

NEW ISSUE - BOOK-ENTRY-ONLY

In the opinion of Bond Counsel, under existing law and assuming continued compliance with the Internal Revenue Code of 1986, as amended, interest on the Bonds is not included in gross income for federal income tax purposes and is not an item of tax preference for the purpose of computing the alternative minimum tax imposed on individuals and corporations. However, 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 the interest thereon may be included in the measure of estate and inheritance taxes and of certain corporation excise and franchise taxes. For federal and Massachusetts tax purposes, interest includes original issue discount. There may also be collateral tax consequences under the federal tax law for certain holders of the Bonds. See "TAX EXEMPTION" herein.



THE COMMONWEALTH OF MASSACHUSETTS

**\$250,000,000
General Obligation Bonds
Consolidated Loan of 1995, Series D**

The Bonds will be issued by means of a book-entry-only system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company ("DTC") and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The Bonds will bear interest from November 1, 1995 and interest will be payable on May 1, 1996 and semiannually thereafter on November 1 and May 1, calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are subject to redemption prior to maturity, as more fully described herein.

The Bonds will constitute general obligations of The Commonwealth of Massachusetts (the "Commonwealth"), and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and on expenditures for debt service and regarding dedicated state income tax revenues, see "SECURITY FOR THE BONDS" and "Appendix A - Commonwealth Information Statement" under the headings "COMMONWEALTH REVENUES - Limitations on Tax Revenues," "COMMONWEALTH PROGRAMS AND SERVICES - Debt Service" and "COMMONWEALTH BOND AND NOTE LIABILITIES." Payment of the principal of and interest on the Bonds when due will be insured by a municipal bond insurance policy to be issued simultaneously with the delivery of the Bonds by Financial Guaranty Insurance Company.

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 Brown, Rudnick, Freed & Gesmer, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Disclosure Counsel. Settlement of the issue is expected at DTC in New York, New York, on or about November 9, 1995.

November 1, 1995

THE COMMONWEALTH OF MASSACHUSETTS

\$250,000,000
General Obligation Bonds
Consolidated Loan of 1995, Series D

Dated: November 1, 1995

Due: November 1, as shown below

| <u>Maturity</u> | <u>Amount</u> | <u>Interest Rate</u> | <u>Yield</u> |
|-----------------|---------------|----------------------|--------------|
| 1996 | \$ 7,860,000 | 5.125% | 3.75% |
| 1997 | 8,160,000 | 5.125 | 3.95 |
| 1998 | 8,490,000 | 5.125 | 4.15 |
| 1999 | 8,845,000 | 5.125 | 4.30 |
| 2000 | 9,225,000 | 5.125 | 4.40 |
| 2001 | 9,630,000 | 5.125 | 4.50 |
| 2002 | 10,065,000 | 5.125 | 4.60 |
| 2003 | 10,530,000 | 5.125 | 4.70 |
| 2004 | 11,025,000 | 5.125 | 4.80 |
| 2005 | 11,555,000 | 5.125 | 4.90 |
| 2006 | 12,120,000 | 5.125 | 5.05 |
| 2007 | 12,730,000 | 5.125 | 5.15 |
| 2008 | 13,385,000 | 5.125 | 5.25 |
| 2009 | 14,090,000 | 5.125 | 5.35 |
| 2010 | 14,845,000 | 5.125 | 5.45 |
| 2011 | 15,650,000 | 5.125 | 5.50 |
| 2012 | 16,515,000 | 5.125 | 5.55 |
| 2013 | 17,430,000 | 5.125 | 5.60 |
| 2014 | 18,405,000 | 5.125 | NRO |
| 2015 | 19,445,000 | 5.125 | NRO |

(accrued interest, if any, to be added)

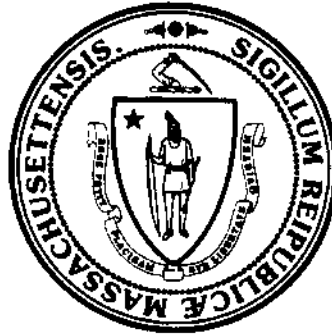
FOR NEW HAMPSHIRE RESIDENTS: THESE SECURITIES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION NOR HAS THE SECURITIES AND EXCHANGE COMMISSION OR ANY STATE SECURITIES COMMISSION PASSED UPON THE ACCURACY OR ADEQUACY OF THIS OFFICIAL STATEMENT. 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 or political subdivisions, since the date hereof, except as expressly set forth herein.

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THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

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

OFFICIAL STATEMENT

THE COMMONWEALTH OF MASSACHUSETTS

\$250,000,000

**General Obligation Bonds
Consolidated Loan of 1995, Series D**

INTRODUCTION

This Official Statement (including the cover pages and Appendices A through D attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of \$250,000,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 1995, Series D (the "Bonds"). The Bonds will be general obligations of the Commonwealth, and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and expenditures for debt service and regarding dedicated state income tax revenues, see "SECURITY FOR THE BONDS" and "Appendix A - Commonwealth Information Statement" under the headings "COMMONWEALTH REVENUES -- Limitations on Tax Revenues," "COMMONWEALTH PROGRAMS AND SERVICES -- Debt Service" and "COMMONWEALTH BOND AND NOTE LIABILITIES."

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

Purpose and Content of Official Statement

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

Attached hereto as Appendix A is the Commonwealth Information Statement dated October 3, 1995, as supplemented as of November 1, 1995 (the "Commonwealth Information Statement"), which contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth. Exhibit A to the Commonwealth Information Statement contains certain economic information concerning the Commonwealth. Exhibits B and C to the Commonwealth Information Statement contain the financial statements of the Commonwealth for the fiscal year ended June 30, 1994, prepared on a statutory basis and a GAAP basis, respectively. Appendix B attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Bonds. Appendix C attached hereto contains a specimen of the bond insurance policy to be issued with respect to the Bonds. Appendix D attached hereto contains the form of the Commonwealth's continuing disclosure undertaking to be included in the form of the Bonds to facilitate compliance by the underwriters with the requirements of Rule 15c2-12 of the Securities and Exchange Commission.

THE BONDS

General

The Bonds will be dated November 1, 1995 and will bear interest from such date payable semiannually on May 1 and November 1 of each year, commencing May 1, 1996 (each an "Interest Payment Date") until the principal amount is paid. The Bonds will mature on November 1 in the years and in the aggregate principal amounts, and shall bear interest at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months), as set forth on the inside cover page of this Official Statement. The Commonwealth will act as its own paying agent with respect to the Bonds.

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

Redemption

The Bonds maturing on or prior to November 1, 2005 will not be subject to redemption prior to their stated maturity dates.

Optional Redemption. The Bonds maturing on or after November 1, 2006 will be subject to redemption prior to their stated maturity dates on or after November 1, 2005 at the option of the Commonwealth from any moneys legally available therefor, in whole or in part at any time, by lot, at the redemption prices (expressed as percentages of the principal amount thereof) plus accrued interest to the redemption date, as follows:

| <u>Redemption Dates</u> | <u>Redemption Prices</u> |
|--|--------------------------|
| November 1, 2005 through October 31, 2006, inclusive | 101% |
| November 1, 2006 through October 31, 2007, inclusive | 100½ |
| November 1, 2007 and thereafter | 100 |

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

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

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

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

Application of Proceeds of the Bonds

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

laws or to the payment of bond anticipation notes previously issued for such purposes. 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 1996 to certain projects included within the categories of capital expenditures contained in the Capital Spending Plan. See "Appendix A - Commonwealth Information Statement" under the headings "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS - Overview of Capital Spending Process and Controls; *Five-Year Capital Spending Plan*" and "COMMONWEALTH BOND AND NOTE LIABILITIES - Authorized But Unissued Debt."

SECURITY FOR THE BONDS

The Bonds will be general obligations of the Commonwealth to which its full faith and credit will be pledged for the payment of principal and interest when due. However, it should be noted that Chapter 62F of the Massachusetts General Laws imposes a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit. It should be noted further that Section 60B of Chapter 29 of the Massachusetts General Laws imposes an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on general obligation debt of the Commonwealth. These statutes are both subject to amendment or repeal by the Legislature. Currently, both actual tax revenue growth and annual general obligation debt service are below the statutory limits. See "Appendix A - Commonwealth Information Statement" under the headings "COMMONWEALTH REVENUES - Limitations on Tax Revenues" and "COMMONWEALTH PROGRAMS AND SERVICES - Debt Service." In addition, the Commonwealth has pledged up to 15% of its income tax receipts to secure approximately \$619.0 million of the Commonwealth's outstanding Fiscal Recovery Bonds, the debt service on which amounts to approximately \$279 million per year in fiscal 1996 and fiscal 1997 and \$130 million in fiscal 1998, at which time the final maturity of the Fiscal Recovery Bonds will be paid. See "Appendix A - Commonwealth Information Statement" under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES - General Obligation Debt; *Dedicated Income Tax Debt*."

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

BOND INSURANCE

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

Concurrently with the issuance of the Bonds, Financial Guaranty will issue its Municipal Bond New Issue Insurance Policy for the Bonds (the "Policy"). The Policy unconditionally guarantees the payment of that portion

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

The Policy is non-cancelable and the premium will be fully paid at the time of delivery of the Bonds. The Policy covers failure to pay principal of the Bonds on their respective stated maturity dates, or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the Bonds may have been accelerated, and covers the failure to pay an installment of interest on the stated date for its payment.

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

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

Financial Guaranty is a wholly-owned subsidiary of FGIC Corporation (the "Corporation"), a Delaware holding company. The Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither the Corporation nor GE Capital is obligated to pay the debts of or the claims against Financial Guaranty. Financial Guaranty is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of June 30, 1995, the total capital and surplus of Financial Guaranty was approximately \$978,500,000. Financial Guaranty prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to Financial Guaranty at 115 Broadway, New York, New York 10006, Attention: Communications Department (telephone number: (212) 312-3000) or to the New York State Insurance Department at 160 West Broadway, 18th Floor, New York, New York 10013, Attention: Financial Condition Property/Casualty Bureau (telephone number: (212) 602-0389).

LITIGATION

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

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RATINGS

The claims-paying ability of Financial Guaranty Insurance Company ("Financial Guaranty") has been rated "AAA" by Fitch Investors Service, Inc. ("Fitch"), "Aaa" by Moody's Investors Service, Inc. ("Moody's") and "AAA" by Standard & Poor's Rating Group ("S&P").

Financial Guaranty notifies and provides information to each of the rating agencies as to each series of securities which Financial Guaranty commits to insure. Fitch, Moody's and S&P will rate securities insured by Financial Guaranty "AAA," "Aaa" and "AAA," respectively, upon verification by such rating agency that the insured issue complies with such rating agency's requirements for insured issues and subject to the following. Fitch

will assign its "AAA" rating to the securities insured by Financial Guaranty, if requested by the issuer. Moody's has advised Financial Guaranty that it will assign its "Aaa" rating to each security insured by Financial Guaranty. Pursuant to its ratings contract with Moody's, Financial Guaranty, itself, automatically applies for a rating on each security insured by Financial Guaranty. S&P has advised Financial Guaranty that it will assign its "AAA" rating to each security insured by Financial Guaranty.

Payment of the fees charged by any rating agency for rating an insured issue is a matter solely between the issuer and the respective rating agency. Financial Guaranty is not responsible for any such fees and will not seek to confirm the issuer's payment of such fees. The release of Financial Guaranty's bond insurance policy or surety bond is not subject to the payment of such fees.

Moody's and S&P, which have assigned ratings to the Bonds, have done so with the understanding that, upon delivery of the Bonds, the Financial Guaranty Policy will be issued by Financial Guaranty. Such ratings reflect only the views of such organizations and any desired explanation of the significance of such ratings should be obtained from the rating agency furnishing the same, at the following addresses; Moody's Investors Service, Inc., 99 Church Street, New York, New York 10007 and Standard & Poor's Corporation, 25 Broadway, New York, New York 10004. Generally, a rating agency bases its rating on the information and materials furnished to it and on investigations, studies and assumptions of its own. There is no assurance such ratings will continue for any given period of time or that such ratings will not be revised downward or withdrawn entirely by the rating agencies, if in the judgment of such rating agencies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

TAX EXEMPTION

Bond Counsel is of the opinion that, under existing law, except as described below, interest on the Bonds is not included in gross income for federal income tax purposes. Interest on obligations such as the Bonds is not an item of tax preference for the purpose of computing the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"), but such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed upon certain corporations. See Appendix B - "Form of Bond Counsel Opinion."

The Code imposes certain requirements and restrictions on the use, expenditure and investment of proceeds of state and local governmental obligations, including the Bonds, and a requirement for payment to the federal government (called a "rebate") of certain proceeds derived from the investment thereof. Failure to comply with the Code's requirements subsequent to the issuance of the Bonds could cause interest on the Bonds to become 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 has not opined as to the other federal tax consequences resulting from holding the Bonds.

Potential purchasers should be aware, however, of other collateral consequences that may result under the federal tax law for certain holders of the Bonds. Interest on the Bonds is 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 the interest thereon 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 the interest thereon under the laws of jurisdictions other than the Commonwealth.

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

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

COMPETITIVE SALE OF BONDS

After competitive bidding on November 1, 1995, the Bonds were awarded to a group of underwriters (the "Underwriters") led by a management team consisting of Goldman, Sachs & Co., Shawmut Bank, N.A. and EVEREN Securities, Inc. The Underwriters have supplied the information as to the public offering yields or prices of the Bonds set forth on the inside cover hereof. If all of the Bonds are resold to the public at such yields or prices, the Underwriters have informed the Commonwealth that they anticipate the total Underwriter compensation, net of amounts to be applied to costs of issuance of the Bonds and insurance, to be \$824,700. The Underwriters may change the public offering yields or prices from time to time.

CONTINUING DISCLOSURE

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

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

MISCELLANEOUS

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

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

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

AVAILABILITY OF OTHER INFORMATION

Questions regarding this Official Statement or requests for additional financial information concerning the Commonwealth should be directed to Kenneth Olshansky, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900, or Lowell Richards, Director of Debt Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Official Statement and the Bonds should be directed to Ronald S. Borod, Brown, Rudnick, Freed & Gesmer, One Financial Center, Boston, Massachusetts 02111, telephone 617/330-9000.

THE COMMONWEALTH OF MASSACHUSETTS

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

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

November 1, 1995

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**THE
COMMONWEALTH
OF
MASSACHUSETTS**



INFORMATION STATEMENT

Dated October 3, 1995

INFORMATION STATEMENT SUPPLEMENT

Dated November 1, 1995

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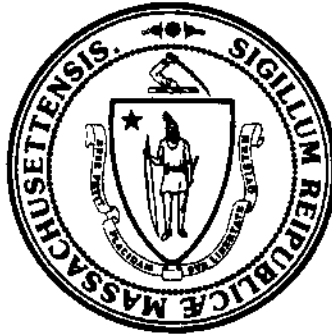
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THE COMMONWEALTH OF MASSACHUSETTS



CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

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

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THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT SUPPLEMENT

November 1, 1995

This supplement to the Information Statement of The Commonwealth of Massachusetts (the "Commonwealth") dated October 3, 1995 (the "Commonwealth Information Statement")¹, is dated November 1, 1995 (the "November 1, 1995 Supplement") and contains information which updates the information contained in the Commonwealth Information Statement. The November 1, 1995 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 November 1, 1995. All capitalized terms not otherwise defined in this November 1, 1995 Supplement shall have the meanings ascribed to them in the Commonwealth Information Statement.

RECENT DEVELOPMENTS

The Government

On November 1, 1995 the Governor released a proposal to reorganize state government. The Governor proposes to eliminate five of the eleven Executive Offices, as well as 76 state agencies (including the Registry of Motor Vehicles) and 263 state boards and commissions. The Executive Offices of Communities and Development, Consumer Affairs and Business Regulation, Economic Affairs, Educational Affairs and Labor would be eliminated. The basic functions of state government would be consolidated in six Secretariats (Administration and Finance, Elder Affairs, Environmental Affairs, Family Services, Public Property and Public Safety) and a newly created Board of Education and Training. The state's civil service system would be abolished, and state management personnel would be limited to 12 years of service. State employee contributions for health insurance coverage would be increased to 25% of the total group premium. The state's retirement system would be revamped to provide more options for state employees and for portable savings upon leaving state service. The Commonwealth would no longer be responsible for cost-of-living allowances for local retirees. The plan would "sunset" all state regulations on January 1, 1997 and require state agencies to justify the retention of particular regulations. Periodic passenger vehicle registration and operator license renewals would be eliminated in favor of permanent registration and lifetime operating licenses.

The reorganization plan also contemplates the private outsourcing of certain management and operational functions of various state departments, including one state college and one campus of the University of Massachusetts, and independent authorities, including the Massachusetts Bay Transportation Authority (MBTA), the Massachusetts Port Authority and the Massachusetts Water Resources Authority. The plan contemplates that the MBTA's commuter rail operations would be transferred to a newly created entity, that various independent authorities would be consolidated and that county government would be abolished.

Most of the proposals would require enactment by the Legislature of enabling legislation. The Governor has indicated his intention to file such legislation in January, 1996 in conjunction with his budget recommendations for fiscal 1997. The Governor has estimated that his reorganization proposals would result in budgetary savings

¹The October 3, 1995 Information Statement appended to this November 1, 1995 Supplement differs in four respects from the October 3, 1995 Information Statement appended to the Official Statement dated October 3, 1995 of the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority. On page A-15, the undesignated and total ending fund balances for fiscal 1996 have been changed. On page A-29, the sentence comparing Medicaid expenditures in fiscal 1995 and fiscal 1996 has been changed. On page A-28, the comparison of growth in property tax levies to growth in the consumer price index has been updated through fiscal 1995. On page A-34, the figures for the MBTA's operating expenses and debt service expenses in fiscal 1995 have been changed.

more than sufficient to offset the cost to the Commonwealth of a substantial reduction in state income taxes, as described below.

1996 Fiscal Year

On October 18, 1995 the Governor filed a supplemental appropriation bill recommending new spending authorizations of approximately \$36.8 million (\$34.4 million net state cost), which amount is included in the \$145 million contingency reserve. These recommended increases were offset by proposals to reduce authorizations in other line items by approximately \$56.5 million (\$34.4 million after accounting for reduced revenue). The proposed reductions are primarily in two programs: \$44.2 million (\$22.1 million net state cost after accounting for federal reimbursements) in Aid to Families with Dependent Children (AFDC), due to continuing declines in the AFDC caseload, and \$9.8 million for the state's debt service contract assistance to the MBTA, due to lower-than-anticipated MBTA borrowing costs. Of the reduced items, approximately \$24.6 million in net costs was previously projected to be spent in fiscal 1996.

Through October, 1995, fiscal 1996 tax revenue collections have totalled approximately \$3.562 billion, approximately \$167.1 million, or 4.9%, greater than tax revenue collections for the same period in fiscal 1995.

State Taxes

In connection with his proposal to reorganize state government, the Governor also announced on November 1, 1995 that he would propose to reduce the personal income tax rate on earned income from 5.95% to 5.45%. Legislation to effectuate such tax reduction is expected to be filed by the Governor in January, 1996 in conjunction with the filing of his budget recommendations for fiscal 1997. The cost to the Commonwealth of the proposed tax reduction has been estimated to be approximately \$500 million per year.

On November 1, 1995 the Legislature's Committee on Taxation approved a modified version of the bill filed by the Governor to establish a "single sales factor" apportionment formula for the business corporations tax. The bill approved by the committee would apply the new formula only to certain federal defense contractors. The legislation is now being considered by the House Ways and Means Committee.

Five-Year Capital Spending Plan

The following table, entitled "Summary of Five-Year Capital Spending Plan and Plan of Finance," sets forth current estimates of capital spending of the Commonwealth, including the MBTA, as well as the sources of funding for such capital spending, including federal aid, for fiscal years 1996 through 2000. Total capital spending for fiscal years 1996 through 2000 to be financed from Commonwealth debt is forecast at approximately \$4.568 billion, which is significantly below legislatively authorized capital spending levels. In addition, the Five-Year Capital Spending Plan also forecasts total MBTA capital expenditures of approximately \$1.501 billion for fiscal years 1996 through 2000, which spending is expected to be financed through the issuance of MBTA bonds, and assumes that the projected level of Commonwealth capital spending will leverage additional federal transportation aid of approximately \$6.368 billion for this period. The anticipated levels of federal aid rely on certain assumptions concerning the level of federal participation in the funding of the third harbor tunnel and central artery projects and for state highways and bridge repair, as well as mass transit. The Executive Office for Administration and Finance regularly reviews the Five-Year Capital Spending Plan to account for changes in the expected timing and amount of the Commonwealth's capital expenditures. The table assumes that all Commonwealth bonds related to a particular year's expenditures will be issued in the same year. In practice, Commonwealth capital expenditures often occur prior to the issuance of the related bonds. Accordingly, it is customary for some Commonwealth bonds to be issued in a subsequent fiscal year to finance capital expenditures made in the prior fiscal year. Fiscal 1995 capital expenditures amounting to approximately \$239 million will be financed through the issuance of bonds in fiscal 1996; such bonds are not included in the following table. See "Commonwealth Information Statement" under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Overview of Capital Spending Process and Controls" on pp. A-10, A-11 and A-12.

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

| | <u>1996</u> | <u>1997</u> | <u>1998</u> | <u>1999</u> | <u>2000</u> | <u>Total</u> |
|--|----------------|----------------|----------------|----------------|----------------|-----------------|
| Uses of Funds | | | | | | |
| Information Technology | \$ 20 | \$ 21 | \$ 17 | \$ 19 | \$ 19 | \$ 96 |
| Infrastructure(1) | 114 | 217 | 237 | 214 | 202 | 984 |
| Environmental Affairs | | | | | | |
| Commonwealth Expenditures | 77 | 61 | 48 | 74 | 60 | 320 |
| Wastewater Treatment | 25 | 25 | 25 | 25 | 25 | 125 |
| Open Space Acquisition | <u>40</u> | <u>45</u> | <u>45</u> | <u>45</u> | <u>45</u> | <u>220</u> |
| Subtotal | 142 | 131 | 118 | 144 | 130 | 665 |
| Housing | 65 | 77 | 78 | 78 | 71 | 369 |
| Transportation | | | | | | |
| Commonwealth Expenditures | 450 | 367 | 358 | 388 | 413 | 1,976 |
| Turnpike Authority-Supported Expenditures(2) | 100 | 0 | 0 | 0 | 0 | 100 |
| MBTA | 360 | 382 | 388 | 184 | 187 | 1,501 |
| Federal Highway/MBTA Aid | <u>1,174</u> | <u>1,212</u> | <u>1,399</u> | <u>1,552</u> | <u>1,031</u> | <u>6,368</u> |
| Subtotal | 2,084 | 1,961 | 2,145 | 2,124 | 1,631 | 9,945 |
| Economic Development/Miscellaneous | <u>107</u> | <u>87</u> | <u>87</u> | <u>110</u> | <u>87</u> | <u>478</u> |
| Total | <u>\$2,532</u> | <u>\$2,494</u> | <u>\$2,682</u> | <u>\$2,689</u> | <u>\$2,140</u> | <u>\$12,537</u> |
| Sources of Funds | | | | | | |
| Federal Aid | \$1,174 | \$1,212 | \$1,399 | \$1,552 | \$1,031 | \$6,368 |
| Commonwealth Debt (3) | 898 | 900 | 895 | 953 | 922 | 4,568 |
| Turnpike Authority Debt Proceeds(2) | 100 | 0 | 0 | 0 | 0 | 100 |
| MBTA Bonds | <u>360</u> | <u>382</u> | <u>388</u> | <u>184</u> | <u>187</u> | <u>1,501</u> |
| Total | <u>\$2,532</u> | <u>\$2,494</u> | <u>\$2,682</u> | <u>\$2,689</u> | <u>\$2,140</u> | <u>\$12,537</u> |

SOURCE: Executive Office for Administration and Finance.

- (1) Includes hospital consolidation, prison, courts and higher education construction and miscellaneous other projects.
- (2) Legislation enacted in August, 1995 provides for a \$100 million payment from the Massachusetts Turnpike Authority to the Commonwealth for use in meeting transportation-related obligations. See "Commonwealth Information Statement" under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Overview of Capital Spending Process and Controls; Five-Year Capital Spending Plan" on p. A-13.
- (3) Includes general obligation bonds and special obligation bonds.

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

On October 13, 1995, the House Ways and Means Committee approved legislation concerning the development of a new convention center in Boston, in response to the recommendations made in June, 1995 by the special legislative commission established in February, 1995. The committee's legislation would have authorized Commonwealth bonds in the amount of \$602 million to finance construction or renovation of convention centers (without fixed seating) in Boston, Springfield and Worcester and to finance traffic improvements near Foxboro Stadium. The legislation would also have increased the rate of the room occupancy excise and impose ticket and parking surcharges to provide incremental state revenues sufficient to provide for the debt service on the bonds. On October 24, 1995, the chairman of the House Ways and Means Committee moved to substitute a scaled-down bill that would have authorized Commonwealth bonds in the amount of \$5 million for a detailed cost study relative to a new convention center in Boston. Such substituted legislation was subsequently defeated by the House of Representatives. On October 24, 1995 the Senate gave preliminary approval to legislation that would authorize Commonwealth bonds in the amount of \$100 million for convention centers throughout the state and that would authorize Commonwealth-supported debt in the amount of \$500 million to be issued by the Massachusetts Convention Center Authority to finance a new convention center (without fixed seating) in Boston. It is not known what action, if any, the House of Representatives will take with respect to the legislation passed by the Senate.

On October 24 and 25, 1995, the Senate also approved Commonwealth bond authorization bills for open space and environmental enhancement (\$326 million), prison construction (\$487 million), seaport improvements (\$146 million)² and higher education (\$658 million). The Governor had previously filed, and the House of Representatives had previously approved, legislation for similar purposes, but in each case the amounts authorized and the specific purposes vary considerably. A legislative conference committee will be named for each bill to recommend compromise legislation resolving the differences between the House and Senate versions. Such compromise legislation would require passage by a two-thirds majority in each house and approval by the Governor before any of the proposed capital spending could occur.

The Legislature's Committee on Transportation is also considering a bond authorization bill filed by the Governor on September 22, 1995 which would authorize Commonwealth bonds in the amount of approximately \$1.682 billion and MBTA bonds in the amount of \$365.5 million for a variety of transportation projects.

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

COMMONWEALTH BOND AND NOTE LIABILITIES

The following table sets forth the Commonwealth's bond and note liabilities outstanding on October 1, 1995.

²By floor amendment, the Senate also added to the seaports improvement bill its version of the convention center legislation described above.

Commonwealth Bond and Note Liabilities
October 1, 1995
(in thousands)

| | <u>Long-Term</u> (1) | <u>Short-Term</u> |
|---|-----------------------------|---------------------------|
| COMMONWEALTH DEBT | | |
| General Obligation Debt | \$8,643,955(2) | \$430,000(3) |
| Dedicated Income Tax Debt | 618,980 | 0 |
| Special Obligation Debt | <u>394,720</u> | <u>0</u> |
| Subtotal Commonwealth Debt | <u>9,657,655</u> | <u>430,000</u> |
| COMMONWEALTH-SUPPORTED DEBT | | |
| MBTA | 2,399,780(4) | 514,200(5) |
| Massachusetts Convention Center Authority | 155,559 | 0 |
| Massachusetts Government Land Bank | 20,195 | 0 |
| Boston Metropolitan District | 47,187 | 0 |
| Steamship Authority | 32,364(6) | 4,400 |
| Regional transit authorities | <u>15</u> | <u>69,396</u> |
| Subtotal Supported Debt | <u>2,655,100</u> | <u>587,996</u> |
| COMMONWEALTH-GUARANTEED DEBT | | |
| Higher education building authorities | 253,005 | 0 |
| Town of Mashpee | <u>200</u> | <u>0</u> |
| Subtotal Guaranteed Debt | <u>253,205</u> | <u>0</u> |
| TOTAL COMMONWEALTH BOND AND NOTE LIABILITIES | <u>\$ 12,565,960</u> | <u>\$1,017,996</u> |

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

- (1) Long-term debt includes discount and costs of issuance. Does not include long-term capital lease obligations. See "Indirect Obligations; Plymouth County Certificates of Participation" and "OTHER COMMONWEALTH LIABILITIES -- Long-Term Capital Leases and Certificates of Participation."
- (2) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from October 1, 1995 through their maturity in the amount of \$344.0 million. The Commonwealth sold bonds in the amount of \$250 million on November 1, 1995, which are expected to be delivered on November 9, 1995.
- (3) \$240 million of Commonwealth general obligation notes issued on June 20, 1995 and due June 12, 1996 for the purpose of financing the MBTA's net cost of service and \$190 million of commercial paper issued as bond anticipation notes (of which \$92 million will be retired from the proceeds of the bonds sold on November 1, 1995). See "General Obligation Debt; Commonwealth General Obligation Notes."
- (4) On October 3, 1995, the MBTA issued an additional \$200 million of bonds.
- (5) Includes \$165 million of notes due March 1, 1996 and \$160 million of notes due September 6, 1996; also includes \$189.2 million of commercial paper which was retired from the proceeds of the bonds described in note (4). In addition, as of November 1, 1995, the MBTA has \$16 million of new commercial paper outstanding which has been issued as bond anticipation notes. See "Commonwealth Supported Debt; MBTA."
- (6) On October 12, 1995, the Steamship Authority issued \$8.8 million of bonds.

OTHER COMMONWEALTH LIABILITIES

Water Pollution Abatement Trust

On October 24, 1995, the Senate approved amendments to the enabling act of the Water Pollution Abatement Trust that would authorize the Trust to provide financial assistance to its borrowers sufficient to result in up to 50% grant equivalency, with financial assistance in excess of 25% to be funded from contract assistance payments from the Commonwealth. The enabling act amendments would also authorize the State Treasurer to enter into a contract with the Trust pursuant to which the Commonwealth would agree to provide up to \$8 million of contract assistance in each fiscal year through fiscal year 2025 to provide for such additional assistance. A separate

provision in the same legislation would require the Trust to provide financial assistance sufficient to result in at least 50% grant equivalency with respect to all loans made by the Trust on or after October 1, 1995 and to provide such 50% grant equivalency through interest forgiveness with respect to loans made prior to that date. The Senate legislation will be considered by a legislative conference committee which will reconcile differences between the Senate bill and a House-passed bill containing no similar provisions. The recommendations of the conference committee will be subject to the approval of the House of Representatives and the Senate, and then of the Governor.

Unemployment Compensation Trust Fund

As of September 30, 1995, the Massachusetts Unemployment Trust Fund had a surplus of \$481.07 million. The Department of Employment and Training's August, 1995 quarterly report indicates that the contributions provided by current law should result in a private contributory account balance of \$375 million in the Unemployment Compensation Trust Fund by December, 1995 and rebuild reserves in the system to \$1.25 billion by the end of 1999. See "Exhibit A - Economic Information" under the heading "Employment--Unemployment" and see "Commonwealth Information Statement" under the heading "OTHER COMMONWEALTH LIABILITIES -- Unemployment Compensation Trust Fund" on page A-54.

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

Environmental Matters. In connection with *United States v. Metropolitan District Commission* (U.S. District Court C.A.No. 85-0489-MA), on October 18, 1995, the court entered an order which reduced the MWRA's obligation to build certain additional secondary treatment facilities. The MWRA estimates that this order will save ratepayers approximately \$165 million.

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

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

See "Commonwealth Information Statement" under the heading "LITIGATION" on page A-54.

AVAILABILITY OF OTHER INFORMATION

Questions regarding this November 1, 1995 Supplement or requests for additional financial information concerning the Commonwealth should be directed to Kenneth Olshansky, Deputy Treasurer, Office of the Treasurer-Receiver General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900, or Lowell Richards, Assistant Secretary for Capital Resources, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this November 1, 1995 Supplement should be directed to John R. Regier or Navjeet K. Bal, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone 617/542-6000.

THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Joseph D. Malone

Joseph D. Malone
Treasurer and Receiver-General

By /s/ Charles D. Baker

Charles D. Baker
Secretary of Administration and Finance

November 1, 1995

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THE COMMONWEALTH OF MASSACHUSETTS
INFORMATION STATEMENT

October 3, 1995

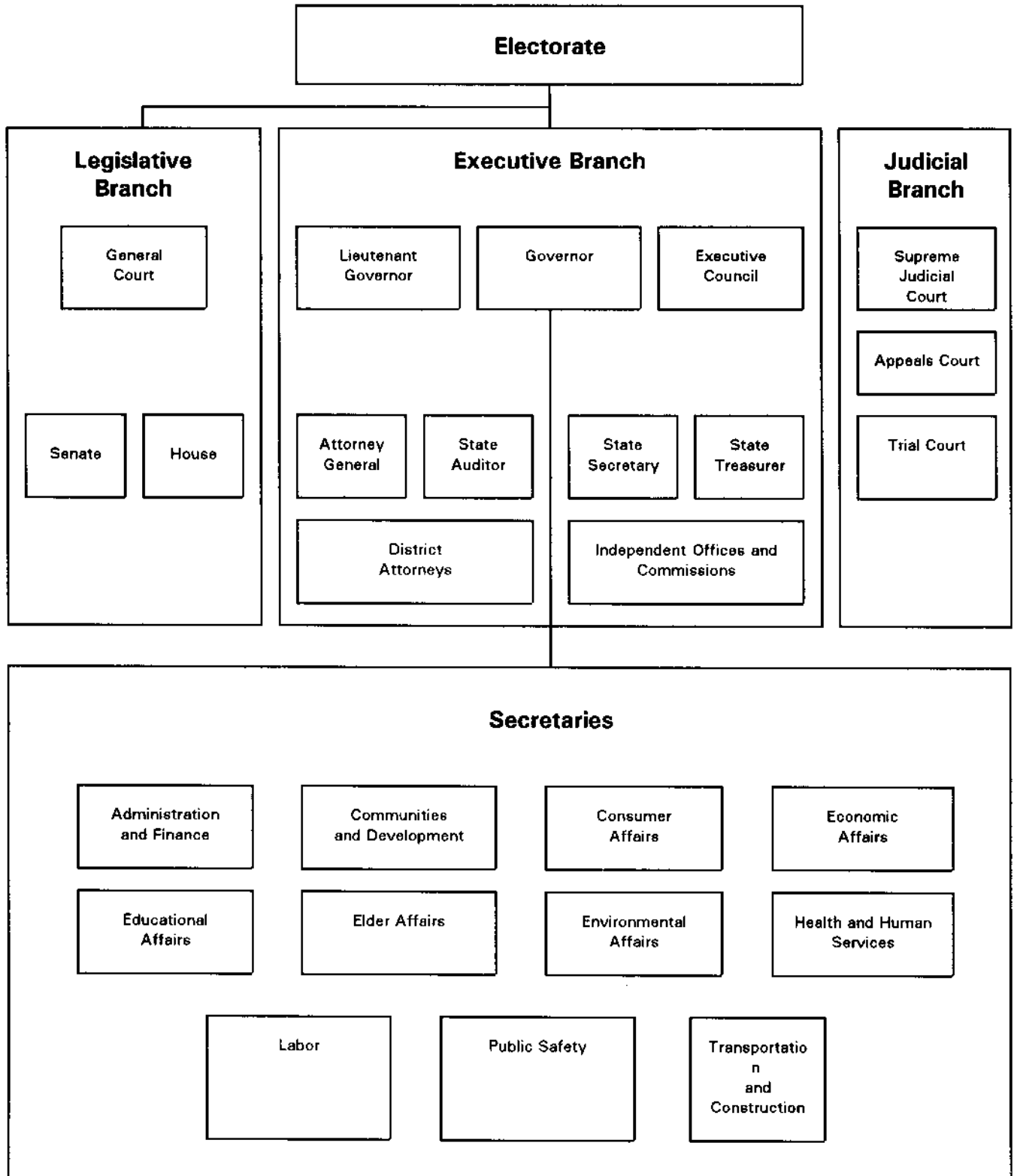
This Information Statement, together with the Exhibits attached hereto, is furnished by The Commonwealth of Massachusetts (the "Commonwealth"). It contains certain fiscal, financial and economic information concerning the Commonwealth and its ability to meet its obligations. The Commonwealth Information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

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

Exhibit A to this Information Statement sets forth certain economic, demographic and statistical information concerning the Commonwealth. Exhibits B and C contain the Commonwealth's fiscal 1994 combined financial statements (statutory basis) and fiscal 1994 general purpose financial statements (GAAP basis), respectively.

THE GOVERNMENT

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



Executive Branch

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

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

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

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

Approximately 76.5% of the Commonwealth's fiscal 1996 program expenditures in the budgeted operating funds is allocated to the Executive Offices. Listed below are the eleven Executive Offices, showing for each the name of its secretary and the percentage of the Commonwealth's fiscal 1996 program expenditures in the budgeted operating funds attributable thereto:

| Executive Offices | | |
|--|---------------------------|--|
| <u>Executive Office</u> | <u>Secretary</u> | <u>Approximate Percentage of Total Expenditures Supervised</u> |
| Administration and Finance | Charles D. Baker | 5.7% |
| Communities and Development | Mary L. Padula | 0.8 |
| Consumer Affairs and Business Regulation | Priscilla H. Douglas | 0.2 |
| Economic Affairs | Gloria C. Larson | 0.2 |
| Educational Affairs | Michael Sentance (Acting) | 17.6 |
| Elder Affairs | Franklin P. Ollivierre | 0.8 |
| Environmental Affairs | Trudy Cox | 1.0 |
| Health and Human Services | Gerald Whitburn | 41.6 |
| Labor | Christine E. Morris | 0.1 |
| Public Safety | Kathleen O'Toole | 4.9 |
| Transportation and Construction | James J. Kerasiotes | 3.6 |

SOURCE: Executive Office for Administration and Finance.

Approximately 3.8% of the Commonwealth's fiscal 1996 expenditures in the budgeted operating funds are for the costs and expenses of the constitutional officers (other than the State Treasurer), the Legislature, the Judiciary, the Office of the Comptroller, the Board of Library Commissioners, the Office of the Inspector General, the State Ethics Commission and the Office of Campaign and Political Finance. The State Treasurer's budget contains approximately 18.9% of fiscal 1996 expenditures, including 5.5% for a portion of Commonwealth aid to cities, towns and regional school districts ("Local Aid"), 7.0% for debt service, 5.8% for pension costs, and 0.6% for other programs within the State Treasurer's office, including Lottery administration. See "COMMONWEALTH PROGRAMS AND SERVICES -- Local Aid," "-- Debt Service" and "-- Pensions." The remaining 0.8% of fiscal 1996 expenditures is reserved for contingencies.

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

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

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

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

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

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

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

Legislative Branch

The General Court (the "General Court" or the "Legislature") is the bicameral legislative body of the Commonwealth, consisting of a Senate of 40 members and a House of Representatives of 160 members. Members of both the Senate and the House are elected to two-year terms in even-numbered years. The General Court meets every year. The joint rules of the House and Senate, as modified in June, 1995, require all formal business to be concluded by the end of July in even-numbered years and by the third Wednesday in November in odd-numbered years.

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

Judicial Branch

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

Independent Authorities and Agencies

The Legislature has established 56 independent authorities and agencies within the Commonwealth, the budgets of which are not included in the Commonwealth's annual budget. The Governmental Accounting Standards Board (GASB) statement number 14 articulates standards for determining significant financial or operational relationships between the primary government and its independent entities. Based on this statement, the Commonwealth has significant operational or financial relationships, or both, with 36 of its 56 authorities. For example, the Commonwealth appropriates budgetary funds for subsidies, operating assistance and debt service payments (and is liable for all of a portion of the outstanding debt) of certain of these authorities and agencies, such as the Massachusetts Bay Transportation Authority ("MBTA"), the Boston Metropolitan District, the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority (the "Steamship Authority"), certain regional transit authorities ("RTA's"), the Massachusetts Convention Center Authority ("MCCA") and the Massachusetts Government Land Bank (the "Land Bank"). The Commonwealth guarantees debt issued by four higher education building authorities and various local housing authorities and may be called upon to replenish the capital reserve funds of the Massachusetts Housing Finance Agency ("MHFA") and the Massachusetts Home Mortgage Finance Agency. See "COMMONWEALTH BOND AND NOTE LIABILITIES." The Commonwealth also appropriates budgetary funds for certain debt service payments of the Massachusetts Water Pollution Abatement Trust. See "OTHER COMMONWEALTH LIABILITIES - Water Pollution Abatement Trust." Other independent authorities and agencies which issue their own debt for quasi-governmental purposes include the Massachusetts Educational Financing Authority, the Massachusetts Health and Educational Facilities Authority ("HEFA"), the Massachusetts Industrial Finance Agency ("MIFA"), the Massachusetts Port Authority, the Massachusetts Turnpike Authority and the Massachusetts Water Resources Authority ("MWRA"). A discussion of these entities and the relationship to the Commonwealth is included in footnote 1 to the fiscal 1994 general purpose financial statements - GAAP basis included as Exhibit C hereto.

Local Government

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

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

Municipal revenues consist of property taxes, Local Aid, local receipts (including motor vehicle excise taxes, local option taxes, fines, licenses and permits, charges for local services and investment income) and other available funds (including general and dedicated reserve funds). Following the enactment in 1980 of the tax limitation initiative petition commonly known as Proposition 2½, most local governments have been forced to rely on other revenues, principally Local Aid, to support local programs and services. See "COMMONWEALTH PROGRAMS AND SERVICES -- Local Aid."

Initiative Petitions

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

COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS

Operating Fund Structure

Budgeted Operating Funds. The Commonwealth's operating fund structure satisfies the requirements of state finance law and is in accordance with generally accepted accounting principles ("GAAP"), as defined by the Governmental Accounting Standards Board. The General Fund and those special revenue funds which are appropriated in the annual state budget receive most of the non-bond and non-federal grant revenues of the Commonwealth. These funds are referred to in this Information Statement as the "budgeted operating funds" of the Commonwealth. They do not include the capital projects funds of the Commonwealth, into which the proceeds of Commonwealth bonds are deposited. See "Overview of Capital Spending Process and Controls; *Capital Projects Fund Structure.*" The three principal budgeted operating funds are the General Fund, the Highway Fund and the Local Aid Fund. Expenditures from these three funds generally account for approximately 97% of total expenditures of the budgeted operating funds.

Stabilization Fund. State finance law provides for a Stabilization Fund relating to the use of fiscal year-end surpluses. A limitation equal to 0.5% of total tax revenues is imposed on the amount of any aggregate surplus in the Commonwealth's three principal budgeted operating funds which may be carried forward as a beginning balance

for the next fiscal year. Any amount in excess of that limitation is reserved in the Stabilization Fund, from which funds can be appropriated (i) to make up any difference between actual state revenues and allowable state revenues in any fiscal year in which actual revenues fall below the allowable amount, (ii) to replace state and local losses of federal funds or (iii) for any event, as determined by the Legislature, which threatens the health, safety or welfare of the people or the fiscal stability of the Commonwealth or any of its political subdivisions. Up to 5% of total state tax revenues may be accumulated in the Stabilization Fund. Amounts in excess of that figure at the end of any fiscal year are to be applied to the reduction of personal income taxes. The final fiscal 1995 supplemental budget modified, with respect to the fiscal 1995 year-end surplus, the provisions of state law governing deposits to the Stabilization Fund. See "FINANCIAL RESULTS -- Fiscal Years 1991 through 1995; *Fiscal Year 1995*."

Overview of Budgetary Process

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

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

In years in which the General Appropriation Act is not approved by the Legislature and the Governor prior to the beginning of the applicable fiscal year, the Legislature and the Governor generally approve a temporary budget under which funds for the Commonwealth's programs and services are appropriated based upon the level of appropriations from the prior fiscal year budget.

During the course of the fiscal year, the Comptroller monitors budgetary accounts and notifies the Secretary of Administration and Finance and the House and Senate Committees on Ways and Means whenever the appropriation for a particular account has been depleted. Whenever the Governor believes that existing appropriations are insufficient to provide for projected expenditures under authorized programs, the Governor may seek supplemental appropriations for particular programs or spending items. Although supplemental appropriations have been commonplace for many years for various purposes, including, in particular, Medicaid and certain other public assistance programs, the extent of the Commonwealth's reliance on such appropriations has diminished in recent years. See "FINANCIAL RESULTS -- Fiscal Years 1991 through 1995; *Fiscal Year 1995*."

Various procedures required by state finance law are used by the Commonwealth to monitor revenues and expenditures during the fiscal year. For example, quarterly revenue estimates are required to be made by the Secretary of Administration and Finance, and the Comptroller publishes a quarterly report of planned and actual revenues. See "COMMONWEALTH REVENUES -- Tax Revenue Forecasting." In addition, each department head is required to notify the Secretary of Administration and Finance and the House and Senate Committees on Ways and Means of any anticipated decrease in estimated revenues for his or her department from the federal government or other sources or whenever it appears that any appropriation will be insufficient to meet all expenditures required

in the fiscal year by any law, rule, regulation or order not subject to administrative control. The Secretary of Administration and Finance must notify the Governor and the House and Senate Committees on Ways and Means whenever the Secretary determines that revenues will be insufficient to meet authorized expenditures. The Secretary of Administration and Finance is then required to compute projected deficiencies and, under Section 9C of Chapter 29 of the General Laws, the Governor is required to reduce allotments, to the extent lawfully permitted to do so, or submit proposals to the Legislature to raise additional revenues or to make appropriations from the Stabilization Fund to cover such deficiencies.

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

Cash and Budgetary Controls

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

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

Cash Management Practices of State Treasurer

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

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

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

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

Fiscal Control, Accounting and Reporting Practices of Comptroller

The Comptroller is responsible for oversight of fiscal management functions, establishment of all accounting policies and practices and publication of official financial reports. The Comptroller maintains the Massachusetts Management Accounting and Reporting System ("MMARS"), the centralized state accounting system that is used by all state agencies and departments except independent state authorities. MMARS provides a ledger-based system

of revenue and expenditure accounts enabling the Comptroller to control obligations and expenditures effectively and to ensure that appropriations are not exceeded during the course of the fiscal year. During fiscal 1992 the Commonwealth added a billing and accounts receivable subsystem to its statewide accounting system in order to automate the billing, collection and management of its non-tax revenues.

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

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

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

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

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

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

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

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

Under GAAP, revenues are reported in the period in which they become both measurable and available. Revenues are "available" when they are expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants and reimbursements, local government assessments for operations of the MBTA and reimbursements for the use of materials and services. Tax accruals, which represent the estimated amounts due to the Commonwealth on previous filings, over and under withholdings, estimated payments on income earned and tax refunds and abatements payable, are all recorded as adjustments to statutory basis tax revenues. Expenditures/expenses are recorded in the period in which the related fund liability is incurred. Principal of and interest on long-term debt obligations are recorded as fund liabilities when due. Major expenditure accruals are recorded for the cost of Medicaid claims that have been incurred but not paid, net cost of service payments due to the MBTA, claims and judgments and compensated absences such as vacation pay earned by state employees. See "FINANCIAL RESULTS -- Selected Financial Data -- GAAP Basis" and Exhibit C, "1994 General Purpose Financial Statements -- GAAP Basis."

Financial Reports. The Commonwealth's fiscal year ends on June 30. Throughout the year, the Comptroller prepares interim financial statements, and each September, following the end of the fiscal year, the Comptroller issues a Preliminary Financial Report. These interim and preliminary financial reports are prepared on the statutory basis of accounting and are not audited, but they are considered authoritative. In January, the Comptroller publishes the Commonwealth's audited annual report. For fiscal years 1986 through 1989 this report included audited financial statements on both the statutory basis of accounting and the GAAP basis. Since fiscal 1990, these financial statements have been issued as two separate reports, one utilizing the statutory basis of accounting (the "Statutory Basis Financial Report") and one utilizing the GAAP basis, the Comprehensive Annual Financial Report ("CAFR"). The general purpose financial statements for fiscal 1994 from these two reports are attached hereto as Exhibits B and C, respectively. For fiscal 1990 through 1994 the independent auditor's opinions were unqualified. Copies of these financial reports are available at the address provided under "CONTINUING DISCLOSURE."

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

The Commonwealth CAFRs for fiscal 1990 through fiscal 1994, from which certain information contained in this Information Statement has been derived, were each awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada ("GFOA"). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

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

Overview of Capital Spending Process and Controls

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

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

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

The following table, entitled "Summary of Five-Year Capital Spending Plan and Plan of Finance," sets forth current estimates of capital spending of the Commonwealth, including the MBTA, as well as the sources of funding for such capital spending, including federal aid, for fiscal years 1995 through 1999. Total capital spending for fiscal years 1995 through 1999 to be financed from Commonwealth debt is forecast at approximately \$4.634 billion, which is significantly below legislatively authorized capital spending levels. In addition, the Five-Year Capital Spending Plan also forecasts total MBTA capital expenditures of \$1.683 billion for fiscal years 1995 through 1999, which spending is expected to be financed through the issuance of MBTA bonds and assumes that the projected level of Commonwealth capital spending will leverage additional federal transportation aid of \$6.403 billion for this period. The anticipated levels of federal aid rely on certain assumptions concerning the level of federal participation in the funding of the third harbor tunnel and central artery projects and for state highways and bridge repair, as well as mass transit. The Executive Office for Administration and Finance regularly reviews the Five-Year Capital Spending Plan to account for changes in the expected timing and amount of the Commonwealth's capital expenditures.

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

| | <u>1995</u> | <u>1996</u> | <u>1997</u> | <u>1998</u> | <u>1999</u> | <u>Total</u> |
|--------------------------------|--------------------|----------------|----------------|----------------|----------------|-----------------|
| Uses of Funds | | | | | | |
| Information Technology | \$ 25 | \$ 20 | \$ 21 | \$ 17 | \$ 19 | \$ 102 |
| Infrastructure(2) | 128 | 168 | 217 | 237 | 214 | 964 |
| Environmental Affairs | | | | | | |
| Commonwealth Expenditures | 114 | 73 | 61 | 48 | 74 | 370 |
| Open Space Acquisition | <u>35</u> | <u>40</u> | <u>45</u> | <u>45</u> | <u>45</u> | <u>210</u> |
| Subtotal | 149 | 113 | 106 | 93 | 119 | 580 |
| Housing | 58 | 65 | 77 | 78 | 78 | 356 |
| Transportation | | | | | | |
| Commonwealth Expenditures | 453 | 413 | 348 | 302 | 363 | 1,879 |
| MBTA | 350 | 400 | 400 | 330 | 203 | 1,683 |
| Federal Highway/MBTA Aid | <u>1,620</u> | <u>1,431</u> | <u>1,337</u> | <u>1,035</u> | <u>980</u> | <u>6,403</u> |
| Subtotal | 2,423 | 2,244 | 2,085 | 1,667 | 1,546 | 9,965 |
| Economic Development | 0 | 103 | 117 | 118 | 150 | 488 |
| Miscellaneous Capital Projects | <u>38</u> | <u>12</u> | <u>8</u> | <u>7</u> | <u>10</u> | <u>75</u> |
| Total | <u>\$2,821</u> (3) | <u>\$2,725</u> | <u>\$2,631</u> | <u>\$2,217</u> | <u>\$2,136</u> | <u>\$12,530</u> |
| Sources of Funds | | | | | | |
| Federal Aid | \$1,620 | \$1,431 | \$1,337 | \$1,035 | \$ 980 | \$6,403 |
| Commonwealth Debt(4) | 1,031 (5) | 894 | 894 | 852 | 953 | 4,624 |
| MBTA Bonds | <u>350</u> | <u>400</u> | <u>400</u> | <u>330</u> | <u>203</u> | <u>1,683</u> |
| Total | <u>\$3,001</u> (3) | <u>\$2,725</u> | <u>\$2,631</u> | <u>\$2,217</u> | <u>\$2,136</u> | <u>\$12,710</u> |

SOURCE: Executive Office for Administration and Finance.

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

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.

In February, 1995, the Legislature established a 13-member commission to make formal recommendations and to file proposed legislation regarding the site, design, costs, development and construction of a new convention center containing at least 600,000 square feet of exhibition space to accommodate large-scale national and international conventions and trade shows. The commission was also charged with studying the need, feasibility, costs, financing and benefits of constructing a fixed-seating facility, with a capacity of 70,000 spectators, to house sporting and entertainment events, either as an integral part of the new convention center or as a separate facility. The commission released its report on June 1, 1995. The report recommends development of a multi-purpose convention center and integrated sports facility with 650,000 square feet of exhibition space and fixed-seating capacity of 70,000 spectators, to be sited on Summer Street in South Boston. The report also recommends inclusion in the development of a stand-alone open-air baseball stadium, to be sited near Fort Point Channel in Boston, and structured parking enhanced by public transit and transportation. The commission recommends that the development proceed by means of a "public private partnership" involving the Commonwealth, the New England Patriots and the Boston Red Sox and that the Commonwealth continue to pursue other private corporations regarding financial participation. The capital cost of site acquisition, infrastructure development and construction of the convention facility is estimated at approximately \$793 million. (This does not include the cost of the baseball stadium, which is assumed to be paid by the Boston Red Sox.) The commission's financing recommendations include a combination of Commonwealth general obligation bonds (approximately 30%) and lease revenue bonds (approximately 70%) to

be supported by a variety of proposed revenue sources. The commission has prepared and filed legislation to implement its recommendations. Such legislation has been referred to the House Ways and Means Committee, which is currently conducting hearings. The House Ways and Means Committee has stated that it expects to make a recommendation to the full House by October 16, 1995.

On August 10, 1995 the Governor signed legislation which provides for the transfer of the third harbor tunnel under construction in Boston to the Massachusetts Turnpike Authority ("MTA"). The legislation authorizes the MTA to issue, prior to June 30, 1999, up to \$300 million of Commonwealth-guaranteed notes to finance, among other things, the payment to the Commonwealth of the acquisition costs of the third harbor tunnel. Within 90 days of the first issuance of such notes, the MTA must pay over to the Commonwealth \$100 million as partial payment for the third harbor tunnel. Additional payments, if any, are to be determined pursuant to a joint feasibility study to be undertaken by the MTA and the Executive Office of Transportation and Construction ("EOTC"). The feasibility study is also to address, in conjunction with the Massachusetts Port Authority, payments to be made by the Port Authority for the cost of construction of the third harbor tunnel and for the annual operating and maintenance costs of the tunnel. The feasibility study is also to encompass the governance, need and implementation of a metropolitan highway system. The legislation also authorizes capital expenditures of \$400 million for various transportation projects throughout the Commonwealth to be financed through the issuance of general obligation bonds, in order to satisfy certain requirements relating to federal assistance.

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

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

Audit Practices of State Auditor

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

Within the State Auditor's office is the Division of Local Mandates, which evaluates all proposed and actual legislation to determine the financial impact on the Commonwealth's cities and towns. In accordance with state law, the Commonwealth is required to reimburse cities and towns for any costs incurred through mandated programs established after the passage of Proposition 2½, the statewide tax limitation enacted by the voters in 1980, unless expressly exempted from those provisions, and the State Auditor's financial analysis is used to establish the amount of reimbursement due. See "COMMONWEALTH PROGRAMS AND SERVICES -- Local Aid; *Proposition 2½*."

FINANCIAL RESULTS

As the annual operating budget of the Commonwealth is adopted in accordance with the statutory basis of accounting, public and governmental discourse on the financial affairs of the Commonwealth has traditionally followed the statutory basis. Consequently, the financial information set forth in this document follows the statutory basis, except where otherwise noted. Since fiscal 1990, the Commonwealth has prepared separate audited financial reports on the statutory basis and on a GAAP basis. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Fiscal Control, Accounting and Reporting Practices of the Comptroller; *Financial Reports*." The fiscal 1994 statutory basis financial statements, as presented in the Statutory Basis Financial Report, are set forth in Exhibit B. The fiscal 1994 GAAP basis financial statements, as presented in the Comprehensive Annual Financial Report, are set forth in Exhibit C.

Selected Financial Data - Statutory Basis

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth's audited statutory basis financial statements for fiscal 1991 through 1994, unaudited preliminary financial information for fiscal 1995 presented in the Preliminary Financial Report issued on September 15, 1995 by the Comptroller and estimates for fiscal 1996 prepared by the Executive Office for Administration and Finance. The financial information presented includes all budgeted operating funds of the Commonwealth. When the status of a fund has changed during this period, prior years have been restated to conform to the fiscal 1996 budget.

The Commonwealth currently has 39 active budgeted operating funds. During a fiscal year there are numerous transactions among these budgeted funds, which from the fund accounting perspective create offsetting inflows and outflows.

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

More detailed information with respect to each of fiscal years 1991 through 1996 is provided in the discussion following the table. Unless otherwise indicated, the financial information discussed for such fiscal years in this Information Statement is based upon the financial information contained in this table.

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

| | Fiscal 1991 | Fiscal 1992 | Fiscal 1993 | Fiscal 1994 | Preliminary (unaudited) Fiscal 1995 | Estimated Fiscal 1996 |
|---|-------------------------|------------------------|------------------------|------------------------|--|-----------------------------|
| <u>Beginning Fund Balances</u> | | | | | | |
| Reserved or Designated Stabilization Fund (1) | \$174.5 | \$119.8 | \$236.2 | \$110.4 | \$79.3 | \$124.8 |
| Undesignated | -- | 59.2 | 230.4 | 309.5 | 382.9 | 425.4 |
| | <u>(1,278.9)</u> | <u>58.1</u> | <u>82.8</u> | <u>142.6</u> | <u>127.1</u> | <u>171.7</u> |
| Total | <u>(1,104.4)</u> | <u>237.1</u> | <u>549.4</u> | <u>562.5</u> | <u>589.3</u> | <u>721.9</u> |
| <u>Revenues and Other Sources</u> | | | | | | |
| Taxes | 8,994.9 | 9,483.6 | 9,929.9 | 10,606.7 | 11,163.4 | 11,652.8(2) |
| Federal Reimbursements (3) | 2,777.1 | 2,393.5 | 2,674.1 | 2,901.2 | 2,959.7 | 2,982.1 |
| Departmental and Other Revenues | 1,204.9 | 1,187.3 | 1,327.1 | 1,187.9 | 1,353.3 | 1,240.5 |
| Interfund Transfers from Non-budgeted Funds and Other Sources (4) | <u>656.6</u> | <u>663.9</u> | <u>778.5</u> | <u>853.9</u> | <u>915.4</u> | <u>950.4</u> |
| Budgeted Revenues and Other Sources | <u>13,633.5</u> | <u>13,728.3</u> | <u>14,709.6</u> | <u>15,549.7</u> | <u>16,391.8</u> | <u>16,825.8</u> |
| Mass Transit Assessments from Municipalities | 130.2 | 130.9 | 137.4 | 140.4 | 143.9 | 147.5 |
| Interfund Transfers among Budgeted Funds and Other Sources | <u>149.7</u> | <u>366.9</u> | <u>358.7</u> | <u>289.1</u> | <u>395.6</u> | <u>314.2</u> |
| Total Revenues and Other Sources | <u>13,913.4</u> | <u>14,226.1</u> | <u>15,205.7</u> | <u>15,979.2</u> | <u>16,931.3</u> | <u>17,287.5</u> |
| <u>Expenditures and Uses</u> | | | | | | |
| Programs and Services | 11,944.5 | 11,757.4 | 12,683.6 | 13,416.2 | 14,019.1 | 14,719.6(5) |
| Debt Service | 942.3 | 898.3 | 1,139.5 | 1,149.4 | 1,230.5 | 1,196.4 |
| Pensions | 703.9 | 751.5 | 868.2 | 908.9 | 969.3 | 1,032.3 |
| Interfund Transfers to Non-budgeted Funds and Other Uses | <u>64.0</u> | <u>8.8</u> | <u>5.1</u> | <u>48.4</u> | <u>40.4</u> | <u>50.0</u> |
| Budgeted Expenditures and Other Uses | <u>13,654.7</u> | <u>13,416.0</u> | <u>14,696.4</u> | <u>15,522.9</u> | <u>16,259.2</u> | <u>16,998.3</u> |
| Payment of Municipal Mass Transit Assessments to the MBTA and RTA's | 130.2 | 130.9 | 137.4 | 140.4 | 143.9 | 147.5 |
| Interfund Transfers among Budgeted Funds and Other Uses | <u>149.7</u> | <u>366.9</u> | <u>358.7</u> | <u>289.1</u> | <u>395.6</u> | <u>314.2</u> |
| Total Expenditures and Other Uses | <u>13,934.6</u> | <u>13,913.8</u> | <u>15,192.6</u> | <u>15,952.4</u> | <u>16,798.7</u> | <u>17,460.0</u> |
| Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses | <u>(21.2)</u> | <u>312.3</u> | <u>13.1</u> | <u>26.8</u> | <u>132.6</u> | <u>(172.5)</u> |
| Prior Year Deficit Financing | 1,362.7 | -- | -- | -- | -- | -- |
| <u>Ending Fund Balances</u> | | | | | | |
| Reserved or Designated Stabilization Fund (1) | 119.8 | 236.2 | 110.4 | 79.3 | 124.8 | 26.7 |
| Undesignated | 59.2 | 230.4 | 309.5 | 382.9 | 425.4 | 446.4 |
| | <u>58.1</u> | <u>82.8</u> | <u>142.6</u> | <u>127.1</u> | <u>171.7</u> | <u>76.3</u> |
| Total | <u>\$237.1</u> | <u>\$549.4</u> | <u>\$562.5</u> | <u>\$589.3</u> | <u>\$721.9</u> | <u>\$549.4</u> |

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

- (1) Stabilization Fund balances are not expendable without subsequent specific legislative authorization.
- (2) Excludes the impact of the Governor's proposal to reform corporate excise taxes, estimated by the Department of Revenue to be a \$50 million reduction in fiscal 1996. See "COMMONWEALTH REVENUES -- State Taxes; Business Corporations Tax."
- (3) Includes \$513 million for fiscal 1991, \$198.6 million for fiscal 1992, \$236.3 million for fiscal 1993, \$247.8 million for fiscal 1994, \$231.8 million for fiscal 1995 and an estimated \$199 million for fiscal 1996 in federal reimbursements resulting from claims for reimbursement of certain uncompensated care for Massachusetts hospitals. See "Fiscal Years 1991 through 1995" and "1996 FISCAL YEAR."
- (4) Interfund transfers represent accounting transfers which reallocate resources among funds. Fund deficit support transfers of \$234.8 million in fiscal 1991 have been eliminated to facilitate comparative analysis. See "COMMONWEALTH REVENUES--Federal and Other Non-Tax Revenues."
- (5) Includes \$145 million currently reserved for contingencies.

In comparison to the prior fiscal year, annual budgeted revenues increased by approximately 0.7% in fiscal 1992, 7.1% in fiscal 1993, 5.7% in fiscal 1994 and 5.4% in fiscal 1995 and are projected to increase by approximately 2.3% in fiscal 1996. In comparison to the prior fiscal year, annual budgeted expenditures decreased by approximately 1.7% in fiscal 1992 and increased by approximately 9.5% in fiscal 1993, 5.6% in fiscal 1994 and 4.7% in fiscal 1995. Annual budgeted expenditures are estimated to increase by approximately 4.5% in fiscal 1996. In comparison to the prior fiscal year-end, ending fund balances in the budgeted operating funds for fiscal 1992 were \$312.3 million, or 131.7%, higher, for fiscal 1993 were \$13.1 million, or 2.4% higher, for fiscal 1994 were \$26.8 million, or 4.8%, higher and for fiscal 1995 were \$132.6 million, or 22.5% higher. The ending fund balances for fiscal 1996 are projected to be \$169.9 million, or 23.5%, lower than the fiscal 1995 year-end balances. See "Fiscal Years 1991 through 1995" and "1996 FISCAL YEAR."

Selected Financial Data - GAAP Basis

The following table provides financial results on a GAAP basis for fiscal years 1991 through 1994 for all budgeted operating funds of the Commonwealth. The fiscal 1995 financial results on a GAAP basis will not be available until the audited financial statements for fiscal 1995 are published in January, 1996.

Budgeted Operating Funds Operations - GAAP Basis (in millions)

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

SOURCE: Office of the Comptroller.

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

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

Fiscal Years 1991 through 1995

1991 Fiscal Year. Budgeted expenditures for fiscal 1991 were approximately \$13.659 billion. Budgeted revenues and other sources for fiscal 1991 were \$13.634 billion. The fiscal 1991 operating loss equalled approximately \$21.2 million. Application of the adjusted fiscal 1990 fund balance of \$258.3 million resulted in a final fiscal 1991 budgetary surplus of \$237.1 million. State finance law required that approximately \$59.2 million of the fiscal year-end balance be credited to the Stabilization Fund.

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

In addition to reducing spending to close the projected budget deficit, the new administration, in May, 1991, filed an amendment to its Medicaid state plan which enabled it to claim 50% federal reimbursement on uncompensated care payments provided to certain hospitals in the Commonwealth. As a result, in fiscal 1991, the Commonwealth obtained additional non-tax revenues in the form of federal reimbursements equal to approximately \$513.0 million on account of uncompensated care payments.

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

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

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

Overall, the budgeted operating funds ended fiscal 1992 with an excess of revenues and other sources over expenditures and other uses of \$312.3 million and with positive fund balances of \$549.4 million. Total fiscal 1992 spending authority continued into fiscal 1993 amounted to \$231.0 million.

1993 Fiscal Year. The budgeted operating funds of the Commonwealth ended fiscal 1993 with a surplus of revenues and other sources over expenditures and other uses of \$13.1 million and aggregate ending fund balances in the budgeted operating funds of the Commonwealth of approximately \$562.5 million. Budgeted revenues and other sources for fiscal 1993 totalled approximately \$14.710 billion, including tax revenues of \$9.930 billion. Total revenues and other sources increased by approximately 6.9% from fiscal 1992 to fiscal 1993, while tax revenues increased by 4.7% for the same period. In July, 1992, tax revenues had been estimated to be approximately \$9.685 billion for fiscal 1993. This amount was subsequently revised during fiscal 1993 to \$9.940 billion.

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

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

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

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

1995 Fiscal Year. The Commonwealth is in the process of closing its fiscal 1995 financial records. Financial information for fiscal 1995 is unaudited and provided by the Comptroller based upon the Preliminary Financial Report of the Commonwealth issued on September 15, 1995. Audited financial information is expected to be published in January, 1995.

Fiscal 1995 tax revenue collections were approximately \$11.163 billion, approximately \$12 million above the Department of Revenue's revised fiscal year 1995 tax revenue estimate of \$10.151 billion and \$544 million, or 5.3%, above fiscal 1994 tax revenues of \$10.607 billion. Budgeted revenues and other sources, including non-tax revenues, collected in fiscal 1995 were approximately \$16.392 billion, approximately \$842 million, or 5.4%, above fiscal 1994 budgeted revenues of \$15.550. Budgeted expenditures and other uses of funds in fiscal 1995 were approximately \$16.259 billion, approximately \$736 million, or 4.7%, above fiscal 1994 budgeted expenditures and uses of \$15.523 billion.

The final fiscal 1995 supplemental budget modified, with respect to the fiscal 1995 year-end surplus, the provisions of state law governing deposits to the Stabilization Fund. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Operating Fund Structure; *Stabilization Fund.*" For fiscal 1995, surplus funds as defined in the law (the sum of the undesignated fund balances at year-end in the three principal operating funds) in excess of the amount which can be carried forward as a beginning balance for fiscal 1996 are to be credited, *first*, to the Stabilization Fund, to the extent of 0.25% of total tax revenues, *second*, to a newly created Cost Relief Fund, to the extent of 0.5% of total tax revenues, and, *third*, to the Stabilization Fund, to the extent of any remaining amount. Amounts in the Cost Relief Fund can be appropriated (i) to subsidize the costs of water pollution abatement projects financed by Massachusetts Water Pollution Abatement Trust loans (limited to \$8 million per fiscal year), (ii) to finance loans to homeowners to facilitate compliance with state environmental regulations governing the subsurface disposal of sanitary waste (limited to \$8 million per fiscal year), (iii) to provide assistance in the mitigation of sewer rate increases and (iv) for unanticipated obligations, unavoidable deficiencies or extraordinary expenditures of the Commonwealth. As calculated by the Comptroller in the Preliminary Financial Report, the amount of surplus funds (as so defined) for fiscal 1995 was approximately \$90.8 million, of which \$55.9

million was available to be carried forward as a beginning balance for fiscal 1996. Of the balance, approximately \$27.9 million was deposited in the Stabilization Fund, and approximately \$7.0 million was deposited in the Cost Relief Fund.

The Comptroller's report also demonstrates that tax revenues in fiscal 1995 were lower than the limit set by Chapter 29B of the General Laws (approximately \$12.578 billion). On September 19, 1995, the State Auditor released a report disclosing his determination that fiscal 1995 tax revenues were also lower than the limit set by Chapter 62F of the General Laws (approximately \$12.1 billion). See "COMMONWEALTH REVENUES -- Limitations on Tax Revenues."

1996 FISCAL YEAR

The fiscal 1996 budget is based on numerous spending and revenue estimates, the achievement of which cannot be assured. The budget was enacted by the Legislature on June 12, 1995 and signed by the Governor on June 21, 1995. Fiscal 1996 appropriations in the Annual Appropriations Act total approximately \$16.847 billion, including approximately \$25 million in gubernatorial vetoes overridden by the legislature. In the final supplemental budget for fiscal 1995, approved on August 24, 1995, another \$71.1 million of appropriations were continued for use in fiscal 1996. The Executive Office for Administration and Finance projects that fiscal 1996 spending will total approximately \$16.998 billion, a \$739 million, or 4.5%, increase over fiscal 1995 spending. The largest single spending increase in the fiscal 1996 budget is approximately \$232 million to continue funding the comprehensive education reform legislation enacted in 1993. See "COMMONWEALTH PROGRAMS AND SERVICES -- Local Aid; Commonwealth Financial Support for Local Governments."

Budgeted revenues and other sources to be collected in fiscal 1996 are estimated by the Executive Office for Administration and Finance to be approximately \$16.778 billion. This amount includes estimated fiscal 1996 tax revenues of \$11.653 billion, which is approximately \$490 million, or 4.3%, higher than fiscal 1995 tax revenues. The tax revenue projection is based upon the consensus estimate of approximately \$11.639 billion, adjusted for certain revenue maximization initiatives included in the fiscal 1996 budget totaling \$16 million and tax reductions of approximately \$2 million resulting from enactment of bank tax reform legislation in July, 1995. Through September, 1995, tax revenue collections have totalled approximately \$2.805 billion, approximately \$169.8 million, or 6.5%, greater than tax revenue collections for the same period in fiscal 1995.

Fiscal 1996 non-tax revenues are projected to total approximately \$5.173 billion, approximately \$55 million, or 1.1%, less than fiscal 1995 non-tax revenues of approximately \$5.228 billion. Federal reimbursements are projected to increase by approximately \$22 million, or 0.7%, from approximately \$2.960 billion in fiscal 1995 to approximately \$2.982 billion in fiscal 1996, primarily as a result of increased reimbursements for Medicaid spending, offset by a reduction in reimbursements received in fiscal 1995 for one-time Medicaid expenses incurred in fiscal 1994 and fiscal 1995.

Fiscal 1996 departmental revenues are projected to decline by approximately \$112 million, or 8.3%, from approximately \$1.353 billion in fiscal 1995 to approximately \$1.241 billion in fiscal 1996. Major changes in projected non-tax revenues for fiscal 1996 include a decline in motor vehicle license and registration fees of approximately \$52 million, due mainly to alternate-year licensing patterns and the delayed impact of the 1991 change to a five-year driver's license renewal period, a reduction of approximately \$17 million in abandoned property revenues (due to a one-time increase in abandoned property collections in fiscal 1995 resulting from a change in the Commonwealth's abandoned property laws) and a decrease of approximately \$45 million due to non-recurring revenues received in fiscal 1995 from hospitals and nursing homes as part of Medicaid final rate settlements and other reimbursements by municipal hospitals to the state. These and a number of other smaller reductions are partially offset by projected increases in departmental revenues of approximately \$20 million due to revenue maximization initiatives included in the fiscal 1996 budget.

Fiscal 1996 consolidated transfers are projected to increase by approximately \$35.0 million, or 3.8%, from \$915.4 million in fiscal 1995 to approximately \$950.4 million in fiscal 1996, primarily as a result of a \$35.7 million transfer from a non-budgeted fund to an economic development fund established in the fiscal 1996 budget.

Cash Flow

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

The State Treasurer's current cash flow projection for fiscal 1996 contains monthly forecasts through the end of the fiscal year and projects a year-end cash position of approximately \$388.4 million. This projection is based upon the budget enacted by the Legislature for fiscal 1996 and includes a \$145 million contingency reserve. The projection assumes that \$115 million in advance payments for fiscal 1997 expenses will be made prior to June 30, 1996.

The current cash flow projection anticipates no need for the Commonwealth to borrow for operating needs under its commercial paper program during fiscal 1996. The Commonwealth currently has outstanding \$190 million of commercial paper issued as bond anticipation notes, which are expected to be retired with the proceeds of bonds issued during fiscal 1996. The State Treasurer may issue additional bond anticipation notes periodically during fiscal 1996 depending on the timing of future bond sales. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- General Obligation Debt; *Commonwealth General Obligation Notes.*"

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

COMMONWEALTH REVENUES

In order to fund its programs and services, the Commonwealth collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, court revenues, assessments, reimbursements, interest earnings and transfers from its non-budgeted funds. In fiscal 1995, approximately 68.1% of the Commonwealth's annual budgeted revenues were derived from state taxes. In addition, the federal government provided approximately 18.1% of such revenues, with the remaining 13.8% provided from departmental revenues and transfers from non-budgeted funds.

Distribution of Revenues

The following table sets forth the Commonwealth's actual revenues in its budgeted operating funds for fiscal 1991 through 1994, its preliminary (unaudited) revenues for fiscal 1995 and estimated revenues for fiscal 1996.

Commonwealth Revenues – Budgeted Operating Funds
(in millions)

| | Fiscal 1991(1) | Fiscal 1992(1) | Fiscal 1993(1) | Fiscal 1994 | Preliminary (unaudited) Fiscal 1995 | Estimated Fiscal 1996 |
|---|-------------------|-------------------|-------------------|-------------------|--|-----------------------------|
| Tax Revenues: | | | | | | |
| Alcoholic Beverages | \$ 66.2 | \$ 63.5 | \$ 60.6 | \$ 60.2 | \$ 60.7 | \$57.0 |
| Banks | | | | | | |
| Commercial | 27.4 | 17.6(2) | 74.7 | 136.9 | 164.5 | 158.3 |
| Savings | 20.6 | 42.5 | 78.2 | 63.0 | 41.4 | 39.0 |
| Cigarettes (3) | 144.4 | 139.9 | 190.2 | 237.3 | 234.2 | 234.0 |
| Corporations | 612.2 | 643.8 | 737.4 | 782.3 | 911.0 | 895.0 |
| Deeds | 30.1 | 32.2 | 34.0 | 40.2 | 40.3 | 43.0 |
| Income | 5,045.1(4) | 5,337.0 | 5,374.9 | 5,689.8 | 5,974.2 | 6,381.8 |
| Inheritance and Estate | 249.5 | 260.2 | 267.3 | 277.5 | 209.3 | 191.0 |
| Insurance (5) | 267.8 | 284.8 | 280.5 | 290.2 | 292.6 | 307.3 |
| Motor Fuel | 464.2 | 541.1 | 557.2 | 562.6 | 577.5 | 577.0 |
| Public Utilities | 59.3 | 52.9 | 69.1 | 81.8 | 88.7 | 80.0 |
| Racing | 27.5 | 26.1 | 15.7 | 13.4 | 12.7 | 13.0 |
| Room Occupancy | 56.0 | 55.9 | 59.3 | 62.8 | 68.8 | 68.0 |
| Sales | | | | | | |
| Regular | 1,392.1 | 1,443.6 | 1,548.1 | 1,664.3 | 1,796.6 | 1,894.7 |
| Meals | 291.7 | 296.3 | 303.2 | 323.4 | 344.3 | 358.0 |
| Motor Vehicles | <u>225.6</u> | <u>238.7</u> | <u>272.9</u> | <u>314.5</u> | <u>340.4</u> | <u>349.0</u> |
| Sub-Total--Sales | 1,909.4 | 1,978.6 | 2,124.2 | 2,302.2 | 2,481.3 | 2,601.7 |
| Miscellaneous | <u>15.2</u> | <u>7.5</u> | <u>6.6</u> | <u>6.5</u> | <u>6.2</u> | <u>6.7</u> |
| Total | <u>8,994.9</u> | <u>9,483.6</u> | <u>9,929.9</u> | <u>10,606.7</u> | <u>11,163.4</u> | <u>11,652.8(6)</u> |
| Non-Tax Revenues: | | | | | | |
| Federal Reimbursements(7) | 2,777.1 | 2,393.5 | 2,674.1 | 2,901.2 | 2,959.7 | 2,982.1 |
| Departmental and Other Revenues | 1,204.9 | 1,187.3 | 1,327.1 | 1,187.9 | 1,353.3 | 1,240.5 |
| Interfund Transfers from Non-budgeted Funds and Other Sources (8) | <u>656.6</u> | <u>663.9</u> | <u>778.5</u> | <u>853.9</u> | <u>915.4</u> | <u>950.4</u> |
| Budgeted Non-Tax Revenues and Other Sources | <u>4,638.6</u> | <u>4,244.7</u> | <u>4,779.7</u> | <u>4,943.0</u> | <u>5,228.4</u> | <u>5,173.0</u> |
| Budgeted Revenues and Other Sources | <u>13,633.5</u> | <u>13,728.3</u> | <u>14,709.6</u> | <u>15,549.7</u> | <u>16,391.8</u> | <u>16,825.8</u> |
| Mass Transit Assessments from Municipalities | 130.2 | 130.9 | 137.4 | 140.4 | 143.9 | 147.5 |
| Interfund Transfers among Budgeted Funds and Other Sources (8) | <u>149.7</u> | <u>366.9</u> | <u>358.7</u> | <u>289.1</u> | <u>395.6</u> | <u>314.2</u> |
| Total Revenues and Other Sources | <u>\$13,913.4</u> | <u>\$14,226.1</u> | <u>\$15,205.7</u> | <u>\$15,979.2</u> | <u>\$16,931.3</u> | <u>\$17,287.5</u> |

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

- (1) Includes the impact of tax law changes under Chapters 121 of the Acts of 1990, as amended. The total fiscal 1991 impact of the changes 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.
- (2) Reflects settlement of certain litigation, see "State Taxes; Business Corporations Tax."
- (3) As a result of legislation enacted by the voters, this excise tax was increased effective January 1, 1993. See "State Taxes; Other Taxes."
- (4) Excludes \$298.3 million collected in fiscal 1991 and attributed to the temporary increase in the income tax dedicated to the Commonwealth Liability Reduction Fund and the Medical Assistance Liability Fund.
- (5) Includes \$7.2 million in 1991, \$6.6 million in 1992, \$8.0 million in 1993, \$8.7 million in 1994, \$8.4 million in 1995 and an estimated \$9.3 million in fiscal 1996 in fees collected by the Division of Insurance relating to high-risk insurance.
- (6) Excludes the impact of the Governor's proposal to reform corporate excise taxes estimated by the Department of Revenue to be a \$50 million reduction in fiscal 1996. See "COMMONWEALTH REVENUES -- State Taxes; Business Corporations Tax."
- (7) Includes \$513 million for fiscal 1991, \$198.6 million for fiscal 1992, \$236.3 million for fiscal 1993, \$247.8 million in fiscal 1994, \$231.8 million in fiscal 1995 and an estimated \$199 million in fiscal 1996 in federal reimbursements resulting from claims for reimbursement of certain uncompensated care for Massachusetts hospitals. See "FINANCIAL RESULTS -- Fiscal Years 1991 through 1995" and "1996 FISCAL YEAR."
- (8) Interfund transfers represent accounting transfers which reallocate resources among funds. Fund deficit support transfers of \$234.8 million for fiscal 1991 have been eliminated to facilitate comparative analysis. Includes transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$59.2 million, \$170.0 million, \$76.9 million, \$65.4 million and \$27.9 million in fiscal 1991, 1992, 1993, 1994 and 1995, respectively. See "Federal and Other Non-Tax Revenues" below.

State Taxes

The major components of state taxes are the income tax, which accounted for approximately 55% of total projected tax revenues in fiscal 1995, the sales and use tax, which accounted for approximately 22%, and the business corporations tax, which accounted for approximately 8%. Other tax and excise sources accounted for the remaining 15% of total fiscal 1995 tax revenues. On September 25, 1995, the Secretary of Administration and Finance released a fiscal 1996 tax revenue estimate of approximately \$11.653 billion, an increase of approximately 4.4% from fiscal 1995. With this release, the Secretary adopted the revenue estimate included in the fiscal 1996 budget, adjusted for a revenue reduction of \$1.7 million resulting from bank tax reform.

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

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

Under Chapter 151 of the Acts of 1990, up to 15% of state income tax receipts are pledged to the payment of debt service on approximately \$619.0 million of outstanding Fiscal Recovery Bonds issued pursuant to Chapter 151. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- General Obligation Debt; *Dedicated Income Tax Debt.*"

Partially as a result of income tax rate increases, state income tax revenues increased by 5.8% from fiscal 1991 to fiscal 1992. Compared to the prior fiscal year, state income tax revenues increased by 0.7% in fiscal 1993, 5.9% in fiscal 1994 and 5.0% in fiscal 1995 and are projected to increase by 6.8% in fiscal 1996.

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

Business Corporations Tax. Business corporations doing business in the Commonwealth, other than banks, trust companies, insurance companies, railroads, public utilities and safe deposit companies, are subject to an excise that has a property measure and an income measure. The value of Massachusetts tangible property (not taxed locally) or net worth allocated to the Commonwealth is taxed at \$2.60 per \$1,000 of value. The net income allocated to Massachusetts, which is based on 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. Compared to the prior fiscal year, business corporation tax revenues increased by 5.1% in fiscal 1992, 14.5% in fiscal 1993, 6.1% in fiscal 1994 and 16.4% in fiscal 1995. Fiscal 1996 tax revenues from business corporations are projected to be 1.8% lower than fiscal 1995.

On September 5, 1995, the Governor introduced a bill that would establish a "single sales factor" apportionment formula for the business corporations tax, which would allow corporations to calculate their Massachusetts taxable income based only on their sales in Massachusetts. Currently, corporations calculate Massachusetts taxable income based on sales, payroll and property in the Commonwealth. The Department of Revenue estimates that this provision would reduce revenues by \$110 million to \$160 million per year. If it became

effective on January 1, 1996, as proposed, the fiscal 1996 impact is estimated to be a reduction of approximately \$50 million.

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

For fiscal 1992, the excise tax on commercial and savings banks yielded \$60.2 million, representing an increase of approximately 25.2% over fiscal 1991. Due to the settlement by the Department of Revenue of a case pending before the Appellate Tax Board, the Commonwealth paid a taxpayer commercial bank \$37.0 million, thus reducing revenues from the commercial and savings bank excise tax in fiscal 1992 from \$97.1 million to \$60.2 million. For fiscal 1993, tax revenues from banks increased to \$152.9 million, or 154.5%, above fiscal 1992. Fiscal 1994 tax revenues from banks were approximately \$199.9 million, or approximately 30.7% above fiscal 1993. Fiscal 1995 tax revenues from banks were \$206 million, or approximately 3.0% above fiscal 1994. Fiscal 1996 tax revenues from banks are estimated to be approximately \$197 million, or 4.2%, lower than fiscal 1995.

Other Taxes. Other tax revenues of the Commonwealth are currently projected to total \$1.577 billion in fiscal 1996, a decrease of 0.9% from fiscal 1995. Other tax revenues are derived by the Commonwealth from motor fuels excise taxes, cigarette and alcoholic beverage excise taxes, estate and deed excises and other tax sources. The Commonwealth is authorized to issue special obligation highway bonds secured by a pledge of all or a portion of the Highway Fund, including revenues derived from all or a portion of the motor fuels excise tax. The Commonwealth issued special obligation bonds in June, 1992 secured by a pledge of two cents of the 21-cent motor fuel excise tax imposed on gasoline and additional special obligation bonds in June, 1994 secured by a pledge of an additional 4.86 cents of such excise tax and certain other moneys. The portion of the motor fuel excise tax currently pledged to special obligation bonds is estimated to be approximately \$168.5 million in fiscal 1996. Additional special obligation bonds may be issued in the future secured by all or additional portions of the motor fuels excise tax. See "COMMONWEALTH BOND AND NOTE LIABILITIES -- Special Obligation Debt."

In 1992, legislation was enacted by the voters which increased the tobacco excise tax by 1.25 cents per cigarette (25 cents per pack of 20 cigarettes) and 25% of the wholesale price of smokeless tobacco, effective January 1, 1993. Under the legislation, the revenues raised by this excise tax were to be credited to the Health Protection Fund and expended, subject to appropriation by the Legislature, to pay for health programs and education relating to tobacco use. Total revenues deposited in the Health Protection Fund in fiscal 1993, fiscal 1994 and fiscal 1995 were \$59.5 million, \$116.4 million and \$114.8 million, respectively, and are estimated to be \$114.7 million in fiscal 1996.

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

Tax Revenue Forecasting

Under state law, on or before September 25 and March 15 of each year, the Secretary of Administration and Finance is required to submit to the Governor and to the House and Senate Committees on Ways and Means estimates of revenues available to meet appropriations and other needs in the current and following fiscal year. On or before October 15, January 15 and April 15, the Secretary is required to submit revised estimates for the current fiscal year unless, in his opinion, no significant changes have occurred since the last estimate of total available revenues. On or before May 15 of each year, the Secretary is required to develop jointly with the House and Senate

Committees on Ways and Means a consensus tax revenue forecast for the following fiscal year. The Department of Revenue employs sophisticated economic modeling techniques and ongoing monitoring of tax revenue receipts and current taxpayer behavior to provide the Secretary with information on tax revenue trends.

In the past several years, tax revenue forecasting has been complicated by uncertainty about the national and state economies, federal and state tax law changes and decisions in various state court cases affecting tax collections. In addition, certain tax revenues are difficult to predict with accuracy because of the variety of direct and indirect economic and non-economic factors affecting receipts. During fiscal year 1991, the official tax revenue forecasts made at the beginning of the year proved to be substantially more optimistic than the actual results. The fiscal 1991 budget was based on projected tax revenue growth of less than 1%, before taking into account revenues expected to be generated by tax increases enacted in 1990. Once these additional revenues were added, the projection was for tax revenues of \$9.748 billion in fiscal 1991, reflecting projected growth of 14.4%. However, during the remainder of calendar year 1990, actual receipts lagged projections, resulting in reductions of the fiscal 1991 tax revenue estimates. Fiscal 1991 tax revenues were \$8.995 billion, which represented growth over fiscal 1990 of only 5.6%. See "FINANCIAL RESULTS -- Fiscal Years 1991 through 1995."

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

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

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

In April, 1995, the chairmen of the House and Senate Ways and Means Committees and the Secretary of Administration and Finance jointly endorsed an estimate of tax revenues for fiscal 1996 of \$11.639 billion, an increase of approximately 4.4% from then-expected fiscal 1995 revenues of \$11.151 billion. The fiscal 1996 budget was based upon this estimate, plus \$16 million for revenue initiatives and less \$300,000 for a sales tax exemption included in the budget. On September 25, 1995, the Secretary of Administration and Finance released a fiscal 1996 tax revenue estimate of approximately \$11.653 billion, an increase of approximately 4.4% from fiscal 1995. With this release, the Secretary adopted the revenue estimate included in the fiscal 1996 budget, adjusted for a revenue reduction of \$1.7 million resulting from bank tax reform.

Federal and Other Non-Tax Revenues

Revenues from the federal government are received through reimbursements for the federal share of federally-mandated programs such as Medicaid and Aid to Families with Dependent Children ("AFDC"). The amount of federal reimbursements received by the Commonwealth is determined by the amount of state expenditures for such programs. In fiscal 1991, federal reimbursements increased by 61.7% to \$2.777 billion from \$1.718 billion in fiscal 1990, owing mainly to the \$513.0 million reimbursement of uncompensated care payments. See "FINANCIAL RESULTS -- Fiscal Years 1991 through 1995." Federal reimbursements in fiscal 1992 decreased by \$383 million from \$2.777 billion in fiscal 1991 to \$2.394 billion, reflecting a decrease of \$349 million in uncompensated care payments. In fiscal 1993, federal reimbursements increased to \$2.674 billion as a result of

increased spending for certain entitlement programs. Federal reimbursements for fiscal 1994 increased to \$2.915 billion and increased further to \$2.960 billion in fiscal 1995. Federal reimbursements for fiscal 1996 are estimated to increase to \$2.982 billion.

Departmental and other non-tax revenues are derived from licenses, registrations and fees generated through cash transactions and reimbursement and assessments for services. Annual revenues from these sources decreased 1.5% from \$1.205 billion in fiscal 1991 to \$1.187 billion in fiscal 1992, increased 11.8% in fiscal 1993 to \$1.327 billion, decreased 10.5% to \$1.188 billion in fiscal 1994 and increased 13.8% to \$1.353 billion in fiscal 1995. Departmental and other non-tax revenues are projected to decrease 8.3% to \$1.240 billion in fiscal 1996. See "1996 FISCAL YEAR."

Interfund transfers and other sources from non-budgeted funds are estimated to total \$950.4 million in fiscal 1996, an increase of 3.8% compared to fiscal 1995. For the budgeted operating funds, interfund transfers include transfers of profits from the State Lottery and Arts Lottery Funds and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for \$547.6 million, \$558.0 million, \$600.2 million, \$667.3 million and \$641.3 million in fiscal 1991 through 1995, respectively and which are expected to account for \$655.0 million in fiscal 1996.

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

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

On September 29, 1995, the Governor signed a tribal-state compact between the Wampanoag Tribe of Gay Head and the Commonwealth which establishes the relationship between the tribe and the Commonwealth with respect to the operation of a casino in the city of New Bedford. The compact is subject to approval by the Legislature and by the United States Secretary of the Interior. Under the terms of the compact, during a six-year period of limited exclusivity, the tribe is to pay the Commonwealth \$90 million annually, less one-third of the amount by which net gaming revenues are less than \$375 million or plus one-third of the amount by which net gaming revenues exceed \$375 million. Of the money due from the tribe, 12% is to go to the cities and towns in Bristol County, plus 2% toward compulsive gambling programs and an additional \$400,000 to the town of Dartmouth because of the disparate impacts on that community. The remainder is to be used to fund operations of local governmental agencies of the Commonwealth and its political subdivisions, to provide revenue to the Commonwealth to cover the costs of licensing and regulation of gaming within the state, to provide revenue to the state to cover the costs of impacts resulting from gaming and for other lawful purposes. The Governor also filed companion legislation that would authorize the licensing of up to 700 slot machines at each of the four race tracks now licensed in the state, as well as a casino in Hampden County. Under the proposed legislation, the Commonwealth would receive 25.5% of the first \$50 million of adjusted gross gaming revenues at each track, with a portion of those moneys to go to the purses or breeders (as with live races). Above \$50 million in adjusted gross revenue, the rate to the Commonwealth will increase to 33.5%, with no disbursement to purses or breeders. From the adjusted gross revenues of the Hampden County casino, 25.5% is to go to the Commonwealth, with 2.5%

earmarked for the cities and towns in Hampden County. If the casino's revenues exceed \$200 million, the 25.5% rate is to increase to 33%.

Limitations on Tax Revenues

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

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

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

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

COMMONWEALTH PROGRAMS AND SERVICES

For fiscal 1992, budgeted expenditures were \$13.420 billion, representing a decline of 1.7% from the level of budgeted expenditures in fiscal 1991. Fiscal 1993 budgeted expenditures were \$14.696 billion, an increase of 9.6% from fiscal 1992. Fiscal 1994 budgeted expenditures were \$15.523 billion, an increase of 5.6% from fiscal 1993. Fiscal 1995 budgeted expenditures were \$16.259 billion, an increase of 4.7% from fiscal 1994. See "FINANCIAL RESULTS -- Fiscal Years 1991 through 1995." It is estimated that fiscal 1996 budgeted expenditures will be \$16.998 billion, an increase of 4.5% over fiscal 1995 levels. See "1996 FISCAL YEAR."

The following table identifies certain major spending categories of the Commonwealth and sets forth the budgeted expenditures for each fiscal year within each category. (The fiscal 1995 figures are preliminary.)

Commonwealth Expenditures - Budgeted Operating Funds
(in millions)

| Expenditure Category | Fiscal | Fiscal | Fiscal | Fiscal | Preliminary | Estimated |
|--|----------------------------|----------------------------|--------------------------|--------------------------|----------------------------|--------------------------|
| | 1991 | 1992 | 1993 | 1994 | (unaudited) Fiscal 1995 | Fiscal 1996 |
| Direct Local Aid (1) | \$2,608.3 | \$2,358.9 | \$2,546.5 | \$2,727.3 | \$2,976.3 | \$3,241.7 |
| Medicaid | 2,765.3(2) | 2,817.7(3) | 3,151.4(3) | 3,313.1(4) | 3,399.1 | 3,387.6(5) |
| Group Health Insurance | 446.0 | 466.1 | 491.2 | 496.2 | 509.7 | 525.5 |
| Public Assistance | 1,092.3 | 1,065.0 | 1,074.9 | 1,100.3 | 1,101.0(6) | 1,192.3(7) |
| Debt Service (8) | 942.3 | 898.3 | 1,139.5 | 1,149.4 | 1,230.5 | 1,196.4 |
| Pensions | 703.9 | 751.5 | 868.2 | 908.9 | 969.2 | 1,032.3 |
| Higher Education | 608.6 | 534.0 | 544.9(9) | 672.5 | 703.3 | 728.2 |
| MBTA and RTA's | 406.1 | 449.6 | 499.0 | 522.3 | 516.2 | 519.3 |
| Other Program Expenditures | 4,017.9(10) | 4,066.1(10) | 4,375.7 | 4,584.5 | 4,813.5 | 5,125.0 |
| Interfund Transfers to Non-budgeted Funds (11) | <u>64.0</u> | <u>8.8</u> | <u>5.1</u> | <u>48.4</u> | <u>40.4</u> | <u>50.0</u> |
| Budgeted Expenditures and Other Uses | <u>13,654.7(12)</u> | <u>13,416.0(12)</u> | <u>14,696.4</u> | <u>15,522.9</u> | <u>16,259.2</u> | <u>16,998.3</u> |
| Payment of Municipal Mass Transit Assessments to the MBTA and RTA's | 130.2 | 130.9 | 137.4 | 140.4 | 143.9 | 147.5 |
| Interfund Transfers among Budgeted Funds and Other Uses (11) | <u>149.7</u> | <u>366.9</u> | <u>358.7</u> | <u>289.1</u> | <u>395.6</u> | <u>314.2</u> |
| Total Expenditures and Other Uses | <u>\$13,934.6</u> | <u>\$13,913.8</u> | <u>\$15,192.6</u> | <u>\$15,952.4</u> | <u>\$16,798.7</u> | <u>\$17,460.0</u> |

SOURCE: Fiscal 1990-1995, Office of the Comptroller; fiscal 1996, Executive Office for Administration and Finance.

- (1) Aid reported to cities, towns and regional school districts by the Department of Revenue on its official communication, the so-called "cherry sheet," excluding certain pension funds, and including \$80.5 million in Commonwealth support to county jails, which is no longer included on the cherry sheet.
- (2) Includes \$194.2 million for retroactive rate settlements, including \$126.0 million raised through Fiscal Recovery Bonds issued in 1991 to resolve the deficit for fiscal year 1990.
- (3) Includes expenditures of \$50.0 million in fiscal 1992 for retroactive rate adjustments and settlements.
- (4) Includes approximately \$22.3 million of expenditures previously off-budget and classified as administrative expenses.
- (5) Excludes approximately \$61.4 million previously reclassified as administrative and not program expenses.
- (6) Includes approximately \$33.3 million not previously classified as public assistance and \$22.3 million not previously classified as budgeted expenditures.
- (7) Includes \$125 million for daycare services not previously classified as public assistance expenditures.
- (8) Excludes debt service on notes issued under 1990 tax legislation to fund the fiscal 1989 deficit and certain Medicaid-related expenses. See "FINANCIAL RESULTS--Fiscal Years 1991 through 1995." Reflects reduction of fiscal 1992 debt service by \$261.0 million as a result of the issuance of refunding bonds during fiscal 1992.
- (9) Reflects the transfer of \$89.4 million in related tuition revenue and spending to an off-budget trust fund. See "Higher Education."
- (10) Fiscal 1991 and fiscal 1992 expenditures have been restated to reflect surpluses in the Intragovernmental Service Fund of \$3.8 million in each year.
- (11) Interfund transfers represent accounting transfers which reallocate resources among funds. Interfund deficit support transfers for fiscal 1991 of \$234.8 million have been eliminated to facilitate comparative analysis. Includes interfund transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were \$59.2 million, \$170.0 million, \$76.9 million, \$65.4 million and \$27.9 million in fiscal 1991, 1992, 1993, 1994 and 1995, respectively.
- (12) Reflects the transfer of approximately \$89.4 million in related tuition revenue and spending from an off-budget trust fund to budgeted accounts.

Local Aid

Proposition 2½. In November, 1980, voters in the Commonwealth approved a statewide tax limitation initiative petition, commonly known as Proposition 2½, to constrain levels of property taxation and to limit the charges and fees imposed on cities and towns by certain governmental entities, including county governments. Proposition 2½ is not a provision of the state constitution and accordingly is subject to amendment or repeal by the

Legislature. Proposition 2½, as amended to date, limits the property taxes that may be levied by any city or town in any fiscal year to the lesser of (i) 2.5% of the full and fair cash valuation of the real estate and personal property therein, and (ii) 2.5% over the previous year's levy limit plus any growth in the tax base from certain new construction and parcel subdivisions. Proposition 2½ also limits any increase in the charges and fees assessed by certain governmental entities, including county governments, on cities and towns to the sum of (i) 2.5% of the total charges and fees imposed in the preceding fiscal year, and (ii) any increase in charges for services customarily provided locally or services obtained by the city or town at its option. The law contains certain override provisions and, in addition, permits debt service on specific bonds and notes and expenditures for identified capital projects to be excluded from the limits by a majority vote at a general or special election. At the time Proposition 2½ was enacted, many cities and towns had property tax levels in excess of the limit and were therefore required to roll back property taxes with a concurrent loss of revenues. Between fiscal 1981 and fiscal 1995, the aggregate property tax levy grew from \$3.347 billion to \$5.702 billion, representing an increase of approximately 70%. By contrast, according to federal Bureau of Labor Statistics, the consumer price index for all urban consumers in Boston grew during the same period by approximately 88%.

Many communities have responded to the limitation imposed by Proposition 2½ through statutorily permitted overrides and exclusions. Override activity steadily increased throughout the 1980s before peaking in fiscal 1991 and decreasing thereafter. In fiscal 1991, 182 communities attempted votes on one of the three types of referenda questions (override of levy limit, exclusion of debt service, or exclusion of capital expenditures) and 100 passed at least one question, adding \$58.5 million to their levy limits. In fiscal 1992, 65 communities passed override referenda adding \$31.0 million. In fiscal 1993, 59 communities added \$16.3 million through override votes and in fiscal 1994, only 48 communities had successful override referenda which added \$8.4 million to their levy limits. In fiscal 1995, 32 communities added \$8.8 million. Although Proposition 2½ will continue to constrain local property tax revenues, significant capacity exists for overrides in nearly all cities and towns.

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

Commonwealth Financial Support for Local Governments. During the 1980's, the Commonwealth increased payments to its cities, towns and regional school districts ("Local Aid") to mitigate the impact of Proposition 2½ on local programs and services. In fiscal 1996, approximately 19.1% of the Commonwealth's budget is estimated to be allocated to direct Local Aid. Local Aid payments to cities, towns and regional school districts take the form of both direct and indirect assistance. Direct Local Aid consists of general revenue sharing funds and specific program funds sent directly to local governments and regional school districts as reported on the so-called "cherry sheet" prepared by the Department of Revenue, excluding certain pension funds and nonappropriated funds.

As a result of comprehensive education reform legislation enacted in June, 1993, a large portion of general revenue sharing funds are earmarked for public education and are distributed through a formula designed to provide more aid to the Commonwealth's poorer communities. The legislation established a fiscal 1993 state spending base of approximately \$1.288 billion for local education purposes and required annual increases in state expenditures for such purposes above that base, subject to appropriation, estimated to be approximately \$175 million in fiscal 1994, approximately \$397 million in fiscal 1995, approximately \$629 million in fiscal 1996 and approximately \$872 million in fiscal 1997, with additional annual increases anticipated in later years. The fiscal 1994, 1995 and 1996 budgets have fully funded the requirements imposed by this legislation.

Another component of general revenue sharing, the Lottery and Additional Assistance programs, provides unrestricted funds for municipal use. There are also several specific programs funded through direct Local Aid, such as highway construction, school building construction, and police education incentives.

In addition to direct Local Aid, the Commonwealth has provided substantial indirect aid to local governments, including, for example, payments for MBTA assistance and debt service, pensions for teachers, pension cost-of-living allowances for municipal retirees, housing subsidies and the costs of courts and district attorneys that formerly had been paid by the counties.

Direct Local Aid decreased from \$2.608 billion in fiscal 1991 to \$2.359 billion in fiscal 1992, increased to \$2.547 billion in fiscal 1993 and increased to \$2.727 billion in fiscal 1994. Fiscal 1995 expenditures for direct Local Aid were \$2.976 billion, which is an increase of approximately 9.1% above the fiscal 1994 level. It is estimated that fiscal 1996 expenditures for direct Local Aid will be \$3.242 billion, which is an increase of approximately 8.9% above the fiscal 1995 level.

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

Medicaid and Group Health Insurance

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

During fiscal years 1991, 1992, 1993 and 1994, Medicaid expenditures were \$2.765 billion (including \$194 million paid in respect of retroactive provider settlements), \$2.818 billion, \$3.151, and \$3.313 billion, respectively. The Comptroller's Preliminary Financial Report for fiscal 1995 indicates that fiscal 1995 Medicaid expenditures were \$3.399 billion. The average annual growth rate from fiscal 1991 to fiscal 1995 was 5.1%, compared to an average annual growth of approximately 17% between fiscal 1987 and fiscal 1991. The growth rate from fiscal 1994 to fiscal 1995 was 2.6%. The Executive Office for Administration and Finance estimates that fiscal 1996 Medicaid expenditures will be approximately \$3.388 billion. Factoring out one-time payments in fiscal 1995 and fiscal 1996 to settle bills from hospitals and nursing homes dating back to the 1980's, and adjusting for a change in the account structure of the Medicaid program, this represents an increase from fiscal 1995 to fiscal 1996 of 2.6%. The decrease in the rate of growth is due to a number of savings and cost control initiatives that the Division of Medical Assistance continues to implement and refine, including managed care, utilization review and the identification of third party liabilities.

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

One of the primary reasons for the recent modest rates of growth in Medicaid expenditures is the implementation by the Administration of a managed care program. A waiver of federal regulations granting recipients freedom of choice of provider was approved by federal authorities in fiscal 1992. This waiver enables the program to assign certain recipients to primary care clinicians who function as gatekeepers to specialty and inpatient care and to enroll recipients in a capitated managed system of care for mental health or substance abuse services. In addition, nursing home prescreening and community service planning for long-term care is concentrated in 27 home care corporations to provide a single entry point and coordinated nursing home diversion services for elderly Medicaid recipients. Other savings initiatives, which are in addition to major rate control initiatives, include the repricing and buy-in of Medicare services for Medicaid recipients and restrictions, both financial and clinical, on nursing home eligibility.

Nursing home services currently account for more than 35% of the Medicaid budget. The Division of Medical Assistance has strengthened admissions criteria to ensure that those not needing this care use less costly

community services, rather than being inappropriately placed in nursing homes. This, along with certain other initiatives, has limited the average annual increase in long-term care costs to approximately 3% between fiscal 1992 and fiscal 1994 on a date-of-service basis, as compared to approximately 16% average annual increases for the previous two fiscal years. Medicaid costs in the long-term care area increased from \$1.359 billion in fiscal 1991 to approximately \$1.496 billion in fiscal 1994. The single largest component of these costs is for nursing home care. 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 is approximately \$30,000. Over 38,000 elderly and disabled citizens were cared for in nursing homes through Medicaid in fiscal 1994 and 1995. The elderly population in the Commonwealth and the elderly Medicaid caseload both continue to grow. The future burdens of long-term care on Medicaid expenditures are expected to continue to be high.

Control of Medicaid expenditures is reflected in a decreased reliance on supplemental appropriations. Prior to fiscal 1994, substantial Medicaid expenditures were provided through supplemental appropriations because program requirements consistently exceeded initial appropriations. In addition, substantial amounts have been required to cover retroactive settlement of provider payments. In fiscal 1990, in addition to current expenditures, the Commonwealth financed, through the issuance of notes, payments of \$356.0 million to hospitals and nursing homes for rate settlements dating back as far as 1980 and \$132.0 million for program expenses incurred in fiscal 1989. These payments were made through the Medical Assistance Liability Fund established to fund certain Medicaid liabilities for prior years. In fiscal 1991, expenditures of \$194.2 million were made to fund prior year provider settlements. Medicaid expenditures for fiscal 1992 of \$2.818 billion included \$50.0 million for prior year provider settlements. See "FINANCIAL RESULTS -- Fiscal Years 1991 through 1995." Fiscal 1994 and fiscal 1995 Medicaid expenditures included a total of approximately \$123.0 million in retroactive rate settlements funded through the final fiscal 1994 supplemental budget to pay pre-1992 liabilities to hospitals and nursing homes. The fiscal 1996 budget appropriates approximately \$7 million for final settlement of these hospital and nursing home liabilities. Aside from the payments for retroactive rate settlements, no supplemental appropriations for Medicaid expenditures were required in fiscal 1995, and the Executive Office for Administration and Finance currently projects that no supplemental appropriations for Medicaid will be required in fiscal 1996.

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

Group Health Insurance. The Group Insurance Commission provides individual and family health insurance coverage for Commonwealth employees and retirees. Coverage is provided through an indemnity plan, currently administered by the John Hancock Mutual Life Insurance Company, and through 10 health maintenance organizations. The Commonwealth currently pays approximately 85% of the costs for active employees and for employees who retire after July 1, 1994 and 90% of the costs for employees who retired on or before July 1, 1994. For several years, group health insurance expenditures were the fastest growing expense item in the Commonwealth's budget, although recent increases have been more moderate. These costs rose at an average annual rate of 3.7% from \$433.4 million in fiscal 1991 to \$491.2 million in fiscal 1994. Group health insurance expenditures in fiscal 1994 were \$496.2 million, representing an increase of 1.0%. Fiscal 1995 expenditures for group health insurance were \$509.7 million, an increase of 2.7% from expenditures for fiscal 1994. Fiscal 1996 expenditures are expected to be \$525.5 million, an increase of 2.9% over fiscal 1995. The reduced rate of increase in these expenses in recent years is attributable, in part, to more aggressive rate negotiations with providers, reductions in the state work force, increased management of the Commonwealth's indemnity plan, changes in benefits and copayments approved by the Group Insurance Commission and increases in the employee health insurance contribution.

Public Assistance

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

Public Assistance Program Expenditures
(in millions)

| Category of Public Assistance | Fiscal | Fiscal | Fiscal | Fiscal | Preliminary (unaudited) | Estimated |
|-------------------------------------|------------------|------------------|------------------|------------------|-------------------------|------------------|
| | 1991 | 1992 | 1993 | 1994 | Fiscal 1995(1) | Fiscal 1996 |
| AFDC (2) | \$758.1 | \$772.2 | \$809.9 | \$817.2 | \$782.7 | \$875.7(3) |
| EAEDC (formerly General Relief) (5) | 189.6 | 131.5 | 89.9 | 100.3 | 124.0(4) | 115.1 |
| SSI (6) | <u>144.6</u> | <u>161.3</u> | <u>175.1</u> | <u>182.8</u> | <u>194.3</u> | <u>201.5</u> |
| Total | <u>\$1,092.3</u> | <u>\$1,065.0</u> | <u>\$1,074.9</u> | <u>\$1,100.3</u> | <u>\$1,101.0</u> | <u>\$1,192.3</u> |

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

- (1) Includes approximately \$33.3 million not previously classified as public assistance.
- (2) Includes expenditures for Emergency Assistance, a component of AFDC designed to prevent homelessness and to shelter income-eligible families when they become homeless.
- (3) Includes approximately \$125 million for fiscal 1996 for day care services not previously classified as public assistance.
- (4) Includes \$22.3 million not previously classified as budgeted expenditures.
- (5) Includes outpatient medical services to EAEDC recipients.
- (6) Include benefits for blind recipients, which are administered by the Massachusetts Commission for the Blind.

AFDC is currently 50% funded by federal reimbursements. Increasing caseloads between fiscal 1991 and fiscal 1994 caused AFDC expenditures to rise at an average annual rate of approximately 2.5% from \$758.1 million in fiscal 1991 to \$817.2 million in fiscal 1994. Caseloads began to decline in June, 1993 and have continued to decline since that time. AFDC expenditures for fiscal 1995 were \$782.7 million, representing a 0.4% decrease from fiscal 1994. AFDC expenditures for fiscal 1996 are projected to be \$875.7 million, which includes \$125 million not previously classified as AFDC day care expenditures. Factoring out the reclassified \$125 million, fiscal 1996 AFDC expenditures are budgeted to decline by \$32 million, or 4.1%, from fiscal 1995 expenditures.

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

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

EAEDC (formerly General Relief) is funded entirely from state funds. Program reforms initiated in the fall of 1991 caused expenditures to fall approximately 30.6%, from \$189.6 million in fiscal 1991 to \$131.5 million in fiscal 1992. Fiscal 1993 EAEDC expenditures were \$89.9 million, a 31.6% decrease from fiscal 1992 expenditures. Fiscal 1994 EAEDC expenditures were \$100.3 million, an 11.6% increase over fiscal 1993 expenditures. Fiscal 1995 EAEDC expenditures were \$124.0 million, including \$22.3 million not previously classified as budgeted expenditures, a 24.0% increase over fiscal 1994. Fiscal 1996 EAEDC expenditures are projected to be \$115.1 million, a 7.3% decrease from fiscal 1995. This projection is based upon current caseload projections which are subject to change during the fiscal year. See "Other Controls and Reforms."

SSI payments are funded entirely by the federal government up to \$458 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 \$572 to \$608 per month. These levels include a state supplement over

and above federally approved assistance standards. Expenditures for SSI have risen at an average annual rate of 8.2% from \$144.6 million in fiscal 1991 to \$182.8 million in fiscal 1994. SSI expenditures for fiscal 1995 were \$194.3 million, an increase of 6.6% over fiscal 1994. SSI expenditures for fiscal 1996 are projected to be \$201.5 million, an increase of 3.7% over fiscal 1995. This projection is based upon current caseload projections which are subject to change during the fiscal year.

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

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 food stamp programs, and the Department of Transitional Assistance reports that the Commonwealth is now below the target error rate level for each program. The Department of Transitional Assistance believes that its error rates are among the lowest in the country.

Debt Service

During the 1980's, Commonwealth-financed capital expenditures grew substantially. Capital spending in the Capital Projects Funds rose from approximately \$600 million in fiscal 1987 to approximately \$971 million in fiscal 1989. In November, 1988, the Executive Office for Administration and Finance established an administrative limit on state-financed capital spending in the Capital Projects Funds of \$925 million per fiscal year. Capital expenditures were \$847.0 million, \$694.1 million, \$575.9 million, \$760.6 million and \$902.2 million in fiscal 1991, fiscal 1992, fiscal 1993, fiscal 1994 and fiscal 1995, respectively. Commonwealth-financed capital expenditures are projected to be approximately \$894.0 million in fiscal 1996. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Overview of Capital Spending Process and Controls; *Five-Year Capital Spending Plan.*"

The growth of capital expenditures during the 1980's accounts for the significant rise in annual debt service expenditures since fiscal 1989. Payments for debt service on Commonwealth general obligation bonds and notes in fiscal 1992 were \$898.3 million, representing a 4.7% decrease from \$942.3 million in fiscal 1991, which resulted from a \$261 million one-time reduction achieved through the issuance of refunding bonds in September and October, 1991. Debt service expenditures for fiscal 1993, fiscal 1994 and fiscal 1995 were \$1.140 billion, \$1.149 billion and \$1.230 billion, respectively, and are projected to be \$1.196 billion for fiscal 1996. See "COMMONWEALTH BOND AND NOTE LIABILITIES." The amounts noted represent debt service payments on Commonwealth debt (including Fiscal Recovery Bonds and special obligation bonds) but do not include debt service on notes issued to finance certain Medicaid-related liabilities, which were paid in full from non-budgeted funds. See "FINANCIAL RESULTS -- Fiscal Years 1991 through 1995." Also excluded are debt service contract assistance payments to the MBTA (\$205.9 million projected in fiscal 1996), the Massachusetts Convention Center Authority (\$24.6 million projected in fiscal 1996), the Massachusetts Government Land Bank (\$6 million projected in fiscal 1996), the Massachusetts Water Pollution Abatement Trust (\$16.6 million projected in fiscal 1996) and grants to municipalities under the school building assistance program to defray a portion of the debt service costs on local school bonds (\$174.9 million projected in fiscal 1996). See "MBTA and Regional Transit Authorities," "COMMONWEALTH BOND AND NOTE LIABILITIES" and "OTHER COMMONWEALTH LIABILITIES."

In January, 1990, legislation was enacted to impose a limit on debt service appropriations in Commonwealth budgets beginning in fiscal 1991. The law, as amended, which is codified as Section 60B of Chapter 29 of the General Laws, provides that no more than 10% of the total appropriations in any fiscal year may be expended for payment of interest and principal on general obligation debt of the Commonwealth. The limit does not apply to the

Fiscal Recovery Bonds. This law may be amended or repealed by the Legislature or may be superseded in the Annual Appropriation Act for any year. The following table shows the percentage of total appropriations expended or estimated to be expended from the budgeted operating funds for debt service on general obligation debt (excluding debt service on Fiscal Recovery Bonds) in the fiscal years indicated:

**Debt Service Expenditures
(in millions)**

| <u>Fiscal Year</u> | <u>Debt Service (1)</u> | <u>Total Budgeted Expenditures and Other Uses</u> | <u>Percentage</u> |
|------------------------------|-------------------------|---|-------------------|
| 1991 | \$863.1 | \$13,654.7 | 6.3% |
| 1992 | 656.1(2) | 13,416.0 | 4.9 |
| 1993 | 861.1 | 14,696.4 | 5.9 |
| 1994 | 872.3 | 15,522.9 | 5.6 |
| 1995 (preliminary unaudited) | 956.4 | 16,259.2 | 5.9 |
| 1996 (estimated) | 918.5 | 16,998.3 | 5.4 |

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

- (1) Excludes \$79.0 million in fiscal 1991, \$242.2 million in fiscal 1992, \$278.4 million in fiscal 1993, \$277.1 million in fiscal 1994, \$277.3 million in fiscal 1995 and \$277.9 million in fiscal 1996 in interest and principal payments related to Fiscal Recovery Bonds, which are not included in the calculation of the debt service limit.
- (2) Reflects reduction of debt service by \$261.0 million by issuance of refunding bonds in September and October, 1991.

The estimated annual debt service on the Fiscal Recovery Bonds currently outstanding (a portion of which constitutes variable rate debt) is approximately \$278.0 million in fiscal 1996 and fiscal 1997 and approximately \$130.0 million in fiscal 1998, at which time the entire amount of the Fiscal Recovery Bonds will be paid.

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

Pensions

The Commonwealth is responsible for the payment of pension benefits for state employees and for school teachers throughout the state. The Commonwealth is also responsible for cost-of-living increases payable to local government retirees. State pension expenditures have risen dramatically as the Commonwealth has appropriated moneys to address partially the unfunded liabilities that accumulated over several decades of "pay-as-you-go" administration of the pension systems. For several years during the 1980's, the Commonwealth made substantial direct appropriations to its pension reserves, in addition to paying current benefits. In 1988, the Commonwealth adopted a funding schedule under which it is required to fund future pension liabilities currently and to amortize the accumulated unfunded liabilities over 40 years. Total pension expenditures increased at an average annual rate of 8.4% from \$703.9 million in fiscal 1991 to \$969.2 million in fiscal 1995. The estimated pension expenditures (inclusive of current benefits and pension reserves) for fiscal 1996 are approximately \$1.032 billion (including approximately \$40 million to fund the costs of an early retirement program for elementary and secondary school teachers mandated by the 1993 education reform legislation), representing an increase of 9.6% over fiscal 1995 expenditures. See "OTHER COMMONWEALTH LIABILITIES -- Retirement Systems and Pension Benefits."

Higher Education

Total budgeted expenditures for higher education declined dramatically in fiscal 1991 and fiscal 1992 from historically high levels reached during the late 1980's. Since fiscal 1992, such expenditures have increased by 2.0% in fiscal 1993, by 23.4% in fiscal 1994 and by 4.6% in fiscal 1995. Decreases in appropriations or in the rate of growth of appropriations have been partially mitigated by increases in tuitions and fees. In fiscal 1992, all but two

of the campuses raised tuition by 6%. In fiscal 1993, tuition was raised at all campuses by 4%. Fiscal 1994 tuition revenues also reflected a 2% tuition increase. In addition, tuition increases for nonresident students have brought these tuitions to 100% of cost. There were no tuition increases in fiscal 1995. In fiscal 1996, an estimated \$728.2 million will be expended from the Commonwealth's budgeted operating funds for higher education, an increase of 3.5% over fiscal 1995.

MBTA and Regional Transit Authorities

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

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

Commonwealth support of the MBTA includes all three forms of aid described above. First, a Commonwealth guaranty of MBTA debt obligations is provided by statutory requirements that the Commonwealth provide the MBTA funds sufficient to meet its obligations, including the principal and interest on MBTA and Boston Metropolitan District bonds and notes as they mature, to the extent that funds sufficient for this purpose are not otherwise available to the MBTA. Second, the Commonwealth has contracted to pay contract assistance equal to 90% of the debt service on MBTA bonds. Third, under applicable statutory provisions the Commonwealth is required to pay the MBTA its net cost of service (current expenses, including debt service and lease obligations, minus current income). During the calendar year the MBTA's net cost of service, as certified to the Commonwealth by the MBTA on a calendar year basis, is financed by the issuance of notes by either the MBTA itself or the Commonwealth or by payments by the Commonwealth. In the following fiscal year, the Commonwealth pays to the MBTA the net cost of service for such calendar year (to the extent that the Commonwealth has not already advanced funds for such net cost of service). The Commonwealth issues short-term notes (transit notes) to provide funds to make such payments. The Commonwealth assesses such net cost of service on the cities and towns in the MBTA territory after deducting certain contract assistance provided by the Commonwealth. Proposition 2½, as amended, generally limits the increase in such assessments from one year to the next to 2.5% of the prior year's assessment. The Commonwealth pays its transit notes from the proceeds of the assessments and from such contract assistance and, if the foregoing proceeds are insufficient, from other funds of the Commonwealth.

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

MBTA operating expenses (total expenses less debt service) for fiscal years 1991, 1992, 1993, 1994 and 1995 were approximately \$539.6 million, \$550.6 million, \$564.6 million, \$588.7 million and \$528.5 million, respectively. The MBTA's approved budget for fiscal 1996 provides for operating expenses of \$492.3 million, which would mark the second consecutive year of decreased expenses. In light of major capital expenditures during recent years, MBTA debt service costs have increased steadily. MBTA debt service expenses for fiscal years 1991, 1992, 1993, 1994 and 1995 were approximately \$148.9 million, \$187.2 million, \$189.0 million, \$196.9 million and \$210.9 million, respectively, and for fiscal 1996 are projected to be \$260.9 million. The growth in the Commonwealth's share of the MBTA's budget reflects the statutory arrangements by which the MBTA is funded, declining federal assistance and constrained local support as a result of Proposition 2½.

The information set forth above concerning the Commonwealth's total expenditures for the costs of the MBTA is based on the Commonwealth's fiscal year ending June 30. However, under state law, the MBTA continues to report its net cost of service to the Commonwealth on a calendar year basis for reimbursement and assessment purposes. The following table sets forth for the calendar years ended December 31, 1991 through December 31, 1995 (estimated), the amounts of (i) the MBTA's cost of service in excess of the MBTA's income from its own sources, (ii) federal operating assistance, (iii) Section 28 debt service contract assistance, (iv) additional contract assistance, (v) interest and other charges incurred in state borrowings by the Commonwealth and (vi) the total of the Commonwealth's assessments on the cities and towns for the net cost of service allocated to such year.

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

| Year Ended <u>December 31</u> | Cost of Service in Excess of Income | Less: Federal Operating Assistance | Less: Section 28 Contract Assistance (1) | Less: Additional Contract Assistance and Other State Assistance (2) | Subtotal | Interest and Other Charges (3) | Amount Assessed or to be Assessed |
|----------------------------------|--|---|---|--|----------|--------------------------------------|--|
| 1990 | \$ 512.9 | \$ 18.3 | \$ 115.7 | \$ 272.6 | \$ 106.3 | \$ 12.3 | \$ 118.6 |
| 1991 | 575.0 | 18.2 | 137.7 | 307.2 | 111.9 | 9.7 | 121.6 |
| 1992 | 607.0 | 18.2 | 155.8 | 315.4 | 117.6 | 7.0 | 124.7 |
| 1993 | 610.3 | 18.2 | 165.6 | 304.2 | 122.3 | 5.5 | 127.8 |
| 1994 (4) | 590.1 | 16.1 | 177.6 | 276.2(5) | 120.3 | 10.6 | 131.0 |
| 1995 (6) | 607.0 | 16.1 | 202.4 | 266.3(7) | 122.2 | 12.0 | 134.3 |

SOURCE: Massachusetts Bay Transportation Authority.

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

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

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

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

Other Programs

In addition to those expenditures described above, the Commonwealth also expends substantial amounts on other programs and services. Spending on other programs and services supported by the Commonwealth's budget increased by \$48.2 million, or 1.2%, from \$4.018 billion in fiscal 1991 to \$4.066 billion in fiscal 1992. Fiscal 1993 expenditures were \$4.376 billion, which was \$309.6 million, or 7.6%, higher than fiscal 1992. Fiscal 1994 expenditures were \$4.585 billion, which was \$209.0 million, or 4.8%, more than fiscal 1993. Fiscal 1995 expenditures were \$4.813 billion, which was \$228 million, or 5.0%, more than fiscal 1994. Fiscal 1996 expenditures are estimated to be \$5.125 billion, which is \$312 million, or 6.5%, more than fiscal 1995. A large share of the projected fiscal 1996 spending in this category, \$2.464 billion, consists of spending on human services programs other than Medicaid and public assistance detailed earlier. This other human services spending for fiscal 1996 includes expenditures for the Department of Mental Retardation (\$712.9 million), Department of Mental Health (\$518.9 million), Department of Social Services (\$398.8 million), Department of Public Health (\$367.3 million) and other human services programs (\$465.9 million). The remaining \$2.661 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 (\$456.7 million) and for the Executive Offices for Administration and Finance (\$383.7 million), Communities and Development (\$129.3 million), Environmental Affairs (\$162.4 million), Transportation and Construction (\$86.5 million), Public Safety (\$740.3 million) and Elder Affairs (\$125.6 million).

State Workforce

As of September 30, 1995, the Commonwealth had approximately 64,211 full-time equivalent employees ("FTEs") in its standard workforce delivering programs and services funded by annual operating budget appropriations and retained revenues. This number does not include 554 seasonal FTEs or 121 members of boards or commissions. Approximately 54,262 of these FTEs work in executive branch agencies (including the Commonwealth's colleges and universities) under the control of the Governor, while the others work in the Legislature, the Judiciary and other entities constitutionally or legally independent of the Governor (e.g., the offices of the State Treasurer, the Secretary of State, the State Auditor and the Attorney General). During fiscal 1995 approximately \$2.4 billion was expended for salaries for state employees funded through the annual operating budget. Between June, 1988 and September, 1995, the size of the standard workforce funded through the annual operating budget was reduced by approximately 16,128 FTE positions, or 20.1%. Between January, 1991 and September, 1995, the size of this workforce was reduced by approximately 8,571 in agencies under the control of the Governor and by approximately 7,983 in the entire state government. The Governor has implemented an aggressive program to reduce the state workforce since taking office in January, 1991, through attrition, layoffs and an early retirement program which took effect on July 1, 1992.

Budget-Funded Standard Workforce (1)

| | <u>June 1988</u> | <u>January 1991</u> | <u>June 1994</u> | <u>September 1995</u> |
|-------------------------------------|------------------|---------------------|------------------|-----------------------|
| Executive Office | 105 | 53 | 88 | 80 |
| State Comptroller | 119 | 101 | 103 | 99 |
| Executive Departments: | | | | |
| Administration & Finance (2) | 4,434 | 3,985 | 3,412 | 3,203 |
| Environmental Affairs (3) | 3,319 | 3,019 | 2,229 | 2,363 |
| Communities & Development | 182 | 123 | 108 | 105 |
| Health and Human Services | 38,665 | 35,441 | 23,610 | 23,428 |
| Transportation & Construction | 3,146 | 2,565 | 1,389 | 1,326 |
| Board of Library Commissioners | 19 | 14 | 14 | 15 |
| Educational Affairs | -- | -- | 15 | 15 |
| Education | 468 | 348 | 195 | 201 |
| Higher Education | 14,654 | 13,084 | 13,130 | 13,455 |
| Public Safety | 3,405 | 2,833 | 8,827 | 8,812 |
| Economic Affairs | 97 | 64 | 99 | 102 |
| Elder Affairs | 60 | 35 | 30 | 31 |
| Consumer Affairs | 755 | 725 | 614 | 623 |
| Energy Resources | 66 | -- | -- | -- |
| Labor | 464 | 443 | 390 | 404 |
| Subtotal Under Governor's Authority | 69,958 | 62,833 | 54,255 | 54,262 |
| Judiciary | 6,157 | 5,856 | 5,861 | 6,123 |
| Other (4) | 4,224 | 3,504 | 3,693 | 3,826 |
| Total | 80,339 | 72,193 | 63,809 | 64,211 |

SOURCE: Executive Office for Administration and Finance.

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

In addition to the standard workforce funded by annual operating budget appropriations, as of September 30, 1995, the Commonwealth had approximately 13,170 FTEs whose positions are established in accounts funded from Capital Projects Funds, various direct federal grants, expendable trusts and other non-appropriated funds. Virtually all of these employees work in the executive branch, over half of them in public higher education. The Commonwealth also employs seasonal workers, primarily in its parks and other recreational facilities, varying in number from about 350 FTEs in the off-seasons to about 1,500 FTEs in mid-summer.

Union Organization and Labor Negotiations

Under Chapter 150E of the General Laws, all employees of the Commonwealth, with the exception of managerial and confidential employees, have the right to bargain collectively with the Commonwealth through certified employee organizations recognized as exclusive bargaining representatives for appropriate bargaining units. Collective bargaining with employees of the Commonwealth's colleges and universities, its judicial branch and the Lottery Commission generally is conducted directly by those entities. The Office of Employee Relations, acting for the Secretary of Administration and Finance, conducts the collective bargaining negotiations with all other employees of the Commonwealth. Such negotiations may cover wages, hours and other terms and conditions of employment, but may not include the levels of pension and group insurance benefits. All labor agreements negotiated by the Office of Employee Relations are subject to approval by the Secretary of Administration and Finance and, once approved, are forwarded to the Legislature for funding approval. Funding of most labor contracts is by means of a supplemental appropriation.

In most cases, the 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 42,302 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.

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

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

On July 1, 1992, the former Capitol, Metropolitan, Registry and State Police forces were consolidated into the Massachusetts Department of State Police. Negotiations between the Commonwealth and the State Police Association of Massachusetts (representing unit 5A) culminated with the signing in July, 1993 of a three-year contract, which expired June 30, 1995. The contract granted a series of annual 6% salary increases, which cost approximately \$14.9 million in fiscal 1995. Negotiations for a successor agreement are under way.

On March 1, 1994, the Commonwealth and the Massachusetts Nurses Association signed the successor agreement to the agreement that expired October, 1990. The new agreement, which expired December 31, 1994, called for a 4% pay raise effective July 1, 1992, a 2.5% increase effective July 1, 1993, a 1% increase effective July 1, 1994 and a 2.5% increase effective October 1, 1994. The contract was notable for being the first Commonwealth collective bargaining agreement to link an employee's salary increase to his or her performance. The agreement also provided for a reduction in overtime costs by paying employees at straight time for the first shift of overtime worked in any work week in which the employee used sick leave. The cost of this agreement in fiscal 1995 was approximately \$10.5 million. Negotiations for a successor agreement are under way.

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

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

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

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

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

Office of Employee Relations Bargaining Units

| Contract Unit | Bargaining Union | Type of Employee | FTEs (All Funds) | Expiration Dates |
|------------------|---|------------------------------|---------------------|---------------------|
| 1 | National Association of Government Employees | Clerical | 5,452 | 6/30/93 |
| 2 | Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union | Institutional services | 10,681 | 6/30/97 |
| 3 | Massachusetts Organization of State Engineers and Scientists | Skilled trades | 854 | 6/30/93 |
| 4 | Massachusetts Correction Officers Federated Union | Corrections | 3,619 | 12/31/94 |
| 5 | Coalition of Public Safety | Law enforcement | 327 | 6/30/95 |
| 5A | State Police Association of Massachusetts | State Police | 1,860 | 6/30/95 |
| 6 | National Association of Government Employees | Administrative professionals | 6,240 | 6/30/93 |
| 7 | Massachusetts Nurses Associations | Health professionals | 2,053 | 12/31/94 |
| 8 | Alliance/Service Employees International Union | Social workers | 7,309 | 6/30/97 |
| 9 | Massachusetts Organization of Engineers and Scientists | Engineers/scientists | 2,892 | 6/30/93 |
| 10 | Alliance/Service Employees International Union | Secondary education | <u>616</u> | 6/30/97 |
| TOTAL | | | <u>42,083</u> | |

SOURCE: Executive Office for Administration and Finance. Number of Standard Workforce FTEs (funded from non-budgeted as well as budgeted funds) as of September 30, 1995.

COMMONWEALTH BOND AND NOTE LIABILITIES

Overview

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

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

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

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

Outstanding Bond and Note Liabilities. The following table sets forth the Commonwealth bond and note liabilities outstanding as of October 1, 1995.

Commonwealth Bond and Note Liabilities
October 1, 1995
(in thousands)

| | <u>Long-Term(1)</u> | <u>Short-Term</u> |
|---|----------------------|--------------------|
| COMMONWEALTH DEBT | | |
| General Obligation Debt | \$8,643,955(2) | \$430,000(3) |
| Dedicated Income Tax Debt | 618,980 | 0 |
| Special Obligation Debt | <u>394,720</u> | <u>0</u> |
| Subtotal Commonwealth Debt | <u>9,657,655</u> | <u>430,000</u> |
| COMMONWEALTH-SUPPORTED DEBT | | |
| MBTA | 2,399,780(4) | 514,200(5) |
| Massachusetts Convention Center Authority | 155,559 | 0 |
| Massachusetts Government Land Bank | 20,195 | 0 |
| Boston Metropolitan District | 47,187 | 0 |
| Steamship Authority | 32,364(6) | 4,400 |
| Regional transit authorities | <u>15</u> | <u>69,396</u> |
| Subtotal Supported Debt | <u>2,655,100</u> | <u>587,996</u> |
| COMMONWEALTH-GUARANTEED DEBT | | |
| Higher education building authorities | 253,005 | 0 |
| Town of Mashpee | <u>200</u> | <u>0</u> |
| Subtotal Guaranteed Debt | <u>253,205</u> | <u>0</u> |
| TOTAL COMMONWEALTH BOND AND NOTE LIABILITIES | <u>\$ 12,565,960</u> | <u>\$1,017,996</u> |

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

- (1) Long-term debt includes discount and costs of issuance. Does not include long-term capital lease obligations. See "Indirect Obligations; Plymouth County Certificates of Participation" and "OTHER COMMONWEALTH LIABILITIES -- Long-Term Capital Leases and Certificates of Participation."
- (2) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from October 1, 1995 through their maturity in the amount of \$344.0 million.
- (3) \$240 million of Commonwealth general obligation notes issued on June 20, 1995 and due June 12, 1996 for the purpose of financing the MBTA's net cost of service and \$190 million of commercial paper issued as bond anticipation notes. See "General Obligation Debt; Commonwealth General Obligation Notes."
- (4) On October 3, 1995, the MBTA issued an additional \$200 million of bonds.
- (5) Includes \$165 million of notes due March 1, 1996 and \$160 million of notes due September 6, 1996; also includes \$189.2 million of commercial paper which will be retired from the proceeds of the bonds described in note (4). See "Commonwealth Supported Debt; MBTA."
- (6) On October 3, 1995, the Steamship Authority sold \$8.8 million of bonds, which are expected to be delivered on October 12, 1995.

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

| <u>June 30</u> | <u>General Obligation Bonds (3)</u> | <u>Dedicated Income Tax Debt</u> | <u>Special Obligation Debt</u> | <u>Commonwealth Long-Term Debt Subtotal (4)</u> | <u>MBTA Bonds</u> | <u>Other Supported Debt (5)</u> | <u>Total (4)</u> |
|----------------|---|--|--|---|-----------------------|---|------------------|
| 1991 | \$7,164,195 | \$1,416,145 | -- | \$8,580,340 | \$1,475,480 | \$247,574 | \$10,303,394 |
| 1992 | 7,916,571 | 1,236,990 | \$103,770 | 9,257,331 | 1,708,230 | 257,327 | 11,222,888 |
| 1993 | 8,082,823 | 1,044,865 | 103,770 | 9,231,458 | 2,015,405 | 291,482 | 11,538,345 |
| 1994 | 8,184,165 | 839,810 | 403,770 | 9,427,745 | 2,165,230 | 277,655 | 11,870,630 |
| 1995 | 8,614,766 | 618,980 | 394,720 | 9,628,466 | 2,399,780 | 273,410 | 12,301,656 |

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

- (1) Does not include Commonwealth-guaranteed debt. See "Commonwealth-Guaranteed Debt."
- (2) Outstanding bond liabilities include discount and costs of issuance.
- (3) Does not include Dedicated Income Tax Debt. Commonwealth general obligation bonds include interest on capital appreciation bonds yet to be accrued from the end of the fiscal year indicated through their maturity in the following approximate amounts: fiscal 1991-\$399.64 million; fiscal 1992-\$451.29 million; fiscal 1993-\$389.40 million; fiscal 1994-\$361.5 million and fiscal 1995-\$331.57 million.
- (4) Totals may not add due to rounding.
- (5) Includes bonds of the MCCA, the Steamship Authority, the Land Bank and the Boston Metropolitan District. Does not include bonds of regional transit authorities.

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

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

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

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

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

Maturities of Short-Term Debt. The following table sets forth the maturities of the Commonwealth's short-term liabilities outstanding as of October 1, 1995.

**Maturities of Short-Term Liabilities
October 1, 1995
(in thousands)**

| <u>Month Due</u> | <u>Commonwealth</u> | <u>MBTA</u> | <u>Regional Transit Authorities</u> | <u>Steamship Authority</u> | <u>Total</u> |
|--|---------------------|------------------|---|--------------------------------|--------------------|
| Commercial Paper (1 to 270 days)(1) | \$190,000 | \$189,200 | -- | -- | \$379,200 |
| Fiscal 1996 | 240,000 | 165,000 | -- | \$4,400 | 409,400 |
| Fiscal 1997 | -- | <u>160,000</u> | <u>\$69,396</u> | -- | <u>229,396</u> |
| Total | <u>\$430,000</u> | <u>\$514,200</u> | <u>\$69,396</u> | <u>\$4,400</u> | <u>\$1,017,996</u> |

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

- (1) For a description of the MBTA's commercial paper program, see "Commonwealth-Supported Debt; MBTA." For a description of the Commonwealth's commercial paper program, see "General Obligation Debt; Commonwealth General Obligation Notes."

General Obligation Debt

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

Dedicated Income Tax Debt. On August 1, 1990, the Governor signed into law Chapter 151 of the Acts of 1990, which provided, among other things, for the authorization of the Commonwealth Fiscal Recovery Loan Act of 1990 to meet the deficit attributable to fiscal 1990, including certain Medicaid payments for prior service periods. Bonds issued pursuant to Chapter 151 ("Fiscal Recovery Bonds") must be repaid no later than December 31, 1997. The Commonwealth issued Fiscal Recovery Bonds in October, 1990 and December, 1990 in the aggregate principal amount of approximately \$1.416 billion. The Fiscal Recovery Bonds constitute general obligation bonds of the Commonwealth, but are repaid from funds deposited in the Commonwealth Fiscal Recovery Fund established by Chapter 151 (the "Fiscal Recovery Fund"), deposits to which are held in trust and pledged to pay debt service on the Fiscal Recovery Bonds. Deposits to the Fiscal Recovery Fund are made from up to 15% of the Commonwealth's income tax receipts in each year that debt service is payable related to the Fiscal Recovery Bonds. Income tax receipts in excess of the amount needed in any fiscal year for debt service on account of Fiscal Recovery Bonds then outstanding, as certified by the Secretary of Administration and Finance in consultation with the State Treasurer, are paid into the Commonwealth's General Fund. Debt service related to the Fiscal Recovery Bonds in fiscal years 1996, 1997 and 1998 will approximate \$278 million, \$278 million and \$130 million, respectively. Fifteen percent of the Commonwealth's income tax receipts for fiscal 1995 amounted to approximately \$896.1 million, while in fiscal 1996 it is estimated to amount to \$957.3 million. The outstanding principal amount of the Fiscal Recovery Bonds is not counted toward the statutory limit on outstanding direct bonds of the Commonwealth (see "Statutory Limit on Direct Bonds"), and interest on the Fiscal Recovery Bonds is not counted toward the statutory limitation on debt service payments. See "COMMONWEALTH PROGRAMS AND SERVICES -- Debt Service."

Commonwealth General Obligation Notes. The Commonwealth currently issues short-term general obligation debt as revenue anticipation notes, bond anticipation notes and transit notes issued to fund a portion of the Commonwealth's net cost of service for the MBTA. Revenue anticipation notes may be issued by the State Treasurer in any fiscal year in anticipation of the receipts for that year. Revenue anticipation notes must be repaid no later than the close of the fiscal year in which they are issued. Bond anticipation notes may be issued by the State Treasurer in anticipation of the issuance of bonds. The Commonwealth utilizes a commercial paper program to facilitate the issuance of revenue and bond anticipation notes. Under the Commonwealth's current commercial

paper program, the Commonwealth may issue up to \$600 million of short-term general obligation debt under three series of notes; a line of credit is available through September 30, 1996 to secure up to \$200 million of principal of such commercial paper and letters of credit are available through October 31, 1996 to secure the balance of such commercial paper. As of October 3, 1995, the Commonwealth has \$190 million of commercial paper outstanding, which was issued as bond anticipation notes to reimburse the Commonwealth for capital expenditures and which is expected to be retired with the proceeds of long-term bonds issued in fiscal 1996. The Commonwealth's current cash flow projection indicates that no short-term operating borrowings are expected to be necessary under the commercial paper program at any time during fiscal 1996. However, events occurring subsequent to the preparation of this projection may cause the actual cash flow of the Commonwealth to vary from the projected cash flow and additional commercial paper may be outstanding from time to time during fiscal 1996. See "1996 FISCAL YEAR -- Cash Flow."

Transit notes issued to fund the net cost of service payments to the MBTA may be issued by the State Treasurer pursuant to Chapter 161A of the General Laws and may mature in the current or the next succeeding fiscal year. The notes are general obligations of the Commonwealth, but are funded, in part, from assessments collected by the Commonwealth from cities and towns in the MBTA's territory. See "COMMONWEALTH PROGRAMS AND SERVICES -- MBTA and Regional Transit Authorities." As of October 1, 1995, the Commonwealth has \$240 million of outstanding transit notes which mature on June 12, 1996.

Minibonds. The State Treasurer is authorized by law to sell a portion of the Commonwealth's bonded indebtedness each year (not exceeding \$50 million net proceeds per year) in the form of small denomination bonds, or "minibonds," which are redeemable at the option of the holder on any business day prior to maturity (five years or less). The Commonwealth has not issued minibonds since 1990, and all minibonds previously issued have matured.

Special Obligation Debt

The Special Obligation Act authorizes the Commonwealth to issue Special Obligation Bonds secured by all or a portion of revenues accounted to the Highway Fund. Revenues which are currently accounted to the Highway Fund are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax. Special Obligation Bonds are not general obligations of the Commonwealth. Chapter 33 of the Acts of 1991 authorizes the Commonwealth to issue Special Obligation Bonds in an aggregate amount not to exceed \$1.125 billion. As of October 1, 1995, the Commonwealth had outstanding \$394.7 million of Special Obligation Bonds, which includes \$103.8 million of such bonds secured by a pledge of two cents of the 21-cent motor fuels excise tax and \$291.0 million of another series of such bonds secured by a pledge of an additional 4.86 cents of the motor fuels excise tax and certain other moneys.

Debt Service Requirements on Commonwealth Bonds

The following table sets forth, as of October 1, 1995, 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)
October 1, 1995
(in thousands)

| Fiscal Year | <u>GENERAL OBLIGATION BONDS (2)</u> | | | | <u>SPECIAL OBLIGATION BONDS</u> | | | Total Debt Service Commonwealth Bonds |
|---------------------|-------------------------------------|------------------------------|--------------------|---------------------|---------------------------------|------------------|------------------|---------------------------------------|
| | Principal | Interest on CABs at Maturity | Current Interest | Subtotal | Principal | Interest | Subtotal | |
| 1996(3) | \$ 457,650 | -- | \$ 374,566 | \$ 832,216 | \$ 9,460 | \$ 21,987 | \$ 31,447 | \$ 863,663 |
| 1997 | 698,434 | \$ 17,091 | 449,260 | 1,164,785 | 9,845 | 21,604 | 31,449 | 1,196,234 |
| 1998 | 625,101 | 8,675 | 401,422 | 1,035,198 | 14,330 | 21,185 | 35,515 | 1,070,713 |
| 1999 | 551,973 | 9,704 | 367,019 | 928,696 | 15,010 | 20,508 | 35,518 | 964,213 |
| 2000 | 556,353 | 23,586 | 334,121 | 914,060 | 15,750 | 19,764 | 35,514 | 949,573 |
| 2001 | 542,968 | 32,365 | 305,330 | 880,663 | 16,555 | 18,957 | 35,512 | 916,175 |
| 2002 | 487,245 | 42,664 | 275,972 | 805,881 | 17,420 | 18,098 | 35,518 | 841,399 |
| 2003 | 492,074 | 45,642 | 249,981 | 787,698 | 18,585 | 16,929 | 35,514 | 823,212 |
| 2004 | 446,474 | 76,660 | 227,367 | 750,502 | 19,585 | 15,928 | 35,513 | 786,014 |
| 2005 | 441,954 | 90,921 | 206,088 | 738,944 | 20,665 | 14,852 | 35,517 | 774,461 |
| 2006 | 438,063 | 98,662 | 185,805 | 722,530 | 21,815 | 13,699 | 35,514 | 758,045 |
| 2007 | 507,828 | 31,091 | 161,399 | 700,316 | 23,050 | 12,467 | 35,517 | 735,833 |
| 2008 | 519,359 | 1,588 | 135,106 | 656,052 | 24,365 | 11,148 | 35,513 | 691,565 |
| 2009 | 498,721 | 1,778 | 106,237 | 606,736 | 25,740 | 9,771 | 35,511 | 642,247 |
| 2010 | 422,777 | 1,516 | 81,480 | 505,773 | 27,215 | 8,299 | 35,514 | 541,287 |
| 2011 | 389,674 | 1,718 | 58,036 | 449,429 | 28,795 | 6,723 | 35,518 | 484,948 |
| 2012 | 238,912 | 1,704 | 35,186 | 275,803 | 30,465 | 5,046 | 35,511 | 311,314 |
| 2013 | 229,444 | 1,870 | 21,186 | 252,500 | 32,240 | 3,271 | 35,511 | 288,011 |
| 2014 | 108,843 | 832 | 10,778 | 120,453 | 23,830 | 1,382 | 25,212 | 145,665 |
| 2015 | 82,578 | 527 | 4,874 | 87,980 | -- | -- | -- | 87,980 |
| 2016 | 34,556 | 386 | 1,109 | 36,050 | -- | -- | -- | 38,050 |
| 2017 and thereafter | 3,004 | -- | 472 | 3,476 | -- | -- | -- | 3,476 |
| TOTAL | \$8,773,985 | \$ 488,981 | \$3,992,771 | \$13,255,739 | \$394,720 | \$261,619 | \$656,339 | \$13,912,078 |

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

- (1) Totals may not add due to rounding.
- (2) Includes Fiscal Recovery Bonds. Estimated debt service on the Fiscal Recovery Bonds (a portion of which constitute variable rate debt) will equal approximately \$279.0 million in fiscal 1996 and fiscal 1997 and \$130.0 million in fiscal 1998, at which time the Fiscal Recovery Bonds will be paid.
- (3) Does not include debt service paid in fiscal 1996 through October 1, 1995, including approximately \$217.1 million of general obligation bond principal, and approximately \$97.4 million of general and 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 provided that the limit for each subsequent fiscal year was to be 105% of the previous fiscal year's limit. The measurement of this limit is performed under the statutory basis of accounting, which differs from GAAP in that the principal amount of outstanding bonds is measured net of discount and costs of issuance. The law further provides that bonds to be refunded from the proceeds of Commonwealth refunding bonds are to be excluded from outstanding "direct" bonds upon the issuance of the refunding bonds. Chapter 151 of the Acts of 1990 and the Special Obligation Act provide that the Fiscal Recovery Bonds and the Special Obligation Bonds, respectively, shall not be counted in computing the amount of bonds subject to this limit. Pursuant to Chapter 5 of the Acts of 1991, \$287.2 million of the Commonwealth's refunding bonds issued in September and October, 1991 are also not counted in computing the amount of the bonds subject to this limit. The following table shows the amount of outstanding "direct" bonds of the Commonwealth, as compared with the appropriate statutory limit, as of the first day of each fiscal year in which the statutory limit has been in effect.

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

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

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

Authorized But Unissued Debt

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

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

| <u>Date</u> | <u>Authorized but Unissued General Obligation Debt</u> | <u>Capital Expenditures(1)</u> |
|---------------|--|------------------------------------|
| June 30, 1991 | \$ 4,937,306 | \$ 847,057 |
| June 30, 1992 | 6,393,832 | 694,057(2) |
| June 30, 1993 | 4,614,367 | 575,884 |
| June 30, 1994 | 4,512,297 | 760,618 |
| June 30, 1995 | 5,802,506 | 902,232 |

SOURCE: Office of the Comptroller.

- (1) Does not include \$537.5 million, \$1.892 billion, \$835.7 million and \$513.6 million of refunding bond proceeds paid to escrow agents in fiscal 1992, fiscal 1993, fiscal 1994 and fiscal 1995, respectively, in order to defease then outstanding general obligation bonds.
- (2) Does not include \$159.6 million deposited into the federally assisted highway construction fund to alleviate the fund deficit accumulated therein.

As of June 30, 1995, the authorized but unissued general obligation debt equalled \$5.802 billion, which amount includes \$1.816 billion allocable to transportation-related projects authorized by the Legislature in fiscal 1996.

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

Pursuant to Chapter 33 of the Acts of 1991 ("Chapter 33"), the Commonwealth authorized the issuance of \$697 million of bonds for certain highway development and improvement projects which may only be issued as Special Obligation Bonds. The Special Obligation Bonds will be secured by a pledge of all or a portion of the

revenues accounted for in the Commonwealth's Highway Fund. In addition, certain general obligation bonds authorized in Chapter 33 for such projects (which are reflected as Authorized but Unissued General Obligation Debt above) may be issued as Special Obligation Bonds, with the aggregate amount of Special Obligation Bonds not to exceed \$1.125 billion. Chapters 102 and 273 of the Acts of 1994 also authorize the issuance of up to \$1.474 billion of general obligation bonds for certain highway development and improvement projects, which bonds may also be issued as Special Obligation Bonds. See "Special Obligation Debt."

Commonwealth Supported Debt

MBTA. The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. Commonwealth support of MBTA bonds and notes includes (1) a Commonwealth guarantee of MBTA debt obligations provided by statutory requirements that the Commonwealth provide the MBTA funds sufficient to meet its obligations, including the principal and interest on MBTA and Boston Metropolitan District bonds and notes as they mature, to the extent that funds sufficient for this purpose are not otherwise available to the MBTA; (2) Commonwealth contract assistance equal to 90% of the debt service on MBTA bonds; and (3) under applicable statutory provisions, the Commonwealth's payment of MBTA's net cost of service (current expenses, including debt service and lease obligations, minus current income). Commonwealth obligations with respect to the MBTA are discussed at "COMMONWEALTH PROGRAMS AND SERVICES -- MBTA and Regional Transit Authorities." As of October 1, 1995, the MBTA had \$2.4 billion of outstanding long-term bonds (exclusive of bonds that have been refunded) and \$325 million of outstanding short-term notes. The MBTA also has established a commercial paper program in order to issue bond anticipation notes for capital purposes. Up to \$200 million of notes may be issued under this program. The notes are general obligations of the MBTA, and ninety percent (90%) of the interest thereon is payable from contract assistance to be provided by the Commonwealth. As of October 3, 1995, \$189.2 million of commercial paper notes were outstanding under this program. As of October 1, 1995, the Boston Metropolitan District had approximately \$47.2 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 guaranty pursuant to statutory provisions requiring the Commonwealth to provide each of these entities with funds sufficient to meet the principal of and interest on their bonds and notes as they mature to the extent that funds sufficient for this purpose are not otherwise available to such entity; (2) the Commonwealth's payment, under applicable statutory provisions, of the net cost of service of the regional transit authorities and the Steamship Authority (current expenses, including debt service, minus current income); and (3) with respect to the regional transit authorities, Commonwealth contract assistance to such authorities in amounts equal to 50% of their net cost of service. Commonwealth obligations with respect to the regional transit authorities are discussed at "COMMONWEALTH PROGRAMS AND SERVICES -- MBTA and Regional Transit Authorities." The Steamship Authority is currently self-supporting, requiring no net cost of service or contract assistance payments. As of October 1, 1995, the regional transit authorities had \$15,000 of outstanding long-term bonds and \$69.4 million of outstanding short-term notes. As of October 1, 1995, the Steamship Authority had \$32.4 million of outstanding long-term bonds and \$4.4 million of outstanding short-term notes. The obligations of the regional transit authority will be subject to annual appropriation. See "Overview; *Outstanding Bond and Note Liabilities*."

Massachusetts Convention Center Authority. The MCCA was created for the purpose of promoting the economic development of the Commonwealth by the development and operation of a major convention center in Boston and is authorized to issue bonds for any of its corporate purposes. Such bonds are fully secured by contract assistance payments by the Commonwealth, which payments are limited by statute to an amount equal to the annual debt service on \$200 million of bonds outstanding at any one time. The assistance contract is a general obligation of the Commonwealth for which its full faith and credit are pledged. As of October 1, 1995, the MCCA had \$155.6 million of outstanding long-term bonds on which the Commonwealth will pay approximately \$24.6 million in debt service contract assistance payments in fiscal 1996. See "Overview; *Outstanding Bond and Note Liabilities*" and "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS -- Overview of Capital Spending Process and Controls; *Five-Year Capital Spending Plan*."

Massachusetts Government Land Bank. The Land Bank assists in the development of state and federal surplus property for private use and in the development of substandard, blighted or decadent open areas in the Commonwealth. The Land Bank has direct borrowing power and the Commonwealth is required to provide contract assistance payments for debt service obligations of the Land Bank of up to \$6 million per fiscal year for a period of 12 fiscal years, concluding in fiscal 1999. Like the MCCA assistance contract, the contract with the Land Bank is a general obligation of the Commonwealth for which the full faith and credit of the Commonwealth are pledged. As of October 1, 1995, the Land Bank had \$20,195,000 of bonds outstanding, which are secured by the contract assistance from the Commonwealth, as described above. 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 October 1, 1995, local housing authorities had no outstanding long-term bonds guaranteed by the Commonwealth. See "Overview; *Outstanding Bond and Note Liabilities.*"

Higher Education Building Authorities. Four higher education building authorities, created to assist institutions of public higher education in the Commonwealth, may issue bonds which are guaranteed as to their principal and interest by the Commonwealth. The guaranty is a general obligation of the Commonwealth for which its full faith and credit are pledged. In addition to such guaranty, certain revenues of these authorities, including dormitory rental income and student union fees, are pledged to their respective debt service requirements. While revenues thus far have been sufficient to meet debt service requirements, they have not been sufficient in all cases to pay operating costs. In such cases, the operating costs have been met by Commonwealth appropriations. As of October 1, 1995, the higher education building authorities had \$253.0 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 limits the outstanding indebtedness of MHFA issued for the purpose, among others, of financing certain multi-family housing projects within the Commonwealth to \$2.7 billion of bonds or notes (excluding certain notes issued for construction financing) and limits the proportion of such indebtedness that may be evidenced by notes rather than bonds.

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

Bonds and notes issued by MHFA are solely the obligations of MHFA, payable directly or indirectly from, and secured by a pledge of, revenues derived from MHFA's mortgage on or other interest in the financed housing. MHFA's enabling legislation also permits, and certain resolutions authorizing the respective issuance of multi-family and single-family housing bonds to date have required, the creation of a capital reserve fund in connection with the issuance of such bonds. With respect to multi-family housing bonds, any such capital reserve fund must be in an amount at least equal to the maximum annual debt service in any succeeding calendar year on all outstanding bonds

secured by such capital reserve fund, including the bonds then being issued. With respect to single family housing bonds, any such fund must be maintained in an amount not less than one-quarter of the maximum amount of interest becoming due in the current or any succeeding fiscal year of the agency and not greater than the maximum amount of debt service becoming due in the current or any succeeding fiscal year on all outstanding bonds which are secured by such capital reserve fund. Upon certification by the chairman of MHFA to the Governor of any amount necessary to restore a capital reserve fund to the above-described requirement, the Legislature may, but is not legally bound to, make an appropriation in such amount. No such appropriation has been necessary to date.

As of October 1, 1995, multi-family obligations of the MHFA totaled approximately \$3.6 billion (of which approximately \$700 million were secured by capital reserve funds) and single-family obligations of the MHFA totaled approximately \$1.3 billion (of which approximately \$47 million were secured by capital reserve funds). As of such date the capital reserve funds were maintained at the required levels without Commonwealth appropriations and no payments from such funds have been necessary. Authorized but unissued amounts as of such date were approximately \$429 million for multi-family bonds and approximately \$410 million for single-family bonds.

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

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

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

OTHER COMMONWEALTH LIABILITIES

Retirement Systems and Pension Benefits

Commonwealth Responsibility for Pension Costs. The Commonwealth is responsible for the payment of pension benefits for Commonwealth employees (members of the state employees' retirement system) and for teachers of the cities, towns and regional school districts throughout the state (members of the teachers retirement system, except for teachers in the Boston public schools who are members of the State-Boston retirement system but whose pensions are also the responsibility of the Commonwealth). Employees of certain independent authorities and agencies, such as the MWRA, and of counties, cities and towns (other than teachers) are covered by 104 separate retirement systems. However, the Commonwealth assumed responsibility, beginning in fiscal 1982, for payment of cost-of-living adjustments for the 104 local retirement systems, in accordance with the provisions of Proposition 2½. The members of these state and local retirement systems do not participate in the federal Social Security System.

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

The systems were originally established as "pay-as-you-go" systems, meaning that amounts were appropriated each year to pay current benefits, and no provision was made to fund currently the future liabilities already incurred. In fiscal 1978 the Commonwealth began to address the unfunded liabilities of the two state systems by making appropriations to pension reserves. Prior to the establishment of the pension funding program described below, the Commonwealth appropriated approximately \$680 million to the pension reserves during the mid-1980's, in addition to the pay-as-you-go pension costs during those years. As of December 31, 1994, the state's pension reserves, now administered by the Pension Reserves Investment Management Board, had grown to approximately \$4.925 billion. Under current law, the pension reserves receive moneys from excess earnings (*i.e.*, earnings above the level credited to member accounts) in the retirement systems, withdrawal penalties on members leaving government employment with less than ten years of service and any amounts from the funding schedule described below in excess of pension payments.

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

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

The funding schedule must provide for annual payments in each of the ten years ending fiscal 1998 which are at least equal to the total estimated pay-as-you-go pension costs in each such year. The schedule must not provide for any reductions in the pension reserves (as of January 1, 1988, plus growth at the actuarially assumed investment rate) in the first ten years of the schedule. The amortization component in the funding schedule is to

grow from year to year by no more than 7.5%. (The current schedule uses a 2.5% annual increase in the amortization component.)

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

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

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

SOURCE: Division of Public Employee Retirement Administration.

The current funding schedule is based on actuarial valuations of the state employees' and teachers' retirement systems and the State-Boston retirement system as of January 1, 1993 and on a review of selected local systems for purposes of determining cost of living allowance costs. The unfunded actuarial accrued liability, as of January 1, 1993, 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 approximately \$7.445 billion, \$372.6 million and \$1.833 billion, respectively, for a total unfunded actuarial liability of \$9.651 billion. Such valuations are based on actuarial assumptions described in the current schedule, including future investment earnings at the rate of 8% per year, annual salary increases at the rate of 6% and annual cost-of-living increases for pensioners at the rate of 3%. "Actuarial accrued liability," as used above, is the estimated present value of all benefits to be paid to existing pensioners and current employees less the present value of the future normal costs associated with such employees. The "unfunded" liability is the amount by which the actuarial accrued liability exceeded accumulated assets set aside therefor and represents the present value of the amount that would have to be contributed in the future in addition to normal costs in order for the liability to be fully funded.

As stated above, annual payments under the funding schedule through fiscal 1998 must be at least equal to the total estimated pay-as-you-go benefit cost in such year. As a result of this requirement, the funding requirements for fiscal 1995, 1996, 1997 and 1998 are estimated to be increased to approximately \$959.9 million, \$1.007 billion, \$1.061 billion and \$1.128 billion, respectively. See "INVESTMENT POLICIES" for information regarding the investment policies relating to the Commonwealth's pension funds.

Long-Term Operating Leases

In addition to Commonwealth-owned buildings and facilities, the Commonwealth leases additional space from private parties. In fiscal 1994, rental expenditures under these operating leases totalled approximately \$86.9 million. Minimum future rental expenditure commitments of the Commonwealth under operating leases in

effect at June 30, 1994 are set forth below. These amounts represent expenditure commitments of both budgeted and non-budgeted funds.

**Operating Leases
June 30, 1994
(in thousands)**

| <u>Fiscal Year</u> | <u>Operating Leases</u> |
|---------------------|-------------------------|
| 1995 | \$86,460 |
| 1996 | 66,707 |
| 1997 | 53,430 |
| 1998 | 43,314 |
| 1999 | 28,524 |
| 2000 and thereafter | <u>8,224</u> |
| | <u>\$286,659</u> |

SOURCE: Office of the Comptroller.

Long-Term Capital Leases and Certificates of Participation

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

Long-term total principal and interest obligations at June 30, 1994 related to capital leases and COPs are as follows:

**Capital Lease and COP Obligations
June 30, 1994
(in thousands)**

| <u>Fiscal Year</u> | <u>Capital Leases</u> | <u>COPs</u> |
|---------------------|---------------------------|---------------------------|
| 1995 | \$24,355 | \$ 2,668 |
| 1996 | 19,464 | 2,670 |
| 1997 | 14,428 | 2,671 |
| 1998 | 9,877 | 2,668 |
| 1999 | 7,196 | 2,671 |
| 2000 and thereafter | <u>6,125</u> | <u>2,673</u> |
| | <u>\$81,445(1)</u> | <u>\$16,021(1)</u> |

SOURCE: Office of the Comptroller.

(1) As of June 30, 1994, the principal amounts of these obligations were \$50,954,000 and \$12,687,000 for capital leases and COPs respectively.

Water Pollution Abatement Trust

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

Capitalization grants received by the Trust and held in the revolving fund may be applied by the Trust to fund reserves to secure debt obligations issued by the Trust to make loans to local governmental units to finance eligible projects or to directly fund such loans. Obligations issued by the Trust are not a debt of the Commonwealth or any political subdivision thereof but are payable solely from revenues of the Trust including loan repayments payable by loan recipients, investment income from reserves and other moneys of the Trust and, for certain loans, contract assistance payments from the Commonwealth as described below. As of July 1, 1995, the Trust had approximately \$444.3 million of bonds outstanding for such purposes. At such date, approximately \$135.3 million of direct loans from the Trust to local governmental units were also outstanding, of which approximately \$130.8 million were direct loans to the city of New Bedford which are expected to be refinanced from the proceeds of bonds to be issued during fiscal year 1996.

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

Legislation has been filed by the Governor to expand the scope of the Trust's loan programs. Among other things, the Governor's bill would mandate that all new loans made by the Trust in fiscal years 1995 and 1996 provide for financial assistance sufficient to result in at least a 50% grant equivalency to the borrower and that interest payable after July 1, 1994 on loans made by the Trust prior to that date be forgiven so that such loans would thereafter be equivalent to at least a 50% grant. All financial assistance in excess of 25% would continue to be funded from contract assistance payments from the Commonwealth. The Legislature has not yet acted on the Governor's proposal.

One of the four purposes for which moneys in the Cost Relief Fund may be appropriated by the Legislature is to subsidize the costs of water pollution abatement projects financed by the Trust (up to \$8 million per fiscal year). A portion of the fiscal 1995 year-end surplus, amounting to \$7 million as preliminarily determined by the Comptroller, has been credited to the Cost Relief Fund. See "FINANCIAL RESULTS -- Fiscal Years 1991 through 1995; 1995 Fiscal Year."

School Building Assistance

The school building assistance program was established in 1948 to promote the planning and construction of school buildings and the establishment of consolidated and regional schools in the Commonwealth. Under this program, cities, towns, regional school districts and the three counties that maintain agricultural schools can obtain reimbursements from the Commonwealth for a portion of the construction costs (including any interest expense from indebtedness incurred) of approved school projects. With the exception of grants to assist cities, towns and regional school districts in the elimination of racial imbalance, the reimbursement percentage varies by municipality and may range from 50% to 90% of total construction costs. School projects for the purpose of eliminating racial imbalance are eligible for 90% reimbursement. Grants are usually payable over a period of up to 20 years to defray a portion of the debt service on city, town, district or county bonds issued to pay construction costs. Payment is made to cities, towns, regional school districts and counties from amounts annually appropriated for the school building assistance program. The following table shows the amount of the Commonwealth's obligation to pay such grants as of June 30, 1994.

**School Building Assistance Obligations
(in thousands)**

| <u>Fiscal Year</u> | <u>Budgeted School Building Assistance Obligations</u> | <u>Fiscal Year</u> | <u>Budgeted School Building Assistance Obligations</u> |
|--------------------|--|--------------------|--|
| 1995 | \$167,586 | 2005 | 106,903 |
| 1996 | 159,107 | 2006 | 101,954 |
| 1997 | 152,959 | 2007 | 98,231 |
| 1998 | 139,629 | 2008 | 93,219 |
| 1999 | 131,304 | 2009 | 86,860 |
| 2000 | 127,763 | 2010 | 79,545 |
| 2001 | 123,923 | 2011 | 65,212 |
| 2002 | 120,238 | 2012 | 42,272 |
| 2003 | 117,724 | 2013 | 29,777 |
| 2004 | 112,104 | 2014 | <u>14,399</u> |
| | | Total | <u>\$2,070,709</u> |

SOURCE: Department of Education, School Facilities Service Bureau.

Unemployment Compensation Trust Fund

The assets and liabilities of the Commonwealth Unemployment Compensation Trust Fund are not assets and liabilities of the Commonwealth. As of August 31, 1995, the Massachusetts Unemployment Trust Fund had a surplus of \$523.9 million. The Department of Employment and Training's August 1995 quarterly report indicated that the contributions provided by current law should result in a private contributory account balance of \$375 million in the Unemployment Compensation Trust Fund by December 1995 and rebuild reserves in the system to \$1.25 billion by the end of 1999. See Exhibit A, "Economic Information," under the heading "Employment--Unemployment."

INVESTMENT POLICIES

For information with respect to the investment of Commonwealth funds, see note 4 to the fiscal 1994 statutory basis financial statements attached as Exhibit B and Note 3 to the fiscal 1994 GAAP basis financial statements attached as Exhibit C.

LITIGATION

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

Commonwealth Programs and Services. From time to time actions are brought against the Commonwealth by the recipients of governmental services, particularly recipients of human services benefits, seeking expanded levels of services and benefits and by the providers of such services challenging the Commonwealth's reimbursement rates and methodologies. To the extent that such actions result in judgments requiring the Commonwealth to provide expanded services or benefits or pay increased rates, additional operating and capital expenditures might be needed to implement such judgments. In June, 1993, in an action challenging the Commonwealth's funding of public primary and secondary education systems on both federal and state constitutional grounds, *Webby v. Dukakis* (now known as *McDuffy v. Robertson*, Supreme Judicial Court for Suffolk County No. 90-128), the Supreme Judicial Court ruled that the Massachusetts Constitution imposes an enforceable duty on the Commonwealth to provide adequate public education for all children in the Commonwealth and that the Commonwealth was not at that time fulfilling this constitutional duty. However, the court also ruled that no then-present statutory enactment was to be declared unconstitutional. The court further ruled that the Legislature and the Governor were to determine the necessary response to satisfy the Commonwealth's constitutional duty, although a single justice of the court could

retain jurisdiction to determine whether, within a reasonable time, appropriate legislative action had been taken. Comprehensive education reform legislation was approved by the Legislature and the Governor later in June, 1993. See "COMMONWEALTH PROGRAMS AND SERVICES -- Local Aid; *Commonwealth Financial Support for Local Governments.*" On May 10, 1995, the plaintiffs filed a motion for further relief, arguing that the 1993 legislation did not provide sufficiently for public education and that its timetable was too slow. It cannot be determined at this time what further action, if any, the plaintiffs in *McDuffy* may take or whether the court will order any further relief.

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

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

Environmental Matters. The Commonwealth is engaged in various lawsuits involving environmental and related laws, including an action brought on behalf of the U.S. Environmental Protection Agency alleging violations of the Clean Water Act and seeking to enforce the clean-up of Boston Harbor. *United States v. Metropolitan District Commission* (U.S. District Court C.A. No. 85-0489-MA). See also *Conservation Law Foundation v. Metropolitan District Commission* (U.S. District Court C.A. No. 83-1614-MA). The MWRA, successor in liability to the Metropolitan District Commission, has assumed primary responsibility for developing and implementing a court-approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. The MWRA did not meet the July, 1994 court-ordered date for start-up of the first two primary treatment batteries and related facilities, although testing of the major portion of the new facilities has since been substantially completed and the MWRA has begun to introduce flow into the new plant. The MWRA has also experienced significant delays on its two related tunnel projects, due to a number of factors. The MWRA did not meet the December, 1994 court-ordered date for completion of the inter-island tunnel and did not meet the July, 1995 date for completion of the outfall tunnel. The MWRA has, however, made significant progress towards completion of both the inter-island tunnel and the outfall tunnel in recent months. The MWRA has kept the court apprised of the delays and other aspects of the project through regular court reports. The court has previously recognized some of the problems encountered by the MWRA due to the uncertainties inherent in completing a construction project of this magnitude. It has requested the MWRA to continue to report on developments on these matters. The MWRA currently has projected that the total cost of construction of the wastewater facilities required under the court's order is approximately \$3.557 billion in current dollars, with approximately \$1.046 billion to be spent after June 30, 1995. Under the Clean Water Act, the Commonwealth may be liable for any costs of complying with any judgment in these or any other Clean Water Act cases to the extent the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment.

Taxes and Other Revenues. In *Massachusetts Wholesalers of Malt Beverages v. Commonwealth* (Suffolk Superior Court No. 90-1523), associations of bottlers have challenged the 1990 amendments to the bottle bill which escheat abandoned deposits to the Commonwealth. Plaintiffs claim a taking; the Commonwealth claims legitimate regulation of abandoned amounts. The case involves about \$22 million annually, from January, 1990 (*i.e.*, approximately \$100 million total), plus certain amounts in deposit transaction funds and claimed interest. In March, 1993, the Supreme Judicial Court upheld the amendments except for the initial funding requirement, which the Court held severable. The Superior Court recently ruled that the Commonwealth is liable for certain amounts (plus

interest) as a result of the Supreme Judicial Court's decision. The actual amount will be determined in further proceedings.

In *National Association of Government Employees v. Commonwealth* (Suffolk Superior Court No. 93-5509-E), the Superior Court declared that a line item in the Commonwealth's fiscal 1994 budget that increased the state employees' percentage share of their group health insurance premiums from 10% to 15% violated the terms of several collective bargaining agreements and hence was invalid under the contracts clause of the United States Constitution as regards employees covered by the agreements. The Commonwealth budgets for fiscal 1995 and fiscal 1996 have contained a similar line item. On February 9, 1995, the Supreme Judicial Court vacated the Superior Court's decision and declared that the fiscal 1994 line item did not violate the contracts clause. In June, 1995, the United States Supreme Court denied the plaintiffs' petition for a writ of certiorari. Several other unions have filed a companion suit, *Alliance, AFSCME/SEIU, AFL-CIO, et al. v. Commonwealth* (Suffolk Superior Court No. 94-3438-E), asserting that the premium increase similarly violated other collective bargaining agreements. This latter suit is in its initial stages. Prior to the Supreme Judicial Court's decision, the Commonwealth's aggregate liability for all unionized employees was estimated to have been approximately \$32 million.

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

In *Commissioner of Revenue v. BayBank Middlesex* (Supreme Judicial Court No. 6683), the Commonwealth has appealed an April, 1994 decision of the Appellate Tax Board which granted abatements to 12 Massachusetts banks in 102 consolidated appeals for tax years from 1984 to 1990. The Appellate Tax Board decision held that the measure of the bank excise tax did not include amounts paid by the banks in excess of face value to acquire federally exempt bonds. The Commissioner of Revenue contends that these payments do not qualify for any deductions allowable under the Internal Revenue Code and, accordingly, cannot be deducted from gross income subject to the bank excise. The Supreme Judicial Court will hear oral arguments in the appeal in October, 1995. The potential liability is approximately \$55 million, including similarly situated banks and tax years after 1990.

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

On March 22, 1995, the Supreme Judicial Court issued its opinion in *Perini Corporation v. Commissioner of Revenue* (Supreme Judicial Court No. 6657). The court held that certain deductions from the net worth measure of the Massachusetts corporate excise tax violate the Commerce Clause of the United States Constitution. The court remanded the case for entry of a declaration and further proceedings, if necessary, to determine other appropriate remedies. On October 2, 1995, the United States Supreme Court denied the Commonwealth's petition for a writ of certiorari. The Department of Revenue is analyzing the impact of the decision of the Supreme Judicial Court but cannot yet determine the likely effect on future aggregate annual corporate excise tax receipts.

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

MISCELLANEOUS

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

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

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

CONTINUING DISCLOSURE

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

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

On behalf of the Commonwealth, the State Treasurer will provide to each nationally recognized municipal securities information repository within the meaning of Rule 15c2-12 of the Securities and Exchange Commission, no later than 270 days after the end of each fiscal year of the Commonwealth, commencing with the fiscal year ending June 30, 1996, certain financial information and operating data relating to such fiscal year, as provided in said Rule 15c2-12, together with audited financial statements of the Commonwealth for such fiscal year.

AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding this Information Statement or requests for additional information concerning the Commonwealth should be directed to Kenneth Olshansky, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th Floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or Lowell Richards, 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 Information Statement should be directed to John R. Regier or Navjeet K. Bal, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, MA 02111, telephone (617) 542-6000.

THE COMMONWEALTH OF MASSACHUSETTS

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

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

October 3, 1995

T3/575643.1

ECONOMIC INFORMATION

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

All information is presented on a calendar-year basis unless otherwise indicated. **Information is current as of October 2, 1995.** Sources of information are indicated in the text or immediately following the charts and tables. Although the Commonwealth considers the sources to be reliable, the Commonwealth has made no independent verification of the information presented herein and does not warrant its accuracy.

OVERVIEW

Population Characteristics. Massachusetts experienced modest population increases between 1980 and 1990. The 1990 United States census count for Massachusetts was 6,016,425 or 4.9 percent more than the 5,737,093 counted in 1980. While the Massachusetts population did not increase significantly between 1989 and 1993, it increased by 0.4 percent between 1993 and 1994. Bureau of the Census estimates for 1994 show the Massachusetts population to be 6,041,123. In contrast, the total United States population increased by approximately 9.8 percent between 1980 and 1990, 3.6 percent between 1990 and 1993, and 1.0 percent between 1993 and 1994. According to the 1990 United States census, the City of Boston experienced a small population increase of 2.0 percent from 562,994 in 1980 to 574,283 in 1990. The Boston-Washington corridor, which includes the states of Connecticut, Delaware, Maryland, Massachusetts, New Jersey, New York, Pennsylvania, Rhode Island, and Virginia, was home to sixty million people in 1992, nearly one quarter of the entire United States population of 255 million.

Personal Income, Consumer Prices, and Poverty. Per capita personal income levels in Massachusetts have been consistently higher than those in the United States since 1970. While the growth in per capita income has slowed and real income levels have even declined in Massachusetts since 1988 (even as real income levels in the United States continued to grow), real income levels in Massachusetts in 1994 remained well above the national average: \$25,616 compared to \$21,809. The growth in levels of average annual pay in Massachusetts has been striking over the last ten years: since 1984, when levels of pay in Massachusetts were roughly equal to those in the United States, pay has grown at a rate two to three percentage points higher than that of the United States. As a result, preliminary data for 1994 show that the average level of pay in Massachusetts was \$31,024 while that in the United States was \$26,939. Some of the differences between Massachusetts and the United States can be explained by the comparatively high cost of living in Massachusetts. Since 1970, the Consumer Price Index (CPI-U) for the Boston Metropolitan area has been higher than that in the United States in every year except 1982. Between 1992 and 1994, however, the CPI-U for the Boston area grew at a slower rate than that of the United States. In July 1995, the CPI-U for the Boston Metropolitan area was 157.8 while that for the United States was 152.5; the change from July 1994 was 2.5 percent and 2.8 percent, respectively. In addition to high income levels, Massachusetts has maintained a poverty rate well below the national average. In 1993, 10.7 percent of the Massachusetts population was below the poverty line, while 15.1 percent of the population of the United States fell below the poverty line.

Employment. Total employment levels in Massachusetts, which declined between 1989 and 1992, grew at a rate of 1.6 percent in 1993 and 2.2 percent in 1994. The only employment sector which did not grow in 1993 and 1994 was the manufacturing sector, which has experienced declining employment levels since 1985. The sector employing the greatest number of people in Massachusetts continues to be the services sector, which contributed approximately 33.5 percent of total seasonally adjusted non-agricultural employment in 1994. The unemployment rate in Massachusetts, which was below that of the United States between 1979 and 1989, was higher than the national average between 1990 and 1993. In 1994, however, the unemployment rate of 6.0 percent in Massachusetts was below the United States average of 6.1 percent. In August 1995, the unemployment rate in Massachusetts was lower than that of the United States: 5.3 percent compared to 5.6 percent. The Unemployment Compensation Trust Fund in Massachusetts contained a positive balance of \$480 million on August 31, 1995 and is expected to contain a balance of \$375 million by December 31, 1995.

Economic Base and Performance. Massachusetts has a diversified economic base which includes traditional manufacturing, high technology, and service industries. A substantial portion of products produced by these and other sectors is exported. Massachusetts ranked thirteenth in the United States with nearly \$13.1 billion in international exports in 1994. Like most other industrial states, Massachusetts has seen a shift in employment from labor-intensive manufacturing industries (e.g., textiles, apparel, shoes, paper products) to technology and service-based industries like computers, biomedical technology, consulting, health care and business services.

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

The recession of the late 1980s and early 1990s reversed the good fortunes of the construction industry in the mid-1980s. The industry is recovering in the 1990s, however. Housing permits issued in Massachusetts increased by 30.3 percent in 1992, 9.3 percent in 1993, and 2.9 percent in 1994. This follows a prolonged decline in demand that extended from 1986 to 1991. Since 1991, sales of existing homes in Massachusetts increased at a yearly rate considerably higher than the national average. Relative housing prices in Boston continue to outpace those of the rest of the nation, however. In 1983, the price for a single family home in the Boston Metropolitan area was 18 percent higher than the national average; by 1994, home prices were 64.4 percent higher than the national average.

The travel and tourism industry represents a significant component of the overall Massachusetts economy. The Massachusetts Office of Travel and Tourism estimates that a total of 25.9 million people visited the Commonwealth in 1994, spending \$8.71 billion.

Human Resources and Infrastructure. Skilled human capital is the foundation of Massachusetts' economic strength. It provides the basis for a technologically dynamic and industrially diverse regional economy. The Massachusetts population is well-educated relative to the United States population, with 27.2 percent of Massachusetts residents over the age of 25 having received Bachelor's degrees, compared to 20.3 percent of the United States population. In addition, per pupil spending on public primary and secondary education in Massachusetts has been significantly higher than the national average since 1980. Preliminary

estimates for the 1993-94 academic year show that Massachusetts spent twenty percent more per pupil than the national average.

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

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

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

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

POPULATION CHARACTERISTICS

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

The City of Boston, the largest city in New England, has a population of 574,283, according to the 1990 United States Census. The official Metropolitan Statistical Area ("MSA") for Boston, with a 1990 population of 2,870,669, contains close to one-half of the Massachusetts population. The other

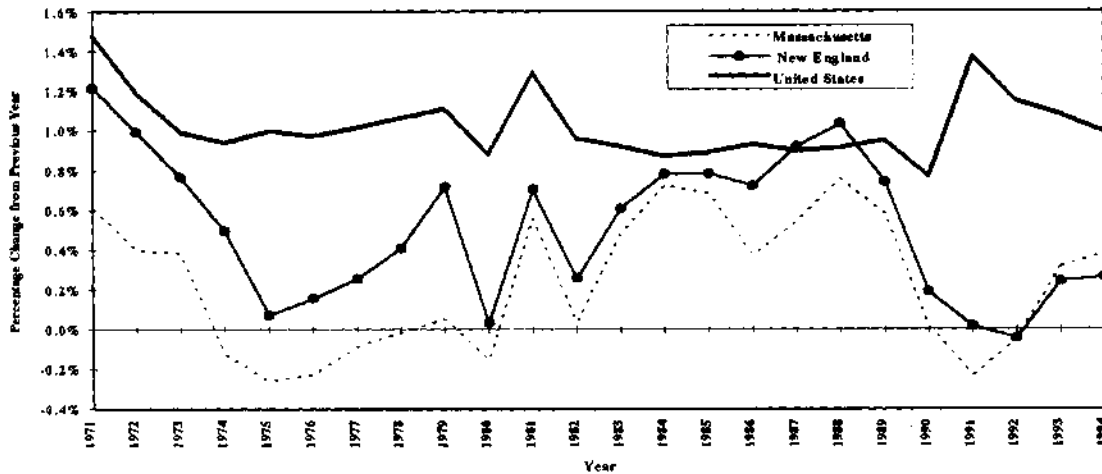
Massachusetts cities with populations in excess of 100,000 include Worcester (169,759), situated approximately 40 miles west of Boston, Springfield (156,983), located in the Connecticut River Valley in western Massachusetts, and Lowell (103,439), located approximately 30 miles northwest of Boston, along the Merrimack River.

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

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

As the following chart indicates, the percentage change in population in Massachusetts since 1971 has been both lower and more erratic than the change in population for the United States as a whole. While this trend is similar to that experienced by New England, it differs considerably from the steady growth rates for the United States over the same period of time. Between 1990 and 1992, the rate of population growth in Massachusetts was zero or negative. In 1994, however, the population of Massachusetts grew by 0.4 percent, compared to a 1.0 percent increase for the United States.

Percentage Change in Total Population, 1971-1994



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

Population, 1970-1994
(in thousands)

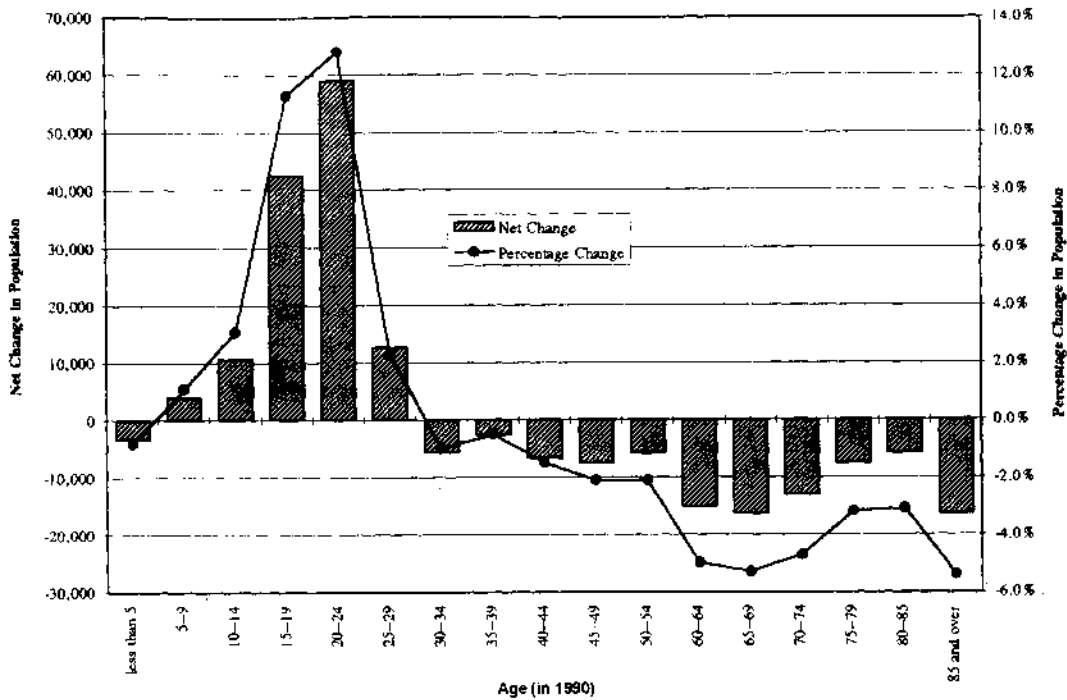
| <i>Year</i> | <i>Massachusetts</i> | | <i>New England</i> | | <i>United States</i> | |
|-------------|----------------------|--------------------------|--------------------|--------------------------|----------------------|--------------------------|
| | <i>Total</i> | <i>Percentage Change</i> | <i>Total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

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

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

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

Net Change in Massachusetts Population by Age, 1980-1990



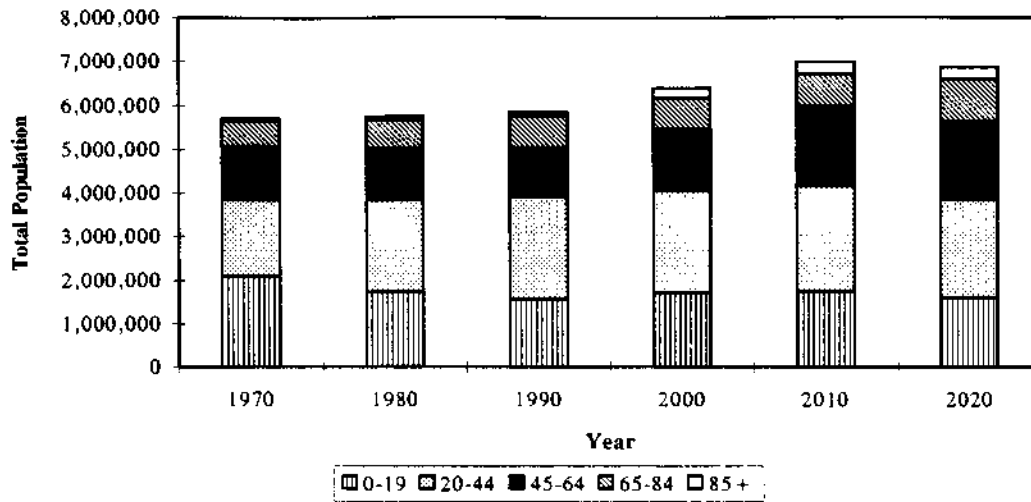
The next fifteen years are expected to bring about a considerable change in the age distribution of the Massachusetts population. As the following table and chart show, the population of Massachusetts is expected to be distributed more heavily in the "45 and over" age groups in 2010 and in 2020 than it was in 1990. They also reveal a noticeable increase in the "85 and over" age group while the percentage of people between the ages of 20 and 44 is expected to decline. The chart and table show the distribution of population by age for Massachusetts since 1970 and the projected distribution of population by age in 2000, 2010, and 2020.

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

| Year | 0-19 | 20-44 | 45-64 | 65-84 | 85+ | Total |
|------|-----------|-----------|-----------|---------|---------|-----------|
| 1970 | 2,082,379 | 1,758,934 | 1,211,672 | 584,735 | 51,450 | 5,689,170 |
| 1980 | 1,721,520 | 2,115,772 | 1,173,214 | 652,623 | 73,908 | 5,737,037 |
| 1990 | 1,561,017 | 2,353,626 | 1,110,013 | 723,766 | 90,238 | 5,838,660 |
| 2000 | 1,692,136 | 2,353,626 | 1,406,543 | 723,766 | 212,815 | 6,388,886 |
| 2010 | 1,732,621 | 2,432,794 | 1,810,740 | 731,189 | 278,275 | 6,985,619 |
| 2020 | 1,594,502 | 2,259,055 | 1,771,207 | 964,957 | 269,496 | 6,859,217 |

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

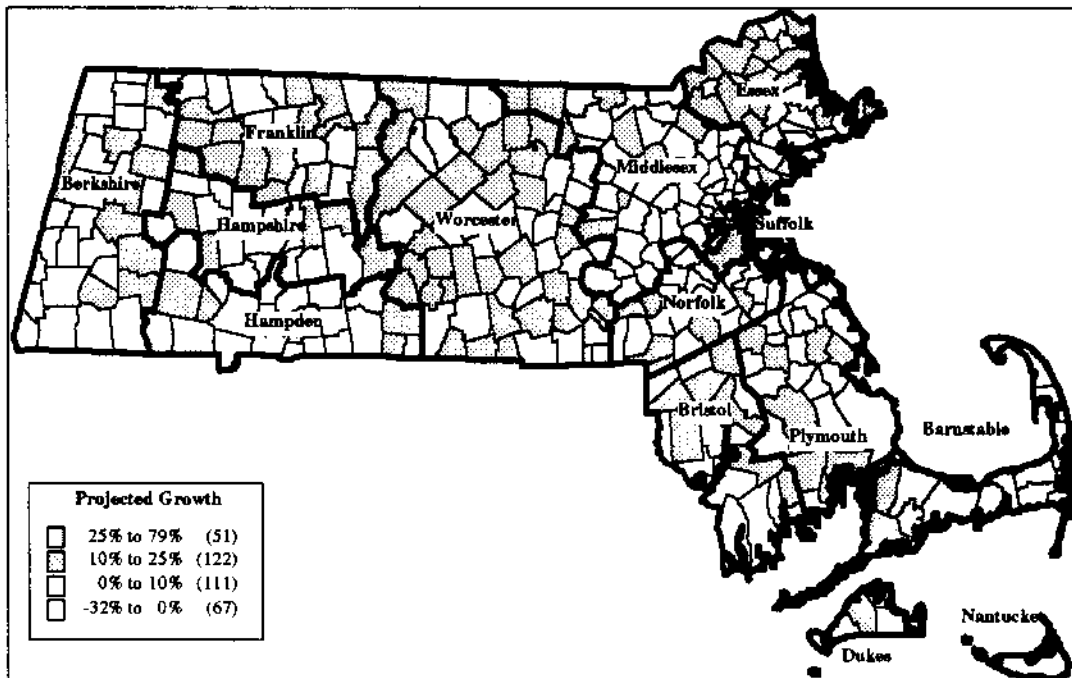
Actual and Projected Massachusetts Population By Age Group, 1970-2020



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

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

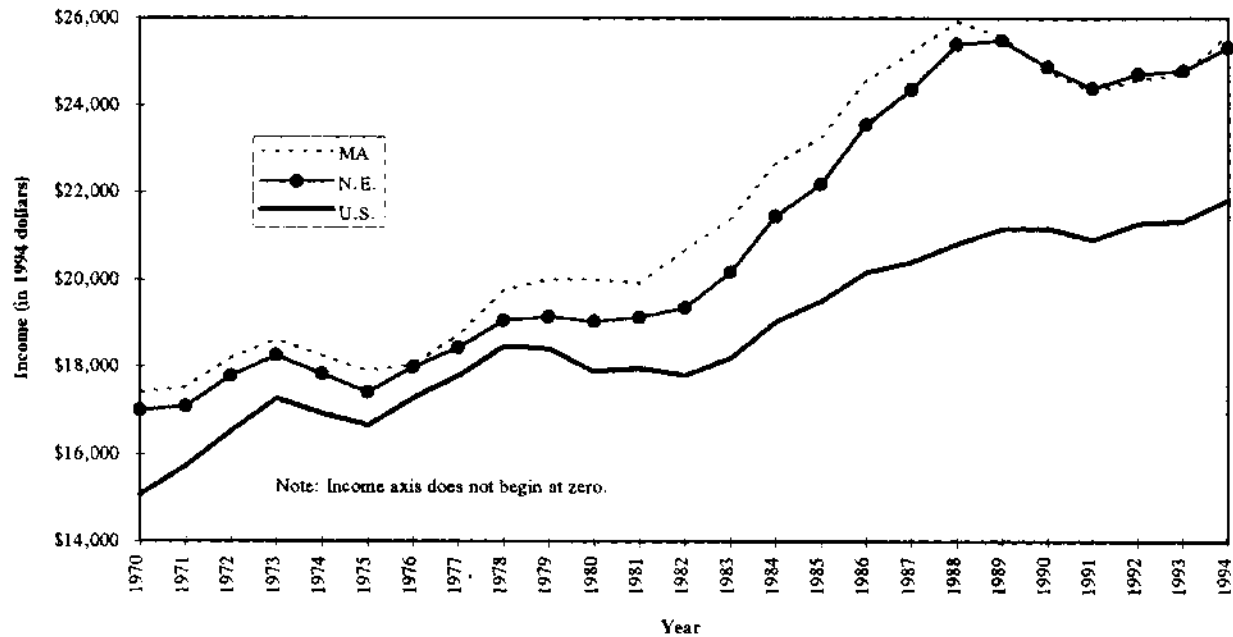
Projected Population Growth, 1990 to 2010



PERSONAL INCOME, CONSUMER PRICES, AND POVERTY

Personal Income. Since 1970, real and nominal per capita income levels have been consistently higher in Massachusetts than in the United States. Between 1982 and 1988, real income levels in Massachusetts grew at an annual rate higher than that for the United States. But, since 1989, the growth in real income levels in Massachusetts has slowed to a rate below that for real income levels in the United States. In fact, between 1989 and 1991, real per capita income levels in Massachusetts actually declined. In 1994, however, real per capita income in Massachusetts jumped by 3.6 percent, the largest increase since 1986. Although in nominal terms the Massachusetts per capita personal income is the highest on record, in real terms it remains \$309 below the 1988 peak of \$25,925. In contrast, real income levels in the United States have grown at a positive rate in ten of the eleven years since 1983 and were higher in 1994 than at any time in the previous twenty-three years. Nevertheless, per capita income in Massachusetts remained considerably higher than that in the United States in 1994: \$25,616 versus \$21,809. In addition, per capita personal income in Massachusetts was fourth highest among the fifty states in 1994. The following chart illustrates real per capita personal income in Massachusetts, New England, and the United States since 1970.

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



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

Per Capita Personal Income, 1970-1994

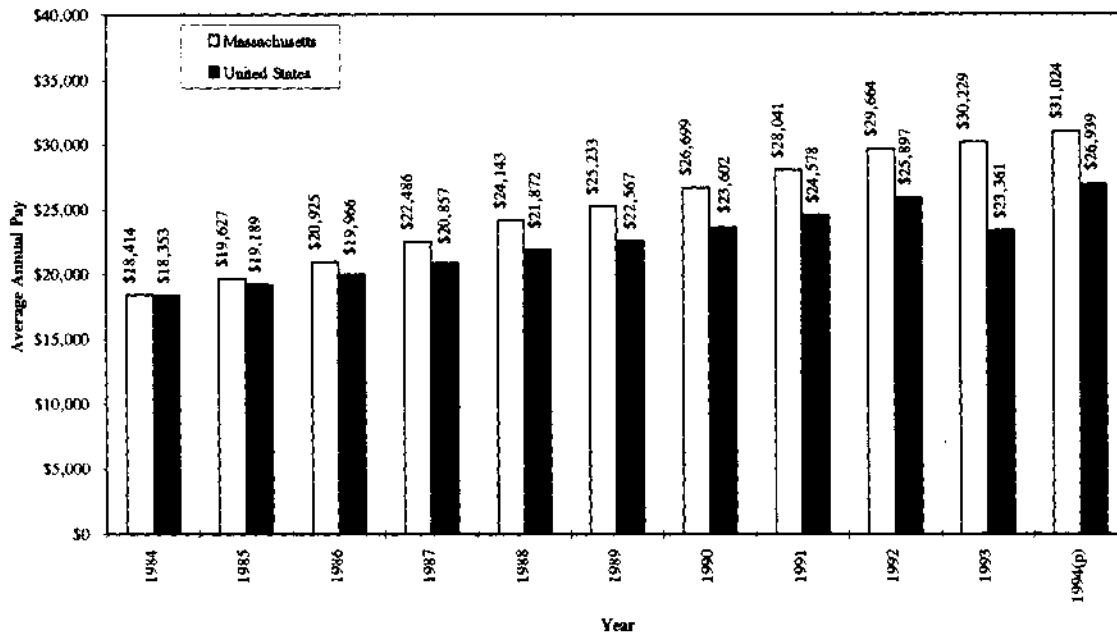
| Year | Nominal Income (in current dollars) | | | Real Income (in 1994 dollars) | | | Percentage Change in Real Income | | |
|------|--|---------|---------|----------------------------------|----------|----------|-------------------------------------|-------|-------|
| | MA | N.E. | U.S. | MA | N.E. | U.S. | MA | N.E. | U.S. |
| 1970 | \$4,515 | \$4,445 | \$4,047 | \$17,397 | \$16,978 | \$15,072 | | | |
| 1971 | 4,771 | 4,665 | 4,294 | 17,513 | 17,070 | 15,713 | 0.7% | 0.5% | 4.3% |
| 1972 | 5,130 | 5,013 | 4,659 | 18,184 | 17,773 | 16,518 | 3.8% | 4.1% | 5.1% |
| 1973 | 5,564 | 5,466 | 5,168 | 18,615 | 18,245 | 17,250 | 2.4% | 2.7% | 4.4% |
| 1974 | 6,033 | 5,927 | 5,628 | 18,252 | 17,817 | 16,918 | -1.9% | -2.3% | -1.9% |
| 1975 | 6,445 | 6,314 | 6,045 | 17,891 | 17,393 | 16,652 | -2.0% | -2.4% | -1.6% |
| 1976 | 6,988 | 6,902 | 6,629 | 18,041 | 17,977 | 17,266 | 0.8% | 3.4% | 3.7% |
| 1977 | 7,620 | 7,537 | 7,267 | 18,706 | 18,432 | 17,772 | 3.7% | 2.5% | 2.9% |
| 1978 | 8,466 | 8,380 | 8,117 | 19,750 | 19,048 | 18,450 | 5.6% | 3.3% | 3.8% |
| 1979 | 9,448 | 9,374 | 9,017 | 19,993 | 19,135 | 18,407 | 1.2% | 0.5% | -0.2% |
| 1980 | 10,659 | 10,582 | 9,940 | 19,989 | 19,032 | 17,878 | 0.0% | -0.5% | -2.9% |
| 1981 | 11,805 | 11,729 | 11,009 | 19,919 | 19,123 | 17,949 | -0.3% | 0.5% | 0.4% |
| 1982 | 12,750 | 12,604 | 11,583 | 20,680 | 19,357 | 17,789 | 3.8% | 1.2% | -0.9% |
| 1983 | 13,776 | 13,558 | 12,223 | 21,382 | 20,174 | 18,187 | 3.4% | 4.2% | 2.2% |
| 1984 | 15,326 | 15,034 | 13,332 | 22,674 | 21,444 | 19,016 | 6.0% | 6.3% | 4.6% |
| 1985 | 16,423 | 16,113 | 14,155 | 23,253 | 22,193 | 19,496 | 2.6% | 3.5% | 2.5% |
| 1986 | 17,796 | 17,418 | 14,906 | 24,569 | 23,552 | 20,156 | 5.7% | 6.1% | 3.4% |
| 1987 | 19,066 | 18,670 | 15,638 | 25,221 | 24,356 | 20,401 | 2.7% | 3.4% | 1.2% |
| 1988 | 20,787 | 20,276 | 16,610 | 25,925 | 25,401 | 20,808 | 2.8% | 4.3% | 2.0% |
| 1989 | 21,688 | 21,325 | 17,690 | 25,586 | 25,487 | 21,142 | -1.3% | 0.3% | 1.6% |
| 1990 | 22,247 | 21,934 | 18,655 | 24,810 | 24,871 | 21,153 | -3.0% | -2.4% | 0.0% |
| 1991 | 22,764 | 22,424 | 19,201 | 24,318 | 24,400 | 20,893 | -2.0% | -1.9% | -1.2% |
| 1992 | 23,588 | 23,398 | 20,137 | 24,588 | 24,715 | 21,271 | 1.1% | 1.3% | 1.8% |
| 1993 | 24,410 | 24,179 | 20,800 | 24,729 | 24,798 | 21,333 | 0.6% | 0.3% | 0.3% |
| 1994 | 25,616 | 25,319 | 21,809 | 25,616 | 25,319 | 21,809 | 3.6% | 2.1% | 2.2% |

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

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

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

Average Annual Pay, 1984-1993
(in current dollars)



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

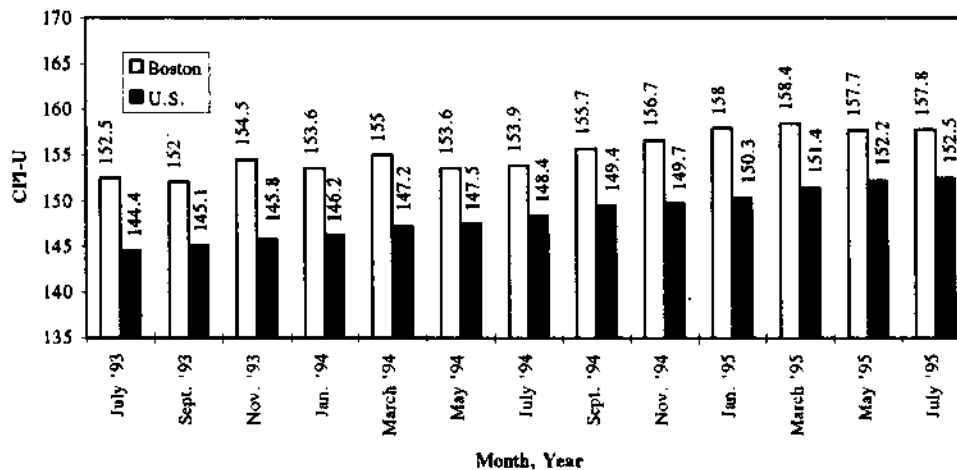
Consumer Prices. Higher income levels in Massachusetts relative to the rest of the United States are offset to some extent by the higher cost of living in Massachusetts. The following table presents consumer price trends for the Boston metropolitan area and the United States for the period between 1970 and May 1995. Data for each year indicate the Consumer Price Index for all urban consumers (CPI-U) and the percentage change in the Consumer Price Index for all urban consumers from the previous year. Since 1970, the CPI-U for the Boston metropolitan area has been higher than that of the United States in every year except 1982. Since 1992, however, the rate of growth in the CPI-U for the Boston area has been lower than that of the United States. In 1994, the CPI-U for Boston increased 1.3 percent compared to an increase of 2.6 percent for the United States as a whole. The latest available data for July 1995 show that the CPI-U for the Boston metropolitan area grew at a rate of 2.5 percent from July 1994; in the United States, growth for the comparable period was 2.8 percent.

Consumer Price Index for all Urban Consumers (CPI-U), 1970-1994
(1982-1984=100)

| Year | CPI-U | | Ratio (Boston/U.S.) | Pct. Change | |
|------------|--------|-------|------------------------|-------------|-------|
| | Boston | U.S. | | Boston | U.S. |
| 1970 | 40.2 | 39.0 | 103.1% | | |
| 1971 | 42.2 | 40.7 | 103.7% | 5.0% | 4.4% |
| 1972 | 43.7 | 42.1 | 103.8% | 3.6% | 3.4% |
| 1973 | 46.3 | 44.7 | 103.6% | 5.9% | 6.2% |
| 1974 | 51.2 | 49.6 | 103.2% | 10.6% | 11.0% |
| 1975 | 55.8 | 54.1 | 103.1% | 9.0% | 9.1% |
| 1976 | 60.0 | 57.2 | 104.9% | 7.5% | 5.7% |
| 1977 | 63.1 | 60.9 | 103.6% | 5.2% | 6.5% |
| 1978 | 66.4 | 65.6 | 101.2% | 5.2% | 7.7% |
| 1979 | 73.2 | 73.1 | 100.1% | 10.2% | 11.4% |
| 1980 | 82.6 | 82.9 | 99.6% | 12.8% | 13.4% |
| 1981 | 91.8 | 91.4 | 100.4% | 11.1% | 10.3% |
| 1982 | 95.5 | 96.9 | 98.6% | 4.0% | 6.0% |
| 1983 | 99.8 | 99.8 | 100.0% | 4.5% | 3.0% |
| 1984 | 104.7 | 103.3 | 101.4% | 4.9% | 3.5% |
| 1985 | 109.4 | 106.9 | 102.3% | 4.5% | 3.5% |
| 1986 | 112.2 | 108.6 | 103.3% | 2.6% | 1.6% |
| 1987 | 117.1 | 112.5 | 104.1% | 4.4% | 3.6% |
| 1988 | 124.2 | 117.0 | 106.2% | 6.1% | 4.0% |
| 1989 | 131.3 | 122.6 | 107.1% | 5.7% | 4.8% |
| 1990 | 138.9 | 129.0 | 107.7% | 5.8% | 5.2% |
| 1991 | 145.0 | 134.3 | 108.0% | 4.4% | 4.1% |
| 1992 | 148.6 | 138.2 | 107.5% | 2.5% | 2.9% |
| 1993 | 152.9 | 142.1 | 107.6% | 2.9% | 2.8% |
| 1994 | 154.9 | 145.6 | 106.4% | 1.3% | 2.5% |
| July, 1994 | 153.9 | 148.4 | 103.7% | | |
| July, 1995 | 157.8 | 152.5 | 103.5% | 2.5% | 2.8% |

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

Bi-Monthly Consumer Price Index for all Urban Customers,
July 1993 - July 1995

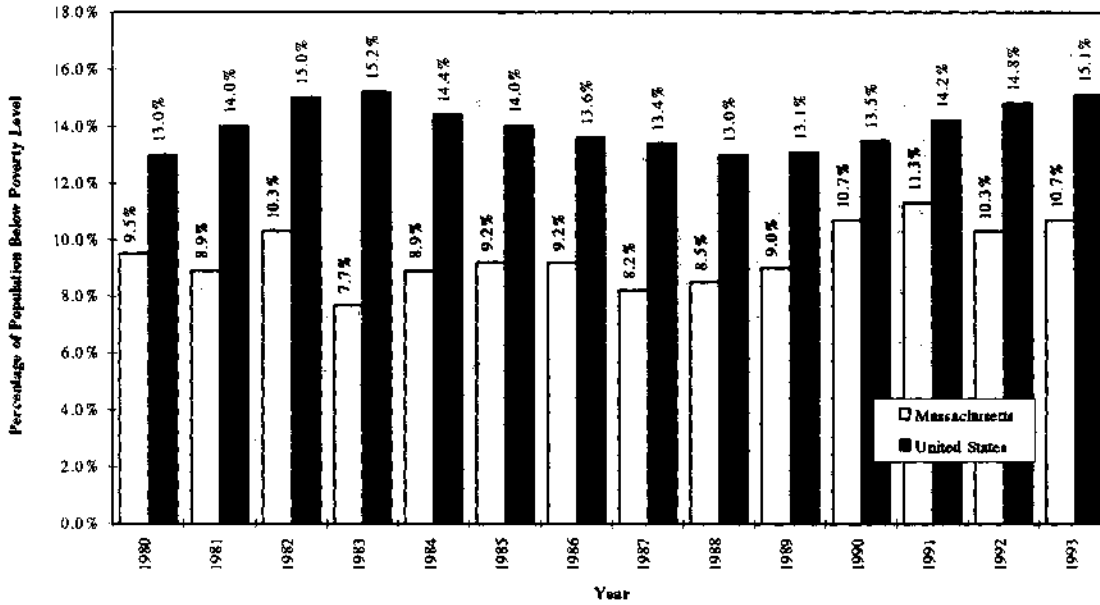


Note: Vertical axis does not begin at zero.

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

Poverty. The Massachusetts poverty rate is significantly below the national average. Since 1980, the percentage of the Massachusetts population below the poverty line has varied between 7.7 percent and 11.3 percent. During the same time, the national poverty rate varied between 13.0 percent and 15.2 percent. In 1993, the poverty rate in Massachusetts was 10.7 percent while the poverty rate in the United States was 15.1 percent. Since 1980, the ratio of the Massachusetts rate of poverty to the United States rate of poverty has varied from a low of 0.51 in 1983 to a high of 0.80 in 1991; the ratio in 1993 was 0.71. These official poverty statistics are not adjusted for regional differences in the cost of living. The following chart illustrates the lower poverty rates in Massachusetts compared with the national average from 1980 through 1993.

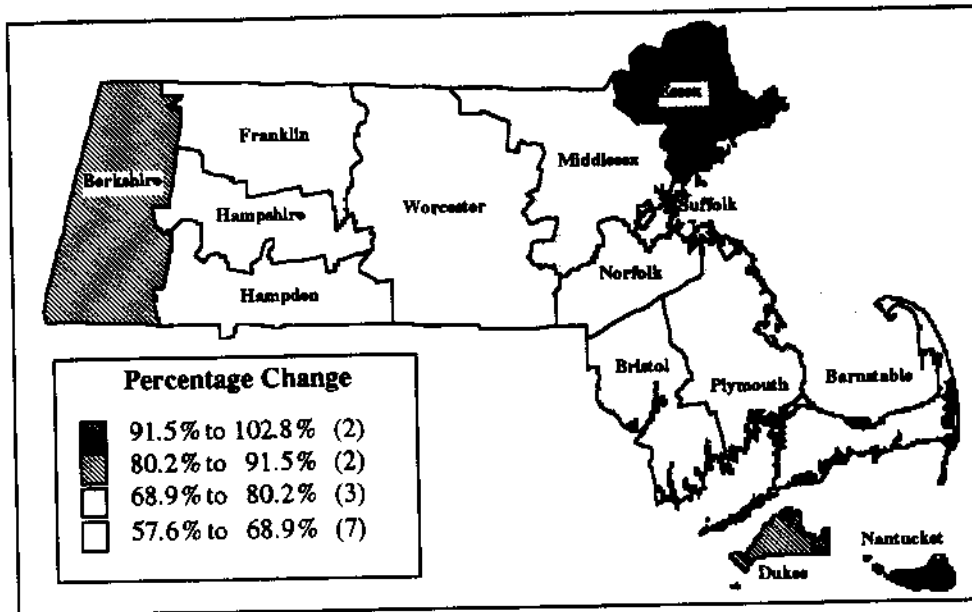
Poverty Rate, 1980-1993



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

The following map shows the change in personal income for all Massachusetts counties between 1983 and 1993 in current dollars. As the map indicates, the greatest percentage increase in personal income occurred in the counties of Essex and Nantucket while the smallest increase occurred in Barnstable County. In 1993, Nantucket County recorded the highest per capita personal income (\$33,991) while Franklin County recorded the lowest per capita personal income (\$18,727).

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

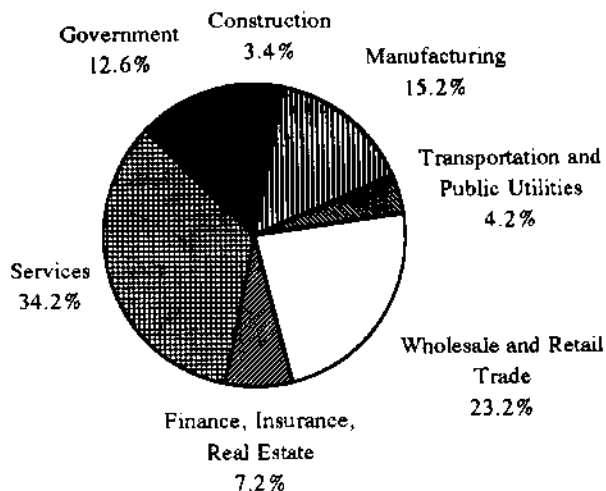


SOURCE: United States Department of Commerce, Bureau of Economic Analysis.

EMPLOYMENT

Employment by Industry. The Massachusetts services sector, with 34.2 percent of the non-agricultural work force in August 1995, is the largest employment sector in the Massachusetts economy, followed by wholesale and retail trade (23.2 percent), manufacturing (15.2 percent), and government employment (12.6 percent). The following chart shows the distribution of non-agricultural employment by industry in Massachusetts for August 1995.

Massachusetts Non-Agricultural Employment by Industry, August 1995
(not seasonally adjusted)



Between 1988 and 1992, total employment in Massachusetts declined 10.7 percent. The construction, manufacturing, and trade sectors experienced the greatest decreases during this time, with more modest declines taking place in the government, finance, insurance and real estate ("FIRE"), and services sectors. In 1993 and 1994, however, total employment increased by 1.6 percent and 2.2 percent, respectively. Employment levels increased in all sectors except manufacturing, and it is expected that the Central Artery/Tunnel Project and the Boston Harbor Cleanup will further contribute to the growth in employment in the construction sector. The only employment sector that did not grow in 1993 and 1994 was the manufacturing sector, which has experienced employment declines in every year since 1985. The most rapid growth in 1994 came in the construction sector and the FIRE sector, which grew at rates of 8.7 percent and 4.6 percent, respectively. Total non-agricultural employment increased by 2.2 percent from 2.841 million to 2.905 million between 1993 and 1994.

The following table demonstrates the changes in employment by sector from 1980 through 1994.

Massachusetts Non-Agricultural Employment by Industry, 1980-1994
(in thousands)

| Year | Construction | | Manufacturing | | Transportation and Public Utilities | | Wholesale and Retail Trade | | Finance, Insurance, Real Estate | | Services | | Government | | Total Employment | |
|------|-----------------|-------------|-----------------|-------------|-------------------------------------|-------------|----------------------------|-------------|---------------------------------|-------------|-----------------|-------------|-----------------|-------------|------------------|-------------|
| | Number Employed | Pct. Change | Number Employed | Pct. Change | Number Employed | Pct. Change | Number Employed | Pct. Change | Number Employed | Pct. Change | Number Employed | Pct. Change | Number Employed | Pct. Change | Number Employed | Pct. Change |
| 1980 | 77.4 | | 673.3 | | 121.6 | | 576.6 | | 159.0 | | 634.0 | | 412.3 | | 2654.3 | |
| 1981 | 79.6 | 2.8% | 668.0 | -0.8% | 120.1 | -1.2% | 581.3 | 0.8% | 164.8 | 3.6% | 663.5 | 4.7% | 394.6 | -4.3% | 2671.8 | 0.7% |
| 1982 | 78.4 | -1.5% | 636.5 | -4.7% | 120.0 | -0.1% | 579.2 | -0.4% | 168.7 | 2.4% | 683.5 | 3.0% | 374.7 | -5.0% | 2642.0 | -1.1% |
| 1983 | 82.6 | 5.4% | 629.0 | -1.2% | 118.2 | -1.5% | 612.7 | 5.8% | 171.8 | 1.8% | 705.8 | 3.3% | 375.4 | 0.2% | 2696.5 | 2.1% |
| 1984 | 96.4 | 16.7% | 667.6 | 6.1% | 123.3 | 4.3% | 659.0 | 7.6% | 179.0 | 4.2% | 754.0 | 6.8% | 375.4 | 0.0% | 2855.8 | 5.9% |
| 1985 | 109.4 | 13.5% | 649.7 | -2.7% | 125.4 | 1.7% | 684.1 | 3.8% | 188.1 | 5.1% | 786.5 | 4.3% | 385.3 | 2.6% | 2930.0 | 2.6% |
| 1986 | 123.2 | 12.6% | 614.4 | -5.4% | 125.9 | 0.4% | 709.7 | 3.7% | 202.6 | 7.7% | 818.4 | 4.1% | 393.0 | 2.0% | 2988.8 | 2.0% |
| 1987 | 137.7 | 11.8% | 599.1 | -2.5% | 131.0 | 4.1% | 723.4 | 1.9% | 217.9 | 7.6% | 853.9 | 4.3% | 401.2 | 2.1% | 3065.8 | 2.6% |
| 1988 | 142.1 | 3.2% | 584.7 | -2.4% | 133.6 | 2.0% | 739.4 | 2.2% | 221.5 | 1.7% | 896.6 | 5.0% | 411.3 | 2.5% | 3130.8 | 2.1% |
| 1989 | 126.8 | -10.8% | 561.1 | -4.0% | 128.3 | -4.0% | 740.5 | 0.1% | 217.3 | -1.9% | 924.1 | 3.1% | 408.8 | -0.6% | 3108.6 | -0.7% |
| 1990 | 101.1 | -20.3% | 521.3 | -7.1% | 129.9 | 1.2% | 700.1 | -5.5% | 213.3 | -1.8% | 915.7 | -0.9% | 402.2 | -1.6% | 2984.8 | -4.0% |
| 1991 | 78.8 | -22.1% | 485.0 | -7.0% | 123.4 | -5.0% | 650.6 | -7.1% | 201.8 | -5.4% | 890.5 | -2.8% | 389.9 | -3.1% | 2821.2 | -5.5% |
| 1992 | 73.6 | -6.6% | 465.7 | -4.0% | 121.4 | -1.6% | 640.5 | -1.6% | 196.7 | -2.5% | 913.5 | 2.6% | 382.6 | -1.9% | 2795.1 | -0.9% |
| 1993 | 80.2 | 9.0% | 455.1 | -2.3% | 124.0 | 2.1% | 647.5 | 1.1% | 199.7 | 1.5% | 948.0 | 3.8% | 387.5 | 1.3% | 2841.2 | 1.6% |
| 1994 | 87.2 | 8.7% | 448.6 | -1.4% | 126.6 | 2.1% | 666.8 | 3.0% | 208.8 | 4.6% | 974.2 | 2.8% | 391.5 | 1.0% | 2905.0 | 2.2% |

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

The following table presents changes in non-agricultural employment by sector between August 1994 and August 1995. Total non-agricultural employment increased by 1.4 percent and average weekly manufacturing earnings also rose 1.4 percent over that period.

**Massachusetts Non-Agricultural Employment by Industry,
August 1994-August 1995**
(in thousands, not seasonally adjusted)

| <i>Employment Sector</i> | <i>Aug. 1994</i> | <i>Pct. of Total</i> | <i>Aug. 1995</i> | <i>Pct. of Total</i> | <i>Pct. Change 1994-1995</i> |
|--|------------------|----------------------|------------------|----------------------|----------------------------------|
| Construction | 97.3 | 3.3% | 99.5 | 3.4% | 2.3% |
| Manufacturing | 449.6 | 15.4% | 449.3 | 15.2% | -0.1% |
| Transportation and Public Utilities | 125.2 | 4.3% | 125.1 | 4.2% | -0.1% |
| Wholesale and Retail Trade | 677.7 | 23.3% | 684.1 | 23.2% | 0.9% |
| Finance, Insurance, Real Estate | 210.9 | 7.2% | 213.9 | 7.2% | 1.4% |
| Services | 983.8 | 33.8% | 1,008.7 | 34.2% | 2.5% |
| Government | 366.8 | 12.6% | 371.5 | 12.6% | 1.3% |
| Total Employment | 2912.8 | 100.0% | 2953.7 | 100.0% | 1.4% |
| Average Weekly Manufacturing Earnings | \$525.00 | | \$532.53 | | 1.4% |

SOURCE: Massachusetts Department of Employment and Training.

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

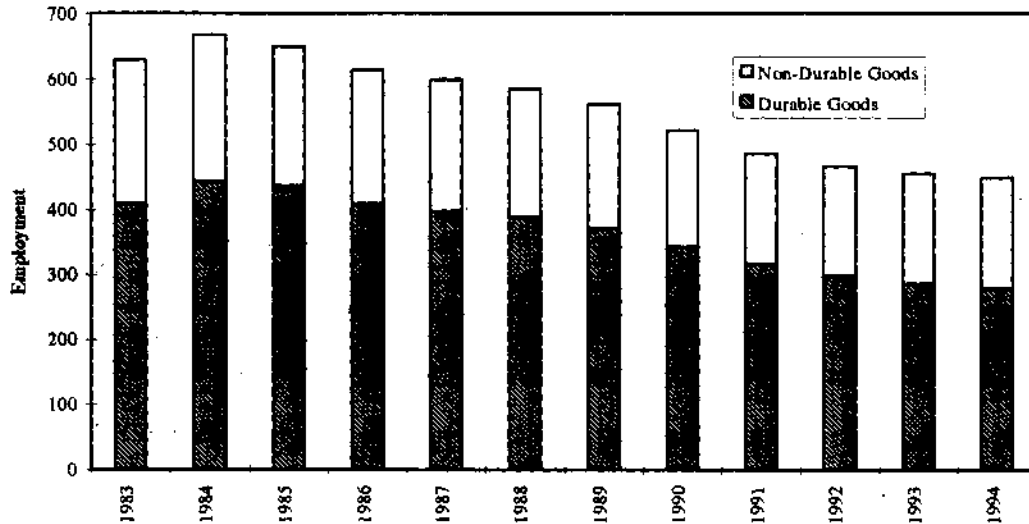
Services Employment. The services sector is the largest sector in the Massachusetts economy in terms of number of employees. This sector includes the categories of health services, business services, educational services, engineering and management services, and social services. After moderate declines in 1990 and 1991, employment levels in the services sector reached new highs in 1993. Between August 1994 and August 1995, the services sector saw an increase in employment of 2.5 percent, and in August 1995 services sector employment (not seasonally adjusted) was 1,008,700, representing 34.2 percent of total non-agricultural employment. Health services is the largest component of the services sector in terms of employment. In 1990, the health services sector numbered 270,900 workers, with 128,600 of those employed by hospitals. Health services employment continued to grow during the economic downturn in the early 1990s and by 1993 had reached 299,900 workers. Between August 1994 and August 1995, health services employment increased 3.0 percent to 317,200, with 134,200 employed in hospitals. The fastest growing category (and the second largest in terms of number of employees) within the services sector between August 1994 and August 1995 was the business services category, which grew at a rate of 4.4 percent. An area with relatively high wages, business services employed 17.6 percent of services sector workers in August 1995. The only category to lose jobs within the services sector between August 1994 and August 1995 was the educational services sector, which declined by 0.3 percent and employed 107,700 workers in August 1995.

Wholesale and Retail Trade Employment. In the mid-1980s the trade sector was an area of strong job growth, boosted by a growing export sector. Trade employment declined between 1990 and 1992 but grew by 1.1 percent between 1992 and 1993 and 3.3 percent between 1993 and 1994. In August 1995, retail and wholesale trade was the second largest employment sector in Massachusetts with 684,100 employees, 0.9 percent above August 1994 levels. The retail trade sector employed 76.2 percent of these employees and grew at a rate of 0.7 percent between August 1994 and August 1995.

Manufacturing Employment. Like many industrial states, Massachusetts has seen a steady diminution of its manufacturing jobs base over the last decade. Total employment in the manufacturing sector declined in every year between 1984 and 1994, falling a total of 32.8 percent. However, with the end of the recession and the beginning of recovery in 1992, the rate of overall decline has slowed significantly, from over 7 percent in both 1990 and 1991 to 2.6 percent in 1993 and 1.4 percent in 1994.

Between August 1994 and August 1995, manufacturing employment declined 0.1 percent. Employment in the manufacture of non-durable goods, which had declined in every year since 1984, grew in both 1993 and 1994 (at rates of 1.2 percent and 1.1 percent, respectively).

Manufacturing Employment in Massachusetts, 1983-1994
(in thousands)



Manufacturing Establishment Employment by Industry in Massachusetts, 1983-1994
(selected industries, in thousands)

| | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 |
|---------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Durable Goods | 409.2 | 443.5 | 436.0 | 409.1 | 398.0 | 388.1 | 372.1 | 342.7 | 317.0 | 299.6 | 287.0 | 278.6 |
| Percentage Change | -1.3% | 8.4% | -1.7% | -6.2% | -2.7% | -2.5% | -4.1% | -7.9% | -7.5% | -5.5% | -4.2% | -2.9% |
| Primary Metals | 15.0 | 16.5 | 15.8 | 15.8 | 15.6 | 12.9* | 12.3 | 11.3 | 10.3 | 9.3 | 9.1 | 9.4 |
| Fabricated Metals | 46.1 | 48.3 | 45.3 | 42.8 | 41.7 | 45.0* | 43.2 | 40.9 | 37.9 | 36.2 | 35.6 | 35.7 |
| Industrial Machinery | 111.9 | 123.0 | 119.0 | 107.4 | 102.3 | 100.0 | 95.8 | 85.2 | 76.6 | 72.5 | 67.3 | 63.2 |
| Electronic & Elec. | 97.9 | 109.7 | 111.3 | 107.4 | 105.2 | 82.2* | 79.3 | 72.9 | 68.5 | 63.9 | 59.9 | 58.9 |
| Transportation Equip. | 35.0 | 40.3 | 41.6 | 37.1 | 35.4 | 32.4 | 30.6 | 27.8 | 26.0 | 24.1 | 21.9 | 19.4 |
| Stone, Clay, & Glass | 11.3 | 11.8 | 11.5 | 10.8 | 10.7 | 10.7 | 10.0 | 8.7 | 7.8 | 7.9 | 8.0 | 8.0 |
| Instruments | 57.7 | 59.1 | 58.0 | 55.1 | 54.5 | 72.4* | 71.2 | 69.4 | 65.6 | 61.6 | 60.4 | 58.7 |
| Non-Durable Goods | 219.7 | 224.1 | 213.6 | 205.3 | 201.1 | 196.5 | 189.0 | 178.6 | 168.0 | 166.1 | 168.1 | 170.0 |
| Percentage Change | -1.1% | 2.0% | -4.7% | -3.9% | -2.0% | -2.3% | -3.8% | -5.5% | -5.9% | -1.1% | 1.2% | 1.1% |
| Apparel | 35.9 | 36.0 | 31.7 | 27.8 | 25.4 | 23.7 | 22.0 | 19.2 | 17.7 | 17.7 | 17.2 | 16.5 |
| Food & Kindred Prod. | 24.1 | 24.0 | 23.1 | 22.7 | 21.4 | 21.0 | 20.5 | 20.1 | 19.6 | 19.3 | 19.8 | 20.6 |
| Chemicals | 16.8 | 17.8 | 17.6 | 17.2 | 18.0 | 18.6 | 18.4 | 17.7 | 17.3 | 16.5 | 16.9 | 17.9 |
| Printing & Publishing | 48.1 | 51.7 | 53.3 | 54.2 | 55.6 | 55.8 | 55.0 | 52.2 | 48.9 | 47.3 | 47.5 | 48.1 |
| Textile Mill Prod. | 20.2 | 20.2 | 18.8 | 17.7 | 17.1 | 16.3 | 15.5 | 14.6 | 14.1 | 14.6 | 15.1 | 15.3 |
| Paper & Allied Prod. | 26.0 | 26.9 | 25.9 | 24.8 | 24.7 | 24.3 | 23.4 | 22.5 | 21.1 | 20.7 | 20.3 | 20.1 |
| Rubber & Misc. Plastics | 30.5 | 31.0 | 29.3 | 29.4 | 28.7 | 26.9 | 25.3 | 23.8 | 22.1 | 22.9 | 24.4 | 24.7 |
| Total Man. Employ. | 629.0 | 667.6 | 649.7 | 614.4 | 599.1 | 584.7 | 561.1 | 521.3 | 485.0 | 465.7 | 455.1 | 448.6 |
| Percentage Change | -1.2% | 6.1% | -2.7% | -5.4% | -2.5% | -2.4% | -4.0% | -7.1% | -7.0% | -4.0% | -2.3% | -1.4% |

SOURCE: Massachusetts Department of Employment and Training.

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

Government Employment. Federal, state, and local government employed 371,500 workers in August of 1995, which accounted for 12.6 percent of total non-agricultural employment in Massachusetts. The majority of these workers (217,800) are employed in local government, which grew at a rate of 2.1 percent between August 1994 and August 1995.

Finance, Insurance, and Real Estate Employment. While the Finance, Insurance and Real Estate ("FIRE") sector experienced 23.7 percent growth in employment between 1984 and 1988, there was an 11.2 percent decline in employment between 1988 and 1992. Despite increases of 1.5 percent in 1993 and 4.6 percent in 1994, employment levels in this sector remain well below 1988 levels. As of August 1995, total employment in the FIRE sector was 213,900, an increase of 1.4 percent over August 1994 levels.

Construction Employment. Fueled by the general growth of the rest of the Massachusetts economy, employment in the construction industry experienced dramatic growth in the first part of the 1980s, increasing by more than 80 percent between 1982 and 1988. This trend reversed direction between 1988 and 1992, when employment in the construction industry declined nearly 50 percent. Since 1993, with the return to general growth in the Massachusetts economy, employment in construction has rebounded with growth rates of 9.0 percent in 1993 and 8.7 percent in 1994. In August 1995, the construction sector employed 99,500 people, an increase of 2.3 percent over August 1994 levels.

Largest Employers in Massachusetts. The following table lists, in alphabetical order, the twenty-five largest private sector employers in Massachusetts in 1994. The group has remained relatively stable; two of the employers on the 1993 list, First HealthCare Corporation and Jewel Food Stores, Inc., fell from the list and were replaced by Harvard Community Health Plan, Inc., Market Basket, Inc., and Star Markets Company, Inc.

Twenty-Five* Largest Massachusetts Employers in 1994

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

SOURCE: Massachusetts Department of Employment and Training.

* Twenty-six companies are listed because the difference between the twenty-fifth and twenty-sixth largest employers in 1994 was not significant.

Unemployment. Between 1979 and 1989, the Massachusetts unemployment rate was significantly lower than the national average. Between 1990 and 1992, however, the unemployment rate in Massachusetts was considerably higher than the national average. In 1991, the unemployment rate in Massachusetts was 32.9 percent higher than the national average: 9.0 percent compared to 6.7 percent. Although employment was slow to respond to the beginning of the recovery in 1992, unemployment rates in Massachusetts since 1993 have declined faster than the national average. As a result, the average monthly unemployment rate in Massachusetts for 1993 was only slightly higher than the national average (6.9 percent compared to 6.8 percent) and the unemployment rate in Massachusetts in 1994 was slightly below the national average (6.0 percent compared to 6.1 percent). Due to the Current Population Survey redesign in 1994, strict comparisons between 1994 data and data for earlier years are not advisable.

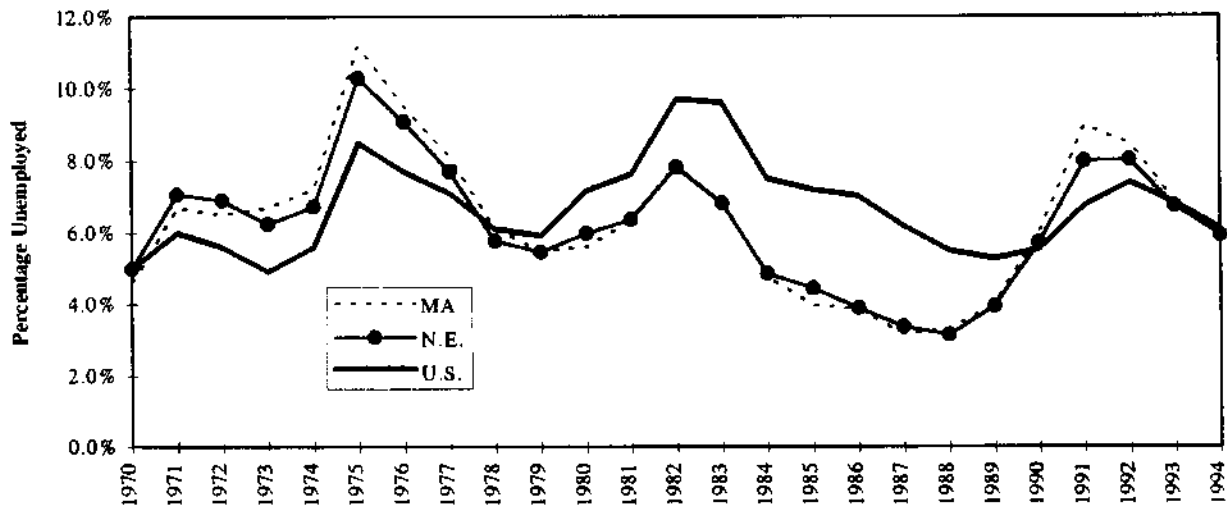
The following table compares the annual civilian labor force, the number unemployed, and unemployment rate averages of Massachusetts, the New England states, and the United States between 1970 and 1994.

Annual Average Civilian Labor Force and Unemployment, 1970-1994
(in thousands)

| Year | Civilian Labor Force | | | Unemployed | | | Unemployment Rate | | | MA Rate as Pct. of U.S. |
|------|----------------------|-------|---------|------------|------|--------|-------------------|-------|------|-------------------------|
| | MA | N.E. | U.S. | MA | N.E. | U.S. | MA | N.E. | U.S. | |
| 1970 | 2,465 | 5,129 | 82,796 | 114 | 256 | 4,127 | 4.6% | 5.0% | 5.0% | 92.0% |
| 1971 | 2,459 | 5,157 | 84,376 | 164 | 364 | 5,022 | 6.7% | 7.1% | 6.0% | 111.7% |
| 1972 | 2,487 | 5,261 | 87,011 | 161 | 363 | 4,876 | 6.5% | 6.9% | 5.6% | 116.1% |
| 1973 | 2,557 | 5,387 | 89,411 | 171 | 336 | 4,359 | 6.7% | 6.2% | 4.9% | 136.7% |
| 1974 | 2,636 | 5,512 | 91,976 | 190 | 369 | 5,173 | 7.2% | 6.7% | 5.6% | 128.6% |
| 1975 | 2,725 | 5,634 | 93,770 | 306 | 581 | 7,940 | 11.2% | 10.3% | 8.5% | 131.8% |
| 1976 | 2,727 | 5,717 | 96,151 | 259 | 519 | 7,398 | 9.5% | 9.1% | 7.7% | 123.4% |
| 1977 | 2,754 | 5,816 | 98,984 | 223 | 447 | 6,967 | 8.1% | 7.7% | 7.1% | 114.1% |
| 1978 | 2,815 | 5,908 | 102,233 | 171 | 339 | 6,187 | 6.1% | 5.8% | 6.1% | 100.0% |
| 1979 | 2,870 | 6,100 | 104,961 | 159 | 332 | 6,135 | 5.5% | 5.5% | 5.9% | 93.2% |
| 1980 | 2,867 | 6,166 | 106,974 | 161 | 367 | 7,671 | 5.6% | 6.0% | 7.2% | 78.1% |
| 1981 | 2,946 | 6,262 | 108,676 | 187 | 399 | 8,278 | 6.4% | 6.4% | 7.6% | 83.4% |
| 1982 | 2,993 | 6,338 | 110,224 | 237 | 496 | 10,715 | 7.9% | 7.8% | 9.7% | 81.3% |
| 1983 | 2,978 | 6,363 | 111,515 | 205 | 433 | 10,694 | 6.9% | 6.8% | 9.6% | 71.5% |
| 1984 | 3,048 | 6,548 | 112,532 | 145 | 317 | 8,529 | 4.8% | 4.8% | 7.5% | 63.5% |
| 1985 | 3,053 | 6,632 | 115,467 | 120 | 292 | 8,313 | 4.0% | 4.4% | 7.2% | 54.9% |
| 1986 | 3,060 | 6,721 | 117,846 | 117 | 265 | 8,245 | 3.8% | 3.9% | 7.0% | 54.9% |
| 1987 | 3,087 | 6,829 | 119,853 | 98 | 229 | 7,414 | 3.2% | 3.3% | 6.2% | 51.0% |
| 1988 | 3,155 | 6,913 | 121,671 | 104 | 216 | 6,697 | 3.3% | 3.1% | 5.5% | 59.7% |
| 1989 | 3,180 | 7,002 | 123,851 | 127 | 269 | 6,524 | 4.0% | 3.8% | 5.3% | 76.2% |
| 1990 | 3,242 | 7,136 | 124,787 | 194 | 404 | 6,874 | 6.0% | 5.7% | 5.5% | 108.2% |
| 1991 | 3,180 | 7,083 | 125,303 | 285 | 564 | 8,426 | 9.0% | 8.0% | 6.7% | 132.9% |
| 1992 | 3,162 | 7,066 | 126,982 | 268 | 563 | 9,384 | 8.5% | 8.0% | 7.4% | 114.5% |
| 1993 | 3,180 | 7,037 | 128,040 | 218 | 475 | 8,734 | 6.9% | 6.8% | 6.8% | 100.7% |
| 1994 | 3,179 | 6,971 | 131,056 | 191 | 412 | 7,996 | 6.0% | 5.9% | 6.1% | 98.4% |

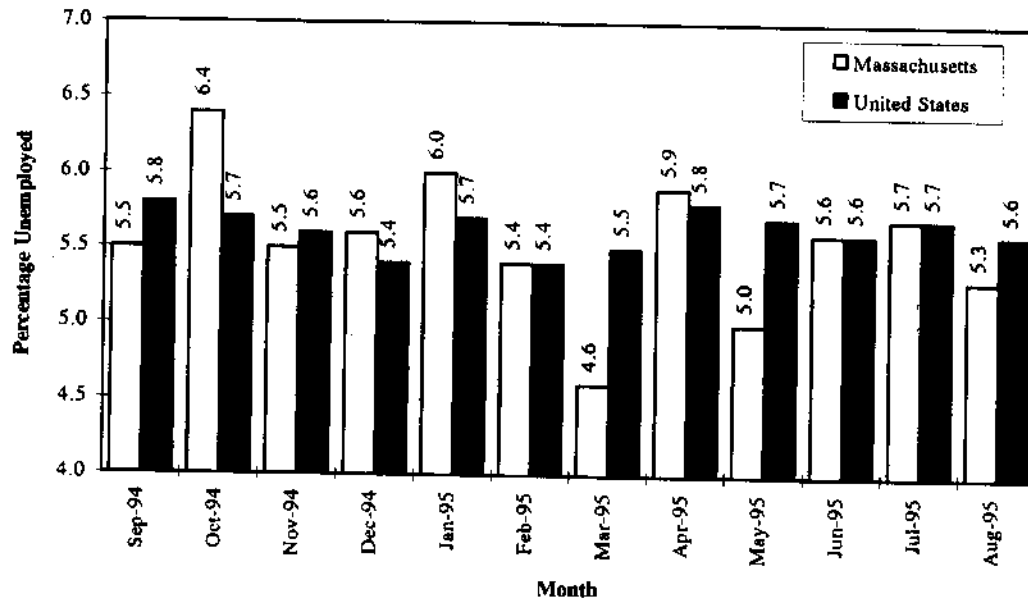
SOURCES: Massachusetts Department of Employment and Training; United States Department of Labor, Bureau of Labor Statistics.
Note: 1994 data reflect the redesigned Current Population Survey and are not strictly comparable to data for earlier years.

Annual Average Unemployment Rate, 1970-1994



Despite several sharp monthly increases, the unemployment rate in Massachusetts has generally hovered between 5 and 6 percent over the past twelve months. The Massachusetts unemployment rate in August 1995 was 5.3 percent, compared to 5.7 percent in July 1995 and 5.9 percent in August 1994. The unemployment rate in New England was 5.4 percent in August 1995, 6.0 percent in July 1995, and 6.1 percent in August 1994. The United States unemployment rate was 5.6 percent in August 1995, 5.7 percent in July 1995, and 6.0 percent in August 1994. The following chart shows the unemployment rates for Massachusetts and the United States for each of the past twelve months.

Monthly Unemployment Rate, September 1994–August 1995



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

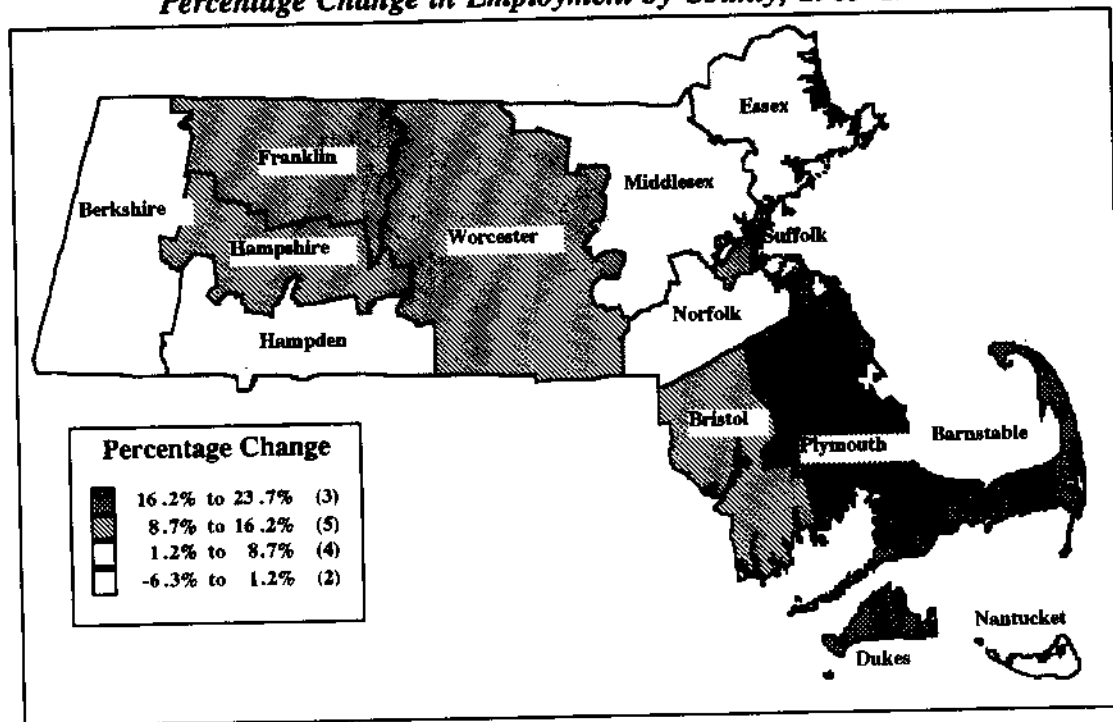
Unemployment Compensation Trust Fund. The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide for the payment of benefits to eligible individuals when they are unemployed through no fault of their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

In September 1991 the reserves in the fund were exhausted due to the continued high level of unemployment. Between September 1991 and May 1994, benefit payments in excess of contributions were financed through repayable advances from the federal unemployment loan account. Legislation enacted in 1992 significantly increased employer contributions in order to reduce advances from the federal loan account and 1993 contributions exceeded benefit outlays by more than \$200 million. All federal advances were paid in May 1994 and interest on federal advances of \$4.7 million was paid in September. Since that time, the balance in the trust fund has been positive. As of August 31, 1995, the private contributory sector of the Massachusetts Unemployment Trust Fund contained a balance of \$480 million.

The Department of Employment and Training's August 1995 quarterly report indicates that the additional increases in contributions provided by the 1992 legislation and additional legislation in 1994 should result in a balance of \$375 million in the private contributory sector of the Unemployment Compensation Trust Fund by December 31, 1995 and \$1.25 billion by the end of 1999.

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

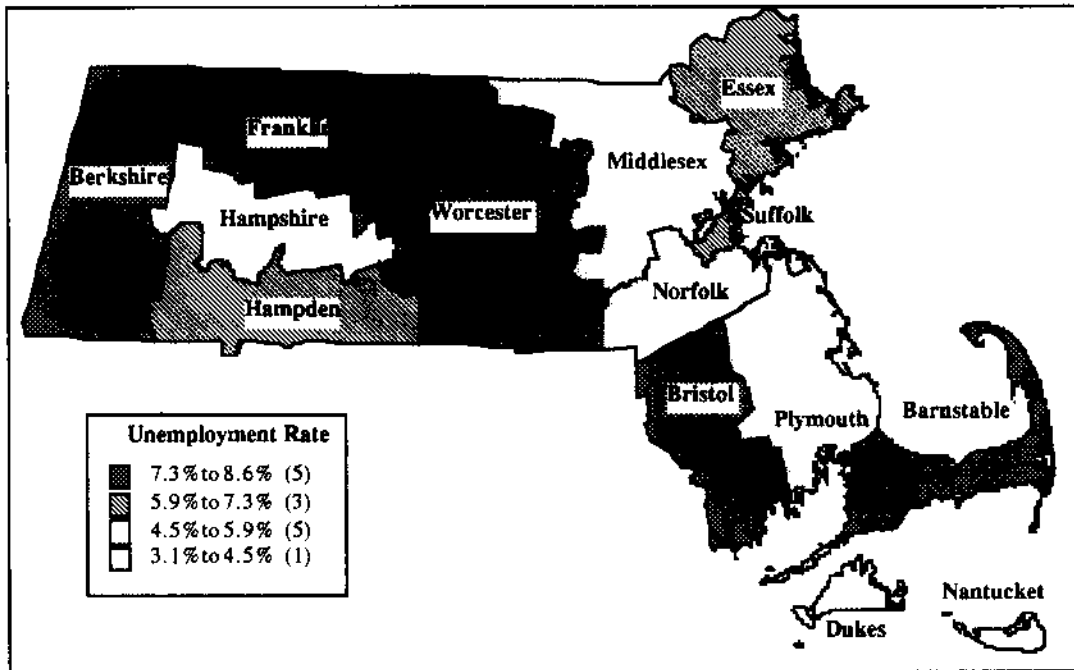
Percentage Change in Employment by County, 1983-1993



SOURCE: Massachusetts Department of Employment and Training.

Despite an overall unemployment rate that was lower than the national average of 6.1 percent in 1994, Massachusetts showed considerable intrastate variation in unemployment, with five counties experiencing unemployment rates between 7.3 percent and 8.6 percent and six counties experiencing unemployment rates below 5.9 percent. The following map shows the average annual unemployment rate by county in 1994.

Unemployment Rate by County, 1994

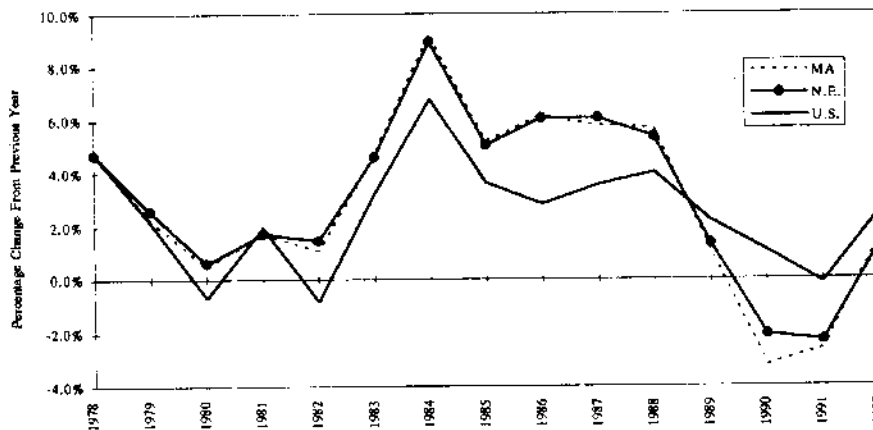


SOURCE: Massachusetts Department of Employment and Training.

ECONOMIC BASE AND PERFORMANCE

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

Percentage Change in Real Gross State Product, 1978-1992



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

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

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

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.

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

The commercial base of Massachusetts is anchored by the seventeen 1995 *Fortune* 500 industrial and service firms with headquarters within the state, as the following table indicates. The 1995 *Fortune* 500 combined the traditional industrial 500 ranking with the previously separate service 500 ranking. The *Fortune* 500 firms are ranked according to total revenues in 1994.

Massachusetts Companies in the 1995 Fortune 500

| Ranking | | Company | Industry | 1994 revenues |
|---------|------|---|--------------------------------------|---------------|
| 1995 | 1994 | | | (in millions) |
| 65 | 29 | Digital Equipment (Maynard) | Computers and Office Equipment | \$13,450.8 |
| 109 | 52 | Raytheon (Lexington) | Electronics and Electrical Equipment | 10,012.9 |
| 128 | F-21 | Liberty Mutual Ins. Group (Boston) | Insurance (Mutual) | 8,985.5 |
| 194 | 99 | Gillette (Boston) | Metal Products | 5,410.8 |
| 209 | L-9 | John Hancock Mutual Life Ins. (Boston) | Insurance (Mutual) | 5,669.1 |
| 218 | L-11 | Mass. Mutual Life Ins. (Springfield) | Insurance (Mutual) | 5,332.5 |
| 256 | B-19 | Bank of Boston Corp. (Boston) | Commercial Banks | 4,546.8 |
| 296 | R-35 | TJX (Frammingham) | Specialist Retailers | 3,842.8 |
| 301 | R-38 | Stop & Shop (Quincy) | Food and Drug Stores | 3,789.0 |
| 310 | R-37 | Waban (Natick) | Specialist Retailers | 3,650.3 |
| 313 | S-27 | Harcourt General (Chestnut Hill) | General Merchandisers | 3,640.0 |
| 347 | S-43 | Reebok (Stoughton) | Wholesalers | 3,287.6 |
| 348 | F-37 | Allmerica Financial (Worcester) | Insurance (Mutual) | 3,273.3 |
| 429 | 176 | EG & G (Wellesley) | Scientific, Photographic | 2,632.6 |
| 480 | 206 | Polaroid (Cambridge) | Scientific, Photographic | 2,312.5 |
| 491 | - | New England Electric Sys. (Westborough) | Electric and Gas Utilities | 2,243.0 |
| 492 | L-22 | New England Mutual Life Ins. (Boston) | Insurance (Mutual) | 2,238.3 |

Industry key: B-Banking; F-Financial; L-Life Insurance; R-Retailers; S-Service.

SOURCE: *Fortune*, May 15, 1995.

The composition of the *Fortune* 500 changed dramatically in 1995 with the inclusion of 267 firms from *Fortune's* service 500. Twelve of the seventeen Massachusetts companies are new to the list, while nine companies were eliminated from the list. Eleven of the twelve new firms on the list were from the service 500. The only industrial company added to the list is New England Electric Systems. The companies no longer on the 500 were not necessarily removed due to sagging economic performance but because of the new criteria for the *Fortune* 500.

Several Massachusetts companies on the 1994 list were eliminated from the 1995 list. Following is a list of these companies, their new positions on the *Fortune* 1000, and their respective rankings in the 1994 *Fortune* 500: Cabot (F95-599; F94-263), Thermo Electron (F95-629; F94-309), Wang Laboratories (F95-943; F94-311), Ocean Spray (F95-off; F94-332), Data General (F95-791; F94-348), Kendall International (F95-off; F94-403), EMC (F95-690; F94-412), Stanhome (F95-991; F94-426), Analog Devices (F95-off; F94-468).

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

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

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

SOURCE: Fortune, April 17, 1995.

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

According to Dun & Bradstreet, the business failure rate in Massachusetts, which was significantly lower than the national average between 1984 and 1989, increased to a rate slightly higher than that of the United States between 1990 and 1993. In 1994, however, the failure rate for Massachusetts was lower than that for the nation as a whole: 0.4 percent compared to 0.9 percent. The following table shows the total number of existing businesses, business incorporations, and business failures for Massachusetts, New England, and the United States since 1980 (total existing businesses, new business incorporations, and business failures are derived from different and unrelated data sources and survey techniques and should not be compared as if they constitute a self-contained, closed group of data).

Business Failures and Incorporations, 1980-1994

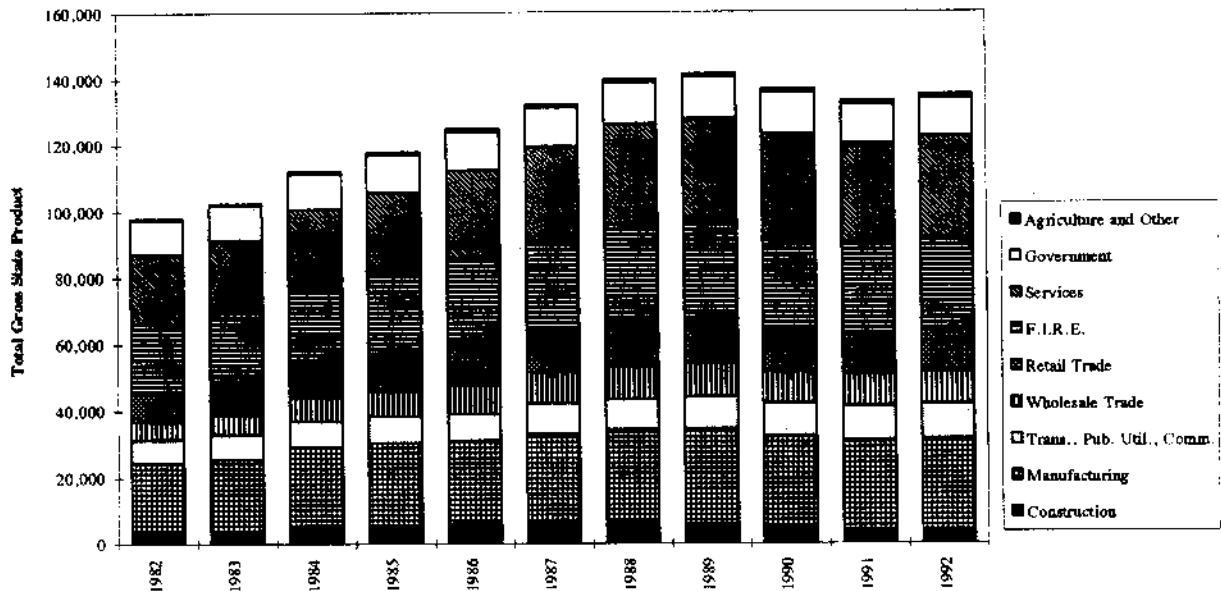
| Year | Total Existing Businesses | | | New Business Incorporations | | | Business Failures | | | Failure Rate | | |
|------|---------------------------|---------|-----------|-----------------------------|--------|---------|-------------------|-------|--------|--------------|------|------|
| | MA | N.E. | U.S. | MA | N.E. | U.S. | MA | N.E. | U.S. | MA | N.E. | U.S. |
| 1980 | NA | NA | NA | 11,291 | 25,328 | 533,520 | 235 | 464 | 11,742 | NA | NA | NA |
| 1981 | NA | NA | NA | 12,625 | 28,134 | 581,242 | 226 | 553 | 15,694 | NA | NA | NA |
| 1982 | NA | NA | NA | 11,827 | 26,484 | 566,942 | 331 | 650 | 24,908 | NA | NA | NA |
| 1983 | NA | NA | NA | 12,599 | 28,723 | 600,420 | 398 | 831 | 31,334 | NA | NA | NA |
| 1984 | 123,021 | 276,551 | 4,867,102 | 14,159 | 32,027 | 634,991 | 513 | 1,203 | 52,078 | 0.4% | 0.4% | 1.1% |
| 1985 | 125,551 | 284,259 | 4,978,521 | 15,801 | 37,943 | 664,235 | 683 | 1,228 | 57,253 | 0.5% | 0.4% | 1.2% |
| 1986 | 129,464 | 291,842 | 5,134,666 | 17,321 | 41,940 | 702,738 | 725 | 1,109 | 61,616 | 0.6% | 0.4% | 1.2% |
| 1987 | 150,714 | 340,333 | 5,991,274 | 17,222 | 42,027 | 685,572 | 633 | 1,021 | 61,111 | 0.4% | 0.3% | 1.0% |
| 1988 | 142,307 | 328,750 | 5,826,224 | 16,438 | 40,251 | 685,095 | 555 | 1,052 | 57,097 | 0.4% | 0.3% | 1.0% |
| 1989 | 175,227 | 442,068 | 7,747,846 | 14,078 | 35,299 | 676,565 | 771 | 1,282 | 50,361 | 0.4% | 0.3% | 0.7% |
| 1990 | 180,471 | 441,000 | 7,993,026 | 12,465 | 31,383 | 647,386 | 1,913 | 3,087 | 60,747 | 1.1% | 0.7% | 0.8% |
| 1991 | 218,384 | 514,000 | 8,237,383 | 11,706 | 28,864 | 628,604 | 2,839 | 5,654 | 88,140 | 1.3% | 1.1% | 1.1% |
| 1992 | 222,867 | 531,111 | 8,824,454 | 12,197 | 28,686 | 666,800 | 3,031 | 6,214 | 97,069 | 1.4% | 1.2% | 1.1% |
| 1993 | 200,889 | 476,607 | 7,902,110 | 12,850 | 30,233 | 706,537 | 2,712 | 5,339 | 86,133 | 1.3% | 1.1% | 1.1% |
| 1994 | 213,980 | 500,933 | 8,316,279 | 14,065 | 30,705 | 741,657 | 2,097 | 3,757 | 71,520 | 0.4% | 0.8% | 0.9% |

SOURCE: The Dun & Bradstreet Corporation, Department of Economic Analysis.
NA = Data not available for these years.

Economic Base and Performance – Sector Detail

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

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



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

| <i>Industrial Sector</i> | 1982 | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 | 1990 | 1991 | 1992 |
|---------------------------|-----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Agriculture | \$543 | \$648 | \$640 | \$774 | \$977 | \$999 | \$982 | \$913 | \$916 | \$992 | \$1,020 |
| Construction | 3,491 | 3,828 | 4,669 | 5,511 | 6,043 | 6,748 | 6,747 | 5,988 | 4,922 | 4,072 | 4,114 |
| Manufacturing | 21,059 | 21,838 | 24,540 | 24,884 | 25,034 | 26,529 | 27,595 | 28,724 | 27,523 | 26,984 | 27,187 |
| Trans., Pub. Util., Comm. | 6,827 | 7,358 | 7,801 | 7,966 | 7,946 | 8,324 | 9,039 | 9,484 | 9,722 | 10,352 | 10,708 |
| Wholesale Trade | 5,482 | 5,970 | 7,188 | 7,607 | 8,921 | 9,414 | 9,836 | 10,079 | 9,571 | 9,419 | 9,881 |
| Retail Trade | 8,183 | 9,199 | 10,265 | 11,248 | 12,699 | 12,697 | 13,619 | 13,493 | 12,408 | 11,752 | 11,932 |
| FIRE | 20,946 | 21,045 | 22,555 | 23,566 | 24,960 | 26,806 | 28,840 | 29,221 | 28,121 | 27,457 | 27,956 |
| Services | 21,037 | 22,051 | 23,630 | 25,020 | 26,831 | 28,321 | 30,533 | 30,891 | 30,821 | 30,256 | 30,705 |
| Government | 10,372 | 10,578 | 10,675 | 11,177 | 11,555 | 11,842 | 12,440 | 12,380 | 12,627 | 11,764 | 11,514 |
| Other | 40 | 46 | 58 | 63 | 88 | 96 | 93 | 82 | 70 | 63 | 62 |
| Total GSP | \$97,980 | \$102,561 | \$112,021 | \$117,816 | \$125,054 | \$132,276 | \$139,774 | \$141,255 | \$136,701 | \$133,111 | \$135,079 |

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

Note: "Agriculture" includes Forestry and Fisheries.

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

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

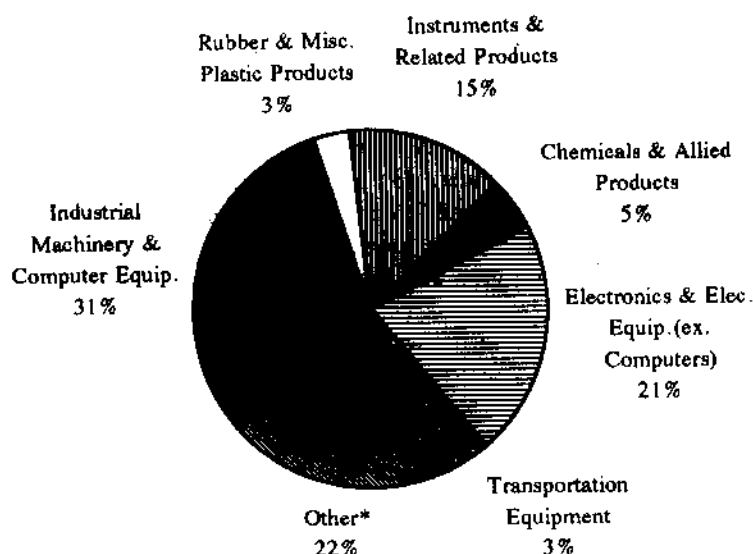
Manufacturing. The manufacturing sector was the largest contributor to the Massachusetts Gross State Product in 1982, contributing 21.5 percent of the Gross State Product. Because of more rapid growth in other sectors in the 1980s, this sector was only the third largest contributor in 1992, contributing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

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

Trade and International Trade. A significant portion of what Massachusetts produces is exported internationally. The total value of all international shipments from Massachusetts in 1992 represented 9.0 percent of the total Gross State Product. Massachusetts ranked thirteenth in the United States, and first in New England, with nearly \$13.1 billion in international exports in 1994. However, the rate of growth in the Commonwealth's exports has increased slowly over time in comparison to some other states in the U.S., and has slowed significantly since the late 1980s. In 1994 the value of Massachusetts' exports increased by 7.1 percent over 1993. In the first two quarters of 1995, exports increased 11.6 percent over the first two quarters of 1994. This is an improvement over 1993, when exports increased only 0.3 percent from the previous year, although the 1994 increase still falls short of the U.S. increase of 10.2 percent and the increase over the first two quarters is well below the U.S. increase of 15.7 percent. According to the United States Department of Commerce, a large portion of exports from Massachusetts is exported from the greater Boston metropolitan area. In 1993, for example, 73.7 percent of all Massachusetts exports were exported from the Boston Metropolitan area. It is not possible to provide balance of trade comparisons for Massachusetts because import data are not compiled on a state-by-state basis.

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

Composition of Massachusetts Exports by Industry Group, 1994



* Includes textiles, printing & publishing, paper, primary metal industries, and agricultural production.

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

Massachusetts' five most important trading partners for 1994 were: Canada, which purchased \$3.1 billion worth of products; the United Kingdom, which bought \$1.3 billion; Japan, which purchased \$1.1 billion; Germany, which bought \$907 million; and the Netherlands, which purchased \$717 million worth of products. The fastest growing buyers of Massachusetts exports among its top ten trading partners were: Taiwan, which increased 67.1 percent; Ireland, which increased 28.6 percent; and the United Kingdom, which purchased 24.8 percent more of Massachusetts' exports in 1994 than in 1993.

Value of International Shipments from Massachusetts, 1988-1994 (by major industry group, in millions)

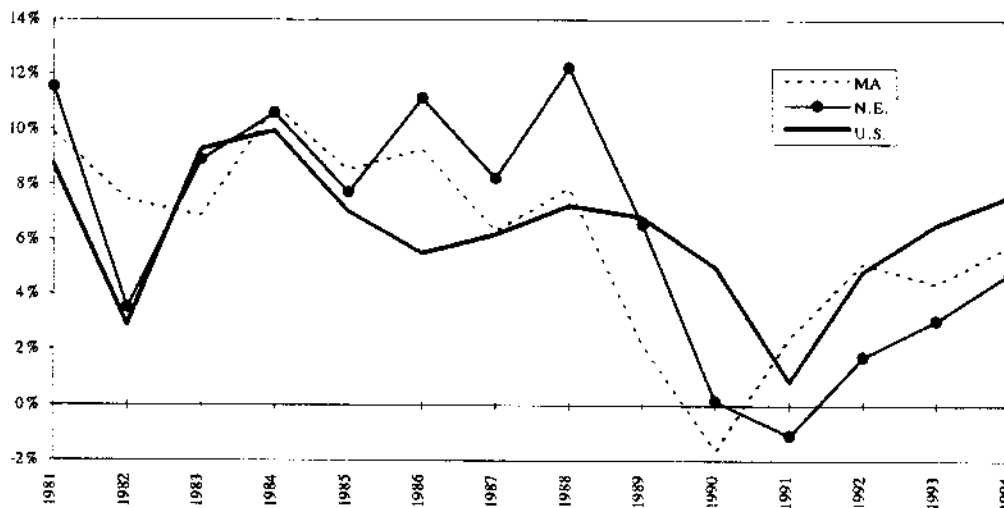
| <i>Major Industry Group</i> | <i>1988</i> | <i>1989</i> | <i>1990</i> | <i>1991</i> | <i>1992</i> | <i>1993</i> | <i>1994</i> |
|--|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Industrial Machinery & Computer Equip. | \$4,496.1 | \$4,521.0 | \$4,284.1 | \$4,460.1 | \$4,174.0 | \$3,874.0 | \$4,065.1 |
| Electronics & Elec. Equip. (ex. Computers) | 945.7 | 1,395.9 | 2,030.5 | 2,167.4 | 2,082.1 | 2,240.5 | 2,799.5 |
| Instruments & Related Products | 1,604.6 | 1,636.0 | 1,871.8 | 1,796.9 | 1,848.3 | 1,867.0 | 1,897.9 |
| Chemicals & Allied Products | 323.3 | 399.1 | 479.5 | 490.3 | 496.3 | 534.1 | 632.4 |
| Transportation Equipment | 562.0 | 433.6 | 403.0 | 352.2 | 479.0 | 499.1 | 416.4 |
| Rubber & Misc. Plastic Products | 212.4 | 192.4 | 214.0 | 196.7 | 236.8 | 373.8 | 417.1 |
| Textile Mill Products | 90.4 | 123.6 | 175.9 | 199.5 | 257.3 | 263.3 | 267.7 |
| Printing & Publishing | 59.1 | 101.8 | 105.1 | 141.6 | 161.5 | 171.2 | 136.3 |
| Paper & Allied Products | 156.5 | 175.0 | 202.9 | 194.0 | 243.1 | 242.8 | 258.7 |
| Primary Metal Industries | 172.3 | 170.7 | 182.7 | 216.5 | 200.0 | 211.5 | 232.9 |
| Agricultural Production | 42.2 | 24.6 | 34.2 | 45.2 | 54.2 | 48.4 | 49.9 |
| Total from Above Industries | \$8,664.4 | \$9,173.6 | \$9,983.9 | \$10,260.4 | \$10,232.7 | \$10,325.6 | \$11,173.9 |
| Total from All Industries-Massachusetts | \$9,691.8 | \$10,472.0 | \$11,586.8 | \$11,891.4 | \$12,157.6 | \$12,194.8 | \$13,064.8 |
| Percentage Change | 16.1% | 8.0% | 10.6% | 2.6% | 2.2% | 0.3% | 7.1% |

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

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

According to the Federal Reserve Bank of Boston, retail sales in Massachusetts grew at a rate of 0.8 percent between June 1994 and June 1995. The following chart and table show the annual retail sales activity for Massachusetts and the United States from 1980 through 1994.

Percentage Change in Retail Sales, 1981-1994



Annual Retail Sales, 1980-1994
(in millions)

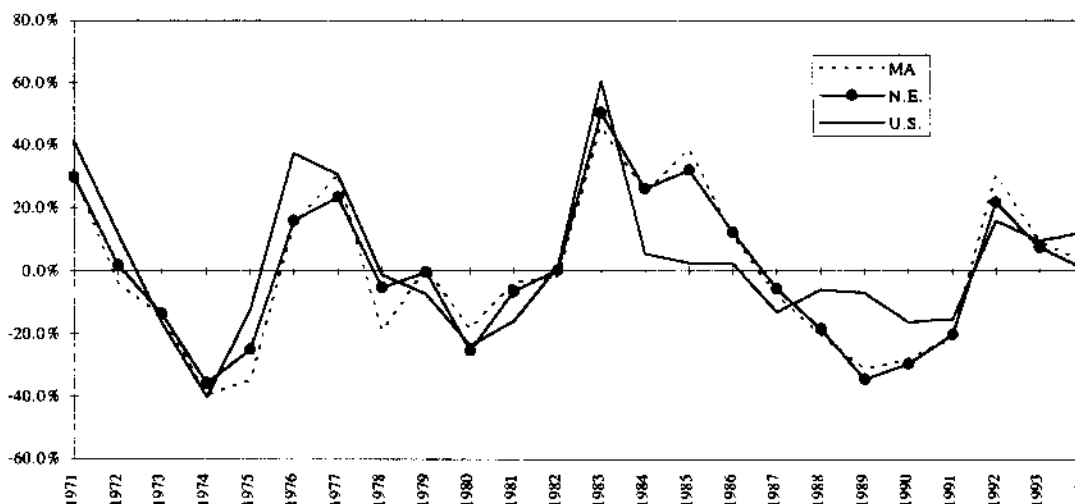
| Year | Massachusetts | | New England | | United States | |
|------|---------------|-------------------|-------------|-------------------|---------------|-------------------|
| | Sales | Percentage Change | Sales | Percentage Change | Sales | Percentage Change |
| 1980 | \$23,068 | | \$51,924 | | \$954,826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

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

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

The following chart and table show the number of housing permits authorized on an annual basis in Massachusetts, New England, and the United States. Between 1983 and 1986, both Massachusetts and New England experienced strong growth in the number of housing permits authorized. This period was followed by a prolonged decline between 1986 and 1991 during which the number of housing permits authorized in Massachusetts declined by 71.5 percent. Since 1992, however, the number of housing permits authorized in Massachusetts has increased in each year. In 1994, the number of housing permits authorized increased 2.9 percent in Massachusetts, compared to an increase of 0.7 percent for New England and 12.1 percent for the United States.

Percentage Change in Housing Permits Authorized, 1971-1994



Housing Permits Authorized, 1970-1994

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

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

The current recovery in the regional economy is reflected in the housing sector. Significant declines in existing home sales in Massachusetts in 1989 and 1990 (of 12.0 percent and 34.6 percent, respectively) were followed by rapid sales growth between 1991 and 1993, when home sales in Massachusetts increased at a yearly rate substantially higher than the national average. Following this period of rapid growth, the growth in existing home sales slowed to a rate of 7.7 percent in 1994 but grew at a faster rate than New England or the United States. On a seasonally adjusted annual rate basis, existing home sales for the Commonwealth, New England, and the United States appear in the table below.

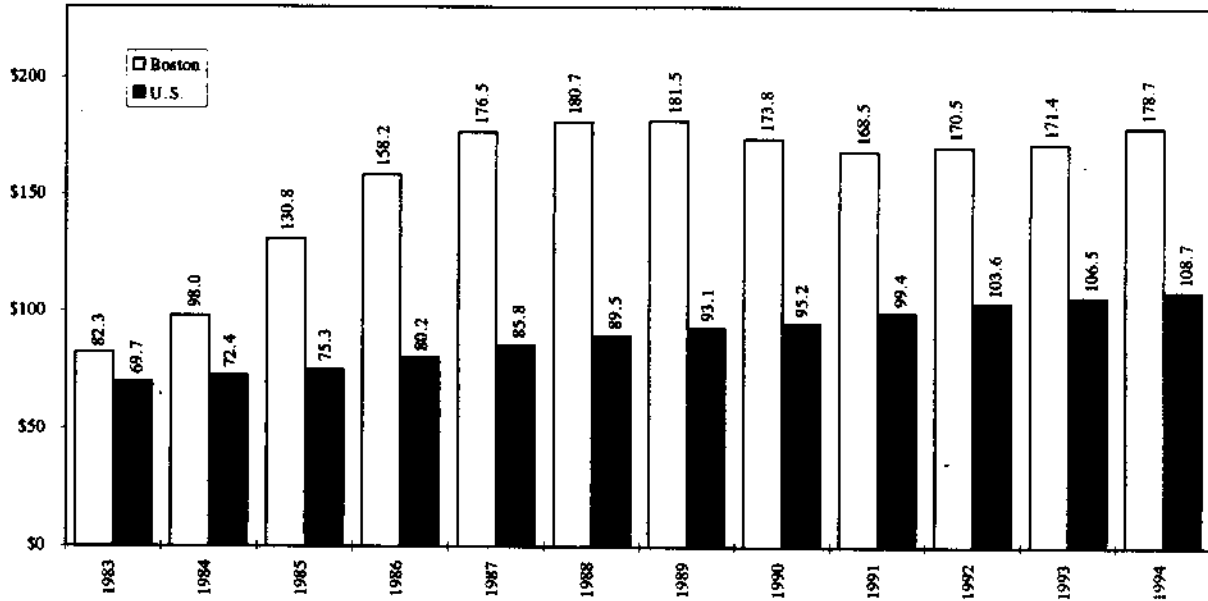
Existing Home Sales, 1983-1994 (seasonally adjusted annual rates, in thousands)

| Year | Massachusetts | | New England | | United States | |
|------|---------------|-------------------|-------------|-------------------|---------------|-------------------|
| | Sales | Percentage Change | Sales | Percentage Change | Sales | Percentage Change |
| 1983 | 59.2 | | 141.3 | | 2,925.0 | |
| 1984 | 54.9 | -7.3% | 140.7 | -0.4% | 3,092.5 | 5.7% |
| 1985 | 60.2 | 9.7% | 157.0 | 11.6% | 3,487.5 | 12.8% |
| 1986 | 66.0 | 9.6% | 169.2 | 7.8% | 3,897.5 | 11.8% |
| 1987 | 76.4 | 15.8% | 174.5 | 3.1% | 3,977.0 | 2.0% |
| 1988 | 76.6 | 0.3% | 178.5 | 2.3% | 3,947.5 | -0.7% |
| 1989 | 67.4 | -12.0% | 142.8 | -20.0% | 3,807.5 | -3.5% |
| 1990 | 44.1 | -34.6% | NA | NA | 3,483.3 | -8.5% |
| 1991 | 49.5 | 12.2% | NA | NA | 3,561.5 | 2.2% |
| 1992 | 57.7 | 16.6% | 139.7 | NA | 3,888.0 | 9.2% |
| 1993 | 66.0 | 14.4% | 159.1 | 13.9% | 4,205.0 | 8.2% |
| 1994 | 71.1 | 7.7% | 170.1 | 6.9% | 4,420.0 | 5.1% |

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

Single family home prices for the Boston Metropolitan area (not seasonally adjusted) appear below. While Boston housing prices were 18 percent higher than the U.S. average in 1983, by 1987 Boston housing prices as a percentage of the national average had reached a peak of 205.7 percent. Boston home prices remained 64.4 percent above the national average in 1994.

Average Annual Home Prices, 1983-1994
(in thousands of current dollars)

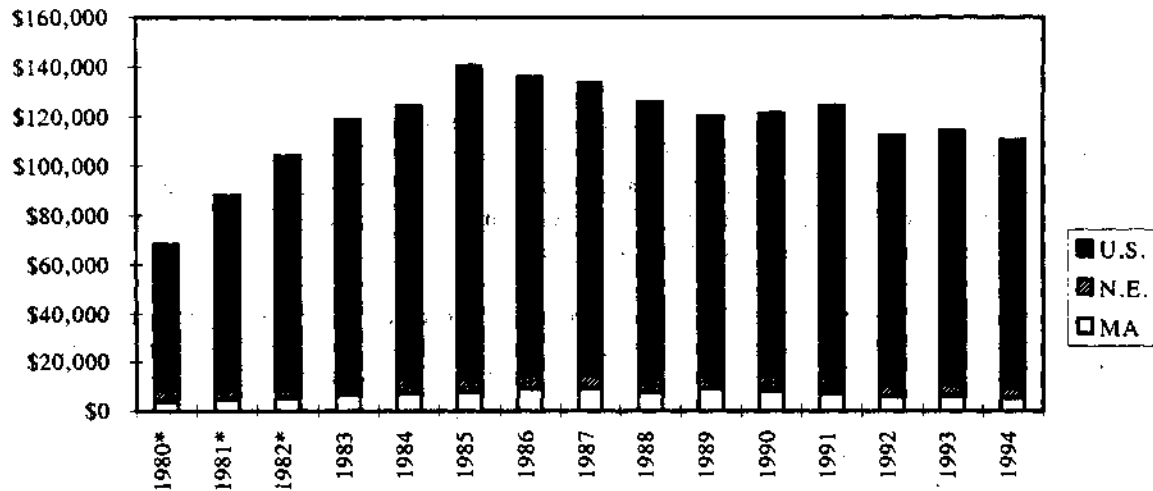


SOURCE: National Association of Realtors, Federal Reserve Bank of Boston.

Defense. An estimated 143,400 workers were employed in defense-related industries in 1992, accounting for approximately 5.0 percent 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 17 percent by fiscal 1988 to \$7.2 billion. By fiscal year 1994, the value of defense-related prime contracts had declined to \$5.1 billion. The diversity of Massachusetts companies, particularly in the area of electronics and high technology research and development, has helped dampen the impact of the decline in national defense expenditures on the Massachusetts economy.

The importance of the defense industry to the Massachusetts economy is reflected in the following chart and table, which show the value of Department of Defense prime contract awards between 1980 and 1994. Since 1980, Massachusetts has increased its share of New England contract awards from 42.7 percent of total New England awards to 54.7 percent of such awards in 1994. The net value of prime contract awards in fiscal year 1994 declined in Massachusetts, New England, and the United States. At the same time, the Commonwealth's share of the national total declined to 4.6 percent from a high of 7.3 percent in 1989.

Net Value of Prime Contract Awards, 1980-1994
(in millions)



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

Net Value of Department of Defense Prime Contract Awards, 1980-1994
(in millions)

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

SOURCE: United States Department of Defense.

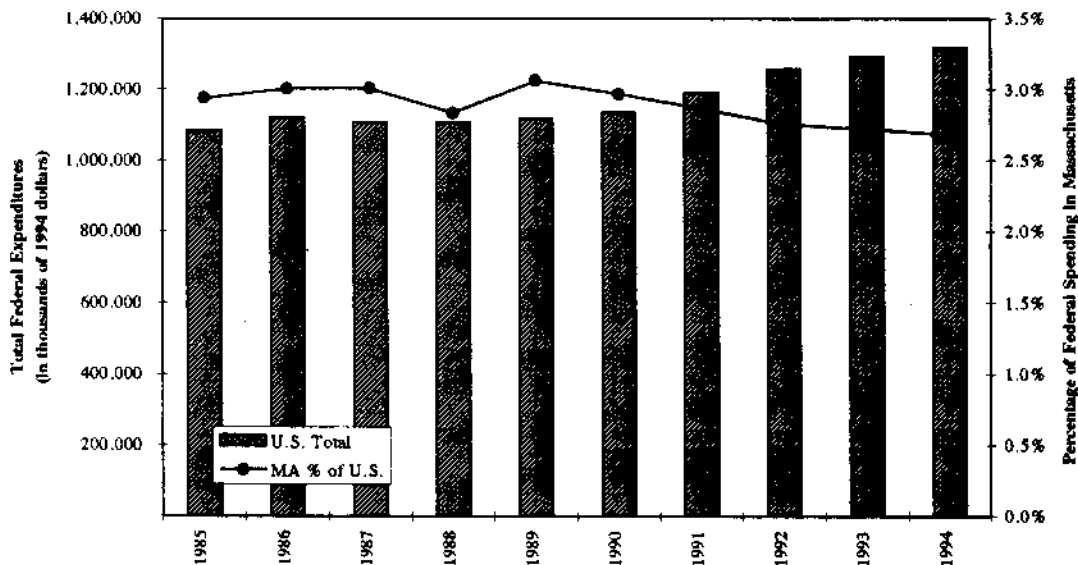
* Prime Contract is defined as \$10,000 and above for these years; beginning in 1983 it is defined as \$25,000 and above.

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

The Massachusetts Office of Travel and Tourism estimates that a total of 25.9 million people visited the Commonwealth in 1994. Of these, 1.5 million were international visitors. It was also estimated that 1993 spending by domestic travelers was \$7.35 billion while international travelers spent \$1.36 billion. The domestic visitor spending represents an 8.1 percent increase over 1992, while international traveler spending increased by 13.3 percent.

Federal Government Spending in Massachusetts. Federal government spending contributes a significant amount to the economy of Massachusetts. In fiscal 1994, Massachusetts ranked eighth in the nation in per capita distribution of federal funds, with total spending of \$5,856 per person. According to data compiled by the United States Department of Commerce, Massachusetts' share of total federal spending has declined steadily since 1989 even as total federal spending has increased. In 1994, Massachusetts received 2.7 percent of total federal spending. The following chart shows total federal expenditures and the percentage of federal expenditures in Massachusetts. Total federal spending data were converted to 1994 dollars by MISER using Consumer Price Index data for the United States. Federal spending includes grants to state and local governments, direct payments to individuals, wage and salary employment, and procurement contracts and includes only those expenditures which can be associated with individual states and territories.

**Total Real Federal Expenditures and
Percentage of Federal Expenditures in Massachusetts, 1985-1994**
(in thousands of constant 1994 dollars)



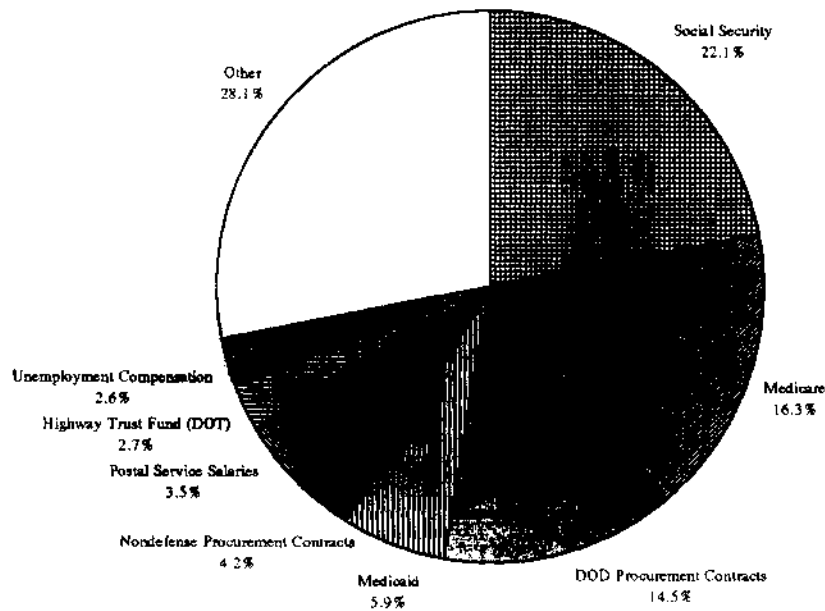
SOURCE: United States Department of Commerce.

A large percentage of federal spending in Massachusetts in 1994 was composed of health care and social programs like Medicare, Medicaid, and Social Security. Massachusetts was above the national average in per capita federal grants to state and local governments, receiving \$1036 per capita compared to a national average of \$811. Per capita federal spending on salaries and wages in 1994 was lower in

Massachusetts than in the rest of the nation (\$515 compared to a national average of \$639) but Massachusetts was above the national average in per capita direct federal payments to individuals (\$2,925 compared to a national average of \$2,618). Within this latter category, Massachusetts ranked ninth in the nation in social security retirement insurance payments (\$902 compared to a national average of \$802) and third in Medicare hospital insurance payments (\$646 compared to a national average of \$457). Massachusetts ranked ninth in per capita procurement contract awards (\$1,094 compared to a national average of \$749) in 1994, a difference which is largely explained by spending in the defense sector, where Massachusetts received almost twice the national average.

The following chart shows the composition of federal spending within Massachusetts in fiscal 1994.

Composition of Federal Spending in Massachusetts by Program, Fiscal 1994

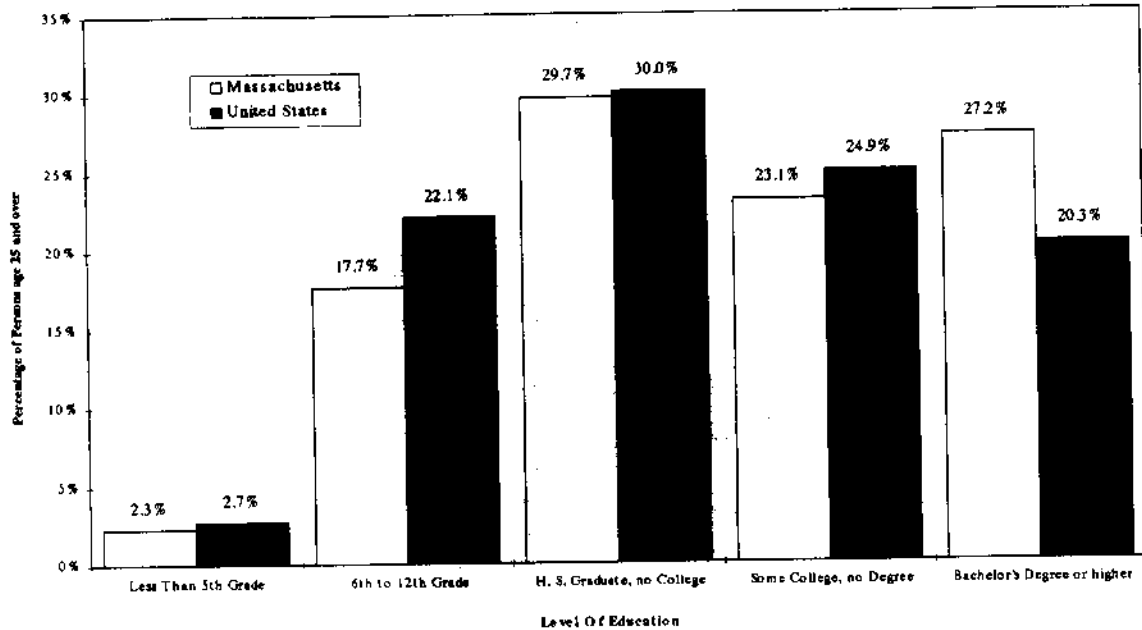


SOURCE: United States Department of Commerce.

HUMAN RESOURCES AND INFRASTRUCTURE

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

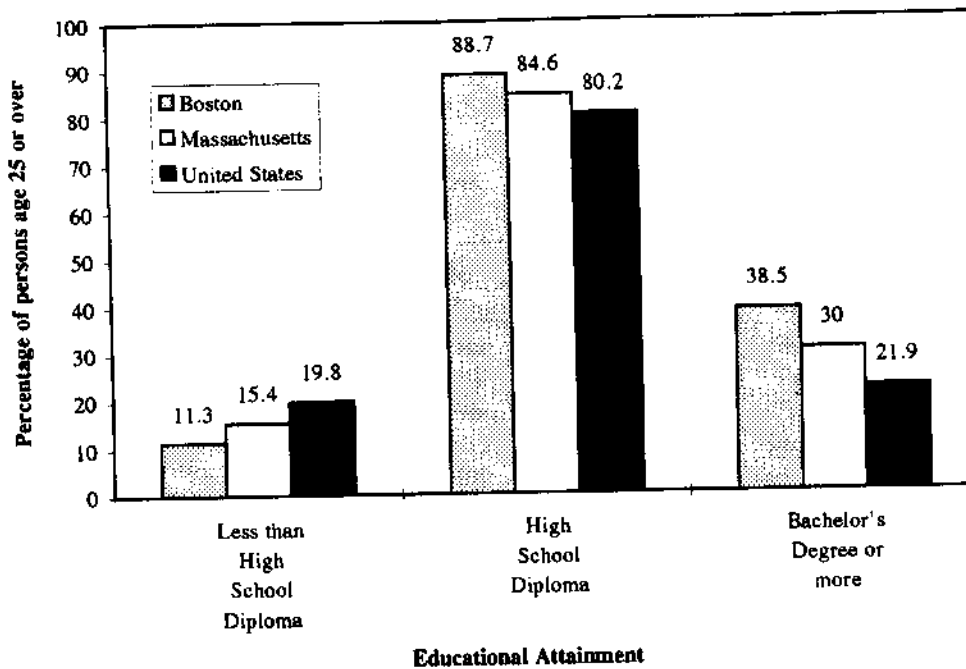
Educational Attainment, 1990



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

While the Bureau of the Census develops this detailed evaluation of educational attainment every ten years, the United States Department of Education prepares a less detailed analysis of educational attainment between the years of the national census which is based upon data provided by the Bureau of the Census. This analysis follows a representative sample on the individual (rather than institutional) level of the fifteen largest states and cities in the United States. The most recent analysis for Massachusetts, Boston, and the United States is March 1993. While this is not an exhaustive study, the following chart shows that Massachusetts continues to rank among the highest in educational attainment levels.

Years of School Completed by Persons Age 25 or Over, March 1993



SOURCE: United States Department of Education.

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

Although spending on education is not necessarily an indication of results, it is important to note that Massachusetts spends more per pupil on primary and secondary education than the national average. In fact, per pupil spending in Massachusetts has been significantly higher than the national average since 1980. The ratio of Massachusetts spending to the national average has varied from 1.13 in 1983-1984 to a high of 1.30 in 1986-1987. Preliminary estimates for the 1993-94 academic year show that Massachusetts spends 20 percent more on public elementary and secondary education than the United States average: \$6,361 per student compared to a national average of \$5,314 per student. While Massachusetts continues to spend more per student than the national average, neither average has increased above 1991-92 spending levels. The following table shows expenditures per pupil for Massachusetts and the United States since the 1979-80 academic year. Data for the 1993-94 academic year are preliminary estimates based on state-reported preliminary data.

Expenditure Per Pupil in Public Elementary and Secondary Schools, 1980-1994
(in current, unadjusted dollars)

| <i>Academic Year</i> | <i>Massachusetts</i> | <i>United States</i> | <i>Ratio (MA/U.S.)</i> |
|----------------------|----------------------|----------------------|------------------------|
| 1979-80 | \$2,819 | \$2,272 | 1.24 |
| 1980-81 | \$2,940 | \$2,502 | 1.18 |
| 1981-82 | \$3,137 | \$2,726 | 1.15 |
| 1982-83 | \$3,378 | \$2,955 | 1.14 |
| 1983-84 | \$3,595 | \$3,173 | 1.13 |
| 1984-85 | \$4,026 | \$3,470 | 1.16 |
| 1985-86 | \$4,562 | \$3,756 | 1.21 |
| 1986-87 | \$5,145 | \$3,970 | 1.30 |
| 1987-88 | \$5,471 | \$4,240 | 1.29 |
| 1988-89 | \$5,972 | \$4,645 | 1.29 |
| 1989-90 | \$6,237 | \$4,962 | 1.26 |
| 1990-91 | \$6,366 | \$5,245 | 1.21 |
| 1991-92 | \$6,408 | \$5,421 | 1.18 |
| 1992-93 | \$6,141 | \$5,170 | 1.19 |
| 1993-94(p) | \$6,361 | \$5,314 | 1.20 |

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

(p) = preliminary estimates.

Massachusetts is an internationally recognized center for higher education, with 422,976 students in undergraduate, professional and graduate programs in 1992, according to data supplied by the New England Board of Higher Education. The number of foreign students enrolled in Massachusetts colleges and universities in 1992 was 23,721, representing 5.4 percent of total foreign student enrollment in the United States. The Massachusetts public higher education system is composed of universities, state colleges, and community colleges with a combined enrollment of 180,753 students in 1992. In addition, Massachusetts contains a system of private higher education that accounted for 56.7 percent of total enrollment in Massachusetts in 1992. The strength of both public and private colleges and universities as centers for research, teaching, and education contributes to the high quality of the Massachusetts work force and plays a key role in attracting and retaining business and industry within the state.

The pre-eminence of higher education in Massachusetts contributes not only to the quality of its work force, but also to its stature in the nation and the world as a center for basic scientific research and for academic and entrepreneurial research and development. For example, Massachusetts institutions have a large number of Nobel Laureates. The Massachusetts Institute of Technology recently became the first university in the U.S. to receive more than 100 patents in a year. According to data gathered by the National Science Foundation, Massachusetts receives a higher proportion of both federal funding and private industry funding for research and development than the national average. Nationally, private industry funded 6.8 percent of university research and development ("R&D") at doctorate-granting institutions in 1993, compared with 9.5 percent for Massachusetts. In 1993, the federal government provided funding for 71.6 percent of all R&D activities in Massachusetts compared to 60.0 percent for the nation as a whole. Massachusetts received 6.7 percent of total federal spending on R&D in 1993.

The higher education system in Massachusetts is particularly strong in post-graduate, scientific, and technical education. The strength of the Massachusetts higher education system is evidenced by the draw it has upon new students. In the Fall of 1992, 19,354 new students migrated into the Massachusetts higher education system while only 11,854 migrated out of Massachusetts. Twenty-three percent of first time freshmen in Massachusetts in the Fall of 1992 migrated to Massachusetts from other states. The strength of the Commonwealth's educational institutions is also reflected in the large number of degrees awarded. According to a 1993 New England Board of Higher Education analysis of U.S. Department of Education Data, Massachusetts confers an impressive number of mathematics, physical science, and engineering degrees. In the field of mathematics, baccalaureate, masters, and doctorates numbered 533,

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

The diversity of federal funding sources reflects the variety of research and development work performed at Massachusetts educational institutions. According to the National Science Foundation, of the \$750 million of total 1992 federal spending on college and university-based research and development in Massachusetts, 44.3 percent was from the Department of Health and Human Services, 19.0 percent was from the National Science Foundation, 16.3 percent was from the Department of Defense, 8.6 percent was from the Department of Energy, 6.3 percent was from the National Aeronautics and Space Administration, and 2.4 percent was from the Department of Agriculture.

New England institutions received 8.8 percent (\$1,717,915) of the total research and development funds (\$19,539,885) awarded in 1993 while Massachusetts received 5.5 percent (\$1,075,820) of the total research and development funds awarded in 1993. More significant is the amount of research and development funds received by Massachusetts compared to the rest of New England. Massachusetts was awarded 62.6 percent of the total research and development funds received by New England institutions.

Massachusetts colleges and universities are also significant employers within the state. 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 121,800 jobs in May 1995, while in the government sector state and local public education accounted for 170,600 jobs in May 1995.

Major Infrastructure Projects. The next decade brings significant work on several major public sector-sponsored construction projects, giving rise in Massachusetts to new economic and employment opportunities. The projects include the depression of the central artery which traverses the City of Boston, and the construction of a third harbor tunnel linking downtown Boston to Logan Airport. The new Central Artery is designed to meet Boston's future traffic demand. It will move an estimated 240,000 vehicles per day with a normal urban rush hour of 2-3 hours. The Central Artery/Tunnel project will also strengthen connections among Boston's air, rail, and seaport terminals. By offering travelers and shippers increased choice and flexibility among these different modes of transportation, the project is contributing to the creation of an integrated, intermodal transportation system for the entire region. Construction of the Third Harbor Tunnel began in 1992 and stretches under Boston Harbor from South Boston to Logan Airport. The tunnel is expected to be open to commercial traffic in late 1995 and to be open to all traffic by 2001. After three years of construction, more than \$2.1 billion in design and construction contracts have been awarded, creating jobs for 9,000 people. These workers are employed by construction companies, engineering firms, suppliers, and in spin-off jobs created by project spending. At the height of construction, nearly 15,000 people will be working as a result of the project. The federal government will take responsibility for about 90 percent of the estimated \$7.7 billion cost of the project. Massport and the Massachusetts Bay Transportation Authority also plan to devote several billion dollars to maintenance and enhancements of the area's port, airport, and mass transportation facilities.

The Massachusetts Water Resources Authority is undertaking capital projects for the construction and rehabilitation of sewage collection and treatment facilities in order to bring wastewater discharges into Boston Harbor into compliance with federal and state pollution control requirements. According to the MWRA 1994 Annual Report, the Boston Harbor Project is over half complete. The harbor cleanup project is estimated to cost \$3.5 billion in 1994 dollars. Work on the project began in 1988 and is expected to be completed in 1999, with the most significant expenditures occurring between 1990 and 1999. The majority of these expenditures will be paid for by local communities, in the form of user fees, with federal and state sources making up the difference. Nearly half of the project

expenditures to date, \$1.6 billion, have been allocated within metropolitan Boston. The average total employment impact of the project is an estimated 2,400 jobs per year, which includes construction, engineering, and professional services jobs as well as spin-off jobs in other sectors of the economy.

COMMONWEALTH OF MASSACHUSETTS

COMBINED FINANCIAL STATEMENTS -

STATUTORY BASIS

**Independent Auditors' Report**

Mr. William Kilmartin, Comptroller
The Commonwealth of Massachusetts

We have audited the accompanying combined financial statements - statutory basis of the Commonwealth of Massachusetts as of June 30, 1994, and for the year then ended. These combined financial statements - statutory basis are the responsibility of the management of the Commonwealth of Massachusetts. Our responsibility is to express an opinion on these combined financial statements - statutory basis based on our audit. We did not audit the financial statements of the Pension Reserves Investment Trust which is an investment vehicle for certain of the Commonwealth of Massachusetts' Pension Trust Funds, the financial statements of which reflect 31 and 8 percent, respectively, of the assets and revenues of the Fiduciary Fund Type. We did not audit the financial statements of the University of Massachusetts, Bridgewater State College and Massasoit Community College which statements reflect 82 percent of the assets and 77 percent of the revenues of the Non-appropriated Higher Education Funds. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the Fiduciary and Non-appropriated Higher Education Fund Type referred to above, is based solely on the reports of the other auditors.

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

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

In our opinion, based upon our audit and the reports of the other auditors, such combined financial statements - statutory basis present fairly, in all material respects, the financial position of the Commonwealth of Massachusetts as of June 30, 1994, and the results of its operations for the year then ended, on the basis of accounting described in Note 2.

As discussed in Note 2, the Fiduciary Fund Type includes investments representing 5.7% of the assets of the Fiduciary Fund Type, whose values have been estimated by management in the absence of readily ascertainable market values. The procedures used by management in arriving at the estimated value of such investments and the underlying documentation have been reviewed and inspected by us and by the other auditors', and, in the circumstances, we believe and the other auditors' report states their belief, that the procedures of management are reasonable and the documentation appropriate. However, determination of the value of these investments involves subjective judgment because the actual market value can be determined only by negotiation between the parties in a sales transaction. The estimated values of the investments may differ from the values that would have been used had a ready market existed for the investments.

Deloitte & Touche LLP

December 21, 1994

COMMONWEALTH OF MASSACHUSETTS
 COMBINED BALANCE SHEET - STATUTORY BASIS -
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 1994
 (Amounts in thousands)

| <u>ASSETS AND OTHER DEBITS</u> | <u>Governmental Fund Types</u> | | | <u>Fiduciary</u> |
|---|--------------------------------|----------------------------------|-----------------------------------|-----------------------------------|
| | <u>General</u> | <u>Special</u> <u>Revenue</u> | <u>Capital</u> <u>Projects</u> | <u>Trust</u> <u>and Agency</u> |
| Cash and short-term investments | \$ 0 | \$ 1,574,314 | \$ 20,631 | \$ 837,824 |
| Cash on deposit with U.S. Treasury | | | | 33,001 |
| Cash with fiscal agent | | 5,114 | | |
| Investments | | | | 11,613,209 |
| Advances to related entity | 170,093 | | | |
| Assets held in trust | | | | 1,486,904 |
| Receivables, net of allowance for uncollectibles: | | | | |
| Taxes | 4,721 | 688 | | |
| Due from federal government | 131,111 | 126,825 | 155,301 | |
| Other receivables | 1,475 | 9,691 | | 1,581,059 |
| Due from cities and towns | 133,042 | 1,177 | | |
| Due from other funds | 9,897 | | | 377,439 |
| Fixed assets: | | | | |
| Land | | | | |
| Buildings | | | | |
| Machinery and equipment | | | | |
| Construction in progress | | | | |
| Amount to be provided for retirement of long-term obligations | | | | |
| Total assets and other debits | \$ 450,339 | \$ 1,717,809 | \$ 175,932 | \$ 15,929,436 |

| Account Groups | | | | Totals (Memorandum Only) | |
|----------------------------|-------------------------------------|----------------------------------|---|-----------------------------|----------------------|
| General Fixed Assets | General Long-term Obligations | Subtotal (Memorandum Only) | Non- appropriated Higher Education | 1994 | 1993 |
| \$ 0 | \$ 0 | \$ 2,432,769 | \$ 129,247 | \$ 2,562,016 | \$ 2,327,042 |
| | | 33,001 | | 33,001 | |
| | | 5,114 | | 5,114 | 3,797 |
| | | 11,613,209 | 273,391 | 11,886,600 | 11,342,003 |
| | | 170,093 | | 170,093 | 199,881 |
| | | 1,486,904 | | 1,486,904 | 1,518,389 |
| | | 5,409 | | 5,409 | 3,651 |
| | | 413,237 | 8,496 | 421,733 | 307,420 |
| | | 1,592,225 | | 1,592,225 | 1,300,158 |
| | | 134,219 | | 134,219 | 141,271 |
| | | 387,336 | | 387,336 | 391,934 |
| 496,207 | | 496,207 | | 496,207 | 448,885 |
| 3,362,971 | | 3,362,971 | | 3,362,971 | 3,243,622 |
| 853,124 | | 853,124 | | 853,124 | 806,729 |
| 30,449 | | 30,449 | | 30,449 | 155,090 |
| | 9,497,475 | 9,497,475 | | 9,497,475 | 9,296,238 |
| <u>\$ 4,742,751</u> | <u>\$ 9,497,475</u> | <u>\$ 32,513,742</u> | <u>\$ 411,134</u> | <u>\$ 32,924,876</u> | <u>\$ 31,486,110</u> |

(Continued)

COMMONWEALTH OF MASSACHUSETTS
 COMBINED BALANCE SHEET - STATUTORY BASIS -
 ALL FUND TYPES AND ACCOUNT GROUPS
 JUNE 30, 1994

(Amounts in thousands)

| LIABILITIES, FUND EQUITY AND OTHER CREDITS | Governmental Fund Types | | | Fiduciary Fund Types |
|---|--------------------------------|----------------------------|-----------------------------|---------------------------------|
| | General | Special Revenue | Capital Projects | Trust and Agency |
| Liabilities: | | | | |
| Deficiency in cash and short-term investments | \$ 362,851 | \$ 0 | \$ 170,605 | \$ 2,487 |
| Accounts payable | 384,454 | 366,169 | 306,493 | 1,812,422 |
| Accrued payroll | 62,018 | 18,910 | 1,980 | 368 |
| Agency liabilities | | | | 2,008,390 |
| Due to federal government | | | | 11,937 |
| Due to cities and towns | | | | 381,116 |
| Due to other funds | | | | |
| Obligations under lease/purchase | | | | |
| Bonds, notes payable and certificate of participation | 240,000 | | 49,062 | 29,462 |
| Deferred revenue | 32,919 | | | |
| Total liabilities | 1,082,242 | 385,079 | 528,140 | 4,246,182 |
| Fund equity and other credits: | | | | |
| Investment in general fixed assets | | | | |
| Fund balances (deficit): | | | | |
| Reserved for: | | | | |
| Continuing appropriations | 59,621 | 14,624 | | |
| Commonwealth stabilization | | 382,907 | | |
| Debt service | | 5,114 | | |
| Pension benefits | | | | 11,535,422 |
| Unemployment benefits | | | | 30,514 |
| Unreserved: | | | | |
| Designated for specific purpose | | 111,493 | | 117,318 |
| Undesignated | (691,524) | 818,592 | (352,208) | |
| Total fund equity (deficit) and other credits | (631,903) | 1,332,730 | (352,208) | 11,683,254 |
| Total liabilities, fund equity and other credits | \$ 450,339 | \$ 1,717,809 | \$ 175,932 | \$ 15,929,436 |

See notes to combined financial statements - statutory basis.

| Account Groups | | | Totals (Memorandum Only) | | |
|----------------------------|-------------------------------------|----------------------------------|---|----------------------|----------------------|
| General Fixed Assets | General Long-term Obligations | Subtotal (Memorandum Only) | Non- appropriated Higher Education | 1994 | 1993 |
| \$ 0 | \$ 0 | \$ 535,943 | \$ 0 | \$ 535,943 | \$ 623,945 |
| | | 2,869,538 | 37,092 | 2,906,630 | 2,186,267 |
| | | 83,276 | 459 | 83,735 | 72,953 |
| | | 2,008,390 | 4,973 | 2,013,363 | 2,011,740 |
| | | | | | 269,429 |
| | | 11,937 | | 11,937 | 12,710 |
| | | 381,116 | 6,220 | 387,336 | 391,934 |
| | 69,730 | 69,730 | | 69,730 | 64,780 |
| | 9,427,745 | 9,746,269 | | 9,746,269 | 9,585,617 |
| | | 32,919 | | 32,919 | |
| | <u>9,497,475</u> | <u>15,739,118</u> | <u>48,744</u> | <u>15,787,862</u> | <u>15,219,375</u> |
| 4,742,751 | | 4,742,751 | | 4,742,751 | 4,654,326 |
| | | 74,245 | | 74,245 | 106,626 |
| | | 382,907 | | 382,907 | 309,512 |
| | | 5,114 | | 5,114 | 3,797 |
| | | 11,535,422 | | 11,535,422 | 11,096,499 |
| | | 30,514 | | 30,514 | |
| | | 228,811 | 13,613 | 242,424 | (13,014) |
| | | (225,140) | 348,777 | 123,637 | 108,989 |
| <u>4,742,751</u> | | <u>16,774,624</u> | <u>362,390</u> | <u>17,137,014</u> | <u>16,266,735</u> |
| <u>\$ 4,742,751</u> | <u>\$ 9,497,475</u> | <u>\$ 32,513,742</u> | <u>\$ 411,134</u> | <u>\$ 32,924,876</u> | <u>\$ 31,486,110</u> |

**COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 STATUTORY BASIS - ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUNDS
 AND NON-APPROPRIATED HIGHER EDUCATION FUNDS
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)**

| | Governmental Fund Types | | | Fiduciary Fund Type |
|---|-------------------------|--------------------|---------------------|------------------------|
| | General | Special Revenue | Capital Projects | Expendable Trust |
| Revenues: | | | | |
| Taxes | \$ 6,297,759 | \$ 4,317,626 | \$ 0 | \$ 1,147,975 |
| Assessments | 191,796 | 354,354 | | 1,207 |
| Federal grants and reimbursements | 2,892,189 | 1,228,347 | 944,738 | 257,905 |
| Departmental | 525,006 | 3,327,588 | 267 | 3,972 |
| Miscellaneous | 175,259 | 70,406 | 674 | 61,138 |
| Total revenues | 10,082,009 | 9,298,321 | 945,679 | 1,472,197 |
| Other financing sources: | | | | |
| Proceeds of general obligation bonds | | | 392,208 | |
| Proceeds of special obligation bonds | | | 297,998 | |
| Proceeds of refunding bonds | | | 835,795 | |
| Fringe benefit cost recovery | 189,156 | | | |
| Operating transfers in | 192,840 | 863,478 | 152,542 | 5,863 |
| Stabilization transfer | | 65,423 | | |
| Other sources | | | 35,370 | 3,095 |
| Total other financing sources | 381,996 | 928,901 | 1,713,913 | 8,958 |
| Total revenues and other financing sources | 10,464,005 | 10,227,222 | 2,659,592 | 1,481,155 |
| Expenditures: | | | | |
| Legislature | 42,853 | | 257 | |
| Judiciary | 68,128 | 273,700 | 702 | 3,689 |
| Inspector General | 1,271 | | 150 | |
| Governor and Lieutenant Governor | 4,292 | | | |
| Secretary of the Commonwealth | 9,081 | 2,549 | | 4 |
| Treasurer and Receiver-General | 101,789 | 1,956,059 | 47,626 | 19 |
| Auditor of the Commonwealth | 10,167 | 733 | | 167 |
| Attorney General | 19,720 | 2,501 | 1,124 | 1,124 |
| Ethics Commission | 527 | 537 | | |
| District Attorney | 8,071 | 39,207 | 328 | 3,609 |
| Office of Campaign & Political Finance | 311 | 317 | | |
| Disabled Persons Protection Commission | 1,325 | | | |
| Board of Library Commissioners | | 5,399 | 734 | 1 |
| Comptroller | 5,865 | 525 | 4,123 | |
| Administration and finance | 693,700 | 270,678 | 122,540 | 1,293 |

| Subtotal (Memorandum Only) | Non- appropriated Higher Education | Totals (Memorandum Only) | |
|----------------------------------|---|-----------------------------|-------------------|
| | | 1994 | 1993 |
| \$ 11,763,360 | \$ 0 | \$ 11,763,360 | \$ 10,928,395 |
| 547,357 | | 547,357 | 617,258 |
| 5,323,179 | 186,374 | 5,509,553 | 5,334,697 |
| 3,856,833 | 916,371 | 4,773,204 | 4,270,768 |
| 307,477 | 205,570 | 513,047 | 626,312 |
| 21,798,206 | 1,308,315 | 23,106,521 | 21,777,430 |
| 392,208 | | 392,208 | 368,367 |
| 297,998 | | 297,998 | |
| 835,795 | | 835,795 | 1,891,468 |
| 189,156 | | 189,156 | 138,296 |
| 1,214,723 | 283 | 1,215,006 | 1,069,796 |
| 65,423 | | 65,423 | 76,872 |
| 38,465 | | 38,465 | 44,038 |
| 3,033,768 | 283 | 3,034,051 | 3,588,837 |
| 24,831,974 | 1,308,598 | 26,140,572 | 25,366,267 |
| 43,110 | | 43,110 | 41,127 |
| 346,219 | | 346,219 | 311,198 |
| 1,421 | | 1,421 | 1,398 |
| 4,292 | | 4,292 | 3,651 |
| 11,634 | | 11,634 | 13,840 |
| 2,105,493 | | 2,105,493 | 1,670,698 |
| 11,067 | | 11,067 | 10,530 |
| 24,469 | | 24,469 | 22,198 |
| 1,064 | | 1,064 | 1,002 |
| 51,215 | | 51,215 | 47,001 |
| 628 | | 628 | 545 |
| 1,325 | | 1,325 | |
| 6,134 | | 6,134 | 18,891 |
| 10,513 | | 10,513 | 7,654 |
| 1,088,211 | | 1,088,211 | 1,037,994 |

(Continued)

**COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 STATUTORY BASIS - ALL GOVERNMENTAL FUND TYPES, EXPENDABLE TRUST FUNDS
 AND NON-APPROPRIATED HIGHER EDUCATION FUNDS
 FISCAL YEAR ENDED JUNE 30, 1994**

(Amounts in thousands)

| | Governmental Fund Types | | | Fiduciary Fund Type |
|---|-------------------------|---------------------|---------------------|------------------------|
| | General | Special Revenue | Capital Projects | Expendable Trust |
| Expenditures (continued): | | | | |
| Environmental affairs | \$ 23,118 | \$ 144,575 | \$ 117,629 | \$ 4,935 |
| Communities and development | 113,233 | 248,027 | 33,694 | 2,335 |
| Health and human services | 3,270,133 | 1,013,327 | 14,019 | 20,292 |
| Transportation and construction | 619,168 | 146,225 | 1,325,809 | 830 |
| Education | 145 | 457,359 | 2,966 | 1,299 |
| Educational affairs | 1,943 | 1,152 | | |
| Higher education | 670,148 | 16,061 | 5,621 | 80 |
| Public safety | 313,986 | 370,110 | 6,311 | 3,727 |
| Economic affairs | 14,588 | 196,911 | 1,890 | 1,103,593 |
| Elder affairs | 125,573 | 29,851 | 651 | 60 |
| Consumer affairs | 25,852 | 6,433 | | 3,538 |
| Labor | 20,977 | 2,492 | 15 | 28,238 |
| Direct local aid | | 2,727,313 | | |
| Medicaid | 3,273,777 | 39,350 | | |
| Pension | 313,264 | 595,684 | | |
| Debt service: | | | | |
| Principal retirement | 308,323 | 322,898 | | |
| Interest and fiscal charges | 288,908 | 231,255 | | |
| Total expenditures | 10,350,236 | 9,101,228 | 1,686,189 | 1,178,833 |
| Other financing uses: | | | | |
| Payments to refunded bond escrow agent | | | 835,795 | |
| Fringe benefit cost assessment | | 103,241 | 14,916 | 2,287 |
| Operating transfers out | 4,822 | 1,052,514 | 155,049 | 2,489 |
| Stabilization transfer | 39,254 | 26,169 | | |
| Other uses | | | | |
| Total other financing uses | 44,076 | 1,181,924 | 1,005,760 | 4,776 |
| Total expenditures and other financing uses | 10,394,312 | 10,283,152 | 2,691,949 | 1,183,609 |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | 69,693 | (55,930) | (32,357) | 297,546 |
| Fund balances (deficits) at beginning of year | (701,596) | 1,388,660 | (319,851) | (155,554) |
| Fund balances (deficits) at end of year | \$ (631,903) | \$ 1,332,730 | \$ (352,208) | \$ 141,992 |

See notes to combined financial statements - statutory basis.

| Subtotal (Memorandum Only) | Non- appropriated Higher Education | Totals (Memorandum Only) | |
|----------------------------------|---|-----------------------------|-------------------|
| | | 1994 | 1993 |
| \$ 290,257 | \$ 0 | \$ 290,257 | \$ 288,621 |
| 397,289 | | 397,289 | 399,965 |
| 4,317,771 | | 4,317,771 | 4,167,138 |
| 2,092,032 | | 2,092,032 | 1,773,298 |
| 461,769 | | 461,769 | 485,004 |
| 3,095 | | 3,095 | 9,591 |
| 691,910 | 1,175,775 | 1,867,685 | 1,688,759 |
| 694,134 | | 694,134 | 626,536 |
| 1,316,982 | | 1,316,982 | 1,713,385 |
| 156,135 | | 156,135 | 149,774 |
| 35,823 | | 35,823 | 32,599 |
| 51,722 | | 51,722 | 48,493 |
| 2,727,313 | | 2,727,313 | 2,546,501 |
| 3,313,127 | | 3,313,127 | 3,151,361 |
| 908,948 | | 908,948 | 868,154 |
| 631,221 | | 631,221 | 592,493 |
| 520,163 | | 520,163 | 550,175 |
| 22,316,486 | 1,175,775 | 23,492,261 | 22,279,574 |
| 835,795 | | 835,795 | 1,891,468 |
| 120,444 | 68,712 | 189,156 | 138,296 |
| 1,214,874 | 130 | 1,215,004 | 1,069,784 |
| 65,423 | | 65,423 | 76,872 |
| | | | 257 |
| 2,236,536 | 68,842 | 2,305,378 | 3,176,677 |
| 24,553,022 | 1,244,617 | 25,797,639 | 25,456,251 |
| 278,952 | 63,981 | 342,933 | (89,984) |
| 211,659 | 298,409 | 510,068 | 600,052 |
| \$ 490,611 | \$ 362,390 | \$ 853,001 | \$ 510,068 |

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, 1994
 (Amounts in thousands)

| | General Fund | | |
|---|-------------------|-------------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) |
| Revenues: | | | |
| Taxes | \$ 6,179,800 | \$ 6,297,759 | \$ 117,959 |
| Assessments | | 191,796 | 191,796 |
| Federal grants and reimbursements | 2,913,900 | 2,892,189 | (21,711) |
| Departmental | 819,225 | 525,006 | (294,219) |
| Miscellaneous | | 175,259 | 175,259 |
| Total revenues | 9,912,925 | 10,082,009 | 169,084 |
| Other financing sources: | | | |
| Fringe benefit cost recovery | | 189,156 | 189,156 |
| Operating transfers in | 160,675 | 192,840 | 32,165 |
| Stabilization transfer | | | |
| Other sources | 5,000 | | (5,000) |
| Total other financing sources | 165,675 | 381,996 | 216,321 |
| Total revenues and other financing sources | 10,078,600 | 10,464,005 | 385,405 |
| Expenditures: | | | |
| Legislature | 59,235 | 42,853 | 16,382 |
| Judiciary | 69,098 | 68,128 | 970 |
| Inspector General | 1,281 | 1,271 | 10 |
| Governor and Lieutenant Governor | 4,996 | 4,292 | 704 |
| Secretary of the Commonwealth | 9,272 | 9,081 | 191 |
| Treasurer and Receiver-General | 105,386 | 101,789 | 3,597 |
| Auditor of the Commonwealth | 10,174 | 10,167 | 7 |
| Attorney General | 19,936 | 19,720 | 216 |
| Ethics Commission | 527 | 527 | |
| District Attorney | 8,134 | 8,071 | 63 |
| Office of Campaign and Political Finance | 314 | 311 | 3 |
| Disabled Persons Protection Committee | 1,328 | 1,325 | 3 |
| Board of Library Commissioners | | | |
| Comptroller | 5,882 | 5,865 | 17 |
| Administration and finance | 749,459 | 693,700 | 55,759 |
| Environmental affairs | 25,003 | 23,118 | 1,885 |
| Communities and development | 120,075 | 113,233 | 6,842 |

| Budgeted Special Revenue Funds | | | Totals (Memorandum Only) | | |
|--------------------------------|------------------|--|-----------------------------|-------------------|--|
| Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| \$ 4,380,200 | \$ 4,308,922 | \$ (71,278) | \$ 10,560,000 | \$ 10,606,681 | \$ 46,681 |
| | 21,688 | 21,688 | | 213,484 | 213,484 |
| 8,600 | 9,042 | 442 | 2,922,500 | 2,901,231 | (21,269) |
| 447,100 | 465,676 | 18,576 | 1,266,325 | 990,682 | (275,643) |
| | 45,808 | 45,808 | | 221,067 | 221,067 |
| 4,835,900 | 4,851,136 | 15,236 | 14,748,825 | 14,933,145 | 184,320 |
| | | | | 189,156 | 189,156 |
| 542,000 | 598,657 | 56,657 | 702,675 | 791,497 | 88,822 |
| | 65,423 | 65,423 | | 65,423 | 65,423 |
| | | | 5,000 | | (5,000) |
| 542,000 | 664,080 | 122,080 | 707,675 | 1,046,076 | 338,401 |
| 5,377,900 | 5,515,216 | 137,316 | 15,456,500 | 15,979,221 | 522,721 |
| | | | 59,235 | 42,853 | 16,382 |
| 275,403 | 271,835 | 3,568 | 344,501 | 339,963 | 4,538 |
| | | | 1,281 | 1,271 | 10 |
| | | | 4,996 | 4,292 | 704 |
| 2,121 | 1,891 | 230 | 11,393 | 10,972 | 421 |
| 21,928 | 20,250 | 1,678 | 127,314 | 122,039 | 5,275 |
| 733 | 733 | | 10,907 | 10,900 | 7 |
| 800 | 785 | 15 | 20,736 | 20,505 | 231 |
| 537 | 537 | | 1,064 | 1,064 | |
| 38,088 | 37,783 | 305 | 46,222 | 45,854 | 368 |
| 320 | 317 | 3 | 634 | 628 | 6 |
| | | | 1,328 | 1,325 | 3 |
| 2,304 | 2,300 | 4 | 2,304 | 2,300 | 4 |
| 525 | 525 | | 6,407 | 6,390 | 17 |
| 245,801 | 229,151 | 16,650 | 995,260 | 922,851 | 72,409 |
| 132,805 | 123,658 | 9,147 | 157,808 | 146,776 | 11,032 |
| 25,749 | 24,895 | 854 | 145,824 | 138,128 | 7,696 |

(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, 1994

(Amounts in thousands)

| | General Fund | | Variance Favorable (Unfavorable) |
|--|-------------------|-------------------|--|
| | Budget | Actual | |
| Expenditures (continued): | | | |
| Health and human services | \$ 3,368,359 | \$ 3,270,133 | \$ 98,226 |
| Transportation and construction | 621,447 | 619,168 | 2,279 |
| Education | 147 | 145 | 2 |
| Educational affairs | 2,024 | 1,943 | 81 |
| Higher education | 674,480 | 670,148 | 4,332 |
| Public safety | 319,456 | 313,986 | 5,470 |
| Economic affairs | 15,580 | 14,588 | 992 |
| Elder affairs | 127,044 | 125,573 | 1,471 |
| Consumer affairs | 27,548 | 25,852 | 1,696 |
| Labor | 22,303 | 20,977 | 1,326 |
| Direct local aid | | | |
| Medicaid | 3,290,149 | 3,273,777 | 16,372 |
| Pension | 328,447 | 313,264 | 15,183 |
| Debt service: | | | |
| Principal retirement | 327,453 | 308,323 | 19,130 |
| Interest and fiscal charges | 312,186 | 288,908 | 23,278 |
| Total expenditures | 10,626,723 | 10,350,236 | 276,487 |
| Other financing uses: | | | |
| Fringe benefit cost assessment | | | |
| Operating transfers out | 4,822 | 4,822 | |
| Stabilization transfer | | 39,254 | (39,254) |
| Total other financing uses | 4,822 | 44,076 | (39,254) |
| Total expenditures and other financing uses | 10,631,545 | 10,394,312 | 237,233 |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | (552,945) | 69,693 | 622,638 |
| Fund balances (deficits) at beginning of year | (701,596) | (701,596) | |
| Fund balances (deficits) at end of year | \$ (1,254,541) | \$ (631,903) | \$ 622,638 |

See notes to general purpose financial statements.

| Budgeted Special Revenue Funds | | | Totals (Memorandum Only) | | |
|--------------------------------|---------------------|--|-----------------------------|-------------------|--|
| Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| \$ 148,274 | \$ 124,664 | \$ 23,610 | \$ 3,516,633 | \$ 3,394,797 | \$ 121,836 |
| 145,988 | 141,458 | 4,530 | 767,435 | 760,626 | 6,809 |
| 104,894 | 95,757 | 9,137 | 105,041 | 95,902 | 9,139 |
| 655 | 608 | 47 | 2,679 | 2,551 | 128 |
| 2,610 | 2,398 | 212 | 677,090 | 672,546 | 4,544 |
| 354,904 | 342,926 | 11,978 | 674,360 | 656,912 | 17,448 |
| 16,277 | 15,279 | 998 | 31,857 | 29,867 | 1,990 |
| 5,187 | 4,340 | 847 | 132,231 | 129,913 | 2,318 |
| 5,945 | 5,016 | 929 | 33,493 | 30,868 | 2,625 |
| | | | 22,303 | 20,977 | 1,326 |
| 2,739,827 | 2,727,313 | 12,514 | 2,739,827 | 2,727,313 | 12,514 |
| 39,350 | 39,350 | | 3,329,499 | 3,313,127 | 16,372 |
| 623,449 | 595,684 | 27,765 | 951,896 | 908,948 | 42,948 |
| | | | | | |
| 347,569 | 322,183 | 25,386 | 675,022 | 630,506 | 44,516 |
| 236,293 | 229,967 | 6,326 | 548,479 | 518,875 | 29,604 |
| 5,518,336 | 5,361,603 | 156,733 | 16,145,059 | 15,711,839 | 433,220 |
| | 46,436 | (46,436) | | 46,436 | (46,436) |
| 122,662 | 123,940 | (1,278) | 127,484 | 128,762 | (1,278) |
| | 26,169 | (26,169) | | 65,423 | (65,423) |
| 122,662 | 196,545 | (73,883) | 127,484 | 240,621 | (113,137) |
| 5,640,998 | 5,558,148 | 82,850 | 16,272,543 | 15,952,460 | 320,083 |
| | | | | | |
| (263,098) | (42,932) | 220,166 | (816,043) | 26,761 | 842,804 |
| 1,264,169 | 1,264,169 | | 562,573 | 562,573 | |
| \$ 1,001,071 | \$ 1,221,237 | \$ 220,166 | \$ (253,470) | \$ 589,334 | \$ 842,804 |

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, 1994
 (Amounts in thousands)

| | Fiduciary Fund Types | | Totals (Memorandum Only) | |
|---|-----------------------------------|------------------------|-----------------------------|------------------|
| | Non- expendable Trust Funds | Pension Trust Funds | 1994 | 1993 |
| Operating revenues: | | | | |
| Employees contributions: | \$ 0 | \$ 383,904 | \$ 383,904 | \$ 349,531 |
| Investment earnings | | 245,446 | 245,446 | 1,301,368 |
| Total operating revenues | | 629,350 | 629,350 | 1,650,899 |
| Other financing sources: | | | | |
| Operating transfers in | | 675,069 | 675,069 | 76,489 |
| Total operating revenues and other financing sources | | 1,304,419 | 1,304,419 | 1,727,388 |
| Operating expenses: | | | | |
| Administration | | 3,676 | 3,676 | 3,276 |
| Payments to beneficiaries and cities and towns | | 186,751 | 186,751 | 177,194 |
| Total operating expenses | | 190,427 | 190,427 | 180,470 |
| Other financing uses: | | | | |
| Operating transfers out | 2 | 675,069 | 675,071 | 76,501 |
| Total operating expenses and other financing uses | 2 | 865,496 | 865,498 | 256,971 |
| Net income (deficit) | (2) | 438,923 | 438,921 | 1,470,417 |
| Fund balances at beginning of year | 5,842 | 11,096,499 | 11,102,341 | 9,631,924 |
| Fund balances at end of year | \$ 5,840 | \$ 11,535,422 | \$ 11,541,262 | \$ 11,102,341 |

See notes to combined financial statements - statutory basis.

**COMMONWEALTH OF MASSACHUSETTS
STATUTORY BASIS FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994**

1. FINANCIAL STATEMENT PRESENTATION:

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

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

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

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

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

These fund types and account groups are organized as follows:

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

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

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

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

**COMMONWEALTH OF MASSACHUSETTS
STATUTORY BASIS FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994**

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

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

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

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 \$142,000, which was credited directly to the Local Aid Fund for expenditure during fiscal year 1994, 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 15C of Chapter 15A, of Massachusetts General Laws.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

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

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

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

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

Investments of the Pension Trust Funds are stated at market. The Massachusetts State Teachers and Employees Retirement Systems Trust (Master's Trust) and the Pension Reserves Investment Trust Fund (PRIT), collectively the Pension Trust Funds have acquired investments in real estate, venture capital funds, real estate funds, limited partnerships, futures pools, international hedge pools, commodities pools, balanced pools, leverage buyouts, private placements and other alternative investments. The structure, risk profile, return potential and marketability of these investments differ from traditional equity and fixed income investments. The estimated values, determined by management with input from the investment managers, of these alternative investments were \$434,131,507 in the Master's Trust and \$635,426,769 in the PRIT.

Other investments are stated at cost.

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

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

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

**COMMONWEALTH OF MASSACHUSETTS
STATUTORY BASIS FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994**

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

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

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

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

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

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

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

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

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

Fund balance has been reserved as follows:

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

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

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

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

Unreserved fund balance is segregated into two components:

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

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

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

Reclassification - Certain reclassifications have been made to the 1993 balances to conform to the presentation used in 1994.

3. BUDGETARY CONTROL:

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

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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.

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 1994 appropriation act was Chapter 110, Act of 1993. This appropriation act authorized \$14,825,102,000 in direct appropriations and \$611,422,000 in authorizations to retain and expend certain non-tax revenues, plus \$125,869,000 of interagency chargebacks. Chapter 110 included projections of \$10,560,000,000 in tax revenues and approximately \$4,887,800,000 in non-tax revenues. With these revenues (exclusive of chargebacks) projected to total approximately \$15,447,800,000, and with unreserved balances of approximately \$142,638,000 carried forward from fiscal year 1993, the budget as presented in this original appropriation act was considered to be in balance. Subsequently, the Legislature overrode the governor's veto of \$20,990,000 in direct appropriations bringing the total direct appropriations to \$14,846,092,000.

During fiscal year 1994, the Legislature also passed and the Governor signed, with some modification through veto, Chapters 151, 495, 496, 497, Acts of 1993, and Chapters 18, 49, Acts of 1994, which included numerous supplemental budgetary appropriations. These increases added \$242,282,000 in direct appropriations, \$18,001,000 in additional retained revenue authorizations and \$3,515,000 of interagency chargebacks. Subsequent to June 30, 1994 the Legislature passed and the Governor signed Chapter 126 of the Acts of 1994 which included \$119,857,000 in additional supplemental appropriations. Fiscal year 1994 appropriations, retained revenues, and interagency chargebacks totaled \$15,967,038,000. Appropriations continued from fiscal year 1993, totaled approximately \$106,626,000, and certain intrafund and interfund transfers directed by statute, totaled approximately \$197,550,000.

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

NOTES TO THE COMBINED FINANCIAL STATEMENTS

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

| | <u>Revenues and other financing sources</u> | <u>Expenditures and other financing uses</u> |
|---|---|--|
| As presented in the combined budget and actual statement - statutory basis: | \$ 15,979,221 | \$ 15,952,460 |
| Adjustments to revenues and expenditures: | | |
| Municipal transit assessments | (140,365) | (140,365) |
| Charges from the Intragovernmental Service Fund | (96,868) | (96,868) |
| Adjustments to other financing sources and uses: | | |
| MBTA subsidy transfer from the Highway Fund to the General Fund | (60,386) | (60,386) |
| School Choice | (17,908) | (17,908) |
| Fringe benefit cost assessments to budgeted funds | (46,436) | (46,436) |
| Transfer from the Intragovernmental Service Fund to the General Fund | (1,601) | (1,601) |
| RMV License Plates | (494) | (494) |
| Stabilization transfers | <u>(65,423)</u> | <u>(65,423)</u> |
| As presented on budgetary documents: | <u>\$ 15,549,740</u> | <u>\$ 15,522,979</u> |

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

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

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Administrative Control Funds are:

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

Major Budgeted Special Revenue Funds are:

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

Budgeted Environmental (Special Revenue) Funds are:

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

Other Budgeted (Special Revenue) Funds are:

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

The Child Care Affordability Scholarship Assistance Fund, established as a budgeted fund in fiscal year 1991, the Health Insurance Hardship Trust Fund established in 1988, and the Motor Vehicle Emission Inspection Compliance Fund established in 1994, as nonbudgeted special revenue funds, have had no activity and no financial statements are presented.

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

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.

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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, 1994, are as follows (amounts in thousands):

| | Carrying Value |
|---|-------------------|
| Cash | \$ 712,163 |
| Certificates of deposit | 2,900 |
| | 715,063 |
| Short-term investments: | |
| U.S. Treasury obligations | 489,000 |
| Commercial paper | 102,919 |
| Short-term investment pool | 280,600 |
| Repurchase agreements | 355,000 |
| | 1,227,519 |
| Non-appropriated Higher Education Fund Type cash managed at the campus level | 121,606 |
| Total | \$ 2,064,188 |

The Pension Trust Funds have invested a significant portion of their portfolios on two pooled trusts which account for their operations in a manner similar to mutual fund. The trusts are permitted to invest in equity securities, fixed income securities, real estate and other alternatives. The investments are carried at market value. At June 30, 1994, they are as follows (amounts in thousands):

| | |
|--|---------------|
| Investments: | |
| Equity securities | \$ 6,571,068 |
| U.S. government and government agency securities | 2,027,604 |
| Fixed income securities | 1,473,849 |
| Real estate | 629,032 |
| Commercial paper | 10,352 |
| Money market investments | 225,979 |
| Mutual funds | 966 |
| Alternative investments | 440,842 |
| Foreign government treasury obligations | 183,815 |
| Other | 49,702 |
| Total | \$ 11,613,209 |

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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, 1994, totaled \$240,000,000, with an interest rate of 3.4% and a yield of 2.86%, and matured in November, 1994. The Commonwealth subsequently issued comparable notes, also in the amount of \$240,000,000, with an interest rate of 5%, maturing in June, 1995.

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 1994, amounts outstanding for the Revenue Anticipation Notes (RAN's) ranged from zero to \$250,000,000 and for the Bond Anticipation Notes (BAN's) ranged from zero to \$180,000,000. Such borrowings were subject to a guarantee of up to \$600,000,000 through letter of credit agreements.

Capital Projects Funds - The Commonwealth has issued five-year term minibonds, which are redeemable upon demand, to finance its capital projects. At June 30, 1994, minibonds outstanding in the Capital Projects Funds totaled \$49,062,000, with interest rates ranging from 5.0% to 8.0%.

The Commonwealth may issue bond anticipation notes to temporarily finance its capital projects, but it must reduce the balance to \$200,000,000 at June 30. There were such notes outstanding at June 30, 1994.

Letter of credit agreements - During fiscal year 1994, the Commonwealth maintained letter of credit agreements with several banks in order to provide credit and liquidity support for its commercial paper program. The letters of credit were available to secure up to \$600,000,000 of Commonwealth commercial paper plus interest thereon. Advances were available, subject to certain limitations and bearing interest at the bank rate as defined, in anticipation of revenue or bond proceeds and repayable by the following June 30, subject to extension in certain circumstances, at the Commonwealth's option. No such advances were drawn during the fiscal year ended June 30, 1994, or subsequent thereto. These agreements expire September 30, 1994 through October 29, 1994. The average costs are approximately 0.3% on unutilized amounts and approximately 0.4% on utilized amounts.

Subsequent to June 30, 1994, the Commonwealth established a line of credit with a bank to provide liquidity support for up to \$200,000,000 of commercial paper notes, which line of credit expires September 30, 1996. In addition, the Commonwealth entered into letter of credit agreements with two banks to provide credit and liquidity support for up to \$400,000,000 of commercial paper notes, plus interest thereon. These letters of credit expire on September 30, 1996 and October 31, 1996, respectively. The average costs of all three facilities are approximately 0.077% on unutilized amounts and approximately 0.11% on utilized amounts.

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Line of credit agreement - The Commonwealth maintained a revolving line of credit agreement with a bank through June 30, 1994, 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. Commitment fees totaled \$75,000. This line of credit agreement was not utilized during the fiscal year and was allowed to expire on June 30, 1994.

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.

As of June 30, 1994, the Commonwealth had three types of bonds outstanding: general obligation bonds, dedicated income tax bonds, and special obligation bonds. The general obligation bonds are authorized and issued primarily to provide funds for state-owned capital projects and local government improvements. They are backed by the full faith and credit of the Commonwealth and paid from the Governmental Funds, in which debt service principal and interest payments are appropriated. Section 49 of Chapter 29 of the Massachusetts General Laws provides for the allocation of bond proceeds to these authorizations in arrears, as expenditures are made, unless the proceeds are allocated at the time of issuance.

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

During fiscal year 1992 and again during fiscal year 1994, the Commonwealth issued special obligation revenue bonds as authorized under Section 20 of Chapter 29 of the Massachusetts General Laws. These bonds are secured by all or a portion of revenues credited to the Highway Fund and are not general obligations of the Commonwealth. At June 30, 1994, the Commonwealth had outstanding \$403,770,000 of such special obligation bonds, secured by a pledge of 6.86 cents of the 21-cent motor fuel excise tax imposed on gasoline.

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

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

General and special obligation long-term bonds outstanding and bonds authorized-unissued at June 30, 1994, are as follows (amounts in thousands):

| Purpose | Outstanding | | Authorized -unissued |
|------------------------|--------------|-------------------|-------------------------|
| | Amount | Maturity dates | Amount |
| Deficit reduction: | | | |
| Fiscal recovery | \$ 839,810 | 1994 -1998 | \$ 57,274 |
| Capital projects: | | | |
| General | 4,965,236 | 1994 - 2014 | 2,613,220 |
| Highway | 2,427,619 | 1994 - 2014 | 965,681 |
| Local aid | 1,105,083 | 1994 - 2013 | 855,998 |
| Other | 89,997 | 1994 - 2025 | 20,124 |
| Capital projects bonds | 8,587,935 | | 4,455,023 |
| Total | \$ 9,427,745 | | \$ 4,512,297 |

Interest rates on the Commonwealth's bonded debt outstanding at June 30, 1994 ranged from 1.10% to 14.12%.

Changes in long-term bonds outstanding and bonds authorized-unissued for the year ended June 30, 1994, are as follows (amounts in thousands):

| | Bonds outstanding | Authorized -unissued |
|--|----------------------|-------------------------|
| Balance, July 1, 1993 | \$ 9,231,458 | \$ 4,614,367 |
| General and special obligation bonds: | | |
| Principal less discount and issuance costs | 690,206 | (690,206) |
| Discount and issuance costs | 9,794 | |
| General obligation refunding bonds: | | |
| Principal less discount and issuance costs | 835,795 | |
| Discount and issuance costs | 7,200 | |
| Bonds retired | (1,346,708) | |
| Increase in bonds authorized | | 612,611 |
| Expiration of authorizations | | (24,475) |
| Balance, June 30, 1994 | \$ 9,427,745 | \$ 4,512,297 |

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At June 30, 1994, debt service requirements to maturity for principal (including discount, capital appreciation and issuance costs) and interest are as follows (amounts in thousands):

| Year ending June 30 | Principal | Interest | Total |
|---------------------------|---------------------|---------------------|----------------------|
| 1995 | \$ 646,279 | \$ 490,506 | \$ 1,136,785 |
| 1996 | 666,961 | 453,264 | 1,120,225 |
| 1997 | 694,365 | 410,257 | 1,104,622 |
| 1998 | 618,262 | 368,262 | 986,524 |
| 1999 | 543,937 | 338,349 | 882,286 |
| 2000 and thereafter | 6,257,941 | 2,097,805 | 8,355,746 |
| Total | \$ 9,427,745 | \$ 4,158,443 | \$ 13,586,188 |

The Commonwealth issued bonds and notes under negotiated contracts and under competitive bidding contracts during the fiscal year 1994. The costs for legal counsel and underwriting fees under the negotiated contracts were \$260,000 and \$5,762,975, and the competitive bidding contract costs were estimated at \$235,000 and \$1,982,000, respectively.

Subsequent to June 30, 1994, the Commonwealth issued \$250,000,000 in general obligation bonds, with interest rates ranging from 5.0% to 6.0%, and \$200,000,000 in general obligation bonds, with interest rates ranging from 5.5% to 7%.

Advance refundings and defeased bonds- As authorized by Section 53A of Chapter 29 of the Massachusetts General Laws, the Commonwealth advance refunded certain general obligation and other bonds through the issuance of \$842,995,000 of general obligation refunding bonds during fiscal year 1994. Proceeds totaling approximately \$839,094,000 were used to purchase U.S. Government securities which were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liabilities therefor have been removed from the General Long-term Obligations Account Group. As a result of these advance refundings, the Commonwealth decreased its current year debt service payments and has taken advantage of lower interest rates, and it has decreased its aggregate debt service payments by approximately \$65,942,000 over the next 20 years and incurred an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$49,339,000. At June 30, 1994, approximately \$749,925,000 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, 1994, approximately \$2,577,000,000 of bonds outstanding from advance refundings in prior fiscal years are considered defeased.

Statutory debt limit - In fiscal years 1990 and 1991, Section 60A of Chapter 29, of the Massachusetts General Laws was amended to establish a limit on the amount of direct debt outstanding, effective at the

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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 1994 was \$7,871,850,000.

For purposes of determining compliance with the limit, direct debt is defined to include general obligation bonds and minibonds at the amount of their original net proceeds. It excludes discount and issuance costs, if any, financed by these bonds. It also excludes dedicated income tax bonds issued under Chapter 151, Acts of 1990, special obligation bonds issued under Section 20 of Chapter 29 of the Massachusetts General Laws, refunded bonds, refunding bonds issued under Section 5 of Chapter 5, Acts of 1991, and bond anticipation notes. Outstanding direct debt, as defined, totaled approximately \$7,392,292,000 at June 30, 1994.

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

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

| <u>Year ending June 30</u> | <u>Amount</u> |
|------------------------------------|------------------|
| 1995 | \$ 2,668 |
| 1996 | 2,670 |
| 1997 | 2,671 |
| 1998 | 2,668 |
| 1999 | 2,671 |
| 2000 and thereafter | <u>2,673</u> |
| Total payments | 16,021 |
| Less: Amount representing interest | <u>(3,334)</u> |
| Present value of payments | <u>\$ 12,687</u> |

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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. For the fiscal year ended June 30, 1994, lease/purchase expenditures under these agreements totaled approximately \$27,555,000.

At June 30, 1994, the Commonwealth's aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totals \$69,730,000. 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 \$90,889,000.

The Commonwealth has numerous operating lease agreements for real property and equipment with varying terms. These agreements contain provisions indicating that continuation is subject to appropriation by the Legislature. Rental expense for the fiscal year ended June 30, 1994 was approximately \$106,186,000.

The following is a schedule of future minimum payments under non-cancelable leases as of June 30, 1994 (amounts in thousands):

| Year ending June 30 | Capital Leases | | | Operating leases |
|---|----------------|-----------|-----------|------------------|
| | Commonwealth | UMass | Total | |
| 1995 | \$ 18,629 | \$ 5,726 | \$ 24,355 | \$ 86,460 |
| 1996 | 14,676 | 4,788 | 19,464 | 66,707 |
| 1997 | 10,545 | 3,883 | 14,428 | 53,430 |
| 1998 | 7,071 | 2,806 | 9,877 | 43,314 |
| 1999 | 5,084 | 2,112 | 7,196 | 28,524 |
| 2000 and thereafter | 2,786 | 3,339 | 6,125 | 8,224 |
| Total | 58,791 | 22,654 | 81,445 | \$ 286,659 |
| Less: Amount representing interest | (7,837) | (3,878) | (11,715) | |
| Present value of minimum lease payments | \$ 50,954 | \$ 18,776 | \$ 69,730 | |

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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, 1994, as follows (amounts in thousands):

| <u>Fund</u> | |
|---|---------------------|
| General | \$ 631,903 |
| Budgeted Special Revenue: | |
| Environmental: | |
| Natural Heritage and Endangered Species | 18 |
| Environmental Permitting and Compliance Assurance | 9,135 |
| Low Level Radioactive Waste Management | 54 |
| Other: | |
| Antitrust Law Enforcement | 1,144 |
| Victim and Witness Assistance | 3,125 |
| Intercity Bus Capital Assistance | 8,307 |
| Leo J. Martin Recreation | 36 |
| Non-budgeted Special Revenue: | |
| Other: | |
| Government Land Bank | 21,434 |
| Federally-assisted Housing | 9,762 |
| Capital Projects: | |
| General | 210,991 |
| Highway | 82,007 |
| Local Aid: | |
| Community Development Action Grants | 40,504 |
| Lockup Facilities Improvements | 178 |
| County Correctional Facilities | 504 |
| Local Infrastructure | 227 |
| Water Pollution Control | 13,129 |
| Other: | |
| State Recreation Areas | 702 |
| Metropolitan Parks | 4,304 |
| Intercity Bus Capital Assistance | <u>5</u> |
| Total | <u>\$ 1,037,469</u> |

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

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In the Capital Projects Funds, the recognition of minibonds as fund liabilities accounts for \$49,062,000 of the reported fund deficits. The remaining deficits to be financed, approximately \$303,423,000, reflect the time lag between capital expenditures and the receipt or allocation of proceeds from the sale of related bonds. Subsequently, on August 9, 1994, the Commonwealth issued \$250,000,000 of General Obligation Bonds to finance the deficit.

9. MEDICAID COSTS:

The Commonwealth provides medical care for low-income, elderly and other residents who qualify for such assistance under the federally-sponsored Medical Assistance Program, known as Medicaid. The Commonwealth pays the full cost of care and is reimbursed by the federal government for 50% of that cost. For the fiscal year ended June 30, 1994, the General Fund and Local Aid Funds include \$3,313,126,524 in expenditures for Medicaid claims processed for payment.

The combined financial statements - statutory basis include Medicaid claims processed but unpaid at June 30, 1994, as accounts payable of approximately \$10,433,661. In addition, the Commonwealth estimates its liability, as determined in accordance with generally accepted accounting principles at \$814,000,000. This amount includes estimates of both the cost of care provided as of June 30, 1994, 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.

Subsequent to June 30, 1994, the Commonwealth reached settlements with certain hospitals, and it also certified disputed nursing home rates on a retroactive basis. These actions are expected to reduce the Commonwealth's Medicaid liability as measured by GAAP for fiscal year 1994.

10. RETIREMENT SYSTEMS:

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

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

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

Teachers' Retirement System (TRS) is an agent multiple employer defined benefit PERS. The Commonwealth is a non-employer contributor and is responsible for all contributions and future benefit

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requirements of TRS. The TRS covers certified teachers in cities (except the City of Boston), towns, regional school districts and Quincy College.

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

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

Membership - Membership in SERS, TRS as of January 1, 1993 and SBRS as of January 1, 1994 is as follows:

| | <u>SERS</u> | <u>TRS</u> | <u>SBRS</u> |
|--|----------------|---------------|--------------|
| Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them | <u>45,419</u> | <u>30,168</u> | <u>2,354</u> |
| Current employees: | | | |
| Vested | 36,398 | 44,782 | 3,872 |
| Nonvested | <u>47,114</u> | <u>17,206</u> | <u>2,011</u> |
| Subtotal | <u>83,512</u> | <u>61,988</u> | <u>5,883</u> |
| Total | <u>128,931</u> | <u>92,156</u> | <u>8,237</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.

Members become vested after ten years of creditable service. A superannuating retirement allowance may be received upon the completion of twenty years of service or upon reaching the age of 55 with ten years

NOTES TO THE COMBINED FINANCIAL STATEMENTS

of service. Normal retirement for most employees occurs at age 65; for certain hazardous duty and public safety positions, normal retirement is at age 55.

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

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

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

The current approved funding schedule, based on the January 1, 1990 valuation, was filed with the Legislature on March 1, 1991. It required contributions by the Commonwealth of \$763,749,000 during the fiscal year ended June 30, 1993. Because total pay-as-you-go benefits exceeded this amount, no additional Commonwealth contribution was required.

Actual contributions for the year ended June 30, 1994, are as follows (amounts in thousands):

| | Employee contributions | Commonwealth contributions |
|-------|---------------------------|-------------------------------|
| SERS | \$ 212,625 | \$ 415,173 |
| TRS | 171,273 | 328,707 |
| SBRS | 14,056 | 28,223 |
| COLA | | 94,287 |
| | \$ 397,954 | \$ 866,390 |
| Total | | |

During fiscal year 1994, the Commonwealth also made payments totaling approximately \$22,209,000 to retirees employed prior to the establishment of the current plans and to non-contributory plans.

**COMMONWEALTH OF MASSACHUSETTS
STATUTORY BASIS FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994**

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 \$126,026,713 for the fiscal year ended June 30, 1994.

11. COMMITMENTS AND CONTINGENCIES:

Under Chapters 161A and 161B of the General Laws, the Commonwealth is obligated to pay a portion of the debt service and the net costs of service of MBTA and certain regional transit authorities. The Commonwealth recovers a portion of these payments through assessments to the cities and towns served. Fiscal year 1994 net expenditures were \$490,428,951 and \$31,855,619, respectively. For fiscal year 1995, the Commonwealth has appropriated \$500,901,506 and \$33,973,184 to the MBTA and regional transit authorities, respectively. These appropriations cover net costs of service for the calendar year ended December 31, 1993.

The Commonwealth is also statutorily obligated to provide contract assistance for debt service obligations to the Massachusetts Convention Center Authority (MCCA) and the Government Land Bank. Such assistance totaled \$17,583,383 in fiscal year 1994. For fiscal year 1994, appropriations for this purpose totaled \$30,610,780.

At June 30, 1994, the aggregate outstanding debt for which the Commonwealth is obligated to provide contract assistance support totaled approximately \$2,442,885,000 long term and \$433,269,000 for short term. In addition, the Commonwealth guarantees the debt of certain local governments and public higher education building authorities. The guaranteed debt outstanding at June 30, 1994, was approximately \$235,916,000.

At June 30, 1994, the Commonwealth had commitments approaching \$1,636,000,000 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 \$73,500,000. Of this amount approximately \$61,500,000 is expected to be paid in fiscal year 1995, and \$12,000,000 is expected to be paid thereafter. Appellate Tax Board cases included in the amount to be paid in 1995 total \$17,500,000. No accrual has been made for these amounts in the combined financial statements - statutory basis.

NOTES TO THE COMBINED FINANCIAL STATEMENTS

Workers' compensation costs are recognized when claims are presented and paid. The Commonwealth's outstanding liability for such claims at June 30, 1994, is estimated to be \$341,900,000, of which approximately \$54,100,000 is expected to be recognized during fiscal year 1994. No accrual has been made for these amounts in the combined financial statements - statutory basis.

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, 1994, 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 1994 totaled \$54,298,192. Since inception, approximately \$484,660,192 has been remitted. This represents a contingency, because claims for refunds can be made by the owners of the property. No material amounts have been repaid.

12. NON-TAX REVENUE INITIATIVES:

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

Debt collection - Private debt collectors were engaged, with fees, on a contingent basis, from the proceeds collected. Collections and fees paid during fiscal year 1994 were: (amounts in thousands):

| <u>Department Collectors</u> | <u>Collections</u> | <u>Fees</u> |
|------------------------------|--------------------|--------------|
| Allen Daniels Associates | \$ 36 | \$ 5 |
| Credit Control Services | 227 | 74 |
| Collection Co. of America | 9 | 2 |
| Glenn Associates, Inc. | 1 | 1 |
| Payco-American Corporation | 4 | 1 |
| Walker | 1 | 1 |
| Totals | <u>\$ 278</u> | <u>\$ 84</u> |

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

**COMMONWEALTH OF MASSACHUSETTS
 STATUTORY BASIS FINANCIAL REPORT
 FISCAL YEAR ENDED JUNE 30, 1994**

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 Collectors</u> | <u>Collections</u> | <u>Fees</u> |
|----------------------------|--------------------|---------------|
| Allen Daniels Associates | \$ 107 | \$ 21 |
| Collection Co. of America | 402 | 141 |
| Glenn Associates, Inc. | 93 | 10 |
| Payco-American Corporation | 205 | 61 |
| Totals | <u>\$ 807</u> | <u>\$ 233</u> |

Revenue maximization - Contractors were engaged to assist several of the Commonwealth's departments in the identification and collection of federal and other revenues. During fiscal year 1994, approximately \$51,000,000 was collected through such efforts, which included approved billing of third parties responsible for patients in Commonwealth-operated hospitals. After contractor fees were paid on a contingent basis, the Commonwealth received approximately \$47,000,000.

Utility Audits- Massachusetts General Law, Chapter 29 Section 29G, authorized the Department of Procurement and General Services to solicit services and enter into contingent contracts on behalf of governmental entities for the potential recoupment of overcharges associated with utility expenses. In fiscal year 1994 two providers were selected to perform reviews of utility billings. As of June 30 reviews were either in process or completed for twelve state managed facilities. Vendors selected were: Utility Management Group and Precision Flow Laboratories. During fiscal year 1994, \$16,000 was recouped and \$6,400 was paid to the Utility Management Group, resulting in a net benefit to the Commonwealth of \$9,600. In addition, during fiscal year 1994, reviews were in process for 32 municipalities who have taken advantage of the master service agreement negotiated by Procurement and General Services.

**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, 1994, and for the year then ended. These general purpose financial statements are the responsibility of the management of the Commonwealth of Massachusetts. Our responsibility is to express an opinion on these general purpose financial statements based on our audit. We did not audit the financial statements of the University of Massachusetts, Massasoit Community College, Bridgewater State College, and the State College Building Authority, which statements reflect 74 percent of the total assets and 76 percent of the revenues of the University and College Fund Type. We did not audit the financial statements of the Pension Reserves Investment Trust which is an investment vehicle for certain of the Commonwealth of Massachusetts' Pension Trust Funds, the financial statements which reflect 26 percent of the total assets and 8 percent of the revenues of the Fiduciary Fund Type. Except for the Massachusetts Convention Center Authority, which represents 4 and 3 percent of assets and revenues respectively, we did not audit the financial statements of the entities which comprise the Component Units Column. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for the University and College Fund Type, Fiduciary Fund Type and the discretely presented Component Units referred to above, is based solely on the reports of the other auditors.

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

In our opinion, based upon our audit and the reports of the other auditors, such general purpose financial statements referred to above present fairly, in all material respects, the financial position of the Commonwealth of Massachusetts as of June 30, 1994, and the results of its operations and cash flows of its Nonexpendable Trust Fund and discretely presented Component Units for the year then ended in conformity with generally accepted accounting principles.

As discussed in note 15, the Commonwealth adopted Governmental Accounting Standards Board Statement No. 14, "The Financial Reporting Entity."

As discussed in Note 1, the Fiduciary Fund Type includes investments representing 5.7 percent of the assets of the Fiduciary Fund Types, whose values have been estimated by management in the absence of readily ascertainable market values. The procedures used by management in arriving at the estimated value of such investments and the underlying documentation have been reviewed and inspected by us and by the other auditors' and, in the circumstances, we believe and the other auditors' report states their belief, that the procedures of management are reasonable and the documentation appropriate. However, determination of the value of these investments involves subjective judgment because the actual market value can be determined only by negotiation between the parties in a sales transaction. The estimated values of the investments may differ from the values that would have been used had a ready market existed for the investments.

As discussed in Note 1, the discretely presented Component Units include investments representing 1 percent of their total assets, whose values have been estimated by management in the absence of readily ascertainable market values. The procedures used by management in arriving at the estimated value of such investments and the underlying documentation have been reviewed and inspected by other auditors' and, the other auditors' report states their belief, that the procedures of management are reasonable and the documentation appropriate. However, determination of the value of these investments involves subjective judgment because the actual market value can be determined only by negotiation between the parties in a sales transaction. The estimated values of the investments may differ from the values that would have been used had a ready market existed for the investments

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

Deloitte & Touche LLP

December 21, 1994

COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF CHANGES IN FUND BALANCES -
 UNIVERSITY AND COLLEGE FUND TYPE
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)

| | Current Funds | | Loan Fund | Endowment and Similar Funds |
|---|------------------|------------------|------------------|-----------------------------------|
| | Unrestricted | Restricted | | |
| Mandatory transfers: | | | | |
| Principal and interest | \$ (27,506) | \$ 0 | \$ 0 | \$ 0 |
| Renewals and replacements | (517) | | | |
| Student loan fund matching | (435) | 320 | 115 | |
| Other mandatory transfers | (68,822) | | | |
| Nonmandatory transfers: | | | | |
| Transfers of appropriation | 606,969 | 27,652 | 9 | |
| Transfers of bond proceeds | | 14,723 | | |
| Unexpended plant funds | (11,324) | | | |
| Renewals and replacements | (6,410) | (8,089) | | |
| Other nonmandatory transfers | (15,455) | (2,133) | (507) | 30,159 |
| Total transfers | 476,500 | 32,473 | (383) | 30,159 |
| Net increase (decrease) for the year | (67,052) | 11,436 | 1,280 | 33,710 |
| Fund balances at the beginning of year | 122,977 | 21,781 | 47,403 | 20,976 |
| Fund balances at end of year | \$ 55,925 | \$ 33,217 | \$ 48,683 | \$ 54,686 |

See notes to general purpose financial statements.

| Plant Funds | Totals | |
|---------------------|---------------------|---------------------|
| | 1994 | 1993 |
| \$ 27,506 | \$ 0 | \$ 0 |
| 517 | | |
| (20) | (68,842) | (72,695) |
| 281 | 634,911 | 618,817 |
| 601 | 15,324 | 24,796 |
| 11,324 | | |
| 14,499 | | |
| (12,064) | | |
| <u>42,644</u> | <u>581,393</u> | <u>570,918</u> |
| 45,101 | 24,475 | 18,826 |
| <u>1,797,324</u> | <u>2,010,461</u> | <u>1,991,635</u> |
| <u>\$ 1,842,425</u> | <u>\$ 2,034,936</u> | <u>\$ 2,010,461</u> |

**COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES -
 UNIVERSITY AND COLLEGE FUND TYPE
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)**

| | Current Funds | | Totals | |
|--|------------------|----------------|------------------|------------------|
| | Unrestricted | Restricted | 1994 | 1993 |
| Revenues and other additions: | | | | |
| Tuition and fees | \$ 489,110 | \$ 0 | \$ 489,110 | \$ 379,069 |
| Federal appropriations | | 7,411 | 7,411 | 7,158 |
| Federal grants and contracts | 16 | 138,951 | 138,967 | 154,461 |
| State grants and contracts | 887 | 19,717 | 20,604 | 5,972 |
| Local grants and contracts | 32 | 1,979 | 2,011 | 2,247 |
| Private gifts, grants and contracts | 2,910 | 51,315 | 54,225 | 82,059 |
| Endowment income | 170 | 652 | 822 | 204 |
| Sales and service, educational | 9,351 | | 9,351 | 10,333 |
| Sales and service, auxiliary enterprises | 176,536 | | 176,536 | 121,366 |
| Sales and service, hospital | 229,763 | | 229,763 | 225,165 |
| Sales and service, group practice plan | 110,732 | | 110,732 | 84,517 |
| Recovery of indirect costs | 32,055 | | 32,055 | 32,669 |
| Other investment income | 14,411 | 82 | 14,493 | 16,401 |
| Other | 17,338 | 371 | 17,709 | 68,354 |
| Total current funds revenues | 1,083,311 | 220,478 | 1,303,789 | 1,189,975 |
| Expenditures: | | | | |
| Instruction | 540,228 | 29,102 | 569,330 | 521,977 |
| Research | 37,377 | 85,076 | 122,453 | 125,053 |
| Public service | 37,433 | 31,234 | 68,667 | 42,876 |
| Academic support | 100,729 | 20,830 | 121,559 | 114,340 |
| Student services | 73,080 | 3,846 | 76,926 | 95,512 |
| Institutional support | 166,353 | 3,499 | 169,852 | 145,761 |
| Operation and maintenance of plant | 126,365 | 11,409 | 137,774 | 138,854 |
| Scholarships and fellowships | 37,774 | 77,858 | 115,632 | 119,680 |
| Auxiliary enterprises | 171,118 | | 171,118 | 124,027 |
| Hospital | 225,006 | | 225,006 | 218,583 |
| Group practice plan | 111,400 | | 111,400 | 99,603 |
| Total current funds expenditures | 1,626,863 | 262,854 | 1,889,717 | 1,746,266 |

COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES -
 UNIVERSITY AND COLLEGE FUND TYPE
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)

| | Current Funds | | Totals | |
|---|--------------------|------------------|--------------------|--------------------|
| | Unrestricted | Restricted | 1994 | 1993 |
| Transfers and other changes: | | | | |
| Mandatory transfers: | | | | |
| Principal and interest | \$ (27,506) | \$ 0 | \$ (27,506) | \$ (32,896) |
| Renewals and replacements | (517) | | (517) | (1,381) |
| Student loan fund matching | (435) | 320 | (115) | (397) |
| Other | (68,822) | | (68,822) | (72,695) |
| Transfers of appropriation | 606,969 | 27,652 | 634,621 | 615,633 |
| Transfers of bond proceeds | | 14,723 | 14,723 | 8,716 |
| Unexpended plant funds | (11,324) | | (11,324) | (3,800) |
| Renewals and replacements | (6,410) | (8,089) | (14,499) | (8,211) |
| Other nonmandatory transfers | (15,455) | (2,133) | (17,588) | (953) |
| Refunds to grantors | | (313) | (313) | (222) |
| Excess of restricted receipts over transfers to revenue | | 21,652 | 21,652 | 247 |
| Total transfers and other changes | 476,500 | 53,812 | 530,312 | 504,041 |
| Total increase (decrease) in fund balances | \$ (67,052) | \$ 11,436 | \$ (55,616) | \$ (52,250) |

See notes to general purpose financial statements.

COMMONWEALTH OF MASSACHUSETTS
 COMBINING BALANCE SHEET -
 DISCRETELY PRESENTED COMPONENT UNITS
 JUNE 30, 1994
 (Amounts in thousands)

| | Massachusetts Bay Transportation Authority | Regional Transit Authorities | Water Pollution Abatement Trust |
|--|---|------------------------------------|--|
| ASSETS | | | |
| Cash and short-term investments | \$ 42,164 | \$ 12,436 | \$ 155,554 |
| Investments | | 197 | 127,250 |
| Restricted investments | 17,791 | | |
| Receivables, net of allowance for uncollectibles: | | | |
| Due from federal government | 7,500 | 3,546 | 82,542 |
| Loans | | | 352,315 |
| Other receivables | 28,158 | 4,497 | 7,701 |
| Due from cities and towns | | | |
| Due from primary government | 361,020 | 54,833 | 16,378 |
| Inventory | 39,083 | 302 | |
| Fixed assets | 4,502,170 | 94,496 | 571 |
| Other assets | 132,054 | 3,260 | 436 |
| Total assets | \$ 5,129,940 | \$ 173,567 | \$ 742,747 |
| LIABILITIES AND FUND EQUITY | | | |
| Liabilities: | | | |
| Accounts payable | \$ 54,324 | \$ 7,786 | \$ 0 |
| Accrued payroll | 41,679 | 536 | |
| Compensated absences | | | |
| Due to cities and towns | | | |
| Due to federal government | | | |
| Deferred revenue | 49,168 | 573 | |
| Obligations under lease/purchase and other financing arrangements | | | |
| Claims and judgements | | 1,224 | |
| Other accrued liabilities | 165,945 | 3,432 | 6,987 |
| Capital leases | | | |
| Bonds, notes payable and certificates of participation | 2,550,774 | 65,717 | 319,535 |
| Total liabilities | 2,861,890 | 79,268 | 326,522 |
| Fund equity: | | | |
| Contributed capital | 2,433,829 | 92,681 | 409,030 |
| Retained earnings (deficits): | | | |
| Reserved for investment programs | | | 7,195 |
| Unreserved | (165,779) | 1,618 | |
| Total fund equity | 2,268,050 | 94,299 | 416,225 |
| Total liabilities and fund equity | \$ 5,129,940 | \$ 173,567 | \$ 742,747 |

| <u>Massachusetts Convention Center Authority</u> | <u>Economic Development Authorities</u> | <u>Total</u> |
|--|---|---------------------|
| \$ 12,530 | \$ 50,024 | \$ 272,708 |
| | 46,383 | 173,830 |
| 33,623 | 7,966 | 59,380 |
| | 12,000 | 105,588 |
| | 74,465 | 426,780 |
| 337 | 1,176 | 41,869 |
| | 376 | 376 |
| 10,120 | 2,820 | 445,171 |
| | 33 | 39,418 |
| 204,932 | 21,049 | 4,823,218 |
| <u>2,642</u> | <u>686</u> | <u>139,078</u> |
| <u>\$ 264,184</u> | <u>\$ 216,978</u> | <u>\$ 6,527,416</u> |
| | | |
| \$ 20,863 | \$ 6,284 | \$ 89,257 |
| | 529 | 42,744 |
| | 296 | 296 |
| | 475 | 475 |
| | 1,045 | 1,045 |
| 424 | 5,186 | 55,351 |
| | | 1,224 |
| 12,324 | 6,484 | 195,172 |
| | 38 | 38 |
| <u>190,238</u> | <u>17,909</u> | <u>3,144,173</u> |
| <u>223,849</u> | <u>38,246</u> | <u>3,529,775</u> |
| | | |
| 44,613 | 70,576 | 3,050,729 |
| | 51,847 | 51,847 |
| <u>(4,278)</u> | <u>56,309</u> | <u>(104,935)</u> |
| <u>40,335</u> | <u>178,732</u> | <u>2,997,641</u> |
| <u>\$ 264,184</u> | <u>\$ 216,978</u> | <u>\$ 6,527,416</u> |

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

JUNE 30, 1994

(Amounts in thousands)

| | Primary | | | |
|---|-------------------------|---------------------|---------------------|-------------------------|
| | Governmental Fund Types | | | Fiduciary Fund Types |
| | General | Special Revenue | Capital Projects | Trust and Agency |
| ASSETS AND OTHER DEBITS | | | | |
| Cash and short-term investments | \$ 33,975 | \$ 1,023,832 | \$ 2,636 | \$ 1,749,344 |
| Cash with fiscal agent | 786 | 4,328 | | |
| Deposits | | | | 33,001 |
| Investments | | | | 11,613,208 |
| Restricted investments | | | 83,319 | |
| Investments of deferred compensation plan | | | | 945,401 |
| Annuity contracts | | | | 1,045,084 |
| Assets held in trust | | | | 1,550,917 |
| Receivables, net of allowance for uncollectibles: | | | | |
| Taxes | 612,921 | 432,216 | | 319,802 |
| Due from federal government | 580,130 | 145,162 | 155,301 | 655 |
| Loans | | | | 7,420 |
| Other receivables | 179,002 | 95,396 | 1,271 | 1,642,070 |
| Due from cities and towns | 213,331 | 1,177 | | |
| Due from primary government | | | | |
| Due from other funds | 9,897 | 149,972 | 20,632 | 2,487 |
| Inventory | | | | |
| Fixed assets | | | | |
| Other assets | | | | |
| Amounts available for retirement of general long-term obligations | | | | |
| Amounts to be provided for retirement of general long-term obligations | | | | |
| Total assets and other debits | \$ 1,630,042 | \$ 1,852,083 | \$ 263,159 | \$ 18,909,389 |
| LIABILITIES, FUND EQUITY AND OTHER CREDITS | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 1,239,818 | \$ 362,597 | \$ 305,902 | \$ 1,832,981 |
| Accrued payroll | 62,098 | 18,831 | 1,980 | 368 |
| Compensated absences | 90,493 | 52,601 | 3,799 | 200 |
| Tax refunds and abatements payable | 335,988 | 216,813 | | 8,475 |
| Due to cities and towns | | | | 11,937 |
| Due to other funds | | | 170,604 | 6,164 |
| Due to component unit | 326,228 | 100,763 | 18,180 | |
| Due to federal government | 30,780 | 2,100 | | |
| Deferred revenue | 95,382 | 70,912 | 880 | 29,844 |
| Prizes payable | | | | 1,045,084 |

| University and College Fund Type | Government | | | | Component Units |
|--|----------------------------|-------------------------------------|-----------------------------|-----------------------|---------------------|
| | Account Groups | | Totals (Memorandum Only) | | Component Units |
| | General Fixed Assets | General Long-term Obligations | 1994 | 1993 (As restated) | |
| \$ 87,949 | \$ 0 | \$ 0 | \$ 2,897,736 | \$ 2,565,086 | \$ 272,708 |
| 55,268 | | | 60,382 | 3,797 | |
| | | | 33,001 | 49,506 | |
| 255,295 | | | 11,868,503 | 11,347,123 | 173,830 |
| | | | 83,319 | | 59,380 |
| | | | 945,401 | 895,768 | |
| | | | 1,045,084 | 975,442 | |
| | | | 1,550,917 | 1,518,389 | |
| | | | 1,364,939 | 1,457,317 | |
| 9,378 | | | 890,626 | 778,786 | 105,588 |
| 44,471 | | | 51,891 | 51,697 | 426,780 |
| 130,334 | | | 2,048,073 | 1,729,849 | 41,869 |
| | | | 214,508 | 205,166 | 376 |
| | | | | | 445,171 |
| 28,459 | | | 211,447 | 413,105 | |
| 13,572 | | | 13,572 | 13,633 | 39,418 |
| 2,058,075 | 3,066,682 | | 5,124,757 | 5,034,261 | 4,823,218 |
| 9,921 | | | 9,921 | 9,625 | 139,078 |
| | | 87,647 | 87,647 | 3,797 | |
| | | 14,558,611 | 14,558,611 | 14,027,470 | |
| <u>\$ 2,692,722</u> | <u>\$ 3,066,682</u> | <u>\$ 14,646,258</u> | <u>\$ 43,060,335</u> | <u>\$ 41,079,817</u> | <u>\$ 6,527,416</u> |
| \$ 45,369 | \$ 0 | \$ 0 | \$ 3,786,667 | \$ 3,188,696 | \$ 89,257 |
| 54,078 | | | 137,355 | 134,580 | 42,744 |
| 91,348 | | 81,823 | 320,264 | 321,064 | 296 |
| | | | 561,276 | 534,160 | |
| | | | 11,937 | 12,710 | 475 |
| 34,679 | | | 211,447 | 413,105 | |
| | | | 445,171 | 373,885 | |
| | | | 32,880 | 282,429 | 1,045 |
| 6,016 | | | 203,034 | 236,862 | 55,351 |
| | | | 1,045,084 | 975,442 | |

(Continued)

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

JUNE 30, 1994

(Amounts in thousands)

| | Primary | | | |
|---|-------------------------|---------------------|---------------------|-------------------------|
| | Governmental Fund Types | | | Fiduciary Fund Types |
| | General | Special Revenue | Capital Projects | Trust and Agency |
| Liabilities (continued): | | | | |
| Deferred compensation benefits payable | \$ 0 | \$ 0 | \$ 0 | \$ 945,401 |
| Agency liabilities | | | | 3,010,656 |
| Claims and judgments | 132,937 | 23,714 | 3,715 | 167 |
| Deposits and unearned revenue | | | | |
| Other accrued liabilities | | 62,791 | | 27,116 |
| Capital leases | | | | |
| Bonds, notes payable and certificates of participation | 240,000 | | 49,062 | |
| School construction grants | | | | |
| Unfunded pension costs | | | | |
| Total liabilities | 2,553,724 | 911,122 | 554,122 | 6,918,393 |
| Fund equity and other credits: | | | | |
| Investment in general fixed assets | | | | |
| Contributed capital | | | | |
| Retained earnings: | | | | |
| Reserved for investment programs | | | | |
| Unreserved | | | | |
| Fund balances (deficit): | | | | |
| Reserved for pension benefits | | | | 11,563,156 |
| Reserved for unemployment benefits | | | | 296,676 |
| Reserved for claims and judgements | | | 83,319 | |
| Restricted | | | | |
| Unexpended plant funds | | | | |
| Renewals and replacements | | | | |
| Retirement of indebtedness | | 4,328 | | |
| Net investment in plant | | | | 5,840 |
| Reserved for specific purpose | | | | |
| Unreserved | (923,682) | 936,633 | (374,282) | 125,324 |
| Total fund equity (deficit) and other credits | (923,682) | 940,961 | (290,963) | 11,990,996 |
| Total liabilities, fund equity and other credits | \$ 1,630,042 | \$ 1,852,083 | \$ 263,159 | \$ 18,909,389 |

See notes to general purpose financial statements.

| University and College Fund Type | Government | | | | Component Units |
|--|----------------------------|-------------------------------------|-----------------------------|----------------------|---------------------|
| | Account Groups | | Totals (Memorandum Only) | | Component Units |
| | General Fixed Assets | General Long-term Obligations | 1994 | 1993 | |
| University and Colleges | | | 1994 | 1993 | Component Units |
| \$ 0 | \$ 0 | \$ 0 | \$ 945,401 | \$ 895,768 | \$ 0 |
| 6,819 | | | 3,017,475 | 2,892,422 | |
| 71,981 | | 435,595 | 668,109 | 694,098 | 1,224 |
| 6,997 | | | 6,997 | 5,776 | |
| 60,008 | | | 149,915 | 124,313 | 195,172 |
| 19,558 | | 50,954 | 70,512 | 46,016 | 38 |
| 260,933 | | 9,427,745 | 9,977,740 | 9,860,099 | 3,144,173 |
| | | 2,070,709 | 2,070,709 | 1,926,082 | |
| | | 2,579,432 | 2,579,432 | 2,362,254 | |
| <u>657,786</u> | | <u>14,646,258</u> | <u>26,241,405</u> | <u>25,279,761</u> | <u>3,529,775</u> |
| | 3,066,682 | | 3,066,682 | 3,012,230 | 3,050,729 |
| | | | | | 51,847 (104,935) |
| | | | 11,563,156 | 11,121,148 | |
| | | | 296,676 | | |
| | | | 83,319 | | |
| 102,153 | | | 102,153 | 83,907 | |
| 25,779 | | | 25,779 | 27,868 | |
| 15,677 | | | 15,677 | 15,647 | |
| 21,528 | | | 25,856 | 23,148 | |
| 1,779,441 | | | 1,779,441 | 1,734,458 | |
| | | | 5,840 | 5,842 | |
| 90,358 | | | (145,649) | (224,192) | |
| <u>2,034,936</u> | <u>3,066,682</u> | | <u>16,818,930</u> | <u>15,800,056</u> | <u>2,997,641</u> |
| \$ <u>2,692,722</u> | \$ <u>3,066,682</u> | \$ <u>14,646,258</u> | \$ <u>43,060,335</u> | \$ <u>41,079,817</u> | \$ <u>6,527,416</u> |

**COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)**

| | Primary | | |
|---|-------------------------|------------------|------------------|
| | Governmental Fund Types | | |
| | General | Special Revenue | Capital Projects |
| Revenues: | | | |
| Taxes | \$ 6,550,346 | \$ 4,061,025 | \$ 0 |
| Assessments | 207,933 | 336,576 | |
| Federal grants and reimbursements | 2,908,959 | 1,255,412 | 944,738 |
| Departmental | 502,139 | 3,241,766 | 629 |
| Miscellaneous | 174,040 | 78,667 | 2,033 |
| Total revenues | 10,343,417 | 8,973,446 | 947,400 |
| Other financing sources: | | | |
| Proceeds of general obligation bonds | | | 690,206 |
| Proceeds of refunding bonds | | | 835,796 |
| Proceeds of capital leases | 33,550 | | |
| Operating transfers in | 350,455 | 863,831 | 152,542 |
| Other | | | 35,371 |
| Total other financing sources | 384,005 | 863,831 | 1,713,915 |
| Total revenues and other financing sources | 10,727,422 | 9,837,277 | 2,661,315 |
| Expenditures: | | | |
| Current: | | | |
| Legislature | 43,096 | | |
| Judiciary | 62,863 | 275,618 | |
| Inspector General | 1,394 | | |
| Governor and Lieutenant Governor | 4,330 | | |
| Secretary of the Commonwealth | 9,082 | 2,597 | |
| Treasurer and Receiver-General | 95,968 | 1,956,433 | |
| Auditor of the Commonwealth | 10,253 | 733 | |
| Attorney General | 35,671 | 2,496 | |
| Ethics Commission | 512 | 563 | |
| District Attorney | 8,035 | 39,304 | |
| Office of Campaign and Political Finance | 302 | 334 | |
| Disabled Persons Protection Commission | 1,514 | | |
| Board of Library Commissioners | | 5,411 | |
| Comptroller | 6,369 | | |
| Administration and finance | 689,556 | 173,863 | |
| Environmental affairs | 23,084 | 146,198 | |
| Communities and development | 109,715 | 248,030 | |
| Health and human services | 3,291,038 | 1,034,452 | |
| Transportation and construction | 51,194 | 68,958 | |
| Education | 488 | 457,391 | |
| Educational affairs | 1,956 | 1,155 | |

| Fiduciary Fund Type | Government | |
|------------------------|-----------------------------|-----------------------|
| | Totals (Memorandum Only) | |
| | 1994 | 1993 (As restated) |
| Expendable Trust | | |
| \$ 1,125,539 | \$ 11,736,910 | \$ 11,093,768 |
| 1,207 | 545,716 | 599,415 |
| 257,551 | 5,366,660 | 5,130,180 |
| 3,528 | 3,748,062 | 3,392,308 |
| 60,191 | 314,931 | 445,958 |
| 1,448,016 | 21,712,279 | 20,661,629 |
| | 690,206 | 368,367 |
| | 835,796 | 1,891,468 |
| | 33,550 | 13,297 |
| 5,863 | 1,372,691 | 1,179,928 |
| 138 | 35,509 | 46,382 |
| 6,001 | 2,967,752 | 3,499,442 |
| 1,454,017 | 24,680,031 | 24,161,071 |
| | 43,096 | 40,798 |
| 3,689 | 342,170 | 307,781 |
| | 1,394 | 1,304 |
| | 4,330 | 3,680 |
| 4 | 11,683 | 14,111 |
| 19 | 2,052,420 | 1,659,490 |
| 167 | 11,153 | 10,458 |
| 1,124 | 39,291 | 37,061 |
| | 1,075 | 1,003 |
| 3,609 | 50,948 | 47,143 |
| | 636 | 539 |
| | 1,514 | |
| | 5,411 | 4,620 |
| | 6,369 | 5,546 |
| 1,325 | 864,744 | 683,459 |
| 4,716 | 173,998 | 167,293 |
| 433 | 358,178 | 364,781 |
| 20,283 | 4,345,773 | 4,085,252 |
| 829 | 120,981 | 274,270 |
| 1,296 | 459,175 | 469,886 |
| | 3,111 | 9,602 |

(Continued)

COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
 ALL GOVERNMENTAL FUND TYPES AND EXPENDABLE TRUST FUNDS
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)

| | Primary | | |
|--|-------------------------|------------------|------------------|
| | Governmental Fund Types | | |
| | General | Special Revenue | Capital Projects |
| Expenditures (continued): | | | |
| Current (continued): | | | |
| Higher education | \$ 65,402 | \$ 1,898 | \$ 0 |
| Public safety | 330,119 | 365,305 | |
| Economic affairs | 16,903 | 195,977 | |
| Elder affairs | 125,587 | 29,839 | |
| Consumer affairs | 25,845 | 6,502 | |
| Labor | 20,898 | 2,208 | |
| Direct local aid | | 2,727,313 | |
| Medicaid | 3,176,777 | 39,350 | |
| Capital outlay: | | | |
| Local aid | | | 100,105 |
| Capital acquisition and construction | | | 1,463,602 |
| Pension | 233,777 | 596,415 | |
| Debt service: | | | |
| Principal retirement | 513,278 | 118,016 | |
| Interest and fiscal charges | 352,575 | 167,290 | |
| Total expenditures | 9,307,581 | 8,663,649 | 1,563,707 |
| Other financing uses: | | | |
| Payments to refunded bond escrow agent | | | 835,796 |
| Operating transfers out | 6,923 | 1,122,183 | 169,965 |
| Transfers of appropriations | 632,609 | 2,302 | |
| Transfers of bond proceeds | | | 15,324 |
| Transfers to component units | 582,453 | 116,751 | 2,195 |
| Other uses | | | |
| Total other financing uses | 1,221,985 | 1,241,236 | 1,023,280 |
| Total expenditures and other other financing uses | 10,529,566 | 9,904,885 | 2,586,987 |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | 197,856 | (67,608) | 74,328 |
| Fund balances (deficits) at beginning of year | (1,121,538) | 1,008,569 | (365,291) |
| Fund balances (deficits) at end of year | \$ (923,682) | \$ 940,961 | \$ (290,963) |

See notes to general purpose financial statements.

| Government | | |
|------------------------|-----------------------------|-----------------------|
| Fiduciary Fund Type | Totals (Memorandum Only) | |
| Expendable Trust | 1994 | 1993 (As restated) |
| \$ 79 | \$ 67,379 | \$ 69,459 |
| 3,728 | 699,152 | 613,082 |
| 1,082,791 | 1,295,671 | 1,708,096 |
| 60 | 155,486 | 149,717 |
| 3,538 | 35,885 | 32,322 |
| 28,249 | 51,355 | 48,658 |
| | 2,727,313 | 2,546,501 |
| | 3,216,127 | 3,151,361 |
| | 100,105 | 104,876 |
| | 1,463,602 | 1,132,549 |
| | 830,192 | 893,438 |
| | 631,294 | 592,493 |
| | 519,865 | 550,174 |
| <u>1,155,939</u> | <u>20,690,876</u> | <u>19,780,803</u> |
| | 835,796 | 1,891,468 |
| 4,776 | 1,303,847 | 1,724,479 |
| | 634,911 | 618,817 |
| | 15,324 | 24,796 |
| | 701,399 | |
| | | 257 |
| <u>4,776</u> | <u>3,491,277</u> | <u>4,259,817</u> |
| <u>1,160,715</u> | <u>24,182,153</u> | <u>24,040,620</u> |
| 293,302 | 497,878 | 120,451 |
| <u>128,698</u> | <u>(349,562)</u> | <u>(470,013)</u> |
| <u>\$ 422,000</u> | <u>\$ 148,316</u> | <u>\$ (349,562)</u> |

**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, 1994
 (Amounts in thousands)**

| | General Fund | | |
|---|-------------------|-------------------|--|
| | Budget | Actual | Variance Favorable (Unfavorable) |
| Revenues: | | | |
| Taxes | \$ 6,179,800 | \$ 6,297,759 | \$ 117,959 |
| Assessments | | 191,796 | 191,796 |
| Federal grants and reimbursements | 2,913,900 | 2,892,189 | (21,711) |
| Departmental | 819,225 | 525,006 | (294,219) |
| Miscellaneous | | 175,259 | 175,259 |
| Total revenues | 9,912,925 | 10,082,009 | 169,084 |
| Other financing sources: | | | |
| Fringe benefit cost recovery | | 189,156 | 189,156 |
| Operating transfers in | 160,675 | 192,840 | 32,165 |
| Stabilization transfer | | | |
| Other sources | 5,000 | | (5,000) |
| Total other financing sources | 165,675 | 381,996 | 216,321 |
| Total revenues and other financing sources | 10,078,600 | 10,464,005 | 385,405 |
| Expenditures: | | | |
| Legislature | 59,235 | 42,853 | 16,382 |
| Judiciary | 69,098 | 68,128 | 970 |
| Inspector General | 1,281 | 1,271 | 10 |
| Governor and Lieutenant Governor | 4,996 | 4,292 | 704 |
| Secretary of the Commonwealth | 9,272 | 9,081 | 191 |
| Treasurer and Receiver-General | 105,386 | 101,789 | 3,597 |
| Auditor of the Commonwealth | 10,174 | 10,167 | 7 |
| Attorney General | 19,936 | 19,720 | 216 |
| Ethics Commission | 527 | 527 | |
| District Attorney | 8,134 | 8,071 | 63 |
| Office of Campaign and Political Finance | 314 | 311 | 3 |
| Disabled Persons Protection Committee | 1,328 | 1,325 | 3 |
| Board of Library Commissioners | | | |
| Comptroller | 5,882 | 5,865 | 17 |
| Administration and finance | 749,459 | 693,700 | 55,759 |
| Environmental affairs | 25,003 | 23,118 | 1,885 |
| Communities and development | 120,075 | 113,233 | 6,842 |

| Budgeted Special Revenue Funds | | | Totals (Memorandum Only) | | |
|--------------------------------|------------------|--|-----------------------------|-------------------|--|
| Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| \$ 4,380,200 | \$ 4,308,922 | \$ (71,278) | \$ 10,560,000 | \$ 10,606,681 | \$ 46,681 |
| | 21,688 | 21,688 | | 213,484 | 213,484 |
| 8,600 | 9,042 | 442 | 2,922,500 | 2,901,231 | (21,269) |
| 447,100 | 465,676 | 18,576 | 1,266,325 | 990,682 | (275,643) |
| | 45,808 | 45,808 | | 221,067 | 221,067 |
| 4,835,900 | 4,851,136 | 15,236 | 14,748,825 | 14,933,145 | 184,320 |
| | | | | 189,156 | 189,156 |
| 542,000 | 598,657 | 56,657 | 702,675 | 791,497 | 88,822 |
| | 65,423 | 65,423 | | 65,423 | 65,423 |
| | | | 5,000 | | (5,000) |
| 542,000 | 664,080 | 122,080 | 707,675 | 1,046,076 | 338,401 |
| 5,377,900 | 5,515,216 | 137,316 | 15,456,500 | 15,979,221 | 522,721 |
| | | | 59,235 | 42,853 | 16,382 |
| 275,403 | 271,835 | 3,568 | 344,501 | 339,963 | 4,538 |
| | | | 1,281 | 1,271 | 10 |
| | | | 4,996 | 4,292 | 704 |
| 2,121 | 1,891 | 230 | 11,393 | 10,972 | 421 |
| 21,928 | 20,250 | 1,678 | 127,314 | 122,039 | 5,275 |
| 733 | 733 | | 10,907 | 10,900 | 7 |
| 800 | 785 | 15 | 20,736 | 20,505 | 231 |
| 537 | 537 | | 1,064 | 1,064 | |
| 38,088 | 37,783 | 305 | 46,222 | 45,854 | 368 |
| 320 | 317 | 3 | 634 | 628 | 6 |
| | | | 1,328 | 1,325 | 3 |
| 2,304 | 2,300 | 4 | 2,304 | 2,300 | 4 |
| 525 | 525 | | 6,407 | 6,390 | 17 |
| 245,801 | 229,151 | 16,650 | 995,260 | 922,851 | 72,409 |
| 132,805 | 123,658 | 9,147 | 157,808 | 146,776 | 11,032 |
| 25,749 | 24,895 | 854 | 145,824 | 138,128 | 7,696 |

(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, 1994
 (Amounts in thousands)

| | General Fund | | Variance Favorable (Unfavorable) |
|---|-----------------------|---------------------|--|
| | Budget | Actual | |
| Expenditures (continued): | | | |
| Health and human services | \$ 3,368,359 | \$ 3,270,133 | \$ 98,226 |
| Transportation and construction | 621,447 | 619,168 | 2,279 |
| Education | 147 | 145 | 2 |
| Educational affairs | 2,024 | 1,943 | 81 |
| Higher education | 674,480 | 670,148 | 4,332 |
| Public safety | 319,456 | 313,986 | 5,470 |
| Economic affairs | 15,580 | 14,588 | 992 |
| Elder affairs | 127,044 | 125,573 | 1,471 |
| Consumer affairs | 27,548 | 25,852 | 1,696 |
| Labor | 22,303 | 20,977 | 1,326 |
| Direct local aid | | | |
| Medicaid | 3,290,149 | 3,273,777 | 16,372 |
| Pension | 328,447 | 313,264 | 15,183 |
| Debt service: | | | |
| Principal retirement | 327,453 | 308,323 | 19,130 |
| Interest and fiscal charges | 312,186 | 288,908 | 23,278 |
| Total expenditures | 10,626,723 | 10,350,236 | 276,487 |
| Other financing uses: | | | |
| Fringe benefit cost assessment | | | |
| Operating transfers out | 4,822 | 4,822 | |
| Stabilization transfer | | 39,254 | (39,254) |
| Total other financing uses | 4,822 | 44,076 | (39,254) |
| Total expenditures and other financing uses | 10,631,545 | 10,394,312 | 237,233 |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses | (552,945) | 69,693 | 622,638 |
| Fund balances (deficits) at beginning of year | (701,596) | (701,596) | |
| Fund balances (deficits) at end of year | \$ (1,254,541) | \$ (631,903) | \$ 622,638 |

See notes to general purpose financial statements.

| Budgeted Special Revenue Funds | | | Totals (Memorandum Only) | | |
|--------------------------------|---------------------|--|-----------------------------|-------------------|--|
| Budget | Actual | Variance Favorable (Unfavorable) | Budget | Actual | Variance Favorable (Unfavorable) |
| \$ 148,274 | \$ 124,664 | \$ 23,610 | \$ 3,516,633 | \$ 3,394,797 | \$ 121,836 |
| 145,988 | 141,458 | 4,530 | 767,435 | 760,626 | 6,809 |
| 104,894 | 95,757 | 9,137 | 105,041 | 95,902 | 9,139 |
| 655 | 608 | 47 | 2,679 | 2,551 | 128 |
| 2,610 | 2,398 | 212 | 677,090 | 672,546 | 4,544 |
| 354,904 | 342,926 | 11,978 | 674,360 | 656,912 | 17,448 |
| 16,277 | 15,279 | 998 | 31,857 | 29,867 | 1,990 |
| 5,187 | 4,340 | 847 | 132,231 | 129,913 | 2,318 |
| 5,945 | 5,016 | 929 | 33,493 | 30,868 | 2,625 |
| | | | 22,303 | 20,977 | 1,326 |
| 2,739,827 | 2,727,313 | 12,514 | 2,739,827 | 2,727,313 | 12,514 |
| 39,350 | 39,350 | | 3,329,499 | 3,313,127 | 16,372 |
| 623,449 | 595,684 | 27,765 | 951,896 | 908,948 | 42,948 |
| | | | | | |
| 347,569 | 322,183 | 25,386 | 675,022 | 630,506 | 44,516 |
| 236,293 | 229,967 | 6,326 | 548,479 | 518,875 | 29,604 |
| <u>5,518,336</u> | <u>5,361,603</u> | <u>156,733</u> | <u>16,145,059</u> | <u>15,711,839</u> | <u>433,220</u> |
| | 46,436 | (46,436) | | 46,436 | (46,436) |
| 122,662 | 123,940 | (1,278) | 127,484 | 128,762 | (1,278) |
| | 26,169 | (26,169) | | 65,423 | (65,423) |
| <u>122,662</u> | <u>196,545</u> | <u>(73,883)</u> | <u>127,484</u> | <u>240,621</u> | <u>(113,137)</u> |
| <u>5,640,998</u> | <u>5,558,148</u> | <u>82,850</u> | <u>16,272,543</u> | <u>15,952,460</u> | <u>320,083</u> |
| | | | | | |
| (263,098) | (42,932) | 220,166 | (816,043) | 26,761 | 842,804 |
| <u>1,264,169</u> | <u>1,264,169</u> | | <u>562,573</u> | <u>562,573</u> | |
| <u>\$ 1,001,071</u> | <u>\$ 1,221,237</u> | <u>\$ 220,166</u> | <u>\$ (253,470)</u> | <u>\$ 589,334</u> | <u>\$ 842,804</u> |

**COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN RETAINED EARNINGS/FUND BALANCES AND CHANGES IN CONTRIBUTED CAPITAL -
 NONEXPENDABLE AND PENSION TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)**

| | Primary | |
|---|------------------------------|------------------------|
| | Fiduciary Fund Types | |
| | Nonexpendable Trust Funds | Pension Trust Funds |
| Operating revenues: | | |
| Contributions | \$ 0 | \$ 1,130,868 |
| Investment income | | 245,446 |
| Charges for services | | |
| Donations | | |
| Other | | |
| Total operating revenues | | 1,376,314 |
| Operating expenses: | | |
| Cost of services and administration | | 3,677 |
| Retirement benefits and refunds | | 930,630 |
| Depreciation | | |
| Total operating expenses | | 934,307 |
| Operating income (loss) | | 442,007 |
| Nonoperating revenues (expenses): | | |
| Operating grants | | |
| Interest income | | |
| Other revenues | | |
| Interest expense | | |
| Other expenses | | |
| Nonoperating revenues (expenses), net | | 442,007 |
| Income (loss) before operating transfers | | 442,007 |
| Transfers: | | |
| Transfers in from primary government | | |
| Operating transfers out | (2) | |
| Total transfers | (2) | |
| Net income (loss) | (2) | 442,007 |

| <u>Government</u> | | <u>Component Units</u> |
|-------------------------------------|------------------|----------------------------|
| <u>Totals (Memorandum Only)</u> | | |
| <u>1994</u> | <u>1993</u> | <u>Component Units</u> |
| \$ 1,130,868 | \$ 1,072,789 | \$ 0 |
| 245,446 | 1,301,368 | 245,690 |
| | | 670 |
| | | 1,989 |
| <u>1,376,314</u> | <u>2,374,157</u> | <u>248,349</u> |
| 3,677 | 3,276 | 789,561 |
| 930,630 | 898,399 | 177,095 |
| <u>934,307</u> | <u>901,675</u> | <u>966,656</u> |
| <u>442,007</u> | <u>1,472,482</u> | <u>(718,307)</u> |
| | | 59,998 |
| | | 29,780 |
| | | 4,786 |
| | | (144,854) |
| | | (26,029) |
| | | <u>(76,319)</u> |
| <u>442,007</u> | <u>1,472,482</u> | <u>(794,626)</u> |
| | | 701,399 |
| <u>(2)</u> | | |
| <u>(2)</u> | | <u>701,399</u> |
| <u>442,005</u> | <u>1,472,482</u> | <u>(93,227)</u> |

(Continued)

COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF REVENUES, EXPENSES AND
 CHANGES IN RETAINED EARNINGS/FUND BALANCES AND CHANGES IN CONTRIBUTED CAPITAL -
 NONEXPENDABLE AND PENSION TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)

| | Primary | |
|---|------------------------------|------------------------|
| | Fiduciary Fund Types | |
| | Nonexpendable Trust Funds | Pension Trust Funds |
| Add: Depreciation of fixed assets acquired from contributed capital | \$ 0 | \$ 0 |
| Increase (decrease) in retained earnings/fund balances | (2) | 442,007 |
| Retained earnings/fund balances at beginning of year | 5,842 | 11,121,149 |
| Retained earnings/fund balances at end of year | \$ 5,840 | \$ 11,563,156 |
| Contributed capital at beginning of year | | |
| Add: Capital contributions | | |
| Less: Depreciation of fixed assets acquired from contributed capital | | |
| Contributed capital at end of year | | |

| <u>Government</u> | | <u>Component Units</u> |
|-------------------------------------|-----------------------------|----------------------------|
| <u>Totals (Memorandum Only)</u> | | |
| <u>1994</u> | <u>1993</u> | <u>Component Units</u> |
| \$ <u>0</u> | \$ <u>0</u> | \$ <u>94,534</u> |
| <u>442,005</u> | <u>1,472,482</u> | <u>1,307</u> |
| <u>11,126,991</u> | <u>9,654,509</u> | <u>(54,395)</u> |
| \$ <u><u>11,568,996</u></u> | \$ <u><u>11,126,991</u></u> | \$ <u><u>(53,088)</u></u> |
| | | \$ 2,941,413 |
| | | 203,850 |
| | | <u>(94,534)</u> |
| | | \$ <u><u>3,050,729</u></u> |

COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF CASH FLOWS -
 NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)

| | Primary Government | Component Units |
|---|------------------------------|--------------------|
| | Fiduciary Fund Type | |
| | Nonexpendable Trust Funds | Component Units |
| Cash flows from operating activities: | | |
| Operating income (loss) | \$ 0 | \$ (718,307) |
| Adjustments to reconcile operating loss to net cash provided by (used for) operating activities: | | |
| Depreciation | | 177,095 |
| Other nonoperating revenues | | 4,786 |
| Other nonoperating expenses | | (26,029) |
| Change in assets and liabilities: | | |
| Due from federal government | | 52,595 |
| Loans | | (225,277) |
| Other receivables | | (13,846) |
| Due from cities and towns | | (55) |
| Due from primary government | | (12,104) |
| Inventory | | 1,075 |
| Restricted and other assets | | (15,853) |
| Accounts payable | 60 | 30,270 |
| Accrued payroll | | 9,365 |
| Compensated absences | | 92 |
| Deferred revenue | | 9,858 |
| Claims and judgements | | 3 |
| Other accrued liabilities | | 14,210 |
| Due to cities and towns | | (80) |
| Total adjustments | 60 | 6,105 |
| Net cash provided by (used for) operating activities | 60 | (712,202) |
| Cash flows from noncapital financing activities: | | |
| Operating grants | | 59,998 |
| Operating transfers | (2) | 701,399 |
| Net cash provided by (used for) noncapital financing activities | (2) | 761,397 |

(Continued)

COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF CASH FLOWS -
 NONEXPENDABLE TRUST FUNDS AND DISCRETELY PRESENTED COMPONENT UNITS
 FISCAL YEAR ENDED JUNE 30, 1994

(Amounts in thousands)

| | Primary Government | Component Units |
|---|------------------------------|--------------------|
| | Fiduciary Fund Type | |
| | Nonexpendable Trust Funds | Component Units |
| Cash flows from capital and related financing activities: | | |
| Acquisition and construction of capital assets | \$ 0 | \$ (279,249) |
| Proceeds from the issuance of bonds and notes | | 1,375,198 |
| Interest on bonds and notes | | (144,854) |
| Capital contributions | | 203,850 |
| Principal payments on bonds and notes | | (1,064,692) |
| Proceeds from sale of equipment | | 1,191 |
| Net cash provided by (used for) capital and related financing activities | | 91,444 |
| Cash flows from investing activities: | | |
| Purchases of investments | | (1,478,223) |
| Sales and maturities of investments | | 1,360,957 |
| Interest income | | 29,780 |
| Net cash provided by (used for) investing activities | 0 | (87,486) |
| Net increase (decrease) in cash and cash equivalents | 58 | 53,153 |
| Cash and cash equivalents at beginning of year | 5,782 | 219,555 |
| Cash and cash equivalents at end of year | \$ 5,840 | \$ 272,708 |
| Reconciliation: | | |
| Cash and cash equivalents at end of year | \$ 5,840 | \$ 272,708 |
| Cash and cash equivalents at end of year, Pension Trust, Expendable Trust and Agency | 1,807,517 | |
| Cash and cash equivalents per the Combined Balance Sheet | \$ 1,813,357 | \$ 272,708 |

See notes to the general purpose financial statements.

COMMONWEALTH OF MASSACHUSETTS
 COMBINED STATEMENT OF CHANGES IN FUND BALANCES -
 UNIVERSITY AND COLLEGE FUND TYPE
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)

| | Current Funds | | Loan Fund | Endowment and Similar Funds |
|--|------------------|----------------|--------------|-----------------------------|
| | Unrestricted | Restricted | | |
| Revenues and other additions: | | | | |
| Unrestricted current funds revenues | \$ 1,083,311 | \$ 0 | \$ 0 | \$ 0 |
| Federal appropriations | | 7,526 | 228 | |
| Federal grants and contracts | | 176,127 | 1,627 | |
| State grants and contracts | | 23,182 | 76 | |
| Local grants and contracts | | 2,278 | | |
| Private gifts, grants and contracts | | 64,050 | 13 | 1,272 |
| Investment income | | 72 | 35 | 4 |
| Endowment Income | | 530 | | 82 |
| Net realized gain (loss) on investments | | | | 2,754 |
| Interest on loans receivable | | | 814 | |
| Reimbursed loan cancellations | | | 1,348 | |
| Other income | | 348 | 422 | |
| Expended for plant facilities | | | | |
| Retirement of indebtedness | | | | |
| Other additions | | 72 | 468 | |
| Total revenue and other additions | 1,083,311 | 274,185 | 5,031 | 4,112 |
| Expenditures and other deductions: | | | | |
| Educational and general expenditures | 1,119,339 | 262,854 | | |
| Auxiliary enterprises expenditures | 171,118 | | | |
| Indirect costs recovered | | 32,055 | | |
| Hospital expenditures | 225,006 | | | |
| Group practice plan expenditures | 111,400 | | | |
| Refunded to grantors and donors | | 313 | | |
| Loan cancellations and write-offs | | | 700 | |
| Administrative and collection costs | | | 2,668 | 561 |
| Retirement of indebtedness | | | | |
| Interest on indebtedness | | | | |
| Expended for plant facilities | | | | |
| Depreciation and amortization | | | | |
| Disposal of plant facilities | | | | |
| Other deductions | | | | |
| Total expenditures and other deductions | 1,626,863 | 295,222 | 3,368 | 561 |

| Plant Funds | Totals | |
|----------------|------------------|------------------|
| | 1994 | 1993 |
| \$ 0 | \$ 1,083,311 | \$ 975,642 |
| | 7,754 | 7,277 |
| 329 | 178,083 | 177,910 |
| 13,649 | 36,907 | 6,656 |
| | 2,278 | 2,481 |
| 1,653 | 66,988 | 61,898 |
| 2,533 | 2,644 | 2,472 |
| | 612 | 416 |
| | 2,754 | 618 |
| | 814 | 813 |
| | 1,348 | 27 |
| 192 | 962 | 523 |
| 50,042 | 50,042 | 71,887 |
| 13,330 | 13,330 | 12,219 |
| 1,124 | 1,664 | 8,329 |
| 82,852 | 1,449,491 | 1,329,168 |
| | 1,382,193 | 1,302,053 |
| | 171,118 | 124,027 |
| | 32,055 | 32,669 |
| | 225,006 | 218,583 |
| | 111,400 | 99,603 |
| | 313 | 237 |
| | 700 | 1,165 |
| 1,586 | 4,815 | 2,821 |
| 23,171 | 23,171 | 12,219 |
| 11,609 | 11,609 | 19,936 |
| 13,330 | 13,330 | 41,268 |
| 20,003 | 20,003 | 11,539 |
| 10,140 | 10,140 | 11,538 |
| 556 | 556 | 3,602 |
| 80,395 | 2,006,409 | 1,881,260 |

(Continued)

COMMONWEALTH OF MASSACHUSETTS
 COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
 RETAINED EARNINGS AND CHANGES IN CONTRIBUTED CAPITAL -
 DISCRETELY PRESENTED COMPONENT UNITS
 FISCAL YEAR ENDED JUNE 30, 1994

(Amounts in thousands)

| | Massachusetts Bay Transportation Authority | Regional Transit Authorities | Water Pollution Abatement Trust |
|--|---|------------------------------------|--|
| Operating revenues: | | | |
| Charges for services | \$ 199,550 | \$ 34,718 | \$ 0 |
| Donations | | 188 | |
| Other | | | |
| Total operating revenues | 199,550 | 34,906 | |
| Operating expenses: | | | |
| Cost of services and administration | 625,130 | 91,889 | 5,682 |
| Depreciation | 153,865 | 12,067 | 227 |
| Total operating expenses | 778,995 | 103,956 | 5,909 |
| Operating income (loss) | (579,445) | (69,050) | (5,909) |
| Nonoperating revenues (expenses): | | | |
| Operating grants | 17,230 | 11,699 | 2,278 |
| Interest income | 4,503 | 400 | 19,102 |
| Other revenues | 1,135 | 308 | 576 |
| Interest expense | (116,044) | (1,881) | (14,230) |
| Other expenses | (12,383) | (629) | |
| Nonoperating revenues (expenses), net | (105,559) | 9,897 | 7,726 |
| Income (Loss) before transfers | (685,004) | (59,153) | 1,817 |
| Transfers: | | | |
| Transfers in from primary government | 606,442 | 47,761 | 2,981 |
| Total transfers | 606,442 | 47,761 | 2,981 |
| Net income (loss) | (78,562) | (11,392) | 4,798 |
| Add: Depreciation of fixed assets acquired from contributed capital | 74,603 | 11,765 | 227 |
| Increase (decrease) in retained earnings | (3,959) | 373 | 5,025 |
| Retained earnings (deficits) at beginning of year | (161,820) | 1,245 | 2,170 |
| Retained earnings (deficits) at end of year | \$ (165,779) | \$ 1,618 | \$ 7,195 |

| <u>Massachusetts Convention Center Authority</u> | <u>Economic Development Authorities</u> | <u>Total</u> |
|--|---|--------------------|
| \$ 6,999 | \$ 4,423 | \$ 245,690 |
| | 670 | 670 |
| | <u>1,801</u> | <u>1,989</u> |
| <u>6,999</u> | <u>6,894</u> | <u>248,349</u> |
| 16,410 | 50,450 | 789,561 |
| 8,502 | 2,434 | 177,095 |
| <u>24,912</u> | <u>52,884</u> | <u>966,656</u> |
| <u>(17,913)</u> | <u>(45,990)</u> | <u>(718,307)</u> |
| | 28,791 | 59,998 |
| 245 | 5,530 | 29,780 |
| 178 | 2,589 | 4,786 |
| (11,233) | (1,466) | (144,854) |
| <u>(8,511)</u> | <u>(4,506)</u> | <u>(26,029)</u> |
| <u>(19,321)</u> | <u>30,938</u> | <u>(76,319)</u> |
| <u>(37,234)</u> | <u>(15,052)</u> | <u>(794,626)</u> |
| 21,968 | 22,247 | 701,399 |
| <u>21,968</u> | <u>22,247</u> | <u>701,399</u> |
| <u>(15,266)</u> | <u>7,195</u> | <u>(93,227)</u> |
| 7,939 | | 94,534 |
| <u>(7,327)</u> | 7,195 | 1,307 |
| 3,049 | 100,961 | (54,395) |
| <u>\$ (4,278)</u> | <u>\$ 108,156</u> | <u>\$ (53,088)</u> |

(Continued)

COMMONWEALTH OF MASSACHUSETTS
 COMBINING STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN
 RETAINED EARNINGS AND CHANGES IN CONTRIBUTED CAPITAL -
 DISCRETELY PRESENTED COMPONENT UNITS
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)

| | Massachusetts Bay Transportation Authority | Regional Transit Authorities | Water Pollution Abatement Trust |
|---|---|------------------------------------|--|
| Contributed capital at beginning of year | \$ 2,420,849 | \$ 93,654 | \$ 312,509 |
| Add: Capital contributions Other | 87,583 | 10,792 | 96,748 |
| Less: Depreciation of fixed assets acquired from contributed capital | (74,603) | (11,765) | (227) |
| Contributed capital at end of year | <u>\$ 2,433,829</u> | <u>\$ 92,681</u> | <u>\$ 409,030</u> |

| <u>Massachusetts Convention Center Authority</u> | <u>Economic Development Authorities</u> | <u>Total</u> |
|--|---|---------------------|
| \$ 47,984 | \$ 66,417 | \$ 2,941,413 |
| 4,568 | 4,159 | 203,850 |
| <u>(7,939)</u> | <u></u> | <u>(94,534)</u> |
| <u>\$ 44,613</u> | <u>\$ 70,576</u> | <u>\$ 3,050,729</u> |

COMMONWEALTH OF MASSACHUSETTS
 COMBINING STATEMENT OF CASH FLOWS -
 DISCRETELY PRESENTED COMPONENT UNITS
 FISCAL YEAR ENDED JUNE 30, 1994
 (Amounts in thousands)

| | Massachusetts Bay Transportation Authority | Regional Transit Authorities | Water Pollution Abatement Trust |
|--|---|------------------------------------|--|
| Cash flows from operating activities: | | | |
| Operating income (loss) | \$ (579,445) | \$ (69,050) | \$ (5,909) |
| Adjustments to reconcile operating loss to net cash provided by (used for) operating activities: | | | |
| Depreciation | 153,865 | 12,067 | 227 |
| Other nonoperating revenues | 1,135 | 308 | 576 |
| Other nonoperating expenses | (12,383) | (629) | |
| Change in assets and liabilities: | | | |
| Due from federal government | 981 | 186 | 57,563 |
| Loans | | | (213,391) |
| Other receivables | (7,902) | (1,047) | (4,915) |
| Due from cities and towns | | | |
| Due from primary government | (24,507) | (5,086) | 18,030 |
| Inventory | 1,077 | (2) | |
| Restricted and other assets | (13,662) | (1,216) | 473 |
| Accounts payable | 13,563 | 5,524 | |
| Accrued payroll | 9,325 | | |
| Compensated absences | | | |
| Deferred revenue | 7,607 | 43 | |
| Claims and judgements | | 3 | |
| Other accrued liabilities | 3,345 | 584 | 4,097 |
| Due to cities and towns | | (80) | |
| Total adjustments | 132,444 | 10,655 | (137,340) |
| Net cash provided by (used for) operating activities | (447,001) | (58,395) | (143,249) |
| Cash flows from noncapital financing activities: | | | |
| Operating grants | 17,230 | 11,699 | 2,278 |
| Transfers in from primary government | 606,442 | 47,761 | 2,981 |
| Net cash provided by (used for) noncapital financing activities | 623,672 | 59,460 | 5,259 |

| <u>Massachusetts Convention Center Authority</u> | <u>Economic Development Authorities</u> | <u>Total</u> |
|--|---|------------------|
| \$ (17,913) | \$ (45,990) | \$ (718,307) |
| 8,502 | 2,434 | 177,095 |
| 178 | 2,589 | 4,786 |
| (8,511) | (4,506) | (26,029) |
| | (6,135) | 52,595 |
| | (11,886) | (225,277) |
| 193 | (175) | (13,846) |
| | (55) | (55) |
| (3,830) | 3,289 | (12,104) |
| | | 1,075 |
| (232) | (1,216) | (15,853) |
| 9,085 | 2,098 | 30,270 |
| | 40 | 9,365 |
| | 92 | 92 |
| (2) | 2,210 | 9,858 |
| | | 3 |
| 4,023 | 2,161 | 14,210 |
| | | (80) |
| <u>9,406</u> | <u>(9,060)</u> | <u>6,105</u> |
| <u>(8,507)</u> | <u>(55,050)</u> | <u>(712,202)</u> |
| | 28,791 | 59,998 |
| <u>21,968</u> | <u>22,247</u> | <u>701,399</u> |
| <u>21,968</u> | <u>51,038</u> | <u>761,397</u> |

(Continued)

COMMONWEALTH OF MASSACHUSETTS
 COMBINING STATEMENT OF CASH FLOWS -
 DISCRETELY PRESENTED COMPONENT UNITS
 FISCAL YEAR ENDED JUNE 30, 1994
(Amounts in thousands)

| | Massachusetts Bay Transportation Authority | Regional Transit Authorities | Water Pollution Abatement Trust |
|---|---|------------------------------------|--|
| Cash flows from capital and related financing activities: | | | |
| Acquisition and construction of capital assets | \$ (257,242) | \$ (9,546) | \$ (4) |
| Proceeds from the issuance of bonds and notes | 1,099,415 | 37,028 | 178,085 |
| Interest on bonds and notes | (116,044) | (1,881) | (14,230) |
| Capital contributions | 87,583 | 10,792 | 96,748 |
| Principal payments on bonds and notes | (1,004,677) | (37,617) | (7,125) |
| Proceeds from sale of equipment | | 17 | |
| Net cash provided by (used for) capital and related financing activities | (190,965) | (1,207) | 253,474 |
| Cash flows from investing activities: | | | |
| Purchases of investments | (1,308,504) | (12) | (80,647) |
| Sales and maturities of investments | 1,309,387 | | 588 |
| Interest income | 4,503 | 400 | 19,102 |
| Net cash provided by (used for) investing activities | 5,386 | 388 | (60,957) |
| Net increase (decrease) in cash and cash equivalents | (8,908) | 246 | 54,527 |
| Cash and cash equivalents at beginning of year | 51,072 | 12,190 | 101,027 |
| Cash and cash equivalents at end of year | \$ 42,164 | \$ 12,436 | \$ 155,554 |

| <u>Massachusetts Convention Center Authority</u> | <u>Economic Development Authorities</u> | <u>Total</u> |
|--|---|-------------------|
| \$ (10,768) | \$ (1,689) | \$ (279,249) |
| 30,909 | 29,761 | 1,375,198 |
| (11,233) | (1,466) | (144,854) |
| 4,568 | 4,159 | 203,850 |
| (4,250) | (11,023) | (1,064,692) |
| <u> </u> | <u>1,174</u> | <u>1,191</u> |
| | | |
| <u>9,226</u> | <u>20,916</u> | <u>91,444</u> |
| | | |
| (68,363) | (20,697) | (1,478,223) |
| 47,171 | 3,811 | 1,360,957 |
| <u>245</u> | <u>5,530</u> | <u>29,780</u> |
| | | |
| <u>(20,947)</u> | <u>(11,356)</u> | <u>(87,486)</u> |
| | | |
| 1,740 | 5,548 | 53,153 |
| | | |
| <u>10,790</u> | <u>44,476</u> | <u>219,555</u> |
| | | |
| <u>\$ 12,530</u> | <u>\$ 50,024</u> | <u>\$ 272,708</u> |

COMMONWEALTH OF MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

a. Reporting Entity -

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

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

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

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

The Pension Reserves Investment Management (PRIM) Board manages and provides general supervision of the investments of PRIT. PRIM is governed by a board of directors comprised of 9 members including the Governor, State Treasurer, a representative from Public Safety, a representative from the State Employee's Retirement System and an investment specialist appointed by the Governor.

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

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

The Southeastern Massachusetts University Building Authority provides residence halls and a dining center; it is governed by a 9 member board.

The University of Massachusetts Building Authority provides dormitories, dining commons and other buildings and structures for the use of the University of Massachusetts and its students and staff; it is governed by a 9 member board.

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

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

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

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

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

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

- Berkshire Regional Transit Authority
- Brockton Area Transit Authority
- Cape Ann Transportation Authority
- Cape Cod Regional Transit Authority
- Franklin Regional Transit Authority
- Greater Attleboro/Taunton Regional Authority

**COMMONWEALTH OF MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994**

- Greenfield-Montague Transportation Area
- Lowell Regional Transit Authority
- Martha's Vineyard Transit Authority
- Merrimack Valley Regional Transit Authority
- Montachusett Regional Transit Authority
- Pioneer Valley Transit Authority
- Southeastern Regional Transit Authority
- Worcester Regional Transit Authority

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

The Massachusetts Convention Center Authority (MCCA) manages the operation of the John B. Hynes Veterans Memorial Convention Center and the Boston Common Parking Garage. The MCCA is governed by a 7 member board of directors which includes the State Treasurer and 4 appointments made by the Governor. The Commonwealth provides grants to fund annual debt service of the bonds issued and subsidies to fund annual operating deficits.

Economic Development -

The Massachusetts Community Development Finance Corporation (MCDFC) provides community development in economically depressed areas in Massachusetts. The MCDFC is governed by a board of directors comprised of 9 members including the Secretary of Manpower Affairs, Secretary of Communities and Development, the Secretary for Administration and Finance and 6 appointments made by the Governor.

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

The Massachusetts Industrial Service Program (ISP) provides high risk financing to troubled businesses, assists displaced workers and assists communities to foster economic vitality. ISP has a 5 member board of trustees including the Secretary of Economic Affairs and the Secretary of Labor and 3 appointments by the Governor. ISP relies on Commonwealth funding to operate.

The Massachusetts International Trade Council stimulates export development through export assistance programs and promotion of foreign investment in Massachusetts industries. The entity is funded with Commonwealth grants. The governor appoints the 2 member board.

The Government Land Bank (GLB) aids public and private agencies in the conversion and redevelopment of surplus Commonwealth and federal property, and blighted, decadent or substandard property for the purpose of stimulating economic development and provide housing to low and moderate income persons. The GLB is governed by a board of directors comprised of 10 members including the Commissioner of Administration, the Secretary of Communities and Development and 8

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

appointments made by the Governor. The GLB has access to \$40 million of general obligation bonds and the Commonwealth also provides subsidy assistance. The GLB also needs Commonwealth approval to issue bonded debt.

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

The Community Economic Development Assistance Corporation (CEDAC) provides development assistance to nonprofit corporations to expand the supply of affordable housing and to foster the revitalization of economically distressed areas. The Governor appoints the 9 member board of directors.

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

The Massachusetts Housing Partnership (MHP) addresses local needs for affordable housing and neighborhood development through group effort of the public and private sectors and state and local government. The entity is governed by a 7 member board of directors of which 2 members are appointed by the Governor, and one member is the Secretary for Administration and Finance and one is the Secretary of Communities and Development. The Commonwealth provides funding to MHP.

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

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

Massachusetts Bay Transportation
Authority
Ten Park Plaza
Boston, MA 02116

Lowell Regional Transit Authority
145 Thorndike Street
Lowell, MA 01852

Government Land Bank
One Court Street, Suite 200
Boston, MA 02108

Massachusetts Convention Center
Authority
900 Boylston Street
Boston, MA 02115

Merrimack Valley Regional Transit
Authority
85 Railroad Avenue
Bradford, MA 01835

Massachusetts Community Development
Finance Corporation
10 Post Office Square, Suite 1090
Boston, MA 02109

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

The following organizations do not meet the criteria for inclusion in the reporting entity, and are excluded from the general purpose financial statements: Massachusetts Turnpike Authority, Massachusetts Port Authority, Massachusetts Water Resources Authority, Massachusetts Housing Finance Agency, Massachusetts Health and Educational Facilities Authority, Massachusetts Technology Development Corporation and Massachusetts Industrial Finance Agency.

The Commonwealth does not exercise any oversight responsibility and maintains no special financing relationships with these entities.

In addition the Massachusetts Horse Racing Authority and the Massachusetts Centers of Excellence Corporation are entities established in general law but are currently inactive.

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b. Fund Accounting -

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

c. Measurement Focus and Basis of Accounting -

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

Component Units, Nonexpendable Trust and Pension Trust Funds are reported using a flow of economic resources measurement focus and the accrual basis of accounting. Under this method, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred. This measurement focus emphasizes the determination of net income.

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

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

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

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

Under the statutory basis, revenues are generally recognized when the cash deposit is received. However, revenues receivable for federal grants and reimbursements are recognized when related expenditures are incurred, and amounts due from certain political subdivisions of the Commonwealth are recognized when considered measurable and available at year end.

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

d. Cash and Short-term Investments and Investments -

The Commonwealth follows the practice of pooling cash and cash equivalents for some of its Governmental and Fiduciary Funds. Cash equivalents consist of short-term investments with an original maturity of three months or less and are stated at cost. There are instances where a fund with a cash deficit will borrow from another fund. These interfund borrowings are reported as "Due from other funds" and "Due to other funds" on the balance sheet. Interest earned on pooled cash is allocated to the General Fund, Expendable Trust Funds and to certain Special Revenue Funds when so directed by law.

The Pension Trust Funds, with investments totaling \$11,613,208,000, are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments. Equity securities of the Pension Trust Funds and deferred compensation plan investments are stated at market. The Pension Trust Funds have acquired investments in real estate, venture capital funds, real estate funds, limited partnerships, futures pools, international hedge pools, commodities pools, balanced pools, leverage buyouts, private placements and other alternative investments. The structure, risk profile, return potential and marketability differ from traditional equity and fixed income investments. As of June 30, 1994, the estimated values, determined by management with input from the investment managers, of these alternative investments were \$434,131,507 in the MASTERS Trust and \$635,426,769 in PRIT representing 2.3% and 3.4%, respectively of the total assets of the Fiduciary Fund Type.

Included in the discretely presented Component Units is \$6,977,000 in investments, whose valuation was determined by management. In making its valuations, management considered the cost of investments, current and past operating results, current economic conditions and their effect on the borrowers, estimated realizable values of collateral, and other factors pertinent to the valuation of investments. There is no public market for most of the investments. Management, in making its evaluation, has in many instances relied on financial data and on estimates by management of the companies they have invested in as to the effect of future developments.

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Investments of the University of Massachusetts (UMass) are stated at the lower-of-cost or market (except for debt instruments to be held to maturity which are carried at amortized cost). Other investments are stated at cost or amortized cost.

Annuity contracts represent guaranteed investment contracts and are carried at present value.

e. Receivables -

Receivables are stated net of estimated allowances for uncollectible accounts. Reimbursements due to the Commonwealth for its expenditures on federally-funded reimbursement and grant programs are reported as "Due from federal government." The receivables in the University and College Fund and Component Units column are amounts that have arisen in the normal course of operations.

f. Inventories and Other Assets -

The costs of materials and supplies are recorded as expenditures in Governmental Funds when purchased. Such inventories are not material in total to the financial statements and therefore are not recorded.

Inventories included within the University and College Fund and the Component Unit column are stated at the lower of cost, using the first-in, first-out method, or market (on the purchase or consumption method).

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 the estimated fair market value at the date of the donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. Improvements are capitalized.

The Commonwealth capitalizes all land. It capitalizes buildings 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. Public domain general fixed assets or Infrastructure (roads, bridges, tunnels, dams, water and sewer systems, etc.) are not capitalized. No depreciation is provided on general fixed assets.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

Fixed assets of the University and College Fund are recorded at cost when purchased or constructed. Major construction projects financed through the issuance of Commonwealth bonds are not recognized as additions to investment in plant until completed. All land and library collections are capitalized. The University of Massachusetts and state colleges capitalize all other fixed assets with costs in excess of one thousand dollars. The community colleges capitalize all other fixed assets with costs in excess of fifteen thousands dollars consistent with the Commonwealth's fixed asset policy. No provision for depreciation is recognized except for depreciation recorded on the University of Massachusetts Medical School Teaching Hospital, Group Practice Plan, and Worcester City Campus Corporations fixed assets, which is recorded on a straight line basis over the estimated useful lives of the assets.

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

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

h. Interfund/Intrafund Transactions -

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

Receivables and payables resulting from transactions between Component Units and the primary government are classified as Due to/from primary government or Due to/from Component Units.

i. Fringe Benefit Cost Recovery -

The Commonwealth appropriates and pays the fringe benefit costs of its employees and retirees through the General Fund. These fringe benefits include the costs of employees' health insurance, pensions, unemployment compensation and other costs necessary to support the workforce. As directed by Massachusetts General Laws, these costs are assessed to other funds based on payroll costs, net of credits for direct payments. Since fringe benefit costs are not separately appropriated or otherwise provided for in these funds, the required assessment creates an unfavorable budget variance in the budgeted funds.

j. School Construction Grants -

The Commonwealth is committed to reimburse certain cities, towns and regional school districts for a portion of their debt service costs for school construction and renovation. This liability is recorded in the General Long-term Obligations Account Group.

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k. Compensated Absences -

For Governmental Funds and Expendable Trust Funds, vested or accumulated vacation and sick leave expected to be liquidated with expendable available financial resources are reported as expenditures and fund liabilities. Amounts that are not expected to be so liquidated are reported in the General Long-term Obligations Account Group.

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

In the University and College Funds and the discretely presented Component Units, employees' accumulated vacation and sick leave are recorded as an expense and liability as the benefits accrue.

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 and another program for individuals working on the Central Artery/Third Harbor Tunnel Project managed by the Massachusetts Highway Department. For personal injury or property damages, Massachusetts General Laws limit the risk assumed by the Commonwealth to \$100,000 per occurrence, in most circumstances. The Group Insurance Commission administers health care and other insurance for the Commonwealth's employees and retirees.

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.

Certain "Memorandum Only" columns for 1993 are labeled "as restated" to reflect the adoption of GASB Statement No. 14 as discussed in Note 15.

o. Reclassifications -

For the fiscal year ended June 30, 1994, certain reclassifications have been made to the 1993 balances to conform to the presentation used in 1994.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

The presentation of the separately issued Component Units financial statements has been reclassified to conform to the accounting classifications used by the Commonwealth.

p. Future Adoption of Accounting Pronouncements -

The GASB has issued the following statements which the Commonwealth has not yet adopted and which require adoption subsequent to June 30, 1994:

| <u>Statement No.</u> | | <u>Adoption required in fiscal year</u> |
|----------------------|--|---|
| 10 | Accounting and Financial Reporting for Risk Financing and Related Insurance Issues | 1995 |
| 19 | Governmental College and University Omnibus Statement (Risk Financing Activities) | 1995 |
| 20 | Accounting and Financial Reporting for Proprietary Funds and Other Entities That Use Proprietary Fund Accounting | 1995 |
| 21 | Accounting for Escheat Property | 1995 |
| 22 | Accounting for Taxpayer-Assessed Tax Revenues in Governmental Funds | 1995 |
| 24 | Accounting and Reporting for Certain Grants and Other Financial Assistance | 1995 |
| 25 | Financial Reporting for Defined Benefit Pension Plans and Note Disclosure for Defined Contribution Plans | 1996 |
| 26 | Financial Reporting for Postretirement Healthcare Plans administered by Defined Benefit Pension Plans | 1996 |
| 27 | Accounting for Pensions by State and Local Governmental Employers | 1997 |

The implication of these statements to the Commonwealth's fiscal practices and financial reports is being evaluated.

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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 1994, the Legislature included in the general appropriation act a revenue budget to show the estimates of amounts expected to be available to finance appropriated expenditures.

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

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

Generally, expenditures may not exceed the level of spending authorized for an individual appropriation account. However, the Commonwealth is statutorily required to pay debt service, regardless of whether such amounts are appropriated. Certain interfund assessments to allocate fringe benefits and other costs are mandated by state finance law but not itemized in the appropriation process or separately budgeted. In addition, Massachusetts General Laws authorize the Secretary of Administration and Finance, with the approval of the Governor, to withhold allotment of appropriated funds, effectively reducing the account's expenditure budget, upon determination that available revenues will be insufficient to meet authorized expenditures.

The original fiscal year 1994 appropriation act authorized a total of \$14,825,102,000 in direct appropriations, \$611,422,000 in authorizations to retain and expend certain non-tax revenues and \$125,869,000 of interagency chargebacks. The act also included estimates of \$10,560,000,000 in tax revenues and approximately \$4,887,800,000 in non-tax revenues. With these revenues (exclusive of chargebacks) projected to total approximately \$15,447,800,000, and with unreserved balances of approximately \$142,638,000 carried forward from fiscal year 1993, the budget as presented in this original appropriation act was considered to be in balance. Subsequently, the Legislature overrode the Governor's veto of \$20,990,000 in direct appropriations bringing the total direct appropriations to \$14,846,092,000.

During fiscal year 1994, the Legislature also passed and the Governor signed, with some modification through veto, several supplemental budgetary appropriations. These amounts added approximately \$242,282,000 in direct appropriations and \$18,001,000 in additional retained revenue authorizations and \$3,515,000 of inter-agency chargebacks.

Subsequent to June 30, 1994, the Legislature passed and the Governor signed, with modification through veto, approximately \$119,857,000 in additional supplemental appropriations cumulative. These actions raised to approximately \$15,967,038,000 the total of appropriations and retained revenue authorizations.

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Appropriations continued from fiscal year 1993 totaled approximately \$106,626,000, and certain intrafund and interfund transfers and expenditures, directed by statute, totaled approximately \$197,550,000.

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

Line item appropriations are enacted for the General Fund and certain Special Revenue Fund activities. For these funds, a Combined Statement of Revenues, Expenditures and Changes in Fund Balances - Statutory Basis - Budget and Actual - General and Budgeted Special Revenue Funds is included. The Budgeted Special Revenue Funds itemized in the CAFR are the Highway, Local Aid, Commonwealth Stabilization, Administrative Control, Environmental and under the label of Other, all remaining budgeted funds.

The Office of the Comptroller has the responsibility to ensure that budgetary control is maintained on an individual line item appropriation account basis. Budgetary control is exercised through the State Accounting System, Massachusetts Management Accounting and Reporting System (MMARS). Encumbrances and expenditures are not allowed to exceed the appropriation account total available spending authorization. This results in unfavorable budget to actual variances in "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 line item appropriation account level, which is the legal level of budgetary control. For financial reporting, the Commonwealth groups these appropriation accounts by character and secretariat to conform to its organizational structure.

On the statutory basis, the Commonwealth Stabilization and Administrative Control Funds are segregated from the General Fund and reclassified as budgeted Special Revenue Funds to reflect the intent of the Legislature, which established statutory funds for specific appropriated activities. These funds are included in the General Fund in the general purpose financial statements, consistent with their presentation in prior fiscal years.

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A reconciliation of the statutory basis General and budgeted Special Revenue funds to the GAAP basis General and all Special Revenue funds presented in the financial statements is as follows (amounts in thousands):

| | <u>General</u> | <u>Special Revenue</u> |
|--|-------------------|----------------------------|
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (statutory basis) | \$ 69,693 | \$ (42,932) |
| Entity differences: | | |
| Excess (deficiency) of revenues and other sources over expenditures and other uses for: | | |
| Non-budgeted Special Revenue Funds | | 18,167 |
| Perspective differences: | | |
| Certain activities treated as Special Revenue Funds for statutory and as part of the General Fund for GAAP | | |
| | 73,489 | (73,489) |
| Basis of accounting differences: | | |
| Net decrease in taxes receivable | (51,662) | (22,666) |
| Net increase/(decrease) in due from federal government | (10,479) | 165 |
| Net decrease in other receivables and other assets | (184,380) | (4,828) |
| Net increase in tax refunds and abatements payable | (18,892) | (6,824) |
| Net decrease in accounts payable and other liabilities | <u>320,087</u> | <u>64,799</u> |
| Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses (GAAP basis) | <u>\$ 197,856</u> | <u>\$ (67,608)</u> |

3. DEPOSITS AND INVESTMENTS:

Cash and Short-term Investments - The Commonwealth maintains a cash and short-term investment pool which is utilized by the Governmental and Fiduciary Fund types.

As of June 30, 1994, the carrying amount of the Primary Government's total cash and cash equivalents was \$768,086,000 and the corresponding bank balances were \$802,731,000. Bank deposits in the amount of \$571,662,000 were insured by the Federal Deposit Insurance Corporation, and \$231,069,000 were uninsured and uncollateralized.

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As of June 30, 1994, the carrying amount of the discretely presented Component Unit's total cash and cash equivalents was \$188,097,000, and the corresponding bank balances were \$187,480,000. Bank deposits of \$94,549,000 were insured by the Federal Deposit Insurance Corporation and \$92,931,000 were uninsured and uncollateralized.

Investments - The Commonwealth maintains an investment pool, the Massachusetts Municipal Depository Trust (MMDT), that is available for use by all funds. The deposits and investments of the Component Units and the University and College Funds and the investments of the Pension Trust Funds are held separately from those of other Commonwealth funds, with the exception of their investments in MMDT.

Statutes authorize the Primary Government to invest in obligations of the U.S. Treasury, authorized bonds of all states, banker's acceptances, certificates of deposit, commercial paper rated within the three highest classifications established by Standard & Poors Corporation and Moody's Commercial Paper Record and repurchase agreements that any of these obligations secure. Investments in the MMDT are carried at cost, which approximates market. The Pension Trust Funds are permitted to make investments in equity securities, fixed income securities, real estate and other alternative investments. In the following table, these alternative investments, venture capital and futures pools are classified as other investments. The investment policies of the Component Units are the same as the Primary Government's, except that they permit investment in equity securities.

Short-term investments and investments are classified as to collateral risk into the following three categories:

- Category 1: Insured or registered, or securities held by the Commonwealth or its agent in the Commonwealth's name.
- Category 2: Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Commonwealth's name.
- Category 3: Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the Commonwealth's name.

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Primary Government -

Investments of the Primary Government at June 30, 1994, are as follows (amounts in thousands):

| Investment | Carrying amount | | | Total | Market value |
|---|----------------------|-------------------|---------------|----------------------|----------------------|
| | Category 1 | Category 2 | Category 3 | | |
| Repurchase agreements | \$ 429,339 | \$ 2,413 | \$ 0 | \$ 431,752 | \$ 431,752 |
| U.S. Treasury obligations | 465,226 | 5,838 | | 471,064 | 471,064 |
| Commercial paper | 788,549 | | | 788,549 | 788,549 |
| Government obligations | 2,700,419 | 77,348 | | 2,777,767 | 2,777,767 |
| Equity securities | 6,571,068 | 17,537 | 246 | 6,588,851 | 6,588,856 |
| Fixed income securities | 1,473,848 | 65,998 | | 1,539,846 | 1,539,898 |
| Asset backed investments | | 17,651 | | 17,651 | 17,651 |
| Notes | | 1,514 | | 1,514 | 1,514 |
| Other | | 2,514 | 212 | 2,726 | 2,704 |
| | <u>\$ 12,428,449</u> | <u>\$ 190,813</u> | <u>\$ 458</u> | 12,619,720 | 12,619,755 |
| Money market investments | | | | 262,183 | 262,183 |
| Mutual fund investments | | | | 5,869 | 5,869 |
| Deferred compensation plan mutual funds | | | | 945,401 | 945,401 |
| Annuity contracts | | | | 1,045,084 | 1,045,084 |
| Eurodollar contracts | | | | 34,445 | 34,445 |
| Real Estate | | | | 629,032 | 629,032 |
| Assets held in trust | | | | 1,550,917 | 1,550,917 |
| Cash on deposit with insurance carriers | | | | 83,319 | 83,319 |
| Deposits with U.S. Treasury | | | | 33,001 | 33,001 |
| Certificate of deposit | | | | 504,650 | 504,650 |
| Total | | | | <u>\$ 17,713,621</u> | <u>\$ 17,713,656</u> |

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

Following is a reconciliation of investments as summarized above to the balance as recorded in the combined balance sheet (amounts in thousands):

| | |
|--|----------------------|
| Investments as summarized above | \$ 17,713,621 |
| Less: Short-term investments reported in the combined balance sheet as cash and short-term investments | 2,187,396 |
| Restricted investments reported separately in the combined balance sheet | 83,319 |
| Deferred compensation plan mutual funds reported separately in the combined balance sheet | 945,401 |
| Assets held in trust reported separately in the combined balance sheet | 1,550,917 |
| Annuity contracts reported separately in the combined balance sheet | 1,045,084 |
| Deposits reported separately in the combined balance sheet | <u>33,001</u> |
| Investments as reported on the combined balance sheet | <u>\$ 11,868,503</u> |

Following is a reconciliation of the balance of cash and short-term investments at June 30, 1994 (amounts in thousands):

| | |
|---|---------------------|
| Carrying amount of cash and cash equivalents | \$ 768,086 |
| Short-term investments | <u>2,187,396</u> |
| Cash and short-term investments as reported on the combined balance sheet | <u>\$ 2,955,482</u> |

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Component Units - Investments of the discretely presented Component Units at June 30, 1994, are as follows (amounts in thousands):

| <u>Investment</u> | <u>Carrying amount</u> | | | <u>Total</u> | <u>Market value</u> |
|-----------------------------|------------------------|-------------------|-------------------|-------------------|---------------------|
| | <u>Category 1</u> | <u>Category 2</u> | <u>Category 3</u> | | |
| Repurchase agreements | \$ 2,549 | \$ 0 | \$ 31,150 | \$ 33,699 | \$ 33,699 |
| U.S. Treasury obligations | 18,025 | 38,210 | | 56,235 | 56,718 |
| Commercial paper | 24,363 | | | 24,363 | 24,363 |
| Government obligations | | 33,063 | 10,605 | 43,668 | 43,524 |
| Equity securities | | 185 | 1,499 | 1,684 | 1,684 |
| Notes | | 3,025 | 6,572 | 9,597 | 8,377 |
| Other | 1,837 | 1,598 | | 3,435 | 3,443 |
| | <u>\$ 46,774</u> | <u>\$ 76,081</u> | <u>\$ 49,826</u> | 172,681 | 171,808 |
| Money market investments | | | | 14,823 | 14,823 |
| Mutual fund investments | | | | 67 | 67 |
| Guaranteed income contracts | | | | 130,250 | 130,250 |
| Total | | | | <u>\$ 317,821</u> | <u>\$ 316,948</u> |

Following is a reconciliation of investments summarized above to the balance as recorded in the combined balance sheet (amounts in thousands):

| | |
|--|-------------------|
| Investments as summarized above | \$ 317,821 |
| Less: Short-term investments reported in the combined balance sheet as cash and short-term investments | 84,611 |
| Restricted investments reported separately in the combined balance sheet | <u>59,380</u> |
| Investments as reported on the combined balance sheet | <u>\$ 173,830</u> |

Following is a reconciliation of the balance of cash and short-term investments at June 30, 1994 (amounts in thousands):

| | |
|---|-------------------|
| Carrying amount of cash and cash equivalents | \$ 188,097 |
| Short-term investments | <u>84,611</u> |
| Cash and short-term investments as reported on the combined balance sheet | <u>\$ 272,708</u> |

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

4. RECEIVABLES:

Taxes, federal reimbursements, loans and other receivables are presented in the various funds as follows (amounts in thousands):

Primary Government -

| | <u>Taxes</u> | <u>Due from federal government</u> | <u>Loans</u> | <u>Other</u> | <u>Allowance for uncollectibles</u> | <u>Net receivable</u> |
|--|---------------------|--|------------------|---------------------|---|---------------------------|
| General Fund | \$ 915,390 | \$ 590,058 | \$ 0 | \$ 880,800 | \$ (1,014,195) | \$ 1,372,053 |
| Special Revenue Funds | 633,862 | 145,773 | | 117,395 | (224,256) | 672,774 |
| Capital Projects Funds | | 155,301 | | 1,419 | (148) | 156,572 |
| Trust and Agency University and College Fund | 356,848 | 7,176 | 7,421 | 1,666,612 | (68,110) | 1,969,947 |
| | | <u>9,378</u> | <u>49,568</u> | <u>158,205</u> | <u>(32,968)</u> | <u>184,183</u> |
| Subtotal | 1,906,100 | 907,686 | 56,989 | 2,824,431 | | 4,355,529 |
| Less: Allowance for uncollectible accounts | <u>(541,161)</u> | <u>(17,060)</u> | <u>(5,098)</u> | <u>(776,358)</u> | <u>\$ (1,339,677)</u> | |
| Net receivable | <u>\$ 1,364,939</u> | <u>\$ 890,626</u> | <u>\$ 51,891</u> | <u>\$ 2,048,073</u> | | <u>\$ 4,355,529</u> |

Component Units -

| | <u>Due from federal government</u> | <u>Loans</u> | <u>Other</u> | <u>Allowance for uncollectibles</u> | <u>Net receivable</u> |
|--|--|-------------------|------------------|---|---------------------------|
| MBTA | \$ 7,500 | \$ 0 | \$ 28,158 | \$ | \$ 35,658 |
| RTA's | 3,546 | | 4,497 | | 8,043 |
| WPAT | 82,542 | 352,315 | 7,701 | | 442,558 |
| MCCA | | | 400 | (63) | 337 |
| Economic Development | 12,320 | 78,237 | 4,870 | (7,786) | 87,641 |
| Subtotal | 105,908 | 430,552 | 45,626 | | 574,237 |
| Less: Allowance for uncollectible accounts | <u>(320)</u> | <u>(3,772)</u> | <u>(3,757)</u> | <u>\$ (7,849)</u> | |
| Net receivable | <u>\$ 105,588</u> | <u>\$ 426,780</u> | <u>\$ 41,869</u> | | <u>\$ 574,237</u> |

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5. RECEIVABLES AND PAYABLES BETWEEN FUNDS AND COMPONENT UNITS:

Receivables and payables between funds and component units at June 30, 1994 are summarized as follows (amounts in thousands):

| | <u>Due from</u> | <u>Due to</u> |
|----------------------------------|-----------------|----------------|
| General Fund: | | |
| Component Units: | | |
| MBTA | \$ | \$ 267,914 |
| RTA | | 45,384 |
| MCCA | | 10,120 |
| Economic Development Authorities | | 2,810 |
| Trust and Agency Funds: | | |
| Pension Trust | 3,677 | |
| University and College Fund: | | |
| Current - Unrestricted | 6,220 | |
| Subtotal | <u>9,897</u> | <u>326,228</u> |
| Special Revenue Funds: | | |
| Capital Projects Funds: | | |
| Highway | | |
| Local Aid | 149,972 | |
| Other | | |
| Component Units: | | |
| MBTA | | 93,106 |
| RTA | | 7,647 |
| Economic Development | | 10 |
| Subtotal | <u>149,972</u> | <u>100,763</u> |
| Capital Projects Funds: | | |
| Special Revenue Funds: | | |
| Local Aid | | 149,972 |
| Capital Projects Funds: | | |
| Highway | 19,957 | |
| Federal Highway Construction | | 20,632 |
| Other | 675 | |
| Component Units: | | |
| RTA | | 1,802 |
| WPAT | | 16,378 |
| Subtotal | <u>20,632</u> | <u>188,784</u> |
| Fiduciary Funds: | | |
| Expendable Trust Funds: | | |
| Expendable Trust | | 2,487 |
| Unemployment Compensation | 2,487 | |
| Pension Trust Funds: | | |
| General Fund | | 3,677 |
| Subtotal | <u>2,487</u> | <u>6,164</u> |
| University and College Fund: | | |
| General Fund | | 6,220 |
| University and College Fund: | | |
| Current - Unrestricted | 23,395 | 655 |
| Current - Restricted | 15 | 27,515 |
| Loan | | 11 |
| Endowment | 390 | |
| Plant | 4,659 | 278 |
| Subtotal | <u>28,459</u> | <u>34,679</u> |

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

| | | | |
|-------------------------|----------|-------------------|-------------------|
| (Continued): | | <u>Due from</u> | <u>Due to</u> |
| Component units: | | | |
| General Fund | | 326,228 | |
| Special Revenue: | | | |
| Federal Grants | | 10 | |
| Highway Fund | | 100,753 | |
| Capital Projects Funds: | | | |
| General | | 1,802 | |
| Local Aid | | 16,378 | |
| | Subtotal | <u>445,171</u> | <u>0</u> |
| Total | | \$ <u>656,618</u> | \$ <u>656,618</u> |

6. FIXED ASSETS:

Primary Government-

General Fixed Asset Account Group - Changes in general fixed assets by category at June 30, 1994 are as follows (amounts in thousands):

| | <u>Balance at June 30, 1993</u> | <u>Additions and adjustments</u> | <u>Retirements and adjustments</u> | <u>Balance at June 30, 1994</u> |
|--------------------------|-------------------------------------|--------------------------------------|--|-------------------------------------|
| Land | \$ 407,904 | \$ 47,529 | \$ 344 | \$ 455,089 |
| Buildings | 2,112,155 | 132,952 | 21,055 | 2,224,052 |
| Machinery and equipment | 347,039 | 88,746 | 66,402 | 369,383 |
| Construction in progress | <u>145,132</u> | <u>12,504</u> | <u>139,478</u> | <u>18,158</u> |
| Total | \$ <u>3,012,230</u> | \$ <u>281,731</u> | \$ <u>227,279</u> | \$ <u>3,066,682</u> |

College and University Fund Type -

Fixed assets consist of the following at June 30, 1994 (amounts in thousands):

| | |
|--|---------------------|
| Land and improvements | \$ 41,129 |
| Buildings | 1,633,311 |
| Equipment | 483,410 |
| Construction in progress | <u>12,291</u> |
| | 2,170,141 |
| Less: accumulated depreciation (hospital and group practice plan) | <u>112,066</u> |
| Total | \$ <u>2,058,075</u> |

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Component Units -

Fixed assets reported in the Commonwealth's Component Units consist of the following at June 30, 1994 (amounts in thousands):

| | <u>Amount</u> |
|---|---------------------|
| Land and improvements | \$ 243,875 |
| Structures and improvements | 4,166,110 |
| Equipment, furniture, fixtures and vehicles | <u>1,491,754</u> |
| Total | 5,901,739 |
| Less accumulated depreciation | <u>1,402,849</u> |
| Net fixed assets | 4,498,890 |
| Property held for expansion | 7,439 |
| Construction in progress | <u>316,889</u> |
| Total | <u>\$ 4,823,218</u> |

7. SHORT-TERM FINANCING AND CREDIT AGREEMENTS:

Primary Government -

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

General Fund - As authorized by Chapter 161A of the Massachusetts General Laws, the Commonwealth issues short-term notes to finance working capital advances to the MBTA. The Commonwealth retires these notes through subsequent appropriations and assessments to cities and towns. The notes outstanding at June 30, 1994, totaled \$240,000,000, with an interest rate of 3.4% and a yield of 2.86%. The notes matured in November, 1994.

The balance of revenue anticipation notes (RAN's) fluctuates during the fiscal year but must be reduced to zero at June 30. During the course of fiscal year 1994, amounts outstanding for the RAN's ranged from zero to \$250,000,000.

Capital Projects Funds - The Commonwealth has issued five-year term minibonds, which are redeemable upon demand, to finance its capital projects. At June 30, 1994, minibonds outstanding in the Capital Projects Funds totaled \$49,062,000, with interest rates ranging from 5.0% to 8.0%.

The Commonwealth may issue bond anticipation notes (BAN's) to temporarily finance its capital projects, but it must reduce the balance to \$200,000,000 at June 30. BAN's ranged from zero to \$180,000,000 during FY94, with no such notes outstanding at June 30, 1994.

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Letter of Credit Agreements - During fiscal year 1994, the Commonwealth maintained letter of credit agreements with several banks in order to provide credit and liquidity support for its commercial paper program. The letters of credit were available to secure up to \$600,000,000 of Commonwealth commercial paper plus interest thereon. Advances were available, subject to certain limitations and bearing interest at the bank rate as defined, in anticipation of revenue or bond proceeds and repayable by the following June 30, subject to extension in certain circumstances, at the Commonwealth's option. No such advances were drawn during the fiscal year ended June 30, 1994, or subsequent thereto. These agreements expire September 30, 1994 through October 29, 1994. The average costs are approximately 0.3% on unutilized amounts and approximately 0.4% on utilized amounts.

Subsequent to June 30, 1994, the Commonwealth established a line of credit with a bank to provide liquidity support for up to \$200,000,000 of commercial paper notes, which line of credit expires September 30, 1996. In addition, the Commonwealth entered into letter of credit agreements with two banks to provide credit and liquidity support for up to \$400,000,000 of commercial paper notes, plus interest thereon. These letters of credit expire on September 30, 1996 and October 31, 1996, respectively. The average costs of all three facilities are approximately 0.077% on unutilized amounts and approximately 0.11% on utilized amounts.

Line of Credit Agreement - The Commonwealth maintained a revolving line of credit agreement with a bank through June 30, 1994, 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. Commitment fees totaled \$75,000. This line of credit agreement was not utilized during the fiscal year and was allowed to expire on June 30th.

In December, 1990, the University of Massachusetts Medical School Teaching Hospital Trust obtained a \$11,000,000 loan to finance the construction of a building. The loan is payable over 13 years and the Teaching Hospital has been making payments in accordance with the loan agreement since September 1993.

Component Units -

MBTA short-term notes payable outstanding at June 30, 1994 totaled \$365,000,000. Of this amount, \$180,000,000 are due September 30, 1994 with an interest rate of 3.5% and \$185,000,000 mature March 1, 1995 with an interest rate of 3.75%.

The MBTA also issued commercial paper to act as financing for capital expenditures. At June 30, 1994, \$8,000,000 of this commercial paper was outstanding.

Subsequent to June 30, 1994, The Massachusetts Bay Transportation Authority issued \$180,000,000 of revenue anticipation notes carrying an interest rate of 5%. The notes mature on September 8, 1995.

The RTA's had the following short-term notes payable outstanding at June 30, 1994: Pioneer Valley \$11,000,000; Merrimack Valley \$7,647,000; Southeast Regional \$6,002,000; Worcester Regional \$12,579,000; Brockton Area \$7,095,000; Montachusset \$7,300,000; all other Regional Transit Authorities \$14,049,000. All notes mature during fiscal year 1995 and have interest rates ranging from 2.6% to 4.1%

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Subsequent to June 30, 1994, the Brockton Area Transit Authority issued \$7,800,000 in revenue anticipation notes with an interest rate of 4% and due in July 1995. Also subsequent to June 30, 1994, the Pioneer Valley Transit Authority refinanced \$11,000,000 of bond anticipation notes.

As of June 30, 1994, the Economic Development Authorities have \$661,000 outstanding in short-term notes.

8. LONG-TERM DEBT:

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

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

As of June 30, 1994, the Commonwealth had three types of bonds outstanding: general obligation, dedicated income tax and, special obligation.

The general obligation bonds are authorized and issued primarily to provide funds for Commonwealth-owned capital projects and local government improvements. They are backed by the full faith and credit of the Commonwealth and paid from the Governmental Funds, in which debt service principal and interest payments are appropriated. Massachusetts General Laws provide for the allocation of bond proceeds to these authorizations in arrears, as expenditures are made, unless the proceeds are allocated at the time of issuance.

The dedicated income tax bonds relate entirely to the deficit financing authorization of fiscal year 1990. As a remedy to that financial situation, the Legislature authorized bonds, to be repaid from tax revenues within seven years.

During fiscal year 1992 and again during fiscal year 1994, 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. At June 30, 1994, the Commonwealth had outstanding \$403,770,000 of such bonds, secured by a pledge of 6.86 cents of the 21 cent per gallon motor fuel excise tax collected on gasoline.

For financial reporting purposes, long-term bonds are carried at their face amount, which includes discount and any issuance costs financed. The outstanding amount represents the total principal to be repaid, for

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

capital appreciation bonds, it represents total principal and interest to be repaid. When short-term debt has been refinanced on a long-term basis, it is reported as outstanding as its face amount.

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

General obligation, dedicated income tax and special obligation long-term bonds outstanding (including discount and issuance costs) and bonds authorized-unissued at June 30, 1994, are as follows (amounts in thousands):

| <u>Purpose</u> | <u>Outstanding</u> | | <u>Authorized -unissued</u> |
|------------------------|---------------------|---------------------------|---------------------------------|
| | <u>Amount</u> | <u>Maturity dates</u> | <u>Amount</u> |
| Deficit reduction: | | | |
| Fiscal recovery | \$ 839,810 | 1994-1998 | \$ 57,274 |
| Capital projects: | | | |
| General | 4,965,236 | 1994-2014 | 2,613,220 |
| Highway | 2,427,619 | 1994-2014 | 965,681 |
| Local aid | 1,105,083 | 1994-2013 | 855,998 |
| Other | 89,997 | 1994-2025 | 20,124 |
| Capital projects bonds | <u>8,587,935</u> | | <u>4,455,023</u> |
| Total | <u>\$ 9,427,745</u> | | <u>\$ 4,512,297</u> |

Interest rates on the Commonwealth's bonded debt outstanding at June 30, 1994 ranged from 1.10% to 14.12%.

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Changes in long-term bonds (including discount and issuance costs) and bonds authorized unissued for the year ended June 30, 1994, are as follows (amounts in thousands):

| | <u>Bonds outstanding</u> | <u>Authorized -unissued</u> |
|--|------------------------------|---------------------------------|
| Balance, July 1, 1993 | \$ 9,231,458 | \$ 4,614,367 |
| General and special obligation bonds: | | |
| Principal less discount and issuance costs | 690,206 | (690,206) |
| Discount and issuance costs | 9,794 | |
| General obligation refunding bonds: | | |
| Principal less discount and issuance costs | 835,796 | |
| Discount and issuance costs | 7,200 | |
| Bonds retired | (1,346,709) | |
| Increase in bonds authorized | | 612,611 |
| Expiration of authorizations | | (24,475) |
| Balance, June 30, 1994 | <u>\$ 9,427,745</u> | <u>\$ 4,512,297</u> |

At June 30, 1994, 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> |
|----------------------------|---------------------|---------------------|----------------------|
| 1995 | \$ 646,279 | \$ 490,506 | \$ 1,136,785 |
| 1996 | 666,961 | 453,264 | 1,120,225 |
| 1997 | 694,365 | 410,257 | 1,104,622 |
| 1998 | 618,262 | 368,262 | 986,524 |
| 1999 | 543,937 | 338,349 | 882,286 |
| 2000 and thereafter | <u>6,257,941</u> | <u>2,097,805</u> | <u>8,355,746</u> |
| Total | <u>\$ 9,427,745</u> | <u>\$ 4,158,443</u> | <u>\$ 13,586,188</u> |

Subsequent to June 30, 1994, the Commonwealth issued \$250,000,000 in general obligation bonds, with interest rates ranging from 5.0% to 6.0%, and \$200,000,000 in general obligation bonds, with interest rates ranging from 5.5% to 7%.

Statutory Debt Limit - In fiscal year 1990, Massachusetts General Laws were amended to establish a limit on the amount of direct debt outstanding, effective at the beginning of fiscal year 1991. By statutorily limiting the Commonwealth's ability to issue direct debt, these amendments provide a control on annual capital spending. The first-year limit was \$6,800,000,000, with an increase of 5% allowed in each successive fiscal year. The statutory debt limit for fiscal year 1994 was \$7,871,850,000.

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For purposes of determining compliance with the limit, direct debt is defined to include general obligation bonds and minibonds at the amount of their original net proceeds. It excludes discount and issuance costs, if any, financed by these bonds. It also excludes dedicated income tax bonds, certain special obligation bonds, refunded bonds, certain refunding bonds and bond anticipation notes. Outstanding direct debt, as defined, totaled approximately \$7,392,292,000 at June 30, 1994.

Advance Refundings and Defeased Bonds - As authorized by the Massachusetts General Laws, the Commonwealth advance refunded certain general obligation and other bonds through the issuance of \$842,995,000 of general obligation refunding bonds during fiscal year 1994. Proceeds totaling approximately \$839,094,000 were used to purchase U.S. Government securities which were deposited in irrevocable trusts with an escrow agent to provide for all future debt service payments of the refunded bonds. As a result, the refunded bonds are considered to be defeased, and the liabilities therefore have been removed from the General Long-term Obligations Account Group. As a result of these advance refundings, the Commonwealth decreased current year debt service payments and has taken advantage of lower interest rates, and it has decreased its aggregate debt service payments by approximately \$65,942,000 over the next 20 years and incurred an economic gain (the difference between the present values of the debt service payments of the refunded and refunding bonds) of approximately \$49,339,000. At June 30, 1994, approximately \$749,925,000 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, 1994, approximately \$2,577,000,000 of bonds outstanding from advance refundings in prior fiscal years are considered defeased.

Changes in General Long-term Obligations - The Commonwealth records its liability for long-term bonds in the General Long-term Obligations Account Group. Other general long-term obligations recognized by the Commonwealth are its obligations under capital lease agreements (Note 12), school construction grants to partially reimburse cities and towns for their debt service payments on bonds issued to finance construction of local or regional schools (Note 1), compensated absences (Note 1), unfunded pension costs (Note 10) and claims and judgments related to workers' compensation, lawsuits or other claims pending or threatened (Notes 1 and 14).

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General Long Term Debt Obligations Account Group - During the year ended June 30, 1994, the following changes occurred in liabilities reported in the General Long-term Obligations Account Group (amounts in thousands):

| | Long-term bonds | Capital leases | School construction grants | Compensated absences |
|---|---------------------|-------------------|----------------------------------|-------------------------|
| Balance, July 1, 1993 | \$ 9,231,458 | \$ 33,329 | \$ 1,926,082 | \$ 76,280 |
| Bond issuances | 1,526,002 | | | |
| Bond discount | 16,994 | | | |
| Bond principal payments (excluding minibonds) | (1,346,709) | | | |
| Excess of total pension contributions required over total contribu- tions made | | | | |
| Net increase (decrease) | | 17,625 | 144,627 | 5,543 |
| Balance, June 30, 1994 | <u>\$ 9,427,745</u> | <u>\$ 50,954</u> | <u>\$ 2,070,709</u> | <u>\$ 81,823</u> |

(Continued):

| | Unfunded pension costs | Claims, judgments and other | Total |
|---|------------------------------|-----------------------------------|----------------------|
| Balance, July 1, 1993 | \$ 2,362,254 | \$ 401,864 | \$ 14,031,267 |
| Bond issuances | | | 1,526,002 |
| Bond discount | | | 16,994 |
| Bond principal payments (excluding minibonds) | | | (1,346,709) |
| Excess of total pension contributions required over total contribu- tions made | 217,178 | | 217,178 |
| Net increase (decrease) | | 33,731 | 201,526 |
| Balance, June 30, 1994 | <u>\$ 2,579,432</u> | <u>\$ 435,595</u> | <u>\$ 14,646,258</u> |

University and College Fund - Building authorities related to the University of Massachusetts and the state colleges have issued bonds for construction of higher education facilities and equipment. Such bonds are guaranteed by the Commonwealth in an aggregate amount not to exceed \$182,000,000. The bond agreements generally provide that revenues from student fees are pledged as collateral on the bonds and establish bond reserve funds, bond funds, and maintenance reserve funds. The University of Massachusetts has also entered into various loan agreements as a participant in the Massachusetts Health and Educational Facilities Authority's ongoing capital asset program to finance construction projects and equipment.

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University and College Fund long-term debt outstanding at June 30, 1994 was as follows (amounts in thousands):

| <u>Purpose</u> | <u>Interest rates</u> | <u>Amount</u> | <u>Maturity dates</u> |
|-----------------------------|-----------------------|-------------------|-----------------------|
| MHEFA capital asset program | Variable | \$ 10,666 | 1995-2006 |
| Building authorities | 3.0% - 9.9% | <u>237,580</u> | 1995-2018 |
| | | <u>\$ 248,246</u> | |

Maturities of principal are as follows (amounts in thousands):

| <u>Years ending June 30</u> | <u>Amount</u> |
|-----------------------------|-------------------|
| 1995 | \$ 8,131 |
| 1996 | 8,597 |
| 1997 | 9,004 |
| 1998 | 9,820 |
| 1999 | 10,997 |
| 2000 and thereafter | <u>201,697</u> |
| Total | <u>\$ 248,246</u> |

Changes in bonds outstanding reported in the University and College Fund Type are as follows (amounts in thousands):

| | <u>Amount</u> |
|--|-------------------|
| Balance, July 1, 1993 | \$ 255,159 |
| Principal less issuance and discount cost | 398 |
| Bonds retired, net of amortization of discount | <u>(7,311)</u> |
| Balance, June 30, 1994 | <u>\$ 248,246</u> |

The University of Massachusetts acquired a telecommunications system through debt financed through certificates of participation which bear interest at an average rate of 7.38% and mature in varying semi-annual installments through fiscal year 2000. Lease payments are funded from UMass student fees and approximate the trustee's payments to certificate holders.

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Changes in non-cancelable certificates of participation for the University and College Fund Type are as follows (amounts in thousands):

| Years ending June 30 | Amount |
|---------------------------------------|------------------|
| 1995 | \$ 2,668 |
| 1996 | 2,670 |
| 1997 | 2,671 |
| 1998 | 2,668 |
| 1999 and thereafter | <u>5,344</u> |
| Total payments | 16,021 |
| Less: Amount representing interest | <u>(3,334)</u> |
| Present value of debt financed | <u>\$ 12,687</u> |

At June 30, 1994, approximately \$87,834,000 of bonds from prior advance refundings of the University and College Fund building authorities are considered defeased.

Component Units -

Bonds and notes outstanding at June 30, 1994, net of unamortized discount of \$15,421,000 and unamortized deferred loss on refunding of \$125,660,000 are as follows (amounts in thousands):

| Purpose | Interest rates | Amount | Maturity dates |
|--------------------------------|-------------------|---------------------|-------------------|
| MBTA: | | | |
| General transportation system | 3.83% - 8.00% | \$ 2,024,963 | 2005 - 2024 |
| Boston Metropolitan District | 1.61% - 9.28 % | 49,477 | 2002 - 2025 |
| RTA's: | | | |
| Transportation bonds | | 45 | 1995 - 1997 |
| MCCA: | | | |
| Current interest serial bonds | 2.50% - 6.00% | 132,096 | 1994 - 2008 |
| Compound interest serial bonds | 5.38% - 6.80% | 58,142 | 2000 - 2013 |
| WPAT: | | | |
| Serial Bonds | 2.00% - 5.50% | 232,535 | 1995 - 2011 |
| Term Bonds | 5.25% - 5.60% | 87,000 | 2013 - 2014 |
| Economic Development: | | | |
| Notes Payable | 7.87% | <u>17,248</u> | 1995 - 2001 |
| Total | | <u>\$ 2,601,506</u> | |

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Maturities of principal are as follows (amounts in thousands):

| Years ending June 30 | MBTA | RTA's | MCCA | WPAT | Economic Development | Total |
|----------------------------|---------------------|--------------|-------------------|-------------------|-------------------------|---------------------|
| 1995 | \$ 75,478 | \$ 15 | \$ 17,235 | \$ 12,195 | \$ 2,098 | \$ 107,021 |
| 1996 | 69,559 | 15 | 18,105 | 11,920 | 1,883 | 101,482 |
| 1997 | 72,434 | 15 | 19,105 | 12,235 | 2,111 | 105,900 |
| 1998 | 75,077 | | 20,195 | 12,695 | 3,590 | 111,557 |
| 1999 and thereafter | 1,922,159 | | 116,259 | 270,490 | 7,719 | 2,316,627 |
| Total | <u>\$ 2,214,707</u> | <u>\$ 45</u> | <u>\$ 190,899</u> | <u>\$ 319,535</u> | <u>\$ 17,401</u> | <u>\$ 2,742,587</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 fiscal year ended June 30, 1994, the following changes occurred in bonds and notes payable reported in the Component Units (amounts in thousands):

| | MBTA | RTA's | MCCA | WPAT | Economic Development | Total |
|--|---------------------|--------------|-------------------|-------------------|-------------------------|---------------------|
| Balance, July 1, 1993 | \$ 1,925,467 | \$ 115 | \$ 163,539 | \$ 148,575 | \$ 670 | \$ 2,238,366 |
| Principal less discount and issuance costs | 544,415 | | 30,909 | 178,085 | 18,678 | 772,087 |
| Debt retired, net of amortization of discount | (369,242) | (70) | (4,210) | (7,125) | (2,100) | (382,747) |
| Deferred loss on refunding | (26,200) | | | | | (26,200) |
| Balance, June 30, 1994 | <u>\$ 2,074,440</u> | <u>\$ 45</u> | <u>\$ 190,238</u> | <u>\$ 319,535</u> | <u>\$ 17,248</u> | <u>\$ 2,601,506</u> |

The MBTA issued certificates of participation in the amounts of \$28,565,000 on December 15, 1988 and \$85,795,000 on August 30, 1990 to finance the purchase of commuter rail coaches. Under the terms of the applicable agreement, the MBTA's obligation to make the annual payments on the certificates is subject to the Commonwealth's appropriation of necessary funds in its annual budget. The certificates bear interest at rates ranging from 6.1% to 7.8% and mature as follows (amounts in thousands):

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| <u>Year ending June 30</u> | <u>Amount</u> |
|------------------------------------|-------------------|
| 1995 | \$ 2,770 |
| 1996 | 2,875 |
| 1997 | 2,990 |
| 1998 | 3,110 |
| 1999 and thereafter | <u>92,325</u> |
| | 104,070 |
| Less: Unamortized discount | <u>736</u> |
| Total | <u>\$ 103,334</u> |

During fiscal year 1994, the MBTA raised \$344,415,000 through the issuance of refunding bonds to advance refund \$343,920,000 of its outstanding general transportation system bonds. Net proceeds of \$363,000,000 were used to purchase U.S. Government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, the MBTA's refunded bonds are considered to be defeased, and the liability for those bonds has been removed from the Component Units. This advance refunding resulted a loss on defeasance of \$26,200,000, which is being amortized as a component of interest cost in accordance with the requirements of GASB Statement No. 23, "Accounting and Financial Reporting for Refundings of Debt Reported by Proprietary Activities". As a result of the advance refunding, the MBTA reduced its aggregate debt service payments by approximately \$14,600,000 from fiscal year 1994 to 2022 and achieved an economic gain of approximately \$14,100,000.

In prior years, the Massachusetts Bay Transportation Authority defeased in-substance several General Transportation System Bonds by placing the proceeds of new bonds in an irrevocable trust fund to provide for future debt service payments on the old debt. These payments began in 1994. Accordingly, the trust account asset and the liability for the defeased bonds are not included in the accompanying financial statements. On June 30, 1994, \$825,510,000 of these bonds outstanding are considered defeased.

The legislation under which the MBTA was established provides that if, at any time, the MBTA is unable to meet any interest or principal payments due on its debt, sufficient funds will be remitted by the Commonwealth to meet such obligations.

The legislation which authorizes the issuance of Massachusetts Convention Center Authority debt securities provides for participation by the Commonwealth in the full payment of the annual debt service costs.

On October 1, 1994, the Massachusetts Water Pollution Abatement Trust issued bonds of \$80,925,000 of tax-exempt bonds. A portion of the proceeds was used to refinance interim loans issued to South Essex Sewerage District during year 1994.

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9. INDIVIDUAL FUND DEFICITS:

The General Fund, certain Special Revenue Funds and Capital Projects Funds included in the combined totals have fund deficits at June 30, 1994, as follows (amounts in thousands):

| <u>Fund</u> | <u>Amount</u> |
|-------------------|---------------|
| General | \$ 923,682 |
| Special Revenue: | |
| Lotteries | 1,957 |
| Capital Projects: | |
| General | 212,914 |
| Highway | 85,852 |
| Local Aid | 70,917 |
| Other | 4,962 |

The deficit in the General Fund reflects the accrual of liabilities for Medicaid claims at June 30, 1994, and for subsidies to transit authorities for operating deficits incurred but not yet funded. These liabilities will be paid in subsequent periods as the Legislature appropriates funds. The deficits in the Lotteries Funds reflect the impact of accruals, created essentially by timing differences, which reverse in the next fiscal year.

In the Capital Projects Funds, the recognition of minibonds as fund liabilities accounts for \$49,062,000 of the reported fund deficits. The remaining deficits reflect the time lag between capital expenditures and the receipt or allocation of proceeds from the sale of related bonds. Subsequently on August 9, 1994, the Commonwealth issued \$250,000,000 in general obligation bond related to the capital projects funds.

10. RETIREMENT SYSTEMS:

Primary Government -

The Commonwealth is statutorily responsible for the pension benefits for Commonwealth employees (members of the State Employees' Retirement System) and for teachers of the cities, towns, regional school districts throughout the Commonwealth and Quincy College (members of the Teachers' Retirement System, except for teachers in the Boston public schools, who are members of the State-Boston Retirement System but whose pensions are also the responsibility of the Commonwealth). Employees of certain independent authorities and agencies, such as the MBTA, and of counties, cities and towns (other than teachers) are covered by separate retirement systems. The members of the retirement systems do not participate in the Social Security System. The Commonwealth has also assumed responsibility for payment of cost-of-living adjustments (COLA) for the separate (non-teacher) retirement systems of its cities, towns and counties.

Certain Commonwealth employees and current retirees employed prior to the establishment of the State Employees' Retirement System are covered on a "pay-as-you-go" basis.

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Plan Descriptions -

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

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

State - Boston Retirement System (SBR) is an agent multiple employer defined benefit PERS. SBR provides provision benefits to all full-time employees upon commencement of employment with any of the various government agencies covered by SBR. The Commonwealth is a non-employer contributor and is only responsible for the actual cost of pension benefits for SBR participants who serve in the City of Boston's School Department in a teaching capacity. The cost of pension benefits of the other participants is the responsibility of the City of Boston. SBR is not administered by the Commonwealth, and it is not part of the reporting entity.

The Commonwealth has assumed financial responsibility for the COLA granted to participants in the 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 as of January 1, 1993 and SBR as of January 1, 1994 is as follows:

| | <u>SERS</u> | <u>TRS</u> | <u>SBR</u> |
|--|----------------|---------------|--------------|
| Retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them | <u>45,419</u> | <u>30,168</u> | <u>2,354</u> |
| Current employees: | | | |
| Vested | 36,398 | 44,782 | 3,872 |
| Nonvested | <u>47,114</u> | <u>17,206</u> | <u>2,011</u> |
| Subtotal | <u>83,512</u> | <u>61,988</u> | <u>5,883</u> |
| Total | <u>128,931</u> | <u>92,156</u> | <u>8,237</u> |

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The covered payroll for employees of the Commonwealth covered by SERS was \$3,094,000,000. The covered payroll for employees of the cities and towns covered by TRS is \$2,573,506,000. The covered payroll for employees of the City of Boston covered by SBRS is \$217,958,000. The covered payroll amounts approximate the employer payroll.

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

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

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

Funding Status and Progress - The amounts shown below as the pension benefit obligation are a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure is intended to help users assess the funding status of the System on an ongoing basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among employers. The measure is the actuarially determined present value of credited projected benefits and is independent of the funding method used to determine contributions to the System.

The SERS and TRS pension benefit obligations were computed as part of the actuarial valuation as of January 1, 1993, updated to January 1, 1994. The SBRS pension benefit obligations were computed as part of an actuarial valuation as of January 1, 1994. Significant actuarial assumptions used in the calculation of contribution requirements and pension benefit obligation include (a) rates of return on investments of present and future assets of 8% per year (b) projected salary increases of 6% per year (c) cost of living increases of 3% per year and (d) interest rate credited to the annuity savings fund of 3.1% per year.

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The total unfunded pension benefit obligation is as follows (amounts in millions):

| | <u>SERS</u> | <u>TRS</u> | <u>SBRS</u> | <u>COLA</u> | <u>Total</u> |
|---|-----------------|-----------------|---------------|-----------------|-----------------|
| Pension benefit obligation: | | | | | |
| Retirees and others currently receiving benefits and terminated employees entitled to benefits but not yet receiving them | \$ 4,288 | \$ 3,101 | \$ 312 | \$ 1,452 | \$ 9,153 |
| Current employees: | | | | | |
| Accumulated employee contributions including allocated interest | 1,932 | 2,199 | 190 | | 4,321 |
| Commonwealth financed: | | | | | |
| Non-vested | 668 | 288 | 30 | 93 | 1,079 |
| Vested | <u>2,069</u> | <u>3,370</u> | <u>186</u> | <u>492</u> | <u>6,117</u> |
| Total pension benefit obligation | 8,957 | 8,958 | 718 | 2,037 | 20,670 |
| Net assets available for benefits, at market | <u>5,802</u> | <u>5,956</u> | <u>443</u> | | <u>12,201</u> |
| Unfunded pension benefit obligation | <u>\$ 3,155</u> | <u>\$ 3,002</u> | <u>\$ 275</u> | <u>\$ 2,037</u> | <u>\$ 8,469</u> |

Pension benefit obligation -

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.

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

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

The current legislatively approved funding schedule, based on the January 1, 1990 valuation, was filed with the Legislature on March 1, 1991. It required contributions by the Commonwealth of \$806,584,000 during the fiscal year ended June 30, 1994. 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

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 1994 contribution did not cover the minimum expenditure recognition required by GAAP. The difference between the total contributions required and the total contributions made is recorded as a liability in the General Long-term Obligations Account Group.

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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 | \$ 430 | \$ 320 | \$ 25 | \$ 51 | \$ 826 |
| Amortization of unfunded actuarial liability | 161 | 104 | 9 | 98 | 372 |
| Interest on unfunded actuarial liability | <u>100</u> | <u>111</u> | <u>10</u> | <u>64</u> | <u>285</u> |
| Total contributions required | <u>\$ 691</u> | <u>\$ 535</u> | <u>\$ 44</u> | <u>\$ 213</u> | <u>\$ 1,483</u> |
| Contributions made: | | | | | |
| By employees | \$ 212 | \$ 174 | \$ 14 | \$ 0 | \$ 400 |
| % of covered payroll | 6.90% | 6.75% | 6.50% | N/A | N/A |
| By the Commonwealth | 415 | 329 | 28 | 94 | 866 |
| % of covered payroll | <u>13.40%</u> | <u>12.80%</u> | <u>12.90%</u> | <u>N/A</u> | <u>N/A</u> |
| Total contributions made | <u>\$ 627</u> | <u>\$ 503</u> | <u>\$ 42</u> | <u>\$ 94</u> | <u>\$ 1,266</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, 1994, the Commonwealth's pension expenditure also included payments totaling \$22,209,000 to current retirees employed prior to the establishment of the current plans and to non-contributory plans.

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Trend Information - The following table presents the required three-year trend information:

| | Year | % SERS | % TRS | % SBR |
|--|------|-----------|----------|----------|
| Net assets available for benefits as a percentage of the pension benefit obligation applicable to employees: | 1994 | 64.7 | 66.5 | 61.6 |
| | 1993 | 60.3 | 60.9 | 52.7 |
| | 1992 | 66.6 | 58.1 | 48.5 |
| Unfunded pension benefit obligation as a percentage of annual covered payroll: | 1994 | 101.9 | 116.7 | 126.5 |
| | 1993 | 114.4 | 135.8 | 161.9 |
| | 1992 | 89.5 | 169.6 | 197.2 |
| Commonwealth's contributions to the pension plan as a percentage of annual covered payroll: | 1994 | 13.8 | 12.8 | 12.9 |
| | 1993 | 14.3 | 12.5 | 13.2 |
| | 1992 | 12.7 | 14.0 | 14.4 |

Ten-year historical trend information for SERS, TRS and SBR may be found on page 170 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 SBR. Total annual payroll for SERS, TRS and SBR approximates annual covered payroll; however, actual annual total payroll amounts are not available this year, and have not been available in prior years. Annual covered payroll amounts were not available prior to 1990. Ten-year trend data of SBR for revenues and expenditures is not available in their separately issued report.

Component Units -

Condensed Pension Information - Of the 27 discretely presented component units 22 maintain separate pension plans.

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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 \$126,027,000 for the fiscal year ended June 30, 1994.

11. DEFERRED COMPENSATION PLAN:

The Commonwealth offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all employees of the Commonwealth and its political subdivisions, permits them to defer a portion of their salaries until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are (until paid or made available to the employee or other beneficiary) solely the property and rights of the Commonwealth (without being restricted to the provision of benefits under the plan), subject only to the claims of the Commonwealth's general creditors and its political subdivisions participating in the plan. Participants' rights under the plan are equal to the fair market value of the deferred account for each participant. All plan assets are stated at market value.

It is the opinion of the Commonwealth that it has no liability for losses under the plan, but it does have the duty of due care which would be required of an ordinary prudent investor. The plan assets are subject to the claims of the Commonwealth's general creditors; however, plan assets have not been used in the past to satisfy such claims.

Of the \$945,401,000 in the plan at June 30, 1994, \$636,500,000 was applicable to the Commonwealth; the remaining \$308,901,000 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, 1994.

12. CAPITAL LEASES:

Primary Government -

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

At June 30, 1994, the Commonwealth's aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totals \$50,954,000. 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 \$76,802,000.

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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, 1994 was approximately \$100,925,000.

The following is a schedule of future minimum lease payments under non-cancelable leases for the Commonwealth as of June 30, 1994 (amounts in thousands):

| Years ending June 30 | Capital leases | Operating leases |
|--|-------------------|---------------------|
| 1995 | \$ 18,629 | \$ 81,466 |
| 1996 | 14,676 | 62,520 |
| 1997 | 10,545 | 50,269 |
| 1998 | 7,071 | 40,947 |
| 1999 | 5,084 | 28,451 |
| 2000 and thereafter | 2,786 | 8,184 |
| Total payments | 58,791 | \$ 271,837 |
| Less: amount representing interest | (7,837) | |
| Present value of minimum lease payments | \$ 50,954 | |

University and College Fund - At June 30, 1994, aggregate outstanding liability under capital leases, the present value of the net minimum lease payments, totaled \$19,558,000. Equipment acquired under capital leases and included in University and College Fund fixed assets totaled approximately \$14,087,000.

The University and College Fund Type leases real property and equipment under numerous operating lease agreements for varying terms. Rental expense for the fiscal year ended June 30, 1994 was approximately \$5,261,000.

The following schedule summarizes future minimum payments under non-cancelable leases for the University and College Fund Type (amounts in thousands):

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| <u>Years ending June 30</u> | <u>Capital leases</u> | <u>Operating leases</u> |
|--|---------------------------|-----------------------------|
| 1995 | \$ 6,173 | \$ 4,994 |
| 1996 | 5,150 | 4,187 |
| 1997 | 3,883 | 3,161 |
| 1998 | 2,806 | 2,367 |
| 1999 | 2,112 | 73 |
| 2000 and thereafter | <u>3,339</u> | <u>40</u> |
| Total payments | 23,463 | <u>\$ 14,822</u> |
| Less: amount representing interest | <u>(3,905)</u> | |
| Present value of minimum lease payments | <u>\$ 19,558</u> | |

Component Units -

The MBTA has entered into several sale-leaseback agreements with major financial institutions, covering equipment and rolling stock, which have been accounted for as operating leases. The leases expire through 2013. Upon termination, the MBTA may purchase the equipment and rolling stock at prices equal to the lesser of a stated percentage (40%-70%) of the lessor's original purchase price or residual fair market value, as defined.

The Economic Development Authorities and the RTA's have operating leases for office space.

The future minimum rental payments required under operating leases having initial or remaining non-cancelable lease terms in excess of one year are as follows (amounts in thousands):

| <u>Years ending June 30</u> | <u>MBTA</u> | <u>RTA's</u> | <u>Economic Development Authorities</u> |
|-------------------------------------|-------------------|------------------|---|
| 1995 | \$ 12,068 | \$ 15,700 | \$ 1,047 |
| 1996 | 12,068 | 9,000 | 770 |
| 1997 | 12,068 | | 471 |
| 1998 | 12,068 | | 369 |
| 1999 | 13,669 | | 223 |
| 2000 and thereafter | <u>188,739</u> | | |
| Total payments | <u>\$ 250,680</u> | <u>\$ 24,700</u> | <u>\$ 2,880</u> |

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13. COMMITMENTS:

Primary Government -

Governmental Funds - The Commonwealth is obligated to provide annual subsidies to the MBTA and regional transit authorities for contract assistance, debt service assistance and their net cost of service deficiencies. For fiscal year 1994, these subsidies totaled \$606,442,000 for the MBTA and \$47,761,000 for the RTA's. The net cost of service subsidy is recognized as a current liability of the Commonwealth, but is funded in arrears. At June 30, 1994, the Commonwealth has recorded the unpaid portion as a liability due to the MBTA of \$361,020,000 and due to RTA's of \$54,833,000. The cities and towns served by the MBTA and RTA's will be assessed their proportionate shares of the net cost of service. A receivable from cities and towns of \$208,089,000 is recorded at June 30, 1994, to account for these future reimbursements. The MBTA has also recorded net deferred charges of \$81,975,000 at June 30, 1994, 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 \$17,583,383 in fiscal year 1994.

At June 30, 1994, the aggregate outstanding debt for which the Commonwealth is obligated to provide contract assistance support totaled approximately \$2,442,885,000 long-term and \$433,269,000 short-term. In addition, the Commonwealth guarantees the debt of certain local governments and of the building authorities included in the University and College Fund. The guaranteed debt outstanding at June 30, 1994, was approximately \$235,916,000.

At June 30, 1994, the Commonwealth had commitments approaching \$1,636,000,000 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.

Pension Trust Funds - At June 30, 1994, PRIT had outstanding commitments to invest \$281,000,000 in real estate, \$18,000,000 in venture capital and \$208,000,000 in special equity investments.

University and College Fund Type - The UMass hospital has agreements with Blue Cross of Massachusetts, Inc., the Social Security Administration under the Medicare program and the Commonwealth of Massachusetts under the Medicaid program that govern payments to the hospital for services rendered to patients covered by these programs and require the hospital to prepare and file settlement reports annually. Provisions have been made in the financial statements for the estimated final settlements with such third party payors.

Component Units -

As of June 30, 1994, the WPAT has agreed to provide loans of \$173,000,000 to various local government units to be funded with grant awards received through June 30, 1994.

**COMMONWEALTH OF MASSACHUSETTS
COMPREHENSIVE ANNUAL FINANCIAL REPORT
FISCAL YEAR ENDED JUNE 30, 1994**

The MBTA has entered into several long term contracts to purchase commuter rail coaches, locomotives and rapid transit cars. The unpaid amounts under these contracts total approximately \$139,754,000 at June 30, 1994.

The MCCA has entered into a general construction contract for the renovation and rehabilitation of the Boston Common Parking Garage. The total cost, including architectural, engineering and other costs, is expected to be approximately \$35,000,000.

Massachusetts Housing Partnership Fund (MHP) has executed seven loan agreements with five banks for an amount of \$172,644,973 pursuant to the Massachusetts Nationwide Interstate Banking and Community Reinvestment Act (Chapter 102 of the Acts of 1990). These bank loan agreements are the source of funding to borrowers through MHP.

14. CONTINGENCIES:

Primary Government -

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 \$73,500,000. Of this amount approximately \$61,500,000, which is expected to be paid during fiscal year 1995, is recorded in fund liabilities; approximately \$12,000,000 expected to be paid thereafter, is recorded as a liability in the General Long-term Obligations Account Group. Appellate Tax Board cases included in the amount to be paid in 1995 total \$17,500,000.

Workers' compensation and group health insurance costs for Commonwealth employees are recognized when claims are incurred. The Commonwealth's outstanding liability for such claims at June 30, 1994, including claims incurred but not reported, is estimated to be \$341,900,000. Of this total, approximately \$54,100,000 is expected to be paid during fiscal year 1995; \$47,900,000 is included among fund liabilities and \$6,200,000 is reported in the University and College Fund. Of the remainder, approximately \$256,800,000, is recorded as a liability in the General Long-term Obligations Account Group and \$31,000,000 is included in the liabilities of the University and College Fund.

The Commonwealth has assumed responsibility for worker's compensation claims for all contractors and subcontractors working on the Central Artery project. The Commonwealth's liability as of June 30, 1994 for such claims is estimated to be \$86,278,000. The Commonwealth has established reserves through a combination of bond proceeds and federal funds in its capital project funds to pay these liabilities.

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, 1994, the Commonwealth estimates that liabilities, if any, which may result from such audits are not material.

NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS

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 1994 totaled \$54,298,192. Since inception, approximately \$484,660,000 has been remitted. This represents a contingency, because claims for refunds can be made by the owners of the property. No material amounts have been repaid.

University and College Fund Type - The University of Massachusetts is contingently liable for \$20,500,000 of Massachusetts Health and Educational Facilities Authority revenue bonds, issued by the University of Massachusetts Foundation, Inc. In the event the Foundation fails to make any payment, the University will transfer any amounts unpaid and due to the Foundation.

Component Units -

The Massachusetts Convention Center Authority was involved in six lawsuits arising primarily as a result of the Phase II expansion and renovation of the Hynes Convention Center since January 1989. Three cases have been dismissed pursuant to a settlement of July 28, 1994 for an amount of \$15,500,000. The authority had retained security deposits of \$12,900,000 plus interest of \$2,600,000 against the cost of the settlement. An initial payment of \$12,500,000 was made in July 1994, and the remaining balance is payable in separate installments during fiscal year 1996 and 1997.

15. ACCOUNTING CHANGE - CHANGE IN REPORTING ENTITY:

For the fiscal year ended June 30, 1994, the Commonwealth adopted Governmental Accounting Standards Board Statement No. 14 (GASB 14), "The Financial Reporting Entity." GASB 14 requires that the financial statements present (a) the primary government, (b) organizations for which the primary government is financially accountable and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

As a result of the adoption of GASB 14, all entities which have previously been reported within Enterprise Funds are now classified in a discretely presented column labeled component units. In addition, certain entities which have previously been excluded from the reporting entity have been added in the current fiscal year, and three entities which were previously included are now excluded from the reporting entity. See Note 1 for a description of the component units included in the reporting entity.

The effect of adopting GASB 14 is to reduce beginning fund equity in the Component Units column (previously reported as Enterprise Funds) by \$2,088,289,000.

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APPENDIX B

[CLOSING DATE]

The Honorable Joseph D. Malone
Treasurer and Receiver-General
The Commonwealth of Massachusetts
State House - Room 227
Boston, Massachusetts 02133

RE: The Commonwealth of Massachusetts \$250,000,000 General Obligation Bonds,
Consolidated Loan of 1995, Series D, dated November 1, 1995, as described
below (the "Bonds")

Dear Treasurer Malone:

We have served as bond counsel to the Commonwealth of Massachusetts in connection with the issuance of the Bonds. In that capacity, we have examined a record of proceedings relating to 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 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 bond 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 established by DTC and its participants. We have examined one of the executed Bonds.

In rendering our opinion, we have relied upon certain covenants of the Commonwealth and upon certifications and representations of fact made by certain officials of the Commonwealth.

We express no opinion as to laws other than the laws of the Commonwealth and the United States of America.

A Partnership of
Professional Corporations

ONE FINANCIAL CENTER
BOSTON, MASSACHUSETTS 02111
617-330-9000
FAX: 617-439-3278

Hartford / Providence



The Honorable Joseph D. Malone
[Closing Date]
Page 2

Based upon the foregoing, we are of the opinion that, under existing law:

a) The Bonds have been duly authorized by the Commonwealth, and the form of the Bond which we have examined and the form of its execution are regular and proper.

b) The Bonds are legal and valid general obligations of the Commonwealth, and the full faith and credit of the Commonwealth are pledged to the payment of the principal of and interest on the Bonds. It should be noted, however, that Chapter 62F of the Massachusetts General Laws establishes a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit. It should further be noted that Chapter 29, Section 60B, of the Massachusetts General Laws imposes an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on general obligation debt of the Commonwealth.

c) Interest on the Bonds (including any original issue discount properly allocable to a holder thereof) is not included in gross income for federal income tax purposes and such interest is not an item of tax preference for purposes of computing the alternative minimum tax imposed on individuals and corporations; however, such interest is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on certain corporations, and such interest is included in the measurement of certain other taxes imposed on corporations and 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 such benefits shall be included in the taxable income of such recipients. The opinions set forth in the preceding sentence are subject to the condition that the Commonwealth comply with all requirements of the Internal Revenue Code of 1986, as amended, that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. Failure by the Commonwealth to comply with such requirements subsequent to the issuance of the Bonds may cause interest on the Bonds to become subject to federal income taxation retroactive to the date of their issuance. The Commonwealth has provided covenants or certificates stating that it will take all lawful action necessary to comply with these requirements. We express no opinion with respect to other federal tax consequences arising with respect to the Bonds.

d) The Bonds and the interest thereon are exempt from taxes imposed by existing Massachusetts laws, although the Bonds and the interest thereon may be included in the measure of estate and inheritance taxes and of certain corporation excise and franchise taxes.

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other laws



The Honorable Joseph D. Malone
[Closing Date]
Page 3

affecting creditors' rights hereafter enacted to the extent constitutionally applicable and that enforcement of such rights may also be subject to general principles of equity, regardless of whether applied in proceedings in equity or at law.

Very truly yours,

BROWN, RUDNICK, FREED & GESMER

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Financial Guaranty Insurance Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001

A GE Capital Company

Municipal Bond New Issue Insurance Policy

Issuer:

Policy Number:

Control Number:

Bonds:

Premium:

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

Municipal Bond New Issue Insurance Policy

Bond, the stated date for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

Authorized Officer

STIPULATED

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001



A GE Capital Company

Endorsement To Financial Guaranty Insurance Company Insurance Policy

Policy Number:

Control Number:

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE, OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY, IF FOUND CONTRARY TO THE POLICY LANGUAGE. THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

President

Effective Date:

Authorized Representative

Acknowledged as of the Effective Date written above:

Authorized Officer

State Street Bank and Trust Company, N.A., as Fiscal Agent

FGIC is a registered service mark used by Financial Guaranty Insurance Company under license from its parent company, FGIC Corporation.

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APPENDIX D

Commonwealth of Massachusetts
 General Obligation Bonds
 Consolidated Loan of 1995, Series D

Continuing Disclosure Undertaking

[to be included in bond form]

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the Bonds to provide to each nationally recognized municipal securities information repository (each, a "NRMSIR") within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the "Rule") and to the state information depository for the Commonwealth, if any (the "SID"), within the meaning of the Rule, no later than 270 days after the end of each fiscal year of the Commonwealth, commencing with the fiscal year ending June 30, 1996, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Commonwealth for such fiscal year if audited financial statements are then available, provided, however, that if audited financial statements of the Commonwealth are not then available, such audited financial statements shall be delivered to each NRMSIR and the SID when they become available (but in no event later than 350 days after the end of such fiscal year) or (ii) notice of the Commonwealth's failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Commonwealth's Information Statement dated October 3, 1995 (the "Information Statement"), as appearing in the Official Statement dated November 1, 1995 relating to the Commonwealth's General Obligation Bonds, Consolidated Loan of 1995, Series D, and in each case substantially in the same level of detail as is found in the referenced section of the Information Statement:

| Information to be provided to NRMSIR and SID | Reference to Information Statement or Table of Bond |
|--|---|
| 1. Summary presentation on statutory accounting and five-year comparative basis of selected budgeted operating funds operations, concluding with prior fiscal year, plus estimates for current fiscal year | "FINANCIAL RESULTS - Selected Financial Data - Statutory Basis" |
| 2. Summary presentation on GAAP and five-year comparative basis of selected budgeted operating funds operations, concluding with prior fiscal year | "FINANCIAL RESULTS - Selected Financial Data - GAAP Basis" |
| 3. Discussion of selected key results for budgeted operating funds for prior fiscal year | "FINANCIAL RESULTS" (see discussion of prior fiscal years) |
| 4. Summary presentation of actual revenues in budgeted operating funds on five-year comparative basis, concluding with prior fiscal year, plus estimates for current fiscal year | "COMMONWEALTH REVENUES - Distribution of Revenues" |

| Financial Information and Operating Data Category | Reference to Information Statement for Level of Detail |
|---|---|
| 5. So long as Commonwealth statutes impose limits on tax revenues, information as to compliance therewith in the prior fiscal year | "COMMONWEALTH REVENUES - Limitations on Tax Revenues" |
| 6. Summary presentation of budgeted expenditures by selected, then-current major categories on five-year comparative basis and estimated expenditures for current fiscal year | "COMMONWEALTH PROGRAMS AND SERVICES" |
| 7. So long as Commonwealth statutes impose a limit on appropriations for debt service, information as to compliance therewith for the prior fiscal year and an estimate for the current fiscal year | "COMMONWEALTH PROGRAMS AND SERVICES - Debt Service" |
| 8. If and to the extent otherwise updated in the prior fiscal year, summary presentation of the size of the state workforce | "COMMONWEALTH PROGRAMS AND SERVICES - State Workforce" |
| 9. Statement of Commonwealth bond and note liabilities as of the end of the prior fiscal year | "COMMONWEALTH BOND AND NOTE LIABILITIES - Overview - Outstanding Bond and Note Liabilities" |
| 10. Five-year comparative presentation of long term Commonwealth debt and selected Commonwealth-supported debt as of the end of the prior fiscal year | "COMMONWEALTH BOND AND NOTE LIABILITIES - Overview - Long Term Bond Liabilities" |
| 11. Annual fiscal year debt service requirements for Commonwealth general obligation and special obligation bonds, beginning with the current fiscal year | "COMMONWEALTH BOND AND NOTE LIABILITIES - Debt Service Requirements on Commonwealth Bonds" |
| 12. So long as Commonwealth statutes impose a limit on the amount of outstanding "direct" bonds, information as to compliance therewith as of the end of the prior fiscal year | "COMMONWEALTH BOND AND NOTE LIABILITIES - Statutory Debt Limit on Direct Bonds" |
| 13. Five-year summary presentation of authorized but unissued general obligation debt and actual capital project expenditures | "COMMONWEALTH BOND AND NOTE LIABILITIES - Authorized But Unissued Debt" |
| 14. Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any | "OTHER COMMONWEALTH LIABILITIES - Retirement Systems and Pension Benefits" |
| 15. Summary presentation of operating lease commitments for future fiscal years as of the end of the prior fiscal year | "OTHER COMMONWEALTH LIABILITIES - Long Term Operating Leases" |

| Financial Information and Operating Data Category | Reference to Information Statement (or Level of Detail) |
|---|---|
| 16. Summary presentation of long-term capital lease and certificate-of-participation commitments for future fiscal years as of the end of the prior fiscal year | "OTHER COMMONWEALTH LIABILITIES - Long Term Capital Leases and Certificates of Participation" |
| 17. Summary presentation of school building assistance program commitments for future fiscal years as of the end of the prior fiscal year | "OTHER COMMONWEALTH LIABILITIES - School Building Assistance" |

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

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

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties^{1/};
- (iv) unscheduled draws on the bond insurance policy issued by Financial Guaranty Insurance Corporation in connection with the Bonds reflecting financial difficulties;
- (v) any change in the provider of the bond insurance policy described above or failure of any bond insurance provider to perform its obligations with respect to the Bonds;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (vii) amendment of or modifications to the rights of Bondholders;
- (viii) giving of notice of optional redemption of Bonds;
- (ix) defeasance of the Bonds;
- (x) release, substitution or sale of property securing repayment of the Bonds^{2/}; and
- (xi) rating changes on the Bonds.

^{1/}Not applicable to the Bonds, since there is no debt service reserve fund securing the Bonds.

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

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

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

