

NEW ISSUE

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

\$200,000,000



THE COMMONWEALTH OF MASSACHUSETTS

**General Obligation Bonds
Consolidated Loan of 1993, Series B**

Dated: October 1, 1993

**Due: October 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 payments of the Bonds are more fully described in this Official Statement. The Bonds will bear interest from October 1, 1993 and will be payable on April 1, 1994 and semiannually thereafter on October 1 and April 1. The Bonds are subject to redemption prior to maturity, as more fully described herein.

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

The Bonds are offered when, as and if issued and received by the original purchasers, and subject to the unqualified approving opinion as to legality of Warner & Stackpole, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Palmer & Dodge, Boston, Massachusetts, Disclosure Counsel. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about October 28, 1993.

October 19, 1993

THE COMMONWEALTH OF MASSACHUSETTS

\$200,000,000
General Obligation Bonds
Consolidated Loan of 1993, Series B

Serial Bonds

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
1994	\$ 3,500,000	3 1/2%	2.60%
1995	6,855,000	3 1/2	3.40
1996	7,090,000	3 1/2	100
1997	7,355,000	3 1/2	3.65
1998	7,640,000	3 3/4	3.85
1999	7,955,000	3 7/8	4
2000	8,295,000	4	4.15
2001	8,650,000	4 1/8	4.25
2002	9,040,000	4 1/4	4.35
2003	9,455,000	4 3/8	4.45
2004	9,890,000	4 1/2	4.55
2005	10,360,000	4.60	4.65
2006	10,860,000	4 5/8	4 3/4
2007	11,400,000	4 3/4	4.85
2008	11,970,000	4 7/8	4.95
2009	12,580,000	4 7/8	5
2010	13,225,000	4 7/8	5.05
2011	13,900,000	4 7/8	5.10

\$29,980,000 4 7/8% Term Bonds Due October 1, 2013 -- Price 96.70%

(accrued interest, if any, to be added)

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

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

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THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

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

OFFICIAL STATEMENT

\$200,000,000

THE COMMONWEALTH OF MASSACHUSETTS General Obligation Bonds Consolidated Loan of 1993, Series B

INTRODUCTION

This Official Statement (including the cover pages and Appendices A and B attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of \$200,000,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 1993, Series B (the "Bonds"). The Bonds will be general obligations of the Commonwealth, and the full faith and credit of the Commonwealth are pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and regarding dedicated state income tax revenues, see "SECURITY FOR THE BONDS" and "Appendix A-Commonwealth Information Statement" under the headings "COMMONWEALTH REVENUES--Limitations on Tax Revenues", "COMMONWEALTH PROGRAMS AND SERVICES--Debt Service" and "COMMONWEALTH BOND AND NOTE LIABILITIES".

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

Purpose and Content of Official Statement

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

Attached hereto as Appendix A is the Commonwealth Information Statement, dated February 26, 1993, as supplemented by the Information Statement Supplement dated October 19, 1993 (collectively, the "Commonwealth Information Statement"), which contains certain fiscal, budgetary, financial, and other general information concerning the Commonwealth as of its date. Exhibit A to the Commonwealth Information Statement contains certain economic information concerning the Commonwealth. Exhibits B and C to the Commonwealth Information Statement contain the financial statements of the Commonwealth for the fiscal year ending June 30, 1992, prepared on a statutory basis and a GAAP basis, respectively. Appendix B attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Bonds.

THE BONDS

General

The Bonds will be dated October 1, 1993 and will initially bear interest from such date payable semiannually on April 1 and October 1 of each year, commencing April 1, 1994 (each an "Interest Payment Date"), until the principal amount is paid. The Bonds shall mature on October 1 in the years and in the aggregate principal amounts, and shall bear interest at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day

months), as set forth on the inside cover page of this Official Statement. The Commonwealth will act as its own paying agent with respect to the Bonds.

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

Redemption

The Bonds maturing on or prior to October 1, 2003 are not subject to redemption prior to their stated maturity dates.

Mandatory Redemption. The Bonds maturing on October 1, 2013 are subject to mandatory sinking fund redemption on October 1 in each of the years and each of the principal amounts set forth below (the particular Bonds of such maturity to be selected by lot) at a redemption price of 100 percent of the principal amount to be redeemed, plus accrued interest to the redemption date:

Bonds Maturing October 1, 2013

<u>Year</u>	<u>Amount</u>
2012	\$14,615,000
2013	15,365,000

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

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

<u>Redemption Dates</u>	<u>Redemption Prices</u>
October 1, 2003 through September 30, 2004, inclusive	102%
October 1, 2004 through September 30, 2005, inclusive	101
October 1, 2005 and thereafter	100

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

notice from a DTC Participant or otherwise) to notify the Beneficial Owner so affected, shall not affect the validity of the redemption.

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

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

Application of Proceeds

The Bonds are being issued pursuant to the provisions of Section 49 of Chapter 29 of the Massachusetts General Laws and bond authorizations enacted by the Legislature. The net proceeds of the sale of the Bonds will be applied by the State Treasurer to the various purposes for which issuance of bonds have been authorized by the Legislature. Any accrued interest payable upon original delivery of the Bonds will be credited ratably to the funds from which debt service on the Bonds is paid and will be used to pay interest on the Bonds.

The purposes for which the Bonds will be issued have been authorized by the Legislature under various bond authorizations and are included within the current five-year capital spending plan established by the Governor (the "Capital Spending Plan"). The Capital Spending Plan, which is an administrative guideline and is subject to amendment by the Governor at any time, sets forth capital spending allocations over the next five fiscal years and establishes annual capital spending limits. The proceeds of the Bonds are to be applied in fiscal year 1994 to certain projects included within the categories of capital expenditures contained in the Capital Spending Plan. See "Commonwealth Information Statement" under the headings "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Overview of Capital Spending Process and Controls; *Five-Year Capital Spending Plan*" and "COMMONWEALTH BOND AND NOTE LIABILITIES -- Authorized But Unissued Debt."

SECURITY FOR THE BONDS

The Bonds will be general obligations of the Commonwealth to which its full faith and credit will be pledged for the payment of principal and interest when due. However, it should be noted that Chapter 62F of the Massachusetts General Laws imposes a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit. It should be noted further that Chapter 29, Section 60B, of the Massachusetts General Laws imposes an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on general obligation debt of the Commonwealth. These statutes are both subject to amendment or repeal by the Legislature. Currently, actual tax revenue growth and annual general obligation debt service are both below the statutory limits. See "Appendix A - Commonwealth Information Statement" under the headings "COMMONWEALTH REVENUES -- Limitations on Tax Revenues" and "COMMONWEALTH PROGRAMS AND SERVICES -- Debt Service". In addition, the Commonwealth has pledged up to 15% of the Commonwealth's income tax receipts to secure approximately \$1.24 billion of the Commonwealth's outstanding Fiscal Recovery Bonds, the debt service on which amounts to approximately \$279 million per year in fiscal 1994 through 1997, and \$130 million in fiscal 1998, at which time the Fiscal Recovery Bonds will be paid. See "Appendix A - Commonwealth Information Statement" under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES -- General Obligation Debt; *Dedicated Income Tax Debt*".

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

LITIGATION

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

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

BOOK-ENTRY-ONLY SYSTEM

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

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

Purchases of Bonds under the DTC system must be made by or through DTC Participants, which will receive a credit for the Bonds in the records of DTC. The ownership interest of each actual purchaser of each Bond (the "Beneficial Owner") is in turn to be recorded on the DTC Participants' and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations of their purchase providing details of the Bonds acquired, as well as periodic statements of their holdings, from the DTC Participant or Indirect Participant through which the Beneficial

Owner entered into the transaction. Transfers of ownership interests in the Bonds will be accomplished by entries made on the books of DTC Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

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

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

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

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

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

The principal of and interest on the Bonds will be paid to DTC or its nominee, Cede & Co., as registered owner of the Bonds. Upon receipt of moneys, DTC's practice is to credit the accounts of the DTC Participants on the payable date in accordance with their respective holdings shown on the records of DTC unless DTC has reason to believe it will not receive payment on the payable date. Payments by DTC Participants and Indirect Participants

to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such DTC Participant or Indirect Participant and not DTC or the Commonwealth, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of the principal and interest on the Bonds to DTC is the responsibility of the Commonwealth; disbursement of such payments to DTC Participants and Indirect Participants shall be the responsibility of DTC; and disbursement of such payments to Beneficial Owners shall be the responsibility of the DTC Participants and the Indirect Participants.

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

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

RATINGS

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

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

TAX EXEMPTION

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

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

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

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

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

OPINIONS OF COUNSEL

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

SALE AT COMPETITIVE BIDDING

After competitive bidding on October 19, 1993, the Bonds were awarded to a group of underwriters (the "Underwriters") managed by Goldman, Sachs & Co., CS First Boston Corporation, State Street Bank and Trust Company and Shawmut Bank, N. A. The Underwriters have supplied the information as to the public offering yields or prices of the Bonds set forth on the inside cover hereof. If all of the Bonds are resold to the public at such yields or prices, the Underwriters have informed the Commonwealth that they anticipate the total Underwriters' compensation to be \$1,217,000. The Underwriters may change the public offering yields or prices from time to time.

FINANCIAL ADVISOR

Public Resources Advisory Group, New York, New York, served as financial advisor to the Commonwealth with respect to the issuance of the Bonds. The financial advisor has assisted in the preparation of this Official Statement and in other matters relating to the planning, structuring, and issuance of the Bonds and has provided other advice. Public Resources Advisory Group is a financial advisory and consulting organization and is not engaged in the business of underwriting, marketing, or trading municipal securities or any other negotiable instruments.

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, Twelfth Floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or C. Christopher Alberti, Director of Debt Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to this Official Statement should be directed to George E. Curtis, Esq., Warner & Stackpole, 75 State Street, Boston, Massachusetts 02109, telephone (617) 951-9000.

THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Joseph D. Malone

Joseph D. Malone

Treasurer and Receiver-General

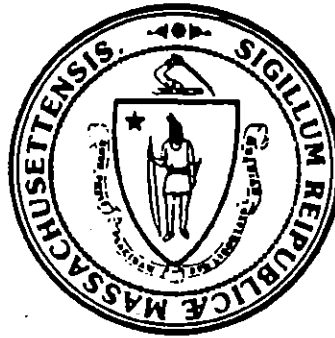
By /s/ Mark E. Robinson

Mark E. Robinson

Secretary for Administration and Finance

October 19, 1993

**THE
COMMONWEALTH
OF
MASSACHUSETTS**



INFORMATION STATEMENT

Dated February 26, 1993

INFORMATION STATEMENT SUPPLEMENT

Dated October 19, 1993

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Information Statement Supplement Dated October 19, 1993

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Commonwealth Information Statement Dated February 26, 1993

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THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT SUPPLEMENT

October 19, 1993

This supplement to the Information Statement of The Commonwealth of Massachusetts (the "Commonwealth"), dated February 26, 1993 (the "Commonwealth Information Statement"), is dated October 19, 1993 (the "October 19, 1993 Supplement") and contains information which updates the information contained in the Commonwealth Information Statement. The October 19, 1993 Supplement and the Commonwealth Information Statement must be read collectively and in their entirety in order to obtain the appropriate fiscal, financial and economic information concerning the Commonwealth through October 19, 1993. All capitalized terms not otherwise defined in this October 19, 1993 Supplement shall have the meanings ascribed to them in the Commonwealth Information Statement.

RECENT DEVELOPMENTS

Fiscal 1994

On July 19, 1993, the Governor signed into law the fiscal 1994 budget. As signed by the Governor, the budget authorizes approximately \$15.463 billion in fiscal 1994 expenditures. The Legislature had originally approved a fiscal 1994 budget with appropriations totalling \$15.545 billion. The Governor exercised his authority to veto and reduce individual line-items and reduced total expenditures by approximately \$82.4 million in order to bring the fiscal 1994 budget into balance and to fund fiscal 1993 appropriations continued into fiscal 1994 and certain other fiscal 1994 expenditures which the Governor believes will be necessary. Total budgeted expenditures and other uses for fiscal 1994 (excluding any supplemental appropriations) are currently estimated to be approximately \$15.500 billion. On September 24, 1993, the Governor filed a supplemental appropriations bill recommending \$75.4 million in fiscal 1994 appropriations. The Governor had previously filed on June 28 and August 25, two other supplemental appropriation bills totalling \$34.0 million to fund certain collective bargaining agreements. The Legislature has not yet acted upon any of these bills.

Budgeted revenues and other sources to be collected in fiscal 1994 are currently estimated by the Executive Office for Administration and Finance to be approximately \$15.483 billion. This amount includes estimated fiscal 1994 tax revenues of approximately \$10.560 billion, which is approximately \$630 million higher than estimated fiscal 1993 tax revenues of approximately \$9.930 billion. The fiscal 1994 tax revenue amount represents the \$10.540 billion consensus tax revenue estimate jointly endorsed by the Secretary for Administration and Finance and the Chairmen of the House and Senate Ways and Means Committees in connection with preparation of the fiscal 1994 budget, plus \$20 million of additional tax receipts expected to be received from a one-year tax amnesty program mandated by the fiscal 1994 budget. Fiscal 1994 non-tax revenues are currently estimated to be approximately \$4.923 billion (as compared to \$4.731 billion of estimated fiscal 1993 non-tax revenues), which amount includes approximately \$39.9 million in additional federal matching funds for Medicaid and Emergency Assistance not included in previous revenue estimates. In addition, any fiscal 1993 appropriations reauthorized for fiscal 1994 will be funded by an identical amount in revenues carried forward from fiscal 1993 and reserved for such reauthorized expenditures.

On July 19, 1993, the Secretary for Administration and Finance instituted a hiring freeze on all executive branch agencies to help ensure that agency expenditures remain within their fiscal 1994 budget authorizations. The hiring freeze is being lifted on an agency by agency basis as each agency and the Executive Office for Administration and Finance reach agreement on the actions such agency will need to take to stay within its fiscal 1994 budget. On August 16, 1993, the Executive Office for Administration and Finance announced that approximately 1,280 state employees would be laid off in the near future, in addition to approximately 350 employees already laid off in fiscal 1994. Approximately 320 of the positions were eliminated in order to keep

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

The fiscal 1994 budget is based on numerous spending and revenue estimates, the achievement of which cannot be assured. To date, the Legislature has overridden \$20.9 million of the Governor's vetoes relating to the fiscal 1994 budget. The override of additional line-item vetoes has not yet been considered by the Legislature and it is possible that the Legislature may vote to override such vetoes later in fiscal 1994. See "Commonwealth Information Statement" under the heading "1994 FISCAL YEAR" on page A-20.

In addition, on August 11, 1993, in response to the tax increases contained in the federal budget plan recently enacted by Congress and signed into law by the President on August 10, 1993, the Governor proposed a variety of state tax reductions aggregating approximately \$207 million annually. The Governor's proposal would lower the Commonwealth's income tax rate from 5.95% to 5.85% (currently estimated to reduce annual income tax revenues by \$70 million) and reduce the Commonwealth's gasoline tax by 4.3 cents per gallon from 21 cents per gallon to 16.7 cents per gallon (currently estimated to reduce annual gasoline tax revenues by \$118 million). Other changes would increase certain deductions for elderly taxpayers and raise the thresholds for payment of income tax by certain taxpayers. The Governor's proposal, which assumed an October 1, 1993 effective date, estimated that fiscal 1994 tax revenues would be reduced by approximately \$124 million. The Governor also intends to recommend upon passage of the tax reductions various fiscal 1994 spending reductions aggregating \$124 million.

On June 8, 1993, the Legislature adopted comprehensive education reform legislation, which the Governor signed into law on June 18, 1993. The Executive Office for Administration and Finance expects this legislation will require annual increases in expenditures for education purposes above fiscal 1993 base spending of \$1.289 billion of approximately \$175 million in fiscal 1994, \$414 million in fiscal 1995 and \$662 million in fiscal 1996. Additional annual increases are also expected in later fiscal years. The fiscal 1994 budget as signed by the Governor includes \$175 million in appropriations to satisfy this legislation. See "Commonwealth Information Statement" under the heading "1994 FISCAL YEAR" on page A-20.

On June 15, 1993, the Supreme Judicial Court decided *McDuffy v. Robertson* and *Levy v. Weld* by ruling that the Massachusetts Constitution imposes an enforceable duty on the Commonwealth to provide adequate public education for all children in the Commonwealth and that the Commonwealth is not currently fulfilling this constitutional duty. However, the court also ruled that no present statutory enactment is to be declared unconstitutional. The court further ruled that the Legislature and Governor are to determine the necessary response to satisfy the Commonwealth's constitutional duty, although a single justice of the court may retain jurisdiction to determine whether, within a reasonable time, appropriate legislative action has been taken. It cannot now be determined what action, if any, the plaintiffs in *McDuffy* may take in response to this decision or whether the court will order any further relief. See "Commonwealth Information Statement" under the heading "LITIGATION -- Commonwealth Programs and Services" on page A-55.

On July 1, 1993, the Governor proposed certain amendments to the education reform legislation, which, among other things, would modify the spending requirements imposed on cities and towns under the legislation. The amendments are not expected to have any material fiscal impact on the Commonwealth.

Fiscal 1993

The Commonwealth is in the process of closing its fiscal 1993 financial records. On September 15, 1993, the Comptroller issued the Preliminary Financial Report of the Commonwealth containing financial information for fiscal 1993. Financial information for fiscal 1993 contained in this October 19, 1993 Supplement is based upon such Preliminary Financial Report and is unaudited. Audited financial information is expected to be published in January, 1994.

Budgeted revenues and other sources for fiscal 1993 totalled approximately \$14.661 billion, including tax revenues of \$9.930 billion. Total revenues and other sources increased by approximately 6.2% from fiscal 1992 to fiscal 1993, while tax revenues increased by 4.7% for the same period. In July, 1992, tax revenues had been estimated to be approximately \$9.685 billion for fiscal 1993. This amount was subsequently revised during fiscal 1993 to \$9.940 billion.

Commonwealth budgeted expenditures and other uses in fiscal 1993 totalled approximately \$14.712 billion, which is \$1.296 billion or approximately 9.7% higher than fiscal 1992 expenditures and other uses.

On August 19, 1993, the Governor signed into law legislation that includes approximately \$81.6 million of fiscal 1993 supplemental appropriations (\$28.3 million of which will be spent in fiscal 1993 and \$53.3 million of which has been authorized to be continued into fiscal 1994), authorizations of approximately \$16.3 million of previous fiscal 1993 appropriations to be continued into fiscal 1994 and \$32.5 million in new fiscal 1994 appropriations. According to the Preliminary Financial Report of the Commonwealth relating to fiscal 1993, the ending fund balances of the budgeted operating funds of the Commonwealth for fiscal 1993 aggregated approximately \$498.1 million.

As of June 30, 1993, the Commonwealth showed a year-end cash position of approximately \$622.2 million, as compared to a projected position of \$485.1 million. See "Commonwealth Information Statement" under the headings "FINANCIAL RESULTS -- Selective Financial Data -- Statutory Basis" on page A-12 and "1993 FISCAL YEAR" on page A-17.

Fiscal 1992

On June 23, 1993, the office of the Comptroller of the Commonwealth concluded an analytical review which determined that certain accounting entries for fiscal 1992 pertaining to the Commonwealth's Unemployment Compensation Trust Fund were not precise. Certain amounts totalling \$416.2 million, previously accounted for and reported in the audited financial statements as loans from the federal government, were determined to have been revenues, primarily federal grants under the Emergency Unemployment Compensation program enacted by the United States Congress during fiscal 1992. The Commonwealth's Comprehensive Annual Financial Report, and other reports related to the state single audit for fiscal 1992, are being restated accordingly. The effect of this restatement will be to decrease liabilities (loans from the federal government) and to reduce the fund deficit in the Unemployment Compensation Trust Fund as reported at June 30, 1992. This adjustment is restricted to the Unemployment Compensation Trust Fund and does not affect the budgeted funds of the Commonwealth. The Commonwealth's financial statements (Exhibits B and C of the Commonwealth Information Statement dated February 26, 1993) have been restated accordingly. The revised pages include pages Exhibit B-2, B-3, B-5 through B-8, B-43, and pages Exhibit C-2, C-3, C-5 through C-8 and C-63. See "EXHIBIT A - ECONOMIC INFORMATION -- Unemployment Compensation Trust Fund".

Budgeted Operating Funds

The revenues and expenditures of the budgeted operating funds presented in the following tables are derived from the Commonwealth's audited statutory basis financial statements for fiscal 1989 through 1992, unaudited financial information for fiscal 1993 derived from the Preliminary Financial Report issued on September 15, 1993 by the Office of the Comptroller and unaudited estimates for fiscal 1994 prepared by the Executive Office for Administration and Finance as of October 19, 1993. The financial information presented includes all budgeted operating funds of the Commonwealth.

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

	Fiscal	Fiscal	Fiscal	Fiscal	Preliminary (unaudited)	Estimated
	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>	Fiscal <u>1993</u>	Fiscal <u>1994</u>
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$170.3	\$124.9	\$174.5	\$119.8	\$236.2	\$105.3
Stabilization Fund (1)	112.3	--	--	59.2	230.4	250.4
Undesignated	<u>70.6</u>	<u>(444.2)</u>	<u>(1,278.9)</u>	<u>58.1</u>	<u>82.8</u>	<u>142.4</u>
Total	<u>353.2</u>	<u>(319.3)</u>	<u>(1,104.4)</u>	<u>237.1</u>	<u>549.4</u>	<u>498.1</u>
<u>Revenues and Other Sources</u>						
Taxes	8,815.4	8,517.7	8,994.9	9,483.6	9,929.9	10,560.0
Federal Reimbursements (2)	1,542.0	1,717.5	2,777.1	2,393.5	2,626.7	2,896.6
Departmental and Other Revenues	949.1	1,131.7	1,204.9	1,187.3	1,310.5	1,244.7
Interfund Transfers from Non-budgeted Funds and Other Sources (3)	<u>663.9</u>	<u>641.3</u>	<u>656.6</u>	<u>663.9</u>	<u>793.8</u>	<u>781.6</u>
Budgeted Revenues and Other Sources	<u>11,970.4</u>	<u>12,008.2</u>	<u>13,633.5</u>	<u>13,728.3</u>	<u>14,660.9</u>	<u>15,482.9</u>
Mass Transit Assessments from Municipalities	120.7	123.9	130.2	130.9	134.3	137.7
Interfund Transfers among Budgeted Funds and Other Sources	<u>217.7</u>	<u>91.1</u>	<u>149.7</u>	<u>366.9</u>	<u>306.8</u>	<u>209.2</u>
Total Revenues and Other Sources	<u>12,308.8</u>	<u>12,223.2</u>	<u>13,913.4</u>	<u>14,226.1</u>	<u>15,102.0</u>	<u>15,829.8</u>
<u>Expenditures and Uses</u>						
Programs and Services	11,302.1	11,770.2	11,944.5(4)	11,757.4(4)	12,701.9	13,343.2(5)
Debt Service	649.8	770.9	942.3	898.3	1,138.6	1,226.0
Pensions	659.7	671.9	703.9	751.5	868.6	931.0
Interfund Transfers to Non-budgeted Funds and Other Uses	<u>31.3</u>	<u>46.7</u>	<u>64.0</u>	<u>8.8</u>	<u>3.1</u>	<u>0.0</u>
Budgeted Expenditures and Other Uses	<u>12,642.9</u>	<u>13,259.7</u>	<u>13,654.7(4)</u>	<u>13,416.0(4)</u>	<u>14,712.2</u>	<u>15,500.2(5)(6)</u>
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	120.7	123.9	130.2	130.9	134.3	137.7
Interfund Transfers among Budgeted Funds and Other Uses	<u>217.7</u>	<u>91.1</u>	<u>149.7</u>	<u>366.9</u>	<u>306.8</u>	<u>209.2</u>
Total Expenditures and Other Uses	<u>12,981.3</u>	<u>13,474.7</u>	<u>13,934.6</u>	<u>13,913.8</u>	<u>15,153.3</u>	<u>15,847.1</u>
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	<u>(672.5)</u>	<u>(1,251.5)</u>	<u>(21.2)</u>	<u>312.3</u>	<u>(51.3)</u>	<u>(17.3)</u>
Prior Year Deficit Financing	--	466.4	1,362.7	--	--	--
<u>Ending Fund Balances</u>						
Reserved or Designated	124.9	174.5	119.8	236.2	105.3	0.7
Stabilization Fund (1)	--	--	59.2	230.4	250.4	256.4
Undesignated	<u>(444.2)</u>	<u>(1,278.9)</u>	<u>58.1</u>	<u>82.8</u>	<u>142.4</u>	<u>223.7</u>
Total	<u>\$(319.3)</u>	<u>\$(1,104.4)</u>	<u>\$237.1</u>	<u>\$549.4</u>	<u>\$498.1</u>	<u>\$480.8</u>

SOURCE: Fiscal 1989-1992, Preliminary (unaudited) Fiscal 1993, Office of the Comptroller. Estimated Fiscal 1994, Executive Office for Administration and Finance.

- (1) Stabilization Fund balances are not expendable without subsequent specific legislative authorization.
(2) Includes \$513 million for fiscal 1991, \$163.6 million for fiscal 1992 and \$224.8 million for fiscal 1993 in federal reimbursements resulting from claims for reimbursement of certain uncompensated care for Massachusetts hospitals. See "Fiscal Years 1988 Through

- 1992" and "1993 FISCAL YEAR".
- (3) Interfund transfers represent accounting transfers which reallocate resources among funds. Fund deficit support transfers of \$234.8 million in fiscal 1991 have been eliminated to facilitate comparative analysis. Includes transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$59.2 million, \$170 million and \$17.8 million in fiscal 1991, 1992 and 1993, respectively. In fiscal 1989, \$120.2 million was transferred from the Stabilization Fund to the General Fund. See "COMMONWEALTH REVENUES -- Federal and Other Non-Tax Revenues".
 - (4) Fiscal 1991 and fiscal 1992 expenditures have been restated to reflect surpluses in the Intragovernmental Service Fund of \$3.8 million in each year.
 - (5) Does not include supplemental budget recommendations aggregating \$109.4 million already filed with the Legislature.
 - (6) Includes \$127.4 million transferred from off-budget expenditure accounts to on-budget expenditure accounts for fiscal 1994.

Commonwealth Revenues

See "Commonwealth Information Statement" under the heading "FINANCIAL RESULTS -- Selected Financial Data - Statutory Basis on page A-12.

The following table sets forth the Commonwealth's actual revenues in its budgeted operating funds for fiscal 1989 through 1993 and estimated revenues for fiscal 1994. The fiscal 1993 revenues are derived from the Comptroller's Preliminary Financial Report.

Commonwealth Revenues -- Budgeted Operating Funds
(in millions)

	Fiscal 1989	Fiscal 1990	Fiscal 1991(7)	Fiscal 1992(7)	Preliminary (unaudited) Fiscal 1993(7)	Estimated Fiscal 1994
Tax Revenues:						
Alcoholic Beverages	\$ 75.8	\$ 70.8	\$ 66.2	\$ 63.5	\$ 60.6	\$ 57.0
Banks						
Commercial	125.2	64.5	27.4	17.6(9)	74.7	100.0
Savings	98.3	46.2	20.6	42.5	78.2	80.0
Cigarettes (1)	158.6	150.8	144.4	139.9	190.2	238.0
Corporations	887.1	698.4	612.2	643.8	737.4	753.0
Deeds (2)	45.2	36.2	30.1	32.2	34.0	38.0
Income	4,286.7	4,465.2(5)	5,045.1(5)	5,337.0	5,374.9	5,714.0
Inheritance and Estate	258.6	276.4	249.5	260.2	267.3	250.0
Insurance (3)	301.6	273.0	267.8	284.8	280.5	291.8
Motor Fuel	306.9	301.9	464.2	541.1	557.2	555.0
Public Utilities	72.2	62.0	59.3	52.9	69.1	75.0
Racing	32.7	31.7	27.5	26.1	15.7	18.0
Room Occupancy	57.9	56.6	56.0	55.9	59.3	59.0
Sales						
Regular	1,445.9	1,370.5	1,392.1	1,443.6	1,548.1	1,693.0
Meals	296.9	295.9	291.7	296.3	303.2	310.0
Motor Vehicles	<u>341.2</u>	<u>290.0</u>	<u>225.6</u>	<u>238.7</u>	<u>272.9</u>	<u>320.0</u>
Sub-Total--Sales	2,084.0	1,956.4	1,909.4	1,978.6	2,124.2	2,323.0
Miscellaneous	<u>24.6</u>	<u>27.6</u>	<u>15.2</u>	<u>7.5</u>	<u>6.6</u>	<u>8.2</u>
Total	<u>8,815.4</u>	<u>8,517.7</u>	<u>8,994.9</u>	<u>9,483.6</u>	<u>9,929.9</u>	<u>10,560.0</u>
Non-Tax Revenues:						
Federal Reimbursements	1,542.0	1,717.5(6)	2,777.1(8)	2,393.5(8)	2,626.7(8)	2,896.6(8)
Departmental and Other Revenues	949.1	1,131.7	1,204.9	1,187.3	1,310.5	1,244.7
Interfund Transfers from Non-budgeted Funds and Other Sources (4)	<u>663.9</u>	<u>641.3</u>	<u>656.6</u>	<u>663.9</u>	<u>793.8</u>	<u>781.6</u>
Budgeted Non-Tax Revenues and Other Sources	<u>3,155.0</u>	<u>3,490.5</u>	<u>4,638.6</u>	<u>4,244.7</u>	<u>4,731.0</u>	<u>4,922.9</u>
Budgeted Revenues and Other Sources	<u>11,970.4</u>	<u>12,008.2</u>	<u>13,633.5</u>	<u>13,728.3</u>	<u>14,660.9</u>	<u>15,482.9</u>
Mass Transit Assessments from Municipalities	120.7	123.9	130.2	130.9	134.3	137.7
Interfund Transfers among Budgeted Funds and Other Sources (4)	<u>217.7</u>	<u>91.1</u>	<u>149.7</u>	<u>366.9</u>	<u>306.8</u>	<u>209.2</u>
Total Revenues and Other Sources	<u>\$12,308.8</u>	<u>\$12,223.2</u>	<u>\$13,913.4</u>	<u>\$14,226.1</u>	<u>\$15,102.0</u>	<u>\$15,829.8</u>

SOURCE: Fiscal 1989-1992, Preliminary (unaudited) Fiscal 1993, Office of the Comptroller. Estimated Fiscal 1994, Executive Office for Administration and Finance.

- (1) As a result of legislation enacted by voter initiative petition, this excise tax was increased effective January 1, 1993. See "State Taxes; Other Taxes."
- (2) At the end of the 1992 legislative session, the Legislature overrode the Governor's veto of legislation that doubled the deeds excise tax. The increased revenues are applied directly to county purposes and are not counted as Commonwealth revenues. See "State Taxes; Other Taxes" and "1993 FISCAL YEAR -- Overview of Fiscal 1993 Budget."
- (3) Includes \$7.0 million in 1989, \$7.6 million in 1990, \$7.2 million in 1991, \$6.6 million in 1992 and \$8.1 million in 1993, respectively, in fees collected by the Division of Insurance relating to high-risk insurance.
- (4) Interfund transfers represent accounting transfers which reallocate resources among funds. Fund deficit support transfers of \$234.8 million for fiscal 1991 have been eliminated to facilitate comparative analysis. Includes transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$59.2 million, \$170.0 million and \$17.8 million in fiscal

1991, 1992 and 1993, respectively. In fiscal 1989, \$120.2 million was transferred from the Stabilization Fund to the General Fund. See "Federal and Other Non-Tax Revenues" below.

- (5) Excludes \$444.5 million collected in fiscal 1990 and \$298.3 million collected in fiscal 1991 attributed to the temporary increase in the income tax dedicated to the Commonwealth Liability Reduction Fund and the Medical Assistance Liability Fund.
- (6) Excludes \$244 million of revenues attributable to federal reimbursements for expenditures from the Medical Assistance Liability Fund; such revenues were dedicated to such fund.
- (7) Includes the impact of tax law changes under Chapters 121 and 151 of the Acts of 1990. The total fiscal 1991 impact of the changes is an estimated increase in tax revenues in the amount of \$1.020 billion, while the fiscal 1992 and 1993 impacts of the changes are estimated at \$1.329 billion and \$1.318 billion, respectively.
- (8) Includes \$513 million for fiscal 1991, \$163.6 million for fiscal 1992, \$224.8 million for fiscal 1993 and an estimated \$219 million in fiscal 1994 in federal reimbursements resulting from claims for reimbursement of certain uncompensated care for Massachusetts hospitals. See "FINANCIAL RESULTS -- Fiscal Years 1988 Through 1992" and "1993 FISCAL YEAR".
- (9) Reflects settlement of certain litigation, see "State Taxes; Business Corporations Tax".

See "Commonwealth Information Statement" under the heading "COMMONWEALTH REVENUES" on page A-21.

Commonwealth Expenditures

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

Commonwealth Expenditures - Budgeted Operating Funds (in millions)

Expenditure Category	Fiscal 1989	Fiscal 1990	Fiscal 1991	Fiscal 1992	Preliminary (unaudited) Fiscal 1993	Estimated Fiscal 1994
Direct Local Aid (1)	\$2,960.9	\$2,936.9	\$2,608.3	\$2,358.9	\$2,552.0	2,739.4
Medicaid	1,833.5	2,120.6(2)	2,765.3(3)	2,817.7(4)	3,151.4(4)	3,274.9(5)
Group Health Insurance	341.4	433.4	446.0	466.1	491.2	506.1
Public Assistance	924.3	1,000.9	1,092.3	1,065.0	1,089.3	1,118.9
Debt Service (6)	649.8	770.9	942.3	898.3	1,138.6	1,226.0
Pensions	659.7	671.9	703.9	751.5	868.6	931.0
Higher Education	743.4	701.9	608.6	534.0	545.9(7)	668.6(8)
MBTA and RTA's	309.5	354.5	406.1	449.6	497.6	525.1
Other Program Expenditures	4,189.1	4,222.0	4,017.9(9)	4,066.1(9)	4,374.5	4,510.2
Interfund Transfers to Non-budgeted Funds(10)	<u>31.3</u>	<u>46.7</u>	<u>64.0</u>	<u>8.8</u>	<u>3.1</u>	<u>0.0</u>
Budgeted Expenditures and Other Uses	<u>12,642.9</u>	<u>13,259.7</u>	<u>13,654.7(8)</u>	<u>13,416.0(8)</u>	<u>14,712.2</u>	<u>15,500.2(11)</u>
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	120.7	123.9	130.2	130.9	134.3	137.7
Interfund Transfers among Budgeted Funds and Other Uses(10)	<u>217.7</u>	<u>91.1</u>	<u>149.7</u>	<u>366.9</u>	<u>306.8</u>	<u>209.2</u>
Total Expenditures and Other Uses	<u>\$12,981.3</u>	<u>\$13,474.7</u>	<u>\$13,934.6</u>	<u>\$13,913.8</u>	<u>\$15,153.3</u>	<u>\$15,847.1</u>

SOURCE: Fiscal 1989-1992, Preliminary (unaudited) Fiscal 1993, Office of the Comptroller. Estimated Fiscal 1994, Executive Office for Administration and Finance.

- (1) Aid reported to cities, towns and regional school districts by the Department of Revenue on its official communication, the so-called "cherry sheet", excluding certain pension funds, and including \$80.5 million in Commonwealth support to county jails, which is no longer included on the cherry sheet.
- (2) Fiscal 1990 Medicaid expenditures do not include \$488.0 million in retroactive rate adjustments and spending related to services rendered in prior fiscal years which were funded in the non-budgeted Medical Assistance Liability Fund.

- (3) Includes \$194.2 million for retroactive rate settlements, including \$126.0 million raised through Fiscal Recovery Bonds issued in 1991 to resolve the deficit for fiscal year 1990.
- (4) Includes expenditures of \$50.0 million in fiscal 1992 and \$50.0 million in fiscal 1993 for retroactive rate adjustments and settlements.
- (5) Includes \$44.9 million of expenditures previously off-budget and classified as administrative expenses.
- (6) Excludes debt service on notes issued under 1989 tax legislation to fund the fiscal 1989 deficit and certain Medicaid-related expenses. See "FINANCIAL RESULTS--Fiscal Years 1988 Through 1992". Reflects reduction of fiscal 1992 debt service by \$261.0 million as a result of the issuance of refunding bonds during fiscal 1992.
- (7) Reflects the transfer of \$89.4 million in related tuition revenue and spending to an off-budget trust fund. See "Higher Education".
- (8) Reflects the transfer of \$89.4 million in related tuition revenue and spending from an off-budget trust fund to budgeted accounts.
- (9) Fiscal 1991 and fiscal 1992 expenditures have been restated to reflect surpluses in the Intragovernmental Service Fund of \$3.8 million in each year.
- (10) Interfund transfers represent accounting transfers which reallocate resources among funds. Interfund deficit support transfers for fiscal 1991 of \$234.8 million have been eliminated to facilitate comparative analysis. Includes interfund transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$59.2 million, \$170.0 million and \$17.8 million in fiscal 1991, 1992 and 1993, respectively. In fiscal 1989, \$120.2 million was transferred from the Stabilization Fund to the General Fund.
- (11) Does not include supplemental budget recommendations aggregating \$109.4 million already filed with the Legislature.

See "Commonwealth Information Statement" under the heading "COMMONWEALTH PROGRAMS AND SERVICES" on page A-28.

Commonwealth Bond and Note Liabilities

On March 9, 1993, the Commonwealth issued \$899,390,000 of its General Obligation Refunding Bonds, 1993 Series A (the "1993 Series A Refunding Bonds"), the net proceeds of which were used to advance refund \$779.8 million of outstanding Commonwealth general obligation bonds. As a result of the issuance of the 1993 Series A Refunding Bonds, debt service requirements relating to the Commonwealth's general obligation bonds were reduced by approximately \$21.9 million in fiscal 1993 and will be further reduced by approximately \$12.6 million in fiscal 1994 and by an aggregate amount of approximately \$14.6 million in fiscal years 1995 through 2011. On May 19, 1993, the Commonwealth issued \$175,000,000 of its General Obligation Bonds Consolidated Loan of 1993, Series A, the net proceeds of which were used to fund various capital projects of the Commonwealth, and \$592,665,000 of its General Obligation Refunding Bonds, 1993 Series B (the "1993 Series B Refunding Bonds"), the net proceeds of which were used to advance refund \$561.6 million of outstanding Commonwealth general obligation bonds. As a result of the issuance of the 1993 Series B Refunding Bonds, debt service requirements relating to the Commonwealth's general obligation bonds were reduced by approximately \$9.9 million in fiscal 1993, and will be further reduced by approximately \$14.2 million in fiscal 1994 and by an aggregate amount of approximately \$12.2 million in fiscal years 1995 through 2009. On September 2, 1993, the Commonwealth issued \$842,995,000 of its General Obligation Refunding Bonds, 1993 Series C (the "1993 Series C Refunding Bonds"), the net proceeds of which were used to advance refund \$749.9 million of outstanding Commonwealth general obligation bonds. As a result of the issuance of the 1993 Series C Refunding Bonds, debt service requirements relating to the Commonwealth's general obligation bonds were reduced by approximately \$20.9 million in fiscal 1994 and by an aggregate amount of approximately \$28.4 million in fiscal years 1995 through 2011. See "Commonwealth Information Statement" under the headings "FINANCIAL RESULTS - Selected Financial Data - Statutory Basis" on page A-12, "COMMONWEALTH PROGRAMS AND SERVICES -- Debt Service" on page A-33 and "COMMONWEALTH BOND AND NOTE LIABILITIES -- Debt Service Requirements on Commonwealth Bonds" on page A-46.

As of October 19, 1993, the Commonwealth had \$100 million of commercial paper outstanding. On March 29, 1993 the Commonwealth issued \$240 million of its general obligation notes to finance the MBTA's net cost of service. As of October 19, 1993, no other revenue or bond anticipation notes were outstanding. See "Commonwealth Information Statement" under the headings COMMONWEALTH BOND AND NOTE LIABILITIES -- Overview; *Outstanding Bond and Note Liabilities*" on page A-40, "--Overview; *Maturities of Short Term Debt*" on page A-44 and "-- General Obligation Debt; *Commonwealth General Obligation Notes*" on page A-45.

On May 5, 1993, the MBTA established a commercial paper program in order to issue bond anticipation notes for capital purposes. Up to \$200 million of debt under two series of notes may be issued under this program. The notes are general obligations of the MBTA and ninety percent (90%) of the interest thereon is payable from

contract assistance to be provided by the Commonwealth. As of October 19, 1993, \$100 million of commercial paper notes were outstanding under this program. See "Commonwealth Information Statement" under the headings "COMMONWEALTH PROGRAMS AND SERVICES -- MBTA and Regional Transit Authorities" on page A-35 and "COMMONWEALTH BOND AND NOTE LIABILITIES -- Commonwealth Supported Debt; *MBTA*" on page A-48.

On June 28, 1993, the MBTA issued \$508,745,000 of its General Transportation System Bonds, 1993 Series A Refunding, the net proceeds of which are to be used to advance refund approximately \$442.8 million of outstanding MBTA bonds. As a result of the issuance of such bonds, debt service requirements relating to the MBTA's bonds will be reduced by approximately \$15.2 million in fiscal 1994 and by an aggregate amount of approximately \$9.6 million in fiscal years 1995 through 2022. On October 1, 1993, the MBTA issued \$180 million of short term notes in part to refund \$170 million of outstanding notes, which matured on October 1, 1993.

On July 1, 1993, the Massachusetts Convention Center Authority (the "MCCA") issued \$31,480,000 of its Boston Common Parking Garage Bonds, Series 1993A for the purpose of financing certain renovations to the Boston Common Parking Garage, which is owned and operated by the MCCA. All of the principal of and interest on such bonds is payable from contract assistance to be provided by the Commonwealth. See "Commonwealth Information Statement" under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES -- Commonwealth Supported Debt; *Massachusetts Convention Center Authority*" on page A-48.

COMMONWEALTH BOND AND NOTE LIABILITIES

The following table sets forth the Commonwealth bond and note liabilities outstanding as of October 1, 1993.

Commonwealth Bond and Note Liabilities October 1, 1993 (in thousands)

	<u>Long Term</u> (1)	<u>Short Term</u>
COMMONWEALTH DEBT		
General Obligation Debt	\$7,981,788 (2)	\$324,231 (3)
Dedicated Income Tax Debt	1,044,865	--
Special Obligation Debt	<u>103,770</u>	--
Subtotal Commonwealth Debt	<u>9,130,423</u>	<u>324,231</u>
COMMONWEALTH SUPPORTED DEBT		
MBTA	2,015,405 (4)	375,000 (5)
Massachusetts Convention Center Authority	190,899 (6)	--
Massachusetts Government Land Bank	5,725	--
Boston Metropolitan District	54,354	--
Steamship Authority	34,385	2,900
Regional transit authorities	<u>115</u>	<u>68,291</u>
Subtotal Supported Debt	<u>2,300,883</u>	<u>446,191</u>
COMMONWEALTH GUARANTEED DEBT		
Local housing authorities	--	--
Higher education building authorities	241,913	--
Town of Mashpee	<u>600</u>	--
Subtotal Guaranteed Debt	<u>242,513</u>	<u>--</u>
TOTAL COMMONWEALTH BOND AND NOTE LIABILITIES	<u>\$11,673,819</u>	<u>\$770,422</u>

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

- (1) Long term debt includes discount and costs of issuance. Does not include long term capital lease obligations. See "Commonwealth Information Statement" under the headings "COMMONWEALTH BOND AND NOTE LIABILITIES - Indirect Obligations - *Plymouth County Certificates of Participation*" and "OTHER COMMONWEALTH LIABILITIES -- Long Term Capital Leases" on pages A-49 and A-53.
- (2) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from October 1, 1993 through their maturity in the amount of \$382.6 million.
- (3) Represents \$240 million of Commonwealth General Obligation Notes issued on March 29, 1993 for the purpose of financing the MBTA's net cost of service and \$84.231 million of the Commonwealth's "minibonds" (which are redeemable at the request of the holder on one business day's notice and are treated as short term liabilities). As of October 19, 1993, the Commonwealth also had \$100 million of commercial paper outstanding. See "General Obligation Debt; *Commonwealth General Obligation Notes and Minibonds*".
- (4) Includes the effect of \$508,745,000 of the MBTA's general transportation system refunding bonds issued on June 28, 1993 to advance refund approximately \$442.8 million of MBTA bonds. See "RECENT DEVELOPMENTS".
- (5) As of October 19, 1993, the MBTA also had \$100 million of commercial paper outstanding. See "RECENT DEVELOPMENTS".
- (6) The Massachusetts Convention Center Authority issued \$31,480,000 of bonds on July 1, 1993 for the purpose of financing renovations to the Boston Common Parking Garage. See "RECENT DEVELOPMENTS" and "Commonwealth Information Statement" under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES -- Commonwealth Supported Debt; *Massachusetts Convention Center Authority*" on page A-48.

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

OTHER COMMONWEALTH LIABILITIES

An actuarial valuation as of January 1, 1992 has been completed, which shows that as of such date, the total unfunded actuarial liability of the Commonwealth's state employees' and teachers' retirement systems and the Boston teachers' retirement system and of cost-of-living allowances for local systems was approximately \$8.485 billion, which represents a reduction of approximately \$2.383 billion from the January 1, 1990 total unfunded actuarial liability. This reduction is attributable to asset growth, work force reduction and improved data. The January 1, 1992 actuarial valuation will be the basis for the funding schedule to be filed in March, 1994. See "Commonwealth Information Statement" under the heading "OTHER COMMONWEALTH LIABILITIES -- Retirement Systems and Pension Benefits" on page A-50.

LITIGATION

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

Update of Existing Litigation

On October 12, 1993, the case of *Massachusetts Hospital Association v. Rate Setting Commission* was settled with the Hospital Association and most acute hospitals, thereby reducing the Commonwealth's potential liability in the pending case or in related rate appeals to approximately \$20 million. See "Commonwealth Information Statement" under the heading "LITIGATION -- Commonwealth Programs and Services" on page A-55.

On June 15, 1993, the Supreme Judicial Court decided *McDuffy v. Robertson* and *Levy v. Weld* by ruling that the Massachusetts Constitution imposes an enforceable duty on the Commonwealth to provide adequate public education for all children in the Commonwealth and that the Commonwealth is not currently fulfilling this constitutional duty. See "RECENT DEVELOPMENTS" and "Commonwealth Information Statement" under the heading "LITIGATION -- Commonwealth Programs and Services" on page A-55.

On May 25, 1993, the District Court in *Ricci v. Murphy*, entered a final order vacating and replacing all consent decrees and court orders. In their place, the final order requires lifelong provisions for individualized services to class members and contains requirements regarding staffing, maintenance of effort (including funding) and other matters. See "Commonwealth Information Statement" under the heading "LITIGATION -- Commonwealth Programs and Services" on page A-55.

On March 11, 1993, the Supreme Judicial Court ordered that the defendants' motion for summary judgment be granted as to all of the plaintiffs' claims in the *J.S. and D.M.* and *Williams* actions. See "Commonwealth Information Statement" under the heading "LITIGATION -- Commonwealth Programs and Services" on page A-56.

The case of *Jewish Memorial Hospital et al. v. Department of Public Welfare et al.* was argued in the Supreme Judicial Court on May 6, 1993. On August 11, 1993, the Supreme Judicial Court held in favor of the Commonwealth defendants. See "Commonwealth Information Statement" under the heading "LITIGATION-- Commonwealth Programs and Services" on page A-56.

The action in *McNamara v. Dukakis* has been dismissed and the only outstanding issue is the plaintiffs' claim for attorneys' fees. See "Commonwealth Information Statement" under the heading "LITIGATION -- Commonwealth Programs and Services" on page A-56.

In *Avanzato v. Sullivan et al.*, an amended judgment was entered in the state defendants' favor and was not appealed. See "Commonwealth Information Statement" under the heading "LITIGATION -- Commonwealth

Programs and Services" on page A-56.

In *Corriea et al. v. Department of Public Welfare* the Superior Court on remand and after negotiations between the parties entered an Order and Partial Judgment on June 22, 1993, that resulted in substantial changes in the Department's administration of the disability component of the EAEDC program. The parties are still litigating, in the form of cross motions for summary judgment, the issue of whether the Department's disability standards, as revised, comply with the definition of disability contained in the fiscal year 1993 EAEDC line-item. See "Commonwealth Information Statement" under the heading "LITIGATION -- Commonwealth Programs and Services" on page A-56.

The Superior Court denied the plaintiffs' motion for a preliminary injunction in *Massachusetts Hospital Association et al. v. Department of Public Welfare et al.* and the parties have commenced discovery. See "Commonwealth Information Statement" under the heading "LITIGATION -- Commonwealth Programs and Services" on page A-57.

On February 25, 1993, the Appeals Court affirmed the trial court's judgment of dismissal in *Ashburnham v. Commonwealth*. Further appellate review was denied. See "Commonwealth Information Statement" under the heading "LITIGATION -- Environmental Matters" on page A-57. The plaintiffs filed a petition for a writ of certiorari with the United States Supreme Court, which petition was denied on October 4, 1993.

On March 1, 1993, the Supreme Judicial Court affirmed the decision of the Superior Court in *Massachusetts Wholesalers of Malt Beverages v. Commonwealth*. See "Commonwealth Information Statement" under the heading "LITIGATION -- Taxes and Other Revenues" on page A-57.

On May 25, 1993, the Supreme Judicial Court decided *American Trucking Associations, et al. v. Nessen* by striking down, on Commerce Clause grounds, several fees imposed on interstate motor carriers operating in the Commonwealth. The court remanded the case to the Superior Court to determine the appropriate remedy. Refunds will be limited to fees paid on or after November 15, 1988 and may be limited to the discriminatory portion (rather than the entirety) of the fees in question. See "Commonwealth Information Statement" under the heading "LITIGATION -- Taxes and Other Revenues" on page A-57.

In *County of Barnstable et al. v. Commonwealth*, the cases of four of the twelve counties have been dismissed. See "Commonwealth Information Statement" under the heading "LITIGATION -- Other Fiscal Matters" on page A-58.

In *Town of Bourne et al. v. The Governor et al.*, a stipulation of dismissal was filed on August 27, 1993. See "Commonwealth Information Statement" under the heading "LITIGATION -- Other Fiscal Matters" on page A-58.

In *Hayward v. National Information System, Inc.*, the Superior Court denied the Commonwealth's motion for summary judgment on June 30, 1993. No trial date has been set. See "Commonwealth Information Statement" under the heading "LITIGATION--Other Fiscal Matters" on page A-58.

New Litigation

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

Two actions were filed arguing that the remedial plan for the Boston Harbor cleanup project will jeopardize

endangered species and should be halted or further remedial measures should be taken. The District Court has entered judgment for the defendants and the plaintiffs have appealed. *Greenworld Inc. et al. v. Brown et al.* (U.S. District Court C.A. No. 93-10623-MA); *The Bays' Legal Fund v. Browner* (U.S. District Court C.A. No. 93-10883-MA).

On June 23, 1993 the Commonwealth filed an appeal with the Appeals Court from a decision of the Appellate Tax Board which held in favor of a commercial bank on the calculation of amounts owed for bank excise taxes under statutes in effect in 1983 and 1984 when such bank converted from chartered mutual savings bank status to that of a bank corporation of stockholder form. The bank filed an application for direct appellate review by the Supreme Judicial Court, which application has been granted. Potential liability if the bank ultimately prevails on both contested calculation issues could reach approximately \$20 million if applied to similarly situated banks. *South Boston Savings Bank v. Commissioner of Revenue* (Appeals Court No. 93-P-837).

EXHIBIT A - ECONOMIC INFORMATION

Cost of Living

The following table presents information on consumer price trends for the Boston metropolitan area and the United States for the period between 1985 and 1992.

Changes in Consumer Price Index for All Urban Consumers All Items

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

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

See "Commonwealth Information Statement" under the heading "EXHIBIT A - ECONOMIC INFORMATION - OVERVIEW -- Cost of Living" on page Exhibit A-4.

Employment

The table below demonstrates the changes in employment by sector for the period indicated.

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

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

SOURCE: Massachusetts Department of Employment and Training.

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

Nonagricultural employment in August 1993 totaled 2,755,300, as compared to 2,757,100 for July 1993 and 2,766,700 for August 1992. The following table presents changes in nonagricultural employment by sector for August 1992 and August 1993. The most recent data indicates that total nonagricultural employment contracted by 0.4% between August 1992 and August 1993.

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

	August 1992	% of Total	August 1993(1)	% of Total	% Change Between August 1992 and August 1993
Total Nonagricultural Employment	2,766.7	100.0	2,755.4	100.0	(0.4)
Sector					
Construction	77.7	2.8	82.9	3.0	6.7
Manufacturing	458.2	16.6	438.9	15.9	(4.2)
Transportation & Communications	118.1	4.3	116.4	4.2	(1.4)
Wholesale & Retail Trade	643.6	23.3	644.4	23.4	0.1
FIRE	197.0	7.1	193.5	7.0	(1.8)
Services	914.4	33.1	923.6	33.5	1.0
Government	356.5	12.9	354.4	12.9	(0.6)
High Tech Manufacturing	180.5	6.5	165.7	6.0	(8.2)
High Tech Non-Manufacturing	92.1	3.3	92.1	3.3	0.0
Civilian Labor Force (2)	3,118.0		3,145.0		0.9
Unemployed (2)	262.0		220.0		(16.0)
Unemployment Rate (2)	8.4%		7.0%		
Average Weekly Earnings (dollars)					
Manufacturing	\$500.2		\$504.7		0.9

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

- (1) Sum of the parts may not equal totals due to rounding.
(2) Figures are seasonally adjusted.

See "Commonwealth Information Statement" under the heading "EXHIBIT A - ECONOMIC INFORMATION - OVERVIEW -- Employment" on page Exhibit A-4.

Labor Force

In 1992, 67.5% of non-institutional working-age Massachusetts residents were in the labor force. This is 1.2% higher than the equivalent national rate. See "Commonwealth Information Statement" under the heading "EXHIBIT A - ECONOMIC INFORMATION - OVERVIEW -- Labor Force" on page Exhibit A-8.

Unemployment

The Massachusetts unemployment rate in September, 1993 was 7.2%, as compared to 7.0% for August, 1993 and 8.6% for September, 1992. The United States unemployment rate in September, 1993 was 6.7%, as compared to 6.7% for August, 1993 and 7.5% for August, 1992. See "Commonwealth Information Statement" under the heading "EXHIBIT A - ECONOMIC INFORMATION - OVERVIEW -- Unemployment" on page Exhibit A-8.

Unemployment Compensation Trust Fund

As of September 30, 1993, the Massachusetts Unemployment Compensation Trust Fund was in deficit by \$165 million, as compared to \$405 million as of December 31, 1992. The deficit is now expected to be approximately \$143 million by the end of calendar 1993, instead of \$260 million at year-end, as estimated as of April 30, 1993.

The Department of Employment and Training estimates that the additional increases in contributions provided by the 1992 legislation should result in a positive balance in the Unemployment Compensation Trust Fund prior to December 1994 (rather than December 1996 as estimated as of February 26, 1993) and rebuild reserves in the system to over \$1 billion by the end of 1996 (rather than 1998 as estimated as of February 26, 1993). See "Commonwealth Information Statement" under the heading "EXHIBIT A - ECONOMIC INFORMATION - OVERVIEW--Unemployment Compensation Trust Fund" on page Exhibit A-9.

RECENT PERFORMANCE

A comparison of total nonagricultural employment in July 1992 with that in July 1993 indicates a decline of 0.6%. The state's unemployment rate was lower than 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 1991 and the third quarter of 1992, aggregate personal income in Massachusetts increased 3.8%, as compared to 4.5% for the nation as a whole.

Economic Performance by Sector

Services. In August 1993, service sector employment was 923,600, representing 33.5% of total nonagricultural employment. Between August 1992 and August 1993, service sector employment increased 1.0%. An area with relatively high wages, business services employed 15.7% of service sector workers in August 1993. As compared with the nation, Massachusetts has a greater concentration of employment in business services.

Health Services. Health services is the largest component of the service sector in terms of employment. In August 1993, the health services sector numbered 298,600 workers, with 137,000 of those employed by hospitals. This constitutes a 3.8% increase in total health service workers during the preceding year. Hospital employment increased by 2.2% for this period.

Educational Services. According to the Massachusetts Department of Employment and Training, educational services accounted for 114,800 jobs in August 1993, while in the government sector, state and local public education accounted for 123,600 jobs.

Trade. During the mid-1980s the trade sector was an area of strong job growth, boosted by a growing export sector. Trade employment began to decline in 1990 due to weakness in the retail sector. In August 1993, retail and wholesale trade was the second-largest employment sector in Massachusetts, with 644,400 workers. Of this number, about three-quarters were employed in retail trade.

Manufacturing. Between 1991 and 1992, manufacturing employment declined 4.7%, from 485,000 to 462,100. Manufacturing employment stood at 438,900 workers in August 1993. As of August 1993, high technology manufacturing employed 165,700 persons.

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

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

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

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

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

Finance, Insurance and Real Estate. While the Finance, Insurance and Real Estate sector experienced 23.7% growth in employment between 1984 and 1988, there was an 11.7% decrease in employment between 1988 and 1992. The total employment in FIRE was 195,900 in 1992 and 193,500 as of August 1993.

See "Commonwealth Information Statement" under the heading "EXHIBIT A - ECONOMIC INFORMATION - RECENT PERFORMANCE" on page Exhibit A-10.

AVAILABILITY OF OTHER INFORMATION

Questions regarding this October 19, 1993 Supplement 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, Twelfth Floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or C. Christopher Alberti, Director of Debt Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone (617) 727-2040. Questions regarding legal matters relating to this October 19, 1993 Supplement should be directed to Walter J. St. Onge, III, Esq., Palmer & Dodge, One Beacon Street, Boston, Massachusetts 02108, telephone (617) 573-0100.

THE COMMONWEALTH OF MASSACHUSETTS

By */s/ Joseph D. Malone* _____

Joseph D. Malone

Treasurer and Receiver-General

By */s/ Mark E. Robinson* _____

Mark E. Robinson

Secretary for Administration and Finance

October 19, 1993

THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT

FEBRUARY 26, 1993

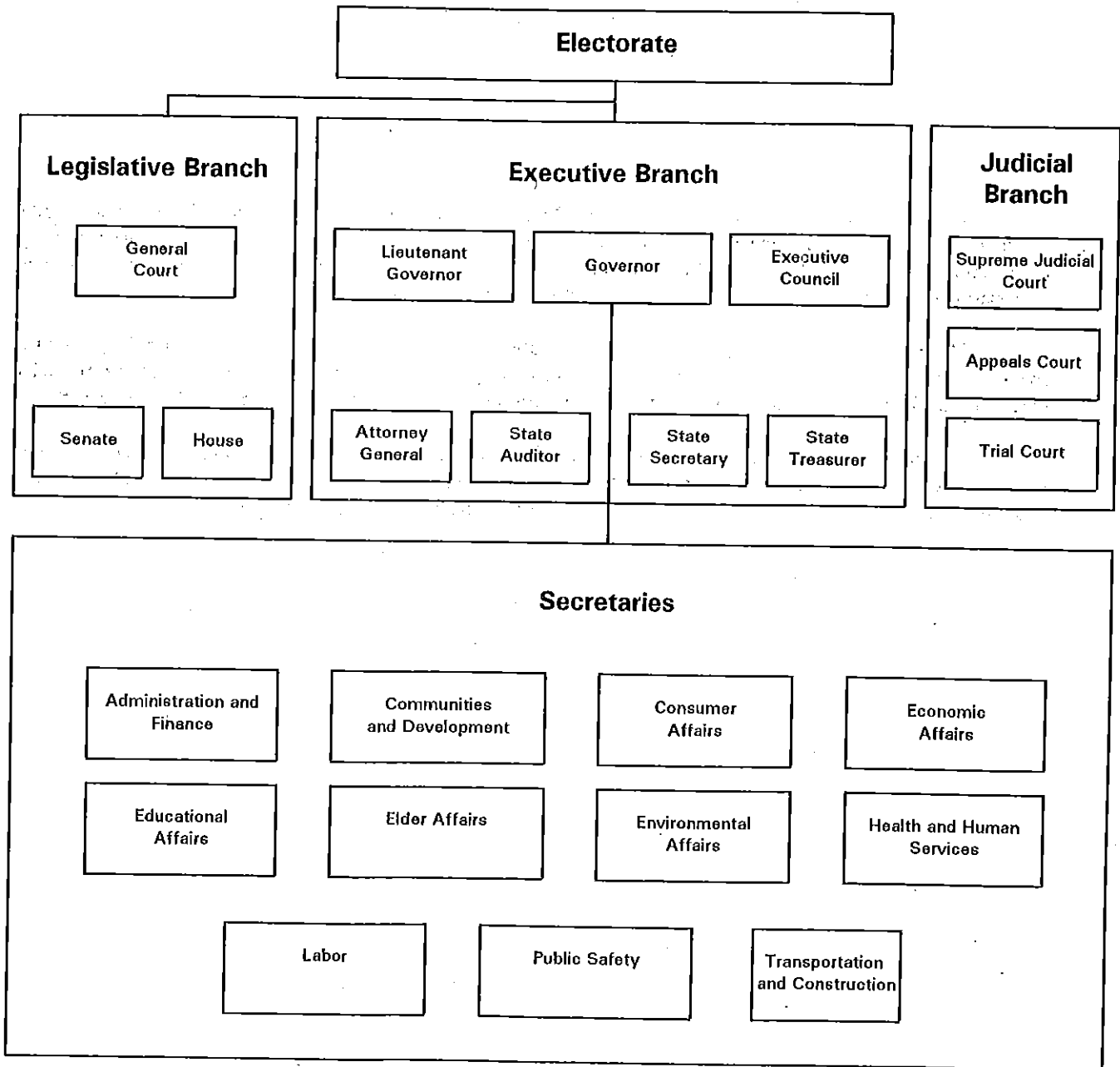
This Information Statement, together with the Exhibits attached hereto, is furnished by The Commonwealth of Massachusetts (the "Commonwealth"). It contains certain fiscal, financial and economic information concerning the Commonwealth and its ability to meet its obligations. The Commonwealth Information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

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

Exhibit A to this Information Statement sets forth certain economic, demographic and statistical information concerning the Commonwealth. Exhibits B and C contain the Commonwealth's 1992 combined financial statements (statutory basis) and 1992 general purpose financial statements (GAAP basis), respectively.

THE GOVERNMENT

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



Executive Branch

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

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

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 77.1% of the Commonwealth's fiscal 1993 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 1993 program expenditures in the budgeted operating funds attributable thereto:

<u>Executive Office</u>	<u>Secretary</u>	<u>Approximate Percentage of Total Expenditures Supervised</u>
Administration and Finance (1)	Peter Nessen(2)	5.2%
Communities and Development	Mary L. Padula	1.2
Consumer Affairs and Business Regulation	Gloria C. Larson	0.2
Economic Affairs	Stephen P. Tocco	0.3
Educational Affairs	Piedad F. Robertson	14.8
Elder Affairs	Franklin P. Ollivierre	0.8
Environmental Affairs	Susan F. Tierney(3)	1.0
Health and Human Services	Charles Baker	43.2
Labor	Christine E. Morris	0.2
Public Safety	Thomas C. Rapone	4.8
Transportation and Construction	James J. Kerastotes	5.4

SOURCE: Executive Office for Administration and Finance.

- (1) The Secretary for Administration and Finance is also the Commissioner of Administration.
- (2) Secretary Nessen has announced his resignation as Secretary, effective March 1, 1993. Mark Robinson, currently chief of staff to the Governor, has been named to succeed Secretary Nessen.
- (3) Secretary Tierney has announced her resignation as Secretary. A successor has not yet been named.

Approximately 3.1% of the Commonwealth's fiscal 1993 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 balance of fiscal 1993 expenditures, including 5.5% for Commonwealth aid to cities, towns and regional school districts ("Local Aid"), 8.0% for debt service and 5.9% for pension costs. See "COMMONWEALTH PROGRAMS AND SERVICES -- Local Aid", "-- Debt Service" and "-- Pensions".

The Governor's chief fiscal officer is the Secretary for Administration and Finance. The activities of the Executive Office for Administration and Finance fall within five broad categories: (i) administrative and fiscal supervision, including supervision of the implementation of the Commonwealth's budget and monitoring of all

agency expenditures during the fiscal year; (ii) enforcement of the Commonwealth's tax laws and collection of tax revenues through the Department of Revenue for remittance to the State Treasurer; (iii) human resource management, including administration of the state personnel system, civil service system and employee benefit programs, and negotiation of collective bargaining agreements with certain of the Commonwealth's public employee unions; (iv) capital facilities management, including coordinating and overseeing the construction, management and leasing of all state facilities; and (v) administration of general services, including information technology services.

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

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

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

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

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

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

Legislative Branch

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

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

Judicial Branch

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

Independent Authorities and Agencies

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

Local Government

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

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

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

on other revenues, principally Local Aid, to support local programs and services. See "COMMONWEALTH PROGRAMS AND SERVICES -- Local Aid".

Initiative Petitions

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

COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS

Operating Fund Structure

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

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

Overview of Budgetary Process

Generally, funds for the Commonwealth's programs and services must be appropriated by the Legislature. The process of preparing a budget at the administrative level begins early in the fiscal year preceding the fiscal year for which the budget will take effect. The legislative budgetary process begins in January (or, in the case of a newly elected Governor, not later than March) with the Governor's submission to the Legislature of a budget recommendation for the fiscal year commencing in the coming July. The Massachusetts constitution requires that the Governor recommend to the Legislature a budget which contains a statement of all proposed expenditures of the Commonwealth for the fiscal year, including those already authorized by law, and of all taxes, revenues, loans and other means by which such expenditures shall be defrayed. By statute, the Legislature and the Governor must

approve a balanced budget for each fiscal year, and no supplementary appropriation bill may be approved by the Governor if it will result in an unbalanced budget. However, this is a statutory requirement that may be superseded by an appropriation act.

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

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

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

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

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

Cash and Budgetary Controls

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

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

Cash Management Practices of State Treasurer

The State Treasurer's office is responsible for ensuring that all Commonwealth financial obligations are met on a timely basis. The Massachusetts constitution requires that all payments by the Commonwealth (other than debt service) be made in accordance with a warrant approved by the Governor's Council. The Comptroller prepares 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 electronic receipt and disbursement systems.

The State Treasurer is required to prepare and submit quarterly to the House and Senate Committees on Ways and Means official cash-flow projections for the current fiscal year. The projections must include estimated 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 State Treasurer, the Office of the Comptroller, the Department of Revenue and the Executive Office for Administration and Finance.

The State Treasurer's office, in conjunction with the Executive Office for Administration and Finance, 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 that is used by all state agencies and departments except for independent state authorities. MMARS provides a ledger-based system of revenue and expenditure accounts enabling the Comptroller to control obligations and expenditures effectively and to ensure that appropriations are not exceeded during the course of the fiscal year. During fiscal 1992 the Commonwealth added a billing and accounts receivable subsystem to its statewide accounting system in order to automate the billing, collection and management of its non-tax revenues.

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

The Comptroller is responsible for compiling expenditure requests into the weekly warrant for approval 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. These obligations include debt service, which is specifically exempted from the warrant requirement, and Medicaid payments which are mandated by federal law.

In prior fiscal years, when the Commonwealth experienced cash shortfalls, the Comptroller, in consultation with the State Treasurer and the Executive Office for Administration and Finance, developed a procedure for

prioritizing payments based upon state finance law and sound fiscal management practices. Under the current procedure, debt service on the Commonwealth's bonds and notes is given the highest priority among the Commonwealth's various payment obligations.

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

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

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

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

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

Under GAAP, revenues are reported in the period in which they become both measurable and available. Revenues are "available" when they are expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants and reimbursements, local government assessments for operations of the MBTA and reimbursements for the use of materials and services. Tax accruals, which represent the estimated amounts due to the Commonwealth on previous filings, over and under withholdings, estimated payments on income earned and tax refunds and abatements payable, are all recorded as adjustments to statutory basis tax revenues. Expenditures/expenses are recorded in the period in which the related fund liability is incurred. Principal and interest on long-term debt obligations are recorded as fund liabilities when due. Major expenditure accruals are recorded for the cost of Medicaid claims that have been incurred but not paid, net cost of service payments due to the MBTA, claims and judgments and compensated absences such as vacation pay earned by state employees. See "FINANCIAL RESULTS -- Selected Financial Data -- GAAP Basis" and "EXHIBIT C - 1992 General Purpose Financial Statements -- GAAP Basis".

Financial Reports. The Commonwealth's fiscal year ends on June 30 of each year. Throughout the year, the Comptroller prepares monthly interim financial statements, and, in September, following the end of each fiscal year, the Comptroller issues the Preliminary Financial Report. These interim and preliminary financials are prepared on the statutory basis of accounting and are not audited, but they are considered authoritative. In the following January, the Comptroller publishes the Commonwealth's audited annual report. For fiscal 1986 through 1989 this report included audited financial statements on both the statutory basis of accounting and on the GAAP basis. Since fiscal 1990, these financial statements have been issued as two separate financial reports, one utilizing

the statutory basis of accounting (the "Statutory Basis Financial Report") and the Comprehensive Annual Financial Report ("CAFR"), which is on a GAAP basis. The general purpose financial statements from these two reports of the Commonwealth for fiscal 1992 are attached hereto as Exhibits B and C, respectively. For fiscal 1990 through 1992 the independent auditor's opinions were unqualified. Copies of these financial reports are available at the address provided under "CONTINUING DISCLOSURE".

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

The CAFRs for fiscal 1990 and 1991, from which certain information contained in this Information Statement has been derived, were each awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (the "GFOA"). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the basic contents of which conform to program standards. Such report must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The Comptroller believes that the Commonwealth's CAFR for fiscal 1992 continues to conform to Certificate of Achievement program standards, and it has been submitted to the GFOA.

Overview of Capital Spending Process and Controls

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

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

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

The following table, entitled "Summary of Five-Year Capital Spending Plan and Plan of Finance", sets forth capital spending of the Commonwealth, including the MBTA, as well as the sources of funding for such capital spending, including federal aid, for fiscal years 1993 through 1997. Total capital spending for fiscal years 1994 through 1997 to be financed from Commonwealth debt is forecast at \$4.12 billion, which is significantly below legislatively authorized capital spending levels. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- Authorized But Unissued Debt". In addition, the Five-Year Capital Spending Plan also forecasts total MBTA capital

expenditures of \$1.480 billion for fiscal years 1993 through 1997, which spending will be financed through the issuance of bonds by the MBTA (see "COMMONWEALTH BOND AND NOTE LIABILITIES -- Commonwealth Supported Debt; MBTA") and assumes that the projected level of Commonwealth capital spending will leverage additional federal aid of \$5.767 billion for this period. The anticipated levels of federal aid rely on certain assumptions concerning the level of federal participation in the funding of the third harbor tunnel and central artery suppression projects and for state highways and bridge repair.

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

<u>Uses of Funds</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>Total</u>
Information Technology	\$ 24	\$ 26	\$ 13	\$ 10	\$ 11	\$ 84
Infrastructure(2)	139	205	211	213	230	998
Environmental Affairs						
Commonwealth Expenditures(3)	167	133	123	109	66	598
Federal Clean Water Aid(4)	<u>125</u>	<u>81</u>	<u>25</u>	<u>15</u>	<u>0</u>	<u>256</u>
Subtotal	<u>302</u>	<u>214</u>	<u>148</u>	<u>124</u>	<u>66</u>	<u>854</u>
Housing Grants	64	32	27	29	23	175
Transportation						
Commonwealth Expenditures	384	392	334	349	361	1,819
MBTA	224	323	333	259	341	1,480
Federal Highway/MBTA Aid	<u>918</u>	<u>1,110</u>	<u>1,164</u>	<u>1,155</u>	<u>1,164</u>	<u>5,511</u>
Subtotal	<u>1,526</u>	<u>1,825</u>	<u>1,831</u>	<u>1,763</u>	<u>1,866</u>	<u>8,810</u>
Economic Development	--(5)	49(5)	100	100	100	349
Miscellaneous Capital Projects	43	18	13	11	9	94
Total	<u>\$2,097</u>	<u>\$2,368</u>	<u>\$2,343</u>	<u>\$2,249</u>	<u>\$2,305</u>	<u>\$11,364</u>
 <u>Sources of Funds</u>						
Federal Aid	\$1,053	\$1,191	\$1,189	\$1,170	\$1,164	\$5,767
Commonwealth Debt(6)	820	854	821	820	800	4,116
MBTA Bonds	<u>224</u>	<u>323</u>	<u>333</u>	<u>259</u>	<u>341</u>	<u>1,480</u>
Total	<u>\$2,097</u>	<u>\$2,368</u>	<u>\$2,343</u>	<u>\$2,249</u>	<u>\$2,305</u>	<u>\$11,364</u>

SOURCE: Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Includes hospital consolidation, prison construction, courts, higher education and miscellaneous other projects.
- (3) Includes amounts to be paid by the Commonwealth to capitalize the Massachusetts Water Pollution Abatement Trust.
- (4) Represents the federal portion of the capitalization of the Massachusetts Water Pollution Abatement Trust.
- (5) Does not include \$58.0 million in fiscal 1993 and \$67.0 million in fiscal 1994 to be spent on transportation projects related to economic development.
- (6) Includes general obligation bonds and special obligation bonds.

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

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

The Governor is pursuing additional measures to limit the practice of shifting operating agency personnel costs and other operating expenditures to Capital Projects Funds. Implementation of this full-cost budgeting

approach to more precisely relate the effect of capital spending to the operating budget should provide further incentive for agency managers to control capital spending.

Audit Practices of State Auditor

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

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

FINANCIAL RESULTS

As the annual operating budget of the Commonwealth is adopted in accordance with the statutory basis of accounting, public and governmental discourse on the financial affairs of the Commonwealth has traditionally followed the statutory basis. Consequently, the financial information set forth in this document follows the statutory basis, except where otherwise noted. Since fiscal 1990, the Commonwealth has prepared separate audited financial reports on the statutory basis and on a GAAP basis. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Fiscal Control, Accounting and Reporting Practices of the Comptroller; Financial Reports". The fiscal 1992 statutory basis financial statements, as presented in the Statutory Basis Financial Report, are set forth in Exhibit B. The fiscal 1992 GAAP basis financial statements, as presented in the Comprehensive Annual Financial Report, are set forth in Exhibit C.

Selected Financial Data - Statutory Basis

The revenues and expenditures of the budgeted operating funds presented in the following tables are derived from the Commonwealth's audited statutory basis financial statements for fiscal 1988 through 1992 and unaudited estimates for fiscal 1993 prepared by the Executive Office for Administration and Finance as of February 26, 1993. The financial information presented includes all budgeted operating funds of the Commonwealth. When the status of a fund has changed during this period, prior years have been restated to conform to the fiscal 1993 budget.

The Commonwealth currently has 36 budgeted funds. During a fiscal year there are numerous transactions among these budgeted funds, which from the fund accounting perspective create offsetting inflows and outflows.

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

More detailed information with respect to each of fiscal years 1988 through 1993 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 1988	Fiscal 1989	Fiscal 1990	Fiscal 1991	Fiscal 1992	Estimated Fiscal 1993
<u>Beginning Fund Balances</u>						
Reserved or Designated	\$567.7	\$170.3	\$124.9	\$174.5	\$119.8	\$236.2
Stabilization Fund (1)	70.3	112.3	--	--	59.2	230.4
Undesignated	85.1	70.6	(444.2)	(1,278.9)	58.1	82.8
Total	723.1	353.2	(319.3)	(1,104.4)	237.1	549.4
<u>Revenues and Other Sources</u>						
Taxes	8,274.9	8,815.4	8,517.7	8,994.9	9,483.6	9,940.0
Federal Reimbursements (2)	1,493.8	1,542.0	1,717.5	2,777.1	2,393.5	2,649.8
Departmental and Other Revenues	851.0	949.1	1,131.7	1,204.9	1,187.3	1,301.5
Interfund Transfers from Non-budgeted Funds and Other Sources (3)	648.7	663.9	641.3	656.6	663.9	749.4
Budgeted Revenues and Other Sources	11,268.4	11,970.4	12,008.2	13,633.5	13,728.3	14,640.7
Mass Transit Assessments from Municipalities	117.7	120.7	123.9	130.2	130.9	134.2
Interfund Transfers among Budgeted Funds and Other Sources	81.4	217.7	91.1	149.7	366.9	286.3
Total Revenues and Other Sources	11,467.5	12,308.8	12,223.2	13,913.4	14,226.1	15,061.2
<u>Expenditures and Uses</u>						
Programs and Services	10,405.8	11,302.1	11,770.2	11,948.3	11,761.2	12,905.2
Debt Service	563.7	649.8	770.9	942.3	898.3	1,195.1
Pensions	600.2	659.7	671.9	703.9	751.5	875.8
Interfund Transfers to Non-budgeted Funds and Other Uses	68.6	31.3	46.7	64.0	8.8	0.0
Budgeted Expenditures and Other Uses	11,638.3	12,642.9	13,259.7	13,658.5	13,419.8	14,976.1
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	117.7	120.7	123.9	130.2	130.9	134.2
Interfund Transfers among Budgeted Funds and Other Uses	81.4	217.7	91.1	149.7	366.9	286.3
Other Adjustments (4)	--	--	--	(3.8)	(3.8)	(16.0)
Total Expenditures and Other Uses	11,837.4	12,981.3	13,474.7	13,934.6	13,913.8	15,380.6
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(369.9)	(672.5)	(1,251.5)	(21.2)	312.3	(319.4)
Prior Year Deficit Financing	--	--	466.4	1,362.7	--	--
<u>Ending Fund Balances</u>						
Reserved or Designated	170.3	124.9	174.5	119.8	236.2	5.2
Stabilization Fund (1)	112.3	--	--	59.2	230.4	198.0
Undesignated	70.6	(444.2)	(1,278.9)	58.1	82.8	26.8
Total	\$353.2	\$(319.3)	\$(1,104.4)	\$237.1	\$549.4	\$230.0

SOURCE: Fiscal 1988-1992, Office of the Comptroller. Estimated Fiscal 1993, Executive Office for Administration and Finance.

- (1) Stabilization Fund balances are not expendable without subsequent specific legislative authorization.
(2) Includes \$513 million for fiscal 1991, \$163.6 million for fiscal 1992 and an estimated \$212.7 million for fiscal 1993 in federal reimbursements resulting from claims for reimbursement of certain uncompensated care for Massachusetts hospitals. See "Fiscal Years 1988 Through 1992" and "1993 FISCAL YEAR".

- (3) Interfund transfers represent accounting transfers which reallocate resources among funds. Fund deficit support transfers of \$231.0 million and \$234.8 million in fiscal 1988 and 1991, respectively, have been eliminated to facilitate comparative analysis. Includes transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$37.3 million, \$59.2 million and \$170 million in fiscal 1988, 1991 and 1992, respectively. In fiscal 1989, \$120.2 million was transferred from the Stabilization Fund to the General Fund. For fiscal 1993, it is estimated that \$32.4 million will be transferred from the Stabilization Fund to the General Fund. See "COMMONWEALTH REVENUES -- Federal and Other Non-Tax Revenues".
- (4) Primarily represents surpluses in Intragovernmental Service Fund.

Annual budgeted revenues increased by approximately 6.2% in fiscal 1989, increased by 0.3% in fiscal 1990 and increased by approximately 13.5% in fiscal 1991. Annual budgeted revenues increased from fiscal 1991 to fiscal 1992 by approximately 0.7% and are projected to increase by approximately 6.6% in fiscal 1993. Annual budgeted expenditures increased at annual rates of approximately 8.6% in fiscal 1989, 4.9% in fiscal 1990 and 3.0% in fiscal 1991. Annual budgeted expenditures decreased from fiscal 1991 to fiscal 1992 by approximately 1.7% and are estimated to increase by approximately 11.6% in fiscal 1993. Fund balances in the budgeted operating funds declined from opening balances of \$723.1 million in fiscal 1988 to ending balances of negative \$1.104 billion in fiscal 1990. For fiscal 1991, these funds attained positive ending balances of \$237.1 million, of which \$59.2 million was reserved in the Commonwealth's Stabilization Fund pursuant to state finance law. Fiscal 1992 ended with positive fund balances of \$549.4 million, including \$230.4 million in the Stabilization Fund. Fiscal 1993 is estimated to end with a current operating loss of \$319.4 million, and after the application of a portion of the fiscal 1992 ending fund balances, a positive fund balance of \$230.0 million, including \$198.0 million in the Stabilization Fund. See "Fiscal Years 1988 Through 1992" and "1993 FISCAL YEAR".

Selected Financial Data - GAAP Basis

The following table provides financial results on a GAAP basis for fiscal years 1988 through 1992 for all budgeted operating funds of the Commonwealth.

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

	<u>Fiscal 1988</u>	<u>Fiscal 1989</u>	<u>Fiscal 1990</u>	<u>Fiscal 1991</u>	<u>Fiscal 1992</u>
Fund equity (deficit) at beginning of year	\$720.4	\$(51.6)	\$(946.2)	\$(1,895.5)	\$(761.2)
<u>Revenues and Sources</u>					
Taxes	8,032.8	8,685.2	8,259.6	9,131.1	9,471.0
Federal Grants and Reimbursements	1,614.8	1,736.8	1,649.7	2,808.8	2,415.9
Department and Other Revenues	975.9	1,085.1	1,249.0	1,359.1	1,441.1
Interfund Transfers and Other Sources	<u>639.0</u>	<u>804.4</u>	<u>807.0</u>	<u>800.7</u>	<u>817.5</u>
Total	<u>11,262.5</u>	<u>12,311.5</u>	<u>11,965.3</u>	<u>14,099.7</u>	14,145.5
<u>Expenditures and Uses</u>					
Programs and Services	10,312.6	11,160.1	11,193.2	11,892.5	11,348.8
Debt Service	563.7	649.8	770.9	942.3	751.5
Pensions	600.2	662.9	671.9	706.5	898.3
Interfund Transfers and Other Uses (1)	<u>558.0</u>	<u>733.3</u>	<u>745.0</u>	<u>786.8</u>	<u>767.3</u>
Total	<u>12,034.5</u>	<u>13,206.1</u>	<u>13,381.0</u>	<u>14,328.1</u>	<u>13,765.9</u>
Excess (Deficiency) of Revenues and Other Sources over Expenditures and Other Uses	<u>(772.0)</u>	<u>(894.6)</u>	<u>(1,415.7)</u>	<u>(228.4)</u>	<u>379.6</u>
Prior Year Deficit Financing	--	--	466.4	1,362.7	--
Fund Equity (Deficit) at End of Year	<u>\$(51.6)</u>	<u>\$(946.2)</u>	<u>\$(1,895.5)</u>	<u>\$(761.2)</u>	<u>\$(381.6)</u>

SOURCE: Office of the Comptroller.

- (1) Fund deficit support transfers of \$231.0 million and \$234.8 million in fiscal 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 operating funds that is different from that reported on the statutory basis. See "Selected Financial Data - Statutory Basis". Under GAAP, the budgeted operating funds reported a fund deficit at the end of 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 1992, the GAAP fund deficit of \$381.6 million stands in contrast to a positive statutory basis fund balance of \$549.4 million. For a description of the differences between statutory basis and GAAP basis accounting, see "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Fiscal Control, Accounting and Reporting Practices of the Comptroller; *GAAP Basis of Accounting*".

Fiscal Years 1988 Through 1992

1988 Fiscal Year. Budgeted expenditures for fiscal 1988 were approximately \$11.638 billion. Budgeted revenues and other sources for fiscal 1988 were approximately \$11.268 billion. By drawing on fund balances from prior years, the Commonwealth ended fiscal 1988 with a positive fund balance.

1989 Fiscal Year. Budgeted expenditures for fiscal 1989 were approximately \$12.643 billion. Budgeted revenues and other sources for fiscal 1989 were approximately \$11.970 billion. The fiscal 1989 operating loss equalled approximately \$672.5 million. With fund balances from prior years depleted, the Commonwealth ended the fiscal year with fund balances in deficit by \$319.3 million. A related cash deficit as of the end of fiscal 1989 forced the State Treasurer to defer until fiscal 1990 certain fiscal 1989 disbursements, including the payment of approximately \$305.0 million in Local Aid. In order to fund the fiscal 1989 deficit, legislation was enacted in July 1989 providing for certain income tax increases and authorizing a borrowing payable by January 31, 1991 of not

more than \$475.0 million. The Legislature separately authorized certain Medicaid-related borrowings and direct expenditures to pay \$488.0 million for services provided to recipients of the Medicaid program in fiscal years prior to fiscal 1990. See "COMMONWEALTH PROGRAMS AND SERVICES -- Medicaid and Group Health Insurance".

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

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

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

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

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

of the Medicaid reimbursement, with interest, or to have such amount deducted from future reimbursement payments.

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

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

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

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

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

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

1993 FISCAL YEAR

Development of Fiscal 1993 Budget

On January 22, 1992, the Governor submitted his fiscal 1993 budget recommendation of \$13.992 billion. The Governor's budget recommendation was based on a tax revenue estimate of \$9.150 billion, which was approximately \$75.0 million, or 0.8%, less than then-estimated fiscal 1992 tax revenues of \$9.225 billion. This reduction in estimated tax revenues was attributable in part to a 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% would be adopted retroactive to the

same date. The rate reductions were estimated to decrease fiscal 1993 tax revenues by \$210 million and \$140 million, respectively. The fiscal 1993 reduction in estimated tax revenues was also attributable in part to proposed new tax credits which were estimated to reduce tax revenues by approximately \$52.0 million in fiscal 1993. See "COMMONWEALTH REVENUES -- State Taxes".

On May 13, 1992, 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 1993 of \$9.685 billion, an increase of \$460.0 million, or 5.0%, from then-estimated tax revenues for fiscal 1992, and an increase of \$535.0 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 did 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 estimated to be \$192.0 million.

On July 10, 1992, the Legislature passed the fiscal 1993 budget and presented it to the Governor. The budget passed by the Legislature was consistent with the joint revenue estimate, but differed in many significant respects from the Governor's recommended budget. On July 20, 1992 the Governor signed the Legislature's budget, but exercised his authority to veto certain "line-items". In addition, as noted above, the Legislature has enacted and the Governor has signed subsequent supplemental appropriation acts which have the effect of increasing fiscal 1993 spending authority.

On November 17, 1992, the Legislature authorized the partial funding of certain collective bargaining agreements between the Commonwealth and its employees. These agreements, which were originally scheduled to take effect in January 1991, included a three year increase in wage levels for Commonwealth employees of approximately 13.7%. The legislative authorization effectively increases wage levels by 6% during the remainder of fiscal 1993, and by approximately an additional 7% for fiscal 1994. This action increases the Commonwealth's compensation obligations by approximately \$39.8 million for fiscal 1993 and \$173.8 million for fiscal 1994. The Governor vetoed the legislation authorizing such funding due to then current fiscal conditions. However, the veto was overridden by the Legislature and the pay raise was implemented effective December 21, 1992.

Overview of Fiscal 1993 Budget

The fiscal 1993 budget is based on estimated budgeted revenue and other sources of \$14.641 billion (including the current tax revenue estimate of \$9.940 billion). Concurrently with signing the fiscal 1993 budget, the Governor vetoed or reduced approximately \$315.0 million in line-item appropriations. In addition, the Governor vetoed certain legislative riders to the fiscal 1993 budget which affected the ability of the Commonwealth to collect an estimated \$69.0 million of non-tax revenues otherwise available for fiscal 1993. The Legislature has overridden the Governor's veto of approximately \$200.3 million of fiscal 1993 budgetary spending authority. In addition, the Legislature has extended certain fiscal 1992 spending authority to fiscal 1993. These actions will increase fiscal 1993 spending by \$231.0 million. The fiscal 1993 budget, as signed by the Governor and including the additional spending authority noted above, is based upon budgeted expenditures of \$14.976 billion, which is \$1.556 billion or 11.6% higher than fiscal 1992 budgeted expenditures. The fiscal 1993 budget presently anticipates that the difference between estimated revenues and other sources and expenditures and other uses be provided for by application of \$319.4 million of the estimated \$549.4 million beginning fund balance for fiscal 1993 to produce an estimated ending fund balance for fiscal 1993 of approximately \$230.0 million. See "FINANCIAL RESULTS -- Selected Financial Data -- Statutory Basis."

The Executive Office for Administration and Finance estimates that fiscal 1993 Medicaid expenditures will be \$3.100 billion, or 9.8% more than fiscal 1992 expenditures. The fiscal 1993 budget as enacted contains \$3.0 billion in Medicaid spending authority. The Executive Office for Administration and Finance determined in September 1992 that a supplemental appropriation of approximately \$46.0 million would be necessary to satisfy Medicaid obligations in fiscal 1993 and now estimates that an additional supplemental appropriation of approximately \$54.0 million will also be necessary. However, the \$54.0 million increase is expected to be fully funded by reimbursements from the federal government. In fiscal 1992, the administration developed and implemented certain management initiatives to reform the Medicaid system. The fiscal 1993 budget assumes that such initiatives will save the Commonwealth \$100.0 million in fiscal 1993. As fiscal 1993 will be the first full fiscal year such

initiatives will be in effect, there can be no assurance that these initiatives will result in the savings estimated. The failure to achieve these savings could result in further restructuring of the Medicaid program in order to achieve equivalent fiscal 1993 savings. See "COMMONWEALTH PROGRAMS AND SERVICES -- Medicaid and Group Health Insurance".

With regard to revenues, the fiscal 1993 budget depends on certain non-tax revenue sources, the availability of which is subject to certain contingencies. The fiscal 1993 budget assumes continued federal reimbursements related to uncompensated care payments. It is currently expected that the amount of such federal reimbursements in fiscal 1993 will be approximately \$212.7 million.

The fiscal 1993 budget also assumes that the sale of certain assets will generate approximately \$45.0 million in non-tax revenues. There are currently no agreements to sell such assets, and the market for some or all of such assets is unfavorable. The budget also assumes receipt of approximately \$80.0 million from the MWRA under an arrangement which would, among other things, relieve the MWRA of certain comparable future financial commitments to the Commonwealth. The MWRA has entered into an agreement with the Commonwealth to pay this amount to the Commonwealth by the end of fiscal 1993.

Tax revenues for fiscal 1993 are currently estimated to be \$9.940 billion, or approximately \$456.4 million greater than tax revenues for fiscal 1992. This estimate reflects an upward revision from the original fiscal 1993 consensus tax estimate of \$9.685 billion. This revised estimate, which was released on January 27, 1993, is based on tax collections through December 31, 1992. Actual fiscal 1993 tax revenues received through January 31, 1993 exceeded the upper end of the year-to-date range established by the consensus tax estimate by approximately \$60 million and were approximately \$230 million or 4.3% above fiscal 1992 collections through January, 1992. The Secretary for Administration and Finance will monitor fiscal 1993 revenues and prepare revised estimates of revenue available to meet appropriations and other needs in the current fiscal year on a quarterly basis, if in his opinion a change in the estimate is warranted. The Governor and the Secretary for Administration and Finance expect to continue to meet with legislative leaders on a regular basis to monitor budgetary developments through fiscal 1993 and 1994.

As a result of the doubling of the deeds excise tax, the increased revenues from which will be retained by county government, the estimate for fiscal 1993 expenditures has been reduced by approximately \$15.25 million, which represents county expenditures that will now be funded directly from the proceeds of the increased tax.

In September 1992 the Governor submitted legislation proposing various tax and other incentives for businesses to locate or remain in the Commonwealth. The legislation included a phase-out of the capital gains tax and up to \$50 million of indirect loan guarantees. The legislation was not enacted during the 1992 legislative session. However, portions of the legislation were refiled in January 1993, and the Legislature is now considering a different version of the original legislation, including provisions for increasing the investment tax credit for businesses, establishing a fund to assist biotechnology firms and various tax incentives to business.

Cash Flow

In December 1992, in accordance with the requirements of Section 43 of Chapter 133 of the Acts of 1992, the State Treasurer and the Secretary for Administration and Finance submitted to the Senate and House Ways and Means Committees a cash flow projection showing an estimated fiscal 1993 year-end cash position of \$337.2 million. The projection is based on the fiscal 1993 budget as signed by the Governor, and included the spending authority vetoed by the Governor and subsequently overridden by the Legislature as well as approximately \$66.4 million of additional tax revenues as a result of the cigarette tax initiative petition passed in November 1992 (see "COMMONWEALTH REVENUES -- State Taxes; *Other Taxes and Limitations on Tax Revenues*"). The ending balance included in the cash flow forecast and the estimated ending balance for the Commonwealth's operating budget will differ due to timing differences and the effect of certain non-budget items. In addition, events occurring subsequent to the preparation of this cash flow projection may cause the actual cash flow of the Commonwealth to vary from the projected cash flow. The cash flow projection assumes that no more than \$305.0 million of short-term operating borrowings under the commercial paper program will be outstanding at any time during fiscal

1993. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- General Obligation Debt; *Commonwealth General Obligation Notes*".

1994 FISCAL YEAR

Governor's Budget Recommendation

On January 27, 1993, the Governor submitted his fiscal 1994 budget recommendation which called for budgeted expenditures of approximately \$15.208 billion. This recommended spending level is approximately \$232.2 million, or 1.6%, over estimated budgeted expenditures for fiscal 1993 of \$14.976 billion. Proposed budgeted revenues for fiscal 1994 would exceed proposed budgeted expenditures by approximately \$20.5 million. The Governor's recommendation projects a fiscal 1994 ending fund balance of \$250.7 million, of which \$198.8 million will be in the Stabilization Fund. The Governor's budget recommendation is based on a tax revenue estimate of \$10.460 billion, an increase of approximately \$520 million, or approximately 5.2%, as compared to currently estimated fiscal 1993 tax revenues of \$9.940 billion. This increase from fiscal 1993 to fiscal 1994 is based on estimates of real economic growth of approximately 1.75% and inflation of 2.75%, as well as additional fiscal 1994 revenues from the newly increased cigarette tax. The Governor's fiscal 1994 budget submission also proposes tax reductions aggregating \$30 million, including a tax credit for certain college tuition payments and a tax credit for health insurance premiums paid by the elderly. See "COMMONWEALTH REVENUES -- State Taxes".

Under the Governor's budget recommendation, non-tax revenues are estimated to increase to \$4.769 billion in fiscal 1994, approximately \$68.8 million, or 1.4%, over estimated non-tax revenues for fiscal 1993. Such non-tax revenues would include proceeds from the sale of certain state assets (\$51 million), including the state transportation building in Boston. Federal reimbursements are expected to increase by approximately \$152.8 million in fiscal 1994, due mainly to increases in spending for human services programs reimbursable by the federal government. In addition, the Governor's fiscal 1994 budget submission recommends the establishment of new video poker and keno games, which are each estimated to generate additional, net non-tax revenues of \$50 million. The proposed fiscal 1994 budget also recommends a \$37.5 million reduction in certain motor vehicle registry fees.

The Governor's fiscal 1994 budget proposal recommends \$313.8 million in increased spending for certain priority program expansions. The Governor's budget proposal generally maintains current service levels for most other programs but also provides for increased funding to reflect various factors including inflation, increased medical costs, entitlement growth, higher debt service expenditures and salary increases enacted by the Legislature in fiscal 1993. These increases total approximately \$733 million.

The Governor's fiscal 1994 budget proposal also reflects aggregate spending reductions of \$517 million for fiscal 1993 one-time costs, including approximately \$185 million of fiscal 1993 expenditures for local elementary and secondary education. It also reflects additional spending reductions of \$238 million, as compared to fiscal 1993 levels. The Legislature is currently considering comprehensive education reform legislation that addresses elementary and secondary education in the Commonwealth, including the method for financing local education expenditures. If a satisfactory bill is enacted into law, the Governor intends to modify his fiscal 1994 budget proposal to include the \$185 million in fiscal 1993 spending as well as an additional \$175 million for local elementary and secondary education. Other spending changes would be made to maintain a balanced budget. See "COMMONWEALTH PROGRAMS AND SERVICES".

The Governor's fiscal 1994 budget recommendation will now be taken up by the House Ways and Means Committee as the first step of legislative consideration of the fiscal 1994 budget. See "THE GOVERNMENT -- Overview of the Budgetary Process" and "1993 FISCAL YEAR -- Development of Fiscal 1993 Budget".

COMMONWEALTH REVENUES

In order to fund its programs and services, the Commonwealth collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, court revenues, assessments, reimbursements, interest earnings and transfers from its non-budgeted funds. In fiscal 1992, approximately 69.1% of the Commonwealth's annual budgeted revenues were derived from state taxes. In addition, the federal government provided approximately 17.4% of such revenues, with the remaining 13.5% provided from departmental revenues and transfers from non-budgeted funds.

Distribution of Revenues

The following table sets forth the Commonwealth's actual revenues in its budgeted operating funds for fiscal 1988 through 1992 and estimated revenues for fiscal 1993.

Commonwealth Revenues -- Budgeted Operating Funds
(in millions)

	Fiscal <u>1988</u>	Fiscal <u>1989</u>	Fiscal <u>1990</u>	Fiscal <u>1991(7)</u>	Fiscal <u>1992(7)</u>	Estimated Fiscal <u>1993(7)</u>
Tax Revenues:						
Alcoholic Beverages	\$ 78.0	\$ 75.8	\$ 70.8	\$ 66.2	\$ 63.5	\$ 61.0
Banks						
Commercial	111.0	125.2	64.5	27.4	17.6(9)	95.0
Savings	108.1	98.3	46.2	20.6	42.5	63.0
Cigarettes (1)	168.5	158.6	150.8	144.4	139.9	205.2
Corporations	771.8	887.1	698.4	612.2	643.8	640.0
Deeds (2)	55.8	45.2	36.2	30.1	32.2	34.0
Income	3,984.7	4,286.7	4,465.2(5)	5,045.1(5)	5,337.0	5,408.6
Inheritance and Estate	254.7	258.6	276.4	249.5	260.2	275.0
Insurance (3)	248.0	301.6	273.0	267.8	284.8	290.9
Motor Fuel	305.5	306.9	301.9	464.2	541.1	545.0
Public Utilities	74.0	72.2	62.0	59.3	52.9	59.0
Racing	33.3	32.7	31.7	27.5	26.1	25.9
Room Occupancy	50.2	57.9	56.6	56.0	55.9	58.0
Sales						
Regular	1,357.7	1,445.9	1,370.5	1,392.1	1,443.6	1,551.2
Meals	287.8	296.9	295.9	291.7	296.3	315.0
Motor Vehicles	<u>375.6</u>	<u>341.2</u>	<u>290.0</u>	<u>225.6</u>	<u>238.7</u>	<u>305.0</u>
Sub-Total--Sales	2,021.1	2,084.0	1,956.4	1,909.4	1,978.6	2,171.2
Miscellaneous	<u>10.2</u>	<u>24.6</u>	<u>27.6</u>	<u>15.2</u>	<u>7.5</u>	<u>8.2</u>
Total	<u>8,274.9</u>	<u>8,815.4</u>	<u>8,517.7</u>	<u>8,994.9</u>	<u>9,483.6</u>	<u>9,940.0</u>
Non-Tax Revenues:						
Federal Reimbursements	1,493.8	1,542.0	1,717.5(6)	2,777.1(8)	2,393.5(8)	2,649.8(8)
Departmental and Other Revenues	851.0	949.1	1,131.7	1,204.9	1,187.3	1,301.5
Interfund Transfers from Non-budgeted Funds and Other Sources (4)	<u>648.7</u>	<u>663.9</u>	<u>641.3</u>	<u>656.6</u>	<u>663.9</u>	<u>749.4</u>
Budgeted Non-Tax Revenues and Other Sources	<u>2,993.5</u>	<u>3,155.0</u>	<u>3,490.5</u>	<u>4,638.6</u>	<u>4,244.7</u>	<u>4,700.7</u>
Budgeted Revenues and Other Sources	<u>11,268.4</u>	<u>11,970.4</u>	<u>12,008.2</u>	<u>13,633.5</u>	<u>13,728.3</u>	<u>14,640.7</u>
Mass Transit Assessments from Municipalities	117.7	120.7	123.9	130.2	130.9	134.2
Interfund Transfers among Budgeted Funds and Other Sources (4)	<u>81.4</u>	<u>217.7</u>	<u>91.1</u>	<u>149.7</u>	<u>366.9</u>	<u>286.3</u>
Total Revenues and Other Sources	<u>\$11,467.5</u>	<u>\$12,308.8</u>	<u>\$12,223.2</u>	<u>\$13,913.4</u>	<u>\$14,226.1</u>	<u>\$15,061.2</u>

SOURCE: Fiscal 1988-1992, Office of the Comptroller. Estimated Fiscal 1993, Executive Office for Administration and Finance.

- (1) As a result of legislation enacted by voter initiative petition, this excise tax was increased effective January 1, 1993. See "State Taxes; Other Taxes."
- (2) At the end of the 1992 legislative session, the Legislature overrode the Governor's veto of legislation that doubled the deeds excise tax. The increased revenues are applied directly to county purposes and are not counted as Commonwealth revenues. See "State Taxes; Other Taxes" and "1993 FISCAL YEAR -- Overview of Fiscal 1993 Budget."
- (3) Includes \$6.8 million in 1988, \$7.0 million in 1989, \$7.6 million in 1990, \$7.2 million in 1991, \$6.6 million in 1992 and an estimated \$6.9 million in 1993, respectively, in fees collected by the Division of Insurance relating to high-risk insurance.
- (4) Interfund transfers represent accounting transfers which reallocate resources among funds. Fund deficit support transfers of \$231.0 million and \$234.8 million for fiscal 1988 and 1991, respectively, have been eliminated to facilitate comparative analysis. Includes transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$37.3 million, \$59.2 million and \$170.0 million in fiscal 1988, 1991 and 1992, respectively. In fiscal 1989, \$120.2 million was transferred from

- the Stabilization Fund to the General Fund. For fiscal 1993, it is estimated that \$32.4 million will be transferred from the Stabilization Fund to the General Fund. See "Federal and Other Non-Tax Revenues" below.
- (5) Excludes \$444.5 million collected in fiscal 1990 and \$298.3 million collected in fiscal 1991 attributed to the temporary increase in the income tax dedicated to the Commonwealth Liability Reduction Fund and the Medical Assistance Liability Fund.
 - (6) Excludes \$244 million of revenues attributable to federal reimbursements for expenditures from the Medical Assistance Liability Fund; such revenues were dedicated to such fund.
 - (7) Includes the impact of tax law changes under Chapters 121 and 151 of the Acts of 1990. The total fiscal 1991 impact of the changes is an estimated increase in tax revenues in the amount of \$1.020 billion, while the fiscal 1992 and 1993 impacts of the changes are estimated at \$1.329 billion and \$1.318 billion, respectively.
 - (8) Includes \$513 million for fiscal 1991, \$163.6 million for fiscal 1992 and an estimated \$212.7 million for fiscal 1993 in federal reimbursements resulting from claims for reimbursement of certain uncompensated care for Massachusetts hospitals. See "FINANCIAL RESULTS -- Fiscal Years 1988 Through 1992" and "1993 FISCAL YEAR".
 - (9) Reflects settlement of certain litigation, see "State Taxes; *Business Corporations Tax*".

State Taxes

The major components of state taxes are the income tax, which accounts for 54.4% of total projected tax revenues in fiscal 1993, the sales and use tax, which accounts for 21.8%, and the business corporations tax, which accounts for 6.4%. Other tax and excise sources account for the remaining 17.4% of total tax revenues.

Income Tax. The Commonwealth assesses personal income taxes at flat rates, according to classes of income, after specified deductions and exemptions. 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 effectively raising the tax rate for tax year 1989 to 5.375% and for tax year 1990 to 5.75%. Under the legislation, the additional revenues resulting from the tax were to be credited to two non-budgeted funds established pursuant to the legislation (the Commonwealth Liability Reduction Fund and the Medical Assistance Liability Fund) and all such revenues, and the investment earnings thereon, were impressed with a trust to pay the fiscal 1989 deficit and Medicaid-related borrowings (all of which have been retired). See "FINANCIAL RESULTS -- Fiscal Years 1988 Through 1992". The additional income tax enacted in 1989 is estimated 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 estimated to have had a positive impact on fiscal 1991 and 1992 income tax revenues of \$700.0 million and \$894.0 million, respectively. These increases are estimated to have a positive impact on fiscal 1993 income tax revenues of \$865.0 million. Under Chapter 151 of the Acts of 1990 up to 15% of state income tax revenue is pledged to the payment of debt service on approximately \$1.244 billion of outstanding Fiscal Recovery Bonds issued pursuant to Chapter 151. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- General Obligation Debt; *Dedicated Income Tax Debt*".

Revenues from state income taxes were \$3.985 billion in fiscal 1988. 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 were

\$5.337 billion, which represents an increase from fiscal 1991 of approximately 5.8%. The fiscal 1993 budget relies on income tax revenues of \$5.409 billion, an increase of 1.3% from fiscal 1992.

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, the first full year impact of the change.

Annual sales and use tax revenues increased from \$2.021 billion in fiscal 1988 to \$2.084 billion in fiscal 1989. They then declined to \$1.956 billion in fiscal 1990 and \$1.909 billion for fiscal 1991. Sales and use tax revenues increased to \$1.979 billion in fiscal 1992 and are estimated at \$2.171 billion in fiscal 1993.

Business Corporations Tax. Business corporations doing business in the Commonwealth, other than banks, trust companies, insurance companies, railroads, public utilities and safe deposit companies, are subject to an excise that has a property measure and an income measure. The value of Massachusetts tangible property (not taxed locally) or net worth allocated to the Commonwealth is taxed at \$2.60 per \$1,000 of value. The net income allocated to Massachusetts, which is based on gross income for federal taxes, is taxed at 9.5%. The minimum tax is \$456. Both rates and the minimum tax include a 14% surtax. Annual revenues from the business corporations tax have declined significantly in recent years, from the high of \$887.1 million in fiscal 1989 to \$612.2 million in fiscal 1991. Business corporation tax revenues were \$643.8 million in fiscal 1992, representing an increase of \$31.6 million, or 5.2%, from fiscal 1991. For fiscal 1992, the excise tax on commercial and savings banks yielded \$60.1 million, representing an increase of approximately 25.2% over fiscal 1991. Due to the settlement by the Department of Revenue of a case pending before the Appellate Tax Board, the Commonwealth paid a taxpayer commercial bank \$37.0 million, thus reducing revenues from the commercial and savings bank excise tax in fiscal 1992 from \$97.1 million to \$60.1 million. Fiscal 1993 tax revenues from corporations and banks are estimated to be \$640.0 million and \$158.0 million, respectively.

Other Taxes. Other tax revenues of the Commonwealth are currently projected to total \$1.562 billion in fiscal 1993, an increase of 6.8% over fiscal 1992. 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 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 have been \$175.4 million for fiscal 1991 and \$254.8 million for fiscal 1992, the full year impact of the change. The Commonwealth is authorized to issue special obligation highway bonds secured by a pledge of all or a portion of the Highway Fund, including revenues derived from all or a portion of the motor fuels excise tax. The Commonwealth issued \$103,770,000 of special obligation bonds on June 24, 1992 secured by a pledge of 2 cents of the 21 cent motor fuel excise tax imposed on gasoline. The portion of the motor fuel excise tax currently pledged to the special obligation bonds is estimated to be \$51.9 million in fiscal 1993. The Commonwealth may in the future issue additional special obligation bonds secured by all or additional portions of the motor fuels excise tax. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- Special Obligation Debt".

On November 3, 1992, legislation was enacted by voter initiative petition which imposed, as of January 1, 1993, a new excise tax of 1.25 cents per cigarette (25 cents per pack of 20 cigarettes) and 25% of the wholesale price of smokeless tobacco. Under the legislation, the revenues raised by this excise tax shall be credited to a new Health Protection Fund and expended, subject to appropriation by the Legislature, to pay for health programs and education relating to tobacco use. Total revenues expected to be deposited in the Health Protection Fund are estimated to be \$70.1 million and \$119.0 million in fiscal 1993 and fiscal 1994, respectively. In his fiscal 1994

budget submission, the Governor proposed using these amounts for smoking and other eligible prevention programs in fiscal 1993 and fiscal 1994, in accordance with the terms of the initiative.

In addition, in January 1993, the Legislature overrode the Governor's veto of a 100% increase in the deeds excise tax. The increased revenues from this excise tax, estimated by the Executive Office for Administration and Finance to be approximately \$15.25 million for fiscal 1993, will be retained by county governments and applied to certain county costs. The availability of these revenues will reduce Commonwealth expenditures for county purposes by an equal amount.

Estate Tax Revisions. The fiscal 1993 budget included legislation which gradually phases out the current Massachusetts estate tax and replaces it with a "sponge tax" in 1997. The "sponge tax" is based on the maximum amount of the credit for state taxes allowed for federal estate tax purposes. The estate tax is phased out by means of annual increases in the basic exemption from the current \$200,000 level. The exemption is increased to \$300,000 for 1993, \$400,000 for 1994, \$500,000 for 1995 and \$600,000 for 1996. In addition, the legislation includes a full marital deduction starting July 1, 1994. Currently the marital deduction is limited to 50% of the Massachusetts adjusted gross estate. The static fiscal impact of the phase out of the estate tax is estimated to be \$2.2 million in fiscal 1993, \$24.8 million in fiscal 1994 and \$72.5 million in fiscal 1995.

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. The Department of Revenue employs sophisticated economic modeling techniques and ongoing monitoring of tax revenue receipts and current taxpayer behavior to provide the Secretary with information on tax revenue trends.

In the past several years tax revenue forecasting has been complicated by uncertainty about the national and state economies, federal and state tax law changes and decisions in certain state court cases affecting tax collections. In addition, certain tax revenues are difficult to predict with accuracy because of the variety of direct and indirect economic and non-economic factors affecting receipts. During each of the fiscal years 1988 through 1991, 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; actual tax revenue growth for the year was 2.1%. The June 1988 tax revenue estimate for fiscal 1989 was for 10.9% growth; actual tax revenue growth for the year was 6.5%. In July 1989 the Governor and Legislature approved a budget for fiscal 1990 based on 7% tax revenue growth; actual tax revenues decreased 3.4%. The fiscal 1991 budget was based on projected tax revenue growth of less than 1%, before taking into account revenues expected to be generated by the 1990 tax legislation. Once these additional revenues were added, the projection was for tax revenues of \$9.748 billion in fiscal 1991, reflecting projected growth of 14.4%. However, during the remainder of calendar year 1990, actual receipts lagged projections, resulting in reductions of the fiscal 1991 tax revenue estimates. Fiscal 1991 tax revenues were \$8.995 billion, which represents growth over fiscal 1990 of only 5.6%. See "FINANCIAL RESULTS -- Fiscal Years 1988 Through 1992".

The fiscal 1992 budget initially was based on the joint tax revenue estimate of \$8.292 billion, a 7.8% decrease from fiscal 1991. Actual fiscal 1992 tax revenues were \$9.483 billion, a 5.4% increase over fiscal 1991. See "FINANCIAL RESULTS -- Fiscal Years 1988 Through 1992".

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 and Trust Company estimated tax revenues at \$9.7 billion. On May 7, 1992, the Massachusetts Taxpayers Foundation revised its 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 \$201.4 million, or 2.1%, from tax revenues for fiscal 1992. The fiscal 1993 budget was based upon this tax revenue estimate. The Executive Office for Administration and Finance currently estimates total fiscal 1993 tax revenues to be \$9.940 billion. See "1993 FISCAL YEAR -- Overview of Fiscal 1993 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 Aid to Families with Dependent Children ("AFDC"). The amount of federal reimbursements received by the Commonwealth is determined by the amounts of state expenditures for such programs. Federal reimbursements increased from \$1.494 billion in fiscal 1988 to \$1.718 billion in fiscal 1990, representing an average annual increase of approximately 7.2%. In fiscal 1991, federal reimbursements increased by 61.7% to \$2.777 billion, owing mainly to the \$513.0 million reimbursement of uncompensated care payments. See "FINANCIAL RESULTS -- Fiscal Years 1988 Through 1992". Federal reimbursements in fiscal 1992 decreased by \$383 million to approximately \$2.394 billion, reflecting a decrease of \$349 million in uncompensated care payments. In fiscal 1993, federal reimbursements are estimated to increase to \$2.650 billion as a result of 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 \$851.0 million in fiscal 1988 to \$1.205 billion in fiscal 1991, representing an annual average increase of approximately 12.3%, but decreased 1.5% to \$1.187 billion in fiscal 1992. Annual revenues from these sources are estimated to increase to \$1.302 billion in fiscal 1993.

The projected increase in departmental and other non-tax revenues from fiscal 1992 to fiscal 1993 is the result of certain initiatives, including \$70.0 million resulting from changes in the state's abandoned property law, and \$24.0 million from the acceleration of certain motor vehicle licenses. 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 such projects continue through fiscal 1993.

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 certain motor vehicle license and registration fees. The Commonwealth issued \$103,770,000 special obligation bonds on June 24, 1992 secured by a pledge of 2 cents of the 21-cent motor fuel excise tax imposed on gasoline. The 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 BOND AND NOTE LIABILITIES -- Special Obligation Debt."

Interfund transfers and other sources from non-budgeted funds are estimated to total \$749.4 million in fiscal 1993, an increase of 12.9% compared to fiscal 1992. For the budgeted operating funds, interfund transfers include transfers of profits from the State Lottery and Arts Lottery Funds and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for \$453.5 million, \$541.2 million, \$568.6 million, \$547.6 million, and \$558.0 million in fiscal 1988 through 1992, respectively. The \$85.5 million increase from fiscal 1992 to fiscal 1993 is the result of certain initiatives, including a one-time \$80 million payment from the MWRA related to certain debt service obligations of the authority and \$45 million from the projected sale of Commonwealth assets.

In fiscal 1988 and 1991, special laws authorized transfers among the General, Highway and Local Aid Funds to eliminate certain deficit fund balances. Transfers in respect of such deficits were \$231.0 million and \$234.8 million for fiscal 1988 and 1991, respectively. These fund deficit transfers have been eliminated from the

tables contained in this Information Statement to facilitate comparative analysis. Legislation included within the fiscal 1993 budget prohibits, beginning with fiscal 1992, the transfer of operating funds from the Highway Fund to the General Fund. In September 1992, the Comptroller changed the presentation of interfund transfers between the General Fund and the Stabilization Fund. This action more appropriately reflects the Stabilization Fund as a separate entity on a statutory basis; it had previously been included as part of the General Fund. Transfers to the Stabilization Fund were \$37.3 million, \$59.2 million and \$170.0 million in fiscal 1988, 1991 and 1992, respectively. In fiscal 1989, \$120.2 million was transferred from the Stabilization Fund to the General Fund. For fiscal 1993, it is estimated that \$32.4 million will be transferred from the Stabilization Fund to the General Fund.

Limitations on Tax Revenues

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

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

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

Tax revenues in fiscal 1988 through fiscal 1992 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 1993 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 of each branch of the Legislature. No action has yet been taken on this proposal.

COMMONWEALTH PROGRAMS AND SERVICES

From fiscal 1988 to fiscal 1990 budgeted expenditures of the Commonwealth increased at an average annual rate of approximately 6.7%. Fiscal 1991 budgeted expenditures were \$13.655 billion, or a 3.0% increase over fiscal 1990 budgeted expenditures. For fiscal 1992, budgeted expenditures were \$13.420 billion, representing a decline of 1.7% from the level of budgeted expenditures in fiscal 1991. See "FINANCIAL RESULTS -- Fiscal Years 1988 Through 1992". It is estimated that fiscal 1993 budgeted expenditures will be \$14.976 billion, an increase of 11.6% over fiscal 1992 levels. See "1993 FISCAL YEAR -- Overview of Fiscal 1993 Budget". The Governor's proposed fiscal 1994 budget recommends budgeted expenditures of \$15.208 billion, an increase of 1.6% over estimated fiscal 1993 expenditures. See "1994 FISCAL YEAR".

Commonwealth expenditures since fiscal 1988 largely reflect significant growth in several programs and services provided by the Commonwealth. The following table identifies certain major spending categories of the Commonwealth and sets forth the budgeted expenditures for each fiscal year within each category.

Commonwealth Expenditures - Budgeted Operating Funds (in millions)

Expenditure Category	Fiscal 1988	Fiscal 1989	Fiscal 1990	Fiscal 1991	Fiscal 1992	Estimated Fiscal 1993
Direct Local Aid (1)	\$2,768.9	\$2,960.9	\$2,936.9	\$2,608.3	\$2,358.9	\$2,551.0
Medicaid	1,641.5	1,833.5	2,120.6(2)	2,765.3(3)	2,817.7(4)	3,100.0(4)(5)
Group Health Insurance	281.7	341.4	433.4	446.0	466.1	509.1
Public Assistance	838.2	924.3	1,000.9	1,092.3	1,065.0	1,089.1
Debt Service (6)	563.7	649.8	770.9	942.3	898.3	1,195.1
Pensions	600.2	659.7	671.9	703.9	751.5	873.8
Higher Education	745.8	743.4	701.9	608.6	534.0	547.0(7)
MBTA and RTA's	274.1	309.5	354.5	406.1	449.6	526.8
Other Program Expenditures	3,855.6	4,189.1	4,222.0	4,021.7	4,069.9	4,584.2
Interfund Transfers to Non-budgeted Funds(8)	<u>68.6</u>	<u>31.3</u>	<u>46.7</u>	<u>64.0</u>	<u>8.8</u>	<u>0.0</u>
Budgeted Expenditures and Other Uses	<u>11,638.3</u>	<u>12,642.9</u>	<u>13,259.7</u>	<u>13,658.5</u>	<u>13,419.8</u>	<u>14,976.1</u>
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	117.7	120.7	123.9	130.2	130.9	134.2
Interfund Transfers among Budgeted Funds and Other Uses(8)	<u>81.4</u>	<u>217.7</u>	<u>91.1</u>	<u>149.7</u>	<u>366.9</u>	<u>286.3</u>
Other Adjustments(9)	--	--	--	(3.8)	(3.8)	(16.0)
Total Expenditures and Other Uses	<u>\$11,837.4</u>	<u>\$12,981.3</u>	<u>\$13,474.7</u>	<u>\$13,934.6</u>	<u>\$13,913.8</u>	<u>\$15,380.6</u>

SOURCE: Fiscal 1988-1992, Office of the Comptroller. Estimated fiscal 1993, 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.
- (2) Fiscal 1990 Medicaid expenditures do not include \$488.0 million in retroactive rate adjustments and spending related to services rendered in prior fiscal years which were funded in the non-budgeted Medical Assistance Liability Fund.
- (3) Includes \$194.2 million for retroactive rate settlements, including \$126.0 million raised through Fiscal Recovery Bonds issued in 1991 to resolve the deficit for fiscal year 1990.
- (4) Includes expenditures of \$50.0 million in fiscal 1992 and \$50.0 million in fiscal 1993 for retroactive rate adjustments and settlements.
- (5) Includes \$3.000 billion in budgeted spending authority contained in the fiscal 1993 budget and \$100.0 million in yet to be enacted supplemental appropriations.

- (6) Excludes debt service on notes issued under 1989 tax legislation to fund the fiscal 1989 deficit and certain Medicaid-related expenses. See "FINANCIAL RESULTS--Fiscal Years 1988 Through 1992": Reflects reduction of fiscal 1992 debt service by \$261.0 million as a result of the issuance of refunding bonds during fiscal 1992.
- (7) Reflects the transfer of \$75.0 million in related tuition revenue and spending to an off-budget trust. See "Higher Education".
- (8) Interfund transfers represent accounting transfers which reallocate resources among funds. Interfund deficit support transfers for fiscal 1988 and 1991 of \$231.0 million and \$234.8 million, have been eliminated to facilitate comparative analysis. Includes interfund transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$37.3 million, \$59.2 million and \$170.0 million in fiscal 1988, 1991 and 1992 respectively. In fiscal 1989, \$120.2 million was transferred from the Stabilization Fund to the General Fund. In fiscal 1993, it is estimated that \$32.4 million will be transferred from the Stabilization Fund to the General Fund.
- (9) Primarily represents surpluses in the Intragovernmental Service Fund.

Local Aid

Proposition 2 1/2. In November 1980, voters in the Commonwealth approved a statewide tax limitation initiative petition, commonly known as Proposition 2 1/2, to constrain levels of property taxation and to limit the charges and fees imposed on cities and towns by certain governmental entities, including county governments. Proposition 2 1/2 is not a provision of the state constitution and accordingly is subject to amendment or repeal by the Legislature. Proposition 2 1/2, as amended to date, limits the property taxes that may be levied by any city or town in any fiscal year to the lesser of (i) 2.5% of the full and fair cash valuation of the real estate and personal property therein, and (ii) 2.5% over the previous year's levy limit plus any growth in the tax base from certain new construction and parcel subdivisions. Proposition 2 1/2 also limits any increase in the charges and fees assessed by certain governmental entities, including county governments, on cities and towns to the sum of (i) 2.5% of the total charges and fees imposed in the preceding fiscal year, and (ii) any increase in charges for services customarily provided locally or services obtained by the city or town at its option. The law contains certain override provisions and, in addition, permits debt service on specific bonds and notes and expenditures for identified capital projects to be excluded from the limits by a majority vote at a general or special election. At the time Proposition 2 1/2 was enacted, many cities and towns had property tax levels in excess of the limit and were therefore required to roll back property taxes with a concurrent loss of revenues. Between fiscal 1981 and fiscal 1991, the aggregate property tax levy grew from \$3.347 billion to \$4.775 billion, representing an increase of approximately 42.7%. 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 2 1/2 through statutorily permitted overrides and exclusions. Approximately 227 communities voted on one of the three types of referenda questions (override of levy limit, exclusion of debt service, or exclusion of capital expenditures) for application in fiscal 1991. Of these cities and towns, 138, or 61%, passed at least one question. For fiscal 1992, 116 communities attempted at least one of the three types of referenda questions, with 82 passing at least one. While the number of attempted overrides decreased in fiscal 1992, the rate at which the cities and towns passed referenda questions increased to 70%. Although Proposition 2 1/2 will continue to constrain local property tax revenues, significant capacity exists for overrides in every community. See "*Commonwealth Financial Support for Local Governments*".

Commonwealth Financial Support for Local Governments. During the 1980s, the Commonwealth increased payments to its cities, towns and regional school districts ("Local Aid") to mitigate the impact of Proposition 2 1/2 on local programs and services. In fiscal 1993, approximately 27% of the Commonwealth's budget is estimated to be allocated to Local Aid. Local Aid payments to cities, towns and regional school districts take the form of both direct and indirect assistance. Direct Local Aid consists of general revenue sharing funds and specific program funds sent directly to local governments and regional school districts as reported on the so-called "cherry sheet" prepared by the Department of Revenue, excluding certain pension funds and nonappropriated funds. Generally, the direct Local Aid 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, aid to regional schools and a new program

contained in the fiscal 1993 budget which provides education grants on a per-pupil basis to every city and town. In addition to direct Local Aid, the Commonwealth has provided substantial indirect aid to local governments, including, for example, payments for MBTA assistance and debt service, pensions for teachers, pension cost-of-living allowances for municipal retirees, housing subsidies and the costs of courts and district attorneys that formerly had been paid by the counties.

Direct Local Aid increased from \$2.769 billion to \$2.961 billion from fiscal 1988 to 1989 and declined in the past three fiscal years from \$2.937 billion in fiscal 1990 to \$2.359 billion in fiscal 1992. It is estimated that fiscal 1993 expenditures for direct Local Aid will be \$2.551 billion, which is an increase of approximately 8.1% above the fiscal 1992 level. The additional amount of indirect Local Aid provided over and above direct Local Aid was approximately \$1.265 billion in fiscal 1992. It is estimated that in fiscal 1993 approximately \$1.529 billion of indirect Local Aid will be paid. The Governor's proposed fiscal 1994 budget includes approximately \$2.389 billion and \$1.628 billion of direct Local Aid and indirect Local Aid, respectively.

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

Medicaid and Group Health Insurance

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

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

In fiscal 1992, Medicaid accounted for more than half of the Commonwealth's appropriations for health care. It was the largest item in the Commonwealth's budget and has been one of the fastest growing budget items. During fiscal years 1988, 1989, 1990 and 1991, Medicaid expenditures were \$1.642 billion, \$1.834 billion, \$2.121 billion, and \$2.765 billion (including \$194 million paid in respect of retroactive provider settlements), respectively, representing an average annual increase of 19.0%. See "COMMONWEALTH PROGRAMS AND SERVICES -- Table of Commonwealth Expenditures-Budgeted Operating Funds". Expenditures for fiscal 1992 were \$2.818 billion, an increase of 1.9% over fiscal 1991 expenditures. The Executive Office for Administration and Finance estimates that fiscal 1993 Medicaid expenditures will be approximately \$3.100 billion, an increase of 9.8% over fiscal 1992 expenditures. The Governor's fiscal 1994 budget recommends \$3.228 billion for Medicaid expenditures, an increase of 4.1% over estimated fiscal 1993 expenditures.

Substantial Medicaid expenditures in recent years have been provided through supplemental appropriations because program requirements have consistently exceeded initial appropriations. In addition, substantial amounts have been required to cover retroactive settlement of provider payments. In fiscal 1990, in addition to current expenditures, the Commonwealth financed, through the issuance of notes, payments of \$356.0 million to hospitals and nursing homes for rate settlements dating back as far as 1980 and \$132.0 million for program expenses incurred

n. in fiscal 1989. These payments were made through the Medical Assistance Liability Fund established to fund certain Medicaid liabilities for prior years and were not included in the fiscal 1990 expenditure of \$2.121 billion stated in the preceding paragraph. In fiscal 1991, expenditures of \$194.2 million were made to fund prior year provider settlements. See "FINANCIAL RESULTS -- Fiscal Years 1988 Through 1992". Medicaid expenditures for fiscal 1992 of \$2.818 billion include \$50.0 million for prior year provider settlements. Fiscal 1993 Medicaid appropriations currently total \$3.000 billion and the Executive Office for Administration and Finance is currently assuming additional supplemental appropriations of \$100.0 million, which includes \$46.0 million originally estimated to be necessary in September, 1992 and an additional \$54.0 million now expected to be required. The \$54.0 million increase is expected to be fully funded by additional reimbursements from the federal government. Fiscal 1993 Medicaid expenditures include \$50.0 million for prior year provider settlements.

39 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 \$769.7 million in fiscal 1988 to approximately \$1.39 billion in fiscal 1992. The largest portion of these costs is for nursing home care. The Commonwealth has a significantly larger portion of its elderly population living in nursing homes than the national average. The nursing home population is also very dependent on Medicaid: 65% of all nursing home costs in the Commonwealth are paid by Medicaid as compared to the national average of 43%. The annual cost per beneficiary in a nursing home ranges from \$25,000 to \$30,000. Over 35,000 elderly and disabled citizens will be cared for in nursing homes through Medicaid in fiscal 1992 and 1993. The elderly population in the Commonwealth and the elderly Medicaid caseload both continue to grow. The future burdens of long-term care on Medicaid expenditures are expected to continue to be high.

the the In rly ons 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 1993 is expected to reach 650,000 recipients (approximately 11% of the population of the Commonwealth), as compared to 445,509 recipients in fiscal 1988.

led the with ns. 221 ly, S-- 318 nce ver es, To further stem the considerable annual cost increases in the Medicaid program, the administration has commenced the implementation of a managed care program, which is in addition to major rate control initiatives implemented since fiscal 1991. A waiver of federal regulations granting recipients freedom of choice of provider recently was approved by federal authorities. This waiver enables the program to assign certain recipients to primary care clinicians who will function as gatekeepers to specialty and inpatient care and to enroll recipients in need of mental health or substance abuse services in a capitated managed system of care. Selective contracts with certain service providers will also be executed in an effort to obtain services in a more cost-effective fashion. In addition, nursing home prescreening and community service planning for long-term care will be concentrated in 27 Home Care Corporations to provide a single entry point and coordinated nursing home diversion services for elderly Medicaid recipients. 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 assumed in the fiscal 1993 budget to produce savings of \$100 million. As fiscal 1993 will be the first full fiscal year such initiatives will be in effect, there can be no assurance that these initiatives will result in the savings estimated. The failure to achieve these savings could result in further restructuring of the Medicaid program in order to achieve equivalent fiscal 1993 savings.

ons nts ent tals red *Group Health Insurance.* The Group Insurance Commission provides individual and family health insurance coverage for Commonwealth employees and retirees. Coverage is provided through an indemnity plan, currently administered by the John Hancock Mutual Life Insurance Company, and through 14 health maintenance organizations. The Commonwealth currently pays approximately 90% of the enrollees' costs. For several years group health insurance expenditures were the fastest growing expense item in the Commonwealth's budget. These costs rose at an average annual rate of 16.6% from \$281.7 million in fiscal 1988 to \$446.0 million in fiscal 1991. Group health insurance expenditures in fiscal 1992 were \$466.1 million and are estimated to be \$509.1 million in fiscal 1993, representing an increase of 9.2%. The Governor has proposed fiscal 1994 expenditures of \$474.9 million for group health insurance, a decrease of 6.7% from estimated expenditures for fiscal 1993. The reduced

rate of increase in these expenses in fiscal 1991, 1992 and 1993 is attributable, in part, to rate negotiations with providers, reductions in the state work force, increased management of the Commonwealth's indemnity plan, and changes in benefits and copayments approved by the Group Insurance Commission. The projected decrease in fiscal 1994 reflects several savings proposals, including establishing a preferred provider organization, a managed mental health/substance abuse program and a redesigned indemnity plan for state employees (\$24.2 million projected savings) and increasing the employee health insurance contribution from 10% to 20% (\$47.0 million projected savings).

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.

Public Assistance Program Expenditures
(in millions)

Category of Public Assistance	Fiscal 1988	Fiscal 1989	Fiscal 1990	Fiscal 1991	Fiscal 1992	Estimated Fiscal 1993
AFDC (1)	\$604.6	\$654.0	\$700.3	\$758.1	\$772.2	\$812.0
EAEDC (formerly General Relief) (2)	113.2	131.2	161.9	189.6	131.5	92.4
SSI (3)	<u>120.4</u>	<u>139.1</u>	<u>138.7</u>	<u>144.6</u>	<u>161.3</u>	<u>184.7</u>
Total	<u>\$838.2</u>	<u>\$924.3</u>	<u>\$1,000.9</u>	<u>\$1,092.3</u>	<u>\$1,065.0</u>	<u>\$1,089.1</u>

SOURCE: Fiscal 1988-1992, Office of the Comptroller. Estimated fiscal 1993, Executive Office for Administration and Finance.

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

AFDC is currently 50% funded by federal reimbursements. Increasing caseloads since fiscal 1988, plus legislatively-mandated annual cost-of-living adjustments through fiscal 1989, have caused AFDC expenditures to rise at an average annual rate of approximately 7.8% from \$604.6 million in fiscal 1988 to \$758.1 million in fiscal 1991. AFDC expenditures for fiscal 1992 were \$772.2 million, representing an increase of 1.9% over fiscal 1991. AFDC expenditures for fiscal 1993 are projected to be \$812.0 million, a 5.2% 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 approximately 18.8%, from \$113.2 million in fiscal 1988 to \$189.6 million in fiscal 1991. EAEDC expenditures for fiscal 1992 were \$131.5 million in fiscal 1992, a 30.6% decrease from expenditures for General Relief in fiscal 1991. Fiscal 1993 EAEDC expenditures are projected to be \$92.4 million, a 29.7% decrease from fiscal 1992 expenditures. This projection is based upon current caseload projections which are subject to change during the fiscal year. In addition, certain controls and reforms to the EAEDC program have been challenged in litigation. See "Controls and Reforms" and "LITIGATION". It is estimated that an adverse result in the litigation, policy changes or increased caseloads could increase EAEDC expenditures in fiscal 1993 by approximately \$14.0 million.

SSI payments are funded entirely by the federal government up to \$422 per individual recipient per month and entirely by the Commonwealth above that amount. SSI payment levels in the Commonwealth for aged, disabled and blind individual recipients range from \$548 to \$584 per month. These levels include a Commonwealth

supplement over and above federally approved assistance standards. Expenditures for SSI have risen at an average annual rate of 7.6% from \$120.4 million in fiscal 1988 to \$161.3 million in fiscal 1992. SSI expenditures for fiscal 1993 are projected to be \$184.7 million, an increase of 14.5% from fiscal 1992.

The Governor's proposed fiscal 1994 budget includes expenditures of \$819.7 million, \$105.5 million and \$199.7 million for AFDC, EAEDC and SSI, respectively.

Controls and Reforms. In an attempt to control all human services expenditures, the Department of Public Welfare in recent years has instituted tighter procedures and management controls. Stricter standards have been established to determine eligibility for AFDC Emergency Assistance and EAEDC, including implementation of new disability criteria for EAEDC benefits. Litigation has been instituted challenging the establishment of certain eligibility criteria for EAEDC applicants. On August 17, 1992, the plaintiffs obtained a preliminary injunction against the Commonwealth's establishment of certain new eligibility requirements for EAEDC applicants. However, the Supreme Judicial Court has remanded the case for modification of the injunction to allow the Commonwealth to develop alternative procedures for implementing the EAEDC program. See "LITIGATION". The Department of Public Welfare also has instituted automated systems to redetermine eligibility for benefits and has taken steps to reduce costs of health provider services by increased screening and placement of patients at proper levels of care, encouraging use of generic drugs and expanding audits of Medicaid providers. In addition, the Department of Revenue has improved its collection of child support payments, although actual collections have declined recently due to the lagging economy and rising unemployment.

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

Debt Service

During the 1980s, state financed capital expenditures grew substantially. Capital spending by the Commonwealth in the Capital Projects Funds rose from approximately \$600.0 million in fiscal 1987 to \$971.0 million in fiscal 1989. In November 1988, the Executive Office for Administration and Finance established an administrative limit on state financed capital spending in the Capital Projects Funds of \$925.0 million per fiscal year. Capital expenditures decreased to \$936.0 million, \$847.0 million and \$694.1 million in fiscal 1990, fiscal 1991 and fiscal 1992, respectively. Capital expenditures are projected to increase to \$821.0 million in fiscal 1993 and are expected to be approximately \$854 million in fiscal 1994. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Overview of Capital Spending Process and Controls; *Five-Year Capital Spending Plan*".

The growth of capital expenditures during the 1980s accounts for the significant rise in annual debt service expenditures since fiscal 1988. Payments for debt service on Commonwealth general obligation bonds and notes increased at an average annual rate of approximately 18.7%, from \$563.7 million in fiscal 1988 to \$942.3 million in fiscal 1991. Debt service payments in fiscal 1992 were \$898.3 million, representing a 4.7% decrease from fiscal 1991, which resulted from a \$261.0 million one-time reduction achieved through the issuance of refunding bonds in September and October 1991. Debt service expenditures are projected to be \$1.195 billion for fiscal 1993 and \$1.311 billion for fiscal 1994. The amounts noted represent debt service payments on Commonwealth debt (including the Fiscal Recovery Bonds and the Special Obligation Bonds) but do not include debt service on notes issued to finance the fiscal 1989 deficit and certain Medicaid-related liabilities, which were paid in full from non-budgeted funds. See "FINANCIAL RESULTS -- Fiscal Years 1988 Through 1992". Also excluded are debt service contract assistance payments to the MBTA (\$185.9 million projected in fiscal 1993), the Massachusetts Convention Center Authority (\$6.1 million projected in fiscal 1993) and grants to municipalities under the school

building assistance program to defray a portion of the debt service costs on local school bonds (\$145.4 million projected in fiscal 1993). See "MBTA and Regional Transit Authorities", "COMMONWEALTH BOND AND NOTE LIABILITIES" and "OTHER COMMONWEALTH LIABILITIES".

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

**Debt Service Expenditures
(in millions)**

<u>Fiscal Year</u>	<u>Debt Service (1)</u>	<u>Total Budgeted Expenditures and Other Uses</u>	<u>Percentage</u>
1988	\$563.7	\$11,638.3	4.8%
1989	649.8	12,642.9	5.1
1990	770.9	13,259.7	5.8
1991	863.1	13,658.5	6.3
1992	656.1(2)	13,419.8	4.9
1993 (Estimated)	915.9	14,976.1	6.1

SOURCE: Fiscal 1988-1992, Office of the Comptroller. Estimated Fiscal 1993, Executive Office for Administration and Finance.

- (1) Excludes \$79.0 million in fiscal 1991, \$242.2 million in fiscal 1992 and \$279.2 million in fiscal 1993 in interest and principal payments related to Fiscal Recovery Bonds, which are not included in the calculation of the debt service limit.
- (2) Reflects reduction of debt service by \$261.0 million by issuance of refunding bonds in September and October 1991.

The estimated debt service on the Fiscal Recovery Bonds currently outstanding (a portion of which constitutes variable rate debt) ranges from approximately \$279.2 million in fiscal 1993 through fiscal 1997 and approximately \$130.0 million in fiscal 1998, at which time the entire amount of the Fiscal Recovery Bonds will be paid.

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

Pensions

The Commonwealth is responsible for the payment of pension benefits for state employees and for school teachers throughout the state. The Commonwealth is also responsible for cost of living increases payable to local government retirees. State pension expenditures have risen dramatically as the Commonwealth has appropriated moneys to partially address the unfunded liabilities that had accumulated over several decades of "pay-as-you-go" administration of the pension systems for which it is responsible. For several years during the 1980s, the Commonwealth made substantial direct appropriations to pension reserves, in addition to paying current benefits. In 1988, the Commonwealth adopted a funding schedule under which it is required to fund future pension liabilities currently and to amortize the accumulated unfunded liabilities over 40 years. Total pension expenditures increased at an average annual rate of 5.8% from \$600.2 million in fiscal 1988 to \$751.5 million in 1992. In November 1992, the Legislature overrode the Governor's veto of approximately \$14.9 million of spending authority passed by the Legislature to fund 5% cost of living adjustments for certain Commonwealth, county and municipal retirees for the period January 1, 1992 through June 30, 1992, which spending authority is included within fiscal 1992

pension expenditures. The estimated pension expenditures (inclusive of current benefits and pension reserves) for fiscal 1993 are \$873.8 million, representing an increase of 16.2% over fiscal 1992 expenditures. The Legislature overrode the Governor's veto of \$60.0 million in spending authority passed by the Legislature to fund fiscal 1993 cost of living increases for certain Commonwealth county and municipal retirees. This fiscal 1993 spending authority has been included within estimated fiscal 1993 pension expenditures. Fiscal 1994 pension expenditures are expected to be approximately \$939.0 million. See "OTHER COMMONWEALTH LIABILITIES -- Retirement Systems and Pension Benefits".

Higher Education

Total budgeted expenditures for higher education have declined between fiscal 1988 and fiscal 1992 at an average annual rate of 7.9% from \$745.8 million in fiscal 1988 to \$534.0 million in fiscal 1992. To accommodate these budget reductions, the public higher education system decreased its state-funded payroll by 1,711 full-time equivalent employees between June 1988 and January 1993. Decreases in appropriations have been partially mitigated by increases in tuition and fees in fiscal 1989 through 1992. In fiscal 1992 all but two of the campuses raised tuition by 6%. In addition, tuition increases for nonresident students have brought these tuitions to 100% of cost. Chapter 142 of the Acts of 1991 reorganized the Commonwealth's higher education system by creating a Secretary of Educational Affairs and replacing the Board of Regents with the Higher Education Coordinating Council. In fiscal 1993 an estimated \$547.0 million will be expended from the Commonwealth's budgeted operating funds for higher education. This appropriation does not include all tuition revenues which, under the fiscal 1993 budget, the University of Massachusetts is authorized to retain and expend, and which formerly were paid into the General Fund (approximately \$77.5 million). Taking into account this change to off-budget retention of tuition revenues, higher education funding is projected to increase by approximately \$90.5 million in fiscal 1993. The Governor has proposed higher education expenditures of \$571.1 million in fiscal 1994. This amount does not include \$56.9 million in tuition receipts that will be retained and expended in fiscal 1994 by the state and community colleges.

MBTA and Regional Transit Authorities

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

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

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

MBTA territory after deducting certain contract assistance provided by the Commonwealth. Proposition 2 1/2, as amended, generally limits the increase in such assessments from one year to the next to 2.5% of the prior year's assessment. The Commonwealth pays its transit notes from the proceeds of the assessments and from such contract assistance and, if the foregoing proceeds are insufficient, from other funds of the Commonwealth.

Total expenditures for the purpose of paying costs related to the MBTA and regional transit authorities have risen at an average annual rate of approximately 13.2% for fiscal years 1988 through 1992, from \$274.1 million in fiscal 1988 (of which \$257.2 million relates to the MBTA) to \$449.6 million in fiscal 1992 (of which \$421.2 million relates to the MBTA). Estimated expenditures for this purpose for fiscal 1993 are \$526.8 million (of which \$495.3 million relates to the MBTA), representing an increase of 17.2% over fiscal 1992. The Governor's fiscal 1994 budget recommends \$553.1 million for MBTA and regional transit authority expenditures, of which \$519.6 million relates to the MBTA.

In light of major expansion of service throughout the 1980s, the total MBTA operating budget has risen at an average annual rate of approximately 8.4% for fiscal years 1988 through 1992, from \$535.3 million in fiscal 1988 to \$740.4 million in fiscal 1992. 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%, and an operating budget for fiscal 1994 of \$796.6 million, which represents an increase over fiscal 1993 of approximately 3.1%. The growth in the Commonwealth's share of the MBTA's budget reflects the statutory arrangements by which the MBTA is funded, declining federal assistance and constrained local support as a result of Proposition 2 1/2.

The information set forth above concerning the Commonwealth's total expenditures for the costs of the MBTA is based on the Commonwealth's fiscal year ending June 30. However, under state law, the MBTA continues to report its net cost of service to the Commonwealth on a calendar year basis for reimbursement and assessment purposes. The following table sets forth for the calendar years ended December 31, 1987 through December 31, 1992, 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
1987	\$383.0	\$18.8	\$74.0	\$191.5	\$98.7	\$11.5	\$110.2
1988	427.3	18.7	82.9	224.6	101.1	11.8	112.9
1989	464.3	18.5	96.8	245.4	103.6	12.1	115.7
1990	512.9	18.3	115.7	272.6	106.3	12.3	118.6
1991	575.0	18.2	137.7	307.2(4)	111.9	9.7	121.6
1992(5)	606.0	18.2	155.8	318.3(6)	113.7	11.0	124.7

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 fiscal 1993 budget contains appropriations, together with other prior appropriations, sufficient to provide this amount of additional state assistance.
- (5) Preliminary.

- (6) The Governor's fiscal 1994 budget recommendation contains appropriations, together with other prior appropriations, sufficient to provide this amount of additional state assistance.

Regional Transit Authorities and Steamship Authority. There are 15 regional transit authorities organized in various areas of the state. The Woods Hole, Martha's Vineyard and Nantucket Steamship Authority operates ferry service to Martha's Vineyard and Nantucket. As with the MBTA, the Commonwealth is required under applicable statutory provisions to provide the regional transit authorities and the Steamship Authority with funds sufficient to meet the principal of and interest on their bonds and notes as they mature to the extent that funds sufficient for this purpose are not otherwise available.

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

The regional transit authorities have required aggregate net cost of service payments by the Commonwealth in fiscal 1988, 1989, 1990, 1991 and 1992 of \$17.1 million, \$18.8 million, \$20.6 million, \$23.6 million and \$28.5 million, respectively. Estimated payments for fiscal 1993 are \$31.5 million. Fiscal 1994 payments are expected to be \$33.5 million. The Steamship Authority is currently self supporting, requiring no net cost of service payments or contract assistance.

Other Programs

In addition to those expenditures described above, the Commonwealth also expends substantial amounts on all other programs and services. Spending on other programs and services supported by the Commonwealth's budget increased from \$3.856 billion in fiscal 1988 to \$4.222 billion in fiscal 1990, an average of 4.6% per year. Fiscal 1991 spending on other programs and services decreased to \$4.022 billion, which is \$200.3 million, or 4.7%, less than fiscal 1990. Such expenditures increased by \$48.2 million, or 1.2%, to \$4.070 billion in fiscal 1992. Fiscal 1993 expenditures are estimated to be \$4.584.2 billion, which is \$514.0 million, or 12.6% higher than fiscal 1992. A large share of the projected fiscal 1993 spending in this category (\$1.862 billion) consists of spending on human services programs other than Medicaid and public assistance detailed earlier. This other human services spending for fiscal 1993 includes expenditures for the Departments of Mental Retardation (\$650.6 million), Mental Health (\$494.2 million), Social Services (\$418.7 million) and Public Health (\$298.8 million). The remaining \$2.417 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 (\$376.1 million) and for the Executive Office for Administration and Finance (\$266.7 million), Communities and Development (\$178.8 million), Environmental Affairs (\$144.5 million), Transportation and Construction (\$286.4 million), Public Safety (\$714.9 million) and Elder Affairs (\$121.0 million). The Governor's proposed fiscal 1994 budget recommends budgeted expenditures on other programs and services of \$4.617 billion.

State Work Force

As of January 1, 1993, the Commonwealth has approximately 64,571 full-time equivalent employees ("FTEs") in its standard work force delivering programs and services funded by annual operating budget appropriations and retained revenues. This number does not include 371 seasonal FTEs or 130 members of Board or Commissions. Approximately 55,827 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 1992 approximately \$2.2 billion was expended for salaries for state employees funded through the budget. Between June 1988 and January 1993, the size of the standard work force funded by annual operating budget appropriations was reduced by 15,768 FTE positions, or approximately 19.6%. Between January 1991 and January 1993, the size of the

Commonwealth's standard work force was reduced by approximately 7,007 in executive agencies under the control of the Governor and by approximately 7,623 in the entire state government. The Governor has successfully implemented an aggressive program to reduce the state-wide work force by a net of at least 7,500 FTEs between taking office in January 1991 and the beginning of fiscal 1993 through attrition, layoffs and an early retirement program (which took effect on July 1, 1992).

Full-Time Equivalent Work Force (1)

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

SOURCE: Executive Office for Administration and Finance.

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

In addition to the standard work force funded by annual operating budget appropriations, the Commonwealth has employees whose salaries are paid from various direct federal grants, expendable trust funds, and Capital Projects Funds. Virtually all of these employees work in the executive branch, over half of them in public higher education. Excluding personnel paid from certain higher education trust funds, the number of non-budgeted FTEs has increased from 11,366 in June 1988 to 13,102 in January 1993, an increase of approximately 15.3%. 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 for Administration and Finance, conducts the collective bargaining negotiations with all other employees of the Commonwealth. Such negotiations may cover wages, hours and other terms and conditions of employment, but may not include the levels of pension and group insurance benefits. All labor agreements negotiated by the Office of Employee Relations are subject to approval by the Secretary for Administration and Finance and, once approved, are forwarded to the Legislature for funding approval. Funding of most labor contracts is by means of a supplemental appropriation.

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

Approximately 50,322 executive branch state employees are organized in eleven bargaining units, the employees of the Commonwealth's colleges and universities are organized in 25 bargaining units, and the employees of the judicial branch and the Lottery Commission are organized in six bargaining units. Public employees of the Commonwealth do not have a legal right to strike or otherwise withhold services. Unions representing certain state and metropolitan police are entitled to final and binding arbitration by a joint Labor-Management Committee.

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 Commission and higher education employees.

All but one of the collective bargaining agreements between the Commonwealth and its employees have expired. The last such contract 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 filed lawsuits challenging the Governor's action. In August 1992, the Massachusetts Supreme Judicial Court ruled against the three unions, holding that the Governor's actions were constitutionally permissible. On November 17, 1992, the Legislature authorized the partial funding of certain collective bargaining agreements between the Commonwealth and its employees. These agreements, which were originally scheduled to take effect in January 1991, included a three-year increase in wage levels for Commonwealth employees of approximately 13.7%. The legislative authorization would effectively increase wage levels by 6% during the remainder of fiscal 1993, and by approximately an additional 7% for fiscal 1994. See "1993 FISCAL YEAR -- Development of Fiscal 1993 Budget."

Also, by January 1991, the Commonwealth reached agreements with its three police unions, the Coalition of Public Safety (Unit 5), the State Police Association of Massachusetts (Unit 5a) and the Metropolitan Police

(formerly Unit 5b). These agreements provide for a 5% wage 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. By their terms, these three agreements 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.

On July 1, 1992, the Capitol Police, Metropolitan Police and State Police were consolidated into the Massachusetts Department of State Police. Union members in the consolidated department are represented by the State Police Association of Massachusetts. Contract negotiations are continuing.

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

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

Office of Employee Relations Bargaining Units

Contract Unit	Bargaining Union	Type of Employee	No. of Employees	Expiration Dates
1	National Association of Government Employees	Clerical	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	308	6/30/90
5a	State Police Association of Massachusetts	State Police	1,800	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			<u>50,322</u>	

SOURCE: Office of Employee Relations. Number of employees as of January 30, 1993.

COMMONWEALTH BOND AND NOTE LIABILITIES

Overview

Under its constitution, the Commonwealth may borrow money (a) for defense or in anticipation of receipts from taxes or other sources, any such loan to be paid out of the revenue of the year in which the loan is made, or

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

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

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

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

Outstanding Bond and Note Liabilities. The following table sets forth the Commonwealth bond and note liabilities outstanding on January 1, 1993.

Commonwealth Bond and Note Liabilities

January 1, 1993

(in thousands)

	<u>Long Term(1)</u>	<u>Short Term</u>	
COMMONWEALTH DEBT			
General Obligation Debt	\$7,889,726 (2)	\$338,969 (3)	198
Dedicated Income Tax Debt	1,236,990		198
Special Obligation Debt	<u>103,770</u>		199
Subtotal Commonwealth Debt	<u>9,230,486</u>	<u>338,969</u>	199
COMMONWEALTH SUPPORTED DEBT			
MBTA	1,932,800 (4)	355,000	
Massachusetts Convention Center Authority	163,669		SO
Massachusetts Government Land Bank	5,725		
Boston Metropolitan District	58,112		(1)
Steamship Authority	35,690		(2)
Regional transit authorities	<u>115</u>	<u>64,192</u>	(3)
Subtotal Supported Debt	<u>2,196,111</u>	<u>419,192</u>	
COMMONWEALTH GUARANTEED DEBT			
Local housing authorities			(4)
Higher education building authorities	253,423		(5)
Town of Mashpee	<u>800 (5)</u>		
Subtotal Guaranteed Debt	<u>254,223</u>		
TOTAL COMMONWEALTH BOND AND NOTE LIABILITIES	<u>\$11,680,820</u>	<u>\$758,161</u>	an to

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

- (1) Long term debt includes discount and costs of issuance. Does not include long term capital lease obligations. See "Indirect Obligations - Plymouth County Certificates of Participation" and "OTHER COMMONWEALTH LIABILITIES -- Long Term Capital Leases".
- (2) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from January 1, 1993 through their maturity in the amount of \$437.3 million.
- (3) Represents \$240 million of Commonwealth General Obligation Notes issued for the purpose of financing the MBTA's 1991 calendar year net cost of service which matured on January 28, 1993 and \$98.969 million of the Commonwealth's "minibonds" (which are redeemable at the request of the holder on one business day's notice and are treated as short term liabilities). The Commonwealth intends to issue additional general obligation notes for the purpose of financing the MBTA's 1992 calendar year net cost of service by the end of fiscal 1993. See "General Obligation Debt; Commonwealth General Obligation Notes and Minibonds". As of February 26, 1993, the Commonwealth also had \$220 million of commercial paper outstanding. For a description of the Commonwealth's commercial paper program, see "General Obligation Debt; Commonwealth General Obligation Notes".
- (4) On January 19, 1993, the MBTA issued \$378,675,000 aggregate principal amount of bonds for the purpose of refunding \$323,070,000 of outstanding MBTA bonds.
- (5) On February 1, 1993, the Town of Mashpee made a \$200,000 principal payment with respect to these bonds.

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

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

<u>June 30</u>	<u>General Obligation Bonds (3)</u>	<u>Dedicated Income Tax Debt</u>	<u>Special Obligation Debt</u>	<u>Commonwealth Long Term Debt Subtotal (4)</u>	<u>MBTA Bonds</u>	<u>Other Supported Debt (5)</u>	<u>Total (4)</u>
1988	\$4,252,184	--	--	\$4,252,184	\$968,450	\$297,172	\$5,517,806
1989	5,370,628	--	--	5,370,628	1,113,010	280,992	6,764,630
1990	6,605,040	--	--	6,605,040	1,283,765	263,848	8,152,653
1991	7,164,195	\$1,416,145	--	8,580,340	1,475,480	247,574	10,303,394
1992	7,916,571	1,236,990	\$103,770	9,257,331	1,708,230	257,327	11,222,888

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

- (1) Does not include Commonwealth guaranteed debt. See "Commonwealth Guaranteed Debt".
- (2) Outstanding bond liabilities include discount and costs of issuance.
- (3) Does not include Dedicated Income Tax Debt. Commonwealth general obligation bonds include interest on capital appreciation bonds yet to be accrued from the end of the fiscal year indicated through their maturity in the following approximate amounts: fiscal 1988-\$0; fiscal 1989-\$74.43 million; fiscal 1990-\$175.38 million; fiscal 1991-\$399.64 million; fiscal 1992-\$451.29 million; and projected fiscal 1993-\$437.30 million.
- (4) Totals may not add due to rounding.
- (5) Includes bonds of the MCCA, the Steamship Authority, the Land Bank, and the Boston Metropolitan District. Does not include bonds of regional transit authorities.

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

Long Term Debt Analysis
Commonwealth Debt and Commonwealth Supported Debt

<u>June 30</u>	<u>Amount (1)(2) (in thousands)</u>	<u>Net of CAB Interest Yet to be Accrued (in thousands)</u>	<u>Per Capita (3)</u>	<u>Ratio to Full Value of Real Estate (4)</u>	<u>Ratio to Personal Income (5)</u>
1988	\$ 5,517,806	\$ 5,517,806	\$ 937	2.49	4.48
1989	6,764,630	6,690,200	1,136	1.78	5.09
1990	8,152,653	7,977,273	1,326	2.13	5.87
1991	10,303,394	9,903,754	1,652	2.32	7.21
1992	11,222,888	10,771,598	1,796	2.52	7.69

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

- (1) Includes Commonwealth general obligation bonds, dedicated income tax bonds and Special Obligation Bonds, and bonds of the MBTA, the MCCA, the Steamship Authority, the Land Bank and the Boston Metropolitan District. Does not include bonds of the regional transit authorities. Does not include Commonwealth guaranteed debt. See "Commonwealth Guaranteed Debt".
- (2) Outstanding bond liabilities include discount and costs of issuance. Commonwealth general obligation bonds include interest on capital appreciation bonds yet to be accrued from the end of the fiscal year through their maturity. See "Table of Long Term Bond Liabilities; footnote 3" above.
- (3) Based on United States Census resident population estimates for Massachusetts of 5,890,000 for 1988, 5,891,000 for 1989, 6,016,000 for 1990, 5,996,000 for 1991 and 5,998,000 for 1992.
- (4) Based on Commonwealth Department of Revenue equalized valuation of assessed real estate of \$221.5 billion for 1988, \$374.9 billion for 1989 and 1990 and \$427.6 billion for 1991 and 1992.

(5) Based on United States Department of Commerce, Bureau of Economic Analysis total personal income of \$123.3 billion for 1988, \$131.4 billion for 1989, \$135.9 billion for 1990, \$137.3 billion for 1991 and an estimated \$140.1 billion for 1992.

Maturities of Short Term Debt. The following table sets forth the maturities of the Commonwealth's short term liabilities outstanding as of January 1, 1993.

Maturities of Short Term Liabilities
January 1, 1993
(in thousands)

<u>Month Due</u>	<u>Commonwealth</u>	<u>MBTA</u>	<u>Regional Transit Authorities</u>	<u>Total</u>
Minibonds (1)	\$98,969	\$ -	\$ --	\$98,969
Commercial Paper	220,000	--	--	220,000
(1 to 270 days)(2)				
January 1993	240,000 (3)	--	2,154	242,154
March 1993	--	185,000(4)	1,650	186,650
June 1993	--	--	10,550	10,550
Fiscal 1994	--	170,000	49,838	219,838
Total	<u>\$558,969</u>	<u>\$355,000</u>	<u>\$64,192</u>	<u>\$978,161</u>

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

- (1) Minibonds are redeemable at the option of the holder on one business day's notice and are considered short term obligations. See "General Obligation Debt; *Minibonds*".
- (2) For a description of the Commonwealth commercial paper program, see "General Obligation Debt; *Commonwealth General Obligation Notes*". As of February 26, 1993, the Commonwealth had \$220 million of commercial paper outstanding.
- (3) Matured on January 28, 1993. See "General Obligation Debt; *Commonwealth General Obligation Notes*".
- (4) The MBTA expects to issue \$195,000,000 of its notes on or before March 2, 1993 in part to refund these notes.

General Obligation Debt

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

Dedicated Income Tax Debt. On August 1, 1990, the Governor signed into law Chapter 151 of the Acts of 1990, which provides, among other matters, for the authorization of the Commonwealth Fiscal Recovery Loan Act of 1990 to meet the deficit attributable to fiscal 1990, including certain Medicaid payments for prior service periods. Bonds issued pursuant to Chapter 151 ("Fiscal Recovery Bonds") must be repaid no later than December 31, 1997. The Commonwealth issued Fiscal Recovery Bonds in October and December 1990 in the aggregate principal amount of \$1.416 billion. The Fiscal Recovery Bonds constitute general obligation bonds of the Commonwealth, but are to be repaid from funds deposited in the Commonwealth Fiscal Recovery Fund established by Chapter 151 (the "Fiscal Recovery Fund"), deposits to which are to be held in trust and pledged to pay debt service on the Fiscal Recovery Bonds. Deposits to the Fiscal Recovery Fund are to be made from up to 15% of the Commonwealth's income tax receipts in each year that debt service is payable related to the Fiscal Recovery Bonds. Income tax receipts in excess of the amount needed in any fiscal year for debt service on account of Fiscal Recovery Bonds then outstanding, as certified by the Secretary for Administration and Finance in consultation with the State Treasurer, are paid into the Commonwealth's General Fund. Debt service related to the Fiscal Recovery Bonds in the years 1992 through 1997 will not exceed \$278 million per annum. Fifteen percent of the Commonwealth's income tax receipts for fiscal 1992 amounted to approximately \$800.6 million, while in fiscal 1993 it is estimated to amount to \$811.3 million. The outstanding principal amount of the Fiscal Recovery Bonds is not counted toward the statutory limit on outstanding direct bonds of the Commonwealth (see "Statutory Limit on Direct

Bonds"), and interest on the Fiscal Recovery Bonds is not counted toward the statutory limitation on debt service payments. See "COMMONWEALTH PROGRAMS AND SERVICES -- Debt Service".

Commonwealth General Obligation Notes. The Commonwealth currently issues short term general obligation debt as revenue anticipation notes, bond anticipation notes, and transit notes issued to fund a portion of the Commonwealth's net cost of service for the MBTA. Revenue anticipation notes may be issued by the State Treasurer in any fiscal year in anticipation of the receipts for that year. Revenue anticipation notes must be repaid no later than the close of the fiscal year in which they are issued. Bond anticipation notes may be issued by the State Treasurer in anticipation of the issuance of bonds. The Commonwealth utilizes a commercial paper program to facilitate the issuance of revenue and bond anticipation notes. Under the Commonwealth's commercial paper program, the Commonwealth may issue up to \$700 million of short term general obligation debt under three series of notes; letters of credit are available through September 15, 1994 to secure such commercial paper. The Commonwealth's current cash flow projections indicate that no more than \$305 million of short term operating borrowings is expected to be outstanding under the commercial paper program at any time during fiscal 1993. See "1993 FISCAL YEAR -- Cash Flow". As of January 1, 1993, the Commonwealth had \$220 million of commercial paper outstanding. As of such date, no other revenue or bond anticipation notes were outstanding.

Transit notes issued to fund the net cost of service payments to the MBTA may be issued by the State Treasurer pursuant to Chapter 161A of the General Laws, and may mature in the current or next succeeding fiscal year. The notes are general obligations of the Commonwealth, but are funded, in part, from assessments collected by the Commonwealth from cities and towns in the MBTA's territory. See "COMMONWEALTH PROGRAMS AND SERVICES -- MBTA and Regional Transit Authorities". As of January 1, 1993, the Commonwealth had \$240 million of outstanding transit notes which matured on January 28, 1993. The Commonwealth intends to issue additional transit notes by the end of fiscal 1993 in order to fund calendar 1992 net cost of service payments to the MBTA.

Minibonds. The State Treasurer is authorized by law to sell a portion of the Commonwealth's bonded indebtedness each year (not exceeding \$50 million net proceeds per year) in the form of small denomination bonds, or "minibonds", which are redeemable at the option of the holder on any business day prior to maturity (generally five years). As minibonds are redeemable on one business day's notice, the Comptroller treats minibonds as short term liabilities of the Commonwealth. Such minibonds are sold at a discount with no current interest payments; the redemption value accrues monthly. As of January 1, 1993 the Commonwealth had outstanding \$98.969 million in such minibonds; if all outstanding minibonds were to have been redeemed by the holders thereof on such date, the total redemption cost to the Commonwealth would have been approximately \$137.87 million.

Special Obligation Debt

The Special Obligation Act authorizes the Commonwealth to issue Special Obligation Bonds secured by all or a portion of revenues accounted to the Highway Fund. Revenues which are currently accounted to the Highway Fund are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax. Special Obligation Bonds are not general obligations of the Commonwealth. Chapter 33 of the Acts of 1991 authorizes the Commonwealth to issue Special Obligation Bonds in an aggregate amount not to exceed \$1.125 billion. As of January 1, 1993, the Commonwealth had outstanding \$103.77 million of Special Obligation Bonds secured by a pledge of two cents of the 21-cent motor fuel excise tax imposed on gasoline.

Debt Service Requirements on Commonwealth Bonds

The following table sets forth, as of January 1, 1993, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, including the Fiscal Recovery Bonds, and Special Obligation Bonds.

Debt Service Requirements on Commonwealth Bonds (1)
January 1, 1993
(in thousands)

Fiscal Year	GENERAL OBLIGATION BONDS (2)(3)				SPECIAL OBLIGATION BONDS			Total Debt Service Commonwealth Bonds
	Principal	Interest on CABs at Maturity	Current Interest	Subtotal	Principal	Interest	Subtotal	
1993 (4)	\$324,663	\$ --	\$261,948	\$ 586,611	\$ --	\$3,115	\$3,115	\$ 589,726
1994	608,490	--	505,875	1,114,365	--	6,232	6,232	1,120,597
1995	634,519	--	465,915	1,100,434	--	6,232	6,232	1,106,666
1996	630,116	--	428,527	1,058,643	--	6,232	6,232	1,064,875
1997	653,660	--	385,572	1,039,232	--	6,232	6,232	1,045,464
1998	563,746	8,675	344,357	916,778	4,070	6,232	10,302	927,080
1999	479,813	9,704	316,182	805,699	4,285	6,016	10,301	816,000
2000	469,422	23,586	287,684	780,692	4,525	5,776	10,301	790,993
2001	420,366	61,445	259,834	741,645	4,785	5,514	10,299	751,944
2002	365,948	64,506	235,426	665,880	5,070	5,231	10,301	676,181
2003	354,203	82,082	214,732	651,017	5,370	4,927	10,297	661,314
2004	330,974	88,320	194,167	613,461	5,700	4,600	10,300	623,761
2005	332,401	95,981	173,681	602,063	6,055	4,246	10,301	612,364
2006	385,465	45,481	154,028	584,974	6,430	3,868	10,298	595,272
2007	417,717	14,985	130,541	563,243	6,835	3,466	10,301	573,544
2008	415,712	--	102,663	518,375	7,260	3,039	10,299	528,674
2009	396,603	--	72,987	469,590	7,695	2,603	10,298	479,888
2010	320,799	--	48,000	368,799	8,160	2,141	10,301	379,100
2011 and thereafter	<u>527,335</u>	--	<u>45,588</u>	<u>572,923</u>	<u>27,530</u>	<u>3,368</u>	<u>30,898</u>	<u>603,821</u>
TOTAL	<u>\$8,631,952</u>	<u>\$494,765</u>	<u>\$4,627,707</u>	<u>\$13,754,424</u>	<u>\$103,770</u>	<u>\$89,070</u>	<u>\$192,840</u>	<u>\$13,947,264</u>

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

- (1) Totals may not add due to rounding.
- (2) Includes Fiscal Recovery Bonds. Estimated debt service on the Fiscal Recovery Bonds (a portion of which constitute variable rate debt) will equal approximately \$279.0 million in fiscal 1993 through fiscal 1997 and \$130.0 million in fiscal 1998, at which time the Fiscal Recovery Bonds will be paid.
- (3) Excludes minibonds. Estimated debt service payable on outstanding minibonds (assuming interest is paid at maturity) in fiscal years 1993, 1994 and 1995 is approximately \$22.9 million, \$50.5 million and \$64.5 million, respectively.
- (4) Does not include debt service paid in fiscal 1993 through January 1, 1993, including approximately \$243.2 million of general obligation bond principal, approximately \$269.6 million of general obligation bond interest and approximately \$3.1 million of special obligation bond interest.

Statutory Debt Limit on Direct Bonds

Legislation enacted in December 1989 imposes a limit on the amount of outstanding "direct" bonds of the Commonwealth. The law, which is codified in Section 60A of Chapter 29, set a fiscal 1991 limit of \$6.8 billion, and provides that the limit for each subsequent fiscal year shall be 105% of the previous fiscal year's limit. The measurement of this limit is performed under the statutory basis of accounting which differs from GAAP in that the principal amount of outstanding bonds is measured net of discount and costs of issuance. The law further provides that bonds to be refunded from the proceeds of Commonwealth refunding bonds shall be excluded from outstanding "direct" bonds upon the issuance of the refunding bonds. Chapter 151 of the Acts of 1990 and the Special Obligation Act provide that the Fiscal Recovery Bonds and the Special Obligation Bonds, respectively, shall not be counted in computing the amount of bonds subject to this limit. Pursuant to Chapter 5 of the Acts of 1991, \$287.2 million of the Commonwealth's refunding bonds issued in September and October 1991 are not counted in computing the amount of the bonds subject to this limit. The following table shows the amount of outstanding

"direct" bonds of the Commonwealth, as compared with the appropriate statutory limit, as of the first day of each fiscal year in which the statutory limit has been in effect.

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

<u>Date</u>	<u>Outstanding Direct Bonds</u>	<u>Statutory Limit on Direct Bonds</u>
July 1, 1990	\$6,010,063	\$6,800,000
July 1, 1991	6,653,030	7,140,000
July 1, 1992	6,937,500	7,497,000
January 1, 1993	6,963,130	7,497,000

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

Authorized But Unissued Debt

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

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

<u>Date</u>	<u>Authorized but Unissued General Obligation Debt</u>	<u>Capital Expenditures</u>
June 30, 1988	\$7,361,392	\$651,660
June 30, 1989	6,323,810	970,668
June 30, 1990	5,383,743	936,068
June 30, 1991	4,937,306	847,057
June 30, 1992	6,393,832	694,057(1)

SOURCE: Office of the Comptroller.

(1) Does not include \$159.6 million deposited into the federally assisted highway construction fund to alleviate the fund deficit accumulated therein or \$537.5 million in refunding bond proceeds paid to escrow agents in order to defease refunded debt.

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

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

above) may be issued as Special Obligation Bonds, with the aggregate amount of Special Obligation Bonds not to exceed \$1.125 billion. See "Special Obligation Debt".

Commonwealth Supported Debt

MBTA. The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. Commonwealth support of MBTA bonds and notes includes (1) a Commonwealth guarantee of MBTA debt obligations provided by statutory requirements that the Commonwealth provide the MBTA funds sufficient to meet its obligations, including the principal and interest on MBTA and Boston Metropolitan District bonds and notes as they mature, to the extent that funds sufficient for this purpose are not otherwise available to the MBTA; (2) Commonwealth contract assistance equal to 90% of the debt service on MBTA bonds; and (3) under applicable statutory provisions, the Commonwealth's payment of MBTA's net cost of service (current expenses, including debt service and lease obligations, minus current income). Commonwealth obligations with respect to the MBTA are discussed at "COMMONWEALTH PROGRAMS AND SERVICES -- MBTA and Regional Transit Authorities". As of January 1, 1993, the MBTA had \$1.933 billion of outstanding long term bonds, and \$355.0 million of outstanding short term notes. The MBTA expects to issue \$195 million of short term notes on or before March 2, 1993 in part to refund \$185 million of these outstanding notes. On January 19, 1993, the MBTA issued \$378,675,000 aggregate principal amount of bonds for the purpose of refunding \$323,070,000 of outstanding MBTA bonds. As of January 1, 1993, the Boston Metropolitan District had \$58.1 million of outstanding long term bonds. See "Overview; *Outstanding Bond and Note Liabilities*" and "*Trend of Long Term Bond Liabilities*".

Regional Transit Authorities and Steamship Authority. There are 15 regional transit authorities organized in various areas of the state. The Steamship Authority operates passenger ferries to Martha's Vineyard and Nantucket. Each of these entities issues its own bonds and notes. Commonwealth support of the bonds and notes of the regional transit authorities and the Steamship Authority includes (1) a Commonwealth guarantee pursuant to statutory provisions requiring the Commonwealth to provide each of these entities with funds sufficient to meet the principal of and interest on their bonds and notes as they mature to the extent that funds sufficient for this purpose are not otherwise available to such entity; (2) the Commonwealth's payment, under applicable statutory provisions, of the net cost of service of the regional transit authorities and the Steamship Authority (current expenses, including debt service, minus current income); and (3) with respect to the regional transit authorities, Commonwealth contract assistance to such authorities in amounts equal to 50% of their net cost of service. Commonwealth obligations with respect to the regional transit authorities are discussed at "COMMONWEALTH PROGRAMS AND SERVICES -- MBTA and Regional Transit Authorities". The Steamship Authority is currently self-supporting, requiring no net cost of service or contract assistance payments. As of January 1, 1993, the regional transit authorities had \$115,000 of outstanding long term bonds and \$64.2 million of outstanding short term notes. As of January 1, 1993, the Steamship Authority had \$35.7 million of outstanding long-term bonds. See "Overview; *Outstanding Bond and Note Liabilities*".

Massachusetts Convention Center Authority. The MCCA was created for the purpose of promoting the economic development of the Commonwealth by the development and operation of a major convention center in Boston and is authorized to issue bonds for any of its corporate purposes. Such bonds are fully secured by contract assistance payments by the Commonwealth, which payments are limited by statute to an amount equal to the annual debt service on \$200 million of bonds outstanding at any one time. The assistance contract is a general obligation of the Commonwealth for which its full faith and credit are pledged. As of January 1, 1993, the MCCA had \$163.7 million of outstanding long term bonds on which the Commonwealth will pay approximately \$6.1 million in debt service contract assistance payments in fiscal 1993. See "Overview; *Outstanding Bond and Note Liabilities*".

Massachusetts Government Land Bank. The Land Bank assists in the development of state and federal surplus property for private use, and in the development of substandard, blighted or decadent open areas in the Commonwealth. The Land Bank has direct borrowing power and the Commonwealth is required to provide contract assistance payments for debt service obligations of the Land Bank of up to \$6 million per fiscal year for a period of seven fiscal years, of which two years remain. Like the MCCA assistance contract, the contract with the Land Bank is a general obligation of the Commonwealth for which the full faith and credit of the Commonwealth are

pledged. As of January 1, 1993, the Land Bank had \$5.7 million of outstanding long term bonds. See "Overview; Outstanding Bond and Note Liabilities".

Commonwealth Guaranteed Debt

Local Housing Authorities. Local housing authorities have been created by legislation in each city and town in the Commonwealth and have the power, among other things, to undertake projects to provide housing for persons of low income. Prior to a readjustment of their financing methods effected by Chapter 4 of the Acts of 1976 ("Chapter 4"), such housing authorities financed housing projects by issuing Commonwealth guaranteed bonds and notes. The financing has been taken over by the Commonwealth, which makes grants to housing authorities to pay the costs of housing projects. Housing authorities can no longer make arrangements for the permanent financing of projects by Commonwealth guaranteed borrowing. Chapter 4 and certain bond covenants of the Commonwealth place limitations on the amount and period of guaranteed temporary notes which may be issued by housing authorities to finance planning and construction phases of housing projects. Chapter 4 also provides that no guaranteed notes may be issued unless a contract for grants which may be used to retire such notes is in effect. Housing authorities may issue revenue bonds to finance privately owned housing developments under a program authorized by the Legislature in 1984 (the "TELLER program"), but may not pledge their credit to secure such bonds. As of January 1, 1993, local housing authorities had no outstanding long term bonds guaranteed by the Commonwealth. See "Overview; Outstanding Bond and Note Liabilities".

Higher Education Building Authorities. Four higher education building authorities, created to assist institutions of public higher education in the Commonwealth, may issue bonds which are guaranteed as to their principal and interest by the Commonwealth. The guarantee is a general obligation of the Commonwealth for which its full faith and credit are pledged. In addition to such guarantee, certain revenues of these authorities, including dormitory rental income and student union fees, are pledged to their respective debt service requirements. While revenues thus far have been sufficient to meet debt service requirements, they have not been sufficient in all cases to pay operating costs. In such cases, the operating costs have been met by Commonwealth appropriations. As of January 1, 1993, the higher education building authorities had \$253.4 million of outstanding long term bonds guaranteed by the Commonwealth. See "Overview; Outstanding Bond and Note Liabilities".

Indirect Obligations

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

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

The MHFA and MHMFA enabling legislation permits, and certain resolutions authorizing the respective issuance of multi-family and single-family housing bonds to date have required, the creation of a capital reserve fund in connection with the issuance of such bonds. With respect to multi-family housing bonds, any such capital reserve fund must be in an amount at least equal to the maximum annual debt service in any succeeding calendar year on all outstanding bonds secured by such capital reserve fund, including the bonds then being issued. With respect to single family housing bonds, any such fund must be maintained in an amount not less than one-quarter of the maximum amount of interest becoming due in the current or any succeeding fiscal year of the agency and not greater than the maximum amount of debt service becoming due in the current or any succeeding fiscal year on all outstanding bonds which are secured by such capital reserve fund. Upon certification by the chairman of MHFA to the Governor of any amount necessary to restore a capital reserve fund to the above-described requirement, the

Legislature may, but is not legally bound to, make an appropriation in such amount. No such appropriation has been necessary to date.

As of January 1, 1993 multi-family obligations of the MHFA totaled \$2.382 billion (secured by capital reserve funds of \$132.8 million) and single-family obligations of the MHFA totaled \$1.258 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 \$318 million for MHFA multi-family bonds and \$442 million for, collectively, MHFA and MHMFA single-family bonds.

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

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

OTHER COMMONWEALTH LIABILITIES

Retirement Systems and Pension Benefits

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

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

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The systems were originally established as "pay-as-you-go" systems, meaning that amounts were appropriated each year to pay current benefits, and no provision was made to fund currently the future liabilities already incurred. In fiscal 1978 the Commonwealth began to address the unfunded liabilities of the two state systems by making appropriations to pension reserves. Prior to the establishment of the pension funding program described below, the Commonwealth appropriated approximately \$680 million to the pension reserves during the mid-1980's, in addition to the pay-as-you-go pension costs during those years. As of June 30, 1992 the state's pension reserves, now administered by the Pension Reserves Investment Management Board, had grown to approximately \$3.358 billion. Under current law the pension reserves receive monies from excess earnings (i.e., earnings above the level credited to member accounts) in the retirement systems, withdrawal penalties on members leaving government employment with less than ten years of service and any amounts from the funding schedule described below in excess of pension payments.

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

Funding schedules are required to be filed with the Legislature triennially on March 1 and are subject to legislative disapproval. The current funding schedule, which has been approved by the Legislature, was filed on March 1, 1991. If a schedule is not approved by the Legislature, payments are to be made in accordance with the most recent approved schedule; such payments must, however, at least equal the prior year's payments. The Commonwealth is contractually obligated to the members of the affected retirement systems to make appropriations in accordance with the funding schedule.

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

Current Funding Schedule and Actuarial Valuations. The funding schedule currently in effect requires total payments by the Commonwealth over 36 years as shown in the following table.

Funding Schedule for Unfunded Pension Obligations
(in thousands)

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

SOURCE: Division of Public Employee Retirement Administration.

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

As stated above, annual payments under the funding schedule through fiscal 1998 must be at least equal to the total estimated pay-as-you-go benefit cost in such year. As a result of this requirement, the funding requirement will be increased for fiscal 1993 and 1994 to an estimated \$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 might be less than that stated in the 1991 study, although the difference, if any, cannot be quantified at this time.

Long Term Rental Leases

In addition to Commonwealth owned buildings and facilities, the Commonwealth leases additional space from private parties. In fiscal 1992, rental expenditures under these operating leases totalled approximately \$90.3 million. Minimum future rental expenditure commitments of the Commonwealth under operating leases in effect at June 30, 1992 are set forth below. These amounts represent expenditure commitments of both budgeted and non-budgeted funds.

Rental Expenditure Commitments June 30, 1992(1) (in thousands)

Fiscal Year	Rental Expenditure Commitments
1993	\$83,991
1994	54,913
1995	42,239
1996	30,280
1997	1,643
1998 and thereafter	<u>85</u>
	<u>\$213,151</u>

SOURCE: Office of the Comptroller.

(1) The most recently available information.

Long Term Capital Leases

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

Long term total principal and interest obligations at June 30, 1992 related to lease/purchase agreements and tax-exempt Certificates of Participation (COPs) are as follows:

Lease/Purchase and COP Obligations June 30, 1992(1) (in thousands)

Fiscal Year	Lease/Purchase	COPs	Total
1993	\$ 21,651	\$ 2,669	\$24,320
1994	18,236	2,670	20,906
1995	9,657	2,668	12,325
1996	6,103	2,670	8,773
1997	1,502	2,671	4,173
1998 and thereafter	<u>4,700</u>	<u>8,013</u>	<u>12,713</u>
	<u>\$61,849</u> (2)	<u>\$21,361</u> (2)	<u>\$83,210</u>

SOURCE: Office of the Comptroller.

- (1) The most recently available information.
- (2) As of June 30, 1992, the principal amounts of these obligations were \$52,364,000 and \$15,845,000 for lease/purchase and COPs, respectively.

Water Pollution Abatement Trust

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

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

In November 1992, the Trust executed loan agreements with the City of New Bedford providing for loans to the City aggregating approximately \$165 million. The loans will be made in several installments over three to four fiscal years, with the first installment of approximately \$45 million closed in November 1992.

The Trust intends to issue approximately \$150 million of its revenue bonds in March 1993 to refinance \$75 million of loans made to the MWRA in December 1991 and to finance additional projects for the MWRA with costs of approximately \$75 million. The Trust has also approved loan commitments to cities, towns and other public authorities in the Commonwealth for over \$100 million of additional loans to be financed by bonds which the Trust expects to issue in fiscal year 1994. Under Chapter 203, each of these loans will provide for contract assistance and other subsidies sufficient to result in the loans being the financial equivalent of a grant to the borrower of between 25% and 90% of the eligible costs of the project. Financial assistance in excess of 25% will be provided through contract assistance payments from the Commonwealth.

School Building Assistance

The school building assistance program was established in 1948 to promote the planning and construction of school buildings and the establishment of consolidated and regional schools in the Commonwealth. Under this program, cities, towns, regional school districts and the three counties that maintain agricultural schools can obtain reimbursements from the Commonwealth for a portion of the construction costs (including any interest expense from indebtedness incurred) of approved school projects. With the exception of grants to assist cities, towns and regional school districts in the elimination of racial imbalance, the reimbursement percentage varies by municipality and may range from 50% to 90% of total construction costs. School projects for the purpose of eliminating racial imbalance are eligible for 90% reimbursement. Grants are usually payable over a period of up to 20 years to defray a portion of the debt service on city, town, district or county bonds issued to pay construction costs. Payment is made to cities, towns, regional school districts and counties from amounts annually appropriated for the school building assistance program. The following table shows the amount of the Commonwealth's obligation to pay such grants as of June 30, 1992.

School Building Assistance Obligations
(in thousands)

Fiscal Year	Budgeted School Building Assistance Obligations	Fiscal Year	Budgeted School Building Assistance Obligations
1993	\$150,179	2003	\$76,264
1994	134,776	2004	72,975
1995	124,677	2005	71,447
1996	112,129	2006	66,836
1997	106,149	2007	63,649
1998	95,941	2008	59,225
1999	88,357	2009	52,565
2000	85,425	2010	45,376
2001	81,898	2011	31,164
2002	78,632	2012	8,542
		Total	\$1,606,206

SOURCE: Department of Education, School Facilities Service Bureau.

Unemployment Compensation Trust Fund

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

LITIGATION

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

Commonwealth Programs and Services. From time to time actions are brought against the Commonwealth by the recipients of governmental services, particularly recipients of human services benefits, seeking expanded levels of services and benefits and by the providers of such services challenging the Commonwealth's reimbursement rates and methodologies. To the extent that such actions result in judgments requiring the Commonwealth to provide expanded services or benefits or pay increased rates, additional operating and capital expenditures might be needed to implement such judgments. 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 full court. *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 \$70 to \$100 million. 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. The defendants were granted summary judgment on all claims, except the hospitals' claim

that they paid a 2% increase in fiscal 1991 Medicaid rates over fiscal 1990 rates for inflation in wages and labor costs. 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. Briefing in the Appeals Court will be completed by the end of February, 1993. 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 March 1993, although the validity of this extension is on appeal. *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 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. *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 were consolidated and the trial court granted in part and denied in part the defendants' motion for summary judgment. The matter is now before the Supreme Judicial Court.

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 parties stipulated that the case is moot. On October 14, 1992, the Court vacated its February 14, 1992 decision, reconsidered it, and entered judgment granting the defendants' motions for summary judgment. Plaintiffs have moved to amend the judgment.

In *Corrlea 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 the Elderly, Disabled and Children public assistance program ("EAEDC") and seek the reinstatement of benefits for thousands of individuals. On August 17, 1992, the Superior Court certified the case as a class action and entered a preliminary injunction requiring the Department to follow certain procedures in making EAEDC eligibility determinations. On January 13, 1993, the Supreme Judicial Court affirmed the Superior Court's ruling that the plaintiffs were entitled to an injunction but held that the injunction issued by the Superior Court was overly restrictive in that it prevented the Department from developing alternative procedures for implementing the EAEDC program in an acceptable manner. Accordingly, the Supreme Judicial Court remanded the case to the Superior Court for a modification of the injunction allowing the Department the opportunity to develop alternative procedures

for implementing the EAEDC program. The Superior Court presently is considering what additional orders, if any, to make in light of the Supreme Judicial Court's opinion.

In *Massachusetts Hospital Association et al. v. Department of Public Welfare et al.* (Suffolk Superior Court No. 92-4656C) the hospital association and certain chronic care hospitals challenged the adequacy of rates for fiscal year 1992 on the theory that the Rate Setting Commission made inadequate provision for labor cost inflation. The Superior Court heard arguments on plaintiffs' motion for a preliminary injunction on August 5, 1992 and has the motion under advisement.

Environmental Matters. The Commonwealth is engaged in various lawsuits involving environmental and related laws, including an action brought on behalf of the U.S. Environmental Protection Agency alleging violations of the Clean Water Act and seeking to enforce the clean-up of Boston Harbor. *United States v. Metropolitan District Commission* (U.S. District Court C.A. No. 85-0489-MA). See also *Conservation Law Foundation v. Metropolitan District Commission* (U.S. District Court C.A. No. 83-1614-MA). The Massachusetts Water Resources Authority (the "MWRA"), successor in liability to the Metropolitan District Commission, has assumed primary responsibility for developing and implementing a court approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. The MWRA currently is in material compliance with the Court's scheduling orders, although the MWRA expects to miss a deadline for construction of 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 under advisement 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 negligent regulation and generation of hazardous materials by the University of Massachusetts - Lowell. Recently, most of the parties settled with the United States and the Commonwealth, and the settlement resolved all counterclaims by the settling defendants. The consent decree will have to undergo a public comment period and an approval process in the court. Although the United States Environmental Protection Agency's latest total cost figure is about \$70 million, the likelihood of the Commonwealth being held liable for even a small share of that amount on the basis of the remaining counterclaims is small.

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 the matter is under advisement following argument. 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 case is to be argued in the Supreme Judicial Court in February 1993.

In addition, there are several tax cases pending which could result in significant refunds if taxpayers prevail. It is the policy of the Attorney General and the Commissioner of Revenue to defend such actions vigorously on behalf of the Commonwealth, and the descriptions that follow are not intended to imply that the Commissioner has conceded any liability whatsoever. Such matters include a case involving whether capital gains taxation on a stock sale may be avoided by assigning the stock to Delaware corporations on the day before the sale. A decision in favor of the taxpayer was issued by the Appellate Tax Board on August 31, 1990. The Appeals Court reversed that decision on December 18, 1992. An application for further appellate review was granted by the Supreme Judicial Court on February 9, 1993. Approximately \$45 million in taxes and interest are 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.

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

In *Town of Bourne et al. v. The Governor et al.* (Plymouth Superior Court No. 92-1092A), the towns of Bourne, Russell, Wareham and Yarmouth seek to compel the payment of state funds to finance, under the "Hayes Act", Chapter 275 of the Acts of 1989, the towns' Water Pollution Abatement Project. A motion to dismiss has been filed by the Commonwealth. No hearing date has yet been set.

In *Haywood v. National Information Systems, Inc.* (Norfolk Superior Court No. 92-2361), a lottery player seeks recovery of a \$9 million jackpot allegedly wrongfully denied him by the State Lottery Commission. The player seeks to have that amount trebled under the Commonwealth's Consumer Protection Act. The case is in its initial stages.

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.

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The Commonwealth prepares its Comprehensive Annual Financial Report ("CAFR") with respect to each fiscal year ending June 30, which become available in January of the following fiscal year. Copies of the CAFR and other financial reports of the Comptroller referenced in this document may be obtained by requesting the same in writing from the Office of the Comptroller, The Commonwealth of Massachusetts, One Ashburton Place, Room 909, Boston, Massachusetts 02108.

AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding this Information Statement or requests for additional information concerning the Commonwealth should be directed to Kenneth Olshansky, Director of Debt Management, Office of the State Treasurer and Receiver-General, One Ashburton Place, 12th Floor, Boston, Massachusetts 02108, telephone (617) 367-3900, 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 Information Statement should be directed to Walter J. St. Onge, III, Esq., Palmer & Dodge, One Beacon Street, Boston, Massachusetts 02108, telephone (617) 573-0100.

THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Joseph D. Malone

Joseph D. Malone
Treasurer and Receiver-General

By /s/ Peter Nessen

Peter Nessen
Secretary for Administration and Finance

February 26, 1993

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FINANCIAL INFORMATION

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THE COMMONWEALTH OF MASSACHUSETTS

By: Joseph D. Malone
Joseph D. Malone
Treasurer and Receiver General

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By: Peter Neeson
Peter Neeson
Secretary for Administration

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ECONOMIC INFORMATION

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

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

OVERVIEW

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

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

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

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

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

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

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

Population Characteristics

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

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

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

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

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

Population - 1970-1992
(in thousands)

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

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

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

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

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

Distribution of Population by Age
(in thousands)

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

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

Personal Income

Per capita personal income in Massachusetts is the third highest in the nation. Per capita personal income for Massachusetts residents, unadjusted for differentials in the cost of living, was \$23,003 in 1991, as compared to the national average of \$19,092.

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
1985-1991**

	<u>Massachusetts</u>	<u>% Change</u>	<u>United States</u>	<u>% Change</u>	<u>New England States</u>	<u>% Change</u>
1985	\$16,353	--	\$14,159	--	\$16,067	--
1986	17,669	8.0%	14,910	5.3%	17,307	7.7%
1987	19,004	7.6	15,641	4.9	18,628	7.6
1988	20,637	8.6	16,618	6.2	20,165	8.3
1989	21,811	5.7	17,699	6.5	21,353	5.9
1990	22,520	3.3	18,639	5.3	22,148	3.7
1991	23,003	2.1	19,092	2.4	22,629	2.2

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

Cost of Living

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

The following table presents information on consumer price trends for the Boston metropolitan area and the United States for the period between 1985 and 1991. Data for 1992 indicates that between November 1991 and November 1992, the consumer price index for all urban consumers in the Boston metropolitan area grew at the rate of 2.5%, while the consumer price index for the United States, over the same period, grew at the rate of 3.0%.

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

	<u>United States</u>	<u>Boston Metro</u>
1985	3.6%	4.5%
1986	1.9	2.6
1987	3.7	4.4
1988	4.1	6.1
1989	4.8	5.7
1990	5.4	5.8
1991	4.2	4.4

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

Employment

The Massachusetts service sector, at 32.5% of the work force in December 1992, is the largest sector in the Massachusetts economy. In the nation as a whole, about 26% of all jobs are in the service sector. Government employment is below the national average, representing less than 14% of the Massachusetts work force. The construction, manufacturing and trade sectors experienced the greatest decreases between 1989 and 1992, with more modest declines taking place in the government; finance, insurance and real estate ("FIRE"); and services sectors over the same period.

The table below demonstrates the changes in employment by sector.

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

	<u>1989(1)</u>	<u>1988-1989 % Change</u>	<u>1990(1)</u>	<u>1989-1990 % Change</u>	<u>1991(1)</u>	<u>1990-1991 % Change</u>
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)
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.

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

The following table presents changes in nonagricultural employment by sector for December 1991 and December 1992. The most recent data indicates that total nonagricultural employment contracted by 1.6% between December 1991 and December 1992.

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

	December 1991	% of Total	December 1992	% of Total	% Change Between December 1991 and December 1992
Total Nonagricultural Employment	2,819.7(1)		2,774.2(1)		-1.6
Sector					
Construction	74.4	2.6	71.3	2.6	(4.2)
Manufacturing	475.3	16.9	454.8	16.4	(4.3)
Transportation & Communications	124.8	4.4	123.0	4.4	(1.4)
Wholesale & Retail Trade	664.7	23.6	648.1	23.4	(2.5)
FIRE	200.9	7.1	196.8	7.1	(2.0)
Services	892.3	31.7	902.6	32.5	1.2
Government	386.1	13.7	376.4	13.6	(2.5)
High Tech Manufacturing	191.1	6.8	175.3	6.3	(8.3)
High Tech Non-Manufacturing	87.2	3.1	85.9	3.1	(1.5)
Average Weekly Earnings (dollars)					
Manufacturing	\$505.13		\$509.09		0.8
Civilian Labor Force (2)	3,164.0		3,145.0		(0.6)
Unemployed (2)	275.0		272.0		(1.1)
Unemployment Rate (2)	8.7%		8.6%		(1.1)

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

- (1) Sum of the parts may not equal totals due to rounding.
- (2) Figures seasonally adjusted.

Business and Employment Base

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

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

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

SOURCE: Massachusetts Department of Employment and Training.

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

Massachusetts Companies in Fortune 500

Ranking		Company	Industry	1991 Sales	1990 Sales
1991	1990			\$ Millions	\$ Millions
28	30	DIGITAL EQUIPMENT (Maynard)	Computer Equipment	\$14,024.2	\$13,084.5
51	52	RAYTHEON (Lexington)	Electronic Components	9,355.5	9,362.3
107	113	GILLETTE (Boston)	Personal Care Products/Cutlery	4,705.6	4,394.0
167	182	EG & G (Wellesley)	Instruments	2,127.1	2,634.7
201	169	WANG LABORATORIES (Lowell) (1)	Computer Equipment	2,691.3	2,478.5
203	213	POLAROID (Cambridge)	Photographic Equipment	2,096.0	2,006.4
256	243	CABOT (Waltham)	Chemical Products	1,579.9	1,684.7
272	252	DR HOLDINGS (Natick)	Computer Equipment	1,391.1	1,651.1
292	297	AMOSKBAG (Boston)	Financial Services	1,244.4	1,276.5
295	302	DATA GENERAL (Westboro)	Computer Equipment	1,237.0	1,324.0
346	361	OCEAN SPRAY (Lakeville)	Food Products	946.0	915.1
385	415	THERMO ELECTRON (Waltham)	Instruments	830.1	723.1
412	422	MILLIPORE (Bedford)	Instruments	748.0	709.1
424	434	STANHOME (Westfield)	Home Products	710.2	675.7
493	---	ANALOG DEVICES (Norwood)	Electronics	538.5	---

SOURCE: *Fortune Magazine*, April 22, 1992.

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

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

	New Business Incorporations Monthly Averages 1987-1991				
	1987	1988	1989	1990	1991
Massachusetts	1,438	1,366	1,171	1,037	976
New England	3,491	3,353	2,967	2,606	2,406
United States	57,185	56,940	56,587	53,449	52,487

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

Massachusetts is experiencing mild growth in new businesses. According to Dunn & Bradstreet, in March 1992, 1,169 new businesses were incorporated in the Commonwealth, as compared to 1,081 in March 1991. Furthermore, in the first quarter of 1992, 3,351 new businesses were incorporated, an increase of 6.1% over the first quarter of 1991, when 3,159 new businesses were incorporated. This compares favorably with New England as a whole, which saw a decrease in new business incorporations of 0.5% during the first quarter of 1992 over the first quarter of 1991.

Some businesses in Massachusetts are failing, however. According to Dunn & Bradstreet, 1,586 businesses have failed in Massachusetts between January 1992 and June 1992, while 1,309 businesses failed during the same period in 1991, an increase of 21.2%. This is relatively consistent with the average for the six New England states for the same period, which saw a 19.3% increase in business failures over the same two periods; from 2,703 in 1991 to 3,224 in 1992. However, the increase in the percentage of businesses which failed between January 1992 and June 1992 compared to the same period in 1991 has decreased substantially from the increase in the percentage of such failures between calendar 1990 and 1991. Between calendar 1990 and 1991, the rate of increase in business

failures in Massachusetts was 46.7%, compared to an 81.1% increase in businesses in New England as a whole during the same period.

Labor Force

Massachusetts' labor force participation rate is higher than the national rate. In 1991, 67.6% of non-institutionalized working-age Massachusetts residents were employed. This is 1.6% higher than the equivalent national rate. During the mid-1980s when the state's unemployment rate dropped below 3%, there was concern that Massachusetts' high labor force participation rate might exacerbate the upward pressure on wages. During the current economic downturn, however, the high labor force participation rate provides a modest damper on the effective familial impact of unemployment -- many of those unemployed are members of households with more than one worker. The presence of additional, employed workers in the family lessens the impact of unemployment on those workers who find themselves unemployed.

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

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

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

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

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

Unemployment

From 1980 to 1989, Massachusetts' unemployment rate was significantly lower than the national average. By 1990, however, unemployment reached 6.0%. For the first time since 1977, the Commonwealth's unemployment rate exceeded the national average. In 1991, Massachusetts' unemployment rate averaged 9.0% and in 1992 it averaged 8.5%. The Massachusetts unemployment rate in January 1993 and in January 1992 was 8.2%.

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

**Annual Average Civilian Labor Force, Unemployment and
Unemployment Rates for Massachusetts and United States,
1980-1992
(in thousands)**

Year	Civilian Labor Force		Unemployment		Unemployment Rate		Mass. Rate as % of U.S. Rate
	Mass.	U.S.	Mass.	U.S.	Mass.	U.S.	
1980	2,867	106,940	162	7,637	5.6%	7.1%	78.9
1981	2,947	108,670	187	8,273	6.4	7.6	84.2
1982	2,993	110,204	237	10,678	7.9	9.7	81.4
1983	2,977	111,550	205	10,717	6.9	9.6	71.9
1984	3,047	113,544	145	8,539	4.8	7.5	64.0
1985	3,051	115,461	120	8,312	3.9	7.2	54.2
1986	3,058	117,834	118	8,237	3.8	7.0	54.3
1987	3,086	119,865	99	7,425	3.2	6.2	51.6
1988	3,155	121,669	103	6,701	3.3	5.5	60.0
1989	3,180	128,869	127	6,528	4.0	5.3	75.5
1990	3,166	124,787	189	6,874	6.0	5.5	109.1
1991	3,127	125,303	280	8,426	9.0	6.7	134.3
1992 (1)	3,126	126,983	265	9,384	8.5	7.4	114.9

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

(1) Preliminary.

Unemployment Compensation Trust Fund

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

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

Since the last quarter of 1991, benefit payments in excess of contributions have been financed through repayable advances from the federal unemployment loan account. Legislation enacted in 1992 significantly increased employer contributions in order to reduce advances from the federal loan account and the Department of Employment and Training estimates that 1993 revenues will exceed benefit payments. As of December 31, 1992 the Massachusetts Unemployment Compensation Trust Fund was in deficit by \$405 million. The deficit is expected to be \$390 million by the end of 1993. An interest payment of \$28-\$32 million on previous advances from the federal loan account is due on or before September 30, 1993. Interest payments are financed by a special assessment imposed on employers.

The Department of Employment and Training estimates that the additional increases in contributions provided by the 1992 legislation should result in a positive balance in the Unemployment Compensation Trust Fund prior to December 1996 and rebuild reserves in the system to over \$1 billion by the end of 1998.

The Commonwealth is currently examining funding the repayment of advances from the federal loan account, as well as the deficit in the Unemployment Compensation Trust Fund through the end of calendar 1993, through the issuance of bonds by the Massachusetts Industrial Finance Agency ("MIFA"). The bonds would be

secured solely by the special assessment imposed under the legislation, as amended under the proposed legislation authorizing the bonds. The bonds issued by MIFA would not constitute a debt of the Commonwealth, and except for the pledge of the special assessment, no pledge of the Commonwealth's credit would secure the bonds.

RECENT PERFORMANCE

At the present time, 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 December 1991 with that in December 1992 indicates a decline of 1.6%. 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 second quarter of 1991 and the second quarter of 1992, aggregate personal income in Massachusetts increased 3.9%, as compared to 4.7% 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 December 1992, service sector employment was 902,600, representing 32.5% of total nonagricultural employment. The service sector represented a major source of strength in the Massachusetts economy, increasing 17.5% between 1985 and 1989. Between December 1991 and December 1992, service sector employment increased 1.2%. An area with relatively high wages, business services employed 16% of service sector workers in December 1992. As compared with the nation, Massachusetts has a greater concentration of employment in business services.

Health Services. The health care industry continues to play an important role in the Massachusetts economy. Health services is the largest component of the service sector in terms of employment. In December 1992, the health services sector numbered 290,400 workers, with 133,500 of those employed by hospitals. This constitutes a 2.6% increase in total health service workers, during the preceding year. Hospital employment increased by 1.8% 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 New England Board of Higher Education. 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. Three of the state's private universities are among the state's 25 largest non-governmental employers. The educational services sector includes only private institutions for education; public institutions are included in the government sector. According to the Massachusetts Department of Employment and Training, educational services accounted for 125,900 jobs in December 1992, while in the government sector, state and local public education accounted for 152,800 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 December 1992, retail and wholesale trade was the second-largest employment sector in Massachusetts, with 648,100 workers. Of this number, about three-quarters were employed in retail trade.

Retail Sales. Retail sales growth in the Commonwealth outpaced national sales growth during the mid-1980s, though in more recent years this has not been the case. According to the Federal Reserve Bank of Boston, retail sales for the month of November 1992 were 1.6% below the November 1991 level. The following table sets forth annual retail sales activity for Massachusetts and the United States from 1985 through 1991.

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

	<u>Massachusetts</u>	<u>% Change</u>	<u>United States</u>	<u>% Change</u>
1985	\$35,094	-	\$1,375,027	-
1986	38,337	9.2	1,449,636	5.4
1987	41,384	7.9	1,541,299	6.3
1988	45,327	9.5	1,650,468	7.1
1989	46,089	1.7	1,746,965	5.8
1990	44,141	(4.2)	1,825,507	4.5
1991	44,863	1.6	1,842,739	0.9

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 454,800 workers in December 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 in Massachusetts, it is expected to continue to outperform manufacturing in the long-term. As of December 1992, high technology manufacturing employed 175,300 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 1989 through 1991.

**Manufacturing Establishment Employment by
Industry in Massachusetts
1989-1991 (in thousands)**

	1989		1990		1991	
	Jobs(1)	%	Jobs(1)	%	Jobs(1)	%
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
Electrical and Electronic 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	<u>29.5</u>	<u>7.9</u>	<u>26.5</u>	<u>7.7</u>	<u>24.1</u>	<u>7.6</u>
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	<u>34.2</u>	<u>18.1</u>	<u>30.9</u>	<u>17.3</u>	<u>28.0</u>	<u>16.6</u>
Total Non-Durable Goods	189.0	100.0	178.6	100.0	168.3	100.0
Total Manufacturing Employees	<u>561.1</u>		<u>521.3</u>		<u>484.5</u>	

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

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

International Trade. Much of what Massachusetts produces is exported abroad. Massachusetts 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, 190,400 of Massachusetts' manufacturing jobs, which amounts to 6.4% of its civilian labor force, were dependent upon exports. Massachusetts' most important exports are industrial machinery including

computer equipment, electronic and electric equipment excluding computer equipment and instruments and related products. The following chart describes the top ten manufactured exports.

Massachusetts - Total Dollar Value of Shipments by Major Industry Group

Majority Industry Group	Massachusetts		Percent Change 1989 - 1990		
	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 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 196,800 as of December 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 1980's, 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 11.2% between 1990 and 1991, while the number of housing permits issued nationally declined 14.6% over the same period. In recent months there has been

some improvement in the Massachusetts housing industry. In October 1992, 1,565 housing permits, with a value of approximately \$158 million, were issued. In October 1992, the value of total construction contracts was 2.6% below the October 1991 monthly average.

Housing Permits Authorized in Massachusetts and the United States 1982-1991

Calendar Year	Massachusetts	United States
1982	15,400	1,485,000
1983	22,800	1,605,000
1984	29,300	1,682,000
1985	39,200	1,733,000
1986	45,200	1,769,000
1987	40,400	1,534,000
1988	30,500	1,338,000
1989	21,300	1,111,000
1990	14,300	945,000
1991	12,700	942,000

SOURCE: Department of Commerce, Bureau of the Census.

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

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

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

	Total	Research	Percent of Production Related to Defense Estimated for 1989
Connecticut	\$1,651	\$81	7.6%
Maine	480	3	0.8%
Massachusetts	1,405	364	6.0%
New Hampshire	437	5	0.5%
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)

<u>Year</u>	<u>Existing Home Sales</u>
1989	67.4
1990	44.1
1991	49.6

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

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

Home Prices for Boston Metropolitan Area (In Thousands)

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

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

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

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

Major Infrastructure Projects

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

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

The Massachusetts Water Resources Authority ("MWRA") is undertaking capital projects for the construction and rehabilitation of sewage collection and treatment facilities in order to bring wastewater discharges into Boston Harbor into compliance with federal and state pollution control requirements. The Harbor cleanup project is estimated to cost \$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.

The accompanying notes are an integral part of these financial statements.

COMBINED FINANCIAL STATEMENTS

STATUTORY BASIS

The combined financial statements have been prepared on a statutory basis in accordance with the provisions of the Companies Act, 1956. The financial statements are prepared on a historical cost basis and do not take into account the effects of inflation. The financial statements are prepared on a going concern basis.

The financial statements are prepared on a going concern basis. The directors have no reason to believe that the company is not a going concern. The financial statements are prepared on a historical cost basis and do not take into account the effects of inflation.

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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, 1992, 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 or the Massachusetts State Teachers and Employees Retirement Systems Trust, investment vehicles for certain of the Commonwealth of Massachusetts' Pension Trust Funds, the financial statements of which reflect 81 and 47 percent, respectively, of the assets and revenues of the Fiduciary Fund Type. We did not audit the financial statements of the University of Massachusetts which statements reflect 68 and 66 percent, respectively, of the assets and revenues of the Non-appropriated Higher Education Funds. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Fiduciary and Non-appropriated Higher Education Funds Type referred to above, is based solely on the reports of the other auditors.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements - statutory basis are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements - statutory basis. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement - statutory basis presentation. We believe that our audit 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 reports of other auditors, such combined financial statements - statutory basis present fairly, in all material respects, the financial position of the Commonwealth of Massachusetts as of June 30, 1992, 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 financial statements of the Fiduciary Fund Type included in the general purpose financial statements have been restated.

As discussed in Note 1, during the year ended June 30, 1992 the Commonwealth of Massachusetts has included within the combined financial statements - statutory basis the non-appropriated funds of the public institutions of higher education.

As discussed in Note 2, the Commonwealth of Massachusetts reclassified certain activities between fund types during the year ended June 30, 1992.

Deloitte + Touche

December 24, 1992 (June 23, 1993 as to Note 13)

COMBINED FINANCIAL STATEMENTS -

STATUTORY BASIS

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

JUNE 30, 1992

(Amounts in thousands)

ASSETS AND OTHER DEBITS	Governmental Fund Types			Fiduciary Fund Types			Account Groups			Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects	Trust and Agency (As restated)	General Fixed Assets	General Long-term Obligations	Subtotal (Memorandum Only) (As restated)	Non-appropriated Higher Education	1992		1991
									(As restated)		
Cash and short-term investments	\$ 0	\$ 1,250,222	\$ 13,375	\$ 301,480	\$ 0	\$ 0	\$ 1,565,077	\$ 125,338	\$ 1,690,415	\$ 679,917	\$ 679,917
Cash with fiscal agent		5,156					5,156		5,156	6,317	6,317
Amount on deposit with U.S. Treasury Investments				9,899,529			9,899,529	167,512	10,067,041	8,729,849	103,129
Advances to related entity	256,060			1,563,758			256,060		256,060	241,532	241,532
Assets held in trust							1,563,758		1,563,758	1,475,522	1,475,522
Receivables, net of allowance for uncollectibles:											
Taxes	2,638	435									
Due from federal government	63,659	64,458	133,673				3,071	18,619	300,409	229,224	3,609
Other receivables	9,876	630					10,506	130	10,636	5,568	5,568
Due from cities and towns	121,633	1,768					123,399		123,399	124,635	124,635
Due from other funds				377,783			377,783		377,783		
Fixed assets:											
Land											
Buildings							412,579		412,579	352,710	352,710
Machinery and equipment							3,183,617		3,183,617	2,767,319	2,767,319
Construction in progress							726,958		726,958	455,140	455,140
Amount available for retirement of long-term obligations							190,392		190,392	488,493	488,493
Amount to be provided for retirement of long-term obligations							5,156		5,156	6,317	6,317
Total assets and other debits	\$ 473,864	\$ 1,322,667	\$ 147,048	\$ 12,162,550	\$ 4,513,546	\$ 9,332,639	\$ 27,952,314	\$ 311,599	\$ 28,263,913	\$ 24,308,901	\$ 24,308,901

(Continued)

COMMONWEALTH OF MASSACHUSETTS

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

JUNE 30, 1992

(Amounts in thousands)

LIABILITIES, FUND EQUITY AND OTHER CREDITS	Governmental Fund Types			Fiduciary Fund Types			Account Groups			Totals	
	General	Special Revenue	Capital Projects	Trust and Agency (As restated)	General Fixed Assets	Long-term Obligations	Subtotal (Memorandum Only) (As restated)	Non-appropriated Higher Education	Memorandum Only		
									1992 (As restated)	1991	
Liabilities:											
Deficiency in cash and short-term investments	\$ 300,460	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 300,460	\$ 0	\$ 300,460	\$ 76,182	
Accounts payable	258,305	239,450	171,831	33,255			702,841	45,510	748,351	695,082	
Accrued payroll	38,632	9,684	1,092	267			47,875		47,875	36,458	
Agency liabilities				2,047,835			2,047,835	2,298	2,050,133	1,951,184	
Due to federal government				308,033			308,033		308,033		
Due to cities and towns				13,284			13,284		13,284	8,240	
Due to other funds				377,783			377,783		377,783	1,000,000	
Obligations under lease/purchase						68,209	68,209		68,209	65,998	
Bonds and notes payable	240,000		110,538			9,264,430	9,614,968		9,614,968	8,841,642	
Total Liabilities	835,597	249,134	283,461	2,700,457		9,332,639	13,481,288	47,808	13,529,096	11,674,366	
Fund equity and other credits:											
Investment in general fixed assets	152,000	1,000					153,000		153,000	152,000	
Fund balances (deficit):	3,200	500			4,513,546		4,513,546	130	4,513,546	4,063,662	
Reserved for:	5,000	400					5,400	18,819	23,219	17,000	
Continuing appropriations	106,463	124,567					231,030		231,030	108,759	
Commonwealth stabilization		230,380					230,380		230,380	59,199	
Debt service		5,158					5,156		5,156	8,317	
Unemployment benefits										99,320	
Pension benefits				9,628,070			9,628,070		9,628,070	8,346,229	
Unreserved:											
Designated for specific purpose	(468,196)	162,358	(136,413)	(243,977)			(81,621)	22,216	(59,405)	207,674	
Undesignated		551,074					(136,413)	241,575	188,040	(256,645)	
Total fund equity (deficit) and other credits	(361,733)	1,073,533	(136,413)	9,362,093	4,513,546		14,471,028	263,791	14,734,817	12,634,515	
Total liabilities, fund equity and other credits	\$ 473,864	\$ 1,322,667	\$ 147,048	\$ 12,162,550	\$ 4,513,546	\$ 9,332,639	\$ 27,952,314	\$ 311,599	\$ 28,263,913	\$ 24,308,901	

See notes to combined financial statements - statutory basis.

(Concluded)

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, 1992

(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Types		Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects	Expendable Trust	Subtotal (Memorandum Only)	Non-appropriated Higher Education	1992 (As restated)
				(As restated)	(As restated)		1991
Revenues:							
Taxes	\$ 5,638,259	\$ 3,853,081	\$ 0	\$ 778,920	\$ 10,270,260	\$ 0	\$ 9,903,760
Assessments	172,498	601,905		744	775,147		1,550,406
Federal grants and reimbursements	2,362,732	1,146,976	552,369	425,198	4,507,275	173,893	4,021,537
Departmental	440,941	2,312,251	1,304	4,050	2,758,546	825,812	2,615,064
Miscellaneous	289,764	54,668	742	141,430	466,604	92,216	489,157
Total revenues	8,924,194	7,969,981	554,415	1,350,342	18,797,832	1,091,921	18,689,753
Other financing sources:							
Proceeds of dedicated income tax bonds							
Proceeds of general obligation bonds			720,847		720,847		1,362,726
Proceeds of special obligation bonds			100,000		100,000		1,029,739
Proceeds of refunding bonds		36,832			574,313		
Fringe benefit cost recovery	80,072	10,988			91,060		78,494
Operating transfers in	152,627	510,004	252,279	9,058	923,968		2,112,752
Substitution transfer		170,020			170,020		59,199
Fund deficit support							234,829
Other sources	15,875		30,767	673	47,315	6,968	38,612
Total other financing sources	248,574	727,844	1,641,374	9,791	2,627,923	6,968	4,916,351
Total revenues and other financing sources	9,172,768	8,698,725	2,195,789	1,360,073	21,425,355	1,098,889	23,496,305
Expenditures:							
Legislature	42,859		93		42,952		39,558
Judiciary	79,028	227,143	1,754	324	308,249		296,761
Inspector General	998				998		942
Governor and Lieutenant Governor	3,625				3,625		3,615
Secretary of the Commonwealth	10,812	1,299		5	12,116		12,787
Treasurer and Receiver-General	87,402	1,281,815	13,827	16	1,383,060		1,267,080
Auditor of the Commonwealth	9,311	728		491	10,530		10,358
Attorney General	15,519	-2,400	656	369	18,944		16,774
Ethics Commission	892				892		867
District Attorney	7,896	31,089		3,530	42,517		42,722
Office of Campaign and Political Finance	467				467		799
Board of Library Commissioners	5,072	3,992	3,557	1	7,550		13,105
Comptroller	872,589	525	717		6,314		5,462
Administration and finance		225,551	230,281	1,524	1,329,945		1,307,074

(Continued)

COMMONWEALTH OF MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 1992

(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Type		Totals	
	General	Special Revenue	Capital Projects	Expendable Trust (As restated)	Subtotal (Memorandum Only) (As restated)	Non-appropriated Higher Education	(Memorandum Only)
Expenditures (continued):							
Environmental affairs	33,076	111,816	85,517	7,267	237,676		350,084
Communities and development	190,801	206,338	27,733	2,361	427,233		484,989
Health and human services	3,083,228	866,533	24,178	17,858	4,011,797		4,759,832
Transportation and construction	428,529	29,617	783,400	951	1,242,497		983,590
Education	8,570	385,268	25,183	1,963	430,984		407,863
Educational affairs	3,461				3,461		
Higher education	532,865	9,632	3,880	109	546,486	1,090,903	639,990
Public safety	366,652	268,456	14,915	1,708	651,731		439,650
Economic affairs	17,132	177,393	323	1,685,266	1,890,114		1,490,628
Elder affairs	110,868	25,692	10	25	136,593		142,383
Consumer affairs	24,144	113,078		2,679	29,899		34,477
Labor	16,784	16,750		31,258	50,802		36,681
Direct local aid	3,351	2,275,075			2,278,426		2,608,323
Medicaid	2,817,674				2,817,674		2,765,287
Pension	265,451	486,068			751,519		703,878
Debt services	156,229	186,053			342,282		311,456
Principal retirement & interest payments	326,398	232,366			558,764		595,524
Interest and fiscal charges							
Total expenditures	9,523,683	7,065,695	1,216,034	1,757,705	19,566,117	1,090,903	20,272,547
Other financing uses:							
Payments to refunded bond escrow agent		36,832	537,481		574,313		574,313
Fringe benefit cost assessment	10,988	60,337	11,401	1,567	84,293	6,766	78,494
Operating transfers out	1,930	666,952	282,590	2,349	923,821	142	2,112,752
Stabilization transfer	102,012	68,008			170,020		59,199
Fund deficit support							234,829
Total other financing uses	114,930	832,129	801,472	3,916	1,752,447	6,908	2,485,274
Total expenditures and other financing uses	9,638,613	7,900,824	2,017,506	1,761,621	21,318,564	1,097,811	22,757,821
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(465,845)	785,901	178,283	(401,548)	106,791	1,078	738,484
Fund balances (deficit) at beginning of year	104,112	277,632	(314,696)	151,717	218,765	262,713	(519,719)
Fund balances (deficit) at end of year	\$ (361,733)	\$ 1,073,533	\$ (136,413)	\$ (249,831)	\$ 325,556	\$ 263,791	\$ 589,347

See notes to combined financial statements - statutory basis.

(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, 1992

(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	\$ 4,691,300	\$ 5,636,259	\$ 746,959	\$ 3,400,200	\$ 3,845,322	\$ 445,122	\$ 8,291,500	\$ 9,483,581	\$ 1,192,081
Assessments		172,498	172,498		7,507	7,507		180,005	180,005
Federal grants and reimbursements	2,296,400	2,362,732	83,332	11,400	10,735	(665)	2,310,800	2,393,467	82,667
Departmental	1,069,100	440,941	(627,159)	366,930	444,463	55,533	1,457,030	885,404	(571,626)
Miscellaneous		289,764	289,764		28,374	28,374		318,138	318,138
Total revenues	8,258,800	8,824,194	645,394	3,800,530	4,336,401	535,871	12,056,330	13,260,595	1,204,265
Other financing sources:									
Proceeds of refunding bonds					36,632	36,632		36,632	36,632
Fringe benefit cost recovery		80,072	80,072		10,988	10,988		91,060	91,060
Operating transfers in	167,000	152,627	(14,373)	530,170	499,131	(31,039)	167,000	651,756	484,756
Subsidization transfer					170,020	170,020		170,020	(360,150)
Other sources	231,000	15,875	(215,125)				231,000	15,875	(215,125)
Total other financing sources	398,000	248,574	(149,426)	530,170	716,871	186,801	828,170	965,545	37,375
Total revenues and other financing sources	8,656,800	9,172,768	515,968	4,330,700	5,053,372	722,672	13,984,500	14,226,140	1,238,640
Expenditures:									
Legislature	50,526	42,859	7,667				50,526	42,859	7,667
Judiciary	79,624	79,028	596				306,767	305,031	3,736
Inspector General	1,006	998	8	229,143	226,003	3,140	1,006	998	8
Governor and Lieutenant Governor	11,605	10,812	793	734	590	144	4,084	3,625	459
Secretary of the Commonwealth	154,637	87,402	67,235	40,238	807	39,431	12,339	11,402	937
Treasurer and Receiver - General	9,311	9,311		728	728		194,875	89,209	106,666
Auditor of the Commonwealth	15,707	15,319	388				10,039	10,039	
Attorney General	893	892	1	690	669	21	16,397	16,188	209
Ethics Commission							893	892	1
District Attorney	7,932	7,898	34	29,313	29,173	140	37,245	37,071	174
Office of Campaign and Political Finance	487	487					467	467	
Board of Library Commissioners				1,594	1,586	8		1,594	8
Comptroller	5,109	5,072	37	525	525		1,594	1,586	8
Administration and finance	945,765	872,589	73,176	238,074	211,477	26,597	5,634	5,597	37
Environmental affairs	36,039	33,076	2,963	100,569	96,296	4,273	1,183,839	1,084,066	99,773
Communities and development	200,422	190,801	9,621	4,812	4,812		136,608	128,372	8,236
							205,234	195,613	9,621

(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, 1992

(Amounts in thousands)

	General Fund		Budgeted Special Revenue Funds		Totals	
	Budget	Actual	Budget	Actual	Budget	Actual
Expenditures (continued):						
Health and human services	3,184,828	3,083,228	11,300	2,058	3,206,128	3,085,286
Transportation and construction	428,620	428,529	137,565	28,687	566,185	455,216
Education	10,492	8,570	59,606	59,508	70,098	68,078
Educational affairs	3,582	3,461			3,562	3,461
Higher education	542,596	532,865	1,222	1,124	543,818	533,989
Public safety	380,008	368,652	230,966	228,473	610,972	598,125
Economic affairs	20,650	17,132	6,776	6,325	27,426	23,457
Elder affairs	118,895	110,868	2,077	2,047	118,972	112,913
Consumer affairs	24,796	24,144	3,068	3,064	27,864	27,208
Labor	20,411	18,784			20,411	18,784
Direct local aid	3,407	3,351	2,278,674	2,275,075	2,282,081	2,278,426
Medical	2,819,850	2,817,874	492,424	488,068	2,819,850	2,817,874
Pension	269,058	265,451			781,482	751,519
Debt service:						
Principal retirement	157,797	156,229	193,835	185,048	351,632	341,277
Interest and fiscal charges	328,086	328,398	231,887	230,582	560,983	556,990
Total expenditures	9,845,178	9,523,663	4,295,830	4,079,735	14,141,008	13,603,418
Other financing uses:						
Payments to refunded bond escrow agent						
Fringe benefit cost assessment		10,968		36,832		36,832
Operating transfers out	1,930	1,930	67,870	22,697	69,800	33,685
Stabilization transfer		102,012		68,008		68,798
Total other financing uses	1,930	114,930	67,870	195,405	69,800	319,335
Total expenditures and other financing uses	9,847,108	9,638,613	4,363,700	4,275,140	14,210,808	13,913,753
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(1,180,309)	(465,845)	(33,000)	778,232	(1,223,308)	1,535,686
Fund balances at beginning of year	104,112	104,112	132,945	132,945	237,057	237,057
Fund balances (deficit) at end of year	\$ (1,065,197)	\$ (361,733)	\$ 99,945	\$ 911,177	\$ (886,252)	\$ 1,535,686

See notes to combined financial statements - statutory basis.

(Continued)

COMMONWEALTH OF MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 1992

(Amounts in thousands)

	Fiduciary Fund Types		Totals (Memorandum Only)	
	Non- expendable Trust Funds	Pension Trust Funds	1992	1991
Operating revenues:				
Contributions:				
Local pension systems	\$ 0	\$ 1,718	\$ 1,718	\$ 30,945
Employees		340,617	340,617	340,642
Other				5,947
Investment earnings		1,136,969	1,136,969	288,673
Total operating revenues		1,479,304	1,479,304	666,207
Other financing sources:				
Operating transfers in		101,554	101,554	84,163
Total operating revenues and other financing sources		1,580,858	1,580,858	750,370
Operating expenses:				
Administration		2,947	2,947	
Payments to beneficiaries and cities and towns		196,516	196,516	197,148
Total operating expenses		199,463	199,463	197,148
Other financing uses:				
Operating transfers out	5	101,554	101,559	84,163
Total operating expenses and other financing uses	5	301,017	301,022	281,311
Net income (deficit)	(5)	1,279,841	1,279,836	469,059
Fund balances at beginning of year	5,859	8,346,229	8,352,088	7,883,029
Fund balances at end of year	\$ 5,854	\$ 9,626,070	\$ 9,631,924	\$ 8,352,088

See notes to combined financial statements - statutory basis.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

1. Financial Statement Presentation:

Introduction -

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

The combined financial statements - statutory basis include all budgeted and non-budgeted funds and account groups of the Commonwealth, as recorded by the Office of the Comptroller in compliance with Massachusetts General Laws and in accordance with the Commonwealth's budgetary principles. For the fiscal year ended June 30, 1992, the non-appropriated funds of the Commonwealth's public institutions of higher education have also been presented, as directed by special statute. Fiscal year 1991 balances have not been adjusted to include these funds.

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

Fund Accounting -

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

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

These fund type and account group classifications are consistent with GAAP. They are organized as follows:

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

1. Financial Statement Presentation (Continued):

Governmental Fund Types -

Governmental Funds support the governmental functions of the Commonwealth.

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

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

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

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

Fiduciary Fund Types -

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

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

1. Financial Statement Presentation (Continued):

Fiduciary Fund Types (continued) -

Nonexpendable Trust Funds - account for trusts whose principal cannot be spent. Within this fund type, the Massachusetts School Fund's principal balance of \$5,000,000 earned investment income of \$327,000, which was credited directly to the Local Aid Fund for expenditure during fiscal year 1992, as required by statute.

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

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

Account Groups -

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

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

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

Non-appropriated Higher Education Funds -

The non-appropriated funds of the Commonwealth's public institutions of higher education have been recorded as a separate fund type which combines a variety of statutory basis financial activities to report in compliance with Section 339 of Chapter 138, Acts of 1991. Fiscal year 1991 amounts have not been restated to include non-appropriated higher education activity. The activities of the University of Massachusetts Medical School - Group Practice Plan have been excluded from the fund type because they do not represent a higher education activity.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

2. Summary of Significant Accounting Policies:

Statutory basis of accounting -

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

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

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

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

Cash and short-term investments and investments -

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

Investments of the Pension Trust Funds are stated at market. Other investments are stated at cost.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

2. Summary of Significant Accounting Policies (Continued):

Receivables -

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

Advances to related entity -

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

Inventories -

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

General fixed assets -

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

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

Interfund transactions -

During the course of its operations, the Commonwealth records transactions between funds and/or between departments. On the statutory basis, transactions between Governmental and Fiduciary Fund Types are

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

2. Summary of Significant Accounting Policies (Continued):

Interfund transactions (continued) -

recorded as adjustments to the funds' cash accounts. As a result, a fund may report a deficiency in cash and short-term investments. Transactions of a buyer/seller nature between departments within a fund are not eliminated. GAAP requires that such transactions within a fund be eliminated.

Risk financing -

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

Encumbrances -

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

Fringe benefit cost recovery -

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

2. Summary of Significant Accounting Policies (Continued):

Compensated absences -

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

Chapter 499, Acts of 1991, directed that state employees be repaid, during fiscal year 1992, for the effect of a furlough program which had reduced payroll expenditures in fiscal year 1991. These furlough-related compensation payments have been recorded as expenditures during fiscal year 1992.

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 the Legislature has specifically authorized to be carried into the next fiscal year.

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

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

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

2. Summary of Significant Accounting Policies (Continued):

Fund balances (continued) -

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

Unreserved fund balance is segregated into two components:

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

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

Total columns - memorandum only -

Total and subtotal columns on the combined financial statements on a 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.

Reclassifications -

Certain reclassifications have been made to the 1991 balances to conform to the presentation used in 1992. Also, certain fiscal year 1991 transactions related to the financing of statutorily-defined fiscal year 1990 deficits in the General and Local Aid Funds, through the sale of dedicated income tax bonds in the Commonwealth Fiscal Recovery Fund, have been eliminated to facilitate comparison between years.

In fiscal year 1992, the Commonwealth Stabilization, Intragovernmental Service, Maximization and Commonwealth Fiscal Recovery Funds have been segregated from the General Fund accounts and reclassified as Budgeted Special Revenue Funds. This reclassification was made to reflect the intent of the Legislature in establishing these statutory funds.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

2. Summary of Significant Accounting Policies (Continued):

Reclassifications (continued) -

The effect of this reclassification is as follows (amounts in thousands):

	<u>General</u> <u>Fund</u>	<u>Special</u> <u>Revenue</u> <u>Fund</u>
Fund balances:		
As previously reported	\$174,098	\$207,646
Reclassification of funds	<u>(69,986)</u>	<u>69,986</u>
Fund balances as restated	<u>\$104,112</u>	<u>\$277,632</u>

3. Budgetary Control:

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

For fiscal year 1992, the Legislature also included the estimates of revenue and other financing sources upon which the expenditure budget was based. Subsequent to June 30, 1992, the Legislature enacted, as part of Chapter 153, Acts of 1992, a provision which requires that the general appropriation act include a revenue budget to show the estimates of amounts expected to be available to finance appropriated expenditures.

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

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

3. Budgetary Control (Continued):

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

The original fiscal year 1992 appropriation act was Chapter 138, Acts of 1991, which authorized \$12,172,574,000 in direct appropriations, \$633,378,000 in authorizations to retain and expend certain non-tax revenues and \$67,325,000 of interagency chargebacks. Chapter 138 included projections of \$8,291,500,000 in tax revenues and approximately \$4,696,000,000 in non-tax revenues. With these revenues (exclusive of chargebacks) projected to total approximately \$12,987,400,000, and with unreserved balances of approximately \$58,051,000 carried forward from fiscal year 1991, the budget as presented in this original appropriation act was considered to be in balance.

During fiscal year 1992, the Legislature also passed and the Governor signed, with some modification through veto, Chapters 176, 255, 307, 493, 495, and 499, Acts of 1991, and Chapters 3, 23, 41 and 69, Acts of 1992, which included numerous supplemental budgetary appropriations. These totaled approximately \$769,032,000 in direct appropriations and \$31,800,000 in additional retained revenue authorizations.

Subsequent to June 30, 1992, the Legislature passed and the Governor signed with modification through veto, Chapter 153, Acts of 1992, which included approximately \$141,545,000 in additional supplemental appropriations. Through override of the Governor's vetoes, the Legislature also subsequently increased appropriations by approximately \$76,004,000. These actions raised the total of appropriations and retained revenue authorizations to approximately \$13,891,658,000. Appropriations continued from fiscal year 1991 totaled approximately \$108,759,000, and certain intrafund and interfund transfers, directed by statute, totaled approximately \$210,392,000.

Because a practice of legally required and updated revenues budgets was not in place for fiscal year 1992, the revenue projections included in the original appropriation act are used as the budgeted revenues in the combined budget and actual statement. As a result, the comparison of the initial revenue budget to the subsequent, and often modified, expenditure budget can be misleading. Revenue budgets are a legal requirement in fiscal year 1993.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

3. Budgetary Control (Continued):

The enacting or supplemental legislation determines the budgeted fund or funds to which the appropriation is assigned. If no Special Revenue Fund is specified, the appropriation is considered part of the General Fund. For these budgeted funds, the combined financial statements - statutory basis include a combined budget and actual statement.

The budgeted Special Revenue Funds are the Highway Fund, Local Aid Fund, Commonwealth Stabilization Fund, certain administrative control funds (Intragovernmental Service, Maximization and Commonwealth Fiscal Recovery) several environmental funds (Natural Heritage and Endangered Species, Mosquito and Greenhead Fly Control, Inland Fisheries and Game, Environmental Challenge, Toxics Use Reduction, Clean Environment, Environmental Permitting and Compliance Assurance, Underground Storage Tank Petroleum Product Cleanup, Environmental Law Enforcement, Public Access, Harbors and Inland Waters Maintenance, Marine Fisheries, Watershed Management and Low Level Radioactive Waste 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, Re-Employment and Job Placement, Trust Fund for the Head Injury Treatment Services, Massachusetts Tourism, Health Care Access and Ponkapoag Recreational Funds). The Child Care Affordability Scholarship Assistance Fund was established as a budgeted fund in fiscal 1991 but has had no appropriations or revenues.

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(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 as either "Cash and short-term investments" or "Deficiency in cash and short-term investments". The investments of the Pension Trust Funds are held and managed in separate and pooled trusts.

The office of the Treasurer and Receiver-General (the Treasury) manages the Commonwealth's short-term investment pool. Statutes authorize investment in obligations of the U.S. Treasury, authorized bonds of all states, banker's acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poor's Corporation and Moody's Commercial Paper Record and repurchase agreements that any of these obligations secure. Such investments are carried at cost, which approximates market.

The pooled cash and short-term investments at June 30, 1992, are as follows (amounts in thousands):

	<u>Carrying Value</u>
Cash	\$ 248,510
Certificates of deposit	<u>10</u>
	<u>248,520</u>
Short-term investments:	
U.S. Treasury obligations	1,012
Commercial paper	75,289
Short-term investment pool	316,132
Repurchase agreements	<u>634,900</u>
	<u>1,026,433</u>
Total	<u>\$1,274,953</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

4. Deposits and Investments (Continued):

The Pension Trust Funds have invested a significant portion of their portfolios in two pooled trusts which account for their operations in a manner similar to a mutual fund. The trusts are permitted to invest in equity securities, fixed income securities, real estate and other alternative investments. These investments are carried at market value. At June 30, 1992, they are as follows (amounts in thousands):

Investments:	
Equity securities	\$4,091,470
U.S. Treasury obligations	487,404
Fixed income securities	3,554,494
Real estate	445,431
Commercial paper	169,348
Repurchase agreements	200,000
Money market investments	292,077
Alternative investments	386,189
Other	<u>220,302</u>
Subtotal	9,846,715
Net noninvestment assets and liabilities of pooled trusts	<u>52,914</u>
Total	<u>\$9,899,529</u>

5. Short-term Financing and Credit Agreements:

Section 47 of Chapter 29 of the Massachusetts General Laws authorizes the Treasurer to issue temporary notes in anticipation of revenue or bond financing. When this short-term debt does not meet long-term refinancing criteria, it is classified among fund liabilities.

General Fund -

As authorized by Chapter 161A of the Massachusetts General Laws, the Commonwealth issues short-term notes to finance working capital advances from the Treasury to the MBTA. The Commonwealth retires these notes through subsequent appropriations and assessments to cities and towns. The notes outstanding at June 30, 1992, totaled \$240,000,000, with an interest rate of 3.40%. They mature in January 1993.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

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

General Fund (continued) -

The balance of other revenue anticipation notes outstanding fluctuates during the fiscal year but must be reduced to zero at June 30. During fiscal year 1992, amounts outstanding ranged from zero to \$635,000,000. Such borrowings were subject to a guarantee of up to \$1,200,000,000 through a letter of credit agreement.

Capital Projects Funds -

The Commonwealth has issued five-year term minibonds, which are redeemable upon demand, to finance its capital projects. At June 30, 1992, minibonds outstanding in the Capital Projects Funds totaled \$110,538,000, with interest rates ranging from 4.65% to 9.7%.

The Commonwealth may issue bond anticipation notes to temporarily finance its capital projects. Such notes outstanding at June 30, 1992, which totaled \$50,200,000, were refinanced on the first day of fiscal year 1993, through the issuance of general obligation bonds. To reflect the impact of this refinancing subsequent to the fiscal year end, the notes have been reclassified, for reporting purposes, as long-term debt.

Letter of credit agreements -

During fiscal year 1992, the Commonwealth maintained a letter of credit agreement with a group of banks to borrow up to \$1,200,000,000 as a combination of advances and guarantees of short-term borrowing through the issuance of Commonwealth commercial paper. No advances were drawn during the fiscal year ended June 30, 1992, or subsequent thereto. The guarantee feature was utilized extensively, and related fees totaled approximately \$2,026,000. This letter of credit agreement expired September 30, 1992.

Subsequently, the Commonwealth has entered into separate credit agreements with several banks to provide comparable credit and liquidity support for its commercial paper program to a total principal amount of \$700,000,000. These agreements expire October 29, 1993 through September 30, 1994. The average costs are approximately 0.3% on unutilized amounts and approximately 0.4% on utilized amounts.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

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

Line of credit agreement -

The Commonwealth maintained a revolving line of credit agreement with a bank through June 30, 1992, in the amount of \$150,000,000. Under this agreement, interest was charged at the lesser of the federal funds rate plus 1.5%, or prime, with commitment fees payable quarterly on the excess of the commitment amount over the average daily outstanding principal amount drawn. This line of credit agreement was not utilized during fiscal year 1992; commitment fees totaled \$75,000.

6. Long-term Bonds:

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

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including bonds and notes issued by it and all claims with respect thereto. However, the property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires legislative appropriation. Enforcement of a claim for the payment of principal or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth statutes, if any, enacted to extend the time for payment or impose other constraints upon enforcement.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992.

(Continued)

6. Long-term Bonds (Continued):

As of June 30, 1992, the Commonwealth had three types of bonds outstanding: general obligation bonds, dedicated income tax bonds, and special obligation bonds. The general obligation bonds are authorized and issued primarily to provide funds for state-owned capital projects and local government improvements. They are backed by the full faith and credit of the Commonwealth and paid from the Governmental Funds, in which debt service principal and interest payments are appropriated. Section 49 of Chapter 29 of the Massachusetts General Laws provides for the allocation of bond proceeds to these authorizations in arrears, as expenditures are made, unless the proceeds are allocated at the time of issuance.

Dedicated income tax bonds were issued during fiscal year 1991, as authorized by Chapter 151, Acts of 1990, to finance the combined net undesignated fund deficit in the General and Local Aid Funds at June 30, 1990. These bonds are designated Fiscal Recovery Loan, Act of 1990. They are general obligations of the Commonwealth additionally secured by the pledge of certain dedicated income tax revenues and the investment earnings thereon.

During fiscal year 1992, the Commonwealth issued special obligation revenue bonds as authorized under Section 20 of Chapter 29 of the Massachusetts General Laws. Such bonds may be secured by all or a portion of revenues credited to the Highway Fund and are not general obligations of the Commonwealth. Chapter 33, Acts of 1991, authorized the issuance of such special obligation bonds in an aggregate amount not to exceed \$1,125,000,000, in fiscal years 1992 through 1994. The Commonwealth issued \$103,770,000 of such bonds during fiscal year 1992, secured by a pledge of 2 cents of the 21-cent motor fuel excise tax collected on gasoline, effective July 1, 1992.

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

6. Long-term Bonds (Continued):

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

General and special obligation long-term bonds outstanding and bonds authorized-unissued at June 30, 1992, are as follows (amounts in thousands):

<u>Purpose</u>	<u>Outstanding</u>			<u>Authorized</u>
	<u>Amount</u>	<u>Interest rates (%)</u>	<u>Maturity dates</u>	<u>-unissued</u>
				<u>Amount</u>
Deficit Reduction:				
Fiscal Recovery	<u>\$1,244,090</u>	7.00 to 7.625	1993 - 1997	<u>\$ 57,274</u>
Capital Projects:				
General	5,165,054	1.00 to 12.00	1993 - 2013	2,545,155
Highway	1,826,202	1.00 to 11.75	1993 - 2013	1,507,216
Local Aid	765,274	5.00 to 9.25	1993 - 2012	2,220,189
State Recreation Areas	63,363	1.00 to 12.00	1993 - 2012	16,924
Metropolitan Water District	59,552	0.10 to 12.00	1993 - 2025	
Metropolitan Parks District	54,176	1.00 to 12.00	1993 - 2010	24,580
Metropolitan Sewerage District	43,103	0.10 to 10.20	1993 - 2015	
Environmental Challenge	20,239	6.30 to 9.25	1993 - 2012	20
Government Land Bank	14,489	1.00 to 14.25	1993 - 2010	2,081
Federally Assisted Housing	8,268	5.60 to 9.63	1993 - 2003	2,245
Intercity Bus Capital Assistance	<u>620</u>	6.30 to 9.25	1993 - 2010	<u>18,148</u>
Capital Projects Bonds	<u>8,020,340</u>			<u>6,336,558</u>
Total	<u>\$9,264,430</u>			<u>\$6,393,832</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

6. Long-term Bonds (Continued):

Changes in long-term bonds outstanding and bonds authorized-unissued for the year ended June 30, 1992, are as follows (amounts in thousands):

	<u>Bonds</u> <u>outstanding</u>	<u>Authorized</u> <u>-unissued</u>
Balance, July 1, 1991	18,580,339	14,937,306
General and special obligation bonds:		
Principal less discount and issuance costs	770,648	(770,648)
Discount and issuance costs	28,972	
General obligation refunding bonds:		
Principal less discount and issuance costs	574,313	
Discount and issuance costs	101,987	
Bonds retired	(842,029)	
Increase in bonds authorized		2,342,182
Expiration of authorizations		(84,808)
Short-term notes meeting long-term classification criteria	<u>50,200</u>	<u>(50,200)</u>
Balance, June 30, 1992	<u>19,264,430</u>	<u>14,393,832</u>

At June 30, 1992, debt service requirements to maturity for principal (including discount, capital appreciation and issuance costs) and interest are as follows (amounts in thousands):

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1993	\$ 623,158	\$ 534,863	\$ 1,158,021
1994	594,095	504,502	1,098,597
1995	617,429	462,977	1,080,406
1996	613,296	424,309	1,037,605
1997	814,350	380,321	1,194,671
1998 and thereafter	<u>6,002,102</u>	<u>2,498,372</u>	<u>8,500,474</u>
Total	<u>19,264,430</u>	<u>14,805,344</u>	<u>34,069,774</u>

In connection with the issuance of bonds and notes, the Commonwealth's fiscal year 1992 costs for legal counsel and underwriting fees were approximately \$1,081,000 and \$12,323,000, respectively.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

6. Long-term Bonds (Continued):

Subsequent to June 30, 1992, the Commonwealth refinanced outstanding bond anticipation notes totaling \$50,200,000 through the issuance of approximately \$52,000,000, including discount, of general obligation bonds, with interest rates ranging from 6.25% to 6.5%. These bond anticipation notes are reported as long-term obligations outstanding at June 30, 1992. The Commonwealth has also issued \$425,595,000 in general obligation refunding bonds, authorized by Section 53A of Chapter 29 of the Massachusetts General Laws, and \$200,000,000 in general obligation bonds, with interest rates ranging from 2.9% to 5.25% and 3.5% to 8%, respectively.

Advance refundings and defeased bonds

As authorized by Section 53A of Chapter 29 of the Massachusetts General Laws, and by Section 5 of Chapter 5, Acts of 1991, the Commonwealth advance refunded certain general obligation and dedicated income tax bonds through the issuance of \$599,118,211 of general obligation refunding bonds during fiscal year 1992. Proceeds totaling approximately \$571,966,000 were used to purchase U.S. Government securities which, with a cash deposit of \$2,347,000, were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liabilities therefor have been removed from the General Long-term Obligations Account Group. As a result of these advance refundings, the Commonwealth increased its aggregate debt service payments by approximately \$280,884,000 over the next 20 years and incurred an economic loss (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$12,315,000. At June 30, 1992, approximately \$288,000,000 of the bonds so refunded remain outstanding and are considered defeased.

In prior years, the Commonwealth also defeased certain general obligation and other bonds by placing the proceeds of refunding bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 1992, approximately \$1,283,000,000 of bonds outstanding from advance refundings in prior fiscal years are considered defeased.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

6. Long-term Bonds (Continued):

Statutory debt limit -

In fiscal years 1990 and 1991, Section 60A of Chapter 29, of the Massachusetts General Laws was amended to establish a limit on the amount of direct debt outstanding, effective at the beginning of fiscal year 1991. By statutorily limiting the Commonwealth's ability to issue direct debt, these amendments provide a control on annual capital spending. The first-year limit was \$6,800,000,000, with an increase of 5% allowed in each successive fiscal year. The direct debt limit for fiscal year 1992 was \$7,140,000,000.

For purposes of determining compliance with the limit, direct debt is defined to include general obligation bonds and minibonds at the amount of their original net proceeds. It excludes discount and issuance costs, if any, financed by these bonds. It also excludes dedicated income tax bonds issued under Chapter 151, Acts of 1990, special obligation bonds issued under Section 20 of Chapter 29, of the Massachusetts General Laws, refunded bonds, refunding bonds issued under Section 5 of Chapter 5, Acts of 1991, and bond anticipation notes. The \$50,200,000 of bond anticipation notes reported as long-term at June 30, 1992 are also excluded. Outstanding direct debt, as defined, totaled approximately \$6,937,000,000 at June 30, 1992.

7. Obligations under Lease and Lease/Purchase Agreements:

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

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

7. Obligations under Lease and Lease/Purchase Agreements (Continued):

At June 30, 1992, the Commonwealth's aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totals \$68,209,000. This liability is reported in the General Long-term Obligations Account Group. Equipment acquired under capital leases and included in the General Fixed Assets Account Group totaled approximately \$107,669,000.

The Commonwealth leases real property and equipment under numerous operating lease agreements for varying terms. These agreements contain clauses which indicate that their continuation is subject to appropriation by the Legislature. Rental expense for the fiscal year ended June 30, 1992 was approximately \$90,298,000.

The following is a schedule of future minimum payments under non-cancellable leases as of June 30, 1992 (amounts in thousands):

<u>Year ending June 30</u>	<u>Capital leases</u>			<u>Operating Leases</u>
	<u>Commonwealth</u>	<u>UMass</u>	<u>Total</u>	
1993	\$16,674	\$ 7,646	\$24,320	\$ 83,991
1994	13,967	6,939	20,906	54,913
1995	6,677	5,648	12,325	42,239
1996	3,976	4,797	8,773	30,280
1997	445	3,728	4,173	1,643
1998 and thereafter	<u>2,420</u>	<u>10,293</u>	<u>12,713</u>	<u>85</u>
Total	44,159	39,051	83,210	<u>\$213,151</u>
Less: Amount representing interest	<u>(6,654)</u>	<u>(8,347)</u>	<u>(15,001)</u>	
Present value of minimum lease payments	<u>\$37,505</u>	<u>\$30,704</u>	<u>\$68,209</u>	

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

8. Individual Fund Deficits:

The General Fund and certain Special Revenue and Capital Projects Funds included in the combined totals have fund deficits at June 30, 1992, as follows (amounts in thousands):

<u>Fund</u>	
General	\$361,733
Budgeted Special Revenue:	
Environmental:	
Challenge	934
Environmental Permitting and Compliance Assurance	3,453
Watershed Management	1,874
Other:	
Anti-Trust Law Enforcement	930
Victim and Witness Assistance	1,595
Intercity Bus Capital Assistance	8,485
Non-budgeted Special Revenue:	
Other:	
Government Land Bank	18,008
Federally Assisted Housing	8,427
Capital Projects:	
General	135,003
Local Aid:	
Community Development Action Grants	123
Lockup Facilities Improvements	179
Water Pollution Control	49
Other:	
State Recreation Areas	3,340
Metropolitan Parks	7,993
Environmental Challenge	21
Total	<u>\$552,167</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

8. Individual Fund Deficits (Continued):

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

In the Capital Projects Funds, the recognition of minibonds as fund liabilities accounts for \$110,538,000 of the reported fund deficits. The remaining deficits to be financed, approximately \$33,000,000, reflect the time lag between capital expenditures and the receipt or allocation of proceeds from the sale of related bonds. During the fiscal year ended June 30, 1992, the Commonwealth continued its policy of reducing the time elapsed between those events.

Chapter 219, Acts of 1991, also authorized new bonds to finance certain of these funds' deficits, extended prior bond authorizations, and corrected certain technical defects within those bonds authorizations. The effect was to provide financing in a total amount of \$210,000,000, of which the Commonwealth issued approximately \$198,000,000 during fiscal year 1992.

9. Medicaid Costs:

The Commonwealth provides medical care for low-income, elderly and other residents who qualify for such assistance under the federally-sponsored Medical Assistance Program, known as Medicaid. The Commonwealth pays the full cost of care and is reimbursed by the federal government for 50% of that cost. For the fiscal year ended June 30, 1992, the General Fund includes approximately \$2,818,000,000 in expenditures for Medicaid claims processed for payment.

The combined financial statements - statutory basis include Medicaid claims processed but unpaid at June 30, 1992, as accounts payable of approximately \$13,872,000. In addition, the Commonwealth estimates its liability, as determined in accordance with generally accepted accounting principles at \$967,000,000. This amount includes estimates of both the cost of care provided as of June 30, 1992, for which claims have not been processed, and the cost associated with nursing home and hospital rate settlements and other costs. Of this amount, 50% is expected to be reimbursed by the federal government.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

10. Retirement Systems:

The Commonwealth is responsible for the pension benefits of Commonwealth employees (members of the State Employees' Retirement System) and the teachers of its cities, towns, regional school districts and Quincy 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). The members of the retirement systems do not participate in the Social Security System. The Commonwealth has also assumed responsibility for payment of cost-of-living adjustments (COLA) for the separate (non-teacher) retirement systems of its cities, towns and counties.

Employees of certain independent authorities and agencies, such as the MBTA, and of counties, cities and towns (other than teachers) are covered by separate retirement systems. Also, certain Commonwealth employees and current retirees employed prior to the establishment of the State Employees' Retirement System are covered on a "pay-as-you-go" basis.

Plan descriptions -

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

Teachers' Retirement System (TRS) is an agent multiple employer defined benefit PERS. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of TRS. The TRS covers certified teachers in cities (except the City of Boston), towns, regional school districts and Quincy Junior College.

State-Boston Retirement System (SBRS) is an agent multiple employer defined benefit PERS. SBRS provides pension benefits to all full-time employees upon commencement of employment with any of the various government agencies covered by SBRS. The Commonwealth is a non-employer contributor and is only responsible for the actual cost of pension benefits for SBRS participants who serve in the City of Boston's School Department in a teaching capacity. The cost of pension benefits of the other participants is the responsibility of the City of Boston.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

10. Retirement Systems (Continued):

Plan descriptions (continued) -

The Commonwealth has assumed financial responsibility for the COLA granted to participants in the 104 retirement systems of its cities, towns and counties. Any future COLA granted by the Legislature to employees of these plans will also be the responsibility of the Commonwealth. The individual employer governments are responsible for the basic pension benefits.

Membership -

Membership in SERS, TRS and SBRS as of January 1, 1992 is as follows:

	<u>SERS</u>	<u>TRS</u>	<u>SBRS</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	40,420	30,633	2,137
Current employees:			
Vested	38,565	42,901	3,446
Nonvested	<u>48,387</u>	<u>16,812</u>	<u>1,510</u>
Subtotal	<u>86,952</u>	<u>59,713</u>	<u>4,956</u>
Total	<u>127,372</u>	<u>90,346</u>	<u>7,093</u>

Benefit provisions -

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

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

10. Retirement Systems (Continued):

Benefit provisions (Continued) -

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

Contributions required and contributions made -

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

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

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

10. Retirement Systems (Continued):

Contributions required and contributions made (continued) -

The current approved funding schedule, based on the January 1, 1990 valuation, was filed with the Legislature on March 1, 1991. It required contributions by the Commonwealth of \$723,441,000 during the fiscal year ended June 30, 1992. Because total pay-as-you-go benefits exceeded this amount, no additional Commonwealth contribution was required.

Actual contributions for the year ended June 30, 1992, are as follows (amounts in thousands):

	<u>Employee contributions</u>	<u>Commonwealth contributions</u>
SERS	\$189,839	\$339,770
TRS	150,778	289,225
SERS	12,174	26,411
COLA	-	73,990
Total	<u>\$352,791</u>	<u>\$729,396</u>

During fiscal year 1992, the Commonwealth also made payments totaling approximately \$22,123,000 to retirees employed prior to the establishment of the current plans and to non-contributory plans.

Subsequent to June 30, the Legislature overrode the Governor's veto of certain COLA provisions, retroactive to January 1, 1992, to be funded from current appropriations for participants in SERS and TRS, and from the Pension Reserves Investment Trust Fund for participants of other systems. The portions applicable to fiscal year 1992, which totaled approximately \$10,669,000 and \$10,926,000, respectively, are recognized as liabilities in the combined financial statements - statutory basis and were paid in December 1992. The appropriated amounts are included in Commonwealth contributions for the fiscal year ended June 30, 1992.

Chapter 22, Acts of 1992, established an early retirement incentive program under which eligible state employees could elect to receive enhanced pension benefits in exchange for retiring as of July 1, 1992. This change is not material.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

10. Retirement Systems (Continued):

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

This federal legislation, passed in October 1990, included 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, which became effective on January 1, 1992. Approximately 4,000 part-time seasonal, intermittent, temporary or contracted employees of the Commonwealth, who were precluded from retirement coverage by state law, have been covered by either Social Security or an alternative PERS which meets federal requirements, established by Chapter 494, Acts of 1991.

Postretirement health care and life insurance benefits -

In addition to providing pension benefits, the Commonwealth is statutorily required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and agencies.

The Commonwealth recognizes its share of the cost of providing these benefits when paid. These payments totaled approximately \$101,004,000 for the fiscal year ended June 30, 1992.

11. Commitments and Contingencies:

Under Chapters 161A and 161B of the Massachusetts General Laws, the Commonwealth is obligated to pay a portion of the debt service and the net costs of service of MBTA and certain regional transit authorities. The Commonwealth recovers a portion of these payments through assessments to the cities and towns served. Fiscal year 1992 net expenditures were \$421,103,000 and \$28,483,000, respectively. For fiscal year 1993, the Commonwealth has appropriated \$480,277,000 and \$31,500,000 to the MBTA and regional transit authorities, respectively. These appropriations cover net costs of service for the calendar year ended December 31, 1991.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

11. Commitments and Contingencies (Continued):

The Commonwealth is also statutorily obligated to provide contract assistance for debt service obligations of to the Massachusetts Convention Center Authority (MCCA) and the Government Land Bank. Such assistance totaled \$27,888,000 in fiscal year 1992. As the result of an advance refunding of MCCA debt during fiscal year 1992, appropriations for this purpose have been reduced to \$12,057,000 in fiscal year 1993.

At June 30, 1992, the aggregate outstanding debt for which the Commonwealth is obligated to provide contract assistance support totaled approximately \$2,515,329,000. In addition, the Commonwealth guarantees the debt of certain local governments and public higher education building authorities. The guaranteed debt outstanding at June 30, 1992, was approximately \$249,233,000.

At June 30, 1992, the Commonwealth had commitments approaching \$1,886,000,000 for various construction projects. The majority of these construction commitments relate to a major infrastructure project known as the Central Artery Project in which Federal participation is anticipated. The remainder relate to a wide range of building construction projects.

A number of lawsuits are pending or threatened against the Commonwealth which arose from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. For those cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated, the Attorney General estimates the liability to be approximately \$103,342,000. Of this amount approximately \$55,245,000 is expected to be paid during fiscal year 1993; approximately \$48,097,000 is expected to be paid thereafter. No accrual has been made for these amounts in the combined financial statements - statutory basis.

Various cases are currently before the Appellate Tax Board, with approximately \$528,000,000 of collected taxes being contested. For those cases in which it is probable that a loss will be incurred, the Department of Revenue estimates the Commonwealth's liability to be approximately \$85,000,000, of which approximately \$30,000,000 is expected to be settled during fiscal year 1993. No accrual has been made for these amounts in the combined financial statements - statutory basis.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

11. Commitments and Contingencies (Continued):

Workers' compensation costs are recognized when claims are presented and paid. The Commonwealth's outstanding liability for such claims at June 30, 1992, is estimated to be \$260,000,000, of which approximately \$49,500,000 is expected to be recognized during fiscal year 1993. No accrual has been made for these amounts in the combined financial statements - statutory basis.

The Commonwealth receives significant financial assistance from the federal government. Entitlement to these resources is generally conditional upon compliance with terms and conditions of the grant or reimbursement agreements and with applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits. Any disallowances become liabilities of the fund which received the assistance. At June 30, 1992, the Commonwealth estimates that liabilities, if any, which may result from such audits are not material.

Chapter 200A of the Massachusetts General Laws, the Commonwealth's Abandoned Property Law, requires deposit of certain unclaimed assets into a managed Agency Fund. The statute requires the excess amount over \$500,000 each June 30 to be remitted to the General Fund where it is included as miscellaneous revenue. Amounts remitted during fiscal year 1992 totaled \$38,528,000. Since inception, approximately \$281,400,000 has been remitted. This represents a contingency, because claims for refunds can be made by the owners of the property. No material amounts have been repaid.

12. Non-tax Revenue Initiatives:

Chapter 653, Acts of 1989, amended Chapter 29 of the Massachusetts General Laws, by adding Sections 29D and 29E, which authorize certain non-tax revenue initiatives and require reporting thereon, as follows.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

12. Non-tax Revenue Initiatives (Continued):

Debt collection -

Private debt collectors were engaged, with fees to be paid, on a contingent basis, from the proceeds collections. Collections and fees paid during fiscal year 1992 were as follows (amounts in thousands):

<u>Debt Collector</u>	<u>Collections</u>	<u>Fees</u>
Associated Credit Services, Inc.	\$59	\$ 8
Credit Control Services, Inc.	25	4
Glenn Associates, Inc.	<u>1</u>	<u>-</u>
	<u>\$85</u>	<u>\$12</u>

No amounts were collected by the following, and no fees were paid: Bristol Associates, Capital Credit Corporation, Coldata Inc., Credit Management Associates, Delta Management Associates, Inc., Payco-National Account Systems, Inc., and Osborne Associates, Inc.

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

<u>Debt Collector</u>	<u>Collections</u>	<u>Fees</u>
Coldata, Inc.	\$ 1	\$ 0
Delta Management Associates, Inc.	48	13
Glenn Associates, Inc.	58	14
Payco-National Account Systems, Inc.	<u>303</u>	<u>73</u>
	<u>\$410</u>	<u>\$100</u>

Revenue maximization -

Contractors were engaged to develop the Commonwealth's capacity to account for accounts receivable. During fiscal year 1992, federal non-tax revenues of approximately \$8,735,000 were attributed to such efforts, which primarily involved case management rate revisions in the Title XIX (Medicare) program. After contractor fees were paid, on a contingent basis, the Commonwealth received approximately \$6,942,000.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO COMBINED FINANCIAL STATEMENTS - STATUTORY BASIS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

13. Restatement

The Commonwealth's previously issued financial statements included amounts due to the Federal Government of \$416 million in the Expendable Trust Funds related to certain receipts from the Federal Government for unemployment benefits. The accompanying balance sheet and statement of revenues, expenditures and changes in fund balances of the Expendable Trust Funds have been restated to recognize such receipts as revenue. The effect of the restatement was to increase revenues from the Federal Government by \$416 million with corresponding reductions in the due to Federal Government and fund deficit - unemployment benefits in the Fiduciary Fund Type and the 1992 Totals (Memorandum Only).

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**COMMONWEALTH OF MASSACHUSETTS -
GENERAL PURPOSE FINANCIAL STATEMENTS**

Independent Auditors' Report

Mr. William Kilmartin, Comptroller
The Commonwealth of Massachusetts

We have audited the accompanying general purpose financial statements of the Commonwealth of Massachusetts as of June 30, 1992, and for the year then ended. These general purpose financial statements are the responsibility of the management of the Commonwealth of Massachusetts. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the University of Massachusetts, which statements reflect 12 and 2 percent of the assets and 5 and 1 percent of the revenues of the General and Special Revenue Fund Types, respectively. We did not audit the financial statements of the Pension Reserves Investment Trust or the Massachusetts State Teacher's and Employee's Retirement Systems Trust, investment vehicles for certain of the Commonwealth of Massachusetts' Pension Trust Funds, the financial statements which reflect 67 and 37 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 General, Special revenue, 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, 1992, 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.

As discussed in Note 16, the financial statements of the Fiduciary Fund Type included in the general purpose financial statements have been restated.

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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, as listed in the table of contents, are presented for the purpose of additional analysis and are not a required part of the general purpose financial statements of the Commonwealth of Massachusetts. The supplementary information are the responsibility of the management of the Commonwealth of Massachusetts. Such information has been subjected to the auditing procedures applied in the audit of the general purpose financial statements and, in our opinion, is fairly stated in all material respects in relation to the general purpose financial statements taken as a whole.

Deloitte + Touche

December 24, 1992 (June 23, 1993 as to Note 16)

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**COMMONWEALTH OF MASSACHUSETTS -
GENERAL PURPOSE FINANCIAL STATEMENTS**

**COMMONWEALTH OF MASSACHUSETTS
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1982**

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

JUNE 30, 1992

(Amounts in thousands)

	Governmental Fund Types			Proprietary Fund Types		Fiduciary Fund Types		Account Groups		Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects	Enterprise		Trust and Agency (As restated)	General Fixed Assets	Long-term Obligations	1992 (As restated)	1991	
ASSETS AND OTHER DEBITS											
Cash and short-term investments	\$ 247,359	\$ 939,735	\$ 13,375	\$ 178,307	\$ 1,218,355	\$ 0	\$ 0	\$ 0	\$ 2,597,131	\$ 1,774,374	
Amount on deposit with U.S. Treasury Investments				107,103	9,917,524				10,024,627	103,129	
Restricted investments				1,165,839					1,165,839	8,851,797	
Investments of deferred compensation plan					764,696				764,696	442,299	
Annuity contracts					937,249				937,249	643,063	
Assets held in trust					1,583,758				1,583,758	882,873	
Receivables, net of allowance for uncollectibles:										1,475,522	
Taxes	598,153	416,751			332,657				1,345,561	1,198,768	
Due from federal government	575,581	98,726	144,423	165,508	2,764				987,002	815,213	
Loans				98,574	7,391				105,965	20,908	
Other receivables			43	102,756	43,323				185,737	321,789	
Due from cities and towns	201,133	107,377							454,632	184,873	
Due from other funds	180,971	1,766							182,737	184,873	
Inventory		50,722	42,854	339,393	3,494				436,463	529,562	
Fixed assets				49,769					49,769	52,067	
Restricted and other assets				8,221,948					12,735,494	11,689,689	
Amounts available for retirement of general long-term obligations				129,624					129,624	181,090	
Amounts to be provided for retirement of general long-term obligations							4,513,546			6,317	
Total assets and other debits	\$ 1,804,197	\$ 1,615,077	\$ 200,695	\$ 10,558,821	\$ 14,811,211	\$ 4,513,546	\$ 13,555,856	\$ 47,059,403	\$ 41,478,692	\$ 12,305,261	

(Continued)

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

JUNE 30, 1992
 (Amounts in thousands)

	Governmental Fund Types			Proprietary Fund Types	Fiduciary Fund Types	Account Groups		Totals	
	General	Special Revenue	Capital Projects	Enterprise	Trust and Agency (As restated)	General Fixed Assets	General Long-term Obligations	1992 (As restated)	1991
LIABILITIES, FUND EQUITY AND OTHER CREDITS									
Liabilities:									
Accounts payable	\$ 1,260,369	\$ 232,445	\$ 171,829	\$ 187,322	\$ 82,675	\$ 0	\$ 0	\$ 1,934,640	\$ 1,874,164
Accrued payroll	76,799	11,456	1,082	54,693	267			144,307	106,402
Compensated absences	144,228	50,216	2,890		408		99,612	237,352	273,863
Tax refunds and abatements payable	359,704	239,049			65,763			684,516	530,245
Due to cities and towns					16,410			16,410	9,608
Due to other funds	239,500	94,949	98,520		3,494			438,463	529,562
Due to federal government	129,581	48,808	3,402	180,672	308,033			308,033	
Deferred revenue					42,394			404,837	937,249
Deferred compensation benefits payable					764,696			764,696	643,063
Agency liabilities					2,963,278			2,963,278	2,768,080
Claims and judgments	126,148	8,182	782		5,591		389,435	530,138	406,725
Other accrued liabilities	48,252	152,983	15,206	281,597				498,038	398,263
Obligations under lease/purchase and other financing arrangements								180,070	177,869
Bonds and notes payable	240,806		110,538	111,861				14,096,625	11,940,601
School construction grants				4,451,051				1,616,485	1,582,389
Unfunded pension costs								2,117,685	1,797,294
Total liabilities	2,625,365	838,068	404,259	5,267,196	5,190,258		13,555,856	27,881,022	24,299,809
Fund equity and other credits:									
Investment in general fixed assets						4,513,546		4,513,546	4,063,662
Contributed capital				5,078,131				5,078,131	4,959,581
Retained earnings:									
Reserved for investment programs				17,394				17,394	15,330
Reserved for bond retirement				196,100				196,100	702
Unreserved									225,660
Fund balances (deficit):									
Unemployment benefits					(125,146)			(125,146)	216,860
Pension benefits					9,648,666			9,648,666	8,373,022
Endowment principal					25,548			25,548	27,282
Unreserved	(821,168)	776,989	(203,564)		71,885			(175,859)	(703,216)
Total fund equity (deficit) and other credits	(821,168)	776,989	(203,564)	5,291,625	9,620,953	4,513,546		19,178,381	17,178,883
Total liabilities, fund equity and other credits	\$ 1,804,197	\$ 1,615,077	\$ 200,695	\$ 10,558,821	\$ 14,811,211	\$ 4,513,546	\$ 13,555,856	\$ 47,059,403	\$ 41,478,692

See notes to general purpose financial statements.

(Concluded)

COMMONWEALTH OF MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 1992

(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Type	Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects		1992 (As restated)	1991
Revenues:						
Taxes	\$ 5,852,633	\$ 3,626,181	\$ 0	\$ 841,349	\$ 10,320,163	9,634,622
Assessments	172,349	614,384		1,819	788,552	1,544,807
Federal grants and reimbursements	2,403,621	1,256,308	559,757	427,962	4,647,648	4,178,902
Departmental	1,177,404	2,265,942	1,107	4,895	3,449,348	3,111,431
Miscellaneous	359,500	35,930	742	136,653	532,825	453,089
Total revenues	9,965,507	7,798,745	561,606	1,412,678	19,738,536	19,122,861
Other financing sources:						
Proceeds of dedicated income tax bonds			720,847		720,847	1,362,726
Proceeds of general obligation bonds	36,832		100,000		100,000	1,028,740
Proceeds of special obligation bonds	17,507		537,481		574,313	
Proceeds of refunding bonds	248,977	520,203	262,279	9,058	17,507	28,016
Proceeds of obligations under lease/purchase	15,874		30,767	7,738	1,030,517	1,489,698
Operating transfers in					54,379	38,078
Total other financing sources	319,190	520,203	1,641,374	16,796	2,497,563	3,948,258
Total revenues and other financing sources	10,284,697	8,318,948	2,202,980	1,429,474	22,236,099	23,071,119
Expenditures:						
Current:						
Legislature	44,569				44,569	40,084
Judiciary	83,377	231,255		324	314,958	298,478
Inspector General	979				979	983
Governor and Lieutenant Governor	3,611			5	3,611	3,556
Secretary of the Commonwealth	10,443	1,299		17	11,747	13,189
Treasurer and Receiver-General	84,020	1,295,247			1,379,284	1,260,928
Auditor of the Commonwealth	9,182	728		491	10,401	11,089
Attorney General	15,735	2,757		369	18,861	89,078
Ethics Commission	870				870	910
District Attorney	8,062	30,714		3,530	42,306	42,307
Office of Campaign and Political Finance	516				516	880
Board of Library Commissioners		4,003		1	4,004	20,979
Comptroller	5,536				5,536	5,539
Administration and finance	695,813	137,083		1,512	834,208	875,293

(Continued)

COMMONWEALTH OF MASSACHUSETTS

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

FISCAL YEAR ENDED JUNE 30, 1992

(Amounts in thousands)

	Governmental Fund Types			Fiduciary Fund Type Expendable Trust (As restated)	Totals (Memorandum Only)	
	General	Special Revenue	Capital Projects		1992 (As restated)	1991
Expenditures (continued):						
Current (continued):						
Environmental affairs	30,638	110,203		7,287	148,128	154,061
Communities and development	190,439	206,345		2,361	399,145	410,870
Health and human services	3,059,002	940,189		23,289	4,030,490	4,771,485
Transportation and construction	71,622	20,298		963	92,883	177,353
Education	9,575	382,305		1,985	393,865	370,581
Educational affairs	16,926				16,926	
Higher education	1,106,744	181,004		108	1,287,856	1,212,571
Public safety	396,879	271,052		1,729	659,660	436,903
Economic affairs	15,940	178,068		1,678,854	1,872,862	1,505,809
Elder affairs	110,854	25,693		25	136,572	142,844
Consumer affairs	23,803	3,041		2,679	29,523	33,358
Labor	18,070	794		31,257	50,121	37,700
Direct local aid	3,351	2,275,075			2,278,426	2,608,323
Medical	2,852,674				2,852,674	2,872,287
Capital outlay:						
Local aid			87,145		87,145	225,989
Capital acquisition and construction			1,157,186		1,157,186	945,062
Pension	265,451	488,068			751,519	706,531
Debt service:						
Principal retirement	239,841	42,441			342,282	811,456
Interest and fiscal charges	414,820	144,164			558,784	595,524
Total expenditures	9,638,942	6,977,828	1,244,343	1,756,796	19,817,907	20,682,006
Other financing uses:						
Payments to refunded bond escrow agent	36,832		537,481		574,313	
Operating transfers out	543,608	841,658	269,345	3,916	1,658,527	2,103,027
Total other financing uses	580,440	841,658	806,826	3,916	2,232,840	2,103,027
Total expenditures and other financing uses	10,419,382	7,819,486	2,051,169	1,760,712	22,050,747	22,785,033
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(134,685)	499,464	151,811	(331,239)	185,352	286,066
Fund balances (deficit) at beginning of year	(688,483)	277,525	(355,375)	277,977	(486,356)	(772,442)
Fund balances (deficit) at end of year	\$(821,168)	\$ 776,989	\$ (203,564)	\$ (53,261)	\$ (301,004)	\$ (486,356)

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, 1992

(Amounts in thousands)

	General Fund		Budgeted Special Revenue Funds		Totals (Memorandum Only)		Variance Favorable (Unfavorable)
	Budget	Actual	Budget	Actual	Budget	Actual	
Revenues:							
Taxes	\$ 4,891,300	\$ 5,639,259	\$ 3,400,200	\$ 3,845,322	\$ 8,291,500	\$ 8,483,581	\$ 1,192,081
Assessments		172,498		7,507		180,005	180,005
Federal grants and reimbursements	2,209,400	2,392,732	11,400	10,735	2,310,800	2,393,467	82,667
Departmental	1,068,100	440,941	386,830	444,463	1,457,030	895,404	(571,626)
Miscellaneous		289,764		29,374		318,138	318,138
Total revenues	8,258,800	8,824,194	3,800,530	4,336,401	12,059,330	13,260,595	1,201,265
Other financing sources:							
Proceeds of refunding bonds				36,832		36,832	36,832
Fringe benefit cost recovery		80,072		10,988		91,060	91,060
Operating transfers in	167,000	152,827	530,170	499,131	167,000	651,758	484,758
Stabilization transfer				170,020		170,020	(360,150)
Other sources	231,000	15,875			231,000	15,875	(215,125)
Total other financing sources	398,000	248,574	530,170	716,971	828,170	865,545	37,375
Total revenues and other financing sources	8,656,800	9,172,768	4,330,700	5,053,372	12,887,500	14,226,140	1,238,640
Expenditures:							
Legislature	50,528	42,859			50,528	42,859	7,667
Judiciary	79,824	78,028			308,787	305,031	3,756
Inspector General	1,006	908	229,143	226,003	1,006	994	8
Governor and Lieutenant Governor	4,084	3,625			4,084	3,625	459
Secretary of the Commonwealth	11,005	10,812	734	590	12,338	11,402	937
Treasurer and Receiver-General	154,637	87,402	40,238	807	194,875	88,209	106,666
Auditor of the Commonwealth	9,311	9,311	728	728	10,039	10,039	
Attorney General	15,707	15,519	690	669	16,397	16,188	209
Ethics Commission	883	882			883	882	1
District Attorney	7,932	7,808	29,313	29,173	37,245	37,071	174
Office of Campaign and Political Finance	467	467			467	467	
Board of Library Commissioners	5,109	5,072	1,594	1,586	1,594	1,586	8
Comptroller	945,785	972,589	525	525	5,534	5,537	37
Administration and finance	36,039	33,076	238,074	211,477	1,183,839	1,084,086	99,753
Environmental affairs			100,569	96,298	136,608	129,372	7,236
Communities and development	200,422	190,801	4,812	4,812	205,234	195,613	9,621

(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, 1992

(Amounts in thousands)

	General Fund		Budgeted Special Revenue Funds		Totals (Memorandum Only)	
	Budget	Actual	Budget	Actual	Budget	Actual
Expenditures (continued):						
Health and human services	3,194,828	3,063,228	11,300	2,058	3,206,128	3,065,286
Transportation and construction	428,820	428,528	137,565	26,687	566,385	455,216
Education	10,492	9,570	59,606	59,508	70,098	68,078
Educational affairs	3,562	3,461			3,562	3,461
Higher education	542,598	532,865	1,222	1,124	543,818	533,989
Public safety	390,006	366,652	230,968	229,473	610,972	598,125
Economic affairs	20,650	17,132	6,776	6,325	27,426	23,457
Elder affairs	119,895	110,868	2,077	2,047	118,972	112,913
Consumer affairs	24,798	24,144	3,068	3,064	27,864	27,208
Labor	20,411	18,784			20,411	18,784
Direct local aid	3,407	3,351	2,278,674	2,275,075	2,282,081	2,278,426
Medical	2,819,850	2,817,674	492,424	496,066	2,819,850	2,817,674
Pension	269,058	265,451			761,482	751,519
Principal retirement						
Interest and fiscal charges	157,797	156,229	183,835	185,048	351,632	341,277
	329,046	326,398	231,897	230,592	560,983	556,990
Total expenditures	9,845,179	9,523,683	4,295,930	4,079,735	14,141,009	13,603,418
Other financing uses:						
Payments to refunded bond escrow agent						
Fringe benefit cost assessment		10,988		36,832		36,832
Operating transfers out	1,930	1,930	67,870	67,868	69,800	69,798
Stabilization transfer		102,012		68,008		170,020
Total other financing uses	1,930	114,930	67,870	195,495	69,800	310,335
Total expenditures and other financing uses	9,847,109	9,638,613	4,363,700	4,275,140	14,210,809	13,913,753
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(1,180,309)	(465,945)	(33,009)	778,232	(1,223,309)	312,387
Fund balances at beginning of year	104,112	104,112	132,945	132,945	237,057	237,057
Fund balances (deficit) at end of year	\$ (1,080,197)	\$ (561,733)	\$ 99,945	\$ 911,177	\$ (986,252)	\$ 549,444

(Continued)

See notes to general purpose financial statements.

COMMONWEALTH OF MASSACHUSETTS

**COMBINED STATEMENT OF REVENUES, EXPENSES,
CHANGES IN RETAINED EARNINGS/FUND BALANCES AND CHANGES IN CONTRIBUTED CAPITAL -
ALL PROPRIETARY FUND TYPES AND SIMILAR TRUST FUNDS**

FISCAL YEAR ENDED JUNE 30, 1992

(Amounts in thousands)

	Proprietary Fund Type			Totals (Memorandum Only)	
	Enterprise Funds	Fiduciary Fund Types		1992	1991
		Nonexpendable Trust Funds	Pension Trust Funds		
Operating revenues:					
Contributions	\$ 0	\$ 177	\$ 987,133	\$ 987,310	\$ 922,081
Investment income			1,136,969	1,136,969	295,026
Charges for services	728,583			728,583	613,562
Donations	8,151			8,151	
Other	16,236	1,615		17,853	4,731
Total operating revenues	752,972	1,792	2,104,102	2,858,866	1,835,400
Operating expenses:					
Cost of services and administration	1,090,971	3,521	2,947	1,097,439	976,651
Retirement benefits and refunds			825,511	825,511	744,967
Depreciation	241,159			241,159	214,182
Total operating expenses	1,332,130	3,521	828,458	2,164,109	1,935,800
Operating income (loss)	(579,158)	(1,729)	1,275,644	694,757	(100,400)
Nonoperating revenues (expenses):					
Operating grants	20,666			20,666	20,125
Donations					5,185
Interest income	53,951			53,951	61,629
Other revenues	2,627			2,627	2,377
Interest expense	(233,661)			(233,661)	(203,061)
Other expenses	(50,130)			(50,130)	(62,958)
Nonoperating revenues (expenses), net	(208,547)			(208,547)	(176,723)
Income (loss) before transfers and extraordinary item	(785,705)	(1,729)	1,275,644	486,210	(277,123)
Transfers and extraordinary item:					
Operating transfers	628,015	(5)		628,010	613,329
Extraordinary item - loss on defeasance	(48,177)			(48,177)	
Total transfers and extraordinary item	579,838	(5)		579,833	613,329
Net income (loss)	(205,867)	(1,734)	1,275,644	1,068,043	(277,123)

(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, 1992

(Amounts in thousands)

	Proprietary Fund Type			Totals (Memorandum Only)	
	Enterprise Funds	Nonexpendable Trust Funds	Pension Trust Funds	1992	1991
Add: Depreciation of fixed assets acquired from contributed capital	136,364			136,364	130,810
Transfer of extraordinary item to contributed capital	41,305			41,305	
Increase (decrease) in retained earnings/fund balances	(26,196)	(1,734)	1,275,644	1,245,712	467,016
Retained earnings/fund balances at beginning of year	241,602	27,282	6,373,022	6,641,906	6,174,980
Retained earnings/fund balances at end of year	\$ 213,404	\$ 25,548	\$ 6,648,666	\$ 6,887,708	\$ 6,641,996
Contributed capital at beginning of year	\$ 4,959,581	\$ 0	\$ 0	\$ 4,959,581	\$ 4,939,058
Add: Capital contributions	296,219			296,219	151,333
Less: Depreciation of fixed assets acquired from contributed capital	(136,364)			(136,364)	(130,810)
Loss on defeasance	(41,305)			(41,305)	
Contributed capital at end of year	\$ 5,078,131	\$ 0	\$ 0	\$ 5,078,131	\$ 4,959,581

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, 1992

(Amounts in thousands)

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>	
	<u>Enterprise funds</u>	<u>Nonexpendable Trust Funds</u>	<u>1992</u>	<u>1991</u>
Cash flows from operating activities:				
Operating loss	\$ (579,158)	\$	\$ (579,158)	\$ (569,402)
Adjustments to reconcile operating loss to net cash provided by (used for) operating activities:				
Depreciation	241,159		241,159	214,182
Amortization of bond discount				3,910
Change in assets and liabilities:				
Due from federal government	(93,080)		(93,080)	(63,162)
Loans	(77,668)		(77,668)	(2,182)
Other receivables	(21,829)		(21,829)	(9,721)
Due from other funds	(45,494)		(45,494)	(60,400)
Inventory	2,298		2,298	(1,797)
Restricted and other assets	51,486		51,486	165,628
Accounts payable	41,084		41,084	33,096
Accrued payroll	37,828		37,828	2,621
Other accrued liabilities	(21,922)		(21,922)	59,817
Due to other funds				(16,785)
Deferred revenue	30,620		30,620	13,798
Total adjustments	144,462		144,462	339,027
Net cash used for operating activities	(434,696)		(434,696)	(230,375)
Cash flows from noncapital financing activities:				
Operating grants	20,666		20,666	20,125
Operating transfers	628,015		628,015	613,329
Donations				5,185
Other nonoperating revenues	2,627		2,627	2,377
Other nonoperating expenses	(50,130)		(50,130)	(62,958)
Net cash provided by noncapital financing activities	601,178		601,178	578,058
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets	(837,680)		(837,680)	(639,793)
Proceeds from the issuance of bonds and notes	2,995,635		2,995,635	787,649
Interest on bonds and notes	(233,661)		(233,661)	(203,081)
Capital contributions, net	255,374		255,374	151,333
Principal payments on bonds and notes	(1,456,405)		(1,456,405)	(524,749)
Payment to escrow agent	(195,079)		(195,079)	
Receipts from capital grants	600		600	
Net cash provided by (used for) capital and related financing activities	528,784		528,784	(428,641)

(Continued)

COMMONWEALTH OF MASSACHUSETTS

**COMBINED STATEMENT OF CASH FLOWS -
ALL PROPRIETARY FUND TYPES AND NONEXPENDABLE TRUST FUND**

FISCAL YEAR ENDED JUNE 30, 1992

(Amounts in thousands)

	<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Totals (Memorandum Only)</u>	
	<u>Enterprise funds</u>	<u>Nonexpendable Trust Funds</u>	<u>1992</u>	<u>1991</u>
Cash flows from investing activities:				
Purchases, sales and maturities of investments, net	(708,695)		(708,695)	9,078
Interest income	53,951		53,951	61,629
Net cash provided by (used for) investing activities:	(654,744)		(654,744)	70,707
Net increase (decrease) in cash and cash equivalents	40,522		40,522	(10,251)
Cash and cash equivalents at beginning of year	137,785	24,641	162,426	175,305
Cash and cash equivalents at end of year	\$ 178,307	\$ 24,641	\$ 202,948	\$ 165,054

See notes to general purpose financial statements.

(Concluded)

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

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)
- Bay State Skills Corporation
- Government Land Bank
- Massachusetts Community Development Finance Corporation
- Massachusetts Industrial Finance Agency

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

1. Summary of Significant Accounting Policies (Continued):

a. Reporting Entity (Continued) -

Massachusetts Technology Development Corporation
Massachusetts Technology Park Corporation
Massachusetts Water Pollution Abatement Trust
University of Massachusetts Medical School - Group Practice Plan
University of Massachusetts Medical School Teaching Hospital Trust Fund
University of Massachusetts Medical Center Self Insurance Trust
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)

The following authorities are excluded from the reporting entity:

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.

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 by 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, the Commonwealth has no special financing relationships with these entities.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

1. Summary of Significant Accounting Policies (Continued):

b. Fund Accounting -

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

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

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.

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

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

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

1. Summary of Significant Accounting Policies (Continued):

b. Fund Accounting (Continued) -

Proprietary Funds - are used to account for activities similar to those found in the private sector where net income and capital maintenance are measured.

Enterprise Funds are used to account for operations that are financed and operated in a manner similar to private business enterprises. Costs of providing goods and services to the general public on a continuing basis, including depreciation, are financed or recovered primarily through user charges.

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

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

Nonexpendable Trust Funds are used to account for trusts whose principal cannot be spent and for the endowments of the Commonwealth's public 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.

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.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

1. Summary of Significant Accounting Policies (Continued):

b. Fund Accounting (Continued) -

The General Long-term Obligations Account Group is used to account for general and special obligation long-term bonds and long-term notes payable issued by 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.

Agency Fund assets and liabilities are accounted for using the modified accrual basis of accounting.

Statutory (Budgetary) Accounting :

The Commonwealth's budgets are adopted in accordance with a statutory basis of accounting which is not in accordance with GAAP. Revenues are generally recognized when cash is received. However, revenues receivable for federal grants and reimbursements are recognized when related expenditures are incurred. Amounts due from certain political subdivisions of the Commonwealth are recognized when considered measurable and available at year end.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

1. Summary of Significant Accounting Policies (Continued):

c. Basis of Accounting (Continued) -

Expenditures generally are recorded when the related cash disbursement occurs. At year end, payroll is accrued and payables are recognized, to the extent of approved encumbrances, provided that the goods or services have been received by June 30. Other encumbrances are lapsed. Costs incurred under the federally-sponsored Medicaid program, amounts required to settle claims and judgments against the Commonwealth, and certain other liabilities are not recognized until they are encumbered or otherwise processed for payment.

Under the statutory basis of accounting, the Commonwealth uses encumbrance accounting to record the full amount of purchase orders, contracts and other commitments of appropriated resources as deductions from the appropriation prior to actual expenditure. In the governmental funds, encumbrance accounting is a significant aspect of budgetary control.

d. Cash and Short-term Investments and Investments -

The Commonwealth follows the practice of pooling cash and cash equivalents for all of its governmental and fiduciary funds. Cash equivalents consist of short-term investments with an original maturity of three months or less and are stated at cost. Because 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. Other investments are stated at cost or amortized cost.

e. Receivables -

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

1. Summary of Significant Accounting Policies (Continued):

f. Inventories -

The costs of materials and supplies are recorded as expenditures in Governmental Funds when purchased. Such inventories are not material in total to the financial statements. Inventories included within Enterprise Funds are stated at the lower of cost, using the first-in, first-out method, or market.

g. Fixed Assets -

For Governmental Funds, general fixed asset acquisitions are recorded as expenditures in the acquiring fund and capitalized in the General Fixed Assets Account Group in the year purchased. General fixed assets are recorded at historical cost, or at estimated historical cost if actual historical cost is not available. Donated fixed assets are recorded at fair market value at the time of the donation.

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

Fixed assets of the Enterprise Funds are capitalized upon purchase and depreciated on a straight-line basis over the estimated useful lives of the assets. Interest incurred during construction is capitalized. The estimated useful lives of fixed assets are as follows:

Structures and improvements	3 - 100 years
Equipment, furniture, fixtures and vehicles	3 - 25 years

h. Interfund Transactions -

During the course of its operations, the Commonwealth records transactions between funds and/or between departments. Transactions of a buyer/seller nature between departments within a fund are not eliminated from the individual fund statements. Receivables and payables resulting from transactions between funds are classified as "Due from other funds" or "Due to other funds" on the balance sheet.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

1. Summary of Significant Accounting Policies (Continued):

i. Fringe Benefit Cost Recovery -

The Commonwealth appropriates and pays the fringe benefit costs of its employees and retirees through the General Fund and a budgeted Special Revenue Fund. These fringe benefits include the costs of employees' health insurance, pensions, unemployment compensation and other costs necessary to support the state workforce. As directed by Massachusetts General Laws, these costs are assessed to other funds based on their payroll costs, net of credits for direct payments. Since these fringe benefit costs are not separately appropriated or otherwise provided for in these funds, the required assessment creates an unfavorable budget variance in the budgeted funds.

Beginning in fiscal year 1992, fringe benefit cost assessments made to all Governmental and Fiduciary Fund Types are reported uniformly among other financing uses.

j. School Construction Grants -

The Commonwealth is committed to pay debt service on bonds issued by local cities, towns and regional school districts for school construction and renovation. This liability is recorded in the General Long-term Obligations Account Group.

k. Compensated Absences -

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

For Governmental Funds and Expendable Trust Funds, vested or accumulated vacation and sick leave that are expected to be liquidated with expendable available financial resources are reported as expenditures and fund liabilities. Amounts that are not expected to be so liquidated are reported in the General Long-term Obligations Account Group.

In the Enterprise Funds, employees' accumulated vacation and sick leaves are recorded as an expense and liability as the benefits accrue.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

1. Summary of Significant Accounting Policies (Continued):

l. Lottery Revenue and Prizes

Ticket revenues and prizes awarded by the Massachusetts Lottery Commission are recognized as drawings are held. For certain prizes payable in installments, the Commonwealth purchases annuities in the Commonwealth's name, which are recorded as annuity contracts and prizes payable in the Agency Funds. The Commonwealth retains the risk related to such annuities.

m. Risk Financing

The Commonwealth does not insure for workers' compensation, casualty, theft, tort claims and other losses. Such losses, including estimates of amounts incurred but not reported, are included as accrued liabilities in the accompanying financial statements when the claim is incurred. For workers' compensation, the Commonwealth assumes the full risk of claims filed under a program managed by the Public Employee Retirement Administration. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances. The Group Insurance Commission administers health care and other insurance for the Commonwealth's employees and retirees.

n. Total Columns - Memorandum Only

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

o. Reclassifications

For the fiscal year ended June 30, 1992, certain reclassifications have been made to the 1991 balances to conform to the presentation used in 1992.

The presentation of the separately issued Enterprise Funds financial statements has been reclassified to conform to the accounting classifications used by the Commonwealth.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

2. Budgetary Control:

State finance law requires that a balanced budget be approved by the Governor and the Legislature. The Governor presents an annual budget to the Legislature which includes estimates of revenues, expenditures and other financing sources and uses anticipated during the coming fiscal year. The Legislature, which has full authority to amend the budget, adopts an expenditure budget by appropriating monies, at the individual appropriation account level, in an annual appropriation act.

For fiscal year 1992, the Legislature also included the estimates of revenue and other financing sources upon which the expenditure budget was based. Subsequent to June 30, 1992, the Legislature enacted a provision requiring that the general appropriation act include a revenue budget to show the estimates of amounts expected to be available to finance appropriated expenditures.

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

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

Generally, expenditures may not exceed the level of spending authorized for an individual appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Certain interfund assessments to allocate fringe benefits and other costs are mandated by state finance law but not itemized in the appropriation process or separately budgeted. In addition, Massachusetts General Laws authorize the Commissioner of Administration, with the approval of the Governor, to withhold allotment of appropriated funds, effectively reducing the accounts expenditure budget, when he determines that available revenues will be insufficient to meet authorized expenditures.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

2. Budgetary Control (Continued):

The original fiscal year 1992 appropriation act authorized \$12,172,574,000 in direct appropriations, \$633,378,000 in authorizations to retain and expend certain non-tax revenues and \$67,325,000 of interagency chargebacks. The act also included estimates of \$8,291,500,000 in tax revenues and approximately \$4,696,000,000 in non-tax revenues. With these revenues (exclusive of chargebacks) projected to total approximately \$12,987,400,000, and with unreserved balances of approximately \$58,051,000 carried forward from fiscal year 1991, the budget as presented in this original appropriation act was considered to be in balance.

During fiscal year 1992, the Legislature also passed and the Governor signed, with some modification through veto, several supplemental budgetary appropriations. These amounts added approximately \$769,032,000 in direct appropriations and \$31,800,000 in additional retained revenue authorizations.

Subsequent to June 30, 1992, the Legislature passed and the Governor signed, with modification through veto, approximately \$141,545,000 in additional supplemental appropriations. Through veto overrides, the Legislature also subsequently increased appropriations by approximately \$76,004,000. These actions raised to approximately \$13,891,658,000 the total of appropriations and retained revenue authorizations. Appropriations continued from fiscal year 1991 totaled approximately \$108,759,000, and certain intrafund and interfund transfers, directed by statute, totaled approximately \$210,392,000.

Because a practice of legally required and updated revenues budgets was not in place, the revenue projections included in the original appropriation act are used as the budgeted revenues in the Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Statutory Basis - Budget and Actual - General and Budgeted Special Revenue Funds (combined budget and actual statement). As a result, the comparison of the initial revenue budget to the subsequent, and often modified, expenditure budget can be misleading. This presentation is a transition to the statutory requirements for revenue budgets in fiscal year 1993.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

2. Budgetary Control (Continued):

Appropriations are enacted for the General Fund and certain Special Revenue Fund activities. For these funds, a Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Statutory Basis - Budget and Actual - General and Budgeted Special Revenue Funds is included. The Budgeted Special Revenue Funds presented are the Highway, Local Aid, Commonwealth Stabilization, Administrative Control, Environmental and Other.

The Office of the Comptroller has the responsibility to ensure that budgetary spending control is maintained on an individual appropriation account basis. Budgetary control is exercised through the Massachusetts Management Accounting and Reporting System (MMARS). MMARS ensures that encumbrances or expenditures are not processed if they exceed the appropriation account's total available spending authorization, which is considered its budget. However, the Legislature has directed certain interfund transfers which are not budgeted. This results in budget to actual variances in both "Other financing sources" and "Other financing uses."

A MMARS report, internally identified as RPT226, is used by management and the Office of the Comptroller to monitor spending against budget. This report provides information at the individual appropriation account level, which is the legal level of budgetary control and it is available from the Office of the Comptroller. For financial reporting, the Commonwealth groups these appropriation accounts by character and secretariat to conform to its organizational structure.

On the statutory basis, the Commonwealth Stabilization and Administrative Control Funds have been segregated from the General Fund accounts in fiscal year 1992, and reclassified to reflect the intent of the Legislature, which established statutory funds for specific appropriated activities. These accounts are included in the General Fund in the combined financial statements, consistent with their presentation in prior fiscal years.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

2. Budgetary Control (Continued):

The following is a reconciliation of the statutory basis excess of revenues and other financing sources over expenditures and other financing uses of the General and budgeted Special Revenue Funds to the GAAP basis presented in the financial statements (amounts in thousands):

	<u>General</u>	<u>Special Revenue</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (statutory basis)	(\$465,845)	\$778,232
Entity differences:		
Excess (deficiency) of revenues and other sources over expenditures and other uses for:		
Non-appropriated higher education funds	68,912	
Non-budgeted Special Revenue Funds		(83,782)
Perspective differences:		
Certain activities treated as Special Revenue Funds for Statutory and as part of the General Fund for GAAP	173,943	(173,943)
Basis of accounting differences:		
Net increase (decrease) in taxes receivable	(5,278)	2,248
Net increase in due from federal government	20,890	2,186
Net increase in other receivables and other assets	51,053	17,762
Net (increase) decrease in tax refunds and abatements payable	44,262	(221,989)
Net (increase) decrease in accounts payable and other liabilities	<u>(22,622)</u>	<u>178,750</u>
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (GAAP basis)	<u>(\$134,685)</u>	<u>\$499,464</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

3. Deposits and Investments:

Cash and Short-term Investments:

The Commonwealth maintains a cash and short-term investment pool which is available for use by all funds. The pool includes bank deposits, certificates of deposits and restricted cash of the Enterprise Funds. As of June 30, 1992, the carrying amount of the Commonwealth's total cash and short-term investments was \$629,049,000, and the corresponding bank balances were \$391,806,078. Bank deposits in the amount of \$17,813,532 were insured by the Federal Deposit Insurance Corporation, and \$373,992,546 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 entities included in the Enterprise Funds are the same as the Commonwealth's, except that they permit investment in equity securities. The Pension Trust Funds are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments. In the following table, these alternative investments, venture capital and futures pools are classified as other investments.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

3. Deposits and Investments (Continued)

Investments (Continued) -

Short-term investments and investments are classified as to collateral risk into the following three categories:

- Category 1: Insured or registered, or securities held by the Commonwealth or its agent in the Commonwealth's name.
- Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Commonwealth's name.
- Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commonwealth's name.

Investments at June 30, 1992, are as follows (amounts in thousands):

Investment	Carrying amount			Total	Market value
	Category 1	Category 2	Category 3		
Repurchase agreements	\$ 1,054,341	\$ 394	\$ 92,571	\$ 1,147,306	\$ 1,147,306
U.S. Treasury obligations	1,133,314	416,552	54,559	1,604,425	1,606,947
Commercial paper	983,800			983,800	983,800
Government obligations	1,226,197		593	1,226,790	1,226,790
Equity securities	4,091,698	17,149	1,701	4,110,548	4,111,350
Fixed income securities	1,822,159	59,805		1,881,964	1,882,091
Eurodollar contracts		29,587		29,587	29,482
Asset backed investments	1,075	17,869	11,620	20,564	21,033
Notes			19,247	19,247	19,350
Other	552,967			552,967	552,967
	<u>\$10,865,551</u>	<u>\$541,356</u>	<u>\$170,291</u>	<u>\$11,577,198</u>	<u>\$11,581,116</u>
Money market investments				968,714	968,714
Mutual fund investments				3,825	3,579
Deferred compensation plan mutual funds				764,696	764,696
Annuity contracts				937,249	937,249
Guaranteed income contracts				163,380	163,380
Real estate				445,431	445,431
Assets held in trust				<u>1,583,758</u>	<u>1,583,758</u>
Total				<u>\$16,446,251</u>	<u>\$16,447,923</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

3. Deposits and Investments (Continued):

Investments (Continued) -

The Pension Trust Funds hold approximately 83% of the investments in Category 1, and the Enterprise Funds hold 80% and 97% of the investments in Categories 2 and 3, respectively.

The following is a reconciliation of the two different investment amounts at June 30, 1992 (amounts in thousands):

Investments as summarized above	\$16,444,251
Less: Short-term investments reported in the combined balance sheet as cash and short-term investments	1,968,082
Restricted investments reported separately in the combined balance sheet	1,165,839
Deferred compensation plan mutual funds reported separately in the combined balance sheet	764,696
Assets held in trust reported separately in the combined balance sheet	1,583,758
Annuity contracts reported separately in the combined balance sheet	<u>937,249</u>
Investments as reported on the combined balance sheet:	<u>\$10,024,627</u>

The following is a reconciliation of the balance of cash and short-term investments at June 30, 1992 (amounts in thousands):

Carrying amount of cash and cash equivalents	\$ 629,049
Short-term investments	<u>1,968,082</u>
Cash and short-term investments as reported on the combined balance sheet	<u>\$2,597,131</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

4. Receivables:

The following schedule details the taxes, federal, loans and other receivables presented in the various funds (amounts in thousands):

	<u>Taxes</u>	<u>Due from federal government</u>	<u>Loans</u>	<u>Other</u>	<u>Allowance for uncollectibles</u>	<u>Net receivable by fund type</u>
General Fund	\$ 783,953	\$ 590,796	\$ 0	\$387,123	(\$389,005)	\$1,372,867
Special Revenue Funds	541,951	101,969		111,600	(132,666)	622,854
Capital Projects Funds		162,800		437	(18,771)	144,466
Enterprise Funds		165,508	103,004	117,343	(19,017)	366,838
Trust and Agency Funds	<u>360,118</u>	<u>2,764</u>	<u>7,391</u>	<u>69,563</u>	<u>(\$3,701)</u>	<u>320,372</u>
Subtotal	1,686,022	1,023,837	110,395	686,066		
Less: Allowance for uncollectible accounts	<u>(340,461)</u>	<u>(36,835)</u>	<u>(4,430)</u>	<u>(231,434)</u>	<u>(\$613,160)</u>	
Net receivable by type	<u>\$1,345,561</u>	<u>\$ 987,002</u>	<u>\$105,965</u>	<u>\$454,632</u>		<u>\$2,827,397</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

5. Interfund Transactions:

Interfund receivables and payables at June 30, 1992 are summarized as follows (amounts in thousands):

	<u>Due from</u>	<u>Due to</u>
General Fund:		
Special Revenue Funds:		
Local Aid	\$ 0	\$ 50,722
Enterprise Funds:		
MBTA		186,074
MCCA		2,661
Economic Development Authorities		43
Subtotal		<u>239,500</u>
Special Revenue Funds:		
General Fund	50,722	
Enterprise Funds:		
MBTA		96,949
Subtotal	<u>50,722</u>	<u>96,949</u>
Capital Projects Funds:		
Capital Projects Funds:		
General	8,632	
Highway	34,222	
Federal		42,854
Enterprise Funds:		
Economic Development Authorities		32,358
MWRA		23,308
Subtotal	<u>42,854</u>	<u>98,520</u>
Enterprise Funds:		
General Fund	188,778	
Special Revenue:		
Highway Fund	94,949	
Capital Projects:		
General	26,658	
Local Aid	29,008	
Subtotal	<u>339,393</u>	
Fiduciary Funds:		
Expendable Trust Funds:		
Expendable Trust	3,494	
Unemployment Compensation		3,494
Total	<u>\$436,463</u>	<u>\$436,463</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

6. Fixed Assets:

General Fixed Assets -

The following schedule shows the changes in general fixed assets by category at June 30, 1992 (amounts in thousands):

	<u>June 30, 1991</u>	<u>Additions and adjustments</u>	<u>Retirements</u>	<u>June 30, 1992</u>
Land	\$ 352,710	\$ 60,481	\$ 612	\$ 412,579
Buildings	2,767,319	416,687	389	3,183,617
Machinery and equipment	455,140	298,769	26,951	726,958
Construction in progress	488,493	254,495	552,596	190,392
Total	\$4,063,662	\$1,030,432	\$580,548	\$4,513,546

Fixed assets of the authorities comprising the Commonwealth's Enterprise Funds consist of the following at June 30, 1992 (amounts in thousands):

	<u>Amount</u>
Land and improvements	\$ 286,015
Structures and improvements	6,989,450
Equipment, furniture, fixtures and vehicles	1,383,839
	8,659,304
Less accumulated depreciation	<u>1,508,090</u>
	7,151,214
Property held for expansion	7,439
Construction in progress	<u>1,063,295</u>
Total	\$8,221,948

7. Short-term Financing and Credit Agreements:

The Commonwealth has issued short-term notes in anticipation of revenue or bond financing. When this short-term debt does not meet the long-term refinancing criteria, it is classified among fund liabilities.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

7. Short-term Financing and Credit Agreements (Continued):

General Fund -

The Commonwealth issues short-term notes to provide working capital to the MBTA. The Commonwealth retires these notes through subsequent appropriations and assessments to cities and towns. The notes outstanding at June 30, 1992, totaled \$240,000,000 with an interest rate of 3.40%. They mature in January, 1993.

Capital Projects Funds -

The Commonwealth has issued five-year term minibonds, which are redeemable upon demand, to finance capital projects. At June 30, 1992, minibonds outstanding in the Capital Projects Funds totaled \$110,538,000, with interest rates ranging from 4.65% to 9.7%.

The Commonwealth may issue bond anticipation notes to temporarily finance its capital projects. Such notes outstanding at June 30, 1992, which totaled \$50,200,000, were refinanced on the first day of fiscal year 1993, through the issuance of general obligation bonds. To reflect the impact of this refinancing subsequent to the fiscal year end, the notes have been reclassified for reporting purposes as long-term debt.

Letter of Credit Agreement -

During fiscal year 1992, the Commonwealth maintained a letter of credit agreement with a group of banks to borrow up to \$1,200,000,000 as a combination of advances and guarantees of short-term borrowings through the issuance of Commonwealth commercial paper. No advances were drawn during fiscal year 1992, or subsequent thereto. The guarantee feature was used extensively, and related fees totaled approximately \$2,026,000. This letter of credit expired September 30, 1992.

Subsequently, the Commonwealth has entered into separate credit agreements with several banks to provide comparable credit and liquidity support for its commercial paper program to a total principal amount of \$700,000,000. These agreements expire October 29, 1993 through September 30, 1994. The average costs are approximately 0.3% on unutilized amounts, and approximately 0.4% on utilized amounts.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

7. Short-term Financing and Credit Agreements (Continued):

Line of Credit Agreements - The Commonwealth

The Commonwealth maintained a revolving line of credit agreement with a bank through June 30, 1992, in the amount of \$150,000,000. Under this agreement, interest was charged at the lesser of the federal funds rate plus 1.5%, or prime, whichever is less, with commitment fees payable quarterly on the excess of the commitment amount over the average daily outstanding principal amount drawn. This line of credit agreement was not utilized during fiscal year 1992; commitment fees totaled \$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. As of June 30, 1992, \$4,616,000 of the line of credit was used.

8. Long-term Debt:

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

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including bonds and notes issued by it and all claims with respect thereto. However, the property of the Commonwealth is not subject to attachment or levy to pay a judgment, and the satisfaction of any judgment generally requires legislative appropriation. Enforcement of a claim for the payment of principal or interest on bonds and notes of the Commonwealth may also be subject to the provisions of federal or Commonwealth statutes, if any, enacted to extend the time for payment or impose other constraints upon enforcement.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

8. Long-term Debt (Continued):

As of June 30, 1992, the Commonwealth had three types of bonds outstanding: general obligation, dedicated income tax, and special obligation. The general obligation bonds are authorized and issued primarily to provide funds for state-owned capital projects and local government improvements. They are backed by the full faith and credit of the Commonwealth and paid from the Governmental Funds, in which debt service principal and interest payments are appropriated. Massachusetts General Laws provide for the allocation of bond proceeds to these authorizations in arrears, as expenditures are made, unless the proceeds are allocated at the time of issuance.

During fiscal year 1992, the Commonwealth issued special obligation revenue bonds as authorized under Massachusetts General Laws. Such bonds may be secured by all or a portion of revenues credited to the Highway Fund and are not general obligations of the Commonwealth. The issuance of such special obligation bonds is authorized in an aggregate amount not to exceed \$1,125,000,000, in fiscal years 1992 through 1994. The Commonwealth issued \$103,770,000 of such bonds during fiscal year 1992, secured by a pledge of 2 cents of the 21-cent motor fuel excise tax collected on gasoline, effective July 1, 1992.

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

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

8. Long-term Debt (Continued):

General and special obligation long-term bonds outstanding (including discount and issuance costs) and bonds authorized-unissued at June 30, 1992, are as follows (amounts in thousands):

Purpose	Outstanding		Maturity dates	Authorized-unissued
	Amount	Interest rates (%)		
Deficit Reduction:				
Fiscal Recovery	<u>\$1,264,090</u>	7.00 to 7.625	1993-1997	<u>\$ 57,276</u>
Capital Projects:				
General Capital Projects	5,165,054	1.00 to 12.00	1993-2013	2,545,155
Highway	1,826,202	1.00 to 11.75	1993-2013	1,507,216
Local Aid	765,274	5.00 to 9.25	1993-2012	2,220,189
State Recreation Areas	63,363	1.00 to 12.00	1993-2012	16,924
Metropolitan Water District	59,552	0.10 to 12.00	1993-2025	
Metropolitan Parks District	54,176	1.00 to 12.00	1993-2010	24,580
Metropolitan Sewerage District	43,103	0.10 to 10.20	1993-2015	
Environmental Challenge	20,239	6.30 to 9.25	1993-2012	20
Government Land Bank	14,489	1.00 to 14.25	1993-2010	2,081
Federally Assisted Housing	8,268	5.60 to 9.63	1993-2003	2,245
Intercity Bus Capital Assistance	620	6.30 to 9.25	1993-2010	18,148
Subtotal	<u>8,020,340</u>			<u>6,336,558</u>
Total	<u>\$9,284,430</u>			<u>\$6,393,832</u>

Changes in long-term bonds (including discount and issuance costs) and bonds authorized unissued for the year ended June 30, 1992, are as follows (amounts in thousands):

	Bonds outstanding	Authorized-unissued
Balance, July 1, 1991	\$8,580,339	\$4,937,306
General and special obligation bonds:		
Principal less discount and issuance costs	770,647	(770,648)
Discount and issuance costs	28,973	
General obligation refunding bonds:		
Principal less discount and issuance costs	574,313	
Discount and issuance costs	101,987	
Bonds retired (excluding minibonds)	(842,029)	
Increase in bonds authorized		2,362,182
Expiration of authorizations		(84,808)
Short-term notes meeting long-term classification criteria	50,200	(50,200)
Balance, June 30, 1992	<u>\$9,284,430</u>	<u>\$6,393,832</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

8. Long-term Debt (Continued):

At June 30, 1992, debt service requirements to maturity for principal (including discount and issuance costs) and interest are as follows (amounts in thousands):

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
1993	\$ 623,158	\$ 534,863	\$ 1,158,021
1994	594,095	504,502	1,098,597
1995	617,429	462,977	1,080,406
1996	613,296	424,309	1,037,605
1997	814,350	380,321	1,194,671
1998 and thereafter	<u>6,002,102</u>	<u>2,498,372</u>	<u>8,500,474</u>
Total	<u>\$9,264,430</u>	<u>\$4,805,344</u>	<u>\$14,069,774</u>

Subsequent to June 30, 1992, the Commonwealth refinanced outstanding bond anticipation notes totaling \$50,200,000 through the issuance of approximately \$52,000,000, including discount, of general obligation bonds, with interest rates ranging from 6.25% to 6.5%. These bond anticipation notes are reported as long-term obligations outstanding at June 30, 1992. The Commonwealth has also issued \$425,595,000 in general obligation refunding bonds, authorized by Massachusetts General Laws, and \$200,000,000 in general obligation bonds, with interest rates ranging from 2.9% to 5.25% and 3.5% to 8%, respectively. Proceeds of the refunding bonds were used to redeem general obligation bonds in the aggregate principal amount of approximately \$410,680,000 with interest rates ranging from 6.2% to 7.6% and original maturities from 1993 through 2000.

Statutory Debt Limit -

In fiscal years 1990 and 1991, Massachusetts General Laws were amended to establish a limit on the amount of direct debt outstanding, effective at the beginning of fiscal year 1991. By statutorily limiting the Commonwealth's ability to issue direct debt, these amendments provide a control on annual capital spending. The first-year limit was \$6,800,000,000, with an increase of 5% allowed in each successive fiscal year. The statutory debt limit for fiscal year 1992 was \$7,140,000,000.

For purposes of determining compliance with the limit, direct debt is defined to include general obligation bonds and minibonds at the amount of their original net proceeds. It excludes discount and issuance costs, if any, financed by these bonds. It also excludes dedicated income tax bonds, certain special obligation bonds, refunded bonds, certain refunding bonds and bond anticipation notes. Outstanding direct debt, as defined, totaled approximately \$6,937,000,000 at June 30, 1992.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

8. Long-term Debt (Continued):

Advance Refundings and Defeased Bonds

As authorized by the Massachusetts General Laws, the Commonwealth advance refunded certain general obligation and dedicated income tax bonds through the issuance of \$599,118,211 of general obligation refunding bonds during fiscal year 1992. Proceeds totaling approximately \$571,966,000 were used to purchase U.S. Government securities which, with a cash deposit of \$2,347,000, were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liabilities therefor have been removed from the General Long-term Obligations Account Group. As a result of these advance refundings, the Commonwealth increased its aggregate debt service payments by approximately \$280,884,000 over the next 20 years and incurred an economic loss (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$12,315,000. At June 30, 1992, approximately \$288,000,000 of the bonds refunded remain outstanding and are considered defeased.

In prior years, the Commonwealth also defeased certain general obligation and other bonds by placing the proceeds of bonds in irrevocable trusts to provide for all future debt service payments on the refunded bonds. Accordingly, the trust account assets and the liabilities for the defeased bonds are not included in the financial statements. At June 30, 1992, approximately \$1,283,00,000 of bonds outstanding from advance refundings in prior fiscal years are considered defeased.

During fiscal year 1992, the MCCA raised \$163,525,164 through the issuance of tax-exempt Hynes Convention Center Refunding Bonds to advance refund \$135,435,000 of its outstanding bonds. Net proceeds of \$161,779,277 plus an additional \$12,343,500 were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the MCCA's refunded bonds are considered to be defeased, and the liability for those bonds has been removed from the Enterprise Funds.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

8. Long-term Debt (Continued):

Advance Refundings and Defeased Bonds (Continued) -

The MCCA advance refunding resulted in the recognition of a loss on defeasance of \$41,304,935 for the year ended June 30, 1992. As a result of the advance refunding, the MCCA reduced its aggregate debt service payments by approximately \$14,200,000 over the period from March 19, 1992 to September 1, 2005 and achieved an economic gain (the difference between the present value of the old debt and new debt service requirements, discounted at the effective interest rate of 6.14%, adjusted for additional cash paid) of approximately \$11,700,000.

During fiscal year 1992, the University of Massachusetts Building Authority issued \$48,885,000 in general obligation refunding bonds to advance refund \$41,550,000 of its bonds. In connection with the advance refunding, a loss on defeasance of \$7,335,000 was recorded. The refunded obligations outstanding at June 30, 1992 were \$41,550,000.

In prior fiscal years, the MBTA defeased a portion of its general transportation system bonds by placing the proceeds of new bonds in trust to provide for future debt service payments on the refunded bonds, beginning in 1998. Accordingly, the trust account assets and the liability for the MBTA's defeased bonds are not included in the Enterprise Funds. At June 30, 1992, \$59,595,000 of bonds outstanding are considered defeased.

Changes in General Long-term Obligations -

The Commonwealth records its liability for long-term general and special obligation bonds in the General Long-term Obligations Account Group. Other general long-term obligations recognized by the Commonwealth are its obligations under lease/purchase agreements (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 to workers' compensation, lawsuits or other claims pending or threatened (Notes 1, 14 and 15).

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

8. Long-term Debt (Continued):

Changes in General Long-term Obligations (Continued) -

During the year ended June 30, 1992, the following changes occurred in liabilities reported in the General Long-term Obligations Account Group (amounts in thousands):

	General and special obligation bonds	Obligations under lease/purchase	School construction grants	Compensated absences	Unfunded pension costs	Claims, judgments and other	Total
Balance, July 1, 1991	\$8,580,339	\$65,598	\$1,582,389	\$127,437	\$1,797,294	\$158,521	\$12,311,578
Bond issuances	1,341,403						1,341,403
Bond discount	134,517						134,517
Bond principal payments (excluding minibonds)	(842,029)						(842,029)
Short-term notes meeting long-term classification criteria	50,200						50,200
Excess of total pension contributions required over total contributions made					320,391		320,391
Net increase (decrease)	<u>2,611</u>	<u>2,611</u>	<u>34,096</u>	<u>(27,825)</u>	<u>320,391</u>	<u>230,914</u>	<u>239,796</u>
Balance, June 30, 1992	<u>\$9,266,430</u>	<u>\$68,209</u>	<u>\$1,616,485</u>	<u>\$199,612</u>	<u>\$2,117,685</u>	<u>\$389,435</u>	<u>\$13,555,856</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

8. Long-term Debt (Continued):

Enterprise Funds -

Bonds and notes outstanding, at June 30, 1992, net of unamortized discount of \$18,683,000, are as follows (amounts in thousands):

<u>Purpose</u>	<u>Interest rates</u>	<u>Amount</u>	<u>Maturity dates</u>
MBTA:			
General Transportation System	3.62% to 8.75%	\$1,689,955	2004-2022
Boston Metropolitan District Notes	2.40% to 9.26%	60,029	1993-2025
	3.50% to 5.50%	485,000	1993
HCCA:			
Current Interest Serial Bonds	3.80% to 6.00%	116,337	1993-1999
Compound Interest Serial Bonds	6.40% to 6.80%	47,188	2000-2005
MWRA:			
General Revenue Bonds	0% to 7.63%	1,796,993	1993-2021
Medical and Educational Facilities:			
MSC:			
Project and Refunding Revenue Bonds		92,720	1993-2016
SMU:			
Project Revenue Bonds	3.00% to 7.80%	36,150	1993-2016
U Lowell:			
Project Revenue Bonds	3.00% to 9.00%	29,790	1993-2017
U Mass:			
Project and Refunding Revenue Bonds	5.50% to 9.20%	89,773	1993-2014
U Mass Teaching Hospital:			
Other	5.0%	4,616	1994-2016
Economic Development:			
MTPC:			
Notes Payable	5.75%	2,500	1993
Total		<u><u>\$4,451,051</u></u>	

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

8. Long-term Debt (Continued):

Enterprise Funds (Continued) -

Maturities of principal are as follows (amounts in thousands):

Year ending June 30	MBTA	MCCA	MVRA	Medical and Educational Facilities	Economic Development	Total
1993	\$ 536,440	\$ 0	\$ 96,763	\$ 5,692	\$ 2,500	\$ 641,395
1994	51,271	4,250	28,540	6,802		88,863
1995	53,041	16,245	27,870	7,273		104,429
1996	54,871	17,085	29,380	8,050		109,386
1997	56,952	18,050	31,040	8,569		114,611
1998 and thereafter	<u>1,500,684</u>	<u>108,039</u>	<u>1,585,400</u>	<u>216,927</u>		<u>3,411,050</u>
Total	<u>\$2,253,259</u>	<u>\$163,669</u>	<u>\$1,796,993</u>	<u>\$253,313</u>	<u>\$2,500</u>	<u>\$4,469,734</u>

The amounts above represent the face amount of bonds and notes outstanding and may differ from the amounts included in the combined balance sheet due to treatment of original issue discount in the general purpose financial statements.

During the year ended June 30, 1992, the following changes occurred in bonds and notes payable reported in the Enterprise Funds (amounts in thousands):

	MBTA	MCCA	MVRA	Medical and Educational Facilities	Economic Development	Total
Balance, July 1, 1991	\$1,915,927	\$146,935	\$ 790,412	\$245,830	\$ 54	\$3,099,158
Principal less discount and issuance costs	1,758,086	163,525	1,016,631	54,079	2,500	2,994,821
Debt retired, net of amortization of discount	(1,439,029)	(11,500)	(10,050)	(5,310)	(54)	(1,465,943)
Defeased debt		(135,435)		(41,550)		(176,985)
Balance, June 30, 1992	<u>\$2,234,984</u>	<u>\$163,525</u>	<u>\$1,796,993</u>	<u>\$253,049</u>	<u>\$2,500</u>	<u>\$4,451,051</u>

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

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 payments due on its debt, sufficient funds will be remitted by the Commonwealth to meet such obligations.

Subsequent to June 30, 1992, the MBTA issued \$170,000,000 of notes with an interest rate of 3.5%, which mature on October 1, 1993, and \$224,570,000 of general transportation system bonds, with interest rates ranging from 3.5% to 6.2%.

MCCA -

The legislation which authorizes the issuance of MCCA debt securities provides for participation by the Commonwealth in the full payment of the annual debt service costs.

MWRA -

The MWRA's bonds are collateralized by a lien and pledge on certain of its revenues and other monies. Discount and issuance costs, 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 in connection with the Metropolitan District Commission sewer and waterworks prior to July 1, 1985. The MWRA's share of principal payable amounted to \$79,656,000 at June 30, 1992. This amount is included in the General Long-term Obligations Account Group and as contributed capital in the Enterprise Funds. 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 was contested through litigation. A settlement of \$80,000,000 has been reached.

Medical and Educational Facilities

The debt of the Higher Education Building Authorities included among the Medical and Education Facilities is guaranteed by full faith and credit of the Commonwealth.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

9. Individual Fund Deficits:

The General Fund and certain Special Revenue and Capital Projects Funds included in the combined totals have fund deficits at June 30, 1992, as follows (amounts in thousands):

<u>Fund</u>	<u>Amount</u>
General	\$821,168
Special Revenue:	
Federal Grants	4,715
Lotteries	1,400
Capital Projects:	
General	171,883
Local Aid	33,103
Other	11,305

The year-end fund balance deficit in the General Fund reflects the accrual of liabilities for Medicaid claims which have been incurred but not reported as of June 30, 1992, and subsidies to transit authorities for operating deficits incurred but not yet funded. These accruals will be paid in subsequent periods as the Legislature appropriates funds. Deficits in the non-budgeted Federal Grants and Lotteries Funds also reflect the impact of accruals. However, these deficits are essentially timing issues, which reverse in the subsequent period.

In the Capital Projects Funds, the recognition of minibonds as fund liabilities accounts for \$110,537,576 of the reported fund deficits. The remaining deficits to be financed reflect the time lag between capital expenditures and the receipt or allocation of proceeds from the sale of related bonds. During the fiscal year ended June 30, 1992, the Commonwealth continued its policy of reducing the time elapsed between those events. Legislation also authorized new bonds to finance certain of these funds' deficits, extended prior bond authorizations, and corrected certain technical defects within those bonds authorizations.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

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				
	<u>Trans- portation</u>	<u>Conven- tions and Parking</u>	<u>Water Supply and Waste Disposal</u>	<u>Medical and Educational Facilities</u>	<u>Economic Develop- ment</u>
Operating revenues	\$177,846	\$ 9,451	\$ 247,525	\$315,721	\$ 2,429
Depreciation	(135,070)	(10,400)	(79,424)	(10,725)	(5,540)
Operating income (loss)	(554,385)	(14,759)	21,509	(10,062)	(21,461)
Operating grants	18,142			412	2,112
Nonoperating revenues (expenses), net	(118,871)	(14,429)	(76,849)	(8,667)	12,269
Operating transfers	573,299	19,021		21,576	14,119
Net income (loss)	(99,957)	(51,672)	(55,340)	(4,025)	4,927
Current capital contributions	86,843	11,052	43,551		154,773
Fixed asset additions	369,336	362	412,598	54,335	1,049
Total assets	4,915,827	235,843	4,377,756	632,424	396,971
Bonds and notes payable	2,234,984	163,525	1,796,993	253,049	2,500
Net working capital	(224,246)	11,876	769,647	71,914	359,418
Total retained earnings (deficit)	(133,122)	(196)		264,452	82,360

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

11. Retirement Systems:

The Commonwealth is statutorily responsible for the pension benefits for Commonwealth employees (members of the State Employees' Retirement System) and for teachers of the cities, towns, regional school districts throughout the Commonwealth and Quincy 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 the separate (non-teacher) retirement systems of its cities, towns and counties.

Certain Commonwealth employees and current retirees employed prior to the establishment of the State Employees' Retirement System are covered on a "pay-as-you-go" basis.

Plan Descriptions -

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

Teachers' Retirement System (TRS) is an agent multiple employer defined benefit PERS. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit requirements of the TRS. The TRS covers certified teachers in cities (except the City of Boston), towns, regional school districts and Quincy 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.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

11. Retirement Systems (Continued):

Plan Descriptions (Continued) -

The Commonwealth has assumed financial responsibility for the COLA granted to participants in the retirement systems of cities, towns and counties. Any future COLA granted by the Legislature to employees of these plans will also be the responsibility of the Commonwealth. The individual employer governments are responsible for the basic pension benefits. The retirement systems are not administered by the Commonwealth and are not part of the reporting entity.

Membership -

Current membership in SERS, TRS and SBRS as of January 1, 1992 is as follows:

	<u>SERS</u>	<u>TRS</u>	<u>SBRS</u>
Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	40,420	30,633	2,137
Current employees:			
Vested	38,565	42,901	3,446
Nonvested	<u>49,387</u>	<u>16,812</u>	<u>1,510</u>
Subtotal	<u>86,952</u>	<u>59,713</u>	<u>4,956</u>
Total	<u>127,372</u>	<u>90,346</u>	<u>7,093</u>

The covered payroll for employees of the Commonwealth covered by SERS was \$2,638,441,000. The covered payroll for employees of the cities and towns covered by TRS is \$2,032,181,000. The covered payroll for employees of the City of Boston covered by SBRS is \$184,101,000. The covered payroll amounts approximate the employer payroll.

Benefit Provisions -

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

11. Retirement Systems (Continued):

Benefit Provisions (Continued)

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

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

Funding Status and Progress

The amounts shown below as the pension benefit obligation are a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the System on an ongoing basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarially determined present value of credited projected benefits and is independent of the funding method used to determine contributions to the System.

The SERS, TRS and SBRS pension benefit obligations were computed as part of the actuarial valuation as of January 1, 1992. 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 4.5% per year and (e) interest rate credited to the annuity savings fund of 5.5% per year.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

11. Retirement Systems (Continued):

Funding Status and Progress (Continued) -

The total unfunded pension benefit obligation is as follows (amounts in millions):

	<u>SERS</u>	<u>TRS</u>	<u>SBRS</u>	<u>COLA</u>	<u>Total</u>
Pension benefit obligation:					
Retirees and others currently receiving benefits and terminated employees entitled to benefits but not yet receiving them	\$2,846	\$3,281	\$261	\$1,159	\$ 7,547
Current employees:					
Accumulated employee contributions including allocated interest	1,635	1,649	133		3,417
Commonwealth financed:					
Non-vested	618	239	28	72	957
Vested	<u>1,962</u>	<u>3,061</u>	<u>283</u>	<u>413</u>	<u>5,719</u>
Total pension benefit obligation	7,061	8,230	705	1,644	17,640
Net assets available for benefits, at market	<u>4,699</u>	<u>4,784</u>	<u>342</u>		<u>9,825</u>
Unfunded pension benefit obligation	<u>\$2,362</u>	<u>\$3,446</u>	<u>\$363</u>	<u>\$1,644</u>	<u>\$ 7,815</u>

Contributions Required and Contributions Made -

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

11. Retirement Systems (Continued):

Contributions Required and Contributions Made (Continued)

The Commonwealth's contribution for the pension benefit portion of the retirement allowance of SERS and TRS and required payments to cover SERS and COLA contributions were originally established on a "pay-as-you-go" basis. As a result, amounts were appropriated each year to pay current benefits, without a systematic provision to fully fund future liabilities already incurred. Beginning in fiscal year 1988, the Commonwealth enacted the Pension Reform Act of 1987 and addressed the unfunded liability of SERS, TRS and its participation in SERS and its COLA obligation. This legislation requires funding on a current basis, including amortizing the unfunded liabilities, including liabilities for future COLA payments to local systems over 40 years.

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

The current approved funding schedule, based on the January 1, 1990 valuation, was filed with the Legislature on March 1, 1991. It required contributions by the Commonwealth of \$723,441,000 during the fiscal year ended June 30, 1992. Because total benefit payments exceeded this amount, no additional Commonwealth contribution was required.

GAAP requires that pension expenditures (costs) be based on an acceptable actuarial cost method and that they not be less than:

- Normal cost
- Interest on any unfunded prior service costs
- A provision for vested benefits when the total present value of vested benefits exceeds by 5% or more the value of the plan

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

11. Retirement Systems (Continued):

Contributions Required and Contributions Made (Continued) -

The funding schedule discussed above follows an acceptable actuarial funding methodology to compute normal cost and the unfunded accrued actuarial liability. However, the amortization of the accrued actuarial liability has been legislatively determined to be significantly lower in the first years of the 40-year funding period. Therefore, the fiscal year 1992 contribution did not cover the minimum expenditure recognition required by GAAP. Therefore, the difference between the total contributions required and the total contributions made is recorded as a liability in the General Long-term Obligations Account Group.

Contributions required and made based on the minimum expenditure recognition required by GAAP are as follows (amounts in millions):

	<u>SERS</u>	<u>TRS</u>	<u>SBRS</u>	<u>COLA</u>	<u>Total</u>
Minimum contribution requirement:					
Normal cost	\$397.3	\$277.2	\$30.2	\$ 49.3	\$ 754.0
Amortization of unfunded actuarial liability	76.5	156.6	18.8	73.9	325.8
Interest on unfunded actuarial liability	<u>84.2</u>	<u>97.5</u>	<u>9.0</u>	<u>46.0</u>	<u>236.7</u>
 Total contributions required	 <u>\$558.0</u>	 <u>\$531.3</u>	 <u>\$58.0</u>	 <u>\$169.2</u>	 <u>\$1,316.5</u>
Contributions made:					
By employees	\$189.8	\$150.8	\$12.2	\$ 0	\$ 352.8
% of covered payroll	7.2%	7.3%	6.6%	N/A	N/A
By the Commonwealth	339.8	289.2	26.4	74.0	729.4
% of covered payroll	<u>12.7%</u>	<u>14.0%</u>	<u>14.3%</u>	<u>N/A</u>	<u>N/A</u>
 Total contributions made	 <u>\$529.6</u>	 <u>\$440.0</u>	 <u>\$38.6</u>	 <u>\$74.0</u>	 <u>\$1,082.2</u>

The total contributions required for SERS, TRS and SBRS are based on the entry age normal cost method using the same actuarial assumptions used to compute the pension benefit obligation.

During the year ended June 30, 1992, the Commonwealth's pension expenditure also included payments totaling \$22,124,000 to current retirees employed prior to the establishment of the current plans and to non-contributory plans.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

11. Retirement Systems (Continued):

Contributions Required and Contributions Made (Continued)

Subsequent to June 30, the Legislature overrode the Governor's veto of certain COLA provisions, retroactive to January 1, 1992, to be funded from current appropriations for participants in SERS and TRS, and from the Pension Reserves Investment Trust Fund for participants of other systems. The portions applicable to fiscal year 1992, which totaled approximately \$10,669,000 and \$10,926,000, respectively, are recognized as liabilities and were paid in December 1992. The appropriated amounts are included in Commonwealth contributions for the fiscal year ended June 30, 1992.

Massachusetts General Laws established an early retirement incentive program under which eligible state employees could elect to receive enhanced pension benefits in exchange for retiring as of July 1, 1992. This change is not material.

Trend Information -

The following table presents the required three-year trend information:

	Year	SERS	TRS	SERS
Net assets available for benefits as a percentage of the pension benefit obligation applicable to employees:	1992	66.6	58.1	48.5
	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:	1992	89.5	169.6	197.2
	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:	1992	12.7	14.0	14.4
	1991	13.5	12.9	12.7
	1990	10.3	11.3	14.1

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

11. Retirement Systems (Continued):

Trend Information (Continued) -

Ten-year historical trend information for SERS, TRS and SBRS may be found on pages 133 and 134 of the Commonwealth's Comprehensive Annual Financial Report. This report presents information about progress made in accumulating sufficient assets to pay benefits when due.

Certain information was not available for SERS, TRS and the Commonwealth's participation in SBRS. Total annual payroll for SERS, TRS and SBRS approximates annual covered payroll, however; actual annual total payroll amounts 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.

Federal Omnibus Budget Reconciliation Act of 1991 (OBRA 90) -

This federal legislation, passed in October 1990, included 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 which became effective January 1, 1992. Approximately 4,000 part-time seasonal, intermittent, temporary or contracted employees of the Commonwealth, who were precluded from retirement coverage by state law, have been covered by either Social Security or an alternative PERS which meets federal requirements.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

11. Retirement Systems (Continued):

Enterprise Funds' Condensed Pension Information -

The following authorities included as Enterprise Funds maintain their own pensions plans. More detailed information concerning these plans is available in the separate financial statements. The pension benefit obligation and net assets available for benefits for each plan are as follows (amounts in thousands):

	<u>Pension benefit obligation</u>	<u>Net assets available for benefits</u>
MBTA	\$831,333	\$813,989
MCCA	3,247	2,799
MWRA	16,623	14,726

All three authorities met their actuarially determined employer contribution requirements.

Postretirement Health Care and Life Insurance Benefits -

In addition to providing pension benefits, the Commonwealth is statutorily required to provide certain health care and life insurance benefits for retired employees of the Commonwealth, housing authorities, redevelopment authorities, and certain other governmental agencies. Substantially all of the Commonwealth's employees may become eligible for these benefits if they reach retirement age while working for the Commonwealth. Eligible retirees are required to contribute a specified percentage of the health care benefit costs which is comparable to contributions required from employees. The Commonwealth is reimbursed for the cost of benefits to retirees of the eligible authorities and non-state agencies.

The Commonwealth recognizes its share of the costs of providing these benefits when paid. These payments totaled approximately \$101,004,000 for the fiscal year ended June 30, 1992.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(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 \$764,696,000 in the plan at June 30, 1992, \$533,758,000 was applicable to the Commonwealth; the remaining \$230,938,000 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, 1992.

13. Obligations under Lease, Lease/Purchase and Other Financing Arrangements:

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

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

13. Obligations under Lease, Lease/Purchase and Other Financing Arrangements (Continued):

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

At June 30, 1992, the Commonwealth's aggregate outstanding liability under capital lease, the present value of the net minimum lease payments, totals \$68,209,000. This liability is reported in the General Long-term Obligations Accounts Group. Equipment acquired under capital leases and included in the General Fixed Assets Account Group totals approximately \$107,669,000.

The Commonwealth leases real property and equipment under numerous operating lease agreements for varying terms. These agreements contain clauses which indicate that their continuation is subject to appropriation by the Legislature. Rental expense for the year ended June 30, 1992 was approximately \$90,298,000.

The following is a schedule of future minimum lease payments under non-cancellable leases as of June 30, 1992 (amounts in thousands):

<u>Year ending June 30</u>	<u>Commonwealth Leases</u>	<u>UMass Leases</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
1993	\$16,674	\$ 7,646	\$24,320	\$ 83,991
1994	13,967	6,939	20,906	54,913
1995	6,677	5,648	12,325	42,239
1996	3,976	4,797	8,773	30,280
1997	445	3,728	4,173	1,645
Thereafter	<u>2,420</u>	<u>10,293</u>	<u>12,713</u>	<u>85</u>
Total payments	\$44,159	\$39,051	83,210	<u>\$213,153</u>
Less amount representing interest	<u>(6,654)</u>	<u>(8,347)</u>	<u>(15,001)</u>	
Present value of net minimum lease payments	<u>\$37,505</u>	<u>\$30,704</u>	<u>\$68,209</u>	

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

13. Obligations under Lease, Lease/Purchase and Other Financing Arrangements
(Continued):

Enterprise Funds -

The MBTA has entered into several sale-leaseback agreements with major financial institutions, covering equipment and rolling stock, which have been accounted for as operating leases. The leases expire through 2013. Upon termination, the MBTA may purchase the equipment and rolling stock at prices equal to the lesser of a stated percentage (40%-70%) of the lessor's original purchase price or residual fair market value, as defined.

The MWRA leases electric power assets, office space in Boston and other property under long-term operating leases.

The 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):

<u>Year ending</u> <u>June 30</u>	<u>MBTA</u>	<u>MWRA</u>
1993	\$ 12,068	\$ 9,916
1994	12,068	15,054
1995	12,068	15,425
1996	12,068	15,275
1997 and thereafter	<u>202,441</u>	<u>204,766</u>
Total	<u>\$250,713</u>	<u>\$260,436</u>

The MBTA issued Certificates of Participation of \$28,565,000 on December 15, 1988 and \$85,795,000 on August 30, 1990. They have been classified as obligations under lease/purchase and other financing arrangements in the accompanying balance sheets. Under the terms of the agreement covering the certificates, the Authority's obligation to make the annual payments on certificates is subject to the Commonwealth's appropriating the necessary funds in the Authority's annual budget. The certificates were issued to finance the purchase of commuter rail coaches. The certificates bear interest at rates ranging from 6.1% to 7.8% and mature as follows (amounts in thousands):

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

13. Obligations under Lease and Lease Purchase and Other Financing Arrangements (Continued):

Enterprise Funds (continued)

<u>Year ending June 30</u>	<u>Amount</u>
1993	\$ 2,585
1994	2,670
1995	2,770
1996	2,875
1997	2,990
1998 and thereafter	<u>95,435</u>
Total	<u>\$109,325</u>

14. Commitments:

The Commonwealth is obligated to provide annual subsidies to the MBTA and regional transit authorities for contract assistance, debt service assistance and their net cost of service deficiencies. For fiscal 1992, these subsidies total \$573,299,000 for the MBTA and \$28,483,000 for the regional transit authorities. The net cost of service subsidy is recognized as a current liability of the Commonwealth, but is funded in arrears. At June 30, 1992, the Commonwealth has recorded the unpaid portion as a liability due to the MBTA of \$281,023,000. The cities and towns served by the MBTA and regional transit authorities will be assessed their proportionate shares of the net cost of service. A receivable from cities and towns of \$183,971,000 is recorded at June 30, 1992, to account for these future reimbursements. The MBTA has also recorded net deferred charges at June 30, 1992, which will be included in the Commonwealth's net cost of service subsidy in future periods. The Commonwealth has recognized its liability for these future costs in the General Long-term Obligations Account Group.

The Commonwealth is also statutorily obligated to provide contract assistance for debt service obligations to the MCCA and the Government Land Bank. Such assistance totaled \$27,888,000 in fiscal year 1992. As a result of the MCCA's advance refunding of debt during fiscal year 1992, appropriations for this purpose have been reduced to \$12,057,000 in fiscal year 1993.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

14. Commitments (Continued):

At June 30, 1992, the aggregate outstanding debt for which the Commonwealth is obligated to provide contract assistance support totaled \$2,515,329,000. In addition, the Commonwealth guarantees the debt of certain local governments and the Higher Education Building Authorities. The guaranteed debt outstanding at June 30, 1992, was approximately \$249,233,000.

At June 30, 1992, the Commonwealth had commitments approaching \$1,886,000,000 for various construction projects. The majority relate to new construction funding for a major infrastructure program known as the Central Artery Project, in which Federal participation is anticipated. The remainder relate to a wide range of building construction projects.

Enterprise Funds

As part of a major capital improvement program, the MWRA has entered into a number of contracts for the design and construction of facilities. At June 30, 1992, commitments under these contracts aggregated approximately \$1,100,000,000.

The MWRA is required, by a decision of a federal district court, to comply with a detailed schedule of actions to achieve and maintain compliance with the requirements of the Clean Water Act. The schedule includes the construction of new primary treatment facilities, commencing December 1990 and finishing by July 1995, and the construction secondary treatment facilities during 1995 to be completed during 1999. Other matters are still outstanding.

The MWRA has accepted responsibility and legal liability for undertaking measures to control discharges from combined sewer overflows (CSOs) into Boston Harbor and adjacent waters, excluding liability for any failure to undertake such measures prior to February 27, 1987. The federal district court has entered an order which provides a schedule for implementation of short-term controls for CSO discharges and planning long-term controls. The MWRA is in substantial compliance with this schedule. In fiscal year 1991, the Authority's recommended plan for the long-term control options, aggregating \$1,200,000,000, was approved by the federal district court and regulatory agencies.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

14. Commitments (Continued):

Enterprise Funds (Continued) -

The MWRA's operating and construction plans are designed to comply with the federal district court's schedule of actions. These plans anticipate capital expenditures of approximately \$6,000,000,000 from fiscal 1990 to 1999 based upon the current design and construction plan. Funding is expected to come from various federal and state grants and from MWRA's debt proceeds. Subsequent to June 30, the federal government authorized \$180,000,000 in grants to the MWRA for the cleanup of Boston Harbor of which \$80,000,000 has been appropriated.

As of June 30, 1992, the Massachusetts Water Pollution Abatement Trust (the Trust) has entered into binding commitments to provide \$284,249,046 in loans to fund four MWRA projects.

As of June 30, 1992, the Government Land Bank, a component of the Economic Development Fund, had committed to issuing mortgages of \$18,047,167. UMass, a component of the Medical and Educational Facilities Fund, has outstanding purchase commitments with contractors for the construction of certain facilities. The commitments are approximately \$9,660,000.

Other -

The Pension Reserves Investment Trust, an investment vehicle for certain of the Commonwealth of Massachusetts Pension Trust Funds, had outstanding commitments at June 30, 1992, to invest \$93,000,000 in real estate, \$49,000,000 in alternative investments and \$78,000,000 in special equity investments.

15. Contingencies:

A number of lawsuits are pending or threatened against the Commonwealth which arose from the ordinary course of operations. These include claims for property damage and personal injury, breaches of contract, condemnation proceedings and other alleged violations of law. For those cases in which it is probable that a loss will be incurred and the amount of the potential judgment can be reasonably estimated, the Attorney General estimates the liability to be approximately \$103,342,000. Of this amount approximately \$55,245,000, which is expected to be paid during fiscal year 1993, is recorded in fund liabilities; approximately \$48,097,000 expected to be paid thereafter, is recorded as a liability in the General Long-term Obligations Account Group.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

15. Contingencies (Continued):

Various cases are currently before the Appellate Tax Board, with approximately \$528,000,000 of collected taxes being contested. For those cases in which it is probable that a loss will be incurred, the Department of Revenue estimates the Commonwealth's liability to be approximately \$85,000,000. Approximately \$30,000,000, which is expected to be settled during fiscal year 1993, is included among fund liabilities, approximately \$55,000,000, which is expected to be settled after June 30, 1993, is recorded as a liability in the General Long-term Obligations Account Group.

Workers' compensation costs are recognized when claims are incurred. The Commonwealth's outstanding liability for such claims at June 30, 1992, including claims incurred but not reported, is estimated to be \$260,000,000, of which approximately \$49,500,000 is expected to be paid during fiscal year 1993, and is included among fund liabilities; the remainder of approximately \$210,500,000 is recorded as a liability in the General Long-term Obligations Account Group.

The Commonwealth receives significant financial assistance from the federal government. Entitlement to the resources is generally conditional upon compliance with terms and conditions of the grant agreements and applicable federal regulations, including the expenditure of the resources for eligible purposes. Substantially all federal financial assistance is subject to financial and compliance audits. Any disallowances become liabilities of the fund which received the assistance. As of June 30, 1992, the Commonwealth estimates that liabilities, if any, which may result from such audits are not material.

The Commonwealth's abandoned property law requires deposit of certain unclaimed assets into a managed Agency Fund. The statute requires the excess amount over \$500,000 each June 30 to be remitted to the General Fund where it is included in miscellaneous revenue. Amounts remitted during fiscal year 1992 totaled \$38,528,000. Since inception, approximately \$281,400,000 has been remitted. This represents a contingency, because claims for refunds can be made by the owners of the property. No material amounts have been repaid.

COMMONWEALTH OF MASSACHUSETTS

NOTES TO GENERAL PURPOSE FINANCIAL STATEMENTS

FISCAL YEAR ENDED JUNE 30, 1992

(Continued)

15. Contingencies (Continued):

Enterprise Funds -

A substantial part of the MWRA's construction programs have become or may become subject to court supervision as a result of a finding of liability for a Clean Water Act violation by the MDC's sewerage operations. In addition, the court has reserved the right to order further remedial action and assess penalties. The MWRA cannot predict whether penalties will be requested by litigants or assessed by the courts in the future. No penalties have been assessed through June 30, 1992.

16. Restatement

The Commonwealth's previously issued financial statements included amounts due to the Federal Government of \$416 million in the Expendable Trust Funds related to certain receipts from the Federal Government for unemployment benefits. The accompanying balance sheet and statement of revenues, expenditures and changes in fund balances of the Expendable Trust Funds have been restated to recognize such receipts as revenue. The effect of the restatement was to increase revenues from the Federal Government by \$416 million with corresponding reductions in the due to Federal Government and fund deficit for unemployment benefits in the Fiduciary Fund Type and the 1992 Totals (Memorandum Only).

PUBLIC EMPLOYEE RETIREMENT SYSTEMS -

REQUIRED SUPPLEMENTARY INFORMATION

COMMONWEALTH OF MASSACHUSETTS

PUBLIC EMPLOYEE RETIREMENT SYSTEMS

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF FUNDING PROGRESS

FOR FISCAL YEAR 1992

(Amount in thousands)

<u>Fiscal year</u>	<u>(1) Net assets available for benefits</u>	<u>(2) Pension benefit obligation</u>	<u>(3) % funded (1)/(2)</u>	<u>(4) Unfunded pension benefit obligation (2) - (1)</u>	<u>(5) Annual covered payroll</u>	<u>(6) Unfunded pension benefit obligation as a percentage of covered payroll (4)/(5)</u>
<u>State Employees' Retirement System</u>						
1992	\$4,699,000	\$7,081,000	66.55%	\$2,382,000	\$2,638,000	89.54%
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%
<u>Teachers' Retirement System</u>						
1992	\$4,784,000	\$8,230,000	58.13%	\$3,446,000	\$2,032,000	169.59%
1991	4,086,000	8,853,000	46.15%	4,767,000	2,065,000	230.85%
1990	3,797,000	8,245,000	46.05%	4,448,000	2,227,000	199.73%
<u>State - Boston Retirement System</u>						
1992	\$342,000	\$705,000	48.51%	\$363,000	\$184,000	197.28%
1991	301,000	553,000	54.43%	252,000	203,000	124.14%
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, 1991, and 1992, the dates of the most recent actuarial valuations and the interim 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 1992

(Amounts in thousands)

State Employees' Retirement System

Revenues By Source

<u>Fiscal year</u>	<u>Employee contribution</u>	<u>Employer contribution</u>	<u>Contribution as a Percentage of Payroll</u>	<u>Investment Income</u>	<u>Total</u>
1988	\$172,607	\$268,993	11.7%	\$64,858	\$506,458
1989	192,332	271,927	10.6%	487,971	952,230
1990	192,065	292,101	10.4%	298,513	782,679
1991	196,413	313,485	13.6%	111,472	621,370
1992	191,501	333,828	12.7%	497,003	1,022,332

Expenses By Type

<u>Fiscal year</u>	<u>Benefits</u>	<u>Administration expenses</u>	<u>Other</u>	<u>Total</u>
1988	\$245,573	\$2,800	\$73,856	\$322,229
1989	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
1992	333,828	1,857	132,828	468,513

Teachers' Retirement System

Revenues By Source

<u>Fiscal year</u>	<u>Employee contribution</u>	<u>Employer contribution</u>	<u>Contribution as a Percentage of Payroll</u>	<u>Investment Income</u>	<u>Total</u>
1988	125,223	243,966	12.6%	100,537	469,726
1989	126,004	252,443	14.1%	411,303	789,750
1990	141,645	252,717	11.4%	291,711	686,073
1991	144,173	268,010	13.0%	183,554	595,737
1992	146,637	264,498	14.0%	639,966	1,071,101

Expenses By Type

<u>Fiscal year</u>	<u>Benefits</u>	<u>Administration expenses</u>	<u>Other</u>	<u>Total</u>
1988	\$224,909	\$1,484	\$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	59,108	327,116
1992	284,498	1,090	63,688	349,276

Fiscal year 1988 is the first year for which complete revenue and expense information is available. Information for the years prior to 1988 is not available.

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FORM OF BOND COUNSEL'S OPINION

October 28, 1993

The Honorable Joseph D. Malone
Treasurer and Receiver-General
The Commonwealth of Massachusetts
State House - Room 227
Boston, Massachusetts 02133

The Commonwealth of Massachusetts
\$200,000,000 General Obligation Bonds,
Consolidated Loan of 1993
Series B

Dear Treasurer Malone:

We have examined a record of proceedings relating to the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of its \$200,000,000 General Obligation Bonds, Consolidated Loan of 1993, Series B, dated October 1, 1993 (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 Depository Trust Company, New York, New York ("DTC"), and are not available for distribution to the public, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures issued by DTC and its participants.

Based upon the foregoing, we are of the opinion that, under existing law:

1. The Bonds have been duly authorized and are legal and valid general obligations of the Commonwealth to which its full faith and credit are pledged for payment of principal and interest when due.

The provisions of Chapter 62F of the Massachusetts General Laws establish a state tax revenue growth limit and do not exclude principal and interest payments on the Bonds and other Commonwealth debt obligations from the scope of

WARNER & STACKPOLE

The Honorable Joseph D. Malone
October 28, 1993
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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 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

WARNER & STACKPOLE

The Honorable Joseph D. Malone
October 28, 1993
Page 3

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

