**NEW ISSUE - BOOK-ENTRY-ONLY**

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

# THE COMMONWEALTH OF MASSACHUSETTS

## $300,000,000
## General Obligation Bonds
## Consolidated Loan of 1997, Series B

*The Bonds will be issued by means of a book-entry-only system evidencing ownership and transfer of the Bonds on the records of The Depository Trust Company ("DTC") and its participants. Details of payment of the Bonds are more fully described in this Official Statement. The Bonds will bear interest from June 1, 1997 and interest will be payable on December 1, 1997 and semiannually thereafter on June 1 and December 1, calculated on the basis of a 360-day year of twelve 30-day months. The Bonds are subject to redemption prior to maturity, as more fully described herein.*

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

The Bonds are offered when, as and if issued and received by the original purchasers, and subject to the unqualified approving opinion as to legality of Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., Boston, Massachusetts, Bond Counsel. Settlement of the issue is expected at DTC in New York, New York, on or about June 30, 1997.

June 24, 1997

# THE COMMONWEALTH OF MASSACHUSETTS

**$300,000,000**
**General Obligation Bonds**
**Consolidated Loan of 1997, Series B**

**Dated: June 1, 1997** **Due: June 1, as shown below**

| Maturity | Amount | Interest Rate | Price or Yield |
|---|---|---|---|
| 1998 | $ 9,330,000 | 5.00% | 3.90% |
| 1999 | 9,680,000* | 5.00 | 4.15 |
| 2000 | 10,090,000* | 5.00 | 4.29 |
| 2001 | 10,535,000* | 5.00 | 4.39 |
| 2002 | 11,010,000* | 5.00 | 4.49 |
| 2003 | 11,515,000* | 5.00 | 4.59 |
| 2004 | 12,055,000* | 5.00 | 4.70 |
| 2005 | 12,635,000* | 5.00 | 4.75 |
| 2006 | 13,255,000* | 5.00 | 4.80 |
| 2007 | 13,910,000* | 5.00 | 4.85 |
| 2008 | 14,605,000** | 5.00 | 4.95 |
| 2009 | 15,345,000** | 5.00 | 5.05 |
| 2010 | 16,135,000** | 5.00 | 5.15 |
| 2011 | 16,980,000** | 5.00 | 5.22 |
| 2012 | 17,880,000** | 5.125 | 5.27 |
| 2013 | 18,840,000** | 5.125 | 5.32 |
| 2014 | 19,855,000** | 5.25 | 5.35 |
| 2015 | 20,940,000** | 5.25 | 5.375 |
| 2016 | 22,090,000** | 5.25 | 5.40 |
| 2017 | 23,315,000** | 5.25 | 5.40 |

(accrued interest, if any, to be added)

* Insured by FSA Assurance Inc. See "Bond Insurance."

** Insured by Financial Guaranty Insurance Company. See "Bond Insurance."

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

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

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# THE COMMONWEALTH OF MASSACHUSETTS

## CONSTITUTIONAL OFFICERS

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

## LEGISLATIVE OFFICERS

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

## OFFICIAL STATEMENT

## THE COMMONWEALTH OF MASSACHUSETTS

**$300,000,000**
**General Obligation Bonds**
**Consolidated Loan of 1997, Series B**

## INTRODUCTION

This Official Statement (including the cover pages and Appendices A through D attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of $300,000,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 1997, Series B (the "Bonds"). The Bonds will be general obligations of the Commonwealth, and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and expenditures for debt service and regarding dedicated state income tax revenues, see "SECURITY FOR THE BONDS" and the Commonwealth Information Statement (described below) under the headings "COMMONWEALTH REVENUES—Limitations on Tax Revenues," "COMMONWEALTH PROGRAMS AND SERVICES—Debt Service" and "COMMONWEALTH BOND AND NOTE LIABILITIES."

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

### Purpose and Content of Official Statement

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

Specific reference is made to the Commonwealth's Information Statement dated February 13, 1997 (the "February Information Statement"), as it appears in the Official Statement dated February 20, 1997 of the Massachusetts Bay Transportation Authority with respect to its 1997 Series A Notes (the "MBTA Official Statement"). A copy of the MBTA Official Statement has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission and with the Municipal Securities Rulemaking Board. The information contained in the February Information Statement has been supplemented by the Commonwealth Information Statement Supplement dated June 24, 1997 (the "Supplement"), which, except for Exhibit A thereto, is attached hereto as Appendix A. The February Information Statement, as supplemented by the Supplement, contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth. Exhibit A to the Supplement contains certain economic information concerning the Commonwealth; specific reference is made to said Exhibit A, a copy of which, along with the entire Supplement, has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. Exhibits B and C to the February Information Statement contain the financial statements of the Commonwealth for the fiscal year ended June 30, 1996, prepared on a statutory basis and a GAAP basis, respectively.

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

## THE BONDS

### General

The Bonds will be dated June 1, 1997 and will bear interest from such date payable semiannually on December 1 and June 1 of each year, commencing December 1, 1997 (each an "Interest Payment Date") until the principal amount is paid. The Bonds will mature on June 1 in the years and in the aggregate principal amounts, and shall bear interest at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months), as set forth on the inside cover page of this Official Statement. The Commonwealth will act as its own paying agent with respect to the Bonds. The Commonwealth reserves the right to appoint from time to time a paying agent or agents or bond registrar for the Bonds.

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

### Redemption

The Bonds maturing on or prior to June 1, 2007 will not be subject to redemption prior to their stated maturity dates.

*Optional Redemption.* The Bonds maturing on or after June 1, 2008 will be subject to redemption prior to their stated maturity dates on or after June 1, 2007 at the option of the Commonwealth from any moneys legally available therefor, in whole or in part at any time, by lot, at the redemption prices (expressed as percentages of the principal amount thereof) plus accrued interest to the redemption date, as follows:

| Redemption Dates | Redemption Prices |
|---|---|
| June 1, 2007 through May 31, 2008, inclusive | 101% |
| June 1, 2008 through May 31, 2009, inclusive | 100½ |
| June 1, 2009 and thereafter | 100 |

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

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

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

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

### Application of Proceeds of the Bonds

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

The purposes for which the Bonds will be issued have been authorized by the legislature under various bond authorizations and are included within the current five-year capital spending plan established by the Executive Office for Administration and Finance. The plan, which is an administrative guideline and is subject to amendment at any time, sets forth capital spending allocations over the next five fiscal years and establishes annual capital spending limits. The proceeds of the Bonds are expected to be applied to reimburse the state treasury for capital expenditures made in fiscal year 1997 pursuant to the plan. See the February Information Statement under the headings "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Overview of Capital Spending Process and Controls; *Five-Year Capital Spending Plan*" and "COMMONWEALTH BOND AND NOTE LIABILITIES—Authorized But Unissued Debt" and the Supplement under the heading "Five-Year Capital Spending Plan and Plan of Finance."

## SECURITY FOR THE BONDS

The Bonds will be general obligations of the Commonwealth to which its full faith and credit will be pledged for the payment of principal and interest when due. However, it should be noted that Chapter 62F of the Massachusetts General Laws imposes a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit. It should be noted further that Section 60B of Chapter 29 of the Massachusetts General Laws imposes an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on general obligation debt of the Commonwealth. These statutes are both subject to amendment or repeal by the Legislature. Currently, both actual tax revenue growth and annual general obligation debt service are below the statutory limits. See the Commonwealth Information Statement under the headings "COMMONWEALTH REVENUES - Limitations on Tax Revenues" and "COMMONWEALTH PROGRAMS AND SERVICES—Debt Service." In addition, the Commonwealth has pledged up to 15% of its income tax receipts to secure $129.9 million of the Commonwealth's outstanding Fiscal Recovery Bonds, the final debt service payment on which is due on December 1, 1997, at which time all such bonds will have been retired. See the February Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES—General Obligation Debt; *Dedicated Income Tax Debt*."

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

## BOND INSURANCE

The underwriters of the Bonds have contracted with FSA Assurance Inc. ("FSA") and Financial Guaranty Insurance Company ("FGIC") (collectively, the "Insurers") for the issuance of their respective insurance policies to secure the Bonds maturing on the specific dates for each Insurer as indicated on the inside cover of this Official Statement (the "FSA-Insured Bonds" and "FGIC-Insured Bonds," respectively, and, collectively, the "Insured Bonds"). The issuance of such policies is not a condition to the issuance and delivery of the Bonds by the Commonwealth to the underwriters. The following information has been furnished by the Insurers for use in this Official Statement. Reference is made to Appendix C for specimens of the Insurers' policies.

**Financial Security Assurance Inc.**

Concurrently with the issuance of the FSA-Insured Bonds, FSA will issue its Municipal Bond Insurance Policy (the "FSA Policy") for the Bonds maturing on June 1, 1999 to June 1, 2007, inclusive. The FSA Policy guarantees the scheduled payment of principal of and interest on the FSA-Insured Bonds when due as set forth in the form of the FSA Policy included as Appendix C to this Official Statement.

THE POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

FSA is a New York-domiciled insurance company and a wholly-owned subsidiary of Financial Security Assurance Holdings Ltd. ("Holdings"). Holdings is a New York Stock Exchange-listed company the major shareholders of which include Fund American Enterprises Holdings, Inc., The Tokio Marine and Fire Insurance Co., Ltd. and U S WEST Capital Corporation. The shareholders of Holdings are not liable for the obligations of FSA.

At March 31, 1997, FSA's total policyholders' surplus and contingency reserves were approximately $691,321,000 and its total unearned premium reserve was approximately $417,390,000 in accordance with statutory accounting principles. At March 31, 1997, FSA's total shareholders' equity was approximately $824,939,000 and its total net unearned premium reserve was approximately $361,589,000 in accordance with generally accepted accounting principles.

The financial statements included as exhibits to the annual and quarterly reports filed by Holdings with the Securities and Exchange Commission are hereby incorporated herein by reference. Also incorporated herein by reference are any such financial statements so filed from the date of this Official Statement until the termination of the offering of the Bonds.

Copies of such materials incorporated by reference will be provided upon request to FSA: 350 Park Avenue, New York, New York 10022, Attention: Communications Department (telephone 212/826-0100).

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

**Financial Guaranty Insurance Company**

Concurrently with the issuance of the FGIC-Insured Bonds, FGIC will issue its Municipal Bond New Issue Insurance Policy for the Bonds (the "FGIC Policy") for the Bonds maturing on June 1, 2008 to June 1, 2017, inclusive. The FGIC Policy unconditionally guarantees the payment of that portion of the principal of and interest on the FGIC-Insured Bonds which has become due for payment, but shall be unpaid by reason of nonpayment by the Commonwealth of the FGIC-Insured Bonds. FGIC will make such payments to State Street Bank and Trust Company, N.A., or its successor as its agent (the "Fiscal Agent"), on the later of the date on which such principal and interest is due or on the business day next following the day on which FGIC shall have received telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from an owner of Bonds or the Paying Agent of the nonpayment of such amount by the Commonwealth. The Fiscal Agent will disburse such amount due on any FGIC-Insured Bond to its owner upon receipt by the Fiscal Agent of evidence satisfactory to the Fiscal Agent of the owners right to receive payment of the principal and interest due for payment and evidence, including any appropriate instruments of assignment, that all of such owners rights to payment of such principal and interest shall be vested in FGIC. The term "nonpayment" in respect of an FGIC-Insured Bond includes any payment of principal or interest made to an owner of a FGIC-Insured Bond which has been recovered from such owner pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

The FGIC Policy is non-cancellable, and the premium will be fully paid at the time of delivery of the Bonds. The FGIC Policy covers failure to pay principal of the FGIC-Insured Bonds on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption, and not on any other date on which the FGIC-Insured Bonds may have been otherwise called for redemption, accelerated or advanced in maturity, and covers the failure to pay an installment of interest on the stated date for its payment. The form of the FGIC Policy is included as Appendix C to this Official Statement.

This Official Statement contains a section regarding the ratings assigned to the FGIC-Insured Bonds, and reference should be made to such section for a discussion of such ratings and the basis for their assignment to the FGIC-Insured Bonds. Reference should be made to the description of the Commonwealth for a discussion of the ratings, if any, assigned to the Commonwealth's outstanding parity debt that is not secured by credit enhancement.

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

FGIC is a wholly-owned subsidiary of FGIC Corporation, a Delaware holding company. FGIC Corporation is a subsidiary of General Electric Capital Corporation ("GE Capital"). Neither FGIC Corporation nor GE Capital is obligated to pay the debts of or the claims against FGIC. FGIC is a monoline financial guaranty insurer domiciled in the State of New York and subject to regulation by the State of New York Insurance Department. As of March 31, 1997, the total capital and surplus of FGIC was approximately $1,123,724,061. FGIC prepares financial statements on the basis of both statutory accounting principles and generally accepted accounting principles. Copies of such financial statements may be obtained by writing to FGIC at 115 Broadway, New York, New York 10006, Attention: Communications Department (telephone 212/312-3000) or to the New York State Insurance Department at 160 West Broadway, 18th floor, New York, New York 10013, Attention: Financial Condition Property/Casualty Bureau (telephone 212/602-0389).

## LITIGATION

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

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

## BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## RATINGS

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

The Bonds other than the Insured Bonds have been assigned ratings by Fitch Investors Service, L.P., Moody's Investors Service, Inc. and Standard & Poor's of "A+," "A1" and "A+," respectively.

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

## TAX EXEMPTION

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

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

Bond Counsel has not opined as to other federal tax consequences arising with respect to the Bonds. However, prospective purchasers should be aware of certain collateral consequences which may result under federal tax law for certain holders of the Bonds: (i) Section 265 of the Code denies a deduction for interest on indebtedness incurred or continued to purchase or carry the Bonds or, in the case of a financial institution, that portion of a holder's interest expense allocated to the Bonds, (ii) with respect to insurance companies subject to the tax imposed by Section 831 of the Code, Section 832(b)(5)(B)(i) reduces the deduction for losses incurred by 15% of the sum of certain items, including interest on the Bonds, (iii) interest on the Bonds earned by certain foreign corporations doing business in the United States could be subject to a branch profits tax imposed by Section 884 of the Code, (iv) passive investment income, including interest on the Bonds, may be subject to federal income taxation under Section 1375 of the Code for S corporations that have Subchapter S earnings and profits at the close of the taxable year if greater than 25% of the gross receipts of such S corporation is passive investment income, (v) Section 86 of the Code requires recipients of certain Social Security and certain Railroad Retirement benefits to take into account in determining gross income receipts or accruals of interest on the Bonds and (vi) for taxable years beginning after December 31, 1995, receipt of investment income, including interest on the Bonds, may disqualify the recipient thereof from obtaining the earned income credit under Section 32(i) of the Code.

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

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

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

## OPINIONS OF COUNSEL

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

## COMPETITIVE SALE OF BONDS

After competitive bidding on June 24, 1997, the Bonds were awarded to a group of underwriters led by Merrill Lynch & Co. The underwriters have supplied the information as to the public offering yields or prices of the Bonds set forth on the inside cover hereof. If all of the Bonds were resold to the public at such yields or prices, the underwriters have informed the Commonwealth that they anticipate the total underwriter compensation to be $1,203,000, inclusive of $558,626 for the cost of bond insurance. The underwriters may change the public offering yields or prices from time to time.

## CONTINUING DISCLOSURE

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

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

## MISCELLANEOUS

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

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

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

## AVAILABILITY OF OTHER INFORMATION

Questions regarding this Official Statement or requests for additional financial information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Assistant Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900, or Lowell L. Richards, Assistant Secretary for Capital Resources, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Official Statement and the Bonds should be directed to John R. Regier, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone 617/348-1720.

**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 24, 1997

Appendix A

# THE

# COMMONWEALTH

# OF

# MASSACHUSETTS

## INFORMATION STATEMENT SUPPLEMENT

**Dated June 24, 1997**

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## Information Statement Supplement Dated June 24, 1997

# THE COMMONWEALTH OF MASSACHUSETTS

## INFORMATION STATEMENT SUPPLEMENT

**June 24, 1997**

Specific reference is made to the Information Statement dated February 13, 1997 (the "February Information Statement") of The Commonwealth of Massachusetts (the "Commonwealth"), as it appears in the Official Statement dated February 20, 1997 of the Massachusetts Bay Transportation Authority with respect to its 1997 Series A Notes (the "MBTA Official Statement"). A copy of the MBTA Official Statement has been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission and with the Municipal Securities Rulemaking Board. This supplement ("Supplement") to the February Information Statement is dated June 24, 1997 and contains information which updates the information contained in the February Information Statement. Exhibit A to this Supplement sets forth certain economic, demographic and statistical information concerning the Commonwealth. This Supplement and the February Information Statement must be read collectively and in their entirety in order to obtain the appropriate fiscal, financial and economic information concerning the Commonwealth through June 25, 1997. All capitalized terms not otherwise defined in this Supplement shall have the meanings ascribed to them in the February Information Statement.

## RECENT DEVELOPMENTS

**Fiscal 1998**

The House of Representatives approved its version of the fiscal 1998 budget on April 17, 1997, and the Senate approved its version on May 21, 1997. Each budget is based on a consensus tax revenue forecast of $12.85 billion, as agreed by both houses of the Legislature in March. The House budget provides for total expenditures of approximately $18.564 billion; the Senate budget provides for total expenditures of approximately $18.646 billion, including $293 million of fiscal 1998 expenditures approved by the Senate in a fiscal 1997 supplemental appropriation bill. See "Operating Fund Structure." The House and Senate budgets provide for essentially comparable spending totals but differ in detail, particularly concerning tax reductions. See "State Taxes." The Senate budget also provides for the elimination of county government, a topic the House did not deal with as part of the budget process. See "The Government." Differences between the two versions of the budget will be reconciled by a legislative conference committee. See the February Information Statement under the heading "1998 FISCAL YEAR."

**Fiscal 1997**

Results through May, 1997 indicate that fiscal 1997 year-to-date tax collections have totalled approximately $11.420 billion, an increase of approximately $791 million, or 7.4%, over the same period in fiscal 1996. On May 20, 1997 the Secretary of Administration and Finance revised the fiscal 1997 tax revenue estimate included in the Governor's budget recommendations filed in January upward by $200 million, bringing the estimated total for the year to $12.507 billion. The results through May place fiscal 1997 tax collections approximately $427 million above the midpoint of the Department of Revenue's benchmark range and approximately $397 million above the top of that range. Total fiscal 1997 revenues are projected to total approximately $17.386 billion. Supplemental fiscal 1997 appropriations to date total approximately $135.8 million. Projected total fiscal 1997 expenditures are approximately $17.702 billion, including approximately $110 million reserved for contingencies. See the February Information Statement under the heading "1997 FISCAL YEAR." Under these spending and revenue assumptions, at the end of fiscal 1997 approximately $113.5 million would be transferred to the Commonwealth Stabilization Fund, bringing its balance to approximately $667.2 million, and $76 million would be transferred to a newly established capital projects fund. The Senate and the House of Representatives have approved differing versions of a fiscal 1997 supplemental appropriation bill that would authorize post-fiscal 1997 spending to be charged to fiscal 1997, thereby having the effect of reducing the amount of the fiscal 1997 surplus. See "Operating Fund Structure."

**Selected Financial Data - Statutory Basis**

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth's audited statutory basis financial statements for fiscal 1992 through 1996, and estimates for fiscal 1997 prepared by the Executive Office for Administration and Finance. The financial information presented includes all budgeted operating funds of the Commonwealth. When the status of a fund has changed during this period, prior years have been restated to conform to the fiscal 1997 budget. See the February Information Statement under the heading "FINANCIAL RESULTS."

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

| | Fiscal 1992 | Fiscal 1993 | Fiscal 1994 | Fiscal 1995 | Fiscal 1996 | Estimated Fiscal 1997 |
|---|---|---|---|---|---|---|
| Beginning Fund Balances | | | | | | |
| Reserved or Designated | $119.8 | $236.2 | $110.4 | $79.3 | $128.1 | 263.4 |
| Tax Reduction Fund | - | - | - | - | - | 231.7 |
| Stabilization Fund (1) | 59.2 | 230.4 | 309.5 | 382.9 | 425.4 | 543.3 |
| Undesignated | 58.1 | 82.8 | 142.6 | 127.1 | 172.5 | 134.0 |
| Total | 237.1 | 549.4 | 562.5 | 589.3 | 726.0 | 1,172.4 |
| Revenues and Other Sources | | | | | | |
| Taxes | 9,483.6 | 9,929.9 | 10,606.7 | 11,163.4 | 12,049.2 | 12,506.7 |
| Federal Reimbursements (2) | 2,393.5 | 2,674.1 | 2,901.2 | 2,969.7 | 3,039.1 | 2,915.9 |
| Departmental and Other Revenues | 1,187.3 | 1,327.1 | 1,187.9 | 1,273.1 | 1,208.1 | 1,223.4 |
| Interfund Transfers from Non-budgeted Funds and Other Sources (3) | 663.9 | 778.5 | 853.9 | 981.0 | 1,031.1 | 939.4 |
| Budgeted Revenues and Other Sources | 13,728.3 | 14,709.6 | 15,549.7 | 16,387.2 | 17,327.5 | 17,585.4 |
| Mass Transit Assessments from Municipalities | 130.9 | 137.4 | 140.4 | 143.9 | 147.6 | 148.1 |
| Interfund Transfers among Budgeted Funds and Other Sources (3) | 366.9 | 358.7 | 289.1 | 399.7 | 896.2 | 368.7 |
| Total Revenues and Other Sources | 14,226.1 | 15,205.7 | 15,979.2 | 16,930.8 | 18,371.3 | 18,102.2 |
| Expenditures and Uses | | | | | | |
| Programs and Services | 11,757.4 | 12,683.6 | 13,416.2 | 14,010.3 | 14,650.7 | 15,302.9 |
| Debt Service | 898.3 | 1,139.5 | 1,149.4 | 1,230.9 | 1,183.6 | 1,283.6 |
| Pensions | 751.5 | 868.2 | 908.9 | 968.8 | 1,004.6 | 1,071.6 |
| Interfund Transfers to Non-budgeted Funds and Other Uses | 8.8 | 5.1 | 48.4 | 40.4 | 42.2 | 44.1 |
| Budgeted Expenditures and Other Uses | 13,416.0 | 14,696.4 | 15,522.9 | 16,250.5 | 16,881.1 | 17,702.2 |
| Payment of Municipal Mass Transit Assessments to the MBTA and RTA's | 130.9 | 137.4 | 140.4 | 143.9 | 147.6 | 148.1 |
| Interfund Transfers among Budgeted Funds and Other Uses (3) | 366.9 | 358.7 | 289.1 | 399.7 | 896.2 | 368.7 |
| Total Expenditures and Other Uses | 13,913.8 | 15,192.6 | 15,952.4 | 16,794.1 | 17,924.9 | 18,219.0 |
| Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses | 312.3 | 13.1 | 26.8 | 136.7 | 446.4 | (116.8) |
| Ending Fund Balances | | | | | | |
| Reserved or Designated | 236.2 | 110.4 | 79.3 | 128.1 | 263.4 | 16.7 |
| Tax Reduction Fund | -- | -- | -- | -- | 231.7 (4) | 87.7(5) |
| Stabilization Fund (1) | 230.4 | 309.5 | 382.9 | 425.4 | 543.3 | 677.2 |
| Undesignated | 82.8 | 142.6 | 127.1 | 172.5 | 134.0 | 197.6 |
| Total | $549.4 | $562.5 | $589.3 | $726.0 | $1,172.4 | $979.6 |

SOURCE: Fiscal 1992-1996, Office of the Comptroller; fiscal 1997, Executive Office for Administration and Finance.

(1) Stabilization Fund balances are not expendable without subsequent specific legislative authorization.

(2) Includes $198.6 million for fiscal 1992, $236.3 million for fiscal 1993, $247.8 million for fiscal 1994, $231.9 million for fiscal 1995, $212.5 million for fiscal 1996 and an estimated $221.0 million for fiscal 1997 in federal reimbursements resulting from claims for reimbursement of certain uncompensated care for Massachusetts hospitals. See the February Information Statement under the headings "FINANCIAL RESULTS—Fiscal Years 1992 through 1996" and "1997 FISCAL YEAR."

(3) Interfund transfers represent accounting transfers which reallocate resources among funds. Includes transfers between the Stabilization Fund and the budgeted operating funds. Transfers to the Stabilization Fund were $170.0 million, $76.9 million, $65.4 million, $27.9 million and $177.4 million in fiscal 1992, 1993, 1994, 1995 and 1996, respectively. See the February Information Statement under the headings "COMMONWEALTH REVENUES—Federal and Other Non-Tax Revenues." Of the $177.4 million transferred to the Stabilization Fund in fiscal 1996, $81.7 million was subsequently transferred to the Tax Reduction Fund. See the February Information Statement under the heading "FINANCIAL RESULTS—Fiscal Years 1992 through 1996; *1996 Fiscal Year*."

(4) Represents excess amount of $81.7 million transferred from the Stabilization Fund to the Tax Reduction Fund and a $150 million legislative appropriation made to the Tax Reduction Fund. See the February Information Statement under the heading "FINANCIAL RESULTS—Fiscal Years 1992 through 1996; *1996 Fiscal Year*."

(5) Represents estimated transfer to the Tax Reduction Fund of the amount by which the current Stabilization Fund balance exceeds the estimated legal maximum for fiscal 1997 of $880 million.

### Cash Flow

On June 11, 1997, the State Treasurer and the Secretary of Administration and Finance released revised cash flow projections for fiscal 1997 and fiscal 1998. See the February Information Statement under the heading "FINANCIAL RESULTS—Cash Flow." The fiscal 1997 forecast is based on fiscal 1997 appropriations to date, and the fiscal 1998 forecast is based on the budget recommendations filed by the Governor on January 22, 1997. Both projections contain proposed revenue and spending estimates by the Secretary of Administration and Finance and incorporate actual results through April, 1997 and monthly projections through June, 1998.

Fiscal 1997 is projected to end with a cash balance of $162.6 million. The report states that this projection is based on conservative assumptions and that, given recent economic performance, actual results may be better. The projected year-end balance does not include any fiscal 1997 activity that may occur after June 30, 1997, nor does it include $95.4 million to be transferred to the Stabilization Fund on account of fiscal 1996. The report notes that Commonwealth transit notes are not being issued in June, 1997, as previously projected and that the $240 million of transit notes due in June, 1997 are being paid with cash. The projection assumes that $240 million of Commonwealth transit notes will be issued in August, 1997. The projection also assumes that the Commonwealth will issue $400 million of bond anticipation notes during fiscal 1998 in anticipation of payments to be received from the Massachusetts Turnpike Authority and the Massachusetts Port Authority in connection with the Central Artery/Ted Williams Tunnel project, as contemplated by the Metropolitan Highway System legislation approved by the Governor on March 20, 1997 and the transportation bond legislation approved by the Governor on May 16, 1997. In addition, the projection contemplates the issuance of $175 million of grant anticipation notes during fiscal 1998, in anticipation of future federal funding for the project. See "Capital Spending." The fiscal 1998 ending cash balance is estimated to be $349.0 million. The cash flow statement for fiscal 1998 projects no need to borrow for operating needs under the Commonwealth's commercial paper program and notes that no short-term borrowings have been required during fiscal 1997.

The ending balances projected in the cash flow forecasts for fiscal 1997 and fiscal 1998 are likely to differ from the estimated ending balances for the Commonwealth's operating budget for those years because of timing differences and the effect of non-budget items.

### State Taxes

In his fiscal 1998 budget recommendations, the Governor proposed personal and business tax reductions with an estimated aggregate fiscal 1998 cost of $82 million. See the February Information Statement under the heading "1998 FISCAL YEAR." The Senate version of the fiscal 1998 budget includes four tax cuts with an aggregate fiscal 1998 cost estimated by the Senate Ways and Means Committee at approximately $82 million, including a reduction in the tax rate on "unearned" income for low- and moderate-income seniors ($30.1 million), establishment of an earned income tax credit equal to 10% of the federal credit ($28.6 million), an increase in the child dependent deduction from $600 to $1,200 ($15.3 million) and a 50% deduction for higher education student loan interest payments ($8 million). On June 2, 1997 the Legislature's Committee on Taxation approved legislation that would increase the child dependent deduction from $600 to $1,000 for parents with one child and to $1,200 for families with more than one child; the bill would also expand the deduction to cover children under the age of 19 rather than the current age of 13. The Taxation Committee is also considering a variety of additional tax reduction measures, including those proposed by the Governor in his budget recommendations and those approved by the Senate in its budget. The House leadership has expressed a preference to consider tax legislation separately from the budget negotiations. The House budget includes two tax cuts—a one-year extension (until 2000) of the 3% investment tax credit for businesses and a tax credit for septic tank repairs.

### Non-Tax Revenues

As enacted by the Legislature, the transportation bond legislation described below under "Capital Spending" contained a provision that would restore registration, license and permit fees credited to the Highway Fund to the rates in effect on January 1, 1996 if federal aid to the Central Artery/Ted Williams Tunnel project falls below $550 million in any fiscal year during the next six years. See the February Information Statement under the heading "COMMONWEALTH REVENUES—Federal and Other Non-Tax Revenues." The Governor vetoed this provision; under the state constitution, his veto can be overridden by a two-thirds vote of each house of the Legislature.

On May 1, 1997, the Legislature's Committee on Government Regulations voted to send the September, 1995 tribal-state compact between the Wampanoag Tribe of Gay Head and the Commonwealth to the floor of the House of Representatives with a recommendation that it not be approved. On May 5, 1997, the House accepted the committee's adverse report, thereby killing the legislation for the current legislative session.

### Operating Fund Structure

Legislation approved by the Governor on May 12, 1997 incorporated the Governor's proposal to raise the statutory ceiling on the Stabilization Fund and to authorize the current balances in the Tax Reduction Fund (attributable to the fiscal 1996 surplus) to be used for personal income tax reductions for the 1997 tax year. See the February Information Statement under the headings "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Operating Fund Structure; *Stabilization Fund*" and "FINANCIAL RESULTS—Fiscal Years 1992 through 1996; *1996 Fiscal Year*." The legislation also amended the General Laws to provide that up to 40% of any fiscal year-end surplus may, prior to any transfer to the Stabilization Fund, be held in a separate account to be used for capital expenditures, if there is a negative balance in the state's capital funds. The Senate budget authorizes moneys in that account to be expended without further appropriation for capital projects for which state bonds have been authorized. The House Committee on Ways and Means has also approved legislation that would establish a capital expenditures reserve account to which the Comptroller would be directed to credit up to $150 million of surplus fiscal 1997 General Fund revenues. The moneys in the account would be applied, subject to appropriation, by the end of fiscal 1998 to capital projects, deferred maintenance projects and projects necessary to protect public health and safety. On May 21, 1997 the Senate approved a fiscal 1997 appropriation bill, released by the Senate Ways and Means Committee as a companion bill to the fiscal 1998 budget, authorizing approximately $293 million of fiscal 1998 spending to be charged to fiscal 1997, including $129.9 million for the final debt service payment on account of the fiscal recovery bonds issued in 1990, thereby having the effect of reducing the amount of the fiscal 1997 surplus. Various capital grants, equipment purchases and other nonrecurring items account for $138 million of the total in the Senate bill. On June 3, 1997 the House of Representatives approved an amended version of the Senate bill, providing for approximately $185 million of previously authorized capital spending (currently authorized to be financed by the issuance of general obligation bonds) to be charged to the fiscal 1997 surplus and expended in fiscal 1998 and fiscal 1999.

### The Government

On May 21, 1997 the President of the United States announced his intention to nominate the Governor to be the next United States Ambassador to the Republic of Mexico. The Governor has indicated his willingness to accept the nomination and has stated that he will resign as Governor upon his confirmation by the United States Senate. Under the state constitution, the Lieutenant Governor will serve as acting Governor until the office is filled at the 1998 general election.

On March 11, 1997, the Legislature's Committee on Counties approved legislation that would abolish Middlesex County government immediately upon final approval of the legislation and transfer its functions to the Commonwealth. See the February Information Statement under the heading "THE GOVERNMENT—Local Government." The county's debts and liabilities which are in force on July 1, 1997 would be assumed by the Commonwealth and amortized over a period of up to 25 years from assessments on the cities and towns within the county. The legislation would also bar the sale of public property to satisfy judgments against the county. On June 11, 1997, the legislation was approved by the House Committee on Ways and Means, with an effective date of

June 30, 1997. As approved by the Ways and Means Committee, assessments on cities and towns would be capped at the level of the county tax paid by such city or town in fiscal 1997. The Ways and Means Committee bill contains an appropropriation of approximately $24.6 million (from unexpended balances of maintenance appropriations that would otherwise revert on June 30, 1997) to provide for payments to vendors of Middlesex County Hospital and for debt service on bonds and notes issued by Middlesex County that are overdue or about to be due. The bill would also establish a task force on the valuation of county assets and liabilities that would be charged with compiling an inventory and providing for the valuation of all property of all counties in the Commonwealth for the purposes of considering the abolition of county government and the transfer of its functions, assets and liabilities to the Commonwealth. The seven-member task force, which would consist of four members of the Legislature, the Secretary of Administration and Finance, the Inspector General and the State Auditor, would be required to file a report by January 1, 1998.

On May 21, 1997, the Senate approved legislation as part of its fiscal 1998 budget that would abolish the system of county government in all counties in the Commonwealth as of July 1, 1998. Until that date, the Secretary of Administration and Finance would be empowered to declare a fiscal emergency in any county that exhibits fiscal distress, as described in the legislation, and the Governor would be empowered to appoint a receiver for any such county. All valid liabilities and debts of the counties in force on June 30, 1998 would become obligations of the Commonwealth, as would all valid leases and contracts of the counties in force on June 30, 1997. Leases and contracts entered into after June 30, 1997 would have to be approved by the Secretary of Administration and Finance, as would new hires. The state employees' retirement system would assume responsibility for the unfunded liabilities of the county retirement systems. A special commission to be chaired by the Secretary of Administration and Finance and also consisting of the State Auditor and three gubernatorial appointees would review county finances and file a report on outstanding debt by January 1, 1998. All county property would be transferred to the Commonwealth on July 1, 1998. A special commission on county assets and debt would be established to provide for the repayment of county debt to the Commonwealth and to provide for the disposition of certain county properties transferred to the Commonwealth. The commission would be chaired by the Secretary of Administration and Finance and would also include the Commissioner of Capital Planning and Operations, a representative of the Massachusetts Municipal Association, the executive director of the Massachusetts Government Land Bank and two appointees of the Governor. The commission would review the debt report filed on January 1, 1998 and submit a plan to the Legislature by May 1, 1998 providing for repayment of the debt, which could include receipts from sales of assets of county property or supplemental assessments on the cities and towns in the applicable county over a 5- to 20-year period. In the absence of legislative action after the plan had been submitted, the Secretary of Administration and Finance would be empowered to begin implementing the plan on July 1, 1998. According to the Senate Committee on Ways and Means, the counties have an accumulated debt of approximately $45 million and unfunded pension liabilities of $287.9 million.

**Capital Spending**

On March 20, 1997, the Governor approved legislation to establish a Metropolitan Highway System, in substantially the form in which he had filed it on January 6, 1997. See the February Information Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Overview of Capital Spending Process and Controls; *Five-Year Capital Spending Plan*." A provision in the legislation added by the Legislature mandates a new "asset assessment study" to determine, within one year, whether the Massachusetts Port Authority can afford to contribute as much as $300 million toward the cost of the Central Artery/Ted Williams Tunnel project, rather than the $200 million contribution proposed by the Governor and contemplated by the legislation. The study is to be conducted by the Executive Office for Administration and Finance, the State Auditor, the Division of Capital Planning and Operations and the Port Authority.

Additional state spending authorization for the Central Artery/Ted Williams Tunnel project and other transportation projects is contained in transportation bond legislation approved by the Governor on May 16, 1997. The legislation authorizes $1.545 billion in spending on federally assisted projects (approximately $1.040 billion for the Central Artery/Ted Williams Tunnel project and $504.7 million for other projects), to be funded by $345 million in state bonds and $1.2 billion in federal grants. The legislation authorizes an additional $1.159 billion in future spending for the Central Artery/Ted Williams Tunnel project, to be funded in part by $358.8 million in state bonds. In anticipation of future federal grants, the Commonwealth is authorized to issue up to $1 billion of grant anticipation notes, including up to $100 million for capitalized interest, with up to $900 million of state bonds authorized to pay such notes to the extent federal grants are unavailable to pay the notes, which must mature by June 30, 2007. No more than $450 million of such notes may be issued until the Intermodal Surface Transportation Efficiency Act of 1991 has been reauthorized or successor legislation has been enacted by the United States Congress, and no more than $450 million of such notes may be issued if federal funding in fiscal 1999 falls below $550 million. No more than $900 million of such notes may be issued as general obligations of the Commonwealth or be otherwise payable from general revenues of the Commonwealth. Finally, the legislation authorizes approximately $1.066 billion in additional transportation-related capital expenditures, to be funded by state bonds. The legislation stipulates that the Massachusetts Turnpike Authority must pay the Commonwealth $700 million by December 31, 1998 to help defray costs of the Central Artery/Ted Williams Tunnel project or any other component of the Metropolitan Highway System, such amount to be in addition to the $100 million already paid. See the February Information Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Overview of Capital Spending Process and Controls; *Five-Year Capital Spending Plan*."

The transportation bond legislation approved by the Governor on May 16, 1997 also eliminated the ceiling on Commonwealth bond anticipation notes that may be issued as commercial paper. See the February Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES—General Obligation Debt; *Commonwealth General Obligation Notes*."

The pre-development working group studying a proposed trade and convention center in Boston released its final report on March 25, 1997. See the February Information Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Overview of Capital Spending Process and Controls; *Five-Year Capital Spending Plan*." The estimated overall cost for the project is $695 million. The report recommends a combination of general obligation bonds (of the Commonwealth or the city of Boston) and dedicated tax revenue bonds enhanced by a pledge of existing state or city hotel taxes or the existing state sales tax on meals.

On May 14, 1997, the Governor filed authorizing legislation for a new convention center in Boston. The facility would contain 600,000 square feet of exhibition space and 235,000 square feet of associated meeting space, with 1,900 underground parking spaces. Sufficient land would be acquired currently to provide capacity to expand the facility by 50% in the future. The city of Boston would acquire the site and pay at least $125 million of the acquisition, relocation, demolition and remediation cost. An expanded and reconstituted Massachusetts Convention Center Authority would design, develop and operate the facility, which is projected to cost approximately $575 million. The Commonwealth would provide back-up financing capacity in case damage awards from eminent domain taking cases exceed the city's commitment (to be funded by a $50 million general obligation bond authorization, though such bonds could be sold as special obligations). The state's share of the cost would be financed by up to $575 million in special obligation revenue bonds supported by a portion of a 2.3% convention center financing fee to be imposed on hotel room occupancies in Boston and Cambridge (effectively increasing the hotel tax in those cities from 9.7% to 12%), subject to local referendums, and by dedication of certain hotel, meals, beverage and sales tax receipts in Boston and Cambridge. The Commonwealth would be required to maintain a debt service reserve fund with respect to its special obligation bonds and to replenish the fund from a portion of the existing hotel tax. The Governor's bill would also authorize $42 million of Commonwealth bonds to finance a national music center in Lenox ($2.5 million), an industrial park in Fall River ($3.5 million), the basketball hall of fame in Springfield ($25 million) and renovation of the civic and convention center in Worcester ($17 million).

On June 23, 1997, the Governor approved legislation authorizing $120 million of Commonwealth general obligation bonds and $80 million of Massachusetts Government Land Bank bonds supported by Commonwealth contract assistance for the development of the former Fort Devens army base. See the February Information

Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Overview of Capital Spending Process and Controls; *Five-Year Capital Spending Plan.*"

The conference committee report on the courthouse bond legislation was released on May 13, 1997, and the legislation was enacted by the Legislature on that date. The bill would authorize $685.3 million of capital spending, to be funded by Commonwealth general obligation bonds, for courthouses owned and to be owned by the Commonwealth. On May 16, 1997 the Governor returned the bill to the Legislature with amendments that would eliminate the requirement that all bids associated with the courthouse improvements be awarded only to union contractors.

On May 27, 1997 the Committee on Housing and Urban Development approved legislation that would authorize $375 million in Commonwealth general obligation bonds to finance the renovation of existing public housing units and other low-income housing creation and improvement projects. The legislation is now pending before the House Committee on Long-Term Debt and Capital Expenditures.

**Five-Year Capital Spending Plan and Plan of Finance**

The following table sets forth current estimates of capital spending of the Commonwealth, including the Massachusetts Bay Transportation Authority ("MBTA"), as well as the projected sources of funding for such capital spending, including federal aid, for fiscal years 1997 through 2002. (Although fiscal 2002 has been added to the five-year plan, fiscal 1997 has been retained in the table for convenient reference.) Total capital spending for fiscal years 1997 through 2002 to be financed from Commonwealth debt is forecast at approximately $5.4 billion, which is significantly below legislatively authorized capital spending levels. In addition, the five-year plan also forecasts total MBTA capital expenditures of approximately $1.753 billion for fiscal years 1997 through 2002, which spending is expected to be financed through the issuance of MBTA bonds. The plan, which has been developed by the Executive Office for Administration and Finance and reflects its views, assumes that the projected level of Commonwealth capital spending will leverage additional federal transportation aid of approximately $5.717 billion for this period and also projects the issuance of $1.5 billion in grant anticipation notes in anticipation of future federal aid to be received during fiscal years 2003 to 2007, inclusive. The latter assumption will require a change in law, because the current grant anticipation note authorization is limited to $1 billion. Up to $900 million of such notes are payable from Commonwealth bonds if federal grants are not available. See "Capital Spending." Federal aid is uncertain beyond September 30, 1997, when the Intermodal Surface Transportation Efficiency Act of 1991 expires. The anticipated levels of federal aid in the five-year plan are derived from the current "Central Artery/Tunnel Finance Plan" prepared by the Massachusetts Highway Department and proposals currently being considered by the United States Congress. The reauthoriation of federal aid being considered by Congress is expected to run through the year 2002. Federal funds for the repayment of the grant anticipation notes contemplated by the five-year plan would have to be authorized by subsequently enacted successor legislation. The five-year plan also assumes that the projected level of payments from third-party agencies, such as the Massachusetts Turnpike Authority and the Massachusetts Port Authority, and from other sources will be $1.7 billion. (One potential source is excess revenues. See "Operating Fund Structure.") Contractual agreements do not yet exist between either authority and the Commonwealth, and neither authority has yet agreed to pay more than what it is statutorily required to pay ($700 million in the case of the Turnpike Authority and $200 million in the case of the Port Authority).

The Executive Office for Administration and Finance regularly reviews its five-year capital spending plan to account for changes in the expected timing and amount of the Commonwealth's capital expenditures. The table assumes that all Commonwealth bonds related to a particular year's expenditures will be issued in the same year. In practice, Commonwealth capital expenditures usually occur prior to the issuance of the related bonds. Accordingly, it is customary for some Commonwealth bonds to be issued in a subsequent fiscal year to finance capital expenditures made in the prior fiscal year. For example, fiscal 1996 capital expenditures amounting to approximately $110 million have been financed through the issuance of bonds in fiscal 1997; such bonds are not included in the following table. See the February Information Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS – Overview of Capital Spending Process and Controls."

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

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | Total |
|---|---|---|---|---|---|---|---|
| **Uses of Funds** | | | | | | | |
| Information Technology | $ 31 | $ 32 | $ 29 | $ 29 | $ 29 | $ 29 | $ 179 |
| Infrastructure(1) | 217 | 237 | 214 | 202 | 202 | 202 | 1,274 |
| Environment(2) | 106 | 93 | 119 | 105 | 105 | 105 | 633 |
| Wastewater Treatment | 35 | 35 | 35 | 35 | 35 | 35 | 210 |
| Housing | 62 | 67 | 67 | 71 | 71 | 71 | 409 |
| Transportation | | | | | | | |
| Commonwealth Expenditures | 367 | 358 | 388 | 413 | 413 | 413 | 2,352 |
| Third Party-Supported/Other(3) | 300 | 400 | 425 | 275 | 200 | 100 | 1,700 |
| Grant Anticipation Notes(4) | 0 | 175 | 450 | 600 | 275 | 0 | 1,500 |
| MBTA | 350 | 311 | 187 | 294 | 358 | 253 | 1,753 |
| Federal Highway/MBTA Aid(5) | 1,179 | 1,170 | 1,034 | 777 | 840 | 717 | 5,717 |
| Subtotal | 2,196 | 2,414 | 2,484 | 2,359 | 2,086 | 1,483 | 13,022 |
| Public Safety | 20 | 15 | 9 | 9 | 9 | 9 | 71 |
| Other | 62 | 63 | 39 | 36 | 36 | 36 | 272 |
| Total | $2,729 | $2,956 | $2,996 | $2,846 | $2,573 | $1,970 | $16,070 |
| **Sources of Funds** | | | | | | | |
| Federal Aid(5) | $1,179 | $1,170 | $1,034 | $777 | $840 | 717 | $5,717 |
| Commonwealth Debt(6) | 900 | 900 | 900 | 900 | 900 | 900 | 5,400 |
| Third Party-Supported/Other(3) | 300 | 400 | 425 | 275 | 200 | 100 | 1,700 |
| Grant Anticipation Notes(4) | 0 | 175 | 450 | 600 | 275 | 0 | 1,500 |
| MBTA Bonds | 350 | 311 | 187 | 294 | 358 | 253 | 1,753 |
| Total | $2,729 | $2,956 | $2,996 | $2,846 | $2,573 | $1,970 | $16,070 |

SOURCE: Executive Office for Administration and Finance.

(1) Includes hospital consolidation, prison, courts and higher education construction and miscellaneous other projects.

(2) Includes open space acquisition.

(3) The Massachusetts Turnpike Authority and the Massachusetts Port Authority are obligated by statute to make payments to the Commonwealth of no less than $700 million and $200 million, respectively, for use in meeting transportation-related obligations. Total payments by these two authorities before completion of the Central Artery/Ted Williams Tunnel project may be greater than the statutorily mandated amounts, depending on a variety of factors, including the financial capacity of the respective authorities and the levels of federal funding for state highway construction. However, neither authority has yet agreed to pay more than it is statutorily required to pay. The terms of contractual agreements between the Commonwealth and the respective authorities are presently under discussion. No payments from third parties are now anticipated to be received during fiscal 1997. (An initial payment of $100 million was made by the Turnpike Authority in fiscal 1996.) Some payments to contractors for highway construction work completed in fiscal 1997 may be permanently financed by third-party payments received after the close of fiscal 1997, proceeds from Commonwealth debt issues, excess revenues (see "Operating Fund Structure") or a combination thereof. Estimates are derived from the "Central Artery/Tunnel Finance Plan" prepared annually by the Massachusetts Highway Department and interim internal revisions prepared by the Department and the Executive Office for Administration and Finance. The MBTA may also make contributions to transportation project funding related to collateral improvements to the MBTA system.

(4) The five-year plan contemplates the issuance of grant anticipation notes to finance a portion of the cash requirements of the Central Artery/Ted Williams Tunnel project, consistent with the current "Central Artery/Tunnel Finance Plan" prepared by the Massachusetts Highway Department and the joint feasibility study released on December 5, 1996. See the February Information Statement under the heading "COMMONWEALTH BUDGET, FINANCIAL MANAGEMENT AND CONTROLS—Overview of Capital Spending Process and Controls; *Five-Year Capital Spending Plan*." The planned source of repayment would be federal highway grants to be received during the fiscal years 2003 to 2007, inclusive, although there may be additional sources of repayment available. Such grants would have to be authorized by subsequent federal legislation to be enacted in or around 2002 upon the expiration of the successor legislation now being considered. Current legislation authorizing the Commonwealth to issue grant anticipation notes contains a $1 billion limit on the issuance of such notes which would have to be amended by the Legislature to permit the issuances contemplated by the five-year plan.

(5) Figures for 1998 through 2002 are estimates based on the current "Central Artery/Tunnel Finance Plan" and legislative proposals currently being considered by the United States Congress. Actual amounts are subject to the provisions of successor legislation to the Intermodal Surface Transportation Efficiency Act of 1991, which expires on September 30, 1997. Such successor legislation is expected to authorize aid for an additional five-year period.

(6) Includes general obligation bonds and special obligation bonds.

## Retirement Systems and Pension Benefits

In their respective versions of the fiscal 1998 budget, both the House of Representatives and the Senate accepted the Governor's proposal for an accelerated pension funding schedule that would eliminate the Commonwealth's unfunded liability by 2018 rather than 2028. Both legislative budgets provide for additional funding in fiscal 1998 (approximately $1.046 billion in the House budget and approximately $1.026 billion in the Senate budget, rather than the Governor's recommendation of approximately $952.8 million), and both budgets call for slightly more conservative investment return assumptions (8.25% rather than 8.5%). Differences between the two budgets are being reconciled by a legislative conference committee. See "Fiscal 1998."

On June 6, 1997, the Governor approved legislation that mandates automatic increases in cost-of-living allowances (equal to the lesser of 3% or the the previous year's percentage increase in the United States Consumer Price Index) for members of the state employees' and teachers' retirement systems, to be funded by the investment income of the systems. Local retirement systems that have established funding schedules may opt in to the requirement as well. See the February Information Statement under the heading "OTHER COMMONWEALTH LIABILITIES—Retirement Systems and Pension Benefits."

## Update of Existing Litigation

In *Perini Corporation v. Commissioner of Revenue* (Supreme Judicial Court No. 6657), the Department of Revenue is continuing to analyze the final fiscal impact of the ruling; to date, it has paid approximately $11 million in abatements in accordance with the judgment. See the February Information Statement under the heading "LITIGATION."

In *Spaulding Rehabilitation Hospital Corporation v. Massachusetts Highway Department, et al.* (Suffolk Superior Court. No. 95-4360C), the Spaulding Rehabilitation Hospital filed an action to enforce an agreement to acquire its property by eminent domain, in connection with the Central Artery/Ted Williams Tunnel project. If the hospital is successful, it could recover the fair market value of its property in addition to its relocation costs with respect to its personal property. It is estimated that the Commonwealth's potential liability is approximately $50 million. The hospital has signed interrogatories indicating that it believes that the property is worth more than $60 million. The case is currently being tried in Superior Court.

In *The McCourt Co., Inc. v. Commonwealth* (Suffolk Superior Court No. 94-2032), the Commonwealth faced an additional potential liability of approximately $75 million to $135 million connection with a taking by the Massachusetts Highway Department related to the relocation of Northern Avenue in South Boston. On May 30, 1997, the Commonwealth paid approximately $58 million in full settlement of the pending claims.

## COMMONWEALTH BOND AND NOTE LIABILITIES

The following table sets forth the Commonwealth bond and note liabilities outstanding as of April 1, 1997.

**Commonwealth Bond and Note Liabilities**
**April 1, 1997**
(in thousands)

| | Long-Term(1) | Short-Term |
|---|---|---|
| COMMONWEALTH DEBT | | |
| General Obligation Debt | $9,358,073 (2) | $240,000 (3) |
| Dedicated Income Tax Debt | 382,965 (2) | 0 |
| Special Obligation Debt | 535,260 | 0 |
| Subtotal Commonwealth Debt | 10,276,298 | 240,000 |
| COMMONWEALTH-SUPPORTED DEBT | | |
| Massachusetts Bay Transportation Authority | 2,843,815 (4) | 325,000 (5) |
| Massachusetts Convention Center Authority | 134,454 | 0 |
| Massachusetts Government Land Bank | 15,695 | 0 |
| Boston Metropolitan District | 41,799 | 0 |
| Steamship Authority | 39,164 | 0 |
| Regional transit authorities | 0 | 67,825 |
| Subtotal Supported Debt | 3,074,927 | 392,825 |
| COMMONWEALTH-GUARANTEED DEBT | | |
| Massachusetts Turnpike Authority | 0 | 259,315 |
| Higher education building authorities | 244,810 | 0 |
| Subtotal Guaranteed Debt | 244,810 | 259,315 |
| TOTAL COMMONWEALTH BOND AND NOTE LIABILITIES | $13,596,035 | $892,140 |

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

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

(2) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from January 1, 1997 through their maturity in the amount of $326 million. On June 24, 1997, the Commonwealth sold $300 million of bonds which are expected to be delivered on June 30, 1997.

(3) $240 million of Commonwealth general obligation notes due June 10, 1997 for the purpose of financing the MBTA's net cost of service. See the February Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES—General Obligation Debt; *Commonwealth General Obligation Notes*." Such notes have been paid with cash. See "Cash Flow."

(4) Includes bonds and refunding bonds, excluding such bonds that have been refunded. Does not include Certificates of Participation and other long-term lease obligations. On June 18, 1997, the MBTA sold $200 million of bonds which are expected to be delivered on June 25, 1997.

(5) Includes $160 million of notes due September 5, 1997 and $165 million of notes due February 27, 1998. In addition, as of June 24, 1997, the MBTA has outstanding $188,750,000 of commercial paper issued as bond anticipation notes, which will be retired from the proceeds of the bonds sold on June 18, 1997. See the February Information Statement under the heading "COMMONWEALTH BOND AND NOTE LIABILITIES—Commonwealth Supported Debt; *MBTA*."

## OTHER COMMONWEALTH LIABILITIES

### Unemployment Compensation Trust Fund

As of April 30, 1997 the private contributory sector of the Massachusetts Unemployment Trust Fund had a surplus of $815 million. The Division of Employment and Training's April, 1997, quarterly report indicated that the contributions provided by current law should result in a private contributory balance of $1.349 billion in the Unemployment Compensation Trust Fund by December, 1997 and rebuild reserves in the system to $2.097 billion by the end of 2001. See the February Information Statement under the heading "OTHER COMMONWEALTH LIABILITIES—Unemployment Compensation Trust Fund."

## AVAILABILITY OF OTHER INFORMATION

Questions regarding this Supplement or the February Information Statement or requests for additional financial information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Assistant Deputy Treasurer, Office of the Treasurer-Receiver General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900, or Lowell L. Richards, III, Assistant Secretary for Capital Resources, Executive Office for Administration and Finance, State House, Room 373, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Supplement or the February Information Statement should be directed to John R. Regier, Mintz, Levin, Cohn, Ferris, Glovsky and Popeo, P.C., One Financial Center, Boston, Massachusetts 02111, telephone 617/348-1720.

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 24, 1997

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**APPENDIX B**

## PROPOSED FORM OF OPINION OF BOND COUNSEL

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


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

701 Pennsylvania Avenue, N.W.
Washington, D.C. 20004
Telephone: 202/434-7300
Fax: 202/434-7400

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


[To the Purchasers]

Re: The Commonwealth of Massachusetts $300,000,000 General Obligation Bonds, Consolidated Loan of 1997, Series B, dated June 1, 1997, as described below (the "Bonds").

We have examined certified copies of legislation authorizing the Bonds and other papers submitted in connection therewith.

The Bonds mature on June 1 in each of the years and in the principal amounts set forth below and the Bonds of each maturity bear interest at the rates per annum set forth below:

| Due June 1 | Principal Amount | Interest Rate | Due June 1 | Principal Amount | Interest Rate |
|---|---|---|---|---|---|
| 1998 | $ 9,330,000 | 5.00% | 2008 | $14,605,000 | 5.00% |
| 1999 | 9,680,000 | 5.00 | 2009 | 15,345,000 | 5.00 |
| 2000 | 10,090,000 | 5.00 | 2010 | 16,135,000 | 5.00 |
| 2001 | 10,535,000 | 5.00 | 2011 | 16,980,000 | 5.00 |
| 2002 | 11,010,000 | 5.00 | 2012 | 17,880,000 | 5.125 |
| 2003 | 11,515,000 | 5.00 | 2013 | 18,840,000 | 5.125 |
| 2004 | 12,055,000 | 5.00 | 2014 | 19,855,000 | 5.25 |
| 2005 | 12,635,000 | 5.00 | 2015 | 20,940,000 | 5.25 |
| 2006 | 13,255,000 | 5.00 | 2016 | 22,090,000 | 5.25 |
| 2007 | 13,910,000 | 5.00 | 2017 | 23,315,000 | 5.25 |

We have also examined the Bonds as executed. The Bonds are being issued by means of a book-entry system, with bond certificates immobilized at The Depository Trust Company, New York, New York ("DTC"), and not available for distribution to the public, evidencing ownership of the Bonds in principal amounts of $1,000 or integral multiples thereof, with transfers of ownership effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants.

Based upon our examination, we are of the opinion:

(a) The Bonds have been duly authorized by The Commonwealth of Massachusetts, and the form of the Bonds which we have examined and the form of their execution are regular and proper.

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

(c) Under existing law, interest on the Bonds will not be included in the gross income of the holders of the Bonds for federal income tax purposes. This opinion is rendered subject to the condition that the Commonwealth comply with certain requirements of the Internal Revenue Code of 1986, as amended, which must be satisfied subsequent to the issuance of the Bonds in order that interest thereon is and continues to be excluded from gross income for federal income tax purposes. Failure to comply with certain of such requirements could cause interest on the Bonds to be included in the gross income of holders of the Bonds retroactive to the date of issuance of the Bonds. While interest on the Bonds will not constitute a preference item for purposes of computation of the alternative minimum tax imposed on certain individuals and corporations, interest on the Bonds will be included in the "adjusted current earnings" of corporate holders of the Bonds and therefore will be taken into account in the computation of the alternative minimum tax applicable to certain corporations. We express no opinion as to other federal tax consequences resulting from holding the Bonds.

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

(e) For federal and Massachusetts tax purposes, interest includes original issue discount, which with respect to a Bond is equal to the excess, if any, of the stated redemption price at maturity of such Bond over the initial offering price thereof to the public, excluding underwriters and other intermediaries, at which price a substantial amount of all such Bonds within the same maturity was sold. Original issue discount accrues actuarially over the term of a Bond.

Very truly yours,

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

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FINANCIAL SECURITY ASSURANCE®

# MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS:

Policy No.:

Effective Date:

Premium:

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

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

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

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

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

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

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

FINANCIAL SECURITY ASSURANCE INC.

By ______________________________

Authorized Officer

A subsidiary of Financial Security Assurance Holdings Ltd.
350 Park Avenue, New York, N.Y. 10022-6022
(212) 826-0100

Form 500NY (5/90)

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001

*A GE Capital Company*

FGIC.

# Municipal Bond
# New Issue Insurance Policy

| | |
|---|---|
| **Issuer:** | **Policy Number:** |
| | **Control Number:** 0010001 |
| **Bonds:** | **Premium:** |

Financial Guaranty Insurance Company ("Financial Guaranty"), a New York stock insurance company, in consideration of the payment of the premium and subject to the terms of this Policy, hereby unconditionally and irrevocably agrees to pay to State Street Bank and Trust Company, N.A., or its successor, as its agent (the "Fiscal Agent"), for the benefit of Bondholders, that portion of the principal and interest on the above-described debt obligations (the "Bonds") which shall become Due for Payment but shall be unpaid by reason of Nonpayment by the Issuer.

Financial Guaranty will make such payments to the Fiscal Agent on the date such principal or interest becomes Due for Payment or on the Business Day next following the day on which Financial Guaranty shall have received Notice of Nonpayment, whichever is later. The Fiscal Agent will disburse to the Bondholder the face amount of principal and interest which is then Due for Payment but is unpaid by reason of Nonpayment by the Issuer but only upon receipt by the Fiscal Agent, in form reasonably satisfactory to it, of (i) evidence of the Bondholder's right to receive payment of the principal or interest Due for Payment and (ii) evidence, including any appropriate instruments of assignment, that all of the Bondholder's rights to payment of such principal or interest Due for Payment shall thereupon vest in Financial Guaranty. Upon such disbursement, Financial Guaranty shall become the owner of the Bond, appurtenant coupon or right to payment of principal or interest on such Bond and shall be fully subrogated to all of the Bondholder's rights thereunder, including the Bondholder's right to payment thereof.

This Policy is non-cancellable for any reason. The premium on this Policy is not refundable for any reason, including the payment of the Bonds prior to their maturity. This Policy does not insure against loss of any prepayment premium which may at any time be payable with respect to any Bond.

As used herein, the term "Bondholder" means, as to a particular Bond, the person other than the Issuer who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof. "Due for Payment" means, when referring to the principal of a Bond, the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity and means, when referring to interest on a Bond, the stated date



Form 9000 (10/93)

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001

A GE Capital Company

FGIC.

# Municipal Bond
# New Issue Insurance Policy

for payment of interest. "Nonpayment" in respect of a Bond means the failure of the Issuer to have provided sufficient funds to the paying agent for payment in full of all principal and interest Due for Payment on such Bond. "Notice" means telephonic or telegraphic notice, subsequently confirmed in writing, or written notice by registered or certified mail, from a Bondholder or a paying agent for the Bonds to Financial Guaranty. "Business Day" means any day other than a Saturday, Sunday or a day on which the Fiscal Agent is authorized by law to remain closed.

In Witness Whereof, Financial Guaranty has caused this Policy to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

SPECIMEN

**President**

**Effective Date:**

SPECIMEN
**Authorized Representative**

State Street Bank and Trust Company, N.A., acknowledges that it has agreed to perform the duties of Fiscal Agent under this Policy.

**Authorized Officer**


Form 9000 (10/93)

Financial Guaranty Insurance
Company
115 Broadway
New York, NY 10006
(212) 312-3000
(800) 352-0001

*A GE Capital Company*

FGIC.

# Endorsement
## To Financial Guaranty Insurance Company Insurance Policy

**Policy Number:** **Control Number:** 0010001

It is further understood that the term "Nonpayment" in respect of a Bond includes any payment of principal or interest made to a Bondholder by or on behalf of the issuer of such Bond which has been recovered from such Bondholder pursuant to the United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction.

NOTHING HEREIN SHALL BE CONSTRUED TO WAIVE, ALTER, REDUCE OR AMEND COVERAGE IN ANY OTHER SECTION OF THE POLICY. IF FOUND CONTRARY TO THE POLICY LANGUAGE, THE TERMS OF THIS ENDORSEMENT SUPERSEDE THE POLICY LANGUAGE.

In Witness Whereof, Financial Guaranty has caused this Endorsement to be affixed with its corporate seal and to be signed by its duly authorized officer in facsimile to become effective and binding upon Financial Guaranty by virtue of the countersignature of its duly authorized representative.

SPECIMEN

**President**

SPECIMEN

**Effective Date:** **Authorized Representative**

**Acknowledged as of the Effective Date written above:**

**Authorized Officer**
**State Street Bank and Trust Company, N.A., as Fiscal Agent**



Form E-0002 (10/93)

Commonwealth of Massachusetts

General Obligation Bonds
Consolidated Loan of 1997, Series B

Continuing Disclosure Undertaking

[to be included in bond form]

On behalf of the Commonwealth, the Treasurer and Receiver-General of the Commonwealth hereby undertakes for the benefit of the owners of the Bonds to provide to each nationally recognized municipal securities information repository (each, a "NRMSIR") within the meaning of Rule 15c2-12 of the Securities and Exchange Commission (the "Rule") and to the state information depository for the Commonwealth, if any (the "SID"), within the meaning of the Rule, no later than 270 days after the end of each fiscal year of the Commonwealth, (i) the annual financial information described below relating to such fiscal year, together with audited financial statements of the Commonwealth for such fiscal year if audited financial statements are then available, provided, however, that if audited financial statements of the Commonwealth are not then available, such audited financial statements shall be delivered to each NRMSIR and the SID when they become available (but in no event later than 350 days after the end of such fiscal year) or (ii) notice of the Commonwealth's failure, if any, to provide any such information. The annual financial information to be provided as aforesaid shall include financial information and operating data, in each case updated through the last day of such fiscal year unless otherwise noted, relating to the following information contained in the Commonwealth's Information Statement dated February 13, 1997 (the "Information Statement"), as it appears in the Official Statement dated February 20, 1997 of the Massachusetts Bay Transportation Authority with respect to its 1997 Series A Notes, and substantially in the same level of detail as is found in the referenced section of the Information Statement:

| | Financial Information and Operating Data Category | Reference to Information Statement for Level of Detail |
|---|---|---|
| 1. | Summary presentation on statutory accounting and five-year comparative basis of selected budgeted operating funds operations, concluding with prior fiscal year, plus estimates for current fiscal year | "FINANCIAL RESULTS - Selected Financial Data - Statutory Basis" |
| 2. | Summary presentation on GAAP and five-year comparative basis of selected budgeted operating funds operations, concluding with prior fiscal year | "FINANCIAL RESULTS - Selected Financial Data - GAAP Basis" |
| 3. | Discussion of selected key results for budgeted operating funds for prior fiscal years | "FINANCIAL RESULTS" (see discussion of prior fiscal years) |
| 4. | Summary presentation of actual revenues in budgeted operating funds on five-year comparative basis, concluding with prior fiscal year, plus estimates for current fiscal year | "COMMONWEALTH REVENUES - Distribution of Revenues" |
| 5. | So long as Commonwealth statutes impose limits on tax revenues, information as to compliance therewith in the prior fiscal year | "COMMONWEALTH REVENUES - Limitations on Tax Revenues" |
| 6. | Summary presentation of budgeted expenditures by selected, then-current major categories on five-year comparative basis and estimated expenditures for current fiscal year | "COMMONWEALTH PROGRAMS AND SERVICES" |

| | Financial Information and Operating Data Category | Reference to Information Statement for Level of Detail |
|---|---|---|
| 7. | So long as Commonwealth statutes impose a limit on appropriations for debt service, information as to compliance therewith for the prior fiscal year and an estimate for the current fiscal year | "COMMONWEALTH PROGRAMS AND SERVICES - Debt Service" |
| 8. | If and to the extent otherwise updated in the prior fiscal year, summary presentation of the size of the state workforce | "COMMONWEALTH PROGRAMS AND SERVICES - State Workforce" |
| 9. | Statement of Commonwealth bond and note liabilities as of the end of the prior fiscal year | "COMMONWEALTH BOND AND NOTE LIABILITIES - Overview - Outstanding Bond and Note Liabilities" |
| 10. | Five-year comparative presentation of long term Commonwealth debt and selected Commonwealth-supported debt as of the end of the prior fiscal year | "COMMONWEALTH BOND AND NOTE LIABILITIES - Overview - Long Term Bond Liabilities" |
| 11. | Annual fiscal year debt service requirements for Commonwealth general obligation and special obligation bonds, beginning with the current fiscal year | "COMMONWEALTH BOND AND NOTE LIABILITIES - Debt Service Requirements on Commonwealth Bonds" |
| 12. | So long as Commonwealth statutes impose a limit on the amount of outstanding "direct" bonds, information as to compliance therewith as of the end of the prior fiscal year | "COMMONWEALTH BOND AND NOTE LIABILITIES - Statutory Debt Limit on Direct Bonds" |
| 13. | Five-year summary presentation of authorized but unissued general obligation debt and actual capital project expenditures | "COMMONWEALTH BOND AND NOTE LIABILITIES - Authorized But Unissued Debt" |
| 14. | Annual fiscal year debt service contract assistance requirements for Commonwealth-supported debt, beginning with the current fiscal year | "COMMONWEALTH BOND AND NOTE LIABILITIES - Debt Service Contract Assistance Requirements on Commonwealth-Supported Debt" |
| 15. | Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any | "OTHER COMMONWEALTH LIABILITIES - Retirement Systems and Pension Benefits" |
| 16. | Summary presentation of operating lease commitments for future fiscal years as of the end of the prior fiscal year | "OTHER COMMONWEALTH LIABILITIES - Long Term Operating Leases" |
| 17. | Summary presentation of long-term capital lease and certificate-of- participation commitments for future fiscal years as of the end of the prior fiscal year | "OTHER COMMONWEALTH LIABILITIES - Long Term Capital Leases and Certificates of Participation" |
| 18. | Summary presentation of school building assistance program commitments for future fiscal years as of the end of the prior fiscal year | "OTHER COMMONWEALTH LIABILITIES - School Building Assistance" |

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

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

(i) principal and interest payment delinquencies;

(ii) non-payment related defaults;

(iii) unscheduled draws on debt service reserves reflecting financial difficulties[1/];

(iv) unscheduled draws on credit enhancements reflecting financial difficulties;

(v) substitution of credit or liquidity providers, or their failure to perform;

(vi) adverse tax opinions or events affecting the tax-exempt status of the security;

(vii) modifications to the rights of security holders;

(viii) bond calls;

(ix) defeasances;

(x) release, substitution or sale of property securing repayment of the securities[2/] and

(xi) rating changes.

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

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

Nothing herein shall preclude the Commonwealth from disseminating any information in addition to that required hereunder. If the Commonwealth disseminates any such additional information, nothing herein shall obligate the Commonwealth to update such information or include it in any future materials disseminated.

To the extent permitted by law, the foregoing provisions of this Bond related to the above-described undertakings to provide information shall be enforceable against the Commonwealth in accordance with the terms thereof by any owner of a Bond, including any beneficial owner acting as a third-party beneficiary (upon proof of its status as a beneficial owner reasonably satisfactory to the Treasurer and Receiver-General). To the extent permitted by law, any such owner shall have the right, for the equal benefit and protection of all owners of Bonds, by mandamus or other suit or proceeding at law or in equity, to enforce its rights against the Commonwealth and to compel the Commonwealth and any of its officers, agents or employees to perform and carry out their duties under the foregoing provisions as aforesaid, provided, however, that the sole remedy in connection with such undertakings shall be limited to an action to compel specific performance of the obligations of the Commonwealth in connection with such undertakings and shall not include any rights to monetary damages. The Commonwealth's obligations in respect of such undertakings shall terminate if no Bonds remain outstanding (without regard to an economic defeasance) or if the provisions of the Rule concerning continuing disclosure are no longer effective, whichever occurs first. The provisions of this Bond relating to such undertakings may be amended by the Treasurer and Receiver-General of the Commonwealth, without the consent of, or notice to, any owners of the Bonds, (a) to comply with or conform to the provisions of the Rule or any amendments thereto or authoritative interpretations thereof by the Securities and Exchange Commission or its staff (whether required or optional), (b) to add a dissemination agent for the information required to be provided by such undertakings and to make any necessary or desirable provisions with respect thereto, (c) to add to the covenants of the Commonwealth for the benefit of the owners of Bonds, (d) to modify the contents, presentation and format of the annual financial information from time to time as a result of a change in circumstances that arises from a change in legal requirements, or (e) to otherwise modify the undertakings in a manner consistent with the provisions of state legislation establishing the SID or otherwise responding to the requirements of the Rule concerning continuing disclosure; provided, however, that in the case of any amendment pursuant to clause (d) or (e), (i) the undertaking, as amended, would have complied with the requirements of the Rule at the time of the offering of the Bonds, after taking into account any amendments or authoritative interpretations of the Rule, as well as any change in circumstances, and (ii) the amendment does not materially impair the interests of the owners of the Bonds, as determined either by a party unaffiliated with the Commonwealth (such as Commonwealth disclosure counsel or Commonwealth bond counsel) or by the vote or consent of owners of a majority in outstanding principal amount of the Bonds affected thereby at or prior to the time of such amendment.

TRADOCS: 1026204.1 (lzt_01!.doc)

Deal code: MASSJUN97

1-2. NAME OF ISSUER AND DESCRIPTION OF ISSUE : THE COMMONWEALTH OF MASSACHUSETTS
GENERAL OBLIGATION BONDS
CONSOLIDATED LOAN OF 1997, SERIES B

3. STATE : MA

4. DATED DATE : 06/01/1997

5. DATE OF FINAL MATURITY OF OFFERING : 06/01/2017 6. DATE OF SALE : 06/24/1997

7. PAR VALUE OF OFFERING : $ 300,000,000

8. PAR AMOUNT UNDERWRITTEN (if there is no underwriting syndicate): $

9. AMENDED OR STICKERED OS? NO (Enter Y or N) NUMBER OF SERIES IN OS : (Fill out one form for each series)

10. CHECK ALL THAT APPLY:

a. ___ 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.

b. ___ 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.

c. ___ 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 or 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, with a view toward distributing the securities.

11. MANAGING UNDERWRITER : Merrill Lynch & Co.