NEW ISSUES - BOOK-ENTRY-ONLY

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

THE COMMONWEALTH OF MASSACHUSETTS

$185,000,000
General Obligation Bonds
Consolidated Loan of 2003

Series B

$290,000,000
General Obligation Bonds
Consolidated Loan of 2003

Series C

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 August 1, 2003 and interest will be payable on February 1, 2004 and semiannually thereafter on August 1 and February 1, calculated on the basis of a 360-day year of twelve 30-day months. The Series B Bonds are not subject to redemption prior to maturity. The Series C Bonds are subject to redemption prior to maturity, as more fully described herein.

The Bonds will constitute general obligations of The Commonwealth of Massachusetts (the "Commonwealth"), and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and on expenditures for debt service, see "Security for the Bonds" herein and the Commonwealth Information Statement attached hereto as Appendix A under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "LONG-TERM LIABILITIES – General Authority to Borrow; *Limit on Debt Service Appropriations*."

The Bonds are offered when, as and if issued and received by the original purchasers, and subject to the unqualified approving opinions as to legality of Palmer & Dodge LLP, Boston, Massachusetts, Bond Counsel. Certain legal matters will be passed upon for the Commonwealth by Ropes & Gray LLP, Boston, Massachusetts, Disclosure Counsel. Settlement of the issue is expected at DTC in New York, New York, on or about August 21, 2003.

August 13, 2003

THE COMMONWEALTH OF MASSACHUSETTS

$185,000,000
General Obligation Bonds
Consolidated Loan of 2003, Series B

Dated: August 1, 2003 **Due: August 1, as shown below**

Maturity	Amount	Interest Rate	Price or Yield
2004	$30,000,000	2%	0.98%
2005	35,000,000	3½	1.459
2006	37,500,000	4	1.95
2007	40,000,000	5	2.43
2008	42,500,000	4	2.79

(accrued interest, if any, to be added)

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

Dated: August 1, 2003 **Due: August 1, as shown below**

Maturity	Amount	Interest Rate	Price or Yield
2016	$27,500,000	5¼%	4.48%
2017	30,000,000	5¼	4.59
2018	32,500,000	5¼	4.69
2019	35,000,000	5¼	4.80
2020	37,500,000	5¼	4.88
2021	40,000,000	5	5.04
2022	42,500,000	5	5.14
2023	45,000,000	5⅛	5.20

(accrued interest, if any, to be added)

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.

TABLE OF CONTENTS

THE COMMONWEALTH OF MASSACHUSETTS

CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

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

OFFICIAL STATEMENT

THE COMMONWEALTH OF MASSACHUSETTS

$185,000,000
General Obligation Bonds
Consolidated Loan of 2003, Series B

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

INTRODUCTION

This Official Statement (including the cover pages and Appendices A through C attached hereto) provides certain information in connection with the issuance by The Commonwealth of Massachusetts (the "Commonwealth") of $185,000,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 2003, Series B (the "Series B Bonds") and of $290,000,000 aggregate principal amount of its General Obligation Bonds, Consolidated Loan of 2003, Series C (the "Series C Bonds" and together with the Series B Bonds, the "Bonds"). The Bonds will be general obligations of the Commonwealth, and the full faith and credit of the Commonwealth will be pledged to the payment of the principal of and interest on the Bonds. However, for information regarding certain statutory limits on state tax revenue growth and expenditures for debt service, see "SECURITY FOR THE BONDS" and the Commonwealth Information Statement attached hereto as Appendix A (the "Commonwealth Information Statement") under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "LONG-TERM LIABILITIES - General Authority to Borrow; *Limit on Debt Service Appropriations*."

The 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 C. 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 August 13, 2003 (the "Commonwealth Information Statement") attached hereto as Appendix A, a copy of which 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 Commonwealth Information Statement contains certain fiscal, budgetary, financial and other general information concerning the Commonwealth. Exhibit A to the Commonwealth Information Statement contains certain economic information concerning the Commonwealth. Exhibits B and C to the Commonwealth Information Statement contain the financial statements of the Commonwealth for the fiscal year ended June 30, 2002, prepared on a statutory basis and for the fiscal year ended June 30, 2002, prepared on a GAAP basis, respectively. Specific reference is made to said Exhibits B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository currently recognized by the Securities and Exchange Commission. The financial statements are also available at the home page of the Comptroller of the Commonwealth located at http://www.massgov.com/osc/Reports/reportsfinancial.htm.

Appendix B attached hereto contains the proposed forms of legal opinions of Bond Counsel with respect to the Bonds. Appendix C 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 original purchasers 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 August 1, 2003 and will bear interest from such date payable semiannually on February 1 and August 1 of each year, commencing February 1, 2004 (each an "Interest Payment Date") until the principal amount is paid. The Bonds will mature on August 1 in the years and in the aggregate principal amounts, and shall bear interest at the rates per annum (calculated on the basis of a 360-day year of twelve 30-day months), as set forth on the inside cover page of this Official Statement. The Commonwealth will act as its own paying agent with respect to the Bonds. The Commonwealth reserves the right to appoint from time to time a paying agent or agents or bond registrar for the Bonds.

Book-Entry-Only System. The Bonds will be issued by means of a book-entry-only system, with one bond certificate for each maturity of each series immobilized at The Depository Trust Company, New York, New York ("DTC"). The certificates will not be available for distribution to the public and will evidence ownership of the Bonds in principal amounts of $5,000 or integral multiples thereof. Transfers of ownership will be effected on the records of DTC and its participants pursuant to rules and procedures established by DTC and its participants. Interest and principal due on the Bonds will be paid in same-day 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 Series B Bonds will not be subject to redemption prior to their stated maturity dates.

Optional Redemption. The Series C Bonds will be subject to redemption prior to their stated maturity dates on and after August 1, 2013 at the option of the Commonwealth from any moneys legally available therefor, in whole or in part at any time, by lot, at 100% of the principal amount thereof, plus accrued interest to the redemption date.

Notice of Redemption. The Commonwealth shall give notice of redemption to the owners of the Series C 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 Series C 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 Series C 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 Series C 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 Series C Bonds is to be redeemed, and so long as the book-entry-only system remains in effect for such Series C Bonds, the particular Series C Bonds or portion of any such Series C 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 Series C Bonds, selection for redemption of less than all of any one maturity of the Series C 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 Series C Bond will be considered a separate Series C 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 enacted by the Legislature. The net proceeds of the sale of the Bonds, including any premium received by the Commonwealth upon original delivery 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 Commonwealth's 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 remaining premium received by the Commonwealth upon original delivery of the Bonds and not applied to the various purposes for which bonds have been authorized 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. The proceeds will be used to finance or reimburse the Commonwealth for a variety of capital expenditures that 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. See the Commonwealth Information Statement under the heading "COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN."

SECURITY FOR THE BONDS

The Bonds will be general obligations of the Commonwealth to which its full faith and credit will be pledged for the payment of principal and interest when due. However, it should be noted that Chapter 62F of the Massachusetts General Laws imposes a state tax revenue growth limit and does not exclude principal and interest payments on Commonwealth debt obligations from the scope of the limit. It should be noted further that Section 60B of Chapter 29 of the Massachusetts General Laws imposes an annual limitation on the percentage of total appropriations that may be expended for payment of interest and principal on general obligation debt of the Commonwealth. These statutes are both subject to amendment or repeal by the Legislature. Currently, both actual tax revenue growth and annual general obligation debt service are below the statutory limits. See the Commonwealth Information Statement under the headings "COMMONWEALTH REVENUES – Limitations on Tax Revenues" and "LONG-TERM LIABILITIES – General Authority to Borrow; *Limit on Debt Service Appropriations*."

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

LITIGATION

No litigation is pending or, to the knowledge of the Attorney General of the Commonwealth, threatened against or affecting the Commonwealth seeking to restrain or enjoin the 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 Commonwealth Information Statement under the heading "LEGAL MATTERS."

BOOK-ENTRY-ONLY SYSTEM

The Depository Trust Company, New York, New York, will act as securities depository for the Bonds. The Bonds will initially be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered Bond will be issued for each maturity of each series set forth on the inside cover page hereof, each in the aggregate principal amount of such maturity, and will be deposited with DTC

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934, as amended. DTC holds securities that its participants (the "DTC Participants") deposit with DTC. DTC also facilitates the post-trade settlement among DTC Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between DTC Participants' accounts. This eliminates the need for physical movement of securities certificates. DTC Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC, in turn, is owned by a number of the DTC Participants and members of the National Securities Clearing Corporation, Government Securities Clearing Corporation, MBS Clearing Corporation and Emerging Markets Clearing Corporation (NSCC, GSCC, MBSCC and EMCC, respectively, also subsidiaries of DTCC), as well as by the New York Stock Exchange, Inc., the American Stock Exchange, LLC and the National Association of Securities Dealers, Inc. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies and clearing corporations that clear through or maintain a custodial relationship with a DTC Participant, either directly or indirectly (the "Indirect Participants"). The rules applicable to DTC and the DTC Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

The principal of and interest and premium, if any, on the Bonds will be paid to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC, as registered owner of the Bonds. Upon receipt of monies, DTC's practice is to credit the accounts of the DTC Participants on the payable date in accordance with their respective holdings shown on the records of DTC. Payments by DTC Participants and Indirect Participants to

Beneficial Owners will be governed by standing instructions and customary practices, as is now the case with municipal securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such DTC Participant or Indirect Participant and not DTC or the Commonwealth, subject to any statutory and regulatory requirements as may be in effect from time to time. Payment of the principal of and interest and premium, if any, on the Bonds to DTC is the responsibility of the Commonwealth; disbursement of such payments to DTC Participants and Indirect Participants shall be the responsibility of DTC; and disbursement of such payments to Beneficial Owners shall be the responsibility of the DTC Participants and the Indirect Participants.

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

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

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Commonwealth. Under such circumstances, in the event that a successor depository is not obtained, Bonds will be delivered and registered as designated by the Beneficial Owners. The Beneficial Owner, upon registration of Bonds held in the Beneficial Owner's name, will become the Bondowner.

The Commonwealth may decide to discontinue the use of the system of book-entry transfers through DTC (or a successor securities depository). In such event, Bonds will be delivered and registered as designated by the Beneficial Owners.

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

RATINGS

The Bonds have been assigned ratings of "AA- ," "Aa2" and "AA-" by Fitch Ratings, Moody's Investors Service, Inc. and Standard & Poor's Ratings Services, 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 is excluded from gross income for federal income tax purposes and is not an item of tax preference for the purpose of computing the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code of 1986, as amended (the "Code"); it should be noted, however, that the interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). Bond Counsel has not opined as to other federal tax consequences, if any, resulting from holding the Bonds.

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

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

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

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

On the date of delivery of the Bonds, the original purchasers of the Bonds will be furnished with an opinion of Bond Counsel substantially in the applicable form attached hereto as Appendix C – "Proposed Forms of Opinions of Bond Counsel."

OPINIONS OF COUNSEL

The unqualified approving opinions as to the legality of the Bonds will be rendered by Palmer & Dodge LLP of Boston, Massachusetts, Bond Counsel to the State Treasurer. The proposed forms of the opinions of Bond Counsel relating to the Bonds are attached hereto as Appendix B. Certain legal matters will also be passed upon by Ropes & Gray LLP of Boston, Massachusetts, as Disclosure Counsel to the State Treasurer.

COMPETITIVE SALE OF THE BONDS

After competitive bidding on August 13, 2003, the Series B Bonds and the Series C Bonds were awarded by the Commonwealth to Merrill Lynch & Co. as purchaser. The purchaser has supplied the information as to the public reoffering 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 purchaser has informed the Commonwealth that its total compensation is expected to be $128,324.35 with respect to the Series B Bonds and $730,599.90 with respect to the Series C Bonds. The purchaser may change the public offering yields or prices from time to time.

CONTINUING DISCLOSURE

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

THE COMMONWEALTH OF MASSACHUSETTS

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

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

August 13, 2003

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APPENDIX A

THE

COMMONWEALTH

OF

MASSACHUSETTS

INFORMATION STATEMENT

Dated August 13, 2003

TABLE OF CONTENTS

THE COMMONWEALTH OF MASSACHUSETTS

CONSTITUTIONAL OFFICERS

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

LEGISLATIVE OFFICERS

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

THE COMMONWEALTH OF MASSACHUSETTS

INFORMATION STATEMENT

August 13, 2003

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

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

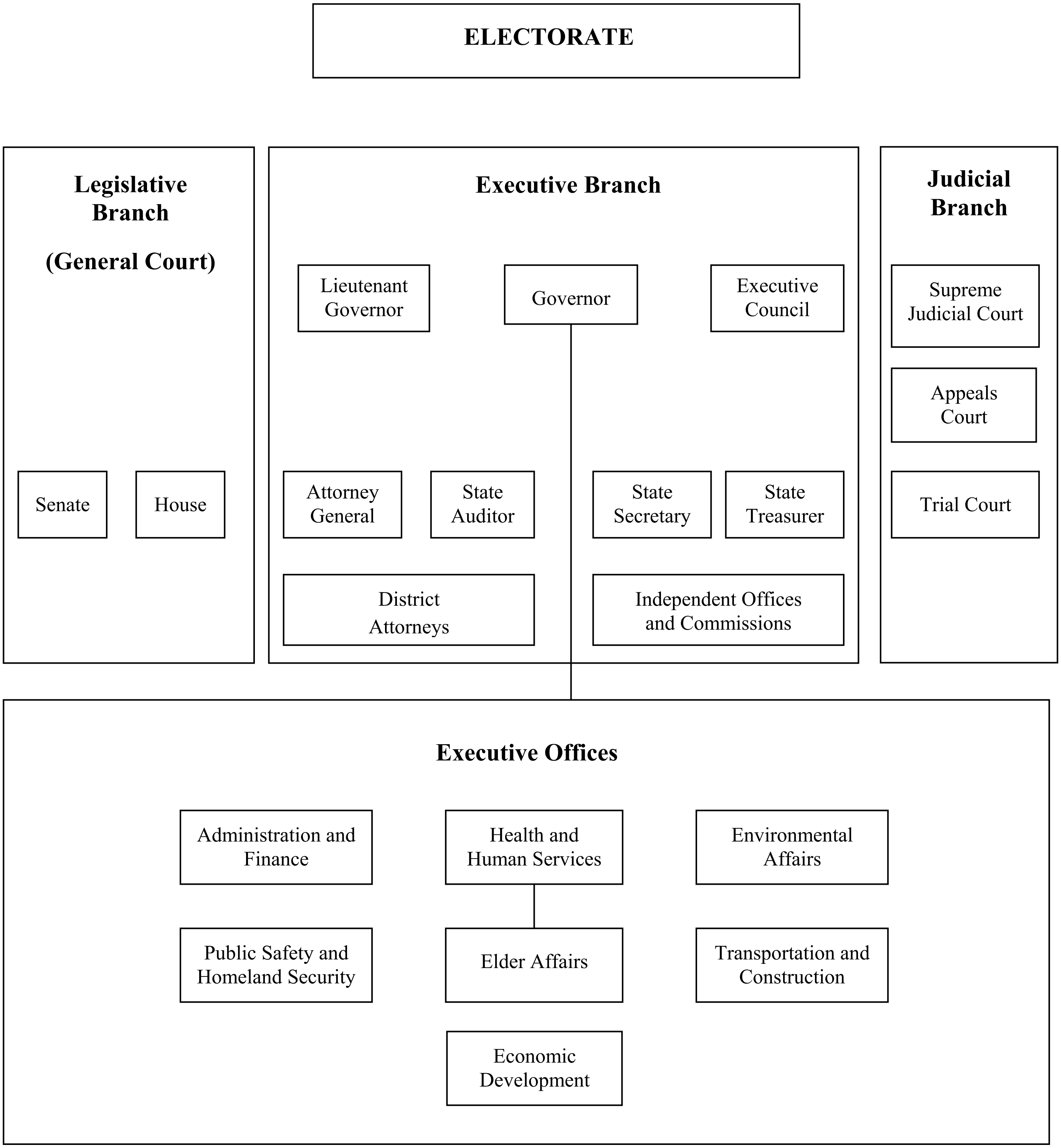
Exhibit A to this Information Statement is the Statement of Economic Information as of July 1, 2003. Exhibit A sets forth certain economic, demographic and statistical information concerning the Commonwealth.

Exhibits B and C are the Statutory Basis Financial Report for the year ended June 30, 2002 and the Comprehensive Annual Financial Report, reported in accordance with generally accepted accounting principles (GAAP) for the year ended June 30, 2002. The Statutory Basis Financial Report for the year ended June 30, 2003 is expected to be released on or about October 31, 2003. The Comprehensive Annual Financial Report, reported in accordance with GAAP for the year ended June 30, 2003, is expected to be released on or about December 31, 2003. All fiscal 2003 financial information as reported herein is, as of the date hereof, unaudited, estimated and subject to change.

Specific reference is made to said Exhibits A, B and C, copies of which have been filed with each Nationally Recognized Municipal Securities Information Repository (NRMSIR) currently recognized by the Securities and Exchange Commission (SEC). The financial statements are also available at the web site of the Comptroller of the Commonwealth located at http://www.mass.gov/osc by clicking on "Financial Reports/Audits."

THE GOVERNMENT

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



Executive Branch

Governor. The Governor is the chief executive officer of the Commonwealth. Other elected members of the executive branch are the Lieutenant Governor (elected with the Governor), the Treasurer and Receiver-General (State Treasurer), the Secretary of the Commonwealth, the Attorney General and the State Auditor. All are elected to four-year terms. The terms of the current office holders began in January 2003.

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

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

Governor's Cabinet. The Governor's Cabinet, which assists the Governor in administration and policy making, is comprised of the secretaries who head the seven Executive Offices, which are the Executive Office for Administration and Finance, the Executive Office of Health and Human Services, the Executive Office of Elder Affairs (which is a part of the Executive Office of Health and Human Services), the Executive Office of Transportation and Construction, the Executive Office of Public Safety and Homeland Security, the Executive Office of Economic Development and the Executive Office of Environmental Affairs. The Governor's Cabinet also includes the directors of the Departments of Housing and Community Development, Business and Technology, Consumer Affairs and Business Regulation and Commerce and Labor. In addition, the Chairperson of the Commonwealth Development Coordinating Council serves as an ex-officio member of the Governor's Cabinet, and within the current Administration, the Secretaries of Transportation and Construction and Environmental Affairs report to such Chairperson. Cabinet secretaries and executive department chiefs serve at the pleasure of the Governor. Most other agencies are grouped under one of the seven Executive Offices for administrative purposes.

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

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

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

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

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

State Comptroller. All accounting policies and practices, publication of official financial reports and oversight of fiscal management functions are the responsibility of the Comptroller. The Comptroller also administers the Commonwealth's annual state single audit and manages the state accounting system. The Comptroller is appointed by the Governor for a term coterminous with the Governor's and may be removed by the Governor only for cause. The annual financial reports of the Commonwealth, single audit reports and any rules and regulations promulgated by the Comptroller must be reviewed by an advisory board. This board is chaired by the Secretary of Administration and Finance and includes the State Treasurer, the Attorney General, the State Auditor, the Chief Administrative Justice of the Trial Court and two persons with relevant experience appointed by the Governor for three-year staggered terms. The Commonwealth's audited annual reports include audited financial statements on both the statutory basis of accounting (the Statutory Basis Financial Report, or SBFR) and the GAAP basis (the Comprehensive Annual Financial Report, or CAFR). The Commonwealth has continued its relationship with the independent public accounting firm of Deloitte & Touche, LLP for fiscal 2003 to audit the Commonwealth's financial statements and to conduct the state single audit. The Comptroller expects the SBFR and the CAFR for the fiscal year ended June 30, 2003 to be completed on or before October 31and December 31 of 2003, respectively. The Statutory Basis Financial Report for the year ended June 30, 2002, included herein by reference as Exhibit B, and the Comprehensive Annual Financial Report for the year ended June 30, 2002, included herein by reference as Exhibit C, were audited by Deloitte & Touche LLP, as stated in its reports appearing therein. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS."

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

Legislative Branch

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

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

Judicial Branch

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

Independent Authorities and Agencies

The Legislature has established 56 independent authorities and agencies within the Commonwealth, the budgets of which are not included in the Commonwealth's annual budget. The Governmental Accounting Standards Board (GASB) Statement 14 articulates standards for determining significant financial or operational relationships between the primary government and its independent entities. In fiscal 2003, the Commonwealth had significant operational or financial relationships, or both, as defined by GASB Statement 14, with 31 of its 56 authorities. A discussion of these entities and the relationship to the Commonwealth is included in footnote 1 to the fiscal 2002 general-purpose financial statements in the CAFR, included herein by reference as Exhibit C.

Local Government

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

Municipal revenues consist of taxes on real and personal property, distributions from the Commonwealth under a variety of programs and formulas, local receipts (including motor vehicle excise taxes, local option taxes, fines, licenses and permits, charges for utility and other services and investment income) and appropriations from other available funds (including general and dedicated reserve funds). Following the enactment in 1980 of the tax limitation initiative petition commonly known as Proposition 2½, local governments have been forced to rely less on property taxes and more on other revenues, principally distribution of revenues from the Commonwealth, to support local programs and services. It is estimated that state aid comprised approximately 27% of municipal receipts on average in fiscal 2003, although the amount of aid received varies significantly among municipalities. See "COMMONWEALTH PROGRAMS AND SERVICES – Local Aid."

The cities and towns of the Commonwealth are also organized into 14 counties, but county government has been abolished in seven of those counties in recent years. The county governments that remain are responsible principally for the operation of correctional facilities and registries of deeds. Where county government has been abolished, the functions, duties and responsibilities of the government have been transferred to the Commonwealth, including all employees, assets, valid liabilities and debts.

Initiative Petitions

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

COMMONWEALTH REVENUES

In order to fund its programs and services, the Commonwealth collects a variety of taxes and receives revenues from other non-tax sources, including the federal government and various fees, fines, court revenues, assessments, reimbursements, interest earnings and transfers from its non-budgeted funds, which are deposited in the General Fund, the Highway Fund and other operating budget funds (for purposes of this Information Statement, these funds will be referred to as "Budgeted Operating Funds" and revenues deposited in such funds will be referred to as "Budgeted Operating Revenues"). In fiscal 2003 on a statutory basis, approximately 64.2% of the Commonwealth's Budgeted Operating Revenues were derived from state taxes. In addition, the federal government provided approximately 20.6% of such revenues, with the remaining 15.2% provided from departmental revenues and transfers from non-budgeted funds. The measurement of revenues for the Budgeted Operating Funds from a statutory basis differs from governmental revenues on a GAAP basis. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS – Selected Financial Data – GAAP Basis; *Revenues – GAAP Basis*." The Commonwealth's executive and legislative branches establish the Commonwealth's budget using the statutory basis of accounting.

Statutory Basis Distribution of Budgetary Revenues

The following table sets forth the Commonwealth's revenues in its Budgeted Operating Funds for fiscal 1999 through 2002, estimated revenues for fiscal 2003 and projected revenues for fiscal 2004.

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

	Fiscal 1999	Fiscal 2000	Fiscal 2001(5)	Fiscal 2002	Estimated Fiscal 2003	Projected Fiscal 2004(7)
Tax Revenues:						
Alcoholic Beverages	$61.0	$63.1	$64.2	$65.4	$66.3	$66.9
Banks	108.5	92.9	179.6	137.0	344.5	219.5
Cigarettes	284.4	279.9	270.5	275.0	451.0	435.1
Corporations	1,008.9	1,130.5	945.3	586.7	799.4	848.9
Deeds	98.0	116.0	129.6	134.3	147.5	146.8
Income	8,036.6	9,041.9	9,902.7	7,912.9	8,026.1	7,998.6
Inheritance and Estate	173.9	166.5	203.4	200.6	181.3	167.8
Insurance	336.3	334.6	356.5	382.9	387.8	385.6
Motor Fuel	636.5	652.6	659.9	666.8	676.4	685.8
Public Utilities	132.5	83.0	86.7	88.4	40.6	43.3
Racing	8.3	7.8	7.5	2.7	-	-
Room Occupancy	119.4	137.0	149.6	123.3	120.0	98.5
Sales:						
Regular	2,351.2	2,552.1	2,705.8	2,601.4	2,583.6	2,598.9
Meals	436.2	456.8	482.0	500.9	512.0	509.6
Motor Vehicles	482.4	556.4	568.0	593.6	612.5	599.2
Sub-Total - Sales	3,269.8	3,565.3	3,755.8	3,695.9	3,708.1	3,707.7
Miscellaneous	17.4	17.5	17.9	15.1	14.3	3.6
Total Tax Revenues	14,291.5	15,688.6	16,729.2	14,287.0	14,963.5(6)	14,808.0
MBTA Transfer(2)	-	-	(654.6)	(664.3)	(684.3)	(684.3)
Total Budgeted Operating Tax Revenues	14,291.5	15,688.6	16,074.7	13,622.7	14,279.2	14,123.7
Non-Tax Revenues:						
Federal Reimbursements(3)	3,442.9	3,645.6	3,974.2	4,334.9	4,583.0	4,957.5
Departmental and Other Revenues	1,297.8	1,359.9	1,425.9	1,485.2	1,505.9	1,750.9
Inter-fund Transfers from Non-Budgeted Funds and Other Sources(4)	1,132.8	1,893.0	1,385.9	1,732.0	1,607.8	1,558.1
Budgeted Non-Tax Revenue and Other Sources	5,873.5	6,898.5	6,786.0	7,552.2	7,696.7	8,266.5
Budgeted Operating Revenues and Revenues From Other Sources	$20,165.0	$22,587.0	$22,860.6(5)	$21,174.9	$21,975.9	$22,390.2

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

(1) Totals may not add due to rounding. The table does not reflect inter-fund transfers among budgeted funds and other sources that have no effect on ending balances.
(2) If the law that moved support of the MBTA to a non-budgeted expenditure and transferred a dedicated a portion of the Commonwealth's sales tax to the MBTA had been in effect in fiscal 1999 and fiscal 2000, transfers of sales tax revenue to the MBTA would have been $499.1 million and $561.9 million, respectively. See "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS—Massachusetts Bay Transportation Authority - Financial Restructuring."
(3) Includes $184.7 million, $179.0 million, $187.4 million and $199.6 million in fiscal 1999-2002, respectively, and an estimated $171.0 million in fiscal 2003 and a projected $171.0 million in fiscal 2004 resulting from claims for federal reimbursement of certain uncompensated care for Massachusetts hospitals.
(4) Inter-fund transfers represent accounting transfers among funds, see "COMMONWEALTH REVENUES—Federal and Other Non-Tax Revenues," including transfers between Stabilization Fund and budgeted operating funds. For the Budgeted Operating Funds, inter-fund transfers include transfers of profits from the State Lottery and Arts Lottery Funds and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for $870.0 million, $902.1 million, $931.6 million, $941.3 million and $944.7 million in fiscal 1999 through 2003, respectively, and are projected to account for $1.014 billion in fiscal 2004. This figure also includes annual tobacco settlement payments, which account for $326.2 million in fiscal 2000, $242.5 million in fiscal 2001, $304.5 million in fiscal 2002, an estimated $300.0 million in fiscal 2003 and a projected $282.9 million for fiscal 2004.
(5) On July 1, 2000, the Mosquito and Greenhead Fly Control Fund was reclassified as a non-budgeted fund. Prior years have not been restated.

(6) Includes approximately $174.0 million in fiscal 2003 revenue resulting from a tax amnesty program. See "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS—Fiscal 2003."

(7) Beginning July 1, 2003, the Convention Center Fund, the Head Injury Treatment Services Fund and the Natural Heritage and Endangered Species Fund were reclassified as a non-budgeted fund. Prior years have not been restated.

State Taxes

The major components of state taxes are the income tax, which is projected to account for approximately 54% of total tax revenues in fiscal 2004, the sales and use tax, which is projected to account for approximately 25% and the corporations and other business and excise taxes (including taxes on insurance, financial institution and public utility corporations), which are projected to account for approximately 10%. Other tax and excise sources are projected to account for the remaining 11% of total fiscal 2004 tax revenues.

During fiscal 1999 through fiscal 2002, legislation was implemented that had the net effect of reducing revenues by decreasing income tax rates or increasing or establishing various deductions and credits. In addition, several administrative changes were implemented that reduced revenues. During fiscal 2003, legislation was implemented that reversed or delayed some of the previous tax reductions, and implemented increases in other taxes. The incremental net effect of these tax law and administrative changes (relative to the immediately preceding fiscal year) is estimated by the Department of Revenue to have been a reduction of approximately $1 billion of fiscal 1999 revenues, $180 million of fiscal 2000 revenues, $790 million of fiscal 2001 revenues and $700 million of fiscal 2002 revenues. In fiscal 2003, tax law changes (including the so-called loophole closing measures described below) are estimated to have increased revenue collections by a net amount of approximately $900 million. The Department of Revenue estimates that in fiscal 2004, the impact of tax law and administrative changes (including a reduction in tax revenues resulting from the one-time impact of tax increases and the amnesty program in fiscal 2003) will be to reduce tax collections by approximately $180 million compared to fiscal 2003.

Legislation enacted as part of the General Appropriation Act (GAA) for fiscal 2003 authorized the Department of Revenue to create an amnesty program for all types of taxes excluding those paid under the International Fuel Tax Agreement. Initially, this program ran from October 1, 2002 through November 30, 2002. Later legislation created a second amnesty period from January 2, 2003 through February 28, 2003. Successful participants in the amnesty program had penalties waived. Collectively, a gross amount of approximately $174.0 million was raised through the amnesty program, although it is likely that some of this revenue would have been received under the Department of Revenue's normal billing and collections processes.

Legislation enacted as part of the fiscal 2004 GAA affected the calculation of interest on refunds for a wide array of tax types. Under these provisions, changes were made to the interest rate, substantiation requirements and dates from which interest is calculated. The Department of Revenue estimates that if fully implemented, these changes will result in approximately $30 million in lower interest payments on tax refunds in fiscal 2004. However, due to an apparent administrative oversight, several sections that were included in the House and Senate versions of the fiscal 2004 budget were omitted from the enacted fiscal 2004 GAA. If not rectified, this omission will reduce refund interest savings substantially.

The following table shows major tax law changes enacted since tax year 2001, with the rates and deductions in effect before and after the changes:

Tax Law Changes Since Tax Year 2001

Tax Law Change	2001	2002	2003	2004
Part B Income Tax Rate (reduction to 5.0% delayed)	5.6%	5.3%	5.3%	5.3%
Long-Term Capital Gains Tax Rate	0% to 5% depending on holding period	0% to 5% depending on holding period for capital gains realized before 5/1/02 5.3% for capital gains realized on or after 5/1/02	5.3%	5.3%
Charitable Deduction	Up to 30-50% of taxable income	None	None	None
Cigarette Tax	$0.76 per pack	$0.76 per pack prior to July 2002 $1.51 per pack effective July 2002	$1.51 per pack	$1.51 per pack

Income Tax. The Commonwealth assesses personal income taxes at flat rates, according to classes of income, after specified deductions and exemptions. A rate of 5.3% has been applied to most types of income since January 1, 2002. The tax rate on gains from the sale of capital assets held for one year or less and from the sale of collectibles is 12% and the tax rates on gains from the sale of capital assets owned more than one year is 5.3%. Interest on obligations of the United States and of the Commonwealth and its political subdivisions is exempt from taxation.

Prior to January 1, 1999, a different rate was applied to "Part A" income (generally, interest and dividends) and "Part B" income (generally, "earned" income from employment, professions, trades, businesses, rents and royalties). The rate on Part A income was 12% prior to January 1, 1999; it was reduced to 5.95% as of January 1, 1999 and as of January 1, 2000 is the same as the rate on Part B income. The rate on Part B income was 5.95% prior to January 1, 2000, when it was reduced to 5.85%. The rate on Part B income was reduced to 5.6% on January 1, 2001 and to 5.3% on January 1, 2002 by an initiative petition approved by Massachusetts voters on November 7, 2000. This initiative petition also mandated a reduction in the Part B rate to 5.0% on January 1, 2003.

Chapter 186 of the Acts of 2002, "An Act Enhancing State Revenues," was enacted on July 25, 2002, and made several changes to the state income tax. These included a delay of the scheduled Part B tax rate reduction from 5.3% to 5.0% for at least four years, suspension of the deduction for charitable contributions and a 25% reduction in personal exemptions. This legislation changed the tax structure for long term capital gains. Prior to May 2002, long term capital gains were taxed at rates ranging from 0% to 5%, depending on how long the asset had been held. Effective May 1, 2002, long term capital gains are taxed at the Part B income tax income rate, which is currently 5.3%. Chapter 186 also included a mechanism by which the tax year 2001 personal exemptions and charitable deductions would be gradually restored, and the tax rate on Part B income would be gradually reduced to 5.0%, in the event that "baseline" state tax revenue growth (i.e., revenue growth after factoring out the impact of tax law and administrative processing changes) grows by 2% more than the rate of inflation for state and government purchases. Based on the fiscal 2004 consensus revenue estimate, these restoration provisions would not be triggered until tax year 2006 at the earliest.

Based on the tax structure changes required by Chapter 186 of the Acts of 2002, the Department of Revenue estimates the following effects:

- Taxing capital gains at the Part B income rate increased fiscal 2003 revenues by $140 to $160 million and will increase fiscal 2004 revenues by $215 million to $250 million.
- The delay in the Part B rate reduction resulted in approximately $200 million in additional revenues during fiscal 2003 than would have been the case had the rate been reduced to 5.0% in calendar 2003.

- The suspension of the deduction for charitable contributions increased fiscal 2003 revenues by an estimated $172 million.

- The decrease in the personal exemption amounts resulted in $325 million in additional tax collections in fiscal 2003. The 25% cut in personal exemptions was retroactive to January 1, 2002, with the retroactive portion of the tax increase being paid primarily when taxpayers filed their tax year 2002 income tax returns in the spring of 2003. Because the retroactive nature of the fiscal 2003 revenue impact, the fiscal 2004 revenue gain will be smaller than it was in fiscal 2003. The Department of Revenue estimates that fiscal 2004 impact of the personal exemption reductions will be approximately $225 million, $100 million less than in fiscal 2003.

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

Beginning January 1, 1998, sales tax receipts from establishments that first opened on or after July 1, 1997, which are located near the building site of the Boston Convention and Exhibition Center, and sales tax receipts from new hotels in Boston and Cambridge that first opened on or after July 1, 1997 are required to be credited to the Convention Center Fund. In the fiscal 2004 GAA, this fund is no longer included in the calculation of revenues for Budgeted Operating Funds. See "LONG-TERM LIABILITIES—Special Obligation Debt; *Convention Center Fund*."

Beginning July 1, 2000, pursuant to "forward funding" legislation contained in the fiscal 2000 GAA, a portion of the Commonwealth's receipts from the sales tax, generally the amount raised by a 1% sales tax with an inflation-adjusted floor, is dedicated to the Massachusetts Bay Transportation Authority (MBTA) under a trust fund. See "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS—Massachusetts Bay Transportation Authority - Financial Restructuring." In fiscal 2004, the amount of such sales tax receipts is projected to be $684.3 million.

Business Corporations Tax. Business corporations doing business in the Commonwealth, other than banks, trust companies, insurance companies, railroads, public utilities and safe deposit companies, are subject to an excise that has a property measure and an income measure. The value of Massachusetts tangible property (not taxed locally) or net worth allocated to the Commonwealth is taxed at $2.60 per $1,000 of value. The net income allocated to Massachusetts, which is based on net income for federal taxes, is taxed at 9.5%. The minimum tax is $456. Both rates and the minimum tax include a 14% surtax.

Beginning January 1, 1996, legislation was phased in over five years establishing a "single sales factor" apportionment formula for the business corporations tax. The formula calculates a firm's taxable income as its net income times the percentage of its total sales that are in Massachusetts, as opposed to the prior formula that took other factors, such as payroll and property into account. The Department of Revenue has estimated that the revision reduced revenues by $66 million in fiscal 1999, by $74 million in fiscal 2000, by $62 million in fiscal 2001, by $38 million in fiscal 2002 and by $37 million in fiscal 2003.

Beginning January 1, 1997, legislation was phased in which sourced sales to the state of domicile of the ultimate consumer of a service instead of sourcing sales to the state where the seller bore the cost of performing services. The Department of Revenue estimated that this change resulted in a revenue reduction of approximately $110 million in fiscal 1999, $124 million in fiscal 2000, $116 million in fiscal 2001, $106 million in fiscal 2002 and $107 million in fiscal 2003 and projects that it will reduce revenues by approximately $119 million in fiscal 2004.

Legislation enacted in March 2003 closed several so-called loopholes in the corporate tax structure. Among these were provisions dealing with real estate investment trusts, qualified subchapter S subsidiaries, and payments to related parties for intangible expenses. See "*Bank Tax*."

Legislation enacted in March 2003 requires certain qualified subchapter S subsidiaries (QSUBs), as defined under Section 1361 of the Internal Revenue Code of 1986, as amended (Internal Revenue Code) and in effect for the taxable year, to pay the net income measure of the corporate excise under Section 32D of Chapter 63 of the Massachusetts General Laws. A tax rate of 3% will be imposed on the net income of each QSUB if the total receipts of the QSUB, the QSUB's parent and all the parent's other QSUBs for the taxable year are at least $6 million but less than $9 million. A tax rate of 4.5% will be imposed on the net income of each QSUB if the total receipts of the QSUB, the QSUB's parent and all the parent's other QSUBs for the taxable year are $9 million or more. The new tax is in addition to the tax on the QSUB's income currently levied on its parent (or shareholder or partners, etc., as the case may be). The new law also requires every QSUB that receives income that would have been taxed to it for federal income tax purposes had it been treated federally as a separate corporation to include, as a separate computation from the one above, such income in the net income measure of its corporate excise subject to tax at 9.5%. The Department of Revenue estimates that this change will result in additional revenue of approximately $30 million in fiscal 2004. It is also possible that additional revenue from this source was received in June 2003, but further analysis of data is required to determine whether this is in fact the case.

The legislation enacted in March 2003 also provided that, in computing net income under Chapter 63 of the Massachusetts General Laws, a taxpayer must generally add back certain payments remitted directly or indirectly to related parties for intangibles expenses and costs, including interest payments that relate to the intangibles transaction and also certain payments remitted directly or indirectly to related parties for interest costs and expenses. This change will have the effect of increasing taxable income for corporations that make royalty and other payments to related companies. The Department of Revenue estimates that as a result of this change, in fiscal 2003 approximately $40 million less in corporate tax refunds was paid than otherwise would have been the case, and $50 million in additional corporate tax revenue will be received in fiscal 2004.

Bank Tax. Commercial and savings banks are subject to an excise tax of 12.54%. In 1995, the Governor approved legislation reducing the rate over several years to 10.5%. The Department of Revenue has estimated that the tax cut, which was fully implemented in fiscal 2000, has an annualized value of approximately $30 million, taking into account an $18 million annualized gain resulting from the effect of provisions in the 1995 legislation that applied the tax to out-of-state banks and other financial institutions not previously taxed.

Legislation enacted in March 2003 clarified the treatment of Real Estate Investment Trust (REIT) distributions with respect to the dividends-received deduction. REIT distributions received by businesses subject to the Corporate Excise tax are not to be treated as dividends; and further, they have never been exempt from taxation or partially exempt. REIT distributions are subject to taxation at the recipient level. The Department of Revenue estimates that this change resulted in additional tax revenues of approximately $160 million to $180 million for fiscal 2003, about $19 million of which was the result of overpayments of estimated REIT tax liability during fiscal 2003, to be refunded in fiscal 2004 or applied to companies' future tax liabilities. Of the $160 million to $180 million in additional revenue, the Department of Revenue currently estimates that approximately $129 million was due to tax liabilities prior to tax year 2003, which will not recur in fiscal 2004 or subsequent fiscal years. The remaining $31million to $51 million in fiscal 2003 payments were due to additional tax year 2003 liabilities, which are projected to recur in fiscal 2004 and subsequent fiscal years. The Department of Revenue projects that the REIT change will result in approximately $25 million to $45 million of additional tax year 2003 payments during fiscal 2004, which are projected to recur in subsequent fiscal years.

Insurance Taxes. Life insurance companies are subject to a 2% tax on gross premiums. Domestic companies also pay a 14% tax on net investment income. Property and casualty insurance companies are subject to a 2% tax on gross premiums, plus a 14% surcharge for an effective tax rate of 2.28%. Domestic companies also pay a 1% tax on gross investment income.

Other Taxes. Other tax revenues are derived by the Commonwealth from excise taxes on motor fuels, cigarettes, alcoholic beverages and deeds, among other tax sources. The excise tax on motor fuels is $0.21 per gallon. Chapter 186 of the Acts of 2002 raised the tax on cigarettes from $0.76 per pack to $1.51 per pack and also raised the tax rate on other types of tobacco products. The Department of Revenue estimates that this change resulted in additional revenue of approximately $195 million in fiscal 2003. Legislation was enacted in March 2003 that allowed the Commissioner of Revenue to provide incentives for inheritance trusts to settle future obligations during fiscal 2003. Through this program, approximately $34 million was raised in fiscal 2003.

Recently, the United States Congress made numerous changes to Internal Revenue Code provisions relating to the estate and gift tax. For the estates of decedents dying on or after January 1, 2002, federal law raises the exemption amount and phases out the amount of the allowable credit for state death taxes by 25% a year until the credit is eliminated in 2005. Because the Massachusetts estate tax, prior to the recent statutory amendments, equaled the amount of the allowable federal credit for state death taxes, this federal change meant that the Massachusetts estate tax (known as a "sponge tax") would be phased out and eliminated unless legislative action was taken. In October 2002, the Massachusetts estate tax was preserved by "decoupling" the Massachusetts estate tax from the federal estate tax for decedents dying after 2002. The Massachusetts sponge tax is now tied to the Internal Revenue Code as in effect on December 31, 2000. These federal changes are estimated to have reduced fiscal 2003 collections by approximately $30-40 million, approximately $30 million of which will be restored for fiscal 2004.

In 1994, voters in the statewide general election approved an initiative petition, effective December 8, 1994, that would slightly increase the portion of gasoline tax revenue credited to the Highway Fund, one of the Commonwealth's three major budgeted operating funds, prohibit the transfer of money from the Highway Fund to other funds for non-highway purposes and exclude the Highway Fund balance from the computation of the "consolidated net surplus" for purposes of state finance laws. The initiative petition also provided that no more than 15% of gasoline tax revenues could be used for mass transportation purposes, such as expenditures related to the MBTA. This law is not a constitutional amendment and is subject to amendment or repeal by the Legislature, which may also, notwithstanding the terms of the initiative petition, appropriate monies from the Highway Fund in such amounts and for such purposes as it determines, subject only to a constitutional restriction that such monies be used for motor vehicle, highway or mass transportation purposes. On five occasions, the Legislature has postponed the effective date of the provision that would exclude the Highway Fund balance from the computation of the consolidated net surplus. The most recent postponement has expired, and the Highway Fund's exclusion from the calculation of the consolidated net surplus took effect on July 1, 2002. The Governor has filed legislation that would extend the expiration date to July 1, 2006.

Tax Revenue Forecasting

Under state law, on or before October 15 and March 15 of each year, the Secretary of Administration and Finance is required to submit to the Governor and to the House and Senate Committees on Ways and Means estimates of revenues available to meet appropriations and other needs in the current and following fiscal year. On or before October 15, January 15 and April 15, the Secretary is required to submit revised estimates for the current fiscal year unless, in his opinion, no significant changes have occurred since the last estimate of total available revenues. On or before May 15 of each year, the Secretary is required to develop jointly with the House and Senate Committees on Ways and Means a consensus tax revenue forecast for the following fiscal year. The fiscal 2004 GAA requires that subsequent consensus tax revenue forecasts be net of the amount necessary to transfer from the General Fund to the Commonwealth's Pension Liability Fund to fully fund the pension system according to the applicable funding schedule. See "COMMONWEALTH PROGRAMS AND SERVICES—Commonwealth Pension Obligations."

Fiscal 1999. The fiscal 1999 GAA was enacted on the basis of a consensus tax revenue forecast of $14.4 billion, as agreed by both houses of the Legislature and the Secretary of Administration and Finance in May 1998. The tax cuts incorporated into the budget, at the time valued by the Department of Revenue at $990 million in fiscal 1999, had the effect of reducing the consensus forecast to $13.41 billion. On August 19, 1998, the Secretary of Administration and Finance raised the fiscal 1999 tax estimate by $200 million to approximately $13.610 billion. The fiscal 1999 tax estimate was raised again in the Governor's fiscal 2000 budget submission, filed on January 27, 1999, to $14.000 billion. On May 7, 1999, the Secretary of Administration and Finance increased the fiscal 1999 tax estimate to $14.160 billion. Fiscal 1999 budgeted tax collections totaled approximately $14.291 billion.

Fiscal 2000. The fiscal 2000 GAA was enacted in November 1999 on the basis of a consensus tax revenue forecast of $14.850 billion, as agreed by both houses of the Legislature and the Secretary of Administration and Finance in late April 1999. The tax cuts incorporated into the budget, valued by the Department of Revenue at $145 million in fiscal 2000, had the effect of reducing the consensus forecast to $14.705 billion. The fiscal 2000 tax estimate was raised to $15.288 billion in the Governor's fiscal 2001 budget submission, filed on January 26, 2000. On April 18, 2000 the Secretary of Administration and Finance revised the fiscal 2000 revenue estimate upward by $170 million to $15.458 billion. Fiscal 2000 budgeted tax collections totaled approximately $15.689 billion.

Fiscal 2001. The fiscal 2001 GAA was enacted in July 2000 on the basis of a consensus tax revenue forecast of $15.928 billion. The inclusion of a charitable tax deduction in the fiscal 2001 budget had the effect of reducing the consensus forecast to $15.849 billion. The consensus forecast included $645.6 million of sales tax receipts dedicated to the MBTA. On October 11, 2000, the Secretary of Administration and Finance increased the fiscal 2001 estimate to $16.209 billion; taking into account the reduction in personal income tax rates approved by the voters on November 7, 2000 (see "State Taxes; Income Taxes"), the revised estimate was $16.074 billion. On January 24, 2001, in conjunction with the filing of the Governor's fiscal 2002 budget recommendation, the fiscal 2001 estimate was raised to $16.234 billion. Fiscal 2001 budgeted tax collections totaled approximately $16.729 billion, before transfers to the MBTA.

Fiscal 2002. No consensus tax revenue forecast for fiscal 2002 was agreed to by the Legislature and the Secretary of Administration and Finance by May 15, 2001, as required by state finance law. At that time the legislative consensus tax revenue estimate for fiscal 2002 was $16.578 billion (inclusive of sales tax revenues dedicated to the MBTA), while the estimate of the Secretary of Administration and Finance was $16.343 billion. Due to deterioration in tax collections and the weakening economy in the Commonwealth, on October 25, 2001, the Secretary of Administration and Finance announced a revised fiscal 2002 revenue estimate of $15.594 billion, a decrease of $750 million. The fiscal 2002 GAA was enacted in December 2001 on the basis of a $15.600 billion tax revenue estimate made by the Legislature. Based on continuing tax revenue declines, the fiscal 2002 tax revenue forecast was further reduced three more times before the end of fiscal 2002: in January 2002, as part of the Governor's fiscal 2003 budget recommendation, the Secretary of Administration and Finance reduced the fiscal 2002 revenue estimate by $189 million, to $15.405 billion; in April 2002 the Governor and legislative leaders agreed on a reduction to $14.750 billion and in May 2002 the Secretary of Administration and Finance again reduced the fiscal 2002 tax revenue estimate by an additional $470.0 million to $14.280 billion. Fiscal 2002 budgeted tax collections totaled approximately $14.287 billion, before transfers to the MBTA.

Processing of tax year 2001 income tax returns was delayed. Over the January to June 2002 period, approximately $265 million in income tax refunds and approximately $9 million in tax payments were delayed, compared to the same period in 2001. The State Comptroller accrued the tax refund liability and related receivables in fiscal 2002, although payments and deposits were processed in early fiscal 2003.

On March 9, 2002 federal tax legislation was enacted that allowed an additional first-year depreciation deduction for corporations equal to 30% of the cost of certain types of property purchased on or after September 11, 2001 and before September 11, 2004. Under Massachusetts law, corporations (including insurance, public utilities and financial institutions organized as corporations) had been taxed on the basis of their net income as calculated for federal taxation purposes, after depreciation allowances are deducted. Unincorporated businesses also were allowed depreciation allowances based on the Internal Revenue Code. As a result, the taxable income of corporations and unincorporated businesses subject to Massachusetts tax was expected to be reduced in tax years 2001 through 2003 by the new federal depreciation deduction, be increased for approximately 11 years thereafter and would be approximately revenue neutral. In April 2002, the Governor signed into law a bill that "decoupled" the Massachusetts revenue code from federal depreciation provisions. The law effectively repealed the additional depreciation deduction for the purposes of Massachusetts state tax. However, since corporate taxpayers had already adjusted their payments due on March 15, 2002, the Department of Revenue estimates that the impacts of the federal provision were to reduce fiscal 2002 tax revenue collections by $30 million, and increased fiscal 2003 tax collections by approximately the same amount.

Fiscal 2003. On April 15, 2002, Acting Governor Swift and legislative leaders agreed to a consensus tax revenue estimate of $14.716 billion. The Department of Revenue estimated that $684.3 million of sales tax revenue dedicated to the MBTA was included in the $14.716 billion figure. On June 11, 2002, the Secretary of Administration and Finance revised the fiscal 2003 tax revenue estimate downward to $14.175 billion, reflecting a forecast of lower growth in income and corporate tax revenue. In July 2002, the Secretary of Administration and Finance again revised the tax revenue estimate downward to $14.116 billion. The revised estimate assumed that tax cuts scheduled to take effect under then-current tax law would remain in effect.

The fiscal 2003 GAA was enacted in July 2002, based on a consensus tax revenue forecast of $14.116 billion, plus $1.241 billion in estimated tax increases. The tax increase legislation, also enacted in July 2002, included increases in the cigarette tax, the tax on capital gains, elimination of the personal income tax charitable deduction, decreases in personal income tax exemptions and a delay in the implementation of scheduled tax cuts, which would have reduced the tax rate on most non-capital gains income from 5.3% in tax year 2002 to 5.0% in tax year 2003. The fiscal 2003 GAA included provisions that would conform state tax treatment of certain retirement accounts and mobile telecommunications services to federal law, which the Department of Revenue estimated would reduce fiscal 2003 tax collections by approximately $8 million. The fiscal 2003 GAA also included provisions for a tax amnesty to be implemented in fiscal 2003, which the Department of Revenue then estimated would increase tax revenue collections by $43 million. These estimates yielded a fiscal 2003 tax revenue forecast of $15.393 billion, of which $684.3 million of sales tax revenue would be dedicated to the MBTA. On October 17, 2002, the Secretary of Administration and Finance reduced the fiscal 2003 tax revenue estimate by $247.0 million to $15.145 billion. On February 3, 2003, The Secretary of Administration and Finance reduced the tax revenue estimate by an additional $497.0 million to $14.648 billion. Subsequently, the fiscal 2003 tax revenue estimate was increased to $14.748 billion to account for increased revenue estimated to result from the closing of certain so-called tax loopholes. See State Taxes; *Bank Tax*" and "State Taxes; *Other Taxes*." It is estimated that fiscal 2003 budgeted tax collections totaled approximately $14.964 billion, before transfers to the MBTA.

The following table shows the tax collections for each month of fiscal 2003 and the change from tax collections in the same month in the prior year, both in dollars and as a percentage. The table also notes the amount of tax collections in each month that are dedicated to the MBTA.

Fiscal 2003 Budgeted Tax Collections (in millions)(1)

Month	Tax Collections(3)	Change From Year Prior	Percentage Change	MBTA Portion(4)	Collections, net of MBTA
July	$1,012.7	($13.4)	(1.3%)	$57.5	$955.2
August	1,063.8	(49.2)	(4.4)	54.1	1,009.8
September	1,558.2	33.9	2.2	59.5	1,498.7
October	933.3	(36.1)	(3.7)	55.1	878.2
November	1,014.9	(28.5)	(2.7)	48.7	966.3
December	1,394.4	65.4	4.9	67.3	1,327.1
January	1,486.3	(93.7)	(5.9)	65.8	1,420.5
February	840.6	38.5	4.8	43.4	797.2
March	1,391.8	96.7	7.5	61.8	1,329.9
April	1,408.4	58.6	4.3	52.2	1,356.2
May	1,287.7	204.4	18.9	52.9	1,234.8
June	1,571.4	399.7	34.1	66.0(2)	1,505.4
Total (2)	$14,963.5	$676.4	4.7%	$684.3	$14,279.2

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding. Fiscal 2003 totals are estimated; subject to change.
(2) Estimated; subject to change.
(3) Year-to-date total tax collections include approximately $174.0 million in gross revenue collections from the tax amnesty program.
(4) Includes adjustments of $8.1 million on account of the first quarter, $13.4 million on account of the second quarter, $14.2 million on account of the third quarter and an estimated $9.7 million on account of the fourth quarter to increase revenues to the base amount during fiscal 2003.

Fiscal 2004. On February 5, 2003 the Secretary for Administration and Finance and the legislative leadership announced a consensus estimate of Commonwealth tax revenues for fiscal 2004 of $14.678 billion, of which $684.3 million is sales tax revenue dedicated to the MBTA. The fiscal 2004 GAA was based on a tax revenue estimate of $14.808 billion, comprised of the consensus tax revenue estimate of $14.678 billion, plus $174.0 million in additional revenues attributable to legislation closing various so-called tax loopholes. This figure also reflects an adjustment of $44.1 million in tax revenue dedicated to the Convention Center Fund, which was transferred from a Budgeted Operating Fund to a non-Budgeted Operating Fund. Preliminary results indicate that July 2003 tax revenue collections totaled $1,066.2 million, of which approximately $58.1 million was sales tax revenue dedicated to the MBTA. The July 2003 tax revenue results represent a 5.3% increase as compared to tax revenue collections in July 2002.

Federal and Other Non-Tax Revenues

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

For the Budgeted Operating Funds, inter-fund transfers include transfers of profits from the State Lottery and Arts Lottery Funds and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for $870.0 million, $902.1 million, $931.6 million, $941.3 million and an estimated $944.7 million in fiscal 1999 through 2003, respectively, and are projected to account for $1.014 billion in fiscal 2004.

On May 28, 2003, President Bush signed into federal law the "The Jobs and Growth Reconciliation Act of 2003." Initial review of this legislation indicates that Massachusetts could be eligible to receive up to approximately $550 million of the $20 billion total made available to states under the legislation. The estimated funding to Massachusetts would be comprised of increased Federal Medicaid Assistance Percentage (FMAP) in the amount of approximately $334 million and temporary direct fiscal relief in the amount of approximately $215.9 million. The fiscal 2004 GAA relied on $100.0 million, of which $55.0 million is increased FMAP to be transferred to the Uncompensated Care Pool and $45 million is to be deposited in the General Fund. The Administration now plans to draw down a total of approximately $57.7 million in fiscal 2003 and $271 million in fiscal 2004. The fiscal 2004 amount is comprised of $215.9 million in general fiscal relief plus the aforementioned $55.0 million in FMAP funds. See "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS—Fiscal 2004."

Tobacco Settlement

On November 23, 1998, the Commonwealth joined with other states in a master settlement agreement that resolved the Commonwealth's and other states' litigation against the cigarette industry. Under the agreement, cigarette companies have agreed to make both annual payments (in perpetuity) and five initial payments (for the calendar years 1999 to 2003, inclusive) to the settling states. Each payment amount is subject to applicable adjustments, reductions and offsets, including upward adjustments for inflation and downward adjustments for decreased domestic cigarette sales volume.

The Commonwealth's allocable share of the base amounts payable under the master settlement agreement is approximately 4.04%. The Commonwealth's allocable share of the base amounts under the agreement through 2025 is more than $8.3 billion, subject to adjustments, reductions and offsets. As of June 30, 2003, the Trustees of the Health Care Security Trust, who manage the long-term investments of the proceeds from the Tobacco Settlement estimated the net asset market value of those investments at $477.1 million.

Outside attorneys for the Commonwealth were awarded approximately $775 million in fees to be paid over time by the tobacco companies. The outside attorneys have filed a breach of contract claim regarding the fee agreement. See "LEGAL MATTERS."

During fiscal 2000, the Legislature enacted two related laws to provide for disposition of the tobacco settlement payments. The legislation created a permanent trust fund (the Health Care Security Trust) into which the Commonwealth's tobacco settlement payments, other than payments for attorneys' fees, are to be deposited. The legislation contemplated that a portion of the monies in the trust fund would be available for appropriation by the Legislature to supplement existing levels of funding for health-related services and programs, and the remainder of the monies in the trust fund would be held as a reserve fund and would not be appropriated. For fiscal 2000 through fiscal 2004, the amounts to be available for such purposes were originally stipulated to be $91.2 million, $94.0 million, $96.0 million, $98.0 million and $100.0 million, respectively, adjusted for the discounted amounts received by the Commonwealth in comparison to the master settlement agreement. The fiscal 2002 GAA changed this formula to 50% of amounts received in the settlement for fiscal 2002, fiscal 2003 and fiscal 2004. Beginning with fiscal 2005, 30% of the annual payments (not including any Strategic Contribution Fund payments) and 30% of the earnings on the balance in the trust fund were to be available for such purposes.

The fiscal 2003 GAA appropriated 100% of the fiscal 2003 annual tobacco settlement payment for current-year spending, which is estimated by the Executive Office for Administration and Finance to be approximately $295.7 million. The fiscal 2004 GAA will also utilize 100% of the annual tobacco settlement payment ($282.9 million base amount) for current-year spending. See "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS—Fiscal 2003" and "—Fiscal 2004."

The Commonwealth was also awarded $414.3 million from a separate Strategic Contribution Fund established under the master settlement agreement to reward certain states' particular contributions to the national tobacco litigation effort. This additional amount, also subject to a number of adjustments, reductions and offsets, is payable in equal annual installments during the years 2008 through 2017.

The following table sets forth the amounts received by the Commonwealth to date:

Payments from the Tobacco Master Settlement Agreement (in millions)(1)

Fiscal Year	Initial Payments	Annual Payments	Total Payments	Total Spending(5)
2000	$186.6(2)	$139.6	$326.2(2)	$46.4
2001	78.2	164.2	242.5	91.5
2002	82.8	221.7	304.5	214.8
2003	86.4	213.6	300.0(4)	295.7(3)
2004	-	282.9(3)	282.9(3)	282.9(3)
Total	$434.0	$1,022.0	$1,456.1	$931.3

SOURCES: Fiscal 2000-2002, Office of the Comptroller; fiscal 2003-2004, Executive Office for Administration and Finance.

(1) Amounts are approximate. Totals may not add due to rounding.
(2) Payments received for both 1999 and 2000.
(3) Projected amounts; subject to change.
(4) Includes one-time payment of $7 million received in the last quarter of fiscal 2003 that was part of a multi-state settlement on a number of outstanding master settlement agreement payment issues.
(5) Does not include transfers to Health Care Quality Improvement Fund of monies unrelated to tobacco settlement payments.

Limitations on Tax Revenues

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

Chapter 62F was amended by the fiscal 2003 GAA and the fiscal 2004 GAA to establish an additional tax revenue limitation. The fiscal 2003 GAA created a quarterly cumulative "permissible tax revenue" limit equal to the cumulative year-to-date actual state tax revenue collected during the same fiscal period in the prior fiscal year, increased by the sum of the most recently available year-over-year inflation rate plus two percentage points. Effective July 1, 2003, at the end of each quarter the Commissioner of Revenue must calculate cumulative permissible tax revenue. The Comptroller must then divert tax revenue in excess of permissible tax revenue from the General Fund to a temporary holding account to make such excess revenue unavailable for expenditure. If actual tax revenue collections fall short of the permissible limit, the difference flows back into the General Fund. At the end of each fiscal year, tax revenue in excess of permissible state tax revenue for the year will be held in the temporary holding account pending disposition by the Comptroller. The fiscal 2004 GAA requires that at the end of each fiscal year, the state comptroller must transfer such excess revenue from the holding account back to the General Fund.

Tax revenues in fiscal 1999 through fiscal 2002 were lower than the limit set by Chapter 62F, and the Executive Office for Administration and Finance estimates that state tax revenues in fiscal 2003 and fiscal 2004 will not reach such limit. For fiscal 2002, as calculated by the State Auditor pursuant to Chapter 62F, net state tax revenues were approximately $14.343 billion and allowable state tax revenues were approximately $19.661 billion. The Executive Office for Administration and Finance also does not expect actual state tax revenue collected during fiscal 2003 or fiscal 2004 to exceed either the allowable or the permissible state tax revenue limits set by Chapter 62F.

COMMONWEALTH PROGRAMS AND SERVICES

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

Commonwealth Expenditures—Budgeted Operating Funds (in millions)

Expenditure Category	Fiscal 1999	Fiscal 2000	Fiscal 2001(2)	Fiscal 2002	Estimated Fiscal 2003	Projected Fiscal 2004
Direct Local Aid	$ 4,310.2	$ 4,675.1	$4,969.4	$5,189.1	$5,069.6	$4,781.6
Medicaid(1)	3,856.4	4,269.9	4,642.3	5,259.3	5,496.0	5,921.0
Public Assistance	987.6	960.0	991.4	1,029.6	1,029.0	1,012.5
Other Health/Human Services	2,258.3	2,446.6	2,601.5	2,565.3	3,255.4	3,220.9
Debt Service	1,173.8	1,193.3	695.2(3)	1,304.7	1,417.7	1,597.6
Higher Education	929.8	995.0	1,102.3	1,029.5	968.4	784.4
Group Insurance	566.0	588.5	641.4	716.9	752.1	809.1
Other Program Expenditures	4,432.9	5,395.7	4,500.5	4,623.0	3,513.9	3,437.8
Budgeted Pension Transfers	990.2	986.3	1,040.1	795.8	813.5	16.8
Non-Budgeted Pension Transfers	-	-	-	-	-	687.3(4)
Inter-fund Transfers to Non-budgeted Funds—Other	739.6	903.8	949.6	287.1	74.7	74.7
Adjusted Expenditures and Other Uses	$20,244.7	$22,414.1	$ 22,133.7	$22,800.3	$22,390.3	$22,343.7

SOURCES: Executive Office for Administration and Finance and Office of the State Comptroller.

(1) Excludes off-budget Medicaid spending in fiscal 2003 and 2004 estimated at $282.0 million and $493.0 million, respectively.
(2) Restated for the Mosquito and Greenhead Fly Control Fund, which became a non-budgeted fund in fiscal 2002.
(3) In fiscal 2001, the Commonwealth enacted legislation that defeased $650.0 million of outstanding debt by transferring operating surplus and appropriations to the Debt Defeasance Trust Fund, which is non-budgeted. If such cash defeasance had not occurred, then debt service would have been $1,299.9 million in fiscal 2001.
(4) The fiscal 2004 GAA funded the Commonwealth's scheduled pension obligation using $687.3 million in cash and a transfer of assets to the pension liability fund valued at $145.0 million. See "Commonwealth Pension Obligations; *Unfunded Actuarial Accrued Liability*."

Local Aid

Commonwealth Financial Support for Local Governments. The Commonwealth makes substantial payments to its cities, towns and regional school districts (Local Aid) to mitigate the impact of local property tax limits on local programs and services. Local Aid payments to cities, towns and regional school districts take the form of both direct and indirect assistance. Direct Local Aid consists of general revenue sharing funds and specific program funds sent directly to local governments and regional school districts as reported on the so-called "cherry sheet" prepared by the Department of Revenue, excluding certain pension funds and non-appropriated funds. In fiscal 2003, it is estimated that 22.6% of the Commonwealth's spending was allocated to direct Local Aid, after taking into account reductions undertaken during fiscal 2003 as described below. In fiscal 2004, approximately 21.4% of the Commonwealth's projected spending is estimated to be allocated to direct Local Aid.

As a result of comprehensive education reform legislation enacted in June 1993, a large portion of general revenue sharing funds are earmarked for public education and are distributed through a formula designed to provide more aid to the Commonwealth's poorer communities. The legislation requires the Commonwealth to distribute aid to ensure that each district reaches at least a minimum level of spending per public education pupil. For fiscal 2004, $2.902 billion was required to reach the minimum spending level statewide as required by law, and the Commonwealth provided a total of $3.108 billion. Since fiscal 1994, the Commonwealth has fully funded the requirements imposed by this legislation in each of its annual budgets. The Lottery and Additional Assistance programs, which comprise the other major components of direct Local Aid, provide unrestricted funds for municipal use. There are also several specific programs funded through direct Local Aid, such as school building construction and police education incentives.

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

Recent Reductions in Local Aid. During fiscal 2003, Governor Romney reduced Local Aid in response to declining revenues, pursuant to authority under Chapter 29, Section 9C of the Massachusetts General Laws. On January 30, 2003, the Romney Administration announced $114.4 million in reductions to Additional Assistance and lottery distributions to cities and towns.

In the fiscal 2004 GAA, direct Local Aid was reduced by an additional $288.7 million, or 5.7%, primarily through a $150.8 million reduction in aid for education, a $67.1 million reduction in aid for school transportation costs, a $25.2 million reduction in Additional Assistance and a $44.0 million reduction in lottery distributions.

Property Tax Limits. In November 1980, voters in the Commonwealth approved a statewide tax limitation initiative petition, commonly known as Proposition 2½, to constrain levels of property taxation and to limit the charges and fees imposed on cities and towns by certain governmental entities, including county governments. Proposition 2½ is not a provision of the state constitution and accordingly is subject to amendment or repeal by the Legislature. Proposition 2½, as amended to date, limits the property taxes that may be levied by any city or town in any fiscal year to the lesser of (i) 2.5% of the full and fair cash valuation of the real estate and personal property therein, and (ii) 2.5% over the previous year's levy limit plus any growth in the tax base from certain new construction and parcel subdivisions. Proposition 2½ also limits any increase in the charges and fees assessed by certain governmental entities, including county governments, on cities and towns to the sum of (i) 2.5% of the total charges and fees imposed in the preceding fiscal year, and (ii) any increase in charges for services customarily provided locally or services obtained by the city or town at its option. The law contains certain override provisions and, in addition, permits debt service on specific bonds and notes and expenditures for identified capital projects to be excluded from the limits by a majority vote at a general or special election. At the time Proposition 2½ was enacted, many cities and towns had property tax levels in excess of the limit and were therefore required to roll back property taxes with a concurrent loss of revenues. Between fiscal 1981 and fiscal 2003, the aggregate property tax levy grew from $3.346 billion to $8.494 billion, a compound annual growth rate of 4.3%.

Many communities have responded to the limitation imposed by Proposition 2½ through statutorily permitted overrides and exclusions. There are three types of referenda questions (override of levy limit, exclusion of debt service, or exclusion of capital expenditures) that permit communities to exceed the limits of Proposition 2½. Override activity steadily increased throughout the 1980's before peaking in fiscal 1991and decreasing thereafter. In fiscal 2003, 52 communities had successful override referenda that added an aggregate of approximately $20.7 million to their levy limits. Capital exclusions were passed by 11 communities in fiscal 2003 and totaled approximately $0.9 million.

Initiative Law. A statute adopted by voter initiative petition at the November 1990 statewide election regulates the distribution of Local Aid to cities and towns. As enacted in 1992 and subsequently amended, this statute requires that, subject to annual appropriation, no less than 40% of collections from personal income taxes, corporate excise taxes and lottery fund proceeds and 32% of collections from sales and use taxes be distributed to cities and towns. By its terms, the new formula would have provided for a substantial increase in direct Local Aid in fiscal 1992 and subsequent years. Nonetheless, Local Aid payments remain subject to annual appropriation by the Legislature, and the appropriations for Local Aid since the enactment of the initiative law have not met the levels set forth in the initiative law.

Medicaid

The Medicaid program provides health care to low-income children and families, certain low-income adults, disabled individuals and low-income elders. The program, which is administered by the Executive Office of Health and Human Services, receives 50% in federal reimbursement on most expenditures. Beginning in fiscal 1999, payments for some children's benefits are 65% federally reimbursable under the State Children's Health Insurance Program (SCHIP).

Over a quarter of the Commonwealth's budget is slated for health care programs. In fiscal 2003, Medicaid accounted for more than half of the Commonwealth's appropriations for health care. It was the largest item in the Commonwealth's budget and has been one of the fastest growing budget items. Medicaid spending from fiscal 1999 to fiscal 2003 has grown by 11% on a compound annual basis. During the same period, Medicaid enrollment has increased by 4% on a compound annual basis. The Executive Office for Administration and Finance projects total fiscal 2004 expenditures for Medicaid to be $6.414 billion, an increase of 11% over fiscal 2003. The rate of growth of the Medicaid program has slowed since fiscal 2002 due to a number of cost control initiatives, including reductions in benefits and eligibility reductions. In fiscal 2003, the Medicaid program did not exceed its appropriated amount, as had occurred in previous years.

Medicaid Program Growth in Expenditures and Enrollment

	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002	Estimated Fiscal 2003	Projected Fiscal 2004
Budgeted Medicaid Expenses (in millions)	$3,856.4	$4,269.9	$4,642.3	$5,259.3	$5,496.0	$5,921.0
Off-budget Medicaid Expenses (in millions)	-	-	-	-	282.0	493.0
Total Expenditures (in millions)	$3,856.4	$4,269.9	$4,642.3	$5,259.3	$5,778.0	$6,414.0
Annual Percent Growth in Total Expenditures		11%	9%	13%	10%	11%
Enrollment	882,852	930,809	947,771	1,003,852	1,032,591	1,107,677
Annual Percent Growth in Enrollment		5%	2%	6%	3%	7%
Per Capita Expenditures	$4,368.1	$4,587.3	$4,898.1	$5,239.1	$5,595.6	$5,790.5
Annual Percent Growth in Per Capita Expenditures		5%	7%	7%	7%	3%

SOURCE: Executive Office for Administration and Finance.

Medicaid spending varies by type of Medicaid member. Medicaid spending on disabled individuals and elders together accounts for over 70% of total spending and 30% of total caseload. Low-income children and families account for only 30% of total Medicaid spending but 70% of total caseload. Increasing per capita costs are attributable to the extensive reliance on community based long-term care by elderly and disabled individuals, an increase in the number of prescriptions filled and escalating costs of prescription drugs and increasing hospital inpatient and outpatient use. In fiscal 2004, the Executive Office of Health and Human Services projects that over 40% of total Medicaid expenditures will be for nursing home care and prescription drugs. In fiscal 2004, many Medicaid savings initiatives will be directed at reducing expenditures for these populations and services. Savings initiatives target Medicaid member eligibility and the number and types of benefits members receive. Eligibility savings initiatives include re-evaluating nursing home resident eligibility at pre-determined intervals and changing the look-back period for estate recovery purposes. Cost containment and cost sharing are also being used to help control Medicaid growth. Cost sharing initiatives include the introduction and increases in co-pay amounts for various services. Cost containment measures include the planned implementation of a preferred drug list to encourage the use of lower cost brand name and generic drugs and monitoring of prescription utilization.

The federal Centers for Medicare and Medicaid Services (CMS, formerly Health Care Financing Administration) asserted in June 2000 that the portion of the Medicaid program funded by the Commonwealth's uncompensated care pool might violate federal regulations regarding impermissible taxes on health care providers. Since 1993, the Division of Medical Assistance has been seeking a federal waiver for the Commonwealth's assessment on acute care hospitals to fund the uncompensated care pool. The Division believes that the assessment complies with the federal law pertaining to provider taxes. Under federal regulations, if the Commonwealth were ultimately determined to have imposed an impermissible provider tax, the federal government could seek retroactive repayment of federal Medicaid reimbursements. From 1993, when the first waiver request was submitted, through fiscal 2000, the Commonwealth received an estimated $1.068 billion in federal Medicaid reimbursements related to expenditures associated with the uncompensated care pool. The Commonwealth has continued to collect approximately $37 million per fiscal quarter for each quarter since fiscal 2000. Clarification of the law surrounding permissible provider taxes is a national issue involving a number of states, and resolution could take several years. No further action has been taken by federal authorities since June 2000 in regard to this matter.

Uncompensated Care Pool. The fiscal 2003 GAA eliminated Medicaid eligibility for approximately 50,000 long-term unemployed adults on April 1, 2003. This change resulted in a fiscal 2003 spending reduction of approximately $52 million. However, the Division of Medical Assistance estimated that the shift of this population from MassHealth to emergency health services could result in increased costs to the "free care pool" of approximately $30 million in fiscal 2003 and approximately $140 million on an annualized basis. The fiscal 2004 GAA directed the Division of Medical Assistance to provide health care benefits to long-term unemployed adults and make expenditures for such benefits through the Commonwealth's uncompensated care pool. The uncompensated care pool was created in 1985 to reimburse Massachusetts acute care hospitals and community health centers for medically necessary services provided to the low-income uninsured and underinsured. This new program is legislatively mandated to begin October 1, 2003 and is expected to extend eligibility to approximately 36,000 long-term unemployed adults. The Division will submit a waiver amendment prior to that date, and will not be able to draw down any federal financial participation until CMS approves the amendment. Although it is certain that the new program will offer a different set of benefits, the policy is still being developed. Program costs are projected to be less than $160 million, but an exact figure will not be available until policy development is complete.

Public Assistance

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

Public Assistance Program Expenditures (in millions)

Category of Public Assistance	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002	Estimated Fiscal 2003	Projected Fiscal 2004
TAFDC(1)	$450.7	$384.5	$387.1	$417.9	$412.0	$405.2(3)
Child Care(2)	269.8	308.1	340.8	338.4	337.3	334.4
EAEDC	63.3	59.8	58.0	64.0	68.4	63.9
SSI	203.8	207.6	205.5	209.3	211.3	209.0
Total	$987.6	$960.0	$ 991.4	$1,029.6	$1,029.0	$1,012.5

SOURCES: Fiscal 1999-2002, Office of the Comptroller; fiscal 2003-2004, Executive Office for Administration and Finance.

(1) Includes expenditures for TAFDC, ESP and Emergency Assistance.
(2) Child care expenditures were previously included as part of the TAFDC total in fiscal 1999.
(3) Does not include $5.9 million in off budget spending from the Federal Reed Act to supplement Employment Service Programs offered to those on TAFDC and individuals making a transition off of TAFDC for up to one year.

TAFDC expenditures in fiscal 2003 are estimated to be $412.0 million, approximately 1.4% less than fiscal 2002. TAFDC budgeted expenditures in fiscal 2004 are projected to be $405.2 million, a decrease of 1.6% from fiscal 2003. The decrease in TAFDC spending is attributable to the federally mandated increase in the number of recipients required to work. The Emergency Assistance program provides disaster relief and shelter to homeless families. The cost of this program is included in the TAFDC expenditure category above.

The Commonwealth is federally required to provide child care to TAFDC recipients and those transitioning off TAFDC for up to one year. Child care expenditures for fiscal 2003 are estimated to be $337.3 million, a decrease of less than 1% from fiscal 2002. The Commonwealth provided approximately 23,400 slots for child care to TAFDC recipients and those transitioning off TAFDC in fiscal 2003. Child care expenditures for fiscal 2004 are projected to be $334.4 million, a decrease of less than 1% from fiscal 2003. The Commonwealth projects that it will provide approximately 27,000 child care slots to TAFDC recipients and those transitioning off TAFDC in fiscal 2004. The Commonwealth believes that decreases in child care expenditures in the past two fiscal years have not compromised the Commonwealth's ability to meet federal requirements for child care.

The Commonwealth began implementing welfare reform programs in November 1995, establishing TAFDC programs to encourage work as a means to self-sufficiency and to discourage reliance on long-term assistance. The TAFDC caseload declined steadily from fiscal 1996 through fiscal 2001, resulting in an 68% decrease through fiscal 2001. However, the caseload began to grow again in fiscal 2002, from a low point of 42,013 enrolled in July 2001 to a high point of 48,550 in February 2003. In addition, Massachusetts limits TAFDC recipients to two years of benefits within a five-year period. Over 15,000 welfare recipients reached their limit in December 1998 and can now begin receiving benefits again if they meet eligibility requirements.

The EAEDC caseload declined steadily from fiscal 1996 through fiscal 2001, resulting in an 83.6% decrease through fiscal 2001, but the caseload began to grow again in fiscal 2002. The trend can be attributed to factors similar to those affecting the TAFDC caseload. For fiscal 2003, caseload increased by an estimated 5.4% and expenditures increased by approximately 6.9%. For fiscal 2004, caseload is projected to grow by 6.7%. Fiscal 2004 expenditures for EAEDC are projected to be $63.9 million, a 6.6% decrease from fiscal 2003. The fiscal 2004 decrease in expenditures is attributed to eligibility and benefit changes.

SSI is a federally administered and funded cash assistance program for individuals who are elderly, disabled or blind. SSI payments are funded entirely by the federal government up to $530 per individual recipient per month and entirely by the state above that amount. The additional state supplement ranges from $39 to $454 per month per recipient. Fiscal 2004 expenditures for SSI are estimated to be $209.0 million, a 1% decrease from fiscal 2003.

The following table illustrates the trend in caseload for public assistance programs:

Public Assistance Average Caseload

Category of Public Assistance	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002	Estimated Fiscal 2003	Projected Fiscal 2004
TAFDC(1)	57,274	46,591	42,648	45,888	47,799	49,821
EAEDC	15,171	14,089	13,460	15,094	15,909	16,980
SSI(2)	162,470	163,356	163,584	163,566	163,569	163,600
Total	234,915	224,036	219,692	224,548	227,277	230,401

SOURCE: Department of Transitional Assistance.

(1) TAFDC caseload estimates do not include the Emergency Assistance caseload.
(2) SSI caseload does not include blind recipients whose benefits are administered by the Massachusetts Commission for the Blind.

Federal Welfare Reform. The federal welfare reform legislation that was enacted on August 22, 1996 eliminated the federal entitlement program of Aid to Families with Dependent Children and replaced it with block grant funding for TANF. The TANF program replaced Title IV-A of the Social Security Act and allows states greater flexibility in designing programs that promote work and self-sufficiency. The block grant for the Commonwealth was established at $459.4 million annually for federal fiscal 1997 through 2003. The federal government has not yet determined the size of the block grant for federal fiscal 2004. The Commonwealth must meet federal maintenance of effort (MOE) requirements in order to be eligible for the full TANF grant award. The Commonwealth successfully met the MOE requirement in each of the federal fiscal years 1997 through 2003. The Commonwealth also received approximately $104.6 million in child care block grant funds in fiscal 2003 to support child care programs.

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

Other Health and Human Services

In fiscal 2003, other health and human services spending is estimated to include expenditures for the Department of Mental Retardation ($952.3 million), Department of Mental Health ($602.5 million), Department of Social Services ($656.6 million), Department of Public Health ($407.3 million) and other human services programs ($636.7 million).

In fiscal 2004, other health and human services spending is projected to include expenditures for the Department of Mental Retardation ($961.3 million), Department of Mental Health ($592.8 million), Department of Social Services ($679.6 million), Department of Public Health ($358.1 million) and other human services programs ($629.2 million).

Debt Service

Debt service expenditures relate to general obligation bonds, special obligation bonds and federal grant anticipation notes issued by the Commonwealth. In fiscal 2003, the Commonwealth expended an estimated $1.418 billion for debt service and projects to expend $1.598 billion in fiscal 2004 for debt service. See "LONG-TERM LIABILITIES."

Commonwealth Pension Obligations

The Commonwealth is responsible for the payment of pension benefits for Commonwealth employees (members of the state employees' retirement system) and for teachers of the cities, towns and regional school districts throughout the state (including members of the teachers' retirement system and teachers in the Boston public schools, who are members of the State-Boston retirement system but whose pensions are also the responsibility of the Commonwealth). Employees of certain independent authorities and agencies, such as the Massachusetts Water Resources Authority and of counties, cities and towns (other than teachers) are covered by 104 separate retirement systems. The Commonwealth assumed responsibility, beginning in fiscal 1982, for payment of cost of living adjustments for the 104 local retirement systems, in accordance with the provisions of Proposition 2½. However, in 1997 legislation was enacted removing from the Commonwealth the cost of future cost-of-living adjustments for these local retirement systems and providing that local retirement systems fund future cost-of-living adjustments. Pension benefits for state employees are administered by the State Board of Retirement, and pension benefits for teachers are administered by the Teachers' Retirement Board. Investment of the assets of the state employees' and teachers' retirement systems is managed by the Pension Reserves Investment Management Board. In the case of all other retirement systems, the retirement board for the system administers pension benefits and manages investment of assets. The members of these state and local retirement systems do not participate in the federal Social Security System.

Legislation approved in 1997 provided, subject to legislative approval, for annual increases in cost-of-living allowances equal to the lesser of 3% or the previous year's percentage increase in the United States Consumer Price Index on the first $12,000 of benefits for members of the state employees' and teachers' retirement systems, to be funded by the investment income of the systems. The Commonwealth pension funding schedule (discussed below) assumes that annual increases of 3% will be approved. Local retirement systems that have established pension funding schedules may opt in to the requirement as well, with the costs and actuarial liabilities attributable to the cost-of-living allowances required to be reflected in such systems' funding schedules. The fiscal 2004 GAA included a 3% cost of living increase.

Employee Contributions. The state employees' and teachers' retirement systems are partially funded by employee contributions of regular compensation – 5% for those hired before January 1, 1975, 7% for those hired from January 1, 1975 through December 31, 1983, 8% for those hired from January 1, 1984 through June 30, 1996 and 9% for those hired on or after July 1, 1996, plus an additional 2% of compensation above $30,000 per year for all those members hired on or after January 1, 1979. Employee contributions are 12% of compensation for members of the state police hired after July 1, 1996. Legislation enacted in fiscal 2000 establishing an alternative superannuation retirement benefit program for members of the teachers' retirement system and teachers of the State-Boston retirement system mandates that active members who opt for the alternative program and all teachers hired on or after July 1, 2001 contribute 11% of regular compensation. Members who elect to participate are required to make a minimum of five years of retirement contributions at the 11% rate. Approximately 45,000 active teachers joined the enhanced benefit program and will retire under the terms of the program over the next thirty years.

Early Retirement Incentive Program. As a means of reducing payroll costs in fiscal 2002 and 2003, the Commonwealth adopted two Early Retirement Incentive Programs (each, an ERIP), which offered an enhanced pension benefit to retirement-eligible employees. See "STATE WORKFORCE" for details of the ERIP program. Employees retiring under the 2002 ERIP program totaled approximately 4,600. The legislation authorizing the 2002 ERIP directed the Public Employee Retirement Administration Commission (PERAC) to file a report on the additional actuarial liabilities due to the 2002 ERIP. In its report, PERAC stated that the 2002 ERIP program resulted in an increased actuarial liability of $312.2 million. The 2003 ERIP Program will be executed during the first half of fiscal 2004. Although it offers similar enhanced benefits to the 2002 ERIP, participation and impact are expected to be less due to a diminished pool of retirement-eligible employees.

Unfunded Actuarial Accrued Liability. The systems were originally established as "pay-as-you-go" systems, meaning that amounts were appropriated each year to pay current benefits, and no provision was made to fund currently the future liabilities already incurred. In fiscal 1978 the Commonwealth began to address the unfunded liabilities of the two state systems by making appropriations to pension reserves. Prior to the establishment of the pension funding program described below, the Commonwealth appropriated approximately $680 million to the pension reserves during the mid-1980's, in addition to the pay-as-you-go pension costs during those years. Comprehensive pension funding legislation approved in January 1988 required the Commonwealth to fund future pension liabilities currently and to amortize the Commonwealth's accumulated unfunded liability to zero by June 30, 2028. The legislation was revised in July 1997 to require the amortization of such liabilities by June 30, 2018.

The July 1997 legislation required the Secretary of Administration and Finance to prepare a funding schedule providing for both the normal cost of Commonwealth benefits (normal cost being that portion of the actuarial present value of pension benefits which is allocated to a valuation year by an actuarial cost method) and the amortization by June 30, 2018, of the unfunded actuarial liability of the Commonwealth for its pension obligations. The funding schedule was required to be updated periodically on the basis of new actuarial valuation reports prepared under the direction of the Secretary of Administration and Finance. The Secretary was also required to conduct experience investigations every six years. Funding schedules were to be filed with the Legislature triennially by March 1 and were subject to legislative approval. Under the July 1997 pension legislation, if a schedule was not approved by the Legislature, payments were to be made in accordance with the most recently approved schedule at a level at least equal to the prior year's payments.

On April 15, 2002, Acting Governor Swift and legislative leaders agreed to a new funding schedule that incorporated a January 1, 2001 actuarial valuation and extended amortization of the unfunded pension liability from June 30, 2018 to June 30, 2023. The schedule included updated estimates for the cost of enhanced teacher retirement benefits enacted in 2000 and preliminary cost estimates for the ERIP. The fiscal 2003 GAA appropriated $796.8 million to the Commonwealth's pension liability fund pursuant to this schedule. The schedule is as follows:

Extended Funding Schedule for Pension Obligations (in thousands)

Fiscal Year	Payments	Fiscal Year	Payments
2004	$832,335	2014	$1,335,728
2005	897,490	2015	1,396,298
2006	937,909	2016	1,459,663
2007	980,179	2017	1,525,956
2008	1,024,387	2018	1,595,315
2009	1,070,625	2019	1,667,884
2010	1,118,986	2020	1,743,815
2011	1,169,570	2021	1,823,265
2012	1,222,482	2022	1,906,403
2013	1,277,830	2023	1,993,402

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

According to preliminary estimates, the scheduled payment obligations from fiscal 2004 through fiscal 2023 are expected to be materially higher than those shown above due primarily to a decrease in the value of investment assets in the pension liability fund.

In fiscal 2004, the pension funding schedule called for an $832.3 million appropriation. However, the fiscal 2004 GAA amended the General Laws to allow annual pension appropriations to include the scheduled amount less the value of any capital assets transferred to the pension liability fund. The fiscal 2004 GAA funded the $832.3 million pension obligation using $687.3 million in cash and the transfer to the pension liability fund of the Hynes Convention Center and the Boston Common Garage, valued at $145.0 million.

Valuation of Pension Obligation. On September 24, 2002, PERAC released its actuarial valuation of the total pension obligation dated January 1, 2002. The unfunded actuarial accrued liability as of that date for the total obligation was approximately $7.369 billion, including unfunded actuarial accrued liabilities of $959 million for the State Employees' Retirement System, $4.908 billion for the State Teachers' Retirement System, $772 million for Boston Teachers and $730 million for cost-of-living increases. The valuation study estimated the total actuarial accrued liability as of January 1, 2002 to be approximately $39.067 billion (comprised of $15.961 billion for state employees, $20.620 billion for state teachers, $1.756 billion for Boston teachers and $730 million for cost-of-living increases). Total assets were valued at approximately $31.699 billion, which reflected the five-year average valuation method, which equaled 110.4% of the January 1, 2002 total asset market value.

On March 11, 2003, PERAC approved the calculation, as of January 1, 2003, of the unfunded actuarial accrued liability of the State Employees' Retirement System in the amount of $3.604 billion. This amount is $2.645 billion more than the amount previously calculated by PERAC as of January 1, 2002. PERAC's preliminary analysis indicates that the Commonwealth's liability to local systems for cost-of-living increases as of January 1, 2003 was $670 million; $60 million less than had been determined by PERAC as of January 1, 2002. In addition, PERAC has preliminarily estimated that the unfunded actuarial accrued liability as of January 1, 2003 was $7.288 billion for the State Teachers' Retirement System and $990 million for Boston Teachers, which figures are respectively $2.380 billion and $118 million more than the amounts calculated as of January 1, 2002.

It is expected that PERAC will complete its January 1, 2003 valuation of the total pension obligation in September 2003. The stock market downturn and other factors are anticipated to decrease significantly the valuation of investment assets in the pension liability fund, and accordingly are expected to increase the Commonwealth's pension funding obligations required to amortize unfunded accrued liability. Based on preliminary estimates, the total unfunded actuarial accrued liability increased by $5.182 billion since the most recently completed valuation, from $7.369 billion as of January 1, 2002 to approximately $12.551 billion as of January 1, 2003. This difference is equal to an estimated total actuarial accrued liability of $42.181 billion ($3.114 billion greater than the figure for January 1, 2002) minus estimated total actuarial value of assets of $29.630 billion ($2.069 billion less than the figure for January 1, 2002). According to these preliminary estimates, the expected revisions to the pension funding schedule required to fully amortize unfunded accrued liability by 2023 will be materially higher than the existing annual pension funding obligations.

The following table shows the valuation of accrued liabilities as well as the unfunded portion from the January 1, 1998 valuation through the estimated January 1, 2003 valuation:

Pension Fund Valuation and Unfunded Accrued Liabilities (in millions)

			Unfunded Accrued Liabilities		
Valuation Date	Total Actuarial Accrued Liability	Actuarial Value of Assets(3)	Unfunded Actuarial Liability	Market Value of Unfunded Liability	Funded Ratio(6)
January 1, 1998	$26,587	$20,783	$5,804(5)	$5,160	78.2%
January 1, 2000(1)	32,743	27,906	4,837	2,076	85.2
January 1, 2001	35,605	29,230	6,374	5,381	82.1
January 1, 2002	39,067	31,699	7,369	10,359	81.1
January 1, 2003(2)	42,181	29,630(4)	12,551	16,416	70.2

SOURCE: Public Employee Retirement Administration Commission.

(1) On the basis of the January 1, 2000 valuation and PERAC's most recent six-year experience studies released in October and November 2000, the Secretary of Administration and Finance developed two new alternative estimates of unfunded actuarial accrued liability based on its $33.482 billion estimate of total actuarial accrued liability developed by the experience studies, but with different assumptions of asset valuation. One valued assets at $27.905 billion, reflecting a valuation of 91% of market value. It estimated total unfunded actuarial accrued liability at approximately $5.577 billion. The other, utilizing a valuation of 89% of market value, valued assets at approximately $27.292 billion and estimated total unfunded actuarial accrued liability to be approximately $6.190 billion. On March 1, 2001, the Secretary of Administration and Finance filed three alternative funding schedules with the Legislature, two of which were based on the foregoing alternative calculations of unfunded actuarial accrued liability. In addition, the funding schedules also assumed additional annual costs of $50 million estimated to be attributable to 2000 legislation that enhanced certain retirement benefits for teachers. On March 7, 2001, the House Committee on Ways and Means approved the proposed funding schedule that had been based on the valuation of 89% of market value, and which reflected total estimated unfunded actuarial accrued liability of approximately $6.190 billion. The fiscal 2002 GAA did not appropriate the amount provided in the schedule approved by House Ways and Means, but did appropriate an amount in accordance with an alternative schedule filed by the Secretary of Administration and Finance reflecting a market valuation of 91% and a total unfunded actuarial accrued liability at approximately $5.577 billion.

(2) January 1, 2003 information is preliminary, estimated and subject to change. The stock market downturn and other factors are anticipated to decrease significantly the valuation of investment assets in the pension liability fund, and accordingly are expected to increase the Commonwealth's unfunded accrued liabilities.

(3) The actuarial value of assets smoothing methodology was phased-in beginning January 1, 1998, and was completely phased in as of January 1, 2001. The phase-in was 3% per year until the calculation of the actuarial value exceeded the amount of the phase-in. Therefore, as of January 1, 1998 the actuarial value of assets was determined to be 97% of the market value and on January 1, 2000, the actuarial value of assets was determined to be 91% of the market value.

(4) Preliminary estimates suggest that the January 1, 2003 pension asset valuation will be significantly lower than in prior years. It is expected that the lower market value of the pension fund as of January 1, 2003 will reduce the five-year average valuation of assets.

(5) In 1999, PERAC tested and implemented new actuarial software. Based on the new software, the unfunded actuarial liability as of January 1, 1998 would have been approximately $7.8 billion and the funded ratio would have been 72.6%. These figures are approximately $7.2 billion and 80.6% funded on a market value basis.

(6) Based on actuarial valuation.

Retiree Health Care Benefits. GASB has indicated that it may soon require pension systems to calculate and report on the liability of health care benefits for retirees. Currently, the Commonwealth system pays for such costs on a "pay-as-you-go" basis. Such payments are included in the Group Insurance Commission appropriation. The healthcare benefit costs to present and future retirees represent a sizable undocumented liability of the Commonwealth, but PERAC has not yet estimated these amounts.

Group Insurance

The Group Insurance Commission provides health insurance benefits to approximately 78,000 active employees and 83,000 retired employees. The fiscal 2004 GAA altered contribution rates of Commonwealth employees for health care, but left the reimbursement rate for retirees unchanged. Prior to the fiscal 2004 GAA, active employees paid 15% of their health insurance premium costs, those who retired prior to 1994 paid 10% and those who retired after 1994 paid 15%. The fiscal 2004 GAA imposed a tiered contribution ratio that requires active employees who earn less than $35,000 annually to pay 15% and all other employees to pay 20% of their health insurance premium costs. All employees hired after June 30, 2003 will pay 25% of premium costs, regardless of salary.

Higher Education

The Commonwealth's system of higher education includes the five-campus University of Massachusetts, nine state colleges and 15 community colleges. The system is coordinated by the appointed Commonwealth Board of Higher Education and each institution is governed by a separate board of trustees. The Board of Higher Education appoints a chancellor of the system of public higher education, who is responsible for carrying out the policies established by the board. The fiscal 2004 GAA restructured the membership of the Board of Higher Education by decreasing the number of gubernatorial appointees from ten to five and by adding three members to represent community colleges, state colleges and the University to be selected by campus presidents and the University chancellor, and adding the chairs of the legislative Joint Committee on Education, Arts and Humanities as non-voting members.

The operating revenues of each institution consist primarily of state appropriations and of student and other fees that may be imposed by the board of trustees of each institution. Tuition levels are set by the Board of Higher Education. Tuition revenue is required to be remitted to the State Treasurer by each institution, however, the fiscal 2004 GAA grants the Massachusetts College of Art authority to retain tuition revenue and allows the University of

Massachusetts to retain out-of-state tuition revenue generated by the Amherst campus. The board of trustees of each institution submits operating and capital budget requests annually to the Board of Higher Education. The Board of Higher Education uses the data to prepare operating and capital outlay budgets for the statewide system of public higher education, which are submitted to the Fiscal Affairs Division of the Executive Office for Administration and Finance and to the House and Senate Committees on Ways and Means. The Legislature appropriates funds for the higher education system in the Commonwealth's annual operating budget in various line items for each institution.

Other Program Expenditures

In fiscal 2003, the remaining $3.514 billion in estimated expenditures on other programs and services cover a variety of functions of state government, including expenditures for the Judiciary ($581.6 million), District Attorneys ($76.4 million) and the Attorney General ($33.1 million) and for the Executive Offices for Administration and Finance ($422.6 million), Environmental Affairs ($179.6 million), Transportation and Construction ($113.0 million), Public Safety ($904.1 million), Elder Affairs ($191.9 million) and the Department of Housing and Community Development ($84.4 million).

In fiscal 2004, the remaining $3.438 billion in projected expenditures on other programs and services cover a variety of functions of state government, including expenditures for the Judiciary ($568.7 million), District Attorneys ($75.8 million) and the Attorney General ($33.5 million) and for the Executive Office for Administration and Finance ($433.0 million), Environmental Affairs ($165.8 million), Transportation and Construction ($36.6 million), Public Safety ($856.1 million), Elder Affairs ($189.2 million) and the Department of Housing and Community Development ($66.9 million).

Senior Pharmacy Program

A comprehensive senior pharmacy program (the Prescription Advantage Program), which is currently administered by the Department of Elder Services (formerly the Executive Office of Elder Affairs), began in April 2001. In its first full year of operation, spending for the Prescription Advantage Program totaled approximately $81.5 million. The fiscal 2003 GAA appropriated $97.6 million for the Prescription Advantage Program, but only $85.3 million was expended as a result of allotment reductions imposed on October 10, 2002 pursuant to Chapter 29, Section 9C, which closed enrollment indefinitely and increased co-payments and premiums. The fiscal 2004 GAA reopened enrollment for one month in August 2003 and on the year of an enrollee's 65th birthday, reduced the co-payment schedule and reduced deductibles. In fiscal 2004, spending for the program is projected to total approximately $96.3 million.

DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Selected Financial Data – Statutory Basis

The revenues and expenditures of the budgeted operating funds presented in the following table are derived from the Commonwealth's audited statutory basis financial statements for fiscal 1999 through 2002, but have been adjusted to reflect the impact of the MBTA forward funding legislation. See "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS - Massachusetts Bay Transportation Authority – Financial Restructuring." The estimates for fiscal 2003 and projections for fiscal 2004 have been 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 2004 budget. For fiscal 2002, the Commonwealth reported 63 budgeted operating funds. Fund closure legislation was included in the fiscal 2003 GAA and the fiscal 2004 GAA. Effective as of June 30, 2003, 48 funds will be closed. Additional funds have been transferred off-budget. There are nine Budgeted Operating Funds remaining as of July 1, 2003, which include the General Fund, the Highway Fund, the Stabilization Fund, the Tax Reduction Fund, the Intragovernmental Service Fund, the Workforce Training Fund, the Massachusetts Tourism Fund, the Children's and Seniors' Health Care Assistance Fund and the Collective Bargaining Reserve Fund.

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

In conducting the budget process, the Executive Office for Administration and Finance excludes those inter-fund transactions that by their nature have no impact on the combined fund balance of the budgeted funds. The following table isolates this inter-fund activity from the budgeted sources and uses to align more clearly forecasts prepared during the budget process to the detailed fund accounting of the Commonwealth's annual financial statements.

Budgeted Operating Funds Operations—Statutory Basis (in millions)(1)

	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002	Estimated Fiscal 2003	Projected Fiscal 2004
Beginning Fund Balances						
Reserved or Designated	$ 286.3	$ 330.2	$ 278.5	$ 895.3	$ 195.2	$80.1
Tax Reduction Fund	367.7	6.8	7.2	33.6	-	
Stabilization Fund	1,159.6	1,388.5	1,608.4	1,715.0	881.8	726.0
Undesignated	378.5	386.9	391.3	369.5	311.0	8.1(9)
Fund Balance Restatement	--	--	1.0	--	--	--
Total	2,192.1	2,112.4	2,286.4	3,013.3	1,388.0	814.2
Revenues and Other Sources						
Taxes(2)	14,291.5	15,688.6	16,074.7	13,622.7	14,279.2(6)	14,123.7
Federal Reimbursements	3,442.9	3,645.6	3,974.2	4,334.9	4,583.0	4,957.5
Departmental and Other Revenues	1,297.8	1,359.9	1,425.9	1,485.2	1,505.9	1,750.9
Inter-fund Transfers from Non-budgeted Funds and Other Sources(3)	1,132.8	1,893.0	1,385.9	1,732.0	1,607.8	1,558.1
Budgeted Revenues and Other Sources	20,165.0	22,587.0	22,860.6	21,174.9	21,975.9	22,390.2
Inter-fund Transfers(4)	1,402.0	3,634.0	931.0	1,874.4	934.5	145.1
Total Budgeted Revenues and Other Sources	21,566.9	26,221.1	23,791.6	23,049.3	22,910.4	22,535.3
Expenditures and Uses						
Programs and Services(5)	17,341.1	19,330.7	19,449.0	20,412.7	20,084.4	19,967.3
Debt Service	1,173.8	1,193.3	695.0	1,304.7	1,417.7	1,597.6
Pensions	990.2	986.3	1,040.1	795.8	813.5	16.8
Inter-fund Transfers to Non-budgeted Funds and Other Uses	739.6	903.8	949.6	287.1	74.7	762.0(10)
Budgeted Expenditures and Other Uses	20,244.7	22,414.1	22,133.7	22,800.3	22,390.3	22,343.7
Inter-fund Transfers(4)	1,402.0	3,634.0	931.0	1,874.4	934.5	145.1
Total Budgeted Expenditures and Other Uses	21,646.6	26,048.1	23,064.7	24,674.7	23,324.8	22,488.4
Excess (Deficiency) of Revenues and Other Sources Over Expenditures and Other Uses	(79.7)	172.9	726.8	(1,625.4)	(414.4)	46.5
Ending Fund Balances						
Reserved or Designated	330.2	278.5	895.3	195.2	80.1	26.1
Tax Reduction Fund	6.8	7.2	33.6	--	--	--
Stabilization Fund	1,388.5	1,608.4	1,715.0	881.8	726.0(7)(8)	733.0
Undesignated	386.9	391.3	369.5	311.0	167.6	101.7
Total	$ 2,112.4	$ 2,285.4	$ 3,013.3	$ 1,388.0	$ 973.7	$ 860.8

SOURCES: Fiscal 1999-2002, Office of the Comptroller; fiscal 2003-2004, Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.
(2) Net of $654.6 million in fiscal 2001, $664.4 million in fiscal 2002, an estimated $684.3 million in fiscal 2003 and a projected $684.3 million in fiscal 2004 of dedicated sales tax transferred to the MBTA that was moved off budget beginning in fiscal 2001.
(3) For the Budgeted Operating Funds, inter-fund transfers include transfers of profits from State Lottery and Arts Lottery Funds and reimbursements for the budgeted costs of the State Lottery Commission, which accounted for $870.0 million, $902.1 million, $931.6 million, $941.3 million and $944.7 million in fiscal 1999 through fiscal 2003, respectively, and are projected to account for $1.014 billion in fiscal 2004.
(4) Inter-fund transfers decreased in fiscal 2004 due to a decrease in the number of Budgeted Operating Funds in the fiscal 2004 GAA.
(5) Estimated based on preliminary analysis, subject to change. The Executive Office for Administration and Finance estimates that approximately $282.0 million in Medicaid related health care spending was moved off-budget by the fiscal 2003 GAA. Off budget Medicaid expenditures in Fiscal 2004 are projected to be $493.0 million. See "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS—Fiscal 2003."
(6) Includes $174.0 million in one-time revenue from tax amnesty program and approximately $200 million from closing various so-called tax loopholes.
(7) Assumes that calculation of consolidated net surplus includes the General, Highway and Local Aid Funds. Highway Fund inclusion in the calculation expired on July 1, 2002. The Administration filed legislation to extend the expiration date to July 1, 2006.

(8) Reflects the repeal of various minor funds on June 30, 2003, of which the net ending balances will be transferred to the Stabilization Fund. Also includes deposits to the Stabilization Fund of $110 million from closing various so-called tax loopholes, $71.0 million from demutualization and $160.5 million in consolidated net surplus. The Local Aid Fund was repealed in the fiscal 2004 GAA and the balance will be transferred to the General Fund.

(9) The variance between fiscal 2003 ending fund balances and fiscal 2004 beginning fund balances reflect the transfer of the Convention Center Fund, Head Injury Trust Fund and Natural Heritage and Endangered Species Fund off budget.

(10) Includes a transfer of $687.3 million for pension fund obligation.

Fiscal 2004

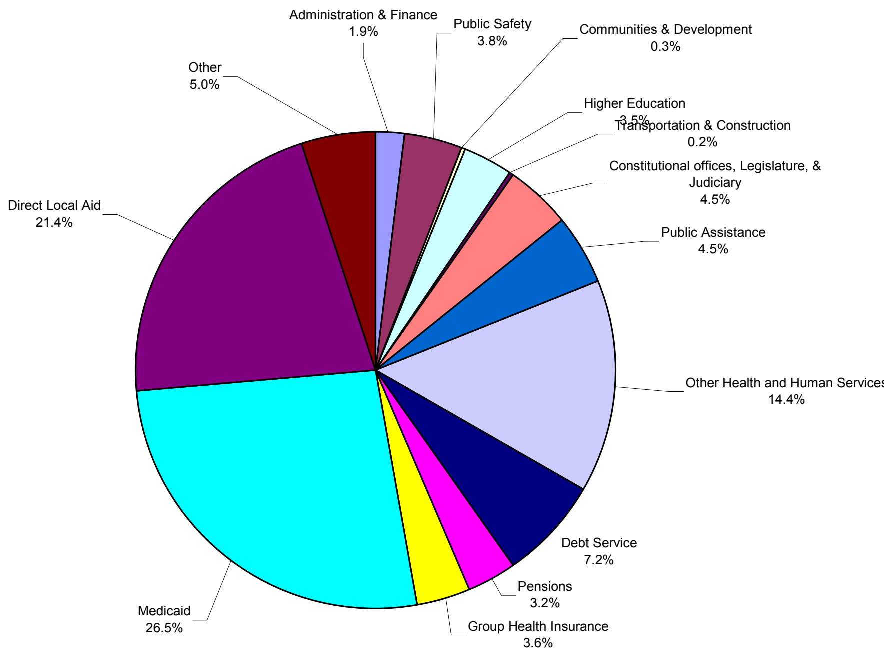
On June 20, 2003, the Legislature passed the fiscal 2004 GAA. This was the first time in several fiscal years that the Commonwealth's annual budget was enacted by the beginning of the fiscal year. The fiscal 2004 GAA was based on a tax revenue estimate of $14.808 billion, comprised of the consensus tax revenue estimate of $14.678 billion , plus $174.0 million in additional revenues attributable to legislation closing various so-called tax loopholes. This figure also reflects an adjustment of $44.1 million in revenues dedicated to the Convention Center Trust Fund, which were transferred from a Budgeted Operating Fund to a non-budgeted operating fund. The tax revenue figure includes $684.3 million in sales tax revenues dedicated to the MBTA. The fiscal 2004 GAA relied on non-recurring revenues and one-time savings initiatives projected to total approximately $347.0 million to achieve a balanced budget on a statutory basis, as required under state finance law. The one-time revenue sources and savings initiatives included $100.0 million from the federal "Jobs and Growth Tax Relief Reconciliation Act of 2003," of which $55.0 million is increased FMAP to be transferred to the Uncompensated Care Pool and $45.0 million is to be deposited in the General Fund; $62.0 million from the repeal of the Teacher, Principal and Superintendent Endowment Fund; $145 million in savings from an asset transfer in lieu of cash payment for pension liabilities and $40.0 million from the sale of surplus state property.

The fiscal 2004 GAA budgeted $22.332 billion for programs and services. After review of the GAA, the Administration concluded that the spending plan over-estimated non-tax revenue by approximately $200.0 million, and announced that the proposed budget was deficient in that amount. On June 30, 2003, Governor Romney vetoed approximately $201.0 million in spending and signed into law the fiscal 2004 GAA. The Legislature subsequently overrode approximately $158.4 million of the Governor's vetoes. The GAA, including veto overrides, budgeted $5.921 billion for Medicaid, $3.900 billion for education, $1.598 billion for debt service and $10.870 billion for all other programs and services. The total budgeted amount is approximately $22.289 billion, or .05% less than estimated total spending in fiscal 2003. This figure is adjusted to reflect a transfer of funds off-budget to the Commonwealth's pension obligation in the amount of $687.3 million, but does not reflect the transfer of the Hynes Convention Center and Boston Common parking garage to the PRIM Board in lieu of partial payment valued at approximately $145.0 million. The $22.289 billion figure also does not include $54.0 million in fiscal 2003 appropriations that were not expended in fiscal 2003, and were continued in fiscal 2004. The fiscal 2004 GAA total does not account for approximately $493.0 million in off-budget Medicaid related expenses that are funded through nursing home assessments and federal reimbursements.

The Administration now plans to draw down a total of approximately $271.0 million in federal dollars available from the federal "Jobs and Growth Tax Relief Reconciliation Act of 2003" in fiscal 2004, which amount includes the $100.0 million budgeted in the fiscal 2004 GAA. This amount is comprised of $215.9 million in general fiscal relief plus $55.0 million in FMAP funds. See "COMMONWEALTH REVENUES – Federal and Other Non-Tax Revenues."

The following is a graph depicting the breakdown of major categories of projected budgeted operating spending for fiscal 2004:

Fiscal 2004 Projected Operating Spending



Cash Flow

On May 23, 2003 the State Treasurer and the Secretary of Administration and Finance released the most recent cash flow projections, which included projections for the last two months of fiscal 2003 (May and June of calendar 2003) and fiscal 2004 (July 2003 through June of 2004).

The cash flow projection for fiscal 2003 was based on the fiscal 2003 GAA, including the value of all vetoes and subsequent overrides, and supplemental appropriations enacted through the date of the release. It reflected authorized transfers between budgeted funds provided for in the GAA and subsequent legislation and took into account certain spending reductions implemented by the Governor during fiscal 2003. The cash flow projection incorporated a tax revenue estimate for fiscal 2003 of $14.748 billion, including the value of enacted tax increases and sales tax revenues dedicated to the MBTA. After factoring in $265 million of fiscal 2002 tax refunds that were paid in July and August of 2002 and $58.6 million for accounting-period timing differences, the tax estimate for cash flow purposes was $14.424 billion. The cash flow projection also incorporated significant use of cash reserves, resulting in a net cash inflow of $1.093 billion, including $730 million from the Stabilization Fund ($550 million related to fiscal 2003 and $180 million related to closing the books in fiscal 2002) and $243 million from various other funds.

On June 30, 2002 the Commonwealth had a cash balance of $2.010 billion, including $412 million ear-marked to pay issued but outstanding checks. The cash flow projection (which excludes such ear-marked amounts) showed a beginning balance for fiscal 2003 of $1.598 billion, including $1.206 billion in segregated bond funds. The cash flow projected an ending (June 30, 2003) balance of $1.232 billion, including $964 million in segregated bond funds. Excluding segregated bond funds, the beginning and projected ending cash balances for fiscal 2003 would be $391 million and $268 million, respectively, exclusive of amounts ear-marked for unpaid checks. (The projection also excludes amounts available in the Commonwealth's Stabilization Fund and certain other reserve funds totaling approximately $840 million.)

The Commonwealth's actual June 30, 2003 cash balance was $2.163 billion, including $1.056 billion in segregated capital funds and $1.107 billion of operating cash. After taking into account $400 million reserved to pay issued but outstanding checks, the net year-end operating balance was $707 million, which was approximately

$439 million higher than projected. The higher than expected year-end cash balance is due to a number of factors, including $152 million of off-budget fund balances that were consolidated into the operating budget as a result of the repeal of various minor funds, $110 million in tax revenues related to closing so called tax loopholes that will be deposited into the Stabilization Fund and approximately $90 million from higher than expected tax revenue collections.

The Commonwealth maintains a $1.000 billion commercial paper program supported by lines and a letter of credit from commercial banks. The program allows for the periodic issuance of commercial paper as either bond anticipation notes or revenue anticipation notes for operating purposes.

In September 2002 the Commonwealth issued $700 million of commercial paper as revenue anticipation notes in advance of the Commonwealth's local aid payment on September 30, 2002, which were retired in December. Also in December 2002, the Commonwealth issued $700 million of commercial paper as revenue anticipation notes in advance of the Commonwealth's local aid payment on December 31, 2002, which was retired in March. In March 2003, the Commonwealth issued $400 million of commercial paper as revenue anticipation notes in advance of the Commonwealth's local aid payment on March 31, 2003, which was retired in April. The pattern of the Commonwealth's cash flow borrowings is largely the result of temporary cash imbalances caused by quarterly local aid payments to cities and towns, which total approximately $1.100 billion on the last day of each calendar quarter. All commercial paper of the Commonwealth issued for operating purposes in a fiscal year is required by state finance law to be paid not later than June 30 of such year.

The Commonwealth also periodically issues commercial paper in the form of bond anticipation notes (BANs) to fund capital spending in between bond sales. At the end to fiscal 2003 the Commonwealth had outstanding approximately $507 million of BANs through the commercial paper program for a variety of capital projects.

Net proceeds of long-term debt issuance during fiscal 2003 were projected to total $2.16 billion (not including refunding bonds). This includes approximately $420 million of bonds ear-marked for the Central Artery Project and $285 million of bonds issued for working capital related to the MBTA. Approximately $1.91 billion of this amount was issued through the end of May 2003. An additional $250 million of bonds was expected to be delivered in June 2003, but that sale was not completed.

The Commonwealth anticipates that it will have generally low cash balances throughout fiscal 2004. The May 23, 2003 cash flow projection indicated an operating balance deficit as of the end of December 2003, even with significant short-term borrowing. However, the May 23, 2003 cash flow projection for fiscal 2004 was based on the Governor's fiscal 2004 budget submission of February 2003. The fiscal 2004 GAA enacted in June 2003 differed substantially from the Governor's budget submission. See "Fiscal 2004." The Commonwealth's next cash flow projection, which is due August 31, 2003, will incorporate the Commonwealth's actual fiscal 2003 year-end cash position, the 2004 GAA including vetoes and overrides and other information.

Fiscal 2003

Enactment of Fiscal 2003 General Appropriation Act. On July 19, 2002, the Legislature passed legislation that the Department of Revenue estimated would increase Commonwealth tax revenues in fiscal 2003 by approximately $1.241 billion (compared to then-current law) through increases in the cigarette tax, the tax on capital gains, elimination of the personal income tax charitable deduction, decreases in personal income tax exemptions and a delay in the implementation of the scheduled reduction of the tax rate on most non-capital gains income from 5.3% in tax year 2002 to 5.0% in tax year 2003.

Also on July 19, 2003 the fiscal 2003 GAA was enacted. The GAA was based on a tax revenue estimate of $15.393 million including the tax increases and a tax amnesty program. The GAA appropriated 100% of the fiscal 2003 annual tobacco settlement payment, which is estimated by the Executive Office for Administration and Finance to be approximately $295.7 million, as well as $550.0 million from the Stabilization Fund, $75.0 million from the Caseload Mitigation Fund, $32.0 million from the Ratepayer Parity Trust and $20.0 million from the Clean Elections Fund. The fiscal 2003 GAA, including veto overrides, directly appropriated $22.682 billion, not including approximately $282.0 million in Medicaid related health care spending that was moved off-budget. The fiscal 2003 GAA eliminated Medicaid eligibility for approximately 50,000 long term unemployed adults on April 1, 2003. This change resulted in a spending reduction of approximately $52 million. However, the Division of Medical Assistance estimated that the shift of this population from MassHealth to emergency health services could result in increased costs to the "free care pool" of approximately $30 million in fiscal 2003 and approximately $140 million on an annualized basis.

On October 17, 2002, the Secretary of Administration and Finance reduced the official fiscal 2003 tax revenue estimate to $15.145 billion. In response to the lower tax revenue estimate, Acting Governor Swift reduced allotments to certain budgetary accounts pursuant to authority under Chapter 29, Section 9C of the Massachusetts General Laws in the amount of approximately $99.1 million partially to address the anticipated revenue shortfall. On December 9, 2002, Acting Governor Swift again reduced allotments in the amount of approximately $60.7 million partially to address an additional anticipated revenue shortfall.

Revenue Estimate Reduction and Actions by Romney Administration. On November 5, 2002, the Commonwealth elected a new Governor, W. Mitt Romney, a new Lieutenant Governor, Kerry Healey and a new Treasurer and Receiver-General, Timothy P. Cahill, each of whom took office in January 2003.

Soon after Governor Romney assumed office in January 2003, his Administration began projecting a budget shortfall in fiscal 2003 of approximately $650 million, which was comprised primarily of lower than anticipated tax revenues in the amount of approximately $497.0 million.

On January 17, 2003, Governor Romney approved legislation expanding his authority under Chapter 29, Section 9C of the Massachusetts General Laws to reduce allotted spending across state government with the exception of the legislative branch, the judicial branch, the Inspector General, the Office of the Comptroller or the Constitutional officers during fiscal 2003. Under these expanded powers, Governor Romney gained authority to reduce local aid payments to cities and towns, but any allotment reduction in local aid was restricted to not more than one-third of the total amount of allotment reductions made by the Governor in fiscal 2003 after the effective date of the act.

On January 30, 2003, Governor Romney announced $343.6 million in allotment reductions and other savings initiatives pursuant to his expanded powers under Chapter 29, Section 9C of the Massachusetts General Laws, as amended. Local government aid and lottery distributions to cities and towns were reduced by $114.4 million as part of the reduction package. Other spending cuts were made to Medicaid in the amount of approximately $75.2 million, education programs by approximately $25 million, higher education and state colleges in the amount of approximately $15.9 million, transitional assistance in the amount of $12.0 million, housing in the amount of approximately $10.4 million, a prescription drug program for seniors in the amount of $10.0 million, other health and human services in the amount of approximately $46.0 million and all other areas in the amount of approximately $35.1 million.

On February 3, 2003, the Executive Office for Administration and Finance reduced the October 15, 2003, tax revenue estimate to $14.648 million, including revenue collected from the fiscal 2003 tax amnesty program. The reduction to the fiscal 2003 tax revenue estimate was composed of a $177 million reduction in withholding collections, a $150 million reduction in estimated capital gains tax revenues, a $135 million reduction in other income taxes and a $65 million reduction in sales tax revenues, offset in part by smaller increases in other tax revenue sources.

On March 5, 2003, legislation was signed by the Governor to increase filing fees at the Registries of Deeds and to levy a separate surcharge on all Registry of Deeds filings. The filing fee increases are estimated to result in additional revenue of approximately $40.6 million for fiscal 2003 and approximately $136.2 million for fiscal 2004. The separate surcharge on filings will be deposited in the Registers Technological Fund, for the purpose of modernizing technology at registries of deeds, and does not benefit the General Fund. Pursuant to the legislation, transfers in the amounts of $12.0 million from the Workforce Training Fund, the balance of the Clean Elections Judgment Fund, $6.5 million from the Caseload Increase Mitigation Fund, $17.0 million from the Renewable Energy Trust Fund and $6.5 million from the Health Protection Fund were made to the General Fund.

The Executive Office for Administration and Finance currently projects a statutory budget surplus, as defined in Chapter 29, Section 1 of the General Laws as the consolidated net surplus of the General, Local Aid and Highway Funds, of approximately $160.5 million in fiscal 2003. The estimated year-end surplus will be deposited in the Stabilization Fund and is primarily the result of higher than estimated tax revenue partially derived from the closing of various so-called tax loopholes. This projection is based upon the assumption that $122.0 million in fiscal 2003 appropriations will remain unspent. The estimate also takes into account all outstanding supplemental budget appropriations filed by the Governor to address deficiencies in certain appropriations or to authorize unexpended fiscal 2003 appropriations to carry forward into fiscal 2004. Although currently projecting a year-end statutory surplus, fiscal 2003 utilized Stabilization Fund monies, one-time tax revenues, $57.7 million in federal FMAP reimbursements and other non-recurring revenue sources totaling approximately $1.178 billion to offset a structural deficit in the Budgeted Operating Funds.

Massachusetts Bay Transportation Authority - Financial Restructuring

Beginning in fiscal 2001, the finances of the Massachusetts Bay Transportation Authority (MBTA) were restructured, and its financial relationship to the Commonwealth changed materially. The MBTA finances and operates mass transit facilities in eastern Massachusetts. The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. The Commonwealth is obligated to provide the MBTA with a portion of the revenues raised by the Commonwealth's sales tax, generally the amount raised by a 1% sales tax with an inflation-adjusted floor. (For fiscal 2002 the floor is $664 million.) This amount is dedicated to the MBTA under a trust fund. The dedicated revenue stream is disbursed to the MBTA without state appropriation to be used to meet the Commonwealth's debt service contract assistance obligations relating to outstanding MBTA debt, as described below, and to meet the MBTA's other operating and debt service needs. The MBTA is authorized to assess a portion of its costs on 175 cities and towns in eastern Massachusetts; after a five-year phase-in of reduced assessments (from approximately $144.6 million in fiscal 2000 to approximately $136.0 million in fiscal 2006), the cities and towns are required by law to pay assessments equal to at least $136 million in the aggregate, as adjusted in each year after fiscal 2006 for inflation (with no annual increase to exceed 2.5% per year).

Prior to July 1, 2000, the Commonwealth provided financial support of the MBTA through guaranties of the debt service on its bonds and notes, contract assistance generally equal to 90% of the debt service on outstanding MBTA bonds and payment of its net cost of service (current expenses, including debt service and lease obligations not otherwise provided for, minus current income). The MBTA's net cost of service was financed by the issuance of short-term notes by the MBTA and by cash advances from the Commonwealth. The Commonwealth then assessed the net cost of service in arrears on the cities and towns in the MBTA territory after deducting certain subsidy amounts appropriated in the state budget. This practice resulted in the disbursement of substantial cash subsidies paid out by the Commonwealth up to 18 months before the appropriation of amounts to defray such expenses. The legislation enacted in November 1999 that provided for state sales tax receipts to be dedicated to the MBTA also provided for the "forward funding" of the MBTA by requiring the Commonwealth to defray the cost of the 18-month lag (from January 1, 1999 through June 30, 2001) in operating subsidies previously financed through the issuance of notes by the MBTA and the Commonwealth and the advancing of Commonwealth cash reserves to the MBTA. This cost has been estimated by the Comptroller of the Commonwealth to amount to $848.3 million. This cost, plus an additional $100 million to provide working capital to the MBTA, was financed in part by the issuance of $325 million of Commonwealth general obligation bonds (out of $800 million authorized by the Legislature) and by $10.5 million in operating appropriations. The balance was financed by a transfer from the Commonwealth's Highway Capital Projects Fund, which initially was expected to be amortized over 20 years in the Commonwealth's operating budget. The remaining $475 million of Commonwealth general obligation bonds authorized to be issued to replenish the transfer were issued in March 2002 and December 2002.

In order to draw down dedicated sales tax receipts or municipal assessments from the state treasury, the MBTA must first certify that it has made provision in its annual budget for sufficient amounts to be available to meet debt service payments or other payments due under pre-July 1, 2000 financing obligations for which the Commonwealth has pledged its credit or contract assistance or is otherwise liable or as to which the MBTA has covenanted to maintain net cost of service or contract assistance support. To the extent the dedicated sales tax receipts and municipal assessments are insufficient in any year to meet the MBTA's debt service payments with respect to such obligations, the Commonwealth remains liable for the payment of such pre-July 1, 2000 obligations or the provision of net cost of service or contract assistance support as to such obligations to the same extent as before the enactment of the forward funding legislation. The amount of any support provided to the MBTA beyond the dedicated sales tax receipts and municipal assessments is to be in the form of a no-interest loan repayable within five years from the MBTA's system revenues and the dedicated sales tax receipts and municipal assessments.

Stabilization Fund and Disposition of Year-End Surpluses

The fiscal 2004 GAA made several changes that affect the future calculation of the consolidated net surplus and disposition of year-end surpluses.

- For fiscal 2003, the calculation of the consolidated net surplus remains unchanged and includes the ending balances in the three major funds, statutorily defined as the General Fund, Highway Fund and Local Aid Fund. The existing calculation of the consolidated net surplus, which determines statutory balance, requires an amount equal to .5% of current year tax revenues be carried forward to the next fiscal year as an undesignated beginning balance before any year-end surplus is determined.

- The fiscal 2004 GAA repealed the Local Aid Fund and several minor budgeted operating funds.

- For fiscal 2004, all remaining budgeted operating fund balances, except the Stabilization Fund and the Tax Reduction Fund, are included in the calculation of the consolidated net surplus. These funds are the General Fund, the Highway Fund, the Intragovernmental Service Fund, the Workforce Training Fund, the Massachusetts Tourism Fund, the Children's and Seniors' Health Care Assistance Fund and the Collective Bargaining Reserve Fund.

- Beginning July 1, 2004 an additional .5% of current year net tax revenues must be deposited into the Stabilization Fund before the year-end surplus is determined, this is in addition to the statutorily required carry forward amount aforementioned.

The Commonwealth disposed of surplus funds in the following ways:

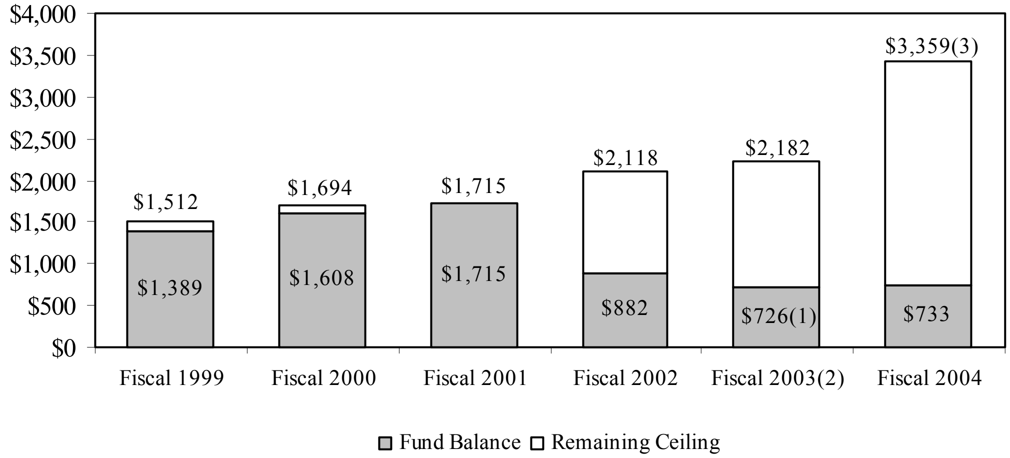
- Prior to fiscal 2003, year-end surplus dollars were deposited into the Capital Projects Fund, the One-Time Capital Projects Improvement Fund, the Commonwealth's sinking fund, and the Open Space Acquisition Fund based upon a formula that the fiscal 2004 GAA repealed. The fiscal 2004 GAA also repealed the One-Time Capital Projects Improvement Fund and the Open Space Acquisition Fund.

- Effective June 30, 2003, 100% of the consolidated net surplus will be deposited in the Stabilization Fund.

- The fiscal 2004 GAA increased the ceiling on the balance of the Stabilization Fund from 10% to 15% of total current year revenues. Once this limit has been reached, surplus dollars are deposited into the Tax Reduction Fund. For fiscal 2004, the ceiling is approximately $3.359 billion.

The following graph sets forth ending balances in the Stabilization Fund for fiscal 1999 through fiscal 2002, estimated fiscal 2003 and projected fiscal 2004:

Stabilization Fund (in millions)



SOURCES: Fiscal 1999-2002 Office of the Comptroller; fiscal 2003 and fiscal 2004, Executive Office for Administration and Finance.

(1) Includes $110.0 million of tax revenue from closing so called tax loopholes, $71.0 million of demutualization and $160.5 million of consolidated net surplus.
(2) Fiscal 2003 is estimated; subject to change.
(3) The fiscal 2004 GAA changed the ceiling on the balance of the Stabilization Fund from 10% to 15% of total current year revenues.

COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN

Capital Investment Plan

The Executive Office for Administration and Finance develops and manages a multi-year capital investment plan. This plan coordinates capital expenditures by state agencies and authorities that are funded by the Commonwealth's debt obligations, operating revenues, third-party payments and federal reimbursements. The Executive Office for Administration and Finance sets an annual administrative limit on certain types of capital expenditures by state agencies. This annual administrative limit was $1.225 billion in fiscal 2003. In addition to capital expenditures subject to the annual administrative limit, the Commonwealth has also invested significant monies to fund the construction of the CA/T Project, the Boston and Springfield convention centers and other projects. The Commonwealth aggregates its capital expenditures into the following seven major categories:

- *Economic Development*. The Commonwealth expends funds in this category to support and develop its economy. Types of investments include construction of convention centers, parking facilities and local grants. Various state agencies are responsible for coordinating the Commonwealth's economic development investments. Fiscal 2003 spending is this category is estimated to be $313 million.

- *Environment*. The Commonwealth expends funds in this category to provide a safe environment to its citizens. Types of investments include environmental remediation projects, open space acquisitions and water supply protection. The Executive of Environmental Affairs is responsible for coordinating the Commonwealth's environmental investments. Fiscal 2003 spending in this category is estimated to be $123 million.

- *Housing*. The Commonwealth expends funds in this category to finance an affordable and growing housing stock. Types of investments include rehabilitation of public housing units and financial support of developers for the construction of affordable housing units. The Department of Housing and Community Development is responsible for coordinating the Commonwealth's housing investments. Fiscal 2003 spending in this category is estimated to be $113 million.

- *Information Technology*. The Commonwealth expends funds in this category to improve productivity and program outcomes through the use of technology. Types of investments include the purchase of enterprise infrastructure systems and applications, telecommunications equipment, program and web-based applications and other computing hardware and software. The Information Technology Division within the Executive Office for Administration and Finance coordinates the Commonwealth's technology investments. Fiscal 2003 spending in this category is estimated to be $83 million.

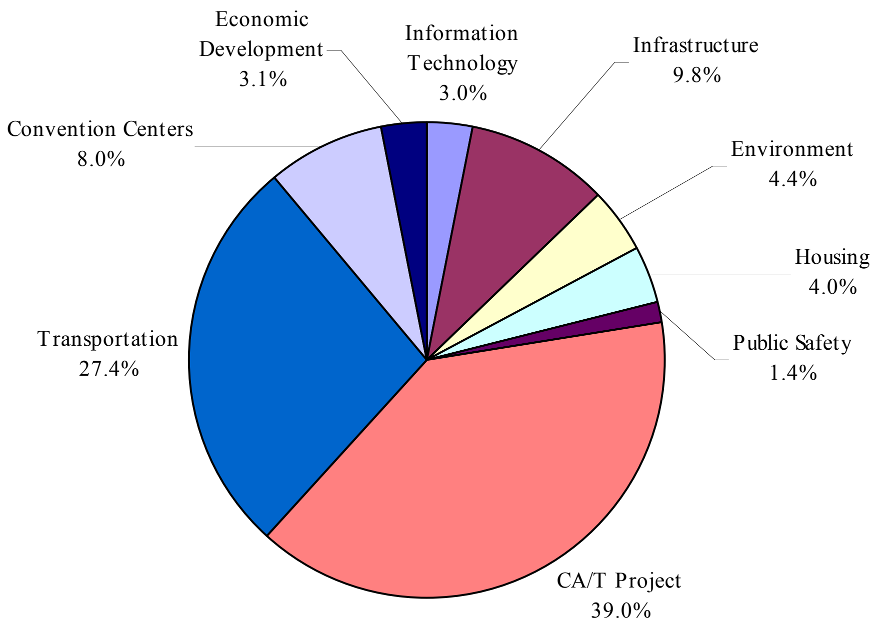
- *Infrastructure*. The Commonwealth expends funds in this category to build and maintain its facilities, which enable the delivery of state services to its citizens. Types of investments include construction of courthouses and prisons, rehabilitation of state office buildings and the demolition of abandoned state property. The Division of Capital Asset Management and Maintenance within the Executive Office for Administration and Finance is responsible for coordinating the Commonwealth's investments in this category. Fiscal 2003 spending in this category is estimated to be $276 million.

- *Public Safety*. The Commonwealth expends funds in this category to ensure the safety of its citizens. Types of investments include public safety vehicles, communications equipment and facility rehabilitation and maintenance. The Executive Office of Public Safety is responsible for coordinating the Commonwealth's public safety investments. Fiscal 2003 spending in this category is estimated to be $38 million.

- *Transportation*. The Commonwealth expends funds in this category to provide a transportation network to support its economy. Types of investments include rehabilitation of bridges, repairs of roadways and financing of mass transportation. The Executive Office of Transportation and Construction is responsible for coordinating the Commonwealth's transportation investments. Fiscal 2003 spending in this category is estimated to be $1.865 billion.

The following is a graph depicting the breakdown of major categories of capital expenditures for fiscal 2003:

Fiscal 2003 Capital Expenditures



The current plan is included in the table below and contains current estimates of capital investment of the Commonwealth as well as the estimated sources of funding for such capital investments for fiscal 2004 through fiscal 2007. However, the Administration is in the process of reviewing the existing plan. No assurances can be provided that the following table will not change materially upon completion of this review.

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

USES:	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002	Estimated Fiscal 2003	Projected Fiscal 2004	Projected Fiscal 2005	Projected Fiscal 2006	Projected Fiscal 2007
Information Technology	$111	$68	$64	$86	$83	$115	$105	$105	$105
Infrastructure	224	197	179	235	276	272	252	252	252
Environment	132	142	140	156	123	125	125	125	125
Housing	82	80	79	106	113	113	101	101	101
Public Safety	12	15	23	8	38	29	21	21	21
Transportation									
CA/T Project	1,606	1,446	1,258	1,296	1,097	1,009	645	226	-
Non-CA/T Project	423	560	732	612	769	725	703	696	710
Economic Development									
Convention Centers	-	11	124	134	226	129	-	-	-
Other	97	87	102	99	86	73	47	44	54
Reserve	-	-	-	-	2	20	114	117	107
Total Uses:	$2,687	$2,606	$2,701	$2,732	$2,813	$2,609	$2,113	$1,687	$1,475
SOURCES:									
Funds from General Obligation Debt	$1,026	$1,133	$1,489	$1,847	1,599	1,486	1,300	1,200	1,200
Funds from Special Obligation Debt	-	-	176	139	226	129	-	-	-
Funds from Grant Anticipation Notes	412	408	353	9	24	-	-	-	-
Operating Revenues	252	96	141	195	171	309	251	42	-
Third-Party Payments	412	481	82	52	99	166	211	170	-
Federal Reimbursements	586	487	460	490	694	520	351	275	275
Total Sources:	$2,687	$2,606	$2,701	$2,732	$2,813	$2,609	$2,113	$1,687	$1,475

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.
(2) The Administration is in the process of reviewing the existing plan. The information provided in the table is subject to change pending completion of said review.

Central Artery/Ted Williams Tunnel Project

The largest single component of the Commonwealth's capital program currently is the Central Artery/Ted Williams Tunnel Project (CA/T Project), a major construction project that is part of the completion of the federal interstate highway system. The CA/T Project involves the depression of a portion of Interstate 93 in downtown Boston (the Central Artery), which is now an elevated highway, and the construction of a new tunnel under Boston harbor (the Ted Williams Tunnel) to link the Boston terminus of the Massachusetts Turnpike (Interstate 90) to Logan International Airport and points north. The CA/T Project is administered by the Massachusetts Turnpike Authority (Turnpike Authority).

Progress/Schedule Update. As of May 31, 2003, CA/T Project construction was 90% complete. As of that date, approximately $13.5 billion was under contract or agreement and approximately 93% of all construction scope was under contract. On January 18, 2003, the I-90 extension to the Ted Williams Tunnel and East Boston/Logan Airport was opened to general traffic. Current projected opening dates for remaining CA/T Project milestones are as follows:

Milestone	Current Trend(1)
I-93 initial southbound opening:	December 2003/February 2004
I-93 complete southbound opening:	March 2005/July 2005
CA/T Project substantial completion:	May 2005/November 2005

SOURCE: Massachusetts Turnpike Authority.

(1) Current trend shows the "window of time" for projected milestone dates, with the first date being the earliest date and the second date being the latest date on which a project milestone is projected to occur.

On March 29, 2003, I-93 northbound opened to traffic. Delays in completion of components of the Integrated Project Control System slowed the opening of I-90 and I-93 northbound, which opened two months and almost four months, respectively, later than projected. The CA/T Project is currently exploring further schedule initiatives to mitigate the impact of this delay; however, without schedule initiatives, there may be a corresponding delay in the remaining other CA/T Project milestones' opening dates as reflected in the later part of the range of current schedule trends shown above.

Cost/Schedule Update. On July 31, 2003 the Turnpike Authority announced the results of its annual cost/schedule update (CSU 10). The Turnpike Authority projected that its budget would remain at $14.625 billion. Following recommendations of the U.S. Department of Transportation Office of Inspector General (DOT-IG) of March 2003 and the February 2003 report of the National Academy of Engineering titled "Completing the Big-Dig," CSU 10 modified presentation of major road openings from an "aggressive but achievable date" format accompanied by estimated schedule exposures to a "window of time" format reflected in the milestone table above. CSU 10 will form the basis for the budget portion of the 2003 finance plan for the CA/T Project, which the Turnpike Authority anticipates will be filed with the Federal Highway Administration on or before September 1, 2003.

As it has for the past four fiscal years, the Executive Office for Administration and Finance has engaged an independent auditor to review and evaluate CSU 10. The Secretary of Administration and Finance relies upon the findings of the report of the independent auditor in completing the certification required by the U.S. Department of Transportation in connection with the federal oversight of the CA/T Project and the U.S. Department of Transportation's approval of the CA/T Project's finance plan. The report of the independent auditor has not yet been completed. The final report is not expected to be complete until late August 2003, and the findings of the independent auditor may result in a final cost exposure that is higher than the estimate of the Turnpike Authority referenced above.

On July 30, 2003 the Federal Highway Administration submitted to the Turnpike Authority the results of its annual budget review of the CA/T Project. The Federal Highway Administration estimates the total cost of the project to be $14.52 billion, compared to the 2002 estimate of 14.46 billion.

Federal Oversight. Increased federal oversight of the CA/T Project occurred in early 2000 following a federal task force's review of the February 1, 2000 announcement by project officials of substantially increased project cost estimates. In June 2000, the Federal Highway Administration designated the Turnpike Authority as a "high-risk grantee" with respect to activities related to the CA/T Project. The designation meant that more detailed financial reports and additional project monitoring would be required on the CA/T Project. On June 22, 2000, the Federal Highway Administration, the Executive Office of Transportation and Construction, the Turnpike Authority and the Massachusetts Highway Department signed a project partnership agreement setting out certain federal reporting and monitoring requirements for the project and stipulating that federal funding for the project will not exceed $8.549 billion, including $1.500 billion to pay the principal of federal grant anticipation notes.

On October 23, 2000, federal legislation was approved that requires the U. S. Secretary of Transportation to withhold obligation of federal funds and all project approvals for the CA/T Project in each federal fiscal year unless the Secretary has approved an annual update of the CA/T Project finance plan for such year and has determined that the Commonwealth is in full compliance with the June 22, 2000 project partnership agreement described above and is maintaining a balanced statewide transportation program, including spending at least $400 million each state fiscal year for construction activities and transportation projects other than the CA/T Project. For fiscal 2003, such spending as of June 30, 2003 was approximately $409.5 million. In addition, the legislation limited total federal funding to $8.549 billion, consistent with the project partnership agreement. Finally, the legislation tied future federal funding for the project to an annual finding by the DOT-IG that the annual update of the CA/T Project finance plan is consistent with FHWA financial plan guidance. Should any federal assistance be withheld from the project pursuant to such legislation, such funding would nonetheless be available to the Commonwealth for projects other than the CA/T Project. Moreover, the legislation provides that federal funds will not be withheld if the Secretary of Administration and Finance certifies that such funds are required to pay all or any portion of the principal of federal grant anticipation notes issued for the CA/T Project.

SEC Investigation. On May 8, 2000, the State Treasurer's office was advised that the staff of the SEC was conducting a formal investigation in the matter of "Certain Municipal Securities/Massachusetts Central Artery (B-1610)," pursuant to a formal order of private investigation issued by the SEC. On July 31, 2003, the SEC accepted offers of settlement from the Turnpike Authority and former Turnpike Authority Chairman James J. Kerasiotes, which included issuance of cease-and-desist orders as a result of their failure to disclose cost increases associated with the CA/T Project in 1999. In accepting those offers of settlement, the SEC considered the remedial acts undertaken by the Turnpike Authority, including generating detailed monthly cost projections for the CA/T Project, conducting annual reviews, employing an outside consultant to test budget assumptions and cost figures and retaining outside counsel to provide disclosure advice. No fines were imposed.

Transportation Infrastructure Fund. The Central Artery and Statewide Road and Bridge Infrastructure Fund (the "TIF") was created by legislation in May 2000 to fund additional costs of the CA/T Project that had been announced in February 2000 and to fund the statewide road and bridge program to the extent of at least $100 million per year for fiscal 2001 through fiscal 2005. Including the $2.168 billion expected to be available for the CA/T Project, expenditures from the TIF are expected to total $2.668 billion through fiscal 2005. These amounts are expected to be provided by the issuance of Commonwealth bonds in the amount of $1.350 billion, the debt service on which is to be paid by motor vehicle license and registration fees dedicated to the fund, $231 million from license and registration fees not needed for debt service, $664 million from avoided debt service related to debt defeasance transactions (described in "General Obligation Debt – Cash Defeasance Transactions"), $200 million from the Turnpike Authority, $65 million from the Port Authority and $159 million from interest earnings through fiscal 2005 on balances in the fund itself. Of these amounts, $1 billion in Commonwealth bonds have already been issued and the payments from the Turnpike Authority and Port Authority have been made. The October 2001 finance plan used an additional $175 million of interest earnings and available borrowings in the TIF that exceed prior estimates to fund in part an cost overrun identified in the 2001 cost and schedule update process.

October 2002 Finance Plan. The Turnpike Authority's finance plan submitted on August 31, 2002 (the "October 2002 Finance Plan") was granted federal approval on April 1, 2003, with the result that the CA/T Project obtained renewed authority to obligate federal funds. In its report on the October 2002 Finance Plan, dated March 31, 2003, the U.S. Department of Transportation Office of Inspector General (DOT-IG) cited potential schedule delays of six to nine months on the October 2002 Finance Plan's project milestone opening dates, projecting opening dates of June 10, 2004 for initial I-93 southbound (connecting the new I-93 southbound tunnel to the existing Dewey Square Tunnel), July 19, 2005 for full I-93 southbound and November 8, 2005 for project substantial completion. These delays forecast by DOT-IG were subsequently incorporated in CSU 10, with the exception of the June 10, 2004 date for the initial I-93 southbound opening, which was changed to February 2004 because the CA/T Project incorporated a change initiative allowing partial opening of the I-93 tunnel earlier than expected.

On July 22, 2002, the Massachusetts State Auditor issued an interim report concluding that the CSU 9 projected budget of $14.625 billion is overfunded by approximately $88 million. On July 26, 2002, FHWA announced its estimate of the total CA/T Project cost to be $14.46 billion in connection with its annual budget review of the CA/T Project.

The Turnpike Authority budgeted $87 million for CA/T Project costs from the projected resale of its Kneeland Street properties in the October 2002 Finance Plan and CSU 10. The DOT-IG and the General Accounting Office (GAO) have taken a position that monies realized from the resale of property originally purchased with federal funds, which would include the Kneeland Street properties, should retain their federal character and not become state funds. FHWA, which has responsibility for issuing and interpreting regulations on the subject, disagrees with that interpretation and has taken a position that such monies become state funds upon resale of such property. Senator John McCain has requested the U.S. Secretary of Transportation to abolish the federal rule allowing characterization of such monies as state funds. On February 20, 2003, the DOT-IG requested a legal opinion from the GAO regarding the proper characterization of these funds. In a letter dated May 16, 2003, addressing the issue, DOT Secretary Norman Mineta stated that such monies do "not constitute federal funds but must be used by the state for projects eligible for federal funds" and are not included in the federal cap on funding for the CA/T Project. The Secretary's interpretation is consistent with the CA/T Project's planned use of funds.

If FHWA changes its position, the CA/T Project would be required to replace approximately $70 million of newly characterized federal funds with state funds in order to maintain compliance with the $8.549 billion cap on federal funding for the CA/T Project. In the event this were to occur, the CA/T project would seek a reallocation by the Commonwealth of federal highway program funds so as not to increase the total cost of the CA/T Project or alter the cash flow of CA/T Project funding. Alternatively, the CA/T Project estimates that sale or lease of additional surface artery real estate could yield additional funds beyond the current estimated CA/T Project budget; however, use of such funds would be limited to the extent such properties were originally purchased with federal funds, similar to the Kneeland Street properties. If reallocation of federal funds or realization of sufficient additional revenues from surface artery real estate or other sources were not possible, the CA/T Project could potentially face a revenue shortfall.

Claims and Economic Risks. Each annual finance plan, including the October 2002 Finance Plan, budgets for the potential cost of change orders on all awarded and unawarded contracts. Any dollar amount associated with an individual claim or issue, or the sum of claims or issues, may not reflect the ultimate impact, if any, on the final CA/T Project cost. The contract claim of Honeywell Technology Solutions, Inc. received on March 16, 2002 now totals $123.9 million. As a result of negotiations between the CA/T Project and Honeywell on the claim, the parties entered into an agreement dated October 18, 2002, reaffirming contract metrics and schedule milestone dates. Significant work remains to be completed by Honeywell, including installation of systems necessary to open I-93 southbound. If Honeywell fails to perform work on an accelerated basis or if Honeywell were to abandon the contract, it might result in a substantial and material impact to CA/T Project cost and schedule.

The current weak economy and resolution of contractor claims, including global settlements, at amounts lower, and/or received later, than anticipated by contractors, among other factors, create cash flow and credit issues for affected CA/T Project contractors. Such financial difficulty could affect the ability of a contractor to complete CA/T Project contract work. If an affected contractor with significant critical path contract work toward an overall project completion milestone were to become insolvent, or otherwise fail to complete its contract work, it is possible that there would be a substantial and material impact on CA/T Project schedule and cost.

Toll Discount Program. On July 1, 2002, a toll discount program for members of the FASTLANE Program who operate non-commercial two-axle passenger vehicles went into effect, providing a 50% discount on the amount of the July 1, 2002 toll rate increase to participants. In April 2003, the discount program was extended through December 2003. Funding for this extension will come from the Turnpike Authority's sale of certain real estate in May 2003 for approximately $75 million. In September 2003, the board intends to reevaluate the continued maintenance of the toll discount program.

Legislation passed on July 31, 2002, contained provisions that could be interpreted as requiring that the toll discount program be made permanent. It is the position of the Turnpike Authority that the toll discount program remains subject to annual evaluation by the Turnpike Authority board and available funding, and is subordinate to payments for Western Turnpike and Metropolitan Highway System debt service and expense commitments. If the Legislature requires the toll discount program be made permanent without providing offsetting funding, the Turnpike Authority could potentially face a revenue shortfall. In addition, before any toll discount program could be made permanent, the Turnpike Authority's Trust Agreement would require the Turnpike Authority to deliver a certificate of an independent consultant verifying certain debt service coverage ratios to the trustee.

CA/T Project Cash Flow. The table below provides cash flow estimates that were presented in the October 2002 Finance Plan. The estimates extend to fiscal 2006, when the final project close-out process is expected to be completed. Actual amounts and timing of construction costs may differ significantly from such estimates.

Central Artery Construction Cash Flow (in millions)(1)

	Cumulative Through 2001(2)	2002	2003	2004	2005	2006	Totals
Project Construction Uses:	$10,468	$1,187	$1,254	$907	$588	$221	$14,625
Project Construction Sources:							
Federal Highway Reimbursements (3)	5,889	342	464	237	111	6	7,049
Commonwealth GO Bond/Note (4)	1,179	150	105	86	60	8	1,588
State Interest on Turnpike Authority Funds	24	--	21	--	--	--	45
Third Party Contributions (5)	1,590	16	13	112	131	90	1,950
Grant Anticipation Notes	1,467	33	--	--	--	--	1,500
Transportation Infrastructure Fund (6)	279	646	645	467	283	22	2,343
Insurance Trust Revenue	39	--	7	5	3	96	150
Total Sources	$10,468	$1,187	$1,254	$907	$588	$221	$14,625

SOURCES: Executive Office for Administration and Finance and Massachusetts Turnpike Authority.

(1) Totals may not add due to rounding.
(2) This table is based on the Commonwealth's fiscal year, which ends on June 30; the Turnpike Authority's fiscal year ends on December 31.
(3) Assumes that successor legislation to the federal Transportation Equity Act for the 21st Century will be passed for federal fiscal 2004 and subsequent years. Projections assume federal authorizations equal to federal fiscal 2003 in federal fiscal 2004 – 2006.
(4) Does not include bonds or notes authorized by May 17, 2000 legislation, which are included in the TIF line.
(5) Payments to be received from the Turnpike Authority and the Port Authority described in the October 2000, 2001 and 2002 Finance Plans, but excluding payments to be received from the Turnpike Authority and the Port Authority as required by May 17, 2000 legislation. (The latter payments are included in the TIF line). The fiscal year amounts assume that the Commonwealth will finance costs in anticipation of such receipts through cash advances funded by general revenues or through the issuance of interim debt, if necessary.
(6) Central Artery and Statewide Road and Bridge Transportation Infrastructure Fund established pursuant to legislation approved by the Governor on May 17, 2000. Includes $200 million to be received from the Turnpike Authority and $65 million to be received from the Port Authority.

LONG-TERM LIABILITIES

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

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

	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002	Fiscal 2003(2)
Fiscal Year Beginning Balance (as of July 1)	$11,078,603	$11,808,461	$12,383,101	$13,999,454	$14,955,135
General and Special Obligation Debt Issued(1)	1,030,490	1,758,142	1,752,198	1,470,272	1,845,458(3)
County Debt Assumed	1,505	525	-	-	-
Grant Anticipation Notes Issued(1)	321,720	-	577,605	-	-
Subtotal	12,432,318	13,567,128	14,712,904	15,469,726	16,800,593
Debt Retired or Defeased, Exclusive of Refunding	(658,557)	(1,184,027)	(770,434)	(692,341)	(737,831)
Refunding Debt Issued, Net of Refunded Debt	34,700	-	56,984	177,750	(100,256)
Fiscal Year Ending Balance (June 30)	$11,808,461	$12,383,101	$13,999,454	$14,955,135	$15,962,506

SOURCE: Office of the Comptroller.

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

General Authority to Borrow

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

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

Statutory Limit on Direct Debt. Legislation enacted in December 1989 imposes a limit on the amount of outstanding "direct" bonds of the Commonwealth. The law, which is codified in Section 60A of Chapter 29, set a fiscal 1991 limit of $6.8 billion and provided that the limit for each subsequent fiscal year was to be 105% of the previous fiscal year's limit. This limit is calculated under the statutory basis of accounting, which differs from GAAP in that the principal amount of outstanding bonds is measured net of discount and costs of issuance. The law further provides that bonds to be refunded from the proceeds of Commonwealth refunding bonds are to be excluded from outstanding "direct" bonds upon the issuance of the refunding bonds. Pursuant to Chapter 33 of the Acts of 1991, the Commonwealth's outstanding special obligation highway revenue bonds are not to be counted in computing the amount of bonds subject to this limit. Pursuant to Chapter 5 of the Acts of 1991, $287.2 million of Commonwealth refunding bonds issued in September and October 1991 are not counted in computing the amount of the bonds subject to this limit. Pursuant to Chapter 11 of the Acts of 1997, federal grant anticipation notes are also not to be counted in computing the amount of the bonds subject to this limit. Pursuant to Chapter 127 of the Acts of 1999, bonds issued to pay the operating notes issued by the Massachusetts Bay Transportation Authority or to reimburse the Commonwealth for advances to the MBTA are not to be counted in computing the amount of the bonds subject to this limit. See "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS - Massachusetts Bay Transportation Authority - Financial Restructuring." Pursuant to Chapter 87 of the Acts of 2000, as amended, bonds payable from the Central Artery and Statewide Road and Bridge Infrastructure Fund are not to be counted in computing the amount of the bonds subject to this limit. See "Central Artery/Ted Williams Tunnel Project." The statutory limit on "direct" bonds during fiscal 2003 is $12.212 billion.

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

Calculation of the Debt Limit (in thousands)

	1999	2000	2001	2002	2003
Balance as of June 30	$11,808,461	$12,383,101	$13,999,454	$14,995,135	$15,962,506
Less amounts excluded:					
Discount and issuance costs	(677,326)	(358,938)	(282,829)	(181,910)	(68,718)
Ch. 5, Acts of 1992 Refunding	(130,069)	(114,761)	(71,054)	(22,043)	(10,600)
Special Obligation Principal	(582,410)	(561,335)	(539,242)	(772,812)	(748,124)(1)
Federal Grant Anticipation Notes Principal	(899,991)	(899,991)	(1,500,000)	(1,500,000)	(1,500,000)(2)
County Debt Assumed	(2,345)	(2,105)	(1,375)	(1,115)	(855)
MBTA Forward Funding	-	(325,000)	(325,000)	(625,000)	(713,429)
CA/T Project	-	-	(999,995)	(838,193)	(1,386,869)
Outstanding Direct Debt	$9,516,320	$10,120,971	$10,279,959	$11,054,062	$11,533,911
Statutory Debt Limit	$10,046,697	$10,549,032	$11,076,483	$11,630,307	$12,211,823

SOURCE: Office of the Comptroller.

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

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

Debt Service Expenditures (in millions)(1)

Fiscal Year	Budgeted Debt Service	Total Budgeted Expenditures and Other Uses	Percentage
1999	$1,176.1	$20,244.7	5.8%
2000	1,114.6	22,414.1	5.0
2001	599.7(2)	22,133.7	2.7
2002	1,219.0	22,800.3	5.3
Estimated 2003	1,204.8	22,390.3	5.4

SOURCES: Fiscal 1999-2002, Office of the Comptroller; fiscal 2003, Executive Office for Administration and Finance.

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

Commonwealth Debt. The Commonwealth is authorized to issue three types of debt directly – general obligation debt, special obligation debt and federal grant anticipation notes. General obligation debt is secured by a pledge of the full faith and credit of the Commonwealth. Special obligation debt may be secured either with a pledge of receipts credited to the Highway Fund or with a pledge of receipts credited to the Convention Center Fund. See "Special Obligation Debt." Federal grant anticipation notes are secured by a pledge of federal highway construction reimbursements. See "Federal Grant Anticipation Notes."

Other Long-Term Liabilities. The Commonwealth is also authorized to pledge its credit in aid of and provide contractual support for certain independent authorities and political subdivisions within the Commonwealth. These Commonwealth liabilities are classified as either (a) general obligation contract assistance liabilities, (b) budgetary contractual assistance liabilities or (c) contingent liabilities.

General obligation contract assistance liabilities arise from statutory requirements for payments by the Commonwealth to the Massachusetts Convention Center Authority, the Massachusetts Development Finance Agency and the Foxborough Industrial Development Financing Authority of 100% of the debt service of certain bonds issued by those authorities, as well as payments to the Massachusetts Water Pollution Abatement Trust and the Massachusetts Turnpike Authority that are not explicitly tied to debt service. Such liabilities constitute a pledge of the Commonwealth's credit for which a two-thirds vote of the Legislature is required.

Budgetary contractual assistance liabilities arise from statutory requirements for payments by the Commonwealth under capital leases, including leases supporting certain bonds issued by the Chelsea Industrial Development Financing Authority and the Route 3 North Transportation Improvements Association and other contractual agreements, including a contract supporting certain certificates of participation issued for Plymouth County and the grant agreements underlying the school building assistance program. Such liabilities do not constitute a pledge of the Commonwealth's credit.

Contingent liabilities relate to debt obligations of independent authorities and agencies of the Commonwealth that are expected to be paid without Commonwealth assistance, but for which the Commonwealth has some kind of liability if expected payment sources do not materialize. These liabilities consist of guaranties and similar obligations with respect to which the Commonwealth's credit has been pledged, as in the case of certain debt obligations of the MBTA, certain regional transit authorities, the Woods Hole, Martha's Vineyard and Nantucket Steamship Authority and the higher education building authorities; and of statutorily contemplated payments with respect to which the Commonwealth's credit has not been pledged, as in the case of the Commonwealth's obligation to replenish the capital reserve funds securing certain debt obligations of the Massachusetts Housing Finance Agency and the Commonwealth's obligation to fund debt service, solely from monies otherwise appropriated for the affected institution, owed by certain community colleges and state colleges on bonds issued by the Massachusetts Health and Educational Facilities Authority and the Massachusetts State College Building Authority.

The following table sets forth the amount of Commonwealth debt and debt related to general obligation contract assistance liabilities outstanding as of June 30, 2003:

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

	Long-Term (4)	Short-Term
COMMONWEALTH DEBT		
General Obligation Debt	$13,650,136(5)	$857,100(7)
Special Obligation Debt (1)	813,045	-
Federal Grant Anticipation Notes(2)	1,499,325(6)	-
Subtotal Commonwealth Debt	$15,962,506	$857,100
DEBT RELATED TO GENERAL OBLIGATION CONTRACT ASSISTANCE LIABILITIES (3)		
Massachusetts Convention Center Authority	$ 38,527	-
Massachusetts Development Finance Agency	43,720	-
Foxborough Industrial Development Financing Authority	65,475	-
Subtotal GO Contract Assistance Debt	147,722	-
TOTAL	$16,110,228	$857,100

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

(1) Includes $183.5 million of bonds, which, although not legally defeased, will be paid in fiscal 2004, 2006 and 2008 from funds held in escrow by a third-party trustee.
(2) On July 16, 2003, the Commonwealth issued special obligation notes for the purpose of refunding approximately $408.0 million of federal grant anticipation notes in a crossover refunding. See "Federal Grant Anticipation Notes."
(3) Does not include general obligation contract assistance liabilities to the Massachusetts Water Pollution Abatement Trust and the Massachusetts Turnpike Authority. For information about such liabilities, see "General Obligation Contract Assistance Liabilities."
(4) Long-term debt includes discount and costs of issuance.
(5) Includes interest on Commonwealth general obligation capital appreciation bonds to be accrued from June 30, 2003 through their maturity in the amount of $146.7 million.
(6) Includes capital appreciation interest accrued from June 30, 2003 through their maturity in the amount of $38.4 million.
(7) Includes $482 million of general obligation bond anticipation notes issued to finance costs associated with construction of the Boston Convention and Exhibition Center and other capital projects. Such notes are expected to be paid from the proceeds of special obligation bonds that can lawfully be issued regardless of the completion status of the convention center. See "Special Obligation Debt; *Convention Center Fund*". In addition, the total includes $75.1 million of commercial paper issued as bond anticipation notes in anticipation of certain payments to be received by the Commonwealth from the Massachusetts Port Authority to reimburse Commonwealth for capital costs of the CA/T Project. See "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS – Cash Flow."

General Obligation Debt

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

Notes. The Commonwealth is authorized to issue short-term general obligation debt as revenue anticipation notes or bond anticipation notes. Revenue anticipation notes may be issued by the State Treasurer in any fiscal year in anticipation of the receipts for that year. Revenue anticipation notes must be repaid no later than the close of the fiscal year in which they are issued. Bond anticipation notes may be issued by the State Treasurer in anticipation of the issuance of bonds, including special obligation convention center bonds. See "Special Obligation Debt." The Commonwealth currently has liquidity support for a $1.000 billion commercial paper program for general obligation notes, through a $200 million letter of credit which expires on December 28, 2003 and four $200 million credit lines, available through September 2004, December 2004, March 2005 and September 2005, respectively.

Synthetic Fixed Rate Bonds. In connection with the issuance of certain general obligation bonds that were issued as variable rate bonds, the Commonwealth has entered into interest rate exchange (or "swap") agreements with certain counterparties pursuant to which the counterparties are obligated to pay the Commonwealth an amount equal to the variable rate payment on the related bonds and the Commonwealth is obligated to pay the counterparties a stipulated fixed rate. Only the net difference in interest payments is actually exchanged with the counterparty, and the Commonwealth is responsible for making the interest payments to the variable rate bondholders. The effect of the agreements is to fix the Commonwealth's interest payment obligations with respect to the variable rate bonds. The Commonwealth will be exposed to a variable rate if the counterparties default or if the swap agreements are terminated. Termination of a swap agreement may also result in the Commonwealth's making or receiving a termination payment. The variable rate bonds associated with such swaps are supported by stand-by bond purchase liquidity facilities with commercial banks which require that the applicable bank purchase any bonds that are tendered and not successfully remarketed. Unless and until remarketed, the Commonwealth would be required to pay the bank interest on such bonds at a rate equal to the bank's prime rate. In addition, the Commonwealth would be required to amortize the principal of any such bonds according to an accelerated schedule. Such liquidity facilities expire well before the final maturity date of the related bonds and are expected to be renewed. As of June 30, 2003, the amount of such variable rate bonds outstanding with a synthetic fixed rate agreement was $1.364 billion.

Variable Rate Demand Bonds, Auction Rate Securities and U.Plan Bonds. As of June 30, 2003, the Commonwealth had outstanding approximately $275.6 million of variable rate demand bonds (not converted to a synthetic fixed rate as described above) in a daily interest rate mode, with liquidity support provided by commercial banks under agreements terminating in February 2006. As of June 30, 2003, the Commonwealth had outstanding $401.5 million of auction rate securities in a seven-day interest rate mode. As of June 30, 2003, the Commonwealth had outstanding approximately $128.8 million of variable rate "U.Plan" bonds, sold in conjunction with a college savings program administered by the Massachusetts Educational Financing Authority, which bear deferred interest at a rate equal to the percentage change in the consumer price index plus 2%, together with current interest at the rate of 0.5%.

Special Obligation Debt

Highway Fund. Section 2*O* of Chapter 29 of the General Laws authorizes the Commonwealth to issue special obligation bonds secured by all or a portion of revenues accounted to the Highway Fund. Revenues which are currently accounted to the Highway Fund are primarily derived from taxes and fees relating to the operation or use of motor vehicles in the Commonwealth, including the motor fuels excise tax. Chapter 33 of the Acts of 1991 authorizes the Commonwealth to issue such special obligation bonds in an aggregate amount not to exceed $1.125 billion. As of June 30, 2003, the Commonwealth had outstanding $813.0 million of such special obligation bonds, including $629.6 million of such bonds secured by a pledge of 6.86¢ of the 21¢ motor fuels excise tax.

Convention Center Fund. Chapter 152 of the Acts of 1997 authorizes $694.4 million of special obligation bonds to be issued for the purposes of building a new convention center in Boston ($609.4 million), the Springfield Civic Center ($66 million) and the Worcester convention center ($19 million). The bonds are to be payable from monies credited to the Convention Center Fund created by legislation, which include the receipts from a 2.75% convention center financing fee added to the existing hotel tax in Boston, Cambridge, Springfield and Worcester, sales tax receipts from establishments near the proposed Boston facility that first opened on or after July 1, 1997, a surcharge on car rentals in Boston, a parking surcharge at all three facilities, the entire hotel tax collected at hotels located near the new Boston facility and all sales tax and hotel tax receipts at new hotels in Boston and Cambridge first opened on or after July 1, 1997. The legislation requires a capital reserve fund to be maintained at a level equal to maximum annual debt service and provides that if the fund falls below its required balance the 2.75% convention center financing fee in Boston is to be increased (though the overall hotel tax in Boston, including the fee, cannot exceed 14%). To date, no such bonds have been issued. However, $350 million of general obligation bond anticipation notes and $132 million of commercial paper notes have been issued to support construction costs.

Federal Grant Anticipation Notes

The Commonwealth has issued federal grant anticipation notes yielding aggregate net proceeds of $1.5 billion, the full amount authorized, to finance the current cash flow needs of the Central Artery/Ted Williams Tunnel project in anticipation of future federal reimbursements. The legislation authorizing such notes contains a statutory covenant that as long as any such grant anticipation notes remain outstanding, the Commonwealth will deposit all federal highway reimbursements into the Grant Anticipation Note Trust Fund, to be released to the Commonwealth once all the debt service and reserve funding obligations of the trust agreement securing the grant anticipation notes have been met. If the United States Congress reduces the aggregate amount appropriated nationwide for federal highway spending to less than $17.1 billion and debt service coverage with respect to the notes falls below 120%, then the legislation further pledges that 10¢ per gallon of existing motor fuel tax collections will be deposited into the trust fund, to be used for debt service on the notes, subject to legislative appropriation. The notes are not general obligations of the Commonwealth. The notes mature between fiscal 2006 and fiscal 2015, inclusive. Under the trust agreement securing the notes, aggregate annual debt service on grant anticipation notes may not exceed $216 million. Such notes are secured by the pledge of federal highway construction reimbursement payments and by a contingent pledge of certain motor fuels excises.

On July 16, 2003, the Commonwealth issued special obligation refunding notes for the purpose of crossover refunding approximately $408.0 million of outstanding federal grant anticipation notes in 2008 and in 2010. Until the crossovers occur, interest on the notes will be paid solely by an escrow account established with the proceeds of the notes. Upon the refunding of $408.0 million of outstanding federal grant anticipation notes on the crossover dates, the refunding notes will become secured by the Grant Anticipation Note Trust Fund.

Debt Service Requirements on Commonwealth Bonds

The following table sets forth, as of June 30, 2003, the annual fiscal year debt service requirements on outstanding Commonwealth general obligation bonds, special obligation bonds and federal grant anticipation notes. For variable rate bonds with respect to which the Commonwealth is a fixed-rate payor under an associated interest rate exchange agreement, the debt service schedule assumes payment of the fixed rate due under such agreement. For other variable rate bonds and for auction rate securities, the schedule assumes a 5% interest rate.

Debt Service Requirements on Commonwealth Bonds as of June 30, 2003 (in thousands)(1)

	General Obligation Bonds				*Federal Grant Anticipation Notes*			*Special Obligation Bonds*			
Fiscal Year	Principal	Interest on CABS at Maturity	Current Interest	Sub Total	Principal	Interest	Sub Total	Principal	Interest	Sub Total	Total Debt Service Commonwealth Bonds
2004	$634,394	$68,020	$673,957	$1,376,371	-	$74,822	$74,822	$26,070	$42,449	$68,519	$1,519,712
2005	815,118	9,338	639,843	1,464,300	-	74,822	74,822	27,370	41,156	68,526	1,607,649
2006	813,401	4,536	603,237	1,421,174	$117,895	73,416	191,311	43,950	39,713	83,663	1,696,149
2007	842,619	5,189	562,516	1,410,324	123,825	67,486	191,311	46,775	37,566	84,341	1,685,976
2008	853,290	5,801	521,050	1,380,141	130,240	61,068	191,308	57,310	34,687	91,997	1,663,446
2009	847,569	6,437	477,543	1,331,549	137,230	54,077	191,307	42,020	31,833	73,853	1,596,709
2010	814,368	6,199	433,070	1,253,636	144,515	46,792	191,307	63,070	29,847	92,917	1,537,860
2011	818,858	6,729	387,749	1,213,336	152,230	39,080	191,310	46,190	26,585	72,775	1,477,421
2012	691,938	6,898	343,938	1,042,775	160,530	30,775	191,305	48,590	24,205	72,795	1,306,874
2013	706,843	7,707	305,974	1,020,523	168,470	22,837	191,307	51,115	21,653	72,768	1,284,598
2014	602,978	5,715	272,580	881,273	177,760	13,549	191,309	49,435	18,866	68,301	1,140,883
2015	583,926	5,014	242,787	831,727	186,630	4,674	191,304	78,525	16,298	94,823	1,117,853
2016	565,943	3,623	215,754	785,320	-	-	-	52,965	12,076	65,041	850,361
2017	575,968	2,247	187,976	766,191	-	-	-	43,710	9,265	52,975	819,166
2018	425,114	1,529	162,487	589,130	-	-	-	24,445	7,080	31,525	620,655
2019	422,461	1,031	141,216	564,708	-	-	-	25,755	5,766	31,521	596,229
2020	428,621	420	118,860	547,902	-	-	-	27,140	4,381	31,521	579,423
2021	570,528	220	94,169	664,917	-	-	-	28,590	2,931	31,521	696,438
2022	340,943	69	70,399	411,411	-	-	-	30,020	1,501	31,521	442,932
2023	152,160	20	55,119	207,299	-	-	-	-	-	-	207,299
2024	24,060	-	49,999	74,059	-	-	-	-	-	-	74,059
2025	30,059	-	48,627	78,686	-	-	-	-	-	-	78,686
2026	76,790	-	45,754	122,544	-	-	-	-	-	-	122,544
2027	125,660	-	40,678	166,338	-	-	-	-	-	-	166,338
2028	131,805	-	34,199	166,004	-	-	-	-	-	-	166,338
2029	192,485	-	25,917	218,402	-	-	-	-	-	-	166,004
2030	202,925	-	15,746	218,671	-	-	-	-	-	-	218,402
2031	212,570	-	5,062	217,632	-	-	-	-	-	-	218,671
2032	-	-	-	-	-	-	-	-	-	-	217,632
TOTAL	$13,503,394	$146,742	$6,776,207	$20,426,344	$1,499,325(1)	$563,398	$2,062,723	$813,045(2)	$407,858	$1,220,903	$23,709,970

SOURCE: Office of the Comptroller.

(1) On July 16, 2003, the Commonwealth issued special obligation notes for the purpose of refunding approximately $408.0 million of federal grant anticipation notes in a crossover refunding. See “Federal Grant Anticipation Notes.”

(2) Includes $185.3 million of bonds, which, although not legally defeased, will be paid in fiscal 2004, 2006 and 2008 from funds held in escrow by a third-party trustee.

General Obligation Contract Assistance Liabilities

Massachusetts Convention Center Authority. The Massachusetts Convention Center Authority (MCCA) was created for the purpose of promoting the economic development of the Commonwealth through the operation of the Hynes Convention Center, the Boston Common Parking Garage and the Springfield Convention Center. In addition, the MCCA is overseeing the construction of the Boston Convention and Exhibition Center. The MCCA has issued bonds which are fully secured by contract assistance payments by the Commonwealth, which payments are limited by statute to an amount equal to the annual debt service on $200 million of bonds outstanding at any one time. The assistance contract is a general obligation of the Commonwealth for which its full faith and credit is pledged. As of June 30, 2003, the MCCA had $38.5 million of such bonds outstanding.

*Massachusetts Development Finance Agency, as successor to the Massachusetts Government Land Bank. O*n September 30, 1998, the Massachusetts Government Land Bank and the Massachusetts Industrial Finance Agency were legally merged into a successor entity, the Massachusetts Development Finance Agency (MassDevelopment). MassDevelopment has succeeded to all of the assets and liabilities of the Government Land Bank. MassDevelopment assists in the development of state and federal surplus property for private use and in the development of substandard, blighted or decadent open areas in the Commonwealth. MassDevelopment has direct borrowing power, and the Commonwealth is required to provide contract assistance payments necessary to defray the debt service on up to $80 million of bonds issued to redevelop the former federal military base at Fort Devens. The contract with MassDevelopment is a general obligation of the Commonwealth for which the full faith and credit of the Commonwealth is pledged. As of June 30, 2003, MassDevelopment had $43.7 million of bonds outstanding, which are secured by the contract assistance from the Commonwealth. No more such bonds may be issued under current law.

Foxborough Industrial Development Financing Authority. Pursuant to legislation approved May 24, 1999, the Commonwealth entered into a contract for financial assistance with the Foxborough Industrial Development Financing Authority in June 2000 obligating the Commonwealth to pay the full amount of the debt service on bonds issued to finance up to $70 million of capital expenditures for infrastructure improvements related to the construction of a new professional football stadium in the town of Foxborough. The obligation of the Commonwealth to make such payments is a general obligation for which the full faith and credit of the Commonwealth is pledged. Under the authorizing legislation the Commonwealth is to receive $400,000 per year in parking fees for stadium-related events, an administrative fee of $1 million per year from the stadium lessee and will be entitled to recover from the stadium lessee a portion of its contract assistance payments if professional football ceases being played at the stadium during the term of the bonds. As of June 30, 2003, the Foxborough Industrial Development Financing Authority had $65.5 million of such bonds outstanding. No more such bonds may be issued under current law.

Massachusetts Turnpike Authority. The Commonwealth is obligated to pay contract assistance to the Massachusetts Turnpike Authority pursuant to legislation enacted in 1998 and a contract for financial assistance dated as of February 19, 1999 between the Turnpike Authority and the Commonwealth. The payments are in recognition of the financial burden imposed on the Turnpike Authority by virtue of its assumption of the responsibility for operation and maintenance of certain roadways in the Metropolitan Highway System that were formerly maintained by the Commonwealth. The Commonwealth's obligation to make such payments is a general obligation for which the faith and credit of the Commonwealth is pledged for the benefit of the Turnpike Authority and its bondholders. The contract provides that no later than September 1 of each year the Turnpike Authority is to submit to the Secretary of Transportation and Construction a certificate setting forth the total amount of costs incurred by the Turnpike Authority during the prior fiscal year in connection with the operation and maintenance of the roadways covered by the contract. The contract further provides that as soon as practicable following receipt of such certificate, but no later than December 1 of such year, the Commonwealth is to pay the Turnpike Authority the amount set forth in such certificate, subject to Commonwealth review, provided that such payment may not be less than $2 million on account of fiscal 2000, may not be less than $5 million on account of fiscal 2001 and each fiscal year thereafter prior to the fiscal year in which the final segment of the affected roadways is transferred to the Turnpike Authority and may not be more than $25 million on account of the fiscal year in which such transfer occurs and each fiscal year thereafter. Governor Romney's fiscal 2004 budget recommendation and subsequent legislation have proposed to restructure the Turnpike Authority. Under the Governor's proposal, the

Commonwealth would pledge contract assistance for the full payment of the Turnpike Authority's outstanding bonds, while retaining all revenues (including tolls) of the Authority.

Massachusetts Water Pollution Abatement Trust. The Massachusetts Water Pollution Abatement Trust was created to implement the Commonwealth's state revolving fund program under Title VI of the federal Clean Water Act and the federal Safe Drinking Water Act. The Trust is authorized to apply for and accept federal grants and associated Commonwealth matching grants to capitalize the revolving fund and to issue debt obligations to make loans to local governmental units to finance eligible water pollution abatement and water treatment projects. Under state law, each loan made by the Trust is required to provide for debt service subsidies or other financial assistance sufficient to result in the loan being the financial equivalent of a net zero percent interest or two percent interest loan. Pursuant to Sections 11 and 12 of Chapter 236 of the Massachusetts General Laws, respectively, the annual contract assistance maximum for the Clean Water program is $71 million and the contract assistance maximum for the Safe Drinking Water program is $17 million. The contract assistance agreements constitute general obligations of the Commonwealth for which its faith and credit is pledged, and the Trust's right to receive payments thereunder may be pledged by the Trust as security for repayment of the Trust's debt obligations. As of June 30, 2003, the Trust had $2.1 billion of bonds outstanding. Approximately 35% of the aggregate debt service on such bonds is expected to be paid from Commonwealth contract assistance.

The following table sets forth, as of June 30, 2003, the Commonwealth's general obligation contract assistance requirements pursuant to contracts with the Massachusetts Convention Center Authority, MassDevelopment, the Foxborough Industrial Development Financing Authority, the Massachusetts Turnpike Authority and the Massachusetts Water Pollution Abatement Trust.

General Obligation Contract Assistance Requirements (in thousands)(1)

Fiscal Year	Convention Center Authority	Massachusetts Development Finance Agency	Massachusetts Water Pollution Abatement Trust	Turnpike Authority(2)	Foxborough Industrial Development Financing Authority	Total
2004	$16,338	$13,283	$57,759	$16,026	$5,338	$93,744
2005	16,302	13,281	57,490	25,000	5,336	117,409
2006	14,735	13,280	57,032	25,000	5,336	115,383
2007	2,532	10,162	57,271	25,000	5,337	100,302
2008	2,533	--	56,894	25,000	5,336	89,763
2009	2,534	--	56,798	25,000	5,340	89,672
2010	2,534	--	56,604	25,000	5,338	89,476
2011	2,534	--	55,938	25,000	5,338	88,810
2012	2,533	--	54,322	25,000	5,338	87,193
2013	2,536	--	51,767	25,000	5,341	84,644
2014	2,536	--	48,822	25,000	5,339	81,697
2015	--	--	47,221	25,000	5,337	77,558
2016	--	--	42,497	25,000	5,337	72,834
2017	--	--	35,426	25,000	5,336	65,762
2018	--	--	30,123	25,000	5,339	60,462
2019	--	--	29,841	25,000	5,336	60,177
2020	--	--	24,141	25,000	5,335	54,476
2021	--	--	16,733	25,000	5,337	47,070
2022	--	--	7,448	25,000	5,340	37,788
2023	--	--	7,291	25,000	5,340	37,631
2024	--	--	--	25,000	5,340	30,340
2025	--	--	--	25,000	5,340	30,340
2026 through 2045	--	--	--	500,000(3)	--	500,000
Total	$67,647	$50,006	$851,418	$1,026,026	$117,434	$2,112,531

SOURCES: Massachusetts Water Pollution Abatement Trust, Massachusetts Convention Center Authority and MassDevelopment columns – Office of the State Treasurer; Foxborough Industrial Development Financing Authority and Massachusetts Turnpike Authority columns - Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.
(2) Reimbursement funds operating and maintenance costs expended in the prior state fiscal year. These costs are projections and are subject to review pursuant to the contract for financial assistance. These projections do not include certain costs submitted by the

Massachusetts Turnpike Authority for reimbursement, which the Executive Office for Administration and Finance have determined not to be reimbursable under the contract. The disputed costs remain subject to review and discussion.

(3) Twenty-five million dollars per year for fiscal 2026 through fiscal 2045, inclusive.

Budgetary Contractual Assistance Liabilities

Plymouth County Certificates of Participation. In May 1992, Plymouth County caused to be issued approximately $110.5 million of certificates of participation to finance the construction of a county correctional facility. In March 1999, Plymouth County caused to be issued approximately $140.1 million of certificates of participation to advance refund the 1992 certificates, construct an administration office building and auxiliary facilities near the county correctional facility and fund repairs and improvements to the facility. The Commonwealth, acting through the Executive Office of Public Safety and Homeland Security and the Department of Correction, is obligated under a memorandum of agreement with Plymouth County to pay for the availability of 380 beds (out of 1,140) in the facility, regardless of whether 380 state prisoners are housed therein. The amounts payable by the Commonwealth will at least equal the debt service on the outstanding certificates of participation, but are subject to appropriation of such amounts by the Legislature in the annual budgetary line item for the Executive Office of Public Safety and Homeland Security. The obligation of the Commonwealth under the memorandum of agreement does not constitute a general obligation or a pledge of the credit of the Commonwealth. As of June 30, 2003, Plymouth County had $125.5 million of such certificates of participation outstanding.

City of Chelsea Commonwealth Lease Revenue Bonds. In November 1993, the Chelsea Industrial Development Financing Authority issued approximately $95.8 million of lease revenue bonds. The proceeds of the bonds were loaned to the Massachusetts Industrial Finance Agency (now MassDevelopment) and applied to the cost of the Massachusetts Information Technology Center, a tax processing facility of the Department of Revenue and a data processing information system center for the Department and for certain other departments and agencies of the Commonwealth. The bonds bear interest at a variable rate, and under an interest rate swap agreement that was entered into at the time, MassDevelopment receives variable rate payments with respect to the full amount of the bonds and is obligated to make fixed rate payments in exchange therefor. Simultaneously with the issuance of the bonds, the Commonwealth entered into a 30-year lease, which provides for the payment of debt service on the bonds and certain other expenses associated with the project. The obligations of the Commonwealth do not constitute a general obligation or a pledge of the credit of the Commonwealth or of MassDevelopment and are subject to annual appropriation by the Legislature. The Commonwealth’s lease obligations related to these bonds are set forth in the table below. As of June 30, 2003, the Chelsea Industrial Development Financing Authority has $80.3 million of such lease revenue bonds outstanding.

Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds. In August 2000, the Route 3 North Transportation Improvements Association issued approximately $394.3 million of lease revenue bonds to finance the reconstruction and widening of a portion of state Route 3 North. In May 2002, the Route 3 North Transportation Improvements Association issued approximately $312.7 million of additional lease revenue bonds to finance the reconstruction and widening of a portion of state Route 3 North. In connection with the financing, the Commonwealth leased the portion of the highway to be improved to the Association, and the Association leased the property back to the Commonwealth pursuant to a sublease. Under the sublease the Commonwealth is obligated to make payments equal to the debt service on the bonds and certain other expenses associated with the project. The obligations of the Commonwealth do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. The Commonwealth’s sublease obligations related to these bonds are set forth in the table below. As of June 30, 2003, the Route 3 North Transportation Improvements Association had $416.3 million of such lease revenue bonds outstanding.

Saltonstall Building Redevelopment Corporation Project. In May 2002, MassDevelopment issued $195.8 million of lease revenue bonds pursuant to an agreement to loan the proceeds of the bonds to the MassDevelopment/Saltonstall Building Redevelopment Corporation. The loan will be used to finance the redevelopment of the Saltonstall State Office Building. Under the provisions of the legislation relating to the building’s redevelopment, the building is to be leased to MassDevelopment for a term of up to 50 years, with extension terms permitted for an aggregate of 30 more years. MassDevelopment will pay $2.45 million per year to the Commonwealth for the lease. MassDevelopment will renovate the building and sublease half of it back to the Commonwealth for office space and related parking (for a comparable lease term) in respect of which sublease, the

Commonwealth will make sublease payments to MassDevelopment. The remainder of the building is to be redeveloped as private office space, as well as private housing units and retail establishments. The obligations of the Commonwealth under the office sublease do not constitute a general obligation or a pledge of the credit of the Commonwealth and are subject to annual appropriation by the Legislature. The Commonwealth's sublease obligations related to these bonds are set forth in the table below. The Commonwealth's full year costs include $7.065 million per year of base rent and parking space rent for the first five years, after which the parking space rent may be adjusted for fair market value every five years. In addition, included in the table below are the Commonwealth's estimated pro-rata share of office operating expense reimbursements, escalating at 3% per year and also the Commonwealth's replacement reserve contribution calculated at $.21 per rental square foot per year. The table below does not take into account MassDevelopment lease payments back to the Commonwealth of $2.45 million per year. As of June 30, 2003, MassDevelopment had $195.8 million of such lease revenue bonds outstanding for the Saltonstall redevelopment project.

School Building Assistance. The school building assistance program was established in 1948 to promote the planning and construction of school buildings and the establishment of consolidated and regional schools in the Commonwealth. Under this program, cities, towns, regional school districts, independent agricultural schools and the two counties that maintain county agricultural schools can obtain reimbursements from the Commonwealth for a portion of the construction costs (including any interest expense from indebtedness incurred) of approved school projects. The reimbursement percentage varies by municipality and may range from 50% to 90% of the approved project costs. The state reimbursement is paid in annual installments for periods of up to 20 years. Payment is made from amounts annually appropriated for the school building assistance program. The table below shows the amount of the Commonwealth's obligation to pay under grant agreements in effect on June 30, 2003. The table does not include $5.858 billion of projects that are not yet subject to grant agreements, and therefore are not legal obligations of the Commonwealth, but that have been approved by the Department of Education for placement on the waiting list for future funding. In February 2003, the Commissioner of Education imposed a moratorium on adding any new projects to the waiting list. However, in March 2003, legislation was enacted requiring the Department of Education to consider for placement on the waiting list all such projects approved by municipalities prior to July 1, 2003, notwithstanding the administrative moratorium.

Long-Term Operating Leases and Capital Leases. In addition to Commonwealth-owned buildings and facilities, the Commonwealth leases additional space from private parties. In certain circumstances, the Commonwealth has acquired certain types of capital assets under long-term capital leases; typically, these arrangements relate to computer and telecommunications equipment and to motor vehicles. Minimum future rental expenditure commitments of the Commonwealth under operating leases and long-term principal and interest obligations related to capital leases in effect at June 30, 2003 are set forth in the table below. These amounts represent expenditure commitments of both budgeted and non-budgeted funds.

Budgetary Contractual Assistance Liabilities (in thousands)(1)

Fiscal Year	Plymouth County Certificates of Participation	City of Chelsea Commonwealth Lease Revenue Bonds	Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds	MassDevelopment/ Saltonstall Building Redevelopment Corporation Lease Revenue Bonds(3)	School Building Assistance	Other Leases(4)	Total
2004	$10,240	$6,465	$26,575	$3,926	$404,498	$163,052	$614,756
2005	10,243	6,465	26,755	9,422	397,826	123,036	573,747
2006	10,248	6,465	26,755	9,491	389,459	80,369	522,787
2007	10,246	6,465	26,756	9,562	387,385	73,241	513,655
2008	10,243	6,465	26,757	9,635	381,400	83,461	517,961
2009	10,247	6,465	26,756	9,710	372,003	83,461	508,642
2010	10,244	6,465	26,755	9,964	363,607	83,461	500,496
2011	10,245	6,453	26,756	10,043	349,125	83,461	486,083
2012	10,240	6,453	26,754	10,126	326,112	41,901	421,586
2013	10,245	6,453	26,754	10,210	313,792	342	367,796
2014	10,244	6,453	26,756	10,298	296,744	342	350,837
2015	10,250	6,453	26,756	10,601	282,081	342	336,483
2016	10,245	6,435	26,754	10,694	267,894	342	322,364
2017	10,238	6,435	26,758	10,789	248,274	234	302,728
2018	10,244	6,435	26,756	10,887	215,901	127	270,350
2019	10,244	6,435	26,754	10,989	188,351	127	242,900
2020	10,246	6,435	26,757	11,353	146,885	127	201,803
2021	10,243	6,435	26,754	11,460	96,070	127	151,089
2022	10,252	6,395	26,752	11,571	43,755	60	98,785
2023	--	6,379	26,752	11,685	21,712	--	66,528
2024	--	--	26,754	11,802			38,556
2025 through 2034	--	--	240,827(2)	130,410	--	--	371,237
Total	$194,647	$128,904	$802,504	$344,628	$5,492,874	$817,613	$7,781,170

SOURCES: Plymouth County Certificates of Participation, City of Chelsea Commonwealth Lease Revenue Bonds and Route 3 North Transportation Improvements Association Commonwealth Lease Revenue Bonds columns –Executive Office for Administration and Finance; School Building Assistance Column –Department of Education, School Facilities Service Bureau; and Other Leases column –Office of the Comptroller.

(1) Totals may not add due to rounding.
(2) Approximately $27 million per year for fiscal 2024 through fiscal 2033, inclusive.
(3) Cash flows from the Commonwealth represent gross payments to MassDevelopment. Table does not include lease payments from MassDevelopment to the Commonwealth in the amount of $2.45 million per year, under a lease for the undeveloped property which extends through the initial 50 year term of the lease, plus any extension periods. Table also do not include an initial $10 million payment made from MassDevelopment to the Commonwealth or potential parking space rent adjustments made every five years. Operating cost reimbursements are estimated; subject to change.
(4) Full year estimates, based on projection as of June 30, 2003.

Contingent Liabilities

Massachusetts Bay Transportation Authority. The MBTA issues its own bonds and notes and is also responsible for the payment of obligations issued by the Boston Metropolitan District prior to the creation of the MBTA in 1964. Prior to July 1, 2000, the Commonwealth supported MBTA bonds and notes through guaranties of the debt service on its bonds and notes, contract assistance generally equal to 90% of the debt service on outstanding MBTA bonds and payment of the MBTA's net cost of service (current expenses, including debt service, minus current income). Beginning July 1, 2000, the Commonwealth's annual obligation to support the MBTA for operating costs and debt service is limited to a portion of the revenues raised by the Commonwealth's sales tax, but the Commonwealth remains contingently liable for the payment of MBTA bonds and notes issued prior to July 1, 2000. The Commonwealth's obligation to pay such prior bonds is a general obligation for which its full faith and credit have been pledged. As of June 30, 2003, the Massachusetts Bay Transportation Authority had approximately $2.834 billion of such prior bonds outstanding. Such bonds are currently scheduled to mature annually through fiscal 2030, with annual debt service in the range of approximately $270 million to $292 million through fiscal 2013 and declining thereafter. See "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS - Massachusetts Bay Transportation Authority - Financial Restructuring."

Woods Hole, Martha's Vineyard and Nantucket Steamship Authority. The Steamship Authority operates passenger ferries to Martha's Vineyard and Nantucket. The Steamship Authority issues its own bonds and notes. Commonwealth support of the bonds and notes of Steamship Authority includes a Commonwealth guaranty pursuant to statutory provisions requiring the Commonwealth to provide the Authority with funds sufficient to meet the principal of and interest on their bonds and notes as they mature to the extent that funds sufficient for this purpose are not otherwise available to such entity and the Commonwealth's payment, under applicable statutory provisions, of the net cost of service of the Steamship Authority (current expenses, including debt service, minus current income). The Steamship Authority is currently self-supporting, requiring no net cost of service or contract assistance payments. As of June 30, 2003, the Steamship Authority had $35.9 million of bonds and notes outstanding. The Commonwealth's obligations to the Steamship Authority are general obligations for which its full faith and credit have been pledged.

Regional Transit Authorities (RTAs). There are 15 regional transit authorities organized in various areas of the state. Prior to July 1, 2003, the bonds and notes of the RTAs included a Commonwealth guaranty pursuant to statutory provisions requiring the Commonwealth to provide each of the RTAs with funds sufficient to meet the principal of and interest on their bonds and notes as they matured to the extent that funds sufficient for this purpose were not otherwise available and the Commonwealth's payment, under applicable statutory provisions, of the net cost of service of the RTAs (current expenses, including debt service, minus current income). As of June 30, 2003, the RTAs had $100.6 million of bonds and notes outstanding to which The Commonwealth's full faith and credit have been pledged. The fiscal 2003 GAA amended the General Laws pertaining to RTA financing, pursuant to which amendment bonds and notes issued by the RTAs on and after July 1, 2003 are no longer guaranteed by the Commonwealth and are not general obligations of the Commonwealth.

University of Massachusetts Building Authority and Massachusetts State College Building Authority. Two higher education building authorities, created to assist institutions of public higher education in the Commonwealth, may issue bonds which are guaranteed as to their principal and interest by the Commonwealth. The guaranty is a general obligation of the Commonwealth for which its full faith and credit is pledged. In addition to such guaranty, certain revenues of these authorities, including dormitory rental income and student union fees, are pledged to their respective debt service requirements. While revenues thus far have been sufficient to meet debt service requirements, they have not been sufficient in all cases to pay operating costs. In such cases, the operating costs have been met by Commonwealth appropriations. As of June 30, 2003 the University of Massachusetts Building Authority had approximately $165.9 million of Commonwealth-guaranteed debt outstanding, and the Massachusetts State College Building Authority had approximately $68.9 million of Commonwealth-guaranteed debt outstanding.

Massachusetts Housing Finance Agency. MassHousing is authorized to issue bonds to finance multi-family housing projects within the Commonwealth and to provide mortgage loan financing with respect to certain single-family residences within the Commonwealth. Such bonds are solely the obligations of MassHousing, payable directly or indirectly from, and secured by a pledge of, revenues derived from MassHousing's mortgage on or other interest in the financed housing. MassHousing's enabling legislation also permits, and certain resolutions authorizing the respective issuance of multi-family and single-family housing bonds to date have required, the creation of a capital reserve fund in connection with the issuance of such bonds. With respect to multi-family housing bonds, any such capital reserve fund must be in an amount at least equal to the maximum annual debt service in any succeeding calendar year on all outstanding bonds secured by such capital reserve fund, including the bonds then being issued. With respect to single family housing bonds, any such fund must be maintained in an amount not less than one-quarter of the maximum amount of interest becoming due in the current or any succeeding fiscal year of the agency and not greater than the maximum amount of debt service becoming due in the current or any succeeding fiscal year on all outstanding bonds which are secured by such capital reserve fund. Upon certification by the chairperson of MassHousing to the Governor of any amount necessary to restore a capital reserve fund to the above-described requirement, the Legislature may, but is not legally bound to, make an appropriation in such amount. No such appropriation has been necessary to date. As of June 30, 2003, MassHousing had outstanding approximately $554 million of multi-family housing bonds secured by capital reserve funds. There are no outstanding single-family housing bonds secured by capital reserve funds. As of such date the capital reserve funds were maintained at the required levels without Commonwealth appropriations, and no payments from such funds have been necessary.

Authorized But Unissued Debt

General obligation bonds of the Commonwealth are authorized to correspond with capital appropriations. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS –Capital Investment Process and Controls." Over the last decade, the Commonwealth has typically had a large amount of authorized but unissued debt. However, the Commonwealth's actual expenditures for capital projects in a given year relate more to the capital needs of the Commonwealth in such year than to the total amount of authorized but unissued debt. The table below presents authorized but unissued debt at year end:

Authorized but Unissued Debt (in thousands)

Fiscal Year	Authorized But Unissued Debt
1999	$12,004,017
2000	11,585,706
2001	9,590,418
2002	8,934,807
2003(1)	8,774,064

SOURCE: Office of the Comptroller

(1) Estimated as of June 30, 2003.

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

There is $45.0 million of authorized but unissued debt under Chapter 33 of the Acts of 1991 that can only be issued as special obligation bonds secured by receipts in the Commonwealth's Highway Fund. There is also $691.5 million of authorized but unissued debt under Chapter 152 of the Acts of 1997 that can only be issued as special obligation bonds secured by receipts in the Commonwealth's Convention Center Fund. See "Special Obligation Debt." In addition, several of the statutes authorizing general obligation bonds for transportation purposes also authorize such bonds to be issued as special obligation highway bonds, at the discretion of the Governor and the State Treasurer. The aggregate amount of such authorizations as of June 30, 2003 (included as Authorized but Unissued General Obligation Debt in the table above) is approximately $3.2 billion.

Proposed Capital Spending Authorizations

On July 31, 2002 the legislature passed the following bond bills in the respective appropriation amounts noted: $752 million for Division of Capital Asset Management, $301 million for Transportation, $509 million for Housing and $754 million for Environmental Affairs. The legislature also passed a $101.8 million capital outlay bill. This legislation will allow for bond funds to be used in place of certain pay-as-you-go capital funds previously transferred to the General Fund.

On July 17, 2003, the Legislature passed a transportation bond bill totaling $1.080 billion. This legislation was signed by the Governor on July 24, 2003 and a terms bill was filed with the Legislature on July 29, 2003.

COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS

Operating Fund Structure

The Commonwealth's operating fund structure satisfies the requirements of state finance law and is in accordance with GAAP, as defined by GASB. The General Fund and those special revenue funds that are appropriated in the annual state budget receive most of the non-bond and non-federal grant revenues of the Commonwealth. These funds are referred to in the Information Statement as the "budgeted operating funds" of the Commonwealth. They do not include the capital projects funds of the Commonwealth, into which the proceeds of Commonwealth bonds are deposited. See "Capital Investment Process and Controls."

Prior to the GAA for fiscal 2004, there were three principal budgeted operating funds used in the calculation of the consolidated net surplus: the General Fund, the Highway Fund and the Local Aid Fund. Expenditures from these three funds generally account for approximately 93% of total expenditures of the budgeted operating funds. The remaining approximately 7% of expenditures occur in several dedicated operating funds (Minor Funds) not included in the calculation of the consolidated net surplus. State finance law also provides for a Stabilization Fund, a Capital Projects Fund and a Tax Reduction Fund, which funds relate to the use of any aggregate fiscal year-end surplus in the Commonwealth's three principal budgeted operating funds. See "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS–Stabilization Fund and Disposition of Year-End Surpluses."

The fiscal 2004 GAA repealed the Local Aid Fund and many of the Minor Funds and amended the statutory definition of balance. Beginning June 30, 2003, the remaining funds include the General Fund, Highway Fund, Stabilization Fund, Tax Reduction Fund, Workforce Training Fund, Massachusetts Tourism Fund and the Children's and Senior's Health Care Assistance Fund. The balance of the repealed Local Aid Fund will be transferred to the General Fund, and the net balances in all of the other repealed Minor Funds will be transferred to the Stabilization Fund. Beginning fiscal 2004, the General Fund, Highway Fund, Workforce Training Fund, Massachusetts Tourism Fund, and Children's and Senior's Health Care Assistance Fund will be included in the calculation of the consolidated net surplus.

Overview of Operating Budget Process

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

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

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

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

Cash and Budgetary Controls

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

Capital Investment Process and Controls

Authorization for capital investments requires two-thirds approval by both houses of the Legislature. Based on outstanding authorizations, the Executive Office for Administration and Finance, in conjunction with the Governor and the cabinet, establishes a capital investment plan. The plan is an administrative guideline and subject to amendment at any time. The plan projects capital investment spending by the Commonwealth in the current and future fiscal years. The primary policy objective of the plan is to determine the Commonwealth's investment needs and the required level of funding necessary to support these needs.

Capital expenditures are primarily financed with debt proceeds, federal reimbursements, payments from third-parties and transfers from other governmental funds. The issuance of debt also requires two-thirds approval by both houses of the Legislature. Upon such approval, the Governor submits a bill to the Legislature, which describes the terms and conditions of the borrowing for the authorized debt. The Governor, through the Secretary of Administration and Finance, controls the amount of capital expenditures through the allotment of funds in support of such authorizations, and therefore controls the amount of debt issued to finance such expenditures. See "COMMONWEALTH CAPITAL ASSET INVESTMENT PLAN."

The Comptroller has established various funds to account for financial activity related to the acquisition or construction of capital assets. In addition, accounting procedures and financial controls have been instituted to limit agency capital spending to the levels approved by the Governor. Since July 1991, all agency capital spending has been tracked against the plan on both a cash and encumbrance accounting basis on MMARS, and federal reimbursements have been budgeted and monitored against anticipated receipts.

Cash Management Practices of State Treasurer

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

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

The State Treasurer is required to submit quarterly cash flow projections for the then current fiscal year to the House and Senate Committees on Ways and Means on or before each August 25, November 25, February 25 and May 25. The projections must include estimated sources and uses of cash, together with the assumptions from which such estimates were derived and identification of any cash flow gaps. See "DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS – Cash Flow." The State Treasurer's office also oversees a $1.0 billion commercial paper program. See "LONG-TERM LIABILITIES – General Obligation Debt." The State Treasurer's office, in conjunction with the Executive Office for Administration and Finance, is also required to develop quarterly and annual cash management plans to address any gap identified by the cash flow projections and variance reports.

Fiscal Control, Accounting and Reporting Practices of Comptroller

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

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

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

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

Internal Controls. The Comptroller establishes internal control policies and procedures in accordance with state finance law. Agencies are required to adhere to such policies and procedures. Any violation of state finance law or regulation or other internal control weaknesses must be reported to the State Auditor, who is authorized to investigate and recommend corrective action.

Statutory Basis of Accounting. In accordance with state law, the Commonwealth adopts its budget and maintains financial information on a statutory basis of accounting. Under the statutory basis, tax and departmental revenues are accounted for on a modified cash basis by reconciling revenue to actual cash receipts confirmed by the State Treasurer. Certain limited revenue accruals are also recognized, including receivables from federal reimbursements with respect to paid expenditures. Expenditures are measured on a modified cash basis including actual cash disbursements and encumbrances for goods or services received prior to the end of a fiscal year.

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

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

Under GAAP, revenues are reported in the period in which they become both measurable and available. Revenues are "available" when they are expected to be collected within the current period or soon enough thereafter to be used to pay liabilities of the current period. Significant revenues susceptible to accrual include income, sales and use, corporation and other taxes, federal grants and reimbursements and reimbursements for the use of materials and services. Tax accruals, which represent the estimated amounts due to the Commonwealth on previous filings, over and under withholdings, estimated payments on income earned and tax refunds and abatements payable, are all recorded as adjustments to statutory basis tax revenues. Expenditures/expenses are recorded in the period in which the related fund liability is incurred. Principal of and interest on long-term debt obligations are recorded as fund liabilities when due. Major expenditure accruals are recorded for the cost of Medicaid claims that have been incurred but not paid, claims and judgments and compensated absences such as vacation pay earned by state employees. See Exhibit C (Comprehensive Annual Financial Report for the year ended June 30, 2002).

Selected Financial Data – GAAP Basis

The Commonwealth's GAAP financial statements for the year ended June 30, 2002, incorporated herein by reference as Exhibit C, have implemented new reporting standards established by GASB Statements 34, 35, 37 and 38. See "Fiscal Control, Accounting and Reporting Practices of Comptroller." The new GAAP financial statements present a government-wide perspective, including debt, fixed assets and accrual activity on a comprehensive balance sheet. Under the new presentation, all fixed assets, including road and bridge infrastructure and all long-term liabilities, including outstanding debt and commitments of long-term assistance to municipalities and authorities, have been added to the statements. The Commonwealth's statement of revenues, expenditures and changes in fund balances has also been completely reorganized.

The table below presents the transition from the Commonwealth's budgetary fund balance to the "fund perspective" balance, as depicted in the fund financial statements (which are similar to previously issued GAAP financial statements) to the Commonwealth's "entity wide" governmental financial position.

The Commonwealth's Governmental net assets are negative due to three major factors. First, the Commonwealth is primarily financing the construction of the Central Artery / Tunnel Project. Upon completion of each stage of the project, the costs of construction borne by the Commonwealth will transfer to the Massachusetts Turnpike Authority, with a smaller amount transferring to the Massachusetts Port Authority. The untransferred portion of the project as of June 30, 2002 was $9.666 billion. Second, the Commonwealth incurs long-term obligations for which the Commonwealth has no offsetting assets. These obligations include contract assistance due to authorities, the present value of school building assistance obligations and compensated absences. The total of these accruals amounts to $4.806 billion. The final adjustment relates to the decision to "forward fund" the MBTA. Bonds have been issued to fund the deficit created in fiscal 2000 due to the funding of the MBTA. The total bonds issued for the forward funding is $625.0 million. The governmental net assets change had these amounts not been recognized would have been a positive change of $15.097 billion. The negative unrestricted net assets would have been reduced to $623.8 million.

The largest portion of the Commonwealth's net assets reflects its investment in capital assets, such as land, buildings, equipment and infrastructure (roads, bridges and other immovable assets), less any related debt used to acquire those assets that is still outstanding. The Commonwealth uses these capital assets to provide services to citizens. Although the Commonwealth's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. Additional restrictions are put on net assets. These restrictions represent resources that are subject to external restrictions on how they must be used. The remaining balance of unrestricted net assets may be used to meet the Commonwealth's ongoing obligations to citizens and creditors. However, due to the factors discussed previously, the negative unrestricted net assets presented are not indicative of the Commonwealth's fiscal well being, as they represent accounting adjustments and funding decisions. The table below reconciles the Commonwealth's net assets.

Reconciliation of Net Assets (in millions)

Historical cost of governmental capital assets, including infrastructure	$25,641.2	
Less: accumulated depreciation	(6,414.3)	
Historical cost of governmental capital assets, including infrastructure, net	$19,226.9	
Less: Total outstanding debt	(14,955.1)	
Adjust for debt issued and outstanding for the Convention Center Authority, MBTA forward funding and local government capital projects	1,339.5	
Investment in capital assets, net of related debt		$5,611.3
Restrictions on net assets are for:		
Unexpended bond proceeds	$1,053.8	
Retirement of indebtedness	350.8	
Central artery workers' compensation and general liability	239.9	
Continuing appropriations	168.0	
Total restrictions of net assets		2,694.3
Unrestricted net deficit		(15,721.1)
Governmental Net Assets		$(7,415.5)

Revenues – GAAP Basis. The measurement of revenues for the Budgeted Operating Funds from a statutory basis differs from governmental revenues on a GAAP basis in that certain funds that are not governmental for statutory purposes are included on a GAAP basis, including revenue accruals for Medicaid and taxes, which are included on a GAAP basis but not on a statutory basis. In addition, internal transfers are eliminated under GAAP from an entity-wide perspective. The following table shows the distribution of major sources of revenue in fiscal 2002:

Comparison of Fiscal 2002 Governmental Revenues (in millions)

		GAAP Basis – Governmental	
	Statutory Basis	Fund Perspective	Entity-wide Perspective
Taxes	$13,622.7	$14,427.9	$14,688.6
Federal Revenue	4,334.9	7,078.4	7,078.4
Departmental Revenue and Transfers	3,217.3	7,501.5	6,474.0
Total	$21,174.9	$29,007.8	$28,241.0

Financial Results—GAAP Basis. The following table provides financial results on a GAAP basis for fiscal 1998 through fiscal 2002 for all budgeted operating funds of the Commonwealth.

Budgeted Operating Funds – GAAP Basis – Fund Perspective (in millions)

	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002
Beginning fund balances	$ 1,096.3	$ 1,841.4	$ 1,704.9	$ 2,325.1	$2,947.6
Restatement of beginning fund balances(1)	-	-	-	-	2.6
Revenues and Financing Sources					
Taxes	14,021.8	14,308.1	15,681.9	16,099.9	13,710.4
Federal Grants and Reimbursements	3,337.6	3,425.8	3,776.3	4,023.1	4,347.6
Department and Other Revenues	1,404.0	927.4	947.9	1,433.3	1,438.0
Inter-fund Transfers and Other Sources	1,576.5	1,994.4	5,508.0	1,567.1	1,853.0
Total	20,339.9	20,655.7	25,914.1	23,123.4	21,349.0
Expenditures and Financing Uses					
Programs and Services	15,477.6	16,471.3	17,912.4	18,459.8	19,978.8
Debt Service	1,213.3	1,173.8	1,913.3	1,407.9	1,304.7
Pensions	414.3	324.2	398.2	318.3	237.5
Inter-fund Transfers and Other Uses	2,489.6	2,822.9	5,790.0	2,314.9	1,586.2
Total	19,594.8	20,792.2	25,293.9	22,500.9	23,107.2
Excess (deficit)	745.1	(136.5)	620.2	622.5	(1,758.2)
Ending budgeted fund balances—GAAP fund perspective	$ 1,841.4	$ 1,704.9	$ 2,325.1	$ 2,947.6	$1,192.0

SOURCE: Office of the Comptroller

(1) The Mosquito and Greenhead Fly Fund became a non-budgeted fund in fiscal 2002.

Differences between statutory and GAAP basis can be summarized in five major adjustments. Those adjustments are for Medicaid, taxes, compensated absences, claims and judgments and amounts due to authorities. As evidenced in the trend line of fund balance (deficit) over time, however, these adjustments connect between the GAAP basis measurement when viewed using a fund perspective under GASB 34 and the statutory basis measurement. While the difference in fund balance may vary in a given fiscal year, both balances generally trend in the same direction. For a description of the differences between statutory basis and GAAP basis accounting, see "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS – Fiscal Control, Accounting and Reporting Practices of the Comptroller; *GAAP Basis of Accounting*." The following reconciles the ending budgeted fund balance – GAAP fund perspective and statutory fund balances for budgeted funds (amounts in millions):

Reconciliation of Budgeted Operating Funds – GAAP Basis to Budgeted Operating Funds – Statutory Basis (in millions)

	Fiscal 1998	Fiscal 1999	Fiscal 2000	Fiscal 2001	Fiscal 2002
Ending budgeted fund balances—GAAP fund perspective	$1,841.4	$1,704.9	$2,325.1	$2,947.6	$1,192.0
Plus/(Minus) adjustments for:					
Medicaid, net of receivables	242.6	230.6	236.7	367.7	393.1
Taxes	(505.1)	(517.1)	(509.4)	(565.6)	(627.9)
Compensated absences—current portion	158.2	168.6	198.1	216.7	221.5
Claims and judgments—current portion	59.2	101.4	98.5	93.7	161.8
Amounts due to authorities—current portion	447.5	519.7	34.6	56.1	106.7
Other	(51.7)	(95.7)	(98.2)	(102.9)	(59.3)
Budgeted Operating Fund Balances	$2,192.1	$2,112.4	$2,285.4	$3,013.3	$1,388.0

SOURCE: Office of the Comptroller

Using a modified accrual basis of accounting, the GAAP financial statements have provided a picture of the financial condition of the budgeted operating funds that is different from that reported on the statutory basis. See

"Selected Financial Data – Statutory Basis." As evidenced in the trend line of fund balance (deficit) over time, however, there is a correlation between the GAAP basis measurement and the statutory basis measurement. While the difference in fund balance may vary in a given fiscal year, both balances generally trend in the same direction. For a description of the differences between statutory basis and GAAP basis accounting, see "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS – Fiscal Control, Accounting and Reporting Practices of the Comptroller; *GAAP Basis of Accounting*."

GASB Statement 34. Beginning with fiscal 2002, the Commonwealth's GAAP financial statements have changed to reflect the implementation of GASB Statement 34. The changes present a government-wide perspective, including debt, fixed assets and accrual activity on a comprehensive balance sheet. The CAFR has been reorganized, with additional elements, such as a management's discussion and analysis. For additional information about changes to the CAFR pursuant to GASB 34, see "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS – Selected Financial Data – GAAP Basis" and Exhibit C (Comprehensive Annual Financial Report for the year ended June 30, 2002).

Financial Reports. The Commonwealth's fiscal year ends on June 30. For fiscal 1986 through fiscal 1989, the Commonwealth's audited annual report included audited financial statements on both the statutory basis of accounting and the GAAP basis. Since fiscal 1990, these financial statements have been issued as two separate reports, the SBFR and the CAFR. The SBFR is published by the Comptroller by October 31 and the CAFR is published by the Comptroller by the second Wednesday in January. The SBFR for the year ended June 30, 2002 and the CAFR for the year ended June 30, 2002 are included herein by reference as Exhibits B and C, respectively. For fiscal 1991 through 2002 the independent auditor's opinions were unqualified. Copies of these financial reports are available at the address provided under "CONTINUING DISCLOSURE." The SBFR for fiscal 1997 through fiscal 2001 and the CAFR for fiscal 1994 through fiscal 2002 are also available on the web site of the Comptroller of the Commonwealth located at http://www.mass.gov/osc by clicking on "Financial Reports/Audits." Throughout the year, the Comptroller prepares interim financial statements on the statutory basis of accounting, which are not audited, but are considered authoritative.

The Comptroller retains an independent certified public accounting firm to audit the Commonwealth's financial statements and issue certain other reports required by the single audit. As part of the single audit, the independent auditors render a report on all programs involving federal funding for compliance with federal and state laws and regulations and assess the adequacy of internal control systems.

The Commonwealth CAFRs for fiscal 1999 through 2002, from which certain information contained in this Information Statement has been derived, were each awarded the Certificate of Achievement for Excellence in Financial Reporting by the Government Finance Officers Association of the United States and Canada (GFOA). The Certificate of Achievement is the highest form of recognition for excellence in state and local government financial reporting. Fiscal 2001 marked the twelfth consecutive year that the Commonwealth has received this award. The CAFR for fiscal 2002 has been submitted to the GFOA for the award.

Audit Practices of State Auditor

The State Auditor is mandated under state law to conduct an audit at least once every two years of all activities of the Commonwealth. The most recent audit was completed for the fiscal year ending June 30, 2002. The audit encompasses 750 entities, including the court system and the independent authorities, and includes an overall evaluation of management operations. The State Auditor also has the authority to audit federally aided programs and vendors under contract with the Commonwealth, as well as to conduct special audit projects. The State Auditor conducts both financial compliance and performance audits in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. In addition, and in conjunction with the independent public accounting firm Deloitte & Touche, LLP, the State Auditor performs a significant portion of the audit work relating to the state single audit.

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

DISCUSSION OF FINANCIAL CONDITION – GAAP BASIS

As the annual operating budget of the Commonwealth is adopted in accordance with the statutory basis of accounting, public and governmental discourse on the financial affairs of the Commonwealth has traditionally followed the statutory basis. Consequently, the financial information set forth in this document follows the statutory basis, except where otherwise noted. Since fiscal 1990, the Commonwealth has prepared separate audited financial reports on the statutory basis and on a GAAP basis. See "COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS–Fiscal Control, Accounting and Reporting Practices of Comptroller; *Financial Reports*." The SBFR for the year ended June 30, 2002 is included herein by reference as Exhibit B. The CAFR for the year ended June 30, 2002 is included herein by reference as Exhibit C.

Auditor's Report on Fiscal 2002 CAFR

The general purpose financial statements included in the CAFR of the Commonwealth for the year ended June 30, 2002 were audited by Deloitte & Touche LLP (Deloitte & Touche). The Deloitte & Touche audit report dated December 30, 2002 on the general purpose financial statements included in the CAFR for the year ended June 30, 2002 as originally issued contained an unqualified opinion. A copy of the audit report of Deloitte & Touche dated December 30, 2002 has been filed with each NRMSIR currently recognized by the SEC and is incorporated by reference in Exhibit C to this Information Statement and in each statement in this Information Statement referred to the Commonwealth CAFR for the year ended June 30, 2002.

STATE WORKFORCE

The following table sets forth information regarding the Commonwealth's workforce as of the end of fiscal 1998 through fiscal 2003.

Budget-Funded Workforce(1)

	June 1999	June 2000	June 2001	June 2002	June 2003
Executive Office	93	89	88	72	85
Office of the Comptroller	110	106	109	107	102
Executive Departments					
Administration and Finance	3,153	3,225	3,180	2,974	2,701
Environmental Affairs	2,484	2,583	2,555	2,312	2,156
Housing and Community Development	113	111	117	109	98
Health and Human Services	23,164	23,483	23,157	21,803	21,396
Transportation and Construction	1,303	1,284	1,254	843	445
Board of Library Commissioners	17	20	20	18	13
Labor and Workforce Development	392	386	379	357	343
Economic Development	92	92	86	80	58
Consumer Affairs and Business Regulation	706	682	675	657	535
Department of Education	272	270	272	277	261
Board of Higher Education	14,840	15,251	15,481	14,038	14,165
Public Safety	9,520	9,409	9,686	9,567	9,148
Elder Affairs	36	38	41	43	38
Subtotal under Governor's authority	56,295	57,029	57,059	53,257	51,544
Judiciary	7,829	8,013	7,944	7,379	7,186
Other (2) (3)	6,403	7,171	7,418	7,119	7,095
Total	67,014	70,527	72,213	67,755	65,825

SOURCE: Executive Office for Administration and Finance

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

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

(3) This includes the offices of several former county sheriffs which have become state agencies. FTE's from former county sheriffs offices totaled 2,743 in 1999, 3,011 in 2000, 2,961 in 2001, 2,936 in 2002 and 2,915 in 2003.

Employee Retirement Incentive Plan

The fiscal 2004 GAA included an ERIP. Those eligible must have 20 years of creditable service at any age or be of at least 55 years of age with 10 years of credible service. Eligible employees may add 5 years to age or years of service, with a maximum benefit of 80% of salary. A statewide backfill limit of 20% of the value of the total of annualized salary paid was imposed for both fiscal 2004 and fiscal 2005. In order to be backfilled, vacated positions will have to be deemed vital to public health or safety or critical for essential operations. The Executive Office for Administration and Finance is required to file report no later than March 15, 2004, detailing the June 30, 2003 FTE levels for each budget account, the number of ERIP retirees and savings, the number of backfills and the estimated salary costs of the backfills for fiscal 2004 and fiscal 2005.

As a means of reducing payroll costs in fiscal 2002 and fiscal 2003, the Commonwealth adopted two ERIPs, which offered an enhanced pension benefit to retirement-eligible employees. Employees retiring under the 2002 ERIP program totaled approximately 4,600. In a report on results of the 2002 ERIP, PERAC stated that the 2002 ERIP resulted in an increased actuarial pension liability of $312.2 million.

Union Organization and Labor Negotiations

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

In most cases, the Trial Court, Lottery Commission, the Registries of Deeds under the control of the Secretary of the Commonwealth and public higher education management negotiate directly with their respective employee representatives, but all wage increases and other economic provisions contained in agreements negotiated by the Lottery Commission, Registries of Deeds and higher education management are subject to the review of the Governor and to funding approval by the Legislature. This also applies to collective bargaining involving employees of the Commonwealth's county sheriffs. If the Governor does not recommend the requested appropriation to fund contractual increases, he may refer the contracts back to the parties for further negotiation.

Approximately 39,935 executive branch full-time-equivalent state employees are organized in twelve bargaining units, the employees of the Commonwealth's colleges and universities are organized in 33 bargaining units and the employees of the judicial branch and the Lottery Commission are organized in six bargaining units. Public employees of the Commonwealth do not have a legal right to strike or otherwise withhold services.

Negotiations are currently underway with the Alliance – Unit 2 (the American Federation of State, County and Municipal Employees and the Service Employees International Union), the International Brotherhood of Correctional Officers/National Association of Government Employees, and the Massachusetts Organization of State Engineers and Scientists, to replace their individual contracts which expired December 31, 2002.

It is anticipated that negotiations will begin shortly with the National Association of Government Employees, representing Units 1, 3 and 6, and the Massachusetts Nurses Association, representing employees in Unit 7, to replace their contracts which expired June 30, 2003.

In December 1999, the Commonwealth reached an agreement with the State Police Association of Massachusetts, representing Unit 5A, for a three-year contract beginning January 1, 2000 and ending December 31, 2002. A contract amendment, signed in July 2001, extends the contract through December 31, 2003. The agreements called for salary increases of 2% effective January 2, 2000, 2% effective January 7, 2001, 2% effective January 6, 2002 and 2% effective January 12, 2003. Employees are also eligible for a 1% increase for completion of the Department's Physical Fitness Program, a 1% increase for completion of the Department's Firearms Qualification Program and a 1% increase for completion of the Department's Cruiser Safety Program during each year of the contracts. The total estimated cost of the agreements is $59.2 million.

In October 2000, the Commonwealth reached an agreement with the Massachusetts Correction Officers Federated Union, representing employees in Unit 4, for a three-year contract beginning January 1, 2001 and ending December 31, 2003. The agreement provided for salary increases of 2.5% effective January 1, 2001, 2.5% effective January 1, 2002 and 2.5% effective January 1, 2003. Employees are also eligible for a 1.5% increase for completion of all of the Department's In-Service Training and a 1% increase for Hazardous Duty Pay for each year of the contract. The total estimated cost of this agreement is $85.6 million.

In June 2001, the Commonwealth reached an agreement with the Coalition of Public Safety, representing employees in Unit 5, for a three-year contract commencing July 1, 2001 and ending June 30, 2004. The agreement provided for a 3% increase effective July 1, 2001, a 2.5% increase effective July 14, 2002 and a 3% increase effective July 13, 2003. In order to modernize the Commonwealth's classification system and ensure ADA compliance in job specifications, 12 job titles were collapsed into nine and some were upgraded effective January 13, 2002. Employees are also eligible for a 1% increase for completion of Law Enforcement Training in each year of the contract and a new 1.5% step effective July 14, 2002. The total estimated cost of the agreement is $7.0 million.

In June 2001, the Commonwealth reached an agreement with the Alliance (Service Employees International Union), representing employees in Units 8 and 10, for a three-year contract commencing July 1, 2001 and ending June 30, 2004. The agreement provides a 2.8% increase effective July 1, 2001, a 3% increase effective July 14, 2002 and a 3% increase effective July 13, 2003. In order to modernize the Commonwealth's classification system and ensure ADA compliance in job specifications, a new job classification system was implemented, 117 job titles were collapsed into 73 and many were upgraded. If an employee's title was not upgraded, such employee is eligible for a 5% bonus in each year of the contract. The total estimated cost of the agreement is $189.4 million.

The following table sets forth information regarding the 11 bargaining units that are within the responsibility of the Human Resources Division.

Human Resources Division Bargaining Units(1)(2)

Contract Unit	Bargaining Union	Type of Employee	FTEs	Expiration Dates
1	National Association of Government Employees	Clerical	3,586	6/30/03
2	Alliance/American Federation of State, County & Municipal Employees and Service Employees International Union	Institutional services	9,719	12/31/02
3	National Association of Government Employees	Skilled trades	577	6/30/03
4	Massachusetts Correction Officers Federated Union	Corrections	4,092	12/31/03
4A	Corrections Captains	Corrections	71	12/31/02
5	Coalition of Public Safety	Law enforcement	222	6/30/04
5A	State Police Association of Massachusetts	State Police	1,791	12/31/03
6	National Association of Government Employees	Administrative professionals	7,729	6/30/03
7	Massachusetts Nurses Association	Health professionals	1,775	6/30/03
8	Alliance/Service Employees International Union	Social workers	7,056	6/30/04
9	Massachusetts Organization of Engineers and Scientists	Engineers/scientists	2,723	12/31/02
10	Alliance/Service Employees International Union	Secondary education	595	6/30/04
	Total		39,935	

SOURCE: Executive Office for Administration and Finance.

(1) Totals may not add due to rounding.
(2) Numbers represent full-time equivalent filled positions (FTEs) in the standard workforce as of December 28, 2002, whose positions are established in accounts funded by all sources (the annual operating budget, capital projects funds, direct federal grants and expendable trusts and other non-appropriated funds).

LEGAL MATTERS

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

Commonwealth Programs and Services. From time to time actions are brought against the Commonwealth by the recipients of governmental services, particularly recipients of human services benefits, seeking expanded levels of services and benefits and by the providers of such services challenging the Commonwealth's reimbursement rates and methodologies. To the extent that such actions result in judgments requiring the Commonwealth to provide expanded services or benefits or pay increased rates, additional operating and capital expenditures might be needed to implement such judgments.

In June 1993, in an action challenging the Commonwealth's funding of public primary and secondary education systems on both federal and state constitutional grounds, *Hancock v. Commissioner of Education* (Supreme Judicial Court for Suffolk County No. 90-128, formerly known as *Webby v. Dukakis*), the Supreme Judicial Court ruled that the Massachusetts Constitution imposes an enforceable duty on the Commonwealth to provide public education for all children in the Commonwealth and that the Commonwealth was not at that time fulfilling this constitutional duty. However, the court also ruled that no then-present statutory enactment was to be declared unconstitutional. The court further ruled that the Legislature and the Governor were to determine the necessary response to satisfy the Commonwealth's constitutional duty, although a single justice of the court could retain jurisdiction to determine whether, within a reasonable time, appropriate legislative action had been taken. Comprehensive education reform legislation was approved by the Legislature and the Governor later in June 1993. See "COMMONWEALTH PROGRAMS AND SERVICES – Local Aid; *Commonwealth Financial Support for Local Governments*." On May 10, 1995, the plaintiffs filed a motion for further relief, arguing that the 1993 legislation did not provide sufficiently for public education and that its timetable was too slow. On December 22, 1999, plaintiffs filed a motion seeking declaratory and injunctive relief, in which they argue that the Commonwealth has not complied with the requirements of the *McDuffy* decision. Defendants filed an opposition motion on January 31, 2000 arguing that the Commonwealth had met its obligations under *McDuffy* by taking appropriate steps within a reasonable time to implement education reform. On June 27, 2002, a Single Justice of the Supreme Judicial Court transferred the case (now *Hancock v. Driscoll*) to the Superior Court for discovery and trial. A judge of the Superior Court has established a schedule for the case pursuant to which it will be tried. The amount of expenditures ultimately sought by the plaintiffs or required of the Commonwealth is uncertain but could be many hundreds of millions of dollars.

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

Rolland v. Romney (U.S. District Court C.A. No. 98-32208 KPN) is a class action by mentally retarded nursing home patients seeking community placements and services. The court approved a settlement agreement entered into by the parties which will provide certain benefits to nursing home residents with mental retardation and other developmental disabilities until 2007. The Department of Mental Retardation estimates that the agreement will cost approximately $5 million per fiscal year for seven years. In March 2001, the court found the defendants in noncompliance with the settlement agreement and lifted the agreement's stay of litigation concerning the provision of services to nursing home residents. In May 2002, the U.S. District Court held that the Commonwealth was in violation of federal law as well as the agreement by its failure to provide specialized services to residents who required them. The Commonwealth appealed the decision of the District Court. On January 28, 2003, the U.S. Court of Appeals for the First Circuit affirmed the decision of the District Court.

In *Ramos v. McIntire* (Suffolk Superior Court No. 98-2154), plaintiffs allege that the Department of Transitional Assistance violated state and federal law, including the Americans with Disabilities Act, by failing to accommodate welfare recipients with learning disabilities in its Employment Services Program. The court has denied, without prejudice, plaintiffs' motions for class certification and injunctive relief. If the case remains limited to the two existing plaintiffs, potential liability will likely be under $50,000. However, if the Court at some point allows a motion for class certification, potential liability could increase to $33.5 million. The Court denied a renewed motion for class certification.

The Division of Medical Assistance has been engaged in four related lawsuits, only one of which remains to be decided, in which numerous hospitals have sought injunctive and declaratory relief from the Division's implementation of its prepayment review program and its post-payment review program. The hospitals also sought damages consisting of the value of all claims for payment previously denied by the Division under these two review programs, where the basis for the denial was the Division's determination that the claims were not medically necessary. The four cases as filed in Superior Court are *Athol Memorial Hospital, et al. v. Commissioner of the Division of Medical Assistance* (Suffolk Superior Court C.A. No.99-2325-F), *Mass. Hospital Association, et al. v. Commissioner of the Division of Medical Assistance* (Suffolk Superior Court C.A. No.99-2324-E), *Baystate Medical Center v. Commissioner of the Division of Medical Assistance* (Suffolk Superior Court No. 99-2115-E) and *Salem Hospital v. Commissioner of the Division of Medical Assistance* (Suffolk Superior Court No. 99-0750-C). Since continued implementation of these programs would save the Division between $6 million and $11 million annually, the Division's expenditures would be expected to increase by that amount if it is barred from implementing these programs. A trial on the merits on the declaratory and injunctive relief claims in the *Mass. Hospital Association* and *Salem* cases was held on March 25 and 26, 2002. On June 20, 2002, the Court ruled that the Division had complied with a Supreme Judicial Court's order in *Massachusetts Eye and Ear Infirmary v. Commissioner of the Division of Medical Assistance* (Supreme Judicial Court No. 07735) not to deny all reimbursement when it determined that an inpatient admission had not been medically necessary and to issue more detailed regulations, and that the new regulations were valid. The *Mass. Hospital Association* and *Salem* decisions are not controlling in *Baystate*, which is still pending, but could be cited as persuasive authority. With respect to the past damages claims, the Division has prevailed in all cases except *Baystate*, which is still pending. The *Athol* and *Salem* cases were appealed, and on August 6, 2002, the Supreme Judicial Court ruled that the hospitals were not eligible for the relief they sought because they had not exhausted their administrative remedies. This decision would control the outcome of *Baystate* on the issue of those payment denials predating the Supreme Judicial Court's decision in *Massachusetts Eye and Ear Infirmary* (1999).

Lopes v. Commonwealth (Suffolk Superior Court No. 01-1337-BLS). Plaintiffs in a class action seek to enjoin the Division of Medical Assistance from recovering Medicaid payments from the estates of people who died of smoking-related illnesses and to pay back such funds already recovered. The relief sought by plaintiffs would cost the Commonwealth more than $20 million. In September 2001, the Commonwealth filed a motion to dismiss the case. In February 2002, the Court allowed the Commonwealth's motion to dismiss. Plaintiffs have appealed.

Lima v. Preston (Suffolk Superior Court No. 033747G). Plaintiffs in a class action seek to enjoin the Executive Office of Health and Human Services from eliminating Medicaid eligibility for certain immigrants. The Division of Medical Assistance estimates that its expenditures would be expected to increase by less than $20 million if the plaintiffs successfully enjoin elimination of the program.

Rosie D. v. Governor (First Circuit Court of Appeals). The plaintiff asserted claims under the Early and Periodic Screening, Diagnostic and Treatment provisions of the federal Medicaid law. Specifically, the plaintiffs asserted that the Commonwealth is required to, yet does not, provide them with intensive home-based mental health services. The Governor's motion to dismiss based on sovereign immunity was denied in the United States District Court. An appeal from that ruling was argued before the First Circuit Court of Appeals on September 11, 2002. On November 7, 2002, the First Circuit Court of Appeals affirmed the United States District Court's denial of the Governor's motion. The plaintiffs have not quantified the cost of the services they seek, but it could amount to more than $20 million.

Environmental Matters. The Commonwealth is engaged in various lawsuits concerning environmental and related laws, including an action brought by the U.S. Environmental Protection Agency alleging violations of the Clean Water Act and seeking to reduce the pollution in Boston Harbor. *United States v. Metropolitan District Commission* (U.S. District Court C.A. No. 85-0489-MA). See also *Conservation Law Foundation v. Metropolitan District Commission* (U.S. District Court C.A. No. 83-1614-MA). The Massachusetts Water Resources Authority (MWRA), successor in liability to the Metropolitan District Commission (MDC), has assumed primary responsibility for developing and implementing a court-approved plan and timetable for the construction of the treatment facilities necessary to achieve compliance with the federal requirements. The MWRA currently projects that the total cost of construction of the wastewater facilities required under the court's order, not including CSO costs, will be approximately $3.142 billion in current dollars, with approximately $131 million to be spent after June 30, 2001. With CSO costs, the MWRA anticipates spending approximately $633 million after that date. Under the Clean Water Act, the Commonwealth may be liable for any cost of complying with any judgment in these or any other Clean Water Act cases to the extent the MWRA or a municipality is prevented by state law from raising revenues necessary to comply with such a judgment.

Wellesley College is seeking contribution from the Commonwealth for costs related to the clean up of environmental contamination on the Wellesley College campus and adjacent areas, including Lake Waban. On September 5, 2001, the court entered judgment incorporating a partial settlement between the parties, under which the College will fund a clean up of hazardous materials at the campus and the northern shoreline of Lake Waban, which is expected to cost approximately $40 million. Pursuant to the terms of the partial settlement, the Commonwealth has reimbursed the College $400,000 (about 1%) from an escrow account, and may reimburse the College up to an additional $1 million from the escrow fund once the Department of Environmental Protection makes a final determination that the clean up has been properly performed. The clean up of the remainder of Lake Waban, downstream areas and groundwater is not addressed under the current settlement, because the Department of Environmental Protection has not yet selected a remedy for these areas. Once a remedy is determined and costs are known, negotiations may be reopened with the College. The Commonwealth and the College have reserved their rights against each other regarding liability for the future clean up costs for this part of the site, which could involve tens of millions of dollars.

In re Massachusetts Military Reservation (pre-litigation). The Commonwealth, through the Executive Office of Environmental Affairs, the Department of Environmental Protection and the Attorney General's Office, is engaged in preliminary discussions with federal Natural Resource Trustees, including the United States Army and Air Force, the Department of Interior and the National Oceanic and Atmospheric Administration regarding natural resource damages at the Massachusetts Military Reservation on Cape Cod. The Commonwealth's Executive Office of Environmental Affairs is the State Natural Resources Trustee. Federal Trustees claim that the Commonwealth and others are liable for natural resource damages due to widespread contamination primarily from past military activities at the Reservation. This asserted liability also may extend to response actions and related activities necessary to remediate the site. The assessment process for natural resource damages is set forth in federal regulations and is expected to take many months to complete. While no recent comprehensive estimate of natural resource damages and response actions is available, it is expected that the damages and response actions may cost at least tens of millions of dollars.

Taxes and Revenues. There are several other tax cases pending which could result in significant refunds if taxpayers prevail. It is the policy of the Attorney General and the Commissioner of Revenue to defend such actions vigorously on behalf of the Commonwealth and the descriptions that follow are not intended to imply that the Commissioner has conceded any liability whatsoever. Approximately $80 million in taxes and interest in the aggregate are at issue in several other cases pending before the Appellate Tax Board or on appeal to the Appeals Court or the Supreme Judicial Court.

In *General Mills, Inc. v. Commissioner of Revenue* (Supreme Judicial Court 08935), the taxpayer challenges a corporate excise tax, including the proper treatment of the sale of two of its subsidiaries. The total exposure to the Commonwealth, including tax, interest and penalties, is approximately $36 million. The Appellate Tax Board issued a decision awarding an abatement of $634,077. Cross-appeals by the taxpayer and the Commissioner of Revenue followed the issuance of the Appellate Tax Board's findings of fact and report. The Supreme Judicial Court heard oral argument in May 2003.

Raytheon v. Commissioner of Revenue (Appellate Tax Board). Raytheon contests assessments concerning its use of research tax credits. Raytheon seeks $74 million in abatements for tax years 1991-1996.

Peterson v. Commissioner of Revenue (Supreme Judicial Court No. SJ-03-0132). The plaintiff taxpayers claim that the Legislature violated the Massachusetts Constitution when it provided for a higher rate of taxation on long term capital gains realized after April 30, 2002. Plaintiffs seek a declaration that Chapter 186, Section 32 of the Acts of 2002, which changed the taxation of capital gains in the taxable year after January 1, 2002 and before May

2, 2002, violates Article 44 of the Amendments to the Constitution. The Department of Revenue estimates that if the Supreme Judicial Court rules in the taxpayers' favor, refunds in excess of $140 million may be required.

Eminent Domain. In *Shwachman v. Commonwealth of Massachusetts* (pre-litigation), the Commonwealth, through its Division of Capital Asset Management, took by eminent domain certain property in Worcester to build a new courthouse for Worcester County. Although no case has yet been filed challenging the amount paid by the Commonwealth, it is anticipated that the owner will file an eminent domain action seeking compensation over and above the amount already paid by the Commonwealth for the land. The plaintiff may seek an additional $30 million in such an action.

Perini Corp., Kiewit Construction. Corp., Jay Cashman, Inc., d/b/a Perini - Kiewit - Cashman Joint Venture v. Commonwealth. In six consolidated cases and related potential litigation, plaintiffs make claims for alleged increased costs arising from differing site conditions and other causes of delay on the Central Artery/Tunnel Project. Plaintiffs have asserted claims in excess of $150 million.

Brown Rudnick Freed & Gesmer and Lieff Cabraser Heimann & Bernstein, LLP, et al. v. Commonwealth of Massachusetts (Suffolk Superior Court C.A. No. 01-5883-BLS). This is a breach of contract action against the Commonwealth seeking damages and declaratory and injunctive relief based on the Commonwealth's alleged failure to comply with a contingent attorney's fee agreement in connection with the plaintiff law firms' representation of the Commonwealth against the tobacco industry. In an early ruling in the case, the Court found that Brown Rudnick's arguments may ultimately inure to the benefit of all five law firms that represented the Commonwealth in the legal action against tobacco manufacturers. The effect of this ruling is to increase the potential exposure for the Commonwealth from $562 million to approximately $1.3 billion. This estimated exposure is based on a claim for a percentage of payments scheduled to be made to the Commonwealth over a period of 25 years under the master settlement agreement with the tobacco manufacturers. The terms of the master settlement agreement also create the possibility of additional payments to the Commonwealth in years after year 25, if the tobacco manufacturers are still going concerns, but these future payments by the manufacturers to the States cannot be quantified with accuracy at the current time. It is possible that the law firms plaintiffs in this case may also claim against these contingent future payments, resulting in an exposure to the Commonwealth exceeding $1.3 billion, but any estimate of such exposure would be speculative. On May 30, the Superior Court will hear oral argument on plaintiffs' motion for summary judgment.

Goodridge v. Commissioner of Public Health (Supreme Judicial Court). In this case, seven same-sex couples claim a statutory or constitutional right to marry and receive marriage-related benefits. Depending on the scope of the court's decision, a decision in the plaintiffs' favor could cost the Commonwealth an indeterminable amount in various forms of state tax deductions and benefits. The Superior Court granted summary judgment in favor of the defendant. Plaintiffs have appealed and the Supreme Judicial Court will hear plaintiffs' appeal in March, 2003.

Dzialo v. Greenfield (Franklin Superior Court). In this case, an 11-year old boy suffered severe injuries while attending a camp program at Greenfield Community College. During a water rescue simulation, the boy's foot became caught between rocks and he was submerged for over twenty minutes, suffering catastrophic brain injuries, which will likely be permanent. The plaintiffs allege civil rights and negligence claims. The plaintiff's expert witness estimates total damages at approximately $80 million, which includes compensatory damages to care for the boy the remainder of his life. The cap on the negligence claims is $300,000 under the Massachusetts Tort Claims Act. The plaintiffs, however, are alleging civil rights violations, which are not subject to the cap.

Clean Elections. In 1998, voters approved the Clean Elections Law by initiative petition, which provided for eligible candidates to receive public funding for their election campaigns. The Legislature did not appropriate monies to fund the Clean Elections Law. In 2002, in *Bates v. Director of the Office of Campaign and Political Finance*, the Supreme Judicial Court ruled that the Legislature had a constitutional duty either to appropriate funds necessary to implement the Clean Elections Law or to repeal the law. The Court ruled that candidates who were eligible but did not receive funding were entitled to the entry of money judgments against the Commonwealth for the funding due to them. The Legislature failed to appropriate the funds necessary to satisfy the judgment in the case and neither funded nor repealed the Clean Elections Law. The Supreme Judicial Court granted plaintiffs' motion for issuance of executions to be satisfied by levy and sale of the Commonwealth's real or personal property.

Certain Commonwealth property was sold at auction to satisfy some of the outstanding portion of the existing judgments. The fiscal 2004 GAA repealed the Clean Elections Law.

MISCELLANEOUS

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

This Information Statement contains certain forward-looking statements that are subject to a variety of risks and uncertainties that could cause actual results to differ from the projected results, including without limitation general economic and business conditions, conditions in the financial markets, the financial condition of the Commonwealth and various state agencies and authorities, receipt of federal grants, litigation, arbitration, force majeure events and various other factors that are beyond the control of the Commonwealth and its various agencies and authorities. Because of the inability to predict all factors that may affect future decisions, actions, events or financial circumstances, what actually happens may be different from what is set forth in such forward-looking statements. Forward-looking statements are indicated by use of such words as “may,” “will,” “should,” “intends,” “expects,” “believes,” “anticipates,” “estimates” and others.

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

Neither the Commonwealth’s independent auditors, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the prospective financial information contained herein, nor have they expressed any opinion or any other form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the prospective financial information.

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

CONTINUING DISCLOSURE

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

On behalf of the Commonwealth, the State Treasurer will provide to each NRMSIR within the meaning of Rule 15c2-12 of the SEC, no later than 270 days after the end of each fiscal year of the Commonwealth, certain financial information and operating data relating to such fiscal year, as provided in said Rule 15c2-12, together with audited financial statements of the Commonwealth for such fiscal year. To date, the Commonwealth has complied with all of its continuing disclosure undertakings.

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

AVAILABILITY OF OTHER FINANCIAL INFORMATION

Questions regarding this Information Statement or requests for additional information concerning the Commonwealth should be directed to Jeffrey S. Stearns, Deputy Treasurer, Office of the Treasurer and Receiver-General, One Ashburton Place, 12th floor, Boston, Massachusetts 02108, telephone 617/367-3900 ext. 564, or to Timothy Murphy, Director of Capital Planning and Operations, Executive Office for Administration and Finance, State House, Room 272, Boston, Massachusetts 02133, telephone 617/727-2040. Questions regarding legal matters relating to this Information Statement should be directed to Lawrence D. Bragg, III, Ropes & Gray LLP, One International Place, Boston, Massachusetts 02110, telephone 617/951-7000.

THE COMMONWEALTH OF MASSACHUSETTS

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

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

August 13, 2003

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ECONOMIC INFORMATION

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

All information is presented on a calendar-year basis unless otherwise indicated. **Information is current as of July 1^{stst}, 2003.** Sources of information are indicated in the text or immediately following the charts and tables. Although the Commonwealth considers the sources to be reliable, the Commonwealth has made no independent verification of the information presented herein and does not warrant its accuracy.

Statistical Overview

Population *(p. A-2)*	***Massachusetts***	***United States***
Percent Change in Population, 2001–2002	08%	1.3%
Personal Income, Consumer Prices, and Poverty *(p. A-7)*		
Per Capita Personal Income, 2002	$39,244	$30,941
Average Annual Pay, 2001(p)	$44,976	$36,214
Percent Change in CPI-U, 2001-2002*	2.6%	1.6%
Percent Change in CPI-U, May 2002–May 2003*	3.9%	2.1%
Poverty Rate, 2001	8.9%	11.7%
Average Weekly Manufacturing Earnings, Dec. 2002(p)	$657.78	$646.57
Percent Change in Manufacturing Earnings, Dec. 2001-Dec. 2002(p)	1.5%	3.5%
Employment *(p. A-18)*		
Unemployment Rate, 2002	5.3%	5.8%
Unemployment Rate, May 2003	5.5%	6.1%
Economic Base and Performance *(p. A-28)*		
Percent Change in Gross State Product, 2000-2001	-0.4%	0.4%
Percent Change in International Exports, 2001-2002	-4.5%	-5.2%
Percent Change in Housing Permits Authorized, 2001-2002	2.8%	6.9%
Human Resources and Infrastructure *(p. A-42)*		
Expenditure Per Pupil, 2002 (estimate)	$9,509	$7,376
Percent of Adults with a Bachelor's Degree, March 2002	34.3%	26.7%

* NOTE: Percent changes in CPI-U data are for Boston and the U.S.

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

The following sections provide detailed information on population characteristics, personal income, employment, economic base and performance, and human resources and infrastructure. It should be noted that although some of the 2000 census counts have been made available, some of the data below is still only available from the 1990 census. Future versions of this economic information will include new counts as they become available.

POPULATION CHARACTERISTICS

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

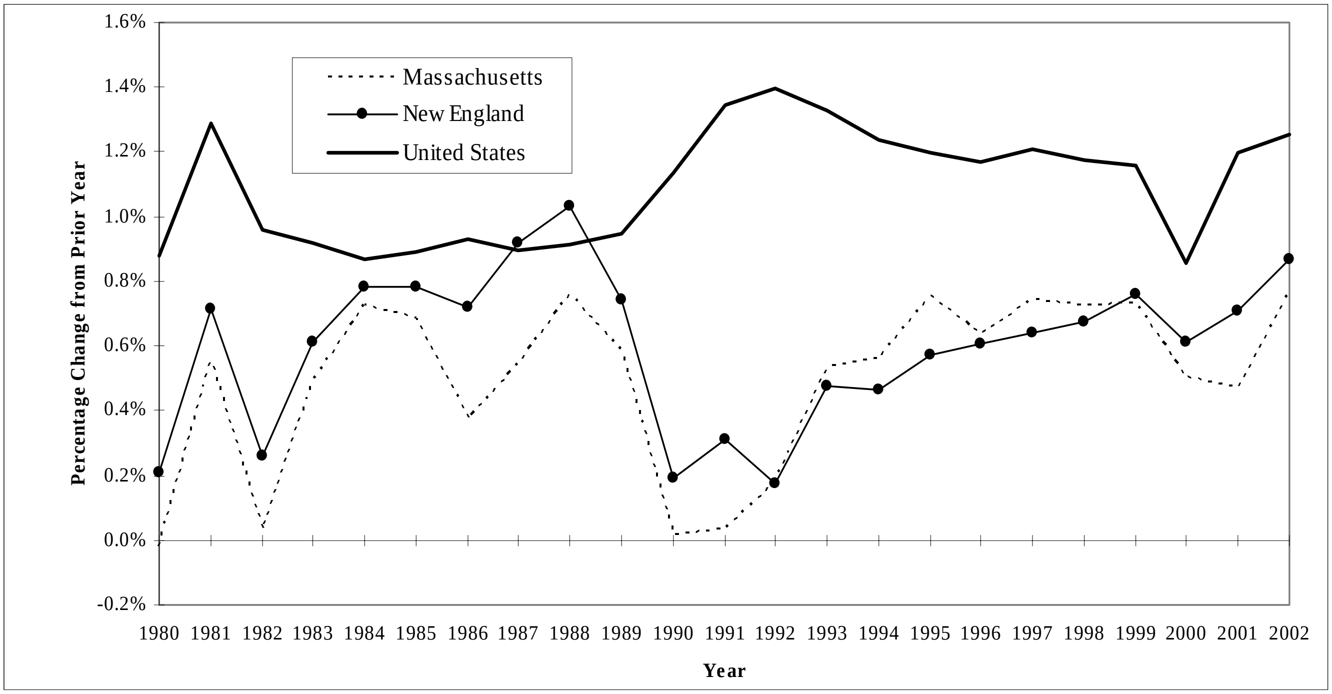
The State's population is concentrated in its eastern portion. The City of Boston is the largest city in New England, with a 2000 population of 589,141. Boston is the hub of the Boston-Worcester-Lawrence, MA-NH-ME-CT Consolidated Metropolitan Statistical Area ("CMSA"), which also includes all of southeastern New Hampshire, as well as towns in Maine and Connecticut, and which had a total population in 2000 of 5,819,100, over 40 percent of the total New England population. The Boston, MA-NH Primary Metropolitan Statistical Area ("PMSA")—which stretches from the Cape Cod Canal south of Boston to southern New Hampshire—is the largest component of that CMSA, with a total population in 2000 of 3,406,829.

The second largest component of that CMSA is the Worcester, MA-CT PMSA, with a 2000 population of 511,389. Worcester, situated approximately 40 miles west of Boston with a 2000 population of 172,648, is the second largest city in New England. Its service, trade, and manufacturing industries combine for more than 70 percent of Worcester's total employment. As a major medical and educational center, the Worcester area is home to 19 patient care facilities, including the University of Massachusetts Medical School, and twelve other colleges and universities.

The largest Metropolitan Statistical Area ("MSA") within Massachusetts which is not a part of this larger CMSA is the Springfield MSA, with a 1990 population of 591,932. Springfield, the third largest city in the Commonwealth with a 2000 population of 152,082, is located in the Connecticut River Valley in western Massachusetts and enjoys a diverse body of corporate employers, the largest of which are the Bay State Medical Center, the Massachusetts Mutual Life Insurance Company, the Milton Bradley Company, and Smith and Wesson. In addition, Springfield is home to four independent colleges.

As the following chart indicates, the percent change in population in Massachusetts since 1980 has been both lower and more erratic than the change in population for the United States as a whole. While this trend is similar to that experienced by New England, it differs considerably from the steady growth rates for the United States over the same period of time.

Percent Change in Total Population, 1980-2002



SOURCE: United States Department of Commerce, Bureau of the Census.
Note: 1980, 1990, and 2000 census counts are as of April 1; estimates for other years are as of July 1.

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

Population, 1970-2002
(in thousands)

	Massachusetts		*New England*		*United States*	
Year	*Total*	*Percent Change*	*Total*	*Percene Change*	*Total*	*Percene Change*
1970	5,689		11,847		203,302	
1971	5,738	0.9%	11,993	1.2%	206,827	1.7%
1972	5,760	0.4%	12,082	0.7%	209,284	1.2%
1973	5,781	0.4%	12,140	0.5%	211,357	1.0%
1974	5,774	-0.1%	12,146	0.0%	213,342	0.9%
1975	5,758	-0.3%	12,163	0.1%	215,465	1.0%
1976	5,744	-0.2%	12,192	0.2%	217,563	1.0%
1977	5,738	-0.1%	12,239	0.4%	219,760	1.0%
1978	5,736	0.0%	12,283	0.4%	222,095	1.1%
1979	5,738	0.0%	12,322	0.3%	224,567	1.1%
1980	5,737	0.0%	12,348	0.2%	226,546	0.9%
1981	5,769	0.6%	12,436	0.7%	229,466	1.3%
1982	5,771	0.0%	12,468	0.3%	231,664	1.0%
1983	5,799	0.5%	12,544	0.6%	233,792	0.9%
1984	5,841	0.7%	12,642	0.8%	235,825	0.9%
1985	5,881	0.7%	12,741	0.8%	237,924	0.9%
1986	5,903	0.4%	12,833	0.7%	240,133	0.9%
1987	5,935	0.5%	12,951	0.9%	242,289	0.9%
1988	5,980	0.8%	13,085	1.0%	244,499	0.9%
1989	6,015	0.6%	13,182	0.7%	246,819	0.9%
1990	6,016	0.0%	13,207	0.2%	249,622	1.1%
1991	6,018	0.0%	13,248	0.3%	252,981	1.3%
1992	6,029	0.2%	13,271	0.2%	256,514	1.4%
1993	6,061	0.5%	13,334	0.5%	259,919	1.3%
1994	6,095	0.6%	13,396	0.5%	263,126	1.2%
1995	6,141	0.8%	13,473	0.6%	266,278	1.2%
1996	6,180	0.6%	13,555	0.6%	269,394	1.2%
1997	6,226	0.7%	13,642	0.6%	272,647	1.2%
1998	6,271	0.7%	13,734	0.7%	275,854	1.2%
1999	6,317	0.7%	13,838	0.8%	279,040	1.2%
2000	6,349	0.5%	13,923	0.6%	281,422	0.9%
2001	6,379	0.5%	14,022	0.7%	284,797	1.2%
2002	6,428	0.8%	14,144	0.9%	288,369	1.3%

SOURCE: United States Department of Commerce, Bureau of the Census.
Note: 1970, 1980, 1990, and 2000 census counts are as of April 1; estimates for other years are as of July 1.

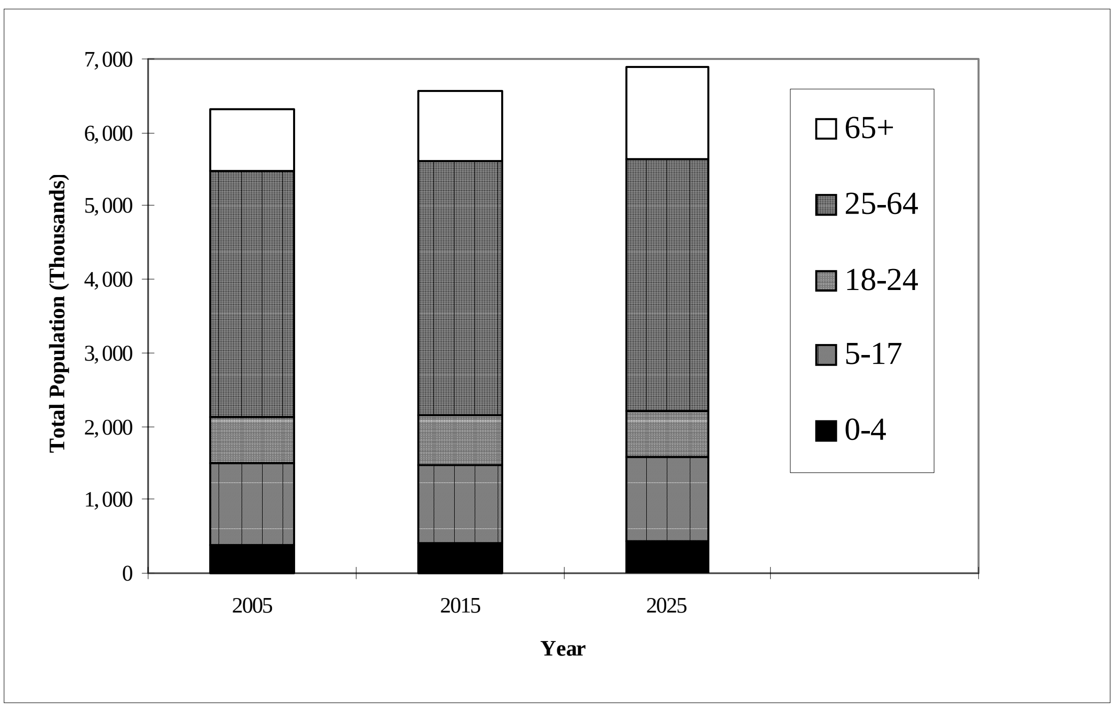
The next fifteen years are expected to bring about a considerable change in the age distribution of the Massachusetts population. As the following table and chart show, the population of Massachusetts is expected to be distributed more heavily in the 65 and over age groups in 2015 and in 2025. The chart and table show the projected population by age for Massachusetts for 2005 through 2025.

Projected Massachusetts Population By Age Group, 2005-2025
(in thousands)

Year	*0-4*	*5-17*	*18-24*	*25-64*	*65+*
2005	382	1,106	633	3,362	827
2015	411	1,053	681	3,464	965
2025	439	1,128	650	3,433	1,252

SOURCE**:** United States Department of Commerce, Bureau of the Census.
Note: Projections made prior to the 2000 Census.

Projected Massachusetts Population By Age Group, 2005-2025



SOURCE**:** United States Department of Commerce, Bureau of the Census.
Note: Projections made prior to the 2000 Census.

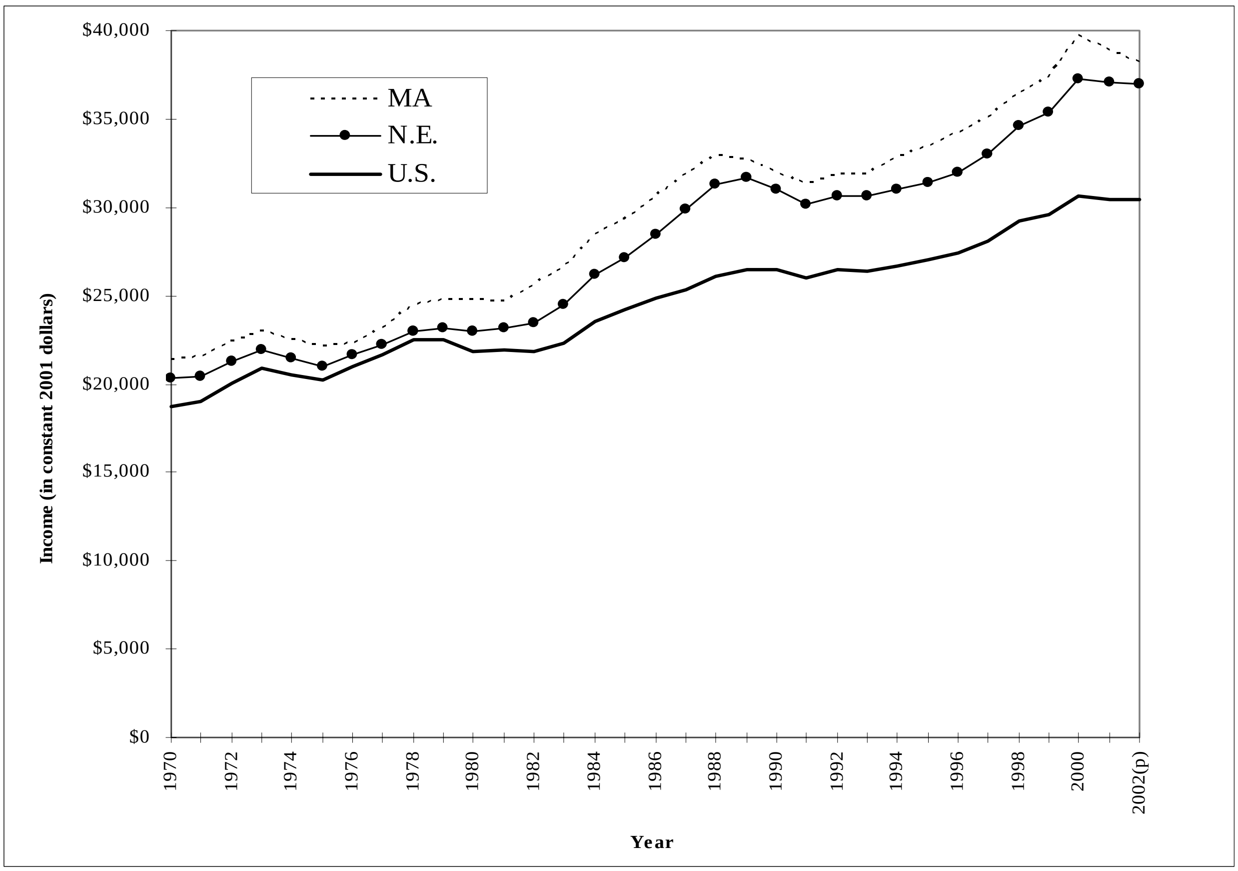
Massachusetts Population by County
1990 and 2000 Census

County	1990 Census	2000 Census	% Change 1990-00
Barnstable	186,605	222,230	**19.1%**
Berkshire	139,352	134,953	**-3.2%**
Bristol	506,325	534,678	**5.6%**
Dukes	11,639	14,987	**28.8%**
Essex	670,080	723,419	**8.0%**
Franklin	70,092	71,535	**2.1%**
Hampden	456,310	456,228	**0.0%**
Hampshire	146,568	152,251	**3.9%**
Middlesex	1,398,468	1,465,396	**4.8%**
Nantucket	6,012	9,520	**58.3%**
Norfolk	616,087	650,308	**5.6%**
Plymouth	435,276	472,822	**8.6%**
Suffolk	663,906	689,807	**3.9%**
Worcester	709,705	750,963	**5.8%**
Massachusetts	**6,016,425**	**6,349,097**	**5.5%**

SOURCE: U.S. Department of Commerce, Bureau of the Census.

Personal Income. Since 1970, real and nominal per capita income levels have been consistently higher in Massachusetts than in the United States. After growing at an annual rate higher than that for the United States between 1982 and 1988, real income levels in Massachusetts declined between 1989 and 1991. Real per capita income levels in Massachusetts increased faster than the national average between 1993 and 1997, showing growth rates between 0.3 and 3.8 percent in this period. In 1999 Massachusetts had its highest per capita income growth in 15 years, exceeding the national growth rate by 1.6 percentage points. In 2002(p), nominal and real income in Massachusetts and the United States has shown a slight decline. Even with slight declines in income, both real and nominal income levels in Massachusetts remain well above the national average. Massachusetts had the third highest level of per capita personal income in the United States in 2002(p). The following chart illustrates real per capita personal income in Massachusetts, New England, and the United States since 1970.

Real Per Capita Personal Income, 1970-2002(p)
(in constant 2001 dollars)



Note: 2001 figure is a preliminary estimate.

The following table compares per capita personal income in Massachusetts, New England, and the United States for the period 1970-2001(p)

Per Capita Personal Income, 1970-2002(p)

	Nominal Income (in current dollars)			*Real Income (in 2001 dollars)*			*Percentage Change in Real Income*		
Year	*MA*	*N.E.*	*U.S.*	*MA*	*N.E.*	*U.S.*	*MA*	*N.E.*	*U.S.*
1970	$4,486	$4,453	$4,095	$21,370	$20,325	$18,691			
1971	4,748	4,680	4,348	21,546	20,465	19,013	0.8%	0.7%	1.7%
1972	5,106	5,031	4,723	22,375	21,316	20,011	3.8%	4.2%	5.2%
1973	5,551	5,490	5,242	22,959	21,898	20,909	2.6%	2.7%	4.5%
1974	6,024	5,970	5,720	22,531	21,446	20,548	-1.9%	-2.1%	-1.7%
1975	6,439	6,363	6,155	22,098	20,946	20,261	-1.9%	-2.3%	-1.4%
1976	6,994	6,959	6,756	22,323	21,660	21,028	1.0%	3.4%	3.8%
1977	7,636	7,612	7,421	23,174	22,246	21,687	3.8%	2.7%	3.1%
1978	8,480	8,465	8,291	24,457	22,993	22,520	5.5%	3.4%	3.8%
1979	9,472	9,483	9,230	24,780	23,133	22,516	1.3%	0.6%	0.0%
1980	10,673	10,701	10,183	24,744	22,999	21,886	-0.1%	-0.6%	-2.8%
1981	11,830	11,883	11,280	24,678	23,152	21,977	-0.3%	0.7%	0.4%
1982	12,803	12,800	11,901	25,673	23,491	21,841	4.0%	1.5%	-0.6%
1983	13,859	13,755	12,554	26,593	24,458	22,322	3.6%	4.1%	2.2%
1984	15,549	15,341	13,824	28,440	26,149	23,563	6.9%	6.9%	5.6%
1985	16,720	16,471	14,705	29,268	27,110	24,203	2.9%	3.7%	2.7%
1986	17,954	17,638	15,397	30,643	28,501	24,880	4.7%	5.1%	2.8%
1987	19,504	19,156	16,284	31,896	29,864	25,386	4.1%	4.8%	2.0%
1988	21,334	20,915	17,403	32,894	31,311	26,053	3.1%	4.8%	2.6%
1989	22,458	22,200	18,566	32,755	31,707	26,516	-0.4%	1.3%	1.8%
1990	23,208	22,884	19,572	31,997	31,008	26,520	-2.3%	-2.2%	0.0%
1991	23,671	23,175	20,023	31,262	30,134	26,036	-2.3%	-2.8%	-1.8%
1992	24,731	24,299	20,960	31,871	30,673	26,458	1.9%	1.8%	1.6%
1993	25,453	24,984	21,539	31,879	30,621	26,398	0.0%	-0.2%	-0.2%
1994	26,559	25,928	22,340	32,834	30,984	26,696	3.0%	1.2%	1.1%
1995	27,689	27,040	23,255	33,433	31,422	27,024	1.8%	1.4%	1.2%
1996	29,166	28,340	24,270	34,203	31,989	27,395	2.3%	1.8%	1.4%
1997	30,773	29,924	25,412	35,098	33,019	28,040	2.6%	3.2%	2.4%
1998	32,714	31,829	26,893	36,486	34,582	29,219	4.0%	4.7%	4.2%
1999	34,360	33,227	27,880	37,386	35,321	29,637	2.5%	2.1%	1.4%
2000	38,034	36,195	29,760	39,671	37,225	30,607	6.1%	5.4%	3.3%
2001	38,864	37,096	30,413	38,864	37,096	30,413	-2.0%	-0.3%	-0.6%
2002(p)	39,244	37,575	30,941	38,245	36,990	30,459	-1.6%	-0.3%	0.2%

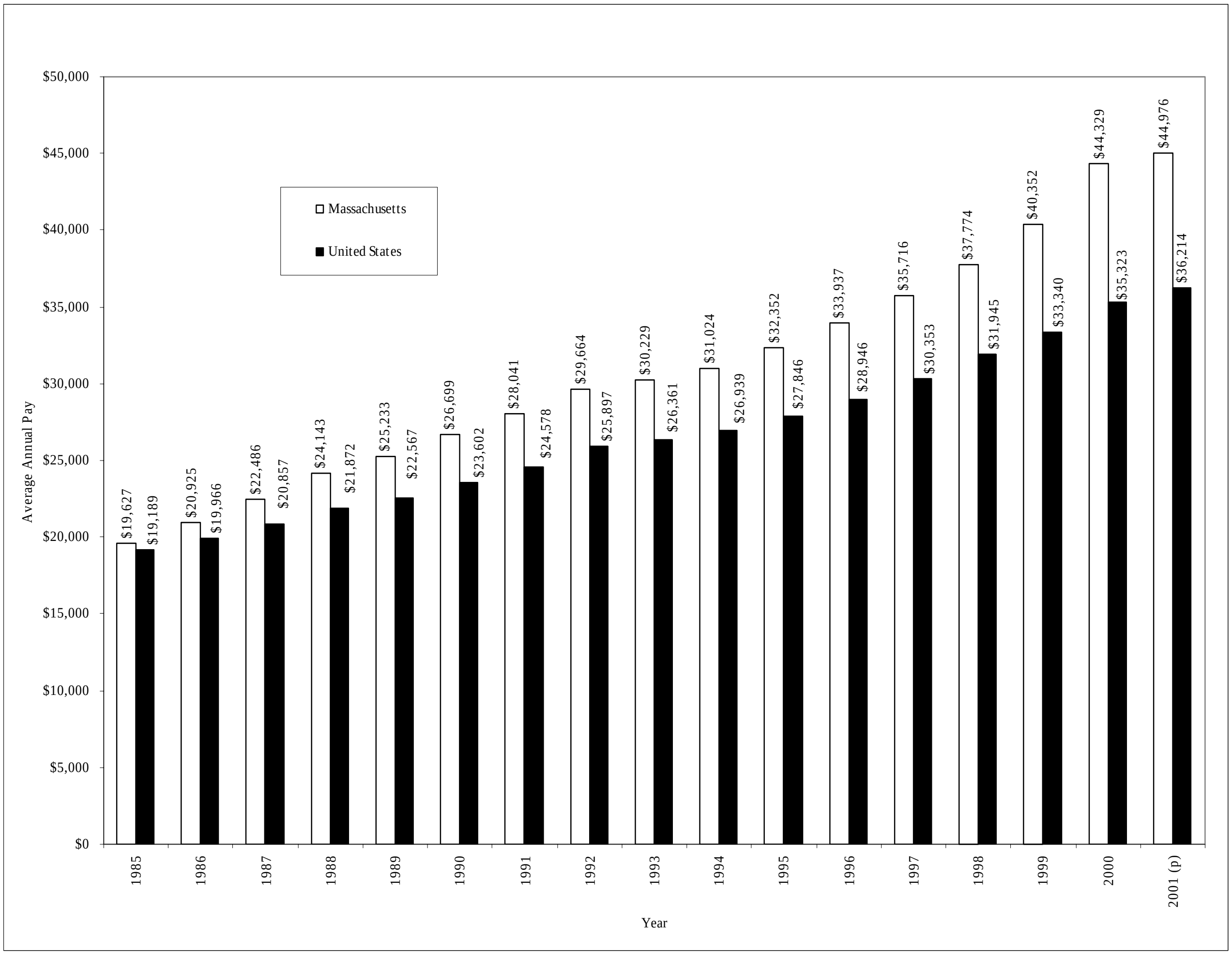
SOURCE: United States Department of Commerce, Bureau of Economic Analysis.

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

(p) = preliminary estimates.

Annual pay in nominal dollars has grown steadily in Massachusetts over the past ten years. Average annual pay is computed by dividing the total annual payroll of employees covered by Unemployment Insurance programs by the average monthly number of employees. Data are reported by employers covered under the Unemployment Insurance programs. While levels of annual pay were nearly equal in Massachusetts and the United States in 1984, average annual pay levels in Massachusetts have grown more rapidly than the national average since that time. Following a period between 1985 and 1992 in which average annual pay levels in Massachusetts grew at a rate between 5 and 7 percent, growth slowed to less than 3 percent in 1993 and 1994. However, growth levels have exceeded 4 percent in six of the past seven years and, as a result, preliminary estimates show that the level of annual pay in Massachusetts in 2001 was 24 percent higher than the national average: $44,976(p) compared to $36,214(p). In 2001, average annual pay levels in Massachusetts remained the fourth highest in the nation.

Average Annual Pay, 1985-2001 (p)
(in current dollars)



SOURCE: United States Department of Labor, Bureau of Labor Statistics.
NOTE: 2001 data is calculated using NAICS and therefore is not comparable to earlier data in this series.
(p)= preliminary estimates.

Median Household Income Estimates, 1995-1999
(Small Area Income and Poverty Estimates)

Year	*MA*	*U.S.*	*Percent MA above U.S.*
1995	$39,025	$34,076	14.52%
1996	40,686	35,492	14.63%
1997	43,015	37,005	16.24%
1998	44,934	38,885	15.56%
1999	47,604	40,696	16.97%

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

Wage and Salary Disbursements. Wage and Salary Disbursements by place of work is a component of personal income and measures monetary disbursements to employees. This includes compensation of corporate officers, commissions, tips, bonuses, and receipts in-kind. Although the data is recorded on a place-of-work basis, it is then adjusted to a place-of-residence basis so that the income of the recipients whose place of residence differs from their place of work will be correctly assigned to their state of residence. The table below details Wage and Salary Disbursements since 1990. Between 1991 and 2000, Massachusetts accounted for a steadily increasing percentage of the overall New England total and in 2002 it dropped slightly to 50.3 percent.

Wage and Salary Disbursements, Yearly Averages, 1990-2002
(in millions of dollars)

Year	*U.S.*	*N.E.*	*MA*	*MA as a pct. of N.E.*
1990	$ 2,743,643	$171,476	$83,145	48.5%
1991	2,812,323	170,387	82,342	48.3%
1992	2,974,791	177,918	86,074	48.4%
1993	3,079,080	183,355	89,111	48.6%
1994	3,232,379	190,869	93,272	48.9%
1995	3,421,108	202,237	99,350	49.1%
1996	3,623,084	214,074	105,794	49.4%
1997	3,885,685	230,761	113,977	49.4%
1998	4,189,579	248,473	123,408	49.7%
1999	4,468,305	266,891	134,270	50.3%
2000	4,834,179	294,616	151,332	51.4%
2001	4,948,115	301,310	153,635	51.0%
2002	4,999,834	301,169	151,493	50.3%

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

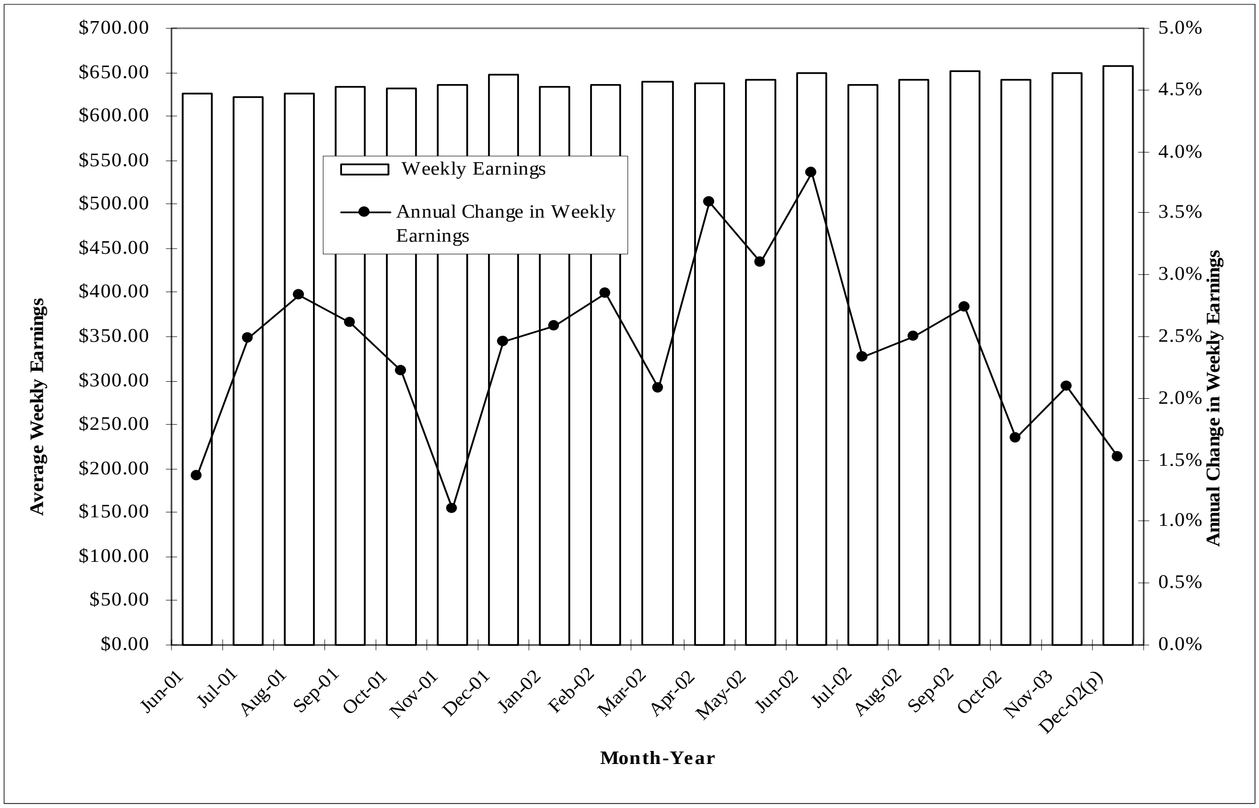
Manufacturing Hours and Earnings. Recent increases in manufacturing employment have been accompanied by increases in manufacturing earnings, with weekly earnings in the manufacturing sector growing at a rate of 1.5 percent over the past year. While this growth can be attributed largely to an increase in average hourly earnings (from $15.65 in December 2001 to $15.85 in December 2002(p)), it is important to note that employees in the manufacturing sector have averaged 41 or more work hours per week in 8 of the past 18 months. The following table shows average weekly hours, hourly earnings, weekly earnings, and the percentage change in weekly earnings compared to the same month in the previous year. Data are not adjusted to reflect seasonal variations in employment and compensation levels.

Average Weekly Manufacturing Hours and Earnings in Massachusetts, June 2001 – December 2002 (p)
(not seasonally adjusted)

Month	*Weekly Hours*	*Hourly Earnings*	*Weekly Earnings*	*Annual Change in Weekly Earnings*
Jun-01	41.0	$15.26	$625.60	1.4%
Jul-01	40.4	15.39	621.76	2.5%
Aug-01	40.6	15.41	625.65	2.8%
Sep-01	41.9	15.49	633.54	2.6%
Oct-01	40.7	15.50	630.85	2.2%
Nov-01	40.8	15.57	635.26	1.1%
Dec-01	41.4	15.65	647.91	2.5%
Jan-02	40.5	15.66	634.23	2.6%
Feb-02	40.7	15.62	635.73	2.8%
Mar-02	41.0	15.60	639.60	2.1%
Apr-02	40.8	15.62	637.30	3.6%
May-02	40.9	15.66	640.49	3.1%
Jun-02	41.4	15.69	649.57	3.8%
Jul-02	40.4	15.75	636.30	2.3%
Aug-02	40.9	15.68	641.31	2.5%
Sep-02	41.3	15.76	650.89	2.7%
Oct-02	40.8	15.72	641.38	1.7%
Nov-03	41.1	15.78	648.56	2.1%
Dec-02(p)	41.5	15.85	657.78	1.5%

SOURCE: United States Department of Labor, Bureau of Labor Statistics.
(p)=preliminary estimates.
NOTE: SIC data is not available for 2003. Beginning in September, all data will be reported using the new NAICS standard.

Average Weekly Manufacturing Earnings in Massachusetts, June 2001—December 2002(p)
(not seasonally adjusted)



SOURCE: United States Department of Labor, Bureau of Labor Statistics.
NOTES: Vertical axis does not begin at zero. SIC data is not available for 2003. Beginning in September, all data will be reported using the new NAICS standard.
(p)=preliminary estimate.

Consumer Prices. Higher income levels in Massachusetts relative to the rest of the United States are offset to some extent by the higher cost of living in Massachusetts. The following table presents consumer price trends for the Boston metropolitan area and the United States for the period between 1970 and 2002. Data reflect changes to methodology made by the Bureau of Labor Statistics in January 1998 and indicate the Consumer Price Index for all urban consumers (CPI-U) and the percentage change in the Consumer Price Index for all urban consumers from the previous year. In 2002, the CPI-U for Boston increased 2.6 percent compared to an increase of 1.6 percent for the United States as a whole. The latest available data for May 2003 show that the CPI-U for the Boston metropolitan area grew at a rate of 3.9 percent from May 2002 compared with 2.1 percent for the U.S.

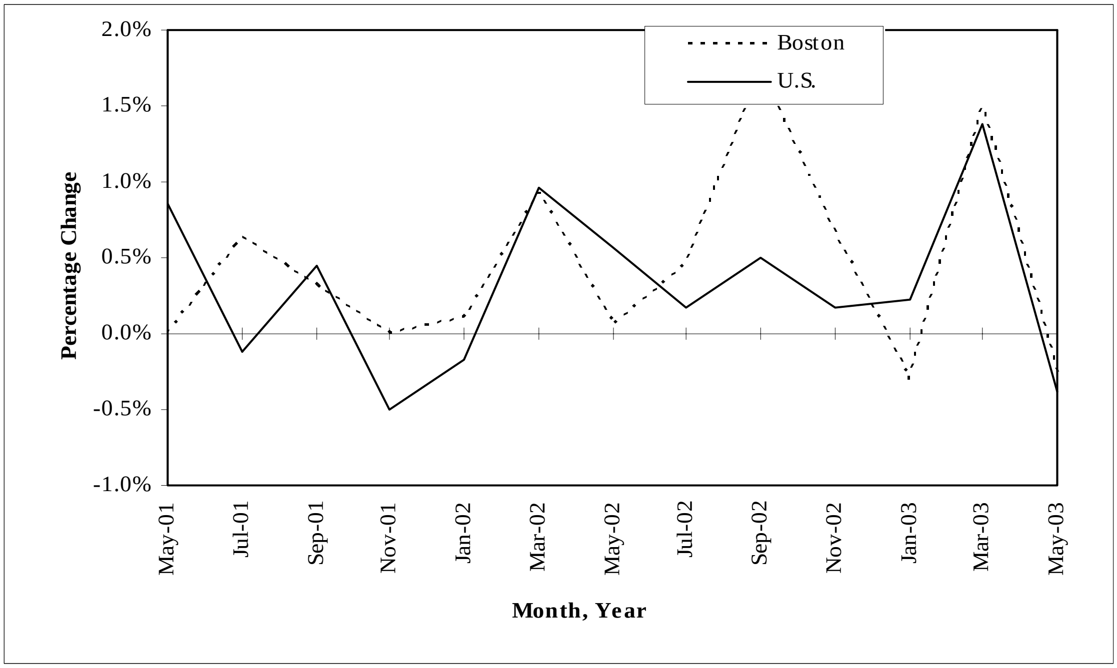
Consumer Price Index for all Urban Consumers (CPI-U), 1970-2002

(1982-1984=100)

	Boston		**U.S.**	
Year	*CPI-U*	*Pct. Change*	*CPI-U*	*Pct. Change*
1970	40.2		38.8	
1971	42.2	5.0%	40.5	4.4%
1972	43.7	3.6%	41.8	3.2%
1973	46.3	5.9%	44.4	6.2%
1974	51.2	10.6%	49.3	11.0%
1975	55.8	9.0%	53.8	9.1%
1976	60.0	7.5%	56.9	5.8%
1977	63.1	5.2%	60.6	6.5%
1978	66.4	5.2%	65.2	7.6%
1979	73.2	10.2%	72.6	11.3%
1980	82.6	12.8%	82.4	13.5%
1981	91.8	11.1%	90.9	10.3%
1982	95.5	4.0%	96.5	6.2%
1983	99.8	4.5%	99.6	3.2%
1984	104.7	4.9%	103.9	4.3%
1985	109.4	4.5%	107.6	3.6%
1986	112.2	2.6%	109.6	1.9%
1987	117.1	4.4%	113.6	3.6%
1988	124.2	6.1%	118.3	4.1%
1989	131.3	5.7%	124.0	4.8%
1990	138.9	5.8%	130.7	5.4%
1991	145.0	4.4%	136.2	4.2%
1992	148.6	2.5%	140.3	3.0%
1993	152.9	2.9%	144.5	3.0%
1994	154.9	1.3%	148.2	2.6%
1995	158.6	2.4%	152.4	2.8%
1996	163.3	3.0%	156.9	3.0%
1997	167.9	2.8%	160.5	2.3%
1998	171.7	2.3%	163.0	1.6%
1999	176.0	2.5%	166.6	2.2%
2000	183.6	4.3%	172.2	3.4%
2001	191.5	4.3%	177.1	2.8%
2002	196.5	2.6%	179.9	1.6%
May-02	194.8		179.8	
May-03	202.3	3.9%	183.5	2.1%

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

Bi-Monthly Percentage Change in Consumer Price Index for all Urban Consumers, May 2001 – May 2003



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

Consumer Confidence, Present Situation, and Future Expectations. These three measures offer multiple insights into consumer attitudes. The U.S. and New England measures are compiled from a national monthly survey of 5,000 households and are published by The Conference Board, Inc. The measures for Boston are conducted in a similar manner and published by the New England Economic Project (NEEP), based on the polling of 500 adult residents of Massachusetts. "Consumer confidence" is a measure of consumer optimism regarding overall economic conditions. "Future expectations" focuses on consumers' attitudes regarding business conditions, employment, and employment income for the coming six months. "Present situation" measures the same attitudes as future expectations but at the time of the survey. Although the U.S. and the New England measures are compiled by a different source than the Boston measures, according to the Federal Reserve Bank of Boston the numbers are generally comparable. The following table and chart detail these three measures since 2000.

Quarterly measures of Consumer Confidence, Present Situation, and Future Expectations for Massachusetts, New England, and the U.S., 2000 – 2003

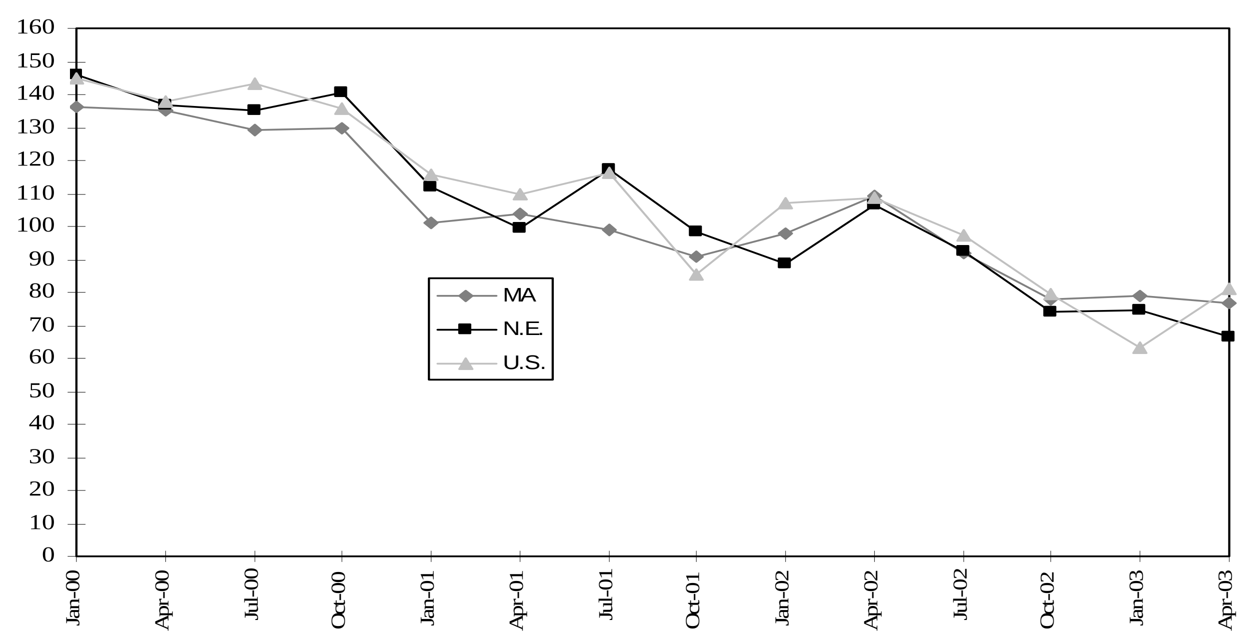
(Not Seasonally Adjusted, except United States (1985=100))

	Consumer Confidence			Present Situation			Future Expectations		
	MA	**N.E.**	**U.S.**	**MA**	**N.E.**	**U.S.**	**MA**	**N.E.**	**U.S.**
Jan-00	136.0	145.9	144.7	151.0	193.1	183.1	125.0	114.5	119.1
Apr-00	135.0	136.5	137.7	155.0	195.7	179.8	122.0	97.0	109.7
Jul-00	129.0	135.4	143.0	156.0	196.9	186.8	111.0	94.4	113.7
Oct-00	130.0	140.7	135.8	157.0	195.5	176.8	111.0	104.1	108.4
Jan-01	101.0	111.9	115.7	139.0	173.9	170.4	76.0	70.5	79.3
Apr-01	104.0	99.5	109.9	124.0	161.7	156.0	91.0	58.0	79.1
Jul-01	99.0	117.5	116.3	108.0	170.8	151.3	93.0	82.0	92.9
Oct-01	91.0	98.6	85.3	94.0	105.6	107.2	90.0	64.0	70.7
Jan-02	97.8	88.5	107.0	98.1	85.5	72.0	97.6	90.5	130.0
Apr-02	109.0	106.7	108.5	84.0	115.5	106.8	125.0	100.8	109.6
Jul-02	92.0	92.4	97.4	68.0	96.3	99.4	108.0	89.9	96.1
Oct-02	78.0	74.2	79.6	48.0	70.8	77.2	97.0	76.5	81.1
Jan-03	78.8	74.4	63.0	75.3	63.9	28.0	81.1	81.5	86.0
Apr-03	77.0	66.4	81.0	31.0	52.0	75.2	108.0	76.0	84.8

SOURCES: The Conference Board, Inc. (for U.S. and N.E. measures) and the New England Economic Project (for MA measures).

Consumer Confidence for Massachusetts, New England, and the U.S. January 2000 – April 2003

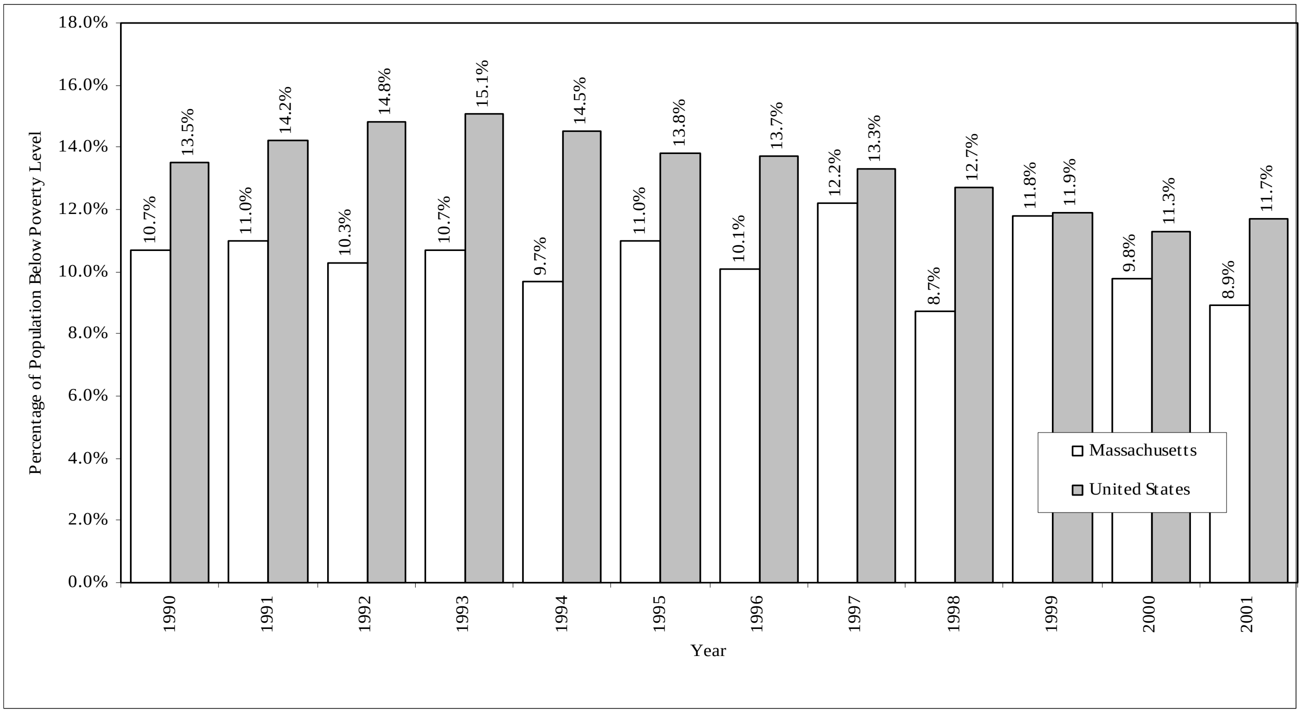
(Not Seasonally Adjusted, except United States (1985=100))



SOURCES: The Conference Board, Inc. (for U.S. and N.E. measures), New England Economic Project (for MA measures).

Poverty. The Massachusetts poverty rate remains below the national average. Since 1980, the percentage of the Massachusetts population below the poverty line has varied between 7.7 percent and 12.2 percent. During the same time, the national poverty rate varied between the current 11.8 percent and 15.1 percent. In 2001, the poverty rate in Massachusetts declined to 8.9 percent while the poverty rate in the United States rose slightly to 11.7 percent. Since 1980, the ratio of the Massachusetts rate of poverty to the United States rate of poverty has varied from a low of 0.51 in 1983 to 0.99 in 1999. These official poverty statistics are not adjusted for regional differences in the cost of living. The following chart and table illustrate both the overall lower poverty rates in Massachusetts (1990-2001) and the lower poverty rates for children (1995-1998) compared with the national average during similar periods.

Poverty Rate, 1990-2001



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

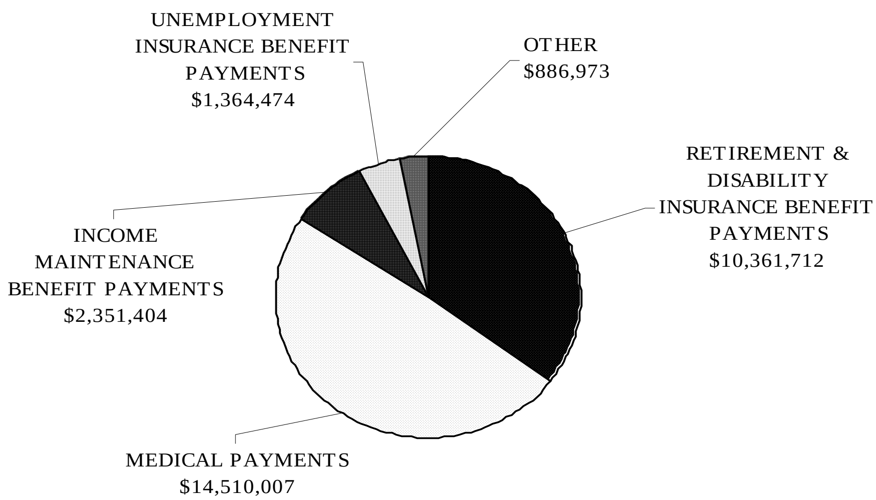
Estimates for Related Children, Age 5-17, in Families in Poverty for U.S. and Massachusetts, 1995-1999

(Small Area Income and Poverty Estimates)

Year	MA	U.S	Rank among states
1995	13.6%	18.7%	31st
1996	13.7%	18.6%	34th
1997	16.1%	18.4%	23rd
1998	14.4%	17.5%	29th
1999	15.0%	15.9%	28th

SOURCE: United States Department of Commerce, Bureau of the Census.
Note: Ranking begins with highest percentage and includes the District of Columbia.

Transfer Payments to Individuals – Massachusetts
Annual State Personal Income Estimates
2001
(thousands of dollars)

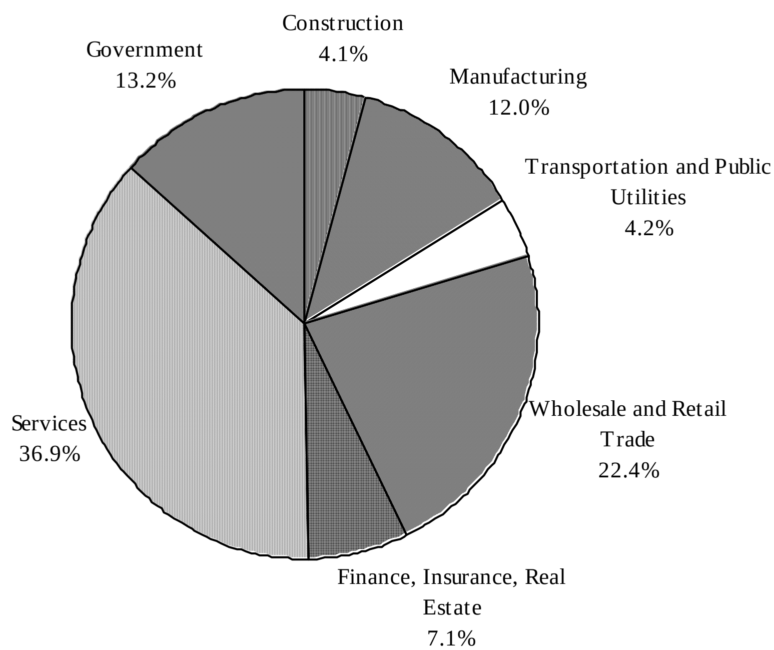


SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis.
NOTE: The category "other" includes payments for: veterans benefit payments, federal education and training assistance payments, and other payments to individuals.

Transfer Payments to Individuals. Transfer payment income is payment to individuals from the federal government for which no current services are performed. They are payments by government to individuals and nonprofit institutions serving individuals. These payments accounted for more than 13 percent of total personal income at the national level in 2001. The chart above does not include transfer payments from business or from non-profit organizations to individuals. Total transfer payments to individuals in Massachusetts totaled 30.8 billion dollars for 2001.

Employment by Industry. The Massachusetts services sector, with 36.9 percent of the non-agricultural work force in December 2002(p), is the largest employment sector in the Massachusetts economy, followed by wholesale and retail trade (22.4 percent), government (13.2 percent), and manufacturing (12.0 percent). The following chart shows the distribution of non-agricultural employment by industry in Massachusetts for December 2002 (preliminary).

Massachusetts Non-Agricultural Employment by Industry, December 2002 (p)
(not seasonally adjusted)



SOURCE: Massachusetts Division of Employment and Training.
NOTE: SIC data is not available for 2003. Beginning in September, all data will be reported using the new NAICS standard.

Between 1988 and 1992, total employment in Massachusetts declined 10.7 percent. The construction, manufacturing, and trade sectors experienced the greatest decreases during this time, with more modest declines taking place in the government and finance, insurance and real estate ("FIRE") sectors. The economic recovery that began in 1993 has been accompanied by increased employment levels; and between 1994 and 1997, total employment levels in Massachusetts have increased at yearly rates greater than 2.0 percent. In 2001, employment levels in all but two industries increased or remained constant. The most rapid growth in 2001 came in the construction sector and the FIRE sector, which grew at rates of 5.8 percent and 1.9 percent, respectively. Total non-agricultural employment in Massachusetts grew at a rate of 0.3 percent in 2001.

The following table shows the changes in employment by sector from 1983 through 2001.

Massachusetts Non-Agricultural Employment by Industry, 1983-2001
(in thousands)

	Construction		*Manufacturing*		*Transportation and Public Utilities*		*Wholesale and Retail Trade*		*Finance, Insurance, Real Estate*		*Services*		*Government*		*Total Employment*	
Year	*Number Employed*	*Pct. Change*	*Number Employed*	*Pct. Change*	*Number Employed*	*Pct. Change*	*Number Employed*	*Pct. Change*	*Number Employed*	*Pct. Change*	*Number Employed*	*Pct. Change*	*Number Employed*	*Pct. Change*	*Number Employed*	*Pct. Change*
1983	82.6		629.0		118.2		612.7		171.8		705.8		375.4		2696.5	
1984	96.4	16.7%	667.6	6.1%	123.3	4.3%	659.1	7.6%	179.0	4.2%	754.0	6.8%	375.4	0.0%	2855.8	5.9%
1985	109.4	13.5%	649.7	-2.7%	125.4	1.7%	684.1	3.8%	188.1	5.1%	786.5	4.3%	385.3	2.6%	2930.0	2.6%
1986	123.2	12.6%	614.4	-5.4%	125.9	0.4%	709.7	3.7%	202.6	7.7%	818.4	4.1%	393.0	2.0%	2988.8	2.0%
1987	137.7	11.8%	599.1	-2.5%	131.0	4.1%	723.4	1.9%	217.9	7.6%	853.9	4.3%	401.2	2.1%	3065.8	2.6%
1988	142.1	3.2%	584.7	-2.4%	133.6	2.0%	739.4	2.2%	221.5	1.7%	896.6	5.0%	411.3	2.5%	3130.8	2.1%
1989	126.8	-10.8%	561.1	-4.0%	128.3	-4.0%	740.5	0.1%	217.3	-1.9%	924.1	3.1%	408.8	-0.6%	3108.6	-0.7%
1990	101.1	-20.3%	521.3	-7.1%	129.9	1.2%	700.1	-5.5%	213.3	-1.8%	915.7	-0.9%	402.2	-1.6%	2984.8	-4.0%
1991	78.8	-22.1%	485.0	-7.0%	123.4	-5.0%	650.6	-7.1%	201.8	-5.4%	890.5	-2.8%	389.9	-3.1%	2821.2	-5.5%
1992	73.6	-6.6%	465.7	-4.0%	121.4	-1.6%	640.5	-1.6%	196.7	-2.5%	913.5	2.6%	382.6	-1.9%	2795.1	-0.9%
1993	80.1	8.8%	454.8	-2.3%	124.0	2.1%	648.4	1.2%	201.5	2.4%	942.8	3.2%	387.5	1.3%	2840.2	1.6%
1994	86.0	7.4%	447.2	-1.7%	127.4	2.7%	669.4	3.2%	206.9	2.7%	975.7	3.5%	390.0	0.6%	2903.8	2.2%
1995	89.8	4.4%	446.1	-0.2%	127.0	-0.3%	687.2	2.7%	205.3	-0.8%	1024.9	5.0%	395.1	1.3%	2976.6	2.5%
1996	94.0	4.7%	444.7	-0.3%	129.1	1.7%	695.1	1.1%	208.2	1.4%	1063.2	3.7%	400.0	1.2%	3035.4	2.0%
1997	100.3	6.7%	447.9	0.7%	132.9	2.9%	706.9	1.7%	212.2	1.9%	1103.1	3.8%	404.6	1.2%	3118.7	2.7%
1998	108.4	8.1%	448.2	0.1%	136.5	2.7%	720.8	2.0%	218.3	2.9%	1133.6	2.8%	411.6	1.7%	3178.6	1.9%
1999	119.2	10.0%	433.6	-3.3%	139.7	2.3%	734.9	2.0%	226.3	3.7%	1163.9	2.7%	417.4	1.4%	3236.8	1.8%
2000	129.2	8.4%	437.3	0.9%	144.2	3.2%	744.1	1.3%	228.3	0.9%	1214.2	4.3%	424.5	1.7%	3323.3	2.7%
2001	136.7	5.8%	423.5	-3.2%	144.7	0.3%	739.7	-0.6%	232.6	1.9%	1227.5	1.1%	428.7	1.0%	3334.9	0.3%

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

The following table presents changes in non-agricultural employment by sector between December 2001 and December 2002. Total non-agricultural employment declined by 1.5 percent during that period.

Massachusetts Non-Agricultural Employment by Industry, December 2001-December 2002 (p)
(in thousands)

Employment Sector	*December 2001*	*Pct. of Total*	*December 2002*	*Pct. of Total*	*Pct. Change Dec. 2001-Dec. 2002*
Mining	1.5	0.0%	1.5	0.0%	0.0%
Construction	139.8	4.2%	136.5	4.1%	-2.4%
Manufacturing	411.1	12.3%	395.7	12.0%	-3.7%
Transportation and Public Utilities	140.9	4.2%	137.7	4.2%	-2.3%
Wholesale and Retail Trade	755.9	22.6%	735.7	22.4%	-2.7%
Finance, Insurance, Real Estate	232.6	7.0%	232.7	7.1%	0.0%
Services	1219.5	36.5%	1215.8	36.9%	-0.3%
Government	438.5	13.1%	435.2	13.2%	-0.8%
Total Employment	3,339.8	100.0%	3,290.8	100.0%	-1.5%

SOURCE: Massachusetts Division of Employment and Training.

NOTES: 2002 figures are preliminary and subject to revision. Sum of the parts may not equal totals due to rounding. SIC data is not available for 2003. Beginning in September, all data will be reported using the new NAICS standard. Figures are not seasonally adjusted.

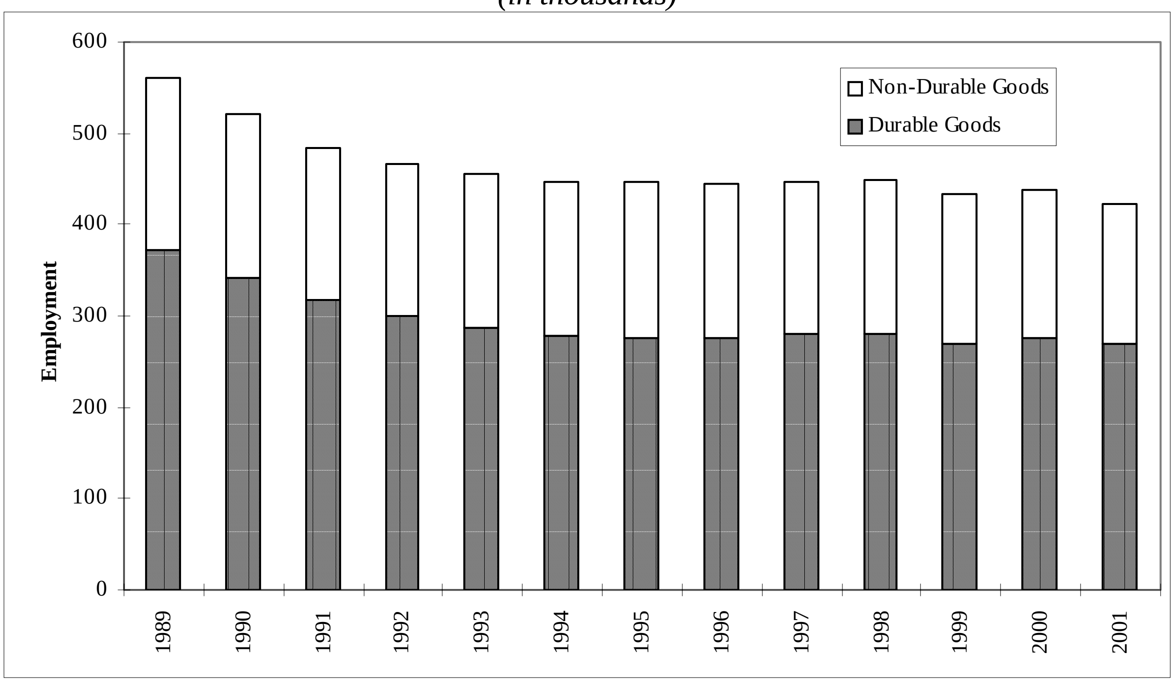
Services Employment. The services sector is the largest sector in the Massachusetts economy in terms of number of employees. This sector includes the categories of health services, business services, educational services, engineering and management services, and social services. After moderate declines in 1990 and 1991, employment levels in the services sector reached consecutive new highs in each year between 1993 and 2001. Between December 2001 and December 2002, the services sector saw a decrease in employment of 0.3 percent, and in December 2002, services sector employment (not seasonally adjusted) was 1,215,800, representing 36.9 percent of total non-agricultural employment.

Wholesale and Retail Trade Employment. In the mid-1980s the trade sector was an area of strong job growth, boosted by a growing export sector. Trade employment declined between 1990 and 1992 but has increased in eight of the last nine years. In December 2002, wholesale and retail trade was the second largest employment sector in Massachusetts with 735,700 employees, 2.7 percent below December 2001 levels.

Manufacturing Employment. Like many industrial states, Massachusetts has seen a steady diminution of its manufacturing jobs base over the last decade. Total employment in the manufacturing sector declined in every year between 1984 and 1996, falling a total of 33.4 percent. Recent growth rates have fluctuated with 1997, 1998, and 2000 showing small improvements and 1999 and 2001 showing the largest declines since 1992. Between December 2001 and December 2002, manufacturing employment declined 3.7 percent.

Manufacturing Employment in Massachusetts, 1989-2001

(in thousands)



Manufacturing Establishment Employment by Industry in Massachusetts, 1989-2001
(selected industries, in thousands)

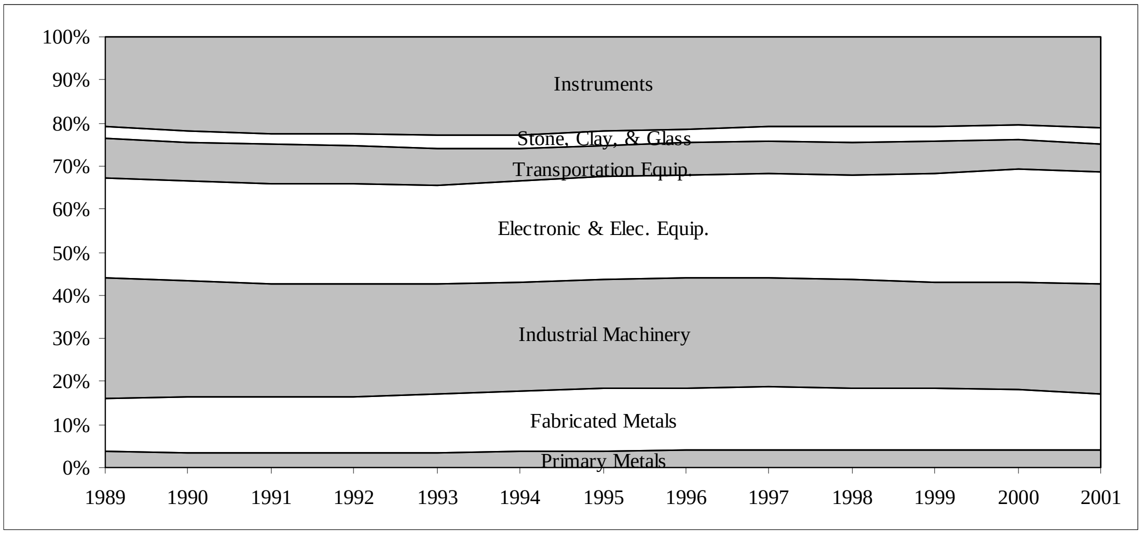
Industry	*1989*	*1990*	*1991*	*1992*	*1993*	*1994*	*1995*	*1996*	*1997*	*1998*	*1999*	*2000*	*2001*
Durable Goods	372.1	342.7	317.0	299.6	287.0	278.2	276.3	276.8	279.7	281.1	269	274.9	269.0
Percentage Change	-4.1%	-7.9%	-7.5%	-5.5%	-4.2%	-3.1%	-0.7%	0.2%	1.0%	0.5%	-4.3%	2.2%	-2.1%
Primary Metals	12.3	11.3	10.3	9.3	9.1	9.2	9.6	10.2	10.5	10.1	9.8	10.3	9.6
Fabricated Metals	43.2	40.9	37.9	36.2	35.6	35.8	36.6	36.4	37.0	36.8	34.8	34.9	32.5
Industrial Machinery	95.8	85.2	76.6	72.5	67.3	63.6	63.4	64.2	64.4	64.9	60.4	62.4	61.8
Electronic & Elec. Equip.	79.3	72.9	68.5	63.9	59.9	59.5	60.2	60.9	62.1	62.4	61.1	65	64.0
Transportation Equip.	30.6	27.8	26.0	24.1	21.9	19.2	18.3	18.8	19.2	19.4	18.1	16.8	15.8
Stone, Clay, & Glass	10.0	8.7	7.8	7.9	8.0	8.1	8.3	8.2	8.5	8.9	8.9	9.2	9.0
Instruments	71.2	69.4	65.6	61.6	60.4	57.8	55.0	53.9	53.4	53.6	50.3	50.7	51.8
Non-Durable Goods	189.0	178.6	168.0	166.1	168.1	168.9	169.7	167.9	168.1	167.1	164.6	162.4	154.5
Percentage Change	-3.8%	-5.5%	-5.9%	-1.1%	1.2%	0.5%	0.5%	-1.1%	0.1%	-0.6%	-1.5%	-1.3%	-4.9%
Apparel	22.0	19.2	17.7	17.7	17.2	16.8	16.0	15.1	14.1	13.1	11.4	10.4	9.2
Food & Kindred Prod.	20.5	20.1	19.6	19.3	19.8	20.3	21.1	21.7	21.7	21.9	22.0	21.7	21.8
Chemicals	18.4	17.7	17.3	16.5	16.9	16.3	16.0	17	17.4	17.8	18.1	18.0	17.9
Printing & Publishing	55.0	52.2	48.9	47.3	47.5	48.0	49.0	48.6	8.9	49.3	49.8	50.3	48.1
Textile Mill Prod.	15.5	14.6	14.1	14.6	15.1	15.4	15.2	14.8	14.5	14.0	13.0	12.9	11.8
Paper & Allied Prod.	23.4	22.5	21.1	20.7	20.3	19.9	19.8	19.3	19.4	19.4	19.3	19.1	18.3
Rubber & Misc. Plastics	25.3	23.8	22.1	22.9	24.4	25.3	26.4	25.7	26.6	27.0	26.9	26.3	24.1
Total Man. Employ.	561.1	521.3	485.0	465.7	455.1	447.2	446.1	444.7	447.9	448.2	433.6	437.3	423.5
Percent Change	-4.0%	-7.1%	-7.0%	-4.0%	-2.3%	-1.7%	-0.2%	-0.3%	0.7%	0.1%	-3.3%	0.9%	-3.2%

SOURCE: Massachusetts Division of Employment and Training.
NOTE: SIC data is not available for 2002. Beginning in September, all data will be reported using the new NAICS standard.

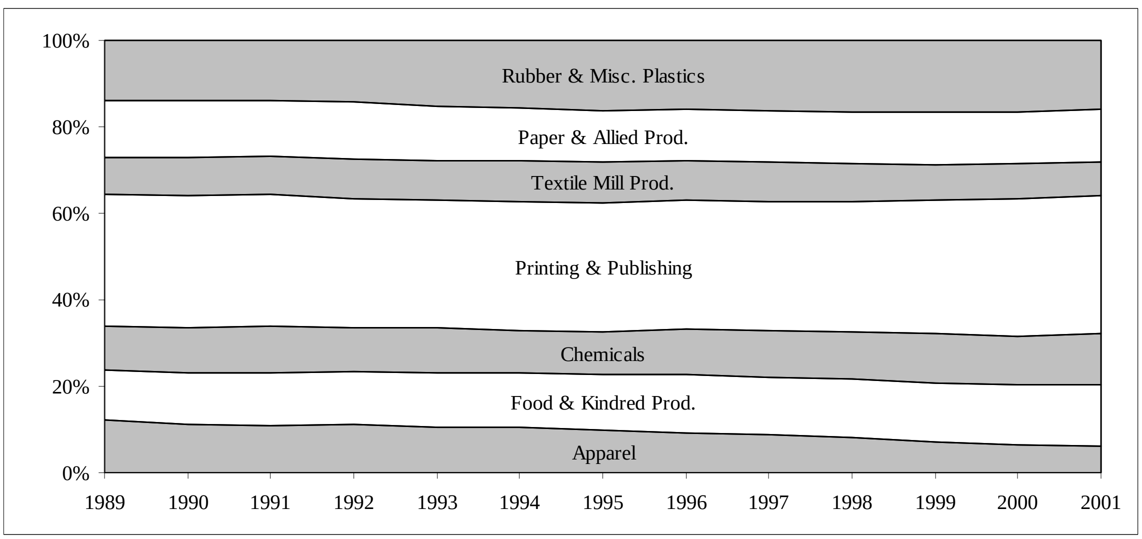
Percent Distribution of Manufacturing Employment by Industry, Durable and Non-durable Goods 1989-2001

(selected industries)

Durable Goods



Non-Durable Goods



SOURCE: Massachusetts Division of Employment and Training

Government Employment. Federal, state, and local government employment declined 0.8 percent over the last year and employed 435,200 workers in December 2002, which accounted for 13.2 percent of total non-agricultural employment in Massachusetts.

Finance, Insurance, and Real Estate Employment. While the Finance, Insurance and Real Estate sector experienced 23.7 percent growth in employment between 1984 and 1988, there was an 11.2 percent decline in employment between 1988 and 1992. Since that time, the sector has experienced modest annual growth rates. With an increase of 2.2 percent in 1998 and a 3.7 increase in 1999, employment levels in this sector rose above 1988 levels for the first time. As of December 2002, total employment in the FIRE sector was 232,700, the same as December 2001.

Construction Employment. Fueled by the general growth of the rest of the Massachusetts economy, employment in the construction industry experienced dramatic growth in the first part of the 1980s, increasing by more than 80 percent between 1982 and 1988. This trend reversed direction between 1988 and 1992, when employment in the construction industry declined nearly 50 percent. Increased economic growth in the Massachusetts economy since 1993 has contributed to a rebound in employment levels in the construction industry, which grew at annual rates in excess of 4 percent between 1993 and 2001. In December 2002, the construction sector employed 136,500 people, a decrease of 2.4 percent over December 2001 levels.

Largest Employers in Massachusetts. The following table lists the twenty-five largest employers in Massachusetts based upon employment data for June 2002. The compiled list excludes government agencies but does include non-profit organizations. New to this list is the Baystate Medical Center, Southcoast Hospitals Group, and Tufts University which replaces Compaq Computer Corporation, General Electric, and Lucent Technologies.

Twenty-five Largest Massachusetts Employers in June 2002
(Listed Alphabetically)

Baystate Medical Center	May Department Stores
Beth Israel Deaconess Hospital	Raytheon Company
Boston University	Sears, Roebuck & Company
Brigham & Women's Hospital	Shaw's Supermarkets
The Children's Hospital Corporation	Southcoast Hospitals Group
Demoulas Supermarkets	S&S Credit Corporation
E.M.C. Corporation	State Street Bank & Trust Company
Fleet National Bank	Tufts University
Friendly Ice Cream Corporation	UMass Memorial Medical Center
General Hospital Corporation	United Parcel Service
Harvard University	Verizon New England
Home Depot USA	Wal-Mart Associates
Massachusetts Institute of Technology	

SOURCE: Massachusetts Division of Employment and Training.

Unemployment. While the Massachusetts unemployment rate was significantly lower than the national average between 1979 and 1989, the economic recession of the early 1990s caused unemployment rates in Massachusetts to rise significantly above the national average. However, the economic recovery that began in 1993 has caused unemployment rates in Massachusetts to decline faster than the national average. As a result, since 1994 the unemployment rate in Massachusetts has been below the national average. The following table compares the annual civilian labor force, the number unemployed, and unemployment rate averages of Massachusetts, the New England states, and the United States between 1970 and 2002.

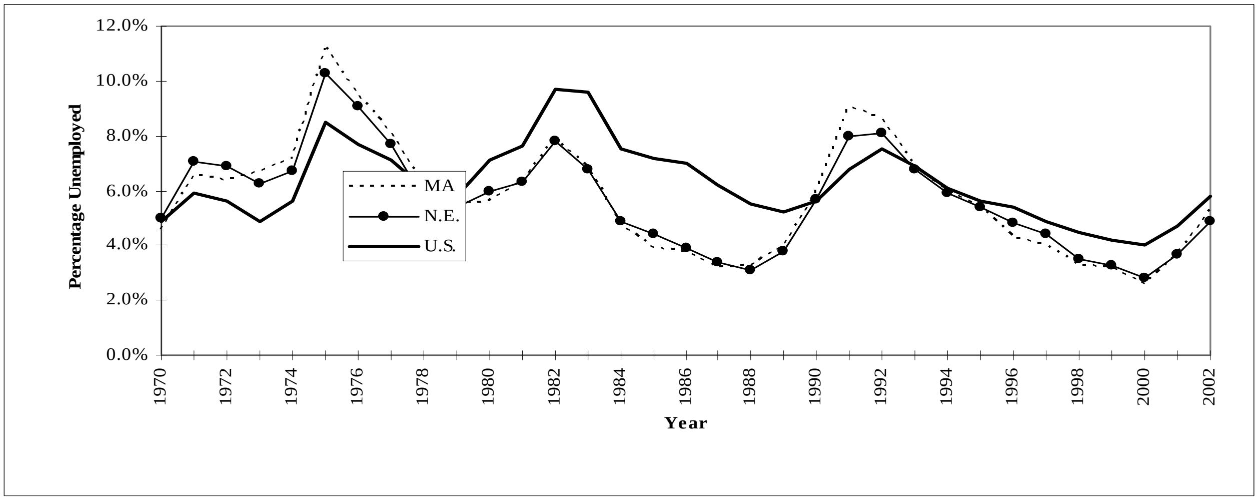
Annual Average Civilian Labor Force and Unemployment, 1970-2002

(in thousands)

	Civilian Labor Force			***Unemployed***			***Unemployment Rate***			***MA Rate as***
Year	*MA*	*N.E.*	*U.S.*	*MA*	*N.E.*	*U.S.*	*MA*	*N.E.*	*U.S.*	***Pct. of U.S.***
1970	2,458	5,129	82,771	114	256	4,093	4.6%	5.0%	4.9%	93.9%
1971	2,447	5,157	84,382	161	364	5,016	6.6%	7.1%	5.9%	111.9%
1972	2,475	5,261	87,034	160	363	4,882	6.4%	6.9%	5.6%	114.3%
1973	2,549	5,387	89,429	171	336	4,365	6.7%	6.2%	4.9%	136.7%
1974	2,622	5,512	91,949	189	369	5,156	7.2%	6.7%	5.6%	128.6%
1975	2,700	5,634	93,775	306	581	7,929	11.2%	10.3%	8.5%	131.8%
1976	2,727	5,717	96,158	259	519	7,406	9.5%	9.1%	7.7%	123.4%
1977	2,753	5,816	99,009	223	447	6,991	8.1%	7.7%	7.1%	114.1%
1978	2,816	5,908	102,251	171	340	6,202	6.1%	5.7%	6.1%	100.0%
1979	2,871	6,100	104,962	159	332	6,137	5.5%	5.4%	5.8%	94.8%
1980	2,867	6,167	106,940	162	367	7,637	5.6%	6.0%	7.1%	78.9%
1981	2,947	6,260	108,670	187	397	8,273	6.4%	6.3%	7.6%	83.4%
1982	2,993	6,339	110,204	237	495	10,678	7.9%	7.8%	9.7%	81.3%
1983	2,977	6,365	111,550	205	434	10,717	6.9%	6.8%	9.6%	71.5%
1984	3,047	6,549	113,544	145	318	8,539	4.8%	4.9%	7.5%	63.5%
1985	3,051	6,632	115,461	120	292	8,312	3.9%	4.4%	7.2%	54.2%
1986	3,056	6,721	117,834	118	265	8,237	3.8%	3.9%	7.0%	54.3%
1987	3,086	6,829	119,865	99	229	7,425	3.2%	3.4%	6.2%	51.8%
1988	3,155	6,914	121,669	103	216	6,701	3.3%	3.1%	5.5%	60.1%
1989	3,180	6,998	123,869	127	269	6,528	4.0%	3.8%	5.3%	76.2%
1990	3,228	7,147	125,840	195	408	7,047	6.0%	5.7%	5.6%	107.1%
1991	3,162	7,082	126,346	286	569	8,628	9.1%	8.0%	6.8%	133.8%
1992	3,145	7,057	128,105	269	568	9,613	8.6%	8.1%	7.5%	114.7%
1993	3,164	7,025	129,200	219	479	8,940	6.9%	6.8%	6.9%	100.0%
1994	3,173	6,964	131,056	191	412	7,996	6.0%	5.9%	6.1%	98.4%
1995	3,164	6,955	132,304	170	373	7,404	5.4%	5.4%	5.6%	96.4%
1996	3,174	6,996	133,943	137	335	7,236	4.3%	4.8%	5.4%	79.6%
1997	3,260	7,121	136,297	131	314	6,739	4.0%	4.4%	4.9%	81.6%
1998	3,273	7,113	137,673	109	250	6,210	3.3%	3.5%	4.5%	73.3%
1999	3,275	7,171	139,368	105	236	5,880	3.2%	3.3%	4.2%	76.2%
2000	3,318	7,358	140,863	88	203	5,655	2.6%	2.8%	4.0%	65.0%
2001	3,393	7,422	141,815	125	272	6,742	3.7%	3.7%	4.7%	78.7%
2002	3,486	7,565	142,535	185	367	8,266	5.3%	4.9%	5.8%	91.4%

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

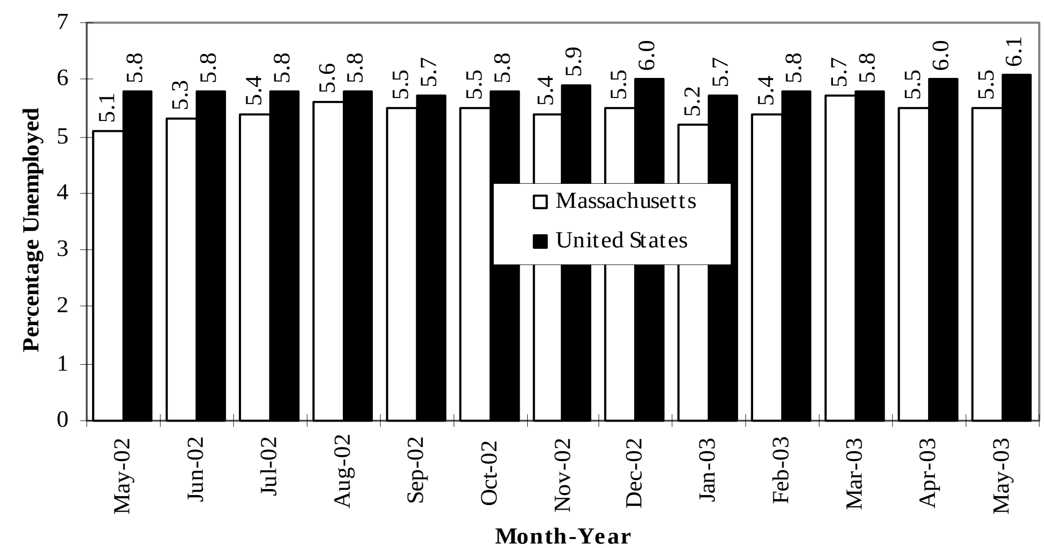
Average Annual Unemployment Rate, 1970-2002



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

The unemployment rate in Massachusetts has been consistently below that of the United States over the past twelve months. Unemployment levels in the United States as a whole and in the New England region have shown similar patterns in the last year. The unemployment rate in Massachusetts increased from 5.1 percent in May of 2002 to 5.5 percent in May of 2003, and the United States unemployment rate also increased from 5.8 percent to 6.1 percent between these same months. The following chart shows the unemployment rates for Massachusetts and the United States for each of the past twelve months.

Monthly Unemployment Rate, May 2002—May 2003
(seasonally adjusted)



SOURCE: Massachusetts Division of Employment and Training.

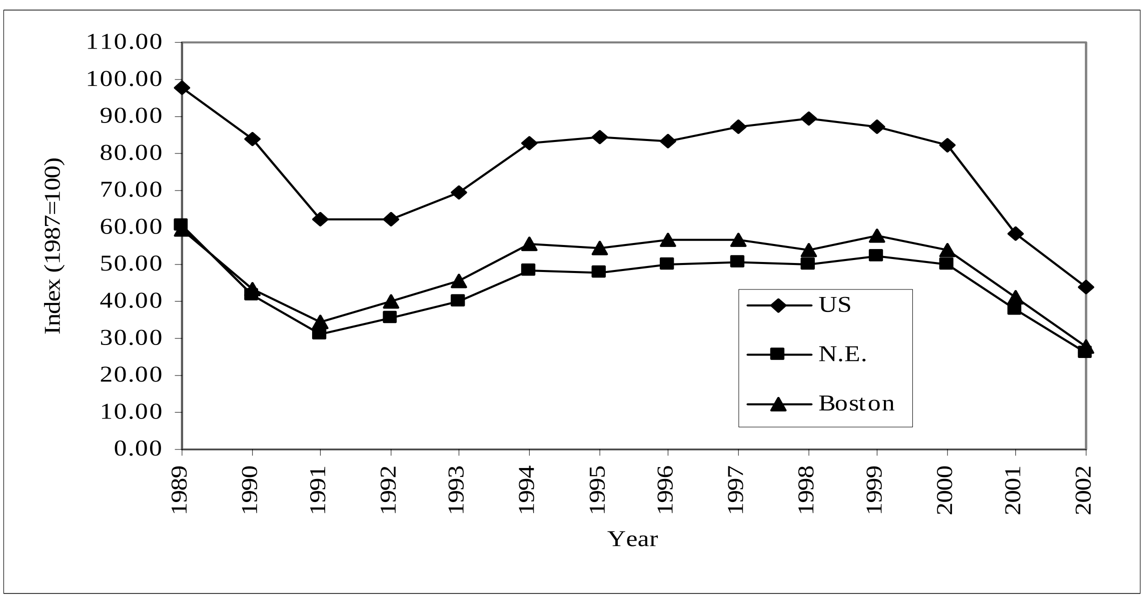
Help Wanted Advertising Index, 1989-2002
(Seasonally Adjusted), 1987=100)

	US	% Change	N.E.	% Change	Boston	% Change
1989	98.00		60.83		59.50	
1990	83.83	-14.46%	41.50	-31.78%	43.50	-26.89%
1991	62.00	-26.04%	31.00	-25.30%	34.67	-20.31%
1992	62.50	0.81%	35.75	15.32%	39.92	15.14%
1993	69.42	11.07%	40.25	12.59%	45.42	13.78%
1994	82.92	19.45%	48.08	19.46%	55.42	22.02%
1995	84.25	1.61%	47.75	-0.69%	54.50	-1.65%
1996	83.17	-1.29%	49.75	4.19%	56.83	4.28%
1997	87.00	4.61%	50.58	1.68%	56.67	-0.29%
1998	89.42	2.78%	50.00	-1.15%	54.00	-4.71%
1999	87.25	-2.42%	52.42	4.83%	57.83	7.10%
2000	82.42	-5.54%	50.00	-4.61%	54.08	-6.49%
2001	58.25	-29.33%	37.65	-24.70%	40.92	-24.33%
2002	43.75	-24.89%	25.92	-31.16%	28.00	-31.57%

SOURCE: The Conference Board, Inc.

Help Wanted Advertising Index. This index is an additional measure of the employment conditions in various regions across the country and for the nation as a whole. Compiled by The Conference Board, Inc., the index is based on the volume of help wanted advertising in 51 major newspapers across the country whose circulation covers about half of the county's nonagricultural employment. The index is compiled for each of the 51 markets, then weighted into regional averages which are then weighted into the national index. The index is intended to be a proxy measure for labor demand. According to the Conference Board, Inc., rising trends in want-ad volume have generally corresponded to improved labor market conditions and declining volume has indicated a decline in new employment.

Help Wanted Advertising Index, 1989-2002



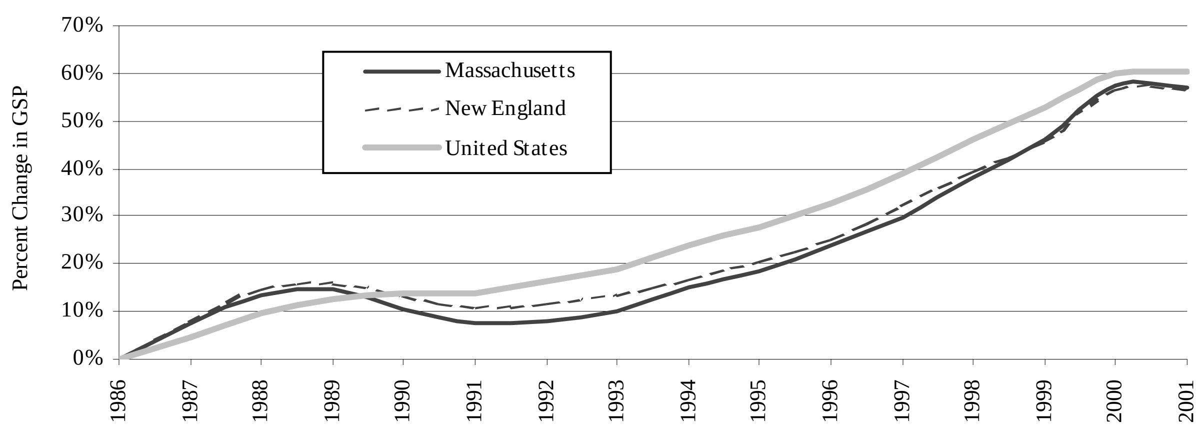
SOURCE: The Conference Board, Inc.

Unemployment Compensation Trust Fund. The unemployment insurance system is a federal-state cooperative program established by the Social Security Act and the Federal Unemployment Tax Act to provide for the payment of benefits to eligible individuals when they become unemployed through no fault of their own. Benefits are paid from the Commonwealth's Unemployment Compensation Trust Fund, financed through employer contributions. The assets and liabilities of the Commonwealth Unemployment Compensation Trust Fund are not assets and liabilities of the Commonwealth. As of May 31, 2003, the private contributory sector of the Massachusetts Unemployment Trust Fund had a surplus of $520 million, and the Division of Employment and Training's April 2003 quarterly report indicates that the contributions provided should result in trust fund system reserves of $1.375 billion by the end of 2007.

In 1987 and 1988, the economies of Massachusetts and New England were among the strongest performers in the nation, with growth rates considerably higher than those for the national economy as a whole. Between 1989 and 1992, however, Massachusetts and New England experienced growth rates significantly below the national average. From 1992 to 1997, growth rates in Massachusetts and New England tracked the U.S. growth rate quite closely. In 1999 and 2000, (the most recent year for which data are available), the economies of both the Commonwealth and the region grew at a faster pace than the nation as a whole. However, both the U.S. and Massachusetts experienced slower growth in 2000 than in 1999, while New England's growth accelerated. Over the decade, growth of the Massachusetts economy averaged 3.9 percent, while New England and the nation have each experienced average growth of 3.5 percent. The Massachusetts economy is the largest in New England, making up an average of 47.7 percent of New England's total Gross State Product and an average of 2.7 percent of the nation's economy over the past decade. In 2001, Massachusetts experienced negative growth in the GSP of 0.4 percent, the first decline since 1991. New England GSP was flat in 2000 and the United States GSP grew by 0.4 percent.

Cumulative Percentage Change in Real Gross State Product, 1986-2000

(baseline year = 1986)



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

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

Gross State Product, 1986-2000

(millions of chained 1996 dollars)

	Massachusetts		*New England*		*United States*	
Year	*GSP*	*Change*	*GSP*	*Change*	*Total GSP*	*Change*
1986	$169,338		$350,747		$5,816,661	
1987	181,855	7.4%	378,136	7.8%	6,072,815	4.4%
1988	192,255	5.7%	401,698	6.2%	6,386,132	5.2%
1989	193,839	0.8%	407,229	1.4%	6,538,634	2.4%
1990	187,167	-3.4%	398,368	-2.2%	6,630,740	1.4%
1991	181,901	-2.8%	388,572	-2.5%	6,615,685	-0.2%
1992	182,789	0.5%	391,385	0.7%	6,774,505	2.4%
1993	186,680	2.1%	397,470	1.6%	6,918,388	2.1%
1994	195,171	4.5%	410,014	3.2%	7,203,002	4.1%
1995	200,537	2.7%	422,524	3.1%	7,433,965	3.2%
1996	210,127	4.8%	439,596	4.0%	7,715,901	3.8%
1997	219,716	4.6%	463,498	5.4%	8,093,396	4.9%
1998	233,981	6.5%	488,673	5.4%	8,502,663	5.1%
1999	247,354	5.7%	511,623	4.7%	8,882,613	4.5%
2000	266,840	7.9%	549,341	7.4%	9,298,227	4.7%
2001	265,722	-0.4%	549,472	0.0%	9,335,399	0.4%

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis. Note: Chained dollars are utilized by the Bureau of Economic Analysis as a measure of real GSP.

The commercial base of Massachusetts is anchored by the thirteen 2003 Fortune 500 industrial and service firms headquartered within the state, as the following table indicates. The Fortune 500 firms are ranked according to total revenues in 2002. All but one of the companies listed in the 2002 Fortune 500 are also on the 2003 list, with Nstar dropping off the list while Reebok ascended to number 483.

Massachusetts Companies in the 2003 Fortune 500

Rank				**2002 revenues**
2003	**2002**	**Company**	**Industry**	**(millions)**
84	**104**	Mass. Mutual Life Insurance (Springfield)	Insurance: Life and Health (Mutual)	$20,247
105	**119**	Raytheon (Lexington)	Aerospace	16,962
115	**106**	Fleet (Boston)	Commercial Banks	15,868
129	**142**	Liberty Mutual Group (Boston)	Insurance: Property and Casualty (Mutual)	14,554
161	**179**	TJX (Framingham)	Specialty Retailers	11,981
165	**178**	Staples (Framingham)	Specialty Retailers	11,596
208	**209**	John Hancock Financial Services (Boston)	Insurance: Life and Health (Stock)	8,911
218	**240**	Gillette (Boston)	Metal Products	8,453
295	**331**	BJ's Wholesale Club (Natick)	Specialty Retailers	5,902
308	**263**	EMC (Hopkinton)	Computer Peripherals	5,438
340	**313**	State Street Boston Corp. (Boston)	Commercial Banks	4,824
456	**471**	Allmerica Financial (Worcester)	Insurance: Property and Casualty (Stock)	3,419
483	-	Reebok International (Canton)	Apparel	3,128

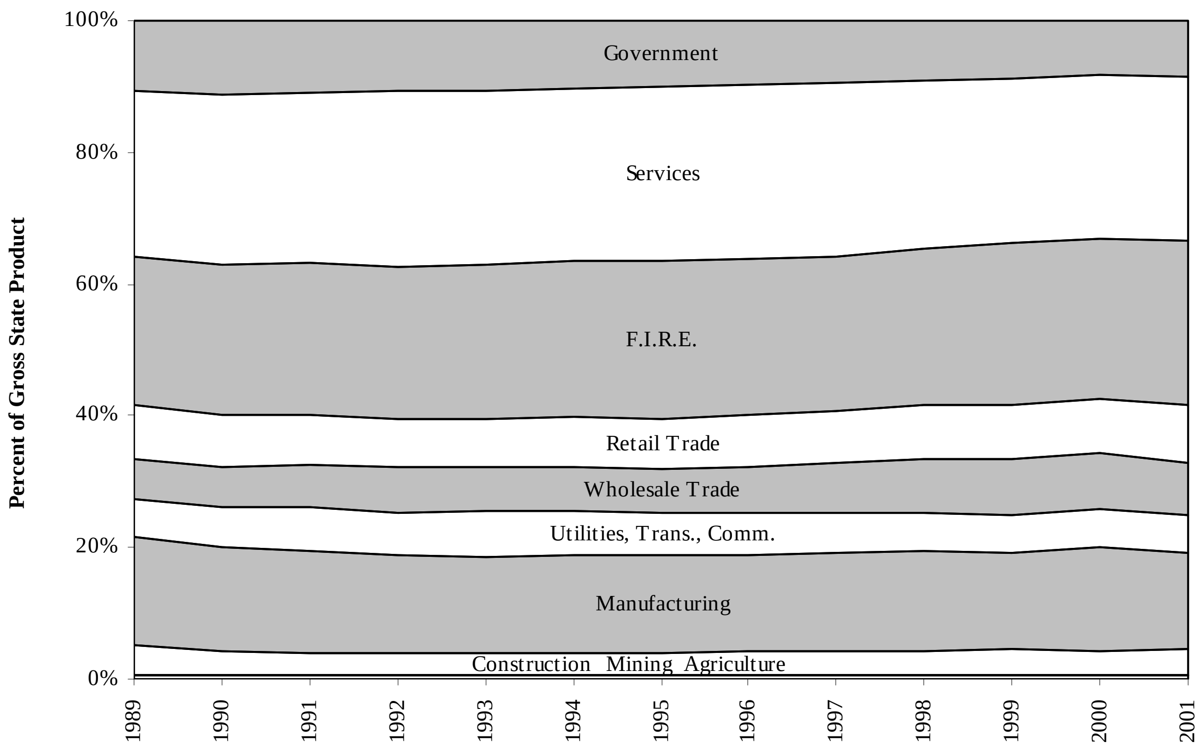
SOURCE: *Fortune*, April 14, 2003.

Five of *Fortune*'s 2002 Top 100 fastest growing U.S. companies are based in Massachusetts. Three Massachusetts companies entered this ranking, released in September of 2002. They are: Cytyc, a medical testing device company, ranked 8th; Investors Financial Services, a data processing services firm, ranked 39th; and Tweeter Home Entertainment Group, an audio products company, ranked 93rd. Zoll Medical, a medical devices company, moved from 35th to 30th, and Polymedica, a medical testing firm, rose from 74th to 42nd, and is in its third year on the high growth list. The 2002 *Fortune* Top 100 firms are ranked according to annual growth rates in earnings per share, revenue, and total return in stock price. [*Fortune*, September 2, 2002.]

Economic Base and Performance – Sector Detail

The economy of Massachusetts remains diversified among several industrial and non-industrial sectors. The three largest sectors of the economy (services, F.I.R.E., and manufacturing) contributed a 64.5 percent of the GSP in 2001, the same as their combined contribution in 1990. The data below show the contributions to the Massachusetts real Gross State Product of all industrial and non-industrial sectors.

Sector Composition of Massachusetts Gross State Product, 1989-2001



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

Gross State Product by Industry in Massachusetts, 1992-2001
(millions of chained 1996 dollars)

Industrial Sector	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Ag., Forestry, Fishing	$1,173	$1,194	$1,124	$1,098	$1,143	$1,280	$1,263	$1,362	$1,465	$1,539
Mining	99	94	107	97	94	82	88	79	92	97
Construction	5,696	6,130	6,753	6,933	7,477	8,026	8,780	9,479	10,136	10,469
Manufacturing	27,281	27,402	28,789	29,835	30,687	32,813	35,486	36,688	41,808	38,543
Trans., Util., Comm.	11,940	12,621	13,035	12,683	13,334	13,063	13,245	14,034	15,354	15,354
Wholesale Trade	12,457	12,548	13,367	13,645	15,100	16,677	19,131	21,411	22,885	21,385
Retail Trade	13,791	13,996	14,695	15,163	16,591	17,683	19,228	20,219	22,039	23,243
F.I.R.E.	42,213	43,415	46,077	47,742	49,536	51,595	56,158	60,732	65,517	66,609
Services	48,822	49,610	51,261	53,055	55,508	57,576	59,717	61,867	66,263	66,268
Government	19,285	19,690	19,969	20,315	20,657	20,968	21,135	21,872	22,092	22,292
Total GSP	182,789	186,680	195,171	200,537	210,127	219,716	233,981	247,354	266,840	265,722

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

Finance, Insurance, Real Estate. The F.I.R.E. sector, the second largest contributor to the Massachusetts Gross State Product over the last decade, took the leading position in 2001 at 25.1 percent of GSP. In 2000, it contributed 24.0 percent of the Gross State Product. The sector has experienced yearly growth since the declines of 1989 to 1991, and was the only one of the top three sectors to grow in 2001, increasing by 1.7 percent over 2000.

Services. In 2001, the services sector, long the largest contributor to the Massachusetts Gross State Product, lost its leading position as it declined slightly in real terms from its 2000 level to represent 24.9 percent of GSP. After a period of stagnation and slight decline from 1989 to 1991, the sector showed solid growth through the 1990s and a 7.1 percent jump in 2000, but no growth in 2001.

Manufacturing. The manufacturing sector was the third largest contributor to the Massachusetts Gross State Product in 2000, contributing 14.5 percent of the Gross State Product. Manufacturing in New England was hit hard during the recession of 1989-1991, and posted only moderate growth during the mid-nineties. The manufacturing sector grew at least 6.9 percent in three of the years from 1997 to 2000, including a gain of 14.0 percent in 2000, but suffered a 7.8 percent decline in 2001.

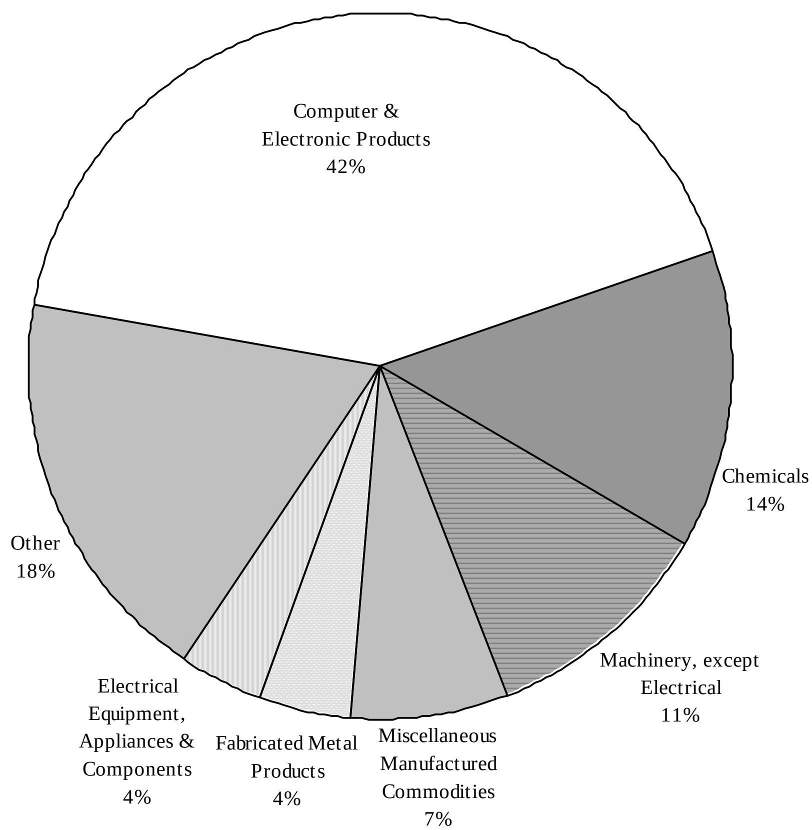
Wholesale and Retail Trade. Taken together, the wholesale and retail trade sectors contributed 16.7 percent of the Massachusetts Gross State Product in 2001, with each sub-sector contributing almost equally to the total. Growth in the wholesale trade sector rebounded in 1991 and varied through the early 1990s but was very strong in the period from 1996 to 1999, increasing by more than 10 percent in each of those years. Growth of 6.9 percent in 2000 was offset by a decline of 6.6 percent in 2001, returning to 1999 levels. The retail sector was harder hit during the 1989-1991 recession, and did not rebound as quickly, with annual growth not exceeding 1.5 percent until 1994. In each of the six years from 1996 to 2001, however, retail growth exceeded 5 percent, including a 5.5 percent increase in 2001.

Trade and International Trade. A significant portion of what Massachusetts produces is exported internationally. Massachusetts ranked 11th in the United States, and first in New England, with $16.7 billion in international exports in 2002. This represents a 4.5 percent decrease from the previous year's exports from the Commonwealth, while national exports decreased by 5.2 percent in the same period. Through April 2003, Massachusetts exports totaled $5.93 billion, an increase of 17.4 percent compared with exports in the first four months of 2002. National exports were up 3.7 percent in the same period. It is not possible to provide balance of trade comparisons for Massachusetts because import data are not compiled on a state-by-state basis.

Massachusetts' most important exports, as shown in the following chart, are computer and electronic products, chemical products, and non-electrical machinery. These categories reflect the adoption of a newer industrial classification system which groups computers with electronic products, rather than with machinery.

Massachusetts' five most important trading partners for 2002 were: Canada, with $2.71 billion in purchases of U.S. products; Japan, with $1.60 billion; the United Kingdom, with $1.59 billion; Germany, with $1.20 billion; and the Netherlands, with $1.05 billion in purchases. Between 2001 and 2002, the most significant growth in Massachusetts exports among its top ten trading partners was in exports to the Netherlands and Malaysia, which increased by 28.5 percent and 86.0 percent, respectively.

Composition of Massachusetts Exports by Industry Group, 2002



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

Value of International Shipments from Massachusetts, 1997-2002

(top ten industry groups ranked by value of 2002 sales, in millions)

Major Industry Group	*1997*	*1998*	*1999*	*2000*	*2001*	*2002*
Computer & Electronic Products	$7,857	$7,458	$8,056	$10,215	$8,122	$7,024
Chemicals	$1,174	$1,223	$1,357	$1,600	$1,534	$2,267
Machinery, except Electrical	$1,885	$1,694	$1,705	$2,545	$2,044	$1,786
Miscellaneous Manufactured Commodities	$768	$835	$925	$1,053	$1,213	$1,210
Fabricated Metal Products	$748	$597	$601	$649	$569	$692
Electrical Equipment, Appliances & Components	$570	$596	$720	$834	$691	$649
Plastics & Rubber Products	$323	$357	$389	$374	$400	$406
Paper	$311	$334	$364	$435	$386	$373
Transportation Equipment	$655	$637	$698	$659	$449	$346
Food and Kindred Products	$234	$220	$211	$233	$286	$294
Total Exports, Top 10 Massachusetts Industries	$14,526	$13,950	$15,026	$18,597	$15,694	$15,048
Total Massachusetts Exports	$16,526	$15,878	$16,805	$20,514	$17,490	$16,708
Percentage Change from Prior Year	n/a	-3.9%	5.8%	22.1%	-14.7%	-4.5%

SOURCE: Massachusetts Institute for Social and Economic Research, University of Massachusetts - Amherst. These figures reflect the changeover in export statistics reporting to the NAICS system from the SIC system. Categories and state totals are not comparable between systems. Pre-1997 data is not available.

Construction and Housing. In 2001, construction activity contributed 3.9 percent of the Massachusetts Gross State Product. This sector experienced a significant decline between 1989 and 1991, with declines as large as 19.6 percent and 17.2 percent in 1990 and 1991. Beginning in 1992, however, the sector rebounded and has grown every year since, and by at least 6.9 percent in each year from 1995 to 2000. Growth tapered to 3.3 percent in 2001.

The following table shows the number of housing permits authorized on an annual basis in Massachusetts, New England, and the United States. Between 1983 and 1986, both Massachusetts and New England experienced strong growth in the number of housing permits authorized. This period was followed by a prolonged decline between 1986 and 1991 during which the number of housing permits authorized in Massachusetts declined by 71.2 percent. With the exception of a 12.9 percent drop in 1995, Massachusetts housing permit authorizations increased each year from 1992 to 1999, for a total increase in that period of 50.3 percent. All three regions experienced declines in 2000, and Massachusetts and New England saw continuing, if milder, decreases in authorizations for 2001. All regions experienced increased authorizations in 2002, with New England surging by 10.3 percent and Massachusetts rebounding more slowly with 2.8 percent growth, while nationwide growth in authorizations fell in between at 6.9 percent.

Housing Permits Authorized, 1969-2002

	Massachusetts		***New England***		***United States***	
Year	*Total Permits*	*Percentage Change*	*Total Permits*	*Percentage Change*	*Total Permits*	*Percentage Change*
1969	33,572		70,539		1,330,161	
1970	38,330	14.2%	74,068	5.0%	1,354,746	1.8%
1971	52,116	36.0%	97,801	32.0%	1,913,601	41.3%
1972	48,261	-7.4%	96,517	-1.3%	2,138,862	11.8%
1973	41,422	-14.2%	82,306	-14.7%	1,782,526	-16.7%
1974	24,397	-41.1%	52,718	-35.9%	1,067,065	-40.1%
1975	17,697	-27.5%	41,645	-21.0%	934,511	-12.4%
1976	19,190	8.4%	47,441	13.9%	1,286,942	37.7%
1977	24,872	29.6%	58,658	23.6%	1,678,629	30.4%
1978	20,315	-18.3%	55,733	-5.0%	1,657,933	-1.2%
1979	20,164	-0.7%	53,654	-3.7%	1,533,436	-7.5%
1980	16,055	-20.4%	40,195	-25.1%	1,171,763	-23.6%
1981	15,599	-2.8%	38,067	-5.3%	985,600	-15.9%
1982	15,958	2.3%	39,470	3.7%	1,000,500	1.5%
1983	22,950	43.8%	57,567	45.9%	1,605,221	60.4%
1984	28,471	24.1%	72,356	25.7%	1,689,667	5.3%
1985	39,360	38.2%	96,832	33.8%	1,732,335	2.5%
1986	43,877	11.5%	108,272	11.8%	1,771,832	2.3%
1987	40,018	-8.8%	101,222	-6.5%	1,542,499	-12.9%
1988	31,766	-20.6%	82,123	-18.9%	1,450,583	-6.0%
1989	21,634	-31.9%	53,543	-34.8%	1,345,084	-7.3%
1990	15,276	-29.4%	36,811	-31.2%	1,125,583	-16.3%
1991	12,624	-17.4%	31,111	-15.5%	953,834	-15.3%
1992	16,346	29.5%	36,876	18.5%	1,105,083	15.9%
1993	17,715	8.4%	39,225	6.4%	1,210,000	9.5%
1994	18,302	3.3%	40,459	3.1%	1,366,916	13.0%
1995	15,946	-12.9%	37,357	-7.7%	1,335,835	-2.3%
1996	17,360	8.9%	40,425	8.2%	1,419,083	6.2%
1997	17,554	1.1%	42,047	4.0%	1,442,251	1.6%
1998	18,958	8.0%	47,342	12.6%	1,619,500	12.3%
1999	18,977	0.1%	47,379	0.1%	1,663,916	2.7%
2000	17,342	-8.6%	43,735	-7.7%	1,598,332	-3.9%
2001	16,654	-4.0%	42,786	-2.2%	1,637,166	2.4%
2002	17,122	2.8%	47,173	10.3%	1,749,584	6.9%

SOURCE: Federal Reserve Bank of Boston.

Both the economic recession of 1990-1991 and the subsequent economic recovery were strongly reflected in the Massachusetts housing sector, but the recession that began in 2001 has had a less pronounced impact on home sales. Significant declines in existing home sales in Massachusetts in 1989 and 1990 (of 10.9 percent and 28.8 percent, respectively) were followed by rapid sales growth between 1991 and 1993, when home sales in Massachusetts increased at a yearly rate substantially higher than the national average. Following this period of rapid growth, the growth in existing home sales slowed to a rate of 0.7 percent in 1994 and declined 2.6 percent in 1995. In 1996, 1997, and 1998, however, growth in existing home sales in Massachusetts was significant, outpacing the national average in 1996 and 1997 with rates of 16.6 percent and 11.0 percent, respectively. This strong growth ended in 1999 when existing home sales in the Commonwealth declined 1.3 percent while growth in existing home sales nationally was 6.0 percent. In 2000, existing home sales in Massachusetts declined by 3.3 percent, but a slight rebound of 2.0 percent occurred in 2001 and gained momentum in 2002 with a 4.8 percent increase. On a seasonally adjusted annual rate basis, existing home sales for the Commonwealth, New England, and the United States appear in the following table.

Existing Home Sales, 1981-2002

(seasonally adjusted annual rates, in thousands)

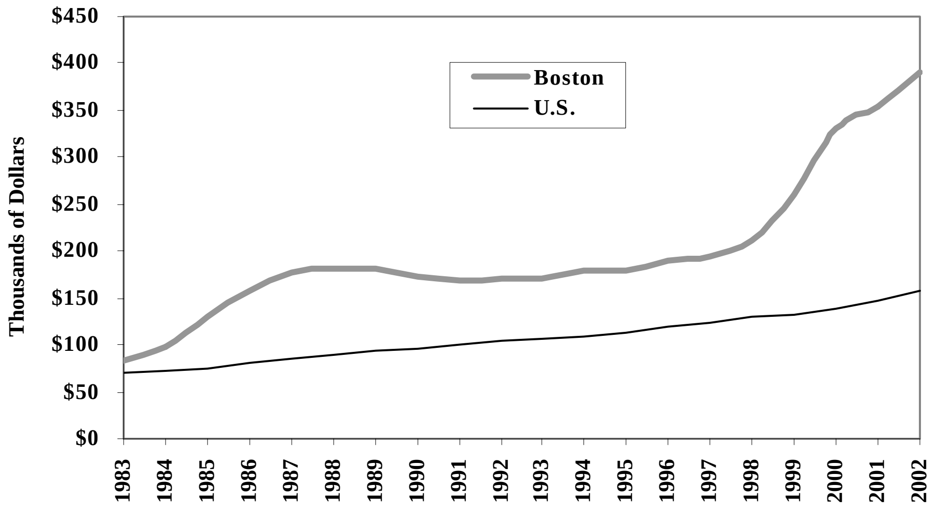
	Massachusetts		***New England***		***United States***	
Year	*Sales*	*% Change*	*Sales*	*% Change*	*Sales*	*% Change*
1981	43.0		105.8		2,575.0	
1982	42.6	-0.8%	98.6	-6.9%	2,117.5	-17.8%
1983	59.2	39.0%	141.3	43.3%	2,875.0	35.8%
1984	54.9	-7.3%	140.7	-0.4%	3,027.5	5.3%
1985	60.2	9.7%	157.0	11.6%	3,382.5	11.7%
1986	67.0	11.3%	169.2	7.8%	3,772.5	11.5%
1987	76.4	14.1%	174.5	3.1%	3,767.5	-0.1%
1988	76.6	0.2%	178.5	2.3%	3,882.5	3.1%
1989	68.2	-10.9%	163.0	-8.7%	3,672.0	-5.4%
1990	48.6	-28.8%	134.0	-17.8%	3,603.5	-1.9%
1991	53.4	10.0%	140.5	4.9%	3,533.3	-1.9%
1992	62.5	17.0%	170.6	21.4%	3,889.5	10.1%
1993	70.9	13.4%	193.8	13.6%	4,220.3	8.5%
1994	71.4	0.7%	200.3	3.4%	4,409.8	4.5%
1995	69.6	-2.6%	185.7	-7.3%	4,342.3	-1.5%
1996	81.2	16.6%	200.7	8.1%	4,705.3	8.4%
1997	90.1	11.0%	219.4	9.3%	4,908.8	4.3%
1998	99.9	10.8%	248.3	13.2%	5,585.3	13.8%
1999	98.5	-1.3%	253.3	2.0%	5,922.8	6.0%
2000	95.3	-3.3%	261.3	3.2%	5,831.8	-1.5%
2001	97.2	2.0%	262.7	0.5%	6,071.5	4.1%
2002	101.9	4.8%	290.4	10.5%	6,407.5	5.5%

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

Median single family home prices for the Boston Metropolitan area (not seasonally adjusted) appear below. While Boston housing prices were 18.1 percent higher than the U.S. average in 1983, by 1987 Boston housing prices as a percentage of the national average had reached a peak of 205.7 percent. After dipping to 60.9 percent higher than the national average in 1993 and remaining as low as 62.9 percent above the national average in 1998, Boston home prices soared to 146.6 percent above the national average in 2002. The average Boston area home price in 2002 rose to $389,450, compared to the national average home price of $157,950.

Boston Area and U.S. Median Annual Home Prices, 1983-2002

(in thousands of current dollars)

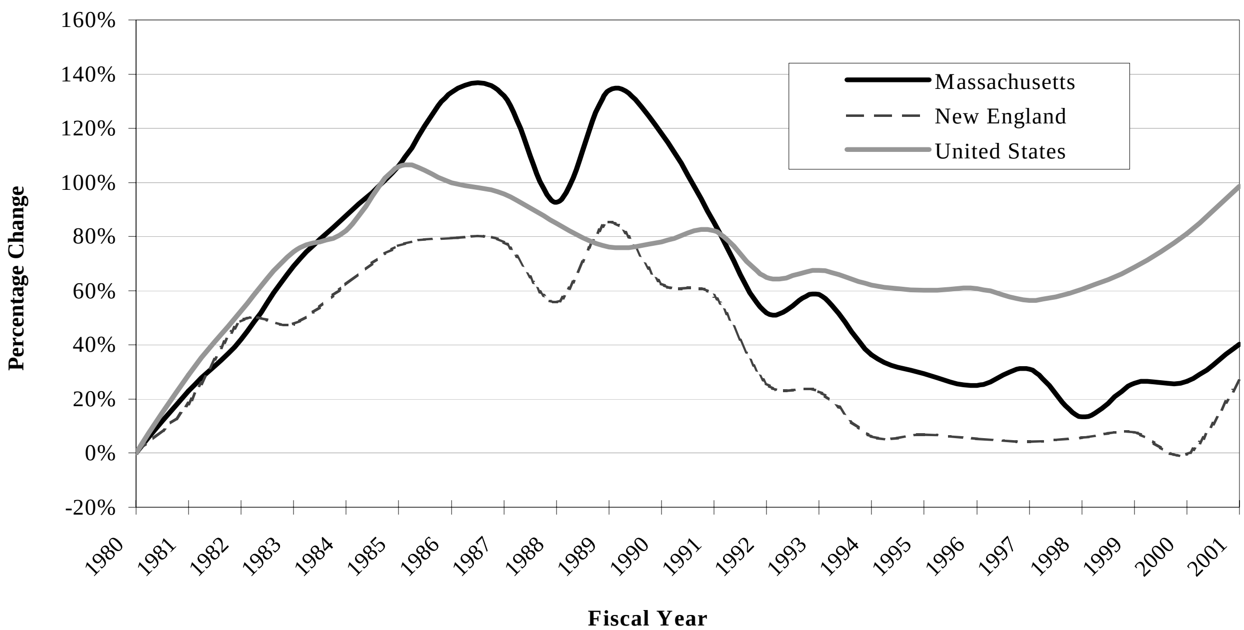


SOURCES: National Association of Realtors; Federal Reserve Bank of Boston.

Defense. Following a peak at $8.7 billion in the value of military prime contracts awarded to Massachusetts firms in fiscal 1986, defense-related contracts declined 17.2 percent by fiscal 1988 to $7.2 billion. By fiscal 1995, the value of defense-related prime contracts had declined to $4.8 billion. The net value of prime contract awards in Massachusetts oscillated between $4.2 and $4.9 billion from 1995 to 2000, but jumped 10.8 percent in 2001 to reach $5.2 billion. The chart below illustrates the yearly changes in the value of Massachusetts military prime contracts from 1981 to 2001.

Cumulative Percentage Change in Net Value of Prime Contract Awards Since 1980

(Baseline Year = 1980)



SOURCE: U.S. Department of Defense.
Prime Contract is defined as $10,000 or more before 1983 and as $25,000 or more from 1983 onwards.

The importance of the defense industry to the Massachusetts economy is reflected in table on the following page, which shows the value of Department of Defense prime contract awards between 1981 and 2001. Since the early 1980s, the Commonwealth's share of New England's prime contract awards had remained around or above 50 percent. In 1998, Massachusetts' share of New England's prime contract awards dipped to 45.7 percent and in 1999, the Commonwealth's share recovered only some of its losses, rising to 49.8 percent. In 2000, the Commonwealth's share of New England's prime contract awards rose to a recent peak of 54.2 percent, but large increase elsewhere in New England in 2001 offset the Massachusetts increase and pushed the Commonwealth's share in the region back down to 47.3 percent. In 2000, the Commonwealth's share of the national total also reached its lowest point in at least the last two decades, but this share increased slightly to 3.9 percent in 2001. Despite this declining trend, Massachusetts remains the sixth largest recipient in defense spending, behind California, Virginia, Texas, Florida, and Georgia.

Net Value of Department of Defense Prime Contract Awards, 1980-2001

(in millions of real dollars)

Fiscal Year	*MA*	*N.E.*	*U.S.*	*MA as Percentage of N.E.*	*MA as Percentage of U.S.*
1980*	$3,743	$8,775	$68,070	42.7%	5.5%
1981*	4,605	10,372	87,761	44.4%	5.2%
1982*	5,317	13,037	103,858	40.8%	5.1%
1983	6,328	12,967	118,744	48.8%	5.3%
1984	7,029	14,249	123,995	49.3%	5.7%
1985	7,714	15,487	140,096	49.8%	5.5%
1986	8,735	15,748	136,026	55.5%	6.4%
1987	8,685	15,606	133,262	55.7%	6.5%
1988	7,212	13,673	125,767	52.7%	5.7%
1989	8,757	16,268	119,917	53.8%	7.3%
1990	8,166	14,271	121,254	57.2%	6.7%
1991	6,933	13,889	124,119	49.9%	5.6%
1992	5,686	11,033	112,285	51.5%	5.1%
1993	5,936	10,779	114,145	55.1%	5.2%
1994	5,106	9,329	110,316	54.7%	4.6%
1995	4,846	9,375	109,005	51.7%	4.4%
1996	4,675	9,237	109,408	50.6%	4.3%
1997	4,910	9,152	106,561	53.6%	4.6%
1998	4,245	9,284	109,386	45.7%	3.9%
1999	4,715	9,456	114,875	49.9%	4.1%
2000	4,737	8,745	123,295	54.2%	3.8%
2001	5,248	11,094	135,225	47.3%	3.9%

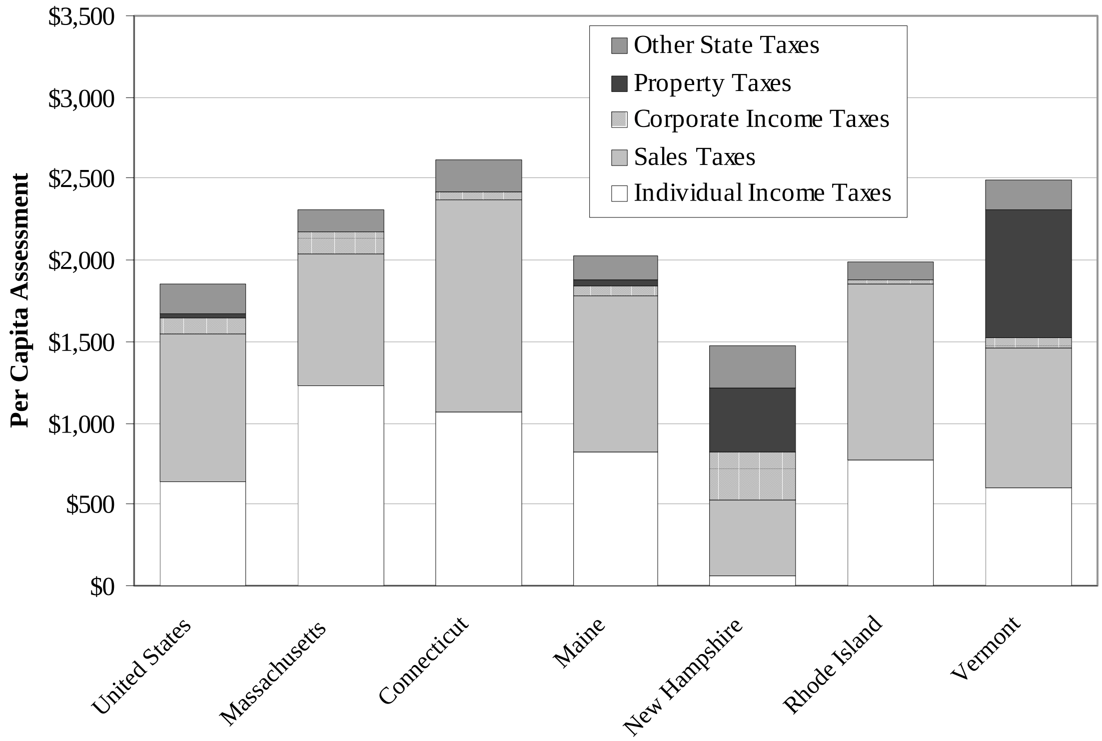
SOURCE: U.S. Department of Defense.
Prime Contract is defined as $10,000 or more before 1983 and as $25,000 or more from 1983 onwards.

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

The Massachusetts Office of Travel and Tourism estimates that 24.3 million domestic travelers traveled to or within the Commonwealth in 2002, a decrease of 6.9 percent from 2001. Additionally, 1.8 million international travelers visited Massachusetts in 2002. Leisure is the primary reason for 77 percent of tourist trips to Massachusetts. The latest available economic impact data indicates that direct spending by visitors to Massachusetts totaled $11.7 billion in 2001, a decrease of of 12.0 percent from the 2000 level.

State Taxes. State taxes in Massachusetts are significantly higher than the national average. In 2002, the total per capita state tax bill in the United States was $1,854. Citizens of the Commonwealth, however, paid $2,306 on average, the sixth highest rate in the nation. In New England, citizens in Connecticut and Vermont paid more per capita, and all New England states except New Hampshire ranked in the top 15 for per capita state tax collections. Over half of the state taxes in Massachusetts come from the state income tax. Per capita individual income taxes in Massachusetts were $1,552. Across the New England states, there is wide variation in both total per capita state taxes and in the breakdown of those taxes, as illustrated in the following chart.

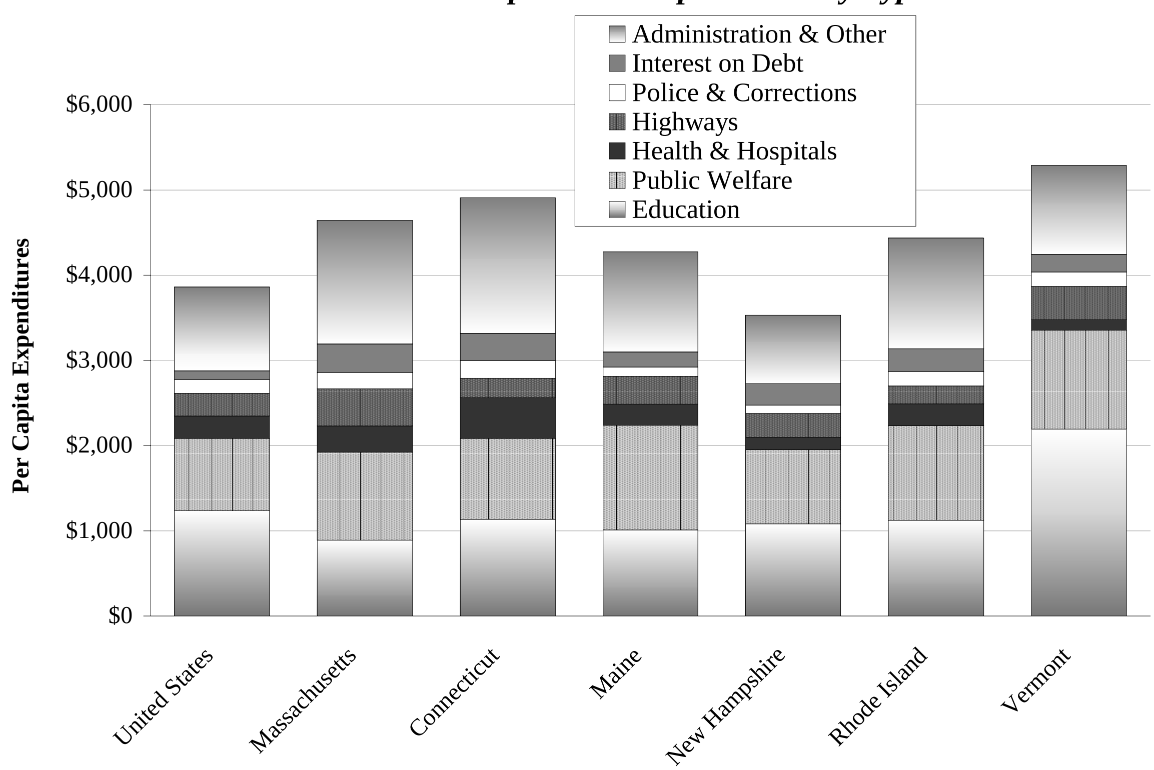
Fiscal 2002 Per Capita State Taxes, by Type



SOURCE: U.S. Bureau of the Census.

State Government Spending in Massachusetts. The following chart depicts fiscal 2000 per capita state expenditures by category for the six New England states and the U.S. average state expenditure. Massachusetts spent more state funds per capita on highways ($439) and debt service ($335) and less on education ($890) than any of its New England neighbors. The differences between states in per capita spending are similar to those in taxation, with intergovernmental transfers (to and from local and federal governments) accounting for the degree to which per capita spending exceeds per capita taxation. While all New England states used less than the national average of 30.2 percent for intergovernmental expenditures, the variation within the region is significant, with intergovernmental expenditures representing 14.6 percent of Rhode Island expenditures, 21.2 percent of Massachusetts expenditures, and 28.9 percent of Vermont expenditures.

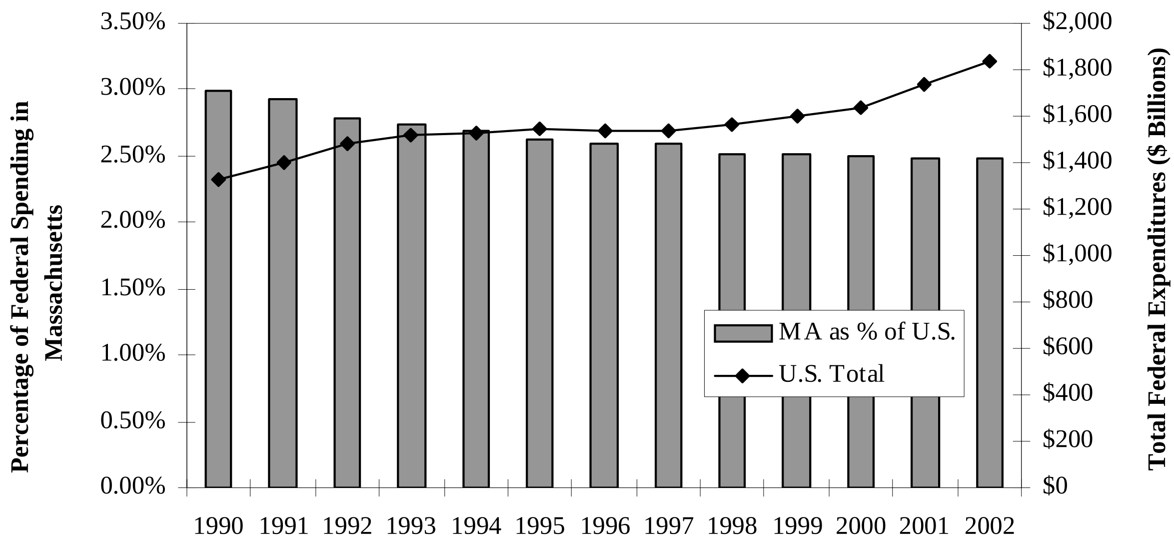
Fiscal 2000 Per Capita State Expenditures by Type



SOURCE: U.S. Bureau of the Census, revised September 2002.

Federal Government Spending in Massachusetts. Federal government spending contributes a significant amount to the economy of Massachusetts. In fiscal 2002, Massachusetts ranked thirteenth among states in per capita distribution of federal funds, with total spending of $7,387 per person, excluding loans and insurance. Massachusetts' share of total federal spending declined steadily between 1990 and 1999, and has stabilized in the range of 2.48 percent to 2.52 percent between 1998 and 2002. The following chart shows total federal expenditures and the percentage of federal expenditures in Massachusetts. Total federal spending data were converted to 2000 dollars by MISER using Consumer Price Index data for the United States. Federal spending includes grants to state and local governments, direct payments to individuals, wage and salary employment, and procurement contracts and includes only those expenditures which can be associated with individual states and territories.

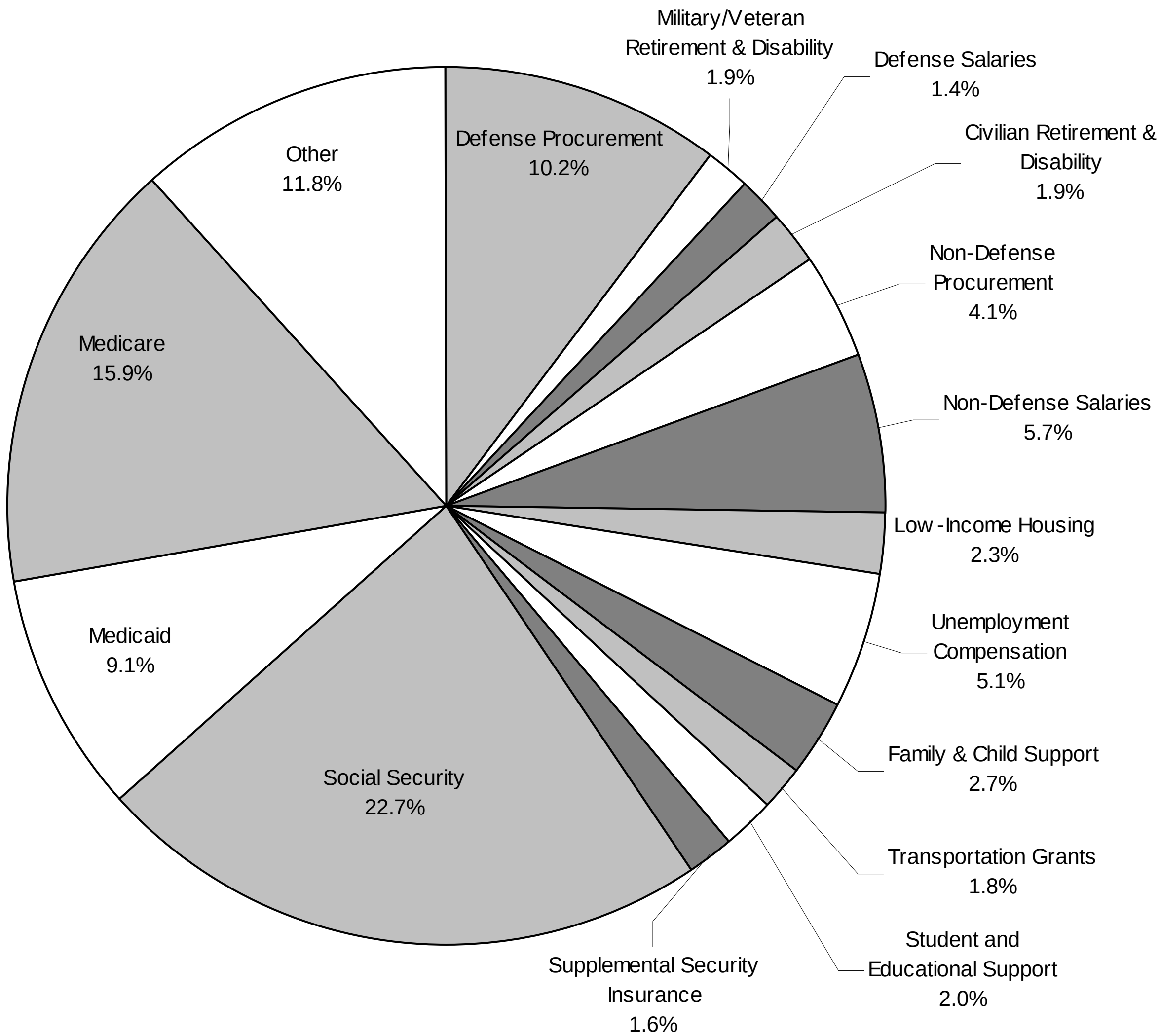
Total Real Federal Expenditures and
Percentage of Federal Expenditures in Massachusetts, 1990-2002
(in billions of constant 2000 dollars)



SOURCE: U.S. Department of Commerce, Bureau of the Census, 2002 Consolidated Federal Funds Report.

A large percentage of federal spending in Massachusetts in 2002 was composed of health care and social programs like Medicare and Social Security. Massachusetts was above the national average in per capita federal grants to state and local governments, receiving $1,920 per capita compared to a national average of $1,410. Per capita federal spending on salaries and wages in 2002 was lower in Massachusetts than in the rest of the nation ($525 compared to a national average of $675) but Massachusetts was above the national average in per capita direct federal payments to individuals ($3,885 compared to a national average of $3,560). Massachusetts ranked 11th among states in per capita procurement contract awards ($1,057 compared to a national average of $882) in 2002. The following chart shows the composition of direct federal spending within Massachusetts in fiscal 2002, excluding loans and isurance.

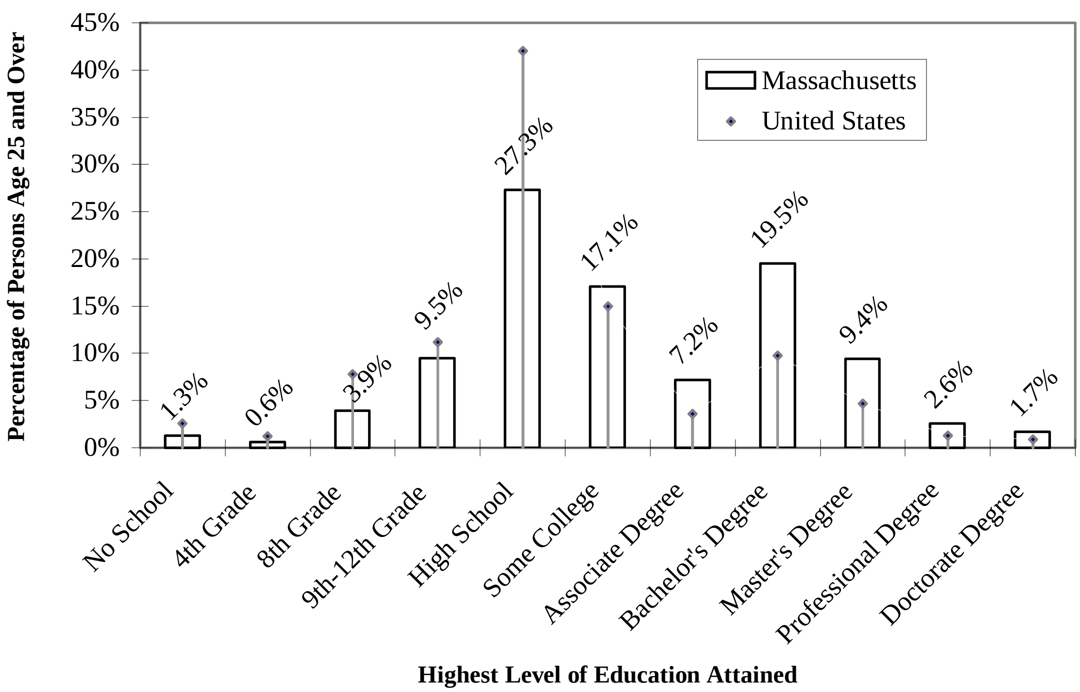
Composition of Direct Federal Spending in Massachusetts by Program, Fiscal 2002



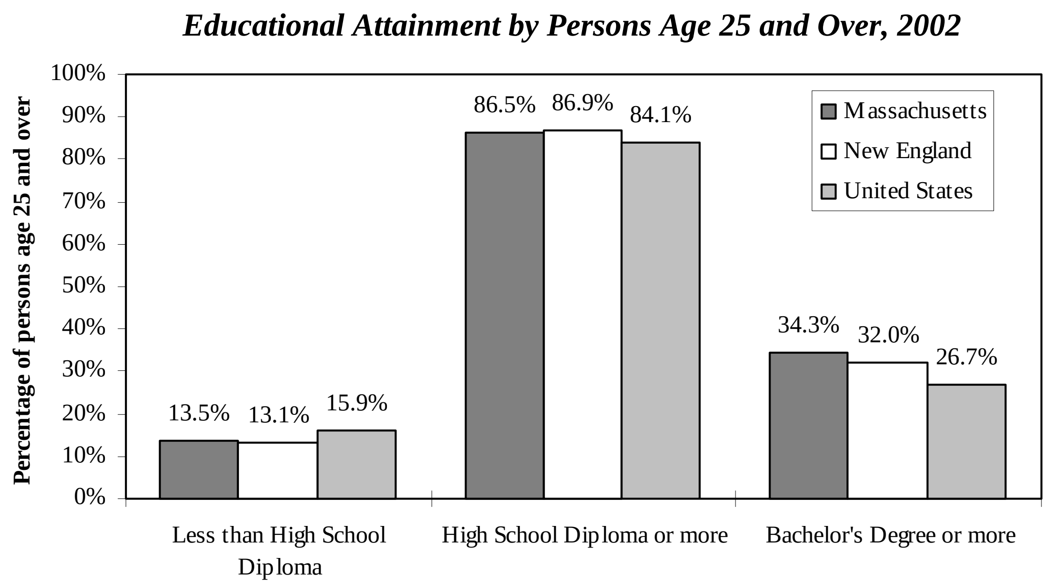
SOURCE: U.S. Department of Commerce, Bureau of the Census, 2002 Consolidated Federal Funds Report.

Human Resources. The availability of a skilled and well-educated population is an important resource for the Commonwealth. The level of education reached by the population of Massachusetts compares favorably with the level in the United States as a whole. In 2002, 13.5 percent of Massachusetts residents age 25 and above had never graduated from high school, as compared with 15.9 percent of their peers nationwide. A significant difference between Massachusetts and the United States is the percentage of people age 25 and above with a Bachelor's Degree or higher: 34.3 percent in Massachusetts as compared to 26.7 percent for the United States as a whole. Relative to the nation as a whole, Massachusetts has a lower percentage of adults (25 and older) who ended their schooling after high school or earlier, and a greater percentage of adults in every post-secondary category. The following charts show the differences in educational attainment between Massachusetts and the United States for key threshold levels of education. Actual percentages are given for Massachusetts only, and each category represents the highest educational level reached for individuals in that group.

Educational Attainment by Persons Age 25 and Older, 2000

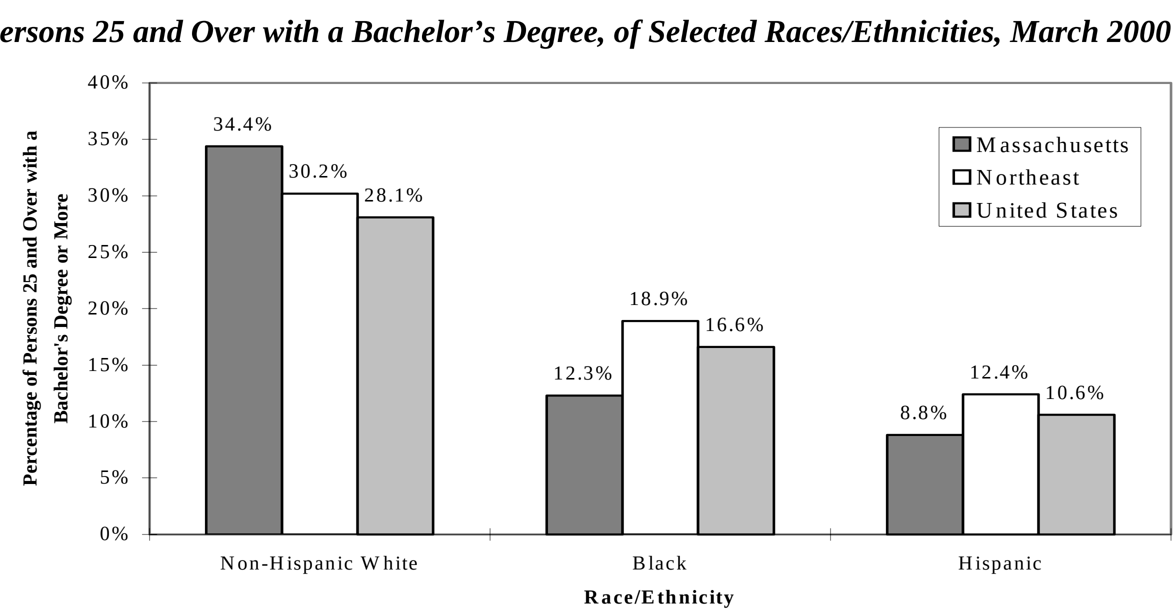


SOURCE: U.S. Department of Commerce, Bureau of the Census, Census 2000.



SOURCE: U.S. Department of Commerce, Bureau of the Census, Current Population Survey, March 2002.

Massachusetts has a smaller percentage of persons who have not completed high school than the United States as a whole and a higher percentage of persons with a bachelor's degree or more than either the New England region or the nation. Massachusetts ranks thirty-first in the nation in percentage of its population having received a high school diploma or more. The Commonwealth ranks second among the fifty states in percentage of persons over 25 with a bachelor's degree or more. However, these data obscure significant differences in educational attainment across racial and ethnic lines. While blacks and Hispanics fare worse than whites in educational attainment throughout the nation, the difference is more pronounced in Massachusetts than in the nation as a whole. As the chart below indicates, a far higher percentage of whites have a bachelor's degree or more in Massachusetts than in the rest of the nation, but blacks and Hispanics in Massachusetts trail the national average.



SOURCE: Department of Commerce, Bureau of the Census, Census 2000.

Massachusetts has higher minority enrollment in institutions of higher education than New England. However, the percentage of enrollment of blacks, Hispanics, and Asians in higher education in Massachusetts is below the national average. These percentages, which do not include military academy enrollment, are seen in the chart below.

Percentage Minority Enrollment in Higher Education, 2001

	Black	Hispanic	Asian	Race Unknown
Massachusetts	5.7	4.7	5.7	15.5
New England	5.4	4.4	4.3	12.8
United States (1998)	11.0	9.1	5.9	N/A

SOURCE: New England Board of Higher Education, *Connections*, Spring 2003.

In the 2002 National Assessment of Educational Progress conducted by the U.S. Department of Education, 4th graders and 8th graders around the nation were given standardized exams in reading. Massachusetts 4th graders achieved the nation's highest reading scores by a statistically significant margin. Among 8th graders, no state had statistically significant higher reading scores than Massachusetts, and 13 other states had statistically equivalent scores. In a similar 2000 study, 4th and 8th graders were given standardized exams in science. In science, only 8th graders in Montana achieved statistically significant higher scores than 8th graders in Massachusetts. Additionally, Massachusetts 4th graders scored highest in the nation on the science exam. In 2000, 4th and 8th graders were given standardized exams in mathematics. Massachusetts scores for both 4th and 8th graders in 2000 were significantly higher than scores from both 1992 and 1996. Additionally, Massachusetts 4th graders were the highest scoring in the nation. Only 8th graders in Minnesota, Montana, Maine, and Kansas scored higher than those in Massachusetts.

Although spending on education is not necessarily an indicator of results, Massachusetts has spent from 12 to 31 percent more per pupil on primary and secondary education than the national average since at least 1981. In fiscal 2002, Massachusetts increased per student expenditures to $9509, 29 percent higher than the national average. The following table shows expenditures per pupil for Massachusetts and the United States since fiscal 1981.

Per Pupil Expenditure in Public Elementary and Secondary Schools, 1981-2001

(in current, unadjusted dollars)

Fiscal Year	Massachusetts	United States	Ratio (MA/US)
1981	$2,735	$2,307	1.19
1982	2,823	2,525	1.12
1983	3,072	2,736	1.12
1984	3,298	2,940	1.12
1985	3,653	3,222	1.13
1986	4,031	3,479	1.16
1987	4,491	3,682	1.22
1988	4,965	3,927	1.26
1989	5,485	4,307	1.27
1990	5,766	4,643	1.24
1991	5,881	4,902	1.20
1992	5,952	5,023	1.18
1993	6,141	5,160	1.19
1994	6,423	5,327	1.21
1995	6,783	5,529	1.23
1996	7,033	5,689	1.24
1997	7,331	5,923	1.24
1998	7,778	6,189	1.26
1999	8,260	6,508	1.27
2000	8,761	6,911	1.27
2001	9,509	7,376	1.29

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

Massachusetts is an internationally recognized center for higher education, with 413,305 students in undergraduate, professional and graduate programs in 2000, according to data supplied by the New England Board of Higher Education. The number of foreign students enrolled in Massachusetts colleges and universities in 2000 was 29,395, representing 5.4 percent of total foreign student enrollment in the United States. The Massachusetts public higher education system is composed of universities, state colleges, and community colleges with a combined enrollment of 178,729 students in 2000, almost half of whom attended part-time. In addition, Massachusetts has a system of private higher education that accounted for 56.8 percent of total enrollment in Massachusetts in 2000, and in which approximately one quarter of students attend school part-time. The strength of both public and private colleges and universities as centers for research and education contributes to the high quality of the Massachusetts work force and plays a key role in attracting and retaining business and industry within the state.

The higher education system in Massachusetts is particularly strong in post-graduate, scientific, and technical education, with 64.5 percent of New England's graduate science and engineering students attending Massachusetts institutions in 2001. The strength of the Massachusetts higher education system is evidenced by the draw it has upon new students. The strength of the Commonwealth's educational institutions is also reflected in the large number of degrees awarded. In 2001, Massachusetts institutions conferred a total of 2,234 doctoral degrees. This represents 5.0 percent of the total number of doctoral degrees conferred in the United States in 2001.

The pre-eminence of higher education in Massachusetts contributes not only to the quality of its work force, but also to its stature in the nation and the world as a center for basic scientific research and for academic and entrepreneurial research and development. Doctorate-granting institutions in Massachusetts spent 4.8 percent of total national expenditures on R&D at such institutions in fiscal 2001, ranking Massachusetts fifth in the nation behind California, New York, Texas, and Pennsylvania. Doctorate-granting institutions in New England spent 7.9 percent ($2.53 billion) of the total research and development funds ($32.2 billion) spent by such institutions in fiscal 2001. Massachusetts institutions spent 61.6 percent of these funds ($1.56 billion). [Source: National Science Foundation, Division of Science Resources Statistics, *Academic Research and Development Expenditures: Fiscal Year 2001,* NSF 03-316, Table B-23.]

The diversity of federal funding sources reflects the variety of research and development work performed at Massachusetts educational institutions. Of the $1.16 billion in total fiscal 2000 federal outlays for science and engineering research to universities and colleges in Massachusetts (and their affiliated federally funded research and development centers), 48.8 percent was from the Department of Health and Human Services, 14.1 percent was from the National Science Foundation, 25.6 percent was from the Department of Defense, 6.2 percent was from the Department of Energy, and 3.6 percent was from the National Aeronautics and Space Administration. Massachusetts ranked 4th in the nation in 2000 in total federal outlays for research and development, with total federal spending of $4.15 billion in the state. The educational sector captured 28.0 percent of this pool, while industry garnered 40.4 percent and non-profit institutions received 25.2 percent. [Source: National Science Foundation, Division of Science Resources Statistics, *Federal Funds for Research and Development: Fiscal Years 2000, 2001, and 2002*, NSF 02-321, Tables C-85, C-83b.]

Given the quality of the Commonwealth's research and development sector, it is not surprising that Massachusetts fares better than the national average in homes with telephone, computer, and internet access. In 1998, 95.5 percent of homes in Massachusetts had telephones compared with 94.1 percent of homes in the United States. In 2001, among homes in Massachusetts, 59.1 percent had a computer compared with 56.5 percent nationally, and 54.7 percent of homes in Massachusetts had internet access while 50.5 percent of homes nationwide had such access. In New England, however, only Rhode Island had a lower percentage of households with a computer and only Vermont, Rhode Island and Maine had a lower percentage of households with internet access. [Sources: National Telecommunications and Information Administration (NTIA*), A Nation Online*, 2/2002; NTIA*, Falling Through The Net—Toward Digital Inclusion*, 10/2000.]

Major Infrastructure Projects. Several major public sector-sponsored construction projects are underway or recently completed in the Boston region, providing significant economic and employment benefits to the state. The "Big Dig," the world's largest highway project, includes the depression of the central artery which traverses the City of Boston, and the construction of a third harbor tunnel linking downtown Boston to Logan Airport. The new Central Artery is designed to meet Boston's future traffic demand and is anticipated to carry 245,000 vehicles per day by 2010 with minimal congestion. The Project will also strengthen connections among Boston's air, rail, and seaport terminals. By offering travelers and shippers increased choice and flexibility among these different modes of transportation, the Project is contributing to the creation of an integrated, intermodal transportation system for the entire region. The Ted Williams Tunnel, which stretches under Boston Harbor from South Boston to Logan Airport, opened to commercial traffic in late 1995 and to all traffic in December 2001, and will carry an estimated 98,000 vehicles daily in 2010. The Central Artery Project is expected to be completed by 2005 at an estimated total cost of $14.63 billion, with nearly half funded by the federal government. As of April 30, 2003, construction is 89.2 percent complete.

The Massachusetts Port Authority (Massport) owns and operates Logan International Airport, the Port of Boston, and several smaller assets. A $3.7 billion, ten-year modernization program is well underway at the Authority's key facilities, including expansion of airport terminal space. Massport reported fiscal 2002 operating income of $17 million (down 53.3 percent from fiscal 2001), with operating revenues down 3.4 percent and operating costs up 2.8 percent. In fiscal 2002, 22.1 million passengers (a 19.3 percent decrease from fiscal 2001) and more than 842 million pounds of cargo and mail (a 14.1 percent decrease) passed through Logan. At the Port of Boston, 2001 cargo throughput was 16.3 million metric tons (a four percent decline from 2000), automobile imports decreased 13 percent to 80,000 units, and cruise passenger trips increased 28 percent to 253,000.

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FORM OF BOND COUNSEL OPINION

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

PALMER & DODGE LLP
111 HUNTINGTON AVENUE AT PRUDENTIAL CENTER
BOSTON, MA 02199-7613

[Date of Delivery]

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

(The Commonwealth of Massachusetts
General Obligation Bonds, Consolidated Loan of 2003, Series B)

We have acted as Bond Counsel to The Commonwealth of Massachusetts in connection with the issuance by the Commonwealth of $185,000,000 aggregate principal amount of General Obligation Bonds, Consolidated Loan of 2003, Series B, dated August 1, 2003 (the "Bonds").

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

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

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

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

3. The interest on the Bonds (including any accrued original issue discount properly allocable thereto) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of computing the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code

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of 1986, as amended (the "Code"); it should be noted, however, that interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). The opinions set forth in the preceding sentence are subject to the condition that the Commonwealth comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Commonwealth has covenanted to comply with these requirements. Failure to comply with certain of these requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding any other tax consequences arising with respect to the Bonds.

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

Yours faithfully,

FORM OF BOND COUNSEL OPINION

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

PALMER & DODGE LLP

111 HUNTINGTON AVENUE AT PRUDENTIAL CENTER
BOSTON, MA 02199-7613

[Date of Delivery]

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

(The Commonwealth of Massachusetts
General Obligation Bonds, Consolidated Loan of 2003, Series C)

We have acted as Bond Counsel to The Commonwealth of Massachusetts in connection with the issuance by the Commonwealth of $290,000,000 aggregate principal amount of General Obligation Bonds, Consolidated Loan of 2003, Series C, dated August 1, 2003 (the "Bonds").

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

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

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

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

3. The interest on the Bonds (including any accrued original issue discount properly allocable thereto) is excluded from gross income for federal income tax purposes and is not an item of tax preference for purposes of computing the alternative minimum tax imposed on individuals and corporations under the Internal Revenue Code

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of 1986, as amended (the "Code"); it should be noted, however, that interest on the Bonds is taken into account in determining adjusted current earnings for the purpose of computing the alternative minimum tax imposed on corporations (as defined for federal income tax purposes). The opinions set forth in the preceding sentence are subject to the condition that the Commonwealth comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Commonwealth has covenanted to comply with these requirements. Failure to comply with certain of these requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. We express no opinion regarding any other tax consequences arising with respect to the Bonds.

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

Yours faithfully,

APPENDIX C

The Commonwealth of Massachusetts

General Obligation Bonds
Consolidated Loan of 2003, Series B

General Obligation Bonds
Consolidated Loan of 2003, Series C

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 August 13, 2003 (the "Information Statement"), as it appears as Appendix A in the Preliminary Official Statement dated August 13, 2003 of the Commonwealth with respect to its $185,000,000 General Obligation Bonds, Consolidated Loan of 2003, Series B and $290,000,000 General Obligation Bonds, Consolidated Loan of 2003, Series C, and substantially in the same level of detail as is found in the referenced section of the Information Statement:

	Financial Information and Operating Data Category	**Reference to Information Statement for Level of Detail**
1.	Summary presentation on statutory accounting and five-year comparative basis of selected budgeted operating funds operations, concluding with prior fiscal year, plus estimates for current fiscal year	"DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS - Selected Financial Data - Statutory Basis"
2.	Summary presentation on GAAP and five-year comparative basis of selected budgeted operating funds operations, concluding with prior fiscal year	"COMMONWEALTH BUDGET AND FINANCIAL MANAGEMENT CONTROLS - Selected Financial Data - GAAP Basis"
3.	Summary presentation of actual revenues in budgeted operating funds on five-year comparative basis, concluding with prior fiscal year, plus estimates for current fiscal year	"COMMONWEALTH REVENUES - Statutory Basis Distribution of Budgetary Revenues"
4.	So long as Commonwealth statutes impose limits on tax revenues, information as to compliance therewith in the prior fiscal year	"COMMONWEALTH REVENUES - Limitations on Tax Revenues"
5.	Summary presentation of budgeted expenditures by selected, then-current major categories on five-year comparative basis and estimated expenditures for current fiscal year	"COMMONWEALTH PROGRAMS AND SERVICES"
6.	Summary presentation of the then-current, statutorily imposed funding schedule for future Commonwealth pension liabilities, if any	"COMMONWEALTH PROGRAMS AND SERVICES - Commonwealth Pension Obligations"

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

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

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

i. principal and interest payment delinquencies;

ii. non-payment related defaults;

iii. unscheduled draws on debt service reserves reflecting financial difficulties[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.

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.

[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.

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