

**REFUNDING/NEW MONEY ISSUE - BOOK-ENTRY-ONLY**

*In the opinion of Bond Counsel, under existing law and assuming continued compliance with certain requirements of the Internal Revenue Code of 1986, as amended, interest on the Bonds will not be included in the gross income of holders of the Bonds for federal income tax purposes. While interest on the Bonds will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, interest on the Bonds will be included in the "adjusted current earnings" of corporate holders of the Bonds and therefore will be taken into account in computing the alternative minimum tax applicable to certain corporations. In the opinion of Bond Counsel, interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. For federal and Massachusetts tax purposes, interest includes accrued original issue discount. See "TAX MATTERS" herein.*

**THE COMMONWEALTH OF MASSACHUSETTS**



**\$191,460,000**  
**General Obligation Bonds**  
**Consolidated Loan of 2004**  
**Series B**

**\$883,435,000**  
**General Obligation**  
**Refunding Bonds**  
**2004 Series B**

**Dated: Date of Delivery**

**Due: As shown on the inside cover hereof**

*The Bonds will be issued by means of a book-entry-only system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company ("DTC") and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The Bonds will bear interest from their delivery date and interest will be payable on August 1, 2004 and semiannually thereafter on February 1 and August 1 calculated on the basis of a 360-day year of twelve 30-day months; provided that accrued interest on the Refunding Bonds (defined herein) maturing on June 1, 2004 shall be payable on that date. 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, see "SECURITY FOR THE BONDS" (herein) and the Information Statement (referred to herein) under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "LONG-TERM LIABILITIES – General Authority to Borrow; Limit on Debt Service Appropriations."

The Bonds are offered when, as and if issued and received by the Underwriters, and subject to the unqualified approving opinion as to legality of Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Ropes & Gray LLP, Boston, Massachusetts, Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts. The Bonds are expected to be available for delivery at DTC in New York, New York, on or about March 24, 2004.

**Lehman Brothers**

**Bear, Stearns & Co. Inc.**  
**JPMorgan**

**Merrill Lynch & Co.**

**Citigroup**  
**UBS Financial Services Inc.**

**Advest, Inc.**  
**Corby Capital Markets, Inc.**  
**First Albany Corporation**  
**Mellon Financial Markets, Inc.**  
**Quick & Reilly, Inc.**  
**RBC Dain Rauscher**

**A.G. Edwards & Sons, Inc.**  
**Eastern Bank Capital Markets**  
**Goldman Sachs & Co.**  
**Morgan Stanley**  
**Ramirez & Co., Inc**

**CIBC World Markets**  
**Fidelity Capital Markets**  
**Janney Montgomery Scott, Inc.**  
**Oppenheimer & Co.**  
**Raymond James & Associates, Inc.**  
**Wachovia Bank, National Association**

March 4, 2004

**THE COMMONWEALTH OF MASSACHUSETTS**

**\$191,460,000  
General Obligation Bonds  
Consolidated Loan of 2004, Series B**

**Dated: Date of Delivery**

**Due: August 1, as shown below**

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
2022*	\$60,655,000	5.00%	4.21% C
2023	63,765,000	5.00	4.40 C
2024	67,040,000	5.00	4.46 C

**\$883,435,000  
General Obligation Refunding Bonds  
2004 Series B**

**Dated: Date of Delivery**

**Due: August 1, as shown below, except as indicated**

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Price or Yield</u>
2004**	\$11,665,000	2.00%	NRO
2014	24,050,000	5.25	3.62%
2015	101,020,000	5.25	3.76
2016	37,175,000	5.25	3.85
2016‡	50,000,000	5.25	3.75
2020	75,710,000	5.25	4.21
2021	214,105,000	5.25	4.28
2021‡	79,000,000	5.25	4.20
2022	109,590,000	5.25	4.36
2023	74,375,000	5.25	4.40
2027	16,745,000	5.25	4.52
2028	90,000,000	5.25	4.53

\* Insured by Ambac Assurance Corporation. See "BOND INSURANCE – Payment of Ambac Insured Bonds Pursuant to Ambac Policy" herein.

\*\* Maturing June 1, 2004.

‡ Insured by Financial Security Assurance Inc. See "BOND INSURANCE – Financial Security Assurance Inc." herein.

C Subject to optional redemption and priced at the stated yield to the August 1, 2014 redemption date at a redemption price of 100%. See "THE BONDS – Redemption" herein.

Other than with respect to information concerning Financial Security Assurance Inc. ("FSA") contained herein under the heading "BOND INSURANCE – Financial Security Assurance Inc." and in the specimen Municipal Bond Insurance Policy of FSA set forth in Appendix E – "Specimen Financial Guaranty Insurance Policies," none of the information in this Official Statement has been supplied or verified by FSA and FSA makes no representation or warranty, express or implied, as to (i) the accuracy or completeness of such information; (ii) the validity of the Bonds; or (iii) the tax exempt status of the interest on the Bonds.

No dealer, broker, salesperson or other person has been authorized by The Commonwealth of Massachusetts or the Underwriters of the Bonds to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of 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 or included by reference herein has been furnished by the Commonwealth and includes information obtained from other sources which are believed to be reliable, but is not guaranteed as to accuracy or completeness and is not to be construed as a representation by the Underwriters of the Bonds or, as to information from other sources, the Commonwealth. The information and expressions of opinion herein or included by reference 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.

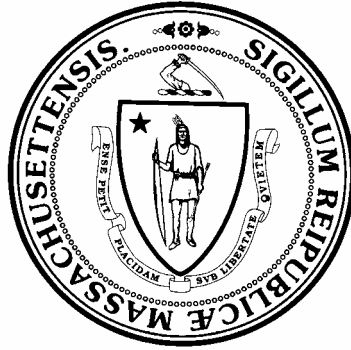
THE UNDERWRITERS HAVE PROVIDED THE FOLLOWING SENTENCE FOR INCLUSION IN THIS OFFICIAL STATEMENT: THE UNDERWRITERS HAVE REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT IN ACCORDANCE WITH, AND AS PART OF, THEIR RESPECTIVE RESPONSIBILITIES TO INVESTORS UNDER THE FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION, BUT THE UNDERWRITERS DO NOT GUARANTEE THE ACCURACY OR COMPLETENESS OF SUCH INFORMATION.

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

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**THE COMMONWEALTH OF MASSACHUSETTS**



**CONSTITUTIONAL OFFICERS**

**W. Mitt Romney ..... Governor**  
**Kerry Healey ..... Lieutenant Governor**  
**William F. Galvin ..... Secretary of the Commonwealth**  
**Thomas F. Reilly ..... Attorney General**  
**Timothy P. Cahill ..... Treasurer and Receiver-General**  
**A. Joseph DeNucci ..... Auditor**

**LEGISLATIVE OFFICERS**

**Robert E. Travaglini ..... President of the Senate**  
**Thomas M. Finneran ..... Speaker of the House**

## OFFICIAL STATEMENT

### THE COMMONWEALTH OF MASSACHUSETTS

**\$191,460,000**

**General Obligation Bonds  
Consolidated Loan of 2004, Series B**

**\$883,435,000**

**General Obligation Refunding Bonds  
2004 Series B**

### 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 \$191,460,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 2004, Series B (the "New Money Bonds") and of \$883,435,000 aggregate principal amount of its General Obligation Refunding Bonds, 2004 Series B (the "Refunding Bonds") (the New Money Bonds and the Refunding Bonds, together, being 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, see "SECURITY FOR THE BONDS" and the Information Statement (described below) under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "LONG-TERM LIABILITIES – General Authority to Borrow; Limit on Debt Service Appropriations."

The New Money Bonds are being issued to finance certain authorized capital projects of the Commonwealth. The Refunding Bonds are being issued to refund certain bonds of the Commonwealth, as set forth in Appendix B – Table of Refunded Bonds. See "THE BONDS – Plan of Finance" and "Application of Proceeds."

#### **Purpose and Content of Official Statement**

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

Specific reference is made to the Commonwealth's Information Statement dated September 18, 2003 (the "September Information Statement"), as it appears as Appendix A in the Official Statement dated September 18, 2003 of the Commonwealth with respect to the Commonwealth's General Obligation Bond Anticipation Notes, 2003 Series A (the "September Official Statement"). A copy of the September Official Statement has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission and with the Municipal Securities Rulemaking Board. The information certified in the September Information Statement has been supplemented by the Commonwealth's Information Statement Supplement dated March 4, 2004 (the "February Supplement"), which is attached hereto as Appendix A. The September Information Statement and the February Supplement are referred to herein collectively as the "Information Statement". The Information Statement, contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth. Exhibit A to the Information Statement contains certain economic information concerning the Commonwealth. Exhibits B and C to the Information Statement contain the financial statements of the Commonwealth for the fiscal year ended June 30, 2003, prepared on a statutory basis and on a GAAP basis, respectively. Specific reference is made to said Exhibits A, B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. The financial statements are also available at the home page of the Comptroller of the Commonwealth located at <http://www.mass.gov/osc> by clicking on "Financial Reports/Audits".

Attached hereto as Appendix B is a listing of the bonds to be refunded with the proceeds of the Refunding Bonds. Appendix C attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Bonds. Appendix D attached hereto contains the proposed form of the Commonwealth's continuing disclosure undertaking to be included in the forms of the Bonds to facilitate compliance by the Underwriters with the requirements

of paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission. Appendix E attached hereto sets forth specimen financial guaranty insurance policies of Ambac Assurance Corporation and Financial Security Assurance Inc.

## THE BONDS

### General

The Bonds will be dated their date of delivery and will bear interest from such date payable semiannually on February 1 and August 1 of each year, commencing August 1, 2004 (each an "Interest Payment Date") until the principal amount is paid (provided that accrued interest on the Refunding Bonds maturing on June 1, 2004 shall be payable on that date). The Bonds will mature on August 1 in the years and in the aggregate principal amounts, and shall bear interest at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months), as set forth on the inside cover page of this Official Statement (provided that the Refunding Bonds maturing on June 1, 2004 shall mature on that date). The Commonwealth will act as its own paying agent with respect to the Bonds. The Commonwealth reserves the right to appoint from time to time a paying agent or agents or bond registrar for 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 of each series 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

*Optional Redemption.* The Refunding Bonds are not subject to optional redemption prior to maturity. The New Money Bonds will be subject to redemption on any date prior to their stated maturity dates on and after August 1, 2014 at the option of the Commonwealth from any monies legally available therefor, in whole or in part at any time, by lot, at 100% of the principal amount thereof, plus accrued interest to the redemption date.

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

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

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

### Plan of Finance

The Refunding Bonds are being issued pursuant to the provisions of Section 53A of Chapter 29 of the Massachusetts General Laws for the purpose of refunding the bonds set forth in Appendix B (the "Refunded Bonds"). The net proceeds of the Refunding Bonds will be applied as described in the following paragraph. The net proceeds of the New Money Bonds will be applied as described below under Application of Proceeds.

The Commonwealth, upon the delivery of the Refunding Bonds, will enter into a refunding escrow agreement (the “Escrow Agreement”) with an escrow agent (the “Escrow Agent”) to be selected for the Refunded Bonds. The Escrow Agreement will provide for the deposit of the net proceeds of the Refunding Bonds with the Escrow Agent, to be applied immediately upon receipt to purchase non-callable direct obligations of, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by, the United States of America, obligations of certain federal agencies specified in Section 49 of Chapter 29 of the Massachusetts General Laws or of any agency or corporation which has been created pursuant to an act of Congress of the United States as an agency or instrumentality of the United States of America, bank time deposits or certificates of deposit that are secured by such obligations, repurchase agreements with banks in respect of any such obligations or advance-refunded or defeased bonds that are secured by such obligations (the “Escrow Obligations”) and to funding, if needed, a cash deposit in such account. The Escrow Agreement will require that maturing principal of and interest on the Escrow Obligations held under such Escrow Agreement, plus any initial cash deposit, be held in trust in such account and paid to the Commonwealth solely for the payment of the principal of and redemption premium, if any, and interest on the Refunded Bonds subject to such Escrow Agreement. According to the report described in “VERIFICATION OF MATHEMATICAL COMPUTATIONS,” the Escrow Obligations held under the Escrow Agreement will mature at such times and earn interest in such amounts that, together with any initial cash deposit, will produce sufficient monies to make such payments on the Refunded Bonds subject to such Escrow Agreement to and including their respective maturity or redemption dates, each as set forth in Appendix B.

### **Application of Proceeds**

The net proceeds of the sale of the New Money 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 by the Legislature or to reimburse the state treasury for expenditures previously made pursuant to such laws. Any premium received by the Commonwealth upon original delivery of the New Money Bonds will be treated as net proceeds of the issue except to the extent that the State Treasurer may determine to apply all or a portion of such net premium to the costs of issuance thereof and other financing costs related thereto or to the payment of the principal of the New Money Bonds.

The purposes for which the New Money Bonds will be issued have been authorized by the Legislature under various bond authorizations. A portion of the net proceeds will be used to finance or reimburse the Commonwealth for a variety of capital expenditures that are included within the current multi-year capital spending plan established by the Executive Office for Administration and Finance. The plan, which is an administrative guideline and is subject to amendment at any time, sets forth capital spending allocations over the next four fiscal years and establishes annual capital spending limits. See the Information Statement under the heading “COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN.”

### **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 the Information Statement under the headings “COMMONWEALTH REVENUES – Limitations on Tax Revenues” and “LONG-TERM LIABILITIES – General Authority to Borrow; Limit on Debt Service Appropriations.”

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 a 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 state 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 the qualities and incidents of negotiable instruments under the Uniform Commercial Code. The Bonds are not subject to acceleration.

## BOND INSURANCE

Ambac Assurance Corporation (“Ambac”) has made a commitment to issue a financial guaranty insurance policy (the “Ambac Policy”) relating to the New Money Bonds maturing on August 1, 2022 (the “Ambac Insured Bonds”). Financial Security Assurance Inc. (“FSA”) has made a commitment to issue a financial guaranty insurance policy (the “FSA Policy”) relating to the \$50,000,000 principal amount of Refunding Bonds maturing on August 1, 2016 and yielding 3.75% and the \$79,000,000 principal amount of Refunding Bonds maturing on August 1, 2021 and yielding 4.20% (the “FSA Insured Bonds”) (the Ambac Insured Bonds and the FSA Insured Bonds, collectively, being the “Insured Bonds”). Certain information regarding payment of the Ambac Insured Bonds pursuant to the Ambac Policy, Ambac, payment of the FSA Insured Bonds pursuant to the FSA Policy and FSA appears below. The following information has been supplied by Ambac and FSA, respectively, for inclusion in the Official Statement. No representations are made by the Commonwealth or the Underwriters as to the accuracy or completeness of the following information.

### Payment of Ambac Insured Bonds Pursuant to Ambac Policy

Ambac has made a commitment to issue the Ambac Policy relating to the Ambac Insured Bonds effective as of the date of issuance of the Ambac Insured Bonds. Under the terms of the Ambac Policy, Ambac will pay to The Bank of New York, in New York, New York or any successor thereto (the “Insurance Trustee”) that portion of the principal of and interest on the Ambac Insured Bonds which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Commonwealth. Ambac will make such payments to the Insurance Trustee on the later of the date on which such principal and interest becomes Due for Payment or within one business day following the date on which Ambac shall have received notice of Nonpayment from the Commonwealth, as paying agent. The insurance will extend for the term of the Ambac Insured Bonds and, once issued, cannot be canceled by Ambac.

The Ambac Policy will insure payment only on stated maturity dates and on mandatory sinking fund installment dates, in the case of principal, and on stated dates for payment, in the case of interest. If the Ambac Insured Bonds become subject to mandatory redemption and insufficient funds are available for redemption of all outstanding Ambac Insured Bonds, Ambac will remain obligated to pay principal of and interest on outstanding Ambac Insured Bonds on the originally scheduled interest and principal payment dates including mandatory sinking fund redemption dates. In the event of any acceleration of the principal of the Ambac Insured Bonds, the insured payments will be made at such times and in such amounts as would have been made had there not been an acceleration.

In the event the Commonwealth has notice that any payment of principal of or interest on an Ambac Insured Bond which has become Due for Payment and which is made to a Holder by or on behalf of the Commonwealth has been deemed a preferential transfer and theretofore recovered from its registered owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such registered owner will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

The Ambac Policy does **not** insure any risk other than Nonpayment, as defined in the Ambac Policy. Specifically, the Ambac Policy does **not** cover:

1. payment on acceleration, as a result of a call for redemption (other than mandatory sinking fund redemption) or as a result of any other advancement of maturity.
2. payment of any redemption, prepayment or acceleration premium.
3. nonpayment of principal or interest caused by the insolvency or negligence of any Trustee, Paying Agent or Bond Registrar, if any.

If it becomes necessary to call upon the Ambac Policy, payment of principal requires surrender of Ambac Insured Bonds to the Insurance Trustee together with an appropriate instrument of assignment so as to permit ownership of such Ambac Insured Bonds to be registered in the name of Ambac to the extent of the payment under the Ambac Policy. Payment of interest pursuant to the Ambac Policy requires proof of Holder entitlement to interest payments and an appropriate assignment of the Holder’s right to payment to Ambac.



Upon payment of the insurance benefits, Ambac will become the owner of the Ambac Insured Bond, appurtenant coupon, if any, or right to payment of principal or interest on such Ambac Insured Bond and will be fully subrogated to the surrendering Holder's rights to payment.

### **Ambac Assurance Corporation**

Ambac is a Wisconsin-domiciled stock insurance corporation regulated by the Office of the Commissioner of Insurance of the State of Wisconsin and licensed to do business in 50 states, the District of Columbia, the Territory of Guam, the Commonwealth of Puerto Rico and the U.S. Virgin Islands, with admitted assets of approximately \$7,278,000,000 (audited) and statutory capital of approximately \$4,490,000,000 (audited) as of December 31, 2003. Statutory capital consists of Ambac's policyholders' surplus and statutory contingency reserve. Standard & Poor's Credit Markets Services, a Division of The McGraw-Hill Companies, Moody's Investors Service and Fitch Ratings have each assigned a triple-A financial strength rating to Ambac.

Ambac has obtained a ruling from the Internal Revenue Service to the effect that the insuring of an obligation by Ambac will not affect the treatment for federal income tax purposes of interest on such obligation and that insurance proceeds representing maturing interest paid by Ambac under policy provisions substantially identical to those contained in its financial guaranty insurance policy shall be treated for federal income tax purposes in the same manner as if such payments were made by the Commonwealth on the Ambac Insured Bonds.

Ambac makes no representation regarding the Ambac Insured Bonds or the advisability of investing in the Ambac Insured Bonds and makes no representation regarding, nor has it participated in the preparation of, the Official Statement other than the information supplied by Ambac and presented under the heading "BOND INSURANCE" or the specimen Ambac Policy attached at Appendix E.

The parent company of Ambac, Ambac Financial Group, Inc. ("Ambac Financial"), is subject to the informational requirements of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and in accordance therewith files reports, proxy statements and other information with the Securities and Exchange Commission (the "SEC"). These reports, proxy statements and other information can be read and copied at the SEC's public reference room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The SEC maintains an internet site at "<http://www.sec.gov>" that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC, including Ambac Financial. These reports, proxy statements and other information can also be read at the offices of the New York Stock Exchange, Inc. (the "NYSE"), 20 Broad Street, New York, New York 10005.

Copies of Ambac's financial statements prepared in accordance with statutory accounting standards are available from Ambac. The address of Ambac's administrative offices and its telephone number are One State Street Plaza, 19th Floor, New York, New York 10004 and (212) 668-0340.

The following documents filed by Ambac Financial with the SEC (File No. 1-10777) are incorporated by reference in this Official Statement:

1. Ambac Financial's Current Report on Form 8-K dated January 23, 2003 and filed on January 24, 2003;
2. Ambac Financial's Current Report on Form 8-K dated February 25, 2003 and filed on February 28, 2003;
3. Ambac Financial's Current Report on Form 8-K dated February 25, 2003 and filed on March 4, 2003;
4. Ambac Financial's Current Report on Form 8-K dated March 18, 2003 and filed on March 20, 2003;
5. Ambac Financial's Current Report on Form 8-K dated March 19, 2003 and filed on March 26, 2003;
6. Ambac Financial's Annual Report on Form 10-K for the fiscal year ended December 31, 2002 and filed on March 28, 2003;
7. Ambac Financial's Current Report on Form 8-K dated March 25, 2003 and filed on March 31, 2003;
8. Ambac Financial's Current Report on Form 8-K dated April 17, 2003 and filed on April 21, 2003;

9. Ambac Financial's Quarterly Report on Form 10-Q for the fiscal quarterly period ended March 31, 2003 and filed on May 15, 2003;
10. Ambac Financial's Current Report on Form 8-K dated July 17, 2003 and filed on July 18, 2003;
11. Ambac Financial's Quarterly Report on Form 10-Q for the fiscal quarterly period ended June 30, 2003 and filed on August 14, 2003;
12. Ambac Financial's Current Report on Form 8-K dated October 16, 2003 and filed on October 17, 2003;
13. Ambac Financial's Current Report on Form 10-Q for the fiscal quarterly period ended September 30, 2003 and filed on November 14, 2003;
14. Ambac Financial's Annual Report amendment No. 1 on Form 10-K/A for the fiscal year ended December 31, 2002 and filed on November 19, 2003; and
15. Ambac Financial's Current Report on Form 8-K dated January 28, 2004 and filed on January 30, 2004.

All documents subsequently filed by Ambac Financial pursuant to the requirements of the Exchange Act after the date of this Official Statement will be available for inspection in the same manner as described above.

#### **Financial Security Assurance Inc.**

Concurrently with the issuance of the Bonds, FSA will issue the FSA Policy for the FSA Insured Bonds. The FSA Policy guarantees the scheduled payment of principal of and interest on the FSA Insured Bonds when due as set forth in the form of the FSA Policy included in Appendix E to this Official Statement.

The FSA Policy is not covered by any insurance security or guaranty fund established under New York, California, Connecticut or Florida insurance law.

FSA is a New York domiciled insurance company and a wholly owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is an indirect subsidiary of Dexia, S.A., a publicly held Belgian corporation, and of Dexia Credit Local, a direct wholly-owned subsidiary of Dexia, S.A. Dexia, S.A., through its bank subsidiaries, is primarily engaged in the business of public finance, banking and asset management in France, Belgium and other European countries. No shareholder of Holdings or FSA is liable for the obligations of FSA.

At September 30, 2003, FSA's total policyholders' surplus and contingency reserves were approximately \$2,021,327,000 and its total unearned premium reserve was approximately \$1,281,769,000 in accordance with statutory accounting practices. At September 30, 2003, FSA's total shareholders' equity was approximately \$2,208,123,000 and its total net unearned premium reserve was approximately \$1,098,686,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the FSA Insured Bonds. Copies of materials incorporated by reference will be provided upon request to FSA: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone: (212) 826-0100).

The FSA Policy does not protect investors against changes in market value of the FSA Insured Bonds, which market value may be impaired as a result of changes in prevailing interest rates, changes in applicable ratings or other causes. FSA makes no representation regarding the FSA Insured Bonds or the advisability of investing in the FSA Insured Bonds. FSA makes no representation regarding the Official Statement, nor has it participated in the preparation thereof, except that FSA has provided to the Commonwealth the information presented under this caption for inclusion in the Official Statement.

## 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 the Information Statement under the heading "LEGAL MATTERS."

## BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company, New York, New York, will act as securities depository for the Bonds. The Bonds will initially be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of each series set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, and 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 post-trade settlement among DTC Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between DTC Participants' accounts. This eliminates the need for physical movement of securities certificates. DTC Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of the DTC Participants and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, respectively, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations 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. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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. Beneficial Owners are, however, expected to receive written confirmations of their purchase providing details of the transaction, as well as periodic statements of their holdings, from the DTC Participant or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds will be accomplished by entries made on the books of DTC Participants acting on behalf of the Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by DTC Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. or such other name as may be requested by an authorized representative of DTC. The deposit of the Bonds with DTC and their registration in the name of Cede & Co. do not effect any 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 DTC. 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. (or other such nominee) 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 consenting or 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.**

The principal of and interest and premium, if any, on the Bonds will be paid to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, as registered owner of the Bonds. Upon receipt of monies, 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. 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.

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, in the event that a successor depository is not obtained, 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 decide to discontinue the use of the system of book-entry transfers through DTC (or a successor securities depository). In such event, Bonds will be delivered and registered as designated by the Beneficial Owners.

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

## **RATINGS**

The Bonds, other than the Insured Bonds, have been assigned ratings by FitchRatings (“Fitch”), Moody’s Investors Service, Inc. (“Moody’s”) and Standard & Poor’s Ratings Services (“Standard & Poor’s”) of “AA-”, “Aa2” and “AA-”, respectively.

For the Insured Bonds, the ratings assigned by Fitch, Moody’s and Standard & Poor’s are “AAA,” “Aaa” and “AAA,” respectively, based upon the understanding that the payment of the principal of and the interest on the Ambac Insured Bonds will be guaranteed by a financial guaranty insurance policy to be issued simultaneously with the delivery of the Ambac Insured Bonds by Ambac and that the payment of the principal of and the interest on the FSA Insured Bonds will be guaranteed by a financial guaranty insurance policy to be issued simultaneously with delivery of the FSA Insured Bonds by FSA.

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

## **UNDERWRITING**

The Underwriters have agreed, subject to certain conditions, to purchase all of the Bonds from the Commonwealth at a discount from the initial offering prices of the Bonds equal to approximately 0.5129% of the aggregate principal amount of the Bonds. The Underwriters may offer and sell the Bonds to certain dealers and others (including dealers depositing Bonds into investment trusts) at prices lower than the public offering prices (or yields higher than the offering yields) stated on the inside cover page hereof. The principal offering prices (or yields) set forth on the inside cover page hereof may be changed from time to time after the initial offering by the Underwriters.

## **VERIFICATION OF MATHEMATICAL COMPUTATIONS**

Causey Demgen & Moore Inc. will verify (a) the adequacy of the forecasted receipts of principal and interest on the Escrow Obligations and the forecasted payments of principal and interest to redeem the Refunded Bonds, and (b) the yields on the Refunding Bonds and the Escrow Obligations purchased with a portion of the proceeds of the sale of the Refunding Bonds. Such verification will be used in part by Palmer & Dodge LLP, Bond Counsel, in concluding that the Bonds are not arbitrage bonds within the meaning of the Code. Causey Demgen & Moore Inc. has restricted its procedures to certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of the forecasted outcome.

## **TAX MATTERS**

Bond Counsel is of the opinion that, under existing law, interest on the Bonds is excluded from gross income for federal income tax purposes and is not an item of tax preference for the purpose of computing the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended (the “Code”); it should be noted, however, that the interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). Bond Counsel has not opined as to other federal tax consequences, if any, resulting from holding the Bonds.

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

Counsel's opinion with respect to the federal income tax treatment of interest on the Bonds is conditioned upon such compliance.

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

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

For federal and Massachusetts tax purposes, interest includes original issue discount. Original issue discount 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 were sold. Original issue discount accrues actuarially over the term of a Bond. Holders should consult their own tax advisers with respect to the computations of original issue discount on such accruals of interest during the period in which any such Bond is held.

All of the Bonds (the "Premium Bonds") have been initially offered to the public at prices greater than the amounts payable thereon at maturity. As a result of the requirements of the Code relating to amortization of bond premium, under certain circumstances, an initial owner of Premium Bonds may realize a taxable gain upon the disposition of such Premium Bonds even though they are sold or redeemed for an amount equal to such owner's original cost of acquiring such Premium Bonds. Owners of Premium Bonds are advised to consult with their own tax advisers with respect to the federal, state and local tax consequences of owning Premium Bonds.

On the date of delivery of the Bonds, the Underwriters will be furnished with an opinion of Bond Counsel substantially in the form attached hereto as Appendix C – "Proposed Form of Opinion of Bond Counsel."

#### **OPINIONS OF COUNSEL**

The unqualified approving opinion as to the legality of the Bonds will be rendered by Palmer & Dodge LLP, of Boston, Massachusetts, Bond Counsel. The proposed form of the opinion of Bond Counsel relating to the Bonds is attached hereto as Appendix C. Certain legal matters will also be passed upon by Ropes & Gray LLP of Boston, Massachusetts, as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C. of Boston Massachusetts.

#### **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 the 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 Jeffrey S. Stearns, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900 or Timothy Murphy, Director of Capital Planning and Operations, Executive Office for Administration and Finance, State House, Room 272, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Official Statement and the Bonds should be directed to Walter J. St. Onge, III, Palmer & Dodge LLP, 111 Huntington Avenue, Boston, Massachusetts 02199, telephone 617/239-0389.

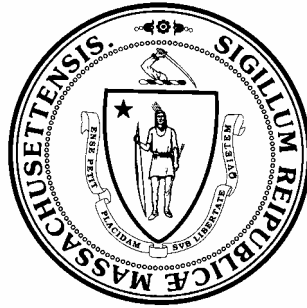
## THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Timothy P. Cahill  
Timothy P. Cahill  
*Treasurer and Receiver-General*

By /s/ Eric A. Kriss  
Eric A. Kriss  
*Secretary of Administration and Finance*

March 4, 2004

**THE  
COMMONWEALTH  
OF  
MASSACHUSETTS**



**INFORMATION STATEMENT SUPPLEMENT**

**Dated March 4, 2004**



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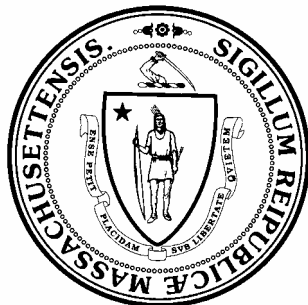
(Exhibit A, B and C are included by reference, and have been filed with Nationally Recognized Municipal Securities Information Repositories.)

A. Economic Information

B. Statutory Basis Financial Report for the year ended June 30, 2003

C. Comprehensive Annual Financial Report (GAAP basis) for the year ended June 30, 2003

**THE COMMONWEALTH OF MASSACHUSETTS**



**CONSTITUTIONAL OFFICERS**

**W. Mitt Romney ..... Governor**  
**Kerry Healey ..... Lieutenant Governor**  
**William F. Galvin..... Secretary of the Commonwealth**  
**Thomas F. Reilly ..... Attorney General**  
**Timothy Cahill.....Treasurer and Receiver-General**  
**A. Joseph DeNucci..... Auditor**

**LEGISLATIVE OFFICERS**

**Robert E. Travaglini..... President of the Senate**  
**Thomas M. Finneran ..... Speaker of the House**

**THE COMMONWEALTH OF MASSACHUSETTS**  
**INFORMATION STATEMENT SUPPLEMENT**

**March 4, 2004**

This supplement (“Supplement”) to the Information Statement of The Commonwealth of Massachusetts (the “Commonwealth”) dated September 18, 2003 (the “September Information Statement”) is dated March 4, 2004, and contains information which updates the information contained in the September Information Statement. The September Information Statement appears in the Commonwealth’s Official Statement dated September 18, 2003 with respect to its \$550,000,000 General Obligation Bond Anticipation Notes, 2003 Series A, a copy of which has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. This Supplement and the September Information Statement must be read together and in their entirety in order to obtain the appropriate fiscal, financial and economic information concerning the Commonwealth through March 4, 2004. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the September Information Statement. Exhibit A to this Supplement is the Statement of Economic Information as of December 31, 2003, which sets forth certain economic, demographic and statistical information concerning the Commonwealth. Exhibits B and C are the Statutory Basis Financial Report for the year ended June 30, 2003 and the Comprehensive Annual Financial Report (GAAP basis) for the year ended June 30, 2003. Specific reference is made to said Exhibits A, B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. The financial statements are also available at the home page of the Comptroller of the Commonwealth located at <http://www.mass.gov/osc> by clicking on “Financial Reports/Audits”.

**RECENT DEVELOPMENTS**

**Fiscal 2003**

On June 30, 2003 the Commonwealth ended fiscal 2003 with a consolidated net surplus of approximately \$150.9 million. Of this amount the statutory surplus of \$75.7 million was transferred to the Stabilization Fund and \$75.2 million was carried forward into fiscal 2004 as an undesignated beginning balance. Also on June 30, 2003, \$40.8 million from the elimination of various Budgeted Operating Funds was transferred to the Stabilization Fund. These transfers resulted in a \$641.3 million ending balance of the Stabilization Fund as of June 30, 2003. Also on June 30, 2003, the negative \$1.802 billion fund balance of the Local Aid Fund was transferred to the General Fund’s fund balance as a result of the repeal of the Local Aid Fund.

**Fiscal 2004**

On November 21, 2003 Governor Romney signed into law “An Act Relative to Fiscal Relief Funds.” The legislation establishes a new budgeted operating fund called the Federal Medicaid Assistance Percentage Escrow Fund (“FMAP Escrow Fund”). All revenue received from the federal Jobs Growth Reconciliation Act of 2003 in fiscal years 2004 and 2005, unless otherwise designated for a specific purpose, will be deposited into the FMAP Escrow Fund. The Executive Office for Administration and Finance estimates that after the transfer of \$55.0 million to the Uncompensated Care Trust and \$33.4 million to the newly created Economic Stimulus Fund (discussed below), \$356.6 million will be deposited into the FMAP Escrow Fund in fiscal 2004, which will exhaust the total amount available to the Commonwealth and, thus, would result in no additional money being deposited into the FMAP Escrow Fund in fiscal 2005. The FMAP Escrow Fund expires at the close of fiscal 2005, at which time any unexpended balance will be transferred to the Stabilization Fund. Also included in the bill were General Fund appropriations in the amount of \$5.6 million for costs associated with the relocation of state agencies to the Leverett Saltonstall State Office Building, and \$16.6 million for a reserve for the payment of court judgments and settlements.

On November 26, 2003 Governor Romney signed into law supplemental appropriations totaling approximately \$81.1 million and vetoed approximately \$30.1 in proposed spending. The legislation included \$34.1

million for higher education collective bargaining contracts, \$6.0 million for school health programs, \$3.7 million for Department of Social Services, \$3.6 million for the operations of the State Police Crime Laboratory, \$3.1 million for the Department of Mental Retardation's residential and day programs, and approximately \$30.6 million for other programs. Subsequently, \$26.2 million in vetoes have been overridden by the Legislature, including \$10.0 million for operations of the University of Massachusetts, \$6.9 million for legislative information technology upgrades, \$5.9 million for Trial Court administrative costs, \$1.7 million for a reserve for the Help America Vote Act and an additional \$1.7 million of other overrides.

Also on November 26, 2003 Governor Romney signed into law "An Act Relative to Investments in Emerging Technologies to Promote Job Creation, Economic Stability and Competitiveness in the Massachusetts Economy." The legislation created the Economic Stimulus Trust Fund and directs the state comptroller to transfer to this fund \$33.6 million from the Health Care Security Trust Fund, \$33.6 million from the Stabilization Fund, and \$33.6 million from any monies received from the federal Jobs and Growth Reconciliation Act of 2003. The legislation also creates several new tax incentives for Massachusetts businesses and establishes a one day sales tax holiday in August 2004. The Governor approved \$49.5 million in programs designed to promote economic growth, and \$20.8 million from the Workforce Training Fund for workforce training grants; however, the Governor vetoed \$50.5 million in proposed spending, which is subject to legislative override. Subsequently, \$44.0 million in vetoes have been overridden by the Legislature, including \$12.5 million for the Emerging Technology Fund, \$10.0 million for the Massachusetts Research Center, \$7.5 million for the John Adams Institute, \$5.0 million for the Massachusetts Technology Development Corporation, \$4.5 million for workforce training grants, \$2.0 million for the Massachusetts Tourism Fund, \$1.3 million for the Massachusetts Math, Science, Tech, and Engineering Fund and \$1.0 million for the Massachusetts Technology Transfer Center.

On November 29, 2003 "An Act Relative to the Reform of the Unemployment Insurance System" became law. The legislation requires that any time that the solvency of the Unemployment Compensation Fund is in jeopardy and the continuation of benefit payments or federal loan repayments is in danger, a new uniform secondary adjustment payment, which is provided for in the legislation, shall be added to every employer's contribution rate. The new law, effective January 1, 2004, will eliminate over time the Unemployment Compensation Fund deficit projected in the September Information Statement. However, in order to cover this deficit, in January and February 2004 the Commonwealth incurred a total net liability of \$162.8 million from the federal government, and the Commonwealth expects to borrow additional amounts totaling approximately \$263.0 million through May 2004. All of these borrowings are expected to be repaid before September 30, 2004 from payments assessed on employers under state law.

On February 10, 2004, the Governor filed a transportation bond authorization bill totaling \$1.152 billion. The bill would authorize \$425.0 million to leverage federal funds for the statewide road and bridge program, \$300.0 million for Chapter 90 local road assistance, \$210.0 million for non-federal assistance for state and local roadway projects, \$54.0 million for assistance in promoting Transit Oriented Development, \$52.4 million in capital assistance to Regional Transit Authorities, \$50.0 million for rail improvement projects, \$23.6 million for Public Works and Economic Development and State Road Assistance Program, \$26.0 million for technology projects, \$8.0 million for Mobility Assistance, and \$3.0 million for safety and security equipment.

On February 18, 2004, Governor Romney filed a bill recommending \$133.1 million in supplemental appropriations. The bill includes \$46.6 million for snow and ice removal costs, \$21.5 million for the underground storage tank reimbursement program, \$16.0 million for private counsel compensation and other indigent-related court costs, \$10.9 million for the workforce training fund grant program, and a total of \$26.0 million for other ongoing obligations. The bill also includes \$7.9 million for costs that will be offset by corresponding revenues and \$4.7 million for new programs. Included in the new program category is \$4.0 million for the establishment of a Helping Our Massachusetts Elders (HOME) Trust Fund. This fund will be guided by an interagency task force charged with developing programs that enable elders to remain in their own homes or in congregate community housing.

On March 4, 2004, the Legislature approved and sent to the Governor a bill authorizing \$52.2 million in supplemental appropriations, all but \$3.1 million of which had been included in the supplemental appropriations bill filed by the Governor on February 18, 2004. The \$52.2 million included \$35.0 million for snow and ice removal costs, a total of \$8.2 million for the Department of Transitional Assistance for public assistance payments, \$5.7

million for public safety costs associated with homeland security and \$3.2 million for the Department of Veteran's Services for veteran's benefits disbursements to cities and towns. (The bill, including the full \$52.2 million of supplemental appropriations, was signed into law by the Governor on March 5, 2004.)

Medicaid fiscal 2004 revenue estimates assume the Commonwealth will receive federal approval from the Centers for Medicare & Medicaid Services (CMS) for converting \$170.0 million in Uncompensated Care Pool reimbursements from Disproportionate Share Hospital payments to Medicaid supplemental rate payments. If CMS does not approve the change prior to June 30, 2004, the current Medicaid revenue projection may be decreased by \$85 million. The Executive Offices of Health and Human Services and Administration and Finance continue to track the progress of this issue.

### Fiscal 2004 Tax Revenues

Tax revenue collections for the first eight months of fiscal 2004, ended February 29, 2004, totaled \$9.782 billion, an increase of \$478.2 million or 5.1% over the first eight months of fiscal 2003. The following table shows the tax collections for each month of fiscal 2004 through February 2004 and the change from tax collections in the same month in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in each month that are dedicated to the MBTA. On January 14, 2004 the Executive Office for Administration and Finance revised the current year tax estimate to be \$14.546 billion (net of the MBTA portion of state sales taxes).

#### Fiscal 2004 Budgeted Tax Collections (in millions)<sup>(1)</sup>

Month	Tax Collections	Change From Prior Year	Percentage Change	MBTA Portion (3)	Collections, Net of MBTA (4)
July	\$1,067.0	\$54.3	5.4%	\$58.1	\$1,008.9
August	1,089.7	25.8	2.4	53.4	1,036.3
September	1,642.0	83.8	5.4	59.6	1,582.4
October	1,075.6	142.3	15.2	56.9	1,018.6
November	1,045.5	30.6	3.0	48.7	996.8
December <sup>(2)</sup>	1,454.0	59.6	4.3	65.4	1,388.6
January <sup>(2)</sup>	1,507.2	20.9	1.4	58.0	1,449.2
February <sup>(2)</sup>	901.4	60.8	7.2	46.2	855.2
Total	\$9,782.3	478.2	5.1%	\$446.3	\$9,336.0

SOURCE: Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Figures are preliminary.
- (3) Includes adjustments of \$6.7 million on the account of the first quarter, and \$11.9 million on the account of the second quarter.
- (4) Net of sales tax revenues dedicated to the MBTA.

The year-to-date tax revenue increase of \$478.2 million over fiscal 2003 is attributable in large part to an increase of approximately \$172.0 million or 37.4% in corporate and business tax collections, which appears to reflect the closing of certain tax loopholes as well as increased business taxable earnings, an increase of approximately \$103.0 million or 13.3% in income tax cash estimated payments and an increase of approximately \$184.0 million or 3.8% in personal income tax withholdings.

See the September Information Statement under the heading "COMMONWEALTH REVENUES –Tax Revenue Forecasting; Fiscal 2004".

## **Fiscal 2005**

On January 14, 2004 the Executive Office for Administration and Finance and the Chairpersons of the House and Senate Committees on Ways and Means jointly announced a consensus fiscal 2005 Commonwealth tax estimate of \$15.801 billion, of which \$684.3 million is dedicated to the MBTA and \$1.217 billion is dedicated to the Commonwealth's annual pension obligation. The estimate is based upon a revised consensus tax estimate for fiscal 2004 of \$15.230 billion and assumes 3.75% baseline growth for fiscal 2005. Consensus was also reached on a new triennial pension schedule. The new schedule continues to fully amortize the Commonwealth's unfunded pension liability by 2023 and continues to use five-year actuarial smoothing for the valuation of assets. The asset valuation date for the new schedule is December 31, 2003. On the liability side, the calculation includes estimated actuarial losses during calendar year 2003 of \$250 million due to the 2003 early retirement incentive for state workers and another \$250 million for estimated actuarial losses on the teachers' system. Finally, the amortization growth rate is increased from 4.15% to 4.50%. Using these assumptions, the fiscal 2005 pension payment will be \$1.217 billion, a \$384.5 million increase over the value transferred to meet the Commonwealth's pension obligation in fiscal 2004.

On January 28, 2004 Governor Romney filed his budget proposal for fiscal 2005, constituting a balanced budget as required by state finance law. The spending plan budgeted \$22.979 billion, including \$6.693 billion for Medicaid, \$1.772 billion for debt service, \$4.471 billion for education, and \$10.043 billion for all other programs and services. The Governor's budget is based upon the consensus tax estimate of \$15.801 billion plus \$70.0 million in additional tax revenue attributed to legislation closing various so-called tax "loopholes" that was filed in a companion bill on January 28, 2004. The \$22.979 billion appropriation bill represents a 5% increase as compared to fiscal 2004 projected spending; however, a substantial factor in the growth is the result of the proposed merger of the Massachusetts Turnpike Authority with the Massachusetts Highway Department. Excluding this merger, recommended spending increases by approximately 3.75%. Spending on Medicaid represents the single largest increase and is estimated to grow by \$496.0 million or 8.0%, consuming 29.1% of total budgeted spending. Other areas of spending growth include debt service, which increases by \$176.0 million or 11.0%, and K-12 education, which increases by \$115.0 million or 3.3%, excluding the savings from the proposed restructuring of the school building assistance program. All other areas of government combined grow by 0.3% excluding the effect of the recommended Massachusetts Turnpike Authority merger.

On January 28, 2004 the Governor also filed a bill to restructure the school building assistance program. Under current law, the Commonwealth provides reimbursements ranging from 50 to 90 percent to cities, towns and regional school districts for the construction, rehabilitation or major repair of school projects and for the interest costs associated with borrowings on behalf of these school projects. These reimbursement payments are made for a period of up to 20 years. In addition to school projects currently receiving reimbursement payments, the Department of Education has approved other school projects for future reimbursement payments. The Executive Office for Administration and Finance estimates the Commonwealth's expected reimbursement payments for planning and construction costs of these school projects to be approximately \$4.0 billion.

The Governor's proposal seeks authorization to issue \$8.2 billion of general or special obligation bonds. Approximately \$4.2 billion of these bonds would fund escrow accounts on behalf of school projects currently receiving reimbursements from the Commonwealth and thus would eliminate future Commonwealth reimbursement payments for these projects. The remaining authorization would fund construction grants for school projects awaiting reimbursement from the Commonwealth. These bonds would have a maximum final maturity of 40 years.

## **Cash Flow**

On March 4, 2004 the State Treasurer and the Secretary of Administration and Finance released the most recent cash flow projection for fiscal 2004. The cash flow projection for fiscal 2004 was based on the GAA, including the value of all vetoes and subsequent overrides, and supplemental appropriations made or filed prior to February 10, 2004. It reflects authorized transfers between budgeted funds and certain reserve funds as provided for in the GAA and in subsequent legislation. The cash flow projection incorporates the revised consensus tax estimate for fiscal 2004 described above, including the value of enacted tax code changes and sales tax revenues dedicated to the MBTA and tax revenues transferred off-budget to meet Commonwealth pension obligations.

The cash flow projection has a July 1, 2003 starting balance of \$2.065 billion and projects a June 30, 2004 ending balance of \$2.303 billion. These figures do not include balances in the Commonwealth's Stabilization Fund or certain other off-budget reserve funds, but do include monies sequestered to pay for capital projects totaling \$940.8 million and \$630.4 million, respectively. Excluding these sequestered capital funds, the Commonwealth's operating cash balance opened the year at \$1.124 billion, and is projected to end the year at \$1.673 billion, an increase of approximately \$549 million.

The cash flow projection incorporates the periodic use of commercial paper borrowing to meet cash flow needs. In particular, the Commonwealth makes local aid payments of approximately \$1 billion to its cities and towns at the end of each calendar quarter, which often results in short-term cash flow borrowings. In September 2003 the Commonwealth issued \$150 million of revenue anticipation notes under its commercial paper program, which were repaid in November 2003. In December 2003 the Commonwealth issued \$450 million of revenue anticipation notes under its commercial paper program, which were repaid in January and February 2004. The cash flow projection does not anticipate any future commercial paper issuance in the remainder of fiscal 2004.

The \$550 million in bond anticipation notes related to the Boston Convention and Exhibition Center issued in September 2003 were refinanced through the issuance in January 2004 of \$575 million of bond anticipation notes due April 20, 2004.

The cash flow projection includes an estimated \$2.383 billion in long-term borrowing for capital projects, including \$694 million of special obligation bonds to finance the Boston, Springfield and Worcester convention center projects. The remaining \$1.689 billion in general obligation borrowing includes the funding of capital expenditures from the prior fiscal year, and \$1.373 billion related to the Commonwealth's current year capital spending plan. Some \$1.06 billion of general capital expenditures have been financed through the issuance of bonds through the end of February 2004, and \$191.5 million of new money long-term bonds are scheduled to be issued on March 24, 2004. Additional bond issuance is expected in June 2004.

The cash flow projection released on March 4, 2004 also included a projection for fiscal 2005. The projection was based on the Governor's January 28, 2004 budget proposal for fiscal 2005 and was provided only as a preliminary starting point for analysis of the Commonwealth's fiscal 2005 cash needs. The projection shows a July 1, 2004 starting balance of \$2.303 billion and a June 30, 2005 ending balance of \$1.448 billion, a decrease of approximately \$855 million. The \$855 million decrease reflects the cumulative effects of a shift in the timing of Medicaid spending, discussed below, and the application of bond proceeds to finance capital projects. Excluding segregated capital funds, the fiscal 2005 beginning balance is projected to be \$1.673 billion and the fiscal 2005 ending balance is projected to be \$1.217 billion. The fiscal 2005 beginning balance is projected to benefit from approximately \$400 million in fiscal 2004 Medicaid expenditures that will occur this year after July 1, 2004. The shift in timing of these payments will result in significant outflows in July and explains the overall decrease in the cash balance (excluding segregated capital funds) during the course of fiscal 2005. The current cash flow projection for fiscal 2005 also projects cash flow borrowings under the Commonwealth's commercial paper program of \$800 million in December 2004 and \$100 million in March 2005, consistent with the pattern of borrowing that began in fiscal 2002 to meet local aid payments.

The Commonwealth's next cash flow projection is expected to be released on or before May 31, 2004.

See the September Information Statement under the heading "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS – Cash Flow".

### **UMass Dartmouth Lease Revenue Bonds**

In September 2000 the Massachusetts Development Finance Agency issued Lease Revenue Bonds (University of Massachusetts at Dartmouth, College of Visual and Performing Arts Project), 2000 Issue (the "UMass Dartmouth Lease Revenue Bonds") in the principal amount of \$21,500,000 to finance the acquisition and rehabilitation of a facility to house the College of Visual and Performing Arts for the University of Massachusetts at Dartmouth ("UMass Dartmouth"). The facility was leased by a private limited partnership to the Commonwealth on behalf of UMass Dartmouth. The obligations of the Commonwealth under the lease, which were subject to annual appropriation, were pledged to secure the Lease Revenue Bonds. During the initial months of fiscal 2004,

commencing July 1, 2003, monthly lease payments were not paid. Interest and scheduled principal in respect of the UMass Dartmouth Lease Revenue Bonds payable on August 1, 2003 were paid in full from previously available funds. The Governor's fiscal 2005 budget recommendation released on January 28, 2004 designates a separate appropriation to meet this obligation.

On September 26, 2003 Moody's Investors Service placed the Lease Revenue Bonds on "Watchlist for possible downgrade" citing its belief that the Commonwealth had failed to appropriate lease payments for the facility financed by the UMass Dartmouth Lease Revenue Bonds. At the same time, Moody's also placed on "Watchlist for possible downgrade" the \$416.3 million outstanding principal amount of lease revenue bonds of the Route 3 North Transportation Improvements Association. The latter are also secured by a lease, subject to annual appropriation, of the Commonwealth. While the fiscal 2004 GAA did contain an express appropriation for the Route 3 North lease, and all amounts due and payable thereunder have been paid by the Commonwealth, Moody's justified the Watchlist classification of the Route 3 North lease revenue bonds by "the exposed weakness in the budget process" of the Commonwealth arising from the supposed failure to appropriate for the lease of the UMass Dartmouth facility.

The Executive Office for Administration and Finance and the Office of the State Treasurer have concluded that the fiscal 2004 GAA authorized payment of the UMass Dartmouth lease and that, while the Legislature did not provide a specific line item appropriation for the lease payments, it did so only because it intended that the lease payments be made from a general appropriation of approximately \$327.8 million for the University of Massachusetts.

The monthly lease payments were brought current on October 28, 2003 and remain current. On November 24, 2003 Moody's downgraded the Lease Revenue Bonds from "A1" to "A2". At the same time, Moody's confirmed the "Aa3" rating for the Route 3 North lease revenue bonds. Both issues were removed from "Watchlist for possible downgrade". On November 26, 2003 the Governor signed a supplemental budget for fiscal 2004, which included an appropriation of \$2.7 million for the facilities costs, including lease payments, associated with the College of Visual and Performing Arts at UMass Dartmouth.

#### **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 1999 through 2003 and the Executive Office for Administration and Finance's estimates for fiscal 2004, but have been adjusted to reflect the impact of the MBTA forward funding legislation. See September Information Statement under the heading "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS - Massachusetts Bay Transportation Authority Financial Restructuring." 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 2001 budget. See the September Information Statement under the heading "FINANCIAL RESULTS." The Commonwealth's audited statutory basis financial statements for the year ended June 30, 2003 were released on October 24, 2003.



**Budgeted Operating Funds Operations -- Statutory Basis**  
(in millions)(1)

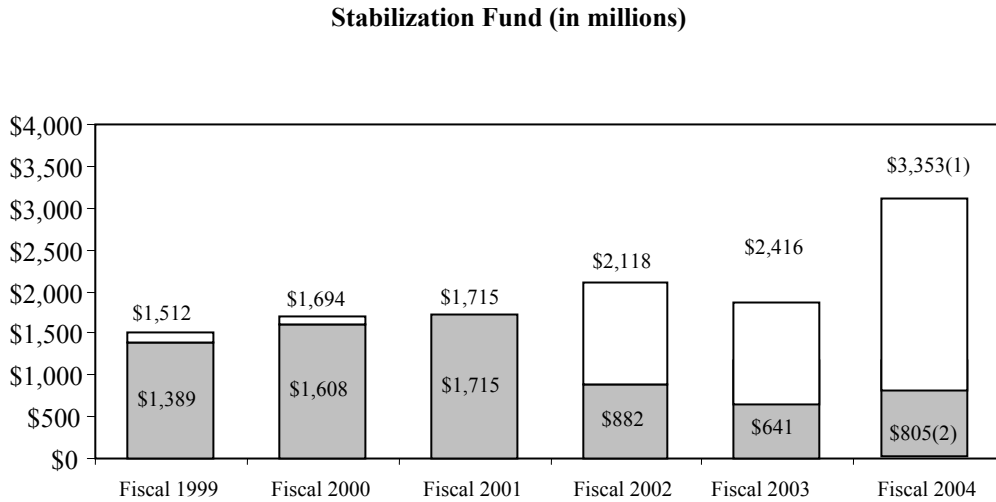
	<u>Fiscal 1999</u>	<u>Fiscal 2000</u>	<u>Fiscal 2001</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>	<u>Estimated Fiscal 2004</u>
<b>Beginning Fund Balances</b>						
Reserved or Designated	\$ 286.3	\$ 330.2	\$ 278.5	\$ 895.3	\$195.2	\$76.8
Tax Reduction Fund	367.7	6.8	7.2	33.6	-	-
Stabilization Fund	1,159.6	1,388.5	1,608.4	1,715.0	881.8	641.3
Undesignated	<u>378.5</u>	<u>386.9</u>	<u>391.3</u>	<u>369.5</u>	<u>311.0</u>	<u>34.3(8)</u>
<b>Total</b>	<u>2,192.1</u>	<u>2,112.4</u>	<u>2,286.4</u>	<u>3,013.3</u>	<u>1,388.0</u>	<u>752.4</u>
<b>Revenues and Other Sources</b>						
Taxes(2)	14,291.5	15,688.6	16,074.7	13,622.7	14,279.6(7)	14,545.7
Federal Reimbursements	3,442.9	3,645.6	3,974.2	4,334.9	4,523.6	5,283.5
Departmental and Other Revenues	1,297.8	1,359.9	1,425.9	1,485.2	1,494.8	1,805.2
Inter-fund Transfers from Non-budgeted Funds and Other Sources(3)	<u>1,132.8</u>	<u>1,893.0</u>	<u>1,385.9</u>	<u>1,732.0</u>	<u>1,689.2</u>	<u>1,287.7</u>
<b>Budgeted Revenues and Other Sources</b>	<u>20,165.0</u>	<u>22,587.0</u>	<u>22,860.6</u>	<u>21,174.9</u>	<u>21,987.2</u>	<u>22,922.1</u>
Inter-fund Transfers	<u>1,402.0</u>	<u>3,634.0</u>	<u>931.0</u>	<u>1,874.4</u>	<u>3,310.5(4)</u>	<u>494.5(5)</u>
<b>Total Budgeted Revenues and Other Sources</b>	<u>21,566.9</u>	<u>26,221.1</u>	<u>23,791.6</u>	<u>23,049.3</u>	<u>25,297.7</u>	<u>23,416.6</u>
<b>Expenditures and Uses</b>						
Programs and Services(6)	17,341.1	19,330.7	19,449.0	20,412.7	20,022.6	20,316.1
Debt Service	1,173.8	1,193.3	695.0	1,304.7	1,373.4	1,596.7
Pensions	990.2	986.3	1,040.1	795.8	813.5	16.8
Inter-fund Transfers to Non-budgeted Funds and Other Uses	<u>739.6</u>	<u>903.8</u>	<u>949.6</u>	<u>287.1</u>	<u>229.6</u>	<u>687.4(9)</u>
<b>Budgeted Expenditures and Other Uses</b>	<u>20,244.7</u>	<u>22,414.1</u>	<u>22,133.7</u>	<u>22,800.3</u>	<u>22,439.1</u>	<u>22,616.9</u>
Inter-fund Transfers	<u>1,402.0</u>	<u>3,634.0</u>	<u>931.0</u>	<u>1,874.4</u>	<u>3,310.5(4)</u>	<u>494.5(5)</u>
<b>Total Budgeted Expenditures and Other Uses</b>	<u>21,646.6</u>	<u>26,048.1</u>	<u>23,064.7</u>	<u>24,674.7</u>	<u>25,749.6</u>	<u>23,111.4</u>
<b>Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses</b>	<u>(79.7)</u>	<u>172.9</u>	<u>726.8</u>	<u>(1,625.4)</u>	<u>(451.9)</u>	<u>305.2</u>
<b>Ending Fund Balances</b>						
Reserved or Designated	330.2	278.5	895.3	195.2	76.8	165.1
Tax Reduction Fund	6.8	7.2	33.6	--	--	--
Stabilization Fund	1,388.5	1,608.4	1,715.0	881.8	641.3	805.3
Undesignated	<u>386.9</u>	<u>391.3</u>	<u>369.5</u>	<u>311.0</u>	<u>218.0</u>	<u>87.1</u>
<b>Total</b>	<u>\$ 2,112.4</u>	<u>\$ 2,285.4</u>	<u>\$ 3,013.3</u>	<u>\$ 1,388.0</u>	<u>\$ 936.1</u>	<u>\$ 1,057.5</u>

SOURCE: Fiscal 1999-2003, Office of the Comptroller; fiscal 2004, Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) Net of \$654.6 million in fiscal 2001, \$664.4 million in fiscal 2002, \$684.3 million in fiscal 2003 and an estimated \$684.3 in fiscal 2004 of dedicated sales tax transferred to the MBTA and was moved off budget beginning in fiscal 2001.
- (3) Non-budgeted funds transfers to the Budgeted Operating Funds, which include profit from State Lottery and Arts Lottery Funds and reimbursements for the budgeted costs of the State Lottery Commission, accounted for \$870.0 million, \$902.1 million, \$931.6 million, \$941.3 million and \$944.7 million in fiscal 1999 through fiscal 2003, respectively, and are estimated to account for \$975.0 million in fiscal 2004.
- (4) Inter-fund transfers increased in fiscal 2003 due to the elimination of a number of Budgeted Operating Funds.
- (5) Inter-fund transfers decreased in fiscal 2004 due to the elimination of a number of Budgeted Operating Funds pursuant to the fiscal 2004 GAA.
- (6) The Executive Office for Administration and Finance estimates that approximately \$282.0 million in Medicaid expenditures was moved off-budget pursuant to the fiscal 2003 GAA and that approximately \$493.0 million in Medicaid expenditures was moved off-budget pursuant to the fiscal 2004 GAA.
- (7) Includes \$174.0 million in one-time revenue from tax amnesty program and approximately \$200.0 million from closing various so-called tax loopholes.
- (8) The variance between fiscal 2003 ending fund balances and fiscal 2004 beginning fund balances reflect the transfer of the Convention Center Fund, Head Injury Trust Fund and Natural Heritage and Endangered Species Fund off budget.
- (9) Includes a transfer of \$687.4 million for pension fund obligation.

### Stabilization Fund and Disposition of Year-End Surpluses

The following graph sets forth ending balances in the Stabilization Fund for fiscal 1999 through 2003 and the estimate for fiscal 2004:



SOURCES: Fiscal 1999-2003 Office of the Comptroller; fiscal 2004, Executive Office for Administration and Finance.

- (1) The fiscal 2004 GAA changed the ceiling on the balance of the Stabilization Fund from 10% to 15% of total current year revenues.
- (2) Fiscal 2004 is estimated; subject to change.

## COMMONWEALTH REVENUES

### Commonwealth Revenues - Budgeted Operating Funds (in millions)(1)

	<u>Fiscal 1999</u>	<u>Fiscal 2000</u>	<u>Fiscal 2001(5)</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003</u>	<u>Estimated Fiscal 2004(7)</u>
<b>Tax Revenues:</b>						
Alcoholic Beverages	\$ 61.0	\$ 63.1	\$ 64.2	\$ 65.4	\$ 66.3	\$ 69.5
Banks	108.5	92.8	179.6	137.0	344.5	226.9
Cigarettes	284.4	279.9	270.5	275.0	451.0	432.1
Corporations	1,008.7	1,130.5	945.3	586.7	799.4	1,022.5
Deeds	98.0	115.9	129.6	134.3	147.8	166.6
Income	8,036.6	9,041.9	9,902.7	7,912.9	8,026.1	8,216.3
Inheritance and Estate	173.9	166.5	203.4	200.5	181.3	164.9
Insurance	336.4	334.6	356.6	382.9	387.8	415.0
Motor Fuel	636.6	652.6	659.9	666.8	676.4	685.2
Public Utilities	132.5	83.0	86.7	88.5	40.6	52.1
Racing	8.3	7.8	7.5	2.7	-	-
Room Occupancy	119.5	137.0	149.6	123.3	120.0	87.7
<b>Sales:</b>						
Regular	2,351.2	2,552.0	2,705.8	2,601.4	2,583.6	2,552.4
Meals	436.2	456.8	482.0	500.9	512.0	510.6
Motor Vehicles	482.4	556.4	568.0	593.6	612.5	623.8
Sub-Total-Sales	3,269.8	3,565.3	3,755.8	3,695.9	3,708.1	3,686.8
Miscellaneous	17.5	17.5	17.9	15.1	14.3	4.3
<b>Total Tax Revenues</b>	<u>14,291.5</u>	<u>15,688.6</u>	<u>16,729.2</u>	<u>14,287.1</u>	<u>14,963.8(6)</u>	<u>15,230.0</u>
MBTA Transfer (2)	-	-	(654.6)	(664.3)	(684.3)	(684.3)
<b>Total Budgeted Operating Tax Revenues</b>	<u>14,291.5</u>	<u>15,688.6</u>	<u>16,074.6</u>	<u>13,622.8</u>	<u>14,279.6</u>	<u>14,545.7</u>
<b>Non-Tax Revenues:</b>						
Federal Reimbursements (3)	3,442.9	3,645.6	3,974.2	4,334.9	4,523.6	5,283.5
Departmental and Other Revenues	1,297.8	1,359.9	1,425.9	1,485.2	1,494.8	1,805.2
Inter-fund Transfers from Non - Budgeted Funds and Other Sources (4)	1,132.8	1,893.0	1,385.9	1,732.0	1,689.2	1,287.7
<b>Budgeted Non-Tax Revenues and Other Sources</b>	<u>5,873.5</u>	<u>6,898.5</u>	<u>6,786.0</u>	<u>7,552.2</u>	<u>7,707.6</u>	<u>8,376.4</u>
<b>Budgeted Operating Revenues and Revenues from Other Sources</b>	<u>\$ 20,165.0</u>	<u>\$ 22,587.0</u>	<u>\$ 22,860.6(5)</u>	<u>\$ 21,174.9</u>	<u>\$ 21,987.2</u>	<u>\$ 22,922.1</u>

SOURCE: Executive Office for Administration and Finance and Office of the State Treasurer.

- (1) Totals may not add due to rounding. The table does not reflect inter-fund transfers among budgeted funds and other sources that have no effect on ending balances.
- (2) If the law that moved support of the MBTA to a non-budgeted expenditure and transferred a dedicated portion of the Commonwealth's sales tax to the MBTA had been in effect in fiscal 1999 and fiscal 2000, transfers of sales tax revenue to the MBTA would have been \$499.1 million and \$561.9 million, respectively. See the September Information Statement under the heading "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS – Massachusetts Bay Transportation Authority – Financial Restructuring."
- (3) Includes \$184.7 million, \$179.0 million, \$187.4 million, \$199.6 million and \$171.0 million in fiscal 1999 through 2003, respectively, and an estimated \$171.0 million in fiscal 2004, resulting from claims for federal reimbursement of certain uncompensated care for Massachusetts hospitals.
- (4) Interfund transfers represent accounting transfers reallocating resources among funds. See the September Information Statement under the heading "COMMONWEALTH REVENUES—Federal and Other Non-Tax Revenues," including transfers between Stabilization Fund and budgeted operating funds. Non-budgeted funds transfers to the Budgeted Operating Funds, which include profits from the State Lottery and Arts Lottery Funds and reimbursements for the budgeted costs of the State Lottery Commission, accounted for \$870.0 million, \$902.1 million, \$931.6 million, \$941.3 million and \$944.7 million in fiscal 1999 through 2003, respectively, and are estimated to account for

\$975.0 million in fiscal 2004. This figure also includes annual tobacco settlement payments, which account for \$326.2 million in fiscal 2000, \$242.5 million in fiscal 2001, \$304.5 million in fiscal 2002, \$300.0 million in fiscal 2003 and an estimated \$282.9 million for fiscal 2004.

- (5) On July 1, 2000, the Mosquito and Greenhead Fly Control Fund was reclassified as a non-budgeted fund. Prior years have not been restated.
- (6) Includes approximately \$174.0 million in fiscal 2003 revenue resulting from a tax amnesty program. See the September Information Statement under the heading "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS – Fiscal 2003."
- (7) Beginning July 1, 2003, the Convention Center Fund, the Head Injury Treatment Services Fund and the Natural Heritage and Endangered Species Fund were reclassified as non-budgeted funds. Prior years have not been restated.

## **COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN**

### **Capital Spending Plan**

The following table sets forth the current capital investment plan of the Executive Office for Administration and Finance. It contains current estimates for capital investment by the Commonwealth as well as the estimated sources of funding for such capital investments for fiscal 2004 through fiscal 2008.

**Commonwealth Historical and Proposed Capital Spending (in millions)(1)(2)**

<b>USES:</b>	<b>Fiscal <u>1999</u></b>	<b>Fiscal <u>2000</u></b>	<b>Fiscal <u>2001</u></b>	<b>Fiscal <u>2002</u></b>	<b>Fiscal <u>2003</u></b>	<b>Estimated Fiscal <u>2004</u></b>	<b>Projected Fiscal <u>2005</u></b>	<b>Projected Fiscal <u>2006</u></b>	<b>Projected Fiscal <u>2007</u></b>	<b>Projected Fiscal <u>2008</u></b>
Information Technology	\$111	\$68	\$64	\$86	\$76	\$80	\$80	\$80	\$80	\$80
Infrastructure	224	197	179	235	274	285	285	285	285	285
Environment	132	142	140	156	134	98	98	98	98	98
Housing	82	80	79	106	112	119	119	119	119	119
Public Safety	12	15	23	8	37	23	23	23	23	23
Transportation										
CA/T Project	1,606	1,446	1,258	1,296	1,015	1,004	776	182	-	-
Non-CA/T Project	423	560	732	612	682	738	738	738	738	738
Economic Development										
Convention Centers	-	11	124	134	225	150	35	3	-	-
Other	97	87	102	99	86	82	82	82	82	82
Reserve	=	=	=	=	=	=	<u>42</u>	<u>107</u>	<u>125</u>	<u>125</u>
<b>Total Uses:</b>	<b><u>\$2,687</u></b>	<b><u>\$2,606</u></b>	<b><u>\$2,701</u></b>	<b><u>\$2,732</u></b>	<b><u>\$2,641</u></b>	<b><u>\$2,579</u></b>	<b><u>\$2,278</u></b>	<b><u>\$1,717</u></b>	<b><u>\$1,550</u></b>	<b><u>\$1,550</u></b>
<b>SOURCES:</b>										
Funds from General Obligation Debt	\$1,026	\$1,133	\$1,489	\$1,847	1,472	1,636	1,457	1,250	1,250	1,250
Funds from Special Obligation Debt	-	-	176	139	230	150	35	3	-	-
Funds from Grant Anticipation Notes	412	408	353	9	24	-	-	-	-	-
Operating Revenues(3)	252	96	141	195	354	51	43	-	-	-
Third-Party Payments	412	481	82	52	52	126	320	163	-	-
Federal Reimbursements	<u>586</u>	<u>487</u>	<u>460</u>	<u>490</u>	<u>509</u>	<u>616</u>	<u>423</u>	<u>301</u>	<u>300</u>	<u>300</u>
<b>Total Sources:</b>	<b><u>\$2,687</u></b>	<b><u>\$2,606</u></b>	<b><u>\$2,701</u></b>	<b><u>\$2,732</u></b>	<b><u>\$2,641</u></b>	<b><u>\$2,579</u></b>	<b><u>\$2,278</u></b>	<b><u>\$1,717</u></b>	<b><u>\$1,550</u></b>	<b><u>\$1,550</u></b>

SOURCE: Executive Office for Administration and Finance.

- (1) Totals may not add due to rounding.
- (2) The Executive Office for Administration and Finance reviews capital expenditures on an annual basis and reserves the right to change out-year projections.
- (3) Operating revenues include Registry of Motor Vehicle fees transferred to the CA/T Project and the Statewide Road and Bridge Infrastructure Fund.

## Central Artery/Ted Williams Tunnel Project

*Progress/Schedule Update.* As of January 31, 2004, CA/T Project construction was 92.4% complete. As of that date, approximately \$13.688 billion was under contract or agreement, which constitutes 93.5% of total budgeted costs for the CA/T Project. That amount includes \$8.997 billion of construction commitments, which constitutes approximately 96.1% of the total construction budget of \$9.356 billion. The I-93 initial southbound opening occurred on December 19, 2003. The date for the I-93 complete southbound opening continues to be projected for March 2005 to July 2005, and the date for the CA/T Project substantial completion continues to be projected for May 2005 to November 2005.

The independent auditor engaged by the Executive Office for Administration and Finance has filed its final report on CSU Rev. 10. The final report concluded that the total cost estimate of the CA/T Project in the amount of \$14.625 billion set forth in CSU Rev. 10 was aggressive but did not recommend that the estimate be increased. The 2003 finance plan for the CA/T Project was filed with the Federal Highway Administration on September 26, 2003. See the September Information Statement under the heading “COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN – Central Artery/Ted Williams Tunnel Project; Cost/Schedule Update”.

The October 2002 Finance Plan provided that \$87 million in revenues from the projected resale of the Kneeland Street properties would be available for CA/T Project costs. That amount was increased to \$94 million in CSU Rev 10. In a letter dated January 22, 2004, the General Counsel of the United States General Accounting Office (GAO) responded to the February 20, 2003, letter from the Inspector General of the United States Department of Transportation requesting a legal opinion from the GAO regarding the proper characterization of funds from the resale of the Kneeland Street properties. The GAO opined that the proportionate federal share of proceeds from the sale of those properties retains its character as federal funds under Title 23, Section 156 of the United States Code. The GAO further stated that such funds, if reinvested in the CA/T Project, do not count against the \$8.549 billion statutory cap on federal funding for the CA/T Project. The GAO’s interpretation is consistent with the CA/T Project’s planned use of those funds. See the September Information Statement under the heading “COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN – Central Artery/Ted Williams Tunnel Project; October 2002 Finance Plan”.

*Claims and Economic Risks.* The Claims and Changes Department of the CA/T Project is responsible for administering the commercial aspects of the CA/T Project’s construction contracts. In the Fall of 2002, the Turnpike Authority Chairman directed the Claims and Changes Department to establish a “close-out” plan to resolve the pending backlog of contractor claims on the CA/T Project (at that time there were nearly 5,000 outstanding change order issues and claims with an average age of over 300 days). In February 2003, the National Academy of Engineering and the National Research Council (NRC) issued a report to the Turnpike Authority that identified as a major priority the resolution of outstanding CA/T Project contractor claims by July 2004. The Turnpike Authority Chairman has approved a Claims and Changes Department claim resolution plan with the objective of meeting the National Academy’s recommended target date of July 2004.

In general, the claim resolution plan provides for (1) targeting complete or nearly complete contracts that have a large number and magnitude of claims; (2) establishing a dedicated negotiation team comprised of a Team Leader with technical support from other CA/T personnel (estimators, schedulers, auditors, etc.); and (3) entering into structured negotiation agreements with contractors that provide for, among other things, scheduled claim submissions, negotiations, and, if necessary, mediation. Consistent with the NRC recommendation, a significant budget commitment has been made to enhance the in-house staff and consultant resources necessary to support the claim resolution program. In addition, the Turnpike Authority has retained nationally-recognized claims and audit experts to assist the CA/T Project staff in analyzing, negotiating, and documenting prompt and equitable resolutions of all open matters with CA/T Project construction contractors.

The outstanding claim from Honeywell Technology Solutions, Inc. is currently being handled by the Claims and Changes Department with assistance from other departments of the CA/T Project. Due to the advanced state of construction on the CA/T Project and previous completion of certain CA/T Project milestones, management of the CA/T Project believes that risks associated with nonperformance of accelerated work by Honeywell on its contract have been substantially mitigated.

*Toll Discount Program.* On July 1, 2002, a toll discount program for members of the FASTLANE Program who operate non-commercial two-axle passenger vehicles went into effect, providing a 50% discount on the amount of the July 1, 2002 toll rate increase to participants. In April 2003, the discount program was extended through December 2003. Funding for this extension will come from the Turnpike Authority's sale of certain real estate in May 2003 for approximately \$75 million. On September 18, 2003, the Turnpike Authority voted to extend the toll discount program through December 2004. Funding for this extension will also come from the May 2003 sale of real estate by the Turnpike Authority. In compliance with its Trust Agreement, on December 31, 2003, the Turnpike Authority delivered to the trustee a certificate of an independent consultant verifying that it can meet its required debt service coverage ratios and maintain the toll discount program.

See the September Information Statement under the heading "COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN – Central Artery/Ted Williams Tunnel Project; Claims and Economic Risks".

## LONG-TERM LIABILITIES

The following table shows long-term debt of the Commonwealth as issued and retired from fiscal 1999 through fiscal 2003:

### Long-Term Debt Issuance and Repayment Analysis (in thousands)

	<u>Fiscal 1999</u>	<u>Fiscal 2000</u>	<u>Fiscal 2001</u>	<u>Fiscal 2002</u>	<u>Fiscal 2003(2)</u>
<b>Fiscal Year Beginning Balance (as of July 1)</b>	\$11,078,603	\$11,808,461	\$12,383,101	\$13,999,454	\$14,955,135
General and Special Obligation Debt Issued(1)	1,030,490	1,758,142	1,752,198	1,470,272	1,845,458(3)
County Debt Assumed	1,505	525	-	-	-
Grant Anticipation Notes Issued(1)	<u>321,720</u>	<u>-</u>	<u>577,605</u>	<u>-</u>	<u>-</u>
Subtotal	12,432,318	13,567,128	14,712,904	15,469,726	16,800,593
Debt Retired or Defeased, Exclusive of Refunding	(658,557)	(1,184,027)	(770,434)	(692,341)	(737,832)
Refunding Debt Issued, Net of Refunded Debt	<u>34,700</u>	<u>-</u>	<u>56,984</u>	<u>177,750</u>	<u>(100,255)</u>
<b>Fiscal Year Ending Balance (June 30)</b>	<u>\$11,808,461</u>	<u>\$12,383,101</u>	<u>\$13,999,454</u>	<u>\$14,955,135</u>	<u>\$15,962,506</u>

SOURCE: Office of the Comptroller.

- (1) Including premium and discount.
- (2) On July 16, 2003, the Commonwealth issued special obligation notes for the purpose of refunding approximately \$408.0 million of federal grant anticipation notes in a crossover refunding. Interest on the refunding notes will be paid solely from an escrow funded by proceeds of the issue until the crossover dates in 2008 and 2010.
- (3) Includes \$183.5 million of bonds, which, although not legally defeased, will be paid in fiscal 2004, 2006 and 2008 from funds held in escrow by a third-party trustee.

## General Authority to Borrow

The outstanding Commonwealth debt amounts excluded from the limit as of June 30, 2003 are shown in the table below:

### Calculation of the Debt Limit (in thousands)

	1999	2000	2001	2002	2003
Balance as of June 30	\$11,808,461	\$12,383,101	\$13,999,454	\$14,995,135	\$15,962,506
Less amounts excluded:					
Discount and issuance costs	(677,326)	(358,938)	(282,829)	(181,910)	(68,718)
Ch. 5, Acts of 1992 Refunding	(130,069)	(114,761)	(71,054)	(22,043)	(10,600)
Special Obligation Principal	(582,410)	(561,335)	(539,242)	(772,812)	(748,124)(1)
Federal Grant Anticipation					
Notes Principal	(899,991)	(899,991)	(1,500,000)	(1,500,000)	(1,500,000)(2)
County Debt Assumed	(2,345)	(2,105)	(1,375)	(1,115)	(855)
MBTA Forward Funding	-	(325,000)	(325,000)	(625,000)	(680,869)
CA/T Project	-	-	(999,995)	(838,193)	(1,386,869)
Outstanding Direct Debt	<u>\$9,516,320</u>	<u>\$10,120,971</u>	<u>\$10,279,959</u>	<u>\$11,054,062</u>	<u>\$11,566,472</u>
Statutory Debt Limit	<u>\$10,046,697</u>	<u>\$10,549,032</u>	<u>\$11,076,483</u>	<u>\$11,630,307</u>	<u>\$12,211,823</u>

SOURCE: Office of the Comptroller.

- (1) Includes \$183.5 million of bonds, which, although not legally defeased, will be paid in fiscal 2004, 2006 and 2008 from funds held in escrow by a third-party trustee.
- (2) On July 16, 2003, the Commonwealth issued special obligation notes for the purpose of refunding approximately \$408.0 million of federal grant anticipation notes in a crossover refunding. Interest on the refunding notes will be paid solely from an escrow funded by proceeds of the issue until the crossover dates in 2008 and 2010. The refunding notes will effectively lower outstanding debt in comparison to the statutory debt limit on grant anticipation notes.

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 bonds excluded from the debt limit) in the fiscal years indicated:

### Debt Service Expenditures (in millions)(1)

Fiscal Year	Budgeted Debt Service	Total Budgeted Expenditures and Other Uses	Percentage
1999	\$1,176.1	\$20,244.7	5.8%
2000	1,114.6	22,414.1	5.0
2001	599.7(2)	22,133.7	2.7
2002	1,219.0	22,800.3	5.4
2003	1,203.5	22,439.1	5.4

SOURCES: Office of the Comptroller.

- (1) Reflects budgeted debt service subject to the provisions of Section 60B of Chapter 29 of the Massachusetts General Laws.
- (2) Does not include \$624.6 million of debt defeased from operating surplus that was non-budgeted.

The following table sets forth the amount of Commonwealth debt and debt related to general obligation contract assistance liabilities outstanding as of January 1, 2004.



**Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities**  
(in thousands)

	<u>Long-Term (4)</u>	<u>Short-Term</u>
<b>COMMONWEALTH DEBT</b>		
General Obligation Debt	\$13,897,418(5)	\$1,075,100(7)
Special Obligation Debt (1)	813,045	-
Federal Grant Anticipation Notes (2)	<u>1,907,340(6)</u>	-
Subtotal Commonwealth Debt	<u>\$16,617,803</u>	<u>\$1,075,100</u>
<b>DEBT RELATED TO GENERAL OBLIGATION CONTRACT ASSISTANCE LIABILITIES (3)</b>		
Massachusetts Convention Center Authority	\$ 30,591	-
Massachusetts Development Finance Agency	43,720	-
Foxborough Industrial Development Financing Authority	<u>65,475</u>	-
Subtotal GO Contract Assistance Debt	<u>\$ 139,786</u>	-
<b>TOTAL</b>	<u><b>\$16,757,589</b></u>	<u><b>\$1,075,100</b></u>

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

- (1) Includes \$183.5 million of bonds, which, although not legally defeased, will be paid in fiscal 2004, 2005 and 2008 from funds held in escrow by a third-party trustee.
- (2) On July 16, 2003, the Commonwealth issued special obligation notes for the purpose of refunding approximately \$408.0 million of federal grant anticipation notes in a crossover refunding. See the September Information Statement under the heading "LONG-TERM LIABILITIES -- Federal Grant Anticipation Notes."
- (3) Does not include general obligation contract assistance liabilities to the Massachusetts Water Pollution Abatement Trust and the Massachusetts Turnpike Authority. For information about such liabilities, see the September Information Statement under the heading "LONG-TERM LIABILITIES - General Obligation Contract Assistance Liabilities."
- (4) Long-term debt includes discount and costs of issuance.
- (5) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from January 1, 2004 through their maturity in the amount of \$61.3 million.
- (6) Includes capital appreciation interest accrued from January 1, 2004 through their maturity in the amount of \$37.1 million.
- (7) Includes \$550.0 million of general obligation bond anticipation notes issued to finance costs associated with the construction of the Boston Convention and Exhibition Center and other capital projects. Such notes are expected to be paid from the proceeds of special obligation bonds that can lawfully be issued regardless of the completion status of the convention center. See the September Information Statement under the heading "LONG-TERM LIABILITIES - Special Obligation Debt; *Convention Center Fund*". In addition, the total includes \$75.1 million of commercial paper issued as bond anticipation notes in anticipation of certain payments to be received by the Commonwealth from the Massachusetts Port Authority to reimburse the Commonwealth for capital costs of the CA/T Project. See the September Information Statement under the heading "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS – Cash Flow." In addition, the total includes \$450.0 million of commercial paper issued by the Commonwealth in December 2003 as revenue anticipation notes.

**Debt Service Requirements on Commonwealth Bonds**

The following table sets forth, as of January 1, 2004, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal grant anticipation notes. For variable rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate exchange agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. For other variable rate bonds and for auction rate securities, the schedule assumes a 5% interest rate.

**Debt Service Requirements on Commonwealth Bonds January 1, 2004**  
(in thousands)

Fiscal Year	<i>General Obligation Bonds</i>				<i>Federal Grant Anticipation Notes</i>			<i>Special Obligation Bonds</i>			Total Debt Service Commonwealth Bonds
	Principal	Interest on CABS at Maturity	Current Interest	Sub Total	Principal	Interest	Sub Total	Principal	Interest	Sub Total	
2004	\$186,499	\$33,737	\$294,408	\$514,644	-	\$93,466	\$93,466	\$26,070	\$21,224	\$47,294	\$655,404
2005	845,118	9,338	674,737	1,529,193	-	95,223	95,223	27,370	41,156	68,526	1,692,942
2006	848,401	4,536	637,218	1,490,155	\$117,895	93,817	211,712	43,950	39,713	83,663	1,785,530
2007	880,119	5,189	595,135	1,480,442	123,825	87,887	211,712	46,775	37,566	84,341	1,776,495
2008	893,290	5,801	551,919	1,451,009	130,240	81,469	211,709	57,310	34,687	91,997	1,754,715
2009	891,591	6,904	506,557	1,405,052	137,230	74,478	211,708	42,020	31,833	73,853	1,690,613
2010	811,421	6,429	461,463	1,279,314	158,815	66,835	225,650	63,070	29,847	92,917	1,597,881
2011	819,412	6,981	416,373	1,242,765	214,620	57,206	271,826	46,190	26,585	72,775	1,587,366
2012	692,507	7,203	372,559	1,072,269	226,420	45,694	272,114	48,590	24,205	72,795	1,417,178
2013	707,280	7,977	334,593	1,049,850	208,410	35,110	243,520	51,115	21,653	72,768	1,366,138
2014	599,681	6,043	301,167	906,892	302,820	21,697	324,517	49,435	18,866	68,301	1,299,710
2015	580,729	5,417	271,311	857,457	287,065	7,185	294,250	78,525	16,298	94,823	1,246,530
2016	563,833	4,010	243,114	810,958	-	-	-	52,965	12,076	65,041	875,999
2017	601,219	2,555	214,631	818,405	-	-	-	43,710	9,265	52,975	871,380
2018	452,625	1,843	187,842	642,311	-	-	-	24,445	7,080	31,525	673,836
2019	452,637	1,235	164,650	618,522	-	-	-	25,755	5,766	31,521	650,043
2020	460,794	628	141,014	602,437	-	-	-	27,140	4,381	31,521	633,958
2021	653,364	451	113,254	767,068	-	-	-	28,590	2,931	31,521	798,589
2022	431,914	241	85,909	518,063	-	-	-	30,020	1,501	31,521	549,584
2023	248,331	127	65,824	314,282	-	-	-	-	-	-	314,282
2024	107,999	55	56,108	164,162	-	-	-	-	-	-	164,162
2025	30,059	-	52,610	82,669	-	-	-	-	-	-	82,669
2026	148,590	-	49,737	198,327	-	-	-	-	-	-	198,327
2027	133,520	-	42,866	176,386	-	-	-	-	-	-	176,386
2028	131,805	-	34,395	166,200	-	-	-	-	-	-	166,200
2029	192,485	-	25,917	218,402	-	-	-	-	-	-	218,402
2030	202,925	-	15,746	218,671	-	-	-	-	-	-	218,671
2031	212,570	-	5,062	217,632	-	-	-	-	-	-	217,632
TOTAL	\$13,780,717	\$116,700	\$6,916,120	\$20,813,538	\$1,907,340(1)	\$760,067	\$2,667,407	\$813,045(2)	\$386,633(2)	\$1,199,678	\$24,680,622

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

- (1) Includes \$408.0 million of notes issued for a cross-over refunding of federal grant anticipation notes. Such notes will not be secured by federal highway grant revenues until the cross-over dates. Notes to be refunded on the crossover dates remain outstanding until that time.
- (2) Includes \$185.3 million of bonds which, although not legally defeased, will be paid in fiscal 2004, 2006 and 2008 from funds held in escrow by a third-party trustee.

## General Obligation Contract Assistance Liabilities

*Boston Housing Authority West Broadway Homes IV Project.* In December 2003 the Boston Housing Authority (“BHA”) issued \$10 million of housing project bonds to finance a portion of the costs of construction of a 133-unit lower income public housing project in South Boston. Proceeds of the bonds were lent by the BHA to the West Broadway Redevelopment Limited Partnership (“Partnership”) which will own and operate the project. The general partner of the Partnership is a Massachusetts non-profit corporation controlled by the BHA. In addition, proceeds of an approximately \$10.8 million modernization grant from the Commonwealth and an approximately \$3.6 million grant from the City of Boston have been loaned to the Partnership by the BHA to be applied to costs of the project. The Partnership also expects to apply an equity investment from its limited partners to construction costs in the approximate amount of \$10 million. In December 2003 the BHA also issued \$9 million of housing project notes to mature December 1, 2006, the proceeds of which were loaned to the Partnership to be applied to construction costs in anticipation of the Partnership’s equity investment. In accordance with an Amendment to Contract for Financial Assistance between the Commonwealth, acting by and through the Department of Housing and Community Development, and the BHA, the Commonwealth has agreed to advance additional grant funds to the BHA to be applied to the payment of the notes to the extent the Partnership’s equity investment is not received in time or amount sufficient to pay the principal amount of the notes at maturity. The Commonwealth has also agreed in the Amendment to Contract for Financial Assistance to advance additional grant funds to the BHA in an amount sufficient to redeem all or a portion of the bonds on December 1, 2006 to the extent the project has failed to demonstrate budgeted revenue sufficiency by that date. Thereafter, the bonds will be secured by and payable solely from an assignment by the BHA of state operating subsidy funds allocable to the project, and other state assisted public housing projects owned by the BHA, loan repayments from the Partnership payable from project net income and reserve funds funded from bond and grant loan proceeds to the Partnership.

## STATE WORKFORCE

The following table sets forth information regarding the Commonwealth’s workforce as of the end of fiscal 1998 through December 27, 2003.

### Budget-Funded Workforce (1)

	<u>June 1999</u>	<u>June 2000</u>	<u>June 2001</u>	<u>June 2002</u>	<u>June 2003</u>	<u>Dec. 27, 2003</u>
Executive Office	93	89	88	72	86	70
Office of the Comptroller	110	106	109	107	102	102
Executive Departments						
Administration and Finance	3,153	3,225	3,180	2,974	2,921	2,802
Environmental Affairs	2,484	2,583	2,555	2,312	2,156	1,976
Housing and Community Development	113	111	117	109	98	95
Health and Human Services	23,164	23,483	23,157	21,803	21,440	20,454
Transportation and Construction	1,303	1,284	1,254	843	445	354
Board of Library Commissioners	17	20	20	18	13	12
Labor and Workforce Development	392	386	379	357	343	323
Economic Development	92	92	86	80	58	47
Consumer Affairs and Business Regulation	706	682	675	657	521	503
Department of Education	272	270	272	277	248	223
Board of Higher Education	14,840	15,251	15,481	14,038	14,117	13,276
Public Safety	9,520	9,409	9,686	9,567	9,148	8,924
Elder Affairs	<u>36</u>	<u>38</u>	<u>41</u>	<u>43</u>	<u>38</u>	<u>33</u>
Subtotal under Governor’s authority	56,295	57,029	57,059	53,257	51,547	49,020
Judiciary	7,829	8,013	7,944	7,379	7,233	6,907
Other (2)	<u>6,403</u>	<u>7,171</u>	<u>7,418</u>	<u>7,119</u>	<u>7,056</u>	<u>7,003</u>
Total	<u>67,014</u>	<u>70,527</u>	<u>72,213</u>	<u>67,755</u>	<u>66,024</u>	<u>63,103</u>

SOURCE: Executive Office for Administration and Finance

- (1) 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 positions (FTEs), not individual employees. Total may not add due to rounding.
- (2) Other includes staff of the Legislature and Executive Council, the office of the State Treasurer, Secretary, Auditor and Attorney General, the eleven District Attorneys, the seven former county sheriffs that have become state agencies, and other agencies independent from the Governor; it excludes elected members of the Legislature and Executive Council.

## LEGAL MATTERS

### Update of Existing Litigation

*Hancock v. Commissioner of Education.* The trial before the Superior Court has concluded. The increased spending that could result from the case could total \$2 billion.

*Raytheon v. Commissioner of Revenue.* The Commissioner of Revenue settled this case in September, 2003. The liability is no longer contingent.

*Peterson v. Commissioner of Revenue.* The Supreme Judicial Court heard oral argument on February 5, 2004. The Department of Revenue currently estimates the potential liability to be \$250 million.

*Brown Rudnick Freed & Gesmer and Loeff Cabraser Heimann & Bernstein, LLP, et al. v Commonwealth.* On December 19, 2003, a Suffolk Superior Court jury rejected the claims of the state's private tobacco attorneys that they should be paid a fee amounting to 25 percent of the state's tobacco settlement money. The jury awarded the plaintiffs 10.5% of the amount the Commonwealth receives under the tobacco Master Settlement Agreement through 2025. To date, however, the private tobacco attorneys have received, in direct payments from the tobacco companies under the MSA fee arbitration, more than 10.5% of what the Commonwealth has received under the MSA. Because these arbitration payments are deducted from amounts the Commonwealth might itself otherwise owe private counsel, the Commonwealth at present owes nothing under the jury award. Whether the Commonwealth will in the future be required to pay any sum on private counsel's claim will depend on the actual payments received by the Commonwealth under the MSA through 2025.

*General Mills, Inc. v. Commissioner of Revenue.* The taxpayer filed a petition for a writ of certiorari in the United States Supreme Court, which was docketed on January 30, 2004. On February 27, 2004, the Commissioner filed his brief in opposition.

*Lopes v. Commonwealth.* This case was taken for review, *sua sponte*, by the Supreme Judicial Court. Oral argument is scheduled for March 5, 2004.

*Goodridge v. Commissioner of Public Health.* On November 18, 2003, the Supreme Judicial Court declared "that barring an individual from the protections, benefits, and obligations of civil marriage solely because that person would marry a person of the same sex violates the Massachusetts Constitution." The court stayed entry of judgment "for 180 days to permit the Legislature to take such action as it may deem appropriate in light of" the court's opinion.

## CONTINUING DISCLOSURE

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, 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. To date, the Commonwealth has complied with all of its continuing disclosure undertakings relating to the general obligation debt of the Commonwealth. However, the annual filings relating to the fiscal year ended June 30, 2001 for the Commonwealth's special obligation debt and for the Commonwealth's federal highway grant anticipation notes were filed two days late, on March 29, 2002.

Proper notice of the late filings was provided on March 29, 2002 to the Nationally Recognized Municipal Securities Information Repositories and the Municipal Securities Rulemaking Board.

**AVAILABILITY OF OTHER FINANCIAL INFORMATION**

Questions regarding this Information Statement or requests for additional information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900 (ext. 564), or to Timothy Murphy, Director of Capital Planning and Operations, Executive Office for Administration and Finance, State House, Room 272, Boston, Massachusetts 02133, telephone 617/727-2081. Questions regarding legal matters relating to this Information Statement should be directed to Lawrence D. Bragg, III, Ropes & Gray LLP, One International Place, Boston, Massachusetts 02110, telephone 617/951-7000.

THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Timothy Cahill  
Timothy Cahill  
Treasurer and Receiver-General

By /s/ Eric A. Kriss  
Eric A. Kriss  
Secretary of Administration and Finance

March 4, 2004

**TABLE OF REFUNDED BONDS**

The bonds of the Commonwealth to be refunded with the proceeds of the Refunding Bonds are described below.

<b><u>Maturity Date</u></b>	<b><u>Amount</u></b>	<b><u>Coupon</u></b>
<b>\$200,000,000 General Obligation Bonds, Consolidated Loan of 1996, Series D:</b>		
November 1, 2016*	\$31,160,000	5.00%
* To be redeemed on November 1, 2006 at a call price of 101%.		
<b>\$250,000,000 General Obligation Bonds, Consolidated Loan of 1997, Series C:</b>		
August 1, 2014*	\$28,835,000	5.00%
August 1, 2015*	<u>35,220,000</u>	5.00
	\$64,055,000	
* To be redeemed on August 1, 2007 at a call price of 101%.		
<b>\$250,000,000 General Obligation Bonds, Consolidated Loan of 1998, Series B:</b>		
April 1, 2016*	\$12,440,000	5.00%
* To be redeemed on April 1, 2008 at a call price of 101%.		
<b>\$563,735,000 General Obligation Bonds, Consolidated Loan of 2000, Series C:</b>		
October 1, 2021*	\$15,000,000	5.25%
October 1, 2022*	<u>5,000,000</u>	5.25
	\$20,000,000	
* To be redeemed on October 1, 2010 at par.		
<b>\$935,530,000 General Obligation Bonds, Consolidated Loan of 2001, Series C:</b>		
December 1, 2020*	\$12,935,000	5.125%
December 1, 2021*	<u>38,800,000</u>	5.125
	\$51,735,000	
* To be redeemed on December 1, 2011 at par.		

<u>Maturity Date</u>	<u>Amount</u>	<u>Coupon</u>
<b>\$823,845,000 General Obligation Bonds, Consolidated Loan of 2001, Series D:</b>		
November 1, 2020*	\$36,965,000	5.00%
November 1, 2021*	<u>38,860,000</u>	5.00
	\$75,825,000	

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\* To be redeemed on November 1, 2011 at par.

**\$492,440,000 General Obligation Bonds, Consolidated Loan of 2002, Series B:**

March 1, 2022*	\$29,365,000	5.125%
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\* To be redeemed on March 1, 2012 at par.

**\$1,828,230,000 General Obligation Bonds, Consolidated Loan of 2002, Series C:**

November 1, 2021*	\$ 59,530,000	5.00%
November 1, 2030**	<u>125,605,000</u>	5.25
	\$185,135,000	

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\* To be redeemed on November 1, 2012 at par.

\*\* Represents the portion of the outstanding November 1, 2030 term bond not previously refunded, which will be redeemed on November 1, 2012 at par.

**\$670,745,000 General Obligation Bonds, Consolidated Loan of 2002, Series D:**

August 1, 2022*	\$2,390,000	5.375%
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\* To be redeemed on August 1, 2012 at par.

**\$734,350,000 General Obligation Bonds, Consolidated Loan of 2002, Series E:**

January 1, 2022*	\$ 8,000,000	5.25%
January 1, 2022*	<u>29,975,000</u>	5.25
	\$37,975,000	

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\* To be redeemed on January 1, 2013 at par.

<u>Maturity Date</u>	<u>Amount</u>	<u>Coupon</u>
<b>\$288,745,000 General Obligation Bonds, Consolidated Loan of 2003, Series A:</b>		
January 1, 2021*	\$29,955,000	5.00%
January 1, 2022*	33,725,000	5.00
January 1, 2023*	<u>10,280,000</u>	5.00
	\$73,960,000	

\* To be redeemed on January 1, 2013 at par.

**\$290,000,000 General Obligation Bonds, Consolidated Loan of 2003, Series C:**

August 1, 2021*	\$40,000,000	5.00%
August 1, 2022*	42,500,000	5.00
August 1, 2023*	<u>40,005,000</u>	5.125
	\$122,505,000	

\* To be redeemed on August 1, 2013 at par.

**\$271,310,000 General Obligation Bonds, Consolidated Loan of 2003, Series D:**

October 1, 2022*	\$53,610,000	5.25%
October 1, 2023*	<u>38,910,000</u>	5.00
	\$92,520,000	

\* To be redeemed on October 1, 2013 at par.

**\$290,920,000 General Obligation Bonds, Consolidated Loan of 2004, Series A:**

August 1, 2015*	\$57,910,000	5.00%
August 1, 2016*	<u>60,880,000</u>	5.00
	\$118,790,000	

\*To be redeemed on August 1, 2014 at par.



PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon delivery of the Bonds described below, Bond Counsel proposes to deliver an opinion in substantially the following form:



[Date of Delivery]

The Honorable Timothy P. Cahill  
Treasurer and Receiver-General  
The Commonwealth of Massachusetts  
State House - Room 227  
Boston, Massachusetts 02133

(The Commonwealth of Massachusetts  
General Obligation Bonds, Consolidated Loan of 2004, Series B  
and General Obligation Refunding Bonds, 2004 Series B)

We have acted as Bond Counsel to The Commonwealth of Massachusetts (the “Commonwealth”) in connection with the issuance by the Commonwealth of \$191,460,000 aggregate principal amount of General Obligation Bonds, Consolidated Loan of 2004, Series B, dated their date of delivery, and \$883,435,000 aggregate principal amount of General Obligation Refunding Bonds, 2004 Series B, dated their of delivery (collectively, the “Bonds”).

The Bonds mature and bear interest and are subject to redemption at such times, in such amounts, at such prices and upon such terms and conditions as are set forth in the Bonds. The Bonds are immobilized in the custody of The Depository Trust Company and a book-entry system is being used to evidence ownership and transfer on the records of The Depository Trust Company and its participants.

We have examined the law and such certified proceedings and other papers as we deemed necessary to render this opinion. On the basis of this examination, we are of the opinion, under existing law, as follows:

1. The Bonds are valid general obligations of The Commonwealth of Massachusetts and the full faith and credit of the Commonwealth are pledged for the payment of the principal of and interest on the Bonds. It should be noted, however, that Chapter 62F of the General Laws of The Commonwealth of Massachusetts establishes a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit.

2. Interest on the Bonds is exempt from Massachusetts personal income taxes, and the Bonds are exempt from Massachusetts personal property taxes. We express no opinion as to other Massachusetts tax consequences arising with respect to the Bonds nor as to the taxability of the Bonds or the income therefrom under the laws of any state other than Massachusetts.

3. The interest on the Bonds (including any accrued original issue discount properly allocable thereto) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of computing the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"); it should be noted, however, that interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). The opinions set forth in the preceding sentence are subject to the condition that the Commonwealth comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Commonwealth has covenanted to comply with these requirements. Failure to comply with certain of these requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding any other tax consequences arising with respect to the Bonds.

It is to be understood that the rights of the holders of the Bonds and the enforceability thereof may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Yours faithfully,

The Commonwealth of Massachusetts

General Obligation Bonds  
Consolidated Loan of 2004, Series B

General Obligation Refunding Bonds  
2004 Series B

Continuing Disclosure Undertaking  
[to be included in bond form]

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the Bonds to provide to each nationally recognized municipal securities information repository (each, a “NRMSIR”) within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”) and to the state information depository for the Commonwealth, if any (the “SID”), within the meaning of the Rule, no later than 270 days after the end of each fiscal year of the Commonwealth, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Commonwealth for such fiscal year if audited financial statements are then available, provided, however, that if audited financial statements of the Commonwealth are not then available, such audited financial statements shall be delivered to each NRMSIR and the SID when they become available (but in no event later than 350 days after the end of such fiscal year) or (ii) notice of the Commonwealth’s failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Commonwealth’s Information Statement dated September 18, 2003 (the “Information Statement”), as it appears as Appendix A in the Official Statement dated September 18, 2003 of the Commonwealth with respect to its \$550,000,000 General Obligation Bond Anticipation Notes, 2003 Series A, and substantially in the same level of detail as is found in the referenced section of the Information Statement:

Financial Information and Operating Data Category	Reference to Information Statement for Level of Detail
1. Summary presentation on statutory accounting and five-year comparative basis of selected budgeted operating funds operations, concluding with prior fiscal year, plus estimates for current fiscal year	“DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS - 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	“COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Selected Financial Data - GAAP Basis”
3. 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 - Statutory Basis Distribution of Revenues”
4. 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”
5. 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”
6. Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any	“COMMONWEALTH PROGRAMS AND SERVICES - Commonwealth Pension Obligations”

<b>Financial Information and Operating Data Category</b>	<b>Reference to Information Statement for Level of Detail</b>
7. If and to the extent otherwise updated in the prior fiscal year, summary presentation of the size of the state workforce	"STATE WORKFORCE"
8. Five-year summary presentation of actual capital project expenditures	"COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN - Capital Investment Plan"
9. Statement of Commonwealth debt and debt related to general obligation contract liabilities as of the end of the prior fiscal year	"LONG-TERM LIABILITIES - General Authority to Borrow - Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities"
10. Five-year comparative presentation of long term Commonwealth debt and debt related to general obligation contract liabilities as of the end of the prior fiscal year	"LONG-TERM LIABILITIES - General Authority to Borrow - Commonwealth Debt and Debt Related to General Obligation Contract Assistance Liabilities"
11. Annual fiscal year debt service requirements for Commonwealth general obligation and special obligation bonds, beginning with the current fiscal year	"LONG-TERM LIABILITIES - Debt Service Requirements on Commonwealth Bonds"
12. Annual fiscal year contract assistance requirements for Commonwealth general obligation contract assistance, beginning with the current fiscal year	"LONG-TERM LIABILITIES - General Obligation Contract Assistance Liabilities"
13. Annual fiscal year budgetary contractual assistance liabilities for Commonwealth, beginning with the current fiscal year	"LONG-TERM LIABILITIES - Budgetary Contractual Assistance Liabilities"
14. Five-year summary presentation of authorized but unissued general obligation debt	"LONG-TERM LIABILITIES - Authorized But Unissued Debt"
15. 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	"LONG-TERM LIABILITIES - General Authority to Borrow-Statutory Limit on Direct Debt"

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<sup>1/</sup>;
- (iv) unscheduled draws on credit enhancements reflecting financial difficulties;
- (v) substitution of credit or liquidity providers, or their failure to perform;
- (vi) adverse tax opinions or events affecting the tax-exempt status of the security;
- (vii) modifications to the rights of security holders;
- (viii) bond calls;
- (ix) defeasances;
- (x) release, substitution or sale of property securing repayment of the securities<sup>2/</sup> and
- (xi) rating changes.

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

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<sup>1/</sup>Not applicable to the Bonds, since there is no debt service reserve fund securing the Bonds.

<sup>2/</sup>Not applicable to the Bonds, since there is no property securing repayment of the Bonds that could be released, substituted or sold.

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.



# Financial Guaranty Insurance Policy

Ambac Assurance Corporation  
One State Street Plaza, 15th Floor  
New York, New York 10004  
Telephone: (212) 668-0340

Obligor:

Policy Number:

Obligations:

Premium:

Ambac Assurance Corporation (Ambac), a Wisconsin stock insurance corporation, in consideration of the payment of the premium and subject to the terms of this Policy, hereby agrees to pay to The Bank of New York, as trustee, or its successor (the "Insurance Trustee"), for the benefit of the Holders, that portion of the principal of and interest on the above-described obligations (the "Obligations") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Obligor.

Ambac will make such payments to the Insurance Trustee within one (1) business day following written notification to Ambac of Nonpayment. Upon a Holder's presentation and surrender to the Insurance Trustee of such unpaid Obligations or related coupons, uncanceled and in bearer form and free of any adverse claim, the Insurance Trustee will disburse to the Holder the amount of principal and interest which is then Due for Payment but is unpaid. Upon such disbursement, Ambac shall become the owner of the surrendered Obligations and/or coupons and shall be fully subrogated to all of the Holder's rights to payment thereon.

In cases where the Obligations are issued in registered form, the Insurance Trustee shall disburse principal to a Holder only upon presentation and surrender to the Insurance Trustee of the unpaid Obligation, uncanceled and free of any adverse claim, together with an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee duly executed by the Holder or such Holder's duly authorized representative, so as to permit ownership of such Obligation to be registered in the name of Ambac or its nominee. The Insurance Trustee shall disburse interest to a Holder of a registered Obligation only upon presentation to the Insurance Trustee of proof that the claimant is the person entitled to the payment of interest on the Obligation and delivery to the Insurance Trustee of an instrument of assignment, in form satisfactory to Ambac and the Insurance Trustee, duly executed by the Holder or such Holder's duly authorized representative, transferring to Ambac all rights under such Obligation to receive the interest in respect of which the insurance disbursement was made. Ambac shall be subrogated to all of the Holders' rights to payment on registered Obligations to the extent of any insurance disbursements so made.

In the event that a trustee or paying agent for the Obligations has notice that any payment of principal of or interest on an Obligation which has become Due for Payment and which is made to a Holder by or on behalf of the Obligor has been deemed a preferential transfer and theretofore recovered from the Holder pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court of competent jurisdiction, such Holder will be entitled to payment from Ambac to the extent of such recovery if sufficient funds are not otherwise available.

As used herein, the term "Holder" means any person other than (i) the Obligor or (ii) any person whose obligations constitute the underlying security or source of payment for the Obligations who, at the time of Nonpayment, is the owner of an Obligation or of a coupon relating to an Obligation. As used herein, "Due for Payment", when referring to the principal of Obligations, is when the scheduled maturity date or mandatory redemption date for the application of a required sinking fund installment has been reached and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by application of required sinking fund installments), acceleration or other advancement of maturity; and, when referring to interest on the Obligations, is when the scheduled date for payment of interest has been reached. As used herein, "Nonpayment" means the failure of the Obligor to have provided sufficient funds to the trustee or paying agent for payment in full of all principal of and interest on the Obligations which are Due for Payment.

This Policy is noncancelable. The premium on this Policy is not refundable for any reason, including payment of the Obligations prior to maturity. This Policy does not insure against loss of any prepayment or other acceleration payment which at any time may become due in respect of any Obligation, other than at the sole option of Ambac, nor against any risk other than Nonpayment.

In witness whereof, Ambac has caused this Policy to be affixed with a facsimile of its corporate seal and to be signed by its duly authorized officers in facsimile to become effective as its original seal and signatures and binding upon Ambac by virtue of the countersignature of its duly authorized representative.

President



Secretary

Effective Date:

Authorized Representative

THE BANK OF NEW YORK acknowledges that it has agreed to perform the duties of Insurance Trustee under this Policy.

Form No.: 2B-0012 (1/01)

Authorized Officer of Insurance Trustee



**FINANCIAL  
SECURITY  
ASSURANCE®**

**MUNICIPAL BOND  
INSURANCE POLICY**

ISSUER:

BONDS:

Policy No.: -N

Effective Date:

Premium:

FINANCIAL SECURITY ASSURANCE INC. ("Financial Security"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of Financial Security, directly to each Owner, subject only to the terms of this Policy (which includes each endorsement hereto), that portion of the principal of and interest on the Bonds that shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which Financial Security shall have received Notice of Nonpayment, Financial Security will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by Financial Security, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in Financial Security. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by Financial Security is incomplete, it shall be deemed not to have been received by Financial Security for purposes of the preceding sentence and Financial Security shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, Financial Security shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by Financial Security hereunder. Payment by Financial Security to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of Financial Security under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on 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 unless Financial Security shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer 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. "Notice" means telephonic or teletyped notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to Financial Security which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

Financial Security may appoint a fiscal agent (the "Insurer's Fiscal Agent") for purposes of this Policy by giving written notice to the Trustee and the Paying Agent specifying the name and notice address of the Insurer's Fiscal Agent. From and after the date of receipt of such notice by the Trustee and the Paying Agent, (a) copies of all notices required to be delivered to Financial Security pursuant to this Policy shall be simultaneously delivered to the Insurer's Fiscal Agent and to Financial Security, and shall not be deemed received until received by both and (b) all payments required to be made by Financial Security under this Policy may be made directly by Financial Security or by the Insurer's Fiscal Agent on behalf of Financial Security. The Insurer's Fiscal Agent is the agent of Financial Security only and the Insurer's Fiscal Agent shall in no event be liable to any Owner for any act of the Insurer's Fiscal Agent or any failure of Financial Security to deposit or cause to be deposited sufficient funds to make payments due under this Policy.

To the fullest extent permitted by applicable law, Financial Security agrees not to assert, and hereby waives, only for the benefit of each Owner, all rights (whether by counterclaim, setoff or otherwise) and defenses (including, without limitation, the defense of fraud, whether acquired by subrogation, assignment or otherwise, to the extent that such rights and defenses may be available to Financial Security) to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of Financial Security, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, FINANCIAL SECURITY ASSURANCE INC. has caused this Policy to be executed on its behalf by its Authorized Officer.

[Countersignature]

FINANCIAL SECURITY ASSURANCE INC.

By \_\_\_\_\_

By \_\_\_\_\_  
Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.  
350 Park Avenue, New York, N.Y. 10022-6022

(212) 826-0100

Form 500NY (5/90)