NEW ISSUE

In the opinion of Bond Counsel, under existing law, and assuming continued compliance with certain provisions of the Internal Revenue Code of 1986, as amended, interest on the Bonds (which interest includes any original issue discount) is excludable from gross income for federal income tax purposes, and will not be an item of tax preference for purposes of computing the federal alternative minimum tax imposed on individuals and corporations, although interest on the Bonds will be taken into account in computing certain federal taxes imposed on corporations. In the opinion of Bond Counsel, under existing Massachusetts law, the Bonds, their transfer and the income therefrom, including any profit made on the sale thereof, shall at all times be exempt from taxation within the Commonwealth, although the Bonds and the interest thereon may be included in the measure of estate and inheritance taxes and of certain corporation excise and franchise taxes. See "TAX EXEMPTION" herein.

$363,065,000

THE COMMONWEALTH OF MASSACHUSETTS

$207,610,000
General Obligation Bonds
Consolidated Loan of 1992, Series A

$51,685,000
General Obligation Bonds
Consolidated Loan of 1992, Series B

$103,770,000
Special Obligation Revenue Bonds
1992 Series A
(Special Obligation Revenue Highway Improvement Loan, Act of 1991)

Dated: June 1, 1992 **Due: June 1, as shown on the inside hereof**

The Bonds will be issued by means of a book-entry-only system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company ("DTC") and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The Bonds will bear interest from June 1, 1992 and will be payable on December 1, 1992 and semiannually thereafter on June 1 and December 1. The Bonds are subject to redemption prior to maturity, as more fully described herein.

The $207,610,000 General Obligation Bonds, Consolidated Loan of 1992, Series A and the $51,685,000 General Obligation Bonds, Consolidated Loan of 1992, Series B (collectively, the "General Obligation Bonds") will constitute general obligations of The Commonwealth of Massachusetts (the "Commonwealth") and the full faith and credit of the Commonwealth are pledged to the payment of the principal of and interest on the General Obligation 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 "Appendix A—Commonwealth Information Statement" under the headings "COMMONWEALTH REVENUES—Limitations on Tax Revenues", "COMMONWEALTH PROGRAMS AND SERVICES—Debt Service" and "COMMONWEALTH LIABILITIES—Bond and Note Liabilities".

The $103,770,000 Special Obligation Revenue Bonds, 1992 Series A (Special Obligation Revenue Highway Improvement Loan, Act of 1991) (the "1992 A Special Obligation Bonds") are special, limited obligations of the Commonwealth payable from and secured solely by a pledge of Pledged Funds, as defined herein, all rights to receive Pledged Funds, and all Funds and Accounts, other than the Rebate Fund, held under the Trust Agreement dated as of June 1, 1992 between the Commonwealth and Shawmut Bank, N.A., as trustee. Upon the issuance of the 1992 A Special Obligation Bonds, Pledged Funds will constitute amounts received or to be received by the Commonwealth from two cents per gallon of the Gasoline Tax, as described herein. THE 1992 A SPECIAL OBLIGATION BONDS ARE NOT GENERAL OBLIGATIONS OF THE COMMONWEALTH AND ARE NOT SECURED BY THE FULL FAITH AND CREDIT OF THE COMMONWEALTH. THE 1992 A SPECIAL OBLIGATION BONDS ARE PAYABLE ONLY FROM PLEDGED FUNDS AND OTHER MONEYS AVAILABLE TO THE OWNERS OF THE 1992 A SPECIAL OBLIGATION BONDS UNDER THE TRUST AGREEMENT.

The General Obligation Bonds and the 1992 A Special Obligation Bonds are offered when, as and if issued and received by the Underwriters, and subject to the unqualified approving opinion as to legality of Warner & Stackpole, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Hale and Dorr, Boston, Massachusetts, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Palmer & Dodge, Boston, Massachusetts. The Series A General Obligation Bonds and the 1992 A Special Obligation Bonds are expected to be available for delivery at DTC in New York, New York, on or about June 24, 1992. The Series B General Obligation Bonds are expected to be available for delivery at DTC in New York, New York, on or about July 1, 1992.

Merrill Lynch & Co. **Smith Barney, Harris Upham & Co.** Incorporated

Bear, Stearns & Co. Inc. **Dillon, Read & Co. Inc.** **Lazard Frères & Co.**

Goldman, Sachs & Co. **WR Lazard, Laidlaw & Mead** Incorporated **Morgan Stanley & Co.** Incorporated

Prudential Securities Incorporated **Tucker Anthony Incorporated**

Adams, Harkness & Hill, inc. **Bank of Boston** The First National Bank of Boston **BayBank Boston, N.A.**

M.R. Beal & Company **BT Securities Corp.** **Donaldson, Lufkin & Jenrette** Securities Corporation

The First Boston Corporation **Fleet Securities, Inc.** **Grigsby Brandford Powell Inc.**

Kidder, Peabody & Co. Incorporated **Lehman Brothers** **PaineWebber Incorporated**

Shawmut Bank, N.A. **State Street Bank and Trust Company** **U.S. Securities, Inc.**

Dean Witter Reynolds Inc.

June 10, 1992

THE COMMONWEALTH OF MASSACHUSETTS

$207,610,000
General Obligation Bonds
Consolidated Loan of 1992, Series A

$84,095,000 Serial Bonds

Maturity	Amount	Interest Rate	Price or Yield
1996	$ 200,000	4.90%	100%
1997	200,000	5 1/8	100
1998	10,060,000	5 1/4	5.40
1999	10,590,000	5.60	5.70
2000	11,185,000	5.90	5.95
2001	11,840,000	6	6.05
2002	12,555,000	6.10	6.15
2003	13,320,000	6.20	6.25
2004	14,145,000	6.30	6.35

$54,420,000 6 1/2% Term Bonds Due June 1, 2008 -- Yield 6.60%

$69,095,000 6% Term Bonds Due June 1, 2013 -- Price 92 7/8%
(Accrued interest to be added)

$51,685,000
General Obligation Bonds
Consolidated Loan of 1992, Series B

$11,750,000 6 1/4% Serial Bonds Due June 1, 2005 -- Yield 6.45%

$39,935,000 6 1/2% Term Bonds Due June 1, 2013 -- Price 98%
(Accrued interest to be added)

$103,770,000
Special Obligation Revenue Bonds
1992 Series A

$53,125,000 Serial Bonds

Maturity	Amount	Interest Rate	Price or Yield
1998	$4,070,000	5.30%	5.35%
1999	4,285,000	5.60	100
2000	4,525,000	5.80	100
2001	4,785,000	5.90	100
2002	5,070,000	6	100
2003	5,370,000	6.10	100
2004	5,700,000	6.20	100
2005	6,055,000	6 1/4	100
2006	6,430,000	6 1/4	6.30
2007	6,835,000	6 1/4	6.35

$50,645,000 6% Term Bonds Due June 1, 2013 -- Yield 6.45%
(Accrued interest to be added)

For New Hampshire Residents: In making an investment decision investors must rely on their own examination of the issuer and the terms of the offering, including the merits and risks involved. These securities have not been recommended by any federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not confirmed the accuracy or determined the adequacy of this document. Any representation to the contrary is a criminal offense.

The Commonwealth of Massachusetts

Constitutional Officers

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

Legislative Officers

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

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

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

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General Obligation Bonds
Consolidated Loan of 1992, Series B

$103,770,000
Special Obligation Revenue Bonds
1992 Series A
(Special Obligation Revenue Highway
Improvement Loan, Act of 1991)

INTRODUCTION

This Official Statement (including the cover page and Appendices A through E attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of $207,610,000 of its General Obligation Bonds, Consolidated Loan of 1992, Series A (the "Series A General Obligation Bonds"); $51,685,000 of its General Obligation Bonds, Consolidated Loan of 1992, Series B (the "Series B General Obligation Bonds") (collectively, with the Series A General Obligation Bonds, the "General Obligation Bonds"); and $103,770,000 of its Special Obligation Revenue Bonds, 1992 Series A (Special Obligation Revenue Highway Improvement Loan, Act of 1991) (the "1992 A Special Obligation Bonds"). The General Obligation Bonds and the 1992 A Special Obligation Bonds are sometimes referred to herein as the "Bonds".

General Obligation Bonds

The General Obligation Bonds will be general obligations of the Commonwealth and the full faith and credit of the Commonwealth are pledged to the payment of the principal of and interest on the General Obligation 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 "Appendix A - Commonwealth Information Statement" under the headings "COMMONWEALTH REVENUES -- Limitations on Tax Revenues" and "COMMONWEALTH PROGRAMS AND SERVICES -- Debt Service" and "COMMONWEALTH LIABILITIES -- Bond and Note Liabilities".

The General Obligation Bonds are being issued to finance certain authorized capital projects of the Commonwealth and to pay costs of issuance of the General Obligation Bonds. See "APPLICATION OF PROCEEDS".

1992 A Special Obligation Bonds

The 1992 A Special Obligation Bonds are authorized by and issued pursuant to (i) section 2O of Chapter 29 of the Massachusetts General Laws (the "Special Obligation Act"); and (ii) Section 8 and Section 9 of Chapter 33 of the Acts of 1991 (as it may be amended from time to time, the "Highway Act") (collectively, with the Special Obligation Act, the "Acts"); and are issued under and pursuant to a trust agreement, dated as of June 1, 1992 and the first supplemental trust agreement, dated as of June 10, 1992 (collectively, the "Trust Agreement") between the Commonwealth and Shawmut Bank, N.A., as trustee (the "Special Obligation Trustee"). See "Appendix B -

Summary of Certain Provisions of the Special Obligation Act" and "FINANCING THE COMMONWEALTH HIGHWAY SYSTEM - Sources of Funding for Current Highway System Capital Plan" for a more complete description of the Special Obligation Act and the Highway Act, respectively.

The 1992 A Special Obligation Bonds are issued for the purpose of financing a portion of the costs of certain highway projects of the Commonwealth and to pay costs of issuing the 1992 A Special Obligation Bonds. See "APPLICATION OF PROCEEDS".

The 1992 A Special Obligation Bonds are special, limited obligations of the Commonwealth. The principal (including Sinking Fund Payments) and Redemption Price of, and interest on the 1992 A Special Obligation Bonds ("1992 A Special Obligation Debt Service") and any Additional Special Obligation Bonds, as defined herein (collectively, "Special Obligation Debt Service"), are payable from and secured solely by a pledge of and lien on Pledged Funds, all rights to receive Pledged Funds, and all moneys, securities, credit enhancement (including the Debt Service Reserve Fund Surety Bond, as defined herein), and any investment earnings with respect thereto in all funds and accounts held under the Trust Agreement, other than the Rebate Fund, as more fully described under "SECURITY AND SOURCES OF PAYMENT FOR THE SPECIAL OBLIGATION BONDS". Upon the issuance of the 1992 A Special Obligation Bonds, Pledged Funds will represent amounts received or to be received by the Commonwealth from $.02 per gallon of the excise tax imposed by the Commonwealth on gasoline (other than gasoline used as aviation fuel) (the "Gasoline Tax") under Chapter 64A of Massachusetts General Laws (the "Gasoline Tax Act"). See "COMMONWEALTH GASOLINE TAX".

For the five year period ending in fiscal 1992, the amount of Gasoline Tax receipts representing $.02 per gallon ranged from approximately $49.8 million in fiscal 1988 to an estimated $46.0 million in fiscal 1992. If Special Obligation Bonds had been outstanding during this period with maximum annual debt service of $10.3 million, debt service coverage would have ranged from approximately 4.83:1 in fiscal 1988 to approximately 4.47:1 in fiscal 1992. See "DEBT SERVICE COVERAGE".

The 1992 A Special Obligation Bonds are not general obligations of the Commonwealth and are not secured by the full faith and credit of the Commonwealth. The 1992 A Special Obligation Bonds are payable only from Pledged Funds and other moneys available to the owners of the 1992 A Special Obligation Bonds under the Trust Agreement. However, it should be noted that Chapter 62F of the Massachusetts General Laws established a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations, including the Special Obligation Bonds, from the scope of the limit. See "SECURITY AND SOURCES OF PAYMENT FOR THE SPECIAL OBLIGATION BONDS -- Special Obligations".

Additional bonds may be issued on a parity with the 1992 A Special Obligation Bonds ("Additional Special Obligation Bonds") under the conditions and in the manner provided in the Trust Agreement (the Additional Special Obligation Bonds and 1992 A Special Obligation Bonds are collectively referred to herein as the "Special Obligation Bonds"). See "SECURITY AND SOURCES OF PAYMENT FOR THE SPECIAL OBLIGATION BONDS -- Additional Special Obligation Bonds".

Payments of Special Obligation Debt Service are to be made from Pledged Funds held by the Special Obligation Trustee in the Revenue Account, created by the State Treasurer under the Trust Agreement as a sub-account of the Commonwealth's Infrastructure Fund. The Infrastructure Fund was created under the Special Obligation Act as a sub-fund of the Commonwealth's Highway Fund in order to account separately for a portion of the receipts of the Gasoline Tax. The Commonwealth has covenanted that, so long as any Special Obligation Bonds are outstanding, no Pledged Funds shall be diverted from the purposes specified in the Special Obligation Act, and unless an appropriation has been made by the legislature of the Commonwealth (the "Legislature") which is sufficient to pay Special Obligation Debt Service, the Pledged Funds shall not be applied to any other use. The Legislature has previously and may in the future amend the Special Obligation Act and other statutes that govern Pledged Funds, including the Gasoline Tax Act. However, pursuant to the Special Obligation Act, the Commonwealth has covenanted in the Trust Agreement to maintain the portion of the Gasoline Tax credited to the Highway Fund at a rate of not less than $.02 per gallon (or at such higher rate as may be pledged as Additional Pledged Funds, as defined herein). Any of such amendments would also be subject to the covenant of the Commonwealth that it shall not take any action that would impair the rights and remedies of the owners of the Special Obligation Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SPECIAL OBLIGATION BONDS -- Covenants of the Commonwealth". The Trust Agreement does not require the Commonwealth to increase the amount of the Gasoline Tax pledged as Pledged Funds.

Purpose and Content of Official Statement

This Official Statement describes the terms and use of proceeds of, and security for, the General Obligation Bonds and 1992 A Special Obligation Bonds. This introduction is subject in all respects to the additional information contained in this Official Statement, including Appendices A through E. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. All capitalized terms not otherwise defined herein shall have the meanings set forth in "Appendix C - Summary of Certain Provisions of the Trust Agreement".

Attached hereto as Appendix A is the Commonwealth Information Statement (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 ending June 30, 1991, prepared on a statutory basis and a GAAP basis, respectively. Attached hereto as Appendix B and Appendix C are summaries of certain provisions of the Special Obligation Act and the Trust Agreement, respectively. Appendix D-1 attached hereto contains the proposed form of legal opinion of bond counsel with respect to the General Obligation Bonds, and Appendix D-2 contains the proposed form of legal opinion of bond counsel with respect to the 1992 A Special Obligation Bonds. Appendix E attached hereto contains certain information concerning AMBAC Indemnity Corporation, provider of the Debt Service Reserve Fund Surety Bond.

THE BONDS

General

The Bonds will be dated June 1, 1992 and will initially bear interest from such date payable semiannually on December 1 and June 1 of each year, commencing December 1, 1992 (each an "Interest Payment Date"), until the principal amount is paid. The Bonds shall mature in the aggregate principal amounts and 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 Special Obligation Trustee will be the trustee and paying agent only for the Special Obligation Bonds. The Commonwealth will act as its own paying agent for the General Obligation Bonds.

Book-Entry-Only System. The Bonds will be issued by means of a book-entry-only system, with one bond certificate for each maturity of each series immobilized at The Depository Trust Company, New York, New York ("DTC"), not available for distribution to the public and evidencing 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, principal and premium, if any, due on the Bonds will be paid in clearinghouse funds to DTC or its nominee as registered owner of the Bonds. The record date for payments on account of the Bonds will be the business day next preceding an Interest Payment Date. As long as the book-entry-only system remains in effect, DTC or its nominee will be recognized as the owner of the Bonds for all purposes, including notices and voting. Neither the Commonwealth nor the Special Obligation Trustee will 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 June 1, 2002 are not subject to redemption prior to their stated dates of maturity.

Optional Redemption. The Series A General Obligation Bonds maturing on June 1, 2003, June 1, 2004 and June 1, 2008 are subject to redemption prior to their stated dates of maturity on or after June 1, 2002, at the option of the Commonwealth from any monies legally available therefor, in whole at any time or in part on any Interest Payment Date, by lot, at the redemption prices (expressed as percentages of the principal amount thereof), plus accrued interest to the redemption date, as follows:

Redemption Dates	Redemption Prices
June 1, 2002 through May 31, 2003, inclusive	101%
June 1, 2003 through May 31, 2004, inclusive	100½
June 1, 2004 and thereafter	100

The Series A General Obligation Bonds maturing June 1, 2013 are subject to redemption prior to their stated date of maturity on or after June 1, 2002, at the option of the Commonwealth from any monies legally available therefor, in whole at any time or in part on any Interest Payment Date, by lot, at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the redemption date.

The Series B General Obligation Bonds are subject to redemption prior to their stated dates of maturity on or after June 1, 2002, at the option of the Commonwealth from any monies legally available therefor, in whole at any time or in part on any Interest Payment Date, by lot, at the redemption prices (expressed as percentages of the principal amount thereof), plus accrued interest to the redemption date, as follows:

Redemption Dates	Redemption Prices
June 1, 2002 through May 31, 2003, inclusive	101%
June 1, 2003 through May 31, 2004, inclusive	100½
June 1, 2004 and thereafter	100

The 1992 A Special Obligation Bonds maturing on June 1, 2003 through June 1, 2007, inclusive, are subject to redemption prior to their stated dates of maturity on or after June 1, 2002, at the option of the Commonwealth from any monies legally available therefor, in whole at any time or in part on any Interest Payment Date, by lot, at the redemption prices (expressed as percentages of the principal amount thereof), plus accrued interest to the redemption date, as follows:

Redemption Dates	Redemption Prices
June 1, 2002 through May 31, 2003, inclusive	101%
June 1, 2003 through May 31, 2004, inclusive	100½
June 1, 2004 and thereafter	100

The 1992 A Special Obligation Bonds maturing on June 1, 2013 are subject to redemption prior to their stated date of maturity on or after June 1, 2002, at the option of the Commonwealth from any monies legally available therefor, in whole at any time or in part on any Interest Payment Date, by lot, at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the redemption date.

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

$54,420,000 Series A General Obligation Bonds Maturing June 1, 2008

Year	Principal Amount
2005	$ 3,285,000
2006	15,985,000
2007	17,020,000
2008*	18,130,000

$69,095,000 Series A General Obligation Bonds Maturing June 1, 2013

Year	Principal Amount
2009	$19,305,000
2010	20,465,000
2011	9,215,000
2012	9,760,000
2013*	10,350,000

$39,935,000 Series B General Obligation Bonds Maturing June 1, 2013

Year	Principal Amount
2011	$12,480,000
2012	13,295,000
2013*	14,160,000

$50,645,000 1992 A Special Obligation Bonds Maturing June 1, 2013

Year	Principal Amount
2008	$7,260,000
2009	7,695,000
2010	8,160,000
2011	8,650,000
2012	9,165,000
2013*	9,715,000

* Stated maturity.

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

Notice of Redemption. The Commonwealth shall give notice of redemption to the owners of the General Obligation Bonds and the Special Obligation Trustee shall give notice of redemption to the owners of the 1992 A Special Obligation 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 (with respect to the General Obligation Bonds) and the Special Obligation Trustee (with respect to the 1992 A Special Obligation Bonds) 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.

Selection for Redemption. In the event that less than all of any one maturity of either the General Obligation Bonds or the 1992 A Special Obligation Bonds are to be redeemed, and so long as the book-entry-only system remains in effect for such Bonds, the particular General Obligation Bonds or 1992 A Special Obligation 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 either the General Obligation Bonds or 1992 A Special Obligation Bonds, selection for redemption of less than all of any one maturity of General Obligation Bonds or 1992 A Special Obligation Bonds will be made by the Commonwealth (with respect to the General Obligation Bonds) and the Special

Obligation Trustee (with respect to the 1992 A Special Obligation Bonds) by lot in such manner, as in their sole discretion they 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

After payment of the costs of issuance of the Bonds and underwriters' discount, $350,200,000, representing the net proceeds of the sale of the Bonds, will be transferred to the State Treasurer and applied to the purposes for which the Bonds were authorized by the Legislature. In addition to this amount, the accrued interest payable upon original delivery of the Bonds will be credited ratably to the funds from which debt service on the Bonds is paid and will be used to pay interest on the Bonds.

The purposes for which the General Obligation Bonds will be issued have been authorized by the Legislature during prior fiscal years, see "Appendix A - Commonwealth Information Statement" under the heading "COMMONWEALTH LIABILITIES -- Authorized But Unissued Debt", and are included within the current five-year capital spending plan established by the Governor in August 1991 (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. See "Appendix A - Commonwealth Information Statement" under the heading "COMMONWEALTH PROGRAMS AND SERVICES -- Debt Service; Capital Spending Plan". The proceeds of the General Obligation Bonds are to be applied primarily in fiscal years 1992 and 1993 to certain projects included within the categories of capital expenditures contained in the Capital Spending Plan as set forth in the following table.

Summary of Capital Spending Plan
(in millions)

	Fiscal Year				
	1992	1993	1994	1995	1996
State Revolving Fund/Water Abatement Grants	$ 36	$106	$ 66	$ 50	$ 3
Other Environmental Expenditures	105	63	77	75	100
Transportation	273	300	325	334	349
Prison Capacity	161	30	50	70	95
Hospital Consolidation	34	52	46	1	--
Non-Transportation Infrastructure Repairs	71	86	104	83	80
Information Technology	8	18	26	14	13
Other Capital Projects	122	97	135	213	197
New Priority Projects	--	20	--	--	--
Total	$790	$772	$829	$840	$837

SOURCE: Executive Office for Administration and Finance.

The proceeds of the 1992 A Special Obligation Bonds shall be applied primarily in fiscal years 1992 and 1993 to the purposes authorized by Section 8 and Section 9 of the Highway Act and are included in the Capital Spending Plan under the category "Transportation". The authorized purposes of the 1992 A Special Obligation Bonds include $25 million for certain capital expenditures of the Metropolitan District Commission (the "MDC") which are included within the Capital Spending Plan under the heading "Transportation" in fiscal years 1993, 1994 and 1995.

1992 A SPECIAL OBLIGATION DEBT SERVICE

Fiscal Year	Principal	Interest	Total(1)
1993	$ --	$ 5,833,662(2)	$ 5,833,662(2)
1994	--	6,231,805	6,231,805
1995	--	6,231,805	6,231,805
1996	--	6,231,805	6,231,805
1997	--	6,231,805	6,231,805
1998	4,070,000	6,231,805	10,301,805
1999	4,285,000	6,016,095	10,301,095
2000	4,525,000	5,776,135	10,301,135
2001	4,785,000	5,513,685	10,298,685
2002	5,070,000	5,231,370	10,301,370
2003	5,370,000	4,927,170	10,297,170
2004	5,700,000	4,599,600	10,299,600
2005	6,055,000	4,246,200	10,301,200
2006	6,430,000	3,867,762	10,297,763
2007	6,835,000	3,465,888	10,300,888
2008	7,260,000	3,038,700	10,298,700
2009	7,695,000	2,603,100	10,298,100
2010	8,160,000	2,141,400	10,301,400
2011	8,650,000	1,651,800	10,301,800
2012	9,165,000	1,132,800	10,297,800
2013	9,715,000	582,900	10,297,900
Total	$103,770,000	$92,185,435	$195,557,292

(1) Totals may not add due to rounding.
(2) Net of accrued interest.

SECURITY FOR THE GENERAL OBLIGATION BONDS

The General Obligation 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 established a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit. It should be noted further that Chapter 29, Section 60B of the Massachusetts General Laws, imposes an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on general obligation debt of the Commonwealth. These statutes are both subject to amendment or repeal by the Legislature. Currently, actual tax revenue growth and annual general obligation debt service are both below the statutory limits. See "Appendix A - Commonwealth Information Statement" under the headings "COMMONWEALTH REVENUES -- Limitations on Tax Revenues" and "COMMONWEALTH PROGRAMS AND SERVICES -- Debt Service". In addition, the Commonwealth has pledged up to 15% of the Commonwealth's income tax receipts to secure approximately $1.4 billion of the Commonwealth's Fiscal Recovery Bonds, the debt service on which amounts to approximately $278 million per year commencing in fiscal 1992 and ending in fiscal 1998. See "Appendix A - Commonwealth Information Statement" under the heading "COMMONWEALTH LIABILITIES -- Bond and Note Liabilities".

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including the General Obligation 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 General Obligation 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 General Obligation Bonds have all of the qualities and incidents of negotiable instruments under the Uniform Commercial Code.

SECURITY AND SOURCES OF PAYMENT FOR THE SPECIAL OBLIGATION BONDS

Special Legislative Authorization

The 1992 A Special Obligation Bonds are special, limited obligations of the Commonwealth payable solely from the sources identified herein and are being issued pursuant to the Acts and the Trust Agreement. Under the provisions of the Special Obligation Act, the Commonwealth is authorized to issue special obligation bonds secured by all or any portion of the Highway Fund, an operating fund of the Commonwealth created under Section 34 of Chapter 90 of the Massachusetts General Laws. Under the provisions of the Highway Act, the Commonwealth is authorized to issue such special obligation bonds for the payment of the costs of construction, reconstruction, resurfacing, relocation or necessary or beneficial improvement of public highways, bridges, bicycle paths or facilities, town and county ways and the costs allocated thereto, including the acquisition of those real properties and any appurtenances thereto located within a highway right-of-way corridor and for certain expenditures of the MDC with respect to its parkways, boulevards and bridges. See "FINANCING THE COMMONWEALTH HIGHWAY SYSTEM -- Sources of Funding for Current Highway System Capital Plan".

Overview of Security Provisions

Special Obligation Debt Service is payable from and secured solely by a lien on and pledge of (a) Pledged Funds, (b) the Commonwealth's right to receive Pledged Funds, and (c) all moneys, securities, credit enhancement (including the surety bond issued by AMBAC Indemnity Corporation ("AMBAC Indemnity") and credited to the Debt Service Reserve Fund in satisfaction of the Debt Service Reserve Fund Requirement for the 1992 A Special Obligation Bonds) and any investment earnings with respect thereto in all funds and accounts held under the Trust Agreement, other than the Rebate Fund. Pledged Funds include (i) upon the issuance of the 1992 A Special Obligation Bonds, all moneys received or to be received by the Commonwealth after July 1, 1992 from that portion of the Gasoline Tax equal to $.02 per gallon, and (ii) such Additional Pledged Funds, as defined herein, if any, as the Commonwealth may subsequently determine to include within the definition of Pledged Funds in order to satisfy the debt service coverage tests imposed under the Trust Agreement to issue Additional Special Obligation Bonds. See "Source of Pledged Funds" and "Additional Special Obligation Bonds". For a discussion of the Gasoline Tax, see "COMMONWEALTH GASOLINE TAX".

As provided in the Special Obligation Act, all Pledged Funds shall be immediately subject to the lien of the pledge granted in the Trust Agreement for the 1992 A Special Obligation Bonds, without any physical delivery or further act, and such lien shall be valid and binding from the date of issuance of the 1992 A Special Obligation Bonds as against all parties having claims of any kind in tort, contract or otherwise against the Commonwealth irrespective of whether such parties have notice of such pledge. Such pledge shall be perfected by filing the Trust Agreement in the records of the State Treasurer and no filing need be made under the Massachusetts Uniform Commercial Code.

The Commonwealth may issue Additional Special Obligation Bonds on a parity with the 1992 A Special Obligation Bonds under the conditions set forth in the Trust Agreement. See "Additional Special Obligation Bonds".

Special Obligations

The 1992 A Special Obligation Bonds are special, limited obligations of the Commonwealth and are payable solely from the sources specified in the Trust Agreement. The 1992 A Special Obligation Bonds are not general obligations of the Commonwealth, are not secured by the full faith and credit of the Commonwealth and are not "direct debt" of the Commonwealth for purposes of statutory limitations on the issuance of "general obligation bonds" or the expenditure of moneys for the payment of debt service by the Commonwealth. However, it should be noted that Chapter 62F of the Massachusetts General Laws established a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations, including the Special Obligation Bonds, from the scope of the limit. This statute is subject to amendment or repeal by the Legislature. Currently, actual revenue growth is below the statutory limit. See "Appendix A - Commonwealth Information Statement" under the heading "COMMONWEALTH REVENUES -- Limitations on Tax Revenues". The 1992 A Special Obligation Bonds are not payable out of any funds of the Commonwealth other than the Pledged Funds and moneys otherwise available for the benefit of the owners of the 1992 A Special Obligation Bonds pursuant to the Trust Agreement.

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including the Special Obligation Bonds and all claims with respect thereto. Although the property of the Commonwealth is generally not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires legislative appropriation, in accordance with the Special Obligation Act, the Commonwealth has granted a lien on Pledged Funds for the benefit of the owners of the Special Obligation Bonds. Enforcement of a claim for payment of Special Obligation Debt Service 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 Special Obligation Bonds have all of the qualities and incidents of negotiable instruments under the Uniform Commercial Code.

Source of Pledged Funds

Upon the issuance of the 1992 A Special Obligation Bonds, Pledged Funds represent amounts received or to be received by the Commonwealth after July 1, 1992 from $.02 per gallon of the Gasoline Tax. The amount of initial Pledged Funds to be deposited under the Trust Agreement will be calculated by the Department of Revenue of the Commonwealth (the "Department of Revenue") on a monthly basis by dividing $.02 per gallon by the total rate of the Gasoline Tax (the "Gasoline Tax Rate") then in effect, and multiplying the result by the total amount of the Gasoline Tax collected by the Commonwealth during such month. See "Flow of Pledged Funds". For a discussion of the Gasoline Tax, see "COMMONWEALTH GASOLINE TAX".

In order to issue Additional Special Obligation Bonds, the Commonwealth must comply with certain conditions contained in the Trust Agreement, including certain debt service coverage tests. See "Additional Special Obligation Bonds". The Commonwealth may pledge certain additional revenues as security for the Special Obligation Bonds ("Additional Pledged Funds") in order to comply with the conditions to issuing Additional Special Obligation Bonds. Under the Trust Agreement, Additional Pledged Funds may only include revenues required to be expended for transportation purposes by Article 78 of the Articles of Amendment to the Massachusetts Constitution, as amended ("Article 78 Revenues"). Article 78 Revenues are revenues derived from the registration, operation or use of vehicles on public highways or from fuels used for propelling such vehicles, including the Gasoline Tax. See "FINANCING THE COMMONWEALTH HIGHWAY SYSTEM -- Legal Framework For Financing the Highway System; Constitutional Limitations". Under current law, only amounts credited to the Highway Fund may be pledged as security for the Special Obligation Bonds. Although all Article 78 Revenues are not currently credited to the Highway Fund, the Trust Agreement provides that, to the extent subsequently permitted by law, the Commonwealth may pledge all or any portion of Article 78 Revenues as Additional Pledged Funds.

In the event the Commonwealth pledges Additional Pledged Funds composed of either (a) revenues from sources other than the Gasoline Tax, or (b) revenues which have not been collected for 12 consecutive months out of the prior 18 months preceding the issuance of Additional Special Obligation Bonds, the Trust Agreement requires that the Commonwealth obtain appropriate assurances from each rating agency then maintaining a rating on the outstanding Special Obligation Bonds that such pledge will not adversely effect the ratings on the outstanding Special Obligation Bonds. See "Additional Special Obligations Bonds". The Commonwealth is under no obligation to pledge Additional Pledged Funds and any such pledge will be made for the benefit of the owners of all outstanding Special Obligation Bonds.

Funds and Accounts

In order to administer the deposit of Pledged Funds related to the Special Obligation Bonds (including the 1992 A Special Obligation Bonds), funds and accounts shall be established and shall be held under the Trust Agreement as described below.

(a) The Special Obligation Trustee shall establish and hold the following funds:

° Debt Service Fund;

° Redemption Fund;

° Debt Service Reserve Fund;

° Bond Related Costs Fund; and

° Rebate Fund.

(b) The State Treasurer shall establish the following accounts to be maintained as part of the Infrastructure Fund, which accounts shall be deposited with the Special Obligation Trustee:

° Revenue Account; and

° Reserve Account.

Collectively, the above-referenced funds and accounts are sometimes hereinafter referred to as the "Funds and Accounts". The Trust Agreement requires that moneys deposited in the Funds and Accounts be accounted for separately from all other moneys received by the Special Obligation Trustee and shall be held by the Special Obligation Trustee in trust for the owners of the Special Obligation Bonds. The moneys on deposit in the Funds and Accounts may be invested in Permitted Investments as provided for in the Trust Agreement. See "Appendix C - Summary of Certain Provisions of the Trust Agreement" under the headings "Definitions - Permitted Investments" and "Investments".

Under the Trust Agreement, the Commonwealth has pledged all of the moneys, securities, credit enhancement (including the Debt Service Reserve Fund Surety Bond), and any investment earnings with respect thereto in all Funds and Accounts, other than the Rebate Fund, to the Special Obligation Trustee for the benefit of the owners of the Special Obligation Bonds. However, because the Revenue Account and the Reserve Account are sub-accounts of the Infrastructure Fund, moneys on deposit therein may not be expended without appropriation from the Legislature. The Trust Agreement provides that amounts in the Revenue Account may only be transferred to the Funds and Accounts to the extent appropriations with respect to expenditures from such Funds and Accounts have been made. The Trust Agreement further provides that no amounts may be transferred from the Revenue Account to the Commonwealth for its general purposes unless a sufficient appropriation for Special Obligation Debt Service has been made. See "Flow of Pledged Funds". As part of the fiscal 1993 budget process, the Administration is currently seeking an appropriation for 1992 A Special Obligation Debt Service due in fiscal 1993.

Flow of Pledged Funds

The Pledged Funds must be accounted for and deposited in accordance with the terms of the Special Obligation Act and the Trust Agreement. Set forth below is a description of the flow of the Pledged Funds under the Special Obligation Act and the Trust Agreement. For a complete description of the flow of Pledged Funds, see "Appendix C - Summary of Certain Provisions of the Trust Agreement."

Commonwealth Highway Fund. Under the Gasoline Tax Act, upon receipt by the Department of Revenue, 83.6% of the amounts due under the Gasoline Tax shall be credited to the Commonwealth's Highway Fund. See "COMMONWEALTH GASOLINE TAX -- Crediting of Receipts". In accordance with current law, Pledged Funds will be made available to pay 1992 A Special Obligation Debt Service from the amounts of the Gasoline Tax credited to the Highway Fund, as described below.

Commonwealth Infrastructure Fund. Under the Special Obligation Act, the Commonwealth created the Infrastructure Fund as a subfund of the Highway Fund. The Special Obligation Act requires that approximately 39.1% of the portion of Gasoline Tax credited to the Highway Fund (which amount effectively represents a portion of the $.10 increase in the Gasoline Tax enacted in 1990) be credited to the Infrastructure Fund and utilized in accordance with the Special Obligation Act. Expenditures from the Infrastructure Fund shall, upon appropriation by the Legislature, be made for the following purposes: (i) the payment of debt service on any special obligation bonds authorized under the Special Obligation Act; (ii) the maintenance of, or provision for, any reserves, additional security, insurance or other forms of credit enhancement for any special obligation bonds; and (iii) direct expenditures for purposes otherwise permitted for moneys on deposit in the Highway Fund, provided that any such direct expenditures may only be made in compliance with any applicable restrictions contained in any trust or other agreement relating to such special obligation bonds. Under the Special Obligation Act, no more than 20% of the amounts credited to the Infrastructure Fund may be utilized to pay debt service on bonds issued to finance the Central Artery/Third Harbor Tunnel project, or to make direct expenditures on that project. The Commonwealth has covenanted in the Trust Agreement that, unless otherwise authorized by the Legislature, it will not expend moneys credited to the Infrastructure Fund on such expenditures in excess of this limitation. See "Appendix C - Summary of Certain Provisions of the Trust Agreement -- Particular Covenants of The Commonwealth".

The Special Obligation Act provides that, so long as any special obligation bonds remain outstanding, the Commonwealth shall maintain the Infrastructure Fund and shall not divert any amounts credited thereto from the purposes permitted under the Special Obligation Act. See "Appendix B - Summary of Certain Provisions of the Special Obligation Act". The Commonwealth may amend the Special Obligation Act, and the Trust Agreement provides that any provision of the Special Obligation Act creating a covenant with the owners of Special Obligation Bonds shall be deemed a covenant under the Trust Agreement only to the extent expressly provided for in, and as limited by, the Trust Agreement. Therefore, if otherwise permitted by law, the Commonwealth may utilize amounts credited to the Infrastructure Fund, other than Pledged Funds, without regard to the terms of the Special Obligation Bonds or the Trust Agreement. See "Appendix C - Summary of Certain Provisions of the Trust Agreement".

Revenue Account. Under the Trust Agreement the State Treasurer shall establish the Revenue Account as a sub-account of the Infrastructure Fund, which shall be held by the Special Obligation Trustee and be subject to the pledge of the Trust Agreement. In accordance with the Special Obligation Act, Special Obligation Debt Service will be payable from amounts credited to the Revenue Account.

Under the Trust Agreement, on or prior to August 12, 1992, and on or prior to the eighth business day of each month thereafter, the Commissioner of Revenue of the Commonwealth (the "Commissioner of Revenue") shall deliver to the Special Obligation Trustee a certificate stating the amount of Pledged Funds received by the Commonwealth during the preceding month, which amount shall be deposited under the Trust Agreement. The amount of Pledged Funds to be deposited under the Trust Agreement in each month will be calculated by the Department of Revenue by dividing $.02 per gallon (or such greater amount of the Gasoline Tax as may be pledged as Additional Pledged Funds) by the total Gasoline Tax Rate then in effect, and multiplying the result by the total amount of the Gasoline Tax collected by the Commonwealth for such month.

The State Treasurer, within 2 business days of the receipt of the certificate from the Commissioner of Revenue, is required under the Trust Agreement to deposit an amount equal to Pledged Funds collected in the preceding month into the Revenue Account with the Special Obligation Trustee. Under the Trust Agreement, Pledged Funds include only those Gasoline Tax receipts collected after July 1, 1992, and therefore, the first deposit of Pledged Funds to the Revenue Account will occur in August 1992 based on Gasoline Taxes collected in July 1992.

The Trust Agreement requires the Secretary for the Executive Office for Administration and Finance (the "Secretary for Administration and Finance") and the State Treasurer, after the adoption of the Commonwealth's operating budget for a fiscal year, to deliver to the Special Obligation Trustee a certificate stating the amount appropriated for such fiscal year (the "Appropriated Amount") for the payment of each of the following:

(a) the amount of Special Obligation Debt Service for such fiscal year;

(b) the amount of any deposit into the Debt Service Reserve Fund for such fiscal year;

(c) the amount of any costs relating to the Special Obligation Bonds ("Bond Related Costs") for such fiscal year; and

(d) the amount of any rebate to the United States Treasury (the "Rebate Requirement") for such fiscal year.

Disbursements from Revenue Account. Under the Trust Agreement, on the last business day of each month beginning in August 1992, the Special Obligation Trustee shall transfer amounts on deposit in the Revenue Account as follows:

(i) *first,* to the Debt Service Fund, all amounts on deposit in the Revenue Account until the amount on deposit in the Debt Service Fund (including investment earnings) equals the sum of (a) Special Obligation Debt Service due on the next Interest Payment Date, and (b) if a principal installment on the Special Obligation Bonds is not due on the next Interest Payment Date, one-half of the principal installment due on the next principal payment date (collectively, the "Special Obligation Debt Service Fund Requirement"); provided, however, that the aggregate amount deposited therein during a fiscal year shall not exceed the Appropriated Amount for such fiscal year for such purpose;

(ii) *second,* to the Debt Service Reserve Fund, an amount equal to the sum of (a) one-thirty-sixth (1/36th) of the Funded Debt Service Reserve Fund Requirement, as defined herein, and (b) any amounts which previously were required to be deposited and for which amounts were not available from the Revenue Account, until the amount on deposit therein (including investment earnings) equals the Funded Debt Service Reserve Fund Requirement; provided however, that the aggregate amount deposited therein during a fiscal year shall not exceed the Appropriated Amount for such fiscal year for such purpose;

(iii) *third,* to the Reserve Account, any amount set forth in (ii) above in excess of the Appropriated Amount for such purpose for such fiscal year; provided, however, that such amounts deposited in the Reserve Account shall be transferred to the Debt Service Reserve Fund upon the delivery to the Special Obligation Trustee of a certificate by the Secretary for Administration and Finance and the State Treasurer that an appropriation is then in effect permitting such deposit in the Debt Service Reserve Fund;

(iv) *fourth,* to the Bond Related Costs Fund, the amount, if any, necessary to pay Bond Related Costs; provided however, that the aggregate amount deposited therein during a fiscal year shall not exceed the Appropriated Amount for such fiscal year for such purpose; and

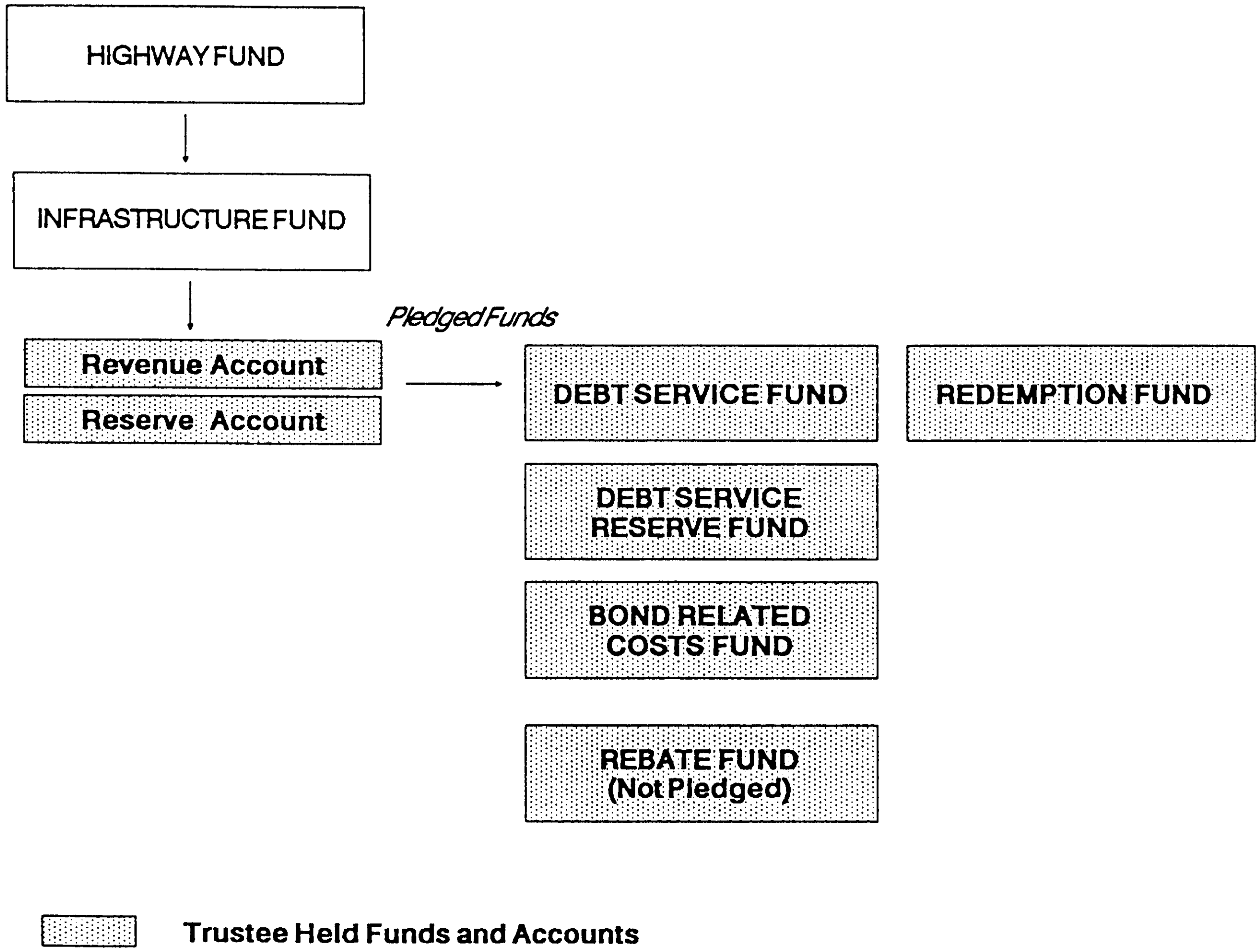
(v) *fifth,* to the Rebate Fund, the amount, if any, necessary to pay the Rebate Requirement; provided however, that the aggregate amount deposited therein during a fiscal year shall not exceed the Appropriated Amount for such fiscal year for such purpose.

Under the Trust Agreement (a) if the Appropriated Amount is not sufficient to fund Special Obligation Debt Service in any fiscal year, then all Pledged Funds remaining on deposit in the Revenue Account after the transfers to the Funds and Accounts described above, shall remain on deposit therein until a sufficient appropriation is made; (b) if the Appropriated Amount is not sufficient to fund the required deposits to the Debt Service Reserve Fund in any fiscal year, the amount of Pledged Funds transferred by the Special Obligation Trustee from the Revenue Account to the Reserve Account shall remain on deposit therein until a sufficient appropriation is made as described in (iii) above; and (c) if the Appropriated Amounts are not sufficient to fund the required deposits to the Bond Related Costs Fund and the Rebate Fund, the amount of Pledged Funds necessary to fund such deposits shall remain on deposit in the Revenue Account until sufficient appropriations are made. See "Appendix C - Summary of Certain Provisions of the Trust Agreement -- Flow of Funds".

Provided that there shall be an Appropriated Amount sufficient to pay Special Obligation Debt Service due in a fiscal year, the balance remaining in the Revenue Account after the deposit of the amounts described above (less any amounts which must be held on deposit therein pending appropriation to fund deposits to the Bond Related Costs Fund and the Rebate Fund) shall be transferred by the Special Obligation Trustee to the State Treasurer on the last business day of each month and may be applied for any purpose permitted by law, including direct expenditures for purposes otherwise permitted for revenues credited to the Highway Fund. For a discussion of permitted Highway Fund expenditures, see "FINANCING THE COMMONWEALTH HIGHWAY SYSTEM -- Legal Framework for Financing the Highway System; Statutory Framework". See "Appendix C - Summary of Certain Provisions of the Trust Agreement -- Flow of Funds".

Disbursements from Debt Service Fund. The Special Obligation Trustee shall pay out of the Debt Service Fund to the respective paying agents for any Special Obligation Bonds (i) on or before each Interest Payment Date the amount required for interest and principal installments payable on such date; and (ii) on or before each redemption date for Special Obligation Bonds, the amount required for the payment of interest and Redemption Price of the Special Obligation Bonds then to be redeemed. Amounts accumulated in the Debt Service Fund with respect to any Sinking Fund Payment may, and if so directed by the State Treasurer shall, be applied by the Special Obligation Trustee, under certain circumstances, to the purchase or redemption of Special Obligation Bonds subject to that Sinking Fund Payment. See "Appendix C - Summary of Certain Provisions of the Trust Agreement -- Debt Service Fund".

FLOW OF PLEDGED FUNDS



For a more complete discussion of the flow of Pledged Funds, including the required deposits from the Infrastructure Fund to the Funds and Accounts, see "Appendix C - Summary of Certain Provisions of the Trust Agreement".

Debt Service Reserve Fund

Under the Trust Agreement, the Debt Service Reserve Fund Requirement is defined to be the lesser of 10% of the proceeds of Special Obligation Bonds, or one-half of the maximum amount of Special Obligation Debt Service due in any fiscal year. The Funded Debt Service Reserve Requirement is defined in the Trust Agreement as the Debt Service Reserve Fund Requirement, less the stated and unpaid amounts of all Reserve Requirements (as defined in the Trust Agreement, see "Appendix C - Summary of Certain Provisions of the Trust Agreement--Definitions") credited thereto, including the Debt Service Reserve Fund Surety Bond. The Trust Agreement provides that once the Special Obligation Debt Service Fund Requirement is transferred from the Revenue Account to the Debt Service Fund, and provided that sufficient amounts have been appropriated therefor, the Special Obligation Trustee shall transfer, on the last business day of each month, amounts from the Revenue Account into the Debt Service Reserve Fund equal to one-thirty-sixth (1/36th) of the Funded Debt Service Reserve Fund Requirement, plus any amounts not funded in prior months, until the amount on deposit therein (including investment earnings) equals the Funded Debt Service Reserve Fund Requirement. In the event that a sufficient appropriation is not made for this purpose, the amounts otherwise to be transferred to the Debt Service Reserve Fund shall be transferred to the Reserve Account, and shall be held therein until a sufficient appropriation is made. See "Flow of Pledged Funds" and "Appendix C - Summary of Certain Provisions of the Trust Agreement -- Debt Service Reserve Fund".

If the amounts on deposit and available in the Debt Service Fund, the Bond Related Costs Fund or the Redemption Fund are insufficient to pay the Special Obligation Debt Service then due, the Special Obligation Trustee shall withdraw from the Debt Service Reserve Fund and deposit in the Debt Service Fund the amount necessary to meet the deficiency. If the amounts transferred from the Debt Service Reserve Fund are insufficient to pay such deficiency, the Special Obligation Trustee shall withdraw from the Reserve Account the amount necessary to meet the balance of such deficiency; provided, however, that the aggregate of such amounts deposited into the Debt Service Fund from the Reserve Account shall not in any fiscal year, together with all other amounts deposited in the Debt Service Fund (other than from the Debt Service Reserve Fund) during such fiscal year, exceed the Appropriated Amount for Special Obligation Debt Service for such fiscal year.

AMBAC Indemnity Surety Bond. The Trust Agreement authorizes the Commonwealth to obtain Reserve Requirements for the purpose of satisfying the Debt Service Reserve Fund Requirement. The Commonwealth expects AMBAC Indemnity to issue a surety bond (the "Debt Service Reserve Fund Surety Bond") for such purpose in the initial stated amount of $5,150,902.50, which represents the initial Debt Service Reserve Fund Requirement relating to the 1992 A Special Obligation Bonds. The Debt Service Reserve Fund Surety Bond provides that upon the later of (i) one (1) day after receipt by AMBAC Indemnity of a demand for payment executed by the Special Obligation Trustee certifying that provision for the payment of principal of or interest on the 1992 A Special Obligation Bonds when due has not been made or (ii) the Interest Payment Date specified in the demand for payment submitted to AMBAC Indemnity, AMBAC Indemnity will promptly deposit funds with the Special Obligation Trustee sufficient to enable the Special Obligation Trustee to make such payments due on the 1992 A Special Obligation Bonds, but in no event exceeding the lesser of $5,150,902.50 or the Debt Service Reserve Fund Requirement for the 1992 A Special Obligation Bonds (the "Surety Bond Coverage").

Pursuant to the terms of the Debt Service Reserve Fund Surety Bond, the Surety Bond Coverage is automatically reduced to the extent of each payment made by AMBAC Indemnity under the terms of the Debt Service Reserve Fund Surety Bond and the Commonwealth is required to reimburse AMBAC Indemnity for any draws under the Debt Service Reserve Fund Surety Bond (with interest at a market rate) from amounts deposited into the Debt Service Reserve Fund as provided in the Trust Agreement and described above. Upon such reimbursement, the Debt Service Reserve Fund Surety Bond will be reinstated to the extent of each principal reimbursement up to but not exceeding the Surety Bond Coverage. The reimbursement obligation of the Commonwealth is subordinate to the Commonwealth's obligations with respect to the 1992 A Special Obligation Bonds.

In the event that the Debt Service Reserve Fund Surety Bond is not issued at or prior to the delivery of the 1992 A Special Obligation Bonds, the provisions of the Trust Agreement relating to the funding of the Debt Service Reserve Fund which are described above shall govern. Under the terms of the Trust Agreement, the Commonwealth may terminate the Debt Service Reserve Fund Surety Bond provided that it deposits into the Debt Service Reserve Fund the amount then required to have been on deposit therein under the terms of the Trust Agreement had the Debt Service Reserve Fund Surety Bond not been issued. Subsequent to the termination of the Debt Service Reserve Fund Surety Bond, the provisions of the Trust Agreement relating to the funding of the Debt Service Reserve Fund which are described above shall govern.

For certain information concerning AMBAC Indemnity, See "Appendix E - AMBAC Indemnity Corporation".

Additional Special Obligation Bonds

Pursuant to the Trust Agreement, one or more series of Additional Special Obligation Bonds may be issued for the purpose of (i) paying all or a portion of the cost of any project for which special obligation bonds may be issued under the Special Obligation Act, including the refunding of any general obligation highway bonds of the Commonwealth, (ii) the making of deposits in the Debt Service Fund and the Debt Service Reserve Fund, (iii) the payment of the costs of issuance of such Additional Special Obligation Bonds, (iv) the payment of the principal of and interest and premium, if any, on notes issued in anticipation of such Additional Special Obligation Bonds in accordance with the Trust Agreement, or (v) any combination of the foregoing.

A series of Additional Special Obligation Bonds may be issued only upon receipt by the Trustee of, among other things:

(i) A certificate of the State Treasurer or his or her designee stating that, as of the delivery of such Additional Special Obligation Bonds and application of their proceeds, no Event of Default, as described in the Trust Agreement, will have happened and then will be continuing;

(ii) A certificate or certificates of the Commissioner of Revenue or the Comptroller setting forth the amount of Pledged Funds received by the Commonwealth for each month for the 18 month period ending with the last full month immediately preceding the issuance of Additional Special Obligation Bonds;

(iii) If the Commonwealth is not pledging any Additional Pledged Funds, then a certificate of the State Treasurer showing that the amount of Pledged Funds for any 12 consecutive months during the 18 month period described in (ii) above was not less than 300% of the maximum aggregate Adjusted Bond Debt Service Requirement (defined in the Trust Agreement to be Special Obligation Debt Service, adjusted to take into account any issuance of Variable Rate Special Obligation Bonds or obligations arising under a Qualified Swap Agreement, see "Appendix C - Summary of Certain Provisions of the Trust Agreement -- Definitions") due in the then current or any future fiscal year on outstanding Special Obligation Bonds, including the Additional Special Obligation Bonds;

(iv) If the Commonwealth is pledging Additional Pledged Funds, one or more of the following certificates: (A) if the Additional Pledged Funds shall have been collected by the Commonwealth for at least 12 consecutive months of the 18 month period described in (ii) above, a certificate of the State Treasurer showing that the amount of Pledged Funds and Additional Pledged Funds, for any 12 consecutive months during such 18 month period was not less than 300% of the maximum annual Adjusted Bond Debt Service Requirement during the then current fiscal year or any future fiscal year on all Special Obligation Bonds outstanding, including the Additional Special Obligation Bonds; (B) if the Additional Pledged Funds have not been collected by the Commonwealth during at least 12 consecutive months during such 18 month period, a certificate of the State Treasurer showing that the amount of Pledged Funds and Additional Pledged Funds projected to be received by the Commonwealth during the first full fiscal year immediately following the issuance of the Additional Special Obligation Bonds will not be less than 300% of the maximum aggregate Adjusted Bond Debt Service Requirement due in the then current or any future fiscal year on Special Obligation Bonds outstanding, including the Additional Special Obligation Bonds; and (C) if any Additional Pledged Funds are derived from revenues other than the Gasoline Tax, or a certificate is delivered under (B) above, then a certificate from each rating agency which is then maintaining an outstanding rating on the Special Obligation Bonds, stating that the issuance of such Additional Special Obligation Bonds shall not adversely affect their rating on the Special Obligation Bonds then outstanding; and

(v) A certificate of the Secretary for Administration and Finance that the amount of such Additional Special Obligation Bonds is within the limitations established by the Capital Spending Plan of the Commonwealth in effect as of the date of issuance of such Additional Special Obligation Bonds.

Additional Special Obligation Bonds may be issued at any time to refund in whole or in part any outstanding Special Obligation Bonds, provided that the State Treasurer, certifies that the Adjusted Bond Debt Service Requirement on any Special Obligation Bonds to be outstanding immediately after the issuance of the refunding Additional Special Obligation Bonds is not, for each fiscal year during which Special Obligation Bonds are scheduled to be outstanding, greater than the Adjusted Bond Debt Service Requirement by fiscal year on all Special Obligation Bonds outstanding immediately prior to the issuance of the refunding Additional Special Obligation Bonds. If the Commonwealth cannot satisfy the requirement of the preceding sentence, the Commonwealth may nevertheless issue refunding Additional Special Obligation Bonds by complying with the tests relating to the issuance of Additional Special Obligation Bonds for non-refunding purposes.

For a more complete description of the requirements under the Trust Agreement for the issuance of Additional Special Obligation Bonds, see "Appendix C - Summary of Certain Provisions of the Trust Agreement -- Authorization and Issuance of Additional Special Obligation Bonds".

Additional Special Obligation Bonds may be issued as Variable Rate Bonds or Tender Bonds. The Commonwealth has covenanted in the Trust Agreement that (a) it will not issue Variable Rate Bonds if, upon such issuance, the aggregate principal amount of Variable Rate Bonds then outstanding exceeds 15% of the aggregate principal amount of all Special Obligation Bonds outstanding; and (b) it will only issue Tender Bonds secured by a Liquidity Facility, and the provider of the Liquidity Facility must have a rating on its short term obligations within the highest rating category from each rating agency then maintaining a rating on Special Obligation Bonds outstanding. See "Appendix C - Summary of Certain Provisions of the Trust Agreement -- Authorization of Bonds".

Subordinated and Other Indebtedness

The Commonwealth may issue bonds, notes or other evidences of indebtedness which are payable out of, or secured by a pledge of Pledged Funds, provided that such bonds, notes or evidences of indebtedness are expressly subordinate to the obligations of the Commonwealth under the Trust Agreement, including the Special Obligation Bonds. In addition, the Commonwealth may issue bonds, notes or other evidences of indebtedness which are payable out of, or secured by a pledge of an additional portion of the Gasoline Tax or other Article 78 Revenues, to the extent such portions of the Gasoline Tax or Article 78 Revenues do not constitute Pledged Funds. See "Appendix C - Summary of Certain Provisions of the Trust Agreement -- Creation of Liens; Other Indebtedness".

Commonwealth Covenants

Under the Trust Agreement, the Commonwealth has covenanted with the owners of the Special Obligation Bonds that so long as any Special Obligation Bonds remain outstanding (i) that it shall at all times maintain the portion of the Gasoline Tax credited to the Highway Fund at a rate of not less than $.02 per gallon (or at such higher rate as may be pledged as Additional Pledged Funds); (ii) that it shall not limit or alter the rights vested in the Commonwealth to collect Pledged Funds, including the Gasoline Tax and any other Article 78 Revenues which may subsequently be pledged as Additional Pledged Funds, and to deposit such amounts as provided in the Trust Agreement; and (iii) that it shall not impair the rights and remedies of the Special Obligation Trustee and the owners of the Special Obligation Bonds under the Trust Agreement with respect to Pledged Funds. However, no provision of the Trust Agreement shall prohibit the Commonwealth from (a) applying any amounts credited to the Infrastructure Fund, including any portion of the Gasoline Tax, on or prior to June 30, 1992 for any purpose permitted by law; (b) applying any amounts credited to the Infrastructure Fund, other than Pledged Funds, on or after July 1, 1992; or (c) pledging Pledged Funds provided that such pledge is expressly subordinate to the pledge of the Trust Agreement.

The Special Obligation Act creates additional covenants with the owners of Special Obligation Bonds. However, the Commonwealth may amend the Special Obligation Act, and the Trust Agreement provides that any provision of the Special Obligation Act creating a covenant with the owners of the Special Obligation Bonds shall be deemed a covenant under the Trust Agreement only to the extent expressly provided for in and as limited by the Trust Agreement. See "Appendix C - Summary of Certain Provisions of the Trust Agreement -- Particular Covenants of the Commonwealth".

Remedies of Owners of Special Obligation Bonds

The Trust Agreement sets forth the Events of Default relating to the Special Obligation Bonds, which include failure to pay Special Obligation Debt Service when due or failure to perform the covenants, agreements and conditions contained in the Trust Agreement which relate to the maintenance of the Gasoline Tax Rate, the limitation or alteration of the rights of the Commonwealth to collect and deposit Pledged Funds, and the impairment of the rights and remedies of the owners of the Special Obligation Bonds.

Under the Trust Agreement, the Commonwealth has covenanted that, upon the occurrence of any Event of Default (which Event of Default has not been remedied), and upon demand by the Special Obligation Trustee, it shall pay over to the Special Obligation Trustee, to the extent permitted by law, any Pledged Funds not otherwise held by the Special Obligation Trustee in a Fund or Account. The Trust Agreement provides that upon the occurrence of an Event of Default, the Special Obligation Trustee may proceed either at law or in equity to protect and enforce the rights of the owners of the Special Obligation Bonds under the terms of the Trust Agreement or the laws of the Commonwealth. The Trust Agreement also provides that the owners of a majority in aggregate principal amount of the Special Obligation Bonds then outstanding may direct the time, method and place of any proceeding for any remedy available to the Special Obligation Trustee, unless the Special Obligation Trustee determines that such direction would subject it to personal liability or be unjustly prejudicial to the owners not parties to such direction.

The Trust Agreement provides that neither the Special Obligation Trustee nor the owners of the Special Obligation Bonds shall have any right to accelerate the principal of or interest on the Special Obligation Bonds.

If an Event of Default has occurred, no owner of a Special Obligation Bond shall have any right to institute any suit, action or proceeding in equity or at law to exercise any remedy or otherwise take action to enforce the terms of the Trust Agreement unless the owners of at least 25% in aggregate principal amount of the Special Obligation Bonds then outstanding have requested the Special Obligation Trustee to act, and have afforded the Special Obligation Trustee adequate security or indemnity against the Special Obligation Trustee's costs, expenses and liabilities and the Special Obligation Trustee shall not have complied with such request within a reasonable time.

For a more complete description of the remedies available to the owners of the Special Obligation Bonds, see "Appendix C - Summary of Certain Provisions of the Trust Agreement -- Events of Default".

The remedies available to the Bondowners upon the occurrence of an Event of Default are limited and are in many respects dependent upon judicial actions which are often subject to discretion and delay.

COMMONWEALTH GASOLINE TAX

The following is a summary of the Commonwealth's Gasoline Tax. This summary does not purport to be complete and, accordingly, is qualified by reference to Chapter 64A of the Massachusetts General Laws, the Gasoline Tax Act. The Legislature has altered and may in the future alter the Gasoline Tax Act. See "Recent Legislation".

Upon the issuance of the 1992 A Special Obligation Bonds, Pledged Funds shall constitute only $.02 of the Gasoline Tax, and shall be calculated by the Department of Revenue on a monthly basis by dividing $.02 per gallon by the total Gasoline Tax Rate then in effect, and multiplying the result by the total amount of the Gasoline Tax collected by the Commonwealth during such month. See "SECURITY AND SOURCES OF PAYMENT FOR THE SPECIAL OBLIGATION BONDS" -- "Source of Pledged Funds"; "Flow of Pledged Funds".

General

The Commonwealth has imposed a tax on fuel since 1928. Fuel, as defined in the Gasoline Tax Act, includes all products commonly or commercially known as gasoline and any liquid prepared, advertised or offered for sale in the Commonwealth and commonly and commercially used as fuel in internal combustion engines ("Gasoline"). The term Gasoline does not include diesel fuel, which is taxed as a "special fuel" under Chapter 64E of the Massachusetts General Laws. See "FINANCING THE COMMONWEALTH HIGHWAY SYSTEM -- Legal Framework for Financing the Highway System". The Gasoline Tax Act also imposes a tax on fuel sold for use in non-jet propelled aircraft ("Aviation Fuel"). Tax revenues derived from the sale of Aviation Fuel under the Gasoline Tax Act are not included within the definition of Gasoline Tax or Pledged Funds.

Gasoline Tax Rate

Under the Gasoline Tax Act, the Gasoline Tax Rate is the greater of $.21 cents per gallon or 19.1% of the average wholesale selling price of Gasoline as measured on a quarterly basis. The average wholesale selling price is defined by regulation as the weighted average, rounded to the nearest whole cent, of the per gallon wholesale selling price of various grades and types of Gasoline for the preceding quarter. The average wholesale selling price does not include state or federal taxes. The Commissioner of Revenue is required to announce, on or before the last day of

March, June, September and December, the average wholesale selling price per gallon of Gasoline for the preceding calendar quarter, which will serve as a basis for determining the Gasoline Tax Rate for the succeeding calendar quarter. Gasoline is currently taxed at the statutory minimum rate of $.21 per gallon.

Comparison of Gasoline Tax Rates
for Selected Northeastern States

The table below lists gasoline tax rates, exclusive of local taxes, license and inspection fees of selected northeastern states.

Connecticut	26.0¢
Maine	19.0
Massachusetts	21.0
New Hampshire	18.0
New Jersey	10.5
New York	8.0
Rhode Island	26.0
Vermont	15.0

SOURCE: Commerce Clearing House -- State Tax Reports.

Gasoline Tax Collection Procedure

Anyone qualified to do business in the Commonwealth who produces, refines, manufactures or compounds Gasoline or operates a port or pipeline terminal, as well as importers and exporters of Gasoline (collectively referred to as "Distributors"), must file Gasoline Tax returns with the Commissioner of Revenue by the twentieth day of each month. Distributors must keep complete and accurate records of all sales of Gasoline including the name and address of the purchaser, the place and date of delivery, the gross receipts and number of gallons for each type of Gasoline sold, and a complete and accurate record of the number of gallons imported, produced, refined, manufactured, compounded or exported. Purchasers of Gasoline pay the Gasoline Tax to a Distributor when they purchase Gasoline. Each Distributor is required to pay to the Commissioner of Revenue, simultaneously with the filing of a Gasoline Tax return, the Gasoline Tax on each taxable gallon of Gasoline sold by him during the month covered by the return. There are currently fewer than 250 Distributors who file Gasoline Tax returns with the Commissioner of Revenue.

Crediting of Receipts

Gasoline Tax receipts, net of refunds and abatements, are credited to several budgeted funds of the Commonwealth. Fifteen percent of the Gasoline Tax revenues are credited to the General Fund to be used solely for mass transportation purposes. One and four-tenths percent (1.4%) of the receipts are credited to certain environmental budgeted funds. The remaining 83.6% of Gasoline Tax receipts are credited to the Highway Fund in two components. Fifteen percent (15%) of the Gasoline Tax receipts are credited to the Highway Fund for the sole purpose, subject to appropriation, of reimbursing municipalities for costs incurred in constructing, maintaining and policing streets and roads. Sixty-eight and six-tenths percent (68.6%) of Gasoline Tax receipts are credited to the Highway Fund for general Highway Fund purposes. See "FINANCING THE COMMONWEALTH HIGHWAY SYSTEM -- Legal Framework for Financing the Commonwealth Highway System; Statutory Framework". Of the amount credited for general Highway Fund purposes, 47.62% (or 39.1% of total Gasoline Tax receipts credited to the Highway Fund) is credited to the Infrastructure Fund. The amount credited to the Infrastructure Fund effectively represents a portion of Gasoline Tax receipts derived from the $.10 increase in the Gasoline Tax Rate enacted in 1990. See "Recent Legislation".

Refunds and Abatements from Gasoline Tax

Other than (1) sales between licensed Massachusetts Distributors, (2) sales by a licensed Massachusetts Distributor to a licensed distributor of another state whereby the entire quantity purchased is exported out of the Commonwealth, (3) sales to the federal government, (4) sales to foreign embassies, (5) sales to certain transportation authorities, and (6) sales constituting foreign or interstate commerce, except where permitted by the Constitution and laws of the United States, all of which are tax-free sales, all purchases of Gasoline within the Commonwealth are subject to the Gasoline Tax. Persons who pay the Gasoline Tax on Gasoline which is (a) consumed other than on highways, (b) transferred into another state in which an additional excise tax is paid, (c) consumed on any turnpike constructed by the Massachusetts Turnpike Authority, (d) used in watercraft, and (e) used in qualified buses on authorized routes, may apply for a refund for the amount of Gasoline Tax paid on such Gasoline. A person applying for a refund must supply the original invoices for the purchase of such Gasoline and attest, by affidavit filed with the Commissioner of Revenue, that the Gasoline was consumed for an exempt purpose. Persons engaged in the business of farming may also apply for a refund of the amount of Gasoline Tax paid on Gasoline for which they would be entitled to a refund of the federal gasoline tax paid pursuant to Section 6420 of the Federal Internal Revenue Code. The Department of Revenue estimates that, on average, less than .5% of annual Gasoline Tax receipts are refunded or abated.

Recent Legislation

During the 1990 legislative session, a two stage increase in the Commonwealth's Gasoline Tax Rate was enacted. The first stage of this increase became effective on July 28, 1990 and raised the Gasoline Tax Rate to a minimum of $.17 per gallon. The second stage of the increase became effective on January 1, 1991 and raised the Gasoline Tax Rate to a minimum of $ .21 per gallon. Prior to 1990, the last increase in the Gasoline Tax Rate was enacted in 1983, when the Gasoline Tax Rate was adjusted to provide for a statutory minimum rate of $.11 per gallon.

The Legislature has previously altered and may in the future alter (1) the imposition of the Gasoline Tax on Gasoline, including its imposition on different or alternative fuels; (2) the Gasoline Tax Rate; (3) the allocation of Gasoline Tax receipts between the various Commonwealth operating funds, including the Highway Fund and General Fund, and (4) the distribution of Gasoline Tax receipts to cities, towns and counties. The authority of the Legislature to make such changes in Gasoline Tax, the Gasoline Tax Rate and the allocation and use of Gasoline Tax receipts is subject to the requirement of the Massachusetts Constitution that amounts representing Article 78 Revenues, including Gasoline Tax receipts, may only be used for highway or mass transportation purposes including, but not limited to, paying debt service on Commonwealth general obligation highway bonds and any special obligation bonds issued under the Special Obligation Act.

The Legislature's right to make such changes is further restricted by the Trust Agreement in which the Commonwealth has covenanted with the owners of the Special Obligation Bonds to at all times maintain the portion of Gasoline Tax credited to the Highway Fund at a rate of not less than $.02 per gallon (or at such higher rate as may be pledged as Additional Pledged Funds) and not to in any way impair the rights and remedies of said owners under the Trust Agreement.

HISTORICAL GASOLINE SALES

Fiscal Year	Average Gasoline Tax Rate(1)	Gasoline Sold (millions of gallons)(2)	Percentage Change	Employment (thousands)(3)	Percentage Change
1992	$.210	2,300(4)	(2.62)%	2,852(5)	(1.35)%
1991	.185	2,362	(4.48)	2,891	(4.24)
1990	.110	2,473	(0.73)	3,019	(1.50)
1989	.110	2,491	(0.12)	3,065	1.02
1988	.110	2,494	2.50	3,034	2.57
1987	.110	2,433	2.41	2,958	1.06
1986	.110	2,376	1.87	2,927	(0.17)
1985	.110	2,332	2.97	2,932	3.06
1984	.110	2,265	2.39	2,845	3.30
1983	.104	2,212	n.a.	2,754	n.a.

SOURCES: "Gasoline Tax Rate" and "Gasoline Sold", Department of Revenue, Bureau of Analysis, Estimation and Research. "Employment", Massachusetts Department of Employment and Training and the United States Department of Labor, Bureau of Labor Statistics, Current Population Survey.

(1) Average Gasoline Tax Rate in effect during each fiscal year.

(2) Net of tax-free gallons. See "Refunds and Abatements from Gasoline Tax".

(3) Not seasonally adjusted. Calculated as fiscal year average of monthly employment.

(4) Estimated based upon actual collections of Gasoline Tax for the first 10 months of fiscal 1992 and historical trends.

(5) Estimated, based upon average monthly employment for first 10 months of fiscal 1992.

HISTORICAL COLLECTION OF GASOLINE TAX

Historical Annual Collection of Gasoline Tax

Fiscal Year	Average Gasoline Tax Rate(1)	Gasoline Tax Receipts (in thousands)(2)	Percentage Change	$.02 of Gasoline Tax (in thousands)(3)	Percentage Change
1992(4)	$.210	$483,000(5)	15.26%(5)	$46,000	(3.89)%
1991	.185	419,065(6)	54.60(6)	47,860	(2.89)
1990	.110	271,065	(1.41)	49,285	(1.41)
1989	.110	274,950	0.36	49,991	0.36
1988	.110	273,953	2.29	49,810	2.29
1987	.110	267,825	2.42	48,695	2.42
1986	.110	261,509	1.85	47,547	1.85
1985	.110	256,748	2.89	46,681	2.89
1984	.110	249,536	8.59	45,370	2.55
1983	.104	229,804	n.a.	44,241	n.a.

SOURCES: "Average Gasoline Tax Rate", Department of Revenue, Bureau of Analysis, Estimation and Research. "Gasoline Tax Receipts" and "$.02 of Gasoline Tax": fiscal 1987-1991, Office of the Comptroller and Department of Revenue, Bureau of Analysis, Estimation and Research; and fiscal 1983-1986 and estimated fiscal 1992, Department of Revenue, Bureau of Analysis, Estimation and Research.

(1) Average of Gasoline Tax Rate in effect during each fiscal year.

(2) Includes all Gasoline Tax collected by the Commonwealth and credited to various budgeted funds. See "COMMONWEALTH GASOLINE TAX -- Crediting of Receipts". Net of refunds and abatements from Gasoline Tax. See "COMMONWEALTH GASOLINE TAX -- Refunds and Abatements from Gasoline Tax".

(3) Pledged Funds initially constitute the portion of the Gasoline Tax equal to \$.02 per gallon. Calculated as the sum of monthly amounts representing \$.02 per gallon of the Gasoline Tax. In fiscal 1983 and fiscal 1991, years during which the Gasoline Tax Rate changed, the amounts set forth will not necessarily equal \$.02 divided by the average Gasoline Tax Rate, multiplied by total annual Gasoline Tax receipts.

(4) Estimated based upon actual collections of Gasoline Tax for first 10 months of fiscal 1992 equal to \$405.7 million and historical trends.

(5) Reflects full fiscal year impact of increase in Gasoline Tax Rate from \$.17 per gallon to \$.21 per gallon, which was effective January 1, 1991 and therefore impacted Gasoline Tax receipts for approximately 5 months of fiscal 1991. It is estimated that this increase will raise an additional \$54.2 million during fiscal 1992 compared with fiscal 1991.

(6) Reflects increases in Gasoline Tax Rate from \$.11 per gallon to \$.17 per gallon effective July 28, 1990, and from \$.17 per gallon to \$.21 per gallon effective January 1, 1991, which, it is estimated, raised an additional \$155.84 million in fiscal 1991 compared with fiscal 1990.

Historical Monthly Collection of Gasoline Tax
Fiscal Year 1991 and Ten Months Ending April 1992

Month	Gasoline Tax Receipts (in thousands)(1)	\$.02 of Gasoline Tax (in thousands)(2)
April, 1992	\$36,815	\$3,506
March, 1992	38,620	3,678
February, 1992	38,629	3,679
January, 1992	42,865	4,082
December, 1991	39,432	3,755
November, 1991	43,276	4,122
October, 1991	38,924	3,707
September, 1991	44,434	4,232
August, 1991	42,811	4,077
July, 1991	39,941	3,804
June, 1991	43,193	4,114
May, 1991	41,067	3,911
April, 1991	40,072	3,816
March, 1991	34,466	3,282
February, 1991	39,575	3,769
January, 1991 (3)	35,980	4,233
December, 1990	31,283	3,680
November, 1990	34,482	4,057
October, 1990	32,384	3,810
September, 1990	39,759	4,678
August, 1990	23,843	4,335
July, 1990(4)	22,961	4,175

SOURCE: Office of Comptroller and Department of Revenue, Bureau of Analysis, Estimation and Research.

(1) Net of refunds and abatements from Gasoline Tax. See "COMMONWEALTH GASOLINE TAX -- Refunds and Abatements from Gasoline Tax".
(2) Pledged Funds initially constitute the portion of the Gasoline Tax equal to $.02 per gallon. In the months following a Gasoline Tax Rate increase, these amounts may not equal $.02 divided by the Gasoline Tax Rate in effect at the end of the month, multiplied by the Gasoline Tax receipts collected in those months.
(3) Gasoline Tax Rate increased from $.17 per gallon to $.21 per gallon, effective January 1, 1991.
(4) Gasoline Tax Rate increased from $.11 per gallon to $.17 per gallon, effective July 28, 1990.

Projected Collection of Gasoline Tax and Pledged Funds

The Commonwealth does not perform an official forecast of Gasoline Tax receipts beyond the next fiscal year. For fiscal 1993, the Department of Revenue has projected that Gasoline Tax receipts will equal $492.0 million, or 1.9% more than the estimated Gasoline Tax receipts for fiscal 1992. Based upon this assumption, Pledged Funds collected during fiscal 1993 will equal approximately $46.9 million. The actual revenues that will be collected by the Commonwealth may vary from the forecast because of fluctuating economic conditions, technological advances, changes in law and other variables affecting revenue growth.

DEBT SERVICE COVERAGE

The following table shows the ratios of historical collections of the portion of the Gasoline Tax equal to $.02 per gallon to maximum annual 1992 A Special Obligation Debt Service. Under the Trust Agreement, the Commonwealth is not obligated to maintain any debt service coverage ratio. In order to issue Additional Special Obligation Bonds, the Commonwealth will be required to comply with certain debt service coverage tests. See "SECURITY AND SOURCES OF PAYMENT FOR THE SPECIAL OBLIGATION BONDS -- Additional Special Obligation Bonds".

Historical Revenues/Debt Service Coverage
1992 A Special Obligation Bonds

Fiscal Year	$.02 of Gasoline Tax (in thousands)(1)	Debt Service (in thousands)(2)	Debt Service Coverage Ratio
1992	$46,000(3)	$10,301.8	4.47
1991	47,860	10,301.8	4.65
1990	49,285	10,301.8	4.78
1989	49,991	10,301.8	4.85
1988	49,810	10,301.8	4.84
1987	48,695	10,301.8	4.73
1986	47,547	10,301.8	4.62
1985	46,681	10,301.8	4.53
1984	45,370	10,301.8	4.40
1983	44,241	10,301.8	4.29

SOURCES: "$.02 of Gasoline Tax": fiscal 1987-1991, Office of the Comptroller and Department of Revenue, Bureau of Analysis, Estimation and Research; and fiscal 1983-1986 and estimate for fiscal 1992, Department of Revenue, Bureau of Analysis, Estimation and Research. "Debt Service": Office of the State Treasurer.
(1) Net of refunds and abatements from Gasoline Tax. See "COMMONWEALTH GASOLINE TAX -- Refunds and Abatements from Gasoline Tax".
(2) Maximum annual 1992 A Special Obligation Debt Service. See "1992 A SPECIAL OBLIGATION DEBT SERVICE".

(3) Estimated, based upon actual collections of Gasoline Tax for first 10 months of fiscal 1992 and historical trends.

The Department of Revenue has projected that $46.9 million of Pledged Funds will be collected in fiscal 1993. This projection would result in hypothetical debt service coverage of 4.55:1, based on maximum annual 1992 A Special Obligation Debt Service of approximately $10.3 million. Forecasts of projected collections of Pledged Funds are not available beyond fiscal 1993, and therefore projected ratios of Pledged Funds to hypothetical maximum annual Special Obligation Debt Service for fiscal years after 1993 are not contained in this Official Statement. Assuming that no Additional Special Obligation Bonds are issued, Pledged Funds would have to decrease by approximately 40% from the amount estimated to be collected from $.02 of the Gasoline Tax in fiscal 1992 for the ratio of said amount to the hypothetical maximum annual 1992 A Special Obligation Debt Service referenced above to be less than 3:1. Such a decrease in collections would result from a decrease in sales of Gasoline to approximately 1.38 billion gallons in a fiscal year, which is approximately 37.6% below the amount of Gasoline sold in the Commonwealth in fiscal 1983 (the lowest annual sales during the last 10 fiscal years), and approximately 40% below estimated sales of Gasoline in fiscal 1992. See "HISTORICAL GASOLINE SALES".

FINANCING THE COMMONWEALTH HIGHWAY SYSTEM

The Commonwealth is directly responsible under its operating budget for the maintenance and operation of over 12,600 lane miles of highways and over 2,800 bridges (the "Highway System"). In fiscal 1992, the Executive Office for Administration and Finance estimates that the Commonwealth will expend $98.1 million for the operation and maintenance of the Highway System, exclusive of capital funds. The Commonwealth also provides funding to its municipalities and to the MDC for the operation and maintenance of local and MDC highways, parkways, boulevards and bridges. In fiscal 1992, the Executive Office for Administration and Finance estimates that the Commonwealth will expend $15 million, exclusive of capital funds, for such purposes. The Highway System does not include the Massachusetts Turnpike or the Sumner and Callahan Tunnels, which are owned and operated by the Massachusetts Turnpike Authority, or the Tobin Memorial Bridge which is owned and operated by the Massachusetts Port Authority.

The Commonwealth currently finances capital projects for the Highway System in accordance with a constitutional and statutory framework established for such purposes and with the five year Capital Spending Plan formulated by the Executive Office for Administration and Finance.

Legal Framework For Financing the Highway System

Constitutional Limitations. Article 78 of the Articles of Amendment to the Massachusetts Constitution, as amended, requires that any fees, duties, excises or license taxes relating to the registration, operation or use of vehicles on public highways, or to fuels used for propelling such vehicles (as previously defined, "Article 78 Revenues"), be expended only for the following purposes: (1) the cost of administration of laws providing for such revenue, (2) the making of refunds and adjustments relating to such revenue; (3) the payment of highway obligations; (4) the cost of construction, reconstruction, maintenance and repair of public highways, bridges and mass transportation lines; (5) the cost of enforcing state traffic laws; and (6) the cost of other mass transportation purposes. Article 78 Revenues may be expended by the Commonwealth and its counties, cities and towns for these purposes only in such manner as the Legislature may direct.

The Commonwealth currently imposes the following taxes and fees, the revenues from which are classified as Article 78 Revenues: (1) the Gasoline Tax; (2) certain other fuel taxes imposed under Chapter 64E and 64F of the Massachusetts General Laws ("Other Fuel Taxes"); (3) motor vehicle registration fees imposed under Section 33 of Chapter 90 of the Massachusetts General Laws ("Registration Fees"); (4) motor vehicle license fees imposed under Section 33 of Chapter 90 of the Massachusetts General Laws ("License Fees"); and (5) miscellaneous fees and other revenues imposed under Section 33 of Chapter 90 of the Massachusetts General Laws, relating to the operation and use of motor vehicle transportation ("Other Non-Tax Revenues"). Under current law, except for 16.4% of Gasoline Tax receipts (15% is credited to the General Fund and 1.4% is credited to various environmental budgeted funds), all of these revenues are credited to the Highway Fund.

Other Fuel Taxes include special fuel taxes imposed under Chapter 64E on all combustible gases and liquids used or sold for use in an internal combustion engine, other than those fuels which are subject to the Gasoline Tax. Diesel fuel and liquefied gases, such as propane gas, are included in the definition of special fuels. The special fuels tax rate and collection procedures are the same as those which are imposed by the Gasoline Tax, except the $.21 statutory minimum price per gallon does not apply to liquefied gases. Other Fuel Taxes also include motor carrier taxes imposed under Chapter 64F on anyone who regularly operates motor vehicles on the highways of the Commonwealth which are propelled by Gasoline or special fuels acquired outside the Commonwealth. Receipts from both taxes are currently credited to the Highway Fund, with portions earmarked for local use.

The Registration and License Fees are collected by the Registrar of Motor Vehicles or his or her authorized agents. Pursuant to Section 3B of Chapter 7 of the Massachusetts General Laws, the Secretary for Administration and Finance, after having conducted a public hearing, determines the amounts to be charged for each fee. Section 33 of Chapter 90 excludes certain vehicles or trailers, such as school buses, emergency vehicles and municipally owned vehicles from payment of Registration Fees. Other than certain minimum fees, most Registration Fees are based on the weight of the registered vehicle. Fees from licenses include driver's licenses and learners' permits. Other Non-Tax Revenues include other fees collected by the Registrar of Motor Vehicles under Chapter 90.

Pledged Funds currently represent only the amounts derived from $.02 of the Gasoline Tax. Under the Trust Agreement, in connection with the issuance of Additional Special Obligation Bonds, and to the extent permitted by law, the Commonwealth may pledge as Additional Pledged Funds additional amounts of the Gasoline Tax, as well as other Article 78 Revenues. Under current law, only amounts credited to the Highway Fund may be pledged as security for Special Obligation Bonds. See "SECURITY AND SOURCES OF PAYMENT FOR THE SPECIAL OBLIGATION BONDS" -- "Source of Pledged Funds"; "Additional Special Obligation Bonds".

Statutory Framework. The Commonwealth has established a statutory framework governing the expenditure of Article 78 Revenues. Under Chapter 90 of the Massachusetts General Laws, which chapter governs public highways, the Commonwealth established the Highway Fund, into which most of the Article 78 Revenues are credited. In addition, the Commonwealth has credited the receipts of certain other taxes and fees to the Highway Fund, including a portion of the tax imposed on cigarettes under Chapter 64C of the Massachusetts General Laws. The Governor's fiscal 1993 budget recommendation proposes to credit all Article 78 Revenues to the Highway Fund and to exclude all other revenues from the Highway Fund. It cannot be predicted at this time whether such proposal will be adopted by the Legislature.

The following table sets forth the historical amounts credited to the Highway Fund, exclusive of the portion of the Cigarette Tax credited thereto under current law.

HISTORICAL AMOUNTS CREDITED TO HIGHWAY FUND(1)
(in thousands)

Fiscal Year	Gasoline Taxes(2)	Other Fuel Taxes	Registration and License Fees	Other Non-Tax Revenues	Total
1992(3)	$403,800	$51,600	$302,526	$52,064	$809,990
1991	354,539	44,768	293,083	62,726	755,116
1990	229,998	30,890	307,681	60,435	629,004
1989	233,295	31,921	226,025	77,326	568,567
1988	232,449	31,565	156,897	110,211	531,122
1987	227,250	29,579	157,619	45,392	459,840
1986	221,891	27,094	150,763	44,897	444,645
1985	217,851	26,314	145,479	41,474	431,118
1984	211,731	25,467	128,257	31,375	396,830
1983	194,989	20,622	118,404	18,417	352,432

SOURCES: "Gasoline Taxes" and "Other Fuel Taxes": fiscal 1987-1991, Office of Comptroller and Department of Revenue, Bureau of Analysis, Estimation and Research; and fiscal 1983-1986 and estimate for fiscal 1992, Department of Revenue, Bureau of Analysis, Estimation and Research. "Registration and License Fees" and "Other Non-Tax Revenues": fiscal 1983-1991, Office of the Comptroller; and estimate for fiscal 1992, Executive Office for Administration and Finance.

(1) Excludes the portion of Cigarette Tax collected under Chapter 64C of Massachusetts General Laws which is credited to the Highway Fund.

(2) Net of refunds and abatements from Gasoline Tax. See "COMMONWEALTH GASOLINE TAX -- Refunds and Abatements from Gasoline Tax".

(3) Estimated, based upon actual collections of Gasoline Tax for first 10 months of fiscal year 1992 and historical trends.

Section 34 of Chapter 90 provides that the moneys credited to the Highway Fund, subject to appropriation by the Legislature, shall be used for the purposes listed therein, including administration of the laws relating to the use and operation of motor vehicles in the Commonwealth; maintaining, repairing and improving the Highway System, and local and MDC highways; the payment of debt service on Commonwealth general and special obligation highway bonds; and the maintenance of the department of state police. Historically, the Commonwealth has not funded all Highway System expenditures from amounts credited to the Highway Fund. The Legislature has also appropriated amounts for such purposes from both the General Fund and the Local Aid Fund. In fiscal years 1979 and 1980, and 1984 through 1987, the Commonwealth transferred amounts previously credited to the General Fund to the Highway Fund. In fiscal years 1988 and 1991, the Commonwealth transferred amounts previously credited to the Highway Fund to the General Fund. These transfers were authorized by the Legislature and were made to alleviate deficits which existed in the respective fund to which amounts were transferred. The transfer of approximately $235 million in fiscal 1991 from the Highway Fund to the General Fund has been challenged in court on both constitutional and statutory grounds. See "LITIGATION". The Governor intends to request the Legislature to authorize a transfer of $217.8 million from the Highway Fund to the General Fund in fiscal 1992. See "Appendix A - Commonwealth Information Statement" under the heading "OVERVIEW OF FINANCIAL RESULTS -- Budgeted Operating Funds Operations -- Statutory Basis". On May 28, 1992, the House of Representatives adopted legislation providing that revenue credited to the Highway Fund shall not be transferred to any other fund of the Commonwealth for any other purpose. It can not be determined at this time whether such legislation will become law.

Sources of Funding for Current Highway System Capital Plan

The Commonwealth's Capital Spending Plan currently provides for the expenditure in fiscal 1992 through fiscal 1996 of approximately $1.58 billion by the Commonwealth for Highway System and other transportation (exclusive of MBTA) purposes. See "APPLICATION OF PROCEEDS -- Summary of Capital Spending Plan; Transportation". This amount does not include amounts to be received by the Commonwealth from the federal government, including amounts to be received relating to the Central Artery/Third Harbor Tunnel project. The following describes the sources of funding for the portion of the Commonwealth's Capital Spending Plan relating to the Highway System.

General Obligation Highway Bonds. Historically, the Commonwealth has issued only general obligation bonds ("General Obligation Highway Bonds") for the purpose of funding capital projects relating to the Highway System. Under the provisions of the Massachusetts Constitution and statutes, the Commonwealth is permitted to expend Article 78 Revenues and other moneys credited to the Highway Fund to pay debt service on the General Obligation Highway Bonds. The General Obligation Highway Bonds are general obligations of the Commonwealth, and its full faith and credit are pledged to the payment of the debt service thereon.

Special Obligation Bonds. Under the Special Obligation Act, the Commonwealth is authorized to issue special obligation bonds of the Commonwealth to finance capital expenditures otherwise permitted to be made from the Highway Fund. The bonds issued thereunder may be secured by all or any portion of the moneys credited to the Highway Fund, will not constitute general obligations of the Commonwealth, and the full faith and credit of the Commonwealth will not be pledged to the payment of debt service thereon. The 1992 A Special Obligation Bonds are the initial issue of special obligation bonds issued under the Special Obligation Act and are payable only from the Pledged Funds which, upon the issuance of the 1992 A Special Obligation Bonds, will be composed of the revenues derived from $.02 of the Gasoline Tax.

The provisions of the Highway Act authorize the expenditure of $3.691 billion (which amount includes anticipated federal funds) to finance certain highway projects. The Commonwealth intends to fund the non-federal portion of these expenditures in accordance with the Capital Spending Plan and currently intends to issue both general and special obligation bonds of the Commonwealth to finance the expenditures. The Executive Office for Administration and Finance cannot predict at this time the specific amounts of general obligation bonds and special obligation bonds that will be issued.

In order for the Commonwealth to meet the debt service coverage tests imposed under the Trust Agreement to issue Additional Special Obligation Bonds it may pledge Additional Pledged Funds, which, to the extent permitted by law, may be composed of all or a portion of Article 78 Revenues, including a greater portion of the Gasoline Tax. See "Legal Framework for Financing the Commonwealth Highway System" and "SECURITY AND SOURCES OF PAYMENT FOR THE SPECIAL OBLIGATION BONDS -- Additional Special Obligation Bonds".

Coordination of Transportation Services

The Governor is developing a proposal to coordinate the activities of various transportation authorities and agencies so that state transportation policy and services will be provided as efficiently as possible. The Governor is consulting with the Legislature in connection with this effort, and any formal proposal would require legislative approval. Such a program could involve the consolidation of certain authorities and the dedication of all or a portion of Article 78 Revenues (subject to the lien of the Trust Agreement) for such purposes. The enactment of any such program would affect the projected utilization of both general obligation bonds and special obligation bonds for Highway System projects. Neither the approval of any such program nor its impact on the financing of Highway System projects can be predicted at this time.

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 General Obligation Bonds or the 1992 A Special Obligation Bonds, or in any way contesting or affecting the validity of the General Obligation Bonds, the 1992 A Special Obligation Bonds or the Trust Agreement, including the pledge of Pledged Funds.

In *Mitchell et al. v. Nessen et al.* (Supreme Judicial Court No. 5890) 24 taxpayers and others challenge a transfer of $235 million from the Highway Fund to the General Fund. They seek to restrain the expenditure of these funds from the General Fund and to restore the funds to the Highway Fund. The Supreme Judicial Court heard argument in this case on May 6, 1992.

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 both the General Obligation Bonds and the 1992 A Special Obligation Bonds. The Bonds will initially be issued exclusively in book-entry form and the ownership of 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 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 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 current "Rules" applicable to DTC 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 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 or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds will be accomplished by entries made on the books of DTC Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by DTC Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. effect no change in beneficial ownership. DTC has no knowledge of the actual Beneficial

Owners of the Bonds; DTC's records reflect only the identity of the DTC Participants to whose accounts such Bonds are created, 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 of such Bonds 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 (with respect to the General Obligation Bonds) or the Special Obligation Trustee (with respect to the 1992 A Special Obligation Bonds) 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).

NEITHER THE COMMONWEALTH NOR THE SPECIAL OBLIGATION TRUSTEE WILL 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 OR INDIRECT PARTICIPANT; THE PAYMENT OF, OR THE PROVIDING OF NOTICE TO, THE DTC PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS; THE SELECTION BY DTC (OR BY ANY DTC OR INDIRECT PARTICIPANT) OF ANY BENEFICIAL OWNER TO RECEIVE PAYMENT IN THE EVENT OF A PARTIAL REDEMPTION OF THE BONDS; OR WITH RESPECT TO ANY OTHER ACTION TAKEN BY DTC AS BOND OWNER.

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

DTC may determine to discontinue providing its service with respect to the Bonds at any time by giving notice to the Commonwealth (with respect to the General Obligation Bonds) and the Special Obligation Trustee (with respect to the 1992 A Special Obligation Bonds). Under such circumstances, unless a substitute Depository is retained by the Commonwealth, Bonds will be delivered and registered as designated by the Beneficial Owners. The Beneficial Owner, upon registration of Bonds held in the Beneficial Owner's name, will become the Bondholder.

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

The principal of and interest 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 current 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 and interest on the Bonds to DTC is the responsibility of the Commonwealth (with respect to the General Obligation Bonds) and the

Special Obligation Trustee (with respect to the 1992 A Special Obligation Bonds); disbursement of such payments to DTC 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.

Neither the Commonwealth nor the Special Obligation Trustee can 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

Both the General Obligation Bonds and the 1992 A Special Obligation Bonds have been assigned ratings by Fitch Investors Service, Inc., Moody's Investors Service, Inc. and Standard & Poor's Corporation. The rating assigned by Fitch Investors Service, Inc. for the General Obligation Bonds is "A". The rating assigned by Moody's Investors Service, Inc. for the General Obligation Bonds is "Baa". The rating assigned by Standard & Poor's Corporation for the General Obligation Bonds is "BBB".

The rating assigned by Fitch Investors Service, Inc. for the 1992 A Special Obligation Bonds is "A". The rating assigned by Moody's Investors Service, Inc. for the 1992 A Special Obligation Bonds is "A". The rating assigned by Standard & Poor's Corporation for the 1992 A Special Obligation Bonds is "A".

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

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase all of the Bonds (except that Bank of Boston, BayBank Boston, N.A., Shawmut Bank, N.A. and State Street Bank and Trust Company have entered into such agreement only with respect to the General Obligation Bonds) from the Commonwealth at a discount from the initial public offering prices equal to approximately .915% of the aggregate principal amount of the Bonds, of which .787% represents compensation to the Underwriters and .128% represents costs of issuance, including the premium on the Debt Service Reserve Fund Surety Bond. The Underwriters may offer and sell the Bonds to certain dealers and others (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices (or yields higher than the offering yields) stated on the inside cover page hereof. The public offering prices (or yields) set forth on the inside cover page hereof may be changed from time to time after the initial offering by the Underwriters.

TAX EXEMPTION

Bond Counsel is of the opinion that, under existing law, interest on the Bonds is excludable from the gross income of holders of such Bonds for federal income tax purposes. This opinion is expressly conditioned upon compliance with certain requirements of the Internal Revenue Code of 1986, as amended (the "Code"), which requirements must be satisfied after the date of issuance of the Bonds in order to assure that the interest on the Bonds is and continues to be excludable from the gross income of the holders of such Bonds. Failure to comply could cause the interest on the Bonds to be included in the gross income of the holders thereof, retroactive to the date of issuance of such Bonds. In particular, and without limitation, those requirements include restrictions on the use, expenditure and investment of bond proceeds and the payment of rebate, or penalties in lieu of rebate, to the United States, subject to certain exceptions. The Commonwealth has provided covenants and certificates as to its continued compliance with such requirements.

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

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

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

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

On the date of delivery of the General Obligation Bonds and the 1992 A Special Obligation Bonds, the original purchasers thereof will be furnished with either an opinion of Bond Counsel substantially in the form attached hereto as Appendix D-1 -- Form of Opinion of Bond Counsel relating to the General Obligation Bonds, or Appendix D-2 -- Form of Opinion of Bond Counsel relating to the 1992 A Special Obligation Bonds, as appropriate.

OPINIONS OF COUNSEL

The unqualified approving opinion as to the legality of the Bonds will be rendered by Warner & Stackpole of Boston, Massachusetts, Bond Counsel to the State Treasurer. The proposed form of the opinion of Bond Counsel relating to the General Obligation Bonds is attached as Appendix D-1, and the proposed form of opinion of Bond Counsel for the 1992 A Special Obligation Bonds is attached as Appendix D-2. Certain legal matters will be passed upon for the State Treasurer by Hale and Dorr of Boston, Massachusetts, as disclosure counsel to the State Treasurer. Certain legal matters will be passed upon for the Underwriters by their counsel, Palmer & Dodge of Boston, Massachusetts.

MISCELLANEOUS

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

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

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

CONTINUING DISCLOSURE

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

AVAILABILITY OF OTHER INFORMATION

Questions regarding this Official Statement or requests for additional financial information concerning the Commonwealth should be directed to Kenneth Olshansky, Director of Debt Management, Office of the Treasurer and Receiver-General, One Ashburton Place, Boston, Massachusetts 02108, telephone (617) 367-6900, or C. Christopher Alberti, Director of Debt Finance of the 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 request for copies of the Trust Agreement should be directed to George E. Curtis, Esq., Warner & Stackpole, 75 State Street, Boston, Massachusetts 02109, telephone (617) 951-9000.

THE COMMONWEALTH OF MASSACHUSETTS

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

By /s/ Peter Nessen
Peter Nessen
Secretary for Administration and Finance

June 10, 1992

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APPENDIX A

THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT

This Information Statement is furnished by The Commonwealth of Massachusetts (the "Commonwealth") in connection with the sale of its General Obligation Bonds, Consolidated Loan of 1992, Series A and Series B, and its Special Obligation Revenue Bonds, 1992 Series A (Special Obligation Revenue Highway Improvement Loan, Act of 1991)(collectively, the "Bonds"). It contains certain financial and economic information concerning the Commonwealth which may be of interest to prospective purchasers of such Bonds in considering the ability of the Commonwealth to meet its obligations. The ability of the Commonwealth to meet its obligations will be affected by, among other things, future social, environmental and economic conditions, as well as by questions of legislative policy and the financial condition of the Commonwealth. Many of these conditions are not within the control of the Commonwealth.

The date of this Information Statement is June 10, 1992.

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INTRODUCTORY STATEMENT

Commonwealth spending exceeded revenues in each of the four fiscal years commencing fiscal 1987. In particular, from 1987 to 1990, spending in five major expenditure categories -- Medicaid, debt service, public assistance, group health insurance and transit subsidies -- grew at rates in excess of the rate of inflation for the comparable period. In addition, the Commonwealth's tax revenues during this period repeatedly failed to meet official forecasts. For the budgeted funds, operating losses in fiscal 1987 and 1988, of $349 million and $370 million, respectively, were covered by surpluses carried forward from prior years. The operating losses in fiscal 1989 and 1990, which totalled $672 million and $1.251 billion, respectively, were covered primarily through deficit borrowings. During the period, fund balances in the budgeted operating funds declined from opening balances of $1.072 billion in fiscal 1987 to ending balances of negative $1.104 billion in fiscal 1990. See "OVERVIEW OF FINANCIAL RESULTS-- Fiscal Years 1987 Through 1990".

In fiscal 1991, which ended June 30, 1991, the total revenues of the budgeted operating funds of the Commonwealth increased by 13.5% over the prior year, to $13.878 billion. This increase was due chiefly to state tax rate increases enacted in July 1990 and to a substantial federal reimbursement under the Medicaid program for uncompensated patient care payments, as well as other factors. Expenditures also increased, although by only 3.1% over the prior year, to $13.899 billion. As a result, in fiscal 1991 the Commonwealth experienced an operating loss in the amount of $21.2 million. The Commonwealth ended fiscal 1991 with positive closing fund balances of $237.1 million, after applying the opening fund balances created from proceeds of the borrowing that financed the fiscal 1990 deficit. Of the fiscal 1991 year-end balances, $59.2 million has been reserved in the Commonwealth's Stabilization Fund, as required by state finance law. No deficit borrowing was required to close out fiscal 1991. See "OVERVIEW OF FINANCIAL RESULTS-- 1991 Fiscal Year".

On July 10, 1991 the Governor signed the Commonwealth's budget for fiscal 1992. At that time, the budget was based on projected total revenues of $13.032 billion, including projected tax revenues of $8.292 billion. These projections were 6.1% and 7.8% less than total revenues and total tax revenues, respectively, in fiscal 1991. The tax revenue estimate, which was generally considered to be conservative, was the product of an arrangement in which the Governor and the leadership of the Legislature agreed to decide jointly on an estimate of Commonwealth tax revenues and to produce a budget consistent with the joint estimate. As initially enacted, the fiscal 1992 budget provided for projected expenditures of $13.177 billion, which were to be funded from projected revenues plus approximately $145 million in estimated positive fund balances from fiscal 1991. The projected expenditures represented a decrease of 5.2% from fiscal 1991, before giving effect to inflation, and required major saving efforts in a number of Commonwealth programs.

In the first ten months of fiscal 1992 actual tax revenues have exceeded the original estimates. However, it appears that the Commonwealth will be unable to achieve certain of the asset sales, expenditure reductions and levels of non-tax revenues assumed in the fiscal 1992 budget. Consequently, the Executive Office for Administration and Finance has revised its projections of budgetary revenues and expenditures, most recently on May 21, 1992. The estimate of the fiscal 1992 budget is now based on projected total revenues of $13.579 billion, including projected tax revenues of $9.225 billion and non-tax revenues of $4.354 billion. Overall, fiscal 1992 budgetary revenues are expected to be 2.2% lower than in fiscal 1991, although tax revenues are projected to increase by 2.6%. The revised fiscal 1992 forecast assumes projected budgetary expenditures of $13.707 billion (including yet to be enacted supplemental appropriations totaling $333 million), representing a 1.4% decrease from fiscal 1991 budgetary expenditures. Overall, fiscal 1992 is expected to end with an operating loss of $127.5 million, but with positive budgetary fund balances totaling approximately $109.6 million, to be achieved through the use of $127.5 million of the $237.1 million of prior year ending fund balances. See "1992 FISCAL YEAR".

On April 14, 1992, the Legislature approved legislation containing budgetary spending authority totaling approximately $257 million. On April 24, 1992 the Governor approved $174 million of the budgetary spending authority contained in the legislation, but vetoed the remaining $83 million. The Legislature has overridden the Governor's veto with respect to $5.4 million of budgetary spending authority. There can be no assurance that all or an additional portion of the Governor's veto will not be overridden by the Legislature. In addition, the Administration anticipates the need for $333 million in supplemental appropriations, most of which have been filed with the Legislature. See "1992 FISCAL YEAR". On June 9, 1992 the House of Representatives overrode the Governor's veto of cost of living increases for certain Commonwealth, county and municipal retirees. It is estimated that these increases, which would be effective retroactive to January 1, 1992, would cost the Commonwealth $30 million in fiscal 1992, of which $15 million would be paid from pension reserves, and $60 million in fiscal 1993. The Senate has yet to take action on the Governor's veto.

On January 22, 1992, the Governor submitted to the Legislature his fiscal 1993 budget recommendation. See "1993 FISCAL YEAR BUDGET". The budget submission relies on projected total revenues of $13.952 billion, a 3.6% increase over projected fiscal 1992 revenues, in each case exclusive of certain interfund transfers. The fiscal 1993 revenue total includes estimated tax revenue of $9.150 billion, 0.8% lower than projected for fiscal 1992. Estimated fiscal 1993 tax revenues include the annualized impact of income tax reductions that went into effect on January 1, 1992, and further tax reductions and tax credits proposed by the Governor. The fiscal 1993 budget also relies on estimated non-tax revenues of $4.802 billion, an increase of 13.1% from that projected for the current year. See "COMMONWEALTH REVENUES". The proposed fiscal 1993 budget includes recommended spending of $13.992 billion, 3.1% higher than projected for fiscal 1992, in each case exclusive of certain interfund transfers. Proposed fiscal 1993 spending includes a number of significant policy initiatives, including a $200 million increase in aid for primary and secondary education, further reductions in certain entitlement programs and a proposal to increase the share of health care costs paid by state employees. See "COMMONWEALTH PROGRAMS AND SERVICES".

On March 11, 1992, the Governor submitted proposed legislation consisting of line item appropriations and so-called "outside sections" to his fiscal 1993 budget recommendation. In addition, the submission included certain minor adjustments in spending levels and revenue assumptions contained in his original fiscal 1993 budget proposal submitted on January 22, 1992. These adjustments, in the aggregate, increase proposed fiscal 1993 spending by approximately $30 million.

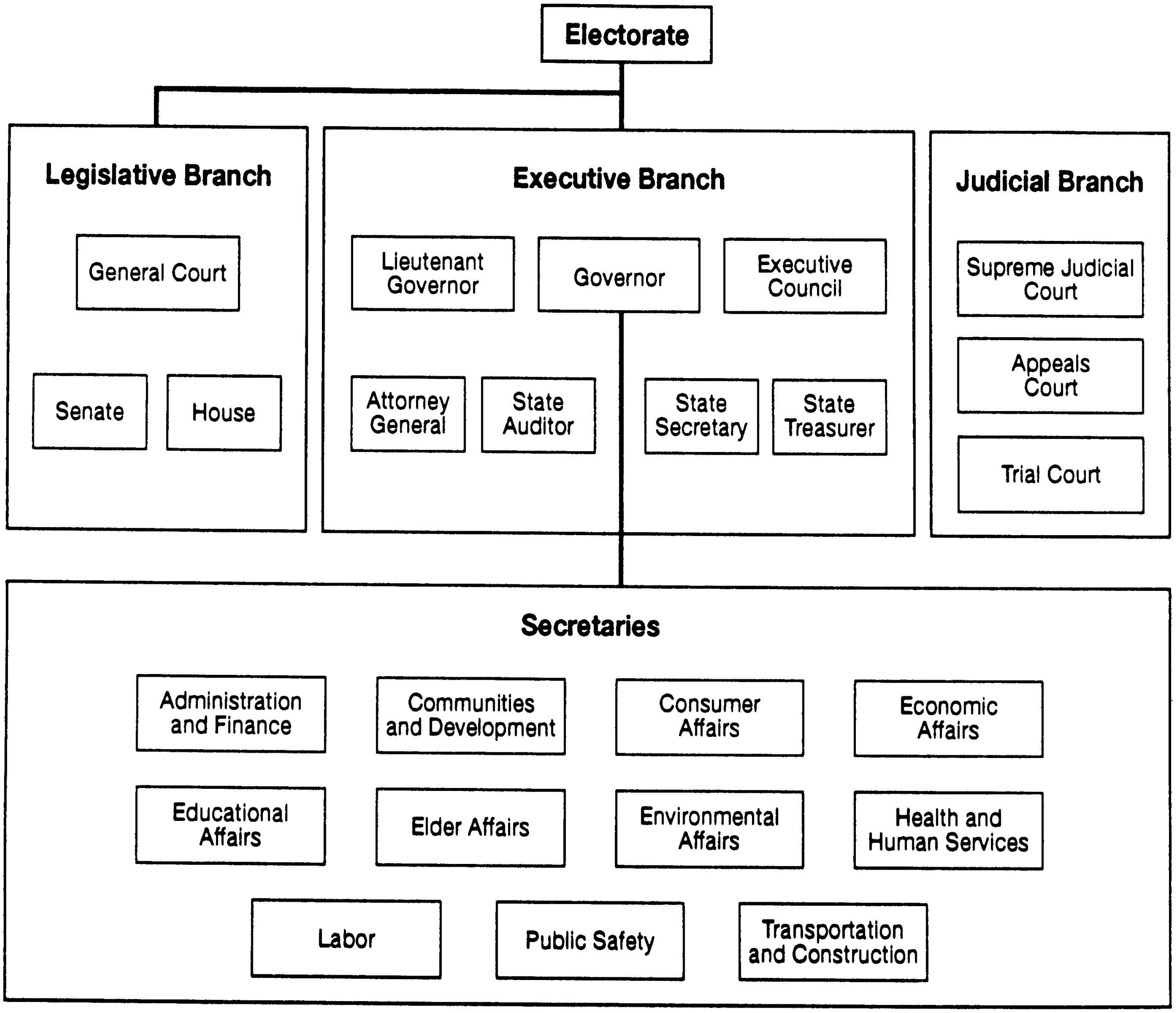
On May 13, 1992, the chairpersons of the House and Senate Ways and Means Committee and the Secretary for Administration and Finance jointly endorsed an estimate of tax revenues for fiscal 1993 of $9.685 billion, an increase of $460 million, or 5.0%, from estimated tax revenues for fiscal 1992, and an increase of $535 million, or 5.8%, over the tax revenue estimate used in the Governor's initial budget recommendation for fiscal 1993. The jointly endorsed estimate of tax revenues for fiscal 1993 does not include the annualized impact of the income and other tax reductions and credits proposed by the Governor, which the Executive Office for Administration and Finance estimates to be $192 million. See "1993 FISCAL YEAR BUDGET".

On May 29, 1992, the House of Representatives approved its version of the fiscal 1993 budget, which is estimated by the Executive Office for Administration and Finance to exceed $15.0 billion in expenditures. The House budget relies on the consensus tax revenue estimate of $9.685 billion and does not assume the enactment of the income tax reduction and business tax credits proposed by the Governor. The policies and programs funded in the House budget differ in a number of significant respects from the budget filed by the Governor. See "1993 FISCAL YEAR BUDGET".

The Senate will now consider its version of the fiscal 1993 budget. The Governor is committed to the enactment of a balanced fiscal 1993 budget, and the Governor has stated that he will, if necessary, utilize his power to veto specific line items in the budget to achieve this result. See "1993 FISCAL YEAR BUDGET".

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. A new Governor, Lieutenant Governor, State Treasurer and Attorney General took office in January 1991.

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.

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 77.8% of the Commonwealth's fiscal 1992 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 1992 program expenditures in the budgeted operating funds attributable thereto:

Executive Offices

Executive Office	Secretary	Approximate Percentage of Total Expenditures Supervised
Administration and Finance(1)	Peter Nessen	6.2
Communities and Development	Mary L. Padula	1.5
Consumer Affairs and Business Regulation	Gloria C. Larson	0.2
Economic Affairs	Stephen P. Tocco	0.2
Educational Affairs	Piedad F. Robertson	14.6
Elder Affairs	Franklin P. Ollivierre	0.9
Environmental Affairs	Susan F. Tierney	1.0
Health and Human Services	David P. Forsberg	44.1
Labor	Christine E. Morris	0.2
Public Safety	Thomas C. Rapone	4.4
Transportation and Construction	Richard L. Taylor	4.6

SOURCE: Executive Office for Administration and Finance.

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

Approximately 3.4% of the Commonwealth's fiscal 1992 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 the 18.8% balance of fiscal 1992 expenditures, including a portion of the Commonwealth's aid to local governments, as well as debt service and pension costs. See "*State Treasurer*" below.

The Governor's chief fiscal officer is the Secretary for Administration and Finance. The activities of the Executive Office for Administration and Finance fall within four 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; and (iv) capital facilities management, including coordinating and overseeing the construction, management and leasing of all state facilities.

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 "ACCOUNTING AND CONTROLS".

State Treasurer. The State Treasurer has four primary statutory responsibilities: (i) the collection of all state revenues (other than small amounts of funds held by certain agencies); (ii) the management of both short-term and long-term investments of Commonwealth funds, including all cash receipts and state employee and teacher pension funds (other than pension reserves); (iii) the disbursement of Commonwealth moneys and oversight of reconciliation of the state's accounts; and (iv) the issuance of all short and long-term debt obligations of the Commonwealth, including notes, commercial paper and long-term bonds. Of the 18.8% of the Commonwealth's fiscal 1992 expenditures in the budgeted operating funds that are allocated to the Office of the State Treasurer, 5.8% is for state aid to cities, towns and regional school districts ("Local Aid"), 6.9% is for debt service and 5.5% is for pension costs. The remaining 0.6% of expenditures under the supervision of the State Treasurer includes administrative costs for the state lottery and certain other obligations.

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

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

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

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

Legislative Branch

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

The House of Representatives must originate any bill which imposes a tax. Once a tax bill is originated by the House and forwarded to the Senate for consideration, the Senate may amend it. All bills are presented to the Governor for his 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 reenactment at which point the Governor has no further right to return the bill a second time with a recommendation to amend.

Overview of the 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 General Court a budget which must contain a statement of all proposed expenditures of the Commonwealth for the fiscal year, including those already authorized by law, and of all taxes, revenues, loans and other means by which such expenditures shall be defrayed. By law, 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. This law, however, may be superseded by an appropriation act.

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

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

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

Various procedures required by state finance law are used by the Commonwealth to monitor revenues and expenditures during the fiscal year. For example, quarterly revenue estimates are required to be made by the Secretary of Administration and Finance. 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 he is 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.

The Governor's use of the Section 9C power to withhold allotments has been challenged by litigation. In May 1990 the Massachusetts Supreme Judicial Court overruled 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.

The Governor recently has announced certain new initiatives to improve the budgetary process. In August 1991 the administration announced the development of a five-year capital spending plan and the introduction of a set of capital spending controls. See "COMMONWEALTH PROGRAMS AND SERVICES -- Debt Service" and "ACCOUNTING AND CONTROLS -- Capital Spending Controls". In addition, the Governor's proposed budget for fiscal 1993, which was made public on January 22, 1992, proposed that budgets be set according to program budgeting rather than traditional line-item budgeting. See "1993 FISCAL YEAR BUDGET".

Judicial Branch

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

Independent Authorities and Agencies

Within the Commonwealth several independent authorities and agencies have been established by the Legislature, the budgets of which are not included in the Commonwealth's annual budget. The Commonwealth appropriates funds for operating assistance and/or debt service payments, and is liable for the outstanding debt of certain of these authorities and agencies, such as the Massachusetts Bay Transportation Authority, the Boston Metropolitan District, the Massachusetts Convention Center Authority and the Massachusetts Government Land Bank. The Commonwealth guarantees debt issued by four higher education building authorities, the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority and various regional transit and local housing authorities and may be called upon to provide capital reserve funding for the Massachusetts Housing Finance Agency and the Massachusetts Home Mortgage Finance Agency. See "AUTHORITIES AND AGENCIES". 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, the Massachusetts Industrial Finance Agency, the Massachusetts Port Authority, the Massachusetts Turnpike Authority and the Massachusetts Water Resources Authority.

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 initiative petition known as Proposition 2½, most local governments experienced a severe decline in their property tax receipts and were 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 -- Limitations on Tax Revenues" and "COMMONWEALTH PROGRAMS AND SERVICES -- Local Aid".

OVERVIEW OF FINANCIAL RESULTS

The Commonwealth's fund structure satisfies the requirements of state finance law (statutory basis) and is also in accordance with generally accepted accounting principles ("GAAP"). 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. The three principal budgeted operating funds are the General Fund, the Highway Fund and the Local Aid Fund. Expenditures from these three funds generally account for approximately 98% of total expenditures of the budgeted operating funds.

State finance law provides for a Stabilization Fund relating to the use of fiscal year-end surpluses. In essence, state finance law places a limitation equal to 0.5% of total tax revenues on the amount of any surplus in the Commonwealth's three principal budgeted operating funds that can 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. The Stabilization Fund is to be maintained as a reserve 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. Amounts can be accumulated in the Stabilization Fund of up to 5% of total state tax revenues; 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 annual budget of the Commonwealth is adopted in accordance with the statutory basis of accounting defined by state finance law, and public and governmental discourse on the financial affairs of the Commonwealth traditionally has followed the statutory basis of accounting. Consequently, the financial information set forth in this document follows the statutory basis, except where otherwise noted. For fiscal 1990 and 1991 the Commonwealth prepared separate audited financial reports on the statutory basis and on the GAAP basis. The Commonwealth's Comprehensive Annual Financial Report for fiscal 1990, from which certain information contained in this Information Statement has been derived, was awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada ("GFOA"). The financial statements for fiscal 1991 prepared on a statutory basis, as presented in the Statutory Basis Report, are set forth in Exhibit B, and the financial statements for fiscal 1991 prepared on a GAAP basis, as presented in the Comprehensive Annual Financial Report, are set forth in Exhibit C. For a description of the differences between statutory basis and GAAP basis accounting, as well as selected financial information for fiscal years 1987 through 1991 presented on a GAAP basis, see "ACCOUNTING AND CONTROLS -- Fiscal Control, Accounting and Reporting Practices of the Comptroller".

Selected Financial Data - Statutory Basis

The following table sets forth audited Commonwealth revenues and expenditures presented on a statutory basis for the budgeted operating funds in fiscal 1987 through 1991 and estimates for fiscal 1992 by the Executive Office for Administration and Finance. The financial information presented includes all budgeted operating funds, not simply the three principal operating funds. When the status of a fund has changed during this period, prior years have been restated to conform to the fiscal 1992 budget. More detailed information with respect to each of fiscal years 1987 through 1992 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 1987	Fiscal 1988	Fiscal 1989	Fiscal 1990	Fiscal 1991	Estimated Fiscal 1992
Beginning Fund Balances						
Reserved or Designated	$ 369.7	$ 567.7	$ 170.3	$ 124.9	$ 174.5	$ 119.8
Stabilization Fund(1)	---	70.3	112.3	---	---	59.2
Undesignated	702.0	85.1	70.6	(444.2)	(1,278.9)	58.1
Total	1,071.7	723.1	353.2	(319.3)	(1,104.4)	237.1
Revenues and Other Sources						
Taxes	8,102.1	8,274.9	8,815.4	8,517.7	8,994.9	9,225.0
Federal reimbursements	1,265.7	1,493.8	1,542.0	1,717.5	2,777.1(2)	2,459.7(2)
Departmental and other revenues	881.0	968.7	1,069.8	1,255.6	1,384.7	1,105.7
Interfund transfers and other sources(3)	455.6	707.7	761.4	732.4	721.2	789.0
Total revenues and other sources	10,704.4	11,445.1	12,188.6	12,223.2	13,877.9	13,579.4
Expenditures and Uses						
Programs and services	9,737.2	10,523.5	11,422.8	11,894.1	12,124.3	11,895.3(4)
Debt service	524.1	563.7	649.8	770.9	942.3	935.4
Pensions	622.4	600.2	659.7	671.9	703.9	746.2
Interfund transfers and other uses(3)	169.3	127.6	128.8	137.8	128.6	130.0
Total expenditures and other uses	11,053.0	11,815.0	12,861.1	13,474.7	13,899.1	13,706.9
Excess (deficiency) of revenues and other sources over expenditures and other uses	(348.6)	(369.9)	(672.5)	(1,251.5)	(21.2)	(127.5)
Prior year deficit financing	---	---	---	466.4	1,362.7	---
Ending Fund Balances						
Reserved or Designated	567.7	170.3	124.9	174.5	119.8	6.3
Stabilization Fund(1)	70.3	112.3	---	---	59.2	59.2
Undesignated	85.1	70.6	(444.2)	(1,278.9)	58.1	44.1
Total	$ 723.1	$ 353.2	$ (319.3)	$(1,104.4)	$237.1	$ 109.6

SOURCE: Fiscal 1987-1991, Office of the Comptroller. Estimated fiscal 1992, Executive Office for Administration and Finance.

(1) Stabilization Fund balances are not expendable without subsequent specific legislative authorization.

(2) Includes $513 million and an estimated $172 million for fiscal 1991 and 1992, respectively, in federal reimbursements resulting from claims for reimbursement of certain uncompensated care for

Massachusetts hospitals, pursuant to a recent change in federal law. See "1991 Fiscal Year" below and "1992 FISCAL YEAR -- Overview of Fiscal 1992 Budget".

(3) Fund deficit support transfers of $361.2 million, $231.0 million and $234.8 million in fiscal 1987, 1988 and 1991, respectively, and an estimated fund deficit support transfer of $578 million for fiscal 1992, have been eliminated to facilitate comparative analysis. See "COMMONWEALTH REVENUES -- Federal and Other Non-Tax Revenues".

(4) Reflects approximately $333 million of supplemental appropriations expected to be enacted prior to the end of fiscal 1992. See "1992 FISCAL YEAR -- Overview of Fiscal 1992 Budget".

Total annual revenues in the budgeted operating funds increased at annual rates of approximately 6.9% in fiscal 1988, 6.5% in fiscal 1989 and less than 1% in fiscal 1990. Total annual revenues increased from fiscal 1990 to fiscal 1991 by approximately 13.5% and are projected to decrease from fiscal 1991 to fiscal 1992 by approximately 2.2%. Total annual expenditures in the budgeted operating funds increased at annual rates of approximately 6.9% in fiscal 1988, 8.9% in fiscal 1989, 4.8% in fiscal 1990 and 3.1% in fiscal 1991. Total annual expenditures in the budgeted operating funds are estimated to decrease from fiscal 1991 to fiscal 1992 by approximately 1.4%. Fund balances in the budgeted operating funds declined from opening balances of $1.072 billion in fiscal 1987 to ending balances of negative $1.104 billion in fiscal 1990 and positive ending balances for fiscal 1991 of $237.1 million, of which $59.2 million has been reserved in the Commonwealth's Stabilization Fund pursuant to state finance law. It is estimated that fiscal 1992 will end with a positive balance of $109.6 million, including $59.2 million in the Stabilization Fund.

Under the GAAP basis of accounting, the fund balances at the beginning of fiscal 1987 were $703.1 million but have declined to a deficit position of $761.2 million at the end of fiscal 1991. For a discussion of financial information for fiscal 1987, 1988, 1989, 1990 and 1991 presented on a GAAP basis, see "ACCOUNTING AND CONTROLS -- Fiscal Control, Accounting and Reporting Practices of Comptroller; GAAP Basis of Accounting".

Fiscal Years 1987 Through 1990

1987 Fiscal Year. Expenditures for fiscal 1987 totalled approximately $11.053 billion. Revenues totalled approximately $10.704 billion. By drawing on fund balances from prior years, the Commonwealth ended fiscal 1987 with positive fund balances. Fiscal 1987 tax revenues exceeded the limit on state revenues imposed by Chapter 62F of the General Laws, resulting in an estimated $29.2 million being made available to taxpayers in the form of a tax credit against tax year 1987 personal income tax liability. See "COMMONWEALTH REVENUES -- Limitations on Tax Revenues".

1988 Fiscal Year. Expenditures for fiscal 1988 totalled approximately $11.815 billion. Revenues for fiscal 1988 totalled approximately $11.445 billion. The Commonwealth ended fiscal 1988 with positive fund balances, again by drawing on fund balances from prior years.

1989 Fiscal Year. Expenditures for fiscal 1989 totalled approximately $12.861 billion. Revenues totalled approximately $12.189 billion. The fiscal 1989 operating loss equalled $672.5 million. With fund balances from prior years depleted, the Commonwealth ended the fiscal year with fund balances in deficit by $319.3 million. A related cash deficit as of the end of fiscal 1989 forced the State Treasurer to defer until fiscal 1990 certain fiscal 1989 disbursements, including the payment of approximately $305 million in Local Aid. In order to fund the fiscal 1989 deficit, legislation was enacted in July 1989 authorizing a borrowing payable by January 31, 1991 of not more than $475 million. The Legislature separately authorized certain Medicaid-related borrowings and direct expenditures to pay $488 million for services provided to recipients of the Medicaid program in fiscal years prior to fiscal 1990. See "COMMONWEALTH PROGRAMS AND SERVICES -- Medicaid and Group Health Insurance". Under these authorizations the Commonwealth issued $466.4 million of notes to fund a portion of the fiscal 1989 deficit and $244 million of Medicaid-related notes, all of which matured and were paid on or before January 15, 1991. Revenues to pay these notes were provided through certain income tax rate increases included in the July 1989 legislation. See "COMMONWEALTH REVENUES -- State Taxes".

1990 Fiscal Year. Expenditures for fiscal 1990 totalled approximately $13.474 billion, against total revenues of approximately $12.223 billion, resulting in an operating loss of approximately $1.251 billion and with a deficit at the end of the fiscal year of $1.104 billion. The fiscal 1990 deficit was financed, in arrears in the following year, from the $1.363 billion proceeds of Fiscal Recovery Bonds authorized by legislation enacted in July 1990. See "COMMONWEALTH LIABILITIES -- Bond and Note Liabilities". Retroactive application of the proceeds of such financing would have resulted in fiscal 1990 positive closing balances of $258.3 million, on an adjusted basis. In order to conserve cash at the end of the fiscal year, the Commonwealth deferred until fiscal 1991 the payment of approximately $1.26 billion of Local Aid due in fiscal 1990.

In July 1989 the Governor vetoed certain provisions included in the budget legislation for fiscal 1990, including approximately $273 million of appropriations. One of these vetoes occasioned a default by the Commonwealth on a payment of $2.5 million due September 1, 1989 on a general obligation basis to the Massachusetts Community Development Finance Corporation, to which the full faith and credit of the Commonwealth had been pledged. After the enactment of a supplemental appropriation in the amount of $2.5 million to meet such payment, the payment was made on September 17, 1990.

1991 Fiscal Year

Total expenditures for fiscal 1991 were $13.899 billion. Total revenues for fiscal 1991 were $13.878 billion, resulting in a $21.2 million operating loss. Application of the adjusted fiscal 1990 fund balances 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 ending balances of $237.1 million be placed in the Stabilization Fund. Amounts credited to the Stabilization Fund are not generally available to defray current year expenses without subsequent specific legislative authorization. See "OVERVIEW OF FINANCIAL RESULTS".

The budget for fiscal 1991 enacted on August 1, 1990 included estimated spending of $13.923 billion, representing an increase of 3.3%, or $448.3 million above fiscal 1990 spending. Tax revenues at the time of the budget's enactment were estimated to be $9.748 billion, including $1.162 billion expected to result from then recently enacted tax legislation. Actual revenues for the first two months of fiscal 1991 were lower than anticipated. Revenue estimates for the remainder of the fiscal year were subsequently revised downward twice during September 1990. In that month tax revenue estimates were revised to $9.284 billion, $464 million below original estimates, and the Governor used powers granted to him by Section 9C of Chapter 29 of the General Laws to reduce appropriated spending.

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 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 million less than was estimated at the time the fiscal 1991 budget was adopted. The Governor proposed a series of legislative and administrative actions, including withholding of allotments under Section 9C, designed to eliminate the projected deficit. To address the projected deficit, a number of legislative measures were enacted, including a state employee furlough program, and the Governor took certain other administrative actions not requiring legislative approval. It is estimated that spending reductions achieved through savings initiatives and withholding of allotments totalled $484.3 million for fiscal 1991.

In addition to reducing spending to close the projected budget deficit, the new administration, in May 1991, filed an amendment to its Medicaid state plan which enabled it to claim 50% federal reimbursement on uncompensated care payments provided to certain hospitals in the Commonwealth. As a result, in fiscal 1991, the Commonwealth obtained additional non-tax revenues in the form of federal reimbursements equal to approximately $513 million on account of uncompensated care payments. This reimbursement claim was based upon recent amendments of federal law contained in the Omnibus Budget Reconciliation Act of 1990 and, consequently, on relatively undeveloped federal laws, regulations and guidelines. At the request of the federal Health Care Financing Administration, the Office of Inspector General of the United States Department of Health and Human Services has commenced an audit of the reimbursement. The administration, which had reviewed the matter with the Health Care Financing Administration prior to claiming the reimbursement, believes that the Commonwealth will prevail in the audit. Should it not prevail, the Commonwealth would have the right to contest and appeal but could be required to repay all or part of the Medicaid reimbursement, with interest, or to have such amount deducted from future reimbursement payments.

Year-end Cash Flow. After payment in full of the Local Aid distribution of $1.018 billion due on June 28, 1991, retirement of all the Commonwealth's outstanding commercial paper and repayment of certain other short-term borrowings, as of June 30, 1991, the end of fiscal 1991, the Commonwealth had a cash balance of $182.3 million. The fiscal 1991 year-end cash position compared favorably to the Commonwealth's cash position at the end of the prior fiscal year, June 30, 1990, when the Commonwealth's cash shortfall would have exceeded $1.1 billion had payment of Local Aid not been postponed.

1992 FISCAL YEAR

Development of Fiscal 1992 Budget

On February 27, 1991, the Governor submitted a fiscal 1992 budget recommendation of $13.888 billion. This recommended spending level was approximately $1.5 billion less than the total expenditures required to maintain services at then-current levels. The Governor's budget recommendation was based on a tax revenue estimate of $9.233 billion. The budget proposal submitted by the Governor included savings initiatives and program cuts to bring spending into line with projected available revenues and to curb the rate of growth in certain major spending programs.

Commencing in March 1991, the Governor, the Secretary of Administration and Finance, the Senate President, the Speaker of the House and the chairpersons of the Senate and House Ways and Means Committees met on a weekly basis to discuss the fiscal condition of the Commonwealth and to exchange ideas concerning the adoption of an appropriate budget plan for fiscal 1992. In the second week of April, the prospect of a softening economy, decreased employment levels and lower tax revenue expectations led the Governor to direct the Secretary of Administration and Finance to develop contingency plans to reduce the Governor's budget recommendations for fiscal 1992. On May 2, 1991, the Secretary of Administration and Finance and the other members of the Governor's cabinet appeared before the House Ways and Means Committee to present the Governor's additional recommendations for fiscal 1992 budget balancing measures of approximately $800 million in the aggregate.

On May 1, 1991, special subcommittees of the House and Senate Ways and Means Committees and the Secretary for Administration and Finance held a public hearing to solicit testimony from private sector representatives concerning the Massachusetts economic and tax revenue forecasts for fiscal 1992. Representatives from three private sector organizations presented their estimates as of the hearing date for fiscal 1992 tax revenues of the Commonwealth. The president of New England Economic Project estimated fiscal 1992 tax revenues at $8.27 billion, the Massachusetts Taxpayers Foundation estimated $8.69 billion and DRI/McGraw-Hill estimated $8.795 billion.

On May 9, 1991, the chairpersons of the House and Senate Ways and Means Committees and the Secretary for Administration and Finance jointly endorsed an estimate of tax revenues for fiscal 1992 of $8.292 billion, a decrease of $544.7 million, or 6.2%, from then-estimated tax revenues for fiscal 1991 and a decrease of $941 million, or 10.2%, from the tax revenue estimate used in the Governor's initial budget recommendations for fiscal 1992. The joint fiscal 1992 tax revenue estimate assumed that in calendar 1991 and 1992 the Commonwealth's unemployment rate would continue to increase, peaking at more than 11%, personal income in the Commonwealth would grow at a rate of less than 1% and total wages and salaries in the Commonwealth would contract. The estimate was believed to be conservative. See "COMMONWEALTH REVENUES -- Tax Revenue Forecasting".

On June 30, 1991, the Legislature passed the fiscal 1992 budget and presented it to the Governor. The budget passed by the Legislature was consistent with the joint tax revenue estimate but differed in several significant respects from the Governor's programmatic recommendations. On July 10, 1991, the Governor signed into law the Legislature's budget, subject to certain veto actions.

Overview of Fiscal 1992 Budget

As signed by the Governor on July 10, 1991, the budget for fiscal 1992 was based on estimated total revenues of $13.032 billion (including estimated tax revenues of $8.292 billion, which was $703 million less than tax revenues for fiscal 1991) and total estimated expenditures of $13.177 billion (including, at that time, approximately $537 million in anticipated supplemental appropriations). The fiscal 1992 budget was projected to end the year with a small positive balance through the use of $145 million in estimated positive balances from fiscal 1991.

With regard to revenues, the fiscal 1992 budget as signed depended on non-tax and one-time revenue sources, such as the sale of certain assets, the availability of which was subject to certain contingencies. The fiscal 1992 budget as signed assumed continued federal reimbursements related to uncompensated care payments. The federal Health Care Financing Administration has published regulations to become effective October 1, 1992 that are not expected to materially affect these reimbursements in fiscal 1992 and it is currently expected that the amount of such federal reimbursements in fiscal 1992 will be $172 million. See "OVERVIEW OF FINANCIAL RESULTS -- 1991 Fiscal Year".

The fiscal 1992 budget also assumed that the sale of certain assets would generate approximately $231 million in non-tax revenues. However, legislation required for certain aspects of these dispositions was pending, there were no agreements to sell such assets, and the market for some or all of such assets was unfavorable. These conditions still exist as of the date of this Information Statement. The budget also assumed receipt of approximately $120 million from the Massachusetts Water Resources Authority ("MWRA") under an arrangement which would, among other things, relieve the MWRA of certain comparable future financial commitments to the Commonwealth.

With regard to spending, the budget made large reductions in appropriations for certain programs such as Medicaid, General Relief, and Group Health Insurance, where spending has been difficult to control in the past.

The fiscal 1992 budget contained a Medicaid appropriation that was approximately $400 million less than was projected to be required to fund the Medicaid program in the absence of any restructuring and was less than fiscal 1991 expenditures for the program. In an effort to curb spiralling costs, the fiscal 1992 budget also granted the administration considerable discretion to restructure the Medicaid program. With a goal of achieving $400 million in savings, the administration developed Medicaid management initiatives in four areas: operations, provider rates, managed care and long term care. 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 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 expected to reduce expenditures in fiscal 1992 by 18.7% from spending levels in fiscal 1991 for the General Relief program. See "COMMONWEALTH PROGRAMS AND SERVICES -- Medicaid and Group Health Insurance; Public Assistance".

Revised Fiscal 1992 Forecast

The Executive Office for Administration and Finance has revised its fiscal 1992 estimates of budgetary revenues and expenditures, most recently on May 21, 1992.

In the first ten months of fiscal 1992 actual tax revenues exceeded original estimates. Revised estimates now project total revenues for fiscal 1992 of $13.579 billion, including projected tax revenues of $9.225 billion. These revised revenue projections are 2.2% less and 2.6% greater than total revenues and total tax revenues, respectively, for fiscal 1991. Tax revenue estimates have been revised upward by some $933 million since July 1991. While tax revenue estimates have increased, estimates of projected non-tax revenues have declined by $386 million. The reduction in estimated non-tax revenues is due to several factors: it is unlikely that certain sales of assets, which were contingent on, among other things, legislative approval, will be achieved during fiscal 1992 and it is currently estimated that asset sales in fiscal 1992 will generate approximately $16 million; and litigation brought by the MWRA, its advisory board and others seeks, among other things, to enjoin the $120 million payment by the MWRA and materially threatens the ability of the Commonwealth to obtain this payment during fiscal 1992. As a consequence of higher estimated tax revenue and lower estimated non-tax revenues, the revised forecast for fiscal 1992 yields an estimated net increase in available fiscal 1992 revenues of $547 million over initial estimates.

The Commonwealth's revised fiscal 1992 forecast estimates budgetary expenditures of $13.707 billion, including interfund transfers and $333 million in yet to be enacted supplemental appropriations, which is $530 million more than initial estimates of budgetary expenditures. A large portion of the increase in projected spending compared to the initial July 1991 estimate is the result of projected increases in certain human services programs, including an increase of $277 million for the Medicaid program and $49 million for mental retardation consent decree requirements. The revised estimate for fiscal 1992 expenditures is $192 million, or 1.4% lower than fiscal 1991 budgetary expenditures.

On April 14, 1992, the Legislature approved legislation containing budgetary spending authority totaling approximately $257 million. On April 24, 1992 the Governor approved $174 million of the budgetary spending authority contained in the legislation, but vetoed the remaining $83 million. The Legislature has overridden the Governor's veto with respect to $5.4 million of budgetary spending authority, and there can be no assurance that the Governor's veto of the remaining spending authority will not be overridden by the Legislature.

The Administration anticipates the need for $333 million in supplemental appropriations, including $260 million for increased expenditures for the Medicaid program and $17 million for increased Medicaid spending derived from certain retained revenues. Due to the fact the supplemental appropriation for the Medicaid program has yet to be approved, the Department of Public Welfare has exceeded its spending authorization for that program. The Commonwealth is continuing to fund the Medicaid program without the approval of the supplemental appropriation.

On June 9, 1992 the House of Representatives overrode the Governor's veto of cost of living increases for certain Commonwealth, county and municipal retirees. It is estimated that these increases, which would be effective retroactive to January 1, 1992, would cost the Commonwealth $30 million in fiscal 1992, of which $15 million would be paid from pension reserves. The Senate has yet to take action on the Governor's veto.

Overall, fiscal 1992 is expected to end with an operating loss of $127.5 million, but with positive budgetary fund balances of approximately $109.6 million, to be achieved through the use of $127.5 million of the $237.1 million of prior year ending fund balances.

Cash Flow

The State Treasurer currently estimates that fiscal 1992 will show a year-end cash position of approximately $198.3 million. This estimate assumes the issuance of $240 million of general obligation notes prior to June 30, 1992, which issuance requires legislative authorization. The ending balance included in the cash flow forecast and the estimated ending balance for the Commonwealth's operating budget will differ due to timing differences and the effect of certain non-budget items. At June 10, 1992, outstanding commercial paper obligations stood at $175.7 million.

1993 FISCAL YEAR BUDGET

Governor's Budget Recommendation

On January 22, 1992, the Governor submitted his fiscal 1993 budget recommendation of $13.992 billion. This recommended spending level is approximately $415 million, or 3.1%, over fiscal 1992's estimated state spending level of $13.577 billion, exclusive of certain interfund transfers. Proposed expenditures for fiscal 1993 would exceed proposed revenues by approximately $40 million, which operating loss would be reduced to zero by application of a portion of the estimated fiscal 1992 ending fund balances. The Governor's budget recommendation is based on a tax revenue estimate of $9.150 billion, a decrease of approximately $75 million, or less than 1%, from estimated fiscal 1992 tax revenues of $9.225 billion. The reduction in estimated tax revenues in fiscal 1993 is attributable in part to reduction in the Commonwealth's personal income tax rate on earned income and certain other income from 6.25% to 5.95%, which took effect on January 1, 1992, and on the assumption that a proposed further reduction in that rate to 5.75% will be adopted retroactive to the same date; the rate reductions are estimated to decrease fiscal 1993 tax revenues by $210 million and $140 million, respectively. The fiscal 1993 reduction in estimated tax revenues is also attributable in part to proposed new tax credits which are estimated to reduce tax revenues by approximately $52 million in fiscal 1993. See "COMMONWEALTH REVENUES -- State Taxes".

On May 13, 1992, the chairpersons of the House and Senate Ways and Means Committee and the Secretary of Administration and Finance jointly endorsed an estimate of tax revenues for fiscal 1993 of $9.685 billion, an increase of $460 million, or 5.0%, from estimated tax revenues for fiscal 1992, and an increase of $535 million, or 5.8%, over the tax revenue estimate used in the Governor's initial budget recommendation for fiscal 1993. The jointly endorsed estimate of tax revenues for fiscal 1993 does not include the annualized impact of the income and other tax reductions and credits proposed by the Governor, which the Executive Office for Administration and Finance estimates to be $192 million.

Under the Governor's budget recommendation, non-tax revenues were estimated to increase to $4.802 billion in fiscal 1993, approximately $578 million, or 13.7%, over estimated non-tax revenues for fiscal 1992. Such non-tax revenues would include federal reimbursements related to uncompensated care payments ($184 million), proceeds from the sale of certain state assets ($100 million), including the state transportation building in Boston, and one-time financing savings ($120 million) from the completion in fiscal 1993 of a debt swap with the MWRA formerly expected to be completed in fiscal 1992. See "LITIGATION". Other non-tax revenue increases in the Governor's budget recommendation include: $104 million from certain changes in the state's abandoned property law proposed by the State Treasurer, $87 million from a variety of Registry of Motor Vehicle initiatives, $42 million from a proposal to consolidate state transportation activities, $40 million from proposed off-track betting and the implementation, through the State Lottery Commission, of video poker and $54 million from other non-tax revenue initiatives. Approximately $300 million to $350 million of these non-tax revenue increases are dependent on legislative approvals and on other factors. In addition, up to $137 million of the $184 million assumed as federal reimbursements related to uncompensated care payments would be due to the Commonwealth after October 1, 1992, the effective date of new federal Health Care Financing Administration regulations. In order to comply with the new regulations, and thereby ensure receipt of this portion of the federal reimbursements for uncompensated care payments, the Legislature would have to approve legislation making technical changes to the Commonwealth's Medicaid program. No assurance can be given that any of the required legislative approvals will be obtained, or that any of the other factors necessary to meet these estimates will exist. See "1992 FISCAL YEAR -- Overview of Fiscal 1992 Budget; Revised Fiscal 1992 Forecast".

The Governor's fiscal 1993 budget proposal, as submitted in January, would increase expenditures by $415 million, or 3.1%, over the estimated fiscal 1992 spending level. The proposed increase results from increases of $877 million reduced by proposed decreases of $462 million. Of the $877 million in proposed increases, $571 million is attributable to increased non-discretionary spending, including pensions ($55 million), debt service ($289 million), MBTA assistance ($80 million), Medicaid ($54 million) and Aid to Families with Dependent Children ("AFDC") ($68 million). Discretionary increases in other areas of $306 million, including $200 million in increased education spending, account for the balance of the increases. Approximately $216 million of the Governor's recommended spending reductions would require legislative approval in areas where such approval was denied in fiscal 1992, including group health insurance ($71 million), retirement incentives ($50 million), EAEDC ($71 million) and Medicaid ($24 million). The Governor's recommendation also presumes that wage levels for Commonwealth employees will remain unchanged through fiscal 1993. In December 1991 certain negotiated increases received legislative approval but were not approved by the Governor. See "COMMONWEALTH PROGRAMS AND SERVICES" and "LITIGATION".

On March 11, 1992, the Governor submitted proposed legislation consisting of line item appropriations and so-called "outside sections" to his fiscal 1993 budget recommendation. The submission included certain minor adjustments in spending levels and revenue assumptions contained in his original fiscal 1993 budget proposal submitted on January 22, 1992. These adjustments, in the aggregate, increase proposed fiscal 1993 spending by approximately $30 million. In addition, the House of Representatives has overridden the Governor's veto of cost of living increases for certain Commonwealth, county and municipal retirees. It is estimated that these increases would cost the Commonwealth an additional $60 million in fiscal 1993. The Senate has yet to take action on the Governor's veto.

On May 29, 1992, the House of Representatives approved its version of the fiscal 1993 budget, which is estimated by the Executive Office for Administration and Finance to exceed $15.0 billion in expenditures. The House budget relies on the consensus tax revenue estimate of $9.685 billion and does not assume the enactment of the income tax reduction and business tax credits proposed by the Governor. The House budget would reduce certain tax revenues assumed in the Governor's proposed budget by approximately $40.0 million in the aggregate primarily through a reduction in the estate tax and the establishment of a job creation tax credit. The House budget includes various program expansions and initiatives beyond those proposed by the Governor, including substantial "pay-as-you-go" financing for local highway and infrastructure construction, expanded funding of rental housing subsidies, and a requirement that the Commonwealth fund certain increased costs of municipalities resulting from land fill closings.

The Senate will now consider its version of the fiscal 1993 budget. A conference committee will then be named to resolve the differences between the House and Senate versions of the fiscal 1993 budget. The Governor is committed to the enactment of a balanced fiscal 1993 budget, and the Governor has stated that he will, if necessary, utilize his power to veto specific line items in the budget to achieve this result.

Program Budgeting

The Governor's budget recommendation for fiscal 1993 utilizes a new system of program and performance budgeting. This method of budgeting seeks to base budget allocations on the services that state programs deliver and their measurable results. This method differs significantly from the budgetary framework used by the Commonwealth in the past. Among the significant attributes of program budgeting are: (i) an attempt to focus state managers on the operations and services they provide as the starting point for developing their budgets; (ii) greater management flexibility designed to bring greater accountability to state managers; (iii) a four-year financial plan designed to show how current year spending decisions affect future year spending obligations; (iv) replacement of line items with agency-based appropriations for new service delivery groups; and (v) the ability to evaluate performance levels based on the measurement of costs and services. It cannot be determined at this time whether or to what extent the Legislature will adopt the Governor's new budgetary framework.

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 non-budgetary sources. Approximately 67.9% of the Commonwealth's fiscal 1992 revenues are projected to be derived from state taxes. The federal government is expected to provide approximately 18.1% of fiscal 1992 revenues, with the remaining 14.0% expected to be provided from departmental revenues, interfund transfers and other sources.

Distribution of Revenues

The following table provides information on the Commonwealth's revenues in its budgeted operating funds for fiscal 1987 through 1991 and its estimated revenues for fiscal 1992.

Commonwealth Revenues -- Budgeted Operating Funds
(in millions)

	Fiscal 1987	Fiscal 1988	Fiscal 1989	Fiscal 1990	Fiscal 1991(6)	Estimated Fiscal 1992 (6)
Tax Revenues:						
Alcoholic Beverages	$ 80.3	$ 78.0	$ 75.8	$ 70.8	$ 66.2	$ 62.0
Banks						
Commercial	120.5	111.0	125.2	64.5	27.4	(10.0)(8)
Savings	108.6	108.1	98.3	46.2	20.6	30.0
Cigarettes	170.6	168.5	158.6	150.8	144.4	138.0
Corporations	814.1	771.8	887.1	698.4	612.2	570.0
Deeds	53.3	55.8	45.2	36.2	30.1	31.0
Income	3,995.6	3,984.7	4,286.7	4,465.2(4)	5,045.1(4)	5,264.0(9)
Inheritance and Estate	223.1	254.7	258.6	276.4	249.5	255.0
Insurance (1)	220.6	248.0	301.6	273.0	267.8	282.0
Motor Fuel	297.4	305.5	306.9	301.9	464.2	535.0
Public Utilities	57.6	74.0	72.2	62.0	59.3	45.0
Racing	35.7	33.3	32.7	31.7	27.5	26.0
Room Occupancy	39.7	50.2	57.9	56.6	56.0	54.0
Sales						
Regular	1,221.7	1,357.7	1,445.9	1,370.5	1,392.1	1,435.0
Meals	265.8	287.8	296.9	295.9	291.7	290.0
Motor Vehicles	378.3	375.6	341.2	290.0	225.6	210.0
Sub-Total -- Sales	1,865.8	2,021.1	2,084.0	1,956.4	1,909.4	1,935.0
Miscellaneous	19.2	10.2	24.6	27.6	15.2	8.0
Total Taxes	8,102.1	8,274.9	8,815.4	8,517.7	8,994.9	9,225.0
Non-Tax Revenues:						
Federal Reimbursements	1,265.7	1,493.8	1,542.0	1,717.5(5)	2,777.1(7)	2,459.7(7)
Departmental and Other Revenues	881.0	968.7(3)	1,069.8	1,255.6	1,384.7	1,105.7(10)
Interfund Transfers and Other Sources(2)	455.6	707.7	761.4	732.4	721.2	789.0
Total Non-Tax Revenues	2,602.3	3,170.2	3,373.2	3,705.5	4,883.0	4,354.4
Total Revenues and Other Sources	$10,704.4	$11,445.1	$12,188.6	$12,223.2	$13,877.9	$13,579.4

SOURCE: Fiscal 1987-1991, Office of the Comptroller. Estimated Fiscal 1992, Executive Office for Administration and Finance.

(1) Includes \$5.5 million in 1987, \$6.8 million in 1988, \$7.0 million in 1989, \$7.6 million in 1990, \$7.1 million in 1991 and \$7.2 million in 1992 in fees collected by the Division of Insurance relating to high-risk insurance.

(2) Fund deficit support transfers of \$361.2 million, \$231.0 million and \$234.8 million for fiscal 1987, 1988 and 1991, respectively, and an estimated fund deficit support transfer of \$578 million for fiscal 1992, have been eliminated to facilitate comparative analysis. See "Federal and Other Non-Tax Revenues" below.

(3) Includes effect of an accounting change to include assessments on cities and towns in territory of the MBTA.

(4) Excludes \$444.5 million collected in fiscal 1990 and \$298.3 million collected in fiscal 1991 attributed to the temporary increase in the income tax dedicated to the Commonwealth Liability Reduction Fund and the Medical Assistance Liability Fund.

(5) Excludes \$244 million of revenues attributable to federal reimbursements for expenditures from the Medical Assistance Liability Fund; such revenues were dedicated to such fund.

(6) Includes the impact of tax law changes under Chapters 121 and 151 of the Acts of 1990. The total fiscal 1991 impact of the changes is an estimated increase in tax revenues in the amount of \$1.020 billion, while the fiscal 1992 impact of the changes is estimated at \$1.271 billion.

(7) Includes \$513 million for fiscal 1991 and an estimated \$172 million for fiscal 1992 in federal reimbursements resulting from claims for reimbursement of certain uncompensated care for Massachusetts hospitals, pursuant to a recent change in federal law. See "OVERVIEW OF FINANCIAL RESULTS -- 1991 Fiscal Year" and "1992 FISCAL YEAR -- Overview of Fiscal 1992 Budget".

(8) Includes the effect of a settlement by the Department of Revenue of a case previously pending before the Appellate Tax Board.

(9) Assumes reduction of personal income tax rate on earned income and certain other income from 5.95% to 5.75% effective January 1, 1992, as proposed in the Governor's fiscal 1993 budget recommendation. This reduction is subject to legislative approval. If not for this assumption, estimated fiscal 1992 income tax revenues would be \$58 million greater.

(10) Includes \$15.9 million in projected revenue from proposed sales of assets. See "1992 FISCAL YEAR -- Overview of Fiscal 1992 Budget".

State Taxes

The major components of state taxes are the income tax, expected to account for 57.1% of total tax revenues in fiscal 1992, the sales and use tax, expected to account for 21.0%, and the business corporations tax, expected to account for 6.2%. Other tax and excise sources account for the remaining 15.7% of projected total tax revenues.

Income Tax. The Commonwealth assesses personal income taxes at flat rates, according to classes of income, after specified deductions and exemptions. Traditionally, a rate of 5% has applied to income from employment, professions, trades, businesses, partnerships, rents, royalties, taxable pensions and annuities and interest from Massachusetts banks; and a rate of 10% has applied to other interest (although interest on obligations of the United States and of the Commonwealth and its political subdivisions is exempt), dividends and net capital gains (after a 50% deduction).

Current income tax rates, however, reflect increases enacted in 1990. To provide revenues to pay the debt service on both the fiscal 1989 deficit and Medicaid-related borrowings, legislation was enacted in July 1989 imposing an additional tax on certain types of personal income for the 1989 and 1990 tax years at the rates of 0.375% and 0.75%, respectively, effectively raising the tax rate for tax year 1989 to 5.375% and for tax year 1990 to 5.75%. The additional tax applied to all personal income except income derived from interest, dividends, capital gains, unemployment compensation, alimony, rent, pensions, annuities and IRA/Keogh distributions. Under the legislation, the additional revenues resulting from the tax were to be credited to two special funds established pursuant to the legislation (the Commonwealth Liability Reduction Fund and the Medical Assistance Liability Fund) and all such revenues, and the investment earnings thereon, were impressed with a trust to pay the fiscal 1989 deficit and

Medicaid-related borrowings (all of which have been retired). See "OVERVIEW OF FINANCIAL RESULTS -- Fiscal Years 1987 Through 1990". The additional income tax enacted in 1989 is believed to have increased the Commonwealth's income tax receipts for fiscal 1990 and 1991 by approximately $444.5 million and $298.3 million, respectively.

Chapter 121 of the Acts of 1990 further increased the income tax rates on both types of income described above. The tax rate on income traditionally taxed at 5%, including income from employment, professions, trades, businesses, partnerships, rents, royalties, taxable pensions and annuities and interest from Massachusetts banks, was increased to 5.95% for tax year 1990, increasing further to 6.25% for tax year 1991 and returning to 5.95% for tax year 1992 and subsequent years. The income tax rate on other interest (excluding interest on obligations of the United States and of the Commonwealth and its subdivisions), dividends and net capital gains (after a 50% deduction) was increased to 12% for tax year 1990 and subsequent years. The increases effected by the 1990 tax legislation are expected to have a positive impact on fiscal 1991 and 1992 income tax revenues by $700.0 million and $836.0 million, respectively. The fiscal 1993 impact has not yet been estimated, but it is expected that the impact will be less positive than in fiscal years 1991 and 1992. Under Chapter 151 of the Acts of 1990 up to 15% of state income tax revenues is pledged to the payment of approximately $1.363 billion of Fiscal Recovery Bonds issued pursuant to the 1990 tax legislation. See "COMMONWEALTH LIABILITIES -- Bond and Note Liabilities".

In January 1992 the Governor proposed that the personal income tax rate on earned income and certain other income be reduced to 5.75% effective January 1, 1992 and that capital gains taxes be reduced on certain assets held for longer than a year. If enacted, this income tax rate reduction would reduce income tax collections by an estimated $58 million in fiscal 1992 and $140 million in fiscal 1993. The impact of this proposed change has been reflected in the financial forecasts included herein. Because the proposed reduction of the tax on capital gains would be phased in over time, it would have little or no impact on fiscal 1992 and 1993 revenues. See "1993 FISCAL YEAR BUDGET".

Revenues from state income taxes were $3.996 billion in fiscal 1987 and $3.985 billion in fiscal 1988, essentially identical in amount. Partially as a result of income tax rate increases, state income tax revenues increased steadily in fiscal 1989, 1990 and 1991 to, respectively, $4.287 billion, $4.465 billion (excluding $444.5 million collected pursuant to the 1989 tax legislation) and $5.045 billion (excluding $298.3 million collected pursuant to the 1989 tax legislation). These figures represent an average annual increase over the period fiscal 1988 to 1991 of approximately 8.2%. State income tax revenues in fiscal 1992 are projected to be approximately $5.264 billion, which would represent an increase from fiscal 1991 of approximately 4.3%. The Governor's proposed budget for fiscal 1993 relies on income tax revenues of $5.082 billion, a decrease of 3.5% from fiscal 1992. This total includes the impact of the income tax rate reduction proposed by the Governor, noted above.

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 1990 tax legislation extended the sales and use tax to sales of electricity, gas and steam for certain nonresidential use and to nonresidential and most residential use of telecommunications services. Additional revenue resulting from this extension of the sales and use tax is estimated at $113.0 million for fiscal 1991 and $180.0 million for fiscal 1992.

Annual sales and use tax revenues increased from $1.866 billion in fiscal 1987 to $2.021 billion in fiscal 1988 and $2.084 billion in fiscal 1989. They then declined to $1.956 billion in fiscal 1990 and $1.909 billion for fiscal 1991 but are projected to increase to $1.935 billion in fiscal 1992. The Governor's budget submission projects a 3.4% increase in sales tax revenues for fiscal 1993, to a total of $2.000 billion.

Business Corporations Tax. Business corporations doing business in the Commonwealth, other than banks, trust companies, insurance companies, railroads, public utilities and safe deposit companies, are subject to an excise that has a property measure and an income measure. The value of Massachusetts tangible property (not taxed locally) or net worth allocated to the Commonwealth is taxed at $2.60 per $1,000 of value. The net income allocated to Massachusetts, which is based on gross income for federal taxes, is taxed at 9.5%. The minimum tax is $456. Both rates and the minimum tax include a 14% surtax. Annual revenues from the business corporations tax have declined significantly in recent years, from the high of $887.1 million in fiscal 1989 to $612.2 million in fiscal 1991 and a projected $570.0 million in fiscal 1992, which would represent a reduction of 35.7% in the three-year period. By comparison, revenues from the excise tax on commercial and savings banks declined even more steeply during the period, from $223.5 million in fiscal 1989 to $48.0 million in fiscal 1991, representing a reduction for the period of approximately 79%. For fiscal 1992 the excise tax on commercial and savings banks would have been projected to increase to $57.0 million, representing an increase of approximately 18.8% over fiscal 1991. However, on account of the settlement by the Department of Revenue of a case pending before the Appellate Tax Board, the Commonwealth paid a taxpayer commercial bank the amount of $37.0 million, thus reducing net revenues from this excise tax in fiscal 1992 to $20.0 million. The Governor's budget submission for fiscal 1993 projects that tax revenues from corporations and banks will increase slightly, to $573.9 million and $51.4 million, respectively. Tax legislation recently filed by the Governor would provide a number of tax incentives for Massachusetts businesses, including tax credits for job growth, job training and the provision of child care, as well as investment incentives. If enacted, these changes will reduce business tax revenues by an estimated $52 million in fiscal year 1993. The Governor's budget submission includes the impact of these changes.

Other Taxes. Other tax revenues of the Commonwealth are projected to total $1.436 billion in fiscal 1992, an increase of 4.0% over fiscal 1991. 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 Governor's budget submission projects a slight increase in these revenues in fiscal 1993. The 1990 tax legislation increased the motor fuels excise tax per gallon from 11 cents to 17 cents, effective July 28, 1990, and then to 21 cents effective January 1, 1991. The resulting increase in revenue from the motor fuels excise tax is estimated to be $175.4 million for fiscal 1991 and $254.8 million for fiscal 1992. 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 is issuing $103,770,000 of special obligation bonds in June 1992 which will be secured by a pledge of 2 cents of the 21 cent motor fuel excise tax imposed on gasoline. The Commonwealth may in the future issue additional special obligation bonds secured by all or additional portion of the motor fuels excise tax. See "COMMONWEALTH LIABILITIES -- Bond and Note Liabilities, *Special Obligation Bonds*; State Transportation Bond Legislation".

Tax Revenue Forecasting

Under state law, on or before August 15 of each year, the Secretary for Administration and Finance is required to submit to the Governor and to the House and Senate Committees on Ways and Means estimates of revenues available to meet appropriations and other needs in the current fiscal year. On that same date, the Secretary also estimates revenues for the following fiscal year. On or before October 15, January 15 and April 15, the Secretary is required to submit revised estimates unless, in his opinion, no significant changes have occurred since the last estimate of total available revenues.

By law, the Secretary is entitled to receive advice on tax revenue estimating from the Department of Revenue and the Advisory Board on Revenue Resources and the State Economy (the "Revenue Advisory Board"). 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. The Revenue Advisory Board has not met since October 30, 1990, and the Governor is considering changes in its duties and membership.

In the past several years tax revenue forecasting has been complicated by uncertainty about the national and state economy, federal and state tax law changes and decisions in certain state court cases affecting tax collections. In addition, certain tax revenues are difficult to predict with accuracy because of the variety of direct and indirect economic and non-economic factors affecting receipts. In June 1986 the Executive Office for Administration and Finance projected tax revenue growth of 7.6% for fiscal 1987. Actual tax revenues grew by 8.3%. During each of the fiscal years 1988 through 1991, however, the official tax revenue forecasts made at the beginning of the year proved to be substantially more optimistic than the actual results. In June 1987 the Executive Office for Administration and Finance projected tax revenue growth of 7.4% for fiscal 1988, but actual tax revenue growth for the year was only

2.1%. The June 1988 tax revenue estimate for fiscal 1989 was for 10.9% growth, whereas fiscal 1989 ended with actual tax revenue growth of 6.5%. In July 1989 the Governor and Legislature approved a budget for fiscal 1990 based on 7% tax revenue growth. In actuality, total tax revenues for fiscal 1990 decreased 3.4% from the prior year.

The fiscal 1991 budget as adopted in July 1990 was based on projected tax revenue growth of less than 1%, before taking into account revenues expected to be generated by the 1990 tax legislation. Once these additional revenues were added, the projection was for tax revenues of $9.748 billion in fiscal 1991, reflecting projected growth of 14.4%. However, during the remainder of calendar year 1990, actual receipts lagged projections, resulting in reductions of the fiscal 1991 tax revenue estimates. Fiscal 1991 tax revenues were $8.995 billion, which represents growth over fiscal 1990 of only 5.6%. See "OVERVIEW OF FINANCIAL RESULTS -- 1991 Fiscal Year".

The fiscal 1992 budget initially was based on projected tax revenues of $8.292 billion, a 7.8% decrease from fiscal 1991. The fiscal 1992 tax revenue estimate was the product of efforts on the part of the Governor, the Secretary of Administration and Finance, and the legislative leadership to achieve a consensus tax revenue estimate for fiscal 1992 based on joint public hearings on the Commonwealth's economic prospects. See "1992 FISCAL YEAR -- Joint Revenue Estimation Process". This practice of achieving a consensus tax revenue estimate for the ensuing fiscal year on or before May 15 has become law. Due to strong performance during the first six months of fiscal 1992, the Commonwealth has revised its tax revenue estimate upwards to $9.225 billion, a 2.6% increase over fiscal 1991.

The Governor's fiscal 1993 budget recommendation estimates fiscal 1993 tax revenues at $9.150 billion, which is $75 million less than the fiscal 1992 tax revenue estimate. This estimate, while believed to be justified by current economic expectations, is subject to the same kinds of uncertainties as affect tax revenue forecasting generally. In addition, the Governor's estimate assumes enactment of certain income tax rate reductions and incentive tax credits proposed by the Governor. In the absence of these changes (and before taking account of any positive collateral effects of such changes on overall Commonwealth tax revenues), fiscal 1993 tax revenues would be estimated to be $9.342 billion, that is, $192 million higher than the fiscal 1993 tax revenue estimate. See "1993 FISCAL YEAR BUDGET".

On April 7, 1992, Special Subcommittees of the House and Senate Ways and Means Committees and the Secretary for Administration and Finance held a public hearing to solicit testimony from private sector representatives concerning the Massachusetts economic and tax revenue forecasts for fiscal 1993. Representatives from four private organizations presented their estimates as of the hearing date for fiscal 1993 tax revenues of the Commonwealth. The Massachusetts Taxpayers Foundation estimated fiscal 1993 tax revenues at $9.2 billion; Data Resources, Inc. and The Beacon Hill Institute estimated tax revenues in the $9.5 billion range; and Fred Breimyer of State Street Bank & Trust Company estimated tax revenues at $9.7 billion. On May 7, 1992, the Massachusetts Taxpayers Foundation revised their estimate of fiscal 1993 tax revenues to $9.58 billion.

On May 13, 1992, the chairpersons of the House and Senate Ways and Means Committee and the Secretary for Administration and Finance jointly endorsed an estimate of tax revenues for fiscal 1993 of $9.685 billion, an increase of $460 million, or 5.0%, from estimated tax revenues for fiscal 1992, and an increase of $535 million, or 5.8%, over the tax revenue estimate used in the Governor's initial budget recommendation for fiscal 1993. The jointly endorsed estimate of tax revenues for fiscal 1993 does not include the annualized impact of the income and other tax reductions and credits proposed by the Governor, which the Executive Office for Administration and Finance estimates to be $192 million. See "1993 FISCAL YEAR BUDGET".

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 AFDC. The amount of federal reimbursements received by the Commonwealth is determined by the amounts of state expenditures for such programs. Federal reimbursements increased from $1.266 billion in fiscal 1987 to $1.718 billion in fiscal 1990, representing an average annual increase of approximately 10.9%. In fiscal 1991 federal reimbursements increased by 61.6% to $2.777 billion, owing chiefly to the $513 million reimbursement of uncompensated care payments. See "OVERVIEW OF FINANCIAL RESULTS -- 1991 Fiscal Year". Federal reimbursements in fiscal 1992 are projected to decrease to approximately $2.460

billion. This figure includes projected reimbursements in respect of uncompensated care payments of $172 million. The Governor's budget submission for fiscal 1993 projects that federal reimbursements will increase to $2.573 billion in fiscal 1993, based on increased spending for certain entitlement programs.

Departmental and other non-tax revenues are derived from licenses, registrations and fees generated through cash transactions and reimbursement and assessments for services. Annual revenues from these sources increased from $881.0 million in fiscal 1987 to $1.385 billion in fiscal 1991, representing an annual average increase of approximately 12.0%, but are projected to decrease to $1.106 billion in fiscal 1992, representing a decrease of 20.1% compared to fiscal 1991. The Commonwealth is authorized to issue special obligation transportation bonds secured by a pledge of all or a portion of the Highway Fund, including revenues derived from all or a portion of certain motor vehicle license and registration fees. The Commonwealth is issuing $103,770,000 special obligation bonds in June 1992 secured by a pledge of 2 cents of the 21 cent motor fuel excise tax imposed on gasoline. The Commonwealth may in the future issue additional special obligation bonds secured by all or a portion of the balance of such excise tax and motor vehicle license and registration fees. See "COMMONWEALTH LIABILITIES -- Bond and Note Liabilities, *Special Obligation Bonds*; State Transportation Bond Legislation".

Commencing in fiscal 1990 the Commonwealth, through the Office of the Comptroller and other organizations, has initiated numerous projects to improve the management and collection of federal and departmental revenues. These efforts have contributed to the revenue increases and will continue through fiscal 1992.

Transfers and other sources of revenue (including certain interfund transfers) are projected to total $789.0 million in fiscal 1992, an increase of 9.4% compared to fiscal 1991. Interfund transfers and other sources include transfers involving operating reimbursements and transfers of profits from the State Lottery and Arts Lottery Funds and reimbursements for the budgeted operating costs of the State Lottery Commission, which accounted for $455.6 million, $453.5 million, $541.2 million, $568.6 million, $547.6 million and a projected $549.2 million in fiscal 1987 through 1992, respectively. In each of fiscal 1987, 1988 and 1991, special laws authorized transfers among the operating funds (the General, Highway and Local Aid Funds) to eliminate certain deficit fund balances. Transfers in respect of such deficits were $361.2 million, $231.0 million and $234.8 million for fiscal 1987, 1988 and 1991, respectively; such a transfer in the estimated amount of $578 million is anticipated for fiscal 1992. Litigation has been initiated against the Secretary of Administration and Finance challenging the transfer of funds from the Highway Fund to the General Fund at the end of fiscal 1991. See "LITIGATION".

Limitations on Tax Revenues

In Massachusetts efforts to limit and reduce levels of taxation have been underway 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's formula utilizes 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, Chapter 29B excludes from its definition of state tax revenues income derived from local option taxes and excises and from revenues needed to fund debt service costs, while Chapter 62F does not.

State tax revenues in fiscal 1987 exceeded the limit imposed by Chapter 62F by approximately $29.2 million, and taxpayers were allowed to claim their share of the excess in the form of a credit against tax year 1987 income tax liability. Tax revenues in fiscal 1988, fiscal 1989, fiscal 1990 and fiscal 1991 were lower than the limit set by either Chapter 62F or Chapter 29B. The Executive Office for Administration and Finance currently estimates that state tax revenues in fiscal 1992 will not reach the limit imposed by either of these statutes.

In January 1992 the Governor announced his intention to seek an amendment to the state constitution that would require any Commonwealth tax increase to receive at least a two-thirds majority vote in each house of the Legislature.

COMMONWEALTH PROGRAMS AND SERVICES

From fiscal 1987 to fiscal 1990 total expenditures of the Commonwealth in its budgeted operating funds increased at an average annual rate of approximately 6.8%. Fiscal 1991 program expenditures (exclusive of certain interfund transfers) were $13.771 billion, or a 3.1% increase over fiscal 1990 expenditures. The lower rate of growth in fiscal 1991 was the result of significant efforts to restrain spending during the fiscal year, including across the board cuts mandated by the Legislature in the General Appropriation Act, as well as savings initiatives and withholding of allotments under Section 9C of Chapter 29 of the General Laws implemented administratively by the executive branch during the course of the fiscal year. See "OVERVIEW OF FINANCIAL RESULTS -- 1991 Fiscal Year". For fiscal 1992, estimated program expenditures are $13.577 billion, representing a decline of 1.4% from the level of program expenditures in fiscal 1991. See "1992 FISCAL YEAR -- Overview of Fiscal 1992 Budget". The Governor's budget submission projects that program expenditures will total $13.992 billion in fiscal 1993, an increase of 3.1% over estimated fiscal 1992 levels. The proposed fiscal 1993 budget includes changes which will affect spending in the Commonwealth's major programs, described below.

Commonwealth expenditures since fiscal 1987 largely reflect significant growth in several programs and services provided by the Commonwealth. The following table identifies certain major spending categories of the Commonwealth and sets forth the total expenditures for each fiscal year within each category.

Commonwealth Expenditures - Budgeted Operating Funds
(in millions)

Expenditure Category	Fiscal 1987	Fiscal 1988	Fiscal 1989	Fiscal 1990	Fiscal 1991	Estimated Fiscal 1992
Direct Local Aid(1)	$ 2,601.1	$ 2,768.9	$ 2,960.9	$ 2,936.9	$ 2,608.3	$ 2,365.0
Medicaid	1,453.6	1,641.5	1,833.5	2,120.6(2)	2,765.3(3)	2,829.2(4)
Group Health Insurance	239.5	281.7	341.4	433.4	446.0	474.9
Public Assistance	768.7	838.2	924.3	1,000.9	1,092.3	1,085.2
Debt Service(5)	524.1	563.7	649.8	770.9	942.3	935.4
Pensions	622.4	600.2	659.7	671.9	703.9	746.0
Higher Education	697.5	745.8	743.4	701.9	608.6	542.3
MBTA and Regional Transit Authorities	244.1	274.1	309.5	354.5	406.1	449.7
Other Program Expenditures	3,732.7	3,973.3	4,309.8	4,345.9	4,197.7	4,149.2
Total Program Expenditures	10,883.7	11,687.4	12,732.3	13,336.9	13,770.5	13,576.9
Interfund Transfers and other uses (6)	169.3	127.6	128.8	137.8	128.6	130.0
Total	$11,053.0	$11,815.0	$12,861.1	$13,474.7	$13,899.1	$13,706.9

SOURCE: Fiscal 1987-1991, Office of the Comptroller. Estimated Fiscal 1992, 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 nonappropriated funds.

(2) Fiscal 1990 Medicaid expenditures do not include $488.0 million in retroactive rate adjustments and spending related to services rendered in prior fiscal years which were funded in the Medical Assistance Liability Fund.

(3) Includes $194.2 million for retroactive rate settlements, including $126.0 million raised through bonds issued in 1991 to resolve the deficit for fiscal year 1990.

(4) Includes a $50.0 million appropriation for retroactive rate adjustments and assumes that a $260.0 million supplemental appropriation will be required, as well as a $17 million increase in spending from certain retained revenues.

(5) Includes interest and principal with respect to Fiscal Recovery Bonds but excludes debt service on notes issued under 1989 tax legislation to fund the fiscal 1989 deficit and certain Medicaid-related expenses. See "OVERVIEW OF FINANCIAL RESULTS--Fiscal Years 1987 Through 1990". Reflects reduction of fiscal 1992 current debt service by $261 million by issuance of refunding bonds in September and October 1991.

(6) Interfund transfers represent certain accounting transfers between budgetary funds. Interfund deficit support transfers for fiscal 1987, 1988 and 1991 of $361.2 million, $231.0 million and $234.8 million, respectively, and an estimated fund deficit support transfer of $578 million for fiscal 1992, have been eliminated to facilitate comparative analysis. See "COMMONWEALTH REVENUES -- Federal and Other Non-Tax Revenues".

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 1991, the aggregate property tax levy grew from $3.347 billion to $4.768 billion, representing an increase of approximately 42.5%. 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 63%.

Many communities have responded to the limitations imposed by Proposition 2½ through statutorily permitted overrides and exclusions. Approximately 168 communities voted on one of the three types of referenda questions (override of levy limit, exclusion of debt service or exclusion of capital expenditure) for application in fiscal 1990. For fiscal 1991, a survey by the Department of Revenue found that 227 communities voted on at least one of the three types. Of the 227, 138 or 61% passed at least one of the referenda questions attempted. Many communities have considered or currently are considering Proposition 2½ referenda questions for application in fiscal 1992. While the number of override and exclusion attempts in fiscal 1991 has increased, the success rate appears to be lower than in prior years. Despite the possibility of overrides and exclusion votes, Proposition 2½ will continue to restrain significantly the ability of cities and towns to pay for local services, especially in light of cost increases due to an inflation rate generally exceeding 2.5% and the Commonwealth's inability to increase Local Aid in accordance with inflation, discussed below.

Commonwealth Financial Support for Local Governments. Since 1980 the Commonwealth has 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 1991 approximately 28% of the Commonwealth's budget was allocated to Local Aid. Local Aid payments to cities, towns and regional school districts take the form of both direct and indirect assistance. Direct Local Aid consists of general revenue sharing funds and specific program funds sent directly to local governments and regional school districts as reported on the so-called "cherry sheet" prepared by the Department of Revenue, excluding certain pension funds and nonappropriated funds. Generally, direct Local Aid's revenue sharing component is distributed on the basis of a so-called "needs-based" equalizing formula designed to provide more Local Aid to the Commonwealth's poorer communities. Lottery proceeds distributed to cities and towns, which are distributed in accordance with a different equalizing allocation mechanism, constitute the remainder of the general revenue sharing portion of direct Local Aid. The majority of the specific program funds included in direct Local Aid provide assistance for local education services, including school building construction, aid to low-spending city, town and regional school districts and aid to regional schools. In addition to direct Local Aid, the Commonwealth has provided substantial indirect aid to local governments, including, for example, payments for Massachusetts Bay Transportation Authority 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 increased from $2.601 billion to $2.961 billion from fiscal 1987 to 1989 and declined in the past two fiscal years to $2.937 billion in fiscal 1990 and $2.608 billion in fiscal 1991. The fiscal 1992 budget provides for direct Local Aid in the amount of $2.365 billion, which is approximately 9.3% below the fiscal 1991 level. The additional amount of indirect Local Aid provided over and above direct Local Aid was approximately $1.246 billion in fiscal 1990 and $1.313 billion in fiscal 1991. The fiscal 1992 budget includes approximately $1.365 billion of indirect Local Aid.

The Governor's budget submission for fiscal 1993 includes direct local aid of $2.518 billion, a 6.5% increase over fiscal 1992. Proposed local aid in fiscal 1993 includes a $200 million increase in aid for primary and secondary education, the effect of which is partially offset by the return to annual payment of gas tax proceeds that had been doubled in fiscal 1992 to compensate for funds that were omitted from the fiscal 1991 budget; and the elimination of emergency aid distributed in fiscal 1992. The proposal to increase education aid is contingent on the Legislature adopting certain local education reforms.

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, commencing in fiscal 1992, by requiring, subject to appropriation, distribution to cities and towns of no less than 40% of collections from personal income taxes, sales and use taxes, corporate excise taxes and lottery fund proceeds. 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 call for a substantial increase in direct Local Aid from current levels in fiscal 1992 and subsequent years. However, Local Aid payments expressly remain subject to annual appropriation, and fiscal 1992 appropriations for Local Aid do not meet the levels set forth in the initiative law.

Medicaid and Group Health Insurance

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

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

In fiscal 1991 Medicaid accounted for more than half of the Commonwealth's appropriations for health care. It was the largest item in the Commonwealth's budget other than direct Local Aid and has been one of the fastest growing budget items. During fiscal years 1987, 1988, 1989 and 1990 Medicaid expenditures were $1.45 billion, $1.64 billion, $1.83 billion and $2.12 billion, respectively, representing an average annual increase of 13.4%. See "COMMONWEALTH PROGRAMS AND SERVICES -- Table of Commonwealth Expenditures-Budgeted Operating Funds". Expenditures for fiscal 1991 were $2.765 billion, including $194.2 million paid in respect of retroactive provider settlements. These retroactive provider settlements consisted of $126 million raised through bonds issued in 1991 as part of the financing which addressed the fiscal 1990 deficit, and a current appropriation of $68.2 million.

Substantial Medicaid expenditures in recent years have been 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 million to hospitals and nursing homes for rate settlements dating back as far as 1980 and $132 million for program expenses incurred in fiscal 1989. These payments were made through the Medical Assistance Liability Fund established to fund certain Medicaid liabilities for prior years and not included in the fiscal 1990 expenditure of $2.12 billion stated in the preceding paragraph. See "OVERVIEW OF FINANCIAL RESULTS -- Fiscal Years 1987 Through 1990". In fiscal 1991, expenditures of $194.2 million were made to fund prior year provider settlements. Projected Medicaid expenditures for fiscal 1992 of $2.829 billion include $50.0 million for prior year provider settlements and assume that a $260 million supplemental appropriation and a $17 million increase in spending from certain retained revenues will be required to cover current year needs and certain payment obligations for settlements related to prior years.

The large Medicaid expenditure increases experienced in recent years have been driven by several forces, including rising health care costs in general and, in particular, forces affecting the aggregate cost of long-term care for the elderly. Medicaid costs in the long-term care area increased from $716 million in fiscal 1987 to approximately $1.1 billion in fiscal 1991. The largest portion of these costs is for nursing home care. The Commonwealth has a significantly larger portion of its elderly population living in nursing homes than the national average. The nursing home population is also very dependent on Medicaid; 65% of all nursing home costs in the Commonwealth are paid by Medicaid as compared to the national average of 43%. The annual cost per beneficiary in a nursing home ranges from $25,000 to $30,000. The elderly population in the Commonwealth and the elderly Medicaid caseload both continue to grow. Over 35,000 elderly and disabled citizens will be cared for in nursing homes through Medicaid in fiscal 1991 and 1992. The future burdens of long-term care on Medicaid expenditures are expected to continue to be high.

Other factors also contribute to increases in Medicaid expenditures, including caseload growth in categorically eligible groups such as families in the AFDC program and AIDS-related cases. Higher unemployment levels are also, in part, responsible for caseload growth. New federal mandates for Medicaid eligible services also increase Medicaid costs. The total Medicaid caseload for fiscal 1992 is expected to average 616,434 recipients (almost 10% of the population of the Commonwealth), as compared to 471,373 recipients in fiscal 1987.

To begin to address the considerable annual cost increases in the Medicaid program, the administration has commenced the implementation of a managed care program. A waiver of federal regulations granting recipients freedom of choice of provider recently was approved by federal authorities. This waiver will enable the program to assign certain recipients to primary care clinicians who will function as gatekeepers to specialty and inpatient care and to enroll recipients in need of mental health or substance abuse services in a capitated managed system of care. Selective contracts with certain service providers will also be executed in an effort to obtain services in a more cost-effective fashion. In addition, nursing home prescreening and community service planning for long-term care will be concentrated in 27 Home Care Corporations to provide a single entry point and coordinated nursing home diversion services for elderly Medicaid recipients. This comprehensive managed care approach to Medicaid administration, combined with other discrete savings initiatives, such as the repricing and buy-in of Medicare services for Medicaid recipients and restrictions, both financial and clinical, on nursing home eligibility, are expected to produce substantial savings in fiscal 1993. The Governor's fiscal 1993 budget recommendation includes projected Medicaid spending of $2.881 billion, a 1.8% increase over fiscal 1992. The size of this increase is lower than would be projected in the absence of projected savings in fiscal 1993 from proposed asset rule changes, managed care initiatives, and contracted rates which are expected to produce significant savings in fiscal 1993. Approximately $24 million of these savings are dependent on, among other things, legislative approval of proposals that were rejected or otherwise foreclosed from use by the Legislature for fiscal year 1992.

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 (the "Hancock Plan"), and through 14 health maintenance organizations ("HMOs"). The Commonwealth currently pays approximately 90% of the enrollees' costs. For several years group health insurance costs were the fastest growing expense item in the Commonwealth's budget. These costs rose at an average annual rate of 21.9% from $239.5 million in fiscal 1987 to $433.4 million in fiscal 1990. Group health insurance expenditures in fiscal 1991 were $446.0 million, representing a 2.9% increase over fiscal 1990 and are projected to be $474.9 million in fiscal 1992, representing an increase of 6.5% compared to fiscal 1991. The reduced rate of increase in these expenses in fiscal 1991 and 1992 is attributable, in part, to rate negotiations with providers, reductions in the state work force, increased management of the Commonwealth's indemnity plan, and changes in benefits and copayments recently approved by the Group Insurance Commission. The Governor's fiscal 1993 budget recommendation includes $416.7 million for group health insurance. This funding level assumes adoption of the Governor's proposal that the state employee and retiree share of group health insurance costs be increased from the current 10% to 35% and thereby save an estimated $108 million. A proposal to increase the state employee and retiree share of group health insurance costs from 10% to 25% was rejected by the Legislature for fiscal year 1992.

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 growth in expenditures within these categories. (AFDC expenditures include those for Emergency Assistance; EAEDC expenditures include those for outpatient medical services to EAEDC recipients; SSI expenditures include benefits for blind recipients, which are administered by the Massachusetts Commission for the Blind.)

Public Assistance Program Expenditures
(in millions)

Category of Public Assistance	Fiscal 1987	Fiscal 1988	Fiscal 1989	Fiscal 1990	Fiscal 1991	Estimated Fiscal 1992
AFDC	$ 542.1	$ 604.6	$ 654.0	$ 700.3	$ 758.1	$ 779.9
EAEDC (formerly General Relief)	105.6	113.2	131.2	161.9	189.6	143.6
SSI	121.0	120.4	139.1	138.7	144.6	161.7
Total	$ 768.7	$ 838.2	$ 924.3	$ 1,000.9	$ 1,092.3	$ 1,085.2

SOURCE: Fiscal 1987-1991, Office of the Comptroller. Estimated Fiscal 1992, Executive Office for Administration and Finance.

AFDC is currently 50% funded by federal reimbursements. Increasing caseloads since fiscal 1988, plus legislatively-mandated annual cost-of-living adjustments through fiscal 1989, have caused AFDC expenditures to rise at an average annual rate of 8.8% from $542.1 million in fiscal 1987 to $758.1 million in fiscal 1991. AFDC expenditures for fiscal 1992 are projected to be $779.9 million, a 2.9% increase over fiscal 1991. AFDC expenditure figures include expenditures for the Emergency Assistance component of AFDC, which is designed to prevent homelessness and to shelter income-eligible families when they become homeless. The Governor's budget recommendation for fiscal 1993 included projected AFDC spending of $852.2 million, an 8.6% increase over fiscal 1992.

EAEDC (formerly General Relief) is funded entirely from state funds. Rising caseloads since fiscal 1988, plus annual cost-of-living adjustments through fiscal 1989, caused expenditures to rise at an average annual rate of 15.9%, from $105.6 million in fiscal 1987 to $189.6 million in fiscal 1991. EAEDC expenditures for fiscal 1992 are projected to be $143.6 million, a 24.3% decrease from fiscal 1991 expenditures. The Governor's fiscal 1993 budget recommends a further significant restructuring of the EAEDC program. Some of the eligibility changes proposed in this restructuring were rejected by the Legislature in the 1991 legislative session. If adopted for fiscal 1993, these changes would save an estimated $57.6 million and reduce EAEDC spending to $96.6 million, a 32.7% decrease from fiscal 1992. See *"Controls and Reforms"* below.

SSI payments are funded entirely by the federal government up to $422 per individual recipient per month and entirely by the Commonwealth above that amount. SSI payment levels in the Commonwealth for aged, disabled and blind individual recipients range from $536 to $571 per month. These levels include a Commonwealth supplement over and above federally approved assistance standards. Expenditures for SSI have risen at an average annual rate of 4.6% from $121 million in fiscal 1987 to $144.6 million in fiscal 1991. SSI expenditures for fiscal 1992 are projected to be $161.7 million, an increase of 11.8% from fiscal 1991. The Governor's budget recommendation for fiscal 1993 includes projected SSI spending of $169.4 million, a 4.8% increase over fiscal 1992.

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

The fiscal 1992 budget included a number of significant program changes in public assistance programs. Legislation was adopted which abolished the General Relief program and replaced it with the EAEDC program. The fiscal 1992 budget also eliminated the clothing allowance benefit for AFDC dependents which reduced expenditures by $32 million. However, a recent supplemental budget approved by the Legislature and the Governor authorized the payment of a partial clothing allowance which totaled $16.4 million in fiscal 1992. As noted, the Governor's fiscal 1993 budget recommendation proposes further restructuring of the EAEDC program, including eliminating eligibility for students and certain families and reducing monthly grants by 10%. Certain of the eligibility changes proposed in this restructuring were rejected by the Legislature for fiscal year 1992.

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

Debt Service

During the 1980's, capital expenditures grew substantially. Capital spending by the Commonwealth in the state bond funds rose from about $600 million in fiscal 1987 to $971 million in fiscal 1989. In November 1988 the Executive Office for Administration and Finance established an administrative limit on capital spending in the state bond funds of $925 million per fiscal year. Capital expenditures decreased to $936 million and $847 million in fiscal 1990 and fiscal 1991 respectively. Capital expenditures are estimated to decline to $791 million in fiscal 1992. The Governor's fiscal 1993 budget recommendation proposes $775 million in capital expenditures in fiscal 1993.

The growth of capital expenditures during the 1980's accounts for the significant rise in annual debt service expenditures since fiscal 1987. Payments for debt service on Commonwealth general obligation bonds and notes increased at an average annual rate of 15.9%, from $524.1 million in fiscal 1987 to $942.3 million in fiscal 1991. Debt service payments in fiscal 1992 are projected to be $935.4 million, representing a 0.7% decrease from fiscal 1991. Debt service payments for fiscal 1992 reflect a $261 million one-time reduction achieved as a result of the issuance of the refunding bonds in September and October 1991. Debt service expenditures are estimated at $1.246 billion for fiscal 1993. The amounts noted represent debt service payments on direct Commonwealth debt (including the Fiscal Recovery Bonds) but do not include debt service on notes issued to finance the fiscal 1989 deficit and certain Medicaid-related liabilities, which have been paid. See "OVERVIEW OF FINANCIAL RESULTS -- Fiscal Years 1987 Through 1990". Also excluded are debt service contract assistance to the Massachusetts Bay Transportation Authority ($144.1 million in fiscal 1992), the Massachusetts Convention Center Authority ($21.9 million in fiscal 1992) and grants to municipalities under the school building assistance program to defray a portion of the debt service costs on local school bonds ($145.2 million in fiscal 1992). See "MBTA and Regional Transit Authorities" below, "COMMONWEALTH LIABILITIES -- School Building Assistance" and "AUTHORITIES AND AGENCIES".

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

Debt Service Expenditures
(in millions)

Fiscal Year	Budgeted Debt Service(1)	Total Expenditures	Percentage
1987	$524.1	$11,053.0	4.7
1988	563.7	11,815.0	4.8
1989	649.8	12,861.1	5.1
1990	770.9	13,474.7	5.7
1991	863.1	13,899.1	6.3
1992(Estimated)	635.2(2)	13,699.0	4.6

SOURCE: Fiscal 1987-1991, Office of the Comptroller. Estimated Fiscal 1992, Executive Office for Administration and Finance.

(1) Excludes $79 million in fiscal 1991 and $278 million in fiscal 1992 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 million by issuance of refunding bonds in September and October 1991.

The estimated debt service on the Fiscal Recovery Bonds currently outstanding (a portion of which was issued as variable rate debt) ranges from approximately $79.2 million (interest only) in fiscal 1991 to approximately $278 million in fiscal 1992 through fiscal 1997 and approximately $130 million in fiscal 1998, at which time the entire amount of the Fiscal Recovery Bonds will be retired.

The State Treasurer's current cash flow projections assume the issuance of $240 million of general obligation notes in fiscal 1992, which issuance requires legislative approval.

Capital Spending Plan. In August 1991 the Governor announced a five-year capital spending plan. The plan, which represents the Commonwealth's first centralized, multi-year capital plan, sets forth, by agency, specific projects to receive capital spending allocations over the next five fiscal years and annual capital spending limits. Capital spending by the Commonwealth exceeded $900 million annually in fiscal 1989 and 1990 and equalled $847.1 million in fiscal 1991. Under the five-year plan capital spending is projected to decline to $791 million in fiscal 1992, a 6.6% reduction from the prior year. For fiscal 1992 through 1996, the plan forecasts annual capital spending by the Commonwealth of between $775 million and $840 million per year, exclusive of spending by the MBTA. Total expenditures are forecast at $4.1 billion, an amount less than the total amount of agency capital spending requests for the same period. Planned spending also is significantly below legislatively authorized spending levels. For the five-year period ending June 30, 1997, the Governor's capital spending plan assumes that the projected level of Commonwealth capital spending will leverage federal capital spending of an additional approximately $4.7 billion. These anticipated federal capital spending levels rely on certain assumptions concerning the level of federal participation in the funding of the third harbor tunnel and central artery suppression projects and for state highways and bridge repair.

The Commonwealth anticipates that a substantial portion of the state's share of the capital spending plan will be financed from the proceeds of general obligation debt. Under the plan, the rate of growth in the Commonwealth's general obligation debt outstanding would be reduced substantially by fiscal 1996. Due to the size and complexity of the Commonwealth's capital program and other factors, the timing and amount of actual capital expenditures over the period will likely vary somewhat from the annual spending amounts contained in the capital spending plan.

In conjunction with the development of the plan, the Governor has also directed the implementation of a number of accounting procedures and budgetary controls to limit agency capital spending to levels authorized by his capital spending plan. See "ACCOUNTING AND CONTROLS -- Capital Spending Controls".

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 costs have risen dramatically as the Commonwealth has appropriated funds to address in part the unfunded liabilities that had accumulated over several decades of "pay-as-you-go" administration of the pension systems for which it is responsible. For several years during the 1980s, including fiscal 1987, the Commonwealth made substantial direct appropriations to pension reserves, in addition to paying current benefits. In 1988, the Commonwealth adopted a funding schedule under which it is required to fund future pension liabilities currently and to amortize the accumulated unfunded liabilities over 40 years. Total pension costs from fiscal 1987 to fiscal 1991 increased at an average annual rate of 3.2%. The projected pension costs (inclusive of current benefits and pension reserves) for fiscal 1992 are $746.2 million, representing an increase of 6.0% over the $703.9 million cost in fiscal 1991. See "COMMONWEALTH LIABILITIES -- Retirement Systems and Pension Benefits". The Governor's fiscal 1993 budget recommendation projects pension expenditures at $801.8 million, a 7.4% increase over fiscal 1992. The Governor's fiscal year 1993 budget submission assumes $50 million in net savings from the implementation of an early retirement plan, which represents savings from reduced personnel costs offset against increased pension costs resulting therefrom. The Legislature and the Governor have approved early retirement legislation which differs from the plan originally used in the formulation of the Governor's 1993 budget recommendation. The legislation becomes effective July 1, 1992. It is estimated that the legislation enacted will produce net savings of $30 million in fiscal 1993 and 1994 combined.

Higher Education

After rising 6.9% from $697.5 million in fiscal 1987 to $745.8 million in fiscal 1988, total budgetary expenditures for higher education have declined between fiscal 1988 and fiscal 1991 at an average annual rate of 6.2% to $608.6 million in fiscal 1991 and are projected to decline by a further 10.8% to $542.3 million in fiscal 1992. To accommodate these budget reductions, the public higher education system decreased its state-funded payroll by 2,369 full-time equivalent employees between June 1988 and October 1991. Decreases in appropriations have been partially mitigated by increases in tuition and fees in fiscal 1989 through 1991. In fiscal 1992 each campus raised tuition by 6%. In addition, tuition increases for non-resident students will bring these tuitions to 100% of cost by July 1992. Chapter 142 of the Acts of 1991 reorganized the Commonwealth's higher education system by creating a Secretary of Educational Affairs and replacing the Board of Regents with the Higher Education Coordinating Council. The Governor's fiscal 1993 budget recommendation includes $424.4 million in funding for higher education. This appropriation is lower than the estimated expenditure for fiscal 1992 because the Governor's fiscal 1993 budget recommendation assumes that each campus will be authorized to retain and expend all tuition revenues which formerly were paid into the General Fund. Assuming the occurrence of this change to off-budget retention of tuition revenues, higher education funding would remain level in fiscal 1993.

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) backstop guarantees of their debt service, (ii) certain contract assistance, and (iii) payment of their net cost of service. The Commonwealth is entitled to reimbursement from cities and towns within the service area of each authority for payment of net cost of service in excess of contract assistance payments.

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

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

Total expenditures for the purpose of paying costs related to the MBTA and regional transit authorities have risen at an average annual rate of approximately 13.6% for fiscal years 1987 through 1991, from $244.1 million (of which $228.8 million relates to the MBTA) to $406.1 million (of which $382.4 million relates to the MBTA). Appropriations for this purpose for fiscal 1992 are $449.7 million (of which $421.2 million relates to the MBTA), representing an increase of 10.7%. In light of major expansion of service throughout the 1980s, the total MBTA operating budget has risen at an average annual rate of approximately 8.5% for fiscal years 1987 through 1991, from $495.6 million to $688.5 million. The MBTA Advisory Board has approved an operating budget for fiscal 1993 of $772.7 million, which represents an increase over fiscal 1992 of approximately 4.4%. 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. On September 3, 1991, the MBTA raised its fares for virtually all of its services. Overall, the fare increases are expected to raise $12.6 million in additional fare revenue in fiscal 1992 and $15.5 million per year thereafter. A lawsuit has been brought challenging the fare increases on environmental grounds. The Governor's fiscal year 1993 budget recommendation includes $526.8 million in funding for mass transit, which represents an increase of 18.4% over estimated fiscal 1992 spending.

In contrast to the information set forth above concerning the Commonwealth's total expenditures for the costs of the MBTA, which are based on the Commonwealth's June 30 fiscal year, the following table sets forth for the MBTA's fiscal years ended December 31, 1986 through December 31, 1991 the amounts of (i) the MBTA's cost of service in excess of the MBTA's income from its own sources, (ii) federal operating assistance, (iii) Section 28 contract assistance, (iv) additional contract assistance, (v) interest and other charges incurred in state borrowings by the Commonwealth and (vi) the total of the Commonwealth's assessments on the cities and towns for the net cost of service allocated to such year.

MBTA Net Cost of Service Assessments
(in millions)

Year Ended December 31,	Cost of Service in Excess of Income	Less: Federal Operating Assistance	Less: Section 28 Contract Assistance(1)	Less: Additional Contract Assistance and Other State Assistance(2)	Subtotal	Interest and Other Charges(3)	Amount Assessed or to be Assessed
1986	$363.3	$20.5	$67.8	$177.4	$ 97.5	$10.0	$107.5
1987	383.0	18.8	74.0	191.5	98.6	11.5	110.2
1988	427.3	18.7	82.9	224.6	101.1	11.8	113.0
1989	464.3	18.5	96.8	245.4	103.6	12.1	115.8
1990	512.9	18.3	115.7	272.6(4)	106.3	12.3	118.7
1991	575.0	18.2	137.7	307.2(5)	111.9	9.7	121.7

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 budget for fiscal 1992 contains appropriations, together with other prior appropriations, sufficient to provide this amount of general contract assistance.

(5) The Governor's fiscal 1993 budget recommendation contains appropriations, together with other prior appropriations, sufficient to provide this amount of general contract assistance.

Regional Transit Authorities. There are 15 regional transit authorities organized in various areas of the state. As with the MBTA, the Commonwealth is required under applicable statutory provisions to provide the regional transit authorities and the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority (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 their 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 1987, 1988, 1989, 1990 and 1991 of $14.8 million, $17.1 million, $18.8 million, $20.6 million and $23.6 million, respectively. Projected payments for fiscal 1992 are $28.5 million. The Governor's fiscal 1993 budget recommendation includes $31.5 million in funding for the regional transit authorities. The Steamship Authority is currently self supporting, requiring no net cost of service payments or contract assistance.

Other Programs

In addition to those expenditures described above, the Commonwealth also expends substantial amounts on all other programs and services. Spending on other programs and services supported by the Commonwealth's budget increased an average of 3.1% per year from fiscal 1987 to fiscal 1990, and decreased by 3.4% or $148 million in fiscal

1991. Fiscal 1991 spending on other programs and services totalled $4.198 billion, and is projected to decline by 1.2% to $4.149 billion in fiscal 1992. A large share of the projected fiscal 1992 spending in this category ($2.079 billion) consists of spending on human services programs other than Medicaid and public assistance detailed earlier. This other human services spending for fiscal 1992 includes expenditures for the Departments of Mental Retardation ($609.3 million), Mental Health ($460.6 million), Social Services ($400.8 million) and Public Health ($212.3 million). The remaining $2.070 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 ($359.3 million) and for the Executive Office for Administration and Finance ($346.9 million), Communities and Development ($198.3 million), Environmental Affairs ($135.1 million), Transportation and Construction ($97.6 million), Public Safety ($514.0 million) and Elder Affairs ($117.9 million).

State Work Force

The Commonwealth has approximately 67,156 full-time equivalent employees ("FTEs") in its standard work force delivering programs and services funded by annual operating budget appropriations. This number does not include 470 seasonal FTEs or 137 members of Boards or Commissions. Approximately 58,287 of these FTEs work in executive branch agencies (including employees of the Commonwealth's colleges and universities) under the control of the Governor, while the others work in the Legislature, judiciary and other entities constitutionally independent of the Governor (*e.g.*, the Offices of the State Treasurer, the Secretary of State, the State Auditor and the Attorney General). During fiscal 1991 approximately $2.3 billion was expended for salaries for state employees funded through the budget. The budget for fiscal 1992 includes approximately $2.2 billion for salaries for the Commonwealth's work force. As indicated in the following table, between June 1988 and January 1992, the size of the standard work force funded by annual operating budget appropriations was reduced by 13,183 FTE positions, or approximately 16.4%. Between January 1991 and January 1992, the size of the Commonwealth's standard work force was reduced by approximately 4,546 in executive agencies under the control of the Governor and by approximately 5,037 in the entire state government. Reductions are continuing. The Governor has implemented an aggressive program to reduce the state-wide work force by a net of at least 7,500 FTEs between January 5, 1991 and the end of fiscal 1992 through attrition, layoffs and/or a proposed early retirement program.

Full-Time Equivalent Work Force(1)

	June 1988	January 1991	January 1992
Executive Branch(2):			
Governor's Office	105	53	64(3)
State Comptroller	119	101	103
Executive Departments:			
Administration & Finance	4,434	3,985	3,802
Environmental Affairs	3,319	3,019	2,307(4)
Communities & Development	182	123	99
Human Services	38,665	35,441	27,672(4)
Transportation & Construction	3,146	2,565	2,034
Board of Library Commissioners	19	14	13
Education(5)	468	348	235
Board of Regents(5)	14,654	13,084(6)	12,289(7)
Public Safety	3,405	2,833	8,496(4)
Economic Affairs	97	64	80(8)
Elder Affairs	60	35	32
Consumer Affairs	755	725	640(8)
Energy Resources(9)	66	--	--
Labor	464	443	421
Subtotal	69,958	62,833	58,287
Judiciary	6,157	5,858	5,510
Other(10)	4,224	3,502	3,359
Total	80,339	72,193	67,156

SOURCE: Executive Office for Administration and Finance.

(1) Excludes employees whose salaries are paid from direct federal grants, expendable trust funds and capital outlay accounts.

(2) Includes only employees under control of the Governor.

(3) Includes staff of the Lieutenant Governor, formerly included in "Other".

(4) Includes transfer of personnel of Parole Board, Department of Corrections and MDC Police to Public Safety in July 1991.

(5) Chapter 142 of the Acts of 1991 combined the Department of Education and a successor to the Board of Regents under a newly created Secretary of Educational Affairs.

(6) Figure as of December 1990.

(7) Includes University of Massachusetts at Boston, Worcester and Amherst data as of September 28, 1991.

(8) Includes transfer of certain personnel from Consumer Affairs to Economic Affairs.

(9) Department functions were taken over by other departments in fiscal 1990.

(10) Includes Legislature, Offices of State Treasurer, Secretary of State, State Auditor, Attorney General and others constitutionally independent of the Governor. Does not include elected representatives and senators.

In addition to the standard work force funded by annual operating budget appropriations, the Commonwealth has employees whose salaries are paid from various direct federal grants, expendable trust funds, and capital outlay accounts. Virtually all of these employees work in the executive branch, over half of them in public higher education. Excluding personnel paid from certain higher education trust funds, the number of non-budgetary FTEs has increased from 11,366 in June 1988 to 13,176 in January 1992, an increase of approximately 16%, approximately one-half of which has occurred since January 1991. The Commonwealth also employs seasonal workers, primarily in its parks and other recreational facilities, varying in number from about 450 FTEs in the off-seasons to about 2,000 FTEs in midsummer.

Union Organization and Labor Negotiations

Under Chapter 150E of the General Laws, all employees of the Commonwealth, with the exception of managerial and confidential employees, have the right to bargain collectively with the Commonwealth through certified employee organizations recognized as exclusive bargaining representatives for appropriate bargaining units. Collective bargaining with employees of the Commonwealth's colleges and universities, its judicial branch and the Lottery Commission generally is conducted directly by those entities. The Office of Employee Relations, acting for the Secretary 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 level 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 Chief Administrative Justice of the Trial Court, the Lottery Commission, and public higher education management negotiate directly with their respective employee representatives, but all wage increases and other economic provisions contained in agreements reached as a result of such bargaining are subject to the review of the Governor and to funding approval by the Legislature. If the Governor does not recommend the requested appropriation to fund contractual increases, he may refer the contracts back to the parties for further negotiation.

Approximately 52,350 executive branch state employees are organized in twelve bargaining units, the employees of the Commonwealth's colleges and universities are organized in 25 bargaining units, and the employees of the judicial branch and the Lottery Commission are organized in six bargaining units. Public employees of the Commonwealth do not have a legal right to strike or otherwise withhold services. Unions representing certain state and metropolitan police are entitled to final and binding arbitration by a joint Labor-Management Committee.

The Alliance, comprising Units 2, 8 and 10 described below, represents the largest group of employees. Negotiations between the Alliance and the Office of Employee Relations generally establish the parameters for negotiation of all other contracts, including those governing the judicial, Lottery and higher education employees.

All but one of the collective bargaining agreements between the Commonwealth and its employees had expired by the end of fiscal 1990. (The remaining agreement expired on September 30, 1990.) The expired collective bargaining agreements continue in effect, at current wage levels, until new contracts are negotiated. Negotiations of new contracts began on schedule but proceeded slowly in light of the Commonwealth's fiscal condition. By January 1991 the Commonwealth had reached agreements with the Alliance (Units 2, 8 and 10), National Association of Government Employees (NAGE) (Units 1, 3 and 6) and Massachusetts Organization of State Engineers and Scientists (MOSES) (Unit 9). These agreements were to extend for three years, commencing January 1991 and ending December 1993. None of these agreements contained any retroactive pay for the period July 1989 to January 1991. The Governor submitted these agreements to the Legislature, but recommended that they not be funded due to current fiscal conditions. In December 1991 the Legislature approved funding of these contracts, which would have increased the Commonwealth's compensation obligations by approximately $289 million for the three-year lives of the contracts. This legislation was not approved by the Governor and expired unenacted when the legislative session closed on December 31, 1991. The three unions have filed lawsuits challenging the Governor's action. See "LITIGATION".

Also by January 1991 the Commonwealth reached agreements with its three police unions, Coalition of Public Safety (Unit 5), State Police Association of Massachusetts (Unit 5a) and Metropolitan Police (Unit 5b). These agreements provide for a 5% increase, retroactive to July 1989, funds for which have been appropriated. This 5% increase equalized the police units with other state employees (who received 5% in July 1988). The total cost of these contracts was $7 million paid in fiscal 1991, which included the increases retroactive to July 1989. These three agreements by their terms expired on June 30, 1990 and, like the other expired collective bargaining agreements, continue in effect at current wage levels. Negotiations continue with the Massachusetts Nurses Association (MNA) (Unit 7). Agreements negotiated by the Board of Regents, the Lottery Commission and the Trial Court were not submitted to the Legislature by the Governor and therefore do not represent cost items to the Commonwealth at this time.

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

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

Office of Employee Relations Bargaining Units

Contract Unit	Bargaining Union	Type of Employee	No. of Employees	Expiration Dates
1	National Association of Government Employees	Clerical	7,642	6/30/89
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Non-professional hospital	15,643	3/31/89
3	National Association of Government Employees	Skilled trades	1,180	6/30/89
4	Massachusetts Correction Officers Federated Union	Corrections	3,679	12/31/94
5	Coalition of Public Safety	Police/Law enforcement	607	6/30/90
5a	State Police Association of Massachusetts	State Police	933	6/30/90
5b	Metropolitan Police Patrolmen's Union	MDC Police	541	6/30/90
6	National Association of Government Employees	Administrative professionals	5,676	6/30/89
7	Massachusetts Nurses Associations	Health professionals	3,019	9/30/90
8	Alliance/Service Employees International Union	Social workers	7,649	3/31/89
9	Massachusetts Organization of Engineers and Scientists	Engineers/ scientists	2,848	6/30/89
10	Alliance/Service Employees International Union	Secondary education	878	3/31/89
		TOTAL	50,295	

SOURCE: Office of Employee Relations. Number of employees as of January 25, 1992.

COMMONWEALTH LIABILITIES

Bond and Note Liabilities

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.

The Commonwealth currently has four types of bond and note liabilities: general obligation debt, dedicated income tax debt, guaranteed debt and contingent debt. In addition, the Commonwealth is issuing, in June 1992, special obligation revenue debt for highway purposes. 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. Guaranteed debt consists of certain liabilities arising out of the Commonwealth's guarantees of the bonds of local housing authorities and the four higher education building authorities and certain bonds of the town of Mashpee. Contingent debt of the Commonwealth arises from statutory requirements for payments by the Commonwealth with respect to debt service of the MBTA, the Massachusetts Convention Center Authority (the "MCCA"), the Boston Metropolitan District, the Massachusetts Government Land Bank, the Steamship Authority and certain regional transit authorities. Special obligation revenue debt will consist of special obligation revenue bonds issued under Section 2*O* of Chapter 29 of the Massachusetts General Laws (the "Special Obligation Act") which will be secured by and payable from all or a portion of the revenues credited to the Commonwealth's Highway Fund. Liabilities of the Unemployment Compensation Trust Fund are not liabilities of the Commonwealth. See Exhibit A, "Economic Information -- Unemployment Compensation Trust Fund".

General Obligation Debt Outstanding. The following table shows the amount of long-term general obligation debt outstanding at each of the fiscal year ends indicated and at May 1, 1992. The table excludes short-term general obligations, although it includes the current portion of long-term debt. As of May 1, 1992 short-term direct obligations of the Commonwealth included $490.7 million of commercial paper. In the case of bonds sold at a discount the table includes only net proceeds. Refunded bonds are not included. Minibonds are shown separately since, although they bear a five-year stated maturity, they are redeemable on demand.

Long-Term General Obligation Debt
(in millions)

Date	Bonds (net of discount)	Minibonds (net of discount)	Total
June 30, 1985	$3,373.2	$ 51.4	$3,424.6
June 30, 1986	3,590.3	86.7	3,677.0
June 30, 1987	3,708.1	117.9	3,826.0
June 30, 1988	3,983.9	138.1	4,122.0
June 30, 1989	5,139.4	161.0	5,300.5
June 30, 1990	6,246.9	178.2	6,425.1
June 30, 1991(1)	6,511.2	141.3	6,652.5
May 1, 1992(1)	6,580.1	112.2	6,692.3

SOURCE: Office of the Comptroller.
(1) Excludes Fiscal Recovery Bonds.

Legislation enacted in December 1989 imposes a limit on the amount (measured net of discount and excluding refunded bonds) of outstanding direct bonds of the Commonwealth. The limit for fiscal 1992 is $7.14 billion. The law, which is codified in Section 60A of Chapter 29 of the General Laws, provides that the amount for each subsequent fiscal year shall be 105% of the previous fiscal year's limit. Chapter 151 of the Acts of 1990 and the Special Obligation Act provide that the Fiscal Recovery Bonds and the special obligation bonds, respectively, shall not be counted in computing the amount of bonds subject to this limit. Pursuant to Chapter 5 of the Acts of 1991, $287.2 million of the Commonwealth's refunding bonds issued in September and October 1991 are not counted in computing the amount of the bonds subject to this limit.

Fiscal Recovery Bonds. On August 1, 1990, the Governor signed into law Chapter 151 of the Acts of 1990, which provides, among other matters, for the authorization of the Commonwealth Fiscal Recovery Loan Act of 1990 to meet the deficit attributable to fiscal 1990, including certain Medicaid payments for prior service periods. Bonds issued pursuant to Chapter 151 ("Fiscal Recovery Bonds") must be repaid no later than December 31, 1997. The Commonwealth issued Fiscal Recovery Bonds in October and December 1990 in the aggregate principal amount of $1.399 billion (with an aggregate face amount of $1.416 billion). The Fiscal Recovery Bonds are to be repaid from funds deposited in the Commonwealth Fiscal Recovery Fund established by Chapter 151 (the "Trust Fund"), deposits to which are to be held in trust and pledged to pay debt service on the Fiscal Recovery Bonds. Deposits to the Trust Fund are to be made from up to 15% of the Commonwealth's income tax receipts in each year that debt service is payable related to the Fiscal Recovery Bonds. Income tax receipts in excess of the amount needed in any fiscal year for debt service on account of Fiscal Recovery Bonds then outstanding, as certified by the Secretary of Administration and Finance in consultation with the State Treasurer, are paid into the Commonwealth's General Fund. It should be noted that in fiscal 1992, 15% of the Commonwealth's income tax receipts will amount to a projected $789.6 million, while debt service related to the Fiscal Recovery Bonds in the years 1992 through 1997 is not to exceed $278 million per annum. The outstanding principal amount of the Fiscal Recovery Bonds is not counted toward the statutory limit on outstanding direct bonds of the Commonwealth, 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".

Special Obligation Bonds. 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. The special obligation bonds will not be general obligations of the Commonwealth. Chapter 33 of the Acts of 1991 authorizes the Commonwealth to issue special obligation bonds in the aggregate amount not to exceed $1.125 billion. See "State Transportation Bond

Legislation". The Commonwealth is issuing $103,770,000 of special obligation bonds in June 1992 secured by a pledge of 2 cents of the 21 cent motor fuel excise tax imposed on gasoline.

Debt Service Requirements on General Obligation Bonds. The following table sets forth the annual fiscal year debt service requirements on Commonwealth general obligation bonds, including the Fiscal Recovery Bonds, outstanding on May 1, 1992. Approximately 28% of the principal amount (including maturity value of original issue discount) of the outstanding debt described below is scheduled for retirement within the five years ending June 30, 1997 and approximately 57% within the ten years ending June 30, 2002.

Debt Service Requirements on General Obligation Bonds(1)
(in thousands)

Fiscal Year	Principal and Discount(2)	Interest(3)	Total
1992	$146,845	$100,495	$ 247,340
1993	569,526	519,705	1,089,231
1994	595,890	488,997	1,084,887
1995	614,909	446,828	1,061,737
1996	610,731	408,006	1,018,737
1997	811,015	364,827	1,175,842
1998	420,466	322,038	742,504
1999	468,642	294,037	762,679
2000	460,713	264,882	725,595
2001	460,521	237,949	698,470
2002	409,890	214,240	624,130
2003	411,359	194,411	605,770
2004	393,249	175,077	568,326
2005	400,539	156,355	556,894
2006	402,280	138,087	540,367
2007	401,552	116,557	518,109
2008	382,852	90,636	473,488
2009	359,528	64,447	423,975
2010	284,154	39,502	323,656
2011 and thereafter	422,870	33,661	456,531
TOTAL	$9,027,531	$4,670,737	$13,698,268

SOURCE: Office of the State Treasurer.

(1) Does not include effect of the Commonwealth's $214,700,000 General Obligation Refunding Bonds, Series A and Series B which were issued on May 12, 1992 or its $259,295,000 General Obligation Bonds, Consolidated Loan of 1992, Series A and Series B, which are to be issued on or about June 24, 1992 and July 1, 1992, respectively.

(2) Includes payments of principal and maturity value of original issue discount due on Commonwealth general obligation bonds in a fiscal year.

(3) Includes payments of interest due on Commonwealth current interest general obligation bonds in a fiscal year.

The State Treasurer is authorized by law to sell a portion of the Commonwealth's bonded indebtedness each year (not exceeding $50 million net proceeds per year) in the form of small denomination bonds, or "minibonds", which are redeemable at the option of the holder on any business day prior to maturity (generally five years). Such minibonds are sold at a discount with no current interest payments; the redemption value accrues monthly. As of May 1, 1992 the Commonwealth had outstanding approximately $112.2 million (net of discount) in such minibonds;

if all outstanding minibonds were to have been redeemed currently by the holders thereof on such date, the total redemption cost to the Commonwealth would have been approximately $121 million.

Current Bond and Note Liabilities. The liabilities of the Commonwealth as of May 1, 1992 with respect to outstanding bonds and notes are as follows:

Bond and Note Liabilities
(as of May 1, 1992)
(in thousands)

	Bonds	Notes
General Obligation Debt (1)	$ 7,759,129	$490,700 (2)
Fiscal Recovery Bonds	1,380,602	
Guaranteed Debt:		
Local housing authorities	1,630	--
Higher education building authorities	249,150	--
Town of Mashpee	800	--
Subtotal	251,580	--
Contingent Liabilities: (3)		
MBTA	1,628,615	402,000 (4)
MCCA	163,669	--
Massachusetts Government Land Bank	10,930	--
Boston Metropolitan District	60,529	--
Steamship Authority	21,990	5,000
Regional transit authorities	315	56,343
Subtotal	1,886,048	452,013
Total	$11,277,359	$954,043

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

(1) Amount for bonds includes discount. Amount for notes represents $490.7 million of Commonwealth commercial paper outstanding on May 1, 1992. Under the Commonwealth's commercial paper program, the Commonwealth may issue up to $1.2 billion (including up to $200 million for capital purposes) in short-term general obligation debt; a letter of credit from three major commercial banks is available through September 30, 1992 to secure such commercial paper. As of June 10, 1992, the Commonwealth had $175.7 million in commercial paper outstanding.

(2) The Commonwealth intends to issue approximately $240 million of general obligation notes prior to June 30, 1992, which are expected to be due in January 1993.

(3) See "AUTHORITIES AND AGENCIES".

(4) Includes $57 million of commercial paper. The MBTA issued $140 million of bond anticipation notes on May 14, 1992, which are due on December 14, 1992, to finance certain projects in the MBTA's capital improvement program, including the payment of all of the MBTA's outstanding commercial paper.

Note Maturities. The notes shown in the preceding table matured or mature in the following months:

Note Maturities
(as of May 1, 1992)
(in thousands)

Month Due	Regional Transit Authorities	All Other	Total
Commercial Paper (1 to 270 days)	$ ---	$547,700 (1)	$ 547,700
June 1992	14,136	2,500	16,636
July 1992	21,420	---	21,420
August 1992	11,431	2,500	13,931
October 1992	492	160,000 (2)	160,492
January 1993	6,150	---	6,150
March 1993	1,675	185,000 (2)	186,675
April 1993	259	---	259
Fiscal 1994	780	---	780
Total	$56,343	$897,700	$954,043

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

(1) Includes $57 million of MBTA debt and $490.7 million of Commonwealth commercial paper outstanding on May 1, 1992. As of June 10, 1992 the Commonwealth had $175.7 million in commercial paper outstanding.

(2) MBTA debt. The MBTA issued $140 million of bond anticipation notes on May 14, 1992, which are due on December 15, 1992, to finance certain projects in the MBTA's capital improvement program, including the payment of all of the MBTA's commercial paper outstanding.

Authorized But Unissued Debt. General obligation bonds of the Commonwealth are authorized and issued primarily to provide funds for state-owned capital projects and local government improvements. 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 the total amount of authorized but unissued debt. Authorized but unissued general obligation debt at fiscal year end, and capital expenditures in the state bond funds, excluding the federally assisted highway construction fund, in the same fiscal year, are as follows:

Authorized but Unissued General Obligation Debt
(in thousands)

Fiscal Year	Authorized but Unissued General Obligation Debt	Capital Expenditures
1987	$4,251,696	$595,171
1988	7,361,392	651,660
1989	6,323,810	970,668
1990	5,383,743	936,068
1991	4,880,032	847,057

SOURCE: Office of the Comptroller.

Pursuant to Chapter 33 of the Acts of 1991, 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 of the general obligation bonds authorized therein for such projects (which are reflected as Authorized but Unissued General Obligation Debt above) may be issued as special obligation bonds, with the aggregate amount of special obligation bonds not to exceed $1.125 billion. See "Bond and Note Liabilities, *Special Obligation Bonds*; State Transportation Bond Legislation".

Debt Trends. The following table sets forth the Commonwealth's total general obligation bonded indebtedness (including minibonds, and net of discount) outstanding as of June 30 for each of the years indicated and the ratio of such indebtedness to certain economic indicators.

General Obligation Bond Debt Trends

Fiscal Year	Amount (in thousands)	Per Capita(1)	Ratio to Full Value of Real Estate(2)	Ratio to Personal Income(3)
1987	$3,825,968	$ 652	1.73%	3.41%
1988	4,121,993	700	1.86	3.34
1989	5,300,455	900	1.41	4.03
1990	6,425,063	1,068	1.71	4.73
1991(4)	6,652,459	1,128	1.56	4.86

SOURCE: Office of the Comptroller.

(1) Based on United States Census resident population estimates for Massachusetts of 5,856,000 for 1987, 5,890,000 for 1988, 5,891,000 for 1989, 6,016,000 for 1990 and 5,898,000 for 1991.

(2) Based on Commonwealth Department of Revenue equalized valuation of assessed real estate of $221.5 billion for 1987 and 1988, $374.9 billion for 1989 and 1990 and $427.6 billion for 1991.

(3) Based on United States Department of Commerce, Bureau of Economic Analysis total personal income of $112.1 billion for 1987, $123.3 billion for 1988, $131.4 billion for 1989, $135.9 billion for 1990 and an estimated $137.0 billion for 1991.

(4) Excludes Fiscal Recovery Bonds.

State Transportation Bond Legislation

On May 10, 1991 the Governor signed into law Chapter 33 of the Acts of 1991, which authorizes, among other matters, the issuance of bonds for transportation development and improvement projects, including the construction, repair and maintenance of state highways, roads and bridges as well as other capital projects. The various projects will be funded by approximately $2.6 billion in federal funds and by approximately $2.5 billion in state funds, which may be obtained from the issuance of general obligation bonds and special obligation bonds secured by all or a portion of the revenues accounted to the Commonwealth's Highway Fund, including revenues derived from the motor fuels excise tax and certain motor vehicle registration and license fees. The Commonwealth is issuing $103,770,000 in special obligation bonds for these purposes in June 1992 secured by a pledge of 2 cents of the 21 cent gasoline tax.

Retirement Systems and Pension Benefits

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

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

The systems were originally established as "pay-as-you-go" systems, meaning that amounts were appropriated each year to pay current benefits and no provision was made to fund currently 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 June 30, 1991 the state's pension reserves, now administered by the Pension Reserves Investment Management Board, had grown to approximately $3.109 billion. Under current law the pension reserves receive monies from excess earnings (i.e., earnings above the level credited to member accounts) in the retirement systems, withdrawal penalties on members leaving government employment with less than ten years of service and any amounts from the funding schedule described below in excess of pension payments.

Pension Funding Plan. Comprehensive pension funding legislation approved in January 1988 requires the Commonwealth to fund future pension liabilities currently and to amortize the Commonwealth's accumulated unfunded liabilities over 40 years. The legislation requires the Secretary 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 to be 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 March 1, 1991. If a schedule is not approved by the Legislature, payments are to be made in accordance with the most recent approved schedule; such payments must, however, at least equal the prior year's payments. The Commonwealth is contractually obligated to the members of the affected retirement systems to make appropriations in accordance with the funding schedule.

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

Current Funding Schedule and Actuarial Valuations. The funding schedule currently in effect requires total payments by the Commonwealth over 37 years as shown in the following table.

Funding Schedule for Unfunded Pension Obligations
(in thousands)

Fiscal Year	Payments	Fiscal Year	Payments
1992	$ 723,441	2011	$2,173,727
1993	763,749	2012	2,308,379
1994	806,584	2013	2,452,220
1995	852,121	2014	2,605,910
1996	900,546	2015	2,770,155
1997	952,059	2016	2,945,717
1998	1,006,873	2017	3,133,409
1999	1,065,218	2018	3,334,109
2000	1,127,339	2019	3,548,755
2001	1,193,502	2020	3,778,359
2002	1,263,987	2021	4,024,002
2003	1,339,100	2022	4,286,850
2004	1,419,166	2023	4,568,153
2005	1,504,533	2024	4,869,251
2006	1,595,576	2025	5,191,587
2007	1,715,338	2026	5,536,710
2008	1,818,970	2027	5,906,280
2009	1,929,575	2028	6,302,086
2010	2,047,650		

SOURCE: Division of Public Employee Retirement Administration.

The funding schedule is based on actuarial valuations of the state employees' and teachers' retirement systems and the State-Boston retirement system as of January 1, 1990 and on a cost-of-living allowance valuation as of July 1, 1987. The valuation results were brought forward to January 1, 1990 for cost-of-living adjustment benefits. The unfunded actuarial accrued liability, as of January 1, 1990, relative to the two state systems, to Boston teachers and to cost-of-living allowances for local systems is reported in the schedule to be $8.438 billion, $427 million and $2.004 billion, respectively, for a total unfunded actuarial liability of $10.869 billion. Such valuations are based on actuarial assumptions described in the March 1, 1991 schedule, including future investment earnings at the rate of 8% per year, an annual inflation rate of 4.5%, annual salary increases at the rate of 6% and annual cost-of-living increases for pensioners at the rate of 3%. (Actual cost-of-living adjustments for fiscal 1989, 1990 and 1991 were, respectively, 4%, zero and zero. The budget for fiscal 1992 does not include a cost-of-living adjustment.) "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 in the years through fiscal 1998 must be at least equal to the total estimated pay-as-you-go benefit cost in such year. As a result of this requirement, the funding requirement will be increased for fiscal years 1992, 1993 and 1994 to an estimated $724 million, $778 million and $844 million, respectively. Estimates for succeeding years are not available.

Although the total unfunded actuarial liability of $10.869 billion as of January 1, 1990 had increased by approximately $424 million from that reported in the first valuation filed March 1, 1988, the increase is $1.471 billion less than the first valuation had predicted. This reduction is attributable chiefly to significant improvement in the quality of the member data over that available for the 1988 valuation. Better-than-expected investment performance and the absence of cost-of-living adjustments in fiscal 1990 and 1991 also contributed to the reduction. Moreover, as contemplated by the statute, the filing of the 1991 study lagged the valuation date of January 1, 1990 by 14 months and therefore did not reflect the substantial reduction in the number of state employees which occurred during that period. For this reason the current unfunded actuarial liability as of today might be less than that stated in the 1991 study, although the difference, if any, cannot be quantified at this time.

Early retirement legislation which has been approved by the Legislature and the Governor will temporarily increase the Commonwealth's unfunded pension liability. It is assumed that this increased pension liability will be funded from savings derived from the corresponding reduction in the Commonwealth's payroll expenses to produce net savings of $30 million in fiscal 1993 and 1994 combined. See "COMMONWEALTH PROGRAMS AND SERVICES -- Pensions".

Long Term Leases

Minimum future rental expenditure commitments of the Commonwealth under operating leases in effect at June 30, 1991 are set forth below. These amounts represent expenditure commitments of both budgeted and non-budgeted funds.

Rental Expenditure Commitments
as of June 30, 1991
(in thousands)

Fiscal Year	Rental Expenditure Commitments
1992	$ 91,025
1993	74,479
1994	53,409
1995	39,648
1996	26,623
1997 and thereafter	1,050
	$286,234

SOURCE: Office of the Comptroller.

Long term total principal and interest obligations at June 30, 1991 related to lease/purchase arrangements and tax-exempt Certificates of Participation (COPs) are as follows:

Lease/Purchase and COP Obligations
as of June 30, 1991
(in thousands)

Fiscal Year	Lease/Purchase	COPs	Total
1992	$21,037	$ 2,668	$23,705
1993	15,842	2,669	18,511
1994	12,096	2,671	14,767
1995	2,919	2,668	5,587
1996	1,411	2,670	4,081
1997 and thereafter	2,660	10,683	13,343
	$55,965(1)	$24,029(1)	$79,994

SOURCE: Office of the Comptroller.

(1) As of June 30, 1991, the principal amounts of these obligations were $48,328,000 and $17,270,000 for lease/purchase and COPs, respectively.

School Building Assistance

The school building assistance program was established in 1948 to promote the planning and construction of school buildings and the establishment of consolidated and regional schools in the Commonwealth. Under this program cities, towns, regional school districts and the three counties that maintain agricultural schools can obtain reimbursements from the Commonwealth for a portion of the construction costs (including any interest expense from indebtedness incurred) of approved school projects. With the exception of grants to assist cities, towns and regional school districts in the elimination of racial imbalance, the reimbursement percentage varies by municipality and may range from 50% to 90% of total construction costs. School projects for the purpose of eliminating racial imbalance are eligible for 90% reimbursement. Grants are usually payable over a period of up to 20 years to defray a portion of the debt service on city, town, district or county bonds issued to pay construction costs. Payment is made to cities, towns, regional school districts and counties from amounts annually appropriated for the school building assistance program. The following table shows the amount of the Commonwealth's obligation to pay such grants as of June 30, 1991.

School Building Assistance Obligations
(in thousands)

Fiscal Year	Budgeted School Building Assistance Obligations	Fiscal Year	Budgeted School Building Assistance Obligations
1992(1)	$ 145,225	2002	$ 70,425
1993	137,741	2003	68,140
1994	125,702	2004	64,856
1995	115,848	2005	63,267
1996	102,634	2006	58,186
1997	97,216	2007	54,999
1998	87,250	2008	50,575
1999	79,607	2009	43,893
2000	76,671	2010	36,834
2001	73,118	2011	22,621
	Total		$1,574,810

SOURCE: Department of Education, School Facilities Service Bureau.

(1) Excludes capital projects fund expense for accelerated grant payments authorized for a limited number of projects and paid from the Commonwealth's capital budget.

Water Pollution Abatement Trust

The Commonwealth recently organized the Massachusetts Water Pollution Abatement Trust (the "Trust") to issue debt obligations for purposes of funding water pollution abatement projects in conjunction with state revolving loan fund programs established under Title VI of the federal Clean Water Act. The legislation establishing the Trust authorizes the Trust to issue not more than $2.6 billion principal amount of bonds at any time outstanding to make loans to local governmental units (including the MWRA) to finance their water pollution abatement projects. In addition, the Commonwealth is authorized to issue up to $1.3 billion of its general obligation bonds or notes to provide subsidies to local governmental units.

It is the Governor's plan, consistent with the five-year capital budget, to fund a program requiring significantly smaller contributions from the Commonwealth. Amendments to the Trust's enabling legislation that would allow the Commonwealth to maximize federal grants and limit its contributions to $115 million over five years were filed by the Governor and rejected by the Legislature. It is anticipated that the Legislature will further consider amendments to the enabling legislation. The Trust made a direct $73.165 million loan to the MWRA in December 1991, which loan, under certain circumstances, may be restructured ($60 million of such loan is eligible for federal reimbursement). In addition, the Trust has made a $195 million commitment to the City of New Bedford in connection with the construction of a secondary sewerage treatment facility.

AUTHORITIES AND AGENCIES

Certain independent authorities and agencies within the Commonwealth are statutorily authorized to issue debt for which the Commonwealth is either directly, in whole or in part, or indirectly liable. The Commonwealth's direct liability is either in the form of (i) a direct guaranty, (ii) contract assistance payments for debt service or (iii) certain contingent liabilities. The Commonwealth is indirectly liable for the debt of certain authorities through the funding of reserve funds which are pledged as security for the authorities' debt. The Commonwealth is also liable for certain operating expenses of certain authorities. Commonwealth obligations with respect to the MBTA, the regional transit authorities and the Steamship Authority are discussed at "COMMONWEALTH PROGRAMS AND SERVICES -- MBTA and Regional Transit Authorities".

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, such housing authorities financed housing projects by issuing Commonwealth-guaranteed bonds and notes. The financing has been taken over by the Commonwealth, which pays 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 housing developments under the TELLER program authorized by the Legislature in 1984, but may not pledge their credit to secure such bonds.

Higher Education Building Authorities. Four higher education building authorities, created to assist institutions of public higher education in the Commonwealth, may issue bonds which are guaranteed as to their principal and interest by the Commonwealth. The guarantee is a general obligation of the Commonwealth for which its full faith and credit are pledged. In addition to such guarantee, certain revenues of these authorities, including dormitory rental income and student union fees, are pledged to their respective debt service requirements. While revenues thus far have been sufficient to meet debt service requirements, they have not been sufficient in all cases to pay operating costs. In such cases, the operating costs have been met by Commonwealth appropriations.

Contract Assistance Payments

Massachusetts Convention Center Authority. The 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. Chapter 138 of the Acts of 1991 provides that 35% of the revenues received from the hotel excise tax shall be deposited to the Massachusetts Tourism Fund. Up to 38% of the monies in the fund are to be applied, subject to appropriation, to fund MCCA operating costs in excess of operating income and the balance of such monies are available for the promotion of tourism and trade.

Massachusetts Government Land Bank. The Massachusetts Government Land Bank (the "Land Bank") assists in the development of state and federal surplus property for private use, and in the development of substandard, blighted or decadent open areas in the Commonwealth. The Land Bank has direct borrowing power and the Commonwealth is required to provide contract assistance payments for debt service obligations of the Land Bank of up to $6 million per fiscal year for a period of seven fiscal years, of which three years remain. The Commonwealth's contract with the Land Bank calls for total payments of approximately $18 million in fiscal 1992 through fiscal 1994. 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.

Massachusetts Community Development Finance Corporation. The Massachusetts Community Development Finance Corporation (the "CDFC") assists community development corporations in financing economic development activities in targeted areas. The Commonwealth was authorized to enter into stock purchase agreements with the CDFC for shares in the amount of $2.5 million per fiscal year for a period of two years, such agreements to be general obligations of the Commonwealth for which its full faith and credit are pledged. Agreements providing for such payments up to the maximum statutory limits were entered into, and such payments have been made to the CDFC.

Reserve Fund Liabilities

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

Single-Family Obligations. MHFA and the Massachusetts Home Mortgage Finance Agency ("MHMFA") also provide mortgage loan financing with respect to certain single-family residences within the Commonwealth. The acts establishing MHFA and MHMFA place a $1.3 billion aggregate limit on outstanding indebtedness of both MHFA and MHMFA to finance single-family housing.

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

As of March 31, 1992, multi-family obligations of the MHFA totalled $2.383 billion (secured by capital reserve funds of $159.8 million) and single-family obligations of the MHFA totalled $1.164 billion (secured by capital reserve funds of $13.5 million). As of such date the capital reserve funds were maintained at the required levels without Commonwealth appropriations and no payments from such funds have been necessary. Authorized but unissued amounts as of such date were $317.0 million for MHFA multi-family bonds and $136.1 million for, collectively, MHFA and MHMFA single-family bonds.

ACCOUNTING AND 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 monies 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's office is responsible for ensuring that all Commonwealth financial obligations are met on a timely basis. The Massachusetts constitution requires that all payments by the Commonwealth (other than debt service) be made in accordance with a warrant approved by the Governor's Council. The Comptroller prepares weekly warrants for approval by the Governor's Council. Once the warrant is approved the State Treasurer's office disburses the monies.

The Cash Management Division of the Office of the State Treasurer accounts on a daily basis for cash received into over 600 separate accounts of the Department of Revenue and other Commonwealth agencies and departments. The Division relies primarily upon the 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 and for the fiscal quarters beginning January 1, April 1, July 1 and October 1, respectively. The projections must include estimated expenditures and revenues, 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 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, develops quarterly and annual cash management plans to address any gap identified by the projections and variance reports. The cash management plans are required to be submitted to the House and Senate Committees on Ways and Means on or before September 1 of each year.

Fiscal Control, Accounting and Reporting Practices of Comptroller

The Comptroller is responsible for oversight of fiscal management functions, establishment of all accounting policies and practices and publication of official financial reports. The Office of the Comptroller maintains the Massachusetts Management Accounting and Reporting System ("MMARS"), the centralized state accounting system, which is used by all state agencies and departments except for independent state authorities and certain non-appropriated higher education funds. 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.

Expenditure Controls. The Commonwealth's encumbrance system requires that the amounts of all obligations under purchase orders, contracts and other commitments for the expenditures of monies be recorded with the Comptroller. Once encumbered, these amounts are not available to support additional spending commitments. Under the encumbrance system, spending agencies can determine at any given time the amount of their appropriations available for future expenditure.

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

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

Internal Controls. The Comptroller maintains internal control policies and procedures in accordance with state finance law that state agencies are required to follow. Violations of state finance law or regulation, or other internal control weaknesses must be reported to the State Auditor who is authorized, among other things, to investigate and recommend corrective action. In March, 1992, the Secretary of Health and Human Services and the Commissioner of the Department of Social Services called to the attention of the Comptroller and the Secretary of Administration and Finance an apparent violation of state finance law within the Department of Social Services. In response to this development the Comptroller and other administration officials immediately changed certain internal controls at the department and began a preliminary investigation into this violation. Based on that preliminary review it was determined that there were sufficient reasons to warrant a further investigation. The Comptroller, the Secretary of Health and Human Services, the Secretary of Administration and Finance and the Commissioner of the Department of Social Services notified the State Auditor who has initiated an audit of Department of Social Services. The outcome of the investigation and audit may result in adjustment to expenditures in prior fiscal years. The adjustments are not expected to be material.

Statutory Basis of Accounting. The Commonwealth adopts its budget and maintains its financial information on a statutory basis which is defined by state finance law. The Comptroller uses this statutory basis to control the Commonwealth's fiscal operations so as to assure that all state departments comply with applicable state finance law. The recognition of encumbrances is an important attribute of the statutory basis of accounting.

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

Under the statutory basis of accounting, if a deficiency occurs in a federally-mandated entitlement program such as Medicaid (*i.e.*, the amount necessary for mandated payments has exceeded the amount of the appropriations for that program), expenditures are not recorded or encumbered, and funds are not disbursed, until an appropriation has been enacted and allotments have been made, generally in the following fiscal year. As a result, in the Medicaid program, the Commonwealth records its statutory basis expenditures in each fiscal year only to the extent of appropriations. The approximate net effect is to charge in each fiscal year the Medicaid bills of the last one to two months of the preceding fiscal year and the first ten or eleven months of the current fiscal year.

GAAP Basis of Accounting. The financial information set forth in this document generally is presented on the Commonwealth's statutory basis of accounting. Since fiscal 1986, the Comptroller also has prepared Commonwealth financial statements on the basis of generally accepted accounting principles ("GAAP") as defined by the Governmental Accounting Standards Board. On the GAAP basis, modified accrual accounting is used for the recognition of revenues and Commonwealth expenditures/expenses. In addition to the primary government, component units (such as certain independent authorities and agencies of the Commonwealth) are also included in the reporting entity, primarily as non-budgeted enterprise funds.

Under GAAP, revenues are recorded in the period in which they become both measurable and available. "Available" means expected to be collected within the current period or soon thereafter, to be used to pay liabilities of the current period. Under current governmental GAAP, 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 cash basis (and statutory basis) tax revenues. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general 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 services payments due to the MBTA, claims and judgments and compensated absences such as vacation pay earned by state employees.

During fiscal year 1992 the Commonwealth has 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 accounts receivable. The system also automates the compilation of non-tax revenue accruals on an ongoing basis.

The following table provides financial results on a GAAP basis for fiscal years 1987 through 1991 for all budgeted operating funds of the Commonwealth.

Budgeted Operating Funds Operations - GAAP Basis
(in millions)

	Fiscal 1987	Fiscal 1988	Fiscal 1989	Fiscal 1990	Fiscal 1991
Fund equity (deficit) at beginning of year	$ 703.1	$ 720.4	$ (51.6)	$ (946.2)	$(1,895.5)
Revenues and Sources					
Taxes	7,957.5	8,032.8	8,685.2	8,259.6	9,131.1
Federal grants and reimbursements	1,463.1	1,614.8	1,736.8	1,649.7	2,808.8
Department and other revenues	990.7	975.9	1,085.1	1,249.0	1,359.1
Interfund transfers and other sources	779.5	639.0	804.4	807.0	800.7
Total revenues and other sources	11,190.8	11,262.5	12,311.5	11,965.3	14,099.7
Expenditures and Uses					
Programs and services	9,747.1	10,312.6	11,160.1	11,193.2	11,892.5
Pension	622.4	600.2	662.9	671.9	706.5
Debt service	524.1	563.7	649.8	770.9	942.3
Interfund transfers and other uses(1)	279.9	558.0	773.3	745.0	786.8
Total expenditures and other uses	11,173.5	12,034.5	13,206.1	13,381.0	14,328.1
Excess (deficiency) of revenues and other sources over expenditures and other uses	17.3	(772.0)	(894.6)	(1,415.7)	(228.4)
Prior year deficit financing	--	--	--	466.4	1,362.7
Fund equity (deficit) at end of year	$ 720.4	$ (51.6)	$ (946.2)	$(1,895.5)	$ (761.2)

SOURCE: Office of the Comptroller.

(1) Fund deficit support transfers of $361.2 million, $231.0 million and $234.8 million in fiscal 1987, 1988 and 1991, respectively, have been eliminated to facilitate comparative analysis. See "COMMONWEALTH REVENUES -- Federal and Other Non-Tax Revenues".

Using a modified accrual basis of accounting, the GAAP financial statements have provided a picture of the financial condition of the budgeted funds that is different from that reported on the statutory basis. See "OVERVIEW OF FINANCIAL RESULTS -- Selected Financial Data - Statutory Basis". In essence, a structural imbalance between revenues and expenditures became apparent earlier on the GAAP basis than on the statutory basis of accounting. Under GAAP, the budgeted funds reported a fund deficit at the end of the fiscal 1988, while on the statutory basis a positive fund balance was reported. The GAAP fund deficits in fiscal 1989 and 1990 were larger than the statutory basis deficits for the same years. At the end of fiscal 1991, the GAAP fund deficit stands in contrast to a positive fund balance on the statutory basis.

Financial Reports. The Commonwealth's fiscal year ends on June 30 of each year. Throughout the year, the Comptroller prepares monthly interim financial statements, and, in September, following the end of each fiscal year, the Comptroller issues his Preliminary Financial Report. These interim and preliminary financials are all prepared on the statutory basis of accounting and are not audited, but are considered authoritative. In the following January, the Comptroller publishes the Commonwealth's audited Comprehensive Annual Financial Report ("CAFR"). For fiscal 1986 through 1989 the CAFR included a complete set of financial statements and related footnote disclosures on both the statutory basis of accounting and on the basis of GAAP. For fiscal 1990 and 1991, the Comptroller produced two separate financial reports, one utilizing the statutory basis of accounting (the Statutory Basis Financial Report) and the CAFR utilizing GAAP. The general purpose financial statements from these two reports of the Commonwealth for fiscal 1991 are attached hereto as Exhibits B and C, respectively. For fiscal 1990 and 1991 the opinions of the independent auditors are unqualified as to both the statutory and GAAP basis statements; the fiscal 1990 opinion was the first unqualified opinion on the GAAP statements. Copies of these financial reports are available at the address provided under "CONTINUING DISCLOSURE".

As part of its responsibilities, the Comptroller retains an independent certified public accounting firm to render certain opinions on its financial statements and 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 CAFR for fiscal 1990, from which certain information contained in this Information Statement has been derived, was awarded the Certificate of Achievement for Excellence in Financial Reporting by the GFOA. The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report the basic contents of which conform to program standards. Such report must satisfy both generally accepted accounting principles and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The Comptroller believes that the CAFR for fiscal 1991 continued to conform to Certificate of Achievement program standards, and the fiscal 1991 CAFR has been submitted to the GFOA.

Capital Spending Controls

In conjunction with the development of his five-year capital spending plan, the Governor has directed the implementation of a number of accounting procedures and budgetary controls to limit agency capital spending to the levels authorized by his capital spending plan. From and after July 1, 1991, all agency capital spending is being tracked against the capital spending plan on both a cash and an encumbrance accounting basis on the Commonwealth's MMARS system. Federal reimbursements also will be budgeted and monitored against anticipated receipts. The Governor will also direct a consolidation of the number of state capital accounts and the implementation of a new capital contracts approval process. The Governor is pursuing additional measures to limit the past practice of shifting operating agency personnel costs and other operating expenses to capital budget accounts. In addition, commencing in fiscal 1993, the Governor expects to direct the allocation of related capital costs, such as depreciation, to agency operating budgets as further incentive for agency managers to control capital spending. See "COMMONWEALTH PROGRAMS AND SERVICES -- Debt Service".

Audit Practices of State Auditor

The State Auditor is mandated under state law to conduct an audit at least once every two years of all activities of the Commonwealth. The audit encompasses 750 entities, including the court system and the independent authorities, and includes an overall evaluation of management operations. The State Auditor also has the authority to audit federally aided programs and vendors under contract with the Commonwealth, as well as to conduct special audit projects. The State Auditor's office conducts both financial compliance and performance audits in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. In addition, and in conjunction with the accounting firm of Deloitte & Touche, the State Auditor performs a significant proportion of the audit work relating to the single state 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 Proposition 2½, the Commonwealth is required to reimburse cities and towns for any costs incurred through mandated programs established after the passage of Proposition 2½ unless expressly exempted from those provisions, and the State Auditor's financial analysis is used to establish the amount of reimbursement due.

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.

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. Currently pending is an action challenging (i) the Commonwealth's funding of public primary and secondary education systems on both federal and state constitutional grounds and (ii) the Commonwealth's special education laws and related municipal funding requirements as violative of the state constitution and Proposition 2 1/2. *Levy v. Weld* (Worcester Superior Court No. 89-0813). Plaintiff's constitutional claims are now pending before the Supreme Judicial Court. Similar constitutional claims were raised in *Webby v. Dukakis* (Supreme Judicial Court for Suffolk County No. 78-179) (now known as *McDuffy v. Robertson*, Supreme Judicial Court for Suffolk County No. 90-128) now pending before the Single Justice Session. *Massachusetts Hospital Association v. Rate Setting Commission* (Suffolk Superior Court No. 89-3215) challenges an element of the Medicaid rate setting methodology for hospitals. If the plaintiff hospitals are successful, the Commonwealth might face additional liability of approximately $10-25 million for fiscal 1988 through fiscal 1991. The parties have recently agreed to a process of settlement and payment of fiscal 1988 through 1991 claims, with payment to be made in fiscal 1993.

In *Massachusetts Hospital Association et al. v. Department of Public Welfare et al.* (Suffolk Superior Court No. 90-7116B), the Massachusetts Hospital Association and a group of chronic care hospitals seek an injunction to compel the Department of Public Welfare to pay for Medicaid patients at chronic care hospitals at rates which were set by the Rate Setting Commission but disapproved by the Department of Public Welfare under its statutory authority to veto rates. This matter is under advisement following argument of cross-motions for summary judgment. In *Jewish Memorial Hospital et al. v. Department of Public Welfare et al.* (Suffolk Superior Court No. 90-7114B) chronic care hospitals challenge new regulations governing preadmission screening for Medicaid patients. Summary judgment has been granted for the defendants; however, the plaintiffs have filed a notice of appeal. Two trade associations and three nursing homes filed suit challenging the February 1, 1991 action of the Department of Public Welfare in adjusting the management minutes ranges for case-mix categories used in calculating rates of reimbursement for Medicaid patients in long-term care facilities. This case is *The Massachusetts Federation of Nursing Homes, Inc. et al. v. Commonwealth et al.* (U.S. District Court No. 91-11366-C). The plaintiffs estimate that the adjustment results in a monthly $4 million loss to the nursing home industry. The plaintiffs' motion for a preliminary injunction was denied and certain claims were dismissed. On June 2, 1992, plaintiffs refiled the dismissed state law claims in Suffolk Superior Court. *Massachusetts Federation of Nursing Homes, Inc. et. al. v. Commonwealth et. al.* (Suffolk Superior Court No. 92-3370).

Challenges by residents of five state schools for the retarded in *Ricci v. Murphy* (U.S. District Court C.A. No. 72-469-T) resulted in a consent decree in the 1970's which required the Commonwealth to upgrade and rehabilitate the facilities in question and to provide services and community placements in western Massachusetts. The *Ricci* court in October 1986 issued orders leading to termination of active judicial supervision. The order and decrees have been extended a number of times, most recently through June 1992. *Dottin v. Dukakis* (Middlesex Superior Court No. 90-6551) is a class action suit brought in the name of eight individuals who claim they are entitled to alternative placement in residential programs. The class of plaintiffs has not been certified and the action is in its initial stages. *Manuel C. v. Dukakis* (Bristol County Probate Court 90E-0093-G1) is an action by 13 individuals who also claim they are entitled to alternative placement in residential programs. This action is also in its initial stages. *McNamara v. Dukakis* (U.S. District Court No. 90-12611-Z) is a class action by eleven clients or patients of the Department of Mental Health and three advocacy groups contesting reductions in the budget of the Department of Mental Health which have led or may lead to reductions in services to the class. This action is also in its initial stages. No class has been certified. *J.S. and D.M. by their next friends, Bailey, Flynn and Pine Street Inn v. Dukakis, Johnson and Tomes* (Suffolk Superior Court No. 90-7275-F) was filed in the beginning of December 1990 seeking preliminary and permanent injunctions requiring the Commonwealth to provide shelter and mental health services to homeless, seriously mentally ill individuals. The plaintiffs claim that the defendants have violated their state and federal statutory and constitutional duties. Class certification has been denied. *Albert Williams et al. v. Forsberg and Elias* (Suffolk Superior Court No. 91-3855-E) is a class action filed in early June 1991 by homeless, mentally ill patients. They challenge the discharge policies and procedures of the Department of Mental Health, and seek to require a comprehensive system of community mental health services. The *J.S. and D.M.* and *Williams* actions have been consolidated and are set for trial in August 1992. Class certification has been denied.

In *Avanzato v. Sullivan et al.* (U.S. District Court No. 91-30205-F) the plaintiffs contend that Massachusetts AFDC payment levels violate federal law in light of the Legislature's determination not to enact a clothing allowance as part of the fiscal 1992 budget. They seek an order enjoining the Commissioner of Public Welfare to pay AFDC benefits at a level equal to the payment levels in effect under the AFDC state plan on May 1, 1988, in addition to an order requiring the federal defendant to disapprove the state Medicaid plan within 60 days if the state does not issue its payment level. The class of plaintiffs has not been certified. On February 14, 1992 the Court granted plaintiffs' motion for summary judgment and declared that the Commonwealth was not in compliance with federal law. The Court certified an order for interlocutory review, and the Commissioner filed a petition for permission to appeal with the First Circuit Court of Appeals on February 24, 1992. The Court of Appeals denied the petition. The defendants subsequently moved to dismiss, and the plaintiffs' response will be due 30 days after the enactment of the fiscal 1993 budget.

In *Corriea, et al. v. Department of Public Welfare* (Suffolk Superior Court No. 92-2468-B) welfare applicants challenge the Department of Public Welfare's implementation of the "Emergency Aid to Elderly, Disabled, or Children" public assistance program and seek the reinstatement of benefits for thousands of individuals. The Department has moved to dismiss certain claims, and the plaintiffs have moved for a preliminary injunction on certain claims and certification of the case as a class action. The court has yet to hear any of the motions.

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. 83-1641-MA). The Massachusetts Water Resources Authority (the "MWRA"), successor in liability to the Metropolitan District Commission, has assumed primary responsibility for developing and implementing a court approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. The MWRA currently is in material compliance with the Court's scheduling orders, although the MWRA expects to miss a deadline for commencing construction of a landfill. The MWRA currently projects that the total cost of construction of the wastewater facilities required under the Court's order is approximately $3.5 billion in current dollars. Under the Clean Water Act, the Commonwealth may be liable for any costs of complying with any judgment in these or any other Clean Water Act cases to the extent the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment. The Commonwealth also has been sued on federal and state constitutional and common law grounds by nine municipalities of the Commonwealth which seek damages for the Commonwealth's opposition to the licensing of a nuclear power plant in Seabrook, New Hampshire. *Ashburnham v. Commonwealth* (Suffolk Superior Court No. 88-6917B). The municipalities allege damages in excess of $1 billion. The Commonwealth's motion to dismiss was allowed. Plaintiffs appealed, and the case is awaiting argument in the Appeals Court (No. 91-P-910).

The Commonwealth and the United States both have sued for their past and future costs in remedying the contamination caused by hazardous waste at the Charles George landfill in Tyngsborough, which was closed in 1983. *United States of America v. Charles George Trucking Company, Inc. et al.* (U.S. District Court C.A. No. 85-2463-WD) and *Commonwealth v. Charles George Trucking Company, Inc. et al.* (U.S. District Court C.A. No. 85-2714-WD). Defendants counterclaimed against the Commonwealth, alleging it was negligent in its regulation of the landfill in the 1970's. All parties eventually held liable will be jointly and severally liable, but then there would be a trial on "allocation" to determine each party's share. There are 65 defendants, plus the United States and the Commonwealth as counterclaim defendants. It is impossible to say at this point how many defendants will be held liable, or if the case will settle. The latest published figure on total past and future costs is $60 million.

Eminent Domain. The Commonwealth is engaged in several eminent domain suits pertaining to assessment of damages for takings of land for various public purposes. *Frank et al., Trustees v. Commonwealth* (Suffolk Superior Court No. 89-1355) is an action for damages pertaining to a taking of 150 Causeway Street, Boston, by the Department of Public Works for the Central Artery project. The case is currently in mediation, and trial may occur in the fall. Approximately $70 million of additional damages in excess of the *pro tanto* is at issue in this case. Up to 50% of the additional damages may be reimbursed by the federal government under the Federal Highway Trust. In *New Boston Garden Corp. v. Commonwealth* (Suffolk Superior Court), the owner of the Boston Garden and its concessionaire claim that the taking of 150 Causeway Street extinguished rights to certain access easements and to the use and occupancy of facilities which are purportedly essential to the continued operation of the arena. The plaintiffs base their claims upon allegations that the taking of 150 Causeway Street, in effect, constituted a partial taking of their vested property interests. Approximately $50 million in damages are at issue in this case.

Taxes and Other Revenues. The Commonwealth defends actions challenging the establishment of fees, taxes and other revenue-raising measures. One pending case challenges the constitutionality of amendments to the "bottle law" which provide that unclaimed bottle deposits (estimated at $22 million or more annually) escheat to the Commonwealth. *Massachusetts Wholesalers of Malt Beverages v. Commonwealth* (Suffolk Superior Court No. 90-1523). The Superior Court issued a decision on cross-motions for summary judgment upholding the constitutionality of the statute except for a retroactive funding provision, which the court found severable, and ordering the case reported to the Appeals Court. The Supreme Judicial Court granted the plaintiff's application for direct appellate review and briefing is ongoing. In *American Trucking Assns. et al. v. Nessen et al.* (Suffolk Superior Court No. 91-7048) plaintiffs challenge two fees imposed on trucks, arguing that they violate the Commerce Clause of the Constitution of the United States. Should this action be successful, the Commonwealth's total liability could be in excess of $20 million. The parties have completed a statement of agreed facts, and the case will be reported to the Appeals Court.

In addition, there are several tax cases pending which could result in significant refunds if taxpayers prevail. It is the policy of the Attorney General and the Commissioner of Revenue to defend such actions vigorously on behalf of the Commonwealth, and the descriptions that follow are not intended to imply that the Commissioner has conceded any liability whatsoever. Such matters include a case involving whether capital gains taxation on a stock sale may be avoided by assigning the stock to Delaware corporations on the day before the sale (decision in favor of the taxpayer was issued by the Appellate Tax Board on August 31, 1990, and the Appeals Court heard argument on January 22, 1992 -- approximately $45 million in taxes and interest at issue). Approximately $150 million in taxes and interest in the aggregate are at issue in three other cases pending before the Appellate Tax Board or on appeal to the Appeals Court or the Supreme Judicial Court.

In *Massachusetts Water Resources Authority Advisory Board et al. v. Commonwealth et al.* (Supreme Judicial Court for Suffolk County No. 91-368), the MWRA's Advisory Board which is composed of representatives of the cities and towns that receive services from the MWRA, certain members of the Advisory Board's Executive Committee and nine Massachusetts municipalities served by the MWRA challenged provisions in the Commonwealth's fiscal 1992 budget legislation that (1) authorized the Metropolitan District Commission to recompute the fee for water delivered from the Commission's watershed lands to the MWRA and (2) required the MWRA to pay $120 million to the Commonwealth as a present value payment in consideration of costs borne by the Commonwealth on behalf of the MWRA, including the payment of interest and principal on certain debt issued by its predecessor agency. The plaintiffs also challenge a requirement that the MWRA pay the Commonwealth $1.3 million in conjunction with the Commonwealth's Spring 1991 "furlough program". On November 15, 1991 the MWRA filed a crossclaim against the Commonwealth challenging the $120 million and $1.3 million payments described above. On April 17, 1992, a single justice of the Supreme Judicial Court dismissed the water fee claim and dismissed the Advisory Board as a plaintiff. The case remains in its initial stages.

State Employees. In *National Association of Governmental Employees et al. v. Weld et al.* (Suffolk Superior Court No. 91-7224-A) and *Griffith et al. v. Commonwealth* (Suffolk Superior Court No. 92-0417), public employees and their union seek a declaratory judgment as to the amount of money appropriated during fiscal 1992 to fund the Commonwealth's share of public employee group health insurance premiums. The plaintiffs claim that the amount appropriated is $499 million, rather than $435 million. The Commonwealth filed motions to dismiss both cases on jurisdictional grounds. On February 20, 1992 the Superior Court dismissed the *National Association* case for lack of jurisdiction. The *Griffith* motion to dismiss remains pending before the court.

Three state employee unions have brought separate suits challenging the Governor's decision in December 1991 not to approve appropriations to fund pay increases provided for in collective bargaining agreements negotiated by the prior administration. If plaintiffs were successful, and if the result were applied to other state employee unions' contracts, the cost to the Commonwealth could be approximately $289 million over the three-year lives of the contracts (July 1, 1990 through June 30, 1993). The three cases, which have been consolidated and reserved and reported to the Supreme Judicial Court and were argued on May 5, 1992, are *National Association of Government Employees v. Commonwealth et al., Alliance, AFSCME/SEIU v. Weld et al.* and *Massachusetts Organization of State Engineers and Scientists et al. v. Commonwealth et al.* (Supreme Judicial Court No. 5895).

Other Fiscal Matters. In *Mitchell et al. v. Nessen et al.* (Supreme Judicial Court No. 5890) 24 taxpayers and others challenge a transfer of $235 million from the Highway Fund to the General Fund. They seek to restrain the expenditure of these funds from the General Fund and to restore the funds to the Highway Fund. The Supreme Judicial Court heard argument in this case on May 6, 1992.

In *County of Barnstable, et al. v. Commonwealth of Massachusetts* (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 case is now in the discovery stage. A final Supreme Judicial Court decision is likely by early 1993.

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 Comptroller, The Commonwealth of Massachusetts, One Ashburton Place, Room 909, Boston, Massachusetts 02108.

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ECONOMIC INFORMATION

The information in this section may be relevant to evaluating the economic and financial condition and prospects of the Commonwealth. The demographic information and statistical data, which have been obtained from the sources indicated, do not necessarily present all factors which may have a bearing on the Commonwealth's fiscal and economic affairs.

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

OVERVIEW

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

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

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

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

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

Today Massachusetts is a leader in research and development of biotechnology, biomedical technology, software, robotics, and other high technology products. A large proportion of Massachusetts' total work force is employed in high technology-related jobs. Nonmanufacturing high technology jobs have continued to increase their share of total employment in the state. According to the U.S. Department of Labor, about 4.2% of all U.S. high technology jobs are located in Massachusetts. The concentration of world-renowned research institutions and computer and electronics companies such as Digital Equipment Corporation, Wang Laboratories and Data General, as well a large number of smaller firms, has helped make Massachusetts a national center for high technology industries. There is also substantial industry surrounding polymer science applications. The presence of the University of Massachusetts at Amherst and the Massachusetts Institute of Technology, both leading research institutions in polymer science, provides a base for firms conducting research in this area, including General Electric in Pittsfield, Monsanto in Springfield, and Novecor in Leominster. Each year, according to Plastics World, polymer-related industries in Massachusetts generate over $2.0 billion in sales.

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

Population Characteristics

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

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

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

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

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

Population
1970-1990 (In Thousands)

Mid-Year	United States Total	United States % Change Over Preceding Period	Massachusetts Total	Massachusetts % Change Over Preceding Period	New England States(1) Total	New England States(1) % Change Over Preceding Period	Eleven Large States (2) Total	Eleven Large States (2) % Change Over Preceding Period
1970	203,799	---	5,704	---	11,878	---	16,873	---
1975	215,457	5.7	5,762	1.0	12,176	2.5	122,399	4.7
1980	227,255	5.5	5,743	(0.4)	12,368	1.6	127,932	4.5
1981	229,637	1.0	5,755	0.2	12,417	0.4	129,270	1.0
1982	231,996	1.0	5,747	(0.1)	12,434	0.1	130,671	1.1
1983	234,284	1.0	5,764	0.3	12,496	0.5	132,071	1.1
1984	236,477	0.9	5,795	0.5	12,580	0.7	133,363	1.0
1985	238,736	1.0	5,824	0.5	12,664	0.7	134,788	1.1
1986	241,107	1.0	5,835	0.2	12,742	0.6	136,337	1.1
1987	243,427	1.0	5,856	0.4	12,845	0.8	137,786	1.1
1988	245,785	1.0	5,890	0.6	12,965	0.9	139,217	1.0
1989	248,239	1.0	5,913	0.4	13,047	0.6	140,773	1.1
1990(3)(4)..........	248,710	---	6,016	---	13,207	---	141,505	---

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

NOTES: (1) Connecticut, Maine, Massachusetts, New Hampshire, Rhode Island and Vermont.

(2) California, Florida, Illinois, Massachusetts, Michigan, New Jersey, New York, North Carolina, Ohio, Pennsylvania and Texas.

(3) The 1981-1989 estimates shown above are based on the 1980 Census. They have not yet been revised to reflect the 1990 population count (reported as the figure for 1990). Since the 1989 estimates are based on data which does not take into account the figures from the most recent Census, one cannot compare 1989 data with 1990 data. Hence percentage changes have been omitted for this year.

(4) As of April 1 of that year.

For the most part, net migration has not contributed to much change in the Commonwealth's population during the last decade, though preliminary evidence suggests that out-migration has recently increased.

Net Migration to (from) Massachusetts
1980-1990

Year	Length of Period	Net Migration(1)
1980-1981	15 months	(5,571)
1981-1982	12 months	(30,433)
1982-1983	"	(5,307)
1983-1984	"	8,995
1984-1985	"	4,200
1985-1986	"	(15,444)
1986-1987	"	(6,632)
1987-1988	"	3,720
1988-1989	"	(9,804)
1989-1990(2)	9 months	(34,624)

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

NOTES: (1) Figures in parentheses are negative values.
(2) See note number (4) above.

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

Distribution of Population by Age
(In Thousands)

	1990		2000 (Projected)	
Age	Number	% of Total	Number	% of Total
Under 5	412	6.8	334	5.7
5 to 19	1,136	18.8	1,181	19.4
20 to 24	514	8.5	377	6.2
25 to 34	1,101	18.3	890	14.6
35 to 44	918	15.2	1,056	17.3
45 to 54	600	10.0	843	13.8
55 to 64	515	8.6	541	8.9
65 and over	819	13.6	855	14.0

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

Personal Income

For the period between 1985 and 1988, per capita personal income growth in Massachusetts was among the highest in the nation. Though the growth rate of per capita personal income has slowed in Massachusetts in the last two years, per capita personal income is still the third highest in the nation. Per capita personal income for Massachusetts residents, unadjusted for differentials in the cost of living, was $22,897 in 1991, as compared to the national average of $19,082.

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

Per Capita Personal Income
1985-1990

	Massachusetts	United States	New England States
1985	$16,145	$13,942	$15,852
1986	17,414	14,654	17,030
1987	18,889	15,494	18,489
1988	20,607	16,600	20,113
1989	21,853	17,738	21,371
1990	22,555	18,696	22,111
1991	22,897	19,082	22,425
% Change			
1985-86..................	7.9%	5.1%	7.4%
1986-87..................	8.5	5.7	8.6
1987-88..................	9.1	7.1	8.8
1988-89..................	6.0	6.9	6.3
1989-90..................	3.2	5.4	3.5
1990-91..................	1.5	2.1	1.4

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

Cost of Living

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

The following table presents information on consumer price trends for the Boston metropolitan area and the United States for the period between 1985 and 1990. Data for 1991 indicates that between July 1990 and July 1991, the consumer price index for all urban consumers in the Boston metropolitan area grew at the rate of 5.5.%, while the consumer price index for the United States, over the same period, grew at the rate of 4.4%.

Changes in Consumer Price Index for All Urban Consumers
All Items

	United States	Boston Metro
1985	3.6%	4.5%
1886	1.9	2.6
1987	3.7	4.4
1988	4.1	6.1
1989	4.8	5.7
1990	5.4	5.8

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

Employment

The Massachusetts service sector, at 32.4% of the work force in March of 1992, is the largest sector in the Massachusetts economy. In the nation as a whole, about 26% of all jobs are in the service sector. Government employment, at 14.0% of the Massachusetts work force, is below the national average.

The construction, manufacturing and trade sectors experienced the greatest decreases between 1989 and 1990, with more modest declines taking place in the government, finance, insurance and real estate ("FIRE") and services sectors over the same period.

The table below demonstrates the changes in employment by sector.

Massachusetts Employment by Industry -- Annual Averages
(In Thousands)

	1989	1988-1989 % Change	1990	1989-1990 % Change	1991	1990-1991 % Change
Total Nonagricultural Employment	3,103.4	(0.7)	2,979.0	(4.0)	2,817.0	(5.4)
Sector						
Mining	1.6	(5.8)	1.4	(12.5)	1.2	(14.3)
Construction	126.8	(10.8)	101.9	(19.6)	79.3	(21.6)
Manufacturing	561.1	(4.0)	521.3	(7.1)	484.5	(7.1)
Transportation & Communications	128.3	(4.0)	129.9	1.2	124.2	(4.4)
Wholesale and Retail Trade	740.5	0.1	700.1	(5.5)	649.5	(7.2)
FIRE	217.3	(1.9)	213.3	(1.8)	203.9	(4.4)
Services	924.1	3.1	915.7	(0.9)	889.9	(2.8)
Government	403.6	(0.8)	396.4	(1.8)	384.5	(3.0)
CLF (Civilian Labor Force)	3,180.0	0.8	3,166.0	(0.4)	3,127.0	(1.2)
Unemployed	127.0	23.3	189.0	48.8	280.0	(48.1)
Unemployment Rate	4.0%		6.0%		9.0%	

SOURCE: Massachusetts Department of Employment and Training. Sum of parts may not equal totals due to rounding.

The following table presents changes in nonagricultural employment by sector for March, 1991 and March, 1992. The most recent data indicate that total nonagricultural employment contracted by 1.9% between March, 1991 and March, 1992.

Massachusetts Employment by Industry -- Monthly Averages (In Thousands)

	March, 1991	% of Total	March, 1992(1)	% of Total	% Change Between March, 1991 and March, 1992
Total Nonagricultural Employment	2,804.7		2,751.6		(1.9)
Sector					
Construction	72.1	2.6	63.8	2.3	(11.5)
Manufacturing	491.1	17.5	467.4	17.0	(4.8)
Transportation & Communications	124.4	4.4	122.6	4.5	(1.4)
Wholesale & Retail Trade	637.4	22.7	622.4	22.6	(2.4)
FIRE	204.8	7.3	197.9	7.2	(3.4)
Services	879.9	31.4	890.3	32.4	1.2
Government	393.9	14.0	386.2	14.0	(2.0)
High Tech Manufacturing	203.4	7.3	187.9	6.8	(7.6)
High Tech Non-Manufacturing	89.8	3.2	86.5	3.1	(3.7)
Average Weekly Earnings (dollars) Manufacturing	$479.76		$495.64		3.3
CLF (Civilian Labor Force)(2)	3,142.0		3,143.0		.4
Unemployed(2)	295.0		287.0		(2.7)
Unemployment Rate(2)	9.4%		9.1%(3)		(2.7)

SOURCE: Massachusetts Department of Employment and Training and US Department of Labor, Bureau of Labor Statistics. Sum of the parts may not equal totals due to rounding.

NOTES:
(1) Preliminary, subject to revision.
(2) Figures seasonally adjusted.
(3) The unemployment rate for April, 1992 was 8.6%

Business and Employment Base

The following table lists, in alphabetical order, the twenty-five largest private sector employers in Massachusetts as of June, 1991.

Commonwealth of Massachusetts
Twenty-Five Largest Private Massachusetts Employers

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

SOURCE: Massachusetts Department of Employment and Training.

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

Massachusetts Companies in Fortune 500

Ranking 1990	Ranking 1989	Company	Industry	1990 Sales $ Millions	1989 Sales $ Millions
30	27	DIGITAL EQUIPMENT (Maynard)	Computer Equipment	13,084.5	12,866.0
52	52	RAYTHEON (Lexington)	Electronic Components	9,362.3	8,796.1
113	124	GILLETTE (Boston)	Personal Care Products/Cutlery	4,394.0	3,849.6
169	147	WANG LABORATORIES (Lowell)	Computer Equipment	2,634.7	3,078.4
182	245	EG & G (Wellesley)	Instruments	2,478.5	1,655.1
213	218	POLAROID (Cambridge)	Photographic Equipment	2,006.4	1,941.9
243	216	CABOT (Waltham)	Chemical Products	1,684.7	1,943.7
252	259	DR HOLDINGS (Natick)	Computer Equipment	1,615.1	N.A.
297	280	AMOSKEAG (Boston)	Financial Services	1,276.5	1,402.0
302	290	DATA GENERAL (Westboro)	Computer Equipment	1,324.0	1,223.1
361	366	OCEAN SPRAY (Lakeville)	Food Products	915.1	873.1
415	472	THERMO ELECTRON (Waltham)	Instruments	723.1	594.1
422	439	MILLIPORE (Bedford)	Instruments	709.9	661.4
434	483	STANHOME (Westfield)	Home Products	675.7	576.9

SOURCE: Fortune Magazine, April 22, 1991.

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

New Business Incorporations

Monthly Averages 1987-1991

	1987	1988	1989	1990	May 1991
Massachusetts	1,438	1,366	1,173	1,025	1,004
New England	3,491	3,353	2,964	2,329	2,558
United States	57,185	56,940	56,587	51,949	56,593

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

Some businesses in Massachusetts are failing. According to Dun & Bradstreet, an average of 217 businesses have failed per month in Massachusetts between January, 1991 and June, 1991, with 236 failing in the month of June. This is compared to an average of 157 for the same period in 1990. While the number of business failures increased in the intervening year, Massachusetts has fared significantly better than the New England economy as a whole. For the same period in 1991, a total of 2,675 New England businesses failed, as compared to 1,380 in the same months of 1990. The figures for Massachusetts are 1,302 and 942, respectively. The relative resilience of the Massachusetts economy is evidenced by this 28% decline since 1990 in Massachusetts business failures as a percentage of total new England failures.

Labor Force

Massachusetts' labor force participation rate is higher than the national rate. In 1990, 68.5% of non-institutionalized working-age Massachusetts residents were employed. This is 2.1 percentage points higher than the equivalent national rate. During the mid-1980s when the state's unemployment rate dropped below 3%, there was concern that Massachusetts' high labor force participation rate might exacerbate the upward pressure on wages. During the current economic downturn, however, the high labor force participation rate provides a modest damper on the effective familial impact of unemployment -- many of those unemployed are members of households with more than one worker. The presence of additional, employed workers in the family lessens the impact of unemployment on those workers who find themselves unemployed.

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

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

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

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

NOTE: Massachusetts population as a percent of U.S. Total = 2.4%

Unemployment

From 1980 to 1989, Massachusetts' unemployment rate was significantly lower than the national average. By 1990, however, unemployment reached 6.0%. For the first time since 1977, the Commonwealth's unemployment rate exceeded the national average. In 1991, Massachusetts' unemployment rate averaged 9.0%. The Massachusetts unemployment rate in March, 1992 was 9.1%, which is less than the 9.4% figure recorded in March, 1991. However, the unemployment rate for April, 1992, although it decreased to 8.6%, was slightly higher than the 8.4% figure recorded in April, 1991.

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

Annual Average Civilian Labor Force, Unemployment and Unemployment Rates for Massachusetts and the United States, 1980-1990 (In Thousands)

	Civilian Labor Force		Unemployed		Unemployment Rate		Mass. Rate as % of
Year	Mass.	U.S.	Mass.	U.S.	Mass.	U.S.	U.S. Rate
1980	2,867	106,940	162	7,637	5.6	7.1	78.9
1981	2,947	108,670	187	8,273	6.4	7.6	84.2
1982	2,993	110,204	237	10,678	7.9	9.7	81.4
1983	2,977	111,550	205	10,717	6.9	9.6	71.9
1984	3,047	113,544	145	8,539	4.8	7.5	64.0
1985	3,051	115,461	120	8,312	3.9	7.2	54.2
1986	3,058	117,834	118	8,237	3.8	7.0	54.3
1987	3,086	119,865	99	7,425	3.2	6.2	51.6
1988	3,155	121,669	103	6,701	3.3	5.5	60.0
1989	3,180	128,869	127	6,528	4.0	5.3	75.5
1990	3,166	124,787	189	6,874	6.0	5.5	109.1

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

Unemployment Compensation Trust Fund

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

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

Massachusetts Unemployment Compensation Trust Fund balance was $254.4 million as of December 31, 1991. Benefit payments in excess of contributions will be financed by use of repayable advances from the federal unemployment loan account.

Recently enacted legislation will significantly increase employer contributions and reduce advances from the federal loan account. The advances from the loan account are expected to be $400 million by the end of 1992. An interest payment of between $28 million and $34 million on previous advances from the federal loan account will be due before September 30, 1992. The interest payment will be financed by a special assessment on employers prior to September.

The additional increases in contributions provided by the new legislation should result in a positive balance in the Unemployment Compensation Trust Fund by December 1994 and rebuild reserves in the system to over $1 billion by the end of 1996.

RECENT PERFORMANCE

Between 1982 and 1988 Massachusetts' economy generally outperformed the national economy. During this period, Massachusetts experienced significant employment growth in the face of minimal population growth, a phenomenon that resulted in extremely low unemployment rates as well as dramatic increases in per capita income. The service and trade sectors were major sources of Massachusetts employment growth during this period. Accompanying the growth in these sectors was the creation of significant numbers of new high-paying jobs. The same period also saw significant increases in the export of goods to international destinations. The concentration of preeminent health care facilities and institutions of higher education provided an additional source of economic strength to the Massachusetts economy.

At the present time, however, the Massachusetts economy is experiencing a slowdown. While Massachusetts had benefited from an annual job growth rate of approximately 2% since the early 1980's, by 1989, employment had started to decline. Nonagricultural employment declined 0.7% in 1989 and 4.0% in 1990. A comparison of total, nonagricultural employment in March, 1991 with that in March, 1992 indicates a decline of 1.9%. The state's unemployment rate continues to exceed the national unemployment rate. Per capita personal income growth has slowed, after several years during which the per capita personal income growth rate in Massachusetts was among the highest in the nation. Between the third quarter of 1990 and the third quarter of 1991, aggregate personal income in Massachusetts increased .2%, as compared to 2.8% for the nation as a whole.

Economic Performance by Sector

Services

The services sector is the largest sector in the economy of Massachusetts in terms of numbers of employees. The services sector includes the broad categories of health services, business services, educational services, engineering and management services, and social services. In March, 1992, service sector employment was 890,300, representing 32.4% of total nonagricultural employment. The service sector represented a major source of strength in the Massachusetts economy, increasing 17.6% between 1985 and 1989, with 3.1% of that growth occurring in 1989. Between March, 1991, and March, 1992, service sector employment increased 1.2%. An area with relatively high wages, business services employed 15.6% of service sector workers in March, 1992. As compared with the nation, Massachusetts has a greater concentration in the business services.

Health Services

The health care industry continues to play an important role in the Massachusetts economy. Health services is the largest component of the service sector in terms of employment. In March, 1992, the health services sector numbered 282,500 workers, with 131,000 of those employed by hospitals. This constitutes a 2.9% increase in total health service workers during the preceding year. Hospital employment increased by 1.1% for this period.

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

Educational Services

Massachusetts is an internationally recognized center for higher education, with approximately 426,620 students in undergraduate, professional and graduate programs, according to recent data supplied by NEBHE. The number of foreign students enrolled in Massachusetts colleges and universities totals approximately 20,000 or about 5.4% of the U.S. total. The Massachusetts public higher education system is composed of universities, state colleges, and community colleges with a combined enrollment of approximately 189,000 students. The strength of both public and private colleges and universities as centers for research, teaching, and education contributes to the high quality of the Massachusetts work force and plays a key role in attracting and retaining business and industry within the state.

The preeminence of higher education in Massachusetts contributes not only to the quality of its work force, but also to its stature in the nation and the world as a center for basic scientific research and for academic and entrepreneurial research and development. For example, Massachusetts institutions have a large number of Nobel Laureates. The Massachusetts Institute of Technology recently became the first university in the U.S. to receive more than 100 patents in a year. Nationally, private industry funded only 6.5% of university research and development ("R&D") at doctorate-granting institutions in 1989. This is significantly lower than the 9.1% figure for Massachusetts. The federal government provides funding for 71.7% of all R&D activities in Massachusetts, compared to 59.9% for the nation as a whole during the same period. Massachusetts was fourth in the nation in total federal dollars pledged to R&D work at research institutions.

Federal funding sources reflect the diversity of the research and development work done at Massachusetts educational institutions. According to the most recent figures from the National Science Foundation, of the $545 million total federal spending on college and university-based research and development in 1988 in Massachusetts, 47.0% was from the Department of Health and Human Services, 18.1% was from the National Science Foundation, 15.6% was from the Department of Defense, 9.8% was from the Department of Energy, and 2.9% was from the Department of Agriculture.

Federal spending on research institutions in Massachusetts helps leverage the $2.7 billion in total federal R&D obligations to Massachusetts businesses and institutions for 1989. Of this money, 66% was from the Department of Defense, 21% from the Department of Health and Human Services, and 4.6% from the National Science Foundation.

The Massachusetts colleges and universities are also significant employers within the state. Four of the state's private universities are among the state's 25 largest non-governmental employers. The educational services sector includes only private institutions for education; public institutions are included in the government sector. According to the Massachusetts Department of Employment and Training, educational services accounted for 127,700 jobs in March, 1992, while in the government sector, state and local public education accounted for 154,900 jobs.

Trade

During the mid-1980s the trade sector was an area of strong job growth, boosted by a growing export sector. The rate of growth in the trade sector slowed in 1991 as weakness in the retail sector caused an overall yearly decline of 7.2% in the number of jobs. In March, 1992, retail and wholesale trade was the second-largest employment sector in Massachusetts, with 622,400 workers. Of this number, about three-quarters were employed in retail trade.

Retail Sales

Retail sales growth in the Commonwealth outpaced national sales growth during the mid-80s, though in more recent years this has not been the case. According to the Federal Reserve Bank of Boston, retail sales for the month of April, 1991, were at the 1990 average for both the Commonwealth and the United States as a whole. The following table sets forth annual retail sales activity for Massachusetts and the United States from 1985 through 1990.

Annual Retail Sales Activity
(adjusted for seasonal variations and trading day differences)
1985-1990 (In Millions)

	Massachusetts	% Change	United States	% Change
1985................................	$38,281	--	$1,375,704	--
1986................................	41,920	9.5	1,450,317	5.1
1987................................	45,536	8.6	1,542,102	6.3
1988................................	49,710	9.2	1,651,354	7.1
1989................................	51,439	3.5	1,741,748	5.5
1990................................	50,757	(1.3)	1,807,219	3.8

SOURCE: United States Department of Commerce.

Manufacturing

Today, like virtually all industrial states, Massachusetts has seen a steady diminution of its manufacturing job base. Between 1990 and 1991, manufacturing employment declined 7.1%, from 521,300 to 484,500. Manufacturing employment stood at 467,400 workers in March, 1992. Until recently, employment in high technology manufacturing has outperformed manufacturing generally in Massachusetts. While high technology manufacturing is in a slowdown nationally as well as a in Massachusetts, it is expected to continue to outperform manufacturing in the long-term. As of March, 1992, high technology manufacturing employed 187,900 persons. Generally, the Massachusetts manufacturing sector is made up of many small and diversified firms. Currently, about 80% of the manufacturing firms in Massachusetts employ fewer than 50 people.

The following table shows trends in manufacturing employment by industry for Massachusetts for 1988 through 1990.

Manufacturing Establishment Employment by Industry in Massachusetts 1989-1991 (In Thousands)

	1989		1990		1991	
	Employees	%	Employees	%	Employees	%
Durable Goods						
Primary Metals	12.3	3.3	11.3	3.3	10.3	3.3
Fabricated Metals	43.2	11.6	40.9	11.9	38.2	12.1
Industrial Machinery and Equipment	95.8	25.7	85.2	24.9	76.1	24.1
Electronic and Electric Equipment	79.3	21.3	72.9	21.3	68.3	21.6
Transportation Equipment	30.6	8.2	27.8	8.1	25.7	8.1
Stone, Clay and Glass	10.0	2.7	8.7	2.5	7.7	2.4
Instruments	71.2	19.1	69.4	20.3	65.8	20.8
Other Durable Goods	29.5	7.9	26.5	7.7	24.1	7.6
Total Durable Goods	372.1	100.0	342.7	100.0	316.2	100.0
Non-Durable Goods						
Apparel and Related Goods	22.0	11.6	19.2	10.8	17.5	10.4
Food Products	20.5	10.8	20.1	11.3	19.5	11.6
Chemical Products	18.4	9.7	17.7	9.9	17.5	10.4
Printing and Publishing	55.0	29.1	52.2	29.2	49.5	29.4
Textile Mill Products	15.5	8.2	14.6	8.2	13.9	8.3
Paper Products	23.4	12.4	22.5	12.6	21.0	12.5
Other Non-Durable Goods	34.2	18.1	30.9	17.3	28.0	16.6
Total Non-Durable Goods	189.0	100.0	178.6	100.0	168.3	100.0
Total Manufacturing Employees	561.1		521.3		484.5	

SOURCE: Department of Labor, Bureau of Labor Statistics; Massachusetts Department of Employment and Training. Sum of parts may not equal totals due to rounding.

International Trade

Much of what Massachusetts produces is exported abroad. Massachusetts ranked tenth in the nation with more than $11.5 billion in exports in 1990. This represented an increase of 10.6% in the value of exports from the previous year. Manufactured goods accounted for 96.4% of all receipts in 1990. Such a focus on production for export has given Massachusetts the fifth highest concentration of manufacturing sector jobs dependent on exports in the nation, according to the Bureau of the Census' 1987 Census of Manufacturers (the most recent data available). Three of the four states with greater concentrations border Massachusetts. According to the same report, 190,600 of Massachusetts' manufacturing jobs, which amounts to 6.4% of its civilian labor force, were dependent upon exports. Massachusetts' most important exports are industrial machinery including computer equipment, electronic and electric equipment excluding computer equipment and instruments and related products. The following chart describes the top ten manufactured exports.

Massachusetts - Total Dollar Value of Shipments by Major Industry Group

Major Industry Group	Massachusetts 1989	Massachusetts 1990	Percent Change 1989 - 1990 Mass.	New England	U.S.
Total All Industries	10,471,988,332	11,586,825,332	10.65	12.78	12.88
Manufacturing	10,182,123,284	11,199,483,021	9.99	12.20	14.03
Industrial machinery, computer equipment	4,520,966,289	4,284,145,861	(5.24)	(2.46)	8.91
Electronic, electric equip, excluding computer	1,395,937,425	2,030,534,547	45.46	27.18	21.26
Instruments and related products	1,635,974,528	1,871,788,051	14.41	12.23	9.28
Chemicals and allied products	399,128,333	479,534,734	20.15	13.15	6.29
Fabricated metal products	426,317,202	459,159,218	7.70	17.49	20.65
Transportation equipment	433,584,243	403,039,088	(7.04)	10.17	15.77
Special classification provisions, NSPF	135,036,414	218,806,485	62.04	60.89	6.56
Rubber and misc. plastics products	192,380,454	214,027,405	11.25	24.29	33.29
Paper and allied products	174,952,180	202,948,581	16.00	4.45	4.40
Primary metal industries	170,672,033	182,675,277	7.03	13.89	12.19

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

Massachusetts' most important trading partners for 1990 were: Canada, which purchased $2.2 billion worth of products; Japan, which bought $1.4 billion; Germany, which bought $1.2 billion; and the United Kingdom, which bought $1.2 billion. In 1990, Massachusetts exported about $4.8 billion to the European Economic Community ("EEC"). This was about 5% of all US exports to the EEC. Massachusetts also exported about $3.1 billion to Japan and other Asian countries. This was about 60% of New England exports to Asia and about 2.6% of US exports to the same.

Finance, Insurance and Real Estate

While the Finance, Insurance and Real Estate ("FIRE") sector experienced 23.7% growth in employment between 1984 and 1988, there was a 1.9% decrease in employment between 1988 and 1990. The total employment in FIRE was 203,900 in 1991, and 197,900 as of March, 1992. One reason for the decline has been the slowdown in the real estate market, which, in turn, has contributed to the decline in the banking industry. Many banks in New England have experienced dramatic increases in troubled real estate loans. A number of Massachusetts banks have recently failed, including Bank of New England, N.A., Capital Bank, Eliot Savings Bank, First American Bank for Savings and Home Owners Savings Bank. Recently Bank of New England was purchased by Fleet/Norstar Financial Group, which is based in Rhode Island. Other Massachusetts banks have also discussed the possibility of mergers with or acquisitions by non-Massachusetts banks. Many banks in the Commonwealth are increasing loan loss reserves to cover an anticipated higher level of problem loans. Unless further capital infusions are forthcoming, attempts to boost capital through the sale of real estate holdings or portfolios may further aggravate the real estate market.

Construction

Employment in the construction industry experienced dramatic growth in the first part of the decade, increasing by more than 70% between 1982 and 1988. This trend, however, has reversed direction, with employment in the construction industry declining as a result of excess supply in both the residential and commercial real estate markets.

The following table shows the number of housing permits authorized on an annual basis in Massachusetts and the United States. The number of Massachusetts permits declined 28.8% between 1989 and 1990, while the number of housing permits issued nationally declined 16.3% over the same period. In recent months there has been some improvement in the Massachusetts housing industry. In June, 1991, 1,221 permits for housing, with a value of about $128 million, were issued. The total value of all new residential and commercial construction contracts has also risen. In May, 1991, the value of new construction contracts was 23% above the May, 1990, monthly average.

Housing Permits Authorized in Massachusetts and the United States
1980-1990

	Massachusetts	United States
1980	16,500	1,171,000
1981	15,900	985,000
1982	15,500	1,000,000
1983	22,600	1,606,000
1984	28,400	1,691,000
1985	39,200	1,733,000
1986	43,400	1,773,000
1987	40,000	1,542,000
1988	31,800	1,450,000
1989	21,900	1,347,000
1990	15,600	1,127,000

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

Defense

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

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

Defense Indicators for New England and the Nation

	Prime Contract Awards per Capita FY 1987-89 Average		Percent of Production Related to Defense
	Total	Research	Estimated for 1989
Connecticut	$1,651	$ 81	7.6%
Maine	480	5	6.8
Massachusetts	1,405	364	6.0
New Hampshire	437	51	5.2
Rhode Island	446	29	4.6
Vermont	241	30	4.2
Total New England	$1,176	$194	6.2%
Total United States	$ 514	$ 89	4.7%

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

Massachusetts leads the New England region in federally funded defense research activities, with contracts in amounts exceeding 1.9 times the national average. An estimated 6% of the goods and services in Massachusetts are attributable to the defense sector. It is unknown at this time what effect federal budget deliberations and international events will have on the level of defense contracts awarded within Massachusetts. To the extent there are federal spending reductions, they may have a significant impact on the level of defense related production and research in Massachusetts. However, since most contracts cover a period of years, the effect of any cancellations or federal spending reductions may not be directly experienced for some time. One estimate, offered by the Defense Budget Project, does project that civilian defense related employment in Massachusetts will decline to 90,000 by 1993.

Travel and Tourism

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

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

Housing Indicators

The current slowdown in the regional economy is reflected in the housing sector. On a seasonally adjusted annual rate basis, existing home sales for the Commonwealth appear in the table below.

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

1988	93.6
1989	87.2
1990	66.0
1991(1)	58.6

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

NOTE: (1) Estimated based on information for the first quarter of 1991.

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

Home Prices for Boston Metropolitan Area
(In Thousands)

1988	$180.7
1989	181.5
1990	173.8
1991(1)	161.9

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

NOTE: (1) Estimate for the first quarter of 1991.

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

Major Infrastructure Projects

It is anticipated that over the next decade, several major public sector-sponsored construction projects will commence in Massachusetts giving rise to new employment opportunities. The projects include the depression of the central artery which traverses the City of Boston, and the construction of a third harbor tunnel linking downtown Boston to Logan Airport. Preconstruction work for the projects has already begun. Completion of the projects is planned for 1998. The federal government will take responsibility for about 90% of the estimated $5.0 billion cost of the projects. It is estimated that the projects will employ 2,000 on-site workers and 4,000 others in an auxiliary capacity by June, 1992. Plans are to employ 5,000 on-site workers and 10,000 auxiliary workers during the peak year of construction, 1994 to 1995.

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

The Massachusetts Water Resources Authority ("MWRA") is undertaking capital projects for the construction and rehabilitation of sewage collection and treatment facilities in order to bring wastewater discharges into Boston Harbor into compliance with federal and state pollution control requirements. The Harbor Cleanup project is estimated to cost $2.7 billion in 1989 dollars. Work on the project began in 1988 and is expected to be completed in the year 1999. The most significant expenditures are expected to occur between 1990 and 1999. The majority of these expenditures will be paid for by local communities, in the form of user fees, with federal and state sources making up the difference. Cambridge Systematics estimates that, during the peak years of the project, the cleanup will produce 3,600 construction jobs and 6,200 auxiliary jobs.

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COMBINED FINANCIAL STATEMENTS -

STATUTORY BASIS

Deloitte & Touche

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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, 1991, 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, an investment vehicle for certain of the Commonwealth of Massachusetts' Pension Trust Funds, the financial statements of which reflect 28 and 4 percent, respectively, of the assets and revenues of the Fiduciary Fund Type. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Fiduciary Fund Type referred to above, is based solely on the report 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 provides a reasonable basis for our opinion.

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

In our opinion, based upon our audit and the report of other auditors, such combined financial statements - statutory basis referred to above present fairly, in all material respects, the financial position of the Commonwealth of Massachusetts as of June 30, 1991, and the results of its operations for the year then ended, on the basis of accounting described in Note 2.

As discussed in Note 13, the Commonwealth of Massachusetts reclassified certain activities between fund types during the year ended June 30, 1991.

Deloitte & Touche

December 27, 1991

COMMONWEALTH OF MASSACHUSETTS

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

JUNE 30, 1991

(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)	
ASSETS AND OTHER DEBITS	General	Special Revenue	Capital Projects	Trust and Agency	General Fixed Assets	General Long-term Obligations	1991	1990
Cash and short-term investments	$149,287	$370,027	$ 0	$ 160,603	$ 0	$ 0	$ 679,917	$ 1,443,337
Cash with fiscal agent	6,317						6,317	
Amount on deposit with U.S. Treasury				103,129			103,129	682,442
Investments				8,729,849			8,729,849	8,211,761
Advances to related entity	241,532						241,532	220,799
Assets held in trust				1,475,522			1,475,522	1,134,303
Receivables, net of allowance for uncollectibles:								
Taxes	2,911	698					3,609	54,413
Due from federal government	125,262	49,598	54,364				229,224	70,817
Other receivables	3,593	3,975					7,568	31,821
Due from cities and towns	121,635	1,000					122,635	118,668
Due from other funds								2,500
Fixed assets:								
Land					352,710		352,710	303,005
Buildings					2,767,319		2,767,319	2,512,876
Machinery and equipment					455,140		455,140	354,966
Construction in progress					488,493		488,493	289,405
Amount available for retirement of long-term obligations						6,317	6,317	461,303
Amount to be provided for retirement of long-term obligations						8,639,620	8,639,620	6,201,182
Total assets and other debits	$650,537	$425,298	$ 54,364	$10,469,103	$4,063,662	$8,645,937	$24,308,901	$22,093,598

(Continued)

Exhibit B-4

COMMONWEALTH OF MASSACHUSETTS

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

JUNE 30, 1991

(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)	
LIABILITIES, FUND EQUITY AND OTHER CREDITS	General	Special Revenue	Capital Projects	Trust and Agency	General Fixed Assets	General Long-term Obligations	1991	1990
Liabilities:								
Deficiency in cash and short-term investments	$ 0	$ 0	$ 76,182	$ 0	$ 0	$ 0	$ 76,182	$ 410,742
Accounts payable	330,178	208,154	151,048	5,702			695,082	748,672
Accrued payroll	26,261	9,498	527	172			36,458	34,776
Agency liabilities				1,959,424			1,959,424	1,528,221
Due to cities and towns								1,266,452
Due to other funds								2,500
Obligations under lease/purchase						48,328	48,328	38,836
Obligations under certificates of participation						17,270	17,270	18,610
Bonds and notes payable	120,000		141,303			8,580,339	8,841,642	7,221,227
Total liabilities	476,439	217,652	369,060	1,965,298		8,645,937	11,674,386	11,270,036
Fund equity and other credits:								
Investment in general fixed assets					4,063,662		4,063,662	3,460,252
Fund balances (deficit):								
Reserved for:								
Continuing appropriations	103,851	4,908					108,759	174,541
Commonwealth stabilization	59,199						59,199	
Debt service	6,317						6,317	
Unemployment benefits				99,320			99,320	678,521
Pension benefits				8,346,229			8,346,229	7,877,170
Unreserved:								
Designated for specific purpose	4,731	144,687		58,256			207,674	53,746
Undesignated		58,051	(314,696)				(256,645)	(1,420,668)
Total fund equity (deficit) and other credits	174,098	207,646	(314,696)	8,503,805	4,063,662		12,634,515	10,823,562
Total liabilities, fund equity and other credits	$650,537	$425,298	$ 54,364	$10,469,103	$4,063,662	$8,645,937	$24,308,901	$22,093,598

See notes to combined financial statements - statutory basis.

(Concluded)

Exhibit B-5

Exhibit B-6

COMMONWEALTH OF MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 1991

(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trust	1991	1990
Revenues:						
Taxes	$ 5,617,924	$3,631,727	$ 0	$ 654,109	$ 9,903,760	$ 9,560,600
Assessments	179,092	1,368,829		2,515	1,550,436	282,598
Federal grants and reimbursements	2,762,837	988,439	263,996	6,265	4,021,537	3,060,324
Departmental	544,050	2,103,168	1,905	1,949	2,651,072	2,582,794
Miscellaneous	272,934	48,947	469	130,799	453,149	418,983
Total revenues	9,376,837	8,141,110	266,370	795,637	18,579,954	15,905,299
Other financing sources:						
Proceeds of dedicated income tax bonds	1,362,726				1,362,726	
Proceeds of general obligation bonds and notes			1,029,739		1,029,739	1,430,483
Fringe benefit cost recovery	45,086	7,481			52,567	58,871
Operating transfers in	142,887	912,705	49,335	13,262	1,118,189	1,019,189
Stabilization transfer	23,679				23,679	
Current year deficit support	234,829				234,829	
Other sources		131	37,325	1,156	38,612	38,184
Total other financing sources	1,809,207	920,317	1,116,399	14,418	3,860,341	2,546,727
Total revenues and other financing sources	11,186,044	9,061,427	1,382,769	810,055	22,440,295	18,452,026
Expenditures:						
Legislature	39,497		61		39,558	44,072
Judiciary	76,564	218,819	1,293	85	296,761	311,348
Inspector General	942				942	1,083
Governor and Lieutenant Governor	3,613				3,613	4,824
Secretary of the Commonwealth	11,885	751	137	14	12,787	11,522
Treasurer and Receiver-General	95,255	2,214,944	823	26	2,311,048	2,289,162
Auditor of the Commonwealth	9,760			598	10,358	11,476
Attorney General	15,234	867	571	111	16,783	18,653
Ethics Commission	867				867	919
District Attorney	10,622	31,692		621	42,935	47,199
Office of Campaign and Political Finance	420			379	799	432
Board of Library Commissioners	1,301	19,795	8,261	6	29,363	20,472
Comptroller	5,462				5,462	5,281
Administration and finance	861,314	195,049	341,389	1,244	1,398,996	1,375,892
Environmental affairs	59,166	109,178	202,274	9,014	379,632	448,894
Communities and development	197,533	213,938	74,877	517	486,865	561,925

(Continued)

Exhibit B-7

COMMONWEALTH OF MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 1991

(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trust	1991	1990
Expenditures (continued):						
Human services	6,157,737	1,606,832	24,714	17,069	7,806,352	6,353,923
Transportation and construction	395,439	145,389	441,696	1,316	983,840	855,696
Education	34,706	1,776,675	21,056	3,050	1,835,487	2,068,051
Higher education	607,946	10,482	19,579	2,465	640,472	765,750
Public safety	35,936	108,806	26	1,367	146,135	151,273
Economic affairs	25,095	145,885	276	1,323,580	1,494,836	1,244,915
Elder affairs	121,703	24,597	78	43	146,421	152,448
Consumer affairs	24,244	6,711	1,857	1,722	34,534	36,318
Labor	19,190	1,090	3	16,560	36,843	39,917
Pension	249,192	454,686			703,878	669,496
Debt service:						
Principal retirement	283,983	527,473			811,456	352,151
Interest and fiscal charges	420,181	175,343			595,524	422,371
Total expenditures	9,764,787	7,989,002	1,138,971	1,379,787	20,272,547	18,265,463
Other financing uses:						
Fringe benefit cost assessment		45,108	7,440	19	52,567	58,871
Pension funding transfer						2,443
Operating transfers out	432,171	626,219	54,859	4,940	1,118,189	1,019,189
Stabilization transfer		23,679			23,679	
Current year deficit support		234,829			234,829	
Total other financing uses	432,171	929,835	62,299	4,959	1,429,264	1,080,503
Total expenditures and other financing uses	10,196,958	8,918,837	1,201,270	1,384,746	21,701,811	19,345,966
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	989,086	142,590	181,499	(574,691)	738,484	(893,940)
Fund balances (deficit) at beginning of year	(814,988)	65,056	(496,195)	726,408	(519,719)	374,221
Fund balances (deficit) at end of year	$ 174,098	$ 207,646	($ 314,696)	$ 151,717	$ 218,765	($ 519,719)

See notes to combined financial statements - statutory basis.

(Concluded)

Exhibit B-8

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, 1991

(Amounts in thousands)

	General Fund			Budgeted Special Revenue Funds			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:									
Taxes	$ 5,617,924	$ 5,617,924	$ 0	$3,376,987	$3,376,987	$ 0	$ 8,994,911	$ 8,994,911	$ 0
Assessments	179,092	179,092		7,301	7,301		186,393	186,393	
Federal grants and reimbursements	2,762,837	2,762,837		14,218	14,218		2,777,055	2,777,055	
Departmental	544,050	544,050		369,506	369,506		913,556	913,556	
Miscellaneous	272,934	272,934		11,812	11,812		284,746	284,746	
Total revenues	9,376,837	9,376,837		3,779,824	3,779,824		13,156,661	13,156,661	
Other financing sources:									
Proceeds of dedicated income tax bonds	1,362,726	1,362,726					1,362,726	1,362,726	
Fringe benefit cost recovery		45,086	45,086		7,481	7,481		52,567	52,567
Operating transfers in	142,887	142,887		882,593	882,593		1,025,480	1,025,480	
Stabilization transfer		23,679	23,679					23,679	23,679
Current year deficit support		234,829	234,829					234,829	234,829
Other sources				44	44		44	44	
Total other financing sources	1,505,613	1,809,207	303,594	882,637	890,118	7,481	2,388,250	2,699,325	311,075
Total revenues and other financing sources	10,882,450	11,186,044	303,594	4,662,461	4,669,942	7,481	15,544,911	15,855,986	311,075
Expenditures:									
Legislature	48,310	39,497	8,813				48,310	39,497	8,813
Judiciary	76,799	76,564	235	216,206	216,206		293,005	292,770	235
Inspector General	1,005	942	63				1,005	942	63
Governor and Lieutenant Governor	4,233	3,613	620				4,233	3,613	620
Secretary of the Commonwealth	12,519	11,885	634				12,519	11,885	634
Treasurer and Receiver-General	101,823	95,255	6,568	1,052,187	1,051,989	198	1,154,010	1,147,244	6,766
Auditor of the Commonwealth	9,973	9,760	213				9,973	9,760	213
Attorney General	15,812	15,234	578	495	472	23	16,307	15,706	601
Ethics Commission	893	867	26				893	867	26
District Attorney	10,832	10,622	210	29,086	28,780	306	39,918	39,402	516
Office of Campaign and Political Finance	430	420	10				430	420	10
Board of Library Commissioners	1,386	1,301	85	16,564	16,496	68	17,950	17,797	153
Comptroller	5,893	5,462	431				5,893	5,462	431
Administration and finance	964,903	861,314	103,589	181,486	173,536	7,950	1,146,389	1,034,850	111,539
Environmental affairs	69,138	59,166	9,972	109,230	90,408	18,822	178,368	149,574	28,794
Communities and development	209,208	197,533	11,675	3,025	2,102	923	212,233	199,635	12,598

(Continued)

Exhibit B-9

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, 1991

(Amounts in thousands)

	General Fund			Budgeted Special Revenue Funds			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Expenditures (continued):									
Human services	6,321,508	6,157,737	163,771	17,964	17,668	296	6,339,472	6,175,405	164,067
Transportation and construction	395,783	395,439	344	231,659	141,898	89,761	627,442	537,337	90,105
Education	41,167	34,706	6,461	1,477,839	1,468,878	8,961	1,519,806	1,503,584	15,422
Higher education	680,100	607,946	72,154	718	625	93	680,818	608,571	72,247
Public safety	40,243	35,936	4,307	96,292	95,305	987	136,535	131,241	5,294
Economic affairs	29,086	25,095	3,991	5,471	5,375	96	34,557	30,470	4,087
Elder affairs	133,913	121,703	12,210				133,913	121,703	12,210
Consumer affairs	27,366	24,244	3,122	3,169	2,980	189	30,535	27,224	3,311
Labor	21,917	19,190	2,727	282	219	63	22,199	19,409	2,790
Pension	250,997	249,192	1,805	456,369	454,686	1,683	707,346	703,878	3,488
Debt service:									
Principal retirement	283,903	283,903		110,730	110,730		394,713	394,713	
Interest and fiscal charges	418,455	420,181	(1,726)	127,386	127,386		545,841	547,567	(1,726)
Total expenditures	10,177,675	9,764,787	412,888	4,136,158	4,005,739	130,419	14,313,833	13,770,526	543,307
Other financing uses:									
Fringe benefit cost assessment					40,225	(40,225)		40,225	(40,225)
Operating transfers out	432,171	432,171		11,678	13,077	(1,399)	443,849	445,248	(1,399)
Stabilization transfer					23,679	(23,679)		23,679	(23,679)
Current year deficit support					234,829	(234,829)		234,829	(234,829)
Total other financing uses	432,171	432,171		11,678	311,810	(300,132)	443,849	743,981	(300,132)
Total expenditures and other financing uses	10,609,846	10,196,958	412,888	4,147,836	4,317,549	(169,713)	14,757,682	14,514,507	243,175
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	272,604	989,086	716,482	514,625	352,393	(162,232)	787,229	1,341,479	554,250
Fund deficit at beginning of year	(814,988)	(814,988)		(289,434)	(289,434)		(1,104,422)	(1,104,422)	
Fund balances (deficit) at end of year	($ 542,384)	$ 174,098	$ 716,482	$ 225,191	$ 62,959	($162,232)	($ 317,193)	$ 237,057	$ 554,250

See notes to combined financial statements - statutory basis.

(Concluded)

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, 1991

(Amounts in thousands)

	Fiduciary Fund Types		Totals (Memorandum Only)	
	Non-expendable Trust Funds	Pension Trust Funds	1991	1990
Operating revenues:				
Contributions:				
Pension funding grants	$ 0	$ 5,947	$ 5,947	$ 0
Local pension systems		30,945	30,945	21,438
Employees		340,642	340,642	333,710
Investment earnings		288,673	288,673	610,722
Total operating revenues		666,207	666,207	965,870
Other financing sources:				
Operating transfers in				2,443
Total operating revenues and other financing sources		666,207	666,207	968,313
Operating expenses:				
Payments to beneficiaries and cities and towns		197,148	197,148	192,854
Net income		469,059	469,059	775,459
Fund balances at beginning of year	5,859	7,877,170	7,883,029	7,107,570
Fund balances at end of year	$5,859	$8,346,229	$8,352,088	$7,883,029

See notes to combined financial statements - statutory basis.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1991

1. Financial Statement Presentation:

Introduction -

The accompanying combined financial statements - statutory basis of the Commonwealth of Massachusetts (the Commonwealth) are presented as part of the requirement of Section 12 of Chapter 7A of the Massachusetts General Laws.

The combined financial statements - statutory basis include all budgeted and non-budgeted funds and account groups of the Commonwealth of Massachusetts as recorded by the Office of the Comptroller in compliance with the General Laws and in accordance with the Commonwealth's budgetary principles and funds. The combined financial statements - statutory basis are not intended to include independent authorities, the nonappropriated funds of institutions of higher education and other organizations which may be included in the reporting entity as component units under generally accepted accounting principles (GAAP).

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 balances, revenues and expenditures/expenses. Transactions between funds within a fund type, if any, have been eliminated.

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

The 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 transactions, except those which state finance law requires to be accounted for in another fund.

Special Revenue Funds - are used to account for specific revenue sources that have been segregated, per state finance law, 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.

1. Financial Statement Presentation (Continued):

Governmental Fund Types (continued) -

Special Revenue Funds (continued) - 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 Arts and State Lotteries Funds are examples of non-budgeted funds which support governmental activity.

Capital Projects Funds - are used to account for financial resources used to acquire or construct major capital assets and to finance local capital projects. These resources are derived principally from proceeds of general obligation bonds, federal grants and transfers from other governmental funds. Bond proceeds are generally received after the expenditure has been incurred. Therefore, the fund deficits of the 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 income may be expended for their designated purpose. The Unemployment Compensation Fund accounts for unemployment taxes collected from employers, interest earned on the trust fund balance and the payment of benefits to the unemployed.

Nonexpendable Trust Funds - account for trusts whose principal cannot be spent. The Massachusetts School Fund's nonexpendable principal balance of $5,000,000 earned investment income of $353,000, which was credited directly to the Local Aid Fund for expenditure during fiscal year 1991.

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.

1. Financial Statement Presentation (Continued):

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 general fixed assets of the Commonwealth.

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

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 budgets (statutory basis). Accordingly, the Statutory Basis Financial Report is not intended to present the Commonwealth's financial condition and results of operations in conformity with generally accepted accounting principles (GAAP) for governments as prescribed by the Governmental Accounting Standards Board, which is the primary standard-setting body for establishing governmental accounting and financial reporting principles.

Revenues are generally recognized when cash is received. However, federal reimbursements are recognized when related expenditures are incurred. Amounts due from certain political subdivisions of the Commonwealth are also recognized when considered measurable and available at June 30. Expenditures are recorded when the related cash disbursement occurs. However, at year end, payroll is accrued and payables are recognized to the extent of approved encumbrances, provided that the goods or services have been received by June 30. Expenditures for the Medicaid program, amounts for claims and judgments and certain other amounts are recorded when paid.

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

2. Summary of Significant Accounting Policies (Continued):

Cash and short-term investments and investments -

The Commonwealth follows the practice of pooling cash and cash equivalents of all fund types. Cash equivalents consist of short-term investments and 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. All other investments are stated at cost.

Receivables -

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

Advances to related entity -

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

Inventories -

Inventories of materials and supplies are recorded as expenditures in Governmental Fund Types when purchased.

General fixed assets -

General fixed assets are recorded as expenditures in the Governmental Fund Types and capitalized in the General Fixed Assets Account Group in the year purchased. General fixed assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at fair market value at the time of donation.

2. Summary of Significant Accounting Policies (Continued):

General fixed assets (continued) -

The Commonwealth capitalizes all land. Buildings and equipment which have a cost in excess of fifteen thousand dollars at the date of acquisition and an expected useful life greater than one year are capitalized. Infrastructure (roads, bridges, tunnels, dams, water and sewer systems, etc.) is not capitalized. No depreciation is provided on general fixed assets.

Interfund transactions -

During the course of operations, the Commonwealth has transactions between departments or between funds. Transactions of a buyer/seller nature between departments within a fund are eliminated. Transactions between funds with pooled cash are recorded as direct adjustments to the funds' cash accounts. This policy may result in a fund having a deficiency in cash and short-term investments at year end.

Risk financing -

The Commonwealth does not insure for workers' compensation, casualty, theft, tort claims and other losses. Such losses are recorded as expenditures when paid. 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, in most circumstances, to $100,000 per occurrence.

The Group Insurance Commission administers health care and other insurance for the Commonwealth's employees and retirees. These programs require participant contributions.

Encumbrances -

Encumbrance accounting records the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. Encumbrance accounting is utilized in the Governmental Fund Types as a significant aspect of budgetary control. Encumbrances outstanding at year end for goods or services received on or before June 30 are recorded as expenditures and liabilities of the Commonwealth. Other encumbrances are lapsed.

2. Summary of Significant Accounting Policies (Continued):

Fringe benefit cost recovery -

The Commonwealth appropriates and pays the fringe benefit costs of its employees and retirees in the General Fund. As directed by Massachusetts General Laws, Chapter 29, Sections 5D and 6B(f), these costs are assessed to other funds based on their payroll costs, net of credits for direct fringe payments. Since these costs are not appropriated or otherwise provided for in these funds, the required transfer creates an unfavorable budget variance in the budgeted funds and can result in an undesignated fund deficit.

Compensated absences -

Employees are granted vacation and sick leave in varying amounts. 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.

Chapter 6, Acts of 1991, established a state employee furlough program under which payroll expenditures were reduced in fiscal year 1991, in exchange for a promise to pay in a future fiscal period or periods. These furlough-related compensation payments will be recorded as expenditures when paid.

Fund balances -

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

Fund balance has been reserved as follows:

Reserved for continuing appropriations - identifies unexpended amounts in appropriations which are carried over to the next fiscal year. These amounts must be authorized by the Legislature.

2. Summary of Significant Accounting Policies (Continued):

Fund balances (continued) -

Reserved for Commonwealth stabilization - identifies amounts set aside according to Chapter 29 of the Massachusetts General Laws, which limits the amount of undesignated fund balance in the General, Highway, and Local Aid Funds that can be carried forward to the next fiscal year to 0.5% of tax collections, as defined. Any undesignated fund balances in excess of that limit are reserved in the Commonwealth Stabilization account, from which they must be subsequently appropriated for those purposes specified in the law.

Reserved for debt service - identifies amounts held by a fiscal agent to fund future debt service obligations pertaining to the Commonwealth Fiscal Recovery Loan Act of 1990.

Reserved for unemployment benefits - identifies amounts invested to finance the unemployment compensation system.

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 designated, but not reserved, for a specific purpose.

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

Total columns - memorandum only -

Total 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.

3. 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 in an annual appropriation act. The Legislature is not required to publish estimates of revenue and other financing sources upon which this expenditure budget is based. Before signing the appropriation act, the Governor may veto any specific item, subject to legislative override. Further changes to the budget established in the annual appropriation act may be made via supplemental appropriation acts or other legislative acts. These must also be approved by the Legislature and signed by the Governor.

The majority of the Commonwealth's appropriations are noncontinuing accounts which lapse at the end of each year and require annual reappropriation. Others are continuing accounts for which the Legislature has authorized that any unspent balance from the prior year be carried forward and made available for current spending. In addition, the Legislature may direct that certain revenues be retained and made available for spending within the appropriation account that generates the revenue. Expenditures may not legally exceed the authorized level of spending on an individual appropriation account basis. However, the Commonwealth is statutorily required to pay debt service before all obligations of the Commonwealth, regardless of whether such amounts are appropriated.

For fiscal year 1991, the original appropriation act, Chapter 150, Acts of 1990, totaled approximately $12,693,000,000. During fiscal year 1991, the Legislature also passed and the Governor signed, with some modification through veto, Chapters 121, 321, and 514, Acts of 1990, and Chapters 6 and 57, Acts of 1991, which included numerous supplemental budgetary appropriations. These increases totaled approximately $501,000,000. Subsequent to June 30, 1991, the Legislature passed and the Governor signed Chapter 145, Acts of 1991, which included approximately $90,000,000 in additional supplemental budgetary appropriations which raised total appropriations for fiscal year 1991 to approximately $13,284,000,000. Appropriations continued from fiscal year 1990 totaled approximately $175,000,000, and retained revenues, including certain interfund transfers directed by statute, totaled approximately $1,299,000,000.

3. Budgetary Control (Continued):

The enacting or supplemental statute determines the fund or funds to which the appropriation is assigned. If no Special Revenue Fund is identified, the appropriation remains in the General Fund. For these budgeted funds, the combined financial statements - statutory basis include a combined budget and actual statement. The budgeted Special Revenue Funds included are the Highway Fund, Local Aid Fund, several environmental funds (Natural Heritage and Endangered Species, Mosquito and Greenhead Fly Control, Inland Fisheries and Game, Environmental Challenge, Toxics Use Reduction, Clean Environment, Environmental Permitting and Compliance Assurance, Underground Storage Tank Petroleum Product Cleanup, Environmental Law Enforcement, Public Access, Harbors and Inland Waters Maintenance, and Marine Fisheries Funds), and various other funds (Anti-Trust Law Enforcement, Victim and Witness Assistance, Intercity Bus Capital Assistance, State Transportation Building, Springfield Transportation Building, Massachusetts Housing Partnership, Motorcycle Safety and Re-Employment and Job Placement Funds). The Child Care Affordability Scholarship Assistance Fund was established as a budgeted fund in fiscal 1991 but had no appropriations or revenues.

The Office of the Comptroller has the responsibility to ensure that budgetary control is maintained on an individual appropriation account basis. Encumbrances or expenditures will not be approved by the Comptroller if they exceed the appropriation'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 budget amounts represent this total spending authority.

The original budget for revenue submitted by the Governor is not amended to coincide with any legislative changes to the original expenditure budget. As a result, the Commonwealth does not have legally updated revenue budgets for the combined financial statements - statutory basis. The combined budget and actual statement generally uses the actual revenues or other financing sources as the budgeted amounts. Among other financing sources, certain interfund transfers, which are required by statute but for which no corresponding financing use has been budgeted, are shown as having no budget.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1991

(Continued)

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 either as cash and short-term investments or deficiency in cash and short-term investments. The investments of the Pension Trust Funds are held in pooled trusts and managed separately.

Investments in the Commonwealth's short-term investment pool are managed by the Treasurer and Receiver-General and carried at cost which approximates market. Statutes authorize the Treasurer 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 & Poor's Corporation and Moody's Commercial Paper Record and repurchase agreements that any of these obligations secure.

The pooled cash and short-term investments at June 30, 1991, are as follows (amounts in thousands):

	Carrying Value
Cash	$ 69,038
Certificates of deposit	789
	69,827
Investments:	
U.S. Treasury obligations	7,003
Commercial paper	49,598
State Treasurer's investment pool	372,307
Repurchase agreements	105,000
	533,908
Total	$603,735

4. Deposits and Investments (Continued):

The Pension Trust Funds have invested a significant portion of their portfolios in two pooled trusts which account for their operations in a manner similar to a mutual fund. The trusts are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments. The investments at June 30, 1991, which are carried at market value, are as follows (amounts in thousands):

Investments:	
Equity securities	$3,681,185
U.S. Treasury obligations	1,223,336
Fixed income securities	1,355,354
Government obligations	939,128
Real estate	510,434
Commercial paper	112,684
State Treasurer's Investment Pool	100,211
Repurchase agreements	140,000
Money market investments	130,533
Other	492,971
Subtotal	8,685,836
Net noninvestment assets and liabilities of pooled trusts	44,013
Total	$8,729,849

5. Short-term Debt and Credit Agreements:

General Fund -

As authorized by Chapter 161A of the Massachusetts General Laws, the Commonwealth issues short-term notes to provide working capital to the Massachusetts Bay Transportation Authority (MBTA). The Commonwealth redeems these notes through assessments to cities and towns. The notes outstanding at June 30, 1991, which totaled $120,000,000, with an interest rate of 4.75%, have been redeemed in full.

5. Short-term Debt and Credit Agreements (Continued):

Special Revenue Funds -

To reduce its liability for obligations and expenditures related to fiscal year 1989, the Commonwealth issued short-term general obligation notes during fiscal year 1990, pursuant to Sections 2 and 5 of Chapter 302, Acts of 1989. These notes totaled $295,400,000 with interest rates ranging from 6.47% to 6.70%. The entire amount of the notes was repaid from dedicated tax revenues, together with investment earnings thereon, during the fiscal year ended June 30, 1991.

Capital Projects Funds -

The Commonwealth may issue bond anticipation notes to finance capital projects in anticipation of future bond offerings. No such notes were outstanding at June 30, 1991.

The Commonwealth issues five-year term minibonds, which are redeemable upon demand, to finance capital projects. At June 30, 1991, the principal amount of minibonds outstanding totaled $141,303,000, with interest rates ranging from 4.65% to 9.7%.

Letter of credit agreement -

The Commonwealth has entered into a letter of credit agreement with a group of banks to borrow up to $1,200,000,000. The agreement provides for advances, subject to certain limitations, bearing interest at the bank rate, as defined, in anticipation of revenue or bond issuance proceeds. These advances are repayable by September 30, following the advance, or may be converted to term advances at the Commonwealth's option. No such advances were drawn during the fiscal year ended June 30, 1991.

This letter of credit agreement also provides for guarantees of Commonwealth short-term borrowings. This guarantee feature was utilized extensively during the fiscal year ended June 30, 1991.

The combination of advances and guarantees cannot exceed $1,200,000,000, the maximum amount of the agreement. Certain fees payable on utilized and unutilized amounts, totaled approximately $1,678,000.

5. Short-term Debt and Credit Agreements (Continued):

Revenue and bond anticipation short-term borrowing -

The Treasurer is authorized to issue revenue and bond anticipation notes. At each June 30, the revenue anticipation notes must be reduced to zero, and bond anticipation notes outstanding cannot exceed $200,000,000. Through the Treasurer's commercial paper program, such short-term borrowings can be guaranteed to a maximum of $1,200,000,000 by letter of credit agreement. The Commonwealth utilized this short-term borrowing authority extensively during the year ended June 30, 1991.

Line of credit agreement -

The Commonwealth maintains a revolving line of credit agreement with a bank through June 30, 1992, in the amount of $150,000,000. Interest is charged at the federal funds rate plus 1.5%, or prime, whichever is less. A commitment fee is payable quarterly on the excess of the commitment amount over the average daily outstanding principal amount drawn. This line of credit agreement was utilized during fiscal year 1991 with interest costs totaling approximately $420,000. No amounts were outstanding at June 30, 1991.

6. Long-term Debt:

General long-term obligation bonds of the Commonwealth are authorized and issued primarily to provide funds for state-owned capital projects and local government improvements. General obligation bonds are paid from the Governmental Funds, in which debt service principal and interest payments are funded. The bonds are backed by the full faith and credit of the Commonwealth.

Under the Constitution of the Commonwealth of Massachusetts, both Houses of the Legislature must approve, by a separate enabling act, the authorization to incur debt for a specific purpose or objective. Section 49 of Chapter 29 of the Massachusetts General Laws, as amended by Chapter 150, Acts of 1990, provides for the allocation of bond proceeds to these authorizations in arrears, as expenditures are made, unless the proceeds are allocated to each authorization at the time of issuance.

6. Long-term Debt (Continued):

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. The first-year limit is $6,800,000,000. An increase of 5% is allowed in each successive fiscal year. The effect of this limit is to provide a control on annual capital spending.

For purposes of determining compliance with the limit, direct debt is defined to include general obligation bonds and minibonds at the amount of their original net proceeds. It excludes discount and issuance costs, if any, financed by these bonds. It excludes dedicated income tax bonds issued under Chapter 151, Acts of 1990, refunded bonds and bond anticipation notes. Outstanding direct debt, as defined, totaled approximately $6,511,000,000 at June 30, 1991.

To finance obligations and expenditures of fiscal year 1989, the Commonwealth issued general long-term obligation notes during fiscal year 1990, as authorized by Section 2 of Chapter 302, Acts of 1989. These notes totaled $415,000,000, with interest rates ranging from 6.51% to 6.64%. They were retired in full, from dedicated tax revenues and the interest earnings thereon, during the fiscal year ended June 30, 1991.

In 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 as Fiscal Recovery Loan Act of 1990, and they are secured by the pledge of certain dedicated tax revenues and the investment earnings thereon.

In connection with the issuance of general obligation debt to finance capital projects, the Office of the State Treasurer estimates the Commonwealth's fiscal year 1991 costs for bond counsel and underwriting fees at approximately $722,000 and $10,921,000, respectively. Such costs for the issuance of dedicated income tax debt to finance the fiscal year 1990 deficit are estimated at approximately $575,000 and $9,148,000, respectively.

6. Long-term Debt (Continued):

General long-term debt outstanding (including discount and issuance costs) and bonds authorized - unissued at June 30, 1991, are as follows (amounts in thousands):

	Outstanding			Authorized - unissued
Purpose	Amount	Interest rates	Maturity dates	Amount
Deficit Reduction:				
Fiscal Recovery	$1,416,145	7.00% to 7.625%	1992 - 1997	$ 57,274
Capital Projects:				
General	4,644,086	1.00% to 12.00%	1992 - 2010	2,675,241
Highway	1,567,327	1.00% to 11.75%	1992 - 2010	1,243,825
Local Aid	669,461	5.00% to 9.25%	1992 - 2010	892,824
Metropolitan Water District	67,619	0.10% to 12.00%	1992 - 2025	
State Recreation Areas	64,348	1.00% to 12.00%	1992 - 2010	20,553
Metropolitan Parks District	57,349	1.00% to 12.00%	1992 - 2010	25,103
Metropolitan Sewerage District	49,555	0.10% to 10.20%	1992 - 2015	
Government Land Bank	17,732	1.00% to 14.25%	1992 - 2010	2,081
Environmental Challenge	17,000	6.30% to 9.25%	1992 - 2010	
Federally Assisted Housing	8,427	5.60% to 9.63%	1992 - 2003	2,245
Intercity Bus Capital Assistance	1,290	6.30% to 9.25%	1992 - 1993	18,160
Capital Projects Debt	7,164,194			4,880,032
Total	$8,580,339			$4,937,306

Changes in long-term debt (including discount and issuance costs) and bonds authorized - unissued for the year ended June 30, 1991, are as follows (amounts in thousands):

	Long-term debt	Authorized - unissued
Balance at July 1, 1990	$6,605,039	$5,383,743
Bond issuances	2,392,466	(2,392,466)
Increase in bonds authorized		2,473,871
Expiration of authorizations		(527,842)
Bond discount	356,694	
Bonds retired (excluding minibonds)	(773,860)	
Balance at June 30, 1991	$8,580,339	$4,937,306

6. Long-term Debt (Continued):

At June 30, 1991, general long-term debt service requirements to maturity for principal (including discount and issuance costs) and interest are as follows (amounts in thousands):

Year ending June 30	Principal	Interest	Total
1992	$ 554,129	$ 513,225	$ 1,067,354
1993	573,311	473,350	1,046,661
1994	595,690	444,365	1,040,055
1995	612,859	402,254	1,015,113
1996	617,931	363,494	981,425
1997 and thereafter	5,626,419	2,179,566	7,805,985
Total	$8,580,339	$4,376,254	$12,956,593

Subsequent to June 30, 1991, the Commonwealth issued approximately $384,418,000, including discount, of refunding bonds, with maturities from 1996 through 2012 at interest rates ranging from 6.0% to 7.1%. The expected impact of this refunding is to reduce debt service requirements in 1992 and increase such requirements in succeeding years. Subsequent to June 30, 1991, the Commonwealth also issued $488,240,000 of general obligation bonds, with maturities from 1993 through 2012 at interest rates ranging from 4.9% to 7.0%.

7. 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, 1991, the General Fund includes approximately $2,765,300,000 in expenditures for Medicaid claims processed for payment. Of this total, $126,000,000 was appropriated in Chapter 151, Acts of 1990, and financed through the sale of dedicated income tax bonds.

The combined financial statements - statutory basis include Medicaid claims processed but unpaid at June 30, 1991, as accounts payable of approximately $69,900,000. In addition, the Commonwealth estimates

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1991

(Continued)

7. Medicaid Costs (Continued):

its liability at $932,000,000, in accordance with generally accepted accounting principles, for Medicaid costs incurred as of June 30, 1991. This amount includes estimates of both the cost of care provided as of June 30, 1991, for which claims have not been processed, and the cost associated with nursing home and hospital rate settlements. Of this amount, 50% will be reimbursed by the federal government.

8. Individual Fund Deficits:

Certain Special Revenue and Capital Projects Funds included in the combined totals have fund deficits at June 30, 1991, as follows (amounts in thousands):

Fund	Deficit amount
Budgeted Special Revenue:	
Environmental:	
Environmental Challenge	$ 3
Environmental Permitting and Compliance Assurance	1,776
Other:	
Anti-Trust Law Enforcement	736
Victim and Witness Assistance	1,013
Intercity Bus Capital Assistance	8,119
Non-budgeted Special Revenue:	
Other:	
Government Land Bank	16,213
Federally Assisted Housing	7,741
Capital Projects:	
General	120,701
Federal	176,800
Local Aid:	
Community Development Action Grants	4,311
Lockup Facilities Improvements	211
Local Infrastructure	6,975
Water Pollution Control	7
Other:	
State Recreation Areas	6,382
Metropolitan Parks	9,045
Environmental Challenge	3,251
Intercity Bus Capital Assistance	11
Total	$363,295

8. Individual Fund Deficits (Continued):

The Commonwealth is continuing its efforts to resolve fund deficits in the Special Revenue Funds.

The Commonwealth has also continued its policy of accelerating the issuance of general long-term obligation bonds in order to reduce the overall deficit in the Capital Projects Funds. Section 49 of Chapter 29 of the Massachusetts General Laws was also amended by Chapter 150, Acts of 1990 to provide for all allocation of bond proceeds in arrears.

9. Retirement Systems:

The Commonwealth is responsible for the 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 Commonwealth and Quincy Junior 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 local retirement systems.

Plan descriptions -

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

Teachers' Retirement System (TRS) is an agent multiple employer defined benefit PERS. The Commonwealth is a nonemployer 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 Junior College.

9. Retirement Systems (Continued):

Plan descriptions (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.

In addition, 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.

Membership -

Current membership in SERS, TRS and SBRS as of January 1, 1991 is as follows:

	SERS	TRS	SBRS
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	46,638	35,284	3,539
Current employees:			
Vested	35,194	44,070	4,502
Nonvested	54,800	13,800	1,422
Subtotal	89,994	57,870	5,924
Total	136,632	93,154	9,463

9. Retirement Systems (Continued):

Benefit provisions -

All PERS in the Commonwealth are established under the Uniform Massachusetts Contributory Retirement System requirements of the General Laws. These requirements provide uniform benefit and contribution requirements for all systems. The system 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 deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 80%-85% pension and 15%-20% annuity.

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

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 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 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, and a provision was not made to fully fund future liabilities already incurred. Beginning in fiscal 1989, the Commonwealth addressed the unfunded liability of SERS, TRS and its participation in SBRS and its COLA obligation. The Pension Reform Act of 1987 requires funding on a current basis, including amortizing the unfunded liabilities over 40 years and the liabilities for future COLA payments to local systems.

9. Retirement Systems (Continued):

Contributions required and contributions made (continued) -

The Pension Reform Act of 1987 directs the Secretary of 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. However, if a schedule is not so approved, payments are to be made in accordance with the most recently approved schedule.

The first funding schedule required by the Pension Reform Act of 1987 was based on January 1, 1987 data and filed with the Legislature on March 1, 1988. It remained in effect for the year ended June 30, 1991, and it required contributions by the Commonwealth of $679,798,000. Because total benefit payments exceeded this amount, no additional contribution amounts were transferred to the Pension Reserve Fund. The second funding schedule, based on the January 1, 1990 valuation, was filed with the Legislature on March 1, 1991, as required.

Actual contributions made during the year ended June 30, 1991, are as follows (amounts in thousands):

	Employee contributions	Commonwealth contributions
SERS	$196,413	$311,434
TRS	144,229	266,924
SBRS		25,730
COLA		77,907
Total	$340,642	$681,995

In addition, during the year ended June 30, 1991, the Commonwealth has made payments totaling $21,883,000 to current retirees employed prior to the establishment of the current plans.

Pension Reserve Fund -

Under the Massachusetts Contributory Retirement System requirements, the SERS and TRS account for the participants' contributions and related investment earnings. The Pension Reserve Fund is used to accumulate assets to fund future pension obligations of the state systems and invest assets of nonstate PERS.

9. Retirement Systems (Continued):

Pension funding grants -

During fiscal year 1990, the Commonwealth adopted legislation to provide annual pension funding grants to nonstate PERS that elect to accept the provisions of such legislation. These Systems are required to establish a funding schedule designed to amortize their unfunded actuarial liabilities over a period of 40 years. The grants provide funding support through the year 2004. As of June 30, 1991, 22 systems have elected to adopt the provisions of the legislation. These costs totaled $2,653,000 for the fiscal year ended June 30, 1991.

Federal Omnibus Budget Reconciliation Act of 1990 (OBRA 90) -

This federal legislation, passed in October 1990 includes provisions mandating full Social Security coverage for public sector employees who are not members of a retirement system. The Internal Revenue Service issued regulations on June 28, 1991. When the regulations become effective on January 1, 1992, approximately 5,000 part-time seasonal, intermittent, temporary or contracted employees of the Commonwealth, who were precluded from retirement coverage by state law, must be covered by either Social Security or an alternative PERS which meets federal requirements.

Subsequent to June 30, 1991, the Governor filed legislation to establish a new retirement plan to meet the OBRA 90 requirements.

Postretirement health care and life insurance benefits -

In addition to providing pension benefits, the Commonwealth is statutorily required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other nonstate 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. In addition to the required retiree contributions, the Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and nonstate agencies. The Commonwealth recognizes its share of the costs of providing these benefits as expenditures in the General Fund in the year paid. These costs totaled approximately $90,690,000 for the fiscal year ended June 30, 1991.

10. Obligations under Lease/Purchase and Certificates of Participation:

In order to finance the acquisition of equipment, the Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease purchase agreements, which are accounted for as capital leases. These agreements are for various terms, and all contain clauses indicating that their continuation is subject to appropriation by the Legislature.

For the fiscal year ended June 30, 1991, gross capital lease expenditures of approximately $20,500,000 are included in the Commonwealth's total expenditures. The outstanding liability, the present value of the net minimum lease payments, of $48,328,000 is reported in the General Long-term Obligations Account Group.

At June 30, 1991, the gross minimum lease payments, together with the present value of the net minimum lease payments, are as follows (amounts in thousands):

Year ending June 30	Principal	Interest	Total
1992	$17,668	$3,369	$21,037
1993	13,730	2,112	15,842
1994	10,955	1,141	12,096
1995	2,478	441	2,919
1996	1,164	247	1,411
1997 and thereafter	2,333	327	2,660
Total	$48,328	$7,637	$55,965

At June 30, 1991, the fixed assets acquired under capital leases, which are included in the General Fixed Assets Account Group, are as follows (amounts in thousands):

	Amount
Data processing equipment	$59,989
Telecommunications systems	11,203
Motor vehicles	7,976
Other equipment	6,130
Total	$85,298

10. Obligations under Lease/Purchase and Certificates of Participation (Continued):

The Commonwealth purchased a telecommunications system through the issuance of certificates of participation for $18,610,000 in fiscal year 1989. These certificates were issued through a trustee, and the Commonwealth is responsible for payments to the trustee that approximate the interest and principal payments made by the trustee to the certificate holders. The Commonwealth maintains custody and use of the equipment. The trustee holds the title as security for the certificate holders, until such time as the certificates are fully paid. Proceeds from the issuance of these certificates and the related capital expenditures are accounted for in essentially the same manner as lease/purchase agreements.

For the fiscal year ended June 30, 1991, principal and interest expenditures of approximately $2,674,000 are included in total expenditures. The outstanding liability of $17,270,000 is recorded in the General Long-term Obligations Account Group.

Debt service requirements for certificates of participation including interest at rates of 6.5% to 7.8% are as follows (amounts in thousands):

Year ending June 30	Principal	Interest	Total
1992	$ 1,425	$1,243	$ 2,668
1993	1,525	1,144	2,669
1994	1,635	1,036	2,671
1995	1,750	918	2,668
1996	1,880	790	2,670
1997 and thereafter	9,055	1,628	10,683
Total	$17,270	$6,759	$24,029

10. Obligations under Lease/Purchase and Certificates of Participation (Continued):

The Commonwealth has entered into numerous operating lease agreements to lease real property and equipment. Rental expense under these operating leases for the fiscal year ended June 30, 1991, was approximately $96,040,000. At June 30, 1991, the Commonwealth has the following minimum rental payments due under these leases (amounts in thousands):

Year ending June 30	Amount
1992	$ 91,025
1993	74,479
1994	53,409
1995	39,648
1996	26,623
1997 and thereafter	1,050
Total	$286,234

Lease agreements are for various terms and contain clauses indicating that continuation of the lease is subject to funding by the Legislature.

11. Commitments and Contingencies:

The Commonwealth is obligated to pay the Massachusetts Bay Transportation Authority (MBTA) and the regional transit authorities for their net cost of service (current expenses, including interest on debt, minus current income) and to advance funds sufficient to meet outstanding bonds and notes if funds are not otherwise available. The Commonwealth recovers a portion of these payments through assessments to cities and towns served by these authorities.

The Commonwealth provides contract assistance for debt service obligations to the Massachusetts Convention Center Authority and the Government Land Bank, and has appropriated $27,892,000 for the fiscal year ending June 30, 1992.

At June 30, 1991, the Commonwealth had commitments approaching $930,000,000 for various construction projects. Approximately $310,000,000 relates to new construction funding for major infrastructure projects under a program known as the Central Artery Project in which Federal participation approaching $260,000,000 is anticipated. The remainder relates to a wide range of building construction projects overseen by the Department of Capital Planning and Operations.

11. Commitments and Contingencies (Continued):

There are a number of lawsuits pending or threatened against the Commonwealth which arose from the ordinary course of operations, including 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 $249,065,000 of which $98,565,000 is expected to be paid in more than twelve months. No accrual has been made for these amounts in the combined financial statements - statutory basis.

Additionally, various cases are currently before the Appellate Tax Board, with approximately $505,000,000 of collected taxes being contested. 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 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 grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the fund which received the grant. At June 30, 1991, the Commonwealth estimates that liabilities, if any, which may result from such audits are not material.

The Commonwealth's Abandoned Property Law requires deposit of certain unclaimed assets into a managed Agency Fund. The statutes require the excess amount over $500,000 each June 30 to be remitted to the General Fund where it is included as miscellaneous revenue. Amounts remitted during fiscal year 1991 totaled $33,600,000. Since inception, approximately $242,900,000 has been remitted. This represents a contingency, because claims for refunds can be made by the owners of the property. No material amounts have been repaid.

The Commonwealth guarantees the debt of certain local governments and independent authorities including, but not limited to, the Massachusetts Bay Transportation Authority, the Massachusetts Convention Center Authority and the Government Land Bank. The outstanding guaranteed debt at June 30, 1991, is $2,245,000,000.

The Pension Reserves Investment Trust, an investment vehicle for certain of the Commonwealth of Massachusetts' Pension Trust Funds, had outstanding commitments at June 30, 1991, to invest $90,000,000 in real estate, $54,000,000 in alternative investments and $116,000,000 in special equity investments.

12. Non-tax Revenue Initiatives:

Chapter 653, Acts of 1989, amended state finance law to authorize certain non-tax revenue initiatives and require reporting thereon.

Debt collection -

During the fiscal year ended June 30, 1991, private debt collectors were engaged as authorized by Massachusetts General Laws, Chapter 29, Section 29(d), with any and all fees to be paid, on a contingent basis, from the proceeds of overdue accounts receivable. Associated Credit Services, Inc. collected approximately $8,000 and retained fees of approximately $1,000. No amounts were collected by the following, and no fees were paid: Bristol Associates, Capital Credit Corporation, Coldata Inc., Credit Central Services, Inc., Credit Management Associates, Delta Management Associates, Inc., Glenn Associates, Inc., National Account Systems, Inc., and Osborne Associates, Inc.

Revenue maximization -

As authorized by Massachusetts General Laws Chapter 29, Section 29(e), the Office of the Comptroller engaged contractors to develop the Commonwealth's capacity to establish accounts receivable. During the fiscal year ended June 30, 1991, federal non-tax revenues of approximately $9,827,000 were attributed to revenue maximization efforts at certain human services departments. These involved case management rate revisions in the Title XIX (Medicare) program. After contractor fees were paid, on a contingent fee basis from these revenues, the Commonwealth realized approximately $8,353,000.

13. Reclassifications:

Certain reclassifications have been made to the 1990 balances to conform to the presentation used in 1991. In addition, the 1991 Statutory Basis Financial Report includes combining and individual fund financial statements, whereas only individual fund financial statements were included in 1990.

In 1991, the activity of the Medical Assistance Liability and Commonwealth Liability Reduction accounts was reclassified to the Non-budgeted Special Revenue Funds from the General Fund. This reclassification was made to reflect the intent of the Legislature.

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COMMONWEALTH OF MASSACHUSETTS -

GENERAL PURPOSE FINANCIAL STATEMENTS

Deloitte &
Touche

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Boston, Massachusetts 02110-1617
Telephone (617) 261-8000
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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, 1991, and for the year then ended. These general purpose financial statements are the responsibility of the Commonwealth of Massachusetts' management. 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 Pension Reserves Investment Trust, an investment vehicle for certain of the Commonwealth of Massachusetts' Pension Trust Funds, the financial statements of which reflect 23 and 3 percent, respectively, of the assets and revenues of the Fiduciary Fund Type. Except for the Massachusetts Technology Development Corporation, which represents less than one percent of assets and revenues, we did not audit the financial statements of the entities which comprise the Proprietary Fund Type. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Fiduciary and Proprietary Funds Types referred to above, is based solely on the reports of the other auditors.

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

In our opinion, based upon our audit and the reports of 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, 1991, and the results of its operations and changes in cash flows of its Proprietary Fund Type and Nonexpendable Trust Fund for the year then ended in conformity with generally accepted accounting principles.

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

Deloitte & Touche

December 27, 1991

COMMONWEALTH OF MASSACHUSETTS

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1991

(Amounts in thousands)

	Governmental Fund Types			Proprietary Fund Type	Fiduciary Fund Types	Account Groups		Totals (Memorandum Only)	
ASSETS AND OTHER DEBITS	General	Special Revenue	Capital Projects	Enterprise	Trust and Agency	General Fixed Assets	General Long-term Obligations	1991	1990
Cash and short-term investments	$ 261,248	$371,926	$ 0	$ 137,785	$ 1,003,415	$ 0	$ 0	$ 1,774,374	$ 2,120,078
Amounts on deposit with U.S. Treasury					103,129			103,129	682,442
Investments				121,948	8,729,849			8,851,797	8,342,787
Investments of deferred compensation plan					643,063			643,063	531,180
Annuity contracts					882,873			882,873	800,867
Assets held in trust					1,475,522			1,475,522	1,134,303
Receivables, net of allowance for uncollectibles:									
Taxes	601,650	414,822			182,296			1,198,768	1,161,516
Due from federal government	596,308	92,113	54,364	72,428				815,213	584,637
Loans				20,906				20,906	18,724
Other receivables	110,512	89,136	199	80,927	41,015			321,789	234,564
Due from cities and towns	183,973	1,000						184,973	179,486
Due from other funds	76,182		104,761	293,899	54,720			529,562	819,626
Inventory				52,067				52,067	50,270
Fixed assets				7,626,027		4,063,662		11,689,689	10,660,668
Restricted and other assets				623,389				623,389	789,017
Amounts available for retirement of general long-term obligations							6,317	6,317	461,303
Amounts to be provided for retirement of general long-term obligations							12,305,261	12,305,261	9,055,752
Total assets and other debits	$1,829,873	$968,997	$159,324	$9,029,376	$13,115,882	$4,063,662	$12,311,578	$41,478,692	$37,627,220

(Continued)

Exhibit C-4

COMMONWEALTH OF MASSACHUSETTS

COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS

JUNE 30, 1991

(Amounts in thousands)

LIABILITIES, FUND EQUITY AND OTHER CREDITS	Governmental Fund Types: General	Governmental Fund Types: Special Revenue	Governmental Fund Types: Capital Projects	Proprietary Fund Type: Enterprise	Fiduciary Fund Types: Trust and Agency	Account Groups: General Fixed Assets	Account Groups: General Long-term Obligations	Totals (Memorandum Only): 1991	Totals (Memorandum Only): 1990
Liabilities:									
Accounts payable	$1,290,632	$194,366	$175,843	$ 146,238	$ 67,085	$ 0	$ 0	$ 1,874,164	$ 1,747,245
Accrued payroll	55,907	32,930	528	16,865	172			106,402	49,021
Compensated absences	113,740	30,603	1,745		338		127,437	273,863	264,177
Tax refunds and abatements payable	315,442	210,292			4,511			530,245	452,102
Other accrued liabilities	284,819	57,494	524	303,519	111		158,521	804,988	575,621
Due to cities and towns		1,366			8,240			9,606	1,275,397
Due to other funds	192,885	87,202	194,755		54,720			529,562	819,626
Deferred revenue	142,931	77,219		150,052	10,408			380,610	259,197
Prizes payable					882,873			882,873	800,867
Deferred compensation benefits payable					643,063			643,063	531,180
Agency liabilities					2,766,080			2,766,080	2,265,972
Obligations under lease/purchase and other financing arrangements							65,598	65,598	57,446
Bonds and notes payable	120,000		141,304	3,211,429			8,580,339	12,053,072	10,165,846
School construction grants							1,582,389	1,582,389	1,415,804
Unfunded pension costs							1,797,294	1,797,294	1,145,871
Total liabilities	2,516,356	691,472	514,699	3,828,103	4,437,601		12,311,578	24,299,809	21,825,372
Fund equity and other credits:									
Investment in general fixed assets						4,063,662		4,063,662	3,460,252
Contributed capital				4,959,581				4,959,581	4,939,058
Retained earnings:									
Reserved for investment programs				15,330				15,330	22,867
Reserved for bond retirement				702				702	1,250
Unreserved				225,660				225,660	218,370
Fund balances (deficit):									
Reserved for:									
Unemployment benefits					216,860			216,860	771,795
Pension benefits					8,373,022			8,373,022	7,904,020
Debt service	6,317							6,317	461,303
Unreserved	(692,800)	277,525	(355,375)		88,399			(682,251)	(1,977,067)
Total fund equity (deficit) and other credits	(686,483)	277,525	(355,375)	5,201,273	8,678,281	4,063,662		17,178,883	15,801,848
Total liabilities, fund equity and other credits	$1,829,873	$968,997	$159,324	$9,029,376	$13,115,882	$4,063,662	$12,311,578	$41,478,692	$37,627,220

See notes to general purpose financial statements.

(Concluded)

Exhibit C-5

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, 1991

(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trust	1991	1990
Revenues:						
Taxes	$ 5,693,304	$3,450,064	$ 0	$ 691,254	$ 9,834,622	$ 9,560,260
Assessments	156,401	1,385,891		2,515	1,544,807	276,875
Federal grants and reimbursements	2,796,706	1,102,151	263,996	6,265	4,169,118	3,134,009
Departmental	1,001,461	2,115,702	2,103	1,949	3,121,215	2,932,917
Miscellaneous	278,939	37,773	469	135,918	453,099	418,198
Total revenues	9,926,811	8,091,581	266,568	837,901	19,122,861	16,322,259
Other financing sources:						
Proceeds of dedicated tax bonds	1,362,726				1,362,726	
Proceeds of general obligation bonds			1,029,740		1,029,740	1,430,483
Proceeds of obligations under lease/purchase and other financing arrangements	28,016				28,016	6,731
Operating transfers in	432,132	994,969	49,335	13,262	1,489,698	1,078,060
Other			36,934	1,144	38,078	30,530
Total other financing sources	1,822,874	994,969	1,116,009	14,406	3,948,258	2,545,804
Total revenues and other financing sources	11,749,685	9,086,550	1,382,577	852,307	23,071,119	18,868,063
Expenditures:						
Current:						
Legislature	40,084				40,084	44,185
Judiciary	77,355	221,036		85	298,476	305,481
Inspector General	983				983	1,083
Governor and Lieutenant Governor	3,556				3,556	4,817
Secretary of the Commonwealth	12,422	752		15	13,189	10,543
Treasurer and Receiver - General	91,506	1,169,394		26	1,260,926	1,217,158
Auditor of the Commonwealth	10,491			598	11,089	11,760
Attorney General	87,882	1,084		112	89,078	30,790
Ethics Commission	910				910	898
District Attorney	10,606	31,080		621	42,307	47,357
Office of Campaign and Political Finance	501			379	880	432
Board of Library Commissioners	1,180	19,793		6	20,979	20,474
Comptroller	5,539				5,539	5,665
Administration and finance	724,747	153,473		1,354	879,574	876,691
Environmental affairs	61,610	110,233		9,168	181,011	179,456
Communities and development	197,183	213,169		518	410,870	403,651
Human services	6,287,745	1,595,572		17,073	7,900,390	6,057,069

(Continued)

COMMONWEALTH OF MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 1991

(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trust	1991	1990
Expenditures (continued):						
Current (continued):						
Transportation and construction	30,465	145,572		1,316	177,353	163,576
Education	16,261	351,301		3,019	370,581	336,172
Higher education	1,049,400	161,682		1,487	1,212,569	1,192,759
Public safety	36,437	111,237		1,378	149,052	155,410
Economic affairs	23,042	146,308		1,336,459	1,505,809	1,251,452
Elder affairs	118,200	24,602		42	142,844	149,982
Consumer affairs	24,836	6,800		1,722	33,358	35,030
Labor	20,032	1,116		16,552	37,700	39,985
Direct local aid to cities and towns	102,453	2,505,872			2,608,325	2,913,048
Capital outlay:						
Local aid			225,999		225,999	208,420
Capital acquisition and construction			945,062		945,062	928,742
Pension	249,192	457,339			706,531	671,940
Debt service:						
Principal retirement	698,984	112,473			811,457	352,151
Interest and fiscal charges	466,158	129,367			595,525	422,371
Total expenditures	10,449,760	7,669,255	1,171,061	1,391,930	20,682,006	18,038,548
Other financing uses:						
Operating transfers out	996,962	1,032,196	68,910	4,959	2,103,027	1,613,034
Total expenditures and other financing uses	11,446,722	8,701,451	1,239,971	1,396,889	22,785,033	19,651,582
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	302,963	385,099	142,606	(544,582)	286,086	(783,519)
Fund balances (deficit) at beginning of year	(989,446)	(107,574)	(497,981)	822,559	(772,442)	11,077
Fund balances (deficit) at end of year	($ 686,483)	$ 277,525	($ 355,375)	$ 277,977	($ 486,356)	($ 772,442)

See notes to general purpose financial statements.

(Concluded)

COMMONWEALTH OF MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 1991

(Amounts in thousands)

	General Fund			Budgeted Special Revenue Funds			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenues:									
Taxes	$ 5,617,924	$ 5,617,924	$ 0	$3,376,987	$3,376,987	$ 0	$ 8,994,911	$ 8,994,911	$ 0
Assessments	179,092	179,092		7,301	7,301		186,393	186,393	
Federal grants and reimbursements	2,762,837	2,762,837		14,218	14,218		2,777,055	2,777,055	
Departmental	544,050	544,050		369,506	369,506		913,556	913,556	
Miscellaneous	272,934	272,934		11,812	11,812		284,746	284,746	
Total revenues	9,376,837	9,376,837		3,779,824	3,779,824		13,156,661	13,156,661	
Other financing sources:									
Proceeds of dedicated income tax bonds	1,362,726	1,362,726					1,362,726	1,362,726	
Fringe benefit cost recovery		45,086	45,086		7,481	7,481		52,567	52,567
Operating transfers in	142,887	142,887		882,593	882,593		1,025,480	1,025,480	
Stabilization transfer		23,679	23,679					23,679	23,679
Current year deficit support		234,829	234,829					234,829	234,829
Other sources				44	44		44	44	
Total other financing sources	1,505,613	1,809,207	303,594	882,637	890,118	7,481	2,388,250	2,699,325	311,075
Total revenues and other financing sources	10,882,450	11,186,044	303,594	4,662,461	4,669,942	7,481	15,544,911	15,855,986	311,075
Expenditures:									
Legislature	48,310	39,497	8,813				48,310	39,497	8,813
Judiciary	76,799	76,564	235	216,206	216,206		293,005	292,770	235
Inspector General	1,005	942	63				1,005	942	63
Governor and Lieutenant Governor	4,233	3,613	620				4,233	3,613	620
Secretary of the Commonwealth	12,519	11,885	634				12,519	11,885	634
Treasurer and Receiver-General	101,823	95,255	6,568	1,052,187	1,051,989	198	1,154,010	1,147,244	6,766
Auditor of the Commonwealth	9,973	9,760	213				9,973	9,760	213
Attorney General	15,812	15,234	578	495	472	23	16,307	15,706	601
Ethics Commission	893	867	26				893	867	26
District Attorney	10,832	10,622	210	29,086	28,780	306	39,918	39,402	516
Office of Campaign and Political Finance	430	420	10				430	420	10
Board of Library Commissioners	1,386	1,301	85	16,564	16,496	68	17,950	17,797	153
Comptroller	5,893	5,462	431				5,893	5,462	431
Administration and finance	964,903	861,314	103,589	181,486	173,536	7,950	1,146,389	1,034,850	111,539
Environmental affairs	69,138	59,166	9,972	109,230	90,408	18,822	178,368	149,574	28,794

(Continued)

COMMONWEALTH OF MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 1991

(Amounts in thousands)

	General Fund			Budgeted Special Revenue Funds			Totals (Memorandum Only)		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Expenditures (continued):									
Communities and development	209,208	197,533	11,675	3,025	2,102	923	212,233	199,635	12,598
Human services	6,321,508	6,157,737	163,771	17,964	17,668	296	6,339,472	6,175,405	164,067
Transportation and construction	395,783	395,439	344	231,659	141,898	89,761	627,442	537,337	90,105
Education	41,167	34,706	6,461	1,477,839	1,468,878	8,961	1,519,006	1,503,584	15,422
Higher education	680,100	607,946	72,154	718	625	93	680,818	608,571	72,247
Public safety	40,243	35,936	4,307	96,292	95,305	987	136,535	131,241	5,294
Economic affairs	29,086	25,095	3,991	5,471	5,375	96	34,557	30,470	4,087
Elder affairs	133,913	121,703	12,210				133,913	121,703	12,210
Consumer affairs	27,366	24,244	3,122	3,169	2,980	189	30,535	27,224	3,311
Labor	21,917	19,190	2,727	282	219	63	22,199	19,409	2,790
Pension	250,997	249,192	1,805	456,369	454,686	1,683	707,366	703,878	3,488
Debt service:									
Principal retirement	283,983	283,983		110,730	110,730		394,713	394,713	
Interest and fiscal charges	418,455	420,181	(1,726)	127,386	127,386		545,841	547,567	(1,726)
Total expenditures	10,177,675	9,764,787	412,888	4,136,158	4,005,739	130,419	14,313,833	13,770,526	543,307
Other financing uses:									
Fringe benefit cost assessment					40,225	(40,225)		40,225	(40,225)
Operating transfers out	432,171	432,171		11,678	13,077	(1,399)	443,849	445,248	(1,399)
Stabilization transfer					23,679	(23,679)		23,679	(23,679)
Current year deficit support					234,829	(234,829)		234,829	(234,829)
Total other financing uses	432,171	432,171		11,678	311,810	(300,132)	443,849	743,981	(300,132)
Total expenditures and other financing uses	10,609,846	10,196,958	412,888	4,147,836	4,317,549	(169,713)	14,757,682	14,514,507	243,175
Excess of revenues and other financing sources over expenditures and other financing uses	272,604	989,086	716,482	514,625	352,393	(162,232)	787,229	1,341,479	554,250
Fund deficit at beginning of year	(814,988)	(814,988)		(289,434)	(289,434)		(1,104,422)	(1,104,422)	
Fund balances (deficit) at end of year	($ 542,384)	$ 174,098	$ 716,482	$ 225,191	$ 62,959	($162,232)	($ 317,193)	$ 237,057	$554,250

See notes to general purpose financial statements.

(Concluded)

Exhibit C-9

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENSES,
CHANGES IN RETAINED EARNINGS/FUND BALANCES AND CHANGES IN CONTRIBUTED CAPITAL -
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS

FISCAL YEAR ENDED JUNE 30, 1991

(Amounts in thousands)

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)	
	Enterprise Funds	Nonexpendable Trust Funds	Pension Trust Funds	1991	1990
Operating revenues:					
Contributions	$ 0	$ 0	$ 922,081	$ 922,081	$ 879,089
Investment income			295,026	295,026	595,212
Charges for services	613,562			613,562	585,951
Other	4,731			4,731	7,589
Total operating revenues	618,293		1,217,107	1,835,400	2,067,841
Operating expenses:					
Cost of services and administration	972,322	1,191	3,138	976,651	915,702
Retirement benefits and refunds			744,967	744,967	687,269
Depreciation	214,182			214,182	207,516
Total operating expenses	1,186,504	1,191	748,105	1,935,800	1,810,487
Operating income (loss)	(568,211)	(1,191)	469,002	(100,400)	257,354
Nonoperating revenues (expenses):					
Operating grants	20,125			20,125	20,402
Donations	5,185			5,185	417
Interest income	61,629			61,629	59,234
Other revenues	2,377			2,377	8,045
Interest expense	(203,081)			(203,081)	(197,798)
Other expenses	(62,958)			(62,958)	(39,075)
Nonoperating revenues (expenses), net	(176,723)			(176,723)	(148,775)
Income (loss) before operating transfers	(744,934)	(1,191)	469,002	(277,123)	108,579

(Continued)

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF REVENUES, EXPENSES,
CHANGES IN RETAINED EARNINGS/FUND BALANCES AND CHANGES IN CONTRIBUTED CAPITAL -
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS

FISCAL YEAR ENDED JUNE 30, 1991

(Amounts in thousands)

	Proprietary Fund Type	Fiduciary Fund Types		Totals (Memorandum Only)	
	Enterprise Funds	Nonexpendable Trust Funds	Pension Trust Funds	1991	1990
Operating transfers	613,329			613,329	534,974
Net income (loss)	(131,605)	(1,191)	469,002	336,206	643,553
Add: Depreciation of fixed assets acquired from contributed capital	130,810			130,810	134,561
Increase (decrease) in retained earnings/fund balances	(795)	(1,191)	469,002	467,016	778,114
Retained earnings/fund balances at beginning of year	242,487	28,473	7,904,020	8,174,980	7,396,866
Retained earnings/fund balances at end of year	$ 241,692	$27,282	$8,373,022	$8,641,996	$8,174,980
Contributed capital at beginning of year	$4,939,058	$ 0	$ 0	$4,939,058	$4,859,919
Add: Capital contributions	151,333			151,333	213,700
Less: Depreciation of fixed assets acquired from contributed capital	(130,810)			(130,810)	(134,561)
Contributed capital at end of year	$4,959,581	$ 0	$ 0	$4,959,581	$4,939,058

See notes to general purpose financial statements.

(Concluded)

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF CASH FLOWS -
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND

FISCAL YEAR ENDED JUNE 30, 1991

(Amounts in thousands)

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)	
	Enterprise Funds	Nonexpendable Trust Funds	1991	1990
Cash flows from operating activities:				
Operating loss	($568,211)	($ 1,191)	($569,402)	($ 520,252)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:				
Depreciation	214,182		214,182	207,516
Amortization of bond discount	3,910		3,910	47,122
Change in assets and liabilities:				
Due from federal government	(63,162)		(63,162)	82
Loans	(2,182)		(2,182)	7,314
Other receivables	(13,540)	3,819	(9,721)	(7,779)
Due from other funds	(60,400)		(60,400)	(15,383)
Inventory	(1,797)		(1,797)	(3,054)
Restricted and other assets	165,628		165,628	(141,754)
Accounts payable	33,098		33,098	10,942
Accrued payroll	2,621		2,621	7,625
Other accrued liabilities	59,817		59,817	22,546
Due to other funds	(16,765)		(16,765)	(4,885)
Deferred revenue	13,798		13,798	23,115
Total adjustments	335,208	3,819	339,027	153,407
Net cash provided by (used for) operating activities	(233,003)	2,628	(230,375)	(366,845)

(Continued)

COMMONWEALTH OF MASSACHUSETTS

COMBINED STATEMENT OF CASH FLOWS -
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND

FISCAL YEAR ENDED JUNE 30, 1991

(Amounts in thousands)

	Proprietary Fund Type	Fiduciary Fund Type	Totals (Memorandum Only)	
	Enterprise Funds	Nonexpendable Trust Funds	1991	1990
Cash flows from noncapital financing activities:				
Operating grants	20,125		20,125	20,402
Operating transfers	613,329		613,329	534,974
Donations	5,185		5,185	417
Other nonoperating revenues	2,377		2,377	8,045
Other nonoperating expenses	(62,958)	———	(62,958)	(39,075)
Net cash provided by noncapital financing activities	578,058	———	578,058	524,763
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(639,793)		(639,793)	(668,588)
Interest on bonds and notes	(203,081)		(203,081)	(197,798)
Capital contributions	151,333		151,333	213,700
Principal payments on bonds and notes	(524,749)	———	(524,749)	(1,299,927)
Net cash used for capital and related financing activities	(428,641)	———	(428,641)	(225,912)
Cash flows from investing activities:				
Purchases, sales and maturities of investments, net	9,078		9,078	20,228
Interest income	61,629	———	61,629	59,234
Net cash provided by investing activities	70,707	———	70,707	79,462
Net increase (decrease) in cash and cash equivalents	(12,879)	2,628	(10,251)	11,468
Cash and cash equivalents at beginning of year	150,664	24,641	175,305	163,837
Cash and cash equivalents at end of year	$137,785	$27,269	$165,054	$ 175,305

See notes to general purpose financial statements.

(Concluded)

1. Summary of Significant Accounting Policies:

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

a. Reporting entity -

The financial statements include the departments, agencies, boards, and commissions governed by the legislative, judicial and constitutional offices of the Commonwealth, the institutions of higher education, and the State Employees' and Teachers' Retirement Systems. Also included are the independent authorities and other organizations over which oversight authority is exercised. These authorities, which are included as Enterprise Funds, were included based on the following criteria:

- Commonwealth's ability to exercise oversight responsibility, evidenced by:
    - Financial interdependency
    - Selection of governing authority
    - Designation of management
    - Ability to significantly influence operations
    - Accountability for fiscal matters
- Scope of public service. Application of this criterion involves considering whether the activity benefits the government and/or its citizens, or whether the activity is conducted within the geographic boundaries of the government and is generally available to its citizens.
- Existence of special financing relationships, regardless of whether the government is able to exercise oversight responsibility.

The following authorities are included in the reporting entity:

Massachusetts Bay Transportation Authority (MBTA)
Massachusetts Convention Center Authority (MCCA)
Massachusetts Water Resources Authority (MWRA)

1. Summary of Significant Accounting Policies (Continued):

a. Reporting entity (continued) -

The following authorities are combined as the Medical and Educational Facilities Fund:

Higher Education Building Authorities:
- Massachusetts State College Building Authority (MSC)
- Southeastern Massachusetts University Building Authority (SMU)
- University of Lowell Building Authority (U Lowell)
- University of Massachusetts Building Authority (U Mass)

University of Massachusetts Medical School - Group Practice Plan
University of Massachusetts Medical School Teaching Hospital Trust
University of Massachusetts Medical Center Self Insurance Trust

The following authorities are combined as the Economic Development Fund:

Bay State Skills Corporation
Government Land Bank
Massachusetts Community Development Finance Corporation
Massachusetts Industrial Finance Agency
Massachusetts Technology Development Corporation
Massachusetts Technology Park Corporation
Massachusetts Water Pollution Abatement Trust

These authorities are excluded from the reporting entity:

Massachusetts Turnpike Authority -

The Massachusetts Turnpike Authority was established by Commonwealth Statute. Members are appointed to the Authority's Board by the Governor for staggered three-year terms but do not maintain a significant relationship with the Commonwealth. The Authority is financially independent of the Commonwealth because it establishes its own rates, issues debt and sets budgets without oversight by the Commonwealth. Debt is supported solely from revenues of the Authority.

1. Summary of Significant Accounting Policies (Continued):

a. Reporting entity (continued) -

Massachusetts Port Authority -

The Massachusetts Port Authority was established by Commonwealth Statute. The Authority's governing board, while appointed by the Governor for staggered seven-year terms, is financially independent of the Commonwealth because it selects management staff, sets user charges, issues debt, establishes budgets and controls aspects of general aviation and other transportation management and development without oversight by the Commonwealth. The Commonwealth provides no funding to the Authority. The Authority's debt is supported solely from revenues of the Authority.

The financial statements do not include the Massachusetts Home Finance Agency, Massachusetts Housing Finance Agency or Massachusetts Health and Educational Facilities Authority. The Commonwealth does not have the ability to significantly influence operations, nor does it guarantee the debt of these entities. Therefore, the Commonwealth does not exercise oversight responsibility over them. In addition, it has no special financing relationships with these entities.

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.

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

Individual funds are classified into three fund categories: governmental, proprietary and fiduciary. Each is divided into separate fund types.

The Commonwealth has established the following fund categories, fund types and account groups:

Governmental Funds - account for the general governmental functions of the Commonwealth.

1. Summary of Significant Accounting Policies (Continued):

b. Fund accounting (continued) -

The General Fund is the primary operating fund of the Commonwealth. It is used to account for all 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 principally from proceeds of general obligation bonds, federal grants and transfers from other governmental funds.

Proprietary Funds - are used to account for activities similar to those found in the private sector where net income and capital maintenance are measured.

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

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

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

The Nonexpendable Trust Fund is used to account for trusts whose principal cannot be spent and for the endowments of the Commonwealth's institutions of higher education.

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.

1. Summary of Significant Accounting Policies (Continued):

b. Fund accounting (continued) -

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

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

The General Fixed Assets Account Group is used to account for general fixed assets of the Commonwealth, which exclude the fixed assets of the Enterprise Funds.

The General Long-term Obligations Account Group is used to account for general long-term obligation bonds and notes payable of the Commonwealth, obligations under lease/purchase and other financing arrangements, unpaid pension costs, compensated absences, claims and judgments and other long-term obligations, except for the liabilities of the Enterprise Funds.

c. Basis of accounting -

Governmental and Expendable Trust Funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they become both measurable and available. "Available" means expected to be collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants, federal reimbursements and other reimbursements for use of materials and services. Revenues from other sources are recognized when received. Expenditures are recorded in the period in which the related fund liability is incurred. Principal and interest on general long-term obligations are recorded as fund liabilities when due.

Enterprise, Nonexpendable Trust and Pension Trust Funds are accounted for 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.

1. Summary of Significant Accounting Policies (Continued):

c. Basis of accounting (continued) -

Statutory (budgetary) accounting -

The Commonwealth's budgets are adopted in accordance with a statutory basis of accounting which is not in accordance with GAAP. Revenues are generally recognized when cash is received. However, federal reimbursements are recognized when related expenditures are incurred. Amounts due from certain political subdivisions of the Commonwealth are recognized when they become measurable and available.

Expenditures are recorded when the related cash disbursement occurs. However, at year end, payroll is accrued and payables are recorded to the extent of approved encumbrances, provided that the goods or services have been received by June 30. Other encumbrances are lapsed.

Under the statutory basis of accounting, the Commonwealth uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control.

d. Cash and investments -

The Commonwealth follows the practice of pooling cash and cash equivalents for all Governmental and Fiduciary Funds. Cash equivalents consist of short-term investments with an original maturity of three months or less and are stated at cost. Because all cash is pooled, an individual fund may have a cash deficit. In these instances, the fund with the cash deficit will borrow from another fund. These interfund borrowings are reported as "Due from other funds" and "Due to other funds" on the balance sheet. Interest earned on pooled cash is allocated to the General Fund, Expendable Trust Funds and to certain Special Revenue Funds when so directed by law.

Equity securities of the Pension Trust Funds and deferred compensation plan investments are stated at market. All other investments are stated at cost or amortized cost.

1. Summary of Significant Accounting Policies (Continued):

e. Receivables -

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

f. Inventories -

The costs of materials and supplies are recorded as expenditures in Governmental Funds when purchased. Such inventories are not material in total to the financial statements. Inventories included within Enterprise Funds are stated at the lower of cost or market, using the first-in, first-out method.

g. Fixed assets -

For Governmental Funds, general fixed assets 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 estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at fair market value at the time of the donation.

The Commonwealth capitalizes all land. Buildings and equipment which have a cost in excess of $15,000 at the date of acquisition and expected useful lives of greater than one year are capitalized. Interest incurred during construction is not material and it is not capitalized. Infrastructure (roads, bridges, tunnels, dams, water and sewer systems, etc.) is not capitalized. No depreciation is provided on general fixed assets.

Fixed assets of the Enterprise Funds are capitalized upon purchase and depreciated on a straight-line basis over the estimated useful lives of the assets. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are as follows:

Structures and improvements	3 - 100 years
Equipment, furniture, fixtures and vehicles	3 - 25 years

1. Summary of Significant Accounting Policies (Continued):

h. Interfund transactions -

During the course of operations, the Commonwealth has transactions between departments or between funds. Transactions of a buyer/seller nature between departments within a fund are eliminated from the individual fund statements. Receivables and payables resulting from transactions between funds are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

i. Fringe benefit cost recovery -

The Commonwealth appropriates and pays the fringe benefit costs of its employees and retirees in the General Fund. As directed by Massachusetts General Laws, these costs are assessed to other funds based on their payroll costs, net of credits for direct fringe payments. Since these costs are not appropriated or otherwise provided for in these funds, the required transfer creates an unfavorable budget variance in the budgeted funds and can result in an undesignated fund deficit.

j. School construction grants -

The Commonwealth is committed to pay debt service on bonds issued by local cities and towns for school construction and renovation. This liability is recorded in the General Long-term Obligations Account Group.

k. Compensated absences -

Employees are granted vacation and sick leave in varying amounts. 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. During fiscal year 1991, the Legislature also established a state employee furlough program under which payroll expenditures were reduced in exchange for a promise to pay in a future fiscal period or periods.

For Governmental Funds, vested or accumulated vacation and sick leave and furlough liabilities that are expected to be liquidated with expendable available financial resources are reported as expenditures and fund liabilities. Amounts that are not expected to be so liquidated are reported in the General Long-term Obligations Account Group.

1. Summary of Significant Accounting Policies (Continued):

k. Compensated absences (continued) -

In the Enterprise Funds, employee's accumulated vacation and sick leaves are recorded as an expense and liability of these funds as the benefits accrue.

l. Lottery revenue and prizes -

Ticket revenues and prizes awarded by the Massachusetts Lottery Commission are recognized as drawings are held. Certain prizes are payable in installments for which the Commonwealth purchases annuities. These annuity contracts, which are purchased in the Commonwealth's name, are recorded as annuity contracts and prizes payable in the Agency Funds. The Commonwealth retains the risk related to such annuities.

m. Risk financing -

The Commonwealth does not insure for workers' compensation, casualty, theft, tort claims and other losses. Such losses including estimates of amounts incurred but not reported are included as accrued liabilities in the accompanying financial statements when they occur. For workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Public Employee Retirement Administration. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth, in most circumstances, to $100,000 per occurrence.

The Group Insurance Commission administers health care and other insurance for the Commonwealth's employees and retirees. These programs require participant contributions.

n. Reservations of fund balances and retained earnings -

Reserves represent portions of fund balances and retained earnings that are legally restricted for a specific future use.

Fund balance reserved for unemployment benefits represents assets available to fund future unemployment benefit payments.

Fund balance reserved for pension benefits represents the assets available to finance retirement benefits of the State Employees' and Teachers' Retirement Systems.

1. Summary of Significant Accounting Policies (Continued):

n. Reservations of fund balances and retained earnings (Continued) -

Fund balance reserved for debt service represents the assets available to repay the debt issued to finance the prior year's statutorily-defined deficit.

Retained earnings reserved for investment programs represent assets available to provide loans to small Massachusetts businesses and for other investment purposes, or property repairs and maintenance.

Retained earnings reserved for bond retirement represents assets available to retire outstanding bonds.

o. Total columns - memorandum only -

Total columns on the 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.

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 in an annual appropriation act. The Legislature is not required to publish estimates of revenue and other financing sources upon which this expenditure budget is based. Before signing the appropriation act, the Governor may veto any specific item, subject to legislative override. Further changes to the budget established in the annual appropriation account may be made via supplemental appropriation acts or other legislative acts. These also must be approved by the Legislature and signed by the Governor.

The majority of the Commonwealth's appropriations are noncontinuing accounts which lapse at the end of each year and require annual reappropriation. Others are continuing accounts for which the Legislature has authorized that any unspent balance from the prior year be carried forward and made available for current spending. In addition,

2. Budgetary Control (Continued):

the Legislature may direct that certain revenues be retained and made available for spending within the appropriation account that generates the revenue. Expenditures may not legally exceed the authorized level of spending on an individual appropriation account basis. However, the Commonwealth is statutorily required to pay debt service before all obligations of the Commonwealth regardless of whether such amounts are appropriated.

For fiscal year 1991, the original appropriations act totaled approximately $12,693,000,000. During fiscal year 1991, several supplemental budgetary appropriations were enacted which aggregated approximately $501,000,000. Legislation passed subsequent to June 30, 1991 authorized the expenditure of $90,000,000 in additional supplemental budgetary appropriations, which raised total appropriations for fiscal year 1991 to approximately $13,284,000,000. Appropriations continued from fiscal year 1990 totaled approximately $175,000,000, and retained revenues, including certain interfund transfers directed by statute, totaled approximately $1,299,000,000.

Appropriations are enacted for the General Fund and certain Special Revenue Fund activities. For these funds, a Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Statutory Basis - Budget and Actual - General and Budgeted Special Revenue Funds is included. The Budgeted Special Revenue Funds presented are the Highway, Local Aid, Environmental and Other.

The original budget for revenue submitted by the Governor is not amended to coincide with any legislative changes to the original expenditure budget. As a result, the Commonwealth does not have legally updated revenue budgets, and actual revenues are reported for purposes of budget to actual comparisons.

The Office of the Comptroller has the responsibility to ensure that budgetary control is maintained on an individual appropriation account basis. Budgetary control is exercised through the Massachusetts Management Accounting and Reporting System (MMARS). MMARS ensures that encumbrances or expenditures are not processed if they exceed the appropriation account's total available spending authorization, which is considered its budget. However, the Legislature has directed certain interfund transfers which are not budgeted. This results in budget to actual variances in both "Other financing sources" and "Other financing uses".

2. Budgetary Control (Continued):

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 appropriation account level, which is the legal level of budgetary control and it is available from the Office of the Comptroller. For financial reporting, the Commonwealth groups these appropriation accounts by character and secretariat to conform to its organizational structure.

The following is a reconciliation of the statutory basis excess of revenues and other financing sources over expenditures and other financing uses of the budgeted General and Special Revenue Funds to the GAAP basis presented in the financial statements (amounts in thousands):

	General	Special Revenue
Excess of revenues and other financing sources over expenditures and other financing uses (statutory basis)	$989,086	$352,393
Entity differences:		
Excess (deficiency) of revenues and other sources over expenditures and other uses for:		
Non-budgeted activities of the General Fund related to certain Medicaid obligations and deficit reduction	(461,303)	
Non-appropriated higher education funds	22,156	(15,231)
Non-budgeted Special Revenue Funds		8,136
Basis of accounting differences:		
Net increase in taxes receivable	162,398	125,479
Net increase in due from federal government	44,823	205
Net increase (decrease) in other receivables and other assets	6,568	(6,057)
Net (increase) decrease in tax refunds and abatements payable	(44,459)	164,059
Net increase in accounts payable and other liabilities	(416,306)	(243,885)
Excess of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	$302,963	$385,099

3. Deposits and Investments:

Cash and cash equivalents -

The Commonwealth maintains a cash pool which is available for use by all funds except for the Enterprise Funds. Cash and cash equivalents include bank deposits, certificates of deposits and restricted cash of the Enterprise Funds. As of June 30, 1991, the carrying amount of the Commonwealth's total cash and cash equivalents was $503,739,000, and the corresponding bank balances were $526,780,000. Bank deposits were insured in the amount of $181,516,000 by the Federal Deposit Insurance Corporation, and $345,264,000 were uninsured and uncollateralized.

Investments -

The Commonwealth maintains an investment pool, the Massachusetts Municipal Depository Trust (MMDT), that is available for use by all funds. The deposits and investments of the Enterprise Funds and the investments of the Pension Trust Funds are held separately from those of other state funds, with the exception of their investments in MMDT.

Statutes authorize the Commonwealth to invest in obligations of the U.S. Treasury, authorized bonds of all states, banker's acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poors Corporation and Moody's Commercial Paper Record and repurchase agreements that any of these obligations secure. Investments in the MMDT are carried at cost, which approximates market. The investment policies of the Enterprise Funds are the same as the Commonwealth's, except that they permit investment in equity securities.

The Pension Trust Funds are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1991

(Continued)

3. Deposits and Investments (Continued):

Investments (continued) -

Short-term investments and investments as detailed in the following paragraphs are classified as to credit risk by the three categories described below:

Category 1: Insured or registered, or securities held by the Commonwealth or its agent in the Commonwealth's name.

Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Commonwealth's name.

Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commonwealth's name.

Investments at June 30, 1991, are as follows (amounts in thousands):

Investment	Carrying amount Category 1	Category 2	Category 3	Total	Market value
Repurchase agreements	$ 343,051	$33,024	$ 11,434	$ 387,509	$ 387,509
U.S. Treasury Obligations	1,228,406	2,193	82,048	1,312,647	1,312,936
Commercial paper	1,180,315	398		1,180,713	1,180,713
Government Obligations	1,210,192	18,983	44,284	1,273,459	1,273,518
Equity securities	3,681,185	5,213	1,528	3,687,926	3,687,926
Fixed income securities	1,361,354			1,361,354	1,361,354
Real estate	510,434			510,434	510,434
Notes			20,046	20,046	20,167
Guaranteed income contracts			68,523	68,523	68,523
Other	475,641			475,641	475,641
	$9,990,578	$59,811	$227,863	10,278,252	10,278,721
Money market investments				268,725	268,725
Mutual fund investments				3,160	3,160
Deferred compensation plan mutual funds				643,063	643,063
Annuity contracts				882,873	882,873
Total				$12,076,073	$12,076,542

3. Deposits and Investments (Continued):

Investments (continued) -

The Pension Trust Funds hold approximately 84% of the investments that are in Category 1 and the Enterprise Funds hold 89% and 98% of the investments in Categories 2 and 3, respectively.

As described above, short-term and restricted investments are reported on the combined balance sheet as cash and short-term investments and restricted and other assets, respectively. Therefore, the total carrying amount of investments disclosed above differs from the total carrying amount reported on the combined balance sheet.

The following is a reconciliation of the two different investment amounts at June 30, 1991 (amounts in thousands):

	Amount
Investments as summarized above	$12,076,073
Less: Short-term investments reported in the combined balance sheet as cash and short-term investments	1,270,635
Restricted investments reported in the combined balance sheet as restricted and other assets	427,705
Deferred compensation plan mutual funds separately disclosed in the combined balance sheet as investment of deferred compensation plan	643,063
Annuity contracts separately disclosed in the combined balance sheet	882,873
Investments as reported on the combined balance sheet	$ 8,851,797

The following is a reconciliation of the balance of cash and short-term investments as reported on the combined balance sheet at June 30, 1991 (amounts in thousands):

Carrying amount of cash and cash equivalents	$ 503,739
Short-term investments	1,270,635
Cash and short-term investments as reported on the combined balance sheet	$1,774,374

4. **Receivables**:

The following schedule details the taxes, federal, loans and other receivables presented in the various funds (amounts in thousands):

	Taxes	Due from federal government	Loans	Other
General Fund	$ 726,450	$615,613	$ 0	$255,616
Special Revenue Funds	498,201	92,113		94,419
Capital Projects Funds		54,364		1,339
Enterprise Funds		72,428	23,526	97,497
Trust and Agency Funds	215,855			42,921
Subtotal	1,440,506	834,518	23,526	491,792
Less: Allowance for uncollectible accounts	241,738	19,305	2,620	170,003
Total	$1,198,768	$815,213	$20,906	$321,789

5. Interfund Transactions:

Interfund receivables and payables at June 30, 1991 are summarized as follows (amounts in thousands):

	Due from	Due to
General Fund:		
Capital Projects Funds:		
Federal	$ 76,182	$ 0
Enterprise Funds:		
MBTA		169,614
MCCA		23,210
Economic Development Authorities		61
	76,182	192,885
Special Revenue Funds:		
Enterprise Funds:		
MBTA		87,202
Capital Projects Funds:		
General Fund		76,182
Capital Projects Funds:		
General	52,110	
Highway	39,089	
Federal		99,467
Local Aid	13,562	
Other		5,294
Enterprise Funds:		
Economic Development Authorities		13,812
	104,761	194,755
Enterprise Funds:		
General Fund	192,885	
Special Revenue:		
Highway Fund	87,202	
Capital Projects:		
Local Aid	13,812	
	293,899	
Fiduciary Funds:		
Expendable Trust Funds:		
Expendable Trust	29,014	
Unemployment Compensation		3,809
Pension Trust Funds:		
State Employees' PERS	25,706	
Teachers' PERS		50,911
	54,720	54,720
Total	$529,562	$529,562

6. **Fixed Assets**:

General fixed assets -

The following schedule shows the changes in general fixed assets by category at June 30, 1991 (amounts in thousands):

	June 30, 1990	Additions	Retirements	June 30, 1991
Land	$ 303,005	$ 49,705	$ 0	$ 352,710
Buildings	2,512,876	256,672	2,229	2,767,319
Machinery and equipment	354,966	118,021	17,847	455,140
Construction in progress	289,405	440,349	241,261	488,493
Total	$3,460,252	$864,747	$261,337	$4,063,662

Fixed assets of the authorities comprising the Commonwealth's Enterprise Funds consist of the following at June 30, 1991 (amounts in thousands):

	Amount
Land and improvements	$ 239,361
Structures and improvements	6,566,778
Equipment, furniture, fixtures and vehicles	1,210,856
	8,016,995
Less accumulated depreciation	1,300,754
	6,716,241
Property held for expansion	7,439
Construction in progress	902,347
Total	$7,626,027

7. **Short-term Debt/Credit Agreements**:

The Commonwealth has issued short-term notes in anticipation of revenue or bond financing. This short-term debt does not meet the long-term debt criteria, and it is therefore classified among fund liabilities.

7. Short-term Debt/Credit Agreements (Continued):

General Fund -

The Commonwealth issues short-term notes to provide working capital to the MBTA. The Commonwealth redeems these notes through assessments to cities and towns. The notes outstanding at June 30, 1991, which totaled $120,000,000, with an interest rate of 4.75%, have been redeemed in full.

Capital Projects Funds -

The Commonwealth is authorized to issue bond anticipation notes to finance capital projects in anticipation of future bond offerings. No such notes were outstanding at June 30, 1991.

The Commonwealth also issues five-year term minibonds to finance capital projects which are redeemable upon demand. These are therefore classified as fund liabilities. The debt service on minibonds is paid by the General Fund and also reported among other financing sources as "Other" in the Capital Projects Fund. At June 30, 1991, the principal amount of minibonds outstanding totaled $141,304,000, with interest rates ranging from 4.65% to 9.7%.

Letter of credit agreement -

The Commonwealth has entered into a letter of credit agreement with a group of banks to borrow up to $1,200,000,000. The agreement provides for advances, subject to certain limitations, bearing interest at the bank rate, as defined, in anticipation of revenue or bond issuance proceeds. These advances are repayable by September 30, following the advance, or may be converted to term advances at the Commonwealth's option. No such advances were drawn during the fiscal year end June 30, 1991.

This letter of credit agreement also provides for guarantees of Commonwealth short-term borrowings. This guarantee feature was utilized extensively during the fiscal year ended June 30, 1991.

The combination of advances and guarantees cannot exceed $1,200,000,000, the maximum amount of the agreement. Certain fees payable on utilized and unutilized amounts totaled approximately $1,678,000.

7. Short-term Debt/Credit Agreements (Continued):

Revenue and bond anticipation short-term borrowing -

The Treasurer is authorized to issue revenue and bond anticipation notes. At June 30, the revenue anticipation notes must be reduced to zero, and bond anticipation notes outstanding cannot exceed $200,000,000. Through the Treasurer's commercial papaer program, such short-term borrowings can be guaranteed to a maximum of $1,200,000,000 by the letter of credit agreement. The Commonwealth utilized this short-term borrowing authority extensively during the year ended June 30, 1991 and paid interest totaling approximately $57,863,000.

Line of credit agreement -

The Commonwealth also maintains a revolving line of credit agreement with another bank through June 30, 1992, in the amount of $150,000,000. Interest is charged at the federal funds rate plus 1.5%, or prime, whichever is less. A commitment fee is payable quarterly on the excess of the commitment amount over the average daily outstanding principal amount drawn. This line of credit agreement was utilized during fiscal year 1991. No amounts were outstanding at June 30, 1991. Commitment fees totaled approximately $75,000.

The University of Massachusetts Medical School Teaching Hospital Trust, included in the Medical and Educational Facilities Fund, obtained a $11,000,000 line of credit in December, 1990, to finance the construction of a building. At June 30, 1991, the entire line of credit was unused.

8. Long-term Debt:

General long-term obligation bonds of the Commonwealth are authorized and issued primarily to provide funds for state-owned capital projects and local government improvements. General obligation bonds are paid from the Governmental Funds, in which debt service principal and interest payments are funded. The bonds are backed by the full faith and credit of the Commonwealth.

Under the Constitution of the Commonwealth of Massachusetts, both Houses of the Legislature must approve, by a separate enabling act, the authorization to incur debt for a specific purpose or objective. The Commonwealth allows the allocation of bond proceeds to these authorizations in arrears, as expenditures are made, unless the proceeds are allocated to each authorization at the time of issuance.

8. Long-term Debt (Continued):

In fiscal year 1991, dedicated income tax bonds were issued 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 tax revenues and the investment earnings thereon.

General long-term debt outstanding (including discount and issuance costs) and bonds authorized - unissued at June 30, 1991, are as follows (amounts in thousands):

Purpose	Outstanding Amount	Outstanding Interest rates	Maturity dates	Authorized - unissued Amount
Deficit Reduction:				
Fiscal Recovery	$1,416,145	7.00% to 7.625%	1992-1997	$ 57,274
Capital Projects:				
General Capital Projects	4,644,086	1.00% to 12.00%	1992-2010	2,675,241
Highway	1,567,327	1.00% to 11.75%	1992-2010	1,243,825
Local Aid	669,461	5.00% to 9.25%	1992-2010	892,824
Metropolitan Water District	67,619	0.10% to 12.00%	1992-2025	
State Recreation Areas	64,348	1.00% to 12.00%	1992-2010	20,553
Metropolitan Parks District	57,349	1.00% to 12.00%	1992-2010	25,103
Metropolitan Sewerage District	49,555	0.10% to 10.20%	1992-2015	
Government Land Bank	17,732	1.00% to 14.25%	1992-2010	2,081
Environmental Challenge	17,000	6.30% to 9.25%	1992-2010	
Federally Assisted Housing	8,427	5.60% to 9.63%	1992-2003	2,245
Intercity Bus Capital Assistance	1,290	6.30% to 9.25%	1992-1993	18,160
Subtotal	7,164,194			4,880,032
Total	$8,580,339			$4,937,306

8. Long-term Debt (Continued):

Changes in long-term debt (including discount and issuance costs) and bonds authorized - unissued for the year ended June 30, 1991, are as follows (amounts in thousands):

	Long-term debt	Authorized - unissued
Balance, July 1, 1990	$6,605,039	$5,383,743
Bond issuances	2,392,466	(2,392,466)
Increase in bonds authorized		2,473,871
Expiration of authorizations		(527,842)
Bond discount	356,694	
Bonds retired (excluding minibonds)	(773,860)	
Balance, June 30, 1991	$8,580,339	$4,937,306

At June 30, 1991, general long-term debt service requirements to maturity for principal (including discount and issuance costs) and interest are as follows (amounts in thousands):

Year ending June 30	Principal	Interest	Total
1992	$ 554,129	$ 513,225	$ 1,067,354
1993	573,311	473,350	1,046,661
1994	595,690	444,365	1,040,055
1995	612,859	402,254	1,015,113
1996	617,931	363,494	981,425
1997 and thereafter	5,626,419	2,179,566	7,805,985
Total	$8,580,339	$4,376,254	$12,956,593

Subsequent to June 30, 1991, the Commonwealth issued $384,418,000, including discount, of refunding bonds, with maturities from 1996 through 2012, at interest rates ranging from 6.0% to 7.1%. The expected impact of this refunding is to reduce debt service requirements in 1992 and increase such requirements in succeeding years. Subsequent to June 30, 1991, the Commonwealth also issued $488,240,000 of general obligation bonds, with maturities from 1993 through 2012, at interest rates ranging from 4.9% to 7.0%.

8. Long-term Debt (Continued):

In connection with the issuance of general obligation debt to finance capital projects, the Office of the State Treasurer estimates the Commonwealth's fiscal year 1991 costs for bond counsel and underwriting fees to be $722,000 and $10,921,000, respectively. Such costs for the issuance of dedicated income tax debt to finance deficit reduction are estimated at $575,000 and $9,148,000, respectively.

Legal debt limit -

During fiscal years 1990 and 1991, the Commonwealth set a limit on the principal amount of its direct debt outstanding, effective at the beginning of fiscal year 1991. The first-year limit is $6,800,000,000. An increase of 5% is allowed in each successive fiscal year. The effect of this limit is to provide a control on annual capital spending.

For purposes of determining compliance with the limit, direct debt is defined to include general obligation bonds and minibonds at the amount of their original net proceeds. It excludes discount and issuance costs, if any, financed by these bonds. It excludes the Fiscal Recovery bonds, refunded bonds and bond anticipation notes. Outstanding direct debt, as defined, totaled approximately $6,511,000,000 at June 30, 1991.

Defeased bonds -

In prior years, the Commonwealth defeased certain general obligation and other bonds by placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the financial statements. At June 30, 1991, approximately $522,000,000 of bonds outstanding are considered defeased.

In prior years, the MBTA defeased a portion of general transportation system bonds by placing the proceeds of new bonds in a trust fund to provide for future debt service payments on the old bonds. These payments begin in 1998. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the MBTA's financial statements. On June 30, 1991, $59,595,000 of bonds outstanding are considered defeased.

8. Long-term Debt (Continued):

Changes in general long-term obligations -

The Commonwealth records its liability for long-term debt in the General Long-term Obligations Account Group. Other general long-term obligations recognized by the Commonwealth are its obligations under lease/purchase and other financing arrangements (Note 13), school construction grants to partially reimburse cities and towns for payments on bonds issued to finance construction of local or regional schools (Note 1), compensated absences (Note 1), unfunded pension costs (Note 11) and claims and judgments related primarily to lawsuits pending or threatened and other liabilities (Notes 1, 14 and 15).

During the year ended June 30, 1991, the following changes occurred in liabilities reported in the General Long-term Obligations Account Group (amounts in thousands):

	General obligation bonds	Obligations under lease/purchase and other financing arrangements	School construction grants	Compensated absences	Unfunded pension costs	Claims, judgments and other	Total
Balance, July 1, 1990	$6,605,039	$57,446	$1,415,804	$123,219	$1,145,871	$169,676	$ 9,517,055
Bond issuances	2,392,466						2,392,466
Bond discount	356,694						356,694
Bond principal payments (excluding minibonds)	(773,860)						(773,860)
Lease/purchase and other financing arrangements obligations		28,016					28,016
Lease/purchase and other financing arrangements payments		(19,864)					(19,864)
Excess of total pension contributions required over total contributions made					651,423		651,423
Net increase (decrease)			166,585	4,218		(11,155)	159,648
Balance, June 30, 1991	$8,580,339	$65,598	$1,582,389	$127,437	$1,797,294	$158,521	$12,311,578

8. Long-term Debt (Continued):

Enterprise Funds -

Bonds and notes outstanding, net of unamortized discount of $16,191,000, at June 30, 1991, are as follows (amounts in thousands):

Purpose	Interest rates	Amount	Maturity dates
MBTA:			
General Transportation System Bonds	3.82% to 8.96%	$1,459,288	2004-2021
Boston Metropolitan District Bonds	2.96% to 9.10%	62,639	1993-2025
Notes Payable	4.50% to 7.25%	300,000	1992
Other	3.40% to 7.80%	206,060	1992-2016
MCCA:			
Serial Bonds	5.25% to 9.80%	94,690	1992-2001
Term Bonds	9.13% to 10.00%	52,245	2001-2005
MWRA:			
1990 Series A Bonds	6.20% to 7.63%	790,412	1992-2020
Medical and Educational Facilities:			
MSC:			
Project and Refunding Revenue Bonds	5.00% to 7.80%	93,875	1992-2016
SMU:			
Project Revenue Bonds	3.00% to 7.80%	36,552	1992-2016
U Lowell:			
Project Revenue Bonds	3.00% to 9.00%	30,499	1992-2018
U Mass:			
Project and Refunding Revenue Bonds	5.90% to 9.88%	85,115	1992-2014
Economic Development:			
Various		54	1992
Total		$3,211,429	

8. Long-term Debt (Continued):

Enterprise Funds (continued) -

MBTA -

The legislation under which the MBTA was established provides that if, at any time, the MBTA is unable to meet any interest or principal due on any bond issued by the MBTA, sufficient funds will be remitted by the Commonwealth to meet such obligations.

On October 1, 1991, $125,000,000 of maturing notes were refinanced by the issuance of new notes with a total face value of $160,000,000, with interest rates of 5% to 5.5%, which mature on October 1, 1992. In November 1991, the MBTA issued $275,000,000 of General Transportation System Bonds to provide permanent financing for capital improvements previously financed with commercial paper.

MCCA -

The legislation authorizing the issuance of debt securities by MCCA provides for participation by the Commonwealth of Massachusetts in the full payment of the annual debt service costs.

MWRA -

The bonds are collateralized by a lien and pledge on certain revenues and other moneys of MWRA. The discount on and the cost of issuing the bonds, aggregating $47,313,000, are being amortized over the life of the bonds.

As of July 1, 1985, MWRA assumed responsibility to repay the Commonwealth for all principal and interest payments related to $141,703,000 of debt issued by the Commonwealth in connection with the Metropolitan District Commission sewer and waterworks prior to July 1, 1985. The Commonwealth's debt consists of approximately 140 different debt instruments, with varying interest rates and maturity dates. The MWRA's share of principal payable amounted to $79,656,000 at June 30, 1991. These amounts are included in the General Long-term Obligations Account Group of the Commonwealth and as contributed capital in the Enterprise Funds. As further discussed in Note 14, legislation, forgiving the foregoing obligation in exchange for the payment of $120,000,000 to the Commonwealth for other common obligations, was enacted on July 10, 1991, and is being contested through litigation by the MWRA's Advisory Board, certain member communities, and certain individuals, as ratepayers and members of the Advisory Board Executive Committee.

8. Long-term Debt (Continued):

Enterprise Funds (continued) -

Medical and Educational Facilities -

In August, 1991, U Mass issued a series of bonds with a face value of $41,580,000. The series was designated as the Refunding Revenue Bonds, Series 1991-A and was issued to: (i) refund in advance of the maturity thereof the Project and Refunding Revenue Bonds, stated to mature on May 1, 1997, May 1, 1998, and May 1, 2004, and (ii) pay the costs of issuance of the Series 1991-A bonds and certain other costs.

The enabling legislation relating to the Facilities provides for financial support from the Commonwealth in the form of full faith and credit guarantees.

Maturities of principal are as follows (amounts in thousands):

Year ending June 30	MBTA	MCCA	MWRA	Medical and Educational Facilities	Economic Development	Total
1992	$ 441,595	$ 11,500	$ 17,480	$ 5,286	$54	$ 475,915
1993	50,810	12,405	18,068	6,717		88,000
1994	50,566	13,415	18,336	7,517		89,834
1995	52,246	10,250	18,819	8,053		89,368
1996	53,981	8,347	19,279	8,935		90,542
1997 and thereafter	1,394,980	91,018	698,430	209,533	—	2,393,961
Total	$2,044,178	$146,935	$790,412	$246,041	$54	$3,227,620

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.

8. Long-term Debt (Continued):

Enterprise Funds (continued) -

Medical and Educational Facilities (continued) -

During the year ended June 30, 1991, the following changes occurred in bonds and notes payable reported in the Enterprise Funds (amounts in thousands):

	MBTA	MCCA	MWRA	Medical and Educational Facilities	Economic Development	Total
Balance, July 1, 1990	$1,748,133	$157,610	$789,865	$248,978	$33	$2,944,619
Bond issuances	787,628				21	787,649
Bond principal payments	(509,093)	(10,675)	(1,703)	(3,278)		(524,749)
Amortization of bond discount	1,319		2,250	341	—	3,910
Balance, June 30, 1991	$2,027,987	$146,935	$790,412	$246,041	$54	$3,211,429

9. Individual Fund Deficits:

The General Fund, a Special Revenue Fund and certain Capital Projects Funds have fund deficits at June 30, 1991, as follows (amounts in thousands):

Fund	Deficit amount
General	$686,483
Special Revenue:	
Highway	35,981
Capital Projects:	
General	121,187
Federal	178,290
Local Aid	47,153
Other	18,641

9. Individual Fund Deficits (Continued):

Early in fiscal year 1991, the Commonwealth enacted a package of tax increases to address its deficits. A temporary increase in personal income taxes, which had been enacted to address certain fiscal year 1989 deficits, was followed by permanent increases. These income taxes provide resources for current governmental operations, as well as debt service on the Fiscal Recovery debt which had financed the fiscal year 1990 statutorily-defined deficits of the General and the Local Aid Funds. The General Fund receives 60%, and the Local Aid Fund receives 40% of this tax increase, after debt service requirements are met. The General Fund also receives 60%, and the Local Aid Fund receives 40% of various sales tax increases. A gasoline tax increase is directed to the Highway Fund.

Non-tax revenue initiatives have also been undertaken. These primarily address the General Fund deficit, but a positive impact is also expected for registration fees directed to the Highway Fund.

The annual appropriations act for fiscal year 1992 totaled approximately $12,172,000,000, a reduction of $521,000,000 from fiscal year 1991. A variety of expenditure reduction actions have been taken to reduce the likelihood of deficit spending, and total appropriations are expected to remain below $13,000,000,000.

The Commonwealth will also continue its policy of accelerating the issuance of general long-term obligation bonds to finance capital project expenditures on a more current basis.

10. Segment Information - Enterprise Funds:

Selected financial information with respect to various segment activities included in the Enterprise Funds is as follows (amounts in thousands):

	Segments				
	Trans-portation	Conven-tions and parking	Water supply and waste disposal	Medical and educational facilities	Economic develop-ment
Operating revenues	$ 168,423	$ 11,498	$ 188,427	$247,896	$ 2,049
Depreciation	113,239	10,251	73,761	10,226	6,705
Operating loss	(517,076)	(15,169)	(4,945)	(6,098)	(24,923)
Operating grants	18,110			433	1,582
Nonoperating revenues (expenses), net	(103,710)	(24,381)	(47,560)	(10,087)	9,015
Operating transfers	543,734	22,205		30,151	17,239
Net income (loss)	(77,052)	(17,345)	(52,505)	13,966	1,331
Current capital contributions	24,421	13,608	36,191	18	77,095
Fixed asset additions	297,352	2,108	304,391	33,200	2,742
Total assets	4,566,718	281,736	3,316,816	628,549	235,557
Bonds and notes payable	2,027,987	146,935	790,412	246,041	54
Net working capital	(206,112)	(11,533)	48,182	97,882	138,815
Total retained earnings (deficit)	(103,766)	(59)		268,196	77,321

11. Retirement Systems:

The Commonwealth is statutorily responsible for the pension benefits for Commonwealth employees (members of the State Employees' Retirement System) and for teachers of the cities, towns, regional school districts throughout the Commonwealth and Quincy Junior 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 local retirement systems.

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 nonemployee 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 Junior College. The TRS is administered by the Commonwealth and is part of the reporting entity.

State - Boston Retirement System (SBRS) is an agent multiple employer defined benefit PERS. SBRS provides provision benefits to all full-time employees upon commencement of employment with any of the various government agencies covered by SBRS. The Commonwealth is a non-employer contributor and is only responsible for the actual cost of pension benefits for SBRS participants who serve in the City of Boston's School Department in a teaching capacity. The cost of pension benefits of the other participants is the responsibility of the City of Boston. SBRS is not administered by the Commonwealth, and it is not part of the reporting entity.

11. Retirement Systems (Continued):

Plan descriptions (continued) -

In addition, the Commonwealth has assumed financial responsibility for the COLA granted to participants in the retirement systems of cities, towns and counties. Any future COLA granted by the Legislature to employees of these plans will also be the responsibility of the Commonwealth. The individual employer governments are responsible for the basic pension benefits. The retirement systems are not administered by the Commonwealth, and are not part of the reporting entity.

Membership -

Current membership in SERS, TRS and SBRS as of January 1, 1991 is as follows:

	SERS	TRS	SBRS
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	46,638	35,284	3,539
Current employees:			
Vested	35,194	44,070	4,502
Nonvested	54,800	13,800	1,422
Subtotal	89,994	57,870	5,924
Total	136,632	93,154	9,463

The covered payroll for employees of the Commonwealth covered by SERS was $2,300,000,000,. The covered payroll for employees of the cities and towns covered by TRS is $2,065,000,000. The covered payroll for employees of the City of Boston covered by SBRS is $203,000,000. The covered payroll amounts approximate the employer payroll.

11. Retirement Systems (Continued):

Benefit provisions -

All PERS in the Commonwealth are established under the Uniform Massachusetts Contributory Retirement System requirements of the General Laws. These requirements provide uniform benefit and contribution requirements for all systems. The system 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 deductions and a portion of the interest they generate constitute the annuity. The differential between the total retirement benefit and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

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

Funding status and progress -

The amounts shown below as the pension benefit obligation are a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the System on an ongoing basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarially determined present value of credited projected benefits and is independent of the funding method used to determine contributions to the System.

COMMONWEALTH OF MASSACHUSETTS

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(Continued)

11. Retirement Systems (Continued):

Funding status and progress (continued) -

The SERS and TRS pension benefit obligations were computed as part of the actuarial valuation updated as of January 1, 1991, SBRS had a valuation performed as of January 1, 1991. Significant actuarial assumptions used in the calculation of contribution requirements and pension benefit obligation include (a) rates of return on investments of present and future assets of 8% per year for SERS and TRS, and 10% for SBRS (b) projected salary increases of 6% per year for SERS and TRS and 5% for SBRS (c) cost of living increases of 3% per year (d) rate of inflation of 4-1/2% per year and (e) interest rate credited to the annuity saving fund of 5-1/2% per year.

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	$3,580	$3,909	$217	$1,670	$9,376
Current employees:					
Accumulated employee contributions including allocated interest	1,533	1,565	192		3,290
Commonwealth financed:					
Non-vested	460	115	68	119	762
Vested	1,281	3,264	76	550	5,171
Total pension benefit obligation	6,854	8,853	553	2,339	18,599
Net assets available for benefits, at market	4,052	4,086	301		8,439
Unfunded pension benefit obligation	$2,802	$4,767	$252	$2,339	$10,160

11. Retirement Systems (Continued):

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 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 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, and a provision was not made to fully fund future liabilities already incurred. Beginning in fiscal year 1989, the Commonwealth addressed the unfunded liability of SERS, TRS and its participation in SBRS and its COLA obligation. The Pension Reform Act of 1987 requires funding on a current basis, including amortizing the unfunded liabilities over 40 years and the liabilities for future payments of cost-of-living adjustments to local systems.

This legislation directs the Secretary of 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. However, if a schedule is not approved by the Legislature, payments are to be made in accordance with the most recently approved schedule.

The first funding schedule, based on January 1, 1987, data, was filed with the Legislature on March 1, 1988. It remained in effect for the year ended June 30, 1991, and it required contributions by the Commonwealth of $679,798,000. Because total benefit payments exceeded this amount, no additional contribution amounts were transferred to the Pension Reserve Fund. The second funding schedule, based on the January 1, 1990 valuation, was filed with the Legislature on March 1, 1991, as required.

GAAP requires that pension expenditures (costs) be based on an acceptable actuarial cost method and that they not be less than:

- Normal cost

- Interest on any unfunded prior service costs

11. Retirement Systems (Continued):

Contributions required and contributions made (continued) -

- A provision for vested benefits when the total present value of vested benefits exceeds by 5% or more the value of the plan

The funding schedule discussed above follows an acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability. However, the amortization of the accrued actuarial liability has been legislatively determined to be significantly lower in the first years of the 40-year funding period. Therefore, the fiscal year 1991 contribution did not cover the minimum expenditure recognition required by GAAP. Therefore, the difference between the total contributions required and the total contributions made, as discussed below, was recorded as a liability in the General Long-term Obligations Account Group.

Contributions required and made based on the minimum expenditure recognition required by GAAP are as follows (amounts in millions):

	SERS	TRS	SBRS	COLA	Total
Minimum contribution requirement:					
Normal cost	$411.0	$271.9	$23.3	$ 54.7	$ 760.9
Amortization of unfunded actuarial liability	223.2	313.8	27.9	150.9	715.8
Interest on unfunded actuarial liability	78.4	84.7	7.6	39.2	209.9
Total contributions required	$712.6	$670.4	$58.8	$244.8	$1,686.6
Contributions made:					
By employees	$196.4	$144.2	$12.6	$ 0	$ 353.2
% of covered payroll	8.5%	7.0%	6.2%	N/A	N/A
By the Commonwealth	311.4	266.9	25.7	77.9	681.9
% of covered payroll	13.5%	12.9%	12.7%	N/A	N/A
Total contributions made	$507.8	$411.1	$38.3	$ 77.9	$1,035.1

The above 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.

11. Retirement Systems (Continued):

Contributions required and contributions made (continued) -

In addition, during the year ended June 30, 1991, the Commonwealth has made payments totaling $21,883,000 to current retirees employed prior to the establishment of the current plans.

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:	1991	59.1	46.2	54.4
	1990*	54.2	46.1	41.0
Unfunded pension benefit obligation as a percentage of annual covered payroll:	1991	121.8	230.8	124.1
	1990*	112.8	199.7	242.9
Commonwealth's contributions to the pension plan as a percentage of annual covered payroll:	1991	13.5	12.9	12.7
	1990*	10.3	11.3	14.1

Ten-year historical trend information for SERS, TRS and SBRS may be found on pages 131 and 132 of the Commonwealth's Comprehensive Annual Financial Report. This report presents information about progress made in accumulating sufficient assets to pay benefits when due.

*Fiscal year 1990 is the first period for which pension benefit obligations have been calculated in accordance with GASB Statement No. 5.

11. Retirement Systems (Continued):

Trend information (continued) -

Certain information was not available for SERS, TRS and the Commonwealth's participation in SBRS. Total annual payroll for SERS, TRS and SBRS approximates annual covered payroll, however; actual annual total payroll amounts were 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.

Pension funding grants -

During fiscal year 1990, the Commonwealth adopted legislation to provide annual pension funding grants to nonstate PERS that elect to accept the provisions of such legislation. These Systems are required to establish funding schedules designed to amortize their unfunded actuarial liabilities over a period of 40 years. The grants provide funding support through the year 2004. As of June 30, 1991, 22 systems have elected to adopt the provisions of the legislation. These costs totaled $2,653,000 for the fiscal year ended June 30, 1991.

Federal Omnibus Budget Reconciliation Act of 1990 (OBRA 90) -

This federal legislation, passed in October 1990, includes provisions mandating full Social Security coverage for public sector employees who are not members of a retirement system. The Internal Revenue Service issued regulations on June 28, 1991. When the regulations become effective on January 1, 1992, approximately 5,000 part-time seasonal, intermittent, temporary or contracted employees of the Commonwealth, who were precluded from retirement coverage by state law, must be covered by either Social Security or an alternative PERS which meets federal requirements.

Subsequent to June 30, 1991, the Governor filed legislation to establish a new retirement plan to meet the OBRA 90 requirements.

11. Retirement Systems (Continued):

Enterprise Funds' condensed pension information -

The following component units included as Enterprise Funds maintain their own pensions plans. More detailed information concerning these plans is available in the separate financial statements of the component units. The pension benefit obligation and net assets available for benefits for each plan are as follows (amounts in thousands):

	Pension benefit obligation	Net assets available for benefits
MBTA	$797,699	$828,050
MCCA	3,247	2,799
MWRA	3,217	3,451

All three component units met their actuarially determined employer contribution requirements.

Enterprise Funds' early retirement -

The MBTA has offered an early retirement program to all employees meeting certain minimum criteria related to age and years of service. The employees choosing to participate in the program were paid a severance amount equal to the greater of eight weeks of pay or the total vacation pay the employee had accumulated. The employees will receive reduced retirement benefits. As of November 1, 1991, the final date for employees to elect to participate in the plan, approximately 850 employees had elected to participate. Since June 30, 1991, the MBTA has paid approximately $4,500,000 to these employees.

Postretirement health care and life insurance benefits -

In addition to providing pension benefits, the Commonwealth is statutorily required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other nonstate 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. In addition to the required retiree contributions, the Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and nonstate agencies. The Commonwealth recognizes its share of the costs of providing these benefits as expenditures in the General Fund in the year paid. These costs totaled $90,690,000 for the fiscal year ended June 30, 1991.

COMMONWEALTH OF MASSACHUSETTS

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(Continued)

12. Deferred Compensation Plan:

The Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees of the Commonwealth and its political subdivisions, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Commonwealth (without being restricted to the provision of benefits under the plan), subject only to the claims of the Commonwealth's general creditors and its political subdivisions participating in the plan. Participants' rights under the plan are equal to the fair market value of the deferred account for each participant. All plan assets are stated at market value.

It is the opinion of the Commonwealth that it has no liability for losses under the plan, but it does have the duty of due care which would be required of an ordinary prudent investor. The plan assets are subject to the claims of the Commonwealth's general creditors; however, plan assets have not been used in the past to satisfy such claims.

Of the $643,063,000 in the plan at June 30, 1991, $466,221,000 was applicable to the Commonwealth; the remaining $176,842,000 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, 1991.

13. Obligations under Lease/Purchase and Other Financing Arrangements:

The Commonwealth has entered into various lease/purchase agreements, including tax-exempt lease purchase agreements, for equipment, which are accounted for as capital leases. The lease agreements are for various terms; all contain clauses indicating that their continuation is subject to appropriation by the Legislature.

For the fiscal year ended June 30, 1991, gross capital lease expenditures of approximately $20,500,000 are included in the Commonwealth's total expenditures. The outstanding liability, the present value of the net minimum lease payments, of $48,328,000 is reported in the General Long-term Obligations Account Group.

13. Obligations under Lease/Purchase and Other Financing Arrangements (Continued):

At June 30, 1991, the gross minimum lease payments, together with the present value of the net minimum lease payments, are as follows (amounts in thousands):

Year ending June 30	Principal	Interest	Total
1992	$17,668	$3,369	$21,037
1993	13,730	2,112	15,842
1994	10,955	1,141	12,096
1995	2,478	441	2,919
1996	1,164	247	1,411
1997 and thereafter	2,333	327	2,660
Total	$48,328	$7,637	$55,965

At June 30, 1991, the fixed assets acquired under capital leases, which are included in the General Fixed Assets Account Group, are as follows (amounts in thousands):

	Amount
Data processing equipment	$59,989
Telecommunications systems	11,203
Motor vehicles	7,976
Other equipment	6,130
Total	$85,298

The Commonwealth purchased a telecommunication system through the issuance of certificates of participation of $18,610,000 in fiscal year 1989. These certificates were issued through a trustee, and the Commonwealth is responsible for payments to the trustee that approximate the interest and principal payments made by the trustee to the certificate holders. The Commonwealth maintains custody and use of the equipment. The trustee holds the title as security for the certificate holders, until such time as the certificates are fully paid. Proceeds from the issuance of these certificates and the related capital expenditures are accounted for in essentially the same manner as lease/purchase agreements.

For the year ended June 30, 1991, principal and interest expenditures of approximately $2,674,000 are included in the Commonwealth's total expenditures. The outstanding liability of $17,270,000 is recorded in the General Long-term Obligations Account Group.

13. Obligations under Lease/Purchase and Other Financing Arrangements (Continued):

Debt service requirements for certificates of participation including interest at rates of 6.5% to 7.8% are as follows (amounts in thousands):

Year ending June 30	Principal	Interest	Total
1992	$ 1,425	$1,243	$ 2,668
1993	1,525	1,144	2,669
1994	1,635	1,036	2,671
1995	1,750	918	2,668
1996	1,880	790	2,670
1997 and thereafter	9,055	1,628	10,683
Total	$17,270	$6,759	$24,029

The Commonwealth has entered into numerous operating lease agreements to lease real property and equipment. Rental expense under these operating leases for the year ended June 30, 1991 was approximately $96,040,000. At June 30, 1991, the Commonwealth has the following minimum rental payments due under these leases (amounts in thousands):

Year ending June 30	Amount
1992	$ 91,025
1993	74,479
1994	53,409
1995	39,648
1996	26,623
1997 and thereafter	1,050
Total	$286,234

Both capital and operating lease agreements are for various terms and contain clauses indicating that continuation of the lease is subject to funding by the Legislature.

13. Obligations under Lease/Purchase and Other Financing Arrangements (Continued):

The MBTA has entered into several sale-leaseback agreements with major financial institutions, covering equipment and rolling stock. The leases expire through 2013. Upon termination of the leases, 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. These leases have been accounted for as operating leases. The future minimum lease payments are as follows (amounts in thousands):

Year ending June 30	Amount
1992	$ 12,068
1993	12,068
1994	12,068
1995	12,068
1996	12,068
1997 and thereafter	202,442
Total	$262,782

The MWRA leases office space in Boston and other property under long-term leases. Future minimum rental payments required under operating leases having initial or remaining noncancelable lease terms in excess of one year are as follows (amounts in thousands):

Year ending June 30	Amount
1992	$ 10,035
1993	9,916
1994	10,192
1995	10,206
1996	10,181
1997 and thereafter	118,509
Total	$169,039

14. Commitments:

The Commonwealth provides annual subsidies to the MBTA and regional transit authorities for contract assistance, debt service assistance and a reimbursement of their net cost of service deficiency. For fiscal year 1991, these subsidies were approximately $555,000,000. At June 30, 1991, the Commonwealth has recorded a liability due to the MBTA of $256,816,000 to accrue the unpaid net cost of service deficiency subsidy through June 30, 1991. In order to reimburse the Commonwealth, cities and towns are assessed their proportionate share of this subsidy. These assessments are collected by reducing the direct local aid payments in future periods. A receivable accounted for as "Due from cities and towns", of $183,973,000 is recorded to account for all future reimbursements due in relation to the subsidies recorded by the Commonwealth. In addition, the MBTA has recorded a deferred charge of $58,000,000 at June 30, 1991, which will be included in the Commonwealth's net cost of service subsidy in future periods. The Commonwealth has recorded this accrued liability in its General Long-term Obligations Account Group.

At June 30, 1991, the Commonwealth had commitments approaching $930,000,000 for various construction projects. Approximately $310,000,000 relates to new construction funding for major infrastructure projects under a program known as the Central Artery Project in which Federal participation approaching $260,000,000 is anticipated. The remainder relates to a wide range of building construction projects overseen by the Department of Capital Planning and Operations.

At June 30, 1991, the MWRA had commitments of approximately $895,038,000 relating to a capital improvement program. Additionally, the MWRA has been party to several state and federal lawsuits and is required to comply with a detailed schedule of actions to achieve and maintain compliance with the requirements of the Clean Water Act. The MWRA anticipated capital expenditures of approximately $6,000,000,000 between 1991 and 1999, based on certain preliminary assumptions and estimates. These estimates may change significantly as design and construction of the necessary facilities proceed. Funding is expected from various federal and state grants, as available and approved, and debt issuance proceeds. As of September 1, 1991, the federal government has authorized $100,000,000 in grants to the MWRA for the cleanup of Boston Harbor, of which $80,000,000 has been appropriated as of that date. From 1988 to 1991, the Commonwealth was authorized to receive approximately $83,000,000 annually of federal funds for loans and currently will receive $92,000,000, $38,000,000, and $19,000,000 for 1992, 1993 and 1994, respectively, from which the MWRA and other entities may request funding for eligible projects. In fiscal year 1991, Congress did not authorize the full amount, and as a result, the Commonwealth had $64,000,000 available for that year.

14. Commitments (Continued):

On July 10, 1991, legislation, relating to the Fiscal 1992 Budget of the Commonwealth, was enacted, and provided, among other things, that the MWRA shall pay the Commonwealth, on or before September 30, 1991, $120,000,000 in consideration for costs borne by the Commonwealth on behalf of the MWRA and its predecessor agency, the MDC, including, but not limited to, the payment of interest and principal on debt issued and charged to the MDC. The legislation also establishes a fee to be determined annually, and not to exceed $.00015 per gallon, that will be billed to and paid by the Authority on a monthly basis for water delivered from the watershed lands to the Authority. This per-gallon fee may exceed $16,000,000 annually. Prior legislation, enacted during fiscal 1991, required the MWRA to pay $1,300,000 to the Commonwealth as savings that would have occurred had the Authority's employees been furloughed under the furlough program adopted for the Commonwealth's employees.

On August 22, 1991, litigation was initiated by the MWRA's Advisory Board (an oversight organization representing the MWRA's member communities, and established under the MWRA's Enabling Act), certain member communities and certain individuals, as ratepayers and members of the Advisory Board Executive Committee, against the Commonwealth, certain individuals of the Commonwealth or officials of the MDC, and the MWRA. This action requests a declaratory judgment and injunctive relief from, among other things, the aforementioned payments.

Presently, the MWRA and the Commonwealth cannot predict the final disposition of this litigation, however; it is the opinion of both groups of management that it will not have a material impact on the financial condition of the MWRA or the Commonwealth.

As of June 30, 1991, the Massachusetts Water Pollution Abatement Trust (the Trust) has entered into binding commitments to provide loans amounting to $76,524,000 to fund four MWRA projects. The Trust anticipates entering into binding commitments within the required time frame for its remaining federal capitalization grant commitments received through June 30, 1991.

As of June 30, 1991, the Government Land Bank, a component of the Economic Development Fund, had committed to issuing mortgages of $23,084,000.

14. Commitments (Continued):

The Commonwealth provides contract assistance for debt service obligations to the MCCA and the Government Land Bank and has appropriated $27,892,000 for the fiscal year ending June 30, 1992.

A component of the Medical and Educational Facilities Fund, U Mass, has outstanding purchase commitments with contractors for the construction of certain facilities. The commitments are approximately $36,000,000.

The Pension Reserves Investment Trust, an investment vehicle for certain of the Commonwealth of Massachusetts' Pension Trust Funds, had outstanding commitments at June 30, 1991, to invest $90,000,000 in real estate, $54,000,000 in alternative investments and $116,000,000 in special equity investments.

15. Contingencies:

There are a number of lawsuits pending or threatened against the Commonwealth which arose from the ordinary course of operations, including 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 (including claims incurred but not yet reported by the claimant) and the amount of the potential judgment can be reasonably estimated, the Attorney General estimates the liability to be $249,065,000 of which $98,565,000 is expected to be paid in more than twelve months and was recorded as a liability in the General Long-term Obligations Account Group.

Additionally, various cases are currently before the Appellate Tax Board, with approximately $505,000,000 of collected taxes being contested. No accrual has been made for these amounts in the financial statements as the amounts cannot be reasonably estimated and have not been adjudicated.

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 grants are subject to financial and compliance audits by the grantors. Any disallowances as a result of these audits become a liability of the fund which received the grant. As of June 30, 1991, the Commonwealth estimates that liabilities, if any, which may result from such audits are not material.

15. Contingencies (Continued):

The Commonwealth's Abandoned Property Law requires deposit of certain unclaimed assets into a managed Agency Fund. The statute requires the excess amount over $500,000 each June 30 to be remitted to the General Fund where it is included in miscellaneous revenue. Amounts remitted during fiscal year 1991 totaled $33,600,000. Since inception, approximately $242,900,000 has been remitted. This represents a contingency, because claims for refunds can be made by the owners of the property. No material amounts have been repaid.

As a result of a finding of liability for a Clean Water Act violation by the MDC's sewerage operations, a substantial part of the MWRA's construction programs have become or may become subject to court supervision. In addition, the court has reserved the right to order further remedial action and assess penalties. The MWRA cannot predict whether penalties will be requested by litigants or assessed by the courts in the future. No penalties have been assessed to date.

The Commonwealth guarantees the debt of certain local governments and independent authorities including, but not limited to, the MBTA, MCCA, and the Government Land Bank. The outstanding guaranteed debt at June 30, 1991, is $2,245,000,000.

The Commonwealth also guarantees certain debt under statutory requirements. The debt so guaranteed at June 30, 1991, issued by regional transit authorities and the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority was approximately $56,200,000 and $21,800,000, respectively.

16. Reclassifications:

For the year ended June 30, 1991, certain reclassifications have been made to the 1990 balances to conform to the presentation used in 1991. The presentation of the separately issued Enterprise Funds financial statements has been reclassified to conform to the presentation used by the Commonwealth.

COMMONWEALTH OF MASSACHUSETTS

PUBLIC EMPLOYEE RETIREMENT SYSTEMS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

FOR FISCAL YEAR 1991

(Amounts 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)
State Employees' Retirement System						
1991	$4,052,000	$6,854,000	59.12%	$2,802,000	$2,300,000	121.83%
1990	3,741,000	6,900,000	54.22%	3,159,000	2,801,000	112.78%
Teachers' Retirement System						
1991	$4,086,000	$8,853,000	46.15%	$4,767,000	$2,065,000	230.85%
1990	3,797,000	8,245,000	46.05%	4,448,000	2,227,000	199.73%
State-Boston Retirement System						
1991	$ 301,000	$ 553,000	54.43%	$ 252,000	$ 203,000	124.14%
1990	275,000	671,000	40.98%	396,000	163,000	242.94%

Analysis of the funding progress is only available as of January 1, 1990 and 1991, the dates of the most recent actuarial valuation and the subsequent update. Information for the fiscal years prior to 1990 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 1991

(Amounts in thousands)

State Employees' Retirement System

Revenues By Source

Fiscal year	Employee contribution	Employer contribution	Employer Contribution as a Percentage of Payroll	Investment income	Total
1988	$172,607	$268,993	11.7%	$ 64,858	$506,458
1989	192,332	271,927	10.6%	487,971	952,230
1990	192,065	292,101	10.4%	298,513	782,679
1991	196,413	313,485	13.6%	111,472	621,370

Expenses By Type

Fiscal year	Benefits	Administration expenses	Other	Total
1988	$245,573	$2,800	$ 73,856	$322,229
1989	259,101	2,930	84,185	346,216
1990	288,284	2,595	94,420	385,299
1991	311,433	2,052	107,504	420,989

Teachers' Retirement System

Revenues By Source

Fiscal year	Employee contribution	Employer contribution	Employer Contribution as a Percentage of Payroll	Investment income	Total
1988	$125,223	$243,966	12.6%	$100,537	$469,726
1989	126,004	252,443	14.1%	411,303	789,750
1990	141,645	252,717	11.4%	291,711	686,073
1991	144,173	268,010	13.0%	183,554	595,737

Expenses By Type

Fiscal year	Benefits	Administration expenses	Other	Total
1988	$224,909	$1,484	$46,539	$272,932
1989	237,332	1,471	49,539	288,342
1990	250,214	1,282	54,355	305,851
1991	266,924	1,086	59,106	327,116

Fiscal year 1988 is the first year for which complete revenue and expense information is available. Information for the years prior to 1988 is not available.

SUMMARY OF CERTAIN PROVISIONS
OF THE SPECIAL OBLIGATION ACT

The following is a brief summary of certain provisions of the Special Obligation Act, pursuant to which the 1992 A Special Obligation Bonds are issued. The Special Obligation Act is codified as Section 2*O* of Chapter 29 of the Massachusetts General Laws. The Special Obligation Act may be amended subsequent to the issuance of 1992 A Special Obligation Bonds, but any such amendment must comply with the covenants of the Commonwealth contained in the Trust Agreement, as described in the Official Statement. This summary does not purport to be complete and reference is made to the Special Obligation Act for full and complete statement of its terms and provisions.

Infrastructure Fund. There is established in the Highway Fund a subfund to be known as the Infrastructure Fund, which will be invested by the State Treasurer, and which shall be deemed a part of the Highway Fund. Forty-seven and sixty-two hundredths percent of the receipts paid into the treasury of the Commonwealth and directed to be credited to the Highway Fund under the provisions of the Gasoline Tax Act, hereinafter referred to, together with investment earnings thereon, as "special receipts," shall be credited to the Infrastructure Fund and used in accordance with the Special Obligation Act. Expenditures from the Infrastructure Fund shall, subject to appropriation, be made for the following purposes: (i) for the payment of the principal, including sinking fund payments of and premium, if any, and interest on special obligation bonds of the Commonwealth, as described in the Special Obligation Act, issued for one or more of the purposes for which Highway Fund moneys may be expended, (ii) for the maintenance of, or provision for, any reserves, additional security, insurance or other form of credit enhancement required or provided for in any trust agreement, including the Trust Agreement, entered into pursuant to the Special Obligation Act to secure such bonds, and (iii) for direct expenditures for any such purposes described above, any such direct expenditures to be made only in compliance with any applicable restrictions relating thereto, including without limitation any coverage requirements contained in any such trust agreement, including the Trust Agreement, or credit enhancement agreement, and (iv) for capital projects and capital assistance funds for regional transit authorities as described in section twenty-three of chapter eight hundred and eleven of the acts of nineteen hundred and eighty-five.

Special Obligation Bonds. Any such special obligation bonds shall be special obligations of the Commonwealth payable from special receipts to the extent available and in any case payable solely from monies credited to the Highway Fund; notwithstanding the provisions of any general or special law to the contrary, such special obligations bonds shall not be general obligations of the Commonwealth. Special obligation bonds may be secured by a trust agreement entered into by the State Treasurer, with the concurrence of the Secretary for Administration and Finance and the Secretary of the Executive Office of Transportation and Construction, on behalf of the Commonwealth, which trust agreement may pledge or assign all or any part of moneys credited to the Highway Fund and rights to receive the same, whether existing or coming into existence and whether held or thereafter acquired, and the proceeds thereof. The State Treasurer is also authorized, with the concurrence of the Secretary for Administration and Finance and the Secretary of Executive Office of Transportation and Construction, to enter into additional security, insurance or other forms of credit enhancement which may be secured on a parity or subordinate basis with the special obligation bonds. A pledge in any such trust agreement or credit enhancement agreement shall be valid and binding from the time such pledge shall be made without any physical delivery or further act, and the lien of such pledge shall be valid and binding as against all parties having claims of any kind in tort, contract or otherwise, irrespective of whether such parties have notice thereof. Any such pledge shall be perfected by filing of the trust agreement or credit enhancement agreement in the records of the State Treasurer, and no filing need be made under the Massachusetts Uniform Commercial Code.

Any such trust agreement or credit enhancement agreement may establish provisions defining defaults and establishing remedies and other matters relating to the rights and security of the holders of the special obligation bonds or other secured parties as determined by the State Treasurer, including provisions relating to the establishment of reserves, the issuance of additional or refunding special obligation bonds, whether or not secured on a parity basis, the application of receipts, monies or funds pledged pursuant to such agreement, hereinafter referred to as "pledged funds", and other matters deemed necessary or desirable by the State Treasurer for the security of such special obligation bonds, and may also regulate the custody, investment and application of moneys. Any such special obligation bonds shall be deemed to be investment securities under the Massachusetts Uniform Commercial Code, shall be securities in which any public officer, fiduciary, insurance company, financial institution or investment company may properly invest funds and shall be securities which may be deposited with any public custodian for any purpose for which the deposit of bonds is authorized by law. Any such special obligation bonds, their transfer and the income therefrom, including profit on the sale thereof, shall at all times be exempt from taxation including profit on the sale thereof, shall at all times be exempt from taxation by and within the Commonwealth.

In order to increase the marketability of any such special obligation bonds or notes issued by the Commonwealth, and in consideration of the acceptance of payment for any such special obligation bonds or notes, the Commonwealth covenants with the purchasers and all subsequent holders and transferees of any such special obligation bonds or notes that while any such special obligation bond or note shall remain outstanding, and so long as the principal of or interest on any such special obligation bond or note shall remain unpaid, (i) special receipts shall not be diverted from the purposes identified herein, (ii) no pledged funds shall be diverted from the Highway Fund, (iii) in any fiscal year of the Commonwealth, unless and until an appropriation has been made which is sufficient to pay the principal, including sinking fund payments, of and interest on all such special obligation bonds and notes of the Commonwealth and to provide for or maintain any reserves, additional security, insurance or other form of credit enhancement required or provided for in any trust agreement securing any such bonds or notes, no pledged funds shall be applied to any other use and (iv) so long as such revenues are necessary, as determined by the State Treasurer in accordance with any applicable trust agreement or credit enhancement agreement, for the purposes for which they have been pledged, the rates of the fees collected pursuant to section 33 of chapter 90 and of the excises imposed in chapters 64A, 64E and 64F shall not be reduced below the amount in effect at the time of issuance of any such bond or note.

Limitation on Central Artery/Third Harbor Tunnel Expenditures. Notwithstanding the provisions of the Gasoline Tax Act or any other general or special law to the contrary, no more than 10% of the net fiscal year receipts in any fiscal year prior to July 1, 2000, of the Gasoline Tax Act shall be expended for the construction of the Central Artery/Third Harbor Tunnel project. If, in any such fiscal year, less than 10% of the net fiscal year receipts is expended for such construction, the difference between 10% of the net fiscal year receipts and the amount actually expended on such construction during that fiscal year shall be available during that or any subsequent fiscal year for any other construction or reconstruction purposes, or in any subsequent fiscal year for Central Artery/Third Harbor Tunnel construction; provided, however, amounts of said 10% net fiscal year receipts expended in any fiscal year for purposes other than the Central Artery/Third Harbor Tunnel construction project shall be available for expenditure for Central Artery/Third Harbor Tunnel construction in any subsequent fiscal year. If the above-described difference is used in a subsequent year for such Central Artery/Third Harbor Tunnel construction, the total amount used for such Central Artery/Third Harbor Tunnel construction during that subsequent fiscal year. Further, notwithstanding the foregoing, no more than 20% of the special receipts received in any fiscal year shall be paid in that or any subsequent fiscal year for debt service on bonds or notes or portions thereof, issued to finance the Central Artery/Third Harbor Tunnel project, or for direct expenditures on such project, and any trust agreement or credit enhancement agreement entered into by the Commonwealth pursuant to this section, shall contain a covenant to such effect.

APPENDIX C

The Trust Agreement contains terms and conditions relating to the issuance and sale of Special Obligation Bonds under it, including various covenants and security provisions, certain of which are summarized below. For purposes of this summary, all references to "Bonds" shall refer to the Special Obligation Bonds. This summary does not purport to be comprehensive or definitive and is subject to all of the provisions of the Trust Agreement, to which reference is hereby made. Copies of the Trust Agreement are available from Warner & Stackpole, 75 State Street, Boston, MA 02109, Attn: George E. Curtis, Bond Counsel to the Commonwealth.

Definitions. The following is a summary of certain terms used in the Trust Agreement, in this Appendix C and otherwise used in this Official Statement.

"Act" shall mean the provisions of Section 2-O of Chapter 29 of the Massachusetts General Laws in effect as of the date of issuance of the 1992 A Special Obligation Bonds.

"Accreted Value" shall mean with respect to any Bonds that are Capital Appreciation Bonds, an amount equal to the principal amount of such Capital Appreciation Bonds (determined on the basis of the initial principal amount per $5,000 at maturity thereof) plus the amount assuming compounding (as set forth in the Applicable Supplemental Trust Agreement) of earnings which would be produced on the investment of such initial amount, beginning on the dated date of such Capital Appreciation Bonds and ending at the maturity date thereof, at a yield which, if produced until maturity, will produce $5,000 at maturity.

"Additional Bonds" shall mean additional parity Bonds issued pursuant to the Trust Agreement.

"Additional Pledged Funds" shall mean any fees, duties, excises or license taxes which the Commonwealth may impose and collect relating to registration, operation or use of vehicles on public highways, or to fuels used for propelling such vehicles and subject to the restrictions of Article LXXVIII of the Constitution of the Commonwealth.

"Adjusted Bond Debt Service Requirements" shall mean :

(i) With respect to Variable Rate Bonds, the aggregate Bond Debt Service Requirements based upon an interest rate equal to the Variable Rate Ceiling; provided, however, if the Commonwealth (1) enters into a Qualified Swap Agreement requiring the Commonwealth to pay a fixed interest rate on a notional amount, and (2) has made a determination that such Qualified Swap Agreement was entered into for the purpose of providing substitute interest payments for a particular maturity of Bonds in a principal amount equal to the notional amount of the Qualified Swap Agreement, then during the term of such Qualified Swap Agreement and so long as the Swap Provider under such Qualified Swap Agreement is not in default , the interest rate on such Bonds shall be based on the fixed interest rate payable by the Commonwealth under such Qualified Swap Agreement;

(ii) with respect to Fixed Rate Bonds, if the Commonwealth (1) enters into a Qualified Swap Agreement requiring the Commonwealth to pay a variable interest rate on a notional amount and (2) has made a determination that such Qualified Swap Agreement was entered into for the purpose of providing substitute interest payments for a particular maturity of Bonds in a principal amount equal to the notional amount of the Qualified Swap Agreement, then during the term of such Qualified Swap Agreement and so long as the Swap Provider under such Qualified Swap Agreement is not in default , the interest rate on such Bonds shall be determined as if such Bonds bore interest at the Assumed Swap Rate;

(iii) with respect Tender Bonds, the aggregate Bond Debt Service Requirements thereon shall not include amounts payable upon mandatory or optional tender, but shall be deemed to include all periodic Bond Related Costs and other payments to the provider of any Liquidity Facility, and shall not be based upon the terms of any reimbursement obligation to such provider except to the extent and for periods during which Bond Related Costs and other payments are required to be made pursuant to such Reimbursement Obligation due to such provider advancing funds; and

(iv) with respect to Bonds that have Credit Enhancement, the aggregate Bond Debt Service Requirements thereon shall be deemed to include all periodic Bond Related Costs and other payments to the provider of the Credit Enhancement, but shall not be based upon the terms of any Reimbursement Obligation to such provider except to the extent and for periods during which Bond Related Costs and other payments are required to be made pursuant to such Reimbursement Obligation due to such provider advancing funds.

"Advanced Refunded Municipal Bonds" shall mean any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (i) which are not callable at the option of the obligor or otherwise prior to maturity or which have been called for redemption, (ii) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or Government Obligations which is sufficient to pay interest when due, principal of and redemption premium, if any, on the bonds or other obligations described in this definition on the maturity date or dates thereof or on the redemption date or dates , as appropriate.

"Applicable Supplemental Trust Agreement" shall mean with respect to any series of Bonds, the Supplemental Trust Agreement authorizing such series of Bonds.

"Appreciated Value" shall mean with respect Deferred Income Bonds until the interest commencement date thereon, an amount equal to the principal amount of such Deferred Income Bond (determined on the basis of the initial principal amount per $5,000 at the interest commencement date thereof) plus the amount, assuming compounding of earnings which would be produced on the investment of such initial amount, beginning on the dated date of such Deferred Income Bond and ending on the interest commencement date, at a yield which, if produced until the interest commencement date, will produce $5,000 at the interest commencement date.

"Authorized Officer" shall mean the Treasurer or a Deputy Treasurer of the Commonwealth or any designee thereof and any other person authorized by law to perform a duty or sign a document under the Trust Agreement.

"Bond Authorizations" shall mean such provisions of the laws of the Commonwealth enacted in accordance with the applicable provisions of the Constitution of the Commonwealth authorizing bonds for transportation related purposes or to refund any Bonds or Transportation Bonds which may be issued as special obligation bonds under the provisions of the Act.

"Bonds" shall mean any of the Bonds of the Commonwealth authenticated and delivered under the Trust Agreement.

"Bond Debt Service Requirement" shall mean, for any period of calculation, the aggregate of the interest, principal amount, and Sinking Fund Payments due or to become due other than by reason of redemption at the option of the Commonwealth or the registered owner of any Bonds on all Bonds Outstanding during such period and shall included the scheduled principal and interest portions of the Accreted Value of Capital Appreciation Bonds and the Appreciated Value of Deferred Income Bonds becoming due at maturity or by virtue of Sinking Fund Payments on such Bonds.

"Bond Counsel" shall mean any lawyer or firm of lawyers nationally recognized in the field of municipal finance and selected by the Treasurer.

"Bond Related Costs" shall mean all costs, fees and expenses of the Commonwealth incurred or related to any Liquidity Facility, Credit Enhancement, Reserve Requirements, any remarketing or other secondary market transactions, any fees of Bond Counsel, attorneys, financial advisors, Fiduciaries, remarketing agents, rebate consultants, accountants and other advisors retained by the Commonwealth in connection with a series, and any other fees, charges and expenses that may be lawfully incurred by the Commonwealth to a provider of Credit Enhancement, Liquidity Facility or Reserve Requirements, other than amounts paid as the costs of issuance or to reimburse the provider of any Credit Enhancement, Liquidity Facility or Reserve Requirements .

"Capital Appreciation Bonds" shall mean any Bonds as to which interest is payable only at the maturity or prior redemption thereof.

"Code" shall mean the Internal Revenue Code of 1986, as amended.

"Credit Enhancement" shall mean any agreement, including, but not limited to a policy of bond insurance, surety bond, irrevocable letter of credit, credit agreement, credit facility or guaranty arrangement with a bank, trust company, insurance company, surety bonding company, pension fund or other financial institution that provides increased credit on or security for any Series (or portion thereof) of Bonds and, if authorized by a Supplemental Trust Agreement, shall include a Reserve Requirement.

"Debt Service Fund Requirement" shall mean, as of any particular date of computation, (i) any unpaid interest due on such Bonds at or before said date and all unpaid interest on such Bonds accrued but not due at said date, (ii) the principal amount of any such Bonds matured and unpaid at or before said date, and (iii) with respect to any Principal Installment of any Bonds not included in (ii) above, but payable on the next succeeding Principal Installment payment date other than by reason of redemption at the option of the Commonwealth or the holder of any Bonds, that portion of such Principal Installment determined by multiplying such Principal Installment by a fraction, the numerator of which shall be the number of days elapsed from and including the immediately preceding Principal Installment payment date, or if there be no such date with respect to such Bonds, the date of issuance thereof, to the date of such calculation and the denominator of which shall be the number of days from and including the immediately preceding Principal Installment payment date, or if there be no such date with respect to such Bonds, the date of issuance thereof, to such Principal Installment payment date.

"Debt Service Reserve Fund Requirement" shall mean as of any particular date of computation the lesser of 10% of the proceeds received from the sale of any Bonds issued under the Trust Agreement or the aggregate of the following:

(i) with respect to all Fixed Rate Bonds, an amount equal to one-half (½) of the maximum aggregate amount of Principal Installments and interest becoming due in the current or any future Fiscal Year on all such Bonds Outstanding, less, in any such Fiscal Year, any amounts received as payment of accrued interest from the sale of any Bonds which amounts are deposited in the Debt Service Fund; and

(ii) with respect to each series of Variable Rate Bonds, an amount equal to one-half (½) of the maximum aggregate amount of Principal Installments and interest becoming due in the current or any future Fiscal Year based upon the Assumed Rate for each such series in effect for the Fiscal Year in which such computation date shall occur.

"Defeasance Obligations" shall mean Government Obligations and Advanced Refunded Municipal Bonds.

"Fiduciary" shall mean the Trustee or any Paying Agent.

"Fiscal Year" shall mean the period beginning on July 1 of any calendar year and ending on June 30 of the succeeding calendar year or such other period of twelve consecutive calendar months as may be provided by law as the fiscal year of the Commonwealth.

"Funded Debt Service Reserve Fund Requirement" shall mean, as of any particular date of computation, an amount equal to the Debt Service Reserve Fund Requirement less the stated and unpaid amounts of all Reserve Requirements and any amounts required to reimburse any provider of a Reserve Requirement, to the extent provided in a Supplemental Trust Agreement.

"Gasoline Tax" shall mean the excise imposed on fuel (other than aviation fuel) by the provisions of Chapter 64A of the Massachusetts General Laws in effect as of the date of issuance of the 1992 A Special Obligation Bonds.

"Government Obligations" means direct general obligations of, or obligations the timely payment of principal of and interest on which are unconditionally guaranteed by, the United States of America.

"Highway Fund" shall mean the Highway Fund of the Commonwealth so designated by Section 34 of Chapter 90 of the Massachusetts General Laws, as amended, or any other fund or account of the Commonwealth or any agency thereof created in replacement thereof.

"Infrastructure Fund" means the subfund of the Highway Fund so designated and established pursuant to the provisions of the Act or any other fund or account of the Commonwealth or any agency thereof created in replacement thereof.

"Liquidity Facility" shall mean any agreement with a bank, trust company, insurance company, surety bonding company, pension fund or financial institution under which it agrees to purchase Tender Bonds.

"Outstanding" shall mean all Bonds authenticated and delivered except (i) any Bond cancelled by the Commonwealth or a Fiduciary at or before said date, (ii) any Bond in lieu of or in substitution for which another Bond shall have been authenticated and delivered and (iii) Bonds deemed to have been paid as described under "Defeasance".

"Paying Agent" shall mean any paying agent or co-paying agent for a series of Bonds.

"Permitted Investments" shall mean and include any of securities, if and to the extent the same are at the time legal for investment of Commonwealth funds, as follows:

(i) Government Obligations;

(ii) Certificates or receipts representing direct ownership of future interest or principal payments on Government Obligations or any obligations of agencies or instrumentalities of the United States of America which are backed by the full faith and credit of the United States, which obligations are held by a custodian in safekeeping on behalf of the holders of such receipts;

(iii) Direct obligations and fully guaranteed certificates of beneficial interest of the Export-Import Bank of the United States; senior debt obligations of the Federal Home Loan Banks; debentures of the Federal Housing Administration; guaranteed mortgage-backed bonds and guaranteed pass-through obligations of the Government National Mortgage Association; guaranteed Title XI financing of the U.S. Maritime Administration; mortgage-backed securities and senior debt obligations of the Federal National Mortgage Association; obligations of the Student Loan Marketing Association; obligations of the Federal Farm Credit Systems; obligations of the Resolution Trust Corporation and participation certificates and senior debt obligations of the Federal Home Loan Mortgage Corporation or any successor agency to each of the foregoing;

(iv) All other obligations issued or unconditionally guaranteed as to the timely payment of principal and interest by an agency or person controlled or supervised by and acting as an instrumentality of the United States of America pursuant to authority granted by Congress;

(v) (a) Interest-bearing time or demand deposits, certificates of deposit, or other similar banking arrangements with any government securities dealer, bank, trust company, savings and loan association, national banking association or other savings institution (including the Trustee), provided that such deposits, certificates, and other arrangements are fully insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation or (b) interest-bearing time or demand deposits or certificates of deposit with any bank, trust company, national banking association or other savings institution (including the Trustee), provided such deposits and certificates are in or with a bank, trust company, national banking association or other savings institution whose long-term unsecured debt is rated in one of the three highest long-term Rating Categories by each Rating Agency then maintaining a rating on any Bonds, and provided further that with respect to (a) and (b), any such obligations are held by the Trustee or a bank, trust company or national banking association other than the issuer of such obligations, unless the issuer is the Trustee;

(vi) Repurchase agreements collateralized by securities described in subparagraphs (i), (ii), (iii) or (iv) above with any registered broker/dealer or with any commercial bank, provided that (a) a specific written repurchase agreement governs the transaction, (b) the securities are held, free and clear of any lien, by the Trustee or an independent third party acting solely as agent for the Trustee, and such third party is (1) a Federal Reserve Bank, or (2) a bank which is a member of the Federal Deposit Insurance Corporation and which has combined capital, surplus and undivided profits of not less than $25 million, and the Trustee shall have received written confirmation from such third party that it holds such securities, free and clear of any lien, as agent for the Trustee, (c) the repurchase agreement has a term of thirty days or less, or the Trustee or the third-party custodian will value the collateral securities no less frequently than monthly and will liquidate the collateral securities if any deficiency in the required collateral percentage is not restored within five business days of such valuation, and (d) the fair market value of the collateral securities in relation to the amount of the repurchase obligation, including principal and interest, is equal to at least 102%;

(vii) Money market funds rated in the highest Rating Category by each Rating Agency then maintaining a rating on any Bonds Outstanding;

(viii) Commercial paper rated in the highest Rating Category by each Rating Agency then maintaining a rating on any Bonds Outstanding;

(ix) Advanced-Refunded Municipal Bonds;

(x) Short-term or long-term obligations the interest on which is excludable from gross income for Federal income tax purposes and that are rated in the three highest rating categories by each Rating Agency then maintaining a rating on any Bonds Outstanding;

(xi) investment contracts with banks or other financial institutions whose long-term unsecured debt or claims-paying ability is rated in one of the three highest Rating Categories by each Rating Agency then maintaining a rating on any of the Bonds Outstanding.

"Principal Installment" shall mean (i) the principal amount of Outstanding Bonds of a Series which mature on a single future date, reduced by the aggregate principal amount of such Outstanding Bonds which would at or before said future date be retired by reason of the payment when due and application of Sinking Fund Payments payable at or before said future date for the retirement of such Outstanding Bonds, plus (ii) the amount of any Sinking Fund Payment payable on said future date for the retirement of any Outstanding Bonds of said Series.

"Pledged Funds" shall mean (i) all moneys received or to be received by the Commonwealth from that portion of the Gasoline Tax equal to two cents per gallon, and (ii) to the extent permitted in the Trust Agreement such Additional Pledged Funds as the Commonwealth may by a subsequent Supplemental Trust Agreement pledge to the Trustee as security for the Bonds.

"Qualified Swap Agreement" shall mean an agreement between the Commonwealth and a Swap Provider under which the Commonwealth agrees to pay the Swap Provider an amount calculated at an agreed-upon rate based upon a notional amount and the Swap Provider agrees to pay the Commonwealth an amount calculated at an agreed-upon rate based upon such notional amount, where (a) the Swap Provider, or the person who guarantees the obligation of the Swap Provider to make its payments to the Commonwealth, has unsecured long-term obligations rated, or (b) the swap agreement itself is rated, in each case as of the date the swap agreement is entered into, by each Rating Agency then maintaining a rating on the Bonds Outstanding in either (i) a Rating Category, with respect to each Rating Agency then maintaining a rating on the Bonds Outstanding, at least equal to "A", but in no event lower than any Rating Category designated by each such Rating Agency for the Bonds Outstanding subject to such swap agreement or (ii) any such lower Rating Category which each Rating Agency then maintaining a rating on the Bonds Outstanding indicates in writing to the Commonwealth and the Trustee will not, by itself, result in a reduction or withdrawal of their respective ratings on the Commonwealth or will not, by itself, result in a reduction or withdrawal of their respective ratings on the Bonds Outstanding subject to such swap agreement that is in effect prior to entering into such swap agreement.

"Rating Agency" shall mean Moody's Investors Service, Standard & Poor's Corporation and Fitch Investors Service and their successors or assigns.

"Rating Categories" shall mean rating categories as published by a Rating Agency in its written compilations of ratings and any written supplement or amendment thereto and any such Rating Category shall be determined on the generic rating without regard to any modifiers and, unless otherwise specified in an Applicable Supplemental Trust Agreement, shall be long term ratings.

"Reserve Requirements" shall mean one or more of the following which may be deposited in the Debt Service Reserve Fund:

(i) irrevocable, unconditional and unexpired letters of credit or other financial commitments issued by a banking institution having a rating within the two highest Rating Categories generally available to banking institutions by each Rating Agency then maintaining a rating on the Bonds Outstanding, or, if any such Rating Agency does not maintain a rating on such banking institution, it shall confirm that the deposit of the Reserve Requirement shall not result in a reduction of its rating on the Bonds Outstanding, or

(ii) an irrevocable and unconditional policy or policies of insurance in full force and effect and issued by a municipal bond insurer having a rating within the two highest Rating Categories available to insurers generally issuing such insurance by each Rating Agency then maintaining a rating on the Bonds Outstanding, or, if any such Rating Agency does not maintain a rating on such insurer, it shall confirm that the deposit of the Reserve Requirement shall not result in a reduction of its rating on Bonds Outstanding;

"Sinking Fund Payment" shall mean the amount of money required by any Supplemental Trust Agreement to be paid by the Commonwealth on a single future date for the retirement of any Outstanding Bonds of said series which mature after said future date, but does not include any amount payable by the Commonwealth by reason of the redemption of Bonds at the election of the Commonwealth.

"Tax Exempt Bonds" shall mean any Bonds accompanied by a Bond Counsel's opinion upon the original issuance thereof that the interest on such Bonds is not includable in the gross income of the holder thereof for Federal income tax purposes.

"Transportation Bonds" shall mean bonds issued from time to time by the Commonwealth, other than Bonds issued hereunder, the principal, sinking fund payments, or interest on which are by any provision of law payable from the Highway Fund.

The Pledge . There are pledged for the payment of principal and Redemption Price of and interest on the Bonds, (i) the Pledged Funds and all rights to receive the same, whether existing or coming into existence and whether held or thereafter acquired and including any proceeds thereof, and (ii) all moneys, securities, Reserve Requirements, and any investment earnings with respect thereto in all Funds and Accounts established by or pursuant to the Trust Agreement other than the Rebate Fund, and (iv) any amounts payable to the Commonwealth pursuant to a Qualified Swap Agreement. The Bonds shall be special obligations of the Commonwealth payable solely from the sources described above and the full faith and credit of the Commonwealth has not been pledged hereunder.

The Commonwealth may in any Supplemental Trust Agreement pledge additional portions of the Gasoline Tax or any Additional Pledged Funds or portions thereof which the Commonwealth may lawfully pledge to the payment of amounts due hereunder. From and after the date of such Supplemental Trust Agreement such amounts shall be deemed part of the Pledged Funds under the Trust Agreement. No amounts may be pledged which are subject to any other lien or pledge unless such lien or pledge is made expressly subordinate to the pledge created under the Trust Agreement.

Trust Agreement to Constitute Contract. The Trust Agreement constitutes a contract between the Commonwealth and the registered owners from time to time of the Bonds, and the pledge made therein and the covenants and agreements therein set forth to be performed by or on behalf of the Commonwealth shall be for the equal benefit, protection and security of the registered owners of any and all of the Bonds, all of which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any of the Bonds over any other thereof, except as otherwise expressly provided in or permitted by the Trust Agreement.

Authorization of Bonds. The Commonwealth is authorized to issue one or more series of Bonds under the Trust Agreement, which Bonds may be issued without limitation as to amount except as provided in the Trust Agreement with respect to Additional Bonds or as limited by law. The Bonds may be issued as Fixed Rate Bonds, Variable Rate Bonds, Tender Bonds, Capital Appreciation Bonds, Deferred Income Bonds or Discount Bonds or any combination thereof.

The Commonwealth may issue Bonds ("Variable Rate Bonds") which provide for a variable, adjustable, convertible or other similar rates of interest, not fixed as to percentage at the date of issue for the term thereof. Variable Rate Bonds shall not exceed fifteen percent (15%) of the aggregate principal amount of all Bonds Outstanding. Any Variable Rate Bonds shall bear a ceiling (the "Variable Rate Ceiling") on the interest payable thereunder. Upon the date of issuance of any Variable Rate Bonds, the Commonwealth will determine the interest rate (the "Assumed Rate") which is the average interest rate expected to be paid on such Variable Rate Bonds for the balance of the Fiscal Year in which such Bonds are issued. Not later than fifteen (15) business days after the commencement of each Fiscal Year thereafter, the Commonwealth will establish an Assumed Rate for such Variable Rate Bonds which shall be the Assumed Rate thereof for such Fiscal Year. The Assumed Rate will be utilized in calculating the Debt Service Reserve Fund Requirement.

The Commonwealth may provide that any Series of Bonds may include an option exercisable by the registered owners thereof to have such Bonds ("Tender Bonds") either repurchased or redeemed prior to the maturity thereof. Any Tender Bonds must be secured at all times by a Liquidity Facility providing for the repurchase or payment of any tender price of Tender Bonds which have not been remarketed upon tender of such Bonds and any accrued and unpaid interest due on such Bonds upon the tender date thereof. The provider of any such Liquidity Facility shall have a rating on its short term obligations within the highest Rating Category from each Rating Service then maintaining a rating on the Bonds Outstanding.

The Commonwealth may issue Bonds ("Discount Bonds") which either bear a zero stated rate of interest or bear a stated rate of interest such that such Bonds are sold at a price less than the aggregate principal amount thereof in order to provide such yield thereon as deemed appropriate and desirable thereon by the Commonwealth. The Commonwealth may provide for the determination of the "principal amount" and "interest" payable on such Bonds.

<u>Additional Bonds</u>. One or more series of Additional Bonds may be issued for the purpose of (i) paying all or a portion of the cost of any Project including the refunding of any Transportation Bonds, (ii) the making of deposits in the Debt Service Fund and the Debt Service Reserve Fund, (iii) the payment of the costs of issuance of such Bonds, (iv) the payment of the principal of and interest and premium, if any, on notes issued in anticipation of such Bonds, or (v) any combination of the foregoing.

Additional Bonds may be issued only upon the delivery, among other items, of the following:

(i) A Bond Counsel's opinion with respect to the validity of the Additional Bonds and the enforceability of the pledge under the Trust Agreement;

(ii) A certificate or certificates of the Commissioner of Revenue or the Comptroller setting forth the amount of Pledged Funds received by the Commonwealth for each month for the eighteen (18) month period ending with the last full month immediately preceding the issuance of the Additional Bonds;

(iii) One of the following certificates as determined by the Treasurer:

(A) A certificate of an Authorized Officer showing that the amount of Pledged Funds received by the Treasurer during any twelve (12) consecutive months out of such eighteen (18) month period referred to in subparagraph (iv) above was not less than 300% of the maximum aggregate Adjusted Bond Debt Service Requirement due in the then current or any future Fiscal Year on Bonds Outstanding including the proposed Additional Bonds, or

(B) if the Commonwealth shall pledge an additional portion of the Gasoline Tax or any other Additional Pledged Funds which amounts shall have been collected by the Commonwealth for at least twelve consecutive months of the eighteen (18) month period described in subparagraph (iv) above, (x) a certificate of the Comptroller or the Commissioner of Revenue showing Pledged Funds for eighteen (18) consecutive months immediately preceding the month in which the Additional Bonds are issued, calculated on the basis that Pledged Funds shall include such Additional Pledged Funds for such period, and (y) a certificate of an Authorized Officer showing that the Pledged Funds calculated as provided in subparagraph (iv) above for any twelve (12) consecutive months during the eighteen (18) month period described in (x) above shall be not less than 300% of the maximum aggregate Adjusted Bond Debt Service Requirement during the then current Fiscal year or any future Fiscal Year on all Bonds Outstanding including the proposed Additional Bonds, or

(C) if the Commonwealth shall pledge an additional portion of the Gasoline Tax or any other Additional Pledged Funds, which Additional Pledged Funds have not been collected by the Commonwealth during at least twelve (12) consecutive months of the eighteen (18) month period described in subparagraph (iv) above, a certificate of an Authorized Officer showing that the amount of any Pledged Funds projected to be received by the Commonwealth after giving effect to any such Additional Pledged Funds during the first full Fiscal Year immediately succeeding the issuance of the proposed Additional Bonds will not be less than 300% of the maximum aggregate Adjusted Bond Debt Service Requirement due in the then current or in any future Fiscal Year on Bonds Outstanding including the proposed Additional Bonds;

(iv) If the Commonwealth shall deliver a certificate described in (B) above, which shall include as a basis for calculation of Pledged Funds any Additional Pledged Funds, other than an additional portion of the Gasoline Tax or a certificate pursuant to (C) above, confirmation from each Rating Agency maintaining a rating on Bonds Outstanding that the issuance of such Additional Bonds shall not adversely affect their rating in effect on Bonds Outstanding;

(v) A certificate of the Secretary for Administration and Finance that the amount of such Additional Bonds are within the limitations established by the Capital Spending Plan in effect as of the date of issuance of such Additional Bonds.

Refunding Bonds. Refunding Bonds may be issued for the purpose of refunding all or any part of the Bonds of one or more series Outstanding upon delivery, among other items, of the following:

(i) An opinion of Bond Counsel as described above under "Additional Bonds";

(ii) A certificate of an Authorized Officer setting forth the Adjusted Bond Debt Service Requirement for each Fiscal Year in which Bonds are or will be Outstanding (a) computed immediately prior to the delivery of such Refunding Bonds and (b) computed immediately after the delivery of such Refunding Bonds, and showing that the Adjusted Bond Debt Service Requirement in each Fiscal Year in which Bonds will be Outstanding as computed in (b) of this paragraph will not be greater than the Adjusted Bond Debt Service Requirement in each such Fiscal Year as computed in (a) of this paragraph; provided that, in lieu of such certificate the Comptroller or Commissioner of Revenue and an Authorized Officer may deliver to the Trustee certificates satisfying the conditions described under "Additional Bonds"; and

(iii) An amount of money or Defeasance Obligations sufficient to effect payment at maturity or redemption of the Bonds to be refunded.

Bond Anticipation Notes. The Commonwealth may, to the extent authorized by law, issue notes (and renewals thereof) in anticipation of a series of Bonds. The proceeds of such Bonds may be pledged for the payment of the principal of and interest on such notes. The Commonwealth may also pledge the Pledged Funds to the payment of such notes on a subordinated basis.

Creation of Liens; Other Indebtedness. The Commonwealth may not issue any bonds, notes or other evidences of indebtedness, other than the Bonds, secured by a pledge of or other lien on the Pledged Funds or any other moneys, securities and funds held or set aside by the Commonwealth or by the Fiduciaries under the Trust Agreement, and shall not otherwise create or cause to be created any lien or charge on such Pledged Funds, moneys, securities and funds. The Trust Agreement permits the issuance of other indebtedness, including bond anticipation notes, secured by a subordinate lien on Pledged Funds, and other indebtedness secured by a lien on that portion of the Gasoline Tax or any other amounts not included as Pledged Funds.

Credit Enhancement/Liquidity Facilities. The Commonwealth may secure a Series of Bonds or portions thereof by obtaining Credit Enhancement or a Liquidity Facility providing for payment of all or a portion of the principal, premium, or interest due or to become due on such Bonds or providing for the purchase of such Bonds or a portion thereof. In connection therewith the Commonwealth may enter into such agreements with the issuer of such Credit Enhancement or Liquidity Facility providing for an agreement to directly reimburse such issuer for amounts paid under the terms of such Credit Enhancement or Liquidity Facility, together with interest thereon. Such reimbursement obligation may be subject to a lien on Pledged Funds on a parity with the lien created the Trust Agreement. A reimbursement obligation relating to a Liquidity Facility securing Variable Rate Bonds may be subject to a lien on Pledged Funds only to the extent that it is subordinate to the lien created under the Trust Agreement.

Qualified Swap Agreements. The Commonwealth may from time to time enter into Qualified Swap Agreements with a Swap Provider with respect to all or a portion of the Bonds of any Series Outstanding. The obligations of the Commonwealth thereunder may be secured by a pledge of the Pledged Funds; provided, however, that such security shall be expressly subordinate to the security for the Bonds Outstanding .

Any amounts paid to the Commonwealth pursuant to a Qualified Swap Agreement shall be deposited in the Revenue Account. Any amounts payable by the Commonwealth under a Qualified Swap Agreement may be payable from the Infrastructure Fund from amounts after funding of amounts in the various Funds and Accounts under the Trust Agreement. Upon the issuance of any Additional Bonds or Refunding Bonds, the Commonwealth shall set an interest rate (the "Assumed Swap Rate") which the Commonwealth reasonably determines will be the average interest rate which will be payable for the next succeeding twelve consecutive months on the notional amount under any Qualified Swap Agreement establishing a variable interest rate for Fixed Rate Bonds .

<u>Establishment of Funds and Accounts</u>. The following funds and accounts shall be established and shall be held by the Trustee:

(i) Redemption Fund;

(ii) Debt Service Fund;

(iii) Debt Service Reserve Fund;

(iv) Bond Related Costs Funds; and

(v) Rebate Fund.

Such Funds, except the Rebate Fund, are subject to the pledge created the Trust Agreement.

The Treasurer shall establish a Revenue Account and Reserve Account to be maintained as part of the Infrastructure Fund which are to be held by the Treasurer so long as Bonds shall remain Outstanding. Such Accounts shall be deposited with the Trustee and shall be subject to the pledge created the Trust Agreement.

<u>Bond Proceeds</u>. The Treasurer shall apply the proceeds of any Bonds to the payment of the costs of issuance, to the extent permitted by law, to pay the cost of Projects for which such Bonds have been issued and as otherwise as provided in an Applicable Supplemental Trust Agreement. Any balance remaining after payment of such amounts shall be paid by the Treasurer to the Trustee and deposited in the Redemption Fund and applied to the redemption of Bonds of the related Series.

<u>Revenue Account</u>. The Commissioner of Revenue shall deliver to the Trustee within eight (8) business days after the end of each month, commencing with August 12, 1992, a certificate stating the amount of Pledged Funds collected by the Commonwealth during such month. Such amount shall be paid by the Treasurer within the two (2) business days thereafter from amounts credited to the Infrastructure Fund, or otherwise from the Highway Fund if the amounts credited to the Infrastructure Fund are less than the Pledged Funds calculated as described above, and deposited by the Trustee in the Revenue Account and applied as set forth below.

So long as the Act shall require that the expenditure of amounts in the Infrastructure Fund are subject to appropriation for the purposes described below, at the beginning of each Fiscal Year after the adoption of the operating budget for the Commonwealth for such Fiscal Year, the Secretary for Administration and Finance or a Deputy Secretary or a designee and the Treasurer, a Deputy Treasurer or a designee shall certify to the Trustee the amount appropriated for such Fiscal Year for payment of the following amounts:

(i) the Bond Debt Service Requirement for such Fiscal Year;

(ii) that portion of the Debt Service Reserve Fund Requirement, if any, required to be funded for such Fiscal Year;

(iii) the Bond Related Costs, if any, for such Fiscal Year; and

(iv) the Rebate Fund Requirement, if any, for such Fiscal Year.

If amounts are appropriated for such purpose as an aggregate sum, such amount shall be allocated in the order set forth above for the amounts set forth above and such certificate shall set forth such allocation. To the extent additional amounts are appropriated during a Fiscal Year for any such purpose, the officials described above shall also certify to the Trustee the amount of any such supplemental appropriation. The aggregate amounts appropriated for each such purpose as provided herein shall be referred to as an "Appropriated Amount" for such purpose.

Flow of Funds. On the last business day of each calendar month beginning with the second month immediately following the month in which the 1992 A Special Obligation Bonds are delivered, the Trustee shall transfer from amounts available in the Revenue Account to the following Funds and in the following order:

(i) To the Debt Service Fund, an amount which together with other amounts on deposit in such Fund, will equal the Debt Service Fund Requirement calculated as of the next succeeding interest payment date or Principal Installment payment date, as the case may be; provided, however, that the aggregate amount deposited therein during a Fiscal Year shall not exceed the Appropriated Amount during such Fiscal Year for such purpose unless the Treasurer shall certify to the Trustee that deposits of such amounts shall not then be subject to appropriation;

(ii) To the Debt Service Reserve Fund, an amount equal to one-thirty-sixth (1/36th) of the Funded Debt Service Reserve Fund Requirement (including any amounts required to be deposited in preceding months for which amounts were not available) until the amount on deposit therein equals the Funded Debt Service Reserve Fund Requirement; provided, however, that the aggregate amount deposited therein during a Fiscal Year shall not exceed the Appropriated Amount during such Fiscal Year for such purpose unless the Treasurer shall certify in writing to the Trustee that any deposits of any such amounts shall not be subject to appropriation;

(iii) To the Reserve Account, any amount set forth in subparagraph (ii) above in excess of the Appropriated Amount for such purpose for such Fiscal Year; provided, however, that such amounts deposited in the Reserve Account shall be transferred to the Debt Service Reserve Fund upon the delivery of a certificate by the Secretary for Administration and Finance or an Assistant Secretary or designee and the Treasurer, or Deputy Treasurer or designee to the Trustee to the effect that an appropriation is then in effect permitting such deposit in the Debt Service Reserve Fund;

(iv) To the Bond Related Costs Fund, at such times and in such amounts, if any, necessary to pay Bond Related Costs; provided, however, that the aggregate amount deposited therein during a Fiscal Year shall not exceed the Appropriated Amount during such Fiscal Year unless the Treasurer shall certify to the Trustee that deposits of such amounts shall not then be subject to appropriation;

(v) To the Rebate Fund, the amount of the Rebate Fund Requirement, if any, determined in accordance with an Applicable Supplemental Trust Agreement; provided, however, that the aggregate amount deposited therein during a Fiscal Year shall not exceed the Appropriated Amount during such Fiscal Year unless the Treasurer shall certify to the Trustee that deposits of such amounts shall not then be subject to appropriation.

Upon deposit of the amounts described above and so long as there shall be Appropriated Amounts sufficient to pay the amounts set forth in subparagraph (i) above (if such appropriations shall be required by the Act or other provisions of law), the balance on deposit in the Revenue Account (less amounts required to be deposited pursuant to subparagraphs (iv) and (v) above for which Appropriated Amounts are insufficient) shall be transferred by the Trustee on the last business day of each month to the Treasurer free and clear of the lien hereof and may be thereupon applied to any purpose permitted by law.

Debt Service Fund. The interest and Principal Installments payable on the Bonds from amounts on deposit in the Debt Service Fund. Amounts accumulated in the Debt Service Fund with respect to any Sinking Fund Payment (together with amounts accumulated therein with respect to interest on the Bonds for which such Sinking Fund Payment was established) may be applied prior to the 45th day preceding the due date of such Sinking Fund Payment, to (i) the purchase of Bonds of the Series and maturity for which such Sinking Fund Payment was established, at prices not exceeding the applicable sinking fund

Redemption Price plus interest on such Bonds to the first date on which such Bonds could be redeemed (or in the case of a Sinking Fund Payment due on the maturity date, the principal amount thereof plus interest to such date), such purchases to be made in such manner as the Treasurer shall arrange, or (ii) the redemption of such Bonds then redeemable by their terms. The applicable Redemption Price or principal amount (in the case of maturing Bonds) of any Bonds so purchased or redeemed shall be deemed to constitute part of the Debt Service Fund until such Sinking Fund Payment date for the purpose of calculating the amount of such Fund.

In satisfaction, in whole or in part, of any amount required to be paid into the Debt Service Fund which is attributable to a Sinking Fund Payment, there may be delivered on behalf of the Commonwealth to the Trustee Bonds of the Series and maturity entitled to such payment. All Bonds so delivered to the Trustee in satisfaction of a Sinking Fund Payment shall reduce the amount thereof by the amount of the aggregate of the sinking fund Redemption Prices of such Bonds.

Redemption Fund. The Commonwealth may deposit in the Redemption Fund any moneys, including Pledged Funds, not otherwise required by the Trust Agreement to be deposited or applied. If at any time the amount on deposit and available therefor in the Debt Service Fund is insufficient to pay the principal and Redemption Price of and interest on the Bonds then due, the Trustee shall withdraw from the Redemption Fund and deposit in the Debt Service Fund the amount necessary to meet the deficiency (other than amounts held therein for the redemption of Bonds for which a notice of redemption shall have been given). Subject to the foregoing, amounts in each account in the Redemption Fund may be applied by the Commonwealth to the redemption of Bonds at prices not exceeding the applicable Redemption Prices (plus accrued interest) had such Bonds been redeemed (or, if not then subject to redemption, at the applicable Redemption Prices when next subject to redemption), such purchases to be paid for by the Trustee at such times and in such manner as arranged and directed by an Authorized Officer.

Debt Service Reserve Fund and Reserve Account. If at any time the amounts on deposit and available therefor in the Debt Service Fund, the Bond Related Costs Fund, or the Redemption Fund are insufficient to pay the principal, the Redemption Price of, and interest on the Bonds then due, the Trustee shall withdraw from the Debt Service Reserve Fund and deposit in the Debt Service Fund the amount necessary to meet the deficiency. If the amounts transferred from the Debt Service Reserve Fund are insufficient to pay such deficiency, the Trustee shall withdraw from the Reserve Account the amount necessary to meet the balance of such deficiency; provided, however, that the aggregate of such amount deposited therein from the Reserve Account shall not in any Fiscal Year, together with all other amounts deposited in the Debt Service Fund (other than from the Debt Service Reserve Fund) during such Fiscal Year, exceed the Appropriated Amount for the purpose of paying the principal, the Redemption Price of, and interest due on the Bonds Outstanding during such Fiscal Year. Amounts so withdrawn from the Debt Service Reserve Fund shall be derived, first, from cash or Permitted Investments on deposit therein and, second, from draws or demands on Reserve Requirements held as a part thereof upon the terms and conditions set forth in any such Reserve Requirement or as set forth in the Applicable Supplemental Trust Agreement setting forth such Reserve Requirement.

If any draws are made from Reserve Requirements and cash or Permitted Investments, amounts paid into the Debt Service Reserve Fund to replenish such amounts shall be paid first to the provider of the Reserve Requirement to the extent of draws thereunder and then deposited in the Debt Service Reserve Fund.

If on any interest payment date, the amount on deposit in the Debt Service Reserve Fund and the Reserve Account is in excess of the Funded Debt Service Reserve Fund Requirement (calculated as of such interest payment date after the payment of the amount due on such date for the interest and Principal Installments on all Bonds Outstanding) the Trustee shall transfer such excess first, from the Reserve Account, and then from the Debt Service Reserve Fund to the Treasurer free and clear of the lien hereof and such amount may be thereupon applied to any purpose permitted by law.

Whenever the Trustee shall determine that the cash and Permitted Investments on deposit in the Debt Service Reserve Fund and Reserve Account together with all other funds available for the purpose is equal to or in excess of the Redemption Price of all Bonds Outstanding, the Trustee, at the direction of an Authorized Officer, shall transfer the balance of such cash and Permitted Investments from the Debt Service Reserve Fund and Reserve Account to the Redemption Fund in connection with the redemption of all Bonds Outstanding; provided, however, that such amount deposited therein from the Reserve Account, together with all other amounts deposited therein (other than from the Debt Service Reserve Fund) during such Fiscal Year, shall not in such Fiscal Year exceed the Appropriated Amount for the purpose of the paying the Redemption Price of all Bonds Outstanding during such Fiscal Year.

<u>Bond Related Costs Fund.</u> The amount on deposit and available in the Bond Related Costs Fund shall be applied by the Trustee to the payment of Bond Related Costs at the times and in the amounts as directed from time to time by an Authorized Officer.

If at any time the amount on deposit and available therefor in the Debt Service Fund is insufficient to pay the principal and Redemption Price of and interest on the Bonds then due, the Trustee shall withdraw from the Bond Related Costs Fund, after withdrawal of amounts described above, and deposit in the Debt Service Fund the amount necessary to meet such deficiency; provided, however, that the aggregate of such amount deposited therein shall not in any Fiscal Year, together with all other amounts deposited therein during such Fiscal Year, exceed the Appropriated Amount for the purpose of paying the principal, the Redemption Price of, and interest due on the Bonds Outstanding during such Fiscal Year.

Upon the certification of an Authorized Officer and all Fiduciaries that all Bond Related Costs have been paid, any balance in the Bond Related Costs Fund shall be paid by the Trustee to the Treasurer free and clear of the lien hereof and such amounts shall be applied to any purposes permitted by law.

<u>Investments</u>. Except as otherwise described below under "<u>Defeasance</u>", money held for the credit of any Fund or Account under the Trust Agreement may be invested in Permitted Investments which shall mature or be redeemable at the option of the holder thereof, on such dates and in such amounts as may be necessary to provide moneys to meet the payments required to be made from such Funds and Accounts. Amounts on deposit in the Debt Service Fund, the Debt

Service Reserve Fund or the Reserve Account may only be invested in Permitted Investments of the type described in subparagraphs (i), (ii), (iii), (iv), (vi), (vii) or (ix) of the definition of Permitted Investments. Amounts on deposit in the Debt Service Reserve Fund or Reserve Account may not be invested in any such Permitted Investments which mature or are otherwise not redeemable at the option of the holder thereof for a period of more than five (5) years after the purchase thereof. Any income from Permitted Investments may be transferred to the Rebate Fund to the extent required by an Applicable Supplemental Trust Agreement.

In computing the amount in any Fund or Account hereunder for any purpose, Permitted Investments shall be valued at amortized cost. Unless otherwise provided in the Trust Agreement, Permitted Investments in any fund or account hereunder shall be valued at least once in each Fiscal Year on the last day thereof. Notwithstanding the foregoing, Permitted Investments in the Debt Service Reserve Fund shall be valued at amortized cost for all purposes of the Trust Agreement unless and until a withdrawal from such Fund shall be required in which event such investments shall thereafter be valued at amortized cost or market, whichever is lower, until the balance in such Fund, on the basis of such valuation, shall equal the Funded Debt Service Reserve Fund Requirement.

Powers as to Bonds and Pledge. The Commonwealth represents in the Trust Agreement that it is duly authorized under the Act and all applicable laws to create and issue Bonds thereunder and to enter into the Trust Agreement and to pledge the Pledged Funds and other moneys, securities and funds purported to be pledged by the Trust Agreement in the manner and to the extent therein provided. The Commonwealth covenants that the Pledged Funds and other moneys, securities and funds so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon with respect thereto prior to, or of equal rank with, the pledge created by the Trust Agreement except to the extent expressly permitted thereby. The Commonwealth agrees at all times, to the extent permitted by law, to defend, preserve and protect the pledge of the Pledged Funds and other moneys, securities and funds pledged under the Trust Agreement and all the rights of the Bondholders under the Trust Agreement against all claims and demands of all persons whomsoever.

Extension of Payment of Bonds. The Commonwealth agrees not to directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of claims for interest by the purchaser or funding of such Bonds or claims for interest or by any other arrangement and in case the maturity of any of the Bonds or the time for payment of claims for interest shall be extended, such Bonds or claims for interest shall not be entitled in case of any default under the Trust Agreement to the benefit of the Trust Agreement or to any payment out of any assets of the Commonwealth or the funds (except funds held in trust for the payment of particular Bonds or claims for interest pursuant to the Trust Agreement) held by the Fiduciaries, except subject to the prior payment of the principal of all Bonds issued and Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended claims for interest. The Commonwealth may issue Refunding Bonds and such issuance shall not be deemed to constitute an extension of maturity of Bonds.

Covenant as to Gasoline Taxes and Infrastructure Fund. So long as any Bonds are Outstanding, the Commonwealth covenants to maintain that portion of the Gasoline Tax credited to the Highway Fund at all times at a rate of not less than two cents per gallon or at such higher rate which may be established in a Supplemental Trust Agreement in connection with the pledge of Additional Pledged Funds. In addition, the Commonwealth covenants not to limit or alter the rights vested in the Commonwealth to collect the Pledged Funds and to deposit such amounts as provided in the Trust Agreement and not to impair the rights and remedies of the Trustee and Bondholders under the Trust Agreement and under the Act with respect to the Pledged Funds. Any provisions of the Act creating covenants with Bondholders shall be deemed a covenant with the Bondholders hereunder only to the extent expressly provided in the Trust Agreement and as limited thereby.

Within sixty (60) days at the end of each Fiscal Year, an Authorized Officer shall deliver to the Trustee a certificate, based upon an accounting by the Comptroller or the Commissioner of Revenue setting forth the amount of Pledged Funds for such Fiscal Year and the Adjusted Bond Debt Service Requirement for all Bonds Outstanding during such Fiscal Year.

Unless otherwise permitted by law, no more than twenty percent (20%) of amounts to be credited to the Infrastructure Fund under the Act and received in any Fiscal Year shall be paid in such Fiscal Year or any subsequent Fiscal Year for any principal or interest on any bonds or notes or portions thereof, including any Bonds Outstanding, issued to finance the central artery/third harbor tunnel project, so-called, or for direct expenditures on such project.

No provisions of the Trust Agreement shall prohibit the Commonwealth from applying any amounts credited to the Infrastructure Fund calculated as of June 30, 1992, for any purposes permitted by law. No provisions of the Trust Agreement shall prohibit the Commonwealth from applying amounts credited to the Infrastructure Fund, other than any Pledged Funds, calculated as of any date after June 30, 1992, for any purposes permitted by law.

Capital Spending Plan. The Secretary for Administration and Finance shall at the date of delivery of the 1992 A Special Obligation Bonds file with the Trustee the capital spending plan (the "Capital Spending Plan") of the Commonwealth then in effect and shall thereafter so long as any Bonds shall remain Outstanding file with the Trustee any amendments or supplements thereto and any subsequent Capital Spending Plan prepared for the Commonwealth.

Accounts and Report. As soon as it shall become available, the Treasurer shall file for each Fiscal Year during which Bonds shall be outstanding with the Trustee the Comprehensive Annual Financial Report of the Commonwealth prepared by the Comptroller including a report on the financial statements contained therein by an independent public accountant or firm of accountants.

Tax Covenants/Rebate Fund. The Commonwealth shall take, or require to be taken, such action as may from time to time be required to assure the continued exclusion from the federal gross income of holders of any series of Tax Exempt Bond. The Commonwealth shall not permit the investment or application of the proceeds of any series of Tax Exempt Bonds, including any funds considered proceeds within the meaning of section 148 of the Code, to be used to acquire any investment property the acquisition of which, would cause such indebtedness to be "arbitrage bonds" within the meaning of said section

148. The Commonwealth may provide in the Applicable Supplemental Trust Agreement for the deposits of amounts therein to pay "rebate" on the investment of amounts hereunder in accordance with Section 148(f) of the Code. Funds on deposit in the Rebate Fund shall be applied as set forth in such Supplemental Trust Agreement. The Rebate Fund and the amounts on deposit therein shall not be deemed a pledged Fund hereunder.

Events of Default. One or more of the following events shall constitute an Event of Default under the Trust Agreement:

(i) If default shall be made in the payment of the principal or Redemption Price of any Bond when due, whether at maturity or by call for mandatory redemption or redemption at the option of the Commonwealth or any registered owner, or otherwise, or in the payment of any Sinking fund Payment when due; or

(ii) If default shall be made in the payment of any installment of interest on any Bond when due; or

(iii) if default shall be made by the Commonwealth in the performance or observance of the covenants, agreements and conditions on its part described under the first paragraph of "Covenant as to Gasoline Taxes and Infrastructure Fund" above; or

(iv) if default shall be made by the Commonwealth in the performance or observance of any other of the covenants, agreements or conditions on its part provided in the Trust Agreement or in the Bonds and such default shall continue for a period of 30 days after written notice thereof shall be given to the Commonwealth by the Trustee or to the Commonwealth and the Trustee by the registered owners of a majority in principal amount of the Bonds Outstanding; provided that if such default cannot be remedied within such 30 day period, it shall not constitute an Event of Default hereunder if corrective action is instituted by the Commonwealth within such period and diligently pursued until the default is remedied.

Application of Revenues and Other Moneys after Default. During the continuance of an Event of Default, the Trustee shall apply the moneys, securities and funds held by the Trustee , including any Pledged Funds and the income therefrom as follows and in the following order:

(i) to the payment of the reasonable and proper charges and expenses of the Trustee and of any counsel selected by the Trustee;

(ii) to the payment of the interest and principal amount or Redemption Price then due on the Bonds, as follows:

(i) unless the principal amount of all of the Bonds shall have become due and payable,

First: To the payment to the persons entitled thereto to all installments of interest then due in the order of the maturity of such installments maturity, and, if the amount available shall not be sufficient to pay in full all installments maturing on the same date, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal amount or Redemption Price of any Bonds which shall become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference; and

(ii) if the principal of all of the Bonds shall have become due and payable, to the payment of the principal amount and interest then due and unpaid upon the Bonds without preference or priority of principal over interest or of interest over principal, or of any instalment of interest over any other instalment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal amount and interest, to the persons entitled thereto, without any discrimination or preference;

(iii) To the payment of any person entitled to the payment of any Bond Related Cost ratably in accordance with the amount of such Bond Related Costs.

The proceeds of any Credit Enhancement or Liquidity Facility shall be applied by the Trustee in the manner provided in the Supplemental Trust Agreement authorizing such Credit Enhancement or Liquidity Facility.

Proceedings Brought by Trustee. If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee may proceed to protect and enforce its rights and the rights of the registered owners of the Bonds under the Trust Agreement by a suit or suits in equity or at law. The registered owners of a majority in principal amount of the Bonds Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, provided that the Trustee shall have the right to decline to follow any such direction if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Bondholders not parties to such direction.

Regardless of the happening of an Event of Default, the Trustee shall have power to, but unless requested in writing by the registered owners of a majority in principal amount of the Bonds then Outstanding and furnished with reasonable security and indemnity, shall be under no obligation to, institute and maintain such suits and proceedings as its may deem necessary or expedient to prevent any impairment of the security under the Trust Agreement by any acts which may be unlawful or in violation of the Trust Agreement, or necessary or expedient to preserve or protect its interests and the interest of the Bondholder.

Nothing contained in the Trust Agreement is intended to preclude the Trustee upon the occurrence of an Event of Default hereunder from asserting any and all remedies it may have at law or equity with respect to the Pledged Funds and other amounts held as security hereunder, including asserting any rights it may have as Trustee hereunder as a secured party with respect to all security granted hereunder notwithstanding any requirements contained in the Trust Agreement with respect to Appropriated Amounts.

Restriction on Bondholders' Action. No registered owner of any Bond shall have any right to institute any suit, action or proceeding at law or in equity for the enforcement of any provision of the Trust Agreement or for any remedy under the Trust Agreement, unless such registered owner shall have previously given to the Trustee written notice of the happening of any Event of Default and the registered owners of at least twenty-five percent (25%) in principal amount of Bonds then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity, to exercise the powers granted in the Trust Agreement in its own name, and unless such registered owners shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred thereby, and the Trustee shall have refused to comply with such request within a reasonable time.

No Right of Acceleration. Neither the Bondholders nor the Trustee shall have any right to accelerate the payment of principal or interest due on any Bonds Outstanding upon the occurrence of any Event of Default.

Responsibility of Fiduciaries. The duties and obligations of the Fiduciaries shall be determined by the express provisions of the Trust Agreement. No Fiduciary shall be under any responsibility or duty with respect to the issuance of the Bonds for value or the application of the proceeds thereof or the application of any moneys paid to the Commonwealth or any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect hereof, or to advance any of its own moneys, unless properly indemnified. No Fiduciary shall be liable in connection with the performance of its duties hereunder except for its own negligence or bad faith nor shall any Fiduciary be liable for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Trust Agreement.

Compensation. The Commonwealth shall pay to each Fiduciary from time to time reasonable compensation for all services rendered under the Trust Agreement, including counsel fees and other disbursements, and each Fiduciary shall have a lien therefor on any and all funds at any time held by it hereunder. Amounts unpaid more than thirty (30) days after they are billed to the Treasurer shall bear interest at the "base rate" of the Trustee in effect from time to time. The Commonwealth shall indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties hereunder, and which are not due to its negligence or bad faith.

Resignation of Trustee. The Trustee may at any time resign and be discharged of the duties and obligations created by the Trust Agreement by giving not less than sixty (60) days' written notice to the Treasurer and giving not less than thirty (30) days' written notice to each Bondholder and Paying Agent specifying the date when such resignation shall take effect, and such resignation shall take effect upon the day specified in such notice provided a successor shall have been appointed, unless previously a successor shall have been appointed by the Treasurer or the Bondholders as hereinafter provided in the Trust Agreement, in which event such resignation shall take effect immediately on the appointment of such successor.

Removal of Trustee. The Trustee may be removed at any time by an instrument or concurrent instruments in writing, filed with the Trustee, and signed by the registered owners of a majority in principal amount of the Bonds then Outstanding or their attorneys-in-fact duly authorized, excluding any Bonds held by or for the account of the Commonwealth. Except during the existence of an Event of Default, the Treasurer may remove the Trustee at any time for cause or upon not less than ninety (90) days prior written notice to the Trustee for such other reason as shall be determined in the sole discretion of the Treasurer.

Appointment of Successor Trustee. In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, a successor may be appointed by the registered owners of a majority in principal amount of the Bonds then excluding any Bonds held by or the account of the Commonwealth. Pending such appointment, the Treasurer by a written instrument signed by an Authorized Officer and delivered to the predecessor Trustee shall forthwith appoint a Trustee to fill such vacancy until a successor Trustee shall be appointed by the Bondholders. Any Trustee appointed in succession to the Trustee shall be a bank or trust company organized under the laws of the Commonwealth, or a national banking association doing business and having its principal place of business in the Commonwealth, having a capital and surplus aggregating at least fifty million dollars ($50,000,000), if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all duties imposed upon it by the Trust Agreement.

Supplemental Trust Agreement Effective upon Filing. The Commonwealth and the Trustee may at any time and from time to time enter into supplements or amendments to the Trust Agreement for any one or more of the following purposes:

(i) to cure any ambiguity, inconsistency or formal defect or omission in the Trust Agreement;

(ii) to close the Trust Agreement against, or provide limitations and restrictions contained in the Trust Agreement on, the original issuance of Bonds;

(iii) to add to the covenants and agreements of the Commonwealth contained in the Trust Agreement other covenants and agreements thereafter to be observed for the purpose of further securing the Bonds;

(iv) to surrender any right, power or privilege reserved to or conferred upon the Commonwealth by the Trust Agreement;

(v) to authorize Bonds of a Series and, in connection therewith, specify and determine any matters and things relative to such Bonds not contrary to or inconsistent with the Trust Agreement;

(vi) to authorize any Credit Enhancement, Liquidity Facility, or Reserve Requirement;

(vii) to exercise any provision in the Trust Agreement or to make such determinations hereunder as expressly provided herein to be exercised or determined in a Supplemental Trust Agreement;

(viii) to confirm, as further assurance, any pledge under and the subjection to any lien or pledge created or to be created by the Trust Agreement of the Pledged Funds; and

(ix) for any other purpose, provided that such Supplemental Trust Agreement does not prejudice in any material respect the right of the registered owner of any Bond Outstanding at the date such Supplemental Trust Agreement becomes effective.

Powers of Amendment. Any modification or amendment of the Bonds or of the Trust Agreement may be made by a Supplemental Trust Agreement, with the written consent (i) of the registered owners of at least a majority in the principal amount of all Bonds Outstanding at the time such consent is given, or (ii) in case less than all of the several series of Bonds then Outstanding are affected by the modification or amendment, of the registered owners of at least a majority in principal amount of the Bonds of each series so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the amount or date of any Sinking Fund Payment, of 100% of the registered owners of the Bonds of the particular series and maturity entitled to such Sinking Fund Payment Outstanding at the time such consent is given; provided, however, that, if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like series and maturity remain Outstanding, the vote or consent of the registered owners of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds; and provided, further, that no such modification or amendment shall permit a change in the terms of redemption or maturity of the principal amount of any Outstanding Bond or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or the rate of interest thereon or the method for determining such rate or terms of any Credit Enhancement or Liquidity Facility relating to a Bond without the consent of the registered owner of such Bond, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto, or shall reduce the percentages of the principal amount of Bonds the consent of which is required to effect any such modification or amendment.

Defeasance. If the Commonwealth shall pay or cause to be paid, or there shall otherwise be paid, to the registered owners of the Bonds then Outstanding, the principal amount and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the Trust Agreement then the pledge of any Pledged Funds or other moneys and securities pledged by the Trust Agreement and all other rights granted by the Trust Agreement shall be discharged and satisfied.

Bonds or interest installments for the payment or redemption of which moneys shall be held by the Fiduciaries, whether at or prior to the maturity or the redemption date of such Bonds, shall be deemed to have been paid if (i) in case any of said Bonds are to be redeemed on any date prior to their maturity, an Authorized Officer shall have given to the Trustee irrevocable instructions to provide, notice of redemption on said date of such Bonds, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Obligations not subject to redemption or otherwise called for redemption for which amounts have been placed in escrow, in each case the principal of and interest on which when due will provide moneys which, together with any other deposited amounts, shall be sufficient, as certified by a firm of independent public accountants, to pay when due the principal amount or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be. Any cash received from the principal or interest payments on such Defeasance Obligations deposited with the Trustee, if not then needed for such purpose, may, to the extent practicable, be reinvested in Defeasance Obligations as provided in the Trust Agreement.

For purposes of determining whether Variable Rate Bonds shall be deemed to have been paid prior to the maturity or redemption date thereof, as the case may be, by the deposit of moneys, or Defeasance Obligations and moneys, if any, the interest to come due on such Variable Rate Bonds on or prior to the maturity date or redemption date thereof, as the case may be, shall be calculated at the Variable Rate Ceiling if in effect with respect to such Bonds.

Tender Bonds shall be deemed to have been paid only if, in addition to satisfying the requirements described above, there shall have been deposited with the Trustee moneys in an amount which shall be sufficient to pay when due the maximum amount of principal of and premium, if any, and interest on such Bonds which could become payable to the registered owners of such Bonds upon the exercise of any options provided to the registered owners of such Bonds; provided, however, that if, at the time a deposit is made with the Trustee pursuant to the provisions above, the options originally exercisable by the registered owners of Tender Bonds are no longer exercisable, such Bonds shall not be considered Tender Bonds.

Unclaimed Funds. Any moneys held by the Fiduciary in trust for the payment and discharge of any Bonds which remain unclaimed for three (3) years after the date when such Bonds have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for three (3) years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Bonds become due and payable, shall be paid to the Commonwealth as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Bondholders shall look only to the Commonwealth for the payment of such Bonds.

No Recourse on the Bonds. No recourse shall be had for the payment of the principal or Redemption Price of or the interest on the Bonds or for any claim based thereon or on the Trust Agreement against any official, agent, representative or employee of the Commonwealth or any person executing the Bonds. No official, agent, representative or employee of the Commonwealth shall be held personally liable to any purchaser or holder of any Bond under or upon such Bond under or upon such Bond, or under or upon the Trust Agreement or any Supplemental Trust Agreement relating to Bonds, or, to the extent permitted by law, because of the sale or issuance or attempted sale or issuance of Bonds, or because of any act or omission in connection with the investment or management of the Pledged Funds, funds or moneys of the Commonwealth, or otherwise in connection with the management of its affairs, excepting solely for things wilfully done or omitted to be done with an intent to defraud.

FORM OF BOND COUNSEL OPINION
RELATING TO GENERAL OBLIGATION BONDS

APPENDIX D-1

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___________, 1992

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 1992
Series ___

Dear Treasurer Malone:

We have examined a record of proceedings relating to the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of its $__________ General Obligation Bonds, Consolidated Loan of 1992, Series ___, dated June 1, 1992 (the "Bonds"). We have also examined such provisions of applicable law and such other documents as we have deemed necessary in order to render this opinion.

The Bonds mature and bear interest and are subject to mandatory sinking fund and optional redemption at such times, in such amounts, at such prices and upon such terms and conditions as are set forth in the Bonds. The Bonds are being issued by means of a book entry system, with certificates immobilized at the Depositary Trust Company, New York, New York ("DTC"), and are not available for distribution to the public, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures issued by DTC and its participants.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Bonds have been duly authorized and are legal and valid general obligations of the Commonwealth to which its full faith and credit are pledged for payment of principal and interest when due.

The provisions of Chapter 62F of the Massachusetts General Laws establish a state tax revenue growth limit and do not exclude principal and interest payments on the Bonds and other Commonwealth debt obligations from the scope of the limit. The provisions of Chapter 29, Section 60B of the Massachusetts General Laws impose an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on certain general obligation debt of the Commonwealth, including the Bonds. Chapter 151 of the Acts of 1990 dedicates certain state tax revenues for debt service on previously issued Fiscal Recovery Bonds of the Commonwealth. The property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment against the Commonwealth generally requires legislative appropriation. Enforcement of a claim for payment of principal of or interest on the Bonds may also be subject to the provisions of federal or Commonwealth statutes, if any, hereafter enacted extending the time for payment or imposing other constraints upon enforcement, insofar as the same may be constitutionally applied.

2. Interest on the Bonds (including any original issue discount properly allocable to a holder thereof) is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, but is includable in "adjusted current earnings" of corporate holders of the Bonds and therefore will be taken into account in the computation of the alternative minimum tax applicable to certain corporations. However, we express no opinion as to (a) a denial of a deduction for interest on indebtedness incurred to purchase or carry the Bonds, or in the case of a financial institution, that portion of the holder's interest expense allocable to interest on the Bonds; (b) the possible inclusion of interest on the Bonds in calculating the environmental tax which may be imposed on corporations which hold the Bonds; (c) the possible reduction of loss deductions incurred by non-life insurance companies which hold the Bonds; (d) the possible inclusion of interest on the Bonds in the taxable base of a United States branch of a foreign corporation for purposes of the tax imposed by Section 884 of the Internal Revenue Code of 1986, as amended (the "Code"); (e) the effect of accounting for interest on the Bonds for purposes of determining the taxability of social security and railroad retirement benefits; (f) the possible inclusion of interest on the Bonds in excess net passive income of certain subchapter S corporations as imposed by Section 1375 of the Code; and (g) any other federal tax consequences arising with respect to the Bonds.

In rendering the foregoing opinion that interest on the Bonds is, as of the date hereof, excludable from gross income for federal income tax purposes we have (a) relied as to questions of fact material to our opinion upon representations of the Commonwealth (including representations as to the use and investment of proceeds of the Bonds), without undertaking to verify the same by independent investigation, and (b) assumed the continued compliance by the Commonwealth with its covenants relating to the use of the proceeds of the Bonds, and other covenants specifically designed to assure that the interest on the Bonds is, and continues to be, excludable from gross income for federal income tax purposes. The inaccuracy of any such representations or the noncompliance with any of such covenants may cause interest on the Bonds to become includable in gross income for Federal income tax purposes retroactive to the date of issuance of the Bonds.

3. The Bonds and the interest thereon (including any original issue discount properly allocable to a holder thereof) are exempt from taxes imposed by the Commonwealth, although the Bonds and said interest may be included in the measure of estate and inheritance taxes and of certain corporate excise and franchise taxes.

Very truly yours,

WARNER & STACKPOLE

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FORM OF BOND COUNSEL OPINION
RELATING TO 1992 A SPECIAL OBLIGATION BONDS

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June 24, 1992

The Honorable Joseph D. Malone
Treasurer and Receiver-General
The Commonwealth of Massachusetts
State House - Room 227
Boston, Massachusetts 02133

Shawmut Bank, N.A., Trustee under
Trust Agreement dated as of
June 1, 1992 by and between
The Commonwealth of
Massachusetts and Shawmut
Bank, N.A., as Trustee
One Federal Street
Boston, Massachusetts 02110

The Commonwealth of Massachusetts
$103,770,000 Special Obligation Revenue Bonds,
1992 Series A

Dear Treasurer Malone:

We have examined a record of proceedings relating to the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of its $103,770,000 Special Obligation Revenue Bonds, 1992 Series A, dated as of June 1, 1992 (the "1992 Series A Bonds"). We have also examined such provisions of applicable law, the Trust Agreement and Supplemental Agreement described below and such other documents as we have deemed necessary in order to render this opinion.

The 1992 Series A Bonds are issued as special obligation bonds pursuant to Section Two-O of Chapter 29 of the Massachusetts General Laws (the "Act") and the provisions of Sections 8 and 9 of Chapter 33 of the Acts of 1991 (the "Bond Authorization Act") and under and pursuant to a Trust Agreement dated as of June 1, 1992 (the "Trust Agreement") between the Commonwealth and Shawmut Bank, N.A., as Trustee (the "Trustee"), as supplemented by a First Supplemental Trust Agreement dated as of June 10, 1992 (the "Supplemental Trust Agreement") between the Commonwealth and the Trustee. The net proceeds of the 1992 Series A Bonds are to be applied to the purposes authorized by the Bond Authorization Act. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Trust Agreement and the Supplemental Trust Agreement.

Bonds issued under the Trust Agreement, including the 1992 Series A

Bonds, are secured by a pledge of (i) the monies received or to be received by the Commonwealth after July 1, 1992 from a portion of the excise tax imposed on fuel (other than aviation fuel) by the provisions of Chapter 64A of the Massachusetts General Laws in effect as of the date of issuance of the 1992 Series A Bonds (the "Gasoline Tax") equal to two cents (2¢) per gallon, and (ii) any additional amounts of the Gasoline Tax or Additional Pledged Funds (as defined in the Trust Agreement) which may be subsequently pledged under the Trust Agreement (collectively, the "Pledged Funds"). The Bonds issued under the Trust Agreement, including the 1992 Series A Bonds, are also secured by all amounts, securities, Reserve Requirements (as defined in the Trust Agreement) and any investment earnings with respect thereto in all Funds and Accounts held under the Trust Agreement other than the Rebate Fund.

Under the Trust Agreement the Commonwealth may issue additional special obligation bonds on a parity with the 1992 Series A Bonds under the terms and conditions set forth in the Trust Agreement. The Trust Agreement provides that neither the Bondholders nor the Trustee shall have any right to accelerate the payment of the principal of or interest on the 1992 Series A Bonds upon default.

The 1992 Series A Bonds mature and bear interest and are subject to mandatory sinking fund and optional redemption at such times, in such amounts, at such prices and upon such terms and conditions as are set forth in the 1992 Series A Bonds and the Supplemental Trust Agreement. The 1992 Series A Bonds are being issued by means of a book entry system, with certificates immobilized at the Depositary Trust Company, New York, New York ("DTC"), and are not available for distribution to the public, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures issued by DTC and its participants.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Commonwealth has the right and power under the Act to enter into the Trust Agreement and Supplemental Trust Agreement, and the Trust Agreement and Supplemental Trust Agreement have been duly authorized, executed and delivered on behalf of the Commonwealth by the Treasurer and Receiver-General of the Commonwealth with the concurrence of the Secretary for Administration and Finance of the Commonwealth and the Secretary of Transportation and Construction of the Commonwealth, are in full force and effect, and constitute valid and legally binding obligations of the Commonwealth enforceable in accordance with their respective terms, except as enforcement thereof may be limited by provisions of federal or Commonwealth statutes, if any, hereafter enacted imposing constraints upon enforcement and by general principles of equity (regardless of whether such enforceability is considered in a proceeding in equity or at law), to the extent any of the same may be constitutionally applied. No other authorization for the Trust Agreement and the Supplemental Trust Agreement is required. The Trust

Agreement creates a valid pledge of the Pledged Funds, and of the monies, securities and Reserve Requirements, and all investment earnings with respect thereto, held in or credited to the Funds and Accounts established by or pursuant to the Trust Agreement other than the Rebate Fund, in the manner and to the extent provided in the Trust Agreement and Supplemental Trust Agreement, which pledge is not subject to any prior pledge granted under the Act. The Act provides that such pledge shall be perfected by filing the Trust Agreement in the records of the Treasurer and Receiver-General of the Commonwealth; and the Trust Agreement has been so filed. Except as provided in the Trust Agreement the aggregate principal amount of Bonds which may be issued thereunder is not limited, and all Bonds issued and to be issued under the Trust Agreement are and will be ratably secured by the pledge of the Pledged Funds and other amounts pledged thereby.

2. The 1992 Series A Bonds have been duly authorized, executed and delivered and are valid and binding special obligations of the Commonwealth enforceable in accordance with their terms and the terms of the Trust Agreement and Supplemental Trust Agreement, and are entitled to the benefits of the Act, as provided in the Trust Agreement, and the Trust Agreement and Supplemental Trust Agreement. The 1992 Series A Bonds are not general obligations of the Commonwealth, and the full faith and credit of the Commonwealth are not pledged to the payment thereof. The principal of and interest on the 1992 Series A Bonds are payable solely from the Pledged Funds and other amounts pledged for their payment under and pursuant to the Trust Agreement and Supplemental Trust Agreement, and are not payable out of any other funds of the Commonwealth.

Under the Act and the Trust Agreement, the expenditure of Pledged Funds from the Infrastructure Fund to pay the principal or redemption price of or interest on any Bonds issued under the Trust Agreement, including the 1992 Series A Bonds, is subject to legislative appropriation by the Commonwealth. However, pursuant to the provisions of the Act, the Trust Agreement provides that all Pledged Funds shall be held on deposit with the Trustee until such time as a legislative appropriation to pay the principal or the redemption price of or interest on any Bonds issued under the Trust Agreement, including the 1992 Series A Bonds, shall be in effect. All such Pledged Funds so held by the Trustee shall be subject to the lien created by the Trust Agreement. The 1992 Series A Bonds shall constitute valid special obligations of the Commonwealth, as described above, notwithstanding any failure to appropriate such amounts.

The provisions of Chapter 62F of the Massachusetts General Laws establish a state tax revenue growth limit and do not exclude principal and interest payments on the 1992 Series A Bonds and other Commonwealth debt obligations from the scope of the limit. Although the property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment against the Commonwealth generally requires legislative appropriation, the Trust Agreement does create a lien on the Pledged Funds, as permitted by the Act, for the benefit of the Registered Owners of any Bonds issued under the Trust Agreement, including the 1992 Series A Bonds. Enforcement of a claim for payment of principal of or interest on the 1992 Series A 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, and to general principles of equity (regardless of whether such enforceability is considered in a proceeding at law or in equity) to the extent any of the same may be constitutionally applied.

3. Interest on the 1992 Series A Bonds (including any original issue discount properly allocable to a holder thereof) is excludable from gross income for federal income tax purposes and is not an item of tax preference for purposes of the federal alternative minimum tax imposed on individuals and corporations, but is includable in "adjusted current earnings" of corporate holders of the 1992 Series A Bonds and therefore will be taken into account in the computation of the alternative minimum tax applicable to certain corporations. However, we express no opinion as to (a) a denial of a deduction for interest on indebtedness incurred to purchase or carry the 1992 Series A Bonds, or in the case of a financial institution, that portion of the holder's interest expense allocable to interest on the 1992 Series A Bonds; (b) the possible inclusion of interest on the 1992 Series A Bonds in calculating the environmental tax which may be imposed on corporations which hold the 1992 Series A Bonds; (c) the possible reduction of loss deductions incurred by non-life insurance companies which hold the 1992 Series A Bonds; (d) the possible inclusion of interest on the 1992 Series A Bonds in the taxable base of a United States branch of a foreign corporation for purposes of the tax imposed by Section 884 of the Internal Revenue Code of 1986, as amended (the "Code"); (e) the effect of accounting for interest on the 1992 Series A Bonds for purposes of determining the taxability of social security and railroad retirement benefits; (f) the possible inclusion of interest on the 1992 Series A Bonds in excess net passive income of certain subchapter S corporations as imposed by Section 1375 of the Code; and (g) any other federal tax consequences arising with respect to the 1992 Series A Bonds.

In rendering the foregoing opinion that interest on the 1992 Series A Bonds is, as of the date hereof, excludable from gross income for federal income tax purposes we have (a) relied as to questions of fact material to our opinion upon representations of the Commonwealth (including representations as to the use and investment of proceeds of the 1992 Series A Bonds), without undertaking to verify the same by independent investigation, and (b) assumed the continued compliance by the Commonwealth with its covenants relating to the use of the proceeds of the 1992 Series A Bonds, and other covenants specifically designed to assure that the interest on the 1992 Series A Bonds is, and continues to be, excludable from gross income for federal income tax purposes. The inaccuracy of any such representations or the noncompliance with any of such covenants may cause interest on the 1992 Series A Bonds to become includable in gross income for Federal income tax purposes retroactive to the date of issuance of the 1992 Series A Bonds.

4. The 1992 Series A Bonds and the interest thereon (including any original issue discount properly allocable to a holder thereof) are exempt from taxes imposed by the Commonwealth, although the 1992 Series A Bonds and said interest may be included in the measure of estate and inheritance taxes and of certain corporate excise and franchise taxes.

Very truly yours,

WARNER & STACKPOLE

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AMBAC INDEMNITY CORPORATION

AMBAC Indemnity Corporation ("AMBAC Indemnity") is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia and the Commonwealth of Puerto Rico, with admitted assets of approximately $1,436,000,000 (unaudited) and statutory capital of approximately $826,000,000 (unaudited) as of March 31, 1992. Statutory capital consists of AMBAC Indemnity's policyholders' surplus and statutory contingency reserve. AMBAC Indemnity is a wholly owned subsidiary of AMBAC Inc., a 100% publicly-held company. Moody's Investors Service, Inc. and Standard & Poor's Corporation have both assigned a triple-A claims-paying ability rating to AMBAC Indemnity.

Copies of AMBAC Indemnity's financial statements prepared in accordance with statutory accounting standards are available from AMBAC Indemnity. The address of AMBAC Indemnity's administrative offices and its telephone number are One State Street Plaza, 17th Floor, New York, New York 10004 and (212) 668-0340.

AMBAC Indemnity has entered into pro rata reinsurance agreements under which a percentage of the insurance underwritten pursuant to certain municipal bond insurance programs of AMBAC Indemnity has been and will be assumed by a number of foreign and domestic unaffiliated reinsurers.

AMBAC Indemnity makes no representation regarding the Bonds or the advisability of investing in the Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by AMBAC Indemnity and presented in this Appendix E and under the heading "SECURITY AND SOURCES OF PAYMENT FOR THE SPECIAL OBLIGATION BONDS -- Debt Service Reserve Fund, *AMBAC Indemnity Surety Bond*".

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