

## NEW ISSUE — BOOK-ENTRY ONLY

*In the opinion of Bond Counsel, under existing law and assuming continued compliance by the Commonwealth with the Internal Revenue Code of 1986, as amended, interest on the 1998A Notes is excluded from gross income for federal income tax purposes and is not an item of tax preference for the purpose of computing the federal alternative minimum tax imposed on individuals and corporations, although interest on the 1998A Notes will be taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed upon certain corporations. In the opinion of Bond Counsel, interest on the 1998A Notes is exempt from Massachusetts personal income taxes, and the 1998A Notes are exempt from Massachusetts personal property taxes. For federal and Massachusetts tax purposes, interest includes original issue discount. See "TAX EXEMPTION" herein.*

**\$600,000,000**



### **THE COMMONWEALTH OF MASSACHUSETTS Federal Highway Grant Anticipation Notes 1998 Series A**

**Dated: June 1, 1998**

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

The Federal Highway Grant Anticipation Notes, 1998 Series A (the "1998A Notes") are being issued by The Commonwealth of Massachusetts (the "Commonwealth") pursuant to Sections 9 through 10D of Chapter 11 of the Acts of 1997, as amended by Chapter 121 of the Acts of 1998 (the "Act"), and a Trust Agreement dated as of June 1, 1998 by and between the Commonwealth and State Street Bank and Trust Company, Boston, Massachusetts, as trustee (the "Trustee").

As more fully described herein, the 1998A Notes are payable solely from reimbursements received by the Commonwealth from the federal government pursuant to the Federal-Aid Highway Program, any other moneys from time to time deposited in the Federal Highway Grant Anticipation Trust Fund of the Commonwealth established by the Act and, in certain limited circumstances, a portion of the proceeds of the Commonwealth's gasoline excise tax and certain other moneys described herein (collectively, the "Pledged Funds"). **THE 1998A NOTES ARE PAYABLE SOLELY FROM AND SECURED BY A LIEN ON THE PLEDGED FUNDS. THE 1998A NOTES ARE NOT A GENERAL OBLIGATION OF THE COMMONWEALTH, AND THE FULL FAITH AND CREDIT OF THE COMMONWEALTH ARE NOT PLEDGED TO THE PAYMENT OF THE 1998A NOTES.** See "SOURCES OF PAYMENT AND SECURITY FOR THE NOTES" herein.

The 1998A Notes will be issued only as fully registered notes, registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York ("DTC"). Purchases of beneficial interests in the 1998A Notes will be made in book-entry form in denominations of \$5,000 principal amount or whole multiples thereof. Purchasers will not be entitled to receive physical delivery of the 1998A Notes. Principal, premium, if any, and interest on the 1998A Notes (with interest accruing from the dated date and payable on December 15, 1998 and thereafter on June 15 and December 15 of each year) will be payable to DTC by the Trustee. So long as DTC or its nominee remains the registered owner, disbursements of such payments to DTC Participants are the responsibility of DTC and disbursements of such payments to the purchasers of the 1998A Notes are the responsibility of DTC Participants, as described herein. **Certain of the 1998A Notes are subject to redemption prior to stated maturity as described herein.**

*The 1998A Notes are offered, subject to prior sale, when, as and if issued by the Commonwealth and accepted by the Underwriters, and to the approval of legality of the 1998A Notes and certain other matters by Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Underwriters by their counsel, Ropes & Gray, Boston, Massachusetts. It is expected that the 1998A Notes will be available for delivery to DTC in New York, New York, on or about June 30, 1998.*

#### **Lehman Brothers**

**Goldman, Sachs & Co.  
PaineWebber Incorporated**

**BancBoston Securities Inc.**

**Advest, Inc.  
Bear, Stearns & Co. Inc.  
First Albany Corporation  
Prudential Securities Incorporated  
Roosevelt & Cross, Inc.**

**William E. Simon & Sons Municipal Securities Inc.**

**Artemis Capital Group, Inc.  
Corby North Bridge Securities  
Hambrecht & Quist LLC**

**Merrill Lynch & Co.  
Salomon Smith Barney**

**Fleet Securities, Inc.**

**A.G. Edwards & Sons, Inc.  
Cowen & Company  
J.P. Morgan Securities Inc.  
Pryor, McClendon, Counts & Co. Inc.  
Tucker Anthony Incorporated**

# THE COMMONWEALTH OF MASSACHUSETTS

**\$600,000,000**

## Federal Highway Grant Anticipation Notes 1998 Series A

<u>Maturity</u>	<u>Amount</u>	<u>Interest Rate</u>	<u>Yield</u>
December 15, 2005	\$ 22,775,000	5%	4.40%
June 15, 2006	23,345,000	5½	4.45
December 15, 2006	10,000,000	4 <sup>3</sup> / <sub>8</sub>	4.45
December 15, 2006	13,985,000	5¼	4.45
June 15, 2007	24,570,000	4.40	4.50
December 15, 2007*	25,110,000	7	4.46
June 15, 2008	25,990,000	5¼	4.55
December 15, 2008	26,675,000	5¼	4.55
June 15, 2009	27,375,000	5¼	4.63
December 15, 2009	28,090,000	4½	4.63
June 15, 2010	28,725,000	5¼	4.70
December 15, 2010	29,475,000	5¼	4.70
June 15, 2011	33,855,000	5¼	4.79
December 15, 2011	33,655,000	5¼	4.79
June 15, 2012	33,400,000	5¼	4.89
December 15, 2012	35,350,000	5¼	4.79
June 15, 2013	13,830,000	5¼	4.95
June 15, 2013*	20,000,000	5½	4.80
December 15, 2013	34,740,000	5½	4.83
June 15, 2014	35,695,000	5½	5.00
December 15, 2014	36,680,000	0	5.13
June 15, 2015	36,680,000	0	5.15

(accrued interest, if any, to be added)

\* Insured by MBIA Insurance Corporation.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE 1998A NOTES AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

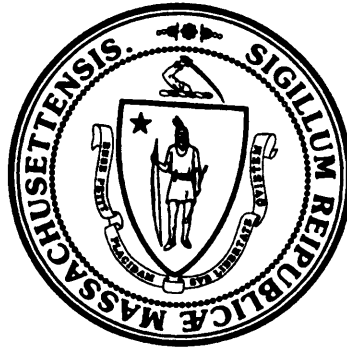
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The information in this Official Statement has been obtained from the Commonwealth and other sources considered to be reliable. Such information is not guaranteed as to accuracy or completeness and is not to be considered as a representation by the Underwriters. All estimates and assumptions contained herein are believed to be reliable, but no representation is made that such estimates or assumptions are correct or will be realized. No dealer, broker, salesman or other person has been authorized by the Commonwealth or the Underwriters to give any information or to make any representation with respect to the 1998A Notes, other than those contained in this Official Statement, and if given or made, such other information or representation must not be relied upon as having been authorized by any of the foregoing. The information and expressions of opinion herein are subject to change without notice and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the parties referred to above since the date hereof. 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 1998A Notes, by any person, in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale.

This Official Statement contains forecasts, projections and estimates that are based on current expectations but are not intended as representations of fact or guarantees of results. If and when included in this Official Statement, the words "expects," "forecasts," "projects," "intends," "anticipates," "estimates" and analogous expressions are intended to identify forward-looking statements as defined in the Securities Act of 1933, as amended, and any such statements inherently are subject to a variety of risks and uncertainties that could cause actual results to differ materially from those projected. These forward-looking statements speak only as of the date of this Official Statement. The Commonwealth disclaims any obligation or undertaking to release publicly any updates or revisions to any forward-looking statement contained herein to reflect any change in the Commonwealth's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

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

**SUMMARY OF TERMS**

*The following is qualified in its entirety by reference to the information appearing elsewhere in this Official Statement. Terms used in this summary and not defined herein are defined in "APPENDIX A: SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT."*

- Issuer . . . . . The Commonwealth of Massachusetts (the "Commonwealth") acting pursuant to Sections 9 through 10D of Chapter 11 of the Acts of 1997, as amended by Chapter 121 of the Acts of 1998 (the "Act").
  
- Securities Offered . . . . . Federal Highway Grant Anticipation Notes, 1998 Series A (the "1998A Notes") are to be issued pursuant to a Trust Agreement by and between the Commonwealth and the Trustee dated as of June 1, 1998 as amended by a First Supplemental Trust Agreement of even date therewith (as so amended and supplemented and as further amended and supplemented from time to time, the "Trust Agreement").
  
- Purpose of Issue . . . . . The proceeds of the 1998A Notes will be used to fund a portion of the costs of construction of the Central Artery/Ted Williams Tunnel Project of the Commonwealth under construction in the City of Boston, Massachusetts (the "CA/T Project").
  
- Trustee . . . . . State Street Bank and Trust Company, Boston, Massachusetts.
  
- Special Obligations . . . . . The 1998A Notes (together with any additional notes issued under the Act and the Trust Agreement on a parity with the 1998A Notes, the "Notes") are payable solely from the Pledged Funds (defined below) and are not general obligations of the Commonwealth. The full faith and credit of the Commonwealth are not pledged to the payment of the Notes.
  
- Sources of Payment and Security for the Notes . . . . . Principal of and interest and premium, if any, on the Notes and other obligations of the Commonwealth under the Trust Agreement (collectively, the "Trust Agreement Obligations") are payable solely from and are secured by the following (collectively, the "Pledged Funds"): (a) all reimbursements and other federal assistance ("Federal Highway Reimbursements") that the Commonwealth from time to time shall receive with respect to federally-aided highway construction projects under or in accordance with Title 23 of the United States Code or any successor program established under federal law (the "Federal-Aid Highway Program") and any other moneys from time to time deposited in the Federal Highway Grant Anticipation Note Trust Fund of the Commonwealth established by Section 10 of the Act (the "GAN Trust Fund"), (b) all amounts from time to time credited to the GAN Trust Fund (excluding the Project Fund established therein) and to the funds and accounts (excluding the Rebate Fund) established under the Trust Agreement, (c) any amounts payable to the Commonwealth by a Hedge Provider pursuant to a Qualified Hedge Agreement relating to the Notes, and (d) upon the occurrence and during the continuation of a True-up Condition (described below), the receipts derived by the Commonwealth from that portion of the excise imposed on gasoline

(other than aviation fuel) by Chapter 64A of the Massachusetts General Laws as amended from time to time (the "Commonwealth gasoline excise tax") and credited to the Commonwealth's Highway Fund equal to ten cents (\$0.10) per gallon (the "Alternative Revenues"). See "SOURCES OF PAYMENT AND SECURITY FOR THE NOTES."

Federal Highway Reimbursements . . . . . Under the Federal-Aid Highway Program, Federal Highway Reimbursements are paid to the Commonwealth from revenues collected by the United States Treasury on certain federal taxes on gasoline, tire sales, truck sales and other items and deposited into the federal Highway Trust Fund for distribution, subject to Congressional appropriation, to the states in accordance with the federal highway aid programs established initially by the Federal-Aid Highway Act of 1956 and continued under successor statutes. See "THE FEDERAL-AID HIGHWAY PROGRAM." Application of Federal Highway Reimbursements to pay principal of and interest on the Notes when due is not subject to appropriation by the Massachusetts Legislature.

Flow of Federal Highway Reimbursements . . . All Federal Highway Reimbursements are required under the Trust Agreement to be deposited by the Treasurer and Receiver-General of the Commonwealth (the "State Treasurer") within two business days after receipt by the Commonwealth into the GAN Trust Fund. On or before October 10 of each federal fiscal year ("FFY") the State Treasurer, with the written concurrence of the Secretary of Administration and Finance and the Secretary of Transportation and Construction (collectively, the "Secretaries"), will deliver to the Trustee a statement (the "Statement of Available Revenues") setting forth, among other matters, the amount of Federal Highway Reimbursements expected to be received by the Commonwealth during such FFY and the amount of Trust Agreement Obligations expected to be due and payable during the next succeeding FFY and the ratio of such amounts (the "Debt Service Coverage Ratio").

If the projected Debt Service Coverage Ratio is equal to or greater than 120%, then Federal Highway Reimbursements sufficient to pay debt service on the Notes and other Trust Agreement Obligations will be retained by the Trustee commencing not later than one year before the applicable June 15 or December 15 payment date, as more fully described in "SOURCES OF PAYMENT AND SECURITY FOR THE NOTES—Flow of Federal Highway Reimbursements." However, (1) if on October 1 of any FFY, and so long as, no Statement of Available Revenues shall have been filed with the Trustee for such FFY or (2) in the event that for any FFY the Statement of Available Revenues shall project that the Debt Service Coverage Ratio shall be less than 120%, then all Federal Highway Reimbursements received by the Commonwealth shall be retained by the Trustee until all Trust Agreement Obligations due and payable in the next succeeding FFY shall have been provided for. In addition, so long as any Event of Default under the Trust Agreement shall have occurred and be continuing no Pledged Funds shall be released from the lien of the Trust Agreement. See "SOURCES OF PAYMENT AND

SECURITY FOR THE NOTES—Flow of Federal Highway Reimbursements.”

True-up Condition . . . . . Not later than December 15 in each FFY, the State Treasurer will determine and certify (a) the aggregate amount appropriated nationwide from the federal Highway Trust Fund, for the purposes of carrying out the provisions of Title 23 of the United States Code with respect to federal-aid highways, for the current FFY and (b) the Debt Service Coverage Ratio for the current FFY. If both the amount described in (a) above is less than \$17.1 billion and the Debt Service Coverage Ratio described in (b) above is less than 120%, then such combination of conditions shall constitute a “True-up Condition.”

If a True-up Condition shall occur, the Act requires the Governor of the Commonwealth to include in the proposed operating budget of the Commonwealth to be submitted to the Legislature for the next succeeding Commonwealth’s state fiscal year (“SFY”) a recommendation to appropriate an amount sufficient to meet the expected deficiency. See “SOURCES OF PAYMENT AND SECURITY FOR THE NOTES—Pledge of Alternative Revenues.”

Pledge of Alternative Revenues . . . . . In the event of a True-up Condition, the Pledged Funds also will include the Alternative Revenues, consisting of ten cents (\$0.10) per gallon of the Commonwealth’s gasoline excise tax imposed under Chapter 64A of the Massachusetts General Laws and credited to the Commonwealth’s Highway Fund. Application of Alternative Revenues to pay principal of and interest on the Notes and other Trust Agreement Obligations will be subject to appropriation by the Massachusetts Legislature. See “SOURCES OF PAYMENT AND SECURITY FOR THE NOTES—Pledge of Alternative Revenues” and “THE ALTERNATIVE REVENUES.”

Perfection and Priority of Lien . . . . . The Act provides that the lien of the Trust Agreement on the Pledged Funds will be perfected by filing the Trust Agreement in the records of the State Treasurer. In the opinion of Palmer & Dodge LLP, Bond Counsel, the Trust Agreement has been so filed and the lien of such Pledged Funds shall be valid and binding as against all persons or entities of any kind having claims of any kind in tort, contract or otherwise, irrespective of whether such persons or entities have notice thereof. Bond Counsel is further of the opinion that neither the Commonwealth nor the GAN Trust Fund is eligible to seek protection from creditors under Title 11 of the United States Code (the “Bankruptcy Code”). The lien of the Trust Agreement on the Federal Highway Reimbursements is limited to such moneys when received by the Commonwealth and does not include a pledge of the right to receive such reimbursements or other assistance from the federal government. No person or entity, other than the Commonwealth, will be entitled to assert any claim against the federal government with respect to such reimbursements or other assistance.

Additional Notes . . . . .

The 1998A Notes constitute the initial issuance of Notes by the Commonwealth. The Act authorizes the issuance of securities, including the Notes, yielding aggregate net proceeds of up to \$1.5 billion (excluding proceeds of refunding Notes). Additional Notes are expected to be issued from time to time. See "PLAN OF FINANCE." Refunding Notes and subordinate securities also may be issued.

The Trust Agreement provides that no additional Notes (except refunding Notes) may be issued unless, after giving effect to the issuance of such additional Notes and the defeasance of any Notes to be defeased simultaneously with such issuance, certain conditions are met. These conditions include the requirement that either (i) principal and interest payable on the Notes on any June 15 or December 15 (and, if applicable, during the six-month period ending on such date) shall not exceed \$108 million (excluding additions to accreted value not payable in cash) or (ii) the Outstanding Notes and the proposed additional Notes will retain the existing credit ratings of the Outstanding Notes. See "SOURCES OF PAYMENT AND SECURITY FOR THE NOTES—Limitations on Issuance of Additional Notes."

Commonwealth Covenants . . . . .

As authorized by the Act, the Trust Agreement contains covenants of the Commonwealth with the Noteholders that, so long as any Notes shall remain outstanding or any Trust Agreement Obligations shall remain unpaid:

(a) Federal Highway Reimbursements shall not be diverted from the purposes identified in the Act or the Trust Agreement (except as provided in the Trust Agreement), nor shall the trusts with which the Federal Highway Reimbursements are impressed under the Act and the Trust Agreement be broken, and the pledge and dedication in trust of the Federal Highway Reimbursements shall continue unimpaired and unabrogated;

(b) Except to the extent otherwise required by applicable federal law or regulations, the Commonwealth will not cause or permit the Commonwealth's Advance Construction Balance under the Federal-Aid Highway Program as of any date of calculation to be less than the principal amount of Notes Outstanding as of such date, taking into account the principal amount of Notes, if any, to be paid, defeased or redeemed as a result of the conversion on such date of a portion of the Advance Construction Balance to Obligation Authority under the Federal-Aid Highway Program. See "SOURCES OF PAYMENT AND SECURITY FOR THE NOTES—Advance Construction Balance Covenant";

(c) In any SFY with respect to which a True-up Condition has occurred and is continuing, unless and until an appropriation has been made or an amount is otherwise made available which is sufficient to pay the Trust Agreement Obligations due during such SFY, none of the



Alternative Revenues shall be applied to any use other than the payment of such Trust Agreement Obligations;

(d) Until the State Treasurer, after consultation with the Secretaries, determines that available funds in the GAN Trust Fund and in the Funds and Accounts established under the Trust Agreement will be sufficient to pay all Trust Agreement Obligations, the rate of the Commonwealth gasoline excise tax shall not be reduced below the sum of ten cents (\$0.10) per gallon plus any amount thereof pledged for the payment of special obligation bonds of the Commonwealth pursuant to Section 20 of Chapter 29 of the Massachusetts General Laws; and

(e) At least ten cents (\$0.10) of the Commonwealth gasoline excise tax shall remain free and clear of any superior or equal pledge, lien, charge or encumbrance thereon or with respect thereto (other than the lien of the Trust Agreement) and shall remain credited to the Highway Fund of the Commonwealth, except as permitted by the Trust Agreement; provided, however, that any such funds shall be available for appropriation in any SFY for any other lawful purpose unless the State Treasurer shall have certified that a True-up Condition has occurred and is continuing.

No Acceleration . . . . .	Neither the Noteholders nor the Trustee shall have any right to accelerate the payment of principal or interest due on any Notes outstanding upon the occurrence of any Event of Default under the Trust Agreement.
Interest and Principal . . . . .	Interest on the 1998A Notes will accrue from their dated date at the rates set forth on the inside cover page hereof; provided, that no interest will accrue on the 1998A Notes maturing December 15, 2014 and June 15, 2015 (collectively, the "Zero Coupon 1998A Notes"). Interest on the 1998A Notes (other than the Zero Coupon 1998A Notes) will be payable semiannually, commencing on December 15, 1998. Principal of the 1998A Notes will be due as shown on the inside cover page.
Financial Guaranty Insurance . . . . .	Principal of and interest on the 1998A Notes maturing December 15, 2007 and bearing interest at the rate of 7% per annum and the 1998A Notes maturing June 15, 2013 and bearing interest at the rate of 5.5% per annum (collectively, the "Insured 1998A Notes") will be guaranteed by a financial guaranty insurance policy of MBIA Insurance Corporation. See "THE MBIA INSURANCE CORPORATION INSURANCE POLICY."
Optional Redemption . . . . .	The 1998A Notes are redeemable, on at least 30 days' notice to the holders of the Notes, in whole or in part at any time commencing December 15, 2008 at a price of 101%, declining to 100½% on December 15, 2009 and to par on and after December 15, 2010; provided, however, that the 1998A Notes maturing December 15, 2012 and December 15, 2013, the 1998A Notes maturing June 15, 2013 and bearing interest at the rate of 5.5% per annum and the Zero Coupon

1998A Notes are not subject to optional redemption prior to stated maturity. See "THE 1998A NOTES — Redemption."

Tax Exemption .....

In the opinion of Bond Counsel, under existing law and assuming continued compliance by the Commonwealth with the Internal Revenue Code of 1986, as amended, interest on the 1998A Notes is excluded from gross income for federal income tax purposes and is not an item of tax preference for the purpose of computing the federal alternative minimum tax imposed on individuals and corporations, although interest on the 1998A Notes is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed upon certain corporations. In the opinion of Bond Counsel, the interest on the 1998A Notes is exempt from Massachusetts personal income taxes, and the 1998A Notes are exempt from Massachusetts personal property taxes. For federal and Massachusetts tax purposes, interest includes original issue discount. See "TAX EXEMPTION."

Ratings .....

The 1998A Notes have been rated "AAA" by Duff & Phelps Credit Rating Co., "AA" by Fitch IBCA, Inc. and "Aa3" by Moody's Investors Service, Inc.; provided, that the Insured 1998A Notes have been rated "AAA" by Fitch IBCA, Inc. and "Aaa" by Moody's Investors Service, Inc. 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 1998A Notes.

## OFFICIAL STATEMENT

**\$600,000,000**

**THE COMMONWEALTH OF MASSACHUSETTS**  
**Federal Highway Grant Anticipation Notes**  
**1998 Series A**

### INTRODUCTION

This Official Statement, including the cover pages and the Appendices hereto, provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth"), pursuant to Sections 9 through 10D of Chapter 11 of the Acts of 1997, as amended by Chapter 121 of the Acts of 1998 (the "Act"), of \$600,000,000 of its Federal Highway Grant Anticipation Notes, 1998 Series A (the "1998A Notes"). The 1998A Notes and other notes hereafter issued under the Act on a parity with the 1998A Notes (collectively, the "Notes"), will be issued and secured under the Trust Agreement dated as of June 1, 1998, as supplemented by the First Supplemental Trust Agreement dated as of June 1, 1998 (collectively the "Trust Agreement"), each by and between the Commonwealth and State Street Bank and Trust Company, as trustee (the "Trustee").

#### **The Note Program**

The Act authorizes the issuance of up to \$1.5 billion in Federal Highway Grant Anticipation Notes to finance a portion of the costs of construction of the Central Artery/Ted Williams Tunnel Project (the "CA/T Project"). The CA/T Project is a major construction project being undertaken by the Commonwealth, involving the depression of a portion of Interstate 93 in downtown Boston, Massachusetts that now is elevated and the construction of a new tunnel under Boston Harbor. Including current year costs, an estimated \$6.9 billion remains to be funded through the project's completion in the Commonwealth's state fiscal year ("SFY") 2005, of which the Notes are expected to finance \$1.5 billion. The 1998A Notes are the Commonwealth's first issuance under its Federal Highway Grant Anticipation Notes program.

The Notes are payable solely from certain Pledged Funds hereinafter defined. The Notes will not be general obligations of the Commonwealth, and the full faith and credit of the Commonwealth are not pledged to the payment of principal of and interest on the Notes.

Payment of principal and interest on the Notes will be made from moneys received by the Commonwealth from the federal government under existing and future federal highway construction assistance programs. All such assistance received by the Commonwealth will be collected for the benefit of the Noteholders in a trust fund established under the Act and, to the extent needed for such purpose, will be retained in trust to provide for debt service on the Notes. Application of such funds to the payment of principal of and interest on the Notes is permitted under federal law and may be made without legislative appropriation under Massachusetts law. Neither the Commonwealth nor the trust fund established to secure the Notes is eligible for bankruptcy protection.

Federal highway construction assistance is paid to all states including the Commonwealth through the Federal-Aid Highway Program, hereinafter defined, from revenues collected by the United States Treasury from certain federal taxes on gasoline, tire sales and other items, which taxes are deposited into the federal Highway Trust Fund. Distribution of assistance from such Fund is subject to periodic authorization and annual appropriation by the United States Congress. Since such assistance was established by the Federal-Aid Highway Act of 1956, the Federal-Aid Highway Program has been reauthorized some 15 times in various forms at generally increasing funding levels. Actual payments to states have continued without

interruption since 1956. The most recent reauthorization, the Transportation Equity Act for the 21st Century ("TEA 21"), was enacted by the United States Congress on May 22, 1998 and approved by the President on June 9, 1998.

As one condition to the issuance of Notes, the Commonwealth must certify that projected maximum debt service on the Notes may not exceed \$216 million per year, or \$108 million in any six-month period. Since federal fiscal year ("FFY") 1985, the Commonwealth has received an average of \$559 million per year through the Federal-Aid Highway Program. TEA 21, which authorizes funding levels for states through FFY 2003, appears to authorize approximately \$529 million per year in federal assistance for Massachusetts. Since FFY 1982, all Federal-Aid Highway Program authorization acts have included so-called equity provisions which provide that there will be apportioned to each state a certain minimum percentage (historically 85%) of the federal transportation-related user taxes collected in that state and paid into the federal Highway Trust Fund. TEA 21 includes such a provision and sets the minimum percentage at 90.5%. The Commonwealth estimates that such user taxes collected in Massachusetts for the Federal-Aid Highway Program will be \$460 million in FFY 1998. Continued authorizations at the TEA 21 level and continued application of such equity provisions, each of which will be subject to Congressional action, would ensure that annual apportionments of federal highway assistance to Massachusetts would substantially exceed the maximum annual debt service on the Notes.

Federal highway construction assistance is paid to all states including the Commonwealth on a reimbursement basis. Access to all of the amounts of available federal highway assistance for Massachusetts will depend, in part, on its continued spending on federally-eligible projects. The Commonwealth expects that, as a result of its extensive statewide road and bridge program and the continuing needs of the CA/T Project, it will have sufficient federally eligible project expenditures to be able to utilize all the federal highway assistance made available to it.

In addition, largely as a result of the CA/T Project, the Commonwealth has made extensive use of Advance Construction ("A/C") status under the Federal-Aid Highway Program. By utilizing A/C status, the Commonwealth may pre-qualify projects and expenditures thereon for federal reimbursement, subject only to the availability of future federal assistance. Massachusetts currently has \$2.45 billion in planned project costs so qualified, which, when spent, should ensure that it will be able to draw down future federal assistance when available. In connection with the issuance of the Notes, the Commonwealth will covenant to maintain an A/C balance at least equal to the principal amount of Notes Outstanding, to help ensure that it will be able to draw down federal funds to meet debt service funding requirements.

Moreover, the Commonwealth will, under a limited circumstance involving the elimination or substantial reduction of national funding for the Federal-Aid Highway Program, dedicate a portion of its state gasoline excise tax receipts equal to ten cents per gallon to the payment of debt service on the Notes. During SFY 1997 such receipts totaled approximately \$255 million. Payment of debt service on the Notes from such excise tax proceeds would require further appropriation by the Massachusetts Legislature; however, in the event that such limited circumstance occurs, such receipts will not be available for any other purpose until the Massachusetts Legislature makes an adequate appropriation for debt service or other funds are made available for such purpose.

**THE ABOVE SUMMARY IS INTENDED ONLY AS A GENERAL INTRODUCTION TO THE 1998A NOTES AND DOES NOT PURPORT TO BE COMPREHENSIVE OR DEFINITIVE. FOR MORE INFORMATION CONCERNING THE 1998A NOTES AND THE SPECIFIC PLEDGES AND OTHER PROVISIONS OF THE TRUST AGREEMENT UNDER WHICH THE 1998A NOTES ARE BEING ISSUED AND DESCRIPTIONS OF THE FEDERAL-AID HIGHWAY PROGRAM AND THE COMMONWEALTH'S PARTICIPATION THEREIN, PROSPECTIVE PURCHASERS OF THE 1998A NOTES SHOULD EXAMINE THE ENTIRETY OF THIS OFFICIAL STATEMENT.**

#### **Other Information**

Attached hereto as Appendix A is a summary of certain provisions of the Trust Agreement. Appendix B attached hereto contains the proposed form of legal opinion of Bond Counsel with respect to the 1998A Notes. Appendix C attached hereto contains the proposed form of the Commonwealth's continuing disclosure undertaking to be included in the 1998A

Notes to facilitate compliance by the Underwriters with the requirements of paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission. All descriptions of documents contained in this Official Statement are only summaries and are qualified in their entirety by reference to each such document.

**PLAN OF FINANCE**

The 1998A Notes are being issued to finance a portion of the costs of construction of the CA/T Project. The CA/T 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.

The proceeds of the 1998A Notes (exclusive of accrued interest, which will be deposited in the December 15 Debt Service Account of the Debt Service Fund) are expected to be applied on the date of issue of the 1998A Notes in the estimated amounts as follows (rounded to the nearest dollar):

Sources of Funds:

Principal amount of 1998A Notes . . . . .	\$600,000,000.00
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Uses of Funds:

Deposit to the Project Fund for CA/T Project costs . . . . .	\$580,557,339.89
Reserve Credit Facility premium and financial guaranty insurance premium and other costs of issuance . . . . .	903,000.00
Original issue discount . . . . .	15,285,283.75
Underwriters' discount . . . . .	<u>3,254,376.36</u>
 TOTAL . . . . .	 \$600,000,000.00

Commonwealth projections of cash flows required to complete the CA/T Project on schedule in SFY 2005 assume that the CA/T Project will require total expenditures of \$11.6 billion and that insurance reimbursements and proceeds from real estate dispositions related to the project will be received after project completion. The amount required for SFY 1998 through SFY 2005 is estimated to be approximately \$6.9 billion, of which the Note program is expected to provide \$1.5 billion. The remaining costs are expected to be funded from a combination of federal highway assistance, Commonwealth general obligation bonds and notes, and contributions from the Massachusetts Turnpike Authority and the Massachusetts Port Authority. Repayment of the Notes, including the 1998A Notes, does not depend on the timely or on-budget completion of the CA/T Project.

Subject to satisfaction of conditions specified in the Trust Agreement, the Commonwealth may issue Notes (including the 1998A Notes) providing net proceeds of up to \$1.5 billion (and refunding Notes therefor) and maturing not later than June 30, 2015. For a discussion of certain conditions precedent to the issuance of additional Notes, see "SOURCES OF PAYMENT AND SECURITY FOR THE NOTES—Limitations on Issuance of Additional Notes." The Commonwealth projects that it will issue a total of approximately \$1.5 billion of Notes (including the 1998A Notes but excluding any refunding Notes) periodically over the next four years.

The Commonwealth has structured the principal amortization of the 1998A Notes using certain assumptions regarding future receipt of Federal Highway Reimbursements (hereinafter defined) from the Federal-Aid Highway Program. Subject to the limitations on the use of Federal Highway Reimbursements in the Trust Agreement and detailed under "SOURCES OF PAYMENT AND SECURITY FOR THE NOTES—General," the Commonwealth currently intends to use a portion of Federal Highway Reimbursements to defease or redeem some or all of the Notes, including the 1998A Notes, prior to stated maturity. However, there can be no assurance as to the specific amount of Federal Highway Reimbursements

actually to be received in any year or that the Commonwealth shall continue to intend to apply a portion of such Federal Highway Reimbursements to such early defeasance or redemption. The Commonwealth makes no representation as to the amount or timing of any such defeasance or redemption.

## **SOURCES OF PAYMENT AND SECURITY FOR THE NOTES**

### **General**

The principal of and premium, if any, and interest on the 1998A Notes and any additional Notes which may be issued hereafter under the Trust Agreement and other obligations of the Commonwealth from time to time owing under the Trust Agreement (collectively with the Notes, the "Trust Agreement Obligations") are secured by a pledge of, and payable solely from, the following (collectively, the "Pledged Funds"):

(a) all reimbursements and other federal assistance ("Federal Highway Reimbursements") that the Commonwealth from time to time shall receive with respect to federally-aided highway construction projects under or in accordance with Title 23 of the United States Code or any successor program established under federal law (the "Federal-Aid Highway Program") and any other moneys from time to time deposited in the Federal Highway Grant Anticipation Note Trust Fund of the Commonwealth established by Section 10 of the Act ("GAN Trust Fund");

(b) all amounts from time to time credited to the GAN Trust Fund (excluding the Project Fund) and to the Funds and Accounts established under the Trust Agreement (excluding the Rebate Fund);

(c) any amounts payable to the Commonwealth by a Hedge Provider pursuant to a Qualified Hedge Agreement relating to the Notes; and

(d) upon the occurrence and during the continuation of a True-up Condition (defined below) the receipts derived by the Commonwealth from that portion of the excise imposed on gasoline (other than aviation fuel) by Chapter 64A of the Massachusetts General Laws as amended from time to time (the "Commonwealth gasoline excise tax") and credited to the Commonwealth's Highway Fund equal to ten cents (\$0.10) per gallon (the "Alternative Revenues").

As indicated above, the Alternative Revenues will be included in the Pledged Funds only during the continuation of a True-Up Condition. See "Pledge of Alternative Revenues" below.

The Notes and the other Trust Agreement Obligations are not general obligations of the Commonwealth, and the full faith and credit of the Commonwealth are not pledged to the payment of the Notes or the other Trust Agreement Obligations. The Commonwealth is not obligated to make any payments with respect to the Notes or the other Trust Agreement Obligations except as specified in the Notes and in the Trust Agreement, and the Commonwealth is not obligated to impose any taxes to satisfy the Notes or the other Trust Agreement Obligations.

The Act provides that the lien of the Trust Agreement on the Pledged Funds will be perfected by filing the Trust Agreement in the records of the Treasurer and Receiver-General of the Commonwealth (the "State Treasurer"). The Trust Agreement will be so filed at the time of delivery of the 1998A Notes. In the opinion of Bond Counsel, upon such filing the lien of the Trust Agreement will be valid and binding as against all persons or entities of any kind having claims of any kind in tort, contract or otherwise, irrespective of whether such persons or entities have notice thereof. At the option of the Commonwealth and without Noteholder consent, a subordinate lien on all or a portion of the Pledged Funds may be given to secure the reimbursement obligation of the Commonwealth relating to a Reserve Credit Facility or to secure securities subordinate to the Notes.

The lien of the Trust Agreement on the Federal Highway Reimbursements is limited to such moneys when received by the Commonwealth and does not include a pledge of the right to receive such reimbursements or other assistance from the federal government. No person or entity, other than the Commonwealth, will be entitled to assert any claim against the federal government with respect to such reimbursements or other assistance.

As required by the Act, the Trust Agreement contains a covenant to the effect that on and after July 1, 2002, except to the extent necessary to pay Trust Agreement Obligations due and payable in any SFY (as originally scheduled), no more than fifty percent (50%), or such other percentage as may be permitted by Massachusetts law, of the amount apportioned by law to the Commonwealth in any FFY with respect to the Federal-Aid Highway Program shall be applied in the SFY ending on June 30 of such FFY or in the SFY, commencing on July 1st of such FFY to the payment of Trust Agreement Obligations, including without limitation, the payment, redemption or defeasance prior to maturity of the principal of and interest on Notes Outstanding. Any such use of Federal Highway Reimbursements also requires the concurrence of the Secretary of Administration and Finance and the Secretary of Transportation and Construction (collectively, the "Secretaries"). This provision limits the amount of Federal Highway Reimbursements that may be available in any year for any optional redemption or defeasance of 1998A Notes, although the percentage limitation may be modified or eliminated by future action of the Massachusetts Legislature without Noteholder consent. Moreover, the Commonwealth makes no representation as to the likelihood of any optional redemption or defeasance of the 1998A Notes or that it will not utilize other available funds, if any, for such purposes. See "PLAN OF FINANCE."

The Commonwealth has waived its sovereign immunity and consented to be sued on contractual obligations, including the Notes and the Trust Agreement, and all claims with respect thereto. The application of the Pledged Funds other than the Alternative Revenues to satisfy the Trust Agreement Obligations, including satisfaction of any judgment enforcing the Trust Agreement Obligations, will not be subject to appropriation by the Massachusetts Legislature. However, application of the Alternative Revenues to pay Trust Agreement Obligations will require appropriation, and certain other Pledged Funds (excluding Federal Highway Reimbursements) may be made available from time to time as the result of legislative appropriations, although the Commonwealth is not obligated to appropriate any such funds. Enforcement of a claim for payment of the Trust Agreement Obligations 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.

Neither the Commonwealth nor the GAN Trust Fund is eligible for protection from its creditors pursuant to Title 11 of the United States Code (the "Bankruptcy Code"). The Notes are not subject to acceleration upon the occurrence of an Event of Default.

#### **Funds and Accounts**

The GAN Trust Fund is established by the Act. The Trust Agreement establishes within the GAN Trust Fund a Revenue Account and a Project Fund. The Revenue Account will be held and administered by the Trustee and will constitute part of the security for the Notes. The Act provides that all Federal Highway Reimbursements, any other funds hereafter appropriated to the GAN Trust Fund, and investment earnings thereon and on the proceeds of the Notes shall be held by the State Treasurer or designee as trustee of the GAN Trust Fund and not on account of the Commonwealth and, as further set forth in the Act, may be expended without further appropriation for payment of Trust Agreement Obligations. The Act further provides that such funds are impressed with a trust for the benefit of the owners of the notes authorized by the Act, including the Notes.

Pursuant to the Trust Agreement all Federal Highway Reimbursements received by the Commonwealth are required to be deposited within two business days of receipt by the Commonwealth into the Revenue Account established by the Trust Agreement within the GAN Trust Fund. Also deposited into the Revenue Account will be such additional funds (other than Alternative Revenues), if any, as may from time to time be appropriated by the Massachusetts Legislature to the GAN Trust Fund for the payment of principal of and interest on the Notes and other Trust Agreement Obligations.

The Project Fund within the GAN Trust Fund will be held and administered by the State Treasurer as a depository for proceeds of the Notes pending their expenditure on costs of the CA/T Project or costs of issuance of the Notes. The Project Fund is not part of the security for the Notes, and amounts deposited in the Project Fund are not included in the Pledged Funds and are not available to pay Trust Agreement Obligations.

The Trust Agreement also establishes the following Funds and Accounts, which are separate from the GAN Trust Fund:

- (i) Redemption Fund;
- (ii) Debt Service Fund, including a June 15 Debt Service Payment Account, a December 15 Debt Service Payment Account and a Defeasance Account;
- (iii) Alternative Revenues Fund, including a Reserve Account and a Debt Service Liquidity Account;
- (iv) Note Related Costs Fund; and
- (v) Rebate Fund.

All these Funds and Accounts are held and administered by the Trustee. All these Funds and Accounts are included in the Pledged Funds securing the Trust Agreement Obligations, except for the Rebate Fund and except that any Alternative Revenues contained therein are available only during the continuation of a True-up Condition provided the Massachusetts Legislature appropriates such funds for the necessary purpose. Moneys and securities held in the Rebate Fund are not available to pay the Trust Agreement Obligations and do not constitute security therefor.

The *Redemption Fund* provides a depository for any funds, including Pledged Funds, not otherwise required by the Trust Agreement to be deposited or applied with respect to the Notes, so that such funds may be used for the purposes of purchasing or optionally redeeming Notes. Such use of Federal Highway Reimbursements without appropriation is limited by a provision of the Act described above. See "General." In the event of a deficiency in the Debt Service Fund, any funds held in the Redemption Fund, other than moneys held for Notes with respect to which a notice of redemption has been given, shall be transferred to the applicable Account of the Debt Service Fund to the extent necessary to make up such deficiency.

The *Debt Service Fund* contains two accounts, the June 15 Debt Service Account and the December 15 Debt Service Account, for the accumulation of Pledged Funds for the purpose of paying scheduled principal and interest on the Notes when due. Deposits to such Accounts are to be made as described below in "Flow of Federal Highway Reimbursements" and "Pledge of Alternative Revenues." The Debt Service Fund also contains a Defeasance Account for the retention of funds and securities held for the purpose of paying defeased Notes.

The *Alternative Revenues Fund* contains a Reserve Account for the receipt and retention of Alternative Revenues during the continuation of a True-up Condition, which shall be transferred to the Debt Service Fund or to the State Treasurer as described below in "Pledge of Alternative Revenues." The Debt Service Liquidity Account of the Alternative Revenues Fund holds funds and securities and/or a Reserve Credit Facility maintained to satisfy the Debt Service Liquidity Account Requirement as a debt service reserve for the Notes. Amounts in the Debt Service Liquidity Account are available, if needed, solely in the event that a True-up Condition shall have occurred and be continuing.

The *Note Related Costs Fund* holds Pledged Funds to be used to pay fees, costs and other amounts included in the Trust Agreement Obligations, other than debt service on the Notes. Funds held in the Note Related Costs Fund are available to pay debt service on the Notes in the event of a deficiency in the Debt Service Fund.

The *Rebate Fund* holds amounts, if any, payable by the Commonwealth to the United States Treasury with respect to the Notes pursuant to the arbitrage rebate requirements of Section 148 of the Internal Revenue Code of 1986, as amended.



Amounts deposited in the Rebate Fund are not included in the Pledged Funds and are not available to pay debt service on the Notes.

### **Flow of Federal Highway Reimbursements**

The Trust Agreement provides that on or before October 10 of each FFY the State Treasurer, with the written concurrence of the Secretaries, will deliver to the Trustee a statement (the "Statement of Available Revenues") setting forth (1) the amount of Federal Highway Reimbursements expected to be received by the Commonwealth during such FFY, (2) any deficiency in any Funds and Accounts of Trust Agreement Obligations due and payable in such FFY and (3) the amount of Trust Agreement Obligations then expected to be due and payable during the following FFY. In the event that the Statement of Available Revenues identifies any deficiency described in clause (2), then notwithstanding any other provision of the Trust Agreement all Federal Highway Reimbursements received thereafter shall be applied first to satisfy such deficiency and for the purposes of the remaining flow of funds the Expected Federal Highway Reimbursements (as defined below) shall be net of the amount of such deficiency (whether or not such deficiency has been satisfied).

The Statement of Available Revenues will project the ratio of (a) the amount of Federal Highway Reimbursements expected to be received during the current FFY (the "Expected Federal Highway Reimbursements") to (b) the scheduled payments of principal and interest due with respect to the Notes during the next succeeding FFY plus the other Trust Agreement Obligations expected to be payable during the next succeeding FFY (the amount in (b) being sometimes referred to as the "Following Year Scheduled Obligations" and such ratio being sometimes referred to as the "Debt Service Coverage Ratio").

If the projected Debt Service Coverage Ratio is equal to or greater than 120%, then

(i) commencing on the later of October 10 of such FFY and the date of delivery of the Statement of Available Revenues and continuing until the earlier of December 15 of such FFY and the date on which the difference between the Expected Federal Highway Reimbursements minus the amount of Federal Highway Reimbursements received by the Commonwealth to date in such FFY shall equal 120% of the Following Year Scheduled Obligations, Federal Highway Reimbursements received by the Commonwealth shall be paid to the State Treasurer from the Revenue Account free and clear of the lien of the Trust Agreement,

(ii) commencing on the earlier of December 15 of such FFY and the date on which the difference between the Expected Federal Highway Reimbursements minus the amount of Federal Highway Reimbursements received by the Commonwealth to date in such FFY shall equal 120% of the Following Year Scheduled Obligations, all Federal Highway Reimbursements received by the Commonwealth shall be transferred from the Revenue Account first to the December 15 Debt Service Account of the Debt Service Fund, second to the Note Related Costs Fund, third to the Rebate Fund and fourth to the Debt Service Liquidity Account, if and as applicable, until the date on which all Following Year Scheduled Obligations payable on or prior to December 15 of the next succeeding FFY shall have been provided for,

(iii) from such date through the earlier of June 14 of such FFY and the date on which the difference between the Expected Federal Highway Reimbursements minus the amount of Federal Highway Reimbursements received by the Commonwealth to date in such FFY shall equal 120% of the Following Year Scheduled Obligations payable after December 15 of the next succeeding FFY, all Federal Highway Reimbursements received by the Commonwealth shall be paid to the State Treasurer from the Revenue Account free and clear of the lien of the Trust Agreement,

(iv) commencing on the earlier of June 15 of such FFY and the date on which the difference between the Expected Federal Highway Reimbursements minus the amount of Federal Highway Reimbursements received by the Commonwealth to date in such FFY shall equal 120% of the Following Year Scheduled Obligations payable after December 15 of the next succeeding FFY, all Federal Highway Reimbursements received by the Commonwealth shall be transferred from the Revenue Account first to the June 15 Debt Service Account of the Debt Service Fund, second to the Note Related Costs Fund, third to the Rebate Fund and fourth to the Debt Service Liquidity Account,

if and as applicable, until the date on which all Following Year Scheduled Obligations payable after December 15 of the next succeeding FFY shall have been provided for, and

(v) from such date through September 30 of such FFY all Federal Highway Reimbursements received by the Commonwealth shall be paid to the State Treasurer from the Revenue Account free and clear of the lien of the Trust Agreement.

In the event that at any time during any FFY the State Treasurer, with the written concurrence of the Secretaries, shall determine that the Expected Federal Highway Reimbursements for such FFY will be materially different from the amount initially projected, the State Treasurer shall notify the Trustee of the revised amount of Expected Federal Highway Reimbursements and the distribution of Federal Highway Reimbursements described above thenceforth shall be made in accordance with such revised amount.

Notwithstanding the foregoing, (1) if on October 1 of any FFY, and so long as, no Statement of Available Revenues shall have been filed with the Trustee for such FFY or (2) in the event that for any FFY the Statement of Available Revenues shall project that the Debt Service Coverage Ratio shall be less than 120%, then all Federal Highway Reimbursements received by the Commonwealth shall be paid from the Revenue Account into the December 15 Debt Service Account, the June 15 Debt Service Account and the Note Related Costs Fund, the Rebate Fund and the Debt Service Liquidity Account, if and as applicable, until all Following Year Scheduled Obligations shall have been provided for.

In addition, so long as any Event of Default under the Trust Agreement shall have occurred and be continuing no Pledged Funds shall be transferred to the Commonwealth and released from the lien of the Trust Agreement.

With respect to the issuance of the 1998A Notes, all Federal Highway Reimbursements paid to the Commonwealth from the date of delivery of the 1998A Notes through the end of FFY 1998 will be deposited into the GAN Trust Fund and, to the extent necessary, transferred to the Debt Service Fund for the purpose of funding the payments of interest on the 1998A Notes due December 15, 1998 and June 15, 1999.

In the Act and the Trust Agreement the Commonwealth covenants for the benefit of the Noteholders that, so long as any Notes shall remain outstanding or any Trust Agreement Obligations shall remain unpaid, Federal Highway Reimbursements shall not be diverted from the purposes identified in the Act or the Trust Agreement (except as provided in the Trust Agreement), nor shall the trusts with which the Federal Highway Reimbursements are impressed under the Act and the Trust Agreement be broken, and the pledge and dedication in trust of the Federal Highway Reimbursements shall continue unimpaired and unabrogated.

See APPENDIX A—"SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT—Revenue Account" and "—Covenants as to Pledged Funds and Federal Highway Grant Anticipation Note Trust Fund."

#### **Advance Construction Balance Covenant**

Pursuant to the procedures followed by the Federal Highway Administration (the "FHWA") in the administration of the Federal-Aid Highway Program, the Commonwealth may designate eligible highway construction projects for "Advance Construction" status. The aggregate amount so designated with respect to the Commonwealth and not yet converted into Obligation Authority constitutes the Commonwealth's "Advance Construction Balance." The Commonwealth may at any time, provided sufficient Obligation Authority is then available, convert any portion of its Advance Construction Balance to Obligation Authority. The Commonwealth would then be entitled to immediate reimbursement of the federal share of amounts actually expended by the Commonwealth with respect to projects allocable to the Advance Construction Balance. The Commonwealth would be reimbursed for subsequent expenditures on such projects in the usual fashion. See "THE FEDERAL-AID HIGHWAY PROGRAM—Operations" and "COMMONWEALTH PARTICIPATION IN THE PROGRAM." Under the Trust Agreement the Commonwealth has covenanted that, except to the extent otherwise required by applicable federal law or regulations, it will not cause or permit its Advance Construction Balance at any date to be less

than the principal amount of Notes outstanding as of such date, after taking into account the principal amount of Notes, if any, to be paid, defeased or redeemed as the result of the conversion on such date of a portion of the Advance Construction Balance to Obligation Authority and taking into account any funds then on deposit in the Debt Service Fund and Redemption Fund to be applied to pay the principal of any Notes then outstanding, as certified by the State Treasurer to the Trustee at the time of such conversion. As of the date of this Official Statement, the Commonwealth is not aware of any applicable federal law or regulation that would restrict Commonwealth compliance with this covenant.

By the concurrence of the Secretary of Transportation and Construction to the Trust Agreement, the Executive Office of Transportation and Construction, acting on behalf of itself and the Massachusetts Highway Department, covenants that it shall not cause or permit the Advance Construction Balance to be converted to Obligation Authority without the prior written concurrence of the Secretary of Administration and Finance and the State Treasurer; provided, however, that such concurrence is not required unless, after giving effect to such conversion, the portion of the remaining Advance Construction Balance that relates solely to projects under the Federal-Aid Highway Program on which the Commonwealth has already, as of the date of such conversion, paid or advanced funds and with respect to which the Commonwealth would be entitled to immediate reimbursement from the federal government if such portion of the Advance Construction Balance could be converted to Obligation Authority, would be an amount at least equal to (a) the principal amount of Notes outstanding, without taking into account any payment, redemption or defeasance of Notes as a result of such conversion, less (b) the amount, if any, then held in the Project Fund to pay costs of the CA/T Project. At the time of any conversion of the Advance Construction Balance that requires the concurrence of the Secretary of Administration and Finance and the State Treasurer, the State Treasurer shall deliver to the Trustee a certificate specifying the amount of the conversion and the amount, if any, of Federal Highway Reimbursements related thereto to be applied to the payment, redemption or defeasance of any portion of the principal of the Notes outstanding, and, if applicable, the redemption date or effective date of defeasance of any Notes outstanding. At the time of transfer of any of such Federal Highway Reimbursements to the Trustee, the State Treasurer will instruct the Trustee to deposit such Federal Highway Reimbursements directly into the applicable Debt Service Account, Redemption Fund or Defeasance Account.

#### **Pledge of Alternative Revenues**

Not later than December 15 in each FFY, the State Treasurer, after consultation with the Secretaries, will determine and certify (a) the aggregate amount appropriated by law from the federal Highway Trust Fund for the purposes of carrying out the provisions of Title 23 of the United States Code with respect to federal-aid highway projects nationwide for the current FFY and (b) the Debt Service Coverage Ratio for the current FFY. If both the amount described in (a) above is less than \$17.1 billion and the Debt Service Coverage Ratio described in (b) above is less than 120%, then such combination of conditions shall constitute a "True-up Condition." The figure of \$17.1 billion is equal to 75% of the revenues received by the federal government in the Highway Account of the federal Highway Trust Fund for FFY 1996.

If a True-up Condition shall have occurred, the Act requires the Governor of the Commonwealth to include in the proposed operating budget of the Commonwealth to be submitted to the Legislature (generally in January) for the next succeeding SFY a recommendation to appropriate an amount equal to the Trust Agreement Obligations to be due in such succeeding SFY less the sum of (x) the amount of any available funds on deposit in the GAN Trust Fund, the Debt Service Fund and the Note Related Costs Fund as of the date of such certification, minus (y) the portion of such amount expected to be expended prior to the beginning of such succeeding SFY on Trust Agreement Obligations due in the current SFY plus (z) any amount of Federal Highway Reimbursements expected to be received prior to the beginning of such succeeding SFY that will not be expended prior to the beginning of said SFY. At any time prior to the enactment of the budget of the Commonwealth with respect to such succeeding SFY, the State Treasurer, after consultation with the Secretaries, may report to the Governor and the Legislature changed circumstances that are material to the amount being recommended for appropriation.

If a True-up Condition shall have occurred in any SFY, then, unless the State Treasurer, after consultation with the Secretaries, shall have certified by July 20 of the next succeeding SFY that the amount of funds in the GAN Trust Fund, the Debt Service Fund and the Note Related Costs Fund as of the most recent June 30 is sufficient to pay the Trust Agreement

Obligations due during the then current SFY, all Alternative Revenues received by the Commonwealth from and after the commencement of such SFY shall be paid to the Trustee and deposited into the Reserve Account of the Alternative Revenues Fund; provided that notwithstanding any provision of the Trust Agreement to the contrary, in the event that the Trustee shall hold an amount under the Trust Agreement during any SFY at least equal to the Trust Agreement Obligations due and payable during such SFY, which amount is available for paying such Trust Agreement Obligations without any further appropriation or other legislative approval, then the State Treasurer shall no longer be required to pay Alternative Revenues to the Trustee during the remainder of such SFY. *Alternative Revenues will be included in the Pledged Funds only upon the occurrence and continuation of a True-up Condition and will not be available to pay Trust Agreement Obligations if Federal Highway Reimbursements are insufficient for such purpose under circumstances that do not involve a True-up Condition or if the Massachusetts Legislature does not appropriate the Alternative Revenues for such purpose.* The Massachusetts Legislature may, but is under no obligation to, from time to time appropriate Alternative Revenues or other funds for the purpose of paying Trust Agreement Obligations.

Alternative Revenues so deposited into the Reserve Account, to the extent appropriated for payment of Trust Agreement Obligations in such SFY, shall be transferred to the Debt Service Fund and other Funds and Accounts under the Trust Agreement for the payment of such Trust Agreement Obligations. Amounts remaining in the Reserve Account after all such Trust Agreement Obligations have been provided for shall be transferred to the State Treasurer free and clear of the lien of the Trust Agreement.

In the event that funds other than Alternative Revenues are appropriated for the payment in full of such Trust Agreement Obligations and are received by the Trustee and deposited in the appropriate Funds and Accounts maintained under the Trust Agreement, the Alternative Revenues thereafter shall be released to the State Treasurer free and clear of the lien of the Trust Agreement.

So long as any Notes shall be outstanding, there shall be maintained in the Debt Service Liquidity Account an amount equal to ten percent (10%) of the maximum aggregate amount of scheduled payments of principal and interest becoming due in any SFY on all Notes then outstanding; provided that the amount funded from proceeds of the Notes in any event shall not exceed 125% of the average annual aggregate amount of scheduled payments of principal and interest becoming due in any SFY on all Notes then outstanding. At the option of the Commonwealth, such requirement may be satisfied by a Reserve Credit Facility. So long as any True-up Condition shall have occurred and be continuing, amounts in the Debt Service Liquidity Account shall be available to pay Trust Agreement Obligations when due and shall be drawn upon for such purpose in the event of any deficiency in the amount available for such purpose in the Debt Service Fund, the Notes Related Costs Fund and the Redemption Fund.

The Commonwealth has covenanted in the Trust Agreement that, so long as any Notes shall remain outstanding or any Trust Agreement Obligations shall remain unpaid:

(a) in any SFY with respect to which a True-up Condition has occurred and is continuing, unless and until an appropriation has been made or an amount is otherwise made available that is sufficient to pay the Trust Agreement Obligations due during said SFY, none of the Alternative Revenues shall be applied to any use other than the payment of such Trust Agreement Obligations;

(b) until the State Treasurer, after consultation with the Secretary of Administration and Finance and the Secretary of Transportation and Construction, determines that available funds in the GAN Trust Fund and in the Funds and Accounts established under the Trust Agreement will be sufficient to pay all Trust Agreement Obligations, the rate of the Commonwealth gasoline excise tax shall not be reduced below the sum of ten cents (\$0.10) per gallon plus any amount thereof pledged for the payment of special obligation bonds of the Commonwealth pursuant to Section 20 of Chapter 29 of the Massachusetts General Laws; and

(c) at least ten cents (\$0.10) of the Commonwealth gasoline excise tax shall remain free and clear of any superior or equal pledge, lien, charge or encumbrance thereon or with respect thereto (other than the lien of the

Trust Agreement) and shall remain credited to the Highway Fund of the Commonwealth so designated under Section 34 of Chapter 90 of the Massachusetts General Laws, except as permitted by the Trust Agreement; provided, however, that any such funds shall be available for appropriation in any SFY for any other lawful purpose unless the State Treasurer shall have certified that a True-up Condition has occurred and is continuing.

The Trust Agreement provides that any provision of the Act creating covenants with Noteholders shall be deemed a covenant with the Noteholders only to the extent expressly provided in, and as limited by, the Trust Agreement.

#### **Limitations on Issuance of Additional Notes**

Under the Trust Agreement, subject to conditions stated therein and in the Act, additional Notes may be issued on a parity basis with the 1998A Notes for the purpose of providing for the costs of the CA/T Project and refunding Outstanding Notes. The Act provides that Notes are to be issued by the State Treasurer at the request of the Governor of the Commonwealth and that the amortization of each series of Notes shall be as determined by the State Treasurer with the concurrence of the Secretaries. The Trust Agreement provides that no additional Notes, except refunding Notes, may be issued unless, after giving effect to the issuance of such additional Notes and the defeasance of any Notes to be defeased simultaneously with such issuance, (a) no Event of Default will exist under the Trust Agreement; (b) either (i) principal and interest payable on the Notes on any June 15 or December 15 (and, if applicable, during the six-month period ending on such date) shall not exceed \$108 million (excluding additions to accreted value not payable in cash) or (ii) the Outstanding Notes and the proposed additional Notes will retain the existing credit ratings of the Outstanding Notes; (c) Federal Highway Reimbursements expected to be received by the Commonwealth during the remainder of the FFY in which such additional Notes are issued (excluding any portion of such Federal Highway Reimbursements required to be set aside to pay debt service on Notes already Outstanding) will equal or exceed 120% of the Trust Agreement Obligations due with respect to such additional Notes in the next succeeding FFY (minus any portion of such Trust Agreement Obligations as shall be provided for by the proceeds of such additional Notes or any other available amounts deposited with the Trustee for such purpose); (d) either (i) the aggregate net proceeds of the proposed additional Notes and the Notes previously issued (excluding refunding Notes) will not exceed \$1.5 billion or (ii) the Outstanding Notes and proposed additional Notes will retain the existing credit ratings of the Outstanding Notes; and (e) the Commonwealth is in compliance with its covenant concerning the Advance Construction Balance. See "SOURCES OF PAYMENT AND SECURITY FOR THE NOTES—Advance Construction Balance Covenant." The debt service requirements on variable rate Notes for the purposes of clauses (b) and (c) above will be calculated using the higher of (1) the then-current rate on the BMA Municipal Bond Index™ and (2) three percent (3%) per annum, in each case plus 150 basis points.

It is also a condition to the issuance of any additional Notes (other than refunding Notes) that all interest and principal, if any, payable thereon during the FFY in which such additional Notes are issued shall be provided for from portions of the proceeds of such additional Notes or by other available funds deposited with the Trustee as of the date of issuance of such additional Notes.

The Commonwealth may issue Notes for the purpose of refunding Outstanding Notes without regard to the conditions specified above, so long as, after giving effect to the issuance of such refunding Notes and the defeasance of any Notes to be refunded from the proceeds thereof (a) no Event of Default shall exist under the Trust Agreement and (b) either (i) principal and interest payable on the Notes on any June 15 or December 15 (and, if applicable, during the six-month period ending on such date) shall not exceed \$108 million (excluding additions to accreted value not payable in cash) or (ii) the Outstanding Notes and the proposed refunding Notes will retain the existing credit ratings of the Outstanding Notes.

Compliance with the foregoing conditions in connection with the issuance of any series of Notes will be evidenced by a certificate of the State Treasurer provided to the Trustee. In connection with the issuance of the 1998A Notes the State Treasurer will deliver to the Trustee a certificate that the issuance of the 1998A Notes will meet each of the applicable conditions described above.

The Trust Agreement permits the issuance of subordinate securities secured by a subordinate pledge of the Pledged Funds provided that the issuance of such subordinate securities will not cause a reduction of any existing credit rating of any

Outstanding Note. For the purposes of the Trust Agreement and this Official Statement, no such subordinate securities are included in the term "Notes."

The Act currently limits the amount of Notes which may be issued thereunder by providing that the cumulative net proceeds of the Notes (excluding refunding Notes) may not exceed \$1.5 billion. While no amendment of the Act currently is contemplated, this limitation may be increased or eliminated by subsequent legislation without the consent of the holders of the Notes. Given the maximum projected annual debt service of \$216 million (\$108 million, semiannually) set forth in the Trust Agreement, the Commonwealth estimates that, after giving effect to the issuance of the 1998A Notes, all of the remaining Notes may be issued so long as the average interest rates thereon do not exceed 9% per annum.

The Commonwealth expects to issue all \$1.5 billion of the Notes.

### THE FEDERAL-AID HIGHWAY PROGRAM

The proceeds of the Notes will be used by the Commonwealth to finance a portion of the costs of the CA/T Project. The principal source of repayment and security for the Notes will be payments received by the Commonwealth from the federal government under the Federal-Aid Highway Program (the "Program"), pursuant to which the federal government reimburses states for the federal share of approved highway projects.

Certain Program features or requirements are explained or further defined where they appear below but are introduced here for reference:

- *The federal Highway Trust Fund (the "HTF"):* The HTF is a dedicated federal fund with dedicated revenues held in trust for reimbursement of expenditures by the states for costs of eligible transportation projects, including highway projects.
- *Authorization:* Authorization is the process by which Congress authorizes the expenditure of federal revenues on federal programs. For the Program, authorization historically has been, and continues to be, provided on a multi-year basis. This, together with the availability of HTF revenues and future HTF collections permits states more certainty in planning long-term highway projects.
- *Apportionment:* For each FFY, the FHWA apportions the authorized funding among the states according to formulas that are established in authorizing statutes. The distribution of federal funds that do not have a statutory formula is called "allocation" rather than "apportionment."
- *Obligation Authority:* "Obligation" is the commitment of the federal government to pay, through reimbursements to a state, its share of the eligible expenditures on an approved project. The amount of such federal revenues that a state can obligate in a given FFY is called its "Obligation Authority."
- *Advance Construction ("A/C"):* The Advance Construction procedure allows states to commence eligible projects without first having to obligate the federal government's share of expenditures. Thus, states may begin a project before amassing all of the Obligation Authority needed to cover the federal government's share.
- *Partial conversion of Advance Construction:* Under partial conversion of Advance Construction, in a given year a state may convert A/C to Obligation Authority and thus be eligible for reimbursement for a portion of the federal share of an Advance Construction project in that or in a subsequent FFY. This removes any requirement for the state to wait for reimbursements until the full amount of Obligation Authority needed for the entire project is available.

These features of the Program work in a complementary fashion to provide a regular flow of federal reimbursements over the years to state highway projects. The participation of the Commonwealth in such reimbursements, and the role of

such participation in providing payment and security for the Notes, is discussed in "COMMONWEALTH PARTICIPATION IN THE PROGRAM."

It should be noted that the terms and conditions of participation in the Program as described herein are subject to change at the discretion of Congress, and there can be no assurance that the laws and regulations now governing the Program will not be changed in the future in a manner that may adversely affect the ability of the Commonwealth to receive adequate Federal Highway Reimbursements to pay the 1998A Notes and other Trust Agreement Obligations.

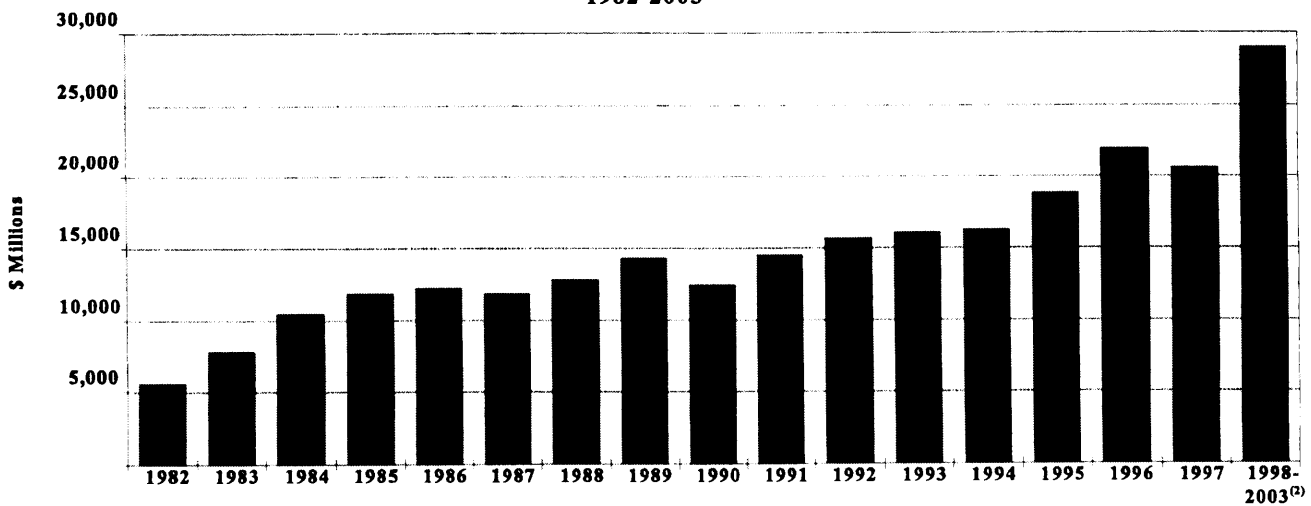
**Federal Highway Trust Fund**

The FHWA administers payments to states under the Program through the HTF. Funded by collection of federally-imposed motor vehicle user fees, primarily fuel taxes, the HTF is a dedicated fund with dedicated revenues that are held in trust for reimbursement of the states' cost of transportation projects, including highway projects. The HTF presently contains the Highway Account and a Mass Transit Account. The Highway Account receives approximately 84% of gasoline tax revenues and 88% of diesel fuel tax revenues, with the remaining share of such revenues deposited in the Mass Transit Account. Using revenues in the Highway Account of the HTF, the FHWA reimburses states for expenditures related to approved highway projects. The FHWA distributes these revenues to states based on apportionment and allocation rules prescribed by federal law.

Current law requires that the cash balance of the Highway Account of the HTF, plus projected revenues for the next two years, must suffice to repay all unpaid authorizations before any additional apportionments of revenues can be made from the HTF. As a result, and unlike most federal programs, the flow of federal funding to states for highway projects does not depend on timely appropriation of revenues by Congress.

Federal gasoline excise taxes are the largest revenue source for the HTF. The majority of these tax revenues, including 15.45 cents per gallon out of the current 18.4 cents per gallon tax, go to the Highway Account. The following table shows annual and projected HTF collections in the Highway Account for the period FFY 1982 to FFY 2003.

**Payments into the Highway Account of the Highway Trust Fund  
1982-2003<sup>(1)</sup>**



(1) Excludes interest on balances.  
 (2) Average annual collections projected by the FHWA.  
 Source: The FHWA, Table FE-210.

*The HTF Surplus.* Since 1956, the Highway Account of the HTF has accumulated a surplus of revenues because more revenues have been generated for the account through collections and interest income than have been distributed to states under the Program. Between FFY 1957 and FFY 1996, cumulative income to the HTF totaled \$369.0 billion (\$342.3 billion from tax receipts and \$26.6 billion from interest earnings), while outlays totaled \$347.3 billion, creating a cash balance of \$21.6 billion at the close of FFY 1996. Of that \$21.6 billion, \$12.1 billion was credited to the Highway Account and \$9.5 billion is credited to the Mass Transit Account. The HTF is required under current federal law to maintain a positive balance to ensure that prior commitments for federal revenues can be met. This requirement allows states the flexibility to earn and receive reimbursement revenues for up to four years after federal funds first were obligated.

*Reauthorization of HTF Collections.* Collection of HTF taxes (“HTF collections”), like the Program itself, must periodically be reauthorized by Congress. Historically, the HTF and its constituent taxes have been authorized to operate for limited periods of time. Originally, the HTF was authorized through June 1972; it was reauthorized several times and the Intermodal Surface Transportation Efficiency Act of 1991 (“ISTEA”) reauthorized the Program through September 30, 1997 and reauthorized the HTF and most of the user taxes that flow into it through September 30, 1999. TEA 21 further extends HTF collections to FFY 2005.

## History

The modern Federal-Aid Highway Program originated in the Federal-Aid Highway Act of 1956.<sup>1</sup> The Program initially was established as a pay-as-you-go system, meaning that costs of constructing and maintaining the system were to be borne primarily by its users, who would pay a federally-imposed tax on motor fuels. Federal user fees were to provide 90% of the cost of construction, with the remainder paid for by the states.

The 1982 Surface Transportation Assistance Act (“STAA”) made notable changes to the Program, and began the modern multi-year (*i.e.*, four or more years) authorizing process. STAA also guaranteed each state a minimum 85% return on the money paid in by highway users of the state. Such “equity provisions” have continued in all subsequent authorizing legislation to date, and operate to compensate so-called “donor states,” whose historic highway funding levels have been below their collections for the HTF.

In 1991, ISTEA broadened the focus of the Program, changed its structure significantly and created several new funding categories. ISTEA also gave state and local governments far greater flexibility in determining their transportation infrastructure priorities, whether transit or highways, and for the first time allowed significant flexibility to redirect federal revenues among programs. ISTEA also authorized innovative approaches to federal-aid highway funding, including the use of private sector funding sources for transportation improvements. Innovative financing procedures were authorized and encouraged, and states were authorized to augment federal revenues with alternate sources of revenues.

The National Highway System Designation Act of 1995 (the “NHS Act”) fulfilled an ISTEA mandate by designating the National Highway System to include the Interstate System as well as other roads important to the nation's economy, defense, and mobility. The NHS Act made several changes affecting the financing of federal-aid highway projects, including A/C procedures:

- Standard federal highway financing practices require states to have sufficient Obligation Authority before they begin a highway project. If a state has many projects or a particularly large project, they may be unable to provide enough Obligation Authority to get federal approval to begin specific projects. To avoid delays in projects that are eligible

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<sup>1</sup> The Federal-Aid Highway Act of 1956 was one of a long series of authorizing statutes for the Program. Extensions of the act were passed in 1958, 1959, 1960, 1961, 1962, 1964, 1966, 1968, 1970, 1973, 1974, and 1976; in each case the statute was known simply as the Federal-Aid Highway Act. The 1965 Highway Beautification Act made minor additions and changes to the program, as did the Highway Safety Act of 1973. The 1978 Surface Transportation Act and the Federal-Aid Highway Act of 1981 were also primarily extensions of existing authority.



for federal funding, the FHWA may approve Advance Construction (“A/C”) for a project if the state can provide 100% of the costs up-front.

- Under Advance Construction procedures prior to the NHS Act, only when a state had amassed sufficient Obligation Authority to cover the federal share of a project's total costs could it convert the project from Advance Construction to Obligation Authority and be reimbursed for the federal share. The NHS Act removed the requirement that states must amass Obligation Authority equal to the full federal share before reimbursement could occur. Partial conversion now allows a state to be reimbursed for a portion of the federal share of the project's total costs as Obligation Authority becomes available each year and costs are expended.

*TEA 21.* On May 22, 1998, the United States Congress passed TEA 21, an approximately \$217 billion reauthorization of the nation's Federal-Aid Highway Program and mass transit programs; and on June 9, 1998 the President approved TEA 21. TEA 21 extends the authorization of the Program through FFY 2003. Under TEA 21, average annual authorizations to the states for FFY 1998 through FFY 2003 appear to be approximately \$26 billion. TEA 21 increases equity protections by assuring each state at least a 90.5% return on its collections for the HTF, which are reauthorized through FFY 2005. Under TEA 21, HTF revenues are to be spent on transportation-related improvements, rather than allowed to accumulate into large surpluses. TEA 21 provides that as of October 1998 (the start of FFY 1999), the opening balance of the Highway Account of HTF will be set at \$8 billion. In addition, TEA 21 provides that interest will no longer accrue on funds in the Highway Account. According to the FHWA Office of Fiscal Services, this amendment will reduce the HTF balance by approximately \$7 billion, but will not affect the solvency of the HTF with the intent that actual annual funding levels will be based on the previous year's HTF revenues.

Various technical corrections and other modifications to TEA 21 are now under consideration to effectuate the intent of Congress. Corrective legislation (H.R. 3978), to be entitled the "TEA 21 Restoration Act", was passed by the House of Representatives on June 3, 1998 and is under consideration by the Senate.

## **Operations**

The present Program continues to reimburse a large percentage of state expenditures for approved highway projects. The financial assurance provided by the Program is unusual, among federal programs, in that:

- The Program is based on dedicated revenues, from a user-tax source, deposited in a dedicated trust fund (the HTF);
- The budget and contract authority of the FHWA is established by a multi-year authorization act rather than annually through appropriation acts; and
- Contract authority is not at risk during the annual appropriations process (as budget authority is in most other federal programs).

The process for reimbursing state expenditures may be summarized in three steps: authorization, obligation and program implementation. The authorization step is the most critical step in establishing overall spending authority for federal highway funding. Authorizing legislation extends the life of the Program and the collections that fund the HTF, sets Program objectives and provides formulas for determining the distribution or apportionment of available resources among the states. The existence of the dedicated revenues in the Highway Account of the HTF and the existence of multi-year contract authorizations are designed to help to make available a predictable and uninterrupted flow of reimbursements to the states. The risk of contract authority lapsing between authorizing acts is minimal since sufficient unobligated balances generally exist that cover gaps in coverage between multi-year reauthorization acts.

The second step, obligation, is the process through which states make use of, or “obligate,” the contract authority that has been apportioned or allocated to them in the authorization process (Step 1). Congress typically limits the amount of Obligation Authority that states may use annually. To whatever extent that a state's Obligation Authority is set below its authorization, the unobligated balance for that state is increased. These unobligated balances provide available funds, from

which the FHWA allows states to draw, when there is a lapse period between authorization acts. But under current law the unobligated balances do not otherwise entitle the states to additional funds.

The third step, program implementation, leads to actual receipt of federal funds by states. Program implementation methods vary state-by-state. States are permitted to make use of Advance Construction—A/C—and partial conversion of Advance Construction in order to obligate varying amounts of federal funds to an eligible project from FFY to FFY, depending on how much of the state's Obligation Authority is available from the Program and is desired for such use by the state.

#### *Step 1: Authorization*

The first step, and the most crucial in financing the Program, is the multi-year, authorizing legislation. Such highway authorization acts:

- Establish the taxes that fund the HTF and extend their life (reauthorization);
- Establish the specific programs and procedures through which states receive federal financial assistance for their highway programs; and
- Set upper limits on funding for specific programs and for the overall Program.

*Multi-year Authorization Acts.* As noted earlier, the modern Program periodically has been reauthorized on a multi-year basis by authorization acts, through which Congress influences the level of federal involvement in state highway program activities. Annual appropriations acts then establish any limits on the amount of federal funds that the FHWA may obligate to states in a given year.

*Budget and Contract Authority.* All federal programs require budget and contract authority before revenues may be committed and spent. Normally this authority is provided through a two-step process, with authorizing legislation describing the purposes for a specific program and setting a proposed level of spending, and appropriations acts providing the budget authority or legal ability to spend federal revenues. Appropriations are often for a lower amount than that set by authorizations. The Program combines these two steps, with authorizing legislation providing the United States Secretary of Transportation with contract authority or the legal ability to enter into binding contracts with state transportation departments (“DOTs”) and other bodies specified in the Program.

Contract authority provides state DOTs with assurance about the level of future federal revenues that will be available. This, in turn, makes it easier and more cost-effective to plan and execute multi-year construction projects. As a result of contract authority and the collection of user taxes into the dedicated HTF, the formal appropriation by Congress of revenues on an annual basis generally has been noncontroversial. Constraints arising from the annual appropriation process are described in Step 2 below.

*Lapsing of Authorization.* All federal programs must be authorized through enacted legislation that defines the programs and establishes maximum funding levels, and for most programs annual appropriations acts are necessary in order to create budget authority. Indeed, for most federal domestic discretionary programs, a lapsed authorization may have little or no effect on a program, so long as revenues are appropriated. For the Program, the consequences of lapsed authorization caused when Congress fails to enact reauthorization legislation are somewhat different. While Congress may pass interim legislation, the existence of contract authority and a dedicated revenue stream means that the FHWA usually can continue to provide Obligation Authority by administrative action.

Though recent federal surface transportation legislation has authorized the Federal-Aid Highway Act for four to six years at a time, there occasionally have been periods in which the previous authorizing legislation had expired and the future legislation had yet to be enacted. In such circumstances, Congress and/or the FHWA have found ways to avoid disruptions to state highway programs and, more importantly, have been able to maintain the flow of federal revenues to states in each instance. Two mechanisms in particular have kept revenues flowing:

- **Access to Unobligated Balances:** The 1987 Surface Transportation and Uniform Relocation Assistance Act (“STURAA”) expired on September 30, 1991 and ISTEA was not enacted until December 18, 1991. The FHWA was able to act administratively to keep federal-aid funding flowing because states could use their unobligated balances to provide Obligation Authority.
- **Short-Term Authorization:** ISTEA expired on September 30, 1997 and until passage of TEA 21 on May 22, 1998, no new long-term authorization legislation was enacted. Despite the lack of long-term authorizing legislation, states were provided an upper limit on Obligation Authority through passage of an appropriations act plus access to their unobligated balances. On November 13, 1997 Congress passed the Surface Transportation Extension Act of 1997 (“STEA”), which provided a six-month authorization for highway funding and established a limit on the amount of new Obligation Authority states can use at funding levels equal to about a quarter of FFY 1997 authorization levels.

From October 1, 1997, the expiration of ISTEA, to November 13, 1997, the passage of the STEA authorization, the FHWA was able to manage through use of the large unobligated balances (unused contract authority) in the Program. Since most states have unobligated balances of at least half their normal annual Obligation Authority levels and an authorization act need not be in place for the FHWA to give states new Obligation Authority, states were able to spend down prior unfunded federal apportionments (contract authority) with newly allocated Obligation Authority. The lack of an enacted authorization act during this period did not pose a threat to the continued flow of revenues, because dedicated highway user fees continued to flow into the HTF. (See Step 2, below, for further explanation of Obligation Authority and unobligated balances.)

**Annual Distributions.** For most components of the Program, the authorization acts set the distribution of spending authority among states. The primary methods used to distribute authorized federal highway revenues are “apportionment” and “allocation”:

- **Apportionments.** The contract authority created by authorization acts such as ISTEA or TEA 21 is distributed annually among the 50 states, the District of Columbia, and Puerto Rico using a process called apportionment of revenues. Apportionments indicate the maximum amount of contract authority that each state can expend for eligible projects in specific programs. For each FFY, the FHWA has responsibility for apportioning authorized funding for the various programs among the states according to formulas established in the authorizing statute. Annual apportionments are generally made on the first day of the federal fiscal year, which is October 1.
- **Allocations.** While most highway revenues are distributed to states through apportionments, some funding categories do not contain legislatively-mandated apportionment formulas. Distribution of revenues where there are no statutory formulas is called “allocation” or “discretionary allocation”. In most cases, allocated federal funding is divided among states using criteria determined administratively by the federal Department of Transportation or as provided in a statute, often through competitive grant procedures.

Apportionment formulas have been designed historically to ensure distribution of federal revenues among states according to program needs, but are also increasingly intended to provide states a share of total HTF expenditures relatively close to their payments into the HTF. In addition to the apportionment formulas described above, ISTEA included provisions designed to help states achieve a better ratio of payments from the HTF to payments into the HTF (“equity provisions”) and to assure that no state would suffer a dramatic decline from one year to the next in its federal-aid apportionment (the “hold harmless” rule).

Since FFY 1991, each annual aggregate apportionment has exceeded \$15 billion. (Source: The FHWA, Highway Statistics, Table FA-4.) The FHWA estimates that Highway Account income over the six-year period FFY 1998-2003 will be \$178.1 billion; combined with the opening balance under TEA 21 of \$8 billion, this would yield resources of \$186.1 billion for the Program. Presently, TEA 21 authorizes an annual average of approximately \$26 billion for FFY 1998 through FFY 2003.

**Availability of Federal Highway Revenues.** Federal-aid highway revenues are available to states for use for more than one year. Their availability does not terminate at the end of the FFY, as is the case with many other federal programs.

Consequently, when new apportionments or allocations are made, the amounts are added to a state's unused apportionments and allocations from the previous FFY. Should a state fail to *obligate* (commit to spend) a year's apportionments and allocations within the period of availability specified for a given program, however, the authority to obligate any remaining amount lapses—that is, it is no longer available.

*Matching Requirements.* With a few exceptions, the federal government does not pay for the entire cost of construction or improvement of federal-aid highways. Federal reimbursements are typically matched with state and/or local government revenues to account for the necessary dollars to complete the project. The maximum federal share is specified in the legislation authorizing the program. Most projects have an 80% federal share while Interstate Construction and Maintenance projects typically have been funded with a 90% federal share.

### *Step 2: Obligation*

The second step of the federal-aid funding process occurs when revenues that have been authorized by legislation, and either apportioned or allocated to individual states, are obligated for a specific purpose. As noted in the previous section, Congress uses annual appropriations acts to control actual, annual obligation of funds in the HTF. Appropriations acts limit the amount of federal money that actually will be obligated and thus ultimately spent, and these annual amounts may be less than the authorized amount. This ceiling on the amount of contract authority that states may use is called the “annual obligation limit.”

*Obligation* is the commitment of the federal government to pay, through reimbursement to a state, the federal government's share of an approved project's eligible costs. This process is important to the states because it allows states to award contracts with assurance that the federal government will reimburse its share of incurred costs. From the federal perspective, obligations made are the outlays the federal government has committed to make from the HTF in the future. Because of the close relationship between obligations and outlays, Congress and the FHWA play a strong role in determining how much federal funding can be obligated by individual states through two primary processes:

- Appropriations acts; and
- Distribution of Obligation Authority.

*Appropriations Acts.* Congressional appropriations committees use the amount of federal-aid highway revenues that states can obligate in a given year, called “Obligation Authority”, as a means of balancing the annual level of highway spending with other federal budgetary priorities. This is accomplished through the establishment of an annual obligation limitation in the annual Department of Transportation and Related Agency Appropriations Act. The annual obligation limitation can be less than the level of funding authorized for the same year.

*Distribution of Obligation Authority.* The obligation limitation is the amount of authorized funding that Congress allows states collectively to obligate in an individual year. The process of determining the annual obligation limitation begins when Congress establishes annual domestic discretionary spending caps—the amount of federal dollars that can be spent on all domestic, non-entitlement programs in a given year. Once budget caps are determined, Congress distributes spending levels across different program areas, and a targeted level of outlays for highway spending is determined. Congress then establishes the amount of highway funding that can be obligated in the given year. This level often is below the authorized annual level, and serves as a limit on the total obligations in that particular year.

Once Congress establishes an overall obligation limitation, the FHWA distributes Obligation Authority to states proportionately to each state's share of apportioned and allocated revenues. The actual ratio of Obligation Authority to apportionments and allocations may vary from state to state because some federal-aid programs are exempt from the obligation limitation. Once each state's Obligation Authority is set, states then submit requests to the FHWA to obligate revenues representing the federal share of specific projects throughout the years. (A further description of this process is included in Step 3.) As a state obligates revenues, its balance of Obligation Authority is commensurately reduced, although additional Obligation Authority may be received (e.g., via re-allocation from other states).

A state's Obligation Authority (unlike its apportionments and allocations of authorized funding) must be used before the end of the FFY for which it is made available; if not, it will be distributed to other states. The FHWA closely monitors each state's plans for use of Obligation Authority. In mid-summer, the FHWA collects any Obligation Authority from states that do not plan to obligate all of their available Obligation Authority before the end of the FFY, and redistributes it to other states that can obligate the revenues. This reallocation of Obligation Authority is known as the August redistribution.

*Unobligated Balances.* Because congressional authorization of federal-aid highway revenues represents a commitment to make all authorized revenues available to states for highway purposes, any shortfall between the limit on Obligation Authority created through the annual appropriations process and the amount of contract authority apportioned and allocated to states does not disappear. Instead, the difference between obligation limitations and authorization levels creates what are known as "unobligated balances."

Although most federal-aid apportionments lapse after four years, this rarely happens with apportioned highway revenues because old apportionments are always spent before new apportionments. That is, when a state receives new apportionments and Obligation Authority at the beginning of an FFY, obligations are first made against remaining prior year apportionments plus allocation until these are depleted. The net effect of this process, in conjunction with the year-to-year establishment of obligation limitations, has been that states have amassed considerable unobligated balances.

As explained in Step 1, above, unobligated balances permit the Program to continue to fund state highway projects during periods in which Congress fails to enact a reauthorization law before the expiration of the previous authorization period. In such periods, the unobligated balances allow states to continue to fund their programs for several months, or even longer, after an authorization act has expired.

### *Step 3: Program Implementation*

The third and final step in the overall federal-aid highway funding process—program implementation—occurs after authorized revenues have been distributed to states, and after states have had the opportunity to obligate those revenues. Once federal-aid highway revenues have been authorized and obligated, states must have developed highway programs that describe, at a project-by-project level, exactly how federal reimbursements will be earned. The process of developing and implementing states highway programs has three broad stages:

- Budgeting;
- Planning and programming; and
- Fiscal management and reimbursement.

Each stage helps to ensure that states develop programs which match funding availability, and that the FHWA is able to distribute federal reimbursements to states in a timely manner.

*Budgeting.* Budgetary information about availability of funding is crucial to the development of state highway programs. Projected state and federal funding levels are used to budget transportation needs. Consequently, state transportation budget officials track the availability of funding and develop forecasts of future state and federal revenues. States must estimate the availability of short and long-term state and federal funding in order to plan their highway programs. They use this information as a guide during long-range planning, and as a strict constraint on short-term programming. In Massachusetts, the Executive Office of Transportation and Construction's ("EOTC") Capital Expenditure and Program Office ("CEPO") and the Massachusetts Highway Department's ("MassHighway") Bureau of Transportation Planning and Development ("BTPD") have primary responsibility for budgeting.

*Planning and Programming.* The budget process—particularly the identification of available funding—provides the context for transportation planning and programming. The long-range planning process provides a big-picture perspective of anticipated project needs regionally across the state. Transportation Improvement Programs ("TIPs") follow on from long-range plans and provide a detailed outline of projects that are proposed for implementation in a time-frame of two to six

years. CEPO and BTPD coordinate transportation planning and programming activities for EOTC and MassHighway. At the state level, MassHighway, the Massachusetts Port Authority and the Massachusetts Turnpike Authority prepare plans. At the federal level, state and local highway plans are reviewed by U.S. Environmental Protection Agency (“EPA”) and the FHWA.

As a condition for receiving federal reimbursements for transportation programs, states must develop comprehensive transportation plans that are based on anticipated long-term state and federal funding levels for Program categories. States and urban areas must satisfy these federal requirements in order to remain eligible for federal reimbursements, and specific projects are not eligible unless they are either directly identified in a long-range plan or consistent with policies and objectives identified in long-range plans. ISTEA required states to develop long-range transportation plans (“LRPs”) that identify long-range state policies, objectives, and goals, while using realistic projections of available future state and federal funding.

The long range planning requirements are followed in Massachusetts in both a state and a regional planning process. In 1995, Massachusetts released its 25-year long-range plan, titled *Accessing the Future*. This document identifies the Commonwealth's transportation policies, goals and initiatives through 2020, based on anticipated levels of state and federal transportation funding, and is not intended to provide a project-by-project description of the state's future transportation investments. The plan was prepared by the EOTC and BTPD, in coordination with several agencies and organizations including the FHWA, the Executive Office of Environmental Affairs and the Massachusetts Association of Regional Planning Authorities (“MARPA”).

ISTEA also required that short-term planning and programming must be conducted at least every two years through the development of a TIP for each metropolitan area. Among other requirements, each TIP must include, for each project, the estimated project cost and amount of federal revenues proposed to be obligated during each year. Each draft TIP is submitted to the regional Transportation Advisory Group, a citizen panel established to coordinate public review of the TIP. Once formally approved in a public meeting, the TIPs are signed by the EOTC Secretary. The TIPs are then combined into the State Transportation Improvement Plan (“STIP”), which also includes projects from regions outside a state's metropolitan areas. The STIP lists all projects proposed for funding with federal revenues for a period of at least three years. The STIP is then submitted to the FHWA for approval.

The Massachusetts STIP is developed annually, and covers a six-year period. STIP development is coordinated by CEPO and BTPD. Initially, CEPO and BTPD project available state and federal funding for the next six years, based on authorized federal apportionments and anticipated state transportation funding. This total is then reduced to account for regionally significant projects and programs. After such needs have been determined, formulas established by MARPA are applied to the remaining balance in order to calculate programming targets for each Regional Planning Association. Only after this process is complete can a project formally be considered part of the Commonwealth's transportation funding plan.

*Fiscal Management and Federal Highway Reimbursements.* Once budgeting, planning and programming are complete, projects move into a fiscal management phase. This fiscal management process is the third element of the implementation step in the overall federal highway funding process. A state-led fiscal management system—conducted in accordance with FHWA requirements—is used to determine exactly how much federal funding will be received for each project, to obtain final FHWA authorization before projects are implemented, and to ensure timely federal reimbursement of state expenditures on contractor costs. In Massachusetts, these activities are coordinated by CEPO and performed by the Office of Fiscal Operations within MassHighway.

States must follow federal fiscal management procedures as they implement projects that have passed through the approval and programming processes. These fiscal management procedures ensure that the FHWA and states are able to manage the process efficiently, from project authorization to actual payment of Federal Highway Reimbursements to the state.

In the traditional approach, a state simply obligates the full federal share of available funding at the beginning of the project, concurrent with project authorization. The first step in the fiscal management process begins when a state requests authorization to use federal funding on a project. The project sponsor (e.g., MassHighway) submits plans, specifications and estimates (“PS&Es”) for a project to the FHWA division office, and requests that the FHWA approve the

use of federal funding for the appropriate federal share of the project. The project must be in the STIP and the PS&Es must identify the category of federal funding that will be used.

The FHWA evaluates the PS&Es to ensure that the project is eligible for federal funding and meets a variety of federal requirements (e.g., design standards). Provided that all requirements are satisfied, the FHWA authorizes federal participation in the project, and obligates the federal share of project costs. By obligating the revenues, the FHWA makes a commitment to reimburse the state for the federal share of eligible project costs. It sets aside the appropriate amount of that state's Obligation Authority, and also sets aside an equivalent amount of apportioned revenues by program (or programs). Accordingly, the state must have sufficient Obligation Authority to cover the level of federal participation it is requesting.

Once authorization for a project has been obtained, the state advertises the project and receives bids. Based on actual costs identified in bids, the state awards the contract to the lowest qualified bidder and submits a request to the FHWA asking for any necessary adjustments to federal obligations for the project. If approved, the amounts agreed to are included in a project agreement which identifies the revenues that will be encumbered by the state (formally applied against the state's resources), and the amount that will be reimbursed by the federal government.

Construction begins, and contractors submit bills to the state as work is completed. A state pays its contractor's bills with cash from the state treasury; the state bills the FHWA electronically for the federal share of completed work for which payment has been made; and the FHWA makes payment to the state via electronic transfer. This FHWA reimbursement to the state liquidates its obligation for the federal share of the costs incurred to that point. As project work continues and state expenditures are reported to the FHWA, federal reimbursements are made, generally on a weekly basis. In Massachusetts, reimbursement requests are submitted weekly and reimbursements are made by wire transfer generally within four days. The Commonwealth's system and management in general, and the CA/T Project expenditures in particular, are highly automated, leading to a routine, weekly flow of Federal Highway Reimbursements based on actual spending on approved projects.

Innovative variations on this fiscal management approach include Advance Construction and partial conversion of Advance Construction. These variations complement one another to provide a state with additional flexibility in managing its Obligation Authority and cash.

The *Advance Construction ("A/C")* approach for authorizing projects allows states to finance projects that are eligible for federal aid without obligating the federal share of costs at the outset of the project. This allows states to begin a project before amassing all of the Obligation Authority needed to cover the federal share of that project. As with the traditional approach, the state submits PS&Es to the FHWA and requests project authorization. Under A/C, however, the FHWA is asked to authorize the project without obligating federal revenues. As a result, the state will cover the entire cost of the project and later may request the obligation of revenues, when sufficient Obligation Authority is available and is desired by the state. Further, the state may then take credit for state expenditures, made from project approval to that date, as a basis for earning reimbursements.

Once the FHWA authorizes a project for federal assistance, the state follows the same procedure to advertise a project, to award the contract, and to reconcile the level of state and federal funding required. The state may request that the FHWA convert its Advance Construction amount to an obligation at any time, provided the state has sufficient Obligation Authority. This conversion of A/C to Obligation Authority must occur in order for the state to be reimbursed for the federal share of the project. The state can convert Advance Construction to Obligation Authority long after state expenditures are made.

Under *partial conversion of Advance Construction*, moreover, a state follows the steps to apply for Advance Construction but converts, obligates, and receives reimbursement for only a portion of its funding of an Advance Construction project in a given year. This removes any requirement to wait until the full amount of Obligation Authority is available. The state can thus obligate varying amounts for the project's eligible cost in each year, depending on how much of the state's Obligation Authority is available and desired by the state.

States are required to use a detailed accounting system to track project expenditures and reimbursements. In addition, a federal system tracks payments to states. The fiscal management group within MassHighway has day-to-day responsibility for paying CA/T Project bills and for securing prompt reimbursement for the federal share of those bills. A computer-based project accounting, reporting and billing system is used to track encumbrances and expenditures for all projects, including highway projects, administered by the Commonwealth. This system is called the Massachusetts Management Accounting and Reporting System ("MMARS"). Within MMARS, an initial encumbrance for each project is established, based on the total amount of revenues specified in the project agreement. As the project is implemented, MMARS is used to track all expenditures by the Commonwealth to pay contractors. MMARS tracks remaining encumbrance amounts and project expenditures to date.

A sub-system of MMARS called the Project Accounting and Reporting System ("PARS"), is used to track Federal-Aid Highway projects for which the Commonwealth must seek reimbursement for revenues it expends. PARS generates federal billing information, and tracks the federal and Commonwealth sources of funding for Federal-Aid Highway projects in detail. PARS is a centralized, automated project accounting, tracking, cost projection, and federal-aid billing system that is fully integrated with the MMARS accounting system. The federal-aid billing capabilities of PARS are designed specifically for the needs of MassHighway, while satisfying the cost accumulation and billing requirements of the FHWA. The Commonwealth expects MMARS and PARS to be fully Year-2000 compliant prior to the beginning of calendar year 1999.

### COMMONWEALTH PARTICIPATION IN THE PROGRAM

The flow of Federal Highway Reimbursements into the GAN Trust Fund, and the resulting ability to meet the debt service requirements on the Notes, will depend on several factors, most notably, the amount of funding provided to Massachusetts by the federal government under the Federal-Aid Highway Program and the Commonwealth's ability to use such funding. The sections below summarize the recent history of funding levels provided to the Commonwealth under the Program, the Commonwealth's use of such funding, and the anticipated funding levels that will be made available to Massachusetts under the recently-enacted TEA 21 reauthorization of the Program. In addition, certain other information is provided regarding federal equity provisions and the Commonwealth's potential ability to utilize future available funding.

#### Funding History

*Role of Obligation Authority ("OA").* As noted in the previous section, the culmination of the federal authorization and appropriation process for the Federal-Aid Highway Program is the provision of OA to a state. OA, which is apportioned to states on an annual basis, sets the upper limit on the federal government's commitment to pay, through reimbursements, its share of eligible expenditures on approved projects. Thus, current year OA plus prior years' OA obligated but not yet expended determines the maximum amount of federal highway assistance that a state may receive under the Program. Although annual OA is not a direct representation of the amount of reimbursements a state will receive under the Program in a given year (e.g., due to lags in spending), OA levels will determine over time the amount of reimbursements that a state may receive.

*OA Provided to Massachusetts.* Since the advent of the modern multi-year federal authorization acts in 1982, Massachusetts has received substantial funding through the Program. The table below details the amount of OA made available to the Commonwealth from FFY 1985 through FFY 1997 and the amount of such OA actually obligated by the Commonwealth. As shown, the amount of annual OA provided to Massachusetts under the Program averaged \$672 million per year during this period. The amount of OA made available varied substantially, ranging between \$300 million and \$500 million from FFY 1985 through FFY 1989, and between \$700 million and over \$1 billion in the period after FFY 1989. The relatively generous levels in the later period resulted, in large part, from targeted aid for the completion of the Interstate Highway System, for which the CA/T Project was eligible. As discussed previously, the emphasis of the Program has since moved away from providing funding for interstate completion and toward improvement of the existing Interstate and National Highway Systems. As a result, the funding levels available to Massachusetts between FFY 1991 and FFY 1997 are not indicative of future levels.



**Commonwealth of Massachusetts**  
**History of OA, OA Use and Reimbursements Received**  
(millions of \$)

Federal Fiscal Year	OA	Bonus	Total	Actual Obligations	Reimbursements Received [a]
1985	307.5	0.0	307.5	207.5	160.7
1986	282.5	0.0	282.5	208.2	118.6
1987	506.0	0.0	506.0	230.0	245.5
1988	459.8	0.0	459.8	342.8	253.4
1989	317.6	0.0	317.6	170.6	194.1
1990	860.2	0.0	860.2	415.2	274.8
1991	1,091.2	0.0	1,091.2	1,091.2	555.5
1992	687.3	45.6	732.9	732.9	734.1
1993	889.8	54.4	944.2	944.1	947.4
1994	984.5	55.5	1,040.0	1,040.0	953.5
1995	718.8	36.9	755.7	755.7	878.7
1996	696.0	33.9	729.9	730.0	1,019.0
1997	672.6	41.7	714.4	714.4	929.9 [b]
Average	651.8	20.6	672.4	583.3	558.9

[a] Represents cash received in the state fiscal year ending nine months after the FFY shown.

[b] Estimated.

Sources: Massachusetts Capital Expenditure and Program Office (CEPO) and Massachusetts Office of the Comptroller.

*Use of OA.* As the chart shows, Massachusetts has not always obligated the entire amount of OA apportioned to it. In particular, from FFY 1985 through FFY 1990, actual obligations were substantially below the amount of OA provided to the Commonwealth. At the time this occurred, Commonwealth officials believed, partly due to the HTF surplus, that future federal highway reauthorization acts likely would permit states to access unused OA to augment their future annual apportionments. No such authorization provision, however, was ever enacted. Since FFY 1991 the Commonwealth has used all the OA provided by the federal government including redistribution bonuses of OA resulting from under-utilization in other states. This is, in large part, the result of funding requirements for the CA/T Project.

*Reimbursements.* As the chart above also shows, the amount of Federal Highway Reimbursements received by the Commonwealth has averaged \$558.9 million per year since 1985. As noted, cash reimbursements tend to lag behind the commitment of OA. Reimbursements received by the Commonwealth during the period shown tend to track the use of OA, albeit on a delayed basis, in that they were lower from 1985 through 1990, and then increased significantly when the Commonwealth's OA began to grow in 1991 and significant spending on the CA/T Project began.

*TEA 21.* A preliminary analysis of TEA 21 indicates that this act authorizes for Massachusetts approximately \$529 million per year of federal highway assistance during the six-year period ending FFY 2003, including apportionments and allocations for Massachusetts averaging \$488 million per year for the life of the authorization period and, in addition, \$25 million over six years for high-priority projects and \$37 million per year to reconcile funding provided to the Commonwealth under STEA to funding under TEA 21. The above numbers are based on a preliminary analysis of the legislation. While the Commonwealth believes that sufficient Federal Highway Reimbursements will be received during the term of the Notes, including the 1998A Notes, to pay the principal of and interest due on the Notes and all other Trust Agreement Obligations, various factors beyond the control of the Commonwealth may affect its ability to do so, including, without limitation, subsequent reauthorizations of TEA 21, federal budgetary limitations and other possible changes in the Federal-Aid Highway Program that cannot now be anticipated. See "THE FEDERAL-AID HIGHWAY PROGRAM—History."

*Equity Provisions.* Since FFY 1982, all Program authorization acts have included so-called equity provisions which assure states that they will receive a certain minimum percentage of the federal transportation related user taxes collected in that state and paid into the Highway Account of the HTF. Historically that minimum level has been 85%. TEA 21 includes such a provision and sets the percentage at 90.5% through FFY 2003. In FFY 1996-1997, collections in Massachusetts for the Highway Account of the HTF averaged \$396 million per year. For FFY 1998, the Commonwealth estimates that collections will total approximately \$460 million. This increase assumes no increase in highway or vehicle use, but rather is the result of the redirection of some 3.45 cents per gallon of the federal government's gasoline tax into the Highway Account. 90.5% of the Commonwealth's estimated FFY 1998 contributions would total approximately \$416 million.

If future Program authorization acts provide funding levels for Massachusetts similar to those authorized under TEA 21, such assistance, if fully utilized, would substantially exceed the maximum covenanted debt service on the Notes (\$108 million semiannually; \$216 million per year). Similarly, if the equity provisions noted above remain in place, the level of Massachusetts contributions into the Highway Account of the HTF should ensure that funding provided to Massachusetts under the Program would exceed the debt service requirements of the Notes. However, future funding and the continuance of the equity provisions will be subject to future Congressional action, and there can be no assurance as to the level of such funding or the continuation of the equity provisions.

#### **Future Utilization of Federal Highway Assistance**

Under the Federal-Aid Highway Program, as projects are approved by the FHWA, the aggregate dollar amount of each state contract relating thereto is obligated against the remaining annual amount of OA still available to that state. The state then pays the amounts owed under each contract as the work progresses and receives reimbursement from the federal government for the federal share of the total costs. The aggregate amount of reimbursements received by a state in any year is not necessarily equal to the state's apportionment for such year. Many projects and contracts extend over a number of years; the aggregate amount made available to a state in any one year, if fully obligated, may be received as reimbursement over a longer period of time relating to the actual pace of construction. The Commonwealth expects that, as a result of its extensive statewide road and bridge program and the continuing needs of the CA/T Project, it will have sufficient federally-eligible project expenditures to be able to utilize all the federal highway assistance that will be made available to the state.

In addition, largely as a result of the CA/T Project, the Commonwealth has made extensive use of Advance Construction ("A/C") status under the Program. By utilizing A/C status, the Commonwealth may pre-qualify projects and expenditures thereon for federal reimbursement, subject to the availability of future OA and the continued inclusion of the relevant projects on the State Transportation Improvement Plan. As of May 26, 1998, Massachusetts has \$2.45 billion in project costs so qualified which, when spent, should ensure that the state will be able to draw down future federal reimbursements when available. In connection with the Note program, the Commonwealth covenants to maintain an A/C Balance at least equal to the principal amount of Notes Outstanding, to help ensure that it will be able to draw down federal funds to meet debt service funding requirements.

## THE ALTERNATIVE REVENUES

If a True-up Condition shall occur and be continuing, the Trust Agreement requires the State Treasurer to transfer the Alternative Revenues to the Trustee for deposit into the Reserve Account of the Alternative Revenues Fund. See "SOURCES OF PAYMENT AND SECURITY FOR THE NOTES—Pledge of Alternative Revenues." However, under current law the Alternative Revenues may not be applied to the payment of the Trust Agreement Obligations unless appropriated for such purpose by the Massachusetts Legislature.

The Alternative Revenues consist of the receipts derived from ten cents (\$0.10) per gallon of the Commonwealth gasoline excise tax imposed under Chapter 64A of the Massachusetts General Laws ("Chapter 64A") and credited to the Highway Fund of the Commonwealth. The Commonwealth gasoline excise tax is imposed on sales of gasoline by distributors. Chapter 64A establishes the rate of tax per gallon as the greater of (a) 19.1% of the average price of gasoline as determined for each calendar quarter by the Commissioner of Revenue or (b) 21 cents (\$0.21). The current rate is 21 cents (\$0.21) and has been in effect since January 1, 1991.

Under current law 83.61% of the Commonwealth gasoline excise tax is credited to the Commonwealth's Highway Fund. Calculated as a percentage of the minimum tax rate of 21 cents per gallon, the amount so credited will equal at least 17.55 cents per gallon. Of this amount, 6.86 cents per gallon are pledged to secure certain special obligation bonds of the Commonwealth previously issued under Section 20 of Chapter 29 of the Massachusetts General Laws. The remainder, that is, a minimum of 10.69 cents per gallon, is unencumbered, except for the conditional lien on ten cents per gallon of this amount imposed by the Act and the Trust Agreement as security for the Notes.

On a semiannual basis, collection of Alternative Revenues (that is, a portion equal to ten cents per gallon of the Commonwealth gasoline excise tax collections) during the period July 1, 1988 through December 31, 1997 were as follows:

<u>Six-Month Period Ending</u>	<u>Amount</u>
December 31, 1988	\$128,368,547
June 30, 1989	121,585,766
December 31, 1989	125,620,419
June 30, 1990	120,802,100
December 31, 1990	123,671,256
June 30, 1991	111,596,957
December 31, 1991	118,484,873
June 30, 1992	114,518,247
December 31, 1992	122,014,532
June 30, 1993	117,567,045
December 31, 1993	121,951,317
June 30, 1994	117,577,452
December 31, 1994	124,506,607
June 30, 1995	119,999,097
December 31, 1995	131,187,212
June 30, 1996	122,108,239
December 31, 1996	129,542,061
June 30, 1997	125,620,466
December 31, 1997	132,847,378

Source: Executive Office for Administration and Finance.

The Commonwealth gasoline excise tax collected in each calendar month is credited to the appropriate Commonwealth fund or account, including the Commonwealth's Highway Fund, in the early part of the following calendar month.

In the Act and the Trust Agreement the Commonwealth has covenanted with respect to the Alternative Revenues as follows:

- (a) in any SFY with respect to which a True-up Condition has occurred and is continuing, unless and until an appropriation has been made or an amount is otherwise made available which is sufficient to pay the Trust Agreement Obligations due during such SFY, none of the Alternative Revenues shall be applied to any use other than the payment of Trust Agreement Obligations;
- (b) until the State Treasurer, after consultation with the Secretaries, determines that available funds in the GAN Trust Fund, the Debt Service Fund and the Note Related Costs Fund will be sufficient to pay all Trust Agreement Obligations, the rate of the Commonwealth gasoline excise tax shall not be reduced below the sum of ten cents (\$0.10) per gallon plus any amount thereof pledged for the payment of special obligation bonds of the Commonwealth pursuant to Section 20 of Chapter 29 of the Massachusetts General Laws; and
- (c) at least ten cents (\$0.10) of the Commonwealth gasoline excise tax shall remain free and clear of any superior or equal pledge, lien, charge or encumbrance thereon or with respect thereto (other than the lien of the Trust Agreement) and shall remain credited to the Highway Fund of the Commonwealth so designated under Section 34 of Chapter 90 of the Massachusetts General Laws, except as permitted by the Trust Agreement; provided, however, that any such funds shall be available for appropriation in any SFY for any other lawful purpose unless the State Treasurer shall have certified that a True-up Condition has occurred and is continuing.

The Trust Agreement provides that any provision of the Act creating covenants with Noteholders shall be deemed a covenant with the Noteholders only to the extent expressly provided in, and limited by, the Trust Agreement.

#### COMMONWEALTH PARTICIPANTS

The State Treasurer will issue Notes at the request of the Governor; provided that the amortization of each series of Notes shall be determined by the State Treasurer with the written concurrence of the Secretaries. The giving of the certifications required to determine the management of Federal Highway Reimbursements and the existence of and actions in the event of the occurrence of a True-up Condition is to be done by the State Treasurer with the written concurrence of and/or after consultation with the Secretaries. Brief descriptions of the general responsibilities of these officials follow.

*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.

*Secretary of Administration and Finance.* The Secretary of Administration and Finance acts as the Governor's chief fiscal officer and administers the Executive Office for Administration and Finance. The activities of this Executive Office 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 negotiations 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.

*Secretary of Transportation and Construction.* The Secretary of Transportation and Construction administers the Executive Office for Transportation and Construction ("EOTC"), which is the coordinating state agency for the Federal-Aid Highway Program and includes the Massachusetts Highway Department. EOTC has contracted management responsibility

with respect to the construction of the CA/T Project to the Massachusetts Turnpike Authority, which under current law eventually will own and operate most components of the CA/T Project.

## THE 1998A NOTES

### General

The 1998A Notes will be dated June 1, 1998 and will bear interest from such date payable semiannually on June 15 and December 15 of each year, commencing December 15, 1998, until the principal amount is paid; provided, that no interest will be payable on the 1998A Notes maturing December 15, 2014 and June 15, 2015 (collectively, the "Zero Coupon 1998A Notes"). The 1998A Notes will mature on June 15 and December 15 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 Trustee will act as paying agent with respect to the 1998A Notes.

*Book-Entry-Only System.* The 1998A Notes will be issued by means of a book-entry-only system, with one note 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 1998A Notes 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 1998A Notes will be paid to DTC or its nominee as registered owner of the 1998A Notes. The record date for payments on account of the 1998A Notes will be the last business day of the month preceding each June 15 and December 15. As long as the book-entry-only system remains in effect, DTC or its nominee will be recognized as the owner of the 1998A Notes 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 1998A Notes maturing on or prior to December 15, 2008 are not subject to redemption prior to their stated maturity dates.

*Optional Redemption.* The 1998A Notes maturing after December 15, 2008 (other than the 1998A Notes maturing December 15, 2012 and December 15, 2013, the 1998A Notes maturing June 15, 2013 and bearing interest at the rate of 5.5% per annum and the Zero Coupon 1998A Notes) are subject to redemption prior to their stated maturity dates on or after December 15, 2008, at the option of the Commonwealth from any monies legally available therefor, in whole or in part at any time, by lot within maturity, at the redemption prices (expressed as percentages of the principal amount thereof), plus accrued interest to the redemption date, as follows:

<u>Redemption Dates</u>	<u>Redemption Prices</u>
December 15, 2008 through December 14, 2009, inclusive	101%
December 15, 2009 through December 14, 2010, inclusive	100½%
December 15, 2010 and thereafter	100%

Use of Federal Highway Reimbursements to fund optional redemptions of the Notes may be limited by operation of the Act as currently in effect. See "SOURCES OF PAYMENT AND SECURITY FOR THE NOTES—General" and "PLAN OF FINANCE."

*Notice of Redemption.* The Trustee shall give notice of redemption to the owners of the 1998A Notes 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 1998A Notes, notices of redemption will be mailed by the Trustee 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 1998A Notes (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 1998A Notes called for redemption shall cease to bear interest, provided the Trustee has monies on hand to pay such redemption in full.

*Selection for Redemption.* In the event that less than all of any maturity of the 1998A Notes is to be redeemed, and so long as the book-entry-only system remains in effect for such 1998A Notes, the particular 1998A Notes or portion of any 1998A Notes 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 1998A Notes, selection for redemption of less than all of any one maturity of the 1998A Notes will be made by the Trustee 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 1998A Note will be considered a separate 1998A Note.

### **Transfer**

So long as Cede & Co., as nominee for DTC, is the Noteholder of record of the 1998A Notes, beneficial ownership interests in the 1998A Notes may be transferred only through a Direct Participant or Indirect Participant and recorded on the book-entry system operated by DTC. In the event the book-entry-only system is discontinued, 1998A Note certificates will be delivered to the Beneficial Owners, which shall be transferable only upon the register for the 1998A Notes maintained by the Trustee on behalf of the Commonwealth. Thereafter, the 1998A Notes, upon surrender thereof at the principal office of the Trustee with a written instrument of transfer satisfactory to the Trustee, duly executed by the holder thereof or such holder's duly authorized attorney, may be exchanged for an equal aggregate principal amount of 1998A Notes of the same maturity and of authorized denominations.

In all cases in which the privilege of exchanging or transferring 1998A Notes is exercised, the Commonwealth shall execute and the Trustee shall authenticate and deliver the 1998A Notes in accordance with the provisions of the Trust Agreement. For every such exchange or transfer of 1998A Notes, the Commonwealth or the Trustee may make a charge sufficient to reimburse it for any tax, fee or other governmental charge required to be paid with respect to such exchange or transfer. Neither the Commonwealth nor the Trustee shall be required to make any such exchange or transfer of 1998A Notes during the 20 days next preceding an interest or principal payment date or during the pendency of any call for redemption of 1998A Notes in whole or in part.

**DEBT SERVICE REQUIREMENTS**  
(thousands of \$)

The following table sets forth the principal of and interest to be due on the 1998A Notes.

<u>Date</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
December 15, 1998	-	\$14,985,701.10	\$14,985,701.10
June 15, 1999	-	13,904,258.75	13,904,258.75
December 15, 1999	-	13,904,258.75	13,904,258.75
June 15, 2000	-	13,904,258.75	13,904,258.75
December 15, 2000	-	13,904,258.75	13,904,258.75
June 15, 2001	-	13,904,258.75	13,904,258.75
December 15, 2001	-	13,904,258.75	13,904,258.75
June 15, 2002	-	13,904,258.75	13,904,258.75
December 15, 2002	-	13,904,258.75	13,904,258.75
June 15, 2003	-	13,904,258.75	13,904,258.75
December 15, 2003	-	13,904,258.75	13,904,258.75
June 15, 2004	-	13,904,258.75	13,904,258.75
December 15, 2004	-	13,904,258.75	13,904,258.75
June 15, 2005	-	13,904,258.75	13,904,258.75
December 15, 2005	\$22,775,000	13,904,258.75	36,679,258.75
June 15, 2006	23,345,000	13,334,883.75	36,679,883.75
December 15, 2006	23,985,000	12,692,896.25	36,677,896.25
June 15, 2007	24,570,000	12,107,040.00	36,677,040.00
December 15, 2007	25,110,000	11,566,500.00	36,676,500.00
June 15, 2008	25,990,000	10,687,650.00	36,677,650.00
December 15, 2008	26,675,000	10,005,412.50	36,680,412.50
June 15, 2009	27,375,000	9,305,193.75	36,680,193.75
December 15, 2009	28,090,000	8,586,600.00	36,676,600.00
June 15, 2010	28,725,000	7,954,575.00	36,679,575.00
December 15, 2010	29,475,000	7,200,543.75	36,675,543.75
June 15, 2011	33,855,000	6,426,825.00	40,281,825.00
December 15, 2011	33,655,000	5,538,131.25	39,193,131.25
June 15, 2012	33,400,000	4,654,687.50	38,054,687.50
December 15, 2012	35,350,000	3,777,937.50	39,127,937.50
June 15, 2013	33,830,000	2,850,000.00	36,680,000.00
December 15, 2013	34,740,000	1,936,962.50	36,676,962.50
June 15, 2014	35,695,000	981,612.50	36,676,612.50
December 15, 2014	36,680,000	-	36,680,000.00
June 15, 2015	<u>36,680,000</u>	<u>-</u>	<u>36,680,000.00</u>
	<u>\$600,000,000</u>	<u>\$339,252,774.85</u>	<u>\$939,252,774.85</u>

**THE MBIA INSURANCE CORPORATION INSURANCE POLICY**

The following information has been furnished by MBIA Insurance Corporation (the "Insurer") for use in this Official Statement. Reference is made to Appendix D for a specimen of the Insurer's policy to be issued with respect to the Insured 1998A Notes. The Trust Agreement provides that the Insurer shall be deemed the Holder of all Insured 1998A Notes for purposes of exercising certain consents or directions required or permitted under the Trust Agreement. See APPENDIX A — "SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT — Bond Insurance."

The Insurer's policy unconditionally and irrevocably guarantees the full and complete payment required to be made by or on behalf of the Commonwealth to the Trustee or its successor of an amount equal to (i) the principal of (at the stated maturity) and interest on, the 1998A Notes maturing December 15, 2007 and bearing interest at the rate of 7% per annum and the 1998A Notes maturing June 15, 2013 and bearing interest at the rate of 5.5% per annum (collectively, the "Insured 1998A Notes") 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 for any reason, 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 1998A Notes 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 1998A Note. 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 1998A Notes 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 1998A Notes resulting from the insolvency, negligence or any other act or omission of the Trustee or any other paying agent for the Insured 1998A Notes.

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 Trustee or any owner of an Insured 1998A Note 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 1998A Notes or presentment of such other proof of ownership of the Insured 1998A Notes, together with any appropriate instruments of assignment to evidence the assignment of the insured amounts due on the Insured 1998A Notes as are paid by the Insurer, and appropriate instruments to effect the appointment of the Insurer as agent for such owners of the Insured 1998A Notes in any legal proceeding related to payment of insured amounts on the Insured 1998A Notes, 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 Trustee payment of the insured amounts due on such Insured 1998A Notes, less any amount held by the Trustee 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 (the "Company"). The Company 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 transactions among affiliates. Additionally, the Insurer is required to maintain contingency reserves on its liabilities in certain amounts and for certain periods of time.

Effective February 17, 1998, the Company 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. The Company is not obligated to pay the debts of or claims against CMAC.

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. As of March 31, 1998, the Insurer had admitted assets of \$5.4 billion (unaudited), total liabilities of \$3.6 billion (unaudited), and total capital and surplus of \$1.8 billion (unaudited) 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 without charge from the Insurer. A copy of the Annual Report on Form 10-K of the Company 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 1998A Notes, 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 1998A Notes. The Insurer does not guaranty the market price of the Insured 1998A Notes nor does it guaranty that the ratings on the Insured 1998A Notes will not be revised or withdrawn.

#### **BOOK-ENTRY-ONLY SYSTEM**

The Depository Trust Company, New York, New York ("DTC"), will act as securities depository for the 1998A Notes. The 1998A Notes will initially be issued exclusively in book-entry form and one or more fully registered 1998A Notes for each maturity set forth on the inside cover page hereof, each in the aggregate principal amount of 1998A Notes having such maturity and bearing interest the same rate, 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 1998A Notes under the DTC system must be made by or through DTC Participants, which will receive a credit for the 1998A Notes in the records of DTC. The ownership interest of each actual purchaser of each 1998A Note (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 1998A Notes 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 1998A Notes 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 1998A Notes, except in the event that use of the book-entry system for the 1998A Notes is discontinued.

To facilitate subsequent transfers, all 1998A Notes deposited by DTC Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co. The deposit of the 1998A Notes 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 1998A Notes; DTC's records reflect only the identity of the DTC Participants to whose accounts such 1998A Notes 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 1998A Notes within an issue 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 1998A Notes. 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 1998A Notes 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 OWNER OF 1998A NOTES.**

Beneficial Owners of the 1998A Notes will not receive or have the right to receive physical delivery of such 1998A Notes, and will not be or be considered to be owners thereof. So long as Cede & Co. is the registered owner of the 1998A Notes, as nominee of DTC, references herein to the holders or registered owners of the 1998A Notes shall mean Cede & Co. and shall not mean the Beneficial Owners of the 1998A Notes, except as otherwise expressly provided herein.

DTC may discontinue providing its services as securities depository with respect to the 1998A Notes at any time by giving reasonable notice to the Commonwealth. Under such circumstances, unless a substitute depository is retained by the Commonwealth, 1998A Notes will be delivered and registered as designated by the Beneficial Owners. The Beneficial Owner, upon registration of 1998A Notes held in the Beneficial Owner's name, will become the Noteholder.

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, 1998A Notes will be delivered and registered as designated by the Beneficial Owners.

The principal of and interest and premium on the 1998A Notes will be paid to DTC or its nominee, Cede & Co., as registered owner of the 1998A Notes. Upon receipt of moneys, DTC's practice is to credit the accounts of the DTC Participants on the payable date in accordance with their respective holdings shown on the records of DTC unless DTC has reason to believe it will not receive payment on the payable date. Payments by DTC Participants and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name", and will be the responsibility of such DTC Participant or Indirect Participant and not DTC or the Commonwealth, subject to any statutory and regulatory

requirements as may be in effect from time to time. Payment of the principal and interest and premium on the 1998A Notes 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 1998A Notes 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.**

#### LITIGATION

No litigation is pending or, to the knowledge of the Attorney General of the Commonwealth threatened against or affecting the Commonwealth seeking to restrain or enjoin the execution and delivery of the Trust Agreement or the issuance, sale or delivery of the 1998A Notes or in any way contesting or affecting the validity of the 1998A Notes, the right of the Commonwealth to receive Federal Highway Reimbursements or to collect the Alternative Revenues or the pledge of the Pledged Funds to secure the 1998A Notes as provided in the Trust Agreement.

#### TAX EXEMPTION

Bond Counsel is of the opinion that, under existing law, interest on the 1998A Notes is excluded from gross income for federal income tax purposes and is not an item of tax preference for the purpose of computing the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"); it should be noted, however, that the interest on the 1998A Notes is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). Bond Counsel has not opined as to other federal tax consequences, if any, resulting from holding the 1998A Notes.

The Code imposes certain requirements and restrictions on the use, expenditure and investment of proceeds of state and local governmental obligations, including the 1998A Notes, and a requirement for payment to the federal government (called a "rebate") of certain proceeds derived from the investment thereof. Failure to comply with the Code's requirements subsequent to the issuance of the 1998A Notes could cause interest on the 1998A Notes to become included in gross income for federal income tax purposes retroactive to the date of their issuance. On or before delivery of the 1998A Notes to the original purchasers, the Commonwealth will provide covenants or certificates evidencing that it will take all lawful action necessary to comply with those provisions of the Code that, except for such compliance, would affect adversely the excludability of interest of the 1998A Notes from gross income for federal income tax purposes. Bond Counsel's opinion with respect to the federal income tax treatment of interest on the 1998A Notes is conditioned upon such compliance.

Prospective purchasers of the 1998A Notes should also be aware that the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the 1998A Notes, or, in the case of a financial institution, for that portion of the owner's interest expense allocated to interest on the 1998A Notes. Interest on the 1998A Notes earned by insurance companies or allocable to certain dividends received by such companies may increase the taxable income of those companies as calculated under Subchapter L of the Code. In addition, interest on the 1998A Notes earned by certain corporations could be subject to the foreign branch profits tax imposed by Section 884 of the Code, and may be included in passive investment income subject to federal income taxation under Section 1375 of the Code applicable to certain S corporations. The Code also requires recipients of certain social security and railroad retirement benefits to take into account receipts and accruals of interest on the 1998A Notes in determining the portion of such benefits that are included in gross income and receipt of investment income, including interest on the 1998A Notes, may disqualify the recipient thereof from obtaining the earned income credit under Section 32(i) of the Code. No assurance can be given that future legislation will not have adverse tax consequences for owners of the 1998A Notes.

In the opinion of Bond Counsel, interest on the 1998A Notes is exempt from Massachusetts personal income taxes, and the 1998A Notes are exempt from Massachusetts personal property taxes. Bond Counsel has not opined as to other Massachusetts tax consequences arising with respect to the 1998A Notes. Prospective purchasers should be aware, however, that the 1998A Notes are included in the measure of Massachusetts estate and inheritance taxes, and the 1998A Notes 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 1998A Notes or the income therefrom under the laws of any state other than Massachusetts.

For federal and Massachusetts tax purposes, interest includes original issue discount, which with respect to a 1998A Note is equal to the excess, if any, of the stated redemption price at maturity of such 1998A Note over the initial offering price thereof to the public, excluding underwriters and other intermediaries, at which price a substantial amount of all substantially identical 1998A Notes were sold. Original issue discount accrues over the term of a 1998A Note in accordance with Section 1272 of the Code. Purchasers of 1998A Notes should consult their own tax advisers with respect to the computation of original issue discount on such accruals of interest during the period in which any such 1998A Note is held.

Certain of the 1998A Notes (the "Premium Notes") are initially offered to the public at prices greater than the amounts payable thereon at maturity. As a result of the tax cost reduction requirements of the Code related to amortization of bond premium, under certain circumstances an initial owner of Premium Notes may realize a taxable gain upon the disposition of such Premium Notes even though they are sold or redeemed for an amount equal to such owner's original cost of acquiring such Premium Notes. Owners of Premium Notes are advised that they should consult with their own tax advisers with respect to the federal, state and local tax consequences of owning such Premium Notes.

On the date of delivery of the 1998A Notes, 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."

#### **RATINGS**

The 1998A Notes have been assigned ratings by Duff & Phelps Credit Rating Co., Fitch IBCA, Inc. and Moody's Investors Service, Inc. The rating assigned by Duff & Phelps Credit Rating Co. for the 1998A Notes is "AAA." The ratings assigned by Fitch IBCA, Inc. are "AA" for the 1998A Notes other than the Insured 1998A Notes and "AAA" for the Insured 1998A Notes. The ratings assigned by Moody's Investors Service, Inc. are "Aa3" for the 1998A Notes other than the Insured 1998A Notes and "Aaa" for the Insured 1998A Notes. A security rating should be evaluated independently of similar ratings of different types of securities. A rating is not a recommendation to buy, sell or hold securities. 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 1998A Notes.

#### **CERTAIN LEGAL MATTERS**

The unqualified approving opinion as to the legality of the 1998A Notes will be rendered by Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel to the State Treasurer. The proposed form of such opinion of Bond Counsel is attached to this Official Statement as Appendix B. Certain legal matters will be passed upon for the Underwriters by their counsel, Ropes & Gray, Boston, Massachusetts.

#### **UNDERWRITING**

The 1998A Notes are being purchased by the Underwriters, for whom Lehman Brothers Inc. is acting as Representative. The Underwriters have agreed, subject to certain conditions, to purchase all of the 1998A Notes from the Commonwealth at a discount from the initial public offering prices or yields set forth on the inside cover page hereof equal to approximately .693% of the aggregate principal amount of the 1998A Notes, of which approximately .542% of the aggregate principal amount of the 1998A Notes represents compensation to the Underwriters, with the remainder to be used

to pay costs of issuance of the 1998A Notes. The Underwriters have agreed to reoffer such 1998A Notes at public offering prices not higher than or at yields not lower than those set forth on the inside cover page of this Official Statement. The Underwriters are obligated to purchase all such 1998A Notes, if any are purchased, the obligation to make such purchase being subject to certain terms and conditions set forth in the Purchase Contract, the approval of certain legal matters by counsel and certain other conditions. Such 1998A Notes may be offered and sold by the Underwriters to certain dealers (including dealers depositing such 1998A Notes in unit investment trusts or mutual funds, some of which may be managed by the Underwriters) and certain dealer banks and banks acting as agents at prices lower (or yields higher) than the public offering prices (or yields) set forth on the inside cover page of this Official Statement. Subsequent to such initial public offering, the Underwriters may change the public offering prices (or yields) as they may deem necessary in connection with the offering of such 1998A Notes.

#### **CONTINUING DISCLOSURE**

In order to assist the Underwriters in complying with paragraph (b)(5) of Rule 15c2-12 of the Securities and Exchange Commission, the Commonwealth will undertake in the 1998A Notes to publish annual reports and notices of certain events. This undertaking is set forth in Appendix C hereto.

#### **MISCELLANEOUS**

Any provisions of the Trust Agreement, the constitution of the Commonwealth, general and special laws and 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 should be directed to Jeffrey S. Stearns, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, Twelfth Floor, Boston, Massachusetts 02108, telephone (617) 367-3900, or Catherine R. 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 Official Statement should be directed to Walter J. St. Onge, III, Palmer & Dodge LLP, One Beacon Street, Boston, Massachusetts 02108, telephone (617) 573-0100.

## THE COMMONWEALTH OF MASSACHUSETTS

By /s/ Joseph D. Malone

Joseph D. Malone  
*Treasurer and Receiver-General*

By /s/ Charles D. Baker

Charles D. Baker  
*Secretary of Administration and Finance*

June 10, 1998

## SUMMARY OF CERTAIN PROVISIONS OF THE TRUST AGREEMENT

The Trust Agreement contains terms and conditions relating to the issuance and sale of Federal Highway Grant Anticipation Notes under it, including various covenants and security provisions, certain of which are summarized below. For purposes of this summary, all references to “Notes” shall refer to the Federal Highway Grant Anticipation Notes. This summary does not purport to be comprehensive or definitive and is subject to all of the provisions of the Trust Agreement, to which reference is hereby made. Copies of the Trust Agreement are available from Palmer & Dodge LLP, One Beacon Street, Boston, MA, 02108, Attn: Walter J. St. Onge, III, Bond Counsel to the Commonwealth.

### Definitions

The following is a summary of certain terms used in the Trust Agreement, in this Appendix A and otherwise used in this Offering Circular.

“Act” shall mean the provisions of Section 9 through 10D of Chapter 11 of the Acts of 1997, as amended by Chapter 121 of the Acts of 1998, in effect as of the date of the Trust Agreement.

“Accreted Value” shall mean with respect to any Notes that are Capital Appreciation Notes, an amount equal to the principal amount of such Capital Appreciation Notes (determined on the basis of the initial principal amount per \$5,000 at maturity thereof) plus the amount assuming compounding (as set forth in the Applicable Supplemental Trust Agreement) of earnings which would be produced on the investment of such initial amount, beginning on the dated date of such Capital Appreciation Notes and ending at the maturity date thereof, at a yield which, if produced until maturity, will produce \$5,000 at maturity.

“Additional Notes” shall mean Notes of the Commonwealth issued pursuant to the Trust Agreement.

“Additional Pledged Funds” shall mean any moneys or funds pledged by the Commonwealth for the purpose of further securing the payment of all Trust Agreement Obligations.

“Adjusted Note Debt Service Requirement” shall mean, for any period for which such calculation shall be made in connection with the issuance of Additional Notes or in connection with the issuance of Refunding Notes, aggregate Note Debt Service Requirement on Notes Outstanding during such period, taking into account the following adjustments:

- (i) With respect to Variable Rate Notes, the aggregate Note Debt Service Requirement thereon shall be determined based upon an interest rate equal to the Assumed Rate, calculated as of such date of determination; provided, however, if the Commonwealth (1) enters into a Qualified Hedge Agreement with a Hedge Provider requiring the Commonwealth to pay a fixed interest rate or providing for a maximum interest rate on a notional amount, and (2) has made a determination that such Qualified Hedge Agreement was entered into for the purpose of providing substitute interest payments or limiting the potential increase in the interest rate for a particular maturity of Notes in a principal amount equal to the notional amount of the Qualified Hedge Agreement, then during the term of such Qualified Hedge Agreement and so long as the Hedge Provider under such Qualified Hedge Agreement is not in default under such Qualified Hedge Agreement, the interest rate on such Notes shall be determined as if such Notes bore interest at the fixed interest rate or maximum interest rate, as the case may be, payable by the Commonwealth under such Qualified Hedge Agreement;
- (ii) with respect to Fixed Rate Notes, if the Commonwealth (1) enters into a Qualified Hedge Agreement with a Hedge Provider requiring the Commonwealth to pay a variable interest rate on a notional amount and (2) has made a determination that such Qualified Hedge

Agreement was entered into for the purpose of providing substitute interest payments for a particular maturity of Notes in a principal amount equal to the notional amount of the Qualified Hedge Agreement, then during the term of such Qualified Hedge Agreement and so long as the Hedge Provider under such Qualified Hedge Agreement is not in default under such Qualified Hedge Agreement, the interest rate on such Notes shall be determined as if such Notes bore interest at the Assumed Hedge Rate;

- (iii) with respect to Tender Notes, the aggregate Note Debt Service Requirement thereon shall not include amounts payable upon mandatory or optional tender, but shall be deemed to include all periodic Note Related Costs and other payments to the provider of any Liquidity Facility, and shall not be based upon the terms of any Reimbursement Obligation to such provider except to the extent and for periods during which Note Related Costs and other payments are required to be made pursuant to such Reimbursement Obligation due to such provider advancing funds;
- (iv) with respect to Notes that have Credit Enhancement, the aggregate Note Debt Service Requirement thereon shall be deemed to include all periodic Note Related Costs and other payments to the provider of the Credit Enhancement, but shall not be based upon the terms of any Reimbursement Obligation to such provider except to the extent and for periods during which Note Related Costs and other payments are required to be made pursuant to such Reimbursement Obligation due to such provider advancing funds; and
- (v) the amount of any investment earnings and return of principal or projected investment earnings and projected return of principal, as the case may be, allocable to amounts in the Debt Service Liquidity Account shall be deducted from the Adjusted Note Debt Service Requirement for the applicable period.

“Advance Construction Balance” shall mean, as of any date of calculation, the aggregate dollar amount of the portion of federal funds referenced in all Federal-Aid Letters of Approval/Authorization and Project Agreements under the Federal Highway Construction Program between the Commonwealth and the Federal Highway Administration and designated as “advance construction” or “AC”.

“Advance Refunded Municipal Bonds” shall mean any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state (i) which are not callable at the option of the obligor or otherwise prior to maturity or as to which irrevocable notice has been given by the obligor to call such bonds or obligations on the date specified in the notice, (ii) which are fully secured as to principal and interest and redemption premium, if any, by a fund consisting only of cash or Government Obligations which is sufficient to pay interest when due, principal of and redemption premium, if any, on the bonds or other obligations described in this definition on the maturity date or dates thereof or on the redemption date or dates, as appropriate.

“Alternative Revenues” shall mean the receipts credited to the Highway Fund and derived from that portion of the Gasoline Tax equal to ten cents (\$0.10) per gallon, which amount shall not include any amount of such tax pledged to the payment of special obligation bonds of the Commonwealth pursuant to Section 20 of chapter 29 of the General Laws, as amended from time to time.

“Applicable Supplemental Trust Agreement” shall mean with respect to any Series of Notes, the Supplemental Trust Agreement authorizing such Series of Notes.

“Appreciated Value” shall mean with respect to Notes that are Deferred Income Notes until the Interest Commencement Date thereon, an amount equal to the principal amount of such Deferred Income Note (determined on the basis of the initial principal amount per \$5,000 at the Interest Commencement Date thereof) plus the amount, assuming compounding (as set forth in the Applicable Supplemental Trust Agreement) of earnings which would be produced as the investment of such initial amount, beginning on the dated date of such Deferred Income Note and ending on the Interest Commencement Date, at a yield which, if produced until the Interest Commencement Date, will produce \$5,000 at the Interest Commencement Date.



“Assumed Rate” shall mean, with respect to any Variable Rate Notes, the BMA Index or 3%, whichever is higher, plus 1.50%, or such other rate as may be provided in any Applicable Supplemental Trust Agreement.

“Authorized Officer” shall mean the State Treasurer or any designee thereof and, when used in reference to an act or document, shall also mean any other person authorized by law to perform such act or sign such document.

“BMA Index” shall mean the “BMA Municipal Bond Index”™ published from time to time by the Bond Market Association based upon weekly yield evaluations at par of tax-exempt state and local government bonds or if such index is no longer published, a comparable index as selected by the remarketing agent with respect to the affected Variable Rate Notes subject to receipt of a Rating Confirmation.

“Bond Counsel” shall mean any lawyer or firm of lawyers nationally recognized in the field of municipal finance and selected by the State Treasurer.

“Capital Appreciation Notes” shall mean any Notes as to which interest is payable only at the maturity or prior redemption thereof.

“CA/T Project” shall mean the Central Artery/Ted Williams Tunnel Project, undertaken by the Commonwealth and managed on behalf of the Commonwealth by the Massachusetts Turnpike Authority.

“Code” shall mean the Internal Revenue Code of 1986, as amended.

“Commissioner of Revenue” shall mean the Commissioner of Revenue of the Commonwealth or a Deputy Commissioner or designee acting in the Commissioner’s stead.

“Commonwealth Fiscal Year” shall mean the period beginning on July 1 of any calendar year and ending on June 30 of the succeeding calendar year or such other period of twelve consecutive calendar months as may be provided by law as the fiscal year of the Commonwealth.

“Comptroller” shall mean the Comptroller of the Commonwealth or any Deputy Comptroller or Assistant to the Comptroller or to the extent permitted by law, any designee acting in the Comptroller’s stead.

“Costs of Issuance” shall mean all items of expense directly or indirectly payable or reimbursable by or to the Commonwealth and related to the authorization, sale and issuance of Notes, including but not limited to printing costs, costs of preparation and reproduction of documents, filing and recording fees, initial fees and charges of the Fiduciaries, legal fees and charges, fees and disbursements of consultants and professionals, costs and expenses of refunding, fees, expenses and other amounts payable to any underwriters of the Notes, accrued interest payable upon the initial investment of the proceeds of Notes, fees and expenses payable in connection with any Credit Enhancement, Liquidity Facility or Reserve Credit Facility, fees and expenses payable in connection with any remarketing agreements or interest rate indexing agreements payable in connection with the original issuance of the Notes and any other cost, charge or fee payable in connection with the original issuance of Notes.

“Credit Enhancement” shall mean any agreement, including, but not limited to a policy of bond insurance, surety bond, irrevocable letter of credit, credit agreement, credit facility or guaranty arrangement with a bank, trust company, insurance company, surety company, pension fund or other financial institution that provides increased credit on or security for any Series (or portion thereof) of Notes and, to the extent authorized by a Supplemental Trust Agreement, may include a Reserve Credit Facility.

“Debt Service Account” shall mean either the June 15 Debt Service Account or December 15 Debt Service Account or both, as the context requires.

“Debt Service Coverage Ratio” shall mean the ratio of the amount of Federal Highway Reimbursements expected to be available in any Federal Fiscal Year to pay Trust Agreement Obligations due in the Commonwealth Fiscal Year commencing on July 1 in such Federal Fiscal Year to the amount of Trust Agreement Obligations due in said Commonwealth Fiscal Year, expressed as a percentage.

“Debt Service Liquidity Account Requirement” shall mean, as of any particular date of computation, ten percent (10%) of the maximum aggregate amount of Principal Installments and interest becoming due in the current or any future Commonwealth Fiscal Year on all Notes Outstanding, using the Assumed Rate for any Variable Rate Notes (or any Reimbursement Obligations issued in a connection therewith which are deemed to be Notes pursuant to the Trust Agreement), less, in any such Commonwealth Fiscal Year, any amounts received as payment of accrued interest from the sale of any Notes which amounts are deposited in the Debt Service Fund, provided, however, that the amount held in the Debt Service Liquidity Account and funded with proceeds of Notes shall not exceed one hundred twenty-five percent (125%) of the average annual aggregate amount of Principal Installments and interest becoming due in any Commonwealth Fiscal Year on all Notes Outstanding, using the Assumed Rate for any Variable Rate Notes (or any Reimbursement Obligations issued in connection therewith which are deemed to be Notes pursuant to the Trust Agreement).

“December 15 Debt Service Requirement” shall mean with respect to any period ending on December 15, the Note Debt Service Requirement with respect to all Notes then Outstanding on such December 15.

“Defeasance Obligations” shall mean Government Obligations and Advance Refunded Municipal Bonds.

“Federal Fiscal Year” shall mean the period beginning on October 1 of any calendar year and ending on September 30 of the succeeding calendar year or such other period of twelve consecutive calendar months as may be provided by law as the fiscal year of the United States.

“Federal Highway Construction Program” shall mean all federally-aided highway construction projects undertaken by the Commonwealth at any time prior to or after (so long as any Notes remain Outstanding) the date of execution of the Trust Agreement as part of the Commonwealth’s program of transportation development and improvements.

“Federal Highway Grant Anticipation Note Trust Fund” shall mean the Federal Highway Grant Anticipation Note Trust Fund established by Section 10 of the Act.

“Federal Highway Reimbursements” shall mean all federal highway construction reimbursements and any other federal highway assistance received from time to time by the Commonwealth with respect to the Federal Highway Construction Program under or in accordance with Title 23 of the United States Code or any successor program established under federal law.

“Fiduciary” shall mean the Trustee or any Paying Agent.

“Funded Debt Service Liquidity Account Requirement” shall mean, as of any particular date of computation, an amount equal to the Debt Service Liquidity Account Requirement less the stated and unpaid amounts of all Reserve Credit Facilities. The Funded Debt Service Liquidity Account Requirement shall, to the extent authorized by a Supplemental Trust Agreement, include any amount required to reimburse any provider of a Reserve Credit Facility upon any drawing of amounts thereunder.

“Gasoline Tax” shall mean the excise imposed on fuel (other than aviation fuel) by the provisions of Chapter 64A of the Massachusetts General Laws, as amended from time to time.

“Government Obligations” shall mean:

- (i) non-callable direct obligations of the United States of America, non-callable and non-prepayable direct federal agency obligations the timely payment of principal of and interest on which are fully and unconditionally guaranteed by the United States of America, non-callable direct obligations of the United States of America which have been stripped by the United States Treasury itself or by any Federal Reserve Bank (not including “CATS,” “TIGRS” and “TRS” unless the Commonwealth obtains Rating Confirmation with respect thereto) and the interest components of REFCORP bonds for which the underlying bond is non-callable (or non-callable before the due date of such

interest component) for which separation of principal and interest is made by request to the Federal Reserve Bank of New York in book-entry form, and shall exclude investments in mutual funds and unit investment trusts;

- (ii) obligations timely maturing and bearing interest (but only to the extent that the full faith and credit of the United States of America are pledged to the timely payment thereof); and
- (iii) certificates evidencing ownership of the right to the payment of the principal of or interest on obligations described in clause (ii), provided that such obligations are held in the custody of a bank or trust company satisfactory to the Trustee in a segregated trust account in the trust department separate from the general assets of such custodian.

“Governor” shall mean the Governor of the Commonwealth or the Lieutenant Governor of the Commonwealth at any time under the laws of Commonwealth the Lieutenant Governor is permitted to act in the Governor’s stead.

“Hedge Provider” shall mean the counterparty with whom the Commonwealth enters into a Qualified Hedge Agreement.

“Highway Fund” shall mean the Highway Fund of the Commonwealth so designated by Section 34 of Chapter 90 of the General Laws, as amended, or any other fund or account of the Commonwealth or any agency thereof created in replacement thereof.

“Initial Notes” shall mean the 1998A Notes.

“Insured 1998A Notes” shall mean the 1998A Notes maturing on December 15, 2007 and June 15, 2013 and bearing interest at a rate of 5.5% per annum.

“June 15 Debt Service Requirement” shall mean with respect to any period ending on June 15, the Note Debt Service Requirement with respect to all Notes then Outstanding on such June 15.

“Liquidity Facility” shall mean any agreement with a bank, trust company, insurance company, surety company, pension fund or financial institution under which it agrees to purchase Tender Notes.

“Maximum Semi-Annual Debt Service” shall mean \$108 million.

“MBIA” or the “Insurer” shall mean MBIA Insurance Corporation.

“Note Payment Date” shall mean with respect to Notes, other than Variable Rate Notes, each December 15 and June 15, commencing December 15, 1998 and with respect to Variable Rate Notes, the first Business Day of each month commencing with the first month following the date of issuance of such Variable Rate Notes or otherwise as specified in the Applicable Supplemental Trust Agreement for such Variable Rate Notes.

“Noteholder” or “Holder,” when used with reference to Notes, shall mean the Registered Owner of the Notes from time to time as shown on the register for a particular Series of Notes held by the Paying Agent for such Series of Notes.

“Note Debt Service Requirement” shall mean, for any period of calculation or with respect to any date, the aggregate of the interest, principal amount, and Sinking Fund Payments due or to become due other than by reason of redemption or tender for purchase at the option of the Commonwealth or the registered owner of any Notes on all Notes Outstanding during such period or on such date; provided, however, for purposes of this definition, the scheduled principal and interest portions of the Accreted Value of Capital Appreciation Notes and the Appreciated Value of Deferred Income Notes becoming due at maturity or by virtue of Sinking Fund Payments shall be included in the calculations of accrued and unpaid and accruing interest or Principal Installments only during the period in or

date on which such amounts become due for payment, unless otherwise provided in the Applicable Supplemental Trust Agreement authorizing such Capital Appreciation Notes or Deferred Income Notes.

“Note Related Costs” shall mean all costs, fees and expenses of the Commonwealth incurred or related to any Liquidity Facility, Credit Enhancement, Reserve Credit Facility, any remarketing or other secondary market transactions, any fees of Bond Counsel, attorneys, financial advisors, Fiduciaries, remarketing agents, rebate consultants, accountants and others, retained by the Commonwealth in connection with a Series, and any other fees, charges and expenses that may be lawfully incurred by the Commonwealth to a provider of any Credit Enhancement, Liquidity Facility or Reserve Credit Facility, other than amounts paid as the Costs of Issuance for a Series, to repay or reimburse any amounts paid by such provider due to a payment under such Credit Enhancement, Liquidity Facility or Reserve Credit Facility and any interest on such repayment obligation unless any such amount constitutes a Note Debt Service Requirement for such Series.

“Notes” shall mean any of the Notes of the Commonwealth authenticated and delivered under the Trust Agreement.

“Obligation Authority” shall mean the annual limitation on the amount of eligible costs under Title 23 of the United States Code that the Commonwealth may obligate with respect to the Federal Highway Construction Program during a given Federal Fiscal Year, as specified in annual Federal appropriations acts.

“Outstanding,” when used with reference to Notes, shall mean as of a particular date, all Notes theretofore and thereupon being authenticated and delivered except (i) any Note cancelled by the Commonwealth or a Fiduciary at or before said date, (ii) any Note in lieu of or in substitution for which another Note shall have been authenticated and delivered and (iii) Notes deemed to have been paid as described under “Defeasance”.

“Paying Agent” shall mean any paying agent or co-paying agent for Notes of any Series.

“Permitted Investments” shall mean and include any of the following, if and to the extent the same are at the time legal for investment of Commonwealth funds:

- (i) Government Obligations;
- (ii) direct obligations of, or obligations guaranteed as to timely payment of principal and interest by, FHLMC, Fannie Mae or the Federal Farm Credit System;
- (iii) demand and time deposits in or certificates of deposit of, or bankers' acceptances issued by, any bank or trust company, savings and loan association or savings bank, if such deposits or instruments are rated in one of the two highest Rating Categories by any Rating Agency then maintaining a rating on any Notes Outstanding and the long-term unsecured debt obligations of the institution holding the related account are rated in one of the two highest Rating Categories by any Rating Agency then maintaining a rating on any Notes Outstanding;
- (iv) general obligations of, or obligations guaranteed by, any state of the United States or the District of Columbia rated in one of the two highest long-term Rating Categories by any Rating Agency then maintaining a rating on any Notes Outstanding;
- (v) commercial or finance company paper (including both non-interest-bearing discount obligations and interest bearing obligations payable on demand or on a specified date not more than one year after the date of issuance thereof) that is rated in one of the two highest Rating Categories by any Rating Agency then maintaining a rating on any Notes Outstanding;

- (vi) repurchase obligations with respect to any security described in clause (i) or (ii) above entered into with a broker/dealer, depository institution or trust company (acting as principal) meeting the rating standards described in clause (iii) above;
- (vii) securities bearing interest or sold at a discount that are issued by any corporation incorporated under the laws of the United States of America or any state thereof and rated in one of the two highest Rating Categories by any Rating Agency then maintaining a rating on any Notes Outstanding at the time of such investment or contractual commitment providing for such investment; provided, however, that securities issued by any such corporation will not be Permitted Investments to the extent that investment therein would cause the then outstanding principal amount of securities issued by such corporation that are then held to exceed 20% of the aggregate principal amount of all Permitted Investments then held;
- (viii) units of taxable money market funds which funds are regulated investment companies and seek to maintain a constant net asset value per share and have been rated in one of the two highest Rating Categories by any Rating Agency then maintaining a rating on any Notes Outstanding;
- (ix) investment agreements or guaranteed investment contracts rated, or with any financial institution whose senior long-term debt obligations are rated, or guaranteed by a financial institution whose senior long-term debt obligations are rated, at the time such agreement or contract is entered into, in one of the two highest Rating Categories for comparable types of obligations by any Rating Agency then maintaining a rating on any Notes Outstanding;
- (x) investment agreements with a corporation whose principal business is to enter into such agreements if (a) such corporation and the investment agreements of such corporation are each rated in one of the two highest Rating Categories by any Rating Agency then maintaining a rating on any Notes Outstanding and (b) the Commonwealth has an option to terminate each agreement in the event that such rating is downgraded below such two highest Rating Categories; or
- (xi) any agreement providing for the purchase by the Commonwealth or the Trustee of Permitted Investments described above from a financial institution at the time of execution of the agreement, from time to time during the term of the agreement or any combination thereof in exchange for valuable consideration from the financial institution, which consideration may be (a) payable at the time of execution of the agreement, from time to time during the term of the agreement or any combination thereof, (b) expressed in terms of a yield to the Commonwealth or the Trustee on the purchase of such Permitted Investments, (c) an agreement by the financial institution to purchase the Permitted Investments at a price specified in the agreement, or (d) in such other form as the Commonwealth or the Trustee and the financial institution may agree; provided that, a specific written agreement governs the transactions;

provided that no Permitted Investment may (a) evidence the right to receive only interest with respect to the obligations underlying such instrument or (b) be purchased at a price greater than par if such instrument may be prepaid or called at a price less than its purchase price prior to its stated maturity.

“Pledged Revenues” shall mean all Federal Highway Reimbursements received by the Commonwealth and any other moneys deposited to or held for the credit of the Federal Highway Grant Anticipation Note Trust Fund (other than in the Project Fund) so long as any Notes remain Outstanding.

“Policy” shall mean the municipal bond insurance policy issued by MBIA insuring the payment when due of the principal of and interest on the Insured 1998A Notes as provided.

“Principal Installment” shall mean, as of any particular date of computation and with respect to Notes of a particular Series, an amount of money equal to the aggregate of (i) the principal amount of Outstanding Notes of said Series which mature on a single future date, reduced by the aggregate principal amount of such Outstanding Notes which would at or before said future date be retired by reason of the payment when due and application in accordance with the Trust Agreement of Sinking Fund Payments payable at or before said future date for the retirement of such Outstanding Notes, plus (ii) the amount of any Sinking Fund Payment payable on said future date for the retirement of any Outstanding Notes of said Series.

“Qualified Hedge Agreement” shall mean an interest rate exchange or similar agreement between the Commonwealth and a Hedge Provider relating to the Notes and based upon a notional amount, where (i)(a) the Hedge Provider, or the person who guarantees the obligation of the Hedge Provider to make any payments due to the Commonwealth, has unsecured long-term obligations rated, or (b) the hedge agreement itself is rated, in each case as of the date the hedge agreement is entered into, by any Rating Agency then maintaining a rating on the Notes Outstanding in one of the two highest Rating Categories of any such Rating Agency then maintaining a rating on the Notes Outstanding but in no event lower than the Rating Category designated by such Rating Agency for the Notes Outstanding subject to such hedge agreement or (ii) the Commonwealth receives a Rating Confirmation with respect to entering into such agreement.

“Rating Agency” shall mean any of Duff & Phelps Credit Rating Co.; Fitch IBCA, Inc. and Moody’s Investors Service, Inc. and their respective successors or assigns.

“Rating Categories” shall mean rating categories as published by a Rating Agency in its written compilations of ratings and any written supplement or amendment thereto and any such Rating Category shall be determined on the generic rating without regard to any modifiers and, unless otherwise specified or in an Applicable Supplemental Trust Agreement, shall be long term ratings.

“Rating Confirmation” means evidence that no Note rating then in effect from a Rating Agency will be withdrawn or reduced solely as a result of an action to be taken under the Trust Agreement.

“Rebate Fund Requirement” shall mean, as of any date of calculation, an amount equal to the aggregate of the amounts, if any, calculated in accordance with each Applicable Supplemental Trust Agreement authorizing the issuance of a Series of Tax Exempt Notes as the amount required to be maintained in the Rebate Fund with respect to such Notes.

“Refunding Notes” shall mean any of the Notes authorized by the Trust Agreement.

“Registered Owner” or “Owners” shall mean the registered owner of a Note of a particular Series of Notes as shown on the register for such Series of Notes.

“Reimbursement Obligation” shall have the meaning given such term in the Trust Agreement.

“Reserve Credit Facility” shall mean one or more of the following:

- (i) an irrevocable, unconditional and unexpired letter of credit or other financial commitment issued by a banking institution the unsecured long-term obligations of which are rated in one of the two highest Rating Categories by any Rating Agency then maintaining a rating on the Notes Outstanding or, if any such Rating Agency does not maintain a rating on such banking institution, it shall provide a Rating Confirmation, or
- (ii) an irrevocable and unconditional policy or policies of insurance in full force and effect and issued by a municipal bond insurer having a rating in one of the two highest Rating Categories from any Rating Agency then maintaining a rating on the Notes Outstanding, or, if any such Rating Agency does not maintain a rating on such insurer, it shall provide a Rating Confirmation,

in each case providing for the payment of sums for the payment of Principal Installments and interest on Notes in the manner provided under the Trust Agreement.

“Secretaries” shall mean collectively the Secretary of Administration and Finance and the Secretary of Transportation and Construction.

“Secretary of Administration and Finance” shall mean the Secretary of the Executive Office for Administration and Finance of the Commonwealth or any designee acting in the Secretary’s stead.

“Secretary of Transportation and Construction” shall mean the Secretary of the Executive Office of Transportation and Construction of the Commonwealth or any designee acting in the Secretary’s stead.

“Series” when used with respect to less than all of the Notes, shall mean such Notes designated as a Series of Notes pursuant to a Supplemental Trust Agreement.

“Sinking Fund Payment” shall mean, as of any particular date of computation and with respect to Notes of a particular Series, the amount of money required by any Supplemental Trust Agreement to be paid by the Commonwealth on a single future date for the retirement of any Outstanding Notes of said Series which mature after said future date, but does not include any amount payable by the Commonwealth by reason of the redemption of Notes at the election of the Commonwealth.

“State Treasurer” shall mean the Treasurer and Receiver-General of the Commonwealth or any Deputy Treasurer of the Commonwealth acting on the State Treasurer’s behalf.

“Supplemental Trust Agreement” shall mean any Trust Agreement of the Commonwealth amending or supplementing the Trust Agreement adopted and becoming effective in accordance with the terms of the Trust Agreement.

“Tax Exempt Notes” shall mean any Notes accompanied by a Bond Counsel’s opinion upon the original issuance thereof that the interest on such Notes is not includable in the gross income of the holder thereof for Federal income tax purposes.

“Trust Agreement Obligations” shall mean, with respect to any period or date of calculation, the sum of the Note Debt Service Requirement during such period or on such date, plus all Note Related Costs due or to become due during such period or on such date, plus required deposits, if any, to the Rebate Fund and Debt Service Liquidity Account during such period or on such date.

“Trustee” shall mean the trustee appointed in accordance with the Trust Agreement, and its successor or successors and any other corporation which may at any time be substituted in its place pursuant to the Trust Agreement.

### **The Pledge**

There are pledged for the payment of principal and Redemption Price of and interest on the Notes (i) the Pledged Revenues, (ii) all moneys, securities and Reserve Credit Facilities and any investment earnings with respect thereto, in all Funds and Accounts established by or pursuant to the Trust Agreement other than the Project Fund and the Rebate Fund, (iii) any amounts payable to the Commonwealth by a Hedge Provider pursuant to a Qualified Hedge Agreement, and (iv) solely upon the occurrence and during the continuation of a True-up Condition, the Alternative Revenues (collectively, the “Pledged Funds”). The full faith and credit of the Commonwealth has not been pledged to the payment of the Notes.

The Commonwealth may in any Supplemental Trust Agreement pledge any Additional Pledged Funds or portions thereof which the Commonwealth may lawfully pledge to the payment of amounts due under the Trust Agreement. From and after the date of such Supplemental Trust Agreement such amounts shall be deemed part of the Pledged Funds under the Trust Agreement.

## **Trust Agreement to Constitute Contract**

The Trust Agreement constitutes a contract between the Commonwealth and the registered owners from time to time of the Notes, and the pledge made therein and the covenants and agreements therein set forth to be performed by or on behalf of the Commonwealth shall be for the equal benefit, protection and security of the registered owners of any and all of the Notes, all or which, regardless of the time or times of their issue or maturity, shall be of equal rank without preference, priority or distinction of any of the Notes over any other thereof, except as otherwise expressly provided in or permitted by the Trust Agreement.

## **Authorization of Notes**

The Commonwealth is authorized to issue one or more Series of Notes under the Trust Agreement, which Notes may be issued without limitation as to amount except as provided in the Trust Agreement with respect to Additional Notes or as limited by law. The Notes may be issued as Fixed Rate Notes, Variable Rate Notes, Tender Notes, Capital Appreciation Notes, Deferred Income Notes or Discount Notes or any combination thereof.

The Commonwealth may issue Notes ("Variable Rate Notes") which provide for a variable, adjustable, convertible or other similar rates of interest, not fixed as to percentage at the date of issue for the term thereof. Any Variable Rate Notes shall bear a ceiling (the "Variable Rate Ceiling") on the interest payable thereunder.

The Commonwealth may provide that any Series of Notes may include an option exercisable by the registered owners thereof to have such Notes ("Tender Notes") either repurchased or redeemed prior to the maturity thereof. Any Tender Notes must be secured at all times by a Liquidity Facility providing for the repurchase or payment of any tender price of Tender Notes which have not been remarketed upon tender of such Notes and any accrued and unpaid interest due on such Notes upon the tender date thereof. The provider of any such Liquidity Facility shall have a rating on its short term obligations within the highest Rating Category from any Rating Agency then maintaining a rating on the Notes Outstanding.

The Commonwealth may issue Notes ("Discount Notes") which either bear a zero stated rate of interest or bear a stated rate of interest such that such Notes are sold at a price less than the aggregate principal amount thereof in order to provide such yield thereon as deemed appropriate and desirable thereon by the Commonwealth. The Commonwealth may provide for the determination of the "principal amount" and "interest" payable on such Notes. The 1998A Notes maturing on December 15, 2014 and June 15, 2015 are Discount Notes and bear a zero stated rate of interest. For all purposes under the Trust Agreement, the principal amount of such 1998A Notes shall be the \$36,680,000 and \$36,680,000 respectively, less any portion thereof no longer Outstanding.

## **The 1998A Notes**

The 1998A Notes will be issued only upon delivery, among other items, of the following:

(i) A Bond Counsel's opinion with respect to the validity of the 1998A Notes and the enforceability of the pledge under the Trust Agreement;

(ii) A certificate of the State Treasurer stating that a fully executed copy of this Trust Agreement shall have been filed with the State Treasurer as required by the Act; and

(iii) A certificate of an Authorized Officer to the effect that the amount of Federal Highway Reimbursements expected to be received from the date of issuance of the 1998A Notes to the end of the then current Federal Fiscal Year and to be retained in the Revenue Account for the purpose of paying Debt Service on such 1998A Notes will be at least equal to 120% of the Trust Agreement Obligations to be due and payable with respect to the 1998A Notes during the next succeeding Federal Fiscal Year, other than any portion of such Trust Agreement Obligations to be paid from proceeds of the 1998A Notes or other available amounts deposited with the Trustee for such purpose.



## **Additional Notes**

One or more Series of Additional Notes may be issued for the purpose of (i) paying costs of the CA/T Project, (ii) the making of deposits in the Debt Service Fund and the Debt Service Liquidity Account, (iii) the payment of the Costs of Issuance of such Notes, or (iv) any combination of the foregoing.

Additional Notes may be issued only upon the delivery, among other items, of the following:

- (i) A Bond Counsel's opinion with respect to the validity of the Additional Notes and the enforceability of the pledge under the Trust Agreement;
- (ii) A certificate of an Authorized Officer to the effect that the Adjusted Note Debt Service Requirement to be due and payable during any semi-annual period ending on December 15 or June 15 with respect to the Outstanding Notes plus the Additional Notes does not exceed the Maximum Semi-Annual Debt Service or a Rating Confirmation if such Adjusted Note Debt Service Requirement does exceed Maximum Semi-Annual Debt Service;
- (iii) A certificate of an Authorized Officer with respect to the interest to be due on the Additional Notes to substantially the following effect:
  - (A) that the amount of Federal Highway Reimbursements expected to be received from the date of issuance of the Additional Notes to the end of the then current Federal Fiscal Year and to be retained in the Revenue Account for the purposes of paying Debt Service on such Additional Notes will be at least equal to 120% of the Trust Agreement Obligations to be due and payable with respect to the Additional Notes during the next succeeding Federal Fiscal Year, other than any portion of such Trust Agreement Obligations to be paid from proceeds of the Additional Notes or other available amounts deposited with the Trustee for such purpose; and
  - (B) that the Trustee shall have on deposit on the date of issuance of such Additional Notes, either from a portion of the proceeds of such Additional Notes or from other amounts available for such purpose, an amount sufficient to pay the Note Debt Service Requirement payable with respect to the Additional Notes during the remainder of the Federal Fiscal Year in which the Additional Notes are issued;
- (iv) A certificate of an Authorized Officer to the effect that the aggregate net proceeds received by the Commonwealth with respect to all Notes previously issued, other than any Refunding Notes, plus the net proceeds of the Additional Notes does not exceed \$1,500,000,000, or if such aggregate net proceeds do exceed \$1,500,000,000, a Rating Confirmation; and
- (v) A certificate of an Authorized Officer setting forth the Advance Construction Balance as of a date within 30 days of the date of issuance of the Additional Notes and further to the effect that the Commonwealth is in compliance with its covenant pertaining to the Advance Construction Balance.

## **Refunding Notes**

One or more Series of Refunding Notes may be issued for the purpose of refunding all or any part of the Notes of one or more Series Outstanding upon delivery, among other items, of the following:

- (i) An opinion of Bond Counsel as described above under "Additional Notes";

- (ii) A certificate of an Authorized Officer to the effect that the Adjusted Note Debt Service Requirement to be due and payable during any semi-annual period ending on December 15 or June 15 with respect to the Outstanding Notes plus the Refunding Notes does not exceed the Maximum Semi-Annual Debt Service or a Rating Confirmation if such Adjusted Note Debt Service Requirement does exceed Maximum Semi-Annual Debt Service; and
- (iii) An amount of money or Defeasance Obligations sufficient to effect payment at maturity or redemption of the Notes to be refunded.

#### **Creation of Liens; Other Indebtedness**

Except as otherwise expressly provided in the Trust Agreement, the Commonwealth may not issue any Notes, notes or other evidences of indebtedness, other than the Notes, secured by a pledge of or other lien on the Pledged Funds or any other moneys, securities and funds held or set aside by the Commonwealth or by the Fiduciaries under the Trust Agreement, and shall not otherwise create or cause to be created any lien or charge on such Pledged Funds, moneys, securities and funds. The Trust Agreement permits the issuance of other indebtedness secured by a subordinate lien on Pledged Funds, and other indebtedness secured by a lien on that portion of the Gasoline Tax or any other amounts not included as Pledged Funds.

#### **Credit Enhancement Liquidity Facilities**

The Commonwealth may obtain or cause to be obtained Credit Enhancement or a Liquidity Facility providing for payment of all or a portion of the principal, premium, or interest due or to become due on such Notes or providing for the purchase of such Notes or a portion thereof. In connection therewith the Commonwealth may agree with the issuer of such Credit Enhancement or Liquidity Facility to reimburse such issuer directly for amounts paid under the terms of such Credit Enhancement or Liquidity Facility, together with interest thereon. Such reimbursement obligation may be subject to a lien on Pledged Funds on a parity with the lien created under the Trust Agreement.

#### **Qualified Hedge Agreements**

The Commonwealth may from time to time enter into Qualified Hedge Agreements with a Hedge Provider with respect to all or a portion of the Notes of any Series Outstanding. The obligations of the Commonwealth thereunder may be secured by a pledge of the Pledged Funds; provided, however, that such security shall be expressly subordinate to the security for the Notes Outstanding.

Any amounts paid to the Commonwealth pursuant to a Qualified Hedge Agreement shall be deposited in the Revenue Account. Any amounts payable by the Commonwealth under a Qualified Hedge Agreement may be payable from any amounts lawfully available to the State Treasurer for such purpose. Upon the issuance of any Additional Notes or Refunding Notes, the Authorized Officer shall set an interest rate (the "Assumed Hedge Rate") which the Authorized Officer reasonably determines will be the average interest rate which will be payable for the next succeeding twelve consecutive months on the notional amount under any Qualified Hedge Agreement establishing a variable interest rate for Fixed Rate Notes.

#### **Establishment of Funds and Accounts**

The following funds and accounts shall be established and shall be held by the Trustee:

- (i) Redemption Fund;
- (ii) Debt Service Fund;
- (A) June 15 Debt Service Payment Account;

- (B) December 15 Debt Service Payment Account; and
- (C) Defeasance Account
- (iii) Alternative Revenues Fund;
  - (A) Reserve Account; and
  - (B) Debt Service Liquidity Account
- (iv) Note Related Costs Fund; and
- (v) Rebate Fund.

Such funds, except the Rebate Fund, are subject to the pledge created under the Trust Agreement.

The State Treasurer shall establish a Revenue Account to be maintained as part of the Federal Highway Grant Anticipation Note Trust Fund and to be held by the Trustee so long as Notes shall remain Outstanding which Account shall be subject to the pledge created under the Trust Agreement. The State Treasurer shall establish the Project Fund to be maintained as part of the Federal Highway Grant Anticipation Note Trust Fund and to be held by the State Treasurer so long as Notes shall remain Outstanding, which Fund shall not be subject to the pledge created hereby.

#### **Project Fund**

Except as otherwise provided in the Applicable Supplemental Trust Agreement, the State Treasurer shall deposit in the Project Fund the amounts, if any, provided in such Applicable Supplemental Trust Agreement as necessary to pay the Costs of Issuance of such Series and to pay costs of the CA/T Project financed by such Series.

Such amounts shall be applied by the State Treasurer to the payment of the Costs of Issuance of the related Series of Notes, to the extent authorized by an Applicable Supplemental Trust Agreement and otherwise authorized by law and to pay the costs of the CA/T Project for which such Notes have been issued. The State Treasurer may allocate such amounts held to pay the costs of the CA/T Project in accordance with the provisions thereof and the provisions of applicable law. Investment earnings received by the State Treasurer on any proceeds of Notes shall be promptly transferred to the Trustee for deposit in the Revenue Account.

#### **Revenue Account**

The State Treasurer shall deliver to the Trustee within two business days of receipt, commencing with the date of issuance of the Initial Notes, Pledged Revenues collected by the Commonwealth. Immediately upon receipt thereof, the Trustee shall deposit in the Revenue Account all Pledged Revenues paid to the Commonwealth and any other moneys deposited with or paid to the Trustee for application in accordance with the Trust Agreement.

On or before October 10 of each Federal Fiscal Year (or the next following Business Day), the State Treasurer, with the written concurrence of the Secretaries, shall deliver to the Trustee a statement of available revenues with respect to said Federal Fiscal Year (the "Statement of Available Revenues"), which shall set forth the amount of Federal Highway Reimbursements expected to be received by the Commonwealth during such Federal Fiscal Year and shall be based upon such information as the State Treasurer shall deem relevant, including without limitation, information obtained from the Executive Office for Administration and Finance and the Executive Office of Transportation and Construction. The Statement of Available Revenues shall set forth (i) the amount of Federal Highway Reimbursements expected to be received by the Commonwealth for the then current Federal Fiscal Year, (ii) any deficiency in any Funds and Accounts with respect to Trust Agreement Obligations due and payable in the then current Federal Fiscal Year, and (iii) the Trust Agreement Obligations then expected to be due and payable during the following Federal Fiscal Year. The statement of Trust Agreement Obligations shall set forth separate amounts for the Note Debt Service Requirement, the aggregate Note Related Costs expected to be due and payable

during such period and deposits, if any, to the Rebate Fund and Debt Service Liquidity Account. The State Treasurer, with the written concurrence of the Secretaries, shall from time to time promptly deliver to the Trustee a revised Statement of Available Revenues upon receipt of notice or knowledge of any changed circumstance that would, in the judgment of the State Treasurer, materially change the prior Statement of Available Revenues.

Notwithstanding any other provision of the Trust Agreement to the contrary, if the Statement of Available Revenues includes any deficiency in any Fund or Account with respect to Trust Agreement Obligations due and payable in the then current Federal Fiscal Year, all Federal Highway Reimbursements received from and after the date of such Statement of Available Revenues shall be applied first to satisfy any such deficiency. For purposes of the Trust Agreement, the amount of Federal Highway Reimbursements expected to be received by the Commonwealth for any Federal Fiscal Year shall be net of the amount of any deficiency (whether or not such deficiency has been satisfied) set forth in a Statement of Available Revenues.

If the Statement of Available Revenues projects that (i) the amount of Federal Highway Reimbursements expected to be received by the Commonwealth during the current Federal Fiscal Year shall be equal to or greater than one hundred twenty percent (120%) of the Trust Agreement Obligations due during the following Federal Fiscal Year, then the Trustee shall, at the direction of the State Treasurer, transfer to the State Treasurer, Federal Highway Reimbursements received by it during the period beginning on the later of October 10 and the date of delivery of the Statement of Available Revenues and ending on the earlier of December 15 and the date on which the difference between the amount of Federal Highway Reimbursements expected to be received by the Commonwealth during the then current Federal Fiscal Year, as set forth in the most recent Statement of Available Revenues delivered to the Trustee, minus the amount of Federal Highway Reimbursements received by the Commonwealth to date in such Federal Fiscal Year shall equal 120% of the Trust Agreement Obligations due in the following Federal Fiscal Year, as set forth in the most recent Statement of Available Revenues delivered to the Trustee, in the amounts and at the times specified, for application as permitted by law, free and clear of the lien of the Trust Agreement.

If the certification described in the immediately preceding paragraph has been given, commencing on the earlier of the December 15 following delivery of such certification and the date on which the difference between the amount of Federal Highway Reimbursements expected to be received by the Commonwealth during the then current Federal Fiscal Year, as set forth in the most recent Statement of Available Revenues delivered to the Trustee, minus the amount of Federal Highway Reimbursements received by the Commonwealth to date in such Federal Fiscal Year shall equal 120% of the Trust Agreement Obligations due in the following Federal Fiscal Year, as set forth in the most recent Statement of Available Revenues delivered to the Trustee, the Trustee shall then transfer all Federal Highway Reimbursements received by it from the Revenue Account first to the December 15 Debt Service Account until the amount therein shall equal the December 15 Debt Service Requirement in such following Federal Fiscal Year and second, in the following order, to the Note Related Costs Fund, the Rebate Fund and the Debt Service Liquidity Account, until the date on which all Trust Agreement Obligations to be due and payable on or prior to December 15 in the following Federal Fiscal Year, as set forth in the most recent Statement of Available Revenues delivered to the Trustee, shall have been provided for. From and after such date until the earlier of the following June 14 of such Federal Fiscal Year and the date on which the difference between the Federal Highway Reimbursements expected to be received by the Commonwealth during the then current Federal Fiscal Year, as set forth in the most recent Statement of Available Revenues delivered to the Trustee, minus the amount of Federal Highway Reimbursements received by the Commonwealth to date in such Federal Fiscal Year, shall equal 120% of the Trust Agreement Obligations payable after December 15 of the next succeeding Federal Fiscal Year, as set forth in the most recent Statement of Available Revenues delivered to the Trustee, the Trustee shall, at the direction of the State Treasurer, transfer Federal Highway Reimbursements received by it during such period to the State Treasurer, in the amounts and at the times specified, for application as permitted by law, free and clear of the lien of the Trust Agreement. Commencing on the earlier of the June 15 following delivery of such certification and the date on which the difference between the Federal Highway Reimbursements expected to be received by the Commonwealth during the then current Federal Fiscal Year, as set forth in the most recent Statement of Available Revenues delivered to the Trustee, minus the amount of Federal Highway Reimbursements received by the Commonwealth to date in such Federal Fiscal Year, shall equal 120% of the Trust Agreement Obligations payable after December 15 of the next succeeding Federal Fiscal Year, as set forth in the most recent Statement of Available Revenues delivered to the Trustee, the Trustee shall then transfer all Federal Highway Reimbursements received by it from the Revenue Account first to the June 15 Debt Service Account until the amount therein shall equal the June 15 Debt

Service Requirement in such following Federal Fiscal Year and second, in the following order, to the Note Related Costs Fund, the Rebate Fund and the Debt Service Liquidity Account, until the date on which all Trust Agreement Obligations to be due and payable in the following Federal Fiscal Year shall have been provided for. From and after such date until the following September 30, the Trustee shall, at the direction of the State Treasurer, transfer Federal Highway Reimbursements received by it during such period to the State Treasurer, in the amounts and at the times specified, for application as permitted by law, free and clear of the lien of the Trust Agreement.

If the Statement of Available Revenues projects that the amount of Federal Highway Reimbursements expected to be received by the Commonwealth during the current Federal Fiscal Year shall be less than one hundred twenty percent (120%) of the Trust Agreement Obligations due during the following Federal Fiscal Year, then the Trustee shall transfer all Federal Highway Reimbursements received by it thereafter from the Revenue Account first to the December 15 Debt Service Account until the amount therein shall equal the December 15 Debt Service Requirement, second, to the June 15 Debt Service Account until the amount therein shall equal the June 15 Debt Service Requirement and third, in the following order, to the Note Related Costs Fund, the Rebate Fund and the Debt Service Liquidity Account, until the date on which all Trust Agreement Obligations to be due and payable in the following Federal Fiscal Year, as set forth in the most recent Statement of Available Revenues delivered to the Trustee, shall have been provided for.

Notwithstanding the foregoing, if on October 1 of any Federal Fiscal Year and so long as the Trustee shall not have received any certification required to be delivered to it with respect to such Federal Fiscal Year, the Trustee shall retain all Federal Highway Reimbursements until such time as the required certification is delivered, at which time the Trustee may transfer amounts then held by it in accordance with such certification as if such certification had been delivered at the required time. In addition, during the continuance of an Event of Default, the Trustee shall retain all Pledged Revenues until such time as the Event of Default is cured or waived, at which time the Trustee may transfer amounts then held by it as permitted by the Trust Agreement as if such Event of Default had not occurred.

Notwithstanding anything in the Trust Agreement to the contrary, if on any December 15 or June 15 the Trustee holds funds in the Revenue Account and the amount then held in the December 15 Debt Service Account or the June 15 Debt Service Account, as applicable, is less than the December 15 Debt Service Requirement or the June 15 Debt Service Requirement, as applicable, the Trustee shall immediately transfer all or any portion of the balance then held first, in the Revenue Account and second, in the other Debt Service Account, to the applicable Debt Service Account in order to cause the balance therein to equal the December 15 Debt Service Requirement or June 15 Debt Service Requirement, as applicable.

At any time the State Treasurer, with the written concurrence of the Secretaries, may direct the Trustee to transfer an amount of Federal Highway Reimbursements and any other available funds then on deposit in the Revenue Account and otherwise available to be transferred to the State Treasurer free and clear of the lien of the Trust Agreement, to the Redemption Fund or the Defeasance Account for the purpose of redeeming or defeasing the principal amount of Notes Outstanding as set forth in said certificate, provided, however, that on and after July 1, 2002, except to the extent necessary to pay Trust Agreement Obligations due and payable in any Commonwealth Fiscal Year, no more than fifty percent (50%), or such other percentage as may be permitted by law, of the amount apportioned by law to the Commonwealth in any Federal Fiscal Year with respect to the Federal Highway Construction Program shall be applied in the Commonwealth Fiscal Year ending on June 30 of such Federal Fiscal Year or in the Commonwealth's Fiscal Year, commencing on July 1<sup>st</sup> of such Federal Fiscal Year to the payment of Trust Agreement Obligations, including without limitation, the payment or defeasance prior to maturity of the principal of and interest on Notes Outstanding. Except in connection with the redemption or defeasance of any Notes as a result of the conversion of a portion of the Advance Construction Balance, any transfer of Federal Highway Reimbursements to either the Redemption Fund or Defeasance Account shall be revocable by the State Treasurer until the later of (i) June 20 of the Commonwealth Fiscal Year in which such transfer was made and (ii) the date on which the State Treasurer shall deliver to the Trustee a notice of redemption or defeasance specifying the principal amount of Notes to be redeemed or defeased and, if applicable, the redemption date of such Notes (the "Notice of Redemption or Defeasance"), at which time such transfer shall be irrevocable.

The Trustee is authorized to accept at any time from the State Treasurer, in addition to Pledged Funds, any other moneys certified by the State Treasurer to be lawfully available for carrying out or satisfying any purpose

under the Trust Agreement. The Trustee shall deposit such moneys in the Fund or Account, as the State Treasurer may direct, and, provided no Event of Default shall then be occurring under the Trust Agreement and the amounts then held in the Debt Service Accounts, the Debt Service Liquidity Account, the Rebate Fund and the Note Related Costs Fund are at least equal to the applicable amounts then specified in the Trust Agreement, the Trustee shall transfer such amount as the State Treasurer may direct, but not in excess of the amount received from the State Treasurer, to the State Treasurer, for application as permitted by law, free and clear of the lien of the Trust Agreement.

### **Debt Service Fund**

The Trustee shall pay out of the applicable Debt Service Account in the Debt Service Fund to the respective Paying Agents for any Notes (i) the amount required for the interest and Principal Installments payable on the interest payment date and (ii) the amount required for the payment of interest and Redemption Price on the Notes then to be redeemed. If the amount accumulated in the applicable Debt Service Account in the Debt Service Fund is insufficient to make the payment due from such Account for either of the purposes specified above, the Trustee shall transfer any available amount in the other Debt Service Account to the extent necessary to make up the deficiency. Amounts accumulated in the applicable Debt Service Account in the Debt Service Fund with respect to any Sinking Fund Payment (together with amounts accumulated therein with respect to interest on the Notes for which such Sinking Fund Payment was established) may be applied prior to the forty-fifth (45th) day preceding the due date of such Sinking Fund Payment to (i) the purchase of Notes of the Series and maturity for which such Sinking Fund Payment was established, at prices not exceeding the applicable sinking fund Redemption Price plus interest on such Notes to the first date on which such Notes could be redeemed (or in the case of a Sinking Fund Payment due on the maturity date, the principal amount thereof plus interest to such date), such purchases to be made in such manner as the State Treasurer shall arrange, or (ii) the redemption of such Notes then redeemable by their terms. The applicable Redemption Price or principal amount (in the case of maturing Notes) of any Notes so purchased or redeemed shall be deemed to constitute part of the applicable Debt Service Account in the Debt Service Fund until such Sinking Fund Payment date for the purpose of calculating the amount of such Fund.

In satisfaction, in whole or in part, of any amount required to be paid into the Debt Service Fund which is attributable to a Sinking Fund Payment, there may be delivered on behalf of the Commonwealth to the Trustee Notes of the Series and maturity entitled to such payment. All Notes so delivered to the Trustee in satisfaction of a Sinking Fund Payment shall reduce the amount thereof by the amount of the aggregate of the sinking fund Redemption Prices of such Notes.

### **Redemption Fund**

The Commonwealth may deposit in the Redemption Fund any moneys, including Pledged Funds, not otherwise required by the Trust Agreement to be otherwise deposited or applied. If at any time the amount on deposit and available therefor in the Debt Service Fund is insufficient to pay the principal and Redemption Price of and interest on the Notes then due, the Trustee shall withdraw from the Redemption Fund and deposit in the applicable Debt Service Account in the Debt Service Fund the amount necessary to meet the deficiency (other than amounts held therein for the redemption of Notes for which a notice of redemption shall have been given). Subject to the foregoing, amounts in the Redemption Fund may be applied by the Commonwealth to the redemption of Notes at prices not exceeding the applicable Redemption Prices (plus accrued interest) had such Notes been redeemed (or, if not then subject to redemption, at the applicable Redemption Prices when next subject to redemption), such purchase to be paid for by the Trustee at such times and in such manner as arranged and directed by an Authorized Officer.

### **Alternative Revenues**

Not later than December 15 of each year, the State Treasurer, after consultation with the Secretaries, shall certify to the Governor, the Speaker of the House, the President of the Senate and the Trustee (i) the aggregate amount appropriated by law from the Federal Highway Trust Fund for the purposes of carrying out the provisions of Title 23 of the United States Code with respect to federal-aid highways for the then current Federal Fiscal Year and (ii) the projected Debt Service Coverage Ratio for the following Commonwealth Fiscal Year. If (i) the amount of federal appropriations so certified is less than \$17.1 billion and (ii) such projected Debt Service Coverage Ratio is

less than 120% (the combination of the conditions specified in clauses (i) and (ii), while both such conditions persist, is referred to as a "True-Up Condition"), the Governor shall include in the operating budget to be submitted to the General Court in accordance with Section 7H of Chapter 29 of the General Laws a recommendation to appropriate an amount equal to the Trust Agreement Obligations to be due in said Commonwealth Fiscal Year, less the sum of (x) the amount of any available funds on deposit in the Federal Highway Grant Anticipation Note Trust Fund, the Debt Service Fund and the Note Related Costs Fund as of the date of the certification of the State Treasurer, minus (y) the portion of such amounts expected to be expended prior to the beginning of said Commonwealth Fiscal Year on Trust Agreement Obligations due in the current Commonwealth Fiscal Year, plus (z) any amount of Federal Highway Reimbursements expected to be received prior to the beginning of said Commonwealth Fiscal Year that will not be expended prior to the beginning of said Commonwealth Fiscal Year.

At any time prior to the enactment of the General Appropriation Act, the State Treasurer shall, if necessary, after consultation with the Secretaries, supplement the certification referenced in the immediately preceding paragraph to reflect any changed circumstances known to the State Treasurer with respect to the amount of Federal Highway Reimbursements expected to be available to pay Trust Agreement Obligations in the applicable Commonwealth Fiscal Year. Such certification shall be made promptly after the State Treasurer becomes aware of any changed circumstances that are material to such amount.

If the certifications specified in the two immediately preceding paragraphs were given and indicated a need for an appropriation of funds by the General Court, then, unless the State Treasurer, after consultation with the Secretaries, certifies to the Governor, the Speaker of the House, the President of the Senate and the Trustee no later than July 20 of each Commonwealth Fiscal Year that the amount of funds in the Federal Highway Grant Anticipation Note Trust Fund, the Debt Service Fund and the Note Related Costs Fund as of the end of the immediately preceding Commonwealth Fiscal Year is sufficient to pay the Trust Agreement Obligations due during the then current Commonwealth Fiscal Year, the Alternative Revenues received during and after the current Commonwealth Fiscal Year shall, as provided in the Trust Agreement, be deposited with the Trustee in the Reserve Account promptly upon receipt by the Commonwealth and applied thereafter as further provided in the Trust Agreement, all as described below under "Alternative Revenues Fund;" provided that notwithstanding any provision of the Trust Agreement to the contrary, in the event the Trustee holds an amount under the Trust Agreement during any Commonwealth Fiscal Year at least equal to the Trust Agreement Obligations due and payable during such Commonwealth Fiscal Year, which amount is available for paying such Trust Agreement Obligations without any further appropriation or other legislative approval, the State Treasurer shall no longer be required to pay Alternative Revenues to the Trustee pursuant to the Trust Agreement during the remainder of such Commonwealth Fiscal Year.

Notwithstanding the foregoing provisions to the contrary, in the event an appropriation is enacted into law with respect to any Commonwealth Fiscal Year from any available funds of an amount sufficient, together with other available funds in the Federal Highway Grant Anticipation Note Trust Fund as of the end of the immediately preceding Commonwealth Fiscal Year to pay the Trust Agreement Obligations due and payable during said Commonwealth Fiscal Year, the State Treasurer may, to the extent permitted under the Trust Agreement, deposit the amount of such appropriation with the Trustee and direct the Trustee to transfer all or any portion of the Alternative Revenues then on deposit in the Reserve Account in the Alternative Revenues Fund to the State Treasurer for credit to the Highway Fund to be applied as provided by law; provided that no such transfer shall be made unless and until the amount then held by the Trustee under the Trust Agreement is sufficient to pay all Trust Agreement Obligations during said Commonwealth Fiscal Year.

#### **Alternative Revenues Fund**

If Alternative Revenues are required to be deposited with the Trustee, the Commissioner of Revenue shall deliver to the Trustee within eight (8) business days after the end of each month, commencing with the end of July in the applicable Commonwealth Fiscal Year, a certificate stating the amount of Alternative Revenue collected by the Commonwealth during such month. Such amount shall be paid by the State Treasurer to the Trustee within two (2) business days thereafter from amounts credited to the Highway Fund and deposited by the Trustee in the Reserve Account and applied as set forth below.

If Alternative Revenues are required to be deposited with the Trustee, and so long as the Act or other applicable law shall require that the expenditure of Alternative Revenues is subject to appropriation for the purposes

described below, at the beginning of each Commonwealth Fiscal Year after the adoption of the operating budget for the Commonwealth for such Commonwealth Fiscal Year, the Secretary of Administration and Finance and the State Treasurer shall certify to the Trustee the amount appropriated for such Fiscal Year for payment of the following amounts:

- (i) the Note Debt Service Requirement for such Fiscal Year;
- (ii) that portion of the Debt Service Liquidity Account Requirement, if any, to be funded during such Commonwealth Fiscal Year;
- (iii) the Note Related Costs, if any, for such Fiscal Year; and
- (iv) the Rebate Fund Requirement, if any, for such Fiscal Year.

If amounts are appropriated for such purposes as an aggregate sum, such sum shall be allocated in the order set forth above for the amounts set forth above and such certificate shall set forth such allocation. To the extent additional amounts are appropriated during a Commonwealth Fiscal Year for any such purpose, the Secretary of Administration and Finance and the State Treasurer shall also certify to the Trustee the amount of any such supplemental appropriation. The aggregate amounts appropriated for each such purpose shall be referred to as an "Appropriated Amount" for such purpose.

If Alternative Revenues are required to be deposited with the Trustee, the Trustee shall promptly transfer within two (2) Business Days of receipt from amounts available in the Reserve Account to the following Funds and in the following order:

- (i) To the December 15 Debt Service Account, an amount which together with other amounts on deposit in such Account, will equal the December 15 Debt Service Account Requirement; provided, however, that the aggregate amount deposited therein during a Commonwealth Fiscal Year shall not exceed the Appropriated Amount during such Commonwealth Fiscal Year for such purpose unless the State Treasurer shall certify to the Trustee that deposits of such amount shall not then be subject to appropriation;
- (ii) to the June 15 Debt Service Account an amount which together with other amounts on deposit in such Account, will equal the June 15 Debt Service Requirement; provided, however, that the aggregate amount deposited therein during a Commonwealth Fiscal Year shall not exceed the Appropriated Amount during such Commonwealth Fiscal Year for such purpose unless the State Treasurer shall certify to the Trustee that deposits of such amounts shall not then be subject to appropriation;
- (iii) To the Debt Service Liquidity Account, an amount equal to any amount necessary to cause the amount on deposit therein to equal the Funded Debt Service Liquidity Account Requirement; provided, that the aggregate amount deposited in the Debt Service Liquidity Account during a Commonwealth Fiscal Year shall not exceed the Appropriated Amount during such Commonwealth Fiscal Year for such purpose unless the State Treasurer shall certify in writing to the Trustee that any deposits of any such amounts shall not be subject to appropriation;
- (iv) to the Note Related Costs Fund, at such times and in such amounts, if any, as determined by the State Treasurer or otherwise set forth in an Applicable Supplemental Trust Agreement as necessary to pay Note Related Costs; provided, however, that the aggregate amount deposited therein during a Commonwealth Fiscal Year shall not exceed the Appropriated Amount during such Commonwealth Fiscal Year unless the State Treasurer shall Certify to the Trustee that deposits of such amounts shall not then be subject to appropriation;



- (v) To the Rebate Fund, the amount of the Rebate Fund Requirement, if any, determined in accordance with an Applicable Supplemental Trust Agreement; provided, however, that the aggregate amount deposited therein during a Commonwealth Fiscal Year shall not exceed the Appropriated Amount during such Commonwealth Fiscal Year unless the State Treasurer shall certify to the Trustee that deposits of such amounts shall not then be subject to appropriation.

Upon deposit of the amounts described above and so long as there shall be Appropriated Amounts sufficient to pay the amounts set forth in subparagraphs (i) and (ii) above (if such appropriations shall be required by the Act or other provisions of law), the balance on deposit in the Reserve Account (less any amounts required to be deposited under subparagraphs (iii), (iv) and (v) above for which there are not sufficient Appropriated Amounts) shall be transferred by the Trustee on the last business day of each month to the State Treasurer free and clear of the lien of the Trust Agreement and may be thereupon applied to any purpose permitted by law.

If at any time after Alternative Revenues are required to be deposited with the Trustee, the amounts on deposit and available therefor in the Debt Service Fund, the Note Related Costs Fund or the Redemption Fund are insufficient to pay the principal, the Redemption Price of, and interest on the Notes then due, the Trustee shall withdraw from the Debt Service Liquidity Account and deposit in the applicable Debt Service Account in the Debt Service Fund the amount necessary to meet the deficiency. Amounts so withdrawn from the Debt Service Liquidity Account shall be derived, first, from cash or Permitted Investments on deposit therein and, second, from draws or demands on Reserve Credit Facilities held as a part thereof upon the terms and conditions set forth in any such Reserve Credit Facility or as set forth in the Applicable Supplemental Trust Agreement setting forth such Reserve Credit Facility. If the Trustee shall draw on any cash or Permitted Investments and Reserve Credit Facilities in the Debt Service Liquidity Account, any amounts paid to the Trustee to replenish the amounts drawn shall be paid first pro rata to the providers of the Reserve Credit Facilities as authorized under a Supplemental Trust Agreement and, second, shall be deposited therein as a cash deposit.

If on any interest payment date, the amount on deposit in the Debt Service Liquidity Account is in excess of the Funded Debt Service Liquidity Account Requirement (calculated as of such interest payment date after the payment of the amount due on such date for the interest and Principal Installments on all Notes Outstanding), the Trustee shall transfer such excess from the Debt Service Liquidity Account, to the State Treasurer free and clear of the lien of the Trust Agreement and such amount may be thereupon applied to any purpose permitted by law.

Whenever the Trustee shall determine that the amount of cash and Permitted Investments on deposit in the Debt Service Liquidity Account, together with all other funds available for the purpose, is equal to or in excess of the Redemption Price of all Notes Outstanding, the Trustee, at the direction of an Authorized Officer, shall transfer the balance of such cash and Permitted Investments from the Debt Service Liquidity Account to the Redemption Fund in connection with the redemption of all Notes Outstanding.

At any time, the Trustee shall, upon the written direction of an Authorized Officer, transfer any amount in the Debt Service Liquidity Account to the Note Related Costs Fund in exchange for one or more Reserve Credit Facilities with aggregate stated and unpaid amounts not less than the amount so transferred.

Notwithstanding any provision in the Trust Agreement to the contrary, in no event shall Alternative Revenues be applied in any Commonwealth Fiscal Year to any purpose specified in the Trust Agreement in excess of the Appropriated Amount for such purpose during such Fiscal Year, unless the State Treasurer shall certify in writing to the Trustee that any such application shall not be subject to appropriation.

#### **Note Related Costs Fund**

The amount on deposit and available in the Note Related Costs Fund shall be applied by the Trustee to the payment of Note Related Costs at the times and in the amounts as directed from time to time by an Authorized Officer.

If at any time the amount on deposit and available therefor in the Debt Service Fund is insufficient to pay the principal and Redemption Price of and interest on the Notes then due, the Trustee shall withdraw from the Note Related Costs Fund, after withdrawal of amounts described above, and deposit in the applicable Debt Service Account in the Debt Service Fund the amount necessary to meet such deficiency; provided, however, that the aggregate of such amount deposited therein from Alternative Revenues shall not in any Commonwealth Fiscal Year, together with all other amounts deposit therein during such Commonwealth Fiscal Year, exceed the Appropriated Amount for the purpose of paying the principal and Redemption Price of and interest due on the Notes Outstanding during such Commonwealth Fiscal Year.

Upon the certification of an Authorized Officer and all Fiduciaries that all Note Related Costs have been paid, any balance in the Note Related Costs Fund shall be paid by the Trustee to the State Treasurer free and clear of the lien created under the Trust Agreement and such amounts shall be applied to any purposes permitted by law.

### **Investments**

Except as otherwise described below under "Defeasance", money held for the credit of any Fund or Account under the Trust Agreement shall be invested in Permitted Investments which shall mature or be redeemable at the option of the holder thereof, on such dates and in such amounts as may be necessary to provide moneys to meet the payments required to be made from such Funds and Accounts. Amounts on deposit in the Debt Service Fund, the Debt Service Reserve Fund or the Reserve Account may only be invested in Permitted Investments of the type described in subparagraphs (i), (ii), (iii), (iv), (vi), (vii), (ix) or (xi) of the definition of Permitted Investments. Amounts on deposit in the Debt Service Liquidity Account or the Reserve Account may not be invested in any such Permitted Investments which mature or are otherwise not redeemable at the option of the holder after the next succeeding Note Payment Date following the purchase thereof. Any income from Permitted Investments may be transferred to the Rebate Fund to the extent required by an Applicable Supplemental Trust Agreement.

In computing the amount in any Fund or Account for any purpose, Permitted Investments shall be valued at amortized cost. Unless otherwise provided in the Trust Agreement, Permitted Investments in any fund or account thereunder shall be valued at least once in each Commonwealth Fiscal Year on the last day thereof. Notwithstanding the foregoing, Permitted Investments in the Debt Service Liquidity Account shall be valued at amortized cost for all purpose of the Trust Agreement unless and until a withdrawal from such Account shall be required, in which event such investments shall thereafter be valued at amortized cost or market, whichever is lower, until the balance in such Account, on the basis of such valuation, shall equal the Funded Debt Service Liquidity Account Requirement.

### **Powers as to Notes and Pledge**

The Commonwealth represents in the Trust Agreement that it is duly authorized under the Act and all applicable laws to create and issue Notes thereunder and to enter into the Trust Agreement and to pledge the Pledged Funds in the manner and to the extent therein provided. The Commonwealth covenants that the Pledged Funds are and will be free and clear of any pledge, lien, charge or encumbrance thereon with respect thereto prior to, or of equal rank with, the pledge created by the Trust Agreement. The Commonwealth agrees at all times, to the extent permitted by law, to defend, preserve and protect the pledge of the Pledged Funds and all the rights of the Noteholders under the Trust Agreement against all claims and demands of all persons whomsoever.

### **Extension of Payment of Notes**

The Commonwealth agrees not to directly or indirectly extent or asset to the extension of the maturity of any of the Notes or the time of payment of claims for interest by the purchase or funding of such Notes or claims for interest or by any other arrangement and in case the maturity of any of the Notes or the time for payment of any such claims for interest shall be extended, such Notes or claims for interest shall not be entitled, in case of any default under the Trust Agreement to the benefit of the Trust Agreement or to any payment out of any assets of the Commonwealth or the funds (except funds held in trust for the payment of particular Notes or claims for interest pursuant to the Trust Agreement) held by the Fiduciaries, except subject to the prior payment of the principal of all Notes issued and Outstanding the maturity of which has not been extended and of such portion of the accrued interest on the Notes as shall not be represented by such extended claims for interest. The Commonwealth may issue Refunding Notes and such issuance shall not be deemed to constitute an extension of maturity of Notes.

## **Covenants as to Pledged Funds and Federal Highway Grant Anticipation Note Trust Fund**

In accordance with Section 10D of the Act, so long as any Notes shall remain Outstanding, and so long as any Trust Agreement Obligations shall remain unpaid, the Commonwealth covenants that (i) Federal Highway Reimbursements shall not be diverted from the purposes identified in the Act and in the Trust Agreement (except as provided in the Trust Agreement) nor shall the trusts with which they are impressed be broken, and the pledge and dedication in trust of such funds shall continue unimpaired and unabrogated, (ii) in any Commonwealth Fiscal Year with respect to which the certifications referenced in the Trust Agreement were given and indicated a need for an appropriation of funds by the General Court, unless and until such an appropriation has been made or an amount is otherwise made available which is sufficient to pay the Trust Agreement Obligations due during said Commonwealth Fiscal Year, no receipts derived from the portion of the Gasoline Tax equal to ten cents (\$0.10) per gallon, other than any amount of such tax pledged to the payment of special obligation bonds of the Commonwealth pursuant to section 20 of chapter 29 of the General Laws, shall be applied to any use other than the payment of such Trust Agreement Obligations, (iii) until the State Treasurer, after consultation with the Secretary of Administration and Finance and the Secretary of Transportation and Construction, determines that available funds in the Federal Highway Grant Anticipation Note Trust Fund and all Funds and Accounts established under the Trust Agreement, as of the date of such determination, will be sufficient to pay all Trust Agreement Obligations with respect to such Notes, the rate of the Gasoline Tax shall not be reduced below the sum of ten cents per gallon plus any amount pledged to the payment of special obligation bonds of the Commonwealth pursuant to section 20 of chapter 29 of the General Laws and (iv) at least ten cents of said Gasoline Tax shall remain free and clear of any superior or equal pledge, lien, charge or encumbrance thereon or with respect thereto (other than the pledge securing the Trust Agreement Obligations) and shall remain credited to the Highway Fund, except as permitted by the Trust Agreement; provided, however, that any such funds shall be available for appropriation in any Commonwealth Fiscal Year for any other lawful purpose unless the State Treasurer shall have provided the certification specified in Section 10C of the Act and the Trust Agreement to the effect that a True-Up Condition shall be in effect.

## **Advance Construction Balance**

The Commonwealth covenants that, except to the extent otherwise required by applicable federal law or regulations, so long as any Notes remain Outstanding, it will not cause or permit the Advance Construction Balance, as of any date of calculation, to be less than the principal amount of Notes Outstanding as of such date, after taking into account the principal amount of Notes, if any, to be paid, defeased or redeemed as a result of the conversion on such date of a portion of the Advance Construction Balance to Obligation Authority and taking into account any funds then on deposit in the Debt Service Fund and Redemption Fund to be applied to pay the principal of any Notes then Outstanding, as certified by the State Treasurer to the Trustee at the time of such conversion. The Executive Office of Transportation and Construction, acting on behalf of itself and the Massachusetts Highway Department, covenants that it shall not cause or permit the Advance Construction Balance to be converted to Obligation Authority without the prior written concurrence of the Secretary of Administration and Finance and the State Treasurer, provided, however, that such concurrence shall not be required if the portion of the remaining Advance Construction Balance that relates solely to projects under the Federal Highway Construction Program on which the Commonwealth has already, as of the date of such conversion, paid or advanced funds and with respect to which the Commonwealth would be entitled to immediate reimbursement from the Federal government if such portion of the Advance Construction Balance could be converted to Obligation Authority, is at least equal to the principal amount of Notes Outstanding, without taking into account any payment, redemption or defeasance of Notes as a result of such conversion, less the amount then held in the Project Fund to pay costs of the CA/T Project. At the time of any conversion of the Advance Construction Balance that requires such concurrence of the Secretary of Administration and Finance and the State Treasurer, the State Treasurer shall deliver to the Trustee a certificate specifying the amount of the conversion and the amount, if any, of Federal Highway Reimbursements related thereto to be applied to the payment, redemption or defeasance of any portion of the principal of the Notes Outstanding, and, if applicable, the redemption date or effective date of defeasance of any Notes Outstanding. At the time of transfer of the Federal Highway Reimbursements related to the conversion of the Advance Construction Balance to the Trustee, the State Treasurer shall identify the Federal Highway Reimbursements as such, and direct the Trustee to deposit the Federal Highway Reimbursements into the applicable Debt Service Account, Redemption Fund or Defeasance Account, and the Trustee is authorized to accept and follow such directions.

## **Tax Covenants; Rebate Fund**

The Commonwealth shall take, or require to be taken, such action as may from time to time be required to assure the continued exclusion of interest on any Series of Tax Exempt Notes from the federal gross income of holders of any Series of Tax Exempt Notes. The Commonwealth shall not permit the investment or application of the proceeds of any Series of Tax Exempt Notes, including any funds considered proceeds within the meaning of Section 148 of the Code, to be used to acquire any investment property the acquisition of which, would cause such indebtedness to be "arbitrage Notes" within the meaning of said Section 148. The Commonwealth shall establish within the Rebate Fund a separate account within the Rebate Fund for such Series and may provide in the Applicable Supplemental Trust Agreement for the deposits of amounts therein to pay "rebate" on the investment of amounts under the Trust Agreement in accordance with Section 148(f) of the Code. Funds on deposit in the Rebate Fund shall be applied as set forth in the Applicable Supplemental Trust Agreement. The Rebate Fund and the amounts on deposit therein shall not be deemed Pledged Funds under the Trust Agreement.

## **Limitation on Covenants**

Notwithstanding any provision of the Trust Agreement to the contrary, any provisions of the Act creating covenants with Noteholders shall be deemed a covenant with the Noteholders only to the extent expressly provided and as limited by the Trust Agreement.

## **Bond Insurance**

Notwithstanding anything in the Trust Agreement to the contrary, for so long as the Policy shall be in full force and effect and provided that the Insurer shall not have defaulted and is not continuing to default in its obligations under the Policy:

(a) the Insurer shall be deemed to be the sole owner of all Insured 1998A Notes for all purposes of the provisions in the Trust Agreement relating to default by the Commonwealth and actions for protection of the Holders of the 1998A Notes, and

(b) the Insurer shall be deemed to be the sole owner of Insured 1998A Notes at all times for the purpose of giving consent and direction when consent of the Holders of the Insured 1998A Notes is required by the Trust Agreement, other than for the purpose of making amendments which pursuant to the Trust Agreement require the unanimous written consent of the affected Holders of the Insured 1998A Notes.

## **Events of Default**

One or more of the following events shall constitute an Event of Default under the Trust Agreement:

- (i) if default shall be made in the payment of the principal or Redemption Price of any Note when due, whether at maturity or by call for mandatory redemption or redemption or purchase at the option of the Commonwealth or any registered owner, or otherwise, or in the payment of any Sinking Fund Payment when due; or
- (ii) if default shall be made in the payment of any installment of interest on any Note when due; or
- (iii) if default shall be made by the Commonwealth in the performance or observance of the covenants, agreements and conditions on its part described under the first paragraph of "Covenants as to Pledged Funds and Federal Highway Grant Anticipation Note Trust Fund" above; or
- (iv) if default shall be made by the Commonwealth in the performance or observance of any other of the covenants, agreements or conditions on its part provided in the Trust Agreement or in the Notes and such default shall continue for a period of thirty (30) days

after written notice thereof shall be given to the Commonwealth by the Trustee or given to the Commonwealth and the Trustee by the registered owners of a majority in principal amount of the Notes Outstanding; provided that if such default cannot be remedied within such thirty (30) day period, it shall not constitute an Event of Default under the Trust Agreement if corrective action is instituted by the Commonwealth within such period and diligently pursued until the default is remedied.

#### **Application of Revenues and Other Moneys after Default**

During the continuance of an Event of Default, the Trustee shall apply the moneys, securities and funds held by the Trustee, including any Pledged Funds and the income therefrom, to the fullest extent permitted by law, as follows and in the following order;

- (i) to the payment of the reasonable and proper charges and expenses of the Fiduciaries and of any counsel selected by a Fiduciary;
- (ii) to the payment of the interest and principal amount or Redemption Price then due on the Notes, as follows:
- (iii) unless the principal amount of all of the Notes shall have become due and payable,

First: To the payment to the persons entitled thereto of all installments of interest then due in the order in which such installments came due, and, if the amount available shall not be sufficient to pay in full all installments that came due at the same time, then to the payment thereof ratably, according to the amounts due thereon, to the persons entitled thereto, without any discrimination or preference; and

Second: To the payment to the persons entitled thereto of the unpaid principal amount or Redemption Price of any Notes which shall become due, whether at maturity or by call for redemption, in the order of their due dates, and, if the amount available shall not be sufficient to pay in full all the Notes due on any date, then to the payment thereof ratably, according to the amounts of principal or Redemption Price due on such date, to the persons entitled thereto, without any discrimination or preference; and

- (iv) if the principal of all the Notes shall have become due and payable, to the payment of the principal amount and interest then due and unpaid upon the Notes without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Note over any other Note, ratably, according to the amounts due respectively for principal amount and interest, to the persons entitled thereto, without any discrimination or preference;
- (v) To the payment of any person entitled to the payment of any Note Related Cost ratably in accordance with the amount of such Note Related Costs, provided that any payment by the Trustee of Alternative Revenues shall not exceed the Appropriated Amount for such purpose during the then current Commonwealth Fiscal Year, unless the State Treasurer shall certify to the Trustee that payment of such amount shall not then be subject to appropriation.

The proceeds of any Credit Enhancement or Liquidity Facility shall be applied by the Trustee in the manner provided in the Supplemental Trust Agreement authorizing such Credit Enhancement or Liquidity Facility.

#### **Proceedings Brought by Trustee**

If an Event of Default shall happen and shall not have been remedied, then and in every such case, the Trustee may proceed to protect and enforce its rights and the rights of the registered owners of the Notes under the Trust Agreement by a suit or suits in equity or at law. The registered owners of a majority in principal amount of the Notes Outstanding may direct the time, method and place of conducting any proceeding for any remedy available to

the Trustee, provided that the Trustee shall have the right to decline to follow any such direction if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to the Noteholders not parties to such direction.

Regardless of the happening of an Event of Default, the Trustee shall have power to, but unless requested in writing by the registered owners of a majority in principal amount of the Notes then Outstanding and furnished with reasonable security and indemnity, shall be under no obligation to, institute and maintain such suits and proceedings as it may deem necessary or expedient to prevent any impairment of the security under the Trust Agreement, or necessary or expedient to preserve or protect its interest and the interests of the Noteholders.

Nothing contained in the Trust Agreement is intended to preclude the Trustee upon the occurrence of an Event of Default thereunder from asserting any and all remedies it may have at law or equity with respect to the Pledged Funds and other amounts held as security thereunder, including asserting any rights it may have as Trustee thereunder as a secured party with respect to all security granted thereunder notwithstanding any requirements contained in the Trust Agreement with respect to Appropriated Amounts.

#### **Restriction on Noteholders' Action**

No registered owner of any Note shall have any right to institute any suit, action or proceeding at law or inequity for the enforcement of any provision of the Trust Agreement or for any remedy under the Trust Agreement, unless such registered owner shall have previously given to the Trustee written notice of the happening of any Event of Default and the registered owners of at least twenty-five percent (25%) in principal amount of Notes then Outstanding shall have filed a written request with the Trustee, and shall have offered it reasonable opportunity, to exercise the powers granted in the Trust Agreement in its own name, and unless such registered owners shall have offered to the Trustee adequate security and indemnity against the costs, expenses and liabilities to be incurred thereby, and the Trustee shall have refused to comply with such request within a reasonable time.

#### **No Right of Acceleration**

Neither the Noteholders nor the Trustee shall have any right to accelerate the payment of principal or interest due on any Notes Outstanding upon the occurrence of any Event of Default.

#### **Responsibility of Fiduciaries**

The duties and obligations of the Fiduciaries shall be determined by the express provisions of the Trust Agreement. No Fiduciary shall be under any responsibility or duty with respect to the issuance of the Notes for value or the application of the proceeds thereof or the application of any moneys paid to the Commonwealth or any other Fiduciary. No Fiduciary shall be under any obligation or duty to perform any act which would involve it in expense or liability or to institute or defend any suit in respect thereof or to advance any of its own moneys, unless properly indemnified. No Fiduciary shall be liable in connection with the performance of its duties under the Trust Agreement except for its own negligence or bad faith nor shall any Fiduciary be liable for any action taken or omitted by it in good faith and believed by it to be authorized or within the discretion or rights or powers conferred upon it by the Trust Agreement.

#### **Compensation**

The Commonwealth shall pay to each Fiduciary from time to time reasonable compensation for all services rendered under the Trust Agreement, including reasonable expenses, charges, counsel fees and other disbursements. To the extent permitted by law, the Commonwealth shall indemnify and save each Fiduciary harmless against any liabilities which it may incur in the exercise and performance of its powers and duties thereunder, and which are not due to its negligence or bad faith.

## **Resignation of Trustee**

The Trustee may at any time resign and be discharged of the duties and obligations created by the Trust Agreement by giving not less than sixty (60) days' written notice to the State Treasurer and giving not less than thirty (30) days' written notice to each Noteholder and Paying Agent specifying the date when such resignation shall take effect, and such resignation shall take effect upon the day specified in such notice provided a successor shall have been appointed, unless previously a successor shall have been appointed by the State Treasurer or the Noteholders as provided in the Trust Agreement, in which event such resignation shall take effect immediately on the appointment of such successor.

## **Removal of Trustee**

The Trustee may be removed at any time by an instrument or concurrent instruments in writing, filed with the Trustee, and signed by the registered owners of a majority in principal amount of the Notes then Outstanding or their attorneys-in-fact duly authorized, excluding any Notes held by or for the account of the Commonwealth. Except during the existence of an Event of Default, the State Treasurer may remove the Trustee at any time for cause or upon not less than ninety (90) days, prior written notice to the Trustee for such other reason as shall be determined in the sole discretion of the State Treasurer.

## **Appointment of Successor Trustee**

In case at any time the Trustee shall resign or shall be removed or shall become incapable of acting, or shall be adjudged a bankruptcy or insolvent, or if a receiver, liquidator or conservator of the Trustee, or of its property, shall be appointed, or if any public officer shall take charge or control of the Trustee, or of its property or affairs, a successor may be appointed by the registered owners of a majority in principal amount of the Notes then Outstanding, excluding any Notes held by or on the account of the Commonwealth. Pending such appointment, the State Treasurer by a written instrument signed by an Authorized officer and delivered to the predecessor Trustee shall forthwith appoint a Trustee to fill such vacancy until a successor Trustee shall be appointed by the Noteholders. Any Trustee appointed in succession to the Trustee shall be a bank or trust company organized under the laws of any state, or a national banking association having a capital and surplus aggregating at least fifty million dollars (\$50,000,000), if there be such a bank or trust company or national banking association willing and able to accept the office on reasonable and customary terms and authorized by law to perform all duties imposed upon it by the Trust Agreement.

## **Supplemental Trust Agreement Effective upon Filing**

The State Treasurer, with the written concurrence of the Secretaries, and the Trustee may at any time and from time to time enter into supplements or amendments to the Trust Agreement for any one or more of the following purposes:

- (i) to cure any ambiguity, inconsistency or formal defect or omission in the Trust Agreement;
- (ii) to close the Trust Agreement against, or provide limitations and restrictions contained in the Trust Agreement on, the original issuance of Notes;
- (iii) to add to the covenants and agreements of the Commonwealth contained in the Trust Agreement other covenants and agreements thereafter to be observed for the purpose of further securing the Notes;
- (iv) to surrender any right, power or privilege reserved to or conferred upon the Commonwealth by the Trust Agreement;

- (v) to authorize Notes of a Series and, in connection therewith, specify and determine any matters and things relative to such Notes not contrary to or inconsistent with the Trust Agreement;
- (vi) to authorize any Credit Enhancement, Liquidity Facility, or Reserve Credit Facility;
- (vii) to exercise any provision in the Trust Agreement or to make such determinations thereunder as expressly provided therein to be exercised or determined in a Supplemental Trust Agreement;
- (viii) to confirm, as further assurance, any pledge under and the subjection to any lien or pledge created or to be created by the Trust Agreement of the Pledged Funds;
- (ix) in connection with any change in the Commonwealth Fiscal Year or Federal Fiscal Year, to amend or supplement the appropriate provisions of the Trust Agreement to reflect such change in a manner consistent, as nearly as practicable, with the original provisions of the Trust Agreement, as amended to the date of the Supplemental Trust Agreement implementing the amendment or supplement; and
- (x) for any other purpose, provided that such Supplemental Trust Agreement does not prejudice in any material respect the right of the registered owner of any Note Outstanding at the date such Supplemental Trust Agreement becomes effective.

#### **Powers of Amendment**

Any modification or amendment of the Notes or of the Trust Agreement may be made by a Supplemental Trust Agreement, with the written consent (i) of the registered owners of at least a majority in the principal amount of all Notes Outstanding at the time such consent is given, or (ii) in case less than all of the several Series of Notes then Outstanding are affected by the modification or amendment, of the registered owners of at least a majority in principal amount of the Notes of each Series so affected and Outstanding at the time such consent is given, and (iii) in case the modification or amendment changes the amount or date of any Sinking Fund Payment, of 100% of the registered owners of the Notes of the particular Series and maturity entitled to such Sinking Fund Payment Outstanding at the time such consent is given; provided, however, that, if such modification or amendment will, by its terms, not take effect so long as any Notes of any specified like Series and maturity remain Outstanding, the vote or consent of the registered owners of such Notes shall not be required and such Notes shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Notes; and provided, further, that no such modification or amendment shall permit a change in the terms of redemption or maturity of the principal amount of any Outstanding Note or of any installment of interest thereon or a reduction in the principal amount or the Redemption Price thereof or the rate of interest thereon or the method for determining such rate or terms of any Credit Enhancement or Liquidity Facility relating to a Note without the consent of the registered owner of such Note, or shall change or modify any of the rights or obligations of any Fiduciary without its written assent thereto, or shall reduce the percentages of the principal amount of Notes the consent of which is required to effect any such modification or amendment.

#### **Defeasance**

If the Commonwealth shall pay or cause to be paid, or there shall otherwise be paid, to the registered owners of the Notes then Outstanding, the principal amount and interest and Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and in the Trust Agreement and if no Note Related Costs then due and payable remain unpaid or payment of any such Costs has been provided for, then the pledge of the Pledged Funds and any other moneys and securities pledged by the Trust Agreement and all other rights granted by the Trust Agreement shall be discharged and satisfied.

Notes or interest installments for the payment or redemption of which moneys shall be held by the Fiduciaries, whether at or prior to the maturity or the redemption date of such Notes, shall be deemed to have been



paid if (i) in case any of said Notes are to be redeemed on any date prior to their maturity, an Authorized Officer shall have given to the Trustee irrevocable instructions to provide notice of redemption on said date of such Notes, (ii) there shall have been deposited with the Trustee in the Defeasance Account either moneys in an amount which shall be sufficient, or Defeasance Obligations not subject to redemption or otherwise called for redemption for which amounts have been placed in escrow, in each case the principal of and interest on which when due will provide moneys which, together with any other deposited amounts, shall be sufficient, as certified by a firm of independent public accountants, to pay when due the principal amount or Redemption Price, if applicable, and interest due and to become due on said Notes on and prior to the redemption date or maturity date thereof, as the case may be. Any cash received from the principal or interest payments on such Defeasance Obligations deposited with the Trustee, if not then needed for such purpose, may, to the extent practicable, be reinvested in Defeasance Obligations or, in lieu of such reinvestment at the time of receipt, the Commonwealth may direct the Trustee to enter into one or more forward purchase agreements providing for the purchase of Defeasance Obligations at future dates, as provided in the Trust Agreement.

For purposes of determining whether Variable Rate Notes shall be deemed to have been paid prior to the maturity or redemption date thereof, as the case may be, by the deposit of moneys, or Defeasance Obligations and moneys, if any, the interest to come due on such Variable Rate Notes on or prior to the maturity date or redemption date thereof, as the case may be, shall be calculated at the Variable Rate Ceiling if in effect with respect to such Notes.

Tender Notes shall be deemed to have been paid only if, in addition to satisfying the requirements described above, there shall have been deposited with the Trustee moneys in an amount which shall be sufficient to pay when due the maximum amount of principal of and premium, if any, and interest on such Notes which could become payable to the registered owners of such Notes upon the exercise of any options provided to the registered owners of such Notes; provided, however, that if, at the time a deposit is made with the Trustee pursuant to the provisions above, the options originally exercisable by the registered owners of Tender Notes are no longer exercisable, such Notes shall not be considered Tender Notes.

#### **Unclaimed Funds**

Any moneys held by the Fiduciary in trust for the payment and discharge of any Notes which remain unclaimed for the applicable escheat period after the date when such Notes have become due and payable, either at their stated maturity dates or by call for earlier redemption, if such moneys were held by the Fiduciary at such date, or for the applicable escheat period after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Notes become due and payable, shall be paid to the Commonwealth as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Noteholders shall look only to the Commonwealth for the payment of such Notes.

#### **No Recourse on the Notes**

No recourse shall be had for the payment of the principal or Redemption Price of or the interest on the Notes or for any claim based thereon or on the Trust Agreement against any official, agent, representative or employee of the Commonwealth or any person executing the Notes. No official, agent, representative or employee of the Commonwealth shall be held personally liable to any purchaser or holder of any Note under or upon such Note, or under or upon the Trust Agreement or any Supplemental Trust Agreement relating to Notes, or, to the extent permitted by law, because of the sale or issuance or attempted sale or issuance of Notes, or because of any act or omission in connection with the investment or management of the Pledged Funds, funds or moneys of the Commonwealth, or otherwise in connection with the management of its affairs, excepting solely for things willfully done or omitted to be done with an intent to defraud.

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## PROPOSED FORM OF OPINION OF BOND COUNSEL

*Upon the delivery of the 1998A Notes, Bond Counsel proposes to deliver an opinion in substantially the following form:*

## PALMER &amp; DODGE LLP

One Beacon Street, Boston, MA 02108-3190

TELEPHONE: (617) 573-0100

FACSIMILE: (617) 227-4420

\_\_\_\_\_, 1998

The Honorable Joseph D. Malone  
Treasurer and Receiver-General  
The Commonwealth of Massachusetts  
State House - Room 227  
Boston, Massachusetts 02133

\$600,000,000

The Commonwealth of Massachusetts  
Federal Highway Grant Anticipation Notes, 1998 Series A

We have acted as Bond Counsel to The Commonwealth of Massachusetts (the "Commonwealth") in connection with the issuance by the Commonwealth of \$600,000,000 aggregate principal amount of its Federal Highway Grant Anticipation Notes, 1998 Series A, dated June 1, 1998 (the "1998A Notes"). In such capacity, we have examined such law and such certified proceedings and other documents as we have deemed necessary to render this opinion.

The 1998A Notes are issued pursuant to Sections 9 through 10D of Chapter 11 of the Acts of 1997, as amended by Chapter 121 of the Acts of 1998 (the "Act") and under and pursuant to a Trust Agreement dated as of June 1, 1998 (the "Trust Agreement"), by and between the Commonwealth and State Street Bank and Trust Company, as Trustee (the "Trustee"), as supplemented by a First Supplemental Trust Agreement dated as of June 1, 1998 (the "Supplemental Trust Agreement" and collectively with the Trust Agreement, the "Agreement"), by and between the Commonwealth and the Trustee. Under the Agreement, the Commonwealth has pledged (i) all Federal Highway Reimbursements hereafter received by the Commonwealth and any other moneys deposited to or held for the credit of the Federal Highway Grant Anticipation Note Trust Fund (other than in the Project Fund) so long as any Notes remain Outstanding (the "Pledged Revenues"), (ii) all moneys, securities and Reserve Credit Facilities, and any investment earnings with respect thereto, in all Funds and Accounts established by or pursuant to the Agreement, other than the Project Fund and the Rebate Fund (iii) any amounts payable to the Commonwealth by a Hedge Provider pursuant to a Qualified Hedge Agreement and (iv) solely upon the occurrence and during the continuation of a True-up Condition, the receipts credited to the Highway Fund and derived from that portion of the excise imposed on fuel (other than aviation) by the provisions of

Chapter 64A of the Massachusetts General Laws equal to ten cents (\$0.10) per gallon, as provided in the Agreement (the "Alternative Revenues" and collectively, the "Pledged Funds"), for the payment of the principal of and premium (if any) and interest on the 1998A Notes when due. Under the Agreement the Commonwealth may issue additional special obligation notes (collectively with the 1998A Notes, the "Notes") on a parity with the 1998A Notes under the terms and conditions set forth in the Agreement. The Agreement provides that neither the owners of the Notes nor the Trustee shall have any right to accelerate the payment of the principal of or interest on the Notes upon default. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Agreement.

As to questions of fact relevant to our opinion, we have relied upon the representations of the Commonwealth contained in the Agreement and in 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 opinion that, under existing law:

1. The Commonwealth has the right and power under the Act to enter into the Trust Agreement and Supplemental Trust Agreement; and the Trust Agreement and Supplemental Agreement have been duly authorized, executed and delivered on behalf of the Commonwealth by the Treasurer and Receiver-General of the Commonwealth with the concurrence of the Secretary of Administration and Finance of the Commonwealth and the Secretary of Transportation and Construction of the Commonwealth, are in full force and effect, and constitute legal, valid and binding obligations of the Commonwealth enforceable in accordance with their respective terms.
2. The Agreement creates the valid lien on the Pledged Funds for the security of the Notes that it purports to create. The Act provides that such pledge shall be perfected by filing the Agreement in the records of the Treasurer and Receiver-General of the Commonwealth; the Agreement has been so filed and the lien of such pledge shall be valid and binding as against all persons or entities of any kind having claims of any kind in tort, contract or otherwise, irrespective of whether such persons or entities have notice thereof
3. The 1998A Notes have been duly authorized, executed and delivered and are valid and binding special obligations of the Commonwealth payable solely from the Pledged Funds. The 1998A Notes are not general obligations of the Commonwealth, and the full faith and credit of the Commonwealth are not pledged to the payment thereof. The Commonwealth is not obligated to make any payments with respect to the Notes, including the 1998A Notes, except as specified therein and in the Agreement; and the Commonwealth is not obligated to impose any taxes to satisfy the obligations thereunder.

4. Under the Act and the Agreement, the deposit of Pledged Revenues to and expenditure of Pledged Revenues (and investment earnings thereon) from the Federal Highway Grant Anticipation Note Trust Fund to pay the principal of and premium (if any) and interest on 1998A Notes issued under the Agreement, as provided in the Act and the Agreement, is not subject to legislative appropriation by the Commonwealth. The deposit of Alternative Revenues with the Trustee to be held under the Agreement is not subject to legislative appropriation, but the expenditure of Alternative Revenues (and investment earnings thereon) to pay the principal of and premium (if any) and interest on 1998A Notes is subject to legislative appropriation by the Commonwealth. Pursuant to the provisions of the Act, the Agreement provides that, under certain circumstances specified therein, all Alternative Revenues (and investment earnings thereon) shall be held on deposit with the Trustee, subject to the lien of the Agreement, until such time as a legislative appropriation shall be in effect to pay the principal of and premium (if any) and interest on Notes due in the then current fiscal year.
5. Interest on the 1998A Notes is exempt from Massachusetts personal income taxes, and the 1998A Notes are exempt from Massachusetts personal property taxes. We express no opinion as to other Massachusetts tax consequences arising with respect to the 1998A Notes nor as to the taxability of the 1998A Notes or the income therefrom under the laws of any state other than Massachusetts.
6. The interest on the 1998A Notes (including any original issue discount properly allocable thereto) is excluded from gross income for federal income tax purposes and is not an item of tax preference for the purpose of computing the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"); it should be noted, however, that interest on the 1998A Notes is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). The opinions set forth in the preceding sentence are subject to the condition that the Commonwealth comply with all requirements of the Code that must be satisfied subsequent to the issuance of the 1998A Notes in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Commonwealth has covenanted to comply with these requirements. Failure to comply with certain of these requirements may cause the inclusion of interest on the 1998A Notes in gross income for federal income tax purposes to be retroactive to the date of issuance of the 1998A Notes. We express no opinion regarding any other federal tax consequences arising with respect to the 1998A Notes.

The Honorable Joseph D. Malone

\_\_\_\_\_, 1998

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It is to be understood that the rights of the owners of the 1998A Notes and the enforceability thereof and of the Trust Agreement and the Supplemental Trust Agreement may be subject to bankruptcy, insolvency, reorganization, moratorium and other similar laws affecting creditors' rights heretofore or hereafter enacted to the extent constitutionally applicable and that their enforcement may also be subject to the exercise of judicial discretion in appropriate cases.

Yours faithfully,

**Commonwealth of Massachusetts**

**Federal Highway Grant  
Anticipation Notes, 1998 Series A**

**Continuing Disclosure Undertaking**

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the 1998 Series A Notes 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 Official Statement dated June 10, 1998 (the "Official Statement") relating to the Commonwealth's Federal Highway Grant Anticipation Notes, 1998 Series A, and in each case substantially in the same level of detail as is found in the referenced section of the Official Statement:

<b>Financial Information and Operating Data Category</b>	<b>Reference to Official Statement for Level of Detail</b>
1. Advance Construction Balance as of end of prior Commonwealth Fiscal Year	FEDERAL-AID HIGHWAY PROGRAM – Step 3: Program Implementation – Fiscal Management and Federal Highway Reimbursements
2. Summary presentation of actual Gasoline Tax receipts on a ten-year comparative basis, concluding with the prior Commonwealth Fiscal Year	THE ALTERNATIVE REVENUES

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 including separately stated information with respect to the Federal Highway Grant Anticipation Note Trust Fund 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 1998 Series A Notes to provide in a timely manner to the MRS, and to the SID notice of any of the following events with respect to the 1998 Series A Notes, if material:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults;
- (iii) unscheduled draws on debt service reserves reflecting financial difficulties;
- (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 Notes;
- (vii) modifications to rights of Noteholders;
- (viii) giving of notice of optional redemption of 1998 Series A Notes;
- (ix) defeasances;
- (x) release, substitution or sale of property securing repayment of the 1998 Series A Notes;
- (xi) rating changes; and
- (xii) the occurrence of a True-up Condition (as defined in the Trust Agreement).

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 Note 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 Note, 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 1998 Series A Notes, 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. The failure to comply with the above-described undertakings shall not constitute an Event of Default under the Trust Agreement, and 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 undertaking shall terminate if no 1998 Series A Notes remain Outstanding or if the provisions of the Rule concerning continuing disclosure are no longer effective, whichever occurs first. The provisions of this Note 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 1998 Series A Notes, (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 1998 Series A Notes, (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 1998 Series A Notes, 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 1998 Series A Notes, 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 1998 Series A Notes affected thereby at or prior to the time of such amendment.

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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 conditionally and irrevocably guarantees to any owner, as hereinafter defined, of the following described obligations, the full and complete payment thereof 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 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 allowable 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 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, 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 in 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 Insurer, or any designee of the Issuer for such purpose. The term owner shall not include the Issuer or any party whose agreement with the Insurer constitutes the underlying security for the Obligations.

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 Obligations.

WITNESS WHEREOF, the Insurer has caused this policy to be executed in facsimile on its behalf by its duly authorized officers, this \_\_\_\_\_ day

UNTERSIGNED:

\_\_\_\_\_  
President Licensed Agent

\_\_\_\_\_  
y, State

MB-RCS-6

**MBIA Insurance Corporation**

\_\_\_\_\_  
President

Attest:

\_\_\_\_\_  
Assistant Secretary

**SPECIMEN**

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DO NOT STAPLE THIS FORM

MSRB 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: 06/22/1998 (b) DATE SENT TO MSRB: 06/22/1998
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: [ ]

Table with 3 columns: NAME OF ISSUER, DESCRIPTION OF ISSUE, and STATE/DATED/DATE. Row 1: THE COMMONWEALTH OF MASSACHUSETTS Federal Highway Grant Anticipation Notes 1998 Series A, A, MA, 06/01/1998.

SECTION III - TRANSACTION INFORMATION

- A. LATEST FINAL MATURITY DATE OF ALL SECURITIES IN OFFERING: 06/15/2015
B. DATE OF FINAL AGREEMENT TO PURCHASE, OFFER OR SELL SECURITIES (Date of Sale): 06/10/1998
C. ACTUAL OR EXPECTED DATE OF DELIVERY OF SECURITIES TO UNDERWRITER(S) (Bond Closing): 06/30/1998
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.

MANAGING UNDERWRITER Lehman Brothers
TOTAL PAR VALUE OF ALL SECURITIES IN OFFERING \$ 600,000,000
PAR AMOUNT OF SECURITIES UNDERWRITTEN (if different from the amount shown in item B above): \$
CHECK ALL THAT APPLY

SEC REG. NUMBER: 8-12324

- 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
12/15/2005A	57583PAA7	06/15/2006A	57583PAB5	12/15/2006A	57583PAC3
12/15/2006B	57583PAD1	06/15/2007A	57583PAE9	12/15/2007A	57583PAF6
06/15/2008A	57583PAG4	12/15/2008A	57583PAH2	06/15/2009A	57583PAJ8
12/15/2009A	57583PAK5	06/15/2010A	57583PAL3	12/15/2010A	57583PAM1
06/15/2011A	57583PAN9	12/15/2011A	57583PAP4	06/15/2012A	57583PAQ2
12/15/2012A	57583PAR0	06/15/2013A	57583PAS8	06/15/2013B	57583PAT6
12/15/2013A	57583PAU3	06/15/2014A	57583PAV1	12/15/2014A	57583PAW9
06/15/2015A	57583PAX7				

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)

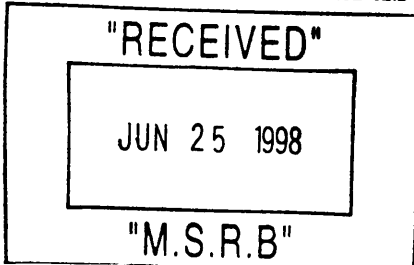
LIST ALL CUSIP-6 NUMBERS ASSIGNED: \_\_\_\_\_  
 State the reason why such securities have not been assigned a "CUSIP-9": \_\_\_\_\_

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.



N SECTION IV ABOVE

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ing underwriter