estimated reduction in fiscal 1997 tax revenues of \$46 million compared to fiscal 1996 collections. See "COMMONWEALTH REVENUES -- State Taxes; *Business Corporations Tax.*"

Under the Governor's fiscal 1997 budget recommendations, fiscal 1997 non-tax revenues are estimated to total approximately \$4.839 billion. After adjusting for the shifts to and from non-budgeted funds explained above, this represents an increase of approximately \$339 million, or 6.6%, above currently estimated fiscal 1996 non-tax revenues. This change is

attributable almost entirely to projected increases in federal revenue in fiscal 1997, due to assumed changes in the method by which the federal government will distribute reimbursements and grants for federally supported state programs, particularly Medicaid and transitional assistance (such as Aid to Families with Dependent Children). The revenue projections in the Governor's proposal are based upon the federal budget reconciliation bill passed by the United States Congress and vetoed by the President in December, 1995. The proposed new distribution rules embodied in that bill are essentially the same as those recently agreed upon by the National Governors Association and would implement block grants to states for transitional assistance programs, as well as provide for increased reimbursement rates (up to a certain cap) for state Medicaid spending. As of this date, discussions among the state governors, Congress and the President on these and other federal budget issues are ongoing.

The Governor's fiscal 1997 budget recommendations include increases in spending in certain priority areas, including \$243 million to fully fund the Education Reform Act of 1993, \$43 million in additional lottery local aid distributions to Massachusetts cities and towns, \$35 million for law enforcement and criminal justice programs, \$15 million for foster care programs and to hire additional social workers, and \$50 million for new day care slots for participants in transitional assistance programs. They also provide funding for certain other increased costs, including Medicaid, pensions and debt service. The recommendations allocate \$100 million for contingencies, including collective bargaining.

The fiscal 1997 budget proposal reflects savings projected to occur as a result of the Governor's proposed reorganization of state government, including a reduction in the number of cabinet secretariats from eleven to six and the consolidation of many departments and purchasing activities. See "THE GOVERNMENT -- Government Reorganization Plan." The budget proposal estimates that this restructuring, as well as other savings initiatives included in the Governor's fiscal 1997 budget recommendations, will result in savings of more than \$300 million.

The Governor's fiscal 1997 budget recommendations will now be taken up by the House Ways and Means Committee as the first step in legislative consideration of the fiscal 1997 budget.

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 1995, approximately 68.1% of the Commonwealth's annual budgeted revenues were derived from state taxes. In addition, the federal government provided approximately 18.1% of such revenues, with the remaining 13.8% 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 1991 through 1995 and estimated revenues for fiscal 1996.

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

	Fiscal <u>1991(1)</u>	Fiscal <u>1992(1)</u>	Fiscal <u>1993(1)</u>	Fiscal <u>1994</u>	Fiscal <u>1995</u>	Estimated Fiscal <u>1996</u>
Tax Revenues:						
Alcoholic Beverages	\$ 66.2	\$ 63.5	\$ 60.6	\$ 60.2	\$ 60.7	\$57.0
Banks						
Commercial	27.4	17.6(2)	74.7	136.9	164.5	160.0
Savings	20.6	42.5	78.2	63.0	41.4	49.0
Cigarettes (3)	144.4	139.9	190.2	237.3	234.2	234.0
Corporations	612.2	643.8	737.4	782.3	911.0	890.0 (5)
Deeds	30.1	32.2	34.0	40.2	40.3	40.0
Income	5,045.1(4)	5,337.0	5,374.9	5,689.8	5,974.2	6,356.8
Inheritance and Estate	249.5	260.2	267.3	277.5	209.3	146.0
Insurance (6)	267.8	284.8	280.5	290.2	292.6	307.3
Motor Fuel	464.2	541.1	557.2	562.6	577.5	607.0
Public Utilities	59.3	52.9	69.1	81.8	88.7	88.0
Racing	27.5	26.1	15.7	13.4	12.7	13.0
Room Occupancy	56.0	55.9	59.3	62.8	68.8	68.0
Sales						
Regular	1,392.1	1,443.6	1,548.1	1,664.3	1,796.6	1,874.0
Meals	291.7	296.3	303.2	323.4	344.3	358.0
Motor Vehicles	<u>225.6</u>	<u>238.7</u>	<u>272.9</u>	<u>314.5</u>	<u>340.4</u>	<u>349.0</u>
Sub-Total--Sales	1,909.4	1,978.6	2,124.2	2,302.2	2,481.3	2,581.7
Miscellaneous	<u>15.2</u>	<u>7.5</u>	<u>6.6</u>	<u>6.5</u>	<u>6.2</u>	<u>6.7</u>
Total	<u>8,994.9</u>	<u>9,483.6</u>	<u>9,929.9</u>	<u>10,606.7</u>	<u>11,163.4</u>	<u>11,603.8</u>
Non-Tax Revenues:						
Federal Reimbursements(7)	2,777.1	2,393.5	2,674.1	2,901.2	2,969.7	2,968.7
Departmental and Other Revenues	1,204.9	1,187.3	1,327.1	1,187.9	1,273.1	1,179.0
Interfund Transfers from Non-budgeted Funds and Other Sources (8)	<u>656.6</u>	<u>663.9</u>	<u>778.5</u>	<u>853.9</u>	<u>981.0</u>	<u>1,010.4</u>
Budgeted Non-Tax Revenues and Other Sources	<u>4,638.6</u>	<u>4,244.7</u>	<u>4,779.7</u>	<u>4,943.0</u>	<u>5,223.8</u>	<u>5,158.1</u>
Budgeted Revenues and Other Sources	<u>13,633.5</u>	<u>13,728.3</u>	<u>14,709.6</u>	<u>15,549.7</u>	<u>16,387.2</u>	<u>16,761.9</u>
Mass Transit Assessments from Municipalities	130.2	130.9	137.4	140.4	143.9	147.5
Interfund Transfers among Budgeted Funds and Other Sources (8)	<u>149.7</u>	<u>366.9</u>	<u>358.7</u>	<u>289.1</u>	<u>399.7</u>	<u>316.5</u>
Total Revenues and Other Sources	<u>\$13,913.4</u>	<u>\$14,226.1</u>	<u>\$15,205.7</u>	<u>\$15,979.2</u>	<u>\$16,930.8</u>	<u>\$17,225.9</u>

SOURCE: Fiscal 1991-1995, Office of the Comptroller; fiscal 1996, Executive Office for Administration and Finance.

- (1) Includes the impact of tax law changes under Chapters 121 of the Acts of 1990, as amended. The total fiscal 1991 impact of the changes was an estimated increase in tax revenues in the amount of \$1.020 billion, while the fiscal 1992 and 1993 impacts of the changes were estimated at \$1.329 billion and \$1.318 billion, respectively.
- (2) Reflects settlement of certain litigation, see "State Taxes; *Business Corporations Tax*."
- (3) As a result of legislation enacted by the voters, this excise tax was increased effective January 1, 1993. See "State Taxes; *Other Taxes*."
- (4) Excludes \$298.3 million collected in fiscal 1991 and attributed to the temporary increase in the income tax dedicated to the Commonwealth Liability Reduction Fund and the Medical Assistance Liability Fund.
- (5) Includes the impact of enacted and proposed legislation reforming corporate excise taxes, estimated by the Department of Revenue to be a \$49 million reduction (\$44 million enacted, \$5 million proposed) in fiscal 1996. See "COMMONWEALTH REVENUES -- State Taxes; *Business Corporations Tax*."
- (6) Includes \$7.2 million in 1991, \$6.6 million in 1992, \$8.0 million in 1993, \$8.7 million in 1994, \$8.4 million in 1995 and an estimated \$9.3 million in fiscal 1996 in fees collected by the Division of Insurance relating to high-risk insurance.
- (7) Includes \$513 million for fiscal 1991, \$198.6 million for fiscal 1992, \$236.3 million for fiscal 1993, \$247.8 million in fiscal 1994, \$231.9 million in fiscal 1995 and an estimated \$221.0 million in fiscal 1996 in federal reimbursements resulting from claims for reimbursement of certain uncompensated care for Massachusetts hospitals. See "FINANCIAL RESULTS -- Fiscal Years 1991 through 1995" and "1996 FISCAL YEAR."
- (8) Interfund transfers represent accounting transfers which reallocate resources among funds. Fund deficit support transfers of \$234.8 million for fiscal 1991 have been eliminated to facilitate comparative analysis. Includes transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$59.2 million, \$170.0 million, \$76.9 million, \$65.4 million and \$27.9 million in fiscal 1991, 1992, 1993, 1994 and 1995, respectively. See "Federal and Other Non-Tax Revenues" below.

State Taxes

The major components of state taxes are the income tax, which accounted for approximately 55% of total projected tax revenues in fiscal 1995, the sales and use tax, which accounted for approximately 22%, and the business corporations tax, which accounted for approximately 8%. Other tax and excise sources accounted for the remaining 15% of total fiscal 1995 tax revenues. On January 23, 1996, in connection with filing the proposed budget for fiscal 1997, the Secretary of Administration and Finance released a revised fiscal 1996 tax revenue estimate of approximately \$11.604 billion, an increase of approximately 3.9% over fiscal 1995. The revisions to the revenue estimate include adjustments for a revenue reduction of \$1.7 million resulting from bank tax reform and a further reduction totalling \$49 million resulting from corporate excise tax reforms, as well as approximately \$16 million from certain revenue maximization initiatives.

Income Tax. The Commonwealth assesses personal income taxes at flat rates, according to classes of income, after specified deductions and exemptions. A rate of 5.95% is applied to income from employment, professions, trades, businesses, rents, royalties, taxable pensions and annuities and interest from Massachusetts banks; a rate of 12% is applied to other interest (although interest on obligations of the United States and of the Commonwealth and its political subdivisions is exempt) and dividends; and, as of January 1, 1996, a rate ranging from 12% on capital gains from the sale of assets held for one year and less to 0% on capital gains from the sale of certain assets held more than six years.

In connection with his proposal to reorganize state government, the Governor filed legislation on January 23, 1996 that would reduce the personal income tax rate on earned income from 5.95% to 5.45% over two calendar years. The bill would reduce the rate to 5.70% for calendar year 1997, followed by a reduction to 5.45% in calendar year 1998. The Executive Office for Administration and Finance estimates that this cut in the personal income tax rate would reduce base tax revenues by approximately \$133 million in fiscal 1997, an additional \$265 million in fiscal 1998 and a further \$132 million in fiscal 1999, at which time the proposed tax reduction would be fully implemented.

In December, 1994, the Governor approved legislation modifying the capital gains tax by phasing out the tax for assets held longer than six years and increasing the no-tax status threshold for personal income tax purposes. The capital gains tax change did not become effective until January 1, 1996 and, accordingly, is expected to have only a minor effect on fiscal 1996 tax revenues. The no-tax status change reduced fiscal 1995 tax revenues by approximately \$5.5 million and is expected to reduce fiscal 1996 tax revenues by \$13.3 million.

Under Chapter 151 of the Acts of 1990, up to 15% of state income tax receipts are pledged to the payment of debt service on approximately \$619.0 million 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 by 5.8% from fiscal 1991 to fiscal 1992. Compared to the prior fiscal year, state income tax revenues increased by 0.7% in fiscal 1993, 5.9% in fiscal 1994 and 5.0% in fiscal 1995 and are projected to increase by 6.4% in fiscal 1996.

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.

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 net income for federal taxes, is taxed at 9.5%. The minimum tax is \$456. Both rates and the minimum tax include a 14% surtax. Compared to the prior fiscal year, business corporation tax revenues increased by 5.1% in fiscal 1992, 14.5% in fiscal 1993, 6.1% in fiscal 1994 and 16.4% in fiscal 1995. Fiscal 1996 tax revenues from business corporations are projected to be 2.3% lower than fiscal 1995, taking into account an expected \$49 million reduction in the business corporations tax resulting from the application of the "single sales factor" apportionment formula.

On November 28, 1995 the Governor approved a modified version of the legislation he had filed in September to establish a "single sales factor" apportionment formula for the business corporations tax. The new formula, when fully implemented, will calculate a firm's taxable income as its net income times the percentage of its total sales that are in Massachusetts, as opposed to the current formula that takes other factors, such as payroll and property into account. As finally enacted, the legislation applies the new formula, effective January 1, 1996, to certain federal defense contractors and phases the new formula in over five years for manufacturing firms generally. The Department of Revenue estimates that the new law will reduce revenues by \$44 million in fiscal 1996 and by \$90 million in fiscal 1997. If the new formula were fully effective for all covered businesses, the Department estimates that the annual revenue reduction would be \$100 million to \$150 million.

Bank Tax. Commercial and savings banks are subject to an excise tax of 12.54%. On July 27, 1995, the Governor approved legislation that will reduce the rate over several years to 10.5%, the same effective rate charged to other corporations. The Department of Revenue estimates that the tax cut, when fully implemented in fiscal 1999, will result in an annual \$32.3 million revenue loss, including the effect of provisions in the proposed legislation that would apply the tax to out-of-state banks and other financial institutions that are not currently taxed and that would lead to an estimated \$18 million annual gain.

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, tax revenues from banks increased to \$152.9 million, or 154.5%, above fiscal 1992. Fiscal 1994 tax revenues from banks were approximately \$199.9 million, or approximately 30.7% above fiscal 1993. Fiscal 1995 tax revenues from banks were \$206 million, or approximately 3.0% above fiscal 1994. Fiscal 1996 tax revenues from banks are estimated to be approximately \$209 million, or 1.4%, higher than fiscal 1995.

Other Taxes. Other tax revenues of the Commonwealth are currently projected to total \$1.567 billion in fiscal 1996, a decrease of 1.5% from fiscal 1995. 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 special obligation bonds in June, 1992 secured by a pledge of two cents of the 21-cent motor fuel excise tax imposed on gasoline and additional special obligation bonds in June, 1994 secured by a pledge of an additional 4.86 cents of such excise tax and certain other moneys. The portion of the motor fuel excise tax currently pledged to special obligation bonds is estimated to be approximately \$198.3 million in fiscal 1996. Additional special obligation bonds may 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."

In 1992, legislation was enacted by the voters which increased the tobacco excise tax by 1.25 cents per cigarette (25 cents per pack of 20 cigarettes) and 25% of the wholesale price of smokeless tobacco, effective January 1, 1993. Under the legislation, the revenues raised by this excise tax were to be credited to the 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, fiscal 1994 and fiscal 1995 were \$59.5 million, \$116.4 million and \$114.8 million, respectively, and are estimated to be \$114.7 million in fiscal 1996.

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

Tax Revenue Forecasting

Under state law, on or before September 25 and March 15 of each year, the Secretary of 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 various 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 fiscal year 1991, the official tax revenue forecasts made at the beginning of the year proved to be substantially more optimistic than the actual results. 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 tax increases enacted in 1990. 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 represented growth over fiscal 1990 of only 5.6%. See "FINANCIAL RESULTS -- Fiscal Years 1991 through 1995."

The fiscal 1992 budget initially was based on a joint tax revenue estimate of \$8.292 billion, a 7.8% decrease from fiscal 1991. Actual fiscal 1992 tax revenues were \$9.484 billion, a 5.4% increase over fiscal 1991. The fiscal 1993 budget initially was based on a joint tax revenue estimate of \$9.685 billion, an increase of \$201.1 million, or 2.1%, from tax revenues for fiscal 1992. The actual fiscal 1993 tax revenues were \$9.930 billion, a 4.7% increase over fiscal 1992. See "FINANCIAL RESULTS -- Fiscal Years 1991 through 1995."

In May, 1993, the chairpersons of the House and Senate Ways and Means Committees and the Secretary of Administration and Finance jointly endorsed an estimate of tax revenues for fiscal 1994 of \$10.540 billion, an increase of \$610 million, or 6.1%, from then-expected tax revenues for fiscal 1993. The fiscal 1994 budget was based upon this tax revenue estimate. Actual fiscal 1994 tax revenues were \$10.607 billion, a 6.8% increase over fiscal 1993. See "FINANCIAL RESULTS - - Fiscal Years 1991 through 1995."

In May, 1994, the chairpersons of the House and Senate Ways and Means Committees and the Secretary of Administration and Finance jointly endorsed an estimate of tax revenues for fiscal 1995 of \$11.328 billion, an increase of \$634 million, or 5.9%, from then expected tax revenues for fiscal 1994 of \$10.694 billion. The fiscal 1995 budget was based upon this tax revenue estimate, less \$19.3 million of tax cuts included in that budget. Fiscal 1995 tax revenue estimates were later reduced to \$11.151 billion due to lower than expected tax revenue collections and a \$5.5 million reduction in revenues expected to result from a change in the no-tax status threshold for Massachusetts personal income tax purposes. Actual fiscal 1995 tax revenues were \$11.163 billion, a 5.3% increase over fiscal 1994.

In April, 1995, the chairpersons of the House and Senate Ways and Means Committees and the Secretary of Administration and Finance jointly endorsed an estimate of tax revenues for fiscal 1996 of \$11.639 billion, an increase of approximately 4.4% from then-expected fiscal 1995 revenues of \$11.151 billion. The fiscal 1996 budget was based upon this estimate, plus \$16 million for revenue initiatives and less \$300,000 for a sales tax exemption included in the budget. On September 25, 1995, the Secretary of Administration and Finance released a fiscal 1996 tax revenue estimate of approximately \$11.653 billion, an increase of approximately 4.4% from fiscal 1995. With the September 25 release, the Secretary adopted the revenue estimate included in the fiscal 1996 budget, adjusted for a revenue reduction of \$1.7 million resulting from bank tax reform. On January 23, 1996, in connection with filing the proposed budget for fiscal 1997, the Secretary of Administration and Finance released a revised fiscal 1996 tax revenue estimate of approximately \$11.604 billion, an increase of approximately 3.9% from fiscal 1995. The revisions to the revenue estimate include adjustments for a revenue reduction of \$1.7 million resulting from bank tax reform, a further reduction totalling \$49 million resulting from corporate excise tax reforms, as well as approximately \$16 million from certain revenue maximization initiatives.

Federal and Other Non-Tax Revenues

Revenues from the federal government are received through reimbursements for the federal share of federally-mandated programs such as Medicaid and Aid to Families with Dependent Children ("AFDC"). The amount of federal reimbursements received by the Commonwealth is determined by the amount of state expenditures for such programs. In fiscal 1991, federal

reimbursements increased by 61.6% to \$2.777 billion from \$1.718 billion in fiscal 1990, owing mainly to the \$513.0 million reimbursement of uncompensated care payments. See "FINANCIAL RESULTS -- Fiscal Years 1991 through 1995." Federal reimbursements in fiscal 1992 decreased by \$383 million from \$2.777 billion in fiscal 1991 to \$2.394 billion, reflecting a decrease of \$349 million in uncompensated care payments. In fiscal 1993, federal reimbursements increased to \$2.674 billion as a result of increased spending for certain entitlement programs. Federal reimbursements for fiscal 1994 increased to \$2.901 billion and increased further to \$2.970 billion in fiscal 1995. Federal reimbursements for fiscal 1996 are estimated to remain approximately level with fiscal 1995 at \$2.969 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 decreased 1.5% from \$1.205 billion in fiscal 1991 to \$1.187 billion in fiscal 1992, increased 11.8% in fiscal 1993 to \$1.327 billion, decreased 10.5% to \$1.188 billion in fiscal 1994 and increased 7.2% to \$1.273 billion in fiscal 1995. Departmental and other non-tax revenues are projected to decrease 7.4% to \$1.179 billion in fiscal 1996. See "1996 FISCAL YEAR." The Governor has proposed to implement, as of May 1, 1996, a one-time passenger vehicle registration fee of \$30 and to reduce the passenger vehicle operating license renewal fee from the current rate of \$30 to \$2, effective May 1, 2001. The Executive Office for Administration and Finance estimates that these proposals will have no effect on revenues until fiscal 1998, when the reduction from the elimination of registration fees is expected to be approximately \$13.75 million. When all drivers become eligible for free registration renewals in fiscal 1999, revenues are projected to decline by approximately \$55 million. Revenue reductions due to lifetime licenses will not begin until fiscal 2001, when they will total approximately \$5 million. In fiscal 2002, when all drivers become eligible for free license renewals, the revenue reduction is estimated to be approximately \$31 million. (The Governor's proposal also stipulates that the Commonwealth maintain the requirement that all parking tickets, moving violation citations, excise taxes and insurance premiums be paid before license and registration renewals are processed, in order to ensure that cities and towns do not lose revenue from the change to lifetime licenses and registrations.)

Interfund transfers and other sources from non-budgeted funds are estimated to total \$1.010 billion in fiscal 1996, an increase of 3.0% compared to fiscal 1995. 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 \$547.6 million, \$558.0 million, \$600.2 million, \$667.3 million and \$709.5 million in fiscal 1991 through 1995, respectively and which are expected to account for \$728.9 million in fiscal 1996.

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.

In 1994, the voters in the statewide general election approved an initiative petition, effective December 8, 1994, that would slightly increase the portion of gasoline tax revenue credited to the Highway Fund, one of the Commonwealth's three major budgeted funds, prohibit the transfer of money from the Highway Fund to other funds for non-highway purposes and exclude the Highway Fund balance from the computation of the "consolidated net surplus" for purposes of state finance laws. The initiative petition also provides that no more than 15% of gasoline tax revenues may be used for mass transportation purposes, such as expenditures related to the MBTA. This law is not a constitutional amendment and is subject to amendment or repeal by the Legislature, which may also, notwithstanding the terms of the initiative petition, appropriate moneys from the Highway Fund in such amounts and for such purposes as it determines, subject only to a constitutional restriction that such moneys be used for motor vehicle, highway, or mass transportation purposes. In June, 1995, the Legislature postponed until July 1, 1996 the effective date of the provision that would exclude the Highway Fund balance from the computation of the "consolidated net surplus." See "THE GOVERNMENT -- Initiative Petitions."

On September 29, 1995, the Governor signed a tribal-state compact between the Wampanoag Tribe of Gay Head and the Commonwealth which establishes the relationship between the tribe and the Commonwealth with respect to the operation of a casino in the city of New Bedford. The compact is subject to approval by the Legislature and by the United States Secretary of the Interior. Under the terms of the compact, during a six-year period of limited exclusivity, the tribe is to pay the Commonwealth \$90 million annually, less one-third of the amount by which net gaming revenues are less than \$375 million or plus one-third of the amount by which net gaming revenues exceed \$375 million. Of the money due from the tribe, 12% is to go to the cities and towns in Bristol County, plus 2% toward compulsive gambling programs and an additional \$400,000 to the town of Dartmouth because of the disparate impacts on that community. The remainder is to be used to fund operations

of local governmental agencies of the Commonwealth and its political subdivisions, to provide revenue to the Commonwealth to cover the costs of licensing and regulation of gaming within the state, to provide revenue to the state to cover the costs of impacts resulting from gaming and for other lawful purposes. The Governor also filed companion legislation that would authorize the licensing of up to 700 slot machines at each of the four race tracks now licensed in the state, as well as a casino in Hampden County. Under the proposed legislation, the Commonwealth would receive 25.5% of the first \$50 million of adjusted gross gaming revenues at each track, with a portion of those moneys to go to the purses or breeders (as with live races). Above \$50 million in adjusted gross revenue, the rate to the Commonwealth will increase to 33.5%, with no disbursement to purses or breeders. From the adjusted gross revenues of the Hampden County casino, 25.5% is to go to the Commonwealth, with 2.5% earmarked for the cities and towns in Hampden County. If the casino's revenues exceed \$200 million, the 25.5% rate is to increase to 33%. On November 9, 1995, the United States Secretary of the Interior announced that he would not approve the tribal-state compact between the Wampanoag Tribe of Gay Head and the Commonwealth until after the Legislature had approved it. Legislative action on the compact has not yet occurred.

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 1991 through fiscal 1995 were lower than the limit set by either Chapter 62F or Chapter 29B, and the Executive Office for Administration and Finance currently estimates that state tax revenues in fiscal 1996 will not reach the limit imposed by either of these statutes.

COMMONWEALTH PROGRAMS AND SERVICES

For fiscal 1992, budgeted expenditures were \$13.416 billion, representing a decline of 1.7% from the level of budgeted expenditures in fiscal 1991. Fiscal 1993 budgeted expenditures were \$14.696 billion, an increase of 9.6% from fiscal 1992. Fiscal 1994 budgeted expenditures were \$15.523 billion, an increase of 5.6% from fiscal 1993. Fiscal 1995 budgeted expenditures were \$16.251 billion, an increase of 4.7% from fiscal 1994. See "FINANCIAL RESULTS -- Fiscal Years 1991 through 1995." It is estimated that fiscal 1996 budgeted expenditures will be \$16.935 billion, an increase of 4.2% over fiscal 1995 levels. See "1996 FISCAL YEAR."

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

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

Expenditure Category	Fiscal 1991	Fiscal 1992	Fiscal 1993	Fiscal 1994	Fiscal 1995	Estimated Fiscal 1996
Direct Local Aid (1)	\$2,608.3	\$2,358.9	\$2,546.5	\$2,727.3	\$2,976.2	\$3,240.5
Medicaid	2,765.3(2)	2,817.7(3)	3,151.4(3)	3,313.1(4)	3,398.2	3,387.2(5)
Group Health Insurance	446.0	466.1	491.2	496.2	509.7	525.5
Public Assistance	1,092.3	1,065.0	1,074.9	1,100.3	1,095.0(6)	1,132.6(7)
Debt Service (8)	942.3	898.3	1,139.5	1,149.4	1,230.9	1,198.5
Pensions	703.9	751.5	868.2	908.9	968.8	1,014.2
Higher Education	608.6	534.0	544.9(9)	672.5	703.3	730.2
MBTA and RTA's	406.1	449.6	499.0	522.3	516.2	519.3
Other Program Expenditures	4,017.9(10)	4,066.1(10)	4,375.7	4,584.5	4,811.7	5,136.5(13)
Interfund Transfers to Non-budgeted Funds (11)	<u>64.0</u>	<u>8.8</u>	<u>5.1</u>	<u>48.4</u>	<u>40.4</u>	<u>50.0</u>
Budgeted Expenditures and Other Uses	<u>13,654.7(12)</u>	<u>13,416.0(12)</u>	<u>14,696.4</u>	<u>15,522.9</u>	<u>16,250.5</u>	<u>16,934.5</u>
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	130.2	130.9	137.4	140.4	143.9	147.5
Interfund Transfers among Budgeted Funds and Other Uses (11)	<u>149.7</u>	<u>366.9</u>	<u>358.7</u>	<u>289.1</u>	<u>399.7</u>	<u>316.5</u>
Total Expenditures and Other Uses	<u>\$13,934.6</u>	<u>\$13,913.8</u>	<u>\$15,192.6</u>	<u>\$15,952.4</u>	<u>\$16,794.1</u>	<u>\$17,398.5</u>

SOURCE: Fiscal 1990-1995, Office of the Comptroller; fiscal 1996, 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) 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.
- (3) Includes expenditures of \$50.0 million in fiscal 1992 for retroactive rate adjustments and settlements.
- (4) Includes approximately \$22.3 million of expenditures previously off-budget and classified as administrative expenses.
- (5) Excludes approximately \$61.4 million previously reclassified as administrative and not program expenses.
- (6) Includes approximately \$33.3 million not previously classified as public assistance and \$22.3 million not previously classified as budgeted expenditures.
- (7) Includes \$125 million for daycare services not previously classified as public assistance expenditures.
- (8) Excludes debt service on notes issued under 1990 tax legislation to fund the fiscal 1989 deficit and certain Medicaid-related expenses. See "FINANCIAL RESULTS--Fiscal Years 1991 through 1995." Reflects reduction of fiscal 1992 debt service by \$261.0 million as a result of the issuance of refunding bonds during fiscal 1992.
- (9) Reflects the transfer of \$89.4 million in related tuition revenue and spending to an off-budget trust fund. See "Higher Education."
- (10) Fiscal 1991 and fiscal 1992 expenditures have been restated to reflect surpluses in the Intragovernmental Service Fund of \$3.8 million in each year.
- (11) Interfund transfers represent accounting transfers which reallocate resources among funds. Interfund deficit support transfers for fiscal 1991 of \$234.8 million have been eliminated to facilitate comparative analysis. Includes interfund transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$59.2 million, \$170.0 million, \$76.9 million, \$65.4 million and \$27.9 million in fiscal 1991, 1992, 1993, 1994 and 1995, respectively.
- (12) Reflects the transfer of approximately \$89.4 million in related tuition revenue and spending from an off-budget trust fund to budgeted accounts.
- (13) Includes \$145.2 million currently reserved for contingencies.

Local Aid

Proposition 2½. In November, 1980, voters in the Commonwealth approved a statewide tax limitation initiative petition, commonly known as Proposition 2½, 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 2½ is not a provision of the state constitution and accordingly is subject to amendment or repeal by the Legislature. Proposition 2½, 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 2½ 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 2½ 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 1995, the aggregate property tax levy grew from \$3.347 billion to \$5.702 billion, representing an increase of approximately 70%. 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 88%.

Many communities have responded to the limitation imposed by Proposition 2½ through statutorily permitted overrides and exclusions. Override activity steadily increased throughout the 1980s before peaking in fiscal 1991 and decreasing thereafter. In fiscal 1991, 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, 65 communities passed override referenda adding \$31.0 million. In fiscal 1993, 59 communities added \$16.3 million through override votes and in fiscal 1994, only 48 communities had successful override referenda which added \$8.4 million to their levy limits. In fiscal 1995, 32 communities added \$8.8 million. Although Proposition 2½ will continue to constrain local property tax revenues, significant capacity exists for overrides in nearly all cities and towns.

In addition to overrides, Proposition 2½ allows a community, through voter approval, to assess taxes in excess of its levy limit for the payment of certain capital projects (capital outlay expenditure exclusions) and for the payment of specified debt service costs (debt exclusions). Capital exclusions were passed by 24 communities in fiscal 1995 and totaled \$3.7 million. In fiscal 1995, the impact of successful debt exclusion votes going back as far as fiscal 1983, was to raise the levy limits of 217 communities by \$119 million.

Commonwealth Financial Support for Local Governments. During the 1980's, the Commonwealth increased payments to its cities, towns and regional school districts ("Local Aid") to mitigate the impact of Proposition 2½ on local programs and services. In fiscal 1996, approximately 19.1% of the Commonwealth's budget is estimated to be allocated to direct 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 comprehensive education reform legislation 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 legislation established a fiscal 1993 state spending base of approximately \$1.288 billion for local education purposes and required annual increases in state expenditures for such purposes above that base, subject to appropriation, estimated to be approximately \$175 million in fiscal 1994, approximately \$396 million in fiscal 1995, approximately \$625 million in fiscal 1996 and approximately \$867 million in fiscal 1997, with additional annual increases anticipated in later years. The fiscal 1994, 1995 and 1996 budgets have fully funded the requirements imposed by this legislation.

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 \$2.608 billion in fiscal 1991 to \$2.359 billion in fiscal 1992, increased to \$2.547 billion in fiscal 1993 and increased to \$2.727 billion in fiscal 1994. Fiscal 1995 expenditures for direct Local Aid were \$2.976 billion, which is an increase of approximately 9.1% above the fiscal 1994 level. It is estimated that fiscal 1996 expenditures for direct Local Aid will be \$3.241 billion, which is an increase of approximately 8.9% above the fiscal 1995 level.

Initiative Law. A statute adopted by voter initiative petition at the November, 1990 statewide election regulates the distribution of Local Aid to cities and towns. This statute requires that, subject to annual appropriation, no less than 40% of collections from personal income taxes, sales and use taxes, corporate excise taxes and lottery fund proceeds be distributed to cities and towns. Under the law, the Local Aid distribution to each city or town would equal no less than 100% of the total Local Aid received for fiscal 1989. Distributions in excess of fiscal 1989 levels would be based on new formulas that would replace the current Local Aid distribution formulas. By its terms, the new formula would have called for a substantial increase in direct Local Aid in fiscal 1992, and would call for such an increase in fiscal 1993 and in subsequent years. However, Local Aid payments expressly remain subject to annual appropriation, and fiscal 1992, fiscal 1993, fiscal 1994 and fiscal 1995 appropriations for Local Aid did not meet, and fiscal 1996 appropriations for Local Aid do not meet, the levels set forth in the initiative law.

Medicaid and Group Health Insurance

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

During fiscal years 1991, 1992, 1993, 1994 and 1995 Medicaid expenditures were \$2.765 billion (including \$194 million paid in respect of retroactive provider settlements), \$2.818 billion, \$3.151 billion, \$3.313 billion and \$3.398 billion respectively. The average annual growth rate from fiscal 1991 to fiscal 1995 was 5.4%, compared to an average annual growth of approximately 17% between fiscal 1987 and fiscal 1991. The growth rate from fiscal 1994 to fiscal 1995 was 2.6%. The Executive Office for Administration and Finance estimates that fiscal 1996 Medicaid expenditures will be approximately \$3.387 billion. Factoring out one-time payments in fiscal 1995 and fiscal 1996 to settle bills from hospitals and nursing homes dating back to the 1980's, and adjusting for a change in the account structure of the Medicaid program, Medicaid expenditures are projected to increase from fiscal 1995 to fiscal 1996 by 2.6%. The decrease in the rate of growth after fiscal 1991 is due to a number of savings and cost control initiatives that the Division of Medical Assistance continues to implement and refine, including managed care, utilization review and the identification of third party liabilities.

The substantial reduction in the rate of growth of Medicaid expenditures has been achieved in spite of increasing caseloads. From fiscal 1992 through fiscal 1995, per capita costs grew on average less than 2% annually. The total Medicaid caseload for fiscal 1996 is expected to reach approximately 660,000 recipients (approximately 11.0% of the most recently estimated population of the Commonwealth), as compared to approximately 523,000 recipients in fiscal 1990.

One of the primary reasons for the recent modest rates of growth in Medicaid expenditures is the implementation by the Administration of a managed care program. A waiver of federal regulations granting recipients freedom of choice of provider was approved by federal authorities in fiscal 1992. This waiver enables the program to assign certain recipients to primary care clinicians who function as gatekeepers to specialty and inpatient care and to enroll recipients in a capitated managed system of care for mental health or substance abuse services. In addition, nursing home prescreening and community service planning for long-term care is 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, which are in addition to major rate control initiatives, include the repricing and buy-in of Medicare services for Medicaid recipients and restrictions, both financial and clinical, on nursing home eligibility.

Medicaid costs in the long-term care area increased from \$1.359 billion in fiscal 1991 to approximately \$1.550 billion in fiscal 1995. The single largest component of these costs is for nursing home care, which currently accounts for more than 36% of the Medicaid budget. Over 41,000 elderly and disabled citizens were cared for in nursing homes each month through Medicaid in both fiscal 1994 and 1995. The annual cost per beneficiary in a nursing home is approximately \$30,000. On an overall basis, 70% of all nursing home costs in the Commonwealth are paid by Medicaid. In an effort to control the increasing costs of nursing home services, the Division of Medical Assistance has strengthened admissions criteria to ensure that those not needing this care use less costly community services. This, along with certain other initiatives, has limited the average annual increase in long-term care costs to approximately 3% between fiscal 1992 and fiscal 1995 on a date-of-service basis,

as compared to approximately 16% average annual increases for the previous three fiscal years. 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.

Control of Medicaid expenditures is reflected in a decreased reliance on supplemental appropriations. Prior to fiscal 1994, substantial Medicaid expenditures were provided through supplemental appropriations because program requirements consistently exceeded initial appropriations. In addition, substantial amounts have been required to cover retroactive settlement of provider payments. In fiscal 1990, in addition to current expenditures, the Commonwealth financed, through the issuance of notes, payments of \$356.0 million to hospitals and nursing homes for rate settlements dating back as far as 1980 and \$132.0 million for program expenses incurred in fiscal 1989. These payments were made through the Medical Assistance Liability Fund established to fund certain Medicaid liabilities for prior years. In fiscal 1991, expenditures of \$194.2 million were made to fund prior year provider settlements. Medicaid expenditures for fiscal 1992 of \$2.818 billion included \$50.0 million for prior year provider settlements. See "FINANCIAL RESULTS -- Fiscal Years 1991 through 1995." Fiscal 1994 and fiscal 1995 Medicaid expenditures included a total of approximately \$123.0 million in retroactive rate settlements funded through the final fiscal 1994 supplemental budget to pay pre-1992 liabilities to hospitals and nursing homes. The fiscal 1996 budget appropriates approximately \$9 million for final settlement of these hospital and nursing home liabilities. Aside from the payments for retroactive rate settlements, no supplemental appropriations for Medicaid expenditures were required in fiscal 1995, and the Executive Office for Administration and Finance currently projects that no supplemental appropriations for Medicaid will be required in fiscal 1996.

As part of the effort to control the federal deficit, Congress is considering block grant legislation designed to control spending for the Medicaid program. The precise impact of any such changes on the Commonwealth cannot be determined at this time.

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 for employees who retire after July 1, 1994 and 90% of the costs for employees who retired on or before July 1, 1994. For several years, group health insurance expenditures were the fastest growing expense item in the Commonwealth's budget, although recent increases have been more moderate. These costs rose at an average annual rate of 4.9% from \$446.0 million in fiscal 1991 to \$491.2 million in fiscal 1993. Group health insurance expenditures in fiscal 1994 were \$496.2 million, representing an increase of 1.0%. Fiscal 1995 expenditures for group health insurance were \$509.7 million, an increase of 2.7% from expenditures for fiscal 1994. Fiscal 1996 expenditures are expected to be \$525.5 million, an increase of 3.1% over fiscal 1995. The reduced rate of increase in these expenses in recent years is attributable, in part, to more aggressive rate negotiations with providers, reductions in the state work force, increased management of the Commonwealth's indemnity plan, changes in benefits and copayments approved by the Group Insurance Commission and increases in the employee health insurance contribution.

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 1991	Fiscal 1992	Fiscal 1993	Fiscal 1994	Fiscal 1995(1)	Estimated Fiscal 1996
AFDC (2)	\$758.1	\$772.2	\$809.9	\$817.2	\$782.7	\$818.2(3)
EAEDC (formerly General Relief) (5)	189.6	131.5	89.9	100.3	119.7(4)	112.9
SSI (6)	144.6	161.3	175.1	182.8	192.6	201.5
Total	<u>\$1,092.3</u>	<u>\$1,065.0</u>	<u>\$1,074.9</u>	<u>\$1,100.3</u>	<u>\$1,095.0</u>	<u>\$1,132.6</u>

SOURCE: Fiscal 1991-1995, Office of the Comptroller; fiscal 1996, Executive Office for Administration and Finance.

- (1) Includes approximately \$33.3 million not previously classified as public assistance.
- (2) Includes expenditures for Emergency Assistance, a component of AFDC designed to prevent homelessness and to shelter income-eligible families when they become homeless.
- (3) Includes approximately \$125 million for fiscal 1996 for day care services not previously classified as public assistance.
- (4) Includes \$22.3 million not previously classified as budgeted expenditures.
- (5) Includes outpatient medical services to EAEDC recipients.
- (6) 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 between fiscal 1991 and fiscal 1994 caused AFDC expenditures to rise at an average annual rate of approximately 2.5% from \$758.1 million in fiscal 1991 to \$817.2 million in fiscal 1994. Caseloads began to decline in June, 1993 and have continued to decline since that time. AFDC expenditures for fiscal 1995 were \$782.7 million, representing a 0.4% decrease from fiscal 1994. AFDC expenditures for fiscal 1996 are projected to be \$818.2 million, which includes \$125 million not previously classified as AFDC day care expenditures. Factoring out the reclassified \$125 million, fiscal 1996 AFDC expenditures are budgeted to decline by \$32 million, or 4.1%, from fiscal 1995 expenditures.

On February 10, 1995 the Governor approved legislation which reformed the Commonwealth's AFDC program. The revised program was scheduled to take effect on July 1, 1995, subject to federal approval of certain waivers. On August 4, 1995, the federal government granted a waiver of federal regulations for the Commonwealth's proposed changes to its AFDC program. However, the federal government imposed additional conditions upon the proposed two-year limit on the availability of AFDC benefits for able-bodied adults. On September 23, 1995 the Governor accepted the federal waiver (except for the provision regarding no time limit on benefits), and on November 1, 1995, the changes to the AFDC program were implemented. The Executive Office for Administration and Finance expects the fiscal 1996 budget appropriations to be sufficient to cover program costs.

As part of the effort to control the federal deficit, Congress is considering block grant legislation designed to replace the AFDC program. The precise impact of any such legislation on the Commonwealth cannot be determined at this time.

EAEDC (formerly General Relief) is funded entirely from state funds. Program reforms initiated in the fall of 1991 caused expenditures to fall approximately 30.6%, from \$189.6 million in fiscal 1991 to \$131.5 million in fiscal 1992. Fiscal 1993 EAEDC expenditures were \$89.9 million, a 31.6% decrease from fiscal 1992 expenditures. Fiscal 1994 EAEDC expenditures were \$100.3 million, an 11.6% increase over fiscal 1993 expenditures. Fiscal 1995 EAEDC expenditures were \$119.7 million. Factoring out \$22.3 million not previously classified as budgeted expenditures, EAEDC expenditures decreased by 2.9% from fiscal 1994. Fiscal 1996 EAEDC expenditures are projected to be \$112.9 million, a 5.7% decrease from fiscal 1995. This projection is based upon current caseload projections which are subject to change during the fiscal year. See "*Other Controls and Reforms.*"

SSI payments are funded entirely by the federal government up to \$470 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 \$582 to \$620 per month. These levels include a state supplement over and above federally approved assistance standards. Expenditures for SSI have risen at an average annual rate of 8.2% from \$144.6 million in fiscal 1991 to \$182.8 million in fiscal 1994. SSI expenditures for fiscal 1995 were \$192.6 million, an increase of 5.3% over fiscal 1994.

SSI expenditures for fiscal 1996 are projected to be \$201.5 million, an increase of 4.6% over fiscal 1995. This projection is based upon current caseload projections which are subject to change during the fiscal year.

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

The Commonwealth has, in recent years, through improved management procedures and controls, lowered its error rates for the AFDC and food stamp programs, and the Department of Transitional Assistance reports that the Commonwealth is now below the target error rate level for each program. The Department of Transitional Assistance believes that its error rates are among the lowest in the country.

Debt Service

During the 1980's, Commonwealth-financed capital expenditures grew substantially. Capital spending in the Capital Projects Funds rose from approximately \$600 million in fiscal 1987 to approximately \$971 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 million per fiscal year. Capital expenditures were \$847.0 million, \$694.1 million, \$575.9 million, \$760.6 million and \$902.2 million in fiscal 1991, fiscal 1992, fiscal 1993, fiscal 1994 and fiscal 1995, respectively. Commonwealth-financed capital expenditures are projected to be approximately \$898.0 million in fiscal 1996. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Overview of Capital Spending Process and Controls; *Five-Year Capital Spending Plan.*"

The growth of capital expenditures during the 1980's accounts for the significant rise in annual debt service expenditures since fiscal 1989. Payments for debt service on Commonwealth general obligation bonds and notes in fiscal 1992 were \$898.3 million, representing a 4.7% decrease from \$942.3 million in fiscal 1991, which resulted from a \$261 million one-time reduction achieved through the issuance of refunding bonds in September and October, 1991. Debt service expenditures for fiscal 1993, fiscal 1994 and fiscal 1995 were \$1.140 billion, \$1.149 billion and \$1.231 billion, respectively, and are projected to be \$1.199 billion for fiscal 1996. See "COMMONWEALTH BOND AND NOTE LIABILITIES." The amounts noted represent debt service payments on Commonwealth debt (including Fiscal Recovery Bonds and special obligation bonds) but do not include debt service on notes issued to finance certain Medicaid-related liabilities, which were paid in full from non-budgeted funds. See "FINANCIAL RESULTS -- Fiscal Years 1991 through 1995." Also excluded are debt service contract assistance payments to the MBTA (\$205.5 million projected in fiscal 1996), the Massachusetts Convention Center Authority (\$24.6 million projected in fiscal 1996), the Massachusetts Government Land Bank (\$6 million projected in fiscal 1996), the Massachusetts Water Pollution Abatement Trust (\$16.6 million projected in fiscal 1996) and grants to municipalities under the school building assistance program to defray a portion of the debt service costs on local school bonds (\$174.5 million projected in fiscal 1996). 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 appropriations 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 of the Commonwealth. The limit does not apply to the Fiscal Recovery Bonds. This law may be amended or repealed by the Legislature or may be superseded in the Annual Appropriation Act for any year. The following table shows the percentage of total appropriations expended or estimated to be expended from the budgeted operating funds for debt service on general obligation debt (excluding debt service on Fiscal Recovery Bonds) in the fiscal years indicated:

Debt Service Expenditures
(in millions)

<u>Fiscal Year</u>	<u>Debt Service (1)</u>	<u>Total Budgeted Expenditures and Other Uses</u>	<u>Percentage</u>
1991	\$863.1	\$13,654.7	6.3%
1992	656.1(2)	13,416.0	4.9
1993	861.1	14,696.4	5.9
1994	872.3	15,522.9	5.6
1995	953.0	16,250.5	5.9
1996 (estimated)	920.6	16,934.5	5.4

SOURCE: Fiscal 1991-1995, Office of the Comptroller; fiscal 1996, Executive Office for Administration and Finance.

- (1) Excludes \$79.0 million in fiscal 1991, \$242.2 million in fiscal 1992, \$278.4 million in fiscal 1993, \$277.1 million in fiscal 1994, \$277.9 million in fiscal 1995 and \$277.9 million in fiscal 1996 in interest and principal payments related to Fiscal Recovery Bonds, which are not included in the calculation of the debt service limit.
- (2) Reflects reduction of debt service by \$261.0 million by issuance of refunding bonds in September and October, 1991.

The estimated annual debt service on the Fiscal Recovery Bonds currently outstanding (a portion of which constitutes variable rate debt) is approximately \$278.0 million in fiscal 1996 and 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, accordingly, 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 address partially the unfunded liabilities that accumulated over several decades of "pay-as-you-go" administration of the pension systems. For several years during the 1980's, the Commonwealth made substantial direct appropriations to its 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 8.1% from \$703.9 million in fiscal 1991 to \$968.8 million in fiscal 1995. The estimated pension expenditures (inclusive of current benefits and pension reserves) for fiscal 1996 are approximately \$1.014 billion (including approximately \$40 million to fund the costs of an early retirement program for elementary and secondary school teachers mandated by the 1993 education reform legislation), representing an increase of 4.6% over fiscal 1995 expenditures. See "OTHER COMMONWEALTH LIABILITIES -- Retirement Systems and Pension Benefits."

Higher Education

Total budgeted expenditures for higher education declined dramatically in fiscal 1991 and fiscal 1992 from historically high levels reached during the late 1980's. Since fiscal 1992, such expenditures have increased by 2.0% in fiscal 1993, by 23.4% in fiscal 1994 and by 4.5% in fiscal 1995. Decreases in appropriations or in the rate of growth of appropriations have been partially mitigated by increases in tuitions and fees. In fiscal 1992, all but two of the campuses raised tuition by 6%. In fiscal 1993, tuition was raised at all campuses by 4%. Fiscal 1994 tuition revenues also reflected a 2% tuition increase. In addition, tuition increases for nonresident students have brought these tuitions to 100% of cost. There were no tuition increases in fiscal 1995. In fiscal 1996, an estimated \$730.2 million will be expended from the Commonwealth's budgeted operating funds for higher education, an increase of 3.8% over fiscal 1995.

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) guaranties 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 guaranty 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 issuance 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 2½, as amended, generally limits the increase in such assessments from one year to the next to 2.5% of the prior year's assessment. The Commonwealth pays its transit notes from the proceeds of the assessments and from such contract assistance and, if the foregoing proceeds are insufficient, from other funds of the Commonwealth.

Total expenditures for the purpose of paying costs related to the MBTA and regional transit authorities rose at an average annual rate of approximately 6.3% for fiscal years 1991 through 1995, from \$406.1 million in fiscal 1991 (of which \$382.4 million relates to the MBTA) to \$516.2 million in fiscal 1995 (of which \$483.3 million relates to the MBTA). Estimated expenditures for this purpose for fiscal 1996 are \$519.3 million (of which \$484.0 million relates to the MBTA).

MBTA operating expenses (total expenses less debt service) for fiscal years 1992, 1993, 1994 and 1995 were approximately \$550.6 million, \$564.6 million, \$588.7 million and \$528.5 million, respectively and are estimated to be approximately \$508.1 million for fiscal 1996. The MBTA's draft budget for fiscal 1997 provides for operating expenses of \$508.0 million, which would mark the third consecutive year of decreased expenses. In light of major capital expenditures during recent years, MBTA debt service costs have increased steadily. MBTA debt service expenses for fiscal years 1992, 1993, 1994 and 1995 were approximately \$187.2 million, \$189.0 million, \$196.9 million and \$210.9 million, respectively, and for fiscal 1996 are estimated to be \$245.1 million. The MBTA's draft budget for fiscal 1997 provides for debt service expenses of \$283.5 million. 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 2½.

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, 1991 through December 31, 1995 (estimated), the amounts of (i) the MBTA's cost of service in excess of the MBTA's income from its own sources, (ii) federal operating assistance, (iii) Section 28 debt service 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)**

<u>Year Ended December 31</u>	<u>Cost of Service in Excess of Income</u>	<u>Less: Federal Operating Assistance</u>	<u>Less: Section 28 Contract Assistance (1)</u>	<u>Less: Additional Contract Assistance and Other State Assistance (2)</u>	<u>Subtotal</u>	<u>Interest and Other Charges (3)</u>	<u>Amount Assessed or to be Assessed</u>
1991	\$ 575.0	\$ 18.2	\$ 137.7	\$ 307.2	\$ 111.9	\$ 9.7	\$ 121.6
1992	607.0	18.2	155.8	315.4	117.6	7.0	124.7
1993	610.3	18.2	165.6	304.2	122.3	5.5	127.8
1994	590.1	16.1	177.6	276.2(4)	120.3	10.6	131.0
1995 (5)	585.7	13.4	205.7	243.8(6)	122.8	11.5	134.3

SOURCE: Massachusetts Bay Transportation Authority.

- (1) Contract assistance under Section 28 of the MBTA's enabling act for payment of a portion of debt service on certain of the MBTA's indebtedness.
- (2) Additional contract assistance and other state assistance provided by the Commonwealth.
- (3) Includes interest and other charges incurred in state borrowings by the Commonwealth and Boston Metropolitan District expenses of \$25,000 in each year.
- (4) The Commonwealth's fiscal 1996 budget contains appropriations, together with other prior appropriations, sufficient to provide this amount of additional state assistance.
- (5) Estimated.
- (6) Assumes that fiscal 1997 appropriations will be adequate to limit assessments on cities and towns to 102.5% of the prior year's assessments.

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 1991, 1992, 1993, 1994 and 1995 of \$23.6 million, \$28.5 million, \$31.1 million, \$31.9 million and \$33.0 million, respectively. Estimated payments for fiscal 1996 are \$35.3 million. The Steamship Authority is currently self supporting, requiring no net cost of service payments or contract assistance.

Other Programs

In addition to those expenditures described above, the Commonwealth also expends substantial amounts on other programs and services. Spending on other programs and services supported by the Commonwealth's budget increased by \$48.2 million, or 1.2%, from \$4.018 billion in fiscal 1991 to \$4.066 billion in fiscal 1992. Fiscal 1993 expenditures were \$4.376 billion, which was \$309.6 million, or 7.6%, higher than fiscal 1992. Fiscal 1994 expenditures were \$4.585 billion, which was \$209.0 million, or 4.8%, more than fiscal 1993. Fiscal 1995 expenditures were \$4.812 billion, which was \$227 million, or 5.0%, more than fiscal 1994. Fiscal 1996 expenditures are estimated to be \$5.137 billion, which is \$325 million, or 6.8%, more than fiscal 1995. A large share of the projected fiscal 1996 spending in this category, \$2.531 billion, consists of spending on human services programs other than Medicaid and public assistance detailed earlier. This other human services spending for fiscal 1996 includes expenditures for the Department of Mental Retardation (\$730.9 million), Department of Mental Health (\$523.7 million), Department of Social Services (\$414.0 million), Department of Public Health (\$367.2 million) and other human services programs (\$495.2 million). The remaining \$2.606 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 (\$464.0 million) and for the Executive Offices for Administration and Finance (\$442.3 million), Communities and Development (\$130.3 million), Environmental Affairs (\$165.4 million), Transportation and Construction (\$107.1 million), Public Safety (\$759.8 million) and Elder Affairs (\$126.2 million).

State Workforce

As of December 31, 1995, the Commonwealth had approximately 64,309 full-time equivalent employees ("FTEs") in its standard workforce delivering programs and services funded by annual operating budget appropriations and retained revenues. This number does not include 383 seasonal FTEs or 119 members of boards or commissions. Approximately 54,310 of these FTEs work in executive branch agencies (including the Commonwealth's colleges and universities) under the control of the Governor, while the others work in the Legislature, the Judiciary and other entities constitutionally or legally independent of the Governor (the offices of the State Treasurer, the Secretary of State, the State Auditor and the Attorney General). During fiscal 1995 approximately \$2.4 billion was expended for salaries for state employees funded through the annual operating budget. Between June, 1988 and December, 1995, the size of the standard workforce funded through the annual operating budget was reduced by approximately 16,030 FTE positions, or 20.0%. Between January, 1991 and December, 1995, the size of this workforce was reduced by approximately 8,534 in agencies under the control of the Governor and by approximately 7,885 in the entire state government. The Governor has implemented an aggressive program to reduce the state workforce since taking office in January, 1991, through attrition, layoffs and an early retirement program which took effect on July 1, 1992.

Budget-Funded Standard Workforce (1)

	<u>June 1988</u>	<u>January 1991</u>	<u>June 1994</u>	<u>December 1995</u>
Executive Office	105	53	88	84
State Comptroller	119	101	103	108
Executive Departments:				
Administration & Finance (2)	4,434	3,985	3,412	3,233
Environmental Affairs (3)	3,319	3,019	2,229	2,385
Communities & Development	182	123	108	101
Health and Human Services	38,665	35,441	23,610	23,345
Transportation & Construction	3,146	2,565	1,389	1,316
Board of Library Commissioners	19	14	14	14
Educational Affairs	--	--	15	16
Education	468	348	195	203
Higher Education	14,654	13,084	13,130	13,606
Public Safety	3,405	2,833	8,827	8,730
Economic Affairs	97	64	99	100
Elder Affairs	60	35	30	30
Consumer Affairs	755	725	614	626
Energy Resources	66	--	--	--
Labor	<u>464</u>	<u>443</u>	<u>390</u>	<u>413</u>
Subtotal Under Governor's Authority	69,958	62,833	54,255	54,310
Judiciary	6,157	5,856	5,861	6,123
Other (4)	<u>4,224</u>	<u>3,504</u>	<u>3,693</u>	<u>3,875</u>
Total	80,339	72,193	63,809	64,309

SOURCE: Executive Office for Administration and Finance.

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

In addition to the standard workforce funded by annual operating budget appropriations, as of December 31, 1995, the Commonwealth had approximately 13,075 FTEs whose positions are established in accounts funded from Capital Projects Funds, various direct federal grants, expendable trusts and other non-appropriated funds. Virtually all of these employees work

in the executive branch, over half of them in public higher education. The Commonwealth also employs seasonal workers, primarily in its parks and other recreational facilities, varying in number from about 350 FTEs in the off-seasons to about 1,500 FTEs in mid-summer.

Union Organization and Labor Negotiations

Under Chapter 150E of the General Laws, all employees of the Commonwealth, with the exception of managerial and confidential employees, have the right to bargain collectively with the Commonwealth through certified employee organizations recognized as exclusive bargaining representatives for appropriate bargaining units. Collective bargaining with employees of the Commonwealth's colleges and universities, its judicial branch and the Lottery Commission generally is conducted directly by those entities. The Office of Employee Relations, acting for the Secretary of 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 of 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 Trial Court, 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 41,855 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.

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.

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

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 expired June 30, 1995. The contract granted a series of annual 6% salary increases, which cost approximately \$14.9 million in fiscal 1995. Negotiations for a successor agreement are under way.

On March 1, 1994, the Commonwealth and the Massachusetts Nurses Association signed the successor agreement to the agreement that expired October, 1990. The new agreement, which expired December 31, 1994, called for a 4% pay raise effective July 1, 1992, a 2.5% increase effective July 1, 1993, a 1% increase effective July 1, 1994 and a 2.5% increase effective October 1, 1994. The contract was notable for being the first Commonwealth collective bargaining agreement to link an employee's salary increase to his or her performance. The agreement also provided for a reduction in overtime costs by paying employees at straight time for the first shift of overtime worked in any work week in which the employee used sick

leave. The cost of this agreement in fiscal 1995 was approximately \$10.5 million. Negotiations for a successor agreement are under way.

In January, 1995, the Commonwealth reached agreement with the Alliance (the American Federation of State, County and Municipal Employees and the Service Employees International Union, representing employees in bargaining Units 2, 8 and 10) for a three-year contract which will expire on June 30, 1997. The agreement calls for a 2.5% bonus in fiscal 1995, a 2.5% pay increase in fiscal 1996 and a 3.0% pay increase in fiscal 1997. The contract is notable for its joint labor-management efforts to promote efficiency in the delivery of public services and to diminish overtime costs by redefining the role of sick leave in overtime calculations.

In April, 1995, after a long fact-finding process, the Commonwealth reached agreement with the Coalition of Public Safety covering the three years between 1992 and 1995. While the agreement provides annual salary increases of approximately 5.2% per year between 1992 and 1995, employees in this unit had been without a pay adjustment since July, 1989, averaging their pay increase for that 6 year period to 2.8% per year. Negotiations for a successor agreement are under way.

Negotiations for a successor agreement with the Massachusetts Organization of State Engineers and Scientists continue.

Negotiations with the National Association of Government Employees for a successor agreement remain on hold due to the ongoing representational dispute to determine the exclusive bargaining agent for employees in Units 1 and 6. As soon as the Labor Relations Commission certifies an exclusive bargaining agent, negotiations for a successor agreement will continue.

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

Office of Employee Relations Bargaining Units

Contract Unit	Bargaining Union	Type of Employee	FTEs (All Funds)	Expiration Dates
1	National Association of Government Employees	Clerical	5,373	6/30/93
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Institutional services	10,806	6/30/97
3	Massachusetts Organization of State Engineers and Scientists	Skilled trades	859	6/30/93
4	Massachusetts Correction Officers Federated Union	Corrections	3,580	12/31/94
5	Coalition of Public Safety	Law enforcement	336	6/30/95
5A	State Police Association of Massachusetts	State Police	1,814	6/30/95
6	National Association of Government Employees	Administrative professionals	6,263	6/30/93
7	Massachusetts Nurses Associations	Health professionals	2,056	12/31/94
8	Alliance/Service Employees International Union	Social workers	7,267	6/30/97
9	Massachusetts Organization of Engineers and Scientists	Engineers/scientists	2,885	6/30/93
10	Alliance/Service Employees International Union	Secondary education	616	6/30/97
TOTAL			<u>41,855</u>	

SOURCE: Executive Office for Administration and Finance. Number of Standard Workforce FTEs (funded from non-budgeted as well as budgeted funds) as of December 31, 1995.

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 of or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth statutes, if any, hereafter enacted extending the time for payment or imposing other constraints upon enforcement, insofar as the same may be constitutionally applied. The United States Bankruptcy Code is not applicable to states.

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

Other Commonwealth Bond and Note Liabilities. Certain independent authorities and agencies within the Commonwealth are statutorily authorized to issue bonds and notes for which the Commonwealth is either directly, in whole or in part, or indirectly liable. The Commonwealth's liabilities with respect to these bonds and notes are classified as either (a) Commonwealth-supported debt, (b) Commonwealth-guaranteed debt or (c) indirect obligations. Commonwealth-supported debt arises from statutory requirements for payments by the Commonwealth with respect to debt service of the MBTA (including the Boston Metropolitan District), the Massachusetts Convention Center Authority, the Massachusetts Government Land Bank, the Steamship Authority and certain regional transit authorities. Commonwealth-guaranteed debt consists of certain liabilities arising out of the Commonwealth's guaranties of the bonds of the four higher education building authorities and certain local housing authorities, certain bonds of the town of Mashpee and certain bond anticipation notes of the Massachusetts Turnpike Authority. 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 the Council, 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, to fund debt service from amounts appropriated by the Legislature to the Executive Office of Public Safety, on certificates of participation issued to finance the 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 in the city of Chelsea. See "Indirect Obligations." In addition, the Commonwealth has liabilities under certain tax-exempt capital leases. See "OTHER COMMONWEALTH OBLIGATIONS -- Long-Term Capital Leases." The Governor has proposed to abolish county government, with the Commonwealth assuming all county debt outstanding as of June 30, 1997. See "THE GOVERNMENT -- Government Reorganization Plan."

Outstanding Bond and Note Liabilities. The following table sets forth the Commonwealth bond and note liabilities outstanding as of January 1, 1996.

Commonwealth Bond and Note Liabilities
January 1, 1996
(in thousands)

	<u>Long-Term</u> (1)	<u>Short-Term</u>
COMMONWEALTH DEBT		
General Obligation Debt	\$8,716,517(2)	\$588,000(3)
Dedicated Income Tax Debt	618,980	0
Special Obligation Debt	<u>394,720</u>	<u>0</u>
Subtotal Commonwealth Debt	<u>9,730,217</u>	<u>588,000</u>
COMMONWEALTH-SUPPORTED DEBT		
MBTA	2,539,485	447,600(4)
Massachusetts Convention Center Authority	155,559	0
Massachusetts Government Land Bank	17,985	0
Boston Metropolitan District	44,708	0
Steamship Authority	41,164	0
Regional transit authorities	<u>15</u>	<u>67,099</u>
Subtotal Supported Debt	<u>2,798,916</u>	<u>514,699</u>
COMMONWEALTH-GUARANTEED DEBT		
Higher education building authorities	252,194	0
Town of Mashpee	<u>200</u>	<u>0</u>
Subtotal Guaranteed Debt	<u>252,394</u>	<u>0(5)</u>
TOTAL COMMONWEALTH BOND AND NOTE LIABILITIES	<u>\$ 12,781,527</u>	<u>\$1,102,699</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 and Certificates of Participation."
- (2) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from January 1, 1996 through their maturity in the amount of \$335.5 million. The Commonwealth issued an additional \$225 million of general obligation bonds on January 18, 1996.
- (3) \$240 million of Commonwealth general obligation notes issued on June 20, 1995 and due June 12, 1996 for the purpose of financing the MBTA's net cost of service, \$98 million of commercial paper issued as bond anticipation notes and \$250 million of commercial paper issued as revenue anticipation notes. As of February 16, 1996, the \$98 million of commercial paper issued as bond anticipation notes remains outstanding, and the Commonwealth expects to retire it from the proceeds of bonds to be sold in March, 1996. See "General Obligation Debt; *Commonwealth General Obligation Notes*."
- (4) Includes \$165 million of notes due March 1, 1996, \$160 million of notes due September 6, 1996 and \$122.6 million of commercial paper issued as bond anticipation notes. As of February 16, 1996, the MBTA had an additional \$38.2 million of commercial paper outstanding which has been issued as bond anticipation notes. See "Commonwealth Supported Debt; MBTA."
- (5) Does not reflect \$259,315,000 of guaranteed bond anticipation notes due June 1, 1999 which were issued by the Massachusetts Turnpike Authority on February 1, 1996. See "Commonwealth-Guaranteed Debt; *Massachusetts Turnpike Authority*."

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>
1991	\$7,164,195	\$1,416,145	--	\$8,580,340	\$1,475,480	\$247,574	\$10,303,394
1992	7,916,571	1,236,990	\$103,770	9,257,331	1,708,230	257,327	11,222,888
1993	8,082,823	1,044,865	103,770	9,231,458	2,015,405	291,482	11,538,345
1994	8,184,165	839,810	403,770	9,427,745	2,165,230	277,655	11,870,630
1995	8,614,766	618,980	394,720	9,628,466	2,399,780	273,410	12,301,656

SOURCE: Office of the State Treasurer and 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 1991--\$399.64 million; fiscal 1992--\$451.29 million; fiscal 1993--\$389.40 million; fiscal 1994--\$361.5 million and fiscal 1995--\$331.57 million.
- (4) Totals may not add due to rounding.
- (5) Includes bonds of the MCCA, the Steamship Authority, the Land Bank and the Boston Metropolitan District. Does not include bonds of regional transit authorities.

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

Long-Term Debt Analysis
Commonwealth Debt and Commonwealth-Supported Debt

<u>June 30</u>	<u>Amount (1)(2) (in thousands)</u>	<u>Net of CAB Interest Yet to be Accrued (in thousands)</u>	<u>Per Capita (3)</u>	<u>Ratio to Full Value of Real Estate (4)</u>	<u>Ratio to Personal Income (5)</u>
1991	\$10,303,394	\$9,903,754	\$1,650	2.32	7.21
1992	11,222,888	10,771,598	1,796	2.52	7.61
1993	11,538,345	11,148,945	1,853	2.85	7.58
1994	11,870,630	11,418,996	1,890	2.92	7.76
1995	12,301,656	11,970,088	1,981	3.27	8.13

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

- (1) Includes Commonwealth general obligation bonds, dedicated income tax bonds and Special Obligation Bonds, and bonds of the MBTA, the MCCA, the Steamship Authority, the Land Bank and the Boston Metropolitan District. Does not include bonds of the regional transit authorities. Does not include Commonwealth-guaranteed debt. See "Commonwealth-Guaranteed Debt."
- (2) Outstanding bond liabilities include discount and costs of issuance. Commonwealth general obligation bonds include interest on capital appreciation bonds yet to be accrued from the end of the fiscal year through their maturity. See "Table of Long-Term Bond Liabilities; *footnote 3*" above.
- (3) Based on United States Census resident population estimates for Massachusetts of 6,002,000 for 1991, 5,999,000 for 1992, 6,018,000 for 1993 and 6,014,000 for 1994 and 1995.
- (4) Based on Commonwealth Department of Revenue equalized valuation of assessed real estate of \$427.6 billion for 1991 and 1992, \$391.0 billion for 1993 and 1994 and \$365.2 billion for 1995.
- (5) Based on United States Department of Commerce, Bureau of Economic Analysis total personal income of \$137.3 billion for 1991, \$141.6 billion for 1992 and \$147.1 billion for 1993, 1994 and 1995.

Maturities of Short-Term Debt. The following table sets forth the maturities of the Commonwealth's short-term liabilities outstanding as of January 1, 1996.

Maturities of Short-Term Liabilities
January 1, 1996
(in thousands)

<u>Month Due</u>	<u>Commonwealth</u>	<u>MBTA</u>	<u>Regional Transit Authorities</u>	<u>Total</u>
Commercial Paper (1 to 270 days)(1)	\$348,000	\$122,600	--	\$470,600
Fiscal 1996	240,000	165,000	--	405,000
Fiscal 1997	--	<u>160,000</u>	<u>\$67,099</u>	<u>227,099</u>
Total	<u>\$588,000</u>	<u>\$447,600</u>	<u>\$67,099</u>	<u>\$1,102,699</u>

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

(1) For a description of the MBTA's commercial paper program, see "Commonwealth-Supported Debt; *MBTA*." For a description of the Commonwealth's commercial paper program, see "General Obligation Debt; *Commonwealth General Obligation 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 provided, among other things, 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, 1990 and December, 1990 in the aggregate principal amount of approximately \$1.416 billion. The Fiscal Recovery Bonds constitute general obligation bonds of the Commonwealth, but are repaid from funds deposited in the Commonwealth Fiscal Recovery Fund established by Chapter 151 (the "Fiscal Recovery Fund"), deposits to which are held in trust and pledged to pay debt service on the Fiscal Recovery Bonds. Deposits to the Fiscal Recovery Fund are 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 of 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 1996, 1997 and 1998 will approximate \$278 million, \$278 million and \$130 million, respectively. Fifteen percent of the Commonwealth's income tax receipts for fiscal 1995 amounted to approximately \$896.1 million, while in fiscal 1996 it is estimated to amount to \$957.3 million. The outstanding principal amount of the Fiscal Recovery Bonds is not counted toward the statutory limit on outstanding direct bonds of the Commonwealth (see "Statutory Limit on Direct Bonds"), and interest on the Fiscal Recovery Bonds is not counted toward the statutory limitation on debt service payments. See "COMMONWEALTH PROGRAMS AND SERVICES -- Debt Service."

Commonwealth General Obligation Notes. The Commonwealth currently issues short-term general obligation debt as revenue anticipation notes, bond anticipation notes and transit notes issued to fund a portion of the Commonwealth's net cost of service for the MBTA. Revenue anticipation notes may be issued by the State Treasurer in any fiscal year in anticipation of the receipts for that year. Revenue anticipation notes must be repaid no later than the close of the fiscal year in which they are issued. Bond anticipation notes may be issued by the State Treasurer in anticipation of the issuance of bonds. The Commonwealth utilizes a commercial paper program to facilitate the issuance of revenue and bond anticipation notes. Under the Commonwealth's current commercial paper program, the Commonwealth may issue up to \$600 million of short-term general obligation debt under three series of notes; a line of credit is available through September 30, 1996 to secure up to \$200 million of principal of such commercial paper, a letter of credit is available through October 31, 1996 to secure up to \$200 million of principal of such commercial paper, and another letter of credit is available through October 31, 1997 to secure the balance

of such commercial paper. As of February 16, 1996, the Commonwealth has \$98 million of commercial paper outstanding, which was issued as bond anticipation notes to reimburse the Commonwealth for capital expenditures and which is expected to be retired with the proceeds of long-term bonds issued in fiscal 1996. The Commonwealth's current cash flow projection indicates that no short-term operating borrowings are expected to be necessary under the commercial paper program during the remainder fiscal 1996. 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 1996. See "1996 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 the 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 16, 1996, the Commonwealth has \$240 million of outstanding transit notes which mature on June 12, 1996.

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 (five years or less). The Commonwealth has not issued minibonds since 1990, and all minibonds previously issued have matured.

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 February 1, 1996, the Commonwealth had outstanding \$394.7 million of Special Obligation Bonds, which includes \$103.8 million of such bonds secured by a pledge of two cents of the 21-cent motor fuels excise tax and \$291.0 million of another series of such bonds secured by a pledge of an additional 4.86 cents of the motor fuels excise tax and certain other moneys. The Commonwealth intends to issue additional special obligation debt during fiscal 1996.

Debt Service Requirements on Commonwealth Bonds

The following table sets forth, as of February 1, 1996, 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)
February 1, 1996
(in thousands)

Fiscal Year	<u>GENERAL OBLIGATION BONDS (2)</u>				<u>SPECIAL OBLIGATION BONDS</u>			Total Debt Service Commonwealth Bonds
	Principal	Interest on CABs at Maturity	Current Interest	Subtotal	Principal	Interest	Subtotal	
1996	\$ 336,205	--	\$ 122,286	\$ 458,491	\$ 9,460	\$ 10,993	\$ 20,453	\$ 478,944
1997	713,434	\$ 17,091	473,342	1,203,867	9,845	21,604	31,449	1,235,315
1998	640,666	8,675	424,736	1,074,077	14,330	21,185	35,515	1,109,592
1999	568,163	9,704	389,536	967,403	15,010	20,508	35,518	1,002,921
2000	573,213	23,586	355,809	952,608	15,750	19,764	35,514	988,122
2001	560,548	32,365	326,155	919,068	16,555	18,957	35,512	954,580
2002	505,590	42,664	295,895	844,149	17,420	18,098	35,518	879,667
2003	511,244	45,642	268,964	825,851	18,585	16,929	35,514	861,365
2004	466,524	76,660	245,367	788,552	19,585	15,928	35,513	824,064
2005	462,939	90,921	223,040	776,901	20,665	14,852	35,517	812,418
2006	460,053	98,662	201,700	760,415	21,815	13,699	35,514	795,930
2007	530,888	31,091	176,164	738,143	23,050	12,467	35,517	773,659
2008	543,574	1,588	148,689	693,850	24,365	11,148	35,513	729,363
2009	524,171	1,778	118,577	644,526	25,740	9,771	35,511	680,037
2010	449,552	1,516	92,512	543,580	27,215	8,299	35,514	579,094
2011	417,864	1,718	67,677	487,260	28,795	6,723	35,518	522,778
2012	268,607	1,704	43,362	313,673	30,465	5,046	35,511	349,184
2013	260,749	1,870	27,807	290,425	32,240	3,271	35,511	325,937
2014	141,853	832	15,752	158,437	53	23,830	1,382	183,650
2015	117,399	527	8,113	126,039	--	--	--	126,039
2016	71,301	386	2,515	74,202	-	--	--	74,202
2017 and thereafter	3,004	--	472	3,476	--	--	--	3,476
TOTAL	<u>\$9,127,542</u>	<u>\$ 488,981</u>	<u>\$4,028,468</u>	<u>\$13,644,991</u>	<u>\$394,720</u>	<u>\$250,626</u>	<u>\$645,346</u>	<u>\$14,290,337</u>

SOURCE: Office of the State Treasurer and 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 1996 and fiscal 1997 and \$130.0 million in fiscal 1998, at which time the Fiscal Recovery Bonds will be paid.

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 provided that the limit for each subsequent fiscal year was to 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 are to 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 also 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, and as of January 1, 1996.

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

<u>Date</u>	<u>Outstanding Direct Bonds</u>	<u>Statutory Limit on Direct Bonds</u>
July 1, 1990	\$6,010,063	\$6,800,000
July 1, 1991	6,653,030	7,140,000
July 1, 1992	6,937,500	7,497,000
July 1, 1993	7,259,821	7,871,850
July 1, 1994	7,343,227	8,265,442
July 1, 1995	7,583,823	8,678,715
January 1, 1996	7,806,314	8,678,715

SOURCE: Office of the State Treasurer and 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, 1991	\$ 4,937,306	\$ 847,057
June 30, 1992	6,393,832	694,057(2)
June 30, 1993	4,614,367	575,884
June 30, 1994	4,512,297	760,618
June 30, 1995	5,942,807	901,982

SOURCE: Office of the Comptroller.

- (1) Does not include \$537.5 million, \$1.892 billion, \$835.7 million and \$513.6 million of refunding bond proceeds paid to escrow agents in fiscal 1992, fiscal 1993, fiscal 1994 and fiscal 1995, 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.

As of June 30, 1995, the authorized but unissued general obligation debt equalled \$5.942 billion, which amount includes \$2.410 billion allocable to transportation-related projects authorized by the Legislature in fiscal 1996. As of January 1, 1996, there was \$7.170 billion of authorized but unissued general obligation debt.

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

Pursuant to Chapter 33 of the Acts of 1991 ("Chapter 33"), the Commonwealth authorized the issuance of \$697 million of bonds for certain highway development and improvement projects which may only be issued as Special Obligation Bonds. The Special Obligation Bonds will be secured by a pledge of all or a portion of the revenues accounted for in the Commonwealth's Highway Fund. In addition, certain general obligation bonds authorized in Chapter 33 for such projects

(which are reflected as Authorized but Unissued General Obligation Debt above) may be issued as Special Obligation Bonds, with the aggregate amount of Special Obligation Bonds not to exceed \$1.125 billion. Chapters 102 and 273 of the Acts of 1994 also authorize the issuance of up to \$1.474 billion of general obligation bonds for certain highway development and improvement projects, which bonds may also be issued as Special Obligation Bonds. See "Special Obligation Debt."

Commonwealth-Supported Debt

MBTA. The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. Commonwealth support of MBTA bonds and notes includes (1) a Commonwealth guarantee of MBTA debt obligations provided by statutory requirements that the Commonwealth provide the MBTA funds sufficient to meet its obligations, including the principal and interest on MBTA and Boston Metropolitan District bonds and notes as they mature, to the extent that funds sufficient for this purpose are not otherwise available to the MBTA; (2) Commonwealth contract assistance equal to 90% of the debt service on MBTA bonds; and (3) under applicable statutory provisions, the Commonwealth's payment of MBTA's net cost of service (current expenses, including debt service and lease obligations, minus current income). Commonwealth obligations with respect to the MBTA are discussed at "COMMONWEALTH PROGRAMS AND SERVICES -- MBTA and Regional Transit Authorities." As of January 1, 1996, the MBTA had \$2.6 billion of outstanding long-term bonds (exclusive of bonds that have been refunded) and \$325 million of outstanding short-term notes. The MBTA also has established a commercial paper program in order to issue bond anticipation notes for capital purposes. Up to \$200 million 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 16, 1996, \$160.8 million of commercial paper notes were outstanding under this program. As of January 1, 1996, the Boston Metropolitan District had approximately \$44.7 million of outstanding long-term bonds. See "Overview; *Outstanding Bond and Note 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 guaranty 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, 1996, the regional transit authorities had \$15,000 of outstanding long-term bonds and \$67.1 million of outstanding short-term notes. As of January 1, 1996, the Steamship Authority had \$41.2 million of outstanding long-term bonds. The obligations of the regional transit authority will be subject to annual appropriation. See "Overview; *Outstanding Bond and Note Liabilities.*"

Massachusetts Convention Center Authority. The MCCA was created for the purpose of promoting the economic development of the Commonwealth by the development and operation of a major convention center in Boston and is authorized to issue bonds for any of its corporate purposes. Such bonds are fully secured by contract assistance payments by the Commonwealth, which payments are limited by statute to an amount equal to the annual debt service on \$200 million of bonds outstanding at any one time. The assistance contract is a general obligation of the Commonwealth for which its full faith and credit are pledged. As of January 1, 1996, the MCCA had \$155.6 million of outstanding long-term bonds on which the Commonwealth will pay approximately \$24.6 million in debt service contract assistance payments in fiscal 1996. 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 12 fiscal years, concluding in fiscal 1999. 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, 1996, the Land Bank had \$18.0 of bonds outstanding,

which are secured by the contract assistance from the Commonwealth, as described above. See "Overview; *Outstanding Bond and Note Liabilities.*"

Debt Service Contract Assistance Requirements on Commonwealth-Supported Debt

The following table sets forth, as of July 1, 1995, the annual fiscal year debt service contract assistance requirements on outstanding bonds of the Massachusetts Bay Transportation Authority, the Massachusetts Convention Center Authority and the Massachusetts Government Land Bank. The Commonwealth is obligated to pay 90% of the debt service on the MBTA's bonds (the figures in the table reflect 90% of total MBTA debt service) and 100% of the debt service on the MCCA's bonds and the Land Bank's bonds. The table does not include general contract assistance which is provided to the MBTA and to the regional transit authorities to help defray their net cost of service.

**DEBT SERVICE CONTRACT ASSISTANCE REQUIREMENTS
ON COMMONWEALTH-SUPPORTED DEBT(1)**
(in thousands)

Fiscal Year	MBTA	MCCA	Land Bank	Total
1996	\$200,974	\$24,623	\$5,995	\$231,592
1997	204,029	24,650	5,995	234,674
1998	203,357	24,662	5,994	234,014
1999	202,049	24,655	5,995	232,700
2000	200,660	24,658	--	225,317
2001	199,247	24,647	--	223,894
2002	195,874	20,371	--	216,245
2003	198,047	16,380	--	214,428
2004	196,100	16,340	--	212,440
2005	193,836	16,304	--	210,140
2006	190,704	14,737	--	205,441
2007	181,673	2,534	--	184,207
2008	177,473	2,535	--	180,008
2009	166,378	2,536	--	168,914
2010	165,417	2,536	--	167,953
2011	163,627	2,536	--	166,163
2012	155,751	2,535	--	158,286
2013	150,744	2,538	--	153,281
2014	141,595	2,538	--	144,133
2015	118,473	--	--	118,473
2016	102,025	--	--	102,025
2017	95,244	--	--	95,244
2018	90,833	--	--	90,833
2019	90,780	--	--	90,780
2020	89,824	--	--	89,824
2021	89,812	--	--	89,812
2022	71,645	--	--	71,645
2023	46,833	--	--	46,833
2024	37,335	--	--	37,335
2025	24,760	--	--	24,760
Total:	<u>\$4,345,101</u>	<u>\$252,315</u>	<u>\$23,980</u>	<u>\$4,621,395</u>

Source: Office of the State Treasurer.

(1) Totals may not add due to rounding.

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, 1996, 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 guaranty is a general obligation of the Commonwealth for which its full faith and credit are pledged. In addition to such guaranty, 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, 1996, the higher education building authorities had \$252.2 million of outstanding long-term bonds guaranteed by the Commonwealth. See "Overview; *Outstanding Bond and Note Liabilities.*"

Massachusetts Turnpike Authority. The Massachusetts Turnpike Authority ("MTA") was created in 1952 to operate and maintain the Massachusetts Turnpike, a limited access toll express highway extending approximately 135 miles from the Commonwealth's border with New York State to downtown Boston. In addition, the MTA was authorized in 1958 to operate and maintain the Callahan Tunnel and the Sumner Tunnel, which have served as the primary link between downtown Boston and Logan International Airport in East Boston. On August 10, 1995, the Governor signed legislation which transferred to the MTA a new tunnel under the Boston Harbor, the Ted Williams Tunnel, which links the current terminus of the Turnpike with Logan Airport. The legislation authorizes the MTA to issue, prior to June 30, 1999, up to \$300 million of Commonwealth-guaranteed notes to finance, among other things, the payment to the Commonwealth of the acquisition costs of the Ted Williams Tunnel. On February 1, 1996, the MTA issued \$259,315,000 of its guaranteed bond anticipation notes, to provide for, among other things the payment to the Commonwealth no later than April 25, 1996, of \$100 million as partial payment for the Ted Williams Tunnel. The Commonwealth has unconditionally guaranteed the payment of principal and interest of such notes and has pledged its full faith and credit to the payment of such notes. Under existing law, no revenues of the MTA from the operation of the tunnels or any other MTA facilities are or will be available for the payment of such notes. Although the MTA is authorized to issue bonds secured by tunnel revenues to pay the notes when due, there can be no assurance that the MTA will be able to issue such bonds in the absence of further legislation establishing a metropolitan highway system. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Overview of Capital Spending Process and Controls; *Five-Year Capital Spending Plan.*" The Commonwealth is authorized to issue general obligation bonds if necessary to pay the notes at maturity, with the MTA required to reimburse the Commonwealth if it is later able to issue bonds.

Indirect Obligations

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

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

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

As of February 1, 1996, multi-family obligations of the MHFA totaled approximately \$2.3 billion (of which approximately \$684 million were secured by capital reserve funds) and single-family obligations of the MHFA totaled approximately \$1.4 billion (of which approximately \$37 million were secured by capital reserve funds). As of such date the capital reserve funds were maintained at the required levels without Commonwealth appropriations and no payments from such funds have been necessary. Authorized but unissued amounts as of such date were approximately \$452 million for multi-family bonds and approximately \$343 million for single-family bonds.

HEFA Community Colleges Program Bonds. The Massachusetts Health and Educational Facilities Authority ("HEFA") issued, in January, 1992, \$17,390,000 of its Revenue Bonds, Community Colleges Program Issue, Series A (the "Community Colleges Bonds") in order to fund loans to two of the Commonwealth's community colleges. The primary security for the Community Colleges Bonds are fees, rents, rates and other charges to students and other users of the projects financed. As additional security for the Community Colleges Bonds, the Commonwealth, acting through the Higher Education Coordinating Council, entered into a Contract for Financial Assistance, Maintenance and Services with HEFA. Pursuant to this contract, the Council 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 the Council 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 the Council, and the credit of the Commonwealth is not pledged to the Community Colleges Bonds.

Plymouth County Certificates of Participation. In May, 1992, Plymouth County caused to be issued \$110,535,000 of certificates of participation (the "Plymouth COPs") to finance the construction of the 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 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 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 Memorandum of Agreement does not constitute a general obligation or a pledge of the credit of the Commonwealth.

City of Chelsea Commonwealth Lease Revenue Bonds. In November, 1993, the City of Chelsea, acting through its industrial development financing authority, issued \$95,750,000 aggregate principal amount of lease revenue bonds. The proceeds of the bonds were loaned to the Massachusetts Industrial Finance Agency ("MIFA") and applied to the cost of the Massachusetts Information Technology Center, a tax processing facility of the Department of Revenue and a data processing information system center for the Department and for certain other departments and agencies of the Commonwealth. The bonds bear interest at a variable rate, and MIFA entered into an interest rate swap agreement with respect to the full amount of the bonds pursuant to which MIFA will receive variable rate payments equal to the interest due on the bonds and be obligated to make fixed rate payments in exchange therefor. Simultaneously with the issuance of the bonds, the Commonwealth entered into a 30-year lease with MIFA which provides for the payment of debt service on the 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 credit of the Commonwealth and are subject to annual appropriation by the Legislature. The bonds are limited obligations of the city of Chelsea 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 2½. The members of these state and local retirement systems do not participate in the federal Social Security System.

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

The systems were originally established as "pay-as-you-go" systems, meaning that amounts were appropriated each year to pay current benefits, and no provision was made to fund currently the future liabilities already incurred. In fiscal 1978 the Commonwealth began to address the unfunded liabilities of the two state systems by making appropriations to pension reserves. Prior to the establishment of the pension funding program described below, the Commonwealth appropriated approximately \$680 million to the pension reserves during the mid-1980's, in addition to the pay-as-you-go pension costs during those years. As of December 31, 1994, the state's pension reserves, now administered by the Pension Reserves Investment Management Board, had grown to approximately \$4.925 billion. Under current law, the pension reserves receive moneys 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 of 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 updated every three years on the basis of new actuarial valuation reports prepared under the direction of the Secretary of Administration and Finance. The Secretary is also required to conduct experience investigations every six years.

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

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

Current Funding Schedule and Actuarial Valuations. The funding schedule currently in effect requires total payments by the Commonwealth over 34 years as shown in the following table (the schedule contemplates that the unfunded actuarial liability is eliminated at the beginning of fiscal year 2029).

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

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

SOURCE: Division of Public Employee Retirement Administration.

The current funding schedule is based on actuarial valuations of the state employees' and teachers' retirement systems and the State-Boston retirement system as of January 1, 1993 and on a review of selected local systems for purposes of determining cost of living allowance costs. The unfunded actuarial accrued liability, as of January 1, 1995, relative to the two state systems, to Boston teachers and to cost-of-living allowances for local systems, is reported in the most recent actuarial valuation performed by the Division of Public Employee Retirement Administration to be approximately \$6.421 billion, \$395.6 million and \$1.410 billion, respectively, for a total unfunded actuarial liability of \$8.227 billion. The valuation as of January 1, 1995 is based on actuarial assumptions including future investment earnings at the rate of 8.5% per year, annual salary increases at the rate of 6% and annual cost-of-living increases for pensioners at the rate of 3%. "Actuarial accrued liability," as used above, is the estimated present value of all benefits to be paid to existing pensioners and current employees less the present value of the future normal costs associated with such employees. The "unfunded" liability is the amount by which the actuarial accrued liability exceeded accumulated assets set aside therefor and represents the present value of the amount that would have to be contributed in the future in addition to normal costs in order for the liability to be fully funded.

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

Long-Term Operating Leases

In addition to Commonwealth-owned buildings and facilities, the Commonwealth leases additional space from private parties. In fiscal 1995, rental expenditures under these operating leases totalled approximately \$119.8 million. Minimum future rental expenditure commitments of the Commonwealth under operating leases in effect at June 30, 1995 are set forth below. These amounts represent expenditure commitments of both budgeted and non-budgeted funds.

**Operating Leases
June 30, 1995
(in thousands)**

<u>Fiscal Year</u>	<u>Operating Leases</u>
1996	\$101,241
1997	76,531
1998	64,979
1999	47,379
2000	35,422
2001 and thereafter	<u>21,654</u>
	<u>\$347,206</u>

SOURCE: Office of the Comptroller.

Long-Term Capital Leases and Certificates of Participation

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

Long-term total principal and interest obligations at June 30, 1995 related to capital leases and COPs are as follows:

**Capital Lease and COP Obligations
June 30, 1995
(in thousands)**

<u>Fiscal Year</u>	<u>Capital Leases</u>	<u>COPs</u>
1996	\$25,017	\$ 2,670
1997	20,838	2,671
1998	14,214	2,668
1999	11,015	2,671
2000	4,466	2,673
2001 and thereafter	<u>6,033</u>	--
	<u>\$81,583(1)</u>	<u>\$13,353(1)</u>

SOURCE: Office of the Comptroller.

(1) As of June 30, 1995, the principal amounts of these obligations were \$52,257,000 and \$10,935,000 for capital leases and COPs respectively.

Water Pollution Abatement Trust

The Massachusetts Water Pollution Abatement Trust (the "Trust") was created in 1989 as a public instrumentality of the Commonwealth to implement the Commonwealth's state revolving fund program under Title VI of the federal Clean Water Act. The Trust is authorized to apply for and accept federal grants and associated Commonwealth matching grants to capitalize the revolving fund and to issue debt obligations to fund loans to local governmental units to finance eligible water pollution abatement projects. To date, the Trust has received approximately \$416 million in federal grants and approximately \$83 million in Commonwealth matching grants to capitalize the fund. The Trust has also received additional Commonwealth grants of approximately \$21 million to capitalize a separate revolving fund program for projects which are not eligible under the Clean Water Act. The Trust's enabling legislation authorizes the State Treasurer to issue up to \$133.3 million of Commonwealth general obligation bonds to fund Commonwealth grants to the Trust to capitalize the revolving fund and to finance other costs of the revolving fund program.

Capitalization grants received by the Trust and held in the revolving fund may be applied by the Trust to fund reserves to secure debt obligations issued by the Trust to make loans to local governmental units to finance eligible projects or to directly fund such loans. Obligations issued by the Trust are not a debt of the Commonwealth or any political subdivision thereof but are payable solely from revenues of the Trust including loan repayments payable by loan recipients, investment income from reserves and other moneys of the Trust and, for certain loans, contract assistance payments from the Commonwealth as described below. As of December 31, 1995, the Trust had approximately \$521.6 million of bonds outstanding for such

purposes. At such date, approximately \$135.3 million of direct loans from the Trust to local governmental units were also outstanding, of which approximately \$123.8 million were direct loans to the city of New Bedford which are expected to be refinanced from the proceeds of bonds to be issued during fiscal 1996.

Under the enabling legislation creating the Trust, each loan made by the Trust is required to provide for debt service subsidies or other financial assistance sufficient to result in the loan being the financial equivalent of a grant to the borrower of between 25% and 90% of the eligible cost of the financed project. Financial assistance sufficient to result in a 25% grant equivalency (or approximately 50% in the case of eligible direct loans) is provided either through the application of investment earnings on Trust reserves or through a fixed below-market interest rate on the loan. To date, financial assistance in excess of 25% (or 50% in the case of direct loans) has been provided through the application of contract assistance payments from the Commonwealth. The Trust's enabling legislation directs the State Treasurer to enter into contract assistance agreements with the Trust for such purpose providing for annual contract assistance payments to the Trust of up to \$26 million in the aggregate in each fiscal year through fiscal year 2025. The contract assistance agreements and the Trust's right to receive payments thereunder may be pledged by the Trust as security for repayment of the Trust's debt obligations.

On February 12, 1996, the Governor approved legislation creating a loan program to assist homeowners in complying with the revised state environmental code for subsurface disposal of sanitary waste, known as Title V. The bill contains a capital appropriation of \$25 million (to be funded by the issuance of Commonwealth general obligation bonds) for loans for improvements of septic systems by homeowners and further provides that such moneys may be allocated by the Department of Environmental Protection to the state revolving fund administered by the Trust for the implementation of a loan program.

One of the four purposes for which moneys in the Cost Relief Fund may be appropriated by the Legislature is to subsidize the costs of water pollution abatement projects financed by the Trust (up to \$8 million per fiscal year). A portion of the fiscal 1995 year-end surplus, amounting to \$11.1 million as determined by the Comptroller, has been credited to the Cost Relief Fund. See "FINANCIAL RESULTS -- Fiscal Years 1991 through 1995; 1995 Fiscal Year."

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 July 1, 1995.

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>
1996	\$175,156	2006	139,089
1997	189,576	2007	134,885
1998	177,851	2008	129,873
1999	169,752	2009	123,361
2000	166,019	2010	115,234
2001	162,211	2011	99,545
2002	158,314	2012	76,704
2003	155,919	2013	64,209
2004	150,294	2014	48,832
2005	145,149	2015	34,056
		Total	<u>\$2,616,029</u>

SOURCE: Department of Education, School Facilities Service Bureau.

Unemployment Compensation Trust Fund

The assets and liabilities of the Commonwealth Unemployment Compensation Trust Fund are not assets and liabilities of the Commonwealth. As of December 31, 1995, the Massachusetts Unemployment Trust Fund had a surplus of \$514 million. The Department of Employment and Training's January, 1996 quarterly report indicated that the contributions provided by current law should result in a private contributory account balance of \$704 million in the Unemployment Compensation Trust Fund by December, 1996 and rebuild reserves in the system to \$1.593 billion by the end of 2000. See Exhibit A, "Economic Information," under the heading "Employment --Unemployment."

INVESTMENT POLICIES

For information with respect to the investment of Commonwealth funds, see note 4 to the fiscal 1995 statutory basis financial statements attached as Exhibit B and Note 3 to the fiscal 1995 GAAP basis financial statements attached as Exhibit C.

LITIGATION

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

Commonwealth Programs and Services. From time to time actions are brought against the Commonwealth by the recipients of governmental services, particularly recipients of human services benefits, seeking expanded levels of services and benefits and by the providers of such services challenging the Commonwealth's reimbursement rates and methodologies. To the extent that such actions result in judgments requiring the Commonwealth to provide expanded services or benefits or pay increased rates, additional operating and capital expenditures might be needed to implement such judgments. In June, 1993, in an action challenging the Commonwealth's funding of public primary and secondary education systems on both federal and state constitutional grounds, *Webby v. Dukakis* (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 was not at that time fulfilling this constitutional duty. However, the court also ruled that no then-present statutory enactment was to be declared unconstitutional. The court further ruled that the Legislature and the Governor were to determine the necessary response to satisfy the Commonwealth's constitutional duty, although a single justice of the court could retain jurisdiction to determine whether, within a reasonable time, appropriate legislative action had been taken. Comprehensive education reform legislation was approved by the Legislature and the Governor later in June, 1993. See "COMMONWEALTH PROGRAMS AND SERVICES -- Local Aid; *Commonwealth Financial Support for Local Governments.*" On May 10, 1995, the plaintiffs filed a motion for further relief, arguing that the 1993 legislation did not provide sufficiently for public education and that its timetable was too slow. It cannot be determined at this time what further action, if any, the plaintiffs in *McDuffy* may take or whether the court will order any further relief.

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 District Court issued orders in October, 1986 leading to termination of active judicial supervision. On May 25, 1993, the District Court entered a final order vacating and replacing all consent decrees and court orders. In their place, the final order requires lifelong provisions for individualized services to class members and contains requirements regarding staffing, maintenance of effort (including funding) and other matters.

In *Hodge v. Gallant* (Suffolk Superior Court No. 93-0290G), plaintiffs allege that the Division of Medical Assistance has unlawfully denied personal care attendant services to certain disabled Medicaid recipients. The Superior Court denied plaintiffs' motions for a preliminary injunction and class certification. If plaintiffs were to prevail on their claims and the Commonwealth were required to provide all of the services sought by plaintiffs to all similarly situated persons, a substantial increase in the annual cost to the Commonwealth of these services might eventually be required. The Division of Medical Assistance currently estimates this increase to be as much as \$200 million per year. In September, 1995, the parties argued cross motions for summary judgment, which are now under advisement.

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 MWRA, successor in liability to the Metropolitan District Commission, has assumed primary responsibility for developing and implementing a court-approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. The MWRA did not meet the July, 1994 court-ordered date for start-up of the first two primary treatment batteries and related facilities, although testing of the major portion of the new facilities has since been substantially completed and the MWRA has begun to introduce flow into the new plant. The MWRA has also experienced significant delays on its two related tunnel projects, due to a number of factors. The MWRA did not meet the December, 1994 court-ordered date for completion of the inter-island tunnel and did not meet the July, 1995 date for completion of the outfall tunnel. The MWRA has, however, made significant progress towards completion of both the inter-island tunnel and the outfall tunnel in recent months. The MWRA has kept the court apprised of the delays and other aspects of the project through regular court reports. The court has previously recognized some of the problems encountered by the MWRA due to the uncertainties inherent 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 \$3.562 billion in current dollars, with approximately \$840 million to be spent after December 31, 1995. 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. On October 18, 1995, the court entered an order which reduced the MWRA's obligation to build certain additional secondary treatment facilities. The MWRA estimates that this order will save ratepayers approximately \$165 million.

Taxes and Other Revenues. In *Massachusetts Wholesalers of Malt Beverages v. Commonwealth* (Suffolk Superior Court No. 90-1523), associations of bottlers have challenged 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 \$120 million total), plus certain amounts in deposit transaction funds and claimed interest. In March, 1993, the Supreme Judicial Court upheld the amendments except for the initial funding requirement, which the Court held severable. In August 1994, the Superior Court ruled that the Commonwealth is liable for certain amounts (plus interest) as a result of the Supreme Judicial Court's decision. The actual amount will be determined in further proceedings.

In addition, there are several tax cases pending which could result in significant refunds if taxpayers prevail. It is the policy of the Attorney General and the Commissioner of Revenue to defend such actions vigorously on behalf of the Commonwealth, and the descriptions that follow are not intended to imply that the Commissioner has conceded any liability whatsoever.

In *Commissioner of Revenue v. BayBank Middlesex* (Supreme Judicial Court No. 6683), the Commonwealth has appealed an April, 1994 decision of the Appellate Tax Board which granted abatements to 12 Massachusetts banks in 102 consolidated appeals for tax years from 1984 to 1990. The Appellate Tax Board decision held that the measure of the bank excise tax did not include amounts paid by the banks in excess of face value to acquire federally exempt bonds. The Commissioner of Revenue contends that these payments do not qualify for any deductions allowable under the Internal Revenue Code and, accordingly, cannot be deducted from gross income subject to the bank excise. On January 24, 1996, the Supreme Judicial Court affirmed the decision of the Appellate Tax Board. The potential liability is approximately \$55 million, including similarly situated banks and tax years after 1990.

Approximately \$70 million in taxes and interest in the aggregate are at issue in several other cases pending before the Appellate Tax Board or on appeal to the Appeals Court or the Supreme Judicial Court.

On March 22, 1995, the Supreme Judicial Court issued its opinion in *Perini Corporation v. Commissioner of Revenue* (Supreme Judicial Court No. 6657). The court held that certain deductions from the net worth measure of the Massachusetts corporate excise tax violate the Commerce Clause of the United States Constitution. The court remanded the case for entry of a declaration and further proceedings, if necessary, to determine other appropriate remedies. On October 2, 1995, the United States Supreme Court denied the Commonwealth's petition for a writ of certiorari. The Department of Revenue estimates that tax revenues in the amount of \$40 million to \$55 million may be abated as a result of the Supreme Judicial Court's decision.

Eminent Domain. In *Spaulding Rehabilitation Hospital Corporation v. Massachusetts Highway Department, et al.* (Suffolk Superior Court. No. 95-4360C), the Spaulding Rehabilitation Hospital ("Spaulding") filed an action to enforce an agreement to acquire its property by eminent domain, in connection with the Central Artery/Third Harbor Tunnel project. If Spaulding is successful, it could recover the fair market value of its property in addition to its relocation costs with respect to its personal property. It is estimated that the Commonwealth's potential liability is approximately \$50 million.

In *The McCourt Co., Inc. v. Commonwealth* (Suffolk Superior Court No. 94-2032), the Commonwealth faces an additional potential liability of approximately \$40 million in connection with a taking by the Massachusetts Highway Department related to the relocation of Northern Avenue in South Boston.

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

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.

On behalf of the Commonwealth, the State Treasurer will provide to each nationally recognized municipal securities information repository within the meaning of Rule 15c2-12 of the Securities and Exchange Commission, no later than 270 days after the end of each fiscal year of the Commonwealth, commencing with the fiscal year ending June 30, 1996, certain financial

information and operating data relating to such fiscal year, as provided in said Rule 15c2-12, together with audited financial statements of the Commonwealth for such fiscal year.

AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding this Information Statement or requests for additional information concerning the Commonwealth should be directed to Kenneth Olshansky, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th Floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or Lowell Richards, Assistant Secretary for Capital Resources, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to this Information Statement should be directed to John R. Regier or Navjeet K. Bal, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, MA 02111, telephone (617) 542-6000.

THE COMMONWEALTH OF MASSACHUSETTS

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

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

February 16, 1996

T3/599663.1

ECONOMIC INFORMATION

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

All information is presented on a calendar-year basis unless otherwise indicated. **Information is current as of June 27, 1996.** Sources of information are indicated in the text or immediately following the charts and tables. Although the Commonwealth considers the sources to be reliable, the Commonwealth has made no independent verification of the information presented herein and does not warrant its accuracy. →

OVERVIEW

Population Characteristics. Massachusetts experienced modest population increases between 1980 and 1990. The 1990 United States census count for Massachusetts was 6,016,425 or 4.9 percent more than the 5,737,093 counted in 1980. While the Massachusetts population did not increase significantly between 1989 and 1993, it increased by 0.9 percent between 1993 and 1995. Bureau of the Census estimates for 1995 show the Massachusetts population to be 6,073,550. In contrast, the total United States population increased by approximately 9.8 percent between 1980 and 1990, 3.6 percent between 1990 and 1993, and 1.9 percent between 1993 and 1995. According to the 1990 United States census, the City of Boston experienced a small population increase of 2.0 percent from 562,994 in 1980 to 574,283 in 1990. The Boston-Washington corridor, which includes the states of Connecticut, Delaware, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, Rhode Island, and Virginia, was home to sixty million people in 1992, nearly one quarter of the entire United States population of 255 million.

Personal Income, Consumer Prices, and Poverty. Per capita personal income levels in Massachusetts have been consistently higher than those in the United States since 1970. While the growth in per capita income has slowed and real income levels have even declined in Massachusetts since 1988 (even as real income levels in the United States continued to grow), real income levels in Massachusetts in 1994 remained well above the national average: \$25,609 compared to \$21,699. The growth in levels of average annual pay in Massachusetts has been striking over the last ten years: since 1984, when levels of pay in Massachusetts were roughly equal to those in the United States, pay has grown at a rate two to three percentage points higher than that of the United States. As a result, preliminary data for 1994 show that the average level of pay in Massachusetts was \$31,024 while that in the United States was \$26,939. In addition to high income levels, Massachusetts has maintained a poverty rate well below the national average. In 1994, 9.7 percent of the Massachusetts population was below the poverty line, while 14.5 percent of the population of the United States fell below the poverty line. Between May 1995 and May 1996, the Consumer Price Index for the Boston Metropolitan area grew at a rate of 2.6 percent, compared to a 2.9 percent increase in the United States over the same period.

Employment. Total employment levels in Massachusetts, which declined between 1989 and 1992, grew at a rate of 1.6 percent in 1993, 2.2 percent in 1994, and 2.4 percent in 1995. The only employment sector which did not grow in those years was the manufacturing sector, which has experienced declining

employment levels since 1985. The sector employing the greatest number of people in Massachusetts continues to be the services sector, which contributed approximately 34.9 percent of total seasonally adjusted non-agricultural employment in 1995. The unemployment rate in Massachusetts, which was below that of the United States between 1979 and 1989, was higher than the national average between 1990 and 1992. Since 1993, however, the unemployment rate in Massachusetts has been at or below the national average. In April 1996, the unemployment rate in Massachusetts was lower than that of the United States: 4.9 percent compared to 5.4 percent. The Unemployment Compensation Trust Fund in Massachusetts contained a positive balance of \$498 million on April 30, 1996 and is expected to contain a balance of \$1.347 billion by December 31, 2000.

Economic Base and Performance. Massachusetts has a diversified economic base which includes traditional manufacturing, high technology, and service industries. A substantial portion of products produced by these and other sectors is exported. Massachusetts ranked twelfth in the United States with nearly \$15.1 billion in international exports in 1995. Like most other industrial states, Massachusetts has seen a shift in employment from labor-intensive manufacturing industries (e.g., textiles, apparel, shoes, paper products) to technology and service-based industries like computers, biomedical technology, consulting, health care and business services.

The recession of the late 1980s and early 1990s reversed the good fortunes of the construction industry in the mid-1980s. The industry is recovering in the 1990s, however. Housing permits issued in Massachusetts increased by 30.3 percent in 1992, 9.3 percent in 1993, and 2.9 percent in 1994. However, the number of housing permits declined 11.8 percent in 1995. Existing home sales in Massachusetts declined 2.2 percent in 1995 compared to a national decline of 3.4 percent. Relative housing prices in Boston continue to outpace those of the rest of the nation. In 1983, the price for a single family home in the Boston Metropolitan area was 18 percent higher than the national average; by 1995, home prices were 58.6 percent higher than the national average.

The travel and tourism industry represents a significant component of the overall Massachusetts economy. The Massachusetts Office of Travel and Tourism estimates that a total of 27.4 million people visited the Commonwealth in 1994. In 1993, visitors to Massachusetts spent \$8.71 billion.

Human Resources and Infrastructure. Skilled human capital is the foundation of Massachusetts' economic strength. It provides the basis for a technologically dynamic and industrially diverse regional economy. The Massachusetts population is well-educated relative to the United States population, with 32.8 percent of Massachusetts residents over the age of 25 having received Bachelor's degrees, compared to 23.0 percent of the United States population. In addition, per pupil spending on public primary and secondary education in Massachusetts has been significantly higher than the national average since 1980. In fiscal year 1994, Massachusetts spent 21 percent more per pupil than the national average.

The concentration of technical, engineering, managerial, scientific, and other professional skills within the Massachusetts work force is, in part, due to the 120 private and public colleges and universities located throughout the state. The largest and best known of these institutions include Amherst College, Boston College, Boston University, Clark University, Harvard University, Holy Cross College, Massachusetts Institute of Technology, Mount Holyoke College, Northeastern University, Smith College, Tufts University, the University of Massachusetts, Wellesley College, and Williams College.

Massachusetts is also home to many of the nation's most well-known hospitals and medical institutions, including Massachusetts General, Children's, Beth Israel, and Brigham and Women's Hospitals and the Lahey Clinic. The Massachusetts medical establishment is recognized internationally as a center for

health services, medical teaching, and research, attracting patients and health professionals from all over the world.

Massachusetts possesses an extensive transportation system and related facilities. The City of Boston is the transportation and commercial center for New England and is the site of both a full-facility seaport and a major international airport. Boston's Logan International Airport is a major contributor to the economy of the greater Boston area, Massachusetts, and the New England region. Based upon the volume of air passengers served, in 1994 Logan Airport ranked first in New England, thirteenth in the United States, and twentieth in the world according to the Massachusetts Port Authority ("Massport"). In 1994, Logan Airport served slightly more than 25.2 million arriving and departing passengers, more than double the number served in 1975. For the same period, Logan Airport ranked seventeenth nationally and twenty-eighth in the world in total air cargo volume, handling nearly 778.3 million pounds of total cargo. Massachusetts also has several deep-water seaports. The Port of Boston handled more than 16 million tons of cargo in 1992 valued at more than \$7.3 billion. The state is also well served by the federal interstate highway system, including interstate routes 84, 90, 91, 93, 95, 295 and 495.

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

POPULATION CHARACTERISTICS

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

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

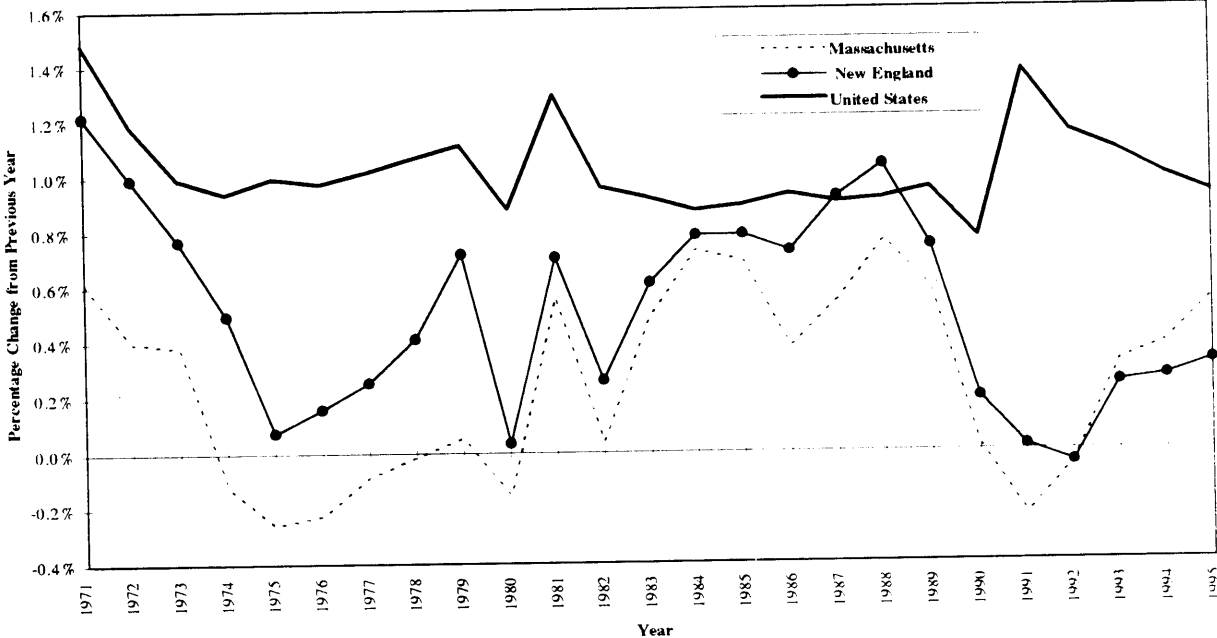
Worcester is the second largest city in New England, though its MSA, extending into Connecticut, is slightly smaller than Springfield's MSA. Its service, trade, and manufacturing industries combine for more than 70 percent of Worcester's total employment. As a major medical and educational center, the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

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

As the following chart indicates, the percentage change in population in Massachusetts since 1971 has been both lower and more erratic than the change in population for the United States as a whole. While

this trend is similar to that experienced by New England, it differs considerably from the steady growth rates for the United States over the same period of time. Between 1990 and 1992, the rate of population growth in Massachusetts was zero or negative. Between 1993 and 1995, however, the population of Massachusetts grew by 0.9 percent, compared to a 1.0 percent increase for the United States.

Percentage Change in Total Population, 1971-1995



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

Population, 1970-1995
(in thousands)

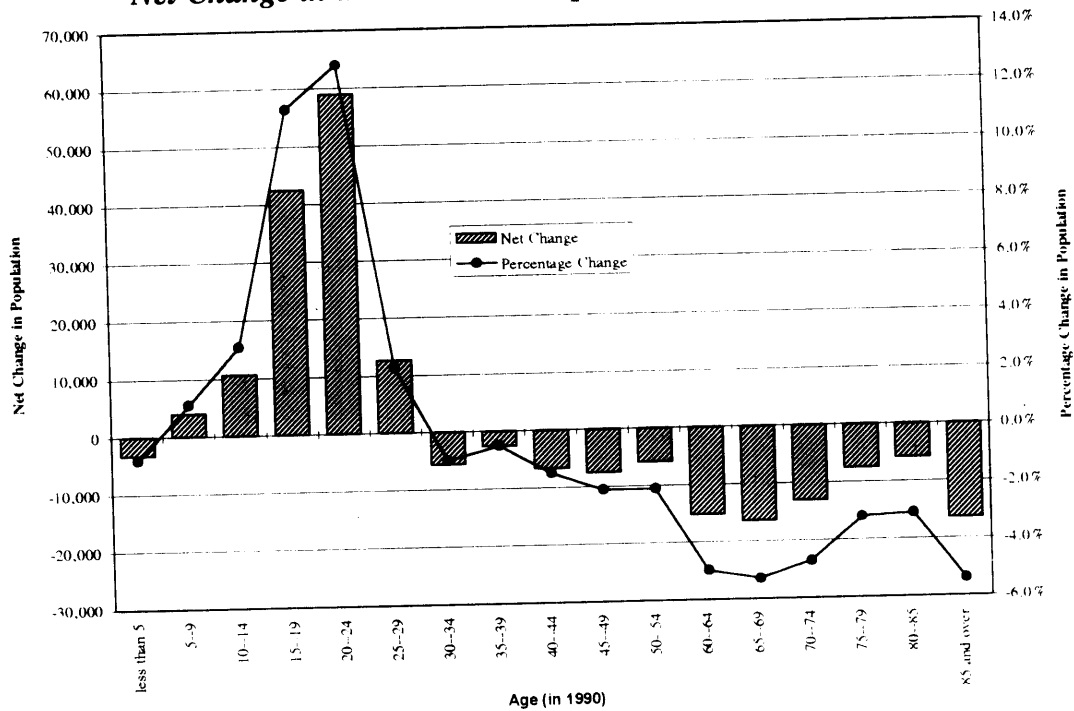
Year	Massachusetts		New England		United States	
	Total	Percentage Change	Total	Percentage Change	Total	Percentage Change
1970	5,704		11,735		203,799	
1971	5,739	0.6%	11,878	1.2%	206,818	1.5%
1972	5,762	0.4%	11,996	1.0%	209,275	1.2%
1973	5,784	0.4%	12,088	0.8%	211,349	1.0%
1974	5,777	-0.1%	12,148	0.5%	213,334	0.9%
1975	5,762	-0.3%	12,157	0.1%	215,457	1.0%
1976	5,749	-0.2%	12,176	0.2%	217,554	1.0%
1977	5,744	-0.1%	12,207	0.3%	219,761	1.0%
1978	5,743	0.0%	12,257	0.4%	222,098	1.1%
1979	5,746	0.1%	12,345	0.7%	224,564	1.1%
1980	5,737	-0.2%	12,349	0.0%	226,542	0.9%
1981	5,769	0.6%	12,436	0.7%	229,466	1.3%
1982	5,771	0.0%	12,468	0.3%	231,664	1.0%
1983	5,799	0.5%	12,544	0.6%	233,792	0.9%
1984	5,841	0.7%	12,642	0.8%	235,825	0.9%
1985	5,881	0.7%	12,741	0.8%	237,924	0.9%
1986	5,903	0.4%	12,833	0.7%	240,133	0.9%
1987	5,935	0.5%	12,951	0.9%	242,289	0.9%
1988	5,980	0.8%	13,085	1.0%	244,499	0.9%
1989	6,015	0.6%	13,182	0.7%	246,819	0.9%
1990	6,016	0.0%	13,207	0.2%	248,718	0.8%
1991	6,002	-0.2%	13,209	0.0%	252,131	1.4%
1992	5,999	0.0%	13,203	0.0%	255,028	1.1%
1993	6,018	0.3%	13,235	0.2%	257,783	1.1%
1994	6,041	0.4%	13,270	0.3%	260,341	1.0%
1995	6,074	0.5%	13,312	0.3%	262,755	0.9%

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

Note: 1970, 1980, and 1990 estimates are as of April 1; estimates for other years are as of July 1.

Net migration has not significantly contributed to changes in the Commonwealth's total population during the last decade, although preliminary evidence suggests that out-migration increased during the Commonwealth's recent economic downturn. However, net migration has reduced the age profile of the Massachusetts population. Between 1980 and 1990, considerable increases in the population of younger age groups (10 years to 30 years) coincided with smaller decreases in the population of all age groups representing people over thirty. The following chart shows the net change in Massachusetts population between 1980 and 1990, by five year classifications of ages. Between 1980 and 1990, Massachusetts lost more citizens over age 30 through migration than it gained. But in-migration of younger people, particularly in the college age and young adult groups, offset the number of older citizens moving away. This chart shows the difference between the number in each age group that would have been expected in 1990 (if there had been no migration) and the actual 1990 census count. For children younger than ten, the difference is between the number of surviving children (births minus deaths) and the 1990 census count.

Net Change in Massachusetts Population by Age, 1980-1990



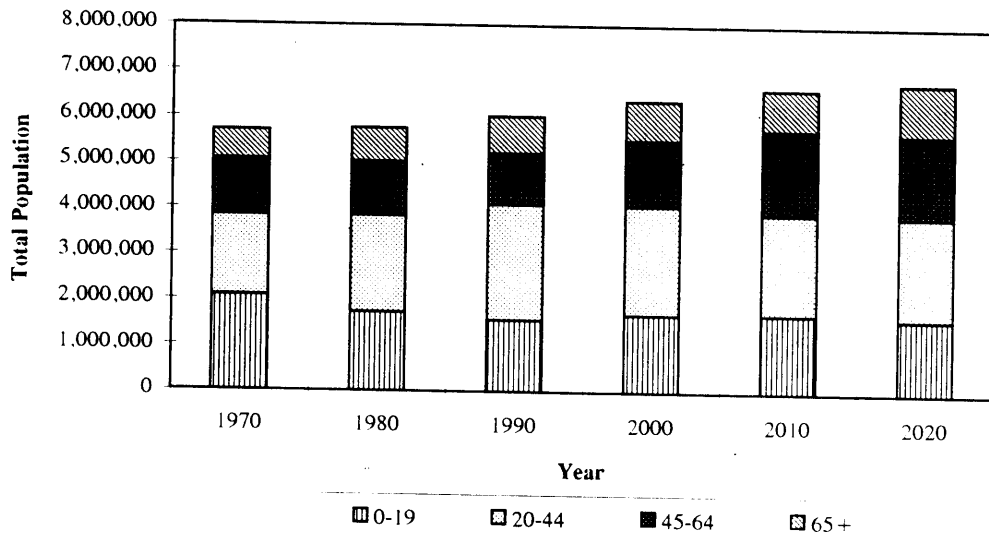
The next fifteen years are expected to bring about a considerable change in the age distribution of the Massachusetts population. As the following table and chart show, the population of Massachusetts is expected to be distributed more heavily in the 45 and over age groups in 2010 and in 2020 than it was in 1990. They also reveal a noticeable increase in the 65 and over age group while the percentage of people between the ages of 20 and 44 is expected to decline. The chart and table show the distribution of population by age for Massachusetts since 1970 and the projected distribution of population by age in 2000, 2010, and 2020.

Actual and Projected Massachusetts Population By Age Group, 1970-2020

<i>Year</i>	<i>0-19</i>	<i>20-44</i>	<i>45-64</i>	<i>65+</i>	<i>Total</i>
1970	2,082,379	1,758,934	1,211,672	636,185	5,689,170
1980	1,721,520	2,115,772	1,173,214	726,531	5,737,037
1990	1,561,017	2,530,382	1,110,013	814,904	6,016,316
2000	1,690,256	2,389,489	1,427,980	860,692	6,368,417
2010	1,708,019	2,196,699	1,834,896	892,394	6,632,008
2020	1,626,953	2,238,608	1,796,518	1,124,457	6,786,536

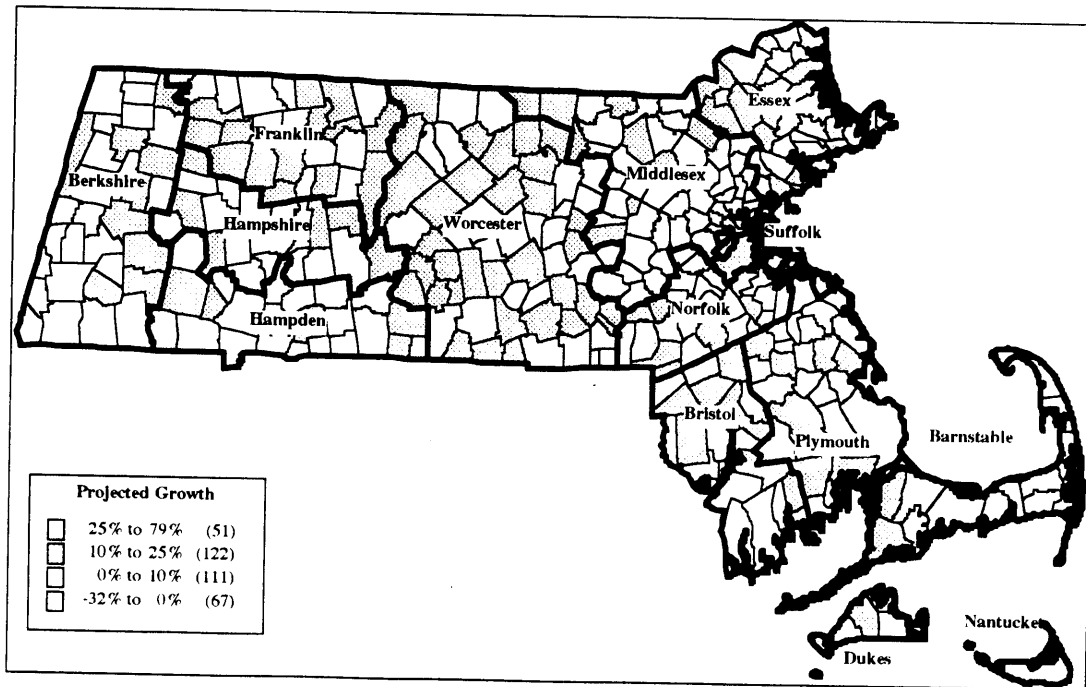
SOURCES: United States Department of Commerce, Bureau of the Census; MISER, unpublished projections.

Actual and Projected Massachusetts Population By Age Group, 1970-2020



The following map displays projections for population growth between 1990 and 2010 in the towns of each county of Massachusetts. This map was prepared in 1995 and shows a particularly high level of projected population growth for the towns in Nantucket, Plymouth, and Worcester counties.

Projected Population Growth By Town, 1990-2010

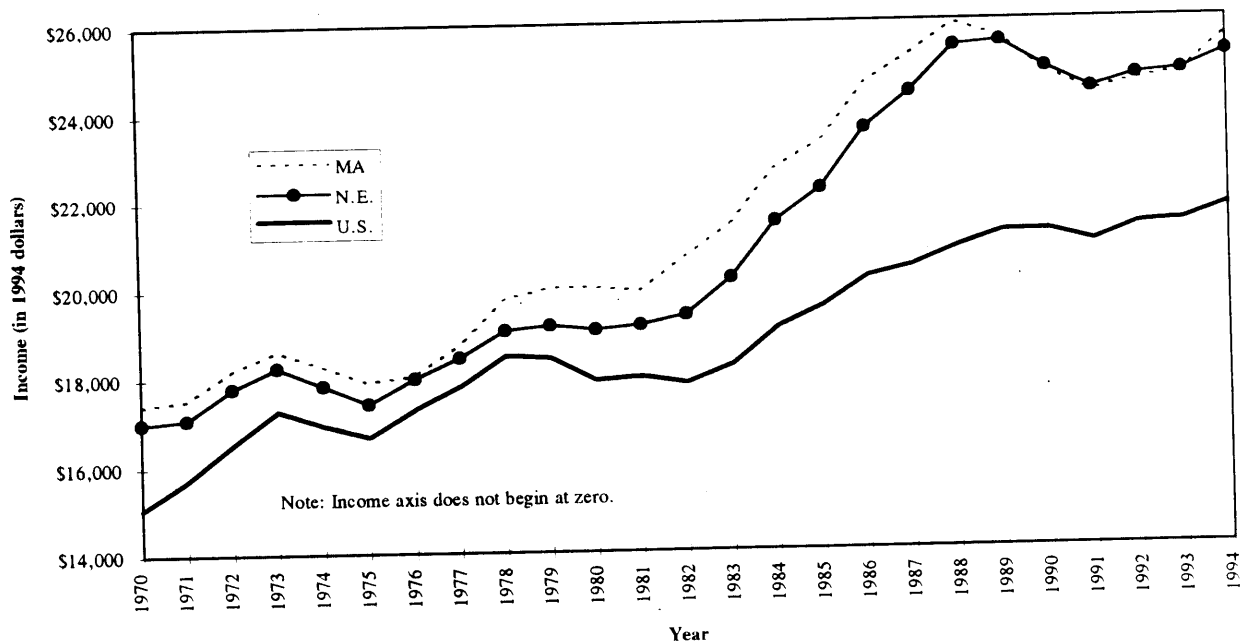


Source: United States Department of Commerce, Bureau of the Census.

PERSONAL INCOME, CONSUMER PRICES, AND POVERTY

Personal Income. Since 1970, real and nominal per capita income levels have been consistently higher in Massachusetts than in the United States. Between 1982 and 1988, real income levels in Massachusetts grew at an annual rate higher than that for the United States. But, since 1989, the growth in real income levels in Massachusetts has slowed to a rate below that for real income levels in the United States. In fact, between 1989 and 1991, real per capita income levels in Massachusetts actually declined. In 1994, however, real per capita income in Massachusetts jumped by 3.6 percent, the largest increase since 1986. Although in nominal terms the Massachusetts per capita personal income is the highest on record, in real terms it remains \$316 below the 1988 peak of \$25,925. In contrast, real income levels in the United States have grown at a positive rate in ten of the eleven years since 1983 and were higher in 1994 than at any time in the previous twenty-three years. Nevertheless, per capita income in Massachusetts remained considerably higher than that in the United States in 1994: \$25,609 versus \$21,699. In addition, per capita personal income in Massachusetts was fourth highest among the fifty states in 1994. The following chart illustrates real per capita personal income in Massachusetts, New England, and the United States since 1970.

Per Capita Personal Income, 1970-1994
(in constant 1994 dollars)



The following table compares per capita personal income in Massachusetts, New England, and the United States for the period 1970-1994.

Per Capita Personal Income, 1970-1994

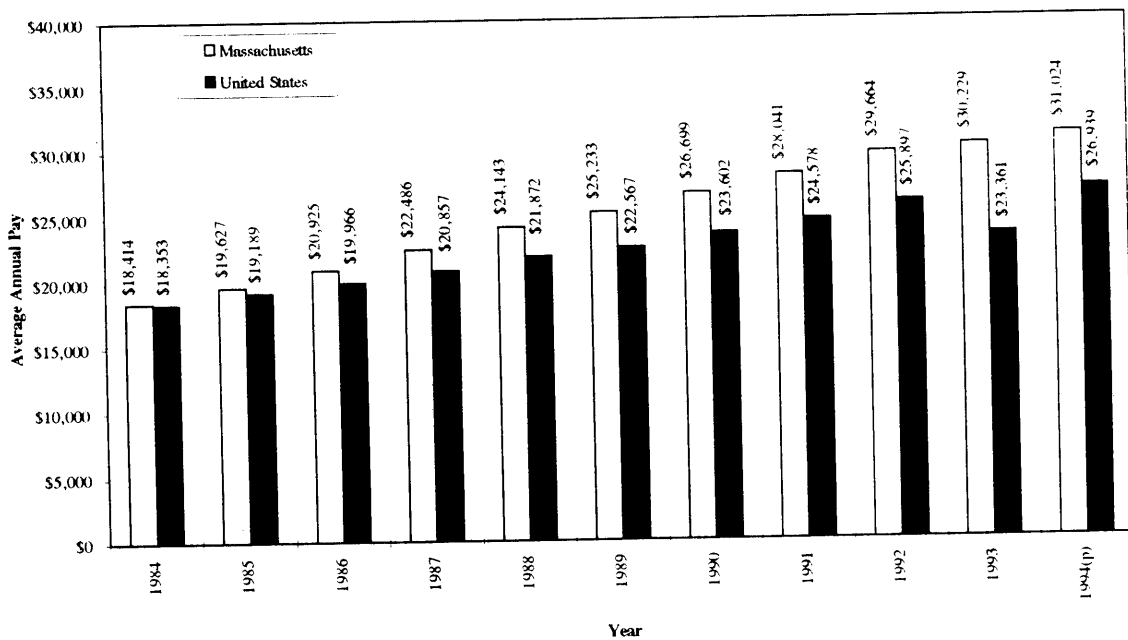
Year	Nominal Income (in current dollars)			Real Income (in 1994 dollars)			Percentage Change in Real Income		
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.
1970	\$4,515	\$4,445	\$4,047	\$17,397	\$16,978	\$15,072			
1971	4,771	4,665	4,294	17,513	17,070	15,713	0.7%	0.5%	4.3%
1972	5,130	5,013	4,659	18,184	17,773	16,518	3.8%	4.1%	5.1%
1973	5,564	5,466	5,168	18,615	18,245	17,250	2.4%	2.7%	4.4%
1974	6,033	5,927	5,628	18,252	17,817	16,918	-1.9%	-2.3%	-1.9%
1975	6,445	6,314	6,045	17,891	17,393	16,652	-2.0%	-2.4%	-1.6%
1976	6,988	6,902	6,629	18,041	17,977	17,266	0.8%	3.4%	3.7%
1977	7,620	7,537	7,267	18,706	18,432	17,772	3.7%	2.5%	2.9%
1978	8,466	8,380	8,117	19,750	19,048	18,450	5.6%	3.3%	3.8%
1979	9,448	9,374	9,017	19,993	19,135	18,407	1.2%	0.5%	-0.2%
1980	10,659	10,582	9,940	19,989	19,032	17,878	0.0%	-0.5%	-2.9%
1981	11,805	11,729	11,009	19,919	19,123	17,949	-0.3%	0.5%	0.4%
1982	12,750	12,604	11,583	20,680	19,357	17,789	3.8%	1.2%	-0.9%
1983	13,776	13,558	12,223	21,382	20,174	18,187	3.4%	4.2%	2.2%
1984	15,326	15,034	13,332	22,674	21,444	19,016	6.0%	6.3%	4.6%
1985	16,423	16,113	14,155	23,253	22,193	19,496	2.6%	3.5%	2.5%
1986	17,796	17,418	14,906	24,569	23,552	20,156	5.7%	6.1%	3.4%
1987	19,066	18,670	15,638	25,221	24,356	20,401	2.7%	3.4%	1.2%
1988	20,787	20,276	16,610	25,925	25,401	20,808	2.8%	4.3%	2.0%
1989	21,688	21,325	17,690	25,586	25,487	21,142	-1.3%	0.3%	1.6%
1990	22,247	21,934	18,655	24,810	24,871	21,153	-3.0%	-2.4%	0.0%
1991	22,764	22,424	19,201	24,318	24,400	20,893	-2.0%	-1.9%	-1.2%
1992	23,572	23,367	20,148	24,571	24,683	21,282	1.0%	1.2%	1.9%
1993	24,411	24,149	20,809	24,730	24,767	21,342	0.6%	0.3%	0.3%
1994	25,609	25,203	21,699	25,609	25,203	21,699	3.6%	1.8%	1.7%

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

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

Annual pay in nominal dollars has grown steadily in Massachusetts over the past ten years. Average annual pay is computed by dividing the total annual payroll of employees covered by Unemployment Insurance programs by the average monthly number of employees. Data are reported by employers covered under the Unemployment Insurance programs. While levels of annual pay were nearly equal in Massachusetts and the United States in 1984, the rate of growth in annual pay has been consistently higher in Massachusetts than in the United States in the last nine years. As a result, preliminary estimates show that the level of annual pay in Massachusetts in 1994 was fifteen percent higher than the national average: \$31,024 compared to \$26,939. The percentage change in average annual pay in Massachusetts has been consistent since 1984 at between 5 and 7 percent until the 1993 figure showing a 1.9 percent increase. The following chart shows the levels of average annual pay in Massachusetts and the United States since 1984.

Average Annual Pay, 1984-1994
(in current dollars)



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

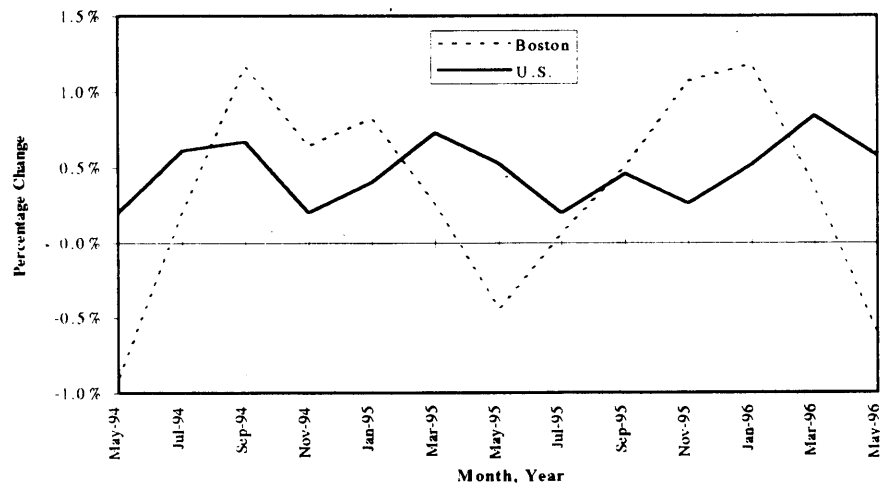
Consumer Prices. Higher income levels in Massachusetts relative to the rest of the United States are offset to some extent by the higher cost of living in Massachusetts. The following table presents consumer price trends for the Boston metropolitan area and the United States for the period between 1970 and May 1996. Data for each year indicate the Consumer Price Index for all urban consumers (CPI-U) and the percentage change in the Consumer Price Index for all urban consumers from the previous year. In 1995, the CPI-U for Boston increased 2.4 percent compared to an increase of 2.8 percent for the United States as a whole. The latest available data for May 1996 show that the CPI-U for the Boston metropolitan area grew at a rate of 2.6 percent from May 1995; in the United States, growth for the comparable period was 2.9 percent.

Consumer Price Index for all Urban Customers (CPI-U), 1970-1995
(1982-1984=100)

Year	CPI-U Pct. Change		CPI-U Pct. Change	
	Boston	Boston	U.S.	U.S.
1970	40.2		39.0	
1971	42.2	5.0%	40.7	4.4%
1972	43.7	3.6%	42.1	3.4%
1973	46.3	5.9%	44.7	6.2%
1974	51.2	10.6%	49.6	11.0%
1975	55.8	9.0%	54.1	9.1%
1976	60.0	7.5%	57.2	5.7%
1977	63.1	5.2%	60.9	6.5%
1978	66.4	5.2%	65.6	7.7%
1979	73.2	10.2%	73.1	11.4%
1980	82.6	12.8%	82.9	13.4%
1981	91.8	11.1%	91.4	10.3%
1982	95.5	4.0%	96.9	6.0%
1983	99.8	4.5%	99.8	3.0%
1984	104.7	4.9%	103.3	3.5%
1985	109.4	4.5%	106.9	3.5%
1986	112.2	2.6%	108.6	1.6%
1987	117.1	4.4%	112.5	3.6%
1988	124.2	6.1%	117.0	4.0%
1989	131.3	5.7%	122.6	4.8%
1990	138.9	5.8%	129.0	5.2%
1991	145.0	4.4%	134.3	4.1%
1992	148.6	2.5%	138.2	2.9%
1993	152.9	2.9%	142.1	2.8%
1994	154.9	1.3%	145.6	2.5%
1995	158.6	2.4%	152.4	2.8%
May-95	157.7		152.2	
May-96	161.8	2.6%	156.6	2.9%

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

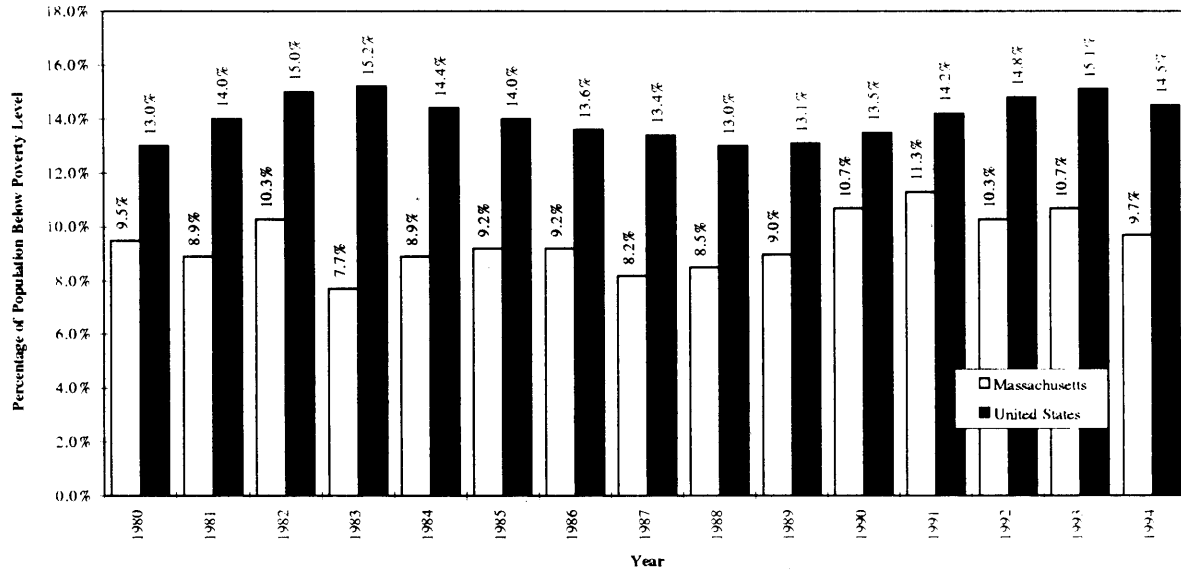
Bi-Monthly Percentage Change in Consumer Price Index for all Urban Customers, May 1994-May 1996



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

Poverty. The Massachusetts poverty rate is significantly below the national average. Since 1980, the percentage of the Massachusetts population below the poverty line has varied between 7.7 percent and 11.3 percent. During the same time, the national poverty rate varied between 13.0 percent and 15.2 percent. In 1994, the poverty rate in Massachusetts was 9.7 percent while the poverty rate in the United States was 14.5 percent. Since 1980, the ratio of the Massachusetts rate of poverty to the United States rate of poverty has varied from a low of 0.51 in 1983 to a high of 0.80 in 1991; the ratio in 1994 was 0.67. These official poverty statistics are not adjusted for regional differences in the cost of living. The following chart illustrates the lower poverty rates in Massachusetts compared with the national average from 1980 through 1994.

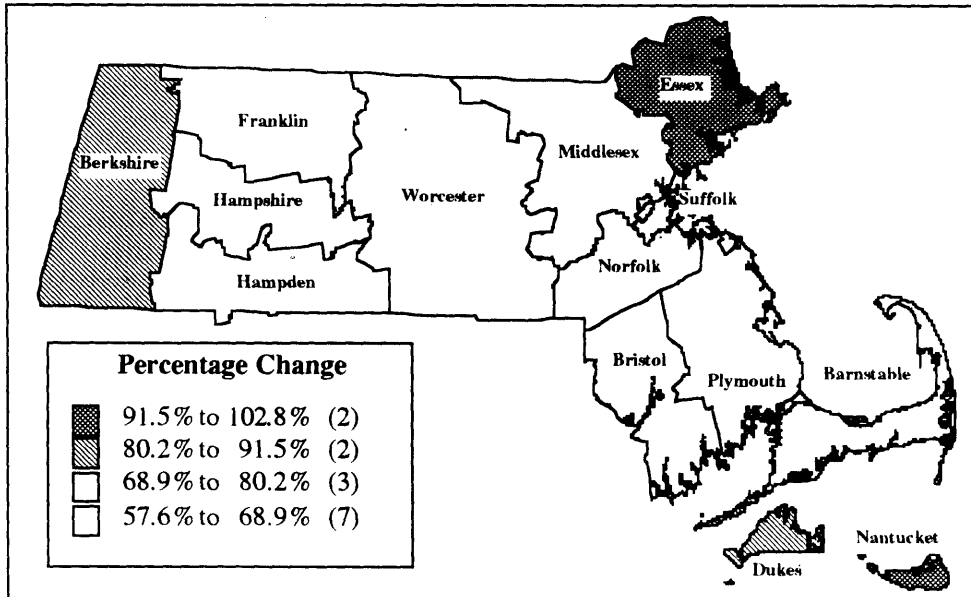
Poverty Rate, 1980-1994



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

The following map shows the change in personal income for all Massachusetts counties between 1983 and 1993 in current dollars. Because of changes made to the Current Population Survey in 1994, it is misleading to compare 1994 and 1995 data to data from prior years; consequently, 1993 is the most recent year for which data can be reliably compared to data from earlier years. As the map indicates, the greatest percentage increase in personal income occurred in the counties of Essex and Nantucket while the smallest increase occurred in Barnstable County. In 1993, Nantucket County recorded the highest per capita personal income (\$33,991) while Franklin County recorded the lowest per capita personal income (\$18,727).

Percentage Change in Personal Income by County, 1983-1993
(in current dollars)

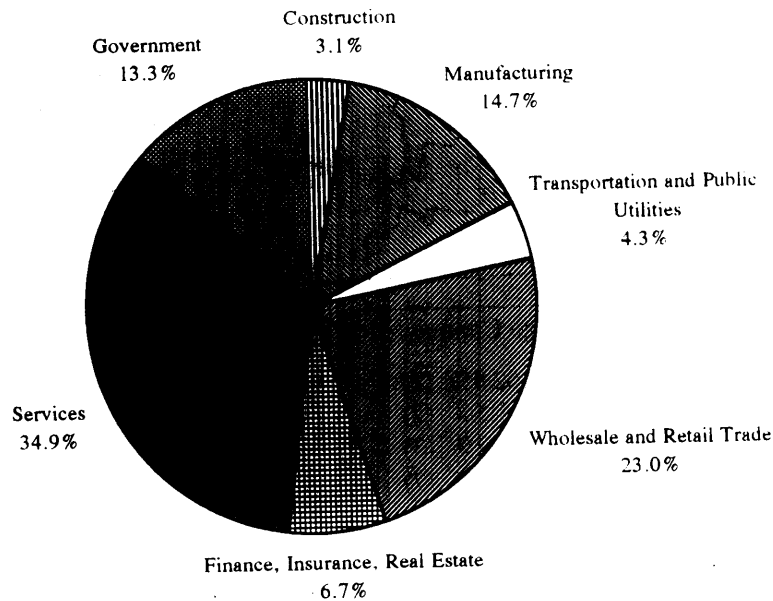


SOURCE: United States Department of Commerce, Bureau of Economic Analysis.

EMPLOYMENT

Employment by Industry. The Massachusetts services sector, with 34.9 percent of the non-agricultural work force in May 1996, is the largest employment sector in the Massachusetts economy, followed by wholesale and retail trade (23.0 percent), manufacturing (14.7 percent), and government employment (13.3 percent). The following chart shows the distribution of non-agricultural employment by industry in Massachusetts for May 1996.

Massachusetts Non-Agricultural Employment by Industry, May 1996
(not seasonally adjusted)



Between 1988 and 1992, total employment in Massachusetts declined 10.7 percent. The construction, manufacturing, and trade sectors experienced the greatest decreases during this time, with more modest declines taking place in the government, finance, insurance and real estate ("FIRE"), and services sectors. In 1993 and 1994, however, total employment increased by 1.6 percent and 2.2 percent, respectively. Employment levels increased in all sectors except manufacturing, and it is expected that the Central Artery/Tunnel Project and the Boston Harbor Cleanup will further contribute to the growth in employment in the construction sector. The only employment sector that did not grow in 1993 and 1994 was the manufacturing sector, which has experienced employment declines in every year since 1985. The most rapid growth in 1995 came in the construction sector and the services sector, which grew at rates of 4.7 percent and 4.9 percent, respectively. Total non-agricultural employment in Massachusetts grew at a rate of 2.4 percent in 1995.

The following table demonstrates the changes in employment by sector from 1980 through 1995.

Massachusetts Non-Agricultural Employment by Industry, 1980-1995
(in thousands)

Year	Construction		Manufacturing		Transportation and Public Utilities		Retail Trade		Finance, Insurance, Real Estate		Services		Government		Total Employment	
	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change
1980	77.4		673.3		121.6		576.6		159.0		634.0		412.3		2654.3	
1981	79.6	2.8%	668.0	-0.8%	120.1	-1.2%	581.3	0.8%	164.8	3.6%	663.5	4.7%	394.6	-4.3%	2671.8	0.7%
1982	78.4	-1.5%	636.5	-4.7%	120.0	-0.1%	579.2	-0.4%	168.7	2.4%	683.5	3.0%	374.7	-5.0%	2642.0	-1.1%
1983	82.6	5.4%	629.0	-1.2%	118.2	-1.5%	612.7	5.8%	171.8	1.8%	705.8	3.3%	375.4	0.2%	2696.5	2.1%
1984	96.4	16.7%	667.6	6.1%	123.3	4.3%	659.0	7.6%	179.0	4.2%	754.0	6.8%	375.4	0.0%	2855.8	5.9%
1985	109.4	13.5%	649.7	-2.7%	125.4	1.7%	684.1	3.8%	188.1	5.1%	786.5	4.3%	385.3	2.6%	2930.0	2.6%
1986	123.2	12.6%	614.4	-5.4%	125.9	0.4%	709.7	3.7%	202.6	7.7%	818.4	4.1%	393.0	2.0%	2988.8	2.0%
1987	137.7	11.8%	599.1	-2.5%	131.0	4.1%	723.4	1.9%	217.9	7.6%	853.9	4.3%	401.2	2.1%	3065.8	2.6%
1988	142.1	3.2%	584.7	-2.4%	133.6	2.0%	739.4	2.2%	221.5	1.7%	896.6	5.0%	411.3	2.5%	3130.8	2.1%
1989	126.8	-10.8%	561.1	-4.0%	128.3	-4.0%	740.5	0.1%	217.3	-1.9%	924.1	3.1%	408.8	-0.6%	3108.6	-0.7%
1990	101.1	-20.3%	521.3	-7.1%	129.9	1.2%	700.1	-5.5%	213.3	-1.8%	915.7	-0.9%	402.2	-1.6%	2984.8	-4.0%
1991	78.8	-22.1%	485.0	-7.0%	123.4	-5.0%	650.6	-7.1%	201.8	-5.4%	890.5	-2.8%	389.9	-3.1%	2821.2	-5.5%
1992	73.6	-6.6%	465.7	-4.0%	121.4	-1.6%	640.5	-1.6%	196.7	-2.5%	913.5	2.6%	382.6	-1.9%	2795.1	-0.9%
1993	80.1	8.8%	454.8	-2.3%	124.0	2.1%	648.4	1.2%	201.5	2.4%	942.8	3.2%	387.5	1.3%	2840.2	1.6%
1994	86.0	7.4%	447.2	-1.7%	127.4	2.7%	669.4	3.2%	206.9	2.7%	975.7	3.5%	390.0	0.6%	2903.8	2.2%
1995	90.0	4.7%	445.3	-0.4%	127.8	0.3%	688.0	2.8%	204.3	-1.3%	1023.6	4.9%	394.1	1.1%	2974.4	2.4%

SOURCE: Massachusetts Department of Employment and Training.

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

The following table presents changes in non-agricultural employment by sector between May 1995 and May 1996. Total non-agricultural employment increased by 1.7 percent and average weekly manufacturing earnings also rose 2.2 percent over that period.

**Massachusetts Non-Agricultural Employment by Industry,
May 1995-May 1996
(in thousands)**

<i>Employment Sector</i>	<i>May 1995</i>	<i>Pct. of Total</i>	<i>May 1996</i>	<i>Pct. of Total</i>	<i>Pct. Change 1995-1996</i>
Mining	1.4	0.0%	1.4	0.0%	0.0%
Construction	90.4	3.0%	93.5	3.1%	3.4%
Manufacturing	443.6	14.9%	443.6	14.7%	0.0%
Transportation and Public Utilities	127.7	4.3%	128.9	4.3%	0.9%
Wholesale and Retail Trade	684.3	23.0%	697.5	23.0%	1.9%
Finance, Insurance, Real Estate	204.6	6.9%	203.6	6.7%	-0.5%
Services	1022.2	34.4%	1,056.1	34.9%	3.3%
Government	401.3	13.5%	402.6	13.3%	0.3%
Total Employment	2975.5	100.0%	3027.2	100.0%	1.7%
Average Weekly Manufacturing Earnings	\$533.39		\$545.12		2.2%

SOURCE: Massachusetts Department of Employment and Training.

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

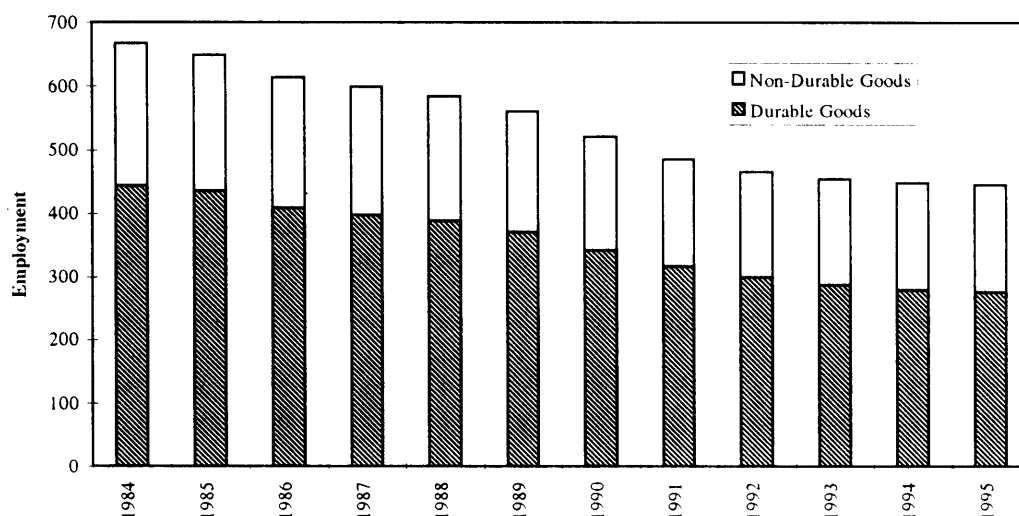
Services Employment. The services sector is the largest sector in the Massachusetts economy in terms of number of employees. This sector includes the categories of health services, business services, educational services, engineering and management services, and social services. After moderate declines in 1990 and 1991, employment levels in the services sector reached consecutive new highs in 1993, 1994, and 1995. Between May 1995 and May 1996, the services sector saw an increase in employment of 3.3 percent, and in May 1996 services sector employment (not seasonally adjusted) was 1,056,100, representing 34.9 percent of total non-agricultural employment. Health services is the largest component of the services sector in terms of employment. In 1990, the health services sector numbered 270,900 workers, with 128,600 of those employed by hospitals. Health services employment continued to grow during the economic downturn in the early 1990s and by 1995 had reached 316,000 workers. Between May 1995 and May 1996, health services employment increased 2.5 percent to 322,700, with 132,100 employed in hospitals. The fastest growing category (and the second largest in terms of number of employees) within the services sector between May 1995 and May 1996 was the business services category, which grew at a rate of 5.8 percent. An area with relatively high wages, business services employed 195,300 workers in May 1996.

Wholesale and Retail Trade Employment. In the mid-1980s the trade sector was an area of strong job growth, boosted by a growing export sector. Trade employment declined between 1990 and 1992 but has increased in each of the last three years: by 1.2 percent in 1993, 3.2 percent in 1994, and 2.8 percent in 1995. In May 1996, retail and wholesale trade was the second largest employment sector in Massachusetts with 697,500 employees, 1.9 percent above May 1995 levels. The retail trade sector, which employed 75.8 percent of these employees, increased by 1.6 percent between May 1995 and May 1996.

Manufacturing Employment. Like many industrial states, Massachusetts has seen a steady diminution of its manufacturing jobs base over the last decade. Total employment in the manufacturing sector declined in every year between 1984 and 1995, falling a total of 49.9 percent. However, with the end of the recession and the beginning of recovery in 1992, the rate of overall decline has slowed significantly, from over 7 percent in both 1990 and 1991 to 2.3 percent in 1993 and 0.4 percent in 1995. Between May 1995 and May 1996, manufacturing employment showed no growth. Employment in the

manufacture of non-durable goods, which had declined in every year since 1984, grew in both 1993 and 1994—at rates of 1.2 percent and 0.5 percent—but grew only 0.1 percent in 1995.

Manufacturing Employment in Massachusetts, 1984-1995
(in thousands)



Manufacturing Establishment Employment by Industry in Massachusetts, 1984-1995
(selected industries, in thousands)

Industry	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
Durable Goods	443.5	436.0	409.1	398.0	388.1	372.1	342.7	317.0	299.6	287.0	278.2	276.2
Percentage Change	8.4%	-1.7%	-6.2%	-2.7%	-2.5%	-4.1%	-7.9%	-7.5%	-5.5%	-4.2%	-3.1%	-0.7%
Primary Metals	16.5	15.8	15.8	15.6	12.9*	12.3	11.3	10.3	9.3	9.1	9.2	9.3
Fabricated Metals	48.3	45.3	42.8	41.7	45.0*	43.2	40.9	37.9	36.2	35.6	35.8	36.9
Industrial Machinery	123	119	107.4	102.3	100.0	95.8	85.2	76.6	72.5	67.3	63.6	63.0
Electronic & Elec.	109.7	111.3	107.4	105.2	82.2*	79.3	72.9	68.5	63.9	59.9	59.5	61.0
Transportation Equip.	40.3	41.6	37.1	35.4	32.4	30.6	27.8	26.0	24.1	21.9	19.2	18.0
Stone, Clay, & Glass	11.8	11.5	10.8	10.7	10.7	10.0	8.7	7.8	7.9	8.0	8.1	8.5
Instruments	59.1	58.0	55.1	54.5	72.4	71.2	69.4	65.6	61.6	60.4	57.8	54.4
Non-Durable Goods	224.1	213.6	205.3	201.1	196.5	189.0	178.6	168.0	166.1	168.1	168.9	169.1
Percentage Change	2.0%	-4.7%	-3.9%	-2.0%	-2.3%	-3.8%	-5.5%	-5.9%	-1.1%	1.2%	0.5%	0.1%
Apparel	36.0	31.7	27.8	25.4	23.7	22.0	19.2	17.7	17.7	17.2	16.8	16.0
Food & Kindred Prod.	24.0	23.1	22.7	21.4	21.0	20.5	20.1	19.6	19.3	19.8	20.3	20.4
Chemicals	17.8	17.6	17.2	18.0	18.6	18.4	17.7	17.3	16.5	16.9	16.3	15.8
Printing & Publishing	51.7	53.3	54.2	55.6	55.8	55.0	52.2	48.9	47.3	47.5	48.0	49.1
Textile Mill Prod.	20.2	18.8	17.7	17.1	16.3	15.5	14.6	14.1	14.6	15.1	15.4	15.1
Paper & Allied Prod.	26.9	25.9	24.8	24.7	24.3	23.4	22.5	21.1	20.7	20.3	19.9	19.7
Rubber & Misc.	31.0	29.3	29.4	28.7	26.9	25.3	23.8	22.1	22.9	24.4	25.3	26.5
Total Man. Emply.	667.6	649.7	614.4	599.1	584.7	561.1	521.3	485.0	465.7	455.1	447.2	445.3
Percentage Change	6.1%	-2.7%	-5.4%	-2.5%	-2.4%	-4.0%	-7.1%	-7.0%	-4.0%	-2.3%	-1.7%	-0.4%

SOURCE: Massachusetts Department of Employment and Training.

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

Government Employment. Federal, state, and local government employed 402,600 workers in May of 1996, which accounted for 13.3 percent of total non-agricultural employment in Massachusetts. The majority of these workers (248,100) were employed in local government, which grew at a rate of 1.4 percent between May 1995 and May 1996.

Finance, Insurance, and Real Estate Employment. While the Finance, Insurance and Real Estate sector experienced 23.7 percent growth in employment between 1984 and 1988, there was an 11.2 percent decline in employment between 1988 and 1992. Increases of 2.4 percent in 1993 and 2.7 percent in 1994 were followed by a 1.3 percent decline in 1995, and employment levels in this sector remain well below 1988 levels. As of May 1996, total employment in the FIRE sector was 203,600, a decline of 0.5 percent from May 1995.

Construction Employment. Fueled by the general growth of the rest of the Massachusetts economy, employment in the construction industry experienced dramatic growth in the first part of the 1980s, increasing by more than 80 percent between 1982 and 1988. This trend reversed direction between 1988 and 1992, when employment in the construction industry declined nearly 50 percent. Since 1993, with the return to general growth in the Massachusetts economy, employment in construction has rebounded with growth rates of 8.8 percent in 1993, 7.4 percent in 1994, and 4.7 percent in 1995. In May 1996, the construction sector employed 93,500 people, an increase of 3.4 percent over May 1995 levels.

Largest Employers in Massachusetts. The following table lists, in alphabetical order, the twenty-five largest private sector employers in Massachusetts in 1995 based upon employment data for the second quarter of 1995. The group has remained relatively stable; two of the employers on the 1994 list (which contained twenty-six companies because there was no significant difference between the 25th and 26th largest employers), Market Basket, Inc. and New England Medical Centers Hospital, fell from the list and were replaced by Beth Israel Hospital.

Twenty-Five Largest Private Sector Massachusetts Employers in 1995

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

SOURCE: Massachusetts Department of Employment and Training.

Unemployment. Between 1979 and 1989, the Massachusetts unemployment rate was significantly lower than the national average. During the economic recession of the early 1990s, however, the unemployment rate in Massachusetts was considerably higher than the national average. In 1991, the unemployment rate in Massachusetts was 2.3 percentage points higher than the national average: 9.1 percent compared to 6.8 percent. Although employment was slow to respond to the beginning of the recovery in 1992, unemployment rates in Massachusetts since 1993 have declined faster than the national average. As a result, the average annual unemployment rate in Massachusetts for 1993 was identical to that of the United States, and since 1994 the unemployment rate in Massachusetts has been slightly below the national average.

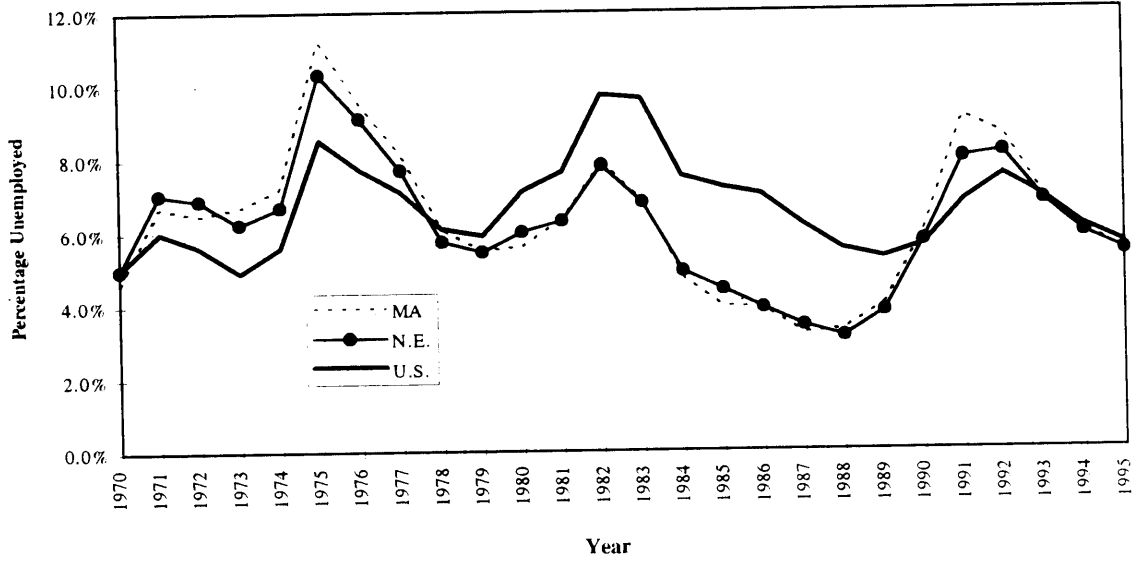
The following table compares the annual civilian labor force, the number unemployed, and unemployment rate averages of Massachusetts, the New England states, and the United States between 1970 and 1995. This table and subsequent employment data reflect revisions made by the Bureau of Labor Statistics in early 1996.

Annual Average Civilian Labor Force and Unemployment, 1970-1995
(in thousands)

<i>Year</i>	<i>Civilian Labor Force</i>			<i>Unemployed</i>			<i>Unemployment Rate</i>			<i>MA Rate as Pct. of U.S.</i>
	<i>MA</i>	<i>N.E.</i>	<i>U.S.</i>	<i>MA</i>	<i>N.E.</i>	<i>U.S.</i>	<i>MA</i>	<i>N.E.</i>	<i>U.S.</i>	
1970	2,465	5,129	82,796	114	256	4,127	4.6%	5.0%	5.0%	92.0%
1971	2,459	5,157	84,376	164	364	5,022	6.7%	7.1%	6.0%	111.7%
1972	2,487	5,261	87,011	161	363	4,876	6.5%	6.9%	5.6%	116.1%
1973	2,557	5,387	89,411	171	336	4,359	6.7%	6.2%	4.9%	136.7%
1974	2,636	5,512	91,976	190	369	5,173	7.2%	6.7%	5.6%	128.6%
1975	2,725	5,634	93,770	306	581	7,940	11.2%	10.3%	8.5%	131.8%
1976	2,727	5,717	96,151	259	519	7,398	9.5%	9.1%	7.7%	123.4%
1977	2,754	5,816	98,984	223	447	6,967	8.1%	7.7%	7.1%	114.1%
1978	2,815	5,908	102,233	171	339	6,187	6.1%	5.8%	6.1%	100.0%
1979	2,870	6,100	104,961	159	332	6,135	5.5%	5.5%	5.9%	93.2%
1980	2,867	6,167	106,940	161	367	7,637	5.6%	6.0%	7.1%	78.9%
1981	2,946	6,260	108,670	187	397	8,273	6.4%	6.3%	7.6%	83.4%
1982	2,993	6,339	110,201	237	495	10,678	7.9%	7.8%	9.7%	81.3%
1983	2,978	6,365	111,550	205	434	10,717	6.9%	6.8%	9.6%	71.5%
1984	3,048	6,549	113,544	145	318	8,539	4.8%	4.9%	7.5%	63.5%
1985	3,053	6,632	115,461	120	292	8,312	4.0%	4.4%	7.2%	54.9%
1986	3,059	6,721	117,834	118	265	8,237	3.9%	3.9%	7.0%	55.7%
1987	3,086	6,829	119,865	99	229	7,425	3.2%	3.4%	6.2%	51.8%
1988	3,155	6,914	121,669	103	218	6,701	3.3%	3.1%	5.5%	60.1%
1989	3,180	6,998	123,869	127	269	6,528	4.0%	3.8%	5.3%	76.2%
1990	3,228	7,147	125,840	195	408	7,047	6.0%	5.7%	5.6%	107.1%
1991	3,162	7,082	126,346	286	569	8,628	9.1%	8.0%	6.8%	133.8%
1992	3,145	7,057	128,105	269	568	9,613	8.6%	8.1%	7.5%	114.7%
1993	3,164	7,024	129,200	219	479	8,940	6.9%	6.8%	6.9%	100.0%
1994	3,167	6,954	131,056	190	411	7,996	6.0%	5.9%	6.1%	98.4%
1995	3,167	6,956	132,304	170	373	7,404	5.4%	5.4%	5.6%	96.4%

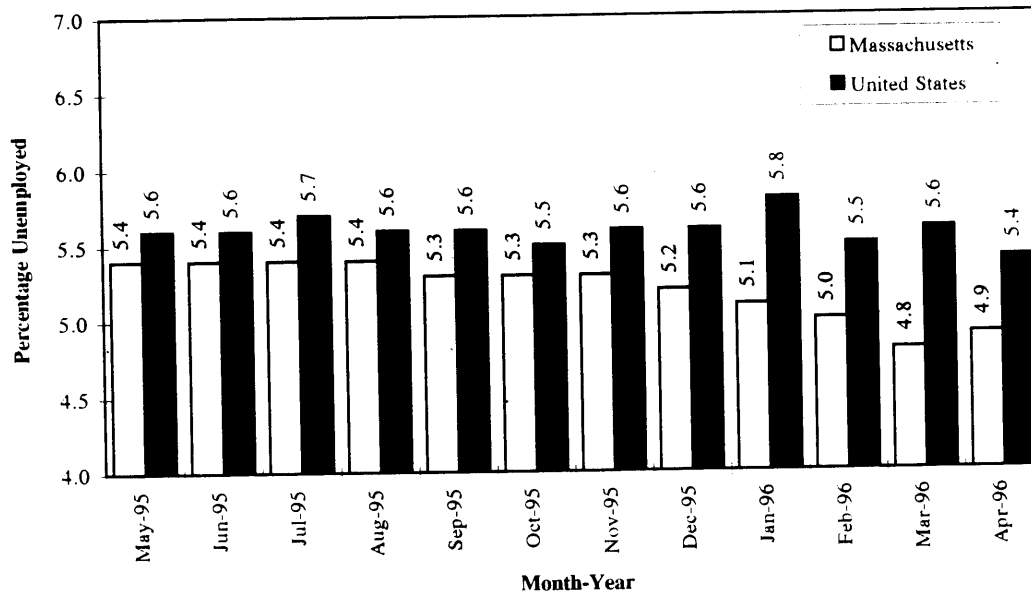
SOURCES: Massachusetts Department of Employment and Training; United States Department of Labor, Bureau of Labor Statistics.

Annual Average Unemployment Rate, 1970-1995



The unemployment rate in Massachusetts has been consistently below that of the United States over the past twelve months. The Massachusetts unemployment rate remained stable at 5.4 percent between May and August of 1995, and fell to 4.9 percent in April of 1996. The unemployment rate in New England was 5.4 percent in May 1996, 4.7 percent in April 1996, and 5.2 percent in May 1995. The United States unemployment rate was 5.6 percent in May 1996, 5.4 percent in April 1996, and 5.6 percent in May 1995. The following chart shows the unemployment rates for Massachusetts and the United States for each of the past twelve months.

Monthly Unemployment Rate, May 1995-April 1996 (seasonally adjusted)



SOURCE: Massachusetts Department of Employment and Training.
Note: Unemployment rate axis does not begin at zero.

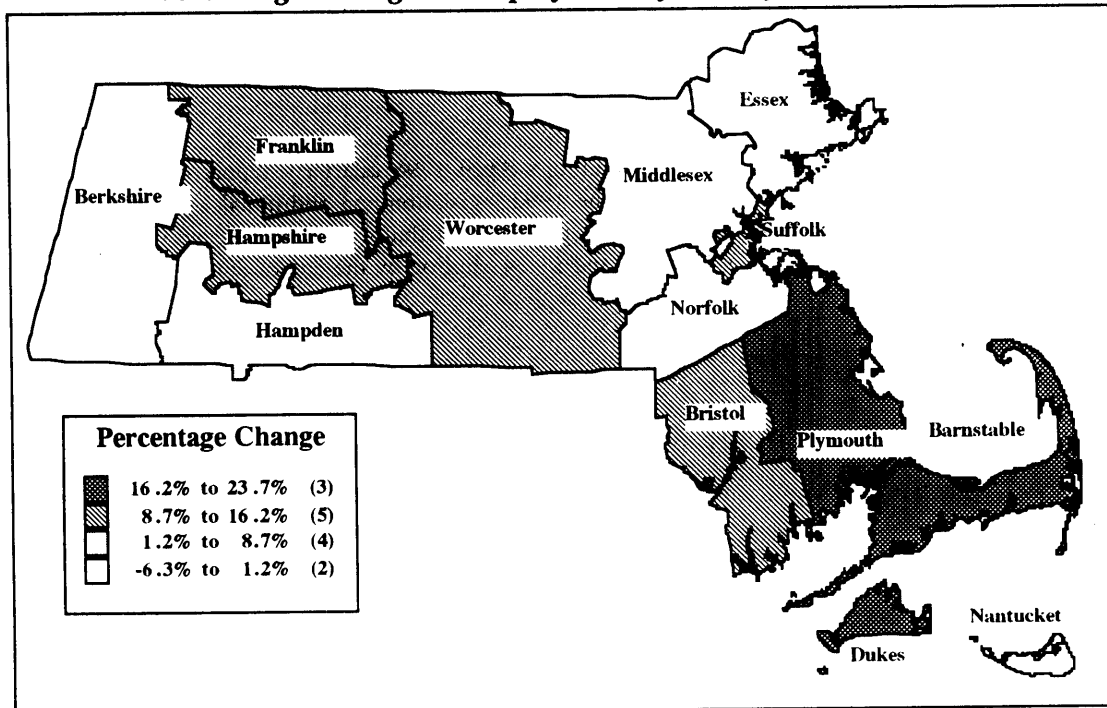
Unemployment Compensation Trust Fund. The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide for the payment of benefits to eligible individuals when they are unemployed through no fault of their 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 level of unemployment. Between September 1991 and May 1994, benefit payments in excess of contributions were financed through repayable advances from the federal unemployment loan account. Legislation enacted in 1992 significantly increased employer contributions in order to reduce advances from the federal loan account and 1993 contributions exceeded benefit outlays by more than \$200 million. All federal advances were paid in May 1994 and interest on federal advances of \$4.7 million was paid in September. Since that time, the balance in the trust fund has been positive. As of April 30, 1996, the private contributory sector of the Massachusetts Unemployment Trust Fund contained a balance of \$498 million.

The Department of Employment and Training's April 1996 quarterly report indicates that the additional increases in contributions provided by the 1992 legislation and additional legislation in 1994 should result in a balance of \$704 million in the private contributory sector of the Unemployment Compensation Trust Fund by December 31, 1996 and \$1.347 billion by the end of 2000.

Employment and Unemployment by County. Employment levels have shown considerable regional variation within Massachusetts. Between 1983 and 1993, employment levels within three Massachusetts counties increased between 16.2 percent and 23.7 percent while employment levels in two counties grew at rates below 1.2 percent. The following map shows the percentage change in the number of people employed within each county in Massachusetts between 1983 and 1993. Because of changes in the Current Population Survey, comparisons between 1994 employment levels and employment levels from earlier years may be misleading; 1993 is the most recent year for which data can be reliably compared to data from earlier years.

Percentage Change in Employment by County, 1983-1993



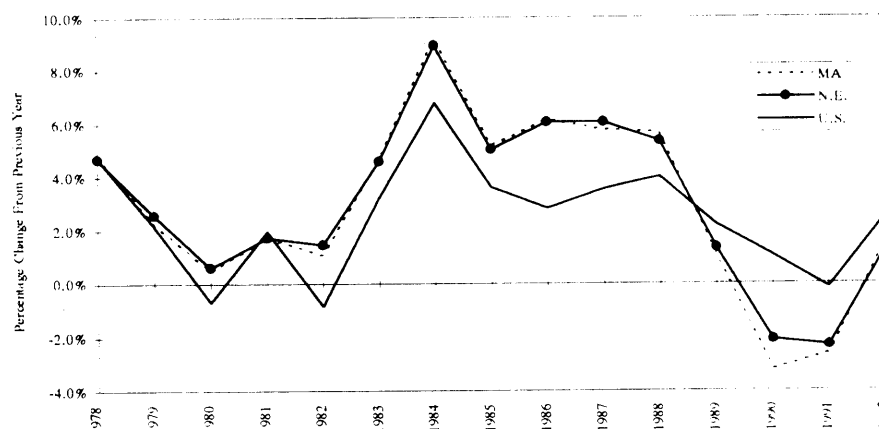
SOURCE: Massachusetts Department of Employment and Training.

Despite an overall unemployment rate that was lower than the national average of 5.6 percent in 1995, Massachusetts showed considerable intrastate variation in unemployment, with four counties experiencing unemployment rates below 5.0 percent and two counties experiencing unemployment rates above 7.0 percent. The lowest unemployment levels in the state were in Hampshire, Middlesex, and Norfolk Counties, which experienced rates of 4.1 percent, 4.3 percent, and 4.4 percent, respectively. The highest levels of unemployment in the state were the southeastern counties of Barnstable and Bristol, which experienced unemployment rates of 7.1 percent and 8.1 percent, respectively.

ECONOMIC BASE AND PERFORMANCE

Between 1982 and 1988, the economies of Massachusetts and New England were among the strongest performers in the nation, with growth rates considerably higher than those for the national economy as a whole. Since 1989, however, both Massachusetts and New England have experienced growth rates significantly below the national average. An economic recession in 1990 and 1991 caused negative growth rates in Massachusetts and New England. In 1992, the Gross State Product for Massachusetts grew at a rate of 1.5 percent while the total Gross State Product for the United States grew at a rate of 2.5 percent. The Massachusetts economy has been the strongest in New England, making up an average of 47 percent of New England's total Gross State Product for nearly two decades. Massachusetts' percentage of the United States Gross State Product has varied between 2.5 to 3.0 percent during the same time frame.

Percentage Change in Real Gross State Product, 1978-1992



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

Gross State Product, 1977-1992
(millions of constant 1987 dollars)

Year	Massachusetts		New England		United States	
	GSP	Percentage Change	GSP	Percentage Change	Total GSP	Percentage Change
1977	\$88,461		\$185,042		\$3,478,517	
1978	\$92,734	4.8%	\$193,750	4.7%	\$3,643,391	4.7%
1979	\$94,824	2.3%	\$198,748	2.6%	\$3,722,513	2.2%
1980	\$95,275	0.5%	\$199,935	0.6%	\$3,697,140	-0.7%
1981	\$96,930	1.7%	\$203,377	1.7%	\$3,769,425	2.0%
1982	\$97,980	1.1%	\$206,324	1.4%	\$3,738,155	-0.8%
1983	\$102,561	4.7%	\$215,813	4.6%	\$3,859,508	3.2%
1984	\$112,021	9.2%	\$235,115	8.9%	\$4,121,329	6.8%
1985	\$117,816	5.2%	\$246,981	5.0%	\$4,270,981	3.6%
1986	\$125,054	6.1%	\$261,912	6.0%	\$4,391,529	2.8%
1987	\$132,276	5.8%	\$277,795	6.1%	\$4,548,182	3.6%
1988	\$139,774	5.7%	\$292,636	5.3%	\$4,731,458	4.0%
1989	\$141,255	1.1%	\$296,520	1.3%	\$4,836,446	2.2%
1990	\$136,701	-3.2%	\$290,314	-2.1%	\$4,888,324	1.1%
1991	\$133,111	-2.6%	\$283,576	-2.3%	\$4,881,756	-0.1%
1992	\$135,079	1.5%	\$286,992	1.2%	\$5,001,445	2.5%

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

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

The commercial base of Massachusetts is anchored by the sixteen 1996 *Fortune* 500 industrial and service firms with headquarters within the state, as the following table indicates. The *Fortune* 500 firms are ranked according to total revenues in 1995.

Massachusetts Companies in the 1996 Fortune 500

<i>Ranking</i>		<i>Company</i>	<i>Industry</i>	<i>1995 revenues</i>
<i>1996</i>	<i>1995</i>			<i>(in millions)</i>
77	65	Digital Equipment (Maynard)	Computers and Office Equipment	\$13,813.1
107	109	Raytheon (Lexington)	Electronics and Electrical Equipment	11,716.0
139	128	Liberty Mutual Ins. Group (Boston)	Insurance (Mutual)	9,308.0
166	-----	Fleet Financial Group (Boston)	Commercial Banking	7,919.4
193	218	Mass. Mutual Life Ins. (Springfield)	Insurance (Mutual)	6,804.1
195	194	Gillette (Boston)	Metal Products	6,794.7
224	209	John Hancock Mutual Life Ins. (Boston)	Insurance (Mutual)	5,845.5
243	256	Bank of Boston Corp. (Boston)	Commercial Banking	5,410.6
293	296	TJX (Framingham)	Specialist Retailers	4,447.5
308	301	Stop & Shop (Quincy)	Food and Drug Stores	4,116.1
315	310	Waban (Natick)	Specialist Retailers	3,978.4
355	347	Reebok (Stoughton)	Wholesalers	3,481.5
383	313	Harcourt General (Chestnut Hill)	General Merchandisers	3,241.9
384	348	Allmerica Financial (Worcester)	Insurance (Mutual)	3,238.9
404	-----	Staples (Framingham)	Specialist Retailers	3,068.1
495	-----	State Street Boston Corp. (Boston)	Commercial Banking	2,445.7

SOURCE: *Fortune*, April 29, 1996.

The northeast in general slipped in the *Fortune* 500 rankings as Massachusetts, Connecticut, Rhode Island, and New Jersey each lost one company in the top 500 companies in terms of revenues. With sixteen *Fortune* 500 companies, Massachusetts ranks ninth among all states. The largest Massachusetts addition to the list is Fleet Financial Group, which acquired Shawmut National Corp. on November 30, 1995.

Four Massachusetts firms on the 1995 list were eliminated from the 1996 list but remained close to breaking back into the *Fortune* 500. Following is a list of these companies, their new positions on the *Fortune* 1000, and their respective rankings in the 1995 *Fortune* 500: EG&G (F96-559; F95-429), Polaroid (F96-531; F95-480), New England Electric Systems (F96-524; F95-491), and New England Mutual Life Insurance (F96-537; F95-492).

Along with the sixteen 1996 *Fortune* 500 companies with headquarters in Massachusetts, seven of *Fortune's* 1995 Top 100 fastest growing companies in the country are based in Massachusetts. In both 1994 and 1995, Massachusetts ranked third among states in number of firms on the list, trailing only California (27 firms) and Texas (12). The 1995 *Fortune* Top 100 firms are ranked according to annual growth rates.

Massachusetts Companies in the 1995 Fortune Top 100
(Fortune Top 100 measures fastest growing U.S. companies)

Ranking		Company	Industry	Annual Growth Rate	Sales
1995	1994				Previous Four Quarters (in Millions)
20	9	Avid Technology (Tewksbury)	Digitized film, video, audio editing	163%	\$203.7
32	--	Primark (Waltham)	On-line data delivery	122%	\$477.0
56	--	Cryk (Gloucester)	Custom promotional materials	92%	\$401.9
68	48	Parametric Technology (Waltham)	Computer software	82%	\$262.8
78	81	Chipecom (Southborough)	Computer equipment	76%	\$267.8
86	70	FTP Software (North Andover)	Computer software	73%	\$93.2
97	64	Picturetel (Danvers)	Videoconferencing systems	70%	\$255.2

SOURCE: Fortune, April 17, 1995.

The current restructuring of the Massachusetts economy due to the economic recovery has brought new business opportunities to many. The incorporation of new businesses in Massachusetts reached a peak in 1986 and declined steadily over the next five years. Since 1992, however, the number of new business incorporations has grown steadily, with new business incorporations in 1994 reaching their highest level since 1989.

According to Dun & Bradstreet, the business failure rate in Massachusetts, which was significantly lower than the national average between 1984 and 1989, increased to a rate slightly higher than that of the United States between 1990 and 1995. The following table shows the total number of existing businesses, business incorporations, and business failures for Massachusetts, New England, and the United States since 1980 (total existing businesses, new business incorporations, and business failures are derived from different and unrelated data sources and survey techniques and should not be compared as if they constitute a self-contained, closed group of data).

Business Failures and Incorporations, 1980-1995

Year	Total Existing Businesses			New Business Incorporations			Business Failures			Failure Rate		
	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.	MA	N.E.	U.S.
1980	NA	NA	NA	11,291	25,328	533,520	235	464	11,742	NA	NA	NA
1981	NA	NA	NA	12,625	28,134	581,242	226	553	15,694	NA	NA	NA
1982	NA	NA	NA	11,827	26,484	566,942	331	650	24,908	NA	NA	NA
1983	NA	NA	NA	12,599	28,723	600,420	398	831	31,334	NA	NA	NA
1984	123,021	276,551	4,867,102	14,159	32,027	634,991	513	1,203	52,078	0.4%	0.4%	1.1%
1985	125,551	284,259	4,978,521	15,801	37,943	664,235	683	1,228	57,253	0.5%	0.4%	1.2%
1986	129,464	291,842	5,134,666	17,321	41,940	702,738	725	1,109	61,616	0.6%	0.4%	1.2%
1987	150,714	340,333	5,991,274	17,222	42,027	685,572	633	1,021	61,111	0.4%	0.3%	1.0%
1988	142,307	328,750	5,826,224	16,438	40,251	685,095	555	1,052	57,097	0.4%	0.3%	1.0%
1989	175,227	442,068	7,747,846	14,078	35,299	676,565	771	1,282	50,361	0.4%	0.3%	0.7%
1990	180,471	441,000	7,993,026	12,465	31,383	647,386	1,913	3,087	60,747	1.1%	0.7%	0.8%
1991	218,384	514,000	8,237,383	11,706	28,864	628,604	2,839	5,654	88,140	1.3%	1.1%	1.1%
1992	222,867	531,111	8,824,454	12,197	28,686	666,800	3,031	6,214	97,069	1.4%	1.2%	1.1%
1993	200,889	476,607	7,902,110	12,850	30,233	706,537	2,712	5,339	86,133	1.3%	1.1%	1.1%
1994	213,980	500,933	8,316,279	14,065	30,705	741,657	2,100	3,771	71,558	1.0%	0.8%	0.9%
1995	252,225	582,178	9,951,583	NA	NA	NA	1,931	3,389	71,194	0.8%	0.6%	0.7%

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

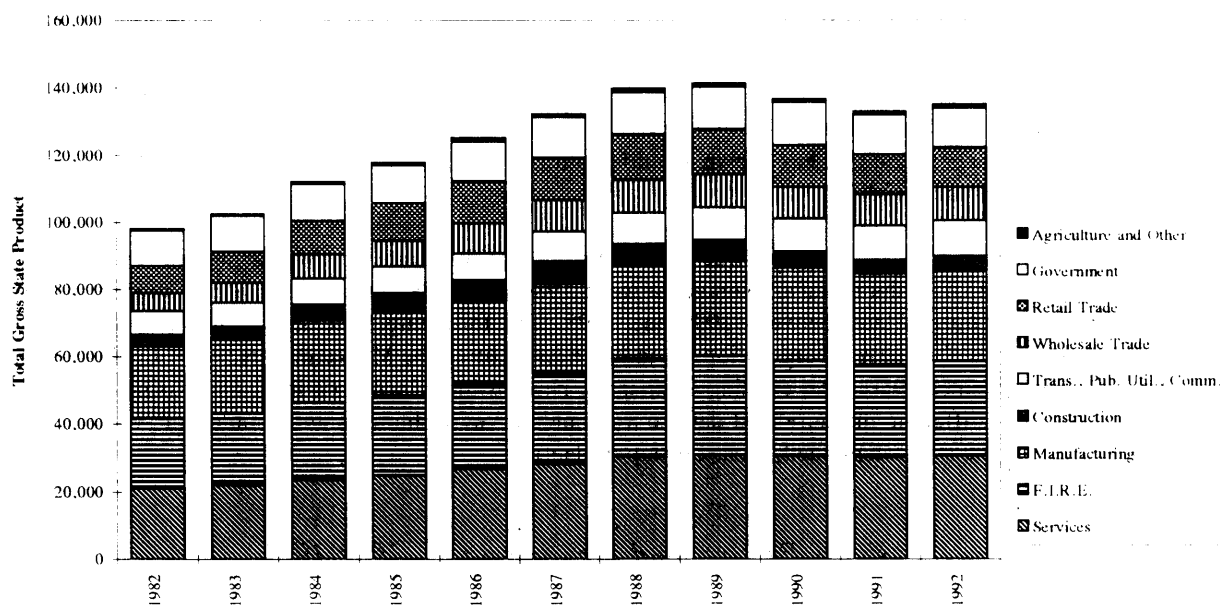
NA = Data not available for these years.

Data for 1995 business failures are preliminary estimates.

Economic Base and Performance – Sector Detail

While the economy of Massachusetts is diversified among several industrial and non-industrial sectors, the three largest sectors of the economy contributed a higher percentage of the total Massachusetts Gross State Product in 1992 than they have in any year since 1982. In 1992, the three largest sectors of the Massachusetts economy (services, manufacturing, and FIRE) contributed 63.5 percent of the total Massachusetts Gross State Product while the remaining six sectors contributed 36.5 percent. In 1982, in contrast, these same three largest sectors contributed 46.5 percent of the total Massachusetts Gross State Product. The data below show the contribution to the Massachusetts real Gross State Product of several industrial and non-industrial sectors.

Sector Composition of Massachusetts Gross State Product, 1982-1992
(millions of 1987 constant dollars)



Gross State Product by Industry in Massachusetts, 1982-1992
(millions of 1987 constant dollars)

<i>Industrial Sector</i>	<i>1982</i>	<i>1983</i>	<i>1984</i>	<i>1985</i>	<i>1986</i>	<i>1987</i>	<i>1988</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>
Agriculture	\$543	\$648	\$640	\$774	\$977	\$999	\$982	\$913	\$916	\$992	\$1,020
Construction	3,491	3,828	4,669	5,511	6,043	6,748	6,747	5,988	4,922	4,072	4,114
Manufacturing	21,059	21,838	24,540	24,884	25,034	26,529	27,595	28,724	27,523	26,984	27,187
Trans., Pub. Util., Comm.	6,827	7,358	7,801	7,966	7,946	8,824	9,039	9,484	9,722	10,352	10,708
Wholesale Trade	5,482	5,970	7,188	7,607	8,921	9,414	9,886	10,079	9,571	9,419	9,881
Retail Trade	8,183	9,199	10,265	11,248	12,699	12,697	13,619	13,493	12,408	11,752	11,932
FIRE	20,946	21,045	22,555	23,566	24,960	26,806	28,840	29,221	28,121	27,457	27,956
Services	21,037	22,051	23,630	25,020	26,831	28,321	30,533	30,891	30,821	30,256	30,705
Government	10,372	10,578	10,675	11,177	11,555	11,842	12,440	12,380	12,627	11,764	11,514
Other	40	46	58	63	88	96	93	82	70	63	62
Total GSP	\$97,980	\$102,561	\$112,021	\$117,816	\$125,054	\$132,276	\$139,774	\$141,255	\$136,701	\$133,111	\$135,079

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

Note: "Agriculture" includes Forestry and Fisheries.

Services. The services sector has been the largest contributor to the Massachusetts Gross State Product since 1985 and contributed 22.7 percent of the Commonwealth's Gross State Product in 1992. After increasing at yearly rates between 4.8 percent and 7.2 percent between 1983 and 1988, growth in the services sector slowed to a rate of 1.2 percent in 1989 and declined 0.2 percent and 1.8 percent in 1990 and 1991, respectively. In 1992, the services sector grew at a rate of 1.5 percent. The health care industry is the largest contributor to the services sector and continues to play an important role in the Massachusetts economy, contributing 9.5 percent of the Gross State Product in 1992.

Finance, Insurance, Real Estate. Since 1987, the FIRE sector has been the second largest contributor to the Massachusetts Gross State Product. In 1992, it contributed 20.7 percent of the Gross State Product. Growth rates between 4.5 percent and 7.6 percent between 1984 and 1988 were followed by slower growth in 1989 (1.3 percent) and negative growth rates of -3.8 percent and -2.4 percent in 1990 and 1991, respectively. The FIRE sector grew at a rate of 1.8 percent in 1992.

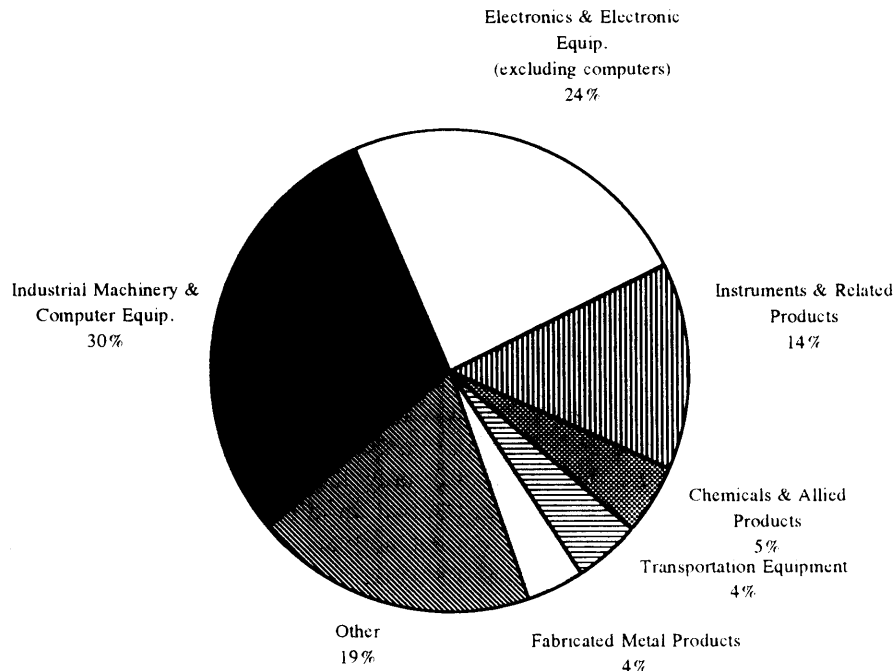
Manufacturing. The manufacturing sector was the largest contributor to the Massachusetts Gross State Product in 1982, contributing 21.5 percent of the Gross State Product. Because of more rapid growth in other sectors in the 1980s, this sector was only the third largest contributor in 1992, contributing 20.1 percent of the Gross State Product. Growth in this sector was erratic throughout the 1980s, ranging from 12.4 percent in 1984 to 0.6 percent in 1986. Declines of 4.2 percent and 2.0 percent in 1990 and 1991 were followed by growth of 0.8 percent in 1992.

Wholesale and Retail Trade. Taken together, the wholesale and retail trade sectors contributed 16.1 percent of the Massachusetts Gross State Product in 1992, with retail trade contributing 8.8 percent and wholesale trade contributing 7.3 percent. Growth within these sectors varied significantly between 1983 and 1992, with the wholesale trade sector experiencing growth rates as high as 20.4 percent in 1984 and 17.3 percent in 1986 and as low as -5.0 percent in 1990. Growth in the retail trade sector varied between 9.6 percent and 12.9 percent between 1983 and 1986, declined to 0.0 percent in 1987, and resumed a positive growth rate of 7.3 percent in 1988. Both sectors experienced negative growth rates during the recession of the early 1990s. The wholesale trade sector declined 5.0 percent in 1990 and 1.6 percent in 1991 before resuming a positive growth rate of 4.9 percent in 1992. Growth in the retail trade sector declined more severely to rates of -8.0 percent in 1990 and -5.3 percent in 1991 before growing at a rate of 1.5 percent in 1992.

Trade and International Trade. A significant portion of what Massachusetts produces is exported internationally. The total value of all international shipments from Massachusetts in 1992 represented 9.0 percent of the total Gross State Product. Massachusetts ranked twelfth in the United States, and first in New England, with nearly \$15.1 billion in international exports in 1995. While the rate of growth in the Commonwealth's exports over the last several years has been lower than some other states in the U.S., the rate of growth increased to 15.3 percent in 1995. This is an improvement over 1994, when exports increased only 7.1 percent from the previous year and exceeds the national increase of 13.8 percent in 1995. Moreover, while U.S. exports in the first quarter of 1996 grew at a rate of 7.4 percent, the Commonwealth's exports grew at a rate of 17.9 percent in the same period. According to the United States Department of Commerce, a large portion of exports from Massachusetts is exported from the greater Boston metropolitan area. In 1993, for example, 73.7 percent of all Massachusetts exports were exported from the Boston Metropolitan area. It is not possible to provide balance of trade comparisons for Massachusetts because import data are not compiled on a state-by-state basis.

Massachusetts' most important exports, as shown in the chart below, are industrial machinery and computer equipment, electronics and electric equipment, and instruments and related products.

Composition of Massachusetts Exports by Industry Group, 1995



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

Massachusetts' five most important trading partners for 1995 were: Canada, which purchased \$3.8 billion worth of products; the United Kingdom, which bought \$1.5 billion; Japan, which purchased \$1.5 billion; Germany, which bought \$1.1 billion; and the Netherlands, which purchased \$774 million worth of products. Between 1994 and 1995, the most significant growth in Massachusetts exports among its top ten trading partners was in exports to Japan, Germany, and Canada, which increased 30.1 percent, 24.7 percent, and 20.9 percent, respectively.

Value of International Shipments from Massachusetts, 1989-1995 (top ten industry groups ranked by value of 1995 sales, in millions)

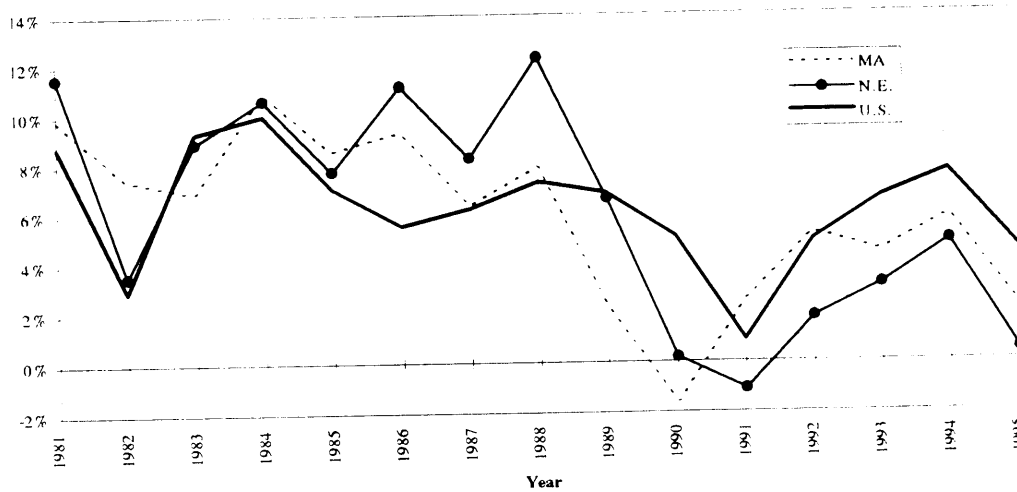
<i>Major Industry Group</i>	<i>1989</i>	<i>1990</i>	<i>1991</i>	<i>1992</i>	<i>1993</i>	<i>1994</i>	<i>1995</i>
Industrial Machinery & Computer Equip.	\$4,521.0	\$4,284.1	\$4,460.1	\$4,174.0	\$3,874.0	\$4,065.1	\$4,482.5
Electronics & Elec. Equip. (excluding Computers)	1,395.9	2,030.5	2,167.4	2,082.1	2,240.5	2,799.5	3,638.9
Instruments & Related Products	1,636.0	1,871.8	1,796.9	1,848.3	1,867.0	1,897.9	2,080.2
Chemicals & Allied Products	399.1	479.5	490.3	496.3	534.1	632.4	741.0
Transportation Equipment	433.6	403.0	352.2	479.0	499.1	416.4	632.6
Fabricated Metal Products	426.3	459.2	565.6	726.9	625.8	622.9	619.1
Rubber & Misc. Plastic Products	192.4	214.0	196.7	236.8	373.8	417.1	416.0
Paper & Allied Products	175.0	202.9	194.0	243.1	242.8	258.7	293.7
Textile Mill Products	123.6	175.9	199.5	257.3	263.3	267.7	277.0
Primary Metal Industries	170.7	182.7	216.5	200.0	211.5	232.9	265.1
Total from Above Industries	\$9,473.5	\$10,303.7	\$10,639.2	\$10,743.9	\$10,731.8	\$11,610.6	\$13,446.1
Total from All Industries-Massachusetts	\$10,472.0	\$11,586.8	\$11,891.4	\$12,157.6	\$12,194.8	\$13,064.8	\$15,065.3
Percentage Change	8.0%	10.6%	2.6%	2.2%	0.3%	7.1%	15.3%

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

Retail Sales. Retail sales growth in the Commonwealth outpaced national sales growth during most of the 1980s, although in more recent years this has not been the case. After dropping significantly below the national average in 1989 and 1990, the rate of retail sales growth in Massachusetts outpaced both New England and the nation in 1991 and 1992. Since 1993, however, retail sales growth in Massachusetts has been slower than retail sales growth for the nation as a whole, although it has been faster than the New England average. While the retail sales component remains a significant contributor to the Massachusetts Gross State Product, it now represents a lower percentage of the Gross State Product (8.9 percent in 1994) than it did in the 1980s, when it contributed between 9.0 and 9.5 percent of the Gross State Product.

According to the Federal Reserve Bank of Boston, retail sales in Massachusetts grew at a rate of 6.3 percent between March 1995 and March 1996. The following chart and table show the annual retail sales activity for Massachusetts and the United States from 1980 through 1995.

Percentage Change in Retail Sales, 1981-1995



Annual Retail Sales, 1980-1995
(in millions)

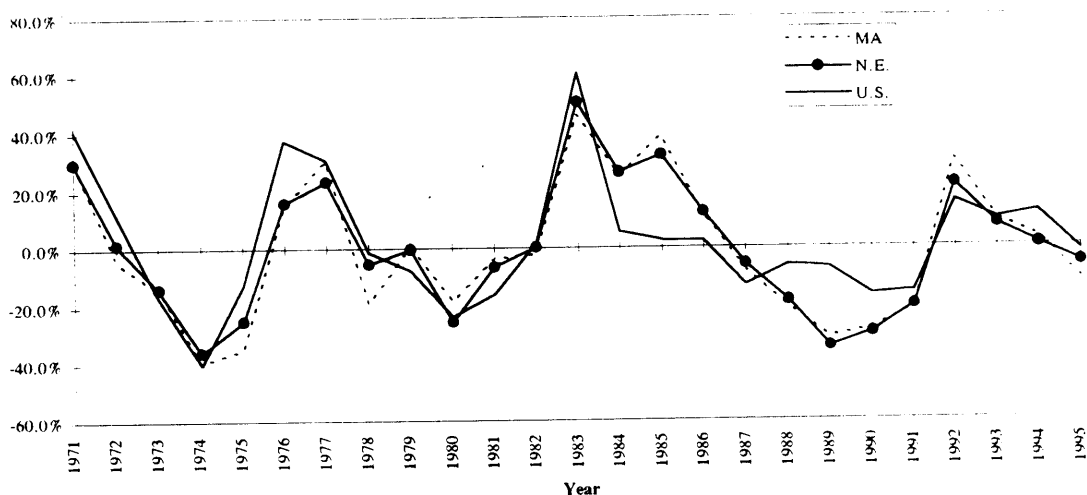
Year	Massachusetts		New England		United States	
	Sales	Percentage Change	Sales	Percentage Change	Sales	Percentage Change
1980	\$23,068		\$51,924		\$954,826	
1981	25,347	9.9%	57,919	11.5%	1,038,309	8.7%
1982	27,231	7.4%	59,949	3.5%	1,068,227	2.9%
1983	29,095	6.8%	65,277	8.9%	1,167,416	9.3%
1984	32,261	10.9%	72,194	10.6%	1,283,753	10.0%
1985	35,014	8.5%	77,765	7.7%	1,373,829	7.0%
1986	38,256	9.3%	86,431	11.1%	1,449,210	5.5%
1987	40,664	6.3%	93,557	8.2%	1,538,637	6.2%
1988	43,868	7.9%	105,028	12.3%	1,649,974	7.2%
1989	44,830	2.2%	111,903	6.5%	1,762,012	6.8%
1990	44,091	-1.6%	112,087	0.2%	1,849,941	5.0%
1991	45,163	2.4%	110,851	-1.1%	1,865,811	0.9%
1992	47,491	5.2%	112,804	1.8%	1,956,175	4.8%
1993	49,576	4.4%	116,265	3.1%	2,083,877	6.5%
1994	52,466	5.8%	121,796	4.8%	2,241,321	7.6%
1995	53,634	2.2%	122,341	0.4%	2,342,468	4.5%

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

Construction and Housing. In 1992, construction activity contributed 3.0 percent of the Massachusetts Gross State Product. Growth within this sector has been more erratic than that in any other sector. With the exception of 1986, growth within this sector was more than twice that of the total Massachusetts Gross State Product between 1983 and 1987, with explosive growth rates of 22.0 percent in 1984 and 18.0 percent in 1985. Beginning in 1988, however, growth within the sector stopped and in 1989, 1990, and 1991 the sector declined at rates of 11.2 percent, 17.8 percent, and 17.3 percent, respectively. In 1992, the sector grew at a rate of 1.0 percent.

The following chart and table show the number of housing permits authorized on an annual basis in Massachusetts, New England, and the United States. Between 1983 and 1986, both Massachusetts and New England experienced strong growth in the number of housing permits authorized. This period was followed by a prolonged decline between 1986 and 1991 during which the number of housing permits authorized in Massachusetts declined by 71.5 percent. While the number of housing permits authorized in Massachusetts increased in each year between 1992 and 1994, the number of housing permits authorized in 1995 declined 11.8 percent in Massachusetts, 5.8 percent in New England, and 1.8 percent in the United States.

Percentage Change in Housing Permits Authorized, 1971-1995



Housing Permits Authorized, 1970-1995

Year	Massachusetts		New England		United States	
	Total Permits	Percentage Change	Total Permits	Percentage Change	Total Permits	Percentage Change
1970	39,460		74,230		1,355,000	
1971	51,400	30.3%	96,360	29.8%	1,913,000	41.2%
1972	49,330	-4.0%	98,080	1.8%	2,138,000	11.8%
1973	42,350	-14.1%	84,640	-13.7%	1,783,000	-16.6%
1974	25,580	-39.6%	54,310	-35.8%	1,068,000	-40.1%
1975	16,640	-34.9%	40,690	-25.1%	935,000	-12.5%
1976	19,050	14.5%	47,160	15.9%	1,285,000	37.4%
1977	24,870	30.6%	58,200	23.4%	1,678,000	30.6%
1978	20,090	-19.2%	55,100	-5.3%	1,659,000	-1.1%
1979	20,210	0.6%	54,900	-0.4%	1,534,000	-7.5%
1980	16,473	-18.5%	40,970	-25.4%	1,171,000	-23.7%
1981	15,854	-3.8%	38,300	-6.5%	985,000	-15.9%
1982	15,529	-2.0%	38,370	0.2%	1,000,000	1.5%
1983	22,659	45.9%	57,700	50.4%	1,606,000	60.6%
1984	28,287	24.8%	72,760	26.1%	1,691,000	5.3%
1985	39,251	38.8%	96,080	32.1%	1,733,000	2.5%
1986	43,598	11.1%	107,805	12.2%	1,773,000	2.3%
1987	40,173	-7.9%	101,599	-5.8%	1,542,000	-13.0%
1988	31,954	-20.5%	82,769	-18.5%	1,450,000	-6.0%
1989	21,982	-31.2%	54,129	-34.6%	1,347,000	-7.1%
1990	15,765	-28.3%	38,148	-29.5%	1,127,000	-16.3%
1991	12,435	-21.1%	30,396	-20.3%	954,000	-15.4%
1992	16,209	30.3%	37,000	21.7%	1,106,000	15.9%
1993	17,717	9.3%	39,765	7.5%	1,211,000	9.5%
1994	18,236	2.9%	40,027	0.7%	1,358,000	12.1%
1995	16,078	-11.8%	37,690	-5.8%	1,334,000	-1.8%

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

Both the economic recession of 1989 and 1990 and the subsequent economic recovery were reflected in the housing sector. Significant declines in existing home sales in Massachusetts in 1989 and 1990 (of 12.0 percent and 34.6 percent, respectively) were followed by rapid sales growth between 1991 and 1993, when home sales in Massachusetts increased at a yearly rate substantially higher than the national average. Following this period of rapid growth, the growth in existing home sales slowed to a rate of 4.2 percent in 1994 and declined 2.2 percent in 1995. On a seasonally adjusted annual rate basis, existing home sales for the Commonwealth, New England, and the United States appear in the table below.

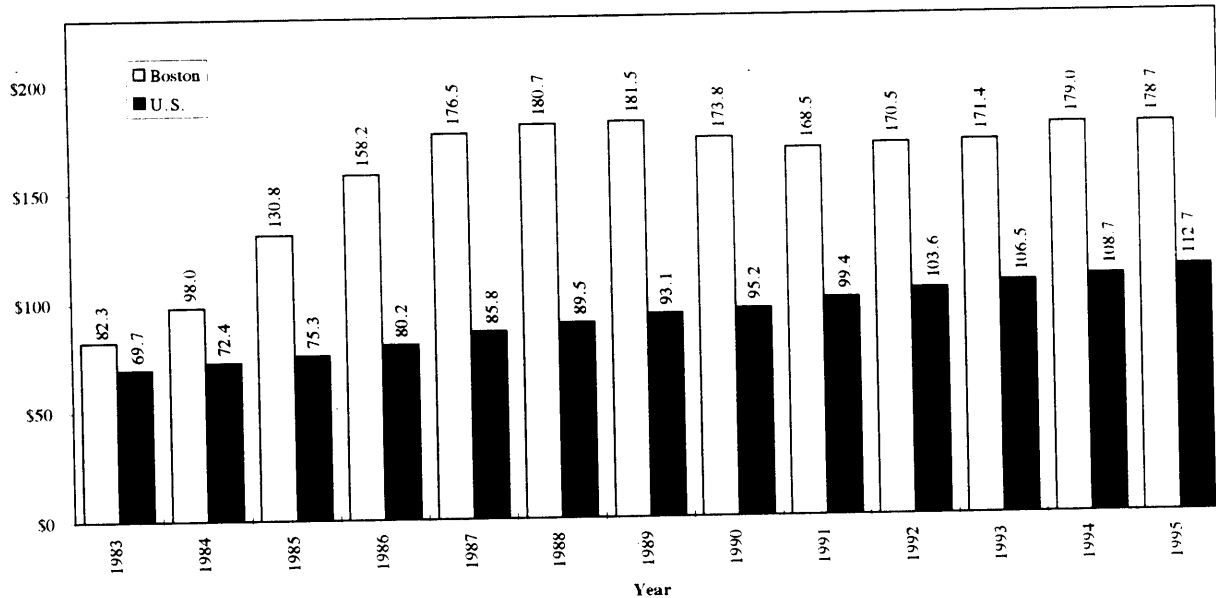
Existing Home Sales, 1983-1995 (seasonally adjusted annual rates, in thousands)

Year	Massachusetts		New England		United States	
	Sales	Percentage Change	Sales	Percentage Change	Sales	Percentage Change
1983	59.2		141.3		2,925.0	
1984	54.9	-7.3%	140.7	-0.4%	3,092.5	5.7%
1985	60.2	9.7%	157.0	11.6%	3,487.5	12.8%
1986	66.0	9.6%	169.2	7.8%	3,897.5	11.8%
1987	76.4	15.8%	174.5	3.1%	3,977.0	2.0%
1988	76.6	0.3%	178.5	2.3%	3,947.5	-0.7%
1989	67.4	-12.0%	142.8	-20.0%	3,807.5	-3.5%
1990	44.1	-34.6%	NA	NA	3,483.3	-8.5%
1991	49.5	12.2%	NA	NA	3,561.5	2.2%
1992	57.7	16.6%	139.7	NA	3,888.0	9.2%
1993	66.0	14.4%	159.1	13.9%	4,205.0	8.2%
1994	68.8	4.2%	172.6	8.5%	4,385.0	4.3%
1995	67.3	-2.2%	156.6	-9.3%	4,238.0	-3.4%

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

Single family home prices for the Boston Metropolitan area (not seasonally adjusted) appear below. While Boston housing prices were 18.1 percent higher than the U.S. average in 1983, by 1987 Boston housing prices as a percentage of the national average had reached a peak of 205.7 percent. Boston home prices remained 58.6 percent above the national average in 1995.

Average Annual Home Prices, 1983-1995
(in thousands of current dollars)

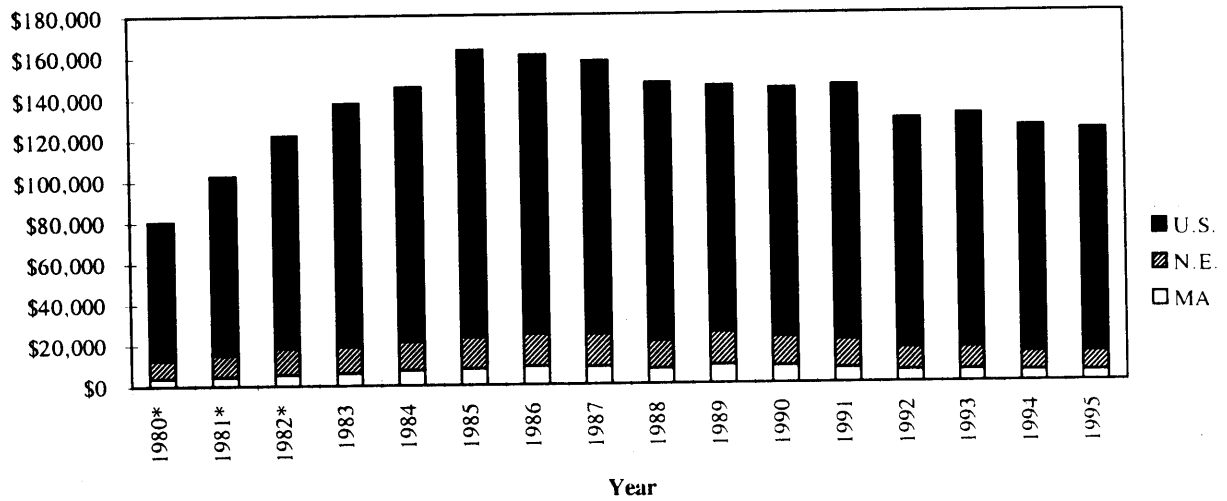


SOURCES: National Association of Realtors; Federal Reserve Bank of Boston.

Defense. Following a peak in the value of military prime contracts awarded to Massachusetts firms in fiscal 1986 of \$8.7 billion, defense-related contracts declined 17.2 percent by fiscal 1988 to \$7.2 billion. By fiscal year 1995, the value of defense-related prime contracts had declined to \$4.8 billion. The diversity of Massachusetts companies, particularly in the area of electronics and high technology research and development, has helped dampen 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 following chart and table, which show the value of Department of Defense prime contract awards between 1980 and 1995. Since 1980, Massachusetts has increased its share of New England contract awards from 42.7 percent of total New England awards to 51.7 percent of such awards in 1995. While the net value of prime contract awards in New England increased marginally in fiscal year 1995, the net value declined in Massachusetts and the United States as a whole. At the same time, the Commonwealth's share of the national total declined to 4.4 percent in fiscal year 1995 from a high of 7.3 percent in 1989.

Net Value of Prime Contract Awards, 1980-1995
(in millions)



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

Net Value of Department of Defense Prime Contract Awards, 1980-1995
(in millions)

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

SOURCE: United States Department of Defense.

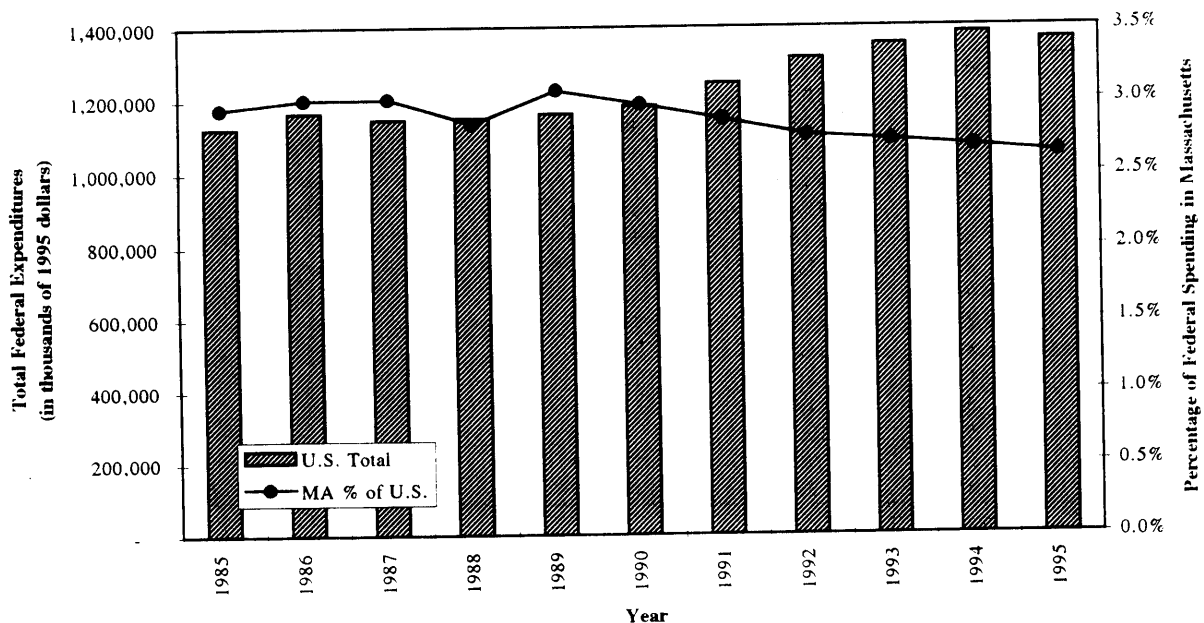
* Prime Contract is defined as \$10,000 and above for these years; beginning in 1983 it is defined as \$25,000 and above.

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

The Massachusetts Office of Travel and Tourism estimates that a total of 27.4 million people visited the Commonwealth in 1994. Of these, 1.5 million were international visitors. It was also estimated that 1993 spending by domestic travelers was \$7.35 billion while international travelers spent \$1.36 billion. The domestic visitor spending represents an 8.4 percent increase over 1992, while international traveler spending increased by 13.3 percent.

Federal Government Spending in Massachusetts. Federal government spending contributes a significant amount to the economy of Massachusetts. In fiscal 1995, Massachusetts ranked tenth in the nation in per capita distribution of federal funds, with total spending of \$5,936 per person. According to data compiled by the United States Department of Commerce, Massachusetts' share of total federal spending has declined steadily since 1989 even as total federal spending has increased. In 1995, Massachusetts received 2.6 percent of total federal spending. The following chart shows total federal expenditures and the percentage of federal expenditures in Massachusetts. Total federal spending data were converted to 1995 dollars by MISER using Consumer Price Index data for the United States. Federal spending includes grants to state and local governments, direct payments to individuals, wage and salary employment, and procurement contracts and includes only those expenditures which can be associated with individual states and territories.

**Total Real Federal Expenditures and
Percentage of Federal Expenditures in Massachusetts, 1985-1995**
(in thousands of constant 1995 dollars)

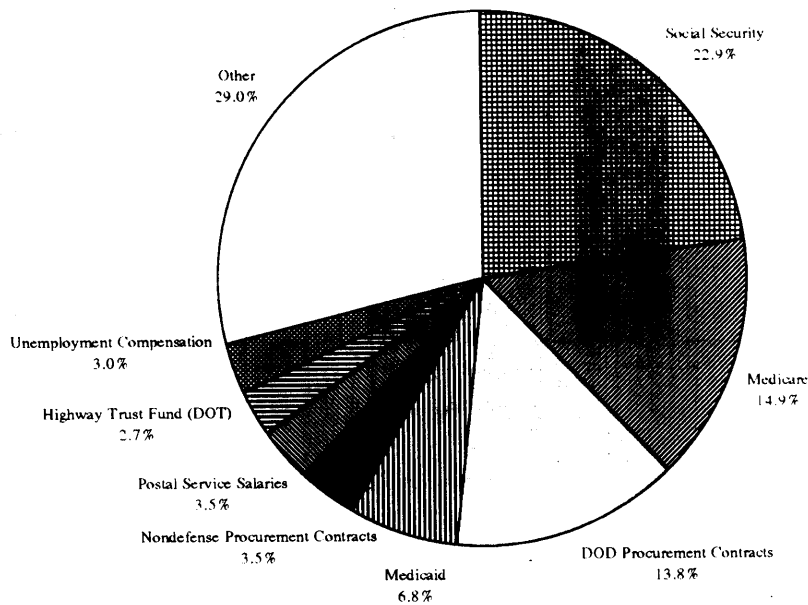


SOURCE: United States Department of Commerce, Bureau of the Census.

A large percentage of federal spending in Massachusetts in 1995 was composed of health care and social programs like Medicare, Medicaid, and Social Security. Massachusetts was above the national average in per capita federal grants to state and local governments, receiving \$1,131 per capita compared to a national average of \$866. Per capita federal spending on salaries and wages in 1995 was lower in Massachusetts than in the rest of the nation (\$489 compared to a national average of \$636) but Massachusetts was above the national average in per capita direct federal payments to individuals (\$2,984 compared to a national average of \$2,714). Within this latter category, Massachusetts ranked tenth in the nation in social security retirement insurance payments (\$936 compared to a national average of \$837) and fourth in Medicare hospital insurance payments (\$595 compared to a national average of \$435). Massachusetts ranked eighth in per capita procurement contract awards (\$1,025 compared to a national average of \$765) in 1995.

The following chart shows the composition of federal spending within Massachusetts in fiscal 1995.

Composition of Federal Spending in Massachusetts by Program, Fiscal 1995

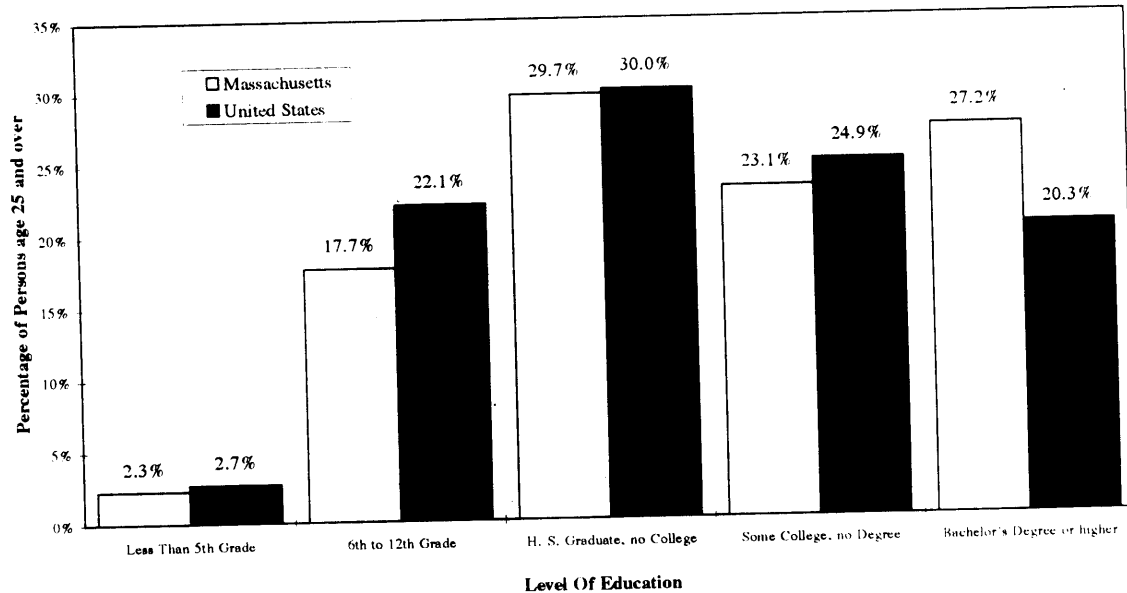


SOURCE: United States Department of Commerce, Bureau of the Census.

HUMAN RESOURCES AND INFRASTRUCTURE

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

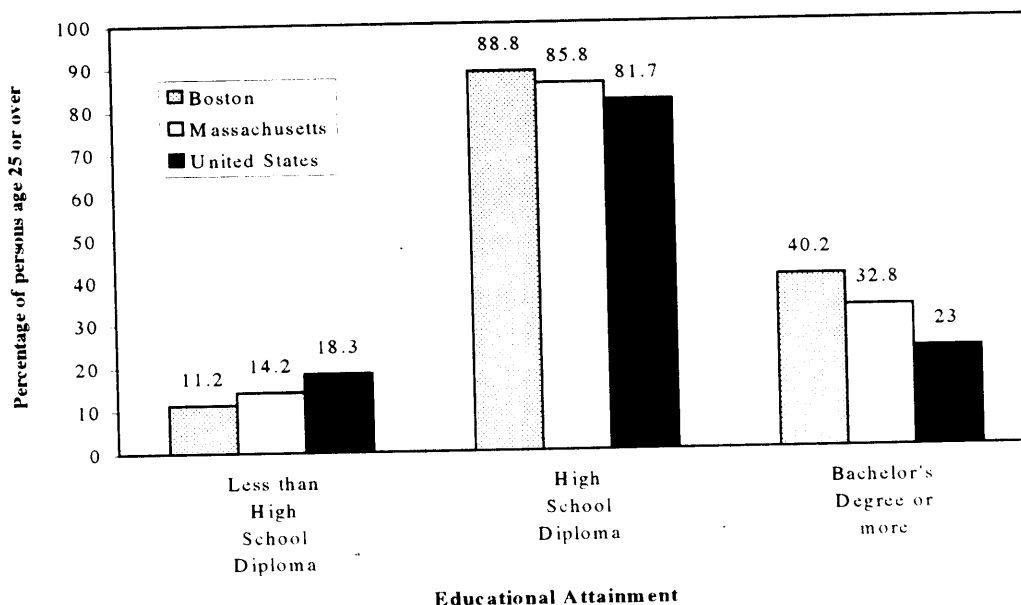
Educational Attainment, 1990



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

While developing this detailed evaluation of educational attainment every ten years, the Bureau of Census prepares a less detailed analysis of educational attainment between the years of the national census. This analysis follows a representative sample of all fifty states and fifty-six large metropolitan statistical areas in the United States. The most recent analysis for Massachusetts, Boston, and the United States is March 1995. While this is not an exhaustive study, the following chart shows that Massachusetts continues to rank highly in persons attaining a high school diploma and among the highest in persons completing a bachelor's degree or more.

Educational Attainment by Persons Age 25 or Over, March 1995



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

Both Boston and Massachusetts have a smaller percentage of persons who have not completed high school than the United States. In the other two categories, compared with Massachusetts and the United States, Boston has the highest percentage of the population over 25 with a bachelor's degree or more. Of the fifteen largest cities studied, Boston ranked eighth in the percentage of persons with a high school diploma. Boston ranked first among cities studied in the percentage of persons with a bachelor's degree or more. Both Boston and Massachusetts ranked above the United States in the percentage of persons with either a high school diploma or a bachelor's degree or more. Massachusetts ranked in the top third of the nation in the percentage of its population having received a high school diploma or more. Massachusetts ranked third among the fifty states in percentage of persons over 25 with a bachelor's degree or more.

Although spending on education is not necessarily an indication of results, it is important to note that Massachusetts spends more per pupil on primary and secondary education than the national average. In fact, per pupil spending in Massachusetts has been significantly higher than the national average since at least 1981. Between fiscal years 1982 and 1994, the ratio of Massachusetts spending to the national average has varied between 1.12 and 1.27. In fiscal 1994, Massachusetts spent twenty-one percent more on public elementary and secondary education than the United States average: \$6,423 per student compared to a national average of \$5,327 per student. The following table shows expenditures per pupil for Massachusetts and the United States since fiscal 1981.

Expenditure Per Pupil in Public Elementary and Secondary Schools, 1980-1995
(in current, unadjusted dollars)

<i>Fiscal Year</i>	<i>Massachusetts</i>	<i>United States</i>	<i>Ratio (MA/U.S.)</i>
1981	\$2,735	\$2,307	1.19
1982	\$2,823	\$2,525	1.12
1983	\$3,072	\$2,736	1.12
1984	\$3,298	\$2,940	1.12
1985	\$3,653	\$3,222	1.13
1986	\$4,031	\$3,479	1.16
1987	\$4,491	\$3,682	1.22
1988	\$4,965	\$3,927	1.26
1989	\$5,485	\$4,307	1.27
1990	\$5,766	\$4,643	1.24
1991	\$5,881	\$4,902	1.20
1992	\$5,952	\$5,023	1.18
1993	\$6,141	\$5,160	1.19
1994	\$6,423	\$5,327	1.21

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

Massachusetts is an internationally recognized center for higher education, with 420,127 students in undergraduate, professional and graduate programs in 1993, according to data supplied by the New England Board of Higher Education. The number of foreign students enrolled in Massachusetts colleges and universities in 1993 was 24,327, representing 5.4 percent of total foreign student enrollment in the United States. The Massachusetts public higher education system is composed of universities, state colleges, and community colleges with a combined enrollment of 181,461 students in 1993. In addition, Massachusetts has a system of private higher education that accounted for 56.8 percent of total enrollment in Massachusetts in 1993. The strength of both public and private colleges and universities as centers for research and education contributes to the high quality of the Massachusetts work force and plays a key role in attracting and retaining business and industry within the state.

The 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. According to data gathered by the National Science Foundation, Massachusetts receives a higher proportion of both federal funding and private industry funding for research and development than the national average. Nationally, private industry funded 6.8 percent of research and development ("R&D") at doctorate-granting institutions in fiscal 1994, compared with 8.5 percent for Massachusetts. At the same time, the federal government provided funding for 70.6 percent of all R&D activities at doctorate-granting institutions in Massachusetts compared to 60.1 percent for the nation as a whole. More importantly, Massachusetts received 6.4 percent of total federal spending on R&D at doctorate granting institutions in fiscal 1994 ranking Massachusetts fourth in the nation behind only California, New York, and Maryland.

The higher education system in Massachusetts is particularly strong in post-graduate, scientific, and technical education. The strength of the Massachusetts higher education system is evidenced by the draw it has upon new students. In the Fall of 1992, 19,354 new students migrated into the Massachusetts higher education system while only 11,854 migrated out of Massachusetts. Twenty-three percent of first-time freshmen in Massachusetts in the Fall of 1992 migrated to Massachusetts from outside New England. The strength of the Commonwealth's educational institutions is also reflected in the large number of degrees awarded. According to a 1993 New England Board of Higher Education analysis of U.S. Department of Education Data, Massachusetts confers an impressive number of mathematics, physical science, and engineering degrees. In the field of mathematics, baccalaureate, masters, and

doctorates numbered 533, 92, and 64 respectively. In the physical sciences, 798 baccalaureate, 270 masters, and 345 doctorate degrees were conferred. The numbers of degrees conferred in the engineering field ranked highest with 3,527 baccalaureate, 1,751 masters, and 369 doctorates conferred in 1993.

The diversity of federal funding sources reflects the variety of research and development work performed at Massachusetts educational institutions. According to the National Science Foundation, of the \$781,635 of total fiscal 1994 federal obligations for science and engineering support to universities and colleges in Massachusetts, 45.4 percent was from the Department of Health and Human Services, 19.1 percent was from the National Science Foundation, 14.5 percent was from the Department of Defense, 10.1 percent was from the Department of Energy, 6.3 percent was from the National Aeronautics and Space Administration, and 2.3 percent was from the Department of Agriculture.

Doctorate-granting institutions in New England spent 8.6 percent (\$1,779,296) of the total research and development funds (\$20,624,144) spent by such institutions in fiscal 1994. Massachusetts institutions spent 63 percent of these funds (\$1,122,344).

Major Infrastructure Projects. The next decade brings significant work on several major public sector-sponsored construction projects, giving rise in Massachusetts to new economic and employment opportunities. The projects include the depression of the central artery which traverses the City of Boston, and the construction of a third harbor tunnel linking downtown Boston to Logan Airport. The new Central Artery is designed to meet Boston's future traffic demand. It will move an estimated 240,000 vehicles per day with a normal urban rush hour of two to three hours. The Central Artery/Tunnel project will also strengthen connections among Boston's air, rail, and seaport terminals. By offering travelers and shippers increased choice and flexibility among these different modes of transportation, the project is contributing to the creation of an integrated, intermodal transportation system for the entire region. Construction of the Third Harbor Tunnel began in 1992 and stretches under Boston Harbor from South Boston to Logan Airport. The tunnel opened to commercial traffic in late 1995 and is expected to be open to all traffic by December 2001. After three years of construction, nearly \$2.6 billion in design and construction contracts have been advertised and awarded, creating jobs for 7,000 people. At present, the design is 70 percent complete and the construction is 21 percent complete. It is estimated that the project will ultimately cost over \$7.8 billion.

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. According to the MWRA 1995 Annual Report, the Boston Harbor Project is over 75 percent complete. The harbor cleanup project is estimated to cost \$3.5 billion. Work on the project began in 1988 and is expected to be completed in 1999, with the most significant expenditures occurring between 1990 and 1999. The centerpiece of the project is a new sewage treatment plant on Deer Island. The first half of the plant, portions of which became operational in January 1995, is a larger, more effective primary treatment plant to replace the existing one. The majority of the project's expenditures will be paid for by local communities, in the form of user fees, with federal and state sources making up the difference. According to the Massachusetts Water Resource Authority, in 1994 the project added more than \$500 million into the local economy and created more than 6,000 jobs which includes construction, engineering, and professional services jobs as well as spin-off jobs in other sectors of the economy. The federal government has committed roughly 18 percent (\$633 million) of the total projected cost of the program.

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COMMONWEALTH OF MASSACHUSETTS

COMBINED FINANCIAL STATEMENTS -

STATUTORY BASIS

**Independent Auditors' Report**

Mr. William Kilmartin, Comptroller
The Commonwealth of Massachusetts

We have audited the accompanying combined financial statements - statutory basis of the Commonwealth of Massachusetts as of June 30, 1995, 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 and Massachusetts State Teachers and Employees Retirement Systems Trust which are the investment vehicles of the Commonwealth of Massachusetts' Pension Trust Funds, the financial statements of which reflect 83 and 61 percent, respectively, of the assets and revenues of the Fiduciary Fund Type. We did not audit the financial statements of the University of Massachusetts, Bridgewater State College, Massachusetts College of Art, Holyoke Community College and Massasoit Community College which statements reflect 84 percent of the assets and 81 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 to the financial statements, 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, 1995, 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 to the financial statements, the Fiduciary Fund Type includes investments representing 6 percent 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 the other auditors', and, in the circumstances, 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.

This report is intended solely for the use of elected and appointed officials of the Commonwealth of Massachusetts and should not be used for any other purpose. This report is a matter of public record and its distribution is not limited.

Deloitte & Touche LLP

December 22, 1995

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

JUNE 30, 1995

(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Types
	General	Special Revenue	Capital Projects	Trust and Agency
ASSETS AND OTHER DEBITS				
Cash and short-term investments	\$ 0	\$ 1,154,470	\$ 22,975	\$ 1,219,962
Cash on deposit with U.S. Treasury				385,605
Cash with fiscal agent		16,436		13,054,319
Investments	203,387			1,630,207
Advances to related entity				
Assets held in trust				
Receivables, net of allowance for uncollectibles:				
Taxes	4,836	706		
Due from federal government	137,950	117,320	121,584	191,013
Other receivables	6,452	8,668		
Due from cities and towns	133,338	627		452,412
Due from other funds	9,272			
Fixed assets:				
Land				
Buildings				
Machinery and equipment				
Construction in progress				
Amount to be provided for retirement of long-term obligations				
Total assets and other debits	\$ 495,235	\$ 1,298,227	\$ 144,559	\$ 16,933,518
LIABILITIES, FUND EQUITY AND OTHER CREDITS				
Liabilities:				
Deficiency in cash and short-term investments	\$ 89,019	\$ 4,068	\$ 245,436	\$ 0
Accounts payable	301,369	276,420	291,884	216,880
Accrued payroll	34,098	9,257	1,270	220
Other liabilities				2,284,682
Due to cities and towns				14,292
Due to other funds				455,242
Capital leases				
Bonds, notes payable and certificate of participation	240,000			
Deferred revenue				
Total liabilities	664,486	289,745	538,590	2,971,316
Fund equity and other credits:				
Investment in general fixed assets				
Fund balances (deficit):				
Reserved for:				
Continuing appropriations	96,065	15,620		
Commonwealth stabilization		425,405		
Debt service		16,436		
Pension benefits				13,455,109
Unemployment benefits				385,605
Unreserved:				
Designated for specific purpose		113,209		121,488
Undesignated	(265,316)	437,812	(394,031)	
Total fund equity (deficit) and other credits	(169,251)	1,008,482	(394,031)	13,962,202
Total liabilities, fund equity and other credits	\$ 495,235	\$ 1,298,227	\$ 144,559	\$ 16,933,518

See notes to combined financial statements - statutory basis.

Account Groups				Totals (Memorandum Only)	
General Fixed Assets	General Long-term Obligations	Subtotal (Memorandum Only)	Non-appropriated Higher Education	1995	1994
\$ 0	\$ 0	\$ 2,397,407	\$ 121,968	\$ 2,519,375	\$ 2,562,016
		385,605		385,605	33,001
		16,436		16,436	5,114
		13,054,319	303,309	13,357,628	11,886,600
		203,387		203,387	170,093
		1,630,207		1,630,207	1,486,904
		5,542		5,542	5,409
		376,854	7,960	384,814	421,733
		206,133		206,133	268,922
		133,965		133,965	134,219
		461,684		461,684	387,336
513,939		513,939		513,939	496,207
3,435,777		3,435,777		3,435,777	3,362,971
838,824		838,824		838,824	853,124
19,631		19,631		19,631	30,449
	9,709,956	9,709,956		9,709,956	9,497,475
\$ 4,808,171	\$ 9,709,956	\$ 33,389,666	\$ 433,237	\$ 33,822,903	\$ 31,601,573
\$ 0	\$ 0	\$ 338,523	\$ 0	\$ 338,523	\$ 535,943
		1,086,553	24,419	1,110,972	1,583,327
		44,845	876	45,721	83,735
		2,284,682	1,846	2,286,528	2,013,363
		14,292		14,292	11,937
		455,242	6,442	461,684	387,336
	70,555	70,555		70,555	69,730
	9,639,401	9,879,401		9,879,401	9,746,269
					32,919
	9,709,956	14,174,093	33,583	14,207,676	14,464,559
4,808,171		4,808,171		4,808,171	4,742,751
		111,685		111,685	74,245
		425,405		425,405	382,907
		16,436		16,436	5,114
		13,455,109		13,455,109	11,535,422
		385,605		385,605	30,514
		234,697	10,554	245,251	242,424
		(221,535)	389,100	167,565	123,637
4,808,171		19,215,573	399,654	19,615,227	17,137,014
\$ 4,808,171	\$ 9,709,956	\$ 33,389,666	\$ 433,237	\$ 33,822,903	\$ 31,601,573

COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 STATUTORY BASIS - ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUNDS
 AND NON-APPROPRIATED HIGHER EDUCATION FUNDS
 FISCAL YEAR ENDED JUNE 30, 1995

(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Type
	General	Special Revenue	Capital Projects	Expendable Trust
Revenues:				
Taxes	\$ 6,603,842	\$ 4,568,221	\$ 0	\$ 1,153,576
Assessments	200,992	364,968		2,353
Federal grants and reimbursements	2,961,719	1,237,565	950,286	27,889
Departmental	651,662	3,762,926	307	5,803
Miscellaneous	94,051	84,397	76	150,582
Total revenues	10,512,266	10,018,077	950,669	1,340,203
Other financing sources:				
Proceeds of general obligation bonds			909,862	
Proceeds of special obligation bonds			513,622	
Proceeds of refunding bonds				
Fringe benefit cost recovery	204,084	2,851		5,745
Operating transfers in	368,884	1,002,212	160,466	
Stabilization transfer		27,930		
Other sources			49,001	2,869
Total other financing sources	572,968	1,032,993	1,532,951	8,614
Total revenues and other financing sources	11,085,234	11,051,070	2,483,620	1,348,817
Expenditures:				
Legislature	46,522		1,171	
Judiciary	35,213	318,226	2,409	295
Inspector General	1,397		227	
Governor and Lieutenant Governor	4,753			
Secretary of the Commonwealth	9,178	4,475	2,861	118
Treasurer and Receiver-General	93,755	2,252,168	22,569	2,532
Auditor of the Commonwealth	10,805	754		451
Attorney General	20,232	3,042	846	808
Ethics Commission	541	551		
District Attorney	82	50,703	5,528	2,925
Office of Campaign & Political Finance	321	327		254
Disabled Persons Protection Commission	1,330			
Board of Library Commissioners		4,744	5,124	1
Comptroller	5,573	540	4,921	
Administration and finance	732,996	239,648	112,294	2,583
Environmental affairs	21,978	156,501	117,687	5,053
Communities and development	108,750	240,708	46,902	3,832
Health and human services	3,422,484	1,059,157	12,914	16,742
Transportation and construction	528,375	231,215	1,446,397	625
Education	98	485,802	6,403	1,413
Educational affairs	2,068	4,374	150	
Higher education	700,915	15,394	10,637	159
Public safety	324,013	401,101	33,219	3,147
Economic affairs	17,274	187,685	800	835,698
Elder affairs	126,370	34,942	207	59
Consumer affairs	28,265	6,094		6,666
Labor	22,123	2,636	105	33,965
Direct local aid		2,983,813		
Medicaid	3,358,620	39,600		
Pension	326,630	642,162		
Debt service:				
Principal retirement	323,127	372,214		
Interest and fiscal charges	288,006	250,356		
Total expenditures	10,561,794	9,988,932	1,833,371	916,426
Other financing uses:				
Payments to refunded bond escrow agent			513,622	
Fringe benefit cost assessment		113,791	17,981	1,423
Operating transfers out	44,030	1,261,423	160,435	71,704
Stabilization transfer	16,758	11,172		
Other uses			34	
Total other financing uses	60,788	1,386,386	692,072	73,127
Total expenditures and other financing uses	10,622,582	11,375,318	2,525,443	989,553
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	462,652	(324,248)	(41,823)	359,264
Fund balances (deficits) at beginning of year	(631,903)	1,332,730	(352,208)	141,992
Fund balances (deficits) at end of year	\$ (169,251)	\$ 1,008,482	\$ (394,031)	\$ 501,256

See notes to combined financial statements - statutory basis.

Subtotal (Memorandum Only)	Non-appropriated Higher Education	Totals (Memorandum Only)	
		1995	1994
\$ 12,325,639	\$ 0	\$ 12,325,639	\$ 11,763,360
568,313		568,313	547,357
5,177,459	197,313	5,374,772	5,509,553
4,420,698	863,214	5,283,912	4,773,204
329,106	204,908	534,014	513,047
22,821,215	1,265,435	24,086,650	23,106,521
809,862		809,862	392,208
513,622		513,622	297,998
206,935		206,935	835,795
1,537,307	51,257	1,588,564	1,89,156
27,930		27,930	1,215,006
51,870		51,870	65,423
3,147,526	51,257	3,198,783	3,034,051
25,968,741	1,316,692	27,285,433	26,140,572
47,693		47,693	43,110
356,143		356,143	346,219
1,624		1,624	1,421
4,753		4,753	4,292
16,632		16,632	11,634
2,371,024		2,371,024	2,105,493
12,010		12,010	11,067
24,928		24,928	24,469
1,092		1,092	1,064
59,238		59,238	51,215
902		902	628
1,330		1,330	1,325
9,869		9,869	6,134
11,034		11,034	10,513
1,087,521		1,087,521	1,088,211
301,219		301,219	290,257
400,192		400,192	397,289
4,511,297		4,511,297	4,317,771
2,206,612		2,206,612	2,092,032
493,716		493,716	461,769
6,592		6,592	3,095
727,105	1,154,716	1,881,821	1,867,685
761,480		761,480	694,134
1,041,457		1,041,457	1,316,982
161,578		161,578	156,135
41,025		41,025	35,823
57,929		57,929	51,722
2,983,813		2,983,813	2,727,313
3,398,220		3,398,220	3,313,127
968,792		968,792	908,948
695,341		695,341	631,221
538,362		538,362	520,163
23,300,523	1,154,716	24,455,239	23,492,261
513,622		513,622	835,795
133,195	73,740	206,935	189,156
1,537,592	50,972	1,588,564	1,215,004
27,930		27,930	65,423
34		34	
2,212,373	124,712	2,337,085	2,305,378
25,512,896	1,279,428	26,792,324	25,797,639
455,845	37,264	493,109	342,933
490,611	362,390	853,001	510,068
\$ 946,456	\$ 399,654	\$ 1,346,110	\$ 853,001

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, 1995
 (Amounts in thousands)

	General Fund		Variance Favorable (Unfavorable)
	Budget	Actual	
Revenues:			
Taxes	\$ 6,591,100	\$ 6,603,842	\$ 12,742
Assessments		200,992	200,992
Federal grants and reimbursements	2,936,700	2,961,719	25,019
Departmental	716,000	651,662	(64,338)
Miscellaneous		94,051	94,051
Total revenues	10,243,800	10,512,266	268,466
Other financing sources:			
Fringe benefit cost recovery		204,084	204,084
Operating transfers in	252,700	368,884	116,184
Stabilization transfer			
Total other financing sources	252,700	572,968	320,268
Total revenues and other financing sources	10,496,500	11,085,234	588,734
Expenditures:			
Legislature	65,585	46,522	19,063
Judiciary	35,551	35,213	338
Inspector General	1,448	1,397	51
Governor and Lieutenant Governor	5,446	4,753	693
Secretary of the Commonwealth	9,364	9,178	186
Treasurer and Receiver-General	94,784	93,755	1,029
Auditor of the Commonwealth	10,808	10,805	3
Attorney General	20,330	20,232	98
Ethics Commission	541	541	
District Attorney	100	82	18
Office of Campaign and Political Finance	321	321	
Disabled Persons Protection Committee	1,335	1,330	5
Board of Library Commissioners			
Comptroller	5,582	5,573	9
Administration and finance	816,657	732,996	83,661
Environmental affairs	22,851	21,978	873
Communities and development	117,821	108,750	9,071
Health and human services	3,524,047	3,422,484	101,563
Transportation and construction	536,189	528,375	7,814
Education	101	98	3
Educational affairs	2,115	2,068	47
Higher education	705,250	700,915	4,335
Public safety	325,975	324,013	1,962
Economic affairs	18,612	17,274	1,338
Elder affairs	129,358	126,370	2,988
Consumer affairs	29,676	28,265	1,411
Labor	23,452	22,123	1,329
Direct local aid			
Medicaid	3,375,649	3,358,620	17,029
Pension	339,289	326,630	12,659
Debt service:			
Principal retirement	335,700	323,127	12,573
Interest and fiscal charges	319,303	288,006	31,297
Total expenditures	10,873,240	10,561,794	311,446
Other financing uses:			
Fringe benefit cost assessment			(6,680)
Operating transfers out	37,350	44,030	(6,680)
Stabilization transfer		16,758	(16,758)
Total other financing uses	37,350	60,788	(23,438)
Total expenditures and other financing uses	10,910,590	10,622,582	288,008
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(414,090)	462,652	876,742
Fund balances (deficits) at beginning of year	(631,903)	(631,903)	
Fund balances (deficits) at end of year	\$ (1,045,993)	\$ (169,251)	\$ 876,742

See notes to combined financial statements - statutory basis.

Budgeted Special Revenue Funds			Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 4,710,000	\$ 4,559,526	\$ (150,474)	\$ 11,301,100	\$ 11,163,368	\$ (137,732)
	28,101	28,101		229,093	229,093
12,400	8,003	(4,397)	2,949,100	2,969,722	20,622
456,903	475,171	18,268	1,172,903	1,126,833	(46,070)
	54,973	54,973		149,024	149,024
5,179,303	5,125,774	(53,529)	15,423,103	15,638,040	214,937
	2,851	2,851		206,935	206,935
629,500	689,053	59,553	882,200	1,057,937	175,737
	27,930	27,930		27,930	27,930
629,500	719,834	90,334	882,200	1,292,802	410,602
5,808,803	5,845,608	36,805	16,305,303	16,930,842	625,539
			65,585	46,522	19,063
319,298	316,227	3,071	354,849	351,440	3,409
			1,448	1,397	51
			5,446	4,753	693
3,881	3,797	84	13,245	12,975	270
7,113	6,316	797	101,897	100,071	1,826
754	754		11,562	11,559	3
927	915	12	21,257	21,147	110
551	551		1,092	1,092	
50,043	49,582	461	50,143	49,664	479
328	327	1	649	648	1
			1,335	1,330	5
2,339	2,335	4	2,339	2,335	4
525	525		6,107	6,098	9
199,395	183,666	15,729	1,016,052	916,662	99,390
140,970	132,307	8,663	163,821	154,285	9,536
28,068	26,844	1,224	145,889	135,594	10,295
134,872	118,855	16,017	3,658,919	3,541,339	117,580
240,133	226,918	13,215	776,322	755,293	21,029
125,560	121,679	3,881	125,661	121,777	3,884
3,510	3,391	119	5,625	5,459	166
2,536	2,386	150	707,786	703,301	4,485
382,094	377,065	5,029	708,669	701,078	6,991
16,012	14,095	1,917	34,624	31,569	3,255
9,369	9,343	26	138,727	135,713	3,014
5,218	4,476	742	34,894	32,741	2,153
			23,452	22,123	1,329
2,985,744	2,976,240	9,504	2,985,744	2,976,240	9,504
39,600	39,600		3,415,249	3,398,220	17,029
665,159	642,162	22,997	1,004,448	968,792	35,656
379,374	370,390	8,984	715,074	693,517	21,557
254,464	249,505	4,959	573,767	537,511	36,256
5,997,837	5,880,251	117,586	16,871,077	16,442,045	429,032
	54,769	(54,769)		54,769	(54,769)
220,927	225,380	(4,453)	258,277	269,410	(11,133)
	11,172	(11,172)		27,930	(27,930)
220,927	291,321	(70,394)	258,277	352,109	(93,832)
6,218,764	6,171,572	47,192	17,129,354	16,794,154	335,200
(409,961)	(325,964)	83,997	(824,051)	136,688	960,739
1,221,237	1,221,237		589,334	589,334	
\$ 811,276	\$ 895,273	\$ 83,997	\$ (234,717)	\$ 726,022	\$ 960,739

**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, 1995
 (Amounts in thousands)**

	Fiduciary Fund Types		Totals (Memorandum Only)	
	Nonexpendable Trust Funds	Pension Trust Funds	1995	1994
Operating revenues:				
Employees contributions	\$ 0	\$ 401,103	\$ 401,103	\$ 383,904
Investment earnings		1,715,844	1,715,944	245,446
Total operating revenues		2,116,947	2,116,947	629,350
Other financing sources:				
Operating transfers in		671,254	671,254	675,069
Total operating revenues and other financing sources		2,788,201	2,788,201	1,304,419
Operating expenses:				
Administration		2,830	2,830	3,676
Auditor of the Commonwealth	3		3	
Payments to beneficiaries and cities and towns		194,430	194,430	186,751
Total operating expenses	3	197,260	197,263	190,427
Other financing uses:				
Operating transfers out		671,254	671,254	675,071
Total operating expenses and other financing uses	3	868,514	868,517	865,498
Net income (deficit)	(3)	1,919,687	1,919,684	438,921
Fund balances at beginning of year	5,840	11,535,422	11,541,262	11,102,341
Fund balances at end of year	\$ 5,837	\$ 13,455,109	\$ 13,460,946	\$ 11,541,262

See notes to combined financial statements - statutory basis.

**COMMONWEALTH OF MASSACHUSETTS
STATUTORY BASIS FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1995**

1. FINANCIAL STATEMENT PRESENTATION

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

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

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

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

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

These fund types and account groups are organized as follows:

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

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

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

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

**COMMONWEALTH OF MASSACHUSETTS
STATUTORY BASIS FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1995**

1. FINANCIAL STATEMENT PRESENTATION (CONTINUED)

Governmental Fund Types (Continued) –

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 and specific obligation bonds, which are generally received after the expenditure has been incurred, and from federal reimbursements. Therefore, deficit balances in Capital Projects Funds represent amounts to be financed.

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

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

Nonexpendable Trust Funds – account for trusts whose principal cannot be spent.

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 capital leases.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

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

Investments of the Pension Trust Funds are stated at market. The Massachusetts State Teachers and Employees Retirement Systems Trust (Master's Trust) and the Pension 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 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 \$74,965,000 in the Master's Trust and \$985,483,000 in the PRIT.

Other investments are stated at cost.

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

**COMMONWEALTH OF MASSACHUSETTS
STATUTORY BASIS FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1995**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In regards to the Central Artery and Tunnel project administered by the Massachusetts Highway Department, the Commonwealth has entered into agreements for insurance for workers' compensation and certain other claims that may arise in the course of this project. This special arrangement has been approved by the Federal Highway Administration as a cost-effective method to fund current and potential claims by contractors, workers, and other parties affected by the project. Pursuant to the agreement, the Commonwealth conveys each month a sum of money to the agent. This amount includes both federal and state share. The agent manages and settles all claims. At the conclusion of the program, the balance remaining, if any, will be returned to the Commonwealth and the federal government. The monthly amount conveyed to the agent is accounted for (on the statutory basis of accounting) as expenditures in the Federal Highway Capital Project Fund.

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

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

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

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

Fund balance has been reserved as follows:

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

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

**COMMONWEALTH OF MASSACHUSETTS
STATUTORY BASIS FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1995**

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

“Reserved for pension benefits” – identifies amounts invested to finance the Commonwealth’s public employee retirement systems.

Unreserved fund balance is segregated into two components:

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

“Undesignated” – consists of cumulative surpluses or deficits of the Governmental Fund Types not otherwise designated.

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

Reclassification – Certain reclassifications have been made to the 1994 balances to conform to the presentation used in 1995.

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.

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.

3. BUDGETARY CONTROL (CONTINUED)

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 1995 appropriation act was Chapter 60, Acts of 1994. This appropriation act authorized \$15,403,812,000 in direct appropriations and \$699,164,000 in authorizations to retain and expend certain non-tax revenues, plus \$105,755,000 of interagency chargebacks. Chapter 60 included projections of \$11,301,100,000 in tax revenues and approximately \$4,995,921,000 in non-tax revenues. With these revenues (exclusive of chargebacks) projected to total approximately \$16,297,021,000, and with unreserved balances of approximately \$127,068,000 carried forward from fiscal year 1994, the budget as presented in this original appropriation act was considered to be in balance.

During fiscal year 1995, the Legislature also passed and the Governor signed, with some modification through veto, Chapters 126 and 192, Acts of 1994, and Chapters 5, 6, 33, 39, Acts of 1995, which included numerous supplemental budgetary appropriations. These increases added \$442,374,000 in direct appropriations, \$1,543,000 in additional retained revenue authorizations and \$4,849,000 of interagency chargebacks. Subsequent to June 30, 1995 the Legislature passed and the Governor signed Chapter 120 of the Acts of 1995 which included \$46,131,000 in additional supplemental appropriations. The cumulative fiscal year 1995 appropriations, retained revenues, and interagency chargebacks totaled \$16,703,628,000. Appropriations continued from fiscal year 1994 totaled approximately \$74,245,000, and certain interfund transfers directed by statute totaled approximately \$351,481,000.

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

**COMMONWEALTH OF MASSACHUSETTS
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3. BUDGETARY CONTROL (CONTINUED)

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

	Revenues and Other Financing Sources	Expenditures and Other Financing Uses
As presented in the combining budget and actual statement statutory basis	\$ 16,930,842	\$ 16,794,154
Adjustments to revenues and expenditures:		
Municipal transit assessments	(143,895)	(143,895)
Charges from the Intragovernmental Service Fund	(4,432)	(4,432)
Adjustments to other financing sources and uses:		
MBTA subsidy transfer from the Highway Fund to the General Fund	(174,698)	(174,698)
Fringe benefit cost assessments to budgeted funds	(54,769)	(54,769)
Transfer from the Intragovernmental Service Fund to the General Fund	(87,972)	(87,972)
RMV License Plates	(1,789)	(1,789)
Stabilization transfers	(27,930)	(27,930)
Collective Bargaining Reserve Transfer	(37,000)	(37,000)
Commonwealth Cost Relief Fund Transfer	<u>(11,133)</u>	<u>(11,133)</u>
As presented on budgetary documents	<u>\$ 16,387,224</u>	<u>\$ 16,250,536</u>

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

3. BUDGETARY CONTROL (CONTINUED)

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

Administrative Control Funds are:

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

Major Budgeted Special Revenue Funds are:

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

Budgeted Environmental (Special Revenue) Funds are:

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

Other Budgeted (Special Revenue) Funds are:

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

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

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

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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.

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, 1995, are as follows (amounts in thousands)

	Carrying Value
Cash	\$ 426,536
Certificates of deposit	<u>143,519</u>
	570,055
Short-term investments:	
U.S. Treasury obligations	125,000
Commercial paper	57,773
Short-term investment pool	294,661
Repurchase agreements	220,000
Money market investments	780,117
Mutual funds	27,714
Non-appropriated Higher Education Fund Type cash managed at the campus level	<u>121,968</u>
Total	<u>\$2,197,288</u>

NOTES TO THE COMBINED FINANCIAL STATEMENTS

4. DEPOSITS AND INVESTMENTS (CONTINUED)

The Pension Trust Funds have invested a significant portion of their portfolios on two pooled trusts which account for their operations in a manner similar to a mutual fund. The trusts are permitted to invest in equity securities, fixed income securities, real estate and other alternatives. The investments are carried at market value. At June 30, 1995, they are as follows (amounts in thousands):

Investments:	
Equity securities	\$ 6,435,838
U.S. government and government agency securities	2,448,082
Fixed income securities	1,546,248
Real estate	446,192
Collateralized mortgage obligations	113,520
Alternative investments	614,255
International investments	1,448,482
Other	<u>1,702</u>
Total	<u>\$13,054,319</u>

Financial Instruments with Off-Balance Sheet Risk - Certain investments of the Commonwealth may involve a degree of risk not accounted for on the respective financial statements. A description of such investments is as follows:

Forward Currency Contracts - The Pension Trust Funds enter into forward currency contracts to hedge the exposure to changes in foreign currency exchange rates on foreign portfolio holdings. The market value of the contract will fluctuate with changes in currency exchange rates. Risks may arise upon entering these contracts from the potential inability of counterparties to meet the terms of their contracts and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar.

When the contract is closed, the Trusts record a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. Fluctuations in the value of forward currency contracts are recorded as unrealized gains or losses by the Trusts.

Future Contracts - The Pension Trust Funds may purchase and sell financial futures contracts to hedge against changes in the values of securities the fund owes or expects to purchase. Upon entering such contracts, they must pledge to the broker an amount of cash or securities equal to a percentage of the contract amount.

The potential risk is that the change in the value of futures contracts primarily corresponds with the value of underlying instruments which may not correspond to the change in value of the hedged instruments. In addition, there is a risk that PRIT or Masters may not be able to close out its future positions due to a non-liquid secondary market. Risks may arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar. The Trusts may also invest in financial futures contracts for non-hedging purposes.

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4. DEPOSITS AND INVESTMENTS (CONTINUED)

Future Contracts (Continued) - Payments are made or received by the Trusts each day, depending on the daily fluctuations in the value of the underlying security, and are recorded as unrealized gains or losses. When the contracts are closed, the Trusts recognize a realized gain or loss. The notional value of the futures contracts at June 30, 1995 for the Trusts amount to approximately \$125,000,000 with unrealized losses of approximately \$315,000

Options - PRIT and Masters are also engaged in selling or "writing" options. The Trusts as writers of options, may have no control over whether the underlying securities may be sold (call) or purchased (put) and, as a result, bears the market risk of an unfavorable change in the price of the security underlying the written option. As of June 30, 1995, there were no material options outstanding

The Commonwealth's public institutions of higher education cash management investment policy authorizes the institutions of higher education to invest in obligations of the U.S. Department of Treasury, its agencies and instrumentalities, municipal and state bonds, certificates of deposit, commercial paper, banker's acceptances, Eurodollar contracts, corporate bonds, mutual funds, collateralized mortgage obligations and asset backed securities, repurchase agreements, and money market funds. The investment policy authorizes the institutions of higher education to invest endowment funds in the above investments as well as common and preferred stock. At June 30, 1995, the Commonwealth's public institutions of higher education held the following investments valued at cost (amounts in thousands):

Investments:	
U.S. government and government agency securities	\$148,343
Fixed income securities	53,014
Asset backed investments	10,427
Eurodollar contracts	28,402
Money market investments	48,123
Mututal fund investments	<u>15,000</u>
 Total	 <u>\$303,309</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, 1995 totaled \$240,000,000 with an interest rate of 4.25% and a yield of 3.45%, and mature in June 1996.

The balance of other Revenue Anticipation Notes (RANs) outstanding fluctuates during the fiscal year but must be reduced to zero at June 30. During fiscal year 1995, there were no RANs issued and outstanding.

5. **SHORT-TERM FINANCING AND CREDIT AGREEMENTS (CONTINUED)**

Capital Projects Funds – In recent years, the Commonwealth had issued five-year term minibonds, which were redeemable upon demand, to finance its capital projects. At June 30, 1995, there were no minibonds outstanding.

The Commonwealth may issue Bond Anticipation Notes (BANs) to temporarily finance its capital projects, but it must reduce the balance to \$200,000,000 at June 30. There were no such notes outstanding at June 30, 1995. Subsequent to year end, in September 1995, \$190,000,000 BANs were issued; as of the date of the report \$98,000,000 remains outstanding.

Letter of-Credit Agreements – During fiscal year 1995, the Commonwealth maintained letter-of-credit agreements with several banks in order to provide credit and liquidity support for its commercial paper program. The letters of credit were available to secure up to \$400,000,000 of Commonwealth commercial paper plus interest thereon. Advances were available, subject to certain limitations and bearing interest at the bank rate as defined, in anticipation of revenue or bond proceeds and repayable by the following June 30, subject to extension in certain circumstances, at the Commonwealth's option. No such advances were drawn during the fiscal year ended June 30, 1995, or subsequent thereto. These agreements expire September 30, 1996 through October 31, 1996. The average costs are approximately 0.085% on unutilized amounts and approximately 0.12% on utilized amounts.

Line-of-Credit Agreement – During fiscal year 1995, the Commonwealth maintained a line of credit with a bank to provide liquidity support for up to \$200,000,000 of commercial paper notes, the line of credit expires September 30, 1996. The average costs of all the lines of credit are approximately 0.06% on unutilized amounts and approximately 0.085% on utilized amounts.

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.

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6. LONG-TERM BONDS (CONTINUED)

As of June 30, 1995, 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 Commonwealth-owned capital projects and local government improvements. They are backed by the full faith and credit of the Commonwealth and paid from the Governmental Funds, in which debt service principal and interest payments are appropriated. 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, as well as the full faith and credit of the Commonwealth.

The Commonwealth also issues special obligation revenue bonds as authorized under Section 20 of Chapter 29 of the Massachusetts General Laws. These bonds are secured by all or a portion of revenues credited to the Highway Fund and are not general obligations of the Commonwealth. At June 30, 1995, the Commonwealth had outstanding \$394,700,000 of such special obligation bonds, secured by a pledge of 6.86 cents of the 21-cent motor fuel excise tax imposed on gasoline.

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

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

6. LONG-TERM BONDS (CONTINUED)

General obligation, special obligation and dedicated income tax long-term bonds outstanding (including discount and issuance costs) and bonds authorized-unissued at June 30, 1995, are as follows (amounts in thousands):

Purpose	Outstanding	Maturity Dates	Authorized – Unissued
Deficit reduction – fiscal recovery	\$ 618,980	1995 – 1998	\$ 57,274
Capital projects:			
General	6,218,311	1995 – 2025	2,403,124
Highway	1,846,877	1995 – 2016	2,409,675
Local aid	862,706	1995 – 2015	1,050,535
Other	<u>81,592</u>	1995 – 2025	<u>22,199</u>
Capital projects bonds	<u>9,009,486</u>		<u>5,885,533</u>
Total	<u>\$9,628,466</u>		<u>\$5,942,807</u>

Interest rates on the Commonwealth's bonded debt outstanding at June 30, 1995 ranged from 0.10% to 14.125%.

Changes in long-term bonds outstanding and bonds authorized - unissued for the year ended June 30, 1995 are as follows (amounts in thousands):

	Bonds Outstanding	Authorized – Unissued
Balance, July 1, 1994	\$ 9,427,745	\$ 4,512,297
General and obligation bonds:		
Principal less discount and issuance costs	809,862	(809,862)
Discount and issuance costs	15,139	
General obligation refunding bonds:		
Principal of bonds issued	499,095	
Bonds retired (excluding minibonds)	(646,280)	
Refunded bonds	(477,095)	
Increase in bonds authorized		2,252,288
Expiration of authorizations		<u>(11,916)</u>
Balance, June 30, 1995	<u>\$ 9,628,466</u>	<u>\$ 5,942,807</u>

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6. LONG-TERM BONDS (CONTINUED)

At June 30, 1995, debt service requirements to maturity for principal (including discount, capital appreciation and issuance costs) and interest are as follows (amounts in thousands):

Year ending June 30	Principal	Interest	Total
1996	\$ 684,266	\$ 488,605	\$ 1,172,871
1997	719,135	460,173	1,179,308
1998	641,621	412,171	1,053,792
1999	569,942	377,398	947,340
2000	588,664	344,117	932,781
2001 and thereafter	<u>6,424,838</u>	<u>2,135,158</u>	<u>8,559,996</u>
Total	<u>\$ 9,628,466</u>	<u>\$ 4,217,622</u>	<u>\$13,846,088</u>

The Commonwealth issued bonds and notes under negotiated contracts and under competitive bidding contracts during the fiscal year 1995. The costs for legal counsel and underwriting fees under the negotiated bond sales were \$111,209 and \$3,634,957, and the competitive bond sales costs were estimated at \$257,023 and \$3,055,824, respectively.

Subsequent to June 30, 1995, the Commonwealth issued \$26,100,000 in general obligation bonds, with variable interest rates, \$200,000,000 in general obligation bonds, with interest rates ranging from 4% to 5.625%, and \$250,000,000, in general obligation bonds with an interest rate of 5.125%.

Variable Rate Bonds – In 1990, the Commonwealth issued \$1,339,100,000 in debt to finance the accumulated operating deficits. Some \$380,100,000 of that debt was issued at variable rates, of which \$148,700,000 was outstanding on June 30, 1995. Payment of the principal and interest on the variable rate bonds is guaranteed through letters of credit entered into between the Commonwealth and certain banks. To limit its exposure to the fluctuating interest rates on the variable rate debt, the Commonwealth entered into interest rate swap agreements with two investment banking firms. Under these agreements, the Commonwealth receives payments from the firms approximately equal to the variable interest rate paid by the Commonwealth on the bonds, and, in return, makes fixed payments to the firms. The fixed payments made by the Commonwealth are equivalent to fixed interest rates of 6.225% on \$23,700,000 of the outstanding bonds, 6.7895% on \$75,000,000 of the bonds and 6.839% on the remaining \$50,000,000 of bonds.

6. LONG-TERM BONDS (CONTINUED)

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 \$499,095,000 of general obligation refunding bonds during fiscal year 1995. Proceeds totaling approximately \$513,622,000, including bond premiums, were used to purchase U.S. Government securities which were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liabilities therefore have been removed from the General Long-term Obligations Account Group. As a result of these advance refundings, the Commonwealth decreased 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 \$33,255,000 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 \$21,090,000. At June 30, 1995, approximately \$477,095,000 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, 1995, approximately \$2,106,000,000 of bonds outstanding from advance refundings in prior fiscal years are considered defeased.

Statutory Debt Limit – In fiscal years 1990 and 1991, Section 60A of Chapter 29, of the Massachusetts General Laws was amended to establish a limit on the amount of direct debt outstanding, effective at the beginning of fiscal year 1991. By statutorily limiting the Commonwealth's ability to issue direct debt, this limit provides 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 1995 was \$8,265,443,000.

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 bond anticipation notes and 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 \$7,625,462,000 at June 30, 1995.

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

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6. LONG-TERM BONDS (CONTINUED)

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

Year ending June 30	Amount
1996	\$ 2,670
1997	2,671
1998	2,668
1999	2,671
2000	<u>2,673</u>
Total payments	13,353
Less amount representing interest	<u>2,418</u>
Present value of payments	<u>\$ 10,935</u>

7. 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. For the fiscal year ended June 30, 1995, lease/purchase expenditures under these agreements totaled approximately \$27,362,000.

At June 30, 1995, the Commonwealth's aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totals \$70,555,000. 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 \$109,346,000.

The Commonwealth has numerous operating lease agreements for real property and equipment with varying terms. These agreements contain provisions indicating that continuation is subject to appropriation by the Legislature. Rental expense for the fiscal year ended June 30, 1995 was approximately \$119,838,000.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

7. CAPITAL LEASES (CONTINUED)

The following is a schedule of future minimum payments under non-cancelable leases as of June 30, 1995 (amounts in thousands):

Year Ending June 30	Capital Leases			Operating Leases
	Commonwealth	UMass	Total	
1996	\$ 19,147	\$ 5,870	\$ 25,017	\$ 101,241
1997	15,794	5,044	20,838	76,531
1998	10,506	3,708	14,214	64,979
1999	8,162	2,853	11,015	47,379
2000	2,980	1,486	4,466	35,422
2001 and thereafter	<u>3,705</u>	<u>2,328</u>	<u>6,033</u>	<u>21,654</u>
Total	60,294	21,289	81,583	<u>\$ 347,206</u>
Less amount representing interest	<u>(8,037)</u>	<u>(2,991)</u>	<u>(11,028)</u>	
Present value of minimum payments	<u>\$ 52,257</u>	<u>\$ 18,298</u>	<u>\$ 70,555</u>	

**COMMONWEALTH OF MASSACHUSETTS
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8. INDIVIDUAL FUND DEFICITS

The General Fund and certain Special Revenue, Capital Projects and Expendable Trust Funds included in the combined totals have individual fund deficits at June 30, 1995, as follows (amounts in thousands):

Fund	
General	\$ 169,251
Local Aid	76,760
Budgeted Special Revenue:	
Environmental:	
Environmental Permitting and Compliance Assurance	11,228
Low Level Radioactive Waste Management	111
Clean Air Act Compliance	203
Other:	
Antitrust Law Enforcement	836
Victim and Witness Assistance	3,436
Intercity Bus Capital Assistance	7,907
Leo J. Martin Recreation	79
Non-budgeted Special Revenue:	
Other:	
Government Land Bank	23,293
Federally-assisted Housing	9,898
Motor Vehicle Emissions Inspection Compliance	787
Capital Projects:	
General	100,771
Highway	236,371
Local Aid:	
Community Development Action Grants	49,356
County Correctional Facilities	1,251
Water Pollution Control	5,283
Other:	
State Recreation Areas	386
Metropolitan Parks	781
Intercity Bus Capital Assistance	4
Expendable Trusts:	
Metropolitan District Commission Trust	40
Total	<u>\$ 698,032</u>

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

8. INDIVIDUAL FUND DEFICITS (CONTINUED)

The Capital Projects Funds have individual deficits of \$394,139,000 which reflect the time lag between capital expenditures and the receipt or allocation of proceeds from the sale of related bonds. Subsequently, in August 1, 1995, August 17, 1995 and November 1, 1995, the Commonwealth issued \$26,000,000, \$200,000,000 and \$250,000,000, respectively, of general obligation bonds to finance the deficit.

9. MEDICAID COSTS

The Commonwealth provides medical care for low-income, elderly and other residents who qualify for such assistance under the federally-sponsored Medical Assistance Program, known as Medicaid. The Commonwealth pays the full cost of care and is reimbursed by the federal government for 50% of that cost. For the fiscal year ended June 30, 1995, the General Fund and Local Aid Funds include approximately \$3,398,220,000 in expenditures for Medicaid claims processed for payment.

The combined financial statements – statutory basis include Medicaid claims processed but unpaid at June 30, 1995, as accounts payable of approximately \$8,000,000. In addition, the Commonwealth estimates its liability, as determined in accordance with generally accepted accounting principles at \$692,000,000. This amount includes estimates of both the cost of care provided as of June 30, 1995, 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.

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.

**COMMONWEALTH OF MASSACHUSETTS
STATUTORY BASIS FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1995**

10. RETIREMENT SYSTEMS (CONTINUED)

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.

State - Boston Retirement System (SBRS) is an agent multiple employer defined benefit PERS. SBRS provides pension 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.

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 SBRS as of January 1, 1995 is as follows:

	SERS	TRS	SBRS
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>43,983</u>	<u>30,113</u>	<u>2,344</u>
Current employees:			
Vested	<u>41,277</u>	<u>44,824</u>	<u>3,684</u>
Non-vested	<u>41,652</u>	<u>21,545</u>	<u>2,229</u>
Subtotal	<u>82,929</u>	<u>66,369</u>	<u>5,913</u>
Total	<u>126,912</u>	<u>96,482</u>	<u>8,257</u>

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

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

10. RETIREMENT SYSTEMS (CONTINUED)

Benefit Provisions (Continued) – Members become vested after ten years of creditable service. A superannuating retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65. for certain hazardous duty and public safety positions, normal retirement is at age 55

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

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

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

The current approved funding schedule, based on the January 1, 1993 valuation, was filed with the Legislature on October 26, 1994. It required contributions by the Commonwealth of \$889,985,000 during the fiscal year ended June 30, 1995. Because total pay-as-you-go benefits exceeded this amount, no additional Commonwealth contribution was required.

Actual contributions for the year ended June 30, 1995 are as follows (amounts in thousands):

	Employee Contributions	Commonwealth Contributions
SERS	\$ 218,837	\$ 434,837
TRS	182,266	349,903
SBRS	14,100	28,295
COLA		97,417
	<hr/>	<hr/>
Total	<u>\$ 415,203</u>	<u>\$ 910,452</u>

**COMMONWEALTH OF MASSACHUSETTS
STATUTORY BASIS FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1995**

10. RETIREMENT SYSTEMS (CONTINUED)

During fiscal year 1995, the Commonwealth also made payments totaling approximately \$21,881,000 to retirees employed prior to the establishment of the current plans, and to non-contributory plans.

Post-retirement Health Care and Life Insurance Benefits – In addition to providing pension benefits under Chapter 32A of the Massachusetts General Laws, the Commonwealth is 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 \$133,467,000 for the fiscal year ended June 30, 1995.

11. COMMITMENTS

Under Chapters 161A and 161B of the General Laws, the Commonwealth is obligated to pay a portion of the debt service and the net costs of service of the MBTA and certain regional transit authorities. The Commonwealth recovers a portion of these payments through assessments to the cities and towns served. Fiscal year 1995 net expenditures were \$483,265,669 and \$32,980,620, respectively. For fiscal year 1996, the Commonwealth has appropriated \$493,806,857 and \$35,258,908 to the MBTA and regional transit authorities, respectively. These appropriations cover net costs of service for the calendar year ended December 31, 1994.

The Commonwealth is also statutorily obligated to provide contract assistance for debt service obligations to the Massachusetts Convention Center Authority (MCCA) and the Government Land Bank. Such assistance totaled \$30,605,454 in fiscal year 1995. For fiscal year 1996, appropriations for this purpose totaled \$30,620,781.

At June 30, 1995, the aggregate outstanding debt for which the Commonwealth is obligated to provide contract assistance support totaled approximately \$2,673,220,000 long term and \$417,523,000 for short term. In addition, the Commonwealth guarantees the debt of certain local governments and public higher education building authorities. The guaranteed debt outstanding at June 30, 1995 was approximately \$254,542,000.

At June 30, 1995, the Commonwealth had commitments of approximately \$1,081,000,000 for various construction projects. The majority of these construction commitments relate to a major infrastructure project known as the Central Artery Project in which Federal participation is anticipated. The remainder relates to a wide range of building construction projects.

12. 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 \$79,400,000. Of this amount approximately \$64,400,000 is expected to be paid in fiscal year 1996; and \$15,000,000 is expected to be paid thereafter. 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, 1995, is estimated to be \$304,600,000, of which approximately \$46,900,000 is expected to be recognized during fiscal year 1996. No accrual has been made for these amounts in the combined financial statements – statutory basis.

The Commonwealth receives significant financial assistance from the federal government. Entitlement to these resources is generally conditional upon compliance with terms and conditions of the grant or reimbursement agreements and with applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits. Any disallowances become liabilities of the fund which received the assistance. At June 30, 1995, the Commonwealth estimated 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 Fiduciary Fund. These unclaimed assets less the amount, \$3,994,000, ultimately expected to be reclaimed and paid, are to be remitted to the General Fund each June 30, where it is included as miscellaneous revenue. Amounts remitted during fiscal year 1995 totaled approximately \$68,000,000. Since inception, approximately \$552,666,000 has been remitted. This represents a contingency, because claims for refunds can be made by the owners of the property.

13. 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.

**COMMONWEALTH OF MASSACHUSETTS
 STATUTORY BASIS FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 1995**

13. NON-TAX REVENUE INITIATIVES (CONTINUED):

Debt Collection – Private debt collectors were engaged, with fees, on a contingent basis, from the proceeds collected. Collections and fees paid during fiscal year 1995 were:

Department Collectors	Collections	Fees
Allen Daniel Associates	\$ 115,309	\$ 20,159
Credit Control Services	437,270	81,689
Collection Co. of America	6,129	1,446
Payco-American Corporation	3,705	890
Walker	<u>3,769</u>	<u>452</u>
Total	<u>\$ 566,182</u>	<u>\$ 104,636</u>

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

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

Department Collectors	Collections	Fees
Allen Daniel Associates	\$ 453,138	\$ 117,196
American Credit and Collections	257,061	63,555
Collection Co. of America	937,210	279,708
Credit Control Services	4,250	151
Glenn Associates, Inc.	180	30
Payco/National Account System	414,533	99,226
Delta Management Association, Inc.	<u>4,389</u>	<u>800</u>
Total	<u>\$ 2,070,761</u>	<u>\$ 560,666</u>

Revenue Maximization – Contractors were engaged on a contingent fee basis to assist several of the Commonwealth's departments in the identification and collection of federal and other revenues. During fiscal year 1995, approximately \$57,950,000 was collected through such efforts. After contractor fees were paid on a contingent basis, the Commonwealth received approximately \$47,840,000.

13. NON-TAX REVENUE INITIATIVES (CONTINUED):

Utility Audits – Massachusetts General Law, Chapter 29 Section 29G, authorized the Department of Procurement and General Services to solicit services and enter into contingent contracts on behalf of governmental entities for the potential of recoupment of overcharges associated with utility expenses. In fiscal year 1994 two providers were selected to perform reviews of utility billings. As of June 30 reviews were either in process or completed for twelve state managed facilities. The vendor selected was Utility Management Group. During fiscal year 1995, \$133,000 was recouped and \$64,000 was paid to the Utility Management Group, resulting in a net benefit to the Commonwealth of \$69,000. In addition, during fiscal year 1995, reviews were done for 7 municipalities who have taken advantage of the master service agreement negotiated by Procurement and General Services.

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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, 1995, 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, Bridgewater State College, Massachusetts College of Art, Holyoke Community College, Massasoit Community College, and the State College Building Authority, which statements reflect 78 percent of the total assets and 77 percent of the revenues of the University and College Fund Type. We did not audit the financial statements of the Pension Reserves Investment Trust and Massachusetts State Teachers and Employees Retirement Systems Trust which are the investment vehicles of the Commonwealth of Massachusetts' Pension Trust Funds, the financial statements which reflect 70 percent of the total assets and 50 percent of the revenues of the Fiduciary Fund Type. Except for the Massachusetts Convention Center Authority and Massachusetts Water Pollution Abatement Trust, which represents 18 and 3 percent of assets and revenues, respectively, we did not audit the financial statements of the entities which comprise the Component Units Column. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University and College Fund Type, Fiduciary Fund Type and the discretely presented Component Units referred to above, is based solely on the reports of the other auditors.

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

In our opinion, based upon our audit and the reports of the other auditors, such general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth of Massachusetts as of June 30, 1995, and the results of its operations and cash flows of its Internal Service Funds, Nonexpendable Trust Fund and discretely presented Component Units for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 15 to the financial statements, the Commonwealth adopted Governmental Accounting Standards Board (GASB) Statement No. 10, "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues" and GASB Statement No. 21, "Accounting for Escheat Property."

As discussed in Note 1 to the financial statements, the Fiduciary Fund Type includes investments representing 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 the other auditors' and, in the circumstances, the other auditors' reports state 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. This supplementary information is the responsibility of the management of the Commonwealth of Massachusetts. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, based on our audit and the reports of other auditors, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Deloitte & Touche LLP

December 22, 1995

COMMONWEALTH OF MASSACHUSETTS
 COMBINED BALANCE SHEET - ALL FUND TYPES, ACCOUNT GROUPS AND
 DISCRETELY PRESENTED COMPONENT UNITS
 JUNE 30, 1995

(Amounts in thousands)

	Primary			
	Governmental Fund Types			Proprietary Fund Types
	General	Special Revenue	Capital Projects	Internal Service
ASSETS AND OTHER DEBITS				
Cash and short-term investments	\$ 158,495	\$ 680,427	\$ 0	\$ 0
Cash with fiscal agent	714	15,722		
Deposits				
Investments				162,391
Restricted investments				
Investments of deferred compensation plan				
Annuity contracts				18,620
Assets held in trust				
Receivables, net of allowance for uncollectibles:				
Taxes	672,993	478,497		
Due from federal government	494,433	149,944	121,584	
Loans				
Other receivables	187,624	104,271	871	
Due from cities and towns	215,242	626		
Due from primary government			22,975	28,367
Due from other funds	246,202			
Inventory:				
Fixed assets				
Other assets				
Amounts available for retirement of general long-term obligations				
Amounts to be provided for retirement of general long-term obligations				
Total assets and other debits	\$ 1,975,703	\$ 1,429,487	\$ 145,430	\$ 209,378
LIABILITIES, FUND EQUITY AND OTHER CREDITS				
Liabilities:				
Accounts payable	\$ 1,012,372	\$ 285,755	\$ 291,873	\$ 0
Accrued payroll	34,260	9,094	1,271	
Compensated absences	92,587	56,213	4,047	
Tax refunds and abatements payable	342,310	227,767		
Due to cities and towns				
Due to other funds		14,468	245,437	
Due to component units	81,835	278,384	6,558	
Due to federal government	32,778	373	233	
Deferred revenue	100,414	83,637	596	
Prizes payable				
Deferred compensation benefits payable				
Agency liabilities				432,797
Claims and judgments	64,400			
Deposits and unearned revenue		60,195		
Other accrued liabilities				
Capital leases				
Bonds, notes payable and certificates of participation	240,000			
School construction grants				
Unfunded pension costs				
Total liabilities	2,000,956	1,015,886	550,015	432,797
Fund equity and other credits:				
Investment in general fixed assets				
Contributed capital				
Retained earnings:				
Reserved for investment programs				
Reserved for bond retirement				
Reserved for central artery workers compensation				97,391
Unreserved				(320,810)
Fund balances (deficit):				
Reserved for pension benefits				
Reserved for unemployment benefits				
Reserved for claims and judgments				
Restricted				
Unexpended plant funds				
Renewals and replacements				
Retirement of indebtedness		15,722		
Net investment in plant				
Reserved for nonexpendable trusts				
Unreserved and undesignated	(25,253)	397,879	(404,585)	
Total fund equity (deficit) and other credits	(25,253)	413,601	(404,585)	(223,419)
Total liabilities, fund equity and other credits	\$ 1,975,703	\$ 1,429,487	\$ 145,430	\$ 209,378

See notes to general purpose financial statements.

Exhibit C-4

Government						Component Units	
Fiduciary Fund Types		University and College Fund Type	Account Groups		Totals (Memorandum Only)		Component Units
Trust and Agency	University and Colleges	General Fixed Assets	General Long-term Obligations	1995	1994	Component Units	
\$ 1,633,378	\$ 131,323	\$ 0	\$ 0	\$ 2,603,623	\$ 2,897,736	\$ 352,962	
385,605	72,764			89,200	60,382		
13,506,730	270,834			385,605	33,001	262,454	
1,215,348				13,777,564	11,868,503	29,433	
1,097,652				162,391	83,319		
1,672,864				1,215,348	945,401		
				1,097,652	1,045,084		
				1,691,484	1,550,917	1,003	
311,957				1,463,447	1,364,939		
2,261	9,024			777,246	890,626	64,439	
7,794	47,537			55,331	51,891	678,396	
267,825	116,048			676,639	724,770	47,782	
				215,868	214,508	422	
						366,777	
	34,401			331,945	211,447		
	15,038			15,038	13,572	38,856	
	2,078,430	3,202,528		5,280,958	5,124,757	5,162,778	
	24,069			24,069	9,921	119,797	
					87,647		
				14,885,385	14,558,611		
<u>\$ 20,101,414</u>	<u>\$ 2,799,468</u>	<u>\$ 3,202,528</u>	<u>\$ 14,885,385</u>	<u>\$ 44,748,793</u>	<u>\$ 41,737,032</u>	<u>\$ 7,125,099</u>	
\$ 244,115	\$ 55,365	\$ 0	\$ 0	\$ 1,889,480	\$ 2,463,364	\$ 66,993	
220	53,510			98,355	137,355	41,610	
225	85,037		91,311	329,420	320,264	713	
6,391				576,468	561,276		
14,292				14,292	11,937	851	
2,830	69,210			331,945	211,447		
				366,777	445,171		
				33,384	32,880	2,507	
				223,140	203,034	46,472	
30,958	7,535			1,097,652	1,045,084		
1,097,652				1,215,348	945,401		
1,215,348				3,201,561	3,017,475	1,003	
3,201,561			62,346	600,358	668,109	2,215	
	40,815			10,515	6,997		
	10,515			150,199	149,915	271,677	
18,379	71,625			71,679	70,512	193	
	19,422		52,257	9,628,466	9,977,740	3,511,769	
	295,250		9,628,466	2,616,029	2,070,709		
			2,434,976	2,434,976	2,579,432		
<u>5,831,971</u>	<u>708,284</u>		<u>14,885,385</u>	<u>25,425,294</u>	<u>24,918,102</u>	<u>3,946,003</u>	
		3,202,528		3,202,528	3,066,682	3,250,396	
						62,792	
						58	
				97,391			
				(320,810)		(134,150)	
13,483,238				13,483,238	11,563,156		
649,115				649,115	296,676		
					83,319		
	104,300			104,300	102,153		
	25,120			25,120	25,779		
	25,298			25,298	15,677		
	16,915			32,637	25,856		
	1,803,550			1,803,550	1,779,441		
5,837				5,837	5,840		
131,253	116,001			215,295	(145,649)		
<u>14,269,443</u>	<u>2,091,184</u>	<u>3,202,528</u>		<u>19,323,499</u>	<u>16,818,930</u>	<u>3,179,096</u>	
<u>\$ 20,101,414</u>	<u>\$ 2,799,468</u>	<u>\$ 3,202,528</u>	<u>\$ 14,885,385</u>	<u>\$ 44,748,793</u>	<u>\$ 41,737,032</u>	<u>\$ 7,125,099</u>	

COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
 FISCAL YEAR ENDED JUNE 30, 1995

(Amounts in thousands)

	Primary		
	Governmental Fund Types		
	General	Special Revenue	Capital Projects
Revenues:			
Taxes	\$ 6,923,009	\$ 4,338,977	\$ 0
Assessments	202,831	369,577	
Federal grants and reimbursements	2,841,932	1,246,316	950,287
Departmental	586,838	3,686,918	
Miscellaneous	101,154	44,561	76
Total revenues	10,655,764	9,686,349	950,363
Other financing sources:			
Proceeds of general obligation bonds			809,862
Proceeds of refunding bonds			513,622
Proceeds of capital leases	17,869		
Operating transfers in	407,861	965,211	160,442
Other			49,062
Total other financing sources	425,730	965,211	1,532,988
Total revenues and other financing sources	11,081,494	10,651,560	2,483,351
Expenditures:			
Current:			
Legislature	46,550		
Judiciary	35,550	320,120	
Inspector General	1,434	209	
Governor and Lieutenant Governor	4,747		
Secretary of the Commonwealth	9,479	4,400	
Treasurer and Receiver-General	91,589	2,261,757	
Auditor of the Commonwealth	10,453	754	
Attorney General	19,339	3,036	
Ethics Commission	540	550	
District Attorney		51,030	
Office of Campaign and Political Finance	319	372	
Disabled Persons Protection Commission	1,330		
Board of Library Commissioners		4,752	
Comptroller	6,121	15	
Administration and finance	712,896	162,635	
Environmental affairs	23,594	150,666	
Communities and development	99,656	240,578	
Health and human services	3,426,485	1,064,041	
Transportation and construction	17,114	94,417	
Education	527	486,359	
Educational affairs	2,058	4,374	
Higher education	70,697	4,087	
Public safety	337,628	394,545	
Economic affairs	12,524	185,932	
Elder affairs	125,483	34,960	
Consumer affairs	28,421	6,015	
Labor	21,102	2,646	
Medicaid	3,212,620	39,600	
Pension	247,140	642,165	
		2,976,239	
Direct local aid			94,301
Capital outlay:			1,697,781
Local aid			
Capital acquisition and construction			
Debt service:			
Principal retirement	543,957	151,384	
Interest and fiscal charges	338,478	199,885	
Total expenditures	9,448,831	9,488,523	1,792,082
Other financing uses:			
Payments to refunded bond escrow agent			513,622
Operating transfers out	7,518	1,205,220	179,677
Transfers of appropriations	650,151	2,175	
Transfers of bond proceeds			22,938
Transfers to component units	155,002	499,719	9,049
Total other financing uses	812,671	1,707,114	725,286
Total expenditures and other financing uses	10,261,502	11,195,637	2,517,368
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	819,992	(544,077)	(34,017)
Fund balance (deficits) at beginning of year	(923,682)	940,961	(290,963)
Equity transfer	78,437	16,717	(79,605)
Fund balance (deficits) at end of year	\$ (25,253)	\$ 413,601	\$ (404,585)

See notes to general purpose financial statements.

Exhibit C-6

Government		
Fiduciary Fund Type	Totals (Memorandum Only)	
	1995	1994
Expendable Trust		
S 1,146,922	S 12,408,908	S 11,736,910
2,354	574,762	545,716
29,328	5,067,863	5,366,660
5,693	4,279,449	3,748,062
150,791	296,582	314,931
1,335,088	22,627,564	21,712,279
	809,862	690,206
	513,622	835,796
	17,869	33,550
5,745	1,539,259	1,372,691
1,503	50,565	35,509
7,248	2,931,177	2,967,752
1,342,336	25,558,741	24,680,031
	46,550	43,096
295	355,965	342,170
	1,643	1,394
	4,747	4,330
118	13,997	11,683
2,532	2,355,878	2,052,420
451	11,658	11,153
808	23,183	39,291
	1,090	1,075
2,925	53,955	50,948
254	945	636
	1,330	1,514
1	4,753	5,411
	6,136	6,369
2,582	878,113	864,744
5,042	179,302	173,998
2,674	342,908	358,178
16,721	4,507,247	4,345,773
626	112,157	120,981
1,423	488,309	459,175
	6,432	3,111
159	74,943	67,379
3,165	735,338	699,152
831,432	1,030,888	1,295,671
59	161,502	155,486
6,667	41,103	35,885
33,073	56,821	51,355
	3,252,220	3,216,127
	889,305	830,192
	2,976,239	2,727,313
	94,301	100,105
	1,697,781	1,463,602
	695,341	631,294
	538,363	519,865
911,007	21,640,443	20,690,876
	513,622	835,796
73,128	1,465,543	1,303,847
	652,326	634,911
	22,938	15,324
	663,770	701,399
73,128	3,318,199	3,491,277
984,135	24,958,642	24,182,153
358,201	600,099	497,878
422,000	148,316	(349,562)
167	15,716	
S 780,368	S 764,131	S 148,316

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, 1995

(Amounts in thousands)

	General Fund		
	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:			
Taxes	\$ 6,591,100	\$ 6,603,842	\$ 12,742
Assessments		200,992	200,992
Federal grants and reimbursements	2,936,700	2,961,719	25,019
Departmental	716,000	651,662	(64,338)
Miscellaneous		94,051	94,051
Total revenues	10,243,800	10,512,266	268,466
Other financing sources:			
Fringe benefit cost recovery		204,084	204,084
Operating transfers in	252,700	368,834	116,184
Stabilization transfer			
Total other financing sources	252,700	572,968	320,268
Total revenues and other financing sources	10,496,500	11,085,234	588,734
Expenditures:			
Legislature	65,585	46,522	19,063
Judiciary	35,551	35,213	338
Inspector General	1,448	1,397	51
Governor and Lieutenant Governor	5,446	4,753	693
Secretary of the Commonwealth	9,364	9,178	186
Treasurer and Receiver-General	94,784	93,755	1,029
Auditor of the Commonwealth	10,808	10,805	3
Attorney General	20,330	20,232	98
Ethics Commission	541	541	
District Attorney	100	82	18
Office of Campaign and Political Finance	321	321	
Disabled Persons Protection Committee	1,335	1,330	5
Board of Library Commissioners			
Comptroller	5,582	5,573	9
Administration and finance	816,657	732,996	83,661
Environmental affairs	22,851	21,978	873
Communities and development	117,821	108,750	9,071
Health and human services	3,524,047	3,422,484	101,563
Transportation and construction	536,189	528,375	7,814
Education	101	98	3
Educational affairs	2,115	2,068	47
Higher education	705,250	700,915	4,335
Public safety	325,975	324,013	1,962
Economic affairs	18,612	17,274	1,338
Elder affairs	129,358	126,370	2,988
Consumer affairs	29,676	28,265	1,411
Labor	23,452	22,123	1,329
Medicaid	3,375,649	3,358,620	17,029
Pension	339,289	326,630	12,659
Direct local aid			
Debt service:			
Principal retirement	335,700	323,127	12,573
Interest and fiscal charges	319,303	288,006	31,297
Total expenditures	10,873,240	10,561,794	311,446
Other financing uses:			
Fringe benefit cost assessment		44,030	(6,680)
Operating transfers out	37,350	16,758	(16,758)
Stabilization transfer			
Total other financing uses	37,350	60,788	(23,438)
Total expenditures and other financing uses	10,910,590	10,622,582	288,008
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(414,090)	462,652	876,742
Fund balances (deficits) at beginning of year	(631,903)	(631,903)	
Fund balances (deficits) at end of year	\$ (1,045,993)	\$ (169,251)	\$ 876,742

See notes to general purpose financial statements.

Budgeted Special Revenue Funds			Totals (Memorandum Only)		
Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
\$ 4,710,000	\$ 4,559,526	\$ (150,474)	\$ 11,301,100	\$ 11,163,368	\$ (137,732)
	28,101	28,101		229,093	229,093
12,400	8,003	(4,397)	2,949,100	2,969,722	20,622
456,903	475,171	18,268	1,172,903	1,126,833	(46,070)
	54,973	54,973		149,024	149,024
5,179,303	5,125,774	(53,529)	15,423,103	15,638,040	214,937
	2,851	2,851		206,935	206,935
629,500	689,053	59,553	882,206	1,057,937	175,737
	27,930	27,930		27,930	27,930
629,500	719,834	90,334	882,206	1,292,802	410,602
5,808,803	5,845,608	36,805	16,305,303	16,930,842	625,539
			65,585	46,522	19,063
319,298	316,227	3,071	354,849	351,440	3,409
			1,448	1,397	51
			5,446	4,753	693
3,881	3,797	84	13,245	12,975	270
7,113	6,316	797	101,897	100,071	1,826
754	754		11,562	11,559	3
927	915	12	21,257	21,147	110
551	551		1,092	1,092	
50,043	49,582	461	50,143	49,664	479
328	327	1	649	648	1
			1,335	1,330	5
2,339	2,335	4	2,339	2,335	4
525	525		6,107	6,098	9
199,395	183,666	15,729	1,016,052	916,662	99,390
140,970	132,307	8,663	163,821	154,285	9,536
28,068	26,844	1,224	145,889	135,594	10,295
134,872	118,855	16,017	3,658,919	3,541,339	117,580
240,133	226,918	13,215	776,322	755,293	21,029
125,560	121,679	3,881	125,661	121,777	3,884
3,516	3,391	119	5,625	5,459	166
2,536	2,386	150	707,786	703,301	4,485
382,094	377,065	5,029	708,069	701,078	6,991
16,012	14,095	1,917	34,624	31,369	3,255
9,369	9,343	26	138,727	135,713	3,014
5,218	4,476	742	34,894	32,741	2,153
			23,452	22,123	1,329
39,600	39,600		3,415,249	3,398,220	17,029
665,159	642,162	22,997	1,004,448	968,792	35,656
2,985,744	2,976,240	9,504	2,985,744	2,976,240	9,504
			715,074	693,517	21,557
379,374	370,390	8,984	573,767	537,511	36,256
254,464	249,505	4,959			
5,997,837	5,880,251	117,586	16,871,077	16,442,045	429,032
	54,769	(54,769)		54,769	(54,769)
220,927	225,380	(4,453)	258,277	269,410	(11,133)
	11,172	(11,172)		27,930	(27,930)
220,927	291,321	(70,394)	258,277	352,109	(93,832)
6,218,764	6,171,572	47,192	17,129,354	16,794,154	335,200
(409,961)	(325,964)	83,997	(824,051)	136,688	960,739
1,221,237	1,221,237		589,334	589,334	
\$ 811,276	\$ 895,273	\$ 83,997	\$ (234,717)	\$ 726,022	\$ 960,739

Exhibit C-9

**COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN FUND EQUITY - INTERNAL SERVICE FUNDS,
 NONEXPENDABLE AND PENSION TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS
 FISCAL YEAR ENDED JUNE 30, 1995
 (Amounts in thousands)**

	Primary		
	Proprietary Fund Types	Fiduciary Fund Types	
	Internal Service Fund	Nonexpendable Trust Funds	Pension Trust Funds
Operating revenues:			
Commonwealth contributions	\$ 0	\$ 0	\$ 784,740
Employee contributions			401,492
Investment income			1,715,844
Charges for services			
Donations			
Premiums	756,841		
Total operating revenues	756,841		2,902,076
Operating expenses:			
Claims and judgments expense	628,909		2,824
Cost of services and administration			979,170
Retirement benefits and refunds			
Depreciation			
Total operating expenses	628,909		981,994
Operating income (loss)	127,932		1,920,082
Nonoperating revenues (expenses)			
Operating grants	5,985		
Interest income			
Interest expense			
Other income			
Other expenses			
Nonoperating revenues (expenses), net	5,985		
Income (loss) before operating transfers	133,917		1,920,082
Transfers:			
Transfers in from primary government		(3)	
Operating transfers out			
Total transfers		(3)	
Net income (loss)	133,917	(3)	1,920,082
Add: Depreciation of fixed assets acquired from contributed capital			
Increase (decrease) in retained earnings/fund balances	133,917	(3)	1,920,082
Retained earnings/fund balances at beginning of year	0	5,840	11,563,156
Equity transfer	(15,716)		
Balance from general long-term obligations account group	(341,620)		
Retained earnings/fund balances at end of year	\$ (223,419)	\$ 5,837	\$ 13,483,238
Contributed capital at beginning of year			
Add: Capital contributions			
Less: Depreciation of fixed assets acquired from contributed capital			
Contributed capital at end of year			

See notes to the general purpose financial statements.

Government		Component
Totals (Memorandum Only)		Units
1995	1994	Component Units
\$ 784,740	\$ 743,880	\$ 0
401,492	386,988	
1,715,844	245,446	265,955
		895
756,841		2,419
3,658,917	1,376,314	269,269
628,909		
2,824	3,677	782,005
979,170	930,630	202,928
1,610,903	934,307	984,933
2,048,014	442,007	(715,664)
		74,303
5,985		39,971
		(159,985)
		5,677
		(23,633)
5,985		(63,667)
2,053,999	442,007	(779,331)
		663,770
(3)	(2)	
(3)	(2)	663,770
2,053,996	442,005	(115,561)
		97,349
2,053,996	442,005	(18,212)
11,568,996	11,126,991	(53,088)
(15,716)		
(341,620)		
\$ 13,265,656	\$ 11,568,996	\$ (71,300)
		\$ 3,050,729
		297,016
		(97,349)
		\$ 3,250,396

**COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF CASH FLOWS - INTERNAL SERVICE FUNDS,
 NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS
 FISCAL YEAR ENDED JUNE 30, 1995**

(Amounts in thousands)

	Primary Government		Total (Memorandum Only)	Component Units
	Proprietary Fund Type	Fiduciary Fund Type		Component Units
	Internal Service Fund	Nonexpendable Trust Funds		
Cash flows from operating activities:				
Operating income (loss)	\$ 127,932	\$ 0	\$ 127,932	\$ (715,664)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:				
Depreciation				202,928
Other nonoperating revenues				5,677
Other nonoperating expenses				(23,633)
Change in assets and liabilities:				
Assets held in trust	(4,469)		(4,469)	
Due from federal government				41,149
Loans				(141,128)
Other receivables				(5,913)
Due from cities and towns				(46)
Due from primary government				71,940
Due from other funds	3,343		3,343	6,454
Inventory				562
Restricted and other assets				19,281
Accounts payable				(22,264)
Accrued payroll				(1,134)
Compensated absences				417
Deferred revenue				(9,479)
Claims and judgments, net	29,600		29,600	991
Other accrued liabilities				76,660
Due to cities and towns				376
Due to federal government				1,462
Total adjustments	28,474		28,474	224,300
Net cash provided by (used for) operating activities	156,406		156,406	(491,364)
Cash flows from noncapital financing activities:				
Operating grants				74,303
Operating transfers		(3)	(3)	663,770
Net cash provided by (used for) noncapital financing activities		(3)	(3)	738,073
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets				(541,385)
Proceeds from the issuance of bonds and notes				855,222
Interest on bonds and notes				(159,985)
Capital contributions				297,016
Principal payments on bonds and notes				(598,739)
Proceeds from sale of equipment				122
Net cash provided by (used for) capital and related financing activities				(147,749)
Cash flows from investing activities:				
Purchases of investments				(1,543,940)
Purchases of restricted investments	(162,391)		(162,391)	
Sales and maturities of investments				1,485,263
Interest income	5,985		5,985	39,971
Net cash provided by (used for) investing activities	(156,406)		(156,406)	(18,706)

	Primary Government			Component Units
	Proprietary Fund Type	Fiduciary Fund Type	Total (Memorandum Only)	Component Units
	Internal Service Fund	Nonexpendable Trust Funds		
Net increase (decrease) in cash and cash equivalents	0	(3)	(3)	80,254
Cash and cash equivalents at beginning of year	0	5,840	5,840	272,708
Cash and cash equivalents at end of year	\$ 0	\$ 5,837	\$ 5,837	\$ 352,962
Reconciliation to Combined Balance Sheet:				
Cash and cash equivalents at end of year	\$ 0	\$ 5,837	\$ 5,837	\$ 352,962
Cash and cash equivalents at end of year, Pension Trust, Expendable Trust and Agency		1,627,541	1,627,541	
Cash and cash equivalents per the Combined Balance Sheet	\$ 0	\$ 1,633,378	\$ 1,633,378	\$ 352,962

Noncash investing, capital and noncapital, and financing activities:

Beginning of year liability and equity transfer from the governmental funds and the expendable trust fund	\$ <u>(15,716)</u>
Transfer of beginning of year liability from the general long-term obligation account group	\$ <u>(341,620)</u>

See notes to the general purpose financial statements.

**COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF CHANGES IN FUND BALANCES -
 UNIVERSITY AND COLLEGE FUND TYPE
 FISCAL YEAR ENDED JUNE 30, 1995**
(Amounts in thousands)

	Current Funds	
	Unrestricted	Restricted
Revenues and other additions:		
Unrestricted current funds revenues	\$ 1,170,505	\$ 0
Federal appropriations		6,749
Federal grants and contracts		185,746
State grants and contracts		13,794
Local grants and contracts		3,941
Private gifts, grants and contracts		51,714
Investment income		52
Endowment income		540
Net realized gain on investments		
Interest on loans receivable		
Reimbursed loan cancellations		395
Other income		
Expended for plant facilities		
Retirement of indebtedness		533
Other additions		
Total revenue and other additions	1,170,505	263,464
Expenditures and other deductions:		
Educational and general expenditures	1,140,678	284,541
Auxiliary enterprises expenditures	165,251	
Indirect costs recovered		32,372
Clinical services costs	336,518	
Refunded to grantors and donors		227
Loan cancellations and write-offs		
Administrative and collection costs		
Retirement of indebtedness		
Interest on indebtedness		
Expended for plant facilities		
Depreciation and amortization		
Disposal of plant facilities		
Other deductions		
Total expenditures and other deductions	1,642,447	317,140
Mandatory transfers:		
Principal and interest	(27,198)	
Renewals and replacements	(439)	
Student loan fund matching	(50)	(86)
Other mandatory transfers	(73,716)	
Nonmandatory transfers:		
Transfers of appropriation	622,948	29,378
Transfers of bond proceeds		22,938
Unexpended plant funds	(6,538)	
Renewals and replacements	(14,011)	
Other nonmandatory transfers	(3,195)	201
Total transfers	497,891	52,431
Net increase (decrease) for the year	25,949	(1,245)
Fund balances at the beginning of year	55,925	33,217
Fund balances at end of year	\$ 81,874	\$ 31,972

See notes to general purpose financial statements.

Loan Fund	Endowment and Similar Funds	Plant Funds	Totals	
			1995	1994
\$ 0	\$ 0	\$ 0	\$ 1,170,505	\$ 1,083,311
			6,749	7,754
2,408		329	188,483	178,083
146		15,159	29,099	36,907
			3,941	2,278
9	1,106	2,971	55,800	66,988
	62	3,112	3,226	2,644
	185		725	612
	614		614	2,754
885			885	814
13			13	1,348
178		1,364	1,937	962
		49,860	49,860	50,042
		13,954	13,954	13,330
7		10,406	10,946	1,664
<u>3,646</u>	<u>1,967</u>	<u>97,155</u>	<u>1,536,737</u>	<u>1,449,491</u>
			1,425,219	1,382,193
			165,251	171,118
			32,372	32,055
			336,518	336,406
			227	313
300			300	700
1,250	415	2,484	4,149	4,815
		18,547	18,547	23,171
		17,802	17,802	11,609
		24,742	24,742	13,330
		12,198	12,198	20,003
		23,443	23,443	10,140
		21,269	21,269	556
<u>1,550</u>	<u>415</u>	<u>120,485</u>	<u>2,082,037</u>	<u>2,006,409</u>
		27,108		
136		439		
			(73,716)	(68,842)
			652,326	634,911
			22,938	15,324
		6,538		
(69)	(629)	14,011		
		3,692		
<u>67</u>	<u>(629)</u>	<u>51,788</u>	<u>601,548</u>	<u>581,393</u>
2,163	923	28,458	56,248	24,475
<u>48,683</u>	<u>54,686</u>	<u>1,842,425</u>	<u>2,034,936</u>	<u>2,010,461</u>
<u>\$ 50,846</u>	<u>\$ 55,609</u>	<u>\$ 1,870,883</u>	<u>\$ 2,091,184</u>	<u>\$ 2,034,936</u>

**COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES -
 UNIVERSITY AND COLLEGE FUND TYPE
 FISCAL YEAR ENDED JUNE 30, 1995
 (Amounts in thousands)**

	Current Funds		Totals	
	Unrestricted	Restricted	1995	1994
Revenues and other additions:				
Tuition and fees	\$ 530,240	\$ 0	\$ 530,240	\$ 489,110
Federal appropriations		6,521	6,521	7,411
Federal grants and contracts		164,906	164,906	138,967
State grants and contracts		11,624	11,624	20,604
Local grants and contracts	48	3,392	3,440	2,011
Private gifts, grants and contracts	3,082	44,377	47,459	54,225
Endowment income	350	882	1,232	822
Sales and service, educational	12,261		12,261	9,351
Sales and service, auxiliary enterprises	194,495		194,495	176,536
Sales and service, clinical services	357,994		357,994	340,495
Recovery of indirect costs	32,372		32,372	32,055
Other investment income	21,650	23	21,673	14,493
Other	18,013	501	18,514	17,709
Total current funds revenues	1,170,505	232,226	1,402,731	1,303,789
Expenditures:				
Instruction	503,005	33,993	536,998	569,330
Research	43,463	86,131	129,594	122,453
Public service	13,968	33,523	47,491	68,667
Academic support	111,444	39,089	150,533	121,559
Student services	106,626	6,204	112,830	76,926
Institutional support	188,768	4,485	193,253	169,852
Operation and maintenance of plant	130,141	3,118	133,259	137,774
Scholarships and fellowships	43,263	77,998	121,261	115,632
Auxiliary enterprises	165,251		165,251	171,118
Clinical services costs	336,518		336,518	336,406
Total current funds expenditures	1,642,447	284,541	1,926,988	1,889,717
Transfers and other changes				
Mandatory transfers				
Principal and interest	(27,108)		(27,108)	(27,506)
Renewals and replacements	(439)		(439)	(517)
Student loan fund matching	(50)	(86)	(136)	(115)
Other	(73,716)		(73,716)	(68,822)
Transfers of appropriation	622,948	29,378	652,326	634,621
Transfers of bond proceeds		22,938	22,938	14,723
Unexpended plant funds	(6,538)		(6,538)	(11,324)
Renewals and replacements	(14,011)		(14,011)	(14,499)
Other nonmandatory transfers	(3,195)	201	(2,994)	(17,588)
Refunds to grantors and donors		(227)	(227)	(313)
Excess (deficiency) of restricted receipts over transfers to revenue		(1,134)	(1,134)	21,652
Total transfers and other changes	497,891	51,070	548,961	530,312
Total increase (decrease) in fund balances	\$ 25,949	\$ (1,245)	\$ 24,704	\$ (55,616)

See notes to general purpose financial statements.

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COMMONWEALTH OF MASSACHUSETTS
 COMBINING BALANCE SHEET -
 DISCRETELY PRESENTED COMPONENT UNITS
 JUNE 30, 1995

(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Regional Transit Authorities
ASSETS		
Cash and short-term investments	\$ 84,026	\$ 14,283
Investments		65
Restricted investments	16,923	
Assets held in trust		
Receivables, net of allowance for uncollectibles:		
Due from federal government	6,600	4,315
Loans		
Other receivables	29,591	5,030
Due from cities and towns		
Due from primary government	289,151	53,338
Inventory	38,585	202
Fixed assets	4,830,095	95,355
Other assets	90,741	14,167
	<u>\$ 5,385,712</u>	<u>\$ 186,755</u>
Total assets		
LIABILITIES AND FUND EQUITY		
Liabilities:		
Accounts payable	\$ 40,116	\$ 5,720
Accrued payroll	40,898	125
Compensated absences		527
Due to cities and towns		
Due to federal government		
Deferred revenue	42,694	473
Agency liabilities		
Claims and judgments		2,215
Other accrued liabilities	146,432	3,395
Capital leases		
Bonds, notes payable and certificates of participation	2,774,618	78,282
	<u>3,044,758</u>	<u>90,737</u>
Total liabilities		
Fund equity:		
Contributed capital	2,552,988	93,916
Retained earnings (deficits):		
Reserved for investment programs		
Reserved for bond retirement		
Unreserved	(212,034)	2,102
	<u>2,340,954</u>	<u>96,018</u>
Total fund equity		
Total liabilities and fund equity	<u>\$ 5,385,712</u>	<u>\$ 186,755</u>

See notes to general purpose financial statements.

Water Pollution Abatement Trust	Massachusetts Convention Center Authority	Economic Development Authorities	Totals	
			1995	1994
\$ 196,453	\$ 8,528	\$ 49,672	\$ 352,962	\$ 272,708
192,928	12,510	69,461	262,454	173,830
	1,003		29,433	59,380
			1,003	
33,287		20,237	64,439	105,588
573,860		104,536	678,396	537,268
9,842	417	2,902	47,782	41,869
		422	422	376
6,526	13,517	4,245	366,777	445,171
		69	38,856	39,418
352	215,671	21,305	5,162,778	4,823,218
248	2,265	12,376	119,797	139,078
<u>\$ 1,013,496</u>	<u>\$ 253,911</u>	<u>\$ 285,225</u>	<u>\$ 7,125,099</u>	<u>\$ 6,637,904</u>
\$	\$ 9,490	\$ 11,667	\$ 66,993	\$ 89,257
		587	41,610	42,744
		186	713	296
		851	851	475
	297	2,507	2,507	1,045
	1,003	3,008	46,472	55,351
			1,003	
			2,215	1,224
95,948	15,905	9,997	271,677	195,172
		193	193	38
444,335	173,042	41,492	3,511,769	3,254,661
<u>540,283</u>	<u>199,737</u>	<u>70,488</u>	<u>3,946,003</u>	<u>3,640,263</u>
455,777	56,445	91,270	3,250,396	3,050,729
		62,792	62,792	51,847
		58	58	
17,436	(2,271)	60,617	(134,150)	(104,935)
<u>473,213</u>	<u>54,174</u>	<u>214,737</u>	<u>3,179,096</u>	<u>2,997,641</u>
<u>\$ 1,013,496</u>	<u>\$ 253,911</u>	<u>\$ 285,225</u>	<u>\$ 7,125,099</u>	<u>\$ 6,637,904</u>

**COMMONWEALTH OF MASSACHUSETTS
 COMBINING STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN
 RETAINED EARNINGS AND CHANGES IN CONTRIBUTED CAPITAL -
 DISCRETELY PRESENTED COMPONENT UNITS
 FISCAL YEAR ENDED JUNE 30, 1995
 (Amounts in thousands)**

	Massachusetts Bay Transportation Authority	Regional Transit Authorities
Operating revenues:		
Charges for services	\$ 207,224	\$ 40,031
Donations		243
Other		
Total operating revenues	207,224	40,274
Operating expenses:		
Cost of services and administration	587,299	99,330
Depreciation	181,692	12,640
Total operating expenses	768,991	111,970
Operating income (loss)	(561,767)	(71,696)
Nonoperating revenues (expenses):		
Operating grants	15,216	11,236
Interest income	3,534	953
Other revenues	2,097	299
Interest expense	(122,268)	(2,593)
Other expenses	(19,322)	(261)
Nonoperating revenues (expenses), net	(120,743)	9,634
Income (loss) before transfers	(682,510)	(62,062)
Transfers:		
Transfers in from primary government	557,437	50,193
Total transfers	557,437	50,193
Net income (loss)	(125,073)	(11,869)
Add: Depreciation of fixed assets acquired from contributed capital	78,818	12,353
Increase (decrease) in retained earnings	(46,255)	484
Retained earnings (deficits) at beginning of year	(165,779)	1,618
Retained earnings (deficits) at end of year	\$ (212,034)	\$ 2,102
Contributed capital at beginning of year	\$ 2,433,829	\$ 92,681
Add: Capital contributions	197,977	13,588
Less: Depreciation of fixed assets acquired from contributed capital	(78,818)	(12,353)
Contributed capital at end of year	\$ 2,552,988	\$ 93,916

See notes to general purpose financial statements.

Water Pollution Abatement Trust	Massachusetts Convention Center Authority	Economic Development Authorities	Totals	
			1995	1994
\$ 0	\$ 8,403	\$ 10,297	\$ 265,955	\$ 245,690
		895	895	670
		2,176	2,419	1,989
	8,403	13,368	269,269	248,349
6,098	15,239	74,039	782,005	789,561
229	6,451	1,916	202,928	177,095
6,327	21,690	75,955	984,933	966,656
(6,327)	(13,287)	(62,587)	(715,664)	(718,307)
2,165		45,686	74,303	59,998
29,583	216	5,685	39,971	29,780
818	131	2,332	5,677	4,786
(19,614)	(10,772)	(4,738)	(159,985)	(144,854)
	(507)	(3,543)	(23,633)	(26,029)
12,952	(10,932)	45,422	(63,667)	(76,319)
6,625	(24,219)	(17,165)	(779,331)	(794,626)
3,392	20,272	32,476	663,770	701,399
3,392	20,272	32,476	663,770	701,399
10,017	(3,947)	15,311	(115,561)	(93,227)
224	5,954		97,349	94,534
10,241	2,007	15,311	(18,212)	1,307
7,195	(4,278)	108,156	(53,088)	(54,395)
\$ 17,436	\$ (2,271)	\$ 123,467	\$ (71,300)	\$ (53,088)
\$ 409,030	\$ 44,613	\$ 70,576	\$ 3,050,729	\$ 2,941,413
46,971	17,786	20,694	297,016	203,850
(224)	(5,954)		(97,349)	(94,534)
\$ 455,777	\$ 56,445	\$ 91,270	\$ 3,250,396	\$ 3,050,729

COMMONWEALTH OF MASSACHUSETTS
 COMBINING STATEMENT OF CASH FLOWS -
 DISCRETELY PRESENTED COMPONENT UNITS
 FISCAL YEAR ENDED JUNE 30, 1995

(Amounts in thousands)

	Massachusetts Bay Transportation Authority	Regional Transit Authorities
Cash flows from operating activities:	\$ (561,767)	\$ (71,696)
Operating income (loss)		
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:		
Depreciation and amortization	181,692	12,640
Other nonoperating revenues	2,097	299
Other nonoperating expenses	(19,322)	(261)
Change in assets and liabilities:		
Due from federal government	900	(769)
Loans	(1,433)	(533)
Other receivables		
Due from cities and towns	71,869	1,497
Due from primary government		
Due from other funds	498	100
Inventory	41,313	(10,907)
Restricted and other assets	(14,208)	(2,066)
Accounts payable	(781)	(411)
Accrued payroll		527
Compensated absences	(6,474)	(100)
Deferred revenue		991
Claims and judgments	(19,513)	(37)
Other accrued liabilities		
Due to cities and towns		
Due to federal government		
Total adjustments	<u>236,638</u>	<u>970</u>
Net cash provided by (used for) operating activities	<u>(325,129)</u>	<u>(70,726)</u>
Cash flows from noncapital financing activities:		
Operating grants	15,216	11,236
Transfers in from primary government	<u>557,437</u>	<u>50,193</u>
Net cash provided by (used for) noncapital financing activities	<u>572,653</u>	<u>61,429</u>
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(508,992)	(13,531)
Proceeds from the issuance of bonds and notes	740,815	59,059
Interest on bonds and notes	(122,268)	(2,593)
Capital contributions	197,977	13,588
Principal payments on bonds and notes	(517,596)	(46,494)
Proceeds from sale of equipment		30
Net cash provided by (used for) capital and related financing activities	<u>(210,064)</u>	<u>10,059</u>
Cash flows from investing activities:		
Purchases of investments	(1,277,770)	
Sales and maturities of investments	1,278,638	132
Interest income	3,534	953
Net cash provided by (used for) investing activities	<u>4,402</u>	<u>1,085</u>
Net increase (decrease) in cash and cash equivalents	41,862	1,847
Cash and cash equivalents at beginning of year	<u>42,164</u>	<u>12,436</u>
Cash and cash equivalents at end of year	<u>\$ 84,026</u>	<u>\$ 14,283</u>

See notes to general purpose financial statements.

Water Pollution Abatement Trust	Massachusetts Convention Center Authority	Economic Development Authorities	Totals	
			1995	1994
\$ (6,327)	\$ (13,287)	\$ (62,587)	\$ (715,664)	\$ (718,307)
229	6,451	1,916	202,928	177,095
818	131	2,332	5,677	4,786
	(507)	(3,543)	(23,633)	(26,029)
49,255		(8,237)	41,149	52,595
(111,057)		(30,071)	(141,128)	(225,277)
(2,141)	(80)	(1,726)	(5,913)	(13,846)
		(46)	(46)	(55)
		(1,426)	71,940	(12,104)
9,851	(3,397)		6,454	
		(36)	562	1,075
188	377	(11,690)	19,281	(15,853)
	(11,373)	5,383	(22,264)	30,270
		58	(1,134)	9,365
		(110)	417	92
	(127)	(2,778)	(9,479)	9,858
			991	3
88,961	3,581	3,668	76,660	14,210
		376	376	(80)
		1,462	1,462	
<u>36,104</u>	<u>(4,944)</u>	<u>(44,468)</u>	<u>224,300</u>	<u>6,105</u>
<u>29,777</u>	<u>(18,231)</u>	<u>(107,055)</u>	<u>(491,364)</u>	<u>(712,202)</u>
2,165		45,686	74,303	59,998
3,392	20,272	32,476	663,770	701,399
<u>5,557</u>	<u>20,272</u>	<u>78,162</u>	<u>738,073</u>	<u>761,397</u>
(9)	(17,190)	(1,663)	(541,385)	(279,249)
29,347		26,001	855,222	1,375,198
(19,614)	(10,772)	(4,738)	(159,985)	(144,854)
46,971	17,786	20,694	297,016	203,850
(15,035)	(17,196)	(2,418)	(598,739)	(1,064,692)
		92	122	1,191
<u>41,660</u>	<u>(27,372)</u>	<u>37,968</u>	<u>(147,749)</u>	<u>91,444</u>
(197,518)	(53,421)	(15,231)	(1,543,940)	(1,478,223)
131,840	74,534	119	1,485,263	1,360,957
29,583	216	5,685	39,971	29,780
<u>(36,095)</u>	<u>21,329</u>	<u>(9,427)</u>	<u>(18,706)</u>	<u>(87,486)</u>
40,899	(4,002)	(352)	80,254	53,153
<u>155,554</u>	<u>12,530</u>	<u>50,024</u>	<u>272,708</u>	<u>219,555</u>
<u>\$ 196,453</u>	<u>\$ 8,528</u>	<u>\$ 49,672</u>	<u>\$ 352,962</u>	<u>\$ 272,708</u>

**COMMONWEALTH OF MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1995**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying financial statements of the Commonwealth of Massachusetts (the Commonwealth) have been prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is the recognized standard-setting body for establishing governmental accounting and financial reporting principles. The significant Commonwealth accounting policies are described below.

a. Reporting Entity –

The state government is comprised of three branches: the Executive Branch, with the Governor as the chief executive officer; the Legislative Branch, consisting of a Senate of 40 members and a House of Representative of 160 members; and the Judicial Branch made up of the Supreme Judicial Court, the Appeals Court and the Trial Court. In addition, the Legislature has established 56 independent authorities and agencies. Below the level of state government are 14 county governments and 351 cities and towns exercising the functions of local governments.

For financial reporting purposes, the Commonwealth of Massachusetts has included all funds, organizations, account groups, agencies, boards, commissions and institutions. The Commonwealth has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Commonwealth are such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. As required by GAAP, these financial statements present the Commonwealth of Massachusetts (the primary government) and its component units. The Commonwealth has included 36 entities as component units in the reporting entity because of the significance of their operational and/or financial relationships with the Commonwealth.

Blended Component Units – Blended component units are entities which are legally separate from the Commonwealth, but are so related to the Commonwealth that they are, in substance, the same as the Commonwealth or entities providing services entirely or almost entirely to the Commonwealth. The following Component Units are blended within the Primary Government:

The Pension Reserves Investment Trust Fund (PRIT) was created in 1984, through General Laws Chapter 661 of the Acts of 1983 as amended by the Acts of 1987. PRIT is the investment portfolio for the assets of member state and local retirement systems. PRIT is managed by the Pension Reserves Investment Management (PRIM) Board.

The Massachusetts State Teachers and Employees Retirement Systems Trust (MASTERS Trust) is a combined investment fund for the State Employees' Annuity Fund and the Teachers' Annuity Fund. The MASTERS Trust was established by the State Treasurer, as Trustee, under a Declaration of Trust dated January 1, 1989, pursuant to authority granted under MGL, Chapter 29, Section 38a.

The Massachusetts State College Building Authority provides dormitories, dining commons and other facilities primarily for use by students and staff of certain state colleges of the Commonwealth. The building authority is governed by a board comprised of members appointed by the Governor.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Blended Component Units (Continued) – The Southeastern Massachusetts University Building Authority provides residence halls and a dining center; it is governed by a nine member board appointed by the Governor.

The University of Massachusetts - Lowell Building Authority provides residence halls and a dining center; it is governed by a nine member board appointed by the Governor.

The University of Massachusetts Building Authority provides dormitories, dining commons and other buildings and structures for the use of the University of Massachusetts and its students and staff; it is governed by a nine member board appointed by the Governor.

The University of Massachusetts Medical School Teaching Hospital Trust Fund accumulates the results from operations of the Teaching Hospital. The Board of Trustees of the University of Massachusetts is the governing body of the Teaching Hospital.

The University of Massachusetts Medical School Group Practice Plan is a trust fund that receives and distributes revenue from medical services to its members. Each member of the clinical faculty of the Medical School is required to be a member of the Group Practice Plan. The Group Practice Plan is governed by a 24 member board of which 23 are appointed by the Governor.

The University of Massachusetts Medical Center Self-Insurance Trust provides professional liability, hospital premises liability and physicians' and surgeons' liability coverage for the Medical Center, the Teaching Hospital and the Group Practice Plan. The Self-Insurance Trust is governed by a 24 member board of which 23 are appointed by the Governor.

Discrete Component Units – Discrete component units are entities which are legally separate from the Commonwealth, but are financially accountable to the Commonwealth, or whose relationships with the Commonwealth are such that exclusion would cause the Commonwealth's financial statements to be misleading or incomplete. The Component Units column of the combined financial statements include the financial data of the following entities:

The Massachusetts Bay Transportation Authority (MBTA) operates mass transit facilities within the Greater Boston metropolitan area, which consists of 78 cities and towns. The MBTA is overseen by a seven member board of directors appointed by the Governor. The Commonwealth guarantees the debt of the MBTA and funds deficiencies in the net cost of service.

The Regional Transit Authorities (RTAs) provide railway transportation to areas not serviced by the MBTA. The RTAs are fiscally dependent on the Commonwealth as evidenced from the need for approval by the Secretary of the Executive Office of Transportation and Construction before an RTA can issue bonded debt. In addition, the Commonwealth subsidizes a minimum of 50% of the net cost of service for the RTAs. There are 14 RTAs as follows:

- Berkshire Regional Transit Authority
- Brockton Area Transit Authority
- Cape Ann Transportation Authority
- Cape Cod Regional Transit Authority

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Discrete Component Units (Continued) –

- Franklin Regional Transit Authority
- Greater Attleboro/Taunton Regional Authority
- Greenfield-Montague Transportation Area
- Lowell Regional Transit Authority
- Martha's Vineyard Transit Authority
- Merrimack Valley Regional Transit Authority
- Montachusett Regional Transit Authority
- Pioneer Valley Transit Authority
- Southeastern Regional Transit Authority
- Worcester Regional Transit Authority

The Massachusetts Water Pollution Abatement Trust (WPAT) provides a combination of federal and Commonwealth funds for water pollution abatement projects. WPAT is governed by a three member board of directors that includes the State Treasurer, Commissioner of the Department of Environmental Protection and the Secretary for Administration and Finance.

The Massachusetts Convention Center Authority (MCCA) manages the operation of the John B. Hynes Veterans Memorial Convention Center and the Boston Common Parking Garage. The MCCA is governed by a seven member board of directors which includes the State Treasurer and four appointments made by the Governor. The Commonwealth provides grants to fund annual debt service of the bonds issued and subsidies to fund annual operating deficits.

Economic Development –

The Massachusetts Community Development Finance Corporation (MCDFC) provides community development in economically depressed areas in Massachusetts. The MCDFC is governed by a board of directors comprised of nine members including the Secretary of Manpower Affairs, Secretary of Communities and Development, the Secretary for Administration and Finance and six appointments made by the Governor.

The Bay State Skills Corporation (BSSC) identifies occupations that are in high demand, seeks out educational and training organizations and then funds creative skills training programs. BSSC is governed by a 19 member board of directors including the Secretary of Economic Affairs, Commissioner of Welfare, Chancellor of the Board of Regents, Commissioner for Department of Education, Commissioner for Department of Employment and Training and 14 appointments made by the Governor. The operations are almost entirely funded through Commonwealth grants.

The Massachusetts Industrial Service Program (ISP) provides high risk financing to troubled businesses, assists displaced workers and assists communities to foster economic vitality. ISP has a five member board of trustees including the Secretary of Economic Affairs and the Secretary of Labor and three appointments by the Governor. ISP relies on Commonwealth funding to operate.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Economic Development (Continued) – The Massachusetts International Trade Council (MITC) stimulates export development through export assistance programs and promotion of foreign investment in Massachusetts industries. The entity is funded with Commonwealth grants. The governor appoints the two member board.

The Government Land Bank (GLB) aids public and private agencies in the conversion and redevelopment of surplus Commonwealth and federal property, and blighted, decadent or substandard property for the purpose of stimulating economic development and provide housing to low and moderate income persons. The GLB is governed by a board of directors comprised of 10 members including the Commissioner of Administration, the Secretary of Communities and Development and 8 appointments made by the Governor. The GLB has access to \$40 million of general obligation bonds and the Commonwealth also provides subsidy assistance. The GLB also requires Commonwealth approval to issue bonded debt.

The Massachusetts Technology Park Corporation (MTPC) manages Massachusetts educational centers that foster economic development within the Commonwealth by providing Massachusetts colleges and universities with access to equipment, machinery and instructional assistance necessary to offer programs in certain emerging areas of science and technology. MTPC is governed by a board of directors comprised of 23 members including the Secretary of Economic Affairs, the Secretary for Administration and Finance, the Chancellor of the Board of Regents and 20 appointments made by the Governor. The Commonwealth provides grants to fund operations.

The Community Economic Development Assistance Corporation (CEDAC) provides development assistance to nonprofit corporations to expand the supply of affordable housing and to foster the revitalization of economically distressed areas. The Governor appoints the nine member board of directors.

The Massachusetts Corporation for Education Telecommunications (MCET) operates a statewide telecommunication network for the Commonwealth public and private sector to improve the quality of education. MCET is governed by a board of directors comprised of 18 members of which 12 are appointed by the Governor. The Corporation receives grants from the Commonwealth to fund its programs.

The Massachusetts Housing Partnership (MHP) addresses local needs for affordable housing and neighborhood development through group effort of the public and private sectors and state and local government. The entity is governed by a seven member board of directors of which two members are appointed by the Governor, and one member is the Secretary for Administration and Finance and one is the Secretary of Communities and Development. The Commonwealth provides funding to MHP.

The Massachusetts Zoological Corporation manages Franklin Park Zoo and the Walter D. Stone Memorial Zoo. The Corporation's 11 member board is appointed by the Governor. The Commonwealth subsidizes a substantial portion of the operations of the zoos.

**COMMONWEALTH OF MASSACHUSETTS
 COMPREHENSIVE ANNUAL FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 1995**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Combining Financial Statements – Component units condensed financial statements are included in the component unit column of the general purpose financial statements. Complete financial statements of the individual component units can be obtained directly from their respective administrative offices:

Massachusetts Bay Transportation Authority Ten Park Plaza Boston, MA 02116	Lowell Regional Transit Authority 145 Thorndike Street Lowell, MA 01852	Government Land Bank One Court Street, Suite 200 Boston, MA 02108
Massachusetts Convention Center Authority 900 Boylston Street Boston, MA 02115	Merrimack Valley Regional Transit Authority 85 Railroad Avenue Bradford, MA 01835	Massachusetts Community Development Finance Corporation 10 Post Office Square, Suite 1090 Boston, MA 02109
Berkshire Regional Transit Authority 67 Downing Parkway Pittsfield, MA 01201	Montachusett Regional Transit Authority Rear 1427 Water Street Fitchburg, MA 01420	Massachusetts Corporation for Education Telecommunications 38 Sidney Street Cambridge, MA
Brockton Area Transit Authority 70 School Street Brockton, MA 02401	Pioneer Valley Transit Authority 2808 Main Street Springfield, MA 01107	Massachusetts Housing Partnership 2 Oliver Street Boston, MA 02109
Cape Ann Transportation Authority PO Box 511 Gloucester, MA 01931	Southeastern Regional Transit Authority 25 North Sixth Street New Bedford, MA 02740	Massachusetts Industrial Service Program 100 Cambridge Street, Room 1302 Boston, MA 02202
Cape Cod Regional Transit Authority 585 Main Street, PO Box F Dennis, MA 02638	Martha's Vineyard Transit Authority PO Box 158 Edgartown, MA 02539	Massachusetts International Trade Council, Inc. 100 Cambridge Street, Room 1302 Boston, MA 02202
Franklin Regional Transit Authority 474 Main Street Greenfield, MA 01301	Worcester Regional Transit Authority 287 Grove Street Worcester, MA 01605	Massachusetts Technology Park Corporation 75 North Drive Westborough, MA 01581
Greater Attleboro/Taunton Regional Authority 7 Mill Street Attleboro, MA 02703	Bay State Skills Corporation 101 Summer Street Boston, MA 02100	Water Pollution Abatement Trust Office of the State Treasurer One Ashburton Place, 12th Floor Boston, MA 02108
Greenfield-Montague Transportation 382 Deerfield Street Deerfield Street Greenfield, MA 01301	Massachusetts Community Economic Development Assistance Corporation 19 Temple Street Boston, MA 02111	Commonwealth Zoological Corporation 1 Franklin Park Road Boston, MA 02121

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Combining Financial Statements (Continued) – The following organizations do not meet the criteria for inclusion in the reporting entity, and are excluded from the general purpose financial statements: Massachusetts Turnpike Authority, Massachusetts Port Authority, Massachusetts Water Resources Authority, Massachusetts Housing Finance Agency, Massachusetts Health and Educational Facilities Authority, Massachusetts Technology Development Corporation and Massachusetts Industrial Finance Agency. Subsequent to June 30, 1995, the Commonwealth enacted legislation that, among other things, guarantees certain bonds and notes of the Massachusetts Turnpike Authority. The Massachusetts Turnpike Authority will meet the criteria for a discretely presented component unit in fiscal year 1996.

b. Fund Accounting –

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

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

The Commonwealth has established the following fund categories (further divided by fund types), and account groups:

Governmental Funds – account for the general governmental activities of the Commonwealth.

The General Fund is the primary operating fund of the Commonwealth. It is used to account for all governmental transactions, except those required to be accounted for in another fund.

Special Revenue Funds are used to account for specific revenue sources, other than expendable trusts or major capital financing, that have been segregated according to state finance law to support specific governmental activities.

Capital Projects Funds are used to account for financial resources used to acquire or construct major capital assets and to finance local capital projects. These resources are derived primarily from proceeds of general and specific obligation bonds and federal reimbursements.

Proprietary Funds – account for the Commonwealth's ongoing activities that are similar to those often found in the private sector.

Internal Service Funds account for the financing of services provided by one department or agency to other departments or agencies of the Commonwealth, or to other governmental units.

COMMONWEALTH OF MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1995

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Expendable Trust Funds are used to account for trusts whose principal and income may be expended for their designated purpose.

Nonexpendable Trust Funds are used to account for trusts whose principal cannot be spent.

Pension Trust Funds are used to account for the assets, liabilities and fund equities held in trust for the State Employees' and Teachers' Retirement Systems.

Agency Funds are used to account for assets the Commonwealth holds on behalf of others. Agency Funds are custodial in nature and do not involve measurement of operations.

University and College Fund – is used to account for the activities specific to the operation of the Commonwealth's public institutions of higher education, including its medical school.

Current Funds are comprised of unrestricted funds which may be used at the discretion of the individual institutions' governing bodies and restricted funds which must be utilized for specific purposes established by others.

Loan funds account for resources available to make loans to students, faculty and staff.

Endowment and Similar Funds are comparable to trust funds, and they must be administered according to the terms of specific agreements.

Plant Funds are used to account for resources that have been or will be invested to acquire or repair fixed assets or for the related debt service.

Account Groups – establish control and accountability over the Commonwealth's general fixed assets and general long-term obligations.

The General Fixed Assets Account Group is used to account for general fixed assets of the Commonwealth, excluding the fixed assets of Proprietary Funds, University and College Fund and the discretely presented Component Units.

The General Long-term Obligations Account Group is used to account for long-term bonds and notes issued by the Commonwealth, capital leases, certificates of participation, unpaid pension costs, compensated absences, and other long-term obligations, excluding the liabilities of the University and College Fund, the discretely presented Component Units and the Proprietary Funds.

Component Units- account for the activity of the entities that are separate from the primary government but are financially accountable to the Commonwealth. The Component Units are discretely presented in the general purpose financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

c. Measurement Focus and Basis of Accounting –

Governmental and Expendable Trust Funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be 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, 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.

Proprietary Funds, Component Units, Nonexpendable Trust and Pension Trust Funds are reported using a flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This measurement focus emphasizes the determination of net income. For all proprietary funds and component units that use proprietary fund accounting, the Commonwealth applies all applicable Financial Accounting Standards Board (FASB) pronouncements issued on or prior to November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Agency Fund assets and liabilities are reported using the modified accrual basis of accounting. They are custodial in nature and do not measure results of operations or have a measurement focus.

University and College Fund activities are reported using the accrual basis of accounting, except that depreciation is recorded only for those plant fund assets related to the hospital and group practice plan.

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

Under the statutory basis, revenues are generally recognized when the cash deposit is received. However, revenues receivable for federal grants and reimbursements are recognized when related expenditures are incurred, and amounts due from certain political subdivisions of the Commonwealth are recognized when considered measurable and available at year end.

Expenditures generally are recorded when the related cash disbursement occurs. At year end, payroll is accrued and payables are recognized, to the extent of approved encumbrances, for goods or services received by June 30. Costs incurred under the federally-sponsored Medicaid program, amounts required to settle claims and judgments against the Commonwealth, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment.

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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 some of its Governmental and Fiduciary Funds. Cash equivalents consist of short-term investments with an original maturity of three months or less and are stated at cost. There are instances where a fund with a cash deficit will borrow from another fund. These interfund borrowings are reported as "Due from other funds" and "Due to other funds" on the balance sheet. Interest earned on pooled cash is allocated to the General Fund, Expendable Trust Funds and to certain Special Revenue Funds when so directed by law.

The Pension Trust Funds, with investments totaling \$13,054,318,000, are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments. Equity securities of the Pension Trust Funds and deferred compensation plan investments are stated at market. The Pension Trust Funds have acquired investments in real estate, venture capital funds, real estate funds, limited partnerships, futures pools, international hedge pools, commodities pools, balanced pools, leverage buyouts, private placements and other alternative investments. The structure, risk profile, return potential and marketability differ from traditional equity and fixed income investments. Concentration of credit risk exist if a number of companies in which the Fund has invested, are engaged in similar activities and have similar economic characteristics that could cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions. To mitigate the exposure to concentrations of risk, the Pension Trust Funds invest in a variety of industries located in diverse geographic areas. As of June 30, 1995, the estimated values, determined by management with input from the investment managers, of these real estate and alternative investments were \$75,000,000 in the MASTERS Trust and \$985,000,000 in PRIT, representing 0.4% and 4.9%, respectively, of the total assets of the Fiduciary Fund Type.

Included in the discretely presented Component Units is \$9,159,274 in investments, whose valuation was determined by management. In making its valuations, management considered the cost of investments, current and past operating results, current economic conditions and their effect on the borrowers, estimated realizable values of collateral, and other factors pertinent to the valuation of investments. There is no public market for most of the investments. Management, in making its evaluation, has in many instances relied on financial data and on estimates by management of the companies they have invested in as to the effect of future developments.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

e. Securities Lending Program -

The Pension Trust Funds participate in securities lending programs. Under these programs, the Trusts receive a fee for allowing brokerage firms to borrow from certain securities for a predetermined period of time, securing such loans with cash or collateral typically equaling 102% to 105% of the market value of the security borrowed. At June 30, 1995, the market value of the securities on loan with PRIT was approximately \$510,000,000. The value of the collateral amounted to \$524,000,000 at June 30, 1995.

f. Receivables -

Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the Commonwealth for its expenditures on federally-funded reimbursement and grant programs are reported as "Due from federal government." The receivables in the University and College Fund and Component Units column are amounts that have arisen in the normal course of operations.

g. Inventories and Other Assets -

The costs of materials and supplies are recorded as expenditures in Governmental Funds when purchased. Such inventories are not material in total to the financial statements and therefore are not recorded.

Inventories included within the University and College Fund and the Component Unit column are stated at the lower of cost, using the first-in, first-out method, or market (on the purchase or consumption method).

h. Fixed Assets -

For Governmental Funds, general fixed asset acquisitions are recorded as expenditures in the acquiring fund and capitalized in the General Fixed Assets Account Group in the year purchased. General fixed assets are recorded at historical cost, or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at the estimated fair market value at the date of the donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Improvements are capitalized.

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

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

h. Fixed Assets (Continued)-

Fixed assets of the University and College Fund are recorded at cost when purchased or constructed. Major construction projects financed through the issuance of Commonwealth bonds are not recognized as additions to investment in plant until completed. All land and library collections are capitalized. The University of Massachusetts and state colleges capitalize all other fixed assets with costs in excess of one thousand dollars. The community colleges capitalize all other fixed assets with costs in excess of fifteen thousands dollars consistent with the Commonwealth's fixed asset policy. No provision for depreciation is recognized except for depreciation recorded on the University of Massachusetts Medical School Teaching Hospital and Group Practice Plan fixed assets, which is recorded on a straight line basis over the estimated useful lives of the assets.

Fixed assets of the Component Units are capitalized upon purchase and depreciated on a straight-line basis over the estimated useful lives of the assets. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are as follows:

Structures and improvements	3 – 100 years
Equipment, furniture, fixtures and vehicles	3 – 25 years

i. Interfund/Intrafund Transactions -

During the course of its operations, the Commonwealth records transactions between funds and/or between departments. Transactions of a buyer/seller nature between departments within a fund are not eliminated from the individual fund statements. Receivables and payables resulting from transactions between funds are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

Receivables and payables resulting from transactions between Component Units and the primary government are classified as "Due to/from primary government" or "Due to/from Component Units."

j. 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' group health insurance, pensions, unemployment compensation and other costs necessary to support the workforce. As directed by Massachusetts General Laws, these costs are assessed to other funds based on payroll costs, net of credits for direct payments. Since fringe benefit costs are not separately appropriated or otherwise provided for in these funds, the required assessment creates an unfavorable budget variance in the budgeted funds. The employees group health insurance is accounted for through the Internal Service Fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

k. School Construction Grants -

The Commonwealth through legislation is committed to reimburse certain cities, towns and regional school districts for a portion of their debt service costs for school construction and renovation. The amounts expected to be liquidated with available financial resources are reported as expenditures and fund liabilities. The long-term portion of this liability is recorded in the General Long-term Obligations Account Group.

l. Compensated Absences -

For Governmental Funds and Expendable Trust Funds, vested or accumulated vacation and sick leave expected to be liquidated with expendable available financial resources are reported as expenditures and fund liabilities. Amounts that are not expected to be so liquidated are reported in the General Long-term Obligations Account Group.

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

In the University and College Funds and the discretely presented Component Units, employees' accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue.

m. 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.

n. Risk Financing -

The Commonwealth does not insure for Commonwealth employees 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 loss is incurred. For Commonwealth employees workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Public Employee Retirement Administration and another program for individuals working on the Central Artery/Third Harbor Tunnel Project managed by the Massachusetts Highway Department. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances. The Group Insurance Commission administers health care and other insurance for the Commonwealth's employees and retirees.

The Commonwealth accounts for workers' compensation and group insurance risk financing activities in the Internal Service Funds. Revenues are charged to other funds as reimbursement for expenditures related to claims and judgments. Other risk financing activities are accounted for in the General Fund.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

o. 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.

p. Reclassifications –

For the fiscal year ended June 30, 1995, certain reclassifications have been made to the 1994 balances to conform to the presentation used in 1995.

The separately issued Component Units financial statements have been reclassified to conform to the accounting classifications used by the Commonwealth.

q. 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, 1995:

<u>Adoption required Statement No.</u>		<u>in fiscal year</u>
24	Accounting and Reporting for Certain Grants and Other Financial Assistance	1996
25	Financial Reporting for Defined Benefit Pension Plans and Note Disclosure for Defined Contribution Plans	1996
26	Financial Reporting for Postretirement Healthcare Plans administered by Defined Benefit Pension Plans	1996
27	Accounting for Pensions by State and Local Governmental Employers	1997
28	Accounting and Financial Reporting for Securities Lending Transactions	1997
29	The use of Not-for-Profit Accounting and Financial Reporting Principles by Governmental Entities	1996

The implication of these statements to the Commonwealth’s fiscal practices and financial reports is being evaluated.

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 1995, the Legislature included in the general appropriation act a revenue budget to show the estimates of amounts expected to be available to finance appropriated expenditures.

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

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

Generally, expenditures may not exceed the level of spending authorized for an individual appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Certain interfund assessments to allocate fringe benefits and other costs are mandated by state finance law but not itemized in the appropriation process or separately budgeted. In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, to withhold allotment of appropriated funds, effectively reducing the account's expenditure budget, upon determination that available revenues will be insufficient to meet authorized expenditures.

The original fiscal year 1995 Appropriation Act authorized approximately \$15,403,812,000 in direct appropriations, \$699,164,000 in authorizations to retain and expend certain non-tax revenues and \$105,755,000 of interagency chargebacks. The act also included estimates of \$11,301,100,000 in tax revenues and approximately \$4,995,921,000 in non-tax revenues. With these revenues (exclusive of chargebacks) projected to total approximately \$16,297,021,000, and with unreserved balances on a statutory basis of approximately \$127,068,000 carried forward from fiscal year 1994, the budget as presented in this original appropriation act was considered to be in balance.

During fiscal year 1995, the Legislature also passed and the Governor signed, with some modification through veto, several supplemental budgetary appropriations. These amounts added approximately \$442,374,000 in direct appropriations, \$1,543,000 in additional retained revenue authorizations, and \$4,849,000 of inter-agency chargebacks.

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2. BUDGETARY CONTROL (CONTINUED)

Subsequent to June 30, 1995, the Legislature passed and the Governor signed, with modification through veto, approximately \$46,131,000 in additional supplemental appropriations relating to fiscal year 1995 cumulative. These actions raised to approximately \$16,703,628,000 the total of appropriations, retained revenue authorizations, and interagency chargebacks. Appropriations continued from fiscal year 1994 totaled approximately \$74,245,000, and certain intrafund and interfund transfers and expenditures, directed by statute, totaled approximately \$351,481,000.

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

Line item appropriations are enacted for the General Fund and certain Special Revenue Fund activities. For these funds, a Combined Statement of Revenues, Expenditures and Changes in Fund Balances – Statutory Basis – Budget and Actual – General and Budgeted Special Revenue Funds is included. The Budgeted Special Revenue Funds itemized in the CAFR are the Highway, Local Aid, Commonwealth Stabilization, Environmental, Administrative Control, and under the label of Other, all remaining budgeted funds.

The Office of the Comptroller has the responsibility to ensure that budgetary control is maintained on an individual line item appropriation account basis. Budgetary control is exercised through the State Accounting System, Massachusetts Management Accounting and Reporting System (MMARS). Encumbrances and expenditures are not allowed to exceed the appropriation account total available spending authorization.

A MMARS report, internally identified as RPT226, is used by management and the Office of the Comptroller to monitor spending against budget. This report provides information at the individual line item appropriation account level, which is the legal level of budgetary control. For financial reporting, the Commonwealth groups these appropriation accounts by character and secretariat to conform to its organizational structure.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

2. BUDGETARY CONTROL (CONTINUED)

A reconciliation of the statutory basis General and budgeted Special Revenue funds to the GAAP basis General and all Special Revenue funds presented in the financial statements is as follows (amounts in thousands):

	General	Special Revenue
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (statutory basis)	\$ 462,652	\$ (325,964)
Entity differences:		
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses for:		
Non-budgeted Special Revenue Funds		7,668
Perspective differences:		
Certain activities treated as Special Revenue Funds for statutory and as part of the General Fund for GAAP	79,425	(79,425)
Implementation of GASB 10	(78,437)	(12,643)
Basis of Accounting differences:		
Net increase in taxes receivable	59,957	46,242
Net increase/(decrease) in due from federal government	(92,536)	(33)
Net increase/(decrease) in other receivables and other assets	(17,632)	22,438
Net increase in tax refunds and abatements payable	(6,322)	(10,954)
Net (increase)/decrease in accounts payable and other liabilities	<u>412,885</u>	<u>(191,406)</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	<u>\$ 819,992</u>	<u>\$ (544,077)</u>

3. DEPOSITS AND INVESTMENTS

Cash and Short-Term Investments – The Commonwealth maintains a cash and short-term investment pool which is utilized by the Governmental and Fiduciary Fund types.

As of June 30, 1995, the carrying amount of the Primary Government's total cash and cash equivalents was \$649,647,000 and the corresponding bank balances were \$671,004,000. Bank deposits in the amount of \$12,692,000 were insured by the Federal Deposit Insurance Corporation, and \$658,312,000 were uninsured and uncollateralized.

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3. DEPOSITS AND INVESTMENTS (CONTINUED)

Cash and Short-Term Investments (Continued) – As of June 30, 1995, the carrying amount of the discretely presented Component Unit's total cash and cash equivalents was \$46,672,000, and the corresponding bank balances were \$45,111,000. Bank deposits of \$4,005,000 were insured by the Federal Deposit Insurance Corporation and \$41,107,000 were uninsured and uncollateralized.

Investments – The Commonwealth maintains an investment pool, the Massachusetts Municipal Depository Trust (MMDT), that is available for use by all funds. The deposits and investments of the Component Units and the University and College Funds and the investments of the Pension Trust Funds are held separately from those of other Commonwealth funds, with the exception of their investments in MMDT.

Statutes authorize the Primary Government to invest in obligations of the U.S. Treasury, authorized bonds of all states, banker's acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poors Corporation and Moody's Commercial Paper Record and repurchase agreements that any of these obligations secure. Investments in the MMDT are carried at cost, which approximates market. The Pension Trust Funds are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments. In the following table, these alternative investments, venture capital and futures pools are classified as other investments. The investment policies of the Component Units are the same as the Primary Government's, except that they permit investment in equity securities.

Short-term investments and investments are classified as to collateral risk into the following three categories:

- Category 1: Insured or registered, or securities held by the Commonwealth or its agent in the Commonwealth's name.
- Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Commonwealth's name.
- Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commonwealth's name.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

3. DEPOSITS AND INVESTMENTS (CONTINUED)

Primary Government – Investments of the Primary Government at June 30, 1995, are as follows (amounts in thousands):

	Carrying Amount			Total	Market Value
	Category 1	Category 2	Category 3		
INVESTMENT					
Repurchase agreements	\$ 242,634	\$ 247	\$ 1,583	\$ 244,464	\$ 249,079
U.S. Treasury obligations	839,319	8,471		847,790	842,789
Commercial paper	695,389			695,389	695,389
Government obligations	2,420,550	128,375	9,298	2,558,223	2,557,618
Equity securities	7,595,105	18,726	717	7,614,548	7,616,034
Fixed income securities	1,636,622	80,556		1,717,178	1,720,549
Asset backed investments		11,757		11,757	11,263
Notes		3,550		3,550	3,550
Other	151,324	31,015	152,612	334,951	334,728
	<u>\$13,580,943</u>	<u>\$282,697</u>	<u>\$164,210</u>	14,027,850	14,030,999
Money market investments				837,362	837,362
Mutual fund investments				57,478	57,478
Deferred compensation plan mutual funds				1,215,348	1,215,348
Annuity contracts				1,097,652	1,097,652
Real estate				446,192	446,192
Assets held in trust				1,691,484	1,691,484
Deposits with U.S. Treasury				385,605	385,605
Other				614,249	614,249
Total				<u>\$20,373,220</u>	<u>\$20,376,369</u>

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3. DEPOSITS AND INVESTMENTS (CONTINUED)

Primary Government (Continued) – Following is a reconciliation of investments as summarized above to the balance as recorded in the combined balance sheet (amounts in thousands):

Investments as summarized above	\$20,373,220
Less: Short-term investments reported in the combined balance sheet as cash and short-term investments	2,043,176
Restrictive investments reported separately in the combined balance sheet	162,391
Deferred compensation plan mutual funds reported separately in the combined balance sheet	1,215,348
Assets held in trust reported separately in the combined balance sheet	1,691,484
Annuity contracts reported separately in the combined balance sheet	1,097,652
Deposits reported separately in the combined balance sheet	<u>385,605</u>
Investments as reported on the combined balance sheet	<u>\$13,777,564</u>

Following is a reconciliation of the balance of cash and short-term investments at June 30, 1995 (amounts in thousands):

Carrying amount of cash and cash equivalents	\$ 471,247
Cash with fiscal agent	89,200
Short-term investments	<u>2,043,176</u>
Cash and short-term investments as reported on the combined balance sheet	<u>\$2,603,623</u>

Financial Instruments with Off-Balance Sheet Risk – There are certain investments of the Commonwealth which may involve a degree of risk not accounted for on the respective financial statements. A description of such “off-balance sheet risks” is as follows:

3. DEPOSITS AND INVESTMENTS (CONTINUED)

Forward Currency Contracts – The Pension Trust Funds enter into forward currency contracts to hedge the exposure to changes in foreign currency exchange rates on foreign portfolio holdings. The market value of the contract will fluctuate with changes in currency exchange rates. Risks may arise upon entering these contracts from the potential inability of counterparts to meet the terms of their contracts and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar.

When the contract is closed, the Trusts record a realized gain or loss equal to the difference between the value of the contract at the time it was opened and the value at the time it was closed. Fluctuations in the value of forward currency contracts are recorded as unrealized gains or losses by the Trusts.

Future Contracts – The Pension Trust Funds may purchase and sell financial futures contracts to hedge against changes in the values of securities the fund owes or expects to purchase. Upon entering such contracts, they must pledge to the broker an amount of cash or securities equal to a percentage of the contract amount.

The potential risk is that the change in the value of futures contracts primarily corresponds with the value of underlying instruments which may not correspond to the change in value of the hedged instruments. In addition, there is a risk that PRIT or Masters may not be able to close out its futures positions due to a non-liquid secondary market. Risks may arise from the potential inability of a counterparty to meet the terms of a contract and from unanticipated movements in the value of a foreign currency relative to the U.S. dollar. The Trusts may also invest in financial futures contracts for non-hedging purposes.

Payments are made or received by the Trusts each day, depending on the daily fluctuations in the value of the underlying security, and are recorded as unrealized gains or losses. When the contracts are closed, the Trusts recognize a realized gain or loss. The notional value of the futures contracts at June 30, 1995 for the Trusts amount to approximately \$125,000,000 with unrealized losses of approximately \$315,000.

Options – PRIT and Masters are also engaged in selling or “writing” options. The Trusts, as writers of options, may have no control over whether the underlying securities may be sold (call) or purchased (put) and, as a result, bears the market risk of an unfavorable change in the price of the security underlying the written option. As of June 30, 1995, there were no material options outstanding.

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3. DEPOSITS AND INVESTMENTS (CONTINUED)

Component Units – Investments of the discretely presented Component Units at June 30, 1995, are as follows (amounts in thousands):

	Carrying Amount			Total	Market Value
	Category 1	Category 2	Category 3		
INVESTMENT					
Repurchase agreements	\$ 2,652	\$ 0	\$ 49,810	\$ 52,462	\$ 52,650
U.S. Treasury obligations	72,893	11,607	306	84,806	84,861
Commercial paper	85,040			85,040	85,040
Government obligations			53,190	53,190	54,292
Equity securities			300	300	300
Notes	4,451		6,823	11,274	11,242
Other	1,954	1,975	14,428	18,357	18,359
	<u>\$166,990</u>	<u>\$13,582</u>	<u>\$124,857</u>	305,429	306,744
Money market investments				21,276	21,276
Mutual fund investments				78	78
Deferred compensation plan mutual funds				11	11
Cash on deposit with insurance carriers				747	747
Guaranteed investment contracts				<u>270,636</u>	<u>270,636</u>
Total				<u>\$598,177</u>	<u>\$599,492</u>

Following is a reconciliation of investments summarized above to the balance as recorded in the combined balance sheet (amounts in thousands):

Investments as summarized above	\$598,177
Less: Short-term investments reported in the combined balance sheet as cash and short-term investments	306,290
Restricted investments reported separately in the combined balance sheet	<u>29,433</u>
Investments as reported on the combined balance sheet	<u>\$262,454</u>

Following is a reconciliation of the balance of cash and short-term investments at June 30, 1995 (amounts in thousands):

Carrying amount of cash and cash equivalents	\$ 46,672
Short-term investments	<u>306,290</u>
Cash and short-term investments as reported on the combined balance sheet	<u>\$352,962</u>

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

4. RECEIVABLES

Taxes, federal reimbursements, loans and other receivables are presented in the various funds as follows (amounts in thousands):

Primary Government –

	Taxes	Due from Federal Government	Loans	Other	Allowance for Uncollectibles	Net Receivable
General Fund	\$ 987,286	\$ 504,506	\$ 0	\$ 902,062	\$ (1,038,804)	\$ 1,355,050
Special Revenue Funds	688,026	149,944		124,853	(230,111)	732,712
Capital Projects Funds		121,584		903	(32)	122,455
Trust and Agency	359,768	4,105	7,794	566,918	(348,748)	589,837
University and College Fund		<u>9,024</u>	<u>52,776</u>	<u>139,731</u>	<u>(28,922)</u>	<u>172,609</u>
Subtotal	2,035,080	789,163	60,570	1,734,467		2,972,663
Less: Allowance for uncollectibles	<u>(571,633)</u>	<u>(11,917)</u>	<u>(5,239)</u>	<u>(1,057,828)</u>	<u>\$ (1,646,617)</u>	
Net receivable	<u>\$ 1,463,447</u>	<u>\$ 777,246</u>	<u>\$ 55,331</u>	<u>\$ 676,639</u>		<u>\$ 2,972,663</u>

Component Units –

	Due from Federal Government	Loans	Other	Allowance for Uncollectibles	Net Receivable
MBTA	\$ 6,600	\$ 0	\$ 29,591	\$ 0	\$ 36,191
Regional Transit Authorities	4,315		5,066	(36)	9,345
WPAT	33,287	573,860	9,842		616,989
MCCA			480	(63)	417
Economic Development	<u>20,237</u>	<u>109,067</u>	<u>2,902</u>	<u>(4,531)</u>	<u>127,675</u>
Subtotal	64,439	682,927	47,881	(4,630)	790,617
Less: Allowance for uncollectibles		<u>(4,531)</u>	<u>(99)</u>	<u>\$ (4,630)</u>	
Net receivable	<u>\$ 64,439</u>	<u>\$ 678,396</u>	<u>\$ 47,782</u>		<u>\$ 790,617</u>

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5. RECEIVABLES AND PAYABLES BETWEEN FUNDS AND COMPONENT UNITS

Receivables and payables between funds and component units at June 30, 1995 are summarized as follows (amounts in thousands):

	Due from	Due to
General Fund:		
Special Revenue Funds:		
Federal Grants	\$ 4,068	\$ 0
Local Aid	10,400	
Capital Projects Funds:		
General	49,033	
Highway	131,085	
Local Aid	41,855	
Other	489	
Component Unit:		
MBTA		33,906
RTA		30,199
MCCA		13,516
Economic Development Authorities		4,214
Trust and Agency Funds:		
Pension Trust	2,830	
University and College Fund:		
Current - Unrestricted	<u>6,442</u>	
Subtotal	<u>246,202</u>	<u>81,835</u>
Special Revenue Funds:		
General Fund		14,468
Component Units:		
MBTA		255,245
RTA		<u>23,139</u>
Subtotal		<u>292,852</u>
Capital Projects Funds:		
General Fund		222,462
Capital Projects Funds:		
Highway	22,975	
Federal Highway Construction		22,975
Component Units:		
Economic Development Authorities		32
WPAT		<u>6,526</u>
Subtotal	<u>22,975</u>	<u>251,995</u>

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

**5. RECEIVABLES AND PAYABLES BETWEEN FUNDS AND COMPONENT UNITS
(CONTINUED)**

	Due from	Due to
Internal Service Funds:		
University and College Funds:		
Current and unrestricted	<u>28,367</u>	<u> </u>
Subtotal	<u>28,367</u>	<u> </u>
Fiduciary Funds:		
General Fund	<u> </u>	<u>2,830</u>
Subtotal	<u> </u>	<u>2,830</u>
University and College Fund:		
General Fund		6,442
Internal Service Funds:		
Employees Workers' Compensation		28,367
University and College Fund:		
Current - unrestricted	1,232	33,315
Current - restricted	32,460	
Loan	220	
Endowment		180
Plant	<u>489</u>	<u>906</u>
Subtotal	<u>34,401</u>	<u>69,210</u>
Component Units:		
General Fund	81,835	
Special Revenue Funds:		
Federal Grants		
Highway Fund	92,795	
Local Aid	185,589	
Capital Projects Funds:		
General	32	
Local Aid	<u>6,526</u>	<u> </u>
Subtotal	<u>366,777</u>	<u> </u>
TOTAL	<u>\$ 698,722</u>	<u>\$ 698,722</u>

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6. FIXED ASSETS

Primary Government-

General Fixed Asset Account Group – Changes in general fixed assets by category at June 30, 1995 are as follows (amounts in thousands):

	Balance at June 30, 1994	Additions and Adjustments	Retirements and Adjustments	Balance at June 30, 1995
Land	\$ 455,089	\$ 24,559	\$ 3,281	\$ 476,367
Buildings	2,224,052	75,302	17,922	2,281,432
Machinery and equipment	369,383	91,157	34,038	426,502
Construction in progress	<u>18,158</u>	<u>14,864</u>	<u>14,795</u>	<u>18,227</u>
Total	<u>\$3,066,682</u>	<u>\$205,882</u>	<u>\$70,036</u>	<u>\$3,202,528</u>

College and University Fund Type – Fixed assets consist of the following at June 30, 1995 (amounts in thousands):

Land	\$ 40,696
Buildings	1,614,312
Machinery and equipment	541,996
Construction in progress	<u>5,640</u>
	2,202,644
Less: accumulated depreciation (hospital and group practice plan)	<u>124,214</u>
Total	<u>\$2,078,430</u>

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

6. FIXED ASSETS (CONTINUED)

Component Units – Fixed assets reported in the Commonwealth's Component Units consist of the following at June 30, 1995 (amounts in thousands):

	Amount
Land and improvements	\$ 245,355
Structures and improvements	4,246,946
Equipment, furniture, fixtures and vehicles	<u>1,673,921</u>
Total	6,166,222
Less accumulated depreciation	<u>1,541,281</u>
Net fixed assets	4,624,941
Property held for expansion	7,439
Construction in progress	<u>530,398</u>
Total	<u>\$5,162,778</u>

7. SHORT-TERM FINANCING AND CREDIT AGREEMENTS

Primary Government -

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

General Fund – As authorized by Chapter 161A of the Massachusetts General Laws, the Commonwealth issues short-term notes to finance working capital advances to the MBTA. The Commonwealth retires these notes through subsequent appropriations and assessments to cities and towns. The notes outstanding at June 30, 1995, totaled \$240,000,000, with an interest rate of 4.25% and a yield of 3.45% and mature in June 1996.

The balance of revenue anticipation notes (RANs) fluctuates during the fiscal year but must be reduced to zero at June 30. During fiscal year 1995, there were no RANs issued and outstanding.

Capital Projects Funds – The Commonwealth had issued five-year term minibonds, which are redeemable upon demand, to finance its capital projects. At June 30, 1995, there were no minibonds outstanding.

The Commonwealth may issue bond anticipation notes (BANs) to temporarily finance its capital projects, but it must reduce the balance to \$200,000,000 at June 30. There were no such notes outstanding at June 30, 1995. Subsequent to year end, in October 1995, \$190,000,000 of BANs were issued; as of the date of this report, \$98,000,000 remains outstanding.

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7. SHORT-TERM FINANCING AND CREDIT AGREEMENTS (CONTINUED)

Letter-of-Credit Agreements – During fiscal year 1995, the Commonwealth maintained letter-of-credit agreements with several banks in order to provide credit and liquidity support for its commercial paper program. The letters of credit were available to secure up to \$400,000,000 of Commonwealth commercial paper plus interest thereon. Advances were available, subject to certain limitations and bearing interest at the bank rate as defined, in anticipation of revenue or bond proceeds and repayable by the following June 30, subject to extension in certain circumstances, at the Commonwealth's option. No such advances were drawn during the fiscal year ended June 30, 1995, or subsequent thereto. These agreements expire September 30, 1996 through October 29, 1996. The average costs are approximately 0.085 % on unutilized amounts and approximately 0.12% on utilized amounts.

Line-of-Credit Agreement – During fiscal year 1995, the Commonwealth maintained a line of credit with a bank to provide liquidity support for up to \$200,000,000 of commercial paper notes, which line of credit expires September 30, 1996. The average costs of all lines of credit are approximately 0.06% on unutilized amounts and approximately 0.085% on utilized amounts.

Component Units -

MBTA short-term notes payable outstanding at June 30, 1995 totaled \$345,000,000. Of this amount, \$180,000,000 are due September 8, 1995 with an interest rate of 5.0% and \$165,000,000 mature March 1, 1996 with an interest rate of 5.5%.

The MBTA also issued commercial paper to act as financing for capital expenditures. At June 30, 1995, \$107,705,000 of this commercial paper was outstanding.

Subsequent to June 30, 1995, The Massachusetts Bay Transportation Authority issued \$180,000,000 of revenue anticipation notes carrying an interest rate of 5.0%. The notes mature on September 30, 1998.

The RTAs had the following short-term notes payable outstanding at June 30, 1995: Pioneer Valley \$12,000,000, Merrimack Valley \$7,004,000, Southeast Regional \$6,000,000; Worcester Regional \$12,460,000; Brockton Area \$7,800,000; Montachusett \$7,300,000; Lowell \$4,400,000; all other regional transit authorities \$11,391,000. All notes mature during fiscal year 1996 and have interest rates ranging from 2.62% to 4.50%.

Subsequent to June 30, 1995, Brockton Area Transit Authority rolled over \$7,000,000 of revenue anticipation notes carrying an interest rate of 4.4% due July 1996; Lowell Regional Transit Authority rolled over \$4,250,000 of revenue anticipation notes with 4.10% due July 1996. Other regional transit authorities rolled over \$3,900,000 of operating assistance notes at 4.0-5.0%; all due in 1996.

8. LONG-TERM DEBT

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. In addition, the Commonwealth may give, loan or pledge its credit by a two-thirds vote of the members of each house of the Legislature present and voting thereon, but such credit may not in any manner be given or loaned to or in aid of any individual, or of any private association, or of any corporation which is privately owned or managed.

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

As of June 30, 1995, the Commonwealth had three types of bonds outstanding: general obligation, dedicated income tax and, special obligation. The general obligation bonds are authorized and issued primarily to provide funds for Commonwealth-owned capital projects and local government improvements. They are backed by the full faith and credit of the Commonwealth and paid from the Governmental Funds, in which debt service principal and interest payments are appropriated. Massachusetts General Laws provide for the allocation of bond proceeds to these authorizations in arrears, as expenditures are made, unless the proceeds are allocated at the time of issuance.

The dedicated income tax bonds relate entirely to the deficit financing authorization of fiscal year 1990. As a remedy to that financial situation, the Legislature authorized bonds, to be repaid from tax revenues within seven years.

The Commonwealth also issues special obligation revenue bonds as authorized under Massachusetts General Laws. Such bonds may be secured by all or a portion of revenues credited to the Highway Fund and are not general obligations of the Commonwealth. At June 30, 1995, the Commonwealth had outstanding \$394,700,000 of such bonds, secured by a pledge of 6.86 cents of the 21 cent per gallon motor fuel excise tax collected on gasoline.

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

The amount of bonds authorized but unissued is measured in accordance with Commonwealth statutes. Only the net proceeds of bonds (exclusive of discount and costs of issuance) are deducted from the total authorized by the Legislature.

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8. LONG-TERM DEBT (CONTINUED)

General obligation, dedicated income tax and special obligation long-term bonds outstanding (including discount and issuance costs) and bonds authorized-unissued at June 30, 1995, are as follows (amounts in thousands):

Purpose	Outstanding Amount	Maturities	Authorized - Unissued
Deficit reduction:			
Fiscal recovery	<u>\$ 618,980</u>	1995-1998	<u>\$ 57,274</u>
Capital projects:			
General	6,218,311	1995-2025	2,403,124
Highway	1,846,877	1995-2016	2,409,675
Local aid	862,706	1995-2015	1,050,535
Other	<u>81,592</u>	1995-2025	<u>22,199</u>
Capital projects debt	<u>9,009,486</u>		<u>5,885,533</u>
Total	<u>\$9,628,466</u>		<u>\$5,942,807</u>

Interest rates on the Commonwealth's bonded debt outstanding at June 30, 1995 ranged from 0.10% to 14.25%.

Changes in long-term bonds outstanding (including discount and issuance costs) and bonds authorized-unissued for the year ended June 30, 1995, are as follows (amounts in thousands):

	Bonds Outstanding	Authorized - Unissued
Balance, July 1, 1994	\$9,427,745	\$4,512,297
General and special obligation bonds:		
Principal less discount and issuance costs	809,862	(809,862)
Discount and issuance costs	15,139	
General obligation refunding bonds	499,095	
Bonds retired (excluding minibonds)	(646,280)	
Refunded bonds	(477,095)	
Increase in bonds authorized		2,252,288
Expiration of authorizations		<u>(11,916)</u>
Balance, June 30, 1995	<u>\$9,628,466</u>	<u>\$5,942,807</u>

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

8. LONG-TERM DEBT (CONTINUED)

At June 30, 1995, debt service requirements to maturity for principal (including discount, capital appreciation and issuance costs) and interest are as follows (amounts in thousands):

Year Ending June 30	Principal	Interest	Total
1996	\$ 684,266	\$ 488,605	\$ 1,172,871
1997	719,135	460,173	1,179,308
1998	641,621	412,171	1,053,792
1999	569,942	377,398	947,340
2000	588,664	344,117	932,781
2001 and thereafter	<u>6,424,838</u>	<u>2,135,158</u>	<u>8,559,996</u>
Total	<u>\$9,628,466</u>	<u>\$4,217,622</u>	<u>\$13,846,088</u>

Subsequent to June 30, 1995, the Commonwealth issued \$26,100,000 in general obligation bonds, with variable interest rates, \$200,000,000 in general obligation bonds, with interest rates ranging from 4% to 5.625%, and \$250,000,000 in general obligation bonds with an interest rate of 5.125%.

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, this limit provides 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 1995 was \$8,265,443,000.

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 bond anticipation notes and discount and issuance costs, if any, financed by these bonds. It also excludes dedicated income tax bonds, special obligation bonds, refunded bonds, and certain refunding bonds. Outstanding direct debt, as defined, totaled approximately \$7,625,462,000 at June 30, 1995.

Variable Rate Bonds – In 1990, the Commonwealth issued \$1,339,100,000 in debt to finance the state's accumulated operating deficits. Some \$380,100,000 of that debt was issued as variable rate debt, of which \$148,700,000 was outstanding on June 30, 1995. Payment of the principal and interest on the variable rate bonds is guaranteed through letters of credit entered into between the Commonwealth and certain banks. To limit its exposure to the fluctuating interest rates on the variable rate debt, the Commonwealth entered into interest rate swap agreements with two investment banking firms. Under these agreements, the Commonwealth receives payments from the firms approximately equal to the variable interest rate paid by the Commonwealth on the bonds, and, in return, makes fixed payments to the firms. The fixed payments made by the Commonwealth are equivalent to fixed interest rates of 6.225% on \$23,700,000 of the outstanding bonds, 6.7895% on \$75,000,000 of the bonds and 6.839% on the remaining \$50,000,000 of bonds.

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 \$499,095,000 of general obligation refunding bonds during fiscal year 1995. Proceeds totaling approximately \$513,622,000, including bond premiums, were used to purchase U.S. Government securities which were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liabilities therefore have been removed from the General Long-term Obligations Account Group. As a result of these advance refundings, the Commonwealth decreased current year debt service payments and has taken advantage of lower interest rates, and it has decreased its aggregate debt service payments by approximately \$33,255,000 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 \$21,090,000. At June 30, 1995, approximately \$477,095,000 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, 1995, approximately \$2,106,000,000 of bonds outstanding from advance refundings in prior fiscal years are considered defeased.

Changes in General Long-term Obligations – The Commonwealth records its liability for long-term bonds in the General Long-term Obligations Account Group. Other general long-term obligations recognized by the Commonwealth are its obligations under capital lease agreements (Note 12), school construction grants to partially reimburse cities and towns for their debt service payments on bonds issued to finance construction of local or regional schools (Note 1), compensated absences (Note 1), unfunded pension costs (Note 10).

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

8. LONG-TERM DEBT (CONTINUED)

General Long Term Debt Obligations Account Group – During the year ended June 30, 1995, the following changes occurred in liabilities reported in the General Long-term Obligations Account Group (amounts in thousands):

	Long-term Bonds	Capital Leases	School Construction Grants	Compensated Absences
Balance, July 1, 1994	\$9,427,745	\$ 50,954	\$2,070,709	\$ 81,823
Bond issuances	1,308,957			
Bond discount	15,139			
Bond principal payments (excluding minibonds)	(1,123,375)			
Excess of total pension contributions made over total contributions required				
Balance to internal service fund				
Net increase (decrease)	<u> </u>	<u>1,303</u>	<u>545,320</u>	<u>9,488</u>
Balance, June 30, 1995	<u>\$9,628,466</u>	<u>\$ 52,257</u>	<u>\$2,616,029</u>	<u>\$91,311</u>
	Unfunded Pension Costs	Claims, Judgments, and Other	Total	
Balance, July 1, 1994	\$2,579,432	\$ 435,595	\$14,646,258	
Bond issuances			1,308,957	
Bond discount			15,139	
Bond principal payments (excluding minibonds)			(1,123,375)	
Excess of total pension contributions made over total contributions required	(145,183)		(145,183)	
Balance to internal service fund		(341,620)	(341,620)	
Net increase (decrease)	<u> </u>	<u>(31,629)</u>	<u>524,482</u>	
Balance, June 30, 1995	<u>\$2,434,249</u>	<u>\$ 62,346</u>	<u>\$14,884,658</u>	

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8. LONG-TERM DEBT (CONTINUED)

University and College Fund – Building authorities related to the University of Massachusetts and the state colleges have issued bonds for construction of higher education facilities and equipment. Such bonds are guaranteed by the Commonwealth in an aggregate amount not to exceed \$182,000,000. The bond agreements generally provide that revenues from student fees are pledged as collateral on the bonds and establish bond reserve funds, bond funds, and maintenance reserve funds. The University of Massachusetts has also entered into various loan agreements as a participant in the Massachusetts Health and Educational Facilities Authority's ongoing capital asset program to finance construction projects and equipment.

University and College Fund long-term debt outstanding at June 30, 1995 was as follows (amounts in thousands):

Purpose	Interest Rates	Amount	Maturity Dates
MHEFA capital asset program	Variable	\$ 28,891	1995-2023
Building authorities	3.0% - 9.2%	<u>255,424</u>	1995-2017
		<u>\$ 284,315</u>	

Maturities of principal are as follows (amounts in thousands):

Years Ending June 30	Amount
1996	\$ 8,815
1997	9,885
1998	10,870
1999	11,815
2000	12,540
2001 and thereafter	<u>230,390</u>
Total	<u>\$ 284,315</u>

Changes in bonds outstanding reported in the University and College Fund Type are as follows (amounts in thousands):

	Amount
Balance, July 1, 1994	\$ 248,246
Principal less issuance and discount cost	51,363
Principal issuance of refunding bonds	148,925
Bonds retired, net of amortization of discount	<u>(164,219)</u>
Balance, June 30, 1995	<u>\$ 284,315</u>

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

8. LONG-TERM DEBT (CONTINUED)

University and College Fund (Continued) –

The University of Massachusetts acquired a telecommunications system through debt financed through certificates of participation which bear interest at an average rate of 7.38% and mature in varying semi-annual installments through fiscal year 2000. Lease payments are funded from UMass student fees and approximate the trustee's payments to certificate holders.

Changes in non-cancelable certificates of participation for the University and College Fund Type are as follows (amounts in thousands):

Years Ending June 30	Amount
1996	\$ 2,670
1997	2,671
1998	2,668
1999	2,671
2000	<u>2,673</u>
 Total payments	 13,353
 Less: Amount representing interest	 <u>(2,418)</u>
 Present value of debt financed	 <u>\$ 10,935</u>

In prior years, the University and College Fund building authorities advanced refunded certain bonds through the issuance of \$148,925,000 of refunding bonds during fiscal 1995. The proceeds were used to purchase U.S. Government securities which were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds. Accordingly, the trust account asset and liability for the defeased bonds are not included in the accompanying financial statements. As a result of these advance refundings, the authorities 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 \$19,528,000 over the next twenty-one 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 \$9,866,000. At June 30, 1995, approximately \$172,343,000 outstanding of bonds from prior advance refundings of the University and College Fund building authorities are considered defeased.

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8. LONG-TERM DEBT (CONTINUED)

Component Units -

Bonds and notes outstanding at June 30, 1995, net of unamortized discount of \$18,844,000 and unamortized deferred loss on refunding of \$128,995,000 are as follows (amounts in thousands):

Purpose	Interest Rates	Amount	Maturity Dates
MBTA:			
General transportation system	3.83% - 7.45%	\$2,252,563	2005 - 2025
Boston Metropolitan District	4.48 - 7.10	47,685	2002 - 2025
RTAs:			
Transportation bonds		30	1995 - 1997
MCCA:			
Current interest serial bonds	3.45 - 6.00	114,818	1996 - 2008
Compound interest serial bonds	5.375 - 6.80	58,224	2000 - 2013
WPAT:			
Serial bonds	2.00 - 6.25	333,610	1995 - 2015
Term bonds	5.25 - 6.375	110,725	2013 - 2015
Economic Development:			
Notes payable	4.71 - 9.11	<u>41,428</u>	1996 - 2002
Total		<u>\$2,959,083</u>	

Maturities of principal are as follows (amounts in thousands):

Years Ending June 30	MBTA	RTAs	WPAT	MCCA	Economic Development	Total
1996	\$ 72,364	\$ 15	\$ 16,920	\$ 18,105	\$ 6,577	\$ 113,981
1997	77,369	15	17,160	19,105	7,345	120,994
1998	80,902		17,615	20,195	8,014	126,726
1999	84,089		18,380	21,375	6,552	130,396
2000	87,402		19,220	22,670	7,266	136,558
2001 and thereafter	<u>2,045,341</u>		<u>355,040</u>	<u>72,212</u>	<u>5,674</u>	<u>2,478,267</u>
Total	<u>\$2,447,467</u>	<u>\$ 30</u>	<u>\$ 444,335</u>	<u>\$ 173,662</u>	<u>\$ 41,428</u>	<u>\$ 3,106,922</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.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

8. LONG-TERM DEBT (CONTINUED)

Component Units (Continued) –

During the fiscal year ended June 30, 1995, the following changes occurred in bonds and notes payable reported in the Component Units (amounts in thousands):

	MBTA	RTAs	WPAT	MCCA	Economic Development	Total
Balance, July 1, 1994	\$ 2,074,440	\$ 45	\$ 319,535	\$ 190,238	\$ 17,248	\$ 2,601,506
Principal less discount issuance costs	288,110		139,835		26,089	454,034
Debt retired, net of amortization of discount	(54,208)	(15)	(15,035)	(17,196)	(1,909)	(88,363)
Deferred loss on refunding	<u>(8,094)</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>(8,094)</u>
Balance, June 30, 1995	<u>\$ 2,300,248</u>	<u>\$ 30</u>	<u>\$ 444,335</u>	<u>\$ 173,042</u>	<u>\$ 41,428</u>	<u>\$ 2,959,083</u>

The MBTA issued certificates of participation in the amounts of \$28,565,000 on December 15, 1988 and \$85,795,000 on August 30, 1990 to finance the purchase of commuter rail coaches. Under the terms of the applicable agreement, the MBTA's obligation to make the annual payments on the certificates is subject to the Commonwealth's appropriation of necessary funds in its annual budget. The certificates bear interest at rates ranging from 6.3% to 7.8% and mature as follows (amounts in thousands):

Year Ending June 30	Amount
1996	\$ 1,150
1997	1,150
1998	1,150
1999	1,150
2000	1,150
2001 and thereafter	<u>15,915</u>
Total	<u>\$21,665</u>

In prior years, the Massachusetts Bay Transportation Authority defeased in-substance several General Transportation System Bonds by placing the proceeds of new bonds in an irrevocable trust fund to provide for future debt service payments on the old debt. These payments began in 1995. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 1995, \$1,169,430,000 of these bonds outstanding are considered defeased.

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8. LONG-TERM DEBT (CONTINUED)

Component Units (Continued) – 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.

On February 22, 1995, Pioneer Valley Transit Authority (PVTA) issued certification of participation of \$9,930,000 to finance the purchase of buses. Under the terms of the agreement, PVTA is obligated to make annual payments on the certificates subject to the Commonwealth's appropriating the necessary funds in the Authority's annual budget. The certificates bear the interest rate at rates ranging from 5% to 5.7% and mature as follows:

Year Ending June 30	
1996	\$ 1,245
1997	1,245
1998	1,240
1999	1,240
2000	1,240
Thereafter	<u>3,720</u>
Total	<u>\$ 9,930</u>

The legislation which authorizes the issuance of Massachusetts Convention Center Authority debt provides for participation by the Commonwealth in the full payment of the annual debt service costs.

9. INDIVIDUAL FUND DEFICITS:

Certain funds within the Governmental Fund Type and Proprietary Fund Type have fund deficits at June 30, 1995, as follows (amounts in thousands):

Fund	Amount
General	\$ 25,253
Special Revenue:	
Local Aid	141,277
Lotteries	8,647
Capital Projects:	
General	101,290
Highway	239,927
Local Aid	62,391
Other	1,122
Internal Service Funds:	
Employees Workers Compensation	270,800
Employees Group Health Insurance	50,010

9. INDIVIDUAL FUND DEFICITS (CONTINUED):

The deficit in the General Fund reflects the accrual of liabilities for Medicaid claims at June 30, 1995, and for subsidies to transit authorities for operating deficits incurred but not yet funded. These liabilities will be paid in subsequent periods as the Legislature appropriates funds. The General Fund deficit has improved significantly and the Local Aid Fund has incurred a deficit due to legislation shifting payments of transit subsidies totaling \$116,000,000 from the General Fund to the Local Aid Fund. The deficit in the Internal Service Fund reflects the accruals for workers' compensation and group insurance claims of \$320,810,000. Funding of these deficits is dependent upon legislation actions to develop an actuarial funding plan. The deficits in the Lottery Fund reflect the impact of accruals, created essentially by timing differences, which reverse in the next fiscal year.

In the Capital Projects Funds, deficits reflect the time lag between capital expenditures and the receipt or allocation of proceeds from the sale of related bonds. Subsequently, on August 1, 1995, August 9, 1995 and November 1, 1995, the Commonwealth issued \$26,100,000, \$200,000,000 and \$250,000,000, respectively, in general obligation bond related to the capital projects funds.

10. RETIREMENT SYSTEMS

Primary Government –

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

Certain Commonwealth employees and current retirees employed prior to the establishment of the State Employees' Retirement System are covered on a "pay-as-you-go" basis.

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.

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10. RETIREMENT SYSTEMS (CONTINUED)

State – Boston Retirement System (SBRS) is an agent multiple employer defined benefit PERS. SBRS provides provision benefits to all full-time employees upon commencement of employment with any of the various government agencies covered by SBRS. The Commonwealth is a non-employer contributor and is only responsible for the actual cost of pension benefits for SBRS participants who serve in the City of Boston’s School Department in a teaching capacity. The cost of pension benefits of the other participants is the responsibility of the City of Boston. SBRS is not administered by the Commonwealth, and it is not part of the reporting entity.

The Commonwealth has assumed financial responsibility for the COLA granted to participants in the 104 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, 1995 is as follows:

	SERS	TRS	SBRS
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	<u>43,983</u>	<u>30,113</u>	<u>2,344</u>
Current employees:			
Vested	41,277	44,824	3,684
Non-vested	<u>41,652</u>	<u>21,545</u>	<u>2,229</u>
Subtotal	<u>82,929</u>	<u>66,369</u>	<u>5,913</u>
Total	<u>126,912</u>	<u>96,482</u>	<u>8,257</u>

The covered payroll for employees of the Commonwealth covered by SERS was \$2,992,428,000. The covered payroll for employees of the cities and towns covered by TRS is \$2,667,079,000. The covered payroll for employees of the City of Boston covered by SBRS is \$231,694,000. 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.

10. RETIREMENT SYSTEMS (CONTINUED)

Benefit Provisions (Continued) – Retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. Average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Members become vested after ten years of creditable service. A superannuation retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55.

Funding Status and Progress – The amounts shown below as the pension benefit obligation are a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the System on an ongoing basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarially determined present value of credited projected benefits and is independent of the funding method used to determine contributions to the System.

The SERS, TRS and SBRS pension benefit obligations were computed as part of the actuarial valuation as of January 1, 1995. Significant actuarial assumptions used in the calculation of contribution requirements and pension benefit obligation include (a) rates of return on investments of present and future assets of 8% per year (b) projected salary increases of 6% per year (c) cost of living increases of 3% per year and (d) interest rate credited to the annuity savings fund of 5.5% per year.

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10. RETIREMENT SYSTEMS (CONTINUED)

Funding Status and Progress (Continued) – The total unfunded pension benefit obligation is as follows (amounts in millions):

	SERS	TRS	SBRS	COLA	Total
Pension benefit obligation:					
Retirees and others currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	\$3,938	\$3,912	\$ 351	\$ 945	\$ 9,146
Current employees:					
Accumulated employee contributions including allocated interest	1,962	2,183	188		4,333
Commonwealth financed:					
Non-vested	583	297	31	87	998
Vested	<u>1,711</u>	<u>2,769</u>	<u>220</u>	<u>455</u>	<u>5,155</u>
Total pension benefit obligation	8,194	9,161	790	1,487	19,632
Net assets available for benefits, at market	<u>5,879</u>	<u>6,014</u>	<u>438</u>		<u>12,331</u>
Unfunded pension benefit obligations	<u>\$2,315</u>	<u>\$3,147</u>	<u>\$ 352</u>	<u>\$1,487</u>	<u>\$ 7,301</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.

10. 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, 1993 valuation, was filed with the Legislature on October 26, 1994. It required contributions by the Commonwealth of \$889,985,000 during the fiscal year ended June 30, 1995. 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 be not less than:

- Normal cost
- Interest on any unfunded prior service costs
- A provision for vested benefits when the total present value of vested benefits exceeds by 5% or more the value of the plan

The funding schedule discussed above follows an acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability. However, the amortization of the accrued actuarial liability has been legislatively determined to be lower in the first years of the 40-year funding period. The cumulative difference between the total contributions required and the total contributions made is recorded as a liability in the General Long-term Obligations Account Group.

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10. RETIREMENT SYSTEMS (CONTINUED)

Contributions Required and Contributions Made (Continued) – Contributions required and made based on the minimum expenditure recognition required by GAAP are as follows (amounts in millions):

	SERS	TRS	SBRS	COLA	Total
Minimum contribution requirement:					
Normal cost	\$ 414	\$ 334	\$ 31	\$ 48	\$ 827
Amortization of unfunded actuarial liability	12	70	12	31	125
Interest on unfunded actuarial liability	<u>91</u>	<u>111</u>	<u>11</u>	<u>67</u>	<u>280</u>
Total contributions required	<u>\$ 517</u>	<u>\$ 515</u>	<u>\$ 54</u>	<u>\$ 146</u>	<u>\$ 1,232</u>
Contributions made:					
By employees	\$ 219	\$ 183	\$ 14	\$ 0	\$ 416
% of covered payroll	7.31 %	6.85 %	6.09 %	N/A	N/A
By the Commonwealth	435	350	28	97	910
% of covered payroll	<u>14.53 %</u>	<u>13.12 %</u>	<u>12.21 %</u>	<u>N/A</u>	<u>N/A</u>
Total contributions made	<u>\$ 654</u>	<u>\$ 533</u>	<u>\$ 42</u>	<u>\$ 97</u>	<u>\$ 1,326</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, 1995, the Commonwealth's pension expenditure also included payments totaling \$21,881,000 to current retirees employed prior to the establishment of the current plans and to non-contributory plans.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

10. RETIREMENT SYSTEMS (CONTINUED)

Trend Information – The following table presents the required three-year trend information:

	Year	% SERS	% TRS	% SBRS
Net assets available for benefits as a percentage of the pension benefit obligation applicable to employees:				
	1995	71.8	65.6	55.4
	1994	64.7	66.5	61.6
	1993	60.3	60.9	52.7
Unfunded pension benefit obligation as a percentage of annual covered payroll:				
	1995	77.3	118.0	152.2
	1994	101.9	116.7	126.5
	1993	114.4	135.8	161.9
Commonwealth's contributions to the pension plan as a percentage of annual covered payroll:				
	1995	14.5	13.1	12.2
	1994	13.8	12.8	12.9
	1993	14.3	12.5	13.2

Ten-year historical trend information for SERS, TRS and SBRS may be found on page 168 of the Commonwealth's Comprehensive Annual Financial Report. This report presents information about progress made in accumulating sufficient assets to pay benefits when due.

Certain information was not available for SERS, TRS and the Commonwealth's participation in 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.

Component Units -

Condensed Pension Information – Of the 27 discretely presented component units 22 maintain separate pension plans.

Postretirement Health Care and Life Insurance Benefits – In addition to providing pension benefits, under Chapter 32A of the Massachusetts General Laws, the Commonwealth is 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 \$133,467,000 for the fiscal year ended June 30, 1995.

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11. DEFERRED COMPENSATION PLAN

The Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees of the Commonwealth and its political subdivisions, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Commonwealth (without being restricted to the provision of benefits under the plan), subject only to the claims of the Commonwealth's general creditors and its political subdivisions participating in the plan. Participants' rights under the plan are equal to the fair market value of the deferred account for each participant. All plan assets are stated at market value.

It is the opinion of the Commonwealth that it has no liability for losses under the plan, but it does have the duty of due care which would be required of an ordinary prudent investor. The plan assets are subject to the claims of the Commonwealth's general creditors; however, plan assets have not been used in the past to satisfy such claims.

Of the \$1,215,348,000 in the plan at June 30, 1995, \$817,929,000 was applicable to the Commonwealth; the remaining \$397,419,000 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, 1995.

12. LEASES

Primary Government -

In order to finance the acquisition of equipment, the Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease purchase (TELP) agreements which are accounted for as capital leases. These agreements are for various terms and contain clauses indicating that their continuation is subject to appropriation by the Legislature.

At June 30, 1995, the Commonwealth's aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totals \$52,257,000. 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 \$75,692,000.

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, 1995 was approximately \$119,838,000.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

12. LEASES (CONTINUED)

Primary Government –

The following is a schedule of future minimum lease payments under non-cancelable leases for the Commonwealth as of June 30, 1995 (amounts in thousands):

Years Ending June 30	Capital Leases	Operating Leases
1996	\$ 19,147	\$ 95,751
1997	15,794	71,360
1998	10,506	60,609
1999	8,162	45,935
2000	2,980	34,416
2001 and thereafter	<u>3,705</u>	<u>20,750</u>
Total payments	60,294	<u>\$ 328,821</u>
Less: amount representing interest	<u>(8,037)</u>	
Present value of minimum lease payments	<u>\$ 52,257</u>	

University and College Fund – At June 30, 1995, aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totaled \$19,422,000. Equipment acquired under capital leases and included in University and College Fund fixed assets totaled approximately \$32,265,000.

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, 1995 was approximately \$16,309,000.

The following schedule summarizes future minimum payments under non-cancelable leases for the University and College Fund Type (amounts in thousands):

Years Ending June 30	Capital Leases	Operating Leases
1996	\$ 6,378	\$ 6,959
1997	5,349	5,589
1998	3,931	4,751
1999	3,018	3,769
2000	1,537	1,053
2001 and thereafter	<u>2,325</u>	<u>902</u>
Total payments	22,538	<u>\$ 23,023</u>
Less: amount representing interest	<u>3,116</u>	
Present value of minimum lease payments	<u>\$ 19,422</u>	

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12. LEASES (CONTINUED)

Component Units –

The MBTA has entered into several sale-leaseback agreements with major financial institutions, covering equipment and rolling stock, which have been accounted for as operating leases. The leases expire through 2013. Upon termination, the MBTA may purchase the equipment and rolling stock at prices equal to the lesser of a stated percentage (40%-70%) of the lessor's original purchase price or residual fair market value, as defined.

The Economic Development Authorities and the RTA's have operating leases for office space.

The future minimum rental payments required under operating leases having initial or remaining non-cancelable lease terms in excess of one year are as follows (amounts in thousands):

Years Ending June 30	MBTA	RTAs	Economic Development Authorities
1996	\$ 12,068	\$ 5,700	\$ 2,763
1997	12,068		2,704
1998	13,669		2,523
1999	12,523		1,722
2000	12,909		1,177
2001 and thereafter	<u>163,305</u>	<u> </u>	<u>1,950</u>
Total payments	<u>\$ 226,542</u>	<u>\$ 5,700</u>	<u>\$ 12,839</u>

13. COMMITMENTS

Primary Government –

Governmental Funds – The Commonwealth is obligated to provide annual subsidies to the MBTA and regional transit authorities for contract assistance, debt service assistance and their net cost of service deficiencies. For fiscal year 1995, these subsidies totaled \$557,437,000 for the MBTA and \$50,193,000 for the RTA's. The net cost of service subsidy is recognized as a current liability of the Commonwealth, but is funded in arrears. At June 30, 1995, the Commonwealth has recorded the unpaid portion as a liability due to the MBTA of \$289,151,000 and due to RTA's of \$53,338,000. The cities and towns served by the MBTA and RTA's will be assessed their proportionate shares of the net cost of service. A receivable from cities and towns of \$212,889,000 is recorded at June 30, 1995, to account for these future reimbursements. The MBTA has also recorded net deferred charges of \$47,346,000 at June 30, 1995, 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 \$30,605,454 in fiscal year 1995.

13. COMMITMENTS (CONTINUED)

At June 30, 1995, the aggregate outstanding debt for which the Commonwealth is obligated to provide contract assistance support totaled approximately \$2,673,220,000 long-term and \$417,523,000 short-term. In addition, the Commonwealth guarantees the debt of certain local governments and of the building authorities included in the University and College Fund. The guaranteed debt outstanding at June 30, 1995, was approximately \$254,542,000.

At June 30, 1995, the Commonwealth had commitments approaching \$1,081,048,285 for various construction projects. The majority relate to new construction funding for a major infrastructure program known as the Central Artery Project, in which federal participation is anticipated. The remainder relate to a wide range of building construction projects.

Pension Trust Funds – At June 30, 1995, PRIT had outstanding commitments to invest \$292,000,000 in real estate, \$40,162,000 in venture capital and \$170,953,000 in special equity investments.

University and College Fund Type – The UMass hospital has agreements with Blue Cross of Massachusetts, Inc., the Social Security Administration under the Medicare program and the Commonwealth of Massachusetts under the Medicaid program that govern payments to the hospital for services rendered to patients covered by these programs and require the hospital to prepare and file settlement reports annually. Provisions have been made in the financial statements for the estimated final settlements.

Component Units -

As of June 30, 1995, the WPAT has agreed to provide loans of \$103,000,000 to various local government units to be funded with grant awards received through June 30, 1995.

Government Land Bank was committed to issuing \$10,540,000 of mortgages at June 30, 1995. the Bank, through the Emerging Technology Fund (ETF), was committed to issuing approximately \$15,097,500 of loan guarantees at June 30, 1995.

Massachusetts Housing Partnership Fund (MHP) has executed ten loan agreements with seven banks for an amount of \$179,958,333 pursuant to the Massachusetts Nationwide Interstate Banking and Community Reinvestment Act (Chapter 102 of the Acts of 1990). These bank loan agreements are the source of funding to borrowers through MHP.

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14. CONTINGENCIES

Primary Government -

Governmental Funds – The General Fund services claims for all risks of loss for which the Commonwealth is exposed, other than workers' compensation and employee group health and life insurance which are managed in its Internal Service Funds. 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 or a settlement or judgment has been reached but not paid, the Attorney General estimates the liability to be approximately \$79,400,000. Of this amount, approximately \$64,400,000, which is expected to be paid during fiscal year 1996, is recorded in General Fund liabilities; approximately \$15,000,000 expected to be paid thereafter, is recorded as a liability in the General Long-Term Obligations Account Group. The General Fund allocates the cost of providing claims servicing and claims payment by charging a premium to each fund based on claims paid during the year.

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, 1995, 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 Fiduciary Fund. These unclaimed assets less the amount, ultimately expected to be reclaimed and paid (\$2,994,000 for fiscal year 1995), are to be remitted to the General Fund each June 30, where it is included in miscellaneous revenue. Amounts remitted during fiscal year 1995 totaled approximately \$68,000,000. Since inception, approximately \$552,660,000 has been remitted. This represents a contingency, because claims for refunds can be made by the owners of the property.

Internal Service Fund - It is the policy of the Commonwealth of Massachusetts to manage its risks internally and self-insure for claim settlements for risk of loss relating to workers' compensation and group health insurance in its Internal Service Fund. The Internal Service Fund allocates the cost of providing claims servicing and claims payment by charging a premium to each fund based on actual claims paid during the year. All risk financing liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include amounts for claims that have been incurred but not reported. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

Workers' compensation and group health insurance costs for Commonwealth employees are recognized when losses are incurred. The Commonwealth's outstanding liability for such losses at June 30, 1995, including claims incurred but not reported, is estimated to be \$367,797,000.

14. CONTINGENCIES (CONTINUED)

The Commonwealth has assumed responsibility for workers' compensation claims for all contractors and subcontractors working on the Central Artery project. The Commonwealth's liability as of June 30, 1995 for such claims including incurred but not reported claims is estimated to be \$65,000,000. The Commonwealth has established reserves through a combination of bond proceeds and federal funds in its capital project funds to pay these liabilities.

Changes in the balance of claims and judgments liabilities during fiscal 1995 were as follows (amounts in thousands):

	Amount
Liability at beginning of year	\$668,109
Current year claims and changes in estimates	696,363
Claims payments	<u>764,114</u>
Liability at end of year	<u>\$ 600,358</u>

University and College Fund Type – The University of Massachusetts is contingently liable for \$20,500,000 of Massachusetts Health and Educational Facilities Authority revenue bonds, issued by the University of Massachusetts Foundation, Inc. In the event the Foundation fails to make any payment, the University will transfer any amounts unpaid and due to the Foundation.

Component Units -

The Massachusetts Convention Center Authority was involved in six lawsuits arising primarily as a result of the Phase II expansion and renovation of the Hynes Convention Center since January 1989. Three cases have been dismissed pursuant to a settlement of July 28, 1994 for an amount of \$15,500,000. The authority had retained security deposits of \$12,900,000 plus interest of \$2,600,000 against the cost of the settlement. An initial payment of \$12,500,000 was made in July 1994, and the remaining balance is payable in separate installments during fiscal year 1996 and 1997.

15. ACCOUNTING CHANGES

For the fiscal year ended June 30, 1995, the Commonwealth adopted Governmental Accounting Standard Board Statement No. 10 (GASB 10) "Accounting and Financial Reporting for Risk Financing and Related Insurance Issues." GASB 10 establishes accounting and financial reporting standards for risk financing and insurance-related activities of governmental entities, including public entity risk pools.

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15. ACCOUNTING CHANGES (CONTINUED)

As a result of the adoption of GASB 10, and under the authority of Massachusetts General Laws Chapter 29, Section 5, certain risk financing activities, as discussed in Note 1.m, which have previously been reported within the Governmental Funds and General Long-term Obligations Account Group are now recorded in the Internal Service Funds. The effect of adopting GASB 10 on the Commonwealth's Governmental Funds is shown as an equity transfer on the statement of revenues, expenditures and changes in fund balances. The effect on the General Long-term Obligations Account Group is a reduction of the beginning of year liability for claims and judgments and a decrease in beginning retained earnings in the Internal Service Fund of \$341,620,000.

During fiscal 1995, the Commonwealth adopted the provisions of GASB No. 21, "Accounting for Escheat Property." This statement requires that escheat property generally to be reported in either an expendable trust fund or the fund to which the property ultimately escheats. As a result of the adoption of GASB 21, escheat property which was previously reported as an agency fund is now reported in an expendable trust fund. The effect of adopting GASB 21 did not have a material effect on the Commonwealth's general purpose financial statements.

**COMMONWEALTH OF MASSACHUSETTS
PUBLIC EMPLOYEE RETIREMENT SYSTEMS
REQUIRED SUPPLEMENTARY INFORMATION - SCHEDULE OF FUNDING PROGRESS
FOR FISCAL YEARS 1991 THROUGH 1995**

(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>						
1995	\$ 5,879,000	\$ 8,194,000	71.75%	\$ 2,315,000	\$ 2,992,000	77.37%
1994	5,802,000	8,957,000	64.78%	3,155,000	3,094,000	101.97%
1993	5,071,000	8,409,000	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>						
1995	\$ 6,014,000	\$ 9,161,000	65.65%	\$ 3,147,000	\$ 2,667,000	118.00%
1994	5,956,000	8,958,000	66.49%	3,002,000	2,573,000	116.67%
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	4,086,000	8,853,000	46.15%	4,767,000	2,065,000	230.85%
<u>State-Boston Retirement System</u>						
1995	\$ 438,000	\$ 790,000	55.44%	\$ 352,000	\$ 232,000	151.72%
1994	443,000	718,000	61.70%	275,000	218,000	126.15%
1993	370,000	704,000	52.56%	334,000	206,000	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%

Information for the years prior to 1991 is not available.

COMMONWEALTH OF MASSACHUSETTS
 PUBLIC EMPLOYEE RETIREMENT SYSTEMS - REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF REVENUES BY SOURCE AND EXPENSES BY TYPE
 FOR FISCAL YEARS 1988 THROUGH 1995
 (Amounts in thousands)

State Employees' Retirement System

Revenues By Source

Fiscal year	Employee contribution	Employer contribution	Employer contributions as a percentage of payroll	Investment income	Total
1995	\$ 218,837	\$ 434,837	14.5%	\$ 837,086	\$ 1,490,760
1994	212,625	415,173	13.4%	132,361	760,159
1993	191,604	418,217	14.3%	517,733	1,127,554
1992	191,501	333,828	12.7%	497,003	1,022,332
1991	196,413	313,485	13.6%	111,472	621,370
1990	192,065	292,101	10.4%	298,513	782,679
1989	192,332	271,927	10.6%	487,971	952,230
1988	172,607	268,993	11.7%	64,858	506,458

Expenses By Type

Fiscal year	Benefits	Administration expenses	Other	Total
1995	\$ 434,837	\$ 1,297	\$ 115,320	\$ 551,454
1994	415,173	1,745	115,039	531,957
1993	418,217	1,910	113,634	533,761
1992	333,828	1,857	132,828	468,513
1991	311,433	2,052	107,504	420,989
1990	288,284	2,595	94,420	385,299
1989	259,101	2,930	84,185	346,216
1988	245,573	2,800	73,856	322,229

Teachers' Retirement System

Revenues By Source

Fiscal year	Employee contribution	Employer contribution	Employer contributions as a percentage of payroll	Investment income	Total
1995	\$ 182,655	\$ 349,903	13.1%	\$ 878,758	\$ 1,411,316
1994	174,363	328,707	12.8%	113,085	616,155
1993	159,980	302,988	12.5%	783,635	1,246,603
1992	146,637	284,498	14.0%	639,966	1,071,101
1991	144,173	268,010	13.0%	183,554	595,737
1990	141,645	252,717	11.4%	291,711	686,073
1989	126,004	252,443	14.1%	411,303	789,750
1988	125,223	243,966	12.6%	100,537	469,726

Expenses By Type

Fiscal year	Benefits	Administration expenses	Other	Total
1995	\$ 349,903	\$ 1,527	\$ 79,110	\$ 430,540
1994	328,707	1,932	71,712	402,351
1993	302,988	1,366	63,560	367,914
1992	284,498	1,090	63,688	349,276
1991	266,924	1,086	59,106	327,116
1990	250,214	1,282	54,355	305,851
1989	237,332	1,471	49,539	288,342
1988	224,909	1,484	46,539	272,932

Information for the years prior to 1988 is not available.

FORM OF BOND COUNSEL OPINION

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

PALMER & DODGE LLP

One Beacon Street, Boston, MA 02108-3190

TELEPHONE: (617) 573-0100

FACSIMILE: (617) 227-4420

[Date of Delivery]

The Honorable Joseph D. Malone
Treasurer and Receiver-General
The Commonwealth of Massachusetts
State House - Room 227
Boston, Massachusetts 02133

(The Commonwealth of Massachusetts
General Obligation Bonds, Consolidated Loan of 1996, Series C)

We have acted as Bond Counsel to The Commonwealth of Massachusetts in connection with the issuance by the Commonwealth of \$200,000,000 aggregate principal amount of General Obligation Bonds, Consolidated Loan of 1996, Series C, dated September 1, 1996 (the "Bonds").

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 immobilized in the custody of The Depository Trust Company and a book entry system is being used to evidence ownership and transfer on the records of The Depository Trust Company and its participants.

We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion. On the basis of this examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid general obligations of The Commonwealth of Massachusetts and the full faith and credit of the Commonwealth are pledged for the payment of the principal of and interest on the Bonds. It should be noted, however, that Chapter 62F of the General Laws of The Commonwealth of Massachusetts establishes a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit.

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

3. The interest on the Bonds (including any original issue discount properly allocable thereto) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of computing the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"); it should be noted, however, that interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). The opinions set forth in the preceding sentence are subject to the condition that the Commonwealth comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Commonwealth has covenanted to comply with these requirements. Failure to comply with certain of these requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding any other tax consequences arising with respect to the Bonds.

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Yours faithfully,

FINANCIAL GUARANTY INSURANCE POLICY

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

Policy No. [NUMBER]

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

[PAR]
[LEGAL NAME OF ISSUE]

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

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this day of

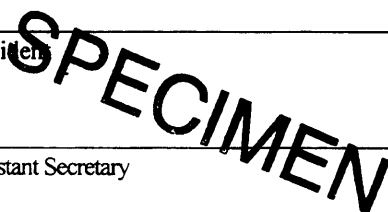
MBIA Insurance Corporation

Resident Licensed Agent

President

City, State

Attest: _____
Assistant Secretary



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Commonwealth of Massachusetts
General Obligation Bonds
Consolidated Loan of 1996, Series C

Continuing Disclosure Undertaking

[to be included in bond form]

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the Bonds to provide to each nationally recognized municipal securities information repository (each, a "NRMSIR") within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the "Rule") and to the state information depository for the Commonwealth, if any (the "SID"), within the meaning of the Rule, no later than 270 days after the end of each fiscal year of the Commonwealth, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Commonwealth for such fiscal year if audited financial statements are then available, provided, however, that if audited financial statements of the Commonwealth are not then available, such audited financial statements shall be delivered to each NRMSIR and the SID when they become available (but in no event later than 350 days after the end of such fiscal year) or (ii) notice of the Commonwealth's failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Commonwealth's Information Statement dated February 16, 1996 (the "Information Statement"), as appearing in the Official Statement dated September 18, 1996 relating to the Commonwealth's General Obligation Bonds, Consolidated Loan of 1996, Series C, and substantially in the same level of detail as is found in the referenced section of the Information Statement:

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

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

Financial Information and Operating Data Category	Reference to Information Statement for Level of Detail
17. Summary presentation of long-term capital lease and certificate-of- participation commitments for future fiscal years as of the end of the prior fiscal year	"OTHER COMMONWEALTH LIABILITIES - Long Term Capital Leases and Certificates of Participation"
18. Summary presentation of school building assistance program commitments for future fiscal years as of the end of the prior fiscal year	"OTHER COMMONWEALTH LIABILITIES - School Building Assistance"

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

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

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties^{1/};
- (iv) unscheduled draws on the bond insurance policy issued by MBIA Insurance Corporation in connection with the Bonds reflecting financial difficulties;
- (v) any change in the provider of the bond insurance policy described above or failure of any bond insurance provider to perform its obligations with respect to the Bonds;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (vii) amendment of or modifications to the rights of Bondholders;
- (viii) giving of notice of optional redemption of Bonds;
- (ix) defeasance of the Bonds;
- (x) release, substitution or sale of property securing repayment of the Bonds^{2/} and
- (xi) rating changes on the Bonds.

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

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

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

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

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