NEW 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. See "TAX EXEMPTION" herein.

THE COMMONWEALTH OF MASSACHUSETTS

$250,000,000

General Obligation Bonds

Consolidated Loan of 1998, Series B

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 April 1, 1998 and interest will be payable on October 1, 1998 and semiannually thereafter on April 1 and October 1, calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are subject to redemption prior to maturity, as more fully described herein.

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

The Bonds are offered when, as and if issued and received by the original purchasers, and subject to the unqualified approving opinion as to legality of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Bond Counsel. Settlement of the issue is expected at DTC in New York, New York, on or about May 12, 1998.

April 30, 1998 (except for Appendix A)

THE COMMONWEALTH OF MASSACHUSETTS

$250,000,000
General Obligation Bonds
Consolidated Loan of 1998, Series B

Dated: April 1, 1998 **Due: April 1, as shown below**

Maturity	Amount	Interest Rate	Price or Yield
1999	$7,695,000	4.00%	3.73%
2000	8,005,000	4.05	4.08
2001	8,325,000	4.50	4.27
2002	8,700,000	4.50	4.30
2003	9,095,000	4.50	4.375
2004	9,500,000	5.00	4.45
2005	9,980,000	5.00	4.55
2006	10,475,000	4.60	100
2007	10,960,000*	6.00	4.65
2008	11,615,000*	6.00	4.70
2009	12,315,000	5.00	4.76
2010	12,930,000	5.25	4.85
2011	13,605,000	5.25	4.95
2012	14,320,000	5.25	5.05
2013	15,075,000*	5.00	5.10
2014	15,825,000*	5.00	5.15
2015	16,620,000*	5.00	5.20
2016	17,450,000*	5.00	5.23
2017	18,320,000*	4.75	5.28
2018	19,190,000*	4.75	5.28

(accrued interest, if any, to be added)

* Insured by MBIA Insurance Corporation. See “Bond Insurance.”

No dealer, broker, salesperson or other person has been authorized by The Commonwealth of Massachusetts or the original purchasers of the Bonds to give any information or to make any representations, other than those contained in this Official Statement, and if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. This Official Statement does not constitute an offer to sell or a solicitation of any offer to buy nor shall there be any sale of the Bonds offered hereby by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information set forth herein 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 original purchasers 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.

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THE COMMONWEALTH OF MASSACHUSETTS

CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

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

OFFICIAL STATEMENT

THE COMMONWEALTH OF MASSACHUSETTS

$250,000,000
General Obligation Bonds
Consolidated Loan of 1998, 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 $250,000,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 1998, Series B (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 Commonwealth Information Statement (described below) under the headings "COMMONWEALTH REVENUES—Limitations on Tax Revenues" and "COMMONWEALTH BOND AND NOTE LIABILITIES—Limit on Debt Service Appropriations."

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

Purpose and Content of Official Statement

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

Attached hereto as Appendix A is the Commonwealth's Information Statement dated May 5, 1998 (the "Information Statement"), which 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, 1997, prepared on a statutory basis and a GAAP basis, respectively. Specific reference is made to said Exhibits 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

Appendix B attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the Bonds. Appendix C attached hereto contains a specimen of the bond insurance policy to be issued with respect to certain maturities of the Bonds. Appendix D attached hereto contains the proposed form of the Commonwealth's continuing disclosure undertaking to be included in the form of the Bonds to facilitate compliance by bidders with the requirements of paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission.

THE BONDS

General

The Bonds will be dated April 1, 1998 and will bear interest from such date payable semiannually on October 1 and April 1 of each year, commencing October 1, 1998 (each an "Interest Payment Date") until the principal amount is paid. The Bonds will mature on April 1 in the years and in the aggregate principal amounts, and shall bear interest at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months), as set forth on the inside cover page of this Official Statement. The Commonwealth will act as its own paying agent with respect to the Bonds. 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 immobilized at The Depository Trust Company, New York, New York ("DTC"). The certificates will not be available for distribution to the public and will evidence ownership of the Bonds in principal amounts of $5,000 or integral multiples thereof. Transfers of ownership will be effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Interest and principal due on the Bonds will be paid in clearing house funds to DTC or its nominee as registered owner of the Bonds. The record date for payments on account of the Bonds will be the business day next preceding an Interest Payment Date. As long as the book-entry-only system remains in effect, DTC or its nominee will be recognized as the owner of the Bonds for all purposes, including notices and voting. The Commonwealth will not be responsible or liable for maintaining, supervising or reviewing the records maintained by DTC, its participants or persons acting through such participants. See "BOOK-ENTRY-ONLY SYSTEM."

Redemption

The Bonds maturing on or prior to April 1, 2008 will not be subject to redemption prior to their stated maturity dates.

Optional Redemption. The Bonds maturing on or after April 1, 2009 will be subject to redemption prior to their stated maturity dates on or after April 1, 2008 at the option of the Commonwealth from any moneys legally available therefor, in whole or in part at any time, by lot, at the redemption prices (expressed as percentages of the principal amount thereof) plus accrued interest to the redemption date, as follows:

Redemption Dates	Redemption Prices
April 1, 2008 through March 31, 2009, inclusive	101%
April 1, 2009 through March 31, 2010, inclusive	100½
April 1, 2010 and thereafter	100

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

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

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

Selection for Redemption. In the event that less than all of any maturity of the Bonds is to be redeemed, and so long as the book-entry-only system remains in effect for such Bonds, the particular Bonds or portion of any such Bonds of a particular maturity to be redeemed will be selected by DTC by lot. If the book-entry-only system no longer remains in effect for the Bonds, selection for redemption of less than all of any one maturity of the Bonds will be made by the

Commonwealth by lot in such manner as in its discretion it shall deem appropriate and fair. For purposes of selection by lot within a maturity, each $5,000 of principal amount of a Bond will be considered a separate Bond.

Application of Proceeds of the Bonds

The Bonds are being issued pursuant to the provisions of Section 49 of Chapter 29 of the Massachusetts General Laws and bond authorizations contained in various special laws enacted by the legislature. The net proceeds of the sale of the Bonds will be applied by the Treasurer and Receiver-General of the Commonwealth (the "State Treasurer") to the various purposes for which the issuance of bonds has been authorized pursuant to such special laws, or to the payment of bond anticipation notes previously issued for such purposes, or to reimburse the state treasury for expenditures previously made pursuant to such laws. Any accrued interest payable upon original delivery of the Bonds will be credited ratably to the funds from which debt service on the Bonds is paid and will be used to pay interest on the Bonds. Any premium received by the Commonwealth upon original delivery of the Bonds will be applied to the costs of issuance thereof and other financing costs related thereto or, without appropriation, to the payment of the principal of or sinking fund installments with respect to the Bonds.

The purposes for which the Bonds will be issued have been authorized by the legislature under various bond authorizations and are included within the current five-year capital spending plan established by the 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 five fiscal years and establishes annual capital spending limits. The proceeds of the Bonds are expected to be applied to reimburse the state treasury for capital expenditures made in fiscal year 1998 pursuant to the plan. See Appendix A—"Commonwealth Information Statement" under the headings "COMMONWEALTH CAPITAL SPENDING" and "COMMONWEALTH BOND AND NOTE LIABILITIES—Authorized But Unissued Debt."

SECURITY FOR THE BONDS

The Bonds will be general obligations of the Commonwealth to which its full faith and credit will be pledged for the payment of principal and interest when due. However, it should be noted that Chapter 62F of the Massachusetts General Laws imposes a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit. It should be noted further that Section 60B of Chapter 29 of the Massachusetts General Laws imposes an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on general obligation debt of the Commonwealth. These statutes are both subject to amendment or repeal by the Legislature. Currently, both actual tax revenue growth and annual general obligation debt service are below the statutory limits. See Appendix A—"Commonwealth Information Statement" under the headings "COMMONWEALTH REVENUES —Limitations on Tax Revenues" and "COMMONWEALTH BOND AND NOTE LIABILITIES—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 of the qualities and incidents of negotiable instruments under the Uniform Commercial Code. The Bonds are not subject to acceleration.

BOND INSURANCE

The underwriters of the Bonds have contracted with MBIA Insurance Corporation (the "Insurer") for the issuance of their insurance policy to secure the Bonds maturing on the specific dates as indicated on the inside cover of this Official Statement (the "Insured Bonds"). The issuance of such policy is not a condition to the issuance and delivery of the Bonds by the Commonwealth to the underwriters. The following information has been furnished by the Insurer for use in this Official Statement. Reference is made to Appendix C for a specimen of the Insurer's policy.

The MBIA Insurance Corporation Insurance Policy

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

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

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

The Insurer is the principal operating subsidiary of MBIA Inc., a New York Stock Exchange listed company. MBIA Inc. is not obligated to pay the debts of or claims against the Insurer. The Insurer is domiciled in the State of New York and licensed to do business in and subject to regulation under the laws of all 50 states, the District of Columbia, the Commonwealth of Puerto Rico, the Commonwealth of the Northern Mariana Islands, the Virgin Islands of the United States and the Territory of Guam. The Insurer has two European branches, one in the Republic of France and the other in the Kingdom of Spain. New York has laws prescribing minimum capital requirements, limiting classes and concentrations of investments and requiring the approval of policy rates and forms. State laws also regulate the amount of both the aggregate and individual risks that may be insured, the payment of dividends by the Insurer, changes in control and transaction among affiliates. Additionally, the Insurer is required to maintain contingency reserve on its liabilities in certain amounts and for certain periods of time.

Effective February 17, 1998, MBIA Inc. acquired all of the outstanding stock of Capital Markets Assurance Corporation ("CMAC") through a merger with its parent CapMAC Holdings Inc. Pursuant to a reinsurance agreement, CMAC has ceded all of its net insured risks (including any amounts due but unpaid from third party reinsurers), as well as its unearned premiums and contingency reserves to the Insurer. MBIA Inc. is not obligated to pay any debts of or claims against CMAC.

As of December 31, 1996, the Insurer had admitted assets of $4.4 billion (audited), total liabilities of $3.0 billion (audited), and total capital and surplus of $1.4 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities. As of December 31, 1997, the Insurer had admitted assets of $5.3 billion (audited), total liabilities of $3.5 billion (audited), and total capital and surplus of $1.8 billion (audited) determined in accordance with statutory accounting practices prescribed or permitted by insurance regulatory authorities.

Furthermore, copies of the Insurer's year-end financial statements prepared in accordance with statutory accounting practices are available from the Insurer. A copy of the Annual Report on Form 10-K of MBIA Inc. is available from the Insurer or the Securities and Exchange Commission. The address of the Insurer is 113 King Street, Armonk, New York 10504. The telephone number of the Insurer is (914) 273-4545.

Moody's Investors Service, Inc. rates the claims paying ability of the Insurer "Aaa".

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

Fitch IBCA, Inc. (formerly known as Fitch Investors Service, L.P.) rates the claims paying ability of the Insurer "AAA".

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

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

LITIGATION

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

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

BOOK-ENTRY-ONLYSYSTEM

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

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

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

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

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

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

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

THE COMMONWEALTH WILL NOT HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DTC PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS WITH RESPECT TO THE ACCURACY OF ANY RECORDS MAINTAINED BY DTC OR BY ANY DTC PARTICIPANT OR INDIRECT PARTICIPANT, THE PAYMENT OF OR THE PROVIDING OF NOTICE

TO THE DTC PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS OR WITH RESPECT TO ANY OTHER ACTION TAKEN BY DTC AS BOND OWNER.

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

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

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

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

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

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

RATINGS

Fitch IBCA, Inc., Moody's Investors Service, Inc. and Standard & Poor's Ratings Service will assign their municipal bond ratings of "AAA," "Aaa" and "AAA," respectively, to the Insured Bonds with the understanding that upon delivery of such Bonds, an insurance policy insuring the payment when due of the principal of and interest on the Insured Bonds will be issued by the Insurer.

The Bonds other than the Insured Bonds have been assigned ratings by Fitch IBCA, Inc., Moody's Investors Service, Inc. and Standard & Poor's Ratings Service of "AA-," "Aa3" and "AA-," respectively.

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

TAX EXEMPTION

Bond Counsel is of the opinion that, under existing law, interest on the Bonds will not be included in the gross income of holders of the Bonds for federal income tax purposes. This opinion is expressly conditioned upon continued compliance with certain requirements imposed by the Internal Revenue Code of 1986, as amended (the "Code"), which must be satisfied subsequent to the date of issuance of the Bonds in order to assure that the interest on the Bonds is and continues to be excluded from the gross income of the holders of the Bonds. Failure to comply with certain of such requirements could cause interest on the Bonds to be included in the gross income of holders of the Bonds retroactive to the date of issuance of the Bonds. In particular, and without limitation, those requirements include restrictions on the use, expenditure and investment of proceeds of the Bonds and the payment of rebate, or penalties in lieu of rebate, to the United States, subject to certain exceptions. The Commonwealth has provided covenants and certificates as to its continued compliance with such requirements.

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

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

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.

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

OPINIONS OF COUNSEL

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

COMPETITIVE SALE OF BONDS

After competitive bidding on April 30, 1998, the Bonds were awarded to a group of underwriters led by Lehman Brothers Inc. The underwriters have supplied the information as to the public offering yields or prices of the Bonds set forth on the inside cover hereof. If all of the Bonds were resold to the public at such yields or prices, the underwriters have informed the Commonwealth that they anticipate the total underwriter compensation to be $822,500.00, inclusive of $306,927.00 for the cost of bond insurance. The underwriters may change the public offering yields or prices from time to time.

CONTINUING DISCLOSURE

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

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

MISCELLANEOUS

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

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

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

AVAILABILITY OF OTHER INFORMATION

Questions regarding this Official Statement or requests for additional financial information concerning the Commonwealth should be directed to 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 Lowell L. Richards, Assistant Secretary for Capital Resources, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Official Statement and the Bonds should be directed to John R. Regier or Navjeet Bal, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone 617/542-6000.

THE COMMONWEALTH OF MASSACHUSETTS

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

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

April 30, 1998 (except for Appendix A)

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APPENDIX A

THE

COMMONWEALTH

OF

MASSACHUSETTS

INFORMATION STATEMENT

Dated May 5, 1998

THE COMMONWEALTH OF MASSACHUSETTS

CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

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

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THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT

May 5, 1998

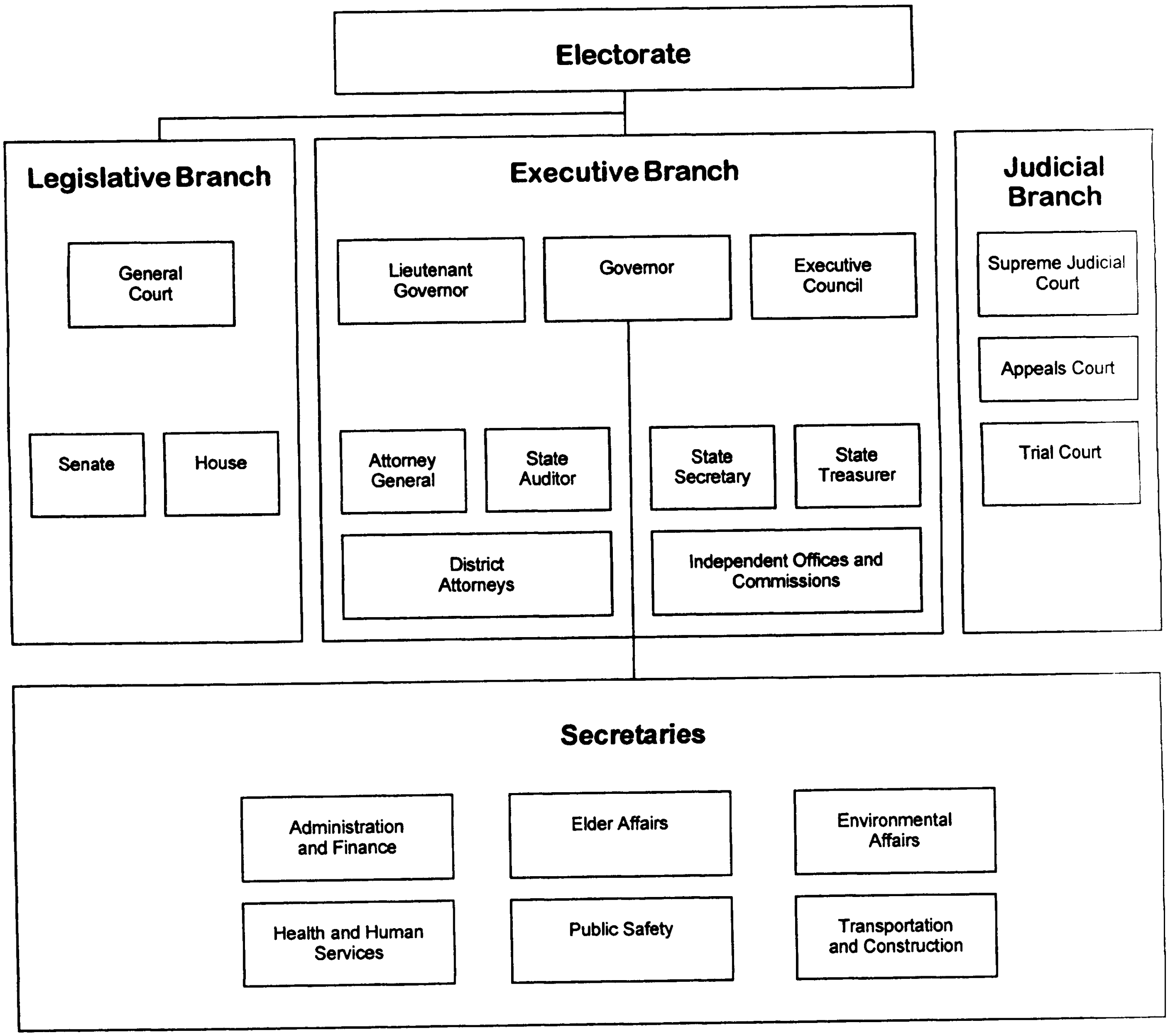
This Information Statement, together with its Exhibits (included by reference as described below), is furnished by The Commonwealth of Massachusetts (the "Commonwealth"). It contains certain fiscal, financial and economic information concerning the Commonwealth and its ability to meet its obligations.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

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

Exhibit A to this Information Statement sets forth certain economic, demographic and statistical information concerning the Commonwealth. Exhibits B and C are the fiscal 1997 Statutory Basis Financial Report and the fiscal 1997 Comprehensive Annual Financial Report (GAAP basis), respectively. Specific reference is made to said Exhibits 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 Comptroller's home page located at www.state.ma.us/osc.

THE GOVERNMENT

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



Executive Branch

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

On July 28, 1997, Governor William F. Weld announced that he would resign the next day, and on July 29, 1997, he submitted his formal resignation. Under the state constitution, Lieutenant Governor Argeo Paul Cellucci will serve as Acting Governor until the current gubernatorial term expires in January, 1999.

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

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

Governor's Cabinet. The Governor's Cabinet, which assists the Governor in administration and policy making, is comprised of the secretaries who head the six Executive Offices, which are the Executive Office for Administration and Finance, the Executive Office of Elder Affairs, the Executive Office of Environmental Affairs, the Executive Office of Health and Human Services, the Executive Office of Public Safety and the Executive Office of Transportation and Construction. Cabinet secretaries serve at the pleasure of the Governor. Most agencies are grouped under one of the six Executive Offices for administrative purposes. Other important agencies and departments report directly to the Governor, including the Department of Housing and Community Development, the Department of Consumer Affairs and Business Regulation, the Department of Economic Development and the Department of Labor and Workforce Development. These departments, as well as the Board of Higher Education, had held secretariat status prior to the Legislature's action on the reorganization proposals filed with the Governor's fiscal 1997 budget proposal.

Approximately 39.2% of the Commonwealth's fiscal 1998 expenditures in the budgeted operating funds are for programs within the Executive Office of Health and Human Services. The Executive Office for Administration and Finance accounts for approximately 6.1% of such expenditures, the Executive Office of Public Safety for approximately 4.8% and the Executive Office of Transportation and Construction for approximately 3.7%. The remaining secretariats account for approximately 1.8% of such expenditures. Spending for education, which is generally overseen by the state Board of Education or the state Board of Higher Education, accounts for 19.8% of the fiscal 1998 budget, and spending for the Department of Housing and Community Development, the Department of Economic Development, the Department of Consumer Affairs and Business Regulation, and the Department of Labor and Workforce Development totals 1.4% in fiscal 1998.

Approximately 4.2% of the Commonwealth's fiscal 1998 expenditures in the budgeted operating funds are for the costs and expenses of the constitutional officers (other than the State Treasurer), the Legislature, the Judiciary, the Office of the Comptroller, the Board of Library Commissioners, the Office of the Inspector General, the State Ethics Commission and the Office of Campaign and Political Finance. The State Treasurer's budget contains approximately 18.4% of fiscal 1998 expenditures, including 5.7% for a portion of Commonwealth aid to cities, towns and regional school districts ("Local Aid"), 6.5% for debt service, 5.7% for pension costs, and 0.5% for other programs within the State Treasurer's office, including Lottery administration. See "COMMONWEALTH PROGRAMS AND SERVICES—Local Aid."

The remaining 0.6% of fiscal 1998 expenditures is reserved for contingencies.

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

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

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

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

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

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

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

Legislative Branch

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

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

Judicial Branch

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

Independent Authorities and Agencies

The Legislature has established 56 independent authorities and agencies within the Commonwealth, the budgets of which are not included in the Commonwealth's annual budget. The Governmental Accounting Standards Board (GASB) statement number 14 articulates standards for determining significant financial or operational relationships between the primary government and its independent entities. The Commonwealth has significant operational or financial relationships, or both, as defined by this statement, with 37 of its 56 authorities. For example, the Commonwealth appropriates budgetary funds for subsidies, operating assistance and debt service payments (and is liable for all or a portion of the outstanding debt) of certain of these authorities and agencies, such as the Massachusetts Bay Transportation Authority, the Boston Metropolitan District, the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority, certain regional transit authorities, the Massachusetts Convention Center Authority and the Massachusetts Government Land Bank. The Commonwealth guarantees debt issued by two higher education building authorities and may be called upon to replenish the capital reserve funds of the Massachusetts Housing Finance Agency and the Massachusetts Home Mortgage Finance Agency. The Commonwealth has also guaranteed certain bond anticipation notes issued by the Massachusetts Turnpike Authority, but the Commonwealth has no liability for the Turnpike Authority's bonds. See "COMMONWEALTH BOND AND NOTE LIABILITIES." The Commonwealth also appropriates budgetary funds for certain debt service payments of the Massachusetts Water Pollution Abatement Trust. See "OTHER COMMONWEALTH LIABILITIES—Massachusetts Water Pollution Abatement Trust." Other independent authorities and agencies which issue their own debt for quasi-governmental purposes include the Massachusetts Educational Financing Authority, the Massachusetts Health and Educational Facilities Authority, the Massachusetts Industrial Finance Agency, the Massachusetts Port Authority and the Massachusetts Water Resources Authority. A discussion of these entities and the relationship to the Commonwealth is included in footnote 1 to the fiscal 1997 general purpose financial statements in the Comprehensive Annual Financial Report included herein by reference as Exhibit C.

Local Government

Below the level of state government are 12 county governments responsible for various functions, principally the operation of houses of correction and registries of deeds. There are 14 counties in Massachusetts, but county government has been abolished in two of them and is scheduled to terminate in two others. Under legislation enacted in 1996, Franklin County government terminated on July 1, 1997 in favor of a regional council of governments. Legislation approved by Governor Weld on July 11, 1997 abolished Middlesex County government on that date and provided for the abolition of county government in Hampden and Worcester Counties on July 1, 1998 (or sooner, if such county defaults on a bond or note). Under the 1997 legislation, virtually all functions, duties and responsibilities of the affected counties are transferred to the Commonwealth. As of the date of abolition of an affected county's government, all valid liabilities and debts of such county which are in force immediately before such date become obligations of the Commonwealth, and all assets and revenues of such county become assets and revenues of the Commonwealth. The Secretary of Administration and Finance is directed to establish an amortization schedule to recover the Commonwealth's costs from the cities and towns within each such county over a period not to exceed 25 years. Governor Weld vetoed provisions in the legislation that would have placed responsibility for county retirees on cities and towns rather than the Commonwealth, and filed legislation providing for state assumption of such pension costs. On July 15, 1997, the House of Representatives overrode Governor Weld's veto of such provisions, but the Senate has not acted on the Governor's veto message. Governor Weld also vetoed provisions that would have created county charter commissions in certain counties, indicating that he favored legislation setting a date certain for the abolition of all county government and a mechanism by which cities and towns that wish to do so may establish alternative regional entities. The legislation approved by Governor Weld in July, 1997 established a task force on the valuation of county assets and liabilities that was charged with compiling an inventory and providing for the valuation of all property of all counties in the Commonwealth for the purposes of considering the abolition of county government and the transfer of its functions, assets and liabilities to the Commonwealth. The eleven-member task force, consisting of eight members of the Legislature, the Secretary of Administration and Finance, the Inspector General and the State Auditor, had a report filing deadline of February 1, 1998; the task force has convened and has begun planning for the valuation. On July 17, 1997, Governor Weld filed legislation that would abolish all county governments by July 1, 1999 and that would require the state employees' retirement system to absorb the pension costs associated with county retirees. The legislation is being considered by the Legislature's Committee on Counties.

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

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

Initiative Petitions

Under the Massachusetts constitution, legislation may be enacted in the Commonwealth pursuant to a voter initiative process. Initiative petitions which have been certified by the Attorney General as to proper form and as to which the requisite number of voter signatures have been collected are submitted to the Legislature for consideration. If the Legislature fails to enact the measure into law as submitted, the petitioner may place the initiative on the ballot for the next statewide general election by collecting additional voter signatures. If approved by a majority of the voters at the general election, the petition becomes law 30 days after the date of the election. Initiative petitions approved by the voters do not constitute constitutional amendments and may be subsequently amended or repealed by the Legislature. In recent years, ballots at statewide general elections typically have presented a variety of initiative petitions, frequently including petitions relating to tax and fiscal policy. A number of these have been approved and become law; others may appear on the ballot in the 1998 general election. See particularly "COMMONWEALTH REVENUES—State Taxes; *Income Tax,*" "—Federal and Other Non-Tax Revenues" and "—Limitations on Tax Revenues," "COMMONWEALTH PROGRAMS AND SERVICES—Local Aid" and "COMMONWEALTH CAPITAL SPENDING—Metropolitan Highway System."

COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS

Operating Fund Structure

Budgeted Operating Funds. The Commonwealth's operating fund structure satisfies the requirements of state finance law and is in accordance with generally accepted accounting principles ("GAAP"), as defined by the Governmental Accounting Standards Board. The General Fund and those special revenue funds which are appropriated in the annual state budget receive most of the non-bond and non-federal grant revenues of the Commonwealth. These funds are referred to in this Information Statement as the "budgeted operating funds" of the Commonwealth. They do not include the capital projects funds of the Commonwealth, into which the proceeds of Commonwealth bonds are deposited. See "Overview of Capital Spending Process and Controls; *Capital Projects Fund Structure*." The three principal budgeted operating funds are the General Fund, the Highway Fund and the Local Aid Fund. Expenditures from these three funds generally account for approximately 93% of total expenditures of the budgeted operating funds.

Year-end Surpluses. State finance law provides for a Stabilization Fund, a Capital Projects Fund and a Tax Reduction Fund relating to the use of any aggregate fiscal year-end surplus in the Commonwealth's three principal budgeted operating funds (the General Fund, the Local Aid Fund and the Highway Fund). A limitation equal to 0.5% of total tax revenues is imposed on the amount of any such aggregate surplus which may be carried forward as a beginning balance for the next fiscal year. For any fiscal year for which the Comptroller determines on or before October 31 of the succeeding fiscal year that there is a negative balance in the state's capital projects funds, the Comptroller may transfer up to 40% of the remaining year-end surplus to a separate Capital Projects Fund to be used in lieu of bonds to finance capital expenditures. The remainder of any such aggregate year-end surplus is reserved in the Stabilization Fund, from which funds can be appropriated (i) to make up any difference between actual state revenues and allowable state revenues in any fiscal year in which actual revenues fall below the allowable amount, (ii) to replace state and local losses of federal funds or (iii) for any event, as determined by the Legislature, which threatens the health, safety or welfare of the people or the fiscal stability of the Commonwealth or any of its political subdivisions. Up to 5% of budgeted revenues and other financial resources pertaining to the budgeted funds, as confirmed by the Comptroller in the audited statutory basis financial report for the immediately preceding fiscal year, may be accumulated in the Stabilization Fund. Amounts in excess of that limit are to be transferred to a Tax Reduction Fund, from which they are to be applied to the reduction of personal income taxes. Prior to fiscal 1997, the statutory ceiling on the Stabilization Fund was 5% of total tax revenues less the amount of annual debt service costs. For each of the 1995 and 1996 fiscal years, the Legislature overrode the general provisions governing deposits to or the use of excess balances in the Stabilization Fund by the enactment of one-time modifications. See "FINANCIAL RESULTS—Selected Financial Data—Statutory Basis." As part of its proposed fiscal 1999 budget, the House Committee on Ways and Means has approved legislation that would raise the Stabilization Fund's statutory ceiling from 5% to 7.5% of budgeted revenues. See "1999 FISCAL YEAR."

Overview of Budgetary Process

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

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

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

During the course of the fiscal year, the Comptroller monitors budgetary accounts and notifies the Secretary of Administration and Finance and the House and Senate Committees on Ways and Means whenever the appropriation for a particular account has been depleted. Whenever the Governor believes that existing appropriations are insufficient to provide for projected expenditures under authorized programs, the Governor may seek supplemental appropriations for particular programs or spending items.

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

Cash and Budgetary Controls

The Commonwealth has in place controls designed to ensure that sufficient cash is available to meet the Commonwealth's obligations, that state expenditures are consistent with periodic allotments of annual appropriations and that moneys are expended consistently with statutory and public purposes. Two independently elected Executive

Branch officials, the State Treasurer and the State Auditor, conduct the cash management and independent audit functions, respectively. The Comptroller conducts the expenditure control function. The Secretary of Administration and Finance is the Governor's chief fiscal officer and provides overall coordination of fiscal activities.

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

Cash Management Practices of State Treasurer

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

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

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

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

Fiscal Control, Accounting and Reporting Practices of Comptroller

The Comptroller is responsible for oversight of fiscal management functions, establishment of all accounting policies and practices and publication of official financial reports. The Comptroller maintains the Massachusetts Management Accounting and Reporting System ("MMARS"), the centralized state accounting system that is used by all state agencies and departments except independent state authorities. MMARS provides a ledger-based system of revenue and expenditure accounts enabling the Comptroller to control obligations and expenditures effectively and to ensure that appropriations are not exceeded during the course of the fiscal year. The Commonwealth's statewide accounting system also includes a billing and accounts receivable subsystem to control the billing, collection and management of its non-tax revenues.

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

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

Although state finance law generally does not create priorities among types of payments to be made by the Commonwealth in the event of a cash shortfall, the Comptroller has developed procedures, in consultation with the State Treasurer and the Executive Office for Administration and Finance, for prioritizing payments based upon state finance law and sound fiscal management practices. Under those procedures, debt service on the Commonwealth's bonds and notes is given the highest priority among the Commonwealth's various payment obligations.

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

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

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

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

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

Under GAAP, revenues are reported in the period in which they become both measurable and available. Revenues are "available" when they are expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants and reimbursements, local government assessments for operations of the Massachusetts Bay Transportation Authority (MBTA) and reimbursements for the use of materials and services. Tax accruals, which represent the estimated amounts due to the Commonwealth on previous filings, over and under withholdings, estimated payments on income earned and tax refunds and abatements payable, are all recorded as adjustments to statutory basis tax revenues. Expenditures/expenses are recorded in the period in which the related fund liability is incurred. Principal of and interest on long-term debt obligations are recorded as fund liabilities when due. Major expenditure accruals are recorded for the cost of Medicaid claims that have been incurred but not paid, net cost of service payments due to the MBTA, claims and judgments and compensated absences such as vacation pay earned by state employees. See "FINANCIAL RESULTS—Selected Financial Data—GAAP Basis" and Exhibit C (Fiscal 1997 Comprehensive Annual Financial Report).

Financial Reports. The Commonwealth's fiscal year ends on June 30. For fiscal years 1986 through 1989, the Commonwealth's audited annual report included audited financial statements on both the statutory basis of accounting and the GAAP basis. Since fiscal 1990, these financial statements have been issued as two separate reports, one utilizing the statutory basis of accounting (the Statutory Basis Financial Report) and one utilizing the GAAP basis (the Comprehensive Annual Financial Report, or CAFR). The Statutory Basis Financial Report is published by the Comptroller by October 31, and the CAFR is published by the Comptroller by the second Wednesday in January. The Statutory Basis Financial Report and CAFR for fiscal 1997 are included herein by reference as Exhibits B and C, respectively. For fiscal 1991 through 1997 the independent auditor's opinions were unqualified. Copies of these financial reports are available at the address provided under "CONTINUING DISCLOSURE." These financial statements are also available on the Comptroller's home page located at www.state.ma.us/osc. Throughout the year, the Comptroller prepares interim financial statements on the statutory basis of accounting, which are not audited, but are considered authoritative.

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

The Commonwealth CAFRs for fiscal 1993 through fiscal 1996, from which certain information contained in this Information Statement has been derived, were each awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting.

In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Any such CAFR must satisfy both GAAP and applicable legal requirements. A Certificate of Achievement is valid for a period of one year only. The Commonwealth has submitted the fiscal 1997 CAFR to the GFOA. The Comptroller believes that the 1997 CAFR will conform to the Certificate of Achievement program requirements.

Overview of Capital Spending Process and Controls

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

Five-Year Capital Spending Plan. The Executive Office for Administration and Finance maintains a rolling five-year capital spending plan. The plan, which is an administrative guideline and subject to amendment at any time, sets forth capital spending allocations for a period of five fiscal years and establishes capital spending limits. The policy objective of the five-year plan is to limit the Commonwealth's debt burden by controlling the relationship between current capital spending and the issuance of Commonwealth bonds. Capital appropriations enacted by the Legislature are typically supported by bond authorizations. As noted above, the Governor, through the Secretary of Administration and Finance, may control the rate at which capital expenditures occur by utilizing his discretion over the allotment of capital appropriations, and therefore control the amount of bonds issued to finance such expenditures. See "COMMONWEALTH CAPITAL SPENDING" and "COMMONWEALTH BOND AND NOTE LIABILITIES."

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

Audit Practices of State Auditor

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

Within the State Auditor's office is the Division of Local Mandates, which evaluates all proposed and actual legislation to determine the financial impact on the Commonwealth's cities and towns. In accordance with state law, the

Commonwealth is required to reimburse cities and towns for any costs incurred through mandated programs established after the passage of Proposition 2½, the statewide tax limitation enacted by the voters in 1980, unless expressly exempted from those provisions, and the State Auditor's financial analysis is used to establish the amount of reimbursement due. See "COMMONWEALTH PROGRAMS AND SERVICES—Local Aid; *Proposition 2½*."

FINANCIAL RESULTS

As the annual operating budget of the Commonwealth is adopted in accordance with the statutory basis of accounting, public and governmental discourse on the financial affairs of the Commonwealth has traditionally followed the statutory basis. Consequently, the financial information set forth in this document follows the statutory basis, except where otherwise noted. Since fiscal 1990, the Commonwealth has prepared separate audited financial reports on the statutory basis and on a GAAP basis. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Fiscal Control, Accounting and Reporting Practices of the Comptroller; *Financial Reports*." The Statutory Basis Financial Report for fiscal 1997 is included herein by reference as Exhibit B. The Comprehensive Annual Financial Report for fiscal 1997 is included herein by reference as Exhibit C.

Selected Financial Data—Statutory Basis

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth's audited statutory basis financial statements for fiscal 1993 through 1997, and estimates for fiscal 1998 prepared by the Executive Office for Administration and Finance. The financial information presented includes all budgeted operating funds of the Commonwealth. When the status of a fund has changed during this period, prior years have been restated to conform to the fiscal 1998 budget.

In fiscal 1997, the Commonwealth reported 51 budgeted operating funds. During a fiscal year there are numerous transactions among these budgeted funds, which from the fund accounting perspective create offsetting inflows and outflows.

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

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

	Fiscal 1993	Fiscal 1994	Fiscal 1995	Fiscal 1996	Fiscal 1997	Estimated Fiscal 1998
Beginning Fund Balances						
Reserved or Designated	$236.2	$110.4	$79.3	$128.1	$263.4	$225.1
Tax Reduction Fund	-	-	-	-	231.7 (1)	91.8
Stabilization Fund	230.4	309.5	382.9	425.4	543.3	799.3
Undesignated	82.8	142.6	127.1	172.5	134.0	277.8
Fund Balance Restatement	-	-	-	-	0.7(2)	(128.0)(3)
Total	549.4	562.5	589.3	726.0	1,173.0	1,266.0
Revenues and Other Sources						
Taxes	9,929.9	10,606.7	11,163.4	12,049.2	12,864.5	13,300.0
Federal Reimbursements	2,674.1	2,901.2	2,969.7	3,039.1	3,019.6	3,375.0
Departmental and Other Revenues	1,327.1	1,187.9	1,273.1	1,208.1	1,267.9	1,285.0
Interfund Transfers from Non-budgeted Funds and Other Sources	778.5	853.9	981.0	1,031.1	1,018.0	948.6
Budgeted Revenues and Other Sources	14,709.6	15,549.7	16,387.2	17,327.5	18,170.0	18,908.6
Mass Transit Assessments from Municipalities	137.4	140.4	143.9	147.6	151.5	152.1
Interfund Transfers among Budgeted Funds and Other Sources	358.7	289.1	399.7	896.2	901.8	301.1
Total Revenues and Other Sources	15,205.7	15,979.2	16,930.8	18,371.3	19,223.3	19,361.8
Expenditures and Uses						
Programs and Services	12,683.6	13,416.2	14,010.3	14,650.7	15,218.8	16,504.0
Debt Service	1,139.5	1,149.4	1,230.9	1,183.6	1,275.5	1,243.2
Pensions	868.2	908.9	968.8	1,004.6	1,069.2	1,069.6
Interfund Transfers to Non-budgeted Funds and Other Uses	5.1	48.4	40.4	42.2	385.5	112.9
Budgeted Expenditures and Other Uses	14,696.4	15,522.9	16,250.5	16,881.1	17,949.0	18,929.7
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	137.4	140.4	143.9	147.6	151.5	152.1
Interfund Transfers among Budgeted Funds and Other Uses	358.7	289.1	399.7	896.2	901.8	301.1
Total Expenditures and Other Uses	15,192.6	15,952.4	16,794.1	17,924.9	19,002.3	19,382.9
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	13.1	26.8	136.7	446.4	221.0	(21.1)
Transfer of Excess to Capital Projects Fund	--	--	--	--	--	(29.5)(4)
Net Balance	--	--	--	--	--	(50.6)
Ending Fund Balances						
Reserved or Designated	110.4	79.3	128.1	263.4	225.1	96.2
Tax Reduction Fund	--	--	--	231.7 (1)	91.8	3.5
Stabilization Fund	309.5	382.9	425.4	543.3	799.3	866.1
Undesignated	142.6	127.1	172.5	134.0	277.8	249.6
Total	$562.5	$589.3	$726.0	$1,172.4	$1,394.0	$1,215.4

SOURCE: Fiscal 1993-1997, Office of the Comptroller; fiscal 1998, Executive Office for Administration and Finance.

1. Represents excess amount of $81.7 million transferred from the Stabilization Fund to the Tax Reduction Fund and a $150 million appropriation made to the Tax Reduction Fund.
2. The fund balance restatement for fiscal 1997 is the result of the reclassification of the Drug Analysis Fund from a non-budgeted fund to a budgeted fund.
3. The fund balance restatement for fiscal 1998 relates to the Caseload Increase Mitigation Fund (see "1997 FISCAL YEAR END SURPLUS").
4. The amount of any Capital Projects Fund transfer will be determined by the Comptroller when the books are closed for fiscal 1998 on October 31, 1998. After the books are closed, such amount will be treated as an interfund transfer to non-budgeted funds and other uses.

Selected Financial Data—GAAP Basis

The following table provides financial results on a GAAP basis for fiscal years 1993 through 1997 for all budgeted operating funds of the Commonwealth.

Budgeted Operating Funds Operations - GAAP Basis
(in millions)

	Fiscal 1993	Fiscal 1994	Fiscal 1995	Fiscal 1996	Fiscal 1997
Beginning fund balances (deficits)	$(317.4)	$(184.1)	$(72.0)	$287.4	$709.2
Equity transfer	0.0	0.0	91.0	0.0	0.0
Restated beginning balances (deficits)	(317.4)	(184.1)	19.0	287.4	709.2
Revenues and Financing Sources					
Taxes	10,015.8	10,602.7	11,253.4	11,916.9	13,020.8
Federal Grants and Reimbursements	2,627.0	2,918.1	2,850.0	2,945.2	3,073.4
Department and Other Revenues	1,522.4	1,303.8	1,336.3	1,306.1	1,346.4
Interfund Transfers and Other Sources	1,015.7	980.3	1,077.8	1,356.4	1,405.3
Total	15,181.0	15,804.9	16,517.5	17,524.6	18,845.9
Expenditures and Financing Uses					
Programs and Services	11,636.5	12,238.8	13,017.8	13,729.6	14,581.4
Debt Service	1,139.5	1,149.2	1,163.4	1,392.9	1,275.5
Pensions	893.5	830.2	642.2	382.5	413.1
Interfund Transfers and Other Uses	1,378.2	1,474.6	1,425.7	1,597.8	2,188.8
Total	15,047.7	15,692.8	16,249.1	17,102.8	18,458.8
Excess	133.3	112.1	268.4	421.8	387.1
Ending fund balances (deficits)	$(184.1)	$(72.0)	$287.4	$709.2	$1,096.3

SOURCE: Office of the Comptroller.

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

1997 FISCAL YEAR END SURPLUS

In fiscal 1997, total revenues and other sources exceeded the total expenditures and uses by $221.0 million. The year-end fund balance was comprised of a Tax Reduction Fund balance of $91.8 million, a Stabilization Fund balance of $799.3 million, a designated fund balance of $225.1million and an undesignated fund balance of $277.8 million. During fiscal 1997, the Legislature mandated several transfers to be charged to fiscal 1997, including the transfer of (i) $229.8 million to a Capital Investment Trust Fund to finance certain specified capital expenditures (the spending authorization will expire at the end of fiscal 1999 and any unexpended balances will be transferred to the Stabilization Fund), (ii) $100 million to the Stabilization Fund (in addition to the $134.3 million transfer required by state finance law), (iii) $128 million to a Caseload Increase Mitigation Fund to finance Department of Transitional Assistance programs in the event caseloads increase beyond budgetarily contemplated levels and (iv) $20.2 million to the Massachusetts Water Pollution Abatement Trust for state capitalization grants for the state revolving fund programs (see "OTHER COMMONWEALTH LIABILITIES—Massachusetts Water Pollution Abatement Trust"). In addition, the Comptroller transferred $89.5 million to the capital projects funds pursuant to the provisions of state finance law governing year-end surpluses (see "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Operating Fund Structure; *Year-end Surpluses*"). No transfer was made to the Tax Reduction Fund, because the balance in the Stabilization Fund did not reach the statutory ceiling ($908.5 million).

1998 FISCAL YEAR

The budget for fiscal 1998 was enacted by the Legislature on June 30, 1997 and approved by Governor Weld on July 10, 1997. (Appropriations covering the first two weeks of the fiscal year were enacted and approved on June 30, 1997.) The budget was based on a consensus tax revenue forecast of $12.85 billion, as agreed by both houses of the Legislature in March. The Executive Office for Administration and Finance revised the fiscal 1998 tax forecast to $13.06 billion on July 30, 1997 and, after a review of first quarter fiscal 1998 tax receipts, to $13.20 billion on October 15, 1997. (The fiscal 1998 budget amended the state finance law to change the required date for tax revenue estimates from September 25 to October 15.) The fiscal 1998 tax revenue estimates were revised again on January 16, 1998 to reflect an increase of $100 million in tax revenues. Tax law changes effective in fiscal 1998 have (i) increased anticipated revenues by $19.0 million from miscellaneous fees to be collected as a result of the convention center legislation approved on November 17, 1997, (ii) reduced tax revenues by an estimated $25.0 million as a result of the exemption of military pensions from state income tax, effective January 1, 1998, which was approved by Acting Governor Cellucci on November 6, 1997, and (iii) reduced tax revenues by an estimated $140 million as a result of a change in the sales tax payment schedule. After taking into account such tax law changes, the January 16, 1998 estimate was $13.154 billion. On May 5, 1998, the tax revenue estimate was further revised upward to $13.3 billion. The current tax revenue estimate does not reflect the fiscal 1998 impact of Acting Governor Cellucci's proposed reduction of the tax rate on Part B personal income ($196 million). See "COMMONWEALTH REVENUES—State Taxes."

Preliminary results indicate that year-to-date tax collections through April, 1998 total approximately $11.068 billion, approximately $602.2 million, or 5.8%, higher than collections in the corresponding period in fiscal 1997.

The fiscal 1998 budget provides for total appropriations of approximately $18.4 billion, a 2.8% increase over fiscal 1997 expenditures. Governor Weld vetoed or reduced appropriations totaling $3.3 million. The budget incorporates tax cuts valued by the Department of Revenue at $61 million and provides for an accelerated pension funding schedule. See "COMMONWEALTH REVENUES—State Taxes" and "OTHER COMMONWEALTH LIABILITIES—Retirement Systems and Pension Benefits." Supplemental appropriations have been approved for fiscal 1998 in the amount of approximately $210.4 million, including the transfer of appproximately $34.8 million to the Massachusetts Water Pollution Abatement Trust for state revolving fund programs (see "OTHER COMMONWEALTH LIABILITIES—Massachusetts Water Pollution Abatement Trust"). In addition, on November 26, 1997, Acting Governor Cellucci approved legislation transferring off-budget the $206.3 million Department of Medical Assistance reserve to indemnify certain medical facilities against losses that might result from providing uncompensated care. On January 30, 1998, Acting Governor Cellucci filed two bills recommending supplemental appropriations for fiscal 1998 totaling $211.8 million. The bills incorporated most of the supplemental appropriations recommended in bills filed by the Administration on October 6, 1997 and October 17, 1997 which were not enacted by the Legislature. The first bill totalled $44.6 million in proposed spending to provide for certain unanticipated obligations of the Commonwealth. The second bill recommended $167.1 million in proposed spending to provide for one-time expenditures, matching grants and capital initiatives, including $50 million for the construction and repair of local roads and bridges, $20 million for the development of a new human resource compensation management system and $10 million in additional funding for the upgrade of the Commonwealth's information technology systems in preparation for the year 2000 conversion. On April 29, 1998, Acting Governor Cellucci approved a supplemental appropriations bill for $116.4 million, of which $56.3 million is for expenditures contained in the bills filed by the Acting Governor on January 30, 1998. The bill includes $21.1 million for snow and ice costs at the Massachusetts Highway Department, $15.4 million for child care services relating to welfare reform and $11 million at the Department of Social Services for residential group care and adoption. Projected total fiscal 1998 expenditures are approximately $18.930 billion.

Cash Flow

The most recent cash flow projections for fiscal 1998 and fiscal 1999 were released by the State Treasurer and the Secretary of Administration and Finance on March 25, 1998. The forecast for fiscal 1998 is based on the fiscal 1998 budget signed by Governor Weld on July 10, 1997, and includes the value of all fiscal 1998 supplemental budgets enacted by the Legislature. The fiscal 1999 forecast is based on the proposed fiscal 1999 budget submitted by the Acting Governor on January 27, 1998. Both projections are based on revenue and spending estimates prepared by the Executive Office for Administration and Finance and incorporate actual results through January, 1998 and monthly projections through June, 1999.

Fiscal 1998 is projected to end with a cash balance of $477.9 million, without regard to any fiscal 1998 activity that may occur after June 30, 1998. Such balance does not include the balance in the Stabilization Fund

($799.0 million at June 30, 1997) or interest earnings thereon expected during fiscal 1998; it does reflect the required Stabilization Fund transfer related to fiscal 1997 of $234.0 million during fiscal 1998. The cash flow statement notes that general obligation bonds were issued for capital projects in August, 1997 in the amount of $250 million and in January, 1998 in the amount of $250 million and projects that an additional $428 million of general obligation bonds will be issued for such purposes during the remainder of the fiscal year. The statement also notes that $105 million of special obligation bonds were issued in October, 1997.

The cash flow statement notes that the Massachusetts Turnpike Authority and the Massachusetts Port Authority are required to make payments to the Commonwealth in connection with the Central Artery/Ted Williams Tunnel project and forecasts that the Commonwealth will receive $430 million in the aggregate during fiscal 1998 from such authorities or from the issuance of Commonwealth notes in anticipation of payments from such authorities. (The statement also notes that the Commonwealth has the statutory authority to issue bonds to pay any such notes.) The statement further forecasts, in connection with the Central Artery/Ted Williams Tunnel project, that the Commonwealth will issue $350 million of notes in anticipation of future federal highway grants, noting that federal funding for such purposes has been extended on an interim basis through March 31, 1998, and that successor federal funding legislation is expected to be enacted by late 1998. See "COMMONWEALTH CAPITAL SPENDING."

Fiscal 1999 is projected to end with a cash balance of $167.7 million. The cash flow statement projects that an aggregate of $1 billion of general obligation bonds will be issued for capital projects in fiscal 1999, and that the Commonwealth will issue $465 million of notes in anticipation of future federal highway grants in fiscal 1999.

Neither the issuance of transit notes nor commercial paper for operating purposes is forecast for fiscal 1998 or fiscal 1999.

The ending balances projected for fiscal 1998 and fiscal 1999 are likely to differ from the ending balances for the Commonwealth's budgeted operating funds for those years because of timing differences and the effect of non-budget items.

The next cash flow statement for the Commonwealth is due to be released on May 25, 1998.

1999 FISCAL YEAR

On January 27, 1998, Acting Governor Cellucci filed his fiscal 1999 budget recommendations with the House of Representatives. The proposal calls for budgeted expenditures of approximately $19.06 billion, or total fiscal 1999 spending of $19.49 billion after adjusting for shifts to and from off-budget accounts. The proposed fiscal 1999 spending level represents a $559 million, or 3.0%, increase over projected total fiscal 1998 expenditures of $18.930 billion. Budgeted revenues for fiscal 1999 are projected to be $18.961 billion, or $19.291 billion after adjusting for shifts to and from off-budget accounts. This represents a $53.0 million, or 0.3%, increase over the $18.908 billion forecast for fiscal 1998. (The $18.908 billion revenue estimate for fiscal 1998 reflects the addition of $100 million in tax revenue incorporated into the forecast by the Secretary of Administration and Finance on January 16, 1998 and the addition of $146 million in tax revenue incorporated into the forecast by the Secretary of Administration and Finance on May 5, 1998.) The Governor's proposal projects a fiscal 1999 ending balance in the budgeted funds of $906.3 million, including a Stabilization Fund balance of $878.1 million.

The Governor's budget recommendation is based on a tax revenue estimate of $13.665 billion, a $365.0 million, or 2.7%, increase over fiscal 1998 projected tax revenues of $13.300 billion. The projection incorporates $244.8 million in income tax cuts proposed by the Governor, including a reduction of the Part B ("earned income") tax rate from 5.95% to 5% over three years ($205.8 million), a reduction of the Part A ("unearned income"; *i.e.*, interest from non-Massachusetts banks, dividends, and short-term capital gains) tax rate from 12% to 5% over five years ($30 million), credits and exemptions to encourage saving for children's higher education ($3 million), an exemption from capital gains taxes on the sale of a house ($2 million) and an exemption for providing care to an elderly relative ($4 million). The recommendation also proposes moving $92.5 million in tax revenue in the Children's and Seniors Health Protection Fund off-budget.

The proposed budget assumes non-tax revenues of $5.297 billion, or $5.624 billion when adjusted for the shifts to and from off-budget accounts, and represents an increase of $15.4 million from fiscal 1998. Of the three classes of non-tax revenue, federal reimbursements, including those for Medicaid, and block grants for Temporary Assistance to Needy Families and Child Care programs most affect the Commonwealth's budgetary considerations.

These payments are projected to total $3.216 billion in fiscal 1999, or $3.426 billion after the impact of shifts to and from off-budget accounts is removed. This level of federal payments represents an increase of $41.0 million, or 1.2%, from fiscal 1998, the result primarily of changes in federal reimbursement for Medicaid programs. Fiscal 1999 departmental revenues of $1.130 billion, or $1.158 billion after adjusting for shifts to and from off-budget accounts, represent a decrease of approximately $127 million from fiscal 1998 projections, due primarily to the implementation of free, lifetime driver licensing and vehicle registration and a decrease of $29.3 million from fiscal 1998 in the revenue generated by the revenue optimization program. Consolidated transfers, the third category of non-tax revenue, consists primarily of state lottery profits which are distributed to cities and towns. Consolidated transfers are projected to increase by $1.8 million from fiscal 1998 levels. Lottery profits are expected to remain constant in fiscal 1999.

The Governor's budget proposal generally provides for maintaining current levels of service for most state programs but recommends increased spending for certain priority areas, including a $357 million increase in funding for the Department of Education, $309.7 million in additional local aid to cities and towns, $69 million for Medicaid program medical inflation and $34 million in additional local aid funded by the State Lottery.

The Governor's fiscal 1999 budget recommendations call for appropriations of $945.3 million for pension funding, $85.2 million less than the amount appropriated for fiscal 1998 and $113.9 million less than the amount called for in the most recently adopted funding schedule. The recommended amount reflects the elimination in 1997 of the Commonwealth's responsibility for funding cost-of-living adjustments incurred by local pension systems and assumes the adoption of a revised funding schedule in the spring of 1998. The proposed budget also includes a $20 million reserve to meet the Commonwealth's obligation to reduce the unfunded pension liabilities attributable to former employees of Franklin, Hampden, Middlesex and Worcester counties and certain incremental benefit costs associated with legislation enacted in 1996; any expenditures from the reserve are contingent upon the adoption of a new funding schedule. See "OTHER COMMONWEALTH LIABILITIES—Retirement Systems and Pension Benefits; *Pension Funding Plan.*"

Under the Governor's proposed fiscal 1999 budget, the Commonwealth is expected to spend approximately $936.6 million on public assistance programs. Under the federal welfare reform law, Massachusetts will receive $459.4 million from the Temporary Assistance for Needy Families (TANF) federal block grant. Of this total, the Commonwealth is expected to spend $321.6 million on Transitional Aid for Families with Dependent Children (TAFDC)-related programs and to transfer $91.9 million to the Child Care Fund and $45.9 million to the Social Services Program Fund. In addition, the Commonwealth expects to receive $77.3 million from the Child Care Development Fund block grant and $51.8 million from the Social Services block grant.

Acting Governor Cellucci's fiscal 1999 budget also recommends spending of $3.688 billion by the Department of Medical Assistance, the Commonwealth's Medicaid agency. This level of spending represents a decrease of $119.2 million, or 3.1%, from fiscal 1998, due in part to the Governor's proposal to move the Children's and Seniors' Health Care Assistance Fund off-budget to a trust fund. Spending in support of the expansion in the population eligible for health care assistance therefore is not reflected in the fiscal 1999 budget recommendation. The proposed fiscal 1999 expansion in Medicaid coverage conforms to the terms of the Commonwealth's federal waiver and was authorized by legislation passed in July, 1996 and July, 1997.

On April 27, 1998, the House Committee on Ways and Means released its proposed budget for fiscal 1999. Debate in the full House of Representatives began on May 4, 1998. The House Committee's budget provides for total spending of $19.592 billion and assumes total revenues of $19.446 billion. The House Committee's budget is based on the consensus tax revenue estimate of $14.4 billion, less approximately $534 million from tax cuts proposed in such budget. The Committee's budget includes the income tax provisions approved by the House of Representatives on March 12, 1998. See "COMMONWEALTH REVENUES—State Taxes; *Income Tax.*" It would raise the statutory ceiling on amounts in the Stabilization Fund from 5% to 7.5% of budgeted revenues and other financial resources pertaining to the budgeted funds. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Operating Fund Structure; *Year-end Surpluses.*" The committee's budget would add $18 million in appropriations for building maintenance and $21 million in appropriations for debt service related to the "forward funding" of the Massachusetts Bay Transportation Authority. See "COMMONWEALTH PROGRAMS AND SERVICES—Massachusetts Bay Transportation Authority." The committee's budget would also appropriate approximately $965.3 million for the Commonwealth's pension liabilities.

The Senate Committee on Ways and Means has also been considering the Governor's budget recommendations and is expected to release its version of the budget after House floor action on the budget has been completed.

COMMONWEALTH REVENUES

In order to fund its programs and services, the Commonwealth collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, court revenues, assessments, reimbursements, interest earnings and transfers from its non-budgeted funds. In fiscal 1997, approximately 70.8% of the Commonwealth's annual budgeted revenues were derived from state taxes. In addition, the federal government provided approximately 16.6% of such revenues, with the remaining 12.6% provided from departmental revenues and transfers from non-budgeted funds.

Distribution of Revenues

The following table sets forth the Commonwealth's actual revenues in its budgeted operating funds for fiscal 1993 through 1997 and estimated revenues for fiscal 1998.

Commonwealth Revenues -- Budgeted Operating Funds
(in millions)

	Fiscal 1993	Fiscal 1994	Fiscal 1995	Fiscal 1996	Fiscal 1997	Estimated Fiscal 1998
Tax Revenues:						
Alcoholic Beverages	$60.6	$60.2	$60.7	$59.7	$60.3	$57.0
Banks						
Commercial	74.7	136.9	164.5	150.6	99.0	147.0
Savings	78.2	63.0	41.4	68.0	41.3	7.0
Cigarettes	190.2	237.3	234.2	232.8	281.7	285.0
Corporations	737.4	782.3	911.0	876.3	963.9	1,008.0
Deeds	34.0	40.2	40.3	41.0	51.6	59.0
Income	5,374.9	5,689.8	5,974.2	6,706.9	7,181.8	7,538.0
Inheritance and Estate	267.3	277.5	209.3	188.0	202.7	168.0
Insurance	280.5	290.2	292.6	294.1	297.8	308.0
Motor Fuel	557.2	562.6	577.5	598.8	602.8	608.0
Public Utilities	69.1	81.8	88.7	132.9	109.2	113.0
Racing	15.7	13.4	12.7	11.4	10.2	9.7
Room Occupancy	59.3	62.8	68.8	72.9	80.5	91.0
Sales - Regular	1,548.1	1,664.3	1,796.6	1,886.7	2,087.7	2,090.0
Sales - Meals	303.2	323.4	344.3	358.0	381.4	385.0
Sales - Motor Vehicles	272.9	314.5	340.4	365.4	407.0	421.0
Sub-Total—Sales	2,124.2	2,302.2	2,481.3	2,610.1	2,876.1	2,896.0
Miscellaneous	6.6	6.5	6.2	5.7	5.6	5.3
Total	9,929.9	10,606.7	11,163.4	12,049.2	12,864.5	13,300.0
Non-Tax Revenues:						
Federal Reimbursements (1)	2,674.1	2,901.2	2,969.7	3,039.1	3,019.6	3,375.0
Departmental and Other Revenues	1,327.1	1,187.9	1,273.1	1,208.1	1,267.9	1,285.0
Interfund Transfers from Non-Budgeted Funds and Other Sources (2)	778.5	853.9	981.0	1,031.1	1,018.0	948.6
Budgeted Non-Tax Revenues and Other Sources	4,779.7	4,943.0	5,223.8	5,278.3	5,305.5	5,608.6
Budgeted Revenues and Other Sources	14,709.6	15,549.7	16,387.2	17,327.5	18,170.0	18,908.6
Mass Transit Assessments from Municipalities	137.4	140.4	143.9	147.6	151.5	152.1
Interfund Transfers among Budgeted Funds and Other Sources (2)	358.7	289.1	399.7	896.2	901.8	301.1
Total Revenues and Other Sources	$15,205.7	$15,979.2	$16,930.8	$18,371.3	$19,223.3	$19,361.8

SOURCE: Fiscal 1993-1997, Office of the Comptroller; fiscal 1998, Executive Office for Administration and Finance.

(1) Includes $236.3 million for fiscal 1993, $247.8 million in fiscal 1994, $231.9 million in fiscal 1995, $212.5 million in fiscal 1996, $221.0 million in fiscal 1997 and an estimated $288.5 million in fiscal 1998 in federal reimbursements resulting from claims for reimbursement of certain uncompensated care for Massachusetts hospitals. See "1998 FISCAL YEAR."

(2) Interfund transfers represent accounting transfers which reallocate resources among funds. See "Federal and Other Non-Tax Revenues" below. Includes transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were $76.9 million, $65.4 million, $27.9 million, $177.4 million and $234.3 million in fiscal 1993, 1994, 1995, 1996 and 1997 respectively. Of the $177.4 million transferred to the Stabilization Fund in fiscal 1996, $81.7 million was subsequently transferred to the Tax Reduction Fund. On May 5, 1997, legislation was signed by Governor Weld authorizing appropriation of the balance in the Tax Reduction Fund for the purpose of implementing a temporary personal income tax reduction for 1997.

State Taxes

The major components of state taxes are the income tax, which accounted for approximately 55.8% of total tax revenues in fiscal 1997, the sales and use tax, which accounted for approximately 22.4%, and the business corporations tax, which accounted for approximately 7.5%. Other tax and excise sources accounted for the remaining 14.3% of total fiscal 1997 tax revenues.

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

In December, 1994, the Governor approved legislation modifying the capital gains tax by phasing out the tax for assets held longer than six years and increasing the no-tax status threshold for personal income tax purposes. The capital gains tax change did not become effective until January 1, 1996. Accordingly, it is estimated by the Executive Office for Administration and Finance to have had only a minor effect on fiscal 1996 tax revenues and to have decreased fiscal 1997 revenues by approximately $20.5 million. It is expected to decrease fiscal 1998 tax revenues by approximately $41.0 million. The no-tax status change is estimated to have reduced fiscal 1995 tax revenues by approximately $5.5 million, 1996 tax revenues by $13.3 million and fiscal 1997 revenues by approximately $13.3 million. It is expected to decrease fiscal 1998 tax revenues by $13.0 million.

As part of the fiscal 1997 budget the Legislature established a tax deduction for the amount by which tuition payments to two- or four-year colleges, net of financial aid, exceed 25% of the taxpayer's adjusted gross income. The Department of Revenue estimates that this deduction resulted in no revenue reduction in fiscal 1997 and will result in an approximately $14 million reduction on an annualized basis thereafter.

The fiscal 1998 budget contained three tax cuts with an aggregate fiscal 1998 cost estimated by the Department of Revenue to be $60.9 million — an increase in the child dependent deduction from $600 to $1,200 for children up to age 12 ($15.3 million), a tax credit of up to $6,000 over four years for septic tank improvements ($17 million) and an earned income tax credit amounting to 10% of the federal credit ($28.6 million).

On November 6, 1997, Acting Governor Cellucci approved legislation exempting military pensions from the state income tax, effective January 1, 1998. The Department of Revenue estimates that this exemption will result in a fiscal 1998 revenue reduction of $25.0 million and an approximately $18 million reduction on an annualized basis thereafter.

As part of Acting Governor Celluci's fiscal 1999 budget recommendations, he proposed a reduction in the tax rate on "Part B" personal income (so-called "earned" income) from the current level of 5.95% to 5% over three calendar years. The rate would be reduced to 5.6% effective January 1, 1999, 5.3% effective January 1, 2000 and 5% effective January 1, 2001. The Executive Office for Administration and Finance estimates that the static revenue impact of these changes would be a reduction in personal income tax collections of approximately $206 million in fiscal 1999, $616 million in fiscal 2000, $1.035 billion in fiscal 2001 and $1.292 billion in fiscal 2002, at which time the rate reduction would be fully implemented. The Acting Governor also proposed a reduction in the tax rate on "Part A" personal income (so-called "unearned" income) from 12% to 5% over five years. The Executive Office for Administration and Finance estimates that the static revenue impact of these changes would be a reduction in personal income tax collections of approximately $30 million in fiscal 1999, $101 million in fiscal 2000, $173 million in fiscal 2001, $249 million in fiscal 2002, $327 million in fiscal 2003 and $372 million in fiscal 2004, at which time the rate reduction would be fully implemented. See "1999 FISCAL YEAR." On March 12, 1998 the House of Representatives approved legislation that would reduce the rate on Part A and Part B income, and raise the rate on capital gains income, to 5.7%, as well as raising the age of the children's exemption to age 18 and raising the amount of the exemption from $1200 to $2400. Such provisions were also included in the proposed fiscal 1999 budget released on April 27, 1998 by the House Committee on Ways and Means.

Two initiative petitions that would reduce income tax rates were certified by the Attorney General on September 3, 1997 and filed with the State Secretary in November, 1997, to be placed before the 1998 session of the Legislature. One petition would set the rate for Part B personal income at 5.6% for tax year 1999, 5.3% for tax year 2000 and 5% for tax year 2001 and thereafter, unless the Legislature set a lower rate for any of those years. The other petition would change the income tax rate on interest and dividend income (currently 12%) to whatever rate applies to Part B income, starting in tax year 2000. On January 2, 1998, opponents of the first of these two petitions (relating to Part B personal income taxes) filed an objection with the state Ballot Law Commission, challenging the validity of the petition signatures. The Commission ruled in the opponents' favor on January 23, 1998, holding that the petition did not contain a sufficient number of certified signatures. Following that decision, petition opponents and proponents both filed suit in Superior Court seeking, respectively, to disqualify additional signatures so as to prevent the petition from appearing on the ballot, and to add signatures, so as to allow the petition to appear on the ballot. On May 5, 1998, the Superior Court ruled that the petitioners had not obtained sufficient signatures to place the petition on the ballot. Under the state constitution, if the Legislature does not enact the petition relating to the tax on personal interest and divident income by May 6, 1998, the sponsors may have the petition placed on the 1998 general election ballot by collecting an additional 10,821 signatures. See "THE GOVERNMENT—Initiative Petitions."

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

On October 20, 1997, Acting Governor Cellucci announced that the Department of Revenue will issue regulations changing the payment schedules for approximately 15,000 sales, meals and room occupancy taxpayers that pay over $25,000 in tax per year. Under the new simplified rules, beginning January 1, 1998, these taxpayers will be required to file a tax return and make a tax payment on the 20th of each month for taxable sales made during the preceding month. Under the old rules, affected taxpayers were required to forward tax payments on the 27th of each month for taxable sales made from the 23rd of the preceding month to the 22nd of the current month, as well as file a quarterly tax return. While these new regulations will not affect the amount of tax owed, the Department of Revenue estimates that the Commonwealth will realize a reduction in fiscal 1998 revenues of $120 million to $160 million, which has been incorporated into the January 16, 1998 revenue estimates. This reduction will be a one-time event.

Business Corporations Tax. Business corporations doing business in the Commonwealth, other than banks, trust companies, insurance companies, railroads, public utilities and safe deposit companies, are subject to an excise that has a property measure and an income measure. The value of Massachusetts tangible property (not taxed locally) or net worth allocated to the Commonwealth is taxed at $2.60 per $1,000 of value. The net income allocated to Massachusetts, which is based on net income for federal taxes, is taxed at 9.5%. The minimum tax is $456. Both rates and the minimum tax include a 14% surtax. The reduction in fiscal 1996 tax revenues from business corporations compared to fiscal 1995 was due primarily to an estimated $49 million reduction resulting from the application of the "single sales factor" apportionment formula, described below. The fiscal 1997 tax revenue collections reflected an additional $44 million reduction for the full-year impact of the "single sales" apportionment formula and a $10 million reduction due to the impact of legislation enacted in August, 1996, which, effective January 1, 1997, changed the computation of the sales factor for certain mutual fund companies, as described below.

On November 28, 1995 the Governor approved legislation establishing a "single sales factor" apportionment formula for the business corporations tax. The new formula, when fully implemented, will calculate a firm's taxable income as its net income times the percentage of its total sales that are in Massachusetts, as opposed to the prior formula that took other factors, such as payroll and property into account. The new formula was made effective as of January 1, 1996 to certain federal defense contractors and phased in over five years for manufacturing firms generally. The Department of Revenue estimated that the revision reduced revenues by $44 million in fiscal 1996 and by $90 million in fiscal 1997. If the new formula were fully effective for all covered businesses, the Department estimates that the annual revenue reduction would be $100 million to $150 million.

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

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

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

Insurance Taxes. Life insurance companies are subject to a 2% tax on gross premiums; domestic companies also pay a 14% tax on net investment income. Property and casualty insurance companies are subject to a 2% tax on gross premiums, plus a 14% surcharge for an effective tax rate of 2.28%; domestic companies also pay a 1% tax on gross investment income. On April 30, 1998, the House of Representatives approved legislation that would over five years eliminate the 14% surcharge for property and casualty insurers and the tax on investment income for both types of domestic insurers. The House Committee on Ways and Means has estimated the fullly phased-in aggregate annual value of the tax reductions to be approximately $50 million.

Other Taxes. Other tax revenues are derived by the Commonwealth from motor fuels excise taxes, cigarette and alcoholic beverage excise taxes, estate and deed excises and other tax sources.

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

In 1992, legislation was enacted by the voters which increased the tobacco excise tax by 1.25¢ per cigarette (25¢ per pack of 20 cigarettes) and 25% of the wholesale price of smokeless tobacco, effective January 1, 1993. Under the legislation, the revenues raised by this excise tax were to be credited to the Health Protection Fund and expended, subject to appropriation by the Legislature, to pay for health programs and education relating to tobacco use. Total revenues deposited in the Health Protection Fund in fiscal 1993 and fiscal 1994 were $59.5 million and $116.4 million and have been $114 million on an annualized basis since fiscal 1995.

The Commonwealth is authorized to issue special obligation highway bonds secured by a pledge of all or a portion of the Highway Fund, including revenues derived from all or a portion of the motor fuels excise tax. The portion of the motor fuel excise tax currently pledged to special obligation bonds is estimated to be approximately $177 million in fiscal 1998. Additional special obligation bonds may be issued in the future secured by all or additional portions of the motor fuels excise tax. See "COMMONWEALTH BOND AND NOTE LIABILITIES—Special Obligation Debt; *Highway Fund*."

On November 17, 1997, the Legislature overrode Acting Governor Cellucci's veto to enact legislation authorizing the Commonwealth to issue special obligation convention center bonds secured by a pledge of certain taxes related to tourism and conventions, including a 2.75% convention center financing fee imposed by the legislation on hotel room occupancy in four Massachusetts cities. See "COMMONWEALTH BOND AND NOTE LIABILITIES—Special Obligation Debt; *Boston Convention and Exhibition Center Fund*."

Estate Tax Revisions. The fiscal 1993 budget included legislation which gradually phased down the current Massachusetts estate tax until it became a "sponge tax" in 1997. The "sponge tax" is based on the maximum amount of the credit for state taxes allowed for federal estate tax purposes. The estate tax was phased out by means of annual increases in the basic exemption from the original $200,000 level. The exemption was increased to $300,000 for 1993, $400,000 for 1994, $500,000 for 1995 and $600,000 for 1996. In addition, the legislation included a full marital deduction starting July 1, 1994. The marital deduction was limited to 50% of the Massachusetts adjusted gross estate until June 30, 1995. The static fiscal impact of the phase-out of the estate tax is estimated to have been approximately $25 million in fiscal 1994, approximately $73 million in fiscal 1995, approximately $112 million in fiscal 1996 and approximately $139 million in fiscal 1997 and is projected to be approximately $253 million in fiscal 1998.

Tax Revenue Forecasting

Under state law, on or before October 15 and March 15 of each year, the Secretary of Administration and Finance is required to submit to the Governor and to the House and Senate Committees on Ways and Means estimates of revenues available to meet appropriations and other needs in the current and following fiscal year. On or before October 15, January 15 and April 15, the Secretary is required to submit revised estimates for the current fiscal year unless, in his opinion, no significant changes have occurred since the last estimate of total available revenues. On or before May 15 of each year, the Secretary is required to develop jointly with the House and Senate Committees on Ways and Means a consensus tax revenue forecast for the following fiscal year. The Department of Revenue employs sophisticated economic modeling techniques and ongoing monitoring of tax revenue receipts and current taxpayer behavior to provide the Secretary with information on tax revenue trends.

In the past several years, tax revenue forecasting has been complicated by uncertainty about the national and state economies, federal and state tax law changes and decisions in various state court cases affecting tax collections. In addition, certain tax revenues are difficult to predict with accuracy because of the variety of direct and indirect economic and non-economic factors affecting receipts.

The fiscal 1993 budget as enacted was based on a joint tax revenue estimate of $9.685 billion, an increase of $201.1 million, or 2.1%, from tax revenues for fiscal 1992. The actual fiscal 1993 tax revenues were $9.930 billion, a 4.7% increase over fiscal 1992.

The fiscal 1994 budget as enacted was based on a joint tax revenue estimate of $10.540 billion, an increase of $610 million, or 6.1%, from then-expected tax revenues for fiscal 1993. Actual fiscal 1994 tax revenues were $10.607 billion, a 6.8% increase over fiscal 1993.

The fiscal 1995 budget as enacted was based on a joint tax revenue estimate of $11.328 billion (an increase of $634 million, or 5.9%, from then-expected tax revenues for fiscal 1994), less $19.3 million of tax cuts included in that budget. Fiscal 1995 tax revenue estimates were later reduced to $11.151 billion due to lower than expected tax revenue collections and a $5.5 million reduction in revenues expected to result from a change in the no-tax status threshold for Massachusetts personal income tax purposes. Actual fiscal 1995 tax revenues were $11.163 billion, a 5.3% increase over fiscal 1994.

The fiscal 1996 budget as enacted was based on a joint tax revenue estimate of $11.639 billion (an increase of approximately 4.4% from then-expected fiscal 1995 revenues), plus $16 million for revenue initiatives and less $300,000 for a sales tax exemption included in the budget. On September 25, 1995, the Secretary of Administration and Finance released a fiscal 1996 tax revenue estimate of approximately $11.653 billion, adopting the revenue estimate included in the fiscal 1996 budget, adjusted for a revenue reduction of $1.7 million resulting from bank tax reform. On January 23, 1996, the Secretary of Administration and Finance released a revised fiscal 1996 tax revenue estimate of approximately $11.604 billion which reflected a further reduction totaling $44 million resulting from corporate excise tax reforms. In April, 1996 the Secretary of Administration and Finance revised the fiscal 1996 tax revenue estimate to $11.684 billion, based on stronger than anticipated tax collections. Actual tax revenues for fiscal 1996 totaled approximately $12.049 billion, a 7.9% increase over fiscal 1995. The Executive Office for Administration and Finance believes that much of the unanticipated growth in revenues was caused by the increase in capital gains resulting from the strong stock market in calendar year 1995.

The fiscal 1997 budget as enacted was based on a joint tax revenue estimate of $12.177 billion. In October, 1996, the Secretary of Administration and Finance released a fiscal 1997 tax revenue estimate of approximately $12.123 billion, which reflected various tax law changes enacted after the date of the joint estimate. On January 22, 1997, the Secretary of Administration and Finance released a revised fiscal 1997 tax revenue estimate of approximately $12.307 billion, based on stronger than anticipated collections through December, 1996 and the assumption that $84 million in tax cuts initially proposed by the Governor for fiscal 1997 would occur in fiscal 1998. On May 20, 1997 the Secretary of Administration and Finance revised the fiscal 1997 tax revenue estimate to $12.507 billion. Actual tax revenues for fiscal 1997 totaled approximately $12.865 billion, a 6.8% increase over fiscal 1996. The Executive Office for Administration and Finance believes that much of the unanticipated growth in revenues was caused by stronger than expected economic growth and the increase in capital gains resulting from the strong stock market in calendar year 1996.

The fiscal 1998 budget as enacted was based on a joint tax revenue estimate of $12.85 billion. The Secretary of Administration and Finance revised the fiscal 1998 tax revenue forecast to $13.06 billion on July 30, 1997, to $13.2 billion on October 15, 1997, to $13.154 billion on January 16, 1998 and to $13.3 billion on May 5, 1998. The January 16, 1998 estimate included an aggregate $6 million downward adjustment reflecting tax law changes enacted after October 15, 1997 and a $140 million downward adjustment reflecting the one-time change in the sales tax payment schedule that was announced by Acting Governor Cellucci on October 20, 1997.

On March 19, 1998 the House and Senate Committees on Ways and Means conducted their annual hearing on revenue estimates for the ensuing fiscal year. On April 16, 1998 the Senate adopted a resolution calling for the fiscal 1999 budget to assume $14.4 billion in tax revenues, which is also the amount assumed in the proposed fiscal 1999 budget released by the House Committee on Ways and Means on April 27, 1998.

Federal and Other Non-Tax Revenues

Federal revenue is collected through reimbursements for the federal share of entitlement programs such as Medicaid and, beginning in federal fiscal year 1997, through block grants for programs such as Transitional Assistance to Needy Families (TANF), formerly Aid to Families with Dependent Children (AFDC). The amount of federal revenue to be received is determined by state expenditures for these programs. The Commonwealth receives reimbursement for approximately 50% of its spending for Medicaid programs. Block grant funding for TANF is received quarterly and is contingent upon a maintenance of effort spending level determined annually by the federal government.

Departmental and other non-tax revenues are derived from licenses, registrations and fees and reimbursements and assessments for services. In fiscal 1996, a revenue maximization pilot project undertaken by the Comptroller and the Executive Office for Administration and Finance yielded almost $39.9 million in additional federal reimbursement revenues, net of agency and vendor incentive payments, at the Department of Mental Health, Department of Mental Retardation, Department of Social Services and Division of Medical Assistance. In fiscal 1997, $41.3 million in additional non-tax revenues resulted in net revenues of $39.1 million deposited into the General Fund. In fiscal 1998, an estimated $46.7 million in additional non-tax revenues is expected to result in $37.1 million of net revenue for the General Fund.

The Commonwealth began in fiscal 1997 to phase in a one-time (rather than annual) passenger vehicle registration fee of $30 and a reduction in the passenger vehicle operating license renewal fee from the rate of $30 to $2, effective May 1, 2001. The Executive Office for Administration and Finance estimates that these changes had no effect on fiscal 1997 revenues and will reduce fiscal 1998 revenues by $15.0 million. When all drivers become eligible for free registration renewals in fiscal 1999, revenues are projected to decline by approximately $55 million. Revenue reductions due to lifetime licenses will not begin until fiscal 2001, when they will total approximately $5 million. In fiscal 2002, when all drivers become eligible for free license renewals, the revenue reduction is estimated to be approximately $31 million. (The Commonwealth is still maintaining the requirement that all parking tickets, moving violation citations, excise taxes and insurance premiums be paid before license and registration renewals are processed, in order to ensure that cities and towns do not lose revenue from the change to lifetime licenses and registrations.) In May, 1997, the Legislature enacted legislation that would restore registration, license and permit fees credited to the Highway Fund to the rates in effect on January 1, 1996 if federal aid to the Central Artery/Ted Williams Tunnel project falls below $550 million in any fiscal year during the next six years. Governor Weld vetoed this provision. Under the state constitution, his veto can be overridden by a two-thirds vote of each house of the Legislature; neither house has acted on the veto.

For the budgeted operating funds, interfund transfers include transfers of profits from the State Lottery and Arts Lottery Funds and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for $600.2 million, $667.3 million, $709.5 million, $727.5 million and $770.2 million in fiscal 1993 through 1997, respectively and which are expected to account for $780.6 million in fiscal 1998.

In 1994, the voters in the statewide general election approved an initiative petition, effective December 8, 1994, that would slightly increase the portion of gasoline tax revenue credited to the Highway Fund, one of the Commonwealth's three major budgeted funds, prohibit the transfer of money from the Highway Fund to other funds for non-highway purposes and exclude the Highway Fund balance from the computation of the "consolidated net surplus" for purposes of state finance laws. The initiative petition also provided that no more than 15% of gasoline tax revenues could be used for mass transportation purposes, such as expenditures related to the Massachusetts Bay Transportation Authority. This law is not a constitutional amendment and is subject to amendment or repeal by the Legislature, which may also, notwithstanding the terms of the initiative petition, appropriate moneys from the Highway Fund in such amounts and for such purposes as it determines, subject only to a constitutional restriction that such moneys be used for motor vehicle, highway, or mass transportation purposes. The Legislature has twice postponed the effective date of the provision that would exclude the Highway Fund balance from the computation of the "consolidated net surplus." The most recent postponement changed the effective date of the provision to July 1, 1998. See "THE GOVERNMENT—Initiative Petitions."

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

Limitations on Tax Revenues

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

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

The legislation enacted in October, 1986, which added Chapter 29B to the General Laws, also establishes an allowable state revenue growth factor by reference to total wages and salaries in the Commonwealth. However, rather than utilizing a three-year average wage and salary growth rate, as used by Chapter 62F, Chapter 29B utilizes an allowable state revenue growth factor equal to one-third of the positive percentage gain in Massachusetts wages and salaries, as reported by the federal government, during the three calendar years immediately preceding the end of a given fiscal year. Additionally, unlike Chapter 62F, Chapter 29B allows for an increase in maximum state tax revenues to fund an increase in local aid and excludes from its definition of state tax revenues (i) income derived from local option taxes and excises, and (ii) revenues needed to fund debt service costs. Accordingly, the amount of revenues permitted by Chapter 62F will always be less than the amount of revenues permitted by Chapter 29B. Because the provisions of Chapter 29B are essentially superseded by those of Chapter 62F, Acting Governor Celluci has proposed, as part of his fiscal 1999 budget recommendations, that the tax revenue limitations provisions of Chapter 29B be repealed. The House Committee on Ways and Means included such recommendation in its proposed fiscal 1999 budget released on April 27, 1998.

Tax revenues in fiscal 1993 through fiscal 1997 were lower than the limit set by either Chapter 62F or Chapter 29B, and the Executive Office for Administration and Finance currently estimates that state tax revenues in fiscal 1998 will not reach the limit imposed by either of these statutes.

COMMONWEALTH PROGRAMS AND SERVICES

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

Commonwealth Expenditures - Budgeted Operating Funds (in millions)

Expenditure Category	Fiscal 1993	Fiscal 1994	Fiscal 1995	Fiscal 1996	Fiscal 1997	Estimated Fiscal 1998
Direct Local Aid	$2,546.5	$2,727.3	$2,976.2	$3,246.2	$3,558.1	$3,911.8
Medicaid	3,151.4	3,313.1	3,398.2	3,415.9	3,455.5	3,620.5
Group Health Insurance	491.2	496.2	509.7	519.3	522.0	552.1
Public Assistance	1,074.9	1,100.3	1,095.0	1,088.8(2)	1,089.7(2)	1,040.0(2)
Debt Service	1,139.5	1,149.4	1,230.9	1,183.6	1,275.5	1,243.2
Pensions	868.2	908.9	968.8	1,004.6	1,069.2	1,069.6
Higher Education	544.9	672.5	703.3	743.9	806.5	878.4
MBTA and RTA's	499.0	522.3	516.2	518.5	520.2	534.0
Other Program Expenditures	4,375.7	4,584.5	4,811.7	5,118.1	5,266.8	5,967.2
Interfund Transfers to Non-budgeted Funds (1)	5.1	48.4	40.4	42.2	385.5	112.9
Budgeted Expenditures and Other Uses	14,696.4	15,522.9	16,250.5	16,881.1	17,949.0	18,929.7
Payment of Municipal Mass Transit Assessments to the MBTA and RTA's	137.4	140.4	143.9	147.6	151.5	152.1
Interfund Transfers among Budgeted Funds and Other Uses (1)	358.7	289.1	399.7	896.2	901.8	301.1
Total Expenditures and Other Uses	$15,192.6	$15,952.4	$16,794.1	$17,924.9	$19,002.3	$19,382.9

SOURCE: Fiscal 1993-1997, Office of the Comptroller; fiscal 1998, Executive Office for Administration and Finance.

(1) Interfund transfers represent accounting transfers which reallocate resources among funds. Includes interfund transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were $76.9 million, $65.4 million, $27.9 million, $177.4 million and $234.3 million in fiscal 1993, 1994, 1995, 1996 and 1997, respectively. Of the $177.4 million transferred to the Stabilization Fund in fiscal 1996, $81.7 million was subsequently transferred to the Tax Reduction Fund. On May 5, 1997, legislation was signed by Governor Weld authorizing appropriation of the balance in the Tax Reduction Fund for the purpose of implementing a temporary personal income tax reduction for 1997.

(2) Includes $125 million in fiscal 1996, $128.5 million in fiscal 1997 and $244.3 million in fiscal 1998 for daycare services not previously classified as public assistance expenditures.

Local Aid

Proposition 2½. In November, 1980, voters in the Commonwealth approved a statewide tax limitation initiative petition, commonly known as Proposition 2½, to constrain levels of property taxation and to limit the charges and fees imposed on cities and towns by certain governmental entities, including county governments. Proposition 2½ is not a provision of the state constitution and accordingly is subject to amendment or repeal by the Legislature. Proposition 2½, as amended to date, limits the property taxes that may be levied by any city or town in any fiscal year to the lesser of (i) 2.5% of the full and fair cash valuation of the real estate and personal property therein, and (ii) 2.5% over the previous year's levy limit plus any growth in the tax base from certain new construction and parcel subdivisions. Proposition 2½ also limits any increase in the charges and fees assessed by certain governmental entities, including county governments, on cities and towns to the sum of (i) 2.5% of the total charges and fees imposed in the preceding fiscal year, and (ii) any increase in charges for services customarily provided locally or services obtained by the city or town at its option. The law contains certain override provisions and, in addition, permits debt service on specific bonds and notes and expenditures for identified capital projects to be excluded from the limits by a majority vote at a general or special election. At the time Proposition 2½ was enacted, many cities and towns had property tax levels in excess of the limit and were therefore required to roll back property taxes with a concurrent loss of revenues. Between fiscal 1981 and fiscal 1997, the aggregate property tax levy grew from $3.346 billion to $6.160 billion, representing an increase of approximately 84.1%. By contrast, according to federal Bureau of Labor Statistics, the consumer price index for all urban consumers in Boston grew during the same period by approximately 97.7%.

Many communities have responded to the limitation imposed by Proposition 2½ through statutorily permitted overrides and exclusions. There are three types of referenda questions (override of levy limit, exclusion of debt service, or exclusion of capital expenditures) which permit communities to exceed the limits of Proposition 2½. Override activity steadily increased throughout the 1980's before peaking in fiscal 1991 and decreasing thereafter. In fiscal 1997, 17 communities had successful override referenda which added an aggregate of $5.4 million to their levy limits. In fiscal 1997, the impact of successful override referenda going back as far as fiscal 1993, was to raise the levy limits of 114 communities by $48.8 million. Although Proposition 2½ will continue to constrain local property tax revenues, significant capacity exists for overrides in nearly all cities and towns.

In addition to overrides, Proposition 2½ allows a community, through voter approval, to assess taxes in excess of its levy limit for the payment of certain capital projects (capital outlay expenditure exclusions) and for the payment of specified debt service costs (debt exclusions). Capital exclusions were passed by 20 communities in fiscal 1997 and totaled $3.2 million. In fiscal 1997, the impact of successful debt exclusion votes going back as far as fiscal 1993, was to raise the levy limits of 236 communities by $612.9 million.

Commonwealth Financial Support for Local Governments. During the 1980's, the Commonwealth increased payments to its cities, towns and regional school districts ("Local Aid") to mitigate the impact of Proposition 2½ on local programs and services. In fiscal 1998, approximately 20.6% of the Commonwealth's budget is estimated to be allocated to direct Local Aid. Local Aid payments to cities, towns and regional school districts take the form of both direct and indirect assistance. Direct Local Aid consists of general revenue sharing funds and specific program funds sent directly to local governments and regional school districts as reported on the so-called "cherry sheet" prepared by the Department of Revenue, excluding certain pension funds and nonappropriated funds.

As a result of comprehensive education reform legislation enacted in June, 1993, a large portion of general revenue sharing funds are earmarked for public education and are distributed through a formula designed to provide more aid to the Commonwealth's poorer communities. The legislation established a fiscal 1993 state spending base of approximately $1.288 billion for local education purposes and required annual increases in state expenditures for such purposes above that base, subject to appropriation, estimated to be approximately $175 million in fiscal 1994, $396 million in fiscal 1995, $629 million in fiscal 1996 and $881 million in fiscal 1997, with additional annual increases anticipated in later years. The fiscal 1994, 1995, 1996, 1997 and 1998 budgets have fully funded the requirements imposed by this legislation.

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

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

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

Medicaid

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

During fiscal years 1993, 1994, 1995, 1996 and 1997 Medicaid expenditures were \$3.151 billion, \$3.313 billion, \$3.398 billion, \$3.416 billion, and \$3.456 billion respectively. The average annual growth rate from fiscal 1993 to fiscal 1997 was 2.3%. The Executive Office for Administration and Finance estimates that fiscal 1998 Medicaid expenditures will be approximately \$3.620 billion, an increase of 4.7% from fiscal 1997. This amount includes \$38.5 million in outpatient medical services to recipients of Emergency Aid to the Elderly, Disabled and Children, which amount was transferred to Medicaid in fiscal 1998.

The Division of Medical Assistance has implemented a number of savings and cost control initiatives including managed care, utilization review and the identification of third party liabilities. In spite of increasing caseloads, Massachusetts has managed a substantial reduction in the Medicaid growth rate in expenditures over the last six years. From fiscal 1993 through fiscal 1997, per capita costs grew on average less than 0.6% annually. The total Medicaid caseload for fiscal 1997 was approximately 676,323 (approximately 11.1% of the most recently estimated population of the Commonwealth), as compared to approximately 630,902 in fiscal 1993.

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

Medicaid costs for nursing home care increased from \$1.127 billion in fiscal 1993 to approximately \$1.213 billion in fiscal 1997, which currently accounts for more than 35% of the Medicaid budget (excluding payments of bills for prior years). Over 43,211 elderly and disabled citizens were cared for in nursing homes each month through Medicaid in fiscal 1997. The annual cost per beneficiary in a nursing home is approximately \$27,788. On an overall basis, 70% of all nursing home costs in the Commonwealth are paid by Medicaid. In an effort to control the increasing costs of nursing home services, the Division of Medical Assistance has strengthened admissions criteria to ensure that those not needing this care use less costly community services. This, along with certain other initiatives, has limited the average annual increase in long-term care costs to approximately 1.9% between fiscal 1993 and fiscal 1997 on a date-of-service basis. The Division of Medical Assistance is planning a managed care program for long-term care Medicaid recipients in anticipation of continued growth in the elderly Medicaid caseload.

Fiscal 1998 is projected by the Executive Office for Administration and Finance to be the fifth year with no need for supplemental Medicaid appropriations for current year program expenses. Decreased reliance on supplemental appropriations reflects an effective management of Medicaid expenditures by the Commonwealth. Prior to fiscal 1994, substantial Medicaid expenditures were provided through supplemental appropriations because program requirements consistently exceeded initial appropriations. In addition, substantial amounts have been required to cover retroactive settlement of provider payments. The Executive Office for Administration and Finance estimates that all current year Medicaid costs as well as all remaining prior year bills will be covered within the current appropriation for fiscal 1998.

The Legislature passed health care reform bills in July, 1996 and July, 1997 which authorized the Division of Medical Assistance to expand eligibility for health care coverage by increasing the Medicaid benefits income cutoff to 133% of the federal poverty level for teenagers and adults, and by increasing the Medicaid benefits income cutoff to 200% of the federal poverty level for children up to the age of 18 and pregnant women. These changes resulted in an additional 221,000 people becoming eligible for Medicaid benefits. In addition, pharmacy assistance eligibility was expanded by increasing the Medicaid benefits income cutoff to 150% of the federal poverty level to cover an estimated 25,000 senior citizens. These program expansions take advantage of a federally approved waiver and resulting federal financial participation, additional tobacco tax revenue and new federal funding available under recently passed changes to the federal Social Security Act. The legislation also requires that any program expansion be neutral in its impact on the state budget.

Public Assistance

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

Public Assistance Program Expenditures
(in millions)

Category of Public Assistance	Fiscal 1993	Fiscal 1994	Fiscal 1995	Fiscal 1996	Fiscal 1997	Estimated Fiscal 1998
TAFDC (1)	$809.9	$817.2	$782.7	$786.0(4)	$785.1(4)	$766.9(4)
EAEDC (formerly General Relief) (2)	89.9	100.3	119.7	105.9	105.6	70.0
SSI (3)	175.1	182.8	192.6	196.9	200.4	203.1
Total	$1,074.9	$1,100.3	$1,095.0	$1,088.8	$1,091.1	$1,040.1

SOURCE: Fiscal 1993-1997, Office of the Comptroller; fiscal 1998, Executive Office for Administration and Finance.

(1) Includes expenditures for Emergency Assistance, a component of TAFDC designed to prevent homelessness and to shelter income-eligible families when they become homeless, and child care for TAFDC recipients and low income working families. Prior to November, 1995, TAFDC was known as the Aid to Families with Dependent Children (AFDC) program.
(2) Includes outpatient medical services to EAEDC recipients. Does not include $38.5 million for outpatient medical services to EAEDC recipients in fiscal 1998.
(3) Include benefits for blind recipients, which are administered by the Massachusetts Commission for the Blind; includes one-time retroactive payments in fiscal 1998 to recipients to reimburse them for fiscal 1997 administrative charges.
(4) Includes approximately $125 million in fiscal 1996, $128.5 million in fiscal 1997 and $244.3 million in fiscal 1998 for day care services not previously classified as public assistance.

TAFDC expenditures for fiscal 1998 are projected to be $766.9 million, approximately $18.2 million lower than in fiscal 1997. The fiscal 1997 expenditures include $128.5 million in child care benefits for TAFDC and low income working families. The fiscal 1998 expenditure includes $244.3 million in child care benefits for TAFDC and low income working families and children in protective care with the Department of Social Services. See "*Federal Welfare Reform*" below.

The AFDC/TAFDC caseload has been declining steadily since fiscal 1993, resulting in a 29.8% decrease through fiscal 1997. Massachusetts began implementing welfare reform programs in November, 1995, establishing TAFDC programs to encourage work as a means to self-sufficiency and to discourage reliance on long term assistance. With the improved Massachusetts economy, new work incentives, aggressive child support collections and anti-fraud initiatives, the caseload is expected to continue declining through fiscal 1998. The following table illustrates the decline in caseload for public assistance programs.

Public Assistance Average Caseload

Category of Public Assistance	Fiscal 1993	Fiscal 1994	Fiscal 1995	Fiscal 1996	Fiscal 1997	Estimated Fiscal 1998
TAFDC (1)	112,691	111,733	102,782	88,988	79,131	69,500
EAEDC (formerly General Relief)	21,079	21,859	20,395	17,282	16,895	16,848
SSI	134,529	144,776	153,248	159,748	160,924	160,600
Total	268,299	278,368	276,425	266,018	256,950	246,948

SOURCE: Department of Transitional Assistance

(1) TAFDC caseload estimates do not include the Emergency Assistance caseload.

The Emergency Assistance program provides disaster relief and shelter to homeless families. The cost of this program is included in the TAFDC expenditure category above.

After rising from fiscal 1993 to fiscal 1994, the EAEDC caseload has been declining steadily since fiscal 1994 resulting in a 19.8% decrease through fiscal 1997. The decline can be attributed to factors similar to those affecting the AFDC/TAFDC caseload, as well as a state initiative to move qualified EAEDC recipients to the more comprehensive SSI program, taking advantage of federal funding not available under the state funded EAEDC program. The fiscal 1998 expenditures for EAEDC are projected to be $70 million, $35.6 million below fiscal 1997.

SSI is a federally administered and funded cash assistance program for individuals who are elderly, disabled or blind. SSI payments are funded entirely by the federal government up to $494 per individual recipient per month and entirely by the state above that amount. The additional state supplement ranges from $112 to $150 per month per recipient. The SSI caseload has been increasing over the past five years, due to SSI policy changes, increased advocacy efforts on behalf of disabled populations, and the growing population of aged individuals. Expenditures for SSI have risen at an average annual rate of 3.4% from fiscal 1993 to fiscal 1997. The fiscal 1998 expenditures for SSI are projected to be $203.1 million, a 1.5% increase over fiscal 1997.

Federal Welfare Reform

The federal welfare reform legislation that was enacted on August 22, 1996 eliminates the federal entitlement program of AFDC and replaces it with block grant funding for Temporary Assistance for Needy Families (TANF). The TANF program replaces Title IV-A of the Social Security Act and allows states greater flexibility in designing programs that promote work and self-sufficiency. The block grant for Massachusetts will be $459,370,000 annually for federal fiscal years 1998 through 2002. In addition, Massachusetts will receive approximately $74.0 million in child care block grant funds to support child care programs.

Other Controls and Reforms

The Department of Transitional Assistance in recent years has instituted tighter procedures and management controls. Stricter standards have been established to determine eligibility for AFDC/TAFDC, Emergency Assistance and EAEDC benefits, including implementation of new disability criteria for EAEDC benefits. The Department of Transitional Assistance also has instituted automated systems to redetermine eligibility for benefits and has taken steps to reduce welfare fraud. In addition, the Department of Revenue has improved its collection of child support payments.

The Benefit Eligibility and Control On-Line Network (BEACON) is an integrated recipient eligibility system that automates the public assistance programs administered statewide by the Department of Transitional Assistance. This system will end outdated intake processes and will enable the Commonwealth more accurately to determine eligibility, provide appropriate services and track recipients through a consolidated process. The system is anticipated to be fully operational by December, 1998.

The Electronic Benefit Transfer (EBT) system provides cash assistance and food stamp recipients with access to benefits via a single magnetic strip card that can be used at bank automated teller machines. The Commonwealth has contracted with a commercial bank to provide EBT services. The statewide implementation was completed in October, 1997.

These projects provide the Commonwealth with the reporting capabilities that are necessary under the federal welfare reform law.

Massachusetts Bay Transportation Authority

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

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

MBTA operating expenses (total expenses less debt service) for fiscal years 1993, 1994, 1995, 1996 and 1997 were approximately $564.6 million, $588.7 million, $528.5 million, $506.5 million and $531.1 million, respectively and are estimated to be approximately $551.9 million for fiscal 1998. In light of major capital expenditures during recent years, MBTA debt service costs have increased steadily. MBTA debt service expenses for fiscal years 1993, 1994, 1995, 1996 and 1997 were approximately $189.0 million, $196.9 million, $210.9 million, $246.0 million and $269.1 million, respectively, and for fiscal 1998 are estimated to be $302.6 million. The growth in the Commonwealth's share of the MBTA's budget reflects the statutory arrangements by which the MBTA is funded, declining federal assistance and constrained local support as a result of Proposition 2½.

The information set forth above concerning the Commonwealth's total expenditures for the costs of the MBTA is based on the Commonwealth's fiscal year ending June 30. However, under state law, the MBTA continues to report its net cost of service to the Commonwealth on a calendar year basis for reimbursement and assessment purposes. The following table sets forth for the calendar years ended December 31, 1992 through December 31, 1997 (estimated), the amounts of (i) the MBTA's cost of service in excess of the MBTA's income from its own sources, (ii) federal operating assistance, (iii) Section 28 debt service contract assistance, (iv) additional contract assistance, (v) interest and other charges incurred in state borrowings by the Commonwealth and (vi) the total of the Commonwealth's assessments on the cities and towns for the net cost of service allocated to such year.

MBTA Net Cost of Service Assessments
(in millions)

Year Ended December 31	Cost of Service in Excess of Income	Less: Federal Operating Assistance	Less: Section 28 Contract Assistance (1)	Less: Additional Contract Assistance and Other State Assistance (2)	Subtotal	Interest and Other Charges (3)	Amount Assessed or to be Assessed
1993	$610.3	$18.2	$165.6	$304.2	$122.3	$5.5	$127.8
1994	590.1	16.1	177.6	276.2	120.3	10.6	131.0
1995	585.7	13.4	208.7	240.8	122.8	11.5	134.3
1996	599.6	8.1	237.7	229.2(4)	124.6	13.0	137.6
1997	633.7	6.3	255.7	242.6(5)	129.1	12.0	141.1

SOURCE: Massachusetts Bay Transportation Authority.

(1) Contract assistance under Section 28 of the MBTA's enabling act for payment of a portion of debt service on certain of the MBTA's indebtedness.
(2) Additional contract assistance and other state assistance provided by the Commonwealth.
(3) Includes interest and other charges incurred in state borrowings by the Commonwealth and Boston Metropolitan District expenses of $25,000 in each year.
(4) The Commonwealth's fiscal 1998 budget contains appropriations, together with other prior appropriations, sufficient to provide this amount of additional state assistance.
(5) Assumes that fiscal 1999 appropriations will be adequate to limit assessments on cities and towns to 102.5% of the prior year's assessments.

On May 4, 1998, the House Committee on Ways and Means approved "forward funding" legislation that would substantially modify the funding mechanisms for the MBTA. Under the legislation, which would take effect in fiscal 2000, the Commonwealth's annual obligation to support the MBTA for operating costs and debt service would be limited to the revenues raised by a 1% sales tax, to be funded from existing sales tax receipts. The 1% sales tax amount would be dedicated to the MBTA under a trust fund mechanism that would not permit future legislatures to divert the funds or reduce the sales tax rate below 1%. The dedicated revenue stream would be disbursed to the MBTA, to be used to meet the Commonwealth's current debt service contract assistance obligations relating to MBTA debt and to meet the MBTA's other operating and debt service needs. The Commonwealth would not be liable to pay the MBTA's net cost of service, nor would the Commonwealth be liable for debt service contract assistance on MBTA bonds issued after June 30, 1999. To replace the working capital of the MBTA currently supplied by operating notes and cash advances from the State Treasurer, the legislation would authorize the Commonwealth to issue up to $675 million in general obligation bonds. See "COMMONWEALTH CAPITAL SPENDING—Proposed Capital Spending Authorizations."

Other Programs

In addition to those expenditures described above, the Commonwealth also expends substantial amounts on other programs and services. A large share of the projected fiscal 1998 spending in this category, $2.777 billion, consists of spending on human services programs other than Medicaid and public assistance, detailed earlier. This other human services spending for fiscal 1998 includes expenditures for the Department of Mental Retardation ($ 775.7 million), Department of Mental Health ($534.4 million), Department of Social Services ($463.7 million), Department of Public Health ($433.7 million) and other human services programs ($569.6 million). The remaining $3.303 billion in projected expenditures on other programs and services cover a wide variety of functions of state government, including, in particular, expenditures for the Judiciary, District Attorneys and the Attorney General ($561.8 million) and for the Executive Offices for Administration and Finance ($552.6 million), Environmental Affairs ($204.2 million), Transportation and Construction ($163.2 million), Public Safety ($809.2 million) and Elder Affairs ($135.5 million) and the Department of Housing and Community Development ($135.0 million).

State Workforce

As of December 27, 1997, the Commonwealth had approximately 65,976 full-time equivalent employees ("FTEs") in its standard workforce delivering programs and services funded by annual operating budget appropriations and retained revenues. This number does not include 347 seasonal FTEs or 113 members of boards or commissions. Approximately 54,381 of these FTEs work in executive branch agencies (including the Commonwealth's colleges and universities) under the control of the Governor, while the others work in the Legislature, the Judiciary and other entities constitutionally or legally independent of the Governor (such as the offices of the State Treasurer, the Secretary of State, the State Auditor and the Attorney General). During fiscal 1997 approximately $2.6 billion was expended for salaries for state employees funded through the annual operating budget. Between January, 1991 and December, 1997, the size of the standard workforce funded through the annual operating budget was reduced by approximately 6,218 FTE positions, or 8.6 %. During this period, the net reduction in agencies under the control of the Governor, including colleges and the university, was approximately 8,463 or 13.5%. The Governor has implemented an aggressive program to reduce the executive branch workforce since taking office in January, 1991, through attrition, layoffs and an early retirement program which took effect on July 1, 1992.

Budget-Funded Standard Workforce (1)

	June 1988	January 1991	June 1994	December 1997
Executive Office	105	63	88	82
State Comptroller	119	101	103	110
Executive Departments:				
Administration and Finance (2)	4,434	3,985	3,412	3,113
Environmental Affairs (3)	3,319	3,019	2,229	2,417
Communities and Development	182	123	108	--
Health and Human Services	38,665	35,441	23,610	22,890
Transportation & Construction	3,146	2,565	1,389	1,238
Library Commissioners	19	14	14	18
Labor and Workforce Development	--	--	--	389
Housing and Community Development	--	--	--	115
Economic Development	--	--	--	93
Consumer Affairs	--	--	--	658
Educational Affairs	--	--	15	--
Department of Education	468	348	195	206
Higher Education	14,654	13,084	13,130	14,142
Public Safety	3,405	2,833	8,827	8,877
Economic Affairs	97	64	99	--
Elder Affairs	60	35	30	33
Consumer Affairs	755	725	614	--
Energy Resources	66	--	--	--
Labor	464	443	390	--
Subtotal Under Governor's Authority	69,958	62,844	54,255	54,381
Judiciary	6,157	5,856	5,861	6,900
Other (4)	4,224	3,494	3,693	4,695
Total	80,339	72,194	63,809	65,976

SOURCE: Executive Office for Administration and Finance.

(1) The budget-funded standard workforce excludes employees whose positions are established in accounts funded by capital projects funds, direct federal grants, expendable trusts and other non-appropriated funds, as well as seasonal help, members of boards and commissions, and staff of independent authorities. Numbers represent full-time-equivalent filled positions (FTEs), not individual employees. Totals may not add due to rounding.

(2) Administration and Finance includes the Disabled Persons Protection Commission until 1997.

(3) Environmental Affairs includes the Low-Level Radioactive Waste Management Board.

(4) Other includes staff of the Legislature and Executive Council, the offices of the State Treasurer, Secretary, Auditor, and Attorney General, the eleven District Attorneys, and other agencies independent of the Governor; it excludes elected members of the Legislature and Executive Council.

In addition to the standard workforce funded by annual operating budget appropriations, as of December 27, 1997, the Commonwealth had approximately 13,344 FTEs whose positions are established in accounts funded from capital projects funds, various direct federal grants, expendable trusts and other non-appropriated funds. Virtually all of these employees work in the executive branch, over half of them in public higher education. The Commonwealth also employs seasonal workers, primarily in its parks and other recreational facilities, varying in number from about 500 FTEs in the off-seasons to over 2,000 FTEs in mid-summer.

Union Organization and Labor Negotiations

Under Chapter 150E of the General Laws, all employees of the Commonwealth, with the exception of managerial and confidential employees, have the right to bargain collectively with the Commonwealth through certified employee organizations recognized as exclusive bargaining representatives for appropriate bargaining units.

Collective bargaining with employees of the Commonwealth's colleges and universities, its judicial branch and the Lottery Commission generally is conducted directly by those entities. The Human Resources Division of the Executive Office for Administration and Finance conducts the collective bargaining negotiations with all other employees of the Commonwealth. Such negotiations may cover wages, hours and other terms and conditions of employment, but may not include the levels of pension and group insurance benefits. All labor agreements negotiated by the Human Resources Division are subject to approval by the Secretary of Administration and Finance and, once approved, are forwarded to the Legislature for funding approval. Funding of most labor contracts is by means of a supplemental appropriation.

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

Approximately 42,163 executive branch full-time-equivalent state employees are organized in eleven bargaining units, the employees of the Commonwealth's colleges and universities are organized in 25 bargaining units, and the employees of the judicial branch and the Lottery Commission are organized in six bargaining units. Public employees of the Commonwealth do not have a legal right to strike or otherwise withhold services.

In December, 1997, the Commonwealth reached an agreement with the National Association of Government Employees representing Units 1, 3 and 6 for a three-year contract beginning July 1, 1998 and terminating June 30, 2001. The agreement provides for salary increases of 4% effective July 5, 1998, 2% effective July 4, 1999, 2% effective January 2, 2000 and 3% effective January 7, 2001. The agreement also calls for an increase in health and welfare contribution effective July 1, 1999. The total estimated cost of the agreement is $83.29 million through fiscal 2001.

In July, 1996, the Commonwealth reached an agreement with the Massachusetts Correction Officers Federated Union, representing Unit 4, for a three-year contract beginning January 1, 1995 and terminating December 31, 1997. The agreement provided for two wage increases, one for 3% (effective January 1, 1995), another for 3.5% (effective December 31, 1995), an increase in health and welfare contributions and other benefits, all of which were implemented retroactive to January 1, 1995, at a total cost of approximately $11.8 million through fiscal 1996. Effective in fiscal 1997, the agreement also provided for a 3% salary increase effective January 5, 1997, job title increases effective June 29, 1997 and other benefit increases. The total estimated cost of all of such benefit increases was $44.9 million through fiscal 1998. Negotiations have commenced for a successor agreement.

In March, 1998, the Commonwealth and the State Police Association of Massachusetts signed a successor agreement to an agreement that had expired on June 30, 1993. The agreement, which runs from January, 1997 through December, 1999, calls for pay increases of 3.5% effective on each of January 5, 1997, July 6, 1997, January 4, 1998 and January 3, 1999. The total estimated cost of the agreement is $64.9 million through fiscal 2000.

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

In June, 1997, the Commonwealth reached agreement with the Alliance (the American Federation of State, County and Municipal Employees and the Service Employees International Union) representing employees in Units 2, 8 and 10 for a two-year contract commencing July 1, 1997 and ending June 30, 1999. The agreement provides for increases in overtime meals and mileage reimbursement. The agreement also calls for salary increases of 3% effective July 6, 1997 and 3% effective July 5, 1998. The total estimated cost of the agreement is $51.4 million through fiscal year 1999.

In June, 1996, the Commonwealth reached an agreement with the Coalition of Public Safety for a three-year contract beginning July 1, 1995 and terminating June 30, 1998. The agreement provided for a 3% wage increase and re-establishment of "sea-pay" for twelve boat-based environmental police officers, both of which were implemented retroactively in July, 1995. The agreement provided for 3% salary increases effective July 7, 1996 and July 6, 1997, as well as an increase in health and welfare contributions and mileage and meals reimbursements, both effective July 1, 1996. The total estimated cost of the agreement is $3.1 million through fiscal 1998. Negotiations have commenced for a successor agreement.

In December, 1996, the Commonwealth reached an agreement with the Massachusetts Organization of State Engineers and Scientists (MOSES) for a three-year contract which commenced on January 1, 1997 and ends on December 31, 1999. The agreement provides for increases in mileage reimbursement, employee meals and health and welfare contribution. The agreement also provides for salary increases of 3% effective May 4, 1997, 3% effective January 4, 1998 and 2.5% effective January 3, 1999. The contract further provides for a bonus of 3.5% of an employee's annual salary effective May 3, 1997 and a 2.5% bonus effective January 1, 1998. The total estimated cost of the agreement is $20.2 million through fiscal year 2000.

Negotiations continue for a successor agreement with MOSES, which represents employees in unit 9.

The following table sets forth information regarding the eleven bargaining units that are within the responsibility of the Human Resources Division.

Human Resources Division Bargaining Units (1)

Contract Unit	Bargaining Union	Type of Employee	FTEs (All Funds)	Expiration Dates
1	National Association of Government Employees	Clerical	4,920	6/30/01
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Institutional services	10,893	6/30/01
3	National Association of Government Employees	Skilled trades	819	6/30/01
4	Massachusetts Correction Officers Federated Union	Corrections	3,784	12/31/97
5	Coalition of Public Safety	Law enforcement	340	6/30/98
5A	State Police Association of Massachusetts	State Police	1,810	6/30/98
6	National Association of Government Employees	Administrative professionals	6,750	6/30/01
7	Massachusetts Nurses Association	Health professionals	1,963	12/31/94
8	Alliance/Service Employees International Union	Social workers	7,425	6/30/99
9	Massachusetts Organization of Engineers and Scientists	Engineers/scientists	2,897	12/31/99
10	Alliance/Service Employees International Union	Secondary education	562	6/30/99
	TOTAL		42,163	

SOURCE: Executive Office for Administration and Finance. Number of Standard Workforce FTEs (funded from non-budgeted as well as budgeted funds) as of December 27, 1997.

(1) Totals may not add due to rounding.

COMMONWEALTH CAPITAL SPENDING

Five-Year Capital Spending Plan

Since fiscal 1992 the Executive Office for Administration and Finance has maintained a five-year capital spending plan, including an annual administrative limit on the amount of bond-financed state capital spending. In fiscal 1992 the annual limit was set at approximately $825 million. During fiscal 1995 the limit was raised to approximately $900 million and during fiscal 1998 to approximately $1.0 billion. Actual bond-financed capital expenditures during fiscal years 1993, 1994, 1995, 1996 and 1997 were approximately $575.9 million, $760.6 million, $902.0 million, $908.5 million and $956.3 million, respectively. The current plan is set forth in the table below and contains current estimates of capital spending of the Commonwealth as well as the projected sources of funding for such capital spending, including federal aid, for fiscal years 1998 through 2002. Capital spending for fiscal years 1998 through 2002 to be financed from Commonwealth debt is forecast at $5.050 billion, which includes both general obligation bonds and special obligation bonds, and which is significantly below legislatively authorized capital spending levels.

The five-year capital plan contemplates that the projected level of Commonwealth capital spending will leverage additional federal transportation aid of approximately $4.164 billion for this period and also projects the issuance of $1.5 billion in grant anticipation notes in anticipation of future federal aid to be received during fiscal years 2003 to 2007 and beyond. The Legislature has already authorized the issuance of up to $1 billion in grant anticipation notes, with no more than $450 million to be issued prior to Congressional enactment of successor legislation to the federal Intermodal Surface Transportation Efficiency Act of 1991, which expired on September 30, 1997. The issuance of $1.5 billion in grant anticipation notes will require a legislative increase in the authorization for grant anticipation notes. See the discussion below. Federal aid is uncertain until the enactment of successor legislation to the Intermodal Surface Transportation Efficiency Act of 1991, which expired on September 30, 1997 and was extended on an interim basis until May 1, 1998. The Commonwealth is receiving $529 million in federal transportation aid for this interim period (October 1, 1997 to May 1, 1998); under the terms of the interim extension legislation this amount will be included in the calculation of the state's grant entitlement under any such successor legislation. The reauthorization of federal aid being considered by Congress is expected to run through the year 2002 or 2003, although it may be extended for shorter interim periods. Federal funds for the complete repayment of the grant anticipation notes contemplated by the five-year plan would have to be authorized by subsequently enacted successor legislation.

The five-year plan assumes the receipt by the Commonwealth of annual federal highway apportionments of $550 million. The Commonwealth's average annual apportionment under the Intermodal Surface Transportation Efficiency Act of 1991 has been approximately $829 million. On March 12, 1998 the United States Senate approved its version of a bill to renew the Intermodal Surface Transportation Efficiency Act for six years. Under the Senate bill, the Commonwealth's average annual apportionment would be approximately $448.5 million. The Senate bill would also fund a "high density program," under which the Commonwealth could receive an additional allocation of up to $36 million per year. On April 1, 1998, the House of Representatives approved its version of a six-year reauthorization bill under which the Commonwealth's average annual apportionment would be approximately $590.7 million. A Congressional conference committee is meeting to reconcile the differences between the two bills. What the level of future federal highway aid will be for the Commonwealth remains uncertain.

The five-year capital spending plan assumes that the projected receipt of payments from third-party agencies, such as the Massachusetts Port Authority and the Massachusetts Turnpike Authority, or from the issuance of notes in anticipation of such payments, will be $1.379 billion. The Massachusetts Turnpike Authority and the Massachusetts Port Authority are obligated by statute to make payments to the Commonwealth of $700 million and $200 million, respectively, for use in meeting transportation-related obligations. An additional $400 million payment from the Turnpike Authority will be made subject to receipt of $25 million annually for certain operating costs associated with the Central Artery. As described below, an additional $100 million payment from the Turnpike Authority is now anticipated during fiscal 1999 pursuant to projected operating efficiencies and additional non-toll revenues. An additional $100 million payment from the Port Authority may be required subject to additional study of the Port Authority's capacity to make such payment. The current five-year capital plan is based on current project cost estimates consistent with the "Central Artery/Tunnel Finance Plan" dated March, 1998 prepared by the Central Artery/Ted Williams Tunnel project and the Turnpike Authority. The Commonwealth, subject to legislative approval, expects to issue bond anticipation notes in advance of the receipt of certain payments from the Turnpike Authority and the Port Authority to meet project costs during the peak construction years of the Central Artery/Ted Williams Tunnel project.

The Executive Office for Administration and Finance regularly reviews its five-year capital spending plan to account for changes in the expected timing and amount of the Commonwealth's capital expenditures. Except with respect to fiscal 1998, which includes $50 million for fiscal 1997 expenditures, the table assumes that all Commonwealth bonds related to a particular year's expenditures will be issued in the same year. In practice, Commonwealth capital expenditures usually occur prior to the issuance of the related bonds. Accordingly, it is customary for some Commonwealth bonds to be issued in a subsequent fiscal year to finance capital expenditures made in the prior fiscal year.

The five-year capital plan does not include expenditures from the Capital Investment Trust Fund (see "1997 FISCAL YEAR END SURPLUS."), capital expenditures from any potential year-end surplus (see "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Operating Fund Structure; *Year-end Surpluses*") or $50 million for local roads and bridges proposed to be financed by fiscal 1998 supplemental appropriations (see "1998 FISCAL YEAR").

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

	1998	1999	2000	2001	2002	Total
Uses of Funds						
Information Technology	$ 56	$ 48	$ 29	$ 29	$ 29	$ 191
Infrastructure	237	214	202	202	202	1,057
Environment	93	119	105	105	105	527
Water Treatment	8	4	35	35	35	117
Housing	67	67	71	71	71	347
Transportation						
Central Artery/Tunnel Project	1,581	1,660	1,498	1,064	483	6,285
All Other	583	525	433	443	493	2,477
Transportation Subtotal	2,164	2,185	1,931	1,507	975	8,762
Public Safety	15	9	9	9	9	51
Economic Development	66	51	36	36	36	225
Total	$ 2,706	$ 2,697	$ 2,418	$ 1,994	$ 1,462	$ 11,277
Sources of Funds						
Commonwealth Long Term Debt	$ 1,050	$ 1,000	$ 1,000	$ 1,000	$ 1,000	$ 5,050
Commonwealth Notes	0	0	0	80	0	80
Third Party-Supported Expenditures	329	598	318	132	3	1,379
Grant Anticipation Notes	342	465	525	164	0	1,496
Federal Aid	1,035	634	576	618	459	3,322
Total	$ 2,756	$ 2,697	$ 2,418	$ 1,994	$ 1,462	$ 11,327

SOURCE: Executive Office for Administration and Finance.

Due to the size and complexity of the Commonwealth's capital program, and other factors, the timing and amount of actual capital expenditures and debt issuances over the period will likely vary somewhat from the annual spending amounts contained in the five-year capital spending plan.

The MBTA has its own five-year capital spending plan, which is funded by MBTA bonds and federal grants. Under the MBTA's plan, capital spending for fiscal years 1998 through 2002 to be financed from MBTA bonds supported by Commonwealth contract assistance is forecast at $1.5 billion. See "COMMONWEALTH BOND AND NOTE LIABILITIES—Commonwealth-Supported Debt; *Massachusetts Bay Transportation Authority*." MBTA spending is not included in the foregoing table.

Metropolitan Highway System

The largest single component of the Commonwealth's capital program currently is the Central Artery/Ted Williams Tunnel project, a major construction project that is part of the completion of the federal interstate highway system. The project involves the depression of a portion of Interstate 93 in downtown Boston (the Central Artery), which is now an elevated highway, and the construction of a new tunnel under Boston harbor (the Ted Williams Tunnel) to link the Boston terminus of the Massachusetts turnpike (Interstate 90) to Logan International Airport and points north. In conjunction with the project, the Commonwealth has established a Metropolitan Highway System to be owned and operated by the Massachusetts Turnpike Authority. Under legislation approved on August 10, 1995, the Ted Williams Tunnel was transferred to the Turnpike Authority in exchange for an initial payment of $100 million (received in April, 1996), which was financed initially by the issuance of Commonwealth-guaranteed bond anticipation notes. See "COMMONWEALTH BOND AND NOTE LIABILITIES—Commonwealth-Guaranteed Debt; *Massachusetts Turnpike Authority*." The August, 1995 legislation also directed the Turnpike Authority and the Executive Office of Transportation and Construction (EOTC), with participation from the Massachusetts Port Authority on pertinent issues, to prepare a joint feasibility study relating to a unified transportation system in the Boston metropolitan area. The study, which was released on December 5, 1996, included a report prepared by an independent consultant team and proposed recommendations developed jointly by EOTC and the Turnpike Authority.

The feasibility study's recommendations were largely enacted into law in March, 1997. Two "cost centers" were established within the Turnpike Authority, a western cost center (extending from the Massachusetts/New York border to Route 128) and the Metropolitan Highway System (including the Massachusetts turnpike from Route 128 eastward, the Central Artery portion of Interstate 93 and the Ted Williams, Sumner and Callahan Tunnels under Boston harbor). Each cost center is to be financially independent and self-sustaining. The analysis contained in the study indicated that the western cost center could be expected, with no toll adjustments, to support operation and maintenance expenses, provide for capital reinvestment and retire all outstanding debt by 2010, whereupon the roadway would be transferred to the Commonwealth. The analysis further indicated that with certain proposed toll adjustments on the three tunnels and the Tobin Bridge (which is owned and operated by the Massachusetts Port Authority) the Turnpike Authority and the Port Authority would be able to make substantial capital contributions to the Central Artery/Ted Williams Tunnel project. Under the March, 1997 legislation, oversight of project construction was authorized to be transferred from the Massachusetts Highway Department to the Turnpike Authority, and that occurred in July, 1997. The legislation also directed the Executive Office for Administration and Finance, the State Auditor, the Division of Capital Planning and Operations and the Massachusetts Port Authority to undertake a new "asset assessment study" to determine, by March 20, 1998, whether the Port Authority can afford to contribute as much as $300 million toward the cost of the project, rather than the $200 million contribution contemplated by the feasibility study and the legislation. The study is expected to be completed shortly.

Additional state spending and borrowing authorization for the Central Artery/Ted Williams Tunnel project were contained in transportation bond legislation approved by Governor Weld on May 16, 1997. The legislation authorized $1.545 billion in spending on federally assisted projects (approximately $1.040 billion for the Central Artery/Ted Williams Tunnel project and $504.7 million for other projects), to be funded by $345 million in state bonds and $1.2 billion in federal grants. The legislation authorized an additional $1.159 billion in future spending for the Central Artery/Ted Williams Tunnel project, to be funded in part by $358.8 million in state bonds. In anticipation of future federal grants, the Commonwealth was authorized to issue up to $1 billion of grant anticipation notes, including up to $100 million for capitalized interest, with up to $900 million of state bonds authorized to pay such notes to the extent federal grants are unavailable to pay the notes, which must mature by June 30, 2007. (Legislation to increase the note authorization was recently approved by the House of Representatives. See "Proposed Capital Spending.") No more than $450 million of such notes may be issued until the Intermodal Surface Transportation Efficiency Act of 1991 has been reauthorized or successor legislation has been enacted by the United States Congress, and no more than $450 million of such notes may be issued if federal funding in fiscal 1999 falls below $550 million. The legislation stipulated that the Massachusetts Turnpike Authority must pay the Commonwealth $700 million by December 31, 1998 to help defray costs of the Central Artery/Ted Williams Tunnel project or any other component of the Metropolitan Highway System, such amount to be in addition to the $100 million already paid on account of the Ted Williams Tunnel.

In determining the appropriate levels of financing contained in the Commonwealth's overall five-year capital spending plan, the Executive Office for Administration and Finance has considered the cash flow needs required to fund the Central Artery/Ted Williams Tunnel project through completion. The table below provides cash flow projections that are consistent with the five-year plan and extend to fiscal 2005, when the project is expected to be completed. (The five-year plan assumes that by the completion of the project it will have required expenditures totaling $11.6 billion, and that insurance reimbursements and proceeds from real estate disposition related to the project will be received after project completion.) In addition to projecting levels of federal funds and Commonwealth funds of $2.996 billion and $1.029 billion, respectively, the plan of finance contemplates receipt by the Commonwealth of an aggregate of $1.4 billion from the Massachusetts Port Authority and the Massachusetts Turnpike Authority (not including the first $100 million to be received from the Massachusetts Turnpike Authority on June 25, 1998, as described below, which will be used to finance permanently fiscal 1997 project expenditures), bringing total third-party receipts to be received in fiscal 1998 and beyond to $1.5 billion.

On July 25, 1997, the Port Authority and the Executive Office for Administration and Finance entered into a memorandum of understanding providing for the payment of the Port Authority's $200 million contribution according to the following schedule: $12,115,000 in fiscal 1998, $30,735,000 in fiscal 1999, $52,236,000 in fiscal 2000 and $104,914,000 in fiscal 2003. Any additional contribution to be made by the Port Authority would be made in fiscal 2004 or later. On September 12, 1997 the Turnpike Authority and the Executive Office for Administration and Finance entered into a memorandum of understanding providing that $100 million of the Turnpike Authority's $700 million obligation will be paid on June 25, 1998 and the balance on December 31, 1998 and that an additional $400 million will be paid by December 31, 2002, subject to the terms of the memorandum of understanding. Payment of this latter amount is subject to (i) the Commonwealth's being obligated to provide $25 million annually to the Authority to compensate it for operating and maintaining the Central Artery, (ii) the Authority's being able to issue $400 million of bonds under the tests for additional bonds contained in its trust agreement and (iii) continued adherence by the Massachusetts Highway Department with a project management agreement previously entered into between the Turnpike Authority and the Commonwealth on July 1, 1997, as it may be amended. The $25 million payment must constitute a binding general obligation of the Commonwealth and be for a term of at least 40 years. Also, the memorandum of understanding recites that it relies on assumptions and findings set forth in the December, 1996 feasibility study, and that the performance of the agreement may not be possible if actual facts and circumstances differ from those assumed in the feasibility study. The Commonwealth agrees in the memorandum of understanding, subject to the terms and conditions of the transportation bond legislation approved on May 16, 1997, to issue not less than $900 million of grant anticipation notes and, subject to the necessary legislative authorization, to issue up to $675 million in additional grant anticipation notes, as described below. Subsequent discussions between the Secretary of Administration and Finance and the Chairman of the Turnpike Authority have resulted in the anticipation of an additional $100 million payment from the Turnpike Authority to be made during fiscal 1999. This additional payment is expected pursuant to projected operating efficiencies and additional non-toll revenues.

The table below presents the projected sources and uses of funds for the Central Artery project from fiscal 1998 to fiscal 2005.

Central Artery Construction Cash Flow
(in thousands)

	1998	1999	2000	2001	2002	2003	2004	2005	Total
Central Artery Construction Uses	$1,580,769	$1,659,903	$1,497,890	$1,064,234	$482,568	$308,662	$256,027	$70,669	$6,920,721
Central Artery Construction Sources									
Federal (1)	$802,388	$465,943	$430,183	$488,710	$329,424	$240,977	$198,383	$39,936	$2,995,944
Commonwealth General Obligation Bonds and Notes	108,000	131,000	225,000	280,000	150,000	65,300	50,000	20,000	1,029,300
Third Party Contributions and BANs	328,647	597,611	317,707	131,524	3,144	2,385	7,644	10,733	1,399,394
GANS	341,734	465,349	525,000	164,000	0	0	0	0	1,496,083
Total Sources	$1,580,769	$1,659,903	$1,497,890	$1,064,234	$482,568	$308,662	$256,027	$70,669	$6,920,721

(1) Assumes receipt by the Commonwealth of $550 million in annual federal highway apportionments.

Interim Debt Schedule
(in thousands)

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
Issuance													
GANS (Federal)	$341,734	$465,349	$525,000	$164,000	0	0	0	0	0	0	0	0	$1,496,083
BANS (Third Party)	283,616	0	230,707	69,195	0	0	0	0	0	0	0	0	583,518
Commonwealth General Obligation Notes	0	0	0	80,000	0	0	0	0	0	0	0	0	80,000
Total Issuance	$625,350	$465,349	$755,707	$313,195	0	0	0	0	0	0	0	0	$2,159,601
Interim Debt Retirement													
Federal (GANS)	0	0	0	0	$27,402	$84,011	$216,538	$275,000	$275,000	$275,000	$275,000	$68,132	$1,496,083
Third Party Contributions (BANS)	0	0	0	0	0	502,500	42,356	38,662	0	0	0	0	583,518
Commonwealth General Obligation Bonds (Notes)	0	0	0	0	0	24,000	34,000	22,000	0	0	0	0	80,000
Total Retirement	0	0	0	0	$27,402	$610,511	$292,894	$335,662	$275,000	$275,000	$275,000	$275,000	$2,159,601

SOURCE: Executive Office for Administration and Finance

An initiative petition certified by the Attorney General on September 3, 1997 and filed with the State Secretary in November, 1997 would prohibit the Turnpike Authority, the Port Authority and any other entity in the Commonwealth, beginning August 15, 1999, from collecting tolls with respect to the use of the Metropolitan Highway System, the Massachusetts Turnpike and the Tobin Bridge. Any such prohibition could be expected to have a materially adverse effect on the ability of the Turnpike Authority or the Port Authority to make the payments described above. The petition provides for a study of the financial implications of the prohibition, which would be submitted to the Legislature by March 31, 1999, in order to determine if compensation would need to be paid for the petition to operate in a constitutional manner. On December 18, 1997 a lawsuit was filed against the Attorney General and the State Secretary challenging the validity of the Attorney General's certification of the petition. The case was argued before the Supreme Judicial Court in April, 1998, and a decision is expected by July, 1998. See "THE GOVERNMENT—Initiative Petitions."

Proposed Capital Spending Authorizations

On May 13, 1997, the Legislature enacted a bond authorization bill that would authorize $685.3 million of capital spending, to be funded by Commonwealth general obligation bonds, for courthouses owned and to be owned by the Commonwealth. On May 16, 1997 Governor Weld returned the bill to the Legislature with amendments that would eliminate the requirement that all bids associated with the courthouse improvements be awarded only to union contractors. The Legislature has not yet acted on the proposed amendments.

On February 11, 1998, the House of Representatives approved legislation that would authorize $202 million in Commonwealth general obligation bonds to finance the renovation of existing public housing units and other low-income housing creation and improvement projects. On March 26, 1998, the Senate approved its version of the bill, providing for $375 million of Commonwealth general obligation bonds.

On June 11, 1997, Governor Weld filed legislation that would authorize $10 million of Commonwealth general obligation bonds to finance design costs related to planned renovations to the Saltonstall Building, a 30-year-old state office building. Under the legislation, the renovations themselves would be financed by the issuance by the Massachusetts Industrial Finance Agency of up to $100 million of lease revenue bonds; the Commonwealth would convey the building to the Agency and lease it back under a financing structure similar to that used for the Massachusetts Information Technology Center. See "COMMONWEALTH BOND AND NOTE LIABILITIES—Indirect Obligations; *City of Chelsea Commonwealth Lease Revenue Bonds*." The legislation was referred to the Legislature's Committee on State Administration, which filed a report on August 28, 1997 recommending that the committee be authorized to study the proposal further and report its findings to the Legislature by December 30, 1998.

On September 25, 1997, Acting Governor Cellucci filed legislation that would authorize the town of Foxborough to issue up to $20 million of special obligation bonds to acquire the land surrounding Foxboro Stadium and up to an additional $30 million of special obligation bonds to improve the public infrastructure on such land. The Commonwealth would be obligated to provide contract assistance to the town to pay the debt service on such bonds. The stadium owner would be required to invest a like amount in stadium improvements. The land acquired by the town would be leased to an affiliate of the stadium owner without compensation for up to 99 years. Under the terms of the lease, the lessee would be solely responsible for the planning, design, acquisition, construction, installation, maintenance and operation of the infrastructure improvements. The lessee, the stadium owner or another appropriate person would be required to maintain the stadium for the purpose of conducting therein the business of a National Football League team unless it exercised its option to purchase the improved land or the lease had expired. On November 17, 1997, the House approved a revised version of the Governor's bill. Under the House bill, the Commonwealth would be obligated to provide contract assistance sufficient to defray the debt service costs associated with up to $52 million in bonds issued by the town of Foxborough for infrastructure improvements on the stadium site and adjacent areas, but such assistance would be offset, in whole or in part, by revenues pledged by the stadium lessee or by the town, including a mandatory "administrative fee" to be charged on all parking spaces licensed by the town within a three-mile radius of the stadium. Any shortfall in annually projected revenues from the parking fee would be offset by a deduction from local aid otherwise due from the Commonwealth to the town. On February 26, 1998, the Senate approved a revised version of Foxboro Stadium legislation providing for Commonwealth contract assistance to pay the debt service on up to $72 million of bonds to be issued by the town of Foxborough for site acquisition and related infrastructure improvements. The site would be leased back to the stadium owner for 99 years, and the owner would be required to construct a new stadium adjacent to the current one at an estimated cost of approximately $200 million. The Senate bill also provides for partially offsetting parking fee revenues to be paid to the Commonwealth. The House has not acted on the Senate bill.

On October 2, 1997, Acting Governor Cellucci filed bond legislation that would authorize the Massachusetts Bay Transportation Authority to issue an additional $230.7 million of bonds to be backed by 90% Commonwealth contract assistance. The bill would also authorize the MBTA to issue bonds payable solely from its own revenues. The bill would also authorize and direct the Executive Office for Administration and Finance, on behalf of the Commonwealth, to enter into a contract with the Massachusetts Turnpike Authority no later than June 30, 1999 pursuant to which the Commonwealth would agree to provide annual amounts to the Turnpike Authority to cover the cost of operating and maintaining the Central Artery and the Central Artery North Area, as certified by the Turnpike Authority, but not less than $2 million on account of fiscal 2000, not less than $5 million on account of each fiscal year thereafter prior to the transfer of the final segment of the Central Artery and the Central Artery North Area to the Authority and not less than $25 million for each of the 40 fiscal years after such transfer. The bill would also amend the transportation bond legislation approved by Governor Weld on May 16, 1997 to authorize an additional $500 million of Commonwealth notes in anticipation of payments from the Massachusetts Port Authority and the Turnpike Authority, bringing the total of such notes to $1.5 billion. The new $500 million of notes would not be subject to the $450 million cap relating to renewal of the Intermodal Surface Transportation Efficiency Act of 1991. On April 8, 1998 an amended version of the bill was released by the Legislature's Committee on Transportation, and on April 27, 1998 further revisions to the bill were approved by the House Committee on Long-Term Debt and Capital Expenditures before the bill was referred to the House Committee on Ways and Means. As amended, the bill would authorize $246.2 million of MBTA bonds and $200 million of Commonwealth general obligation notes in anticipation of payments from the Port Authority. In lieu of the 40-year commitment to make maintenance payments to the Turnpike Authority, the revised bill would authorize an additional $400 million of capital expenditures for the Central Artery/Ted Williams Tunnel project, to be funded by the issuance of Commonwealth general obligation bonds. The bill also provides that if federal highway funding falls below $650 million in any federal fiscal year until the Central Artery/Ted Williams Tunnel project is completed or until all grant anticipation notes are retired, the rates for registration, license and permit fees payable into the Highway Fund are to revert to the levels in place on January 1, 1996.

The provisions of the MBTA bond bill concerning the issuance of grant anticipation notes for the Central Artery/Ted Williams Tunnel project, as modified by the Committee on Transportation, were released as separate legislation by the House Committee on Ways and Means on April 29, 1998 and approved by the House of Representatives on April 30, 1998. Such legislation would revise the 1997 authorization for grant anticipation notes to permit the issuance of $1.5 billion of such notes, to extend the allowable maturity date to June 30, 2015 and to provide for a trust fund to receive federal highway moneys which may be pledged to secure such notes. Grant anticipation notes could be issued as general obligations (up to $900 million), as special obligations payable from gasoline tax receipts or as special obligations payable from federal highway assistance. In the latter case, the legislation would also provide for 10¢ of the gasoline tax (not including the amount already pledged to outstanding special obligation bonds) to be pledged as a secondary source of repayment of the notes if federal highway assistance proved to be inadequate. The bill is now being considered by the Senate Committee on Ways and Means.

The MBTA bond legislation approved by the House Committee on Long-Term Debt and Capital Expenditures on April 27, 1998 also authorized Commonwealth general obligation bonds to "forward fund" the operations of the MBTA by supplying working capital to replace the funds currently provided by the issuance of MBTA operating notes and cash advances from the state treasury. On May 4, 1998, the House Committee on Ways and Means reported out a modified version of the MBTA "forward funding" provisions as a separate bill. The bill would authorize the issuance of such Commonwealth general obligation bonds in the amount of $675 million, of which $325 million would be used to retire outstanding MBTA notes. Such bonds would not be subject to the statutory debt limit on direct bonds or the limit on debt service appropriations. See "COMMONWEALTH BOND AND NOTE LIABILITIES—Statutory Debt Limit on Direct Bonds" and "—Limit on Debt Service Appropriations." The bill would also establish a trust fund to which certain state sales tax revenues would be dedicated to provide funding the MBTA's operations and debt service. See "COMMONWEALTH PROGRAMS AND SERVICES—Massachusetts Bay Transportation Authority."

It is the plan of the Executive Office for Administration and Finance to approve expenditures from all pertinent bond authorizations in a manner consistent with the five-year capital spending plan.

COMMONWEALTH BOND AND NOTE LIABILITIES

Overview

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

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

Commonwealth Bonds and Notes. The Commonwealth is authorized to issue two types of debt: general obligation debt and special obligation debt. General obligation debt is secured by a pledge of the full faith and credit of the Commonwealth. Special obligation debt may be secured either with a pledge of receipts credited to the Highway Fund or with a pledge of receipts credited to the Boston Convention and Exhibition Center Fund. See "Special Obligation Debt."

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

Outstanding Bond and Note Liabilities. The following table sets forth the Commonwealth bond and note liabilities outstanding as of April 1, 1998.

Commonwealth Bond and Note Liabilities
April 1, 1998
(in thousands)

	Long-Term(1)	Short-Term
General Obligation Debt	$ 9,721,143(2)	0
Special Obligation Debt	628,575	0
Subtotal Commonwealth Debt	10,349,718	0
COMMONWEALTH-SUPPORTED DEBT		
Massachusetts Bay Transportation Authority	3,210,730(3)	$325,000(4)
Massachusetts Convention Center Authority	116,259	0
Massachusetts Government Land Bank	88,305	0
Boston Metropolitan District	38,992	0
Steamship Authority	34,123	0
Regional transit authorities	0	70,605
Subtotal Supported Debt	3,488,409	395,605
COMMONWEALTH-GUARANTEED DEBT		
Massachusetts Turnpike Authority	0	55,905
Higher education building authorities	237,012	0
Subtotal Guaranteed Debt	237,012	55,905
TOTAL COMMONWEALTH BOND AND NOTE LIABILITIES	$14,075,139	$451,510

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

(1) Long-term debt includes discount and costs of issuance. Does not include long-term capital lease obligations. See "Indirect Obligations; *Plymouth County Certificates of Participation*" and "OTHER COMMONWEALTH LIABILITIES—Long-Term Capital Leases."

(2) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from April 1, 1998 through their maturity in the amount of $272.6 million. The Commonwealth sold $250 million of general obligation bonds on April 30, 1998, which bonds will be delivered on May 12, 1998.

(3) Includes bonds and refunding bonds, excluding such bonds that have been refunded. Does not include certificates of participation and other long-term lease obligations.

(4) Includes $160 million of notes due September 4, 1998 and $165 million of notes due February 26, 1999. In addition, as of May 5, 1998, the MBTA has outstanding $116.5 million of commercial paper issued as bond anticipation notes. See "Commonwealth Supported Debt; *Massachusetts Bay Transportation Authority*."

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

June 30	General Obligation Bonds (3)	Dedicated Income Tax Debt	Special Obligation Debt	Commonwealth Long-Term Debt Subtotal (4)	MBTA Bonds	Other Supported Debt (5)	Total (4)
1993	$8,082,823	$1,044,865	$103,770	$9,231,458	$2,015,405	$291,482	$11,538,345
1994	8,184,165	839,810	403,770	9,427,745	2,165,230	277,655	11,870,630
1995	8,614,766	618,980	394,720	9,628,466	2,399,780	273,410	12,301,656
1996	9,147,353	382,965	535,260	10,065,578	2,283,330	256,916	12,605,824
1997	9,620,633	129,900	520,760	10,271,293	3,043,815	223,882	13,538,990

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

(1) Does not include Commonwealth-guaranteed debt. See "Commonwealth-Guaranteed Debt."
(2) Outstanding bond liabilities include discount and costs of issuance.
(3) Does not include Dedicated Income Tax Debt. Commonwealth general obligation bonds include interest on capital appreciation bonds yet to be accrued from the end of the fiscal year indicated through their maturity in the following approximate amounts; fiscal 1993--$389.4 million; fiscal 1994--$361.5 million, fiscal 1995--$331.6 million, fiscal 1996--$321.4 million; fiscal 1997—$198.6 million.
(4) Totals may not add due to rounding.
(5) Includes bonds of the Massachusetts Convention Center Authority, the Steamship Authority, the Government Land Bank and the Boston Metropolitan District. Does not include bonds of regional transit authorities.

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

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

June 30	Amount (1)(2) (in thousands)	Net of CAB Interest Yet to be Accrued (in thousands)	Per Capita (3)	Ratio to Full Value of Real Estate (4)	Ratio to Personal Income (5)
1993	$11,538,345	$11,148,945	$1,853	$2.85	$7.58
1994	11,870,630	11,418,996	1,890	2.92	7.76
1995	12,301,656	11,970,088	1,952	3.28	7.03
1996	12,605,824	12,284,394	1,995	3.26	7.19
1997	13,538,990	13,340,390	2,166	3.54	7.81

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

(1) Includes Commonwealth general obligation bonds, dedicated income tax bonds and Special Obligation Bonds, and bonds of the Massachusetts Bay Transportation Authority, the Massachusetts Convention Center Authority, the Steamship Authority, the Government Land Bank and the Boston Metropolitan District. Does not include bonds of the regional transit authorities. Does not include Commonwealth-guaranteed debt. See "Commonwealth-Guaranteed Debt."
(2) Outstanding bond liabilities include discount and costs of issuance. Commonwealth general obligation bonds include interest on capital appreciation bonds yet to be accrued from the end of the fiscal year through their maturity. See table of "Long-Term Bond Liabilities; footnote 3" above.
(3) Based on United States Census resident population estimates for Massachusetts of 6,018,000 for 1993, 6,041,185 for 1994, 6,133,000 for 1995, 6,159,000 for 1996 and 1997.
(4) Based on Commonwealth Department of Revenue equalized valuation of assessed real estate of $391.0 billion for 1993, $365.2 billion for 1994 and 1995 and $377.2 billion for 1996 and 1997.
(5) Based on United States Department of Commerce, Bureau of Economic Analysis total personal income of $147.1 billion for 1993 and 1994, $170.2 billion for 1995 and $170.8 billion for 1996 and 1997.

Maturities of Short-Term Debt. The following table sets forth the maturities of the Commonwealth's short-term liabilities outstanding as of April 1, 1998.

Maturities of Short-Term Liabilities
April 1, 1998
(in thousands)

Month Due	MBTA	MTA	Regional Transit Authorities	Total
Fiscal 1998		-	$26,975	26,975
Fiscal 1999	325,000	$55,905	43,630	424,535
Total	$325,000	$55,905	$70,605	$ 451,510

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

General Obligation Debt

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

Notes. The Commonwealth is authorized to issue short-term general obligation debt as (i) revenue anticipation notes, (ii) bond anticipation notes, (iii) transit notes issued to fund a portion of the Commonwealth's net cost of service for the MBTA or (iv) grant anticipation notes for the Central Artery/Ted Williams Tunnel project.

Revenue anticipation notes may be issued by the State Treasurer in any fiscal year in anticipation of the receipts for that year. Revenue anticipation notes must be repaid no later than the close of the fiscal year in which they are issued. Bond anticipation notes may be issued by the State Treasurer in anticipation of the issuance of bonds, including special obligation convention center bonds. See "Special Obligation Debt." The Commonwealth utilizes a commercial paper program to facilitate the issuance of revenue and bond anticipation notes. Under the Commonwealth's current commercial paper program, the Commonwealth may issue up to $600 million of short-term general obligation debt under three series of notes; a line of credit is available through September 30, 1999 to secure up to $200 million of principal of such commercial paper, a letter of credit is available through October 31, 2000 to secure up to $200 million of principal of such commercial paper, and another letter of credit is available through September 1, 1998 to secure the balance of such commercial paper. As of May 5, 1998, the Commonwealth has no outstanding commercial paper, and none has been issued during fiscal 1998.

Transit notes issued to fund the net cost of service payments to the MBTA may be issued by the State Treasurer pursuant to Chapter 161A of the General Laws and may mature in the current or the next succeeding fiscal year. The notes are general obligations of the Commonwealth, but are funded, in part, from assessments collected by the Commonwealth from cities and towns in the MBTA's territory. See "COMMONWEALTH PROGRAMS AND SERVICES—Massachusetts Bay Transportation Authority." As of May 5, 1998, the Commonwealth has no outstanding transit notes.

Grant anticipation notes may be issued for the purposes of the Central Artery/Ted Williams Tunnel project in an amount up to $1 billion, including up to $100 million for capitalized interest, with up to $900 million of state bonds authorized to pay such notes to the extent federal highway funding grants are unavailable to pay the notes, which must mature by June 30, 2007. Legislation to authorize additional such notes and to extend this maturity date to June 30, 2015 has been approved by the House of Representatives. See "COMMONWEALTH CAPITAL SPENDING."

U. Plan. The State Treasurer is authorized by law to sell a portion of the Commonwealth's bonded indebtedness each year in a manner appropriate to the purposes of one or more college savings programs. Pursuant to such authorization, the Commonwealth has outstanding approximately $64.8 million of bonds (not including accreted interest) in conjunction with the Massachusetts College Savings Program (known as the "U. Plan") administered by the Massachusetts Educational Financing Authority. Under the program, such bonds are issued annually on August 1; the Commonwealth issued approximately $26.1 million of such bonds in 1995, approximately $19.0 million in 1996 and approximately $19.9 million in 1997. To facilitate the goals of the program, such bonds bear deferred interest at a variable rate equal to the percentage change in the Consumer Price Index plus 2%, together with current interest at the rate of 0.5%.

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

Special Obligation Debt

Highway Fund. Section 2O of Chapter 29 of the General Laws authorizes the Commonwealth to issue special obligation bonds secured by all or a portion of revenues accounted to the Highway Fund. Revenues which are currently accounted to the Highway Fund are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax. Chapter 33 of the Acts of 1991 authorizes the Commonwealth to issue such special obligation bonds in an aggregate amount not to exceed $1.125 billion. As of January 1, 1998, the Commonwealth had outstanding $629 million of such special obligation bonds, including $103.8 million of such bonds secured by a pledge of 2¢ of the 21¢ motor fuels excise tax and three series of bonds, $281.5 million (issued in June, 1994), $150 million (issued in March, 1996), and $294.7 million (issued in October, 1997, of which $188.8 million were refunding bonds) secured by a pledge of an additional 4.86¢ of the motor fuels excise tax and certain other moneys. The bonds issued in October, 1997 advance refunded a portion of the bonds issued in 1992, such that after June 1, 2002, all outstanding special obligation highway bonds will be secured by a pledge of 6.86¢ of such excise tax.

Chapter 11 of the Acts of 1997 provides that grant anticipation notes issued for the purposes of the Central Artery/Ted Williams Tunnel project may also be issued as special obligations pursuant to Section 2O of Chapter 29 if they are to be paid from the proceeds of bonds issued pursuant to Section 2O. See "COMMONWEALTH CAPITAL SPENDING."

Boston Convention and Exhibition Center Fund. Chapter 152 of the Acts of 1997 authorizes $676.9 million of special obligation bonds to be issued for the purposes of a new convention center in Boston ($609.4 million), the Springfield Civic Center ($48.5 million) and the Worcester convention center ($19 million). The bonds are to be payable from moneys credited to the Boston Convention and Exhibition Center Fund created by the legislation, which include the receipts from a 2.75% convention center financing fee added to the existing hotel tax in Boston, Cambridge, Springfield and Worcester, sales tax receipts from establishments near the proposed Boston facility that first opened on or after July 1, 1997, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, the entire hotel tax collected at hotels located near the new Boston facility and all sales tax and hotel tax receipts at new hotels in Boston and Cambridge first opened on or after July 1, 1997. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). To date, no such bonds have been issued.

Debt Service Requirements on Commonwealth Bonds

The following table sets forth, as of April 1, 1998, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds and special obligation Bonds.

Debt Service Requirements on Commonwealth Bonds (1)
April 1, 1998
(in thousands)

Fiscal Year	GENERAL OBLIGATION BONDS Principal	Interest on CABs at Maturity	Current Interest	Subtotal	SPECIAL OBLIGATION BONDS Principal	Interest	Subtotal	Total Debt Service Commonwealth Bonds
1998	$89,870	$8,675	$80,507	$179,052	$22,570	$16,420	$38,990	$218,043
1999	610,422	19,635	461,068	1,091,125	20,275	31,842	52,117	1,143,242
2000	579,977	33,792	425,424	1,039,193	21,245	30,877	52,122	1,091,315
2001	633,018	23,247	393,509	1,049,773	22,290	29,830	52,120	1,101,893
2002	565,432	54,428	360,782	980,642	23,415	28,708	52,123	1,032,765
2003	573,260	58,346	333,380	964,987	24,865	27,258	52,123	1,017,110
2004	539,954	77,965	306,708	924,626	26,070	26,051	52,121	976,747
2005	539,496	92,452	281,114	913,062	27,370	24,758	52,128	965,190
2006	539,670	100,321	256,438	896,429	28,805	23,315	52,120	948,549
2007	613,666	32,976	227,697	874,340	30,350	21,774	52,124	926,463
2008	629,482	3,643	196,935	830,060	31,995	20,126	52,121	882,182
2009	614,019	4,108	162,900	781,027	33,675	18,444	52,119	833,145
2010	545,422	3,789	130,227	679,438	35,335	16,791	52,126	731,564
2011	532,784	4,128	100,575	637,488	37,300	14,829	52,129	689,617
2012	374,656	4,207	72,192	451,056	39,320	12,813	52,133	503,189
2013	371,224	4,687	52,358	428,269	41,470	10,650	52,120	480,389
2014	255,598	2,984	36,449	295,030	37,530	8,369	45,899	340,930
2015	235,999	2,064	23,571	261,634	39,455	6,440	45,895	307,529
2016	194,612	1,176	12,946	208,735	41,530	4,368	45,898	254,633
2017	107,943	419	5,460	113,823	43,710	2,186	45,896	159,719
2018	39,602	168	1,084	40,855	–	–	–	40,855
2019 and thereafter	1,824	–	221	2,045	–	–	–	2,045
TOTAL	$9,187,932	$533,211	$3,921,545	$13,642,690	$628,575	$375,848	$1,004,423	$14,647,113

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

(1) Totals may not add due to rounding.

Statutory Debt Limit on Direct Bonds

Legislation enacted in December, 1989 imposes a limit on the amount of outstanding "direct" bonds of the Commonwealth. The law, which is codified in Section 60A of Chapter 29, set a fiscal 1991 limit of $6.8 billion, and provided that the limit for each subsequent fiscal year was to be 105% of the previous fiscal year's limit. The measurement of this limit is performed under the statutory basis of accounting, which differs from GAAP in that the principal amount of outstanding bonds is measured net of discount and costs of issuance. The law further provides that bonds to be refunded from the proceeds of Commonwealth refunding bonds are to be excluded from outstanding "direct" bonds upon the issuance of the refunding bonds. The limit did not apply to certain bonds issued in 1990 to fund the fiscal 1990 operating deficit (Fiscal Recovery Bonds), the final maturity of which was paid on December 1, 1997. Pursuant to Chapter 33 of the Acts of 1991, the Commonwealth's outstanding special obligation highway revenue bonds are not to be counted in computing the amount of bonds subject to this limit. Pursuant to Chapter 5 of the Acts of 1991, $287.2 million of Commonwealth refunding bonds issued in September and October, 1991 are also not counted in computing the amount of the bonds subject to this limit. The following table shows the amount of outstanding "direct" bonds of the Commonwealth, as compared with the appropriate statutory limit, as of the first day of each fiscal year in which the statutory limit has been in effect and as of April 1, 1998.

Statutory Debt Limit on Direct Bonds
(in thousands)

Date	Outstanding Direct Bonds	Statutory Limit on Direct Bonds
July 1, 1990	$6,010,063	$6,800,000
July 1, 1991	6,653,030	7,140,000
July 1, 1992	6,937,500	7,497,000
July 1, 1993	7,259,821	7,871,850
July 1, 1994	7,343,227	8,265,442
July 1, 1995	7,583,823	8,678,715
July 1, 1996	8,094,713	9,112,650
July 1, 1997	8,696,918	9,568,283
April 1, 1998	8,886,318	9,568,283

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

Limit on Debt Service Appropriations

In January, 1990, legislation was enacted to impose a limit on debt service appropriations in Commonwealth budgets beginning in fiscal 1991. The law, which is codified as Section 60B of Chapter 29 of the General Laws, provides that no more than 10% of the total appropriations in any fiscal year may be expended for payment of interest and principal on general obligation debt of the Commonwealth. The limit did not apply to the Fiscal Recovery Bonds. Section 60B is subject to amendment or repeal by the Legislature at any time and may be superseded in the annual appropriations act for any year. The following table shows the percentage of total appropriations expended or estimated to be expended from the budgeted operating funds for debt service on general obligation debt (excluding debt service on Fiscal Recovery Bonds) in the fiscal years indicated:

Debt Service Expenditures
(in millions)

Fiscal Year	Debt Service (1)	Total Budgeted Expenditures and Other Uses	Percentage
1993	$861.1	$14,696.4	5.9%
1994	872.3	15,522.9	5.6
1995	953.0	16,250.5	5.9
1996	905.1	16,881.1	5.4
1997	997.6	17,949.0	5.6
1998(estimated)	1,090.1	18,848.3	5.8

SOURCE: Fiscal 1993-1997, Office of the Comptroller; fiscal 1998, Executive Office for Administration and Finance.

(1) Excludes $278.4 million in fiscal 1993, $277.1 million in fiscal 1994, $277.9 million in fiscal 1995, $277.9 million in fiscal 1996, $277.9 million in fiscal 1997 and $134.1 million in fiscal 1998 for interest and principal payments related to Fiscal Recovery Bonds, which are not included in the calculation of the debt service limit.

Authorized But Unissued Debt

General obligation bonds of the Commonwealth are authorized to correspond with capital appropriations. See "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Overview of Capital Spending Process and Controls." Over the last decade, the Commonwealth has typically had a large amount of authorized but unissued debt. However, the Commonwealth's actual expenditures for capital projects in a given year relate more to the capital needs of the Commonwealth in such year than to the total amount of authorized but unissued debt. Authorized but unissued general obligation debt at fiscal year end, and capital expenditures in the capital projects funds, excluding the Federally Assisted Highway Construction Fund, in the fiscal year ending on such date, are as follows:

Authorized but Unissued General Obligation Debt
(in thousands)

Date	Authorized but Unissued General Obligation Debt	Capital Expenditures(1)
June 30, 1993	$4,614,367	$575,884
June 30, 1994	4,512,297	760,618
June 30, 1995	5,942,807	901,982
June 30, 1996	8,182,844	908,472
June 30, 1997	11,954,142	1,152,456

SOURCE: Office of the Comptroller.

(1) Does not include expenditures reimbursed by the federal government. Does not include $1.892 billion, $835.7 million, $513.6 million and $722.6 million of refunding bond proceeds paid to escrow agents in fiscal 1993, fiscal 1994, fiscal 1995 and fiscal 1996, respectively, in order to defease then-outstanding general obligation bonds.

As of April 1, 1998, there was approximately $12.1 billion of authorized but unissued general obligation debt.

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

There is $50 million of authorized but unissued debt under Chapter 33 of the Acts of 1991 that can only be issued as special obligation bonds secured by receipts in the Commonwealth's Highway Fund. There is also $676.9 million of authorized but unissued debt under Chapter 152 of the Acts of 1997 that can only be issued as special obligation bonds secured by receipts in the Commonwealth's Boston Convention and Exhibition Center Fund. See "Special Obligation Debt." In addition, several of the statutes authorizing general obligation bonds for transportation purposes also authorize such bonds to be issued as special obligation highway bonds, in the discretion of the Governor and the State Treasurer. The aggregate amount of such authorizations as of January 1, 1998 (included as Authorized but Unissued General Obligation Debt in the table above) is $4.052 billion.

Commonwealth-Supported Debt

Massachusetts Bay Transportation Authority. The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. Commonwealth support of MBTA bonds and notes includes (i) a Commonwealth guaranty of MBTA debt obligations provided by statutory requirements that the Commonwealth provide the MBTA funds sufficient to meet its obligations, including the principal and interest on MBTA and Boston Metropolitan District bonds and notes as they mature, to the extent that funds sufficient for this purpose are not otherwise available to the MBTA; (ii) Commonwealth contract assistance equal to 90% of the debt service on MBTA bonds; and (iii) under applicable statutory provisions, the Commonwealth's payment of MBTA's net cost of service (current expenses, including debt service and lease obligations that are not otherwise provided for, minus current income). Commonwealth obligations with respect to the MBTA are discussed at "COMMONWEALTH PROGRAMS AND SERVICES—Massachusetts Bay Transportation Authority." As of April 1, 1998, the MBTA had $3.211 billion of outstanding long-term bonds (exclusive of bonds that have been refunded) and $325 million of outstanding short-term notes. The MBTA also has established a commercial paper program in order to issue bond anticipation notes for capital purposes. Up to $200 million of notes may be outstanding under this program. The notes are general obligations of the MBTA, and 90% of the interest thereon is payable from contract assistance to be provided by the Commonwealth. On May 4, 1998, the House Committee on Ways and Means approved legislation that would limit the Commonwealth's obligations to the MBTA beginning in fiscal 2000. See "COMMONWEALTH PROGRAMS AND SERVICES—Massachusetts Bay Transportation Authority."

Regional Transit Authorities and Woods Hole, Martha's Vineyard and Nantucket Steamship Authority. There are 15 regional transit authorities organized in various areas of the state. The Steamship Authority operates passenger ferries to Martha's Vineyard and Nantucket. Each of these entities issues its own bonds and notes. Commonwealth support of the bonds and notes of the regional transit authorities and the Steamship Authority includes (i) a Commonwealth guaranty pursuant to statutory provisions requiring the Commonwealth to provide each of these entities with funds sufficient to meet the principal of and interest on their bonds and notes as they mature to the extent that funds sufficient for this purpose are not otherwise available to such entity; (ii) the Commonwealth's payment, under applicable statutory provisions, of the net cost of service of the regional transit authorities and the Steamship Authority (current expenses, including debt service, minus current income); and (iii) with respect to the regional transit authorities, Commonwealth contract assistance to such authorities in amounts equal to 50% of their net cost of service. The Steamship Authority is currently self-supporting, requiring no net cost of service or contract assistance payments.

Massachusetts Convention Center Authority. The Massachusetts Convention Center Authority was created for the purpose of promoting the economic development of the Commonwealth by the development and operation of the Hynes Convention Center in Boston and is authorized to issue bonds for any of its corporate purposes. Such bonds are fully secured by contract assistance payments by the Commonwealth, which payments are limited by statute to an amount equal to the annual debt service on $200 million of bonds outstanding at any one time. The assistance contract is a general obligation of the Commonwealth for which its full faith and credit are pledged. As of April 1, 1998, the Convention Center Authority had $116.3 million of outstanding bonds on which the Commonwealth will pay approximately $24.6 million in debt service contract assistance payments in fiscal 1998.

Massachusetts Government Land Bank. The Government Land Bank assists in the development of state and federal surplus property for private use and in the development of substandard, blighted or decadent open areas in the Commonwealth. The Government Land Bank has direct borrowing power, and the Commonwealth is required to provide contract assistance payments for debt service obligations of the Land Bank of up to $6 million per fiscal year for a period of 12 fiscal years, concluding in fiscal 1999, plus contract assistance necessary to defray the debt service on up to $80 million of bonds issued to redevelop the former federal military base at Fort Devens. Like the Massachusetts Convention Center Authority assistance contract, the contract with the Land Bank is a general obligation of the Commonwealth for which the full faith and credit of the Commonwealth are pledged. As of April 1, 1998, the Land Bank had $88.3 million of bonds outstanding, which are secured by the contract assistance from the Commonwealth, as described above.

Debt Service Contract Assistance Requirements on Commonwealth-Supported Debt

The following table sets forth, as of January 1, 1998, the debt service contract assistance requirements on outstanding bonds of the Massachusetts Bay Transportation Authority, the Massachusetts Convention Center Authority and the Massachusetts Government Land Bank. The Commonwealth is obligated to pay 90% of the debt service on the MBTA's bonds (the figures in the table reflect 90% of total MBTA debt service) and 100% of the debt service on the Convention Center Authority's bonds and the Land Bank's bonds. The table does not include general contract assistance which is provided to the MBTA and to the regional transit authorities to help defray their net cost of service.

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

Fiscal Year	MBTA	Convention Center Authority	Land Bank	Total
1998 (partial year)	$ 183,449	$ 4,944	$ 2,995	$ 191,388
1999	276,276	24,655	13,285	314,216
2000	274,806	24,658	13,282	312,746
2001	273,321	24,647	13,285	311,253
2002	269,683	20,371	13,280	303,334
2003	272,188	16,380	13,280	301,848
2004	270,109	16,340	13,283	299,732
2005	267,689	16,304	13,281	297,274
2006	264,295	14,737	13,280	292,312
2007	254,346	2,534	10,162	267,042
2008	249,776	2,535	-	252,311
2009	237,525	2,536	-	240,061
2010	236,553	2,536	-	239,089
2011	234,651	2,536	-	237,187
2012	225,990	2,535	-	228,525
2013	220,512	2,538	-	223,050
2014	210,440	2,538	-	212,978
2015	185,019	-	-	185,019
2016	166,738	-	-	166,738
2017	159,202	-	-	159,202
2018	154,302	-	-	154,302
2019	154,243	-	-	154,243
2020	153,187	-	-	153,187
2021	153,179	-	-	153,179
2022	132,991	-	-	132,991
2023	105,418	-	-	105,418
2024	94,868	-	-	94,868
2025	80,895	-	-	80,895
2026	53,384	-	-	53,384
2027	26,329	-	-	26,329
Total	$ 5,841,364	$ 183,324	$ 119,413	$ 6,144,101

Sources: MBTA column—MBTA; Massachusetts Convention Center Authority and Land Bank columns—Office of the State Treasurer.

(1) Totals may not add due to rounding.

Commonwealth-GuaranteedDebt

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

Massachusetts Turnpike Authority. The Turnpike Authority was created in 1952 to operate and maintain the Massachusetts Turnpike, a limited access toll express highway extending approximately 135 miles from the Commonwealth's border with New York State to downtown Boston. In addition, the Turnpike Authority was authorized in 1958 to operate and maintain the Callahan Tunnel and the Sumner Tunnel, which have served as the primary link between downtown Boston and Logan International Airport in East Boston. In 1995 the Ted Williams Tunnel was transferred to the Turnpike Authority pursuant to legislation that authorized the Authority to issue, prior to June 30, 1999, up to $300 million of Commonwealth-guaranteednotes to finance, among other things, the payment to the Commonwealth of the acquisition costs of the Ted Williams Tunnel. On February 1, 1996, the Authority issued $259,315,000 of Commonwealth-guaranteedbond anticipation notes, to provide for, among other things the payment to the Commonwealth of $100 million as partial payment for the Ted Williams Tunnel. Such moneys were paid to the Commonwealth on April 26, 1996. The Commonwealth has unconditionally guaranteed the payment of principal and interest of such notes and has pledged its full faith and credit to the payment of such notes. On October 2, 1997, the Turnpike Authority issued bonds to advance refund all but $55,905,000 of such notes. The Authority expects to defease the remaining notes prior to their June 1, 1999 maturity date from net revenues of the Authority. Alternatively, the Turnpike Authority may issue additional bonds to finance the payment or defeasance of the notes.

Indirect Obligations

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

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

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

As of April 1, 1998, multi-family obligations of the MHFA totaled approximately $2.241 billion (of which approximately $739.7 million were secured by capital reserve funds) and single-family obligations of the MHFA totaled approximately $1.356 billion (none of which was secured by capital reserve funds). As of such date the capital reserve funds were maintained at the required levels without Commonwealth appropriations and no payments from such funds have been necessary. Authorized but unissued amounts as of such date were approximately $459.3 million for multi-family bonds and approximately $344.1 million for single-family bonds.

HEFA Community Colleges Program Bonds. The Massachusetts Health and Educational Facilities Authority (HEFA) issued, on April 1, 1998, $17,515,000 of its Refunding Revenue Bonds, Community Colleges Program Issue, Series B (the "Community Colleges Bonds") in order to advance refund bonds that it had issued in 1992 to fund loans to two of the Commonwealth's community colleges. The primary security for the Community Colleges Bonds are fees, rents, rates and other charges to students and other users of the projects financed. As additional security for the Community Colleges Bonds, the Commonwealth, acting through the Board of Higher Education, entered into a Contract for Financial Assistance, Maintenance and Services with HEFA. Pursuant to this contract, the Board of Higher Education is obligated to provide financial assistance, from moneys legally available to it, if the revenues collected on behalf of HEFA are insufficient to pay debt service on the Community Colleges Bonds. Pursuant to the contract, the financial assistance will be provided solely from funds otherwise appropriated for the applicable community college in the Commonwealth's operating budget. The financial assistance does not constitute either a general obligation, or a so-called "moral obligation," of the Commonwealth, as the Commonwealth is not obligated to continue to appropriate moneys to the Board, and the credit of the Commonwealth is not pledged to the Community Colleges Bonds.

Plymouth County Certificates of Participation. In May, 1992, Plymouth County caused to be issued $110,535,000 of certificates of participation (the "Plymouth COPs") to finance the construction of the 1,140-bed Plymouth County Correctional Facility. The Commonwealth, acting through the Executive Office of Public Safety and the Department of Correction, entered into a Memorandum of Agreement with Plymouth County, under which the

Commonwealth is obligated to pay for the availability of 380 beds of the facility, regardless of whether 380 state prisoners are housed therein. The amounts payable by the Commonwealth will at least equal the debt service on the Plymouth COPs, but are subject to appropriation of said amounts by the Legislature to the Executive Office of Public Safety. The obligation of the Commonwealth under the Memorandum of Agreement does not constitute a general obligation or a pledge of the credit of the Commonwealth.

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

OTHER COMMONWEALTH LIABILITIES

Retirement Systems and Pension Benefits

Commonwealth Responsibility for Pension Costs. The Commonwealth is responsible for the payment of pension benefits for Commonwealth employees (members of the state employees' retirement system) and for teachers of the cities, towns and regional school districts throughout the state (members of the teachers' retirement system, except for teachers in the Boston public schools who are members of the State-Boston retirement system but whose pensions are also the responsibility of the Commonwealth). Employees of certain independent authorities and agencies, such as the Massachusetts Water Resources Authority, and of counties, cities and towns (other than teachers) are covered by 104 separate retirement systems. However, the Commonwealth assumed responsibility, beginning in fiscal 1982, for payment of cost-of-living adjustments for the 104 local retirement systems, in accordance with the provisions of Proposition 2½. The members of these state and local retirement systems do not participate in the federal Social Security System. On June 6, 1997 Governor Weld approved legislation removing from the Commonwealth the cost of future cost-of-living adjustments for these local retirement systems. The legislation provided that local retirement systems fund increased costs due to future cost-of-living adjustments.

Pension Reserves and Employee Contributions. The state employees' and teachers' retirement systems are partially funded by employee contributions of regular compensation—5% for those hired before January 1, 1975, 7% for those hired from January 1, 1975 through December 31, 1983, 8% for those hired from January 1, 1984 through June 30, 1996 (plus an additional 2% of compensation above $30,000 per year for those hired on or after January 1, 1979) and 9% (12% for members of the state police) for those hired on or after July 1, 1996.

The systems were originally established as "pay-as-you-go" systems, meaning that amounts were appropriated each year to pay current benefits, and no provision was made to fund currently the future liabilities already incurred. In fiscal 1978 the Commonwealth began to address the unfunded liabilities of the two state systems by making appropriations to pension reserves. Prior to the establishment of the pension funding program described below, the Commonwealth appropriated approximately $680 million to the pension reserves during the mid-1980's, in addition to the pay-as-you-go pension costs during those years.

Pension Funding Plan. Comprehensive pension funding legislation approved in January, 1988 required the Commonwealth to fund future pension liabilities currently and to amortize the Commonwealth's accumulated unfunded liabilities to zero by June 30, 2028. The legislation was revised in July, 1997, as part of the fiscal 1998 budget, to require the amortization of such liabilities by June 30, 2018. The legislation requires the Secretary of Administration and Finance to prepare a funding schedule that provides for the normal cost of Commonwealth benefits (normal cost being that portion of the actuarial present value of pension benefits which is allocated to a valuation year by an actuarial cost method) and to amortize the unfunded actuarial liability of the Commonwealth for its pension obligations. The funding schedule is required to be updated every three years on the basis of new actuarial valuation reports prepared under the direction of the Secretary of Administration and Finance. The Secretary is also required to conduct experience investigations every six years.

Funding schedules are required to be filed with the Legislature triennially by March 1 and are subject to legislative disapproval. The most recent funding schedule which has been approved by the Legislature was filed on November 6, 1996, before the enactment of the provisions in the fiscal 1998 budget truncating the amortization period by ten years and before the enactment of June, 1997 legislation providing for local retirement systems with funding schedules to assume responsibility for cost-of-living allowances (formerly an obligation of the Commonwealth). The Executive Office for Administration and Finance anticipates the filing of a new schedule, incorporating such legislative changes, in 1998. Under the pension legislation, if a schedule is not approved by the Legislature, payments are to be made in accordance with the most recently approved schedule; such payments must, however, at least equal the prior year's payments. The Commonwealth is contractually obligated to the members of the affected retirement systems to make appropriations in accordance with the funding schedule.

Under current law, the funding schedule must not provide for any reductions in the pension reserves (as of January 1, 1988, plus growth at the actuarially assumed investment rate) in the first ten years of the schedule. The current schedule uses a twenty year level amortization funding schedule. In connection with his proposed budget recommendations for fiscal 1999, Acting Governor Cellucci has proposed overriding the foregoing requirement relating to the first ten years of the schedule in order to limit required expenditures in fiscal 1999 to approximately $945.3 million. See "1999 FISCAL YEAR."

Current Funding Schedule and Actuarial Valuations. The following funding schedule was developed in conjunction with the fiscal 1998 budget provisions requiring that the unfunded actuarial liability be eliminated at the beginning of fiscal year 2019.

Funding Schedule for Unfunded Pension Obligations
(in thousands)

Fiscal Year	Payments	Fiscal Year	Payments
1998	$1,045,570	2009	$1,221,727
1999	1,059,215	2010	1,589,678
2000	1,073,406	2011	1,598,942
2001	1,088,165	2012	1,615,496
2002	1,103,514	2013	1,857,572
2003	1,119,477	2014	1,875,134
2004	1,136,078	2015	1,893,222
2005	1,153,344	2016	1,911,853
2006	1,171,300	2017	1,931,043
2007	1,212,605	2018	678,620
2008	1,232,026		

SOURCE: Executive Office for Administration and Finance, Division of Fiscal Affairs.

The funding schedule shown above is based on actuarial valuations of the state employees' and teachers' retirement systems and the State-Boston retirement systems as of January 1, 1996 and on a review of selected local systems for purposes of determining cost of living allowance costs. The unfunded actuarial accrued liability, as of January 1, 1996, relative to the two state systems, to Boston teachers and to cost of living allowances for local systems, is reported in the most recent actuarial valuation performed by the Public Employee Retirement Administration Commission to be approximately $4.774 billion, $476.6 million and $1.470 billion, respectively, for a total unfunded actuarial liability of $6.720 billion. The valuation as of January 1, 1996 is based on actuarial assumptions including future investment earnings at a rate of 8.5% per year, annual salary increases at 6% and annual cost of living increases for pensioners at the rate of 3% on the first $9,000 of benefits. Pursuant to a legislative mandate contained in the fiscal 1998 budget, the funding schedule set forth above assumes future investment earnings at a rate of 8.25%, rather than the assumed rate of 8.5% used in the January 1, 1996 valuation. "Actuarial accrued liability," as used above, is the estimated present value of all benefits to be paid to existing pensioners and current employees less the present value of the future normal costs associated with such employees. The "unfunded" liability is the amount by which the actuarial accrued liability exceeded accumulated assets set aside therefor and represents the present value of the amount that would have to be contributed in the future in addition to normal costs in order for the liability to be fully funded.

On June 6, 1997, Governor Weld approved legislation that provides, subject to legislative approval, for annual increases in cost-of-living allowances (equal to the lesser of 3% or the previous year's percentage increase in the

United States Consumer Price Index) for members of the state employees' and teachers' retirement systems, to be funded by the investment income of the systems. The funding schedule for the state systems assumes that such annual increases will be approved. Local retirement systems that have established pension funding schedules may opt in to the requirement as well, with the costs and actuarial liabilities attributable to the cost-of-living allowances required to be reflected in such systems' funding schedules.

See "INVESTMENT POLICIES" for information regarding the investment policies relating to the Commonwealth's pension funds. On August 9, 1996, the Governor approved legislation authorizing the transfer to the Pension Reserves Investment Management Board of all assets of the state employees' and teachers' retirement systems then managed by the State Treasurer. Such transfer occurred on November 7, 1996.

Long-Term Operating Leases

In addition to Commonwealth-owned buildings and facilities, the Commonwealth leases additional space from private parties. In fiscal 1997, rental expenditures under these operating leases totaled approximately $116.1 million. Minimum future rental expenditure commitments of the Commonwealth under operating leases in effect at June 30, 1997 are set forth below. These amounts represent expenditure commitments of both budgeted and non-budgeted funds.

Operating Leases
June 30, 1997
(in thousands)

Fiscal Year	Operating Leases
1998	$96,202
1999	75,860
2000	55,078
2001	34,772
2002 and thereafter	34,020
Total	$295,932

SOURCE: Office of the Comptroller.

Long-Term Capital Leases

In certain circumstances, the Commonwealth has acquired certain types of capital assets under long-term capital leases. Typically, these arrangements relate to computer and telecommunications equipment and to motor vehicles.

Long-term total principal and interest obligations at June 30, 1997 related to capital leases are as follows:

Capital Lease Obligations
June 30, 1997
(in thousands)

Fiscal Year	Capital Leases
1998	$26,426
1999	23,114
2000	16,707
2001	10,535
2002 and thereafter	26,573
	$103,355(1)

SOURCE: Office of the Comptroller.

(1) As of June 30, 1997, the principal amounts of these obligations were $87.2 million.

Massachusetts Water Pollution Abatement Trust

The Massachusetts Water Pollution Abatement Trust (the "Trust") was created in 1989 as a public instrumentality of the Commonwealth to implement the Commonwealth's state revolving fund program under Title VI of the federal Clean Water Act. The Trust is authorized to apply for and accept federal grants and associated Commonwealth matching grants to capitalize the revolving fund and to issue debt obligations to fund purchases of debt from local governmental units to finance eligible water pollution abatement projects. To date, the Trust has available approximately $506 million in federal grants and approximately $101 million in Commonwealth matching grants to capitalize the fund. The Trust has also received additional Commonwealth grants of approximately $21 million to capitalize a separate revolving fund program for projects which are not eligible under the Clean Water Act. The Trust's enabling legislation authorizes the State Treasurer to issue up to $133.3 million of Commonwealth general obligation bonds to fund Commonwealth grants to the Trust to capitalize the revolving fund and to finance other costs of the revolving fund program. On July 30, 1996, the Governor approved bond legislation authorizing an additional $20 million in Commonwealth bonds for capitalization matching grants to the Trust's revolving fund. As part of its supplemental budget for fiscal year 1998, the Commonwealth has appropriated an additional $7.6 million in state matching funds for the program from surplus funds. Legislation approved by Acting Governor Cellucci on April 9, 1998 provides for the transfer of an additional $2.3 million from the General Fund to the revolving fund. The Trust estimates that it now has sufficient resources to draw projected federal grants under the Clean Water Act through most of federal fiscal year 1999.

Capitalization grants received by the Trust and held in the revolving fund may be applied by the Trust to fund reserves to secure debt obligations issued by the Trust to make loans to local governmental units to finance eligible projects or to directly fund such loans. Obligations issued by the Trust are not a debt of the Commonwealth or any political subdivision thereof but are payable solely from revenues of the Trust including loan repayments payable by loan recipients, investment income from reserves and other moneys of the Trust and, for certain loans, contract assistance payments from the Commonwealth as described below. As of February 2, 1998, the Trust had approximately $825 million of bonds outstanding for such purposes. At such date, approximately $66 million of interim loans from the Trust to local governmental units were also outstanding; such loans are expected to be refinanced from the proceeds of bonds to be issued during fiscal 1998. The Trust also has approximately $267 thousand in direct loans outstanding to local governmental units.

Under the enabling legislation creating the Trust, each loan made by the Trust is required to provide for debt service subsidies or other financial assistance sufficient to result in the loan being the financial equivalent of a grant to the borrower of between 25% and 90% of the eligible cost of the financed project. Financial assistance sufficient to result in a 25% grant equivalency (or approximately 50% in the case of eligible direct loans) is provided either through the application of investment earnings on Trust reserves or through a fixed below-market interest rate on the loan. To date, financial assistance in excess of 25% (or 50% in the case of direct loans) has been provided through the application of contract assistance payments from the Commonwealth. The Trust's enabling legislation directs the State Treasurer to enter into contract assistance agreements with the Trust for such purpose providing for annual contract assistance payments to the Trust of up to $46 million in the aggregate in each fiscal year. The contract assistance agreements and the Trust's right to receive payments thereunder may be pledged by the Trust as security for repayment of the Trust's debt obligations. Legislation approved in August, 1996 requires the Trust, in connection with any loan made on or after October 1, 1995, to provide debt service subsidies or other financial assistance sufficient to result in the loan being the financial equivalent of a grant to the borrower of 50% of the eligible cost of the financed project.

The Trust's revolving fund program also includes the provision of financial assistance to local governmental units for the implementation of nonpoint source pollution control management programs, including loans ("Title 5 Loans") to fund community septic management loan programs ("Title 5 Projects") to assist eligible homeowners to upgrade failing septic systems and otherwise to comply with the requirements of Title 5 of the State Environmental Code. Title 5 Projects which qualify for financial assistance under the Clean Water Act may be directly or indirectly funded with federal grants and Commonwealth matching grants or with moneys specifically appropriated for such purpose by the Commonwealth. By February 1, 1999, the Trust expects to make up to $5 million of Title 5 Loans to local governmental units from the proceeds of bonds it issued in April, 1997. In addition, the Trust has made grants of $3 million, from funds received from the Commonwealth, to local governmental units for the administrative costs of implementing Title 5 projects. The Trust has also made $7 million of interim loans to local governmental units for Title 5 Projects.

On August 6, 1996, the President signed the federal Safe Drinking Water Act, which creates a new state revolving fund program for drinking water and provides authorization for $1 billion per year in federal capitalization grants through federal fiscal year 2003. The Trust has been informed by the federal Environmental Protection Agency that it is eligible for $14.3 million in federal funding under this program for federal fiscal year 1997 and $27.4 million for federal fiscal year 1998. Like the wastewater program, the new program requires a 20% state match to receive federal capitalization grants. The Trust's enabling legislation already authorizes it to administer such a loan program. Legislation authorizing a new drinking water revolving fund program and Commonwealth matching funds was approved by Acting Governor Cellucci on April 9, 1998. The legislation provides for the transfer from the General Fund to a newly established Drinking Water Revolving Fund of approximately $32.4 million. The legislation requires the Trust to provide debt service subsidies or other financial assistance sufficient to result in the loan being the financial equivalent of a grant to the borrower of 50% of the eligible cost of the financed project and directs the State Treasurer to enter into contract assistance agreements with the Trust for such purpose providing for annual contract assistance payments to the Trust of up to $9 million in each fiscal year for new water treatment projects and up to $8 million in each fiscal year (up to an aggregate of $80 million) for certain previously financed projects that are identified in the statute. The funding provided in the legislation are expected to give the Trust sufficient resources to draw on projected federal grants under the Safe Drinking Water Act through federal fiscal year 2003.

School Building Assistance

The school building assistance program was established in 1948 to promote the planning and construction of school buildings and the establishment of consolidated and regional schools in the Commonwealth. Under this program, cities, towns, regional school districts and the three counties that maintain agricultural schools can obtain reimbursements from the Commonwealth for a portion of the construction costs (including any interest expense from indebtedness incurred) of approved school projects. With the exception of grants to assist cities, towns and regional school districts in the elimination of racial imbalance, the reimbursement percentage varies by municipality and may range from 50% to 90% of total construction costs. School projects for the purpose of eliminating racial imbalance are eligible for 90% reimbursement. Grants are usually payable over a period of up to 20 years to defray a portion of the debt service on city, town, district or county bonds issued to pay construction costs. Payment is made to cities, towns, regional school districts and counties from amounts annually appropriated for the school building assistance program. The following table shows the amount of the Commonwealth's obligation to pay such grants as of July 1, 1997.

School Building Assistance Obligations
(in thousands)

Fiscal Year	Budgeted School Building Assistance Obligations	Fiscal Year	Budgeted School Building Assistance Obligations
1998	$211,136	2009	$ 187,306
1999	235,368	2010	179,324
2000	230,550	2011	164,277
2001	226,634	2012	141,625
2002	222,489	2013	129,948
2003	219,972	2014	113,574
2004	215,476	2015	98,068
2005	210,283	2016	83,998
2006	204,296	2017	65,121
2007	200,481	Total	$3,534,617
2008	194,691		

SOURCE: Department of Education, School Facilities Service Bureau.

Unemployment Compensation Trust Fund

The assets and liabilities of the Commonwealth Unemployment Compensation Trust Fund are not assets and liabilities of the Commonwealth. As of March 31, 1998 the private contributory sector of the Massachusetts Unemployment Trust Fund had a surplus of $1.292 billion. The Division of Employment and Training's April, 1998, quarterly report indicated that the contributions provided by current law should result in a private contributory account balance of $1.7 billion in the Unemployment Compensation Trust Fund by December, 1998 and rebuild reserves in the system to $2.305 billion by the end of 2002. See Exhibit A, "Economic Information," under the heading "Employment—Unemployment."

INVESTMENT POLICIES

For information with respect to the investment of Commonwealth funds, see note 4 to the fiscal 1997 statutory basis financial statements contained in the Statutory Basis Financial Report included by reference as Exhibit B and Note 3 to the fiscal 1997 GAAP-basis financial statements contained in the Comprehensive Annual Financial Report included by reference as Exhibit C.

LITIGATION

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

Commonwealth Programs and Services. From time to time actions are brought against the Commonwealth by the recipients of governmental services, particularly recipients of human services benefits, seeking expanded levels of services and benefits and by the providers of such services challenging the Commonwealth's reimbursement rates and methodologies. To the extent that such actions result in judgments requiring the Commonwealth to provide expanded services or benefits or pay increased rates, additional operating and capital expenditures might be needed to implement such judgments. In June, 1993, in an action challenging the Commonwealth's funding of public primary and secondary education systems on both federal and state constitutional grounds, *Webby v. Dukakis* (now known as *McDuffy v. Robertson,* Supreme Judicial Court for Suffolk County No. 90-128), the Supreme Judicial Court ruled that the Massachusetts Constitution imposes an enforceable duty on the Commonwealth to provide adequate public education for all children in the Commonwealth and that the Commonwealth was not at that time fulfilling this constitutional duty. However, the court also ruled that no then-present statutory enactment was to be declared unconstitutional. The court further ruled that the Legislature and the Governor were to determine the necessary response to satisfy the Commonwealth's constitutional duty, although a single justice of the court could retain jurisdiction to determine whether, within a reasonable time, appropriate legislative action had been taken. Comprehensive education reform legislation was approved by the Legislature and the Governor later in June, 1993. See "COMMONWEALTH PROGRAMS AND SERVICES—Local Aid; *Commonwealth Financial Support for Local Governments*." On May 10, 1995, the plaintiffs filed a motion for further relief, arguing that the 1993 legislation did not provide sufficiently for public education and that its timetable was too slow. It cannot be determined at this time what further action, if any, the plaintiffs in McDuffy may take or whether the court will order any further relief.

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

In *Hodge v. Gallant* (Suffolk Superior Court No. 93-0290G), plaintiffs allege that the Division of Medical Assistance has unlawfully denied personal care attendant services to certain disabled Medicaid recipients. The Superior Court denied plaintiffs' motions for a preliminary injunction and class certification. If plaintiffs were to prevail on their claims and the Commonwealth were required to provide all of the services sought by plaintiffs to all similarly situated persons, a substantial increase in the annual cost to the Commonwealth of these services might eventually be required.

The Division of Medical Assistance currently estimates this increase to be as much as $200 million per year. In September, 1995, the parties argued cross motions for summary judgment, which are now under advisement.

In *Beaulieu v. Belmont* (U.S. District Court No. 95-12382GAO), the plaintiffs are former residents of the Fernald School, a facility of the Department of Mental Retardation. They allege that in the 1950's they were fed radioactive isotopes without their informed consent. They claim violations of their civil rights, battery, invasion of privacy, loss of consortium and misrepresentation. The amount of potential liability is estimated to be $25 million.

Environmental Matters. The Commonwealth is engaged in various lawsuits concerning environmental and related laws, including an action brought by the U.S. Environmental Protection Agency alleging violations of the Clean Water Act and seeking to enforce the clean-up of Boston Harbor. *United States v. Metropolitan District Commission* (U.S. District Court C.A. No. 85-0489-MA). See also *Conservation Law Foundation v. Metropolitan District Commission* (U.S. District Court C.A. No. 83-1614-MA). The Massachusetts Water Resources Authority (MWRA), successor in liability to the Metropolitan District Commission (MDC), has assumed primary responsibility for developing and implementing a court-approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. During fiscal 1997, the MWRA completed the mining of the 9.5-mile outfall tunnel, completed the draft combined sewer outflow (CSO) plan and began design of several CSO projects, completed construction of the first battery of secondary treatment and began construction of the third and final battery of secondary treatment. The MWRA currently projects that the total cost of construction of the wastewater facilities required under the court's order, not including CSO costs, will be approximately $3.142 billion in current dollars, with approximately $601 million to be spent after June 30, 1997. With CSO costs, the MWRA anticipates spending approximately $901 million after that date. Under the Clean Water Act, the Commonwealth may be liable for any cost of complying with any judgment in these or any other Clean Water Act cases to the extent the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment.

On February 12, 1998, the U.S. Department of Justice filed a complaint in federal district court seeking to compel the MWRA to build a water filtration plant for the metropolitan Boston water supply and, together with the MDC, to take certain watershed protection measures. The MWRA is gathering data to determine whether a water filtration plant is necessary and anticipates completing its inquiry by the fall of 1998. The federal district court has issued a scheduling order under which it will decide in January, 1999 whether the Safe Water Drinking Act compels the MWRA to build a filtration system or whether the MWRA can demonstrate that its data entitles it to avoid building such a system. It is too early to predict what remedy the court will order if it decides adversely to the MWRA.

Taxes and Other Revenues. In *Massachusetts Wholesalers of Malt Beverages v. Commonwealth* (Suffolk Superior Court No. 90-1523), associations of bottlers challenged the 1990 amendments to the bottle bill which escheat abandoned deposits to the Commonwealth. Plaintiffs claimed a taking; the Commonwealth argued a legitimate regulation of abandoned amounts. In March, 1993, the Supreme Judicial Court upheld the amendments except for the initial funding requirement, which the Court held severable. In August, 1994, the Superior Court ruled that the Commonwealth is liable for certain amounts (plus interest) as a result of the Supreme Judicial Court's decision. The actual amount will be determined in further proceedings. In February, 1996, the Commonwealth settled all remaining issues with one group of plaintiffs, the Massachusetts Soft Drink Association. Payments to that group will total approximately $7 million. The Legislature appropriated the funds necessary for these payments in its final supplemental budget for fiscal 1996. Litigation with the other group of plaintiffs, the Massachusetts Wholesalers of Malt Beverages, is still pending. The remaining potential liability is approximately $50 million.

In *The First National Bank of Boston v. Commissioner of Revenue* (Appellate Tax Board No. F232249), the First National Bank of Boston challenges the constitutionality of the former version of the Commonwealth's bank excise tax. In 1992, several pre-1992 petitions filed by the bank, which raised the same issues, were settled prior to a board decision. The bank has now filed claims with respect to 1993 and 1994. The bank claims that the tax violated the Commerce Clause of the United States Constitution by including its worldwide income without apportionment. The Department of Revenue estimates that the amount of abatement, including interest, sought by the First National Bank of Boston, could total $128 million.

In *State Street Bank and Trust Company v. Commissioner of Revenue* (Appellate Tax Board Nos. F215497, F232152, F233019 and F233948), State Street Bank and Trust Company raised the same claims as the First National Bank of Boston, outlined above. State Street Bank also claimed that it is entitled to alternative apportionment under the bank excise tax. The Department of Revenue estimated that the amount of abatement, including interest, sought by State Street Bank and Trust Company, could have totaled $158 million. On February 19, 1998 the case was settled for $8.7 million.

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

On March 22, 1995, the Supreme Judicial Court issued its opinion in *Perini Corporation v. Commissioner of Revenue* (Supreme Judicial Court No. 6657). The court held that certain deductions from the net worth measure of the Massachusetts corporate excise tax violate the Commerce Clause of the United States Constitution. The court remanded the case for entry of a declaration and further proceedings, if necessary, to determine other appropriate remedies. On October 2, 1995, the United States Supreme Court denied the Commonwealth's petition for a writ of certiorari. The Supreme Judicial Court, on April 30, 1996, entered a partial final judgment implementing its decision for tax years ending prior to January 1, 1995. The Department of Revenue estimates that tax revenues in the amount of $40 million to $55 million may be abated as a result of the partial final judgment. On May 13, 1996, the Court entered an order for judgment and memorandum concerning relief for tax years ending on or after January 1, 1996. A final judgment was entered on June 6, 1996. The Department of Revenue is estimating the fiscal impact of that ruling; to date it has paid approximately $15 million in abatements in accordance with the judgment.

Approximately $75 million in taxes and interest in the aggregate are at issue in several other cases pending before the Appellate Tax Board or on appeal to the Appeals Court or the Supreme Judicial Court.

Eminent Domain. In *Spaulding Rehabilitation Hospital Corporation v. Massachusetts Highway Department* (Suffolk Superior Court. No. 95-4360C), the Spaulding Rehabilitation Hospital filed an action to enforce an agreement to acquire its property by eminent domain, in connection with the Ted Williams Tunnel/Central Artery project. On March 13, 1998, the Superior Court entered judgment for the Commonwealth dismissing the complaint.

Both *Commonwealth of Massachusetts v. Ruggles Center Joint Venture* (Suffolk Superior Court No. 47-1764-A and *Ruggles Center, LLC v. Beacon Construction Corporation* (Suffolk Superior Court No. 96-0637-E) involve an indoor air quality dispute regarding the former headquarters of the Registry of Motor Vehicles at Ruggles Center in Boston. In 1997, the Commonwealth commenced suit against the former building owners, Ruggles Center Joint Venture (RCJV), as well as the general contractor, the architect, the mechanical engineer and the manufacturer of the fireproofing, to recover losses associated with the indoor air quality (IAQ) problems, including the costs of relocating the agency and workers' compensation payments paid to employees. RCJV has filed a counterclaim against the Commonwealth alleging breach of lease, breach of the covenant of good faith and fair dealing and negligence. RCJV claims that it fulfilled all of its obligations under the lease and its amendment and that the Commonwealth wrongfully terminated these agreements, and that the Commonwealth's negligence, or that of its contractors, caused the IAQ problems. RCJV seeks to recover the costs associated with its efforts to remedy the IAQ problems, additional rent payments under the lease, and the value of RCJV's equity in the project had the lease not been terminated. In the second and related case, the building owner has sued the general contractor to recover on the performance bond. Many second, third and fourth parties have been impleaded. The Registry of Motor Vehicles and the Division of Capital Planning and Operations have been named as fourth-party defendants by the manufacturer of the fireproofing, United States Mineral Products Co., Inc., which has asserted a claim for indemnification. Potential liability to the Commonwealth in each case is approximately $25 million.

DiBiase v. Commissioner of Insurance (Suffolk Superior Court No. 96-4241-A) is a putative class action suit in which the plaintiffs seek to invalidate most of Chapter 178A of the Massachusetts General Laws, which is the savings bank life insurance statute. The suit alleges that the statute's conversion of the former savings bank life insurance system established by former Chapter 178 of the Massachusetts General Laws deprived policyholders under the old system of more than $60 million in "surplus" and $11 million in the former General Insurance Guaranty Fund, the proceeds of both of which assertedly belonged to them. The defendants have moved to dismiss on statute of limitations grounds, and the plaintiffs have cross-moved for partial summary judgment on a claim of alleged procedural due process violations. On October 16, 1997, the Court dismissed the case on statute-of-limitations grounds. The plaintiff has appealed.

Boston Wharf Co. v. Commonwealth of Massachusetts (Suffolk Superior Court No. 96-0028) is an eminent domain case concerning a parcel on A Street in South Boston which is being used for a tunnel in the Central Artery/Ted Williams Tunnel project. The plaintiffs are claiming $32 million.

Massachusetts Port Authority, Bird Island Ltd. Partnership and Hilton Hotels v. Commonwealth of Massachusetts (Suffolk Superior Court Nos. 96-4803-C, 94-6966, 94-2830-E, 94-2831-F, 94-5745-B, 94-5744-A and

96-6789-E) are eminent domain cases concerning a land acquisition in East Boston for the Central Artery/Ted Williams Tunnel project. The Commonwealth faces a potential liability of approximately $33 million.

Thomas Rich v. Commonwealth of Massachusetts (Norfolk Superior Court No. 94-2319) is an eminent domain case concerning property in the city of Quincy. The Commonwealth faces a potential liability of $30 million. The cost of remediation of contaminated soil will also be an issue.

P&P Realty Co., Inc. v. Department of Public Works (Suffolk Superior Court No. 92-2081) is an eminent domain case concerning two parcels at Summer Street and Trilling Way in South Boston. The Commonwealth's potential liability is $22 million.

MISCELLANEOUS

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

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

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

CONTINUING DISCLOSURE

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

The Commonwealth prepares its Statutory Basis Financial Report and its Comprehensive Annual Financial Report with respect to each fiscal year ending June 30. The Statutory Basis Financial Report becomes available by October 31 of the following fiscal year, and the Comprehensive Annual Financial Report becomes available in January of the following fiscal year. Copies of such reports and other financial reports of the Comptroller referenced in this document may be obtained by requesting the same in writing from the Office of the Comptroller, One Ashburton Place, Room 909, Boston, Massachusetts 02108. The financial statements are also available at the Comptroller's home page located at www.state.ma.us/osc.

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.

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, or Catherine Frazer, Director of Debt Finance, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Information Statement should be directed to John R. Regier or Navjeet K. Bal, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone 617/542-6000.

THE COMMONWEALTH OF MASSACHUSETTS

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

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

May 5, 1998

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ECONOMIC INFORMATION

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

All information is presented on a calendar-year basis unless otherwise indicated. **Information is current as of March 31, 1998.** Sources of information are indicated in the text or immediately following the charts and tables. Although the Commonwealth considers the sources to be reliable, the Commonwealth has made no independent verification of the information presented herein and does not warrant its accuracy.

Statistical Overview

	Massachusetts	*United States*
Population *(p. A-2)*		
Percentage Change in Population, 1996–1997	0.5%	0.9%
Personal Income, Consumer Prices, and Poverty *(p. A-7)*		
Per Capita Personal Income, 1996	$29,792	$24,426
Average Annual Pay, 1996 (p)	$33,940	$28,945
Percentage Change in CPI-U, 1996-1997*	2.8%	2.3%
Percentage Change in CPI-U, February 1997—February 1998*	2.1%	1.6%
Poverty Rate, 1996	11.0%	13.8%
Average Weekly Manufacturing Earnings, February 1998	$572.88	$561.46
Percentage Change in Manufacturing Earnings, Feb. 1997–Feb. 1998	3.3%	3.8%
Employment *(p. A-13)*		
Unemployment Rate, 1997	4.0%	4.9%
Unemployment Rate, February 1998	3.3%	4.6%
Economic Base and Performance *(p. A-20)*		
Percentage Change in Gross State Product, 1993–1994	4.5%	3.9%
Business Failures Per Ten Thousand Existing Businesses, 1997	69	88
Percentage Change in International Exports, 1996–1997	12.7%	10.4%
Percentage Change in Housing Permits Authorized, 1996-1997	1.1%	1.4%
Human Resources and Infrastructure *(p. A-33)*		
Expenditure Per Pupil, 1995	$6,783	$5,528
Percentage Adults with a Bachelor's Degree, March 1996	32.4%	23.6%

*Note: Percentage change in CPI-U data is for Boston and the U.S.

Massachusetts is a densely populated state with a well-educated population, comparatively high income levels, low rates of unemployment, and a relatively diversified economy. While the total population of Massachusetts has remained fairly stable in the last twenty years, significant changes have occurred in the age distribution of the population: dramatic growth in residents between the ages of 20 and 44 since 1980 is expected to lead to a population distributed more heavily in the 65 and over age group in 2015 and 2025. Just as the working-age population has increased, income levels in Massachusetts since 1980 have grown significantly more than the national average, and a variety of measures of income show that Massachusetts residents have significantly higher rates of annual income than the national average. These higher levels of income have been accompanied by a significantly lower poverty rate and, with the exception of the recession of the early 1990s, considerably lower unemployment rates in Massachusetts than in the United States since 1980. While economic growth in Massachusetts slowed considerably during the recession of 1990–1991, indicators such as retail sales, housing permits, construction, and employment levels suggest a strong and continued economic recovery.

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

POPULATION CHARACTERISTICS

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

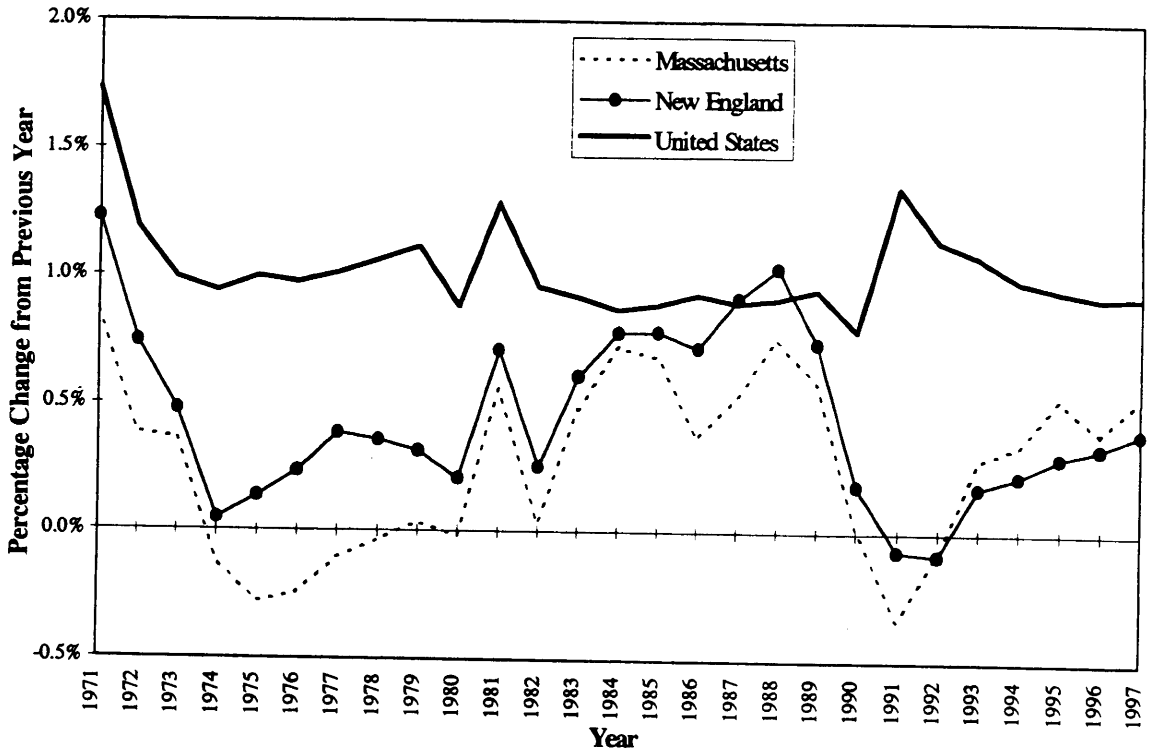
The State's population is concentrated in its eastern portion. The City of Boston is the largest city in New England, with a 1990 population of 574,283. Boston is the hub of the Boston-Worcester-Lawrence, MA-NH-ME-CT Consolidated Metropolitan Statistical Area ("CMSA"), which also includes all of southeastern New Hampshire, as well as towns in Maine and Connecticut, and which had a total population in 1990 of 5,455,403, over 40 percent of the total New England population. The Boston, MA-NH Primary Metropolitan Statistical Area ("PMSA")—which stretches from the Cape Cod Canal south of Boston to southern New Hampshire—is the largest component of that CMSA, with a total population in 1990 of 3,227,707, the vast majority (3,220,464) of whom live in Massachusetts and comprise more than one-half the total population of Massachusetts.

The second largest component of that CMSA is the Worcester, MA-CT PMSA, with a 1990 population of 478,384. Worcester, situated approximately 40 miles west of Boston with a 1990 population of 169,759, is the second largest city in New England. Its service, trade, and manufacturing industries combine for more than 70 percent of Worcester's total employment. As a major medical and educational center, the Worcester area is home to 19 patient care facilities, including the University of Massachusetts Medical School, and twelve other colleges and universities.

The largest Metropolitan Statistical Area ("MSA") within Massachusetts which is not a part of this larger CMSA is the Springfield MSA, with a 1990 population of 587,884. Springfield, the third largest city in the Commonwealth with a 1990 population of 156,983, is located in the Connecticut River Valley in western Massachusetts and enjoys a diverse body of corporate employers, the largest of which are the Bay State Medical Center, the Massachusetts Mutual Life Insurance Company, the Milton Bradley Company, and Smith and Wesson. In addition, Springfield is home to four independent colleges.

As the following chart indicates, the percentage change in population in Massachusetts since 1971 has been both lower and more erratic than the change in population for the United States as a whole. While this trend is similar to that experienced by New England, it differs considerably from the steady growth rates for the United States over the same period of time. Between 1990 and 1992, the rate of population growth in Massachusetts was zero or negative. Between 1993 and 1997, however, the population of Massachusetts grew by 1.8 percent, compared to a 3.8 percent increase for the United States.

Percentage Change in Total Population, 1971-1997



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

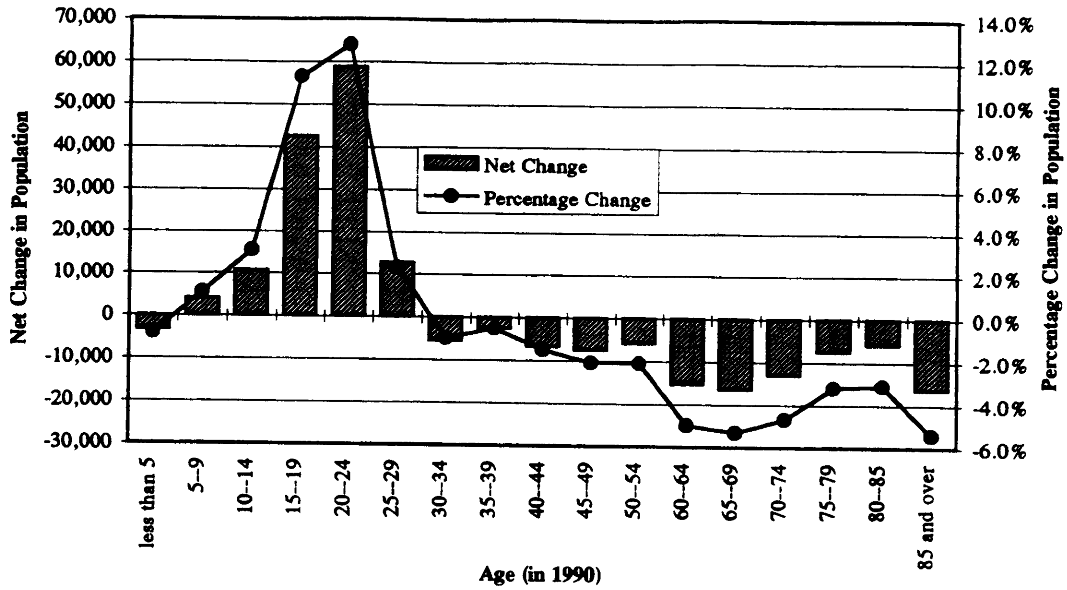
Population, 1970-1997
(in thousands)

	Massachusetts		*New England*		*United States*	
Year	*Total*	*Percentage Change*	*Total*	*Percentage Change*	*Total*	*Percentage Change*
1970	5,689		11,847		203,302	
1971	5,738	0.9%	11,993	1.2%	206,827	1.7%
1972	5,760	0.4%	12,082	0.7%	209,284	1.2%
1973	5,781	0.4%	12,140	0.5%	211,357	1.0%
1974	5,774	-0.1%	12,146	0.0%	213,342	0.9%
1975	5,758	-0.3%	12,163	0.1%	215,465	1.0%
1976	5,744	-0.2%	12,192	0.2%	217,563	1.0%
1977	5,738	-0.1%	12,239	0.4%	219,760	1.0%
1978	5,736	0.0%	12,283	0.4%	222,095	1.1%
1979	5,738	0.0%	12,322	0.3%	224,567	1.1%
1980	5,737	0.0%	12,348	0.2%	226,546	0.9%
1981	5,769	0.6%	12,436	0.7%	229,466	1.3%
1982	5,771	0.0%	12,468	0.3%	231,664	1.0%
1983	5,799	0.5%	12,544	0.6%	233,792	0.9%
1984	5,841	0.7%	12,642	0.8%	235,825	0.9%
1985	5,881	0.7%	12,741	0.8%	237,924	0.9%
1986	5,903	0.4%	12,833	0.7%	240,133	0.9%
1987	5,935	0.5%	12,951	0.9%	242,289	0.9%
1988	5,980	0.8%	13,085	1.0%	244,499	0.9%
1989	6,015	0.6%	13,182	0.7%	246,819	0.9%
1990	6,016	0.0%	13,207	0.2%	248,765	0.8%
1991	5,996	-0.3%	13,198	-0.1%	252,124	1.4%
1992	5,991	-0.1%	13,187	-0.1%	255,002	1.1%
1993	6,008	0.3%	13,211	0.2%	257,753	1.1%
1994	6,029	0.3%	13,241	0.2%	260,292	1.0%
1995	6,061	0.5%	13,281	0.3%	262,761	0.9%
1996	6,085	0.4%	13,326	0.3%	265,179	0.9%
1997	6,118	0.5%	13,379	0.4%	267,636	0.9%

SOURCE: United States Department of Commerce, Bureau of the Census.
Note: 1970, 1980, and 1990 estimates are as of April 1; estimates for other years are as of July 1.

Net migration has not significantly contributed to changes in the Commonwealth's total population during the last decade, although preliminary evidence suggests that out-migration increased during the Commonwealth's recent economic downturn. However, net migration has reduced the age profile of the Massachusetts population. Between 1980 and 1990, considerable increases in the population of younger age groups (10 years to 30 years) coincided with smaller decreases in the population of all age groups representing people over thirty. The following chart shows the net change in Massachusetts population between 1980 and 1990, by five year classifications of ages. Between 1980 and 1990, Massachusetts lost more citizens over age 30 through migration than it gained. But in-migration of younger people, particularly in the college age and young adult groups, offset the number of older citizens moving away.

Net Change in Massachusetts Population by Age, 1980-1990



The next fifteen years are expected to bring about a considerable change in the age distribution of the Massachusetts population. As the following table and chart show, the population of Massachusetts is expected to be distributed more heavily in the 65 and over age groups in 2015 and in 2025 than it was in 1995. The chart and table show the projected population by age for Massachusetts for 1995 through 2025.

Projected Massachusetts Population By Age Group, 1995-2025
(in thousands)

Year	0-4	5-17	18-24	25-64	65+
1995	413	1,019	537	3,244	861
2000	400	1,096	549	3,311	843
2005	382	1,106	633	3,362	827
2015	411	1,053	681	3,464	965
2025	439	1,128	650	3,433	1,252

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

Projected Massachusetts Population By Age Group, 1995-2025

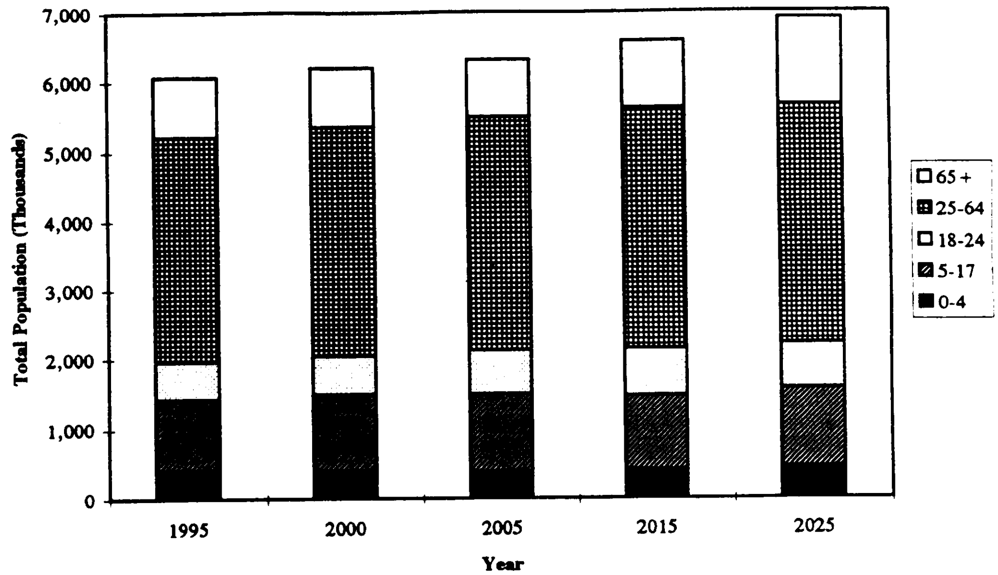
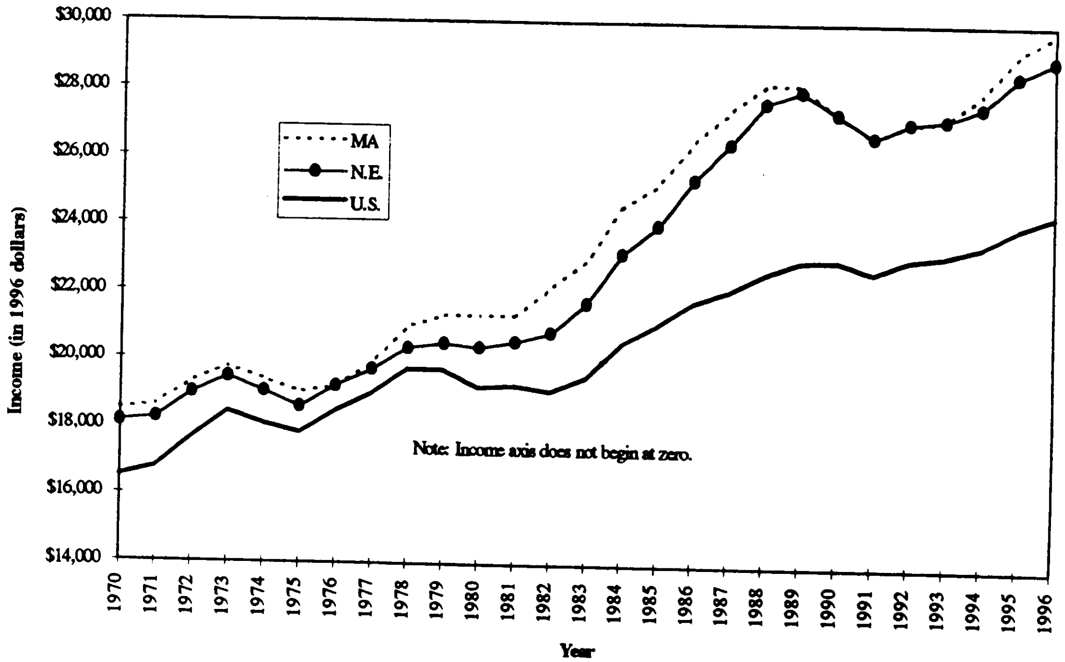


Exhibit A-6

PERSONAL INCOME, CONSUMER PRICES, AND POVERTY

Personal Income. Since 1970, real and nominal per capita income levels have been consistently higher in Massachusetts than in the United States. After growing at an annual rate higher than that for the United States between 1982 and 1988, real income levels in Massachusetts declined between 1989 and 1991. Since 1994, however, real per capita income levels in Massachusetts have increased faster than the national average, showing growth rates between 2.1 and 4.3 percent in the last three years. Both real and nominal income levels in Massachusetts are now at their highest rates ever, and both remain well above the national average. In fact, Massachusetts had the third highest level of per capita personal income in the United States in 1996. The following chart illustrates real per capita personal income in Massachusetts, New England, and the United States since 1970.

Per Capita Personal Income, 1970-1996
(in constant 1996 dollars)



The following table compares per capita personal income in Massachusetts, New England, and the United States for the period 1970-1996.

Per Capita Personal Income, 1970-1996

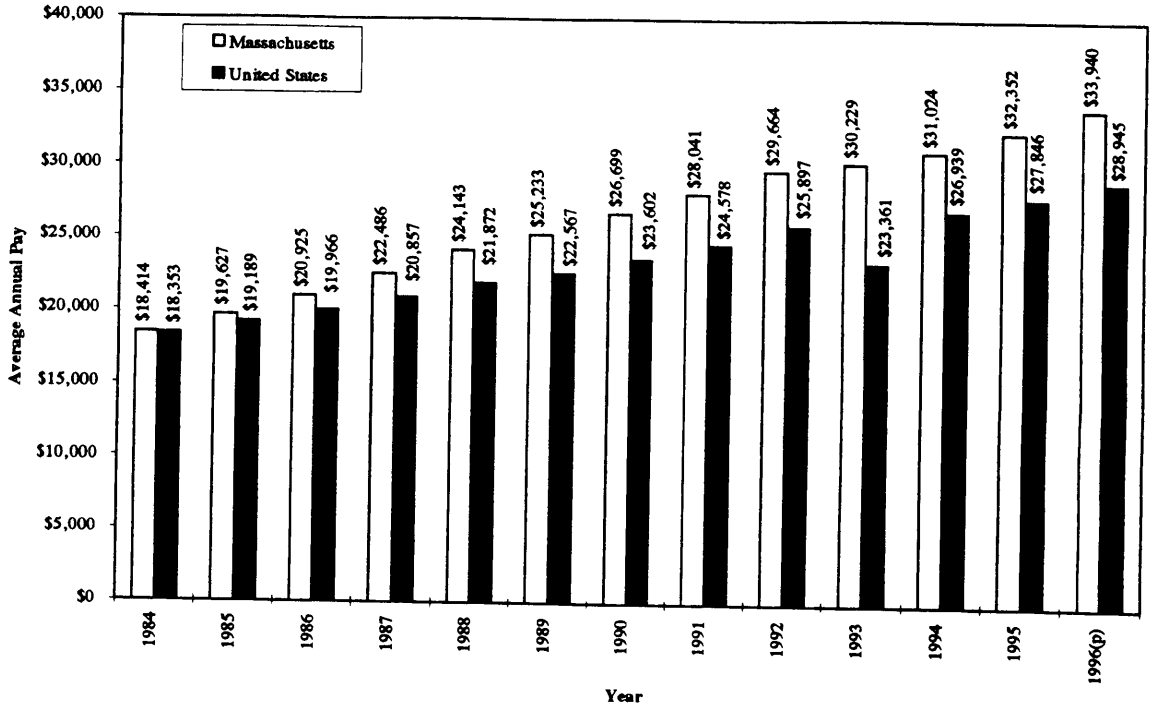
	Nominal Income (in current dollars)			*Real Income (in 1996 dollars)*			*Percentage Change in Real Income*		
Year	*MA*	*N.E.*	*U.S.*	*MA*	*N.E.*	*U.S.*	*MA*	*N.E.*	*U.S.*
1970	$4,547	$4,480	$4,077	$18,471	$18,116	$16,487			
1971	4,804	4,703	4,327	18,590	18,220	16,763	0.6%	0.6%	1.7%
1972	5,162	5,054	4,699	19,290	18,971	17,638	3.8%	4.1%	5.2%
1973	5,600	5,504	5,211	19,751	19,450	18,415	2.4%	2.5%	4.4%
1974	6,074	5,978	5,676	19,373	19,025	18,064	-1.9%	-2.2%	-1.9%
1975	6,495	6,373	6,100	19,008	18,586	17,790	-1.9%	-2.3%	-1.5%
1976	7,042	6,962	6,690	19,166	19,198	18,447	0.8%	3.3%	3.7%
1977	7,684	7,606	7,334	19,886	19,693	18,989	3.8%	2.6%	2.9%
1978	8,536	8,455	8,196	20,993	20,346	19,723	5.6%	3.3%	3.9%
1979	9,552	9,478	9,118	21,309	20,483	19,705	1.5%	0.7%	-0.1%
1980	10,780	10,705	10,062	21,312	20,384	19,159	0.0%	-0.5%	-2.8%
1981	11,978	11,899	11,144	21,307	20,539	19,235	0.0%	0.8%	0.4%
1982	12,964	12,808	11,729	22,168	20,825	19,070	4.0%	1.4%	-0.9%
1983	14,046	13,788	12,384	22,983	21,720	19,509	3.7%	4.3%	2.3%
1984	15,726	15,345	13,588	24,528	23,173	20,519	6.7%	6.7%	5.2%
1985	16,892	16,474	14,448	25,214	24,022	21,068	2.8%	3.7%	2.7%
1986	18,202	17,721	15,185	26,492	25,369	21,738	5.1%	5.6%	3.2%
1987	19,658	19,138	15,990	27,414	26,433	22,085	3.5%	4.2%	1.6%
1988	21,447	20,842	17,062	28,199	27,643	22,629	2.9%	4.6%	2.5%
1989	22,657	22,128	18,172	28,179	27,999	22,993	-0.1%	1.3%	1.6%
1990	23,249	22,783	19,191	27,333	27,350	23,038	-3.0%	-2.3%	0.2%
1991	23,657	23,146	19,689	26,643	26,664	22,681	-2.5%	-2.5%	-1.5%
1992	24,618	24,234	20,631	27,053	27,101	23,072	1.5%	1.6%	1.7%
1993	25,473	25,058	21,365	27,206	27,208	23,198	0.6%	0.4%	0.5%
1994	26,522	26,040	22,180	27,960	27,569	23,482	2.8%	1.3%	1.2%
1995	28,332	27,688	23,348	29,172	28,506	24,037	4.3%	3.4%	2.4%
1996	29,792	28,989	24,426	29,792	28,989	24,426	2.1%	1.7%	1.6%

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

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

Annual pay in nominal dollars has grown steadily in Massachusetts over the past ten years. Average annual pay is computed by dividing the total annual payroll of employees covered by Unemployment Insurance programs by the average monthly number of employees. Data are reported by employers covered under the Unemployment Insurance programs. While levels of annual pay were nearly equal in Massachusetts and the United States in 1984, average annual pay levels in Massachusetts have grown more rapidly than the national average since that time. Following a period between 1985 and 1992 in which average annual pay levels in Massachusetts grew at a rate between 5 and 7 percent, growth slowed to less than 3 percent in 1993 and 1994. However, growth levels have exceeded 4 percent in the past two years and, as a result, preliminary estimates show that the level of annual pay in Massachusetts in 1996 was seventeen percent higher than the national average: $33,940 compared to $28,945. In 1996, average annual pay levels in Massachusetts were the fifth highest in the nation, and the growth rate was the sixth highest in the nation.

Average Annual Pay, 1984-1996
(in current dollars)



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

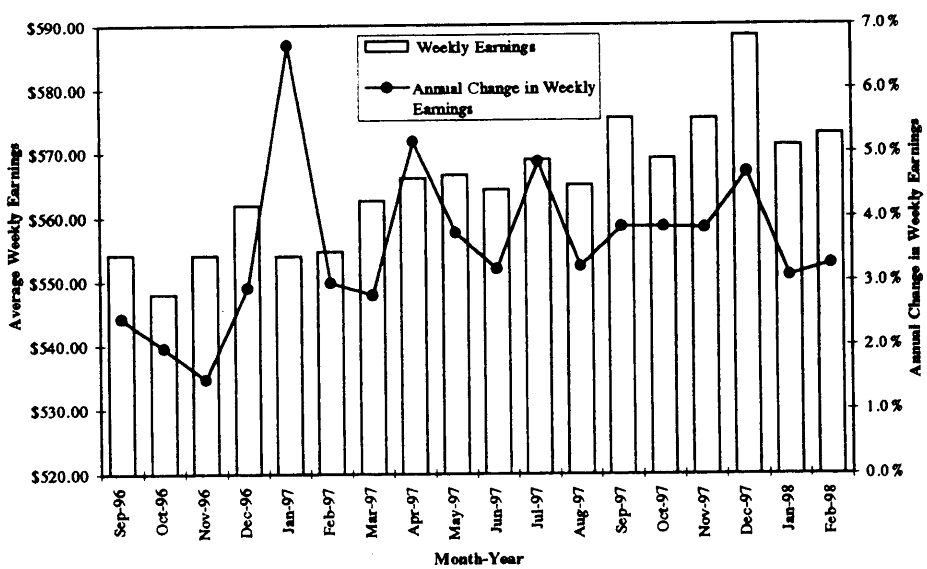
Manufacturing Hours and Earnings. While employment in the manufacturing sector of the Massachusetts economy continues to decline, weekly earnings in the manufacturing sector have grown at a rate of 3.3 percent over the past year. While this growth can be attributed largely to an increase in average hourly earnings (from $13.24 in February 1997 to $13.64 in February 1998), it is important to note that employees in the manufacturing sector have averaged more than 42 hours per week in 15 of the past 18 months. Furthermore, there is a clear pattern of growth in the average number of hours worked per week in the manufacturing sector: average weekly hours in five of the past six months have exceeded levels from the same month in the prior year. The following table shows average weekly hours, hourly earnings, weekly earnings, and the percentage change in weekly earnings compared to the same month in the previous year. Data are not adjusted to reflect seasonal variations in employment and compensation levels.

Average Weekly Manufacturing Hours and Earnings in Massachusetts, September 1996-February 1998
(not seasonally adjusted)

Month	*Weekly Hours*	*Hourly Earnings*	*Weekly Earnings*	*Annual Change in Weekly Earnings*
Sep-96	42.3	$13.10	$554.13	2.4%
Oct-96	41.8	$13.11	$548.00	2.0%
Nov-96	42.2	$13.13	$554.09	1.5%
Dec-96	42.6	$13.19	$561.89	2.9%
Jan-97	42.1	$13.16	$554.04	6.7%
Feb-97	41.9	$13.24	$554.76	3.0%
Mar-97	42.2	$13.33	$562.53	2.8%
Apr-97	42.4	$13.35	$566.04	5.2%
May-97	42.5	$13.33	$566.53	3.8%
Jun-97	42.3	$13.34	$564.28	3.2%
Jul-97	42.2	$13.48	$568.86	4.9%
Aug-97	42.0	$13.45	$564.90	3.2%
Sep-97	42.5	$13.54	$575.45	3.8%
Oct-97	42.0	$13.55	$569.10	3.9%
Nov-97	42.3	$13.60	$575.28	3.8%
Dec-97	43.0	$13.68	$588.24	4.7%
Jan-98	41.9	$13.63	$571.10	3.1%
Feb-98	42.0	$13.64	$572.88	3.3%

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

Average Weekly Manufacturing Earnings in Massachusetts, September 1996—February 1998
(not seasonally adjusted)



SOURCE: United States Department of Labor, Bureau of Labor Statistics.
Note: Vertical axis does not begin at zero.

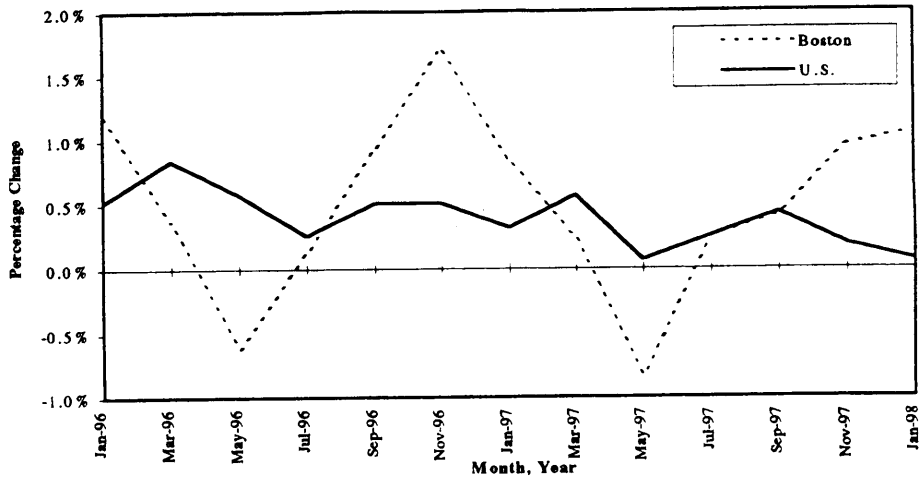
Consumer Prices. Higher income levels in Massachusetts relative to the rest of the United States are offset to some extent by the higher cost of living in Massachusetts. The following table presents consumer price trends for the Boston metropolitan area and the United States for the period between 1970 and 1997. Data for each year indicate the Consumer Price Index for all urban consumers (CPI-U) and the percentage change in the Consumer Price Index for all urban consumers from the previous year. In 1997, the CPI-U for Boston increased 2.8 percent compared to an increase of 2.3 percent for the United States as a whole. The latest available data for January 1998 show that the CPI-U for the Boston metropolitan area grew at a rate of 2.1 percent from January 1997; in the United States, growth for the comparable period was 1.6 percent.

Consumer Price Index for all Urban Consumers (CPI-U), 1970-1997
(1982-1984=100)

	Boston		U.S.	
Year	*CPI-U*	*Pct. Change*	*CPI-U*	*Pct. Change*
1970	40.2		38.8	
1971	42.2	5.0%	40.5	4.4%
1972	43.7	3.6%	41.8	3.2%
1973	46.3	5.9%	44.4	6.2%
1974	51.2	10.6%	49.3	11.0%
1975	55.8	9.0%	53.8	9.1%
1976	60.0	7.5%	56.9	5.8%
1977	63.1	5.2%	60.6	6.5%
1978	66.4	5.2%	65.2	7.6%
1979	73.2	10.2%	72.6	11.3%
1980	82.6	12.8%	82.4	13.5%
1981	91.8	11.1%	90.9	10.3%
1982	95.5	4.0%	96.5	6.2%
1983	99.8	4.5%	99.6	3.2%
1984	104.7	4.9%	103.9	4.3%
1985	109.4	4.5%	107.6	3.6%
1986	112.2	2.6%	109.6	1.9%
1987	117.1	4.4%	113.6	3.6%
1988	124.2	6.1%	118.3	4.1%
1989	131.3	5.7%	124.0	4.8%
1990	138.9	5.8%	130.7	5.4%
1991	145.0	4.4%	136.2	4.2%
1992	148.6	2.5%	140.3	3.0%
1993	152.9	2.9%	144.5	3.0%
1994	154.9	1.3%	148.2	2.6%
1995	158.6	2.4%	152.4	2.8%
1996	163.3	3.0%	156.9	3.0%
1997	167.9	2.8%	160.5	2.3%
Jan-97	167.7		159.1	
Jan-98	171.2	2.1%	161.6	1.6%

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

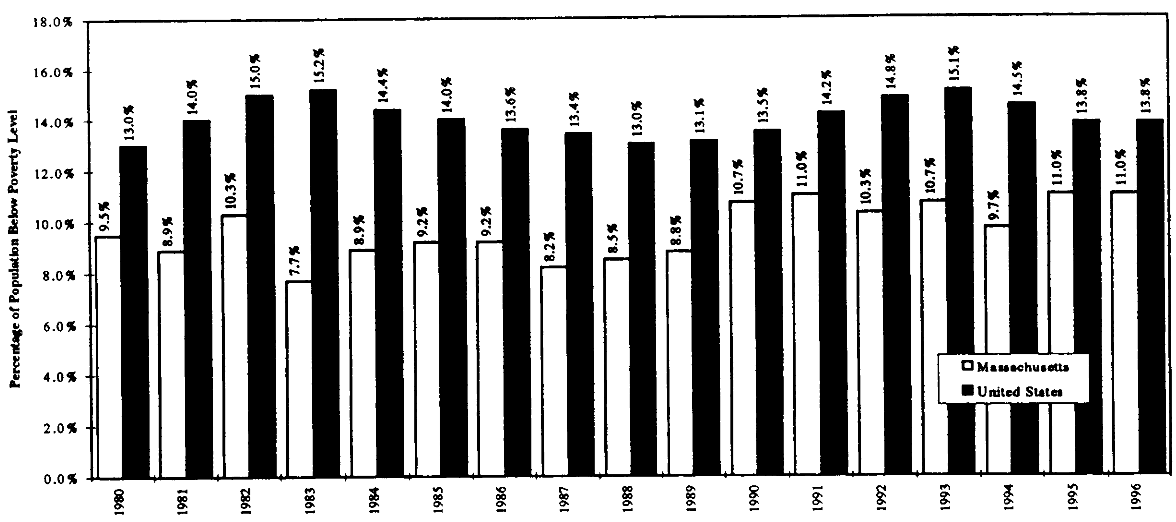
Bi-Monthly Percentage Change in Consumer Price Index for all Urban Consumers, January 1996— January 1998



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

Poverty. The Massachusetts poverty rate remains significantly below the national average. Since 1980, the percentage of the Massachusetts population below the poverty line has varied between 7.7 percent and 11.0 percent. During the same time, the national poverty rate varied between 13.0 percent and 15.2 percent. In 1996, the poverty rate in Massachusetts was 11.0 percent while the poverty rate in the United States was 13.8 percent. Since 1980, the ratio of the Massachusetts rate of poverty to the United States rate of poverty has varied from a low of 0.51 in 1983 to its recent high of 0.80 in 1996. These official poverty statistics are not adjusted for regional differences in the cost of living. The following chart illustrates the lower poverty rates in Massachusetts compared with the national average from 1980 through 1996.

Poverty Rate, 1980-1996

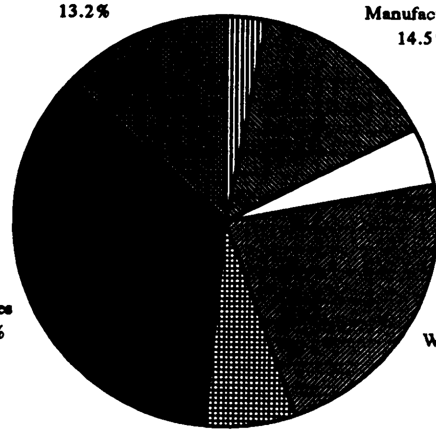


SOURCE: United States Department of Commerce, Bureau of the Census.

EMPLOYMENT

Employment by Industry. The Massachusetts services sector, with 35.6 percent of the non-agricultural work force in February 1998, is the largest employment sector in the Massachusetts economy, followed by wholesale and retail trade (22.6 percent), manufacturing (14.5 percent), and government employment (13.2 percent). The following chart shows the distribution of non-agricultural employment by industry in Massachusetts for February 1998.

Massachusetts Non-Agricultural Employment by Industry, February 1998
(not seasonally adjusted)



Between 1988 and 1992, total employment in Massachusetts declined 10.7 percent. The construction, manufacturing, and trade sectors experienced the greatest decreases during this time, with more modest declines taking place in the government, finance, insurance and real estate ("FIRE"), and services sectors. The economic recovery that began in 1993 has been accompanied by increased employment levels; since 1994, total employment levels in Massachusetts have increased at yearly rates greater than 2.0 percent. In 1997, employment levels in every industry increased, including manufacturing employment, which had declined in every year since 1983. The most rapid growth in 1997 came in the construction sector and the services sector, which grew at rates of 6.7 percent and 4.1 percent, respectively. Total non-agricultural employment in Massachusetts grew at a rate of 2.7 percent in 1997.

The following table demonstrates the changes in employment by sector from 1980 through 1997.

Massachusetts Non-Agricultural Employment by Industry, 1982-1997
(in thousands)

	Construction		Manufacturing		Transportation and Public Utilities		Wholesale and Retail Trade		Finance, Insurance, Real Estate		Services		Government		Total Employment	
Year	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change	Number Employed	Pct. Change
1982	78.4		636.5		120.1		579.2		168.7		683.5		374.7		2642.0	
1983	82.6	5.4%	629.0	-1.2%	118.2	-1.6%	612.7	5.8%	171.8	1.8%	705.8	3.3%	375.4	0.2%	2696.5	2.1%
1984	96.4	16.7%	667.6	6.1%	123.3	4.3%	659.1	7.6%	179.0	4.2%	754.0	6.8%	375.4	0.0%	2855.8	5.9%
1985	109.4	13.5%	649.7	-2.7%	125.4	1.7%	684.1	3.8%	188.1	5.1%	786.5	4.3%	385.3	2.6%	2930.0	2.6%
1986	123.2	12.6%	614.4	-5.4%	125.9	0.4%	709.7	3.7%	202.6	7.7%	818.4	4.1%	393.0	2.0%	2988.8	2.0%
1987	137.7	11.8%	599.1	-2.5%	131.0	4.1%	723.4	1.9%	217.9	7.6%	853.9	4.3%	401.2	2.1%	3065.8	2.6%
1988	142.1	3.2%	584.7	-2.4%	133.6	2.0%	739.4	2.2%	221.5	1.7%	896.6	5.0%	411.3	2.5%	3130.8	2.1%
1989	126.8	-10.8%	561.1	-4.0%	128.3	-4.0%	740.5	0.1%	217.3	-1.9%	924.1	3.1%	408.8	-0.6%	3108.6	-0.7%
1990	101.1	-20.3%	521.3	-7.1%	129.9	1.2%	700.1	-5.5%	213.3	-1.8%	915.7	-0.9%	402.2	-1.6%	2984.8	-4.0%
1991	78.8	-22.1%	485.0	-7.0%	123.4	-5.0%	650.6	-7.1%	201.8	-5.4%	890.5	-2.8%	389.9	-3.1%	2821.2	-5.5%
1992	73.6	-6.6%	465.7	-4.0%	121.4	-1.6%	640.5	-1.6%	196.7	-2.5%	913.5	2.6%	382.6	-1.9%	2795.1	-0.9%
1993	80.1	8.8%	454.8	-2.3%	124.0	2.1%	648.4	1.2%	201.5	2.4%	942.8	3.2%	387.5	1.3%	2840.2	1.6%
1994	86.0	7.4%	447.2	-1.7%	127.4	2.7%	669.4	3.2%	206.9	2.7%	975.7	3.5%	390.0	0.6%	2903.8	2.2%
1995	89.8	4.4%	446.1	-0.2%	127.0	-0.3%	687.2	2.7%	205.3	-0.8%	1024.9	5.0%	395.1	1.3%	2976.6	2.5%
1996	94.0	4.7%	444.7	-0.3%	129.1	1.7%	695.1	1.1%	208.2	1.4%	1063.2	3.7%	400.0	1.2%	3035.4	2.0%
1997	100.3	6.7%	447.8	0.7%	133.8	3.6%	710.8	2.3%	213.1	2.4%	1106.6	4.1%	405.0	1.3%	3118.7	2.7%

SOURCE: Massachusetts Division of Employment and Training.
Notes: Annual averages of monthly figures. Data are seasonally adjusted and subject to revision.

The following table presents changes in non-agricultural employment by sector between February 1997 and February 1998. Total non-agricultural employment increased by 3.4 percent during that period.

Massachusetts Non-Agricultural Employment by Industry, Feb. 1997-Feb. 1998
(in thousands)

Employment Sector	Feb. 1997	Pct. of Total	Feb. 1998	Pct. of Total	Pct. Change Feb. 1997-Feb. 1998
Mining	1.1	0.0%	1.2	0.0%	9.1%
Construction	85.8	2.8%	93.6	3.0%	9.1%
Manufacturing	442.2	14.6%	454.7	14.5%	2.8%
Transportation and Public Utilities	129.9	4.3%	135.4	4.3%	4.2%
Wholesale and Retail Trade	682.6	22.5%	709.1	22.6%	3.9%
Finance, Insurance, Real Estate	210.7	6.9%	214.3	6.8%	1.7%
Services	1076.4	35.5%	1116.1	35.6%	3.7%
Government	405.1	13.4%	413.1	13.2%	2.0%
Total Employment	3,033.8	100.0%	3,137.5	100.0%	3.4%

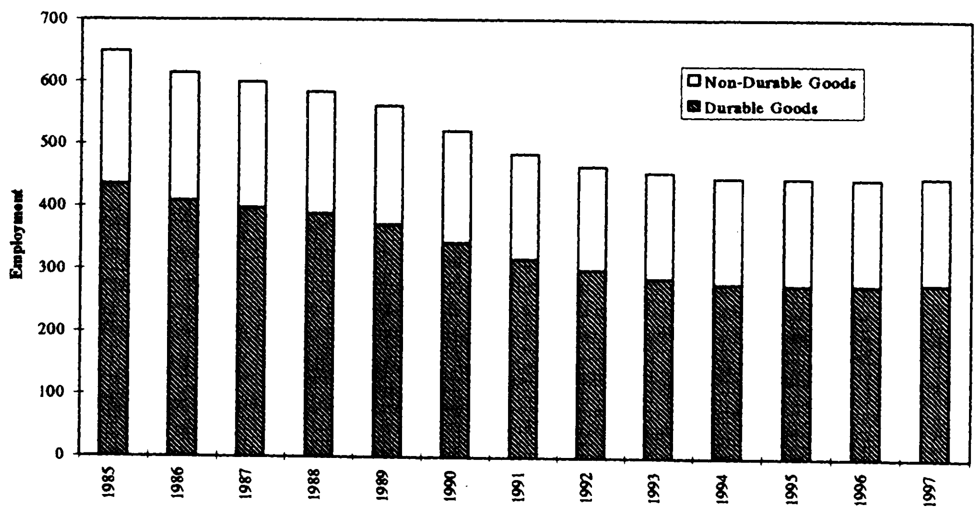
SOURCE: Massachusetts Division of Employment and Training.
Notes: Figures are preliminary and subject to revision. Sum of the parts may not equal totals due to rounding.
Figures are not seasonally adjusted.

Services Employment. The services sector is the largest sector in the Massachusetts economy in terms of number of employees. This sector includes the categories of health services, business services, educational services, engineering and management services, and social services. After moderate declines in 1990 and 1991, employment levels in the services sector reached consecutive new highs in each year between 1993 and 1997. Between February 1997 and February 1998, the services sector saw an increase in employment of 3.7 percent, and in February 1998, services sector employment (not seasonally adjusted) was 1,116,100, representing 35.6 percent of total non-agricultural employment. Health services is the largest component of the services sector in terms of employment. In 1990, the health services sector numbered 270,900 workers, with 128,600 of those employed by hospitals. Health services employment continued to grow during the economic downturn in the early 1990s and by 1997 had reached 328,700 workers. Between February 1997 and February 1998, health services employment increased 0.9 percent to 330,300, with 130,400 employed in hospitals. The fastest growing category within the services sector between February 1997 and February 1998, and the second largest component of the services sector, was the business services category, which grew at a rate of 8.6 percent and employed 231,600 workers in February 1998.

Wholesale and Retail Trade Employment. In the mid-1980s the trade sector was an area of strong job growth, boosted by a growing export sector. Trade employment declined between 1990 and 1992 but has increased in each of the last five years, including a 2.7 percent increase in 1997. In February 1998, retail and wholesale trade was the second largest employment sector in Massachusetts with 709,100 employees, 3.9 percent above February 1997 levels. The retail trade sector, which employed 532,600 of these employees, increased by 3.3 percent between February 1997 and February 1998 while the wholesale trade sector, which employed 176,500 employees in February 1998, grew at a rate of 5.4 percent during that period.

Manufacturing Employment. Like many industrial states, Massachusetts has seen a steady diminution of its manufacturing jobs base over the last decade. Total employment in the manufacturing sector declined in every year between 1984 and 1996, falling a total of 33.4 percent. However, with the end of the recession and the beginning of recovery in 1992, the rate of overall decline slowed significantly, from levels at or near 7 percent in both 1990 and 1991 to levels below 2 percent between 1995 and 1996, and employment in the manufacturing sector grew at a rate of 0.7 percent in 1997. Between February 1997 and February 1998 manufacturing employment increased 2.8 percent.

Manufacturing Employment in Massachusetts, 1985-1997
(in thousands)



Manufacturing Establishment Employment by Industry in Massachusetts, 1985-1997
(selected industries, in thousands)

Industry	*1985*	*1986*	*1987*	*1988*	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*
Durable Goods	436.0	409.1	398.0	388.1	372.1	342.7	317.0	299.6	287.0	278.2	276.3	276.8	279.6
Percentage Change	-1.7%	-6.2%	-2.7%	-2.5%	-4.1%	-7.9%	-7.5%	-5.5%	-4.2%	-3.1%	-0.7%	0.2%	1.0%
Primary Metals	15.8	15.8	15.6	12.9*	12.3	11.3	10.3	9.3	9.1	9.2	9.6	10.2	10.5
Fabricated Metals	45.3	42.8	41.7	45.0*	43.2	40.9	37.9	36.2	35.6	35.8	36.6	36.4	36.9
Industrial Machinery	119	107.4	102.3	100.0	95.8	85.2	76.6	72.5	67.3	63.6	63.4	64.2	64.1
Electronic & Elec.	111.3	107.4	105.2	82.2*	79.3	72.9	68.5	63.9	59.9	59.5	60.2	60.9	62.2
Transportation Equip.	41.6	37.1	35.4	32.4	30.6	27.8	26.0	24.1	21.9	19.2	18.3	18.8	19.2
Stone, Clay, & Glass	11.5	10.8	10.7	10.7	10.0	8.7	7.8	7.9	8.0	8.1	8.3	8.2	8.4
Instruments	58.0	55.1	54.5	72.4	71.2	69.4	65.6	61.6	60.4	57.8	55.0	53.9	53.7
Non-Durable Goods	213.6	205.3	201.1	196.5	189.0	178.6	168.0	166.1	168.1	168.9	169.7	167.9	168.2
Percentage Change	-4.7%	-3.9%	-2.0%	-2.3%	-3.8%	-5.5%	-5.9%	-1.1%	1.2%	0.5%	0.5%	-1.1%	0.2%
Apparel	31.7	27.8	25.4	23.7	22.0	19.2	17.7	17.7	17.2	16.8	16.0	15.1	14.1
Food & Kindred Prod.	23.1	22.7	21.4	21.0	20.5	20.1	19.6	19.3	19.8	20.3	21.1	21.7	21.5
Chemicals	17.6	17.2	18.0	18.6	18.4	17.7	17.3	16.5	16.9	16.3	16.0	17	17.5
Printing & Publishing	53.3	54.2	55.6	55.8	55.0	52.2	48.9	47.3	47.5	48.0	49.0	48.6	49.1
Textile Mill Prod.	18.8	17.7	17.1	16.3	15.5	14.6	14.1	14.6	15.1	15.4	15.2	14.8	14.6
Paper & Allied Prod.	25.9	24.8	24.7	24.3	23.4	22.5	21.1	20.7	20.3	19.9	19.8	19.3	19.3
Rubber & Misc. Plastics	29.3	29.4	28.7	26.9	25.3	23.8	22.1	22.9	24.4	25.3	26.4	25.7	26.6
Total Man. Employ.	649.7	614.4	599.1	584.7	561.1	521.3	485.0	465.7	455.1	447.2	446.1	444.7	447.8
Percentage Change	-2.7%	-5.4%	-2.5%	-2.4%	-4.0%	-7.1%	-7.0%	-4.0%	-2.3%	-1.7%	-0.2%	-0.3%	0.7%

SOURCE: Massachusetts Division of Employment and Training.

Government Employment. Federal, state, and local government employed 413,100 workers in February 1998, which accounted for 13.2 percent of total non-agricultural employment in Massachusetts. The majority of these workers (256,500) were employed in local government, which grew at a rate of 2.4 percent between February 1997 and February 1998.

Finance, Insurance, and Real Estate Employment. While the Finance, Insurance and Real Estate sector experienced 23.7 percent growth in employment between 1984 and 1988, there was an 11.2 percent decline in employment between 1988 and 1992. Since that time, the sector has experienced modest annual growth rates between 1.4 and 2.7 percent, with the exception of a 0.8 percent decline in 1995. Despite an increase of 2.4 percent in 1997, employment levels in this sector remain below 1988 levels. As of February 1998, total employment in the FIRE sector was 214,300, an increase of 1.7 percent from February 1997.

Construction Employment. Fueled by the general growth of the rest of the Massachusetts economy, employment in the construction industry experienced dramatic growth in the first part of the 1980s, increasing by more than 80 percent between 1982 and 1988. This trend reversed direction between 1988 and 1992, when employment in the construction industry declined nearly 50 percent. Increased economic growth in the Massachusetts economy since 1993 has contributed to a rebound in employment levels in the construction industry, which grew at annual rates in excess of 4 percent between 1993 and 1997. In February 1998, the construction sector employed 93,600 people, an increase of 9.1 percent over February 1997 levels.

Largest Employers in Massachusetts. The following table lists the twenty-five largest private sector employers in Massachusetts in 1996 based upon employment data for the second quarter of 1996. Four of the companies from the previous year's list—AT&T, Beth Israel Hospital, John Hancock Mutual Life Insurance, and Purity Supreme—were replaced by Big Y Foods, FMR Equipment, Lucent Technologies, and Wal-Mart.

Twenty-Five Largest Private Sector Massachusetts Employers in 1996

Bank of Boston	Massachusetts Institute of Technology
Big Y Foods	May Department Stores
Blue Cross of Massachusetts	New England Telephone & Telegraph Co.
Boston University	Polaroid Corporation
Brigham & Women's Hospital Inc.	Raytheon Company
Digital Equipment Corporation	S & S Credit Company, Inc.
FMR Equipment	Sears, Roebuck, & Company
Friendly Ice Cream Corporation	Shaw's Supermarkets, Inc.
General Electric Company	Star Markets Company
Harvard Community Health Plan, Inc.	State Street Bank & Trust Company
Harvard University	United Parcel Service
Lucent Technologies	Wal-Mart
Massachusetts General Hospital	

SOURCE: Massachusetts Division of Employment and Training.

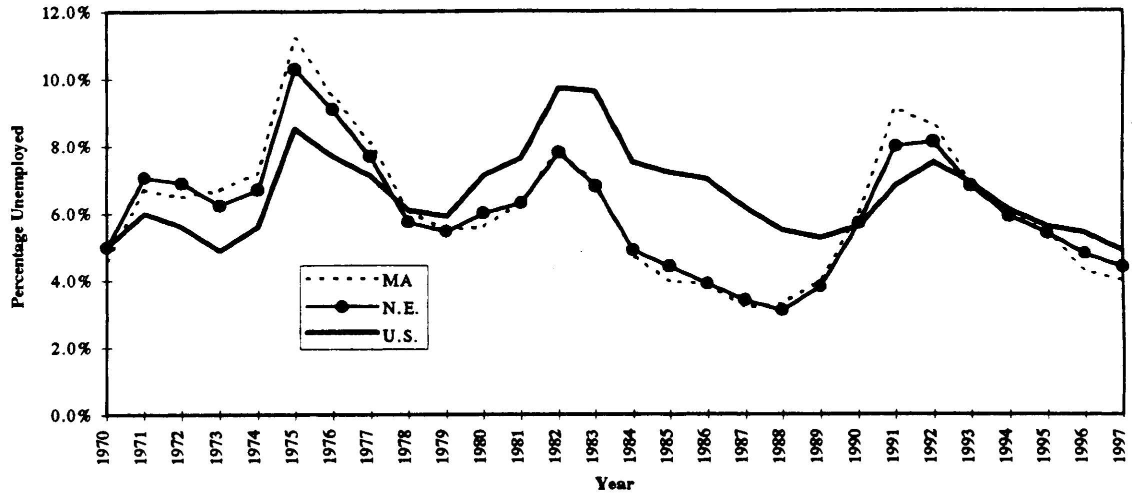
Unemployment. While the Massachusetts unemployment rate was significantly lower than the national average between 1979 and 1989, the economic recession of the early 1990s caused unemployment rates in Massachusetts to rise significantly above the national average. However, the economic recovery that began in 1993 has caused unemployment rates in Massachusetts to decline faster than the national average. As a result, since 1994 the unemployment rate in Massachusetts has been below the national average. The following table compares the annual civilian labor force, the number unemployed, and unemployment rate averages of Massachusetts, the New England states, and the United States between 1970 and 1997.

Annual Average Civilian Labor Force and Unemployment, 1970-1997
(in thousands)

	Civilian Labor Force			*Unemployed*			*Unemployment Rate*			*MA Rate as*
Year	*MA*	*N.E.*	*U.S.*	*MA*	*N.E.*	*U.S.*	*MA*	*N.E.*	*U.S.*	*Pct. of U.S.*
1970	2,465	5,129	82,796	114	256	4,127	4.6%	5.0%	5.0%	92.0%
1971	2,459	5,157	84,376	164	364	5,022	6.7%	7.1%	6.0%	111.7%
1972	2,487	5,261	87,011	161	363	4,876	6.5%	6.9%	5.6%	116.1%
1973	2,557	5,387	89,411	171	336	4,359	6.7%	6.2%	4.9%	136.7%
1974	2,636	5,512	91,976	190	369	5,173	7.2%	6.7%	5.6%	128.6%
1975	2,725	5,634	93,770	306	581	7,940	11.2%	10.3%	8.5%	131.8%
1976	2,727	5,717	96,151	259	519	7,398	9.5%	9.1%	7.7%	123.4%
1977	2,754	5,816	98,984	223	447	6,967	8.1%	7.7%	7.1%	114.1%
1978	2,815	5,908	102,233	171	339	6,187	6.1%	5.8%	6.1%	100.0%
1979	2,870	6,100	104,961	159	332	6,135	5.5%	5.5%	5.9%	93.2%
1980	2,867	6,167	106,940	161	367	7,637	5.6%	6.0%	7.1%	78.9%
1981	2,946	6,260	108,670	187	397	8,273	6.4%	6.3%	7.6%	83.4%
1982	2,993	6,339	110,201	237	495	10,678	7.9%	7.8%	9.7%	81.3%
1983	2,978	6,365	111,550	205	434	10,717	6.9%	6.8%	9.6%	71.5%
1984	3,048	6,549	113,544	145	318	8,539	4.8%	4.9%	7.5%	63.5%
1985	3,053	6,632	115,461	120	292	8,312	4.0%	4.4%	7.2%	54.9%
1986	3,059	6,721	117,834	118	265	8,237	3.9%	3.9%	7.0%	55.7%
1987	3,086	6,829	119,865	99	229	7,425	3.2%	3.4%	6.2%	51.8%
1988	3,155	6,914	121,669	103	218	6,701	3.3%	3.1%	5.5%	60.1%
1989	3,180	6,998	123,869	127	269	6,528	4.0%	3.8%	5.3%	76.2%
1990	3,228	7,147	125,840	195	408	7,047	6.0%	5.7%	5.6%	107.1%
1991	3,162	7,082	126,346	286	569	8,628	9.1%	8.0%	6.8%	133.8%
1992	3,145	7,057	128,105	269	568	9,613	8.6%	8.1%	7.5%	114.7%
1993	3,164	7,024	129,200	219	479	8,940	6.9%	6.8%	6.9%	100.0%
1994	3,167	6,954	131,056	190	411	7,996	6.0%	5.9%	6.1%	98.4%
1995	3,167	6,956	132,304	170	373	7,404	5.4%	5.4%	5.6%	96.4%
1996	3,174	7,004	133,943	137	336	7,236	4.3%	4.8%	5.4%	79.6%
1997	3,260	7,004	136,297	131	314	6,739	4.0%	4.4%	4.9%	81.6%

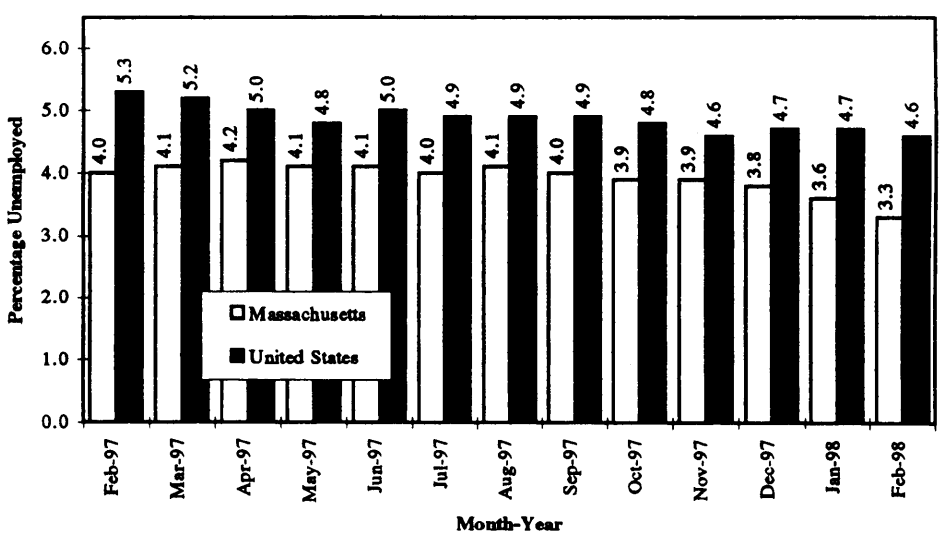
SOURCE: United States Department of Labor, Bureau of Labor Statistics.

Annual Average Unemployment Rate, 1970-1997



The unemployment rate in Massachusetts has been consistently below that of the United States over the past twelve months, remaining near 4 percent before falling to 3.3 percent in February of 1998. Unemployment levels in the United States as a whole and in the New England region have shown similar declines in the last year: the unemployment rate in New England fell from 4.6 percent in February 1997 to 3.6 percent in February 1998 and the United States unemployment rate was 4.6 percent in February 1998, down from 5.3 percent in February 1997. The following chart shows the unemployment rates for Massachusetts and the United States for each of the past twelve months.

Monthly Unemployment Rate, February 1997—February 1998
(seasonally adjusted)



SOURCE: Massachusetts Division of Employment and Training.

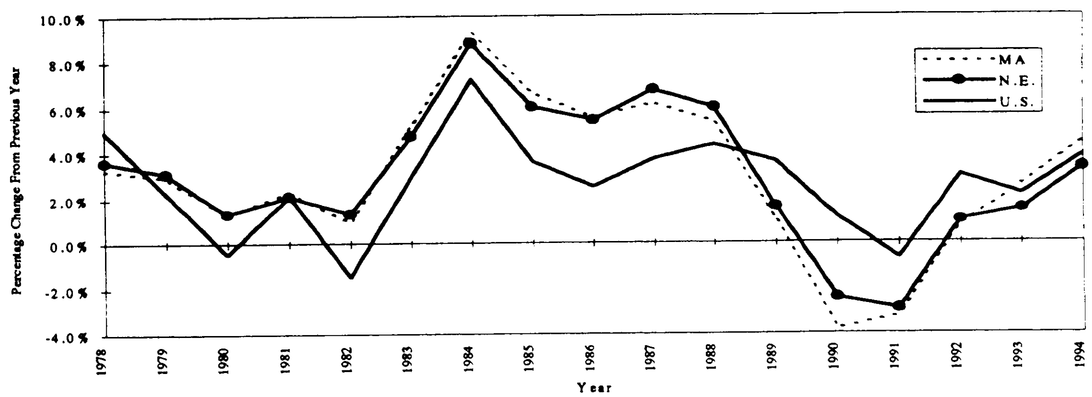
Unemployment Compensation Trust Fund. The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide for the payment of benefits to eligible individuals when they are unemployed through no fault of their own. Benefits are paid from the Commonwealth's Unemployment Compensation Trust Fund, financed through employer contributions. As of February 28, 1998, the private contributory sector of the Massachusetts Unemployment Trust Fund had a surplus of $1.649 billion. The Division of Employment and Training's January 1998 quarterly report indicated that the contributions provided by current law should result in a private contributory account balance of $1.649 billion in the Unemployment Compensation Trust Fund by December 1998 and should rebuild reserves in the system to $2.318 billion by the end of 2002.

Employment and Unemployment by County. Despite an overall unemployment rate that was lower than the national average of 4.9 percent in 1997, Massachusetts showed some intra-state variation in unemployment, with seven counties experiencing unemployment rates at or above the average state unemployment rate of 4.0 percent and four counties experiencing unemployment rates below 4.0 percent. The lowest unemployment levels in the state in 1997 were in Hampshire (2.9 percent), Middlesex (3.0 percent), and Norfolk (3.1 percent) Counties. The highest levels of unemployment in the state were the southeastern counties of Barnstable and Bristol, which experienced unemployment rates of 5.8 percent and 6.3 percent, respectively.

ECONOMIC BASE AND PERFORMANCE

Between 1982 and 1988, the economies of Massachusetts and New England were among the strongest performers in the nation, with growth rates considerably higher than those for the national economy as a whole. Between 1989 and 1992, however, both Massachusetts and New England experienced growth rates significantly below the national average. Since then, Massachusetts performed better than both the regional and national averages. In 1994, the Gross State Product for Massachusetts grew at a rate of 4.5 percent while the total Gross State Product for the United States grew at a rate of 3.9 percent. The Massachusetts economy has been the strongest in New England, making up an average of 48 percent of New England's total Gross State Product for nearly two decades. Massachusetts' percentage of the United States Gross State Product has varied between 2.5 to 3.1 percent during the same time frame.

Percentage Change in Real Gross State Product, 1978-1994



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

Gross State Product, 1977-1994
(millions of constant 1992 dollars)

	Massachusetts		*New England*		*United States*	
Year	*GSP*	*Percentage Change*	*GSP*	*Percentage Change*	*Total GSP*	*Percentage Change*
1977	$108,624		$225,125		$4,193,349	
1978	112,178	3.3%	233,251	3.6%	4,401,484	5.0%
1979	115,515	3.0%	240,513	3.1%	4,501,371	2.3%
1980	116,986	1.3%	243,681	1.3%	4,480,122	-0.5%
1981	119,702	2.3%	248,816	2.1%	4,574,985	2.1%
1982	120,819	0.9%	252,102	1.3%	4,506,811	-1.5%
1983	127,061	5.2%	264,080	4.8%	4,640,162	3.0%
1984	138,821	9.3%	287,339	8.8%	4,975,332	7.2%
1985	148,077	6.7%	304,621	6.0%	5,154,888	3.6%
1986	156,295	5.5%	321,133	5.4%	5,284,257	2.5%
1987	165,970	6.2%	342,802	6.7%	5,482,101	3.7%
1988	174,828	5.3%	363,279	6.0%	5,721,367	4.4%
1989	176,724	1.1%	369,194	1.6%	5,927,883	3.6%
1990	170,011	-3.8%	360,234	-2.4%	5,995,883	1.1%
1991	164,535	-3.2%	349,678	-2.9%	5,955,311	-0.7%
1992	165,805	0.8%	353,125	1.0%	6,135,028	3.0%
1993	170,062	2.6%	358,441	1.5%	6,267,307	2.2%
1994	177,710	4.5%	370,329	3.3%	6,509,565	3.9%

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

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

The commercial base of Massachusetts is anchored by the sixteen 1997 *Fortune* 500 industrial and service firms with headquarters within the state, as the following table indicates. The *Fortune* 500 firms are ranked according to total revenues in 1996.

Massachusetts Companies in the 1997 Fortune *500*

Ranking 1997	Ranking 1996	Company	Industry	1996 revenues (in millions)
78	77	Digital Equipment (Maynard)	Computers and Office Equipment	$14,562.8
108	107	Raytheon (Lexington)	Electronics, Electrical Equipment	12,330.5
126	139	Liberty Mutual Ins. Group (Boston)	Insurance (Mutual)	10,967.0
152	195	Gillette (Boston)	Metal Products	9,697.7
160	193	Mass. Mutual Life Ins. (Springfield)	Insurance (Mutual)	9,230.0
168	224	John Hancock Mutual Life Ins. (Boston)	Insurance (Mutual)	8,743.5
186	166	Fleet Financial Group (Boston)	Commercial Banking	8,043.0
215	293	TJX (Framingham)	Specialist Retailers	6,689.4
233	243	Bank of Boston (Boston)	Commercial Banking	6,237.0
314	315	Waban (Natick)	Specialist Retailers	4,375.5
348	404	Staples (Framingham)	Specialist Retailers	3,967.7
390	355	Reebok (Stoughton)	Wholesalers	3,482.9
408	383	Harcourt General (Chestnut Hill)	General Merchandisers	3,289.9
412	384	Allamerica Financial (Worcester)	Insurance (Mutual)	3,274.7
458	—	Thermo Electron (Waltham)	Scientific, Photo Equipment	2,932.6
477	495	State Street Boston Corp. (Boston)	Commercial Banking	2,744.4

SOURCE: *Fortune*, April 28, 1997.

With sixteen *Fortune* 500 companies, Massachusetts ranks ninth among all states, tied with Virginia. The 1997 list remains very much the same as it appeared in 1996. Among Massachusetts firms from the 1996 *Fortune* 500, only Stop & Shop (F96-308) failed to make it onto the list in 1997. The only new Massachusetts firm to break into the *Fortune* 500 in 1997 is Thermo Electron.

Along with the sixteen 1997 *Fortune* 500 companies with headquarters in Massachusetts, four of *Fortune*'s 1997 Top 100 fastest growing companies in the country are based in Massachusetts. Only California (28), Texas (20), and Pennsylvania (6) had more firms on the list. The 1997 *Fortune* Top 100 firms are ranked according to annual growth rates in earnings per share.

Massachusetts Companies in the 1997 Fortune *Top 100*

(Fortune Top 100 measures fastest growing U.S. companies)

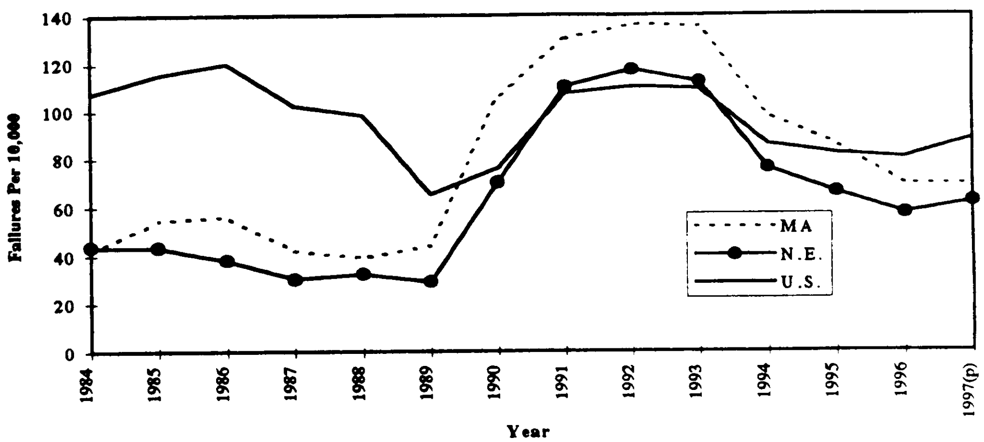
Ranking 1997	Ranking 1996	Company	Industry	Earnings Per Share Annual Growth Rate	Sales Past Four Quarters (in Millions)
20	–	Hologic (Waltham)	Health Care Equipment	144%	$106.4
82	–	Staples (Westborough)	Specialist Retailers	58%	4,459.7
84	–	Cambridge Tech. Partners (Cambridge)	Computer Services	57%	287.4
86	72	Thermedics (Woburn)	Detection equipment	56%	283.2

SOURCE: *Fortune*, September 29, 1997.

The current restructuring of the Massachusetts economy due to the economic recovery has brought many new business opportunities. Entrepreneurial activity in Massachusetts, as measured by business starts, declined from a high of 6,264 in 1986 to a low of 3,602 in 1990. By 1994, business starts had rebounded to 5,091, but have since declined to 3,766 in 1997.

According to Dun & Bradstreet, the business failure rate in Massachusetts, which was significantly lower than the national average between 1984 and 1989, increased to a rate higher than that of the United States between 1990 and 1995. In 1996, however, the business failure rate in Massachusetts again dropped below the national average and remained well below the national average in 1997. The following chart and table show the rate of business starts, total business failures, and the rate of business failures for Massachusetts, New England, and the United States through 1997.

Business Failures Per Ten Thousand Existing Businesses, 1984-1997



Business Starts and Business Failures, 1980-1997

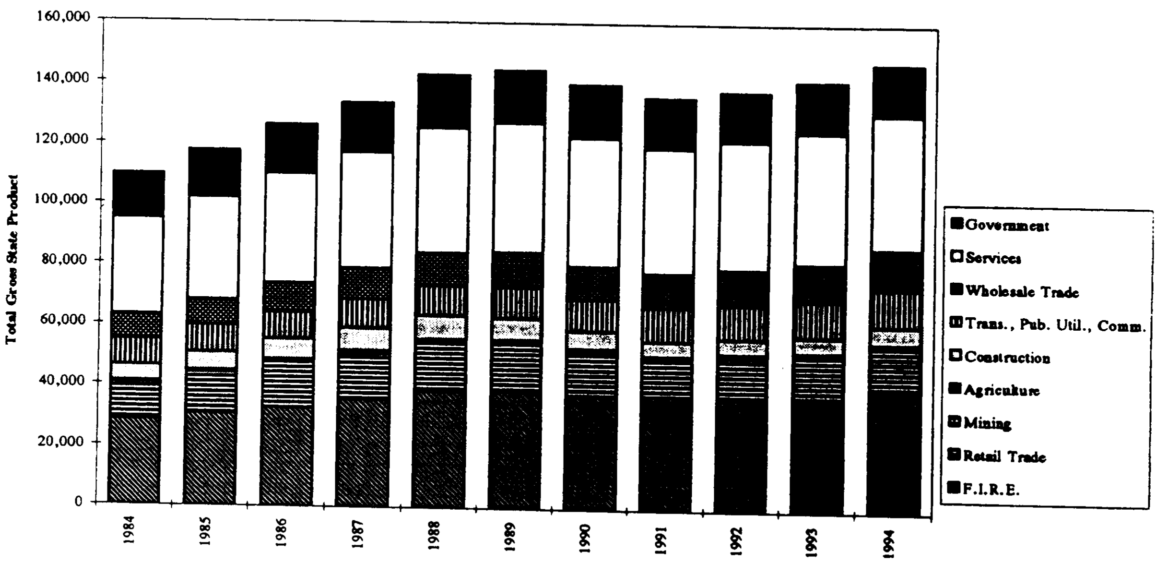
Year	Business Starts MA	Business Starts N.E.	Business Starts U.S.	Business Failures MA	Business Failures N.E.	Business Failures U.S.	Failures Per Ten Thousand MA	Failures Per Ten Thousand N.E.	Failures Per Ten Thousand U.S.
1980	NA	NA	NA	235	464	11,742	NA	NA	NA
1981	NA	NA	NA	226	553	15,694	NA	NA	NA
1982	NA	NA	NA	331	650	24,908	NA	NA	NA
1983	NA	NA	NA	398	831	31,334	NA	NA	NA
1984	NA	NA	NA	513	1,203	52,078	42	44	107
1985	5,222	11,609	249,770	683	1,228	57,253	54	43	115
1986	6,264	14,083	253,092	725	1,109	61,616	56	38	120
1987	5,426	13,054	233,710	633	1,021	61,111	42	30	102
1988	4,437	10,407	199,091	555	1,052	57,097	39	32	98
1989	4,455	10,716	181,645	771	1,282	50,361	44	29	65
1990	3,602	8,606	158,930	1,913	3,087	60,747	106	70	76
1991	3,631	8,328	155,672	2,839	5,654	88,140	130	110	107
1992	4,244	9,263	164,086	3,031	6,214	97,069	136	117	110
1993	3,967	8,826	166,154	2,712	5,339	86,133	135	112	109
1994	5,091	10,838	188,387	2,100	3,771	71,558	98	76	86
1995	4,419	9,250	168,158	1,927	3,395	71,128	86	66	82
1996	4,351	8,960	170,475	1,612	3,064	71,931	69	57	80
1997(p)	3,766	7,979	166,740	1,667	3,445	83,384	69	62	88

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

Economic Base and Performance – Sector Detail

The economy of Massachusetts remains diversified among several industrial and non-industrial sectors. The three largest sectors of the economy contributed roughly the same percentage of the total Massachusetts Gross State Product in 1994 as they did in 1984. In 1994, the three largest sectors of the Massachusetts economy (services, manufacturing, and FIRE) contributed 64.6 percent of the total Massachusetts Gross State Product while the remaining six sectors contributed 35.4 percent. In 1984, these same three largest sectors contributed 64.4 percent of the total Massachusetts Gross State Product. The data below show the contributions to the Massachusetts real Gross State Product of several industrial and non-industrial sectors.

Sector Composition of Massachusetts Gross State Product, 1984-1994
(millions of 1992 constant dollars)



Gross State Product by Industry in Massachusetts, 1984-1994
(millions of 1992 constant dollars)

Industrial Sector	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994
Agriculture	$634	$823	$1,032	$1,044	$1,044	$961	$1,039	$1,042	$1,086	$1,026	$1,000
Mining	58	64	91	117	113	82	68	72	97	106	114
Construction	5,045	5,944	6,740	7,549	7,896	7,198	5,814	4,829	4,830	5,115	5,578
Manufacturing	28,995	30,617	30,355	32,630	32,311	32,468	30,165	28,998	28,101	28,842	30,490
Trans., Pub. Util., Comm.	8,737	8,888	8,673	9,559	9,712	10,159	10,568	11,434	11,306	12,091	12,352
Wholesale Trade	8,080	8,433	9,817	10,238	11,022	11,435	10,661	10,893	11,549	11,861	12,937
Retail Trade	12,043	13,207	14,654	14,722	15,840	15,913	14,637	13,464	13,531	13,753	14,424
F.I.R.E.	28,419	30,714	32,767	35,698	38,656	38,822	37,416	36,317	37,164	37,685	40,230
Services	31,968	33,903	36,133	38,075	41,008	42,508	42,236	41,139	42,152	43,174	44,026
Government	14,842	15,483	16,033	16,339	17,226	17,178	17,406	16,348	15,990	16,409	16,558
Total GSP	$138,821	$148,077	$156,295	$165,970	$174,828	$176,724	$170,011	$164,535	$165,805	$170,062	$177,710

SOURCE: United States Department of Commerce, Bureau of Economic Analysis.
Note: "Agriculture" includes Forestry and Fisheries.

Services. The services sector remains the largest contributor to the Massachusetts Gross State Product comprising 24.8 percent of the Commonwealth's Gross State Product in 1994. After increasing at yearly rates between 5.4 percent and 7.7 percent between 1984 and 1988, growth in the services sector slowed to a rate of 3.7 percent in 1989 and declined 0.6 percent and 2.6 percent in 1990 and 1991, respectively. Between 1992 and 1994, the services sector grew at rates between 2.0 and 2.4 percent each year. The health care industry is the largest contributor to the services sector and continues to play an important role in the Massachusetts economy, contributing 7.3 percent of the Gross State Product in 1994.

Finance, Insurance, Real Estate. Since 1985, the FIRE sector has been the second largest contributor to the Massachusetts Gross State Product. In 1994, it contributed 22.6 percent of the Gross State Product. Growth rates between 6.7 percent and 8.9 percent between 1984 and 1988 were followed by slower growth in 1989 (0.4 percent) and negative growth rates of -3.6 percent and -2.9 percent in 1990 and 1991, respectively. The FIRE sector grew at modest rates of 2.3 and 1.4 percent in 1992 and 1993, but expanded more significantly in 1994 at a rate of 6.8 percent.

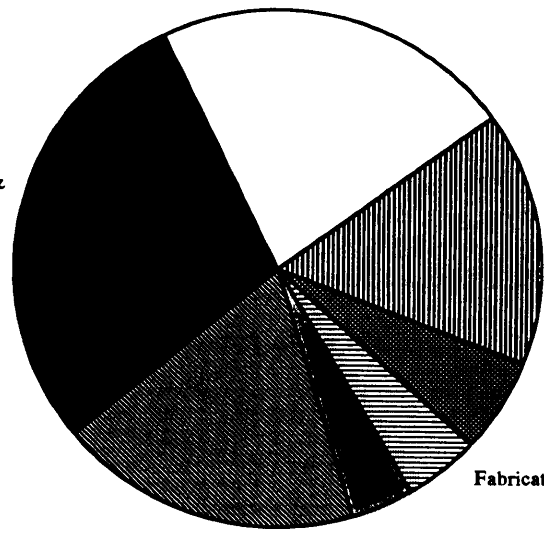
Manufacturing. The manufacturing sector was the third largest contributor to the Massachusetts Gross State Product in 1984, contributing 17.2 percent of the Gross State Product. Because of more rapid growth in other sectors in the 1980s, this sector's share of Gross State Product has been declining over the past decade, dipping below 20.0 percent in 1986. Growth in this sector was erratic throughout the last decade, ranging from growth rates of 7.5 percent in 1987 to a decline of 7.1 percent in 1990. In 1994, the manufacturing sector grew at a rate of 5.7 percent.

Wholesale and Retail Trade. Taken together, the wholesale and retail trade sectors contributed 15.4 percent of the Massachusetts Gross State Product in 1994, with retail trade contributing 8.1 percent and wholesale trade contributing 7.3 percent. Growth within these sectors varied significantly between 1985 and 1994, with the wholesale trade sector experiencing a growth rate as high as 16.4 percent in 1986 and as low as -6.8 percent in 1990. Growth in the retail trade sector was as high as 9.7 and 11.0 percent in 1985 and 1986, and as low as -8.0 percent in both 1990 and 1991. In 1994, the wholesale and retail trade sectors grew at rates of 9.1 and 4.9 percent respectively.

Trade and International Trade. A significant portion of what Massachusetts produces is exported internationally. Massachusetts ranked eleventh in the United States, and first in New England, with over $18.0 billion in international exports in 1997. This represents a 12.7 percent increase over last year's exports from the Commonwealth, outpacing the 10.4 percent rate of growth in the nation as a whole. The Commonwealth's exports in the fourth quarter of 1997 were 10.8 percent higher than exports in the fourth quarter of 1996. In the same period, national exports grew by 9.7 percent. It is not possible to provide balance of trade comparisons for Massachusetts because import data are not compiled on a state-by-state basis.

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

Composition of Massachusetts Exports by Industry Group, 1997



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

Massachusetts' five most important trading partners for 1997 were: Canada, which purchased $3.8 billion worth of products; Japan, which bought $2.1 billion; the United Kingdom, which purchased $1.7 billion; Germany, which bought $1.1 billion; and the Netherlands, which purchased $921 million worth of products. Between 1996 and 1997, the most significant growth in Massachusetts exports among its top ten trading partners was in exports to Singapore, the Netherlands, Hong Kong, and Taiwan, which increased 41.4 percent, 32.9 percent, 30.5 percent, and 29.6 percent, respectively.

Value of International Shipments from Massachusetts, 1991-1997
(top ten industry groups ranked by value of 1997 sales, in millions)

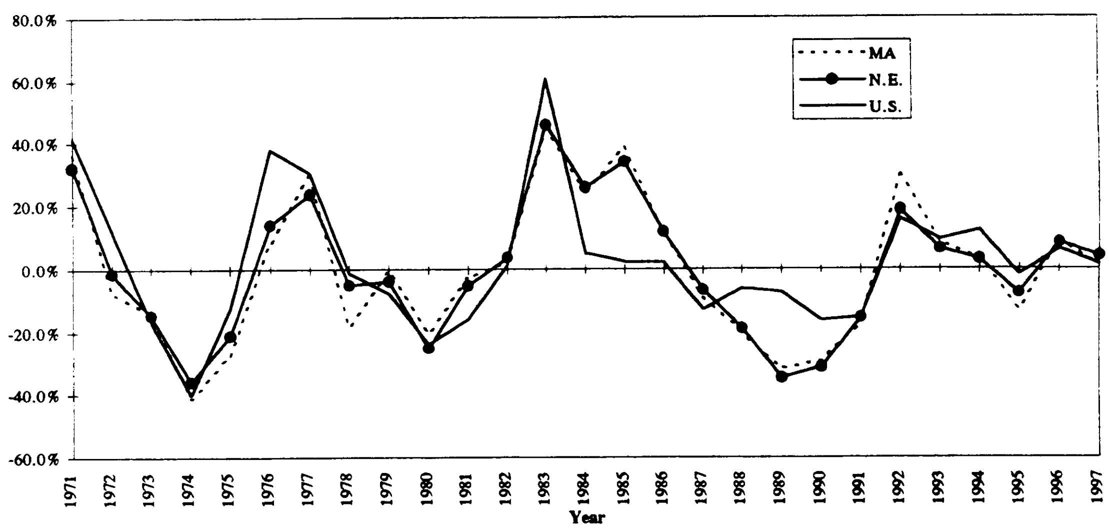
Major Industry Group	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*
Industrial Machinery & Computer Equip.	$4,460.1	$4,174.0	$3,874.0	$4,065.1	$4,482.5	$4,558.9	$5,212.5
Elec. & Elec. Equip. (excl. Computers)	2,167.4	2,082.1	2,240.5	2,799.5	3,638.9	3,550.8	4,012.3
Instruments & Related Products	1,796.9	1,848.3	1,867.0	1,897.9	2,080.2	2,451.1	2,838.5
Chemicals & Allied Products	490.3	496.3	534.1	632.4	741.0	842.3	1,048.7
Fabricated Metal Products	565.6	726.9	625.8	622.9	619.1	763.8	854.1
Transportation Equipment	352.2	479.0	499.1	416.4	632.6	814.3	707.3
Rubber & Misc. Plastic Products	196.7	236.8	373.8	417.1	416.0	378.3	436.3
Primary Metal Industries	216.5	200.0	211.5	232.9	265.1	320.8	381.2
Paper & Allied Products	194.0	243.1	242.8	258.7	293.7	306.2	353.1
Food & Kindred Products	117.9	128.9	133.2	148.4	161.8	237.6	290.6
Total from Above Industries	$10,557.6	$10,615.5	$10,601.7	$11,491.3	$13,330.9	$14,224.1	$16,134.6
Total from All Industries-Massachusetts	$11,891.4	$12,157.6	$12,194.8	$13,064.8	$15,065.3	$15,998.6	$18,027.6
Percentage Change	13.6%	2.2%	0.3%	7.1%	15.3%	6.2%	12.7%

SOURCE: Massachusetts Institute for Social and Economic Research, University of Massachusetts at Amherst.
Note: Algorithm was revised beginning with 1996 data. Data for prior years may not be consistent.

Construction and Housing. In 1994, construction activity contributed 3.1 percent of the Massachusetts Gross State Product. Growth within this sector has been as erratic as that in any other sector. Between 1984 and 1987, growth within this sector was near or more than twice that of growth in the total Massachusetts Gross State Product each year, with explosive growth rates of 17.8 percent in 1985, 13.4 percent in 1986, and 12.0 percent in 1987. Beginning in 1989, however, the sector experienced negative growth for three consecutive years. Beginning in 1992, the sector rebounded and has grown every year since, reaching growth rates of 5.9 percent and 9.1 percent in 1993 and 1994, respectively.

The following chart and table show the number of housing permits authorized on an annual basis in Massachusetts, New England, and the United States. Between 1983 and 1986, both Massachusetts and New England experienced strong growth in the number of housing permits authorized. This period was followed by a prolonged decline between 1986 and 1991 during which the number of housing permits authorized in Massachusetts declined by 71.2 percent. While the growth in the number of housing permits authorized in Massachusetts declined each year between 1992 and 1995, the number of housing permits authorized in 1997 grew for the second straight year in Massachusetts, New England, and in the United States.

Percentage Change in Housing Permits Authorized, 1971-1997



Housing Permits Authorized, 1970-1997

Year	*Massachusetts* Total Permits	*Massachusetts* Percentage Change	*New England* Total Permits	*New England* Percentage Change	*United States* Total Permits	*United States* Percentage Change
1970	38,330		74,068		1,354,746	
1971	52,116	36.0%	97,801	32.0%	1,913,601	41.3%
1972	48,261	-7.4%	96,517	-1.3%	2,138,862	11.8%
1973	41,422	-14.2%	82,306	-14.7%	1,782,526	-16.7%
1974	24,397	-41.1%	52,718	-35.9%	1,067,065	-40.1%
1975	17,697	-27.5%	41,645	-21.0%	934,511	-12.4%
1976	19,190	8.4%	47,441	13.9%	1,286,942	37.7%
1977	24,872	29.6%	58,658	23.6%	1,678,629	30.4%
1978	20,315	-18.3%	55,733	-5.0%	1,657,933	-1.2%
1979	20,164	-0.7%	53,654	-3.7%	1,533,436	-7.5%
1980	16,055	-20.4%	40,195	-25.1%	1,171,763	-23.6%
1981	15,599	-2.8%	38,067	-5.3%	985,600	-15.9%
1982	15,958	2.3%	39,470	3.7%	1,000,500	1.5%
1983	22,950	43.8%	57,567	45.9%	1,605,221	60.4%
1984	28,471	24.1%	72,356	25.7%	1,689,667	5.3%
1985	39,360	38.2%	96,832	33.8%	1,732,335	2.5%
1986	43,877	11.5%	108,272	11.8%	1,771,832	2.3%
1987	40,018	-8.8%	101,222	-6.5%	1,542,499	-12.9%
1988	31,766	-20.6%	82,123	-18.9%	1,450,583	-6.0%
1989	21,634	-31.9%	53,543	-34.8%	1,345,084	-7.3%
1990	15,276	-29.4%	36,811	-31.2%	1,125,583	-16.3%
1991	12,624	-17.4%	31,111	-15.5%	953,834	-15.3%
1992	16,346	29.5%	36,876	18.5%	1,105,083	15.9%
1993	17,715	8.4%	39,225	6.4%	1,210,000	9.5%
1994	18,302	3.3%	40,459	3.1%	1,357,167	12.2%
1995	15,946	-12.9%	37,357	-7.7%	1,333,083	-1.8%
1996	17,360	8.9%	40,425	8.2%	1,417,000	6.3%
1997	17,554	1.1%	42,047	4.0%	1,437,167	1.4%

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

Both the economic recession of 1989 and 1990 and the subsequent economic recovery were reflected in the housing sector. Significant declines in existing home sales in Massachusetts in 1989 and 1990 (of 12.0 percent and 34.9 percent, respectively) were followed by rapid sales growth between 1991 and 1993, when home sales in Massachusetts increased at a yearly rate substantially higher than the national average. Following this period of rapid growth, the growth in existing home sales slowed to a rate of 3.1 percent in 1994 and declined 1.0 percent in 1995. In 1996 and 1997, however, growth in existing home sales in Massachusetts again outpaced the national average with rates of 18.2 percent and 14.9 percent, respectively. On a seasonally adjusted annual rate basis, existing home sales for the Commonwealth, New England, and the United States appear in the following table.

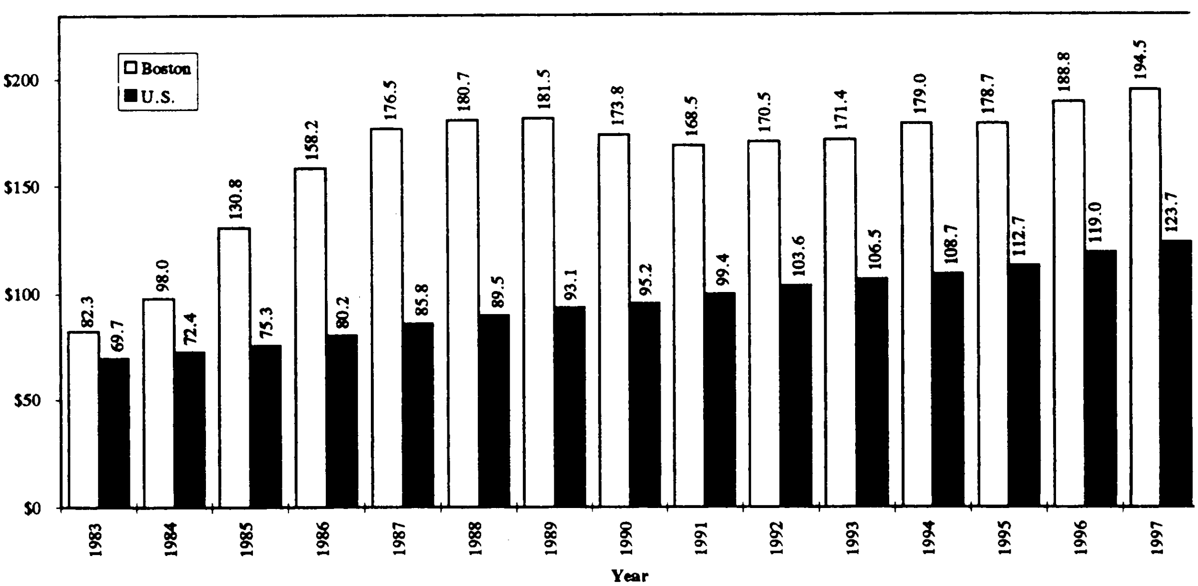
Existing Home Sales, 1981-1997
(seasonally adjusted annual rates, in thousands)

	Massachusetts		*New England*		*United States*	
Year	*Sales*	*Percentage Change*	*Sales*	*Percentage Change*	*Sales*	*Percentage Change*
1981	43.0		105.8		2,575.0	
1982	42.6	-0.9%	98.6	-6.8%	2,117.5	-17.8%
1983	59.2	39.0%	141.3	43.3%	2,875.0	35.8%
1984	54.9	-7.3%	140.7	-0.4%	3,027.5	5.3%
1985	60.2	9.7%	157.0	11.6%	3,382.5	11.7%
1986	67.0	11.3%	169.2	7.8%	3,772.5	11.5%
1987	76.4	14.0%	174.5	3.1%	3,767.5	-0.1%
1988	76.6	0.3%	178.5	2.3%	3,882.5	3.1%
1989	67.4	-12.0%	142.8	-20.0%	3,727.5	-4.0%
1990	43.9	-34.9%	NA	NA	3,560.0	-4.5%
1991	49.6	13.0%	NA	NA	3,560.0	0.0%
1992	57.7	16.3%	139.5	NA	3,887.5	9.2%
1993	66.7	15.6%	159.8	14.6%	4,205.0	8.2%
1994	68.8	3.1%	171.2	7.1%	4,382.5	4.2%
1995	68.1	-1.0%	NA	NA	4,230.0	-3.5%
1996	80.5	18.2%	183.7	NA	4,560.0	7.8%
1997	92.5	14.9%	NA	NA	4,728.0	3.7%

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

Single family home prices for the Boston Metropolitan area (not seasonally adjusted) appear below. While Boston housing prices were 18.1 percent higher than the U.S. average in 1983, by 1987 Boston housing prices as a percentage of the national average had reached a peak of 205.7 percent. Boston home prices remained 57.2 percent above the national average in 1997.

Average Annual Home Prices, 1983-1997
(in thousands of current dollars)

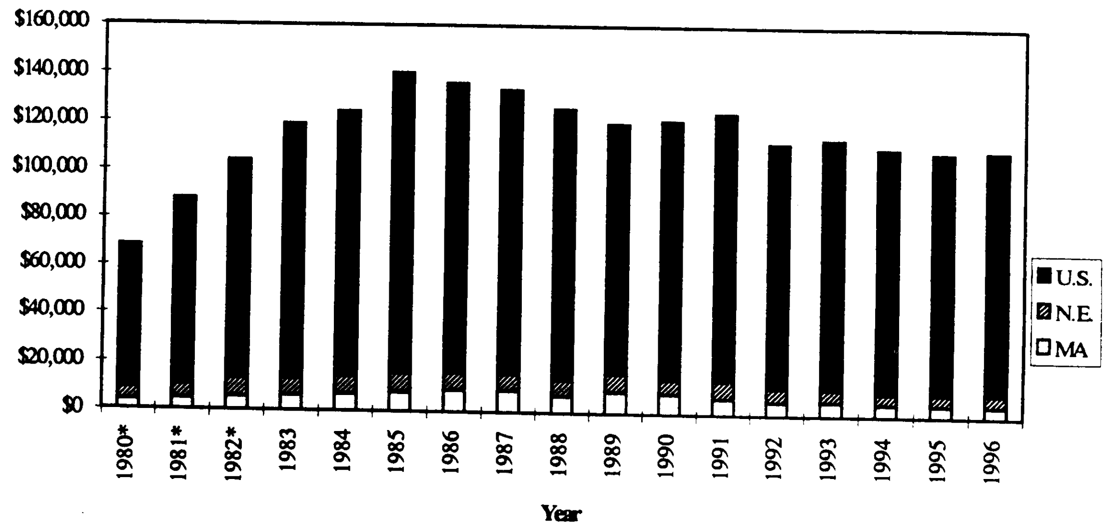


SOURCES: National Association of Realtors; Federal Reserve Bank of Boston.

Defense. Following a peak in the value of military prime contracts awarded to Massachusetts firms in fiscal 1986 of $8.7 billion, defense-related contracts declined 17.2 percent by fiscal 1988 to $7.2 billion. By fiscal 1996, the value of defense-related prime contracts had declined to $4.7 billion. The diversity of Massachusetts companies, particularly in the area of electronics and high technology research and development, has helped dampen the impact of the decline in national defense expenditures on the Massachusetts economy.

The importance of the defense industry to the Massachusetts economy is reflected in the following chart and table, which show the value of Department of Defense prime contract awards between 1980 and 1996. Since 1980, Massachusetts has increased its share of New England contract awards from 42.7 percent of total New England awards to 50.6 percent of such awards in 1996, though this percentage has declined for three straight years. While the net value of prime contract awards in New England increased marginally in fiscal 1995, the net value declined in 1996 despite an increase in the net value of prime contract awards in the United States as a whole. At the same time, the Commonwealth's share of the national total declined to 4.3 percent in fiscal 1996 from a high of 7.3 percent in 1989.

Net Value of Prime Contract Awards, 1980-1996
(in millions)



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

Net Value of Department of Defense Prime Contract Awards, 1980-1996
(in millions)

Fiscal Year	MA	N.E.	U.S.	Percentage MA of N.E.	Percentage MA of U.S.
1980*	$3,743	$8,775	$68,070	42.7%	5.5%
1981*	4,605	10,372	87,761	44.4%	5.2%
1982*	5,317	13,037	103,858	40.8%	5.1%
1983	6,328	12,967	118,744	48.8%	5.3%
1984	7,029	14,249	123,995	49.3%	5.7%
1985	7,714	15,487	140,096	49.8%	5.5%
1986	8,735	15,748	136,026	55.5%	6.4%
1987	8,685	15,606	133,262	55.7%	6.5%
1988	7,212	13,673	125,767	52.7%	5.7%
1989	8,757	16,268	119,917	53.8%	7.3%
1990	8,166	14,271	121,254	57.2%	6.7%
1991	6,933	13,889	124,119	49.9%	5.6%
1992	5,686	11,033	112,285	51.5%	5.1%
1993	5,936	10,779	114,145	55.1%	5.2%
1994	5,106	9,329	110,316	54.7%	4.6%
1995	4,846	9,375	109,005	51.7%	4.4%
1996	4,675	9,237	109,408	50.6%	4.3%

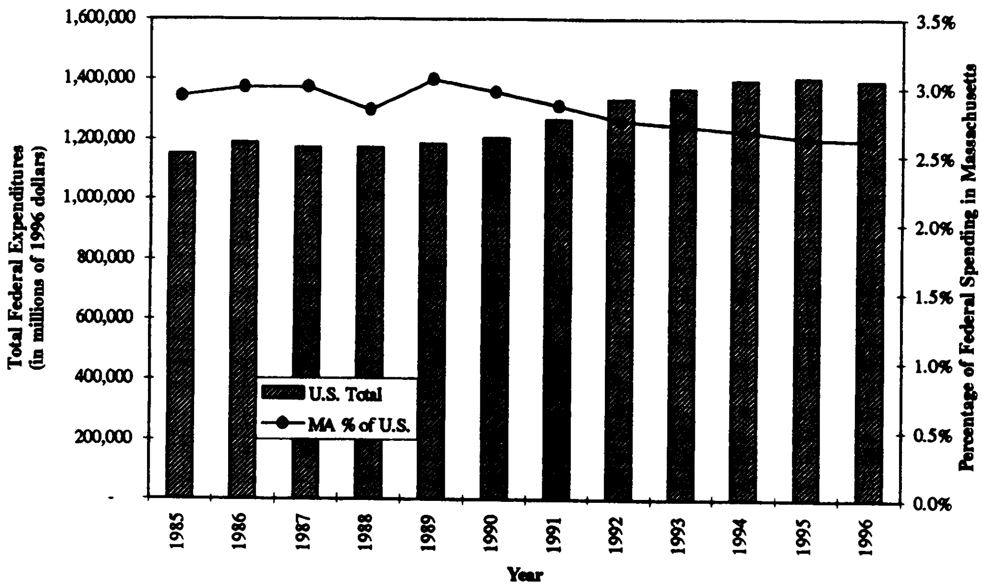
SOURCE: United States Department of Defense.
* Prime Contract is defined as $10,000 and above for these years; beginning in 1983 it is defined as $25,000 and above.

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

The Massachusetts Office of Travel and Tourism estimates that a total of 28.3 million people visited the Commonwealth in 1995, an increase of 1.1 percent over 1994. Of these, 1.6 million were international visitors. Domestic visitors to Massachusetts spent $8.02 billion while international visitors spent $1.58 billion, increases of 4.4 percent and 1.9 percent over 1994 spending levels, respectively. While the data are incomplete at this time, it is clear that total visitor volume was over 29.8 million people in 1996.

Federal Government Spending in Massachusetts. Federal government spending contributes a significant amount to the economy of Massachusetts. In fiscal 1996, Massachusetts ranked fifth among states in per capita distribution of federal funds, with total spending of $5,984 per person. According to data compiled by the United States Department of Commerce, Massachusetts' share of total federal spending has declined steadily since 1989. In 1996, Massachusetts received 2.6 percent of total federal spending. The following chart shows total federal expenditures and the percentage of federal expenditures in Massachusetts. Total federal spending data were converted to 1996 dollars by MISER using Consumer Price Index data for the United States. Federal spending includes grants to state and local governments, direct payments to individuals, wage and salary employment, and procurement contracts and includes only those expenditures which can be associated with individual states and territories.

Total Real Federal Expenditures and
Percentage of Federal Expenditures in Massachusetts, 1985-1996
(in millions of constant 1996 dollars)

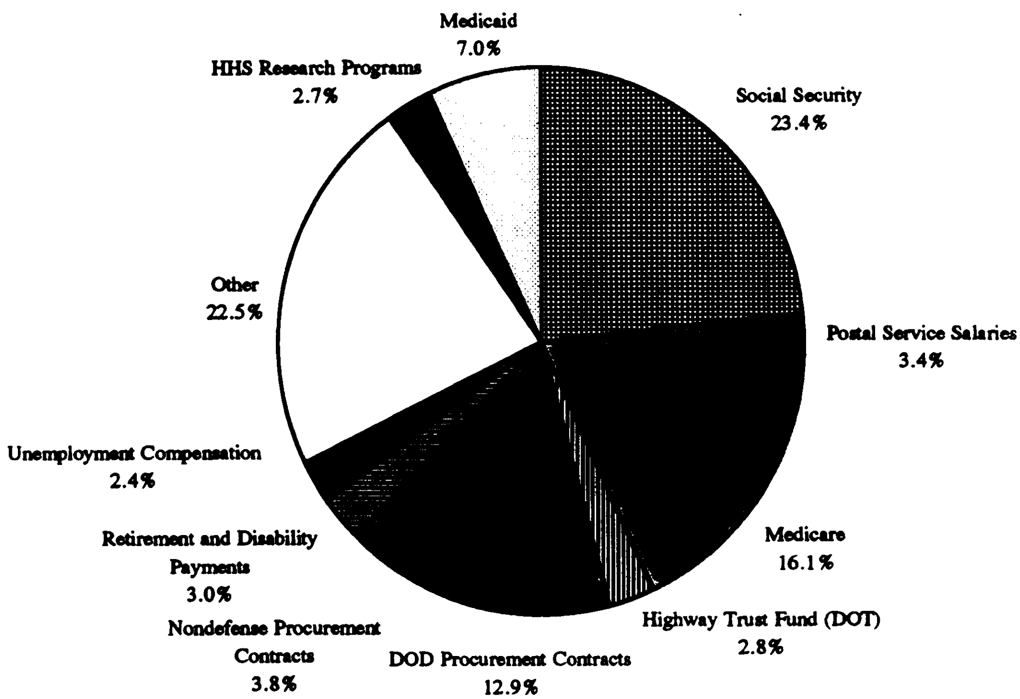


SOURCE: United States Department of Commerce, Bureau of the Census.

A large percentage of federal spending in Massachusetts in 1996 was composed of health care and social programs like Medicare, Medicaid, and Social Security. Massachusetts was above the national average in per capita federal grants to state and local governments, receiving $1,134 per capita compared to a national average of $845. Per capita federal spending on salaries and wages in 1996 was lower in Massachusetts than in the rest of the nation ($469 compared to a national average of $631) but Massachusetts was above the national average in per capita direct federal payments to individuals ($3,075 compared to a national average of $2,784). Within this latter category, Massachusetts ranked eleventh in the nation in social security retirement insurance payments ($963 compared to a national average of $859) and first in the nation in Medicare hospital insurance payments ($666 compared to a national average of $465). Massachusetts ranked seventh among states in per capita procurement contract awards ($998 compared to a national average of $745) in 1996.

The following chart shows the composition of federal spending within Massachusetts in fiscal 1996.

Composition of Federal Spending in Massachusetts by Program, Fiscal 1996

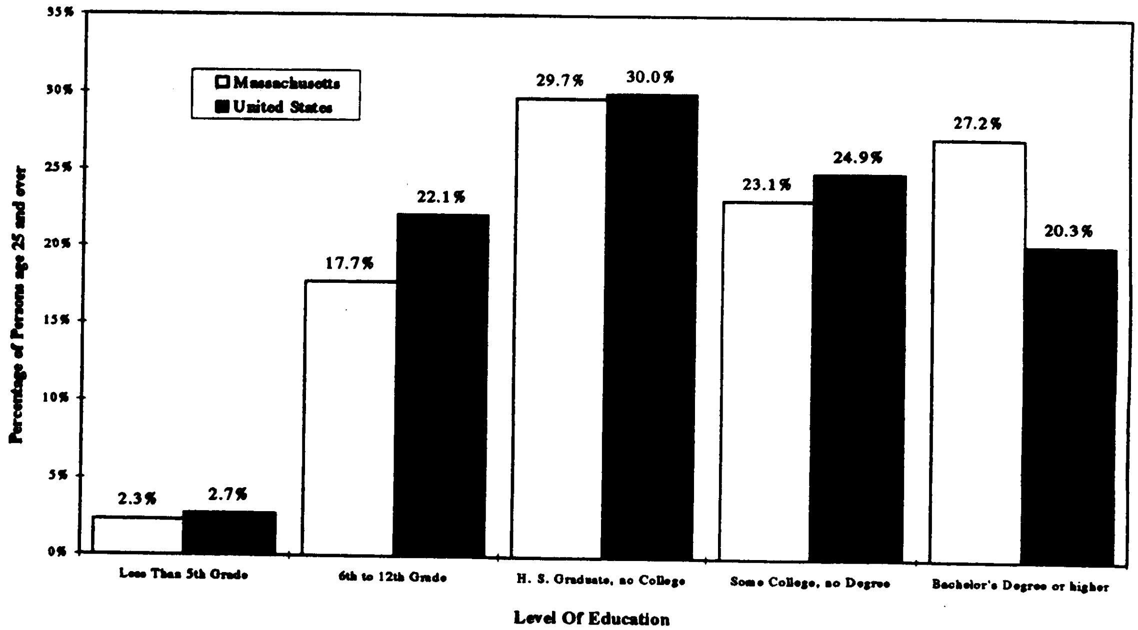


SOURCE: United States Department of Commerce, Bureau of the Census.

HUMAN RESOURCES AND INFRASTRUCTURE

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

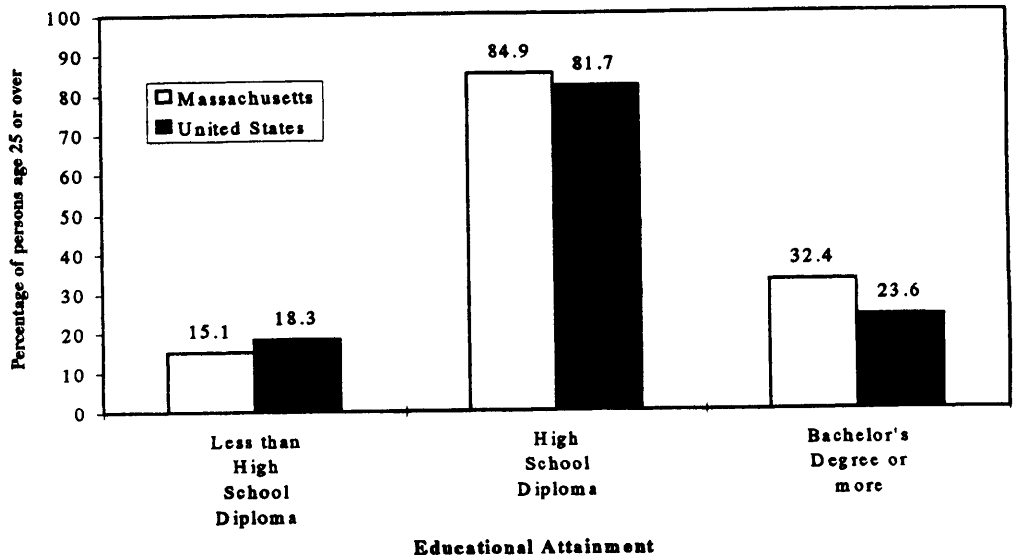
Educational Attainment, 1990



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

While developing this detailed evaluation of educational attainment every ten years, the Bureau of the Census prepares a less detailed analysis of educational attainment between the years of the national census. This analysis follows a representative sample of all fifty states. The most recent analysis for Massachusetts and the United States is March 1996. While this is not an exhaustive study, the following chart shows that Massachusetts continues to rank highly in persons attaining a high school diploma and among the highest in persons completing a bachelor's degree or more.

Educational Attainment by Persons Age 25 or Over, March 1996



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

Massachusetts has a smaller percentage of persons who have not completed high school than the United States as a whole and a higher percentage of persons with a bachelor's degree or more. Massachusetts ranked among the top twenty states in the nation in the percentage of its population having received a high school diploma or more. Massachusetts ranked third among the fifty states in percentage of persons over 25 with a bachelor's degree or more.

In the 1996 National Assessment of Educational Progress conducted by the U.S. Department of Education, 4th graders and 8th graders around the nation were given standardized exams in science and mathematics. In science, only 8th graders in Maine, North Dakota, and Montana achieved statistically significant higher scores than 8th graders in Massachusetts. In mathematics, only 4th graders in Maine, Minnesota, Connecticut, Wisconsin, and North Dakota achieved higher average scaled scores than Massachusetts 4th graders. Massachusetts 8th graders also performed well achieving the 10th highest average scaled score among states. In a similar 1994 study, the average reading proficiency of Massachusetts' 4th graders compared favorably with the rest of the nation. Only Maine, North Dakota and Wisconsin scored higher.

Although spending on education is not necessarily an indication of results, since at least 1981, Massachusetts has spent more per pupil on primary and secondary education than the national average. Between fiscal years 1981 and 1995, the ratio of Massachusetts spending to the national average has varied between 1.12 and 1.27. In fiscal 1995, this ratio rose for the third straight year. Massachusetts spent 23 percent more on public elementary and secondary education than the United States average in fiscal 1995: $6,783 per student compared to a national average of $5,528 per student. The following table shows expenditures per pupil for Massachusetts and the United States since fiscal 1981.

Expenditure Per Pupil in Public Elementary and Secondary Schools, 1981-1995
(in current, unadjusted dollars)

Fiscal Year	*Massachusetts*	*United States*	*Ratio (MA/U.S.)*
1981	$2,735	$2,307	1.19
1982	2,823	2,525	1.12
1983	3,072	2,736	1.12
1984	3,298	2,940	1.12
1985	3,653	3,222	1.13
1986	4,031	3,479	1.16
1987	4,491	3,682	1.22
1988	4,965	3,927	1.26
1989	5,485	4,307	1.27
1990	5,766	4,643	1.24
1991	5,881	4,902	1.20
1992	5,952	5,023	1.18
1993	6,141	5,160	1.19
1994	6,423	5,327	1.21
1995	6,783	5,528	1.23

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

Massachusetts is an internationally recognized center for higher education, with 413,794 students in undergraduate, professional and graduate programs in 1995, according to data supplied by the New England Board of Higher Education. The number of foreign students enrolled in Massachusetts colleges and universities in 1995 was 25,739, representing 5.7 percent of total foreign student enrollment in the United States. The Massachusetts public higher education system is composed of universities, state colleges, and community colleges with a combined enrollment of 176,777 students in 1995. In addition, Massachusetts has a system of private higher education that accounted for 57.3 percent of total enrollment in Massachusetts in 1995. The strength of both public and private colleges and universities as centers for research and education contributes to the high quality of the Massachusetts work force and plays a key role in attracting and retaining business and industry within the state.

The higher education system in Massachusetts is particularly strong in post-graduate, scientific, and technical education. The strength of the Massachusetts higher education system is evidenced by the draw it has upon new students. In the Fall of 1994, 19,897 new students migrated into the Massachusetts higher education system while only 12,828 migrated out of Massachusetts; 20.3 percent of all incoming freshmen in Massachusetts migrated to Massachusetts from outside New England. The strength of the Commonwealth's educational institutions is also reflected in the large number of degrees awarded. In 1995, Massachusetts institutions conferred a total of 2,283 doctoral degrees. This represents 5.1 percent of the total number of doctoral degrees conferred in the United States and an increase of 7.6 percent over the number of doctoral degrees conferred in Massachusetts in 1990.

The pre-eminence of higher education in Massachusetts contributes not only to the quality of its work force, but also to its stature in the nation and the world as a center for basic scientific research and for academic and entrepreneurial research and development. Doctorate-granting institutions in Massachusetts spent 5.2 percent of total national expenditures on R&D at such institutions in fiscal 1996, ranking Massachusetts sixth in the nation behind only California, New York, Texas, Maryland, and Pennsylvania. Doctorate-granting institutions in New England spent 8.3 percent ($1,856,701,000) of the total research and development funds ($22,480,793,000) spent by such institutions in fiscal 1996. Massachusetts institutions spent 63.2 percent of these funds ($1,174,320,000).

The diversity of federal funding sources reflects the variety of research and development work performed at Massachusetts educational institutions. According to the National Science Foundation, of the $808,492,000 of total fiscal 1995 federal obligations for science and engineering research to universities and colleges in Massachusetts, 43.3 percent was from the Department of Health and Human Services, 19.1 percent was from the National Science Foundation, 16.6 percent was from the Department of Defense, 10.4 percent was from the Department of Energy, and 7.3 percent was from the National Aeronautics and Space Administration.

Major Infrastructure Projects. The next decade brings significant work on several major public sector-sponsored construction projects, giving rise in Massachusetts to new economic and employment opportunities. The projects include the depression of the central artery which traverses the City of Boston, and the construction of a third harbor tunnel linking downtown Boston to Logan Airport. The new Central Artery is designed to meet Boston's future traffic demand. When completed, the Central Artery will accommodate an estimated 250,000 vehicles per day. The Project will also strengthen connections among Boston's air, rail, and seaport terminals. By offering travelers and shippers increased choice and flexibility among these different modes of transportation, the Project is contributing to the creation of an integrated, intermodal transportation system for the entire region. Construction of the Ted Williams Tunnel began in 1992 and stretches under Boston Harbor from South Boston to Logan Airport. The tunnel opened to commercial traffic in late 1995 and is expected to be open to all traffic by 2001. Currently, an average of more than 20,000 vehicles use the tunnel every weekday. The Central Artery Project is expected to be completed by 2004 at an estimated total cost of $10.8 billion, with 60 percent to be paid by the federal government and 40 percent to be paid by the Commonwealth. As of February 1998, final design is 96 percent complete and construction is 36 percent complete.

Massachusetts is also home to Logan International Airport and the Port of Boston. In 1997, over 25.5 million passengers and over 923 million pounds of cargo and mail passed through Logan. A $1 billion modernization program is currently underway to prepare the airport for the future, including expansion of terminal space. In 1997, 1,010,794 tons of containerized cargo moved through the Port of Boston, representing a 6.5 percent increase from the previous year's volume.

The Massachusetts Water Resources Authority is undertaking capital projects for the construction and rehabilitation of sewage collection and treatment facilities in order to bring wastewater discharges into Boston Harbor into compliance with federal and state pollution control requirements. According to the MWRA, the construction portion of the Boston Harbor Project is 92 percent complete. The harbor cleanup project is estimated to cost $3.7 billion. Work on the project began in 1988 and is expected to be completed in 1999, with the most significant expenditures occurring between 1990 and 1999. The centerpiece of the project is a new sewage treatment plant on Deer Island. The first half of the plant, portions of which became operational in January 1995, is a larger, more effective primary treatment plant to replace the existing one. The majority of the project's expenditures will be paid for by local communities, in the form of user fees, with federal and state sources making up the difference. According to the MWRA, by the time project is completed, the federal government will have paid for 22 percent of the total cost of the project, and the state government will have paid for 19 percent.

PROPOSED FORM OF OPINION OF BOND COUNSEL

Upon settlement of the Bonds, Bond Counsel proposes to deliver to the successful bidder an opinion in substantially the following form:

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.
One Financial Center
Boston, Massachusetts 02111

'01 Pennsylvania Avenue, N.W.
Vashington, D.C. 20004
Telephone: 202/434-7300
Fax: 202/434-7400

Telephone: 617/542-6000
Fax: 617/542-2241
www.mintz.com

[To the Purchasers]

We have acted as bond counsel to The Commonwealth of Massachusetts (the "Commonwealth") in connection with the issuance by the Commonwealth of $250,000,000 General Obligation Bonds, Consolidated Loan of 1998, Series B, dated April 1, 1998 (the "Bonds"). In such capacity, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials and others furnished to us without undertaking to verify the same by independent investigation.

Based upon the foregoing, we are of the opinion that, under existing law:

(a) The Bonds are valid and binding general obligations of the Commonwealth, and the full faith and credit of the Commonwealth are pledged to the payment of the principal of and interest on the Bonds. It should be noted, however, that Chapter 62F of the Massachusetts General Laws establishes a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit. It should further be noted that Chapter 29, Section 60B, of the Massachusetts General Laws imposes an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on general obligation debt of the Commonwealth.

(b) Interest on the Bonds will not be included in the gross income of the holders of the Bonds for federal income tax purposes. This opinion is rendered subject to the condition that the Commonwealth comply with certain requirements of the Internal Revenue Code of 1986, as amended, which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon is and continues to be excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be included in the gross income of holders of the Bonds retroactive to the date of issuance of the Bonds. 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 the computation of the alternative minimum tax applicable to certain corporations. We express no opinion as to other federal tax consequences resulting from holding the Bonds.

(c) 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.

This opinion is given as of the date hereof, and we assume no obligation to revise or supplement this opinion to reflect any facts or circumstances that may hereafter come to our attention or any changes in law that may hereafter occur.

Very truly yours,

Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C.

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MBIA

FINANCIAL GUARANTY INSURANCE POLICY

MBIA Insurance Corporation
Armonk, New York 10504

Policy No. [NUMBER]

MBIA Insurance Corporation (the "Insurer"), in consideration of the payment of the premium and subject to the terms of this policy, hereby unconditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment required to be made by or on behalf of the Issuer to [PAYING AGENT/TRUSTEE] or its successor (the "Paying Agent") of an amount equal to (i) the principal of (either at the stated maturity or by any advancement of maturity pursuant to a mandatory sinking fund payment) and interest on, the Obligations (as that term is defined below) as such payments shall become due but shall not be so paid (except that in the event of any acceleration of the due date of such principal by reason of mandatory or optional redemption or acceleration resulting from default or otherwise, other than any advancement of maturity pursuant to a mandatory sinking fund payment, the payments guaranteed hereby shall be made in such amounts and at such times as such payments of principal would have been due had there not been any such acceleration); and (ii) the reimbursement of any such payment which is subsequently recovered from any owner pursuant to a final judgment by a court of competent jurisdiction that such payment constitutes an avoidable preference to such owner within the meaning of any applicable bankruptcy law. The amounts referred to in clauses (i) and (ii) of the preceding sentence shall be referred to herein collectively as the "Insured Amounts." "Obligations" shall mean:

[PAR]
[LEGAL NAME OF ISSUE]

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

As used herein, the term "owner" shall mean the registered owner of any Obligation as indicated in the books maintained by the Paying Agent, the Issuer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Issuer constitutes the underlying security for the Obligations.

Any service of process on the Insurer may be made to the Insurer at its offices located at 113 King Street, Armonk, New York 10504 and such service of process shall be valid and binding.

This policy is non-cancellable for any reason. The premium on this policy is not refundable for any reason including the payment prior to maturity of the Obligations.

IN WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this [DAY] day of [MONTH, YEAR].

MBIA Insurance Corporation

SPECIMEN

President

Attest:

Assistant Secretary

STD-R-6
6/95

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APPENDIX D

Commonwealth of Massachusetts

General Obligation Bonds
Consolidated Loan of 1998, 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 May 5, 1998 (the "Information Statement"), as it appears in the Official Statement dated April 30, 1998 (except for Appendix A) relating to the Commonwealth's General Obligation Bonds, Consolidated Loan of 1998, Series B, and substantially in the same level of detail as is found in the referenced section of the Information Statement:

	Financial Information and Operating Data Category	Reference to Information Statement for Level of Detail
1.	Summary presentation on statutory accounting and five-year comparative basis of selected budgeted operating funds operations, concluding with prior fiscal year, plus estimates for current fiscal year	"FINANCIAL RESULTS - Selected Financial Data - Statutory Basis"
2.	Summary presentation on GAAP and five-year comparative basis of selected budgeted operating funds operations, concluding with prior fiscal year	"FINANCIAL RESULTS - Selected Financial Data - GAAP Basis"
3.	Summary presentation of actual revenues in budgeted operating funds on five-year comparative basis, concluding with prior fiscal year, plus estimates for current fiscal year	"COMMONWEALTH REVENUES - Distribution of Revenues"
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.	If and to the extent otherwise updated in the prior fiscal year, summary presentation of the size of the state workforce	"COMMONWEALTH PROGRAMS AND SERVICES - State Workforce"
7.	Statement of Commonwealth bond and note liabilities as of the end of the prior fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Overview - Outstanding Bond and Note Liabilities"

Financial Information and Operating Data Category		[illegible]
8.	Five-year comparative presentation of long term Commonwealth debt and selected Commonwealth-supported debt as of the end of the prior fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Overview - Long Term Bond Liabilities"
9.	Annual fiscal year debt service requirements for Commonwealth general obligation and special obligation bonds, beginning with the current fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Debt Service Requirements on Commonwealth Bonds"
10.	So long as Commonwealth statutes impose a limit on the amount of outstanding "direct" bonds, information as to compliance therewith as of the end of the prior fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Statutory Debt Limit on Direct Bonds"
11.	Five-year summary presentation of authorized but unissued general obligation debt and actual capital project expenditures	"COMMONWEALTH BOND AND NOTE LIABILITIES - Authorized But Unissued Debt"
12.	Annual fiscal year debt service contract assistance requirements for Commonwealth-supported debt, beginning with the current fiscal year	"COMMONWEALTH BOND AND NOTE LIABILITIES - Debt Service Contract Assistance Requirements on Commonwealth-Supported Debt"
13.	Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any	"OTHER COMMONWEALTH LIABILITIES - Retirement Systems and Pension Benefits"
14.	Summary presentation of operating lease commitments for future fiscal years as of the end of the prior fiscal year	"OTHER COMMONWEALTH LIABILITIES - Long Term Operating Leases"
15.	Summary presentation of long-term capital leases for future fiscal years as of the end of the prior fiscal year	"OTHER COMMONWEALTH LIABILITIES - Long Term Capital Leases"
16.	Summary presentation of school building assistance program commitments for future fiscal years as of the end of the prior fiscal year	"OTHER COMMONWEALTH LIABILITIES - School Building Assistance"

Any or all of the items listed above may be included by reference to other documents, including official statements pertaining to debt issued by the Commonwealth, which have been submitted to each NRMSIR. If the document incorporated by reference is a Final Official Statement within the meaning of the Rule, it will also be available from the Municipal Securities Rulemaking Board ("MSRB"). The Commonwealth's annual financial statements for each fiscal year shall consist of (i) combined financial statements prepared in accordance with a basis of accounting that demonstrates compliance with the Massachusetts General Laws and other applicable state finance laws, if any, in effect from time to time and (ii) general purpose financial statements prepared in accordance with generally accepted accounting principles in effect from time to time. Such financial statements shall be audited by a firm of certified public accountants appointed by the Commonwealth.

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby further undertakes for the benefit of the owners of the Bonds to provide in a timely manner to the MSRB and to the SID notice of any of the following events with respect to the Bonds (numbered in accordance with the provisions of the Rule), if material:

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties1/;

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

(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 securities2/ 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 in circumstances, and (ii) the amendment does not materially impair the interests of the owners of the Bonds, as determined either by a party unaffiliated with the Commonwealth (such as Commonwealth disclosure counsel or Commonwealth bond counsel) or by the vote or consent of owners of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment.

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

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DO NOT STAPLE THIS FORM

M S R B

FORM G-36 (OS) - FOR OFFICIAL STATEMENTS

SECTION I - MATERIALS SUBMITTED

A. THIS FORM IS SUBMITTED IN CONNECTION WITH (check one):

1.[X] A FINAL OFFICIAL STATEMENT RELATING TO A PRIMARY OFFERING OF MUNICIPAL SECURITIES (enclose two (2) copies)
(a) DATE RECEIVED FROM ISSUER: 05/11/1998 (b) DATE SENT TO MSRB: 05/11/1998

2.[ ] AN AMENDED OFFICIAL STATEMENT WITHIN THE MEANING OF RULE G-36(d) (enclose two (2) copies)
(a) DATE RECEIVED FROM ISSUER: ______ (b) DATE SENT TO MSRB: ______

B. IF MATERIALS SUBMITTED WITH THIS FORM CONSIST OF MORE THAN ONE DOCUMENT (e.g. preliminary official statement and wrap, even if physically attached), PLEASE CHECK HERE: [ ]

C. IF THIS FORM AMENDS PREVIOUSLY SUBMITTED FORM WITHOUT CHANGING MATERIALS SUBMITTED, PLEASE CHECK HERE (include copy of original form G-36 (OS)): [ ]

SECTION II - IDENTIFICATION OF ISSUE(S)

Each issue must be listed separately.

If more space is needed to list additional issues, please include on a separate sheet and check here: [ ]

NAME OF ISSUER: THE COMMONWEALTH OF MASSACHUSETTS GENERAL OBLIGATION BONDS CONSOLIDATED LOAN OF 1998, SERIES B

DESCRIPTION OF ISSUE: THE COMMONWEALTH OF MASSACHUSETTS GENERAL OBLIGATION BONDS CONSOLIDATED LOAN OF 1998, SERIES B

STATE: MA
DATED DATE: 04/01/1998

NAME OF ISSUER: ______

DESCRIPTION OF ISSUE: ______

STATE:
DATED DATE:

NAME OF ISSUER: ______

DESCRIPTION OF ISSUE: ______

STATE:
DATED DATE:

SECTION III - TRANSACTION INFORMATION

A. LATEST FINAL MATURITY DATE OF ALL SECURITIES IN OFFERING: 04/01/2018

B. DATE OF FINAL AGREEMENT TO PURCHASE, OFFER OR SELL SECURITIES (Date of Sale): 04/30/1998

C. ACTUAL OR EXPECTED DATE OF DELIVERY OF SECURITIES TO UNDERWRITER(S) (Bond Closing): 05/12/1998

D. IF THESE SECURITIES ADVANCE REFUND ALL OR A PORTION OF ANOTHER ISSUE, PLEASE CHECK HERE: [ ]
A separate Form G-36(ARD) and copies of the advance refunding documents must be submitted for each issue advance refunded.

SECTION IV - UNDERWRITER ASSESSMENT INFORMATION

The information will be used by the MSRB to compute any rule A-13 underwriting assessment that may be due on this offering. The managing underwriter will be sent an invoice if a rule A-13 assessment is due on the offering.

A. MANAGING UNDERWRITER Lehman Brothers

SEC REG. NUMBER: 8-12324

B. TOTAL PAR VALUE OF ALL SECURITIES IN OFFERING $ 250,000,000

C. PAR AMOUNT OF SECURITIES UNDERWRITTEN (if different from the amount shown in item B above): $

C. CHECK ALL THAT APPLY

1.[ ] At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every nine months until maturity, earlier redemption, or purchase by the issuer or its designated agent.

2.[ ] At the option of the holder thereof, all securities in this offering may be tendered to the issuer of such securities or its designated agent for redemption or purchase at par value of more at least as frequently as every two years until maturity, earlier redemption, or purchase by the issuer or its designated agent.

3.[ ] This offering is exempt from SEC rule 15c2-12 under section (c)(1) of that rule. Section (c)(1) of SEC rule 15c2-12 states that an offering is exempt from the requirements of the rule if the securities offered have authorized denominations of $100,000 or more and sold to no more than 35 persons each of whom the participating underwriter believes: (1) has the knowledge and expertise necessary to evaluate the merits and risks of the investment; and (2) is not purchasing for more than one account, or with a view toward distributing the securities.

SECTION V - CUSIP INFORMATION

MSRB rule G-34 requires that CUSIP numbers be assigned to each new issue of municipal securities unless the issue is ineligible for CUSIP number assignment under the eligibility criteria of the CUSIP Service Bureau.

A. CUSIP-9 NUMBERS OF THE ISSUE(S)

Maturity Date	CUSIP Number	Maturity Date	CUSIP Number	Maturity Date	CUSIP Number
04/01/1999	575827PS3	04/01/2000	575827PT1	04/01/2001	575827PU8
04/01/2002	575827PV6	04/01/2003	575827PW4	04/01/2004	575827PX2
04/01/2005	575827PY0	04/01/2006	575827PZ7	04/01/2007	575827QA1
04/01/2008	575827QB9	04/01/2009	575827QC7	04/01/2010	575827QD5
04/01/2011	575827QE3	04/01/2012	575827QF0	04/01/2013	575827QG8
04/01/2014	575827QH6	04/01/2015	575827QJ2	04/01/2016	575827QK9
04/01/2017	575827QL7	04/01/2018	575827QM5		

B. IF ANY OF THE ABOVE SECURITIES HAS A "CUSIP-6" BUT NO "CUSIP-9", CHECK HERE AND LIST THEM BELOW: [ ]

(Please see instructions in Form G-36 Manual)

LIST ALL CUSIP-6 NUMBERS ASSIGNED: ______

State the reason why such securities have not been assigned a "CUSIP-9": ______

C. IF ANY OF THESE SECURITIES IS INELIGIBLE FOR CUSIP NUMBER ASSIGNMENT, PLEASE CHECK HERE: [ ]

State the reason why such securities are ineligible for CUSIP number assignment: ______

SECTION VI - MANAGING UNDERWRITER'S CERTIFICATION AND SIGNATURE

THE UNDERSIGNED CERTIFIES THAT THE MATERIALS ACCOMPANYING THIS FORM ARE AS DESCRIBED IN SECTION I ABOVE AND THAT ALL OTHER INFORMATION CONTAINED HEREIN IS TRUE AND CORRECT. THE UNDERSIGNED ACKNOWLEDGES THAT SAID MATERIALS WILL BE PUBLICLY DISSEMINATED.

"RECEIVED"
MAY 13
"M.S.R.B"

ON B ... :CTION IV ABOVE

SIGN ... ______

NAME
(PRI ... underwriter)

FAX:

PHON
ost likely ... and

NOTE ... instructi
noted as ... NED FOR

nd two co ... statement must
B within the meaning of rule G-36.
to MSRB, MSIL System, 1640 King Street, Suite 300, Alexandria, Virginia